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."

July 2011

Dear Fellow Investor:

<u>Results</u>

Thank you to every single one of you for the proactive response to the March 2011 update letter. Two Navigator II investors representing $500,000, or about 6% of Navigator II's assets, elected to redeem their shares at $100,000 per share. Navigator II will pay them out in March of 2012 and 2013 at the annual interest rate of 1.53%.

<u>Next Steps</u>

In an effort to provide full transparency, here is a link to the proposed amendments to Navigator II. http://www.princehenrygroup.com/letters.html. As explained in the March letter, these updates are designed to sync Navigator II's investment life with that of Navigator III and to implement some of the lessons learned from structuring the Navigator III documents. Based on feedback from you following the March letter, and to keep this process from turning into a "herding cats" type of exercise that obligates me to speak again with every investor individually, I would ask that you:

1. **Email me by Friday, July 8th** stating "I, ________________, by transmitting this electronic mail message,
   - **a.** Vote "yes" to the proposed First Amendment to the Limited Liability Company Agreement of Prince Henry Navigator II, LLC, a Delaware limited liability company.
   - **b.** Authorize the Managing Member of the entity referenced above to sign and deliver, on my behalf, the respective First Amendment to the Limited Liability Company Agreement."

   <u>OR</u>

2. If you have additional questions or if you want to vote against these recommended changes which enable the buyout of the two investors, please call or email me to discuss.

Investor feedback to me indicated that investors were very supportive of the amendments, so assuming the majority vote yes, we will move ahead with the changes and buyout the exiting investors.

New Navigator Fund Investment

Effective July 1st, Navigator II will have $500,000 invested with a manager whom I have admired since 1992. Jeff Ubben and I worked at Fidelity together during the early 1990s. Jeff was senior to me, but it seemed evident even then that he was highly likely to have great success in the investment world. Jeff founded Value Act Capital eleven years ago and has compounded capital at 17% per annum during that period. Value Act now manages $5 Billion in assets and typically requires a $10 Million minimum investment. I am grateful to Jeff and his partners for allowing Navigator to enter. Returning to Value Act's performance, my view is that the future has an opportunity to be even better than the past, as Value Act has had great success in securing multiyear capital which should enable them to take advantage of future market panics. Again, neither Value Act nor I can offer guarantees, but I am extremely excited and optimistic about this new investment.

Time Arbitrage aka Patience

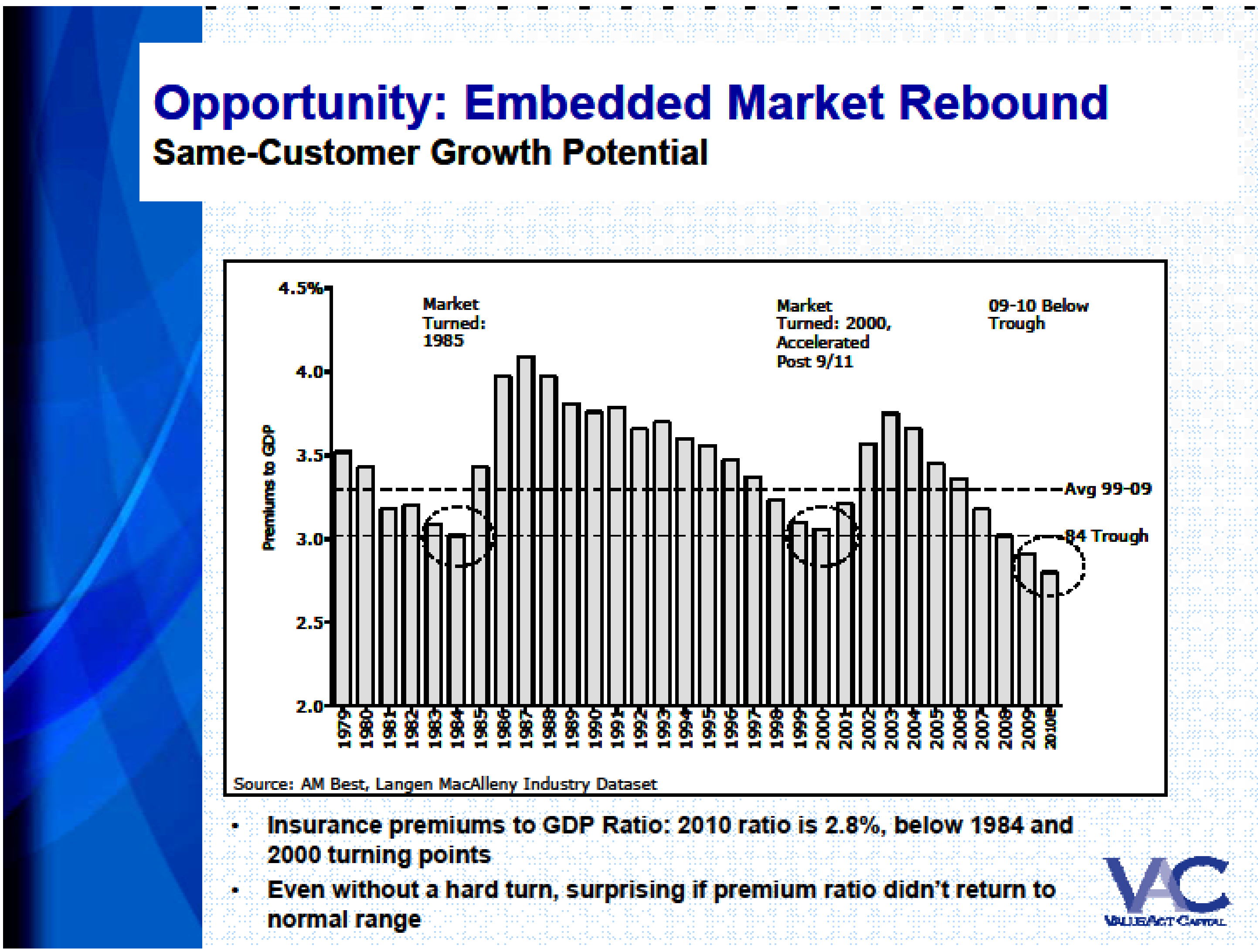
As you have heard many times before, Navigator attempts to preserve capital and to compound it over time by backing people we admire operating in inefficient asset classes and whose incentives align with our own. Navigator's biggest advantage in pursuing these opportunities is time. Navigator is built to wait. If you pick one competitive advantage that separates Navigator, it is this "Time Arbitrage or Patience".

The last update letter demonstrated one success this patience provided Navigator by discussing the T2 SPAC Fund. In this update letter, one of the biggest investment themes that suffuse the Navigator portfolios right now is investments in insurance companies. Many Navigator managers own them, and Navigator owns a few directly as side pocket investments in concert with Navigator managers. Many investors recognize the wonderful economics that insurance companies led by talented managers offer. However, most investment vehicles are not built to be patient, so most investment managers cannot make substantive bets on the insurance sector. About 75% of the time, in property and casualty insurance the pricing environment is bad, and no one wants to own the stocks. Currently, superior insurance businesses with proven management such as Markel Corporation and Greenlight Reinsurance are trading at small premiums to the liquidation value of the businesses. In other words, the market is valuing them as if their value would only exist if we busted up the companies and sold off their assets garage sale style. These companies are not being valued as businesses that will stay in business and thrive, as they almost certainly will. Historically, when the insurance environment turns, the companies' valuations improve, offering very compelling returns. No one knows, however, exactly when it will happen.

One of Navigator's managers has kindly shared with me the slide below which shows insurance cycles in terms of insurance premiums relative to GDP (Gross Domestic Product or the size of the U.S. economy) since 1979. The slide's two biggest punch lines are that:

- ✓ Pricing in insurance has already fallen below the bottoms of the last two cycles in 1984 and 2000
- ✓ It seems likely that insurance will remain an important part of the U.S. economy in the future

While we do not know exactly when, it seems highly likely that insurance pricing will improve, thus delivering strong investment performance in this sector. A subheading of the chart and of the companies' valuation is "You can't fall out of a ditch". The companies' shares cannot get much cheaper before alternatives exist for their management teams to unlock their underlying value. However, it is important to recognize that the share prices could get cheaper, and a macro event such as another Katrina type hurricane, a nuclear bomb explosion, etc. would produce panic selling in the sector. In summary, however, at today's prices for those with the ability to be patient, insurance seems likely to offer an extremely attractive reward to risk profile. Navigator, in concert with its managers will continue to monitor the sector closely allowing time for our investment thesis to be validated.



Outlook

As details emerge, I will write again to update you more fully, but we are currently pursuing several opportunities that could become material drivers of all three Navigators' portfolios in the coming years. For example, one of Navigator's partner funds is pursuing the potential purchase of a small insurance company. If that were to happen, Navigator would probably have a coinvestment opportunity which has extremely favorable unit economics. While nothing is final, and this opportunity and several others could all evaporate, I am very excited about this series of projects and their potential for Navigator economics.

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*. Also, please remember to do item 1 or 2 from page one of this letter!

Sincerely,

Dan Anglin