

PRINCE HENRY NAVIGATOR II AND III LLC

www.princehenrygroup.com

7226 Aynsley Lane
McLean, Virginia 22102
Email: dananglin@princehenrygroup.com

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

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Dear Fellow Investor:

Thank You

Before diving into the update letter, I would like to thank you, not only for trusting me with your hard earned money, but also for all of the referrals many of you have sent to me. Charlie Munger advises younger businesspeople to focus on “the work on your desk” and allow others to build your business via word of mouth. Thanks to you, this fundamental approach has allowed the Navigator Funds and The Prince Henry Group to enjoy progress that we could not envision when starting the business in 2000. Thank you. I will continue to do everything I know to do to prove worthy of your trust.

One investor recently encouraged me to develop an “Elevator Pitch” or “Tag Line” for the Navigator Funds, and I thank those of you who helped us devise it. Here it is.

“Backing People We Admire, Operating In Inefficient Asset Classes, Whose Incentives Align With Our Own”

Bad News

In general, the bets against overvalued stocks and the macroeconomic hedges, collectively “the shorts”, have lost money this year. In an economic world with low interest rates and available government bailout money for even the most marginal public assets, this result is not surprising. (By the way, I am not criticizing the government; in my mind, policymakers have done a good job averting disaster in an extraordinarily difficult situation.) More relevant to this letter, these short-term losses from the shorts and hedges do not bother me. While Navigator’s managers certainly are wrong on some of their short bets, in the overall I believe that the managers’ short books will protect Navigator’s downside and that all of the short positions averaged out will make money for Navigator. In their April Update Letter, T2’s Whitney Tilson and Glenn Tongue write the following:

“So why don’t we significantly reduce our short book? We’ve given it a great deal of thought and have gone through our whole book looking for a position that we are willing to cover, and we can’t find a single one. We believe that our short book represents a win-win right now: it should provide excellent protection in the event of a general market downturn, but even if this doesn’t happen, we still think that we will make money on it (unless the market continues to go straight up- in that case it will continue to dampen our returns.)

It might interest you to know that the last time we felt this way was late 2007, after we had taken years of pain on the short side and seriously considered covering all or most of our shorts. But after evaluating each position, we were not willing to cover things like MBIA, Ambac, or Lehman Brothers around \$70 or Allied Capital and Farmer Mac around \$30 – and thank goodness we didn’t.”

Review and Comparison

When we started Navigator, I promised you that my interests would align with yours and that I would not change the evaluation criteria for Navigator's success or failure in proverbial mid-stream. (We discussed how changing evaluation metrics is what Warren Buffett likens to painting the bullseye after the arrow has landed.) Now approximately halfway through Navigator II's investment period, let's review how, in my estimation, Navigator II appears to be doing against these criteria. (I use the words "estimation" and "appears" because for many of Navigator's assets we will not know their actual value until we sell them.)

1. *Capital Protection Criterion:*

As a reminder, if investors get back at least 100% of what they invested, I do not lose my "junior piece" investment which takes the first losses. I reiterate what I said in my presentation in October in New York (<http://www.princehenrygroup.com/investorVP.html>) that based on the data that I can see and my assumptions regarding Navigator's assets, I believe that I will not lose my junior piece and that investors will preserve their capital at the end of Navigator II. This assessment is certainly not a guarantee, just my best assessment.

2. *Relative to 3 Major Indices: S&P 500, DJIA, and NASDAQ*

If one invested \$100 in each of the major U.S. stock indexes at Navigator II's inception, that \$100 would now be worth \$77, \$82, and \$91, respectively.

