



The Mangrove Partners Fund, [REDACTED].

	The Mangrove Partners Fund, L.P. ¹	HFRX Global Hedge Fund Index ²	S&P 500 ² (dividends reinvested)
Prior Month (August 2012) ³	+4.0%	+0.5%	+2.3%
Quarter to Date (Q3 2012) ³	+11.3%	+1.1%	+3.7%
Year to Date (2012) ³	+24.1%	+2.3%	+13.5%
Trailing Twelve Months ³	+33.1%	-1.3%	+18.0%
Since Inception (April 2010) ³	+162.4%	-3.5%	+26.5%

Note: All returns for The Mangrove Partners Fund, L.P. shown net of all fees to investors

September 7, 2012

Dear Partners:

Our net return for the month of August 2012 was a gain of +4.0%. During this period, the fund maintained its high gross and low net exposures, with approximately 171% gross exposure and, in the long/short portion of the portfolio, +2% net exposure at month end.⁴ We are increasingly concerned that the prices of many assets reflect broad-based complacency. Notably, volatility has dropped and credit spreads have narrowed. We believe investors are no longer being adequately compensated for many of the risks they are taking and we therefore sold all of our performing credit that was trading above par. We have also taken steps to hedge market risk in our rate of return-focused strategies through the use of derivatives. While these steps may reduce the pain we experience in a sell-off, they are unlikely to fully protect us.

Current market sentiment strikes us as absurd and unsustainable. It appears to place an inordinate amount of faith in Fed Chairman Bernanke and ECB President Draghi. Yet history makes plain the folly of believing a single person or institution is omniscient about the economy or even that a single central banker can effectively stave off an economic contraction. To the contrary, the evidence would suggest that excessive meddling and jawboning is ultimately counterproductive. Alan Greenspan (the "Maestro") attempted to avoid the pain of the Asian crisis by inflating a stock market bubble. He then created a housing bubble to alleviate the hangover from the bursting of the tech bubble. Bernanke has now outdone Greenspan by not only lowering rates but also printing money. This makes us wonder whether in his effort to avoid the full aftereffects of the housing bubble, he is now setting the stage for an even greater crisis. We surmise that there is no free lunch nor are there any easy solutions and that instead the consequences of the current era of money printing will be many times worse than those that we faced from the housing bubble. In fact, looking at history would reveal that debt monetization (and this is really all that quantitative easing is) has repeatedly resulted in hyperinflation while, to the best of our knowledge, it has never once spurred a true economic recovery. We therefore find Bernanke's claims of millions of jobs created as a result of quantitative easing to be somewhere between absurd and duplicitous. All of this is to say that we're concerned, but sadly, have few solutions to offer.

In August, we exited our position in Intralot (Athens: INLOT GA). We originally invested in Intralot after a systematic review of stocks on the Greek exchange that we believed had been unfairly beaten down, which resulted in us making several small investments. In the case of Intralot, we were attracted to its stable collection of lotteries outside Greece and the low valuation of the stock. Unfortunately, our initial evaluation proved to be incorrect as we dug into the company's international operations, many of which were structured as joint ventures. These joint ventures were held at historic cost but were distributing substantial sums to the partners, the effect of which was that cost materially understated the true value of the minority interests. Once we realized the extent of our misevaluation, we promptly exited our position, as the company was neither as cheap nor as cash generative as we originally believed. Fortunately, our exit was at a small profit.

Last month, we also finished covering our short position in GSV Capital (NASDAQ: GSVF), which has been our largest winner on the short side of the portfolio this year. GSVF is a small cap, publicly traded venture capital fund with holdings in pre- and post-IPO tech firms, such as Twitter, Dropbox, and, most notably, Facebook. We shorted GSVF after it traded to a substantial premium to NAV ahead of the Facebook IPO. Given the considerable enthusiasm ahead of Facebook's IPO, we believed that GSVF had traded up as a result of people looking for any possible way to participate in Facebook pre-IPO. While GSVF did have a small ownership stake in Facebook, it was not enough to plausibly account for the increase in GSVF's valuation. In fact, the substantial premium to which GSVF traded implied a per share value of well over \$100 for Facebook. In addition to the valuation discrepancy, we also liked the technical aspects of the trade. Our perception was that post the Facebook IPO, GSVF would go from being a use of cash for investors to a source of cash as they reallocated into Facebook directly. After the Facebook IPO, GSVF's share price dropped by approximately 50%, driving our gains in the position.

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

Sincerely,



Nathaniel August

¹ Return figures reflect the performance of the fund as a whole. A partner's individual performance will vary based on a number of factors, including but not limited to the timing of additions and withdrawals and participation in "Hot Issues" and "Side Pocket" investments. Historical performance is not indicative of future results and such differences may be material. Performance is reflected net of fees and expenses, paid or accrued. Returns and values for each calendar year are audited at year-end; interim period results and values are unaudited.

² HFRX Global Hedge Fund Index ("HFRX GL") is an index designed to be representative of the overall composition of the hedge fund universe and is produced by Hedge Fund Research, Inc. S&P 500 is an index designed to be representative of the large cap U.S. equities market and is produced by Standard & Poor's, Inc. This index is adjusted to reflect the reinvestment of dividends. HFRX GL and S&P 500 are presented as two broad indices. While Mangrove Partners believes neither represents a benchmark for The Mangrove Partners Fund, L.P., each is being presented for informational purposes.

³ The return figure for the prior month is an estimate as of the date of the letter. This return represents our current best estimate of performance for the period. It does not benefit from the full fund accounting process that produces the final return for the period. Actual final performance may vary materially from the estimate, which reflects the estimated performance of the fund as a whole. Returns for quarter to date, year to date, trailing twelve months and since inception include the prior month's estimate and the actual final returns for all other relevant periods. The actual final return for the partnership as a whole in July 2012 was +7.0%, versus the estimate of +6.9%.

⁴ Net exposures are measured on a beta- and delta-adjusted basis. Gross exposures are measured on a delta-adjusted basis.