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1 General Overview

Tuesday, 2 October 2012

The best response when seas are choppy is to focus on completing the long-term voyage and not think about whether the next wave is going to push the nose of the boat up or down. Our investment destination is best reached by accurately valuing assets, assessing the relationship between price and that value, and acting resolutely and unemotionally when mispricings are detected. That's still the best – I think the only – reliable path to investment success. Nothing about the current environment alters that one bit.

- On Uncertain Ground, Howard Marks, September 2012

Dear Partners:

The Fund finished the second quarter of 2012 9,09% in the plus, versus +3,31% for the MSCI World Index and versus +8,36% for the Eurostoxx 50 (cf. graphs attached to email). We are up 4,95% year to date; the Net Asset Value of the Fund is 208,93. We currently have a 42% 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	2,58	-1,53	-6,51	1,74	4,99	0,11	-2,98
Msci world	-0,27	2,27	-3,83	-0,57	0,76	-2,16	-0,56	-8,48	-2,45	6,33	1,49	3,58	-4,59

2012	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	ytd
Fund	3,61	-0,37	-1,71	-1,46	-3,58	-0,21	3,40	2,65	3,04				4,95
Msci world	3,04	2,52	1,74	-0,41	-2,64	2,97	3,81	-0,92	0,45				10,85

*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 2012 results reported above are unaudited estimates and may be subject to change.

More of the same: QE1, QE2, QE3, QE to infinity...

Did I already say that? Never mind. It's not so terrible. Some things you can say twice. The first time you say it as soon as it comes in your head, and the second time you say it as soon as you understand it.

- Four Meals, Meir Shalev

The previous quarter we wrote the following: “Although some of you expect us to have something new to say every quarter, we have to disappoint you. We fear that the same problems will be with us for many more years to come (e.g. Euro Summit number “we have lost count” does not solve the problems). It took a couple of decades to build this mountain of debt and it will also take a lot of time to get out of this mess. So – on the economic front – expect more of the same: some economic austerity in combination with lots of political posturing and gluts of money printing, resulting in lots of financial market volatility.”

Obviously, we are not into the business of predicting and investing based on (economic/credit) cycles. But even though it is impossible to time cycles right (to know when the cycle will turn), it is important to be aware of them and where we might be – without making precise predictions – in the various cycles. Large mistakes (e.g. being invested in financial or overleveraged companies in 2007/2008) can be avoided by being at least aware of them. Restructuring of debt and austerity are deflationary, and are negative for growth. The printing of money is inflationary and positive for growth. The policies by the ECB, the FED, the BOE, and the BOJ are policies to achieve balance of those things. If we get lucky we might end up with – what Ray Dalio, founder of Bridgewater Associates, calls – a beautiful deleveraging (slow, muddle through growth). But financial experiments always have a tendency to go really wrong... With all of this in mind, we urge everyone to read “On Uncertain Ground” by Howard Marks.

Cash is no trash!

Lately, we've been getting a lot of questions about holding cash and the return on cash (and cash equivalents). Of course, we are cognizant of the fact that cash yields next to nothing in nominal terms and probably, no certainly less than nothing in real terms. But when it comes to holding cash we take our cues from him again. To Warren Buffett, cash is not just an asset class that is returning next to nothing. It is a call option that can be priced. When he thinks that option is cheap, relative to the ability of cash to buy assets, he is willing to put up with super-low interest rates.

“He thinks of cash differently than conventional investors,” Ms. Schroeder (author of the Buffet biography The Snowball) says. “This is one of the most important things I learned from him: the optionality of cash. He thinks of cash as a call option with no expiration date, an option on every asset class, with no strike price.” However, it is a lesson that Ms. Schroeder said she wishes more people would learn. For many investors, there is a sense that holding cash is a cop-out. Investors who see their fund managers holding a lot of cash tend to think that they are not getting their money's worth, which is wrong, she says. (Boyd Erman, The Globe and Mail, 24 September 2012)

The Road to Serfdom...?

If you wonder what we've been re-reading lately... It might not come as a surprise!

We cannot blame our young men when they prefer the safe, salaried position to the risk of enterprise after they have heard from their earliest youth the former described as the superior, more unselfish and disinterested occupation. The younger generation of today has grown up in a world in which, in school and press, the spirit of commercial enterprise has been represented as disreputable and the making of profit as immoral, where to employ 100 people is represented as exploitation but to command the same number as honorable.

