

FEBRUARY 2023

CEDAR FUND 2022 ANNUAL REPORT



***WE DON'T HAVE TO BE SMARTER THAN THE REST:
WE HAVE TO BE MORE DISCIPLINED THAN THE
REST. — Warren Buffett***

INVESTMENT SUMMARY

| | 2022 | 3 YEARS | 5 YEARS | 10 YEARS | 15 YEARS |
|---------------------------|---------------|-------------|-------------|--------------|-------------|
| Cedar Fund | -9.3% | 4.8% | 4.9% | 7.1% | 4.4% |
| S&P 500 | -18.1% | 7.7% | 9.4% | 12.6% | 8.8% |
| Russell 3000 Value | -8.0% | 5.9% | 6.5% | 10.2% | 7.0% |

Dear Fellow Partners:

“High inflation and rising interest rates have created an environment where the tailwinds for growth-oriented stocks and passive management are receding, while actively managed portfolios with stocks where business quality and valuation really matter are coming to the fore.” - Value Investor Insights

Stubbornly high inflation, rising interest rates, and talk of a possible economic recession rattled markets for much of the year. In 2022 Cedar Fund fell 9.3% compared to a loss of 18.1% for the S&P 500 and a loss of 8% for the Russell 3000 Value Index.

The value of your Cedar fund unit finished at \$5,457. Although it is of little comfort, the Cedar Fund decline was less than the S&P 500. However, the Cedar Fund has less risk than those stocks in the S&P 500 because of our managers' focus on a margin of safety (the sales point over and above the break-even point, that results in profit).

After several years of growth stocks taking the lead in the market, value stocks have returned in 2022 to the forefront. Value has outperformed growth stocks over the longer-term, however, growth has been outperforming for the last 10 years.

I believe that financial markets will remain difficult and volatile in 2023. Until the current government's administration addresses the level of spending and creating huge deficits, the Fed is going to be under a lot of pressure to lower interest rates to levels they were during the previous administration.

It is about finding a well-run company with outstanding long-term prospects. In today's market environment it's a challenge for money managers to have focused evaluations of investments, for example, strong management and fiscal reporting to be able to sustain the unforeseen difficulties and demand issues.

I believe we have the kind of money managers who practice patient, disciplined approach to succeed over different market cycles. The value money manager, perhaps more than any other type of money manager, is more concerned with the fundamentals than other influences on the selected investment.

Inception to date return for Cedar Fund thru 12/31/22 is 9.5% versus 10.3% for S&P 500. As shown in chart included below, since 1989, \$100,000 invested in Cedar Fund has grown to \$2,179,744 in 2022.



2022 PORTFOLIO SUMMARY

| | PERFORM -ANCE | DOLLAR AMOUNT | 2022 ACTIAL ALLOCA -TION | 2022 TARGET ALLOCA -TION |
|---|------------------|--------------------|-----------------------------------|-----------------------------------|
| Berkshire Hathaway Cl. B | 3.3% | \$3,243,450 | 20.9% | 15% |
| First Eagle Global | -6.3% | \$2,891,969 | 18.6% | 15% |
| Berkshire Hathaway Cl. A | 4.0% | \$2,812,266 | 18.1% | 15% |
| FPA Crescent | -9.2% | \$2,656,724 | 17.1% | 15% |
| Sequoia Fund | -30.5% | \$1,305,290 | 8.4% | 10% |
| CASH | | \$674,792 | 4.3% | 10% |
| Akre Focus | -22.7% | \$484,186 | 3.1% | 10% |
| Tweedy Browne International | -7.5% | \$813,105 | 5.2% | 5% |
| Longleaf Partners Small Cap. | -19.3% | \$672,770 | 4.3% | 5% |

