

### October 2011

|                  | <b>Fund</b>    |                |                          | <b>S&amp;P500</b> |                |                          |
|------------------|----------------|----------------|--------------------------|-------------------|----------------|--------------------------|
|                  | <i>MTD</i>     | <i>YTD</i>     | <i>Inception to date</i> | <i>MTD</i>        | <i>YTD</i>     | <i>Inception to date</i> |
| <b>Dec 2005</b>  |                | <b>+14.01%</b> | <b>+14.01%</b>           |                   | <b>+4.78%</b>  | <b>+4.78%</b>            |
| <b>Dec 2006</b>  |                | <b>+16.91%</b> | <b>+33.29%</b>           |                   | <b>+13.62%</b> | <b>+19.05%</b>           |
| <b>Dec 2007</b>  |                | <b>+4.06%</b>  | <b>+38.70%</b>           |                   | <b>+3.53%</b>  | <b>+23.25%</b>           |
| <b>Dec 2008</b>  |                | <b>-47.99%</b> | <b>-27.86%</b>           |                   | <b>-38.49%</b> | <b>-24.18%</b>           |
| <b>Dec 2009</b>  |                | <b>+42.74%</b> | <b>+2.97%</b>            |                   | <b>+23.45%</b> | <b>-6.40%</b>            |
| <b>Dec 2010</b>  |                | <b>+24.94%</b> | <b>+28.65%</b>           |                   | <b>+12.78%</b> | <b>+5.57%</b>            |
| <b>Jan 2011</b>  | <b>+1.84%</b>  | <b>+1.84%</b>  | <b>+31.02%</b>           | <b>+2.26%</b>     | <b>+2.26%</b>  | <b>+7.96%</b>            |
| <b>Feb 2011</b>  | <b>+3.93%</b>  | <b>+5.85%</b>  | <b>+36.17%</b>           | <b>+3.20%</b>     | <b>+5.53%</b>  | <b>+11.41%</b>           |
| <b>Mar 2011</b>  | <b>+6.77%</b>  | <b>+13.01%</b> | <b>+45.38%</b>           | <b>-0.10%</b>     | <b>+5.42%</b>  | <b>+11.29%</b>           |
| <b>Apr 2011</b>  | <b>+1.11%</b>  | <b>+14.26%</b> | <b>+46.99%</b>           | <b>+2.85%</b>     | <b>+8.43%</b>  | <b>+14.46%</b>           |
| <b>May 2011</b>  | <b>-1.47%</b>  | <b>+12.58%</b> | <b>+44.83%</b>           | <b>-1.35%</b>     | <b>+6.96%</b>  | <b>+12.92%</b>           |
| <b>June 2011</b> | <b>+2.39%</b>  | <b>+15.26%</b> | <b>+48.28%</b>           | <b>-1.83%</b>     | <b>+5.01%</b>  | <b>+10.85%</b>           |
| <b>July 2011</b> | <b>-0.96%</b>  | <b>+14.15%</b> | <b>+46.85%</b>           | <b>-2.15%</b>     | <b>+2.75%</b>  | <b>+8.47%</b>            |
| <b>Aug 2011</b>  | <b>-7.47%</b>  | <b>+5.62%</b>  | <b>+35.88%</b>           | <b>-5.68%</b>     | <b>-3.08%</b>  | <b>+2.31%</b>            |
| <b>Sep 2011</b>  | <b>-11.44%</b> | <b>-6.46%</b>  | <b>+20.34%</b>           | <b>-7.18%</b>     | <b>-10.04%</b> | <b>-5.03%</b>            |
| <b>Oct 2011</b>  | <b>+12.17%</b> | <b>+4.92%</b>  | <b>+34.98%</b>           | <b>+10.77%</b>    | <b>-0.35%</b>  | <b>+5.20%</b>            |

In October the Fund rose 12.17% and the S&P500 was up 10.77% representing a comeback of sorts after a difficult summer. Although this was the best S&P month since before the Fund started in 2005, we are not euphoric as the market was only reversing its view of imminent recession and no new leadership developed.

We would have had an excellent month, as we had already taken the view that cyclicals would get through, but hit the end of the road with our largest holding, Green Mountain Coffee Roasters. After various negative presentations about too rapid growth, the stock blew up, going from the low 90s to the low 60s during the month. I did what any sensible rational investor would and completely panicked, getting us out in the high 70s and costing a couple of % in performance against what would have happened had it had a normal month. We've been in for five years, since below 3, so I have been inured to a few crises but its current valuation in this nervous market is too dangerous. The stock was also vulnerable as a swing away from growth stocks came in on the view there might actually be a future in some other places. Given we have those bases covered already, we are actually on the lookout for some more small cap long-term steady growth stocks.

It was tempting to use the proceeds to double down on cyclicals but we are already exposed and there's no asset class that gets crushed as much as small cap value if a slowdown does come and so to increase our positions would have added unacceptable volatility. Consequently we are starting this month with 5% liquidity, which is high for us, but the ongoing European crisis will give us the chance to become fully invested again in the next few days, because we are, as ever, optimistic.

## **Risk Warnings and other important information**

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