

# MANAGEMENT'S LETTER TO PARTNERS

Dear Partners,

I hope all is well and that you've had a good start to 2025.

I wanted to give you an update on the portfolio, its performance, and a brief medical update on myself.

In 2024, the Aquamarine Fund returned **18.6%**, compared to **25.0%** for the S&P 500. Since the fund's inception in September 1997, our capital has compounded at a rate of **9.4%** annually, versus **8.9%** for the S&P 500, **8.8%** for the Dow Jones Industrial Average, **7.5%** for the MSCI World, and **3.9%** for the FTSE 100.

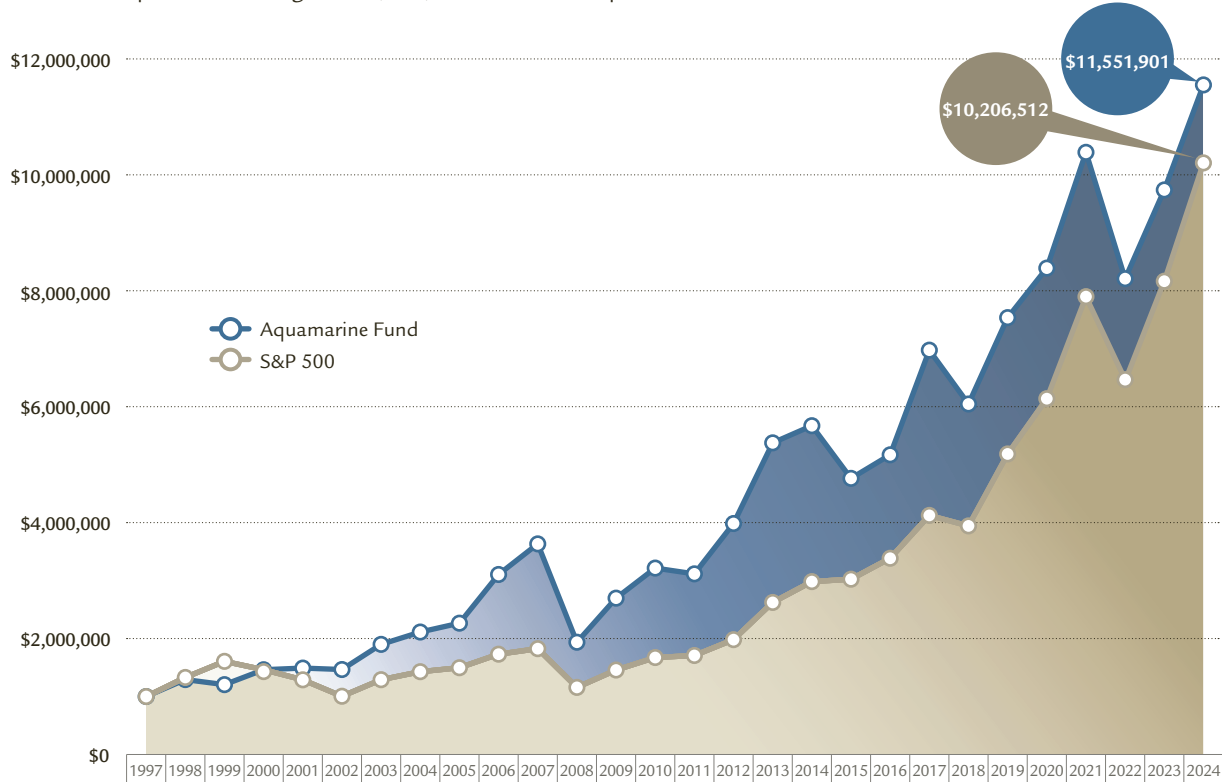
The Aquamarine Fund's total return from inception is **1,055.2%**, compared with **920.7%** for the S&P 500, **618.4%** for the MSCI World, and **181.8%** for the FTSE 100.<sup>1</sup>

Compounding wealth is more important to me than beating an index. Moreover I believe that if I stick to my knitting, my recent underperformance will eventually reverse.

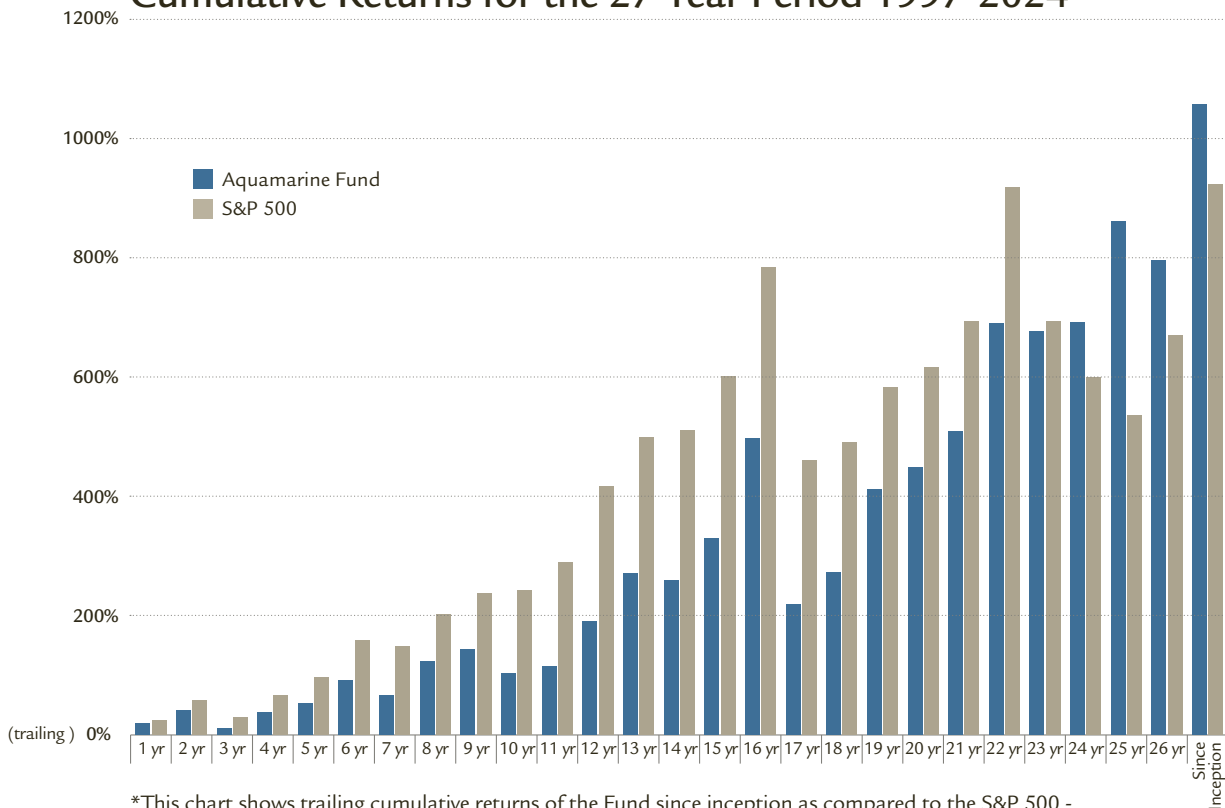
<sup>1</sup> These results are net of all management expenses, incentive fees, and brokerage expenses. In other words, these are your actual returns. The figures for the S&P 500 include dividends, making this an apples-to-apples comparison. In 2022, I also began to include figures for the MSCI World index, giving you an additional measure by which to judge our performance. Given that we own a portfolio of international stocks, this global index probably provides a more relevant benchmark, but the S&P 500 (which is exclusively a US index) is more widely used.

## Aquamarine Fund Performance Relative to the S&P 500 Index

Comparison of changes in \$1,000,000 invested in Aquamarine Fund vs S&P 500



## Cumulative Returns for the 27-Year Period 1997-2024



\*This chart shows trailing cumulative returns of the Fund since inception as compared to the S&P 500 - i.e. 1 year trailing shows the return for 2024. 2 year trailing shows the cumulative return for December 31, 2022 - December 31, 2024. 3 year trailing shows the cumulative return for December 31, 2021 - December 31, 2024.

## **PERFORMANCE AND PORTFOLIO COMPANIES – DISCUSSION OF LUXURY BRANDS**

The top contributors to the portfolio in 2024 were American Express, Berkshire Hathaway, BYD Auto, Bank of America, Mastercard, and Ferrari.

Ferrari had a banner year on all fronts. In Formula 1, the team secured five victories and multiple podium finishes for both Charles Leclerc and Carlos Sainz, including wins in Monaco and Monza. As I write this, Lewis Hamilton, perhaps the greatest Formula 1 driver of all time, has just fulfilled his childhood dream of joining the Ferrari team, with Carlos Sainz moving on to Williams.

This track performance translated into strong financial results. I highlight Ferrari not because I'm a big fan of F1—I am not, although my son is—but because it exemplifies the type of powerhouse brand I like to own for the fund. With luxury brands, ultimately what counts is share of mind, and in the intersection of high-performance automotive sport and luxury cars, no other company comes close to Ferrari.

When my son Isaac was born, I had a mid-life crisis and bought a Porsche 911 (which I still own). However, when I asked him about his favourite sports car, he said it was Ferrari, even though he grew up with a Porsche in the garage. Luca Cordero di Montezemolo, the former chairman of Ferrari described the Porsche 911 as the perfect car, “but it’s a bit cold. Like a freezer.” By contrast, speaking of Ferrari, he said, “We don’t sell a car, we sell a dream.” Di Montezemolo and my son would have seen eye to eye.

In recent years, Formula 1 has expanded its geographic reach, powered partly by the popular Netflix series *Drive to Survive* and an expanded race schedule, including Miami and Las Vegas in North America, additional races in the Middle East, and a return to China in 2025. With only around 15,000 units sold each year, Ferrari still has enormous untapped potential worldwide.

I’m often asked why I continue to hold Ferrari instead of, for example, Aston Martin—or Porsche. At first glance, the companies may appear comparable to the uninitiated, but in reality they are very different in the eyes of the actual consumer.

To take another example from luxury fashion, to the uninitiated, the Birkin bag just looks like another handbag—but it isn’t. Indeed, when it comes to companies that can be compared to Ferrari, Hermès (which we don’t own) is the one that most often comes to mind. It’s the only other luxury brand that requires fans and customers to spend significant amounts before gaining access to its most desired products—like the Birkin bag, or Icona models at Ferrari like the Monza SP1 and SP2 and the Daytona SP3.

In looking for parallels with Hermès, I’ve evaluated many brands: Prada, Gucci, and Goyard, as well as lesser-known names like Piquadro, Wittchen, and Delvaux. At first glance, they may all seem similar. Yet there is a unique allure that compels certain Hermès customers to long for the Birkin bag and to go to great lengths to acquire one.

A personal anecdote might help illustrate my point. Upon arriving in Switzerland as an avid skier, I met Benedikt Germanier through my VALUEx conference and had the opportunity to try a pair of Zai skis. They

were amazing but far beyond my budget at over \$5,000 a pair. Then, walking past the Hermès store on Bahnhofstrasse, I spotted a pair of Hermès skis for \$15,000. The buyer of those skis already owns multiple Birkin bags and wants to be the only person on the mountain with Hermès skis, enjoying the association with Jane Birkin, Grace Kelly, and other iconic figures.

Just like Ferrari, the Hermès brand is extraordinarily powerful. For modern celebrities, whom you partner with and what you are seen wearing can be everything—impacting modeling contracts, movie roles, romantic relationships, or simply staying in the spotlight. These individuals are highly sensitive to public perception, so they stick with brands that confer prestige and security. It's hardly surprising that celebrities like Jennifer Lopez, Lady Gaga, and Alanis Morissette—just to name three—prefer to take no risks and partner with the best.

For many others who aspire to emulate their icons in any way, even owning a small piece of these brands, like an Hermès scarf, key ring, tie, or belt, is... aspirational. These smaller items are Hermès' bread and butter.

Ferrari and Hermès are unfortunately similar in another way: both trade at equally rich valuations. While I might have had difficulty in buying Ferrari at such a valuation, it was spun out of our original Fiat investment, so I never had to face the buy decision directly. That said, I still struggle with Ferrari's valuation but it was again a source of cash for the fund in 2024; we used that position to fund other purchases at cheaper valuations. So far, that choice has not favored us and we have left a fair amount of money on the table.

## **BYD AND OTHER KEY CONTRIBUTORS**

Last year also proved successful for our other auto company, BYD. It surpassed Tesla in revenue for the first time and holds a technological lead in many areas. Nevertheless, it trades at a fraction of Tesla's valuation: about 20 times earnings.

Other contributors to our returns—American Express, Berkshire Hathaway, Bank of America, and Mastercard—are long-term positions and what I call “cannibals.” These are businesses that have near-unassailable positions in their respective markets and regularly repurchase their own shares.

As long as the Aquamarine Fund holds onto its stake, our fractional ownership edges up over time.

## **DETRACTORS: NESTLÉ AND SERITAGE**

We did have some detractors from performance, most notably Nestlé and Seritage.

Seritage consists of properties from the former estates of Kmart—once the Amazon.com of its day—and Sears, Roebuck. Sears and Kmart typically sought out anchor positions near highway junctions, in shopping malls, and in prominent retail corridors, many of which are now in affluent suburban areas with strong demographics.

Although the suburban regional shopping mall has largely given way to e-commerce, Seritage's real estate is well positioned for mixed-use redevelopment, combining residential, office, entertainment, and healthcare services on a single site. However, the company has faced more challenges than

I anticipated at the time of our investment. Redevelopment has been more time- and capital-intensive than expected, and rising interest rates have forced the company to focus on aggressively paying down debt. Additionally, the pandemic and the work-from-home movement have dramatically shifted real estate demand.

You might wonder why I continue to hold Seritage, given how poorly it has performed. The reason is that I still see potential value in parts of its remaining portfolio. The properties are diverse and just one or two “home runs” among them could lead to a reasonable outcome.

Another holding that faced headwinds in 2024 was Nestlé. Headquartered in Vevey, Switzerland, Nestlé is as global as Coca-Cola or McDonald's. It owns numerous beloved brands, including KitKat, Smarties, Nespresso, Nescafé, Nesquik, and Häagen-Dazs, among others. Its share of the global consumer's mind in food and beverages is unparalleled, and like Ferrari, that share is likely to grow over time, despite periodic setbacks.

Eight years ago, for the first time in nearly a century, the company hired an external CEO, Mark Schneider—who was also a friend of mine at Harvard Business School—to refocus the company on functional nutrition and health sciences, while rejuvenating its core categories.

One of his notable successes was the blockbuster transaction that Nestlé struck with Starbucks in 2018, in which Nestlé acquired the perpetual right to manufacture, sell, and market Starbucks-branded packaged products, from capsules for the Nespresso system to roasted and ground coffee, along with ready-to-drink items like Frappuccino and Doubleshot.

This deal delivered enormous value, making more efficient use of Nestlé's manufacturing and distribution channels and further entrenching Nestlé in the coffee category. When Starbucks concluded that it would be a hard and unprofitable slog to build up its own manufacturing and distribution for its packed-goods business, and was looking for a partner, there was realistically only one choice: Nestlé.

I highlight these details to illustrate the deep and enduring value that can be created when we invest in the right businesses. Another example is the recent agreement making KitKat the official chocolate bar of Formula 1. The classic “Have a Break, Have a KitKat” branding aligns perfectly with F1's high-energy atmosphere. This partnership will rejuvenate the KitKat brand and introduce it to a new, younger audience.

Despite these positives, in 2024, Nestlé's organic sales growth dipped to 2%. There's no single reason for this. Unprecedented commodity price inflation, along with cost-of-living crises in many developed markets, weakened consumer demand. However, I view these as short-term issues; businesses inevitably face headwinds. So long as I'm confident in the company's long-term destination, short-term results and share price swings don't trouble me.

Following this slowdown, Nestlé's board took the opportunity to revert to an internal CEO. I believe that in the years to come, new CEO Laurent Freixe will be grateful for the groundwork laid by Schneider.

## CAREEDGE RATINGS

CareEdge Ratings is another portfolio company that briefly had an external CEO before returning to an internal leader. This seems to be an established pattern: an

external CEO arrives, initiates necessary but sometimes difficult changes, and then an insider continues to build upon those foundations. In CareEdge Ratings' case, the positive effects are already showing.

In 2024, CareEdge made history by becoming the first Indian credit rating agency to enter the global ratings business. Although I cannot be entirely sure, I would like to think that my activist (or "friendivist") efforts played some role in this positive development. Midway through last year, in my capacity as a shareholder, I sent a letter in support of CareEdge Ratings to various members of the Indian financial establishment, including Nirmala Sitharaman, the country's finance minister. The response was swift and impressive. Within days, I was invited to speak privately with India's Chief Economic Advisor, Dr V. Anantha Nageswaran.

During that call, I reiterated my vision for India to reach its full economic potential, it must develop a home-grown, global ratings agency—especially for countries in the Global South, and CareEdge ratings

was a prime candidate. Dr. Nageswaran not only welcomed this viewpoint but also demonstrated considerable foresight on how CareEdge's entry into sovereign ratings could play out both locally and internationally. I was struck by his prodigious intelligence and his firm grasp of India's growth strategy. By the end of our discussion, I had no doubt that the Indian government understands the need for a domestic global ratings agency to bolster India's economic reach and soft power.

Subsequent to this, in the third quarter of last year, CareEdge announced that it had entered the sovereign ratings space, with ratings on 39 sovereign issuers. This move made sense on multiple levels. On the one hand, it allows CareEdge to expand into global markets; on another, it reinforces India's soft power. Until now, sovereign ratings have been dominated by Moody's, S&P, and Fitch, which are all headquartered in New York or London and are often pessimistic about emerging economies. CareEdge's entry increases diversity of opinion in sovereign ratings and will strengthen debt markets, making them more liquid and resilient. It also enhances

To give you a clearer sense of how your money is invested, here's a snapshot of our largest positions—at cost and at their current market value—as of December 31, 2024:

Holding	Market Value \$	Percentage of Partners' Capital	Original Cost \$	Gain/(Loss) \$	Gain/(Loss) %
Berkshire Hathaway	84,158,768	20.24%	13,371,678	70,787,090	529%
American Express	62,325,900	14.99%	10,907,959	51,417,941	471%
BYD Auto Co Ltd	53,192,338	12.80%	4,986,800	48,205,538	967%
Mastercard	34,621,978	8.33%	1,019,194	33,602,784	3297%
Bank of America	33,746,788	8.12%	5,181,863	28,564,925	551%
Ferrari NV	25,617,463	6.16%	249,605	25,367,858	10163%
Cash	21,691,118	5.22%			

India's global standing, which, in turn, benefits CareEdge.

With the help of my friend and fellow investor, Girish Bhakoo, he and I had the opportunity to meet with Mehul Pandya, Revati Kasture, and other members of CareEdge's senior management in Mumbai last October. And while entry into the sovereign ratings is a momentous step, the company still faces enormous challenges ahead as it seeks to realize its potential. CareEdge is well known in India but not that well known outside. CareEdge does have the advantage of tacit government support—a vital asset when breaking into the global arena. Moreover it benefits from my enthusiastic and full-hearted support, on account of our 2% stake in the company. Going forward I believe that the CareEdge investment will create considerable value in the coming years and decades.

What comes across overwhelmingly in India—in my call with Nageswaran as with my numerous other meetings during my trip in October—is the supreme and well-founded confidence that the country has what it takes to achieve its destiny of parity with the West. The days of romanticising over the British Raj, when one might be guided into a tranquil, grand room complete with mosquito nets and lazily turning ceiling fans, to wait quietly for a chai walla to serve tea before a business discussion could begin, are long gone. Those times have been firmly relegated to the history books. What replaced it is more like the refreshing can-do spirit of the American west.

