



# CEDAR FUND

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March 2011

Dear Fellow Partners,

Cedar Fund increased a decent 14.3% last year. It finished just shy of the 15.1% for the S&P 500 Index, which surged in the last quarter of the year. Your Cedar Fund unit value is now up to \$2,539.94. An investment of \$100,000 in the Cedar Fund at its inception in 1989 would have grown to \$1,014,185 at the end of 2010. This is a cumulative return of 914.2%, or 11.1% annualized.

Cedar Fund is comprised of three core components: Berkshire Hathaway (28% of Cedar Fund), Harfam Partners (27% of Cedar Fund), and mutual funds (45% of Cedar Fund). We will discuss each in turn.

## **Berkshire Hathaway**

Berkshire Hathaway, run by the famed investor, Warren Buffett, had an unusually good year. Earnings climbed 61% last year, a significant surge occurred after it was included in the major stock indices early in 2010. Buffett expects higher earnings this year as Berkshire's operating units -- insurance, railroad, gas electric utilities, and industrial businesses -- continue to improve".

Buffett unveiled another part of his succession plan when he named Todd Combs to oversee a portion of Berkshire's stock investments. Buffett says Combs "will never do anything really dumb", which is one of Buffett's most important criteria for a successful money manager.

## **Harfam Partners**

Harfam Partners (Harfam) is a limited partnership consisting of hedge funds, a separately managed account, mutual funds and individual stocks. It had a disappointing year in 2010, returning 6.5%. One of the primary drags on its performance was Community Bankshares (CBI), a small, privately-owned bank stock that lost 67% of its value last year. Over the past three years, the value of CBI has fallen over 80% and now represents only 4% of Harfam.

We added a new hedge fund in Harfam, Kingstown Partners, which comes highly recommended by the value investors at Columbia Business School. We eliminated Springhouse Capital and Eagle Capital Partners and reduced Tom Russo of Semper Vic Partners.

The star performer in Harfam was Ruane, Cunniff & Goldfarb (Ruane), who achieved a 25% return. Their strong year did not go unnoticed. Ruane also manages the Sequoia Fund, which was recognized as the top domestic equity mutual fund in 2010 by Morningstar, the mutual fund rating service. The account Ruane manages for Harfam largely mirrors the investments in the Sequoia Fund.

Sequoia was selected for both its short term results, up 19.5% last year, and long term track record, 9.6% over 15 years. In recent years Sequoia has tested our patience with spotty relative performance. In four of the last eight years Sequoia has been in the top 25% of its category of peers, but in the other four years it has been in the bottom 5% of its category. As is typical of Sequoia, the highest relative returns generally occurred in more difficult market environments while the fund tended to lag the market in strong upturns.

Ruane seemed to acknowledge this deficiency when they made several critical changes in 2010 in the way they construct their portfolio. First, they reduced the concentration of Berkshire Hathaway from 35% of the portfolio to just above 10%. Second, they tripled the number of stocks in their portfolio. Finally, they have continued to gradually increase their non-U.S. stock exposure so that it now comprises close to 15% of the portfolio.

Under Bob Goldfarb, Ruane's strategy has evolved over the years "placing greater emphasis on the quality of the business and its longevity while slightly de-emphasizing the price being paid"<sup>1</sup>. This is similar to Warren Buffet's transition to buying "great companies at a fair price rather than fair companies at a great price".

## **Mutual Funds**

Of the eight mutual funds held by Cedar Fund, four finished the year with returns above 20%, led by Fairholme at 25.5%. We are pleased with the strong performance of our group of funds as a whole. During the year we added a new mutual fund, Tilson Dividend Value (Tilson). Tilson is managed by Zeke Ashton, who also runs the Centaur Value Fund, a hedge fund held in Harfam. In essence, we have one manager representing two different funds with slightly different styles. We made room for Tilson by eliminating the Wintergreen Fund.

