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1 General Overview

Friday, 8 July 2011

Dear Partners:

The Fund finished the second quarter of 2011 -6,21% in the red, versus -1,98% for the MSCI World Index (in €) and versus -2,14% for the Eurostoxx 50 (cf. graphs in email). Year to date the Fund is down -3.92%. The Net Asset Value of the Fund is 197,13. We currently – at the time of writing – have a 37% cash position.

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
2011	*jan*	*feb*	*mar*	*apr*	*may*	*jun*	*jul*	*aug*	*sep*	*oct*	*nov*	*dec*	*ytd*
Fund	-3,87	4,63	1,85	-1,72	0,29	-4,84							-3,92
Msci world	-0,27	2,27	-3,83	-0,57	0,76	-2,16							-3,86

*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 2011 results reported above are unaudited estimates and may be subject to change.

Quarterly performance numbers – redux: this all bears repeating

Compartmentalization began as an architectural theory… divide buildings into sections which can be closed off to prevent a fire from spreading. Life can also be divided into closed-off sections. Makes everything much simpler.
- Dexter Morgan

It should be noted – and hence repeated (cf. 2011 Q1 Investment Letter) – that we are and have been concentrating all our efforts to finding undervalued long only investment opportunities. This means that we are and will be in the near future subject to the vagaries of the overall market climate. We repeat ad nauseam that we should be willing to take some short term pain (temporary market price losses) to be assured of longer term investment gains. We will do everything possible to avoid short term (financial) pain, but unfortunately we do not control market movements; most of the time – and especially today (cf. infra) – we are even perplexed by the jumping up and down (we literally imagine traders and investors of all kind frantically jumping up and down; this helps us to put things in perspective) of the financial markets. Please try to ignore quarterly results, in good and bad times. They are just noise! Case in point: the Fund is up almost 3% in just the first couple of days of the third quarter. Who knows where we will be a few days from now?

As mentioned before (2009 Q4 investment letter), we never manage the fund to be market-neutral, nor do we attempt to protect or take advantage of short term market movements, because we think that we do not have a competitive advantage in doing so. We will always have a bias to invest capital in a set of investments that have a very small chance of permanent loss of capital, modest long term price downside and substantial opportunity for long term investment returns. We try to achieve this investment goal by (1) investing in business and industries which are slow moving (when it comes to change) and which we understand (we like to be able to explain our mistakes), by (2) always focusing on the margin of safety (discount to the assessment of intrinsic value), and by (3) looking for a specific catalyst (a catalyst will not always be there). The entire process is designed to help avoid permanent loss of capital while generating attractive long-term returns. Even so, if the market declines precipitously, most of our long investments would likely decline in price (although not necessarily in value).

Based on top down considerations, history strongly suggests that long term returns (10-year and more) looking ahead are likely to be similar to the returns of the past decade and thus low. But we keep reminding ourselves that investing is a marathon not a sprint and that value investing will make a substantial difference in the long run.

In any case, we cannot predict the ups and downs of the equity markets – we would sure "love" to be able to do that, but we "love" the investments we own even if we cannot predict the timing in which they will reach full value. At current price levels, the Fund's portfolio consists of plenty of cash, a set of value investments and a set of macro hedges disguised as "regular" equities. Today we must muster all our compartmentalization power, by separating value from price (volatility). This will help us to look past short term market moods – when cheap investments might get cheaper, although that would allows us to deploy more cash – to a time when the Fund's investments reach full value range inspired / acknowledged by the market or potential acquirers.

The macro dominates all else now? We are the children of the children of the bull market…

"To combat the depression by a forced credit expansion is to attempt to cure the evil by the very means which brought it about; because we are suffering from a misdirection of production, we want to create further misdirection—a procedure that can only lead to a much more severe crisis as soon as the credit expansion comes to an end."
- Friedrich August von Hayek

Oh, what do we long for a time like the eighties or the nineties, or even the beginning of the previous decade! A long-lost era – lasting from the beginning of the eighties to the summer of 2007 – where the children of the great bull market could buy whatever asset class (bonds, real estate or equities), on every single dip, and just watch the prices go up and up. Value investing didn't even matter… What could possibly go wrong? Whenever the economy would hit a speed bump in whatever way, the governments would be ready to lower the interest rates and the system would just add more leverage. Regulatory regimes changed gradually – if at all. The business cycle hardly mattered; there was always the solution of lower interest rates and more debt.

Fast forward to today. Governments are no longer regulators and supervisors. They have become managers of the economy, getting pulled deeper into markets as portfolio managers, trying to tweak the economy as mad professors in a bad amateur chemistry lab. And their experiments have gone from bad to worse. They just keep pushing the same medicine.

During their first experiment (end of 2008 and all of 2009), governments intervened in markets with the objective of overcoming disrupting market failures and stabilizing markets that were in complete disarray. This QE1 (quantitative easing I) succeeded, albeit at a significant cost in terms of shifting private sector debt to the balance sheets of the public sector (read: the financial crisis is still here, but in a different form).

In 2010 the second experiment was started. QE2 (quantitative easing II) was implemented to raise asset prices in order to spur economic activity and job creation. The intervention worked in delivering a broad-based rise in asset valuations, but it failed to deliver a sustainable economic outcome (cf. recent macro economic data).

Just recently, the policy makers started a third experiment where they try to counter bad inflation (higher commodity prices) next to the good inflation (higher bond and stock prices) they created with QE2. This explains the decision to raise repeatedly the margin requirements for certain commodities or the decision by IEA member governments to release supplies into the market in order to lower oil prices.

