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

JOHN HARRIS: Welcome, thank you all for joining us today. We enjoy this day. It's our chance to catch up with you and give you a little window into who we are and what we do every day, and hopefully you all find it as helpful a day as we find it an enjoyable day.

I want to make a couple of quick introductions before we get started. The Sequoia Fund Board is here. Board members, if you could stand up very quickly? We have Eddie Lazarus our Chairman, Peter Atkins, Melissa Crandall, Roger Lowenstein, and Tim Medley. Thank you for being here.

We will get through our prepared remarks in about 30 minutes before turning it over for Q&A. We have to wrap up by 12:30 PM so we can clear the ballroom by 1:00 PM. As usual, we are going to limit the discussion to stocks that are publicly disclosed in Sequoia Fund or stocks that we have sold out of the Fund over the last year.

This slide is just a quick update on the vital statistics of our organization. The entire investment team or everybody who is in town is up on the stage and you will hopefully hear from many of them today. Our business team leaders are down in the front row, Wendy Goodrich, COO, Pat Dennis, CFO, Michael Sloyer, General Counsel and Jennifer Rusk, Head of Investor Relations.

All around the room, at check-in downstairs, and some back in the office, we have our 40-person business team. I just want to take a moment to recognize them. I cannot tell you how much time and effort goes into not just putting this event on every year but making the trains run on time every day at Ruane Cunniff. I love my job for a lot of reasons. Some of them are reasons I knew I would love it before I even did it. Then there are other things you learn as the years pass that are unexpected joys. One thing I've learned over the past couple of years in particular is just how much effort goes into making the trains run on time at Ruane Cunniff—and not just making them run on time, because I spend a lot of time with our clients, and I almost never leave a meeting when someone does not mention to me the quality of the service that they get from their account administration team at Ruane Cunniff and our entire business team behind the scenes. The trains just don't run on time here. It's Orient Express service, and I want to thank our business team and take a second to recognize the enormous effort that goes into providing this level of service.

Okay, so now I am going to turn it over to my partner Chase Sheridan to talk about performance.

CHASE SHERIDAN: Thank you, John and good morning everyone. Welcome. As John said, I am Chase Sheridan, it is my pleasure to share our performance numbers with you this morning. And I really mean it when I say it is my pleasure because I was originally asked to talk to you about taxes. I managed to hand that potato off to Arman Kline, Arman you are a prince among men!

This first slide shows our year-to-date performance figures as well as the cumulative performance since the Investment Committee's first full quarter managing the portfolio in June of 2016. Given the choppy markets of the past couple of weeks, it is easy to forget that the stock market has started 2019 at a full gallop. The S&P 500 has risen 15.6% year to date as of yesterday's close and this has caused a fair amount of heartburn for many value investors who have struggled to keep pace. We are pleased to report that Sequoia has returned 19.9% for the year-to-date, outpacing the S&P 500 by 4.3 percentage points, despite the performance drag from our small but material cash position. Just to be clear, all return figures are net of fees.

More importantly, Sequoia has also bested the S&P 500 since the end of June 2016, which, again marked the first full quarter of Committee management. While we are never fully satisfied with our performance, and we are always looking to improve, we are happy that the Sequoia faithful have been rewarded for their loyalty over the past three years with a cumulative gain of 50.2% versus 45.3% for the S&P 500.

With the Investment Committee's tenure approaching the three-year mark, I thought I would show you Sequoia's performance under the first, second, and third years of our stewardship. Our third year ends on June 30th, so its performance data is a bit truncated, we only have investment returns through yesterday. We report our calendar year returns in our filings and on our website, and this slide is simply the same performance data, using a midyear starting point. One method is no better or worse than the other; this is just one more perspective by which to view our track record.

As you can see, we slightly underperformed the Index in year one, by four-tenths of one percent, and then outperformed the Index in years two and three. Part of the reason we registered better relative performance in years two and three was that we reduced Sequoia's cash balance in those years. In previous investor days, we have communicated our intent to get Sequoia more fully invested over time. This is just what we have done.

Sequoia's average cash balance has declined from nearly 11% in the second half of 2016 to about 5% this year. We have markedly reduced the cash positions in our separately managed accounts as well. While holding cash provides an advantage to a stock picker in a falling market, it is costly in a bull market like the one we have seen over the last ten years.

This next slide shows the performance of Sequoia Fund's equity holdings, excluding our cash position. I am showing you this slide, because internally we consider the cumulative performance of our equities to be a very important metric. Considered over time, it is a measure of the skill that our group brings to the art of stock-picking. If this process remains healthy, then both the firm's health and the health of your portfolios are bound to follow. Gross of fees, the Committee's stock picks returned 21.1% in year one, 19.9% in year two, 9.5% in year three, for a cumulative return of 58.9% since June 30, 2016.

Now given our equity performance, you may fairly ask why we don't simply run fully invested all the time. We do intend to run Sequoia more fully invested than it has been in the past but remaining *formulaically* fully invested doesn't suit us. We want to manage Sequoia in a thoughtful manner through a variety of market conditions. The flexibility to hold some cash when conditions warrant may be an important tool for preserving capital at some point in the future.

You may also fairly ask why we have gotten more invested as the market's valuation has risen. Shouldn't it be the other way around? The answer is that we kept finding attractive investments and we felt comfortable with the valuation of our portfolio. While we have known since 2016 the direction we wanted Sequoia's cash balance to travel, the bottom-up, methodical nature of our investment process resulted in cash following a downward glide path rather than dropping off a precipice.

I want to emphasize that a smaller cash position has implications for the pattern of our own performance over time. Because cash will be less of an anchor when the tide of the market is rising and less of a buoy when it is falling, our relative performance versus the Index is likely to be more balanced than it has been in the past. In other words, our ability to outperform during falling markets will rely more on our stock picks than on retaining significant cash reserves. Our aim going forward is to outperform in bull and bear markets alike. It won't always happen, but that will be our aim.

I expect most of you are very familiar with this chart on the next slide. This shows the performance of $10,000 dollars invested in Sequoia since the fund's inception versus $10,000 dollars invested in the S&P 500. With dividends reinvested, that $10,000 would be worth more than $5 million today. It is our mission to extend this record of strong performance through the remainder of all our careers.

We are pleased that the results of the past three years match our belief that the firm is functioning well and that the dedicated group of analysts you see on the stage before you remain adept at finding creative and attractive investments on your behalf. But as I said, we are never satisfied, and we will work tirelessly to widen the gap between the performance of Sequoia and that of the broader Index.

We are grateful for your continued loyalty and the opportunity to invest on your behalf. Thank you, and now I would like to turn it over to Trevor Magyar.

TREVOR MAGYAR: Thank you, Chase and good morning everyone, I am Trevor Magyar. I am going to share with you some information on Sequoia Fund's portfolio and just as importantly, how we think about the portfolio.

Okay, this first slide provides high level perspective on concentration within the Fund over time. More specifically, the green line shows the percentage of net asset value in the top ten positions from the Fund's inception in 1970, through March 31st, 2019. The gray line shows the same concentration metric for the S&P 500 Index over the same period. The three-part punchline is that Sequoia Fund is and long has been significantly more concentrated than the Index, that the precise degree of concentration within the Fund has varied over time, and that the current degree of concentration within the Fund is within historic norms.

To be clear, we do not manage to a pre-set level of concentration. We simply aim to concentrate in our best and highest conviction ideas while maintaining a healthy awareness of our own fallibility.

The next slide shows the estimated EPS growth and price to earnings ratio of Sequoia Fund's portfolio as currently comprised. We calculated the portfolio's earnings and estimated earnings growth on a look-through basis. We have also included the EPS growth and price to earnings ratio of the S&P 500 Index for comparison. Note that this is not a perfect apples-to-apples comparison. For the S&P 500, the figures are based on Wall Street consensus estimates. For Sequoia Fund, the figures are based on internally generated estimates. The imperfection of the comparison is okay because the two points I would like to make don't require a high degree of precision.

First, we believe the companies making up Sequoia Fund's portfolio are significantly faster growing than the 500 companies that make up the Index. Second, we paid a modest premium for this strong growth. These are the same two points that my partner Chase Sheridan made last year when he stood up here to discuss the portfolio. The figures were different but only slightly. I would like to extend the conversation today by explaining what we believe these figures do, and more to the point, don't capture.

For starters, they don't convey anything about what we consider to be the highly advantaged nature of the businesses in Sequoia Fund's portfolio, relative to the 500 businesses comprising the Index. Nor do they have anything whatsoever to say about the long duration of growth we expect out of the businesses in the Fund's portfolio, again relative to the 500 businesses comprising the Index. If we get right down to it, these figures, however relevant and however suggestive, don't answer the all-important question they raise. Will we get more from this portfolio than we gave to assemble it?

Now, every investor is looking to get more than he gives, us included. What makes us different from most other investors is the strategy we employ in pursuit of this goal. We purchase, while paying very close attention to price, a collection of highly advantaged businesses with solid prospects, and then we hold them for long periods of time, as business owners.

This bit about our investment horizon is very important. When we are talking to a company's customers, competitors, suppliers – which, by the way, is how all of us up here spend the vast majority of our working days – it is always the long term we're thinking about, it is always the long term we are asking about. This is the work that gives us confidence that the portfolio is in pursuit of a winning one.

Critically, if we are responsible on price and we're right about the nature of our businesses and about what they are capable of over the long term, then we don't need to be right about much else. We don't need to have a view on what is going to happen in the economy or the stock market next year. We don't need to be able to predict how the current competitive fray is going to affect the company's earnings next quarter.

Our next slide shows Sequoia Fund's top ten positions by weight as of yesterday's close. If you ask any of us up here how we feel about the portfolio, it is this list, not some high-level portfolio statistic, that we immediately call to mind. These are the businesses whose long-term fundamentals will drive the performance of the fund.

If we just tick through the list, I think it is obvious that this is a very high-quality group of businesses with solid growth prospects. A lot of these companies are almost certainly familiar to you. For example, Alphabet, better known as Google, is dominant in search. Berkshire Hathaway, I don't know if there is any audience out there that has a fuller appreciation for this company, its CEO and his business and investing acumen.

But there are names on this slide that are probably less well known. What about Constellation Software? It's a conglomerate, comprised of dozens and dozens of vertical market software businesses. It is run by Mark Leonard, a clear thinking, and straight-talking Canadian who happens to have a four-foot-long beard and a truly excellent track record when it comes to allocating capital.

We also have Credit Acceptance, a highly rational and very differentiated operator in the subprime auto lending market. The company has proven out its model over long periods of time, covering all manner of market and competitive environments.

