GREENWOOD INVESTORS LLC

Global - Collaborative - Builders

Dear GreenWood Investor: August 24, 2022

The Use of Adversity

"Always seek out the seed of triumph in every adversity." -Og Mandino

This year has been humbling for us. Our second quarter performance was not up to our standards of generating great absolute performance *through* the cycle. Yet, cycles are measured in years, not months. In our history, we have only had two, now three, periods where we experienced a drawdown of at least 20%. The first, in 2008-2009, resulted in a subsequent twelve month performance of 211% vs. the MSCI world index's 59% return.

The second recent Covid shock produced a tougher start for us, given we had a third our portfolio and half our net exposure in travel-related stocks. Even still, within twelve months, our performance roared back +98% versus the market's +58%. Both times we kept a very conservative posture, in the event we experienced double-dips in the market correction, as we did in 2008-2009. But it didn't stop us from deploying capital on the long side. Both times we harvested gains in our short portfolio, and redeployed those to new compelling longs.

This time is no different, though somehow it was even more humbling than past corrections. This is largely because this was and remains the year where the fruits of all our hard work at CTT should be paying off. The hard work is and will continue paying off, as we'll explain in just a bit. But because of March & April economic volatility associated with the Ukraine war, it's not yet apparent.

Humility is a great place for an investor to be. In fact, it's the best. We find we do our best work in times of crisis. One cannot completely anticipate all of the ramifications to adverse shocks, but remaining open-minded and unemotional is key towards making great use of this adversity. We believe both we and our portfolio companies are making great use of this volatile period, and are confident we're going to emerge stronger. Our net exposure remains below 50% in our funds, roughly equal to our exposure to our two constructivist coinvestment positions, with the rest of the book being run in a market neutral posture. This is more a function of a very active and compelling short book than a macro-economic perspective. However, it also gives us the flexibility to opportunistically seize on new long positions, and buy more of what we know best. Before we move to an update on our portfolio, let's review our performance.

Our US-denominated Global Micro Fund was down 16.6% in the quarter, and is down 21.0% for the year. Within these returns, and almost exclusively on the long-side, FX translations cut 7.4% from returns, meaning FX-adjusted performance of -13.6% was modestly better than the index return of -20.5%. The euro-denominated Luxembourg fund had similar returns of -17.0% in the quarter and -21.7% this year, as it cannot hedge with ETFs with the same flexibility as our US fund. Year to date, longs have taken away 32.9%, and have generally performed worse than the market. Thankfully, our shorts have also underperformed the market, helping offset 10.8% of these losses.

A Transformation Milestone

"Finishing always triumphs over starting out. People usually fail when they are on the verge of success, so give as much care to the end as the beginning. Then there will be no failure." Lao Tsu

CTT was by far the largest detractor from our performance in the second quarter (generating 9.7% of portfolio-weighted losses for us). You can imagine the surprise we had, as the company hosted its first capital markets day (CMD) in seven years. It appears someone was motivated to start short position in June, just before this CMD.

From the insider's perspective, this looks incredibly short sighted. While the first quarter was not up to our standards, the team pulled it together, and reiterated profit guidance for the year. The guidance implies it will be the fastest growing of its peers this year, and we have worked hard with the management team to ensure this best-in-class growth sustains. Looking further out, the company guided towards roughly doubling operating profit in the next few years, comfortably above where consensus forecasts laid at the time. What we think is the most important about the guidance, was that it was given in a period where we were experiencing recession-like conditions. Thus, as opposed to the capital markets days of the tech companies last year, this outlook is built-up through conservatism.

What's more, is that the CMD was not a "sell the news" event. As the managers alluded to, there are important balance sheet restructuring initiatives well underway. Indeed, they have been worked on for years. Those with the most knowledge of the company, those that sit on the board, have decided to upsize the buyback program, as we personally believe current prices to be a gift. They attribute zero value to the operating business, which is in the process of becoming less capital intensive, all while committing to getting to net zero in carbon emissions by 2030.

