RUANE, CUNNIFF & GOLDFARB INVESTOR DAY 2017

PLAZA HOTEL, NEW YORK CITY

MAY 19, 2017

Disclosures:

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The performance data for the Fund represents past performance and assumes reinvestment of dividends. Past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's 1-year, 5-year and 10-year average annual total returns through June 30, 2017 were 17.61%, 8.52% and 6.34%, respectively. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end can be obtained by calling DST Systems, Inc. at (800) 686-6884.

Sequoia Fund, Inc. – June 30, 2017
Top Ten Holdings*

Berkshire Hathaway – Cl A & B	11.28%
US Treasury Bills & Cash	8.65%
MasterCard Inc	7.72%
Alphabet Inc – Cl A & C	6.50%
TJX Cos	5.93%
Dentsply Sirona Inc	5.30%
Carmax, Inc.	5.04%
Constellation Software Inc	4.83%
Rolls-Royce Holdings plc	4.74%
Liberty Media Corp	4.13%

* 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 Inc.'s contractual reimbursement of a portion of the Fund's operating expenses. This reimbursement is a provision of Ruane, Cunniff & Goldfarb Inc.'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, 2016, the Fund's annual operating expenses and investment advisory fee, net of such reimbursement, were 1.00% and 0.93%, respectively.

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.

Disclosures (continued)

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 Fund also invests in foreign securities, which involves the risk that the value of the Fund's investments in securities of foreign issuers will be affected adversely by foreign economic, social and political conditions and developments or by the application of foreign legal, regulatory, accounting and auditing standards or foreign taxation policies or by currency fluctuations and controls. The risks to the Fund and, therefore, to an investment in the Fund, of investing in foreign securities include expropriation, settlement difficulties, market illiquidity and higher transaction costs. The prices of foreign securities may move in a different direction than the prices of U.S. securities. In addition, the prices of foreign securities may be more volatile than the prices of U.S. securities.

Any sector focuses of the Fund are subject to change, and past returns are not indicative of future returns. The cash generation of a company in which the Fund invests may not continue given market or other conditions, and portfolio turnover may change depending on future circumstances.

Fund holdings and/or sector weighting are subject to change and should not be considered recommendations to buy or sell any securities. Current and future portfolio holdings are subject to risk.

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Remarks have been edited for clarity and relevance. We have omitted the names of most questioners to protect their privacy.

David Poppe:

Good morning. Welcome to our 2017 Investor Day. I am David Poppe, and I am joined on the dais today by members of the Ruane, Cunniff & Goldfarb Investment Committee: John Harris, Arman Gokgol-Kline, Trevor Magyar, and Chase Sheridan, plus non-voting but always helpful member Greg Alexander. Also on the dais with me are our most famous analyst and late arriver, Johnny Brandt, Greg Steinmetz, and our new head of operations, Wendy Goodrich. In the front row is the rest of our exceptional research team whom I will introduce in a bit, and which we believe is the strongest group in our industry. It is good to be with you, and especially to see so many familiar faces in the audience today. We certainly appreciate the trust that you have placed in us.

As we did last year, we would like to spend the first part of the meeting today updating you on what is happening inside our firm and at the mutual fund. I will provide an overview of the day. John Harris will talk about why we feel confident in our process and our culture. Next, members of the team will give short presentations on some key initiatives happening inside Ruane, Cunniff. This should take a little less than an hour, and leave plenty of time for questions. We will finish the formal program at about 12:30 PM, but we will stay here for another half hour or so to answer any individual questions that you may have. We do need to clear the ballroom by one o'clock.

A year ago at this meeting, we tried to address directly what we saw as the major issues facing our firm: what leadership would look like going forward, what needed to change, what was too important to change. And while 2016 was a very trying year for us and for you, I am proud that we have done the things we told you we would do. Since the leadership change, we have retained all of our key employees and the vast majority of our clients. We are investing in our business. On a personal level, all of us on the dais have invested our own money in the business. On a professional level, we are investing in our people; we added two excellent analysts in January. And we are implementing new technology. Last fall we hired a new head of operations, Wendy Goodrich. Among her many duties, Wendy is reviewing and upgrading our internal technology. She is off to a great start, and you will hear more from her in a few minutes. We intend to invest more in our client service function this year, something my partners will talk more about in a bit.

On the investing side, as you probably know, we experienced an elevated level of portfolio turnover relative to our history. We know it is painful for taxable shareholders and other clients to pay the toll on capital gains in a year when performance is poor. And it is only lukewarm comfort to recall that those gains were a result of years of mostly terrific stock performance and tax-deferred compounding. However, we believe the decisions to sell were sound.

We certainly did not top tick every sale, but taken in aggregate, the stocks we sold over the past year have underperformed the S&P Index since our sale. We also purchased eight new securities. Of course, one year does not a record make, but those eight stocks have in aggregate outperformed the S&P since initial purchase. Today, these eight securities account for nearly one quarter of Sequoia's assets. The result of this activity is a re-focused portfolio. When I became CEO in April 2016, Sequoia consisted of investments in 33 businesses. At the end of the first quarter of 2017, we held 26 positions. We are very pleased both with the initial performance of the stocks and, more importantly, with the health of the businesses we now own.

Given the unusual level of activity in the portfolio, it is natural for clients to ask how we are changing. I would say that we are rededicated to the principles of investing that we learned from our founders. While our portfolio is more focused than it was a year ago, it is less concentrated in our largest holdings. We are working hard every day to identify terrific businesses trading below their intrinsic value. The overall stock market today is expensive. There are precious few cheap stocks, but we are value investors. We continue to invest with a long-term focus, trying to identify and buy for responsible prices businesses with the potential to grow for years. At a time when many smart people are looking at every good idea, we think our ability to invest with a long-term horizon is a competitive advantage, as the intrinsic value of long-duration growth can often be underappreciated by investors distracted by short-term momentum. We play to our strengths.

This gets to another issue, which is the wisdom of establishing an Investment Committee. I will repeat today what I have said many times now over the past year, which is that you should think of us less as a committee and more as a team. For one thing, the six of us including Greg Alexander have a total of 98 years of experience at Ruane, Cunniff. We have worked side by side for the past decade. We all came to Ruane originally because we wanted to be great investors and we have all internalized the culture and values of Ruane, Cunniff & Goldfarb. My colleagues have been the primary idea generators for the last ten years, not just the past year.

I want to take just a moment to comment on the recapitalization transaction that you were contacted about in the spring. In March, Sequoia shareholders and separately managed account clients were asked to approve a transaction through which we sold a block of stock to some of our senior employees. Technically, this constituted a change of control. As a practical matter, the change of control happened a year ago when Bob Goldfarb retired. We sent out a similar consent letter twelve years ago after Bill Ruane's death when we repurchased shares from his estate. Bob Goldfarb remains a stockholder of the business, as does the Cunniff family. Our current employees now own a much larger percentage of the company than they did before, and they have tremendous incentive to stay and make our business more successful. In addition, as I mentioned, all six members of our Investment Committee invested in Sequoia Fund in 2016, and we will invest in the fund in 2017. We are putting even more of our money where our mouths are.

That is a high-level look at activity inside our firm. I would like to now provide you with a little more perspective on our investment strategy. We think it is critical that you understand it. Why? Because the stock market ebbs and flows, and over short periods of time can be highly unpredictable. There is nothing we can do to make short-term performance more consistent. However, if we are doing our jobs right, we should have a predictable investing process that makes sense to you even in periods when returns suggest we are out of sync with the market. You should feel like a partner in this process because to a great degree our clients make our investing style possible. I believe that what I am about to say is almost exactly what Bill Ruane would have said twenty years ago, minus the Yogi Berra-isms.

Let's start with the obvious. We are value investors. The principles underlying our investment strategy were handed down to us from Benjamin Graham. These principles are tried and true, and they have served our clients well for over 45 years, years that have seen a variety of market conditions and a variety of people managing the Sequoia Fund. Of course, value investing does not automatically work for everyone. The power of the principles of value investing, like those of a lot of concepts, is heavily dependent on the way that one applies them.

Let me repeat an overly long sentence from our most recent quarterly letter: "Our mandate is to invest Fund assets in a select group of structurally-advantaged companies run by able managers and/or visionary entrepreneurs which we believe will compound our capital at attractive rates over the long-term." In this sense, we are value investors with an important overlay. We care about great businesses and great people, not just great prices.

We are very focused on owning high-quality companies. One simple way to think about quality is that by our math, the return on equity for our portfolio is significantly higher than the ROE for the S&P 500. And over the past three years, our companies have grown their earnings faster than the Index components. According to consensus estimates and our own internal estimates, our companies are expected to grow faster in the future as well.

The P/E multiple for Sequoia is about 10% higher than it is for the Index right now. So while a portfolio that grows faster than the Index and earns higher returns than the Index but trades at a small premium to the Index may not outperform in a given year, we like the long-term math. The math on our portfolio's growth and returns also underscores our qualitative sense that we own a collection of first-rate companies and management teams.

Why the overlay of quality? We do not invest in structurally-advantaged businesses and able managers because we admire them, although, as students of business, we generally do admire them. We invest in these companies because we believe doing so is the best and most reliable way to make money, period. Why do we believe that? I think it really comes down to knowability. We are by constitution and experience humble about what we can know, and in the short term, businesses, regardless of quality, are subject to a variety of forces into which we can have very little insight. The natural ebb and flow of our businesses is something we study with great intensity and interest, but it is not what drives our investment decisions.

What does drive our investment decisions is our assessment of how businesses are likely to perform over the long-term. For us, this is much more knowable. We definitely favor businesses that grow, but even the fastest-growing business we invest in must have a wide and durable moat. Competitive advantages come in many forms, but what all such edges do is allow a business to earn superior returns now and, if these advantages are durable, into the future as well. We like businesses that control their own destiny.

The key here is that we believe that the overall quality of a business and particularly the significance and durability of its competitive advantage are knowable and more reliable indicators of wealth creation than short-term performance. Overall business quality is never perfectly knowable, of course. And creative destruction is always occurring. But with hard work, careful thought, and vigorous debate, we think we can make very well-informed judgments.

The market is smart. Business quality is clearly well-appreciated. High-quality businesses rarely trade for truly bargain prices, making life hard on the value investor. But businesses do periodically trade at a discount to their intrinsic value, and what we spend nearly all of our time doing is looking for these opportunities to act. This work is inherently labor intensive and highly qualitative. For sure, we do all the standard financial analysis, but many important business characteristics cannot be reduced to a spreadsheet. We need to make judgments about the quality of management teams, the viability of their strategies, the acumen of their competitors, and ultimately the durability of their competitive advantages. These are all subjective judgments. We have, over the course of 40-plus years, developed and refined a framework for thinking about business quality, a process for researching it, and a shared language for talking about it. If we have any intellectual property, this is it.

Hopefully that gives you a sense of the kinds of companies we want to buy: high-quality enterprises trading at discounts to their intrinsic value, with long-duration growth opportunities. I would note that every great outperformer we have purchased during my eighteen years here — from Fastenal to Idexx to Mastercard to O'Reilly to Precision Castparts to Sirona to TJX — had something in common. And it was not a low P/E at the time we first invested. It was a long growth runway and, most often, a long organic-growth runway.

I want to talk next about why we hold our companies for the long term. Again, I think the answer gets back to humility and knowability. After lots of hard work, careful thought, and vigorous debate, we may claim to know that a high-quality business is undervalued. But we will not claim to know its true value with any precision. The best that we can do — the best that anyone can do — is to identify a range for the true value of a business. This is the main reason we tend to hold our businesses even when the price-to-earnings multiples at which they trade expand beyond the price-to-earnings multiples at which we first purchased the stocks. Of course, if the market value of one of our businesses increases well beyond our estimated fair-value range, then we will sell it without emotion. But it is difficult to have true insight into an exceptional business, and if you do have an insight and are able to buy the shares below their intrinsic value, we have found that generally the best and most reliable way to make money in the future is to continue to own that business. Taxes and frictional costs play a role here, but our primary concern when we contemplate a sell decision is not taxes and frictional cost.

Tax efficiency should naturally occur from our investment strategy, but it is a byproduct. My partners Arman Gokgol-Kline and Chase Sheridan will speak about this tax efficiency in a few minutes. We think it is very powerful.

The other key aspect of our investing strategy that I want to address is concentration. As big as our team is, we are doing well to have a half-a-dozen or so important insights into stocks in a year. As a sidebar, as a firm, we bought 96 stocks over the twenty-year period from 1996 through 2016, a period that encompassed Bill's leadership, Bob's leadership, and a piece of the new team's leadership. That is about five stocks per year. In other words, a half-dozen insights is a pretty good year. If we have a qualitative insight that leads to an ability to act on an undervalued security, we should own the security in meaningful size.

For us to get unusual results, we must have the courage of the convictions that arise from our strategy and process. We need to be willing to look completely different than the Index and accept that looking different means that our year-to-year performance will also look different. This has always been true.

I wanted to spend time on this subject today because we think it is critical that you understand our investment strategy. We look forward to continuing the dialogue today and in the months and years ahead. We know that we are only able to do what we do because our clients embrace investing with a long-term perspective. When we meet with analysts at other firms, the most common refrain all of us hear is, "I really wish I could work at a place that invested for the long-term, but we just cannot do it." Well, we can, and all of us up here are acutely aware that we only get to be long-term managers because we have long-term clients.

Before I finish, I want to introduce the rest of our research team. Some of them are travelling, but you will be hearing from many of them over the course of the morning: Saatvik Agarwal, Girish Bhakoo, Peter Bin, Salina Claps, Daniel Foussard, Yi Gao, Jon Gross, who is our Director of Client Services, Jake Hennemuth, Duncan Horst, Eileen Jang, Antonius Kufferath, Eric Liu, Will Pan, Terence Paré, Patrick Pierce, Inder Soni, Stephan Van der Mersch, and Marc Wallach.

Next I want to introduce our five independent Sequoia Directors: Board Chairman Edward Lazarus, Peter Atkins, Roger Lowenstein, Tim Medley, and the ageless Bob Swiggett. Bob is marking his 47th year on the Sequoia Fund Board. He amazes us still with his energy and intellect. I believe that Bob joined the Board after some sort of fraternity hazing ritual went awry, and he was never able to get off. John Harris and I are also on the Sequoia Fund Board.

I want to take a second to thank all the members of the Board for their hard work over the past year. This group cares tremendously about the Sequoia Fund, and they have been good advisors to John and me and good stewards for you. With that, I am going to turn it over to John Harris. Thank you for coming today.

John Harris:

Okay, my name is John Harris. For those of you who do not know me, I sit on our Management and Investment Committees, and I also run our Wishbone family of private partnerships.

This may seem like an odd thing to do in an open forum like this, but I am going to give away a big secret today. You aren't supposed to give away secrets in business, especially not in a business like ours where there isn't much that is proprietary to begin with. But I think this is going to help all of you understand your investment a little better, and I think by the time I'm done, you will understand why I thought it was okay to sort of spill the beans.

We need in the meantime to create a little suspense here to keep everybody interested; so I'm going to set this secret aside for a second and talk first about the news, something that seems like it is in the news everyday these days and unfortunately is not fake news. It is also not new news because it has been true for a very long time now. And the news is that the overwhelming majority of active money managers do not beat the stock market. Now, there are a small handful of firms that have beaten markets over long periods of time: across different funds and different strategies and different managers and co-managers and generations of leadership. Clearly something different from luck is at work at these firms. And the reason we are all here today is that Ruane, Cunniff has historically been one of those firms. So the question is: what is different about this small handful of firms, and why do they end up getting the results that they get? The point that I want to try to make today is that I think the answer to the question is maybe a little more nuanced than some people might think.

When people think about the keys to success in our business, I think typically the first thing they think about is brains. But actually, what we do has very little to do with brains and effort and it is not because they're not important. It is just that brains and effort are everywhere on Wall Street. There are way more smart and motivated people on Wall Street than there are great investing records. So this has to be about something more than just talent.

And I think this is partially true because you can be the smartest person in the world, but you are not going to get very far in this business if you don't have a philosophical map, so to speak, to guide you, because by definition, if you add up the result of all the investors and participants in the stock market, you get the average or the Index. So if you want to get a result that is different and better than the average, then you have to think differently from the average investor who is getting the average result. You have to go your own way. We have a map that we think points us in a relatively unique direction. David spent a lot of time talking about it. We think our map works.

It's relatively easy to use the map when the sun is shining and markets are calm. But as we all know, markets are not always calm. Every once in a while they get unsettled. The rain starts falling and the fog sets in. And when that happens, it is amazing how really smart people can get really badly lost. So in addition to your map, you need a compass. In other words, you need a repeatable process that you use to implement your philosophy so that when the weather gets bad, as it inevitably will, you can stay pointed towards your true North as an investor. So we have a process that we go through every time we look at a business, every time we make a decision, and the process is important because it is the means by which we turn the theory into practice.

Unfortunately, if all you needed was a map and a compass, this business would be a lot easier than it is because there are a lot of smart people out there in the world and they all know value investing works and they all have their way of doing things and our way is certainly not the only way that works.

Now, two things that we have in great abundance at Ruane, Cunniff are journalists and Germans. We even have one German journalist over there. And the Germans and the journalists are real Strunk & White types; so they hate it when I mix metaphors. But the way I think about this is that it is like baking a cake. You can have the most talented chefs in the world, you can have all the best ingredients, you can have the great recipe, but if you forget the eggs, when you open the oven you are not going to have a cake. That is because the eggs are the thing that sort of holds everything together and makes it work. In our business, the thing that holds everything together and makes it work is the culture.

What does that mean? What is a "culture?" Culture is a lot of things. It's all the shared experiences that you accumulate as a team over the years. It's the stories that get handed down from one generation to the next. It's the little ways of acting and thinking and treating each other. It's the organizational tone that you set; it's the values. This may sound odd. It is not something they teach you in business school, and it may almost seem counterintuitive in a business that feels like it ought to begin and end with spreadsheets. But values are important in our business. Patience, civility, humility are incredibly important in our business. Honesty and straight talk are important in our business. The combination of all of those things — the memories, the habits, the values — that's the "big secret." And I can say it out loud here because a culture is such a hard thing to replicate, and that is why sustained success in our business is so rare.

Part of the reason a culture is a hard thing to replicate is that you have to internalize it down to the last organizational bone. It has to exist in the marrow. And that is not an easy thing to do. It takes leadership; it takes commitment. You have to work at it every day until all the things that make your firm special and different are like muscle memory, are like reflexes. When people on your team see X, they naturally think Y. When A happens they naturally do B. It is not easy to get to that point, but if you do, you have created a very powerful thing because if you can take the right people, the right philosophy, the right process, the right culture and mix it together long enough, eventually you get good performance. And then you attract the right type of client, which is critically important because as it turns out, you cannot sustain a successful culture or a successful firm over any meaningful period of time if you do not have the right clients.

David talked a little bit about this, but it is worth repeating. Johnny Brandt brought this up in a meeting we had a few weeks ago. And it is true. You would not believe how many really smart people from other firms will tell us, ''Look, we know how to do this. We know that you have to think in terms of owning a business rather than a stock. We know that you have to measure results over years and not quarters. We know that you have to concentrate on your best ideas. We have the map, we have the compass, we know the direction that we ought to be travelling. But we also know that the road gets bumpy every once in a while, and the problem is that we're worried that our clients don't have the patience to stick with us when the road gets bumpy, so we end up taking shortcuts.''

In our business, when you start taking shortcuts, you are lost. What happens is all these corrosive little behaviors start to emerge, like, "The fund is down 20%. What do we do? What do we change? How do we react? Who do I blame?" Or, "We are behind the market three years in a row. Guys, we cannot afford to be behind one more year. We have got to turn the pressure up around here. You have got to feel it. We have got to do something that is going to work, now." Or, "I am docking your pay or demoting you because her two stocks in the fund beat the market this year and yours did not." Or, "She got an idea in the fund this year and you did not."

When those kinds of things start happening, your team starts to look around at each other and they say, "Wait a minute. I thought we owned businesses rather than stocks. I thought we don't pay attention to what the market does over a month or a year because the market can do anything over a month or a year. And I thought the fact that the market went down or had whatever gyration it just had does not necessarily mean that XYZ company in the portfolio is worth any less than it was yesterday, or that we feel any differently about the portfolio than we did yesterday. I thought over the long term we pay attention to things like stock prices and fund performance and whose stocks do what, but over a year or two, we focus on the business results of our companies, and more important than that, the quality, the depth, the insight, the rigor of the research that we do around here every day." Because over the long term, ideas and research are what drive our business, and over the short term, whether the fund outperforms or underperforms, or whether my stocks do better than her stocks, or whether this or that or the other makes it into the fund, all of that is as much about luck as anything else.

You may be saying all the right things in the letters that you write your investors, but as anybody in the audience who has kids knows, they watch what you do. Your team watches what you do, and if what you say does not line up with what you do, eventually the people on your team look around and say, ''Wait a minute — this is not what I signed up for. I don't really want to be a part of this.'' Then people start leaving. So then you have turnover. And how can you possibly create a successful and a deeply ingrained culture in an organization where the cast of characters is changing every year? So now you are completely off the path, and getting back on is basically impossible.

So you start to see the incredibly important self-reinforcing relationship between clients and culture: how you cannot have one without the other. And you start to see the incredibly important contribution that all of you make to our ability to do what we do the way that we do it and who we are as a firm.

Who we are as a firm was tested just about to the limits last year. It was a challenging experience to go through. As with all challenges, I think we all learned some lessons. But the big lesson that I think we all learned is that the things that make this place special and different are stronger and more evident today than they have ever been. The signs were everywhere. You could see it in the really remarkable loyalty of our investment team. With everything that happened last year, the only two people we lost were Bob and Rory. You could see it in the way that our entire team at Ruane, Cunniff constantly went above and beyond the call of duty. And this goes for all the people sitting up on the stage here to the people who answer the phones. It just seemed like every day last year somebody different was doing a job they did not sign up to do, working hours they did not sign up to work.

You can't buy that with a bonus. People do not work that way for money, at least not for any extended period of time. They work that way because they are part of a firm that is as much a family as it is a firm. And I say this all the time, and I mean it: this is a family. Now, I also say it is not a commune; we all have to pull our own weight. But I think everybody on our team knows that this is more than just a firm, and it is more than just a team.

Another place where the best of our culture showed through last year was the Investment Committee. The problem with committees is that typically one of two things happens. Either you get this sort of apathetic dynamic where nobody really feels strongly enough to speak his mind, and everybody sort of wants to go along to get along, and everybody ends up following the loudest voice in the room. And the loudest voice in the room may not necessarily be the voice you want to be listening to. Or you get a confrontational dynamic where everybody feels fine expressing his point of view, but because there is no intellectual common ground, everybody just ends up talking past each other and it devolves into an argument and nothing gets accomplished.

What is really hard to create is a cultural context wherein a bunch of really smart people can sit down at a table, and because they have spent their whole careers following the same map and the same compass and marching in the same general direction, they can all speak their minds and contribute their perspectives and do it forcefully. But they can also find common ground, reach a consensus, and make a judgment. And there is no pride of ownership and no ego, and nobody cares whether it is my argument or your argument or whoever's argument, as long as it is the best argument and as long as you end up making the right judgment. When you can turn a committee into a team like that, as David described, then one plus one, plus, in our case, four more, equals a lot more than six.

So culture is what makes the difference in our business. Culture is what turns talented people into patriots rather than mercenaries. Culture is what makes it so they do not just talk the right talk, but they walk the walk. Culture is what makes a team add up to more than the sum of its parts. Culture is what turns clients into partners. And culture is what turns the toughest year in your history into potentially your finest hour as a firm.

Now, we have had a bad stretch of performance over the last eighteen months. When you have had a bad stretch of performance, it's a lot more fun to talk about culture and values than it is to talk about performance. So I do not want to minimize that. At the end of the day, until we get back to beating the market and performing the way we are all used to performing, this is all just talk, and I get that. We get that. But I also know that one of the many aspects of the culture around here has always been that we felt like it was our job to be straight with you and to tell you everything we would want to know if we were standing in your shoes; to be honest with you about what matters in our business and what drives performance, and this — this is what matters. Culture is THE thing that matters.

Now, performance doesn't happen on a schedule, and I don't care who we are or what we do, over the next one, two, three years, the result we get is unfortunately out of our hands for the most part. The market is going to do whatever the market is going to do. What is within our control is that we work as hard as we possibly can at staying true to who we are, and that we take care of this amazing thing that we all inherited — this incredible little family that I am so proud to be a part of, that I have never been more proud to be a part of than I have been over the last year, and that I know Bill and Rick would be so proud of if they had seen the way it came together when the chips were really down. If we can do that — and by the way, it is easier said than done; you have got to work at it — but if we can do that, if we can stay true to who we are and be who we are as a firm, then all the pieces are in place here: the people, the philosophy, the process, the culture, and I think if we can all just have a little patience, the rest is going to take care of itself. I am 100% sure of that.

So that is what I have to say today, and now it is my real pleasure to introduce my friends and my partners, Arman Gokgol-Kline and Chase Sheridan. They are going to talk to you a little bit about taxes. Thank you.

Arman Gokgol-Kline:

Thank you John. Chase and I are going to spend a few minutes talking about capital gains taxes this morning. I can already feel the excitement in the room building! But in all seriousness, while capital gains taxes might not be the most exciting topic, they are important. Hopefully, those of you with tax-free accounts will also find the coming discussion of interest.

Stepping back for a second, the returns we generate over the coming years will first and foremost be driven by the companies we choose to invest in and their performance over our holding period. Our focus has been and always will be to invest your capital in high-quality, growing businesses with strong managers that offer us the ability to compound our capital at attractive rates over the long-term.

Chase Sheridan:

The good news is that our investment strategy happens to be quite tax efficient. I know it might not have felt that way in

2016, but let's talk about turnover. Turnover is simply a measure of the buying and selling activity in a fund. Sequoia has always been a low-turnover fund, and low turnover and high tax efficiency go hand in hand. According to the independent research firm Morningstar, turnover in Sequoia Fund averaged 12.5% over the past twenty years. Last year, it was slightly elevated, when it reached 16%. But that is still radically lower than the average turnover of funds in our Morningstar category, which is Domestic Large Cap Growth Funds. The average turnover of our competitors over the last twenty years was 76%. Last year, it was 57%.

To be clear, we do not celebrate low turnover at the firm. On the contrary, a year without turnover would mean a year in which we could not find any promising new investments, despite our best efforts. As market opportunities change, the portfolio must change to reflect them. We are always working to optimize Sequoia's prospects for future appreciation. We were fortunate to find a number of compelling new investments in 2016, and the elevated turnover you saw is partially a reflection of the ample opportunities we uncovered during the year.

Arman Gokgol-Kline:

Low turnover usually indicates a small tax burden from realized gains. In 2016, however, the high turnover led to large capital gains distributions. Last year, the distribution of capital gains amounted to just under 18% of net assets. But in the context of our fund's history, such large distributions are not that unusual. We had larger capital gains distributions as a percentage of net assets in 2000, when capital gains distributions totaled almost 20% of net assets. In 2007, capital gains distributions added up to over 23% of net assets.

Importantly, we expect that Sequoia's distributions in the future will look much like they have in the past, which is to say we will continue to operate Sequoia in a tax-efficient manner, but both the timing and size of distributions in the future will continue to be lumpy. Now, we could have deferred the bulk of the stock sales we made in 2016, and this would have also deferred your tax bills. So it is fair for you to ask what you got in return for paying your taxes sooner. The answer is that, in our estimation, you got a portfolio with better prospects for appreciation. That is an important point. In our effort to maximize after-tax investment returns for our clients, investment considerations far outweigh tax considerations in our decision-making.

Chase Sheridan:

There is another comment on capital gains distributions that is worth making. Investment managers running tax-efficient equity mutual funds are easily identifiable. These funds tend to exhibit a high level of unrealized gains relative to their assets. That has certainly been the case for Sequoia. Sequoia's unrealized gains over the past twenty years have averaged 52% of net asset value and currently stand at about 48%. We understand that some tax-sensitive investors are disinclined to invest in funds that exhibit large unrealized gains out of fear that those gains may be realized and distributed shortly after they buy in, which would trigger a tax on capital gains that did not benefit the new investor.

The perverse result of this thinking is that it actually drives investors into the least tax-efficient funds. Large unrealized gains are a hallmark of tax efficiency in an equity mutual fund. And any tax liability an investor incurs from distributions in the early years of ownership is likely to be offset by the tax liability they leave behind when they exit the fund. The lesson we would leave you with is that in addition to performance, it is the overall tax efficiency of a fund that matters, and tax efficient funds tend to come with high unrealized capital gains.

Arman Gokgol-Kline:

In addition to deferring the realization of gains, the gains of a lower-turnover portfolio that holds businesses for over a year are taxed at the lower capital gains rate, not the higher short-term rate. The good news is that approximately 99% of Sequoia's realized and distributed gains over the last twenty years have been long-term. By comparison, again according to Morningstar, about 21% of the capital gains realized and distributed by the typical actively-managed fund in our category were short-term. That makes a big difference for those of you with taxable accounts, especially those of you with high marginal tax rates.

Chase Sheridan:

To demonstrate how powerful this can be over time, we've put together an admittedly simplistic but illustrative example. Assume an investor puts $10,000 in each of two funds on the same day. Over the ensuing twenty years the two funds generate identical pre-tax returns of 10% annually. The difference is that fund one has an annual turnover and distributed gains profile matching that of Sequoia over the past twenty years. Fund two has an annual turnover and distributed gains profile matching that of our Morningstar Category peer group over the last twenty years. After twenty years the after-tax gains from fund one are more than $7,500 higher than those from fund two on an initial $10,000 investment. Another way of saying this is that investors in fund one would have 15% more money in their pocket at the end of twenty years than those in fund two, despite identical pre-tax returns.

Arman Gokgol-Kline:

We feel that Ruane, Cunniff has demonstrated over the past 47 years that our investment philosophy and process yield good results. And as you know, we feel that investors should judge us over the long term, as our performance over shorter time periods may not always be that meaningful. We care about the returns our businesses generate over multiple years and their ability to compound capital over time. We do not evaluate our investment results over shorter time periods, and we would discourage you from doing so as well. That said, many have noted that the investment team structure put in place in March of last year feels new. Many have also asked for data to try to gain insights into how the investment team is functioning. The fact of the matter is that it is too early to draw any meaningful conclusions from about one year's data. However, Jeff Bezos at Amazon has taught us to focus on the customer, and our customers want data.

Chase Sheridan:

We calculated the results in aggregate of every investment action taken by the investment team since it assumed management of the Sequoia portfolio. This covers the timespan from March 31st of last year up until yesterday's close. The performance data includes all buys, sells, trims, and adds, and of course, all mistakes of commission. One would hope and expect that over time our purchase decisions would outperform the S&P 500 as a group, and so far that has been the case, with our purchases in aggregate outstripping the S&P by nearly seven percentage points over an average holding period of just over seven months. Just to be clear, these are not annualized figures. In other words, our purchases have outperformed the S&P 500 by about one percent per month. Of the eleven purchases made to date, eight have outperformed the market, and five of these have outperformed by more than ten percentage points. All of our purchases have appreciated and are valued above our cost.

Moving onto sales, clearly our sales should underperform our purchases over time if we are doing our jobs. We track the performance of the securities we sell even though they are no longer in the portfolio. As a group, the stocks that we have sold subsequently underperformed the S&P 500 by 2.7 percentage points over an average time since sale of eight months. The results of the sales were helped by our exit from Valeant, which substantially underperformed the Index. And they were hampered by our sale of Idexx, which has substantially outperformed. We exited Idexx once the valuation exceeded 37 times the consensus earnings estimate for 2016. But the valuation has since expanded much further and today Idexx trades for about 53 times the consensus earnings estimate for 2017.

Our point is that the investment team has gotten off to a good start, although we would remind you not to put too much emphasis on the early return figures. The more important message is that we believe the actions taken by the committee have substantially improved the future prospects of the portfolio. With that dive into the minutiae complete we'd like to turn it over to Trevor, Wendy and Greg.

Trevor Magyar:

Thank you Arman; thank you Chase. And thank you everyone for visiting with us here this morning. I am joined for this section of the prepared remarks by my colleagues, Greg Steinmetz, who is the "German journalist," and Wendy Goodrich, our new head of Technology and Operations. We would like to share with you our thoughts on and our plans for client services as well as technology and operations. As we will explain, we believe these two areas are intimately related.

One of the positives of the past year is that we have had an opportunity to talk with and meet with so many of you, our clients. Your interests truly are, and always have been front of mind for us. But actually spending time with you has served to remind us of the enormous trust that each of you has placed in us. And one thing that became readily apparent during our many phone calls and many meetings is that while we have done a good job in certain areas of client relations, we can do much better in others.

It is a conclusion that was a little painful for us to reach because we pride ourselves on putting our clients first. And what we have come to realize is that the choice between investment performance and client service is a false one. There is no good reason why we should not be great at both. And so we are here today to tell you, to promise you, that improvement on this front is coming. It will not come overnight, but it will come, and it will absolutely be noticeable.

We see client services as being about transparency and responsiveness across three areas. First is account administration, second is client reporting, and third is communicating our investment strategy. We feel that we actually do quite well in account administration. Credit here goes to our team of truly amazing account administrators. They have relationships with many of you that go back decades. These sorts of relationships are virtually unheard of in this industry. Client reporting, however, is an area where we have a lot of room for improvement. Our investment strategy does not and never will lend itself to lots of fancy analysis, but we can and we will provide more and more helpful information to you.

We believe it is critical that you understand our investment strategy not simply because you have a right to know how we are investing your money, but also because by understanding our investment strategy, you become something more than clients. You become our partners in this undertaking. Many of you have a very strong sense of our investment strategy, and in a way the strategy is quite simple. But like a lot of simple concepts, what makes our investment philosophy powerful is the very precise way in which we apply it. The best way, and we think the only way, for us to explain how we apply it is to maintain a more active dialogue with you than we have in the past.

The other very important thing about our investing strategy is who is executing it. This group gathered here today up on the stage and down in the first row below is the team. We believe it is critical that you know who we are. It is up to us to make sure that happens and continues to happen year in and year out, while of course, making absolutely sure that we stay focused first and foremost on investing. For well over a decade, Jon Gross has served as our director of client relations. This past year was a very, very busy one for him, and he stepped up. But it is simply not fair for us to expect to him to go it alone any longer. Therefore we are undertaking a thorough and thoughtful search for someone who can help us improve in the three areas I just discussed. We anticipate making that hire this year.

At this point I would like to hand it over to Wendy, who can explain how technology and operations are a key enabler of the client services model that we have in mind. Thank you!

Wendy Goodrich:

Thank you Trevor. Hello everyone, I am Wendy Goodrich. It is so nice to meet with and see so many of our clients here today. You, our clients, motivate each of us to get up and do our best every day. Before I get into any specifics relating to operations and technology, I would like to take a quick moment to share my thoughts on my first five months here at Ruane, Cunniff & Goldfarb. So many of my colleagues have been lucky enough to spend a good part of their careers at this special firm. But I am new here, so I believe I have a fresh perspective about who we are, where we are, and what makes us different.

What has struck me every day since I arrived at this special place is how much I truly enjoy my colleagues and how deeply they care about our clients. I have spent the past twelve years running my own business, a strategic consultancy focused on implementing operational and technological best practices at some of the best firms in the industry. Many of my clients asked me to join them as a permanent member of their teams. But for various reasons, the circumstances were never quite right. I could not be happier with how things have turned out because now I am here at Ruane, Cunniff.

I knew from my first conversations with the folks here that Ruane, Cunniff was the place for me. I was certain I had found my tribe. This was a group of people that was completely humble, open, and warm. At the same time, they were highly dedicated and driven, albeit in a quiet manner. I thought an opportunity like this to work in a culture like this one would never come again, and I must get this job.

On my second day here at Ruane, Cunniff, John Harris called me from Chicago to say, ‘‘Welcome to the family,’’ and that is exactly what it has been like, joining a family, one that has welcomed me with open arms. I have gotten to know everyone quickly on both a personal and a professional level. We act as one team with one mission to serve you, our clients. We take great pride in knowing that generations of families have benefited from being Ruane, Cunniff clients, and we hope we are setting up the generations to come. I hope these thoughts give you a sense of what a new person experiences upon joining this wonderful family.

Now, on to what I have observed about where we are. A couple of things I noticed immediately upon joining this firm was that people stay here forever and that things have not changed much over the years. We did things a certain way because it worked fine. We did not develop our technology and operations as much as some other firms have, and as a result we are not as efficient as we could be and will be.

It is time to put in place a truly world-class infrastructure, not to be more efficient for its own sake, but rather to serve you better with more helpful and more timely reporting as well as even higher-touch client service. We are working on a number of initiatives towards this end, but the ones that will most directly be visible to you is our websites. We are in the process of upgrading our Sequoia Fund website, to make it more user-friendly. For starters, we are reorganizing the information we have on our existing website to make sure that you can find what you want more easily. In addition, we are adding more information about our investing strategy and our team.

We are also developing a Ruane, Cunniff website which we have never had. The Ruane, Cunniff website will eventually include what we are calling a ‘‘client portal.’’ The client portal will provide separately managed accounts with secure, online access. Our first goal is to provide simple reports and account statements through the client portal. Over time, we want to provide various sorts of custom reports. We expect both the upgraded

Sequoia Fund website and the new Ruane, Cunniff website to go live sometime this summer.

Thank you for letting me share with you my first impressions and for letting me explain just a little bit about what we are doing behind the scenes to improve our technology and operations. Again, the goal with all of this is to serve you better. We welcome and appreciate your feedback as we work through this process. I am now going to turn it over to my colleague Greg Steinmetz.

Greg Steinmetz:

Guten tag! Und danke schön, Wendy! You have just heard about our plans to improve our services by upgrading our technology. I want to talk to you about what is not changing. First and foremost, we are going to stick to our candid approach to communicating with you. We like to think that we have always given it to you straight, warts and all, no sugar coating. The problem is not the way that we have communicated; it is just that we want to do even better.

I have been at the firm since 2000, and this is my 17th Investor Day. It was Bill and Rick who decided to hold the first one back in 1980. It was a novel format at the time, and in some ways it still is. There are not many others in the fund management business who do open Q&A in front of hundreds of people, but we get a lot of out of it. It is like repertory theater: you learn from the audience. So as long as anyone wants to come, we are going to keep doing it.

The truth, though, is that times have changed. The client service model that Bill and Rick set up was best in class for their day. We need to update it so that it is best in class for our day. Best in class! That is what Trevor and Wendy were getting at. We may be late to the game, but we are committed to getting this right. And we are going to do it in a way that is true to us and to the legacy of straight talk that Bill and Rick left to us. With that, let's get to questions, thank you.

Question:

Before I ask my question I will make some comments. It is really nice for the second year in a row to know that the Sequoia Fund and Ruane, Cunniff has a personality. My question is if someone could talk about Priceline. The second question is that over the years you have always said that you are very price sensitive when you buy a stock. In prior years you bought a small portion of a company and the stock went up, hypothetically, $2. But you did not buy more because you said it was too expensive. On the other hand, we say we are in this for the long haul, so I wonder if you could address Priceline and that philosophy.

David Poppe:

Bob Goldfarb was a strong believer in paying the right price to the penny for a stock, and he simply would not be budged off paying the right price to a penny. That resulted in our having a number of positions that ended up being not very meaningful because they were half a percent or quarter percent of the assets in the portfolio.

We have a looked at this practice and found our hit rate is actually pretty high, or certainly high enough that if we want to own a stock, we should own it. We should buy it with a margin of safety and own a meaningful position that can help clients over a period of years. If you look at the portfolio today, there may be one or two positions less than 2%, but there is nothing less than 1%, and we do not envision going forward that there would be many. If we have conviction and we believe in the position, we should buy it in some size and buy it with a margin of safety but not be quite so finicky that we have to get our price down to the penny.

On Priceline, Will Pan is our resident expert on Priceline, and he has astutely chosen to travel today. So I will just talk briefly about it, and if one of the guys wants to pitch in that would be great. Priceline is an internet company, but it is also solving very tricky real world problems. We think it has a terrific business model. There are thousands of people in the Priceline organization who are working with hotels and other properties to get them on the site, building relationships with hotels, explaining how the economics are good for the hotel, good for the property. Priceline has thousands more people in customer service helping travelers with all the things that can go wrong with a booking.

It is still early days in the online travel agent business. You have many years of runway ahead. It is simply economically more efficient to book hotel rooms on the internet than to call up the service line for whomever and see what the rate is that day on the property that you want to visit. The feet on the street dealing with hotels and the people in customer service are barriers to entry. This is not the kind of business that two guys in a garage who are really good at writing software are going to be able to figure out and compete in. It is already emerging into something of a global duopoly between Expedia and Priceline's Booking.com engine.

Priceline has been growing at a torrid pace. It has slowed a little lately, but we think for at least the next few years, the growth rate will continue to be very high. While the multiple looks a little bit expensive, Priceline is growing so fast that it is worth a premium.

John Harris:

I would say also that the question is getting at one of the most challenging dilemmas in what we do: trying to figure out what price to pay, then how high to go, where to stop, where to not stop. This is art; it is not science. But whether we pay ten times earnings, twenty times earnings, thirty times the reported earnings, whatever it is, we are always and everywhere in the business of giving less than we are getting, buying something for less than we think it is worth. Now the quality of what you are buying and your confidence in what the future holds for that individual business are critical variables. The more confident you are in the quality of the business and the more confident you are in your view of the future, the more you will be willing to pay relative to whatever you think the business is worth.

It is challenging, because also in our case, when you are willing to own the business for ten or fifteen years, it is very easy to get into a mode of saying well, "Let's just pay a little bit more" because if the business is right then the investment will be right. And that is mostly true, and I think, to David's point, you are going to see us be more willing to get the position filled even if the price of the stock is moving up. But you have to be careful because that line of thinking taken to its logical conclusion can mean the end of discipline, and we are in the business of being disciplined. It is a difficult balancing act.

Greg Alexander:

I will just add one general comment. I am not sure if your two questions were separate or connected. We did buy another internet stock. Internet stocks often trade for a little bit more than other companies do. Now, just stepping back, if we look at the market over the last ten years or really since the 1980s, when interest rates got to 13%-plus on the long Treasury bond and even higher on the short end, it would have been hard to imagine the world we are in today, a world of 0% short-term interest rates, 1% or 2% medium-term interest rates and 3% long-term interest rates. But when interest rates go down, stocks, anything with a flow of income, is worth more. Think about a house that would pay you $10,000 a year of rent. If interest rates are 10%, then you could pay $100,000 for the house and your mortgage and the rent would be the same. But if interest rates are 3%, you could pay more than $300,000 for the same house and the rent and the mortgage payment still would be the same. So stocks are worth more and P/E ratios go up when interest rates go down.

