

Old West Investment Management, LLC

April 14, 2016

Dear Investor,

The first quarter of 2016 was one of the most volatile first quarters in stock market history. The S&P 500 got off to a terrible start in January, down as much as 9%. The market benchmark clawed its way back the rest of the quarter, ending up approximately 1.35% as of March 31. As you can see in your enclosed statement, we had an outstanding quarter, outperforming the S&P by a fairly wide margin (with the exception of Old West Investment Partners which was nearly even with the S&P).

There appears to be a trend reversal in the market, with value stocks gaining while the high flying growth stocks are struggling to maintain their lofty levels. While I am not bullish on the prospects for the market, I feel very strongly we own a collection of companies selling at bargain prices poised to do well regardless of the market.

Global growth prospects do not look good, as debt has reached levels that will make robust growth hard to achieve. The central banks of the world remain extremely accommodative with little impact. The U.S. economy is one of the few bright spots in the world, and as you know we are very biased towards U.S. companies. The jury is out as to whether the bull market that began in 2009 has ended, or has longer to run. We remain focused on the companies we own versus worrying about factors out of our control.

The number one cause for our poor performance in 2015 was our energy holdings, and it appears the energy markets have reached a bottom and are slowly starting to rebound. We have maintained our energy positions that hurt us last year, and I believe they will be among our best performers the next few years. We recently added to our Chevron position, a best of breed energy producer sporting a 4.5 % dividend yield.

In my quarterly letters I like to highlight some of our holdings, to give you insight into the thinking behind the companies we own. This quarter I'll discuss two of our gold mining companies as well as Live Nation.

LIVE NATION (LYV)

Old West Co-Portfolio Manager Spencer McCroskey writes the following:

Live Nation Entertainment (Live Nation) is the product of the 2010 merger between Live Nation, the world's largest concert promoter, and Ticketmaster, the world's largest ticket distribution

company. It is the largest live event business in the world and is vertically integrated with operations throughout the concert industry supply chain consisting of the Artist, Manager, Promoter, Venue, Ticket Distributor, and the Consumer. The live event serves as the hub while the spokes (Manager, Venue, and Ticket Distributor) drive the cash flow of a very efficient hub and spokes business model. Live Nation also owns or operates 167 venues including House of Blues, the Hollywood Palladium, and 3Arena in Ireland.

The music industry has been in turmoil since Apple introduced the iPod. The iPod music era commoditized music, in a sense, making it available to the masses. As a result, the music companies, and ultimately the artists, earn less income from album sales. As a result, touring has become the primary income source for many artists worldwide. Evidence of this trend can be seen through the 10% annualized growth in worldwide concert spending from \$4 billion in 1998 to over \$17 billion in 2015. Nielsen estimates that 51% of the US population attended concerts in 2015, up from 44% in 2014. Last year, Live Nation was responsible for connecting 63 million fans to over 25,500 events showcasing over 3,300 artists.

Live Nation's concerts segment generates the majority of the consolidated revenues (70%) while only generating around 10% of the operating income. This is the hub around which some of the other businesses, the spokes, drive the real cash flow to the business. Two of the most significant businesses within Live Nation are Ticketing and Sponsorships which generate about 25% of revenues when combined and account for nearly 100% of the operating income before allocation of overhead. Live Nation returns roughly 15% on invested capital indicating it is a very good business, driven by two key competitive advantages: scale and scarcity. Sponsorship revenue has increased over 11% annually since 2011 and this number is expected to grow even faster in the future as large sponsors continue to see live concerts as a viable source for advertising and allocate away from more traditional media outlets.

Dr. John Malone owns roughly 35% of the company through Liberty Media. Liberty Media recently increased their stake by about 30% in December of 2015 around \$25 per share. Currently, Live Nation shares may be purchased at a 12% discount to that of the recent acquisition by Liberty. We have been proud owners of Live Nation for over 3 years generating returns of over 90%, or 15% annualized, since our initial acquisition.

GOLD

Much of what I see going on in the world today favors the ownership of gold in one's portfolio. Consider the following factors:

- Interest rates at a 500 year low. Gold, which has no yield, now has as good of a yield as holding cash!!!
- Every central bank in the world is implementing monetary easing, which results in the steady debasement of fiat currency
- The U.K. possibly leaving the European Union, which might signal the end of the E.U.
- The constant threat of terrorism
- An explosion of debt in China, with thousands of bad loans being rolled over into new loans. China's banking system is now \$35 trillion, which is larger than that of the U.S., with a much smaller economy.

Ray Dalio, Chief Investment Officer of Bridgewater Associates, the world's biggest hedge fund, recently said every portfolio should have at least ten percent in gold. Gold has traditionally been seen as a commodity, but I believe it will increasingly be viewed as a currency (it is the world's oldest currency). I see our gold holdings as defensive and opportunistic. We have no competitive edge holding actual gold, so we own companies that produce gold, run by owner/managers who are heavily invested in their companies with track records of success. Our two biggest gold mining positions are companies with the same name (by coincidence) in two different languages, New Gold and Novagold.

NEW GOLD, INC (NGD)

New Gold is a Vancouver based mining company with properties in Mexico, Canada, the U.S., Australia and Chile. If the price of gold goes as high as I might speculate, I take comfort in the fact that NGD's mines are in countries that are politically stable. Companies whose mines are located in volatile countries (South Africa, Argentina, the Congo) could be subject to nationalization of mines if the price goes high enough and the country is desperate for money.

Randy Oliphant is the long time CEO of NGD, and he has done a wonderful job of positioning NGD as one of the low cost producers in the industry with an all in cost of just over \$800 per ounce. With today's price of \$1,250 per ounce, the company is operating well in the black. Oliphant owns \$20 million of stock in the company, so our interests are truly aligned. The company has \$600 million of liquidity with \$335 million in cash. Although NGD has not been profitable the past two years due to the low gold price, they could become extremely profitable in the future as the gold price recovers and new production comes on board. Pierre Lassonde, known as the godfather of mining, has been a long time director, and he owns 6 million shares of stock. Better known companies like Newmont and Barrick are mostly mentioned in the media, but I much prefer New Gold as a long term investment.

NOVAGOLD (NG)

Novagold has no income and doesn't even generate revenue, but they are sitting on one of the largest known reserves of gold in the world. The Donlin project is located in the good old U.S. of A, in Alaska. The proven reserves of Donlin are 40 million ounces of gold, plus huge amounts of copper and silver. Dr. Thomas Kaplan is Chairman of the Board, and owns 80 million shares of NG, or 25% of the company. Dr. Kaplan has a long history of successfully investing in precious metals and energy. The second and third largest investors in NG are legendary investors John Paulson and Baupost Group's Seth Klarman.

The Donlin project is a 50/50 joint venture with Barrick Gold Corp., and production is still a few years off. I love the fact that they haven't been burning fuel, tearing up equipment and depleting resources the past few years at low prices. Hopefully once production begins the gold price will be much higher.

NG has \$117 million of cash and short term investments, and they are burning \$20 million per year as they continue through the permit process. They have plenty of liquidity to bring this project to be construction ready, at which time I predict they will sell their interest to a major miner and possibly Barrick.

Thank you for your continued support and loyalty to Old West. I am extremely grateful that you stuck with us during our period of under performance, and our team will continue to work diligently to preserve and grow your hard earned assets.

Sincerely,



Joseph M. Boskovich
Chairman and Chief Investment Officer

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