PRINCE HENRY NAVIGATOR I, II, AND III LLCS

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"Protecting And Compounding Capital Over Time By Operating In Inefficient Asset Classes And By Backing People Whom We Admire, Who Have Proven Competitive Advantages, And Whose Incentives And Interests Align With Our Own."

March 2011

Dear Fellow Investor:

Assessment

Of the eleven letters you have received from me since Navigator II began in 2007, this update letter is one of the most important. I encourage you to read it and to share it with anyone else in your family who has a stake in Navigator's success.

Based on feedback from past letters, people have told me that they appreciate the discipline of focusing on the "Bad News" first but would appreciate a little less conservatism from me in assessing Navigator's performance. How do I really think the fund is doing? (The "fund" is technically Navigator II, Navigator's broadest based fund but my general non-valuation comments apply to Navigator I, II, and III.) In my estimation, all three Navigator funds are doing very well. In a nutshell, $1 million invested in Navigator II at inception in January of 2007 is worth, as of the end of November 2010, approximately $1 million, net of all fees and expenses. The most relevant index, the S&P 500 would have turned $1 million into approximately $840,000, a 16% decline over the same time period. If we take the average return of the three major U.S. indices, $1 million would have turned into $920,000, an 8% loss.

Looking Back and Looking Ahead

This valuation for Navigator II means that, so far, the fund has achieved two of its three goals: it has preserved capital in the worst financial environment since the Great Depression and has outperformed the three market indices collectively. I am grateful for these results, but I am not satisfied with them.

I am not satisfied because the fund and I have not yet achieved the third goal of compounding capital at 13% per year. I have always said that this hurdle is ambitious but, and our attorneys want me to add that I may be wrong, I am very optimistic about Navigator's current holdings and very hopeful that the fund can produce some outstanding returns over the coming years.

To me, the results thus far validate Navigator's model which I defined in 2007: to make available an investment that I would embrace as a client and that I did not see offered to investors with less than $100 million of capital. In my estimation, preserving capital in a four year period that included the worst financial crisis since the Great Depression validates the Navigator model and serves as a testament to the many managers whom Navigator is privileged to have as stewards of our capital.

I started the Navigator family of funds as a way to pool our family's resources with others so as to have access to opportunities and managers that offered us the highest probability of:

1. Preserving capital and
2. Compounding that capital at a compelling rate.

To date, Navigator has succeeded in achieving the first goal. To repeat, I can offer no guarantees of success, but I am confident that Navigator's portfolio is well positioned with regard to achieving the second. In this vein, one of our managers, Whitney Tilson, recently said something about his fund, T2 Partners, which I will steal and apply to Navigator. Whitney observed that he had never felt a bigger disconnect between the macroeconomic uncertainty and lack of conviction about what will occur and the tremendous conviction and enthusiasm that he had for his own portfolio. In these "unusually uncertain" times, to quote Chairman Bernanke, I do not know what will happen with the macroeconomy either. I do think that whatever happens in the macroeconomy, the Navigator funds are unusually well positioned. We are backing people we admire, operating in inefficient classes, with incentives that align with our own, and *at very compelling prices offered today* to make both the probability and magnitude for future success quite high. Please see Manager Update Letters in Exhibit C for more detail on this topic.

Methodology

The methodology of Navigator's approximate valuation is to value all illiquid investments, stuff for which there is no daily market value, at the lower of cost or market. (Note: Illiquid assets are about one third of Navigator II's total, with liquid investments comprising about two thirds.) In other words, I mark down the value of private investments if their value seems permanently impaired but do not mark up the value of any of them even if it looks like they are worth more. Liquid investments are valued using their market value. Given that we are not selling the assets we are valuing today, it makes more sense to think about valuation as a highly probable range, rather than one magic number. In my view, it is highly likely that Navigator's value range is plus or minus 10%, meaning that the hypothetical $1 million is not worth less than $900,000 or more than $1.1 million. Remembering Warren Buffett's advice on valuing assets that he would rather be approximately right than precisely wrong, I recommend this range of values approach as the optimal way to think about your investment in Navigator.

Is It Real?

Our human nature forces us to crave certainty, so we naturally question the accuracy of estimates. The acid test of whether I am comfortable with Navigator II's valuation is whether I am comfortable buying and selling at this price. The answer to both is yes. Subject to investor approval:

1. My family intends to add capital to Navigator II at this valuation. (My wife and I are already "all in" and have no more money to contribute, but the fact that I am taking what one of our managers, Zeke Ashton of Centaur, calls "Thanksgiving Risk" or the risk of listening to family members wail and gnash teeth about Navigator over Thanksgiving dinner, by allowing other family members to come in at this valuation should send a strong signal that I believe the valuation is reasonable.

2. Navigator II owners can redeem up to $1 million total of their Navigator II interests at the valuation discussed earlier in this letter. (Should investors want to redeem more than $1 million in total, the allocations will be made pro rata.) Anyone wishing to sell can lock in this valuation, and have outperformed the S&P 500 by 16% through the end of November 2010 via his investment in Navigator II. Navigator II will pay people choosing to leave interest at a rate of 1.53% per annum, equal to the average interest rate on November 30, 2010, the valuation date, on a 5 year jumbo CD according to bankrate.com. Navigator will make every effort to have all capital and interest returned within 24 months.

Why?

Why I am making this offer? Two reasons:

1. Navigator has a number of especially compelling investment opportunities in front of it. Recent presentations on current investment opportunities from Whitney Tilson at T2 and Eric Conner at TriPro (Please see Exhibits B and C) are prominent examples. I want Navigator to be able to go "all in" on these opportunities. Hence, for people who elect to remain, I am asking them to extend Navigator's investment period by 2 years, making it four years left on the investment period instead of two. This change will match Navigator II's investment period with that of Navigator III and Navigator I, affording each fund more bulk purchasing leverage when negotiating investments.

2. Navigator has a few investors who have suffered life changes and for whom liquidity today may be especially important. My focus always has to be on doing what is right for Navigator overall. If, however, I can do that, and can help some investors who have been loyal to Navigator, but for whom Navigator may not prove a good fit given the investors' current circumstances, I believe it is the correct course to try and accommodate them.

Process

Having had the chance to speak directly with almost all of you about the contents of this letter, it seems that most investors have a high level of comfort with the options presented. Hence, please let me know via a phone call or an email if you would like to withdraw or to add capital and the amount you wish to withdraw or to add to Navigator II at this juncture, and I will send you the written paperwork to begin this process. Withdrawal requests and new capital commitments must be received by March 31, 2010.

If anyone thinks that my recommendations are unfair or suboptimal and wants to object or to vote against moving forward on putting these recommendations to a vote, please tell me your reasoning, and I will reassess if Navigator II should move ahead in considering these amendments.

If we do make these changes, I will circulate an amended agreement for all of us to sign. As part of that agreement, I will also recommend that we include a few best practices learned from Navigator III in the Navigator II documents. If we take this step, I will circulate a list of the specific amendments and redlined versions of the documents which anyone with interest can review in detail.

"Déjà vu All Over Again" Yogi Berra

In my March 2009, update letter, http://www.princehenrygroup.com/NavigatorIIUpdate3-20-09FINAL.pdf, I told you that I was willing to personally guarantee a $750,000 loan and to use the proceeds to invest into Navigator on behalf of all of Navigator's investors. I encourage you to reread two paragraphs from that letter those entitled:

1. "Actions Speak Louder Than Words" Unknown
2. "Not The Brain But The Stomach"

Unfortunately, the lender, whom I continue to hold in the highest regard, and I were not able to agree on some points, and the loan did not happen. Hindsight is 20/20 but had I been successful in this effort, it likely would have helped Navigator, as almost every asset class has appreciated from March 2009 until today. Given that assets on the whole are much more efficiently priced today than in March of 2009, making the decision to borrow money now is significantly more difficult. However, the combination of the myriad of high conviction individual investment opportunities from Navigator's investment managers, today's low interest rates, and the ability to get financing that is not due for two years have helped me decide to personally guarantee a $3 million loan to invest in Navigator II. This decision also indicates the comfort level that I have in the estimate of Navigator's value today discussed earlier in this letter.

It is important for investors to understand my belief that this borrowed money, if deployed intelligently, can reduce Navigator's risk of permanent capital loss. Please consider two situations. First, an investor has $100 invested in stocks. Second, the investor has $100 invested in stocks but then borrows $20 and bets against some specific stocks. In the second case, the investor has larger gross risk or stock market exposure, $100 +$20 =$120, but less net risk or stock market exposure, $100-$20 = $80. Today, Navigator's managers are finding a tremendous number of attractive stocks to bet against, hedges. This loan costs Navigator 5% simple interest payable semi-annually and the principal is not due for two years. The lender is a Navigator investor in whom I have tremendous trust who has a need for short term yield. In my view, the loan is beneficial for both parties, helping the lender get a better yield and allowing Navigator to further diversify its investments including adding some more hedges and shorts that will augment Navigator's ability to protect capital.