PORTFOLIO SUMMARY

- Cedar Fund's largest holdings, **Berkshire Hathaway Class A and Class B**, finished in positive territory for 2022. 2022 was a roller coaster year in market performance with its lowest point in September. The S&P 500 at that point, was down 23.9%, Cedar Fund was down 18.6% and Berkshire Hathaway was down 9.8%. So over a three month period the market improved before year end. Berkshire Hathaway's success in 2022 is attributed to its large holdings in oil companies like Chevron which soared 50% in 2022 and consumer stocks such as Coca-Cola and Kraft Heinz which were up around 10% this year. Berkshire's conglomerate that owns companies in insurance, railroads, to consumer brands like Dairy Queen, Fruit of the Loom and Duracell performed well in a year with challenges in the economy and markets. Berkshire's overall diversified businesses and portfolio are doing just fine.
- From **FPA Crescent** — "We believe these results mean we met the Fund's objective of equity-like returns over the long-term despite a period that was far more favorable to a fully invested, US "growth" equity strategy than a risk aware, global multi-asset strategy. Importantly, we believe this was a conservatively earned return as we don't believe we ever exposed the portfolio to catastrophic loss at any point along the way. In addition, the Fund was always invested in what we believed to be well-financed businesses, diversified by company and industry and never with any one or two large "bets".



- From **First Eagle Global** — “We believe the market and macroeconomic dynamics we witnessed in 2022—while painful—reflected a relatively orderly transition from an environment characterized by a generational-low cost of capital to one in which money again has a price. For many years, repressed interest rates helped support valuations for securities with expected cash flows far into the future and contributed to a prolonged period of outperformance of growth stocks.”
- From **Tweedy Browne International** — “While all four Tweedy funds finished calendar year 2022 in the red, three of the funds significantly outperformed their broad-based benchmark indices, as we would expect given their well-honed, value-oriented investment strategies, which have generally tended to hold up a bit better than growth strategies in declining market environments. Only our flagship fund, the Tweedy, Browne International Value Fund, failed to best its hedged benchmark, due in part to its policy of hedging only its perceived foreign currency exposure (the benchmark is fully hedged). That said, its return of -7.53% was nearly 700 basis points better than the unhedged MSCI EAFE Index, which finished the year with a return of -14.45%.”
- From **Longleaf Partners Small Cap.** — “Our 2022 annual returns were subpar and lagged our expectations, driven primarily by declines at a handful of detractors – Lumen and Oscar Health – which were the top absolute and relative detractors in the quarter and among the top detractors for the year, along with Vimeo and Anywhere Real Estate.”
- Cedar Fund’s loser for the year was **Sequoia**. In its fourth quarter report it was noted “the main reason Sequoia was down significantly this year is that most of the stocks in it were down significantly, primarily due to a compression in multiples in response to elevated inflation and rising interest rates, and despite continued generally strong underlying business performance. Over sufficiently long periods of time, though, investment performance is driven by the progression of business fundamentals relative to price paid.”

One change was made to Cedar Fund’s portfolio in 2022. We trimmed Sequoia a bit and purchased **Akre Focus Fund**. Chris Cerrone, one of the co-managers of Akre says “I think we emphasize more than others that investing in great companies and letting them compound over time doesn’t really work unless you’re disciplined about valuation.”

Akre fits Cedar Fund’s strategy in regards “to finding well-run businesses with outstanding long-term prospects and investing at a time when its stock is selling at a discount. And if the stock isn’t selling at a discount, it’s about having the discipline and patience to wait until the price comes our way.”

Co-managers, John Neff and Chris Cerrone emphasis is “we’re investors in outstanding businesses when our discipline allows us to buy them at what we think are opportunistic valuations.” Their focus’ are finding quality investments today in such areas as software, asset management, credit ratings and wireless infrastructure.

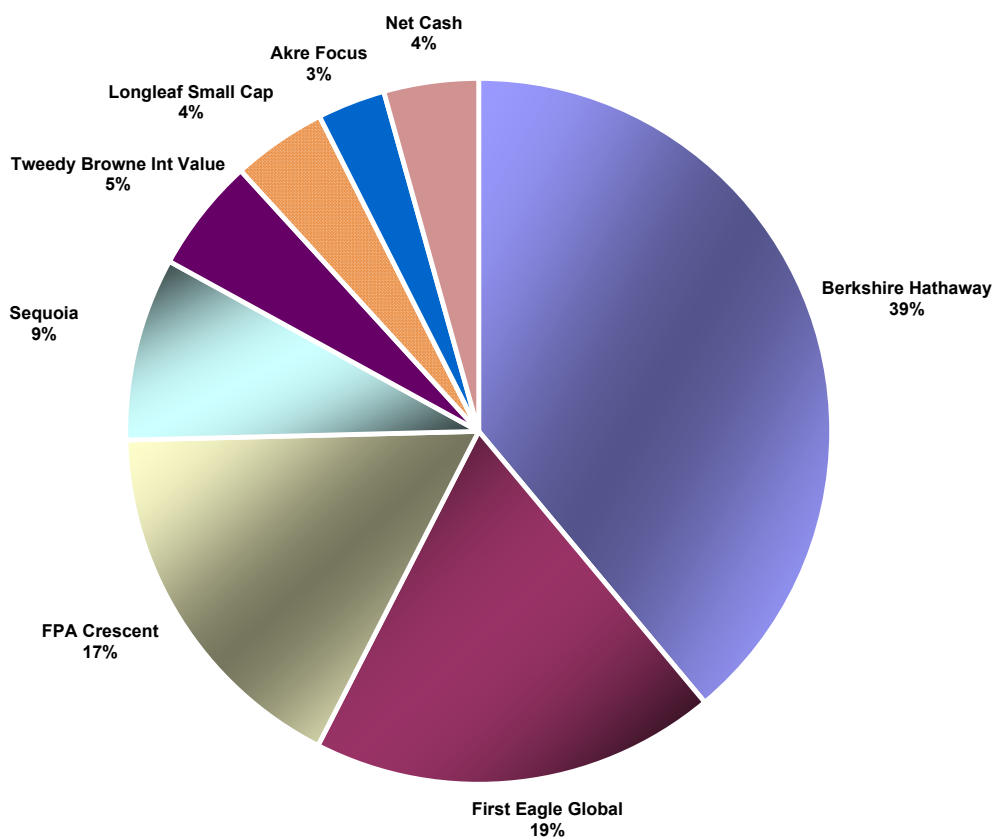
Neff and Cerrone work independently of each other and do operate on a shared understanding basis. “We try to communicate well about what we’re working on, why we like something, what we’re learning about it as we go, and where we stand in developing conviction.” It’s evident that Neff and Cerrone believe they need to own something well enough for the other to understand that and agree.



As I have stated in my previous letters, reviewing a portfolio periodically is important. I review our portfolio monthly with our consultant, Corey Harper, to keep in line with our allocation goals and to minimize realized capital gains. I refrain from looking at the portfolios daily and feel that rebalancing too frequently may do more harm than good. Reacting to every movement in the market is at odds with the benefits of taking a long-term approach to investing.

