



Absolute Return Strategy

3rd Quarter 2011

Dear Clients,

To put it mildly, the 3rd quarter was extraordinarily volatile for financial markets. Complacency, which had built up during the rally off the financial crisis lows, gave way to sharp selling, as investors reacted to a domestic US economy slowing from its already below-average recovery and heightened risk of major sovereign debt defaults in Europe. While not fully unexpected, the former was a somewhat new development. The latter has been brewing for many months. Markets brushed aside signs of these nations' diminishing finances in early 2011. The issue has since become a classic case of something that "doesn't matter... until it matters."

Our typical account declined 7.7% for the quarter. Stock market indices fared substantially worse. The S&P 500 shed 12.6% and the Russell 2000 was down a staggering 20.8%. Our quarterly loss occurred primarily in August, when we declined 5.6% vs declines of 5.0% and 8.5% in the indices. We largely reduced exposure in early September. Most stocks across the board continued their brisk descent, as the table shows. Our defensive posture was prudent; and as a result we didn't even remotely experience the depth of decline that many portfolios felt.

No question it has been a difficult year for investors in risk assets. Index investors have endured an extremely wild ride during this 9-

month period. On the same timeframe, I'm not anything resembling content with the returns our strategies have produced either. Recent negative results are an aberration from a positive longer term trend, though for clients who came onboard during/since the financial crisis, it may not seem that way.

<u>3rd Quarter</u>		
Clients	S&P 500	Russell 2000
-7.7%	-12.6%	-20.8%
<u>Since Inception</u>		
Clients	S&P 500	Russell 2000
+9.8%	-1.6%	-5.1%

<u>September</u>		
Clients	S&P 500	Russell 2000
-0.7%	-6.3%	-10.6%
<u>Year-To-Date</u>		
Clients	S&P 500	Russell 2000
-12.3%	-7.9%	-16.3%

Taking a step back for perspective: In five years since inception, our strategy has generated positive returns with exponentially less volatility than market indices (not to mention any individual or institutional equity portfolio that I've personally seen). That fact speaks for itself. On the flipside, widely watched equity market benchmarks (S&P 500, etc) have been both insanely volatile and have lost value during that reasonably significant time frame.

Our successes have been multifold. Starting with our first client accounts in mid-2006, we earned very strong returns for 2 years, both on an absolute basis and relative to the S&P. In the following 12 months, we stayed out of the way while the financial world essentially melted down. We were slightly up during the period when indices lost half their value. Combined, those were 3 years of performance that both earned our clients solid returns and then kept them far away from trouble. I'm proud of those times especially given the constraints of long-only management. While I'd prefer to have profited from the market decline; we didn't then, and at this moment still do not sell stocks short.

Significant declines occur regularly, but don't last forever. In the aftermath of the financial crisis, hindsight clearly shows I have been too defensive with our capital. Leaning too far toward capital preservation, I've missed opportunities to profit during post-crisis periods in which markets were stable to up. Whether if those periods are fleeting – some have come and gone far quicker than others – I would much prefer to have taken better advantage of them. Whether the positive periods are created by true corporate successes that would make any libertarian smile, or government programs like Quantitative Easing (version I, II, or the rumored III) -- I'd again rather have taken better advantage of them.

I'm not implying we should have been fully invested since the 2009 lows. That's not the specific role of an Absolute Return strategy. My long term success is dependent on two factors: Generating returns (ie. Offense), and managing risk with a sturdy Defense, regardless of the equity market's path. This is of course much different than a purely long equities strategy. Neither approach is by default superior or inferior. Blending the two creates an ideal overall portfolio. I'm by no means alone in that thought; many successful individuals, university endowments, and family offices around the globe share such as philosophy.

Back to the markets: 2011 has without question been the most difficult year in markets since I've professionally managed investors' capital. This has been true for many asset managers but even moreso for strategies like ours that truly manage downside risk for their clients, alongside the persistent pursuit of gains. It's hard to pinpoint precise reasons, but I suspect it's related to the amplified chaos of the world, economy, and markets following the largest financial & economic dislocation in decades.

