THE AMVONA FUND, L.P.

2012 Annual Report

THE AMVONA FUND, L.P.

2012 ANNUAL REPORT

TABLE OF CONTENTS

BUSINESS ACTIVITIES

The Amvona Fund, L.P., was organized as a Delaware limited partnership on July 24, 2012 to operate as a private investment partnership. The Partnership's investment objective is to achieve better than average returns by investing in common stocks of fundamentally sound companies that are run by superior managers and are selling at a substantial discount to "intrinsic value[1]."

Lemelson Capital Management, LLC, a Massachusetts limited liability company, serves as the general partner of the Partnership. Under the Partnership's Limited Partnership Agreement, the General Partner is primarily responsible for the management of the Partnership. Emmanuel Lemelson is the Investment Manager of the General Partner.

All capital allocation decisions are made for The Amvona Fund, L.P. and its feeder fund(s) by Emmanuel Lemelson.

[1] Intrinsic value, unlike price, is an estimate of a company's value today based on the discounted value of the free cash flow it is likely to generate over its remaining life. On a per share basis, "intrinsic value" can and often does vary wildly from quoted prices, particularly in the near term.

THE AMVONA FUND, L.P. PERFORMANCE VS. THE S&P 500

Period	Gross Return (1)	Net Return* (2)	S & P 500** (3)	Relative Results (1) - (3)	Relative Results (2) - (3)
Q3 2012 (Sept Only)	2.27%	1.63%	2.58%	-0.31%	-0.95%
Q4 2012	24.10%	17.27%	-0.38%	24.47%	17.65%
Annualized Compounded Return	104.41%	69.29%	6.74%	97.68%	62.56%
Overall Gain	26.91%	19.18%	2.20%	24.72%	16.99%

Notes: *September was the first month of operation for the Amvona Fund, L.P., as a result only part of the capital in the fund was deployed. Despite this, the fund as a whole still performed (on a gross ROR basis) about as well as the Benchmark S & P 500 Total Returns Index.*

**The performance data represents the performance of The Amvona Fund LP (the "Fund"). The results reflect the deduction of: (i) a quarterly asset management fee of 0.25%, payable in advance; (ii) a quarterly performance allocation of 25%, subject to a high-water mark and a 6% annualized hurdle rate; and (ii) all other transaction fees and expenses incurred by investors in the Fund. During the time period shown, the Fund used only those investment strategies disclosed in the Fund's Private Placement Memorandum, and there were no material market or economic conditions that affected the results portrayed. Results are compared to the S&P 500 for informational purposes only. The Fund's investment program does not mirror the S&P 500 and the volatility of the Fund's investment program may be materially different from the volatility of the S&P 500. The performance figures include the reinvestment of any dividends and other earnings, as appropriate. Past performance is not necessarily indicative of future results. All investments involve risk, including the potential loss of principal.*

***Represents the S & P 500 Total Returns Index which includes dividends.*

THE AMVONA FUND, L.P.

To the Limited Partners in the Amvona Fund, L.P.:

Performance

In the four months that was September 1st to December 31st, the annualized compounded return in The Amvona Fund, L.P. (net of all fees and expenses) was 69.29%. This outperformed the benchmark S & P 500 Total Returns Index (which includes dividends) by 62.56%.

The Bad News

- The above performance figures are inadequate in time. It will be a minimum of several years before a satisfactory judgment can be made regarding managements effectiveness as long term results ultimately have little relation to short term market prices[2].

- Amongst other missteps, a few truly extraordinary investment opportunities became available in the 4th quarter but were not acted on. The reason for this is mostly "a mystery". Unfortunately, this mystery had a few repeats in the early part of Q1 2013.

- Errors were not confined just to lack of execution but also less than optimal execution. In one example, an investment opportunity was seized; however the purchase of the shares was done in haste (mostly over a period of only three days). When the buying was done, the fund had amassed a position in the company which exceeded 7 million dollars. Had the buying taken a more moderate approach, and been stretched over even just a week, the return to investors in the fourth quarter would have been significantly higher than it is. Of course it is not possible to exactly "buy at the bottom", nor "sell at the top" because there is no way to know where either is, but the lesson learned was that 10 billion plus concerns don't typically "bottom out" in a matter of days in-between earnings reports and commensurate distortions in the news and analysts' reports.

- Calculating the exact cost to investors of such mistakes is difficult to do, particularly if thought of in future (compounded) value[3]. In rough terms the present example may be estimated at about 1.5 million in today's dollars. However, if the fund were to continue to compound returns at 35% annually for example (a fraction of the present performance) for the next 20 years, the real cost (in future purchasing power) to the Limited Partners would be about 1.5 billion dollars. This

[2] For example had the quarter ended just a month earlier, the results would have looked roughly the same, only a negative (-) symbol would have been added to the front of the figures

[3] See p 25-26 for more on compounding

calculation does not include the un-quantified value of the other "mysterious" failures to act in Q1 2013.

The Good News

- Since inception the fund has achieved better than average results and outperformed the benchmark index[4].
- On September 1st, 2012 what had up till then been separately managed investor accounts were combined into one pulled investment vehicle. Perhaps in a vacuum of naming creativity[5], the fund was labeled simply "The Amvona Fund, L.P". This event freed up a large amount of time to focus on execution, rather than communication with distinct parties.
- The number of investors in the Fund grew from two at launch to four by year end. It now appears that by the close of Q1, 2013 the fund will likely be comprised of 10-11 investors.
- In Q4 the process began of establishing a separate offshore feeder fund in the BVI for non-US investors. It is now expected that "The Amvona Fund, Ltd." will welcome its first shareholder March 1st, 2013[6].
- The fund has grown in size on average by 1,000,000 dollars per month since inception.
- As of the writing of this letter Assets Under Management (or AUM) has grown to ~ 5.7 M, an increase in fund size of approximately 107% in the four and half month since inception. An additional ~700,000 – 1,000,000 in new subscriptions is expected very soon.
- There is an additional ~945,000 in gross gains in the first 24 days of January 2013.

