Ruane Cunniff

January 30, 2026

Dear Clients:

Sequoia Strategy Composite's ("Sequoia" or "the Strategy") results for the quarter and year ended December 31, 2025 appear below with the results of the S&P 500 Index for the same periods:

Through December 31, 2025	***Sequoia Composite***	***S&P 500 Index***
Fourth Quarter	*0.9%*	*2.7%*
1 Year	*21.9%*	*17.9%*
3 Years (Annualized)	*22.7%*	*23.0%*
5 Years (Annualized)	*10.3%*	*14.4%*
10 Years (Annualized)	*10.7%*	*14.8%*
*Since Inception (Annualized)***	*13.5%*	*11.5%*

*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 RC'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 Strategy Composite returned 21.9% in 2025, versus 17.9% for the S&P 500. Since the Investment Committee began managing the Strategy in June of 2016, Sequoia and the S&P 500 Index ("the S&P 500") have compounded at 13.0% and 15.2%, respectively.

Our goal is to outperform the S&P 500 over the long term. As such, we are wary of making too much of a single year. However, the fact is one year does matter, even if not more (or less) than do all the other years that comprise the long term. As such, we are pleased to have outperformed this year a market that was equal parts strong and turbulent.

We will forgo a smart-sounding summary of the myriad events, issues and forces that impacted the geopolitical, societal and financial landscapes over the course of the year. While we strive to stay informed and diligently incorporate our understanding of a changing world into our analysis of the individual companies we own and research, we do not possess any special ability to forecast system-level discontinuities or their impacts.

We are committed to behaving accordingly, which means expecting the unexpected. When we do that, we end up back where we started – with a preference for businesses which we believe provide highly valued products and services; possess significant and durable competitive advantages; generate attractive returns on capital; carry low levels of financial debt; and are run by managers that are able, honest, and aligned. This company-by-company approach ought to yield a portfolio that is optimized, not for any specific scenario, but rather for a full range of scenarios, including those we can reasonably imagine as well as those we can't.

Ultimately, the proof of our approach will be in the long-term performance pudding. Nonetheless, the resilience of the portfolio throughout the course of this year was encouraging. From a local peak on February 19th to an intra-year low on April 8th, the S&P 500 drew down by approximately 18.7% on tariff-related fears. Over this same period, the Strategy declined by 10.4% or a little more than half the market's decline. In the teeth of this episode, Mr. Market made a clear and favorable judgment as to the relative risk-adjusted attractiveness of our portfolio.

Over the balance of the year, the market soared. Though our portfolio participated in this rally, the early lead that we opened through the spring narrowed by year-end. We said it last year, and we will say it again: the market is far from cheap and will not keep compounding at 20%-plus rates.

The other observation we would make is that market leadership in 2025 was noticeably less narrow than it was in the two prior years. For instance, while the seven stocks collectively dubbed "The Magnificent Seven" by the popular business press once again outperformed, their quantum of outperformance reduced drastically. They outperformed the remaining 493 stocks in the S&P 500 Index by approximately ten percentage points in 2025, whereas they outperformed by approximately 34 percentage points and 65 percentage points, respectively, in 2024 and 2023.

The Magnificent Seven performed not only much less magnificently this year, but also much less uniformly. In fact, the group might be better described this year as "The Magnificent Two", as five of the seven stocks in question underperformed the S&P 500 Index in 2025.

Though The Magnificent Seven may have lost some steam in 2025, their weight in the Index nonetheless increased, even if only modestly. At year-end 2025, this group of companies accounted for approximately 34.4% of the S&P 500. For the second year in a row, we can accurately state that the market has never been – not at the peak of dot-com bubble, not during the heyday of the Nifty Fifty, not even in the final days of the Roaring Twenties – this concentrated.

The Strategy remains more concentrated than the market, but also differently concentrated. Only time will tell, but we much prefer our portfolio, whose concentration derives from deliberate decisions made about companies that we have exhaustively researched, to that of the mechanically Magnificent-Seven-heavy one embodied by the S&P 500.

As always, the forward progress that our businesses make will be a key driver of long-term Strategy performance. Such fundamental progress will not be even. It never is. Businesses operate in the real world, not a spreadsheet. But over time and through cycles both economic and competitive, high-quality businesses of the sort we own tend to advance, fundamentally and financially, at pleasing rates.

This is all true, but of course it glosses over the importance of decision making. We need to correctly identify businesses as high quality, purchase them at prudent prices, and finally manage the positions responsibly over time. The job is simple, but far from easy. It helps to have, as we firmly believe we do, a smart and hard-working team aligned around a sensible investment philosophy and a consistent research process. If that were all that was required, though, you would see many more long-term track records of outperformance than you do. The secret ingredient is wisdom, as distinct from raw intelligence.

The situations with Rolls-Royce Holdings PLC ("Rolls-Royce") and Alphabet Inc. ("Alphabet") this past year are instructive in this regard. As noted in last year's letter, we held firm and in fact added to our position, when Rolls-Royce's business ground to a halt during the pandemic and its share price cratered by over 80%. Fast forward to the end of 2024 and the stock was up seventeen-fold from the bottom and had become the Strategy's single largest holding. At that point, we seriously considered significantly reducing the position and taking our ample profits. Such a move would have been understandable and in some legitimate sense "intelligent." However, our updated analysis of the business fundamentals, which we deemed to have improved noticeably versus pre-Covid, led us to conclude that Rolls-Royce remained attractively priced even at a richer nominal valuation. Over the course of 2025, the business continued to make forward progress, in fact more than we had expected. Investor sentiment also improved noticeably. By September, the shares were up over 100% for the year. At that point and again in December, we trimmed the position modestly on account of the weighting and the valuation.

As for Alphabet, we had real concerns entering 2025. The company was facing potentially significant antitrust action as well as the most serious competitive threat ever to its vaunted search business in the form of generative AI. We were right to be concerned, and we had a robust debate as to whether the widening range of outcomes justified, at a minimum, a significant trimming of this longstanding and highly rewarding investment. The logic for such a move was eminently reasonable and perhaps even "intelligent." Instead, we decided to stand pat, because our discomfort was balanced by our appreciation for the fundamental strength of Alphabet's various businesses and its full-stack AI capabilities, which we believed afforded the company significant scope to endure regulatory action and to respond to emerging competitive threats.

Over the course of a few months in the second half of the year, Alphabet saw a US district judge issue remedies that were much milder than feared and released a new version of its Gemini large language model that quickly soared to the top of the AI leaderboards. As a bonus, the strategic value of Alphabet's full-stack AI capabilities was highlighted by emerging demand for the company's proprietary AI-specific processing chips, which it began to sell on third-party basis. These positive developments precipitated a swift and significant reappraisal of the company and its prospects. The shares more than doubled off their intra-year lows, and finished 2025 up by nearly 65%.

Rolls-Royce and Alphabet were our two best performing stocks this year. Given their significant weightings, it is no surprise that they were also our two top contributors to Strategy performance this year. Even after the late-year trims mentioned above, they are still the Strategy's two largest holdings. As such, their stories as Strategy investments are still very much being written. It is therefore incumbent upon us to continue managing these investments not only intelligently but also wisely.