We looked at consensus forecasts for all companies in the logistics industry with $1 billion or more of revenue, and CTT is poised to be the fastest growing company over the next few years based on the conservative medium-term outlook. This is underpinned by being a share attacker in the fourth largest, but fastest growing, e-commerce market in Europe. While e-commerce might be a word that causes investor anxiety right now, that environment provides us with wonderful opportunities to complete the "Shopify stack" that the team has been working on.

In summary, not only is the company better, faster, and greener than its peers, but it's also the cheapest. It operates in one of the best performing economies in the developed world. And while investors view Europe to be a consensus short, the fundamental economic data is significantly stronger in Portugal and Spain than the rest of the world. The company's 502-year old history is a testament to the durability of its franchise, and given the deep transformation that has occurred in the last few years under new leadership, it is also growing more quickly than it ever has.

One of the most notable things about owner operators, which we call builders, is the fact that they create most of their outstanding value during periods of stress. At our investor day in June, we recalled how four years after Sergio took the helm of Fiat, the company was posting record operating profits in the middle of the 2008 financial crisis. That placed the company in a very agile position to take advantage of the unfortunate position Chrysler found itself in due to a certain private equity firm. Three years into the term of the new leadership at CTT, we are approaching record operating profitability. And furthermore, we are freeing up excess capital to enable a very opportunistic approach to whatever may come. We are reassured that 3/4 of the business is either non-cyclical, or positively correlated to inflation and interest rates.

While the market views the transportation sector as cyclical, we think the robots are wrong to characterize this company in the same bucket as container shipping, for instance, which we are short through Cosco Shipping Holdings (1919 HK). Through the bank, through the savings products distribution, and through an inflation-protected mail price formula, which allows us to recapture nearly all of the decline in volumes, we think CTT is highly anti-fragile.

At a 2012 dinner Wally Carucci hosted, Seth Klarman was asked his thoughts about the economy. He said he was almost always bearish about the economy. Despite that, there was still much to do for a fund that rarely shorts. He and the team almost always overcome that gloomy outlook to take advantage of mis-priced opportunities.

Acting Decisively

"All courses of action are risky, so prudence is not in avoiding danger (it's impossible), but calculating risk and acting decisively. Make mistakes of ambition and not mistakes of sloth. Develop the strength to do bold things, not the strength to suffer." -Machiavelli

We have often felt very similar to Klarman, in that we are rarely bullish about economic conditions. Despite this outlook, there are still so many interesting situations in public markets, and we believe can continue to perform on the long side, whatever may come.

A great example of companies that can perform in any environment is busted biotech world. One of the sectors undergoing the most pain in the recent year has been biotech, where we have invested in since 2004. Subsequent to the quarter end, we added a second company to our portfolio, and are actively engaged in researching more busted biotechs. Both MEI Pharma (MEIP) and our newest, Kodiak Sciences (KOD) have important regulatory catalysts in the very near future, and they have ample cash to get them through to the value inflection catalyst points.

These are the types of names that can perform in *any* economic environment. The downside is protected by the cash position, and yes, while those cash positions are being spent on funding drug development, the long runways give us ample time to realize these value inflection milestones. We have been buyers of both companies as the market remains relatively indifferent to the looming regulatory updates.

Kodiak Sciences busted earlier this year as its first of six pivotal Phase 3 trials on its lead compound, tarcocimab (formerly KSI-301), failed its very poorly designed clinical trial. The company's drug will fill a significant unmet medical need, particular for diabetic and elderly patients with macular edema who have given up going to their doctor every 1-2 months to get their eye injected with Regeneron's EYLEA. Industry research suggests that well over half of patients have chosen deteriorating vision over the inconvenience of getting their eyes injected every 1-2 months. That's where tarcocimab comes in. In recent trials, even the "failed" trial, it has shown that 60-70% of patients can go five months or longer while maintaining the same significantly improved vision. While there are multiple therapies available for these patients, there are none that have the durability of tarcocimab.

