1 General Overview

Tuesday, 6 October 2009

Dear Partners:

The Fund finished the 3rd quarter of 2009 36,74% in the plus for the year. The Fund is up 45,35%[1] since the start of the Fund versus 3,80% for the MSCI World Index.

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				36,74
msci world	-1,05	-9,25	1,91	11,18	2,28	-0,87	8,34	2,93	1,27				16,50

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.

At the moment Fund has a 31,3% cash position. It should be noted that we have been selling into this latest market rally (cf. part 2 of the investment letter). Not so much because the overall market was going up, but because we try to be as disciplined as possible when investing and divesting, and thus sell an investment when it reaches it full value (range). It should be noted that although it seems that the general stock market is in the fully valued range, we still are able to find deep value investment opportunities. Although markedly less than in the fall of 2008! Want an example?

Money for nothing, and investment bankers for free?

What would you consider your net worth to be if you owned an investment bank with 400 employees and $200 million of annual revenue, and a fund management business with 150 employees and $5 billion in assets under management? What if the businesses are not profitable today, but they owed no money to anyone?
Mr. Market's answer to the above question may surprise you: he seems to think the two businesses are worth just about zero. It turns out the firms have investments and cash, net of financial debt and related liabilities, roughly equal to the current implied market value of both businesses. (cf. part 2 of the investment letter for another trademark example).

[1] It should be noted that the compounded 2008 and ytd 2009 return is lower, but since there was no official cut-off at the end of 2008 the actual return for investors is 45,35%. There will be no computational difference from the end of 2009 onwards.

TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

TARTAROS INVESTMENT PARTNERS sàrl
7, route d'Esch
L-1470 LUXEMBOURG

Value and patience: the value of patience!

While recent experience may tempt you to compress your time horizon and expect great short-term performance from the Fund going forward, it may be time once again to embrace patience. None other than Warren Buffett has stressed the importance of patience, in investing and in life. He once stated the following: "Someone's sitting in the shade today because someone planted a tree a long time ago." We caution investors not to focus on monthly (monthly results are mostly random and should not be extrapolated) or quarterly returns. Rather, We hope you will evaluate our performance over a multi-year period. When we look for companies or investment opportunities with strong downside protection, there is simply no room for trying to predict the (stock) price over the next month or even six months. Finding stocks with a sufficient margin of safety is tough enough. If we had to worry about short-term catalysts for the market price, we would either not find any companies in which to invest or we would be forced to compromise on our downside protection criteria. In that respect we try to be as patient and disciplined as possible, and try to never forget the time tested principles of value investing.

Wal-Mart is a perfect counter example why value matters and how time (another word for patience) can work against an expensive investment. In 2000 Wal-Mart was trading at 45 times earnings, and it earned $1.25 a share. Fast-forward to today, and its earnings have more or less tripled: earnings grew about 12% a year. At the same time, its price-earnings multiple contracted from 45 times to about 14 times. Today, Wal-Mart's stock is back at the same level it was in 2000, despite earnings having almost tripled, because its price-earnings multiple contracted at a very similar rate. Yahoo is another example of time working against an "expensive" investment. Yahoo has never generated as much free cash flow as today, but its stock price is only as high as it was in October of 1998.

Cash is no trash

"While we don't like having excess cash, we like doing dumb things even less."
- Warren Buffett

"Holding cash is a way of safely doing nothing until a compelling investment opportunity arises. Cash offers the virtues of positive yield, complete safety of principal, and full and instant liquidity."
- Seth Klarman

Is holding cash a form of market timing? As value investors, we try not to time the market. If we cannot find enough high conviction ideas then we often hold cash or cash equivalents. To some, our holding of cash might look like market timing, but it is not. Market timing is a top-down macro-economic process in which the portfolio's market exposure is adjusted based on macro-economic forecasts (cf. infra). Value investing is a bottom-up investment process in which the portfolio's market exposure is a residual outcome of how many compelling investment opportunities we are able to find at any time.

A clear advantage of the Fund is the ability to hold cash in the absence of other opportunities. Many funds must be fully invested according to their mandate. A fund manager must then perhaps buy at a time that may not be prudent or sell at a time that is even less prudent. Our ability to hold cash is thus a great advantage. In any case, a falling market would benefit us greatly, as it would allow us to deploy our cash.

Macro-economic headwinds

Although we do not discard the top-down economic view, the Fund does not have a big macro-economic strategy at its core. We do not forecast quarterly or yearly GDP growth, unemployment levels, interest rates, or even global corporate earnings. All this stuff is clearly not within our circle of competence. However, we try to take global economic trends into consideration, since we believe you cannot divorce the bottom-up approach from the top-down perspective, especially at

TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

TARTAROS INVESTMENT PARTNERS sàrl
7, route d'Esch
L-1470 LUXEMBOURG

critical state levels (cf. 2007-2008). To us it does not seem inconsistent with a value investing philosophy to be aware of the long term macro "reality" and to conduct bottom up fundamental analysis with an eye on more macro economic or other secular trends.

We do not know if there is going to be a V-shaped, W-shaped or U-shaped (or any other letter of the alphabet) recovery, but we do think that the "advanced" economies might be facing some serious headwinds.

First, employment is still falling in the Western developed economies and might stay low for a long time. Second, this is a crisis of solvency. True deleveraging has not begun yet, because the losses of financial institutions have been socialized by the governments. This limits the ability of banks to lend, households to spend and companies to invest. Third, consumers need to cut spending and save much more, yet debt-burdened consumers face a wealth shock from falling home prices and stock markets and shrinking incomes. Fourth, the financial system – despite the policy support – is still severely damaged. Most of the shadow banking system has disappeared, and traditional banks are still undercapitalised. Fifth, overcapacity might constrain companies' willingness to invest and hire workers. Sixth, the re-leveraging of the public sector through its build-up of large fiscal deficits risks creating new problems down the road. The effects of the policy stimulus, moreover, will fizzle out by early next year, requiring greater private demand to support continued growth.

The conclusion is clear to us: the world is and will be a lot harder a place to make decent long term investments and we think that as investors we will not be riding a big secular wave such as the one from the beginning of the 1980's until the end of the 1990's (cf. appendix ~ graph from the NY Times). We might be in for years of tax increases and outright money printing.

Books

- Why England Lose: and Other Curious Phenomena Explained - Simon Kuper & Stefan Szymanski

→ At last, football has its answer to Freakonomics. The book applies analytical tools to everyday football topics.

- The $12 Million Stuffed Shark: The Curious Economics of Contemporary - Don Thompson

→ A revelation-rich ride through the money game of the art market.

Housekeeping and next update

You should receive the next update at the beginning of the next year.

As always, please feel free to call or e-mail us with any questions or comments you have.

Thank you for your continued referrals, interest and support!

Best Regards,

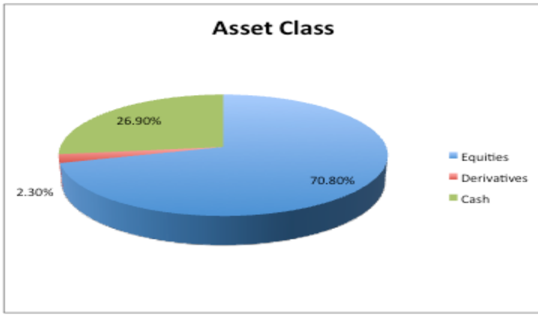
The Tartaros Team

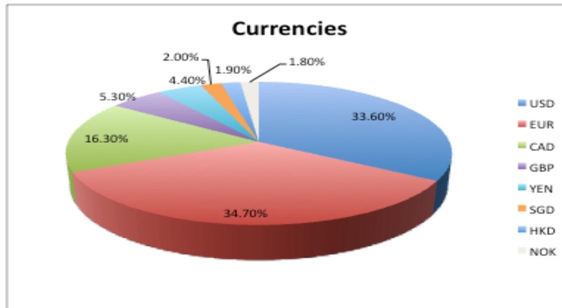
TARTAROS SICAV-FIS, S.C.A.
287, route d'Arlon
L-1150 LUXEMBOURG

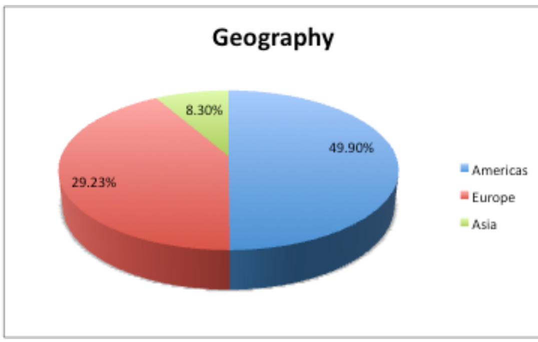
TARTAROS INVESTMENT PARTNERS sàrl
7, route d'Esch
L-1470 LUXEMBOURG

