Remarks have been edited for clarity and relevance.

John Harris: Welcome everybody. It's nice to finally be back to doing these in person. Thank you, everybody who traveled here. I know the world is not completely back to normal, but we're on our way, and this is certainly a big step in that direction. So thank you everybody for being here. As usual, everything we say today is off the record and not for attribution.

One thing I've always loved about this firm and the way we do business and the way we relate to our clients is that we've always tried to be transparent with you. We tell you what we think about markets and about the portfolio, and we try to do it in totally unvarnished terms. It's important in every year, but it's especially important in a year where you don't like the result that you're getting. I thought about what was the best way to do that this year, and I actually thought it would be useful to read to everybody, verbatim, an email that I sent to our entire firm a couple weeks ago, during a particularly bad week for the market.

So this is just very slightly edited for brevity, but what you're going to hear me read is exactly what I wrote. I'm going to expand on it a little bit afterward and then we'll get to the slides. So here is the email.

Hi everyone,

This is not going to qualify as a news flash to those of us who've been around here a while and seen our fair share of bad weather, but the sky is not falling. Sequoia Fund has underperformed the market before. By a lot more than what we've done this year, in fact. We have seen recessions and bear markets before. A lot worse than we've seen this year, in fact. We have looked and felt dumb before. A lot dumber than we look or feel right now.

Look at our history. We were lauded as geniuses for massively outperforming after the dot-com bubble popped. Then in 2003, Sequoia lagged the market by twelve points. In 2004, another three points. In 2005 and 2006, we basically held even. Then, in 2007, behind by another five points, such that over five years, we had fallen behind by nearly thirty percentage points. Ouch.

Then we got "smart" again, outperforming during the 2008 crash by ten points. Maddeningly, it didn't last long. In 2009, we lagged by a staggering 21 points. Looking back, it's actually sort of funny that we got "smart" yet again in 2010 and were recognized by Morningstar, because if you just look at our performance from the market trough at the end of 2002 to the trough at the end of 2008, we earned a cumulative total return of 13% versus 15% for the S&P 500 index. Then we turned "smart" again for a few years. Then dumb, then smart, and then…

Well, you get the picture. And in case you're wondering, there is nothing special about it. Go back and look at the performance records of any of the best investors in the world. You will see exactly the same progression of ups and downs and triumphs and setbacks. I'll bet that roller coaster was and is every bit as frustrating and emotionally draining for those firms as I know it is at least for me. This game is hard, which is exactly what makes it worth playing.

By the way, it's no different with individual stocks. Look at Jacobs Engineering, a very plain-vanilla business that we have owned for over a decade and that most would describe as a "value stock", much as we may scratch our heads at that label, because what other kind of stock would you want to buy? Anyway, not long after we bought our first shares, we looked really smart, with the stock ahead of the market by a whopping thirty points after one year. Then we looked super, super dumb, as the stock fell 40% over two years while the S&P 500 actually went up. Then we stayed dumb for a long while, as the stock went years without closing that gap. More recently, it's been a big outperformer, and over the course of our investment—thanks in part to a timely top-up during that fallow period—Jacobs has delivered our clients a solid market-beating return. But it was a bumpy ride and then some, and until we sell the stock, the story will not be fully written.

So there are lots of instances in this business when you start out looking wrong and you end up right—perhaps multiple times over the course of an investment horizon as long as ours. And then there are also the situations where wrong is just wrong. Again, like every other great investor you can think of, we've had plenty of those all along the course of our history, in every conceivable shape and size. Our list of fully crystallized mistakes includes some of the most "reliable", mundane and seemingly predictable businesses you can think of, such as Walgreen, Walmart, Mohawk and Bed, Bath, & Beyond—all meaningful underperformers for Sequoia, in case you hadn't realized. It also includes more obscure but unquestionably outstanding businesses like Porsche and Prosus. Someone else can tell me how to categorize SMA Solar, Household Finance and Mattel toys...

Maybe Facebook, Netflix and Wayfair will end up being on the "wrong" list as well one day. Maybe very much not. Netflix is already probably halfway there, because we almost certainly overpaid for it. Regardless, what I know for sure is that while they are never enjoyable, outright stock-picking mistakes are nothing new for us. They are a part of what we do and always will be. The reason that's okay is that we are not in a fault-intolerant business like brain surgery. Investing is resistant to screwups. You just have to get them right over time more often than you get them wrong, and then you have to consistently put yourself in situations where right can sometimes be really right and wrong is tolerably wrong. Doing all of that is by no means easy, but as I say all the time, we have decades of history to prove that it's possible. So do several other firms like ours, and the lesson of our experience and theirs is that to outperform through all the inevitable mistakes, successes and vexing surprises, you have to combine a sensible philosophy with a team, a process and a culture that enable you to practice it faithfully.

So believe me, this too shall pass. I know it will because I know what we do works, and I know as surely as you can know anything that we do it well. We own a diverse collection of some of the very best businesses in the world, run by some of the most talented leaders in the world—this year's underperformers very much included. We have researched them meticulously and chosen them with exhaustive care. We have bought our interests in them at prices that were sometimes better and sometimes worse, *but on the whole very reasonable. Some will beat the market, and some won't, in some cases because good decisions end up producing bad results, and in some cases because not every decision we make is a good one. Great hitters have their share of slumps and strikeouts, but they bat for a high average because they stick to a time-tested approach and they keep swinging.*

So keep your heads up, everybody. I don't for a second want to minimize our performance this year or suggest it's irrelevant. Any athlete worth a damn watches the scoreboard closely, and the numbers on it matter, which is why I know I'm not speaking just for myself when I say I am frustrated and angry and embarrassed and all the rest. With many of you, with clients and with myself, I have been doing plenty of thinking and soul searching these past few weeks, as all of us on the investment team should. Like any team, we do our job better at some moments than others and should always, always, always strive to do it better in the future than we've done it in the past. But make no mistake: what we do works. And that old saying has a lot of truth to it: you're almost never as smart as you look when you look like a genius, nor as dumb as you look when you look like a fool.

All my best, John.

Okay, so I want to expand on that for a couple minutes. I had this whole thing written, but then I had an interesting call with my daughter a couple nights ago, and it's amazing what you learn from your kids when you least expect it. So I was talking to her at the end of the day, and she's sort of down in the dumps. Why is she down in the dumps? Well she got a math test back with a number on it she didn't like. I sort of laughed to myself and I said, "Well sweetie, I get my test graded every day, every month, every year, and I've been doing this for almost twenty years, and I have seen a *lot* of numbers that I didn't like. And part of my business is looking at that number on the scoreboard every day/month/year and trying to make sense of it. One thing I've learned from all that experience is that—and this goes for the good times and the bad times—whatever the number is that you're looking at up on the screen, there is always a mixture under the surface there of three elements: bad moments, bad outcomes and bad choices.

The bad moments are those days when maybe the teacher woke up on the wrong side of the bed, and as we all know, not all the grades are as fair as the other grades, and maybe she just graded that test extra tough. And in the same way, you may be on your way to a successful investment in the stock market, but the prices don't always line up with what the businesses are doing, and that's just part of life.

Then there are the bad outcomes, where you did all the right studying, you worked your tail off, you did great research on that business, you covered every angle, you made a really thoughtful decision. You can't look back on any part of the process and point to something you wish you did differently. But maybe *you* just woke up on the wrong side of the bed that day, or you walked into a particularly hard test, or it turns out that it's just a very unpredictable world and predicting the future is hard and in the stock market you don't get them all right. That happens too.

Then there is the third category, which is the bad choices, which is obviously the one that you want to dwell on. That comes in all shapes and sizes, but it all ties back to some version of, ugh, I wish I had studied harder, or I wish I had not run through that question and not checked my work, or I wish I had researched this aspect of that business more carefully or had been more disciplined about that price. Whatever it was, there's always some regret, and those moments need to be the prompt for you to look in the mirror and think about what you're doing and how you're doing it, and whether something needs to change.

Now, when you're 16 years old, it's a little bit harder to do that kind of introspection than when you're 45, but this is where having a dad can be sort of helpful, and of course when they're 16 and you're the dad, you're just dying to have that moment when you actually still *can* be helpful. So I said to her, "You know, I've got some perspective you don't have. I've been around the block a couple times. I know who you are. I know what you're capable of. I know how hard you're working. What you need to do is march right back up to that desk and do the same stuff you've always been doing, and you're going to ace the next one and you're going to get that grade you want to get and all will be well here."

It's the same with us, in that when you look at your portfolio and it's down 20%, it goes without saying that you are going to be looking and should be looking with urgency up and down that position sheet for the bad moments, the bad outcomes and the bad choices, and trying to understand what is what, and what you're going to do about it. So there's no question—it's all hands on deck around here. We are questioning assumptions. We are refreshing research. We are retesting theses. And where we need to make changes, we will make changes—even if they are embarrassing changes.

So we're asking all the questions of ourselves that you would expect us to be asking. This is a learning business, and in any year—the bad ones and the good ones—if you're not trying to learn from your mistakes then you're doing something wrong. But one thing we are not questioning is what we do or how we do it, because what we do works. Owning great companies at disciplined prices works. Doing relentless primary research works. Thinking about businesses from the perspective of a long-term owner—as if you were the only owner—works. Sticking with great companies through the bad times and the good times, and not selling too soon works. Because not every great business story follows that proverbial line on the chart that goes up and to the right.

So we have a lot of confidence in what we're doing. More confidence than we have ever had, in fact. We also have a lot of confidence in what we own, because when we look at that portfolio, we see a lot of great companies—a really impressive group of companies—and increasingly some very interesting prices. I know it doesn't look that way with the stock prices down a ton, but Netflix is absolutely a great company. Wayfair is a great company. I'm sure someone will want to have words with me about this comment, but I will stick my neck out and say that Facebook is a great company.

Credit Acceptance, CarMax, Jacobs—Credit Acceptance is one of the great untold business stories of this generation. Jacobs Engineering—I mean, you put the long-term earnings record of Jacobs Engineering up against rest of the EPC industry, and it just leaps off the page. UnitedHealth—same thing in the healthcare services industry. A remarkable record of growing earnings over a remarkably long period of time in a business where it is remarkably easy to blow yourself up, and that is exactly what many of the competitors of that business have done over time. And not just the earnings growth record, but a really strategically astute record of capital allocation that not only augmented that rate of earnings growth, but put them in a position where they've got a set of strategic capabilities that even their best competitor can't come close to matching. UMG in the music industry—look at the way that team has out-competed Warner and Sony. You can go up and down the position sheet, and whether it's the rates of organic growth, the returns on capital, the competitive advantages—whatever metric you want to look at, these are great companies. I know they don't look like it when the stock prices are down and the fund is down, but they just are. It's a fact.

Now, does not mean we shouldn't have held out for a lower price when Netflix was $500. Does not mean we shouldn't have sold every share of Charter at $800. Does not mean we shouldn't have sold more Wayfair at $300. We would like to have every one of those back. Now, I will say that in the moment, those are actually really tough decisions, and they always, always, always, look easier in hindsight. But even with the benefit of hindsight, these calls that we'd like to have back, the prices that those stocks were at when we were trying to decide what to do with them, were these crazy prices or bubble prices? No way. Were they as bad as they look right now? No way. Does anybody get all of these calls right, and is there such a thing as a zero-defect investment process? No. So we are by no means perfect. Nobody is, but we're way better than we look right now.

But the scorecard matters—full stop. When you are behind the market by eight points and you are down 20% and you have stocks that are down 50% and 60% and 70%, there is a message there, and to ignore it is just arrogant and wrong. But especially in emotionally unsettling moments like the one we're living through, as an investor you have to have a sense of balance and appreciate that you just do not beat the market every year. You are playing a very long game, and while the stock prices look a lot different right now than they did a year ago, they are going to look different a year or two from now. We will see what they look like, but in the meantime, it's sort of like my daughter marching back up to her desk. When this day is over, we are going to march back to that office, and it's going to be the same mindset and the same work and the same approach, because it works. Because we know that owning great companies at disciplined prices is just a sensible way to manage money. And if you do it well enough for long enough and you learn from your inevitable mistakes along the way, you are going to end up looking at a number on that scorecard that we are all proud of and that we all want to see and that we all will see.

Okay, that’s more than enough from me today. I'm going to ask my partner, Arman Kline, who is our research coordinator this year, to come up and run through some vital statistics on the portfolio, and then we are going to move to the Q&A. Thank you.

Arman Kline: Hi, I'm Arman Kline. I'd like to add my welcome to that of John. I'm going to spend a few minutes here going through some portfolio statistics and then we can get to questions. But before I do that, we have some disclosures to go through. Please take a minute to look at those. Here is our agenda, and as you can see, I'm going to go through some performance, portfolio, and organizational updates. And then, like I said, we'll get to Q&A.

So first performance. Just to orient everyone, this slide shows our performance from when the Investment Committee took over in the second half of 2016 and shows our performance by year, for the last six or so years. The green line here is the Sequoia Fund. The gray line is the S&P 500. What this chart shows really is that for the first five years, up until the end of 2021, we effectively matched what was by all accounts a strong equity market. And then really starting in the last couple months of '21 into the first few months of '22 here, we've hit a rough patch. And that is for the reasons that John already mentioned. One is we fundamentally disagree with the market about some of the valuations that we're seeing for our businesses.

And second is, as John said, we probably paid too much for a couple of our holdings. Our margin of safety was a bit thin. And we have now seen a markdown on those investments. Now, that doesn't mean that we necessarily agree with the current prices those stocks are trading for, but that some of our underperformance is a result of that.

The next chart here shows performance on a rolling basis, going back to the inception of the Investment Committee. What you're going to notice here is because this chart has endpoint bias in that it starts from the performance of the fund from yesterday backwards, this rough patch that we've hit affects all the timelines in this chart here, which is why it looks the way it does.

Next slide is the top ten holdings of Sequoia fund, as of yesterday. I actually want to spend a few minutes on this slide to emphasize a point John made around how we own some really high-quality businesses. I'm going to spend a few minutes talking about a few of these just to emphasize the point, starting with Alphabet, which is our largest holding. To review a few relevant metrics, Alphabet captures 25% of all global digital advertising dollars. It has 65% share of the web browsing market with its Chrome web browser. It also has 70% share of the global smartphone OS market with Android. Lastly, YouTube is one of the world's leading video platforms with over 2 billion monthly signed-in users. And despite its size as one of the largest companies in the world, over the last five years, Alphabet has grown its revenues and earnings at almost three times the rate of the S&P 500, generating returns on capital that are over three times that of the index.

Next, let's talk about Formula One. Formula One is a truly unique franchise in which we have a royalty on one of the world's leading sports leagues that also happens to be improving significantly. It's arguably the second most important sport in many Western European markets and certain leading emerging markets like Brazil. The sport has 1.6 billion cumulative viewers annually. Its U.S. viewership has close to doubled over the last three years. And the average fan age is declining notably, thanks to social media and the Netflix *Drive to Survive* series, which is introducing the sport to a new generation of fans.

Taiwan Semiconductor is the world's dominant outsource fabricator of logic chips with 60% market share and 80% market share in leading edge chips, while Micron is one of the world's leading manufacturers of memory chips. Covid has exhibited just how important the chip industry is to our lives. Just think about the supply chain pressures we've seen in markets from PCs to automotive, because we cannot manufacture enough chips. And these two companies are key enablers of the digitization of the global economy.

CarMax is America's leading used car dealer and is actually the world's largest and most profitable used car dealer. Thanks to its size and efficiency, it has the lowest per-unit advertising logistics and reconditioning costs. It's been a steady market share gainer for years. And it's now a leader in transitioning to the coming shift to online and omnichannel, which we think will accelerate its market share gains.

Intercontinental Exchange owns the New York Stock Exchange and is the one of the largest derivatives exchange operators in the world. Over two-thirds of Brent oil futures and options contracts change hands on its exchanges. Over 95% of carbon trading takes place on its exchanges. It has one of the largest fixed income data sets in the market. And if their acquisition of Black Knight closes, it will become one of the largest mortgage software platforms in the U.S.

Finally, Constellation Software owns over 700 small software companies that help run small businesses like museums, churches, car dealerships, golf courses and libraries. Most importantly, we have a unique organization where a talented capital allocator was able to create a culture that trained hundreds of people to amplify his skills and keep that engine going, even as the size of that business grew rapidly.

I wanted to spend a few minutes summarizing our top holdings because as you can see at the end of the day our top holdings are all market leaders with notable moats in their markets. And frankly, if I just keep going down our list of holdings beyond the top 10, you'd notice that the rest of the businesses we own in Sequoia look similar to businesses I just highlighted in terms of the market leadership, moats and growth. Overall, that results in the portfolio we've built growing its revenues and earnings faster than the companies that constitute the S&P 500 with less leverage and higher returns on capital.

Let's go to the next slide here. The highlight of this slide is we're getting our portfolio, again these high-quality, growing, market-leading businesses for about the same multiple as the S&P 500 index.

Moving onto the next slide, just to introduce this slide, it shows our cash allocation going back to the inception of the fund. Again, here that green line is our cash balance at the end of each year. The blue line shows the weighted average cash balance from inception of the Sequoia Fund. Then that orange line is the cash that we've averaged in the portfolio since the IC took over. We've been communicating for a number of years now that we've looked to run a more invested portfolio on average. And as you can see, we have done that. As we've said before, lower cash levels can lead to higher volatility and bigger declines in down markets because we have a smaller cash buffer, as we are currently experiencing.

Now, we absolutely continue to believe that over a market cycle we will produce higher returns for our shareholders by holding less cash. And I just want to emphasize, we talk about holding less cash *on average*. That doesn't mean that there aren't going to be times where we see an opportunity set that either creates higher or lower cash balances.

This slide shows the fund's concentration in terms of the percentage of the Fund's assets held by our top 10 investments. And you can see that we've been running the portfolio more or less in line with the levels of concentration of the Sequoia Fund throughout its history. Again, green line here is the Sequoia Fund. The blue dotted line is the average going back to inception. The orange dotted line is under the IC, and the gray line is the concentration of the top 10 constituents of the S&P 500. Now, concentration also means higher tracking error. Over time we believe this will be to our benefit. But obviously right now, it's not.

This slide shows the fund's turnover. Again, green line is Sequoia's turnover throughout our history; the blue dotted line shows the fund's average turnover going back to inception and the orange dotted line is the fund's average turnover under the IC. And what you'll see here is that our turnover remains just below historical averages, and probably most importantly, it remains consistent with a long-term holding period, and suggests a 20% turnover, which works out to a roughly five-year holding period.

Our final slide here is just a quick update on the firm. We're managing about $16 billion of assets as of the close of business yesterday. We continue to invest in our team. We have 28 investment professionals with three new analysts joining us over the next year or so. And we're looking forward to welcoming Kaitlyn, Sophie and Will to the team over the coming months. Most importantly, we remain very happy with our ability to recruit top talent in what is still a competitive market. With that, I'm going to hand it over to Trevor Magyar, who is going to be the MC for the day.

Trevor Magyar: Good morning, everyone. Thank you for joining. I'm Trevor Magyar, and I'm going to do my best to help moderate this morning. We're going to take a sort of hybrid approach to the Q&A. We have questions that were pre-submitted. And we have questions that are coming in virtually real time. Jen is going to hand some of those questions to the group. We are also going to be taking questions directly from the audience. I would just like to highlight that if anybody here would prefer not to raise their hand ask a question and would prefer to submit the question digitally, you can do that using the app.

Again, the final point would just be to emphasize that we are going to do our best to be brief. If you feel we haven't addressed some aspect of your question, don't be shy about re-raising your hand. We'd love to talk about any of our holdings. Alright, first question we will take from the virtual room. Jen, do you want to pass it along?

Virtual Question: *Given the backdrop of higher inflation, rising interest rates, slowing economic growth and hawkish central banks, it seems we've entered a new investment regime. How is the portfolio positioned to weather such an environment?*

Trevor Magyar: Great, thank you, Jen. Chase, do you want to take that one?

Chase Sheridan: I'd be happy to… Apologize if my voice sounds like a cat climbing a chalkboard. I have a cold. I'm testing every day. I do not have Covid.

I'd like to separate that into the near-term valuation effects and the longer-term impact of how our companies might manage that sort of environment. And we're not predicting that sort of environment—we're agnostic about it—but as many of you know, in the near term, when expectations for interest rates and inflation rise, the discount rate applied across all asset classes rises and valuations compress. And that's what we've seen.

We run a nearly fully invested portfolio, and our companies tend to be businesses that we think have long duration advantages with long runways for growth. So we may be feeling it even a little bit more acutely than the market as a whole. Where you see that is last year, our portfolio traded at a slight premium to the S&P and now it's in line. So I think we've already felt the impact of these changing expectations to some extent. I think over the long term, an important question is how our companies would navigate a higher inflation environment. To navigate it well, you want companies that have high returns on tangible capital and that have pricing power so that they can raise prices in line with or better than inflation, thereby maintaining their margins.

When I look at our portfolio, it's very well positioned with respect to pricing power in an inflationary environment—Alphabet, Meta Taiwan Semiconductor, UnitedHealth, Anthem, Constellation Software. I go down the list and there are many more businesses where they have demonstrated pricing power.

We know they can raise prices in an inflationary environment, and a lot of them don't require a lot of capital. Some of them actually consume no tangible capital whatsoever. So I would expect that inflation would help augment the topline while most of our companies would be able to maintain their margins. One caveat to all of this is that some of the inflation we're seeing is due to supply chain disruption, right? So if you are a company that is being impacted by supply chain disruption, your pricing power doesn't really matter if you can't get a key part for your product. That is something that we have to evaluate on a company-by-company basis. But for the portfolio as a whole, it should be very well positioned to weather inflation, longer term.

Will Pan: If I could add briefly to that, this year at the Berkshire Hathaway meeting, a young girl from the audience asked Warren Buffet and Charlie Munger, "What should I do to prepare for an inflationary environment?" Buffett gave an interesting answer. He said, "Become the best at what you do. You know, if you're in a town and you're going to become a doctor, become the best doctor, because no matter what the currency is, if it's inflated, if it becomes barter and you have to get wheat from your neighbor, if you're the best, people will pay for you."

And that's true across our portfolio. We have some of the best companies. We've got the best search engine, we've got the best display advertiser, we've got the best MCO. We've got just really good companies that will be able—because they're the best—they will be able to pass on price increases.

Trevor Magyar: Thank you both. So we're going to try alternating here and would love to take the next question from the audience. Just feel free to raise your hand and a mic will find its way to you. I think they're in the corners. If you can just hold the question until we get the mic.

Audience Question: *Hi, thank you. It's great to be back in person. A question on CarMax, which has, in my opinion, been forced to invest in omnichannel because of Carvana and others, and really heretofore we haven't seen a return on that investment. I'm curious how you guys are evaluating the level of investment they're making in omnichannel and how you are evaluating the return that we might be currently getting, or you think will be getting in the future. Thank you.*

Trevor Magyar: Great question. I'll take a stab at that. And maybe Greg, you want to jump in. So you're right. CarMax is and has been investing rather heavily in developing their omnichannel model. I'm not sure they were forced into it by Carvana alone. I think this trend towards more of an omnichannel experience was already brewing. Just to give you some perspective, when people go to research a used car that they might be interested in, they're already spending the preponderance of time online when they do that research.

That's very different obviously than conducting the transaction online. But the point is, the internet and the availability of information and prices and all the rest of it was already shaping consumer behavior in this market. So I don't think it was Carvana that forced CarMax to do it. I think that's the way the world's going. It's the way the consumer's going. We look at it more glass half-full than half-empty, that CarMax has been making these investments.

For those who are not super familiar with this, the big investments that CarMax has been making are not so much in physical plant, but it's in a lot of operating overhead to enable this omnichannel model to basically be able to field customer inquiries online or over the phone and drive these transactions in a way that the customer wants—whether it's all online, whether it's all in store or whether it's some combination thereof. So that's absolutely true. It's also true that the company hasn't seen a huge return on it yet. Our strong belief is that it will. Again, this is the direction the consumer is going. This is the direction successful used car retailers will go.

Again, a sort of glass half-full view of things, but the fact that the investment is significant and not just from a dollar perspective, but from a time and resource and expertise perspective, is something we find encouraging. Because we think it's going to be hard for other used car retailers to follow, certainly the many, many, many, many, many small, very small used car dealers. They simply don't have the resources to do this. They may try to do it, but they will not do it well. And so, we think CarMax is at a moment where it's transitioning from a share-taking model driven by an expanding store footprint story to one where the company takes share because it has invested differentially in this omnichannel capability. But you're right—for the most part, it remains to be seen. It's something the company has been invested in heavily for the past few years, and it should see returns on it over the next few. Greg, would you add anything?

Greg Steinmetz: Two things really quickly. They haven't even started advertising their omnichannel capabilities yet. They haven't been running ads saying buy online, come to the store. They haven't done that yet because they want to make sure that it's perfect. And as of this quarter, it will be perfect. We're going to begin seeing those ads, and we're going to start seeing more of a return.

The other thing I want to say is CarMax has always had a better mousetrap than the competition. There are 30,000 other car dealers out there. If the gap was like this before, when we didn't have online, now that the world is going to online, it's very hard to compete with a scale player. The gap between what CarMax offers in terms of selection, convenience, the ease at which you can get financing—that gap goes from like this to like this. So it's a story that's... we haven't seen the ending yet, but, but we're happy about where CarMax is going.

Trevor Magyar: Great, thank you for the question. We'll take another question now from the virtual room, Jen.

Virtual Question: *Please discuss some of the uncertainties surrounding Meta's stock, the $10 billion impact to revenues due to Apple's privacy changes and the impact of TikTok's rise on Instagram and Facebook.*

Trevor Magyar: Great. Thanks Jen. If it's alright ...

Chase Sheridan: Ten billion, not million, $10 billion.

Trevor Magyar: Ten billion with a B.

Chase Sheridan: With a B unfortunately, but ...

Will Pan: So the $10 billion ... these are two very topical questions that we've been diligencing extensively as we re-underwrite our investment in Meta. To take the first one about the $10 billion impact from Apple's privacy changes, some of you may have noticed if you're iOS users that you've been getting prompts before opening certain applications over the past year, asking if you would like if you would allow the app to track you or not. That's called app tracking transparency. What it controls is access by apps to something called the identifier for advertisers or IDFA, which is a tracker that Apple invented and has used for a long time. But now they've put permissions around it.

A lot of people have declined to let apps track them, which has broken a specific way that many advertisers have used—platforms and advertisers have used—to basically coordinate their activities and the viewership of ads and then the purchase of subsequent products. Facebook was most hit by this. It took a $10 billion hit that'll phase in over the course of 2022.

They've been working on sizing the impact and mitigating the impact ever since this was announced two years ago.

We've been also aware of it and thinking about it. We, and clearly the market, got it a little bit wrong. We thought it was more like a mid-single-digit percentage impact. It's turned out to be more like 8%, but it's an 8% that won't repeat. Once it's taken out of the base, that's it for ATT or app tracking transparency. You've seen in the numbers in Q1 Facebook was still able to grow 10% at constant currency, despite an 8% hit. So it would've grown nearly 20% without. That's on top of a Q1 last year where they grew 48% and a Q1 before that, where they grew 18%. So this is a company that's still capable of strong growth once they lap the impact of this.

Then we've done a lot of checks with advertising agencies and advertisers, and they still say, look, Facebook is the best media that you can buy. Certainly, this impact has caused some advertisers to think about other platforms like TikTok, but they've found that it doesn't always work for them. Maybe half of DTC—direct response advertisers—can make it work on TikTok. Other ones don't find a result or an impact and then they come back to Facebook. So it remains a very strong offering in advertising.

Now, the second question on TikTok, I would just contextualize it. The history of social media and internet media is one of evolving formats. When Facebook was new, it was text-based, and it was on desktops. Then over time added photos and over time added videos. What we're seeing with TikTok, I would describe as mobile native vertical video. Most of the video that we have consumed heretofore is wide-screen TV/movie type aspect ratio video. With the rise of better mobile connectivity, advanced 4G and 5G now, plus much better cameras on smartphones, now we're seeing an evolution in format and media into what you could call vertical mobile native video.

TikTok is pioneering this, but it doesn't mean that they have a monopoly on the format. Meta's Instagram product has its own offering called Reels. They recently revealed that that's 20% of time spent on the Instagram application. Instagram has more monthly average users, 2 billion, than TikTok, and it has more time spent. At this point, Reels is already 20% the size of TikTok. That's before Meta rolls out Reels to Facebook, which has

3 billion monthly average users, even more than Instagram.

So long story short, this is a company that's great at fast following and optimizing. We think in this case, there's a big wave to be ridden in mobile native video. And we think they're well on their way to start riding that. Stepping back, if you look at Meta overall, it is trading at a mid-teens multiple of all-cash earnings at this point. That really does not anticipate very much growth, but we think again, once they lap the impact, they can return to super-normal growth. That is including the 20% to 25% of pretax profit that they're spending investing in Reality Labs. So really you get the rest of the business priced at a level that doesn't anticipate much, if any, growth.

Trevor Magyar: Great. Thank you. We'll now take another one from the audience right here. Maybe just wait for a mic if you don't mind.

Audience Question: *Thank you. John, I thought your letter was really marvelous and very meaningful and very heartfelt and on topic. I'd like to follow up just a little bit on it. Over the course of the years, I've seen a couple things happen with some money managers, some high-performing money managers who really begin to get into a downdraft. They begin to lose confidence. They begin to think about changing their style, losing their discipline. So I'd like to ask you, one, you know, you see that, how do you manage it? But also, the other thing I've seen happen to organizations is group-think, where everybody nods and everybody has the same idea, but nobody challenges, and that's led to some very bad decisions.*

The third thing that I've seen happen over time is when you get a fund that is in a net redemption, as Sequoia has been, it puts, again, undue pressure on the manager, that may, again, cause the manager to begin to lose their discipline. So I'm just curious how you and your team manage those issues and those risks.

John Harris: I'm going to try to hit all your points there. If I don't let me know and I'll come back. So the last one is the easiest, which is we've been through this a bunch of times before. And actually, you play a big role in mitigating the last problem, because we are really lucky here—and I take zero credit for it and nobody on this stage should—and I don't know where Bill Ruane is, but wherever you are, Bill, thank you, because we inherited the most wonderful group of clients in the entire money management business, and it’s all of you—I say it every year and I guarantee you, everybody thinks it's some empty platitude, but it is the God's honest truth and it’s one of the most meaningful things that is said at these meetings every year—it is all of you that make this possible. We could not do what we do in the way that we do it with the confidence that we do it, if we did not have clients who enable us to do it. I would say that five times over if I could, because it cannot be emphasized enough. And it's probably the single biggest competitive advantage that this firm has, because there are just not a lot of other firms out there that have such an aligned and understanding group of clients. So that is a very important point.

Then there are all kinds of points that go around that about the way this firm is set up and managed and financed that basically, without going into details, make it bomb-proof. So we're not going anywhere, and outflows are fine. We've had outflows before, and it's not a problem.

Philosophically, I'm going to try to take the first two parts of your question and sort of merge them together and talk a little bit about the move we made toward democratic governance here about five years ago—the way we run the firm and also the way we run the fund—because I think there are so many benefits to that.

Look, nothing is without its downsides, and there are some downsides to democracy. I think it was Churchill who said it's the worst form of government other than all the other ones that have ever been tried. So like anything, it has its downsides, but the upsides massively, massively outweigh the downsides, and one of the big upsides is that it's a great defense against stale thinking. We have too many perspectives sitting around the table and too much of a diversity of perspectives, and we have a culture that's way too enabling of people to express those perspectives, to ever get into an intellectual rut. There will always be a voice around the table that says, wait a minute, what are we doing? Why are we doing that? Shouldn't we be doing this?

Whether it comes to individual investments or strategic decisions about the way we run the firm, suffice it to say there is always an internal debate happening here. And it's very robust, and that's exactly the way we like it. I think 99 out of a hundred bad stories in our industry—and you could go beyond our industry; I would say this is a life lesson, but it's certainly an investing lesson—we are in a fragile business, and there are a lot of firms that enter that death spiral you're talking about and never get out, and 99 out of a hundred times, the beginning of the story is arrogance and a lack of humility and an inability to see a different perspective from the one you've got. The single biggest line of defense against that happening is democracy. Because in a democracy, when you've got a lot of voices around the table, somebody is going to speak up and say, wait a minute, what we're doing is arrogant. We need to think of a different way. We need to adapt.

And even if you're not in a bad situation and it's not how am I going to avoid going down this spiral, what about how am I going to avoid not getting left behind as the world changes? Because if we were doing the same thing the exact same way today that we did it forty years ago, I don't think we'd be getting a very good result, because we're living in a very different world than we were forty years ago. So, I've said this before. There's a core of what we do, how we do it and what we believe that can never change, because it's meant to exploit certain flaws in the way people think and act that will never change. But then we absolutely have to constantly be questioning and adapting that and evolving it in line with a changing world. And the form of government that is best suited to do that is democracy.

Trevor Magyar: Thank you. I think we'll take the next question from the virtual room. Jen?

Virtual Question: *Sequoia has lagged the market by several percentage points since the Investment Committee took over in 2016. To what do you attribute this underperformance? As long-term clients we note that the portfolio has migrated toward growth and tech businesses.*

Trevor Magyar: If it's alright, I'll take a stab at that one. So I think John, and then Arman covered the underperformance reasonably well. But just to recap, basically what you've seen since the Investment Committee took over in 2016 is the fund more or less matching a strong market through much of last year. And then we've had notable underperformance for the past several months. When we look at that performance in totality, and then we look at the portfolio, and we look at the individual companies and we look at the prices we paid, I would say we see a couple things.

First, we see a couple decisions that we wish we had back. Not that we bought bad businesses, but in a couple cases we probably overpaid and there just wasn't the margin of safety that there should have been.

On the other hand, we see multiple companies in the portfolio that we are still very excited about, whose prospects we still very much believe in. We look at the prices on the screen right now, and it just doesn't seem like the market is fully appreciating these businesses.

So this is a long-winded way of saying that the performance is what it is, but also that this is a specific moment in time. Things could look very differently in the not-so-distant future. In any case, we're going to keep doing what we've always done. Our philosophy remains unchanged. Our research engine is as strong as ever. We are very much aware, as John said, of the scoreboard, but we're going to keep our heads down, doing what we do.

Turning to the technology part of the question, I understand the question, it's a reasonable one. It's actually a question we've asked ourselves. What we did to answer it was actually go look at the facts, go look at the data. We constructed, a mini portfolio, a hypothetical portfolio out of our twelve technology investments. These by the way cover a wide range of businesses and business models. But again, we constructed this mini portfolio out of the twelve technology investments that the Fund has made since the Investment Committee took over in 2016. In this mini portfolio, we maintained the relative weightings. We matched all the trades along the way. What we found was that the technology-only fund actually outperformed the S&P 500 by roughly 250 basis points since the Investment Committee took over in 2016. So really the data doesn't support the idea that it's somehow the technology investments that are driving the recent underperformance.

I know it feels to some like a departure that we're investing in technology. It doesn't feel that way from the inside. We're looking to invest in great businesses that we feel like we can understand, that we can research. The companies that we've been investing in certainly fit the bill. If we hadn't invested in any technology companies and we stuck exclusively to metal benders—and by the way, we have nothing against metal benders and are happy to invest in them if we find the right one at the right price—if we'd never evolved in a way that allowed us to consider some of these great technology businesses, I think people would be asking, and I think rightly, whether we'd lost our way and sort of gotten out of touch. Because when we look at the overall economy—this is no great secret—technology is a bigger and bigger part of it. It drives a greater amount of economic activity. So I think really what you're seeing in the portfolio is to a significant extent a reflection of what's happened in the overall economy. I don't know if anybody has anything to add.

Alright, so we will take the next question from the virtual room. Jen?

Virtual Question: *What is your current view on ICE, including the recently announced acquisition of Black Knight?*

Trevor Magyar: So ICE is Intercontinental Exchange for those that aren't familiar with it. I'll hand this off to Chase and Matt.

Chase Sheridan: I'll just make a couple of blanket comments about what ICE is trying to do, and then I'm going to turn it over to Matt, who has done the bulk of the recent work. ICE is run by a visionary, disruptive technologist. He's sort of a wolf in sheep's clothing by the name of Jeff Sprecher, who has grown it from a $2 million or so personal investment to a $70 billion—depending on the day—global derivatives clearing and data business. What he is doing with Black Knight is he's trying to establish a dominant position in the entire value chain for originating, servicing, trading, processing mortgage assets, a $10 trillion asset class in the United States.

He's been piecing this together for years, and he is the kind of CEO who sees around corners and sees where the puck is going before everyone else does. He's done this multiple times over decades in creating this behemoth that is ICE. I'm personally very excited to see what he is doing with his attempt to acquire Black Knight. I'll turn it over to Matt for more granular analysis of it.

Matt Cooper: Great. I think it's a really good question. Whenever one of our portfolio companies makes an acquisition, and a big one at that, I think it's very much on us to stay on top of it and to do research and to make sure that we like the strategy that the company is pursuing. I'll talk a little bit about the mortgage space now. Just like any industry, they have their own lingo. When a mortgage is created, when you give a loan to a borrower, that's called the origination process. Even though it's just a loan, it's actually very, very complex to produce. It's effectively a manufacturing process at a lot of these lenders.

Then once the loan is made and the payments go from the borrower to the lender and there's insurance and tax payments and regulatory things that go back and forth, that's called servicing. Over the last five years, ICE has built a pretty big mortgage portfolio. They made four big acquisitions—two really big ones and two medium sized ones. They bought Simplifile and MERS and then Ellie Mae and recently they just announced a deal for Black Knight. They bought Ellie Mae in late 2020, and that's effectively the system of record and a loan origination system that loan officers and lenders used to manage their workflow to create loans. They had over one in two loans of the $4 trillion of mortgages that were originated last year pass through their platform.

Black Knight is the same thing, but on the servicing side. So there were 65 million loans outstanding as of the end of '21; 36 million of those passed through the Black Knight servicing platform. It's effectively the system of record and helps lenders manage their workflow for servicing mortgages over the life of the loan. I'd say there's really two big points that I'd love to get across.

First, that these independently are very, very good businesses. So I haven't been here very long, but I've actually looked at Ellie Mae when it was a public company and Black Knight when it was a public company too, as did some of the other people on stage here. I would say both of them are very good businesses. They each have over 50% market share in their respective markets. They each earn over 40% operating margins. They grow organically high single digits and have for a very long time.

And most importantly, not only are they the biggest players in each of their respective verticals, but their competition is not another vendor of equal size or of similar size. It's actually banks and lenders who for all intents and purposes are not great with technology trying to build their own technology in-house, to compete with Ellie Mae and Black Knight. I think you have a really nice competitive setup there. We've never actually owned either company in the Sequoia Fund, but both, again, independently are great businesses.

The second big point that I'd love to get across though is what Jeff Sprecher is trying to do. And like Chase said before, he is a visionary and he's gone out and executed on this vision a few different times in a few different spaces over the last ten years. And there's three really interesting things that can come about from the portfolio of mortgage assets that he's put together. The first is it costs about $9,000 to originate a mortgage in the U.S. today. It's up from $4,000 or $5,000 ten years ago. It's a very, very expensive process. One of the reasons is because lenders today in the U.S. tend to sell off most of the loans after they originate them. So the lender who gives you the loan is not actually the lender who services it for you. So 25% of that $9,000 is just in marketing cost and customer acquisition costs to try and get somebody to come back to you.

One of the benefits of combining a servicing platform and an origination platform and integrating them and linking them up is hopefully now ICE can enable lenders who originate mortgages to also service them so that they don't have to go out and reacquire new customers. Then the other two things are first ICE is an expert in hedging risk. So they have some of the biggest and best derivatives, futures, options exchanges in the country. When you give out a mortgage from the time of the rate lock for a customer to the time of the origination of the loan to when it's sold, there's actually interest rate risk that the lenders and investors and the mortgage-backed securities bear.

ICE is now going out and trying to bring their exchange expertise to helping lenders and investors hedge their interest rate risk—of which there are very few companies that could have bought these mortgage assets and gone about that. That's something really interesting and unique about the way that ICE is doing this.

Then the last point that I would make on this is they have a pretty big data business across the exchange space, but then also in the fixed income space. When you have literally every mortgage through some way shape or form touching your platform, you have a lot of data. So they're now going out to try and create and package and sell this data. I think this very much is a case of one plus one is a lot more than two—but even if it wasn't, I think the point I'd love to get across is just that these actually are very good businesses. So I think at the 17 times multiple it trades for today, we're all actually really excited about what they're doing.

Chase Sheridan: And also, the financing for these acquisitions is mostly debt. ICE has a very stable cash flow, incredibly high margins. So they can safely leverage these acquisitions. I think Ellie Mae was 82% debt, maybe 18% equity. And the debt had a cost of less than 3% annually. So they're getting extremely high-quality assets financed extremely cheaply.

John Harris: I think that maybe the other point to make about ICE is it's a little bit of a similar story to UnitedHealth in that this is a company that allocates a lot of capital. It's acquisitive, and they tend to do big, chunky acquisitions. And they have a record of doing very strategically astute big, chunky capital allocation decisions.

The types of investments and acquisitions that Wall Street tends to appreciate the easiest are the ones that are financially very compelling, where you're paying a great price and you're getting a big yield on whatever the investment you're making is. We've got nothing against investments like that, but I think the big investments that are harder for the investment community to appreciate are the ones that may enhance the value of the business financially a little bit in the near term, but that pretty significantly enhance the quality of the business and the quality of those earnings that you're getting. And I think that's the big parallel to me between UnitedHealth and ICE is that Jeff pays up for his deals. These don't come cheap, and they may be slightly accretive to their earnings. They may not even be slightly accretive to the earnings—time will tell. But they're very much accretive to the quality of the business. So he started out with an exchange business, and exchanges are great businesses. They have big, wide moats around them. But the one downside of the exchange model is the customers determine how fast the business grows, and your ability to grow your business is not always completely within your control. You can introduce new products, but it's not guaranteed that the customers are going to take them up, and you can have exchange products that grow nicely for a really long time and then eventually they just sort of reach maturity and stall out, and it can then become harder to keep the engine moving.

Whereas Jeff has taken the earnings from his original exchange business and invested them very aggressively in these mortgage and information services businesses, where you just have a lot more control over your destiny and the trajectory of your growth because you have pricing power and because you have a lot of visibility over unit growth over time. So I would say it's pretty much a foregone conclusion that he's made good financial investments all along the way, but the really important point that we really do not see reflected in the market price of the business and the valuation of the business is that if you look at ICE as it will be in a year, assuming this deal closes, relative to the ICE we first knew when we first looked at the business, the one is just a dramatically better and more robust enterprise than the other. The earnings are higher quality and they're likely to grow faster over time. And what's really interesting to us is that the business, at least as long as we've been aware of it, I don't think has ever traded a lower P/E.

Chase Sheridan: We've been following it since 2012, and they've really diversified their sources of revenue by growing a gigantic data business. And data businesses, when you are the provider of a proprietary set of information that is not easy to replicate, they're fantastic businesses. So we'll see if the transaction goes through. It's going to receive scrutiny because Ellie Mae has a huge share of the origination market, and Black Knight has a huge share of the servicing market. And so, it's not a foregone conclusion that they will succeed in this. I think the fact that it's receiving scrutiny is one indicator to you of how powerful the combination could be.

Trevor Magyar: Great. Thank you, gentlemen. Alright, we're going to take the next question from the audience.

Audience Question: *Thank you, gentlemen. First off, I just want to thank you for the venue. I'm trying to initiate my young ones into the whole process of thinking. So this is much appreciated. And all the work you've done online I think is fabulous also, just communicating with us. I'm going to ask you a question on a long-suffering holding, which is Rolls-Royce, just to get your thoughts on how much more patience we're going to have on it. Is there any risk there of maybe privatization where, you know, such a cheap asset is just taken away from us? Because I've had that happen to me in the past. So your thoughts would be appreciated.*

Trevor Magyar: Alright. I think Arman, it's yours.

Arman Kline: Long-suffering is an apt term there. So the reason we continue to hold Rolls is right now the business continues to be subdued because of subdued international flying hours, which have not recovered fully yet. Now, this summer it looks like we are going to see a material step up towards pre-pandemic levels based on bookings. We don't think that is reflected in the share price yet. Additionally, if you look at the amount of cost Rolls took out of the business during the pandemic, they took about 1.3 billion of fixed costs out. Just to be clear most of that came out of the Civil business or overheads associated with the Civil business. And the Civil business generated total revenues of £4.5 billion in 2021 and £8 billion in 2019, so a very meaningful percentage of revenues. The total enterprise today trades for under £7.5 billion market cap and probably around £10 billion of enterprise value. They, actually just a week ago, gave out guidance about what the profit margins in the Civil business should look like if flying hours simply start to recover back towards pre-pandemic levels. And it's not hard to see how the business could generate close to £1 billion of free cash flow a few years out. And so, we continue to believe that there is real value here that's worth waiting for, especially since it looks increasingly like the hours recovery is coming sooner than later. There are certainly lessons learned there about the things that can happen in that business model that can reduce the profitability surprises—things like the Trent 1000 engine or, frankly, the pandemic that you have to think about.

And so, our expected valuation at which we would likely exit that position is certainly lower than it would've been pre-pandemic and pre-Trent 1000. But, you know, we want to make sure that we're taking the latest information we can and saying, what are we getting paid to take the risks that we can foresee in front of us now? We continue to believe that from this point forward, there is an attractive enough return to hold onto the investment. It is quite a small investment at this point by the way. The last time we topped up on it was in November of 2020, they did an equity raise at 32 pence a share, the stocks now at 80. So that last top-up also was a quite timely top-up for us. And we do have a valuation in mind, like I said, at which we would likely reduce or exit.

Chase Sheridan: He asked about the risk of privatization…

Arman Kline: Privatization, frankly I think if it was going to happen it was going to happen in November of 2020. That's when the balance sheet was considerably stressed. I actually don't worry so much at this point. The only privatization that could potentially happen there would be the British government. We've talked about some other players that have looked at potentially taking it private—that I don't think is likely. So nationalization maybe is the bigger risk than privatization. Again, nationalization, I think November 2020 is when that government made the decision that no, they don't want to be in the business of owning these assets. The government in the U.K., just to be clear, has a golden share in Rolls. So they would have to okay any sale. And because Rolls-Royce runs the nuclear capabilities of the U.K. government, that's not something they're going to hand over easily.

John Harris: This is terrible marketing, but I'm going to say it anyway. Rolls-Royce is an interesting investing lesson for me, and I think all of us, in that there are limits to research, in that sometimes what you see with your own eyes can be every bit as important as what you hear from people who know a lot more than you. So I can't even begin to tell you the size of our file on Rolls-Royce and how much research we've done and how many people we've talked to who've been in and around that business in one way or another. I mean, it's got to be hundreds of interviews.

Arman Kline: With multiple analysts.

John Harris: Oh my gosh, over a decade. And there is obviously a ton of value in primary research. We wouldn't spend this much time doing it if there weren't. But what's interesting is that, look, people have their flaws, and one thing I've learned is when you talk to people who've been in and around a business, you do tend to get a backward-looking view. People are necessarily colored by whatever their near-term experience has been. When we came to know that business and we did the original research, it had been on a great sales and marketing run, basically, where they had sold and placed a lot of engines. Based on the success they had—very real success by the way, selling and marketing all those engines and putting them out into the market—you could see a path to really steady and impressive growth out over a long period of time.

What former employees are not really going to spend a lot of time talking about during a period of this great sales and marketing success is that, well, actually, it turns out this is not the best manufacturing business in the world. That just really was not top of mind for anyone at the time, including people who had been living in the business. And part of the reason it wasn't top of mind was because on the spectrum of capabilities that a business like that needs to have, that wasn't a capability that was really being tested at that moment. When that muscle really got its test was when they went through a major technology transformation and had to build and manufacture and ultimately produce a brand-new generation of engines. That's when I think their shortcomings as a manufacturer sort of came to the fore. I would love to tell you we saw the signs of that in the original research and could look back and say, gosh, I wish we had paid more attention to that. But it just never even came up.

Arman Kline: Just to give you an idea, the Trent 1000 is the engine for the Boeing 787, which has had problems, it's been advertised. Boeing has not delivered a 787 in, I think, over a year, because they still are having issues with that platform and GE's GEnx, which is the other engine on the 787 also had its fair share of problems. To your point about during the sales and marketing, everyone thought that was the next coming. There were conversations around whether Airbus could keep up with Boeing. In hindsight, technology moved arguably too quickly, and Boeing, GE and Rolls got caught a little over their skis. And then just as that was all starting to normalize, we had a global pandemic. Prior to the pandemic, the largest decline in flying hours in a given year was right after 9/11 in 2001, it was I believe a mid-single digit decline. We had a 90% decline in international flying hours during the pandemic. So it was just a shock to the system.

John Harris: But here's a really tough thing to do as an investor. Rolls-Royce is just one example, but I've seen tons of examples of this in my career. To do six months of exhaustive, painstaking primary research that tells you one thing over and over and over again—coast is clear, this is fine, this looks good—and then to ignore all of it and look with your own eyes and say, "I hear what all these people are saying, but I see this big technology transformation coming up and it scares me, and so I'm just not going to do this. I don't care what I heard from all these people. I'm going to go with what I see, and there's enough there that I see to scare me that's going to put me off.” That is a very hard set of mental gymnastics to do, but in some cases it's exactly the right way to evaluate the situation.

Trevor Magyar: Alright, I think our next question is going to come from the virtual room. Jen?

Virtual Question: *In Q1, you eliminated Disney and materially added to Netflix. Netflix’s Q1 results disappointed the market and the stock fell dramatically. Was this a mistake? And a follow-on question is what is your thesis now on Netflix?*

Trevor Magyar: Okay. So I will start, and then I might ask my colleague, Eric, to chime in at some point. So our thesis for Netflix from a qualitative perspective remains unchanged. And it's actually a fairly simple thesis, which is that Netflix is and will remain a leader in streaming. That streaming is going to continue to take share of viewing hours and share of dollars from the traditional ecosystem, not just in the U.S. but across the globe for years and years to come. So as noted in the question, the stock is down dramatically year to date. So what changed if not the thesis from qualitative perspective? Well, the numbers changed. As the company announced on its most recent earnings call, new subscriber growth was anemic. What's more, the company said they have very limited visibility as to their ability to continue to grow the premium subscriber base.

This was a marked development for a company that had grown its subscriber base at very, very healthy rates. There was of course some noise during the pandemic. They had a strong 2020, a less strong 2021, but nonetheless the overall picture was that of a company that was capable of growing its subscriber base quite quickly. We always knew that Netflix's ability to grow its subscriber base would lessen. We had modeled that in our projections, but make no mistake about it, we did not anticipate that this moment would come so soon. So Netflix is worth less than what we thought it was. The million-dollar question or the multi-billion-dollar question is precisely how much less. And what I can tell you right now is that Netflix trades for—I don't have the screen in front of me and it's been moving around—but call it 16 or so times GAAP earnings for 2022.

When you step back and you look at that valuation and you think about the company's scale, their market position in streaming, even when you consider the entry of other players into streaming over the past couple of years, it's priced in a way that suggests the company is not going to be able to grow revenues much at all and/or is going to have serious trouble defending its current GAAP margin. And it is undeniable that there's a great uncertainty about their ability to grow subscribers, but we’re not convinced it's a sure thing that they never grow their subscriber base again. I think it's entirely possible that we wake up a couple years from now and say, “Hey, that was an incredibly odd moment we had coming out of the pandemic where Netflix was totally stalled out from a subscriber growth perspective.”

Now, we don't want the investment thesis to hinge on Netflix’s ability to reaccelerate subscriber growth, and they don't have to. They have other ways to grow their revenues. They mentioned in the most recent earning call that a hundred million people are engaging with the service by using the credentials of their friends or distant family members.

Just to put that into perspective, Netflix has 220 million paying customers. So these hundred million password-sharees, it's significant. Now, the company isn't going to be able to monetize every last one of the password-sharees or sharers, but it will monetize some of them. And no, the company won't monetize them at super high rates, but it will matter.

Netflix also has the ability, and they've talked about this on the most recent earning call, to do advertising. This is something that we always thought Reed would do when it made sense. As much as he pooh-poohed the idea of advertising, we thought this was something they would do. Unfortunately, the moment came sooner than we expected, but they're now going to dive headlong into advertising and that should be coming out in the next year or two. That has the potential to significantly increase the amount of revenue they're taking out of the business. And I say that not just because other streamers have ad tiers that are already out there in the market. I say that because the history of the media industry proves it. The way to pull the most money, the most profit, the most viewing out of a media ecosystem is to introduce advertising. Again, when we look at it from the topline perspective, yes, we see growth challenges that we did not see six months ago, but we also see lots of opportunity for them to grow the revenue beyond where it stands today.

Now as regards margin, the real question is whether Netflix can defend the margin and possibly increase it, and the thing that we are very focused on there is the content spend and really the strategy around the content spend. By the company's own admission, they have been spending like drunken sailors over the past handful of years as they've prioritized first-party or owned content. They realized that was a strategic weakness, and they realized that they needed to address it quickly. The way they did that was by buying their way into Hollywood. I could go on and on, but they've paid top dollar for content. They've eliminated backends. They didn't worry about whether or not incentives were aligned. They're dropping content, as everybody knows, whole seasons all at once on the service, and sometimes the seasons disappear just as quickly as they arrive.

Now, I'm not criticizing here. This was the strategy the company employed to get to where they are today, which is at $30 billion plus in run rate revenue. So in a sense, mission accomplished. But they have an awful lot of scope to moderate how much they spend, how they spend it and how they release the content to the service. That scope is important, we think, because that is what's going to allow them to sort of defend and perhaps even increase margins. So that's a bit on Netflix and where it stands today. Just to move it along, I guess there was also a Disney part of the question. And if it's alright, maybe I'll punt that to you, Eric, and you can talk about our assessments of, Netflix versus Disney.

Eric Liu: Sure. I'm going to try to keep it brief. So the question was: was it a mistake? It was. The main thing to remember in terms of why Disney has outperformed Netflix on the way down is just that Disney mainly is media, but about 40% of the business is theme parks and consumer products—which are great businesses, but things that we didn't think we had a particularly differentiated viewpoint on. So the decision to rotate out of Disney into Netflix was more about our conviction around streaming, which ended up being misplaced. But we'll see in the fullness of time whether that plays out.

Trevor Magyar: Great. Okay, next question we'll take from the audience.

Audience Question: *With regard to Berkshire Hathaway, I was wondering if somebody might be able to comment on the profitability of their property and casualty business, given the rate increases that we're seeing in the P&C business, but also the influx of insurable events that happen or that are going to be happening in the future. Is their profitability something that you have confidence in?*

Trevor Magyar: I'll hand that off to Jon Brandt.

Jon Brandt: I'm going to try to keep this really brief. Insurance business is cyclical. There are periods when rates are sufficient, and there are periods where rates are insufficient. Berkshire Hathaway across all of its insurance units has a unique level of discipline to write little business when rates are insufficient and to write more business when rates are adequate—provide you enough premium to cover the expected losses—and I think this is a time when rates are more adequate than normal. So they're writing more business, and that's really, in a nutshell, that's what I would say about it.

Trevor Magyar: Alright. Thank you, Jonny. Next question will be from the virtual room. Jen?

Virtual Question: *Wayfair is a young business investing heavily to become a dominant e-commerce operation. It faces slowing demand due to a sales pull-forward during the pandemic and the business is still losing money. What do you make of the recent quarter performance and do these such businesses belong in Sequoia?*

John Harris: So, the recent quarter performance is very hard to make much of because as Trevor said, it's sort of the same boat with Netflix where you're coming out of a very unusual period where you had an enormous pull forward in demand. Then you had a reopening of the economy that was going to work against online businesses or pandemic beneficiary businesses. I think the reality is that it's going to take us another three, four, five quarters to really understand where true demand for some of these businesses is going to settle out. So unfortunately there's a little bit of a cloud of uncertainty there, and that's why, I think in part, the stock has done what it's done recently.

More broadly, just stepping back on the fact that it's a less mature business and whether businesses of that level of maturity belong in Sequoia Fund, there I think the answer is a very clear yes. Because frankly a lot of the money that this fund has made over the last twenty years has been betting on young businesses; special businesses run by special teams that are small and attacking really big market opportunities, where they have the ability to leverage some special competitive advantage to grow their share from a small number to a big number in a very big market. And Wayfair certainly fits that mold.

Now with any business like this, there's a degree of imagination involved. There was a degree of imagination that you had to have to understand what Idexx and O'Reilly could become when we first found those businesses. They look a lot different today than they did when we first found them. I remember when Progressive Insurance—for those of you who have been with us for a long time, that was a large holding of the fund—they made a very big pivot and bet on direct distribution. That was a very big investment that clouded the profitability of that business for a long period of time. It took some imagination to see why that could be a good idea and what it could do for the company.

Certainly when we made our investment in Amazon, you had to have a degree of imagination about what the business was capable of earning. I think our only regret with Amazon is that we didn't have a little more imagination and find that business a little earlier in its process of maturation. And the analysis with Wayfair is very similar to the analysis we went through with Amazon. It's frankly similar to the analysis you would've done if you encountered Costco, Home Depot or Walmart early in their processes of maturing as a business. You have a company that generates a lot of operating cash flow that invests every single dollar of it and then some into, you know, whatever they're doing to try to grow and take advantage of that big opportunity. And so then the question is, can you see a profitable core? Is there a business proposition here that works economically? Can you see where they are investing the money? And then do you trust this team to make those investments? Do you think the investments are going to earn a return?

If we step back and think about, well, what are they investing in and what's the opportunity they're going after here, and why should we be excited about it, so this is a gigantic market. Multiple, multiple hundreds of billions of dollars. They would tell you between the U.S. and Europe, close to a trillion dollars. Frankly, when the numbers get that big, it doesn't really matter, because you're starting from a base of $13 billion of revenue.

So what are we betting on in the context of that big opportunity? Number one, do you believe that more and more of home furnishings retail is going to move online? Number two, do you believe that online, everybody is going to decorate their home at Walmart and Amazon, in the same places where they buy their batteries and their groceries? Number three, do you think there is room in this category for a category killer, because the way people shop for and buy their home furnishings is different in a lot of ways than the ways they buy their general merchandise and their groceries and their batteries and so forth. And then maybe 3(a) is, do you think that perhaps there's more scope for a category killer to succeed in this category online than offline? Because one really unique thing about the home furnishings category is that selection is a critical competitive variable. In electronics, everyone wants to buy the same iPhone and the same 55-inch Samsung TV. In home furnishings, you want selection. I don't care how big and how great your offline furniture store is. You can have a 125,000 square foot store, but you just can only put so many sofas and beds in your 125,000 square foot store. On the internet, you can show a user a literally endless aisle. There's a lot of advantage to that. So, in some ways it's the internet where you would really expect a category killer to thrive in home furnishings. So I think the big question is, do you believe all those things? And then do you believe that this is the company that has the right to be the category killer in home furnishings online? The answer to that last question is: no question. If someone is going to do it, these are the people who are going to do it. That's sort of beyond debate. If you then think the answer to all those other questions is yes, then you’ve got a very small company with a long, long way to run.

Then we get to the multibillion-dollar question, which is: okay, small company, big opportunity, but do you think it can make money? Beyond where demand for the service settles out post-pandemic, the other big question that unquestionably the market is grappling with is how much money can this company make? There are a thousand different ways to attack that question and try to answer it. Suffice to say, we have, looked at it every one of those ways. But the analogy that I think is the most instructive is to compare it to Best Buy. So definitely some differences between the businesses, but lots of similarities in the typical purchase in that it's a high ticket, it tends to be a high level of consideration before the consumer makes the purchase and it's not a very frequent purchase. You just don't buy a TV every year, just like you don't buy a sofa every year.

Now, it's interesting—Best Buy earns a 6% operating margin, and rising. And they do that selling branded commodities where the shopper is on a mission. Typically the Best Buy consumer knows exactly what they want to buy. They know exactly the Samsung 55-inch TV they want to buy or the iPhone that they want to buy. And not only do they know exactly what they want to buy, but they know exactly what it costs. If you sell it for $30 more than the next guy, you are likely to lose the sale. Furniture is very different. You are not buying. You're shopping and browsing, and you don't know what you want. You want a wide selection. You're going to look through it. And oh, by the way, the selection that you're looking through, most of the items in it don't have brands. Raise your hand if you know what brand your sofa is or your bed is or your barstool is. Okay, I see a few, but not many. That is why offline, where the economic model in home furnishings is a lot more established, you see that home furnishings retailers tend to be much more profitable than electronics retailers. Like two to three times as profitable in some cases, which makes sense based on the product that you're selling and the way it gets sold.

Now while that may be the case, that is not at all the level of profitability we're underwriting here with Wayfair. All we have ever hoped for and asked of this business is that it can be just about as profitable as Best Buy is selling the Samsung TVs. If they can do that—and there are a thousand different ways you can sort of build up to this from the ground up, as opposed to looking at it from the top down the way we are here—then this very young company with this very, very big opportunity in front of it, at this point it probably trades for a single-digit multiple of what it's capable of earning. So we think there's an interesting investment proposition here. Until they prove out that economic model sort of beyond debate and settle that big debate in the market, I think it's going to continue to be a gut-wrenchingly volatile stock. We've already had one trip here from $100 to $25 to $325. We're now in the middle of another one, and hopefully it'll end the same way. Nobody knows, but I think from where the stock is right now, the potential here is high.

Trevor Magyar: Alright, great. Thank you, John. We'll take the next question from the audience.

Audience Question: *I have a question to circle back on CarMax. So last year they earned about $1.5 billion. Half of that, or a little more, was CarMax Auto Finance (CAF). How do you think about the normalized earnings of a firm like that when it's coming out of such a unique environment with the Fed tightening? Thank you.*

Trevor Magyar: I'll answer that. This should be quick. You're absolute right. CAF has been booming for them. So CarMax not only sells used cars, it provides financing. That actually distinguishes it from just about every other car dealer in the country. This is a capability that they've built from the ground up and have developed over the past few decades. So it's a real competitive differentiator. Anyway, yes, CAF has been booming for CarMax. And when we look at it, we definitely don't take the current earnings out of CAF and assume that that persists. Now, there are a number of different ways you can normalize, but ultimately, we're looking at the long-term trends in terms of net interest margin, provisions for loan losses, and we're trying to smooth them out. I guarantee you that the number that we came up with in terms of normalized CAF earnings is not perfect, but we are basing it on historical averages. So we our doing our level best to adjust for the frothiness in CAF when we come up with our estimate of CarMax's overall earnings power right now. Greg, would you add anything?

Greg Steinmetz: No, no, that's good.

Trevor Magyar: It's a cyclical business. It'll have highs, it'll have lows. But again, it's a real competitive differentiator for CarMax, both in terms of their ability to offer a convenient and consumer friendly financing option to their customers, but also in terms of their ability to participate in more of the economics of the overall transaction. So we love that they're in this business.

Alright, next question. We are going to take from the virtual room. Jen?

Virtual Question: *Can you elaborate on your thesis on Credit Acceptance Corp.?*

Trevor Magyar: Alright, that should be Chase and Greg.

Chase Sheridan: Credit Acceptance Corp. is one of these sort of anomalous businesses where they've managed to grow their earnings over 20% a year for more than two decades but tend to trade at a multiple of earnings that's a gigantic discount to the index, typically around 12 times earnings or so. We bought it at 10 times earnings. So far, it has been a fantastic investment. The thesis was that CACC could... well, it was priced for no growth, but it was growing at the time we bought it, and they have some levers that they try to pull to grow the business. Typically, in the past that has been hiring more and more salespeople. So I should step back and say what Credit Acceptance does. They are the lender of last resort for borrowers with poor credit who want to buy used automobiles.

So they serve independent dealers, and they are the lender that comes in and says we will approve your loan. You might not love the terms of it. It might require a very high down payment. It's going to require a high interest rate, but we will approve you when nobody else will approve you. And they have excellent discipline in their underwriting standards. It's not something we worry about with them. And so, our thesis was very simple—that the stock was massively underpriced relative to its earnings prospects.

Today, Credit Acceptance is in an environment that's very, very tough. Deep subprime lending is down due to the supply chain disruptions that have reduced the supply of new automobiles and as a result has created shortages in the used car market as well. If you're an independent dealer you typically want to lend to your prime customers first. If you have limited inventory, you're going to sell that inventory to prime customers, not subprime customers. As a result, Credit Acceptance has been making fewer loans than they've made in the past, and this we expect to continue for some time.

The beauty is that when Credit Acceptance stops growing it gushes cash, and they've used that cash to buy back more than 16% of the stock outstanding in the last 12 months. I mean, it's an incredible number. The company's capital allocation is guided by the chairman of their board, their lead independent director, Tom Tryforos who himself is a very accomplished investor for whom we have tremendous respect. I think Credit Acceptance will shrink its loan balance for a little while, until these supply chain issues resolve themselves, but on an EPS basis, they're also shrinking their shares outstanding at such a rate that they're weathering this very well.

Then, how they grow going forward will be up to them. I think it's going to be harder than in the past. They grew at a rate that you can't sustain after you reach a certain size, but they're still a relatively small fraction of the deep subprime lending space in the U.S. There's definitely headroom. I know that they are very actively pursuing new ideas in terms of how to better serve their dealers and how to become a better partner to their dealers and make their proposition more attractive.

Greg Steinmetz: Just one point to add to that is Credit Acceptance has very high profit margins. Their competitors have very low profit margins. When money was easy and business was good, it was easy for competitors to stay in business and enter the business. That's now changed. It'll be interesting to see if we have any consolidation in the market. What's bad for the market and what's bad for Credit Acceptance is generally a lot worse for competitors. We might see some good things happen here in the U.S.

Chase Sheridan: I don't want to reiterate what we've said in past investor days, but they have a different model than all of their competitors that shares the risk of default with their dealers and that makes them more resilient than their competitors.

Trevor Magyar: Alright. Thank you both. The next question will come from the audience, and I see someone here who I missed last time around.

Audience Question: *Yes. Good morning. I want to say I miss very much Mr. Ruane and Mr. Cunniff. They did a wonderful job over the years, and I am sad they're gone. I know that Mr. Poppe called them closet bears, but I was happy with that because we live in a market that is constantly changing. As Karl Marx said, capitalism is the most revolutionary system in the world. But I wanted to ask you about—I was here late because the location of this place—Twitter, are you invested in that?*

Trevor Magyar: We are not.

Audience Question: *You're not. You don't see a future for that company? Anyway, you don't want to say anything.*

Trevor Magyar: We see the same headlines you see. We've looked at various companies in this space, but we don't have a specific view on Twitter, and we try to limit the conversation just so we can manage time, to companies that we're currently invested in or have been invested in over the course of the past year.

Okay, next question, I think is going to be virtual. Jen?

Virtual Question: *Formula One ("F1") is really taking off in the U.S. and it seems Liberty has done a good job of making the sport a lot more competitive. How do you think about today's valuation and the opportunity from here?*

Trevor Magyar: Alright. Thank you. Arman is our Formula One man.

Arman Kline: I would agree with that question about Liberty making the sport a lot more competitive. Liberty has done a wonderful job, first under Chase Carey, now under Stefano and overseen by Greg Maffei and his team, of really resetting a sport, introducing certain important elements to a global sporting franchise—such as a social media presence, for example—and we are starting to see some of the payoff. But you could certainly argue that we are still in the early days of improving and growing the sport. So yes, U.S. viewership has close to doubled. But we're still about half of NASCAR in the U.S. I would say that the U.S. broadcast contract is considerably smaller than any other contract they have in size, rumored to be in the high single digits, low double digits annually versus call it $200 million in the U.K.—versus by the way, high hundreds of millions for NASCAR annually. F1's U.S. contract comes up this year, and we're going to see where that gets renewed.

They also just announced a race in Las Vegas next year in which they will become the promoter. As Greg Maffei said on his call recently, they're putting a little bit of capital to work. They wouldn't be doing that unless they thought they were going to generate a substantial return on that capital. I was just in Miami a couple weeks ago at the first Miami Grand Prix, which by the way sold out pretty quickly. I think they had 240,000 people there over the weekend, at ticket prices, by the way, that were considerably higher than what Austin, which is the other race in the U.S., was getting the year before.

So while we're starting to see a lot of the benefits of *Drive to Survive* and while we're starting to see a lot of the benefits of more engagement with fans, we're still in the early days there. We just for the first time started to see some new sponsors come in at good rates, and like I said, we have the U.S. broadcast contract that's going to be a big potential impact on the business. We have races like Las Vegas that are going to probably be substantially monetized. And so, a contract that's $50 million, $60 million, like some of the numbers that are currently being rumored for the U.S. contract, has a substantial impact on the net income of this business even after the team split. So while a lot of the characteristics are good and positive and trends are positive, I think we are still in the early days of improvement. So while the valuation looks arguably a little bit higher, call it a mid-twenties multiple we would say of forward earnings power, the earnings growth we think is still substantial as some of the improvements in the sport start to get reflected in the finances.

Trevor Magyar: Alright. We'll do the next one from the audience. I see a hand here.

Audience Question: *Speaking of the Berkshire meeting that you guys referred to earlier, I thought there was a fascinating exchange where I think it was one of these variations on success to Warren and Charlie. Charlie said something like, you know, he reflected, and he said in the last 50 years, I think we've improved relative to the first 50 years. And basically that we're just learning constantly. You know, Charlie's 98 and he's still sharp as a whip. I use that, and as kindred spirits, I ask you when you think about the last six years or so since you changed post-Valeant and came up with what you've described to us in detail in earlier meetings, how do you think you've improved in that period since you've changed the long history that you guys have as Sequoia Fund?*

Then where Charlie and Warren haven't ever capped themselves on how much cash they keep or how they concentrate, do you reflect on those changes and think relative to the past, whether those are the optimal changes? And thinking about the forward, what is the optimal path in light of the importance of learning? And how Warren and Charlie have lived their lives that we all think about and *reflect on—and just optimal investing in human beings.*

Trevor Magyar: Gosh, there's a lot of good questions in there. Maybe if it's alright, I can just reframe it so I can pose it to the group and ask people what they feel like the learnings have been since 2016. We made this decision to move towards a more democratic model, as John put it, in the management of the Fund and the firm. That is something to which we are committed. We believe in it as much if not more today than we did then. But that doesn't mean we haven't learned something along the way along the way. I hope we have. So maybe I can just pose that question to the group.

Arman Kline: And then I can take the cash question at the end.

John Harris: There are a ton of answers. I'll give you one. Diversity and democracy require effort to have success. So it's all well and good to get a really talented and diverse group of people in a room, but if nobody speaks up and renders an opinion, then there's no point in having them there, right? One thing I've learned from experience in a few different contexts is, don't for a second think that just because you bring the people in the room that you're going to have the debate and you're going to have all the opinions expressed. Life does not work that way, especially when they're young people.

So, it's one thing to say it. Saying is important, and we say all the time that the minute you walk through the door... We have two interns who just started with us who are sitting over in the corner here, and I say to our interns every year, speak up. Say what you think. If you need help, if you have a question, if you have something to say, walk in someone's office and say it. I don't tend to get a lot of uptake on that advice for understandable reasons. You know, you're a summer intern. But we mean it. And I mean we really mean it when we say it to young people who walk in the door that your position at this firm and your job at this firm is no different than the position and job of everybody else around here. We don't believe in titles. Everybody has the same title, as Bill used to say, and it's called analyst. Everybody is expected to contribute to the debate, and those of us around the table who have a little bit of gray hair, actually I would say more than anyone really welcome the opinions we get from the youngest, because the older you get and the longer you do this, the more humble you get and the more you realize that you see the world through a particular lens. I'm sorry to say it, but it's an older lens, and young eyes just see things that we won't see. And I want to hear what they have to say. It's one thing to say it, but actions speak louder than words, as anybody who has kids in the room knows. You say something, but then you have to do it. And if you don't do what you say, they see it, right?

So it takes a lot of intention and a lot of doing and a lot of what I'll call sort of cultural cultivation to get the most out of democracy and diversity and not just have a group, but create out of a group a robust and productive debate. I think what we've learned is you don't just throw all the ingredients in the pot and expect the dish to get cooked. It takes a lot of effort. I think we've improved over time at applying the right effort to get the result that we ultimately want to get there. But I would say we still have more work to do. It's a never-ending process where you've got to really be vigilant and you've really got to be intentional if you want to create that culture that gets the most out of the assets that you're bringing to bear in your business—the philosophy, the process, the people, the talent, the diversity, all of it.

Trevor Magyar: I think it goes up and down the chain. John spoke about some of the younger folks on the team and we encourage them to speak up. But that holds at the Investment Committee level as well. For the Committee to function well, each of us needs to be persistent about advocating for ideas and investments that we believe in. When we're on the other side of that equation, we have to be persistent about listening, standing our ground sure, but also being open to being persuaded. When John talks about the messiness of democracy, that's what it looks like at the Investment Committee level.

Arman Kline: You want me to touch on the cash quickly, because it's going to be all of two seconds. Which is, as I said in my opening comments, we strongly believe that through the cycle, the lower cash balances are beneficial to us. Now, at times like this, when markets are turning down, you have a lower buffer and that feels worse, but all evidence as we've looked back at Sequoia's history strongly points to having a lower cash balance on average through a cycle producing better returns through the cycle.

Trevor Magyar: Alright, we're going to take the next question from the virtual room. Jen?

Virtual Question: *It seems like your firm has moved from value stocks to risky growth stocks. Please speak on this.*

Trevor Magyar: We can hand this to whomever would like to take it. I don't know, Chase, you want to take a shot?

Chase Sheridan: Well, you know, I think those of you who know us could predict my answer, which is we view the dichotomy of value versus growth as a false dichotomy, for starters. For everything we invest in, the decision is what are we paying versus what are we getting. And growth is a component of value obviously, but ultimately, we are trying to judge the cash flows of the business, the owner earnings, that are going to come back to us over a fairly long time horizon when we select our investments.

Now, there have been some earlier stage investments such as Wayfair that have proven to be very volatile and risky. But if you think about the stocks that we own that are 'growers,' whether it's Alphabet, Facebook, you know, Credit Acceptance is a grower, you've got to look at the valuations of these businesses. I'll just give you one example.

If you look at our top four technology holdings, three of the four trade below a market multiple. That's Micron, Taiwan Semi and Meta. The fourth, the exception there is Alphabet, which only trades at a slight premium to the S&P 500. I think the fundamental philosophy hasn't changed. I think the application of that philosophy definitely evolves to reflect the environment you're in and the opportunity set that you face at any given time. Some of the strongest businesses at the best valuations over the last decade have been in the technology sector. So we've taken advantage of that. I expect that over the next 10 years, the opportunity set will be different from the last 10 and we will evolve to accommodate that as well.

John Harris: I don't think there's much of a correlation between growth and risk. It's a humbling unpredictable world, and risk is everywhere, and oftentimes in places you'd least expect it. I remember when I showed up here a long time ago, we were shareholders of Walgreen, and I would've told you Walgreen was one of the safest bets in the business world. I wasn't the only person who thought it, because they were one of the few retailers I'm aware of ever who were able to frequently sign 50-year leases. Landlords don't sign 50-year leases unless they think they've got a really predictable business on their hands. If you had told me back in 2006 or 2005 or whenever it was that we had our Walgreen investment that the ensuing 10 to 15 years would unfold for that business in the way that they did, and that Amazon and other competitive threats would hollow out the front of the store the way they did, and that the growth of the business would completely stall out, and that the multiple would go from 25 to 10 or whatever it did—I would've told you were crazy. And you would've been dead right.

So, risk is everywhere, and there is not one type of business that is less susceptible to it than others. You need to be aware whenever you make an investment of what the known unknowns are and do your best to protect yourself against the unknown unknowns, and then understand that that you're doing pretty well if you get them right a little more often than you get them wrong. And you're going to get plenty of them wrong.

Trevor Magyar: We'll take the next one from the audience.

Audience Question: *So market valuations have changed a lot over the last six months. If you were constructing your portfolio from scratch today, would you still own the same stuff? For example, the software sector has seen valuations compress a lot more, and there's definitely some businesses there that are higher quality and get compound earnings 15 to 20% over a decent timeframe, which were probably too expensive at some point, and might be looking at attractive prices today. So just wanted to get a sense of how often are you exploring these new opportunities and are you ready to pounce on them and change your portfolio substantially when such opportunities arise?*

Trevor Magyar: I'll maybe take a quick stab at that. So at the highest level we don't have a preference for investments in the portfolio versus in companies outside the portfolio. If something is outside the portfolio, we research it, we do our best to understand it, and if we think it offers a significantly better return, then it ought to be in the portfolio. That said, we've selected the portfolio carefully. The valuations have come down. So we're spending a lot of time to understand if there have been any fundamental developments over the past month, two months, three months beyond just the stock price declines.

But if you just step way back and you look at the number of stocks in the market that are down 20%, 30%, 40%, 50%, 60%, it does stand to reason that there ought to be opportunities out there. They ought to be out there, and we are looking.

I think this is something in Arman mentioned when we were chatting with a client yesterday. Time is our most valuable resource. So we have to be pragmatic about how we approach it. We are prioritizing companies on which we have done work in the past, that we've admired in the past, and that now at least are optically cheaper. And so we're dusting off old projects, we're making fresh rounds of calls, and we're trying to figure out if they're actionable. But we are not going to be compelled to act just because the stock market is down, just because there's a slew of stocks that are way off their highs. We've got to find the right ones. We've got to find the right one or two, and it really doesn't take but one or two new investments purchased at the right price at the right moment to have a very big impact on the performance of the portfolio over time. So we are absolutely out there hunting. And we're just waiting until we find the right ones.

John Harris: Also, the software analogy you made is an interesting one. So we've got some businesses in the portfolio—a couple of them—that have acted like those software businesses you talked about over the past six, nine months. The similarities I think in that whole area are that you've got younger businesses where you have to have some imagination about what the business is capable of earning over time. But one development that does have us scratching our heads a little bit is that we've got a couple businesses in that category that have gone from trading for maybe 30 times what we thought they were capable of earning to 10 times what we thought they were capable of earning. Then you've got a lot of software businesses, many of which we follow, who've gone from trading for 50 times their revenue to 10 times their revenue. So we like the first category a lot better than the second category, and that dichotomy has us scratching our heads a little bit.

Trevor Magyar: Next question will be a virtual one. Jen?

Virtual Question: *I assume there have been some positive surprises with regard to Berkshire Hathaway since the Investment Committee took over in 2016. What specifically did you underestimate with Berkshire? Was it book value growth, earnings growth, valuation? Were buybacks more impactful or was it something else?*

Trevor Magyar: Alright, thank you.

Jon Brandt: Well, the main thing since 2016 that's been a positive surprise was Apple. I forget when he first bought it, but Warren had said for many years that he didn't understand Apple, so that was a surprise. He explained that one day—and this story may be apocryphal—I think his granddaughter showed him how much she liked her phone. He ultimately decided it was an aspirational good and that the churn was very low, and that they could maintain their price premium among customers who want to be in the Apple ecosystem. So far, he has been correct about that. So I was a little surprised he bought it, and more importantly, that the earnings growth for a company of that size could be so incredible, and the P/E ratio has expanded notably. Apple's results were helped in part by the pandemic, but I think there has just been excellent execution too. That was a big investment for Berkshire. I think at cost it was something like $32 billion and it's worth well over $100 billion now of value on the balance sheet. And I wouldn't have expected such a happy result.

There have been some offsetting disappointments, like Precision Castparts as well as some other smaller surprises. But overall, I don't think if you had asked me in 2016 what Berkshire Hathaway's book value or earnings growth would look like six years from now, well, I ran the numbers recently and it's more or less in line with what I expected. There has been a slight expansion of the price-to-book value ratio, but it's hard to call a small movement like that a surprise. I think went from 130% of book value to 140%, but I think that helped the return by maybe a point and a half—150 basis points—over six years. But certainly nothing in the overall scope of investment has surprised us. I wouldn't say we underestimated anything in the aggregate, but the specific component of Berkshire's value that's done much, much better than I would've guessed has been Apple. I think Warren's probably been surprised at how great it's been, otherwise he would've bought even more probably. I mean, he even sold some in the nineties I think not so long ago, and in the last quarter he bought almost 4 million shares in the low $150s. So I guess Warren's been surprised too at how well the company has done.

Trevor Magyar: Alright, great. We have someone down here. Thank you.

Audience Question: *Thank you. To Jonathan's point about Warren hearing from his daughter about Apple, and I know that Jeanie and I discussed last night, how our fathers always would call us up and ask us about different companies and how we were as consumers—50% of the world out there, decisions are made by women on where to buy, from Walgreen or from Amazon. Have you considered that having more female analysts would give you a different perspective on your investments? It's an honest question.*

Arman Kline: So maybe I'll take a quick stab at that and then ask Salina to comment quickly, but as I mentioned in my introductory remarks, we're really excited that we have two female analysts joining us full time over the coming months. Maybe Salina, you can comment a little bit about our recruiting efforts.

Salina Claps: Sure. In addition to my role as a research analyst, I head our investment research team recruitment effort, and can say with certainty that nobody in this room wants more women on stage than I do. Over the past few years we have been focused on recruiting more women to our analyst team. We've cast a wider net by recruiting at more universities, we have increased our outreach to build brand awareness and encourage interest in our internship program, we have partnered with Girls Who Invest to promote female participation and advancement in the investment management industry, and we have been recruiting at the pre-MBA level. Though the fruits of this effort are not yet represented on this panel, they soon will be. In the coming year, two more women will be joining our investment research team.

Also not represented on stage is the progress we've made in recruiting a greater diversity of perspective across our entire organization. Over the last few years, as we've continued to build and modernize our business functions, we have built an exceptional and diverse business team, such that the diversity across our entire business is underrepresented by the panel on stage. I am hopeful that our DEI effort has put a flywheel in motion, such that diversity will beget more diversity as exceptional people with diverse backgrounds and experiences are encouraged to consider and apply for our positions because they can observe our effort to encourage diversity of thought and perspective across our business and research teams.

We have assembled a terrific team across our entire business, and we have and will continue to be very thoughtful and deliberate in our hiring decisions. Not only do we seek to hire people who are intelligent, creative, curious and hard-working, but we also seek those who are a great cultural fit—inclined towards humility and collegiality. We will continue to keep the bar high, but as I said, I think the wheels are in motion, and in the coming years I expect there will be more women on this stage.

John Harris: It's a great question. We're going to get there. Unfortunately, it's going to take time. This is the only time you'll ever hear me say this, but this is one very specific situation where I really wish we could be Goldman Sachs, because if you have a business construct where you have a huge number of people coming in and out of your organization all the time and you have this big natural churn, and then on top of it, you have this very low risk, high credential-value employer brand, that's a set of circumstances where it's really easy to change the complexion of your team quickly if you want to. We sort of have the opposite of all of that. So it's just going to take a lot of time and effort, but we're going to get there.

Trevor Magyar: Great. Thanks for the question. We're going to take the next one from the virtual room. Jen, please?

Virtual Question: *Given rising interest rates, can you provide your holding thoughts regarding Charles Schwab?*

Trevor Magyar: I'll begin, and then I will hand it off to Matt to finish up. Schwab began life as a discount broker and has evolved over the decades into a full-service investment platform for retail investors and also to registered investment advisors and their clients. Schwab makes money a number of different ways, but one that really matters is the revenue it gets on its clients' cash. So its clients hold their capital at Schwab—stocks, bonds and so forth but some portion of their portfolio is in cash. That cash is automatically directed towards Schwab Bank, which was launched around 10-15 years ago. Basically, Schwab takes the net interest margin it earns on those cash balances and keeps it for itself. Schwab is a generally low-cost proposition to the consumer, but it does need to make money. Over time it's decided that this is the most effective way to make money from its clients in the context of an otherwise overall reasonable proposition. All that's fine, but what it means is that Schwab's earnings are sensitive to interest rates. When we made the initial investment in Schwab back in 2016 and then again when we added to the position in very early 2020, the price of the stock was such that it felt very asymmetric to us in terms of interest rates. There was no saying that interest rates were necessarily going to go up, but it seemed possible. And the way the stock was priced at those moments in time suggested that rates were going to stay ultra-low forever. As the stock has gone up, the situation has become somewhat less asymmetric in our view.

So it's a more balanced picture with regard to the rate situation. We don't have any great view on rates. When they were low the only smart thing we had to say about them was that maybe they won't stay low forever. We could hand the mic around and we'd have some different things to say about the economic outlook and the Fed's posture at the moment, but I really don't know that it'd be worth a whole lot. So what we see with Schwab is really a more balanced payoff structure with regard to interest rates. But what we also see is the business itself, and that's important. A lot of people think about Schwab, and they say, okay, it's got rate exposure, therefore you have to have a super strong view on rates, which I've just told you we don't.

What we do have a super strong view on is that Schwab has a compelling brand, a compelling value proposition for investors. We have a strong view that the trend we've seen over the past decades is going to continue. That is the trend of dollars, significant dollars, moving out of the wirehouses and other traditional high-cost channels into places like Schwab. Now Schwab doesn't have monopoly on this corner of the market. There are other big players that are very high quality like Fidelity. But again, we're talking about hundreds of billions of dollars of client capital that are flowing into Schwab's platform each year from these higher cost channels. That is really what we are betting on with Schwab, that this trend will continue. Schwab will continue to gain scale. It will use that scale to generate more revenue and it will become increasingly profitable over time. Matt, do you have anything to add?

Matt Cooper: Sure. That was a very comprehensive answer. I'll just add one big picture point on Schwab. Nicholas Sleep is a famous investor. His letters for a partnership that he ran in the early 2000s have been going around the investment community the last year. I don't know if he coined the term, but he talks about it a lot—this idea of shared economies of scale. He talks about it a lot in the example of Costco, but also with Amazon, whereas you get bigger, if you have a lot of fixed costs in a business and you can amortize it over more and more users, it actually turns out that as you get bigger, you get better and you can offer more products. You can invest in services. You can offer lower prices.

Everybody tends to talk about that shared-economies-of-scale model with Costco and Amazon and a few other big players like that. But I think that analogy is just as apt for somebody like Charles Schwab. So if you look at it, they talk a lot about this metric called EOCA, so expense on client assets. Effectively that says if you have a hundred dollars of AUM on the Schwab platform, how much do we have to spend in operating expenses to basically run that platform, hire engineers, hire customer service folks and everything else. If you go back to 2004, when the business was much, much smaller, it cost about 32 cents for every hundred dollars of assets on the platform. If you look at it today, they're down to under 13.

Just as a quick example, if you compared it to Robinhood, Robinhood has a cost base that's about a quarter of what Schwab's is, but Schwab has 80 times the number of assets on its platform. When you think about what this business looks like over the long term, it's one of these perpetual share-gainers that as it gets bigger and continues to scale, it actually just ends up offering more and more value to customers. We saw that when commissions went to zero a couple years ago and had been on a long secular decline from the 1970s. So I think we expect more of the same there.

Trevor Magyar: Thank you, Matt. Next question from the audience, I see a hand up here. If we can get the mic to you.

Audience Question: *There seems to be loads of regulatory risk related to Alphabet and it seems to be maybe even increasing as time goes on. So I'm curious when you think about the growth over time of Alphabet's earnings, how you consider this regulatory risk in that process.*

Will Pan: We are definitely focused on regulatory risk in the case of both Alphabet and Meta. In particular, the one that seems to be most imminent are the DMA and DSA—Digital Markets Act and Digital Services Act—that are being enacted in Europe. We're spending a lot of time diligencing that. In the DMA in particular, there are a lot of articles that seem very specifically aimed at Google or at Apple. For instance, they talk about the large app stores and the large search engines. We're spending a lot of time diligencing that.

I'd say, in general, we feel confident about the company's ability to at least maintain market share in a growing market for advertising. We think that digital advertising is still a superior form of advertising and there will still be more dollars that flow into it. The sensitive thing for a company like Alphabet is that they just have such a wide moat and so much control over what transpires there. So at this point, the fact that they control 70% of browser share through Chrome, 70% of operating systems share through Android—I think they are very careful and circumspect in the moves that they make in order to make sure that they're not anti-competitive.

Some of the regulatory changes over the horizon will enforce that. But at the same time, search is such a sort of cheat code in advertising, right? The fact that the person searching is telling you what they are interested in buying or learning about will maintain no matter what roadblocks may be put in the way on search engine choice and restrictions on verticals. I think people will still, consumers will still want to come to Alphabet and to Google search for their answers. So we're watching it, we're thinking about it, but overall, the market grows, and we think that they have the wherewithal to maintain their share.

Chase Sheridan: The vanguard of regulation is in Europe right now. It's a considerably more hostile environment to all of the American mega cap tech companies. We expect new regulations to come down the line, but the devil's in the details, and we've been through this before with GDPR, and the law of unintended consequences applies. So in Europe, the harder they make it for advertisers to track the users, the more advertisers are going to find that search is an attractive alternative. So it's hard to know how it's going to play out. We watch it very carefully.

As I'm sure you're aware, Alphabet's been fined by the European competition commission in the past, a sum total of about €9 billion—that's less than two weeks of revenue. It's totally incidental to their business model. So it's really more about what non-monetary remedies might be required of them in the future. This is a risk that's been very prominent since the day we started covering the company, and we revisit it all the time, and we just keep our finger on the pulse of the regulatory environment.

Trevor Magyar: Alright. Thank you both. We're going to have two more questions. The first we'll take from the virtual room, and then we'll finish up with the final question from the audience. Jen?

Virtual Question: *Are you concerned that China's desire for Taiwan is and will hurt TSMC? And can you briefly elaborate on your thesis?*

Trevor Magyar: I will hand that off to Eric, but before I do, I will just note that TSMC stands for Taiwan Semiconductor. It's a company based in Taiwan. And Eric's going to take the question.

Eric Liu: I'll try to be brief on this just because I know we're running out of time. As Arman pointed out before, Taiwan Semiconductor is basically a monopoly on semiconductor chips at the leading edge. So it's financially probably one of the most valuable companies in the world, and I think just strategically, geo-politically, it’s probably one of the most important, valuable assets in the world too. They're forecasting earnings growth of 15% to 20%, and yet it trades at a below-market multiple. So to a certain extent, I don't really have anything intelligent to say about the odds of China invading Taiwan, but I will say the market clearly is afraid of it. And that's probably why the discount exists.

In terms of the thesis, I'll just be really brief. As I said, it's basically a monopoly at the leading edge. It's really important to note that the main thing that matters in semiconductors is volumes, because volumes allow you to figure out how to make your process efficient and how to improve yields on your chips. There are basically only two industries in the whole world that can bring the magic combination of needing really expensive chips and having lots of volumes—that's high-end smartphones and CPUs. Basically, if you have the relationship with Apple, which TSMC has, or the relationship with Intel, which it has internally and now TSMC has, you basically have a license to effectively print money at the leading edge. So that's why TSMC is such an amazing business.

Trevor Magyar: Alright. Thank you. So final question from the audience. Is there someone who's been... anybody's had their hand up and I just somehow keep missing because of the lighting?

Audience Question: *Could somebody comment on how you're thinking about the risks and rewards of your investment in Prosus and its investment in Tencent? Or am I behind the wheel?*

Chase Sheridan: We have sold our investment in Prosus. And I'll give a quick commentary on it. Prosus is a complicated company, but it's simplified by the fact that its investment in Tencent, the Chinese internet platform, dominates its assets. So you can think of it in terms of an investment in Tencent with a rump of other assets. I think what changed and the reason that we exited that position is that the positioning of the Chinese communist party towards their own national champion businesses has changed. So for a very long time, they were a cheerleader for national champion businesses. They took great pride in the entrepreneurship of these companies, but some of these companies grew to a point where the power and the scale of the companies started to become uncomfortable for people within the Chinese communist party. As you saw, in just the past year or so, they moved to hamstring a lot of their largest technology businesses and to rein in the founders of those businesses. That's a seismic change in the politics in China. So as a result, when we looked at China originally, we hemmed and hawed over the sovereign/political risk that we were facing. We really only considered the two dominant internet platforms as clearing the bar for Sequoia and we invested in the best managed of the two. But given recent events, we've decided that it's no longer appropriate for us. It's a tremendous asset, but the political calculus has changed there. Does anybody have anything to add?

Trevor Magyar: We knew this was a risk going in. We felt we made an allowance for it. As it turns out the allowance was not big enough.

John Harris: I apologize. We ran ten minutes over but thank you everybody. We're so happy we're able to be back in person this year and we look forward to seeing you next year.

[END]

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UnitedHealth Group, Inc.	*7.5%*
Anthem, Inc.	*7.0%*
Liberty Media Corp.	*6.1%*
Taiwan Semiconductor Manufacturing	*5.7%*
Charles Schwab Corp.	*5.6%*
CarMax, Inc.	*5.4%*
Meta Platforms, Inc.	*5.1%*
Micron Technology	*4.9%*
Universal Music Group	*4.9%*

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