

## PRINCE HENRY NAVIGATOR II LLC

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

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Dear Fellow Investor:

Jared Diamond wrote the bestselling Guns, Germs, and Steel as a response to what he termed Yali's question. In a similar way, this letter attempts to answer "David's question." David is a personal friend and Navigator investor who recently asked me "How is Navigator doing well in the current environment?" The short answer has three parts: shorting, inefficiency, and concentration.

- *Shorting*: Many of the hedge funds in which Navigator invests have had compelling performance with their short positions, their bets that individual stocks or the market as a whole would fall.
- *Inefficiency*: Navigator actively seeks out inefficient markets whether via new funds like Sabre Value Fund (Sabre focuses on smaller, less followed companies and rose 11% net of fees in the month of May alone) or via investments such as TriPro Pool II that focuses on undermanaged C class apartments.
- *Concentration*: Sellers Capital fund is up roughly 95% in the last twelve months. Much of this performance has been driven by one stock, Contango, that, at times, comprised 50% of the Sellers fund. Because Navigator is a diversified vehicle, it can afford to make concentrated bets like the Sellers fund.

### ***Navigator Snapshot***

The table below shows Navigator's investments on a cost basis from largest to smallest. With sixteen investments (including cash), thirteen of which are themselves diversified pools, Navigator provides access to a wide array of investments. Moreover, these assets should, over the long pull, succeed or fail based on very different performance drivers.

Based on Navigator's current investments and based on the minimum required investment size in the funds and pools in which Navigator invests, replicating Navigator's current portfolio would require about \$14 million. To proactively answer the "Why Are We Getting So Lucky?" question, Navigator achieves the same diversification with less than \$14 million due to:

- Respect that funds have for Navigator's long-term focus - Navigator is an ideal fund investor.
- Awareness of the wide industry experience that Navigator's investors have and of which many of Navigator's funds have taken advantage in researching individual investments.
- Relationships between the funds' managers and me.
- Discovery of some of these funds by the larger investment community, thus causing some funds to raise their investment minimums since Navigator invested

<b>Navigator Snapshot</b>		
	<b>Investment</b>	<b>% of Assets</b>
1	TriPro Pool II	27%
2	Semper VIC Partners Fund	12%
3	Berkshire Hathaway	11%
4	Sellers Capital Fund	10%
5	Pabrai Fund IV	6%
6	T2 Partners Fund	5%
7	Hawkshaw Partners Fund	5%
8	Sabre Value Fund	5%
9	Spitfire Fund	5%
10	First Premier Corporation	2%
11	Green Lea Lane Fund	2%
12	Aquamarine Fund	2%
13	Centaur Capital Fund	2%
14	Spencer Capital Fund	2%
15	Cash Approx	2%
16	Oxira	2%
	<b>Total</b>	<b>100%</b>

### ***Bad News***

I always want to include this section to force myself to discuss anything unpleasant, or potentially unpleasant, right up front. I do not, however, want to misrepresent my outlook. In a challenging market environment that may yet become significantly more challenging, Navigator's managers are doing, in my view, an excellent job of preserving capital and of focusing on compelling long-term term values. I especially appreciate the way that the vast majority of Navigator's managers make investments assuming very negative scenarios for the economy and the world. We cannot predict what will happen, but if we select investments that will survive hard times, we are likely to prosper over the full economic cycle.

### ***Update***

Navigator II raised about \$1.6 million in its most recent raise, thus bringing Navigator II's capital, on a cost basis, to about \$4.5 million. This capital, combined with about \$1.6 million in Navigator II's sister fund, Navigator I, gives the funds about \$6.1 million of investment dollars. The new \$1.6 million in Navigator II allowed the fund to make the following seven new investments. All of these investments, including those in TriPro Pool II, are new investments to which Navigator II did not previously have access.

	<b>Investment</b>	<b>% of Assets</b>
1	Sabre Value Fund	5%
2	Spitfire Fund	5%
3	TriPro Pool II <sup>1</sup>	16%
4	Aquamarine Fund	2%
5	Centaur Capital Fund	2%
6	Spencer Capital Fund	2%
7	Oxira	2%
	<b>Total</b>	<b>34%</b>

<sup>1</sup> Incremental investment only

I want to provide a synopsis of each of these investments but, in the interest of maximizing the probability that all of you read this full letter, will do so in Appendix I. I do not want to celebrate short-term performance but, as I mentioned at the beginning of the letter, do want to recognize that Navigator's first month with Sabre Value Fund was a banner month that will probably never happen again, up about 11% for the month net of fees. I attach Sabre's month end letter not to celebrate the performance but rather because it provides outstanding context. Sabre has had some tough times, and the fund's record show that even the best funds have difficult periods. Since inception in June of 1998, the fund has compounded investor capital at an average of 22% a year net of fees, an extraordinary performance.

### ***Manager of the Month Call***

In an effort to share as much information as possible with interested investors, Navigator will begin a "Manager of The Month Call" featuring one manager with whom Navigator has invested capital. The first call will be with TriPro's principals, Eric Conner and David Schaper. TriPro not only has about 27% of Navigator II's capital but one investment, the distressed Oak Tree Note, accounts for about 16% of Navigator's assets. Among others, TriPro will be discussing the following topics in the call:

- Oak Tree Note Update
- Update of other existing TriPro Pool II investments, Westhaven and Trinity
- Discussion of potential investments in the TriPro Pipeline
- Historical perspective on today's investment environment for TriPro
- Q&A
- You will receive an email with the time and date of the call

### ***November 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> - Please Save the Dates***

I emphasized Navigator Investor Day, which occurred this past February 28<sup>th</sup> in New York, so much because, given Navigator's small asset size, we have to focus on minimizing costs, so I did not know when we could afford to have another investor update event. In general, I stand by that statement. However, Navigator has a chance to benefit from a volunteer project with which I am involved. Specifically, the University of Virginia's Darden Graduate School of Business is sponsoring a forum on Value Investing on November 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>. I am helping organize the event, so Navigator's investors will have access to the event, which is not open to the public. Many of Navigator's Managers will present at the conference, and they will give special private update presentations for the Navigator investors in attendance. This event is not only an opportunity to get a Navigator update, but also is a chance to learn from some of the world's most successful investors. Schedule:

- Thursday, November 6<sup>th</sup>, 6:00pm - 9:00pm: Advanced Seminar on Value Investing.  
I have attended this course several times and highly recommend it. It normally costs over \$1,000 to attend but is being offered for free to conference participants, including Navigator investors.
- Friday, November 7<sup>th</sup>, 9:00am - 5:00pm: Value Investing Conference
- Saturday, November 8<sup>th</sup>, 9:00am - 5:00pm: Value Investing Congress and Manager Meetings

I will distribute information about hotels and logistics as it becomes available. In general, except for food and lodging, there is no cost for this event for Navigator investors.

### ***Website Introduction***

The Prince Henry website, [www.princehenrygroup.com](http://www.princehenrygroup.com) is now up and running. A special thanks to webmaster Marc Parrish for his painstaking professionalism and to all of the Navigator investors who helped us review the site while in development. That said, we want the site to benefit from continuous improvement, so if you have suggestions or encounter any difficulties, please email Marc and me right away. Marc's email is [marcparrish@princehenrygroup.com](mailto:marcparrish@princehenrygroup.com)

We will make every effort to keep the site fresh and relevant and would appreciate your suggestions in that regard. At present the site has the following:

- All investor letters since the start of Navigator I and II
- Videos of all manager presentations from Navigator Investor Day, February 28, 2008
- Videos of all manager interviews from Navigator Investor Day, February 28, 2008
- Links to all of Navigator's managers with websites
- Selected articles and interviews that I admire and that underlie much of Navigator's investment orientation.
- Favorite books and quotations
- Information on The Prince Henry Foundation and the charitable causes it has supported

### ***Navigator III***

Many of you have expressed to me your frustration regarding the limited ways that you can invest your retirement money. With most of this capital restricted to mutual funds and with the difficult investing environment that exists today for even the best mutual funds, many of you have asked me if it were possible to establish a Navigator type vehicle for retirement plan money. Hopefully, we are close to offering a solution to this problem, a vehicle, Navigator III, that will only accept retirement money and that will be invested in a manner very similar to Navigator II. If and when we are able to offer such a vehicle, I will give you an overview of it in a separate letter.

### ***Thank You***

As always, thank you for your attention and your support. If you have questions, I very much encourage you to call me at 917-509-2161 or email me.

Sincerely,

Dan Anglin

## APPENDIX I

### 1. Sabre Value Fund:

Since inception in June of 1998, the fund has compounded investor capital at an average of 22% a year net of fees. Sabre was up 11.23% net of fees in May and is up 10.02% net of fees for the year to date. These statistics are interesting, but the reason Navigator invested in the fund is that Aaron Edelheit, Sabre's manager, has demonstrated that small cap value stocks as a class offer compelling value and that Aaron has the skills to find the opportunities this niche offers. Again, I very much recommend reading Aaron's letter which is attached to this Navigator Update letter.

### 2. Spitfire Fund:

Spitfire describes its approach as "A Private Equity Approach to Investing in Neglected Public Equities." In its target asset class, the fund is similar to Sabre. Whereas Sabre focuses more on stories involving potential growth of cash flow, Spitfire tends to own companies "trading at a discount to fair value based on current operating performance – paying for the future." Seven of Spitfire's top ten positions meet both parts of the fund's stringent two part test:

- a. Solvency test (Assets net of all liabilities)
- b. Liquidity test (Pre-financing cash flow)

A special thanks goes to Steve Saito who played a vital role in researching the Spitfire opportunity.

### 3. TriPro Pool II:

I have described this pool and the distressed Oak Tree Note, which now constitutes Navigator's largest single position at about 16% of capital, in past letters, all of which are posted on Prince Henry's website. In addition, TriPro's presentation at Navigator Investor Day on February 28, 2008, in New York and the interview with TriPro's principal, Eric Conner, is posted on the Navigator website. As mentioned previously in this letter, TriPro will be the focus of the first Navigator Manager of the Month call.

### 4. Aquamarine Fund:

This fund has many similarities in terms of style with Tom Russo's Semper Vic Partners. Specifically, both firms focus on great brands, often in non-U.S. markets. Aquamarine's manager, Guy Spier, has about \$130 million under management. Hence, Guy has many more places to prospect than Tom Russo has, with about \$5 billion under management. The fund's 10 year Compound Average Growth Rate (CAGR) is 13%, 5-year CAGR is 20%, and 2-year CAGR 25%, all achieved without use of financial leverage.

### 5. Centaur Value Fund:

This fund has posted a compounded return of 20% since inception six years ago. I have attached this fund's May report and one-page portfolio overview. I highly recommend that you take the time to read both of them.

### 6. Spencer Capital Fund:

Spencer's 2007 year end letter is one of the best that I have ever read. I very much encourage you to read it, as it provides the philosophy, performance, and perspective of this new Navigator fund.

### 7. Oxira:

At less than 2% of Navigator's capital, Oxira is an atypical Navigator investment in that its potential for capital appreciation is larger but the probability of success is smaller than in most situations in which Navigator invests. If Oxira succeeds, Navigator should make many multiples of its small investment. If

Oxira fails, Navigator will likely lose 100% of its investment. A small number of venture investments, such as Oxira, complement the rest of Navigator's portfolio.

Turning specifically to Oxira, two words summarize the company's current situation: Juncture and Management.

- a. *Juncture*: With just \$1.2 million in seed capital Oxira, has developed a product and performed a successful 20 person clinical trial, a tall order in the medical devices industry. The company's founders have done an exceptional job of getting Oxira to this point. Now, however, Oxira's needs can no longer be met with current management, who, it merits noting, have worked exclusively for equity and have never taken a salary from Oxira.
- b. *Management*: Oxira's success will depend on attracting and retaining a professional executive with the requisite knowledge of the medical devices industry to lead the company to a successful sale. At present, Oxira is in discussions with two candidates, both of whom seem up to the task. Most importantly, Dick Spencer, who serves as the de facto lead director on Oxira's board, has a proven history of starting, capitalizing, building, and selling medical device companies similar to Oxira including World Medical, Cordis, and Viacor. In the World Medical situation for example, Dick and his investors made 40 times their capital when the company was sold.

For more information on Oxira, I encourage you to view the company's presentation from Navigator Investor Day on the Prince Henry website. In addition, Oxira will do a special investor update at Navigator's meeting in November in Charlottesville.

A number of Navigator's investors deserve special thanks for contributing their expertise to analyze Oxira and to help the company maximize its probability of success. In alphabetical order, they are:

- a. Dewey Lane M.D.
- b. Greg Merrell M.D.
- c. Deepa Rajagopalan M.D.
- d. Carter Venkat
- e. Charles Wilmer M.D.

I thank them for their work and ask you to do so as well in Charlottesville in November.

## **ATTACHMENTS**

1. Sabre Value Fund May Letter
2. Centaur Value Fund May Letter
3. Centaur Value Fund One-Pager
4. Spencer Capital 2007 Annual Letter