GREENHAVEN ROAD
PARTNERS FUND

November 2023

Dear Fellow Investors,

The Partners Fund returned approximately -7% in the third quarter bringing the YTD performance to approximately +3%.[1] Please check your individual statements for your returns.

In this letter, I am going quote extensively from others with the intent of gathering a range of viewpoints, the current situation and the opportunity it presents becomes clear. On the most recent earnings call of private equity manager Apollo Global Management (APO), CEO Marc Rowan discussed the role of the ten largest stocks on the overall market. He was partially making the case for investors allocating to Apollo's funds but could have just as easily been making the argument for smaller capitalization stocks.

> *"10 stocks make up nearly 35% of the S&P 500. These 10 stocks are responsible for 100% of year-to-date returns. These 10 stocks have traded between 52 and 44 PE over the last few weeks. Not many of you come in every day looking to buy 50 PE stocks, yet we feel really comfortable with a massive portion of our country's retirement system assets and fiduciary assets in 50 PE stocks. We have literally never had so much concentration in so few instruments since the NIFTY 50."*

As of the end of the Q3, the 10 companies that he is referring to earnings had a collective market capitalization of more than $8,000,000,000,000+ (trillion has 12 zeros), greater than the market capitalization of all the publicly listed companies in England, Germany, Spain, Italy, and Russia COMBINED.

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10 as % of Total	S&P 500 % Perf.
2023 YTD	**134.1%**	**8.5%**
2007	78.7%	3.5%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

As the Special Situations research newsletter pointed out, the contribution from these 10 largest stocks to the S&P 500's overall performance is greater than ever. At the time of this snapshot, the top 10 stocks accounted for *more* than all of the returns. Put another way, the remaining 490 (actually 493) stocks were collectively down despite the index's 8.5% year-to-date return. The middle column shows, this is not normal.

Historical consensus has been to buy the index and, as Marc Rowan has pointed out, it has worked. But with 35% of the index's value allocated to companies with (a) a combined market capitalization greater than several industrialized nations, (b) an average PE of 50+, and (c) less than a 2% earnings yield, is this really the best use of

[1] Performance: (i) is representative of a "Day 1" investor in the Partnership, (ii) represents returns earned by Class B investors assuming a 0.75% annual management fee and no incentive allocation, and (iii) is stated net of expenses, including commissions, legal, audit, administration, and other. Year-to-date performance for an individual investor may vary from the performance stated herein as a result of, among other things, the timing of their investment and the timing of any additional subscription and withdrawals.

our capital? Is there a more compelling path to pursue for future returns?

I was struck by Dan Roller of Maran Capital (letter attached), writing about the low valuation of Clarus (CLAR), a company that has been built through acquisitions focused on the outdoor space. Clarus is in the process of divesting their bullets business and has an offer. Full disclosure: we own a small position in Clarus in our main fund and the share price has declined further since the time of his writing.

When Dan looks at Clarus ex the bullets business, he is left with their Black Diamond outdoor apparel/climbing equipment business (link), their Rhino Rack business (link), and $55M in cash.

> *"We can also look at what the overall valuation implies regarding the valuation of the segments. Here are a few possibilities:*

	Embedded
Black Diamond	155
Rhino Rack	0
EV	155
Net Debt (Cash)	-55
Equity Fair Value	210
per share	**5.61**

or

	Embedded
Black Diamond	0
Rhino Rack	155
EV	155
Net Debt (Cash)	-55
Equity Fair Value	210
per share	**5.61**

or

	Embedded
Black Diamond	78
Rhino Rack	78
EV	155
Net Debt (Cash)	-55
Equity Fair Value	210
per share	**5.61**

> *I'll be blunt. Each of these seems absurd. Any of them highlight the deeply discounted valuation. Take the first box, for example. Buy Black Diamond for well less than 1x revenue and get Rhino Rack and Max Trax (recent purchase price: >$200 million) for free."*

The point is not so much that Clarus is cheap, but in contrast to the stocks Marc Rowan was highlighting that have near perfection priced in, managers in the Partners Fund – and, by extension, our investors – hold companies that they believe have a path to doubling and tripling over time.

Another manager, Rudi van Niekerk, focuses on South African small caps through his fund at Desert Lion Capital. His September commentary (attached) presented data to support his case that South African equities have troughed vs. the S&P 500 as capital has continued to flow out of the country's market. He points out that, amidst this share price headwind, many companies in his investment universe trade at low-single-digit PE multiples while posting strong fundamental growth.

> *"I am reviewing the business news of the week. One of our companies, Karooooo, reported earnings this week. Their SaaS subscribers in SA are up +14% and management says they are on track to more than double the number of SA subscribers. That certainly does not confirm the narrative that there is no opportunity in the SA economy. Another one of our holdings, Calgro, released their earnings report. EPS is up +38%. Cash generation is strong. They repurchased 18% of their shares during the 6-month period. Not bad for a company operating in a country that is "doomed". The valuation? Calgro is trading on a PE of less than 3 and a -60% discount to book.*

David Einhorn recently mentioned in interviews that the traditional value formula seems to be in hibernation. It used to be: Buy a company with decent fundamentals at a 6 PE, wait for the market to recognize the price dislocation and the stock to reappraise to an 8 PE, sell, repeat. These days one cannot count on the market to recognize the mispricing. One must depend on low entry multiples (3-4 times cash flow), dividends, share buybacks, organic growth, and capital allocation to generate the required return – without any expectation for multiple expansion whatsoever. We are at that point. Any reappraisal from this point henceforth will just act as a massive boost to embedded returns."

Perfection is not priced into the Desert Lion portfolio.

Another manager, Steven Kiel of Arquitos Capital (letter attached), is looking at the impact a holding has had on the fund returns over time.

"Our ENDI/Sitestar holding also made the portfolio significantly more volatile. However, even if we adjusted for never owning the company, we still had years where we were up by 59%, 73%, 52%, 41%, and 34%. Not a bad five years out of 11, and something I believe can happen again."

For me, the punch line is not the negative impact of a particular holding on the returns, but how high these chunky returns have been.

Our underlying managers have concentrated portfolios invested in out of favor companies. *Maybe* the right move is to plow capital into the largest companies with the highest PEs under the belief that their run can continue unabated but, in the end, I believe that fundamentals matter, valuation matters, markets have inefficiencies, and what is out of favor does not have to remain out of favor. As my favorite financial author Morgan Housel wrote,

"The stock market is the story of cycles and of the human behavior that is responsible for overreactions in both directions."

Time will tell if there has been an overreaction, but after 10+ years it would not surprise me if the pendulum swings and the Maran Capital, Arquitos Capital, and Desert Lions of the world get their day in the sun sooner rather than later. The approach of buying small companies with sound business models and talented management teams at undemanding valuations should not be dead yet.

As I have said at the end of every letter, 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 continue to collaborate more over time. I believe that it will be "good different," but only time will tell. Thank you for joining me on this journey. I will work hard to grow your family capital alongside mine.

Sincerely,

Scott

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