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1 General Overview

Monday, 7 April 2014

If I ask you what's the risk in investing, you would answer the risk of losing money. But there actually are two risks in investing: One is to lose money and the other is to miss opportunity. You can eliminate either one, but you can't eliminate both at the same time. So the question is how you're going to position yourself versus these two risks: straight down the middle, more aggressive or more defensive. I think of it like a comedy movie where a guy is considering some activity. On his right shoulder is sitting an angel in a white robe. He says: «No, don't do it! It's not prudent, it's not a good idea, it's not proper and you'll get in trouble». On the other shoulder is the devil in a red robe with his pitchfork. He whispers: «Do it, you'll get rich». In the end, the devil usually wins. Caution, maturity and doing the right thing are old-fashioned ideas. And when they do battle against the desire to get rich, other than in panic times the desire to get rich usually wins. That's why bubbles are created and frauds like Bernie Madoff get money.

I've been in this business for over forty-five years now, so I've had a lot of experience. In addition, I am not a very emotional person. In fact, almost all the great investors I know are unemotional. If you're emotional then you'll buy at the top when everybody is euphoric and prices are high. Also, you'll sell at the bottom when everybody is depressed and prices are low. You'll be like everybody else and you will always do the wrong thing at the extremes. Therefore, unemotionalism is one of the most important criteria for being a successful investor. And if you can't be unemotional you should not invest your own money, period. Most great investors practice something called contrarianism. It consists of doing the right thing at the extremes which is the contrary of what everybody else is doing. So unemotionalism is one of the basic requirements for contrarianism.

- Howard Marks (<http://www.fuw.ch/article/in-the-end-the-devil-usually-wins/>)

Dear Partners:

The Fund finished the first quarter of 2014 2,59% in the plus, versus +1,78% for the MSCI World Index and versus +1,69% for the Eurostoxx 50 (cf. graphs attached to email). The Net Asset Value of the Fund is 193,26 (cf. part 2.3 for all series' NAVs). We currently have a 36,89% 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)*

2014	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	ytd
Fund	2,52	1,02	-0,94										2,59
Msci world	-0,83	+0,98	1,63										1,78

*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
2013	-5,88	10,37	10,59	17,62	3,69	12,11
Annualized	12,95	3,56	3,39	9,55	3,72	5,20
Cumulative	88,39	19,97	18,95	60,72	20,96	30,19
80% of traditional funds underperform						
0.5% of traditional funds outperform more than 3% over the very long term						

What we can learn from his real estate investments... aka What Would Warren Do (WWWD)?

"Investment is most intelligent when it is most businesslike."

- Benjamin Graham

On the 3rd of March Warren Buffet released his always highly-anticipated annual letter to shareholders. His letters are famous for their incredibly valuable nuggets of wisdom about business and investing.

A week before that Saturday, Warren Buffett released an early excerpt via Fortune magazine, in which he described five long-term investing principles. This part of the letter did an excellent job of clarifying the importance of the key fundamentals of (stock) investing. Interestingly, Warren Buffett starts off by telling us the stories of two – for him – minor real estate investments he made, one in the 1980s and the other in the 1990s. He clearly wants to illustrate that the principles of investing apply to all investable assets; he stresses that the only fundamental difference between these two examples and investing in listed equities is that stocks provide you minute-to-minute valuations for your holdings, whereas investing in a farm, or real estate or a private company does not come with real-time price quotations.

The Nebraska Farm (1986)

- Warren Buffett purchased a Nebraska farm in 1986 for \$280,000 from the Federal Deposit Insurance Corporation; this was a few years after the burst of the farm land bubble of the 1970s.
- He calculated that the earnings from the farm would provide him with a normalized 10% annual cash flow return.
- He had no unusual knowledge or intelligence to conclude that the investment had no downside and potentially had substantial upside. He knew that there would be unusual bad (crop) years and unusual good (crop) years.

- 28 years later the farm has tripled its earnings and Buffett estimates the farm is now worth 5 times what he paid for it (6% annualized growth rate).

The NYC Retail Building (1993)

- Warren Buffett bought a foreclosed retail property in New York City from the Resolution Trust Corp in 1993; this was after the implosion of a commercial real estate bubble.
- He – together with a few property investors – bought it at a 10% unleveraged yield.
- Over the years Warren Buffett and his partners refinanced the building, drawing out roughly 150% of what they invested, and the property now provides annual earnings equaling about 35% of the initial equity investment.

