CENTAUR VALUE FUND

SEPTEMBER 2017 REPORT

Dear Partners,

The Centaur Value Fund produced a return of +1.1% net to partners in September. The Fund's standard performance information is shown in the table below:

	SEP	2017	SINCE INCEPTION
Centaur Value Fund – Gross Return	+ 1.3%	+ 9.3%	+ 551.9%
Centaur Value Fund – Net Return**	**+ 1.1%**	**+ 7.9%**	**+ 403.5%**
S&P500	+ 2.1%	+ 14.3%	+ 276.6%

The table above shows the performance of the Centaur Value Fund for various periods since the inception of the Fund on August 1, 2002. All CVF figures include the reinvestment of dividends. The Gross Return includes the impact of the standard management fees and expenses, but does not include incentive-based fees. Monthly and year-to-date figures are estimates and un-audited. Inception to date figures incorporate audited results from prior years and un-audited results from the current year. See the section entitled "Important Notes" at the end of this letter for more information.

***The Centaur Value Fund Net Returns reflects the experience of an investor who came into the Fund on August 1, 2002, and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figure includes the impact of all performance-based fees as well as high water marks in the cumulative return. However, each investor's individual return will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark, if any.*

September Update

The Centaur Value Fund returned +1.1% net to partners in September amidst a strongly positive month for U.S. equities. The S&P500 returned +2.1%, the NASDAQ was up 1%, and the Russell 2000 small cap index soared to a +6% monthly return. The Fund's long portfolio mostly just rode the market wave higher, with the two biggest individual contributors being Interactive Brokers and Brown & Brown. There were no substantial individual losing positions in the Fund, but in aggregate the Fund's portfolio of shorts and hedges detracted slightly from the month's performance.

The Fund's long exposure ended the month at 54% and net exposure decreased to roughly 40%. Total gross exposure (long plus short) dropped to 67%. The table below shows the Fund's largest positions at September month-end.

CVF TOP POSITIONS	SEP 2017
Berkshire Hathaway	5.4%
Brown & Brown	4.4%*
Alphabet Class C	4.1%
Facebook	4.0%*
Aercap Holdings	3.9%*
Interactive Brokers	3.5%
Alleghany	2.9%
Franklin Covey	2.8%
TOTAL	31.0%

*Brown & Brown, Aercap, and Facebook positions are partially expressed in the form of options.

