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Full Year - 2012 Letter to Investors

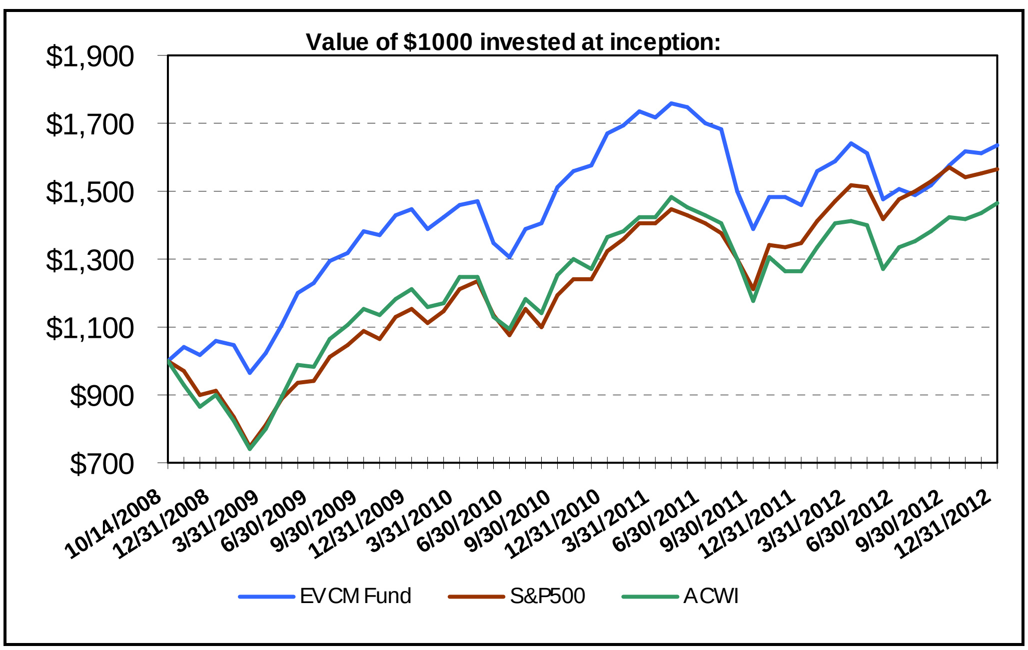
Dear Partners and Shareholders,

For 2012, EVCM Fund returned an estimated +12.1% (net to investors). During this same time period, the S&P500 returned approximately +16.0%, and the MSCI All Country World Index Net (ACWI) returned approximately +16.1%.

Fund Performance (Net to Investors):					
		Dec 2012	Q4 2012	FY 2012	Since Inception (10/15/2008)
EVCM – Net to Investors		+1.5%	+3.6%	+12.1%	+63.5%
S&P500		+0.9%	-0.4%	+16.0%	+56.5%
MSCI All Country World Index Net		+2.3%	+2.9%	+16.1%	+46.7%

** The results reported are unaudited estimates and may be subject to change.*
** Individual investor net returns will vary due to the timing of one's investment.*
** ACWI Index is the MSCI All Country World Index Net which includes re-invested dividends.*

Since inception (10/15/2008), EVCM Fund returned an estimated +63.5% (net to investors). During this same time period, the S&P500 returned approximately +56.5%, and the MSCI All Country World Index Net (ACWI) returned approximately +46.7%.



2012 Overview:

World stock markets increased in 2012 as the global economic recovery continued. The US markets led the charge forward as investors realized that among the major developed economies (US, Europe, Japan) the US is the best house in a bad neighborhood.

EVCM fund had a nice return in 2012, but lagged the market indexes due to our defensive positioning. We continue to hold cash, bonds, high quality stocks, and some shorts and hedges, all of which held back our performance in the strongly rising markets of 2012.

