



	Mangrove Funds ¹	HFRX GL ²	500 ²
Prior Month (October 2016) ^{3,4}	+11.7%	-0.6%	-1.8%
Year to Date (2016) ⁴	+49.1%	+0.8%	+5.9%
Trailing Twelve Months ⁴	+49.2%	-1.3%	+4.5%
Since Inception (April 2010) ⁴	+439.4%	+0.6%	+108.9%

Dear Partners:

The Funds had a gain in the month of October 2016 of 11.7%. At month-end, the portfolio's gross exposure was 196% and its net exposure was +1%.⁵ Our performance in October was due to substantial gains from both long and short investments. The rate-of-return oriented portfolio also had small gains from stressed credit and capital structure arbitrage investments which were partially offset by small losses from arbitrage and liquidation investments. We are clearly very pleased by our recent performance, but it is obviously unsustainable.

Rather than include our normal discussion of an observation or perspective on the economy or market, we think it would be helpful to reflect upon our performance over the past eight months. In order to keep this letter subway-ride length, we will defer market and economic commentary until next month after the election. There should then be plenty to discuss. Regarding our recent performance, we believe it is important to emphasize to our partners that our portfolio construction is likely to result in some highly volatile months. When we construct our portfolio, we try to select both long and short investments that will be profitable on an individual investment level and we use our aggregate short exposure to reduce market risk. Importantly, we do not construct our short portfolio to reduce the idiosyncratic or industry risk of our long investments. Because each of our investments is chosen to produce its own profits, it is possible for both sides of our portfolio to make gains or losses in a given period. While this can be spectacular, as was the case last month, it can also result in substantial losses if we get the investments on both sides of our portfolio wrong. Even though we carefully choose each investment, we still make many mistakes. We will also have periods when the market simply doesn't agree with us, as was the case in 2013 and 2015. As a result, the same portfolio that generates a greater than 10% return in a month could also generate losses of more than 10% in another month. There's no free lunch in investing and we don't want to mislead anyone just because it's been a while since we've had a setback.

In October, we finished exiting our long position in shares of Apollo Residential Mortgage, Inc. (Prior: AMTG), although most of the position was exited in August. AMTG was a hybrid mortgage REIT which invested in a leveraged mix of agency and non-agency debt. We have written in the past about our view that mortgage REITs deserve to trade at or above book value when properly managed. We believe that well-managed non-agency mortgage REITs represent sustainable, difficult to replicate, high-yielding fixed income portfolios that have the ability to preserve book value and generate attractive ROEs in a wide range of interest rate environments. Based on this view, we initiated our AMTG position in May 2013 at an approximate 5% discount to book value per share after the company had, on average, traded at a premium to book value over the prior 12 month period.



AMTG shares proceeded to promptly trade down more than 30% during the 2013 taper tantrum and traded down even more after the company mismanaged its interest rate hedging, failed to execute on several credit investment initiatives, and management refused to acknowledge its shortcomings. Largely as a result of the interest rate hedging mismanagement, AMTG's book value per share declined by approximately 27% during our ownership period, which was bottom quartile performance in its hybrid mortgage REIT group.

Throughout this period, we continued purchasing shares, including at prices more than 50% below our initial investment, as we judged the combination of a double-digit dividend yield and at times greater than 30% discount to book value an attractive risk to undertake. Ultimately, AMTG sold itself to a related party at a discounted multiple of a depressed spot book value. To add insult to injury, we believe that the company understated its book value on which the merger consideration was based, because it showed almost no rebound in the value of its non-agency mortgages between the time of the merger announcement in February 2016 and the time of the final determination of book value in July. Despite all of these circumstances, our investment in AMTG was modestly profitable for the partnership due to our willingness to average down combined with the company's high dividend yield and an active trading strategy that sought to profit from market volatility. In many ways, we believe our small profit in light of all of the headwinds we faced supports our view that mortgage REITs often make attractive investments.

We are grateful for your trust in us and welcome any comments or questions you have.

Sincerely,

Nathaniel August

¹ Results reflect the performance of The Mangrove Partners Fund, L.P. ("U.S. Fund") and, beginning January 2013, the combined performance of the U.S. Fund and The Mangrove Partners Fund (Cayman), Ltd. ("Cayman Fund" and, collectively with U.S. Fund, the "Funds" or "Mangrove Funds"). An investor's actual performance will vary based on a number of factors, including whether the investment was made in the U.S. Fund or the Cayman Fund, the timing of the initial investment, additions and withdrawals, and participation in "New Issues" and "Designated Investments." Historical performance is not indicative of future results and such differences may be material. Performance is reflected net of fees and expenses and assumes the reinvestment of all proceeds from the disposition of investments and dividends. The Funds are audited annually; interim periods are unaudited. This calculation estimates monthly management fees at 0.167% and an annual performance allocation at 20%. Original letters for months prior to November 2012 reflect results based on a sample partner who invested only at inception.

² HFRX Global Hedge Fund Index, produced by Hedge Fund Research, Inc., is an index designed to be representative of the overall hedge fund universe and is comprised of funds representing all main hedge fund strategies. As a result, this index may include hedge fund strategies that the Funds do not employ and the hedge funds underlying this index may make investments in asset classes and companies with market capitalizations and liquidity profiles that differ from the Funds' investments. The S&P 500, produced by Standard & Poor's, Inc., is an index designed to be representative of the large cap U.S. equities market. The S&P 500 is adjusted to reflect the reinvestment of dividends. The Funds' portfolio contains short investments as well as securities issued by companies with varying capitalization, securities of non-U.S. companies, and derivatives, none of which are represented in this index. While Mangrove believes neither of these indices represents a benchmark for the Funds, each is a broad index and is presented for informational purposes.

³ The estimated returns of the Funds for October 2016 are +11.7% and +11.9% for the U.S. Fund and Cayman Fund, respectively.

⁴ Results include an estimate for the month immediately preceding the date of this letter, represent Mangrove Partner's best estimate, and do not benefit from the full accounting process that produces the final results for other months in the period. Actual performance may vary materially from the estimate. Returns including prior periods include the prior month's estimate and the actual final returns for all other periods. The final return for September 2016 was +1.9% (+1.9% and +1.9% for the U.S. Fund and Cayman Fund, respectively), versus the estimate of +2.0%.

⁵ Net exposure is measured on a beta- and delta-adjusted basis in the long/short book only; gross exposure on a delta-adjusted basis.

This letter is confidential and not intended for public use or distribution. This letter does not constitute an offer to sell or the solicitation of an offer to buy any security which may only be made pursuant to the terms of the constituent documents of the relevant Fund, including their respective, current offering memoranda. The securities of the Funds may not be offered for sale or sold in any jurisdiction in which such an offer or sale would be unlawful. Specific investments are described if, in Mangrove's view, they are interesting and lead to a better understanding of what Mangrove invests in, the process by which Mangrove invests and the path such investments take. They are not intended to and do not represent the performance of all investments or the Funds. It should not be assumed that investments made in the future will be profitable or will equal the performance of the securities discussed in this letter. Please see our quarterly letters for a schedule of the top five winners and bottom five losers.