Hedge Fund Results For 2010

Here are the results, net of fees and expenses, that the hedge funds in which Navigator invests generated in 2010 as reported by the auditors for the respective funds. All the funds achieved positive returns in 2010 with 10 of the 13 funds beating the 15.10% return on the S&P 500 Index, the most relevant benchmark against which to assess Navigator's performance. The chart below shows the returns from greatest to least. The three Navigator funds own differing percentages in each of these funds. Some funds are owned by all three Navigator entities and some by only one or two of them.

Investors may be tired of hearing it, but I do not place great emphasis on any one year in evaluating manager performance. As an example, one of the funds with the "worst" 2010 performance is the T2 Fund run by Whitney Tilson and Glenn Tongue, a "lousy" 11.80% net of fees. My assessment is that few managers will do a better job over time of preserving Navigator's capital and of compounding it at a more compelling rate than Glenn and Whitney. I feel privileged to have them as stewards of our capital. Evaluating the score in any one proverbial inning of an investment game tells me little about probable long term performance although many in the investment world treat one year returns as if they were delivered direct from the oracle at Delphi. (Please see the "Hot off The Presses" Good News section below for more on this topic.

#	Position	2010 Net Return
1	Spitfire	36.60%
2	Sellers Capital	35.95%
3	Pabrai Fund IV	30.70%
4	Greenlea Lane	27.00%
5	Cedar Creek	26.00%
6	Semper VIC	21.22%
7	Sabre	21.00%
8	Aquamarine	19.20%
9	Praetorian	17.00%
10	EVCM	15.20%
11	Centaur	14.40%
12	T2	11.80%
13	Harrier Hawk	2.99%
	Average	**21.47%**
	S&P 500	**15.10%**

<u>Hot Off The Presses: Good News</u>

In November 2008, Navigator II invested $600,000, or 12% of its assets at the time, into the T2 SPAC Fund, a vehicle created to take advantage of opportunities created by the panic distressed selling of 2008. In July of 2010, we received a distribution equal to our $600,000 investment. Today, our stake in this fund is worth between $500,000 and $600,000, of which the fund will distribute half. Assuming the lower $500,000 value, and assuming that we take the full distribution now and achieve no more appreciation, Navigator II's investment in this vehicle will have produced an IRR of approximately 37%. I believe that the assumption about no future appreciation is conservative given that the money remaining in the T2 SPAC fund will, as the T2 February 2011 letter documents (Please see Exhibit A), stay invested in Iridium, an investment about which I am enthusiastic enough that Navigator II and III have side pocket investments in it.

Whitney and Glenn deserve our credit and thanks for identifying, structuring, and executing this idea with such success. However, Navigator's participation merits some focus. Why was Navigator able to participate when so many investors were not? Was the investment thesis hard to understand? No. After Whitney and Glenn explained it, the facts supported the thesis that permanent principal loss appeared unlikely that that the probability of the investment compounding at a high rate seemed likely. Moreover, it seemed clear that Whitney and Glenn had a knowledge edge over most investors in the SPAC arena, given that in Glenn's twenty year Wall Street investment banking career many of the SPAC sponsors were his clients.

However, no one knew exactly when the envisioned probable investment result might happen. As Charlie Munger frequently advises, we can often know what will occur but very rarely know exactly when. Most investment funds need to prize liquidity above all else, so knowing when things will occur becomes very important. In fact, two of the biggest shibboleths in the investment world today are maximizing liquidity and minimizing volatility, or price variation. *Navigator does not have those goals. Our goal is to maximize the probability of preserving capital and of compounding it at a high rate over the long term.* I think of the contrast in terms of a sporting event: Wall Street incents investment managers to always keep the game close and to minimize the number of "lead changes" in a game by not deviating from the return offered by the benchmark investment index, in Navigator's case the S&P 500 index. Navigator does not care how many lead changes occur: the fund's goal is to have more points at end of the game than the Index. In addition, Navigator wants to minimize the probability of permanent capital losses in winning the game.

The T2 SPAC Fund was down approximately 11% after its first two months. Without exaggeration, if while at my old Wall Street firm, I had made a large investment in this fund and achieved this result after two months, I would have almost certainly been fired. Hence, knowing that the timing of the returns was uncertain, I never would have made in this investment while working in my old job. Navigator's goals and structure enabled us to take advantage of this very compelling opportunity that T2 offered. In concert with our partners like T2, Navigator continues to find investment opportunities that, over the long term, I believe are mispriced and will, for patient investors, allow the opportunity to preserve capital and to compound it at a high rate.

