GREENHAVEN ROAD
PARTNERS FUND

August 2018

Dear Limited Partners,

Greenhaven Road Capital's Partners Fund returned +2.3% net year-to-date through Q2. As I say in all of the Greenhaven Road letters, a few months is too short of a time period to conclude anything. I like the exposures we have in the Partners Fund, and I like our chances over the long term. Time will tell.

DEFINITELY DIFFERENT

In my initial letters about the Partners Fund, I used the metaphor of a baby being conceived and eventually born. I tried to emphasize that we were going to invest in funds with the following attributes:

- **One-Person investment committee**
- **Concentrated holdings**
- **Reasonable amounts of capital (AUM)**
- **Significant personal investments ("skin in the game")**
- **Original thinking**
- **Mindset: Getting rich is not the point**

Most first-time parents are convinced that their child is special. I try to under promise and over deliver, so rather than saying that the Partners Fund is special, I am going to say we are different. I think three main differences are worth highlighting.

The first major difference between the Partners Fund and other funds of funds (FOFs) is our diligence process. Many allocators rely very heavily on quantitative analysis. Because "nobody gets fired for hiring IBM," many allocators wait until the statistical evidence of performance is established beyond what they consider to be reasonable doubt. Because there is also safety in the middle of the herd, hefty minimum asset levels are also often required. Unfortunately for these allocators, waiting for a lengthy track record and substantial AUM ignores the body of work that shows that smaller funds outperform larger funds.

My diligence process is different – and I hope better – but definitely different. I focus on the managers' thought processes and the building blocks of their individual holdings. As I spend most of my days reading fund letters, researching companies, and reading investment theses (from Value Investor Club, SumZero, and many other sources), I have a honed sense for how original an idea is and how asymmetric its set-up is. I am effectively looking for managers whose thinking is sound and independent. Since investing is a combination of skill and luck, I rely heavily on the how and why of the portfolio to gauge the skill component, instead of prioritizing the absolute returns, which group both the skill and luck. What is owned? Why is it owned? How is it sized? To date, the majority of managers we have invested with are managers who I have previously invested alongside in one or more individual securities. I have lived through product launches, earnings misses, sell side initiations, additions and subtractions to an index, and many other ups and downs that an investor can face while owning a stock. Investing alongside a manager allows me to understand their risk profile and calibrate how they synthesize information. When did they buy more shares? When did they sell shares? From my knowledge of the Fund of Funds world, this is definitely not the norm.

Another difference – and again, we will we see if this adds any value over time – is that I am trying to foster a community among the managers. This stands in stark contrast to most FOFs, which are often shrouded in a certain level of secrecy that prevents the underlying managers from even knowing who the others are. On some level, all of the fund managers are competing with each other for allocations from the Partners Fund and from the limited universe of investors who see the opportunity in small managers. However, I believe that the real competition is the conventional wisdom that markets are efficient and low-cost index funds are the best way to invest. I believe that all of our managers will be better off if there are more and more proof points of success, which will allow us to help pull each other up.

I know of a few instances of managers within the Partners Fund collaborating on particular investments, because I have helped to facilitate those interactions. Over time, I don't want to be the bottleneck. We will be intentional about how we build the community and encourage constructive relationships. I am planning an event this fall for just the portfolio managers of the underlying funds, which will likely be discussed in the next letter. Collectively, the managers have different but complementary skill sets and circles of competence. I believe that, over time, having the smartest investors I know speaking with each other more frequently can only collectively help performance of each of their funds, and thus the overall returns of the Partners Fund. I have heard the term "small cap mafia" used to describe groups of investors who loosely collaborate in this area of the market. While our underlying managers are far too nerdy and straight-laced to ever form a gang, the pieces are in place for a curve-shifting study group… If we can avoid a few mistakes and recognize a few incremental opportunities each year, the power of compounding can greatly magnify these enhancements. As such, I will invest multiples of the management fees the Partners Fund generates in the early years to try to build the community. This effectively means that I will fund these events out of my own pocket for the foreseeable future because community matters, and we are planting the seeds for future returns. Again, Greenhaven's Partners Fund operates differently from other Fund of Funds in a way that I believe can contribute to differentiated returns, which is really the whole point.

A third difference of the Partners Fund is that, over time, I think we are going to be able to selectively shape our future. I realize this is vague and aspirational, so let me be more specific. The Partners Fund is set up with a lot of flexibility, which provides many ways to work with talented investors. The fund can invest in traditional funds but also in separately managed accounts and Special Purpose Vehicles (single security funds). This flexibility allows me to use insights from managing Greenhaven Road's main strategy and apply them to the fund of funds side. This past quarter, the insights from certain securities held in the main fund led to the creation of a new underlying fund (described below). While unlikely that this specific example will play out again any time soon, the larger point is that I am in a position to recognize opportunities on Greenhaven Road's hedge fund side that can be translated into opportunities on the Partners Fund side. We can help create solutions.

A FUND IS BORN

For the past three years, I have owned a series of SPAC (Special Purpose Acquisition Corp) warrants in Greenhaven Road's main fund. For the uninitiated, a SPAC is a public pool of capital formed with the intention of identifying an operating business to acquire. Every SPAC has warrants, which are essentially long-dated options on the success of the acquisition strategy. These instruments provide the possibility of levered upside and an enticement to invest money in a vehicle before it has even identified an underlying asset. If the SPAC transaction does not occur within a specified timeframe, the warrants expire worthless, and if the transaction does occur, they can still expire worthless if the company's shares do not surpass a pre-determined amount (typically $11.50 per share) within five years. If the SPAC successfully identifies an operating company and is able to improve operations over the subsequent five years, the upside to the warrants can be substantial. However, because there are two very plausible scenarios that the warrants can expire worthless, I don't make individual SPAC warrants large positions. The limited partners for Greenhaven Road's main fund did not sign up for a SPAC warrant fund and the distribution of outcomes has too many scenarios that are a zero. With three children and a desire to keep doing what I am doing for a long time, an individual SPAC warrant will just never be a 10% position, but balancing a potential for eventual worthlessness with a very positive expected value, I can sleep just fine at night with a 1% or 2% SPAC warrant position.

The reason we even look at SPAC warrants is because their return profiles can be extremely asymmetric. When SPACs are created, they have no analyst coverage and are typically all priced at $10. There also tends to be poor price discovery. On top of this, the warrants seem to trade all over the place, creating opportunities for valuation-focused investors. In addition, there are certain variables in SPAC's structures that can introduce temporary downward pricing pressure. This confluence can represent a compound mispricing (discussed further in the main fund's Q1 2018 letter) – or a discount on a discount. In effect, I believe that the SPAC warrant market has sustained structural inefficiencies that can create asymmetric payoffs. If I had to pick one place to generate outsized returns, SPAC warrants would be on the very short list. A 100%+ value increase in individual SPAC warrants within a twelve-month period is a plausible and frequent occurrence. Of course, sharp declines happen as well. Selection is critical.

In the SPAC ecosystem, Eric Gomberg at Dane Capital is the most knowledgeable investor I know. He looks at every SPAC, knows all of the relevant players, and has invested in several, so he benefits from both relationships and pattern recognition.

Eric has been the source of several of the main fund's SPAC warrant investments, including some doubles and triples. Investing alongside Eric, I have seen and lived the inefficiencies of the SPAC warrant market that would leave the efficient market proponents stammering. However, Eric faces challenges similar to mine: Dane Capital's LPs did not sign up for a warrant fund, he has even more children (four), a significant portion of his savings in his main fund, and he, too, wants to invest for a long, long time. As a result, portfolio construction preferences have caused Dane to buy far fewer warrants than were available in the open market… effectively leaving money on the table.

This spring, I approached Eric about creating a fund that would invest solely in SPAC warrants. Investors would be explicitly aware of this focus up front. Yes, the risk profile of the fund would be elevated as these warrants can be volatile and each underlying warrant has the potential to be a zero, but as investors, we could size an investment in the fund appropriately for our own risk tolerances. We tried to design a fund that we thought could generate the best risk-adjusted returns. There is a provision that caps the fund size since the overall SPAC warrant market is small. Another provision covers position size maximums designed to limit the damage from any individual SPAC warrant becoming worthless. The incentive structure rewards returns rather than asset gathering. After a few clarifying discussions, Eric agreed to create the fund if the Partners Fund agreed to be the lead investor. Towards the end of Q2, the Partners Fund was able to invest in what I believe is the first and only SPAC warrant fund. I believe that the investment is sized appropriately (sub-4%), given the embedded volatility and potential for negative outcomes embedded within SPACs juxtaposed with the fact that it is managed by the most knowledgeable SPAC warrant investor I know of. Does the world need another fund? Definitely not. Can I think of a better way to pursue an inefficient corner of the market? Definitely not. Time will tell, but I like our chances here.

QUARTERLY SUBSCRIPTIONS

To simplify the administration of the Partners Fund, we have moved to quarterly subscriptions. The next date to add capital will be October 1st. Please reach out to Ally (InvestorRelations@greenhavenroad.com) if you are interested in adding capital.

FINAL THOUGHTS

Our fund of funds is going to be different. It will be smaller, the underlying holdings will be more esoteric, and I hope the managers will collaborate more over time. I believe that it will all be good different, but only time will tell. Thank you for joining me on this journey, and I will work hard to grow your family capital alongside mine.

Sincerely,

Scott Miller

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