[4] Outperforming the benchmark index by even a relatively modest margin has a powerful effect on long term gains. See also p 25-26 for more on this calculus.
[5] The investing ideas have been published over the years at www.amvona.com
[6] The O & O expense associated with The Amvona Fund, Ltd. will be allocated exclusively to investors in that entity and will not affect investors in the domestic L.P.

Conversion

It is not exactly clear why now, but sometime in the fall of 2008 it was decided to look for books on investing at the Borders book store in Mansfield, MA - two books were purchased almost by chance, the first was "The Intelligent Investor" and the second was "Security Analysis". It must have been the quote on the cover of "The Intelligent Investor" which prompted the selection:

"By far the best book on investing ever written"

-Warren E. Buffett (The intelligent Investor)

The sheer size of the other volume "Security Analysis" and the fact it was the same author made it also seem important. These books quickly made it to the bottom of a large pile of "to be read" books on the night stand.

By January of 2009 time finally permitted the reading of "The Intelligent Investor", however, after just a few pages the book was put down with the thought that everything the book was about was already known. The feeling was shame that such arrogance existed. After all, the author, Benjamin Graham went by the moniker "The Dean of Wall Street", and was no less Warren Buffett's Mentor.

Sometime later the following words would assuage those initial feelings:

> *"…it is extraordinary to me that the idea of buying dollar bills for 40 cents takes immediately to people or it doesn't take at all. It's like an inoculation. If it doesn't grab a person right away, I find that you can talk to him for years and show him records, and it doesn't make any difference. They just don't seem able to grasp the concept, simple as it is. A fellow like Rick Guerin, who had no formal education in business, understands immediately the value approach to investing and he's applying it five minutes later. I've never seen anyone who became a gradual convert over a ten-year period to this approach. It doesn't seem to be a matter of IQ or academic training. It's instant recognition[7], or it is nothing."[8]*

Confessions of a Capitalist

For 25 years the basic idea of buying things at a low enough price that they could always be sold at a profit drove many business endeavors and profits. What was not understood over those years was that the stock market is the ultimate venue for an operator with such a disposition.

As early as the age of 17 The Wall Street journal was being read, and there was an overwhelming sense that there could be few businesses better than owning (the right) common stocks. Living in the Seattle area at the time, fortunes were being made all around through options in common stock granted to

[7] Emphasis added
[8] Warren Buffet, The Super Investors of Graham-and-Doddsville

ordinary employees of not so ordinary companies. More importantly the folks who were making these fortunes did not seem to work like other people worked[9].

However, until the age of 32 little more than an issue price and vague information about industry sector would be studied, and even then, only in a cursory way. From time to time trading in securities was done on the side as time permitted and healthy returns were made, but it must be confessed it was more a result of God's grace than the application of clever investment policy.

Rather than investing, the span of time between the age of 17 and 32 was spent building businesses. Because virtually every enterprise was started with almost no capital[10], this exercise required great energy. However running operating companies was not fun. It could also be inferred that energy levels are directly proportionate to passion and it is difficult to be passionate, and therefore energetic about something that one finds displeasing. Despite this, those early businesses were successful, not however because of operational excellence, but rather for two reasons alone; the seeming ability to see things before others did, and the disciplined application of what might be called "the value imperative" which were as entwined as the nucleotides of managements DNA, serving to carry packets of energy into every effort.

In early life, those traits where paired to the naïve belief that money could solve important problems- the results were a few high growth enterprises that generated significant cash flow.

The first recollection was the sixth grade, when the enterprise of selling candy on the bus ride home from school was found to be a business with exceeding demand. It quickly became clear that the product could be purchased by the carton at a better price. From that time on small quantities were never purchased again, candy or otherwise. A good day in 1987 (age 11) - ~$100.

Later the "value imperative" was applied to the school photography business where the only thing more difficult to believe than the margins, was that there existed an entire industry where the competition consisted almost entirely of "artists". A good day in 1994 (age 18) - ~$15,000.

By 1999 the "value imperative" was being applied to the design and development of photographic equipment and the discovery of a veritable bonanza in manufacturing specialty gear where few had, a country better known at the time for producing toys and sneakers; China. A good day in 2006 (age 30) - ~$28,000.

By 2002 real estate had entered the mix. Everything from that time until 2011 seemed over-priced, and although much time was spent analyzing properties, very few were purchased. Despite an extraordinarily over-heated market, and only after years of searching, a few opportunities were eventually found where the value appeared to be greater than the price.

[9] At the time, the Seattle area was home to one of the highest concentrations of millionaires in the world. This was largely the result of stock options granted to employees in local companies such as Boeing, Microsoft, Starbucks, Amazon and the like.

[10] The reluctance to commit capital until an idea was proven was another expression of a value orientation

Along the way were countless discourses to anyone who would listen that the price appreciation of recent years (2002-2007) in real estate was simply unsustainable and had not reflected real values for some time. It was suggested more than once that a "crash" was inevitable. This activity went as far as attempting to talk people out of imminent purchases as late as 2009. These sermons were met mostly with laughter[11], until 2008.

By the second quarter of 2007 God through His great mercy had slowly begun to intervene to change the course of events and bring to conclusion the era of operating companies, which by that time had grown significantly in number. A passage in life that would culminate in a trip to the book store for "a few books on investing"

The Next Logical Thing to do; go see Buffett

Although only a few pages of the Intelligent investor had been read, by early 2009 it was decided to start on "Security Analysis". This time the book couldn't be put down. It was read from morning till night – there was a feeling of awe and enthrallment that such price-value disparities could be found in plain sight in the financial statements of publicly traded companies, in a market that was always liquid and where transactions costs were all but non-existent[12].

Then the focus returned to The Intelligent Investor. This time the book was devoured as if on a mission and the explanation for the existence of the price-value disparities, that is to say the "psychology" of the market, which had already been understood in a visceral way brought into clear intellectual focus. When the book was finished it was read a second time. Not long after followed the brilliant pros of Buffett, Galbraith, Fisher, Schwed, Ferguson and others – indeed anything that could be found and was a classic on investment thought or the markets.

Not wanting to waste any time in changing venues from retail, technology and real estate to the securities market, a simple letter was written on January 27th, 2009 to the next best investor that came to mind, indicating it would be nice to meet. His secretary Ms. Kizer responded promptly with warmth and professionalism. However the response was negative, indicating that he simply had too many such requests – a thought that had not occurred in the writing of the letter.

Almost instantly the decision was made to divest from the existing business interests in order to focus exclusively on investment in marketable securities. The sense of urgency about time coupled with a certainty of success, despite a complete lack of experience (dealing exclusively in securities), drove prompt action – the liquidation while done at great speed was also done at great cost. The price of

[11] Strange as it may seem now, at the time it was widely believed that 10+% annual gains in real estate was normative, and that at worst, the situation would deteriorate to a 6-8% annual gains. For more on this topic, see the essays at http://www.amvona.com/featured/economic-analysis
[12] Real Estate for example, even in a good market is basically illiquid, involves significant transaction costs and requires substantial periods of time to transact.

being free of less than ideal businesses (likely in the "millions"), was never regretted. With the transition came the deep understanding that not all industries or businesses are equal.

By April of 2010 the goal had been accomplished. During that time, almost no investments were made[13].

Initially there was a feeling that a great deal of time had been wasted building companies instead of owning them. Sometime later however, it came as a surprise to learn that the knowledge of building and running a company was virtually non-existent amongst fund managers, whose very job it is to evaluate them. How does one become a cigar aficionado without actually ever smoking one?

The Public Record

By September of 2010 and upon returning from travels in Europe, the analysis of securities became a focus in earnest, although several successful investments had already been made between May and August of that same year. Around the same time the first investment thesis was published[14], and not just on the Amvona site (where the record could hypothetically be changed), but also on third party sites where the public record could not be altered. The first article "**640K ought to be enough for anybody…" WDC vs. STX** , as with the other articles subsequently published, has proven correct to this day.

As of the writing of this letter 32 essays on security analysis and investing have been published; virtually all have beaten the S & P 500 by a significant margin. There were other investments made along the way, which also beat the benchmark by a considerable margin, but not all were published.

At the time, the investment ideas and rationales were seen with a clarity that was believed to be obvious to others. As time passed and more articles were published it became evident that the ideas were not part of a majority opinion and in fact many of the early comments, objected severely with the articles. As time passed, criticism slowly faded.

The original purpose in publishing the early investment ideas was to add an inescapable public record. If confidence in investment thinking stemmed from hubris alone, it would be uncovered shortly by the public. Conversely if the public record proved correct, than it might also be ability. This drive to prove the "rightness" of what can be understood as the "value imperative" in investment thought became a key driver.

The formation of a pulled investment vehicle while contemplated as early as May of 2010 was not the objective of the research and work being done, but rather the interest lie in teaching, which had been and continues to be a primary joy and one in which far greater meaning can be found.

[13] At least one thing was already exceedingly clear, competing in the market required absolute focus.

[14] An attempt was made to publish the articles as close to the purchase date as possible, so that it could not be argued that only the successful investment ideas were later covered.

When a conviction is deeply held there is a natural instinct to proselytize, while pay, perhaps counter-intuitively is low on the list of priorities. However the work of teaching, if without pay, is not without reward. Amongst other benefits, to teach is also to learn.

During the last two and a half years, in addition to writing, responsibility for a growing number of investor accounts was gradually assumed. However when new prospects started reaching out from as far away as Mongolia, it became evident something had to be done.

A Fund Forms

The Amvona Fund, L.P. was officially formed in July of 2012 so that investors could participate in a more efficient and advantageous way in the work and investment thinking being produced and often published on the Amvona site. This arrangement was the only logical solution given the growing number of people interested in the direct management of their accounts or who were in need of advice.

In the interim, a small group of investors made a fortune off of the ideas. It appears that a much larger group of readers may have made even more. From time to time people still reach out explaining their study of the Amvona articles and their returns.

A close friend became an initial supporter of the idea of launching a fund, insisting that if it were ever done, he would invest. Later another family member began to insist on the same. Reluctantly, the process began in February of 2012, but only a minimum of effort was made to follow through – for there was no desire to lose the joy and happiness of keeping things the way they were, not to mention the dread at the thought of running another "business".

Finally a neighbor and friend began to insist almost daily, and the remaining work of launching the fund, which hitherto had dragged out for some six months was completed in about a week.

Initially the fund would have launched with some ~9,000,000 in AUM. However, by July 2012 one investor whose account had been separately managed, with some 6.5 M in assets (2.5 M of which had been generated for the investor in only a matter of months from Amvona ideas) was not included.

Initially the thinking was to launch October 1st, but it became clear by the end of August that there were no longer any obstacles to launching as soon as Sept. 1st although the funds' administrators were not fond of the idea, pointing out that it would be more reasonable to launch at the beginning of the fourth quarter. Agreeing was not possible, because it was thought that the returns would more than compensate for any awkwardness in the accounting.

There are regrets though. Managing a fund is not nearly as satisfying as teaching, or being able to share investment ideas and rationales in real time with the public for their own scrutiny – a practice which has had to stop with compensation, for it would be unethical to continue giving away for free to many what a few now insist on paying for, although some of the investments made in the fund were later discussed in review in articles published in the "Finding Alpha" category of the Amvona site it is a practice unlikely to continue in any form, even if the positions have been sold[15].

Looking Further

"Anyone who has lost something they thought was theirs forever finally comes to realize that nothing really belongs to them."

— Paulo Coelho

Amongst the things learned during that time was the fact that folly applies equally to all income levels, and that net worth, somewhat unexpectedly, has no consistent relationship to brainpower (at least in the short term).