Markets and its participants (us!) will have to recognize and acknowledge the growing involvement of governments as financial market managers (bail-outs, subsidies, change in accounting rules, change in financial market rules, etc.) and the unintended consequences of their decisions. Just the other day the ECB announced that it will keep accepting Greek debt as collateral as long as one of the four major rating agencies does not have a default rating. Do you know the four major rating agencies? S&P, Moody's, Fitch and... the Canadian DBRS! DBRS is a local rating agency that assesses the credit worthiness of Canadian provinces and that doesn't even have Greece on its radar screen. Where do these people come up with this stuff??!!

The global credit card is maxed out and governments are desperately trying all kinds of things to get the economy going. We should all expect greater volatility across the entire range of financial markets for the coming years. It's tough to be the children of the children of the bull market.

Summer Reading

Everything is Obvious: How Common Sense Fails – Duncan J. Watts

Why is the Mona Lisa the most famous painting in the world? Why did Facebook succeed when other social networking sites failed? And does higher pay incentivize people to work harder? If you think the answers to these questions are a matter of common sense, think again.

Information is Beautiful – David McCandless

A visual guide to the way the world really works. Every day, every hour, every minute we are bombarded by information – we're steeped in it, maybe even drowning in it. “Information is Beautiful” contains visually stunning displays of information. A book recommendation from a Tartaros partner!

Housekeeping and next update

“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.”
- Charlie Munger

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

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

Our idea of marketing is being at the office to work, so we would like to thank you for the referrals. In that respect, we would like to welcome 6 new partners to the Fund and would like to thank the current partners for their continued interest and support!

Regards,

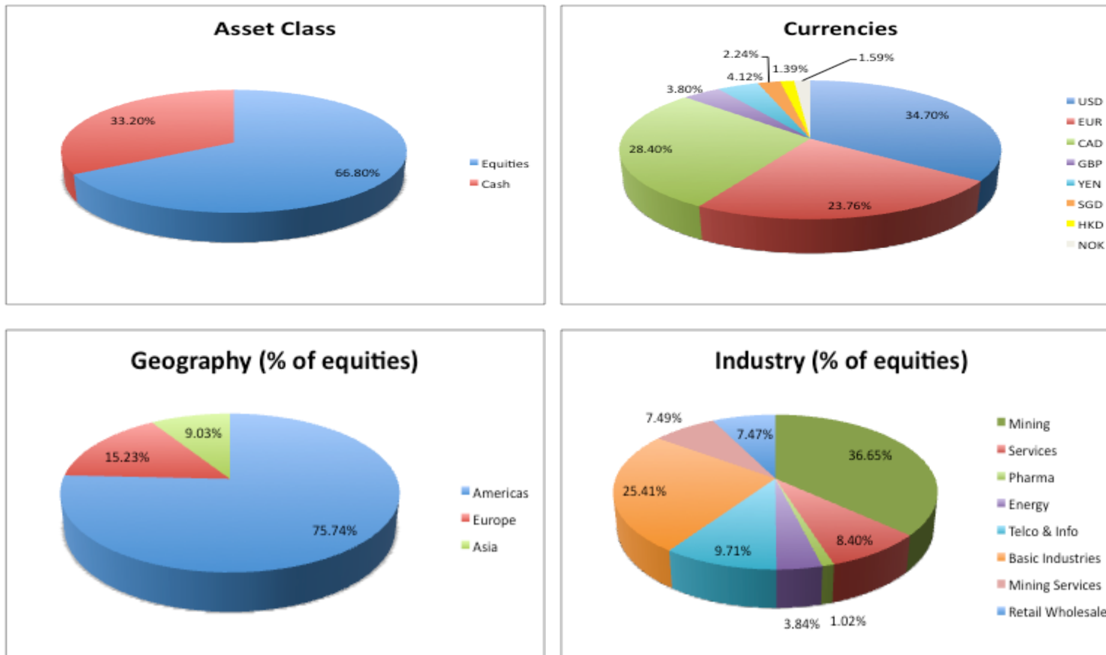
The Tartaros Team

TARTAROS SICAV-FIS, S.C.A.
287, route d’Arlon
L-1150 LUXEMBOURG

TARTAROS INVESTMENT PARTNERS sàrl
7, route d’Esch
L-1470 LUXEMBOURG

2 Fund Overview

2.1 General Overview (end of Q2 2011)



2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 32 investment positions.

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

Market Capitalizations in USD	*% of equities invested*
> 5 Billion	13%
1< 5 Billion	23%
0,5 < 1 Billion	3%
< 0,5 Billion	61%

Position	*% of portfolio*
Cash	33,20%
Investment 1	5,31%
Investment 2	4,62%
Investment 3	4,48%
Investment 4	3,73%

TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

TARTAROS INVESTMENT PARTNERS sàrl
7, route d'Esch
L-1470 LUXEMBOURG

We sold the following investments:

Disinvestment	*Entry Price*	*% of Portfolio*	*Return*	*Annualized Return*
Timberwest	5,79 cad	0,99%	30,29%	12,37%
First Majestic*	1,79 cad	8,34%	1160%	466,33%
Versatel°	6,98 eur	1,30%	-2,03%	-1,33%

* We already sold part of the shares at the end of last year (3% of the Fund at the time of disinvestment) and still hold an investment position in First Majestic today.

° A take-under by the reference shareholders.

It should be noted that all numbers are approximations.

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