As a result of that, the P/E of the entire stock market has gone up, and the range of price-to-earnings ratios in the stock market has compressed greatly where pretty much everything is between say fifteen and twenty-five times earnings, or something like that. To use John's analogy, if all the cakes in the shop sell for $10, you may as well get the really fancy one. It does tend to push you towards the faster-growing businesses, which in today's world are internet companies.

David Poppe:

John is answering all questions on baking today.

Question:

I am not interested in baking, but you have two significant holdings, TJX and O'Reilly. Amazon has been moving into auto parts, and also one of the fastest-growing areas for Amazon is apparel, which you can buy at Marshalls and TJ Maxx. So could you talk about the risk that Amazon represents in reference to both TJX and to O'Reilly?

David Poppe:

TJX just had a weak quarter. So, the question is timely. TJ is an extremely eclectic retailer. It buys from literally thousands of vendors, and buys very shallow quantities. There is great breadth, no depth, and very low price points in general for the merchandise in the store compared to a department store or a specialty store. The lower the sticker price of the item, the shallower the assortment, the tougher it is to sell online. So I think there is some insulation. It would be very hard to replicate that format online. TJX, Burlington Stores, Ross Stores and Nordstrom's The Rack division are all doing well. The consumer seems to be voting that they like the off-price format. But TJ did just have a quarter that was below their standard.

Terence Paré:

There is no doubt that Amazon is moving into the auto parts business and that it will get a meaningful part of the sales of aftermarket auto parts. But O'Reilly structurally has some very significant advantages that will make it very, very tough for Amazon to make very rapid progress in the categories that truly matter to O'Reilly. The first one is that the amount of inventory that you have to carry in order to service the aftermarket in the auto parts business is enormous. The base that you are talking about is the cars that have been manufactured over the last ten and fifteen years. And the number of individual items that have to be carried to have credibility in such a business is gigantic.

Now the second thing to remember is that O'Reilly in particular has by far the most efficient and best distribution system in the business. The company can deliver a part when it is ordered by a garage in twenty minutes. Amazon is not even close to that. It would have to build out a distribution system similar to O'Reilly's, develop a competitive sophistication about auto parts and make a similar inventory investment to be able to have the same credibility with the garage owner. Now, it is not enough to have, say, the top 20% of SKUs — to cherry pick the inventory — because the garage owner is always going to call the guy he is sure has the part needed and can deliver it right now. So even if Amazon has the 20% fastest-selling SKUs, the garage owner is not going to stop to think, "Is this a top 20%?" He has a car on the lift; he has a customer who is waiting for service. He wants to get the car down and the next car on the lift. That is how he makes his money.

That is the commercial side of the business, where O'Reilly has a very sustainable moat. On the DIY side of the business, I think a lot of the concern has been about how Amazon could pick that business off. Amazon will definitely get significant pieces of that business; it already has. But you want to keep in mind a couple of things. First, people have been selling auto parts on the internet for as long, practically, as the internet has been widely available to consumers. RockAuto, for instance, sells auto parts online and it was founded in 1999. And Amazon has been selling aftermarket auto parts for over 10 years. So the idea that Amazon is a new entrant to the business is just not true. What Amazon, eBay, and RockAuto can offer that O'Reilly does not would be say the fancy chrome that a guy who is running a speed shop needs, in other words, slow-moving parts that you can charge a lot of money for and that the typical DIYer who needs his car to get to work is not looking for. The internet is great for the motor head who has got a 1969 Mustang that he wants to rebuild. Amazon can have that business, the parts that really knowledgeable DIYers are looking for. O'Reilly is not really interested in it. And Amazon can have a piece of the commonplace automotive aftermarket supplies that O'Reilly sells in the front of its stores. Walmart sells a lot of that stuff too, and O'Reilly has been competing with Walmart for years and doing just fine.

The third thing that O'Reilly has that Amazon will never be able to match as long as it is an internet company is the person behind the parts counter. I do not know how many people here have ever worked on their own cars, but if you are going to change the starter motor or an alternator or you have got to do a brake job, if you do not do it every day you are going to be a little uneasy. You are going to want to talk to somebody who has done it before, and who can warn you, "You know what, if you take the brake shoe out, this little piece here is likely to break; so you had better get this gizmo as well." The person behind the parts counter is a very, very high-touch high-service person. I was in an AutoZone about two weeks ago to get a battery, and there was a guy in there who looked roughly my age. He was looking for help putting his windshield wiper blade on. He looked like he knew what he was doing, but you know what? You try to change a windshield wiper on a car. It is not like it was when I was a kid.

That kind of service and that kind of inventory availability that O'Reilly has will make it very tough for Amazon to do serious damage to O'Reilly any time soon. That is not to say that O'Reilly is not worried about Amazon. Every brick and mortar retailer that I know is and should be. But evidence of the importance of service in aftermarket auto parts is the fact that 90% of the people who search the O'Reilly website go to the store after they have searched, and the figures are similar for AutoZone. What DIYers are looking for is not to get parts delivered for free. They are looking to find out what exactly is the part needed and does the local store have it. Chances are that guy needs the part right away because his car has broken down. So Amazon is a concern; it is growing. It is going to get bigger. Amazon may be a lion, but O'Reilly is far from the slowest zebra. O'Reilly has very formidable competitive advantages.

Trevor Magyar:

The one thing that I would add here, in case it is not clear, is that we have incredible respect for Amazon, and incredible respect for Jeff Bezos. Obviously. We own the business. David and Terence did a nice job of explaining why we think TJX and O'Reilly are relatively insulated from the Amazon threat, but it is a great question, and frankly this is a debate that we are having real time in the firm and not just for these two positions. And it is not always Amazon that is the disrupter. Technology is not something that can be avoided at all. We are constantly looking at all of our businesses and assessing the challenges and opportunities that they have in front of them given technological change. Again, great question. It is one that we spend an awful lot of time thinking about across the entire portfolio.

Question:

My name is Joe Amaturo. I am an original stock holder, and very proud of it. The problem that we are all facing, those of us that have entrusted so much money with this organization, has been limited to one stock, as far as I know. It has been one error that has affected so many of us, myself particularly, financially. It was sort of a dictatorial decision. It was not the result of group effort; it was in violation of the premises that you have discussed so nicely, which I understood, and which were true. My hope is that dictatorial decisions are underlined as no more being acceptable to this group. That is the only time that this organization suffered so much. That is my wish, and my understanding of what happened. Because of that, I have not withdrawn my funds from this organization. I think what you are doing and your organizational concept are great.

However, in my own personal life, I have played dictator, and it has been working all right for me!

John Harris:

Thank you, Joe!

David Poppe:

I appreciate your comments, Joe. They are important. When we went to the committee structure, we made it a 4-1 vote to get stocks into or out of Sequoia Fund. We did it for the reason that we are a team. We are a partnership, and one person should not be able to hold up the decision-making of the firm. But at the same time it should be an overwhelmingly high bar to get stocks in or get stocks out of Sequoia. That 4-1 rule works really well for us. We talked in the prepared remarks about how we are a very like-minded group, but also a smart and independent group. If we are 4-1 on something we are probably going to be right. And if we are 3-2 on something it is less clear that we are going to be right. I think you will see going forward that that kind of a structure will endure here. We all believe in it strongly.

Greg Alexander:

Actually, I have a different take on this. Joe, if you are able to get to your family to do things that you want, I would like to interview you a little bit about that afterwards.

John Harris:

Yes. It works in my house too, Joe, but I am not the dictator!

Question:

Between December and the March quarter, it seems like you brought down your Berkshire holding from roughly 17% to 12%. I assume that this stock has a lot of capital gains. Should we be expecting large capital gains in 2017? Do you expect to take the Berkshire position down further from that 12%, more in line with your other larger positions? As as a second more curious question, I notice that the average portfolio turnover over the last twenty years has diminished from roughly 100% down to 60%. What do you think is changing in the industry that is causing that change?

David Poppe:

Actually the capital gains history of Berkshire is a little complicated. Sometimes we do redemptions-in-kind as big shareholders exit Sequoia. We have done redemptions-in-kind for many years. At different periods when we thought Berkshire was attractive, we would give the exiting shareholder low-basis Berkshire Hathaway when they exited as a redemption-in-kind then buy the stock back. So we own a fair amount of Berkshire Hathaway with a higher basis than the length of time we have owned the stock might suggest. The Berkshire that was reduced so far this year has all been at higher basis levels. There are still capital gains, but these are not the shares that we bought in 1991. We also have been able to use Berkshire from time to time when we do redemptions-in-kind and we have not bought it back. That is another way to reduce the position.

Berkshire is our largest holding, and we have great confidence in Warren and in the company, but 17% is a very heavy weighting in a mutual fund and 12% frankly feels better. If you were in Omaha just a week and a half ago, Warren and Charlie talked about how the rate of compounding of the intrinsic value at Berkshire will likely be at a lower rate in the future — especially if interest rate levels remain subdued — and we listened when they said that. Berkshire will still compound at a fine level, I am confident of that. But if you are going to have something be a 17% weighting in a mutual fund, it needs to have an extraordinarily positive outlook.

Arman Gokgol-Kline:

On the turnover point, I am not sure we have any great insights into why the fund industry is trading less often. I think everyone would agree that 100% turnover in a portfolio is high. Frictional costs come with that. And if you are turning your portfolio over every year you have to find a lot of new ideas, and the market movements are probably more meaningful than what the businesses are doing.

Chase Sheridan:

I would have to look at the data. My sense just intuitively is that you have seen a shift, a well-documented shift to passive investing over time, and that may account for some mix shift in the category, which would lower the turnover. But I would have to verify that.

Jonathan Brandt:

Chase do you think that would include some closet indexers, active fund managers who quietly re-create the index in their portfolios so as to avoid under-performance?

Chase Sheridan:

I think there is a considerable amount of closet indexing and benchmarking out there and if that has risen as a mix of the category, that would potentially account for at least some of the decline in annual turnover.

Greg Alexander:

I have one thought which may be totally wrong, but I will throw it out there anyway. In our personal experience, going back to the 1980s and 1990s, stocks did not trade with the high correlation and covariance that they do today. Today everything goes up and then everything goes down, and then everything goes up. In the 1980s and 1990s, some things would go up, some things would do down. I remember brief periods of market declines where half of our portfolio might, I am making these numbers up, but half of our portfolio would be down 40%, and the other half of it would be down 0%. We would sell a few of the things that were down 0% to buy some of the ones that were down 40%, or what have you. And then by the end of the year, you would have made money out of the excitement. Today, everything is much more correlated and it just may be that trading does not pay the way that it used to.

Question:

I had a couple of questions. The first one being that John Malone has spun a lot of companies out over the years, and I was wondering about your interest in Formula One racing, which I believe also owns 15% of the Atlanta Braves baseball team. My second question is, how does the tremendous amount of money flowing into indexing affect the investment world right now?

Arman Gokgol-Kline:

The corporate entity, Liberty Media, owns the Atlanta Braves, the Formula One racing league, as well as an interest in Sirius XM and some other publicly-traded entities including Live Nation. Liberty set up a tracking stock system with three tracking stocks: Formula One, Atlanta Braves and Sirius XM. Each share that you can purchase of their three tracking stocks gives you a look-through economic interest in the businesses you want exposure to. The Liberty Media shares we own are effectively a look-through interest in the underlying Formula One business as well as some smaller holdings in a few other businesses such as LiveNation.

John Harris:

On the subject of indexing, I think that indexing has to do with what Greg was talking about, where you see much more correlation in the market today than you used to, and individual stocks tend to move in tandem today in a way that they did less in the past. I do not know entirely what it means. But it is interesting: Here we are. Over the last year, our team has been able to bubble up a lot of interesting individual idiosyncratic opportunities in a market where indexing has never been a greater influence and the market is at a pretty healthy level. That said, I think that until the indexing trend reverses, opportunity in our business is probably going to be a little more episodic and a little less idiosyncratic. You will have these moments when the market gets fearful and money flows out of indexing and out of stocks in general, and everything goes down, and you need to act. That is probably the influence of indexing, but, again, I do not know that I would make too much of it because we still seem to be able to find those idiosyncratic opportunities even when the market is at a high level and we are eight years into a bull market.

Question:

Could you comment please on Rolls-Royce? My second question would be about Charles Schwab, which you have added in the past year. Do the lower commissions that Schwab is charging affect your outlook?

Arman Gokgol-Kline:

Not much has changed in our thinking about Rolls since we talked about it last year. We still think Rolls is a leader in its market; it has over 50% market share of the wide-bodied jet engine backlog. We have talked about the scenario under which the stock came under pressure the last couple of years. When you sell jet engines for a loss and you make the return over a twenty-year period by selling the aftermarket parts, and you are going from about 16% installed-based market share to over 50%, that means you are selling a lot of new engines at a loss, and your aftermarket takes time to build up and start generating cash flows. We have been going through that period. Jet engine production at Rolls has gone from I think the low 200 units a year to almost 700 in a few years. And the company is absorbing those losses. That is affecting the financial statements. But that is, we continue to believe, a short-term phenomenon. The new management team is also making some important improvements in the company's cost structure. I think the market is starting to see through the fog. And we continue to be excited about the future.

Trevor Magyar:

I will be brief on Charles Schwab. Charles Schwab is a company we are excited about. It has a great multi-decade track record. The interesting thing is that commissions for Charles Schwab make up something like 15% of their revenue. So despite the fact that Charles Schwab started out as a discount broker and even today gets referred to by many if not most observers as a discount broker, the reality is that the business has shifted markedly over the past ten or twenty years. Schwab has between $2.5 trillion and $3 trillion in assets. You do not build that on just a pure discount brokerage model.

Schwab gets asset management fees and it also monetizes client cash balances and takes in net interest revenue. In fact, that is one of the things we like about the business. It has a diversified revenue stream. We do not really see Schwab as a discount broker. We see it is a platform, where scale and brand are important. The change from a pure discount broker to this scale-driven, brand-driven platform has taken place over the past ten or fifteen years. We think Schwab is highly advantaged in that space. So we are happy to own it.

Question:

A week ago today you filed a 13-F which shows you purchased Credit Acceptance, having bought a little over a million shares. Could just tell us a little bit about that investment?

Chase Sheridan:

Credit Acceptance is a subprime auto lender. It has a pretty interesting business model. I think most of us know how auto lending works: A customer comes into the dealer. The dealer steers him into a car that he feels is appropriate. When the customer goes to finance the car, the dealer passes the loan off to a third party lender, typically. At that point, the alignment between the dealer and the lender diverges. The dealer has his commission, and if the loans do not perform well, it is really the lender that is on the hook and the dealer does not have an interest in that.

Credit Acceptance is a little different. Credit Acceptance does not pay the full value of the loan to the dealer up front. It puts the loans that the dealer makes into a pool. If that pool of loans performs well over time, the dealer is going to participate in the upside and benefit. If the loan pool does not perform well over time, the dealer is going to participate in the losses. This creates an alignment of interest that does not really exist with other lenders in the industry. Others have tried to copy it, but no one has successfully done it at scale. If you are a dealer, you really want to know that your subprime lender is going to be around in a couple of years when it is time for him to pay you. And that means that the lender has to have credibility; it has to have been in the business for many, many years. It has to have a certain scale, a level of trust, a presence in your market place. Credit Acceptance has been doing this for decades, and really no one else has had this model.

Why is that important? It is important because in a down market when all of the other subprime lenders are suffering, the dealers in Credit Acceptance's network — and there are about 10,500 of them in the network — bear the brunt of the initial losses from poorly performing loans. So while Credit Acceptance may suffer in a down market, it will suffer much less than its peers. The result is that its relative advantage goes up when times get tough. The best example of that occurred during the Financial Crisis 2008 – 2009. You would not imagine that a subprime auto lender would flourish in that kind of environment, but from 2007 to 2010, Credit Acceptance increased its earnings every year and in fact it more than tripled its EPS over that time period.

So we think it has a unique business model, and that is one of the things we like about it. But more than that, we like the management team. We think that management is very shareholder-focused. The founder of the business is still the largest shareholder. The CEO has been in place for sixteen years; yet he is only 51 years old. He is compensated according to the economic profit the firm generates over a very long period of time. So the way the compensation structure is set up is very friendly to the shareholder, too. Credit Acceptance has a great record of allocating capital. Management has bought back more than 50% of shares outstanding since 2005.

We know that the industry as a whole does not have a good reputation, but Credit Acceptance, we believe, is elevating the practices in the industry. Management overinvests in compliance. It is very proactive in its outreach to regulators, making sure that the company abides by both the spirit and the letter of the law, which is very important because the industry is highly scrutinized.

Greg Steinmetz:

I would just add that Credit Acceptance also earns a 30% return on equity. It has room to grow. And we were able to buy it for ten times earnings. So, we are very happy with that investment. We did a lot of work on it. Between Chase and me, we talked to competitors. We visited car dealers. We really did everything we could possibly think of to prove to ourselves that the company was genuinely squeaky clean. If it were not, we would not have bought the stock.

Chase Sheridan:

One competitor that was trying to emulate the model recently folded its tent. A number of others have also tried over the last ten to twenty years. The difficulty that others have emulating the model gives us a sense that Credit Acceptance's high return on equity is probably protected.

Question:

I was pleased to see that you purchased Amazon for the portfolio. It is a great company with a long runway. I was wondering how you think about the valuation and especially how will you know when it is too high?

Trevor Magyar:

I think we can all agree that Amazon is absolutely a Sequoia-quality company. It is just an incredibly advantaged business. It has an incredible culture, the "obsession with the customer." I think that is how management refers to it internally, not just a customer focus but customer obsession. The management team is fantastic.

I think you are absolutely right to focus on valuation, which is exactly what we did. And I think once you dig into it a bit, frankly you do not have to dig too deeply to kind of come to this conclusion, but Amazon, despite not reporting much in the way of consolidated profit, makes money in its core businesses. We did a lot of work around this point, and we feel very confident about it. The reality is that Amazon takes the money that it earns, much, if not most of the money it earns in its core businesses, and reinvests it aggressively, both within its core businesses, and in new lines of business. The track record there in terms of the reinvestment is exceptional.

Many people may know Amazon only as an e-commerce player, but the reality is that Amazon is also a giant player in the public cloud, and that is a business that it funded with profits from the core business. So the real question is okay, Amazon is making money in its core business. It is reinvesting those profits, but just how much does Amazon make in its core business? And the answer is that we do not know with a super, super high degree of precision. So the valuation is always, always an imprecise sort of exercise. And in this case, it was slightly more imprecise.

We feel that we bought it at a fair but full multiple of the underlying earnings power. But because of the lack of transparency about the precise magnitude of the underlying profitability, we wrestled with it. And I think that the sizing of the position in the fund reflects the fact that we wrestled with it.

Arman Gokgol-Kline:

I would add that the sizing of the position was another instance when we probably got a little too precise with price because of the lack of clarity. We were really building in a high margin of safety.

Trevor Magyar:

The principles with Amazon though in terms of thinking about the valuation are the same sort of principles we apply to any purchase, and I think my partner here, John Harris, put it very succinctly when he said ''In every case, when we make a purchase, we are trying to get more than we give.'' The analysis is really no different with Amazon.

Question:

Two quick questions: Do you try to avoid great companies that have leverage, and if so, why? The second question I had was on Alphabet. How do you think about the fact it is close to $100 billion in revenue and has a pretty high percentage of digital ad spend and total ad spend. What does the runway looks like from here? On the public cloud, does Alphabet have a chance against Amazon Web Services?

David Poppe:

We certainly will own businesses that can handle appropriate amounts of leverage. We own Formula One. That is a leveraged business. It has got a very stable growing revenue base and so it can handle some leverage. I think in general though, leverage is risk, and we learned very painfully how much risk leverage can represent. We are probably going to prefer high-quality, self-funding businesses, and we likely will not have a ton of leverage in the portfolio on a blended basis. If you own a best-of-breed kind of portfolio, a collection of high-quality companies, they should for the most part be self-funding.

Chase Sheridan:

As for Alphabet, the question about growth is a good one. We have looked at Alphabet's global market share, the number of people on the internet worldwide, and what those growth trends look like. But it is large enough at this point that a lot of its growth is not coming so much from finding new advertisers as from the rising effectiveness of online ads, which is followed by a rise in the bid prices for those ads. It is really remarkable. How many $600 billion dollar market cap companies grew revenue 24% year-over-year last quarter?

It is a pace that you cannot sustain forever, obviously. But we always evaluate the growth runway relative to price. There are still some very strong growth drivers behind Alphabet's business. And the price is not that demanding. If you look at the consensus P/E estimates using GAAP, you might think it is demanding because it is about 28 times 2017 consensus earnings. But you have to factor in about $4.50 a share of operating losses going into Other Bets. Other Bets include the famous moonshot ideas that the company funds such as the self-driving car effort Waymo, Google Fiber, Google Nest, the various venture investing arms…I can go on and on: Calico, Verily, Sidewalk Labs.

The point is that you have to consider whether you think those investments are destroying value and deserve to be deducted from the earnings and whether management will continue to destroy value indefinitely. I do not think that is the case. If management finds that something is going to destroy value indefinitely, Alphabet will shut it down. If you take that belief into account and add the expense of moonshots back to the earnings to get a sense of the company's underlying earning power, the multiple goes down.

Then there is some amortization expense that should arguably be added back, and you have also got $118 of cash per share on the balance sheet. When you make all these adjustments, what you find is that for the growth rate Alphabet generates, it is not priced in a very demanding fashion. And if you believe that some of the moonshot investments are potentially setting the company up to create enormous value in the future — and I am thinking here specifically of the company's lead in artificial intelligence which will soon permeate all of our lives in ways that we cannot imagine — then it really only gets tricky when the valuation gets very stretched, and you have to start thinking about what all those moonshots should be worth. Frankly, the core business is so strong right now relative to the valuation that I do not think we are there yet.

Trevor Magyar:

On the specific question about Google's chances in the public cloud, we have done some work on this, and I think the answer is that it is to be determined. Working in Google's favor is its technological prowess. No one we have talked to has questioned Google's ability to create a truly high-quality public cloud. Google runs the world's largest networked computer in existence today. The issue is not going to be technology. I think the big issue for Google is really on the sales side. To be a big player in the public cloud, you have got to be able to sell and service enterprise customers, and for all of Google's brilliance that is not something that the company has historically done well or done much of at all. I think Google knows that, and it made some changes in the leadership atop their public cloud to address the problem. But I think time will tell whether or not the company can make that shift. But I really do believe it is going to be less about technology, which we know Google has, and more about its ability to execute with this type of product for this particular type of customer base.

Question:

Hi, I am Lili Ruane. All my questions have been answered by your presentation, and I just want to say thank you for showing us that the culture has come back. I have renewed faith in the company through this presentation and seeing how you all are working cohesively, going back to your roots and also taking us forward. So thank you very much!

John Harris:

Thank you, Lili.

Question from Paul Lountzis:

I just wanted to make a comment highlighting what Lili just said. I want to commend you all for doing a terrific job during a very, very difficult time. And secondly, I really enjoyed the first quarter letter talking about Bill Ruane and Rick Cunniff. I also want to mention Carley Cunniff and going back to the values that so defined the firm for all those years. So great job, and keep up the great work.

John Harris:

Thanks, Paul.

Greg Alexander:

Thank you, and in full disclosure Paul worked with us here back in the day!

Question:

My question has to do with sort of the long-term, and I really would like to probe your Amazon investment more. To me, it just does not feel like the sort of investment that a long-term value player would make. It has a very high P/E multiple. Yes, Amazon is taking over the world, but you are paying a lot for that, and you are looking for really good performance going forward. And I would love for you to contrast Amazon to Apple, which Buffett has actually invested in recently, with absolutely outstanding cash flow and performance. What I am really worried about as an investor with you guys coming on board is, I know it is an old firm, and you have come from a lot of deep roots here, but there are changes going on now. I am getting a little worried that this is what I heard a little bit in 1999 with value investors saying "Oh my God, this has never happened before. And they started veering from their styles, and they started buying technology names when they should not have, quite frankly. So if you could just really get into more of the meat and bones on Amazon and why you think that will come through. And why did not you invest in Apple?

Trevor Magyar:

I am going to let others chime in, because I think it is a big question, and we should come at it from a number of different angles. I guess I would just say on the valuation, without getting too specific, we purchased Amazon at what we believed was a fair but full multiple, a responsible price, and frankly a multiple that was not that different than what you would have paid...I am just going to pick a company here, Costco. That is another retailer that is extremely high-quality, but an unquestionably lower-growth company. I do not want to challenge your premise. We paid a fair but full price, but I really do not think we paid much more in terms of the multiple than you see on some of the other high-quality stocks with much less exciting prospects.

The other point I would make is on the cash flow. Amazon is, yes, taking over the world, but the amazing thing is that they are 100% internally-financed and have been since they were founded. If you look at

Walmart, which was the disruptive retailer of its day, at a similar point in its lifecycle, its balance sheet looked a lot worse than Amazon's does today because Walmart was investing in lots of brick and mortar. The income statement looked good, but the balance sheet looked a lot worse.

The thing you have to remember with Amazon is that it is just a different beast. Most of the investment the company is doing is really through the P&L. But the cash flow characteristics of Amazon are exceptional. I do not have the data in front of me, but I believe Walmart was free cash flow positive only in, I think, 1997 or 1998, something like that.

John Harris:

If you redacted the names for a second, and you did not know that it was Amazon, and you did not know what the reported P/E was, and I just told you that we had invested in a completely dominant business run by someone who is pretty widely acknowledged as one of the great business leaders of his generation if not business history in the US, a company enjoying huge network effects, a business that is growing 20% – 25% a year and might be able to grow in the mid-teens at a minimum for a very long time, and that if I gave you billions and billions of dollars a year to compete with it, you might not succeed. In fact, the Walton family has basically been doing that for the better part of a decade and has had limited success. If I told you all of that, and I said we paid we think something like a high 20s P/E to own that business, and we thought that the revenue and the profits could double every five years maybe for a very significant period of time…you would probably say that sounds okay. But then if I tell you it is an internet company that does not show any reported profits, now it seems like a dicier proposition. But as Trevor pointed out, a lot of the disconnect there has to do with the way the accounting rules work and the fact that all of the investments Amazon makes in the business flow through the income statement and depress the reported profits… whereas if it were capitalizing all those investments and they were flowing through a cash flow statement, it would look a little bit different.

Trevor made the important point earlier that because management does not break it out so clearly for you — what the investments are and how big they are — it is hard to know exactly what the quote real unquote earning power of the business is. That makes valuing it a more imprecise exercise, and I think we were all very, very cognizant of that when we made this decision, which is why we were probably a little more disciplined in retrospect that we wish we had been, and why it is a small position and it is not a larger one. But always and everywhere, we are in the business of giving less than we are getting, and trying to buy something for less than it is worth. We looked at this the same way we look at everything we buy and sell. We all feel like it fits in the portfolio well.

Chase Sheridan:

I will just add a couple of comments to that. One, we might be estimating what we think Amazon is earning, but we are not just guessing, right? Trevor did incredible work on this project and I would say of the, I do not know, 100 different people he spoke to, he probably knows more about Amazon's profitability than any single one of them at this point. The other thing you asked about was Apple. We took a serious look at Apple. We do not know what the handset market will look like in three years, but we can tell you with a pretty high degree of confidence that Amazon will continue to be highly, highly advantaged in five years, in ten years, and in multiple markets. We have a lot of comfort with what Jeff Bezos has created and how unassailable Amazon's business model is.

Forecasting the future of Apple is harder. There is reason that it is a lot less expensive, at least on the surface. Apple may do fine. But we could not get to the level of confidence in a business in which the product cycle is very fast, in a business where if you are first, you are the most valuable company in the world, and if you are third you are hemorrhaging money. You really have to have absolute confidence that no one is going to knock Apple off that top spot. I think that Apple probably will retain its dominance. But we could not get to the level of confidence that would allow us to invest.

Greg Alexander:

Just one last comment. We do not really lump them together as technology companies. I mean, a device company is technology I guess. Bill used to say, "We understand potato chips, not computer chips." And that is still true. If we bought a computer chip company…well, you never say never I guess. Maybe some of those old analog ones. But if we ever buy one, then that maybe would be more of a sign of change. Bob actually had us look at one of the analog devices companies.

Arman Gokgol-Kline:

Yes. We actually almost bought one of them.

Greg Alexander:

There you are. Anyway, we have not become trend followers. It is a fair question, but we totally reject that. We are contrarian to the soles of our shoes. I would say that amongst value circles, in the past fifteen years, looking at internet companies sort of has been the contrarian position, and we are actually proud that we were among the maybe middle or earlier set of value investors to buy Google, and at a time when people asked us, "Why on earth are you buying Google?" I think twenty years ago, if I am not getting these numbers wrong, there were over 7,000 listed companies in the US, and we are down, believe I may have read the other day, 3,671.[1] That is a pretty big drop. Does anyone know if I got that right?

Trevor Magyar:

I think it was 3,672!

Greg Alexander:

And then within that, there are whole tranches of industries that we are not interested in because of the internet. Whether you think about newspapers, magazine companies, women's wear retailers, and a bunch of other industries that have been lost to competition from China, or what have you. Frankly if we did not look at what one investor calls "the sunrise industries instead of sunset industries" I do not think we would be doing our jobs.

Arman Gokgol-Kline:

I would also just note that over the last fifteen years, the group that you see before you has been responsible for the majority of the ideas. I do not think that there is the philosophical shift that you implied.

Chase Sheridan:

I think that Amazon is directly down the middle for us. We invest in differentiated business models. The fact that it is in one industry or another is secondary. What really matters is that it has a competitively-advantaged, unbelievably-impressive business model with an incredible visionary CEO who has proven that he can allocate capital and reinvest that capital in his business. It is just absolutely the apotheosis of what we look for.

Greg Alexander:

If you could have thought of that answer ten minutes ago, we could have saved a lot of time!

Question:

I wanted to ask a question about a long-held position, Mohawk, which I believe you have reduced. I am curious how much you reduced the position and why. I have noticed that the company has just come off a capital spending phase investing in new plants. It has a history of generating good returns on their plant investments. And the last several quarters have shown some momentum, so I am curious why you have reduced that position.

David Poppe:

Mohawk is a terrific company run by a fantastic CEO and entrepreneur. It is quite cyclical, and we made a decision to trim it just a bit in a strong part of the cycle. We have owned Mohawk for a really long time, and over that period of time, the stock has gone from $40 to $120 to $20 to $230, and when you own a stock like that, when it is closer to $230, you think maybe I will take a little bit off here. We could come back to it. It is a fantastic company, run by a very good entrepreneur. But it is also cyclical.

Terence Paré:

Mohawk is in the housing market. It is very dependent on the housing market and commercial construction and remodeling. So it is indeed cyclical. But I think it is important to remember that it has fundamentally changed over the period of our ownership and has become, probably, unique in its sector. There is no other flooring company that has the product range, the geographical exposure, and frankly the management talent that Mohawk has, and it has achieved a scale right now where I think we are pretty confident that the historical performance of the company is only a vague indicator of what is to come. In other words, we are just starting to see increasing returns to scale. Mohawk is the one company in its space that can afford to invest at a level and in the technology that has been developed over the last ten to fifteen years, because just about everybody else in the business is either much smaller or went out of business, or simply does not have the management talent to see the possibilities in the future.

Yes, it is cyclical, but I think it probably has never been in a stronger position in its space, and has potential to increase its sales at a higher rate than it has in the past. We should expect to see its returns get even better because while it has done acquisitions in the past, it has now found — again because of its size — reinvestment opportunities that should produce a higher rate of return than some of the acquisitions it has done in the past. So we feel terrific about the company, but you know, the housing market is up; sooner or later it is going to do down.

Question:

To what extent does the firm look deeply into midcap companies in order to find value?

