1 General Overview

Tuesday, 4 January 2011

Dear Partners:

The Fund finished the fourth quarter of 2010 18,21% in the plus. The 2010 performance is 32,64% versus 18,11% for the MSCI World Index (in €) and versus -5,85% for the Eurostoxx50 (cf. graphs in email); a 2010 outperformance of 14,53% and 38,49% respectively. The Net Asset Value of the Fund is 205,18.

Below are the results of the Tartaros Global Value Fund since its inception on the 21st of October 2008 (cf. part two for the fund overview); also shown is the return of a major market index (we would like to stress that there is no specific benchmark for the Fund; the comparison to the market index is only provided as an indication to the broader market context):

Returns % (in € - net of all fees)*

2008	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund										5,36	-3,82	4,89	6,30
Msci world										1,11	-6,50	-5,75	-10,90
2009	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	8,54	-2,06	2,80	10,62	9,59	-3,94	4,45	0,27	2,60	-0,50	4,53	2,32	45,52
Msci world	-1,05	-9,25	1,91	11,18	2,28	-0,87	8,34	2,93	1,27	-2,97	2,33	6,05	22,67
2010	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-3,21	5,62	1,96	5,19	-0,68	-0,32	-3,89	4,8	2,63	2,18	10,45	4,74	32,64
Msci world	-1,17	4,19	6,64	1,07	-2,47	-3,34	1,74	-1,29	1,37	2,08	4,11	4,33	18,11

*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.

*Please note that individual investor net returns will vary due to the timing of one's investment. The 2010 results reported above are unaudited estimates and may be subject to change.

Looking back…

Pleased, but not satisfied
- David Sokol

We are pleased with the investment performance of 2010 and the performance since the start of the Fund, but as always we will never be satisfied. David Sokol, the chairman of MidAmerican Energy Holdings (wholly owned by Berkshire Hathaway) and future CEO (not CIO) of Berkshire Hathaway, explains (in his book) that Pleased, but Not Satisfied is a state of mind and that running a business is a journey never finished. He emphasizes that business basics are fundamental to creating long-term value in any enterprise. He states that conservative economic analysis and disciplined, detailed management practices may not be flashy, but they consistently deliver high quality results. We believe the same holds true for investing. In any case, we would like to re-iterate, once again, that it is important to keep emphasizing the focus on the long term. Our focus – with your support – will always be on the long term.

The scandal of prediction or the folly of forecasting

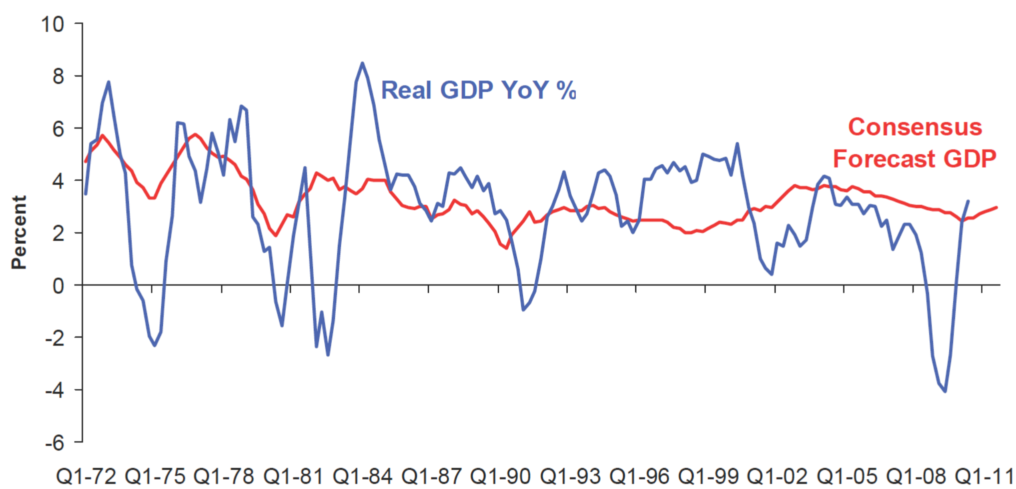
"I am surprised that so little introspection has been done to check on the usefulness of these professions. There are a few – but not many – formal tests in three domains: security analysis, political science and economics. We will no doubt have more in a few years. Or perhaps not – the author of such papers might become stigmatized by his colleagues. Out of close to a million papers published in politics, finance and economics, there have been only a small number of checks on the predictive quality of such knowledge. ... Why don't we talk about our record in predicting? Why don't we see how we (almost) always miss the big events? I call this the scandal of prediction."
- Nassim Taleb, The Black Swan

