Ruane, Cunniff & Goldfarb Inc.

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January 31, 2017

Dear Shareholder:

We completed our most difficult year since Bill Ruane and Rick Cunniff nearly closed Ruane Cunniff & Co. in 1974 after four years of severe underperformance following Sequoia Fund's launch. For the year, Sequoia declined 6.90%, net of fees, vs. an 11.96% gain for the Standard & Poor's 500 Index.[1] For only the third time in the history of the Fund, we've trailed the Index for three consecutive years. The other periods were 1970-1973 and 1988-1990. Even more disappointingly, the Fund's 10-year annualized return of 5.96% lags the Index return of 6.95%.

Two large investments—one much more widely discussed than the other—account for Sequoia's underperformance over the past decade: Valeant Pharmaceuticals and cash. Excluding them, the stocks in Sequoia's portfolio returned 9.70%[2] from 2007 through 2016, versus the aforementioned 6.95% for the Index. While there are no do-overs in our business and actual performance is all that matters, this performance gives us confidence in the Fund's portfolio and our ability to pick stocks.

It may seem counterintuitive, but we enter 2017 with a great sense of optimism. The passion and perseverance with which every one of our 57 remarkable employees responded to the adversity of the past year was a wonder we sincerely wish Bill and Rick could have been alive to behold. The fact that one of our toughest years was also in many unseen ways one of our best is a testament to the special culture they created. Our administrative team moved mountains to communicate with clients and we began overhauls of our technology and investor relations functions that should yield tangible benefits to Fund shareholders in coming years. Our investment team displayed remarkable stability, with departures limited only to our former CEO Bob Goldfarb and our lead Valeant analyst.

When our new investment committee structure was implemented last April, it was not in response to a problem portfolio. Rather, we inherited a healthy collection of outstanding companies that we'd helped to construct over many years—along with one large, problematic position. We exited Valeant in the second quarter and subsequently performed roughly in line with a strong stock market. Over the second half of the year, Sequoia returned 7.24% net of fees vs. 7.82% for the Index. Our cash position, which averaged 10% for the year, hurt results in a rising stock market.

We are confident that the principles passed down to us from Bill and Rick, which have served Sequoia so well in the past, will continue to serve us well and differentiate us from competitors. We remain resolutely committed to an intense research process that results in a focused portfolio of businesses we understand, managed by people we respect, and held with a long-term mindset. Despite elevated turnover in 2016, our average holding period remains unusual in the investment business. At year-end, Sequoia consisted of 27 securities, 16 of which we've held for at least five years[3]. By value, more than 40% of the Fund's assets have been held for at least 10 years. Patience allows us to ignore variables we consider unknowable, such as the

[1] See performance disclosures below.
[2] This is based on an annualized rate of return that excludes Valeant and cash from the portfolio.
[3] We consider Berkshire Hathaway A and B shares and Alphabet A and C shares to be equivalent securities.

annual ups and downs of the stock market and the business cycle, and focus our full attention on the questions of competition and competence that determine business performance over time. Concentration ensures that if we answer these questions correctly, our judgments will have a meaningful impact on the Fund's results.

We have always believed that if you buy excellent companies at attractive prices and hold them for the long term, you will outperform the market averages, come what may on Wall Street or Main Street. The companies we own today have performed admirably against a tepid economic backdrop. Over the past three years, they have, on average, grown their per-share earnings 10.8% annually, while the weighted earnings of the S&P 500 components grew only 2.5% per year.[4] When 2016 results are fully reported, we expect our portfolio will show EPS growth in mid-to-high single digits, versus flattish earnings for the Index. Looking forward, the S&P 500 trades for 17.2x current 2017 earnings estimates. Sequoia trades for 19.8x 2017 earnings estimates.[5] Sequoia trades more dearly than the Index, but has grown much faster and earns a return on equity of 27.8% vs. 14.5% for the Index. We're confident we have a high quality collection of businesses that is worth its premium to the market multiple.

Another reason for our optimism is that despite elevated market values, we are finding attractive places to invest Sequoia's money. We made a number of investments in 2016 and one investment in early 2017 that feel promising.

In the second quarter, the Fund bought shares in Carmax, Chipotle Mexican Grill, Charles Schwab and Wells Fargo. In the fall, we increased the position in Carmax after it dipped, making it our largest commitment of capital for the year. At year-end, Carmax amounted to a 5.3% weighting in Sequoia. From our average cost of $51.10, Carmax rose 26% in our first months of ownership. Charles Schwab, acquired mostly in May 2016, rose 42% from our average cost by the end of the year. Wells Fargo rose about 9% from our basis and, with its dividend, performed in line with the market despite being tarnished by scandal.

Chipotle has been a weak performer, down 13% since purchase through the end of 2016. We knew Chipotle faced a long road to recovery after several outbreaks of food-borne illnesses frightened customers away, but we were attracted by the enormous potential of the business, which could grow for many years and generate high returns if the executive team manages the recovery adeptly. Chipotle is making changes to management and its board of directors, including adding a director who played a key role in the turnaround at McDonald's a decade ago. Recently reported sales figures for December showed encouraging gains in customer traffic, but we are watching carefully, as the pace of recovery thus far has fallen short of our initial expectations.

In the fall, we exited our small position in Walmart and replaced it with a similarly small position in Amazon. The company's e-commerce operation (Amazon.com) and its cloud computing platform (Amazon Web Services) are two of the most advantaged businesses we've analyzed in quite some time. Both are growing fast and have miles of runway ahead of them. And they are run by arguably the most talented, customer-focused and long term-oriented businessman of his generation.

At a consolidated level, Amazon produces very little in the way of reported profits. Amazon Web Services, whose financials are disclosed separately, earns very rich margins, but the larger e-commerce business reports scant earnings. Our research indicates that the company's e-commerce business has substantial earnings power that is being masked by a variety of ambitious growth investments. The Fund purchased

[4] Per FactSet data.
[5] Per FactSet data and our own internal estimates.

shares at what we believe to be a reasonable multiple of underlying earnings power excluding those investments. Estimating the long-term potential of Amazon's many investments is an inherently imprecise exercise, which is why the investment thus far has been a small one.

We do not advocate judging any investment by how it performs in the first six months, but we get a lot of questions about how our new team is gelling. Sequoia's five new positions, which amounted to nearly 14% of its capital at year-end, outperformed the S&P 500 by 9.6 percentage points on a dollar-weighted basis over an average holding period of six months. We do not draw definitive conclusions from this short-term performance, but for what it's worth, so far, so good.

As important as the initial performance of these new positions is the fact that we see our research engine functioning at a high level and churning out appealing uses for the Fund's cash position. While Valeant's underperformance relative to the S&P 500 over the course of our ownership modestly reduced Sequoia's annual return since 2010, our outsized cash position since 2008 had a larger impact on results. During a torrid bull market from 2009 through 2014, the Fund kept 15% to 20% of its portfolio in cash, yielding nothing. While we will not change course overnight to become fully invested with the market at all-time highs, our goal is to run the Fund more invested than in the past.

At the very end of the year, we found what we believe will be another good use for our dry powder when we joined a select group of investors in purchasing a stake in Liberty Media Group, a John Malone-affiliated company, as part of Liberty's acquisition of the Formula One auto racing business. The deal closed on January 23, and Sequoia purchased 4.7 million shares at a discounted price of $25 per share.

Recently, Liberty Media has traded above our cost basis in the public market. Sequoia's allocation will be restricted for several months, meaning we won't be able to sell the shares. During that time, accounting rules require us to price the stock at a modest discount to its market price to reflect its illiquidity. Undoubtedly, the share price will fluctuate during the lock-up period, but we're delighted to have acquired shares at what we believe is an attractive price. More importantly, we believe Formula One is a powerful global brand and Liberty will be an excellent manager. Our expectation is to own the shares for years.

Formula One is the leading global automotive sport with an estimated 400 million fans around the world. While Formula One has grown considerably under the leadership of Bernie Ecclestone over the last three decades, we believe new management has significant opportunities to further improve and grow the sport. Liberty Chairman John Malone and CEO Greg Maffei have exceptional track records as capital allocators and value creators, and we believe they have found a superb manager in Chase Carey to run Formula One. Mr. Carey had successful tenures at Fox Broadcasting, DirecTV, News Corp. and 21st Century Fox and has particular expertise in sports businesses. We believe there is room to improve revenue from broadcast, advertising and sponsorship sources, while also developing a digital business that captures younger fans. Importantly, our return assumptions do not depend on the sport succeeding in immature markets such as the US and China.

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The Fund realized a large taxable gain in 2016. In an ideal world, the years in which the Fund generated large capital gains distributions would align with years of good performance, mitigating the pain of the tax bite for our taxable shareholders. Alas, this was not the case in 2016. As we adjusted the portfolio in the wake of Bob Goldfarb's departure, Sequoia's taxable investors suffered the one-two punch of high capital gains distributions and poor returns. We exited stocks in which we had less conviction and trimmed some of our highly appreciated holdings when they were at attractive prices, bringing the Fund's total positions down from 39 at the start of the year to 27. We're happy with this more tightly focused portfolio. It wasn't fun to realize gains, but economics must trump tax considerations when it comes to selling stocks.

Our goal is always to manage a low-turnover, tax-efficient portfolio with good investment returns. If we succeed, Sequoia will continue to carry a large unrealized capital gain on securities that have appreciated in the portfolio for many years. At year-end 2016, the unrealized gain on appreciated securities amounted to 48% of the value of a Sequoia share. The unrealized gain in Sequoia five years ago was 36%; 10 years ago it was 56% and 15 years ago it was 57%.

A large unrealized capital gain can spook prospective investors, who inherit a potential tax liability associated with the gain when they purchase shares of the Fund. However, if the Fund is run in a consistent manner, investors will leave a large unrealized capital gain and its associated tax liability to the next generation when they exit the Fund. In the meantime, if the Fund's turnover remains low shareholders should continue to enjoy an unusually high degree of tax efficiency. Many investment firms turn their portfolios over rapidly, accumulating short-term gains, which pay taxes at a higher rate than long-term gains and qualified dividends. Over the past decade, the Fund cumulatively has taken short-term losses far in excess of short-term gains, meaning 100% of our net taxable gains have been long-term.

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We are very focused on improving all aspects of the Fund's operation. In November, we welcomed a new head of operations, Wendy Goodrich, who among her many duties is charged with upgrading our client-facing technology – improving our web site so that it offers our clients access to their account information and provides higher quality information about Sequoia. Wendy ran her own consulting business for the past 12 years in which she helped investment firms adopt and adhere to operational best practices. A major focus of her work included selecting, installing and integrating front to back office technology. She's off to a great start and we are optimistic that Sequoia shareholders will notice significant improvements in 2017.

In January, we welcomed two new securities analysts to the Sequoia team. Eric Liu spent the past eight years in fundamental research at a respected firm in Boston. He's a summa cum laude graduate of Yale. Patrick Pierce got an MBA from Columbia's value investing program in 2014 and spent the past two years at a successful, value-oriented hedge fund in San Francisco. We're already feeling the positive impact of adding these two talented analysts to our team.

We're extremely proud of our entire employee team. Our people are working tirelessly to improve all aspects of our business. It's an honor and a pleasure to work beside such dedicated colleagues. We are also grateful to the Sequoia Fund Board of Directors, which worked very hard in 2016 on behalf of Fund shareholders. And of course, we're humbled by the loyalty of the many Sequoia shareholders who have stood by us at a difficult time. We do not take your trust in us lightly.

Our annual meeting of Sequoia shareholders and other clients will take place on Friday, May 19 at 10:00 am in the Grand Ballroom of the Plaza Hotel in New York City, the same venue as last year. We look forward to seeing many of you there.

Sincerely,

The Sequoia Fund Investment Committee,

David M. Poppe   John B. Harris   Arman Gokgol-Kline

Trevor Magyar   D. Chase Sheridan

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Disclosures

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

Sequoia Fund, Inc. – December 31, 2016	
Top Ten Holdings*	
Berkshire Hathaway - Cl A & B	16.87%
US Treasury Bills & Cash	9.76%
MasterCard Inc	6.74%
TJX Cos	6.39%
Alphabet Inc - Cl A & C	5.68%
Carmax, Inc.	5.29%
O'Reilly Automotive Inc	5.06%
Dentsply Sirona Inc	4.84%
Constellation Software Inc	4.31%
Rolls-Royce Holdings plc	3.46%

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

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

Management Fees	*1.00%*
Other Expenses	*0.03%*
Total Annual Fund Operating Expenses	*1.03%***

*** Does not reflect Ruane, Cunniff & Goldfarb Inc.'s ("Ruane, Cunniff & Goldfarb") contractual reimbursement of a portion of the Fund's operating expenses. This reimbursement is a provision of Ruane, Cunniff & Goldfarb's investment advisory agreement with the Fund and the reimbursement will be in effect only so long as that investment advisory agreement is in effect. For the year ended December 31, 2015, the Fund's annual operating expenses and investment advisory fee, net of such reimbursement, were 1.00% and 0.97%, respectively.*

The performance data for the Fund represents past performance and assumes reinvestment of dividends. Past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's 1-year, 5-year and 10-year average annual total returns through December 31, 2016 were (6.90)%, 7.64% and 5.96%, respectively. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month-end can be obtained by calling DST Systems, Inc. at (800) 686-6884.

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

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