Old West Investment Management, LLC

July 13, 2021

Dear Investor,

The first half of 2021 saw an amazing comeback by the American economy which led the world in post pandemic recovery. The stock market also continues its epic rise to all-time highs. As you can see in your enclosed statement, we had a terrific first half of the year eclipsing the market by a wide margin. Our performance in the second quarter was in line with the S&P 500 gains of 8.4%, but our year to date numbers were very strong. Our long only separate accounts were up approximately 45%, the first half of the year compared to the S&P up 15%. Our LP's, which are all hedged, were up between 24% and 34%, net of all fees. These performance numbers are very gratifying to our team, especially considering the outstanding year we had in 2020.

In my first quarter investor letter I cautioned that the biggest threat to the market was inflation. Although many of the commodities that skyrocketed post pandemic like lumber and copper have fallen from their highs, there is still huge debate whether the inflation we are experiencing is temporary or long lasting. The Fed continues to insist it's "transitory" but some of the greatest minds in investing (Druckenmiller, Dalio, Singer, Zell) are all warning the Fed is playing with fire by continuing to manipulate interest rates by purchasing $120 billion of debt every month (half of supply). When you consider these investors I mentioned are all billionaires, I will side with them.

Regarding the long term health of the US economy, I have long been concerned over the debt buildup by our government. I had this concern pre-pandemic but since the pandemic the US national debt is rising at a pace never seen before. Our debt has risen by $5 trillion in the past year and a half and now totals $28 trillion.

Washington is now debating an infrastructure bill which will add another $1 to $2 trillion. Together with the US government obligation to fund Medicare, social security and military and civil service pensions, our debt amounts to $129 trillion. In my younger years I rarely heard the word "trillion." Today trillions are thrown around like nobody's business. Let me put a trillion in perspective:

One million seconds= 11 days

One billion seconds= 32 years

One trillion seconds= 32,000 years

There are many ramifications of this massive debt buildup. Most notably will be a reduction in the economy's ability to grow. The Bank of International Settlement says when government debt to GDP ratio exceeds 85% economic growth is reduced. Our current debt to GDP ratio is 130% and is expected to rise to 270% by 2029. Since the Great Recession the US federal debt has grown by $19 trillion but annual GDP has grown by $7.4 trillion. Our government has become addicted to debt, and every additional dollar borrowed produces diminishing returns. Billionaire investor Sam Zell said he's not sure just how all this ends, but he is sure it will be ugly.

What do these sobering numbers mean to you and your hard earned savings? There is no doubt in my mind we are headed towards Modern Monetary Theory, which states a country need not be concerned about debt levels if you control your currency. The academics and politicians that espouse this theory are insane. They don't have the backbone to control spending and they risk turning the US into a banana republic. I believe at Old West we have a huge advantage being active investors. With over $11 trillion invested in passive index funds and ETFs, this money will not be nimble and able to look for opportunities to invest and take advantage of today's environment.

Our portfolios are full of ideas that will do very well as the Fed prints massive amounts of money to try and keep the markets from falling. The Fed's mandate is supposed to keep price levels steady and strive for full employment, but for the past twenty years they have been preoccupied with juicing the markets. For the millions of investors in index funds crowded in the same handful of names, the next ten years could be very difficult generating returns. We love how we are positioned and fully expect to continue to outperform the market.

In my most recent letter, we wrote about one of our biggest positions, Rafael Holdings. Old West Partner Joe Boskovich Jr. offers this update:

In our Q1 2021 letter, we described Rafael Holding's obscure ownership structure as a main reason for the company being hidden from a broader investment universe, and we speculated that such complexity would be addressed in the future. As predicted, on June 21st, Rafael Holdings announced a strategic merger with privately held Rafael Pharmaceutical to form a focused late-stage clinical oncology company that is positioned to synergistically leverage the assets of both companies.

The merged company will retain the Rafael Pharmaceuticals name and Rafael Holdings' listing on the New York Stock Exchange, and will continue to advance its lead drug, CPI-613, through two Phase III clinical trials in Pancreatic Cancer and AML, and several Phase I and Phase II clinical trials in other indications. In addition to CPI-613, the company will also continue to advance its early-stage pipeline, Barer Institute, as well as other pharma ventures like Rafael Medical Devices, LipoMedix and Levco Pharmaceutical through multiple important milestones over the next eighteen months as the company evolves towards a fully integrated oncology company.

