January 23, 2014

Dear Limited Partners,

We were fortunate to end the year strongly. Our "misunderstood names" continued to become more acceptable and more fairly valued. For the year we ended up 64% after all fees and expenses. The strong returns had several sources. Obviously with a very long bias, we benefitted from the overall strength in the equity markets. We also benefitted from the continued reduction of correlation between stocks. The end of "risk on"/"risk off" has made stock picking more important. Our largest positions also performed extremely well. Entering 2013 our five largest positions were Fortress Investment Group, Virtus Investment Partners, AIG, ChipMOS, and Howard Hughes Corporation. These companies all appreciated significantly. Fortress after dividends was up more than 95%. Virtus Investments had a 60-plus% run before we exited midyear. ChipMOS was up more than 60% for the year, AIG was up more than 40%, and Howard Hughes Corporation more than 60%.

There was also some good fortune where returns we expected to take years to achieve happened in weeks. For example, we began purchasing shares in an Italian soccer team that is publicly traded. The shares started appreciating rapidly as we were trying to initiate a position and promptly doubled in a week on very little news. We promptly sold. The position was less than a 2% position, but was by far the highest IRR for the year. We also had a 3% position (PTIX) that received a buyout offer in the fourth quarter and appreciated almost 30% in that quarter alone. The long-awaited resolution of the Bridgepoint (BPI) accreditation issues were also resolved over the course of the year, allowing us to exit with a modest profit.

I would also like to underscore the fact that performance was not driven by extensive use of options or extreme leverage. When I see any fund up 60% or more, my mind goes straight to the use of options. We held one option position over the course of the year which we lost money on and our AIG Tarp Warrants, which are extremely long dated and well in the money. In terms of leverage, we ended the year slightly over 100% net long, but this was driven primarily by the previously discussed equity that received a buyout offer, which we held to defer a short-term gain into 2014.

TOP FIVE HOLDINGS

You will notice that there is only one change in the top five holdings from the third quarter. A "special situation" investment, Micron Technologies, ended the quarter as a top five holding replacing another "special situation," Taro Pharmaceuticals. We reduced our position in Taro after a disappointing failed proxy attempt by an activist fund. Taro may reappear in the top five as our reduced position has been appreciating after the company launched a tender offer. Taro shares are up more than 100% from our initial purchases. The fund began accumulating shares in Micron Technologies in June 2013 when shares were trading at $12.70 per share. Why Micron? Aren't memory manufacturers worse than airlines in terms of destroying capital? The simple answer is that Micron did not appear to be getting "credit" from the market for a major acquisition of a

competitor, Elpida, out of bankruptcy. Micron was an underpriced company benefitting from tailwinds in memory pricing and substantially accretive acquisition. By my estimate, Micron was trading for less than half of its intrinsic value. We sold approximately 30% of our Micron position after earnings were released, which included a substantial contribution from Elpida. The company is certainly better understood, and was even featured at the Value Investing Congress. It has been a profitable