Early in the year, it felt like walking a tightrope, with the market 2 years into a historic rally after a deep stare into the proverbial abyss. Stocks indices kept making marginal highs (not all-time highs, those are a good bit higher) against the backdrop of a sluggish economy growing "just enough" to keep frustrated bears in check. Then summer came, and the bottom fell out. Many highly skilled managers with great multi-decade records experienced precipitous declines in their funds, many of whom take concentrated positions and were on the wrong side during this occasion. For the first sustained time, Teewinot's performance generally drifted lower along with the equity market as well, although with less severity. The breadth and swiftness of the summer decline, combined with giving some positions too much room on the downside,

were primary causes. Stocks became extremely correlated: it rarely mattered what stocks you owned, only whether you owned some or not.

We have kept one eye on the exits for the past 2 years, being cognizant that market dips can morph into serious declines rather than being the buying opportunity they sometimes feel like. I could discuss how this 2-year rally has been fueled by unprecedented Federal Reserve actions and the degree to which holding a market index implies trust their efforts will succeed. But professionals play the hands we are dealt, and I am singularly focused on improving both our structure and refining our strategies to more effectively take advantage of the market's opportunities on your behalf.

I will be contacting each of you in the next few weeks to discuss extremely important and beneficial changes we are making. Some initiatives are underway. I've begun discussions with a Cincinnati firm to improve our portfolio management technology. If the division of labor theory is correct, this should benefit us all as my time becomes better utilized in securities analysis and client service versus administrative. I've also brought in two interns from the University of Kentucky. One is a Finance undergrad, the other an MBA student. Both have been helpful and enjoyable additions to the office. They've taken some tasks off my hands, and the plan is for them to handle some research functions going forward.

With many investments still underwater from mid-decade, remember that we closed at all-time high water marks on New Years Eve 2010. In reality we aren't all that far from those highs, considering the volatility inherent in any investment aside from Treasury Bills. I view this first double-digit drawdown in our history as an opportunity to improve the results of this Strategy, not change my philosophy. Our 2011 decline is small enough that it's very possible to overcome in coming quarters, but big enough to focus my attention on the need for change and improvement. I am a competitive person with a drive to win, and plan on doing just that.