After a sustained multi-year rally, stock markets in aggregate are not cheap. To address this concern, we have just completed the following exercise. We carefully re-examined each holding in our portfolio and asked ourselves the following questions: “If we did not already own this investment, would we be willing to buy it right now at today’s price and, if so, how big would we make the position in our portfolio”? If our conclusion was that we would not be willing to buy something at today’s price then we should not own it at today’s price.

Looking forward towards 2013, we think our investment portfolio should perform very well. While most of our investment have already started working and increased in 2012, they still have a lot of upside going forward. For example, large cap financial companies that we own include AIG, Bank of America, Citigroup, JPMorgan (via TARP warrants) and Wells Fargo (via TARP warrants). All of these companies did well in 2012, yet all still have significant upside.

We continue to select individual investments based on deep fundamental research and analysis where we are convinced that we are purchasing a good business with a good management team at a cheap price. At the individual position level, all of our investments trade significantly below their intrinsic business values and many of them have upcoming catalysts that should unlock their value. At the portfolio level, we remain conservatively invested, with over 20% of our fund in cash and significant shorts and hedges in place. We are diversified across geographies, industries, company sizes, and investment thesis types. Our net long market exposure is about 70%.

Our top 5 contributors in 2012:

Our top 5 contributing positions in 2012 were Tetragon Financial, Hilan Tech, a basket of large cap US Banks, Howard Hughes Corp, and LG Household & Healthcare. We discuss each of them below. While each of these positions has a different background and underlying investment thesis, we do find it interesting to note that they were all very high conviction ideas when we invested in them. Each of them could have been and should have been a larger investment position than it was in EVCM fund. Going forward, we plan to increase the position sizing of our highest conviction ideas.

Tetragon Financial

Tetragon Financial is a publicly traded investment vehicle that invests mostly in Collateralized Loan Obligations (CLO’s). CLO’s are structured financial instruments that provide economic exposure to large pools of corporate bank loans. We invested in Tetragon when it was trading at a large discount to its NAV. We further believed that the published NAV understated the economic value of the CLO assets since these had been written down excessively during the financial crisis of 2008. We also liked that Tetragon paid a nice dividend and was buying back shares aggressively. In 2012 Tetragon made a tender offer and we tendered back most of our shares at a large profit. We still own a small position in Tetragon and would look to buy more if the price declined.

Hilan Tech

Hilan Tech, which we describe as "the ADP of Israel", continued to perform very well in 2012. The company grew its business, reported strong earnings, and continued paying large dividends. Even after performing well in 2012, the company's valuation remains attractive. In 2013 Hilan Tech could earn operating profits of 75M ILS and generate free cash flow of at least 55M ILS. With a current market cap of 460 million ILS and an enterprise value of 510 million ILS, the company trades for less than 10 X EV to free cash flow, a low price for a high-quality cash flow generative business with low capital expenditure requirements and a dividend yield of about 7.5%.

Basket of large cap US Banks

The specific details for each bank that we own is different, yet the underlying thesis is mostly the same. The large cap banks in the US were all severely hurt in the financial crisis of 2008. Since then they have been working to repair their businesses, reduce risks, simplify operations, and restructure bad loans. The banks have undergone intense regulatory scrutiny and are on a trajectory towards recovery. We think that the probability of another banking meltdown at this point in the cycle is low. Furthermore, the banks are direct beneficiaries of the ongoing economic recovery in general and the recovery in the real estate markets in particular. The US banks are still under earning relative to their normalized earnings power and still trade well below where they should once they have fully recovered. We made a nice profit in each of our US bank investments and think that there is still much more upside potential for 2013.

Howard Hughes Corp (HHC)

HHC was spun out of General Growth Properties (GGP) as a vehicle to hold the developmental assets of GGP. While we normally avoid property developers since they hold assets that do not generate cash flows, we made an exception on HHC for the following reasons:

1. HHC owns unique and very valuable development assets in key markets (Hawaii, NYC, Las Vegas).
2. We purchased HHC at a large discount to its NAV, where the NAV was based on historical purchase cost of assets that were purchased well before the real estate bubble.
3. HHC owns valuable assets that were recorded on its books at a value of zero (and were thus free options for us).
4. HHC is led by a highly regarded management team that used their own money to purchase options to buy the company stock at prices that were much higher than those that we paid.
5. Bill Ackman, an investor that we highly respect, is the chairman of HHC.
6. HHC is underleveraged and conservatively managed.

HHC performed very well in 2012, yet still has large upside potential as its developmental projects continue to progress and will, in time, become highly valuable cash flow generating properties.

LG Household & Healthcare

LG Household & Health Care (LG H&H) manufactures and distributes cosmetics, household & personal goods and Coca-Cola beverages in South Korea. It has a leading market share in all 3 business segments. The company was spun off from LG Chemical (now LG Corp) in 2001 and has since been focused on western style brand management and shareholder value creation. LG H&H management is well regarded and shareholder friendly. Over the years the company has allocated capital wisely by investing in its core businesses, repurchasing shares and completing multiple value creating acquisitions.

We invested in LG H&H through their preferred shares. The preferred shares are required to pay a higher dividend than the common shares and, based on our research, are not materially inferior to the common shares. Yet when we invested, the preferred shares traded for only 20% of the price of the common shares. Over the years the price discount of the preferred shares (verses the price of the common shares) has ranged from a 25% discount up to an 80% discount (where we invested).   Today the discount is about 65% and remains excessive. Based on the price of the preferred shares, LG H&H trades for about 10 times earnings, a cheap price for an excellent, well managed business with significant growth prospects.

Our top 3 detractors in 2012:

Minimizing the number and the magnitude of mistakes is one of the keys to successful investing. For each investment that we make, we ask ourselves: “what could go wrong”. Despite our best efforts, there are always a few mistakes made every year. Studying these mistakes and learning the correct lesson from each one is key to improving our investment results over time.

Dell

Dell has proven to be an unsuccessful investment for us. Declines in the PC and Accessories segment have been more rapid than we projected while the shift in business focus (towards higher margin enterprise solutions) is taking longer than expected.   A key part of our original investment thesis was that Michael Dell, the company CEO who returned in 2007, has purchased large blocks of shares personally in recent years at prices that are materially higher than the prices we invested at.

Rather than continue running Dell as a public company, Michael Dell has decided to take Dell private through an LBO. Several prominent investors have expressed their dissatisfaction with the purchase price being offered for the LBO. While we agree that the price being offered is low, we still chose to sell our shares and exit the position since our investment thesis has failed to play out so far and we no longer have high conviction in our thesis. Furthermore, we think that it will be difficult for those investors wishing to block the LBO to find alternative buyers for Dell since alternative buyer groups would not have the benefit of Michael Dell working on their team.

While we did lose money investing in Dell, our loss was reduced by our use of long dated call options. These call options protected us on the downside. Key lessons are to invest using long term call options when possible, that structurally declining businesses can often decline more rapidly than expected, and that management teams will often overpay for acquisitions when trying to reposition their declining business.

Prisa Group

Prisa Group has been an unsuccessful investment for us to date; altough there is still a reasonable chance that it will eventually recover. In hindsight its problems seem obvious. It is an overleveraged Spanish media company suffering multiple economic head winds.

While we were aware of the negatives, we invested in Prisa Group for several reasons:

1. The operations in Spain are undergoing a turnaround.
2. About one third of the business is in Latin America where results are strong.
3. The Pris/B shares that we own have several advantageous features such as a high dividend and downside protection.
4. The controlling shareholders of Prisa Group are very supportive of the company and contribute capital when needed.
5. We were supposed to get a very large dividend yield on our Pris/B shares

Unfortunately, Prisa Group’s turn around efforts are proving to be slow and difficult, particularly due to the dire macro economic situation in Spain. Prisa Group also reduced the dividend on the Pris/B shares that we own (although they still yield about 15% after the reduction). It is too early to say how this investment will turn out, and we have not sold any of our shares. However, it is already clear that Prisa Group was an “unforced error” – an investment mistake that we should not have made.