Fortress Investment Group	FIG	The share price is more volatile than the underlying business. There is downside protection with more than $3 per share in cash and investments and a strong alignment of management interests with common shareholders because management owns 60% of the common shares. There is also significant upside from performance fees on the $58B in assets under management.
ChipMOS	IMOS	A semiconductor assembly and testing company that at the time of initial investment was trading at a trailing P/E of over 200 but less than 4 times cash flow. Overall the business is healthy with revenue growth y/y of 5%, expanding margins in their LCD business, a modest stock buy back, and capital expenditures in line with depreciation for the foreseeable future. The company completed an initial listing of its Thailin subsidiary on a Taiwan exchange to highlight the value of the holding. Over the next six months the company will attempt to simplify the capital structure and focus on a Taiwan listing which should allow the company to be valued in line with its peers leading to multiple expansion and share appreciation
American International Group Equity and TARP Warrants	AIG	A leading insurance firm trading at 50% of a growing book value. If the company is able to continue to grow book value and the discount to book value diminishes with the passage of time this has the potential for a multi-bagger return without heroic execution required. The company sold its remaining stake in the Asian life insurer AIA and is in the majority of its airline leasing business. The net result is an overcapitalized company with the ability to further reduce debt, pay dividends, and repurchase shares significantly below book value.
Howard Hughes Corporation	HHC	Howard Hughes was a spinoff from General Growth Properties in 2010. The company owns in excess of 50 properties including 4 master-planned communities, 20 operating properties, 18 development opportunities, and 7 affiliated investments. Howard Hughes has significant upside potential with the recovery of the housing market and there is substantial downside protection given the quality of the assets and the non recourse nature of the company debt. In addition, HHC has a strong management team that has invested a significant portion of their net worth in HHC warrants aligning their interests with common shareholders. HHC is not a REIT but rather a C-Corp that allows it to retain earnings and invest in properties. Howard Hughes has significant exposure to the Las Vegas real estate market recovery and will create significant value through their projects at South Street Seaport (NYC), Hawaii, and Houston.
Micron Technology	MU	Micron Technology is a "special situation" investment benefitting from rising memory prices, a more rational competitive landscape, and a highly accretive acquisition of Elpida. In recent months the company has also benefitted from a fire at a primary competitors plant. This is a "rental" until greater confidence is gained that competitors will not irrationally add capacity at the detriment of industry economics

SHORT SIDE

Our efforts on the short side remained muted and were almost exclusively indices. Our position in a natural gas producer with questionable reserve accounting and a technology company facing virtual obsolescence were both effectively flat in the quarter. We re-entered a structurally flawed business model short, which is a sub 1% position and was again a negative contributor to returns. With all of the success on the "long side," it has quite frankly been a far more fertile hunting

ground, but there will come a day when the flexibility of the funds' structure will be of substantial benefit.

LOGISTICS AND CHANGE OF FEE STRUCTURE

All investors will be receiving a K1 in late March, similar to last year. Like last year, our K1 is delayed until we receive the K1 from a large holding, Fortress Investment Group. As you know, we run a lean shop at Greenhaven Road and I have historically capped all administrative expenses at 1%. The largest expenses for the fund are the audit, Halpern and Associates, our administrator that prepares quarterly statements, our tax returns, and the preparation of the K1s. This year expense ratio (expense as a percentage of overall funds) was approximately .75%, which is significantly below most mutual funds, which, according to Morningstar, average 1.33%. For 2013, I would like to make one small change to the structure that I think you will all find acceptable. The change is shamelessly copying two managers who I really admire, Monish Pabrai of Pabrai Funds and Guy Spier of Aquamarine. They, too, adopted the early Warren Buffet partnership model of a 1% management fee and a 25% incentive fee for returns above 6% in a year with a high water mark. However, they have started to waive the administrative fees, paying them out of their own pockets. While clearly a better deal for their limited partners, they have found its attractiveness to new investors is disproportionate to the cost they incur. In essence, it is a good deal all around. I cannot in good conscience offer new investors a better deal than the earliest backers of the fund. Thus in 2014, I will waive all administrative expenses. I don't know what your returns will be, but I do know that your administrative expenses will be zero.

OUTLOOK

I ended last year's letter with the following, "I believe that the search for green shoots is being replaced by the discovery of flowers. As housing starts continue to increase, jobless claims continue to decline, and auto sales increase, the national psyche will continue to mend. GDP growth will be moderated by increased taxes and a declining government sector – both of which are necessary and beneficial in the longer term. This positive environment should provide an environment hospitable to stock picking and the appreciation of our existing holdings." I think the same dynamics are in play for 2014 and am generally optimistic. That being said, pound-thetable values are harder and harder to find. Fortunately, it is not really a stock market – but rather a market of individual stocks and, as a concentrated fund, we only need to find a few. I have started looking more intensively at smaller companies and special situations. The fund structure affords a lot of flexibility to migrate to where the opportunities are. As the world changes, so will our holdings. Thank you for the opportunity to manage your assets alongside mine. Sincerely,

