Remarks have been edited for clarity and relevance.

JOHN HARRIS: Welcome everybody to our first – and what we hope will be our only – purely virtual investor day. It's great to be with all of you and it’s great that we're able to do this with the limitations that we're all living with, but it's still not an ideal format. We would much prefer to be with you in person. We're sorry that we can't be and we expect to be next year, but in the meantime, we're going to try to adapt our format a little bit to the limitations of this format, and hopefully make it a little more engaging and interactive by shortening the first part, where we run through our slides, and getting more quickly to the Q&A where we're going to take as many questions as we always take, and hopefully that will make this as substantive a day as it would normally be.

And so with that, I'm going to pass it very quickly to my partner, Trevor Magyar, to get us into the presentation.

TREVOR MAGYAR: All right. Thank you, John. Thank you, everybody, for being here with us this morning. As John said, this is not our preferred format, but we are all really grateful to have everybody here on the line.

I'm going to speak briefly to performance. So what this slide does, is show the performance of the fund versus the S&P 500 over various time periods and through yesterday's close. I would draw your attention to, to start, the two bars on the right-most part of the slide. One shows the annualized return of Sequoia Fund from the formation of the investment committee in mid-2016 through yesterday's close. And then the other shows the S&P's return over the same time period.

And what you can see here, is that Sequoia Fund has outperformed the S&P 500 over that time period. However, it has only outperformed by a modest amount. Our goal is to outperform by a significant amount over the long term. So when we look at this, these two bars, I think internally we say okay, it's a satisfactory result but this is not what we're aiming to do. We have a lot of work left to do, and we have lots left to prove.

It's been frustrating, and honestly statistically odd that we've stayed on top of the index throughout the past four years. And not just over the full-time period, but even month-to-month our returns have tracked the index fairly closely. And it's odd because we have a very concentrated portfolio. But we have had some encouraging year-to-date data, and if I draw your attention to the left part of the slide, you'll see that the fund has outperformed the S&P 500 year-to-date by 390 basis points. I don't want to make too much of this, it's only half a year's worth of data. But this is the kind of separation that we'd like to see and we've been waiting to see, so hopefully it's the start of something.

All right. If we step back, I would say we haven't achieved our ambitious goals just yet. But we're also not blind to what's going on in the broader market. The S&P 500 over the past four or so years has been charging hard and fast. In fact, the S&P 500 has been one of the best performing indices globally.

What's more, the performance of the S&P 500 has been driven by a relatively small number of constituent companies, so market observers would say this is a narrow market. And if you think about the kind of environment where we're likely to shine, a fast-charging, narrow market isn't necessarily that market. So the fact that we've kept up and in fact done a little better than keep up, it's absolutely not cause for celebration. But it is worth noting.

All right. So I'm going to take us to the next slide, which is one that I think everybody here is familiar with. And what it does is show the growth of a $10,000 investment in Sequoia Funds at inception back in 1970 versus the growth of a $10,000 investment in the S&P 500 made at the same time. And this is a track record of long-term investment excellence. And really everybody here, the whole firm, our goal is to extend this track record of excellence.

And if there's anything I'd sort of emphasize about this slide, it's really just the time scale involved. I mean, this is five decades' worth of data. And if you'd notice, if you were to look at this closely and spend a few minutes with it, you'd see that the gap – the performance gap between the Fund and the S&P 500 – it waxes and wanes over shorter periods of time. It's really only over longer periods of time that you see the trend, which is one of growing outperformance. That's pretty typical of our investment strategy and it's something that we want everybody to keep in mind.

I will tell you that our goal, again, is to extend this track record of investment excellence, and what's going to drive that, really, is the quality of our team, the quality of our ideas, the quality of our research, and of course, the quality of our decisions. So when we look at this chart and we think about extending it, it's coming in every day and doing the basic blocking and tackling, stuff that isn't necessarily so exciting. But day by day, we hope to extend this chart way off to the right with even more outperformance.

All right. That about covers it for me. With that, I will pass the mic over to my partner, Arman Kline, who's going to speak with you a bit about the portfolio.

ARMAN KLINE: Great. Thanks, Trevor, and hi, everyone. Let me just add my welcome to John's and Trevor's as well.

Chase and I are going to review the portfolio quickly. I'm going to speak to the changes we've made in the portfolio year-to-date through yesterday, and then Chase will review the portfolio as it stands today and give you some high-level portfolio specifics.

So our first slide here lists the significant decisions we've made year-to-date. These are net decisions. That is to say, if we bought and sold a security within the first few months of the year, we are showing the net impact of those decisions. Companies in green are the ones that we added to on a net basis. Companies in red are the ones we've reduced on a net basis. Dark red means we exited an investment and dark green means we made a new investment.

We added one new company, Disney, which you can see, and sold out of two, Booking.com, and more recently Amazon, which is a pretty typical level of activity for us in terms of wholesale additions or subtractions to the portfolio over a half-year.

But as this slide shows, that summary doesn't capture the full story. As you can see, while we saw a typical level of activity around new investments or outright sales year-to-date, we less typically saw an elevated level of trading around our companies. That was especially true in March and April when markets experienced some pretty material disruptions. Some of our stock prices fell by 50% compared to their pre-March levels, and then returned to those pre-disruption levels within a couple of months.

Now, as long-term business owners, we focus less on generating returns through the day-today movements of our share prices and more on generating our returns through the increasing value of our businesses over years. But at the end of the day, we look at the prices of our shares versus our estimates of intrinsic value. And when you see share prices move as they did in March and April, we naturally react to them.

So coming back to this slide, in terms of the larger moves we made, you can see that our largest additions on a net basis were UnitedHealth, Walt Disney, again a new investment we made in the first half, Taiwan Semiconductor, and Vivendi.

To fund our increases, beyond selling out of Booking, we trimmed our holdings in Alphabet and Berkshire Hathaway. I'm sure we'll talk about all of that during our Q&A.

Now before handing it over to Chase, I just want to highlight that we saw a fair bit of trading around our Wayfair position year to date given the significant price volatility the stock experienced. We increased our investment in Wayfair in March, around $60, and then sold the shares that we had added in April and again in early June between $100 and $180. And then we sold about two percentage points of our position in late June around $210 given the growth in the size of the position thanks to the significant appreciation in the price of the shares. That's how you get to the net three percentage point reduction. Just a little color on that company. So, with that, Chase, over to you.

CHASE SHERIDAN: All right. Hello, everybody. Welcome, thank you very much, Arman. I'll just start off with this slide of our top ten holdings. Many of these will be familiar to you. Alphabet, while we trimmed it, remains our largest holding. We remain big fans of the business and we trimmed it partially because the stock has performed well.
Interestingly, there are now four new stocks in the top 10 holdings, new meaning held for less than a year. Those are Wayfair, UnitedHealth, Taiwan Semiconductor Manufacturing, and Arista Networks. And I think Arman flagged this a little bit, but the one to really call out here is Wayfair. That 5.9% weighting started out as a 3% initial position a little less than a year ago, and it climbed to 5.9% in the best possible way. Wayfair has appreciated over 140% year-to-date. So we actually own a similar number of shares today to our initial position, but the weighting of the portfolio has grown through performance.

Moving to valuation, I think in this market, in this economic environment, any forecast should be taken with a grain of salt. But to try to get you the best relative comparison in terms of apples-to-apples that we could, we're using 2021 price-to-earnings ratios. These are our estimates of the intrinsic earnings that the Sequoia Fund will have in 2021 versus consensus price-to-earnings of the S&P 500.

Not to be too precise here, but the real point is that the Fund is close to and maybe at a slight premium to the S&P 500. We think that is a bargain, given the quality and growth of the franchises we own.

So the next four slides are going to be familiar to anyone who has attended our Investor Day in the past. I'll run through them quite quickly.

The first one is on turnover; this tracks turnover from the beginning of the Fund so this is our entire history, average turnover since inception is 23%. I think you'll see over the last four years, our turnover has been relatively in line. We are seeing a little bit higher turnover this year. This is not the new normal. This is the abnormal. This is due to opportunities provided by the incredible volatility we saw in the first couple of quarters. So the year-to-date unannualized turnover is 16%.

Moving on, unrealized capital gains stand at 37%. They've averaged 49% over the last 20 years, so we are a little bit below average.

Our average cash, now this green line that you see, this is the cash level since the investment committee took control of the portfolio. As you can see, it has trended down, as intended over the last few years, but it's been a bumpy road. Sometimes a stock appreciates and we want to sell it, and we don't necessarily have a place to put the money. We have much lower cash than the average since inception, the gray line you see, 19.9%. That goes all the way back to the inception of the firm. Right now cash stands at 7.5%.

And my last slide is on concentration, another slide you've seen before. The top ten positions in the Sequoia portfolio make up about 54% of the fund, the historical average is 65%. So we're a little bit below historical average, but still much more concentrated than the S&P 500 where the top ten constituents make up 30% of the S&P 500. We are still a very concentrated fund. We only have 24 positions in the portfolio.

So with that brief update, I'll turn it back over to John for an organizational update.

JOHN HARRIS: Thanks, Chase. Okay, so a quick update on the firm. You can see the vital statistics up here on this slide, and obviously it has been a challenging and unusual year, but the firm is in great shape. Our operations and our business processes have never been more modern or more consistent, and hopefully that is tangible to all of you.

Our research team is bigger than it's ever been, and I think certainly as creative, thoughtful and productive as it's ever been.

So the foundations here are feeling solid, and I think in part because of that, we've started to take some small initial steps – but important steps – toward creating some new opportunities for our younger people and our next generation.

The first of those is that we've started a new strategy called Hyperion, which basically just uses the raw material that is already flowing through our research engine to create a more concentrated portfolio than we have in the Sequoia Fund, and that's really geared towards institutions, foundations and endowments, and is something that some clients have been asking us about for a while. It's a little new for us, but just an indication that it really feels like we're on our front foot, which feels good given everything that's gone on this year.