- S&P 500: Down about 23% %, \$100 is now \$77
- Dow Jones Industrial Average ("DJIA"): Down approximately 18%, \$100 is now \$82
- NASDAQ: Down about 9%, \$100 is now \$91

As the table below shows, assessing the same type of value for Navigator II today using what I believe are fairly conservative assumptions (meaning the most unfavorable ones for Navigator) indicates that, IF WE SOLD EVERYTHING TODAY (to be clear, this example is hypothetical since we could not sell everything today), the portfolio is probably worth about \$90 to \$95. (The table says \$93, but that implies a level of precision that is misleading in this type of back of the napkin calculation.) On this basis, Navigator has, thus far, done better than the three indices. I provide this "analysis" because one investor for whom I have great respect told me that at least once over Navigator II's life, he would find this type of perspective helpful. This letter is that one time. In my own view, as an analytical tool this, "if your Aunt had a Y chromosome she would be your Uncle" type of analysis has the tendency to confuse more than illuminate. TO REITERATE, WE COULD NOT SELL EVERYTHING TODAY. MOREOVER, NAVIGATOR'S MANAGERS AND I ARE BUYING THINGS THAT WE THINK ARE MISPRICED TODAY.

3. *13% Compounded Preferred Return*

In my opinion, it is too early to tell if Navigator II will satisfy this robust hurdle that it needs to hit before I receive a performance fee. I do remind you of my own incentives: given that the first losses are mine and that my family and I have the overwhelming majority of our assets in this vehicle, I could be very happy with a scenario where we preserve capital, beat the market averages, and do not reach 13% per year.

Asset Categories

I encourage you to use this table in the way that I use it: to think about the types of assets that Navigator owns and what the respective drivers of their ultimate worth are. In the past, we have used the metaphor of the Navigator portfolio as a symphony with each asset in place not only for its own intrinsic value but as a complement to the other pieces. This table, and the admittedly somewhat artificial distinctions that I draw between the asset categories, will hopefully help paint this symphonic picture.

1. *Public Assets*: Stuff that is regularly traded on a public exchange and which Navigator and the funds through which it invests can trade in size without moving the market for the asset.
2. *Strategic Assets (Management Companies, entities that own hedge funds)*: Here Navigator participates not only in the skill of the investment manager but also benefits from the positive unit economics that come from scale in the investment business. Said in English: assuming that these managers continue to invest well and to continue to treat their clients well, their assets under management will likely grow, making the management company that owns each fund worth more.
3. *Private Illiquid Assets*: Stuff that does not trade often. Some of these assets do not have any buyer at certain points in their life cycle and when certain market conditions prevail.
4. *Asymmetric Assets*: Situations where our downside is capped but our upside is not. The best example is we can only lose 100% of our investment but could make 1000% or 10X. To date all of Navigator II's investments have our downside capped at a certain level but most of them do not have the ability to generate 10X or better returns as these asymmetric assets do. This upside potential is what distinguishes the asymmetric assets.
5. *Free Options*: Options that Navigator has earned because of something Navigator has done or because of some work that I have done, and I have made Navigator the beneficiary of all or part the future economic value.

Navigator II Snapshot

	Portfolio %	Cost	Value	Value Method	Value Date
Public Assets					
T2 Qualified	4%	\$ 200,000	\$ 222,418	Market	30-Apr-10
T2SPAC	12%	\$ 600,000	\$ 1,022,773	Market	30-Apr-10
Semper Vic	10%	\$ 500,000	\$ 481,920	Market	31-Mar-10
Sellers: 50% of original position sold over time	9%	\$ 425,000	\$ 127,867	Market	31-Mar-10
Pabrai	5%	\$ 270,000	\$ 256,626	Market	31-Mar-10
Praetorian	1%	\$ 50,000	\$ 50,000	Cost	
Centaur	2%	\$ 100,000	\$ 104,650	Market	30-Apr-10
Greenlea Lane	2%	\$ 100,000	\$ 99,304	Market	31-Mar-10
Aquamarine	2%	\$ 100,000	\$ 70,000	Market	31-Mar-10
Spencer Capital Fund	2%	\$ 100,000	\$ 72,542	Market	31-Mar-10
Spitfire	4%	\$ 200,000	\$ 241,503	Market	30-Apr-10
Sabre Value Fund	4%	\$ 200,000	\$ 143,860	Market	30-Apr-10
Iridium Stock 11,000 shares at \$8.67 market value	1%	\$ 37,844	\$ 95,370	Market	20-May-10
Iridium Warrants 26,200 at \$1.70 per warrant	0.38%	\$ 18,820	\$ 44,540	Market	20-May-10
GGP 5,600 shares at \$13.88 market price	2%	\$ 93,031	\$ 77,728	Market	20-May-10
Liberty Warrants 2nd Time Around	1%	\$ 25,200	\$ 24,000	Market	
Strategic Assets					
Spencer Capital Mgmt.	4%	\$ 198,760	\$ 198,760	Cost	
Point Clear Capital Mgmt.: Number Should Grow	2%	\$ 88,589	\$ 88,589	Cost	
Private Illiquid Assets					
Tri Pro Pool II	23%	\$ 1,166,921	\$ 1,166,921	Cost	
Charter Bank	2%	\$ 100,000	\$ 100,000	Cost	
Sabre Queen City Value Fund	1%	\$ 50,000	\$ 50,000	Cost	
Transgaming Stock Direct	4%	\$ 219,108	\$ 219,508	Cost	
Transgaming Via Public Markets	1%	\$ 29,525	\$ 29,525	Cost	
Assymmetric Assets					
Chemigen: Could to 2.5%	1%	\$ 60,000	\$ 60,000	Cost	
Park Avenue	2%	\$ 93,750	\$ 93,750	Cost	
Oxira	2%	\$ 75,000	\$ 75,000	Cost	
Virgin Oil Empire Well	2%	\$ 83,940	\$ 83,940	Cost	
		\$ 5,185,488	\$ 5,301,094		
"Free Options":					
Transgaming Warrants Good thru end 2011		\$ -	\$ -	Zero	
Chemigen B Stock		\$ -	\$ -	Zero	
Oxira Warrants		\$ -	\$ -	Zero	
Other?		\$ -	\$ -	Zero	
Debt					
Total Loans	13%	\$ 657,000			
Value Less Loans		\$ 4,644,094			
Initial Capital Invested		\$ 4,997,000			
Value as % of Initial Capital Invested		93%			

Navigator III Snapshot

1	Chemigen
2	Iridium: Cash, Stock, and Warrants
3	Montecito Venture Partners for 2% of EVCM
4	Washoe Partners 6 month collateralized Loan
5	Harrier Hawk Fund
6	Point Clear
7	Transgaming
8	Iridium Stock
9	Iridium Warrants
10	Liberty Acquisition Warrants
11	Spencer Capital Management Company
12	Eriksen Capital Mgmt. Company
13	Eriksen Capital Fund
14	Aquamarine
15	Ori's EVCM Fund
16	Spitfire
17	T2 Qualified Fund
18	TriProPool III NOT YET Sent
19	Total
20	"Free Options":
21	Transgaming Warrants Good thru end 2011
22	Chemigen B Stock

Suggested Reading

1. Zeke Ashton Value Investor Insight Interview -
http://www.princehenrygroup.com/VII_4.30.10.pdf
2. T2 Letter -
<http://www.princehenrygroup.com/LtrtoInvestors-Apr10.pdf>
3. Pabrai Letter -
<http://www.princehenrygroup.com/PabraiLetter1stQuarter2010.pdf>
4. EVCM Letter -
<http://www.princehenrygroup.com/EVCMMonthly-April2010.pdf>
(or <http://www.princehenrygroup.com/EmergingValueCapitalManagement-Q12010LettertoInvestors.pdf>)
5. TriPro Letter -
<http://www.princehenrygroup.com/TriProPoolNavigatorUpdateEOY2009.pdf>
6. Forbes Interview with T2's Whitney Tilson -
<http://www.forbes.com/2010/04/22/buffett-tilson-reit-intelligent-investing-general-growth.html>

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