Scott Miller

Straight Path Communications (Cost Basis $5.17)

There are many parallels between investing and poker. One is that sometimes you play the table and not the cards in your hand. Effectively, decisions are driven by interpreting the actions of others. Our investment in Straight Path Communications is a combination of reasonable valuation and reading the actions of others involved. Straight Path Communications is a small (sub-$100M market capitalization) spinoff from IDT Corporation. Essentially IDT took assets that it claimed were being assigned little to no value within IDT and spun them off, to highlight the value and to fully compensate management based on the performance of the assets. So what was spun off? Three assets from IDT. The first is actually easy to value – cash. The company was spun off with a net cash position of $15M, allowing it several years of operations without raising capital. The company requires very little operating cash, and even in a pre-revenue state, the $15M should last three years in a worst-case scenario and, in a more realistic scenario, five to 10 years. Effectively we have a very long dated call option. Remember, IDT shareholders received shares of Straight Path when the spinoff occurred. Thus the IDT founder who owns 30% of IDT also received 30% of the shares of Straight Path, so incentives appear aligned.

PATENTS

The other two assets are more difficult to value. They are wireless spectrum and patents. With respect to the patents, this is where the "playing the table" metaphor applies. The year before the patents were spun out through Straight Path, the IDT CEO took his entire salary in the form of a 10% interest in the patents. Effectively he wanted a disproportionate share of the patents. You can certainly quibble with the governance that allowed this to happen, but from a valuation perspective, it is an indication that he believes there is value in the patents. The patents are a vestige of IDT's ownership of a voice over the internet (VOIP) company, go2phone, and cover point-to-point communications and possibly VOIP. By initially establishing a solid record of favorable verdicts/settlements, Straight Path expects to facilitate subsequent licensing agreements

Pre-spinout, IDT sued Skype/Ebay and gained a settlement for an undisclosed amount. As a generalist, my patent evaluation skills are limited. I do take solace in the fact that all of the patent litigation pursuit has been assumed on a contingency basis by Kirkland Ellis, a top national IP law firm. This means a leading national IP law firm is assuming the risk. They believe that value can be extracted (another player at the table). The company has moved aggressively to realize value for the patents. They incorporated in Virginia to access their "rocket docket" as a strategy to expedite the value realization of the patents.

On Aug. 1, 2013, their first day as an independent company, Straight Path filed patent infringement actions against LG, Panasonic, Sony, Toshiba, Sharp, and Vizio with the United States International Trade Commission (ITC) to halt the importation and sale of the manufacturers' infringing products in the United States. The company also filed against Bandwidth.com (settled January 2013), Telesphere Networks Ltd., and Vocalocity for infringing its patents by selling and utilizing certain Voice over Internet Protocol (VoIP) products and/or services. On Aug. 23, 2013,

Straight Path filed patent infringement actions against Blackberry, Huawei, Samsung, and ZTE with United States District Court for the Eastern District of Texas over three key patents. On Nov. 5, 2013, Straight Path filed patent infringement actions against Vonage with United States District Court for the Eastern District of Virginia for infringing its patents by selling and utilizing certain Voice over Internet Protocol (VoIP) products and/or services. The company's primary patents expire in 2015 but have a six-year look back.

