

April 2011 Partner Letter

Dear partners,

First, a hearty "thank you" for putting your trust into this fledgling start-up. It's never easy to take a leap of faith, but we hope that you are as excited about this adventure as we are. Running this fund is a dream come true for us, and we're often reminded of the Abraham Maslow quote:

"The most beautiful fate, the most wonderful good fortune that can happen to any human being, is to be paid for doing that which he passionately loves to do."

We count ourselves extremely fortunate.

First Quarter Performance

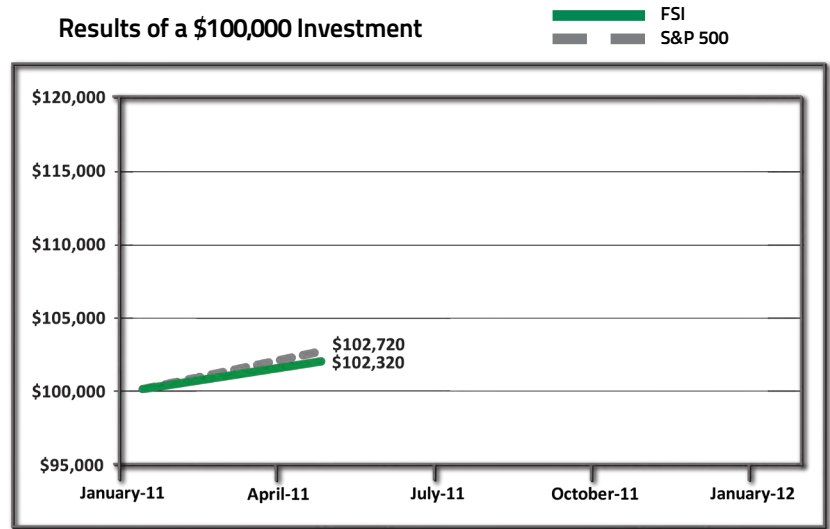
"The stock market is designed to transfer money from the active to the patient."

- Warren E. Buffett

The fund commenced operation on January 25th, 2011. Over the first 66 days of operation, FSI returned a total of 2.32% (net of performance fees) vs. our S&P 500 benchmark's 2.71%. Although we did not outperform, the results here are better than they appear at first blush. On the opening day of the fund, we naturally started with a 100% cash balance. As we've found attractive opportunities, we've put money to work. Over the first quarter, we averaged a cash balance of 71%. That means we've nearly matched the benchmark while 71% of our firepower was sitting idle waiting to be deployed. We're very happy with the performance so far.

Although we can never guarantee results, we can promise that your financial fortunes will move in lockstep with our own. We're very encouraged about the long-term prospects of the deals we've found so far and look forward to what fruit they may bear.

Results of a \$100,000 Investment



Key Metrics Snapshot

As of 3/31/11	Metric Description	FARNAM STREET Investments	S&P 500	Difference = Margin of Safety
Earnings Yield	How cheap is our stake of partial ownership?	83%	9%	+74%
Return on Invested Capital	How good is the company?	291%	~12%	+279%
Cash/Market Cap	How much cash back do we get on our purchase?	63%	11%	+52%

NOTE: Due to differences in data, numbers are not perfect comparisons.

Market Timing & Cash Balances

"When the number of factors coming into play in a phenomenological complex is too large, scientific method in most cases fails. One need only think of the weather, in which case the prediction even for a few days ahead is impossible."

-Albert Einstein

Although we are currently 56% invested, we plan on reaching 100% within the next few quarters and staying there. Why be fully invested, even

when the markets can appear frothy? Our logic is as follows: A [2008 article in Forbes](#) examined the odds of timing the market by looking at daily returns of the Dow from 1900-2006. Of the 29,190 days measured, the 10 best days accounted for just .03% of that total. Yet if you weren't invested for those 10 best days, your total return would have been reduced by 65%! We liken that to roughly the odds of predicting those 10 best days to predicting the next perfect game in baseball. Over the 135 years of Major League Baseball history, there have been just 20 perfect games-- more people have orbited the moon than pitched a perfect game. We don't like our odds in making that kind of prediction, leaving us with the conclusion that timing the market is nearly impossible and a fool's errand.

