Concentration or portfolio concentration is an important element of investing and has great impact upon investment returns. Portfolio concentration means that the investment portfolio has a select number of positions and there are not an abundance of investment positions; and there is not wide diversification and each position tends to be a larger percentage of the fund or portfolio. In contrast, a diversified portfolio has many positions and each position represents a small percentage of the portfolio. In a concentrated portfolio, the investments are selected according to the Fund or portfolio's strategy without regard to a benchmark or index. Instead, in a concentrated portfolio, the positions are selected to be as impactful as possible and not trying to spread risk. To quote Warren Buffet: "Wide diversification is only required when investors do not understand what they are doing." Accordingly, with proper security selection, a concentrated portfolio can be advantageous to generating superior investment returns. Concentration must consider several factors to determine prudent position sizes. The factors that drive and/or affect our Fund's portfolio concentration include, but are not limited to: Percentage weight of existing individual positions (long and short) across the portfolio; Available timely entry points to add to existing positions; Risk in the form of current return risk profiles of portfolio positions, relative to each other and versus target position opportunities; Current liquidity of positions; Liquidity of prospective target portfolio securities; Number of available, compelling and timely new opportunities; Determination of group and sector rotation; Net portfolio exposure (long vs. short percentage) reconciled against current broad financial market (domestic and international) conditions; The degree to which the Fund is broadly hedged beyond individual securities and characteristics of current and potential hedges (leverage, liquidity, velocity, implied volatility, delta, gamma, theta); the amount of un-invested capital in the fund; forward market assessments (domestic and international markets); and our analysis of various investment instruments (e.g. stock, debenture, option, spot metal) and their relative and absolute potential for alpha. While there are more factors than the aforementioned, one can understand that portfolio concentration is complex with many considerations. However, despite complexity, a well constructed, concentrated, portfolio has the potential to produce outsized investment returns, far in excess of broad financial market and index performance, year after year.

– David N. Baker