Ruane Cunniff

January 31, 2024

Dear Clients:

Sequoia Strategy Composite's ("Sequoia" or "the Strategy") results for the quarter and year ended December 31, 2023 appear below with the results of the S&P 500 Index for the same periods:

Net Returns Through December 31, 2023	**Sequoia Strategy Composite**	**S&P 500 Index**
Fourth Quarter	12.3%	11.7%
1 Year	26.3%	26.3%
3 Years (Annualized)	3.7%	10.0%
5 Years (Annualized)	12.0%	15.7%
10 Years (Annualized)	6.4%	12.0%
Since Inception (Annualized)**	13.3%	11.1%

The performance returns for the Sequoia Strategy Composite are presented net of investment advisory fees and transaction costs and all other fees and expenses that a client paid in connection with RCG's investment advisory services and reflect the reinvestment of dividends and other income / earnings, but do not reflect the deduction of custodial fees paid by the client. The performance returns also reflect cash flows into and out of accounts. The net performance returns are calculated using the highest annual advisory fee of 1% per annum, applied monthly. The performance presented does not represent the return of any one individual investor.
*** Inception Date: July 15, 1970.*

Sequoia returned 26.3% in 2023, versus 26.3% for the S&P 500. Since the Investment Committee began managing the Strategy in June of 2016, Sequoia and the S&P 500 have compounded at 10.9% and 13.6%, respectively.

A year is nothing more than a year, but with that caveat, we are pleased to have kept pace with a market with unusually narrow leadership. Two thirds of the S&P 500's return for the year was attributable to seven stocks, collectively dubbed the "Magnificent Seven" by the popular business press, that now compose an unprecedented 28% of the Index. Much can be, and has been, said about this collection of impressive businesses and its staggering combined market capitalization. Here, we simply note that the Strategy managed to perform in line with the Index last year despite only counting two of these seven stocks as holdings.

As we have written previously, we devoted copious time and energy to re-analyzing the portfolio following our weak result in 2022, and with a few exceptions, we did not detect diminution in the intrinsic values of the businesses underlying the stocks in the portfolio. A year later, we believe the progression of earnings growth and stock prices across many portfolio holdings have validated our assessments.

Of the twenty-five securities held by Sequoia during 2023, twenty posted positive total returns, sixteen delivered total returns in the double-digits or better, and seven boasted total returns from 40% to over 200%. These seven top-performers included Rolls Royce (+239%), Meta (+194%), Constellation Software (+63%), Alphabet (+58%), SAP (+52%), Capital One Financial (+44%), and Taiwan Semiconductor (+42%). Together, this group accounted for

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approximately 31% of the Strategy capital on average in 2023. In short, our fortitude this past year was generally rewarded, and in several cases lavishly so.

We still have plenty of work to do to close the performance gap that opened between the Strategy and the Index in 2022, but we believe that while some stock prices in the portfolio have moved back toward intrinsic business values, many have not. Said differently, we believe your capital is invested in attractively priced securities.

By way of example, consider the following holdings: Rolls Royce, Charles Schwab, Elevance Health, Credit Acceptance, Capital One Financial, Liberty Broadband, and Ashtead. Each of these companies trades for a low-double-digit, or lower, multiple of our estimate of normalized earnings per share, yet each of them is capable of compounding earnings per share at a double-digit rate. At year-end 2023, these holdings accounted for almost a third of the Strategy's capital.

We do not invest by spreadsheet alone, as decades of experience has taught us that business fundamentals, and therefore intrinsic value, can evolve in surprising ways. But over time, owning high quality companies trading for attractive valuations should result in enviable returns. The valuations of the holdings called out above, among others in our portfolio, strike us as particularly attractive.

In a reflection of our confidence in the portfolio, turnover in the Strategy was low last year, at approximately 11%. This relatively small amount of activity can be bucketed into exits, trims, adds, and new positions.

Exits last year included Netflix, Bank of America and Micron. We opportunistically added to our Netflix position in late 2022, near what turned out to be the lows. We sold our shares in stages over the course of last year as the stock price recovered and the valuation of the business rose dramatically. As discussed in our Q1 shareholder letter, we exited our investment in Bank of America soon after making it, as our thesis was quickly undermined by the regional banking crisis and the regulatory developments that it catalyzed. As discussed in our Q2 shareholder letter, we exited Micron after the rationale for our investment was strained by rising geopolitical tensions, which have increased investment risks in the high-performance semiconductor industry. These risks are bearable, but we felt it prudent to reduce the portfolio's exposure to them. We think both Bank of America and Micron were purchased at conservative prices given the facts at hand, but the facts changed and we moved on.

Trims last year included Universal Music Group, Formula One, and Rolls Royce. We are pleased with how each of these businesses is currently performing. We trimmed our positions in them modestly after carefully considering their valuations and weightings, which had moved higher.

Two additional trims, in Meta and Carmax, were more substantive in nature. When Meta's stock declined in 2022, we judged it to be significantly mispriced and held our ground through the bottom. We trimmed the position serially last year as the stock soared because we were wary of holding a large position exposed to significant regulatory risks, particularly in Europe. We are comfortable owning Meta at today's much-reduced weighting and current valuation. The smaller position size reflects our updated assessment of the balance of long-term risk versus reward.

As for Carmax, we reduced our shareholding over the back half of last year. In the used car business, Carmax has no equal, and enjoys an enviable multi-decade track record of growth. The company continues to refine its omnichannel business model, which allows customers to engage physically and/or digitally throughout the entire purchase journey. We believe Carmax's omnichannel transformation is strategically sound, but the magnitude and pace of investment has pressured earnings to a greater extent than we anticipated.

Carmax is also navigating a weak used car market. The primary culprit is elevated used car prices, which are taking their cue from elevated new car prices. This situation is sure to normalize, but there is no guarantee that it will do so quickly, nor is there any guarantee that a general economic downturn will not sap used-car demand in the meantime. Ultimately, we are comfortable with a reduced weighting in Carmax given the evolving business model, cyclical exposure, and a valuation that we view as attractive but not disproportionately so relative to our other holdings.

Additions in 2023 included Liberty Broadband, Charles Schwab, Elevance, United Health, Credit Acceptance Corp, Jacobs Engineering, and Capital One Financial. Liberty Broadband is notable because its stock price declined significantly in 2022 even as earnings per share rose. We added modestly to our position early last year, at roughly eight times our estimate of normalized free cash flow per share.

As a reminder, substantially all the value in Liberty Broadband resides in its stake in cable heavyweight Charter Communications. Admittedly, fundamentals at Charter have been tepid over the past several quarters, with broadband subscriber growth decelerating from mid-single digits to low-single digits. Some of this moderation may stem from the arrival of fixed wireless, which has intensified the battle for price-sensitive subscribers. However, the excess 5G wireless capacity on which fixed wireless relies can serve only a small fraction of the market. Meanwhile, Charter is experiencing record-low churn and pushing through low-single-digit price increases, suggesting that the deceleration in its broadband subscriber growth is due to the general maturation of the market, rather than competitive pressures.

Low-single-digit subscriber growth and low-single-digit price increases might not sound like a terribly exciting combination, but the cable business and the free cash flow it generates are very reliable. Very few households go without broadband, and very few switch providers just to save a few bucks. Our purchase price of eight times normalized cash earnings per share represents a double-digit free cash flow yield, which should deliver an attractive investment return even if Charter's business stalls. If Charter's revenues and operating income grow modestly, as we believe they will, the company should compound cash earnings per share at a mid-teens or better rate.

Charles Schwab is notable because the business and the stock both had a challenging year. The regional banking panic in the spring of 2023 created an opportunity for us to add to our position below $50 per share. Rising interest rates have impacted the business in ways both predictable and unpredictable, but the net result has been a crimping of earnings that will likely persist for another year or two. Critically, we do not believe any of these transitory dynamics pose, or ever posed, any existential risk to the business. Further, Schwab's enviable, high-return franchise remains, in our view, entirely intact. If we are right on both these counts, we should generate an attractive return from the current stock price across a range of long-term interest rate scenarios.

Finally, we recently initiated a position in Ashtead Group. The company is domiciled in the UK, but the business is essentially North American. The United States and Canada account for all but a tiny sliver of earnings, and the American CEO and his key lieutenants are all based Stateside. Ashtead, operating under its Sunbelt brand, is a leading player in the equipment rental industry. The advantages of renting equipment, as opposed to buying it, are straightforward. By renting, customers preserve capital, reduce the significant overhead associated with equipment maintenance, and indirectly harness the purchasing power of the large rental companies.

The logic of rental has been transforming, in slow and steady fashion, the US equipment market for many years already. According to the American Rental Association, rental penetration in the US is currently in the mid-50% range, up from the mid-40% range a decade ago. Industry participants and observers alike expect rental penetration to increase further, as rental players enter new equipment categories and offer new rental models.

The structure of the US equipment rental market is telling. Last year, the top ten players accounted for approximately 32% of it. A decade ago, they accounted for approximately 20%. Virtually all the market share gains made by the top ten players over the past decade have accrued to the top two players, Ashtead and United Rental. Last year, these two leaders accounted for approximately 20% of the US equipment rental market. The logic for this ongoing consolidation is no great mystery: In the equipment rental business, bigger is better. Scale drives equipment purchasing advantages and operating efficiencies.

We expect rental's penetration of the US equipment market to increase in the years to come, and we expect Ashtead's share of the equipment rental market to rise as well. Ashtead is highly likely to be a bigger business in the future. The market trends are well established, and the source of the company's advantage is easy to apprehend.

Ashtead's business is economically sensitive, though less so than it used to be. Less cyclical "Specialty" and "Maintenance, Repair, and Operations" lines now drive almost a third and a fifth, respectively, of total revenues. Non-commercial construction lines, which are more cyclical, now account for less than half of total revenues. Further, North America is witnessing a boom in what industry observers call "Mega Projects," those worth more than $500 million. Mega Projects also tend to be less cyclical than typical non-commercial construction projects, in part because they are huge and therefore difficult to pause, and in part because they are driven by the secular onshoring trend that has gathered steam in the face of emerging geopolitical realities and is supported by over $1 trillion of US government spending.

We believe Ashtead is advantaged over almost every other competitor. Ashtead's financial track record is excellent across the board. All the feedback we have collected from customers, competitors, and former managers has confirmed what the numbers indicate, namely that Ashtead is best in the business when it comes to its leaders, people, and culture.

We have been studying and watching Ashtead for several years. We finally acted when concern over the macroeconomic outlook provided a window of opportunity. We purchased our shares at roughly 13x consensus earnings per share over the next twelve months. If the economy weakens significantly, Ashtead's business will likely slow and perhaps even decline. However, the price we paid for our shares should allow us to earn an attractive long-term return across a wide range of economic scenarios.

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At year-end 2023, Seqouia held shares in twenty-one companies. The portfolio is concentrated, but at the same time spans a variety of industries, business models, and geographies. The underlying businesses are all high-quality and attractively priced relative to their competitive position, operational prowess, and likely earnings growth. As usual, the Strategy's top ten holdings account for the majority of invested capital, totaling 58.6% at year-end. To a significant extent, these ten holdings will likely drive the Strategy's long-term performance. We offer a summary of each of these investments at the end of this letter.

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In an always-unpredictable world, we continue to concentrate on what we can control, which includes most obviously the portfolio itself, but also how we approach the management of our business. Regarding the latter, we mentioned in the Strategy's 2022 year-end letter certain process changes we were implementing. These changes have since been instituted, and critically, they are becoming well ingrained in our daily patterns of activity.

The most important of these process changes is the Research List we have compiled of the many high-quality companies on which we have conducted extensive primary research over the years. These are businesses we know well and would like to own at the right price. Every member of the investment team is now responsible for monitoring a subset of these companies for fundamental developments and windows of actionability.

We have always kept close tabs on this universe, but importantly, formalizing the practice has infused it with accountability. At quarterly offsites, every member of the team now provides an update on their Research List companies. We rigorously track the stock price performance of these companies, such that we will know it quickly when an opportunity arises.

We believe the benefits of the Research List are both offensive and defensive. Over long experience, we have observed that several of the Strategy's best investments were initiated not at the time of initial research, but after years of monitoring. While we pride ourselves on our ability to get to the bottom of a new business through an initial flurry of research, we also recognize that there is a level of knowledge and comfort that comes only from watching a business or a management team over years. By ensuring that we continue to build this sort of knowledge, and by increasing the odds that we capitalize on it, the Research List reinforces a specific behavior that we know works for us.

The Research List will also help to keep us even more squarely focused on pitches in Sequoia's strike zone. The world never stops changing, and as such we must constantly scour the investment universe for promising businesses that are new to us. At the same time, we are fully aware that we get no extra points for novelty. By forcing us to monitor in a more systematic fashion those businesses we already know and admire, the Research List will help ensure that we don't make our job any harder than it needs to be.

The two other significant process changes we made last year relate to team management, and we think they are already having a positive impact. First and most importantly, we have paired each of our most junior analysts with a senior analyst. As a result, our younger analysts are receiving more consistent and better mentorship, and our seasoned analysts are getting more leverage on their time and experience. Second, we tasked Arman with serving as our Sequoia Team's Research Director on an indefinite basis. As you may recall, our Research Director is responsible for day-to-day management of the investment team. Over the past several years, Arman, Chase and Trevor have taken turns serving as Research Director on an annual basis. Though the rotating approach has its merits, we concluded that more continuity in this role would be useful.

The particulars of the changes outlined above are different, but the rationale behind them is ultimately the same: to drive incremental productivity, focus, and accountability across our team. As we noted in the Strategy's 2022 year-end letter, if over time these changes help us to find our way to just a few more winning investments, they will have a significant positive impact on long-term performance. Of course, there is no substitute for a disciplined mindset, and that, above all, is what we seek to maintain.

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We're fortunate to have great people. Two of our finest are Eric Liu and Jennifer Rusk Talia, both of whom were elected Partners at the end of the year. Eric joined us in 2017, and he impressed us from the first day with his intelligence and mental flexibility. Since then, he has established himself as a core member of the investment team. Jennifer also joined us in 2017, as Head of Client Service and Business Development. Late last year, she took on the additional and significant role of Chief Operating Officer. She has earned our trust and admiration over the years, and we are thrilled that she is now an even more essential leader of the firm.

In other team news, Greg Steinmetz decided to retire at year-end after twenty-plus years at the firm. Greg was our cherished partner, and he will remain our lifelong friend. Greg played an instrumental role in strengthening our primary research capabilities over the years. He is also a gifted mentor who carried and protected our culture every single working day. We are sad to see him leave, but we are excited for his next chapter, a turn of phrase that in Greg's case is more than metaphorical. We understand he is starting in on his third book on financial history, which we encourage you to keep an eye out for.

Finally, we have relocated our New York office to 45 Rockefeller Plaza. A hearty thank-you to all the members of our team who helped in the planning and moving process. Our new office represents a significant investment in the future of the firm. It is bigger, more modern, more functional and collaborative, with amenities conducive to attracting top-tier talent and maintaining a vibrant, world-class investing operation. We look forward to hosting you in our new space this year.

We are grateful for your partnership and loyalty last year and every year. It's what allows us to pursue the long-term investment strategy on which Bill and Rick built the firm. We embrace with confidence the responsibility that we have to you and to their legacies. We look forward to seeing you in-person at our upcoming Investor Day on Thursday, May

16th. It will be held at the Times Center, at 242 West 41st Street in Manhattan. Look for more details in the coming weeks. In the meantime, we wish you health and happiness in the new year.

Sincerely,

The Ruane Cunniff Investment Committee

Arman Gokgol-Kline | John Harris | Trevor Magyar | D. Chase Sheridan

Intercontinental Exchange
(7.7% of Sequoia's capital at year-end, +27.1% total stock return in 2023)

Shares in Intercontinental Exchange returned 27% last year. We expect both revenues and earnings per share to be up mid-single digits on an organic basis in 2023.

As a reminder, Intercontinental has evolved over twenty-three years from a small electronic energy exchange into the world's largest market infrastructure company measured by market capitalization. Intercontinental's portfolio now spans derivative and equity exchanges, various fixed income and data assets, and multiple mortgage software platforms. This portfolio of very high-quality businesses was carefully assembled by the company's founder and CEO Jeffrey Sprecher.

The big news last year was that Intercontinental finally closed its $11 billion acquisition of Black Knight after a protracted regulatory review. This mortgage technology company owns, among other assets, the software platform that services the majority of all outstanding mortgages in the US. With Black Knight, Intercontinental now has a comprehensive collection of mortgage-related assets that also includes Encompass (the largest loan origination system in the US), Mortgage Electronic Registration Systems (a national electronic registry that tracks servicing rights and beneficial ownership interests in US-based mortgage loans), and Simplifile (a network that serves as an electronic liaison between lenders, settlement agents and county recording offices).

Intercontinental's long-term plan with these assets is to develop a more digitized workflow across the notoriously paper-based and cumbersome mortgage lifecycle. Intercontinental paid what we view as a full price for Black Knight, and the timing of the deal was not ideal. While the mortgage market was already in decline when the deal was announced, new originations fell dramatically in subsequent quarters. However, Black Knight is a critical piece in Sprecher's vision for an integrated, end-to-end digital platform, and it remains to be seen what Intercontinental Exchange can accomplish with this asset.

We continue to regard Intercontinental's overall collection of businesses as very high-quality. We believe the company can compound earnings per share at a double-digit rate, and we consider the current valuation attractive.

Alphabet
(7.0% of Sequoia's capital at year-end, +58.3% total stock return in 2023)

Shares in Alphabet returned 58% last year, essentially double the return of the Index. Business performance was solid. Google Search and YouTube advertising continued to grow last year, with YouTube subscriptions growing nicely and enjoying a bump last fall as the NFL made the platform the exclusive home of NFL Sunday Ticket in the US in a deal signed through 2030. In the first quarter of 2023, Google Cloud achieved profitability for the first time. It stayed in the black over the balance of the year, as revenues grew to an annualized run-rate of over $33 billion. In Other Bets, Waymo's driverless fleet surpassed seven million fully autonomous miles driven while safety issues forced a key competitor out of the market. We expect Alphabet's revenues and earnings per share to be up high-single digits in 2023.

Since our initial investment over twelve years ago, Alphabet has only become more of an internet powerhouse. From its origins in Search, the company has expanded into a vast ecosystem of complementary products across YouTube, Gmail, Workspace, Android, Cloud and more. These are preeminent assets that boast some of the largest user-bases globally.

Investors have been pondering the potential impact of Large Language Models (à la ChatGPT) on Google Search. The direst fears—that Microsoft's Bing, augmented by OpenAI's chatbot, would quickly turn the tables on Google—have already proven dramatically overblown. Search market share has not changed to any significant degree. Google Search remains a trusted source of information and links to source material, while the world has learned to regard the answers of AI chatbots with skepticism.

That said, LLMs and other forms of Generative AI have grown in popularity and usage over the course of 2023 because they are already useful for some tasks and becoming useful for more tasks with each passing day. We can see how they could evolve to become a very significant way for people to interact with their personal devices and with the internet.

This presents both risk and opportunity for Alphabet. If the company does not evolve to incorporate the latest AI in Search, YouTube, Cloud, Assistant, and their other assets, then they could lose share to rivals that fully embrace this new paradigm. On the other hand, Alphabet has an opportunity to use the latest AI technology to unify and significantly enhance the usefulness of their entire suite of products.

Alphabet is not starting from zero here—in fact, far from it. The company has been building world-class capabilities in artificial intelligence for over a decade. It built two of the leading AI research organizations in the world, Google Brain and DeepMind, and in April of 2023 merged them in order to accelerate the development of a new state-of-the-art model. This model, Gemini, saw a limited release at the end of 2023 and should see full availability in 2024. It is too early to say where exactly Gemini will land vis-a-vis ChatGPT, but we laud the company for understanding the importance of the opportunity and marshaling its forces quickly. We consider Alphabet very well-positioned to deliver large incremental value by bringing world-class AI to a world-class set of products.

Even as Alphabet makes significant investments in AI, we appreciate that management has committed to growing profits in line with or faster than revenue. Historically profligate, Alphabet has ample headroom to both grow revenue and find efficiencies in its core businesses, and we find the stock's valuation quite reasonable relative to its financial prospects.

Constellation Software
(6.8% of Sequoia's capital at year-end, +62.8% total stock return in 2023)

Shares in Constellation Software returned 63% last year, more than double the return of the Index. We have been invested in Constellation for nearly a decade now, and 2023 exemplified the company's consistent performance and consistent evolution. Revenues grew by about 25% last year, driven primarily by the significant number of acquisitions that were made in 2022 and 2023 and that consumed all the free cash flow generated over this two-year period. Constellation's 2023 cash earnings rose a little faster than its revenues thanks to margin improvement.

Last year, Constellation made dozens of small "bread-and-butter" acquisitions of less than $10 million in size, but it also completed multiple deals of over $100 million. Some of these larger deals were for software assets they carved out of other companies, which is becoming something of a specialty for Constellation. The company also completed its second purchase-and-spin. The newly spun-off entity Lumine, which is now in the portfolio at a small weighting, made its own corporate carve-out acquisition from Nokia late in the year. The throughline of all these acquisitions is that regardless of structure, they were all excellent financial deals. Constellation has a highly disciplined investment culture that treats shareholder capital with reverence, in part because the managers and employees own so much of it themselves.

Constellation's shares have traded at a rich multiple of immediate earnings for several years now, which presents a riddle for the long-term investor. It means that our returns have seen a benefit from multiple expansion that is subject to sentiment and not likely to add to our returns from this point. But the company's fundamental progress has not faded. In fact, it has improved in many ways. CEO Mark Leonard and his team have proven themselves adaptable, creative, driven, and trustworthy over many years, and so while we have trimmed our shareholding over the years, we remain steadfast in our conviction that this is a special company on a run that is not over.

Charles Schwab & Co.
(5.9% of Sequoia's capital at year-end, -16.0% total stock return in 2023)

Shares in Charles Schwab returned -16% last year, making it the Strategy's worst-performing stock. By holding steady in the down market of 2022, it was one of the Strategy's best-performing stocks that year. This reversal in stock performance reflects a realization that rising interest rates are not an unalloyed benefit for Schwab in the short run.

When the regional banking panic broke out early last year, Schwab found itself being compared on Twitter and in the popular business press to Silicon Valley Bank and other failed banks. In our view, the analogy was, and remains, fundamentally flawed. It is true that Schwab has a large portfolio of US government and agency-backed securities whose value declined when interest rates rose, but that is where the similarity ends.

Over 80% of Schwab Bank's deposits are insured, and they are diversified across 35 million accounts. Schwab is also extremely liquid. Its bond portfolio is currently carrying significant unrealized losses, but, critically, they do not constrain the company's ability to sell bonds. Unlike most other banks, Schwab's binding regulatory ratio is Tier 1 Leverage. If Schwab were to sell a slug of its bond portfolio, its Tier 1 Leverage ratio would hold steady or perhaps even improve a touch. In short, we never believed that Schwab was at risk of a run on its bank. Client deposits were always safe, and the company always had plenty of liquidity.

Schwab's earnings are currently being squeezed to a significant extent. This squeeze can be attributed, in part, to the fact that clients are "sorting" out of low-yielding Schwab Bank sweep accounts into higher-yielding money market funds faster than Schwab's pile of interest-earning-assets is rolling over into the new and higher rate environment.

The existence of this asset-liability mismatch was not a secret. Schwab always knew, as did we, that it would take time for rising interest rates to translate into a higher net interest margin for the company. That said, we did not anticipate this mismatch to manifest as dramatically as it has. Interest rates rose faster and more significantly than they have in decades, and as a result Schwab's clients sorted their sweep cash faster and more significantly than they otherwise would have.

Keep in mind, though, that higher interest rates are still good for Schwab's earnings power in the long run. As shareholders, we have been rooting for an end to Zero Interest Rate Policy for years. Over time, higher interest rates should allow Schwab to earn more net interest income, as the increase in the company's long-term net interest margin should more than offset the decline in deposits at Schwab Bank. What makes the current moment awkward is that Schwab's deposits have already declined, whereas its net interest margin has not yet increased.

Exacerbating the situation is Schwab's current use of higher-cost short-term funding. As already noted, Schwab has plenty of regulatory headroom to generate funds by selling bonds. However, the company has instead elected to avail itself of this high-cost funding in order to avoid the irrational scrutiny that might accompany a bond sale program. We find Schwab's decision frustrating, but understandable.

These various dynamics are impacting Schwab's current earnings and will likely continue to do so for another year or two. However, we do not believe they will have any significant bearing on the company's earnings power in the long run. Critically, Schwab's enviable, high-return franchise is, in our view, entirely intact.

Schwab remains the preeminent public wealth management platform in the United States. With over $8.5 trillion in assets under management and nearly 35 million brokerage accounts, the company is now larger than the wirehouses it originally sought to disrupt. Even so, the company still only has a low-teens percentage share of total investable wealth, leaving plenty of room for Schwab to grow in the years and decades to come. The drivers of growth are scale, brand, and culture. Schwab offers low prices, excellent customer service, and an ever-expanding suite of products.

In 2023, Schwab made substantial progress on the integration of its landmark TD Ameritrade acquisition. Despite increased churn from transitioning TD clients to Schwab's platform, Schwab still attracted over $300 billion of core net new assets last year.

The regional banking panic in March of last year created an opportunity for us to add to our position below $50 per share. At the current share price, Schwab trades for a low-double-digit multiple of likely earnings per share out a couple years. We believe the stock will generate an attractive long-term return across a range of long-term interest rate scenarios.

Elevance Health and UnitedHealth Group
(ELV: 5.8% of Sequoia's capital at year-end, -6.9% total stock return in 2023)
(UNH: 5.7% of Sequoia's capital at year-end, +0.8% total stock return in 2023)

Shares in UnitedHealth Group and Elevance returned 1% and -7%, respectively, last year, whereas the Index return was significantly positive. In 2022, shares in these two companies produced a modestly positive return, whereas the Index return was significantly negative. The companies' financial performance, however, has been quite steady all along. In 2022, revenues and earnings per share for both companies were up double-digits. We expect similar performance in 2023. These pleasing financial results are consistent with United and Elevance's historical track record and with what we believe we will see for years to come.

Last year, sentiment across the managed care space was negatively impacted by concerns over reimbursement levels for Medicare Advantage, a perceived increase in the risk of adverse regulation for pharmacy benefit managers, and a slight deterioration of medical loss trends. For Elevance specifically, deteriorating Star ratings for its Medicare Advantage plans exacerbated the just-noted market-wide concerns regarding reimbursement levels in that business. While unfortunate, we expect Elevance to resolve its issues and restore its Star ratings in due course.

More generally, while we do not dismiss these concerns as irrelevant, we consider them in the context of the scale and highly entrenched nature of United and Elevance's businesses. United, in particular, is scaled and diversified in ways and to an extent that make it an utterly essential player in the admittedly imperfect US healthcare system.

As a reminder, United and Elevance are the two heavyweights in the managed care space. Together, they insure roughly 100 million domestic lives. They each have #1 or #2 positions in most commercial insurance, Medicare, and Medicaid markets. Elevance boasts near-monopoly dominance within the states where it operates. United owns and operates the country's third largest pharmacy benefit manager and is also the single largest owner by a wide margin of non-hospital care assets, including physician practices, urgent care centers, and ambulatory surgical centers.

These capabilities and assets did not accumulate by chance. United has worked hard and thoughtfully over a long period of time to get deeper into the actual provisioning of care. This strategy drives more profit, more control, and the ability to thrive across a greater range of regulatory scenarios. Consistent with this strategy, last year United grew its base of aligned and employed physicians to roughly 90,000 or approximately 9% of all US physicians. It also acquired LHC and Amedisys, both respected home health providers.

Elevance, under the leadership of former United executive Gail Boudreaux, is heading down a similar strategic path. The company is methodically assembling its own pharmacy benefit manager. Last year, it acquired BioPlus, one of the largest independent specialty pharmacies. The company also expanded its behavioral health capabilities. At the same time, Elevance remains on the lookout for opportunities to strengthen its position in its core insurance business. Last year, the company announced its intent to acquire another independent Blue Cross Blue Shield plan, this one in Louisiana.

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We remain happy shareholders of United and Elevance, and we added to our position in both last year. We acknowledge the inherent policy risk, but we find the current valuations attractive given the quality of the businesses and their ability to compound earnings, in economically insensitive fashion, at a teens rate for many years to come.

Universal Music Group
(5.4% of Sequoia's capital at year-end, +21.3% total stock return in 2023)

Shares in Universal Music Group returned 21% last year. Financial results were solid. We expect both the company's revenues and operating income to be up high-single digits in 2023.

Growth in paid streaming revenues, which drive close to half of Universal's total revenues and more than half of its total profits, likely accelerated into the low teens in 2023. This growth was driven by an increase in the number of paid subscribers across various streaming platforms as well as like-for-like price increases put through by these streaming platforms. These are the first broad-based, like-for-like price increases we have seen since paid streaming took off over a decade ago. Universal is merely a supplier to the streaming platforms, but its contracts with them effectively give the company a percentage share in whatever consumers pay for these streaming services. Put simply, Universal gets paid more by the streaming platforms when they charge their subscribers more. While we do not expect to see significant like-for-like price increases every year, we do believe that like-for-like pricing will increase over time.

Last year, leading steaming platforms, including Spotify and Deezer, adopted "Artist-Centric" monetization models of the sort championed by Universal. In all monetization models, the pool of streaming revenues that the platforms remit to the labels and/or independent content creators is divvied up based on share of total listening time. Under the artist-centric monetization models, the most-listened-to content gets, in effect, a bonus that goes beyond its calculated share of listening time. The rationale for artist-centric monetization models is that while consumers might spend some time listening to lesser-known artists or even soundtracks featuring rain and ocean sounds, it is access to songs from better-known artists that bring them to the streaming platforms and that keep them shelling out month after month.

We tend to agree with Universal's framing of the situation, and the recent moves by Spotify and Deezer suggest they do as well. We expect various flavors of the artist-centric model to proliferate among streaming platforms in the years ahead. We view this as a noteworthy, even if not massive, positive for Universal and the other major labels. The artists represented by the major labels make up a disproportionate share of the most-listened-to content. As a mechanical matter, then, the major labels will get a bit more money from the streaming platforms under an artist-centric model.

Last year also saw the emergence of a robust debate over the potential impact of generative AI on the music industry generally and the streaming market specifically. It is still early days, and we continue to monitor the situation, but based on our research we feel it is highly unlikely that the major labels and the superstars they represent will be disrupted by generative AI. There are various legal and commercial angles to this issue, but what we think ultimately matters most is the very nature of popular music. What makes a piece of recorded music popular is more than the song itself. It is also who sings it, and, to get even deeper, it is the personal feeling of connection listeners feel to the performer. We would note that last year it was a living, breathing human, namely Taylor Swift, that captured the world's attention, rather than some catchy generative AI song. We continue to see value and safety in owning, through UMG, roughly a third of all the commercially relevant music ever recorded in the western world.