Aberdeen International

Aberdeen International is a publicly traded venture fund, which invests in junior resource extraction companies and related assets. Over the past 2 years the junior resource extraction companies have been decimated both economically and in the stock markets. We lost money on most of our investments in this space, including Aberdeen International, Molopo Energy, and Apex Minerals. While we are sure there are plenty of exceptions, our experience has been that junior resource extraction companies are terrible businesses with endless CAPEX requirements and management teams that do not look out for the best interests of shareholders.

We have decided that with rare exceptions, we no longer wish to invest directly in junior resource extraction companies. We still plan to continue investing in companies that support the resource industry such as Pulse Seismic. Our only significant remaining investment in junior mining is Monument Mining (which we discuss below).

Discussion of Select EVCM Fund Investments:

We have completed a careful and detailed review of all of our portfolio investments and will devote the rest of this letter to a detailed review of some of our investment positions.

Dori Construction

Dori Construction is an Israeli construction company specializing in complex large scale construction projects such as residential towers, hotels, office buildings, defense installations and mixed use buildings. Dori enjoys an excellent reputation for quality and service within the construction space and is often the builder of choice for complex projects. The company is currently working on close to 400 construction projects in Israel and has an order backlog of 2.7B ILS.

The well-regarded Gazit group recently purchased control of Dori and they have been working to improve the business. We believe that they have been shifting the company business away from simple “commodity” type construction projects towards more complex (and higher margin) projects that require special skills and expertise.

In 2013 we expect Dori to earn about 40M ILS of profits on 1.5B ILS of revenues. With a current market cap of 144M ILS, Dori trades for just 3.6 times earnings. We enjoy an 8.5% annual dividend yield while we wait for the market to recognize the intrinsic business value of Dori Construction.

AIG

AIG is one of the world’s largest multi-line insurance companies. It came close to bankruptcy in the 2008 financial crisis due to its insurance bets on subprime mortgage loans and credit default swaps. AIG was saved in the last minute by a US government bailout.

Today AIG is a very different company. Since 2008, AIG has focused on reducing risks, selling non-core assets, eliminating its complex derivative exposure, and paying back the US government. AIG is now well managed and conservatively run. It has a leading position in both property & casualty insurance (Chartis) and US life & retirement (Sun America). It has paid back the government in full and is focused on unlocking shareholder value by increasing its ROE to double digit levels.

Yet AIG still trades for about half of its book value. We think that in a few years AIG could trade at book value, and that book value will be higher, thus generating a total return well above 100% from today's prices.

Nitsba Real Estate

Nitsba Real Estate is a well managed REIT that owns top quality real-estate assets in Israel.   In addition to commercial, residential, and office properties, Nitsba owns many of the main bus terminal centers in Israel. Central bus terminals are exceptionally high quality real estate assets. With the Israeli bus companies as their main tenants, non payment of rents is highly unlikely. Furthermore, retail shops operating in the bus terminals benefit from the large foot traffic of the many bus passengers. These dynamics enable Nitsba to charge retailers high rents.

Nitsba trades for less than half of its net asset value. We also like that the company is under levered and is able to redeploy its net rental income into high return development and expansion projects. The stock market does not like Nitsba since it is viewed as a REIT that does not pay dividends. We believe that in a few years Nitsba will complete its large development projects and will start paying dividends. When that happens, Nitsba is likely to trade at a premium to its NAV, thus generating well over 100% return from today's stock price.

Monument Mining:

Monument Mining (MMY CN) owns and operates the low cost Selinsing gold mine in Malaysia. Currently producing over 44K ounces of gold per year, Monument is ramping up production to 80K ounces over the next year. The company has extremely low cash production costs enabling it to generate an astonishing $40M of free cash flow every year. Monument currently trades for about 2X free cash flow. Cheap, debt free, rapidly growing, and gushing free cash flow – Monument Mining is an attractive investment within the usually speculative small cap mining space.

