

Disclosures: This document is being provided on a confidential basis by Tartaros Investment Partners s.a.r.l. (T.I.P.) solely for the information of those persons to whom it is transmitted. This document is neither advice nor a recommendation to enter into any transaction with T.I.P. This document is proprietary information of T.I.P. and may not be reproduced or otherwise disseminated in whole or in part without T.I.P.'s written consent. Opinions offered constitute our views and are subject to change without notice. We believe the information contained herein is reliable, but do not warrant its accuracy or completeness.

1 General Overview

Monday, 8 July 2013

Success can be built upon repeated failures when the failures aren't taken personally; like- wise, failure can be built upon repeated successes when the successes are taken personally.

- Jim Paul & Brendan Moynihan, *What I Learned Losing a Million Dollars*

Even the intelligent investor is likely to need considerable willpower to keep from following the crowd.

- Benjamin Graham

When dealing only with his own money, investment losses never bothered Munger too much. To him it was like a losing night in a regular poker game where you knew you were one of the best players – you'd make up the difference later. But he now found that reported, temporary quotational losses in the Munger limited partnership accounts gave him tremendous pain. (cf. infra: the best of the best)

- Excerpt (about the 1972-1974 period) from *Damn Right, the Charlie Munger biography*

Dear Partners:

The Fund finished the second quarter of 2013 -8,10% in the red, versus -0,16% for the MSCI World Index and versus -0,82% for the Eurostoxx 50 (cf. graphs attached to email). It should be noted that the volatility of the markets is increasing. At the beginning of the last week of the quarter the Eurostoxx 50 was down more than 5% ytd, before rallying to slightly negative in just a couple of days. The MSCI World Index (ex USA) is up approximately 2% for the year. Emerging market such as China, Brazil, India, etc. are down more than 10% ytd. The Net Asset Value of the Fund is 181,87 (cf. part 2.3 for all series' NAVs). We currently have – before new subscriptions – a 35,92% 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)*

2013	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	ytd
Fund	-2,83	-1,58	3,38	-5,00	-1,13	-2,15							-9,14
Msci world	2,28	3,41	2,30	2,89	0,28	-3,24							8,03

*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.

	Tartaros	EuroHedge Global Equity	Euro Stoxx 50 (excl. dividends)	MSCI World (excl. dividends)	Tradition Fund Low Risk	Traditional Fund High Risk
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
Annualized	17,97	1,98	0,20	7,62	3,69	3,58
Cumulative	100,55	8,70	0,85	36,64	16,65	16,12
80% of traditional funds underperform						
0.5% of traditional funds outperform more than 3% over the very long term						

What would Charlie say?

You know what Kipling said? Treat those two imposters just the same – success and failure. Of course, there's going to be some failure in making the correct decisions. Nobody bets a thousand. I think it's important to review your past stupidities so you are less likely to repeat them, but I'm not gnashing my teeth over it or suffering or enduring it. I regard it as perfectly normal to fail and make bad decisions. I think the tragedy in life is to be so timid that you don't play hard enough so you don't have some reverses.
- Charlie Munger, The Daily Journal Corporation Annual Meeting 2012, February 2013

Last quarter, we wrote about the fact that it was raining on our parade, but not yet pouring. In this quarter it actually started pouring. Since even the best of the best have experienced stretches of (markable) underperformance (cf. infra), we always knew that one day it would certainly happen to us, mere investment mortals. We hoped that it would be later rather than sooner, but it is never the right time when it comes. Seth Klarman (cf. infra) wrote in his out-of-print book Margin Of Safety that as a value investor you may experience poor, even horrendous, performance compared with that of other investors or the market as a whole during prolonged periods. Considering our recent experience, we really would prefer skipping the horrendous underperformance part. In any case, we are of course disappointed, but not disillusioned.

First the facts. The Fund was down 8,10% over the past quarter. Three factors contributed to the weak performance.

(1) Adverse currency fluctuations.

