October 19, 2022

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned 4.0%[1] in the third quarter of 2022, net of fees and expenses, and 17.7% for the first nine months of 2022, net of fees and expenses, compared to a 4.9% decline and a 23.9% decline for the S&P 500 index for the quarter and first nine months, respectively.

It is now clear that we are in a bear market. Our pivot in January from 'cautious' to 'bearish' has helped the Partnerships. While for many years, and since inception, the Partnerships have outperformed the S&P 500, over the last decade we have significantly underperformed. Due to this year's result, we have recovered the underperformance that occurred since the end of 2018. To fully catch up, there is a bunch more to go.

This quarter our returns came primarily from the long portfolio, which contributed 5.9% to the net return. Shorts added 0.1% to the net return, while macro detracted 2.0% from the net return.[2]

The significant winners were Atlas Air Worldwide (AAWW), CONSOL Energy (CEIX), Eurodollar derivatives (short), Green Brick Partners (GRBK), a housing hedge for Green Brick Partners (GRBK hedge) and Twitter (TWTR). The significant losers were gold and two undisclosed shorts.

In August, AAWW announced it would be sold to a private equity consortium for $102.50 per share. Even though this price represents a very low multiple, and is likely to be an extremely attractive deal for the buyers, we happily exited our position after the announcement. Over a 2+ year holding period, we achieved an IRR of almost 80% on this investment. As we have written many times, it has been a difficult environment for value stocks. However, there is an old saying that "good things happen to cheap stocks" and that certainly happened here. We doubt this will be the last time private equity sees better value in our portfolio companies than other public markets investors do.

GRBK shares advanced from $19.57 to $21.38. The company announced second quarter earnings of $2.08 per share, which blew away consensus estimates of $1.24 per share. Also, GRBK was added to the S&P SmallCap 600 index during the quarter. We believe that the share price gain was dampened by a substantial slowdown in housing demand, which is now widely evident. Mortgage rates have exploded higher and have created affordability issues.

[1] Source: Greenlight Capital.

[2] Returns shown represent the contribution to return across the Greenlight Capital funds (excluding the gold denominated classes). This model performance does not reflect the performance of any individual fund.

Please review important disclosures at the end of the letter for further information and context regarding the performance and characteristics of the Partnerships.

To mitigate our exposure, we hedged almost half of our position with a basket of housing-sensitive equities. The hedge was also a material positive contributor to our performance in the quarter. GRBK shares have outperformed peers, as we believe the market is correctly assessing its superior competitive position.

CEIX shares rose from $49.38 to $64.32. As we wrote last quarter, we expect the company to generate approximately $50 per share in after-tax free cash flow by the end of 2023. The company paid its first dividend of $1 per share in August and also announced a policy of distributing at least 35% of its free cash flow to its shareholders. We would emphasize the "at least" part and see room for the percentage to expand as the cash flows materialize. Coal markets have remained quite strong and visibility is improving, such that 2024 looks to us like another strong year.

We have been short Eurodollar futures in the macro book since January. Selling Eurodollar futures essentially means predicting that the Fed would raise interest rates more than expected. Rate hikes have occurred and expectations for additional hikes have risen, as inflation (and the Fed's intent in fighting it) has increased in recent months. At this point, we believe that current market expectations roughly match our own. As a result, we have all but exited this investment.

We wrote about TWTR in our last letter even though we purchased it in the third quarter. It appreciated to $43.84 per share at quarter end. This still represents a sizable discount to the stated deal price of $54.20. We have been following this case closely and we believe that it is going well for TWTR. We expect that one way or another, the deal will close at or near the originally agreed upon price.

Gold fell from $1,807 to $1,661 an ounce. Sometimes in a bear market, investors simply want cash. Further, high short-term interest rates provide competition for gold. Nonetheless, we remain concerned that the current inflation problem could evolve into a currency and/or sovereign debt crisis. Accordingly, we maintain our gold position, despite the possibility for continued near-term weakness.