Monument Mining recently purchased the Mengapur gold project (also in Malaysia).   While we were very unhappy about the share dilution to finance this acquisition, we do think the Mengapur project itself is a very good acquisition for the company.

Assuming the company can ramp up production to 70K - 80K ounces of gold per year, it could generate $70M of free cash flow in 2013.   Assigning a conservative 8X multiple would get us to $480M in Enterprise Value. That is about 5X the current market cap of the company and still conservatively assigns zero value to the Mengapur gold project. If we get a little lucky and the Mengapur gold project works out roughly as well as management projects, then Monument could be the most profitable investment we have ever made.

Berkshire Hathaway:

After languishing for a while, Berkshire's stock has finally started increasing again in 2012 and has been performing well in 2013. Valuing BH is fairly straightforward. Assigning a 10X multiple to the operating business earnings ($8K/share X 10) and adding in the current per share value of the securities portfolio ($110K/ share) gets us to about $190K value per share. This assigns no value to the expected growth in insurance float over time, to future underwriting profits, to the phenomenal team of business and money managers at Berkshire, and to the exceptional management and capital allocation abilities of Mr. Warren Buffett.

Currently trading at about $150K per share, BH shares are cheap with about 26% upside to current fair value. Importantly, we believe intrinsic value is growing at about 10% per year. Furthermore, BH is levered to an economic recovery and to a recovery in the US housing market (which we think has already begun).

Berkshire recently announced that it is purchasing Heinz together with a private equity partner (3G Capital). While the price paid was not cheap, we still think this is an excellent deal for several reasons. First, Heinz is a fantastic business with leading consumer brands. Second, 3G capital is arguably among the best business operator in the world, with amazing success at the helm of Anheuser Busch (BUD) – a former successful investment for EVCM fund. Third, Berkshire is using cash, which currently earns almost nothing, to make this acquisition so that it should be immediately accretive to earnings.

Pulse Seismic:
Pulse Seismic owns and licenses a database of 2D and 3D seismic data for the energy sector in western Canada. Seismic data is used by oil and natural gas exploration and development companies to identify portions of geological formations that have the potential to hold hydrocarbons. Seismic data never expires so it can be sold and resold for decades.

With only 30 employees, Pulse generated 2012 revenues of 86.4M CAD and free cash flow of about 50M CAD. Admittedly this includes a large one time license sale which will not recur every year. Even excluding large sales, we expect Pulse to generate $25M of free cash flow per year. For reference, Pulse's market cap is 191M CAD which means Pulse is cheap.

What is truly amazing is that these 2012 results were achieved at a time when natural gas prices are at an extreme low. I believe that pulse is now operating at close to the bottom of the cycle. There are strong indications that Pulse could generate 50M – 80M of annual free cash flow at more favorable points of the business cycle, which would probably result in the stock price doubling from here. As a "check" on this valuation estimate, I note that Pulse shareholders rejected a $3.30 / share buyout offer in 2007 (and this was before the Divestco acquisition which doubled the company value).

Short USO:
United States Oil Fund (USO) is an ETF that is supposed to track the price of a barrel of oil. Because it uses future contracts to gain exposure to the price of oil, USO suffers from "Roll Decay" which makes it consistently lose value over time. As expected, USO once again underperformed the price of oil in 2012, declining 5.3% more than the price of oil declined. We remain short USO, both directly and using options.

Conclusions:

We own an exceptionally attractive portfolio of investments from around the world. Our investments continue to generate strong free cash flows, widen their economic moats, pay dividends, buy back shares, and grow their values. While we have no idea where stock markets will move in the short term, we feel confident that our investment portfolio is in excellent shape, will realize its potential, and will perform very well over the long run.

Thank you, our investors and shareholders, for your continued trust and support of EVCM fund. Please don't hesitate to call with any questions, thoughts or comments. We are always happy to speak with partners and potential new partners.

Sincerely Yours,
Ori Eyal
Managing Partner