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1 General Overview

Tuesday, 7 October 2014

“Irrationality could not go further; yet it is important to note that mass speculation can flourish only in such an atmosphere of illogic and unreality. The self-deception of the mass speculator must, however, have its element of justification. This is usually some generalized statement, sound enough within its proper field, but twisted to fit the speculative mania...”

- *Common Stocks as Long Term Investments, Edgar Lawrence Smith, 1924*

Dear Partners:

The Fund finished the third quarter of 2014 1,80% in the plus, versus +5,33% for the MSCI World Index and versus -0,07% for the Eurostoxx 50. Year to date we are up 8,15% vs 3,76% for the Eurostoxx 50 and vs+13,16% for the MSCI World Index. It should be noted that almost 10% points of the year to date return of the MSCI World Index can be attributed to a stronger U.S. Dollar; 8,5% points of this rise happened during the last quarter. The Net Asset Value of the Fund is 203,74 (cf. part 2.3 for all the NAVs of all series). We sold one investment (cf. part 2.2 for more details). We currently have a 38,32% 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	-0,93	0,91	3,58	0,16	3,84	-2,11				8,15
Msci world	-0,83	+0,98	1,63	0,06	3,77	1,27	0,38	3,23	2,05				13,16

*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 2014 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
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						

Why worry?

“Over my career I have seen many so-called miracle economies – Italy in the 1960s, Japan, the Asian tigers, Ireland, Spain and now perhaps China – and they all ended after a build-up of debt.”

- Luigi Buttiglione, author of The 16th Geneva Report and head of global strategy at Brevan Howard

The anecdotal stories of today seem once again to have a late stage bull market feeling and are, unsurprisingly, accompanied by very high valuation levels. Individual investors are telling us stories how they are scoring monthly returns of 10% and more. Asset managers are launching new funds, all with the word “opportunity” in the name of these funds. And private equity funds are once again selling companies to each other or IPO-ing them at crazy valuations.

The same rings true across the corporate and government bond markets. French cable operator Numericable Group raised \$11 billion – e.g. \$2.4 billion of 15-year bonds yielding 4.875% – through high-yield bonds (i.e. junk bonds) last April to help pay for an acquisition. The banks that sold the debt received orders for \$100 billion (!!) from more than 500 investors, obviously far more than expected. This issue eclipses the European record \$7.4bn of such bonds, made up of several different tranches, sold by NXP Semiconductors in 2006 at the height of the pre-crisis credit boom (source Dealogic)! And the Guardian Life Insurance Company of America sold a 50-year surplus note at a yield of 4.9% this past summer. It was the firm's first such bond sale since 2009 and the lowest yield ever for a comparable bond with terms of more than 30 years, according to Thomson Reuters (source: DJX).

	Yield to maturity
US Corporate Bond	3.06
USD High Yield Corporate Bond	6.53
EUR Investment Grade European Corporate Bond	1.11
EUR High Yield Corporate Bond	4.21

source: Bloomberg Global Bond Indices

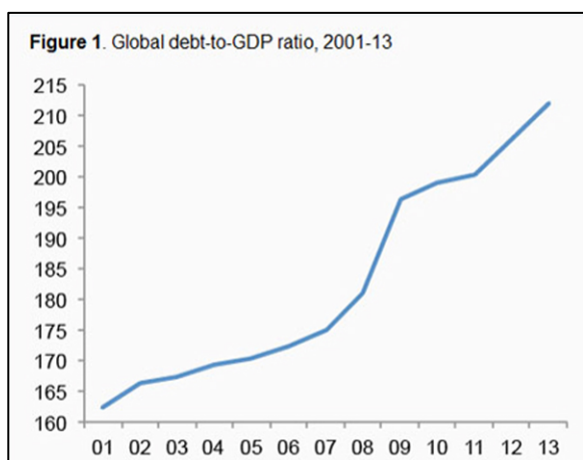
There is also an unrelentless reach for yield in the public debt markets. Dutch, Belgian, Spanish and French government bond yields are all at historic – 200 to 500 year – lows! Recently, Spanish and Italian debt yields have been trading close to the level of the United States!

10 year government bond yield (%)			
Belgium	1.40	Malta	2.49
Germany	0.95	Netherlands	1.20
Ireland	2.02	Austria	1.28
Greece	6.09	Portugal	3.47
Spain	2.41	United Kingdom	2.21
France	1.41	United States	2.53
Italy	2.63	Hong Kong	1.92
Cyprus	6.00	Japan	0.52
Luxembourg	1.08	Switzerland	0.45

source: ECB Bond Statistics

Meanwhile the public debt loads continue to increase at an alarming rate across Europe and the whole Western world. Portugal's public debt has increased from 70% in 2007 to a staggering 130% of GDP today. Italy is at the same insane debt to gdp level! France and Belgium are close to a 100%. And Greece's public debt load, even after the restructuring of Greek debt a few years ago, has swelled to 175% of GDP. The EU now has far more systemic risk than it did at the beginning of the crisis.