The other thing that feels good in light of what's happened this year is that we are turning 50. Today is the 50th anniversary of the Sequoia Fund. Fifty years is quite an achievement in any business, and especially in this one, where you're judged against such a transparent yardstick every year, and where most of what makes your business your business gets up and walks away from its desk and walks out the door every day.

And so to get to fifty years through everything that we have been through; that this firm has been through – the booms and the busts and the bubbles and the crashes, and we've had wars, and now a pandemic – you really have to have a reliable compass and an ability to stay resilient and stay focused on whatever your true north is. This year was a great demonstration of that, and so in a lot of ways it's fitting that we're turning fifty this year, even though we can't do it in a way that we would like.

And it starts with our team. The way our team stayed focused this year under just the most incredibly challenging circumstances, it's just a marvel to me. We picked the entire firm up and left the office and moved it virtual in a matter of two or three days, and we did it without our operations skipping a beat – and with it probably being completely transparent to all of you. And with our investing team continuing to keep its head down and focusing on what matters: on businesses, on understanding them, on researching them, on being thoughtful about them and about what makes one business succeed and another fail. That is the lifeblood of this firm.

So for everybody to pick up and deal with the challenges of this year in the way they have, without missing a beat, it's just an incredible credit to our team. And I just want to speak to everybody, all 73 people at Ruane Cunniff who are listening in today, and just say thank you. You guys are amazing. At a firm of our size, every oar in the water moves the boat forward and everybody's contribution matters. Every one of you have played a critical role in getting us to this 50th birthday.

And then of course there are a bunch of people who aren't here, who came before all of us who played equally critical, if not more critical roles. I want to say thank you to them as well. I feel lucky to be part of this firm.

I also want to say thank you to our clients, because we would not be here without you. You need the right kind of client to support you along the way, to get to fifty years, and this year really illustrated the role you play in our business and the way you enable us to do what we do in the way that we do it; to stay focused on that true north.

This year was incredibly treacherous. I mean, it's funny that the stock market is dead flat year-to-date, because everybody knows that's just the absolute tip-top of the iceberg. If you look under the surface, it has been a crazy year, and it's a year where if you were thinking about the business of running an investment firm rather than just thinking about investing in businesses, and if you made the wrong decision at the wrong time or played just a single note and focused on a certain kind of business that was the wrong kind of business this year, you could have fallen into some really deep holes.

I think there was a period in March where the stock market went up or down 10% every day for five days in a row. I don't know that we're ever going to see another five-day stretch like that in our career. I certainly hope not. But you know, we had a bunch of Investment Committee meetings during that period where we talked about how to play offense and how to take advantage of what's happening in a dislocated market. And you could easily imagine how someone could raise their hand in one of those meetings and say, wait a minute, let's stop talking about playing offense. Our clients can't take any more of this. We have a business to run. We need to raise some cash. And yes, we may miss out on some of these opportunities we're talking about, and yes, all these things we're debating make sense, but at the end of the day, no client is going to blame us for raising some cash right now.

Now, that's a business decision. That's not an investing decision. And in retrospect, it would have been a very costly one. And that's a decision that we didn't make because we knew we had clients who allowed us to focus on what matters and not on what doesn't.

And you could go even further back, when we made some – what in retrospect were momentous decisions – to invest in an Amazon or a Wayfair, where again, we had done our usual research and we had uncovered what we thought were creative ideas, where we saw a big gap between the price we were paying and the value we were getting. They were unusual ideas, but you're rewarded in this business for sticking your neck out and seeing something that the rest of the world doesn't see, if it's supported by facts and thoughtful analysis. And so we thought we were on to something with these, but it would have been easy for someone to raise their hand in one of those meetings and say, wait a minute, this all makes a lot of sense, but how are we going to explain this to our clients?

You know, Amazon, when we made the investment, I don't know – it might have had a PE multiple of 100x or 200x, and Wayfair didn't even have a PE multiple because it was losing money and the losses were actually accelerating, not shrinking. Those are not investments that are easy to explain as value investments, but we felt strongly that those were as true to the core of what we do as any industrial business we've ever bought at eight times its earnings. But they're hard to explain, and maybe it's not the best business decision to make investments like that, but again, it's all of you who allow us to focus on investing, and on making purely investing decisions and not business decisions. And it's just an enormous enabler of our business, where if we didn't have clients like you, we really would not be able to do what we do in the way that we do it.

If I think even further back, Bill and Rick started this firm, and in the early days, they owned consumer franchises at seven times earnings, and if they had decided that that's what we do and that's the one note that we play and we're not going to adapt as the world changes, they would have had a very hard time over the ensuing 45 years. But they had a client base that was aligned with them and that allowed them to adapt and evolve into a mindset that allowed them to own the Progressives and the Idexxes and the CapCities alongside the Freddie Macs, and eventually the Wayfairs and the Amazons alongside the Credit Acceptances and the CarMaxes. And so again, it's really you who have allowed us to focus on owning businesses rather than stocks, and it's you and your support that's allowed us to not just play one note but play a lot of different notes, and to adapt to a changing world.

So on behalf of our team and our firm, I just want to say thank you to you, because this year moreso than in any year, your support and your enabling of what we do has really been on display, and we're grateful for it.

So, fifty years. It's really fun to get here. But this just doesn't feel like the right way to celebrate it, so we're going to put the cork in the champagne bottle so to speak and pretend we're 49 for another year and try to celebrate formally the right way – in person, with all of you – next year. And in the meantime we just want to say thank you again for your support.

So that is the end of our presentation. I'm going to move the slides forward, and you can see here our whole team is either on the video or standing by on the audio line to answer all of your questions. I'm not going to run through everybody's name, but you can see them here on the slides. We have a bunch of questions that had been submitted in advance, and many submitted live today. I'm just going to run down the list and pass things off to our team as usual.

Our first question is on Disney: “In light of the incredible challenges facing the Disney company due to COVID, what makes you think that their future is rosy? And if you do think that the long-term future is positive, don't you think the stock could plummet since virtually all of their businesses are shut down now? Or even if they start to reopen, they will be one case of COVID away from shutting down again. If it does plummet, then the stock might be a good buy."

I'm going to turn that one over to Trevor Magyar and Eric Liu, who cover Disney for us.

TREVOR MAGYAR: Great. Thanks, John. So Disney, it's a good question. The company's businesses, like many out there, are under a lot of pressure at the moment. It's a very extreme environment for them. The most obvious, and sort of tangible to all of us, example of that are the parks. Disney operates parks throughout the world, and the two big moneymaking parks for them are Disney World and to a somewhat lesser extent Disneyland. And you're right, right now they're more or less shut down. I mean, they're trying to reopen them.

What I would say is that's only a portion of their business. And Eric might have the exact numbers, but I think parks account for something like 25% of the company's earnings. And our view is that they are going to be pressured for a reasonably long period of time. As you point out, this is a very dynamic situation where the company's trying to open up some of these parks in a safe way. But I think your comment that they're one case of Covid away from having to shut down, there's something to that. They're going to have to manage through this.

From an analytic perspective, we have assumed that the parks portion of Disney's business stays pressured for a considerable period of time. What I'd also say is that our view is that the parks business will not be shut down forever. So if you have the view that Disneyland and Disney World are never going to reopen again and can never earn a good profit again, then this investment is probably not going to be a compelling one.

But again, we took the current conditions into account and we're assuming that the parks stay pressured for a considerable period of time.

As for what makes the investment exciting, I'm going to hand it over to my colleague, Eric Liu, to talk more about the other parts of Disney's business which I think are really important for its future. Eric?

ERIC LIU: Hi. As Trevor mentioned, about 25% of the profits for Disney come from theme parks, but what gets us really excited is the 60% of the business that comes from video entertainment. So that's TV series and movies. And I guess that's important for some of you to realize, that it's not just the Disney brand, the Disney Channel that a lot of you guys are probably familiar with. Disney-owned brands like ESPN, FX, ABC, Marvel, Star Wars, Pixar – there's a lot of brands and kinds of IP in its library.

And when we think about the world as it goes to streaming, I think that's a really exciting and important strategic advantage to have. Because I think the biggest thing that we realize as we study the streaming space is that it's going to be a lot more global and a lot more consolidated than the traditional cable bundle is.

So as the cable bundle breaks down, and distribution gets assumed by the streaming packages, that's going to really turbocharge the economies of scale because it's going to crowd out smaller players and open up a lot of new geographies where Disney can go direct to the consumer.

So from our perspective, as Disney goes from a US-oriented business with maybe four other competitors, it's probably going to be more of a global business where there's maybe two or three other competitors. That should be positive for them.

With that, I'll turn it back to Trevor in case he wants to add anything.

TREVOR MAGYAR: I think you've hit the highlights. We think this move to streaming is a really, really big deal. In a way it's not news, because Netflix has been at this for over a decade now. But what you're seeing with the launch of Disney+, HBO Max and some of these other services, is you're seeing the incumbents at long last react. And so while Netflix has been with us for several years, it's really the beginning right now of this industry's transformation. And when we look at Disney, it is one of the largest, most scaled content companies in the world and it possesses the best and most iconic content in the world. And you kind of see that with the launch of Disney +. They very quickly got over 50 million subscribers. And they got them really quickly – like in a heartbeat. Netflix was a pioneer and it had to build the market, but it took Netflix several years to get to that kind of number.

So I think the appetite for the company's iconic content is a huge advantage as they shift their business to take advantage of this new streaming landscape. Back to you, John.

JOHN HARRIS: Okay, thanks Trevor and Eric. So the next question is a live question, and it concerns Berkshire: "If Warren Buffett is repurchasing shares, why have we been selling shares?"

I'll start and then I'll flip it to Jonathan Brandt, who is obviously our Berkshire expert.

The only thing I would say here is I think to some extent that may just reflect the fact that Warren is allocating capital and we are allocating capital, and he has to face that challenge in a much narrower universe of opportunities than we have before us. He's managing a lot more money than we're managing. I don't envy him for that fact, because what we do gets harder the larger the scale on which you do it. I think it may just reflect nothing more than the fact that he has a very different set of opportunities that he's looking at than we're lucky enough to have at our size. But Jonny, I don't know if you want to add anything to that.

JONATHAN BRANDT: No. I don't have really have anything material to add to that. If we never sold the stock when management was buying that stock, that would narrow our universe also. I mean I think it's possible that it's both correct for him to be buying back stock and for us to be selling – if we're finding better things to invest in, where we think the prospective returns are going to be higher – I think we could both be right.

JOHN HARRIS: Okay, thanks, Jonny. Next question is on Arista Networks: "A recently initiated and increasingly important position for the fund is Arista Networks. Could you please walk us through the investment thesis in more detail, and particularly as it pertains to two key areas, the huge customer concentration risk with Microsoft and Facebook making up 40% of company revenues, and then also Arista's growth initiative of trying to move more into more traditional "on-premise" areas that have historically been dominated by Cisco?"

Chase covers Arista for us. I'm going to turn it over to Chase.

CHASE SHERIDAN: Thank you, John. Thanks for the question. I'm not sure everyone's familiar with Arista, so just to tell you what Arista does first, they make hardware and software for high-speed network computing; think big cloud data center networks. They have customers like Microsoft, Facebook and Salesforce.com, to include a few notable ones. Amazon is one of the hyperscale cloud companies that has chosen to build its own switches, and Google is similar. They're not a significant source of revenue for Arista.

But if you think about the very largest, most efficient, highest speed data centers, that is where Arista plays. And they mostly play against Cisco. They have other competitors, but Cisco is the one that really counts. From a standing start 10 years ago, Arista went from no market share whatsoever, to being the largest high-speed switch provider in the world. They have about 30% of the market in the current state of the art, which is the 100 gigabit-per-second Ethernet switch. So that's Arista.

Our thesis is actually pretty simple, which is if they just maintain their market share as the market moves from 100 gigabits to the next generation, which will be 400 gigabits per second, which will really start to ramp up in 2021 and eventually several years later to 800. The revenue dollars in that high-speed switching market are expected to grow two to three times over the next several years. If they can maintain their market share, they should be able to grow their earnings per share in the mid-teens over several years.

Why do we believe that they can maintain their market share? For this, I think we really have to talk about the team. The founders of Arista are Silicon Valley legends Andy Bechtolsheim, David Cheriton and Ken Duda. Andy Bechtolsheim sold his first industrial controller at the age of 16, helped pay for his schooling with it, was a Fulbright scholar, and eventually co-founded Sun Microsystems and he was the hardware mind behind the original Sun workstation. David Cheriton runs the Distributed Systems Group at Stanford University. He's known as the professor with the Midas touch. Both he and Bechtolsheim were the first angel investors in a company we know and love, as they invested in Google before it was even incorporated. I believe they did pretty well on that investment. Ken Duda, who runs software for Arista, graduated from MIT, got a Ph.D. in computer science from Stanford. It's an A-plus team.

And none of these three actually run the company. That's the job of CEO Jayshree Ullal who was a senior Cisco executive. She is brilliant. She is one of the most accomplished women in Silicon Valley.

So we've got this incredible team, and they set about to build disruptively great products. And they spent four years designing the network operating system before they released a single piece of hardware to the market, bootstrapped the company with their own finances, and the result was fantastic performance.

Just to give you an idea, over the last five years, Arista has grown revenue at 30% compounded. They've grown EPS at 48% compounded. Their return on invested capital is around 100% and their margins are fantastic. Their gross margin is 64%. Their net margin is 35%. There's no debt on the balance sheet. In fact, there's $2.6 billion of net cash on the balance sheet, it continues to pile up.

It is a thing of beauty. So why did we get a chance to buy this thing of beauty for less than 20 times trailing earnings? And that gets to I think the point that the questioner made that is very important, which is, the customer concentration in Arista is very high. In 2019, Microsoft made up 23% of Arista's revenue, and Facebook made up 17% of Arista's revenue. Those are scary numbers. And sure enough, in late 2019, Facebook decided they were going to defer their capex on their data centers, and that revenue slowed to a trickle. As a result, Arista's revenue and earnings will go backwards in 2020 for the first time ever.

What we saw was customer concentration declining as Facebook's revenue dwindled. At the same time, fear about that customer concentration rose greatly, and the stock fell from a high of $330 to below $200 a share, where we bought it. And the real fear on Wall Street was that there was another shoe to drop. If Facebook could defer their spending, why couldn't Microsoft?

So we did what we normally do. We set about doing our homework and we got comfortable with the idea that Facebook's situation was particular to Facebook. Microsoft on the other hand, through Azure, they run a computer platform for the world, and Azure grew 62% year-over-year last quarter. If you talk to the network engineers at Microsoft, they'll tell you that they can barely keep up with demand. They have to grow their data centers. They are investing. They consider Arista a very important strategic partner, and Microsoft wisely has chosen not to create their own hardware. It is not in their DNA; they are a software company.

So that was the opportunity. That's what allowed us to invest in a company that has a very quickly growing end market and a dominant position in that market.

The last part of the question touched on the enterprise and campus opportunity, and this is a little bit different. So these aren't massive cloud data centers, these are large enterprises, but think about an office campus. So slightly slower speeds, less cutting edge, and really plays a little bit less to Arista's strengths and a little bit more to Cisco's strengths. They're very entrenched in these markets.

Arista set out to generate $100 million of revenue from campus networking in its first year of penetrating that market. We believe they met that goal in the second quarter of 2020, but it's really the cherry on top of the sundae. It's less than 5% of revenue, and frankly, whether this investment works out will really be determined by how things play out in the cloud. And the cloud is where enterprise IT is moving, so Arista is very well positioned there. I'll stop myself there. As you can tell, I'm a huge fan of the company but I think I've spoken long enough about that and I'll turn it back to John for further questions.

JOHN HARRIS: Okay, thanks Chase. Next question is on process generally: "Can you walk us through some of the trading decisions you made in the first and second quarter? Is this type of trading the new normal?"

I'm going to send that one over to Arman Kline, and I imagine we'll have a couple other people who want to chime in as well.

ARMAN KLINE: Sure. Thanks, John. So I think as I said in my presentation, we definitely saw a less typical level of activity trading around our positions in the first half, and certainly in March and April when we saw the dislocation in the market. But maybe an example would be helpful here to walk you through what happened with one of our businesses, the meetings we had, the discussions we had, and the subsequent events that led to that higher level of trading.

Sometime around mid-March I remember we got on the phone to talk about CarMax. CarMax had gone from $90 down into the $30s around mid-March. When we got on the phone, I think the stock was around $37-$38. We were talking about the type of things you would expect us to, what would the business do if there was no revenue and they had to keep their stores closed for a long time? What did the balance sheet look like, how was their liquidity, if their stores were closed, what kind of value could they get from their inventory and how could that help their liquidity. At the end of the day what was the impact on the intrinsic value of the business.

The discussion lasted about 45 minutes. By the end of the discussion we had gotten comfortable with our key questions, certainly around the liquidity and the impact on long-term intrinsic value, and we had decided to go ahead and purchase more CarMax. When we looked at our screens, the shares were over $50. We had a 35% move in under an hour in a multi-billion-dollar established retailer!

That's the kind of movement we were seeing, and as I said in my prepared remarks, when you see that type of move in prices in that short a period, you need to react. And as John said, there was certainly unprecedented levels of volatility in some of those days. And so I would expect that given its that volatility drove some of our higher trading levels, that certainly doesn't feel like a new normal for us.

Just to finish up the Carmax example. We ended up buying more CarMax in the $40s and I think selling it in the $60 to $90 range over the subsequent quarter. Once again you had significant appreciation in prices over pretty short periods of time with not a ton of new information out there.

John, maybe I'll hand it back to you, you can see if someone else wants to comment.

JOHN HARRIS: Yeah, you know, one thing I would add there is, this is something we talked about in the letter at the end of last year and I – I think I speak for all of us here – I am not a big believer in the notion that the market has somehow gotten more efficient or harder to beat because of the trend toward indexing over the last 10 or 15 years. But I think we all have to acknowledge that it's been a very significant trend and it's a much more indexed market than it used to be. That does have implications, and the implications that I've seen over the last several years now – this is not necessarily a new thing, but it certainly feels a little bit more palpable every year – is that while I don't think the quantity of opportunity for firms like ours is any less than it has been historically, I do think that the cadence of opportunity has changed. It's becoming a little less idiosyncratic and a little more episodic.

That doesn't mean that in a normal environment – where you don't have a pandemic and you don't have anything unusual going on in the economy and the market is just sort of moving along normally – doesn't mean you can't still find those unique, one-off diamonds in the rough on which we have made a lot of our record over the history of this firm. But I think it does mean that the opportunities do tend to come more in bunches and the market tends to move in a more correlated way. Stocks tend to move as groups together, and we are going to have to learn how to react to those changes a little bit more nimbly than we have in the past.

It's always going to be a tension for us. This is not something that we're ever going to get completely right, because our mindset is to not do anything. Our mindset tends to be, and our default tends to be, inaction. And that should be your default when your mindset is one of owning businesses rather than holding stocks. That is the core; the foundation of everything we do here. That's where everything at Ruane Cunniff begins.