Adverse currency fluctuations had a negative impact of approximately 3%. Although we never have taken any explicit currency position independent of an equity investment (although recently we considered shorting the Australian dollar versus the U.S. dollar), we do think about our currency exposure. We believe that our non-euro currency exposure will eventually work out as the perfect hedge against more turmoil in Europe. Contrary to what politicians – “When it gets serious, you have to lie.” – want you to believe, nothing has been solved in Europe! Just one small example: two weeks ago the Cyprus' president

asked the EU leaders to completely alter the country's 10 billion euros bailout in order to “save” the economy.

(2) The golden apple of discord tastes really bad.

It is quite frustrating to watch the price of gold fall as the conditions that should cause it to appreciate seem more and more prevalent. Gold may not exactly be a ‘safe haven’ in the sense of an asset whose value is precisely known and stable. But it surely is an asset that, in a particular set of circumstances, becomes a unique and irreplaceable ‘must-have’.

- Paul Singer, legendary hedge fund manager, April - May 2013

Last quarter we wrote that the underperformance of the precious metals mining shares over the past two years (since March 2011) had been significant. We stated that the negative sentiment towards gold and gold miners could continue for longer, but also noted that something that cannot go on forever, would eventually stop. Unfortunately, the market has tested our resolve some more. It had a negative impact of 5% on the Fund. The recent rout in the precious metals mining sector started when gold fell 16% over two days in the middle of April (April 12 and April 15). Although we will never really know what triggered the decline, it appears to be the result of extensive naked short selling on the COMEX – the major gold exchange – by hedge funds. We do not easily believe in grand conspiracy theories, but when over 1 million contracts totaling 100 million ounces, an amount exceeding the global annual gold production by 12%, are sold in two days, we do wonder. Moreover, we never understood why central bank gold sales are always announced in advance. If you want the best price in a public market you would try to sell it under the radar screen, not shout it from the rooftops. But market rigging, isn't that something that just doesn't happen, at least not on a grand scale, is what you might counter? Well, here is a summary – source: zero hedge – of the known market manipulation scandals (because it can be problematic keeping track of all by now):

- Libor - interest rates (link)
- ISDAfix - swaps (link)
- Platts - oil prices (link)
- WM/Reuters - FX (link)
- High-Frequency Trading - equities (link)

We also know that the world central banks have always intervened in the currencies markets, regulate (manipulate?) the short-end interest rates and that they are engaged in full-blown (and unprecedented) Quantitative Easing, not only to buy government bonds, but also to make direct and indirect stock market investments (let's just print our way to richness). Today private and public market players are actively rigging the financial markets and nobody seems to really care!

Over the past three months there has been unseen, brutal selling and this has wreaked historical havoc. Good news, bad news, no news: every reason seemed good enough to be selling. Today the precious metals mining sector is in deep value territory and is now by far the cheapest sector in the equity market and by far the cheapest it has ever been. It is surprising and frustrating when sentiment is killing what we believe are unchanged top-down (central bank money printing, negative real interest rates, financial repression) and bottom-up (increasing physical demand vs flat supply, high total development cost) fundamentals. We have been taught once again that no asset is so high that it can't go higher, and no asset is so low it can't go lower. In that respect, Harris Kupperman (of Praetorian Capital) recently wrote the following: “We have to remember that gold trades on a market with many leveraged traders. These traders have emotions and they have margin calls. Gold can trade erratically and in the short term, it can trade at almost any price. Over the long term, gold will continue to go higher – if only because the world's central banks continue to print more money (own addition: and the gold supply only grows at 1% per year). In the short term – who knows?? The last few months have been frustrating for many of us gold owners. I have to think that we are nearing some sort of long-term and lasting bottom. Bottoms are

created by true wash-out's in terms of sentiment, massive sales by non-believers who bought late in the move and reduced production as mines are shuttered for being no longer economic. I have seen many wash-out's over my life. After a certain point, the selling just begets more selling. There is no rational reason for this. Instead, margin calls are exacerbated by longs who cannot take the pain of losses. We are in a world where portfolio managers are asked to produce performance daily. How long can you hold on when your position keeps dropping? The trick if you believe in an asset that is experiencing a wash-out bottom is to stop watching the daily action." We also agree with the view of Tim Price of PFP Wealth Management: "The irony of gold's recent correction is that it's occurred when the rationale for our holding the asset (insurance against systemic risk in the banking system and more specifically against global currency devaluation) has become that much more compelling in the light of the Cypriot bank bail-ins and the latest iteration of über-QE from the Bank of Japan."