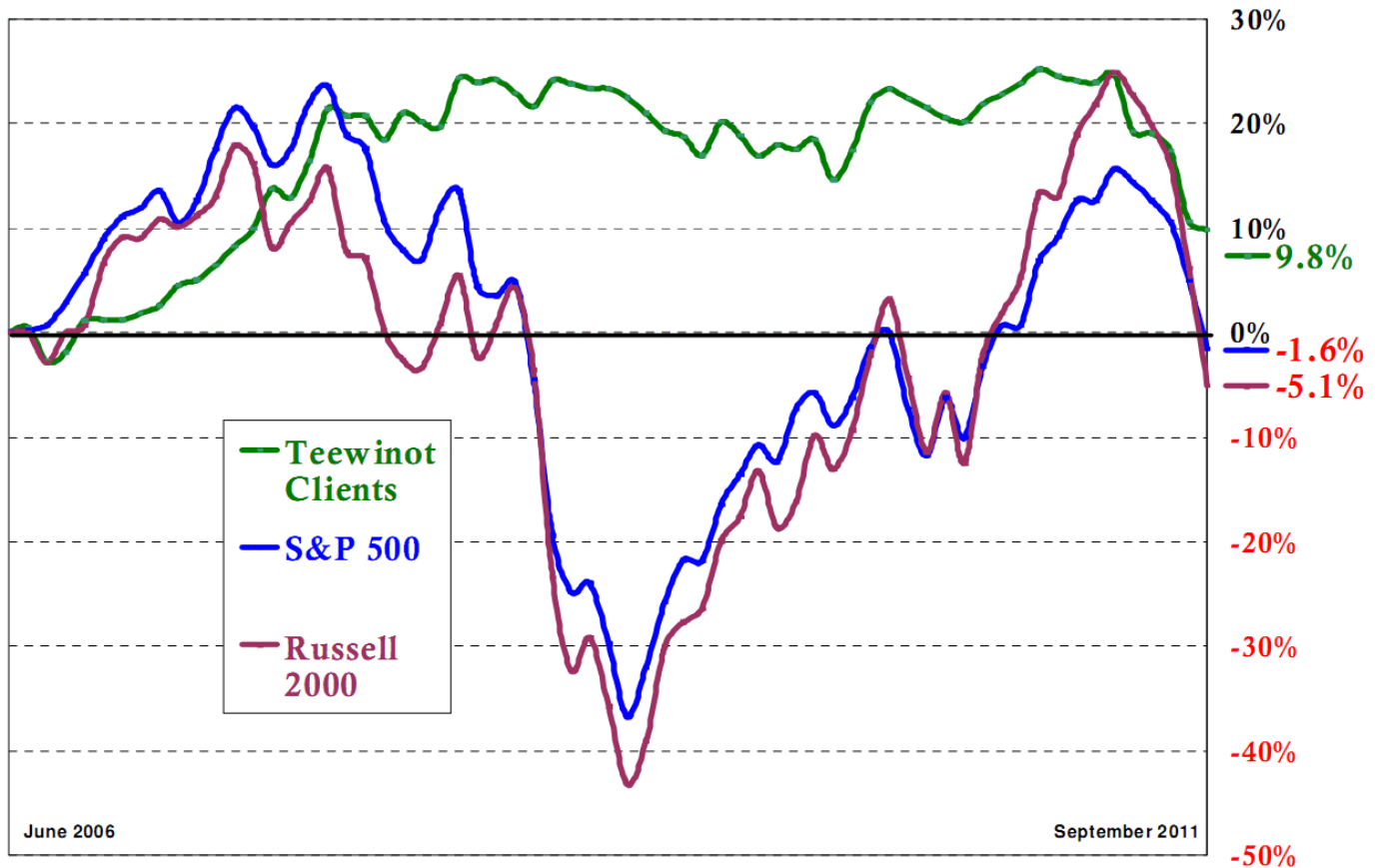
I hope you're all enjoying life as 2011 enters its final months. Aside from our strategy's recent lackluster performance, I can truly say that's the case on my end. Our daughter Ella is 15 months old. Her vocabulary now includes a gratuitous "thank you", a hilarious "no" to simple questions, and a sweet "bye-bye" most every time I walk out the door. I recently completed my first half marathon, finishing in under 2 hours for a better-than-expected 8:45/mile average. My Bengals are having a surprisingly solid NFL season, Kentucky basketball is preseason #2, and it's already snowing in Jackson Hole. I was also recently honored to speak to seniors at the Sayre School, and co-host the radio show Savings & Sense on 1080am in Lexington, discussing my experiences in the investment business.

I will leave specific discussion of the changes we're planning at Teewinot for upcoming phone calls and personal meetings. I have never been more bullish on the future; not necessarily the on markets or the economy, but on my firm and our service to you.



Buckner Woodford V, CFA

Returns Since Inception



Disclosures

1. Absolute Return Strategy calculations are derived from results of a single account following our Absolute Return Strategy. Because our block trades are allocated according to each account's Net Liquidation Value, we believe it closely represents the long-term performance that any account would have experienced over the given timeframe. We refer to this as a "Typical Account."
2. The specific account that represents our Typical Account was Teewinot's first under management.
3. Returns are time-weighted and measured monthly.
4. Absolute Return Strategy performance is calculated net of fees.
4. Index returns are derived from appropriate Exchange Traded Funds, and include all dividends. The indexes and ETF's used in calculations are: S&P 500 (SPY) and Russell 2000 (IWM).
5. Individual results may differ from the Typical Account for various reasons, including but not limited to: contributions or withdrawals of funds during reporting periods, the timing of such contributions or withdrawals, and imprecise share allocation of block trades across all accounts following Teewinot's Absolute Return Strategy.
6. Past performance is not necessarily indicative of future results.
7. The data herein is for informational purposes only, and gathered from sources deemed reliable; however, are not represented to be error free.