So you're never going to see tons of nimble trading here, but we also talk a lot about how you have to adapt timeless principles to reflect the fact that we live in a changing world. And so we're going to have to find a way to strike a balance between holding completely firm to that mindset of business ownership, but at the same time being a little bit more agile about taking advantage of episodic opportunity when it emerges, like it did a few months ago.

I think if we look back, everybody on the team will probably have a different perspective on this. I wouldn't give us an A in terms of our grade on the way we exploited all the opportunities that the pandemic threw up during that most volatile period in March. But I think we did a reasonably good job, and a little better than we would have done in the past. And we need to do a little better in the future, the next time, than we did this time. That's just the nature of this – we need to constantly improve.

Okay, let's move to the next question, which is on CarMax: "How has CarMax's business held up relative to competition this year? Has COVID accelerated their omnichannel efforts?"

I'll let Greg Steinmetz go first here, and then maybe Terence Paré also. Greg and Terence cover CarMax for us.

GREG STEINMETZ: Thanks, John. As you heard, we've been in business 50 years. We've spent 20 of those years studying CarMax. That's meant visiting stores, talking to competitors, talking to former employees, talking to the competition. What that's done for us is given us the conviction that was helpful as Arman mentioned, when we were able to buy CarMax when the rest of the world was panicking.

And it's also helped us as we now move towards the biggest transformation that the used car business has ever seen, which is this shift to digital. There are questions about how they've done with COVID, how they've done with the pandemic. Last year, CarMax grew 11% at a time when the market grew 1%. The reason for its faster growth was that it had begun that transition to digital earlier than the rest, and that allowed them to grow and to get more incremental sales because the others just weren't adapting that quickly.

That momentum continued through March when the pandemic hit, and then since then at least through May, their sales have lagged the industry. Now, why is that if they're doing all these great things, moving to digital as I described? Well, there's two reasons for it. One is they had to close a lot more stores than the competitors because the only car dealerships that were deemed essential businesses were those where you could take your car and get it repaired. You can only get repairs at about two-thirds of the CarMax stores. They are there to sell cars, not to repair cars. So they had to close a lot of their stores for longer than others.

Secondly, the occupancy restrictions matter more to CarMax, because they have big stores where a lot of people come. I live about three blocks from a dealership row here in Westchester County. There aren't people lined up to get into those stores. On a Saturday morning in normal times, there are a lot of people at a CarMax store. In the current times, there are people who can't get in because they can only let so many people in.

So what I think is going to happen is, as the world returns to normal, CarMax will resume its outperformance. Let's see. With that, I'm going to turn it over to Terence, and Terence is going to talk about what we've learned about what the competition is doing. Terence?

TERENCE PARÉ: Thanks, Greg. Just a couple of things I'd point out. CarMax actually has long had an interest in online, and it's useful to remember that the guys who started the business came out of Circuit City, so they know what e-commerce can do to a retailer. Early on they were very concerned about what the internet was going to do to their business. In fact, I think one of their co-founders was from Intel of all places. You wouldn't expect that in a used car dealership. Anyway, the competition has had to respond to digital too, and they've been encouraged to respond more quickly by the pandemic. So very rapidly new car dealers, franchise dealers, have developed online retailing capabilities. But they're conflicted. A new car dealer has to deal with an OEM, and the more digitally sophisticated a new car dealer gets, the more control the OEM can get over their business. And that's a scary thing if you're a new car dealer because there's a constant tension between the OEMs and the dealerships.

The other issue they have that makes them reluctant is that they make an awful lot of money on things like warranties and extra undercoatings and things like that. And those are very, very hard to sell online. It's very easy to click away from the box that says, "Do you want a warranty?" But if you're sitting across the table from a sales guy, you know, and let's say you get up to get a drink of water and the sales guy is talking to your wife or to your husband, you may find out that he brought it up again and there's a warranty in that deal you maybe didn't really want.

So they lose that live sales capability when they go online, and that matters a lot to them. But you know, for better or for worse, they realize that's the way the world is going. And they know they have to get online. It's easier to get online now than it was when CarMax started its push. And they will continue to get better at it, but it will be kicking and screaming, I think, for a lot of the new car dealers to do it.

The used car dealers, those who are completely independent and don't deal with the OEMs, have an easier road to travel but they all tend to be smaller. And another way that CarMax was really looking forward more than it may seem like sometimes, is that it very, very carefully worked at establishing and maintaining a brand, and that really matters in the used car business, maybe even more so in some ways than new, because everyone knows a used car is like a snowflake and they're all unique. You really want to be able to trust your used car dealer and CarMax has been very, very, very dutiful, and consistent in maintaining its brand. And that makes a very big difference to consumers.

I think they're really in a great position going forward, and they also have the other advantage over the strictly online or virtual retailers, and that's that they have brick and mortar, they have the inventory in place, and you can go in for a test drive and if something goes wrong with your car you've got some place to go.

In my opinion, I think CarMax is really well positioned and has done a wonderful job of adapting to the rise of e-commerce. With that, I'll pass it back to you, John.

JOHN HARRIS: Thanks, Terence. I love this next question: “To help me evaluate your success as stock pickers, I wonder if you have data on the performance of the stocks in the fund that would not be start of a high school investment club's portfolio. In other words, exclude Google, Facebook, Amazon and perhaps others.”

I'm going to turn that one over to Arman to go first.

ARMAN KLINE: Thank you. This was actually a pre-submitted question and we were able to look at some of the numbers. I should just explain what we did. We looked at the performance of Sequoia, excluding FAANG stocks, so FAANG being Facebook, Apple, Amazon, Netflix and Alphabet-Google. And we compared that to the performance of the S&P 500 excluding those same high-school investing club securities over the four years or so that the Investment Committee has managed Sequoia through June 30. And what the data shows is the outperformance of Sequoia, excluding FAANG, versus the S&P excluding FAANG, is greater than the S&P in total versus Sequoia in total. In other words, our non-FAANG stocks outperformed the non-FAANG stocks in the S&P by a wider amount – about double the outperformance.

And it's not surprising. I think if I started to talk to you about some of the names that have contributed to our performance that aren't part of FAANG – Constellation Software, Wayfair, CarMax, Jacobs, these are all classic Sequoia businesses that have done well and have outperformed the market. So that's quickly the data there. Back to you, John.

JOHN HARRIS: All right, thanks Arman. And the one thing I would like to add here is, in a lot of ways, this is sort of an interesting illustration of what I was talking about earlier during the presentations, and how investing decisions can become business decisions in ways that will cause you to make investing decisions that aren't necessarily good ones.

We could easily have said when we were evaluating any of those businesses, yes, Google looks like a value to us; Amazon looks like a value to us; these look like sensible investments, based on all the research we've done, all the facts we've gathered and everything we know about the businesses and their competitive positions and so forth. But we're going to pass, because how are we going to explain these to our clients and to the world? Clients don't pay us to own the biggest businesses in the world that everybody knows and researches. We're supposed to find the unusual ones. The optics of owning Google and Amazon aren't the kind of optics we want.

But we're not in the optics business. We're in the investing business, and what we do is so hard, and the longer you do it the more you realize just how hard it is to be right about predicting an incredibly uncertain future. Given how hard it is, the last thing you want to do is make a hard thing even harder, and the minute you start introducing all of these business imperatives and optical considerations into what are already really difficult business and investing decisions, you're already picking your eyes up and looking away from the compass, so to speak, and you've sort of lost your focus on your true north.

And so you know, these may be businesses that are in a lot of high school investment club portfolios, but I think we feel like if they're sensible investments, they're sensible investments, and we're not really all that concerned with the optics of them if that makes sense.

JOHN HARRIS: The next question is on diversity: "What is the Sequoia Fund's approach to encouraging diversity? Not only within its board and teams, but in its selection and ownership and oversight of companies that it owns through stock purchases. What is Sequoia fund doing to mentor and nurture a more diverse staff? The team shown on the Sequoia Fund website is lightly diverse, but with only one woman and no one of color. While I agree that rising to the level of such a team must depend on knowledge, skill and performance and contribution, there must also be a conscious effort to train, mentor and nurture potential talent, not only within Sequoia fund but also to encourage the same within companies we partially own through stock."

Okay, a lot of questions in there. I'm going to try to focus on the meat and potatoes of this, which I think is our team and the diversity of our team, which is something that is very, very top-of-mind for us.

And again, it really has nothing to do with appearances. It has everything to do with performance and improvement. If you do this long enough, as I said before, you realize how hard it is to be right, and you become more and more humble over time about the quality of your own judgment, and you come to appreciate the value of having a diverse array of opinions around the table when you're making a decision. Because at the end of the day we're in the business of being right, and it doesn't matter if it's my opinion that's right or someone else's opinion that's right. What matters is that we find the right opinion, and the more opinions there are around the table and the more vigorous the debate that you can cultivate, the more likely you are to get to the right answer in a business where it's just really hard to get to the right answer.

And so diversity is not an optical thing for us. It's an imperative. It's a performance imperative. And I think one important step – and I know this is not exactly where the questioner was going – but one important step we took towards one kind of diversity, if you will, was implementing the Investment Committee process. Because by its nature, that creates a mechanical dynamic where you're forced to lay a diverse group of opinions out around the table before you make a decision. And I think we all feel like that has just been a home run, because we've all been doing this long enough to know how fallible our own judgments are and to value the input of our teammates and the people sitting around that table.

So that was one step toward one aspect of diversity, but for sure another more important step is going to be to build the diversity of our entire team in terms of the way it looks and also the way it thinks. Part of that – for sure – is that we want and need more women on our team and more colleagues of diverse ethnic and racial and every-which-way backgrounds on our team. But we also want a diversity of opinions and ways of seeing the world, and I don't think any of us would necessarily presume that that automatically correlates to the way you look or where you came from, or whether you're a man or a woman. It can, without question, and again, that's why we're making a really active effort to build a more gender-diverse and ethnically-diverse team. But we're trying to make sure that as you'd expect of us, we are taking a thoughtful and holistic approach to the task.

So finding a way to capture more women and faces of color in our recruiting funnel is a very big topic of conversation around here, and Salina Claps, who handles our recruiting effort, will talk about it in a little more detail. But before I pass it over to her, the one thing I just want to caveat is that because of the way we hire, this is a problem that's going to take some time to fix. One thing we've learned from digging into this is that diversity is an easier problem to fix at a larger firm, for two reasons. The first is that larger firms can be hiring 100, 200, 300, 400 new people every year, so you're constantly bringing in a lot of new faces. Then the second is that larger firms tend to have much higher attrition rates than we have. We really like to get married to people. We've got a lot of people who have made careers here – who come and don't leave – and that's generally the way we like it. That is not the way it is at the big law firms and investment banks and consulting firms. The issue though is that when you've got a lot of new people coming in every year and a lot of people leaving, it's much easier to alter the makeup of your team. For us, it's going to take longer, especially on account of the added complication that we almost exclusively hire new analysts straight out of college after trialing them for one and sometimes two summers as interns.

So with our process, first we have to do a better job of bringing a diverse group of candidates into our funnel for summer internship positions. That's step one, and the good news is that we are making real, tangible progress there. But then step two is that once we make people offers, we've got to convert them and have them choose us after we choose them. Then they've got to make it through those summers and we have to like them enough to make them offers, and then they need to take us up on those offers, and then they need to show up a year later as analysts. Ultimately we've found that this process produces great hiring results, but it takes time, which is why it's going to take us time to solve the diversity problem. But we are 101% committed to solving it, and as I mentioned, the way we approached intern recruiting for this coming summer got us off to a really encouraging start, and Salina is going to talk about that.

SALINA CLAPS: Thanks, John. This is Salina Claps, and thanks to whoever submitted this question. You know, it's a great question and a topic that we've expended much energy and much reflection on over the past year. As John said, you know, we are in the judgments business, and we're firmly committed to the idea that, a more diverse team will yield better judgment.

And so we understand that there is the opportunity to improve the diversity on our research team. Over the last year, we've embarked on many recruiting initiatives that were squarely focused on bringing more diversity to our team. And we recognize that there is an opportunity for us to diversify our team in ways other than gender, as John said. Diversity in race, in geographic and economic background and in personality.

So in recruiting, we've always really sought to find people of high intelligence and a resume that indicated a strong work ethic and leadership capability. And I've also always favored those who possess intellectual curiosity and creativity, and a passion for and sort of an intuitive connection with our mindset and our approach. But most importantly, cultural fits. There's plenty of talent out there in the form of intelligence and resourcefulness and pre-professionalism at the undergraduate level, and that's important. But we only want talent if it comes with a bias, a temperamental bias, befitting our culture.

So to ensure that we could identify diverse candidates that exhibited all those important characteristics, we massively expanded our undergraduate recruitment effort this year. And that effort ended up wrapping up last month, and I am so pleased to report that our incoming class has the potential to really drive some meaningful, long-term change at Ruane Cunniff. And that's not it, you know.

Once we recruit a more diverse team, we need to mentor and develop those new recruits to ensure their success here and to make sure that there isn't any bias in our process or in our thought that could negatively impact their success at the firm.
That's all I have, and thanks again to whoever submitted the question. I'll turn it over to John.

JOHN HARRIS: Thanks, Salina. Next question is on Rolls Royce: "Somewhat apocryphally you wrote in the annual letter that every time the skies appear about to clear, some new cloud arrives. Were you ever right. I thought to myself as I wrote that, I probably shouldn't write this. I'm jinxing. You seem neither to have reduced nor increased the Rolls Royce position despite the massive stock price drop. How do you see Rolls Royce now?"

So I'm going to turn it over first to Arman, who covers Rolls Royce, and then Antonius Kufferath, who also tag-teams it with Arman.

ARMAN KLINE: Thanks, John. I'll be brief, but just to get to the heart of the question, we haven't really added or subtracted to it despite a big price move. The reality is the civil aero industry is seeing a disruption that is unprecedented in scale. I think over the last 30 years the largest change in flying hours prior to COVID was a four-percentage point drop. Right now we're talking about 70%, 80% drops in flying hours. There is really little question in our mind that there is a permanent effect on the value of Rolls Royce from what's happening here. It's likely going to be multiple years before we see more normalized levels of flying. So the real question for us is based on the current share price, what are the upsides, the downsides, is the team doing the right thing.

So why don't I turn it over to Antonius, who can talk about that.

ANTONIUS KUFFERATH: Sure. We've gotten a lot of live questions today in that same vein on Rolls Royce. Rolls Royce is really a story of two major challenges. One is a technical challenge and the other one is the challenge that we all know caused by Mother Nature.

On the technical side, it's an ongoing challenge that they're fixing the Trent 1000 engine family. That will be resolved. We have high confidence that it will get resolved. Management has high confidence. But it's going to cost about 2.5 billion pounds of cash costs through 2023.
The other challenge is really around COVID-19. As Arman mentioned, flying hours were down by 80% in April. So this is really unprecedented since World War II, and it will cause net cash outflows on our adjusted numbers of about three billion pounds this year.

I do want to point out, there's a big irony in this which is that Rolls Royce has the best and most ethical leadership in place in a decade or more, and that very leadership is facing two challenges that it did not create.

Looking forward, in terms of the business outlook, the trough most likely was the trough in terms of flying hours, most likely was in April 2020. And most likely, there will be a recovery. We expect a gradual recovery in engine flying hours from here. The recovery leads to growth in aftermarket revenue and aftermarket cash flows, and Rolls Royce thinks their best estimate is, that they think they will get back to 2019 flying hours by early 2022. Rolls Royce management acted very quickly. They've taken the right countermeasures and they're cutting costs by almost 1.5 billion pounds. It's the right management team in charge.

From a financial perspective, the simple way of thinking about it is that the pandemic is essentially delaying the growth in the population of Rolls Royce jet engines that are installed on wide-body planes. That shifts the cash flow generation out by three years, possibly more.

We were expecting about one billion pounds in free cash flow in 2020 and two billion pounds of free cash flow in 2023, and we're now expecting that we'll hit that one billion in 2023. So that's essentially the summary of the financial perspective here.

In closing, I just want to emphasize that the business model is intact and the challenges that Rolls Royce faces are really being tackled by management. If Churchill's mantra was ever true, never let a good crisis go to waste. Well, those guys in charge are definitely taking that to heart.

Finally, this pandemic will come to an end and travel will resume and with that, flying hours. That's all I have. Back to you, Arman.

ARMAN KLINE: Thanks, Antonius. Just a couple quick thoughts to add. The first is that, as Antonius said, the team is probably making some changes here that I think would have been unlikely or frankly unfathomable culturally pre-COVID. So I do think we're highly likely to exit this crisis with a business that is considerably more efficient than we would have estimated a year ago. That is a positive.

Now, offsetting that positive is the fact that the end market is also shrinking. The customers are less healthy. There is lower demand for new airplanes, so it's not as simple as saying they're going to get better and so we should be fine.

To that point, one of the key issues here is going to be the timing of a recovery and flying hours, because that drives the cash flows and that's a key element of how the balance sheet and the capital structure of the business looks going forward. It should be an informative next 12 months to see how this business evolves. But at the current price, with the actions leadership is taking, we've decided to hold the investment.

Back to you, John.

JOHN HARRIS: Okay, thanks guys. Next question is a live question: "Could we have Greg Alexander's point of view on the effects of the pandemic and the digitalization of the economy?" Greg?

GREG ALEXANDER: Okay, very good. I mean, at the risk of answering part of this question perhaps like some of those high school investment clubs, it's very apropos. Not only has the whole world accelerated the pace of change that's been going on for years, but in sometimes novel ways. So for example, we in our office have a good number of people who commute for an hour and sometimes even two hours each way to get to the office. Well, you know, really if you're going to spend three hours a day commuting, and then go into your office, close the door and type on your computer, it really is not maybe called for, for you to go five days a week in that fashion. Maybe you should go a couple days a week, and on those days really go around the office and catch up with people.

So there's the implication not just that we order more stuff on Amazon and do more calls on Zoom, but for office space generally, shopping malls, transportation, and even cities themselves. New York, for example, has grown far beyond the size that could have been imagined 100 years ago in the time of the horse. I mean, without the railway and subways, you would never have millions of people commuting into a city and then going all the way back out every day. So that's sort of one thing.

Another thing that's quite interesting is that the pace of change of everything has really accelerated. I remember looking at Frito Lay many, many years ago, probably in the 1980s. Frito Lay was then and is now owned by PepsiCo. It was like Anheuser Busch with Budweiser, with such a large market share that their delivery costs per bag of chips to the store was simply lower than everyone else's. I mean, if you have a 50% market share when you go to the grocery store you empty out half the truck so your truck roll per bag is just lower. The same thing with advertising. They had better machines that extrude chips, and so they grew the market and gained market share. I think the tons grew in those days maybe 7% a year, which in the days of the physical world was quite a bit because you had to hire more drivers and buy more trucks and build more machines and more bagging equipment.

I remember looking at it some years later, and what had changed? Actually, nothing, and that was quite a few years later. It's just increasingly rare today that you find something like that.

Today the pace of change is just faster and faster, which everyone knows. It's a truism. But what everyone doesn't say is that the duration of many things is diminishing. And the consequences of this for Sequoia and for Ruane Cunniff & Co., are essentially that we can and should continue to examine companies of all types, in the old world and in the new. And secondly, that we have to be increasingly careful to focus on companies where we perceive some amount of protection or skill that keeps the duration of that business opportunity from being too short, because otherwise we risk all our money. Okay, that's sort of what I have. Back to you, John.

JOHN HARRIS: One thing I would add to that is that I think some things you see in the stock market and changes you see in the market over the last few years really start to make more sense, at least to me, when you look at them through the lens of duration that Greg was just talking about, in that there are some high PEs – some really outstanding businesses that have traded to what look like very full valuations – and part of that is interest rates and part of it may just be animal spirits, but part of it is, look, we're humble about selling the market short. The market is sometimes wrong, but often right and relatively efficient, and I think we would all agree – and I know Greg agrees because we've talked about it – that the market is on to something in a lot of these cases, in that it's only rational that in a world where the pace of change is accelerating, and where duration is shortening and the width of business moats is becoming narrower and more uncertain, that when you really do have a castle and you really do have a business that's got duration and visibility – where you can look far into the future and have confidence about what the future holds – it sort of stands to reason that in an environment like this, those businesses would be very highly valued and scarce assets.

I think increasingly that's the way the market has treated them, and we've tried to be humble about appreciating that fact as we've thought about what to buy and how long to hold it. And it's part of the reason why, for example, we stuck with our investment in

Amazon up to valuations that I think would have made our noses bleed in a former life.

JOHN HARRIS: Next question is on Wayfair: "What gave you confidence that the company can ultimately be profitable, the gross margins haven't budged much. And the company still relies heavily on online advertising for demand generation, and advertising as a percent of revenue still hasn't trended down."

So with Wayfair, the core of the analysis was really around trying to understand the basic unit economics of the business, and then trying to separate and decide whether we were comfortable with those and whether they worked or not. And ultimately we were. That took a lot of work to figure out, but we felt like at some point, we had figured it out.

Then the next question was separating those unit economics from a whole host of what I would almost call generational investments that the management team had decided to make over a period of years, that in a lot of ways masked the soundness of those core unit economics.

So if you go back and look at the history of Wayfair – back to 2014, 2015 and 2016; or even before, back to the founding of the company in the early 2000s – they operated a business that was essentially profitable for its first ten years. This was not a reckless management team. They understood how to manage unit economics and how to manage a profitable business. It was not until they developed the Wayfair brand name and felt like they had arrived at a formula for marketing the business at scale and acquiring new customers at a whole new level of scale that they swung the business into an investment mode and swung the income statement into losses and raised venture capital and sort of supercharged the growth of the business. But that's a very intentional decision that they only made after they were confident that they had a customer acquisition model and economics around that that were favorable.

This is a team that has its strengths and weaknesses like any team, but I would say one of their greatest strengths is that they may be the most, or one of the most sophisticated performance marketing organizations in the world. Understanding the unit economics around what you pay for a customer versus what you get are at the core of this company's strengths.

And that was evident, I think, not just in those earlier days, but even after they embarked on that early investment phase, when they stood up the Wayfair brand name and the business really took off around 2012, '13, '14, '15, '16. If you look back at the financials from that period, you see evidence of sound unit economics working and starting to show through, where the business sustained very rapid rates of growth at relatively healthy gross margins compared to the long-term business model that they've laid out, and with steadily and rapidly declining advertising and customer acquisition costs as a percent of sales. That's all indicative of a customer acquisition model that is working.

Now, the business was making slight losses, but that's indicative in a very high level of investment in customer acquisition. If you can run your business at or near breakeven and grow it 40% or 50% a year with declining advertising costs as a percent of sales, we would argue that looking just one layer beneath the surface at the income statement, that's indicative of a pretty healthy and exciting business.

Then around 2017, 2018, they decided to embark on the next stage of investment, and it was across three different areas. Number one, they really leaned into European expansion and expanding in the UK and especially Germany, and there was a big investment cycle associated with that: standing up a whole new team to run a European business; developing new vendor relationships in Europe; customer acquisition in Europe, which in the early days of the business is always going to be less efficient than when you've got a really robust business infrastructure built up. So Europe was one big new area of investment.

The second was logistics. They realized that Amazon was their big competitor, and Amazon, as we all know, is constantly raising the bar in terms of what we all as consumers expect in terms of shipping speed and shipping service. And I think what they realized was that when it comes to sofas and side tables, you don't have to deliver same-day, and you're not going to have to keep up with Amazon step for step for step. But you're going to have to stay within striking distance. And they realized that leaving all of the logistics of their marketplace to their vendors and allowing their vendors to just ship directly to customers was not going to leave them with a logistics proposition and a service proposition that ultimately would be adequately competitive with Amazon. And they realized that they, as the operator of the marketplace, were going to have to get their hands a little bit dirty and take a significant role in facilitating logistics for their vendors in order to keep that sort of minimum safe distance to Amazon in terms of their customer service proposition.

They also realized that that was going to require a lot of money, because you've got to build fulfillment centers and you've got to staff them with a lot of people and a lot of equipment, and it's expensive. I think in retrospect, those were very important investments. But again, expensive ones. So that was a second area of investment.

The third investment was, their goal from the beginning was to be the Everything Store and the Amazon of home, and to be the reference point for home goods and home furnishings in the online world. In order to deliver on that vision, they felt it was important to sell every possible category in the broader category – everything from sofas and chairs and rugs to bathroom vanities and saunas and light fixtures and wood flooring. There's just about nothing at this point that goes into a home that you cannot buy on Wayfair. So there was a big investment into staffing up merchandising teams and buying teams and service teams to build out all those new categories.

That was another important step, because the more stuff you have on the site, every time you spend money to bring traffic to the site and bring existing and new customers to the site, the more stuff that's there, the more likely you are to convert a visit into a sale. And the more effective you are at converting visits into sales, the more you can spend on every incremental visitor. So you create an interesting customer acquisition flywheel there that is hard for competitors to keep up with.

So three very worthwhile and strategic areas of investment, but they decided to do them all at the same time. In retrospect, even they would admit that they may have bitten off a little more than they could chew all at once. As they ramped up all those investments, you saw the losses in the business balloon, and the income statement started to look ugly.

Now, under the surface, we saw those same promising unit economics, and we felt like we could size and understand the portion of what we were seeing on the income statement and within all those losses that was attributable to these temporary investments. That analysis all held together for us and made sense. But at the same time, there was also no denying that they were sort of pushing their financial model to its limits, because by starting with a breakeven or slightly loss-making enterprise and then pushing it so heavily into losses by pursuing all of these investments at the same time, you create a situation where there's just not a lot of margin for error. And then suddenly you have the trade war, which had an impact on their vendors and their business, and then a little bit of a slowdown in the economy, and then of course the pandemic.

For a period there, they did get themselves into a pickle. But part of what we had always liked about this business was that while it did make losses and while you knew that you were funding very, very significant up-front investments in the future and that there was some uncertainty around that, we also knew that the cost structure of the business was highly variable, and that if they needed to dial back the expenses and react to changed circumstances, that they would be able to do that. And I think they really proved that out over the last several months.

And then of course in ways frankly we never could have realized, the business turned out to be a big winner of the pandemic, and it was a big plus for them rather than a minus.

But in a nutshell, that's sort of how we thought about the economics of the business and how it could be profitable.

Okay, next question is on Amazon: "Why did you reduce your position in Amazon? They have been killing it since January 2020. Why not ride a winner?"

I'm going to turn that one over to Trevor.

TREVOR MAGYAR: Great. Thank you for the question. So we've actually fully exited our position now in Amazon, and that was a very recent decision we made. Obviously, the company is experiencing a boom in demand, so I take the point that they're doing incredibly well right now. I think they've been doing very, very well for the entire holding period, and really our decision just came down to price.

When we made the investment – I can't remember exactly where our first purchases were made, in the $700, $800 range – you had a large and growing retail business whose economic viability was still widely questioned. You had a public cloud business that was posting profits, but that people hadn't fully appreciated yet in terms of the sustainability of the profits and just sort of the growth potential and really importance in the world.

You fast forward a few years and the Amazon has grown its business, it's grown very nicely. But it has not grown 400% and that's about what the share price has grown.

We were in a Zoom meeting the other day when we made this decision to finally exit the position, and that decision, I think, took all of five minutes. In some ways that was a really easy decision because the price had gotten to the point where it was an easy decision. What's more interesting are all the calls and discussions we had along the way. We did trim it along the way. To John's point earlier, when you have a really special one it's important to keep that in mind. And I think Amazon is a special one, it's operating in very large addressable markets and it's operating with a pretty unique long-term approach that's just very, very special, the way they are attacking these markets. I think we knew we had a special one, and that really caused us to be careful along the way not to get too focused on the near-term kind of earnings multiples and so forth. I mean, if we had our green eye shades on the whole time we probably would have sold when it went up 30%. There's no exact science to this, but we're trying to be on the one hand diligent and prudent and on the other hand careful about not letting the green eye shades get in the way of making the right decision when it comes to these sorts of special companies. .

This was ultimately an easy decision to sell. It's just price. I don't think there's anything fundamentally that's wrong with the company. But really, the journey for us was the series of discussions and decisions we had along the way to trim a little bit, but generally to hold. Time will tell whether this was the best moment to exit. But it had reached a point where even allowing for Amazon's special approach to these large addressable markets, the investment proposition was simply not attractive in our view

I don't know, guys, would you add anything?

JOHN HARRIS: I think that probably covers it.

TREVOR MAGYAR: All right. Back to you.

JOHN HARRIS: Okay. Next question is on Taiwan Semiconductor: "What is the firm's assessment of Taiwan Semiconductor?"

I'm going to turn that over to Pat Pierce, who covers TSMC for us.

PAT PIERCE: Thanks, John. We really like Taiwan Semiconductor. I think the first point is, it's just brilliantly run. The founder, Morris Chang, is one of the all-time greats, and the team there now is up to that lofty standard as well. And they really are strong in all the areas we consider key. For an engineering-heavy company they're brilliant engineers. They're very strategic and very thoughtful about capital allocation as well.

But beyond just the management, they have a dominant competitive position in growing markets, which is always nice. They have five times the scale of the next-largest competitor in advanced semiconductor, logic manufacturing, they have an independent business model which is really a source of strength. They make chips for all kinds of customers and they don't compete with their customers whereas many of their competitors do. Samsung, the largest competitor, also designs chips and sells mobile phones. That makes it hard to get mobile customers, which account for roughly 50% of industry demand. You can see how that would be a really hard thing for Samsung to get the scale that TSMC has.

And scale in this business is hugely important, not just from a cost perspective, but also from a learning perspective. This is a technical company. But it's not a science company. It's really a process company. And in these highly complex processes, like making semiconductors, it's all about how quickly you can learn. It's not about making breakthroughs in science. The science happens in universities and industry institutes. But it's how you turn that science to mass manufacturing. And if you have five times the scale of your nearest competitors, you essentially learn five times as quickly which allows you to make chips better, more quickly, and move on to the next advancement in the industry.

So we really like the competitive position, and the growth should be really nice especially relative to valuation which is quite modest. That's especially the case right now with growth in content for mobile phones around the transition 5G. They should have some market share gains and their customers should gain share – AMD especially is gaining a lot of share partially because TSMC has gained the process lead over Intel for the first time ever. There's only been one change in process lead in the industry in the history of modern semiconductors, and that's TSMC getting the lead over Intel just recently.

That's because these process leads can be extremely stable. Dupont had the lead in chloride titanium dioxide. They were the only person who could make it for 65 years, and that was a very stable process. And here, the process changes every two years. So we really like the competitive position and the growth.

Of course, this is an area that China is trying to catch up on and investing heavily. We think it will be hard for them to catch up. We don't want to under-rate Chinese industrial might. Many investors have done that, at their own peril. And so we are very focused on the issue. But you know, there are several reasons why it'll be hard.

One is, as I talk about a process industry where just getting the recipe is not the key. I's a little like baking. You really need to bake a lot in order to get good at baking, and you need to make a lot of chips in order to get good at making chips, especially advanced chips. And if you don't have the customers, which they'll really struggle to get, it's hard to learn as quickly. And you can't just poach a couple of key engineers. It's really the institutional knowledge of thousands of engineers, which is key.

And then specifically, chips below seven nanometers require a technology called EUV, Extreme Ultraviolet lithography. And right now, there are export restrictions on that technology which China can't get access to. So if that holds, that could really be a firewall preventing the Chinese from catching up.

And then the last risks that I'll mention that we've been quite focused on, is the idea that Moore's Law is coming to an end. Semiconductors have scaled for decades along fairly predictable paths, that Intel's founder captured succinctly and famously. And people have called for the end of that for decades and the progress has kept going longer than anyone might have anticipated. But realistically there are fundamental limits, and you could see the end to classic shrinking within five years or so.

But it doesn't mean the innovation will stop. You know, obviously if innovation would stop, it'd make it easier for competitors to catch up, but we don't think that's highly likely. Innovation will continue along different dimensions with new materials, new structures, new packaging. Chips are likely to be stacked in the future like memory chips are.

We think the industry will continue to innovate for years and years, and TSMC will be able to maintain a lead and enjoy the current economics and very high return on capital that it enjoys today.

That's all I have. Back to you, John.

JOHN HARRIS: Okay. Thanks, Pat. Next question is on MasterCard: "Given accelerating trends in e-commerce and digital payments, can you talk through your decision to reduce MasterCard?"

I'm going to turn that over to Eileen Jang, who covers MasterCard for us.

EILEEN JANG: Hi. Thanks for the question. As I've had the pleasure of researching and learning for myself, MasterCard is an exceptional business. We've said this over the years, the card networks are essentially earning a royalty on global consumption. And there's just this very wide moat from the chicken and egg issue that still exists today, of building a global network and getting both merchant acceptance but also consumer adoption. And so this business has proven itself to be very resilient over time.

Talking a little bit about this year and this acceleration we see towards online, we can conceptually think of the card networks as having offline and online business, so that would be card-present, where you and I maybe take a card to a grocery store and swipe it in person, and also online business where the card is not present and you're typing in your credentials and making an order. And there's also, we can also think about it as domestic and cross-border, domestic being where the cardholder is purchasing something in the country, and cross-border being where the cardholder is purchasing something in another country.

If we think about this year, there has been an acceleration online, and excluding travel, both the domestic as well as the cross-border business has been extremely healthy. It's incredible but as Visa, which is the other global card network, has said before, the company captures more of each dollar spent online than offline. And that didn't necessarily have to be the case. The companies have both really positioned themselves well for this opportunity where there isn't cash online as an option. They've made sure they are the option online.

As for where the company is more hurt this year, we see a lot of hurt in the cross-border business offline or card-present. That's where in the past you and I might travel for business or personal reasons and we would spend money in another country. Well, that business we saw in April bottom out in excess of 80% volume decline year-over-year. I have no great predictions to share with you all about the virus, and ultimately that's going to drive how and when commercial air travel returns and the kind of cross-border recovery that we'll see for MasterCard's business.

When we think about the mix and we put it all together, there are real offsets in either direction. The real question is, do we think fundamentally the moat is still intact? We do. And in fact, in certain parts of the business, it may have been strengthened. And this is an extremely cash-generative business which also allows the company to be in a very good financial position to defend its moat through a period of extenuating circumstances. We've actually seen the company make an acquisition over the past few months.

There are always new and important risks for us to carefully investigate. That might be regulatory, legal, technology, so on and so forth. But again, the networks have proven themselves to be very resilient over time. So we're very happy that we still own a sizeable number of shares.

That's it for me, John. I'll hand it back to you.

JOHN HARRIS: Okay, thanks Eileen. Next question is on Booking Holdings: "On one side, you mentioned that the pandemic will pass and that business will be back to normal. However, you have sold out of your Booking position. Please explain what has changed in the travel business for the upcoming years. Has Booking's moat been eroded?"

I'm going to pass that to Will Pan, who covers Booking for us.

WILL PAN: Hi. Thanks for the question. So as the pandemic started to spread—and at first it was limited to China, but we could see it spreading—we realized that Booking, out of everything in the portfolio, was actually the most squarely affected company in terms of revenue. We talked about Rolls Royce earlier. At least they have a defense business and they have reciprocating engines.

In the case of Booking, you tick through the businesses. You've got the global OTAs for hotel accommodations which are Booking.com and Agoda and Priceline. And then you've got the flight metasearch in Kayak and Momondo and associated brands. And then you've got OpenTable, which is dining reservations. All of those businesses saw 80% to 90% of their revenue just disappear into thin air in March, and especially in April.

Now, we were always confident that Booking could survive this for two reasons: one being that they have a very flexible cost structure and high margins to begin with, and then two, they have a fortress balance sheet with over $10 billion of liquidity, and net cash. That was never in question, and in fact, in March, near the lows, we did add some Booking. However, as time rolled on, as we went into May and the pandemic became global and the stock price sort of revived, we had no doubt about whether the company would make it to the other side, but we were wondering whether we were paid adequately to take the risks that we saw along the way—the risks of a second wave happening, the risk of more border closures, and concomitant effects on the business. And at a certain point, we decided that we were no longer getting paid to take on this risk because the stock had appreciated by quite a bit.

The second overarching reason why we sold, and this is something that we've talked about in previous meetings, is that Booking for a large part of its business is dependent on going through Google Search or getting leads from Google Search. And we saw Google increasingly start to come down the funnel with Google Hotel Ads, developing more direct relationships with hotels and disintermediating the OTAs. Our due diligence continued to flag that or see that as a risk, as hotels which often find the OTAs to be their biggest channels are trying to diversify their channels.

We don't think that this is an existential issue for Booking. We continue to think that in fact the relationship between Booking and Google is largely symbiotic. But we do consider that to be a headwind, an ongoing headwind, for the business. And therefore, even as we look forward to getting through this period, which may take several years and will mean lost earnings, we still see this long-term impact on Booking's moat at the end of the tunnel.

So for now, given the rise in the stock price, we've chosen to sit on the sidelines. That's it for me, John.

JOHN HARRIS: Okay, thanks Will. We're going to take a couple more questions as we're coming up on noon here, and try to take our last one at noon. The next question is on Formula One: “There are two or three teams that may fold which could put the survival of Formula One at risk. How does the fund view Liberty Media in light of these cost pressures?”

I'm going to turn that over to Arman, who covers Formula One.

ARMAN KLINE: Thanks, John. It's a good question and it is the key question. I think as followers of Formula One will probably know, the business effectively capitalized itself in April, when it sold its Live Nation stake to another sister Liberty company in return for cash and ensured that the balance sheet at Liberty Media Formula One Group was in the shape it needed to be in to frankly not only survive coronavirus potentially affecting the sport for multiple seasons, but beyond that also potentially taking advantage of opportunities to acquire ancillary sports assets.

So Formula One Group's liquidity is in pretty good shape. The bigger question has frankly been the impact on the teams. The teams spend a fair bit of their budgets in the summer preparing their cars for the season. And the way this year worked is all the teams had spent that money and the season was really disrupted literally the day before the first race in Australia. In other words the teams had already spent a lot of their budget and in a normal season would have started earning income to offset those expenses as races occurred and Formula One sent them their share of the sport's profit pool. The issue obviously is that with a disrupted season the income is not going to come in as expected this year because we're going to have fewer races than expected and to the extent there are races, there are no fans. And so a fair bit of the income that comes into the sport which is then shared with the teams is not coming in.

The stronger teams are all in pretty good shape. Some of the mid-tier teams have tried to make sure that their balance sheets are in an adequate position. But a few of the smaller teams, unfortunately storied teams but less successful teams of late, have really gotten themselves in a position where they spent a lot of money and now with the money not coming in, they're in dire straits.

