

AVENIR CORPORATION

INVESTMENT MANAGERS

January 2024

Dear Friends and Fellow Investors,

U.S. financial markets ended 2023 on a high note, with the S&P 500 up over 24%. Most of these gains came in the last two months of the year, accelerating in December after the Federal Reserve appeared to soften its stance on the outlook for inflation and interest rates. Widening the aperture to two years, equities have returned to levels reached before the current tightening cycle began.

During this two-year period, the yield on the ten-year note more than doubled from around 1.8% in early 2022 to around 4.4% currently, illustrating that over time financial markets adjust to whatever unexpected shock may arise and return to pricing securities based on the prospects for growth in earnings and cash flows. Over the past year many high-quality businesses with sustainable growth drivers performed quite well, while poor-quality companies or those burdened by leverage or subject to cyclical headwinds, real or imagined, did not.

Meanwhile, the emergence of Artificial Intelligence (AI) in early 2023 ignited interest in anything perceived to benefit from this new technology. AI has terrific promise and is often discussed as being as revolutionary as the introduction of electricity and the internet. Over time, AI will clearly affect many if not all aspects of society profoundly. From an investor's point of view, the primary beneficiaries thus far have been large, incumbent software and hardware providers to this nascent technology, though many companies are working hard to incorporate aspects of AI into current business processes. Longer term, AI will be implemented broadly, disrupting many industries and enabling the development of new businesses yet to be imagined. It is an exciting prospect and will propel growth.

As long-term investors we are not overly focused on the near-term outlook for inflation and interest rates in making investment decisions but remain vigilant for opportunities that may arise from overreactions to short term economic headwinds or geopolitical events. Given the multitude of uncertainties in the current environment, we fully expect markets to encounter bouts of volatility in the year ahead and will use such periods to add to or initiate new investments that meet our criteria, specifically, great businesses with secular tailwinds and excellent management teams with demonstrated superior capital allocation skills.

Portfolio Review

Our largest holding, Microsoft, continues to perform well operationally and through its Azure cloud services business, its investment in ChatGPT and its extensive offerings to software developers, is perhaps the most well-situated enterprise software provider to benefit from the emergence of AI. Microsoft's share price appreciated significantly in 2023, reflecting its unique position. Going forward, due to its ability to grow its core franchises as well as management's demonstrated astute capital allocation, we believe Microsoft is well positioned to continue compounding shareholder's capital for the foreseeable future.

Similarly, Amazon.com, through its AWS cloud services offering, is very well situated to benefit from the deployment of AI by its customers, and the company will also benefit from the incorporation of AI throughout its e-commerce and related commercial applications. Meanwhile, Amazon's profitability also

improved in 2023 due to an aggressive cost cutting program, which coupled with renewed growth in its core businesses resulted in strong share performance during the year. With many growth drivers in place and a focused management team, we believe Amazon will continue compounding shareholders capital for years to come.

Several other core holdings including Copart, Apple and DigitalBridge also enjoyed strong share performance in 2023. Notably, during the year DigitalBridge completed its transition to an asset manager focused on digital infrastructure, principally data centers and cell towers, and thus is also well positioned to benefit from the surging demand for cloud services. We understand the opportunity in front of DigitalBridge and think management is motivated to compound shareholder's capital at attractive rates for many years.

A few of our core holdings encountered challenges in 2023. Both Berkshire Hathaway and Markel Group, our two property and casualty insurance investments, lagged the market from a performance standpoint, though the underlying businesses continue to perform. Over time, the investment side of these two businesses will benefit from higher interest rates, enhancing their ability to compound shareholder's capital for years.

Lastly, the share price of American Tower lagged the market significantly in 2023. While it has zero exposure to commercial real estate, American Tower is the largest Real Estate Investment Trust (REIT) in the world. REIT's tend to be viewed as interest rate sensitive vehicles, and though American Tower is not a typical REIT, it is often subject to general perceptions on the outlook for real estate. As American Tower's share price became more attractively priced during the year, we added to existing positions opportunistically where appropriate, and we also began investing in SBA Communications, another tower company we have long admired. The tower business remains one of the best business models we have ever seen, and the build-out of 5G networks both domestically and abroad remains the primary driver of the business. The ever-increasing demand for mobile communications and computing provides an excellent secular growth tailwind that will lead to continued long-term compounding for years.

Summary

While the future direction of interest rates and inflation remain unknown, financial markets appear to have adjusted to the notion that the "era of easy money" is over, at least for now. We are quite content with this development as an increase in the cost of capital implies a more discerning marketplace. We remain focused on evaluating the evolving prospects for our current investments while simultaneously looking for attractive opportunities to invest in great businesses with excellent franchises that can compound shareholder's capital for years to come.

We are honored by your trust in Avenir. As always, if you have any questions or would like to discuss your portfolio in more detail, please call us. Meanwhile, we hope that you and your families are well and wish you all the best in the year ahead.

Respectfully,

Peter C. Keefe

James H. Rooney

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