

April 24, 1996

Dear Shareholder:

Hunting season is open and bears beware, lest some fashion-forward bull be seen wearing your coat. The U.S. stock market has continued its spectacular climb to unprecedented heights. The Russell 2500 advanced 5.9% during 1996's first quarter. This accomplishment pales in comparison to the Dow Jones Industrial Average which jumped 9.8%.

The stock market returns stand in stark contrast to the Lehman Brothers Government/Corporate Bond Index, which declined 2.3% for the same period. The Crescent Fund's performance follows:

<b>Time Period</b>	<b>Crescent Fund</b>	<b>Balanced Benchmark</b> 60% Russell 2500 40% LB Gov't/Corp.	<b>Russell 2500</b>	<b>Lehman Brothers Gov't/ Corporate</b>	<b>S&amp;P 500</b>
Quarter ended 3/31/96	5.3%	2.6%	5.9%	-2.3%	5.5%
1995	26.0%	26.7%	31.7%	19.2%	37.5%
1994	4.3%	-2.0%	-1.1%	-3.5%	1.3%
Annualized since inception*	15.9%	12.0%	15.9%	6.1%	16.6%

\*Inception is 6/2/93. The annualized performance of the Russell 2500, Lehman Brothers Government/Corporate, and S&P 500 Indices begin 5/30/93.

The stock and bond markets, which generally move in the same direction, have uncoupled in 1996. For the stock market to continue its upward trajectory, it would appear that interest rates need to decline. Otherwise, it seems likely that the stock market will decline. The stock market and bond market cannot continue on their divergent paths.

Inflation has been perking up lately. The CRB, a widely used commodity index, has increased 3.4% this year, and 7.9% in the past twelve months. In addition, recent economic news points to a relatively strong economy. This could lead the inflation-fearful Fed towards a more restrictive fiscal policy, thereby increasing interest rates. With interest rates as one of the primary underpinnings of the stock market, observers watch the Fed's action closely.

One factor that has yet to impact interest rates is the increase in foreign holdings of U.S. debt. Foreign investors continue to finance our American lifestyle, owning \$555 billion of U.S. Treasury securities, up 28% (\$121 billion)

from a year ago. The foreign ownership of our debt now stands at around 14% of total U.S. Treasury debt. How long until our foreign financiers recognize that U.S., Inc. has a deteriorating balance sheet? If we wish to continue to have them borrow money, we might eventually have to pay them a higher rate of interest.

The stock market currently trades at the upper limits of historical valuations. For every historical measure violated, some pundit finds justification as to why it is different this time. Price/earnings ratios are high, but that's because interest rates are so low. Dividend yields are low, but that is explained by lower than normal payout ratios and unusually high corporate share repurchases. Price/book ratios are high, but the high replacement cost of assets justifies this. Although sound reasons, we remain cautious.

Two stocks and one bond that we own will serve as excellent examples of our investment process for this quarter's letter.

We have been searching for retailers to own given the depressed retail environment and the underperformance of their share prices. We recently purchased Good Guys, a consumer electronics retailer located in the western United States. With a \$10.50 book value and \$1.75 in cash per share and no debt, Good Guys offered an excellent value at our \$8 cost. We believe that, at 76% of book, Good Guys offers an excellent risk/reward ratio as we patiently await an improving retail climate. They have survived a difficult competitive onslaught from the aggressive expansion of Circuit City and Best Buy into their California backyard. Recently, Best Buy has begun to raise prices in some areas and certain other competitors have been closing stores or going out of business. Good Guys has approximately \$900 million in sales and a market capitalization of \$109 million. They have no debt and excess cash on the balance sheet. Any improvement in margin will provide significant upside. Meanwhile, they continue to earn money, albeit at lower than historic levels. We believe that, at our cost, the price/earnings ratio on 1996 earnings estimates is 10-11x, well below the market's 17x.

We have owned Pinkerton's, a well-recognized brand name in the security services industry, since late 1995. One of three large national companies, Pinkerton's has new management with a mandate to make money rather than increase revenues, as had been the case in prior years. The company has been out of favor for years, with its stock price at 1990 levels. The new management has been exiting unprofitable contracts, thereby increasing margins and earnings. With reported earnings per share of \$1.26 in 1995 and \$0.83 per share of non-cash charges, Pinkerton's has in excess of \$2 in free cash flow per share. We purchased our position at 9x 1995 free cash flow, and today, although it has appreciated slightly, it still trades at only 10x.

The fixed income arena has provided us with certain opportunities as well. We now own Alexander Haagen Properties 7.5% Convertible Bonds. Alexander Haagen, a southern California-based Real Estate Investment Trust (REIT), survived the worst of the California depression. They own 40 properties, primarily shopping centers and two regional malls. California real estate is finally beginning to show signs of strength after five years of weakness. These bonds have a yield to their five year maturity of more than 11%. We believe that this 5% premium to U.S. Treasury Notes and a 65% loan to value justifies our position.

We intensively research our investments. As part of this process, I am frequently on the road visiting companies. I visited a local bank's corporate offices two months ago. While sitting with the senior management, an armed

robbery occurred. I was thankful that I was upstairs in the executive offices and not on the main floor. Fortunately, no one was injured and police caught the perpetrator. We will not permit the threat of violence to interfere with our research. But since we realize that our shareholders need a healthy fund manager, we will consider taking a Pinkerton's guard on our riskier company visits.

Listed below are the Crescent Fund's ten largest holdings as of March 31, 1996. These investments account for 32.2% of the total portfolio value:

Common Stock

Dundee Bancorp, Inc., Class A  
Littelfuse, Inc.  
Mac Frugals Bargains Close-Outs, Inc.  
Phoenix Duff & Phelps Corp.  
Pinkerton's, Inc.  
Price Enterprises, Inc.  
Santa Barbara Bancorp  
Semi-Tech Global, Ltd.  
U.S. Facilities Corp.

Corporate Bonds

Rockefeller Center Properties, Inc., 0%, due 12/31/2000

The Crescent Fund had the following asset composition at March 31, 1996.

Common Stocks (net of short sales)	59.5%
Preferred Stocks	4.8%
Corporate Bonds	24.1%
Cash and Other Assets	11.6%

Thank you for your continued investment in the Crescent Fund.

Respectfully,



Steven Romick  
Senior Vice President  
First Pacific Advisors, Inc.