SIRE LINE
Capital Management

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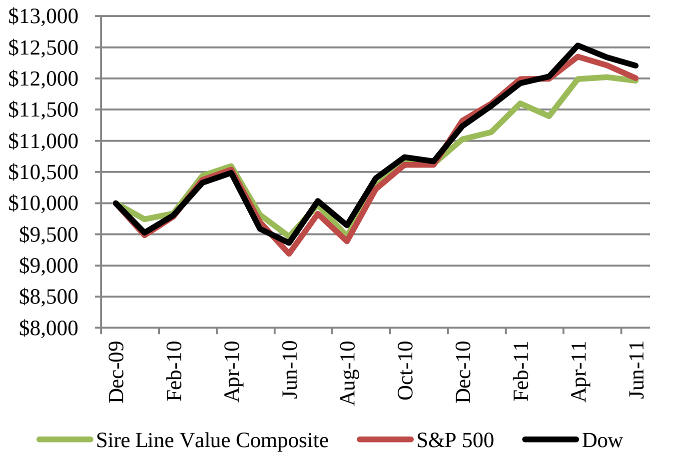
Second Quarter 2011

July 31, 2011

Performance Report from
Daren Taylor, Portfolio Manager

THE VALUE OF A $10,000 INVESTMENT IN THE SIRE LINE VALUE COMPOSITE FROM INCEPTION (1/4/2010) TO PRESENT (6/30/2011) AS COMPARED TO THE S&P 500 INDEX AND THE DOW JONES INDUSTRIAL AVERAGE (UNAUDITED)



NOTE: *Accounts included in this product composite are fully discretionary taxable and tax-exempt portfolios. They are managed under our value style, which invests primarily in high-quality businesses that 1) are simple to understand, 2) have a consistent operating history and favorable long-term prospects, 3) are managed by honest and able managers whose interests are aligned with ours and 4) can be purchased at a significant discount to intrinsic value. The performance of the Sire Line Value Composite is net of fees. All performance figures in the chart above begin as of the close on January 4, 2010.*

Performance Measurement

The objective for all of our portfolios is to outperform all relevant benchmarks over the long term. The chart above shows a comparison of a $10,000 investment in the S&P 500 Index (S&P 500), the Dow Jones Industrial Average (Dow) and the Sire Line Value Composite since inception.

The S&P 500 is an unmanaged, market capitalization weighted index that measures the equity performance of 500 leading companies in the U.S. today. Firms included in the S&P 500 account for approximately 75% of the value of all U.S. stocks. Therefore, it acts as a fairly good proxy for the total market. Clients could easily replicate the performance of the S&P 500 by investing in an index fund at little cost. For discussion purposes below, I will focus on this benchmark to address our relative performance.

Second Quarter Performance

The Sire Line Value Composite achieved a return of 5% in the quarter ended June 30, 2011, which compares favorably to the flat performance of the S&P 500 Index. For the year to date, the Sire Line Value Composite is up 8.5%, which also compares favorably to the 6% gain for the S&P 500. The Composite's relative outperformance this year is partly being driven by our lack of exposure to cyclical and commodity-related businesses, which have been weak performers as GDP growth expectations continue to be revised downward. Recent economic data suggests that the U.S. economy still has a lot of work to do to get back to normal. The official unemployment rate has moved back up to 9.2% (the unofficial unemployment rate is closer to 16%), new job openings continue to be lacking and the housing market has shown no signs of a revival.

Our investment portfolio is performing very much as expected. Given our value-oriented investment strategy, over shorter periods of time you should expect our portfolio to perform in-line or slightly underperform when the equity markets have momentum to the upside, but outperform when the equity markets are weak. As Mark Twain said, "I am more concerned about the return of my money than the return on my money." That said, we are fully confident that over the long term our strategy will deliver significant outperformance.

The following table summarizes the annual performance of the S&P 500, the Dow and the Sire Line Value Composite:

	TOTAL RETURN (1)		
Year	Overall Results From S&P (2)	Overall Results From Dow (3)	Sire Line Value Composite (4)
2010	13.2%	12.4%	10.3%
2011 YTD	6.0%	8.6%	8.5%

(Footnotes to table above)

(1) All performance figures begin as of the close on January 4, 2010.

