Old West Investment Management, LLC

January 18, 2022

Dear Investor,

The stock market finished 2021 on a strong note with the S&P 500 index up 29% for the year and that comes on top of a 18% return in 2020. These are not easy returns to compete against, but we at Old West are thrilled to have easily beaten the market once again. Our long only separate managed accounts were up from 45% to 51% net of fees. Our three L.P's had an outstanding year with our long/short fund up 39%, our Income Fund up 42%, and our Opportunity Fund up an eye popping 66%, all net of fees. As you know, technology stocks have driven overall market performance for the past ten years, but we have been able to beat the market investing in solid companies from a variety of industries that we have uncovered with our internal research process. We are confident we will continue to outperform the market given the extraordinary opportunities in our portfolios.

With the exception of brief corrections in 2018 and 2020 (Covid), the stock market has grown dramatically since 2009. Scores of young people in the market today, many of whom are decision makers, have never seen a bona fide bear market. The market has been driven by the Federal Reserve Bank manipulating interest rates to near zero, which has caused bubbles in every asset class including stocks, bonds, private equity, venture capital, cryptocurrencies, real estate, art, classic cars and more. This is the most expensive stock market in history, including 1929 and 2000. Our team is keenly aware of this and we love being invested in areas of the market where few have traveled.

Although the current low rate environment seems like it's been in place forever, it might be coming to an end. In my letter to investors of last April I discussed the threat of runaway inflation and what effect it could have on markets. As everyone knows, we now have inflation that is much more than transitory and is dramatically affecting people worldwide. My heart goes out to the construction worker that pays $100 to fill his tank on Monday morning. Food, utilities, gas, healthcare, housing, and other daily expenses have all risen dramatically. This will cause the Fed to take away the punch bowl which might result in a bear market.

The market began reacting to these facts the past several months. Investors continue to crowd into the mega cap tech stocks (you know the names) thinking they are safe havens immune to correction. At year end with the S&P at an all time high, over 300 NYSE companies were trading at their 52 week low, more than double the number trading at 52 week highs. The last time that happened was just before the bursting of the tech bubble in 2000.

Another warning signal for the market is that for the past few years 80% of the market increase has come from multiple expansion and only 20% from earnings growth. That is not a recipe for continued market upside.

If I sound negative about the prospects for the market this year, I am. As I have said many times, with trillions of dollars invested in index funds that are market weighted, everyone is crowded into the same handful of companies. Investors have become conditioned to think today's mega cap companies are not risky investments. Go back just twenty years and the largest companies by market cap were General Motors, Wal-Mart, Exxon, Ford and General Electric. I find it amazing that not one of these companies is in the top five today. If history is any guide, the list twenty years from now will look very different from today's top five.

Most money managers do not like to invest in companies that produce commodities because the price of the commodity has such great influence on the profitability of the company. We have always welcomed the opportunity to invest in these companies, one, because they normally aren't crowded trades, and two because they are essential to our economy. Over the past few years, our investments in uranium miners and companies involved in the nuclear fuel cycle have been large contributors to our outstanding performance. Old West partner Brian Laks spearheaded our investments in this area, and for the past year Brian has been doing a tremendous amount of research in another commodity that is greatly misunderstood and has little following, tin. You've all heard of tin cans and tin roof, but few people, and few professional investors realize how critical tin is to today's economy. Brian writes the following:

We first highlighted tin in our Q2 letter as part of a broader theme of critical minerals that we had been researching along with our work in uranium. We are always interested when areas with excellent prospects are relatively underfollowed by the investment community because it gives us time to examine the industry while valuations are still attractive. Often we discover outstanding fundamental characteristics where the main impediment to a more robust valuation is merely a lack of awareness.

Of specific interest to us are niche commodities where supply/demand imbalances can form with relative ease, leading to either current or expected shortages. This could be from falling supply due to natural depletion or lack of investment during a low price environment. Alternatively, technological developments may lead to an increase in demand for certain materials faster than supply can respond. This has certainly been the case for a wide variety of specialty metals necessary to enable the global transition to clean energy. At a recent conference in Glasgow, Treasury Secretary Yellen referenced an estimate of $150 trillion in spending needed to achieve climate goals. We have already begun to witness significant price increases for many of the raw materials that will be needed.

Tin is a fairly small market, only about 2% the size of copper, but essential to the functioning of electronic devices that are ubiquitous in an increasingly digital world. The largest use of tin is in solder, the conductive material which connects electronic components in printed circuit boards. Demand received a boost around the turn of the millennium with the switch to lead-free solder in many regions for environmental reasons. Semiconductor demand has also been strong, especially recently as the pandemic forced people into their homes and spending increased on electronic goods like laptops and cell phones. TSMC, the world's largest semiconductor manufacturer, recently raised their growth guidance amid surging demand from what they call a multi-year industry megatrend.

Two major areas driving this growth are the push to 5G networks and the development of an Internet of Things. 5G networks require more densely distributed transmission equipment and an Internet of Things would see billions of objects interconnected, each requiring additional circuitry to operate and communicate with one another. More data centers will also be required to process the large increase in information generated. Another area of increasing demand is electric vehicles, which typically require twice as much tin as an internal combustion engine vehicle. One of the newest demand drivers is solar ribbon, copper wire that has been coated in tin and used to connect individual solar cells together into panels. As renewable energy continues to be deployed widely, this is expected to become a major demand driver for tin in the future.

Against this backdrop of strong demand is a supply situation that is quite fragile. The two largest producers, China and Indonesia, control roughly half the market and have seen their production decline over the last two decades. In China much of the production comes from the southwestern province of Yunnan, where extreme weather and rising coal prices have led to power rationing that has impacted supply. Indonesia has mined much of their onshore resource and miners have been forced into shallow offshore waters to dredge alluvial tin from the sea floor. The country has also considered an export ban on mineral concentrates as a way to capture more of the value chain locally, a move which would further tighten global supplies. The third largest producer, Myanmar, is politically unstable and was recently beset by a coup. A relatively new entrant to the major producers, large scale production only began in the last decade and peaked after several years of rapid growth. Much of their high grade discovery has been depleted and they will be forced to go into more complex underground mining of lower grade material to halt further production declines.

Tin is attractive to us because there are not many high quality development projects to fill the growing supply gap. Lower quality projects require a higher price to be economic, and recently the tin price has been setting record highs suggesting that such projects may actually be needed. Global inventories are near all-time lows and consumers are forced to pay high premiums for immediate delivery. One need only look at the extremely low grades of projects being floated to see how dire the supply outlook truly is. Some companies are considering reopening centuries-old mines, and others are proposing to mine what would normally be considered waste rock. There are also very few investment options. The large producers trade on local exchanges in places like Shenzhen, Jakarta, Kuala Lumpur and Lima. Companies that do trade on Western exchanges may have assets in challenging jurisdictions or low share liquidity making it difficult for large institutions to invest.

These types of situations are often ripe with opportunity, and we have identified a few bright spots for further research. At current prices there are producers trading at 3-4x EBITDA and development projects trading at a fraction of net asset value. This is in stark contrast to other areas of the market which we view to be wildly overvalued with much less fundamental support. We have not been this intrigued by an idea since we started researching the uranium industry several years ago. As you have seen in your account statements, that diligence and patience translated into exceptional returns over the last two years. We encourage current and prospective investors to contact us to learn more about this new opportunity.

It will be fascinating to see how 2022 plays out and we are very comfortable and optimistic with how we are positioned in our portfolios. Thank you for your continued loyalty and support and we wish you a happy, healthy and prosperous year.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer