Tartaros Global Value Fund - Questions & Answers

What makes the Fund different from the others? What's the Fund's definable edge in terms of strategy and market ability?

- The Fund has an absolute return, multi asset class (equities – futures – bonds) approach with a focus on long equities.

- We manage a concentrated portfolio of investment positions (max. of 50); this is different from many investment funds that have significantly more diversified portfolios.

- We believe managing a concentrated portfolio is the best way to preserve capital and achieve superior returns over the long term. Concentration allows us to perform the type of research we think is necessary in order to truly understand a business or a macro investment theme, and hence to be highly selective about the Fund's investments.

- We invest in businesses; we do not speculate in stocks. While we invest entirely in publicly traded companies, our investment philosophy is more private equity-like than many traditional hedge funds or mutual funds.

- We pride ourselves on our independence from the traditional investment community, emboldening us to be truly contrarian thinkers. We are both geographically and behaviourally removed from financial centers and understand the vital importance of both conviction and patience to being a successful value investor. We do not face the daunting hurdle of overcoming bureaucratic obstacles to make our decisions. We believe in an entrepreneurial setting.

- We have an incentive-compatible structure and do eat our own cooking.

- Tartaros Global Value Fund is not part of a separate asset class, but a conduit for a truly independent investment strategy.

Private Equity	Tartaros Fund	Tradition Investment Fund
Absolute Return	Absolute Return	Relative Return
Concentrated Portfolio	Concentrated Portfolio	Mile wide, inch deep
Limited Investment Opportunities	Many Investment Opportunities	Many Investment Opportunities
Non-Public Information	Public Information	Public Information
Auction / Winner's Curse	Market Price / Marginal Price	Market Price / Marginal Price
Limited Liquidity	High Liquidity	High Liquidity
Control	Follow the leader	Limited Influence
Long Only	Long Bias (and Short)	Typically Long Only
Style Box	Independence of Strategy	Style Box
Long Term	Long Term	Short Term

Why does the Fund have an absolute return strategy?

- Relative performance involves measuring investment results, not against an absolute standard, but against a broad stock market index, such as the Eurostoxx 50 or S&P 500. Most institutional investors measure their success or failure in terms of relative performance. Investment managers motivated to outperform an index or a peer group of managers lose sight of whether their investments are attractive or even sensible in an absolute sense.

- Who is to blame for this relative performance focus and hence market index hugging? Is it the fault of investment management companies who are focused on asset gathering and therefore do not want to underperform their competitors and their respective benchmarks? Or is it the fault of investors who, in fact, do switch investment managers with some frequency because they also fear short term underperformance, regardless of the level of risk or the impossibility of the task? The blame goes both ways.

- Another difficulty plaguing institutional investment managers is a bureaucratic decision-making process. While managing money successfully is not easy for anyone, many institutional investors compound that difficulty with a tendency toward conformity and excessive diversification that results from group decision making. Any institutional investor with a contrarian investment idea goes out on a limb. He or she assumes career risk, which compounds the investment risk. The cost of being wrong goes beyond the financial loss to the fund he or she manages by also including adverse marketing implications as well as personal career considerations.

- We invest based on an absolute return strategy; every investment decision is weighed against cash as a (return) benchmark. The Fund's absolute return philosophy is to try to stick as closely to the surface level as possible, as digging oneself out of a hole can be rather time consuming. We are not driven by a benchmark, but by profit & loss (P&L).

What is the legal fund structure of the Fund?

- The Fund is a Luxemburg multi-compartment investment company with variable capital (société d'investissement à capital variable - SICAV) in the form of a corporate partnership limited by shares (société en commandite par actions – S.C.A.) organized as a specialized investment fund (fonds d'investissement spécialisé – SIF).

- With the February 13, 2007 law ("SIF Law"), Luxembourg established the legal framework for an investment vehicle, which primarily fulfils the needs of institutional, professional, high net-worth and well-informed investors.

- The SIF is a regulated investment vehicle under the control of the Luxembourg authority for the supervision of the financial sector (Commission de Surveillance du Secteur Financier).

- Investments in a SIF may only be made by 'well-informed investors' in the sense of the SIF Law. These are:
  a) institutional investors and professional investors,
  b) any other investor, who invests at least EUR 125,000 in the SIF, or who has been the subject of an assessment made by a credit institution, by an investment firm or by a management company certifying his expertise, his experience and his knowledge in adequately appraising an investment in the SIF.

- More information: https://en.wikipedia.org/wiki/Specialized_investment_fund

Who is the custodian, domiciliary and administrator of the Fund?

- Quintet Private Bankers are the custodian and principal paying agent of the Tartaros Global Value Fund.

- European Fund Administration (EFA) is the domiciliary of the Fund.

- European Fund Administration (EFA) is the administrative, registrar and transfer agent of the Fund.

- Deloitte Luxemburg is the auditor of the Fund.

What are the business histories of the team members involved in the management of the Fund?

Tartaros Investment Partners s.a.r.l. is:

- Investment Manager - Tom Willems

  Tom Willems has a master of science in economics degree from the Catholic University from Leuven and a university degree in economics from the University of Gent. He started his career in 1999 at West Capital Management in Philadelphia, U.S. In 2001 he became a financial management consultant at Pricewaterhousecoopers. In 2003 he joined Verbaere, De Clercq & Partners, an independent corporate finance boutique. From 2007 to October 2008 he was an investment manager for Partners@Venture, a leading Belgian venture capital fund with an internal rate of return of 20% over a 10-year period.

  https://www.linkedin.com/in/tom-willems-1513351/

- Investment Committee - Karl Dhont & Piet Van Waes

  Karl Dhont started his career in 1994 with SSP Intl. in London. In 1998, he moved to Lucca in Italy to become head of the gaming division of the publicly listed company SNAI. He has set up several companies in Italy, Malta, UK, Gibraltar and Belgium. He has been an active investor since his return to Belgium in 2006 and is on the board of several private companies. Since 2008 Karl Dhont is a member of the Ethics and Disciplinary Unit of UEFA in the European fight against match-fixing and sports-fraud. In 2015 he also became a member of the board of the Belgian National Lottery.

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  Piet Van Waes has a university degree in commercial engineering (magna cum laude) from the Catholic University of Leuven. He started his career as a consultant at Accenture, working on projects for Electrabel and Dupont de Nemours. From 2005 to 2007 he was an investment manager for Partners@Venture, a leading Belgian venture capital fund with an internal rate of return of 30% over a 10-year period. He was an investment manager at Sniper One. Piet Van Waes completed courses in corporate law (FHS) and FSA (JP Morgan).

  https://www.linkedin.com/in/piet-van-waes-4575b7a/

How does the Fund perform its research?

- We believe that at the core investment management is information management: the challenge is less about getting the information and more about making sense of it.

- We generate ideas through quantitative screens (based on price to net tangible assets and enterprise value to cash flow), a guru screen to identify and monitor “like-minded” investors, by reading various financial publications and books and through researching various companies. We try to avoid being dogmatic, and remain open minded, always trying to disprove our investment thesis.

- Because we run a concentrated portfolio we do not need an “investment of the day" or even an “investment of the week." We are extremely selective about what goes into the Fund.

- We do not consider ourselves in the flow of the idea-sharing networks that many (hedge) funds use and we only use traditional research as the basis for in-house analysis; we ignore the recommendations of sell-side analysts. We think that this level of independence is an advantage - it allows us to be true contrarians by filtering out the noise in certain ideas while avoiding group think. We try to resist the siren song of the consensus.

- We try to avoid false precision when we do research and valuation work. We do not know exactly what earnings are going to be next year and we do not believe management teams themselves can know that with any great precision either. We would rather be roughly right than precisely wrong.

- Ultimately, there are both qualitative and quantitative elements that go into sourcing the Fund’s investment ideas; the vast majority of the time the research process results in not making an investment.

- The investment process is always based on one common theme when making decisions: the inevitable margin of safety, or focus on the downside and the upside will take care of itself. We use the concept of the “Black Swan” and always think about risks to the downside. The more errors we can eliminate on the downside the better off the Fund will be. We screen for investments where if we are wrong the Fund will still preserve capital in the longer term. In practice it does not always work out that way, but this margin of safety concept is always used as a guiding principle when making investment decisions.

- Unlike most value investors, we also spend research time on the valuation of the market as a whole and longer term macro trends, because we believe it is important to have a big picture view and be mindful of paradigm shifts (e.g. recent financial crisis).

Does the Fund participate in company visits?

- Much of the information provided by companies is noise. We believe that the investment community already suffers from informational overload and do not want to add to that burden. Moreover, corporate managers are just as likely as the rest of us to suffer from cognitive illusions. They display just as much over-optimism and over-confidence as anyone else.

- Rather than meeting with management, we scrutinize earnings call transcripts, presentations and texts of speeches to understand how management has behaved in the past. We focus on the paper trail of the management and a sufficient level of insider ownership.

- Although bad management can be detrimental to a company, we prefer – ceteris paribus – a good horse (i.e. company), to a good jockey (i.e. management), because we believe that when rowing a boat, what matters is not how strong your muscles are, but whether the boat is leaking.

How does the Fund manage volatility?

- Unlike most funds today we do not manage the Fund to mitigate both absolute and relative volatility. Although low volatility returns are one of the keys to winning large institutional mandates, we believe that this kind of strategy might hide certain long term risks and is definitely detrimental to superior long term returns.

- As value investors with a long-term approach to investments, downward volatility creates opportunity to add to investment positions at cheaper valuations. In addition we will not stop-loss ourselves out of a position. From a value investor standpoint that is counterintuitive; why sell an investment that is getting cheaper when you have an enormous amount of conviction in the research you have done on it?

- Although we use annual returns as a beacon on a long journey, we are at all times focused on the longer term results. Why? If I am taking a train to travel to a very important meeting that will begin promptly at a stated time, then do I really care about how quickly or slowly that the train will travel at any time during its journey? All I care about is that the trains should arrive on time at the end of the journey.

- Ultimately, we firmly believe in and practice the adage that we would rather have a lumpy 15% return than a smooth 12%. That philosophy was coined by one of the greatest investors of the modern era - Warren Buffet - but obviously it does not appeal to everyone.

What is the Fund's focus on risk management?

- In the world of financial theory and investment management risk has a very defined meaning,: risk is volatility of annual returns and its deviation from a respective market index. This runs counter to how we define risk. We define risk as permanent loss of capital; risk is the chance of losing some or all of capital.

- We think in terms of risk and uncertainty. We focus on high uncertainty, low risk (in terms of permanent loss of capital) investment opportunities. Jumping out of an airplane without a parachute is considered very risky in the real world (Glyn Holton). In the world of traditional financial theory this carries zero risk since there is no uncertainty as to the outcome.

- We believe that rigid investment and risk disciplines, and unrealistic return expectations demanded by a broad population of investors defeats the intended purpose of an investment fund – to optimize risk-adjusted returns by having the ability to be flexible and independent. Investment management rigidity tends to add risk and diminish returns over time because it does not allow fund managers to adapt to changing conditions during major shifts or to increase exposures when they believe markets have moved further away from equilibrium values.

- We believe that risk management is the process of dealing with the consequences of being wrong. Drawing from biology, the species most likely to survive in the long-term from catastrophic changes in their environment, are coarse organisms, with a simple survival strategy. In the event of a nuclear war only cockroaches will survive. We advocate the cockroach theory of risk management. This approach constitutes a preference for simple, transparent investment opportunities.

- We believe that an open-minded, dynamic and flexible approach to risk management is superior to a static (purely rule-based) and dogmatic process (e.g. Value-At-Risk).

- We try to think the unthinkable and to rely on logic, common sense and real world experience to guide us along the investment path. We always keep in mind Warren Buffet's famous words: "But there is far more to successful long-term investing than brains and performance that has recently been good. Over time, markets will do extraordinary, even bizarre, things. A single, big mistake could wipe out a long string of successes. We therefore need someone genetically programmed to recognize and avoid serious risks, including those never before encountered. Certain perils that lurk in investment strategies cannot be spotted by use of the models commonly employed today by financial institutions. Temperament is also important. Independent thinking, emotional stability, and a keen understanding of both human and institutional behavior is vital to long-term investment success. I've seen a lot of very smart people who have lacked these virtues."

How much leverage does the Tartaros Global Value Fund use?

- The Fund has the option to use limited amounts of leverage. In considering the possibility of using leverage to gear up, or more importantly, hedge an investment position, we think about levels of leverage that are prudent in relation to all known and unknown circumstances.

- In the end, we do not want to be forced sellers under any circumstance.

Does the general partner of the Fund eat its own cooking?

- It is worth noting that few institutional investment managers invest their own money along with their investment partners' funds. The failure to do so frees these managers to single-mindedly pursue their firms' rather than their investment partners' best interests.

- Economist Paul Rosenstein-Rodan has pointed to the "tremble factor" in understanding human motivation. In the building practices of ancient Rome, when scaffolding was removed from a completed Roman arch, the architect stood beneath the arch. If the arch came crashing down, he was the first to suffer. Thus his concern for the quality of the arch was intensely personal, and it is not surprising that so many Roman arches have survived. Why should investing be any different?

- We believe that investment managers should invest their own assets in parallel with the limited partners. Only in that context will intellectual honesty be restored to the institutional investment process, as the focus of investment managers would shift from playing the relative-performance game to maximizing returns under reasonable risk constraints.

- The investment manager and investment management committee of the Fund together hold about 40% of assets under management.

What is the holdings' disclosure policy of the Fund?

All I want to do is hand in a scorecard when I come off the golf course. I don't want you following me around and watching me shank a three iron on this hole and leave a putt short on the next one.
- Warren Buffett

In an ideal world an investment fund provides full real-time transparency and liquidity. Fortunately, this perfect world already exists. Unfortunately, the investment structures that provide these characteristics have all morphed into index tracking funds. This is a result of the failure of the typical investor not being able to deal with the provided transparency and liquidity. The traditional investment funds do not want to diverge from a certain benchmark (read: short term underperformance), because that would lead to asset outflows. Furthermore, the traditional asset management industry does not reward contrarian viewpoints ("you never get fired for investing in IBM" is an industry mantra). Adhering to convention is often irrational from an investment standpoint, but is perfectly rational when taking into account career risk.
These benchmark-hugging implementations – a consequence of the so-called Hawthorne effect – have as a consequence that the information value of this so-called transparency is zero, because the holdings of these funds only reflect a tracking error compared to its respective benchmark.

We would like to stress that we provide full transparency of all disinvested holdings and their respective returns. But in the end, we believe that Warren Buffet was right when he wrote the following: "Despite our policies of candor, we will discuss our activities in marketable securities only to the extent legally required. Good investment ideas are rare, valuable, and subject to competitive appropriation just as good product or business acquisitions are."

Why does the Fund have a lock-up?

- We take investments positions in companies, industries and macro themes that are neglected by, out of favor with, or off the radar screen of the general market. Under most scenarios it takes time – sometimes an inconveniently long time – for the market to recognize and revalue these investment positions. We are very willing to play that waiting game with the investment positions in the Fund. We believe that Benjamin Graham was right when he stated that in the short run the market is a voting machine, but in the long run it is a weighing machine.

- We want to minimize flow risk. Flow risk can be defined as the risk that an investment manager experiences significant redemption mostly due to industry-wide issues or a specific category of investors, rather than due to issues related to a fund. This risk is probably one of the toughest to navigate. It can be exogenous to an investment fund and usually results in massive deleveraging which impacts most funds, regardless of their performance or size. Moreover, more often than not investment partners redeem their investments at the most inopportune moment.

- We want to avoid the burdensome and counterproductive task of anticipating and dealing with monthly subscriptions and redemptions from investors trying to time the markets themselves. Traditional investment managers working without lock-up provisions progressively become cash flow managers rather than asset managers and consequently focus on shorter-term horizons.

- The current hedge fund industry invests for one-to-three month time horizon, which subjects managers to taking inefficiency risk and missing out on opportunities that are longer term in nature. Value versus growth, for example. Over the long term, value stocks have outperformed growth stocks, but over shorter time periods (sometimes a year or more), there can be massive underperformance. While the average holding period in the 1960s for a stock on the New York Stock Exchange was five years, today it's down to six months. This obsession with the short term creates an opportunity. If everyone else is pricing assets on the basis of the next six months, then they are likely to misprice assets for the longer term.

- We believe that if an investor trusts the talent of an investment manager to make money over time, s/he should want the manager to mitigate the collective power of a fund's investment partners to undermine the investment strategy prematurely through untimely redemptions.

- Finally, we like to think of ourselves of stewards of investment capital (family or organisation). The purity of the investment objective is paramount to strategically and prudently build absolute wealth for a family or organisation over a very long period of time. We do not want to fit into a style box, or be distracted by anything but long term investing.

How scalabe is the Tartaros Global Value Fund?

- We believe our philosophy and investment management process are highly scalable. With a concentrated portfolio and a long term approach we do not need an army of research analysts.

- All administrative processes are out-sourced to the administrator, i.e. Bank Delen Luxemburg.

- With our strategy it is necessary to be smart about the types of limited partners we admit to the Fund. We need to make sure that the investors understand the required patience and the inherent volatility of the Fund's investment strategy.

- We focus on developing the correct limited partnership base. Because to achieve positive long term investment returns, you need not only the right investment philosophy and a good investment management team, but above all you need the right kind of investment partners. Investors who understand what the investment management team is doing and why they are doing it, is paramount to good long term results.

How much capital do you intend to raise? Is their any pre-defined plan?

- We currently manage approximately €40 million.

- It is worth noting that we do not have any misperceptions about the capital raising market. Given our concentrated approach, the lock-up and the inherent volatility that goes along with the Fund's strategy, the number of investors that have an understanding of what we do is a small subset of the community that invests in alternative assets.

- We try to be as smart and as targeted as possible about talking to potential investors.

- In the end we adhere to Charles Munger's wisdom, "It's the work on your desk… It's the work on your desk. Do well with what you already have and more will come in."