In 2022, we took advantage of weakness in Universal's shares and added modestly to our position. As we approached the end of 2023, they had appreciated by 40% or so. At that point, we trimmed our position modestly. All the while, we have remained optimistic about Universal's prospects and happy with our investment.

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Rolls-Royce
(5.4% of Sequoia's capital at year-end, +239.2% total stock return in 2023)

Shares in Rolls Royce surged last year, generating a nearly 240% return in the year. High-level financial results were excellent compared to the prior year. For 2023, we expect revenues to be up in the high teens and operating income to have almost tripled to £1.3 billion. Free cash flow should total about £1 billion, versus negative £300 million in 2022. As always, perspective is important. The last few years have been tough ones for Rolls. On the one hand, this makes the company's strong results last year less impressive. On the other hand, this helps explain why we are comfortable with our position even after the shares more than tripled.

A key driver of Rolls' performance last year was the continued rebound in flying hours, which, by virtue of the company's "power by the hour" contracts, drive a significant portion of the company's revenues and the lion's share of its profits. Rolls is most exposed to international flying hours specifically. Last year, they reached a mid-to-high 80s percentage of 2019 levels. In 2022, they were at 65% of 2019 levels.

Given the high fixed-cost nature of business, the revenues produced by this recovery in international flying hours flowed through Rolls' P&L at healthy margins. This dynamic was turbo-charged by over £1 billion of fixed cost savings realized by former CEO Warren East over the past three years. Tufan Erginbilgiç, the new CEO, and his team deserve credit for ensuring that new fixed costs did not creep back in as the recovery continued. More broadly, Erginbilgiç and his team have begun to establish a harder-charging, more commerically focused, and performance-oriented culture at Rolls. Organizations do not change overnight, but Erginbilgiç is not a terribly patient individual. We welcome his arrival.

While we are pleased to see Rolls' business recovering from the unprecedented collapse of flying hours during the pandemic, we are maintaining a level head. We have a far keener appreciation for the risks inherent in this business than we did when we made the initial investment, but we have not lost sight of what attracted us to it in the first place.

Rolls remains in the early stages of a market share-driven and mix-driven acceleration phase. The company is delivering more than one out of every two engines entering service on new widebody aircraft, and nearly two out of every three engines powering large cabin business jets. These engines are more modern, more powerful, and therefore produce more revenue per unit than the engines that drive the bulk of the company's business today. The engines that Rolls is currently putting into service will drive a significant and sustained increase in revenues and profits for many years. To put some numbers to it, we believe Rolls' Civil Aerospace segment, which accounts for roughly half of the company's overall revenues and profits, can grow revenues at a sustained double-digit rate, and grow earnings materially faster than revenue for at least the next few years.

The news is also good outside of Rolls' core Civil Aerospace segment, with the company's Defense segment having scored several important program wins. The company was recently selected to be the sole-source engine supplier for Bell's V-280 Valor, which is the US Army's largest procurement program in forty years, and the sole-source engine supplier for the re-engine of the US Air Force's B-52 bombers. Looking even farther out, Rolls is positioned to be the sole-source provider of nuclear power to UK and Australian submarines. In addition, Rolls will provide sole-source power for the new UK-Italy-Japan fighter program. While the financial pay-off from these various program wins will be limited over the next few years, they should drive significant and sustained growth for Rolls' Defense segment starting at the end of this decade.

Last year also saw a recovery in Rolls' Power Systems segment, ongoing development of a nascent but potentially significant business in small-modular-reactor nuclear, and the continued rolling off of an unfavorable FX hedge book.

At the current share price, Rolls trades for approximately 14x our estimate of forward cash earnings per share normalized for one-time costs and the temporary negative impact of the FX hedge book. When we consider near-term business growth, the £1.5 billion or so likely to be realized via non-core asset sales, and the working capital efficiencies that Erginbilgiç and his team are working to unlock, we figure that the company is likely to generate free cash flow over the next four years amounting to upwards of half its current market capitalization.

We trimmed our position modestly last year as the stock soared, but we continue to find it attractive.

Liberty Media
(4.7% of Sequoia's capital at year-end, +9.3% total stock return in 2023)

Shares in Liberty Media, the holding company through which we own the Formula One motorsport league, returned 9.3% last year. Financial results were very good. We expect revenues to be up over 25% and cash earnings per share to grow in the high teens. Ultimately, our long-term return in Liberty Media will be determined to a significant extent by the health of Formula One, as both a sport and a spectacle.

The big development for Formula One in 2023 was the hosting of the new Las Vegas Grand Prix. For every other race on the circuit, Formula One receives a mostly fixed fee from a third-party promoter, who bears responsibility for planning and paying for the event, and who then enjoys whatever profit is left after the fee is paid. From Formula One's perspective, there is an obvious financial and operational elegance to this arrangement.