These are only two examples, and it is safe to say that we do not always make the maximally wise decision. The world is simply too complicated. Further, we will not immediately know just how wise, or unwise, any specific decision is. It is the passage of time and the corresponding progression of long-term business fundamentals that ultimately render such judgements.

Our investments in UnitedHealth Group Inc. ("United") and Elevance Health, Inc. ("Elevance"), the two largest managed care companies in the country, are instructive in this regard. We initiated both positions opportunistically. In the case of United, we capitalized on a 2019 share price swoon precipitated by "Medicare for All" fears that flared up in the runup to the 2020 presidential election. We bought our first shares of Elevance two years later when Covid-induced swings in healthcare utilization pressured its earnings.

United and Elevance, as businesses, performed well out of the gates, bolstered by a Covid-induced swelling of government-funded healthcare rolls combined with surprisingly subdued utilization. United and Elevance, as stocks, performed even better, as investors fled to apparent safe havens like managed care amidst a stock market correction brought on by rising rates, inflation fears, and general economic concerns. We recognized the situation for what it was. The pleasing results posted by United and Elevance during Covid had not changed our assessment of fundamental value. Although the valuations at the time did not strike us as obviously unreasonable, we deemed them to be on the high side of fair. Accordingly, we sold almost half of our combined shareholdings in United and Elevance over the course of 2022.

As it turned out, the managed care industry was about to enter a multi-year period of significant fundamental pain. In successive fashion, the various lines of business came under significant earnings pressure. The main culprit was rising and volatile utilization across the healthcare system. Though managed care companies generally reprice their business annually, there are practical and regulatory reasons that limit how quickly they can reprice to trend. At this point, the managed care companies, including United and Elevance, are still under-earning across the great majority of their business lines.

The situation has been exacerbated by a deteriorating fiscal situation, which naturally raises questions about the sustainability of US healthcare spend and growth thereof, and by renewed scrutiny of business practices throughout the industry and at United specifically. While we continue to consider it highly unlikely that the US healthcare system is dramatically altered and, further, we continue to believe that the managed care companies, however unloved, play an important and necessary role in the system, we cannot deny that the policy risk inherent in these two investments, while present from the beginning, is perhaps higher now than a few years ago.

United’s shares declined by over 33% in 2025, making it the worst performing position in the portfolio for the year. Elevance’s shares declined by approximately 3% in 2025, after having drawn down by over 20% the year prior. Both companies’ share prices are now at levels first reached during 2021. Two investments that looked like big winners back in 2022 now look like big losers, at least relative to the market. We happen to believe both securities are attractive at current levels. In fact, we added modestly to Elevance during the year.

Given how the situation happens to have unfolded, it is easy and true to say that we wish we had trimmed both positions even more aggressively back in 2022. In the end, though, the wisdom of our decisions around our investments in United and Elevance will be determined by the long-term performance of the businesses relative to the price we paid for our shares. We would be lying if we said we felt every bit as confident about these two investments as we did a few years ago. At the same time, when we reflect on our extensive and ongoing research, we believe it is entirely possible that our original purchases of United and Elevance shares prove to be winners over the long term.

How we have handled our investments in Rolls-Royce, Alphabet, United, and Elevance throws into stark relief, we think, the important distinction between mere intelligence and wisdom. You need to be smart, but wisdom can pay outsized dividends and a lack of it can prove costly.

The key to getting the long-term performance that we expect and that you deserve is for us to do everything we possibly can each and every day to earn the right to make decisions that are both intelligent and wise. This means focusing on businesses whose quality characteristics render their long-term trajectory more predictable, researching these businesses as exhaustively as anyone else in the business, and maintaining a culture that promotes and demands crisp decision-making. While we will always seek to refine and improve, we feel that we are operating with as much focus, efficiency, and vigor as ever.

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At year-end, the portfolio was comprised of 24 investments. The Strategy is concentrated, but at the same time spans a variety of industries, business models, and geographies. We believe 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 the portfolio, totaling 64.1% 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.

In a reflection of our confidence in the portfolio, turnover in the Strategy was 9.3% this year, below our long-term average. This relatively small amount of activity can be bucketed into trims, adds, full exits, and new positions.

Notable trims during the year included Rolls-Royce, Intercontinental Exchange, Inc., and Meta Platforms Inc. In general, these decisions were driven by valuation, position size, and competing investment opportunities, rather than meaningful changes to the fundamentals of the businesses.

We did fully exit one investment this year, Jacobs Solutions Inc. We had already significantly reduced this investment in prior years. With our final sale, we concluded a solid market-beating investment that dates back to 2012.

The only company to which we added notable exposure this year was Ashtead Group plc, and even here the action we took was relatively modest.

Notable new positions added this past year included MSA Safety, Inc., Accenture Plc, and Align Technology, Inc. We introduce each of these investments below.

MSA Safety, Inc. (“MSA”), headquartered in Cranberry Township, PA, is a leading manufacturer of premium workplace safety equipment for government customers – primarily fire departments – and commercial customers. Its products include the self-contained breathing apparatuses (“SCBA”) used by firefighters, fixed and portable gas detectors used in the oil & gas space and various other industries, and a variety of personal protective equipment such as fall protection and hard hats. In all but one of its core product categories, MSA is the #1 or #2 player. The company's total revenues amount to roughly $2 billion, and its market capitalization currently stands at approximately $7 billion.

Workplace safety is a typically stable and generally attractive market. Because products protect against serious injury and death, customers are willing to pay a premium for products they know and trust. Over its 111-year history, MSA has established itself as a top brand in workplace safety due to its track record of industry-leading, customer-centric innovation. The company benefits from a growing focus on safety, as regulation and employer behavior trend towards higher safety standards over time.

We have long admired MSA's market leadership and mission-driven culture, and in 2025 we had an opportunity to purchase shares at what we deem an attractive price. The stock had weakened through late 2024 on expectations of a growth slowdown in 2025. This slowdown was primarily due to the idiosyncratic cycle of the SCBA business, which is driven by periodic regulatory standard changes. Fire departments are currently holding back on the replacement of their SCBA equipment in anticipation of a standards change that will render the current generation SCBA equipment outdated. We have seen this dynamic in the leadup to past standards changes. These slowdowns are typically followed by periods of elevated "catch-up" growth, and we expect this cycle will be no different. In any case, we were pleased to have been presented with the opportunity to build our position at what we consider an attractive valuation.

We believe MSA's business is in the early innings of a phase change towards technology-enabled safety equipment. For instance, in 2022, MSA launched a "connected" portable gas detector that improves safety outcomes for workers by enabling real-time communications and that drives productivity for employers by automating data collection and compliance reporting. For these "connected" detectors, MSA moved to a monthly subscription model, leading to higher margins and lifetime revenue that is multiples higher than that generated by traditional detectors, which are paid for on an upfront basis. Our research indicates that this value proposition is resonating strongly with customers, and the numbers bear it out. MSA's "connected" detector revenue has grown, and continues to grow, at a rapid rate. From a standing start a few years ago, "connected" detectors have become a meaningful driver of MSA's total detector business, which accounts for roughly 40% of total company revenues. With most of the portable detector market still "un-connected," we see headroom for sustained and significant growth in MSA's detector business.

We see a similar transition playing out within MSA's SCBA business, which by our estimates accounts for roughly 25% of total company revenues. As the only source of clean air, the SCBA is the firefighter's lifeline in the most dangerous environments. This primacy makes SCBA the most natural device to gather and distribute critical data, such as oxygen levels, firefighter location, and biometric indicators. While MSA has not yet come to market with a fully featured "connected" SCBA product, it has been investing significantly and continuously over the past several years in R&D to develop these products. Notably, our research indicates that MSA is far ahead of its key competitors in its efforts in this area.

At this point, the most tangible evidence of MSA's efforts here are the "connected firefighting" deals it has signed with the Los Angeles and London fire departments, two of the biggest and most technology-forward fire departments in the world. In essence, these deals cover the provision of current-generation SCBA equipment and provide a framework for cooperation on the development of "connected" features. MSA's ultimate goal is to develop and bring to market a "connected" SCBA solution that not only provides tangible value but is also simple. MSA is acutely aware that while the smaller fire departments that make up most of the SCBA market tend to follow their big-city peers, albeit with a lag, the products must be easy to use.

While it is not clear exactly when MSA's "connected" SCBA solution will be ready for primetime, we believe it is a question of when, not if. Similarly, while it is hard to know exactly how fast the product will get taken up by the market, we are confident that it will drive a significant and sustained increase in MSA's SCBA revenue and profit growth over the next 5-10 years.

We purchased our MSA shares at a mid/high-teens multiple of our estimate of forward earnings. If, as we expect, the trend towards technology-enabled safety equipment continues to gather steam in the years to come, then MSA should prove a rewarding investment.

Accenture Plc ("Accenture"), another notable new position, is the market leader in information technology ("IT") services, providing strategic advice, systems implementation, IT outsourcing, and business process outsourcing to Global 2000 enterprises. Originally a spin-out of accounting firm Arthur Andersen, the firm has grown to nearly 800,000 employees and over $70 billion in revenues. Its market capitalization currently exceeds $180 billion.

Accenture is another company that we have followed and admired for years. More specifically, we have been impressed by the company's strong and consistent execution against an attractive industry backdrop. Like the engineering services space, which we know well from our prior investment in Jacobs Solutions Inc., the IT services space has enjoyed consistent, GDP-like growth with minimal invested capital. While barriers to entry are low, barriers to success are high, particularly with large corporate customers for whom a vendor's reputation and track record are paramount.

Over the many years we have followed Accenture, its strengths generally seemed appropriately valued by the market. This changed in 2025, with the stock price dropping nearly 40% from its highs. With the company's revenue growth slowing and generalized exuberance for artificial intelligence ("AI") increasing, investors began to question whether generative AI might be on the cusp of upending the IT services industry.

Our updated research, however, indicated that Accenture's principal moats remain very much intact. Enterprise IT departments explained their dependency on Accenture's enormous breadth and depth of IT expertise as well as the company's intimate knowledge of their specific business processes and end-markets. C-suite executives cited Accenture as one of just a handful of consultancies they could credibly recommend to their boards for complex IT migrations that can cost hundreds of millions of dollars, span several years, and involve thousands of employees around the world. Finally, ecosystem partners affirmed their reliance on Accenture for the labor-intensive work of selling, customizing, and implementing their software packages.

As for generative AI, we do not dismiss it. Like previous IT transitions, generative AI brings the potential for deflation, business model changes, and new competition within the IT services industry. The offshoring wave of the 2000s and the move to the cloud in the 2010s brought about huge cost efficiencies, new pricing paradigms, and a crop of specialist upstarts. Enterprise IT budgets have historically been highly elastic, steadily marching along and absorbing all these changes in stride. Overall IT services industry stability, however, does not mean every participant has fared equally well. Some players have fallen by the wayside after failing to adapt to the massive headcount needs of offshore delivery centers, the shift to fixed-cost contracting, or the increasing scale required by hyperscale partners. We expect AI to bring new changes, as it alters the shape of the services "labor pyramid," encourages outcome-based pricing, and sees new players enter the ecosystem.

We take comfort in Accenture's track record of deftly navigating past IT transitions and do not believe it is an accident of history. Accenture is well known for its constant restructurings, which for us would typically be a cautionary signal. In Accenture's case, though, we view the restructurings as a function of a highly decentralized organizational structure that prioritizes adaptability over efficiency, a critical attribute in the fast-moving IT industry. Flexible reporting lines mean the organization can reconfigure as needed, and the culture attracts talent energized by that dynamism. We believe Accenture's most recent restructuring, dubbed "Reinvention Services," will enable the company to meet the AI challenge head on.

We purchased our shares of Accenture in late 2025 at a mid-teens multiple of our estimate of forward earnings. While we cannot predict precisely how generative AI will evolve, we believe that the overall IT services industry will continue to grow over time and that Accenture will maintain its status as the gold standard in IT services. If we are right, then our investment should deliver a pleasing result.

Align Technology, Inc. ("Align"), the third and final of our notable new positions, is the company behind the Invisalign clear aligner orthodontic system. The company was founded in 1997. The idea of using plastic trays to move teeth was not entirely new but Align was the first company to invest in the product and the business in a serious way. In its early years, Invisalign was met with broad-based resistance and even hostility from the orthodontic community. Align was forced to bypass the channel to generate consumer demand, through an aggressive brand advertising campaign that established Invisalign as the first and only real consumer brand in the orthodontic and dental space.

Today, Align's market capitalization stands at roughly $12 billion. We expect the company will have generated revenues of roughly $4 billion in 2025, with Invisalign accounting for over $3 billion of this total, and intraoral scanners and lab-oriented digital design software accounting for the balance. Align's operating margins, as we calculate them, are somewhat depressed but still running in the high teens on a percentage of sales basis. The company earns sky-high returns on tangible capital and therefore converts free cash flow in a pleasing manner. The company has no debt and roughly $1 billion of cash on its balance sheet. Align is now a large, global and profitable business. Invisalign is available in over 100 countries and drives roughly 2.5 million orthodontic "case starts" per year.

We have followed Align closely for nearly 15 years. For most of this time, the company's revenue and earnings grew at a rapid rate. Unfortunately, the valuation generally reflected, in our view fully, the performance of the business as well as its prospects. This past summer, however, the valuation came into range. The change in sentiment is to some extent understandable. The fact is Align's business has stagnated since 2021, when a pandemic-driven surge in demand for clear aligners propelled revenues forward by approximately 60%. Some normalization was to be expected, though the weakness has persisted for four full years now.

One culprit is weak patient traffic in the orthodontic and dental end markets, particularly in the US. A doctor cannot sell a patient on clear aligner therapy if he does not come into the office. Another culprit is competition. For twenty years, Align effectively had the clear aligner market to itself on account of a handful of very fundamental patents. These patents expired around 2017. Predictably, competition emerged soon thereafter, initially from incumbent players in the dental and orthodontic markets, and more recently from a couple of pure play aligner companies out of Asia.

We always considered it an inevitability that legitimate, even if generally lesser, clear aligner competition would emerge when Align's fundamental patents expired. We further consider it an inevitability that the company will lose some amount of clear aligner market share from here. We, however, firmly believe that Align will remain the market leader for many years to come. Underpinning this belief is our view that clear aligners are more of a "solution" than a "product." This solution includes multiple components – aligner plastic, various so-called aligner "attachments" that assist with specific tooth movements, treatment planning algorithms, treatment planning software, treatment planning labor, mass customized manufacturing, logistics, doctor education, brand and marketing support – that all work together not only to move teeth, but also to generate demand and drive productivity and profitability at the practice level. As such, we do not see the clear aligner market trending towards commoditization.

While the precise timing of a rebound in patient traffic is difficult to predict, we are confident that the clear aligner market will grow at a decent rate over the long term. The market opportunity remains largely untapped. There are hundreds of millions of adults across the world with crooked teeth and the means to pay for clear aligner therapy. Not all of them will take the clear aligner plunge, but if even a small fraction does, the impact on long-term market growth will be significant. Further, several million teens across the world begin orthodontic treatment every year. At present, the vast majority of these teens are getting traditional wires and brackets. With each passing year, however, these teens are increasingly taking the clear aligner route. For various reasons, we do not see a future without wires and brackets. At the same time, we do expect clear aligner's share of teen cases to increase significantly over the long term.

We purchased our shares in Align for a low-to-mid-teens multiple of our estimate of forward earnings. If we are right about long-term clear aligner demand as well as the nature of the clear aligner business and therefore the evolution of the competitive situation over time, then we stand to get a very nice investment result on these share purchases.

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As always, we count ourselves extremely lucky to have clients who understand and appreciate our long-term business-focused approach to investing. The partnership we have with you is unusual and, in a very real sense, enables our approach. We remain as committed as ever to rewarding the trust you have placed in us by delivering long-term performance consistent with the high standards that you have for us and we have for ourselves.

We look forward to seeing you in-person at our upcoming Investor Day on Thursday, May 14th. It will be held once again 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 and yours a happy and healthy new year.

Sincerely,

The Ruane Cunniff Investment Committee



Arman Gökgöl-Kline John Harris Trevor Magyar

<u>Sequoia Top 10 – Dec 31, 2025</u>

Rolls-Royce Holdings
(13.1% of Sequoia's capital at year-end, +120.1% total stock return in 2025[1])

Shares in Rolls-Royce Holdings plc ("Rolls-Royce") returned 120.1% in U.S. Dollar terms in 2025, driven by strong and broad-based fundamental performance and increased investor appreciation for the underlying businesses and their prospects. We expect Rolls-Royce will have grown revenue and free cash flow per share at roughly 10% and 35%, respectively, in 2025.

With the pandemic-driven collapse in flying hours and the Trent 1000 engine issues both now in the "rearview mirror," the fundamental strength of the Civil Aerospace business and the maturation of the key engine programs are shining through. To remind, Rolls-Royce's Civil Aerospace business has long been shifting, slowly but surely, towards engines that are more powerful and more economically rewarding too.

Importantly, these new engine programs, even a decade after launch, are still young by industry standards. Their installed bases, which are still growing, should generate low-risk, high-margin revenue streams that will persist for decades. In addition, Rolls-Royce continues to invest into various "time on wing" initiatives that, if successful, should reduce required engine maintenance intervals and thereby further boost profitability.

When the accounts are tallied at the end of 2025, we expect Rolls-Royce will have achieved its 2028 operating margin targets three years ahead of schedule. Critically, though, we believe that Civil Aerospace will not only grow revenues from here at a healthy rate but also will further expand its margins on account of the aforementioned time-on-wing initiatives as well as pricing.

Civil Aerospace remains the most important driver of Rolls-Royce's growth, but every other segment is experiencing a growth story of its own. Consider the company's Defense segment. As a leading European defense contractor, we expected this segment to benefit from the new threat environment in Europe and the resulting surge in defense spending. We're now starting to see it in the numbers. For instance, Rolls-Royce is the sole producer of the nuclear power plant that powers the new Dreadnought-class submarine that will replace the Royal Navy's fleet of Vanguard-class submarines. Rolls-Royce is also developing power and propulsion systems for the Global Combat Air Programme, a UK-Japan-Italy consortium that is working to develop a next-generation stealth fighter.

Rolls-Royce's Power Generation segment is also a bright spot. Here, Rolls-Royce has a leading market share in backup power for datacenters. This business grew 25% in 2024 and is likely to have grown at a similar rate in 2025. The underlying driver of this outsized growth is AI. We did not purchase Rolls-Royce with the idea that it had this latent AI exposure, though we welcome its activation.

Lastly, we've seen positive developments in Rolls-Royce's Small Modular Reactor business. In June, Rolls-Royce was selected by the UK to deliver 3 small-modular-reactors to a site in North Wales, subject to a final investment decision by 2030. Combined with orders from the Czech Republic, Rolls-Royce now has commitments for 4.5 gigawatts of power. Further, it is in various stages of discussions with several other European countries. Specifically, Rolls-Royce recently advanced to the final stage of Sweden's selection process, reached a Decision in Principle with Poland, was selected as the preferred partner in the Netherlands, and signed memorandums of understanding with Estonia and Turkey. Rolls-Royce additionally disclosed that it expects this business to generate revenue beginning this year and produce positive free cash flow by 2030. It is still very early days, but it is entirely possible that this business,

[1] All returns quoted in this appendix represent the Total Return of the stock with any applicable dividends reinvested in the stock. They do not reflect the timing of any purchases or sales that Sequoia Fund may have made. See Total Stock Return disclosures at the end of this letter.

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of which we have long been aware but have never factored heavily in our valuation consideration, could become a meaningful profit contributor over the next decade.

At the current price, Rolls-Royce shares trade for a little more than 30 times our estimate of forward earnings power per share. We remain optimistic about the fundamentals of the Civil Aerospace business and excited about future growth options in Defense, Power Systems and Small Modular Reactors. However, given the position size and a valuation that we find attractive but less so than previously, we reduced our shareholdings late in the year.

Alphabet, Inc.
(10.6% of Sequoia's capital at year-end, +66.0% total stock return in 2025)

Shares of Alphabet Inc. ("Alphabet") returned 66% in 2025. We expect the company will have grown revenues and earnings per share at a mid-teens and low-thirties rate, respectively, for the year.

While Alphabet's financial results last year were pleasing, the most fundamental developments regarding the company's businesses and their prospects do not show up in the filings. To start, the company released in November a new version of its Gemini large language model whose first place performance across a wide array of intelligence metrics saw it immediately soar to the top of the AI leaderboards. For many years, we watched Google assemble all the necessary AI ingredients: thousands of AI researchers, exabytes of data, and gigawatts of processing capacity. It was frustrating and, if we are honest, a little anxiety-producing to see the company beaten out of the AI gate by OpenAI's ChatGPT. However, with the release of its Gemini 3 model, we feel we have finally gotten a taste of what Alphabet can really do in the burgeoning AI market.

We are acutely aware that technical performance is not the same as business performance. Alphabet still has plenty of work to do to maintain its technical edge and translate that into the strongest product. While OpenAI maintains the lead in users and usage thanks to its early release of the ChatGPT product to the public, recent news is encouraging for Alphabet. Gemini is growing users and usage faster than ChatGPT, which is to say Gemini is catching up.

Google is also successfully integrating AI deeper and deeper into its core Search product, with AI Overviews and AI Mode, where the company has indicated an increase in user satisfaction. In support of this claim, Search revenues grew by nearly 15% in the last reported quarter, as compared to 12% in the year-ago quarter.

Search has been operating under the cloud of antitrust court proceedings over the past few years. The Department of Justice proposed a couple of radical remedies and this last November, the presiding judge decided against levying them in draconian form. As a result, Alphabet can continue its Search distribution relationship with Apple and keep its homegrown Chrome browser. We consider this a positive outcome in that the ruling does not handicap the company significantly and should allow it to continue to compete effectively.

We want to be clear that we do not consider AI and Search a cage match with only one winner. Search will incorporate and merge with AI large language models, and we're already starting to see that, but AI dramatically expands what computers can do and that ought to create a lot of new value over time. In addition to its world-beating Gemini models, Google's DeepMind AI lab is working on developing new drugs, making sense of the human genome, finding new materials, enabling robotics, and more besides.

In the near-term, Google Cloud Platform is the only one of the three largest hyper-scalers with an in-house cutting-edge foundational AI model, which is winning the company more work with enterprises and helping them grow that business. Google Cloud now accounts for approximately 15% of total-company revenue, growing at over 30% annually with margins expanding along the way.

Last year also saw Alphabet's home-grown Tensor Processing Units gain increased credibility as a rival to NVIDIA's golden-ticket Graphic Processing Units. More specifically, rival AI labs signed up to use significant numbers of Tensor Processing Units. The associated revenue should start flowing in shortly.

Overall, between Search's sustained growth in the teens, YouTube's growth in the mid-teens, and Google Cloud Platform's accelerated growth in the 30s, we feel comfortable that even after all these years Alphabet can grow revenue in the low-to-mid-teens. It sports a richer multiple now, approaching 30 times our estimate of forward earnings per share, but we find it justifiable considering the company's rate of value creation and value capture.

Universal Music Group
(6.0% of Sequoia's capital at year-end, +4.0% total stock return in 2025)

Shares of Universal Music Group, N.V. ("UMG") returned 4% in US dollar terms in 2025. We expect the company's revenue and earnings will have grown at a mid-single-digit rate and a high-single-digit rate, respectively, for the year.

Revenue from paid streaming, which represents roughly half of UMG's revenues and more of profits, likely grew at a high-single-digit rate. Importantly, the near entirety of this paid streaming revenue growth was driven by an increase in the number of paid subscribers. While some paid streaming markets are more mature than others, we believe this continued strong volume growth is supportive of our view that there remains a long runway for new paid subscribers globally.

We further believe that price, though a negligible factor to date, will become a significant driver of UMG's paid streaming growth over the long term. Consider that the major streaming platforms currently charge $10.99 per in the US, which we believe is substantially below the true value of the product and, more to the point, what consumers would be willing to pay for it. History is instructive on this point. On an inflation-adjusted basis, per capita spend on music in the US today is about half what it was in 1999 at the peak of the CD era. The punchline is that Americans are spending far less today on a music product that, with its unlimited selection and on-demand nature, is far superior to anything that came before. As such, we expect that the streaming platforms can and will move retail prices up over time, even if not necessarily in consistent or linear fashion. Given the contract mechanics between UMG and the streaming platforms, a portion of any such retail price increase will flow through to the company's coffers.

UMG is not sitting idly by. The company has now signed new agreements with three of the four major streaming platforms that include step-ups in the wholesale price that it charges for its content, which should provide incremental incentive for the streaming platforms to increase retail prices.

Time will tell, but we are starting to see positive signs on the retail price front. Most notably, over the past several months, Spotify announced retail price increases in certain European markets and in the US for its premium subscription plans. If our thesis is valid, we should see more such price increases from Spotify and other streaming platforms in the years to come.

Separately, UMG continued to work with various regulators throughout last year to secure the necessary approvals for its acquisition, announced in late 2024, of Downtown Music Holdings for $775 million. We view this transaction as financially and strategically sound. Downtown will level-up UMG's scale in the fast-growing distribution and artist services business. While we hope the regulators allow the deal to close, we are also pleased with the progress UMG has made in this business organically under the newly created Virgin banner.

Last year also saw UMG continue to acquire small labels and catalogs in various developing markets. While these markets do not generate much revenue or profit today given generally lower streaming penetration and lower levels of per capita income, we believe they are likely to become significant growth drivers at some point in future. If that is correct, then UMG will look wise indeed for having proactively secured beachheads in these markets.

Despite all of this generally good news, UMG's share price came under pressure last year. We attribute this pressure to two primary sources. First, there have been renewed concerns about the impact of generative AI on music generally and major labels like UMG specifically. Recall that in the wake of the initial introduction and uptake of generative AI in 2023, the industry saw a wave of fully AI-generated music content hit the streaming platforms. Most of this content never got any noticeable amount of listening, but a sliver of it did. Notably, though, interest in even this sliver of content has not sustained.

At the same time, it is a fact that the volume of fully AI-generated content being introduced to the streaming platforms has not slowed. For instance, streamer Deezer is now reportedly onboarding over 50,000 fully AI-generated "songs" per day. Most of this content consists of sleep tracks, lean back listening, techno beats and other formats that do not compete in the truest sense with major artist music. A few fully AI-generated songs and "artists," however, have captured enough listening to register on, even if not top, the streaming charts.

While we don't doubt that some fully AI-generated music might gain traction and perhaps even sustain it, we continue to believe that human artists and the labels who represent them will make up the vast majority of commercially relevant music over the long term. Moreover, we expect that AI will afford labels like UMG new and incremental opportunities to monetize their existing intellectual property. For example, earlier this year, UMG signed a deal with AI platform Udio that will allow fans to use AI to remix and adapt label-licensed content in a walled garden. While it is early days and we continue to monitor the situation, we are confident that UMG's value proposition will endure in the AI era.

The other factor that may have pressured UMG's shares last year was technical in nature. Specifically, there were rumors that two sizable shareholders were reducing, or planning to reduce, their positions. We cannot speak to their thinking, which is fine, because we keep our own counsel when it comes to valuing UMG, as we do with all our holdings.

At the current price, UMG's shares trade for about 20 times our estimate of forward earnings. We view this as an attractive valuation for a business that owns and controls a significant proportion of all commercially relevant music in the West and that should benefit for years to come from the ongoing transition to digital music consumption.

Charles Schwab Corp.
(5.8% of Sequoia's capital at year-end, +36.6% total stock return in 2025)

Shares in Charles Schwab Corp. ("Schwab") returned 37% in 2025. The company grew revenue by over 20% and earnings per share by nearly 50% for the year.

At the most fundamental level, Schwab's business performance last year was less dramatic than these growth figures might suggest. The company gathered net new client assets at a nice mid-single-digit clip, which is broadly consistent with the sort of net new asset growth that has powered Schwab's franchise over the decades. Market growth, which over time and through cycles provides an additional boost to Schwab's asset growth, happened to provide a particularly significant boost this year. At year-end 2025, the company's total client assets stood at $11.9 trillion, up approximately 18% versus prior year.

Last year, Schwab's total revenue grew faster than its base of client assets did, thanks primarily to particularly robust growth in net interest income. Given the fixed cost nature of Schwab's business, this additional net interest income and all the other additional revenue flowed through at high incremental margins, which is what drove the outsized growth in the company's earnings in 2025.

Net interest income generally accounts for roughly half of Schwab's revenue, and it is a line item that investors have been staring at intently over the past few years. When interest rates began to rise rapidly in 2022, the expectation was that Schwab would end up making more net interest income. Clients would predictably "sort" out of low-yielding cash sweep deposits and into higher-yielding money market funds, but the spread that the company would earn on the remaining cash sweep deposits would more than make up for it.

The situation ended up playing out very differently than expected. For starters, the magnitude by which and the rapidity with which interest rates rose led to a correspondingly large and swift erosion of the Schwab's cash sweep deposit base. Around the same time, Schwab got caught up in the regional banking crisis. Given the scrutiny it was under, Schwab chose to fund deposit outflows by tapping high-cost, short-term funding sources as opposed to selling securities, which would have been the more elegant and economic approach.

Schwab felt then, as we did, that it was being unfairly lumped in with regional banks whose financial positions were fundamentally different. We would submit that our view has now been borne out, but it does not change the fact that Schwab's net interest income, and therefore its earnings, got unnaturally pressured. This pressure has been abating progressively over the past few years, as Schwab has been paying down high-cost short-term funding with operating cash flows and security maturations. By year-end 2025, Schwab had paid down nearly all this high-cost, short-term funding. This paydown led to a mechanical expansion of the company's net interest margin, which is what drove the outsized growth in net interest income last year.

Now, because Schwab's interest earning assets have duration, the company is still earning less interest income than you might expect given the prevailing rate environment, though that gap is narrowing with each passing day. The punchline is that the drama surrounding Schwab's balance sheet and its net interest income is coming to an end. The franchise remains intact, as does the associated flywheel. The company's scale-driven, low-cost position continuously improves the value proposition for clients, which in turn sustains momentum on the asset gathering front.

Separately, we are now over 18 months out from the completion of the multi-year, multi-phase TD Ameritrade account conversion, the largest one in the history of the industry. As Schwab warned, net new asset growth for the combined business dipped below its historical range of 5-7% during the conversion. Encouragingly, though, this gap has closed significantly over the past year. Schwab attributes this improvement to recovering net new asset growth among legacy TD clients, who are now seeing the value of Schwab's offerings. The company asserts that net new asset growth among legacy Schwab clients never dipped. We will be watching the data closely, though our expectation is that Schwab will be able to grow net new assets at a rate equal to, or at least close to, the rate at which it has historically.

At the current price, Schwab shares trade for a high-teens multiple of our estimate of forward earnings. We remain happy owners of this durably advantaged franchise that is positioned in the fastest growing channels within the wealth management space.

Constellation Software, Inc.
(5.3% of Sequoia's capital at year-end, -21.8% total stock return in 2025)

Shares of Constellation Software, Inc. ("Constellation") returned -22% in US dollars in 2025. The company deployed most of its free cash flow on the kinds of high-return, niche software acquisitions that have powered its strong growth over the last 30 years. If we were to quibble, we would note that Constellation's growth last year, though solid, fell slightly short of what the company has typically achieved. We expect that Constellation will have grown revenues and earnings per share at a mid-teens and low-twenties rate, respectively, for the year.

Two factors weighed on the Constellation's stock last year. First, founder and CEO Mark Leonard resigned in November due to a serious health condition. He remains on the Board as he recuperates, though we have no expectation that he will reassume the CEO position. The second factor was the broader markdown in the valuations accorded to software companies on account of AI-related fears. Investors see the potential for AI-based coding tools to change and accelerate software development, which could be to the detriment of incumbents. Investors are also wrestling with the possibility that AI itself may replace certain classes of software entirely.

To take up the first point, we will miss Mark Leonard at the tiller. “Miss” is a totally inadequate word. He is sui generis—a combination of intellect, agency, diligence, humility, and decency we are not sure we have ever found so concentrated in any individual CEO. Very few founders get a company off the ground. Very few then grow that company successfully over 30 years. Very few CEOs truly care about the value they deliver for the common shareholder. Very few are both introspective and worldly enough to understand when and how to increase their circle of competence, and to change their minds and pivot when necessary. Very few CEOs build up such capable leadership talent that they can be trusted to be CEOs of their own companies both inside and outside of the mothership. Mark Leonard has done all of these things. What’s more, starting in January 2015 Mark has taken zero salary, bonus, or reimbursement of any kind while delivering nearly 800% returns to shareholders.[2] We have been honored to invest with Mark Leonard, and we wish him a full and speedy recovery.

Notwithstanding our admiration for Mark Leonard, we believe former COO Mark Miller is eminently qualified to take the CEO reins. He was the co-founder of the very first acquisition Constellation Software ever made, and he grew his branch of the Constellation tree in exemplary fashion over the subsequent 30 years. While Mark Leonard was an investor who learned the software business over those decades, Mark Miller was a developer who learned to be an investor. Mark Miller’s background as a developer should give him extra depth and credibility to help the company navigate what it means to write and maintain software in an AI-enabled era.

Mark Miller and many of the leaders and companies at Constellation have lived through multiple eras of software. When Mark wrote the first version of the transit software for the company he founded in 1988, he transitioned from his background writing code in FORTRAN to the newer language C. Over the years, this particular software core has been rewritten and extended many times in multiple new languages to work on PCs, over the internet, and on mobile devices. This transit software business has gotten bigger and stronger all the while. The point is that while AI presents a new paradigm shift, and a big one, Constellation's companies and leaders have navigated shifts before.

AI makes software code much easier to write and understand. It also provides new capabilities that eluded computers in the past, like real-time conversation and real-world knowledge. We think this might very well be as much an opportunity as it is a risk, particularly for the types of software companies that Constellation has sought to amass over the years. Constellation has prized and prioritized the kind of software that runs businesses or significant aspects of them, where customers particularly value the continuity of data, processes, and user interfaces. We think this gives Constellation plenty of time and leeway to adopt and integrate AI in ways that defend and perhaps even bolster their position with customers.

Constellation's companies certainly cannot stand still. We would argue that they have never been able to stand still, that they haven't, and that they are not standing still now. Mark Miller has already revved up the company's test-and-learn culture to comprehend and adopt AI. They have not found any areas where AI has hurt their businesses yet, but they are on the lookout. Mark wants Constellation’s businesses to disrupt themselves if they must. He has set a task for all Constellation units to try to solve new problems for their customers with AI and generate new revenue from AI.

Separately, we consider it possible that AI-related concerns prove a boon to Constellation on the acquisition front. More specifically, these concerns may lead to some combination of lower prices and more deals.

In the early weeks of 2026, Constellation’s shares have continued to decline. At the current price, they trade for a high-teens multiple of our estimate of forward earnings per share. We find this valuation compelling, as we believe

[2] Total cumulative return of Constellation stock (with dividends reinvested) from Dec 31, 2014 to Dec 31, 2025 was 796.5% (Bloomberg). This cumulative return does not represent the performance results of Constellation in the Strategy. Past performance does not guarantee future results.

that Constellation's portfolio of existing businesses will largely sustain and that the company will continue acquiring additional businesses at attractive returns.

Eurofins Scientific
(5.0% of Sequoia's capital at year-end, +45.1% total stock return in 2025)

Shares of Eurofins Scientific SE ("Eurofins") returned 45% in US dollar terms in 2025. As was the case the prior year, the company made good forward progress, both financially and fundamentally. The only notable blemish in 2025 was weak organic growth, as the biopharmaceutical end market remained subdued. We believe this is cyclical, and we anticipate that growth will normalize over time. In any case, we expect Eurofins' revenue and our adjusted version of earnings per share will have grown at a mid-single digit rate and a low double-digit rate, respectively, in 2025.

For a few years, Eurofins' results had been pressured by the rolling-off of highly profitable COVID testing revenues, the lingering impact of past inflation, and an operating footprint that had become overextended.

To his credit, CEO-founder Gilles Martin was open about the need to tighten up the company's operations on various fronts, and it appears that he is executing his multi-pronged operational improvement plan effectively. Specifically, the company has improved price realization to make up for past inflation, streamlined sites, and taken various targeted cost actions to restore efficiency. As a result, Eurofins' operating margins, as we calculate them, are up more than two hundred basis points since 2023.

Significantly, this observable improvement in Eurofins' margins materialized despite elevated spending on two long-running information technology improvement programs. One is a move to a more decentralized information technology footprint that is intended to reduce the risk of a cyber-attack of the sort that the company suffered in 2019. The other involves the development and deployment of a new Laboratory Information Management System across most of the business.

Separately, Martin adjusted executive compensation to better prioritize working capital management, an area where we have now seen solid improvement for two consecutive years. On governance, Eurofins continued to make improvements. Specifically, the company has effectively concluded the conflict-of-interest saga by purchasing nearly all related-party sites on economic terms we view as possibly attractive but in any case, reasonable.

Looking ahead, we expect Eurofins' margins to improve further as the information technology spend moderates and the company's hub-and-spoke lab network continues to mature. We also expect Eurofins' steady-state capital expenditures to drift down on a percentage of sales basis, which, along with improved working capital management, should support noticeably stronger free cash flow conversion. After their run-up, Eurofins' shares now trade for a little more than 20 times our estimate of forward earnings power per share. We consider this an attractive investment proposition.

Liberty Media Corp – Formula One
(4.9% of Sequoia's capital at year-end, +6.3% total stock return in 2025)

Shares of Liberty Media Formula One ("Liberty") returned 6% in 2025. While the total-company growth figures were pleasingly positive, they are less relevant this year because they include a boost from MotoGP World Championship ("MotoGP"), the premier global championship for motorcycle road racing, which Liberty acquired in July of last year for approximately €4.4 billion ($5.2 billion). Results were strong, though, even if we focus solely on the core Formula One business. We estimate that in 2025 Formula One will have grown revenue at over 10% and profits faster still. Formula One had the same number of races in 2025 as it did in 2024, so this growth is on a comparable basis.

At Formula One, sponsorship is where we saw the most notable revenue growth last year, as the 10-year $1.5 billion deal with LVMH went live. Across media rights and race promotion, the other two primary revenue streams for Formula One, growth for the year was in the high single digits combined.

As we regularly emphasize, the long-term financial return we generate from our investment in Liberty will be determined first and foremost by the overall health and vibrancy of Formula One as a sport and a spectacle. As was the case in 2024, it was a good year on both fronts.

We had another exciting season on the track, with the Drivers' Championship coming down to three drivers in contention going into the final race. Ultimately, McLaren's Lando Norris beat out last year's Champion, Red Bull's Max Verstappen, and his teammate Oscar Piastri. The Constructors' Championship was less exciting, with McLaren once again dominating, though Mercedes and Red Bull were neck and neck for second and third and Ferrari wasn't far behind them.

Off the track, Formula One continued its strong run of new sponsorship deals last year, welcoming PepsiCo as a global sponsor, signing cross-promotion deals with Disney and Nestle's KitKat brand, and expanding the highly successful partnership with LEGO. While no major new race cities were announced, Formula One had a productive promotion renewal year, with seven race contracts extended.

In media rights, the big news was Apple's acquisition of Formula One's US broadcast rights starting with the 2026/2027 season. The five-year exclusive deal is reported to be worth $150 million per year, about 50% more than Formula One's existing deal with Disney (ABC/ESPN), though Apple's deal includes digital rights as well, which makes direct comparison imprecise. Liberty awarded Apple the contract because its bid was among the highest and because Liberty believed that Apple was capable of supporting the sport in the US in a more holistic fashion than the other bidders, particularly the traditional linear broadcasters. We view Formula One's decision as sensible and long-term oriented, though there is risk in the agreement, given that AppleTV has noticeably less reach than traditional linear broadcasters and Netflix.

Liberty's confidence in Apple stems in part from its experience co-producing with Apple the recently released Formula One movie starring Brad Pitt. With over $600 million in worldwide box office sales, it was the most successful sports movie ever and became Apple's first "blockbuster." The movie was also a hit on streaming, reportedly driving a roughly 15% increase in AppleTV+ subscriptions (Source: Parrott Analytics). A sequel has already been approved.

We expect 2026 to be a big one for Formula One, with new engine and chassis regulations that alter the power unit and aerodynamic aspects of the car significantly. These changes are intended to make the cars smaller and nimbler, which should encourage more overtaking. Also, any new regulations, these included, tend to reset the board for the sort of engineering-gamesmanship that has always characterized the sport.

This year will also see two new teams on the grid, specifically Audi, which has taken over the Kick Sauber team, and Cadillac, which is joining as an 11th team. Also, Ford will become Red Bull's title partner, Toyota will become Haas's title & technical partner, and Honda is reentering the sport as the engine works partner for Aston Martin. Formula One is once again attracting the top automotive brands in the world.

Regarding MotoGP, the big development last year was the final approval and consummation of the deal at the beginning of the third quarter. To our eyes, MotoGP looks in multiple respects like Formula One did when Liberty purchased it back in 2017. MotoGP has a passionate fan base, but the ecosystem is not entirely healthy, team economics are stressed, and the sport has had limited success in the US. Liberty has already begun bringing to bear at MotoGP a number of the individuals who played instrumental roles in the refurbishing of Formula One. As was the case with Formula One, we expect Liberty to focus for the first few years on laying the fundamental groundwork for future growth opportunities. While we believe MotoGP has real growth potential and can generate an attractive return, we are realistic about how big MotoGP can become given inherently more limited interest in two-wheeler motorsports.

At the current share price, Liberty trades for nearly 30 times our estimate of the company's cash earnings power per share. The stock is certainly not cheap, but we remain happy owners at the current position size given growth that we believe will be solid and high-duration, given the unique assets in question.

Elevance Health, Inc.
(4.7% of Sequoia's capital at year-end, -3.1% total stock return in 2025)

Shares of Elevance Health, Inc. ("Elevance") returned -3% in 2025. In short, 2025 was another busy and difficult year for US health insurers, Elevance included. Though we expect the company's revenues will have grown at a double-digit rate in 2025, we expect its earnings per share will have gone backwards, even if only modestly.

The decline in Elevance's earnings last year was driven primarily by two key factors. First, the company's Medicaid business, which we had expected to hit a margin nadir in 2025, continued to weaken. Persistent medical cost pressures and adverse acuity shifts pushed this business line into the red in 2025 and extended the margin trough into 2026. Second, Elevance's individual exchange business flipped from nicely profitable to decidedly unprofitable, as double-digit increases in medical cost trend met with unanticipated risk-pool changes brought on by the migration of disenrolled Medicaid members to the individual exchanges. In response, the industry increased premiums by 20-30% across individual exchange policies, which should lift Elevance's individual exchange margins into positive territory in 2026. Unfortunately, the pandemic-era individual exchange subsidies expired at the end of 2025, and if they are not reinstated, Elevance will, in all likelihood, end up with fewer total members and less total revenue in this business line even if unit economics are restored.

Investor sentiment remained weak, thanks to not only this weakening of Elevance's Medicaid business and this fresh deterioration of its individual exchange business, but also continued scrutiny of various industry business practices – prior authorizations in health insurance, fee structures and opacity in pharmacy benefit management, risk coding in Medicare Advantage, and more – that kept the industry in the headlines. It is possible that the risk of adverse policy developments across the managed care space has increased somewhat over the past few years, though it is hard to know for sure. In any case, we continue to view policy risk as real but manageable.

Notably, Elevance does not have a revenue problem. Its revenue grew nicely in the years leading up to 2025, they grew nicely in 2025, and we expect them to grow nicely over the long term. At this point, Elevance is earning below-target and below-historical margins in Medicaid, individual exchange, and Medicare Advantage. These three government business lines account for roughly two thirds of Elevance's insurance revenues. Even with stable margins in the company's large and entrenched commercial business, Elevance's consolidated insurance margins are now less than half of 2019 levels. If and as margins across the three government business lines normalize, Elevance's earnings should increase significantly.

The broad underwriting cycle that Elevance and the rest of the managed care space is still living through now spans multiple years and has left almost no business line untouched. From a financial perspective, it has been painful, but we believe that this too shall pass. However unloved, the managed care players generally and Elevance specifically play an important and essential role in the US healthcare system. They are also deeply entrenched. Elevance covers more than 45 million members across its Blue Cross Blue Shield plans and other offerings. At the current price, Elevance's shares trade at a single-digit multiple of our estimate of normalized forward earnings power per share. We deem this attractive, and in fact added modestly to our position in 2025.

Capital One Financial
(4.5% of Sequoia's capital at year-end, +37.7% total stock return in 2025)

Shares of Capital One Financial Corp ("Capital One") returned 38% in 2025, capping a year in which revenues grew approximately 37% and earnings per share increased approximately 40%.

The major development during the year was the May closing of Capital One's $35 billion acquisition of Discover Financial Services. The transaction delivers clear financial benefits both through back-office cost synergies and through the ability, over time, to shift hundreds of billions of dollars of debit and credit purchase volume from Visa and Mastercard's networks onto Discover's network. This will allow Capital One to retain the highly attractive economics that previously flowed to third-party card networks.

Just as importantly, the transaction meaningfully improves Capital One's strategic position in multiple respects. First, it makes Capital One the largest credit card lender in the United States, further reinforcing the company's scale advantages. Also, Capital One will now have its own payment network, which should give the company better access to data, greater control over pricing, reduced exposure to certain debit and credit regulations, and more flexibility in the funding and structuring of rewards.

Discover Financial Services also strengthens Capital One's position in the low-to-mid prime credit segment, where the company has struggled to replicate the success that it has long had in subprime. Further, the transaction tilts Capital One's revenue and profit base even more toward the card business, which earns higher returns than the company's other lending activities.

As for regulatory developments, they were largely favorable during the year. The late fee rule was ultimately shelved, and the agency responsible for advancing it, the Consumer Financial Protection Bureau, has been weakened meaningfully under the current administration, reducing near-term regulatory pressure. More broadly, banking regulation continued to trend in a generally more constructive direction over the course of last year.

As this letter heads to press, we are digesting the current administration's recent call for caps on credit card interest rates, which would obviously have very significant and negative bearing on Capital One's card business. Our own view is that such a policy would not improve consumer welfare, though this argument, even if correct, is not necessarily destined to carry the day. We will be monitoring this situation closely.

With credit trends continuing to improve, increasingly our focus is on better understanding the nature and magnitude of the benefits that ought to flow from its combination with Discover Financial Services. While the integration will likely be messy and last for a few years, we believe the company will emerge from it with more consistent earnings and higher returns on equity. At the current price, Capital One's shares trade for a very low double-digit multiple of our estimate of forward earnings, which we view as an attractive valuation for a best-in-breed subprime lending franchise that we believe is poised to improve in the coming years, particularly as a result of the recent transaction.

Taiwan Semiconductor Manufacturing Co
(4.2% of Sequoia's capital at year-end, +55.9% total stock return in 2025)

ADR shares of Taiwan Semiconductor Manufacturing Co. Ltd. ("TSMC") returned 56% in 2025. As stock market participants, we are no strangers to outsized movements in share prices. As business analysts, however, it is not often we see a company of TSMC's size and maturity grow revenues by 36% and profits by 51%. Put another way, TSMC's trailing earnings-per-share multiple only expanded by 2% in 2025, with the rest of the share price gains driven purely by underlying business growth.

The growth driver was – surprise, surprise – AI. The red-hot datacenter buildout and the resulting surge in demand for AI chips saw TSMC's AI chip sales nearly double last year. Whether the hundreds of billions of dollars in datacenter spend can sustain is anyone's guess. For our part, we are not accustomed to projecting venture-capital-like levels of growth with numbers that end in "trillion." We are in uncharted territory.

Fortunately for us, TSMC's valuation ended the year at a reasonable 24 times our estimate of forward earnings, with direct AI accounting for only 20-30% of those profits. While a retrenchment in AI enthusiasm and related AI chip demand would undoubtedly impact TSMC's business and share price in the short term, we believe a long-term investor will still do well from current share price levels even if the AI tailwind abates. For perspective, consider that even when TSMC saw double-digit revenue declines after the dot-com crash and the global financial crisis, it managed to grow back to prior sales peaks within one to two years.

Recognizing our limited ability to "call the cycle," our focus remains on TSMC's technology leadership, partner ecosystem, management, and culture, all of which remain as robust as ever. As we have from the beginning, we balance the superlative aspects of this company and this business against the inherent geopolitical risks given the vast majority of TSMC's fab capacity remains located in Taiwan.

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Disclosures

The Sequoia Strategy Composite (the "Composite") consists of all discretionary, fee-paying accounts that Ruane Cunniff LP ("RC") manages in accordance with its Sequoia Strategy. The Sequoia Strategy is a concentrated, long-only equity strategy focused primarily on domestic mid- and large-cap companies.

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, 2025	
Top Ten Holdings*	
Rolls-Royce Holdings	13.1%
Alphabet, Inc.	10.6%
Universal Music Group	6.0%
Charles Schwab Corp.	5.8%
Constellation Software, Inc.	5.3%
Eurofins Scientific SE	5.0%
Liberty Media Corp. – Formula One	4.9%
Elevance Health, Inc.	4.7%
Capital One Financial	4.5%
Taiwan Semiconductor Manufacturing Co.	4.2%

** The holdings are those of a representative account in the Composite that RC 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.*

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