(2) Based on changes in the value of the S&P 500 plus dividends (reinvested) that would have been received through ownership of the Index during the period.

(3) Based on changes in the value of the Dow plus dividends (reinvested) that would have been received through ownership of the Index during the period.

(4) Based on changes in the value of the Sire Line Value Composite including dividends and after all fees and expenses.

Winners and Losers

The following chart shows a partial list of our winners and losers so far this year:

Our Biggest Winners	% Return
H&R BLOCK	+35%
VIACOM	+29%
DELL INC	+23%
EBAY INC.	+16%
COMCAST	+15%
TIME WARNER	+13%
Our Biggest Losers	
BANK OF NY MELLON	-15%
MICROSOFT	-7%
SHORT POSITIONS	-7%
FAIRFAX FINANCIAL HOLDINGS	-2%

Although the stock of Bank of NY Mellon (BK) has been weak this year, it is still trading above our purchase price. Investors are worried about BK's exposure to troubled Europe, as well as potential legal actions against the firm having to do with its foreign exchange business. With no direct exposure to Greece or Portugal, and limited exposure to other European sovereigns, we are comfortable with the company's European-related risks. As for potential legal risks involving the company's foreign exchange business, we don't believe the penalties will be significant given that foreign exchange is such a tiny portion of what the company actually does. We continue to hold our position in BK and will likely add to it if the stock gets any cheaper.

I made comments on Microsoft in the last quarterly report. During the second quarter we added to our already sizable position in the company making it the largest position in our portfolio. Because of this, we have written up a more detailed investment review on Microsoft, which you will find in the Commentary section of our website (under Research Reports).

Changes to Our Portfolio

During the quarter I eliminated three holdings and added to our cash and short position. No new long positions were added during the period.

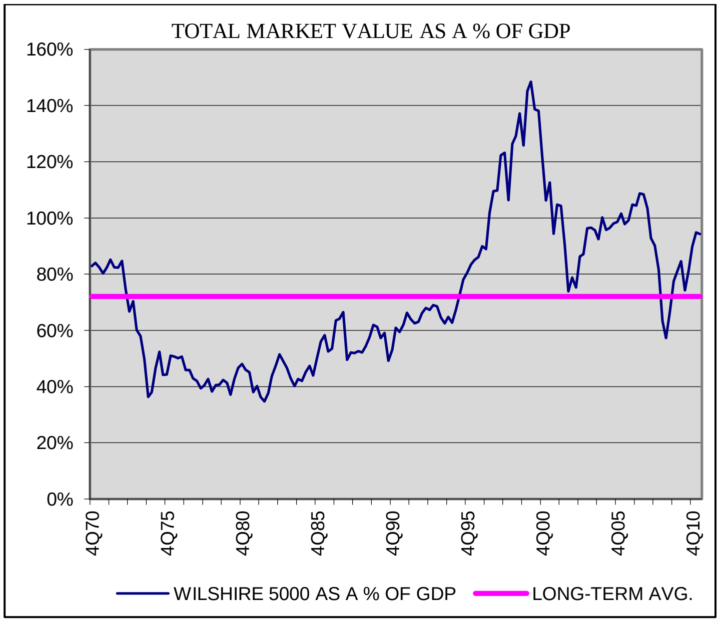
In an effort to raise our cash levels and add to our short position, I sold our holdings in Automatic Data Processing, General Dynamics and Viacom. Automatic Data Processing is a wonderful business that generates high returns and requires very little in the way of invested capital. However, the stock had become one of our portfolio's least attractive positions from a valuation perspective. Although we had owned the stock for only a year and a half, we earned over 20% total return on our investment in Automatic Data Processing. General Dynamics is a well-managed company in the defense and aerospace industries that generates a ton of free cash. However, its largest customer, the U.S. Government, is in the worst financial shape it has been in for many decades and will likely be forced to dramatically cut spending on defense in the near future. As a result, we have become less confident about the company's future earnings power. Though far from what we would consider a successful investment, in the year and a half that we owned General Dynamics we earned a 10% total return. And lastly, Viacom has been a successful investment for us, having generated over 60% total return in the year and a half that we owned it. While the stock had yet to reach our estimate of intrinsic value, the position was sold and used as a source of funds to increase our cash and short positions. We continue to hold our other media-related positions in Time Warner and Comcast.