...

Nobody saw more clearly than the great political thinker de Tocqueville that democracy stands in an irreconcilable conflict with socialism: "Democracy extends the sphere of individual freedom," he said. "Democracy attaches all possible value to each man," he said in 1848, "while socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude."

To allay these suspicions and to harness to its cart the strongest of all political motives – the craving for freedom – socialists began increasingly to make use of the promise of a "new freedom." Socialism was to bring "economic freedom," without which political freedom was "not worth having."

To make this argument sound plausible, the word "freedom" was subjected to a subtle change in meaning. The word had formerly meant freedom from coercion, from the arbitrary power of other men. Now it was made to mean freedom from necessity, release from the compulsion of the circumstances which inevitably limit the range of choice of all of us. Freedom in this sense is, of course, merely another name for power or wealth. The demand for the new freedom was thus only another name for the old demand for a redistribution of wealth.

...

What is promised to us as the Road to Freedom is in fact the Highroad to Servitude. For it is not difficult to see what must be the consequences when democracy embarks upon a course of planning. The goal of the planning will be described by some such vague term as "the general welfare." There will be no real agreement as to the ends to be attained, and the effect of the people's agreeing that there must be central planning, without agreeing on the ends, will be rather as if a group of people were to commit themselves to take a journey together without agreeing where they want to go: with the result that they may all have to make a journey which most of them do not want at all.

- The Road to Serfdom, 1944, F.A. Hayek

Housekeeping and next update

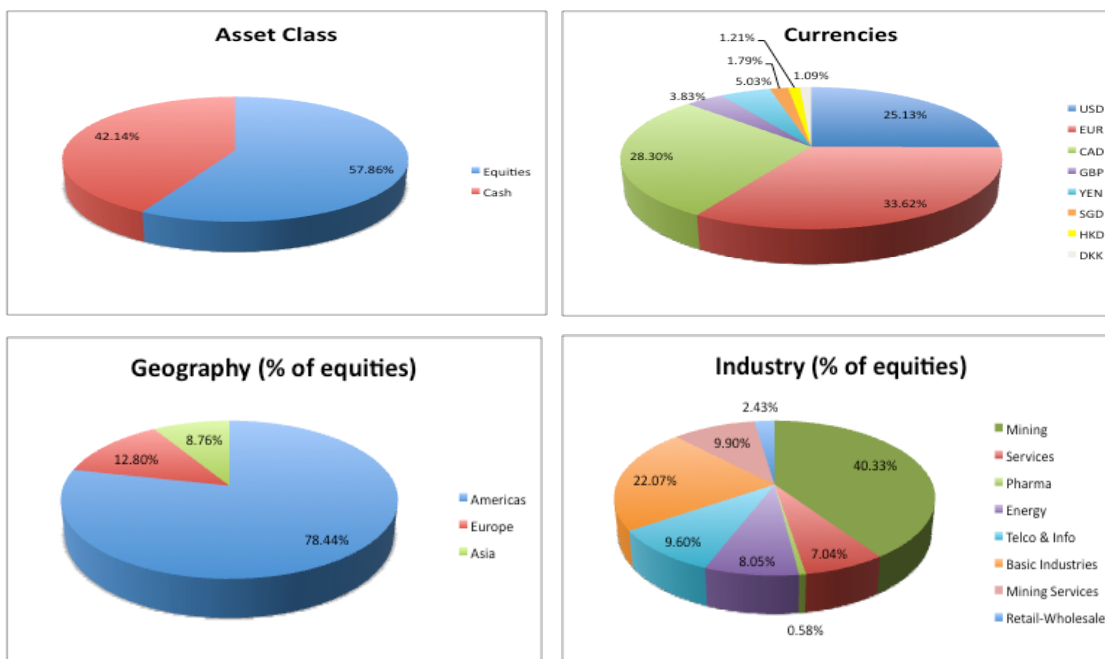
You should receive the next investment letter by the middle of January at the latest.

Please email or call us with any questions or comments you have.

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q3 2012)



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	59%

Position	% of portfolio
Cash	42,14%
Investment 1	5,25%
Investment 2	5,11%
Investment 3	4,70%
Investment 4	4,07%
Investment 5	3,61%

We sold the following investment:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>	<i>Annualized Return</i>
Einstein Noah	10,53 usd	2,21%	78,99%	40,78%

It should be noted that all numbers are approximations.

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