Subsequent to us taking a stake, Kodiak announced positive data on its most recent registration trial BEACON. Tarcocimab seeks to disrupt a $13 billion industry, but more importantly, fill an important gap in the macular edema market. In our conversations with doctors actively engaged in research & clinical trials, they are very eager to have a

drug that they can dose less frequently. Shares have perked up since announcing the BEACON top line data, but given they still trade below cash levels, they give us a lot of upside as subsequent trials prove out that the drug works. Given the rest of the pivotal trials will read out in the next nine months, we won't have to wait long until tarcocimab is able to serve the significant unmet medical need, and file for approval with the FDA next year.

We also expect a very important update to MEIP's regulatory strategy which will alleviate market concerns on its own drug's timeliness to market. While many catalysts depend on a healthy market environment to play out, these do not. They can perform in any economic scenario. Trying to predict with accuracy when the stock will reflect the underlying developments is impossible. But we do know that if you miss the most material upside days of certain stocks, the realized returns are significantly more mediocre. To the extent we are well-aligned with the insiders at the company and the improving fundamentals, we can't really just "sit this out," until market conditions improve.

The bulk of the returns we will experience in both busted biotechs will likely happen on a single day. This reminds us of the JP Morgan research from earlier this year that showed missing the ten best days in the market over the past two decades would have cut in half investors' realized returns in the S&P 500, from 9.5% annualized to 5.3%. While that data applied to the entire market, it is even more relevant for biotechs. We think both companies have extremely high upside velocity, with the downside protected by both their current valuations and the cash positions, which remain comfortably higher than current stock prices.

Another high velocity upside position that we increased by more than 50% in the recent months is Liberty TripAdvisor (LTRPA). Liberty TripAdvisor is *not* anchored by cash, like the biotechs are. In fact, its net asset value (NAV) actually collapsed to less the zero in recent months. However, its debt is termed out, meaning it basically functions as a very long-dated call option, or warrant, on TripAdvisor (TRIP).

TRIP's world class board has appointed a new CEO to optimize every aspect of its core business — something it has long gone without. Matt Goldberg's background at The Trade Desk (TTD) and multiple direct-to-consumer web properties (such as the Lonely Planet) make him perfectly positioned to better monetize TripAdvisor's long admired position as the world's most visited travel website. The exciting part of Matt's mission is that he wants to make core TripAdvisor great again, in its hotel auction, in the TripAdvisor Plus model, and in the new advertising verticals it has developed for hotels, restaurants and tour operators.

This year's travel season is absolutely on fire, but there are substantially more legs to this rally. Americans are traveling abroad 30% less frequently than before Covid. This is a core demographic for TripAdvisor's traffic and purchase intent. So while the market worries that certain travel businesses are experiencing peak earnings in 2022, we believe there is substantial room to run for those focused on a more international destination, like TripAdvisor. But the real upside will come from TripAdvisor's determination to extract value from its two fastest-growing supply aggregation properties: Viator and The Fork. Both platforms dominate their respective fields and are aggressively acquiring new customers. Viator's experiences supply is without comparison in the world, and it is currently processing twice the amount of transactions than it was prior to Covid. Given over 80% of travel experiences are still booked offline, Viator looks as attractive to us, if not more so, than booking.com did a few decades ago.

Given controlling shareholder Liberty TripAdvisor is highly motivated to realize value from its holdings, we also believe the company will able to unlock value from its ecosystem, no matter what economic environment we head into. While TripAdvisor itself is heavily shorted around trough valuations, Liberty TripAdvisor has even more velocity to the upside given the significant leverage it has. Accordingly, we have kept it as a mid-single-digit position in the portfolio as it has recently rebounded significantly. Yet, it provides our conservative portfolio with jet fuel for a recovery when it happens.

The Other Side of the Barbell

"It's easy to get drawn into focusing intently on macro. And there is no shortage of pundits telling you what will happen next. But there's a large literature that shows that experts are poor predictors. Be macro aware and macro agnostic. Think probabilistically. No one knows." -Michael Mauboussin

While high velocity upside positions like MEI Pharma, Kodiak and Liberty TripAdvisor sound like they are not at all fitting with our conservative posture, these positions not only can perform in any environment, but they allow us to maintain a higher cash balance during these periods of uncertainty. Liberty TripAdvisor's leverage, for example, allows us to maintain less than a third of the capital position that would be required to be invested in TripAdvisor. This strategy was highly effective for us in 2009, as we were able to seize deeply distressed opportunities while also maintaining a comfortable cash position and market shorts.

On the other side of this barbell strategy are shorts that we believe to have very limited upside. Because this part of the portfolio has performed very well through the first half of the year, we've had some turnover. We've exited our

ARKK shorts, as well as our emerging market and high yield bond shorts. In place of these hedges, we've targeted the lowest-quality areas of the most extreme supply-demand imbalances of the recent past.

In March, we initiated a short position in Cosco Shipping Holdings (1919 HK), which, at the time, was still propping its own shares via its buyback. Since then, freight rates on its key lanes have contracted by nearly 40%, and this is even before a very significant amount of new supply barges into the market over the next year. After the meteoric rise in container shipping rates in the aftermath of Covid, nothing cures a commodity cycle like high prices. The order book for new container ships, sitting today at roughly 30% of global fleet capacity, will bring an unprecedented amount of new supply into the market, and we believe will ultimately push container rates at least back to pre-Covid levels, if not lower. The best thing Cosco could have done during this period was to return cash to shareholders via dividends.

Instead, as a commercial arm of the Chinese Communist Party, it has dumped money both into special projects, new capacity, and its own shares at peak valuation. The company's history is to issue equity around trough levels and buy back shares near their peak. While Cosco has underperformed the market so far this year, we are excited to see port congestion continue to clear while the onslaught of new capacity comes into the market over the next year. That will be another win for humanity as it helps alleviate one element of inflation.

During the second quarter, we initiated shorts in Hewlett Packard (HPQ), an ammunition manufacturer, a semiconductor company, and have followed this up this past week with a new short position in Softbank Group Holdings (9984 JP). Softbank's last hope for liquidity is an IPO of Arm Holdings, a semiconductor design & licensing company. Unfortunately for Softbank, which is riding the tech collapse down with a true loan-to-value ratio of nearly 60%, the inventory correction that's building in the semiconductor industry could be one for the history books.

Panic ordering of chips in 2021 and the first half of this year has created a significant surplus of chip inventory in nearly every channel. The most constrained channel, that of the automotive supply chain, has fully caught up, and reports of double-ordering of chips is starting to ebb. Inventory channels, as measured by number of days, are roughly 50% above their peak before the last chip correction of 2018, and are more than double levels from two decades ago. At the same time, underlying demand is terribly weak- with personal computer shipments accelerating to the downside recently. Thus, while we are believers in the digital revolution, as is almost every other human, the inventory correction and loss of pricing power that commodity chip makers are likely about to experience could be particularly brutal.

All of these businesses are in the latter stages of experiencing the "bull-whip" effect. Due to various impacts from Covid-19, whether it be that initial customer demand slowed, or manufacturing slowed due to labor or parts shortages, many industries found themselves to be "under-stocked." Eventually when demand snapped back, the reverse occurs with companies quickly ordering more goods, often too much, and due to a global economy that is much more reliant on just-in-time supply chains, there were cascading supply chain effects and shortages leading to prices increase. Extreme moves on the upside have resulted in excessive behaviors that will result in a major snap-back effect, which are most evident today in the retail and apparel industries where suddenly companies are flooded with excess inventory and will need elevated promotions to move product.

We generally are now in the phase of elevated inventory-to-sales ratios, unclogging supply chains and cooling consumer demand, which should lead to lower prices for "core" goods even as food and energy prices remain elevated. While macro-economic indicators like consumer price inflation are hard to predict, if not impossible, taking one industry at a time is a far different process. Each of our shorts are in some "inventory correction" stage and should lead to lower prices and margins. We have no opinion on the direction of CPI, nor the Fed's reaction to the next inflation print, the two million dollar questions of the day.

But if we look at semiconductor inventories or the container ships order-book, anticipating supply/demand imbalances is quite a bit easier on a micro level. Industry insiders think "this time is different" and in fact, the CEO of Taiwan Semiconductor actually used those exact words when talking about its capacity expansion in the current environment. Thus, while the equities have begun their descent, the inventory de-stocking has yet to even start, and we think has downside risks to being particularly brutal, with most industry insiders still optimistic the correction will be mild.

