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1 General Overview

Wednesday, 3 April 2013



A policeman stands guard in front of trucks carrying containers at the Central Bank in Nicosia March 27, 2013. The contents of the containers could not be verified by Reuters, but local media reported they contained cash for the banks' reopening on Thursday. Source: Reuters / BusinessInsider, 27 March 2013

*"Participation in the DPS is compulsory for all banks authorized by the Central Bank of Cyprus, i.e. banks incorporated in the Republic of Cyprus, including their branches in other countries, and the Cyprus branches of foreign banks, incorporated outside the Republic of Cyprus or the Member-States of the European Union. The DPS does not cover deposits of branches of banks established in European Union Member States. These deposits are covered by the corresponding deposit protection scheme established in the country of incorporation. The DPS is activated in the event a decision is reached that a member bank is unable to repay its deposits, or as a result of a Court's order for the winding-up of a member bank. Where a bank is unable to pay its deposits, the relevant decision is adopted by the Central Bank of Cyprus or, where a member bank is incorporated in a country outside the Republic of Cyprus, by the competent supervisory authority of the country of incorporation. **The maximum level of compensation, per depositor, per bank, is €100.000.**"*

- Description of the Cypriot government deposit insurance plan

*"This decision, if made, would be unfair, unprofessional and **dangerous.**"*

- Vladimir Putin, in assessing a decision to impose a tax on bank deposits in Cyprus

Dear Partners:

The Fund finished the first quarter of 2013 -1,13% in the red, versus +8,21% for the MSCI World Index and versus -0,45% for the Eurostoxx 50 (cf. graphs attached to email). The Net Asset Value of the Fund is 197,90 (cf. part 2.3 for all series' NAVs). We currently have – before new subscriptions – a 36,90% cash position. It should be noted that approximately 40% of the strong rise in the MSCI World Index is thanks to the strong rise of the US dollar, the rest of the strong performance is thanks to the unrelenting rise of the US stock market, which now seems priced for perfection. Most of the major European and Asian indices are flat for the year.

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)*

2013	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	ytd
<i>Fund</i>	-2,83	-1,58	3,38										-1,13
<i>Msci world</i>	2,28	3,41	2,30										8,21

*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 2013 results reported above are unaudited estimates and may be subject to change.

	<i>Tartaros</i>	<i>EuroHedge Global Equity</i>	<i>Euro Stoxx 50 (excl. dividends)</i>	<i>MSCI World (excl. dividends)</i>	<i>Tradition Fund Low Risk</i>	<i>Traditional Fund High Risk</i>
2008	6,30	-3,82	-6,21	-10,90	-7,28	-19,78
2009	45,52	10,72	21,00	22,67	12,91	28,05
2010	32,64	4,87	-5,85	18,11	6,59	14,30
2011	-2,98	-6,16	-17,05	-4,59	-2,95	-12,27
2012	0,55	3,73	13,79	10,95	7,72	12,74
<i>Annualized</i>	17,97	1,98	0,20	7,62	3,69	3,58
<i>Cumulative</i>	100,55	8,70	0,85	36,64	16,65	16,12

Raining on our parade...

There is an idiom that states: when it rains, it pours. This saying means that when things go wrong, a lot of things go wrong at the same time. It hasn't been pouring, but the markets are still raining on our parade, so we are still kind of wet.

In any case, the past six months have been very frustrating, to say the least! Today, we have a hard time finding opportunities to make new investments. Since it is never our intention to buy something that is dear to sell it dearer, we have no other option than to "play" the waiting game and hold cash. We always

work hard, but the biggest danger now is actually trying too hard to make money. Pressuring yourselves to always make money leads to overpaying and to compressing time horizons (the fear of missing out); all detrimental to the first rule of our investment philosophy, do not lose money.

Last year we were conservatively positioned, our bottom-up investments took into account a slow-down across major world economies. This slow-down actually materialized: we had a slow-down in the United States (4th quarter growth was zero), a recession in the Euro-zone and a substantial growth slow-down in China. – To be very clear, we do not mind economic distress or economic uncertainty, but we can only go to work if they are accompanied by equities on sale.

But equities rallied – via multiple expansion, not based on earning growth – as central banks succeeded in diminishing risk perceptions and in increasing general confidence, with most of the year's gains coming in the last quarter of 2012. At the moment, the momentum – the fear of missing out – seems to keep the markets going... The great rotation. Even Tina (There Is No Alternative) is back... All kinds of buzz words are thrown in the mix to justify the rising markets...

