

#### GREENHAVEN ROAD



## Operating Background of Portfolio Manager

- Managed a manufacturing business after graduating college
- Co-Founder of Acelero Learning. Several roles including CFO, CTO, Chief Strategy Officer, and currently board member. Acelero has grown from three co-founders in a tiny office to 1,100+ employees in 15 states.
- A touch of traditional Worked in private equity, a long/short fund, Stanford MBA

#### Who We Are

- A long-biased hedge fund.
- Concentrated and patient.
- Pursue both quality companies (compounders) and special situations (spinoffs, rights offerings, SPAC etc.)

#### What We Believe

- Fundamentals matter, balance sheets matter, cash flow matters, management matters, & incentives matter.
- An investment committee of one is the perfect size the aspiration is to be a small boutique manager.

# PERFORMANCE HISTORY THROUGHOUT LIFE OF STRATEGY



Strategy has Compounded > 21% and the Fund > 14% Per Year Net of Fees

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	ОСТ	NOV	DEC	YTD	S&P 500	Russell
	JAN	FED	IVIAR	APK	IVIAT	JUN	JUL	AUG	SEP	OCI	NOV	DEC	טוז	500	2000
2005	-0.74	6.33	3.51	-10.95	12.55	-1.15	7.69	1.08	2.09	2.75	9.46	-3.50	30.54%	4.89%	4.55%
2006	2.19	-5.80	11.28	2.86	-6.86	-0.43	3.39	1.26	8.46	7.06	2.86	-6.50	19.47%	15.79%	18.37%
2007	1.21	-1.72	3.03	6.06	9.45	-1.05	-1.71	3.48	9.08	12.37	-3.61	-3.19	36.95%	5.49%	-1.57%
2008	-24.05	0.76	-0.18	18.14	9.05	-9.06	-1.52	0.77	-20.12	-11.20	-6.64	2.00	-40.01%	-37.00%	-33.79%
2009	2.14	-0.88	24.03	14.26	11.55	3.71	12.87	12.04	6.20	0.77	3.53	-0.05	132.45%	26.46%	27.17%
2010	-3.02	5.29	8.99	-9.56	13.23	-13.26	-3.89	19.46	21.39	6.04	4.98	-2.98	49.68%	15.05%	26.85%
	FUND	LAUNCH													
2011	1.03	4.20	0.01	0.27	1.68	-1.00	0.41	-7.86	-13.06	-0.93	0.01	6.47	-9.85%	2.11%	-4.18%
2012	11.85	1.99	4.95	-3.79	-14.22	-0.96	-4.35	8.67	1.91	-5.05	3.45	2.55	4.42%	15.98%	16.35%
2013	5.16	10.04	3.48	3.40	10.69	-1.26	3.36	-2.24	7.29	2.64	7.83	1.49	64.79%	32.41%	38.82%
2014	3.07	4.46	-1.54	0.33	5.74	4.41	-2.57	5.88	-1.22	2.66	0.68	-0.09	23.56%	13.69%	4.89%
2015	-0.11	7.50	0.86	0.52	6.00	-0.43	-2.38	-5.46	-0.71	1.48	-3.38	-1.04	1.60%	1.39%	-4.41%



\*All figures are net of incentive fees. Pre-fund launch returns through December 2010 have been compiled by Fulvio and Associates, a leading alternative investment management audit firm as if incentive fee structure had been applied. Past returns are no guarantee of future returns.

#### **THESIS**

"Asset managers with strong balance sheets are underappreciated by the market and provide compelling risk/rewards opportunities."

- Scott Miller

#### ASSET MANAGEMENT IS A VERY ATTRACTIVE BUSINESS



#### **Pros**

- Very Scalable: Incremental assets can often be managed with minimal incremental expenses. To double the assets under management does not mean doubling the head count. This is very different from an airline, autos, hotels, etc.
- Recurring Revenues: Fees are extracted from client accounts with great regularity.
- High Gross Margins: Cost of goods sold are minimal.
- **Supporting Evidence:** 8% of Forbes 400 are money managers.

#### Cons

- Limited Value Proposition: In aggregate very few customers outperform the overall market after fees and expenses are accounted for.
- Limited Barriers to Entry: It varies by type of assets managed and structure – but relative to many industries, entry requires little capital or prequalification.
- Active Management is Out of Favor: Managers face stiff headwinds in raising AUM particularly in specific areas of money management.

