



November 2, 2010

Dear Investors/Interested Parties

For the third quarter of 2010, the IronHorse Capital portfolio was up 13.15%, net of performance fees. For comparative purposes, our benchmark the MSCI World Index Total Return (inclusive of dividends) was up 13.92% over the same period. Please view the Net Return Summary below to view these and other returns over multiple periods.

Net Return Summary			
	Q3 2010	YTD 2010	Since 12-3-2009
IronHorse Capital (Net)	13.15%	6.48%	6.89%
MSCI World Total Return	13.92%	3.08%	2.73%
S&P 500 Total Return	11.29%	3.89%	4.58%

Economic Reflections – A Tale of Two Quarters...

When we signed off at the end of Q2, most of the free world was consumed with the threat of sovereign debt defaults, equity markets tumbling into the abyss, China/US/Global growth concerns, and a litany of other potential calamities too numerous to recount here. A particularly challenging week in the markets to end the quarter certainly didn't help attitudes towards capital markets going into Q3.

What a difference three short months make! The MSCI World rebounded smartly, up 13.9% in Q3 versus a (12.5%) print in Q2. Volatility in the US markets, as measured by the VIX Index, declined from 34.5 to 23.7, closer to the historical average. General market sentiment, as measured by the weekly AAI Bull/Bear indicator, improved markedly with the percentage of bullish investors ramping from 21% at the beginning of the quarter to 45% by quarter-end. Let the global investment community celebrate, right? Two straight quarters of exhausting double digit, roller-coaster moves left the index more or less where we began the wild journey, up approximately 3.1%. A relatively unexceptional number on paper masking a sometimes exceptional, often-times perplexing year. In addition, global markets didn't go to zero as many seemed to be predicting.



We argued forcefully in our Q2 letter that market participants (and the pundits leading the herd) were placing their full psychological weight behind dire end-of-the-world-as-we-know-it outcomes without paying attention to the quantitative reality world-wide. We believed that valuations were reasonable and stocks were more than adequately pricing in the awful outcomes so prevalent at the time. And thus, investors learned the important rule about markets and expectations. When markets are priced at or near perfection, and investors express belief that nothing can go wrong, it doesn't take much to sink the ship (see the 1999 Nasdaq bubble, or the complacency prevalent in 2007). Matter of fact, seemingly good news can tank markets because it's not "good enough." Conversely, when markets are trading far below the historical median and psychology is in the tank, mediocre news can become great news thus propelling markets upward in furious fashion. Or, bad news can drive markets higher because suddenly it isn't "bad enough." Markets globally seemed to have fallen into this camp by the end of the summer.



The major global concerns heading into the third quarter were:

Concern: *“Earnings may be strong, but expectations are far too high, and all of the growth is coming from cost cutting.”*

Outcome: S&P 500 Earnings increased 48% YoY in Q2 (and are up a similar amount to this point in the Q3 earnings season). Corporate guidance was reasonable. More importantly, revenue was up over 9% YoY, a strong showing. Revenue growth remains strong in Q3. Ultimately, this was a positive for the markets in Q3.

Concern: *“The European sovereign debt crisis is going to bring the world to its knees. Global credit is on the verge of drying up, European banks are impaired, and the EU is on the verge of breaking up.”*

Outcome: Euro-TARP calmed markets, European governments executed debt sales mostly without a hitch, the Greek government lived to fight another day, and European ministers started talking from a similar playbook. European economic growth has been surprisingly strong on balance. Germany posted a +3.7% YoY real GDP gain in the second quarter (released during Q3). France posted a +1.7% gain in Q2, higher than expected, and the UK just posted a surprisingly high 2.8% year over year (YoY) real GDP increase for Q3. On the other hand, credit spreads remain wide for sovereign debt issued by Greece and Spain, and have actually widened in Portugal and Ireland. Former growth-darling Ireland faces major structural economic problems and no apparent end to a downward economic cycle. The British, along with several other EU governments, are undertaking some of the most dramatic government austerity measures ever witnessed prompting riots in France and elsewhere that have hamstrung transportation networks, shut-down government services, and created chaos region-wide. Austerity measures create economic forecasting uncertainty. The verdict for Q3: “Mixed” was good enough. The hurdles were relatively low, and market prices responded accordingly to news that was “less bad” than feared in Q3. The Euro currency moved dramatically higher, from \$1.22 to \$1.36 by the end of the quarter. The German DAX continued to grind upward; the German DAX YTD was ahead of the US S&P 500 by nearly a percent at quarter-end. The UK FTSE jumped nearly 14% in local currency terms. The CAC jumped nearly 9%.



Concern: *“The American consumer is dead, the Asian export machine is missing a few screws, China growth is fading fast, and China is facing a credit and real-estate bubble of gigantic proportions.”*

Outcome: News during the quarter was decent. Again, valuations were reasonable and expectations hurdles were low. Markets responded accordingly (ex-Japan, which has many long-term structural, political, and demographic issues). The Shanghai Composite was up 11.4%, the Korean KOSPI was up 10.3%, and the Hong Kong Hang Seng was up 11.9%. In the US, destination for a good portion of Asian exports, retail sales were up sequentially all three months of the quarter. YoY sales remained at or above 5% each month of the quarter. Same store sales for individual retailers in the US were surprisingly robust last month. The US consumer has justifiably retrenched, but the death of the American consumer remains exaggerated. Decent numbers arrived even though savings as a percentage of disposable income continues to hover around 6%.

In China, real estate prices have moderated overall in a reasonably orderly fashion to this point, though much work remains. China exports and imports have continued to increase at a blistering pace YoY (+26% and +25%



respectively in September). Chinese Industrial production was up over 13% in September YoY, consistent with numbers seen regularly over the past five years. China's real GDP in Q3 came in at 9.6% YoY, down moderately from levels earlier in the year, but historically strong nonetheless. Growth has been sufficient enough to warrant China's Central Bank to recently raise benchmark interest rates 25 basis points, the first hike in three years. Industrial Production was up over 15% YoY in export-focused Japan (though the Japanese consumer remains stuck in the mud). Machine orders in Japan were up 24% YoY in August. Year over year department store sales remain near the higher reaches of the historical range in South Korea, as does YoY Industrial Production. On the "of concern" side of the ledger, the Chinese consumer probably doesn't consume enough, global trade imbalances have persisted which prompted the G-20 to decry the potential for "competitive currency devaluations," and the US consumer personal savings rates will probably continue to grind higher affecting the potential for Asian growth. Worries regarding industrial capacity persist. Others are skeptical Asian governments can skillfully guide down growth to sustainable levels. Still, it's "less bad than feared," which has been decent for markets ex-Japan.

Again, sentiment and news flow going into the quarter was horrendous. Some of those issues played out as expected; but most never materialized. Markets had baked in a significant amount of pain as represented by low valuations and therefore markets globally rallied significantly.

Current and Future Economic Outlook

Obviously, cycles are long, economic and political issues can take a long time to play out, and quarterly time frames are insufficient in terms of being able to gauge the efficacy of macro or micro analysis. So after double-digit rallies around the world, where does the world now stand from a quantitative valuation standpoint and a qualitative political and economic standpoint? Is it still "prepared" to handle the potential for troublesome news? Believe it or not, world equity markets are still positioned reasonably well as we work through the final calendar quarter of the year and beyond into 2011.



Item #1 - Global Equity Market Valuation

Valuations around the world on a normalized basis remain far below historical levels. On a Normalized P/E basis (5-year average, trailing earnings), the S&P 500 in the United States is trading at approximately 15.7 times. At this level, the normalized P/E is still in the bottom quintile of historical P/E readings, a level that has been commensurate with strong 10-year future annualized equity market returns. The broader MSCI World Index is trading at 15.8x, approximately one standard deviation below the historical average. Looking at individual indices overseas, the German DAX is trading at 16.3x, the UK FTSE at 15.9x, the Paris CAC at 10.9x, and Hong Kong's Hang Seng at 16.8x. All except Hong Kong are trading approximately one standard deviation below the historical averages; Hong Kong is only slightly below its historical mean.

On a forward basis, valuations are also very low across developed and developing markets. The S&P 500 is trading at 12.3x expected 2011 earnings. The MSCI World is trading at 11.9x expected 2011 earnings. Again, looking at individual markets around the world, the song remains the same. The French CAC is trading at 10x, the FTSE at 10x, the DAX at 10.5x, the Shanghai Composite at 14x, the Hang Seng at 12.8x, the Indian Sensex at 15.7x, the Brazilian Bovespa at 10.5x, and the beat goes on and on. Surely, it is fair to say there is some downside risk to earnings growth if negative scenarios play out. Even with decent haircuts to earnings forecasts, valuations would remain at low levels. There is plenty of "margin for error" built into the broader global marketplace.



Using other forward metrics, the market shows similar characteristics of undervaluation. For instance, the S&P 500 in the United States is trading at 1.8x expected book value and 1.2x expected sales, both very low values historically.

Verdict: General economic and political hurdles are a bit more problematic and do bear watching. However, in light of the reasonable valuation profile discussed above, they shouldn't present major insurmountable problems for steady equity market appreciation over the next several quarters.

Item #2 - The European Sovereign Debt Crisis and European Austerity

Following the dramatic, and perhaps excessive, European sovereign selloff earlier this year as Greek, Irish, Spanish, Italian, and Portuguese debt problems surfaced, risk premiums across the spectrum compressed briefly during Q3. Then risk premiums began a steady march higher towards the end of the quarter, especially in Ireland and Greece, the two countries facing the most acute fiscal and economic crises. Clearly, markets are skeptical that Greece will be able to avoid some sort of a debt restructuring over the next three to five years; credit default swap prices show restructuring probabilities exceeding 50% depending on the time frame involved. With the strong probability for potential Greek debt restructuring already baked into broader market



expectations, and with European Union leaders having demonstrated that they can work together “just enough” to mitigate headline risk to calm the broader debt and equity markets, we feel that the potential for devastating spillover into capital markets prices over the next quarter or two is minimal. Ultimately, the EU and other western entities understand the importance of protecting the fragile financial system against further capital base erosion. For good or for ill, policymakers will do whatever it takes to prevent serious contagion.

That being said, in response to massive fiscal deficits, European governments across the board have embarked on fiscal austerity experiments which will be active Petri dishes for policymakers in the US and beyond. The new Conservative-tilted coalition government in the UK is ready to cut many government agency budgets by up to 20% and cut government spending to the tune of \$127 billion over the next four years. In the UK, 490,000 public workers are expected to lose their jobs. From France, to Germany, to Spain, to Greece, to Ireland, to Eastern Europe, governments across the continent are ignoring the traditional Keynesian prescriptions to sluggish growth by planning spending cuts and reforming pension and entitlement policies. The US will eventually get pulled along. The broader macroeconomic effects of these measures bear watching. In our opinion, austerity proposals in the developed countries outside of the southern European danger areas were partly responsible for the sharp downdrafts in equity markets during Q2. We think austerity is largely priced into equity markets in Europe at this time and don't feel that this should have an outsized negative effect on equity markets over coming quarters. However, the cone of uncertainty increases dramatically when we look out to 2012 and beyond.

Verdict: Mixed. The issues in Europe won't go away, but much is priced in.

Item #3 - US Congressional Elections

By the time you read this the United States House of Representatives will most likely have moved back into the GOP camp. While it's easy to quibble over what this means for individual policy tracts, one thing is clear: outsized additional fiscal stimulus to support sluggish growth and disappointing employment trends is dead on arrival, if it wasn't already. Both parties have heard from constituents that additional government spending



proposals are toxic. UK-style austerity most likely isn't in the cards, but it seems that expansionary fiscal policy, which has contributed to US GDP growth over the past year to year and a half, will fade (the size of the contribution has been fiercely debated, of course, but there has been a contribution of some sort). In any case, we think the potential for US quasi-austerity is rather neutral for the markets. Global investors have yet to punish the US for its eyebrow-raising Debt/GDP ratio, and don't appear ready to do so. Thus, the US doesn't find itself in as desperate a position as our friends across the Atlantic. Accordingly, fiscal policy shouldn't be a major detractor from economic growth.

Separately, we don't believe that the new GOP-led Congress will be able to push through any major pieces of new legislation, nor will it be able to repeal the major Obama-led platforms in health-care and financial services reform. However, we do believe that the new Congress will find a way to extend the Bush-era tax cuts for the vast majority of Americans. This is good enough for right now. Bearish pundits declare that gridlock between the Executive and Legislative branches will be harmful for the US. They declare from the rooftops that we need "decisive" leadership during these so-called perilous times. We'd argue the opposite. Historically, gridlock has been positive for market performance. In counterintuitive ways, it reduces the uncertainty quotient in the broader marketplace. American businesses have recently faced a maelstrom of new regulations and policy prescriptions resulting from the legislative barrage. Now we all get to take a deep breath. We think gridlock will give US businesses and US markets a much needed opportunity to evaluate future business prospects and plan accordingly. US business is adaptive and should be able to cope knowing that our collective heads won't need to be on a swivel.



Verdict: Positive. We'll take the "gridlock is good" stance.

Item #4 - Quantitative Easing 2 "QE2"

The Federal Reserve has expressed concern about disinflationary trends in the US due to the continued overhang from deleveraging, low capacity utilization, and the general "output gap," or the gap between actual GDP and potential GDP. Ben Bernanke has spent a good portion of his academic and professional life trying to understand monetary policy in the aftermath of economic crises, particularly the mistakes made in past episodes. His conclusion: it's better to open the fire hoses and deal with the potential for inflation down the road than stumble into a deflationary spiral. The Federal Reserve has already spent their traditional bullets by moving interest rates to the so-called zero-bound. Now we move into monetary insurance policy territory: the Fed is discussing the purchase of \$500 billion, maybe more, maybe less, of long-term US Treasuries to pull down rates on the long-end of the Treasury curve. Ostensibly, low rates would encourage new capital investment and general animal spirits. The merits of a potential quantitative easing program have been debated fiercely, both within the Fed and in the public sphere. We don't want to spill too much ink on an issue that has been debated ad nauseum in the broader press, but we do have a few general thoughts here. Most studies we've seen estimate that a program of this size should push down long rates anywhere from 25 to 65 bps. With 10-year Treasuries having moved down as low as the 2.4% level (currently around 2.6% to 2.7%), we think markets have largely priced in the move. Markets could experience some minor short-term turbulence when policy is announced on November 3rd.

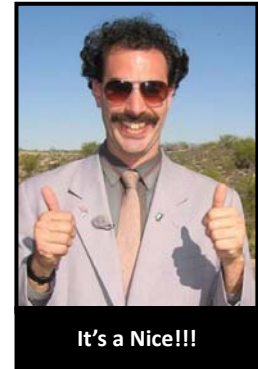
Most importantly, however, the Federal Reserve is making it incredibly painful to remain in risk-free or quasi-risk-less assets. We think this will have implications intermediate term. At some point, investors will move further out the risk curve as they've done numerous times in the past around the world when faced with similar situations. "Money travels where money is treated best." With a 15.5x P/E in the S&P 500, investors are



looking at an earnings yield of approximately 6.5%. The current spread between the earnings yield and Treasuries, or the earnings yield and corporate debt yields, is near historical highs. Combine this dynamic with the fact that institutional and individual investors are undersubscribed to equities and oversubscribed to bonds and you have a potentially powerful global equity market dynamic developing, in our opinion.

We'll leave it to economists to hash out the theory surrounding QE2. We do know that equity markets have quietly been grinding higher; corporate profitability has remained intact, general economic growth has been adequate, investors are getting antsy with low yields, equities remain reasonably valued, and bonds are potentially overvalued. We think we may be on the cusp of seeing global investors begin to reconsider their current asset allocation situations, with a view towards increasing allocations to equity markets.

Verdict: Positive. Markets have priced in the impact on interest rates, which has already had a moderately positive effect on equity markets. People are underestimating the potential for a strong movement of capital into equities, however, to fill the yield void.



Item #5 - Currency Wars and Global Trade Imbalances

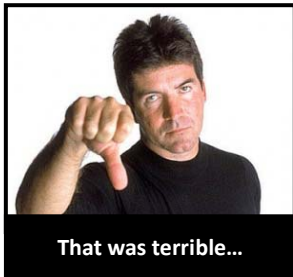
No discussion of “QE2”, Congress, and the like is complete without consideration of the recent currency cold war taking place globally. Briefly, the situation has adhered to the following quick and dirty outline: for years, the United States, now a “debtor” country with a dearth of national savings as represented by a poor trade balance, has been involved in a merry-go-roundish economic dance with surplus countries such as China, who wish to maintain the primacy of their export economies and build substantial foreign exchange reserves. In flush times earlier this decade, credit-addicted Americans bought inexpensive widgets from China et.al. The surplus dollars were then recycled back into US Treasuries, or other financial assets. A similar situation unfolded in the EU, where current account surplus nations, most notably Germany, played continental financier to the Club Med countries (Spain, Greece, etc.) as they racked up excessive external debts. Massive trade imbalances prompted political rumblings earlier in the decade, but economic growth was sufficient enough everywhere to ensure we could all get along. At the height of the economic crisis, it appeared that the imbalances might unwind rapidly; the US savings rate for instance shot dramatically higher (trade imbalances moderated as well) and China's economic growth began to waver. This struck fear in the hearts of the exporting nations, who look to the export sectors as jobs/social stability engines. Under ideal circumstances, floating currencies would adjust in response to imbalances, excess savers would become better consumers, and super consumers would become good savers and exporters. Of course, these types of transitions are painful in the short to intermediate term as economies adjust. China has faced pressure to relax the currency peg to the US dollar; most feel the Yuan is dramatically undervalued. They've understandably balked. (Europe is a more complicated issue because the Club Med countries don't have the ability to manage their own monetary policy because of the single continental currency). Consequently, protectionist political rhetoric in the US, which is looking to improve its trade profile, has ratcheted up substantially. Some believe “QE2” rhetoric is a closet currency devaluation scheme orchestrated by the Federal Reserve to put pressure on countries like China.