It is easy for retail investors, after receiving unsatisfying investing results for a long period of time, or experiencing a financial crisis to criticize Wall Street operators as evil masterminds. Even religious leaders are quick to jump on the bandwagon at such times – for there are few PR opportunities so widely accepted.

In reality these results are usually just the product of inability and/or misemployed aptitude[16]. A careful examination will show that genius is hardly required to help clients part with their money, when the majority fail the much lower standard of simple common sense. The consummation of this marriage is invariably fabulously mediocre results or worse, a condition which without intervention, often has no natural expiration date[17].

Although a wide swath of the investing public may not immediately agree, the real wealth of wise investment policy is not the acquisition of greater material possessions, but rather the freedom (intellectual and otherwise) it empowers, including what should be most obvious, the choice to use the talents[18] that have been entrusted to us. It has been said "*A faithful man will be richly blessed, but one eager to get rich will not go unpunished*."[19] With that in mind, it may be prudent for the true investor to think of himself as "Steward" for it is the detachment from "self" which is implicit in this notion is all that is needed to act.

[15] This is because there is always the possibility that the shares will be repurchased at a later date.

[16] Although there are certainly exceptions as in the case of artificial real estate prices which were deliberately "engineered", through impropriety for profit.

[17] The primary reason for this is that the client is conditioned to believe that his sub-par results are paramount to preservation of principle.

[18] **τάλαντον**, ταλάντου, τό (ΤΑΛΑΩ, ΤΛΑΩ (to bear)); a sum of money weighing a talent and varying in different states and according to the changes in the laws regulating the currency; the Attic talent was equal to 60 Attic minae or 6,000 drachmae, and worth about 200 pounds sterling or 1,000 dollars (cf. Liddell and Scott, under the word, II. 2 b.). But in the N. T. probably the Syrian talent is referred to, which was equal to about 237 dollars (but see BB. DD., under the word): Matthew 18:24; Matthew 25:15f (Lachmann). – bible.cc

[19] Proverbs 28:20.

“προσελθὼν δὲ καὶ ὁ τὸ ἓν τάλαντον εἰληφὼς εἶπε· κύριε, ἔγνων σε ὅτι σκληρὸς εἶ ἄνθρωπος, θερίζων ὅπου οὐκ ἔσπειρας καὶ συνάγων ὅθεν οὐ διεσκόρπισας· καὶ φοβηθεὶς ἀπελθὼν ἔκρυψα τὸ τάλαντόν σου ἐν τῇ γῇ· ἴδε ἔχεις τὸ σόν.”[20]

What is the purpose and meaning of investment? What has already been said[21] seems most correct; it is foregoing the gratification associated with purchasing power today, in order that it be enlarged tomorrow. In this description is an accounting of the calculus required for changes in the availability of the currency in which the issue is denominated, or what is more commonly referred to as inflation[22]. It is from an accurate appraisal of this “monetary baseline” that all calculations of “rates of return” must be tabulated.

καὶ ἐγένετο ἐν τῷ ἐπανελθεῖν αὐτὸν λαβόντα τὴν βασιλείαν, καὶ εἶπε φωνηθῆναι αὐτῷ τοὺς δούλους τούτους οἷς ἔδωκε τὸ ἀργύριον, ἵνα ἐπιγνῷ τίς τί διεπραγματεύσατο[23]*.*

The work being done in this area over the last few years has led to the opportunity to work with those with modest accounts, to those at the very highest level of income and net worth. A few things were learned about the latter group, namely that there exists amongst this small cluster two primary fears; a) that taxes will not be sufficiently avoided, although they often under-appreciate the inflation tax and b) that any part of their wealth could be lost. Both ways of thinking are products of fear, and as such are emotions or feelings and cannot be described as rational. It is difficult to influence most in the “ultra-high net worth” category to think in other terms and thus they relinquish investment opportunities, even when the truth and wisdom of such investment ideas are in plain sight.

It is ironic that those whose great wealth should enable the greatest freedom are often the most intellectually paralyzed. That having been said, there is usually no discernible increase in the willingness to heed sound investment advice in the lower income brackets either, even though they are those most in need of such thought. Such reluctance is indicative of the reality that many who labor for even a little, are at great risk of winding up with nothing.[24]

καὶ διατί οὐκ ἔδωκας τὸ ἀργύριόν μου ἐπὶ τὴν τράπεζαν, καὶ ἐγὼ ἐλθὼν σὺν τόκῳ ἂν ἔπραξα αὐτό;[25]

The wealthy mostly fear poverty, but even more interestingly, the poor often fear success.

[20] Mt. 25:24-25
[21] This definition echoes that formulated by Warren Buffett in his shareholder letters.
[22] “Real Inflation” is often something in excess of the commonly used CPI figure.
[23] Lk. 19:15 – Emphasis added – Gr. NT *διεπραγματεύσατο* is translated “*had gained by trading*”
[24] Lk. 19:26
[25] Lk. 19:23

Other Notes

It is worth pointing out that early investors in the fund have borne the brunt of the fund expenses. As new investors are added, this situation is starting to be alleviated. Every effort is made to keep fund expenses at an absolute minimum; in fact it may even be an obsession.

Further to this end, the O&O expense, which typically is expensed at the time it is incurred according to GAAP, is amortized over sixty months. This lessens somewhat the burden on early investors for what would otherwise be a substantial sum, to only ~$520 dollars per month.

Despite such efforts the operating expenses of the fund were higher than expected in 2012 at $3,992[26] per month or .086% of the YE NAV figure[27].

Performance results are shown against the benchmark S&P 500 Total Returns Index which calculates the return of the S&P 500 with dividends. Benchmarking is important because if the fund cannot outperform the benchmark everyone involved would be better off simply purchasing an index fund as can be illustrated in the following:

> *"…amid a fourth consecutive year of underperformance by hedge funds. The average return of 1.3 percent compared with a 14 percent gain, including dividends, for the Standard & Poor's 500 Index through October.*
>
> *Since Jan. 1, 2009, the average hedge fund gained a cumulative 13.5 percent compared with 69.8 percent for the S&P 500.*
>
> *…Poor returns forced an estimated 635 hedge funds to close in the first nine months of 2012, 8.5 percent more than a year earlier, according to Chicago-based Hedge Fund Research Inc."*[28]

More Philosophy of Investment

We learn from the immutable laws of math[29] that safety of principle must always be first in any commitment. Magnifying returns through aggressive action or leverage is permissible, however only within the context of a significant margin of safety.