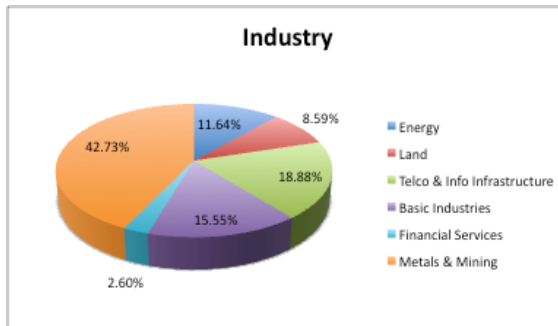
2 Fund Overview

2.1 General Overview (end of Q3 2009)









2.2 Fund Positions

We currently have no outright short positions and no leverage. We have bought plain vanilla downside protection insurance (put options) for approximately 2,3% of the Fund. We are invested long across 26 investment positions. The portfolio is invested in companies across a range of market capitalizations:

Market Capitalizations in USD	% of equities invested
> 5 Billion	8%
1< 5 Billion	28%
0,5 < 1 Billion	20%
< 0,5 Billion	44%

We sold out our position in Sierra Wireless (2% of the Fund at the time of disinvestment) for a 100% return or a 285% annualized return, in United Internet (1,72% of the Fund) for a 102,7% return or 172,7% annualized return, in Cresud (2,38% of the Fund) for a 108% return or 119% annualized return and in Sears Holding (0,77% of the Fund) for a 48% return.

Our actual cash position is higher than indicated at the end of the quarter, because we consider our tendered shares in Ozeki as a de facto cash position. What is Ozeki? Ozeki Co. operates a chain of supermarkets which mainly handles seafood and vegetables. The company has stores near train stations, concentrated in the Tokyo area. Operating earnings are predictable for the proverbial reason: people still eat even during a major economic recession. High proportion of fresh food sales suggests high frequency of purchase, implying a habitual and predominantly loyal customer base. Moreover, supermarkets' locations near train stations suggest real estate location is an important part of their business that cannot be easily replicated. If there ever was a trademark Tartaros investment this one was it. We considered Ozeki a good, understandable business, cheap (cf. infra) and safe (50% of market capitalization was cash) with plenty of insider ownership (extended family owns 45% of the shares outstanding) demonstrating alignment of incentives. We initiated a position when the stock was trading at an EV/EBIT of 2.57x (FY Feb 09). Finally, we considered (as an additional safeguard) our Yen position a risk-averse currency investment (market goes down, the Yen goes up). A couple of months later the majority family shareholder initiated a privatization operation. We are in the process of closing the tender offer and will have sold our position in Ozeki (4,4% of the Fund) for a 46,79% return or 266,51% annualized return. We still believe that at the tender price they kind of stole our shares, but we guess we will have to learn to live with that fact.

Taking this sale into account, the actual cash position is 31,3%. It should be noted that all numbers are approximations.

3 Appendix

A Poor Decade Nears an End

For American investors, the decade of the Zeroes has not been a good one, despite large rallies as it nears its end. Stocks have not come close to keeping up with inflation. Bond investors did better, but not as well as in the 1990s.

Cumulative total return from beginning of each decade, adjusted for inflation

TOTAL PERFORMANCE

	S. & P. 500	10-Year Treasury Bonds	6-Month Treasury Bills	A-BBB Investment Grade Corporate Bonds	High Yield Corporate Bonds
2008	– 37.0%	+ 20.2%	+ 3.7%	– 9.0%	– 26.3%
2009 (first 9 months)	+ 16.8%	– 8.3%	– 1.6%	+ 18.3%	+ 45.4%

Note: all figures include interest and dividend payments, and are adjusted using the Consumer Price Index. Fixed-income returns are based on Merrill Lynch indexes. Figures are adjusted using the Consumer Price Index. Figures for September 2009 assume a C.P.I. rise of 0.3%, the consensus of economists polled by Bloomberg.

Sources: Merrill Lynch; Bloomberg; Haver Analytics