G-20 talks, both recent and upcoming, focus substantially on this issue. How can the surplus nations gradually move towards equilibrium vis-a-vis the debtor nations without economic and/or socio-political disruption? How can this get accomplished before politicians enact legislation dismantling the free trade progress made over the past few decades? These are all tricky questions.

Not every nation in the world can run current account surpluses (this truly is a zero-sum game) and it's tough to



talk about free or fair trade when currency manipulation in various forms is prevalent. It's in everyone's best interests to work towards global equilibriums. In China's case, the pegged currency is contributing to overheated growth dynamics and inflation, not to mention the misallocation of internal resources. There aren't any "free lunches" in economics. For instance a country could have an overcapacity in heavy industry, but an underrepresented domestic services industry. In contrast, the US isn't in the position to rely on the kindness of strangers over the long-term, though the US does possess a trump card in that China holds close to a trillion dollars in dollar-denominated assets. "If something goes wrong and I owe you \$10,000, it's my problem; if something goes wrong and I owe you \$1 trillion, it's your problem!" As hinted, these issues are intricately intertwined with political and social implications. No country can snap its proverbial fingers and say, "Imbalances be gone! Live in harmony!" The current trajectory is dangerous on several different levels, and hence bears watching. On the current course, without political intervention, countries artificially propping up favored sectors through artificially priced currencies are delaying inevitable economic problems, potentially major. At some point the rubber band will snap. Alternately, if events don't change politicians/leaders in deficit countries will take matters into their own hands by imposing harmful trade sanctions or other punitive measures. This route "feels good" to politicians, but often ends poorly. Overall, this situation shouldn't have substantial impact on near-term market dynamics, but bears watching in future quarters and years. Lack of concrete resolution, whatever form that takes, may keep the boat from rocking excessively in the short term, but could lead to major economic storms down the road. China, for instance, is juggling several balls to bring economic growth and inflation onto a sustainable track. Missteps could result in quick economic deceleration with implications for a global economy looking to China as a perpetual growth engine.



Verdict: Negative in the intermediate term. This shouldn't affect trading substantially over the next few quarters. If not managed correctly, though, these issues could cause outsized economic uncertainty, especially in countries such as China, over the next few years.

Economic Conclusion

To conclude, from a quantitative/valuation standpoint, global equity markets look favorable, at least for the next several quarters. Qualitatively, markets continue to discuss and anticipate bad news, which, in turn, has been reflected in low valuations. Potentially favorable qualitative news events are still being ignored in many corners of the marketplace. Some longer-term storm clouds, such as currency issues, remain on the horizon and bear watching. Thus, our general viewpoint on global economies and equity markets hasn't substantially changed since we wrote the following in our Q2 letter:

"This year is setting up similar to 2004 in that global markets have been digesting the dramatic gains that followed a deep, dramatic market low. This type of market action has also been witnessed following other deep-dish market bottoms. Like 2004, the 2010 market has moved sideways to down (though much more dramatically this year owing to the sharp run-up in Q1), but the prospects are decent that the market can grind higher into the end of the year. 2011 appears to be shaping up as a potentially strong year as well. We still do not believe the much-feared "double-dip" will take place. Our models indicate the general employment situation in the US and elsewhere should continue to gradually improve into year's end and beyond. Overall, economic growth will remain sluggish, but sufficient. Overall market volatility should, at worst, remain at the current levels, close to the historical median." While there is some risk to the downside in terms of economic growth prospects and downside earnings revisions looking out to 2011, we believe global equity markets are adequately pricing outstanding risks. Earnings growth should remain strong overall. As of this writing, Q3



earnings are again coming in strongly above market expectations (currently exceeding expectations by close to 8%). Earnings growth isn't the only story. S&P 500 sales, for instance, is up nearly 10% YoY. Global earnings guidance seems to be intact at this juncture."

