Old West Investment Management, LLC

October 14, 2021

Dear Investor,

The third quarter of 2021 ended with the market searching for direction. The S&P 500 fell 4.6% in September but was still just a few percent from its all-time high. The market was nearly flat in the quarter and with many competing forces at work it will be fascinating to see how the final quarter of the year works out. As you can see in your enclosed statement, we had a fairly flat third quarter, but we continue to have an outstanding year. All of our portfolios are outperforming the S&P this year by a wide margin, and it is even more gratifying that we've been able to do this on the heels of a record 2020. Our team continues to uncover investment opportunities where we see value and potential ahead of the crowd.

The market has several things weighing on it, most notably the threat of runaway inflation and a possible meltdown of the Chinese economy. In this year's first quarter letter, I discussed in depth whether the inflation running through the economy was temporary or long lasting. The Fed was convinced it was "transitory" but some of the greatest minds in investing were sounding alarms that the Fed is playing with fire by artificially suppressing interest rates and causing asset bubbles. Here we are six months later and despite what the Fed says, it is obvious to all Americans that inflation is real. Food prices, gasoline, insurance, car prices, home prices, rent, utilities, and many more prices are skyrocketing. These price increases are actually accelerating with severe logjams at ports around the world. One major reason for the much publicized glut of container vessels in the waters off the Port of Los Angeles is a severe shortage of truck drivers and warehouse space. There are currently four million more job openings than people to fill them in the US. The reasons for this are many, but it definitely adds fuel to the inflation fire. Investors have rationalized paying sky-high prices for stocks by contending low inflation with historic low interest rates provide few investing alternatives. It's quite possible this line of thinking is about to change.

Besides the threat of runaway inflation, I see a debt bubble in China as a major threat to the world economy. Missed debt payments by China Evergrande Group has been in the headlines and it comes as no surprise to us. I have written many times about the fallacy of the "Chinese Miracle." We have all read about the new airports, highways, bridges and new cities throughout China. In addition, the Chinese have invested and extended loans throughout the developing world, including natural resource rich Africa. The problem is that these investment decisions were made by bureaucrats sitting in central planning committee meetings. Before a new building or new community can be built in the U.S., it needs to be penciled out by businesspeople who have their personal livelihoods on the line. In China, the Communist party has been spending astronomical sums of money attempting to compete with the U.S. The U.S. banking system, which is the total value of all bank assets (mostly loans) is $22 Trillion, and the U.S. GDP is $22 Trillion. China's GDP is $14 Trillion and their banking system has ballooned to $52 Trillion. This staggering number is equal to 56% of world GDP. That begs the question: of the $52 Trillion in bank loans in China, what percent are bad loans? It has been speculated that as many as 1/3 of the loans might be bad. The WSJ recently wrote about rows and rows of empty high rise residential towers, an uncompleted $9 Billion theme park which was supposed to be bigger than Disneyland, and a planned $4 Billion car plant which remains a steel frame covered with vegetation. China has been masking over these failed investments for years, but the situation is so severe that the Chinese Communist party has been backed into a corner. The numbers are so big that this will be a drag on the world economy for years to come.

UPDATE ON FULGENT GENETICS (FLGT)

In our second quarter of 2020 letter, I wrote about a very promising holding of ours, Fulgent Genetics. Fulgent is a genetic testing and diagnostics company involved in one of the hottest fields in healthcare. At the time of that letter, the stock was trading at $20 per share, up from our original purchase price of $6.00. Today the stock is trading at $84, and we think it still has significant upside.

Fulgent is led by visionary entrepreneur Ming Hsieh, who previously founded Cogent, Inc in 1990 and sold the company to 3M for nearly $1 Billion. Fulgent's genetic testing business has great potential, and they very opportunistically expanded into Covid testing in 2020. The company is growing rapidly, has a debt free balance sheet and is gushing cash flow. Although Covid testing has provided explosive growth for the company, they have not lost focus on genetic testing, having grown that portion 296% year-over-year.

One of Fulgent's main competitors is Invitae (NVTA). Invitae has been a stock market darling the past few years, with tech stock phenom Cathie Wood as the largest shareholder. Invitae has also become a bit of a "hedge fund hotel" with Casdin Capital, Baker Bros and Perceptive Advisors as top holders. Invitae CEO, Sean George, is the 30th largest holder with a $26 million stake. Contrast that with Fulgent CEO Ming Hsieh who is the largest shareholder of the company with a $625 million stake. Let's compare the two companies side by side:

	Invitae	Fulgent
Market Cap	$6.2 Billion	$2.3 Billion
Revenue	$279 Million	$420 Million
Net Income	-$514 Million loss	$218 Million
Long Term Debt	$1.7 Billion	0
Price Earnings Ratio	N.A.	9
Price to Sales Ratio	20	6

I find it fascinating that the market is more impressed with Cathie Wood being the largest holder of Invitae than Ming Hsieh owing 27 % of Fulgent. At Old West we have always searched for great owner/managers of companies who have a track record of success and have their heart, soul, and life savings in the company. Fulgent and Ming Hsieh are a great example of what we look for.

We appreciate your continued support and look forward to finishing the year with strong performance.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer