

March 2011

		Fund			S&P500	
	<i>MTD</i>	<i>YTD</i>	<i>Inception to date</i>	<i>MTD</i>	<i>YTD</i>	<i>Inception to date</i>
Dec 2005		+14.01%	+14.01%		+4.78%	+4.78%
Dec 2006		+16.91%	+33.29%		+13.62%	+19.05%
Dec 2007		+4.06%	+38.70%		+3.53%	+23.25%
Dec 2008		-47.99%	-27.86%		-38.49%	-24.18%
Dec 2009		+42.74%	+2.97%		+23.45%	-6.40%
Dec 2010		+24.94%	+28.65%		+12.78%	+5.57%
Jan 2011	+1.84%	+1.84%	+31.02%	+2.26%	+2.26%	+7.96%
Feb 2011	+3.93%	+5.85%	+36.17%	+3.20%	+5.53%	+11.41%
Mar 2011	+6.77%	+13.01%	+45.38%	-0.10%	+5.42%	+11.29%

In March the Fund was up 6.77% and the S&P500 was down 0.10% in our strongest ever month of outperformance, with the index that came closest to us, the S&P600, being up just 2.75%. The market swung around to value as hoped and we had one specific and important win, which is the story for this whole report.

Green Mountain had been voted the most expensive stock in the market and yet this month when Starbucks agreed to licence their K-Cups rather than compete, the stock jumped 41% on the day, 58% on the month, moving our holding from 4.1 to 6.1%, where it is once again our largest.

This stock is up from a split-adjusted \$2.80 when we first bought it in early 2006 to its current \$65. Its market cap has gone from \$250 million to \$9,000 million and yet I still feel there is more until their Keurigs start appearing in European students' bedrooms. I have sold this stock many times, when the position gets too big to be reasonable, and yet the story is stronger than ever.

I first bought as it was clear this bean distributor and café operator knew and practised a lot more about ethical buying than Starbucks which pretended to but didn't. I listened to an earnings call, attended by just a few obscure sell-side analysts as they also explained they'd bought this private company, Keurig, which had a machine that processed capsules, K-Cups, into a cup of coffee, similar to the Nespresso machine and its lookalikes in the UK or the sort of thing you find in waiting rooms of overpriced vendors, from hospitals to car showrooms. There seemed to be little synergy between beans, cafes, and this do it yourself, and they'd paid \$104 million, quite a punt, but each analyst kept congratulating Lawrence Blandford, the CEO, and this nuance kept us in, as analysts rightly know that most acquisitions are folly and I'd never heard praise for such behaviour before.

Two more subtleties had kept us going as the rating went sky high and a substantial short position built up. Firstly, negative articles cited weak management, yet Blandford has been the most lucid and right of anyone I have heard in coffee, so the articles were self serving. Secondly, Warren Buffett said that companies are very reluctant to develop a product as this involves work and they prefer to do deals as this is good fun. Consequently, the fear of a knockout competitor arriving when patents expire this year is misplaced. There should be nothing waiting in the wings and furthermore if you sell an addictive product first, you get brand loyalty regardless of the taste. Consumers associate whatever flavour you have concocted with their addictive pleasure and become loyal. The K-Cup bloggers write with passion of their product. Red Bull, also based on caffeine, is a recent example and the value thereby created was more than \$9,000 million. So Starbucks has folded and the Nespressoes may co-exist but not overcome. The difference between us hanging on to a 23 fold riser and selling due to diworseification in 2006 is so slim as to give me Post-Traumatic Stress Disorder if I think about it. I have not yet had a K-Cup and the company has even refused me a machine (non-US). If anyone has, please describe.

Elsewhere, our small industrials are doing very well and from the Russell 3000 we not only have Green Mountain, the fourth best performer, up 90% year-to-date, but we also have 2% in Sunrise Senior Living, the current top of the charts at plus 130% ytd and up six-fold since we bought it, but that is another story.

These figures relate to the month-end dollar unit price of 134.25, which was on www.fundlistings.com from 4pm 1st April to 4pm 4th April and also concur with the six-monthly end-March valuation being mailed to investors shortly. A full reconciliation of month-end unit prices will appear in next month's newsletter.

Risk Warnings and other important information

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