GREENLIGHT

July 31, 2018

Dear Partner:

We had another difficult quarter and lost an additional (5.4)%,[1] bringing the Greenlight Capital funds' (the "Partnerships") year-to-date loss to (18.3)%. During the quarter, the S&P 500 index returned 3.4%, bringing its year-to-date return to 2.6%.

Over the past three years, our results have been far worse than we could have imagined, and it's been a bull market to boot. Yes, we have made some obvious mistakes – the worst of which was not assessing that SunEdison was a fraud in 2015 – but there have been others. A number of years ago one of our investors said Amazon would surpass Apple and become the most valuable company in the world. We didn't get it then and, truthfully, we don't really get it now. But, there is a reasonable possibility that he will be proven right.

Some have looked for reasons other than isolated mistakes. Theories include getting older, changing lifestyles, and an unwillingness to adapt to new market environments. We have been accused of being stubborn, but one person's stubbornness is another person's discipline. We will continue to be disciplined. Although it might be nice to have something to blame for the poor results, the truth is that we have been making every effort and leading with our best thinking.

Even if it isn't the whole explanation, the environment for value investing has been tough. AllianceBernstein recently reported that value investing strategies are performing in the bottom one percentile since 1990. In just the past 18 months, the Russell 1000 Pure Growth index has outperformed the Russell 1000 Pure Value index by 54%. The reality is that the market is cyclical and given the extreme anomaly, reversion to the mean should happen sooner rather than later. We just can't say *when*.

Our friend Vitaliy Katsenelson once wrote an essay about value investing that articulates what the past three years have felt like better than we can. He wrote:

> *Investing is a nonlinear endeavor that is full of ups and downs. Every investor will have periods when his or her strategy is completely out of sync with the market. When the market is roaring on its way up and your portfolio is down, you may be sure that pain will rear its ugly face.*
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> *Value investing is almost by definition a contrarian endeavor. Growth investors ride the train of love, harmony, peace, and consensus – they buy companies that Mr. Market is infatuated with and thus prices them for love. (But just so you know, love ain't cheap and rarely lasts forever, at least when it comes to growth stocks.)*

[1] Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.

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> *Value investors, on the other hand, live in the domain of hate – they buy what others don't want. Ironically, value investors may end up owning the same companies that growth investors used to own. When the love is gone, hate goes on a rampage; and trust me, you won't find anyone who'll pay extra for hate. It is cheap.*
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> *Investment styles go through cycles. Sometimes your stocks are really out of favor. Nothing you do works. You keep telling yourself that in the short run there is little or no link between decisions and outcomes. That's a truism of investing, and even you believe it on an intellectual level. But every day you come to work and the market tells you you are wrong, you are wrong, you are wrong.*

Right now the market is telling us we are wrong, wrong, wrong about nearly everything. And yet, looking forward from today we think this portfolio makes a lot of sense.

One of our general goals is never to be your biggest problem. Unfortunately, we have been lately, and a good number of our partners have had enough and redeemed. We appreciate you for sticking with us through this challenging period. We certainly understand those who have run out of patience as this period has lasted longer than we could have envisioned. Maximizing the size of our capital base has never been our goal; maximizing returns is and always has been. In our history, we have raised ~$6 billion, and paid out ~$8 billion to investors.

Bad results aren't fun, but we are determined to show up to work every day to engage in solving the puzzles in the market, as we always have. It remains exciting when we think we have figured something out – which doesn't happen every day or even every week, but historically has been lucrative when we do.

Last year, our biggest new investment was Brighthouse Financial (BHF). It was a spin-off from MetLife. It had all the spin-off dynamics we like to see. The roadshow presentation was practically morbid and almost designed to discourage investing. The most off-putting was management's plan to refrain from capital returns for three full years to allow the company to "season."

The original spin-off document said that book value would be about $93 per share and management guided to a long-term ROE of 9%, implying $8.40 per share of earnings power. We paid $57.92 per share or 62% of book value and less than 7x future earnings. Good things usually happen to cheap stocks that deliver positive surprises. Having seen this pattern, we figured that once management got its stock ownership set, the story would likely change for the better. And, it did.

As often happens in spin-offs, there were last-minute balance sheet adjustments and true-ups which benefitted the new company. Original book value turned out to be $105 per share. Management re-guided the ROE to 8% on the higher denominator, again implying roughly $8.40 per share in earnings. After all, with the stock in the $50s there was no need to promise even more earnings. The stock reached $67 in January, and all seemed well with the investment.

BHF reported mediocre, but not terrible, year-end results, driven by slightly higher than expected mortality loss and slightly higher expenses. At the same time, the company continued to build excess capital and hinted that capital return could commence sooner than expected. BHF steadily fell to $50 by early May, when the company announced first quarter results, which were terrific. BHF exceeded expectations across the board and raised its long-term ROE expectation to exceed 8% in 2019 and 2020. Further, the company said capital return could begin sooner than 2020 under certain circumstances. We expected that BHF stock would recover its previous losses and initially BHF stock reacted by jumping 5% at the open.

From there, the stock traded steadily lower, finished the quarter at $40.07, and it has been our biggest loser so far in 2018. We have seen bearish analyses that include concerns about long-term care blocks of business like Genworth (BHF is not in that business) or that cite the low price at which Voya Financial sold its variable annuity book to Athene (the books aren't remotely comparable: about 85% of the policies in Voya's block were net liabilities to the company, whereas over 80% of BHF's are in a profit-generating asset position). BHF may have also suffered from a technical overhang as the market digested another variable annuity spin-off from AXA and waited for MetLife to sell its remaining stake. MetLife completed the sale in June, but rather than benefitting from the removal of the overhang, BHF stock sank further. None of these stories seems satisfying.

All told, we really don't understand why the stock is performing so badly. It now trades at about 37% of book value and less than 5x earnings. Generally, when an insurance stock trades this poorly, there is either a large capital hole or an enormous reserving problem. We don't see evidence of either. Yes, BHF would suffer in a large equity sell-off, but so would almost every stock in the market.

Ultimately, we see capital return as an important trigger to realize value in this investment. The current absence of it, in a sector where most peers pay out 50% or more of earnings as dividends, has left BHF stock adrift without a valuation anchor in a period where financials have underperformed broadly. For now, investors are ignoring the large discount to book value and dismiss BHF as "a future story" – but the current ~20% earnings yield becomes impossible to ignore once those earnings return to shareholders in the form of cash dividends or stock buybacks.

General Motors' (GM) stock price has been another source of frustration. This quarter, GM successfully restructured its money-losing Korean operation and announced the retirement of its CFO, whom we viewed as the weakest member of management.

More importantly, GM announced that SoftBank's Vision Fund would invest $2.25 billion into GM's autonomous driving unit (Cruise Automation) at an $11.5 billion valuation.

SoftBank performed diligence that validates GM as a technological leader in the field, and it could provide strategic assistance going forward. On reading the news, we thought SoftBank's investment would be transformational for GM stock because it:

- Funds GM's remaining investment in Cruise through commercialization;
- Allows investors to value GM as a sum of the parts with an ascribed value to Cruise while eliminating the losses from the traditional OEM business;
- Positions GM to eventually unlock further value through future transactions; and
- Gives GM more flexibility to repurchase its undervalued shares.

The simple math is that with $1 billion of losses removed from the traditional business, at a 6x P/E and the Cruise valuation, GM stock could have been re-valued by $11 a share, ascribing no value to SoftBank validating the technology, providing strategic help or receiving favorable economic terms as an inducement to invest.

Instead while GM stock appreciated $7 in the aftermath of the announcement, it promptly rolled over and gave back most of the gains. True, GM faces headwinds from raw material pricing and would be at risk if its supply chain in Mexico is disrupted by a change in government policy. Even so, the company made substantial progress this quarter and the shares deserve a better fate. While it was our biggest winner in the second quarter, for the year GM is down 4% and has marginally outperformed Ford, but it has underperformed Fiat Chrysler and – of course – Tesla (TSLA).

Speaking of TSLA, by all available evidence, the company has had a difficult year. TSLA has had trouble demonstrating efficient production, and it has delayed capital spending which pushes out future growth opportunities in the Model Y and the Semi. TSLA is accommodating Model 3 customers who are willing to pay for premium features – making the car more of a luxury item with a smaller addressable market than the mass market car TSLA had promised. This high-grading of the backlog combined with the reduction in the government subsidy by early next year, new product delays and the emergence of viable competition for the Models S and X means that 2019 should be a very challenging year for TSLA. We doubt the entry-level Model 3 will be produced profitably anytime soon, if ever.

The odd thing is that while investors claim to be interested in the long-term growth of TSLA (as the valuation certainly can't be supported by the current loss-making enterprise), the company is focusing investors on very short-term goals. Can the company produce a certain number of cars in a single week through short-term surge production techniques? Can the company fire enough staff and scrimp on capex to show a profitable or cash flow positive quarter or two?

On the other hand, we wonder whether surge production techniques to support self-congratulatory tweets are economically efficient ways of ramping production, or whether customers will be happy with the quality of a car rushed through production to prove a point to short sellers. We also wonder whether the company's lack of capital and its determination to show positive cash flow is delaying investments in additional manufacturing capacity and infrastructure necessary to fulfill the bulls' long-term growth expectations. With TSLA's first-to-market window beginning to close, delaying investment undermines the opportunity. Strangely, the bulls don't seem to care.

On a personal note, David is happy that his Model S lease ended (there were growing problems with the touchscreen and the power windows) and is excited to get the Jaguar I-PACE, which has gotten excellent reviews. The Model S residual values are falling. Meanwhile, the Model 3 initially received lukewarm reviews, and the raft of bad publicity is probably having a negative impact on the brand.

The most striking feature of the quarter is that Elon Musk appears erratic and desperate. During the quarter Mr. Musk:

- Attacked an analyst for asking "boring bonehead questions" on the quarterly conference call;[2]
- Hung up on the head of the National Transportation Safety Board;
- Assailed the media for the audacity to report that Tesla's customers crash while using "autopilot";
- Accused an internal whistleblower of "sabotage";
- Appeared to paint the tape with trivial insider purchases; and
- Went on a tweetstorm calling for "the short burn of the century."

The market preferred this bravado much more than say, GM's actual accomplishments. TSLA soared 29% during the quarter and was our second biggest loser.

While the above summarizes some of our difficulties and frustrations, we have taken action to mitigate our problems. In a difficult environment we have been prudently managing our gross exposure and individual position sizes, and we have increased our usage of put options in the short book. For example, in January through April we covered most of our Netflix equity short at $281.46. The shares ended the quarter at $391.43. Given the year-to-date results it feels odd to say, "it could have been worse." All told, our trading this year, which has mostly been risk management and portfolio reduction, has saved about 5% of capital as of June 30.

Athenahealth (ATHN) is another position of note. Though we have been short for several years, we managed to trade around it such that it has not been a material loser in 2018. This quarter, an activist forced out the CEO and convinced the company to put itself up for sale. Notably, the activist indicated that it would be willing to pay $160 a share and possibly much more pending due diligence. Our take is that the activist has little interest in actually buying the company, but hopes someone else does. The risk is that the other

[2] We thought they were good questions and would have been interested in the answers. (When Mr. Musk later said he was "foolish" in not answering the questions, he notably didn't go so far as to provide the answers.)

buyers realize that ATHN is not a SaaS company, but rather a business process outsourcer in a mature market that already cut costs to the bone last year in response to the activist. The prospective buyers might also waver should they conclude that many of the best employees were personally loyal to the now deposed CEO. We have used the recent spike to re-short some shares that we covered previously.

We made a new investment in Altice Europe (Netherlands: ATC). We created a small long position in ATC prior to the spinoff of Altice USA at €1.59. At our entry, the equity value of €1.9 billion is merely an option on the solvency under €31 billion of debt. Ample liquidity, loose covenants, years before large bond maturities and the potential for deleveraging asset sales provide a long runway for a turnaround. There is also substantial upside from further consolidation in the sector. ATC shares ended the quarter at €3.49.

After four years, we exited Resona Holdings, a Japanese bank, with a medium profit. The company performed nicely, but used its excess capital for acquisitions rather than returning it to shareholders as we had hoped.

We sold Dillard's after three years with a small loss. We were originally attracted to the substantial owned real estate, strong free cash flow yield and rapidly shrinking share count. Frankly, the business deteriorated faster than we expected.

We covered a five-year-old short in Elekta AB with a small gain. The company repeatedly failed to achieve its sales and cash flow targets, and its next generation MRI-enabled product was delayed due to technical challenges.

Philipp Endemann joined us as a research analyst in our London office. Most recently he was a portfolio manager at Balyasny Asset Management. Philipp has been an investment professional since 2001 and has worked at UBS O'Connor, Citadel Investment Group, and Silver Lake Partners. Philipp received a Masters degree in finance from the University of Mannheim in Germany. Welcome Philipp!

Junior analyst Nick Jain left during the quarter to pursue other opportunities.

Jason and Kelli Lewis were married in Kelli's home city of Philadelphia under the stars of the Franklin Institute planetarium. In his wedding toast, Jason promised Kelli's parents he would take care of their daughter forever, but never, ever become a Philadelphia Eagles fan. Congratulations to Jason and Kelli!

Alexis and her husband Rob welcomed daughter Lillian Shea Clendening on March 19. Lillian's middle name is an homage to the Mets' 1986 World Series victory. It was the only name Alexis would agree to after vetoing Mookie, Strawberry, and HoJo. Congratulations to Alexis and Rob!

At quarter-end, the largest disclosed long positions in the Partnerships were Bayer, Brighthouse Financial, CNX Resources, General Motors, and gold. The Partnerships had an average exposure of 96% long and 75% short.

"The hardest years in life are those between 10 and 70."

–Helen Hayes

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

Unless otherwise noted, performance returns reflect the dollar-weighted average total returns, net of fees and expenses, for an IPO eligible partner for Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., and the dollar interest returns of Greenlight Capital (Gold), L.P. and Greenlight Capital Offshore (Gold), Ltd. (collectively, the "Partnerships"). Each Partnership's returns are net of the modified high-water mark incentive allocation of 10%.

Performance returns are estimated pending the year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. Each partner will receive individual statements showing returns from the Partnerships' administrator. Reference to an index does not imply that the funds will achieve returns, volatility or other results similar to the index. The total returns for the index do not reflect the deduction of any fees or expenses which would reduce returns.

All exposure information is calculated on a delta adjusted basis and excludes credit default swaps, interest rate swaps, sovereign debt, currencies, commodities, volatility indexes and baskets, and derivatives on any of these instruments. Weightings, exposure, attribution and performance contribution information reflects estimates of the weighted average of such figures for investments by Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital (Gold), L.P., and Greenlight Capital Offshore (Gold), Ltd. (excluding the gold backing held by the gold interests) and are the result of classifications and assumptions made in the sole judgment of Greenlight.

Positions reflected in this letter do not represent all the positions held, purchased, or sold, and in the aggregate, the information may represent a small percentage of activity. The information presented is intended to provide insight into the noteworthy events, in the sole opinion of Greenlight, affecting the Partnerships.