1 General Overview

Monday, 9 April 2018

It is easier to find men who will volunteer to die, than to find those who are willing to endure pain with patience.
- Julius Caesar

Nothing sedates rationality like large doses of effortless money.
- Warren Buffet

Dear Partners:

The Fund finished the first quarter of 2018 -1,86% in the minus, versus -1,67% for the Eurostoxx 50 and versus -2,44% for the MSCI World Index. The Net Asset Value of the Fund is 204 (cf. part 2.3 for all the NAVs of all series).

Below are the results of the Tartaros Global Value for 2018 (cf. part two for the fund overview); also shown is the return of major market indices (we would like to stress that there is no specific benchmark for the Fund; the comparison to the market indices is only provided as an indication to the broader market context):

Returns % (in € - net of all fees)*

2018	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	0,55	2,52	-0,62										
Msci world	-0,31	4,74	0,06										
Eurostoxx 50	-1,83	2,75	4,84										

*The MSCI World is a stock market index of "world" stocks. It is maintained by M.S.C.I., formerly Morgan Stanley Capital International. The index includes equities from 23 countries, and has been calculated since 1969.
* The EURO STOXX 50 Index, Europe's leading Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries.
*Please note that individual investor net returns will vary due to the timing of one's investment. The 2018 results reported above are unaudited estimates and may be subject to change.

It's all a mind game…. or will, not skill (Mike Tyson).

Investing can be considered as one giant emotional competition: it is your emotions and your ability to control them against the emotions of all other financial market participants. It's a battle of minds. And only the rational ones prevail in the very long run. The main function of the disciplined application of an investment strategy is to counter emotional reactions and thus survive (and even take advantage of) the inevitable swings of the market pendulum.

Wall Street never changes because people never change. Because humans are emotional beings (i.e. stating the obvious), markets are and always will be emotional, and thus prone to booms and busts.

You can conjure lots of rational-sounding and mostly just plain irrational explanations why the markets move up or down in any given period (we are even talking years, not days). And people and the media constantly do nothing else than that, because just saying "I don't know" doesn't make you sound smart at dinner parties, nor is it an option for good news headlines. People just want to tell themselve stories that reinforces their emotions. And financial history illustrates this again and again and again… (cf. https://ofdollarsanddata.com/lies-damned-lies-and-stories-d49ff6250035)

Only in the very long-term are market moves correlated to the real trends in earnings and dividends. But the third, all important factor, earnings multiples, are basically just driven by emotions (from greed to fear and the whole spectrum between those two outliers) and the

In the end, to counter this emotional rollercoaster, long term investment performance will be determined by disciplined risk management and what, despite of your risk management, you do when things go differently than you anticipated – trust us, they frequently do. And that is purely personality driven: how well you manage your emotions.

We think it is fair to be calling this the third mania in two decades (1998-1999, 2006-2007, and now). Of course, almost everyone states that this time, yes this time, it really is different. Funny how that works. When the market is roaring higher we get excited and can't even fathom bad market returns ("greed"). When the market hits new lows we're too depressed to even open our account statements ("fear"). People always forget that a market that went up a lot is also a market that is more expensive. When people get greedy they can't even imagine themselves turning fearful again. The past twenty years are – again – a prime example of that fact.

We should always remember that when we look in the mirror we are seeing the true enemy of our investment (and life) returns. The only viable course of action is to pick a strategy, stick to it and endure; a simple thing to say, but an excruciatingly difficult thing to do. Why? (1) Because winning strategies sometimes lose and losing strategies sometimes win. It is an inevitable part of the investing "game" (cf. http://theirrelevantinvestor.com/2018/03/27/sometimes-this-sucks/). Nothing will ever change that, so

you have to change how you react to such events (yes, managing your emotions). (2) And because sticking to an (underperforming) strategy is like leaving the herd. And leaving the herd is an extremely painful thing to do*; numerous studies have shown that being ostracized is like experiencing real physical pain. (kind of like having your arm broken on a really regular basis (cf. James Montier)).
(source:https://www.ncbi.nlm.nih.gov/pubmed/?term=Williams%20KD%5BAuthor%5D&cauthor=true&cauthor_uid=14551436)

In the end, all the financial skill in the world means nothing without the right mindset, because an unsettled mind will not make good decisions (cf. infra).

