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Ruane, Cunniff & Goldfarb Annual Investor Day
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Remarks have been edited for clarity and relevance. We have omitted the names of most questioners to protect their privacy.

John Harris:
Welcome, thank you for taking the time to spend a few hours with us this morning. I am going to do some very quick introductions, and then we can get on with what I think and hope is going to be a really informative morning. You are going to hear from our entire Investment Committee which is up here on the chairs at the front of the stage, and you are also hopefully going to hear from every member of our Sequoia Fund analyst team, which is also up on the stage here this year. As you can see, we have a little bit of a different configuration.

Starting with the Investment Committee, along with me we have Arman Kline, Trevor Magyar, David Poppe, Chase Sheridan and Greg Alexander. On the Sequoia Fund team we have Johnny Brandt, Dan Foussard, Eileen Jang, Eric Liu, Will Pan, Terence Paré, Pat Pierce, and Greg Steinmetz. We also have our Acacia Partners and Wishbone Partners teams up here, and they include Saatvik Agarwal, Nishant Aggarwal, Girish Bhakoo, Peter Bin, Salina Claps, Yi Gao, Jake Hennemuth, Duncan Horst, Richard Hwang, Antonius Kufferath, Stephan van der Mersch, Scott O'Connell, Inder Soni, Nicole Schwartzenruber, and Mark Wallach. We also have our business leaders, Wendy Goodrich, COO, Patrick Dennis, CFO, Jen Rusk, Head of IR and Michael Sloyer, General Counsel.

I also quickly want to introduce our Sequoia Fund Directors starting with our Chairman, Eddie Lazarus, Peter Atkins, Melissa Crandall, Roger Lowenstein, Tim Medley, and—I am very sorry to say—for the last time, Bob Swiggett. Bob has served on the Fund Board since day one—for 48 years. I am really sad to report that today will be his final investor day and Sequoia Fund board meeting. We have a little surprise cooked up for Bob later in the program, but for now I hope you don't mind if I just ask everyone to stand up for a second and give a hand to one of our firm's greatest friends. Bob, I just want to say you have devoted almost a half of a century to supporting us through thick and through thin, and we are not going to forget it, and we are really going to miss you. Thank you.

We are going to do our best to get through the prepared part of our program in 40 minutes. We have a little surprise for Bob that is going to take about 10 minutes and then hopefully we are going to have plenty of time for Q&A. We are going to try to wrap up around 12:30 because we have to clear the ballroom by 1:00 PM. In terms of content as we always have we're going to limit the discussion to stocks that are either in the Sequoia Fund or that we have sold out of the fund over the last year. With that, I am going to get us started and turn it over to my partner, David Poppe.

David Poppe:
Good morning everybody. I am David Poppe and it is good to be with you today. My presentation will be very brief, just four slides. The first question for many of you, naturally is how have we done since we underwent our leadership change two years ago. The big picture is that since we moved to our Investment Committee structure in the second quarter of 2016, we have gone along with the market, a very strong market, up about 35%. To perform roughly in line with the index in a robust environment is about normal for us over our 48 year history. The return for 2018 through last night is ahead of the market and while short term results don't mean much, it would be also normal for us over our history to outperform in a negative or a choppy environment, which I think we would mostly agree we have been in for the last few months. We don't put too much stock in four and a half months of performance results but our underlying businesses are performing well and we're quite pleased with the start to the year.

My second slide is a reminder that we have matched the market over the past two years while holding some cash. We are currently about 8% in cash and we're comfortable keeping some dry powder in the current environment given the opportunity set we see. The point on my third slide is that since 2011, the S&P 500 Index has been very strong, up about 113% but the index returns have come more from expansion of the PE multiple than from earnings growth. In fact, from 2011 through the end of 2017, the index more than doubled to about 2,700 but underlying S&P earnings only grew 29%. The great majority of the return from the index over the past six years has been PE multiple expansion.

Now, one could argue that the market may have accurately forecast the benefits of tax reform because S&P earnings should grow in excess of 20% this year but the market multiple on 2018 consensus earnings estimates remains close to 17.5x which is historically on the high side. Our belief is that over longer periods, stock market returns are going to be driven by earnings growth, not the multiple. We feel that our portfolio today consists of market leading companies characterized by high returns on capital, faster growth than the market overall, and they're growing their earnings and sales at robust rates. If Sequoia's growth from here is driven by earnings growth, we think all of us in the room will be pretty satisfied.

My fourth slide is a snapshot of our top 10 holdings through yesterday with their weightings and the holding period in years. I want to make the point that we continue to be very long term owners of businesses. In addition, we expect most of our more recent purchases to be in the portfolio for some time. Over the past two years, we have added four new positions that appear in our top 10 holdings: Amazon, CarMax, Charles Schwab, and very recently Naspers which is a holding company whose primary asset is a 31% stake in the Chinese company Tencent Holdings. We have also added significantly over the past two years to our holding in Alphabet, the fund's largest holding. Amazon and Schwab have doubled from our initial purchases. CarMax has generated good returns from our initial purchases and has also performed as we would have expected from a business development perspective. Naspers is a bit below our original purchase price which was just in January. Most of the incremental Alphabet went into Sequoia Fund at about $925 dollars per share last fall about seven months ago.

Over the past two years we've exited some long held and very successful positions including Fastenal and O'Reilly. They are great companies but their growth rates had slowed over time as they had gotten much larger and like the market, their PE multiples in recent years had expanded. We think Sequoia Fund shareholders are going to benefit from the changes we have made to the portfolio over the past two years; essentially a rotation from outstanding but maturing companies that were growing a bit slower into businesses that have much longer growth runways. We have trimmed our exposure also over the past two years in Berkshire Hathaway and TJ Maxx, two terrific businesses and very long term holdings in Sequoia Fund. We continue to hold these two businesses but we feel better about holding them in the current sizes.

I am going to close by repeating that we feel that the current portfolio is characterized by high returns on capital, low levels of debt, strong competitive positions, and the potential for long duration earnings growth that should be superior to the S&P 500 overall. With that I will turn it over to my colleague Chase Sheridan who is going to go into a little bit of a deeper dive on the portfolio. Thank you.

Chase Sheridan:
Thank you, David. Good morning everyone, I am Chase Sheridan. This morning I will update you on how the portfolio has developed over the past couple of years.

My first slide gives you a broad sense of the level of concentration of the Sequoia Fund portfolio at different points in time. The first row shows the composition of the portfolio on June 30, 2016. The last row shows the composition as of last night's close. As you can see, we have pared the number of stocks in the portfolio from 29 to 21. Many of the positions we eliminated were small investments that while attractive, were not so attractive that we wanted to scale them up. With just 21 stocks now in the portfolio, we can put a great deal of research into each investment. This provides us with a foundation for better investment decisions, which hopefully will translate into superior performance. We now have more investment analysts employed at Ruane Cunniff than we have stocks in the Sequoia Fund portfolio. I find that remarkable. Now, not every analyst spends 100% of her time on Sequoia Fund. About a dozen of us do spend all of our time on Sequoia Fund and we have two new analysts joining us in June. So it is clear we like a deep bench in research. Each position in our portfolio gets plenty of attention, while still leaving our analysts with enough time to find the next promising investment.

While eliminating undersized positions allowed us to focus our attention on the investments that matter, it hasn't materially changed Sequoia Fund's level of concentration. We've always invested in a concentrated manner and we continue to do so today. Our top five positions still account for about 40% of our assets while our top ten still account for about 60% of our assets. Those figures have been pretty consistent since our team assumed responsibility for the management of the portfolio.

So, where have we actually been investing your money? The overriding theme is that we have shifted a significant portion of our investments out of companies facing technological disruption and redirected the capital into the disrupters. Two years ago, the only internet-focused company we owned was Alphabet, also known as Google. We also owned the software company Constellation, which is really a portfolio of software companies acquired and operated by a brilliant investor and CEO by the name of Mark Leonard.

Today, we also own Amazon, Facebook, Booking Holdings, which used to be known as Priceline, and Naspers, whose value is largely driven by its stake in Tencent Holdings, China's dominant gaming and social media company. Now it is important to note, we did not set out two years ago with a determination to increase our internet exposure. We simply followed our long standing investment process wherever it led us. We came upon these opportunities one at a time, with each idea sourced and vetted by a different analyst. It just so happens that in our judgement, the internet sector offers some of the most compelling investment opportunities in today's environment. These companies share many of the characteristics of a classic Sequoia Fund investment. Each one of them is the very best in the world at what they do. Each one has a dominant and growing share of its market. All but Booking are still controlled by young, brilliant founders who are likely to remain in place for a long time and who remain among the largest shareholders of their businesses which helps to align their interests with ours. All of the companies have good cash flow characteristics and massive competitive advantages which we expect to persist for many years.

We believe that these investments have dramatically enhanced Sequoia Fund's prospects for future growth. This next slide details the sales growth of the portfolio as it is currently composed. To be clear that means we aggregated the sales growth of the companies we own today in the weights we own them. I have also included the sales growth of the S&P 500 Index for comparison. As you can see, the companies in our portfolio are growing quickly. According to Wall Street consensus estimates, our companies are expected to grow more than twice as fast as the index for the next couple of years. We expect them to grow considerably faster than the index for a long time thereafter. Our internet investments deserve much of the credit for this. Booking is expected to grow sales 15% this year. Alphabet, 22%. Amazon, 33%. Facebook, 39%. Tencent, which we own indirectly through Naspers, more than 40%. Nearly all of this growth is organic rather than acquired. Meanwhile, the consensus sales growth for the S&P 500 in 2018 is slightly less than 6%. Sales are an easy metric to use for apples to apples comparisons, but for the record, we expect the aggregate earnings of our portfolio to outpace sales growth over the next few years.

Whatever financial metric you choose it is clear that the intrinsic value of our portfolio is growing faster than the intrinsic value of the index. We believe this makes time the friend of the Sequoia investor. So we've positioned the portfolio for superior growth, but did we pay something extra for it? We estimate that our portfolio currently trades for about 20x its earnings power for calendar 2018. For reference, the S&P trades at about 17x consensus earnings estimates. Now I want to make it clear, this comparison is not apples-to-apples. Sequoia's estimated earnings are internally generated, while the S&P 500's estimated earnings are generated by Wall Street consensus. We can't estimate internal estimates for the entire S&P 500, and even if we did, I don't think we would necessarily match consensus. But the point of this slide is that we believe Sequoia Funds trades at a modest premium to the index, when measured by intrinsic earnings power and that premium is shrinking fairly quickly as time passes.

So we think we got a bargain. Now, it is something of a hidden bargain, because estimating the true earnings power of many of our businesses takes a fair amount of work. The internet giants in particular make a practice of sacrificing current earnings in the service of enhancing long term value. This makes the companies look expensive when you measure their value using generally accepted accounting principles (GAAP). But focusing on the long term has undoubtedly been the right strategy and it has benefited shareholders immensely giving rise to valuable businesses like Waymo, Alphabet's self-driving car effort, Amazon Web Services, whose value could one day rival that of Amazon's retail business and WeChat, Tencent's "super app" which has a dominant position in the digital lives of Chinese citizens. We believe that once you properly account for the extraordinary investments these companies are making to grow their businesses, valuations look compelling. The complexity involved in analyzing these businesses plays to our strengths as a research institution and the willingness of these management teams to sacrifice current results in favor of future gains plays to our long term investment horizon.

We have put quite a bit of capital to work in these investments and while it is still too soon to judge the wisdom of that decision, the early returns have been excellent. More importantly, these investments have positioned Sequoia Fund to grow its look-through earnings power at a faster pace than the index for a long time.

With that I would like to introduce my colleague, Trevor Magyar, who is prepared to dazzle you with an electrifying presentation on taxes!

Trevor Magyar:
Thank you, Chase and thank you everyone for joining us here this morning. For those of you whom I haven't met, I am Trevor Magyar and as Chase mentioned, I am going to spend a few minutes talking about tax. I am not sure about the dazzling part, but I will do my best.

Tax is a topic we've addressed in recent shareholder and client communications. But it is an important one, and so it does bear some repeating. I am going to flip to this first slide here. Before we delve into the math of tax efficiency, we ought to be clear as to why exactly and how exactly tax matters. It is sort of obvious that all else equal, less tax is better than more tax. But it is not quite that simple, and the reason it is not quite that simple is that our objective is not to minimize the taxes you pay. Rather, it is to maximize your long term after tax return. The simple fact is that pre-tax investment performance is the primary driver of your long term after tax return. This is a really important point. If I leave you with one thought, this is it. Again, pretax investment performance is the primary driver of your long term after tax return.

Okay, I'd like to also state up front that Sequoia Fund remains one of the lowest turnover, most highly tax efficient vehicles in the active fund management industry. I will share with you some data demonstrating this later on.

This claim that pre-tax investment returns are what matter most, I would like to refine it in two respects. First, we have to acknowledge that it generally pays to hold a profitable investment for at least one year and a day in order to avoid realizing short term capital gains which get taxed at ordinary income rates. This is an instance in which it often makes sense to let the tax tail wag the investment dog, just a bit. The second refinement is more subtle, but no less important. Let's start with the premise that the only logical reason to turn over the portfolio is to improve its prospective pre-tax performance. The issue of course is that the gains you realize when you turn over the portfolio are a sure thing whereas the improvement in the portfolio's prospective pre-tax performance is not. The sensible thing to do given this reality is just to make sure you are getting well compensated for the risk you are taking. That is exactly what we do. To the extent we sell one stock and purchase another, it is because we think the one we're purchasing is going to deliver significantly better returns in the years to come.

Now that we covered how we think about tax efficiency, let's put some numbers to it. This slide is going to get a little more crowded but I promise it is not that complicated, so just bear with me. I am going to populate this chart with three bars. Each bar will show you the 10 year compounded after tax return assuming a 7% underlying market return and different levels of turnover and taxation. We'll walk through each of the scenarios.

So first bar, here we go. Here we have a high turnover strategy, 100% turnover in fact. Further we are assuming that none of the gains are taxed at long term rates which, in case it is not clear, means all of the gains are taxed at short term rates. And finally we're assuming no outperformance relative to the market. The punchline here is that a high turnover portfolio produces an awful lot of tax leakage. Again, we are assuming the market delivers 7% annualized, whereas this hypothetical portfolio only returns 4.6% after tax.

You can think of this second bar as an index fund scenario – zero turnover, with all gains getting taxed at long term rates, and once again no outperformance relative to the market. Actually this is probably a little bit better than an index fund because an index fund has some turnover and some modest fees but for our purposes it is close enough. The punchline here is that a low turnover portfolio produces much less tax leakage than a high turnover portfolio. That is because a low turnover portfolio minimizes short term gains and maximizes deferred gains. Significantly, of these two factors, avoidance of short term gains is the much more important one. This graphical overlay I am adding now is an attempt to illustrate this point. What it shows is that simply avoiding short term gains accounts for 100 basis points of the total 130 basis point improvement in the after tax return from bar one versus bar two. Deferring all gains for this full 10 year period only adds 30 basis points to the after tax return. To be clear, this is not to say that the benefits of tax deferral aren't valuable. They are, and our strategy lends itself nicely to tax deferral. But the different components of tax efficiency ought to be kept in proper perspective.

Here we have our third and final bar. This is a successful low turnover active strategy. It assumes 18% turnover, which is what Sequoia Fund happened to do last year. It assumes 98% of gains are long term, which happens to be what you've seen from Sequoia Fund over the past 20 years. Finally, it assumes 265 basis points of annualized outperformance relative to the market, which happens to be what Sequoia Fund has done since inception. To be clear, this bar is not a promise of future results. This is just for illustrative purposes. As you can see, this third bar is the tallest bar on the page, by a lot. This scenario is the one that delivers by far the best long term, after-tax return. Someone might say, well, of course it delivers the best return. It assumes 265 basis points of outperformance relative to the market. That is exactly the point. As I emphasized up front, it is long term pre-tax investment outcomes that are the primary driver of your long term after-tax return. If we can significantly outperform the market at the cost of some modest turnover, we should absolutely do that. Let's now look at how Sequoia Fund has actually done from a tax efficiency perspective. The pie chart on the left shows how Sequoia Fund's realized capital gains over the past 20 years break down between short term shown in red, and long term shown in green. As you can see, almost all of Sequoia Fund's gains over the past 20 years were long term. By the way, this was also true in 2016 and in 2017. Moving to the pie chart on the right, we can see that about 25% of the capital gains realized and distributed by the typical actively managed fund in our Morningstar category were short term. As we already discussed, avoiding short term capital gains is by far the single most important ingredient in a tax efficient portfolio, and Sequoia Fund does about as good a job as you can of avoiding them.

Next up is the deferral of gains, which, as we discussed, is helpful but not overwhelmingly so. This chart shows the holding period for 10 securities that drove over 85% of Sequoia Fund's net realized gains since our leadership transitioned in 2016. As you can see, these were securities that we generally held for a very long time. Berkshire is a bit of an outlier at 30+ years, but we held all of these securities for five years and the vast majority of them for over 10 years. It might not have felt good when these securities were sold and you had to pay tax on what by then had become sizeable gains but the fact is money that was earmarked for Uncle Sam had been working on your behalf for a long, long time. If all of Sequoia Fund's future gains are deferred to the same extent we're all going to be quite pleased.

Let's now look more directly at turnover which is of course the key driver of capital gain realizations. This chart depicts Sequoia Fund's annual turnover over the past 20 years as measured by the independent research firm Morningstar. As you can see, Sequoia's turnover, though up from near zero levels a handful of years ago, is still within its long term historical range. As you can also see, Sequoia's turnover has long been, for lack of a better term, lumpy. The capital gains produced by this turnover have therefore also been lumpy. We expect this to continue.

My last slide shows, once again, Sequoia Fund's annual turnover over the past 20 years. However, it also shows, in gray, annualized turnover for the category average. As you can see, there is a yawning gap between Sequoia Fund and the category average. For instance, last year as I already mentioned, Sequoia Fund's turnover came to approximately 18%. For large cap growth mutual funds as a whole, it was approximately 60%. Sequoia Fund remains much lower turnover than the industry.

We have established that Sequoia Fund remains low turnover, but as I stressed at the beginning, what matters more to your long term after-tax return than the exact level of turnover is the long term pre-tax investment performance. We firmly believe that the reshaping of the portfolio over the past couple of years has significantly improved the fund's prospective pre-tax returns. The early data are encouraging but the fact is only time will tell. Our strategy is long term and it is over the long term that we intend to prove it out.

I appreciate your patience, and I would now like to introduce my partner Arman Kline, who is going to share with you an organizational update. Thank you.

Arman Kline:
Thank you everybody for coming. As Trevor said, I am Arman Kline and I am going to give you a brief organizational update.

Ruane Cunniff currently manages about $20 billion in assets. We have 67 team members, up from 62 at this time last year as we have continued to invest in all of our functions. We have 28 investment professionals which you see behind me here with the investment team growing over the last couple of years. Eric Liu and Pat Pierce joined us over the past 18 months and, as Chase mentioned, two more analysts will be joining us over the summer. I should add that we continue to be extremely pleased and grateful with the caliber of people we are attracting to our firm. Importantly, most of the team that you see here has been researching companies and debating investments together for many years. The Investment Committee has over 100 years combined at the firm and we have all been working together for over a decade.

We have 39 professionals on the operational side of our business with additions to our compliance, finance, investor relations and operations teams over the past year. Importantly, we now have all four of our functional business heads in place with our head of Investor Relations and Business Development Jen Rusk Talia and CFO Pat Dennis joining us over the past 12 months. Together with our COO Wendy Goodrich and General Counsel Michael Sloyer, they lead the non-investing parts of our business. We said in our year-end letter but it bears repeating here again, we are astounded by the talent and quality of this group. We would put them up against any of our industry peers and are thankful to call them our colleagues and friends. They also lead an exceptional group of professionals, whether it is our account administrators who make sure our clients' accounts are always in order or our tireless technology and operations teams that have spent much of the past year upgrading our systems, or our compliance and finance teams who make sure that everything is properly executed. They are all dedicated to you, our clients.

You will hear in the coming minutes about how we have upgraded and automated certain functions. But we want to emphasize that automation and systems enhancements will never change our commitment to the direct and special relationship we have with you.