Another one I would direct your attention to is Liberty Formula 1. Many of you are probably no more than vaguely aware of the Formula 1 motor sport. But in terms of cumulative global audience, it ranks number one, ahead of both Champion's League and Premier League.

The fact is Formula 1 is extremely popular just about everywhere except the U.S., and through our shareholding, we own a piece of the league itself. What is interesting and exciting is that the sport is in transition. We believe fundamental improvements in the sport, how it is managed, and how it is monetized should drive the value of the business for years to come.

I am not going to go through the whole list. I think you get the point. We have assembled a collection of highly advantaged businesses, some well-known, others less so.

That that by itself is no great accomplishment. There is world of difference between spotting a business that is doing well now and zeroing in on one that you are highly confident will be doing well years from now. That is where our primary research comes in. Again, it is this work that gives us confidence in the portfolio. It would be nice if you could touch and feel the source of our conviction the way we do, but there is simply no tidy way to sum up all the long-term, focused primary research we do. What we do is quite simple, but it is not easy, and it definitely doesn't reduce well.

Which means, our strategy is all but impossible to employ without shareholders and clients who understand and appreciate it. We are very lucky and very grateful to have such shareholders and clients. We are working hard every day to make the most of the advantage you provided us with. Thank you for your time. I would like to introduce my partner Arman, who is going to talk taxes. Arman?

ARMAN GOKGOL-KLINE: Thanks, Trevor. Hi everybody, I would like to add my welcome to those of my partners. I am here to talk about taxes. You have heard us talk about how Sequoia is highly tax-efficient at this event and in our letters over the past few years. But we can certainly understand why it hasn't felt that way with all the taxes we've had to pay. So we felt like this was a good opportunity to step back and take stock.

Before I start my presentation, I am going to show my hand a bit, and share a few of the highlights with you. First, Sequoia has a lumpy tax profile, and while turnover increased over the last three years, turnover and gains realized are down noticeably so far in 2019. Second, the Fund's higher recent turnover has been about equal to Sequoia's historical lifetime average turnover and is still well below the average turnover of our industry peers. Third, the gains our turnover generated are noticeably more tax efficient than most in our industry. Finally, the benefit of realizing the gains we have and paying the taxes we have is that unrealized gains now make up a noticeably smaller percentage of Sequoia's net asset value. Okay, so moving on to the presentation.

We thought it would be helpful to start by discussing what makes a fund tax-efficient. Now, this first slide is going to take a bit of time, so I am going to ask you to bear with me as I walk through a theoretical exercise. In this example, we invest $100,000 into a fund at a 7% pretax annualized return over a 10-year holding period. The graph up here has time in years on the horizontal axis, and the value of the investment in dollars on the vertical axis. As this first line shows, tax-exempt investors in this fund would earn the just mentioned 7% pretax return no matter how the fund generated it. And at the end of the 10 years, their $100,000 will have grown to just short of $200,000.

But for taxable U.S. investors, how the fund generates that 7% pretax return matters a lot. There are two determinants of a fund's tax efficiency. The first is the tax rate shareholders pay on the gains realized. In the U.S., we pay a lower tax rate on long term gains, that is gains realized on investments held for more than a year, than on short-term ones, which are gains realized on investment's held for less than a year. So long term gains are better. The second determinant of a fund's tax efficiency is how long shareholders defer realized gains and thus the taxes due on them. The more we defer realizing gains, the more we benefit from compounding and the time value of money.

Let's start with the most punitive scenario, where the fund generates its return with a high turnover portfolio that sells every investment within a year of buying it. In other words, 100% of the fund's gains are taxed at the higher short-term gains rate and there is minimal tax deferral since shareholders have to pay off their tax liability annually. As you can see, the 7% pretax return falls to 4.6% after tax, and instead of just under $200,000 at the end of the 10 years, we have something closer to $154,000.

Now imagine the fund remained high turnover, but in the pursuit of tax efficiency, it holds the securities for one year and one day, meaning the gains are now taxed at the lower, long term gains rate. As you can see instead of the 4.6% after tax return, the investor now earns a 5.6% return, and instead of having roughly $154,000 dollars at the end of the 10 years, we now have more than $170,000.

Finally, let's look at a fully tax-optimized fund, where the fund both pays the lower, long term gains rate, and by keeping the same stocks for the entire term, defers realizing gains for 10 years. The account balance of this fund follows the orange line in the chart, and you can see the drop in the last year, when the account settles its tax liabilities. The interesting point to make here is that even with an extremely long period of tax-deferral, it doesn't add much to your after-tax return. In our example, a decade of deferral adds just 0.3% to the annualized after-tax return and roughly $5,000 dollars to the ending account balance. So, the message here is that avoiding short term gains is the primary driver of tax value.

Before I turn to Sequoia, I just want to highlight that the relatively smaller benefit of deferring long term gains, the 0.3% in our example, is actually the hurdle we have to consider when selling an existing long-term investment and reinvesting the proceeds. A key assumption we made in the above scenarios was that all three portfolios generated the same 7% pre-tax return. But the reality is generating the same return in a portfolio with no turnover versus one with turnover is unlikely in a rapidly changing world. Companies, industries and economies change when looked at over a decade. And so it isn't hard to imagine that a portfolio that prioritizes tax deferral could see its after-tax returns slide by more than 0.3%. In fact, flipping the argument on its head, it is not hard to imagine that a few smart decisions could result in overall returns increasing by well more than the 0.3% that you get when you optimize for tax deferral.

OK, so hopefully that discussion set the stage for how to think about tax efficiency. Let's now turn our attention to Sequoia and how it stacks up.

As you recall, the primary driver of tax efficiency is avoiding short-term gains. And as you can see on this chart, only about 2% of the gains Sequoia has realized over the past two decades have been short-term. For perspective, here is how that compares to our peer group as defined by Morningstar, where on average 17% of the gains realized were short term. Remember, avoiding short term gains is the single most valuable thing we can do to make Sequoia tax-efficient. And one of the primary benefits of our long-term mindset is that we take very few short-term gains.

As we discussed, the smaller driver of tax efficiency is deferring the realization of gains. I am going to look at Sequoia's deferral of gains in a couple of different ways over the next two slides. First, let's look at how long we have deferred the gains we have realized over the last three years. The punchline here is that on a dollar-weighted average basis, recent realized gains have enjoyed over a decade of tax deferral.

Next, let's look at Sequoia's turnover from inception. Turnover is a measure of how much a portfolio changes each year and is a direct driver of gains realized. Now, 50 years is a long time, but this chart helps to highlight a couple of important points. First, the line goes up and down a lot, which comes back to the lumpiness we talked about earlier. Second, despite a degree of catch-up from particularly low turnover in the years leading up to 2016, the higher turnover we have seen recently is still right around Sequoia's historical average. The recent increase in turnover from historically low levels has made it feel like turnover is abnormally high. But the level reached in 2018 actually just caught us back up to our historical average. As for how our recent turnover compares with our peers, there is unfortunately limited data going back 50 years. But looking at the available data, Sequoia's recent turnover is not only in line with its long-term historical average but is also well below the average turnover of our Morningstar peer group. In fact, Sequoia's turnover has been below the average of its Morningstar peer group every year for the past 40+ years for which we have peer group data.

Now, I suspect the question at the top of your minds is what does the shape of this line look like going forward? We obviously can't make any guarantees about the future. We will of course react to any fundamental changes in our companies and will look to take advantage of the market's mood swings as we strive to optimize our overall returns. But, as I mentioned earlier, turnover in 2019 has so far been materially lower. Now, because of tax laws and the Fund's fiscal year, some of the gains we took in late 2018 will be distributed to our fund shareholders in our upcoming June 2019 distribution. But this is simply a tax timing issue. And it's worth noting that this does not impact our separately managed account clients who already recognized those gains in 2018.

Okay, last chart. This graph shows the percentage of Sequoia's net asset value that is made up of unrealized gains. And as I previewed in the beginning, the benefit of having reconstituted our portfolio and paid our taxes over the last few years is that Sequoia now has lower unrealized gains. Only about 40% of the Fund's current net asset value is made up of embedded gains, which as you can see, is below Sequoia's historical average.

Now, the goal of everyone on this stage is to make sure we continue to generate strong returns that will generate strong gains for all of us in the years ahead. But I have hopefully explained over the last few minutes that Sequoia generates gains in a high tax-efficient manner and we do not foresee that changing.

OK, so that is the end of the tax presentation. I will now hand it over to John for some closing remarks.

JOHN HARRIS: Thanks, Arman. I only have one slide and hopefully this will be brief. Chase covered performance. There's not much more I can add there except to say that it's the same message as last year: so far so good, but let's see where we are in a few more years. In the meantime, we have opened up a nice lead on the market and we're happy about that. But that is the expectation around here. I've said this before: none of us came here to be a little bit above average. We all came here to be a part of contributing to and hopefully enhancing one of the best records in the history of this business. We hold ourselves to a very high standard, and so I would hope that when we come back here in three years, that margin versus the market will be bigger than it is today. I think just by virtue of the fact that we are more fully invested than we have been historically, and even than we have been over the last three years—that will help. But we'll have to see.

In the meantime, one frustrating aspect of what we do is that we hold these meetings once a year, but the reality is that over any given year, the number that you see at the bottom of the page has as much or more to do with luck than skill. Which is why we pay a lot of attention to the outcomes that we get over periods of three years, five years, seven years, ten years, but we don't pay so much attention to outcomes over a single year. Over a single year, what we focus on is the process, not the outcome, because over the long term, process drive outcomes.

So what does "focusing on the process" mean to us? It means doing outstanding investment research. It means using that research and the facts that we gather to make thoughtful, considered judgments, and then trusting in the fact that if we do that consistently and we execute at a high level, over time we have 50 years of history that proves that if we do our jobs, we get the results that we want and that you expect. A simpler way of saying that is: day to day, week to week, year to year, we need to put our noses to the grindstone and just do our jobs well.

But one thing I want to highlight today is that part of doing that is striking a very important balance. On one hand, we must stay grounded in a few basic principles that have always been at the core of what we do and that frankly must be at the core of any successful long-term investing operation. That's all the stuff you see up on the slide there. It's understanding that a stock is an ownership interest in a business and not a light that blinks on a screen. It's is doing your own work. It's thinking like an owner. It's focusing on the things that you can understand and not on the things that you can't. It's always and everywhere giving less than you get. That is who we are, that is who we have always been and that is non-negotiable. That can never change.

But the world does change – constantly. Some people say more so today than ever, and we have to change with it. Business is a lot like biology. If you want to survive and thrive, you have to adapt, and this firm has been successful over decades and different generations of leadership and different funds and a whole range of events and circumstances because as the world evolved and our competitors evolved, we evolved too.