We realize that we ourselves are the biggest enemies of our long-term investment performance (cf. James Montier, *The Little Book Of Value Investing: How Not To be Your Own Worst Enemy*). And since we are in the business of making mistakes, we have no problems admitting them. There is an investment maxim that states there is a fine line between being early and being wrong. It is thus more than annoying to go from being early and right to looking completely wrong. In value investing also, it is always darkest before dawn. What is more than obvious now is that we should have locked in a bigger piece of our investment gains. But with respect to the long-term merits of the investment: the jury is still out on that one.

(3) Cheap stays cheap in an anti-momentum portfolio.

The stock market is a no-called-strike game. You don't have to swing at everything – you can wait for your pitch. The problem when you are a money manager is that your fans keep yelling, 'Swing, you bum!'
- Warren Buffett

Given the valuation level of the developed equity markets in combination with major economic uncertainty (probably more uncertain than the 2007-2009 period), we demand even more compelling undervaluation than before to incur market risk. Moreover, we also try to find investment positions that are not so dependent on the vicissitudes of the stock market for their investment return (catalyst / activist related). The consequence is that when momentum takes over, these investments are left behind... until the catalyst is realized.

Portfolio overview (cf. email attachment)

35,92% cash / 3,15% (corporate) bonds / 60,93% long

30+ investment positions

Top 8 investment positions = 25% plus

Investment positions (9%) are activist related (we are in touch with one of the activist investors)

Investment positions (8%+): catalyst

Precious metals mining (10%+): have not increased our position

Most positions trade below book value or at/below 10 times cash earnings vs 18/19 times trailing earnings for S&P500.

Exited hit /miss rate: approx. 70% / 30%

Today equity prices are driven primarily by the growing belief that central banks' money printing will keep on generating attractive investment returns for equity investors despite the lack of supporting fundamentals in the real economy. That is a risky assumption, but as long as rising trends remain unbroken – i.e. momentum at work –, nobody worries. When nobody worries, we do. Because the margin of safety has been destroyed by central bank market manipulation, this is a horrible environment to be focused on value investing. U.S. treasury bonds, U.K. gilts, Japanese JGBs and European bonds are all the control of central bank manipulation. The manipulation of bond markets has inevitable effects upon equity market valuations too; everything is relative. Cash as a meaningful investment choice has also been destroyed by central bank action.

Cash is for us not only a result of today's constrained opportunities set but is also the option to take advantage of tomorrow's opportunities. We have no target level of cash; it all flows from the available investment opportunities. We think a market like the current one is a great test of patience. It's hard to hold cash and wait for better opportunities in a rising market. It's also hard to hold flat or declining investments when seemingly everything is heading higher. But we treat your money as if it was ours (cf. our large personal stakes in the Fund); if there is nothing sensible to do, we will do nothing. So, although we are down, we are not out, and we are not changing the game plan!

Active investment management requires un-conventional behavior from conventional institutions ((private) banks, pension funds, insurance companies, etc.), creating a paradox that very few understand or even want to understand. Most "professional" investors only make decisions for the purpose of avoiding embarrassment. The institutional imperative thus pushes them (and all "investors" invested with them) to investment mistakes by just blindly following the crowd. This has the soothing effect of both looking right for most of the time (the momentum of the crowd), and when things do go wrong you avoid looking an idiot all by yourself (the comfort of the crowd). The price you pay for this is that as an investor you end up with even less than the market (read: crowd) return! Our expectations as investors are of paramount importance in that respect.

The Best of The Best: Mental Capital vs Real Capital

What would Charlie (Munger) say? -49% vs -21% for Dow in 1972-1974

What would John (Paulson) say? -4.91% vs +22% for S&P in 1998

What would David (Tepper) say? -30% vs +22% for S&P in 1998

What would Warren (Buffett) and Charlie (Munger) say? -44% vs +32% for S&P in (summer) 1998-1999

What would Seth (Klarman) say? -9,28% vs +53,72% for S&P in 1998-1999

What would Bill (Ackman) say? Closing down of Gotham Partners in 2002

What would dr. Michael (Burry) say? -18% vs +15,72% for S&P in 2006

What would Monish (Pabrai) say? -63,94% vs -33,53% for S&P in 2007-2008

What would Bruce (Berkowitz) say? -32% vs +2.2% for S&P in 2011

We never target(ed) an explicit return number, because just stating a return target says nothing about how you could achieve that return (leverage, concentration, market opportunities, time horizon, etc.). But it should be clear that we are aiming for substantial long-term investment outperformance. And if that is the expectation, we should also be willing – although we prefer not to – to live through substantial embarrassment (vs the crowd). It is easier said than done, because most people want/expect the

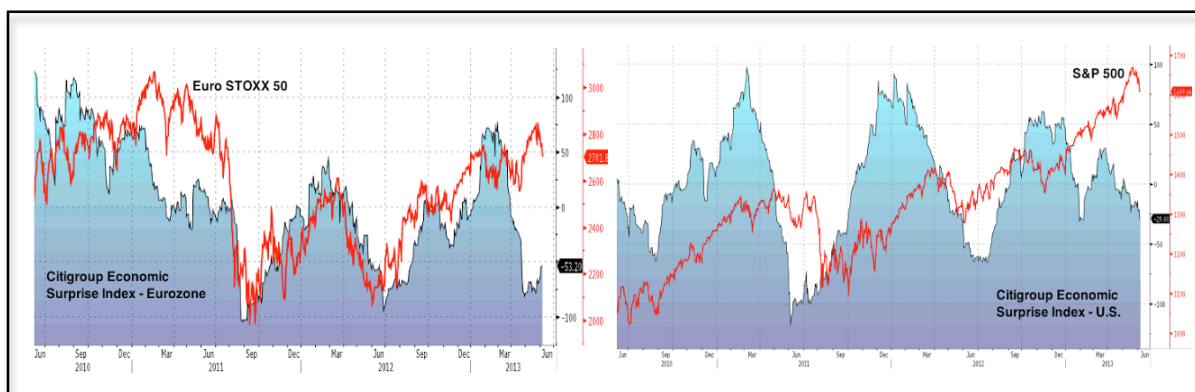
substantial investment outperformance, but nobody wants to deal with the (financial) pain and embarrassment that comes with trying to realize that investment expectation, by standing apart of the general investment crowd. James Montier wrote in his Little Book of Behavioral Investing that doing something different from the crowd is the investment equivalent of seeking out social pain. According to psychological studies mentioned in his little book, following such a strategy is really like having your arm broken on a regular basis. Needless to say it is not fun!

To conclude, we obviously acknowledge that the performance has been weak over the past several quarters – our bad run started at the beginning of the 4th quarter of 2012 – and very much appreciate your patience. Just like Charlie Munger we really (!) hate to have to disappoint our investment partners, but we continue to work diligently on finding investment opportunities and remain convinced that we are well-positioned to recover from our recent period of underperformance.

What would Charlie say? Part two.

“If you are not confused, you don't understand it very well.”

- Charlie Munger about current economic problems



source: <http://chartsetcetera.blogspot.be>

This is exactly how we feel about the current state of the global economy (cf. attached presentation): a Japanese government debt bubble; the dysfunctionality of the European Monetary Union; the money printing experiment of the U.S., a Chinese property (and credit) bubble; and rising social tensions across the globe (Turkey, Brazil, etc.). All of these things are very complex in isolation, but the complexity of the problems increase exponentially once you start thinking about how problems in one region might impact each other. As Kyle Bass recently stated, “We do not want to admit that there is this serious (potentially perilous) outcome that disallows the world to continue on the way it has. And that is why so many people, whether self-preserving or self-dealing, miss all the warning signs and get this wrong.” He also stated that, in the end, if monetary policy is the only thing the world has to generate growth going forward, then we are all in for a rude awakening.

We are running a huge, global economic experiment (cf. infra: David Rosenberg & Seth Klarman) and seem to have blind faith in the people running our financial and political institutions. It is ironic that the investment community at large is willing to believe the same politicians who did not see the previous financial crisis coming (they never see a (financial) crisis coming!). Nassim Taleb is right by stating that we do not learn that we do not learn. In any case, we are highly skeptical not because we know precisely what will happen but because we are sure that no one else – especially, the policymakers! – does either. There exists no historical template for the current financial era. Never before have such enormous monetary policy experiments taken place on a global basis!