WIRELESS SPECTRUM

The second major asset that was placed into Straight Path was wireless spectrum that IDT held. In particular, it is effectively a nationwide (U.S.) footprint for 39 GHz spectrum comprised of more than 814 individual 33 GHZ licenses for discrete geographies and 130 28GHz licenses. The spectrum has potential uses for cellular carriers looking to supplement their sub-6 GHz spectrum, which is becoming increasingly crowded. Mobile data has been doubling every 15 months. The major U.S. carriers are investing tens of billions of dollars per year to increase capacity. This is primarily through the addition of "macro cells," the large antennae that appear on cell towers. This is expensive and increasingly crowded. The 39 GHz spectrum potentially offers a partial solution for these carriers. On the plus side, the antenna for 39GHz are very small (3.5 inches long) and can be hidden almost anywhere. They can only have licensed traffic (unlike microwave solutions), are uncrowded, inexpensive, and are fast to implement because they do not require the onerous permitting that traditional cells require. The biggest downside to the small cells is that they require line of sight connection. The anticipated "killer application" for the small cells is to relieve congestion on the primary network and to carry cellular traffic to a fiber backhaul.

There are a couple of data points that indicate there could be significant value in the spectrum relative to the $60M enterprise value the company had at the time of our purchases. In particular, at the original 39 GHz spectrum auction in 2000, Straight Path's predecessor Winstar paid $37.7M for only nine of the top 30 licenses. More recently and more relevantly, in 2012, IDT sold eight spectrum licenses for $6.8mm. These licenses cover varying populations and have a wide dispersion of values, so it is not reasonable to extrapolate from the $850K per license IDT received in 2012, but there is an indication that the remaining 800+ licenses potentially have a value greater than the $45M enterprise value at time of purchase or $75M enterprise value today.

RISKS

There are numerous risks associated with Straight Path. The spectrum value may evaporate with changes in technology, since it is a disadvantaged technology thats primary path to viability is constraints on other spectrums. In fact, there was a company, Fiber Tower, that tried to capitalize on 39 GHz technology that is now bankrupt. The patent value may be overturned in court. One of the most frequently cited shortcomings of Straight Path is a relatively inexperienced CEO, Davidi Jonas, who is young and has limited experience. The skeptics will point out that he is the son of the CEO whose primary training is religious studies and was a teacher and a rabbi in the Bronx. The reality is this is a holding company, with a five-plus-year runway and the patent lawyers are working on a contingency basis. Jonas clearly understands the nuances of the patent

portfolio and the pathways to extracting value from the spectrum. Howard Jonas, his father, owns 30% of the equity, his pro rata share from IDT as well as 10% of the IP portfolio that he received as compensation. Our incentives are aligned here.

VALUATION

There are a wide range of potential outcomes for Straight Path Communications. If neither the patents nor the spectrum prove to have value, over the next five years Straight Path will cease to exist. Previous telecom purchasers have indicated there is value in the spectrum and previous settlements and IP lawyers working on contingency indicate there is significant value in the IP. The range of estimates for the value of these assets are vast. Skeptics point out that if they were easily monetizable IDT would have done so. Applying the $850K per license Metro PCS paid for their 39GHz licenses is aggressive. If the per license fee was applied to the 248 licenses in those markets would yield over $200M – or 4X the enterprise value for the company at the time of our share purchases. A more likely scenario is that the spectrum will be licensed. In the context of tens of billions of dollars in capex per year – the national 39GHz solution could easily yield tens of millions of dollars in licensing fees, which is material with 12.4M shares outstanding on a fully diluted basis. The range of values for the IP is also very wide. The most common method I have seen for estimating the IP portfolio is to extrapolate from the lawyers' actions. Top law firms typically look for a minimum expected settlement value of $25M, which would be split $10M to the law firm and $15M to Straight Path. More aggressive assumptions yield multiples of the value of the company. At the prices we purchased Straight Path Communications, there was an asymmetric risk reward. If both the spectrum and the IP had value, the gains were multiples of the share price and, while the potential downside was 100% loss of capital, given the previous spectrum sales and previous IP settlements, that appeared very remote.

In summary, Straight Path is a company has a five-year-plus runway, high insider ownership, attractive assets in very large markets, no analyst coverage, and potential returns that are multiples of our purchase price.

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