

July 2010

Fellow Investors,

The company recently celebrated its first birthday, and I want to thank you all for being my investment partners. You all took a risk by investing with me and I hope your decision will pay off over many years to come. On my end, I'm happy with my new business in every sense – it is fulfilling, enjoyable, and financially rewarding. I look forward to being in this business for many years to come, and hope you will be here with me too. Now, on to the quarterly update...

Last quarter, I enthusiastically mentioned Noble Corporation (NE), an offshore driller – can you see where this is heading? In rapid succession: a competitor's offshore rig sunk, oil started spewing uncontrollably in the gulf, and the president declared a moratorium on offshore drilling. The stock rapidly declined by 40%, negatively impacting your and my holdings this quarter.

My response to that severe price decline was different than most: I bought more for you and me, mostly after the moratorium announcement and investor fear was high. My reasoning is this: the moratorium will have a sharp, mostly short-term impact on NE. Although I expect the stock to fluctuate in the short-term as investors try to divine precisely when the moratorium might end, I'm confident in NE as a long-term investment. The moratorium will eventually end and it's unlikely to significantly impact the long-term value of the company.

In addition to adding to NE, I started a new position in Maxygen (MAXY), a once high-flying biotech firm that has decided to liquidate and sell off its remaining intellectual property. When I bought MAXY for you, the entire \$180 million market capitalization of the company was covered by two assets: \$130 million in cash, and \$50 million in stock from one of its spin-offs. But I can see that MAXY has several potential ways to get more cash in exchange for its remaining intellectual property. I don't know which of those potential ways, if any, will pan out. It will be a while before we know for sure. But the current price of the stock suggests a mild decline as a worst-case scenario and a large increase as a best-case scenario.

Overall, Q2's market drop came as a relief to me: it allowed me to deploy some of the cash I'd reserved in hopes of better prices. While in past quarters I've mentioned that the markets seemed moderately overvalued, that's no longer the case. With the recent drop in stock prices, I think the market is fairly valued today. Looking forward, I'm content with your portfolio but will continue looking for even better opportunities.

Sincerely –
Kai Shih