The Great Manipulation

“In a Royal Bank of Scotland survey of 60 central banks, fully 23% said they either own stocks or plan to buy them and some have as much of 10% of their reserves in the equity market (the Swiss National bank being one of them; Israel has 3% of reserves in equities; Korea 5,7%; China is thinking about innovative use of its reserves; and Bank of Japan is buying all kinds of equity ETFs).

Over half of the central banks polled said that ultra-low yields (the ones that they manufactured) have caused them to dial up risk in their foreign exchange reserve portfolio (a cache of funds aggregating to \$6.7 trillion). All I can say is that when central banks morph into investment managers... well, all I can say is... mercy me. Maybe somebody on Wall Street should term the coin “The Great Manipulation” (seeing as “The Great Moderation” and “The Great Rotation” both proved to be duds).

But think about it. The Fed has already printed \$2.5 trillion of new money but most of it is just sitting as excess reserves in the banking system.... So if the economy sputters again, and that cannot be ruled out given the last slate of production data, the end game is likely going to entail money printing morphing into credit creation and at the same time, giving the federal government the green light to re-stimulate fiscal policy without the public debt rise and thereby avoiding the wrath of the rating agencies and the political wrangling over the debt ceiling... This could well be the end-game, but the law of unintended consequences would likely come next...

As radical as the end-game sounds, think of how aggressive the central banks have already been... And not just QE... it is now mainstream and being copied globally... The Swiss National Bank is not only diversifying into stocks but who would have thought that it would devalue by 20% what was once considered the safest of safe havens? The ECB is now contemplating an asset-backed securities program... Or that New Zealand would begin to intervene directly into the FX market. Or that Korea would be contemplating the same? Or how about the musings from Mark Carney regarding nominal GDP targeting?

So rather than any “tapering off”, Bernanke might well be preparing us for the final act.”

- David Rosenberg, April 2013

Investing, when it looks the easiest, is at its hardest.

“Investing, when it looks the easiest, is at its hardest. When just about everyone heavily invested is doing well, it is hard for others to resist jumping in. But a market relentlessly rising in the face of challenging fundamentals – recession in Europe and Japan, slowdown in China, fiscal stalemate and high unemployment in the U.S. – is the riskiest environment of all.

[O]nly a small number of investors maintain the fortitude and client confidence to pursue long-term investment success even at the price of short-term underperformance. Most investors feel the hefty weight of short-term performance expectations, forcing them to take up marginal or highly speculative investments that we shun. When markets are rising, such investments may perform well, which means that our unwavering patience and discipline sometimes impairs our results and makes us appear overly cautious. The payoff from a risk-averse, long-term orientation is – just that – long term. It is measurable only over the span of many years, over one or more market cycles.

Our willingness to invest amidst failing markets is the best way we know to build positions at great prices, but this strategy, too, can cause short-term underperformance. Buying as prices are falling can look stupid until sellers are exhausted and buyers who held back cannot effectively deploy capital except at much higher prices. Our resolve in holding cash balances – sometimes very large ones – absent compelling opportunity is another potential performance drag.

But we know that in a world in which being anti-fragile is good, what doesn't kill you can make you stronger. Short-term underperformance doesn't trouble us; indeed, because it is the price that must sometimes be paid for longer-term outperformance, it doesn't even enter into our list of concerns. Patience and discipline can make you look foolishly out of touch until they make you look prudent and even prescient. Holding significant, low or even zero-yielding cash can seem ridiculous until you are one of the few with buying power amidst a sudden downdraft. Avoiding leverage may seem overly conservative until it becomes the only sane course. Concentrating your portfolio in the most compelling opportunities and avoiding over diversification for its own sake may sometimes lead to short-term underperformance, but eventually it pays off in outperformance."

- Seth Klarman, Q1 2013 Investment Letter

Next update

You should receive the next investment letter by the middle of October at the latest. In the meantime, please email or call us with any questions or comments you have.

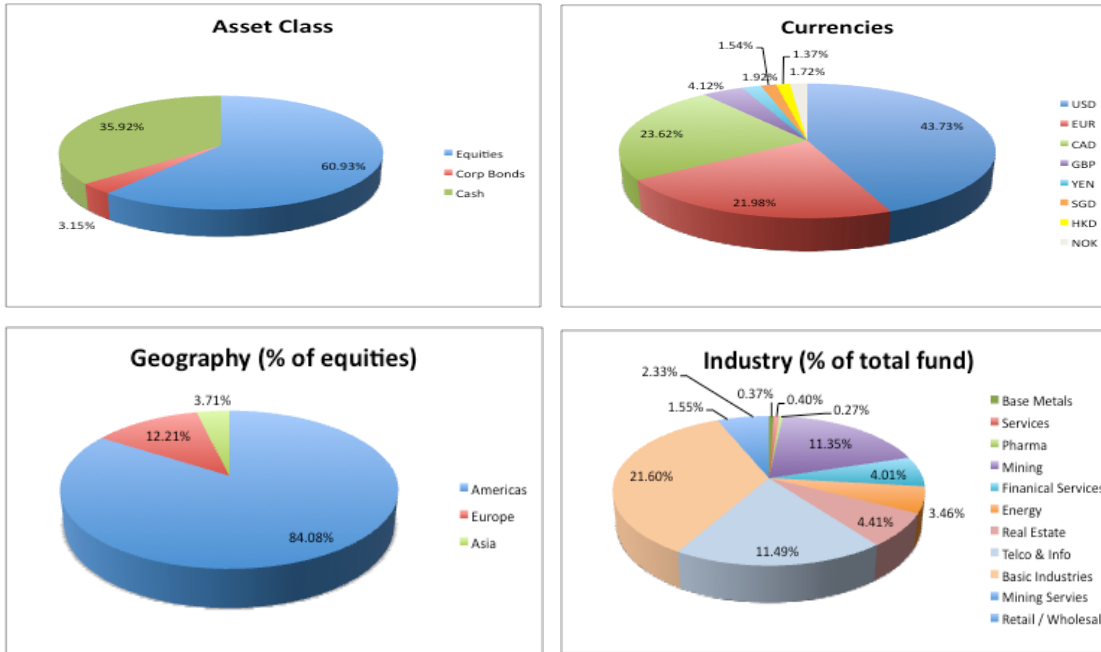
One of you has increased his stake in the Fund. We also have upped our stake. It should be noted that we own more than 30% of the assets under management. We do not only talk the talk, we also walk the walk!

Finally, we remain more than grateful for your support and patience, and are working every day to continue to merit your confidence.

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q2 2013)



2.2 Fund Positions

We have no short positions and no leverage. We are invested long across 35 investment positions.

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

Market Capitalizations in USD	% of equities invested
> 5 Billion	23%
1< 5 Billion	23%
0,5 < 1 Billion	6%
< 0,5 Billion	48%

Position	% of portfolio
Cash	35,92%
Investment 1	4,41%
Investment 2	4,17%
Investment 3	3,41%
Investment 4	3,34%
Investment 5	3,28%

We sold the following investment:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
DirecTV	2,6 usd	0,83%	21,86%
Special Opportunities Fund	15 usd	0,65%	13%
SK Kaken	2350 yen	2,26%	94%

It should be noted that all numbers are approximations.

2.3 NAV series

Série A 1 LEAD	181,87
Série B 3 31/12/10	88,64
Série C 5 31/03/11	86,53
Série D 7 30/06/11	92,26
Série E 9 30/09/11	96,97
Série F 13 31/12/11	91,36
Série G 15 31/03/12	90,04
Série H 17 30/06/12	94,80
Série I 19 30/09/12	87,05
Série J 21 31/12/12	90,87
Série K 23 31/03/13	91,90

Disclosures: This document is being provided on a confidential basis by Tartaros Investment Partners s.a.r.l. (T.I.P.) solely for the information of those persons to whom it is transmitted. This document is neither advice nor a recommendation to enter into any transaction with T.I.P. This document is proprietary information of T.I.P. and may not be reproduced or otherwise disseminated in whole or in part without T.I.P.'s written consent. Opinions offered constitute our views and are subject to change without notice. We believe the information contained herein is reliable, but do not warrant its accuracy or completeness.