David Poppe:

We have had tremendous success over many years in midcaps. We feel often with midcap companies that

[1] Source: Craig Doidge, G. Andrew Karolyi, René M. Stulz, "The U.S. Listing Gap," Journal of Financial Economics, Vol. 123, No. 3, March 2017, 464- 487; World Federation of Exchanges database; U.S. Bureau of Economic Analysis; Michael J. Mauboussin, "The Incredible Shrinking Universe of Stocks," Credit Suisse, March 22, 2017.

they are proven business models that have been around for a while, but may still have a very long runway. They may not be built out across the US for example, but they have shown in a region that they can be very successful. So I think if you look at some of our home runs over the last fifteen or eighteen years, Fastenal, Idexx, Mohawk, TJX, these were midcaps. Idexx was barely a midcap at the time we first invested in it. So we are 100% in alignment with you. We want to be omnivores and hunt where we can find value. And the midcap area is definitely a place where we spend a lot of time. Even now, I think if you look at Credit Acceptance — that is a midcap stock. CarMax is maybe a larger midcap, but still a midcap that is still only halfway built out across the US. It is a very, very important space for us.

Greg Steinmetz:

Credit Acceptance has a $5 billion market cap. We are looking at this stuff all the time. We are not changing that.

Question:

AutoNation is experimenting with no-haggle pricing; it is building used car dealerships and also trying to create a brand across the US. What effect, if any, will that have on the competitive position of CarMax?

Greg Steinmetz:

AutoNation is a fine company. It is interesting that AutoNation is doing this with used cars, because it suggests that the new car market might be heading for a rough time soon because we have sold so many new cars in the last few years. The used car market is a 40-million-units-a-year industry. CarMax is the biggest used car dealer in the country. It sells only about 600,000 cars a year. The used car market is very big. AutoNation has tried to copy CarMax before and failed. Maybe this time it will not fail, but one problem that it is going to have is that you make money in the new car business on parts and service. Without parts and service, it is very hard to be a profitable new car dealer. AutoNation is trying to make its used car model work by offering parts and service. The trouble with that is that if you drive to a car dealership, you are going to pass ten repair shops who will charge you a lot less than the car dealer will to fix your car. The reason it works with the new car business is that new cars come with a warranty. So if you go back to the dealer, the dealer will take care of it for you. But it does not work that way in used cars. CarMax has chosen not to go into the parts and service business because it does not think it is going to work. Getting back to the first thing I said, it is a very big market. CarMax has a great way of selling cars. And we think that CarMax is going to do quite well. We saw last quarter, CarMax posted a comp of 9%; so something is working over there.

John Harris:

Greg, what is the history of people trying to copy that model?

Greg Steinmetz:

The graveyard is littered with lots of wannabes. AutoNation was one. Lithia tried. There have been others. Because CarMax has been so successful, a lot of people are trying now. But CarMax will survive these invasions just like it has in the past.

Question:

My question is for the Formula One Liberty Media team. Chase Carey seems pretty intent on US expansion for Formula One. I was just curious what your assessment of the prospects is?

Arman Gokgol-Kline:

You are right, CEO Chase Carey and others are very excited about expanding in the US. They have talked about how they think we can have multiple races here in the US. Cities that have been thrown out and suggested in public include New York, Los Angeles, Miami, Las Vegas. I think the prospects for the US market are good. But I am going to add a caveat here. It will never be an NFL or an NBA-sized event here, maybe not even a NASCAR. NASCAR has a lot of fans, but it is a very regional sport with a different kind of a fan base.

Our feeling is that over the next five years, we are going to have to start building out the infrastructure for Formula One both in terms of races, but also probably to get a good foothold in the US, you need to have a US based team or, most importantly, a driver from the US to get people to follow it. And that certainly is not something that will happen very quickly. We have Team Haas, which is owned by a US person, but the team actually is based in the UK right now and the drivers are not American. So, we have the start of some seeds there, but it is probably a much longer term, five plus years out before we would see any return from there. When we made the investment, we assumed zero success in the US market because, as I said, it is so far out the ability to put any kind of certainty around that was pretty low. We made a similar assumption about the Chinese market by the way. There is a race in China today, but again it is a very small driver of Formula One's economics and there is no Chinese team or driver.

John Harris:

We have a bet internally, and if Arman is wrong, and Formula One kills it in the US, then Arman is going to have to grow a handlebar mustache like Chase Carey!

Greg Steinmetz:

There is one thing I want to say about this investment. For those of you old enough to remember, we used to own International Speedway, which owned the racetracks. The same family that was the majority shareholder at International Speedway, the France family, also owned NASCAR, which is the entity that gave tracks the right to host races. We used to say, ‘‘Well, we like International Speedway, but the business we would really like to own is NASCAR.’’ Formula One does not own tracks. They are like NASCAR. So we are very excited about that.

Chase Sheridan:

And Formula One has a much more global and affluent fan base than NASCAR.

Question:

I understand that CarMax has a differentiated business model and will do very well over the long-term, high returns, all of that. But how do you weigh cyclicality in a business like that? You mentioned new cars are sort of at a cyclical peak and used cars might not be exactly at a cyclical peak, but they are probably close to it or will be there in a few years.

Greg Steinmetz:

That is a real issue, not only on the car side, but also on the bank side. Right now, there are questions about CarMax’s finance arm and whether loan losses are going up and whether that is going to be a big problem. You would think for the next few years, given the strength of the economy, people are still going to be buying a lot of cars, and the questions about the credit book can be answered the same way. The economy is getting healthier; people are able to pay their loans. In past cycles, those who bought more when things were looking bad really did well. So the cycle could work in our favor. I think that is why we were able to buy it last year when we did. People thought, ‘‘Hmmm, CarMax’s comps are not good, CarMax has had its best days.’’ We were able to buy the stock because of those jitters.

Chase Sheridan:

Can I ask the same question in a slightly different way than you did, which is, if a flood of used cars comes off lease over the next few years so that there is a glut of supply in used cars, used car pricing falls as a result. What do you think the impact to CarMax will be?

Greg Steinmetz:

The quarter we just had posted a 9% comp. As more supply comes into the system, it lowers prices. As prices fall, that increases the gap between what you would pay for a used car and what you would pay for a new car. What CarMax has on the shelves becomes relatively more attractive and brings more people into the stores, and the company sells more cars. So we think the decline in used car prices is very good for CarMax. It always has been that way in past cycles. There are those out there who think that the falling prices are going to be bad for CarMax’s finance business because if the company has to repossess a car, CarMax is not going to be able to sell it at auction at a high enough price to recoup its loan. But CarMax has a great credit book. It lends loan mostly only to the highest grade credits. Repos are not a big part of what it does.

Question:

How will a Trump presidency and his policies affect the portfolio and the economy in general?

David Poppe:

We are not going to add a ton of value by trying to predict the market or predict what is going to happen with politics. I think we are extremely bottoms up, in any environment. We have the ability to find individual securities that are mispriced, businesses that have good long-term outlooks. We certainly pay attention to what is going on day to day, but time has shown us that we are totally incapable of predicting the short-term direction of the market.

Arman Gokgol-Kline:

What we really try to do is take all the noise, a border tax for example, and look at how it may impact the businesses we own or that we are looking to own. And we make judgments based on what we think the potential impacts are, and how we should take those into account. But that is about all we are doing with macro and with the politics.

Chase Sheridan:

I say buy Twitter. He is making Twitter great again! I am just kidding.

Greg Alexander:

I have a really general comment just because I think some people really spend too much emotional energy getting anxious or energized about the whole thing. I do not know if anyone remembers the TV show ‘‘Bewitched?’’ But they made a movie remake of it a few years ago with Nicole Kidman, if I am not wrong. Endora was Shirley MacLaine. And Nicole Kidman was walking along with her and she told Endora that she was going to date some actor and Shirley MacLaine said, "You know, I have dated a lot of actors in my day," which I am sure is true, and she said, "Deep down, really deep down… there is no deep down."

Question:

My question is on Berkshire Hathaway, our largest holding. Mr. Buffett himself has said that the capital allocation is the most important job a CEO has. We all know his capital allocation skill set, which has delivered great returns. Can you talk a little bit about the downside case for Berkshire?

David Poppe:

Can I just say, you are asking Johnny Brandt about the downside case for Berkshire Hathaway? Do you have an hour?

Jonathan Brandt:

I think the downside risk — if you could call it that — is the problem of deploying huge sums of capital. After capital expenditures, there are twenty-some odd billion dollars of cash coming in each year — even more potentially, if float grows a lot — and Berkshire has $100 billion of cash right now if you extrapolate the cash generation from the end of the first quarter to now, and assume he has not done anything since then. It is really hard to put $100 billion to work. In the Precision Castparts deal, Warren admitted that he paid a historically high multiple to put that money to work. In the equities portfolio, he has gone into a couple of businesses which historically he might not have bought stock in because they were not his favorite businesses, whether it is consumer electronics or airlines. I think there is a good case to be made those will be very good investments for Berkshire, and so far that seems to be the case. But it is early days in both investments; so I think the major downside risk is the difficulty of allocating so much capital. Then there are some secular challenges, I think further out rather than closer in for a couple of the businesses, but present nonetheless. The railroad, which is Berkshire's largest earner, has the driverless trucks to worry about, GEICO has driverless cars as a potential threat, and Lubrizol is facing a headwind from increased penetration of electric cars. There are a few other declining businesses like newspapers, Duracell, parts of the apparel franchise, and carpet.

I think for Berkshire, there might be a narrower range of outcomes than for a lot of stocks. I would be somewhat surprised to see it produce less than a 7% or 8% return, but it is also hard to imagine doing much better than 10%. So I think the downside risk is that it kind of meanders along at 7% over the next twenty years and struggles to beat the market as a whole, which will probably do about the same.

It is not a perfect index fund because it is in different businesses than the S&P as a whole. For instance, it would have very little exposure to pharmaceuticals except for Sanofi. But it is so big, it is still in some sense reflecting the economy as a whole, and it is just hard when you have exposure to so many businesses to produce shareholder return that much better than the stock market or grow revenues that much faster than GDP. I think Berkshire is going to do as well as it can, given the size of the company. And I think the company will start buying back stock and paying a dividend at some point. But it is still going to be a really big company. Can you imagine if we had a $100 billion to invest, how hard that would be? Some investment firms would lick their chops at that opportunity but I think it would be an enormous struggle and for Berkshire, $100 billion of cash with another $20 billion plus coming in each year is definitely a challenge too. It does not matter whether you are Warren Buffett or the guy in the street, that is a lot of money to have to put to work, and I think that is a headwind to producing outsize returns, especially in this interest rate environment.

David Poppe:

Thank you for the comments. I just want to make one closing remark. Listening to my colleagues today, I think we try very hard to be candid and humble. One thing I hope you take away from this meeting is we are putting the pedal to the metal. We are investing in our research team and our technology and our client service capability. We are making investments in the Sequoia Fund that are working, and that we feel great about, and we feel very, very confident in the future, and I really hope everybody takes that away today. Thank you very much!