

Old West Investment Management, LLC

July 13, 2022

Dear Investor,

As we cross the halfway point of 2022, financial markets around the world are in full correction. The S&P 500 was down 21%, the NASDAQ was down 30%, and just about every other asset class was sharply lower the first half of the year. As you can see in your enclosed statement, although we did poorly in the second quarter, our year-to-date numbers are well ahead of our benchmarks. Our All Cap portfolio was down 16.7%, our Small Cap portfolio was down 19.1%, and our three L.P.'s performed well on a relative basis. If you consider that all of our portfolios were up between 50 to 67% each of the two previous years, I am pleased that we have limited our losses.

This was the worst first half for the S&P 500 in 70 years. Some of the worst performing stocks were Amazon down 36%, Meta (Facebook) down 52%, Tesla down 36%, Nvidia down 48% and Netflix down 71%. In recent letters, I had been warning that the stock market was dangerously overvalued. Unique to this year though, was the bond markets 11% plunge in the first half, the worst first half on record. Add to that the money lost in cryptocurrencies, with Bitcoin down 60%, and there have been trillions of dollars evaporated from American balance sheets.

So where do we go from here? The stock market is still overvalued. Total market Cap to GDP (the Buffett Indicator) has fallen from 220% to 169% but is still 33% higher than its long-term trend. The market is still dominated by tech stocks with high multiples, and this is where we have a huge advantage. We are value investors doing deep dive analytical research into each of our holdings, so our clients will be protected in the long run by owning companies whose stock prices are well below their intrinsic values.

Inflation has been a huge issue this year, with the consumer price index running at 9.1%. You can now see how ridiculous the Fed was for not being satisfied that inflation was running less than their 2% target. The Fed is largely to blame for the spiraling of inflation. Many economists are predicting the U.S. may enter a recession in 2023, and while I am not an economist, I believe there is a good chance we are already in a recession. Sky high prices for gas, food, housing, medical bills, and utilities will have Americans put the brakes on spending. The first quarter GDP number was negative, and if the second quarter number is negative too, we're in a recession. What is unique about the current situation is the tight jobs market. Although I am hearing of more layoffs, the jobs market remains extremely tight with

job openings double the number of unemployed. It would be very rare to have a deep recession when so many Americans are gainfully employed.

The recent University of Michigan consumer confidence index was the lowest on record going back 45 years. I think there's a good chance consumer spending slows and the inflation rate falls moderately over the next year. However, I don't see inflation getting down to the Fed's desired rate of 2% for several years. The cost of energy flows through to so much in daily life (if you bought it a truck brought it) that higher prices will prevail for quite some time.

For the past several years cryptocurrencies have received a lot of attention. Reasons given to own cryptos were very similar to the traditional reasons to own gold; a distrust of government manipulated fiat currencies and out of control money printing leading to currency debasement. We at Old West have long believed that gold offers protection from the aforementioned risks, and I have long held a skeptical eye towards cryptos. The price of gold is down 3% year-to-date in one of the most tumultuous years in memory. With bitcoin down 60% year-to-date, that should put to rest the argument that cryptos are a store of value. We own a basket of the best gold mining companies across our portfolios. With the price of gold slightly down at \$1750 per ounce, the mining company shares are down on average 20%. Our gold miners have an average cost of production (all in sustaining cost) of \$1,100 per ounce. The mining companies are gushing cash, paying healthy dividends and buying back stock. The delta between the price of gold and the stock price of the miners is extremely high. We do expect the price of gold to move higher and more importantly the share price of the miners to move much higher the second half of this year and beyond. There is tremendous uncertainty in the world with war raging in Europe, persistent inflation, debt levels once again rising and political turmoil. All good reasons to have exposure to gold.

Every quarterly letter we like to highlight one of our portfolio holdings. Lockheed Martin checks all the boxes in what we look for in a company.

