

Old West Investment Management, LLC

October 16, 2019

Dear Investor,

As we enter the final quarter of 2019 and fall is in the air, the stock market is finding it difficult to know which direction to head. The market has been basically flat since it peaked in January of 2018, and it still sits near its all time high. I can give many reasons why it could go higher, and many why it is headed much lower. I take comfort in Warren Buffet's comment that if you meet someone who is sure which way the market is headed, run in the other direction. As you can see in your enclosed statement, we had a disappointing third quarter, but we are still strongly positive year to date. I expect this fourth quarter to be very volatile with plenty of drama, and we are very well positioned to capitalize on increased market volatility.

The presidential election is only one year away, and it's becoming likely that Elizabeth Warren, who President Trump mockingly calls Pocahontas, will be the Democratic nominee. If that's the case, this will be one of the most entertaining and important elections I can remember. There is no doubt Trump has been great for corporate profits and the market. At the same time, income inequality in our country has never been greater. Hence Warren's idea of a wealth tax resonates with many Americans. It would tax those with a net worth more than \$50 million, 2% per year, and those worth more than \$1 billion, 3% per year. According to two left-leaning UC Berkley economists, it would raise \$2.75 trillion over ten years, and only affect 75,000 families, or 0.01% of US households. The timing of Warren's plan is ideal for her supporters, as resentment against billionaires like Bezos, Zuckerberg, Gates and Reed Hastings is building. This is a totally unique situation, where so much money can be raised, not costing 99.9% of Americans a single cent. Warren is very smart, a great debater, and passionate in her beliefs. However, lying about being American Indian to gain admission to Harvard will be in the back of many voters minds. I believe it will be a hard fought battle. Investors should be concerned over the prospect of a Warren presidency. She would undoubtedly reverse Trump's cutbacks on regulations of business, and she said she would immediately ban oil and gas fracking production. Having said this, since 1930 the stock market has done better during Democratic presidencies.

Like many Americans, I am uncomfortable with today's extreme wealth disparity in our society, but increasing taxes has never brought increased prosperity. A Warren presidency could also bring increased corporate and personal tax rates, plus increased taxes on capital gains and dividends. Famed investor Leon Cooperman has said if Warren is elected the

market will not open the next morning due to circuit breaker rules for a huge selloff. Grab a bag of popcorn and watch as this election year will be a nail biter.

There is an age old debate as to which asset class has created more wealth for individual investors, stocks or real estate. Those who have made fortunes in real estate swear by it, and are often not keen on the stock market. I point out to my friends in real estate that the three richest people in the world (Bill Gates, Jeff Bezos and Warren Buffett) made their money in the stock market. One of our largest holdings, Kennedy Wilson, gives our clients a chance to benefit by owning the stock of a publicly held real estate investment company, offering the best of both worlds.

Kennedy Wilson Holdings, Inc.

Kennedy Wilson (KW) is a global real estate investment company that owns, operates and invests in multifamily and office properties located in the Western US, the UK and Ireland. Headquartered in Beverly Hills, CA, the company also provides real estate services to financial services clients.

My good friend Bill McMorrow has led KW for 31 years, and along with his talented team has grown the company into one of the most respected real estate companies in the world. KW has an ownership stake in 53 million square feet, including 29,000 multifamily rental units. The company and their equity partners hold real estate assets that generated \$1 billion in revenue in 2018 with a book value of \$11.3 billion. KW's market cap is \$3.1 billion with an enterprise value of \$8 billion. KW has 375 employees in 17 offices throughout the US, UK, Ireland, Jersey, Spain and Japan.

McMorrow took over as CEO of KW in 1988 when the company had a humble \$1 million in revenue and \$57,000 in capital. In 2018 KW produced \$713 million in adjusted EBITDA and \$400 million of adjusted net income. Mc Morrow is everything we look for in an owner/manager. He is the third largest shareholder of the company owning 13 million shares. One of the most important jobs a CEO has is how to allocate capital, and when the CEO is a top shareholder, the capital allocation decisions tend to be more shareholder friendly. In 2018 KW paid out \$112 million in dividends (the stock has a 4% dividend yield) and bought back \$177 million in stock, for a total shareholder return of \$289 million. At today's share price of \$21, that translates to a 10% return. Not bad in a zero interest rate world. The dividend has grown by 23% per year for the past eight years, and net income has grown by 31% per year for the past five years.

KW's real estate portfolio is nearly evenly split between the US and Europe. In the US they have smartly concentrated on the fast growing cities of Seattle, Salt Lake City and Boise. In Europe they have made some outstanding investments in Ireland, which has been a real bright spot in the years following the great recession. They also own real estate in the UK, Spain and Italy.

KW stock is currently trading at \$21 per share, but it should be trading substantially higher. The stock is trading at 12 times 2019 earnings, and when you combine the generous dividend with the continued stock buybacks, KW is a real bargain. Once the market gets over it's infatuation with money losing, high flying growth stocks, quality names like Kennedy Wilson will be richly rewarded.

Thank you for your continued loyalty and support, and we look forward to a great finish to 2019.

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