Fund Activity

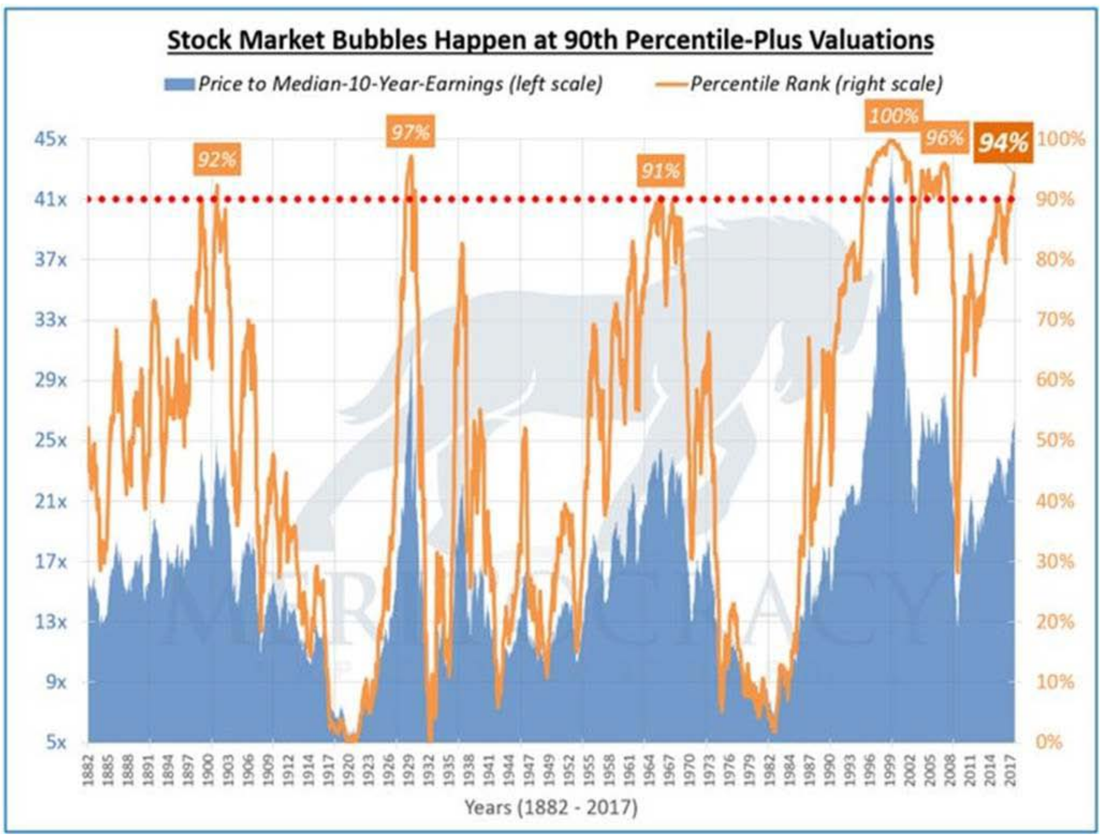
With the market's steady rise in September, there was not much activity on our end in terms of new capital deployment. As mentioned in last month's update, we exercised most of our Facebook options into common stock, and also added a bit to the position during one of the few weak market days during September. We also increased the Fund's position in Alphabet slightly. We did find one interesting new idea on the long side to invest in, but we sized it fairly conservatively (at roughly 2% of Fund assets) because while we like the idea and we think the price is reasonable, it's not quite cheap enough to justify taking a more substantial position. As has been the case with many of our investments in 2017, we are settling for a good business at an acceptable price (at least for a modest position size) rather than waiting for a great price at which we'd be willing to invest in much bigger size. If it turns out that we get the great price later and our thesis is still intact, we are ready to commit more capital!

We trimmed several positions in the portfolio during September as stock prices rose. One of these reductions was in the Fund's Interactive Brokers position. We noted back in the April letter that we felt Interactive Brokers was "relatively cheap" due to lower volatility holding back trading volume and depressing profitability. Trading volume has picked up a bit during the summer and early fall, but market volatility has continued to decline and is currently at low levels never before seen in the modern stock market era. Even so, our investment in Interactive Brokers has increased in value by nearly 40% from our purchase price. Because we are making a strong effort to hold the securities of our higher quality businesses longer and further into the valuation spectrum than we have in the past, we only slightly reduced the position at the mid-point of our fair value estimate rather than selling more aggressively as we likely would have in prior years. We believe Interactive Brokers still has significant potential for both organic growth as well as unappreciated operating leverage if volatility returns. As such, it remains a mid-sized position despite the strong recent price appreciation. In the current environment we aren't seeing ideas with obviously better value, and we are doing our best to maintain the Fund's targeted minimum market exposure of around 40%.

This is probably a good time to make it clear that we find ourselves slowly and carefully moving the acceptability lines at the margins of our buy and sell discipline in our efforts to keep capital productively deployed in this very expensive market. We are doing our best to be both thoughtful and prudent about how much we do so. We know that the temptation to change one's valuation standards in and of itself is probably a late market cycle indicator. However, I do think that some accommodation and adjustment to our discipline on the sell side was probably somewhat overdue. I think we've historically been too quick to pull the sell trigger and accept a good outcome on certain investments when we could have held on longer and gotten a great outcome. This requires being willing to let valuations on certain positions run a bit further into the fully valued part of the spectrum before selling. In general, we feel that we have more room to compromise on the sell side of the decision cycle than the buy side. But there, too, we expect that we might be willing to pay up a little more for stocks in two primary cases: 1) businesses of obviously superior quality and safety, and 2) those businesses in the sweet spot of our analytical capabilities where we are most confident.

Should We Worry That Nobody Seems Worried?

