Old West Investment Management, LLC

July 15, 2020

Dear Investor,

As we reach the half point of 2020 and look back at the last six months, all I can say is "Wow!" In my long investing career, I have never seen anything like the first half of this year. On February 19th, the S&P 500 hit an all time high of 3,386. Then investors started to realize the danger of COVID-19 and the ensuing shutdown of the world economy, and the S&P had its fastest drop in history, falling 34% in five weeks. After reaching a low of 2,233 on March 23, the Fed and US Treasury began a coordinated response to the economic shutdown which then caused the market to skyrocket 45% by mid-June. What a rollercoaster!!

As you can see on your enclosed statement, we had a tremendous second quarter across all our portfolios. The S&P was up 20% in the quarter, the Russell 2000 small cap index was up 25%, and we were up over 30% in all portfolios except for our Income Fund, which was up 19%.

As if the COVID virus was not enough to worry about, who could have imagined the killing of George Floyd and the ensuing nationwide protests. Had you told me at the start of the year the crises that would arise over the next six months, I would have predicted the market would be down 40%. The fact that the market came back to recover nearly all of its losses was largely due to government intervention. Congress passed the Coronavirus Relief and Economic Security (CARES) Act with overwhelming bipartisan support, which pumped $2 trillion into the pockets of individuals and company bank accounts. The government is sending $600 per week to millions of Americans, which actually doubled the income for 20% of people. This transfer of money is set to expire July 30th and is widely expected to be extended.

The federal budget deficit is expected to quadruple this year to $4 trillion, which will increase our national debt to $26 trillion. Add state and local government debts of over $3 trillion, and it is enough to give one a migraine. Besides the Treasury giving away trillions, we also have the Fed continuing Quantitative Easing. The Fed has spent $3 trillion so far in 2020 investing in Treasury bonds, mortgage backed securities, and now for the first time, corporate bonds. This activity continues a trend of the Fed competing in the open markets, which results in interest rates being artificially lowered and increased asset prices.

At the beginning of the year, the US unemployment rate was near an all-time low of 3.6% and GDP was growing at 2%. Today, the unemployment rate has risen to a high of 14.7% and GDP recently fell to -10%. At the same time, the stock market is near an all-time high. This makes no sense to the team at Old West! As you know, we have been bullish on gold for several years, and with so much uncertainty and unprecedented money printing, we like it more than ever. Growth stocks have outperformed value stocks by 24% year-to-date. We anticipate this will reverse, and our value loaded portfolios will do very well the next several years. Whenever I see the vast majority of investors crowded into the same stocks, I am very happy to be on the other side, although at times it can be very lonely.

We are careful not to overpay for highflying "me too" stocks, but we love investing in growth stocks at a reasonable price. We invested in solar industry company Enphase Energy at $1.00 per share, and we still own it today at $57.00. Three years ago, we began investing in Fulgent Genetics, a Southern California based company that provides physicians and hospitals with genetic testing of patients.

Fulgent was founded by American entrepreneur Ming Hsieh. I have had the privilege of serving on the USC Board of Trustees with Ming for over twenty years, and his ingenuity and work ethic are legendary. Ming was born in China and raised in a small village. Ming's uncle attended USC and went on to work at TRW. Ming followed in his uncle's footsteps and earned a Engineering degree from USC, as well as a Master's in Engineering.

Ming began his career as a circuit designer for International Rectifier, and two years later began his own company, Cogent Systems, Inc. Cogent offered fully automated, high-speed biometric fingerprint systems. In 2010, Ming sold Cogent to 3M for $943 million, and he was elected to the National Academy of Engineering in 2015. Ming Hsieh is a true great American success story.

Old West partner Chad Cook writes the following on Fulgent Genetics:

Fulgent Genetics, Inc.

Fulgent Genetics (FLGT) is a genetic testing and diagnostics company. Fulgent's unique technology platform enables the company to create the most effective and wide-ranging genetic tests on the market with both flexibility and affordability. Fulgent's gene probes combined with their software provide rapid implementation of more genes to their test menu and develop more disease-specific tests with relatively less cost than their peers.

Headquartered just a short drive down the 10 freeway from our offices in Los Angeles, Fulgent was founded in 2011 by Chairman, President and CEO Ming Hsieh. Ming has a proven track record of leading businesses to the outstanding benefits of customers, clients', and stakeholders. Ming previously founded Cogent, Inc. in 1990 and grew that business until selling it to 3M in 2010. He is a true steward of equity capital and a strong reason we like the business.

Starting with the tone at the top, Ming had not earned or received any salary for his services until the IPO in September of 2016. For over five years, Ming worked for free! That alone should prove Ming's grit, determination, and character to even the most critical observer. In addition, Ming owns approximately 36% of the company and receives far more incentive from his equity ownership than he does from his salary. He is an owner-operator in every which way – an ideal characteristic of what we look for in a good business. In fact, all directors and executive officers own approximately 47% of the entire business, placing Fulgent in top of the top owner-operator businesses we invest alongside.

Last quarter, Fulgent generated $7.8 million in revenue, up 44% quarter over quarter and consistent with our long-term growth expectations of $50 million for 2020. FLGT's current market cap is $438 million with an enterprise value of $383 million! That's right, Fulgent has a lower enterprise value than market value due to zero debt and excess cash and investments – a rarity in any business, let alone one with as bright a future as Fulgent. In a world of seemingly limitless cheap debt and appetite for extreme risk taking by management teams, it is refreshing to see Ming and his top lieutenants' create an outstanding business without the need for excess leverage – a core concept to enduring intrinsic value growth.

With a book value of $81.4 million, consisting of over $71 million in cash, marketable securities and investments, and no debt, Fulgent offers incredible returns on tangible net assets in the coming years, creating significant economic goodwill. Incremental capital can be reinvested back into the business to fund additional sources of revenue rather than decrease debt, as is the case with Picture by Fulgent, a new and exciting at-home patient-initiated genetic testing offering. In fact, Picture by Fulgent is now providing FDA-authorized, at-home COVID-19 test kits to help fight this global pandemic. More information can be found at https://www.picturegenetics.com/covid19 if you are interested.

Currently, there are only 3 analysts covering Fulgent. Terrifying for those that rely on the comfort of others, but an exciting opportunity we look for when searching for a competitive advantage between market price and underlying business valuation distortions.

Fulgent is a unique growth opportunity at a relatively cheap price of $20 per share (our average cost is $6.00), and one we think will require analysts and other market participants to take notice in the coming years…but even if they do not, we believe strongly in the underlying business fundamentals and significant growth in intrinsic value as Fulgent becomes profitable this year and beyond. Ming truly is building a great business, and we are fortunate to be able to invest alongside him.

The second half of this year should be a barnburner as we deal with continued COVID-19 issues, and of course, the presidential election. We feel we are well positioned for whatever Mr. Market throws our way. Thank you for your continued loyalty and support.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer