



MANAGEMENT'S LETTER TO PARTNERS

Dear Partner,

In 2019, the Aquamarine Fund returned

24.6% vs 31.5% for the S&P 500.

Since the fund's inception in September 1997,

our investors' capital has compounded

at a rate of **9.5%** annually vs 7.7% for the

S&P 500, 8.4% for the Dow Jones Industrial Average,

and 3.8% for the FTSE 100. The Aquamarine Fund's total

return from inception is **653.7%** vs 418.7%

for the S&P 500.¹

¹ These figures are net of all management expenses, incentive fees, and brokerage expenses. In other words, these are your actual returns. The figures for the S&P 500 include dividends, making this an apples-to-apples comparison.

COMMENTARY

It would be churlish

to complain about a 12-month period in which our spending power soared by almost 25%. A year like that is a rare and precious gift, and we will happily welcome more of them in the decades to come. That said, we trailed the market by 6.9 percentage points for the year. We were also eclipsed by a number of high-flying investors, including Bill Ackman (whose hedge fund gained 58%) and Bill Miller (whose hedge fund delivered a scorching 120% return).

We did, however, outperform a wide array of smart investors. The average hedge fund returned 10.2% in 2019, according to the *Financial Times*,² and some of the most prominent hedge fund managers massively underperformed the market. For example, at Bridgewater Associates, Ray Dalio's flagship fund was flat for the year. Crispin Odey's investors lost money in 2019. And Louis Bacon closed his struggling hedge funds to outside investors.

In the 22 years since the launch of Aquamarine, I've seen many talented and highly intelligent investors fall by the wayside. Some of them panicked and bailed out of the market for one spurious reason or another, including the election of Donald Trump. Some of them made overly aggressive bets and went out of business. Against that backdrop, I'm grateful that Aquamarine's partners have continued to benefit from our solid long-term performance. We're not trying to shoot the lights out, and I've made plenty of mistakes along the way. But we've stayed in the game and have beaten the S&P 500 by 235 percentage points.

One of the core principles at Aquamarine is that it's always wise to retain that long-term perspective, instead of fixating on the results of a single calendar year. As Warren Buffett wrote in his latest annual report, "Over time, Charlie and I expect our equity holdings — as a group — to deliver *major* gains, albeit in an unpredictable and highly irregular manner."

As we've seen lately with the outbreak of the coronavirus, unpredictability and uncertainty are inescapable aspects of investing, business, and life. But I have no doubt that major gains will come in the long run if we continue to invest in a calm, disciplined, value-oriented way in a carefully selected portfolio of excellent businesses. Over the years, we have endured and survived many challenging experiences, including terrorist attacks, wars, SARS, the global financial crisis, and multiple periods of extreme volatility. Our investment strategy has stayed the same through it all, thanks in no small part to the steady and unflappable support of our extraordinary shareholders. That steadfastness is a powerful advantage.

Our gains in 2019 were driven by investments in a fairly broad set of industries, including branded and luxury goods, credit rating, and banking. Our biggest winners included some old favorites that we have patiently owned for quite some time, such as Moody's (up 70%), Ferrari (67%), Mastercard (58%), Bank of America (45%), Nestle (33%), and American Express (31%). These holdings benefited from the continued growth of the global economy, along with a general rise in valuations.

In other words, our results don't reflect any outbreak of speculative zeal on my part. On the

² <https://www.ft.com/content/81e074cc-3950-11ea-a6d3-9a26f8c3cba4>

WE'RE NOT TRYING TO SHOOT THE LIGHTS OUT, AND I'VE MADE PLENTY OF MISTAKES ALONG THE WAY. BUT WE'VE STAYED IN THE GAME AND HAVE BEATEN THE S&P 500 BY 235 PERCENTAGE POINTS.



contrary, these are high-quality businesses that I believe I can understand and value.

Our strong returns also mask a couple of losses — one permanent, one temporary. These were both small positions, so the impact on our returns was minimal. That's partly because I became more conservative about position-sizing in the wake of our losses in Horsehead Holdings back in 2015. As that experience vividly demonstrated, there's so much in financial markets that we can't predict, since they're driven by the vagaries of human behavior. With that in mind, I need to admit the limits of what I can know and to size our investments with appropriate prudence.

This time around, I bought a small position in Teekay Offshore, which invests in equipment that's required to process and transport oil from offshore oil wells. Teekay was structured as a Master Limited Partnership (MLP) that, for various reasons, had become "busted." I had invested successfully in this space before, alongside Richard Kinder (in his MLP vehicle, Kinder Morgan) and alongside Yorktown Partners (in Crosstex Energy).

Teekay Offshore looked like a no-brainer. It had run into trouble that seemed fixable. I also liked the fact that Brookfield Business Partners, which was affiliated with Brookfield Asset Management, had bought a large stake and become the company's sponsor. Brookfield's CEO, Bruce Flatt, was known as a shrewd investor, and I was impressed with Brookfield's presentations and projections about Teekay's future.

The business did improve, and the company successfully accessed the financial markets to

refinance its debt. But, to my surprise, the firm failed to reinstate its dividend, and its stock price did not match its business results. Either the market was getting this wrong or perhaps the market knew something that I did not. On paper, the units were extraordinarily cheap, but I declined to buy more.

The stock price continued to drift down, despite the company's solid business results. Then Brookfield made a buyout offer at a sharp discount from the market price. It was only then that I realized that Brookfield had no intention of treating the rest of Teekay's unitholders fairly or as equal business partners. I'm at a loss to explain why Brookfield would behave this way, especially given the importance of protecting its reputation.

Rather than take the lead as I did with Horsehead, I approached another aggrieved shareholder and told him that I would support his efforts to improve the buyout offer. The final buyout offer bumped up the price significantly, probably as a result of our group's concerted communications. Even so, Aquamarine suffered a 25% loss, thanks to Brookfield's gross undervaluation of the company. What's the moral? The road to good returns is fraught with unexpected dangers. Even the "best" players are sometimes not as upstanding or honorable as they might seem.

It gives me no pleasure to criticize anyone in public. I'd prefer to stick with praising people



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effusively for behaving well. I certainly don't want to gain a reputation as an activist investor who is the enemy of management. In fact, I engage in activist actions with deep reluctance. But I owe it to my shareholders to kick and scream as loudly as I can when a management team does something egregious. I also need my fellow investors to know that I will never tuck my tail between my legs and slink away. On the other hand, when management treats us fairly, as *true partners*, I will sing their praises and try to ensure that their exemplary actions are recognized and rewarded.

Our second money-losing investment of 2019 is an easier story to tell. After receiving our license to invest in India, I edged somewhat gingerly into two Indian stocks. One of them was Care Ratings. Many years ago, I had bought another Indian credit rating agency, CRISIL, earning a blockbuster return of 500% or so before (prematurely) cashing out. I was keen to invest again in the Indian ratings sector, but CRISIL and ICRA were far too expensive.

Care Ratings was much cheaper. Counterintuitively, I also liked the fact that it didn't have an international tie-up (whereas CRISIL, for example, has Standard & Poor's as its majority shareholder). As a home-grown ratings agency, Care didn't have easy access to the same high-quality management standards as CRISIL. But that represents an attractive opportunity for years of future improvements.

Instead of focusing primarily on the internal qualities of the company, my due diligence led me to have numerous conversations about India's regulatory environment. If there was one thing

I knew from investing in U.S. rating agencies, it's that they eventually mess up, getting a high-profile credit rating terribly wrong. So I spent time with former members of the Securities and Exchange Board of India, as well as former directors and executives from various ratings agencies. The key insight I sought was to figure out how regulators would react if an agency made a serious error. I concluded that it would be extremely unlikely for regulators to take away their license.

Then, within 12 months of my buying the stock, Care *did* mess up. IL&FS, a prominent financial firm, filed for bankruptcy after Care had given it a Triple-A credit rating. Care's stock took a hit. But the company has every chance of getting through this difficult period. Its directors are committed to putting the right safeguards in place and rebuilding the company's dented reputation. Moreover, India, which is destined to be the world's largest English-speaking economy, *needs* a strong, reputable, home-grown ratings agency. I can imagine a future in which Asian and African borrowers or issuers of sovereign debt require at least one non-U.S. rating agency on their debt. Care would be a prime candidate. But it will take plenty of work to get there.

In the meantime, we continue to search for select opportunities in India and beyond, but with an even stronger emphasis on prudence than in the past. In 2019, we bought a new position in Micron Technology, an American manufacturer of computer memory and data storage. But again, it's a relatively modest position.

As you know, I make no attempt to predict the direction of the stock market or to issue macroeconomic predictions. But I'm also aware

that we live in strange and extraordinary times, which seem to require an increased measure of caution. For one thing, much of the return in the U.S. stock market has been provided by a narrower and narrower group of stocks. Five companies (Apple, Alphabet, Amazon, Microsoft, and Facebook) recently accounted for almost a fifth of the value of the S&P 500, having surged by more than 50% in just 12 months.

According to the *Economist*,³ “The last time the market was so concentrated was 20 years ago, before a crash that triggered a widespread downturn.” Then again, these behemoths are remarkable businesses, which “cranked out \$178 billion of cashflow after investment in the past 12 months,” giving rise to the belief that “today’s valuations are built on more solid foundations.”

In recent years, it’s become extremely difficult to keep up with or beat the market unless you own that narrow group of five stocks (which we don’t). Some value investors have become closet indexers. Some are chasing the FAANGs despite their own concerns about excessive valuations. What else can fund managers do, if they want to keep their jobs and their shareholders? But that strategy seems increasingly dangerous, since overheated outperformers are liable to suffer first when the euphoria comes to an end.

Of course, it’s possible that interest rates will remain low and that the market will continue to rise for years to come. It’s also possible that we have already arrived at a market top. Indeed, as I write this in February 2020, the S&P 500 has just fallen almost 10% in a week — a reminder that volatility is an inevitable

feature of the investment game. I have no idea how long this bull market will last or how high the FAANGs will fly. But when something can’t go on forever, it usually doesn’t. And these are two things that can’t go on forever.

My own approach is to remain more or less fully invested in well-managed businesses with exceptional long-term prospects. I know that any attempt to time the market would be misguided. Just think of all those investors who lightened up or liquidated their stock portfolios two or three years ago because they were convinced that we were approaching the end of the bull market.

If and when this bull market comes to an end, valuations of the businesses we own may suffer for a while (albeit, less than the market darlings). But this is a sturdy portfolio that I’m happy to hold for many years, building wealth in a durable way that requires us to avoid speculation and maintain our discipline.

THE FUTURE OF INTELLIGENT INVESTING (AKA VALUE INVESTING)

It’s not just the narrowness of a FAANG-obsessed market that has made this environment so challenging for value investors. We are also grappling with the implications of disruptive technology (such as artificial intelligence and robo-investing), the peculiar economic phenomenon of ultra-low interest rates, the inexorable rise of index funds and ETFs, and changing attitudes about the social responsibilities of corporations. These complex forces led me to ask myself: What is the future of intelligent investing?

³ <https://www.economist.com/leaders/2020/02/20/how-to-make-sense-of-the-latest-tech-surge>

I recently hosted a symposium concurrent with the World Economic Forum in Davos to discuss that question with a group that included the investing expert Robert Miles and the historian Niall Ferguson. I wanted to share with you a few thoughts arising from that discussion.

Part of the problem facing today's value investors is that the measures of investment value have changed dramatically over the years. In Ben Graham's time, all you needed to do was dissect a company's balance sheet and invest at a discount to intrinsic value. Then characters like Phil Fisher came along and taught us to focus on a company's earning power. So investors moved towards analysis of the income statement, concluding that it was okay to buy a company at a huge premium to book value if the earnings power was there.

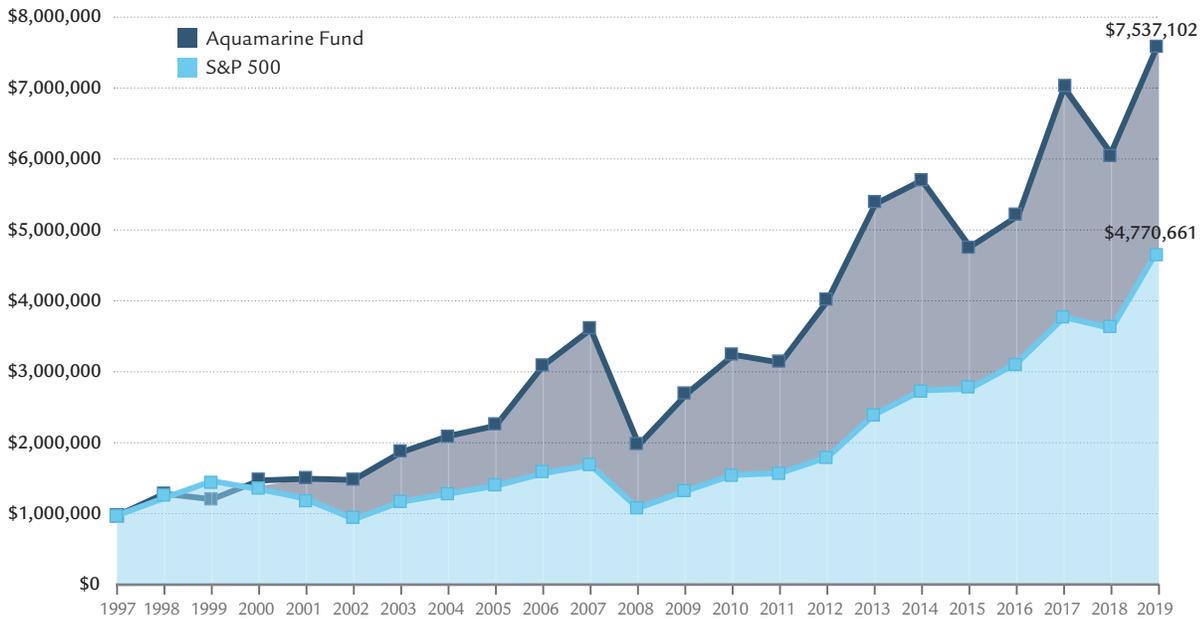
Then came the financial engineers at firms like KKR, who shifted attention from earnings power to cash-generating power. They made gargantuan fortunes off highly-leveraged companies that traditional balance-sheet analysts might have considered likely to go bust. Some investors concluded that the right way to value a business was to figure out what an intelligent private market buyer would be willing to pay for it, using whatever measures of value made sense.

But that emphasis on "private market value" has also come to seem somewhat outmoded and simplistic. For example, today's investors must also consider the phenomenon of network economics, which leads companies to lunge for growth in the hope of achieving unassailable dominance within their market. From that perspective, what really counts is scale — not the balance sheet, income statement, or cashflow. The company may not

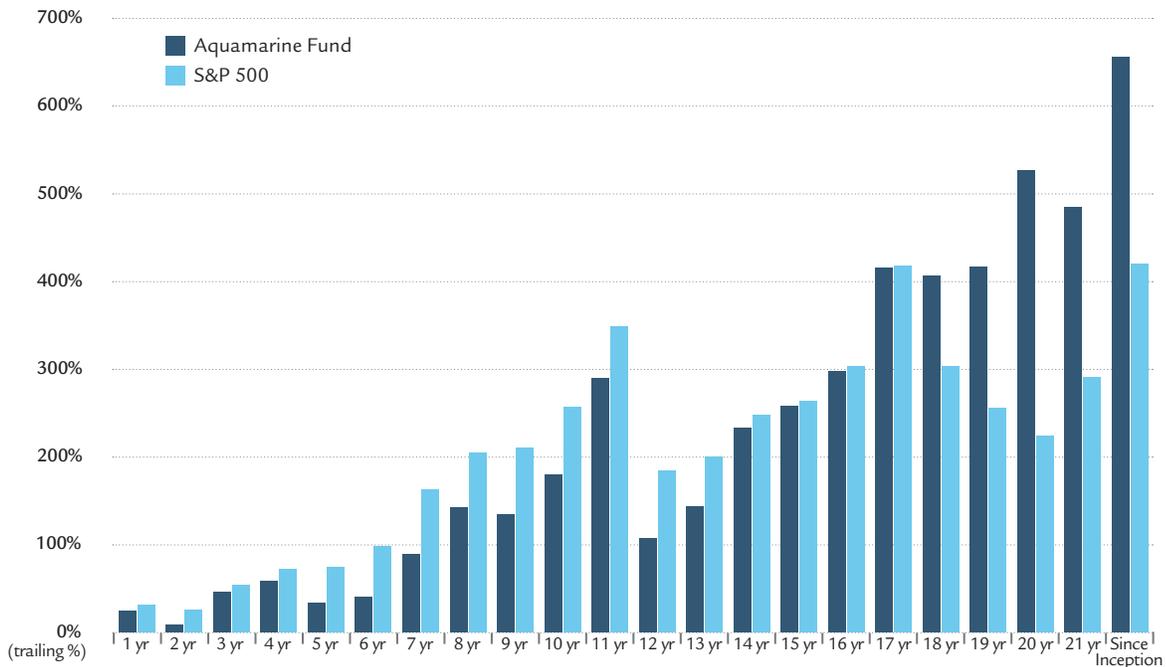
**MUCH OF THE
RETURN IN THE
U.S. MARKET HAS
BEEN PROVIDED
BY A NARROWER
AND NARROWER
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STOCKS. FIVE
COMPANIES
(APPLE,
ALPHABET,
AMAZON,
MICROSOFT,
AND FACEBOOK)
RECENTLY
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ALMOST A FIFTH
OF THE VALUE OF
THE S&P 500.**



Aquamarine Fund Performance Relative to the S&P 500 Index



Cumulative returns for the 22 year period 1997 to 2019



even need a superior product, so long as the network effects are working in its favor.

This thinking has led some highly successful value investors to pay virtually any price for a business with terrible financial metrics because it looks slightly better than its rivals. Their assumption is that the winner will take all. That worked for Amazon, but not for WeWork. And the jury is still out when it comes to Uber and Tesla.

It's also hard to determine exactly what actions a company needs to take in order to achieve network dominance. It's easy in retrospect to say that Google was bound to win the search wars because it had the fastest response time, along with an unbiased and trusted algorithm. But the people working at AltaVista, Yahoo! and Netscape were no dummies, and they were backed by some very savvy venture capitalists. Even so, they were unable to implement what was necessary to win.

The rewards can be enormous if you get it right and can figure out which companies will achieve network dominance before it's apparent to the rest of us. But is that intelligent investing? Some practitioners of this dark art insist that they are value investors at heart. But I'm not so sure. If you're willing to pay an exorbitant price for a company with awful financial metrics that is only marginally ahead in the race for network dominance, you may have more in common with the momentum investors who came to grief when the tech bubble burst in 2000. It might work out spectacularly for years, but it's akin to picking up pennies (or millions) in front of a bulldozer.

The point is, valuation metrics may indeed have changed dramatically — at least, for certain

companies. But I remain acutely wary of hype and speculative excess, especially in the midst of an aging bull market when many have relaxed their standards. Remember, a company is still only worth the cash flows that it can generate over its lifetime.

My refusal to speculate with your money may prevent us from profiting from supercharged stocks like Tesla and Uber. But it should also protect us when perceptions change and overhyped companies like WeWork (which was once believed to have superior economics) crash back to Earth. I'm happy to accept lower, steadier, and more sustainable returns by sticking with our time-tested, risk-averse approach.

SHAREHOLDER CAPITALISM VERSUS STAKEHOLDER CAPITALISM

Another important development with complex ramifications is a wide-spread shift in attitudes about corporate behavior. Broadly speaking, the rules of the game used to be simpler and more lax. Half a century ago, the economist Milton Friedman famously said, "The business of business is business." More crassly, Gordon Gecko later declared that "greed is good." In short, Friedman argued that a company's only social responsibility was to maximize profits. He believed in small government and the right of individuals to make their own decisions.

In that environment, business leaders were merely expected to operate within the rules, which were established by government through the political process. Beyond that, there were few

constraints on their behavior. But circumstances and expectations have changed, partly because governments have failed to solve (or address) many pressing problems, including climate change and the use of fossil fuels, gun control, the exploding cost of healthcare, and wealth inequality.

Meanwhile, many of the problems we face as a species, including global warming and the threat of pandemics, have an international dimension. They cannot be solved on a national level. Nonetheless, nationalism and a retreat behind national boundaries are on the rise. In such an environment, you can make a strong moral case that businesses cannot and should not remain neutral. If CEOs and investors focus exclusively on maximizing their own profits — based on rules that were set by a broken political system — isn't that a dangerous abdication of responsibility?

Sometimes, the rules of the game change and companies pay a heavy price for taking a narrow, shareholder-oriented view of their responsibilities. One example is AIG, where Hank Greenberg operated in a grey zone, using controversial accounting maneuvers to shift profits from one period to another. Eliot Spitzer, then an aggressive and ambitious Attorney General, succeeded in moving the goal posts on him. Greenberg was forced to resign and AIG had to pay a \$1.6 billion settlement.

Another historic example would be the tobacco companies. For decades, they denied that cigarettes were deadly and used their power to ensure that the rules of the game worked in their favor. They reaped huge profits (legally) off their addictive and lethal products — until the state Attorneys General finally succeeded in moving the goal posts.

The Club of Rome started to discuss the limits of unbridled growth in the early 1970s. Klaus Schwab also promoted a version of “stakeholder capitalism” at the World Economic Forum. Many skeptics dismissed their ideas, continuing to place their faith in “shareholder capitalism.” But some of the world's most successful companies have ventured far beyond Friedman's narrow emphasis on maximizing profits for the sake of shareholders. At business school, we studied the case of Johnson & Johnson, which recalled all of its products from store shelves in 1982 amid a scare involving cyanide-laced Tylenol. It was a classic example of a company putting its customers' well-being above profits.

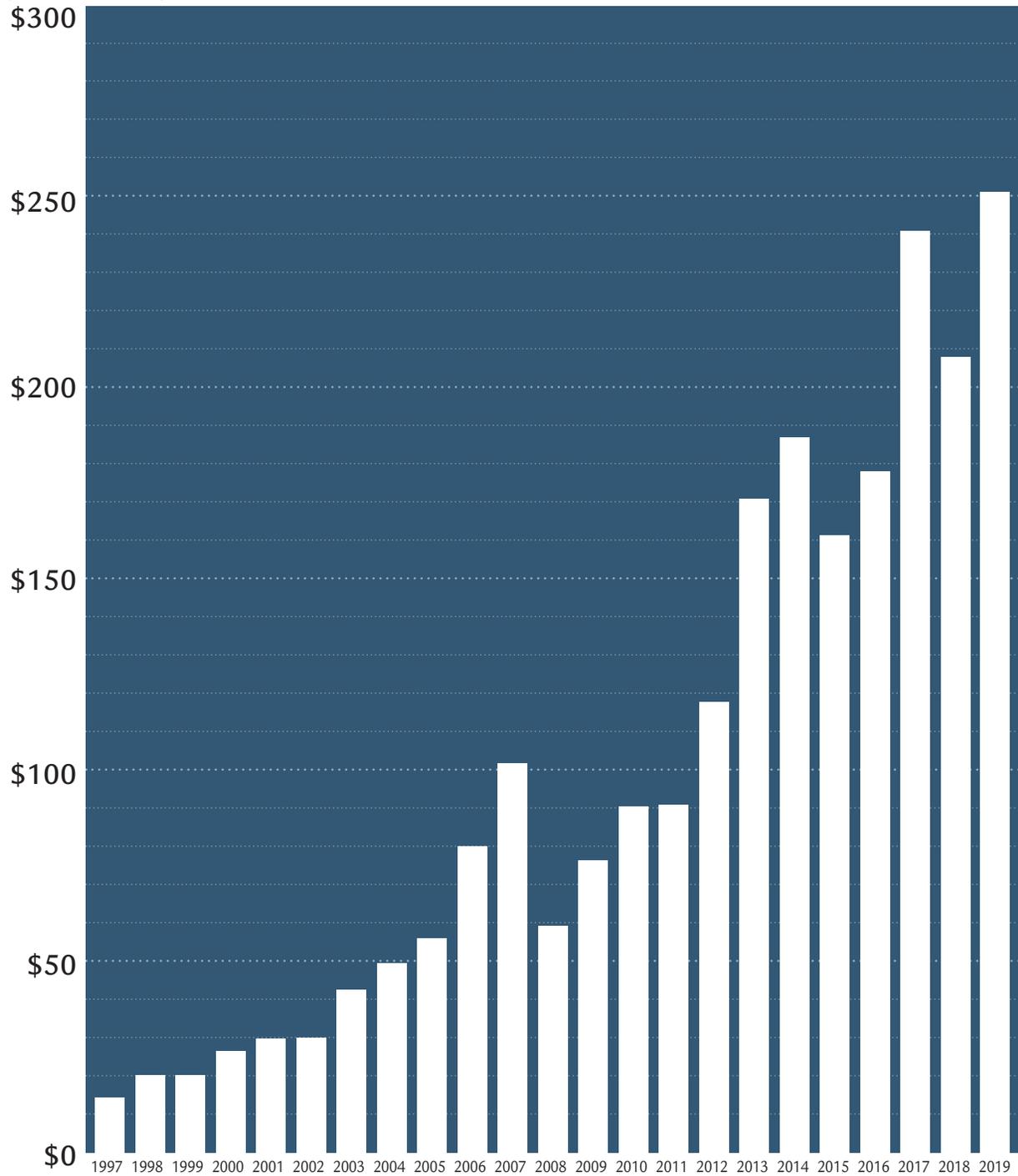
More recently, we've seen plenty of other examples of leading companies that didn't just seek to enrich their shareholders within existing, stationary constraints. Rather, their leaders raged against those constraints, reshaped them, and often transformed the economics of their industry. Examples that spring to mind include Walmart, IKEA, Costco, and Netflix. Likewise, consider CVS, which stopped selling tobacco products in its stores; or Amazon, which focused on benefiting customers by selling goods at the lowest possible price and with the greatest possible convenience; or Tesla, which has the noble goal of converting the world to electric vehicles. Elon Musk is a complicated figure. Still, it seems clear that he wants to change the rules of the game not only in Tesla's favor, but for the good of society.

The point is, attitudes and behavior have shifted — and this adds yet another layer of complexity to the fund manager's job. As the game continues to change, we will need to guess where the

Assets Under Management

As of December 31, 2019

(\$ in millions)



puck is moving and seek to be there, instead of playing where it is today. Companies that live by outdated rules (like AIG) will suffer. Yet I'm also keenly aware that the corporate graveyards are full of high-minded businesses that tried to create a perfect future without regard to the basic constraints of turning a healthy profit and providing a decent return on capital.

Berkshire Hathaway, which has been one of our biggest holdings for more than two decades, is a perfect example of an admirable company that is both massively profitable *and* socially responsible. In thousands of different ways, it prospers by becoming an increasingly valuable contributor to society. For example, Buffett recently reported that Berkshire Hathaway Energy will soon attain "wind self-sufficiency in the state of Iowa," a technological achievement that enables the utility to charge its customers extraordinarily low rates.

For Buffett and Munger, it's second nature to do what's right, instead of cutting corners or maximizing profits by abusing their power. For example, unlike other insurance companies, Berkshire rejected all advice to redomicile in Bermuda, which would have saved billions of dollars in taxes for the company and its shareholders. Fortunately, behaving honorably and *deserving* the trust of customers, suppliers, and regulators has proven to be good business again and again for Berkshire, helping its subsidiaries to continue widening their moats. Doing the right thing is, I believe, integral to risk management. If a company makes lots of money today but does it at the expense of society and the planet, it's increasingly likely to be unsustainable.

**BERKSHIRE
HATHAWAY, ONE
OF OUR BIGGEST
HOLDINGS FOR
MORE THAN
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COMPANY THAT IS
BOTH MASSIVELY
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AND SOCIALLY
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IT PROSPERS BY
BECOMING AN
INCREASINGLY
VALUABLE
CONTRIBUTOR TO
SOCIETY.**



More than ever, those of us who are privileged enough to allocate the capital of society need to exercise the same kind of moral leadership displayed at companies like Berkshire and Costco. It's not just a matter of abiding by the rules, playing in the center of the court, and never straying close to the foul lines. It's also about providing the conditions in which our investors and CEOs can think long term.

INFINITE GAMES VERSUS FINITE GAMES

Some time ago, I became fascinated by *Finite and Infinite Games* by James Carse, who was the Director of Religious Studies at New York University for 30 years. I wasn't sure that I fully understood it, but then I read Simon Sinek's book, *The Infinite Game*, which helps to explain Carse's profoundly important ideas. Here's a very brief summary.

Most games that we recognize as such are finite games: for example, soccer, golf, chess, and Monopoly. There's a set period of play and the players must abide by a fixed set of rules. The game ends at some point, leaving us with a winner and a loser.

By contrast, an infinite game is one in which there are no well-defined rules, no defined time or space in which to play. What's more, there are no winners or losers. The purpose is to stay in the game and not drop out. Examples of infinite games include the Cold War (which was ultimately resolved because the Soviet Union lost the will to keep playing) and the unresolved struggles between terrorist groups and the West.

As Sinek explains, we sometimes encounter situations in which one player in an infinite game believes that it's playing a finite game with negative consequences. During the Vietnam war, the U.S. thought it was playing a finite game to win. But it eventually lost the will to keep fighting against the Vietcong (even though U.S. casualties were much lower than Vietnamese casualties), whereas the Vietcong never lost the will to keep fighting.

Why are these esoteric ideas relevant to us? Because (surprise, surprise) investing is an infinite game. So, too, is business. After all, both of these pursuits require us to continue playing. To put it another way, these are games in which the players have to survive in order to play the next round.

However, some people play the games of business and investing as if they were finite games. It's not hard to spot those players because they tend to do self-destructive stuff like burning out or blowing up. Just think of those Alpha Male types who brag that they "play to win." The trouble is, playing to win can lead to any number of disasters. They might get so stressed and unhealthy that they suffer a heart attack; neglect their family and get divorced; get shut down because they violated the rules; take on too much debt; concentrate too heavily on a handful of aggressive bets; or take inordinate risks (such as shorting stocks or using leverage to juice their returns) in a vain attempt to beat the best players of the game.

The goal of winning one particular round is especially perilous when it comes to investing. This mindset often leads to overreaching, which



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raises the odds of getting knocked out of the game altogether. The cardinal sin for investors is to forget this all-important truth: It's essential to *keep playing* the game year after year, decade after decade. Why? Because if you keep playing, you'll have every opportunity to continue compounding.

This brings us back to something I mentioned at the very start of this letter. In 2019, hedge

funds managed by Bill Ackman and Bill Miller beat Aquamarine by a mile. Now, I have a great deal of admiration for both of them. Truly, they are exceptional stock-pickers with brilliant analytical minds. But at times, their boldness has worked against them, leading their previous funds to blow up. They have since rebounded, achieving stellar returns with resurrected versions of those funds. But some of their valued

investors dropped out along the way, thereby failing to benefit from those spectacular gains of 2019.

Needless to say, there are many paths to success in the investment game. But at Aquamarine, our primary goal is not to win in some short-term contest. It's to stay in the game. Maybe that sounds unambitious to you. But here's the paradox. Thanks to the power of compounding, you're almost certain to win if you stay in the game long enough. And win big.

Since inception, the Aquamarine Fund has so far returned 653.7% over 22 years, despite all of the ups and downs we have encountered along the road. I intend to continue managing this fund for the rest of my career, serving as a careful steward of the money entrusted to me by my family, friends, and partners. I'm not looking for a quick score, but to play the game of compounding, which is an infinite game.

It's clarifying to view Aquamarine's mission through this lens. For example, it influences the type of companies in which we invest. I'm increasingly of the opinion that we should only partner with CEOs who approach business as an infinite game — people like Warren Buffett and John Elkann. I also recognize that I need to live and work in ways that are balanced and sustainable, recognizing that this is an ultra-marathon, not a sprint. Chasing short-term returns or trading frequently and aggressively would be exhausting and unsustainable.

It's also more sustainable to treat people right, to build good will, and to focus a major portion of my time on helping others. Infinite players

typically have a noble cause that inspires and energizes them.

What does this mean for Aquamarine? As I see it, the fund has to serve three communities as well as it can. First, it's critically important for me to serve our investors. Obviously, I hope to earn you a decent return over time. Otherwise, we might as well all go home. But there are other ways in which I also hope to serve you: by saving you time, saving you worry, and helping you to live a better life. Among other things, that includes sharing books and subscriptions with you and inviting you to join me at stimulating events, such as our recent discussion during the World Economic Forum in Davos.

Second, I want to serve our investees. Increasingly, I'm looking to serve and support the CEOs of the businesses in which we invest. Perhaps this comes under the rubric of "friendivism," rather than activism. I'm certainly not looking to tell any of our CEOs what to do. Their job is hard enough without having to handle *kibbitzing* from the passenger seat.

Third, I want to serve our suppliers, partners, and peers. This is all part of building a healthy ecosystem and surrounding myself with terrific people who are mutually supportive. This is best exemplified, perhaps, by my annual VALUEx conference in Switzerland, which brings together a fantastic group of talented investors, friends, suppliers, and CEOs.

If I serve all of those communities well, I can't help but succeed. It all comes back to my fundamental belief that Aquamarine should be a force for good in the world.

But, of course, my primary responsibility is to build wealth prudently for you, the partners of Aquamarine. As ever, I take great pleasure in the fact that your family and my family are on the same side, and that I will only be compensated if I perform well on your behalf. Meanwhile, I continue to believe that the Aquamarine Fund offers extraordinary value to its investors. Here's how:

■ **Low/No management fees.**

It's not uncommon in the fund management industry for investors to be charged exorbitant fees of 2% or more for the privilege of having their money managed. At Aquamarine, the maximum fixed fee you can pay is 1%, and many of our investors have opted for the zero-management-fee option.

0% Management Fee Class Update

Year End	Percentage of Total Assets
2007	1%
2008	4%
2009	5%
2010	7%
2011	14%
2012	18%
2013	25%
2014	32%
2015	37%
2016	38%
2017	42%
2018	44%
2019	42%

■ **Alignment of interests.**

My family is the largest investor in the Aquamarine Fund. My parents, my sister, my aunt and my uncle, and I are all invested in the same vehicle as the fund's other shareholders. Virtually all of my own money is in the fund. In other words, we eat our own cooking. Your money is pooled with my family's assets, and we get the same results as you do. This means that the fund is structured as a *true partnership* in which our incentives are powerfully aligned.

■ **A conservative, long-term, value-oriented strategy.**

The Aquamarine Fund uses no leverage, no margin loans, and no short positions. We avoid complexity. Our simple goal is to earn good long-term returns by buying a part ownership in high-quality businesses, ideally holding them for many years. Businesses are the wealth-creation engines of our society. We want to partner with the best of them, without overpaying for the privilege.

ASSETS UNDER MANAGEMENT, SUBSCRIPTIONS AND REDEMPTIONS

In 2019, we received \$7.3 million in new capital and received redemption requests for \$13.9 million.

I regard this as part of the normal ebb and flow of assets as our investors' life circumstances change. I'm always sorry to see investors redeem, but it gives me great satisfaction to see friends and family benefiting from the appreciation of their holdings in the Aquamarine Fund.

We ended 2019 with \$250 million in assets. This gives us sufficient scale to run the fund comfortably, while also making us small enough to have plenty of trading flexibility.

THANKS

I feel extraordinarily fortunate to have such a phenomenal group of shareholders. The Aquamarine Fund's base of sophisticated and loyal partners has stood firm over many years, enabling us to take advantage of the great buying opportunities that arise during times of heightened uncertainty and volatility.

Most of the partners in our fund came to us through referrals from existing shareholders who were pleased with our performance. If you know of someone who might benefit from investing in the Aquamarine Fund, please don't be shy about introducing them. Feel free to contact me about referrals or anything else by calling +41 44 210 1900 or +1 212 716 1350 or via email at investorservices@aquamarinefund.com.

I'm happy with the current size of the fund and have no interest in marketing it merely in the hope of growing bigger. But I'm always pleased to partner with the right shareholders: that's to say, patient, value-oriented, long-term investors who'd like to join us in compounding wealth over many years without excessive risk. I'm particularly delighted to partner with investors who have valuable experiences, insights, and networks of their own — for example, people who have started their own businesses or who have run divisions of larger corporations. I've enjoyed an on-going dialogue with some of our partners

about various industries and companies and have found their views extremely thoughtful and enlightening. Whenever we can welcome such people into the Aquamarine fold, I regard them as a very valuable addition.

Thank you for joining me on this journey. I would like to think that I am now approximately halfway through my career as the manager of the Aquamarine Fund. If the next 22 years match the last 22 years, then Aquamarine's original investors will have made about 54 times their money over 44 years. That's not an Omaha number. But we're off to a solid start. I will be working hard over the next 22 years to deserve — and reward — the trust that you have placed in me.

Warm regards,



Guy Spier
Managing Partner