



# CEDAR FUND

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Dear Cedar Fund Partner:

Riding the wave of the biggest stock market in sixteen years, Cedar Fund rose 24.2% in 2013. The S&P 500 Index increased an impressive 32.4%. The winners included index funds and funds that buy and hold stocks. Left behind were tactical allocation, diversified and low volatility funds. Cedar Fund performance was driven by four managers:

- Sequoia 34.6%,
- Berkshire Hathaway 32.7%,
- Longleaf Small Cap 30.5% and
- Harfam Partners 28.1%.

The remaining six funds had returns of 15% to 23%. In the Harfam Partners portfolio, the best return was 38.7% by Ruane, Cunniff and Goldfarb. The value of a Cedar Fund unit as of December 31, 2013, is \$3,402.

Last year Cedar Fund finished its 25th year with \$30.6 million under management and 53 partners. We started Cedar Fund in 1988 with \$1.4 million of assets and 16 partners.

Over the period ending December 31, 2013:

- \$100,000.00 invested in Cedar Fund grew to \$1,358,272.
- The same \$100,000.00 invested in the S&P 500 Index grew to \$1,150,416.
- The annualized rate of return of Cedar Fund was 11.0%. The S&P 500's annualized rate of return was 10.3%.

These results were achieved during several sharp stock market drops, including 2007-2009, the worst stock market decline in 80 years. In reflecting on our results over these 25 years, we think there are several reasons why we have performed well:

**Perspective** - We bring to the investment process a perspective shaped by experience, temperament qualities and an understanding of financial and general history. These characteristics, along with a clear commitment to the philosophy of value investing, have produced better than average returns. One recent study revealed that only 18% of the actively managed mutual funds performed better than the S&P 500 Index. The current managers in Cedar Fund all fell within this top 18%. Having said that, occasionally, even our long term managers go through spells of underperformance. Part of our job is to understand when that underperformance is permanent and when it is temporary.

**Safety** - Our managers have to pass through four different tests of diversification before being added to Cedar Fund. First, we select a sufficient number of managers to provide adequate diversification. Either too many or too few can hurt returns. Second, we incorporate a wide variety of value-style managers, from deep value to growth at a reasonable price. Third, we select managers that diversify geographically across the U.S. and international markets. Finally, we look for managers in many different asset classes, including small-cap, mid-cap, large-cap, all-cap and alternative. We believe this rigorous process provides margin of safety in declining markets but allows for plenty of upside gain in favorable markets.

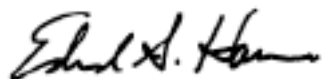
**Stability** - One of our most important sources for finding new managers is consulting with our existing managers. Nearly all of our Cedar Fund managers came to us this way. We believe this access to a small group of excellent value managers provides an extra edge of stability. Once, after in-depth research and analysis, a new manager is added to the Cedar Fund portfolio, it remains long term. Several of our current managers have been in Cedar Fund for its entire 25 year history.

With these principles we have built Cedar Fund around three groups of investments:

- Eight mutual funds that comprise 51% of the Cedar Fund portfolio. Each fund follows a different approach of value investing, ranging from traditional value to growth at a reasonable price.
- Berkshire Hathaway, which may be thought of similar to a high quality index fund but without the underlying risk of lower quality companies included in most index funds. Warren Buffett, Chairman of Berkshire, has built a wonderful collection of high quality companies that are a microcosm of American business. Berkshire comprises 32% of Cedar Fund.
- A core group of investment managers in Harfam Partners, the partnership of the Harris and Harper families, makes up 17% of Cedar Fund. Harfam allows Cedar fund access to investments not available through mutual funds.

To conclude, we have one final reflection on the past 25 years. We are deeply grateful over these years for your confidence and trust in our stewardship of your investments. We remain committed to the highest integrity in putting your interest above our own while striving to achieve outstanding long-term investment performance.

**HARRIS HARPER COUNSEL, INC., General Partner**



Edward S. Harris, President



Mark W. Harris, Secretary-Treasurer

## ***OTHER INFORMATION AVAILABLE TO CEDAR FUND PARTNERS***

- [click here to view 2013 Cedar Fund financial statement](#) audited by CPA Firm Rodefeld, Kassens & North, LLP (this statement includes a list of the Cedar Fund investments).
- [click here to view our privacy policy](#) that explains the confidentiality of your personal information.
- [click here to view our website](#) (user name and password required, contact us for this information) which includes:
  - Cedar Fund holdings
  - Harfam Partners holdings
  - Bear Market chart
  - Growth of \$100,000 chart

*Upon written request the following will be made available to investors:*

- 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.
- Form ADV Brochure (required by the Indiana Securities Division.

*Schedule of Regular Communication Sent to partners 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