Perhaps more by personality than decision, a majority of the investments made over the years have been focused on the balance sheet first and the statement of cash flows second – putting The Amvona

[26] See p. 22
[27] Both O&O and operating costs, as with all expenses are divided on a pro-rata basis amongst the partners.
[28] Narula's No. 1 Hedge Fund Gains 38% Betting on Mortgages (Bloomberg, Jan 3, 2013)
[29] If one has $10 dollars and sustains a loss of 50%, a gain of 100% is required merely to recover what was lost.

Fund more in the "special situations" or "work outs"[30] camp than any other, although there are several broad categories outside of this which The Amvona Fund investments could be generally categorized in.

The quest for a significant, tangible margin of safety is never ending, however because such a margin is not always adequately available, there are prolonged periods of time without action, but this should not be confused in any way with timidity in allocating capital.

A concentration in best ideas is also likely to continue. There are a few reasons for this, but perhaps above all is the simple fact that truly great investing ideas and opportunities are relatively rare, and ascertaining the knowledge of the finer points of how a particular company runs is usually a long and time consuming process. However, when great knowledge about a particular concern coalesces with a critical error in market pricing, capital ought to be allocated with great speed and confidence - an activity more closely assigned to the enterprising business mind than the formally trained specialist – as it has been said "*investment is most intelligent when it is most business-like*"[31]

A secondary cause for concentration in the portfolio is the basic inability to invest in "pretty good" opportunities. If the sense isn't that the deal is so good that the price ought to be illegal, or what is sometimes referred to in the par lance of value investors as a "screaming bargain", than it would be just as well to sit on a mountain of paper[32]. The experience that some report of, "*money burning a hole in their pocket*" is totally foreign.

However the current returns do reflect an activity which cannot persist in perpetuity. The small size of the fund allows for the relatively quick (e.g. less than a year) turnover of positions in highly mispriced securities. Pairing relatively small sums to highly volatile issues (not to be confused with speculative) will not be possible once the fund reaches a certain size.

Some of the most unstable prices can be found in technology issues, which, perhaps because of the tone set first by Graham and continued later by Buffett was, until recently[33] rejected by the value-investor set. This in turn created the possibility of an even smaller sub-set[34] of the faithful; the value oriented investor willing to act on highly volatile technology concerns. Excluding an entire market sector because of its nature is not rational. While it is true that a great many technology issues have exceedingly short

---

[30] The success of "Special Situations" or "Work Outs" is predicated more on the calculation of a future event which unlocks value than the general direction of the markets as a whole. In this sense, these investments are somewhat less correlated in time to the performance of the benchmark.

[31] "*Investment is most intelligent when it is most businesslike. It is amazing to see how many capable businessmen try to operate in Wall Street with complete disregard of all the sound principles through which they have gained success in their own undertakings*." – Benjamin Graham, The Intelligent Investor, Chapter 20

[32] This is true even if the rate of return on monetary assets is nothing or next to nothing.

[33] Berkshire Hathaway's 5.5% investment in shares of IBM was announced in November 2011, and was a clear departure from previous investment thought for the conglomerate, which had until then specifically avoided technology concerns.

[34] Value Investors are not a majority in the public markets. Although independent thought is a common personality trait of this band, surprisingly few deviate from the proclivities of first Graham and later Buffett giving rise to a striking lack of uniqueness in the application of the underlying principles of value.

life cycles, and that technology itself changes often, there remains enough companies with substantially long, and profitable operating histories to merit further examination.

Take for example the following passage:

> ‘’In our first Cisco article we started tipping our hand a bit on a belief that we had long held, that is to say that the deepest value may well be in old, big, boring and unloved technology companies. We wrote:
>
> > *"...Look at the business cycle; could CSCO be another IBM? Why not? Technology companies usually have strangely short life spans, but when we find exceptions, as with IBM, they are big time exceptions, because large scale technology enterprises that invest in research and development really do add to our lives in important ways."*
>
> Of course this was also an expansion of the theme originally echoed in the article "Clean-Tech Economics: A Hypothesis" published on January 6th, 2010. When we wrote:
>
> > *"Conversely IBM is an example of a long-term (in this case over 100 years) success in the computing and IT industry. That having been said, we can recall few of the thousands of other internet companies which kicked-off the previous decade with the promise of fulfilling the spectacular earnings expectations of the investing public in these "new" technologies."*
>
> IBM's shares traded at $130.85 on that day.
>
> In "Lions and Tigers and Cisco Bears! Oh My" we went even further writing:
>
> > *"Is it possible than that the best values lay not simply in "boring" companies as the Oracle of Omaha has suggested time and again in his affinity for such things as Jello and furniture, but rather in mature technology companies that are highly profitable, but otherwise boring to the technology faithful, who happen all too often to also be their shareholders? For in these stocks lie the three fold benefits of:*
> >
> > > *a) A speculative technology crowd unaware and/or perhaps uninterested in fundamentals, and who are anxious to buy or sell on even a slight change in personal sentiment.*
> > >
> > > *b) Impossibly high standards that value investor favourites such as American Express, Coca-Cola and the like are never held to*
> > >
> > > *c) The curious absence of intelligent value investors who are usually busy proclaiming their distinct disinterest in anything vaguely related to technology.*
> >
> > *Thus the value-oriented investor in such technology concerns may belong to the smallest club of all. And yet, we know many who can live without Dairy Queen, paint and even insurance, so long as they have high speed data access on their iPhone.*

Although the folks in Omaha will protest, it may be that the best values lie not in "unloved, boring stocks", but indeed more particularly in "unloved, boring technology stocks."

On November 14th, 2011 Fortune reported that Mr. Buffett had purchased 10.7 Billion in IBM shares for Berkshire Hathaway at an average price per share of about $167 (or ~28% higher than when we first pointed out the value about a year earlier) and the related opportunity for value investors."[35]

Ideally though turnover would be less than it has been. If the fund grows to the ''hundreds of millions of dollars" or more, this activity will slow substantially. However in the interim, discerning extreme mispricing and anticipating the character of speculators in the market is not too difficult, and thus a concientious choice to ''compound" in shorter cycles has been a deliberate activity of the fund, despite the tax penalty[36].

The obvious risk is that the focus could shift from understanding the quality of the business owned and related changes in intrinsic value, to focusing instead on short term price movements which often have little to do with value. However if the operation is excecuted with complete fidelity to the ''value imparative" spoken of earlier, and with a substantial margin of safety, as well as confidence in the markets occasional profound misunderstandings, than the risk of a shift in focus is actually zero or less.

Perhaps the greater error for the emerging fund manager is to emulate the strategy of larger value funds, such as the pool managed by BRK, while sound in principle, apply to some ''tens of billions of dollars''. The strength of the small fund is it's agility and the wider number of issues open to it by virtue of it's small size. This sort of advantage, which are amongst the few available, ought to be fully exploited to compound capital at the highest possible rate, particularly early in the life of the fund, when the results will have the greatest impact on long term results[37].

The five year high in major indexes has been a topic for many. However current market dynamics continue to offer outstanding investment opportunities from time to time. So long as that is the case it is difficult to divert attention away from the analysis of specific securities to contemplating the future direction of "the markets". That having been said much on the topic was written about one year ago in the Amvona article "The Prime Ministers 'One Dollar' bets.

The rise of technology in marketplaces and the related instant flow of information may be enhancing opportunities for true value investors, as market cycles are both aggravated and condensed in shorter

[35] Update: How we made investors Money on Cisco (Amvona Feb. 20 2012)

[36] The short term capital gains tax penalty is not insignificant, but at a certain rate of return it is still more profitable to compound in shorter cycles despite the increased tax rate.

[37] Compounding capital at even a slightly higher rate early in the life of a fund magnifies the returns in later years exponentially when freedom of movement can be restricted vis-a-vis economies of scale. Further Illustrations of this can be found on p. 25

periods of time. Technology and its allure to a certain breed of speculator (who tend to overlook these increasingly short sequences) may also serve as additional diversions from the timeless principles of value. To the disciplined bargain hunter the ease and access of nearly instantaneous free information[38] is of great import, particularly insofar as it exacerbates the activity of the speculator, to whom the former must credit much of his profits.

The Future

Investors should not expect the present results in the future. Rather investors in the fund should expect (perhaps prolonged) periods of time where the fund appears to underperform the benchmark. The risk of this occurring may even be greater if the markets as a whole continues upward; this is because the guiding principles of the fund place it in an absolute minority. Usually "the others", or the majority are buying large names that drive indexes and make news coverage.

Notwithstanding the aforementioned, it seems likely that if taken in multi-year cycles (vs. individual quarters or years) the fund will consistently outperform the benchmark index in rising or declining markets. If the fund outperforms by even a few points, it is expected that the results, in the long term will be most satisfactory to the partners[39].

A Privilege

The significance of having investors who have also been or become friends cannot be overstated. There was never a moment of hesitation executing with focus and swiftness on their behalf. It has been an adventure and a learning experience that has opened up new possibilities yet one thought remains plain and unadulterated: Talents ought to be put to work.

The last two and half years has been filled with one occasion after another to demonstrate that the creation of wealth has far less to do with a "paycheck" than it does with the making of wise investment decisions – what a privilege to be entrusted on behalf of others with such a task.

May God, through the prayers of all those involved, continue to bless this undertaking.

January 25th, 2013

+ Emmanuel Lemelson
Investment Manager
Lemelson Capital Management, LLC

[38] The internet for example may be the greatest research tool in history, it is entirely free and available just about anywhere at any time, but as with all technology can be easily misappropriated.
[39] For more on the reasoning behind this point see p. 25-26

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The General Partner of The Amvona Fund, L.P. is responsible for establishing and maintaining adequate internal control over financial reporting. The compilation of financial statements including Net Asset Values (NAV) is handled by the fund administrator Liccar and Co., a licensed independent public accounting firm which specializes exclusively in the securities / futures industry. Liccar handles the administration of over 6 billion in assets.

Management carefully reviews and examines the work being performed by Liccar & Co. on behalf of the fund. With the participation of the administrator, the general partner conducts ongoing evaluations of the effectiveness of the Company's internal control over financial reporting.

The fund will begin conducting year end audits in 2013. Partners in the fund will initially receive a 16 month audit for the remaining four months of 2012 and the full year 2013. Included will be a separate report of independent registered public accounting firm from the funds auditor Michael Coglianese CPA, P.C.

Lemelson Capital Management, LLC
January 25, 2013

LICCAR & CO.
Certified Public Accountants

Member
American Institute of
Certified Public Accountants
Illinois CPA Society

ACCOUNTANTS' COMPILATION REPORT

To the Partners of
The Amvona Fund, L.P.
Southborough, Massachusetts

We have compiled the accompanying balance sheet of The Amvona Fund, L.P. (the “Partnership”) as of December 31, 2012, the related statement of operations for the periods then ended, and the statement of changes in partners’ capital (net asset value) for the period then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Trading gains and losses and cash activity included in the statement of operations were compiled from information included in the underlying brokerage and bank statements which were received by us from the respective broker/dealers and bank which carry the Partnership's account.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. Generally accepted accounting principles require that the disclosures and the statement of cash flows be presented when financial statements purport to present financial position, results of operations, and cash flows. The disclosures and the statement of cash flows are not ordinarily included in periodic financial statements that are not audited or reviewed. The disclosures and the statement of cash flows generally address such matters as significant accounting policies, related party transactions, income taxes, contingencies and commitments, terms of the partnership agreement, the composition and description of the investment portfolio and risks, among other things. If the omitted disclosures and the statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Partnership's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Liccar & Co.

Certified Public Accountants

January 10, 2013
Chicago, Illinois

231 South LaSalle Street • Suite 650 • Chicago, Illinois 60604
(312) 922 • 6600 (800) 922 • 6604 Fax (312) 922 • 0315

THE AMVONA FUND, L.P.

BALANCE SHEET

AS OF DECEMBER 31, 2012

(PREPARED FROM BOOKS WITHOUT AUDIT)

ASSETS		
Cash at Bank	$	0
Cash at Broker		0
Net Receivables From Brokers		0
Securities Owned at Market Value		7,946,002
Interest and Dividends Receivable		0
Investment in Other Funds		0
Redemption Receivable in Other Funds		0
Due from General Partner		0
Organization costs, net of accumulated amortization		29,407
Prepaid Management Fee		0
Total assets	**$**	**7,975,410**

LIABILITIES AND PARTNERS' CAPITAL

LIABILITIES:		
Securities Sold, Not Yet Purchased, at Market Value	$	0
Cash Debit Balance at Broker		3,289,140
Net Payables to Brokers		0
Accrued Operating Expenses		9,896
Payable to General Partner - bank accounts		0
Interest and Dividends Payable		3,066
Dividend Withholding Payable		0
Management Fee Payable		0
Organization and Offering Costs Payable - Current		18,289
Organization and Offering Costs Payable - Deferred		0
Redemptions Payable		0
Prepaid Subscriptions		0
Total liabilities	**$**	**3,320,391**
PARTNERS' CAPITAL (NET ASSET VALUE):		
General Partner:		1,443,984
General Partner - Deferred Performance Allocation:		0
Limited Partners:		3,211,035
	$	**4,655,019**
Total liabilities and Partners' Capital	**$**	**7,975,410**

THE AMVONA FUND, L.P.
STATEMENT OF OPERATIONS
FOR THE PERIODS ENDED DECEMBER 31, 2012
(PREPARED FROM BOOKS WITHOUT AUDIT)

	Current Period	Year To Date 2012
INVESTMENT INCOME		
Interest income	$ 0	$ 0
Dividend income	46,690	55,690
Total investment income	**46,690**	**55,690**
EXPENSES		
Interest expense	6,044	10,867
Dividend expense	0	0
Management fee	164	492
Organization and offering costs charged	521	1,851
Operating expense	6,083	15,968
Total expenses	**12,812**	**29,178**
Net investment income (loss)	**33,878**	**26,512**
REALIZED AND UNREALIZED GAIN (LOSS)		
Net realized gain (loss) from closed positions	-1,114	183,331
Less: brokerage commissions & other trading fees related to futures contracts	0	0
Change in unrealized gains (losses) on open positions	1,692,958	763,237
Change in value of investment in other trading funds	0	0
Net income (loss) on investments	**1,691,843**	**946,568**
Net income (loss)	**$ 1,725,721**	**$ 973,080**

THE AMVONA FUND, L.P.
STATEMENT OF CHANGES IN PARTNERS' CAPITAL (NET ASSET VALUE)
FOR THE QUARTER ENDED DECEMBER 31, 2012
(PREPARED FROM BOOKS WITHOUT AUDIT)

	Current Period	Year To Date 2012	Inception To Date
Beginning net asset value	$ 2,810,248	$ 0	$ 0
Contributions.........................	931,733	3,681,939	3,681,939
Redemptions..........................	0	0	0
Net income (loss)	913,039	973,080	973,080
Ending net asset value	$ 4,655,019	$ 4,655,019	$ 4,655,019

Notes to Statement of Changes in Partners Capital

- The Fund launched a month early, on Sept. 1st, 2012 with 2.75 M in AUM. Although only a fraction of this capital was deployed, the fund returned ~142k in realized gains that month.
- Every month since inception there have been new subscriptions with no evidence of interest abating[40].

[40] Administrators, accountants and lawyers in the post-Madoff era have been quick to stress that it is virtually impossible for new managers to raise capital in such a climate, but this has not been the case for the Amvona Fund which has made little to no effort to connect with prospective new investors.

ON PARTNERSHIP

Nothing in life is guaranteed. The future results of The Amvona Fund are no exception. However there are three important points that can be assured:

a) The work of the fund will be conducted with unusual focus and discipline to ensure that securities are found and purchased at a price that is significantly lower than the issues real or intrinsic value.

b) Above all else, principle will be shielded from loss[41] by committing capital only where a large margin of safety exists.

c) The General Partner will maintain a significant investment in the fund. Whether results are positive or negative in the future, the General Partner will share fully in the experience of the Limited Partners[42].

[41] The reference in this case is to permanent capital impairment, not loss as a result of a quoted price in the open market at a given moment in time.

[42] On Dec 31st, 2012 the General Partners investment in the fund was $1,443,983 dollars. As of the writing of this letter, the General Partner's investment (and related parties) in the fund is $1,826,028 dollars.

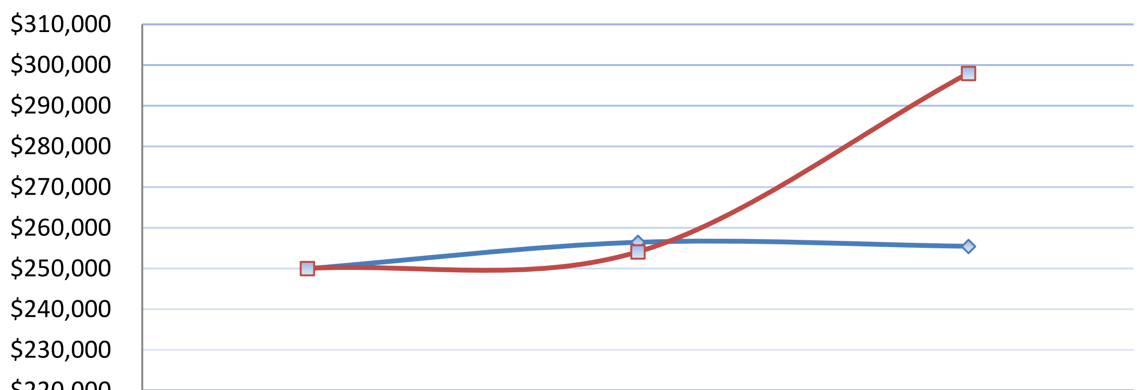
ON COMPOUNDING RESULTS

The greatest engine of growth is compound interest. This may be a surprising fact, because it is rarely spoken of in industry circles. How is it possible that such a simple and powerful principle is so often passed over? There is hypothesis comprised of 3 parts:

a) Consistency is elusive. If this is the case, even when taken in multi-year cycles, compounding will take place just as soon as pigs fly.
b) Results are often sub-par. Indeed in most instances less than the rate of return required to keep pace with both taxes and inflation[43], in which case compounding has nominal to negative effects.
c) The concept of compounding does not comport with the industry's "mythology", that one must take greater risk to achieve greater returns.

This last point is of particular significance not just because it is categorically false, but also because it is subtle in nature. This folklore is comprehensively expounded throughout "investment businesses"[44], because it is a panacea for the problem of accountability. If one is asked "is preserving principle important?" and "are better than average rates of return desirable?" Who will answer "no" to either question? The genius of the investment business is the suggestion of a dichotomy. The prospective investor never comes around to asking "why must one exclude the other". Because the myth is so ubiquitous he feels uncomfortable contemplating the question even in his private thoughts.

The Net Value of $250,000 invested in TAF, L.P. on Sept 1st, 2012



	Sept 1st	Q3 2012	Q4 2012
S&P 500	$250,000	$256,450	$255,475
TAF, L.P.	$250,000	$254,075	$297,954

[45]

[43] In a sense, both are a tax; one visible, the other much less so.
[44] One who runs an "investment business" should not be confused with a true investor, though the etymology is the same, they are very different personalities. The former is primarily interested in the building and marketing of a business which will collect fees while the other considers rates of return.
[45] Figures are net of all fees and expenses.

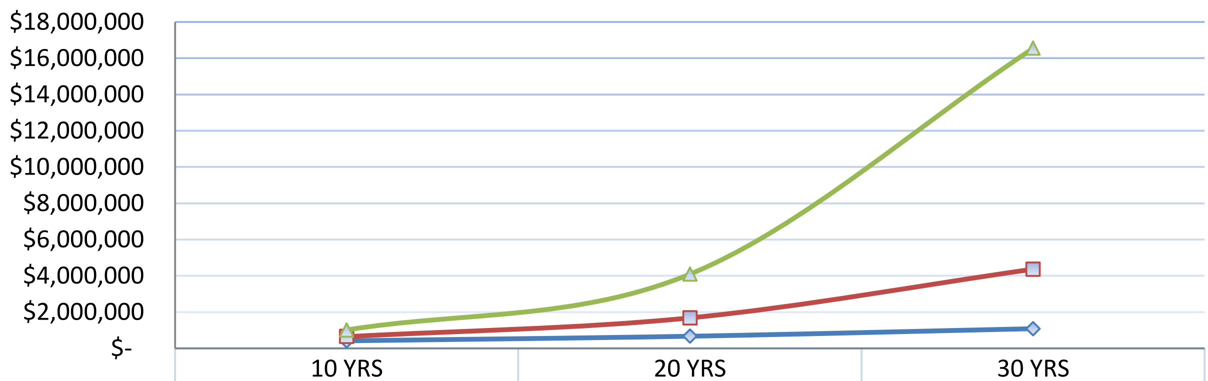
The objective of the fund, after preservation of principle, must be the outperformance of the benchmark index. As stated above, if such a nominal feat is not achievable when taken in multi-year cycles[46], all of the partners, including the general partner would be better off simply purchasing an index fund.

Generally speaking the equities markets over the last 30 years have produced higher average returns in total than other asset classes.

For example the total price return of the S&P 500 between January 1983 and January 2013, when adjusted for inflation is 335.9% or 5.03% on an annual basis. If dividends were reinvested the total price return over the same period is 813.9% or 7.65% per year[47]. Because of the compounding effect of reinvestment, the delta in the two figures is substantial. In other words, a modest aggregate increase in return of only 2.62% per year, over 30 years equated to an overall increase in gain of ~478%[48]. The increased return from reinvestment, if viewed on an annual basis, is wholly unimpressive, although the increased yield at the end of the period is nothing short of remarkable.

Therefore it is logical that if The Amvona Fund, can outperform the benchmark index by even a few points when taken in 3 to 5 year cycles, the compounded results in the long run should be agreeable.

Compounded Value of $250,000



	10 YRS	20 YRS	30 YRS
5%	$407,223	$663,324	$1,080,485
10%	$648,435	$1,681,874	$4,362,350
15%	$1,011,389	$4,091,634	$16,552,942

[46] For example a 3 year cycle would be comprised of the following time frames 2012-2015, 2013-2016 etc.

[47] The returns in the index over those years would in reality be somewhat less to an investor, because aside from the inflation tax, is the capital gains tax which would have to be paid, but is not reflected in the calculation.

[48] S&P 500 Dividends Reinvested Price Calculator (With Inflation Adjustment) - http://dqydj.net/sp-500-return-calculator/ - data provided by Robert Shiller - http://www.econ.yale.edu/~shiller/data.htm

THE AMVONA FUND, L.P.

LEMELSON CAPITAL MANAGEMENT, LLC
General Partner
The Amvona Fund, L.P.

+ EMMANUEL LEMELSON
Investment Manager
Lemelson Capital Management, LLC

Investment theses including rationale for some investments made between 2010 and 2013 and other information about the investment philosophy employed by the fund can be found at the "Finding Alpha" category of Amvona.

Information on readership and influence can be found at the "About Us" page.