When I showed up here in 2003, what we owned and the way we worked was very different from the way the firm worked 15 years earlier in 1988, and I'm sure back then the way they did things was different than the way Bill and Rick did them when they got started in 1970. And today, what we do, what we own, our competence, our circle of competence, is much different than it was when I joined in 2003. And it had better be different 15 years from now, in 2034 or whatever it will be, because while you always have to stay rooted in the things that define you, if you just stand there flat-footed while the world changes around you, you are in big trouble. That's just common sense.

So that's our challenge: finding the right balance between sticking to your guns on the one hand and changing as the world changes on the other hand. Your challenge is to watch us as we walk down that balance beam and figure out whether we have put all the pieces in place so that it's not a thin little beam we're walking down but actually a big, wide sidewalk that we can walk very comfortably down, where don't need to have our hands out at our sides and so forth. So you have to look at what we own, what we say, how we think, what we do, how we act, and ask yourself: does it make sense? Does it make sense that these people should get a different result and hopefully a better result than the other people who do what they do for a living?

Then the other question you have to ask yourself, which is even more important than that first question – and I hate to harp on this because I am always talking about it, but it's so important – and the question is: is there a culture here that will ensure that they keep walking down the middle of that path between fidelity on the one hand and adaptability on the other hand? Because we don't have any fancy machines around here. We don't have any patents. We don't have any economies of scale. We talk about this as a firm or a business, but really all it is, is just a group of people. And people come and go, so if you want the results to stay the same as the faces change, there has got to be something in the water. Today is really your day to take a little sip of the water and see if you agree.

That is probably a good segue to end the prepared remarks today and get into your questions. This is the fun part where you get to taste the water and ask us anything you want to ask us. We're going to open the mics and take your questions until 12:30 PM. We need to clear the ballroom by 1:00 PM. Just as a reminder, we will talk about stocks that we disclosed in Sequoia Fund's last public filing and any stocks that we have sold over the last year. Thank you and we're ready to take your questions.

Audience question: With respect to Vivendi, how important are the smaller subsidiaries such as Havas and Canal+, and what do you think about reports that management was considering selling a significant stake in Universal Music?

ARMAN KLINE: It's a great question, thank you. For those that aren't familiar with Vivendi, it is a French conglomerate owned by a successful businessman named Vincent Bollore. The company's major asset is Universal Music Group (UMG) which is the largest music label in the world and it has some minority wholly-owned investments in Havas, a mid-sized advertising agency, and Canal+, a pay TV operator in France and Africa and a few other emerging markets. The main asset by far is UMG. It drives the majority of the earnings and we believe the great majority of Vivendi's value. And importantly it is the rapidly growing business in the conglomerate. UMG grew revenues 18% organically in the first quarter. They don't give a profit figure in their Q1 update, but profits were likely up even more than that. Last year profits were up over 20%. UMG is benefiting from the move to streaming, and especially paid streaming, as we've seen a rapid shift in the industry away from CDs and downloaded music. Streaming benefits the labels because they get a cut every time someone listens to a streamed song.

Havas and Canal+ are smaller drivers of profits and even more so of value, individually and on a combined basis. They are both much slower-growing, more mature assets. Canal+ has some challenges in the French market where it likely loses money. But it has a very successful, fast growing, profitable business outside of France. I will ask Antonius to talk a little bit about that. Havas is a mid-tier advertising agency and the agency model is currently seeing some pressure as we see advertising become more digital. But again, Havas and Canal+ are smaller businesses and every day that passes, the UMG business which is the one we like, is growing faster and becoming a larger and larger part of the overall equation.

In terms of the potential UMG stake sale, we are interested to see where that goes. As a reminder, UMG has said they are considering selling up to 50% of the business to a strategic investor. Some of the numbers that have been thrown around imply a significant increase in the valuation of the business versus what it is being valued at by the market today. It is a very rare asset and depending on what price it sells for, assuming it sells at all, we'll have a decision to make. But we did not make the investment assuming a transaction would occur. We would have no problem continuing to own UMG over the long run. Antonius, do you have anything to add on Canal+?

ANTONIUS KUFFERATH: I don't have anything to add.

Audience question: *You have 21.4% of your investments in the high-tech industries, and if you include the extent that Berkshire also has invested in high-tech, probably closer to 24%, could you comment on the concentration in that industry?*

JOHN HARRIS: We pay attention to it, but I would be careful about characterizing the portfolio in terms of top-down allocations to sectors or geographies, only because we just don't own a lot of stocks. It's a very small sample size, and every company is chosen from the bottom up. We don't say, well, we would like to own an IT business, or we would like to own a railroad, or we would like to own something in this or that industry.

It has often been said around our halls that we are in the item business. We pick the portfolio item by item, and when ten stocks are two thirds of the portfolio, one in or one out can massively swing those allocations in ways that makes you say, boy, they must really think that this sector is better than this sector or this geography is a better bet than that one, when really we just sold one stock and bought another.

So I wouldn't read too much into it. We do pay attention to aggregations of risk of all kinds across the portfolio, whether it's industry-specific or regulatory, which sometimes can cross industries. For example, MasterCard may not be what you're thinking of when you think of technology companies, but that shares a regulatory risk with Google and Facebook. There are also cyclical risks that cross industry lines. So we think about aggregations of risk in all different kinds of ways, but we don't really think about the portfolio or constructing it in the way you described just because it really is from the bottom up, one investment at a time.

GREG ALEXANDER: And, I will add, we don't think of it as high tech. I mean, it is true that these are very sophisticated companies and I have probably said this in past years, but Google is just old wine in new bottles. It is the Yellow Pages, it is the encyclopedia, it is a whole bunch of stuff that existed before, but it just happens to be delivered in a much better method. I mean, gosh, there was a day when airlines were high technology, people would dress up to take the airplane or frankly a Frito Lay chip was pretty sophisticated.

JOHN HARRIS: Greg, did you ever dress up to take an airplane? [Laughter]

GREG ALEXANDER: Okay, I didn't hear that. [Laughter] But I mean, it takes grain, it breaks it up, it repackages it into a chip. There is a lot of drying technology, packing technology, etc. We don't think of it as high tech, there are things that are high tech, but we don't think of our companies as particularly high tech.

Audience question: Thank you. I think I sat closer in the World Series than these seats. [Laughter] My question is about CarMax and it's two part – it is a big holding – so your general thoughts, and then any insights you have about the omnichannel roll-out in Atlanta? Thank you.

GREG STEINMETZ: Yeah, CarMax, I think everyone knows it. They have 200 stores around the country, they are the country's largest used car dealer. They are the only standalone used car company that makes money. It is hard to make money in the used car business because you don't automatically get the parts and service business that you get if you sell new cars.

CarMax has cracked the code. We think they have a lot of nice advantages – they can buy cars for less than others, they can distribute cars very efficiently, they have the broadest selection by far, and they have a nice culture of continuous improvement that has proven out over the years. They have a finance subsidiary which allows them to make more money on their finance business than the typical dealer.

So, we're happy about all those things and they have growth. This year they are going to open about 13 stores on top of the 200 they already have, they are going to get comp growth, and they are very good about buying back stock with whatever they are not spending on the stores. So, we like it from that perspective.

As for omnichannel, I'd like to throw out one fun fact here. CarMax has a market capital of about $13 billion dollars. Carvana, the country's premiere online used car dealer, has a market cap of about $10 billion dollars. CarMax sells about six times as many cars as Carvana and they make money. Carvana loses money. When we look at those two numbers, they can't both be right.

The reason that Carvana has a big market cap is that as the online business grows, they think they can go from selling 100,000 cars to about 2 million cars a year, which would be about 5% of the market. We want that to happen because that would be an indication that buying cars online works. I would argue maybe Carvana is a step ahead of Carmax but that Carmax is closing the gap.

This year CarMax is going to hire about 1,200 people to man their call centers to take orders online and do everything that Carvana is doing. We think if the market for online is as big as Carvana says it is, CarMax will do just fine if not better because the consumer proposition that CarMax has is a little better than Carvana. You can test drive the car and you don't have to buy it before you get a chance to see it. We think omnichannel is a nice way to do it, it gives you both worlds and CarMax is well positioned to do both.

Audience question: Rolls Royce…I noticed, I believe in recent filings that it has fallen out of the top ten. Is that more of an expression of lower conviction in Rolls Royce or a higher conviction in the current top ten?

ARMAN KLINE: I think the recent movement is simply the change in share price of Rolls Royce versus the rest of the portfolio as well as decisions we've made around the rest of the portfolio. We haven't done anything with the position recently, as you can see in our filings. I would not say there is lower conviction in Rolls but we haven't added to the position either. I think the movement is just driven by the movement in Rolls' share price because it was never in the top half of the top ten anyway. And the positions weightings get tight in terms of the percentages of the portfolio that they make up when you get into the bottom of that half of that top ten.

Audience question: Hello, I just want to ask you a quick question. I have been with Sequoia many, many years. And I met Mr. Ruane, Mr. Cunniff, and one of the things about these gentlemen, the two gentlemen, they were very careful how they invested your money. Not only that, they kept quite a bit of liquidity, to the point at one time I was talking to Mr. Poppe, who used to be the head of this fund, and I said how do they do it? And he said, well, they were closet bears. They basically were very careful with the money. They were investors, so they were not jumping around. It reminds me of the philosophy of Jack Bogle. I am concerned about the future, not only of this company, but the future of our country. Well, my concern is, what is going to happen to all of us here, and I know you are trying to do the best you can, but your liquidity is very little, right?

JOHN HARRIS: I think the question was really about cash holdings in the Fund and confidence in the future. I think the best way we can express our confidence in the future of the Fund and the firm is that we all have very significant shareholdings in the Fund, so our money is invested right alongside yours and we're not doing anything with your money that we wouldn't want to do with our money.

In terms of the cash holding in the Fund, I don't think there is a ton to add to the prepared remarks, because they were comprehensive, but I think the big punch line is just that holding cash has hurt us. I think if there is one thing about the firm's history and the Fund's history that we'd love to go back and change if we could, we'd go back and be more fully invested over time.

The Fund's stock picking over a very long period of time and over pretty much any relevant stretch of history that you look at shows we would have done better if we had held less cash. I think history shows we are pretty good at picking stocks, and so we would like to see that show through in the fund's results to a greater degree in the future than it has in the past, and I think that will be to all our benefit.

GREG ALEXANDER: I was going to say, people do worry about the future and of course we do too. I mean, some people like our great leader in Washington, some people don't. There is global warming, interest rates and what have you. But if we just go about our business, if we find a good company that is at a reasonable price, and we have funds available, and we like it, and we think it adds something to the portfolio over and above what we have already…what are we supposed to do? So, we just do our best.