Other than TWTR, we did not add any new material positions during the quarter. We continue to be positioned bearish as we believe that we are in a bear market. This differs from a correction in that a bear market takes time and is persistent. In a correction, "buy-the-dip" gets promptly rewarded. In a bear market, not so much. We haven't had a bear market since 2008-2009. Our strategy is to remain positioned bearish and to gradually stockpile dry powder, enabling us to make new investments as opportunities present themselves.

It isn't entirely clear whether we are, or are not, in a recession. The first two quarters of 2022 had negative GDP growth, which usually marks a recession. Even so, the politicians are debating the definition of a recession, which isn't surprising, as we appear to be in a post-factual world. Strange times.

Whether we are in a recession or not, it's clear that the Fed wants to deflate the stock market. After Chair Powell's speech in Jackson Hole, one Fed governor said he "was actually happy" with the stock market's negative reaction. Again, strange times.

It seems the Fed believes that inflation is caused by a difference between supply and demand. If this were the case, there would be two possible approaches: try to increase supply or to try to decrease demand. To increase supply, we would need productive investment. This would add to wealth and improve living standards. To decrease demand, we would reduce income and wealth, thereby lowering living standards. Our policy makers, who have delegated inflation fighting to the Fed,[3] have chosen the latter. There is no discussion about how to increase supply. In fact, higher interest rates reduce investment, and therefore, supply. The most glaring area might be in housing, where higher rates lead to reduced supply despite widespread shortage. All told, this policy might make inflation worse rather than better. As we wrote a decade ago in our *Jelly Donut* monetary policy thesis,[4] the relationship between interest rates and the economy is non-linear; the Fed does not appear to understand this. Again, very strange times.

Of course, we believe that inflation is only partly caused by a difference between supply and demand. It's also caused by the creation of money. We just went through a period where we had aggressive fiscal policy financed by newly created money. Unfortunately, fiscal reform is not on the table at this point. Chair Powell has determined that "price stability is the responsibility of the Federal Reserve." Implicitly, fiscal policy does not need to help the inflation fight. In fact, it appears to be used to offset the monetary policy, as there doesn't seem to be any objection to additional spending that effectively subsidizes the inflation.

We question whether the Fed will succeed. Actually, so does the Fed.

At the same Jackson Hole event where Chair Powell spoke, the Chicago Fed presented a paper that argued, "The fact that approximately half of the recent increase in inflation has fiscal roots poses some specific challenges for policy makers today. Not only fiscal inflation tends to be highly persistent but it also requires a different policy response."

In any case, we aren't making policy. As long as official policy is to make the stock market go down, so that people are less wealthy, so that they buy fewer things, so that prices stop going up, all while doing nothing about fiscal policy, we believe the correct posture is to be bearish on stocks and bullish on inflation.

To that end, we have reduced our gross long exposure substantially this year. Further, our investment in TWTR is inherently short-term. As such, we expect to have additional dry powder after exiting that investment upon resolution (and we hope completion) of its sale.

[3] Obviously, Congress passed the Inflation Reduction Act, where the title of the law appears to be some kind of Orwellian misnomer. We don't see how it addresses inflation in any serious way, and as we read the law, we expect it to, if anything, increase inflation.

[4] https://www.huffpost.com/entry/fed-interest-rates_b_1472509

In addition to AAWW, we also exited Change Healthcare (CHNG), Chemours (CC), International Seaways (INSW), the Playboy Group (PLBY) and Warner Brothers Discovery (WBD).

CHNG completed its sale to UnitedHealthcare. We made a 40% IRR over a 32-month holding period.

We exited CC due to our concern about the deteriorating economic cycle. While the company could release substantial value by separating its commodity-driven titanium dioxide business from its rapidly growing ESG-friendly refrigerant business, we do not believe that management is currently interested in pursuing a separation. As such, we exited our 3-year investment with a mid-single digit IRR.

Shortly after we purchased INSW, a strategic investor bought a large stake in the company. We became concerned about possible falling oil prices and exited with an almost 40% gain over half a year.

Finally, we sold unsuccessful investments in PLBY and WBD. We thought both companies were going through substantial corporate transformations. PLBY failed to execute on its strategy and we exited with a 50% loss on our investment. We sold WBD as it faces a more challenging path to executing its integration plan than we expected. It also has a sizable amount of debt. We are trying to avoid levered equities in the current economic environment. We lost approximately 40% on WBD in half a year. Both positions were small.