Outlook

One of the many wonderful aspects of the investment business is the multitude of outstanding role models whom we can admire and from whom one can learn. I have never met them in person, but the principals at Southeastern Asset Management serve as quintessential role models for anyone who accepts the responsibility of managing money for others. Southeastern's process and skill have allowed them to roughly double the S&P 500 returns over the last twenty years. When I read their most recent shareholder letter, I knew that I could not improve upon their parting shot. Hence, with full credit to them, I believe that their quote below, with my insertions in parentheses, encapsulates my outlook for Navigator.

> "We believe our superior businesses (and funds), their capable managements, and their discounted prices position us well to outperform (over time). We are hopeful that our active engagement with a number of investees will deliver incremental benefits. We are "on the case" in every investment as stewards of your capital and ours."

Thank You

I remain optimistic about Navigator's continued success. Thank you for trusting me with your hard earned money. I reiterate my promise to do everything I can to prove worthy of that trust.

If you have questions, I very much encourage you to call me at 917-509-2161 or email me at *dananglin@princehenrygroup.com*.

Sincerely,

Dan Anglin

<u>Exhibits</u>

Exhibit A –T2 SPAC FUND LETTER

Thursday, February 24, 2011

Dear T2 SPAC Fund Partner,

As you know, the fund has been very successful and we have been winding it down because the unique window of opportunity that existed in this asset class in late 2008 and 2009 has passed. SPACs in general are no longer distressed, so we've been harvesting our gains and converting the fund increasingly to cash.

We're writing with two pieces of good news:

1) The fund is up nearly 12% this year, thanks mainly to Grupo Prisa, which we have largely exited, and Iridium, which now accounts for nearly all of the fund's remaining invested assets. We believe that Iridium's stock and warrants remain deeply undervalued, so we haven't sold this position yet.

2) The fund is more than 50% cash today and, given that it's unlikely that we will reinvest this capital in new SPAC opportunities, we want to return this capital to you. Thus, you will receive a cash distribution equal to roughly half of your capital account at the end of this month, which approximates your entire initial investment in the fund.

We hope that you will choose to reinvest this capital with us.

Could you please let Kelli (cc'd here) know of your intentions and make sure that she has the wiring instructions for the account to which you'd like the funds to be wired?

Please let us know if you have any questions.

Sincerely yours,

Whitney and Glenn

Exhibit B – TRIPRO LETTER

Famed hedge fund manager Bill Ackman recently gave a presentation on the opportunities today in residential housing. TriPro's Eric Conner then overlaid that analysis to document why, based on the reasons presented by Mr. Ackman, today is an especially propitious time for TriPro to make investments. TriPro has recently closed on two investments. Navigator is a large investor in both of them. We have been investors in TriPro for fifteen years, and I have never been more optimistic about TriPro's prospects to deliver net returns to Navigator of greater than 20% per annum. (Again, this statement is an aspiration and not a guarantee.)
http://www.princehenrygroup.com/TriProLetter20110101.pdf

Exhibit C – MANAGER UPDATE LETTERS

Whitney Tilson's earlier quote is echoed by each of Navigator's managers, as each has the same conviction and excitement about his fund's portfolio, as Whitney does about his T2 Fund. Here are links to some of the most recent update letters that we uploaded to the Navigator site. A common theme is that there are many mispriced assets, things that are underpriced and overpriced, and our managers have a strong belief that their portfolios are well positioned to take advantage of them.

1. **Cedar Creek Annual Letter:** http://www.princehenrygroup.com/2010YearendResultsforCedarCreekPartners.pdf
2. **Centaur Value Fund Annual Letter:** http://www.princehenrygroup.com/CVFDec10.pdf
3. **Eriksen Capital Management 2010 Update:** http://www.princehenrygroup.com/ECMInvestors2010update.pdf
4. **EVCM:** http://www.princehenrygroup.com/EVCMMonthly-Jan2011.pdf
5. **Greenlea Lane Annual Letter:** http://www.princehenrygroup.com/GreenleaLaneCapitalPartnersLP-2010Letter.pdf
6. **Pabrai Annual Letter**: http://www.princehenrygroup.com/l_010111.pdf
7. **Sabre:** http://www.princehenrygroup.com/SabreDec10Review.pdf
8. **Sellers Capital Annual Letter:** http://www.princehenrygroup.com/SellersCapitalFund4thQuarter2010LettertoInvestors.pdf
9. **Semper VIC:** http://www.princehenrygroup.com/QPPERFDEC10.PDF
10. **Spitfire:** http://www.princehenrygroup.com/SpitfireMonthlySummary12.31.10.pdf
11. **TriPro:** http://www.princehenrygroup.com/TriProLetter20110101.pdf
12. **T2 Annual Letter:** http://www.princehenrygroup.com/T2QualifiedFundannualletter-2010.pdf