Now that I've warned you that we expect to have to pay a little more and hold on a little longer to our portfolio holdings than we have in the past, I also want to reassure you that we will not forget that we are value investors and that job number one for us will always be the avoidance of permanent capital loss. In our March letter we commented on the combination of exceptionally low market volatility and historically high equity prices, and how that introduced a tremendous challenge for value and risk-conscious investors. For visual emphasis, we also provided a chart of the U.S. stock market in the March letter showing how high the stock market had risen relative to prior peaks. Below is a slightly different chart that a fellow value investor sent out by e-mail in early October:



This chart shows median stock valuations (as measured by P/E ratio) on a percentile basis over time. The chart illustrates that bad things typically happen to investors when prices reach the 90th percentile level or higher, with the current level clearly in the danger zone. I should point out that using the trailing price-to-earnings measure cited above is far from the only way to consider broad market valuations, but one will reach similar conclusions regardless of which methodology one might choose (we attached a primer on broad market valuation methodologies to the March letter for those who are interested). Just as one example, I've written in the past about my respect for the money management firm GMO, which publishes a "7 Year Asset Class Real Return Forecast" which has been solidly on the mark over time. The assessment there is similar.

GMO's latest 7-year model projects negative real returns from every category of stocks except emerging markets, and from all bond categories except U.S. inflation-linked and emerging markets. Meanwhile, on the volatility front, in early October the VIX has fallen to its lowest level since the measure was created in 1993. So we have slightly higher stock prices and even lower volatility now than we had back in March. The question one might reasonably ask is why nobody seems worried if stocks are clearly so expensive. And if nobody else seems worried, is there any reason for us to be concerned?

The Missing Bull Market Ingredient: Euphoria

There is an argument I've read in many different iterations over the past year or two that investors need not worry about market valuation levels until one sees clear signs of euphoria and speculation. The implication is that "you'll know it when you see it" and that before a market can break, there always has to be a tell-tale "blow-off" top. Those of us who were investing in the late 1990's easily remember the crazy speculative behavior and the popular manias surrounding internet, telecom, and biotech stocks. It was also fairly commonplace at the time to read stories in the news featuring completely sane-looking people quitting respectable jobs so they could make more money day-trading tech stocks. More recently, many of us remember the media stories about the housing boom in 2005 and 2006 when speculators would show up on the opening day of a new housing development and buy five houses on credit in order to flip them later. We're generally not seeing that kind of obviously speculative behavior being reported in the financial media with regards to stocks today. In fact, nobody seems particularly euphoric about stocks, which is a little strange given the strong returns of the past few years. Most professional managers I talk to certainly seem cautious or at least concerned about valuations (even those that remain fully invested). Stock market sentiment amongst the general public is hard for me to gauge, but from where I sit it seems that the best description of the mood would be something close to ambivalence. Certainly, the really cool kids aren't talking about the stock market at all, because they are all too busy buying crypto-currencies and investing in early stage venture capital, or maybe selling put options on volatility ETFs.

One could even push the logic further and argue that this lack of perceptible euphoria is, in and of itself, a reason to be bullish about stocks. Given how far it appears we are from the level of wildly enthusiastic participation that marked prior bull market tops, this current bull market may have many years to go. With the global economy finally showing signs of real growth that will start to be reflected in public company earnings, markets could go higher as this translates into earnings growth that could more than justify current lofty valuations.

Finally, there seems to be a notion gaining currency that bear market losses aren't really all that bad. For some reason that I don't completely understand, the financial media appears to have unofficially designated 20% as a standard definition of a bear market. To the extent that one doesn't think about this too deeply, it would seem that the penalty for being "long and wrong" by holding a portfolio of over-valued stocks is not terribly onerous. I can tell you from experience that this latter assertion is just not the case.

Bear Market Math

First of all, let me say that I personally am not convinced that the lack of any overt signs of euphoria or wild speculative participation on the part of retail investors means that stocks cannot suffer either a material correction or a bear market given the current valuation levels. I view this particular bull market as being somewhat different in character than prior bull markets, driven as it has been by central bank accommodation and low interest rates. I also think that many active investors feel that they have been held hostage by a lack of options, and simply have no choice but to participate even if they have reservations about high prices and low prospective returns. Secondly, I feel that trying to call the timing of when a bear market or significant correction might strike is not likely to be tremendously productive. Bull markets can persist for far longer than one might expect. On the other hand, I do think it is prudent and helpful to be a student of economic and stock market history and to be aware of the possible ramifications of investing when prices are at historical extremes on either side of the valuation spectrum. My view is that the current market offers enough of the standard warning flags to make it more prone than average to either a significant correction or, if the right conditions were to align, a bear market. But this certainly doesn't mean it has to happen soon.

I will say that I emphatically disagree with the assertion that bear markets are easily ridden out, either financially or emotionally. First of all, a 20% decline in stock prices from current levels wouldn't constitute a bear market in my mind; that would be more like a correction, depending on how long it took for the market to recover the loss. What I have seen firsthand is that since I've been investing, real bear markets tend to follow what I call the 40/50/80 rule. What this means is that when a bear market comes, the best and safest investments in the asset class typically decline in price by 40% on average. The median or average investment falls by 50%. Then there's the most risky stuff, or the investments that are closest to the epicenter of whatever it was the drove the most speculative and risk-seeking behavior of the most recent bull market. That stuff loses 80% on average, with the flotsam going to zero.

I'll give you three examples of what I would call bear markets since I've been managing money. The first was the bear market of 2000-2002. The S&P500 fell about 40% over about two and a half years. The average stock or median stock was probably down 50% in that time. As for the stocks nearest the epicenter of the speculative excess, the NASDAQ index dropped 83% from peak-to-trough. In the bear market from October 2007 to March of 2009, the S&P500 actually dropped almost 50%. The median stock was easily down 50% or more. Anything leveraged or directly related to real estate or the credit markets got hit the hardest, but anything small and illiquid suffered badly too. As a group, this category probably fell closer to 80%, and a lot of vulnerable or risky stuff went to zero. The third example I'll give is the commodity bear market that began in late 2011 and lasted roughly to January 2016. Just to make the example easier, I'll use the precious metals market as a proxy: the highest quality securities in the precious metals mining sector probably fell 40-50% and the median stock was easily down 50% or worse. A prominent gold mining ETF, the GDX, fell by roughly 80% from late 2011 to early 2016, and a lot of junior mining stocks have gone to zero over the past several years.

Why Preparation Is Important

One of the reasons I'm writing this letter now that I believe most investors systematically underestimate how they will be affected when a correction or a bull market comes. Stocks have been going mostly up for nine years now, and it feels like they will never – and maybe even can never – come back down. When thinking about it in the abstract (if they think about it at all) most people naturally believe that in times of stress that they will behave rationally, and that they won't be among those who panic and sell at the worst possible time. The reality, of course, is that most investors aren't so rational when the time comes, because when stocks are going down they feel like they might never go back up. And I can assure you that in a real correction or bear market, the percentage losses can be steep and harrowing, even if they don't exactly follow the 40/50/80 rule that I have described above.

We also want to remind you now that the Fund's strategy is designed to be resilient and to handle stormy weather, and it has weathered corrections and even bear markets in the past and come out the other side reasonably well intact. Also, I'd like to remind you that to some extent ours is a strategy that needs a certain amount of volatility and the occasional market correction in order to re-stock the portfolio with bargain securities in order to produce the returns we are seeking. The really great investing opportunities are almost always found in environments of fear and doubt, and it is critical to our strategy to have strong hands during such times. It's for this reason that we won't be lulled into complacency by the market's recent strength or the current low volatility levels.

As we wrote back in March under similar market conditions, we'd like to have more capital in play today, but we believe the Fund's current positioning is appropriate to the opportunities available. In the meantime, our search for value goes on, and if we see a great buying opportunity tomorrow we will act on it, regardless of what we think about stock prices generally. As always, we will do our best to ensure we are getting good value for money we have invested today, knowing that tomorrow might bring an entirely different and perhaps more attractive set of choices for us to consider.

Respectfully yours,

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