

May 3, 2017

Dear Shareholder:

Sequoia Fund generated a 5.48%<sup>1</sup> return, net of fees, for the first quarter of 2017 versus a 6.07% return for the Standard & Poor's 500 Index.

The end of the quarter represented the one-year anniversary of the management change at Sequoia Fund's investment adviser Ruane, Cunniff & Goldfarb. We are extremely grateful for the continued support of so many Sequoia shareholders during this eventful period in our history. As we look back on our first year, we feel confident in our progress and we take enormous pride in our employee team. We look forward to seeing many of you in person at our upcoming Investor Day on May 19 in New York City.

Recently, we had occasion to reread some old Sequoia Fund annual reports. Within minutes, we were smiling. Our founders Bill Ruane and Rick Cunniff carried on a warm and amusing correspondence with Sequoia shareholders over the years, and their personalities fairly leap off the page. One consistent theme throughout their letters of the 1980s and 1990s was discomfort at the lofty valuation level of the stock market. Through much of the 1980s, Sequoia kept one-third or more of its assets in cash, even as the S&P 500 compounded at better than 17% annually for the decade.<sup>2</sup> In the late 1980s, Bill joked about a magazine article that labeled him "a closet bear," saying he preferred to think of himself as a meek little lamb, afraid of being fleeced.

By 1992, Bill and Rick wrote that the stock market had become so rich as to afford no margin of safety to the investor. "It brings to mind the story of the man admiring another person's dog," they wrote. "He asked how much it would cost and the owner said \$20,000. Without batting an eye, the buyer said 'Fine, you've got a deal. I'll give you two \$10,000 cats of mine.' " It seemed to our founders that investors were flocking to high-priced stocks with little regard for the safety of their capital.

---

<sup>1</sup> The performance data for the Fund represents past performance and assumes reinvestment of dividends. Past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's 1-year, 5-year and 10-year average annual total returns through March 31, 2017 were 10.69%, 6.59% and 6.46%, 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.

<sup>2</sup> Per Bloomberg data

As we survey the investing landscape today, we sympathize with our founders' lament. When the curtain fell on 2016, the S&P traded for 20.6x trailing earnings, roughly 50% above the market P/E ratio that prevailed five years ago, approximately 25% above the 16.7x average of the last 60 years and about equal to the 20.9x level at the time Bill and Rick communicated their concerns regarding overpriced house pets. Over the first quarter of 2017 the multiple has edged even higher as the S&P 500 has scaled 6% further up the proverbial "wall of worry."<sup>3</sup>

When we reread letters from three decades ago, many themes seem familiar: the rise of an Asian superpower whose people work very hard (Japan, in those days); the danger posed by U.S. budget deficits and debt levels; the likelihood that P/E multiples and corporate profit margins will revert to their historical averages. Without dismissing any of these concerns, it does seem to be the lot of the value investor to spend most of his career uncomfortable with the valuations offered by the market.

Luckily, at Sequoia we don't have to buy the market, in the form of an equity index. Rather, it's our job to identify and purchase with an attractive margin of safety the most promising and best-managed businesses we can find. Our mandate is to invest Fund assets in a select group of structurally advantaged companies run by able managers and/or visionary entrepreneurs which we believe will compound our capital at attractive rates over the long-term. Admittedly, it is difficult to find such investments at reasonable prices in today's market. However, we are pleased and a bit surprised to report that we are still finding a handful of investments with, in our view, attractive prospective returns. As a result, we feel comfortable holding lower cash balances than we have in the past.

Given our history, some shareholders may understandably ask why we don't keep more powder dry while awaiting the next downturn. The experience of Bill and Rick after 1992 is informative in this regard. Having lived through the 1970s, when good companies traded for four times earnings, our founders never got comfortable with higher P/E multiples, preferring to hold cash until they could find the bargains they had gotten used to. Yet after Sequoia published its 1992 annual letter, the S&P 500 went on to generate a remarkable 20% annual return over the next five years. Perhaps more meaningfully, from 1992 through the present, the S&P 500 has compounded at a very satisfactory 9% per year.<sup>4</sup>

We don't mean to suggest that investors should expect a 9% return from U.S. equities over the next 25 years. Rather, the point of this stroll down memory lane is to illustrate that Sequoia's forte is stock picking, not market timing, and over the long term our shareholders should benefit if under the majority of circumstances we keep Sequoia more fully invested than it has been in the past. Even if S&P 500 performance is below average over the next 10 years, if we can return the Fund to something like its past pattern of outperformance—

---

<sup>3&4</sup> *Per Bloomberg data*

and our hope and intention is to do precisely that—then we will produce a rate of return that we suspect would be satisfactory to most Fund shareholders in absolute terms.

In order to achieve our objective, we need to own a portfolio of businesses that are better managed, more competitively advantaged and faster-growing (or, alternatively, much cheaper) than the companies that comprise the S&P 500, and we need to purchase our holdings for prices that are reasonable, or hopefully better than reasonable. In the main, we believe our holdings check these critical boxes. Sequoia's current portfolio companies have on average compounded their earnings per share at more than twice the rate of the S&P 500's components annually over the past three years. Consensus estimates for forward earnings growth are also higher for Sequoia than for the S&P 500, as is Sequoia's return on equity.<sup>5</sup>

As for the decisions made by our new team, in 2016 and early 2017 we purchased shares of Carmax, Charles Schwab, Chipotle Mexican Grill, Wells Fargo, Amazon and Formula One Group (formerly known as Liberty Media), and we added to our long-held position in Dentsply Sirona. We also spent the past year tightening up the portfolio. A year ago, Sequoia owned equity securities of 33 companies. Currently that number is 26. Given the addition of eight new stocks since we took over, (the six mentioned above plus two more added recently) we've exited 15 stocks, many of which were small and not compelling enough for us to want to add to the position.

We're happy with this more focused portfolio, and while short-term performance does not validate the wisdom of investment decisions, we are encouraged by the fact that as a group the securities we bought over the last year have meaningfully outperformed the Index by several hundred basis points since purchase and the securities we sold have underperformed the S&P 500 since exit. More importantly, we think that in aggregate our activity over the past year has elevated the quality and growth potential of the portfolio while enhancing the attractiveness of its valuation, thereby increasing the odds of future outperformance.

Exiting so many positions created more portfolio turnover than Sequoia shareholders are used to, but even in 2016 our heightened turnover put Sequoia in the 11<sup>th</sup> percentile for U.S. Large Cap Growth funds, which is how Morningstar categorizes our portfolio. That means 89 percent of mutual funds in our category turned over more of their portfolio during the year than we did.<sup>6</sup>

As noted above, we continue to find attractive investment opportunities. In the first quarter, we bought shares in Priceline Group. About 12 years ago, Priceline, an early pioneer in the online travel business, spent \$300 million on a pair of European acquisitions. Those acquisitions formed the basis of the Booking.com brand, which today accounts for the vast majority of group's \$80-billion-plus market capitalization. That's one of the best acquisitions

---

<sup>5</sup> *Per Factset data and our own internal analysis*


<sup>6</sup> *Per Morningstar data*

we've ever seen. Booking.com has achieved its success by building competencies and competitive advantages in a number of diverse areas. The company's ability to attract hotels to its platform, its customer service and data-driven website design, and its search engine marketing are all outstanding. In the Western world, online travel has been consolidating around brands owned by Priceline and its largest competitor Expedia. With offline bookings continuing to shift online in both hotel and non-hotel accommodations on a global basis, we think the company will continue to grow at a pace justifying its multiple.


At the end of the quarter we began buying another stock that we continue to buy as of the date of this letter. We will discuss that security in the second quarter letter.

Our annual Investor Day will be held on Friday, May 19, at 10:00 a.m. at the Grand Ballroom of the Plaza Hotel, the same location as last year. We expect a good crowd and we will once again have to be strict about admitting only shareholders and Ruane clients with proper tickets. You should have received your invitation in the mail already. Please RSVP, if you have not done so. We look forward to updating you on our progress and our portfolio.

Sincerely,  
The Ruane Cunniff & Goldfarb Investment Committee



David M. Poppe




John B. Harris



Arman Gokgol-Kline



Trevor Magyar



D. Chase Sheridan

## ***Disclosures***

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

<b>Sequoia Fund, Inc. – March 31, 2017</b>	
<b>Top Ten Holdings*</b>	
Berkshire Hathaway - Cl A & B	12.72%
US Treasury Bills & Cash	8.66%
MasterCard Inc	7.21%
TJX Cos	6.55%
Alphabet Inc - Cl A & C	5.98%
Dentsply Sirona Inc	5.14%
Carmax, Inc.	4.78%
O'Reilly Automotive Inc	4.77%
Constellation Software Inc	4.58%
Rolls-Royce Holdings plc	3.90%

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

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

<i>Management Fees</i>	<i>1.00%</i>
<i>Other Expenses</i>	<i>0.07%</i>
<i>Total Annual Fund Operating Expenses</i>	<i>1.07%**</i>

*\*\* Does not reflect Ruane, Cunniff & Goldfarb Inc.'s ("Ruane, Cunniff & Goldfarb") contractual reimbursement of a portion of the Fund's operating expenses. This reimbursement is a provision of Ruane, Cunniff & Goldfarb's investment advisory agreement with the Fund and the reimbursement will be in effect only so long as that investment advisory agreement is in effect. For the year ended December 31, 2016, the Fund's annual operating expenses and investment advisory fee, net of such reimbursement, were 1.00% and 0.93%, respectively.*

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

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