Centaur Total Return Fund (TILDX)

May 2016

Mutual Fund Observer

"You'd think that a fund that had squashed the S&P 500 over the course of the current market cycle, and had done so with vastly less risk, would be swamped with potential investors. Indeed, you'd even hope so."

Objective The fund seeks "maximum total return" through a combination of capital appreciation and income. The fund invests in undervalued securities, mostly mid- to large-cap dividend paying stocks. The manager has the option of investing in REITs, master limited partnerships, royalty trusts, preferred shares, convertibles, bonds and cash. The manager invests in companies "that it understands well." The managers also generate income by selling covered calls on some of their stocks. As of April 30th, the fund held 26 different investments, which included 21 common stock positions, two warrants, one corporate bond, and two closed end funds. The fund had covered calls on seven positions in the fund. Cash was just over 40% of the fund's AUM.

Adviser Centaur Capital Partners, L.P., headquartered in Southlake, TX, has been the investment advisor for the fund since September 3, 2013. The fund was originally launched as the Tilson Dividend Fund in March 2005. Until September 2013, T2 Partners provided branding and marketing for the fund in its role as advisor and Centaur Capital managed the portfolio investments in its role as the sub-advisor to the fund. When T2 Partners closed its mutual fund advisory business in 2013, Centaur Capital became the advisor to the fund and changed the name to the Centaur Total Return Fund. Centaur is a three person shop with about $90 million in AUM. It also advises the Centaur Value Fund LP.

Manager Zeke Ashton, founder, managing partner, and a portfolio manager of Centaur Capital Partners L.P., has managed the fund since inception. Before founding Centaur in 2002, he spent three years working for The Motley Fool where he developed and produced investing seminars, subscription investing newsletters and stock research reports in addition to writing online investing articles. He graduated from Austin College, a good liberal arts college, in 1995 with degrees in Economics and German.

Management's Stake in the Fund Mr. Ashton has somewhere between $500,000 and $1,000,000 invested in the fund. One of the fund's two trustees has a modest investment in it.

Strategy capacity That's dependent on market conditions. Mr. Ashton speculates that he could have quickly and profitably deployed $25 billion in March, 2009. In early 2016, he saw more reason to hold cash in anticipation of a significant market reset. He's managed a couple hundred million before but has no aspiration to take it to a billion.

Opening date March 16, 2005

Minimum investment $1,500 for regular and tax-advantaged accounts, reduced to $1000 for accounts with an automatic investing plan.

Expense ratio 1.95% after waivers on an asset base of $27 million.

Comments You'd think that a fund that had squashed the S&P 500 over the course of the current market cycle, and had done so with vastly less risk, would be swamped with potential investors. Indeed, you'd even hope so. And you'd be disappointed.

	Performance over time					Performance in the bad times				Over time
Fund Name	APR	STDEV	DSDEV	Sharpe Ratio	Martin Ratio	Ulcer Index	BMDEV	MAXDD	Recovery Mos.	TILDX wins by …
Centaur Total Return	7.4%	13.9	8.9	0.51	0.79	9.0	8.2	-33.3%	22	-
Lipper Category Average	4.8	15.7	11.2	0.30	0.32	16.1	10.8	-47.5	49	+2.6%
S&P 500 Monthly Reinvested Index	5.7	16.3	11.6	0.33	0.31	17.5	11.3	-50.9	52	+1.7%

Here's how to read that chart: from the beginning of the full market cycle that began in October 2007 through the end of March 2016, Centaur has outperformed its Lipper Equity Income peer group and the S&P 500 by 2.6 and 1.7 percent annually, respectively. In normal times, it's about 20% less volatile while in bear market months it's about 25% less volatile. In the worst-case—the 2007-09 meltdown—it lost 17% less than the S&P and recovered 30 months sooner.

$10,000 invested in October 2007 would have grown to $18,500 in Centaur against $16,300 in the S&P 500 Total Return Index. (Past performance, as the SEC and many academic researchers note, does not predict future returns.)

Centaur Total Return presents itself as an income-oriented fund. The argument for that orientation is simple: income stabilizes returns in bad times and adds to them in good. The manager imagines two sources of income: (1) dividends paid by the companies whose stock they own and (2) fees generated by selling covered calls on portfolio investments. The latter, of late, have been pretty minimal.

The core of the portfolio is a limited number (currently about 21) of high quality stocks. In bad markets, such stocks benefit from the dividend income—which helps support their share price—and from a sort of "flight to quality" effect, where investors prefer (and, to an extent, bid up) steady firms in preference to volatile ones. Almost all of those are domestic firms, though he's had significant direct foreign exposure when market conditions permit. Mr. Ashton reports becoming "a bit less dogmatic" on valuations over time, but he remains one of the industry's most disciplined managers.

The manager also sells covered calls on a portion of the portfolio. At base, he's offering to sell a stock to another investor at a guaranteed price. "If GM hits $40 a share within the next six months, we'll sell it to you at that price." Investors buying those options pay a small upfront price, which generates income for the fund. As long as the agreed-to price is approximately the manager's estimate of fair value, the fund doesn't lose much upside (since they'd sell anyway) and gains a bit of income. The profitability of that strategy depends on market conditions; in a calm market, the manager might place only 0.5% of his assets in covered calls but, in volatile markets, it might be ten times as much.

"You're certain to least want funds like Centaur just when you most need them. As the US market reaches historic highs that might be today."

Mr. Ashton brings a hedge fund manager's ethos to this fund. That's natural since he also runs a hedge fund in parallel to this. Long before he launched Centaur, he became convinced that a good hedge fund manager needs to have "an absolute value mentality," in part because a fund's decline hits the manager's finances personally. The goal is to "avoid significant drawdowns which bring the prospect of catastrophic or permanent capital loss. That made so much sense. I asked myself, what if somebody tried to help the average investor out—took away the moments of deep fear and wild exuberance? They could engineer a relatively easy ride. And so I designed a fund for folks like my parents. Dad's in his 70s, he can't live on no-risk bonds but he'd be badly tempted to pull out of his stock investments at the bottom. And so I decided to try to create a home for those people."

And he's done precisely that: a big part of his assets are from family and friends, people who know him and whose fates are visible to him almost daily. He's served them well.

Bottom Line You're certain to least want funds like Centaur just when you most need them. As the US market reaches historic highs that might be today. For folks looking to maintain their stock exposure, but cautiously, and be ready when richer opportunities present themselves, this is an awfully compelling little fund.

Fund website *Centaur Total Return Fund*

Disclosure

This is a reprint of an article that appeared in the May issue of the Mutual Fund Observer.

The opinions expressed are those of the author and should not be considered a forecast of future events, a guarantee of future events nor investment advice.

Fund Performance

Cumulative Total Return			As of 6/30/2016
1 Month	3 Months	YTD	SI Cum[1]
0.32%	1.69%	5.44%	152.93%

Average Annual Total Return				As of 6/30/2016
1 Year	3 Year	5 Year	10 Year	SI Ann[1]
1.31%	4.68%	6.66%	8.31%	8.57%

[1]Fund inception date is 03/16/2005

The performance information quoted above represents past performance, which is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted above. Performance data current to the most recent month end may be obtained by calling 1-888-484-5766.

Definitions

Bear deviation: A fund's downside deviation during bear market months. Morningstar defines bear market months as follows: "a monthly drop below 3% for equity funds and a monthly drop below 1% for fixed income funds." MFO extended this definition for asset allocation funds to a 2.2% monthly drop.

Downside deviation: a measure of fund volatility which measures only downward variation. Specifically, it measures a fund's return below the risk free rate of return.

Martin ratio: a measure of risk adjusted return which it measures excess return relative to a fund's typical drawdown.

Maximum drawdown: the percentage of greatest reduction in fund value below its previous maximum over period evaluated.

Recovery: the time, in months, taken for a fund to recover from a maximum drawdown occurrence to the original level.

Sharpe ratio: the most widely-used risk adjusted return. It is the ratio of the fund's annualized excess return divided its standard deviation. A fund's "excess return" is any amount above risk-free investment.

Sortino ratio: a measure of risk adjusted return which measures the amount of downside volatility a fund incurs. It is a modification of the Sharpe intended to address a criticism that Sharpe unfairly penalizes so-called good volatility (i.e., rising value).

Ulcer Index: a third measure of fund volatility and the most direct measure of a fund's bouts with declining (and uncomfortable, hence its name) performance. It measures both magnitude and duration of drawdowns in value. A fund with high Ulcer Index means it has experienced deep or extended declines, or both.

*Per the **Prospectus**, the Gross Expense Ratio for the Centaur Total Return Fund is 2.58%.*

Investments in the Fund are subject to investment risks, including the possible loss of some or all of the principal amount invested. There can be no assurance that the Fund will be successful in meeting its investment objective. Generally, the Fund will be subject to the following additional risks: market risk, management style risk, sector focus risk, foreign securities risk, non-diversified fund risk, portfolio turnover risk, credit risk, interest rate risk, maturity risk, investment grade securities risk, junk bonds or lower-rated securities risk, derivative instruments risk, valuation risks for non-exchange traded options, and real estate securities risk. More information about these risks and other risks can be found in the Fund's *prospectus*.

*An investor should consider the investment objectives, risk, and charges and expenses of the Fund carefully before investing.The **prospectus** contains this and other information about the Fund. A copy of the **prospectus** is available at the link below or by calling Shareholder Services at 1-888-484-5766. The **prospectus** should be read carefully before investing.*

The Fund may not be available for sale in all states. The information presented on this page is not an offer to sell or a solicitation of an offer to purchase the Fund.

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The chart on page 2 illustrates the performance of a hypothetical $10,000 investment made in the Fund on October 1, 2007 and held until March 30, 2016. October 2007 represents the highest point of the prior stock market cycle and the beginning point of the current one. Assumes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales charge or redemption fees. This chart does not imply any future performance.

The S&P 500 Total Return Index is an unmanaged indicator of stock market performance and is adjusted for reinvestment of dividends. It is not possible to invest in indices (like the S&P 500 Total Return Index) that are unmanaged and do not incur fees and charges.

Top 10 Holding as of 6/30/2016

Berkshire Hathaway Cls B	5.94%
Apple	5.89%
Alleghany	5.64%
Inernational Speedway	4.06%
Rubicon Project	3.64%
Tetra Tech	3.27%
Cognizant Technology	2.99%
IAC/InterActiveCorp	2.84%
eBay	2.81%
Speedway Motorsports	2.65%

Fund Holdings are subject to change and are not recommendations to buy or sell any security.