Just three things to contemplate…

On the 24th of February, Warren Buffet released his 41st letter to Berkshire shareholders. It is required reading every year, but for those of you who haven't read it, we want to highlight three important things to contemplate:

(1) Warren Buffett finally comes around to the fact that company valuations are at an all-time high:

"In our search for new stand-alone businesses, the key qualities we seek are durable competitive strengths; able and high-grade management; good returns on the net tangible assets required to operate the business; opportunities for internal growth at attractive returns; and, finally, ***a sensible purchase price.***
That ***last requirement proved a barrier to virtually all deals*** *we reviewed in 2017,* ***as prices for decent, but far from spectacular, businesses hit an all-time high.*** *Indeed*, **price seemed almost irrelevant to an army of optimistic purchasers.**"

"The ***ample availability of extraordinarily cheap debt in 2017 further fuelled purchase activity*** *[by competitors]. After all, even a high-priced deal will usually boost per-share earnings if it is debt-financed."*

(2) As a result Warren Buffett his biggest holding is cash:

"At year end Berkshire held 116 usd billion in cash and U.S. Treasury Bills (whose average maturity was 88 days), up from 86,4 usd billion at year-end 2016. This extraordinary liquidity earns only a pittance and is far beyond the level Charlie and I wish Berkshire to have. Our smiles will broaden when we have redeployed Berkshire's excess funds into more productive assets."

(3) Stocks can be volatile and become unhinged from economic reality, but in the long run only valuation matters:

*"****Stocks surge and swoon, seemingly untethered to any year-to-year buildup in their underlying value****. Over time, however, Ben Graham's oft-quoted maxim proves true: "****In the short run, the market is a voting machine; in the long run, however, it becomes a weighing machine****."*

"Berkshire, itself, provides some vivid examples of how ***price randomness in the short term can obscure long- term growth in value****. For the last 53 years, the company has* ***built value by reinvesting its earnings and letting compound interest work its magic****. Year by year, we have moved forward. Yet Berkshire*

* Being alone – i.e. (voluntarily) ostracized from the herd – and seemingly wrong is painful. And when you are wrong for a very long the mental pain becomes very painful; more than just a footnote. And when you ended up leaving the herd without success… well, you become just a very, very stupid footnote at best.

shares have suffered ***__four truly major dips__***. *Here are the gory details:*

Period	High	Low	Percentage Decrease
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

This table offers the strongest argument I can muster against ever using borrowed money to own stocks. There is ***__simply no telling how far stocks can fall in a short period__***. *Even if your borrowings are small and your positions aren't immediately threatened by the plunging market, your mind may well become rattled* ***by scary headlines and breathless commentary***. *And* ***__an unsettled mind will not make good decisions__***.*"*

In the next 53 years ***our shares (and others) will experience declines resembling those in the table***. *No one can tell you when these will happen.* ***The light can at any time go from green to red without pausing at yellow***.
When major declines occur, however, they ***offer extraordinary opportunities*** *to those who are not handicapped by debt."*

What?! (1)

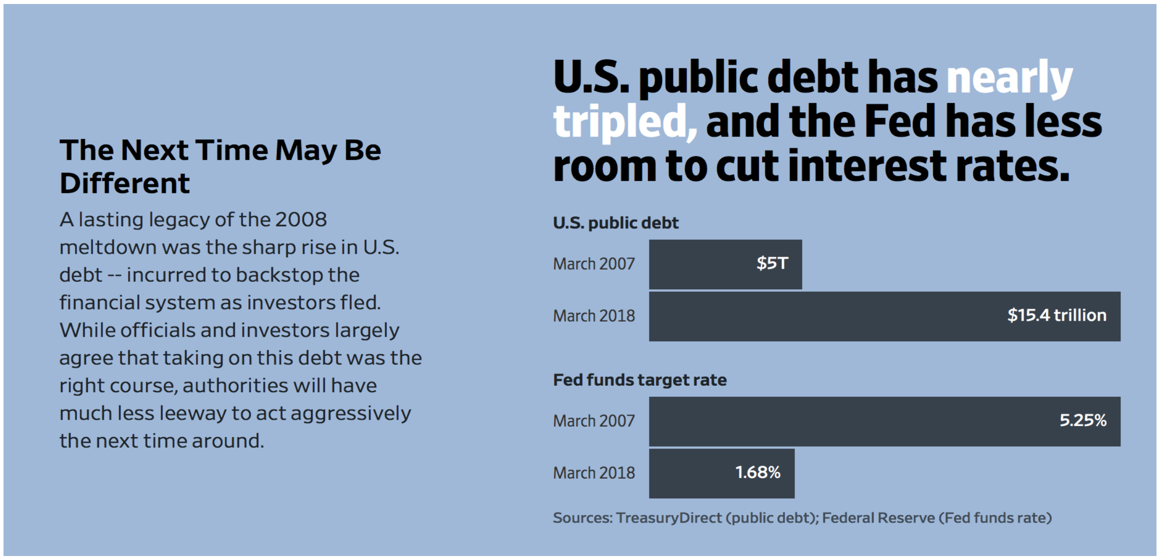
Indexes: Out of Control?

The rise of exchange-traded funds has made indexing a household word. But the number of indexes world-wide has taken off and now dwarfs the number of stocks, raising questions about the risks investors are taking on, knowingly and otherwise.

There are more than 3 million equity indexes world-wide, compared to about 52,000 listed companies.

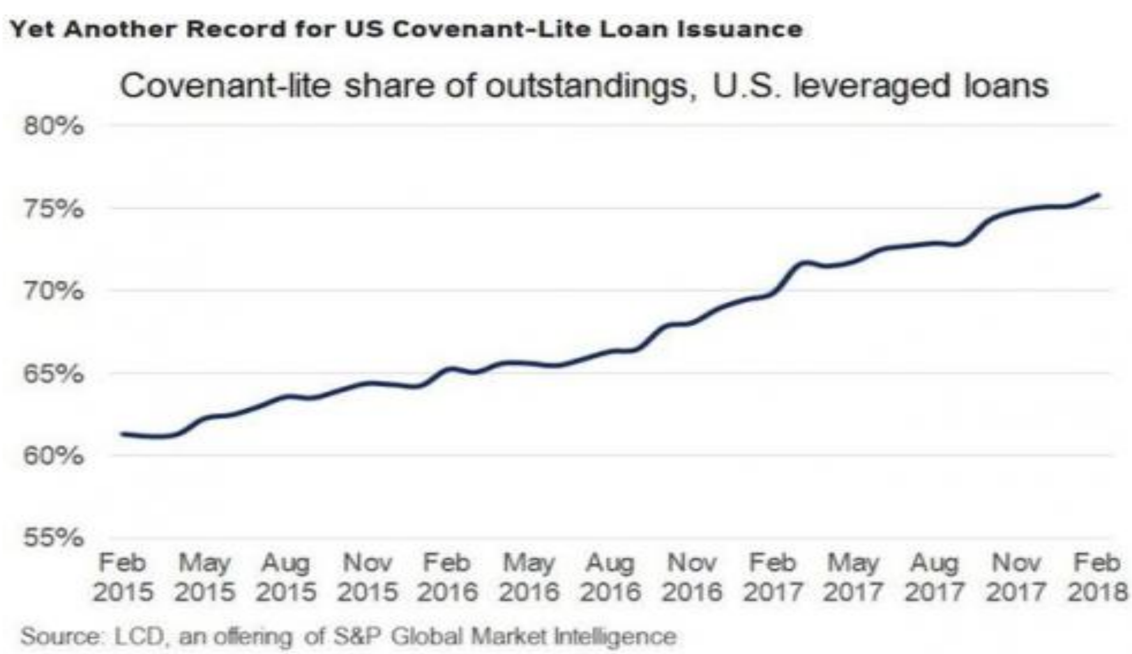
Sources: Index Industry Association (indexes); World Federation of Exchanges (listed companies)

source: Wall Street Journal



source: Wall Street Journal

What?! (2)



What?! (3)

“Not only is the aggregate corporate debt to GDP ratio at record highs, but the details are devilish in their composition. From a low of 32% in 2009, today nearly 50% of outstanding investment-grade debt is rated BBB—one rating step above non-investment-grade/speculative.”

Investors are getting less and less protection and are being paid a lot worse than normal. In our book that sounds like a very bad deal.

source: https://frank-k-martin.com

What?! (4)

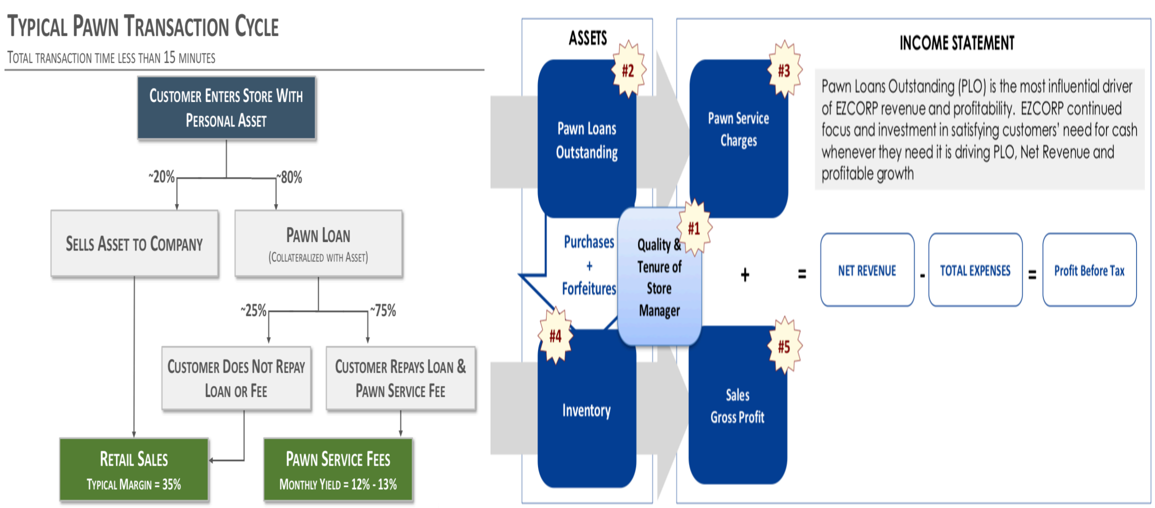
Fashion retailing in combination with a premium valuation: Hennes & Mauritz AB.

