



October 15, 2024

Dear Partner:

The Greenlight Capital funds (the “Partnerships”) returned 1.1%¹ in the third quarter of 2024, net of fees and expenses, compared to 5.9% for the S&P 500 index.

There was a lot going on in the world this quarter. Nevertheless, we had a very quiet period, partly because we remained conservatively positioned with very low exposure to equity beta. As we discussed at our Partner Dinner in January, the economy remains relatively strong, with nominal annualized growth now running at 5-6%. On the other hand, however, the market isn’t just making all-time highs. It is, by many measures, the most expensive stock market that we have seen since the founding of Greenlight.

Warren Buffett is, of course, the most successful investor of his generation, and maybe of all time. While Mr. Buffett routinely points out that it is impossible to time the market, we can’t help but observe that he has been one of the best market timers we have ever seen. When the market got too frothy in the late 1960s, he closed his fund. Towards the market bottom in the early 1970s, he re-emerged as a stock picker and then prior to the 1987 crash, he sold everything except a couple of illiquid holdings. Later, he sidestepped the various crises in corporate credit and was well-positioned to capitalize on the 2008 global financial crisis. One could argue that sitting out bear markets has been the underappreciated reason for his outstanding long-term returns. It is therefore noteworthy to observe that Mr. Buffett is again selling large swaths of his stock portfolio and building enormous cash reserves.

Our sense is that Mr. Buffett’s portfolio adjustments are not a prediction that the market will fall next week, next month, or even next quarter. Rather, these stock sales more likely express a long-term view that right now is not a great time to have a lot of equity exposure, and that the opportunity set is expected to be better at some point in the not-so-distant future. We will avoid calling this market a bubble, and simply observe that the dividend yield is low and the P/E ratio is elevated despite corporate earnings being cyclically high, if not top-of-cycle.

This time, it is not just a handful of high-profile technology companies with nosebleed valuations. In fact, it is easy to find mature, industrial businesses with cyclical exposure and growth prospects that aren’t materially better than the current nominal GDP growth rate that currently trade for 30-50x earnings. Obviously, the market appreciation thus far in 2024 has exceeded the growth rate of revenues and earnings. We think Paul Tudor Jones is right when he says that managing the last third of a great bull or bear market move is often the toughest.

However, while we are conservatively positioned with respect to net exposure, we aren’t outright bearish. We are likely to continue to underperform a rising market, as we have all year, but we don’t wish to position ourselves to lose money should the market continue to rise.

¹ Source: Greenlight Capital. Past performance is not indicative of future results. Please refer to information contained in the disclosures at the end of the letter.

Notably, almost all of our return this year has been alpha. While being up 9% year-to-date when the S&P 500 index is up more than 20% over the same period doesn't feel great, on a beta-adjusted basis we believe we are doing fine. If you happen to be invested in our gold share class, it's better than fine.

During the quarter, both our longs and shorts rose marginally less than the market. The macro portfolio had another strong quarter, driven by the sharp rise in the price of gold. We also lost money on equity index hedges.

In addition to gold, Green Brick Partners (GRBK) was the other significant winner during the quarter. GRBK reported quarterly earnings of \$2.32 per share, which beat analyst estimates of \$1.77 per share. The company continues to lead the industry in gross margins and has distinguished itself from its peers, who are increasingly focused on appearing to be "land light." GRBK believes that being land light is very expensive at the gross margin level. Rather than pay high rates to third-party off-balance sheet land bankers, GRBK owns most of its land and lots while maintaining a very low-leveraged investment-grade balance sheet. As a result, it earns all of the development profits in addition to the homebuilding profits. Despite being "land heavy," the result is a return on equity that is near the top of the industry. Even more exciting, GRBK has had a very successful period of land acquisition, and as a result the prospects for it to continue delivering industry-leading margins remain promising. This quarter, GRBK shares advanced from \$57.24 to \$83.52.

On the losing side, ODP Corporation (ODP) reported a second consecutive disappointing quarter. Sales and profits came in well below expectations and the shares reacted by falling from \$39.27 to \$29.75.

The short book had a material loser in a housing-related short. We believe this company is structurally unprofitable and faces looming debt maturities that could be challenging to refinance at a reasonable interest rate. Nonetheless, it was a strong period for all things housing-related as the sector celebrated the move lower in yields.

While we don't have any new positions to reveal this quarter, we have identified three new longs that we will likely discuss in the near future. However, as we are still in the accumulation phase, it is premature to describe them now.

We exited a few positions during the quarter, including:

NeuBase Therapeutics (NBSE): We described this nascent company in our Q4 2020 letter. Ultimately, NBSE ran out of money and failed. We do like to have a few small lottery tickets in the portfolio, but this one didn't hit. Our NBSE investment was less than 1% at cost, which we lost most of over our five-year holding period.

NatWest Group (United Kingdom: NWG): We sold after achieving a 20% IRR over almost two years. The thesis played out and we no longer judged the shares to be materially undervalued.

Ryanair (Ireland: RYA): We exited with a modest profit after three and a half years. For some time, the post-COVID environment was favorable, allowing the company to raise prices and improve its earnings. Alas, that turned. Recently, pricing has reversed and earnings have been disappointing. As a result, we wound up surrendering what had been some decent unrealized gains.

At the end of the quarter, we said goodbye to David Tepperman who decided to pursue new adventures. David was with us for over 15 years, and we want to thank him for the long period of contribution.

On September 23, Toby and Ruth Haselberger welcomed the newest addition to the Greenlight family with the birth of Gia Isabella. Big sister Coco was thrilled to meet her baby sister “Bella.” Congratulations to the Haselbergers!

Please save the date for our 29th Annual Partner Dinner, which will be held on January 21, 2025 in New York.

At quarter-end, the largest disclosed long positions in the Partnerships were Brighthouse Financial, CONSOL Energy, Green Brick Partners, HP and Solvay. The Partnerships had an average exposure of 97% long and 64% short.

*“You are allowed to be both a masterpiece and
a work in progress, simultaneously.”*

– Sophia Bush

Best Regards,

Greenlight Capital

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Net performance contributions by attribution category apply an allocation of operating expenses, management fee and performance allocation to the applicable gross contribution. These pro forma net contributions are shown for illustrative purposes only to meet regulatory requirements. Different assumptions than those made by Greenlight can result in different net performance contributions at the category level. A description of the calculation methodology is available upon request.

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