Sentiment, the story of an Apple and the illusion of certainty

So what caused the recent stock market rally across continents? A change in sentiment! We live in a world of debt-deleveraging and zero-interest rate policies and the only tool that the central banks have left is the printing of money. Their old *modus operandi* was manipulating interest rates to influence the general economy (by adding more and more debt), but with interest rates near zero, that policy channel is no longer an option. The central banks of the world (the BOJ and FED are on the record about this) are now using the equity markets as a transmission channel. They are “hoping” that keeping stock prices high, will keep the consumers feeling wealthy – this is where the role of sentiment comes into play – and thus spending. Unfortunately, printing money and hoping that people actually feel good about this will not work. It might work in the short run – and it is working for the moment, but in the long run the economic fundamentals will trump any sentiment driven market move.

The recent stock market performance of Apple is a nice example of how sentiment can influence a stock in the short run (and the short run can be more than one year!). The efficient markets hypothesis basically states the markets are always accurately factoring in all current and relevant information about a security, and are pricing giving security “correctly”.

Since reaching a peak of approximately \$700 in September of last year, shares of Apple have been trending downwards over the past six months – falling 40% to a 52-week closing low of \$420 at the beginning of March. If you want a rational reason – because people always want a rational reason for a stock's short-term fluctuations – for the stock's decline, we have a few ideas: investors seem to be worried about the post-Steve-Jobs-era, the rise of Samsung and Android, the decline of Apple's operating margins, and the lack of a mega product in the (near) future. Of course, all of those things were true when the stock was climbing all the way to \$700.

Instead of looking for rational reasons, you might just want to throw your hands in the air and shout “(change in) sentiment”. Bond guru Jeff Gundlach says the 40% something decline in Apple is yet another proof that markets are not efficient digesters of news and data, but rather the sum of herd mentality and idiosyncratic behaviors, at least in the short run.

The goal of the traditional investment community is never to educate the client – we prefer the term partner. The goal is to win the business. So the investment industry sells the illusion of certainty and offers a stylized version of the investment world with well-defined explanations for every short-term market fluctuation versus the messy, volatile one that actually exists. Nobody seems to be comfortable saying, “I do not know”, even if that is the real answer. In any case, you know what our answer will be if we do not know!

A golden apple of discord

Price movements of an investment and the emotions (i.e. fear and greed) that come with them often run counter to future performance. Moreover, short-term price moves – the noise – are rarely tied to actual changes in long-term fundamentals – the signal – but are most of the time driven by (changes in) investor sentiment (cf. supra). The crux of investing is to keep emotions in check and refrain from interpreting short-term price movements as a confirmation or disconfirmation of an investment thesis.