And spring became the summer. Who'd have believed you'd come along? Shien Wei Ooi (his first name rhymes with Fenway, the ballpark that plays 'Sweet Caroline' every 8th inning) joined us as an investment analyst in July. *Where he began? We can begin to knowin'.* Shien Wei started his career in 2007 in private equity, first at Audax Group and then Golden Gate Capital before moving to an investment analyst role at Scout Capital, York Capital, and finally Hunt Lane Capital where he was a Sector Head covering investments in Media, Telecommunications, Business Services and Fintech companies. He is a graduate of Stanford University and he received an MBA from Harvard Business School. Here at Greenlight we expect him to be *so good, so good, so good!* Welcome, Shien Wei!

Sylvia Han joined Greenlight as an Assistant Controller in August. She began her career in 2018 with PricewaterhouseCoopers, LLP where she provided audit services for clients in the asset management industry. Sylvia graduated from Indiana University Bloomington in 2016 with a B.S. in Business and from Wake Forest University in 2017 with an M.S. in Accounting. Welcome, Sylvia!

Please save the date for our 27th annual partner dinner, which will be held in person on January 17, 2023 here in New York City. Invitations will be sent out separately. We are excited to see everyone in person again.

At quarter-end, the largest disclosed long positions in the Partnerships were Brighthouse Financial, CONSOL Energy, Green Brick Partners, Teck Resources and Twitter. The Partnerships had an average exposure of 94% long and 84% short.

"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one."

– Charles Mackay

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

Unless otherwise noted, performance returns reflect the weighted average total returns, net of fees and expenses, for a "New Issue Eligible" investor invested in Greenlight Capital, L.P., Greenlight Capital Offshore Qualified, Ltd., and the dollar interests of Greenlight Capital Investors, LP and Greenlight Capital Offshore Investors, Ltd. (collectively, the "Partnerships"). Performance returns exclude the gold interests of Greenlight Capital Investors, LP and Greenlight Capital Offshore Investors, Ltd. The performance of certain historical positions may diverge between the dollar interests and gold interests of these funds. Upon request, Greenlight will provide the specific performance of each type of interest to help investors understand these divergences (if any) over time. Combined performance of components of the Partnerships is model performance presented for illustrative purposes only and does not reflect the performance or risk profile of any individual fund. Model performance should not be considered an indicator of the future performance or risk of any investment. Actual performance for any individual fund, which is available upon request, may differ substantially from the model performance presented. Each Partnership's returns are net of the modified high water mark incentive allocation of 10%. This is the allocation experienced by an investor whose capital account is below its modified high water mark. New investors whose capital accounts are not below their modified high water marks would experience different performance. An investor's actual returns may differ from the returns presented due to several factors, including the timing of each investor's capital activity and the applicable incentive allocation rate, which may be 10% or 20% depending on whether such investor is below such investor's modified high water mark.

All figures are unaudited. Greenlight does not undertake to update any information contained herein as a result of audit adjustments or other corrections. Past performance is not indicative of future results. Each investor will receive individual statements showing returns from the administrator. Reference to an index does not imply that the Partnerships 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 "macro" positions, which may include, but are not limited to, government debt, currencies, commodities, credit default swaps, interest rate swaps, volatility indexes, credit indexes and derivatives on any of these instruments. However, equity indexes and derivatives on such instruments are included in long/short exposure. The largest disclosed long positions represent individual issuers to which the Partnerships have the highest exposure. Greenlight, in its discretion and in the interest of investor protection, may exclude from this list any position that has not been disclosed but would otherwise be included, and instead include the Partnerships' next largest position. All weightings, exposure, attribution and performance contribution information is inclusive of positions held both directly and indirectly through the master funds, reflects the weighted average of such figures for investments by Greenlight Capital, L.P., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital Investors, LP, and Greenlight Capital Offshore Investors, Ltd. (excluding any gold backing), and are the result of classifications and assumptions made in the sole judgment of Greenlight. All exposure calculations include the impact of month-end redemptions and subscriptions as of the first day of the following month.

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