

April 2025

Dear Fellow Investors,

The Fund¹ returned approximately -12% net of fees and expenses in the first quarter². Please refer to your individual statements for exact performance as returns will vary by fund, class, and timing of investment.

Our performance in the quarter trailed the Russell 2000 by approximately 2% in large part because our largest holdings - PAR, KKR, and Cellebrite, which dramatically outperformed the Russell 2000 and the S&P 500 last year—gave some of that outperformance back in the first quarter. As I will address in detail later in the letter, the long-term potential of these companies, in my opinion, will not be impaired by recent macro events.

TARIFFS

While our letters typically look back at the previous quarter, these are not typical times. As an investor, I prefer to focus on the fundamentals of a company. What are the strengths of the CEO? What are the product advantages? How might historical GAAP financials present a misleading picture of future returns? Where are sell-side analysts wrong? However, there are times such as Covid, with increased volatility and increased correlation, where company progress and details recede in importance. Large price changes can be driven by market outlook rather than company fundamentals.

President Trump's Liberation Day and the attendant tariff policies are one of those times where fundamentals have been set aside. In early April, virtually all stocks moved violently downward because the administration introduced a large exogenous shock on the global trade system.

Based on reporting by *The Wall Street Journal*, despite having four years to prepare for "Liberation Day," which was set on a date picked by the administration, the decision makers in question changed their policy approach the day before their announcement. On Monday, there was a draft policy that called for a flat tariff on all countries. On Tuesday, that draft policy changed to include additional reciprocal tariffs, which were announced officially on Wednesday afternoon and implemented at midnight the SAME day they were announced and a day after the policy was selected.

In its haste, the administration also used erroneous methodology to calculate the reciprocal tariffs ([link](#)). To further confound the world, the reciprocal tariffs presented were based on the trade deficits of goods, not actual tariffs. Investors who use data and parse the words of officials were left listening to an administration defend each flawed piece with a straight face, trying to tell the world that $1+1=3$. This did not inspire confidence.

Implementing massive tariffs overnight - in a system that normally adapts over months and years - was akin to applying a sledgehammer where a scalpel was needed. Markets hate sledgehammers.

The tariffs represent a difficult investment challenge. Should we have positioned ourselves for the Monday version that was the plan until it was scuttled? The Tuesday version that was announced? The following week's version

¹ Greenhaven Road Capital Fund 1, LP, Greenhaven Road Capital Fund 1 Offshore, Ltd., and Greenhaven Road Capital Fund 2, LP are referred to collectively herein as the "Fund" or the "Partnership."

² See end notes for a description of this net performance.

that postpones reciprocal tariffs? The version that includes electronics? The version that temporarily excludes electronics? The version that treats Canada fairly?

The closest approximation to where I think we might end up was written last November ([link](#)). The author is now in the administration as the chair of the Council of Economic Advisors, so he has a seat at the table. He argues that if the United States can impose tariffs without a retaliatory response, they are beneficial. He argues that the tariffs can serve as compensation for the security that the US provides as well as the negative impacts of serving as the reserve currency. He advocates for a weaker dollar. US trade policy is clearly a fluid situation involving dozens of countries and political parties and diverse incentives. If I had to speculate, I think policies with moderate tariffs (10% or less) and policies that promote a weaker dollar and investment in America will be closer to where we end up than the “Liberation Day” reciprocal tariffs that were announced.

Entering into “Liberation Day,” not a single one of our holdings was premised on a reordering of world trade. To me, it is not clear that the current trade policies will endure long enough to have a measurable impact on long-term prospects. That said, I think there are opportunities in two areas where we have made modest investments.

- 1) **Long-Term Beneficiaries of the Trade Policies** – Given how fluid the trade policies are and the pending negotiations with the US’s 18 largest trading partners, I think it is unlikely CFOs are making large capital allocation or supply chain decisions until there is more clarity. One exception, perhaps, involves drug manufacturers. In this area, I think the President is unequivocally correct: we should be manufacturing more drugs in the US. If we ever do apply a scalpel to our trade policy, drugs are an area that should be treated in such a way to encourage domestic manufacturing. If I were selecting where to manufacture drugs, the potential for large tariffs, Executive Orders or legislation like the BIOSECURE Act would make me more inclined to select a domestic manufacturing partner. In April, shares of Lifecore (LFCR), an existing holding and domestic CDMO, sold off with the broader market despite their likely beneficiary status. We took advantage of buying opportunities and took our ownership in the company up to just under 10% of the shares outstanding.
- 2) **Baby Out with the Bath Water** – It is very difficult to draw a line from the current tariff policies to a harmful impact to Vistry Group (VTY.L), which is building houses using a partnership model in the United Kingdom. We used the weakness to buy more shares. Similarly, it is hard to see the impact of tariffs on the classic and collector car insurer Hagerty (HGTY), and we bought more shares here as well.

The purchases described above are minor relative to our overall holdings. We will likely make additional adjustments over time, but trade policy as initially presented and as it has subsequently evolved did not spark a significant restructuring of the portfolio. However, I think it is instructive to run the largest holdings through the lens of the new trade policies and their attendant sell-off(s) / volatility.

TOP 5 HOLDINGS

Lifecore Biomedical (LFCR) – As previously discussed, Lifecore is a likely beneficiary of the trade policies. Their largest challenge and opportunity is to sell their excess capacity. As domestic capacity is not sufficient to support significant re-shoring, the new policies increase the likelihood that Lifecore fills out its excess capacity while pulling forward the timing and magnitude of profit margin improvement.

Burford Capital (BUR) – Burford finances litigation and there are virtually no tariff impacts on the company. During economic downturns, companies are typically more likely to turn to external financing for their litigation. We attended Burford’s recent investor day, which happened to be the day following “Liberation Day” ([link to slides](#)), and management agreed that the tariffs should not impact their core business.

With a market capitalization of approximately \$3B and a judgment against Argentina for \$6B+, Burford’s expected ability to collect on the judgment should have a far larger impact on the share price than tariff negotiations. Argentina is in the process of borrowing money from the IMF and reengaging with global financial markets. There are several internal and external factors that will influence the timing and conditions of a settlement; the good news is that Burford has a very healthy business outside of their Argentina claim.

KKR (KKR) – Among our top holdings, the alternative asset manager is most impacted by the tariffs and the potential for restructuring global trade. They have hundreds of billions of dollars in current investments that will get “marked down” as valuation multiples compress. KKR is also facing headwinds in their private equity business from the lack of liquidity. Large endowments like Harvard and Yale are issuing bonds to raise capital and are unlikely to boost private equity allocations anytime soon. However, KKR has become well diversified over the last 15 years. Only \$140B of their \$638B in AUM is invested in traditional private equity and, while the global trade war may delay monetization efforts, KKR will continue to earn management fees on their \$638B+ in AUM.

Despite tighter financial conditions, KKR continues to gather assets. Their K-Series - a suite of private credit, real estate, and private equity offerings for high-net-worth investors - grew from \$7B to \$18B in 2024, driven by nearly \$1B in monthly inflows.

To put that in perspective, KKR raised \$114B firmwide last year, making K-Series a meaningful contributor with much of the distribution effort still ahead. While I’m not recommending individuals buy K-Series products, I expect wealth advisors will - helped by KKR’s brand strength and attractive commissions. Over time, K-Series could become a juggernaut inside KKR’s platform.

According to Oppenheimer Research, 59% of all private-equity fundraising in 2024 went to the 6 largest managers (APO, BX, ARES, KKR, CG and BAM), up from 20% in 2019. With the increasing focus on the high-net-worth individuals distribution channel, the importance of name brand funds will only grow. It is easier for advisors to recommend well-known managers, thus the share gains are likely to continue.

KKR will outlast us all with their perpetual capital. While portions of their portfolio will have to navigate the trade policies and multiple compression will delay exits and curtail incentive fees, AUM is going up, up, up, and KKR continues to be a beneficiary of the overall migration to private assets.

PAR Technology (PAR) – PAR does have a legacy hardware business that would be impacted by tariffs. PAR’s supply chains primarily involve South Korea and Taiwan, so they should not be impacted by the super-sized China tariffs, and the company believes that tariff costs generally can be passed on to customers. That said, virtually nobody owns PAR for the hardware business, though it is helpful to be vertically integrated and subsidized hardware can be used to secure very high-margin software contracts. I cannot imagine an informed PAR investor selling their

shares because of the impact of tariffs. Further, PAR's core customers are Quick Service Restaurants (Burger King, etc.), which generally do very well in a weaker economy as consumers "trade down."

PAR continues to execute and has expanded its relationship with Burger King to include its restaurant data analytics product, Delegat, which PAR purchased on December 31, 2024. The combination of new products, new features, new customers, cross-sell, up-sell, and price increases provide a sustained path to 20%+ revenue growth and much faster EBITDA growth because of operating leverage. Multiple compression is always possible, particularly during a "trade war," but PAR is selling high-ROI, mission-critical software to resilient customers in a favorable competitive landscape. I still like our chances, even with 10% tariffs.

PAR is trading at sub-5X next year's Annual Recurring Revenue (ARR). Yes, the multiple could compress, but PAR will likely become a "Rule of 40" company, a category that currently and historically trade at higher valuations. If PAR continues to achieve 20%+ organic growth and we layer in accretive acquisitions that provide cross-sell opportunities, I believe that the share price should march higher.

Cellebrite (CLBT) – As one of a very small handful of suppliers selling unique software and services critical to law enforcement, there is virtually no risk of Cellebrite being impacted from the tariffs. While there has been some concern about DOGE (Department of Government Efficiency) slashing government contracts, the 20% of Cellebrite's revenues that are related to the federal government mostly address high-profile priorities like securing the border and investigating the legal status of individuals. Cellebrite tools are unlikely to be cut.

What follows is pure speculation on my part, a simple connecting of dots. Cellebrite came public via a SPAC; their sponsor, True Wind Capital, has 1.5M shares that will vest if the Cellebrite share price is above \$30 by their contractual deadline, providing a \$45M windfall. However, the fuse is getting shorter – they have until August 2026 for the share price to hit \$30, up from its current \$19-20 level. The interim CEO, Thomas Hogan, was an operating partner at Vista Equity Partners. I think he is True Wind's best chance of getting to \$30 in the next 16 months, and I think the Cellebrite CEO role is Thomas' best chance at generational wealth. I would not be at all surprised if Thomas is named permanent CEO with an options-heavy package in the \$30 range, and I would only be a little surprised if the company is sold for \$30 before August 2026.

SHORTS

We ended the quarter short two companies facing significant litigation with the potential for treble damages (i.e., 3X the actual amount) for their actions and potential liabilities far in excess of their market capitalizations. We are also short three major indices and a consumer products company that has a significantly above-market multiple while growth has stalled.

SIGNIFICANT PURCHASE

Please see the appendix for a detailed write-up of Kingsway Financial Services, Inc (KFS).

OUTLOOK



As we sit here in April, the market is down for the year, as it should be given the macro backdrop. While I don't think the United States is going to stick with a plan to completely re-order the global trading system and thus increase the likelihood of a trade war – the possibility is certainly not zero. It's unfortunate that the suddenness and magnitude of the tariffs has been such that they attract all of the attention, this letter included. If the administration can pull back from the brink, there are many pro-business policies such as deregulation, cheaper energy, and lower interest rates that can provide a very fertile environment for businesses to operate in the US.

The vast majority of the companies we own are not directly impacted by the tariffs and I look forward to the day when we return to fundamentals, because I like ours.

Sincerely,

Scott

(Appendix on the next page.)

APPENDIX – SIGNIFICANT NEW PURCHASE IN Q1

Kingsway Financial (KFS)

Kingsway Financial is invisible to most financial market participants. With a market capitalization of \$225M, it is too small for many to invest in. The company has no sell side coverage, thus there are no “consensus numbers.” In FactSet and other financial databases, the company is misclassified as a “multi-line insurer”. To further compound the analytical challenge, GAAP accounting rules have the reported numbers understating the company’s earning power. If I wanted to camouflage a company, the levers I would pull are all present here: small, no sell-side, mislabeled, and distorted GAAP financials.

You’ve likely never heard of Kingsway Financial Services. A decade ago, Kingsway was a mess - loaded with debt and a jumble of businesses: a Canadian insurance operation, railway yards, a hearing aid manufacturer’s building, and a warranty business. It couldn’t even file its financial statements on time. But, with the involvement of activist investors and a new CEO in 2018, things have changed. The turnaround has been slow but steady. It’s simpler now. The railway yards and real estate are gone, and most of the debt is paid off. What’s left is a warranty business, over \$600 million of NOLs (Net Operating Losses), an investment strategy, and some talented people. We’re not paying a demanding multiple for this.

Let’s start with the NOLs, which are leftovers from the old days of losing money in auto insurance. If Kingsway makes profits in the future, these NOLs can save them a lot on taxes. If the company doesn’t succeed, they’re worth little. They’re a nice bonus and can add significantly to returns, but not the main reason we’re investing.

The company’s promising strategy is more central to the investment thesis. Kingsway is purchasing growing, asset-light businesses with recurring revenues and high margins. The company is building a portfolio of the types of businesses that we like to own and is typically paying 5X EBITDA for these businesses. You may be asking yourself, “where does one buy an asset-light, growing business, with high margins for 5X EBITDA?” One answer is by focusing on smaller businesses in the private markets.

If you are a 70-year-old person who has built a successful lifestyle business generating \$1M - \$3M in EBITDA per year, you have built a very nice life for yourself. However, there is a good chance that your children and/or employees are not a viable succession plan. There is value, but the pool of potential buyers is smaller than one might think. Maybe there is a competitor who will buy you out, but that is often not the case. A business with \$1M to \$3M in EBITDA is too small for private equity to purchase unless it is being absorbed by a “platform” company. Private equity typically wants to back an individual, not provide an exit for the current management. Even at “depressed” valuations of 4-6X EBITDA, a business generating \$1M to \$3M in EBITDA will transact for somewhere between \$4M and \$18M, which is beyond the purchasing capacity of most individuals.

As is often the case in capitalism, a group of people who have identified the opportunity. When I was at Stanford Business School, certain classes were difficult to get into. Each student had one “silver bullet” you could use to effectively guarantee you got into a specific class. The use of the bullet was highly considered. I used mine to take Jack McDonald’s investing class, but a lot of students used their bullet for Professor Irv Grousbeck.

Professor Grousbeck was one of the wealthier faculty members, and he had real operating chops; he was not just an academic. He had grown and sold Continental Cablevision for \$11B, which allowed him and his son to purchase the Boston Celtics. Professor Grousbeck taught Entrepreneurial Management, and one of the tools he evangelized was the search fund saying, “It’s the most direct way I know for aspiring MBA entrepreneurs to get into business for themselves.”

Historically, a search fund had a recent MBA graduate raise money from wealthy individuals to go and find a business to buy. The individuals would write small upfront checks of \$10K or \$20K, with the searcher ultimately raising a couple hundred thousand dollars to fund the search for 12-24 months. If the searcher found a business to buy, the initial funders would have the right, but not the obligation, to invest in the deal. Put simply, you have a bright, young, and hungry 28-year-old scouring the country to buy and improve businesses from 70-year-olds who are rich and want to retire. The young guns pay a low market price, grow the business and EBITDA to a size where private equity can buy it at a higher multiple, and eventually sell it. Investors (hopefully) get the twin engines of business growth and multiple expansion to drive returns.

Historically, search funds have worked quite well. A 2022 Stanford University Center for Entrepreneurial Studies analysis of 526 qualifying search funds found the median aggregate pre-tax internal rate of return to be 35.3%, and the aggregate pre-tax return on invested capital to be $5.2x^3$. In general, the young and hungry buying companies from the older and more comfortable has worked well for all parties involved.

You are probably asking, what does Irv Grousbeck’s search fund model have to do with Kingsway Financial? The simple answer is that the company is formalizing and scaling the search fund model. Under the “Grousbeck” model, searchers would have to source their limited partners (Grousbeck was often an LP), create deal flow from a standing start, negotiate a transaction, and arrange financing. Each step was filled with pitfalls for the first-time searcher.

Kingsway has created their Search Xcelerator, which takes would-be independent searchers and hires them as Operators in Residence (OIR). Kingsway provides capital and dedicated resources for the OIRs to consistently generate high-quality deal flow, removing two of the largest pitfalls of a searcher. Kingsway also provides a world-class team of advisor, which serve as our third reason for investment. To me, it is both surprising and telling who the advisors are to the search business.

Will Thorndike, the author of *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success*, a book with a cult following among investors, is an advisor to the Kingsway Xcelerator. Will had a long and successful career at the private equity firm Housatonic Partners and has been an investor in search funds for two decades. It is also my understanding that his family office has a very concentrated equity portfolio, which includes Kingsway (KSF). Will is incredibly knowledgeable about search funds and has a seat on the inside. He has been a part of “making the sausage” and has invested personal capital on top of his time and reputation.

Another advisor to the Xcelerator is Tom Joyce, who retired as CEO of global science and technology innovator Danaher Corporation (DHR) in 2020 following three decades at the company. DHR tripled during his six-year tenure as CEO, where he spearheaded over two dozen strategic acquisitions and two spin-offs. Even more relevant to Kingsway and their cadre of business buyers/operators, Tom is a ninja in the Danaher Business Systems (DBS),

³ <https://www.gsb.stanford.edu/experience/about/centers-institutes/ces/research/search-funds>

a comprehensive framework rooted in lean and *kaizen* principles, driving continuous improvement across operations, strategic planning, and talent development. For first-time CEOs, having access to someone like Tom Joyce is unique. Tom is also on the Board of Roper Technologies and the \$6B Medstar Health System of the Baltimore/Washington, DC area.

The third advisor OIRs have access to is Tyler Gordy, an early searcher for Kingsway. He was CEO of PWSC, a company Kingsway bought for \$5M and sold for more than \$50M less than five years later, creating wealth for Tyler and his family and providing some of the capital to pay off Kingsway's debt. Tyler is the most successful Kingsway searcher to date, and a proof point that the model can work within the Kingsway structure.

The advisors are indicative of the quality and ambition of Kingsway's search efforts, but if the search fund strategy is going to be successful, the quality of the searchers will be the most critical element. Tom Joyce advising a potato head is not going to work.

The company currently interviews 100 searchers for each one they hire. Here is the bio of one of their searchers, which is pretty typical of this group.



Paul Vidal

Operator-in-Residence
Kingsway Search Xcelerator

Paul Vidal joined Kingsway in January 2024. Prior to joining Kingsway, Mr. Vidal was Head of Operations for GrayMatter Robotics, where he led business operations, finance, and marketing for the rapidly growing AI industrial robotics company. Prior to GrayMatter, he led the shared mobility business at Razor, launching the shared-scooter startup to achieve millions of paid rides and operational profitability across 12 US cities. His earlier experiences include roles as Sr. Mgr. of Partner Operations at automotive eCommerce pioneer TrueCar, as Corporate Development Manager at TechnipFMC leading new business lines in subsea energy extraction, and as a management consultant at Booz & Co, serving the commercial aerospace and defense industries.

Paul began his career as a Naval Aviator in the US Navy and British Royal Air Force, where he amassed over 2,000 flight hours and hundreds of aircraft carrier landings as a jet pilot during the Invasion of Iraq and subsequent operations. He holds an MBA from Harvard Business School, an MA in National Security and Strategic Studies and graduation of the Naval Command and Staff College with combined highest honors from the US Naval War College, and a BS in History from the United States Naval Academy.

I would back this guy every day of the week. Navy pilot, Harvard Business School, Head of Operations for an industrial company. I like his chances to grow a small business quickly through basic blocking and tackling.

Fortunately, Kingsway has assembled a stable of talented searchers like Paul, making Kingsway an attractive way to get into business with the Paul's of the world at scale and with liquidity.

What are the searchers buying? The acquisition criteria for Kingsway are asset-light, recurring revenue, and high margins – which happen to be the types of businesses that Greenhaven Road wants to invest in and the attributes that the successful search funds have historically invested in. The Search Xcelerator business

owns seven operating businesses spread across B2B services, healthcare services, vertical market software, and skilled trades. If the model works, the OIRs should complete two or three acquisitions per year, making way for additional searchers to look for more businesses to buy.

Kingsway's run-rate-adjusted EBITDA of Kingsway is approximately \$20M, including a legacy warranty business. With a market capitalization of approximately \$220M and \$30M in net debt, we are not paying an enormous multiple for the search fund model and the upside from future acquisitions. Over time, if the acquisitions are

successful, the model becomes fully self-funding with the cash flow from existing businesses funding the acquisition of new businesses.

As per the previously cited Stanford study, searchers have historically grown their businesses in excess of 35%. Kingsway underwrites to 30% per year growth, and in the case of PWSC, their successful exit, they exceeded both growth rates. One would expect the growth in revenue and earnings to be back-end-loaded since the first few years are about learning the business, transitioning leadership, and investing in people and systems. Investments like adding sales resources or expanding into new geographies typically depress short-term earnings but are worthwhile for motivated operators, even if the payoff is delayed. This dynamic of depressed earnings after purchase that inflects upwards is commonly referred to as a J-curve because of the shape.

Currently, Kingsway owns seven businesses in its Search Xcelerator with the majority purchased in the last three years. It is difficult to conclude what their growth rates will be and how atypical the PWCS experience was; to be clear, this investment works out exceptionally well with 10% growth and absurdly well with 20%+ growth.

Three positive data points from the current crop of companies are:

- 1) Ravix, their financial services staffing business, has nearly doubled EBITDA in 3.5 years.
- 2) DDI, their remote healthcare monitoring business, is on pace to double revenues within four years after adding a second location.
- 3) SPI, their vertical market software company became a Rule of 40 company in less than two years.

As in any portfolio, there will be strong and weak performers, but in aggregate these are very bright and motivated operators buying businesses that have been undermanaged and underinvested in. There should be low-hanging fruit.

How might this all roll up over time? How might the earnings and share price grow? Most investments come down to one or two variables that matter. For Kingsway, it will be their ability to grow and improve the businesses they purchase. Given the wave of retirees, I have little doubt they will be able to find a couple of businesses per year to purchase. I also think they will continue to pay approximately 5X EBITDA (historically they are sub-5X), but if they end up paying 6X or 7X, it will not blow up the model.

The following chart assumes different purchase activity per year on the left side at a 5X EBITDA multiple, assumes stock is issued until the model becomes self-funding, and assumes no multiple expansion for the parent company. Most importantly, along the top are different possible organic EBITDA growth rates per year. The output is the share price at the end of five years. As a point of reference, shares currently trade at approximately \$8 per share.

Acq. EBITDA	KSX Organic EBITDA Growth							
	--%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	
	\$4,000	\$12.12	\$14.23	\$16.71	\$19.63	\$23.05	\$27.06	\$31.72
	\$6,000	\$16.41	\$19.23	\$22.53	\$26.38	\$30.85	\$36.04	\$42.05
	\$8,000	\$20.70	\$24.24	\$28.35	\$33.13	\$38.65	\$45.03	\$52.37

I don't think it is unreasonable that the searchers can collectively make \$6M in EBITDA acquisitions per year (middle row) and grow them at 15% per year (middle column). This would yield a \$26.38 share price, more than a

triple from today's price and a 27% CAGR. Buying more EBITDA (bottom row) and growing it faster (right columns) will yield even better returns.

As an added cherry on top, in April, Kingsway welcomed two new board members, Adam Patinkin of David Capital and Josh Horowitz. Adam is one of the most thoughtful investors I know. I think Adam can be very helpful to the company from an investor relations perspective and increase the likelihood that they maintain or expand their multiple. David Capital has a path to owning over 9% of the company. Josh owns 1.5% of the company and has a terrific track record on public boards – he is currently Board Chairman of both BK Technologies (BKTI), which has gone from \$10/share to almost \$50/share in his two years on the Board, and former holding of ours Limbach (LMB), which is up from \$5/share to \$80/share in his four years on the Board.

At the core, this is a business model/jockeys bet. For a \$225M market cap company, the board and advisors are the A-team, Delta Force. The searchers are 100% backable. The model has worked in the past. This is currently the only way for investors to get exposure to search funds at scale and with liquidity. I think the upside/downside is skewed dramatically in our favor.

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