These shorts are helping us maintain our neutral posture to the tech sector even though we have exited our ARKK puts. Using Sir John Templeton's rule of thumb for the emotional evolution of investing cycles, we don't believe we are anywhere near the level of "despair" required to start aggressively moving here. Companies like HPQ and Softbank are still propping up their share prices through fairly aggressive buybacks. Although we are spending much more of our time looking at longs in this space, we feel like time is on our side here.

On the other hand, time is running out for Masa, CEO of Softbank, whose considerable personal leverage is causing the company to report dishonest levels of leverage at Softbank. Not only are leverage levels quadruple what Softbank

claims they are, but the private portfolio of the Vision Funds is not actually marked to private market transactions. The company recently touted how the private portfolio for the Vision Fund I is still in the black, using its discounted cash-flow and relative valuation methods. Yet, just marking this portfolio at current secondary trading levels reveals the company has overstated values of this segment of the portfolio by 25%. And that's on the high-profile and large holdings like ByteDance. Vision Fund II is filled with lower quality and less liquid positions. The notion that these positions are only down 20% this year is hard to make up. Yet, that's the story Softbank is spinning. Thus, not only is the leverage not ok at Softbank, ringing up today at a 59% LTV, but the assets are not marked to the current reality.

Clearly the first leg of the tech draw-down played out in unprofitable disruptive technology companies. This has largely run its course. But we believe the next leg will take place in private markets. With no further liquidity left to prop up its companies in follow-on equity rounds, Softbank's holdings look particularly vulnerable. A great example of this is Vision Fund II holding Klarna, which recently had to clear its financing without the traditionally ebullient participation of Softbank. The recent follow-on financing took place 85% lower than its prior round. In conclusion, we believe the lag private markets are experiencing to public markets, combined with a particularly poorly-placed collection of leveraged private tech assets could result in an even worse draw-down for Softbank than the 2000 correction.

Polishing Gemstones

"The gem cannot be polished without friction nor man without trials." -Confucius

Summarizing our bar-belled approach to the current environment, we are further aligning ourselves with owner-oriented management teams that are taking advantage of the current environment and we are distancing ourselves from those that are more dependent on the kindness of strangers for their business financing needs. This is not a large deviation from our past positioning, though we have exited companies in our portfolio that have a more mixed near-term outlook on their investment capacity.

Thriving, rather than surviving, is our mission in the current environment. The volatile economic and valuation period we are in is a wonderful time for both investors and companies to be taking advantage of the turmoil. While the world has gone from an extreme focus on growth maximization to now an extreme focus of profit maximization, companies that can manage both simultaneously are set to benefit the most. Profitability is clearly important, and a low valuation relative to profitability is even more important today. However, we prefer to invest in companies that have clean balance sheets and can opportunistically seize this moment to improve their businesses. We are taking the same approach to upgrading our portfolio. Investing *through* the cycle is perhaps the biggest differentiator of an owner-managed company than any other metric.

Over the past decade, there have been a lot of companies that have been pitched as quality compounders. We've seen the market test a lot of these companies in recent quarters. Just like in the beginning of the 2000s, those that not only survive, but thrive, become truly great businesses. But most of them will not only not be able to continue investing in their business and opportunity set, but they may not even make it. Difficult circumstances are essential tests to the durability and quality of a business.

Gary Friedman, the owner manager of RH, has been talking about the company climbing the luxury mountain over the past few years. Wall Street is skeptical RH can hold its leading margin profile after elevated demand during Covid, and it surely doubts that it is a luxury company, at 10x earnings. We've been looking to get involved in the housing ecosystem given the dramatic selloff in the sector over the past year, and our first investment here is via RH. Demographically, we expect US household formation to remain very strong after a decade of underinvestment in housing supply. Gary strategically with-held new product launches in the aftermath of Covid, when times were easiest, and is now releasing a new premium product lineup. We believe there is a lot of latent pricing power in home furnishing, and while high interest rates are trapping people in a home they would otherwise possibly leave, we believe the consumer, particularly the high-end consumer, will look to continue to upgrade their homes.