I think there is a likelihood that there will be more turnover around the ownership of those teams. The rumors in the press are consistently that there are several buyers circling the teams that need some capital injection. So while I don't suspect the number of teams on the grid will change, I think there are probably going to be some changes in the ownership structures of a few of the teams to get them through this.

Just one last thing to mention is, Formula One has already publicly talked about extending – a line of credit is too strong of a word – prepaying certain teams that need some capital and then essentially putting a lien on their future cash distributions so the sport would get it back. These are not huge sums of money. Certainly not in regard to the liquidity that Formula One has. But they're important for the sport in terms of getting to the other side.
The good news is, I don't think we're suddenly going to see five teams in Formula One versus the 10 we have today. And I also think that Formula One's ecosystem is in a good place where several major OEM participants have said they are committing to a longer-term involvement with the sport. And even if we have disruption in the sport in the next couple of years in terms of how many races we have, whether fans are allowed to attend those races, at this point I think as with all live events and live sports, there's no evidence that we'll have a permanent impairment to the value of this sport.

That's it. John, back to you.

JOHN HARRIS: Okay, thanks Arman. Next question is on Credit Acceptance: "Can you please provide an update on your thesis in the context of a potential US recession or run out of stimulus measures and the impact it may have to the subprime auto financing market?"

Chase and Greg Steinmetz cover Credit Acceptance for us, so Chase, I'm going to turn it over to you first.

CHASE SHERIDAN: Thanks, John. I'll take a quick crack at it and then see what Greg wants to add. But it's interesting. We called a lot of dealers in the heart of the COVID crisis in March and April, and got somewhat surprising responses. One benefit to being a subprime lender is that you have no shortage of customers in a recession. Prime customers become subprime customers, and when they do, they actually tend to become subprime customers that pay out better than under normal circumstances. That happened during the financial crisis. It may be happening to some extent now.

What we heard from dealers was that there was a lot of new business being underwritten by Credit Acceptance, and that their share of new originations at these dealers was increasing. That's for dealers, of course, that were open. Not all dealers were open throughout the heart of the crisis.

The other thing we've heard – and I think the question alludes to this, it's an important issue –delinquencies have not been what you might think so far, just because the government intervention, the CARES act, was so extensive that people were able to make their current payments even if they were unemployed. I'm sure we've all read the statistics about the percentage of unemployed people who are actually making more money on unemployment than when they were employed. We will see what happens when the government stimulus runs out.

But our thesis has always been that Credit Acceptance will fare far better than its subprime lending peers when the waters become rough. And that's because they share the risk of collections with their dealers in their dealer program. In fact, in that program, 80 cents of the first dollar of loss is borne by the dealer.

So we would expect Credit Acceptance to be very active in new originations. We'd expect it to take share. Of course, they will – they're not impervious. They suffer along with everyone else when the economy turns south. But they can use that opportunity typically to gain a step on their competitors. And so in the longer term, what may be a short-term curse may be a long-term blessing.

And with that observation I think I'll ask Greg to add his thoughts.

GREG STEINMETZ: Just really quickly, we're seeing already that other subprime lenders are backing off. CarMax used to do some subprime loans. They're not doing any, anymore. Wells Fargo used to be the biggest bank to the subprime industry. They've stopped. In our conversations with dealers, we're hearing that Credit Acceptance is getting a disproportionate number of their business.

Last thing, as for when stimulus stops, it's an election year, they're talking about it now. Maybe it happens, maybe it doesn't – we get an extension which we've seen in past recessions. And if that were to happen, and it gets curtailed, well, Credit Acceptance is in a better position than the others and we'd probably end up getting even more market share. So we'd see what happens, but that's all I have to say on that. Back to John.

JOHN HARRIS: Okay, thanks Greg. So we're going to take our last question, and probably fitting, on the pandemic: "Are analysts traveling? Do they speak to companies as much as they used to? What impact has COVID had on their ability to research stocks? What are the firm's reopening plans? Will any analysts or portfolio managers work remotely going forward? Any comments on adapting to this new normal are appreciated."

I'm going to turn that over to Trevor.

TREVOR MAGYAR: All right. Thanks, John. So, a number of questions in there. I guess the first thing I'd focus on is what we do, which is we research businesses. And if we think about the substance of what we do, I would say the pandemic has had a limited impact on what we do. Analysts are not traveling. We can talk to companies, we do it over the phone as we often did in the past, or we can now do it more often via Zoom.

But I would say the majority of the research that we do, the primary research that we do, is not meeting with companies or meeting with executives or meeting with investor relations. We of course do that but most of what we do is talk to people who live and breathe the businesses that we're interested in or we're invested in. And a lot of that work has always been done over the phone.

Yes, we visit trade shows, we do other sorts of traveling to sort of facilitate that. But there's no shortage of people, even during this pandemic, willing to get on the phone and share with us their insights on the businesses that we're researching. So I would say that the substance of what we do has been less affected than you might think.

I think the real question for us is about how we're working together as a team, and how we're sharing our research and how we're gathering to make decisions. And you know, thanks to technology it's better than it would business where we can operate pretty much seamlessly without being in the office. But at the same time, it's just not the same, and it's not ideal. And like Trevor said, we're able to do this in part because we've built up a lot of cultural connective tissue over many years. But I think the longer we're all away from each other, Zoom is no substitute for being in person and seeing people in the hallways, and that connective tissue sort of erodes the have been if this pandemic had struck 15 years ago. We're meeting on Zoom all day long. I'm seeing more of some of my colleagues out of my office than I did in the office. And I guess one thing I think that we benefit from is the long tenure of many of us. I've been at the firm going on 15 years. We've got Greg Alexander who's been at the firm for gosh, I don't even know, 30 years. So, we have built up a lot of human and relationship capital. And it just makes communicating and making decisions remotely a little easier, but of course it's always better to be in person to discuss things.

I think in the short and medium term, it's fine to operate the way we're operating. I think long term, the way we're running things right now is not great. I just think it's one thing to have these relationships, to have this human capital built up and be relying on it during this period. But I don't think it's good if as a team we never physically congregate. I don't think technology can solve that completely.

We're all eager to get back in the office when it's safe, and when we can get back in the office under conditions that make being in the office worthwhile. So those are my thoughts. I don't know, John, you want to add anything on our official return to office plan?

JOHN HARRIS: No, I think you pretty much covered it Trevor. We're eager to get back. We're lucky as Trevor said that we're in a longer you're out of the office.

At the same time, while it's true that most of the work we do is over the phone or now on Zoom, there's no question that part of our research process has always been getting out, pounding the pavement, meeting management teams where they live and work, going to trade shows, and then to the extent we're investing overseas, being on the ground in those countries, developing contacts in those countries, just experiencing them first-hand. There's no substitute for that.

So, we're eager to get back to normal life as soon as we can, but obviously as soon as it's safe to do so. In that respect, we're struggling with all the same issues that every other business, school and organization is struggling with and that everybody is reading about and talking about. So when we will get back to the office is just obviously very hard to say. When we will all be getting on airplanes and getting back to our normal travel schedules again is hard to say. But as soon as we can do that, we will be doing it.

In the meantime, we're lucky that we're getting on fine. You know, it's not something you can say about every business in America these days, and our hearts all go out to the businesses and the entrepreneurs who can't say it.

With that, we're going to close for the day. We hope this was as informative as it would normally be in person. We appreciate all of you bearing with us in this unusual year, and with this unusual format. There are aspects of it that we will almost certainly keep in the future. I'm sure that even when we're back in person in the future we will have a webcast, and probably a better and more sophisticated one than we would have had previously. In the meantime, thank you again. Thank you for attending. Thank you for being our clients and our friends. We'll see you next year.

Disclosures
Please consider the investment objectives, risks and charges and expenses of Sequoia Fund Inc. (the "Fund") carefully before investing. The Fund's prospectus and summary prospectus contain this and other information about the Fund and are available at www.sequoiafund.com or by calling 1-800-686-6884. Please read the prospectus and summary prospectus carefully before investing. Shares of the Fund are distributed by Foreside Financial Services, LLC (Member FINRA).

Sequoia Fund, Inc. – June 30, 2020	
Top Ten Holdings*	
Alphabet, Inc.	10.1%
CarMax, Inc.	5.7%
Wayfair, Inc.	5.5%
Constellation Software, Inc.	5.4%
Facebook, Inc.	5.0%
Credit Acceptance Corp.	4.8%
Vivendi SA	4.3%
Arista Networks, Inc.	4.0%
UnitedHealth Group, Inc.	4.0%
Eurofins Scientific SE	3.9%

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

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Fund may be offered only to persons in the United States and by way of a prospectus.

Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment):

Management Fees	*1.00%*
Other Expenses	*0.07%*
*Total Annual Fund Operating Expenses***	*1.07%*
*Expense Reimbursement by Investment Adviser***	*(0.07)%*
*Net Annual Fund Operating Expenses***	*1.00%*

*** It is the intention of Ruane, Cunniff & Goldfarb L.P. (the "Adviser") to ensure the Fund does not pay in excess of 1.00% in Net Annual Fund Operating Expenses. This reimbursement is a provision of the Adviser's investment advisory contract with the Fund and the reimbursement will be in effect only so long as that investment advisory contract is in effect. For the year ended December 31, 2019, the Fund's annual operating expenses and investment advisory fee, net of such reimbursement, were 1.00% and 0.94%, respectively.*

Disclosures (continued)

The performance data for the Fund shown above represents past performance and assumes reinvestment of dividends. Past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's 1-year, 5-year and 10-year average annual total returns through June 30, 2020 were 5.69%, 3.28% and 10.88%, 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 capitalization-weighted index of the common stocks of 500 major US corporations. The Index does not incur expenses. It is not possible to invest directly in the Index.