From these two relatively simple real estate investments, he makes the following points:

I tell these tales to illustrate certain fundamentals of investing:

- You don't need to be an expert in order to achieve satisfactory investment returns. But if you aren't, you must recognize your limitations and follow a course certain to work reasonably well. Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick "no."
- Focus on the future productivity of the asset you are considering. If you don't feel comfortable making a rough estimate of the asset's future earnings, just forget it and move on. No one has the ability to evaluate every investment possibility. But omniscience isn't necessary; you only need to understand the actions you undertake.
- If you instead focus on the prospective price change of a contemplated purchase, you are speculating. There is nothing improper about that. I know, however, that I am unable to speculate successfully, and I am skeptical of those who claim sustained success at doing so. Half of all coin-flippers will win their first toss; *none* of those winners has an expectation of profit if he continues to play the game. And the fact that a given asset has appreciated in the recent past is *never* a reason to buy it.
- With my two small investments, I thought *only* of what the properties would produce and cared not at all about their daily valuations. Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays.
- Forming macro opinions or listening to the macro or market predictions of others is a waste of time. Indeed, it is dangerous because it may blur your vision of the facts that are truly important. (When I hear TV commentators glibly opine on what the market will do next, I am reminded of Mickey Mantle's scathing comment: "You don't know how easy this game is until you get into that broadcasting booth.")

No advanced spreadsheets or macro forecasting, no earnings models, just common sense analysis based on sound and conservative investment/business principles. Buffett summarizes his investment philosophy – which is of course distilled to its essence because of the point he's trying to drive home – in the following way:

"When Charlie Munger and I buy stocks — which we think of as small portions of businesses — our analysis is very similar to that which we use in buying entire businesses. We first have to decide whether we can sensibly estimate an earnings range for five years out or more. If the answer is yes, we will buy the stock (or business) if it sells at a reasonable price in relation to the bottom boundary of our estimate. If, however, we lack the ability to estimate future earnings — which is usually the case — we simply move on to other prospects. In the 54 years we have worked together, we have never forgone an attractive

purchase because of the macro or political environment, or the views of other people. In fact, these subjects never come up when we make decisions.”

<http://finance.fortune.cnn.com/2014/02/24/warren-buffett-berkshire-letter/>

“Don’t just say you have read books. Show that through them you have learned to think better, to be a more discriminating and reflective person. Books are the training weights of the mind. They are very helpful, but it would be a bad mistake to suppose that one has made progress simply by having internalized their contents.”

- Epictetus, Enchiridion

Why do we keep repeating the investment wisdom of Warren Buffett and other famous value investors? Reading and re-reading moulds and prepares your mind! The purpose of all this studying is to internalize investment knowledge in order to facilitate wiser decisions, especially during emotionally difficult investment times (the so-called extremes (cf. supra): financial bubbles and their aftermath).

Question yourself, ask around! How many of you actually apply the tried and tested value investment principles? Read and re-read ad infinitum!

The current investment environment: what were you thinking?

4 April 2014	Market Capitalisation (Billion USD)	Price to Sales Ratio
Facebook	144,70	19,27
Tesla	26,14	13,79
Twitter	24,29	37,30
Linkedin	19,99	13,95
3D Systems	5,71	11,35
SolarCity	5,41	33,79
Yelp	4,69	21,63
GrubHub	2,52	18,44
AO World	2,16	4,75
OpenTable	1,81	9,69

In an interview with Business Week Magazine in the spring of 2002, Scott G. McNealy, co-founder of Sun Microsystems, stated the following:

“But two years ago we were selling at 10 times revenues when we were at \$64. At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at \$64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?”

Of course, he could have made this same statement in the 1997-2000 period, but nobody would have listened. Warren Buffett – yes, him again – was one of the value investors who actually questioned these insane valuations levels and refused to participate in tech bubble.

