

# PRINCE HENRY NAVIGATOR II LLC

[www.princehenrygroup.com](http://www.princehenrygroup.com)

---

7226 Aynsley Lane  
McLean, Virginia 22102  
Email: [dananglin@princehenrygroup.com](mailto:dananglin@princehenrygroup.com)

Phone: (703)790-3655  
Fax: (703) 790-3656  
Cell: (917) 509-2161

December 7, 2009

Dear Fellow Investor:

Given that we do not have much new information since Navigator's most recent update meeting on October 20<sup>th</sup> and 21<sup>st</sup>, this letter will be more succinct than most.

## **Bad News**

The "easy money" has likely been made.

1. *Short-Term:* Market prices no longer assume the end of the world, as they did in March, so assets are no longer "on sale" at anything close to the level where they were earlier this year.
2. *Long-Term:* For roughly the last thirty years, equity and total return investments have benefitted from a falling interest rate environment. Remembering the timeless wisdom that "You cannot fall out of a ditch," rates cannot fall much more without going negative and will likely either remain flat or increase in the future. The first is neutral, and the second is a headwind for equity prices.

## **Salient Themes**

The following themes offer a reasonable overview of Navigator and its widely diversified portfolio and represent an amalgam of Navigator's Manager Partners' thinking and my own:

1. *Shotgun vs. Rifle:* Six months ago, any manager possessing some investment courage and managing a fund where the manager would not be fired if short-term performance were bad (which leaves most hedge funds and mutual fund managers unable to take action), could have fired a proverbial shotgun at the wall of assets in the public and private markets and felt comfortable that the asset would ultimately prove money good. As discussed in detail at the Navigator update meeting, Navigator and its partner funds took full advantage of our staying power. In general, these assets have appreciated in dramatic fashion. They have done so with greater speed than would have been reasonable to expect. Today, by contrast, a rifle is the appropriate instrument to use, as while there are many attractive assets to bet on, there are also many that are attractive to bet against, i.e. sell short.
2. *Idiosyncratic:* Navigator and its managers search relentlessly to find individual investment opportunities, both on the long side (betting that the asset goes up in value) and on the short side (betting that the asset goes down in value). Today's markets offer many mispriced assets that, with patience, Navigator and its managers should own with great benefit to Navigator. While we do not know what the overall markets will do, Navigator's managers are taking an extremely conservative posture focusing above all on avoiding long-term permanent capital loss. For example, Whitney Tilson and Glenn Tongue, managers of the T2 Family of Funds, one of Navigator's most successful

and most respected investments, recently stated that their main fund is only “20% Net Long” meaning roughly that it has only a 20% bias in favor of assets going up vs. down. If, for example, a fund had \$100 invested in “long” positions and \$80 invested in “short” positions, it would be \$20 net long.

## **Res Ipsa Loquitur**

If you want someone to remember a Latin phrase, design a cool T-shirt and put the phrase there. When I was an undergraduate at the University of Virginia (UVA), UVA’s law school had a colorful T-shirt with the above phrase. It means, I am told, “The Thing Speaks for Itself”. In this vein, here are a few links to specific parts of the Navigator website. In my estimation, viewing and reading them is the most time efficient way to get an update on Navigator. The links do speak for themselves, but I have added some context.

1. *Navigator Investor Day Presentations from our October meeting in New York*

<http://www.princehenrygroup.com/investorVP.html>

The first presentation, Navigator Investor Day Overview, attempts to give a state of Navigator in about 20 minutes. The other presentations show in detail how the component pieces of Navigator are performing.

2. *Centaur Value Fund Letter and Speech*

<http://www.princehenrygroup.com/CVFOct09.pdf>

This letter, especially the copy of the speech at the end, “Investing For Inflation, Deflation, Whatever” is one of the best overviews on marrying macroeconomic risks with specific stock selection that I have ever read. Moreover, the Eight Portfolio Strategies and Principles that Centaur articulates at the end of the speech are ones that are shared and implemented by all of Navigator’s funds. The letter calls these principles the “Centaur Playbook”, and while Navigator’s Manager Partners are looking at a wide range of asset classes, these principles are shared by all of Navigator’s Manager Partners.

3. *Seth Klarman Video*

[http://www.bengrahaminvesting.ca/Resources/Video\\_Presentations/Klarman.htm](http://www.bengrahaminvesting.ca/Resources/Video_Presentations/Klarman.htm)

As befits one of the most successful investors in history, Warren Buffett has become a household name. By contrast, Seth Klarman has posted an extraordinary quarter century investment track record in relative anonymity. This video may be my favorite part of the Prince Henry website, as it serves as a wonderful reminder of the ingredients likely to lead to long-term investment success.

In the same way that Buffett and Berkshire Hathaway are much discussed and little imitated, most people in the investment business do not practice the lessons that Klarman espouses. Three years ago, I had not seen this video. However, Navigator was designed with the thought that these timeless principles outline the path to investment success. Moreover, most funds’ structures do not permit the funds’ managers to follow the principles that Klarman discusses. Those of us who do attempt to follow them increase our probability of preserving and compounding capital over time. In today’s perilous investment markets, I encourage you to spend a little time allowing Klarman to remind you of the core precepts to practicing successful investing.

## **Overupdated?**

Some of our investors joke that they are “overupdated” with regard to Navigator. Whatever the investors’ intentions, I take this statement as an enormous complement. In addition to it being the right thing to share with you the same information that I would want from you if our roles were reversed and if you were managing my hard earned money, in New York, I explained that I make the efforts I do to update investors including the following for the simple reason that “Informed Investors Improve Performance”:

1. Letters from me
2. Update meetings
3. All videos and presentations from meetings on the website
4. All managers’ monthly and quarterly reports on the website
5. Individual and group update meetings in investors’ hometowns

An example of how informed investors improve performance is the T2 SPAC Fund. I pounded the table to invest in this fund. Navigator did. It immediately went down about 12% in the first six weeks. None of our investors wrung their hands or second guessed the investment. I do not want to steal the thunder of T2’s Presentation, <http://www.princehenrygroup.com/investorVP.html> , so suffice it to say that the fund is no longer down 12%. This investment, which is one of Navigator’s largest and most successful to date, would not have happened if Navigator did not have:

1. A structure that enables me to take long-term positions without concern about being fired
2. A informed group of patient investors who do not panic when a security we buy falls in value

I welcome the opportunity to answer questions and to inform you on an individual basis what your fund is doing. If you have questions or would like to talk individually, please let me know.

## **Navigator III**

As a reminder, Navigator III is our newest fund and is making Navigator type investments but is doing so using investors’ retirement money. This fund is a direct result of 2008, a year in which many investors’ retirement investments, including unfortunately the Anglin family’s, suffered tremendous losses in large part because they were invested in mutual funds which have less ability to preserve capital via buying shorts, hedges, and insurance policies.

Navigator III affords much more investment flexibility than most retirement funds. In my estimation, Navigator III has a very high probability of outperforming most other retirement type investments, a goal but not a guarantee. If Navigator III offers you a better alternative for your retirement money, our legal documents allow you to have until December 31<sup>st</sup> 2009 to tell me that you want to participate. This letter is not an offer to invest in Navigator III which can only come via a thorough examination of all of Navigator III’s legal documents.

**Thank You**

Thank you for your trust and faith in Navigator and in me. Your investment of your hard earned money with me is an enormous privilege and responsibility. I will do everything in my power to prove worthy of your trust.

If you have questions, I very much encourage you to call me at 917-509-2161 or email me at [dananglin@princehenrygroup.com](mailto:dananglin@princehenrygroup.com).

Sincerely,

Dan Anglin