



July 2018

Dear Fellow Investors,

The fund appreciated in excess of 1% for the second quarter, net of all fees and expenses, and was up approximately 9% through June 30th. Your statement from SS&C will have a quarterly return with two decimal places of precision – and I believe it to be accurate to the penny – however, you should know that these “precise returns” could have been different by multiple percentage points in either direction if the quarter had ended a few days earlier or a few days later. I continue to encourage you not to focus on the quarterly or even annual returns as we will have down months (like June), down quarters, and down years. With a little patience and a little luck, we can produce attractive five-year returns. For the most recent five-year period, Greenhaven’s net¹ return to investors is in excess of 180%.

Please take note: over the first six months of this year, we have moved a substantial number of limited partners from Greenhaven Road Capital Fund 1, LP (a 3(c)1 fund) to Greenhaven Road Capital Fund 2, LP (a 3(c)7 fund). While the two funds have separate regulatory exemptions, they have identical investment thesis and therefore should have, excepting timing differences resulting on when Greenhaven Road Capital Fund 2, LP was created, similar returns. We expect that the funds will have similar returns on an ongoing basis and therefore will reference one fund, as it relates to performance, in future quarterly letters.

The creation of Fund 2 allows us to accept new capital and new limited partners on a measured basis (we will continue to use a waiting list, if necessary). We are not accepting any additional capital for August, but please email Ally at InvestorRelations@greenhavenroad.com for September and beyond.

OWN GOALS

One of the most difficult moments in a soccer game is an “own goal” – that is, when a well-intentioned player inadvertently scores a goal on his own team. This typically happens from a deflection, a pass gone awry, or a defender’s misguided header into his own goal. When an own goal occurs, the television producers typically show the offending player hanging his head, and then the coaches grabbing their heads before clapping vigorously in an effort to support the team and push them to “get back the goal.” The most despondent images are usually the “super fans” whose lucky jerseys have let them down.

This past quarter, we had the equivalent of two “own goals” occur in our portfolio. Investing and business are hard. Every company, no matter how wide the moat, has a series of competitors who wake up in the morning trying to figure out how to take market share, how to innovate, and how to gain efficiencies. This makes “own goals” all the more frustrating. Countless times, these have left me muttering some combination of, “What were they thinking?” “Seriously?” and “Ugh.” Being a fan of a team is often a lifelong commitment passed to future generations. Fortunately, being a shareholder is far more transient. Yes, we aspire to hold shares for 20 years, but we don’t aspire to hold all shares for 20 years. As such, our response to the two recent “own goals” thus far has been to remain invested in the companies.

¹ Net returns (i) are representative of a “Day 1” investor in Greenhaven Road Capital Fund 1 LP, (ii), assume a 0.75% annual management fee, and (iii) assume a 25% incentive allocation subject to a loss carryforward, high water mark, and 6% annual (non-compounding) hurdle. Fund returns are audited annually, though information contained herein has been internally prepared in order to represent a fee class currently being offered to investors.



The first “own goal” occurred with our largest holding, Fiat Chrysler (FCAU), and ironically has come from the U.S. government, not even management. FCAU shares declined approximately 8% over the course of the quarter. Ascribing a decline in share price to a single factor is typically oversimplification, but in the case of Fiat Chrysler, a large portion of the decline has been caused by the imposition of tariffs – particularly those on both aluminum and steel, plus the fear of tariffs on automobiles themselves. Each Trump tweet threatening Canada, Mexico, China, Asia, or Europe is met with a response along the lines of, “we don’t want a trade war, but we will respond to your tariffs with our own.” The market reacts negatively to the mutual saber rattling.

Thoughtful trade policy has not been conducted through Twitter historically, and these “trade wars” thus far are largely possible tariffs that are being instigated by the President and a small group of advisors. The counterparties (other countries) in these wars are not unsophisticated. When they choose to retaliate, they often pick products that are produced by the President’s political base. In the end, I believe that the “trade wars” will be “trade whimpers” as the actual tariffs and their impacts will become quite muted because the conventional wisdom that open and free trade is mutually beneficial still holds. Eventually, our bombastic threats will subside, and the United States will receive some concessions. In other words, I consider talk of trade wars to have a temporary, non-fundamental, negative influence on share prices. The actual Fiat Chrysler business remains quite strong (discussed in greater detail in the Top 5 Holdings section), and we have taken advantage of the price decline to buy additional shares under the assumption that world trade is not about to be restructured.

Unlike the first “own goal,” which was outside of the hands of company management, the second is directly attributable to management. The Indian OTA (online travel agency) Yatra Online, Inc. (YTRA) has been successful on just about every measure – except share price. The company has consistently grown revenue and exceeded analyst estimates, made an acquisition that makes strategic sense, and is well-positioned with a greater focus on the corporate rather than the consumer travel market, as corporate travelers are the most likely to be the first consumer travelers. The Indian travel market has strong secular growth trends with the overall market growing in the teens, online travel growing more quickly, and Yatra growing even more quickly still. This past quarter Yatra grew their revenue-service costs at 40%. Despite this growth, YTRA shares continue to trade at a fraction of the market leader, MakeMyTrip (MMYT). For example, Yatra sells for less than 1.5 EV/Sales and just over 1XEV/Forward Sales while MMYT trades at 5X/EV Sales and 4X EV/Forward Sales.

In mid-June, YTRA shares were trading for \$7.40, which was substantially below the \$10 at which the SPAC transaction took place, but also substantially off the \$5.63 lows earlier in the year. The company had approximately \$50M in cash, representing at least a year of runway or perhaps longer depending on the level of discounting from competitors and the targeted growth rate. Even with an acquisition-related payment coming due, it is fair to say that the company did not have to raise money now. Management had time and options.

Suffice it to say, I was surprised to see Yatra do a secondary offering that netted them \$5.15 per share (after broker commissions) and sold 1/3 of the company. The timing, pricing, and size were all suboptimal in my opinion. When I saw the offering, I texted a fellow shareholder the technical term “barf” and received a response of “head scratcher.” To be fair, there is some logic to the transaction. Yatra chose Citigroup and Jeffries to handle the secondary offering with the expectation that the “bulge bracket” firms will pick up coverage and shed light on the valuation discrepancy. This move just strikes me as an incredibly dilutive way to get research coverage, thus the categorization of “own goal.” Most of Greenhaven’s exposure to Yatra is through the warrants, which were less



impacted by the transaction. In an attempt to take advantage of this “own goal,” we did purchase some incremental common shares at a little over \$5. That being said, I wish the company had raised less money at higher prices or, even better, issued a convertible preferred bond. For months, we have been acquiring shares in SharpSpring (SHSP), a SAAS company that similarly wanted to extend their runway. When SHSP shares were at \$5, the company issued convertible preferred debt at \$8. Let’s just say shareholders were way more enthusiastic about the SharpSpring solution than the Yatra solution.

TOP 5 POSITIONS

There was one new addition to the top five holdings this quarter, though we sold no shares in the companies that were in the top 5 last quarter. Changes were instead a function of additional purchases and share price fluctuations. The new position, Ashford Inc. (AINC), is discussed later in the letter (readers can also refer to Greenhaven’s Q1 2018 letter for further background), and the remaining four companies should be very familiar at this point.

Fiat Chrysler (FCA) – Fiat’s long-time CEO, Sergio Marchionne, passed away just this morning (as I write this) after becoming gravely ill due to complications from a shoulder surgery. I have studied Sergio Marchionne for the past five years. I have read books, articles, and interviews; I have parsed his words with fellow shareholders. There is no other way to say it: he was the best. He got it. He was a straight shooter; he played the long game; he addressed issues head on; he admitted mistakes; he consistently exceeded expectations. Sergio had been planning to depart Fiat at the end of this year, and the company had already shored up its leadership and planning. After the onset of his illness, Sergio was replaced by a tenured lieutenant who had run the Jeep and Ram division. From a financial perspective, I think our Fiat investment will continue to appreciate with the strategy and foundation put in place by Sergio and his team. From a personal perspective, I have lost a hero.

Here are a few facts. The Chairman and his holding company, Exor, own approximately 30% of the company. FCA is in a net cash position. In June, U.S. sales were up 8% year over year, including a 1% reduction of marginally profitable fleet sales and strong increases in higher margin jeeps and trucks. In Europe, sales are down by 2% in terms of units, but the mix shift away from low margin Fiats and Lancias to high margin Jeeps and Alpha Romeo should be accretive. All backward-looking data points are positive.

The company has indicated it will spin off or sell their auto parts business, Magnetti Morelli, this year. Management has been stingy with information so far, but the unit is likely worth north of \$4 per share. I suspect that the parts business will ultimately be sold off rather than spun off, as FCA management has high return uses for the cash, such as building a captive finance company or executing a buyback. In fact, I believe that the sale of the parts business is likely a precursor to the sale of the entire company. John Elkann, who runs Exor, inherited Fiat from his grandfather. Unlike his industrialist grandfather, Elkann has shown a preference for asset light businesses like media and reinsurance, and premium brands such as Ferrari. We are several years into an economic cycle and the fruits are evident in FCA’s balance sheet and earnings power. There are synergies to be realized from combining with another manufacturer. Now is a logical exit window for Exor. The company will not be given away, but a reasonable offer would receive very serious consideration.



How might this play out? Looking ahead just a few months, there is a likely scenario where Fiat Chrysler will be sitting on \$7+ of net cash from the sale of Magnetti Morelli and the ordinary cash generation of the business. According to the five-year plan, which seems to be conservative, the company (ex-Morelli) will generate on the order of \$4 in earnings per share (EPS) in 2019. With the current price hovering around \$17, this would be a healthy business with a strengthening balance sheet selling for 2.5X growing earnings (ex-cash). A lot of destruction from trade wars is baked into the current price. If and when these fears dissipate, there appears to be significant upside in FCA shares. If and when a sale is negotiated, given the potential for significant synergies – at least some of which should accrue to the sellers – there should be even more upside. An 8% price decline on the quarter is not fun, but we are not playing for 8% here.

ETSY (ETSY) – All other Etsy news pales in comparison to their decision to raise prices, increasing the per-transaction fee from 3.5% to 5%, as announced this quarter. It is rare for a company to introduce a near 50% price increase and still be unlikely to face a significant decline in demand. As this is a platform business, virtually all of the incremental revenue could drop to the bottom line. Management has pledged to make significant investments in marketing and product so there will not be an explosion in profitability, but we should continue to see growth in buyers, frequency of purchases, conversion rates, revenue, and ultimately profitability.

TripAdvisor (TRIP) – TripAdvisor remains the dominant travel research company and maintains the largest installed base for travel apps. The company continues to make progress on their in-destination business for local tours and activities, and has been optimizing ad spending on the hotel business to improve profitability. We continue to hold the shares as it is entirely plausible that TripAdvisor can improve their monetization rates on the \$1.3+ trillion in travel spend it influences.

EnviroStar (EVI) – EnviroStar has had a quiet year so far, announcing only one acquisition to date. As discussed in previous letters, CEO Henry Nahmed has articulated a buy and build strategy. He has the currency with his stock to make the acquisitions in a very accretive manner. Time will tell, but I suspect the back half of the year will see significantly more activity on the acquisition front.

Ashford Inc. (AINC) – Ashford Inc. is the manager of two hotel REITs and has a series of investments in the hotel space. The company is the brainchild of Monty Bennett and, as detailed in our Q1 letter, is the optimal place to invest within the Ashford company complex. Monty has built a very scalable business that should be able to monetize the growth of the underlying REITs, Ashford Trust and Braemar (formerly Ashford Prime), which should be the largest driver of the financial success of Ashford Inc. On a positive note, Ashford Inc. announced an innovative financing program that uses excess cash at the AINC level to help finance new hotel purchases at the Ashford Trust REIT.

My concern, however, is that I may have committed an “own goal” here for the partnership by underestimating Monty Bennett. When Ashford Inc. was spun out of Ashford Trust and Braemar (Ashford Prime), Monty took all of his deferred compensation in Ashford, Inc. stock and has since aggressively granted stock options and purchased shares in the open market – he clearly wants to own AINC. I knew that the company had an unconventional board of directors with several members lacking any other public markets experience. One member runs two restaurants. Another closed a golf business to become an insurance salesman. A third is involved in a printing business that historically does business with Ashford



and the underlying properties. On paper, it appears to be a group grateful to Monty for their board positions and compensation vs. a group who might hold Monty in check. As we were acquiring our shares, I also knew that it was likely that Ashford Inc. would buy a project management business from Monty and his father. The high margin targeted business, Remington, manages renovation projects for hotels. Ashford had tried to buy the business before, and the most recent iteration of the deal was announced in April. Unfortunately, as currently conceived, shareholders will not be allowed to vote on the transaction, which will ultimately increase the AINC share count by more than 50%. In my view, if it is a good deal, let shareholders vote. Ashford also surprised shareholders when the company recently disclosed the intent to buy a second business, also from Monty, related to property management.

In my opinion, the company should address its massive and easily fixable governance discount. The value of the second potential acquisition (making a few assumptions) will only modestly increase the overall Bennett family ownership of Ashford Inc. I thought we were at a point where it was in everybody's interest to fix investor concerns and let the beauty of Monty's creation shine, but it appears that we are not there yet. AINC's share price could easily double by addressing these concerns and treating shareholders fairly.

As such, I am evaluating our options. Greenhaven is a substantial shareholder and has the resources to become more substantial, if desired, and we are in contact with other shareholders. I know that our LPs collectively manage billions of dollars and have hundreds of years of experience. I am open to thoughts, resources, and strategies on how to best move forward. The core business is incredibly resilient, scalable, and poised for substantial earnings growth. Its issues are fixable. To mix sports metaphors, I want to realize the home run potential, not the own goal potential.

SHORT INVESTMENTS

We ended the quarter with limited short exposure. The fund remains short ETFs targeted at short-term traders, a bond fund where the underlying interest rates received relative to the risk assumed do not pass my common-sense test, and two indices as very modest hedges.

QUANTITATIVE VS. QUALITATIVE

I recently did a short interview with SumZero ([linked here](#)), during which I was asked about quantitative investing. As we have not discussed quant investing extensively in these letters, I wanted to briefly lay out my sentiments. Quantitative strategies are typically very scalable, with a broad set of holdings and high turnover. They are also typically backward-looking since their forecasting relies on historical data. Our partnership is effectively the opposite of a quant manager. Yes, we look at numbers and valuations and ratios, but only in a much larger context. We are far more reliant on the qualitative than the quantitative.

One of my favorite fund managers to speak with is Jeremy Kahan of North Peak Capital. I respect him so much that the Greenhaven Road Partners Fund is invested in North Peak, which he runs with his brother Michael. In my opinion, Jeremy has an uncanny nose for value in the technology space. He is not a traditional value investor buying at a discount to book value or a low P/E ratio; he is a fundamentally-driven investor looking for asymmetric situations with underappreciated assets and substantial upside. Our conversations tend to be efficient. This past quarter, after exchanging some pleasantries, Jeremy said, "have a look at Yelp. They are under-monetizing and



changed the contract terms, but investors aren't appreciating the significance of the change." Let's analyze that thesis for a moment, noting that it is one sentence long and entirely forward-looking. How many quant models will pick up on a change in contract terms before they flow through the financial statements? How many index funds care about monetization rates or contract terms? I suspect that they are not having the same types of conversations at Vanguard, whose index funds are required to hold a set number of companies based on market capitalization. We are just playing a different game. I like ours better.

NEW INVESTMENT – YELP

There are a number of parallels between Yelp (YELP) and TripAdvisor (TRIP), another holding of ours. Like TripAdvisor, Yelp helps connect consumers to businesses. Like TripAdvisor, consumers can make more informed decisions based on ratings and reviews from other consumers. Like TripAdvisor, the underlying Yelp community appears quite healthy with cumulative reviews up 22% y/y. Like TripAdvisor, Yelp is undergoing business model changes that have distorted recent financials. In late 2017, Yelp completed the sale of its money-losing but revenue-generating "Eat24" food delivery business to GrubHub. GrubHub paid over \$250M for Eat24 and now integrates with Yelp, providing high margin transaction revenue whenever Yelp's platform leads to an Eat24/GrubHub order. In this past quarter, revenue growth for Yelp was only 12%, but when adjusted for the sold food business, revenue was up over 20% on an apples to apples basis. The second change to Yelp's business model has been underway for more than a year as the company shifts towards a more flexible contract model that allows businesses to turn on and off their ad spending as they see fit. Yelp's previous twelve-month (annual) contract model was a vestige from when the primary competition was the Yellow Pages, which required a twelve-month commitment from advertising customers. Getting a small merchant to sign a yearlong contract and commit thousands of dollars of spending is no small task, requiring an extensive sales force. By shifting to a more flexible model, Yelp is trading the certainty of annual contracts for lower barriers to adoption with increased trial advertising by businesses. As an indicator of success, advertising accounts were up 27% year over year for Q2.

Similar to TripAdvisor, Yelp influences hundreds of billions of dollars of consumer spending but is under-monetizing their traffic. One promising area is their "Request A Quote" feature, which allows a consumer to request quotes from multiple vendors without leaving Yelp's site or app. If a consumer needs to power wash a 500-square-foot deck, instead of reaching out separately to 5 contractors and describing the project 5 times, they can now write a single project description, review prospective vendors (including their average response rates and times), and request a quote from up to 10 at once. It is simply a better way to request a quote from the consumer's perspective, and it is efficient from the vendor's perspective as well. Clearly, Yelp will never extract the full value provided to home services companies, but, over time, high margin and high utility initiatives like Request a Quote are a promising step forward.

Yelp is led by its founder who owns \$100M worth of stock. The company trades at less than 2.5x EV/Sales and is buying back stock, growing the top line at 20%, and pulling several levers to improve monetization and engagement. They should continue to benefit from operating leverage as revenue grows. The current balance sheet has \$800M in cash, which allows the company to repurchase stock or make strategic acquisitions. Like all of our favorite investments, Yelp has the opportunity for revenue growth, margin expansion, and multiple expansion.

NEW INVESTMENT – CHICKEN SOUP FOR THE SOUL ENTERTAINMENT



When I am looking at an investment, I try to understand the motivations of the different players: the “why.” After a certain point, most leaders are driven by something more than the desire to be wealthy. For example, Interactive Brokers’ Thomas Peterffy is a billionaire twenty times over. He is not waking up and going to work for the paycheck anymore. He wants to build the largest low cost brokerage company in the world, and he wants to do it his way. He is evangelical, wanting to provide the best all-in execution prices for clients and without selling order flow. Given that his motivation is to be the biggest, not the most prestigious or profitable, it makes sense that IB is aggressive on pricing for trades and margin loans as a means to gain market share. It makes sense that he does not dividend out excess capital, of which he would get 70%. He wants to grow Interactive Brokers to the point that the excess capital is no longer excess.

This past winter, I went to a sell side conference where dozens of companies presented over the course of the day. These conferences typically are held at hotels and have three to six conferences rooms going at a time. I usually attend planning to see one or two of the companies that we already own. It is an easy way to meet with management, see fellow shareholders, and hear the questions and concerns of other investors. This approach typically leaves schedule gaps for me to just go listen to other companies. During one of these gaps, I was introduced to Chicken Soup for the Soul Entertainment (CSSE). In the beginning of the session, I was working on my laptop and barely listening. By the end, I was focused on the presentation and not working at all. So what caught my attention? As CEO Bill Rouhana laid out his strategy and answered questions, I was struck by his approach. This was not a media CEO in pursuit of hits at all costs. He was far more balanced and runs his media company the way that I would, making a series of asymmetric bets that could lose a little but make a lot. This set me off on a diligence path to try to understand, who is Bill Rouhana? Why was he running Chicken Soup for the Soul Entertainment?

It turns out, Bill Rouhana was formerly the CEO of a telecom company that blew up spectacularly in 2001. Winstar had raised money from sophisticated investors such as Microsoft, Credit Suisse, and the private equity firm Welsh Carson, and had a peak market cap of approximately \$10B. The company ended up in bankruptcy at least in part because Lucent Technologies (which also went bankrupt) refused to make good on a financing commitment that Winstar was counting on. Bill Rouhana went from being a boy wonder to dealing with shareholder lawsuits and navigating bankruptcy. We can argue about the viability of Winstar and the wisdom of their financing strategy, but Bill Rouhana undeniably had an ability to capture the market’s attention and attract sophisticated capital at premium valuations.

In 2008, Bill and his wife, a former fund manager, purchased Chicken Soup for the Soul, which is best known for publishing hundreds of “feel good” books over the last 25 years. Since then, Bill improved the publishing business, built a large and profitable pet food business, and began a video entertainment business. The bulk of the company remains private, so it is difficult to quantify the exact level of success, but it is undoubtedly going better than Winstar was at the end.

In 2017, Chicken Soup spun off just the video entertainment business and sold 2.5M shares to the public at \$12, raising \$30M. Insiders retained in excess of 70%. In a world flush with private equity money, the company did not have to go public to raise that capital, for which there was no immediate plan.

I believe that Chicken Soup is Bill’s redemption play. Successfully building in the private markets would not suffice. This lens explains going public, the presence at sell side conferences, the structure of asymmetric bets



designed to push the company forward without risking bankruptcy and raising capital ahead of the need. I believe redemption is a large part of the why.

So, besides a redemption-seeking CEO with a history that includes raising hundreds of millions of dollars from sophisticated investors, what do we have? Chicken Soup for the Soul Entertainment started by making television shows, but with a twist: CSSE sponsors pay for more than the entire production of the series because their products are integrated, not merely placed, in the shows. For example, the vacation house rental company HomeAway more than funds the production costs for “Vacation House Potential” on A&E. As a result, unlike most media companies, Chicken Soup makes money on a show’s first run and retains all of the library rights. This year, the company should have six shows, all of which are produced profitably and will build the company’s content library.

The second component of Chicken Soup’s current business is an acquired video distribution unit, Screen Media, with rights to more than 1,200 TV series and feature films. This is a profitable standalone business that fits into a larger strategy of monetizing high-quality television and online video programming that delivers hope, comfort, and positivity.

This brings us to the last component of the current business model, and where most of the next three years’ growth and expansion should occur: online. Right now, CSSE has an exclusive distribution agreement with a digital media company, A Plus (founded by actor and technology investor Ashton Kutcher), which specializes in positive journalism and social change. The A Plus distribution platform provides access to a network of celebrity influencers. Chicken Soup also owns an ad-supported over the top (OTT) video platform (think poor man’s Netflix) called Popcorn Media, where visitors can watch positive programming. Popcorn’s direct-to-consumer online service is comprised of five ad-supported networks with rights to over 3,000 films and approximately 60 television series (representing approximately 1,500 episodes).

The above list of assets probably sounds like a random pile of castoffs, and in many ways, it is. How is this a path to redemption? The play is pretty simple: they have the ability to both produce and distribute content, adding different specialties (e.g. Animals/Pets, Education, Food) and subscription models. They also have the ability to license and acquire libraries. To date, Chicken Soup has made one large acquisition of Screen Media. This was an accretive acquisition at a more than reasonable valuation, resulting in a non-recurring gain on bargain purchase of \$24 million. The company has indicated they will selectively acquire additional content libraries, digital publishers with related content, and standalone video on demand networks. With a \$7.5M line of credit and recent raise of \$15M in debt on reasonable terms, many signs point to an impending acquisition likely related to the online video subscription business. In the 1990s, Ted Turner was the main acquirer of film libraries because he had the best monetization platforms. Chicken Soup for the Soul will not become Turner Broadcasting, but may evolve into an advantaged acquirer with multiple distribution platforms and monetization platforms for online content.

The exact path of growth is unknown as it will be opportunistic – libraries will be bought and licensed and content produced when appropriate. Chicken Soup for the Soul Entertainment has 4M Facebook followers to market to, 2M weekly email recipients, and 25M app installations. Due to GAAP accounting rules, these assets are not reflected on the balance sheet, but they should provide a great launching point for paid services. Over time, CSSE plans to add subscriptions and become a niche OTT provider similar to the Hallmark Channel, which has 200K+ subscribers paying \$5 per month for their OTT offering.



What is known is that insiders own 70% of the company, the business model has yet to be fully optimized, margins should expand as greater scale is achieved, and subscription revenue is layered in. With 11.6M shares outstanding and a sub-\$10 share price, CSSE's current market capitalization is just north of \$110M. The company has guided to \$18M in EBITDA, so shares currently trade for 6X EBITDA. This is a nano cap, busted IPO with no analyst coverage. I think most investors, like me at the beginning of the sell side conference, are barely listening. The more time I spend looking at the pieces and listening to Bill, the more I think he has a chance at redemption here, potentially translating into a multi bagger for us with revenue growth, margin expansion, and multiple expansion.

A FAMILY AFFAIR – THE ANNUAL MEETING

Greenhaven will be having this fall's annual meeting in New York City, likely on Thursday, September 20th. Details will follow shortly on the exact time and location. As discussed in previous meetings and in the previous letter, fellow and former portfolio managers make up the largest constituency of our partnership. I take great pride in having such a sophisticated group of limited partners. Another, pleasantly surprising, theme in the partnership has been father/son duos, where the son is an avid reader, stumbles across our letters, and eventually advocates for his father/family to invest. These relationships are interesting, driven by a mutual desire for long-term risk adjusted returns and inter-generational dynamics where the son is the advocate and expert. We have approximately a dozen "father/son" LPs and were very pleased to welcome our first "daughter" during Q2. So if you look around the room and see a resemblance between two attendees – it is probably because they are related.

OUTLOOK

I remain confused by some of the policy decisions our current administration is making. It strikes me as unusual to cut taxes and raise deficits in a period where unemployment is below 4%. Similarly, provoking trade wars would not be my first agenda item if granted power for a day. That being said, we have a healthy economy and a portfolio of companies that have the opportunity for revenue growth, margin expansion, and multiple expansion over time. We will continue to invest with a long time horizon, and we will continue to invest like it is our own money – because it is. Thank you for the opportunity to grow your family capital alongside mine.

Sincerely,

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

Scott Miller

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