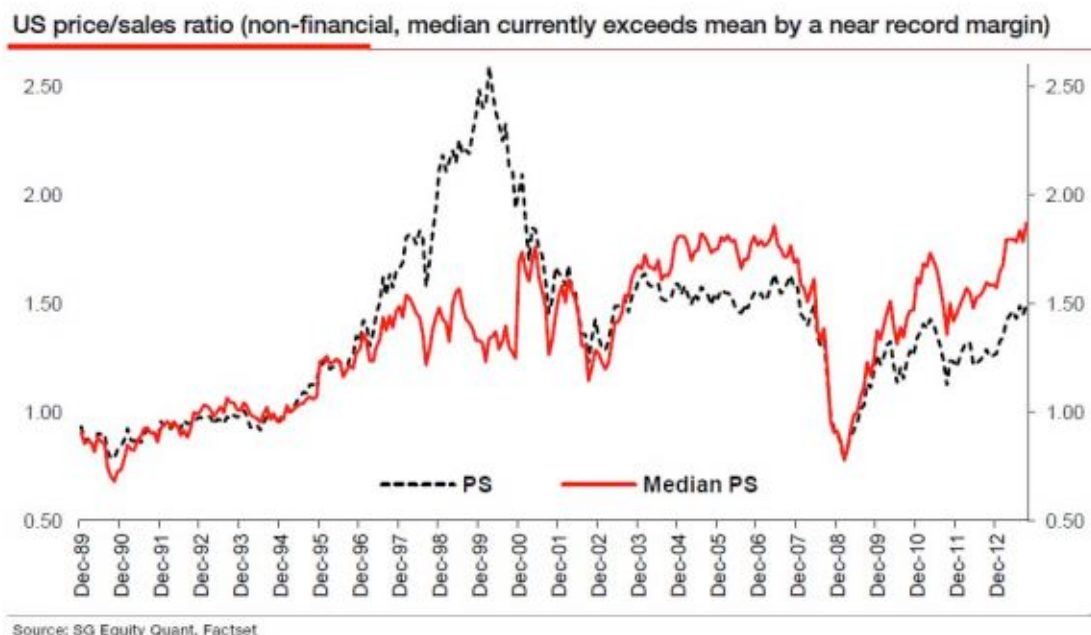
http://money.cnn.com/magazines/fortune/fortune_archive/1999/11/22/269071/

The price he paid for keeping his head when everybody else was feeding the frenzy? A picture of him on

the cover of the Barron's magazine issue of December 1999 accompanied by the following title "What's Wrong, Warren?" (<http://online.barrons.com/article/SB945992010127068546.html>)

The current market environment feels like a weird, but (much) more subdued mix of the tech period of the late 1990s and the (real estate) debt period of 2002-2007 period. Albert Edwards, the always thoughtful SocGen analyst, summarized it in the following way in his research report of October 2013:

"Only the brave can react to what they see and leave the markets. The global macro looks an appalling mess and even more importantly, long-term equity investors can find nothing worth buying. For equity investors we are closer to 2007 than 2001 as the vast bulk of the equity market, as represented by the median PE, PB or Price/Sales, is expensive. The US median price/sales ratios is at a record high, indicating that there is practically nothing cheap in the equity market left to buy."



The current portfolio... or What Would Warren Do (part two)?

We would have looked really smart if we bought Facebook – or any of the new internet darlings – at 10-15 times sales and sold it at 20 times. But then we would have been speculating and sinning against the prescribed fundamentals of stock investing (cf. supra). Not surprisingly (recent) Fund investments were all non-internet, but coincidentally real estate related.

(1) A German residential property company.

- Owner of 9.477 apartment units and 2.575 parking lots.
- Lettable space of 591.901 m² in Berlin, Saxony and Lower Saxony, and North-Rhine Westphalia.
- Focus on A-locations in B- and C-cities at ROI levels of more than 8%.
- Management and core investors (76% stake) have a broad and long-term experience in the German real estate market with a proven track record of attractive acquisitions.
- Small market cap of the company and limited float leads to lower market visibility.

(2) A U.S. owner and operator of 440 office properties.

- Owner of secondary Central Business Districts and suburban office properties.
- Top 20 assets by value represent 57% of the total portfolio, and the Top 50 assets by value represent 79%.
- Underperformed for years due to a severe misalignment of interests with an external management structure.
- Hedge fund Corvex Management, run by Keith Meister, former right-hand man to Carl Icahn, and Related Fund Management, an affiliate of prominent private real-estate firm Related Cos., together bought 9.2% of the real estate investment trust, and started an activist campaign.
- 80% of shareholders recently voted for replacement of the board (cancellation of external management contract).

(3) A Hong Kong diversified real estate investment holding.

- Owner of residential and hotel properties in Vietnam, Macau, the U.S., Japan, China, Canada and Singapore.
- The real estate investment holding is majority owned and run by three brothers.
- Impressive real estate investment track record over the past decade.
- Small market cap of the company and limited float leads to lower market visibility.

All three real estate investments were made at a double digit free cash flow yields and substantial discounts to Net Asset Values.

Next update

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!

As always, thank you for your continued trust and support!

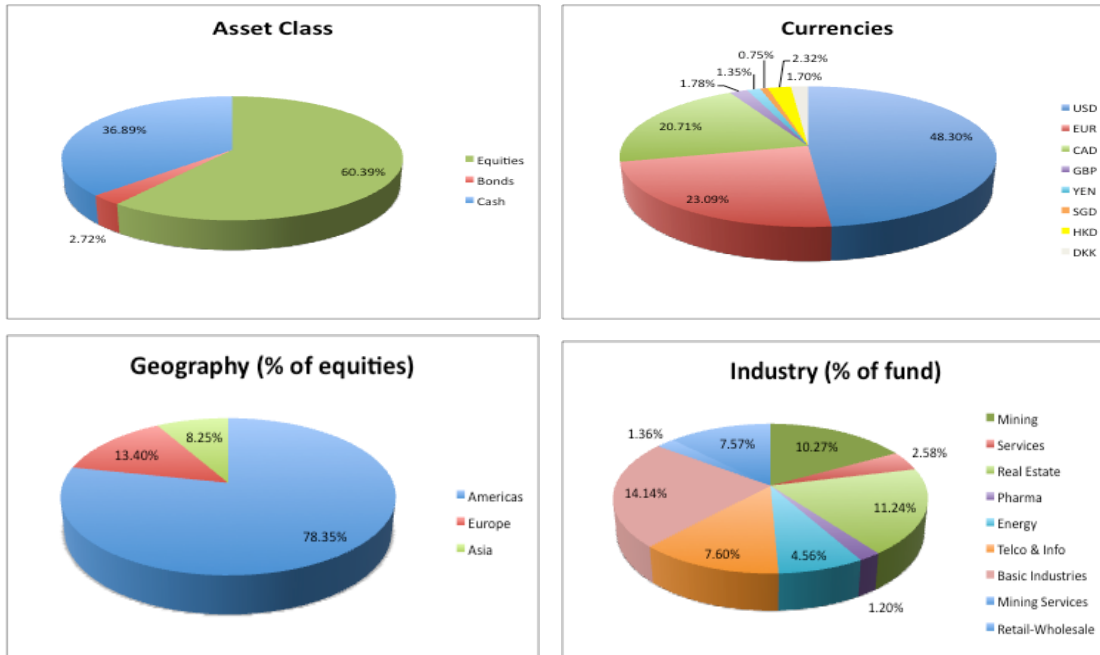
We conclude with the following remarks – Baupost 2013 annual letter to shareholders – of Seth Klarman, whose Baupost fund currently holds 40% cash and very few publicly listed stock investments:

“Six years ago, many investors were way out over their skis. Giant financial institutions were brought to their knees... The survivors pledged to themselves that they would forever be more careful, less greedy, less short-term oriented. But here we are again, mired in a euphoric environment in which some securities have risen in price beyond all reason, where leverage is returning to rainy markets and asset classes, and where caution seems radical and risk-taking the prudent course. Not surprisingly, lessons learned in 2008 were only learned temporarily. These are the inevitable cycles of greed and fear, of peaks and troughs. Can we say when it will end? No. Can we say that it will end? Yes. And when it ends and the trend reverses, here is what we can say for sure. Few will be ready. Few will be prepared.”

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q1 2014)



2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 30 positions.

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

Market Capitalizations in USD	% of equities invested
> 5 Billion	14%
1< 5 Billion	21%
0,5 < 1 Billion	7%
< 0,5 Billion	58%

Position	% of portfolio
Cash	36,89%
Investment 1	4,64%
Investment 2	4,56%
Investment 3	4,50%
Investment 4	4,28%
Investment 5	3,69%

We sold the following investment:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
Motorcar Parts of America	6,2 usd	3,31%	297,60%
Oaktree	32,29 usd	1,75%	69%
Owens International	23,31 usd	1,66%	45,31%
Interactive Brokers	14,59 usd	2,38%	45,23%
Vodafone	1,61 gbp	3,16%	59,30%
Prisa (common + preferred)	6,49 usd	1,04%	-60,00%
CIR	1,55 eur	1,44%	-34,00%

We believe that every investment can be synthesized into a couple of investment drivers. This means that the ultimate outcome of every investment can be traced back to only a couple of factors. For our recent very unsuccessful disinvestments we only have to point at one factor: too much debt. Unfortunately, financial leverage works both ways and in these specific cases it worked against us in a very bad way. But in the end, we have only ourselves to blame.

It should be noted that all numbers are approximations.

2.3 NAV series

Série A 1 LEAD	193,26
Série B 3 31/12/10	94,19
Série C 5 31/03/11	91,95
Série D 7 30/06/11	98,04
Série E 9 30/09/11	103,04
Série F 13 31/12/11	97,08
Série G 15 31/03/12	95,68
Série H 17 30/06/12	100,73
Série I 19 30/09/12	92,50
Série J 21 31/12/12	96,56
Série K 23 31/03/13	97,66
Série L 25 30/06/13	106,22
Série M 27 30/09/13	101,42
Série N 29 31/12/13	102,59

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