



January 17, 2023

Dear Partner:

The Greenlight Capital funds (the “Partnerships”) returned 36.6% in 2022, net of fees and expenses, compared to an 18.1% loss for the S&P 500 index. Since the inception of Greenlight Capital in May 1996, our Partnerships have returned 2,358.3% cumulatively or 12.8% annualized, both net of fees and expenses.<sup>1</sup> Over the same period, the S&P 500 index has returned 864.0% or 8.9% annualized. Greenlight’s investors have earned \$5.2 billion, net of fees and expenses, since inception.

2022 was an exceptionally good year. In many ways it was our best ever and is most comparable to 2001, the year after the last technology bubble popped. Before going into all the glorious details, let us simply say:

*We are probably not as smart as we appeared in 2022, but we are probably not as dumb as we appeared in 2018 either. The market environment, as we have been highlighting, turned extremely favorable for our strategy in a period that immediately followed one that was extremely unfavorable for our strategy.*

We believe that our strategy has and will continue to achieve attractive absolute and risk-adjusted returns over a long period of time.

The last number of years cumulatively have proven to be quite challenging for many investors, including ourselves. It reminds us of a favorite baseball scene from *Field of Dreams*:

**Shoeless Joe Jackson:**

The first two were high and tight, so where do you think the next one's gonna be?

**Archie Graham:**

Well, either low and away, or in my ear.

**Shoeless Joe Jackson:**

He's not gonna wanna load the bases, so look low and away.

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<sup>1</sup> We have always provided in our year-end letters the inception-to-date returns of Greenlight Capital, L.P. because that was our first Partnership and it has the longest track record. In response to the SEC’s new marketing rule, here and going forward, we will be providing the composite, inception-to-date return across our related Partnerships. So that you can understand the change and compare the returns in this letter to our prior year-end letter, please note that, since inception in May 1996, Greenlight Capital, L.P. has returned 2,605.0% cumulative or 13.2% annualized, both net of fees and expenses. We will not be providing this figure in future letters but the historical performance of all the Partnerships is available upon request.

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

**Archie Graham:**

Right.

**Shoeless Joe Jackson:**

But watch out for in your ear.

You can't prepare for a low and away breaking ball and a high and inside fastball at the same time. In 2022, a lot of investors took one in the ear.

From the bottom in 2009 to the top around the end of 2021, we experienced an enormous bull market culminating with a massive bubble, particularly in the most speculative stocks. As we have previously observed, we believe most surviving investors either never had, or ceased to have, valuation as an important part of their investment process.

We are very grateful to those of you who have stuck with us. We are pleased to be able to reward you with a good year in what for most was a difficult investing environment. We have learned a lot in this period and hope to continue to reward you.

However, most did not stick with us, and understandably so. The results for a sustained period were unattractive. For us, it was challenging to remain disciplined (some have said stubborn) by refusing to make investments that didn't make sense to us.

Many investors that have historically had a value bent either adapted, retired or went out of business. Value investing, as an industry, is unlikely to ever fully recover. The outflows into passive and other strategies were debilitating. Prospectively, we believe this is a positive for our strategy as we face much less competition than we did a few years ago.

In hindsight, we believe that our unwillingness to take risks that others were so willing to bear, enabling them to outperform during the bull run, was the flip side to our ability to have a successful 2022. This was a year where many of those who rode the bubble suffered losses, raising the question as to whether the risks were worth taking.

Now for the 2022 details.<sup>2</sup>

	<u>Performance</u>	<u>Alpha<sup>3</sup></u>
Longs	2.4%	30.2%
Shorts	30.0%	15.0%
Index hedges	5.0%	-0.1%
Macro	<u>5.7%</u>	<u>5.8%</u>
Total (gross)	42.3%	51.0%
Total (net)	36.6%	

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<sup>2</sup> Returns shown represent the contribution to return across the Partnerships. This model performance does not reflect the performance of any individual fund.

<sup>3</sup> Alpha is calculated using the gross returns, on a position by position basis, against a local market index.

The real story of the year is fifty-one points of alpha. To put that into context, in our worst year, 2018, we had negative twenty-nine points of alpha. In 2001, our prior best alpha year, we had forty-three points of alpha.

Obviously, this favorable environment has followed the prior unfavorable environment. In 2022, the Russell 1000 Pure Value index lost 7.9%, while the Russell 1000 Pure Growth index lost 37.9%. We estimate that this tailwind explains about half of the Partnerships' return. There may be more of this tailwind to come. Inclusive of last year's result, since the end of 2016, the growth index has still outperformed the value index by more than 8% per year (87% on a cumulative basis).

In 2022, our long book was profitable. The only significant losers we had were Green Brick Partners (GRBK) and Danimer Scientific (DNMR).

GRBK had a very strong operating year offset by a difficult forward-looking macro outlook due to higher interest rates. GRBK is expected to earn \$6.02 in 2022 compared to beginning of the year estimates of \$4.29. However, 2023 consensus estimates have fallen from \$4.62 to \$3.17 per share. As a result, the shares fell from \$30.33 to \$24.23 during the year. We believe the shares will do better in 2023, once the market determines that estimates have fallen sufficiently to take into account the slowdown in the housing market. At that point, we believe the focus will shift to determining the correct multiple on trough earnings. Over the intermediate term, the company remains well positioned as a low-cost operator in demographically attractive markets, with an extremely favorable land position and a conservative balance sheet.

As for DNMR, in 2021 we switched most of our investment from common shares to convertible bonds. Later in 2022, we added to the stock position. Both the bonds and the shares had an awful year. The company is thought of (correctly) as a money-losing technology SPAC. Given what happened to those, the loss is not surprising. We nevertheless remain optimistic that the company has a viable product and should remain solvent. With the converts trading below 40% of par and the market cap below \$200 million, there is a lot of optionality, with an exciting recovery from these levels should we be proven correct.

The significant long winners in 2022 were Atlas Air Worldwide (AAWW), CONSOL Energy (CEIX), Rheinmetall (Germany: RHM), Siltstone Capital (private), Teck Resources (TECK) and Twitter (TWTR).

As CEIX rode a surge in coal prices, the shares soared from \$22.71 to \$65.00 and the company paid \$2.05 per share in dividends. In 2022, part of the higher coal prices were absorbed by hedges and forward contracts at what turned out to be below-market prices. Even so, we believe the company ended the year with no net debt. From here, with the below market contracts mostly behind, we expect the higher prices to translate directly into much higher earnings, with most of the free cash flow to be returned to shareholders. Much of the pricing in 2023 and some of the pricing in 2024 is locked in. As a result, we believe that the company will generate free cash flow over the next two years equal to its current market capitalization. While thermal coal will probably never be cool to own, we believe the returns for owning CEIX should continue to be hot.

We had a nice gain from our small investments in two private partnerships that are managed by Siltstone Capital. Siltstone's vehicles invest in Utica and Marcellus shale mineral rights, earning royalties from wells producing on its acreage without having to fund any of the associated drilling and completion capital expenditures. In 2022, these investments benefited from a 46% increase in 2022-2026 average Henry Hub natural gas prices and an improved outlook for drilling activity on its acreage.

TECK benefited from higher metallurgical coal prices and the anticipation of its new copper mine coming on line around the end of 2022. During the year, the shares advanced from \$28.82 to \$37.82. 2022 earnings are expected to be \$7.15, well above the \$4.68 estimated at the beginning of the year. In 2023, current consensus assumes lower metallurgical coal prices and lower earnings of \$4.20 per share. The outlook for 2024 is better, as TECK will have scaled production at the new copper mine. Even so, consensus estimates assume even lower commodity prices and sit at \$4.13 of EPS. Though the estimates rely on commodity prices that are quite difficult to predict, we expect that higher copper prices should drive upside surprises. Even without that, the shares remain inexpensive at only 9x 2023 consensus earnings. Finally, with the large capital project completed, we expect sizable capital returns to shareholders in the near term.