Cedar Fund Holdings

December 31, 2022

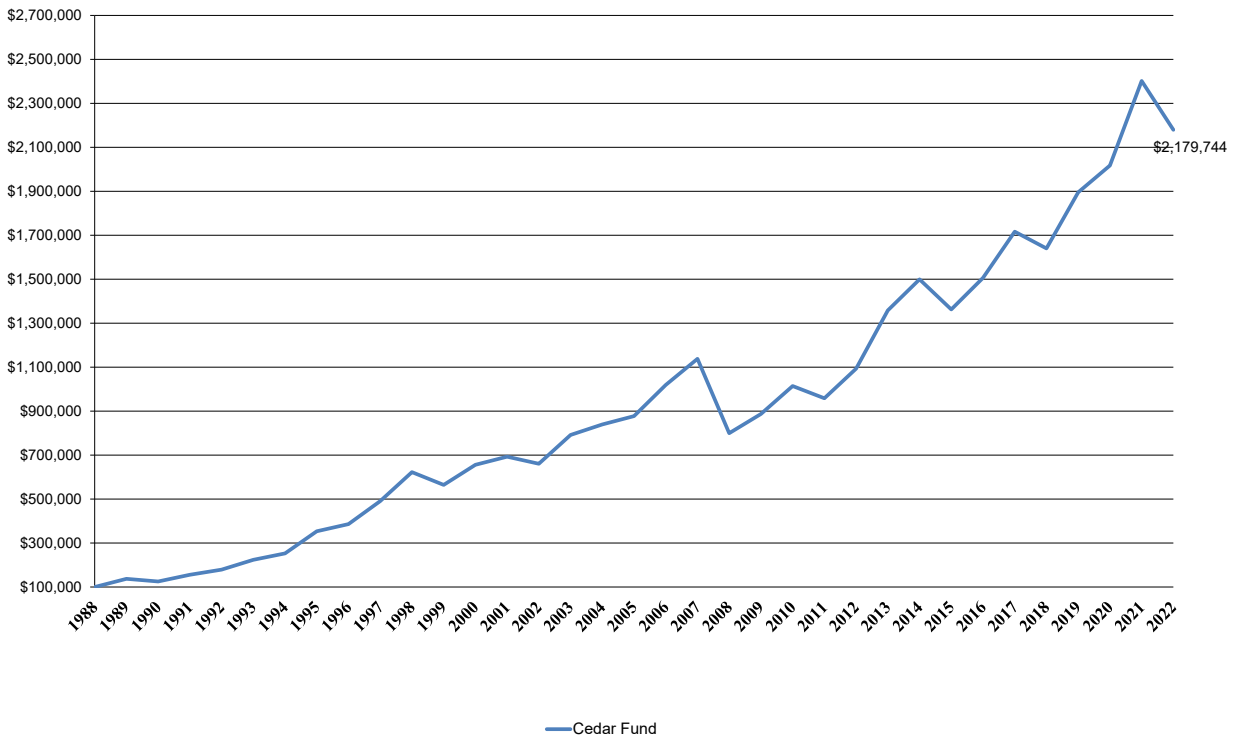


| % of Portfolio | Manager | Amount |
|----------------|-------------------------|---------------------|
| 39% | Berkshire Hathaway | 6,055,716 |
| 19% | First Eagle Global | 2,891,969 |
| 17% | FPA Crescent | 2,656,724 |
| 9% | Sequoia | 1,305,290 |
| 5% | Tweedy Browne Int Value | 813,106 |
| 4% | Longleaf Small Cap | 672,770 |
| 3% | Akre Focus | 484,186 |
| 4% | Net Cash | 674,792 |
| | | <u>\$15,554,553</u> |



Growth of \$100,000

Inception through 12/31/2022



PERSPECTIVE

For investors, there's a new world order. Words like "stable," "defensive" and "moat" will be less relevant in the future. Much of investing will require more technological expertise than it did in the past. And investments made on the assumptions that tomorrow will look like yesterday must be subject to vastly increased scrutiny. — Howard Marks, "The Winds of Change", November 23, 2021

Our daughter, who also lives here in Roanoke, was sharing about a daughter of one her friends, who while a senior in high school started a YouTube channel that has blossomed into a very successful business.

The popular social media star who is best recognized for her julia k crist YouTube channel where she posts technology and lifestyle content. Her videos have earned her over 420,000 subscribers on the platform.



One of her most popular videos features her explaining tips and tricks on how to customize Apple's MacBook. She makes up to \$200,000 a year with this channel and selling products.

She states, "I started my channel because I have loved making videos ever since i was little. i used to steal my parents camcorder and "vlog" at age 9. i made little "movies" of all of my friends at daycare in 4th grade and would edit them and burn them onto CDs for my friends to have. This then turned in to making endless music videos in middle school, spring break montages in high school, and then finally during my senior year of high school, I created a youtube channel.

My channel started out as just a place to put all of my fun videos and memories of my senior year, and then turned into what it is today. My channel is focused around lifestyle, technology (mainly Apple products), college, productivity, and so so so much more!

This passion of mine has quickly turned into my new full time job. i love to put out 3 videos a week for my subscribers to view, Sundays at 2 pm, Wednesdays at 11 am, and Fridays at 11 am. i work super super hard to make consistent and good quality content."

What a testimony of a young person (22 years old) who has a passion for successful entrepreneurship in the new world order that will have a profound impact on what our world will look like ten or twenty years from now. Exciting indeed!

To learn more about this exciting individual, google "Julia k. Crist"

DESCRIPTION OF STOCKS AND MUTUAL FUNDS

Akre Focus — Targets stocks with ample free cash flows, sustainable competitive advantages, and strong records of cash reinvestment and management decisions, choosing to own just a relatively small number that the managers consider great companies. The Fund is managed by John Neff and Chris Cerrone.

Berkshire Hathaway — Holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance and reinsurance, railroad, utilities and energy, finance, manufacturing, service and retailing. Warren Buffet is the CEO of the company.

First Eagle Global — a mutual fund managed by a team led by Matthew McLennan and Kimball Brooker, Jr. The fund invests in a range of asset classes in the United States and countries around the world using a highly disciplined, bottom-up approach with fairly broad diversification.

FPA Crescent — A contrarian value mutual fund managed by Steve Romick, Mark Landecker and Brian Selmo. The fund's primary focus is on protecting capital by vigilantly managing downside risk. It follows a broad mandate to invest across company capital structure, asset classes, sizes of companies, industries and location, giving it attributes similar to a hedge fund. The fund tends to be fairly concentrated and can hold a significant allocation to cash.

Longleaf Small Cap — Concentrated, small-cap mutual fund managed by Mason Hawkins, Staley Cates and Ross Glotzbach. The fund's approach is focused on buying companies at substantial discounts to their assessed values. The fund has an absolute performance goal equal to the rate of



inflation plus 10%, and all fund company employees must utilize the Longleaf Funds for all of their publicly-held investments.

Sequoia — Growth-oriented, large-cap mutual fund managed by four individuals, Arman Gokgol-Kline, John Harris, Trevor Magyar and Chase Sheridan. The fund focuses on companies with strong balance sheets, sustainable competitive advantages and talented management teams that are effective capital allocators. The fund can be quite concentrated and invests sizable portions of the fund in its top holdings. The fund regularly holds large cash stakes when attractively priced stocks are unavailable.

Tweedy Browne International Value — Global equity mutual fund managed by its Management Committee, which is led by Jay Hill, Thomas H. Shrager, John D. Spears, Roger R. deBree, Frank H. Hawrylak, Andrew Ewert and Robert Q. Wyckoff, Jr. The fund has historical connections to Benjamin Graham and follows a version of Graham's investment approach. It typically holds at least 80% of its assets in non-US companies but attempts to hedge its foreign currency risk back into the US dollar.

OTHER INFORMATION

If you have relocated or changed your snail mailing address, please let us know your new address via email as soon as possible so that we can include the correct address on your K-1.

Cedar Fund's website (www.cedarfund.harfam.org) provides access to current charts, past annual reports and past financial statements.

I am deeply grateful for your confidence and trust in our stewardship of your investments over many years. I remain committed to watching closely the activities of the different managers in Cedar Fund.

I welcome any comments or questions you have about Cedar Fund, its holdings and its investment philosophy. I can be reached by phone at (765) 277-1710 or by e-mail at mark@harfam.org.



Mark W. Harris, President
Harris Harper Counsel Inc.
Cedar Fund General Partner