LOCKHEED MARTIN CORPORATION

As I sat in the theater watching Top Gun: Maverick, it gave me tremendous pride knowing we are shareholders of Lockheed Martin (LMT). When the Top Gun: Maverick team was looking to push the envelope and stand true to Maverick's need for speed, LMT's Skunk Works was their first call. With Skunk Works expertise in developing the fastest known aircraft along with a passion for defining the future of aerospace, LMT is at the epicenter of our nation's defense.

Based in Bethesda, Maryland, LMT is an American aerospace arms, defense, information security and technology company. LMT employs 115,000 people worldwide, including 60,000 engineers and scientists. LMT is the world's largest defense contractor. They

manufacture the F-16, F-22 and F-35 fighter jets, Sikorsky Black Hawk helicopters, Skunk Works technology, Javelin, Himars, and Tomahawk missile systems and much more.

When evaluating a potential investment, we spend a lot of time analyzing financials and doing intense valuation analysis. Something that sets us apart from other money managers is our focus on the people running the company, and especially the CEO. We want to be sure our financial interests are properly aligned with management, and we look for true leadership capabilities and a history of allocating capital in a shareholder friendly manner.

I was surprised Jim Taiclet applied for the LMT CEO job in 2020. Over the years, we were invested in American Tower (AMT), the owner of cell towers, and the stock was a tremendous performer. During Taiclet's 17 years as CEO of AMT, revenue grew from \$675 million to \$8 billion. Net income grew from a loss of \$1.1 billion to gain of 1.8 billion, and the share price from \$10 per share to \$260 per share.

LMT had been very ably run by Marilyn Hewson from 2013 to 2020, and Taiclet had been serving as a board member during that time. Taiclet accumulated significant wealth as AMT CEO. I'm assuming it was the challenge of running the world's largest defense contractor that made him throw his hat in the ring. Another reason might have been his admiration for LMT as he graduated from the U.S. Air Force Academy and served as an aircraft Commander. He flew multiple missions in a Lockheed C-141 jet during Operation Desert Storm. Taiclet was 60 years old when he became LMT CEO, so it sets up as the perfect way to play out his career. Keeping in mind he has been CEO for only two years, Taiclet owns \$21 million of LMT stock. His compensation is heavily stock based where he accumulates an additional \$15 million of stock per year as opposed to annual cash compensation of \$1.7 million.

We bought LMT shares in 2020 for \$350 per share, and the stock is trading at \$414 today. Revenue has been growing at 9% per year and net income growing at 12% per year. The stock is selling at 13 times earnings and has a 2.6% dividend yield. The company is expected to generate \$6.7 billion in free cash flow this year, which gives it a 5.8% free cash flow yield.

Generating that much free cash flow allowed the company to buy back \$4 billion in stock last year, and the dividend has been growing at 12% per year for the past ten years. LMT also has a fortress balance sheet with \$9.1 billion of net debt which is only 0.9 times EBITDA.

Another exciting aspect of LMT's business is their activity in space exploration and tourism. In 2022 their space systems generated over \$11 billion in revenue and over \$1 billion in profit. LMT's status as a trusted supplier to the Pentagon and NASA are likely to keep it as a preferred contractor in the future. LMT is currently the prime contractor on NASA's Orion spacecraft, which is designed for long-duration human deep space exploration. The Orion craft is also the command and control deck for Mars Base Camp. The concept is to

transport astronauts from earth, via the moon, to a Mars orbiting science laboratory and confirm the ideal place to land humans on the Martian surface in the 2030's.

As you can see LMT is a complex and far-reaching company that is vitally involved in making the world safer. The Old West team is confident that under Jim Taiclet's leadership the company will thrive in the future.

For the investors in our three Limited Partnerships, we'd like to inform you that effective July 1 we have switched our Prime Brokerage relationships from Jefferies to Goldman Sachs. We have been at Jefferies since we began our business in 2008, but we have reached a point in our growth where we will be better served by a larger organization with greater foreign markets trading capabilities. ALPS will continue to be our third party administrator.

Thank you for your continued loyalty and support, and we look forward to navigating the current turbulent waters with a steady hand.

Sincerely,

A handwritten signature in black ink, appearing to be 'J. Boskovich', with a long horizontal flourish extending to the right.

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer

Disclosures

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