

July 2012 Partner Letter

"Our investment attitude fits our personalities and the way we want to live our lives."

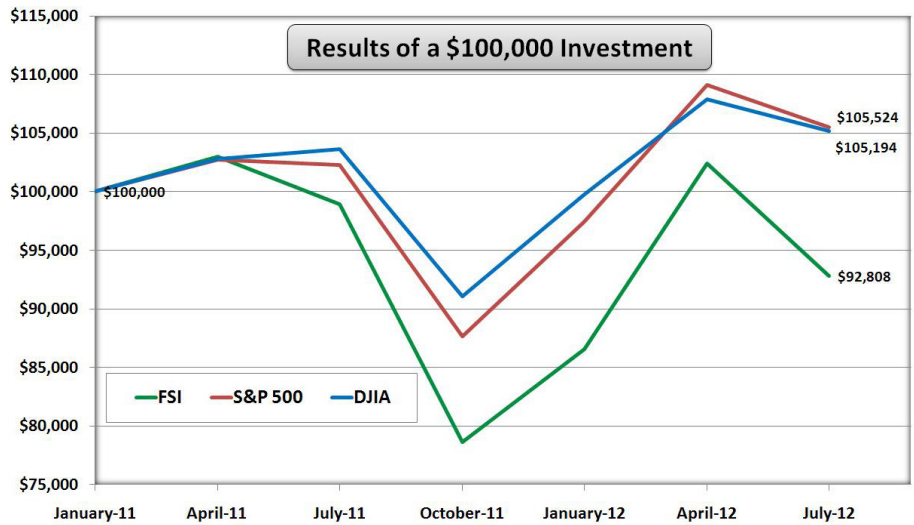
-Warren E. Buffett

Greetings partners,

Whoever coined the phrase, 'May you live in interesting times,' would be happy to be a fund manager these days!

Many hedge funds have been *throwing in the towel* due to poor performance and hurdle rates that may take a few years of diligent effort to catch. Apparently the 2% management fee isn't enough to sustain them if they are going to have to work hard for the 20% performance fee? So much for get-rich-quick schemes... These managers lack of persistence does leave us wondering, what was their motivation for getting into the fund management business in the first place? Their actions leave only one viable conclusion: easy money. At FSI, our 'why' is completely different. Sure, we want to be able to provide for our families, but our real why is to do what we can to help others achieve their dreams (helping with investing happens to usually be our most productive way to do that). As an ancillary benefit for us, we're able to enjoy the intellectual pursuits of investing, as well as reap the rewards of a flexible, low-stress lifestyle. What's not to love? For those myriad reasons, we'll be doing this for the rest of our lives, even though we charge a 0% management fee and chase similar hurdles.

To the other side of the coin: as many funds have been recently closing up shop, skittish investors have been pulling money out of *hedge funds*, as well as *equities in general*. This is most likely explained by poor performance, high fees, and a decaying trust of our financial leaders (see Bernie Madoff, *Liborgate*, *this SNL skit*, etc.). We're happy to report that FSI has had zero redemptions in its admittedly short existence. We feel that part of the reason is because our investors share our bigger why. Although returns are certainly important, they aren't the be-all and end-all of our relationship with our partners. Knowing that our interests are well aligned with theirs (our money is invested alongside theirs, we only make money when they make money), we're all on the same team.



Interview with Manual of Ideas

In May, we had the pleasure of being interviewed by John Mihaljevic from Manual of Ideas, a value-investing-oriented trade journal. We're obviously big fans of MOI and they've interviewed some of the managers that we feel are the best in the business. It's a big compliment that they wanted to get our perspectives; we're humbled. The last update from John is that the interview is in post-production and should be published soon. We'll forward it on once it's available.

UC Davis

Our teaching engagement with UC Davis starts again the first of August. It always makes for a busy but rewarding time of year for us. Our annual goal has been to have more students than the year previous, but we've appeared to reach an upper bound: the school is capping the class at 60 students for this summer. Those 60 spots filled up quickly and there are students who are already asking about next year's class (apparently we've created a monster). We've been busy putting together a who's who line-up of guest speakers and we look forward to the students managing the endowment portfolio. Helping kiva entrepreneurs around the world find a better life with a timely placement of capital is our favorite kind of charity. You're all welcome to attend a class, just send an email for details.

Miscellaneous

In an effort to really take care of our partners, we've added a new team member to FSI. Ann Rafter will serve as our new Head of Client Relations. Ann's experience as a seasoned administrator will be a valuable addition and is already paying dividends. We hope the partners will consider her exceptional talents at their disposal—don't hesitate to ask for our help, no matter the topic. We're never too busy for you or those you care about!

Thank you to everyone who attended the annual meeting in May. We had a great turn-out, especially relative to the size of our fund (free food and drinks probably didn't hurt either). It was a nice reminder that we're blessed to be a part of the Farnam Street Family. Thanks!

Investing in the Fund

The next opening to invest in the pooled fund will be October 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 orphaned IRAs, 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 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

"If you think revolution needs to feel like war, you'll overlook the importance of simply serving people better."

-- Derek Sivers

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.