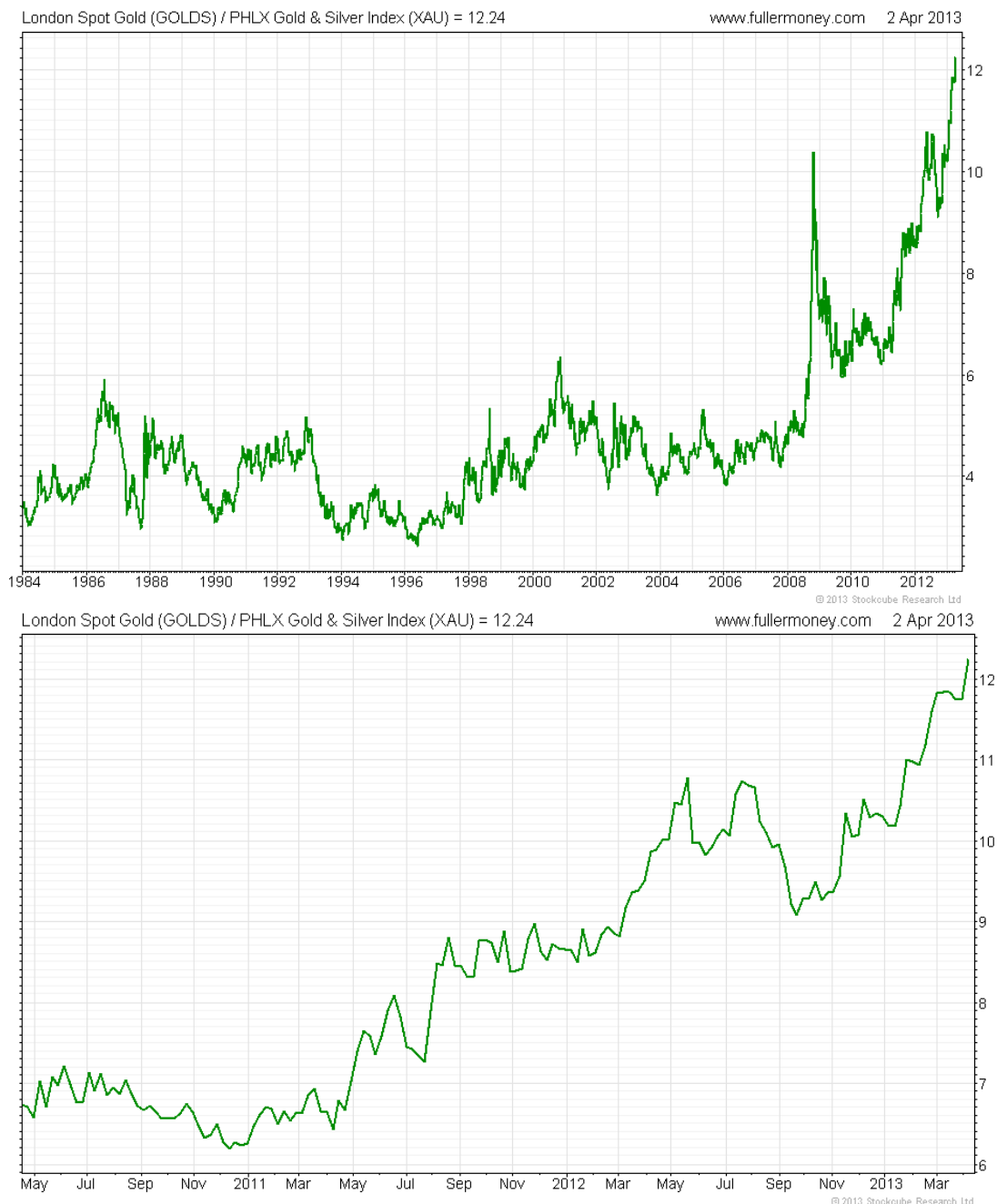


Chart: gold / xau ratio. The chart represents the price of gold divided by the XAU index of gold miners. Until the end of 2008, the ratio fluctuated between 3 (precious metals miners expensive vs gold) and 5 (precious metals mine cheap vs gold).

We can only speculate as to what is going on in the market for gold (miners), but there are many possible explanations (hedge fund redemptions, diminished risk perceptions, etc.). In the end, it is anyone's guess

as to what is driving gold and gold miners's short-term performance. But what seems clear to us is that the current (price) pessimism does not seem to be tied to any change in the big-picture fundamentals.

Whatever the reason, the underperformance of the mining shares over the past two years (since March 2011) has been significant. The negative sentiment towards gold and gold miners can continue for longer, but something that cannot go on forever, will eventually stop. It should be noted that our investment exposure to gold miners has performed outstanding over the past four years, both on a relative (against the various market indices of gold miners) and absolute basis. But we sometimes have to deal with short-term adverse (price) movements (case in point: the past six months), even when the big-picture investment thesis and risks remain the same. Today, gold miners are hated (again) – by those who should love them the most, i.e. the gold bugs – and un-owned by the investment community at large, but we believe the investment thesis (cf. infra) is unchanged. Looking back a couple of years from now, we believe the golden apple of discord will have been decided in our favour.

Don't cry for me, Cyprus!

The word is awash in debt. That is an undisputable fact. Now, what are the consequences of unsustainable debt levels, of too much debt? The most important consequence is slower economic growth. And, of course, slow economic growth (if any growth at all) has consequences of its own: difficulty (in some cases impossibility) in increasing government revenues and continued increases in debt-to-GDP ratios. Attempts to reduce government spending through austerity are failing everywhere in Europe. The paradox of thrift is alive and kicking across the European continent. The truth is that there are no painless solutions left. It is going to be a very messy race to the bottom, either through inflation, devalued currencies, declining purchasing power, or a combination of all three. Over the past 40 years, debt has substantially outgrown GDP in most advanced and emerging countries. So to think that we will clear this mountain of debt in a couple of years is complete nonsense. From time to time – the past six months, for instance – the financial markets will seem to have forgotten about all of this. And then out of the blue (Cyprus) the crisis will flare up again. So do not only expect a very messy road, but also a very long one.

A quick word on Cyprus. It is not the size of Cyprus that is important. It is what it represents. The law of unintended consequences will eventually rear its ugly head again. If the European governments can clandestinely – the only reason the Cypriot bailout "passed" (at least so far) is because it was structured as a bank restructuring, a financial system "resolution", not a tax, and thus not in need of a parliamentary vote – steal their citizens' savings over the weekend, what else are they capable of doing? Why even hold money in a bank account? Cyprus is now being forced into an economic depression. Cypriot citizens/savers are probably thinking about singing "Don't cry for me, Argentina". Soon they might start singing along in Greece, Portugal, Spain or Italy. We now live in a European Monetary Union that has forced capital controls on one of its members. People should think really, really hard about this and ponder its consequences.

A holding company – as inspired by Dr. Michael Burry

Our (personal) investment goal is to earn reasonable returns on our invested capital, such that these returns, compounded over a very long term (a decade or more), will yield significant absolute sums of capital. We are only concerned with maximizing long-term compounded returns. Unfortunately, we do not know how we could manage (read: maximize) the return in any given period, whether the period be a month, a quarter, or even a year or more.

With your investment in the Fund you have not invested in the overall equity market, but you own a stake in a non-public investment vehicle. This investment vehicle is a holding company that gives you the right to require repurchase of your share in the Fund at set dates and at then-current book value (of the holding company). With respect to those set dates, it is important to note that Warren Buffett in the latest Berkshire Hathaway shareholder letter noted that he never had a five-year period of

underperformance, having managed 43 times to surpass the S&P over such a stretch. We believe that a 4-year time frame is the minimum period that is required to evaluate our job (read: to evaluate if we have deserved your trust and support).

And our job, as fiduciaries, investment managers, and fellow owners, is to allocate the holding's capital to produce the highest absolute return on invested capital possible while minimizing the risk of permanent loss of capital. The goal of every partner in the Fund should thus neither be to take profits when the Fund is up significantly nor to cut losses when the Fund is down significantly. If we do a good job over the long run, the power of compound interest will do the rest.

Next update

One of you – a very good friend of one of us – is taking our advice of focusing on the long term to heart and actually asked us to send him our quarterly updates only once a year, at the end of every year. In any case, you should receive the next investment letter by the middle of July at the latest. In the meantime, please email or call us with any questions or comments you have.

We are welcoming one new partner to the Fund and one of you has increased his stake in the Fund. We also have upped our stake.

Stuff to ponder...

We leave you with the following thoughts:

"Investing today may well be harder than it has been at any time in our three decades of existence. The Fed's "relentless interventions and manipulations" have left few purchase targets for Baupost. The underpinnings of our economy and financial system are so precarious that the un-abating risks of collapse dwarf all other factors."
- Seth Klarman, 2012 year-end letter

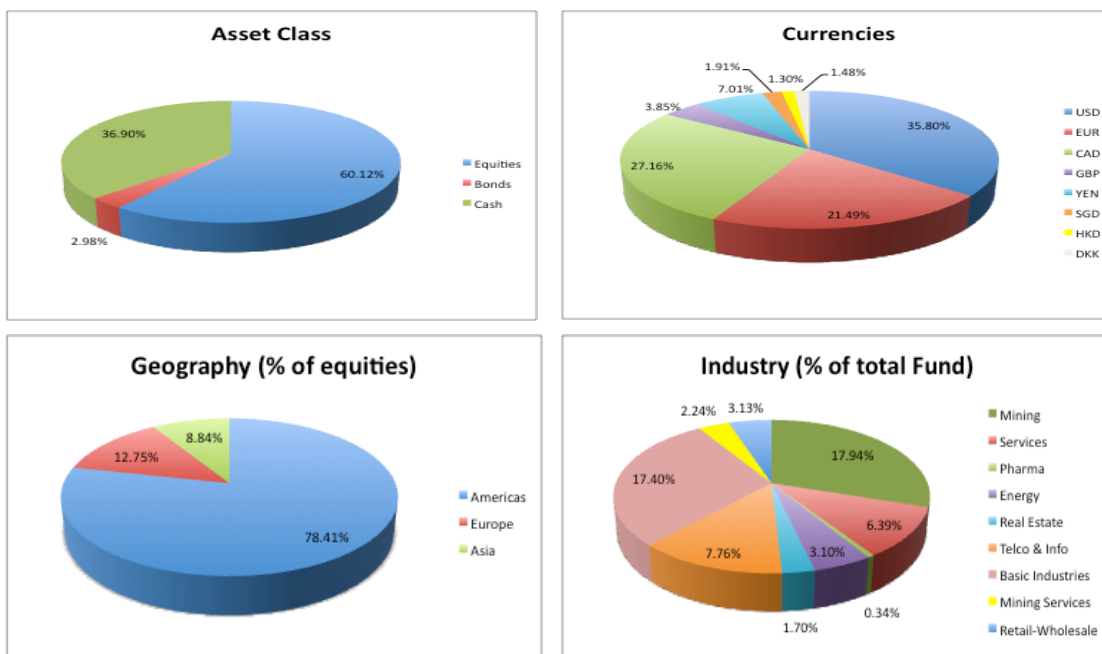
"Each additional dollar of credit seems to create less and less heat. In the 1980s, it took four dollars of new credit to generate \$1 of real GDP. Over the last decade, it has taken \$10, and since 2006, \$20 to produce the same result."
- Bill Gross, February 2013

