



January 26, 2015

Dear Limited Partners,

The fund had another positive quarterly performance, and finished the year up 23.54% after all fees and expenses. Since the fund was up more than 64% last year, a second year of outperformance was not a given. As a point of reference, for 2014 the S&P 500 was up 13.69%, and the Barclay Hedge Fund index was up 3.69% in 2014. As I often write, the real yardsticks will be our returns over five- and 10-year periods not any given 12 month period. Fortunately, we have outperformed those benchmarks over our first four years to date. As many of the day one investors will remember, before launching the fund, I had a seven-year period of outperforming the indices by thousands of basis points per year. So now, with a decade-long track record exceeding the S&P 500 after all fees and expenses, I want to take a minute to dissect the possible causes and the potential of replicating this success going forward. How does little Greenhaven Road outperform all of these funds that employ dozens of people, charge millions and millions in management fees, and attract billions and billions in assets under management?

Greenhaven Road vs. the universe of larger funds does not seem like a fair fight on the surface. The typical large fund has dozens of very bright people with virtually unlimited research budgets and deep expertise in specific domains vs. the research and trading team at Greenhaven Road – which is just me, a generalist. Yet to date, David is beating Goliath. Greenhaven Road is outperforming more than 90% of the funds in the marketplace as well as the index alternatives. Can this continue? Should we double down on Greenhaven Road – or just thank our lucky stars, take our gains, and roll them into an index fund? Given that Greenhaven Road is the investment vehicle for the vast majority of my family’s liquid net worth, “can outperformance continue?” is the multi-million dollar question.

What are the factors that can lead to outperformance? Are they sustainable? One of the value investors that I most respect, Manish Pabrai, has been citing a study by Fidelity in which they did an analysis of their best-performing accounts. The best-performing accounts were for dead people who were obviously not actively managing their accounts. The second best group included people



who had forgotten their user name and passwords. Both of these data points suggest that perhaps neglect is the key to performance. Those who believe in efficient markets would say that I have just been lucky. Warren Buffett has pointed out that, if a million people start in a coin flipping contest, there will be an eventual winner who will have all kinds of theories as to their greatness in calling heads or tails under pressure. Given that I am still alive, there is a real possibility that I am just one of the last people standing in a coin flipping contest.

If we are just a lone survivor in a coin flipping contest, eventually our luck will run out. My favorite movie line is from a poker movie called “Rounders.” The protagonist has a girlfriend who is steadfast against his gambling and does not appreciate any of the skill involved in the game of poker. He tries to explain to her that there is more than just good fortune for a poker player, “Why do you think the same five guys make it to the final table of the World Series of Poker every year? What, are they the luckiest guys in Vegas?” I think the answer is both more sustainable than coin flipping or dying – and consistent with Malcolm Gladwell’s “David vs. Goliath” book (enclosed). We are fighting a different fight than most funds. David did not try to outmuscle Goliath, which he never could have done, rather he fought a different fight that relied on a slingshot where his small size and mobility were an advantage.

For Greenhaven Road, our smaller size and broad mandate allows us to invest far more broadly than larger funds. We can look under more rocks. The S&P 500 oddly enough contains 502 stocks. In the United States, there are more than 7,500 public companies and across the world there are tens of thousands. Domestically, the S&P 500 represents less than 10% of the available opportunities. At Greenhaven Road we invest internationally as well, so the S&P represents well under 5% of our investable universe. Currently, only one of the stocks that we own was listed in the S&P 500 when we purchased it (Apple) and another has appreciated significantly and grown into the S&P 500 since the point of purchase (AIG - but we primarily own the TARP warrants which are a different beast). Fully half of our investments on the long side currently are in companies with sub \$500M market capitalizations. At Greenhaven Road we will look anywhere for opportunities – including the S&P 500 – but we can also access a far larger universe of opportunities that includes smaller companies with little to no Wall Street following. We are investing in corners of the market that are more inefficient than S&P 500 companies with a dozen



or more sell side analysts. I encourage you to think about Greenhaven Road as a far more eclectic blend of idiosyncratic stocks than you will own in any of your index funds. The smaller cap world of spinoffs, mergers, acquisitions, restructurings, and rights offerings – like David is a different fight than investing in the 500 largest companies in the US. Also, like David, I think it is a more winnable fight over the long term.

The Oracle of Omaha, Warren Buffett agrees that small size is an advantage. He has made several statements to that effect, including this one from Business Week in 1999, "Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on \$1 million. No, I know I could. I guarantee that."

In addition to investing in less popular corners of the market, I believe that we also have a two other advantages: the stability of our capital and our small team. The stability of our capital comes from our investor base (I am not pulling my own money and while I cannot predict much about my wife, I think we are good there as well). In addition, our lockup allows us to invest with a longer time horizon in lower liquidity names than would be prudent in a different situation. We are thus allowed to engage in time arbitrage and buy into situations even when the financials are messy – because we are not myopically focused on the next quarter. Another area of differentiation from many funds is our investment process. We are not trying to out resource larger funds. From an investment decision perspective, our “weakness” of not having a large team of analysts and portfolio managers becomes a strength. While a diversity of opinions can be of benefit, are better decisions really made by committee? When I look at the investors who I respect most from a process and results perspective (Buffett and Pabrai), they don't employ analysts and are the sole decision makers. They may use sounding boards such as Munger in the case of Buffet and Spier in the case of Pabrai, but at the end of the day, the investment committee does not exist and the pool of analysts and specialists do not exist. It is not because they cannot afford a bigger team, rather they believe a more complicated process with more players will yield inferior results. In general, people want to see teams of people, and the conventional wisdom is that two is better than



one – and three is better than two. I think that our structure of a lone individual, assuming it is the right individual, is the right answer. Again, our perceived weakness is actually our strength.

Given the factors cited above including where in the market we are investing, the stability of our capital, and our longer time horizon, give us a very good chance to continue to outperform the S&P 500 going forward. However, I also think that “can we outperform a given index?” is ultimately the wrong question. I think a better question is: Can we continue to make money over the long term? Not every month, not every quarter, and not even every year – but over the long term?

The short answer, is yes, I believe that we can make money over the long term. Ironically, I believe that much of the opportunity to make money in the markets moving forward will be created by a narrowing of investor focus, increased use of quantitative strategies, and migration towards index funds. These trends are only helpful in the types of investments that we make. Spinoffs tend to fall outside of large indices like the S&P 500 and are not included on day one. In fact, index funds can be forced to sell the smaller spinoff, creating downward pressure and a better entry point. Even more important than the dynamics caused by index funds, issues such as management incentives and opportunities for margin expansion are not factored into indices or most quantitative strategies. “Misleading balance sheets” have been a very fertile hunting ground for us in the past two years.

As long as companies are forced to comply with GAAP accounting and sell side research is incented to cover companies with the greatest fee-generating potential, I believe there will be opportunities for stock picking. Since we are concentrated and with low turnover – we really only need a couple of good ideas a year – in a universe of more than 10,000 names, I like our chances. My money remains on David over Goliath.

TOP 5 NAMES

You will recognize several names in the top five holdings. Over the course of the quarter, we added modestly to Fortress when it dipped below six dollars and ChipMos when it pulled back despite recording double-digit revenue increases, a share buyback, and margin expansion. The only new entrant to the top five holdings that we have not discussed in previous letters is Fiat



Chrysler. We have been involved in Fiat for a couple of years in different ways. We started by purchasing a small position in Exor, a holding company of the Agnelli family which traded at a 30% discount to the value of Exor's public market holdings which included shares of Fiat and the Italian soccer team Juventus. When we first became involved in Fiat, the company did not have full ownership of Chrysler, but there was every indication that Chrysler (Jeep, Dodge) was a very healthy business – and there was a path towards full ownership. We have added to our holdings as the path has become clearer and Mr. Market has provided opportunities. For example, we added when the deal to acquire all of Chrysler was announced, and we added when the shares pulled back as part of a process to list in the United States created an arbitrage opportunity. Fiat Chrysler has had 55 months of increasing year-over-year sales, a strong product lineup, an upcoming spinoff of Ferrari, very ambitious growth plans for Jeep, Alpha Romeo, and Masseratti – and, most importantly, a world-class CEO, Sergio Marchionne. Not only did Marchionne recognize the opportunity in Chrysler and put together what proved to be a very favorable deal and has operated in a very share holder friendly manner at each step along the way.

Fortunately, Fiat has appreciated significantly; we have a cost basis of €6.70 and it has grown into a top five position. There are several remaining catalysts in the years ahead, including a spinoff of Ferrari, and a debt restructuring to access Chrysler's ring fenced cash that is possible with the completion of the merger between Chrysler and Fiat. At the end of the day, Fiat is a turnaround story with an impressive CEO who thinks about allocating capital and shareholder returns in a very refreshing way for the car industry. The strengthening consumer, lower gas prices, and product launches should all benefit the company, which is stuck in the auto industry – the biggest strike against the company. For the non-car enthusiasts among us, I recommend that you spend some time on the internet looking at the Masseratti lineup, including the expected launch of an SUV and a beautiful new sports car called the Alfieri. While Maseratti is not the most important piece of the growth story, they are very high-margin cars and a piece of the turnaround puzzle.



Company	Ticker	Description/Thesis
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 more than 50% of the common shares. There is also significant upside from performance fees on the \$62B in assets under management. The company's move towards raising "permanent" capital through publicly listed vehicles is a very positive development as it eliminates the need to return funds at the end of a fund's life. They are well positioned in health care and transportation to raise large sums of capital over time.
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 10%+, expanding margins in their LCD business, a modest stock buy back, and capital expenditures in line with depreciation for the foreseeable future. Over the next six months the company will attempt to further 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. This will likely be accomplished with a large buyback and a conversion of NASDAQ shares to an ADR for the Taiwan listing. This is a healthy business that now has a strong balance sheet and an opportunity for earnings growth and multiple expansion through a primary listing in Taiwan.
Fiat Chrysler	FCA (BIT)	An auto manufacturer undergoing a turnaround and an expansion led by a world class CEO with strong capital allocation skills. The company has a robust product lineup including model refreshes and line extensions. There is an upcoming spinoff Ferrari and a longer term opportunity to reduce borrowing costs as Chrysler debt is repaid which "ring fences" Chrysler cash.
American International Group Equity and TARP Warrants	AIG	A leading insurance firm trading at 70% 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.
RIB Software	RSTA (DE)	An underfollowed German software firm focused on commercial real estate construction. The firm has a very high value proposition for clients reducing both construction time as well as costs. The company has a strong base of recurring revenues and a history of profitable growth. While growth and returns will likely be very lumpy, this company has the potential to be a "multi bagger". This last quarter the company signed their biggest contract in the history of the company. The financial impact is yet to be seen in the results.

RECENT EXITS

The fund exited a small position in Harmonic (HLIT) at a loss and took some gains in Straight Path (STRP) that had more than tripled in value. Straight Path remains a significant position, but is no longer in the top five.

SHORT SIDE

The short side remained an area with limited activity focused primarily on indices. We covered our short of a technology company facing virtual obsolescence and took the tax loss, and we covered our short of a web-based business with a structurally flawed business model that loses more money with each additional customer locking in a small gain. We remain short a very highly valued slow-growth organic supermarket chain (not Whole Foods), and an English Soccer club with a demanding valuation. We initiated a short in a holding company selling at a premium to its



holdings (a rarity) that is exposed to oil and gas. This short has not reacted as violently to the downside as most names in the sector, so, while modestly profitable, there may be more upside ahead. The individual company short positions remain very small, with no single short position being larger than 2% of the overall portfolio.

ALIGNED INCENTIVES

As you know, unlike most funds, we charge no management fee. However, our offering document, does allow for the fund to recoup operating costs such as our fund administrator, tax preparation, and research related costs. For 2015, just like 2014 – we will be waiving all of those costs and I will assume them. As a limited partner, you will continue to pay the incentive fee – but only on returns above 6%. The only other expenses will be trading related (commissions) and any interest charges that the fund incurs. Excluding the incentive fee, I expect the expense ratio for the fund to be below 10 basis points (1/10 of 1%) for 2015. Like last year, I will only make money if you make money. Our interests are 100% aligned.

OUTLOOK

I have been surprised by the precipitous decline in oil prices, but more by the weakness in equity markets being attributed to the weakness in oil. Fortunately, we are not forced to speculate on the price of oil, and have not, but I do believe it will ultimately be a benefit to the U.S. economy and much of our portfolio. Yes, there will likely be some job cuts in the oil services sector and some secondary effects of reduced drilling activity, but we are a net importer of oil and the decline in gas prices and eventually airline tickets and a whole host of petro-intensive industries will be a net savings to the American consumer. I see continued strength for the U.S. economy in 2015 – but more importantly, I see little correlation between the performance of the companies we own and the overall economy. Our stories should play out if the economy is growing at 1%, 2%, or 4%. The tiny differences in macro outlook that pundits obsess about should not matter. Our theses will be right or wrong but not because of a macroeconomic headwind or tailwind. Each stock we own has its own story, none of which are reliant on rapid economic expansion or the Fed raising rates, cutting rates, or leaving rates the same. Here is to a few of the stories playing out in 2015. As I ended my last letter ... We will have down quarters and years, but I remain optimistic. The



fund remains by far my largest personal holding, so I am eating my own cooking every single day.
Thank you for the opportunity to manage your assets alongside mine and my family's.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott Miller".

Scott Miller



VECTRUS (VEC COST BASIS \$24.70)

Vectrus is our first-ever spinoff of a spinoff – or spinoff squared if you will. Vectrus was spun off from Exelis, which itself was spun off from ITT in 2011. There were some interesting spinoff dynamics at play that can create some selling pressure. For example, for every 18 shares of Exelis owned, one share of Vectrus was received. Thus accounts are left with small stub positions, which tend to be sold. At the time of spinoff, Vectrus was approximately 1/15 the size of Exelis, so its much smaller capitalization could be outside of the mandate of certain Exelis holders, again leading to selling pressure. There were also some management incentives during the spinoff process to depress the share price and outlook. Management incentives (options) were not given a strike price until after the spinoff occurred. As a result, management benefited from a low initial stock price because their options were based off the low stock price.

The more important longer-term question is: What does Vectrus do? Vectrus is in the defense industry and is a service provider to the military. Vectrus has long-term contracts to provide a variety of services, primarily to the Army. The services fall into three broad buckets. The first is infrastructure asset management. For example, at an Army base in Kuwait, Vectrus provides full-spectrum life support and base operations services, including transportation, logistics, public works, information management, medical support services, range operations, and security, fire, and emergency services for all U.S. Army facilities in the Kuwait Area of Responsibility. A second business line is information technology and network communication services. For example, in Qatar, Vectrus provides network & systems management, communications O&M, network defense and information assurance services to support U.S. Army, USARCENT, and USCENTCOM requirements. The third line of business is logistics and supply chain management services. For example, at the Maxwell Air Force Base in Alabama, Vectrus provides services such as facilities, communications and information technology, custodial services, emergency management, energy management, engineering, environmental, site maintenance, survival equipment services, human resources, community services, transportation, supply, fuel services, and airfield management. Within logistics and supply chain management, Vectrus makes sure that the Army bases in the Middle East have toilet paper and other supplies. While not glamorous, it has to be done – and it turns out that logistics support in Kuwait and Qatar is a \$545M contract.



The bear case for Vectrus is that it is a shrinking business that is seeing a stark decline in its Afghanistan business. The President is committed to withdrawing troops from Afghanistan – and business will be declining. There is no expectation for Afghanistan revenue post-2016. Thus, in the short term, there will be both revenue and earnings declines as Afghanistan needs to be replaced. A second criticism of Vectrus beyond its geographic concentration is their customer concentration – currently more than 90% of revenue is from the U.S. Army.

Fortunately, as shareholders, there is also a more bullish framing for Vectrus. This is an asset-light business with reasonable barriers to entry and highly recurring revenues. Yes, Afghanistan contracts will be going away, which is a negative, but on the positive side, those were contracts that were won in the first place. It is better to have won contracts and have the United States withdraw from a war than to have never won the contracts at all.

According to the spinoff road show presentation, the Vectrus backlog of business is shrinking – which does not portend well for future revenues and is consistent with the disappearing Afghanistan revenue. The backlog was presented as declining from \$3.4 billion in 2012 to \$2.4 billion. The spinoff roadshow presentation prepared by management with incentives to depress the share price until options were granted did not include Q3 wins in the backlog calculation. When the \$975M is added to the \$2.4B backlog, the business starts to look a lot healthier – in fact 40% healthier after adding in an additional \$411M contract for Thule air base in Greenland. Yes, Afghanistan is shrinking, but the company has added \$1.4 billion to its backlog since the September roadshow. This team won the Afghanistan contracts, which are unfortunately rolling off, but they are more than replacing them. This showcases the underpinnings of a healthy growing business – not a melting ice cube.

The contracting process is an interesting one that creates barriers to entry and limits potential competition. The breadth of activities covered under the contracts tends to be very broad. Bidders have to prove that they can hire and execute on services ranging from logistics to fire to medical services. The employees hired typically require security clearances, which are generally given to entities already providing base services. You also have to be both the low bidder and credible. Credibility rests on having systems and a track record to handle all of the tiny details. Outsourcing



makes no sense if the services are not delivered. For a new entrant with the lowest price, there may be risk adjustments that make the bid no longer competitive. As a business, contracting for base support is does not have the barriers to entry as say a payment processor like Visa – but they are higher than may appear on the surface. These contracts are generally multiyear in duration and the incumbent is significantly advantaged in the rebidding process where “if it ain’t broke, don’t fix it” mentality can be applied. For example, Vectrus (and its predecessor Exelis/ITT) has had a contract to support the Maxwell Air Force Base for 50 years.

Vectrus has a number of potential catalysts in the upcoming year:

- 1) The company has a very large pipeline of pending business with more than \$1B of contracts pending award. These are competitive situations, but contract wins would be beneficial.
- 2) The company has hired a strong investor relations champion with experience as a sell side analyst covering defense industry stocks. He is well-positioned to educate both buy side and sell side analysts.
- 3) Over the course of the year, the company will likely benefit from multiple expansion as the growth profile of the company becomes clearer and there is better understanding of the one-time nature (spinoff costs, severances, etc.) that are depressing short-term earnings as well as earnings growth.

With Vectrus, there are 10.6 million shares outstanding. At the end of the third quarter, there was \$140M in debt and \$99M in accounts payable – which is almost offset by \$42M in cash and \$188M in receivables. Effectively, we are looking at the operating business without making substantial adjustments for debt or excess cash. The company could support significantly more debt given the government contracts and the stability and visibility that they provide. Vectrus has virtually no credit risk as the customer is the U.S. government, which can continually print money. While there are pressures on defense budgets, outsourcing is not going away. It allows the government to shift head count. At a high level, we have contracting defense budgets and a withdrawal from Afghanistan as headwinds balanced by a history of winning contracts. The company has guided to between \$2.70 and \$2.90 in earnings. As we have seen, there have been some incentives to “sand bag.” Even at current earnings, the company trades at less than 10X earnings, which is



hardly a demanding valuation. As the earnings picture improves and the backlog comes on line, the share price will likely continue to rise in 2015.

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