Audience question: Hi, yes, could you discuss Liberty Broadband, and why you own it, and what are your expectations for returns on that company over the next several years, and what is going to drive it? How does it fit into the current media landscape? And I have a second one if possible.

ERIC LIU: Liberty Broadband is a holding company whose main asset is a stake in Charter, the second largest cable company in the U.S. You may know it as Spectrum if you are a customer. We think that there are two major drivers to the thesis.

The first one is that basically all the profits come from broadband, and broadband is basically an unregulated utility in the U.S. with massive amounts of pricing power. The idea is you have a great moat around your core business that is growing through population growth as well as share gain as telecom companies like AT&T and Frontier give up market share.

On top of that, they can expand margins. Right now, their margins lag Comcast by about two percentage points. We think that gap will close over time. On top of that, you have the benefit of repurchasing shares, and because it is a highly levered entity, the combination of all that leads to mid-teens free cash flow growth per share. The market is valuing Liberty Broadband at about 17x forward free cash flow, so we think that is attractive as we hold that over the next five plus years.

In terms of risks, there are basically three main risks as we think about it. The largest risk is video. As you know, a lot of people are cutting the cord on video and subscribing to Netflix or services like that. We think that has marginal incremental profitability and it does not take much in the way of cutting costs or raising price just a little bit to offset most of that headwind.

The second major risk is 5G and what that might bring. We have done a lot of work around 5G in trying to gauge whether that is a superior technical alternative. The preliminary work is showing that it's pretty poor.

The last risk is regulatory, which we think in this current administration is pretty much a very low risk. There had been a slightly heightened risk in the last administration but even then, it was not an insurmountable problem. So that is the basic thesis on Liberty Broadband. I don't know if anyone wants to add anything else?

Audience question: Just on the taxes, mutual funds try to offset capital gains with capital losses during any tax period so that the shareholders don't have to pay taxes. And with regards to that issue, I mean, given that you are getting…we're paying 1% on top of whatever underperformance you might have versus the S&P 500, it would seem to me that you should try to offset the capital gains with capital losses in any given period, so we don't have to write a check every year?

ARMAN KLINE: Do you want me to start? [Laughter] I think if there is an opportunity to take a loss in an investment because our thesis or returns expectations have changed, then we will absolutely do that in a timely fashion to offset gains. We have in fact done a little bit of that recently.

But at the end of the day we are not convinced that there is really a net benefit to selling simply to harvest losses if we believe the losses are temporary. In the short term sure that tax loss harvesting is going to feel good. But in the long term if the stocks that you are selling to harvest your tax losses perform, it won't feel so good. For example, if we had harvested losses in December when the markets were down, we would have missed the January rally as we waited 30 days to avoid the wash-sale rule. And in the end our decision to harvest would not have felt so great because the tax benefit we gained would have been less than the performance we missed out on. As I said in my presentation, we don't think the tax tail should wag the portfolio dog.

Audience question: I have a follow-on for Charter. I have an enormous amount of respect for the management team, and it is quite intriguing, but if you truly are to think like business owners with $74 billion dollars of net debt on the balance sheet, the cash flow statement had roughly $3 billion dollars of true free cash flow last year. Even if you believe capex is elevated you're talking $4 or $5 billion dollars of cash flow. So as a business owner for any business, never mind one undergoing such significant change at the moment, why is this level of debt on a balance sheet of any business you own prudent for any business owner? Thank you.

ERIC LIU: One of the most interesting things about telecom is it is relatively slow-moving of all the sectors in technology. It is quite glacial. And the way we think about it is, one, we looked at the returns and said, are these still acceptable if they have to de-lever to what we would say is a kind of an industry-accepted number, so let's say in the mid-two turns of leverage?

The second thing I would say is, the free cash flow – your point of $5 billion. They will do a ton of free cash flow before their interest payments, so I think they do about $17 billion dollars in EBITDA and they spend about $7 billion dollars in capex. There is about $10 billion dollars a year pre-interest and pre-taxes that they can use to pay down debt if they require it.

I would say the returns are acceptable, not great, if they don't lever as aggressively. And they have great free cash flow capacity to manage their current level of debt. But there is also maybe a broader portfolio question that maybe someone else wants to answer?

JOHN HARRIS: Cable is an unusually steady business. In recessions, people don't tend to turn off their internet, or if they do start turning things off, that is one of the last things they turn off. So it's a business that can tolerate some leverage. But at the same time, it's a very valid question, and it's something that we talked a lot about before we made the investment, and we certainly would not want a portfolio full of them. Were we comfortable having 4% of the portfolio invested in what we think is an outstanding, incredibly difficult to replicate business and asset, run by, as you said, people whom we also have a lot of respect for? Absolutely. Would we want to own 20 of them? No.

Audience question: Last year you mentioned Schwab and the ability to continue to take market share from fuller cost brokerages for an extended period of time. I wondered if you might beyond that, elaborate a bit on the details of why you find Schwab attractive?

TREVOR MAGYAR: Sure, for people who aren't familiar, Schwab started life as a pure discount broker in the 1970s and today is a full-service investment platform for self-directed investors. It also provides platform services for RIAs. Both of these areas are growing.

Schwab has a very investor-friendly offering, it is low cost and it is good for the investor. And for years and years, it has been taking share. The company takes hundreds of billions of dollars every year from the $10 trillion-dollar wire house industry. That is certainly an important feature of the investment.

I remember when we were sitting around talking about the investment, we said, well, they have been growing their net new assets at close to 6%-plus a year, but that has to get harder and harder for them to do as they scale. Here we are four years later, and they have continued to gather assets at that pace, which on the base of business they have is very impressive. So we like the model, it is investor-friendly, it grows nicely and it's profitable.

I am happy to talk about different aspects of the model if you have specific questions, but at a high-level that's how we look at the business.

Audience question: In the context of portfolio construction, it seems to me that you are gradually increasing your allocation to offshore investments. I am curious what steps you are taking to get up to speed on accounting practices and regulatory regimes in multiple countries, and do you hold the same standard of understanding and knowledge about those aspects of your investments as you do in the U.S.?

JOHN HARRIS: We feel very comfortable with the accounting especially because we live in a more uniform accounting world than we used to. The U.S. is a little bit of an outlier in that we have our own unique accounting standards under GAAP. Most of the rest of the world, I don't know how many countries it is, but most large companies that are listed follow IFRS, International Financial Reporting Standards. So accounting is less of a hurdle to jump over internationally than it used to be. IFRS is not adopted by every company in every geography, but it certainly makes our lives a lot easier.

I would say we are much more focused on the fact that it is just harder to know a business from three, four, five, six thousand miles, and potentially in a country you don't live in, in a culture you don't know as well as your own, and a language you may not speak.

Now, we have massively increased our ability to cover a broader universe of companies and countries than we used to. When I joined the firm, I don't know how big our investment team was, but I want to say it was maybe eight or ten people. You saw the slide earlier. Today it's 27 people. We have two people who live in China full-time, we have consultants who are on the ground living in India, and we do an enormous amount of travel. So when I talked earlier about broadening our circle of competence, I think geographically is one way we have done it.

At the same time, the bar is always a little bit higher because I don't care how hard you work at it, and I don't care how much we have grown our competence – that distance still matters. I think it just stands to reason that if you are trying to catch rare fish, you'll do better if you cast a wider net, and that is why we have expanded our team and our capabilities in all the ways I just described. But at the same time, it is absolutely a higher bar when you invest overseas.

GREG ALEXANDER: I will just add, the world has gotten so much smaller. Almost everybody comes through New York sooner or later, even if we just sat on our own sofa. As John just enumerated, Jake just came back last night from Sweden, among other places, where he spent the week, and Antonius is back and forth to Europe all the time, and others to lots of other places. Heck, the internet. I mean if I am downloading an annual report from Pakistan and the latency is more than thirty seconds I start getting impatient.

CHASE SHERIDAN: Where our companies are domiciled isn't always reflective of where their exposure lies. Consider Constellation Software, which is domiciled in Canada but operates most of its business in the U.S., or Naspers, which is domiciled in South Africa, but is primarily exposed to China internet trends, or a2 Milk, which is domiciled in New Zealand but primarily exposed to infant formula consumption in China. We look through to where our business risk lies, and you can do the same thing for the S&P 500. If memory serves, about 45% of the revenue of the S&P 500 comes from abroad at this point and the makeup of our revenue of our portfolio companies is not drastically different. It has a bit higher mix of international, but it is not a huge gap.

Audience question: Thank you. Just being a long-term investor, I think it takes a lot of courage to reverse course and sell a position out, so I would like your comments on Electronic Arts, and maybe at the same token, my son is a big fan of Fortnite, so maybe some comments on Naspers as well?

TREVOR MAGYAR: Electronic Arts or EA is an investment we made late last year, and then sold early this year. That is something we do, but not all that often. Let me set the stage by saying that we have been intrigued for a long time by the video game industry. I think some of the first work that was done by folks in this firm, actually Arman, was back in 2010 when we looked at both EA and Activision.

JOHN HARRIS: Before you even arrived at the firm, someone asked me to look at EA in 2003 and I think after about three days we concluded it was a very bad idea. [Laughter]

TREVOR MAGYAR: So why were we interested in the space? The short answer is that this is where the eyeballs are going. The world has become increasingly fragmented from a media perspective, but video games are capturing just a stunning amount of viewing time. It is a global phenomenon, and it also cuts across ages.

There is a perception, or misperception, that it is only kids who play video games, but it is also adults, and not just young adults – it is older adults. There is also a perception, or a misperception, that it is only men who play video games. Women play video games too. Over 10-15 years, video games have gone from Mickey Mouse kids' stuff to just an incredibly powerful form of media. So that is why we were intrigued by the industry.

The high-level trends are interesting, but you have to find a way to invest behind them in a sensible way, and this is what we have always struggled with. We liked EA's sports franchises. The biggest and best is FIFA, which is a soccer game. EA licenses rights from FIFA, clubs and players throughout the world. EA has another game called Madden, which is American football. Same idea, they license the rights from the NFL and the players.

EA's sports video games are big business, and what is beautiful about it is that it is very steady-eddy. Every year new players come out, they change teams, there are new rosters, so if you want an authentic soccer video game experience, you are going to buy next year's game because it has all the new rosters and the new uniforms and what have you.

When we looked at video games, we knew it was a relatively dynamic space, but we saw this safe haven in these sports franchises that EA has done a wonderful job of building up in a bunch of different ways over the years.

However, that is not all of EA's business. EA also has a substantial non-sports video game business. These franchises too, over the past 10-15 years, have gotten more steady-eddy. It is perhaps odd, but as interest in video gaming has taken off, viewing time and certainly the dollars in the industry have consolidated around the biggest and best-known titles. It is a little like what you see with the comic book movies.

These big non-sports franchises are stronger and more reliable than they ever have been before. That said, the world remains a dynamic place. You mentioned Fortnite, which is a great example of that. At the end of the day, we were always a little wary of the reliability of these non-sports franchises.

When we made the investment, we said okay, the sports franchises feel great and we are happy to pay a very full multiple for those. On the non-sports businesses, we said, they look good, they are powerful franchises, but there is a little bit of faith we had to have in the company and the management team to manage those well over time.

In the first few months of ownership, there were a few developments in those non-sports franchises that just made us uneasy. To be clear, we could be sitting here in 3-5 years, and EA might well have done wonderfully, and I hope they do. But again, we just got uneasy. We had this moment where we had to gut check. The fact that we sold, I think it was at a 10% profit or whatever, but the fact that we sold tells you where we came out after that gut check.

GREG STEINMETZ: We have had quick round trips before. I believe the record was, Thor Industries lasted three days. It only made it three days because we bought it on a Friday. [Laughter]

TREVOR MAGYAR: I don't know if Arman or Matt has anything to add? Matt is one of the newer members of the analyst team and he doesn't like to boast, but he is a former semi-professional video game player. [Laughter] John talked about extending our circle of competence and Matt is a great example of that. Matt, I don't know if you have anything to add?

MATT COOPER: I mean, I wouldn't call it boasting. But…[Laughter]

Audience question: Good morning. Keeping with your theme of sampling the water, I'd love to hear from the folks in the back. And what I would love to hear is what is it that attracted you to working with this great group of people? How are you mentored, and how are new people identified and encouraged to join your great team?

JOHN HARRIS: That is a great question.

ARMAN KLINE: Yes.

JOHN HARRIS: I don't think you want 25 answers; does anybody want to volunteer? How about newest to oldest, so Matt and Dylan, do you want to talk first?

DYLAN ADELMAN: Great. I am one of the new guys on the team, and what attracted me most to the firm was the process and the people. John talked quite a bit about this in the presentation and prepared remarks at the beginning, but the process is one that is entirely unique. I spent many years prior to joining the firm following the industry closely and have tried to get a feel for how other investment firms like ours go through their research process. I always had this image from the outside that people would do a little bit of research, get to know some of the companies, the competitors, read the annual reports, the earnings calls, and make an investment decision.

When I interviewed here, I met with people like Arman, Chase, Trevor, and having them walk me through the investments and how they thought about them. One that really stood out to me was Trevor on Amazon. He sat with me for over an hour and walked me through in detail exactly how they thought about it. I came in skeptical of that investment and I left thinking, wow, these guys do the best research I have ever heard of. Having spent the last year here, they really do practice what they preach. Everyone can sort of say – we talk to competitors, we talk to suppliers, we go to industry conferences, but it is not like this. That is a big part of the process that drew me to the firm and what keeps me here and what makes me have a spring in my step every day. I come in and I get to join them and do that same research, the way that people who are much older, much wiser, certainly much humbler…[Laughter]

JOHN HARRIS: Line of the day!

DYLAN ADELMAN: I will get there eventually. [Laughter] That part of the process is really something that attracted me to the firm and I love it. Then, of course, the people. They are all some of the nicest, hardest working incredible people that I have ever worked with. I have a personality that is not particularly well suited to hierarchy and I think that fits well here. [Laughter]

When an opinion is expressed logically with evidence – a claim, a warrant, and an impact, that is taken seriously, and just because I am younger doesn't necessarily mean it gets less weight. Certainly there is some weight that comes with experience, but being willing to listen to people who are do the hard work and present the facts, and having a culture that is supportive of young people like myself, is one that I don't know any other firm that has something like that and I have plenty of friends in the industry and it is nothing like this.

JOHN HARRIS: What is fun – and a little scary and humbling – is when our younger analysts come in and do the same work that we do, but they do it bigger and faster and better and smarter than we do it. Dylan just finished one of the better projects I have ever seen done at RCG. Dylan, how many interviews would you say you did from beginning to end getting to know the company that you were working on?

DYLAN ADELMAN: Well, I know the exact number that I published for the team was 75. There are about 15 more that haven't been written up yet and I am sorry it has taken so long to get those last ones out.

JOHN HARRIS: Sit down! How about Matt, and then Eileen?

MATT COOPER: I don't have too much to add, Dylan covered most of it. My name is Matt Cooper, the former semi-professional video game player but don't tell your friends, I don't want people knowing that. [Laughter] I think the thing that is really special about this place is what John talks about a lot, and that is culture.

Everyone here is intellectually curious to the point where they don't care if the message comes from Dylan or I and if we have only been here for nine months or 12 months. They don't care if it comes from somebody who has been here for 30 years. It is a question of whether the idea is logical and rational. Does it pass the smell test? I think it is hard to foster an environment that is very anti-bureaucratic, and one that is not political whatsoever.

Everyone here, every day, is trying to find the best investments. It is a tough business and I feel like as John says all the time, it is all about culture. That is what attracted me and Dylan here – the culture.

EILEEN JANG: Hi, my name is Eileen, I am in my fourth year here at the firm. I don't know if I have a lot to add to what these two have described so well. I would say there really is a tradition of excellence in what we do here and the culture really supports that.

JOHN HARRIS: Maybe we should have one older hand. I don't know when the last time was that Jake spoke at one of these, but this is one of the more important people up on this stage even though you don't hear so much from him. Jake, do you want to talk a little bit about your experience?

JAKE HENNEMUTH: All right, well, I don't feel that old, but I have been here for 15 years. It is amazing to me, when you look around at the number of people that don't look or feel that old who have been here for 15+ years. Time flies when you are having fun! I think everyone captured it well.

The only point I would add in additional to intellectual curiosity is intellectual honesty. The ability to test your thesis from all angles and when we're trying to learn about a company or an investment, you can't be proud of it. The fact that you did 75 interviews can't mean, boy, I have got to get this stock in the portfolio. It has got to be the right stock; the 76th call might be the one that kills the project and Dylan should be just as proud of that interview as the 75 before it. It is that intellectual honesty which is critical. We need first and foremost to be right not to be the guy or girl that got the most stocks in the portfolio.

Audience question: Just making a leap from the culture at your firm to the culture of your largest holding Google, and sort of a broad question, sort of leaving aside the regulatory risks which are numerous, what risks do you guys worry about with Google long term? Maybe the culture changing, a lot of news recently, there was a piece in the Times about Amazon, I know you guys own Amazon too, so getting into their ad business and maybe Google trying to get into *the retail business so there is some convergence there. What about Google's main platform of their advertising business do you guys worry about? Thanks.*

CHASE SHERIDAN: Well, it is in a very strong position. When there aren't things to worry about, we'll manage to invent things to worry about and when we invested back in 2010, we were worried first about the shift to mobile and how that would affect them, and we were worried about Facebook because they were competing for ad dollars and promoting social search.

I believe we first flagged Amazon as the biggest competitive risk Alphabet faced during our Investor Day in 2012. Recently that has become a more accepted view. Amazon is building a very substantial ad business and it is building it very quickly. Not all of the incremental ad dollars spent by advertisers on Amazon will come out of Google's pocket, but some of them will.

We expect Amazon's ad business to grow very quickly. That said, the position that Google has in global advertising remains as strong a business as any I have seen.

You mentioned putting aside the regulatory risks, but the regulatory risks are substantial and not something we can quite put aside, I wish we could. When you invest in strong business models, regulatory risk tends to come with the territory, and that applies to Google, Amazon and Facebook. The regulatory risks probably outweigh the competitive risks with that group.

You mentioned culture, and I still believe Alphabet has a strong culture. The company was founded with a certain level of idealism. As you know, they were heartfelt about their motto, "Don't be evil," and they do everything in their power to make Google an attractive place to work for the most talented people they can find.

That level of intellectual power among their employees is unbelievable, and they do everything they can to retain good people, but this is a very large corporation at this point. They won't retain everybody. But we ask, we check all the time on the risk of brain drain and ascertain whether Google is retaining its highest value employees. By and large they do a very good job of retaining their employees in the face of a very hot market for start-ups, which is an accomplishment. Is there any aspect of the question though that I have missed?

Audience question: Maybe if you could just elaborate a little bit on whether Amazon is stealing some of their share, and the voice element of this, everyone is coming up with a voice? Will that potentially be a risk to Google?

CHASE SHERIDAN: Is there anything Google can do to counter Amazon potentially encroaching on their share? Well, they are fighting on many fronts. They are attempting to make it easier to buy things through Google by facilitating transactions as an affiliate. They are trying to simplify payment and utilizing new ad formats like hotel ads and product listing ads, for which manufacturers upload their inventory to Google so that you know that the product is in stock when you click on the ad.

So they are fighting on every front, but at the end of the day Amazon has more than 50% of product searches originating on its website. That is where the eyeballs are. It is not that they are necessarily moving a lot more people in the mature markets onto the website at a high rate, it is just that they haven't monetized those eyeballs in the past through advertising. They have monetized them through other means.

What is good for Amazon is not necessarily equally bad for Google. We expect and are rooting for that advertising business to grow and grow quickly. They do battle on the fringes, but they are very different businesses and there is room for them both to continue to flourish. You see it in the results. Amazon had a bang-up year in advertising. I think it is about a $10 billion-dollar business annually and it is going to increase rapidly. What rate is it increasing at, Trevor?

TREVOR MAGYAR: I think it is about 40%.

CHASE SHERIDAN: About 40% year over year. Meanwhile Google grew revenue in the high teens year over year. They are both doing very well.

Audience question: I have a governance question. I am curious to know what one or two projects the Board has worked on this last year? And as of May, from what I read we have 40% of our Directors had no ownership in the Sequoia Fund. And one of the Directors in this last year sold the position. I just find this interesting?

JOHN HARRIS: I don't know that we're going to comment on Director Fund holdings. I think what is most important is that the people who manage the Fund have significant shareholdings in it and everybody up on this stage absolutely does. We're eating our own cooking and our money is invested right alongside yours, as it must be.

One topic that gets frequent attention at the Board is cyber security, and that is something that is top-of-mind for us both in terms of the mutual fund and our broader firm. It crosses a whole range of processes – everything from the technology we use when people at the firm are logging into our systems remotely, which is way more sophisticated than it used to be, to policies that we are in the process of thinking through about the devices that we allow people to travel with when they go to different places.

I can't tell you how flattered I have been by the fact that someone thinks that the Chinese government might actually care what is on my phone when I go to China. Before long we may be travelling to certain countries with different phones to protect client information. It goes all the way from technology to the simple plumbing processes. We have lists we go through, boxes we check, procedures we follow whenever money moves through the firm to make sure that we have multiple redundant layers of protection against someone trying to fraudulently get money transferred out of the firm somewhere it is not supposed to go. I would say if there is one broad topic that is top of mind for the Board and governance at the firm, it would be cyber security.