By handling the promotion of the Las Vegas Grand Prix, Formula One and Liberty Media got more, but they had to do more as well. They oversaw the design and construction of a racetrack, paddock, and other event infrastructure in the middle of the Strip. We believe Formula One and Liberty Media spent over $600 million on the project. Liberty Media has not yet disclosed how exactly the Las Vegas Grand Prix performed from a financial perspective, though we believe that it was one of the highest-grossing races of the year and that the company turned a profit on it. The profitability of the race should increase dramatically as one-time costs fall away and new revenue opportunities arise starting next year.

While Formula One and Liberty Media expect to earn a solid financial return on their investment in the Las Vegas Grand Prix, their desire to promote the race was not entirely about the math. Their real goals are to maintain the sport's momentum in the US and to set a new standard to which third-party promoters across the world can be held.

On the track, Max Verstappen and Red Bull dominated Formula One last year, winning twenty-one of the twenty-two races. Dominance is impressive, but it can be boring, and boring is not good for the sport. We believe the quality of the on-track product last year was higher than casual observers might appreciate, as there was plenty of drama behind Max. Nonetheless, we acknowledge that last year will not go down as the most exciting season in Formula One's history. While attendance set records at almost every race last year, we expect that global viewership was down slightly. We know that viewership in the US declined marginally from 2022's record levels.

While fan engagement is the deepest and most important investment variable, monetization also matters. Based on a variety of metrics, Formula One is under-monetized relative to engagement, in the US and most other markets as well. As an example, Formula One's current US broadcast deal pays less than $100 million per year, while NASCAR recently renewed its US broadcast rights for $1.1 billion per year. NASCAR's US viewership per race is twice as big as Formula One's, though NASCAR's fan base is less affluent and therefore less valuable to broadcasters and advertisers. We believe Formula One will monetize better, in the US and on a global basis, in the years to come.

We remain excited about Formula One's prospects. It is an impossible-to-replicate global sports league that has the potential to be a much bigger business in the years to come. We modestly trimmed our shareholdings in Liberty Media last year after price appreciation caused the position to become one of the Strategy's largest holdings, but we retain a significant stake and find the current price reasonable.

Capital One Financial
(4.2% of Sequoia's capital at year-end, +44.3% total stock return in 2023)

Capital One's shares returned 44.3% last year as concerns about rising delinquencies and a worsening credit cycle moderated over the course of the year. We added modestly to our position early in the year.

Led by founder and long-time CEO Richard Fairbank, Capital One has a dominant position in subprime credit cards, a highly profitable market segment all but ignored by the big banks. The key source of Capital One's advantage in the subprime credit card market is its analytical prowess, which the company has also employed over the years to build a leading position in the automobile finance market.

Capital One's approach to deposit gathering is noteworthy. The company has a small brick & mortar banking operation, but it has marketed its digital-only bank aggressively and consistently over the past several years. The company pays a relatively high rate on these digital deposits, enabled by the absence of branch costs. Notably, these high-rate digital deposits proved quite sticky even as interest rates rose quickly and dramatically over the past two years. Whereas most US banks have been bleeding deposits over this period, Capital One has been growing them.

Currently, there is some concern over proposed rules to reduce both late fee rates and the "interchange" fees credit card issuers earn on each transaction. We view significant changes to interchange as unlikely, given that interchange is what funds a rewards ecosystem that consumers cherish. A rule requiring a significant reduction in late fees could sting Capital One in the short run, as these fees carry very high margins. However, we believe the company could adjust cardholder agreements to recapture most of the profit over time.

We have no insight into whether or when the credit environment might deteriorate further. What we do know is that Capital One is well capitalized relative to peers, has compounded tangible net worth faster than most other public banks, and yet trades for merely seven times our estimate of normalized earnings per share, a deep discount to other banks even though Capital One sports higher than average returns on equity.

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Disclosures

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The performance of a client account may differ from that of the Composite due to account size, client- specific guidelines or restrictions, tax considerations, cash flows into and out of the account, the timing of transactions and other factors. The S&P 500 Index is an unmanaged capitalization-weighted index of the common stocks of 500 major U.S. companies. The Index does not incur expenses. It is not possible to invest directly in the Index.

Past performance does not guarantee future results.

Sequoia Strategy – December 31, 2023	
Top Ten Holdings*	
Intercontinental Exchange, Inc.	7.7%
Alphabet, Inc.	7.0%
Constellation Software, Inc.	6.8%
Charles Schwab Corp.	5.9%
Elevance Health, Inc.	5.8%
UnitedHealth Group, Inc.	5.7%
Rolls-Royce Holdings PLC	5.4%
Universal Music Group NV	5.4%
Liberty Media Corp. – Formula One	4.7%
Capital One Financial	4.2%

** The holdings are those of a representative account in the Composite that RCG believes closely reflects the Sequoia Strategy. Client account holdings may differ from those of the representative account due to account size, client-specific guidelines or restrictions, tax considerations and other factors. The representative account's holdings are subject to change and are not recommendations to buy or sell any security. The percentages are of total net assets.*

Ruane, Cunniff & Goldfarb, L.P. claims compliance with the Global Investment Performance Standards (GIPS®). Ruane, Cunniff & Goldfarb, L.P. has been independently verified for the periods 12/31/2002 through 12/31/2022. The Sequoia Strategy Composite has had a performance examination for the periods 12/31/2002 through 12/31/2022. The GIPS® Composite Report and verification and performance examination reports are available upon request. Performance is expressed in U.S. dollars.

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