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Tuesday, January 23, 2018

Dear GreenWood Investor:

This past year has been a good one for GreenWood Investors. Not only did our portfolio produce decent returns of 27.0% (24.7% fo the Global Micro composite), but through continuous evaluation and optimization, we've managed to enter 2018 with the most attractive portfolio risk-reward we've ever had. Given this measure has in the past correlated strongly to subsequent performance, 2018 is, not surprisingly, off to a great start.

Exhibit 1: GreenWood's Composite Performance[1] vs. MSCI ACWI All Cap (Net)

	Traditional	Global Micro	MSCI	Correlation
8/1/08-12/31/08	-10.9%		-33.9%	88.6%
2009	155.3%		36.6%	77.7%
2010	28.5%		14.5%	27.3%
2011	-1.0%		-8.0%	68.9%
2012	-5.6%		16.4%	38.9%
2013	14.2%	18.0%	23.6%	70.5%
2014	0.1%	2.0%	3.8%	32.2%
2015	11.2%	11.8%	-2.2%	87.2%
2016	-3.3%	-0.9%	8.4%	86.9%
2017	+27.0%	+24.7%	+24.0%	20.6%
Cumulative	327.3%	66.3%	86.8%	
Annual Compounded Rate	16.7%	10.7%	6.9%	

The returns generated in 2017 were broad-based across the portfolio, with EXOR, Rolls-Royce, Ferrari, Piaggio, MEI Pharma, Bolloré, Whole Foods and Ocado being the most notable contributors. The laggards in the portfolio were led by Flybe, our short in Volkswagen, Telecom Italia and TripAdvisor though none of these positions detracted from performance by more than 2%. We took advantage of the market weakness in Flybe, Telecom Italia, TripAdvisor, MEI Pharma, and even Rolls-Royce to make all of these positions larger, particularly in the fourth quarter. Most importantly, even after the decent performance of 2017, our portfolio's constituents continue to trade at highly compelling valuations, with significant improvements continuing for each one's operating or strategic performance.

We've continued to work on minimizing the impacts of mistakes, of which we had two notable ones in this past year. The first was investing in New York REIT, which generated a realized loss of -15.9%, in line with our original bearish assumptions. One third of the traditional buyers of high profile New York real estate have vanished, and concurrent with a rise in interest rates, have caused property values to decline towards our more bearish assumptions just as the company sold its portfolio. As upside scenarios looked increasingly unlikely, we took the tax loss and redeployed capital into better opportunities. Our second mistake was selling Fiat-Chrysler way too soon. We had always planned on holding its parent company EXOR forever, and had intentionally built a large position in the holding company before our FCA sale. While the risk-reward of FCA worsened, as both the stock appreciated and the operating environment deteriorated, tremendous execution at the company has brought the shares to the upper end of our original assumptions mapped out back in 2011. When we had put an estimated upside potential of over €30 per share (including Ferrari) when the stock was under €4, most thought we were smoking an illegal substance. Not only is FCA is set to deliver and increase its profitability commitments, with a deteriorating auto environment, a merger looks increasingly likely as some of its global peers struggle to cope with a lack of profitable investment opportunities.

Just as important as our results, this year has brought us to an inflection point. We successfully launched our first constructivist coinvestment effort which significantly increased our firm's assets. With this, our engagement with our investments is reaching a completely new level, and our long-term focus and business-building efforts will add considerable upside to this next major investment. It stands at the top of our force-rank list of investable candidates and is the most attractive opportunity we've found since FCA back in 2011. As we look to successfully execute our

[1] Represents GreenWood's Traditional & Global Micro Composites. Performance prior to January 2011 represent the returns generated by the manager prior to founding GreenWood Investors, using the same strategy. GreenWood Investors LLC claims compliance with the Global Investment Performance Standards (GIPS®) and a GIPS-compliant presentation is available on our website (click here for access). **Past performance is no guarantee of future results.**

playbook in conjunction with the company, we are aiming for a similar outcome. Because we are at this important inflection point, your author thought it a prudent time to pause and reflect on where we are and where we are going.

Over seven years ago, GreenWood Investors was created in late 2010 to answer fundamental problems we saw inherent in our industry. Opacity had become the norm, investments received less scrutiny and were less understood. The multiple layers in between the beneficiary and the investment led to a chain reaction of decisions being routinely outsourced to other entities or agencies, resulting in many wondering why they were actually invested in most assets. Furthermore, alternative funds clenched to capital through gates and limited liquidity periods, despite most of them owning highly liquid assets managed for very short time horizons- further damaging the return profile. These systemic issues helped cause the financial crisis of 2008 and led to subpar investment outcomes.

This misalignment of interests between the investor and the manager resulted in asset-gathering firms that structurally produce mediocre returns. Eliminating these “pain points” is especially crucial today, not just for better performance of the portfolio to be realized by the investor (which has historically underperformed the manager), but in order to justify one’s existence in the age of robots and ETFs with virtually no fees.

But eliminating the pain points was only the first step. To produce very favorable returns, we were required to go where there was less competition and where our counterparties were typically acting on emotions, not reason. Being deeply contrarian, a lonely classification in today’s world of unicorns and “disruptors,” required exceptionally deep research in order to ensure our divergent viewpoint was indeed reality.

Yet this research requires a substantial time commitment, and can only be directed towards a limited number of opportunities. In studying the track records of the best investors over time, removing just a couple of these investors’ best bets often results in very underwhelming performance. So we had to balance the need to reduce opportunity costs and increase our idea flow with the demands of an intensive research process. Our ranking framework evolved to both aid portfolio management and prioritize candidates for further inspection. It increased the time we could spend on research, and therefore the quality of the research we produced, which engaged more collaboration from of our network of partners. This, in turn, helped increase the number of opportunities we could consider which, in turn, increased the quality of our portfolio and has led to better investment performance.

Exhibit 2: GreenWood’s Continuously Improving Process

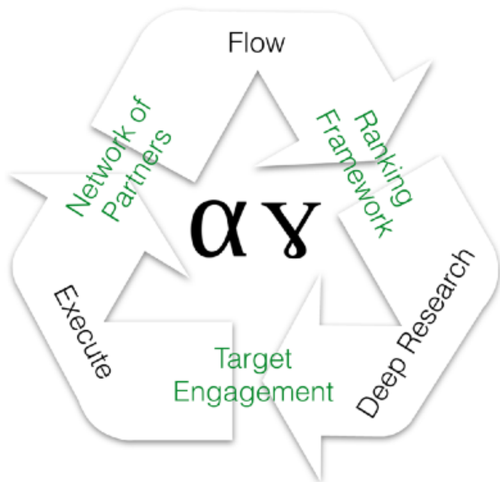


Exhibit 2 shows not just the necessary function of a proper investment management organization, but the attributes in green highlight an area where we continue to differentiate and innovate. Not only does this virtuous circle help us to continuously stack the deck in our favor, but it has led to continuous improvement across the process. Our framework, which breaks down the quantitative and qualitative factors that drive investment performance, allows us to rank opportunities on multiple different continuums. As global investors continue to herd towards investing in “high quality compounders,” our framework has enabled us to find situations ignored by the crowd that have many of the same attributes of the crowded and universally-acknowledged compounders. We have continued to augment and further refine the inputs to this framework. While this framework sounds complex, in essence it is really quite simple. At the end of the day, we are looking for the opportunities with minimal downside, considerable upside and qualitative aspects that will drive the performance to the upper end of that range of possibilities.

As our research efforts deepened, we started uncovering operational and strategic areas where many of our investments could improve. While our scale has been minuscule compared to our peers, we had to let the quality of

the research speak for itself. Not only was some of this research up to the same standards of the best consulting firms (as consultants have told us), but our view is actually better than that of a consultant. We are putting our money where our mouth is, and thinking like an owner. To the extent our research could help our companies perform at the upper end of the range of possibilities, we had a responsibility to engage with these managers. As we have continued to engage, we believe we are adding gamma to our track record. In addition to the market return (beta) and picking market-beating investments (alpha), we are increasingly looking to improve our returns by helping our investments upgrade their own performance through strategic shifts (gamma). Like our investment of Whole Foods had done, while we are cost competitive with our peers, going forward, we would rather innovate on "mix," as opposed to cost.

Our collaborative network of partners has yielded important conceptual and factual breakthroughs on nearly every position we have. We believe that this transparency not only aligns us with our investors, as we are all on the same page regarding the investments, but it has led to further improvements to the quality of the information we are using to make assumptions on this portfolio. Your author continues to be humbled by the quality of our partners, and this great group has enabled us to invert a typical practice in our industry. Typically investors, who by definition are among the savviest and most capable business builders, pay management organizations to manage their capital, which go on to pay "experts," or consultants to advise them on specific industries that their own clients could have advised them on. We have reversed this practice, and expose our potential investments to the scrutiny and critical feedback of the experts we already know in these industries and geographies. As investors, you are also thinking like owners.

Yet, isn't that embarrassing- admitting that we don't know everything? We believe not. An investor admitting he doesn't know everything is key to reducing errors and improving performance. If our research cannot withstand the critical feedback of our investor base, should we be allocating capital to such opportunities? We would prefer to look for more favorable opportunities. It was input from our investor base that led us into some of our most successful investments thus far. Every time we engage with our partners, we increase our flow of information and increase the likelihood that we will upgrade our portfolio and generate better performance, further fueling more partners wanting to join this virtuous circle of continuous improvement. In this age of mass disruption, we believe knowledge is wealth and we seek to accelerate the exchange of this knowledge.

Our engagement with Ford in 2008 fueled our investment in Fiat in 2011 as the company's strategy looked eerily similar to Ford's in 2007-2010. A GreenWood Investor was the first to point this out to us. Then our engagement with Fiat fueled our interest in the EXOR investment. Our engagement with Whole Foods fueled our understanding of the competitive advantages of Ocado. As multiple investors and partners to GreenWood have demonstrated through their own careers, one doesn't need to invest in Amazon to take advantage of the secular shifts occurring in the economy. It's far less crowded and competitive to focus on areas that will not only benefit from these same trends, but perhaps help the legacy disrupted businesses fight back against these forces. Ocado is a very simple way for any legacy grocery chain to defend itself against the coming demise and bankruptcy of much of the sector. Our coinvestment is another firm that is helping to accelerate these trends in an area where it retains sizable competitive advantages.

Our engagement with Rolls-Royce has allowed us to contribute to the company's own margin expansion and helped lead to the acquisition of ITP, just as we had advocated for years before the recent completion. Engagement has yielded very positive effects for our portfolio, and we are very excited to accelerate this with much more significant engagement in our latest investment.

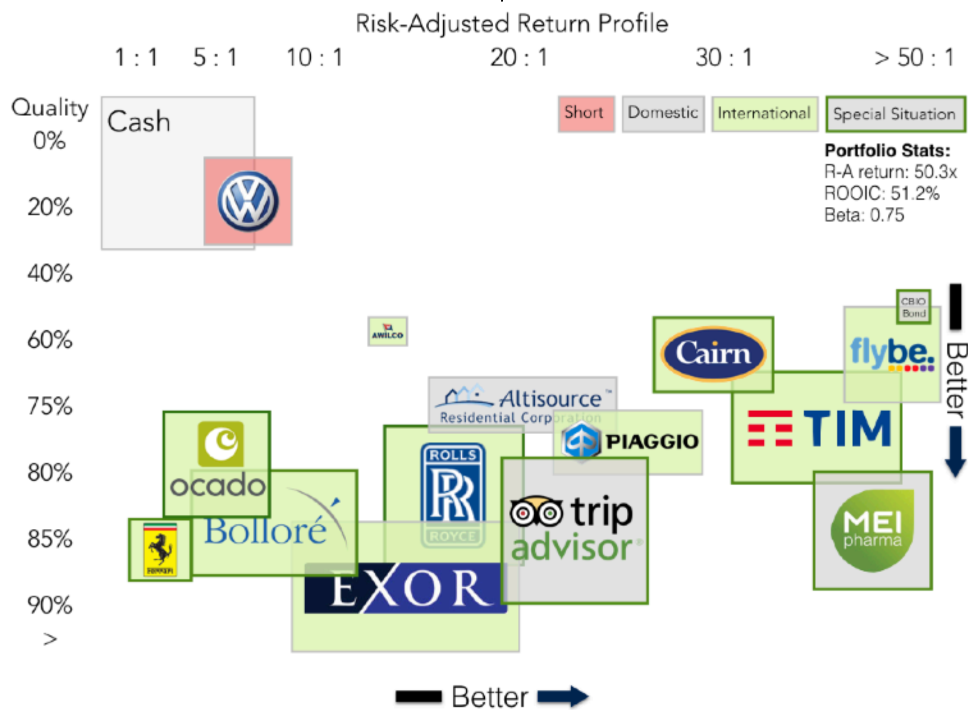
Given our coinvestment efforts are increasing our firms' assets and resources significantly, we are redeploying all resources into efforts to accelerate this virtuous cycle. We have been capacity-constrained on processing all of the idea flow and opportunities available to us. We are adding more talent to GreenWood to help step on the gas when it comes to increasing flow and expanding our research efforts. I look forward to updating investors on key developments here.

As Matt Ridley shared in his wonderful book *The Rational Optimist,* the progress of our civilization has been driven by exchange - be it in trading goods or in sharing ideas. Ridley pointed out that sharing the knowledge of fire and cooked food allowed human bodies to redirect energy away from the stomach towards the brain. This larger brain, in turn, led to the obvious subsequent breakthroughs which have been cumulative and compounded throughout our history. Similar to this simple evolutional exchange, we are excited to announce that starting in April, we'll have an open lunch for our investors, partners, and friends to come any Tuesday or Friday. We look forward to breaking bread and accelerating our exchange. We are also planning on holding very small group discussions on topics that are particularly relevant to our portfolio and our pipeline. While we have a few topics to start us off, we'd love for all of our partners to let us know if there's a particular conversation you believe we should be having.

Jeff Bezos has popularized the notion that each new day for his company is "day one." For GreenWood Investors, we are operating very much as if we have just begun, though we have the benefit of nearly a decade of performance validating our initial efforts. Tremendous effort is required to build a successful investment management business, particularly one that doesn't have a marketing department, has low fees, and doesn't focus on short-term performance. If we had just set out to create the standard investment manager, the result would not have been worth our investment in capital, energy and time. The end result was too unappealing, and so we sought to do things differently. And while today, many find us to be very different from the typical manager, we are still just in the very beginning of turning traditions upside down, solving pain points, and upgrading our process to drive better performance through both alpha and gamma. 2018 will be a year of considerable acceleration of this virtuous circle.

Our portfolio has never had a more attractive risk-adjusted return profile, and this comes in conjunction with a considerable upgrading of the quality of our companies. While most peers are having trouble finding high quality businesses at reasonable prices, our viewing quality on multiple continuums has generated a sizable pipeline of less obvious attractive businesses. But they are infrequently clean or "feel-good" opportunities. They are typically well-managed, under-appreciated businesses going through transformational moments in their history. Transformation creates uncertainty for our peers who view volatility as risk and take things for face value rather than investigating.

Exhibit 3: GreenWood Model Portfolio Composition[2] as of 12/31/17



As we enter this year and are accelerating our virtuous circle of company and network engagement and broadening the team to support this continuous investigative process, your author's goal is to ensure that the next decade of performance is better than the first. This is no easy task, as the cyclically-adjusted earnings multiple of the US stock market has just surpassed the levels where it traded at the peak of the roaring twenties. Yet every day we are looking for ways to accelerate the value we are able to add for our investors, partners, and companies. It's far more fun to live in a win-win world than in a zero-sum game. I continue to be humbled by the trust our outstanding partners have given us, and who have joined this journey which is very much only beginning.

Annuit cœptis,

Steven Wood, CFA

[2] Each account's balance may vary due to differences in strategy, account sizes and rounding of positions, as well as inclusion or exclusion of certain "illiquid" securities and currency hedges. Non-Margin and retirement accounts may not hold short positions in securities, and will thus be excluded from the portfolio. New accounts will not conform to the model account in cases where securities no longer fit GreenWood's initial investment criteria. Risk-Adjusted Return profile represents GreenWood's approximate estimate of fair value versus downside risks as of the date listed above. Our Quality score combines assessments of dozens of qualitative factors that we believe drive long-term stock performance.

Appendix A

Portfolio as of December 31, 2017

Symbol	Position	What's Happening?
EXO IM	15.5%	Discount to NAV continued to widen to 35% just as its reinsurance division looks increasingly more valuable and FCA looks increasingly likely to find a high-impact merger partner.
TRIP	11.1%	1H 2018 the bottom for profitability as further deflation of its clicks are not likely. If we're wrong, TRIP will likely not survive the year as stand-alone if results don't begin to improve in 2H 2018.
RR/ LN	10.1%	We are positioned for a conservative guide for 2018, but company announced it is seeking "strategic alternatives," for marine division. FCF will continue to improve in 2018 and the company will start talking about what's achievable beyond the first £1 billion.
TITR IM	9.9%	Network separation increasingly likely as government is restive and the board has been discussing. Sum-of-parts triple where it trades today. Results continue to impress while @ trough valuation.
BOL FP	9.1%	Key holding Vivendi continues recovery and will likely IPO carve-out its crown jewel, UMG, to unlock value and provide cash for investments. Global trade accelerating and results improving.
MEIP	7.2%	Updates on 2 key programs slipped from December to any month now, making 2018 a very impactful year for all four clinical programs. Stock slipped with the timetable miss, and we bought more.
OCDO LN	5.9%	Has signed 2 major international partnerships, validating the company becoming a service provider as opposed to just a retailer. Stock has short-squeezed higher to nearly double our purchase price.
RESI	5.5%	On track to fully invest its capital and deliver $1.75 / share in DCF by the end of this year.
PIA IM	5.1%	With India now growing, all major geographies are growing for company. Margins expanding ahead of a more robust market recovery, and most markets remain >50% below pre-recession levels.
FLYB LN	4.8%	The maturation of the numerous routes launched in the past few years is allowing for better revenue and profitability metrics, but investments in IT and maintenance have made profit improvements slower than we would have liked. Still poised for meaningful recovery in profitability.
CNE LN	4.6%	Very robust exploration program over next 2 years supported by cash-flow from its two new fields that came online at a perfect time for the oil markets. High-upside tax dispute to be settled in August.
VOW GR	-4.0%	Being hailed as a remarkable recovery, when in fact the company was only saved by tax credits expiring in China. Limited opportunities for margin expansion as premium segment ripe for disruption.
RACE	2.0%	Company continues to face enough demand to keep increasing production at very high incremental profit margins. Yet traders are well aware of this, and more heroics required for further NT upside.
AWDR NO	0.6%	In early 2018, we have exited the position with a realized return of +80.7% including dividends. Now that the company is paying down debt in order to make possible acquisitions, the downside potential for this cigar-butt worsened.

Portfolio Risk-Adjusted Return Profile: 50.3x

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