It is the beginning of the year and everybody is out making point predictions again. GDP will not just grow next year, but it will grow with 3.25%. Inflation will not be high or low next year, but the inflation rate will be 2.38%. The S&P500 will not just be higher by the end of next year, but will finish 2011 at 1450.

I think most people don't realize that those predictions aren't about being right or wrong. For all the people in the investment business making year-end predictions is about getting media exposure. Those predictions (in the media) aren't about investing. They are about the business of investing. A fundamental difference…

The 6th century BC poet Lao Tzu observed that "Those who have knowledge, don't predict. Those who predict don't have knowledge." The reality is that business and economic life is governed by all kinds of predictions. And it amazes us over and over again how the vast majority of people always take these precise predictions at face value. Do you know how successful all these forecasts were? We don't, or actually we have a pretty good idea, but then again, we stopped reading them or listening to them a long time ago.

An enormous amount of evidence suggests that investors are generally hopeless at forecasting, but people still cling to the irrational hope that a 26-year-old, or 62-year-old for that matter, bank analyst armed with elaborate spreadsheet models can tell us something about the future of some specific financial asset. This is what Nassim Taleb calls the Scandal of Prediction or James Montier defines as the Folly of Forecasting (one of the seven sins of fund management).



However, attempting to invest on the back of economic forecasts is an exercise in extreme folly, even in normal times. Economists are probably the one group who make astrologers look like professionals when it comes to telling the future. Even a cursory glance at Exhibit 4 (cf. supra - graph) reveals that economists are simply useless when it comes to forecasting. They have missed every recession in the last four decades! And it isn't just growth that economists can't forecast: it's also inflation, bond yields, and pretty much everything else.
- James Montier, In Defense of the "Old Always", 2010 GMO White Paper

In any case, all these point forecasters almost always, with rare exception, get it "precisely wrong." So distrust precise predictions and think in terms of probabilities (scenarios) and prediction errors. Or as John Maynard Keynes once stated: "It is better to be roughly right than precisely wrong."

Moreover, and more specifically, we know too well that trying to predict the direction of the stock market in the short run is a fool's game, and we remain committed to an agnostic position (we know what we don't know; most people don't know what they don't know). There is a large industry out there which spews "investment" advice on a weekly or even daily basis. This leads to the market becoming the instructor of the "investor" and not the servant. Obviously, it should be the other way around (cf. Warren Buffett). Just try to prevent all these market forecasts from changing (read: shrinking) your time horizon. The focus should always be on the long run.

It's déjà vu all over again

"I can now understand the term quantitative easing – wrote Gerald B. Hill, of Stourbridge, United Kingdom, to the editor of the Times of London in March 2009 – but now I realize that I can no longer understand the meaning of the word money."
- Grant's Interest Rate Observer, December 10, 2010

The banking crisis of 2008 has morphed into a government (financing) crisis (the debt and all its inherent problems were socialized). So nothing has changed on its current trajectory. It may look different, feel different and may be less obvious, but the crisis of 2008 is still here.

There are five ways to get out of this debt crisis: 1) raise GDP; 2) lower interest rates on borrowing / get bailed out by somebody; 3) fiscal pain; 4) print money (mysteriously called quantitative easing); and 5) outright default. Choice one is highly unlikely unless there is some technological breakthrough to substantially increase productivity. Choice two in combination with option three has been the solution for Greece and Ireland. But you don't have to be a genius to realize that you don't solve a debt (solvency) problem with more debt. Of course, only politicians can conjure up and implement that kind of "solution". And this whole austerity thing might sound like the right thing to do, but there is something called the paradox of thrift. This paradox states that if everyone tries to save more money during times of recession, then aggregate demand will fall and will in turn lower total savings in the population because of the decrease in consumption and economic growth. In short, if everybody saves, there is nobody left to spend.

So this leaves printing or defaulting as the only real "solutions". How long can they put off the day of reckoning? Don't forget that it ain't over till it's over.

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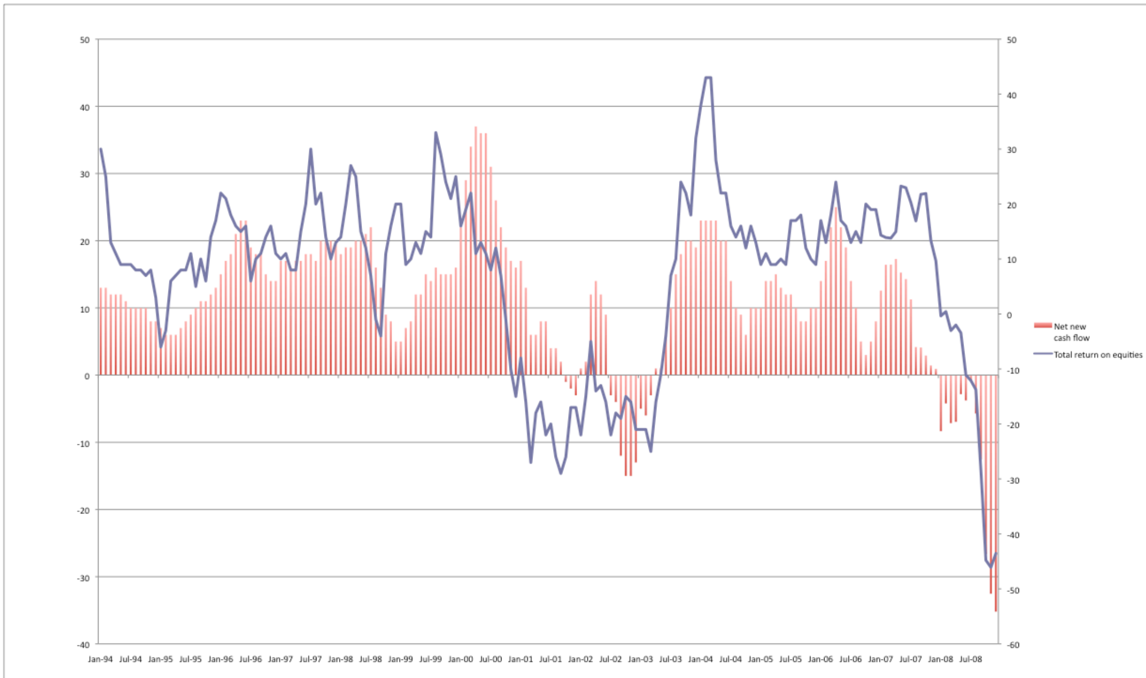
A chart to ponder: flows to equity funds related to global stock price performance (1994 – 1998)

Insanity is doing the same thing over and over again and expecting different results.
- Albert Einstein (attributed)



1 The total return on equities is measured as the year-over-year change in the MSCI All Country World Total Return Stock Index.
2 Net new cash flow to equity funds is plotted as a six-month moving average.
Sources: Investment Company Institute and Morgan Stanley Capital International

Housekeeping and next update

The year-end statements will be ready by the end of the month at the latest.

You should receive the next investment letter at the beginning of April.

As always, please feel free to email or call us with any questions or comments you have.

If any of you are in the neighbourhood, please let us know so we can take you out to lunch or dinner!

Finally, we would like to welcome 2 new partners to the Fund and would like to thank the current partners for their continued interest and added support!

Happy New Year!

The Tartaros Team

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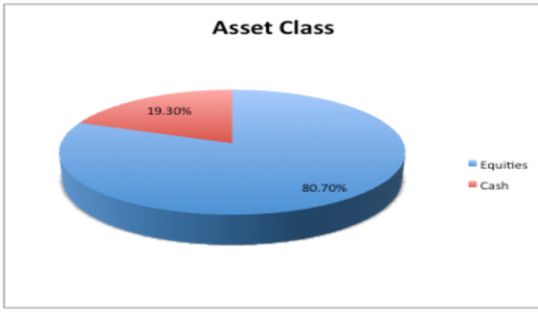
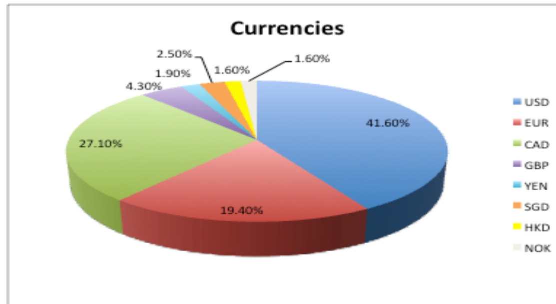
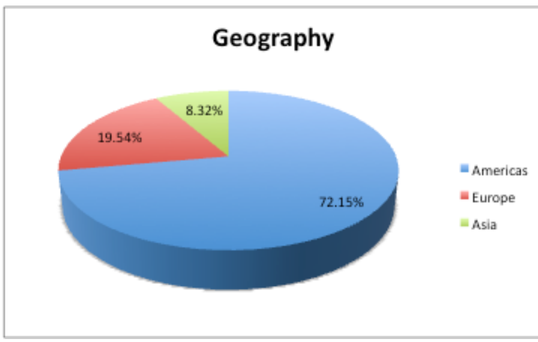
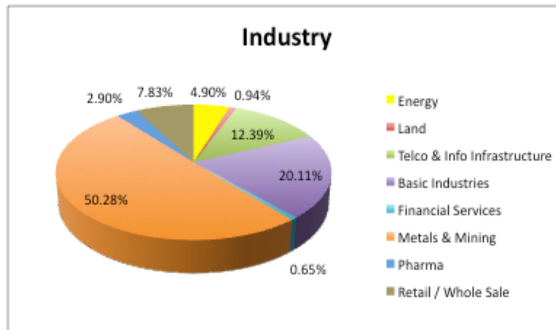
2 Fund Overview

2.1 General Overview (end of Q4 2010)









2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 34 investment positions. The portfolio is invested in companies across a range of market capitalizations:

Market Capitalizations in USD	% of equities invested
> 5 Billion	12%
1< 5 Billion	24%
0,5 < 1 Billion	6%
< 0,5 Billion	58%

Position	% of portfolio
Cash	19,30%
Investment 1	11,25%
Investment 2	6,34%
Investment 3	4,54%

We sold out our position in Linn Energy (2,34% of the Fund at the time of disinvestment) for a 128,6% return or a 65,37% annualized return, in Breitburn Energy (1,46% of the Fund at the time of disinvestment) for a 87% return or a 62,51% annualized return, in Delta EMD (0,53% of the Fund at the time of disinvestment) for a 52,32% return or a 74,89% annualized return, and in Callinan Mines (1,52% of the Fund at the time of disinvestment; derivative investment of our previous investment in HudBay Mining) for a 73% return or a 110,56% annualized return.

Both Linn Energy and Breitburn Energy are a master limited partnerships (MLP). The companies are engaged in the business of acquiring, developing, and producing long-life oil, natural gas, and Natural Gas Liquid assets. Baupost (Seth Klarman) was reference shareholder in both MLPs during our holding period.

It should be noted that all numbers are approximations.

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