As I mentioned, our IT and operations teams have had a busy year upgrading several key systems. Much of the work they did was behind the scenes, such as introducing new systems for trading, research management, CRM, and cyber security. But not all of their projects were imperceptible. One of the team's more public endeavors was the launching of our new websites. Last summer, we launched our redesigned Sequoia Fund website which you see behind me here, and our first ever Ruane Cunniff & Goldfarb website. We hope both websites do a better job of facilitating our communications with you and better relaying who we are and how we think.

The new websites, along with the systems upgrades I mentioned earlier have prepared us for two important client facing account enhancements, online account access and improved reporting. Starting with online account access, our new portal will allow interested clients the ability to access their account information online. Importantly the portal utilizes our new cyber security program and will feature two-factor authentication. We are currently beta testing the portal with select users and hope to launch it by year-end. If you are interested in utilizing the portal, please let your account administrator know, and they will be in touch as we approach roll-out.

Behind me is a quick peek at what the online portal's landing page will look like. You can see here that you'll initially be able to access firm and fund communications as well as some new reports we are creating. Notably we hope to add new reports and functionality to the portal over time, this is simply version one.

Speaking of reports, we know the statements and reports we have historically sent you have had room for improvement and we have been hard at work developing more informative and easier to understand reports. Separately managed account and Sequoia Fund clients will each get slightly different reports designed to best communicate the most relevant information for each investor group.

Behind me you can see a couple of samples of reports we are creating that you'll be able to access through our portal.

Finally, we have heard from many of you that you would like us to be more accessible and to improve your experience when dealing directly with the Fund. For those of you who deal directly with Sequoia through our transfer agent, we will be moving the fund to DST's new technology platform called Digital Investor. The new platform will offer greater flexibility, is tablet and smart phone friendly, and offers upgraded security. We believe this upgrade will noticeably improve your experience. We are also making the Fund more accessible through intermediaries. Sequoia Fund is now available for trading on multiple broker platforms, including Charles Schwab, Fidelity, Pershing, Wells Fargo, TD Ameritrade, and Vanguard. We also have a hold and transfer agreement in place with UBS.

With that, let me turn it back over to John for some concluding remarks.

John Harris:
I have the easy part. I get to say what everybody else said all over again. I'm just going to hit the high points and wrap up so that we can get to Q&A.

David talked about performance, and I think the high level message is: so far so good, with one caveat, which is that we've only been at this a couple of years now, and the unfortunate reality in our business is that over a couple of years, the result that you get can have as much to do with luck as skill. Now over five, seven, ten years, as the business results and the investment decisions add up, it's a very different story. So we're not there yet and we have a lot to prove, but we're absolutely on our way. The reason I think we are all so confident that we are on our way is if you think of the S&P index as the average business, as Chase and David explained, we think the businesses we own are just a heck of a lot better and grow a heck of a lot faster than the index does. We also think we bought them for good prices, and that is a really important and powerful combination that is worth dwelling on for a second. If you remember that slide that Chase put up, our companies are growing their sales 6, 7, 8, 9, 10 percent a year faster than the index and the average business. The difference in earnings growth should be even bigger than that, because as Chase said, if we had to bet on our businesses growing their profit margins faster than the market, we would bet on our businesses any day of the week. So if our sales are growing 6, 7, 8, 9, 10 percent faster than the market every year, our earnings might be growing 7, 8, 9, 10, 11, 12 percent a year, or faster.

Now over any given year, that doesn't necessarily make a difference, and during an environment like the last seven years, when you have a very strong market where the return from the market is overwhelmingly driven by a change in the PE ratio rather than the earnings growth of the underlying companies, then the growth of a portfolio like ours does not necessarily shine through on a relative basis the way it would in a different environment. As David explained, the world may be very different from this point forward and it's much more likely that the return that you earn on the stock market is much more heavily driven by growth in corporate earnings than it has been in the past. And we're also starting from a point where our companies, even though they are growing so much faster than the index, are not really trading for an appreciably different PE than the index is. So it is very likely that the big advantage in earnings growth that we talked about for our portfolio should shine through in our relative results to a much greater degree than it has in the past. That should be a big advantage for our portfolio.

So we like what we own, and not only do we like it, but we like it a lot better than what we owned 18 months ago. And as David said, we are happy and encouraged by the fact that we have been able to evolve the portfolio in what I think is a really positive way while keeping up with what has been a very hot stock market. For those of you who have been with us a long time, which is most of you, you know that we tend to look our best in tougher markets and our worst in stronger markets, and so again, so far so good.

Now, obviously evolving the portfolio involved turnover, and turnover creates taxes, but as Trevor explained, the overwhelming majority of the taxes that we have paid over the last couple of years had been deferred for 10 and 15 years and in some cases longer. More important than that—and this is just a critical point—if by paying the taxes we can meaningfully increase the potential return of the portfolio going forward, then even though I know it doesn't feel that way, paying the taxes is a good thing and not a bad thing. That gets back to a really important point that Trevor made that I hope everybody comes away understanding today, which is that if you are a taxable investor, the name of the game is to earn the highest possible return you can earn after taxes and not to pay the least taxes.

Arman covered operations, and as he said the news there is just that we really have made enormous progress over the last couple of years. We have a very large operations team that deserves an enormous amount of credit for an enormous amount of hard work to make that happen. We are in the best shape organizationally we have ever been in, and I think we are all committed at this point to this idea that excellence does not just mean excellent investing. It means being excellent in everything we do. So we are going to continue to spend whatever we have to spend to be best in class, whether it's compliance, investor reporting, systems, technology, you name it. We're not quite there yet, but again, we have made enormous progress and we are absolutely on our way. I think you are going to see more progress over the next year, and as it happens, that should be tangible to you. You should be able to see it and feel it.

Then there is the part that you cannot really see and feel, and I spent a lot of time talking about this last year and I don't want to say all the same things over again, but I do want to spend a few minutes talking about culture and mindset, because in so many ways, this is really where the rubber meets the road, both for us and for you.

If you think about it, we are investors in companies and you are investors in investors, but we are doing the same thing in that we are trying to find people and organizations who have an edge; an advantage over their competition. And not just an advantage, but an advantage that is sustainable across long periods of time, across different generations of leadership, across the ups and downs of the economy and the stock market.

I cannot emphasize this point enough: if you want to get a result that is different and better than the next person's, you have to be doing something that is different than what everybody else is doing. If you do the same thing everybody else does, you are going to get the same result that they get. So as an investor in our firm, the question you should always be asking is: what is different about what these people do? If there's nothing different, then we should all just go home and buy index funds. There has to be something different.

So what makes Ruane Cunniff different? I hate to say this, because I have enormous respect for our team and I am so proud of our team, but it is not because we have smart people and it is not because we do great research and it is not because we watch what we pay and we're disciplined about buying the stocks that we buy. All of that is important. All of that should not be minimized. But all of that is stuff that other firms do. Other firms do research. Other firms have smart people. I hate to say it, I wish it wasn't true, but it just is, and that's a fact.

So what is different about what we do? To me, to us, what is different here is the mindset, the way of thinking and the culture. Yes, we do research, but it's not just that we do research. It's that at Ruane Cunniff, research is and always should be its own reward. We don't care if you put an idea in the Fund this year. We don't care how your picks did last year.

Now, don't get me wrong, we're as ambitious and competitive as anybody, and we think we hold our team to an incredibly high standard. But it is our standard, and I think it is a very different standard, and as we hold people to that standard, we do not do it in the context of a pressure cooker. We are humble enough—and this is interesting, because I was sitting next to a really astute client last night, and she said to me, "People who are really humble don't talk about how they are humble," so I say this with the utmost humility!—but I think we are humble enough to understand that even with all the effort we put into it, making good decisions and good judgements is just so difficult. I cannot emphasize that enough. People who are incredibly talented get it wrong almost as often as they get it right. Predicting the future is not easy, and when you are having a good run of it, you are not as smart as you think you are, and when you are struggling with it, you are typically not as dumb as you look. The person over here who put the really great stock in the Fund last year may not find another good idea for two years, and the person over there who has not put a stock in the Fund for two years may be the person who finds us the next MasterCard, TJ Maxx or Idexx.

And then this is really interesting: what about the person who does incredibly great research on an incredibly creative idea that goes up 10x over the next five years, but we never bought it because the stock ran up a little too high while the great work was being done? Should that person earn less respect or compensation than the other person who found the one that we did buy? I think at a lot of firms the answer to that question would be yes. At our firm, the answer is very different because we do not eat what we kill. Our mindset is just the complete opposite of that. Our mindset is to focus on the process rather than the outcome. We believe that if you execute the process well enough for long enough, the outcomes take care of themselves. That is an unusual mindset.

Our mindset is also that the client comes first, and that is why we have always limited the size of our asset base to maximize the odds that we get the best investment results we can get, because how you do matters more than how we do. If you have a mercenary mindset, and if your goal in life is to eat what you kill and make the most money possible, then this is not the place for you. This is a place where everything about the environment is geared towards attracting and exciting people who love to learn, people who are fascinated by the challenge of understanding businesses and their prospects, and people whose goal in life is not to make the most money but to generate the best investment performance. We try to stand toe to toe with the absolute best in the world at what we do, whether they are at mutual funds, hedge funds, family offices or wherever they are…and to hopefully play a little role in helping to sustain one of the best investing records in the history of our industry. That is the kind of person that comes here and stays here and thrives here, and I can tell you that is why I came here.

Now, all of this may sound really simple, but I can just tell you, it is incredibly hard to build and sustain a culture that nurtures this incredibly important idea that what I learned this year may actually be more important than what I earned this year. Building that takes work. It takes intention. It takes time. And frankly it takes a little bit of luck. But that is what we have here, and that is not a mindset that is prevalent at other firms. That is a sustainable advantage.

That is also why we changed the set-up on the stage this year, because if we just had the Investment Committee up here, it would sort of be false advertising. You are not investing with me, or with David or with Arman or with Chase. You are investing in a culture and a mindset and a way of thinking and a Firm, and this up here is our Firm. Yes, the people down here on the Committee make the investment decisions, but we are going to come and go just like the people before us. I have to be honest with you: we are not particularly special people. This is a special place, and our job is to keep it that way.

This makes for a great transition to the next part of our program, because I cannot think of anybody who represents our values and our culture better than Bob Swiggett. Bob, I said it before and I am going to say it again: there is really no way we can adequately thank you for everything you have done for Ruane Cunniff and Sequoia Fund over what is now almost half a century. But we wanted to at least give it our best shot, so we have put together a little video for you, and here we go…

Question:

You mentioned in passing the self-driving car, do you think that is not necessarily in my lifetime, but going to happen?

John Harris:

Gosh, we wish we knew. Chase, do you want to talk about that?

Chase Sheridan:

I think when you ask the question, when will self-driving cars arrive; I think it has to be asked in the following manner: when and where will self-driving cars arrive? So we've looked into this issue in some depth because Waymo, Google's self-driving car effort is the world leader in this technology, and there are analysts out there who ascribe very high values to Waymo already even though it is really just a prototype effort at this point. We have found that the hype around self-driving cars is wildly overblown at this point, there are well over 200 companies pursuing this. Most of them really haven't gotten very far. The issue is you can't get 90% of the way there, you have to get 100% of the way there, and the last 10%, in fact the last 1% is harder than the entire 99% that comes before it. It requires enormous investment, not just in road miles but in simulation technology. Waymo has over a billion miles of simulated driving already and they have created an entire center for testing their cars.

So when and where? There are a lot of companies promising to have Level 4 technology which is the critical point. Level 4 is where you don't have to pay attention anymore as a driver. Level 5 would be, if you don't have to pay attention and your car can go anywhere whereas Level 4 would be geo-fenced within a specific area that has been very carefully 3D mapped. Level 4 is going to roll out slowly in very specific parts of the country like Chandler, Arizona and perhaps Mountain View, California. There is a company testing in a four square mile stretch of downtown Manhattan. But you are not going to see Level 5 self-driving cars for decades.

I think a lot of the time scales that companies have been proposing to get to Level 4 technology have been driven by their need to obtain financing, so they're pipe dreams for the most part. However, this is very promising technology and Waymo is the world leader in the technology. They are the best and have been at it the longest. I think you'll see China be the first place you'll see this at some level of scale because the environment there is more conducive to this. Our regulatory environment moves more slowly. However, Waymo is going to be launching a commercial service in Chandler, Arizona near Phoenix in the very near future. That will be geofenced; there will be human remote backup drivers in case the cars run into situations that they can't handle.

We have put a lot of thought into this because automated driving threatens some of the businesses that we have investments in and that we thought well, is this a five year threat or a 10 year threat? It is probably quite a bit longer than that before it actually threatens traditional businesses like auto parts, or GEICO at Berkshire. You're looking at 2030, maybe 2040 before this is widespread. So when and where is really the question. You will see self-driving cars that have Level 4 capability in very limited areas next year but you won't see this on a widespread basis for a couple of decades probably.

Question*:*

My question relates to Charles Schwab. There are plenty of people in the financial services space that compete with Schwab. So why was Schwab added to the portfolio, what are the distinguishing features that Schwab has versus its competitors, thank you?

Trevor Magyar:

Thank you for the question. Schwab began its corporate life as a pure discount broker, back in the 1970s. Since then, it has evolved into a full service investment platform. The company is best known for servicing self-directed investors, but the reality is the company will provide whatever level of service its clients desire.

You're right that what Schwab offers isn't unique in the strictest sense of the word. In terms of the direct competition, you have TD Ameritrade, Fidelity and Vanguard, just to name a few. Each of these players has certain strengths and weaknesses relative to Schwab. Now, Schwab is amongst of this group, which is why they're able to lead on price. The company wants to make sure that it's the lowest cost option with respect to most of its products and services.

But the big point is that Schwab is one of the largest players among a group of players that are all taking money from the wire houses. I'm talking about the The Merrill Lynches of the world, with their much higher high commissions. Schwab and its peers have sucked an enormous amount of money from the wire houses over the years, and our belief is that they're going to continue to do that for years to come. I don't have the figures in front of me, but I believe there is still about $10 trillion dollars of invested wealth at the wire houses.

Greg Alexander:
It is a fair question. But everything we own has competition. Everything we look at has competition. It's our job to make these judgments.

***Question**:*
One of your new positions this year is Naspers; presumably you bought that because of Tencent. I was wondering if you could speak to the tax facts regarding that type of investment. And why it's a compelling investment despite the apparent high multiple?

Eric Liu:
Naspers, for those who don't know, owns a $160 billion dollar stake in Tencent and I believe the question was about how we think about the taxes. There is actually a South African law that says any ownership stake of more than 10% of a foreign entity has no capital gains, so they are in a very envious position because they actually don't have to pay any taxes when they sell their Tencent stake down. The only implication is when they distribute to shareholders and how they do it. If they buy back shares there is actually zero tax implication and if they dividend it, there is about a 20% dividend withholding tax. Our assumption is the taxes would probably be somewhere between zero and 20%. And I apologize, I forgot the second question? Ah, the high multiple, right. For context, Tencent does have a pretty high multiple, it trades around 40x. Like most internet companies, it is investing in its business and you see capex coming through the P&L rather than the cash flow statement. Our take is that if you adjust for the investment it is actually probably trading for more like 30x. And then if you think about the fact that they are not monetizing their major asset which is WeChat, it is probably trading at a multiple closer to the mid-20s. This is a company that is growing 20-30% and you are paying a mid-20s PE, and then on top of that you are buying it at a pretty substantial discount to through Naspers. We think it is pretty attractive.

***Question**:*
With respect to Credit Acceptance, CarMax and Mohawk, how do you expect these businesses to do in rising interest rate environments and in a possible economic downturn?

Greg Steinmetz:
CarMax can charge more on their loans. Depending on how much rates go up, it shouldn't have that big of an impact on it. Credit Acceptance is different because they are already charging very high rates and they probably can't raise them a whole lot more, so their spread could be impacted. It wouldn't be good if rates go up a lot there, would you agree with that Chase?

Chase Sheridan:
Yes, we have talked to them about it. Credit Acceptance is a subprime auto lender, so the rates are in the 20%+ range and they cap out under state usury laws whereby you can only charge your customer so much. They are usually near that cap so as interest rates come up, their cost of financing goes up but what they can charge the customer does not necessarily go up. However, when you talk to them about it, they earn a much wider interest spread than their competitors, so as this happens, they believe it will hurt their competitors much more than it will hurt them and potentially give them an opportunity to go on the offense and take some market share from their competitors. It is not perfectly clear; I would expect it to be negative for their margins and may help them gain some revenue share but that remains to be seen.

Terence Paré:
With Mohawk, rising interest rates are obviously not a good thing but I think there was a headline in the paper today that talked about the era of ultra-low mortgage rates passing. Mortgage rates are still below 5%, which are pretty good rates for mortgages in terms of the historical record and very favorable for Mohawk in particular. The second thing to remember is that most of Mohawk's business is

driven by remodeling rather than new construction and the general economic conditions are still very favorable for the company. More important than the short term prospects for mortgages is the demand for homes that is on the come, so to speak. If you look at demographics, we have a huge wave of young people moving into the home buying years and this I think is probably much more important in terms of driving demand for Mohawk's products than an interest rate environment where mortgages are still below 5%. So I think the long term prospects for Mohawk are very, very good.

Question:
Hi, so you have added a number of internet related companies significantly in the last couple of years. So historically one of your great value adds since you have great relationships with managements of companies that you have owned, how would you say you get access to management with Google and Amazon? And then the second question I have really is on Amazon, well, it is a statement really. Last year, in 2017, operating income was $4.1 billion dollars. And AWS represented $4.3 billion of that, so obviously AWS is a great driver of that company and finances the rest of their businesses. How do you monitor what is going in AWS, and also what would you say at this point is going on with Google Compute which could be a significant competitor to them.

John Harris:
I will make one quick comment and then let Trevor talk about Amazon. What you say is true: we don't have the access to management at any of these gigantic companies that we would at a Credit Acceptance or something like that, or even a CarMax. But I don't know that I would necessarily agree with the notion that access to management has been a big value-add for us over time. I actually think the reason why when we do talk to management teams that we have productive conversations and develop strong relationships is because we do so much other work and talk to so many other people, whether it is people who used to work at the company, people who distribute for the company, customers, suppliers, you name it. When we get to know a business we try to talk to everybody we can find who lives and breathes that business and that industry and we really try to get into the mindset of a business person in that industry and not a person who is holding a share of stock.

I think that is really our value-add. It has some benefits when you go sit down with management because it becomes pretty clear pretty quickly that we know what we are talking about, and maybe a little more than the average bear. But I don't know that we miss a lot necessarily by not talking to management. There are some people who do what we do—people for whom we have a lot of respect—who make a point of never talking to management because they think they are just going to hear a biased perspective. We like to do both, but I definitely don't think the fact that we don't have the access in those cases that we might in others necessarily makes a difference.

Trevor Magyar:
Yes, meeting management is typically one of the last things we do on a project. It's very rarely the first. In the case of Amazon, I've heard reports that Jeff Bezos spends exactly one hour a year on investor relations and related activities.

Question:
Who gets that meeting?

Trevor Magyar:
I don't know who gets that meeting. We certain don't get that meeting.

AWS is an interesting one. We've researched it quite thoroughly. It's a new way of running technology, for enterprises both big and small. The reality is there are a lot of enterprises in the world, and so there is no single user you can go to in order to get a definitive assessment of public cloud. So we just talked to lots and lots of people from lots and lots of different enterprises. We concluded that the public cloud and AWS in particular have real potential and, most importantly, that this is not a commodity product.

As for Google Compute specifically, looking at it from the Amazon perspective, my inclination is to assume conservatively that Google finds its way into the public cloud business. They are in it already, but they haven't yet established themselves as a strong number three to Amazon and Microsoft. Everybody says they have great technology. In fact they may have the best technology. But again, the really interesting thing is that public cloud is not a commodity. It's probably best thought of as a platform. And it's not clear that enterprise customers want some unlimited number of platforms out there. It is just not efficient. So the question is whether Google can weasel its way in before the competitive window shuts.

Will, do you have anything to add on AWS?

Will Pan:
Yes, we just talk to a lot of people all the time. We try to talk to people at all levels of organizations from CIOs down to developers. We've attended the conferences, Trevor and I have both been to Google Cloud Next and also the AWS Reinvent conference in Las Vegas. We try to use the products a little bit to the limited extent that we can.

AWS said they had a seven year head start and that's roughly what we believe too before anybody got really serious about it. They first started really trying to just win over developers but they found that you can't build a big enterprise business just by attracting developers and getting them to buy compute time. At some point you run into a situation where you have to engage with IT organizations and people higher up in organizations in order to develop a serious enterprise relationship. They have come from zero there but they had a seven year head start and they are developing those relationships. Microsoft has had those relationships so with their Azure effort, they were really able to go in and provide an on ramp to their existing customers and just bundle in the Azure cloud into their ELAs that they already have. The Google Cloud platform comes from a different place. They are coming from zero with enterprises; they have a little bit of a presence with the Google suite of apps, but a distant second to Microsoft. Our belief is that if you want to win in the enterprise and sell technology to enterprises, it is really important to nail the sales piece of it as well as the technology piece. Google has really good technology but I think they are still figuring out the sales piece. Even Azure has taken some time to figure out their sales strategy and how they want to sell cloud. We think Google has great technology; in particular their artificial intelligence solutions are very impressive. You can see it in the fact that they are willing to do live demos whereas Amazon is working on it, but they are not quite to the level of having the AI actually do the live transcription when the CEO is speaking. Google has to figure out the sales piece and we are going to continue watching that.

Greg Alexander:
I will just add to John's answer there which is, let's take the example of Berkshire Hathaway. It's sort of like the "hostess with the mostest," Berkshire was our biggest position for the longest time, if I am not wrong. We know and love Warren; in fact Jon Brandt next to me is famous within a very elite group of Berkshire Hathaway Annual Meeting fans as one of the interviewers at the Annual Meeting. But you know, I don't think that we have learned any special information from Warren nor did we give him any special insights which accounted for the corporation's success. Warren seems to have done just fine and so did we without any of that.

Chase Sheridan:
Yes, I am just going to add one little thing and probably too many people are already addressing it. With a company that is not in the press, and maybe one that some are less willing to own like a Credit Acceptance, I think it is important to look the CEO in the eye and judge what kind of character he is, or with a company like Constellation Software, when you meet Mark Leonard and you see how brilliant he is, it makes a difference. With the mega cap technology companies you don't get access but you get absolutely fantastic media coverage. They are covered by a legion of reporters, numerous articles a day and you actually do get to know the character of management although it is from afar. We get lousy access, but everybody else also gets lousy access so at least we are on a level playing field. We certainly did not have an advantage over anybody else when we invested in Google in 2010 but it has worked out very well. We felt we had our arms around the way the management team operated from talking to former employees, and we understood the culture of the business from our reading.

***Question**:*
Hi, and thanks for letting me ask the question. This is about Rolls Royce PLC, with the continual management turmoil, the problems with the Trent 1000 engines. I understand the company is a duopoly, maybe there is three players if you include Pratt & Whitney. But why, I guess? The stock has

not performed, if you purchased it two years ago, you have done well, but otherwise the stock has been lousy, they have had distractions, they have gone into unrelated businesses. Now it seems like a company in turmoil, they are looking for a new headquarters to save money and they are cutting back on travel. This really sounds like a company in distress. So if you could explain your position, I'd appreciate it.

Arman Kline:
Sure, thank you for the question. I'll start and then maybe Antonius can step in as well. So let's start with the kind of fundamental reason why we invested in Rolls Royce in the first place many years ago which is that it is going from a teens market share in wide body engines to over 50%. It's going from a three-player market as you pointed out to a two-player market. Pratt & Whitney has no position on any wide bodies that are going to be in production going forward. The question was, it is great that you have market share, but do you actually make money on these engines over their lifespan? We spent a lot of time on that question and we ultimately concluded the answer was yes. What's interesting in that business, and we've talked about this before, is when you sell the engine, you sell it at a loss, a few hundred thousand pounds. Over the 20-25 year life of the engine you get a high margin aftermarket stream. When you are going from small market share to big market share with a small installed base, what ends up happening is that the margins and cash flows of the business get pressured because you are putting into the market money losing engines which during that first year lose you money but over 20 or 25 years make an attractive return. I think a lot of people have looked at the last couple of years, seen the profits coming down in the civil business and said that looks like an unhealthy business. We would disagree; that is exactly what we want them doing. We want them selling every one of these engines because over their lifespan the net present value is attractive. We think the market is actually starting to see that; the stock was up then it went down for two years because of this factor coming through. It did very well last year because I think the market is starting to believe that that $1 billion free cash flow target in 2020 is coming. By the way, if you look beyond $1 billion dollars we think it's going to go much higher over time. This is not just going to stop at this $1 billion that everyone is focused on in 2020. There is going to be a significant amount of cash coming into the business because of that big increase in market share.

On the point around the cost cutting, what I would say is that Rolls Royce was effectively a nationalized business historically. They were saved by the British government when they went bankrupt decades ago because of the RB 211. It was never the most lean run business and we realize that. We always thought there was a cap to margins and with ValueAct and the new CEO in there they are tackling these costs. We were just with Warren a few weeks ago and he was talking about the move to the new headquarters. I don't even know what the rent for the old headquarters was, but it was too high, whatever it was. We'd say the cost cutting is positive and we still think the market share story and the backlog is strong. We believe in the return that is going to come over time. It is now a 5% position after we bought some shares when it dipped.

John Harris:
Finally we are moving in the right direction. We are not upset about the headquarters going away.

Arman Kline:
Antonius, anything to add?

Antonius Kufferath:
Not very much, I think you covered it.

***Question**: Hi, I would like to get your updated thesis on Amazon, and I question the potentially high multiple. Is there any debate amongst you, where perhaps some feel it shouldn't be owned? I would love to hear what Jonathan Brandt has to say on that. And I will also preface that with we know their retail competitor is Walmart, where they grow around 30% e-commerce versus Amazon's 40%. But on the AWS side, I believe AWS is growing around 40%, where Microsoft Azure has been growing 90% plus for several years now?*

John Harris:
I am also really eager to hear what Jonathan Brandt has to say. What do you have to say?

Jonathan Brandt:
I honestly haven't done enough work on Amazon to comment. I trust Trevor and the Investment

Committee and I understand the broad thesis and it sounds like a sound thesis to me.

Trevor Magyar:
I'll step in here. As we mentioned in our prepared remarks, Amazon is up 100% from our initial purchase. I think it is fair to say that the intrinsic value of Amazon is not up 100% since the initial purchase, so your question about valuation is a fair one. Amazon's valuation is something we as a group watch closely.

In terms of valuation, it's the retail side of Amazon's business that is the crux of things. That's because, unlike AWS, the retail business doesn't produce much in the way of reported profits. Our belief, based on extensive primary work, is that there is substantial earnings power within Amazon's retail business.

On the growth rates being posted by Amazon's competitors in public cloud and in retail, one thing to keep in mind is the size of the base. Microsoft Azure is growing quite nicely. I assume Google Compute is growing quite nicely as well. But they're both growing off much smaller bases. AWS is just a much bigger business than either Azure or Google Compute. Similarly, Amazon's retail business is just much bigger than Walmart e-commerce business. Also, Walmart recently acquire Jet.com, which was boosted their e-commerce comp growth for a number of quarters.

To be clear, though, Walmart is the ecommerce competitor to watch, at least in the US. The question is whether they can really take Amazon head-on in e-commerce. For many years, Walmart has struggled in ecommerce. But the game is not over, and so we continue to watch Walmart closely.

Question*:*
AWS's revenue is I think a $20 billion dollar run rate; are you saying that Azure is way behind that?

Trevor Magyar:
They are significantly smaller. AWS is still by far the market leader in public cloud. And Google Compute is a distant number three.

Will Pan:
Microsoft's cloud revenue includes all the Office 365 products. I don't think they have actually disclosed the size of the Azure business which would be the direct competitor to AWS. They are growing off a smaller base and AWS has actually accelerated its growth rate. It was 49% the last quarter versus the quarter a year ago which was 43%. There is plenty of market left for both of these companies to take. The potential size of the market is very large, the amount is a trillion dollars' worth of IT spend. Today a lot of the spend is just new stuff, things that companies couldn't really provision the servers for because it was too spiky in terms of loads, or they didn't want to buy the servers and then do the analytics project, and they weren't sure what to do with the servers after that. A lot of it is new work loads and so they are expanding the size of the market. The other thing I would say on Azure is that it is going to have a place in the market, there is no doubt about that, because Microsoft has such a big installed base of people who understand the platform, who know the platform and develop for the platform. They are going to be a player in this market but I don't know that it necessarily takes away from AWS either because the two companies run in their own lanes. Microsoft developers and people who use a lot of .NET, etc. tend to go with Azure for their needs and the people who do more open source work and are building more stuff from scratch, tend to go with AWS.

Question*:*
First off, I would like to thank you all for the hard work that you do on a daily basis. You guys do a great job. So my question is regarding Naspers, and I think a lot of people are familiar with the Tencent position and the massive discount that is there. But can you also speak a little bit about all the other companies that Naspers owns, and number one, if there are any companies there that you are excited about? And number two, what value you would give to the remaining companies if you subtracted Naspers?

Jake Hennemuth:
I will take that one. I have a little cheat sheet here. Just for reference, the value of Naspers' Tencent shares is roughly $155 billion dollars as of yesterday. There was a Naspers Investor Day in December in New York where the company put up a couple of slides and said that consensus had roughly calculated the value of the Naspers stub, which you can think of as everything excluding Tencent, at

about $20 billion dollars USD. In a very rough, bottom's-up way, we got to about the same number then. So a couple of observations there, one is that the stub is a fraction of the value of Tencent. So it is only so worthwhile to talk about it or any of its ingredients. And two is we actually really like it, it is a delicious portfolio. You saw that they, maybe a month or two ago, sold a little bit of their Tencent stake. It brought home about $9 or $10 billion USD worth of value so the value of the Naspers stub is about $30 billion dollars today compared to that $155 billion dollar value of Tencent. I am not sure if that answers your question. It is a pile of different companies, we can get into individual ones within there, but any given one is a rounding error on the total value of Naspers. A quick breakdown of the $30 billion dollars, I would say about $10 billion dollars of it is cash and about $5 billion dollars is listed companies and we calculate a very rough $15 billion dollars of value in privately held companies.

Trevor Magyar:
As we became interested in Naspers, we obviously focused on Tencent given the size of the stake relative to the market cap. We saw that there were these other businesses inside Naspers that at least on the Sequoia side we didn't know terribly well. But it turns out that Jake has been flying around the world for the past decade following many of these exact businesses. When did you do your first Naspers tour?

Jake Hennemuth:
I think we met the Naspers chairman for the first time in 2008 or so. So we have been following Naspers and the companies Naspers owned, or now owns, or companies we look at that compete with Naspers for easily a decade. They are very impressive. Tencent is an amazing company and then outside of Tencent we find Naspers to be a very impressive company. It's small compared to the value of their Tencent stake, but it is $30 billion dollars' worth of value. So the Naspers stub is a pretty big company in its own right.

John Harris:
Just to make it clear for everybody, and for people who are not as into the details here, Naspers is a company in South Africa that was originally a media business. They had newspapers, TV stations and cable assets. There was some enlightened leadership there who realized that they were in businesses that were in their sunset years, but they were businesses that generated a lot of cash, and so they came up with the pretty intelligent idea of taking the cash that the old economy businesses were generating and investing it in some promising new economy businesses. They made a bunch of different investments. Some of them worked better than others, but the best one by far was, they took about $30 million and bought a third of Tencent. That $30 million is now worth about $175 billion. I think that goes down as one of the two best venture capital investments in the history of the human race. I think SoftBank buying Alibaba is probably a similar return. Along the way, they bought a bunch of other stuff. They own online classified advertising businesses in many different parts of the world, and relevant and in some cases I think controlling stakes in some of the big online food delivery aggregator platforms, like the GrubHub-type analogs in various markets around the world. They also just sold out of a sizeable, multibillion-dollar stake in Flipkart, the big Amazon competitor in India. So they have done a lot of smart things, but the problem is that one investment they made was just so unbelievably successful that it grew to a point where today it just dwarfs all the other stuff. So we pay attention to the other businesses. A lot of them are businesses that we followed independently before Naspers got involved with them. But really at the end of the day, your fortunes as a Naspers shareholder are going to rise and fall with the fortunes of Tencent.

Chase Sheridan:
You have heard reference to a discount. What they are referring to is the Naspers stub is worth about $30 billion dollars and the Tencent stake is worth $155 billion dollars. The market value of Naspers' publicly traded equity is $110 billion dollars and that is what we purchased.

Question:
Good morning and thank you very much for some excellent presentations. I have a question, I am going to shift gears slightly, and I apologize. Can you enlighten us as to what the ownership characteristics of the Investment Committee and the Sequoia Fund are? What are the ownership characteristics of the people who are on the Investment Committee, re the Sequoia Fund itself? I would be very interested, thank you?

John Harris:
I believe that everybody on the Committee has more than a million dollars invested in the Fund, and I think in several cases many millions of dollars invested in the Fund, and so we are all heavily invested alongside you.

***Question**:*
I am curious to know, since Berkshire is still a big holding for Sequoia, are you comfortable that the next generation of leaders of Berkshire Hathaway will be able to make the same transition that it's apparent you've made, and that the person running Naspers has made to keep it as an above average growing company? And then second, if you don't mind, if you could just talk about the long term growth prospects of Constellation Software?

Jonathan Brandt:
I know the people who are going to be the next generation of leaders at Berkshire—Ajit Jain, Greg Abel, Todd Combs and Ted Weschler—and I think they are all excellent people and very smart. I think they can deliver growth in excess of the S&P 500 but I think it is going to be challenging to do much above the S&P 500 given Berkshire's size. I think there is going to be more share repurchase as a percentage of the total capital deployed in the future. They all get what Berkshire is about and how it has built its record. It speaks well to Warren and Charlie that they have this formidable line-up of people ready to take over in the future. I just think it is going to be very challenging to compound at very high rates which is why I think you have seen the share of Berkshire's assets in the Sequoia Fund going down gradually over time.

Will Pan:
At Constellation Software most of the growth comes from acquiring these niche vertical software companies. If you look at the last year, their growth was 17% and 2% of that came from organic growth of the existing portfolio of vertical market software companies and then the other 15% was acquired. They have been through a period where they weren't able to put quite as much capital to work and now they are trying to stick with buying smaller things in smaller markets where there isn't as much competition, and the way they are doing that is by spreading the responsibility for capital allocation. This is unlike Berkshire where it is mostly Warren who makes the decisions on what to buy and handles all the deals and the capital and therefore has to buy bigger and bigger stuff.

The company has been around since 1995 when Mark Leonard founded it with a small team and for the first 10-11 years, he was really the guy who made all the investments. But for the last 10 or 11 years or so, he has a group of six operating group CEOs and they have done the majority of the capital allocation since then. Their record is also very good, their returns are in the 20s, and you have seen the earnings grow and the stock grow in the mid-20s percent range over that period of time as well. What they are trying to do now is spread decision making even lower; all six operating group CEOs have their own lieutenants who are now going out and buying these small software companies. So far they have been able to ramp up the amount of capital that they deploy. Today they are looking at generating about $500 million dollars of cash a year so that is quite a lot of capital to deploy. You need to make 100 or so acquisitions but so far they have shown the ability to ramp up the number of acquisitions that they can make and the amount of capital that they can deploy. In terms of the future growth rate it really depends on how much capital they can deploy at the high rates of return that they have been able to achieve over the last two decades and the early signs are promising. Now we should bear in mind that the vertical market software category is now kind of a known quantity and people are copying their approach by trying to buy these small niche software companies. One thing that Mark has talked about is maybe expanding and buying other things and he is going to start small there. We'll see what he comes up with but that would be another potential leg of growth for them going forward.

Question:
Good morning, I wanted to get back to the auto loan business a little. There has been a lot of discussion that the next bubble is going to be the subprime auto loans, and I am wondering how our investment is protected against a crash in the subprime auto loans?

Greg Steinmetz:
Not to be glib about it, but bring it on! I say that

because in 2009 when the world was ending, Credit Acceptance was able to double their profits. They did that because a lot of their competitors just washed away. Credit Acceptance makes loans to those who other finance companies don't want to touch. Right now because the economy is good and there is a lot of money chasing subprime these people, who in the past might have been Credit Acceptance customers, are finding financing from cheaper alternatives. When those alternatives disappear, which historically they do when the market turns, Credit Acceptance because they are so strong will still be there for them and they are going to get some more volume but also be able to charge in a way that allows them to make more money.

Chase Sheridan:
Credit Acceptance is differentiated from other subprime auto lenders and it is a very significant point of differentiation in that 70% of their dollars loaned go under their "portfolio program," where they don't extend the entire balance of their loan to the dealer upfront. They hold a portion of the money back, and if the collections start to fall short, the dealer bears .80 cents out of every dollar of those early losses. They are pretty much unique in the market place for having that program. Nobody else has been able to replicate it, so when you run into trouble in the subprime auto market place, and we will inevitably run into trouble at some point, their competitors are likely to suffer drastically more than Credit Acceptance will. They have a level of protection with that 70% segment of their loans that no other subprime auto dealer enjoys. They have a sizeable private competitor called Westlake in California that has emulated that system but not at the scale of Credit Acceptance. We believe that when the subprime market runs into trouble, Credit Acceptance will be able to take share. They have proven to be countercyclical historically even though they are viewed as a cyclical and there are a lot of short theses out there saying that they will behave as a cyclical company. Their earnings results have been countercyclical in the past, and they are positioned to be countercyclical in the future.

Greg Steinmetz:
One more thing I would like to add to that is when we talk about a recession there is subprime and there is deep subprime and then there is very deep subprime, people who don't have bank accounts, who pay by going back to the car dealer when they get their paycheck. For those people, every day is a recession and we don't get meaningfully more into that cohort when things go bad. That is another reason that makes us think a recession is probably in our interest in that segment.

David Poppe:
I just had one thing, a sidebar issue. We have one other holding that would have some exposure to subprime and that is CarMax. For CarMax about 10-14% of the business is subprime so it is not a huge portion of the total business. They farm all those loans out to third party lenders and don't hold any of them so CarMax is a little different. They have chosen not to expose themselves to the subprime market directly. They would probably be hurt if there were a fall out in subprime because they wouldn't have lenders willing to extend credit to that customer but it is less than 15% of the business. There is some risk there but it is not the risk of holding a basket of bad loans.

Greg Steinmetz:
CarMax is a lender for prime customers. They use third parties for subprime and they have to pay those lenders $1,000 dollars for every car they sell as their commission. They could replace that revenue by selling maybe older model cars than they are selling right now. That could hurt volume but it is not going to hurt profits as much as it would hurt volume.

***Question**:*
Hi, what is the arrangement you've made with Fidelity and Wells Fargo and the other institutions shown on the slide and how much are people trading the fund in those institutions now, how much of your buying and selling is through those, and is there any effect on volatility or turnover?

David Poppe:
I think we pay Schwab and Fidelity the standard rates that every mutual fund pays for distribution. We don't pay extra to be on special platforms as some people do with Schwab One, for example. We don't do any trading through any of those intermediaries so if I understood that question correctly there is no conflict for us. We have no side deals as a business with them.

***Question**:*

Is there any effect on the volatility of trading in Sequoia?

John Harris:
I think if we have more touchpoints for pure retail investors, which I think is probably what you are getting more often than not through some of the platforms, it is possible that the person you are bringing in there is going to be a little less loyal than our average client. Does that really have an impact on the Fund or the way we manage the Fund or your investment? No, I don't think we see that or would foresee that. I am a big believer that you get the clients you deserve over time, and so it is our job to make sure that we get the clients and the partners that we deserve.

***Question**:*
I have two short questions, the first question is, what are the views if any you have on government regulation as it relates to the monopolistic characteristics of some of the businesses we have an interest in, like Facebook, Amazon, and Alphabet? And the second question is, so there are more technology oriented enterprises in the portfolio today than there were 15 or 20 years ago, have you guys developed a competency in judging a set of businesses in the technology sector, or are you still looking at them as a combination of technology companies and traditional companies such as advertising and Facebook for example?

John Harris:
As to the question about the monopoly and regulation, maybe the most relevant holding of all right now would be Facebook. So maybe Pat you can talk about that?

Pat Pierce:
Yes, there are a number of new rules coming out shortly in Europe, the GDPR and E-Privacy and there is an investigation by the FTC into Facebook's practices which we think may result in an amendment of the consent decree that the two parties agreed to earlier. Neither of those sets of regulation in the US or in Europe is likely to have a very meaningful deleterious impact on Facebook's business. The broader question is what happens over the long run, and I think Facebook's great advantage in this respect is that they have a very popular product, it is very useful and it is free. I think they are working from a good position as opposed to some businesses that may be less popular. I think it is a useful service and they are taking steps to preempt regulation, both of which will help. So more regulation is likely over time but we don't think it will have very negative impacts on their business.

John Harris:
The other part of the question is more generally, do we have a competence investing in technology-related businesses. The short answer is, I hope so, because…we have. I don't mean to be glib. I think we do. It is something that we have built up over time, slowly and carefully, and I think we have seen this really across the entire firm in a bunch of different contexts: actually our batting average, hit rate or whatever you want to call it with those types of businesses has been remarkably high over time. I don't think it's an accident. I think it's because we know we are expanding the circle of competence, and as you do that, you have to do it with extreme caution and with your antennae raised all the way up to the sky.

We have done some of the best work we have ever done analytically and in terms of our thought and judgement process when it comes to these technology businesses. And so we are very confident that we are not operating over the edge of the circle, but we're expanding it. And again, you have to be very cautious as you do that.

But it's incredibly important that we have done that and we continue to do that, because the world does change and what we do is hard, and we are all really big believers that if you want to continue to do what we do at a high level over time, over long periods of time as the world does change, you have to be adaptable. The history of our business is littered with cautionary tales of people who were successful in a certain paradigm who had trouble adapting. We certainly are not perfect. Technology is something we wish we had paid more attention to sooner than we did. But we have adapted and we will continue to adapt. It is absolutely critical that we do.

Trevor Magyar:
Yes, I am not really sure you choose to not adapt. I am not sure you can just punt on these sectors and these companies. We spend a lot of time in Investment Committee, and around the firm more

generally, thinking and talking about these businesses, not just because we are looking at them as investment opportunities but also because we own other businesses that are directly or indirectly impacted by them. As the days, months, and years pass, this is just part of the air that every company out there is breathing, and you have to have some sort of view.

Greg Alexander:
I actually don't really agree with the question. I don't think we own technology investments in a classical sense. I mean, we are not picking who is making the hottest chip or what have you. I think we said this in years past, but it is just old wine in new bottles. I mean, 20 years ago, we owned banks, we owned Progressive, we owned Viacom and cable TV programming. I mean if you have ever thought about a Frito Lay chip, that is kind of a technology. It is just a magazine or a phone book or an encyclopedia that has gone onto the internet. Is that technology? I don't know. We think we are looking at service businesses run by excellent people, just like we always did.

Question:
Do you have any requirements for a minimum percentage for personal accounts that is invested in the Sequoia Fund for PMs as well as analysts? And if not, why?

John Harris:
All I can tell you is that everyone sitting in these chairs is stuffed to the brim with our own cooking between our investments in the Fund and in the Firm. I can tell you personally I have almost every dollar to my name invested in one way or another in Ruane Cunniff and I think I am probably speaking for almost everybody else sitting in these chairs.

Question:
And the analyst team as well?

John Harris:
We have a lot of young folks up on the stage here, so I can't necessarily speak to their financial situations, but suffice it to say, they are all-in on Ruane Cunniff.

Question:
One of your holdings, Booking Holdings is one of the biggest or maybe the biggest customer of another one of your holdings, Alphabet, and I am curious to see how you foresee their relationship changing if at all going forward, especially given that Booking Holdings has basically said they want to do more brand building and less kind of call to action advertising?

Will Pan:
Booking.com is the biggest asset of Booking Holdings, formerly known as Priceline, and one of the ways Booking.com became the biggest online travel agency in the world was by being really good at Google Search ads. They are Google's largest client, they spend about $4 billion dollars a year with them and they are really good at winning the top slot on Google and then converting that user into a customer. That relationship has worked very well for them for a long period of time and as a result they have tried to spend as much money as possible with Google because they had this conversion advantage. They had the most inventory and they had the highest conversion rate of traffic into bookings. They have kind of maxed out because once you reach the top slot on pretty much every hotel related Google search page; it is a second-price auction, you pay what the second highest bidder does. With this new brand advertising push they are trying to find other ways of garnering customers.

One thing that Trivago, a metasearch company, has proven to the industry is that you can pair brand advertising with search advertising. You may have seen the Trivago ads – they are pretty ubiquitous, they guide you through the product, and they say "Hotel Trivago, Hotel Trivago, Hotel Trivago," its direct marketing. It is like the old "HeadOn, apply directly to forehead" approach. What they found is that by instilling in people this awareness of Trivago they could more efficiently bid on Google because people will click on what is familiar to them. Booking has a very-ROI focused culture; they are frugal and they only spend when they can get a return and they try to measure things very obsessively. As such they did not do TV ads because you can't measure the effect, you can't calculate the ROI. They try to measure ROI on everything, including meetings at trade shows. Trivago has shown that maybe you can pair the two together and open up your aperture a bit and that is what

Bookings is starting to do. They are starting to experiment around the edges. I don't know that it is necessarily going to hurt Alphabet at all because one of the ways in which they are experimenting is by doing video ads on YouTube, because that is a more measurable way of doing brand advertising. In a way, we are kind of hedged between the two, right? If Google is able to do better in travel and turns the crank on how much they can get from Booking.com, then we own a lot of Google and then if they find a way to bypass search or go more direct, then we own Booking.com.

Question:
Hi, just going back to the point earlier about Facebook/Amazon and Google, those companies have been very clearly juggernauts for years, and going back to the skill versus research point, I am wondering what you have learned in your research about those companies and their earning potential that the common investor might not have seen. And if there is in fact anything standing in their way? Thank you.

Chase Sheridan:
We got comfort, and it takes some time to get comfort, with the level of investment that they are making that is depressing their reported earnings. In Google's case they have had an incredibly defensible business for a very long time and it has allowed them to be an aggressor in many different industries whether that is email, cloud computing, mapping, all the way to autonomous driving, and many other areas. If you look at how they have allocated capital you have got to give them a lot of credit because they acquired YouTube, Android, DoubleClick, which runs their ad network business, these are huge businesses that have transformed the company.

Amazon presents an even more extreme example of investing with a focus on future growth. I will let Trevor talk about Amazon, but I think you have to get comfortable with the fact that these companies, will continue to sacrifice a portion of current earnings to invest in the future of their business. My internal joke about Google's quarterly earnings is they will report whatever they feel like reporting. They have a cushion because they choose to spend much more than they need to just maintain their business. They can dial that back any time. They have such wonderful characteristics as a cash generator but they don't return all their cash to shareholders like some of our businesses do. We have gotten comfortable with the way they allocate their cash because we see that it has created tremendous value. We give them some dispensation for that and some credit that they will continue to do that in the future.

Trevor Magyar:
Yes, as I think I mentioned earlier, with Amazon, it's the retail side of things that requires some very careful thinking. Again, our belief, based on extensive primary work, is that there is substantial earnings power within Amazon's retail business.

Now, I'm not sure this idea that there is earnings power within there is such a controversial one anymore. For a long time, the popular press and even the popular business press referred to Amazon as "the company that never made any money." I think most informed observers today do buy into the idea that there is earnings power within the retail side of the business. But how much earnings power? And how sure are you of your estimates? There are no easy answers here.

We tried to analyze it from a number of angles. We looked at the growth investments the company is making in the retail business. There are a whole set of identifiable growth investments, including discreet ones as well as new verticals and new geographies. The list goes on and on.

One big point I'd make about Amazon's retail investments is that most of them go through the P&L. This distinguishes Amazon from brick and mortar retailers. Interestingly, Walmart didn't produce any free cash flow until the late 1990s. All the while, the company was building these very profitable boxes all over the country. Walmart was investing through the balance sheet, not the income statement. With Amazon, it's a slightly different story. Most of its retail investments terms go through the P&L. In our minds, though, there isn't any great economic distinction.

John Harris:
At a more general level, I think what you were asking was, what do you see that is different than what everybody else sees here? Everybody knows

these are great businesses, so what is your insight?

It's a little bit what Greg said earlier about old wine in new bottles and it is also a little bit of what David said in his presentation about the duration of growth. One of our strengths has a lot to do with duration. We're thinking over five and seven and ten-year time scales as opposed to this quarter, this year or next year. We have always had a healthy and unusual appreciation for the power of long-duration growth, which was really the insight more than anything else that led to profitable past investments like Idexx, Fastenal, Expeditors and Progressive. Like Greg said, it's the same wine, just a different bottle. These are wonderful service businesses with very, very long-duration growth potential, and some people in the market may be aware of it, but many people in the market are not operating with the perspective of our time horizon. We look at and approach and value those types of businesses a little differently because we value that duration maybe a little differently than other people do.

Trevor Magyar:
To bring it back to Amazon, it's a fair point. There is an inherent lack of precision when we are measuring the current earnings power of the business. When we were sitting around the table talking about it, I don't think anyone asked, "Well, what do we think the earnings power is going to be next year down to the decimal point, and what multiple down to the decimal point is the stock going to trade at next year?" It was "How sure are we that the earnings power is going to be much higher in five years?" and "Given what we are paying for it today, is that an attractive proposition?" Like John said, it's easy to see the logic of this sort of thinking, but a lot people for various reasons have a hard time putting capital behind that logic.

Chase Sheridan:
I wouldn't say we had an edge in Google when we invested in 2010. We studied it for two years before we invested, and at the time I found it to be the single best business I have ever seen in my life. It may be the single best business model I had ever seen. Their core Adwords business is one of the best businesses on the planet. When we bought it; we probably didn't have any special insight, but you could look at the financials and see it had an enterprise value that was about 14x free cash flow at the time. Anybody could have done what we did, but it takes work to get conviction. Interestingly when Trevor did his tremendous work on Amazon, he came to the Investment Committee and said something similar, to the effect that it may have been the most compelling business he had ever seen. I don't think we are necessarily seeing things that other people aren't seeing but we are generating a level of conviction that maybe takes some time to generate.

John Harris:
A lot of times the edge is how you think and not what you know.

Question:
I think it is fabulous that you're as concentrated and focused as you are in the portfolio. My question has to do with a new position, have you decided that when it comes to a new position, that it won't be below X percentage, and if so, what is that percentage? I mean, is it a situation where you want at least 2% to 3% in a new position and anything less you just won't invest, or maybe you could elaborate on that a bit?

John Harris:
Our process is arduous and takes too much time and effort to do all of that work to make it a 1% position. As I said earlier, making good decisions is really hard, so when you make them you want them to matter. So yes, at least 2% and I would say really 3% is where we like to be at a minimum.

Trevor Magyar:
If we end up with a 1% position, it is because something happened, the price ran away from us or whatever. We then have to reassess whether or not it makes sense to keep the 1%, which may be very attractive, or just cut bait and redirect our resources.

Question:
Thank you for organizing this event. I have two questions. The first question is related to some of the holdings that you have. They are pretty big in size. They are in the $500 billion range; some of them are going to trillions. Is that something that you are concerned about, the sizes of these companies, how long can they grow? I mean, what are you envisioning that the size of this company will grow? $1 trillion, $2 trillion? Comparing to a Fastenal,

when you guys bought it, it was probably like $500 million dollars, and then it went up to $15 billion dollars? So that is like, I don't know a 20X, 30X. Question number two is related to your circle of competence. Oil prices have gone up from $25 dollars to almost $80 dollars now. Is the oil and gas industry something outside of your circle of competence? Thank you very much.

Arman Kline:
On the size of the businesses question, it is a very good one and one that we discuss regularly. The history of $500 and $800 billion market caps doubling or more in size, well we haven't really seen that before. It's new territory. So this is a very active debate within this firm in thinking about the growth rates that you are seeing out of some of these mega-cap stocks and businesses and whether this can really continue. The fact that we own them tells you that we have ultimately concluded that we do think there is growth here. We think these are differentiated businesses. Online businesses in particular have certain scale elements to them that might lend themselves to greater scale and higher profitability. I don't know if anyone has anything to add to that?

Trevor Magyar:
We'd love to find another Fastenal, if you can help us?

Arman Kline:
That too!

Greg Alexander:
We still look at mid-sized companies most of the time; it is just that the world has changed. It is sort of like people…if you can sing a song or kick a soccer ball, your audience is now global, and so your income goes up. There are companies now that have a good search web page with one little search box on it and you can now serve eight billion people. It is just a different situation.

John Harris:
Do you have anything insightful to say about oil and gas?

David Poppe:
I'll say one thing on oil and gas. We had Exxon come in for years and every year they would talk to us about the outlook for oil and gas. And one thing we realized after a period of time is they had no idea what was going to happen to the price of oil.

Greg Alexander:
And they were smart!

David Poppe:
Yes, they were the smartest people in the industry, they were super smart. I am not insulting them. They just don't know. It is very difficult and most oil and gas stocks trade almost as derivatives to the oil price. If Exxon can't predict the oil price, and oil and gas stocks are very closely correlated to the price of oil, what is your edge? It seems very difficult and we are not geologists. Maybe you could have an edge if you were but we put that in the "too hard" pile.

Greg Alexander:
I would be careful of Wall Street research. When the oil price was at $25, a lot of my emails seemed to be broker's reports talking about how it could be $15 dollars, and now that it is $80 dollars, I am getting a lot of reports about how it could be $100 dollars.

***Question**:*
Thanks for doing this and showcasing the team, this is first class. Two questions related to the indirect holding of Tencent. First, how do you think about and get comfortable with the VIE structure, the variable interest entity, you don't really own a Chinese stock, you own a piece of paper that says you sort of have it. And then separately how do you get, how do you think about and get comfortable with the kind of social license to operate in that Chinese market long term with that business model of social media. It arguable does expose the business over time to regulatory risks in a regime that doesn't have some the checks and balances that most of your portfolio of holdings has. Thanks.

Eric Liu:
Yes, sure so the two questions are somewhat related on the VIE structure as well as the involvement of the Chinese government. The VIE structure is pretty complicated; we have thought about it and our ultimate conclusion was that the Chinese government is interested in attracting capital to its capital markets and is unlikely to rock the boat there and do something unusual. We do acknowledge that as a risk but one that we are willing to underwrite.

On the involvement of the Chinese government, it is quite pervasive. It is amazing in terms of how involved it can be. One of the interesting comments Tencent made on the most recent earnings call was that they have two incredibly popular games based on this battle royale video game called Player Unknown's Battlegrounds. It is Korean IP and therefore the speculation is that the Chinese government has been stopping them from being able to monetize that intellectual property. The Chinese government is involved every day in every business in China and there is no way you're going to escape that. I think what we like about Tencent is the management team has been very savvy and very respectful of the government's wishes and it has always aligned itself with it. I forget the exact stats but if you look at the most recent party meeting, Tencent's employees were there in force in terms of having representation in the Communist Party. That is how we think about it, in the sense that they are aligned, but it is something that we think about every day. There was a recent case with Bytedance, a Chinese news platform, whereby the government basically chastised it in public and it had to do an about face on its business strategy. It is definitely something that we are aware of and that we monitor closely.

Greg Alexander:
It is an excellent question. It is not just a Chinese problem. There are dozens and dozens of countries where the government, dictators, whomever are controlling the internet or access to the internet websites. My daughter had an assignment recently to read a dystopian novel, but frankly, everyone should reread *1984.* There is a lot of dystopian potential of technology generally and I think it's one of the biggest problems we'll face in the decades ahead, if you ask me.

Question:
You spoke earlier about the importance of culture within Ruane Cunniff. And I wonder whether the seemingly weekly revelations out of Wells Fargo have changed how you think about how you evaluate the culture of the businesses that you invest in.

John Harris:
Well, it certainly changed the way we evaluate that culture. Johnny, do you want to talk about Wells Fargo?

Jonathan Brandt:
I think there's a big mess to clean up there. I think the people who are running the company right now are doing absolutely the right thing. There are going to be continued discoveries and you don't change a problematic company-wide culture overnight but if they find the slightest irregularity in their processes, they are self-reporting it to the OCC or the Fed or whoever the relevant regulator is. The headlines don't represent the change in the culture that has taken place. It's like a runoff business when you invest in a company that has one great business and they are in another business that is reporting losses. These headlines are going to continue for months, a year, two years. They are in fast growing states and it is the cheapest bank out there if they get their expenses down to where they should be. They have had trouble controlling expenses recently. It is hard to focus on that when every day they have to respond to the latest media allegation. The stock is quite cheap if they can achieve their expense goals which are actually more conservative than what some of the other banks are doing. Tim Sloan is doing what he can but with 265,000 employees, you just can't change everything overnight. They are trying to do the right thing and I support everything they are trying to do.

John Harris:
I think it suffices to say that they are not as bad as they look but they are nowhere near as good as we thought they were.

Jonathan Brandt:
Yes.

Question:
Good morning, thanks so much for all being here to answer our questions. I am a two year shareholder, and my question is a pretty simple one. Given how difficult prediction is and this has manifested with Exxon's reliability in predicting oil. When you buy or add capital to a position, do you insist on a margin of safety as the company exists that day stripping out your predictions for future growth? Thank you.

John Harris:
There is an incredibly intelligent and successful man

in Omaha who likes to say that the single most important words in investing are “margin of safety,” and we agree.

Jonathan Brandt:
But wouldn’t you agree that growth is included in the margin of safety?

John Harris:
Yes, the rate at which a company grows is a really important factor in what the company is worth and we take it into account like every other factor, but the key always is you have to be giving less than you are getting.

Arman Kline:
Growth is in fact a margin of safety. If you have an organically rapidly growing business it allows you more flexibility with valuation because within a year or two or three years, the earnings are changing quickly and the multiple is compressing. In contrast in a slow growing business you have to be much more precise about exactly what you pay for that business.

Jonathan Brandt:
If we were to value many of the companies of the fund on today’s earnings and revenues, we wouldn’t own a lot of the stocks that we own. But that doesn’t mean we are not investing with a margin of safety.

Chase Sheridan:
One of the things he was asking was, ex-growth, is there a margin of safety in the companies you are investing in? I think the answer is, no, we are counting on some of these companies to grow.

If Amazon went ex-growth tomorrow, believe me, you would not be happy with our investment.

The way to get what we think is a margin of safety is to make sure that you have a high degree of confidence not only that they will grow next year but for many years to come. With Google, with Amazon, with Constellation – we expect them to grow and we are paying something for that growth. However we are paying less than we think we are getting.

John Harris:
We are going to stop here. Thank you for coming, thank you for spending time with us. We will see you next year.

Disclosures

Please consider the investment objectives, risks and charges and expenses of Sequoia Fund Inc. (the "Fund") carefully before investing. The Fund's prospectus contains this and other information about the Fund. You may obtain a copy of the prospectus at www.sequoiafund.com or by calling 1-800-686-6884. Please read the prospectus carefully before investing. Shares of the Fund are offered through the Fund's distributor, Ruane, Cunniff & Goldfarb LLC. Ruane, Cunniff & Goldfarb LLC is an affiliate of Ruane, Cunniff & Goldfarb LP and is a member of FINRA.

Sequoia Fund, Inc. – June 30, 2018	
Top Ten Holdings*	
Alphabet, Inc.	11.4%
Berkshire Hathaway, Inc.	8.3%
CarMax, Inc.	7.6%
MasterCard, Inc.	7.1%
Constellation Software, Inc.	5.9%
Rolls-Royce Holdings plc	5.1%
TJX Companies, Inc.	4.8%
Amazon, Inc.	4.3%
Liberty Media Corp.	4.0%
Charles Schwab Corp.	3.8%

** The Fund's holdings are subject to change and are not recommendations to buy or sell any security. The percentages are of total assets.*

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Fund may be offered only to persons in the United States and by way of a prospectus. Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment):

Management Fees	*1.00%*
Other Expenses	*0.07%*
Total Annual Fund Operating Expenses	*1.07%***

*** Does not reflect Ruane, Cunniff & Goldfarb LP's ("Ruane, Cunniff & Goldfarb") contractual reimbursement of a portion of the Fund's operating expenses. This reimbursement is a provision of Ruane, Cunniff & Goldfarb's investment advisory agreement with the Fund and the reimbursement will be in effect only so long as that investment advisory agreement is in effect. For the year ended December 31, 2017, the Fund's annual operating expenses and investment advisory fee, net of such reimbursement, were 1.00% and 0.93%, respectively.*

The Fund is non-diversified, meaning that it invests its assets in a smaller number of companies than many other funds. As a result, an investment in the Fund has the risk that changes in the value of a single security may have a significant effect, either negative or positive, on the Fund's net asset value per share.

The S&P 500 Index is an unmanaged index of 500 stocks, which is representative of the U.S. stock *market in general. The Index does not incur expenses and is not available for investment.*