October 28, 2016

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned 3.4%,[1] net of fees and expenses, in the third quarter of 2016, bringing the year-to-date net return to 3.8%. During the quarter, the S&P 500 index returned 3.9%, bringing its year-to-date return to 7.8%.

Last quarter we ended our letter with a quote about Tesla. This quarter we begin with one from Dave Pell, editor of NextDraft:

> "*It's pretty amazing that we live in an age when a CEO of two public companies can give a talk about colonizing Mars and shareholders don't see that as a warning signal.*"

It's not so amazing when one considers that those same complacent shareholders have been willing to look past years of over-promising and under-delivering from a promotional CEO. Elon Musk's ability to spin a yarn and keep a story going seems to mesmerize his investors, blinding them to the challenges the company is facing.

In contrast, we have central bankers who are determined to see flashing lights that aren't there. We are more than seven years into an economic recovery, yet central bankers behave as if we're still in crisis. Not only are experimental emergency policies being maintained, they are being expanded despite little evidence that they are needed or helpful. The newest manifestation comes from Japan, where the central bank has committed to monetize the entire government bond market if needed to keep the ten-year rate at zero. Leading economists are currently destigmatizing the idea of fiscal policy stimulus financed by direct money printing, so that goes into the coming attractions queue.

With U.S. unemployment at 5% and the core CPI rising 2.2% over the last year, it is difficult for the "data dependent" Fed to further rationalize emergency rates based on its official dual mandate. It appears that the real criteria for raising rates are:

- Market forecasters fully expect a rate increase.
- The most recent move in the S&P 500 was positive.
- There is no trouble in foreign economies or financial markets.
- There are no potentially destabilizing geopolitical events, including foreign elections.
- The Cubs win the World Series.

At the most recent Federal Reserve meeting, Chairwoman Janet Yellen indicated that the case for raising rates had strengthened, and three governors voted to do so, yet the Fed decided to wait.

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

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Clearly there is little appetite for normalizing policy, even under normal conditions. Instead of defending the continued easy money policy, Chairwoman Yellen recharacterized it as only "modestly accommodative." She also denied that the U.S. election drove the decision, which makes her politically neutral enough to moderate a presidential debate.

Our quarter was marked by strong profits on our longs led by Apple (AAPL), Chemours (CC), and CONSOL Energy (CNX), and partly offset by losses throughout our short portfolio, most notably Pioneer Natural Resources (PXD). The macro portfolio was flat.

AAPL rose from $95.60 to $113.05 as the iPhone 7 announcement and launch were well received, contrary to the market's low expectations. Part of the stock price improvement may be explained by increased speculation about a foreign cash repatriation deal sometime next year.

CC jumped from $8.24 to $16.00 after strong earnings driven by the rising price of titanium dioxide (TiO_2) and progress on CC's cost-reduction plan. The market remains concerned about CC's exposure to legal liabilities related to its legacy Teflon manufacturing. We continue to believe the ultimate liability is manageable, and that a recent negative verdict currently under appeal might not stick. In the fluoroproducts segment, our research indicates that profits on CC's next generation refrigerant Opteon will continue to climb, even beyond the 2017 timeframe management has discussed. Between expanding Opteon profits and a continued rise in TiO_2 pricing, we expect CC's EPS to be in excess of $2.00 in 2017 and to approach $3.00 in 2018.

CNX advanced from $16.09 to $19.20 due to strong drilling results and a tightening of the coal market. With U.S. thermal coal production down 22% so far this year, stockpiles have fallen and prices have begun to recover. Also, with the continued recovery in natural gas prices this year, the company is bringing additional drilling online sooner than expected.

As for PXD, shares advanced more than 20% from $151.21 to $185.65 despite stable oil prices and another money-losing quarter. The company's investor relations effort should be commended for its effectiveness, if not for its veracity. This quarter's whopper was the CEO's claim that "the [Permian] horizontal well operating cost excluding taxes is down to almost $2 per BOE. So definitely we can compete with anything that Saudi Arabia has." This quote was so colorful that even *Forbes* couldn't resist having fun with it asking, "Is he serious? Naw." *Forbes* went on to say that the company's total variable costs per barrel last quarter totaled $18 compared to Saudi Arabia's $6.

We spoke with a number of industry contacts in the Permian basin and couldn't find anyone who believed the $2 claim. Perhaps the company is capitalizing operating costs; perhaps it is operating its own service company at a loss for intercompany accounting purposes; probably it is excluding salt water disposal costs; and almost certainly PXD is counting only the newest wells that are benefitting from very high initial flow rates. We don't really know, but we can't find any support for the idea that the Mother-Fracker has long-term sustainable operating costs approaching $2 per BOE.

In an attempt to outdo PXD, fellow oil fracker Continental Resources (CLR) used its conference call to hype the possibility of earning an "over 100% rate of return" by investing small amounts

to complete its inventory of drilled but uncompleted wells. The wells were barely profitable before oil prices collapsed and today are economically unviable at current oil prices. In touting the unbelievable returns on the delayed completion work being done now, CLR is excluding the sunk costs of drilling the wells in the first place, which is a bit like spending $20 on Lotto tickets and boasting about your $10 winner.

We established one new medium-sized long position in a company in the utility sector during the quarter. As the company is subject to European Union MAR regulation, per our current policy we are declining to disclose it at this time.

We closed out a couple of material positions during the quarter.

We bought Vodafone (VOD) in 2009 when the market was valuing its Verizon Wireless (VZW) stake at next to nothing. VOD ultimately realized $130 billion for its VZW stake when it completed the sale to Verizon in 2014. Over the past two years we continued to collect dividends and other deal proceeds. We sold our remaining stake when it became less likely that VOD would be sold for a premium. All told, we ultimately earned a 20% compounded annual return on our investment.

We sold our stake in Evonik for a small gain. We hoped its capital investment program would lead to strong EPS growth and a re-rating. Instead, it merely helped fight the slower sales in some of its more commodity-like chemical products affected by weak Chinese demand.

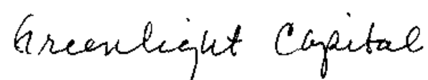
Nick Jain joined Greenlight as a Junior Analyst in August. Nick began his career in 2009 as a field research assistant for the MIT Poverty Action Lab. Next, Nick joined McKinsey where he focused on technology, consumer and healthcare companies. In 2012, Nick joined Bain Capital as an associate, where he helped manage several private equity investments. Nick earned an A.B. *summa cum laude* in Mathematics and Physics from Dartmouth College in 2009, and an MBA from Harvard Business School in 2016 where he was a Baker Scholar. Welcome Nick!

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 108% long and 80% short.

"All experts are experts for things that did happen. There are no experts for things that may happen."

— David Ben-Gurion

Best Regards,



Greenlight Capital, Inc.

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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 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.

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.

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