The 16th Geneva Report on the world economy, released just over a week ago by the Center for Economic Policy Research, was aptly titled "Deleveraging? What Deleveraging?". It warns of a "poisonous combination of high and rising global debt and slowing nominal GDP, driven by both slowing real growth and falling inflation". The total burden of world debt, private and public, has risen from 160 per cent of national income in 2001 to almost 200 per cent after the crisis struck in 2009 and 215 per cent in 2013. "Contrary to widely held beliefs, the world has not yet begun to delever and the global debt to GDP ratio is still growing, breaking new highs," the report states. (source: Financial Times)

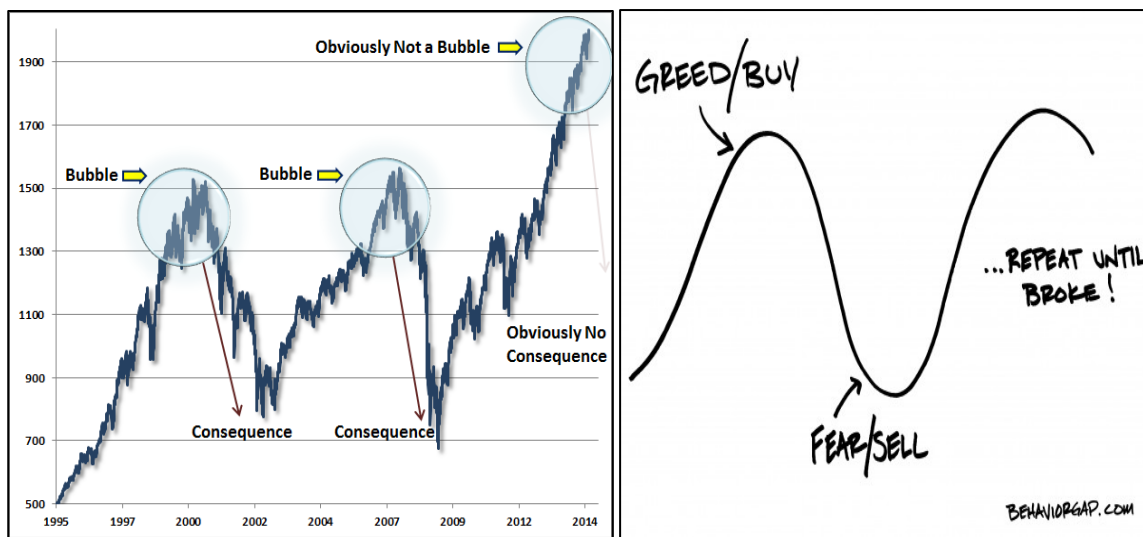


Steen Jakobson from Saxo Bank recently summed it up the following way:

"Whatever the timing, the US, China and Europe are all headed for another Minsky moment: the point in debt inflation where the cash generated by assets is insufficient to service the debt taken on to acquire the asset."

We don't know what the overall market will do, but we don't think we have entered an era of permanently high bond and equity prices. We don't believe trees really grow to the sky, so we worry...

Risk... or lather, rinse, repeat... until broke.



source: www.hussmanfunds.com / www.behaviorgap.com

Risk is a counterintuitive concept! As an asset rises in price, people start to feel more comfortable with it, although the higher the prices the riskier the investment becomes. As an asset declines in price, making people judge it as riskier, it becomes less risky. To be a successful investor you have to be a thoughtful contrarian. You have to be fearful when others are greedy and greedy when others are fearful. Today we are confronted with very high prices in both the equity and bond markets (cf. supra).

High prices and corresponding high valuations can only lead to lower future returns. Unfortunately, in the current investment climate people are once again more worried about missing the next opportunity than about losing money. The most intelligent thing to do today is being more prudent... even if it means you look like an idiot doing it!

Where to look for investment opportunities?

- The Hang Seng Index of Hong Kong is trading at a trailing price-earnings multiple of 10;



graph: Hong Kong vs U.S. stock market

- The Brazilian Bovespa is trading at a trailing price-earnings multiple of around 10;



graph: Brazil vs U.S. stock market

- The Turkish stock market is also trading at a trailing price-earnings multiple of approximately 10;



graph: Turkey vs U.S. stock market

- And the Russian MICEX is trading around 7 times trailing earnings.



graph: Russia vs U.S. stock market

With the European markets trading around 14 to 15 times trailing earnings and the U.S. stock market close to 19 times trailing earnings, chances are that better investment opportunities can be found in cheaper stock markets. In contrast to the American and European stock markets, many international markets have stagnated, and valuation multiples have contracted and now show substantial discounts to the stock markets of the Western World, e.g. Hong Kong, Brazil, Turkey and Russia.

These stock markets are cheaper for a myriad of reasons, including:

- Concerns over a potential Chinese debt and real estate bubble have impacted the stock market in China and the stock markets of commodity exporting countries such as Brazil.
- Political and geopolitical concerns have also had a major impact on the equity markets of countries such as Turkey and Russia.
- Concerns about rising U.S. interest rates have hurt countries, such as Turkey and Brazil, which have large current account deficits (use of foreign capital to finance the difference between domestic investment and domestic savings).

Top-down economic and political worries have created the perfect hunting ground for a thoughtful contrarian looking for bottom-up investment opportunities. When perceived risk is high, actual risk might actually be very low since the margin of safety provided by lower prices is a lot higher. With that in mind we have been and are studying different investment opportunities in these markets; e.g. an industrial family holding in Turkey, a French/Latin-American food / non-food retailer, and financial, energy and internet companies in Russia.

Next update:

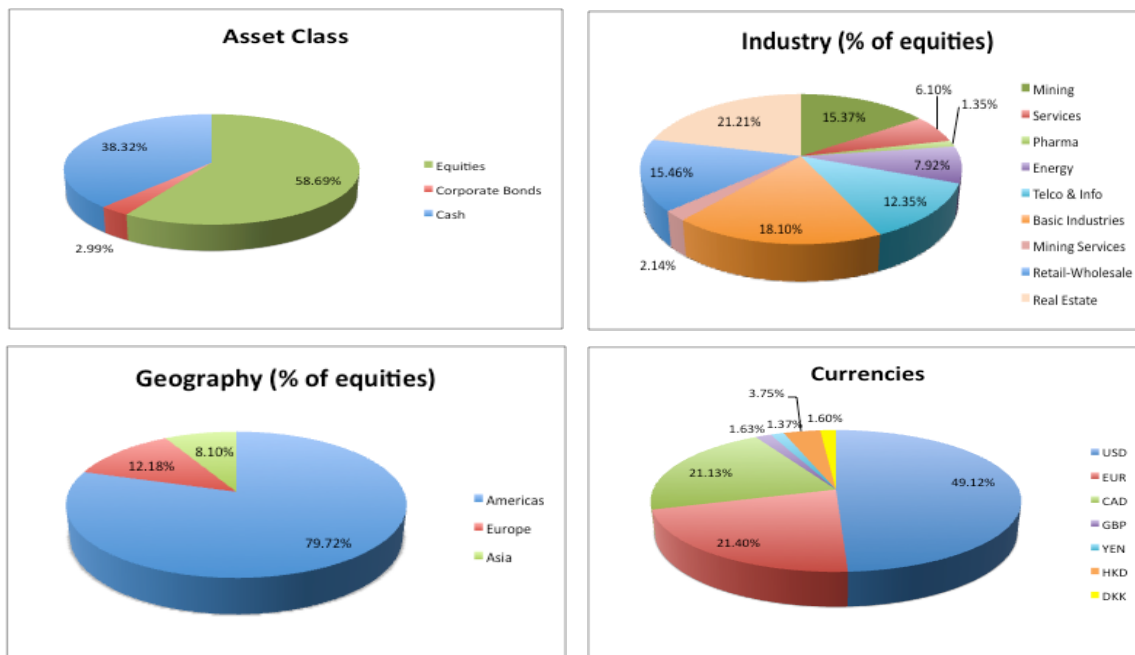
You should receive the next investment letter by the middle of January at the latest. In the meantime, please email or call us with any questions or comments you have!

Because of your trust and with your backing of, crucially, patient capital we were able to create an environment that helps us to avoid pitfalls such as index-hugging and market timing. This allows us to spend our time thinking while maintaining the discipline and patience (!) required for long term investment success. And for that we are grateful!

The Tartaros Team

2 Fund Overview

2.1 General Overview (end of Q3 2014)



2.2 Fund Positions

We have no short positions and no leverage. We are invested long in 28 positions.

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

<i>Market Capitalizations in USD</i>	<i>% of equities invested</i>
> 5 Billion	13%
1< 5 Billion	23%
0,5 < 1 Billion	6%
< 0,5 Billion	58%

<i>Position</i>	<i>% of portfolio</i>
Cash	38,32%
Investment 1	5,97%
Investment 2	4,50%
Investment 3	4,35%
Investment 4	4,30%
Investment 5	3,64%

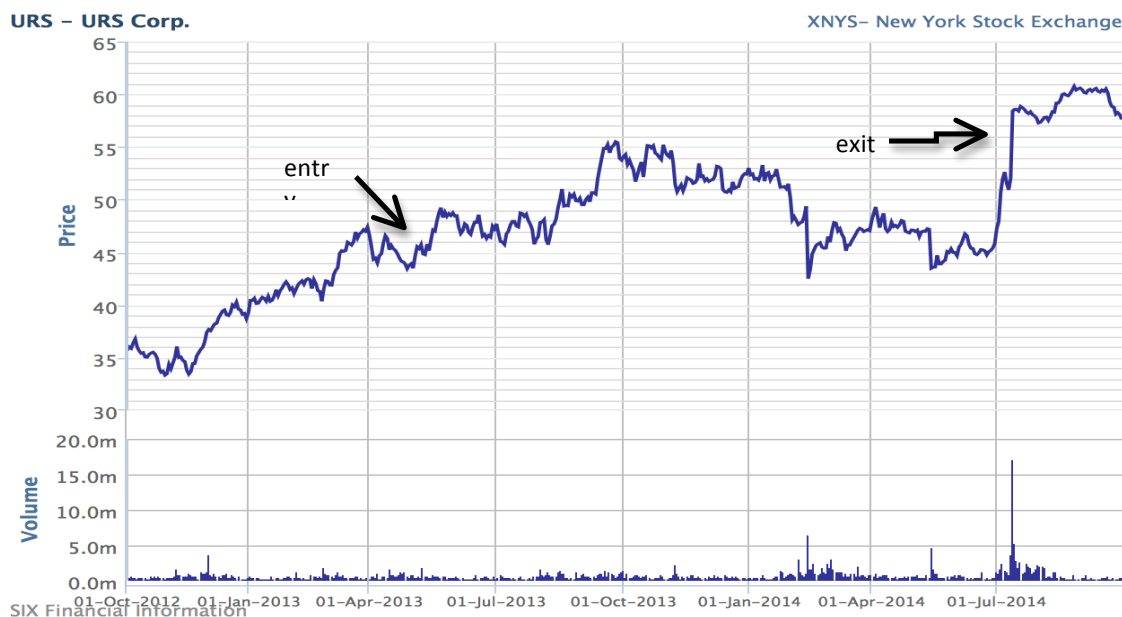
We sold the following investment:

<i>Disinvestment</i>	<i>Entry Price</i>	<i>% of Portfolio</i>	<i>Return</i>
URS Corporation	44,51 usd	3,44%	+22,20%

URS is a global provider of engineering, construction management, technical and decommissioning services to public and private sector clients around the world. The investment in URS was made in May of 2013 at a base case free cash flow yield of approximately 12% and sold last July when Aecom Technology made an offer to acquire the company.

A poor record of capital allocation and the big revenue exposure to the U.S. government seemed to be the major issues affecting the share price of URS. Over the past years management had built an empire by over-paying for acquisitions at the expense of the shareholders. The only positive of this acquisition spree was the share of government-related work declined from over 50% to about 30% of total turnover.

Management had indicated that large acquisitions were no longer an option and that from then on the focus would be on delevering the balance sheet and returning capital (via dividends and share buybacks) to the shareholders. During the duration of our investment in URS steps were taken in that direction, but in February of this year Jana Partners, a renowned activist investor, communicated that they had taken a sizeable stake in the company and urged management to explore all options to enhance shareholder value. This eventually lead to the sale of URS to Aecom Technology.



It should be noted that all numbers are approximations.

2.3 NAV series

Série A 1 LEAD	203,74
Série B 3 31/12/10	99,30
Série C 5 31/03/11	96,93
Série D 7 30/06/11	103,35
Série E 9 30/09/11	108,63
Série F 13 31/12/11	102,34
Série G 15 31/03/12	100,87
Série H 17 30/06/12	106,19
Série I 19 30/09/12	97,52
Série J 21 31/12/12	101,79
Série K 23 31/03/13	102,95
Série L 25 30/06/13	111,98
Série M 27 30/09/13	106,92
Série N 29 31/12/13	108,15
Série O 31 31/03/14	105,4

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