We continue to be excited about the caliber of pharma executives and scientific advisors that have recently joined the company, which is telling of Rafael's immense promise. In our last letter, we discussed new CEO, Ameet Mallik, who had previously spent 16 years at Novartis, where he was most recently the Head of U.S. Oncology. As we mentioned in that letter, it's hard to imagine that the top oncology executive at one of the world's largest pharmaceutical companies would come join a pre-revenue late-stage biotech company unless he saw something really, really special. Joining Ameet is new CCO, Bill Conkling, from Immunomedics. At Immunomedics, Bill led the commercialization efforts for a breast cancer drug which he recently sold to Gilead for $21 Billion. Rafael has also announced senior biopharmaceutical leaders to its Board of Directors, most notably Shannon Thyme Klinger, Chief Legal Officer of Moderna, Inc; and Mark McCamish, M.D., Ph.D., President and Chief Executive Officer of IconOVir Bio, a preclinical-stage biotechnology company pioneering next generation treatments of patients with cancer. Prior to IconOVir Bio, McCamish was CEO of Forty Seven, Inc., a company he sold to Gilead for $4.9 billion.

The market seems to have noticed these exciting developments as the stock price has advanced 58% from the end of Q1 2021, from $39.92 per share to $63.08 per share at this time of this writing.

Our firm recognized an extraordinary opportunity in the nuclear energy/ uranium mining industry several years ago. Old West partner and portfolio manager Brian Laks offers this update on our investments in this area:

It's been two and a half years since we first wrote about uranium in our 2018 year-end letter. We launched our Opportunity Fund that year to focus on the idea as we saw industry fundamentals improving and felt that we were nearing a turn in the cycle. The timing turned out to be excellent as we were able to steadily raise and deploy capital building positions in a declining price environment as the stocks bottomed.

In April 2020 we wrote that we believed the inflection point had arrived. Since that time, our positions have multiplied in value and the patience of our investors has been greatly rewarded. In an interview we gave last quarter, we talked about the need to become more selective as general valuation levels improved. We think we are still in the early stages of a long overdue industry rebalancing, and we maintain core positions in what we believe are the best assets to capture improving economics in the industry.

At the same time, given the strong performance of the miners relative to the uranium price itself, we have begun to lean preferentially toward pure commodity price exposure for incremental capital. Uranium Participation Corp, a Canadian-listed investment vehicle that holds physical uranium, recently approved a change in ownership and structure that would make it easier for them to purchase uranium in the open market. They plan to seek a US listing which would open them up to an expanded pool of capital and potentially significant flows from retail investors. We are very intrigued to see what happens when a large investor base is more easily able to participate in a thinly traded uranium spot market.

From a broader perspective, uranium is only one of dozens of so-called critical minerals—niche metals that are rarely discussed but crucial to the functioning of our modern society. In many cases the supply of these metals is concentrated in a handful of foreign producers, with China holding a dominant position in many of them. The investment case is similar to uranium in many ways; a structural supply deficit caused by growing demand that cannot be easily met by new supply.

The issue has been a growing concern for some time. In December 2017, the Trump administration issued an executive order instructing various agencies to work together to identify those minerals most vital to our national and economic security. The US Geological Survey released worrisome results of an investigation into US reliance on imports of critical minerals in September 2020. A few months later, the Biden administration issued an executive order on America's supply chains which led to an extensive report that focused specifically on this area.

The US has proposed aggressive plans for decarbonizing the economy, and other countries have put out similar ambitious targets to combat climate change. The International Energy Agency forecasts a staggering growth in demand for critical minerals as we transition to clean energy, and there have been numerous hearings in Congress on the topic. There is a growing realization among both political parties that the wind turbines, solar panels and electric vehicles of our clean energy future will require huge amounts of specialty metals that are in very short supply. We spend a lot of time researching the best assets capable of producing these niche materials and looking to build ownership stakes in them at attractive prices.

An example of one that has had our attention for a while is tin. Tin has a very long history of use; the Bronze Age was so-named after an alloy of the metal with copper. These days the largest demand for tin is in solder, the conductive glue that holds together electronic components. As the world digitizes and billions of people gain access to electronic devices, tin demand is set to increase substantially. The transition to 5G and the Internet of Things also foresees an exponential growth in embedded devices. While demand for tin continues to rise, future supply is much less certain. Two of the world's largest producers are running out of reserves and new deposits are scarce. Inventories have fallen to extreme levels and the price has more than doubled in the last year.

Our Opportunity Fund was launched to focus on situations like these. A tight supply/demand dynamic is amplified by an overall environment of monetary stimulus that should provide a strong inflationary backdrop and continued price strength in commodities. Our investors seem to agree as July was one of our best months ever for capital inflows. We encourage others to reach out to discuss what we think will be the defining trend of this decade.

We are excited to watch our ideas come to fruition the second half of this year and beyond. Thank you for your continued support and we hope you have a healthy and happy rest of the year.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer