Old West Investment Management, LLC

January 13, 2017

Dear Investor,

This past November marked the eighth anniversary of Old West Investment Management. We are very pleased to have completed this many years in business, especially when you consider that only a small percentage of money management firms make it that far. In our eight year history we have had two sub-par years, both which were followed by two of our best years. The two times we underperformed (2011 and 2015) we stuck to our investment process, held the positions that went against us, and we (and you) were richly rewarded the following years.

As you can see in your enclosed statement, we had an outstanding 2016, beating our benchmarks by wide margins in all of our portfolios. With the equity markets near all-time highs you might question whether we are due for a pullback. I believe the market is fully valued and a major correction is quite possible. However, our holdings have tremendous value and I believe we will outperform the market in 2017 and beyond. I know what we own, and there is significant upside and minimal downside to our holdings.

2016 was very gratifying for our team, as we have been swimming against the tide as value investors for several years. The combination of the move to index and ETF investing, and the market's infatuation with certain companies with crazy valuations, had made it a little difficult in 2015. I believe 2016 was the start of a renewed trend where value will once again matter and active management stock pickers will prove their worth.

The recent election was the highlight of 2016 and one of the most tumultuous presidential elections I have seen. The cabinet President Elect Trump has assembled can be described as the dream team for American business. Our holdings in energy, manufacturing, mining and finance should thrive in the Trump era. The lowering of corporate taxes and doing away with unnecessary and punitive regulations will be a godsend to U.S. businesses. Many of Trump's appointees excite me, but none more than the regulation czar Carl Icahn. Icahn is one of the greatest living investors, and he will bring a common sense and practical approach to unshackling businesses from years of needless rules and regulations. Some of our biggest holdings including Chesapeake Energy, Cheniere Energy and PBF Energy all stand to greatly benefit.

So with all this good news, why did I say a major correction is possible? Well, chew on these facts:

- Factory capacity is anemic and falling
- Auto sales are slowing and car inventories are building
- With the recent rise in interest rates, mortgage applications have fallen sharply. The combination of higher rates and home prices steadily rising could cause a significant slowdown in home sales
- Our national debt has doubled to $20 trillion during the Obama presidency
- The current economic recovery is one of the longest on record

601 S. Figueroa Street, Suite 1975 ■ Los Angeles, California 90017
213.943.1740 ■ www.oldwestim.com

- The stock market valuation metrics are near all-time highs. Valuations like these have only been seen in 1929 and 2000
- Margin debt now exceeds $500B, a number that eclipses the $380B figure from 2007
- The dollar is at a fourteen year high. This will act as a drag on corporate profits, and with P.E. multiples already at nosebleed levels, the market will be challenged to move much higher
- Bullish sentiment among both institutional and individual investors is very high. Add to that the fact that investors are extremely complacent (the VIX at 11.8) are all signs of a market top

So, on the one hand you have businesses on cloud nine over the Trump agenda, and on the other hand you have multiple signs of a market top. At Old West, we never pretend to know what the market is going to do in the future. But I can tell you we are extremely cautious and looking for comfortable margins of safety in each and every one of our investments. It should be an interesting 2017!

In our quarterly letters we highlight and give the investment thesis for some of our holdings. In this letter I have chosen one of our newer positions, Abbott Labs which has quickly become one of our largest holdings. The company has everything we look for in an ideal investment.

ABBOTT LABORATORIES

Investment professionals have various ways to find a new stock idea. Some talk to other investors, some read Wall Street research reports, and some get stock tips on the golf course. Our favorite way to find new ideas is to monitor insider activity. Once or twice a year I see a purchase by an insider that nearly knocks me off my chair. Last July, Abbott CEO Miles White purchased 1.1 million shares of his stock, totaling $46 million, increasing his stake in the company he has ran for 17 years by 85%. When I see a purchase of this magnitude by a CEO, I believe it can only mean one thing, that he thinks his stock price will go much higher.

Abbott Laboratories is a 128-year-old Chicago based health care products and services company. Abbott has four divisions: Established Pharmaceutical Products, Diagnostic Products, Nutritional Products and Vascular Products. It is in the Vascular Products division where we think immense opportunity lies, as Abbott just last week closed on the acquisition of St. Jude Medical, a worldwide leader in the cardiovascular business.

Abbott and St. Jude rank number one or number two in the world in each of their cardio products. Abbott is number one in stents, number one in transcatheter mitral repair/ replacement, and number two in atrial fibrillation. St. Jude is number two in the world in heart valves, number two in cardiac rhythm management, and number one in remote heart failure monitoring. Notice how little overlap there is in their product lines. When you combine the two companies you get a powerhouse in the cardiovascular business.

The day the Abbott – St. Jude deal was announced, Abbott's stock price fell over 10%. I believe it was the negative market reaction to the deal that prompted Abbott CEO White to make his extraordinary purchase. How do we know Miles White is someone we should follow into buying Abbott stock? He has a tremendous history of creating shareholder value. White earned two degrees from Stanford University and then began his career in the consulting world with McKinsey and Company. He joined Abbott in 1984 in sales and marketing, rising to the top job as CEO in 1999. Prior to 2012, Abbott had a fifth division, the Proprietary Pharmaceuticals Products division, or more easily said their biotech division. Abbott spun off this division and created AbbVie, Inc., a company dedicated to the discovery and distribution of new drugs like Humira and Synthroid. Their leading product was Humira, the blockbuster drug to treat rheumatoid arthritis and Crohn's disease. White realized the biotech business is different, with huge emphasis placed on research. At the time of the split, Humira was garnering over $14B in worldwide sales. Prior to the spinoff of AbbVie, Abbott's market cap was $84B. Today the combined market caps of Abbott and AbbVie is $175B. That's what I call creating shareholder value.

Another value creating transaction White engineered was to sell Abbott's generic drug business to Mylan for $5.3B in 2015. In 2009 and 2010 Abbott bought Piramal and Solvay, two Indian drug companies, and today Abbott is the leading pharmaceutical company in India, one of the fastest growing countries in the world. In 2008 Abbott bought Guidant's vascular business unit, a transaction that broadened their position in coronary and endovascular products. These are the value creating deals Miles White has transacted as Abbott CEO, and I believe he has not been recognized as the tremendous operator he is.

Now at 61 years old, and at the helm for 17 years, he pulls off the St. Jude acquisition. It is quite possible this is his "swan song" and his best deal yet. The heart is a hard working organ, beating 100,000 times a day. We have all heard of people that have dropped dead of a heart attack with no warning. We have an aging population that brings with it health issues and heart problems would be top of the list. My Dad Phil had his aortic valve replaced in his early 80's and he lived to be 98 years old. What kind of valve did he get? You guessed it – a St. Jude valve.

The new combined company expects to have cost savings of $500M per year by 2020, and earnings per share of $3.00 by 2018. With today's stock price of $40 per share, Abbott is selling for a very reasonable 13 times 2018 earnings. With Miles White's history of outstanding leadership and value creation, we believe Abbott Labs is an outstanding investment, and great deals are hard to come by with the market at an all-time high.

The coming year promises to be exciting and possibly full of surprises. The fun and challenging part of this business is venturing into the unknown. At Old West we stick to our investment process, investing your money alongside great owner/ managers of great companies. Our process is the best that I've seen, and we will work diligently to grow your hard earned money in a thoughtful and prudent way. We appreciate your continued support, and we hope you have a happy and healthy 2017.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer