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Dear GreenWood Investor:

We have a very busy election season ahead of us, not just here in the U.S., but also abroad. Populism and anti-globalization forces have spread like wildfire, and for some odd reason, the world believes complicated topics are somehow best left up to voters relying on 10-second sound clips to make a decision. While the US still under-estimates the risks of an extremist as a president, markets in Europe are well prepared for imminent chaos. Due to the grave error markets made in predicting the outcome of the Brexit vote, which we still maintain will not end up in Britain exiting the eurozone, markets have over-corrected, the pendulum has swung the other way, and now most gamblers are predicting an imminent demise of the eurozone currency. We went into Brexit fully-hedged on currency, as we understood the chances of the unintelligent view prevailing were unfortunately a coin flip. Market odds were pinning the chances of an intelligent outcome at over 90%, in an obvious mismatch of expectations versus reality.

As any emotional being responds to a mistake, the market has now decided to nearly fully price for a eurozone breakup. Interestingly, despite both U.S. Presidential candidates campaigning on contractionary economic policies, rich domestic valuations are largely ignorant to looming trade policies which will reduce consumer purchasing power by as much as 63%.[1] The bond market is also ignoring the promises of global central bankers to do "whatever it takes," to stoke inflation. Bonds represent return-free risk, and we only wish we had an ISDA because we have found many terrific short opportunities in the bond market.

Gold and gold mining stocks, the obvious insurance against the central banking "geniuses," are all overbought and trade at very high valuations. Still, we are diligently looking for opportunity here. But if US equities, global bonds and gold are all overbought and trade at unjustified valuations, where are global investors to go?

Exhibit 1: GreenWood's Composite Performance[2] vs. MSCI ACWI All Cap (Net)

	Traditional	Global Micro	MSCI	Traditional Correlation
8/1/08-12/31/08	-10.9%		-33.9%	88.6%
2009	155.3%		36.6%	77.7%
2010	28.5%		14.5%	27.3%
2011	-1.0%		-8.0%	68.9%
2012	-5.6%		16.4%	38.9%
2013	14.2%	18.0%	23.6%	70.5%
2014	0.1%	2.1%	3.8%	32.3%
2015	11.2%	11.9%	-2.2%	87.2%
YTD 9/30/2016	**-5.9%**	**-5.3%**	**7.1%**	**88.9%**
Cumulative	227.2%	27.7%	48.8%	
Annual Compounded Rate	15.6%	6.7%	5.0%	

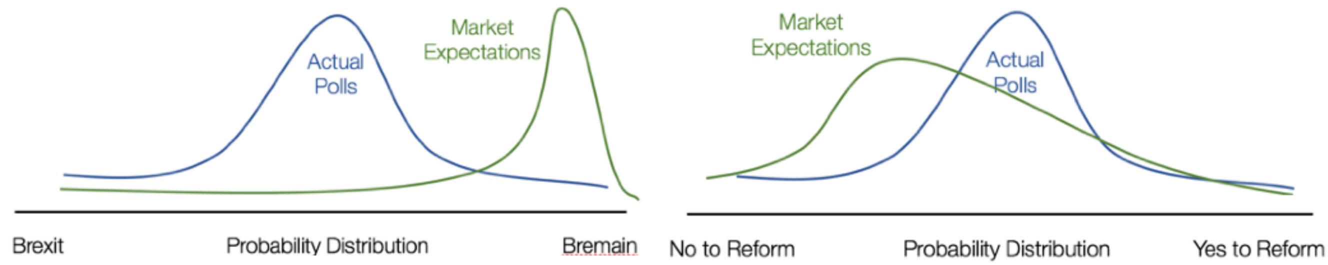
Our bottoms-up process has led us to international markets where pessimism doesn't warrant the underlying fundamentals- the opposite of the Brexit scenario. While we acknowledge the irrational behavior of populations voting on emotional issues, momentum has swung decidedly back in the direction of eurozone integration and political reform in Italy. Yet the market has determined Brexit was the first crack in the eurozone, and will be followed by multiple subsequent debilitating events. They may be right, and we're focused on fast-tracking multiple short candidates in order to protect against this outcome, and have increased our short position in Volkswagen, but the market's expectations are once again disconnected with reality. Brazil, the worst-performing index last year, has become the best-performing index even before political stability has actually been achieved, and leading economic indicators in the country have yet to even improve. Maximum pessimism was reflected in asset prices, and when an economic collapse never materialized, valuations went through a necessary adjustment period. Just as the Brazil

[1] See Economist "Why They're Wrong." 10/1/16

[2] Represents GreenWood's Traditional & Global Micro Composites. Performance prior to January 2011 represent the returns generated by the manager prior to founding GreenWood Investors, using the same strategy. GreenWood Investors LLC claims compliance with the Global Investment Performance Standards (GIPS®) and a GIPS-compliant presentation is available on our website (click here for access). **Past performance is no guarantee of future results.**

example suggests, under any scenario for the Italian referendum in early December, we believe the stock market, one of the cheapest in the world, will be among the best performing in the next twelve months.

Exhibit 2: Mismatched Market Expectations vs. Reality in UK (1st) and Italy (2nd)

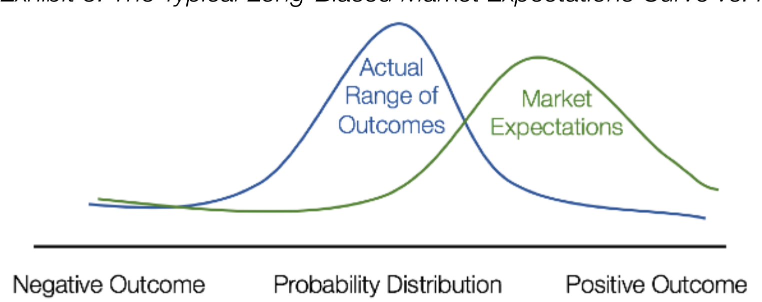


Italian consumer confidence remains at very healthy levels and unemployment keeps surprising economists positively. It will continue to do so, as Italy has regained a significant amount of competitiveness lost to Germany and northern Europe as a result of the formation of the eurozone. Through Piaggio and Telecom Italia, we are poised to capitalize on this recovery. Yet, most of our investments in Italian companies have very little exposure to the Italian economic cycle. Most are simply listed in Italy and benefit from the country's favorable tax laws, European passport, and excellence in design. It's really amazing to think about how much of an impact 1% of the world's population has had on the world of design. In our recent research note on Piaggio (available to all investors in the Grove), we noted how the Vespa, still the cheapest form of daily transportation aside from walking, has won innumerable international design awards. The strength of the brand has allowed the company to raise profit margins to among the best in the industry, despite the 80% contraction in Italian scooter sales and the significantly lower volumes the company sells relative to its Asian counterparts, which mostly have lower profit margins.

The British and Italian referendum examples are part of a broader exploration we've been doing on market expectations versus reality, and applying the principles of quantum mechanics to investing. "Cause and effect" is a very useful way of looking at the world, yet it's severely limited. The present circumstances are better described as a manifestation of preconditions that have been actualized. The rise of populist comedians and reality TV stars as politicians have many causes, but it's safe to say social media and 24-hour news cycles were necessary preconditions for the actualization of our current unfortunate choices for President.

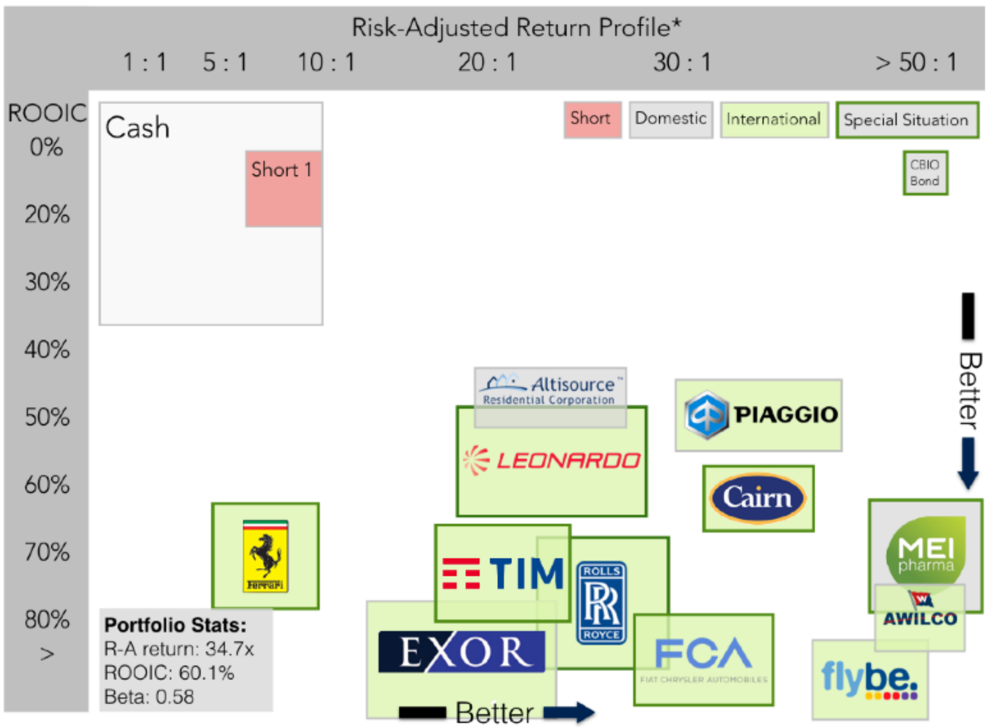
Investors have consistently focused on "catalysts," that will "unlock," the underlying value of a particular asset, yet over the past few years, these anticipated events have almost systematically been a let down for long-only investors. An increasing number of anticipated "causes," have had lackluster effects for investors who are very long-biased. Should the known catalyst turn out favorably, such as FCA routinely beating consensus estimates for quarterly earnings by over 20% (a significant margin relative to S&P 500 stocks), stocks often trade up very little, or in the case of FCA, actually trade down on the day of the positive news. Should the catalyst deliver poor results, buyers evaporate and sellers have no reasonable bids to hit. While most traditional hedge fund managers won't touch stocks without "hard catalysts," we have tried to avoid assets with well known catalysts, particularly when the expectations are skewed positively. Our best performance in individual assets have come on days with zero news. When Leonardo-Finmeccanica signed the largest contract of its long history with the Kuwait government to supply the country with fighter jets, the stock traded down. There were multiple delays in the announcement of the contract, all of which sent the stock lower. The net effect of the largest contract in its history was a decidedly negative event for the stock. Who wants a catalyst when they are routinely delivering such unwanted "effects?"

Exhibit 3: The Typical Long-Biased Market Expectations Curve vs. Reality



We prefer to focus on maximizing the preconditions of an investment. The most powerful value drivers of investments have routinely been management teams with excellent capabilities in capital allocation, businesses that have competitive barriers to entry, conservative accounting practices, tailwinds in its industry, opportunities to reinvest in the business, and of course, cheap valuations, particularly relative to the potential downside scenarios. Typically this also means we specifically shun crowded trades. We've talked about these preconditions for a while now, and during the quarter, we added yet another key feature to our process that is designed to reduce opportunity costs - which is key in today's global valuation context. Missing just a couple of pockets of growth or asymmetric risk-adjusted return opportunities will mean lackluster investment performance. That's not something I am willing to tolerate over the medium-term. Our process now considers market expectations of events over the next three, six, and twelve months relative to the actual range of possible outcomes.

Exhibit 4: GreenWood [Model Portfolio]() Composition[3] *as of 9/30/16*



*Risk-Adjusted Return profile represents GreenWood's approximate estimate of fair value versus downside risks as of the date listed above.

This roadmap should help us better execute our investments, just as adding the force-rank system has helped us improve our execution from a 50% near-term success factor to over 75%. Yet, this doesn't mean we're only willing to look at things with great news on the immediate horizon. In fact, those are the exact opportunities that are crowded and carry negatively-skewed risk-adjusted return prospects. More often, given our contrarian approach, it will mean that the market is baking in undue pessimism in the security's price, yet the actual range of possible outcomes is nowhere near as bad as the market's emotions have pushed the price. We've repetitively observed instances where negative emotions have more than factored-in any particular negative development, and upon actualization of the potentiality, the stock price actually appreciates as the market had overly-discounted the negative possibility.

As we've discussed in the past, we believe by giving Fiat-Chrysler an earnings multiple of 2.5x trailing earnings, short-sellers have reflected a valuation that only makes sense if US unemployment more than doubles to above 12% (using GM's current earnings multiple as "fair value," on a forward-looking basis). Because of the geographic and product expansion underway at FCA, the group has recently upgraded its 2018 earnings guidance, which would mean that the current FCA stock is trading around 1x forward earnings. Even buggy-whip businesses in secular decline (Barnes & Noble, Blackberry, and Pandora Media) don't trade at such levels. Let us be clear, aside from the Italian and Brazilian automotive markets (key for FCA, but still not large enough to be the main drivers), we are sanguine to negative about global automotive demand over the next two years. We're more excited about autos from the short-

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[3] Each account's balance may vary due to differences in strategy, account sizes and rounding of positions, as well as inclusion or exclusion of certain "illiquid" securities and currency hedges. Non-Margin and retirement accounts may not hold short positions in securities, and will thus be excluded from the portfolio. New accounts will not conform to the model account in cases where securities no longer fit GreenWood's initial investment criteria.

side, particularly because the premium automotive sector as well as Chinese auto sales are both going to be facing *severe* headwinds in 2017. FCA has very little earnings exposure to both of these sectors, and is a challenger, not an incumbent in these segments, and it will be adding to the competitive headwinds its peers face.

Exhibit 5: FCA Expectations vs. Reality Incorporated Into Our Force-Rank System

	Q4 2016	**Q1 2017**	**Q2-Q3 2017**
What the market says	US auto cycle over, 20% decline imminent. Won't achieve guidance, Italy in chaos.	Will have to scrap 2018 goals, debt becomes a problem.	Almost bankrupt. US auto sales down over 30%.
Actual ranges of outcomes	Little fundamental change to underlying conditions (within 10% of today's levels), perhaps higher incentives in the US.	Product / geographic expansion continues; US capacity realigned to 100% truck/SUV.	Debt-free, most major products launched. US margins improving and Marelli probably sold. GM probably back at the M&A negotiating table.
Fair value range (using GM's current valuation)	€7.80 - €10.11 (Bear vs. Bull)	€7.24 - €16.13 (Bear vs. Bull)	€9.45 - €19.72 (Bear vs. Bull)

While the market believes Fiat-Chrysler to be devoid of any positive value-creating events, it has been a fool's game to bet against its parent EXOR. The holding company, which remains our largest position, has been unable to sit still, completing three spin-offs, four mergers, three major restructuring plans, implemented four stock repurchase plans and built multiple businesses. In a few words, it's a special-situations machine. Sitting on its board is the Chief Operating Officer of Samsung Electronics, a group that is reportedly interested in acquiring its parts maker Magneti Marelli. FCA chief Marchionne has said in the past, he'd be unwilling to part with the group for less than €3 billion. If the transaction were to materialize, it would monetize a division that produces 4% of the group's income for 35% of the market capitalization. The fact that the market is complacent of this and any other looming catalyst is a great thing - it's not reflected in the price.

Another company that has been left for dead, despite very positive news announced during the quarter, is MEI Pharma (MEIP). The company offloaded all development spending on its Leukemia drug on a Swiss partner with a lot of experience in cancer treatments. In exchange, it received cash, a small equity injection, and a promise of a robust royalty stream and milestone payments should the drug eventually be approved. Because this raised our downside estimate, MEI Pharma is the most attractive current opportunity in our portfolio. Accordingly, we have not sold a single share despite the mediocre price appreciation. The market believes there are no "catalysts," in the next two years. We are confident this view is wrong, but look forward to catalyst-free trading days in the quarters ahead. In our experience, our typical investment does better on days where there is no news than on days where traders are anticipating news. In a world where investing is either done by humans with a three month time horizon, or increasingly, robots, our enhanced process will weep not for the catalysts.

Thank you again for your continued support and trust.

Annuit cœptis,

Steven Wood

Steven Wood, CFA