

April 2012 Partner Letter

First Quarter Performance

Greetings partners,

The fund returned 18.3% versus a 12.0% return for the S&P 500 over the same span, a welcome bounce back. Over the last 6 months, the fund has been on a tear: +30.2%. Now, if we could just figure out how to perfectly time other investors' sentiments (i.e. the market)...

Fortunately, our long-term success won't be predicated on our prowess with a crystal ball. It will come from recognizing when good businesses go on-sale for myopic reasons, and taking advantage of Mr. Market's mood swings. We'd obviously love to be able to avoid the big drops, but that's part of the roller-coaster ride that is inherent in emotionally-driven markets. A portion of the value that we deliver to the partners is staying composed and absorbing those stresses for them. Let us worry about Mr. Market's mood swings. We'll strive to procure you part-ownership in the best businesses in the world (when sold for illogically low prices); you do whatever it is that you do best. It's Adam Smith's pin factory; basic *comparative advantage*. And if you've read *our favorite book* of 2011 which we sent to all the partners, that specialization and trade may just be what's allowed the human species to flourish like it has. Let's not buck the trend.

Fourth Time is the Charm?

We're pleased to announce that the UC Davis Graduate School of Management has invited us back for a fourth time to teach our class on value investing. It's a true honor and one of our favorite parts of this job. Our goal every year is to have more students than the year before. That may prove difficult though, as we'll need over 50 students this summer to beat last year. Wish us luck! As always, our classroom is open to all of you.

In the past, we've had portfolio challenges amongst the students for the proceeding 12-month period after the class. It's a fun way to reinforce our teachings, plus it incentivizes the students to try a little harder on their final project-- a presentation of their top investment ideas (read: filling our plate with potential opportunities for the fund!). This year, we'll be taking a more collaborative approach to the challenge. We'll be establishing an endowment where we'll donate our entire teaching salaries each year, plus whatever we can raise through our students and guest speakers. The students will come up with the portfolio composition and with our guidance, manage that investment over the next year. We'll keep 20% of the endowment invested in a micro-loan site like kiva.org, enabling people in less-fortunate situations who lack access to capital, the ability to participate in the wonder that is capitalism. It's our belief that a global economic recovery can come in \$25-at-a-time increments and bottom-up charity (kiva) is much better than top-down (bank bail-outs).

Annual Meeting in May

We had originally planned on having an annual meeting in April, but we decided May was a better fit (April is bogged down with taxes, compliance due dates, etc.). We have our annual pilgrimage to Omaha the first weekend in May, and we'll be eager to share the enthusiasm that trip infuses in us with all of you. We'll be sending out an evite shortly to get a head count-- we look forward to seeing you there!

Investing in the Fund

The next opening to invest in the pooled fund will be July 1st. For new partners, please allow at least 2-3 weeks to complete the paperwork and for funds to clear. For adding money to an existing account, please allow at least a week for everything to process.

For the separately managed accounts, there are no quarterly windows to worry about. We're ready to help when you need it. We encourage you to call or send us an email, we'll take it from there to ensure the process is easy, painless, and turnkey for you. Whether it's an orphaned IRA from an old job or you're leaving your current job and need to do something intelligent with your 401k, we're here to help.

Thank you for your continued trust, referrals and support. If the axiom is true that we're each the average of the five people we spend the most time with, you're all dragging our average way up! If you have any questions, please don't hesitate to call or email. We're never too busy to help you or people you care about!

Warm regards,



Jacob L. Taylor, Managing Partner

*"When you work hard on something you believe in, it's called passion.
When you work hard on something you don't believe in, it's called stress."
-- Simon Sinek*

Risks associated with investing in the Farnam Street Investors Fund include: investing in common stocks, value-oriented investment strategies, investing in smaller companies, foreign securities and a managed fund, risks of political and international crises. This report does not constitute an offer or solicitation of any transaction in any securities. The Farnam Street Investors Fund is offered by prospectus only. Investors should consider the Fund's investment objectives, risks, charges, and expense. The prospectus contains this and other information about the Fund and should be read carefully before investing. To obtain a copy of the prospectus, please call us at (916) 932-2046, or visit our website at www.farnamstreetinvestments.com, where an online prospectus is available.

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