



January 21, 2025

Dear Partner:

The Greenlight Capital funds (the “Partnerships”) returned 7.2% in 2024, net of fees and expenses, compared to 25.0% for the S&P 500 index. Since the inception of Greenlight Capital in May 1996, the Partnerships have returned 3,117% cumulatively or 12.9% annualized, both net of fees and expenses. Over the same period, the S&P 500 index has returned 1,421% or 10.0% annualized. Greenlight’s investors have earned \$5.7 billion, net of fees and expenses, since inception.¹

Donald Trump was inaugurated yesterday. While 2024 was dominated by election uncertainty, with the election now behind us, it feels like we are faced with more uncertainty than ever. We know who the President is, but it’s anyone’s guess as to what he will do. We carefully followed the campaign, but don’t seem to remember any discussion about territorial expansion. President Trump now aspires to take over Greenland, Canada and the Panama Canal. This could be Manifest Destiny Part 2: the New American Colonialism, a Trump negotiating position, an attempt to distract from other issues or simply more meme fuel. We’re not sure.

Economic policy is similarly uncertain. Will we have a labor shortage caused by mass deportations and potentially voluntary emigration due to the removal of benefits and the fear of arrest? Will we have large tariffs? Will the Department of Government Efficiency eliminate \$1 trillion from government spending? Will any savings generated be allowed to reduce the deficit, or will they be directed to offset additional tax cuts and/or new spending initiatives favored by the new administration? How will financial markets react to all this?

We don’t know the answers to these questions either. This is what makes our vocation so interesting. We are keeping an open mind and trying to evaluate based on new information as it comes. Our starting assumption is that the policy mix will be supportive of productivity and economic growth, but also inflationary and unlikely to materially improve the deficit situation. We expect the Ukraine War to end soon.

When President Trump won in 2016, he was ill-prepared for the victory and did not have a well-developed plan. He hired a bunch of people with excellent resumes, who mostly took their jobs with the view that they could either manage the President or influence him. Neither strategy worked and his administration was dysfunctional and full of turmoil. This time will likely be different. President Trump has assembled a team that, while also possessing excellent resumes, is taking the job with the view of working with him to achieve his agenda. Whatever that turns out to be, we expect that this administration will be much more effective than the first. Whether a more effective President Trump is a good thing or not... well, that depends on your politics.

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

We have reached the “Fartcoin” stage of the market cycle. For those unfamiliar, Fartcoin is a cryptocurrency created late last year that appreciated from a nominal value to over a billion dollars. Like other cryptocurrencies, it is tradable 24 hours a day, 7 days a week. Other than trading and speculation, it serves no other obvious purpose and fulfills no need that is not served elsewhere. Lest you think it’s likely to go to zero (it could be the Pets.com of the cycle), Fartcoin is only the latest memecoin. There have been other memecoins before. Something called Dogecoin, with a Shiba Inu dog logo, was created for the same reason (to mock cryptocurrencies and for speculative trading) more than a decade ago and it is currently worth about \$55 billion. Were it a stock, it would rank around #180 in the S&P 500, about the size of Travelers and Johnson Controls.

We have thought quite a bit about cryptocurrencies. For the most part, they resemble collectibles. Items such as art, postage stamps, rare coins and baseball cards are valuable because people like to collect them. The “intrinsic” value of a Jackson Pollock is very low (paint plus canvas), but enough people agree that Pollock’s technique of pouring the paint on the canvas was innovative, rare and valuable enough that his works are worth millions. Similarly, Fartcoin is worth whatever the market says it is. It isn’t backed by anything and has no intrinsic value. It doesn’t appear difficult to create new types of memecoins. We have no problem with people taking a punt in crypto, Aaron Judge rookie cards or roulette for that matter. If people find it fun and think they can make money trading it, the more power to them. We’d rather have a Pollock than a Fartcoin, but that’s just us.

And just last Friday, the “official” Trump memecoin was launched. At the moment we are writing this, it has gone from a nominal value to \$40 billion (after reaching \$75 billion over the weekend to surpass Dogecoin). Eighty percent of the coins have not yet been issued, implying that President Trump and the organization supporting the coin hold Trump memecoins worth \$32 billion and counting. Obviously, this is more than President Trump made during his entire successful business career. And then, on Sunday, the Melania memecoin was launched. It is currently worth \$4 billion. Nothing stops the launch of many more tradable coins. Perhaps we are leaving the Fartcoin stage of the market and entering the Trump (and Melania) memecoin stage. It’s anyone’s guess as to what will happen next, but it feels like it’s going to be wild.

There is an open debate as to whether Bitcoin will at some point enter the mainstream as an official currency. In fact, there is a bill before Congress for the U.S. to establish a “Strategic Bitcoin Reserve” and buy one million Bitcoins over five years. The bill’s purpose appears to be the use of public funds to ramp up the price of Bitcoin, thereby enhancing the wealth of existing Bitcoin holders. This seems a dubious use of taxpayer funds, but the new administration has a lot of Bitcoin-owning supporters, so it might happen. More likely, cooler heads will decide that the government should not borrow another trillion dollars in the bond market to speculate in Bitcoin and that there is, in fact, nothing *strategic* about doing so.

One of the biggest owners of Bitcoin is MicroStrategy (MSTR). While MSTR owns a small software business, its principal pursuit is buying Bitcoin. In practice, MSTR is an investment

company that buys and holds Bitcoin.² MSTR trades at a large premium to the value of the underlying Bitcoin it holds. The idea is to raise money from new investors at a premium and use the proceeds to buy more Bitcoin. Since the Bitcoin that MSTR buys costs less than the Bitcoin-implied value of MSTR's stock, the new investment is dilutive to new investors but accretive to existing investors. MSTR's promoters have labeled the return to existing investors created by this scheme the "Bitcoin yield." As Bitcoin itself yields nothing, the Bitcoin yield is simply a measure of the Ponzi finance's effectiveness. Lately, it has been pretty effective.

While this seems crazy, there is more. Levered single-stock ETFs, such as those with tickers MSTU and MSTX, aim to generate double the daily return of MSTR. Michael Green has noted that for aggressive speculators, levered ETFs may be used instead of margin debt, since buyers achieve the leverage without the risk of a margin call. A drawback of levered ETFs is that to achieve double the daily return, the portfolio must be adjusted on a daily basis, mostly by buying at the end of days when the underlying stock rises and selling on days when the underlying stock falls. If the stock goes straight up, this works well. But when up days are mixed with down days, the buying high and selling low eats up a lot of the return.

Most levered ETFs achieve their leverage by going to large investment banks and buying swaps on the shares. There is a financing cost on the swaps (usually SOFR plus a small spread), so a portion of the return gets eaten up by the financing costs. However, for MSTU and MSTX there is limited swap capacity, as the extreme volatility of MSTR and the concentration of its Bitcoin portfolio means the banks are not willing to offer sufficient capacity to achieve the necessary 2x leverage. Rather than limit the size of the ETFs, the operators of these levered ETFs have cleverly utilized call options on MSTR to try to achieve the leverage necessary to meet demand.³ The problem is that MSTR stock is very volatile, so the call options are very expensive. While swaps have a financing cost in the single digits, we estimate the cost of financing leverage on MSTR through call options to be more than 75% annualized.

When you combine the costs of buying when the stock goes up and selling when the stock goes down with astronomical financing costs, MSTU and MSTX have no realistic chance of achieving double the daily return of MSTR. These products are destined to fail. Over time, they are likely to bleed out their capital. During the quarter, the Partnerships established a new arbitrage position by shorting these ETFs, which we partially offset by owning MSTR. This position was a material winner in the quarter.

Coming off an extraordinary 2022 and an excellent 2023, we had high hopes for 2024. The year started *strong*, slid into *ok*, and finished *subpar*. In early August, we were up double digits and roughly in line with the S&P 500. From that point on, our paths diverged.

The more challenging results stemmed from a few different unfortunate events: the FTC successfully blocked Capri's (CPRI) sale to Tapestry (more on that below); HP (HPQ) issued weak guidance for the first part of 2025; Solvay (Belgium: SOLB) reported results that, while

² To call a small melting-ice-cube software business next to a huge pile of Bitcoin an operating business rather than an investment company certainly stretches the spirit, if not the letter, of the rules.

³ Obviously, this is clever from the sponsor's perspective as the larger asset base allows them to collect higher fees. This isn't at all clever from the investor's perspective.

superficially sufficient, provided enough fodder for skeptics to debate earnings quality; and Green Brick Partners (GRBK) declined over concerns that interest rates are rising and homebuilding is slowing. The recent declines of HPQ, SOLB and GRBK were givebacks of prior gains.

We had some good successes, as well. The largest was gold, which appreciated 27% during the year and we supplemented our direct holdings with call options. Kyndryl Holdings (KD) appreciated 67% for the year, as the company achieved excellent operating results. Peloton (PTON) and Tenet Healthcare (THC), discussed below, were also large winners during 2024.

In the latter part of the year, the environment for our strategy turned from favorable to unfavorable. Value stocks had a historic 15-day losing streak in December. The Russell 1000 Pure Growth Index outperformed the Pure Value Index by 25% from the beginning of August through the end of the year. This was a similar spread to the first three quarters of 2018. That time we lost over 25%. This time we fared better (or less badly).

Fortunately, in the face of a challenging environment we maintained a low level of gross exposure, and we did not have a large growth/value variance between our longs and our shorts. The result was a subpar year, rather than something worse.

While the S&P 500 had a very strong year, most stocks had modest gains. The median stock in the index was up 10% and one-third of the stocks were down. The big driver of the market result came from a handful of very expensive mega-cap stocks, to which we had limited exposure on either side of the book. Neither side of our portfolio behaved as if we were in a roaring bull market.

Here is a breakdown for the full year:

	<u>Gross Contribution</u>	<u>Net Contribution</u>	<u>Alpha⁴</u>
Longs	7.3%	5.0%	-12.5%
Shorts	-3.3%	-3.9%	10.6%
Shorts (index)	-1.2%	-1.2%	0.2%
Macro	<u>8.4%</u>	<u>7.2%</u>	<u>8.1%</u>
Total	11.1%	7.2%	6.4%

All told, by our calculation we generated 6.4% of alpha.

We continue to be concerned about the overall valuation of the market and have maintained a lower-than-average net market exposure. In fact, our daily correlation to the S&P 500 last year was 0.01. Cyclically and interest rate adjusted valuations are as high as we can remember.

A look at a prior favorite company of ours, Apple (AAPL), shows that the stock at times sported a single digit P/E ratio and achieved 19.2% compounded revenue growth during the eight years we owned it. The last couple of years AAPL has had no revenue growth, but the P/E multiple has expanded from 22x to 37x. In this environment, we can't say the multiple won't expand to

⁴ Alpha is calculated using the gross returns, on a position-by-position basis, against a local market index.

45x a year from now. It might. But we don't see why it should or what the investment appeal is at this valuation.

Some have observed that the market equity risk premium versus bonds is now zero or even slightly negative. As such, we don't think accepting a lot of market exposure makes sense. Given our low market exposure, we generated insufficient alpha to achieve a successful result in 2024.

We established several other new positions in the second half of 2024.

We presented our PTON thesis at the Robin Hood Investors Conference in October and previously sent you copies of the presentation. Yes, David rode for 20 minutes while presenting the thesis.⁵ PTON was a popular stock during the COVID era as demand for at-home fitness products and services skyrocketed. During this time, the company invested heavily for growth without any regard for profitability or expense management. After multiple missteps and subsequent management changes, the stock fell 98% from its peak price in early 2021. Throughout this time, PTON has maintained a loyal and engaged customer base through its subscription-based business model.

Recently, the company has committed itself to dramatically cutting costs. Should PTON be successful in right-sizing its cost structure, we expect significant EBITDA generation, and when applying a peer multiple to those profits, we believe the stock has significant upside. We established our position at an average price of \$4.07 per share. PTON ended the year at \$8.70.

We established a new medium-sized position in CNH Industrial (CNH) and a small position in Centene (CNC).

CNH is a leading manufacturer of tractors, combines and other agricultural equipment. The farm equipment industry is going through a downcycle led by weak commodity prices and we estimate CNH will ultimately generate trough earnings close to \$1 per share. We acquired our position at an average price of \$10.53 per share, or less than 11x these expected bottom-of-cycle results. Investor sentiment is extremely weak on the view that the bottom is several years away.

We are optimistic that this current downturn will be shorter and shallower than the prior one experienced about a decade ago. First, the industry experienced strikes and supply chain issues over the last few years, tempering peak sales and inventory levels. Second, CNH and its peers took the corrective action of underproducing to end demand and destocking inventories earlier and more aggressively this time around. As a result, we expect CNH's sales to return to growth sometime in the coming year simply by producing to end demand, even if farmer spending remains weak. In the meantime, CNH pays a 3% dividend and management has committed to returning the remaining free cash flow through buybacks. We estimate that management will be able to repurchase 5-6% of its stock annually. CNH ended 2024 at \$11.33.

⁵ Similar to our policy of not disclosing single name short positions, David's Peloton username remains confidential.

CNC is the largest Managed Medicaid company. Shares are trading at a historically low valuation despite the company currently significantly underearning in its Medicaid book. This valuation disconnect is driven by concerns about the impact of a likely non-extension of enhanced ACA exchange subsidies beyond 2025 on CNC's exchange business, as well as potential attempts by the incoming Trump administration to make adverse changes to the Medicaid program. We think a repricing in the core Medicaid business over the next two years could more than offset some of these potential headwinds, which are not guaranteed to materialize. We acquired our shares at an average price of \$60.54, or about 9x current earnings. Management and the board are taking advantage of the situation by sharply ramping up share repurchases, as well as making large personal stock purchases. CNC ended the year at \$60.58.

We increased our position in CPRI. When the court blocked CPRI's sale, we suffered a moderate loss. Fortunately, the position was not large. While we expected the merger would go through and we were surprised by and disagreed with the court's ruling, we recognized the downside risk if the deal broke. When we get an adverse result on an event like this, our instinct is to declare that our thesis has broken and take our loss. After evaluating this situation, however, we came to the opposite conclusion and added to our holdings. During the period when the merger was pending, CPRI's results were simply awful. Before the proposed deal was announced, CPRI shares traded at about \$35, and when the deal broke, the market took the lousy results into account and the shares fell to about \$20. Our current thesis is that the interim results were so awful that they likely reflected management distraction, if not neglect. We also believe there is strategic potential for the company's Versace and Jimmy Choo brands. It should not be difficult for management to re-engage and achieve at least somewhat less awful results. If that happens the shares should stage a recovery.

We also exited several positions.

With our expectation that the Ukraine War will end, we sold our defense-related ETFs after a year with an approximate 36% IRR.

We sold our position in LivaNova (LIVN) after three and a half years at a -6% IRR. When we bought the shares, we believed that LIVN had three exciting opportunities in its pipeline. None of those materialized and we decided to move on.

We sold ODP Corporation (ODP) after three and a half years at a -13% IRR. We originally believed that while the retail business was deteriorating, the business-to-business unit was stable and quite valuable. Over the years, management spent a lot of money on growth initiatives that ultimately failed. More recently, the business-to-business unit showed deteriorating results. This surprised us, and after updating our field research, we concluded that ODP's competitive position has deteriorated substantially. As such, we took our loss.

We exited THC after two years at a 99% IRR. The investment benefited from a low initial entry price, the company deleveraging by selling a few hospitals at substantial premiums to that implied by the stock price, strong results in the core business and share repurchases. With the valuation at a more reasonable level and the possible risk that the Trump administration might be less friendly to this sector, we decided to declare victory.

Joe and Erica Euler welcomed their son, Cameron Martin Euler, on November 21st. Cam was a last-minute gift to Dad, as his arrival came in the final moments of Joe's birthday. Congratulations Joe, Erica, and big brother Brooks on the newest addition to the family!

At year-end, the largest disclosed long positions in the Partnerships were Brighthouse Financial, CONSOL Energy, Green Brick Partners, Lanxess and Solvay. The Partnerships had an average exposure of 90% long and 54% short.

"The things that scare you only make you better and stronger."

– Octavia Spencer

Best Regards,

Greenlight Capital

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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