## **Outlook**

Since the severe downturn at the end of 2007, the media has become increasingly fixated with the analysis and predictions of economists and market prognosticators. Although we believe it is wise to assess and try to understand the current market environment, our strong conviction is that true value is added by the deployment of capital in financially sound companies with a significant margin of safety. On this score, we believe Cedar Fund's managers are some of the very best in the field.

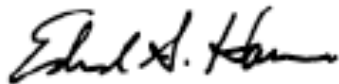
## **Administrative Updates**

Several weeks ago the custodian of our assets, Harrington Wealth Management, was purchased by Reliance Trust Company of Atlanta, Georgia. Other than a name change, operations are expected to continue as usual under the new owners.

As most of you know, our long time friend and colleague, Dave Harper, died in October 2010 after a short illness. We owe a real debt of gratitude to Corey Harper of Ronald Blue & Co., LLC<sup>2</sup>, who ably stepped in and picked up the critical tax and partnership accounting duties. We are grateful for Corey's leadership, technical experience, and understanding of our investment philosophy.

The following page includes additional details about information available to you about Cedar Fund. We appreciate your continued confidence in our management of Cedar Fund. Please call or write either one of us if you have questions or would like to discuss your investments.

HARRIS HARPER COUNSEL, INC., *General Partner*



Edward S. Harris, *President*



Mark W. Harris, *Secretary-Treasurer*

<sup>1</sup> *Morningstar FundInvestor*, January 2011, p. 22.

<sup>2</sup> Ronald Blue & Co., LLC (RB&Co.), a national financial planning and investment management firm with 16 offices across the U.S., is a consultant to Harris Harper Counsel, Inc., the general partner and manager of Cedar Fund. Corey Harper, a Financial Advisor with RB&Co., performs tax and partnership accounting for Cedar Fund on behalf of RB&Co.

### **Information Available to Cedar Fund Partners**

Included along with this Annual Letter:

- The value of your Cedar Fund interest
- 2010 Cedar Fund financial statements audited by CPA firm Ramsey, Rodefeld, Kassens & North, LLP (includes list of Cedar Fund investments)
- Our privacy policy that explains the confidentiality of your personal information

On our website, [www.cedarfund.harfam.org](http://www.cedarfund.harfam.org):

- Cedar Fund holdings
- Harfam Partners holdings
- All managers performance
- Bear market chart
- Growth of \$10,000 chart

Upon request:

- Our website user name and password
- Printed copies of any document on our website
- Form ADV, *Investment Advisor Registration*, (required by the Indiana Securities Division to be made available to investors upon written request)
- Form ADV Brochure (required by the Indiana Securities Division to be made available to investors upon written request)

### **Schedule of Regular Communication**

February – Form K-1 sent to partners

March – Annual Letter, Value of Partner Interest, Audited Financial Statements, Privacy Policy

Quarterly (mid-April, mid-July, mid-October, mid-January) – Performance results e-mail

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March 2011

## **PRIVACY POLICY**

### **To the clients of Harris Harper Counsel Inc. and Cedar Fund L.P.:**

Harris Harper Counsel and Cedar Fund L.P. does not disclose nonpublic personal information about our clients/investors or former clients/former investors to third parties other than as described below.

We collect information about you (such as your name, address, email address, social security number, assets and income) from our discussions with you, from documents that you may deliver to us and in the course of providing services for you. We may use this information to provide services to you, to open an account for you, to process a transaction for your account or otherwise in furtherance of our business. In order to service your account and effect your transactions, we may provide your personal information to firms, such as financial institutions, that assist us in servicing your account and have a need for such information. We require arrangements to protect the confidentiality of your information and to use the information only for the purposes for which we disclose the information to them. We do not otherwise provide information about you to outside firms, organizations or individuals except to our attorneys, accountants and auditors and as permitted by law.

We restrict access to nonpublic personal information about you to only the partners of Harris Harper Counsel Inc. who need to know that information to provide services to you.