



CEDAR FUND

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March 1, 2012

Dear Cedar Fund Partner:

It was an unnerving 2011 as the stock market swung wildly throughout the year, even soaring 400 points one day, then plunging 400 points the next. It was also a frustrating and disappointing year as U.S. stocks ended the year with little change and global markets dropped 12%. Cedar Fund was down 5.5% compared to a gain of 2.1% for the S&P 500 Index. The value of \$100,000 invested in the Cedar Fund at inception (1988) grew to \$958,506 for a cumulative return of 858%.

In the type of environment we experienced in 2011, investors can be distracted by the extreme volatility of the stock market. Warren Buffett, chairman of Berkshire Hathaway, had the best antidote for this behavior:

“You will see things you won’t believe in your lifetime in securities markets. And the country will do very well over time, but you will see these huge waves. And if you can stay objective throughout that, if you can detach yourself temperamentally from the crowd, you can get very rich. And you won’t have to be very bright - it doesn’t take brains, it takes temperament.” (Video of talk given to students at University of Georgia, 2001.)

Turning now to the Cedar Fund, we will discuss its three major components in each of the following three paragraphs:

Berkshire Hathaway
Mutual Funds
Harfam Partners

Last year, Berkshire Hathaway was down 4.7%. Selling at 1.1 times book value, the stock still appears to be inexpensive compared to its historic range of 1.5-1.8 times book. The stock also is supported by a strong earnings stream from its insurance, railroad and utility divisions. While the housing sectors of Berkshire continue to lag, they are poised for a rebound when the housing market recovers. One important event during the year was Buffett’s naming of Ted Weschler as Berkshire’s second investment manager, joining Todd Combs in managing the company’s publicly traded investment portfolio. Buffett says this will complete a portion of his succession plan.

For the second year in a row, Morningstar, the mutual fund ratings service, named one of our mutual funds as Manager of the Year. Tweedy Browne Global was recognized as International Manager of the Year for 2011. In the previous year, Sequoia was named Domestic (U.S.) Manager of the Year. Sequoia was a finalist again for domestic manager for 2011. Sequoia is managed by Ruane, Cunniff and

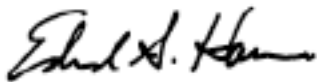
Goldfarb, which handles a separate account for us in Harfam Partners. Cedar Fund's performance last year was hurt by a 32.4% decline in Fairholme, which has a concentration in financials. While Fairholme has rebounded smartly this year, we do not view this fund as a long-term holding. In the short term, we continue to retain this fund because we believe its holdings are significantly undervalued, trading at approximately 70% of their book value or about half of where similar funds are trading. The performance of the rest of our mutual funds ranged from a gain of 3.0% by FPA Crescent to a decline of 4.1% by Tweedy Browne Global. This was a tough year for mutual funds that follow a value investing style.

Harfam Partners, which comprises the final third of Cedar Fund, declined 4.8%. Within Harfam Partners a strong 14.1% increase in the Ruane, Cunniff & Goldfarb account helped offset a 32.4% plunge by Fairholme and other losses. Kingstown Partners and Centaur Value dropped 6.3% and 7.0%, respectively. After several years of struggling, Community Bankshares in Colorado was taken over by the FDIC. The private bank was written off and eliminated from the Harfam portfolio. Overall, Harfam Partners still edged out a slight gain over Cedar Fund aided by the strong Ruane performance and a 6.7% gain by Semper Vic.

Clouds of pessimism and gloom seem to be breaking up. As the economy improves, positive signs are appearing on the horizon. Stocks are priced attractively and are undervalued, compared to historic averages. Corporate earnings continue strong as the economy strengthens. Housing and auto, two of the hardest hit sectors, appear to be at their bottom. These are all reasons that America may well be one of the best places to invest for the future.

The following page includes additional details about the Cedar Fund. We appreciate your continued confidence in our management. Please feel free to contact us with any questions you may have about the Cedar Fund.

HARRIS HARPER COUNSEL, INC., General Partner



Edward S. Harris, President



Mark W. Harris, Secretary-Treasurer

Information Available to Cedar Fund Partners

Included along with this Annual Letter, sent by email:

- 2012 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:

- Cedar Fund holdings
- Harfam Partners holdings
- Bear market chart
- Growth of \$100,000 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 Sent by Email

February – Form K-1 sent to partners

March – Annual Letter, Audited Financial Statements, Privacy Policy

Quarterly (mid-April, mid-July, mid-October, mid-January)

- Performance results
- Value of your account

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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.