APRIL 2012 REPORT

Dear Partners,

The Centaur Value Fund produced a return of -0.6% net to partners in April as compared to a -0.6% return for the S&P500 index and a -1.5% return for the NASDAQ Composite. The Fund's full return information is shown in the table below:

	APR	YTD 2012	SINCE INCEPTION
Centaur Value Fund – Gross Return	**- 0.7%**	**+7.7%**	**+342.2%**
Centaur Value Fund – Net Return**	**- 0.6%**	**+7.6%**	**+261.3%**
S&P500	- 0.6%	+11.8%	+86.3%
NASDAQ Composite	-1.5%	+16.9%	+129.3%

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.*

April Update

The Centaur Value Fund declined in value by 0.6% net to partners in April while the S&P500 finished the month down by 0.6% and both the NASDAQ and Russell 2000 were down by about 1.5%. A number of the Fund's portfolio holdings reported Q1 earnings during April. On the positive side, one of our largest positions in the Fund reported very strong results that exceeded our expectations and the stock reacted positively. On the negative side, several of our smaller holdings sold off somewhat after reporting earnings. At the end of the day, the negatives slightly outweighed the positives, and the Fund ended up roughly matching the S&P500's slightly negative return for the month.

More Thoughts on Long and Short Exposure

In our last letter we described some of the rudimentary concepts behind the long/short approach to investing, as distinct from investing in a traditional long-only fashion. More specifically, we described how the long/short approach allows an investor who can add value on both sides of the ledger to create superior return profiles over time with less risk and lower volatility than a traditional strategy. In all the cases we presented we demonstrated that if it is possible to produce positive returns over time on each side, the result will be higher returns with a lower average exposure to the market.

In returning to the concept of short selling specifically, there is a classic argument made against the inclusion of short selling within a value-oriented investment strategy. As we mentioned at the close of our last letter, consistently being able to produce positive returns from shorting over time is much harder than producing positive returns over time from the long side. The difficulty in identifying practitioners that have generated impressive multi-decade track records utilizing a short-only approach is a testament to how hard it is to do. This is quite distinct from the long side, where it is comparatively easy to find firms with excellent records lasting decades that were accomplished using a value-oriented long-only strategy.

Further, even some of the best track records we do have available to us suggest that even very good short sellers typically are able to only compound at mid single-digit annualized returns over a long period of time. This is because most dedicated short sellers are undone by those years where the market performs very strongly, which results in large percentage down years for short-only strategies with some regularity. The above realities beg the question of why we short at all. If the best we can hope for over time is something on the order of a 5-10% IRR on perhaps 25% of the Fund's asset base, we would only be adding 1-3% to the Fund's returns per year. It hardly seems worthy of the effort and the time invested.

In an attempt to answer this question, let us take a look at a theoretical long/short strategy in which the shorting adds zero value; in fact, let us look at a long/short strategy in which shorting contributes a range of performance from zero to negative annualized returns. Below is a table showing various average exposure levels and assumed performance.

LONG	SHORT	GROSS	NET	TOTAL IRR
140% @ 15.0% IRR	40% @ 0% IRR	180% gross	100% net	21%
140% @ 15.0% IRR	40% @ -5% IRR	180% gross	100% net	19%
140% @ 15.0% IRR	40% @ -10% IRR	180% gross	100% net	17%
120% @ 15.0% IRR	20% @ 0% IRR	140% gross	100% net	18%
120% @ 15.0% IRR	20% @ -5% IRR	140% gross	100% net	17%
120% @ 20.0% IRR	20% @ -10% IRR	140% gross	100% net	22%

In none of the scenarios above is the net exposure greater than 100%, so no net financial leverage is being utilized. As one can see, in each case the average IRR of the strategy (shown in the far right column) is still enhanced by the shorting activities; this is true even if the performance on the short side is negative on average. Note that in each case, the short portfolio is used to generate what is effectively "float" or temporary capital that can in turn be invested on the long side. The key is that the gains produced on the long side of the book must be greater than the losses on the short book. So long as the return on the incremental capital invested on the long portfolio out-performs the incremental cost of the capital created as float by the short side, the strategy is better off by virtue of the inclusion of shorting activity.

