

J.M. Hartwell L.P.

Investment Counsel since 1961

Investment Review and Outlook Third Quarter 2011

Process

We invest in companies based on fundamental analysis. We mitigate risk by selling those companies that are underperforming our expectations and by limiting the portfolio's exposure during times of duress. Each stock in the portfolio has specific, expected catalysts. When a catalyst fails to materialize during our expected time frame, or if we find a company with a greater expected rate of return, then the underperforming stocks are sold. Our goal is to provide Benny's Inc. with high alpha, or excess return over the relevant indices. In addition, we are constantly focused on preservation of capital by adhering to our risk management policies.

Commentary

The Standard and Poor's declined 13.9% in the quarter and has now declined 8.7% for the year. In spite of the robust, on-target earnings' reports of July and August, we unfortunately participated fully in this decline. The outlook for the third quarter is equally robust, but management guidance for the 4th quarter and 2012 will be critical.

The energy companies had the greatest impact on performance for the quarter. The oil shale and service companies had similar percentage declines. These declines were the result of the expectation that the unresolved European sovereign debt situation would lead to bank failures and a global economic recession similar to what we experienced in 2008-2009. In addition, there is increased concern that China's tightened monetary policy will result in an economic hard landing dampening demand for commodities. Despite the myriad of political and economic issues, we do not share these views. The firewalls around the European banks are being put in place. China has excess foreign reserves, a current account surplus, an undervalued currency, and looks to be heading for a soft landing. The US economy continues to move forward albeit at a slow pace.

We continue to remain optimistic about the outlook for positive stock returns despite the current lack of interest for riskier investments. Investors have moved to the safety of cash and treasuries as witnessed by the decline in the US Treasury yields and the spike in M2 (a broad measure of the amount of money in circulation). The volatility of the equity markets and individual stocks has dismayed many investors. They have withdrawn significant sums from equities mutual funds in July and August. Funds that invest primarily in the US disgorged \$25.6 billion in August, having taken out \$28 billion in July. Taxable bond funds had withdrawals of \$3 billion in August after inflows of \$9 billion in July. Bond funds had inflows of \$73 billion year-to-date versus \$213 billion a year earlier. All this inflow into cash and bond funds seems particularly unusual given the current level of interest rates and common stock valuations.

After periods like this, it is reasonable to ask whether equities offer attractive valuations. Equities in general and growth stocks in particular appear undervalued relative to their historic valuations. The risk premium for equities is now approximately 6% (measured by excess return

over TIPS) versus a long-term average of 3%. It is higher than at troughs of the 1991-1992 and 2001-2002 downturns. Another perspective is that a halving in earnings for 2012 is already built into the risk premium. This is extremely unlikely.

Insiders are buying their own stock. In the last 10 years, the norm has been two sellers for every buyer. Currently, it is the opposite, and there are now two insiders buying for every seller. Insiders have historically had a good track record and their outlook is obviously very different than that of other equity investors.

Energy *(Over Weight)*

Energy stocks in general declined approximately 25% and our portfolio of stocks was not insulated from this. We continue to focus on high quality growth stocks that are able to grow their production and are less dependent on high commodity prices. In addition, we have focused on the service companies that are engaged in shale drilling and completion services. The US is well on its way to becoming a global oil producer and drilling is still nascent. Many of the service companies have recently discussed their outlook in response to declining equity share prices. The central theme of these discussions was that business remains robust and capital is inexpensive. The recent purchase of portfolio holding Complete Production Services by Superior Energy Services for a 35% premium is consistent with our views for this industry. We expect more mergers and acquisitions and stock buybacks.

Technology & Communications *(Over Weight)*

In the quarter, we sold Medco Health after Express Scripts announced the 20% premium takeout offer. In addition, we sold Russian cellular provider Mobile Telesystems and used the proceeds to add to Complete Production Services, and new purchase Mastercard. Mastercard is benefiting from a global shift to cashless transactions, which are rising 5%-6% a year. Consumers are increasingly comfortable using credit cards and particularly debit cards to make purchases online or in stores. The company generates revenues through the number of transactions as well as through dollar purchase volumes. Mastercard's most rapid growth will come from overseas, in regions where personal consumption is rising fastest. The company generates 58% of revenue internationally. In the US, gross dollar volume rose about 10%, and 20% in the rest of the world.

Technology continues to be a significant weight in the portfolio. We expect that unemployment will remain anemic and that companies will look to improve margins through the increased use of hardware, software and by outsourcing their information technology needs. Apple continues to be a large position in the portfolio. The world has sustained a great loss in the passing of Steve Jobs. While the team of talented individuals that made the products what they are is still in place, we make no mistake in thinking that as a leader and visionary Steve Jobs can ever be replaced. Every indication is that he has left the company in good hands with a multi-year product cycle. Pre-orders of the Phone 4S topped one million in the first twenty-four hours, surpassing the previous single-day iPhone record of 600,000 for the iPhone 4. While there may come a time to sell, currently the company is performing well.

Basic Materials *(Equal Weight)*

FCX continues to generate substantial cash flow based on very strong company fundamentals. The stock underperformed during the quarter based upon a dour outlook regarding the health of

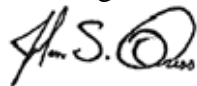
metals demand in China. China consumed 40% of the world's refined copper last year, and with over 9% GDP growth, Chinese demand for the metal is unlikely to stall. During the first half of the year, the supply shortfall amounted to 130,000 metric tons. With continued strikes at major copper mines around the world it is unlikely that additional supply will come to market. The stock is trading at less than half the S&P 500 multiple and has a 3% dividend yield. Despite the macro economic concerns, we believe the stock is significantly undervalued. We continue to own Freeport McMoran.

Summary

We are disappointed by the year-to-date performance, but feel strongly that the equity positions in your portfolio represent great value. Fundamentally, the companies continue to perform well; however, concerns about a financial crisis have caused investors to sell equities. In contrast, insiders are buying their stock. Berkshire Hathaway's buyback announcement was not unique, but was their first in over 40 years. Corporations are doing a combination of stock buybacks, dividend increases, and mergers and acquisitions. To date through September, 678 corporations have announced \$347 billion in buybacks. Our view is that equity performance will improve as concerns of macro economic crisis ebb, and investors will once again value equities based on the fundamentals of the underlying companies. We will continue to concentrate on the long-term prospects of our companies and not be distracted by the current volatility.

We thank you for your continued support.

Kind regards,

A handwritten signature in black ink, appearing to read "Jordan S. Press". The signature is written in a cursive, flowing style.

Jordan S. Press
Principal