Audience question: Would you please comment on Rolls Royce's engine trouble and future prospects, and also if possible, could you give us an estimate as to the amount and timing of the next distribution?

JOHN HARRIS: We do not provide an estimate for the distribution.

ARMAN KLINE: The engine troubles that are being referred to at Rolls Royce are the Trent 1000 for the 787 aircraft made by Boeing. There are two engine suppliers to the 787 – GE and Rolls. If you go back five years, the GE engine was having lots of trouble, and unfortunately two years ago, the roles reversed, GE fixed its problems and now the Rolls engine is having its troubles. That aircraft has had some troubles too. I think the lesson there is maybe the technology was pushed a little beyond the envelope.

In terms of the fixes, the initial fix for the majority of Trent 1000s in service has been approved by the regulators and it is being rolled out. It is going to take probably four years from identification of the fix to getting the fix into the fleet and in the meantime, there are restrictions on how much the 787 can fly between checks. That means that in addition to simple warranty costs, there are also costs to Rolls as it makes payments to airline customers to make up for disruption. That has been the pain that we have been feeling in terms of the results.

From the checks we have done and from what the company has said, there is no reason to believe that the fix won't work at this time, and that we aren't on a path to resolve the Trent 1000 issue. As I said, the FAA and EASA in Europe have approved it.

Taking a step back, there was an interesting chart on a report I was reading, which shows you the free cash flow of Rolls Royce over the last 10 years and what was disheartening and at the same time really encouraging is if you adjust for current Trent 1000 fix costs, Rolls' profits would have already met their 2020 targets. That's not so say you should ignore the Trent 1000 fix costs completely. They are a strong reminder of how difficult a business this is. But as we have talked about in this forum before, this is a company that is going from about 20% market share to over 50% market share in widebodies. It sells its engines at a loss, especially new, young engines, like the XWB for the A350 aircraft, and then has 20-plus years of high margin profits on the back end of it from the aftermarket business.

When you have a small installed base of aftermarket profits supporting a rapid ramp up in initially loss-making new engine deliveries and now this engine fix on top of that, the free cash flow looks like it is getting pressured. But the new engine losses are investments we knew were coming and we are happy to make them. Importantly, we're starting to move past those losses such that over the next two or three years we expect to see new engine losses decline towards breakeven. At the same time, we should start to see a rapidly growing aftermarket profit pool thanks to all those engines we are putting into the market. The market sees it coming too, which is why the stock has kind of done this big v over the last couple years.

We continue to believe that the business's ascendancy will continue. Through our channel checks, we believe the company's publicly available long-term forecasts are on target and we are expecting them to execute and to improve.

ANTONIUS KUFFERATH: Just to add to what Arman said, Rolls Royce is undergoing three significant transitions at the same time. Arman touched on two of them. The first one is on the production side going from 300 jet engines a year to a 600-a-year build rate. That is a tremendous ramp up. Then within that, if you look below that headline number, you see a change in mix and production. I think that is often underappreciated. The Trent XWB, the newest model, is taking up a proportionally greater share and being built at a rate that is much higher than any past build rate. That is driving the unit economics on the new engines and leading to the cost reduction that Arman talked about.

The second one is as Arman pointed out, the aftermarket growth where we're going to see the cash flow coming through over time. So those are the two big ones.

The third one is a change in management, a transition in the management and in the efficiency of the operations and the quality of the management. There have been multiple rounds of layoffs and restructuring and the company is changing into a high-performance organization that probably meets the standards of the highest quality American industrial businesses in terms of performance expectations of management and staff. That is something that is cultural, takes longer, and might not be immediately visible in the numbers but will certainly show over time. And it is beginning to show already.

JOHN HARRIS: We're always thinking about the moats around our business – how wide are they, how durable are they – and I remember when we first made our investment in Rolls Royce years and years and years ago, one thing that was on my mind then was whether one day GE and Rolls would have Chinese competition in the engine market. Well, I'm not so worried about the Chinese making the engines anymore, because we can barely make the engines! [Laughter]

ARMAN KLINE: It is hard.

Audience question: The portfolio contains two holding companies, Naspers and Liberty Broadband, they both trade at sizeable discounts to the core liquid components, Charter and Tencent. What is the thought process about owning the holding company or the underlying, and then for Naspers, they have made I guess two big changes in the last year? They spun off their African media business, and they announced another listing in Amsterdam, and I am curious to hear your thoughts on those?

ERIC LIU: I cover both Liberty Broadband and Naspers. When we buy a holding company we first think of buying a business and we think about two key things. One, are you buying an underlying business that you like, and you think will grow and be great over time? And, in both cases we do. Second, do we think the management teams that run these holding companies are responsible and are aligned with you? And I think in both cases we believe that.

Specifically, on Naspers, they spun out MultiChoice and they are moving to Euronext Amsterdam. I don't think that these will solve the issue of the discount, but I do think they are concrete indications to us that management is aligned with us and is trying to realize the full value for the assets. I don't think there is going to be a silver bullet, but I do think that they are taking steps in the right direction, which was our thesis all along.

Audience question: You had the indexes, I think Greg talked about it last year, have been very difficult to beat. So, thank you for your work and especially in the last ten years. In the future, if a couple of you could talk about whether you think it will get harder or easier and why?

JOHN HARRIS: Not harder, not easier – just different. It gets back to the comments I made earlier about how the world changes. I don't think that the quantum of opportunity for firms like ours and people like us ever changes because I think it traces back to some basic human behaviors that just don't change because they were hard wired in our brains over millions and millions of years of evolution, and at our core, we are flight animals.

Our brains were not necessarily wired to make rational decisions amidst uncertainty and they certainly were not wired to make rational decisions amidst uncertainty and disruption and stress. If that is true, as long as it is human beings at the end of the daisy chain, putting the money in and taking the money out of whatever vehicle it is, whether it is the index fund or the ETF or the sector fund or this fund or the that fund, the market will not always be a perfect weighing machine. There will be opportunity for firms like ours.

Over time as trends in investing change and as the composition of the way money is invested and the market changes, the complexion of our opportunity and the cadence of opportunity can change. As the world becomes more indexed and as stocks tend to move more in-line with each other than maybe they would have 15 years ago, opportunity is probably a little more episodic and a little less idiosyncratic than it used to be.

I don't want to make blanket statements because we still find the diamonds in the rough – a2 Milk, Credit Acceptance, Melrose Industries and so forth. Those have not become impossible to find but I'd say they have become a little harder to find and what you do see more often are these generalized episodes of opportunity, whether it is what happened at the end of last year or what happened at the end of 2015. There was another one, I can't remember in 2011 or 2012 when the credit rating got downgraded, and obviously in 2009.

In an increasingly indexed world, you will see more of that, but I think what is most important is has the market all of a sudden become a perfect weighing machine or is there still a voting element to it, to borrow an analogy that Benjamin Graham coined. I think the answer is it is not a perfect voting machine, people are still imperfect, markets can still be irrational and the quantum of opportunity that is out there for us to exploit is still significant. We have just got to go out and do it.

CHASE SHERIDAN: If we saw investors becoming more patient, that would worry me because our competitors are smart. If their investors allow them to do what we do, I think that the scrutiny of the types of investments we like would go up and the valuations may subsequently go up.

I am seeing more of the opposite. I don't think investors have become more patient over time. I think it is becoming harder and harder to outperform when your time frame is short term, 12 months and under. It is a real arms race with some incredibly smart and capable firms putting a lot of computer power and brain power behind that effort.
We have patient investors; most of our competitors frankly do not and as a result, the future remains promising.

GREG ALEXANDER: Those are all very good points. I will note one observation of the current moment just because I think it is interesting. On the one hand, the market is in year ten of the economic recovery and there are signs of bullishness when you have Lyft and Uber go public. I guess WeWork and Chewy.com have filed to go public. What else is there? Which is a pretty good money loser also going public? Jumia in Africa, right.

They are all fascinating companies, it is just that they… in the olden days, some in the audience will get this, there was a time when if you wanted to spend a lot of money you had to make it first. [Laughter] [Applause] Anyway, on the one hand you have that going on and at the same time there is a lot of anxiety when Google grew 19% instead of 22%, which it had been the prior quarter. 19% is not that bad in a world of 2% inflation. The anxiety is a healthy sign. You see stocks that are down 30% on that. I don't know quite what I am saying, but there is a tension.

Audience question: Thank you for taking my question. There is two parts to this question, the first one has to do with capital gains, a novice person like me just wants to know is it based on the number of shares you have, the total investment or price per share? That is the first question, and then the second quick question is, is there any concern about pharma companies, in terms of purchasing stocks in a pharma company, and the push towards reform with the cost of medication that is occurring, and all the stuff around the opioid crisis, is there any concern about that?

JOHN HARRIS: The capital gain question depends on how the fund performs after you buy your shares and how long you hold the fund. It's different for every individual investor.

In terms of pharma or any other industry, we construct the portfolio from the bottom up, one company at a time, and nothing about what we do is driven by how we feel about one industry versus another. I frankly don't know that our opinion on that would be any better than yours or anybody else's.

Audience question: I would appreciate any comments Jon Brandt might have on Berkshire Hathaway? [Laughter] [Applause]

JONATHAN BRANDT: Anything in particular?

Audience question: How long do we have the room? [Laughter]

JONATHAN BRANDT: Right now, Berkshire is earning about 10% return on equity, which is as high as it has been on a core basis. I am including look-through earnings from equity investees in earnings when calculating the earnings. The core question an analyst has to ask when looking at returns is how to consider the $100 billion of excess cash that Berkshire is now carrying which might be earning about 2% after tax. If Berkshire can put that money to work, and they clearly want to do it but haven't done it, it can potentially become a 12%- return-on-equity company. If you make a few other little assumptions, like Precision Castparts getting half way back to its historic margins, and as you probably know, the BNSF railroad's operating margins are lower than all of the other North American railroads. If you make some assumptions about whether that can get even halfway to the other ones, you get up to a 12% return on equity. Now the problem is they have to keep the money invested to maintain that level. You can't do a one-time, $100 billion-dollar acquisition, you have to keep recycling it. And even though Berkshire is very big, I think that it still has a fighting chance of being a low double-digit return on equity company.

To get there, you have to also assume that the corporate tax rate stays where it is, but all companies are going to be affected the same way. It is certainly not going to be our highest performing stock, but I think given the very low PE ratio it is selling at on a look-through basis, it is well below 14 times earnings the next twelve months' earnings, even with all that cash only earning 2%, with decent prospects for growth both in insurance and in the operating businesses.

