MAY 2012 REPORT

Dear Partners,

The Centaur Value Fund produced a return of -6.3% net to partners in May as compared to a -6.1% return for the S&P500 index and a –7.2% return for the NASDAQ Composite. The Fund's full return information is shown in the table below:

	MAY	YTD 2012	SINCE INCEPTION
Centaur Value Fund – Gross Return	**- 6.4%**	**+0.8%**	**+314.1%**
Centaur Value Fund – Net Return**	**- 6.3%**	**+0.8%**	**+238.4%**
S&P500	- 6.0%	+5.2%	+75.1%
NASDAQ Composite	-7.2%	+6.6%	+112.9%

The table above shows the performance of the Centaur Value Fund for various periods since the inception of the Fund on August 1, 2002. All CVF figures include the reinvestment of dividends. The Gross Return includes the impact of the standard management fees and expenses, but does not include incentive-based fees. Monthly and year-to-date figures are estimates and un-audited. Inception to date figures incorporate audited results from prior years and un-audited results from the current year. See the section entitled "Important Notes" at the end of this letter for more information.

***The Centaur Value Fund Net Returns reflects the experience of an investor who came into the Fund on August 1, 2002, and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figure includes the impact of all performance-based fees as well as high water marks in the cumulative return. However, each investor's individual return will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark, if any.*

May Update

May started out relatively well for the Fund, but it didn't end that way. At the half-way point CVF was down about 1.3% versus a loss of 4-5% for the various indices. Unfortunately, we had three negative events from that point to the rest of the month. The market reacted negatively to the quarterly reports from Cisco and Dell, sending both stocks down by 20% for the month. In addition, Ancestry.com stock was sold off after the company announced the cancellation of a television program that it has sponsored for three seasons and which had served as a customer acquisition vehicle for its subscription services. While the rest of our portfolio performed reasonably well in the aggregate, it is hard to make money when three large positions perform so poorly in the space of two weeks.

More Lessons from the School of Hard Knocks

Howard Marks, in his excellent book on investing called *The Most Important Thing*, writes that "experience is what you get when you don't get what you wanted" and that "the most valuable lessons are learned in tough times." We have certainly gotten a lot of "experience" in the last year, and we are doing our best to ensure that we learn whatever lessons we can in the hopes that it will pay off for us in better decisions down the road.

One concept that has been repeatedly hammered home to us in the recent market environment is the importance of protecting profits. There have been too many recent examples in our portfolio where we bought the right stock at the right price, were rewarded with an acceptable return, but then we were not aggressive enough in taking some money off the table.

There is some history here, and that is that in our earlier years one of our biggest sources of "performance leakage" was just the opposite; we were often guilty of selling too early. Our valuation approach generally results in a "range" of fair value for any given business rather than a precise figure to the decimal. Our approach to selling has historically been to sell a portion of our position when the stock reaches the low end of what we believe to be the acceptable range of fair value, and then sell additional shares as the stock price approaches the middle of the range. We almost never let our stocks run past this point, as the "margin of safety" declines as stocks rise into the high end of the fair value range. This conservative selling approach resulted in a persistent pattern: we would sell our shares only to see the stocks continue to run up to prices well beyond our estimate of fair value. In fact, in the early years one of our partners joked that he should set up a fund to buy the stocks that we were selling so that he could earn another 20% return after we got out. While it was occasionally frustrating to us, over time we came to accept this dynamic as simply reflective of our conservative nature. We feel that our task as risk-averse investors is to capture as much of the "low risk arc" of the return on our ideas as possible, and to leave the higher risk portion to others. Over time it became something of a comfort to know that our stocks usually had decent appreciation potential after we sold. Of course it helped very much that we were still enjoying good outcomes overall.

As a result of this pattern of selling our stocks too early over the years, we have become somewhat averse to selling our positions at prices significantly below our estimate of fair value, even if we are already sitting on considerable profits. This is because our research time is limited and it takes a lot of effort for us to find quality investment ideas. As such we've always believed that we needed to get a price that is at the very least at the low end of fair value in order to be willing to sell our stocks. Finally, the performance in the Fund's best years was partially driven by allowing our largest and best ideas to reach full value, resulting in the "home runs" that every investor needs to produce truly outstanding results. Again, we never want to stray into the "high risk" arc of the return, but we certainly want as much of the "lower risk" arc as we can get.

Protecting Profits

In the market environment that has prevailed since the recovery from the 2008-2009 lows, our stocks are simply not reaching our fair value estimates with the same level of consistency as they did in the past. And if they do reach the low end of fair value, market volatility or negative news often pushes the prices back down before the point at which we would traditionally feel compelled to sell the full position. We suspect that these market characteristics may be a longer term feature of the investing landscape as investors are buffeted by both macro-economic headwinds and the ongoing sovereign debt crisis. It seems that the alternating intervals between fear and greed have become

increasingly compressed in recent years. This may simply be reflective of where we are in the secular market cycle, in which case we need to be prepared to adjust our game plan a little bit. If this remains a multi-year range-bound market with above-average volatility, our returns will clearly benefit from our being more willing to exploit that volatility by trimming our larger positions earlier and more aggressively on strength so that have plenty of capital available to add back on weakness.

To focus on the three names that hurt our performance in May, we sold some of our Dell shares early in 2012 at $18 at a time when our estimate of the low end of fair value was $20 and the mid-point of our valuation estimate was $24. Nevertheless, after trimming at $18 we were still sitting on a very nice profit on a large position. It wasn't a home run, but it would have been a very nice outcome. The same is true of Cisco and Ancestry.com. In each case, we sold a portion of our position at the low end of fair value. In retrospect, we should have sold more. We would then have had more capital to add back the next time the stocks got knocked back to deeply discounted territory.

Mentally Buying the Whole Company

Our methodology for valuing stocks is really no different from that of valuing whole businesses. In other words, our models are designed to determine what price we think a cash buyer could pay for the entire business to get an attractive return, and then to pay a sizable discount to that price. The reason this is important is that one of the sources of our "margin of safety" is the idea that if the stock market won't recognize the value (and as long as we are correct in our assessment) the value will eventually be recognized and acted on by a financial or strategic buyer. In early June, Ancestry.com recovered much of its share price decline on the news that the company had hired an investment banker to help it consider strategic alternatives, including a potential sale of the company. In our view, this is an entirely appropriate action for the company to consider, and we believe that the business should be attractive to any number of logical suitors. If our valuation efforts are any indication, we believe that Ancestry.com would be worth at least $32 to $35 per share in a take-out situation. We can very easily envision a higher number.

We certainly believe that our portfolio holds considerable embedded value and return potential, and we added additional capital into the Fund ourselves on June 1st. We hope to be able to report better results to you in our future letters, and we very much appreciate your continued investment in the Fund.

Respectfully yours,

Zeke Ashton
Centaur Capital Partners
1460 Main Street, Suite 234
Southlake, TX 76092
Telephone (main) 817-488-9632

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