Here's another way we look at it if the previous paragraph was unconvincing: the total number of listed public companies in the world is over 45,000. We will be holding exactly 25 companies in our portfolio at all times, 4% each. That means we're searching for 25 attractive deals out of 45,000 potentials, or just .06%. Not being fully invested equates to a declaration that the markets are over 99.94% efficient; the deals just can't be found. We're highly skeptical of that claim, no matter what's going on in world. Suffice it to say, if we can't find 25 good deals in a sea of 45,000, we aren't looking hard enough for you.

A Helping Hand

Farnam Street Investments is blessed with a group of 6 outstanding advisors. Their backgrounds run the spectrum of industry and account for much of the globe. We're very fortunate to have their insights as we're scouring the world for investment opportunities. We are also connected with a top-notch executive coach who is helping us to reach our strategic goals for the fund. We don't like leaving things to chance and would rather get help than potentially fail. We hope this gives you confidence that the fund will still be running 10, 20, even 30 years from now.

Who should be a part of FSI?

There are two types of investors that would benefit most from our unique offering:

The first we'll call Dan. He's 58 years old and has been a top lawyer at his firm for the last 25 years. He's a leader in his community and well respected. Dan appreciates saving and investing, but as a busy professional, he doesn't necessarily have the time to give it the attention he knows it deserves. He's looking to generate a lasting impact by creating security for his family, and increasing his ability to fund charitable endeavors. He's not particularly happy with his current financial team as he doesn't feel like they know him from Adam.

The second is Dan's son, Micheal. Michael is 32 years old and is establishing himself as an up-and-coming surgeon. His hard work is creating momentum in his career, and now that he's paid off all of his loans, he's starting to wonder what to do with the extra money he's socking away. He's also making important plans for his family's future. Like most people his age, he's starting to look for financial advice as he wonders how he's going to fund his dreams.

Both Dan and Michael are unaware that the typical finance industry offering is rife with:

1. **hidden expenses**-- 400% higher according to a [recent study of average expense ratios](#) (6.44% vs. the 1.20% advertised).
2. **poorly aligned incentives**-- less than 13% of fund managers have their own money in their funds.
3. **the wrong focus**-- non pay-for-performance means fund managers aren't motivated properly to deliver results.

These three issues compound to produce discouraging outcomes: most of the customer's portfolios under-perform even the market averages, while the finance industry continues to "earn" their large sums. With the S&P500 returning nearly zero for the last decade, more and more people are questioning their relationships with their financial shepherds.

If you know an entrepreneur, executive, or successful professional like Dan or Michael, don't let them get entrapped by the status quo finance industry-- please arrange a meeting with us. We firmly believe FSI could be an integral part of their financial success as our fund solves those 3 key shortcomings that hamstring the majority of offerings. Do them the favor of at least an introduction.

Speaking Engagement and Open House

As a way of giving back to the community, one of the fund's investors teaches a weekend class to Heald College students who are trying to better themselves. On January 26th, I had the privilege of giving a talk to his students. I chose the topic of entrepreneurs and risk-taking as I hoped it would inspire them to be unafraid to intelligently chase their dreams. A copy of the presentation is available on our website under MANAGEMENT => ARTICLES AND PRESENTATIONS. I'm open to other potential speaking engagements as I could use the practice to tune up for teaching again this summer.

On May 26th from 6pm-8pm, we'll be hosting an open house at our office. Please feel free to come by, enjoy a beverage, and check out our new surroundings.

Investing in the Fund

The next opening to invest in the 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 and don't hesitate to contact us with any questions. Once again, thank you for your continued trust and support.

Cordially,



Jacob L. Taylor, Managing Partner

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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