I think insurance will grow a little faster and this opportunity to put money to work…you can run a scenario where if you only looked at a five-year period–and we look further out –but if you only did a five year IRR projection, if you can get the money to work, you can get into the mid-double digits, although The stock cannot perform that well long-term basis. In any case, so much of the investment case rests on what you assume for that $100 billion dollars of cash. If the company doesn't put the cash to work, you do okay. If it does put it to work, you'd do better than okay.

Audience question: Yes, I became a Sequoia Investor at the time at which it opened after a 25-year hiatus. I notice you have a substantial amount of money invested in Sequoia, and I was wondering as to whether Sequoia has considered a time frame, where they would then close it to new investors.

JOHN HARRIS: The short answer is yes. The longer answer is right now we don't feel like more capital in the Fund would constrain us in any way or impact performance. The first and foremost thing we're always worried about is making sure that we can compound your money as fast as possible. If we ever get to a point where we feel like the assets in the Fund are getting to a level that is restricting the universe of companies that we can look at, and as a result potentially limiting our ability to compound the capital at the highest rate we can, then we are going to close the Fund. We have a history of doing that and we'll do it again. But for the moment, it's not an issue on our radar screen.

Audience question: Hey, thanks guys for kind of sitting up there for a while, and sharing your wisdom and insights, I really, really appreciate it. My question is about a smaller holding, a2 Milk. It is the one I am a little curious about. I think you guys likened it to Fage or Chobani, in the letter you wrote. It struck me as more of a commodity business in a way because there is no apparent textural or taste difference to an end consumer. Can you talk about the moat that you see in that in that business?

WILL PAN: a2 Milk is a newer position so maybe I should go through the basics. The a2 Milk Company commercializes a concept called A2 or A2-only milk. Show of hands, how many people have heard of A2 Milk?

Okay, all right, and how many people have tried A2 Milk? Okay. So, if you want to support your portfolio, [Laughter] go to Whole Foods and buy some a2 Milk.

What is the concept of A2 or A2-only milk? There is a major protein in cow's milk called beta-casein. It is about 30% of the solid content of milk and it comes in two forms - A1 and A2. A1 is a mutation or is formed by a mutation that occurred in a breed of cow called the Holstein Friesian about 10,000 years ago. It was spread all over the world by dairy farming, agriculture and breeding.

The mix of milk today is – the way genotypes work – you have got A1-A1 cows that produce A1 only milk, and you have got A1-A2 cows and they produce a mixture, and we've got A2-A2 cows and they produce this A2 or A2-only milk.

Why is this distinction interesting? Well, in the late 1990s there were some epidemiologists doing research who found a correlation between the A1 content of a country's milk and the incidence of heart disease and Type 1 diabetes. That's scary. If that kind of thing were proven I think everybody would switch away from the milk that we drink today to A2-only milk. It is not proven. The scientists are still working on it, and with the way that nutritional studies work, we may never know.

One of these scientists who did the original work started a company to start commercializing this milk. Originally, they started suing and countersuing other big milk producers and making these health claims and it was a big mess. Eventually they hit upon something, which is that some people seem to really need this A2-only milk. A lot of people have dairy intolerance, some of that can be solved. Some of it is lactose intolerance, so it can be solved by a milk with lactase or lactose-free milk.

There are some people who can't drink conventional milk, can't drink lactose-free milk, but can drink this A2-only milk. So maybe there is some A1 intolerance in some people in the population and this is what propelled the company's growth. Over time, they have taken 10% share of the Australian milk market with this A2 brand milk and they are the only A2 brand in the cold case. In Australia, they outsell lactose-free, organic, and plant-based milk combined and so they've become synonymous as a brand with A2 milk.

To your question about is it a commodity, it is at the end of the day real milk. The way that they get it is they genetically test the herd, they find the A2-only ones, they put a fence around them, and they process that milk separately. It is real milk, some people think it tastes better, but then they brand it and because they have the trademark on A2 in so many countries around the world, we think they have a chance to really build a brand that is synonymous with the category and we think there is room for the category to grow.

We have talked a lot about milk, I should make it clear though that after they got 10% share of the Australian milk market, in 2013, they launched an infant formula product. I think one of the reasons why they launched it is because this A1 mutation only occurred in cows. Mammal milk - goat's milk, sheep's milk, human milk - it is all A2 only. The fact that mother's milk is A2-only, it is logical that you would make an infant formula out of it.

With that product, inside of five years, they took over 30% of the Australian infant formula market. A lot of that is destined for China. Half of Australia's infant formula ends up in China; Chinese buyers are clearing the shelves in Australia and sending it over to China. They have 5% share of that $25 billion-dollar Chinese infant formula market. It is the largest in the world and so that business is now 80% of a2 Milk. They started in fresh milk but now it is basically an infant formula company. We think they can increase their share further in the Chinese market, mostly by going direct into the specialty offline retail channel.

Think about how foundational of a product this is. Milk is consumed in so many places. It is in so many different products. We think that the company also has a chance to expand globally and expand into new product categories. In China they are going to introduce a fortified, nutritional milk powder for children aged 4-12, a follow-on from the infant formula. In the U.S. they are commercializing this fresh milk business. U.S. fresh milk is a $15 billion-dollar market; it is 10X the size of Australia's and they are growing. They are doubling year on year in the U.S., they are in Kroger nationwide, they are in Costco, they are in Wal-Mart, and Whole Foods (just a reminder!). They are going to introduce a dairy coffee creamer very soon here and we think there will be other offshoots from the product over time.

JOHN HARRIS: To add to your question about the moat, it's a consumer brand. With consumer brands, often it matters more what's on the outside of the package than what's on the inside of the package. Mayonnaise is mayonnaise is mayonnaise, Greek yogurt is Greek yogurt is Greek yogurt, ketchup is ketchup is ketchup. But Heinz is Heinz, Hellmann's is Hellmann's and Fage is Fage, even though there are 10 different kinds of Greek yogurt.

a2 Milk has built a brand, and it helps that they were first to the category. Not only have they built a brand, but they built a brand that is sitting at the intersection of some powerful tailwinds, in that there has never been a better time to build a challenger brand. There has never been less trust in big, established brands. And if you are going to build a challenger brand, there has never been a better time to build one that is wrapped in a message of health and wellness.

So they're in a very good place, and they got there first. They built a brand, and a lot of our work on this was around whether we think that this is a team that can continue to build, burnish and enhance that brand and build the Hellmann's or the Heinz or the Chobani of A2 milk. If they do that, to Will's point, it could be a big business.

Audience question: Thank you for your quite interesting presentation and very insightful answers. I just wanted to just inquire a bit further as to the previous question on the culture at Google. I am just wondering in an age of increasing political correctness and employee activism in compliance, do you think that in some ways the culture of the company could be somewhat imperiled as to innovation? So, is there a risk that they just become less creative and more risk averse as a tech company?

CHASE SHERIDAN: Well, they have got a long way to go before risk-averseness is a problem. [Laughter] I think Larry Page often says that it is hard to spend a lot of money on true moonshots because they tend to be in nascent areas. But he is looking, and in terms of innovation, I think Alphabet is the new Xerox Park, Bell Labs of our generation – times ten.

Alphabet is pursuing innovation on a scale that no other company in the world is matching. With the amount of money they spend on R&D, I can promise you that their margins are not being optimized for current earnings. They could be much higher, and the reason they are not is that they are investing for the very long term.

There is no evidence that the management of Alphabet is becoming risk-averse or shrinking away from innovative projects. There are many examples to the contrary. They are the world leader in artificial intelligence, as I am sure you know. They have designed and built their own processors for machine learning, their tensor processing units. The autonomous driving unit, Waymo, will consume a lot more capital before that is a successful operation, and there is no guarantee that it will become a successful money-making operation. Waymo is a great example of the kind of projects they are willing to pursue. They have always wanted to take on projects that change the world, so certainly I suppose rising risk aversion is a risk, but we are not seeing evidence of it in the culture. They remain willing to invest heavily in new arenas.

I think we should give them some credit for their investment strategy because I don't think there is another company that could have incubated

YouTube, for example, in the way that Alphabet incubated YouTube. The $1.6 billion dollars they spent to acquire it was a drop in the bucket compared to the amount they have invested in it since. We believe YouTube is a profitable enterprise now, but that took many years and I don't think YouTube would be YouTube if it had a different corporate parent. The most common estimate you see is about $16 billion dollars of run rate revenue and 1.5 billion daily viewers. That is a massive success, and it takes vision to do that. I don't see evidence that vision has deteriorated.

TREVOR MAGYAR: I think Chase is right, it is hard to see from the outside any signs that Google is getting risk-adverse or less innovative. But an interesting question, which wasn't your question exactly, is whether Google's culture is the right culture for every opportunity that they are going after. And the reason I raise that question is because of the cloud business they are trying to nurture and build. Amazon got off to a very, very fast start in that business, followed by Microsoft. Google is working hard to enter that market, and if you talk to people about the actual technology they have there, everybody raves about it. But the question that everybody then asks is can Google get their act together and do what it takes to serve enterprise customers, which is really important in the cloud business. I think that is an open question. Google is wonderful when it comes to engineering. They make wonderful products but serving enterprises is a different undertaking and it is not clear that that is a real strong suit for them culturally speaking. They are taking steps to address it, but I bring it up because the cloud business is one of their most important initiatives and it is one where the culture may not be perfectly aligned, at least so far.

CHASE SHERIDAN: I believe they are hiring 5,000 new people just to support the Google Cloud Platform, which is one more bit of evidence that they are willing to invest heavily in new initiatives.

Audience Question: There is a relatively scary saying along the lines of, "I am from the government, I am here to help you." From that perspective, do you folks need to spend any time thinking about all the trade tariff talks and how it might affect your businesses?

CHASE SHERIDAN: We think about them on the level of our individual businesses. So the analysts monitor the risks to each specific business. If tariffs affect one of our businesses, the appointed analyst will be on top of that and research that individually. It is bottom up rather than top down but for the companies that we cover that might be affected, we can have the analysts themselves speak to that.

TREVOR MAGYAR: And it helps some companies too, by the way.

Audience question: Hi, I have a question about Amazon, given all their capital-intensive undertakings with planes and delivery, and I read that they are going to design chips, etc, is there any concern that they may turn into a conglomerate through this vertical integration, and that the PE will follow a conglomerate PE? And then just secondly, you mentioned the cloud business, which Amazon has been public for 20+ years, but you really didn't hear about the cloud business until four or five years ago? So, is there any concern about some other underlying initiative of that scale that we don't know about that may be positive or negative? Thank you.

TREVOR MAGYAR: Thank you for the question. I don't know if "concern" would be the right word. We would love it if there were another AWS underneath the hood. But let me take the question on the capital intensity.

Amazon has been reasonably cash generative over its full life, so just to put it in perspective, it has largely self-funded throughout its history. Now, that has changed somewhat recently with the development and growth of their cloud business, which relies on leases that I think you could fairly characterize as debt.

But overall, Amazon has gotten to where it is largely on its own, without much external funding. As a point of comparison, I think we mentioned this last year, Walmart didn't go free cash flow positive until the mid to late 1990s. So from a cash flow perspective, it has been impressive what Amazon has been able to do.

You mentioned that some of their initiatives are capital intensive, and I mentioned cloud specifically. It is capital intensive, but it is also high margin, so I think we're comfortable with that.

Amazon is also investing more and more in logistics on the e-commerce side of the business and some of that will be capital intensive, so buying their own planes, buying their own trucks and more.

On the other hand, you have the advertising business that we talked about earlier and that is capital-light and extremely profitable. This is a long-winded answer, but I guess we'd say that parts of Amazon have gotten more capital intensive over time, but the full history is still pretty flattering in that respect and I can't say that it is a huge point of concern for us. I don't know, would anybody add anything?

CHASE SHERIDAN: I would ask the same question in a different way which is are you more enthusiastic or concerned about Jeff Bezos's capital allocation practices?

TREVOR MAGYAR: I would love to see him invest in initiatives he deems worthy. He is obviously not just a great manager in terms of running the business, but he has been bold and patient in terms of some of the opportunities he's gone after and delivered on. I think Warren at last year's Berkshire meeting said something like, "I was impressed with Jeff when I met him, and I underestimated him." And then Warren went on to say something like, "It is hard for me, because he seems to have sort of just pulled multiple rabbits out of the hat and I am just not used to seeing that." We're always examining the investments that they are making but a bet on Amazon is in large part a bet on Jeff's investing acumen. And that's a bet we're comfortable with.

Audience question: Thank you very much. A question on Berkshire and I hate to bring this up given the present audience, but Warren is 88 years old. How do you factor that into it being a major holding, and the discount that is supposedly baked into the fact that if he was to pass away or become incapacitated? So how do you factor that into your risk analysis, because we'd hate to see the stock drop by 25%?

JONATHAN BRANDT: I'm not sure I fully understand the question, but I think there is a discount to intrinsic value, but it is not huge. If the discount did expand if something happened to Warren, then they could buy back a lot more stock and that would be accretive to shareholders. He said at the meeting two weeks ago that he wants to buy back stock and the Board wants to buy back stock when it is at a 25-30% discount to intrinsic value. That is how you can make a lot of money for shareholders. The math is self-evident. Without putting too precise a number on it, let's say that the discount to intrinsic value is now 12%, and then the stock in your scenario dropped 25% on day one after Warren died, which I don't think that is going to happen because of the dynamic that I am talking about. But if it were to happen, and if the stock traded on a sustained basis at a lower level relative to intrinsic value, that would actually be positive for anyone who wanted to hold Berkshire Hathaway for more than a week or a month or a year because then there would be this new avenue of value creation that today is foreclosed because the discount is narrower. Does that make sense?

JOHN HARRIS: I think what Johnny is saying is that there really is not a Warren Buffett premium in the stock anymore. There was a day many years ago where if you just owned the businesses and assets that Berkshire Hathaway owned, you wouldn't have thought they would have traded the way the stock did. The stock traded for the value of whatever was in there plus a big premium because Warren is the most brilliant capital allocator who has ever lived. I think what Johnny is saying is that has sort of flipped on its head at this point where the value of the stock is less than his estimate and our estimate of the package of stuff that you get when you buy the business is worth.

It is not a Warren Buffett discount, but it just shows that whatever Buffett premium was in there at one point we don't necessarily think is there anymore. Does it mean the stock couldn't fall if Warren were no longer there? Well, no, of course it could. Anything could happen. But we believe that it trades much more like a conglomerate today and much less like Warren's investment vehicle than it used to and arguably, it trades entirely like a conglomerate for better or for worse.

TREVOR MAGYAR: It is probably a function not just of his age, but just the size of the enterprise.

JONATHAN BRANDT: We don't subscribe to the full efficient market hypothesis that all information about all stocks is so widely prevalent that everybody has the same information and all stocks are perfectly priced. But I believe that everyone who owns Berkshire knows that Warren Buffett is 88 years old and can look at the actuarial tables and this data isn't exactly hidden. It has been trading at a discount not just for the last year or two, but for 15-20 years. Like I said, it is not a huge discount, but I don't buy the hypothesis that people who own the stock plan to own it until the day he is no longer there and then the day after they are not going to own this anymore. Investors who are buying Berkshire now are setting the price, and they know that he is not going to be there for another 40 years.

JOHN HARRIS: It's too bad he's not here to test this, but I'll bet you anything that Warren knows those mortality tables that Johnny mentioned to the decimal point. [Laughter]

JONATHAN BRANDT: I remember about 15 years ago, Warren was talking about how many times during his remaining career that he would get to put money to work at attractive rates of return and he referenced the number of haircuts he expected to get in the rest of his life as something easier to calculate, and he also had somewhat less precise idea of how many market breaks there would be as well, but had a general sense. He does this kind of math as John says. I was going to look for that quote the other day for a memo that I was publishing but I didn't find it, but you could look that up.

Audience question: Would one of you please bring us up to date on the investment case for Melrose? I don't recall you're talking too much about it in anything I have read, but I could have missed something?

EILEEN JANG: Melrose is a position we initiated in the fourth quarter of last year when we saw an opportunity to buy shares at attractive prices. It can essentially be understood as a publicly traded private equity firm based in the UK with a focus on industrials assets. We have long admired the management team as they have compiled an excellent track record for shareholders, and there are two other things worth noting.

The first is the relatively low use of leverage compared to other private equity vehicles, and the second is the willingness and the desire to reinvest heavily in its businesses. Currently the company is composed of a collection of U.S. and UK based manufacturing assets, including its most recent acquisition of GKN. Our research showed that at GKN there is a lot of low hanging fruit to be addressed operationally, and we think that the Melrose team has come up with a reasonable plan to improve profitability across the segments of the business.

JOHN HARRIS: It's funny – before I came to

Ruane Cunniff, I worked in the private equity industry, and we were talking earlier about how if you want a different result you have to do things differently, and I remember sitting in meetings at the firm I used to work at, and there was an enormous amount of time and brainpower devoted to, how are we going to get off this treadmill of constantly having to raise new funds? That's how it works in the private equity business: you raise a fund, you spend the money, and then as the investments work or don't work, you give the money back to the investors and you have to go raise a different fund.

All these people I worked for wanted to do was find a way to raise permanent capital, so that when they sold a business, they could use the money again to buy another business and they didn't have to go ask for it every time. Eventually, they and some of the other largest private equity firms were able to do that by going public to raise permanent capital.

The team at Melrose have resolutely insisted on going in the complete opposite direction. They started out with a public company, with a permanent capital vehicle, and they built up a fantastic investing track record, so that the capital grew at rapid rates over time. And every time they sold a business and had a success, they took all the permanent capital that they had built up and they gave it back to the shareholders. That is how their model works: every time they sell an investment and generate an investment gain, they take all the proceeds and dividend them back to the shareholders, and every time they find a new investment they want to make – a new company they want to buy – they go around to all the shareholders and ask for the money back again.

A bunch of us had met the management team and interacted with them over the years and they are just wonderful people. We asked them, "Well, why would you do that?" And they said, "You know, there is a real discipline in having to go ask every time." I thought that was such a profound, interesting comment. It's a big world out there, and most people out there are doing the same thing. There are very few innovators and there are a lot of imitators. These guys are real innovators. They have gone their own way and done their own thing, and it really shows through in the results. It's a neat business and we are happy to own it. I think we have time for one or two more questions?

Audience question: Thanks, could you describe the charms of Jacobs Engineering, and how it is different from the other large engineering companies out there?

ERIC LIU: Jacobs Engineering, as you alluded to, historically was an engineering and construction company. Steve Demetriou and his team there over the last couple of years have really transformed the company quite a bit. They just recently divested their energy, chemicals, and refining business and they are expanding into the government services business, which can be much higher margin and much more stable.
When we think about our investment in Jacobs, it is not so much of an engineering and construction company anymore as much as it is a diversified services company. On top of that, we have a management team that is sharp in figuring out where they can play and where they can play well and make disproportionately good margins. The growth isn't going to be very high, but I think we have a good capital allocator at the top. That is, on a broad level, our take on Jacobs Engineering.

ARMAN KLINE: I might just add that from a culture perspective too, their business was always more focused on the design end of these projects more than the big construction side and much more on a cost-plus model than on the kind of fixed-price high-risk models and then finally, smaller average projects.

As Eric said, the business has aggressively moved towards its government services business which is quickly becoming the primary asset. Even in their remaining more traditional

E&C buildings and infrastructure business, it is still differentiated from a lot of the big, fixed-price E&Cs that you see. If you look at their history, you see that in the lack of these big blow-up events where you can wipe out all the equity.

JOHN HARRIS: Engineering is one of those businesses where it's more about what you don't do than what you do.

ERIC LIU: To put some numbers behind that, I think 65% of revenues are now coming from government entities and about 85% of the revenues are reimbursable/cost-plus. Another 10% are what they call fixed-price services, where they are not taking responsibility for the full construction project but just the design of it. There is very little exposure to big, fixed-price built contracts.

Audience question: Hi, I am sure when the December 2018 distribution was declared, you must have had a very busy switchboard the next morning. This is more of a comment than a question. I know when I heard about it and read about it, I said oh my God, I am going to owe a ton of taxes. I just would like you to please make the same decision this year so that I can owe a ton of taxes!

JOHN HARRIS: That is a great last comment! Thank you everybody, thank you for coming and thank you for being clients.

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. – March 31, 2019	
Top Ten Holdings*	
Alphabet, Inc.	11.4%
Berkshire Hathaway, Inc.	8.6%
CarMax, Inc.	7.4%
MasterCard, Inc.	6.6%
Constellation Software, Inc.	6.3%
Credit Acceptance Corp.	4.8%
Amazon, Inc.	4.2%
Liberty Media Corp.	4.2%
Jacobs Engineering Group	4.2%
Rolls-Royce Holdings plc	3.8%

** 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	*0.06%*
*Total Annual Fund Operating Expenses***	*1.06%*
*Expense Reimbursement by Investment Adviser***	*(0.06)%*
*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, 2018, 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 March 31, 2019 were 10.27%, 4.10% and 12.68%, 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.