In addition to the pure performance advantages, the long/short portfolio could potentially also benefit from somewhat lower volatility and better reliability over time

versus a long-only strategy if the positions in the short book exhibit higher average volatility than those in the long book. However, it must be pointed out that the 100% average net exposure to the market does mean that these benefits aren't assured. Regardless, the volatility and reliability of the long/short strategy shouldn't be materially worse than would otherwise be the case with a fully invested long-only strategy, and should be better than that of a leveraged long-only strategy.

The Long / Short Exposure Ratio

One important facet of exposure for a long/short strategy is the extent to which the strategy is typically biased: long, short, or neutral. Looking purely at long-biased strategies, below is a table which presents three strategies, each with somewhat different typical long and short exposure profiles:

Strategy	Long	Short	Net	L/S Ratio
Strategy A	150%	75%	75%	2.0
Strategy B	125%	50%	75%	2.5
Strategy C	100%	25%	75%	4.0

Note that in all three strategies, the average net exposure to the market is 75%. However, the ratio of the long exposure within the strategy to the short exposure within the strategy is quite different. Strategy C has four times the amount of long exposure as it does short exposure, while Strategy A has only two times the amount of long exposure as it does short exposure. This means that while both strategies have comparable net market exposure, by virtue of its long/short exposure ratio of 2X Strategy A would be expected to behave much more defensively than Strategy C with its 4X long/short ratio. It also likely reflects that the manager of Strategy A is more confident in his ability to add value on the short side of the ledger than the manager of Strategy C in terms of overall portfolio performance contribution.

Gross Exposure is Still Exposure

But of course there is no free lunch in investing, and Manager A is also taking on more gross exposure (i.e., long plus short) than Manager C. What this means is that if Manager A's investments don't behave as expected, the losses could be much bigger than a simple 75% net exposure might imply. This is because Manager A has capital equal to 225% of his portfolio value at risk every day, while Manager C has only 125% of his capital at risk. We would argue that the manager of Strategy A is paying for his lower long/short ratio by stretching his balance sheet and taking somewhat greater risk than the manager of Strategy C, even though his net market exposure is the same.

So long as all goes more or less according to plan and Manager A's long positions remain inversely correlated to the short positions, he will likely benefit from the deployment of the higher amount of capital relative to his underlying assets. It is when things don't go as planned that having 225% of assets at risk in the market becomes problematic. In the capital markets things have a funny tendency to not go as planned, and we have learned to respect the market's ability to behave in surprising ways.

The CVF Strategy Exposure Characteristics

The CVF strategy utilizes exposure guidelines that are designed to reflect our views of the potential benefits and drawbacks of each side of the long/short ledger. First, our view is that the vast majority of any value we add is likely to be on the long side of the portfolio. Our performance over many years on the short side has been acceptable but certainly not entirely predictable. It has usually benefitted us when we have most needed it, but we do not believe that we can always count on it to work for us when we need it to – or for that matter, to work at all. What this means is that we will not put blind faith in our short book to protect us from significant capital loss.

Because of this long-biased view, our long exposure is usually greater than 3 times the exposure of the short side of our portfolio. This is enough to ensure that the Fund will generally enjoy some participation in periods of strong market performance, and reduces the odds of causing ourselves permanent damage due to poor results on the short side of the ledger. Our net exposure generally ranges between 50-80% of Fund assets, but varies with market conditions and our ability to identify actionable ideas.

Second, we have a concern that gross exposure greater than 200% of a Fund's assets opens the door to unexpected consequences and increases the chances of outsized losses. We are biased towards the notion that less exposure equals less risk, and that greater complexity and greater exposure creates more risk. Our maximum allowed long exposure is 125% of portfolio assets, and our maximum short exposure is 40% of portfolio assets. If we were fully deployed on both sides of our book simultaneously (which has never actually occurred) we would have gross exposure of 165% of the Fund's assets at risk. In addition to our stated short exposure limits, our risk guidelines allow us to utilize up to an additional 5% of the Fund's assets to purchase put options or other derivatives to extend our ability to protect capital, while capping our risk of loss on the incremental protection at this 5% level. With this 5% budget, we could gain considerable protection depending upon the leverage underlying the specific instruments. We feel that these parameters offer us plenty of flexibility to take meaningful exposure when we have great conviction but also limits the amount of total exposure we have at risk at any given time to a reasonable level.

We will continue with next month's letter. As always, we appreciate your continued investment in the Centaur Value Fund.

Respectfully yours,

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