January 17, 2017

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned 4.5%,[1] net of fees and expenses, in the fourth quarter of 2016, bringing the year-to-date net return to 8.4%. During the quarter, the S&P 500 index returned 3.8%, bringing its year-to-date return to 12.0%. Since its inception in May 1996, Greenlight Capital, L.P. has returned 2,090% cumulatively or 16.1% annualized, both net of fees and expenses.

Our quarter was marked by strong profits in the long portfolio, partly offset by losses in the short portfolio and a small loss in macro. Chemours (CC), General Motors (GM) and Resona Holdings (Japan: 8308) were the big long winners; there were no significant individual short losers; and losses on gold slightly exceeded gains in other macro positions including short French government debt.

For the year, the long portfolio contributed 19.9% to the gross return. The leading winners were CONSOL Energy (CNX), CC, Time Warner (TWX), GM, Michael Kors (KORS) and Apple (AAPL). The only significant long loser was SunEdison. We lost 11.7% in the short portfolio. The biggest culprits were the oil frackers, Amazon (AMZN), Caterpillar (CAT) and Martin Marietta Materials (MLM), which combined to exceed material gains on athenahealth (ATHN) and in the "bubble basket." Macro contributed 2.7%, led by gold and natural gas. We estimate we generated 9% in gross alpha in 2016.

Since Election Day, the market appears to have changed its macroeconomic outlook and is re-evaluating the prospects for many companies accordingly. This change in tone has been favorable to our style, and we generated a good result in the quarter despite our low net exposure and a decline in gold.

Rather than look backward, we'd like to share our views of what a Trump Presidency (TP) might look like and why we believe we are well-positioned for 2017. In short, we believe that the post-Great Recession easy money policies have been good for Wall Street but bad for Main Street. It's possible that the TP reverses these policies, which would be good for Main Street but rough on Wall Street.

While it's hard to know exactly where President-elect Donald Trump stands from day to day, his main economic policy objective appears to be employment. To that end, he has proposed corporate tax cuts, infrastructure investment, and military build-up, combined with anti-immigration policies and trade protectionism. To the extent that he can implement these policies, the economy should accelerate, and given that we are starting with less than 5% unemployment, a labor shortage could develop.

[1] Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.

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In response, monetary policy is poised to tighten. Conventional wisdom says this will slow growth, but we continue to disagree. Our Jelly Donut thesis on monetary policy contends that ultra-low interest rates deprive households (savers) of income to the point that the harm overwhelms any of the limited benefits. We believe that raising rates from, say, 0.5% to 2% would give needed income to savers without significantly impacting corporate investment decisions.

Further, rates rising from ultra-low to merely low would add a fiscal stimulus because the higher interest payments to holders of newly issued Treasuries and on overnight liabilities at the Fed will add to the deficit. In the near term, this stimulus combined with the benefit to savers will add fuel to an accelerating economy and a tightening job market.

Ultimately, wage inflation could become a drag on corporate profitability and higher inflation may force the Fed to raise rates substantially, potentially causing the next recession.

In light of the above, here are some of our thoughts on our current positioning for a TP:

- **Long a variety of low-multiple, tax-paying, U.S. value stocks.** Corporate tax cuts provide the most benefit to companies that have profits on which to pay taxes. AMERCO, CC, Dillard's, and DSW are all generally full federal tax-payers with healthy profits.

- **Long AAPL.** AAPL stands to benefit from repatriation of foreign cash and tax reform. The company has over $200 billion in offshore cash it could bring back to the U.S. AAPL also derives a majority of its earnings from foreign sources but still accrues GAAP taxes at a 25% rate, which is higher than many other large tech companies. The lower corporate tax rates proposed as part of repatriation and tax reform could therefore lead AAPL toward a structurally lower GAAP tax rate going forward.

- **Long GM.** More jobs, higher income for savers, and higher wages should drive demand for consumer durables, and there is no better consumer durable than an automobile. GM also falls under the low-multiple, tax-paying U.S. value stock category. For these and other reasons (upon which we elaborate later), we have dramatically increased our GM position.

- **Short "bubble basket."** Bubble basket stocks mostly don't have profits, which makes them unlikely to benefit from corporate tax cuts. Further, an accelerating economy should allow investors to find growth without needing to pay nosebleed prices for a narrow group of profitless top-line growth stocks. We think the basket is poised to further underperform with one caveat: There is a risk that Disney decides to star in the Internet Bubble 2.0 remake of the TWX/AOL deal by acquiring a profitless Netflix (NFLX) at the top.[2] We suspect Disney won't. Accordingly, NFLX merits a spot in the basket because its domestic market has matured; it risks an unfavorable change in net neutrality rules;

[2] Should this happen, we hope the creators of the show *Billions* will develop a new Netflix series, *Billions Wasted*.

and it has not demonstrated that its huge investment in original content has a positive return. We believe it doesn't. NFLX is able to report that its U.S. streaming segment is highly profitable only by allocating a disproportionate amount of content amortization to its smaller and unprofitable international streaming segment.

- **Short oil frackers.** Despite repeated claims in their slick presentations, the economics still don't work when all investment and corporate costs are taken into account. We thought the well of investors willing to sink cash into money-losing holes would begin to run dry, but the "drill-baby-drill" attitude of a TP is likely to lead to additional mal-investment. This will lead to lower commodity prices and still deeper losses. Further, due to various existing subsidies, oil frackers are generally not cash tax payers. The proposed corporate tax cuts don't help much when you don't pay taxes in the first place.

- **Short CAT (and a few other similar industrial cyclicals that have moved much higher post-election).** Every time someone says "infrastructure investment," investors reflexively buy certain stocks including CAT. Yes, CAT sells machines that are used in infrastructure, but this represents only a small part of its business. CAT's biggest segments are mining and energy. We just completed a once-in-a-generation boom in iron ore mine development, and horizontal drilling means we can produce more oil with fewer rigs. Even in a U.S. infrastructure boom, CAT is overpriced. CAT closed the year at $92.74 or 33x forward earnings.

Lastly, we continue to own gold. Our sense is that Mr. Trump doesn't hold any core policy beliefs and is apt to change his mind as he sees fit. This will lead to more political and economic uncertainty and less stability. There has been a knee-jerk decline in gold since the election, as investors presume that higher short-term rates are good for the dollar and bad for gold.

Ultimately, we believe the case for gold is broader: greater economic, geopolitical and policy uncertainties, much wider budget deficits, and the possibility of an inflation problem all support gold (to say nothing of what might be required to redecorate the White House to Mr. Trump's tastes).

We established one new position and increased two others during the quarter.

We made a mid-sized investment in a European financial company. As per our policy regarding EU MAR, we won't identify the company or discuss the thesis at this time.

We can, however, elaborate on Bayer (Germany: BAYN), the previously unnamed European life sciences company we referenced in our July 26, 2016 letter. We presented our BAYN thesis at the Robin Hood Investors Conference in late November. You can find the presentation titled "Have Your Cake and Eat It Too" (we don't recommend reading it on an empty stomach) here:

https://www.greenlightcapital.com/933586.pdf

The bottom line is that we like BAYN's prospects whether or not it consummates its merger with Monsanto. We bought BAYN at less than 10x our estimate of the company's 2018 pro forma earnings.

As mentioned above, we increased our GM position. While the bears have been screaming "peak auto" for the last couple of years, we think a strengthening job market will sustain the current upcycle and lead to better than expected credit performance at GM's finance subsidiary. While the bears also cite long-term concerns over self-driving cars, we see a huge intermediate-term opportunity in assisted-driving cars. In any other industry, investors would be enthused by the developing upgrade cycle, which could last for a number of years as incremental improvements in each model year attract consumers.

GM's valuation is extreme: at its year-end price of $34.84 per share, GM trades at less than 6x earnings. It is rare for a company to pay out only a quarter of its profits in dividends and still yield 4.4%. GM has substantial foreign operations that (other than China) barely contribute to profits and could improve over time. Finally, we believe that GM can unlock substantial value through modest changes to its capital structure.

We purchased E.ON (Germany: EOAN) in the fourth quarter of 2015. When EOAN spun out Uniper (Germany: UN01) in September, we kept the UN01 shares we received at €10.02 in the transaction and sold the balance of our EOAN stake at a modest loss to redeploy that capital into additional UN01 shares. We believe the market does not appreciate the earnings stability of UN01's power generation and natural gas logistics assets. Further, the incoming management team is incentivized and has committed to cost-cutting, which will create a powerful cash flow profile. We own the company at 6x our 2017 earnings estimate.

We closed out several material positions during the quarter.

We exited our AECOM (ACM) investment with a modest return after the company successfully integrated URS. Unfortunately, the revenue synergies we were hoping for never materialized and its declining oil and gas business added an additional revenue headwind.

We earned a 20% IRR in our KORS investment when the business stabilized and the company deployed excess cash into share repurchases. We exited because several potential growth drivers and its European business disappointed, and U.S. department store promotions hurt KORS' pricing power in its company owned stores.

We doubled our money in Take-Two Interactive Software (TTWO) over three years. The successful online launch of a key franchise and an expanded catalog of successful titles, routinely caused earnings to exceed guidance and expectations. We sold our position along the way and completed our exit this quarter because analysts' estimates have now caught up with our own. We were able to Take-Two dollars for every dollar we invested.

We covered our six year short in FLSmidth (Denmark: FLS). Over the years, the company burned through its high margin customer backlog in cement and mineral processing equipment, and was left with fewer, lower-margin sales. FLS fell 28% over our holding period.

We covered our short in Mead Johnson Nutrition (MJN) at a modest profit following a string of disappointments in its core baby formula markets of China, Southeast Asia and the United States. While the valuation still looks rich to us, we thought the risk of a strategic buyout outweighed the upside of waiting for a lower exit price.

When Reynolds American (RAI) announced that it would acquire our tobacco short Lorillard in 2014, we held fast to our thesis and shorted RAI. Unfortunately, expected menthol regulations never came to fruition. In October, British American Tobacco announced plans to buy out the balance of RAI and we took the opportunity to exit with a -38% IRR. We should have read the WARNING: Shorting tobacco companies can be hazardous to portfolio health.

For the first time in a long while we have no administrative updates. No hires, no departures, no changes to our service providers… no shoes, no shirt, no problems.

At quarter-end, the largest disclosed long positions in the Partnerships were AerCap, Apple, CONSOL Energy, General Motors and gold. The Partnerships had an average exposure of 106% long and 81% short.

"Learning never exhausts the mind."

– Leonardo da Vinci

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

Unless otherwise noted, performance returns reflect the dollar-weighted average total returns, net of fees and expenses, for an IPO eligible partner for Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., and the dollar interest returns of Greenlight Capital (Gold), L.P. and Greenlight Capital Offshore (Gold), Ltd. (collectively, the “Partnerships”). Each Partnership’s returns are net of the modified high-water mark incentive allocation of 10%.

Performance returns for Greenlight Capital L.P. since inception reflect the total returns, net of fees and expenses, for an IPO eligible partner and are net of either the modified high-water mark incentive allocation of 10% or the standard 20% incentive allocation applied on a monthly basis pursuant to the confidential offering memorandum for a partner who invested at inception.

Performance returns are estimated pending the year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. Each partner will receive individual statements showing returns from the Partnerships’ administrator. Reference to an index does not imply that the funds 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.

All exposure information is calculated on a delta adjusted basis and excludes credit default swaps, interest rate swaps, sovereign debt, currencies, commodities, volatility indexes and baskets, and derivatives on any of these instruments. Weightings, exposure, attribution and performance contribution information reflects estimates of the weighted average of such figures for investments by Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital (Gold), L.P., and Greenlight Capital Offshore (Gold), Ltd. (excluding the gold backing held by the gold interests) and are the result of classifications and assumptions made in the sole judgment of Greenlight.

Gross alpha contribution is calculated, using the gross annual returns, on a position by position basis against a local market index. Gross alpha does not reflect the deduction of management fees, incentive allocation, and other fund expenses.

Positions reflected in this letter do not represent all the positions held, purchased, or sold, and in the aggregate, the information may represent a small percentage of activity. The information presented is intended to provide insight into the noteworthy events, in the sole opinion of Greenlight, affecting the Partnerships.