As we described in our first quarter letter, RHM benefitted from a rerating of defense stocks as a result of geopolitical events. We sold the shares in 2022 after a great result. As discussed in the prior letter, AAWW agreed to be sold to a private equity consortium and we exited that position with another great result.

Finally, the TWTR acquisition closed at the agreed upon \$54.20 per share. The position was the third largest contributor to our 2022 performance. As of this writing, we have not yet been kicked off the site.

Our successful performance on the short side was extremely diversified and broad based. There were two individual single-name shorts that had caused losses in earlier periods that were material winners in 2022. We also had gains in a sector ETF, equity index shorts and several different baskets of bubble and "innovation" stocks that we implemented in 2021 and 2022. We had no material losers in the short portfolio.

While we will continue our current policy of not discussing individual shorts, we will review the performance of our long-standing bubble basket short strategy. Historically, we have avoided so-called valuation shorts, because valuation by itself is rarely a catalyst. After all, twice a silly price isn't twice as silly.

However, during the 1998-2000 bubble, we recognized that shorting bubbles can be quite profitable when they burst. Though we didn't expect to ever see another bubble like that one again, we were wrong. When we saw a second mega-bubble forming, we wanted to participate in the subsequent decline.

We define a bubble stock as one that if we look at the company's current and projected financials – counting stock compensation as an actual expense – and perform a traditional valuation analysis, it could fall at least 80% and still not appear cheap to us. The goal is to short when the bubble appears to have popped. 2013 was a year of enormous gains for a number of speculative stocks. In early 2014, the bubble appeared to be breaking and we created our first bubble basket. This proved to be very premature.

In our bubble baskets, individual positions are small and names come and go. There were sixty-eight stocks in the original 2014 bubble basket, which we built up to 13.8% of capital at cost. During our holding period, forty-two were profitable shorts while twenty-six were unprofitable. Though eleven of the stocks fell more than 50%, thirteen rose more than 50% and eight of them doubled or more. To our surprise, several of these names did in fact grow eventually into their 2014 valuations.

Through the end of 2016, the basket was profitable. But 2017-2019 was a different story. We had covered a number of the winning bubble stocks and concentrated our risk on the names that had not yet worked. This was a mistake. Ultimately, we covered the remaining stocks from this basket during the COVID crash in March 2020. This basket lost money, with cumulative negative impact to our returns of 11.3% of capital spread over several years.

We believed that during COVID the re-inflated bubble began to pop in September 2020. We instituted a second bubble basket with fifty-eight names totaling 20.7% of capital. Unfortunately, the bubble had one more leg up. Convinced that we were again early, we covered our 2020 bubble basket in early January 2021. The losses on this basket were 2.1% of capital.

Looking back on these names, six were subsequently acquired at an average price that was 45% over our entry. However, of the other fifty-two names, the average stock at the end of 2022 was down 42% from our entry price, with only nine up from our entry price, while nine fell more than 80%.

We are nothing if not persistent. In March of 2021, we again believed that the bubble had popped... this time correctly. We created our third bubble basket with thirty-one names totaling 6.5% of capital. This bubble basket remains in the portfolio, though we have covered some names. All but one of these stocks are down through year-end from our entry, with an astounding twenty-four of them down more than 70%. The cumulative positive impact on our returns has been 3.0% of capital.

In early 2021, we also identified an actively-managed ETF of so called "innovation" stocks that appeared to us to have significantly similar characteristics to our bubble names. We shorted a basket comprised of the components of that ETF in February 2021 that we ramped up to 9.0% of capital. It has declined by 76% from our first entry. The cumulative positive impact on our returns has been 6.4% of capital.

Finally, in January 2022, we turned from cautious to bearish. We identified our fifth bubble basket of thirty-one names, and instituted a 6.0% combined short position. This basket also remains in place. As of year-end, twelve of the stocks have fallen at least 50% and only one

stock is positive with a 23% gain. The cumulative positive impact on our returns from our 2022 bubble basket has been 2.4% of capital.

To bring it together this is the contribution of the bubble basket strategy to date:<sup>4</sup>

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Contribution	0.5%	-1.3%	1.7%	-3.6%	-3.1%	-5.5%	-1.8%	2.9%	8.7%	-1.5%
Alpha	1.3%	-0.5%	2.4%	-1.9%	-3.2%	-4.4%	3.4%	4.2%	5.6%	6.8%

The SEC's new marketing rule has prescribed disclosure requirements. So, we are forced to interrupt our narrative to show you this additional data of the Partnerships' gross and net returns for the same time periods even though we think it is superfluous to the discussion:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Gross Return	11.5%	-18.8%	10.9%	3.3%	-32.9%	17.0%	7.0%	14.7%	42.3%	42.2%
Net Return	8.0%	-20.2%	8.4%	1.6%	-34.2%	13.8%	5.2%	11.9%	36.6%	14.2%

We now return to what we were trying to say.

All told, while this isn't the exciting result that we expected at the time of each basket's creation, the bubble basket strategy hasn't been as bad as it seemed a couple of years ago. It's hard to know when a bubble is actually popping. This one went on for much longer than we expected. Considering that we were early by a ridiculous seven years, this feels like a good outcome. If we ever think we see a bubble again, we expect to be right sooner. From 2014-2022, the NASDAQ index is up 12% per year (176% compounded). It's clear that our bubble basket short strategy has outperformed an index short. We estimate that the cumulative alpha against the NASDAQ to be 6.8%.

We also had our best year in our Macro portfolio. The two substantial winners were interest rates, where we wagered the U.S. Federal Reserve would tighten more than the market expected, and inflation swaps, where we speculated that a combination of reported inflation and inflation expectations would increase more than anticipated.

Though we believe we are in the middle stages of a bear market, we did establish a new medium-sized long position in Tenet Healthcare (THC) during the fourth quarter.

THC is an operator of hospitals and ambulatory surgery centers (ASC). In recent years, the company has grown and transitioned its business mix towards its higher-margin ASCs. This shift has enabled the company to generate significant, and what we believe to be sustainable, cash flows.

During 2022, the company lowered its guidance due to COVID and inflationary headwinds, resulting in its shares declining by more than 50% year-to-date through late October. We believe this pullback offered an attractive opportunity to participate in the company's transformation, as we expect its ASC growth to remain strong and its now smaller hospital

<sup>4</sup> Figures shown represent the contribution to return across the Partnerships. This model performance does not reflect the performance of any individual fund. Alpha for these bubble baskets was calculated using the gross returns, on an aggregate basis, against the NASDAQ Composite index.

portfolio to improve from both a cost and volume perspective. We acquired our shares from late December through the beginning of January for an average price of \$48.61, or 8.7x 2023 consensus earnings. THC recently announced and began its plan to repurchase about 20% of the outstanding shares by the end of 2024.

Robert Wright left at the end of the year. We wish him success in his next endeavor.

Jason and Kelli Lewis welcomed their son, Blake Devon Lewis, on December 6<sup>th</sup>. Blake is named for his late paternal grandfather, Don. The Lewis family is now a party of five. Congratulations, Jason, Kelli and big sisters Rylie and Sloane!

In November, Dan McCluskey *finally* married his long-time sweetheart, Walaa. Like a disciplined value investor, Walaa maintained her conviction for nine years before seeing her thesis play out and Dan is thankful that she did. Congratulations, Dan and Walaa!

At quarter-end, the largest disclosed long positions in the Partnerships were Brighthouse Financial, CONSOL Energy, Green Brick Partners, Kyndryl Holdings and Teck Resources. The Partnerships had an average exposure of 96% long and 56% short.

*“Do your homework, choose your battles.  
Don’t whine, and don’t be the one who complains about everything.  
Fight the big fight.”*

– Barbara Walters

Best Regards,



Greenlight Capital, Inc.

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All figures are unaudited. Greenlight does not undertake to update any information contained herein as a result of audit adjustments or other corrections. Past performance is not indicative of future results. Each investor will receive individual statements from the administrator showing actual returns. Reference to an index does not imply that the Partnerships will achieve returns, volatility or other results similar to the index. The total returns for the index do not reflect the deduction of any fees or expenses which would reduce returns.

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