#### ASSET MANAGERS BASICS



#### P/E and AUM are Dominant Valuation Methods

- Balance Sheet Often Ignored and Discounted: The sell side valuation analysis of asset managers often ignores the cash and investments on the balance sheet.
- Brand/Franchise Receives a Premium: Typically managers with strong franchises deserve premium multiples because of their ability to launch new products and retain assets.
- Management Fees More Valuable than Incentive Fees: Mutual fund managers only earn management fees, but the alternative asset managers receive a combination of management fees (1-2% of AUM) as well as incentive fees (15%+ profits).

### Not All Assets are Created Equally

- Fixed Income is Least Valuable: Fixed income assets pay the lowest fees and are generally valued less than other strategies.
- The Flow of Funds Matter: Investors factor in growth/decline rates in AUM and Morningstar ratings/performance in valuing managers and estimating future earnings.
- Longer Lockups are Better: In general money that is locked up (private equity) should receive a higher valuation than "hot money."



TICKER:	FIG	Cash + Investments = \$2.85/share
PRICE (1/08):	\$4.65	Insider Ownership: 53% (45% post buyback)
MARKET CAPITALIZATION	\$2.2B	52-Week Hi/Low: \$4.16. / \$8.65

#### **Business Description**

- The Company's Words: Fortress Investment Group is a leading, highly diversified global investment management firm. Fortress applies its deep experience and specialized expertise across a range of investment strategies private equity, credit, liquid markets and traditional asset management on behalf of over 1,600 institutional investors and private clients worldwide.
- Glass Half-Empty View: Macro hedge fund blew up, returns on Private Equity funds are poor. This business is going nowhere.
- My View: There is a lot of value in the balance sheet, the business is going to last for a long time, insiders are motivated to unlock value over time. The underlying business of collecting management fees is far more stable than investors give it credit for.



#### 2015: A Tumultuous Year

- Share Price Declines: In 2015 the share price declined 35%+.
- Macro Hedge Fund Closed: The most public figure for Fortress Investment Group, Mike Novogratz, closed down his Macro hedge fund.
- Permanent Capital Vehicle Share Price Declines: This negatively impacts ability to issue new shares/raise new capital as doing so below book value hurts existing shareholders.

#### Not All Bad

- Agreed to Repurchase 13% of Shares at 17% Discount: This was part of the separation process with Novogratz.
- **Springleaf Financial:** Merged with One Main. This is the largest holding for Fortress Investment Group in their PE/Funds shares appreciated in 2015 with potentially more runway in 2016.
- AUM Growth: Best year for capital raising since 2007.



## Key Statistics

Metric	Value
Fee Paying AUM	\$74B
"Dry Powder"	\$9B
Gross Embedded Incentive	\$.9B
Net Cash + Investments / Share (Post buyback)	\$2.85
Anticipated shares repurchased since 2012	30%
LTM Dividend Yield	12%

• A lot of Assets to Ignore: The AUM generate fees, the embedded incentive has already been earned but not taken, and the cash and investments are very material relative to the share price (>50%)



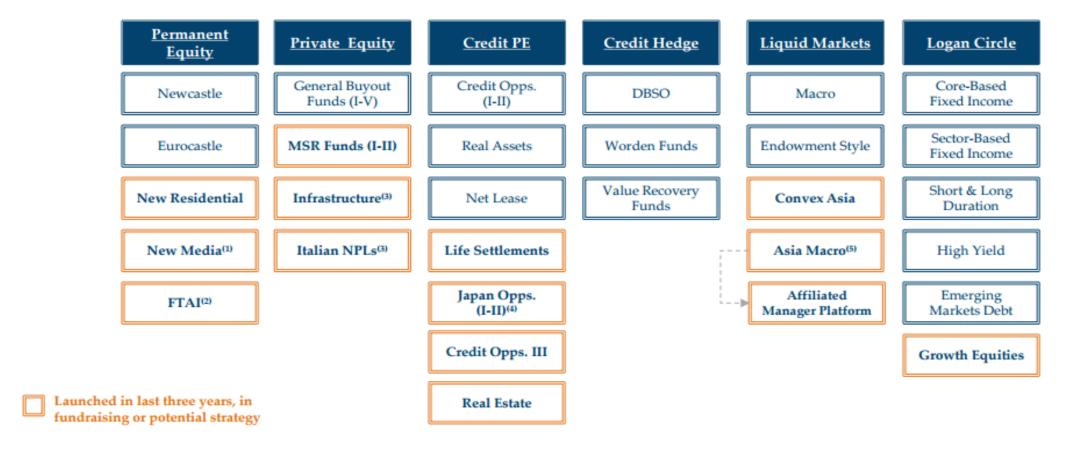
### Diversified Business Model

Alternative Businesses					
	Credit & Real Estate	Private Equity	Permanent Capital	Liquid Markets	Loga
	Distressed assets and securities, special situations, real estate	Control-oriented equity investments	Six externally managed public companies	Daily trading in global markets	Actively m only fix
	\$17.4bn <sup>(2)</sup> of AUM	\$9.2bn of AUM	\$6.9bn of AUM	\$7.4bn <sup>(1)</sup> of AUM	\$33.4bi

Traditional Fixed Income
Logan Circle
Actively managed, long- only fixed income
\$33.4bn of AUM



#### Diversified Business Model



Source: investor presentation - Note: Macro Hedge Fund is now closed



## Stable Management Fees Drive Earnings

#### Pre-tax DE of \$261 million, or \$0.58 per dividend paying share, for YTD 2015

#### Distributable Earnings (\$ millions)(1)

FORTRESS	3Q 2015	2Q 2015	3Q 2014	YTD 2015	YTD 2014
Management Fees	151	144	149	434	448
Incentive Income	70	183	88	304	270
Segment Revenues	221	327	237	738	718
Operating Expenses	(112)	(121)	(112)	(348)	(325)
Profit Sharing Expenses	(37)	(54)	(54)	(121)	(146)
Segment Expenses	(149)	(175)	(166)	(469)	(471)
Earnings From Affiliated Managers	2	(1)	-	10	-
Principal Performance Payments	(7)	(18)	(4)	(28)	(17)
Fund Management DE	67	133	67	251	230
Net Investment Income	2	4	(12)	10	93
Pre-Tax DE	69	137	55	261	323
per dividend paying share	\$0.15	\$0.30	\$0.12	\$0.58	\$0.72

Management Fees are 59% of Revenue and > % of Earnings



Fundamentals Do Not Suggest a Stock Down 35%+

## Year over Year Financial Results (millions)

	YTD 2014	YTD 2015	ΥοΥ Δ
FEE PAYING AUM	\$66,046	74,330	+13%
SEGMENT REVENUES	\$718	\$738	+3%
SEGMENT EXPENSES	\$471	\$469	(0)%
FUND MANAGEMENT DE	\$230	\$251	+9%

## **EXAMPLE 1: FORTRESS INVESTMENT GROUP**



#### Stub Value

When we back out the assets – What are we left with?

Components	Per Share
Share Price	\$4.65
Cash + Investments / Share	- \$2.85
Estimated Net Embedded Incentive/Share	-\$0.80
Stub Value	\$ 1.00

## Implied Valuation Metrics

- Less than 2X distributable earnings (DE)
- 50% + dividend yield on the stub



### Sell Side Ignores Balance Sheet

#### Exhibit 3: CS Alternative Asset Manager Valuation: cash Earnings

Alternative Asset Managers: Target Price

	YTD 2014	CURRENT PRICE	CURRENT ARGET PRICE	NEW TARGET PRICE	UPSIDE TO TP	TOTAL RETURN ('15 div)
KKR	KKR & Co LP	\$16	\$22	\$22	37%	41%
OZM	Och Ziff Capital	\$6	\$8	\$8	24%	31%
ВХ	Blackstone Group	\$30	\$39	\$36	19%	28%
CG	Carlyle Group LP	\$16	\$20	\$18	11%	26%
FIG	Fortress Investment Group	\$5	\$6	\$6	12%	21%
APO	Apollo Global Management	\$15	\$19	\$17	10%	19%
ARES	Ares Management LP	\$13	\$18	\$14	11%	18%
OAK	Oaktree Capital	\$48	\$55	\$53	10%	14%
MEDIA	V	11%	20%			

Valuation Method #1	
Price to Cash Earnings	

CY2017 CASH EARNINGS	5Yr AVERAGE	CASH EARNINGS MULTIPLE
\$3.12	\$2.40	9.0x
\$1.38	\$1.12	7.0x
\$2.51	\$2.58	14.0x
\$2.24	\$1.77	10.0x
\$0.75	\$0.70	6.0x
\$1.87	\$1.87	9.0x
\$1.97	\$1.81	8.0x
\$4.26	\$4.06	13.0x
		8.5x

Source: Credit Suisse Asset Manager Research; Current price as of 12/28/2015

Credit Suisse has a NEUTRAL rating for a company trading at 6X their cash earnings. They excluding balance sheet (cash, investments, embedded incentive fees)



### How Fortress Could Double in Price

#### **Sum of The Parts:**

Component	Value	Multiple	Value
Base Dividend Per Share (From Management Fees)	\$0.32	15X	\$4.80
Cash + Investments Per Share	\$2.85	85%	\$2.42
Net Embedded Incentive Per Share	\$0.80	1X	\$0.80
Performance Fees (Ex Logan)	\$0.30	6X	\$1.80
Logan Circle	\$16B AUM	1%	\$0.35
TOTAL			\$10.17

#### **Dividend Yield:**

- LTM dividend = \$.62
- 6% Dividend Yield = Share Price > \$10

"My view about it is our valuation is ridiculously low. When you look at the foundation business on the Credit side and the consistency of earnings there, and the foundation of what we have in the Permanent Capital Vehicles as well as our Private Equity, that plus our balance sheet we think is really a ridiculously low valuation. I think the way to address that is to try and create as much simplicity and transparency as we can."

Wes Edens – Head of Private Equity Investing for Fortress Investment Group

#### Take the Road

# Less Traveled

"If you spend your energies looking for and analyzing situations not closely followed by other informed investors, your chance of finding bargains greatly increases."

Joel Greenblatt

# Signs Nobody is Paying Attention



## Nobody is Talking

- Sell side analysts = 0
- Seeking Alpha articles = 0
- Seeking Alpha members with AC in portfolio = 28 (FIG has 2,200 and AAPL has 1.1M)
- Sum Zero write-ups = 0
- Value Investor Club write-ups = 0

## The Company is not Helping

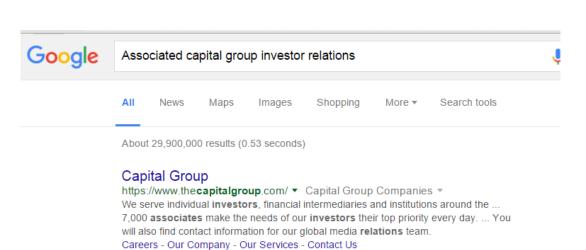
- Investor conferences = 0
- Investor presentation = 0
- Conference calls = 0
- Percent of my emails unanswered = 100%

# Signs Nobody is Paying Attention II

# GREENHAVEN ROAD CAPITAL

## Google Does not Know

 The Search Results are Off: None of the top results point to the actual investor relations page for Associated Capital Group.



#### Meet Our Associates | Capital Group

https://www.thecapitalgroup.com/...capital/meet... ▼ Capital Group Companies ▼ The best way to get to know Capital Group is through our associates. See what they ... The Associates Program (TAP) Internship. Andrei. Investment Analyst ...

#### Capital Group Companies - Wikipedia, the free encyclopedia

https://en.wikipedia.org/wiki/Capital\_Group\_Companies ▼ Wikipedia ▼ Capital Group is one of the world's largest investment management ... Angeles, California, and has over 7,000 associates in 23 office locations around the globe, ... The founding years - Overview - Executives - Investments

#### Janus Capital Group Investor Relations - NYSE - JNS

ir.janus.com/ ▼ Janus Capital Group ▼ Janus Capital Group Inc. (NYSE: JNS) is a global investment firm dedicated to delivering better outcomes for clients through a broad range of actively managed ...



## History

- **GAMCO Spinoff**: November 30, 2015 GAMCO (Mario Gabelli) spun off its alternative asset management business, cash and investments into a separate company (Associated Capital Group). The basic rationale was that GAMCO was trading at the same multiples (P/E) as peer asset managers despite having 50% of the market capitalization in cash and investments. Effectively getting no credit for these assets within GAMCO. By isolating these easy to value assets, GAMCO should trade up.
- Indications AC is worth looking at and NOT a "Garbage Barge:"
  - Mario Gabelli retained 75% ownership.
  - Mario Gabelli installed his son as CEO.

## Follow the Money

- Massive Buyback Announced: The first act as an independent public company was to announce a 500,000 share buyback.
- Stuffed with Cash and Assets: The spinoff was designed to put the cash and assets of GAMCO into Associated Capital Group.



TICKER:	NYSE (AC)	Adjusted Book Value: \$40.32
PRICE (1/08):	\$29.69	Insider Ownership: 75%
MARKET CAPITALIZATION	\$753M	52-Week Hi/Low: \$36.51/\$28

## Business Description

- The Company's Words: Associated Capital Group, Inc. manages assets on behalf of institutions and high net worth investors. It also provides fundamental company research; and various institutional investor services.
- Glass Half-Empty View: Watch out for Mario. What is this? Why does this exist? The website is terrible. Book value is generous for Mario.
- My View: A growing dollar selling at a discount with a lot of optionality



#### Basic Math

Holdings	Value (000)	Per Share	Notes
Cash	\$363,055	\$14.22	
Investments	\$308,890	\$12.10	GAMCO funds and seed investments
Shares of GAMCO	\$150,000	\$5.87	4.3M shares
Loan to GAMCO	\$250,000	\$9.79	Yields 4% 5-year term
Receivables + Other	\$ 58,924	\$2.31	From brokers
Liabilities	(101,310)	-3.97	Payables and accrued expenses
TOTAL	\$1029,559	\$40.31	

## Benefits of Buying at a Discount

- With 500,000 share buyback in place there should be limited downside.
- First 35%+ of share appreciation gets us to adjusted book value which can easily grow.



#### GAAP vs. NON GAAP MATTERS

- GAAP Rules: From 10Q: "For GAAP purposes, a \$250 million note from GAMCO to AC Group that was issued as part of the spin-off transaction is treated as a reduction in equity for any period when all, or a portion of the note, is outstanding." Huh? Under GAAP the \$250M loan to GAMCO is not treated as an asset does not show up in book value calculations. The loan appears in the Equity section of the balance sheet
- Value of note = \$9.79 per share.
- **Opportunity**: A portion of the opportunity is capturing the NON-GAAP value to Adjusted Book.

	Pro Forma		
	Historical	Adjustments	Pro Forma
ASSETS			
Cash and cash equivalents	\$ 363,055	\$ -	\$ 363,055
Investments	308,890	150,000 (a)	458,890
Receivable from brokers	52,595		52,595
Other receivables	2,193	-	2,193
Other assets	4,136		4,136
Total assets	\$ 730,869	\$ 150,000	\$ 880,869
LIABILITIES AND EQUITY			
Payable to brokers	\$ 49,365	\$ -	\$ 49,365
Income taxes payable and deferred tax liabilities	8,832	-	8,832
Compensation payable	5,046	-	5,046
Securities sold short, not yet purchased	5,577	-	5,577
Accrued expenses and other liabilities	26,472		26,472
Sub-total	95,292	-	95,292
Redeemable noncontrolling interests	6,018	-	6,018
Equity	624,792	400,000 (b) (c)	1,024,792
Note receivable from GAMCO	-	(250,000) (c)	(250,000)
Accumulated comprehensive income	4,767	-	4,767
Total equity	629,559	150,000	779,559
Total liabilities and equity	\$ 730,869	\$ 150,000	\$ 880,869



## But Wait, There is More.....2 Operating Businesses

1) Alternative Asset Management - \$1B Hedge Fund

### Assets Under Management

	September 30, 2015	June 30, 2015	September 30,
Event Merger Arbitrage (1)	\$860	\$855	\$806
Event – Driven Value	\$159	\$133	\$136
Other	\$ 66	\$ 76	\$ 77
Total AUM	\$1,085	\$1,064	\$1,019

2) Institutional Research Business - \$10M in revenue (Not Core to the Thesis)



# But Wait, There is Even More.....A New Seeding Business

With \$363M in cash, a \$250M loan that will be repaid within 5 years, and GAMCO shares – Associated Capital Group is swimming in cash.

"The proceeds we receive pursuant to these transactions and our potential future sale of the Former GAMCO Treasury Shares may be used to, among other things, provide seed capital for Investment Partnerships that we expect to form and, possibly, acquisitions, alliances and lift-outs."

- Form 10

# Seeding is a GREAT Business model IF executed effectively.

In exchange for a substantial investment of \$10M-\$100M, the seeder receives revenue share for the fund (typically 15%-25%) in perpetuity. Asset management is an excellent business. When seeding works, it is excellent squared.



### Currently Under-Earning

- Hedge Funds Can Make Money: \$1B Hedge Fund Generating Almost No Incentive Fees: The core strategy is merger arbitrage which is market neutral but also had surprisingly poor returns as an industry over the past 3 years.
- Cash Currently Earning Nothing (almost ½ current market cap): The potential is to change this as funds are invested and used to seed managers.
- Investments Can Make Money: Last quarter the investments held by Associated Capital Group last money, but even modest returns on \$300M can add up (\$12/share).
- The Loan Paying 4%: In a zero interest rate environment 4% is nothing to sneeze at but hard to argue it is over earning.