The truest test of Gary's quest to make RH a true luxury company is in fact a recession. One of the reasons why there are few, if any, American luxury businesses, is that without a family controlling the company, optimizer-oriented management teams cannot withstand the pain that comes from not discounting a product line into weak demand. We can't recall a single American company that has "destroyed" inventory like the French luxury companies in the face of a recession. Many have tried. Few, if any, have succeeded.

Anchored by Gary's 21% ownership of the company, RH has a good chance. And not only is it not tempted in the current volatile environment to discount, but he is actually raising price. With a buyback authorized for over 30% of the shares outstanding, Friedman is also not shying away from making bold investments in the current environment. He is aggressively expanding galleries and introducing new marquee Europeans properties. The combined product launch

cadence, increased prices, aggressive footprint investments and forthcoming share repurchases, not to mention low valuation, made us move off the sidelines and take a position in RH. While we are certainly not hoping for a recession, we are excited that such an environment could solidify Gary's mission to make RH a rare American luxury brand.

Time In the Market, Not Timing the Market

"My mission in life is not merely to survive, but to thrive; and to do so with some passion, some compassion, some humor, and some style." -Maya Angelou

We've seen disruption-focused investors publicly talk about share repurchases as being a sign of business maturity. These investors claim repurchases are a signal that companies have no further good investment opportunities in front of them, so are left to shrinking the share count. While that may accurately describe many dead men walking in the S&P 500, like Hewlett Packard, we think this criticism is a bit too narrow to apply to a wide universe. What these disruption focused investors perhaps are missing is that they often pay nosebleed prices for their companies, so share repurchases are in fact value destructive. That's sort of embarrassing being the bag holder of those shares.

On the other hand, it could be simply be that the companies are pursuing capital intensive growth opportunities, such as our biotech companies or NexGen Energy, which we believe will soon obtain approval from the Canadian government to start developing its world class uranium mine. Development of these assets are top priority, and while shares are cheap on all three accounts, they must not do anything to jeopardize developing these disruptive assets.

Contrast that with RH, Bolloré, or say CTT. All have very high-return investment opportunities in front of them, and they are actively investing in them. However, the shares are very cheap on all three accounts. As a board member of one of these companies, we can say that while we have very high-return capital deployment opportunities in front of us, it's hard for these opportunities to compete with the certainty that share repurchases at bargain basement prices offers us. We take no "deal" risk and also have significantly lower execution risk than a greenfield project. From a risk-adjusted perspective, these are some of the easiest capital deployment opportunities that are presented to a board.

No matter how volatile market conditions are, substantial amounts of value are created by those who seize opportunities during periods like this. In fact, the more volatile the conditions are, the more capital allocation opportunities managers have. Their ability to create value is actually amplified by the current conditions. We feel the same way with both CTT and with our long portfolio, almost all of which is comprised of owner-managed companies.

As many investors are focused on timing the market for an entry or exit, we are more focused on an alignment between us and our investors, and us and our portfolio. We want thriving, not surviving, and we will hedge ourselves with those that may not make it. However, as we've seen with Liberty TripAdvisor recently, this high tension and high anxiety in the market can often produce very high velocity moves in a single day. Missing these days removes nearly all of the performance that make this entire journey worth it. While this quarter was humbling for us, the most humbling part is your trust of your precious capital to us. The journey has been so much more fruitful because you have joined.

As one of our investors advises his own clients, this business is about "time in the market, not timing the market." We feel our barbell approach allows us to remain committed to companies actively seizing opportunities today, while also ensuring that we will not face another draw-down in the face of a market round-trip.

We are energized and excited about the opportunities the current market is providing us. We believe the friction in the current markets will produce many gem stones in our portfolio that we'll be grateful we bought for fractions on the dollar, or even for free as in CTT's case. And we are committed to delivering more than ever.

Thank you for your trust,

Steven Wood Chris Torino

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