

July 21, 2008

Dear Investor:

Wow! The Chinese proverb is correct "Let us live in interesting times."

To many, the current financial markets and economy are anything but interesting. The terms people can use are bad, awful, depressing, or confusing. These terms depict people's feelings. The point is that these are human emotions, not the economics of the market. Yes, the economy has slowed. Yes, the stock market has depreciated (gone down) year to date. Yes, some stock and investors have lost permanent capital. However, some investors and companies are doing fine.

The second quarter performance was 0.77% versus the S&P 500 Total Return at -2.73%. Through today the year-to-date performance is 0.94% (preliminary). Yes, that is positive where as the market is now down 13.20%. Prices in the stock market represent marginal prices, not average prices. Thus, when people are emotional anything can happen. In the first quarter, we invested in Bear Stearns and the liquidity run caused a permanent loss of capital. Likewise, some of our other investments such as Amgen and Cymer are appreciating versus their marginal closing price on March 31. The key is to make good investments which appreciate versus our cost.

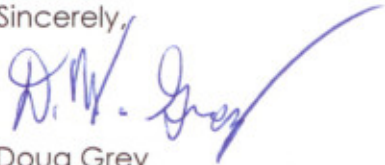
Our value added is a function of our stock picking. Secondly, it is a function of leverage. Our leverage is primarily created by using long dated in-the-money call options and short dated put options. To date we have not and do not intend to borrow money. The terms to borrow and the cost is prohibit relative to the cost imbedded in the options. Until Wall Street prices options based on intrinsic value and not volatility, this case will likely continue.

Cymer is the Fund's largest position. Cymer manufactures the light lasers used to pattern the circuitry on semiconductors. The Company continues to make impressive strides in its EUV (Extreme Ultra-Violet) technology. We believe that this leading edge technology will drive Cymer's future success as the semiconductor industry continues to shrink circuitry designs. Under a worst case analysis, Cymer is worth over \$40/share. Given the current share price of \$30.76,

we are looking forward to the future. This level of cheapness should provide excellent returns. The Company has a share repurchase plan and is eating its own cooking.

We at Saddle Peak look forward to the challenge ahead. The portfolio is cheap. Saddle Peak, like others, does face human challenges as we all face these interesting times. In the third quarter letter, I will address the results of these times on Saddle Peak.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. W. Grey", with a long, sweeping flourish extending to the right.

Doug Grey
Saddle Peak Asset Management, LLC

Our views and opinions regarding the investment prospects of our portfolio include "forward looking statements" which may or may not be accurate over the long term. While we believe we have a reasonable basis for our views and opinions, actual results may differ materially from those we anticipate. The information provided in this report should not be considered a recommendation to buy, sell, or hold any particular security.