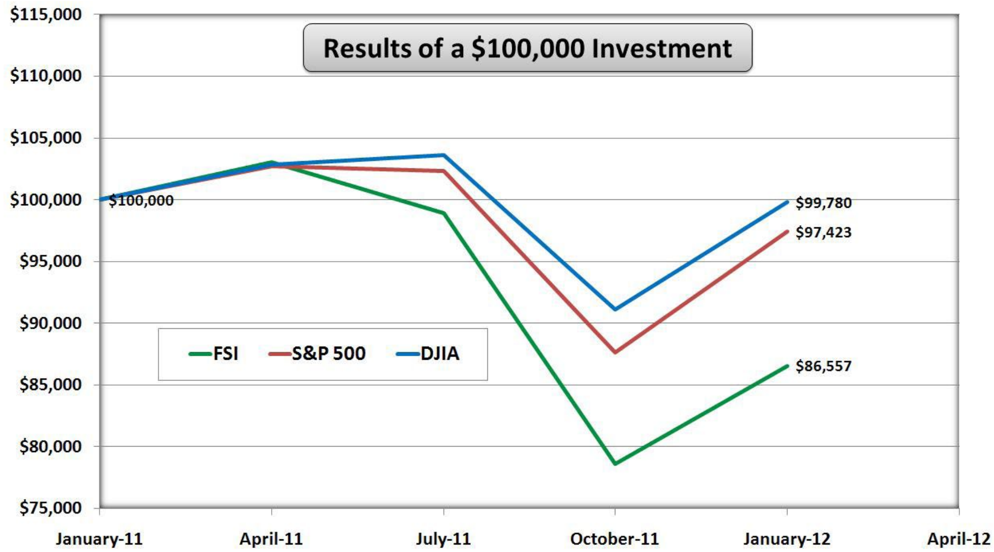
January 2012 Partner Letter

Year One in the Books

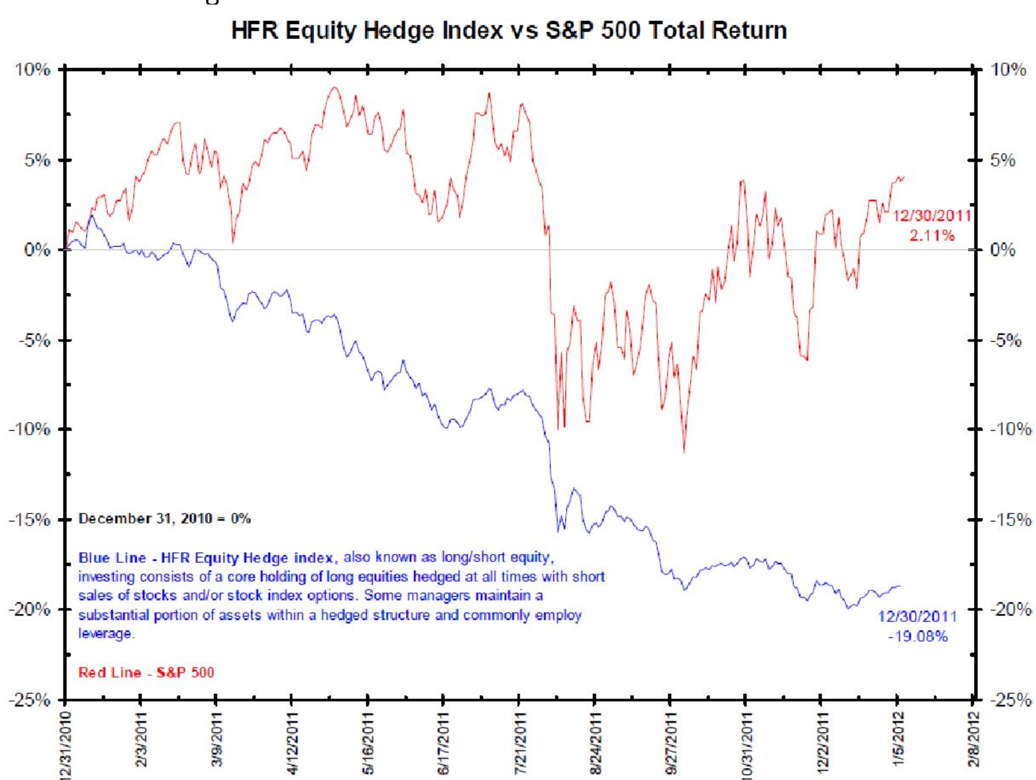
Greetings partners,

As our little venture wraps up its first year of operations, it's useful to reflect on the year that was 2011. Personally, it was a very good year. We welcomed our second son, Drew, to the family in June. Despite a rocky first week in the NICU, he's doing great now. Our older son, Asher, started pre-school and continues to grow into a charming little boy. Lastly, my wife was able to trade academia for the role of CEO of the house and mom par excellence. Great work, hon!



Although it's difficult to be upset with a 10%-return quarter, the fund was certainly not as quick out of the gates as we would have hoped. We're in good company, both in 2011 and historically. First, some history. When Warren Buffett closed his original partnership in 1969 after a legendary run, he steered his partners toward one person: Bill Ruane, who had studied with Mr. Buffett under Benjamin Graham at Columbia. Over the next 4 years, Ruane's Sequoia fund underperformed the market by 36%! Strong-of-faith investors who remained were rewarded, as Sequoia bounced back with a 220% return vs. the market's 60% over the next three years. Perhaps Mr. Buffett knew what he was doing?

Back to the present, as the two included charts illustrate, 2011 was an extremely difficult year for hedge funds, especially ones with value-oriented strategies like ours. Although we prefer to completely ignore the crowd, near-record correlation between all stocks made it difficult to differentiate from the herd. Eventually, gravity will be restored and people will realize that world-class businesses that supply real goods and services to real customers shouldn't be thrown away because of Greece's debt-GDP ratio or how many barrels of ink Mr. Bernanke has in the basement of the Marriner Eccles building. Business fundamentals will matter again someday as the pendulum swings back. We welcome that day.



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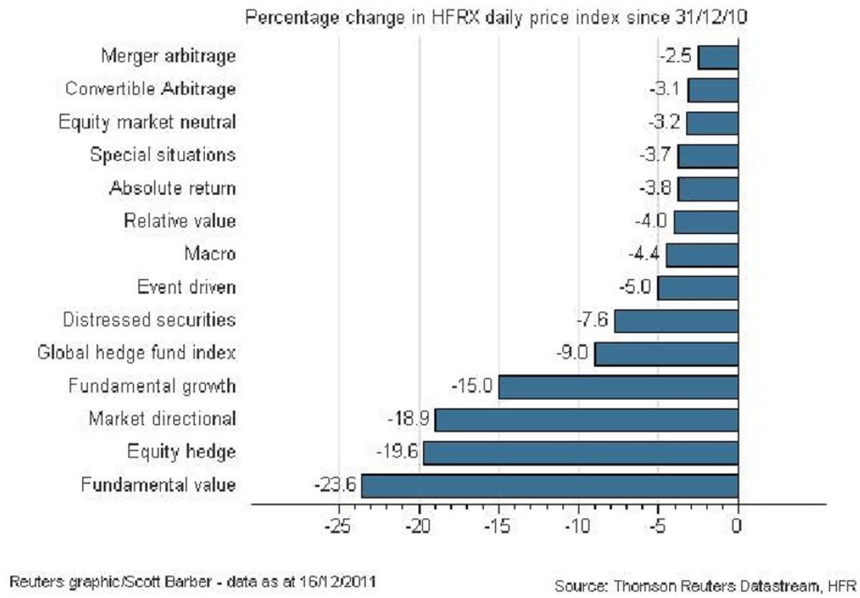
Hedge Fund Performance in 2011

Fundamental value lagged in 2011 as many stocks that were previously unloved became downright hated. Many value managers that we admire and think are some of the best in the business were absolutely clobbered in 2011. Like Bill Ruane in 1977, we believe they'll be vindicated in time, likely in spades. Hopefully their investors fight the myopia by taking a longer-term perspective and enjoy the come back.

One last note of solace to observe: our unique fund structure means that you paid no management fees in 2011. And why should you? We think it's exceptionally fair that we only make money when you do, putting us in a distinct minority of the finance industry. Don't worry, we budget for lean years like 2011-- they're unavoidable.



Annual Meeting in April

In keeping with the Berkshire tradition of hosting a yearly get-together, FSI will be having an annual meeting in April of 2012. Once we get the exact date confirmed, we'll send out a more formal notice. We hope you'll be able to attend.

Investing in the Fund

The next opening to invest in the pooled fund will be April 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 are. 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 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 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*

"People who make themselves useful to the community, receive back from the community their full share of health, happiness, and prosperity."

--James Allen

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