## Book Value Can Grow With Modest Assumptions (assumes nothing from seeding)

	Pro Forma last Q	Moderate Case C	Q Company of the Comp
Investment advisory Incentive fees	2,240 -	2,240 3,000	Assumes \$1B at 6% annual return
Institutional research services Other revenues	2,063 387	2,063 387	
Total revenues	4,690	7,690	
Compensation costs	5,329	6,329	Added \$1M for compensation related to incentive
Stock based compensation	630	630	
Other operating expenses	1,682	1,682	
Total expenses	7,641	8,641	
Operating loss before management fee	(2,951)	(951)	
Investment Gain (Loss)	(8,181)	8,432	Assume 5% annualized on \$450M and Loan interest + Dividend is \$2.8M
Interest Expense	(323)		
Other expense, net	(8,504)	8,432	
Gain (Loss) before taxes	(11,455)	7,481	
Income tax benefit	(4,039)	2,244	
Net loss attributeable to non controlling	(464)	(464)	
	(6,952)	5,701	
Net Gain or Loss per Share	\$ (0.27)	\$ 0.22	



# Reasons to be Wary of the Super Mario (Remember I am Long)

- Mario Gabelli Pays Himself First: Mario Gabelli receives 10% of pre-tax profit (all legal and disclosed).
- GAMCO Initial Investors Sued Mario Gabelli: They made tens of millions but claimed Mario overstepped.
- Marc Gabelli SEC Dropped Charges: After 6 years the SEC dropped charges against Mario related to possible favorable treatment for a hedge fund in return for an investment in his fund.
- Mario Gabelli Outside Activities: SPAC, Spectrum (google them)



# LARGE UNIVERSE OF INVESTABLE COMPANIES



# Larger U.S. Listed Companies

TICKER	NAME	TICKER	NAME	TICKER	NAME
AMG	Affiliated Managers Group Inc.	FSAM	Fifth Street Asset Management	OMAM	OM Asset Management plc
AB	Alliance Bernstein Holding L.P.	FNGN	Financial Engines Inc.	PZN	Pzena Investment Management Inc.
APO	Apollo Global Management LLC	FIG	Fortress Investment Group LLC	REXI	Resource America Inc.
ARES	Ares Management LP	BEN	Franklin Resources Inc.	SFE	Safeguard Scientifics Inc.
APAM	Artisan Partners Asset Management	GBL	GAMCO Investors Inc.	SEIC	SEI Investments Co.
AINC	Ashford Inc.	HNNA	Hennessy Advisors Inc.	SAMG	Silvercrest Asset Mgmt Group
AC	Associated Capital Group	IVZ	Invesco Ltd.	TROW	T. Rowe Price Group Inc.
BLK	Black Rock Inc.	JNS	Janus Capital Group Inc.	GROW	U.S. Global Investors Inc.
ВХ	Blackstone Group L.P.	KKR	KKR & Co. L.P.	VALU	Value Line Inc.
CLMS	Calamos Asset Management Inc.	LM	Legg Mason Inc.	VRTS	Virtus Investment Partners
CG	Carlyle Group L.P.	MN	Manning & Napier	WDR	Waddell & Reed Financial Inc.
CNS	Cohen & Steers Inc.	MDLY	Medley Management Inc.	WHG	Westwood Holdings Group Inc.
DHIL	Diamond Hill Investment Group	NSAM	NorthStar Asset Management	WETF	Wisdom Tree Investments Inc.
EV	Eaton Vance Corp.	OAK	Oaktree Capital Group LLC	ZAIS	ZAIS Group Holdings Inc.
FII	Federated Investors Inc.	OZM	Och-Ziff Capital Management Group	AC	Associated Capital Group

# EXAMPLE 3: Not Ready for Public Consumption



## Appropriate for PA's and Small Funds

- Sign up on the Website for Quarterly Letters visit the URL: <a href="http://www.greenhavenroad.com/connect/">http://www.greenhavenroad.com/connect/</a>
- Indicate in the Message Section: Tell me you are from the Best Ideas conference
- Wait: When I am fully Invested I will drop you a note.

Ple	ase Select All that Apply
	Accredited Investor
	Would Like More Information
✓	Quarterly Letters - Would You Like to be Added to the Distribution List
Me	essage –
Ple	ase forward writeup for best ideas attendees when ready
S	Submit



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