"When it becomes serious, you have to lie."
- Jean-Claude Juncker, President of the Eurogroup, May 2011

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q1 2013)



2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 38 investment positions.

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

Market Capitalizations in USD	% of equities invested
> 5 Billion	19%
1< 5 Billion	34%
0,5 < 1 Billion	8%
< 0,5 Billion	39%

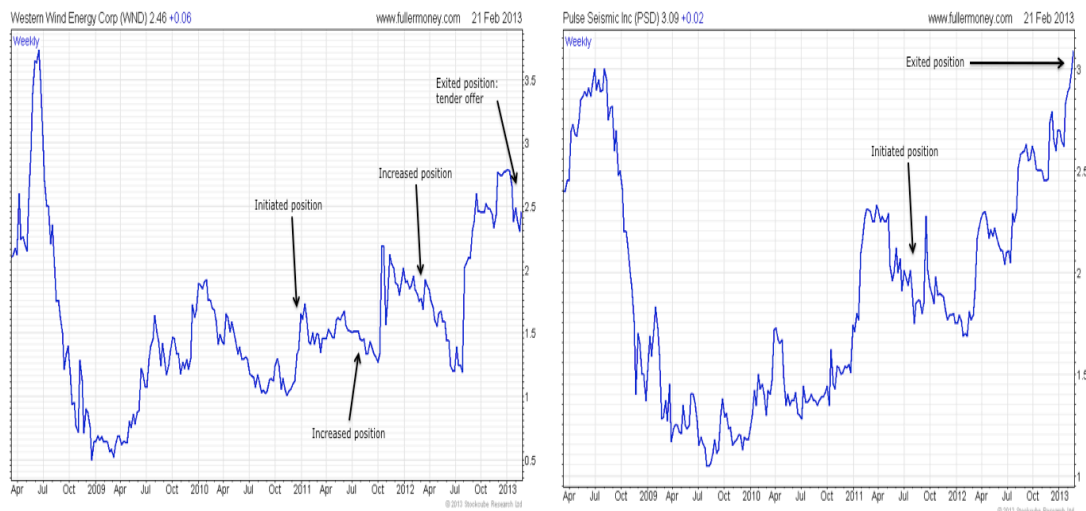
Position	% of portfolio
Cash	36,90%
Investment 1	4,21%
Investment 2	3,78%
Investment 3	3,10%
Investment 4	3,05%
Investment 5	2,71%

We sold the following investment:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
Western Wind Energy	2,6 cad	5,13%	48,51%
Pulse Seismic Data	1,97 cad	2,73%	56,62%
Pronexus*	378,71 yen	3,51%	71,07%

* We are in the process of closing out this position.

It should be noted that all numbers are approximations.



2.3 NAV series

Serie A 1 LEAD	197,90
Serie B 3 31/12/10	96,45
Serie C 5 31/03/11	94,16
Serie D 7 30/06/11	100,39
Serie E 9 30/09/11	105,52
Serie F 13 31/12/11	99,41
Serie G 15 31/03/12	97,97
Serie H 17 30/06/12	103,15
Serie I 19 30/09/12	94,72
Serie J 21 31/12/12	98,87

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