Changes in the Fund's Portfolio (cf. 2.2. Fund Positions for more details)

EZCorp (EZPW) is the Fund's biggest investment. EZcorp is the 2nd largest pawnshop (533 pawn stores) operator in the United States. In addition, EZPW also operates 383 stores in Latin America, 27 Cash Max financial service locations in Canada, and owns a 31% stake in Cash Converters International based and publicly lsited in Australia.

In a pawnshop, a short-term loan is made to a borrower with a product (consumer electronics, jewelry, etc.) being offered up as collateral. If the borrower fails to pay back the loan by the agreed time, the item is forfeited to the pawnbroker and sold to customers as merchandise.

From the viewpoint of regulators, and in actual reality, taking out a pawn loan does not put you in debt. If you can't pay the loan, you forfeit your collateral.



source: First Cash & EZCorp

Together, with First Cash, the two leading pawn store companies control only 13% of the U.S. market. The remaining industry is highly fragmented amongst small store-owners. The majority (80%) of the approximate 13.000 pawnshops in the U.S. are family-run businesses that look similar to a retail outlet. It seems like an environment ripe for further consolidation; moreover, consolidation in a recession proof industry.

The pawn industry provides a much-needed service to a large portion of Americans who do not qualify for traditional loans: 20% of U.S. households are under-banked *(25 million households) and* 7 % of U.S. households are unbanked *(9 million households).*

Write-downs and restructuring charges (stemming from a string of problems from 2012-2014), along with reinvestments in store operations, has caused the company's earnings to be negatively impacted. It allowed us to pick up the company's shares in 2017 at a single digit multiple of – what we believed – 2018 earnings would be.

Finally, it should be noted that he company is controlled by Philip Cohen[†]; he is the owner of all of EZPW's Class B voting stock and controls the outcome of all matters requiring a shareholder vote, even though he only owns approximately 11% of the company. As a controlling shareholder Cohen has not always been friendly to minority investors. But Philip Cohen, almost 70 years old, is now more aligned with the other shareholders and motivated to see EZPW's share price increase.

Must reads

Whatever problem you're struggling with is probably addressed in some book somewhere written by someone a lot smarter than you.
- Ryan Holiday

A must read about why value investing, despite being arguably the most important investing rule across all space and time, is also one of the most difficult:

https://ofdollarsanddata.com/a-margin-of-safety-caf9c8a3e3

A must listen about the private equity world (the current state of the private equity market and some myths about private equity investing):

http://mebfaber.com/2018/01/17/episode-90-dan-rasmussen-crown-jewel-alternative-universe-private-equity/

A must read about how to talk to people about investing money:

http://www.collaborativefund.com/blog/how-to-talk-to-people-about-money/

[†] https://en.wikipedia.org/wiki/Phillip_Ean_Cohen

Administration and the next update

Just a gentle reminder for the few of you who haven't completed the compliance information form.

In the meantime, please email or call us with any questions you have.

You should receive the next investment letter by the middle of July at the latest.

Enjoy the Easter holidays!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q1 2018)

	Asset Class
Equities	50,96%
Preferred Equities	1,80%
Corporate Bonds	2,34%
Cash	44,90%
	100,00%

	Industry (as % of Fund)
Mining	6,48%
Services	7,01%
Pharma	2,92%
Energy	1,26%
Telco & Info	6,98%
Basic Industries	9,22%
Mining Services	0,31%
Retail-Wholesale	10,05%
Real Estate	10,29%

	Currencies
USD	49,22%
EUR	18,28%
CAD	13,22%
YEN	11,39%
HKD	7,03%
NOK	0,86%
	100,00%

2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 30 positions.

The portfolio is invested in companies across a range of market capitalizations:

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	10%
1< 5 Billion	17%
0,5 < 1 Billion	10%
< 0,5 Billion	63%

Position	*% of portfolio*
Cash	44,90%
Investment 1	6,53%
Investment 2	6,03%
Investment 3	4,39%
Investment 4	3,67%
Investment 5	3,09%

It should be noted that all numbers are approximations.

2.3 NAV series

TARTAROS FIS SCA GLOBAL VALUE CL A CAP	210,763
TARTAROS FIS SCA GLOB VALUE S CAP 311216	97,525
TARTAROS FIS SCA GLOB VALUE T CAP 310317	95,199
TARTAROS FIS SCA GLOB VALUE U CAP 300917	102,111

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