The IronHorse Portfolio

Positioning

This was an active quarter for IronHorse overall, especially during the early weeks. At the beginning of the quarter, IronHorse took advantage of the summer sell-off to add several beaten-down, reasonably valued names to the portfolio, most in the US. Four of the names added were in the retail space, including American Eagle Outfitters, JC Penney, and Walgreens in the US, and Esprit Holdings in Hong Kong. From a valuation standpoint, all four names were trading at deep discounts to fair value. We felt that equity investors had unfairly punished this space during the summer swoon and that concerns about US and global consumer spending, and overall economic growth, were overdone. For the most part, we were rewarded with solid snapback performance during the quarter in this space. American Eagle Outfitters appreciated approximately 27% from the time of purchase to the end of the quarter. JC Penney was up 16.4% from the time of purchase, and has rallied since quarter-end on news that Bill Ackman's hedge fund has accumulated a substantial stake. Walgreen's was up 18.7%. Esprit Holdings was the laggard in this group, declining 4.6%. Sales in the recently completed quarter were underwhelming for Esprit in the US and Europe, though the company is experienced strong double-digit growth in mainland China. We still believe this is a solid holding. In the broader consumer discretionary space, we added travel services group Tui Travel out of the UK. Similar to the names above, we felt this was trading at a discount to fair value and should be able to benefit from the recent uptick in global travel trends. Tui provided very modest gains during the quarter, rising approximately 1% in US Dollar terms since the purchase in late July. Metro PCS, a telecommunications pay-as-you-go cellular outfit purchased at the end of Q2 performed admirably by rallying nearly 28%.

Notable Leaders:

Going into the quarter, we felt that names in the materials and energy space were undervalued fundamentally and that the space had the wind at its back. Investors were ignoring the potential for sustained global economic growth and overemphasizing the negative. Furthermore, we felt the US dollar had rallied too far, too fast and was due for a retrenchment. The materials/commodities/energy space proved to be an overall winner for the portfolio as we added one name to the portfolio in July, fertilizer company CF Industries. It benefitted from concerns about agricultural yields, corporate action chatter surrounding BHP's bid for Potash, and the general uptick in agricultural commodity prices. We were rewarded with a 46% return in the name from purchase to quarter's end. Legacy materials names were also stand-out performers. Australian mining company OZ Minerals leapt by 77% (in US dollar adjusted terms) during the quarter. OZ's primary asset is the Prominent Hill copper mine in Australia. The name obviously benefitted mightily from the sharp increase in global copper prices. Finally, Marathon Oil, purchased near the end of the second quarter, increased approximately 7.3%.

IronHorse also added positions in medical device technology leader Medtronic, defense industry standout L-3 Communications, and disk drive maker Western Digital near the end of the quarter. All three have been solid performers thus far. Standout legacy names in the portfolio from the US include UTI Worldwide, a global logistics company, up 30%, financial consulting firm Towers Watson, up 27%, healthcare services providers Magellan Health Services and UnitedHealth, up 30% and 24% respectively, and Memphis-based Thomas & Betts, which increased 18%. Internationally, a few individual European finance names proved to be solid performers during the quarter as concerns over the European sovereign debt crisis waned and the Euro rallied substantially against the Dollar. This also benefitted the two international ETFs we picked up in June to gain



additional international exposure. Credit Agricole (France) was up 47% in US Dollar terms. Insurance standout Aviva (UK) rallied 37%. Our EWG Germany ETF appreciated 17.6% during the quarter and the EFA EAFE ETF appreciated 18.1%. Moving to the Middle East, Israeli telephony technology standout NICE Systems appreciated by 22% in US dollar terms. Chinese advertising company Focus Media returned a whopping 56%. Back to North America, Stantec, a Canadian engineering and architectural firm appreciated 19%. Stantec announced several acquisitions of US architectural firms during the quarter. The company has a long history of profitability and solid growth, and has managed well through the global economic crisis.

As far as the top-3 sector contributors, IT made the most significant contribution to portfolio performance, adding 2.69%. It also represented the highest average allocation through the quarter at 21.38%. As discussed above, consumer discretionary was a solid performer and contributed 2.33% in incremental performance; Cons. Discretionary represented the second highest average allocation at 13.87%. Industrial names continued to carry their weight, contributing 2.27% in incremental performance; the average weight over the course of the quarter was 12.81%.

Notable Laggards:

During a strong up quarter like the one just completed, it's easy (and satisfying after such a volatile summer) to spout off the winners. There were laggards in the portfolio, though. Thankfully, they were few and far between. Career Education declined 6.73% during the quarter as the US Department of Education and other entities continue their evaluation of the for-profit education sector. We purchased additional shares near the recent lows. While we are certainly concerned about the impact new rules could have on student enrollment, we feel that the stock is pricing in a much greater impact than warranted. Analog semiconductor player Intersil declined 2.43% during the quarter versus a 5.6% increase for the broader SOX semiconductor index. We still believe this is a fundamentally solid name, picked up additional shares at approximately \$10.50, and have been rewarded over the past month as the stock has pushed back towards the \$13 level. Telecommunications equipment giant Ericsson (Sweden) declined 2.38% during the quarter in US dollar terms. This name was one of the more solid performers in the portfolio during the first half of the year and was due for some profit taking. Looking at the fundamental metrics, we still think the company is a reasonably valued holding; qualitatively, we believe they're well positioned to benefit from the global wireless telecommunications boom. Finally, out of Japan, Sumitomo Trust declined 1.53%, more a reflection of the general downward drift in Japanese markets during the quarter.

Notable Changes:

During the quarter, we sold PPDI, Cardinal Health, Thomson Reuters, Endo Pharmaceutical, and Maxim Integrated as they violated our internal fundamental and technical parameters. We trimmed holdings in Progress Software, Philips, Actuant, Towers Watson, Magellan Health, CF Industries, Focus Media, and General Parts Co. Technically, these names pushed a little ahead of themselves; we felt it prudent to watch and potentially pick up additional shares if prices come in.

Looking Ahead:

In terms of global allocations, going into the quarter we had reduced the exposure to US equities and increased our overall International exposure, especially in Europe. Average North American exposure during the quarter was 46.9%; Europe was 22.61%; Asia was 16.36%; the Middle East, 1.26%; and Cash 12.83%.

Looking into the end of the year, we plan to maintain a stance similar to that expressed at the end of last quarter's letter:

"In consideration of the strong rally in global stocks and the potential for some volatility surrounding the



election and the “QE2” announcement, we anticipate keeping cash levels higher than normal. However, we don't anticipate we'll need to engage our full scale hedging program in the portfolio at this juncture and are still relatively sanguine on global equity prospects going into the New Year.”

Last quarter, we expressed our belief that it may be time to consider additional portfolio allocations to emerging market equities. We added slightly to our China/Hong Kong exposure with the purchase of Esprit, but avoided wholesale additions on the hope there could be a pullback. Overall, we've had difficulty finding individual names that meet our strict fundamental and technical criteria, but will continue to make developing markets a focus for research.

We continue to believe the strongest US opportunity sets are shifting from small and mid cap equities back to large cap equities. Small and mid cap equities have rallied consistently versus their large cap brethren for most of the past decade. We sense a shift in this relationship and have begun to shift allocations accordingly. Many of the names added recently fall in large-cap and will continue to be a focus. Now that the Euro has rallied strongly off the summer lows, we feel it prudent to cut back European exposures slightly in order to reallocate capital towards US or Asia opportunities. We've maintained an underweight posture in Japan relative to the index, but will continue to monitor the situation as interesting opportunities are beginning to appear.

Sector-wise we're still comfortable with our average to above average allocations to IT, Industrials, and Consumer Discretionary names. While materials names have been solid performers, we're a touch concerned that global commodity prices have pushed ahead of fundamentals and may look to take some profits in our names. Finally, we've maintained an approximate equal weight footing relative to the index in Financials and expect to maintain this stance. Despite some of the recent items weighing on the sector, such as the foreclosure mess in the US, we feel the names are priced appropriately and due for substantial gains when some of the negative headline risk begins to abate and the global investment community begins rethinking allocations. The overall fundamental profile for the portfolio is still very strong relative to the index. Relevant metrics for the portfolio follow:

Valuation Metric	IH Portfolio	MSCI World
Median P/E to Growth	0.94x	1.20x
Median Enterprise Value to Free Cash Flow	11.96x	15.11x
Median Enterprise Value to EBITDA	6.07x	7.58x
Median Price to Book	1.63x	1.71x
Median Est. Ann. Operating Profit Growth, Next 3 Yrs	12.92%	10.59%

We certainly would like to extend our most heartfelt thanks to our investors and encourage anyone to call at anytime to discuss the portfolio and broader markets in further detail.

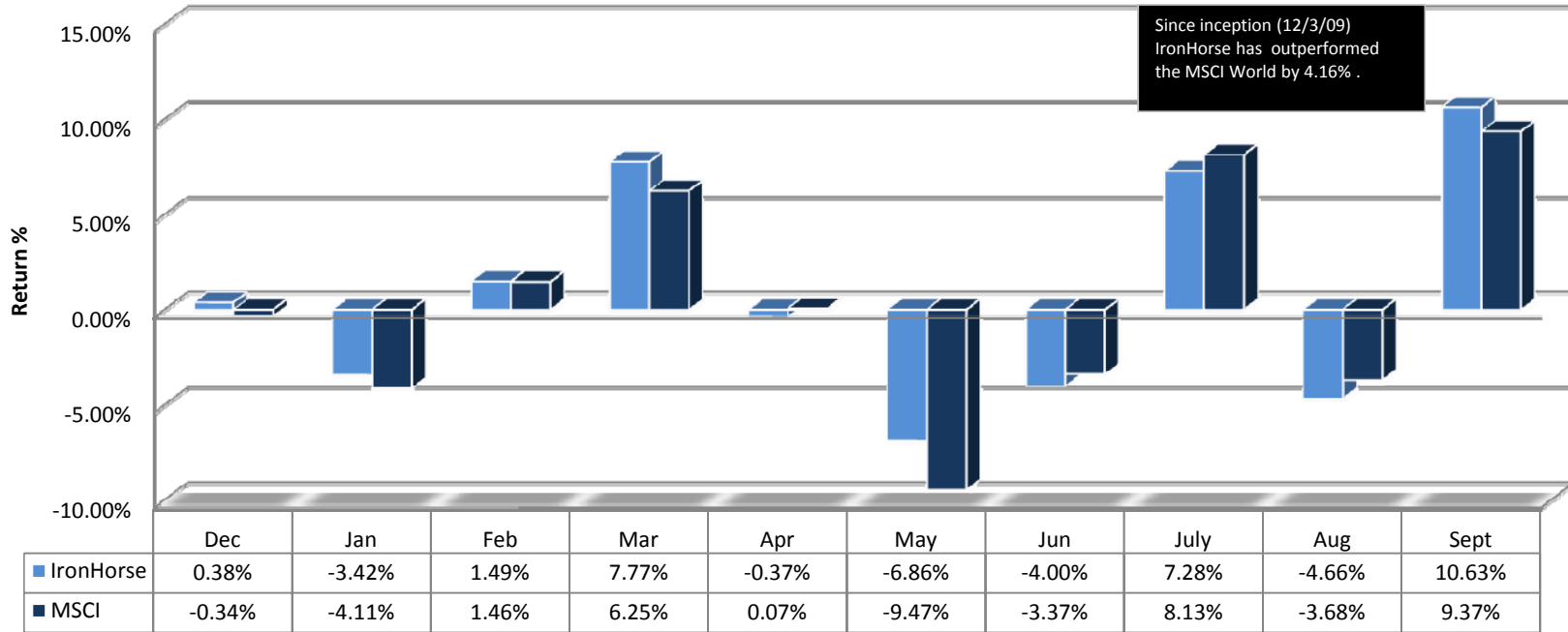
All the best,

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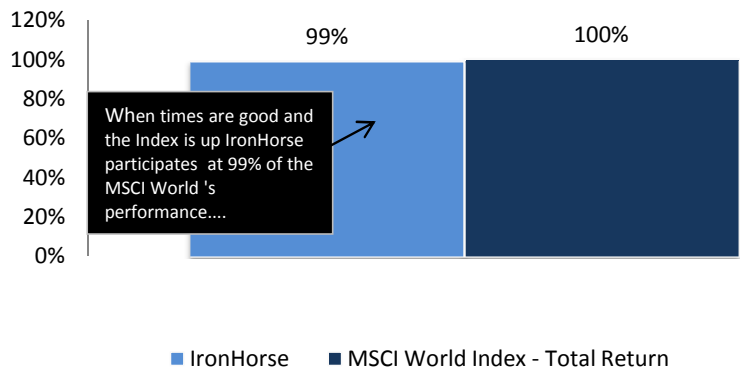
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Exhibit 1 - Performance of IronHorse vs MSCI World Index - Total Return Monthly Performance (Net of Fees)



Daily Upside Return Capture



Daily Downside Return Capture