During the second quarter I added to our position in the ProShares Short Russell 2000.

Today, large American businesses in general are doing quite well. They have strong balance sheets and are generating near-peak margins. This is also true for our portfolio holdings. However, the same cannot be said for our incompetent government. It already has too much debt on its balance sheet and it keeps having to issue additional debt to help pay for expenses and entitlements that current tax revenues do not cover. The current administration in Washington does not have the capacity to make the necessary changes to limit the size of the government and to make sure that it lives within its means. As a result, U.S. Treasury bonds will likely lose their triple-A credit rating in the coming months. Meaning...for the first time in nearly 100 years, U.S. government debt will no longer be thought of as being the highest standard. This is an historic moment for our country, and not a good one at that. I continue to be cautious with our portfolio in this increasingly uncertain environment.

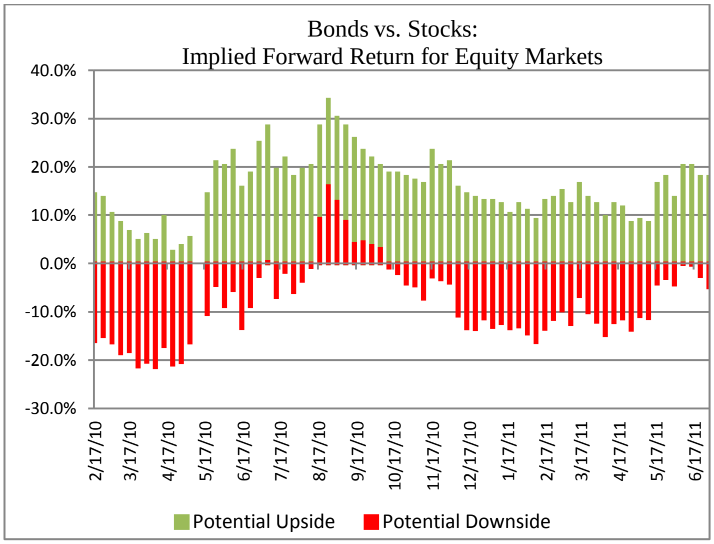
U.S. Equity Markets: Cheap or Expensive?

While we are stock pickers first and foremost, we recognize that it is also important to keep an eye on the overall value of the equity market. One relationship that we track closely is the value of all publically traded securities in the U.S. (as measured by the Wilshire 5000 Index) vs. GDP, which is currently around 94%. Think of this relationship as the price-to-sales ratio for the overall equity market. The long-term average is below 80%, suggesting that the current equity market is slightly overvalued. The good news is that we are nowhere near the all-time high of 150%, which was reached at the peak of the technology bubble in 2000. You can see this better in the following chart:



Another measurement that we believe is a good indicator of whether U.S. equity markets are cheap or expensive is the relationship between the yield on U.S. investment grade corporate bonds and the earnings yield for the equity market (this is one of Arnold Van Den Berg's favorite valuation measurements). The reason that this relationship is important is because bonds and stocks are always in competition for investor dollars. Investors will always gravitate toward the asset that offers a higher risk-adjusted return.

Based on the historical relationship between these two yields, the current relationship implies that the risks in the equity market favor the upside (potential upside of 18% vs. potential downside of 5%). You can see this better in the next chart. (Simplistically, positive green/red means stocks are relatively more attractive than bonds, while negative red/green means stocks are less attractive than bonds.)



While equity markets in general do not appear to be terribly overvalued, continued uncertainties in the global economy and the lack of leadership in Washington make it prudent to keep some dry powder on hand.

Housekeeping Items

You may have noticed some changes to the look of the quarterly report. We have just completed a new design of our website and marketing plan and we wanted to make sure that all correspondence with existing and potential clients is consistent. To see our new website, please go to www.sirelinecapital.com.

As always, thank you for your continued loyalty and support.

With appreciation,

Daren Taylor, CFA

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