### **NEW INVESTMENTS: LVMH AND THE ECONOMIST**

Of course, there were many companies I reviewed over the past year but did not invest

in. I've been especially interested in the luxury goods space, partly from what I've learned through Ferrari. Some smaller companies I examined include Wittchen (Poland), Piquadro, FOPE (both Italy), and Watches of Switzerland Group, based on excellent research by Chris Waller.

I did, however, invest in LVMH. Studying the struggles of smaller, less well-known competitors made me appreciate the enormous advantages that large-scale players such as LVMH—and companies already in our portfolio like Nestlé and Ferrari—enjoy. Recent partnerships struck by LVMH include collaborations with Formula 1 and sports icons like Lewis Hamilton, Roger Federer, and Rafael Nadal. High-profile figures such as Taylor Swift, Emma Stone, or Charlize Theron and others often prefer to work with LVMH because they can't afford to risk tarnishing their personal brands. LVMH provides both prestige and a potential brand boost to these talents.

Most of the time, these opportunities simply aren't available to smaller brands. Those that manage to break through—like Red Bull or Monster Beverage—are akin to lottery winners.

By contrast, a small company I invested in last year is The Economist Group. I have been an avid reader of *The Economist* since my college days and even interviewed with the then-editor, Bill Emmott, after graduating. Ultimately, I decided I didn't want to pursue writing as a career. However, I once had a letter to the editor published, giving me the pleasure of seeing my name on its famous pages—a privilege not usually extended to its excellent and hard-working journalists, who write anonymously.

Later, The Economist became the subject of a Harvard Business School case study,

cited as one of only two publishing businesses (the other was the *Harvard Business Review*) that truly weathered the internet shake-up. To this day, I'm struck by how many business leaders read and heed *The Economist's* pointed commentary.

I initially learned of the investment opportunity through Tom Easton, who is the South East Asia business correspondent for *The Economist*, and later through my regular visits to John Elkann's Exor analyst meeting in Turin, where I met Exor's COO, Suzanne Heywood. As detailed in my pre-trade check, we didn't acquire these shares at a discount, nor did we pay an exorbitant valuation. By holding them, we gain part-ownership in a business I view as a true gem, worthy of inclusion in an Aquamarine Fund "Museum of Modern Business."

Like the other companies in our portfolio, I prefer to invest only when my analysis leads me to believe that I can be highly confident of the company's success.

I'm looking forward to attending my first Economist Group meeting in London this summer. If any of my investors are interested in joining me, let Chantal know and we will do our best to facilitate.

## AQUAMARINE'S VALUE PROPOSITION

As I emphasize every year, my primary responsibility is to build wealth for all our partners in a prudent, responsible, and sustainable manner. I take great satisfaction in knowing we share the same goals, and my success is directly tied to delivering on your behalf. This spirit of partnership is not just words; it's embedded in the fund's fee structure.

I firmly believe the Aquamarine Fund offers exceptional value to its investors, grounded in three key principles:

- 1. Alignment of interests** Your interests and mine are truly aligned, as the fund is structured like a genuine partnership. A very significant portion of my family's life savings is invested in the fund, underscoring my commitment. This fund is foundational to my family's financial security.
- 2. Minimal or no management fees** I strive to provide the best possible terms for our partners. I strongly encourage investors to use the share classes that charge no annual management fees. Notably, members of the Spier family pay a 2% annual management fee, reflecting my dedication to ensuring a fair deal for all fund partners.
- 3. Conservative, long-term value approach** We focus on partnering with top-tier enterprises that can compound wealth in a disciplined, sustainable way.

## OPERATIONS, ASSETS UNDER MANAGEMENT, SUBSCRIPTIONS, AND REDEMPTIONS

In 2024, we received \$19.2 million in new capital and processed \$28.9 million in redemption requests. This is a natural ebb and flow of assets, reflecting changes in our investors' life circumstances. While it's always sad to see partners leave, I'm gratified to see friends and family benefit from the growth of their investments over time.

At the close of 2024, our assets stood at \$433.2 million—enough to manage the fund efficiently while preserving the agility to act swiftly when necessary.

On the operational front, including day-to-day fund management, investor services, and governance, we have invested significant effort and are pleased to report that everything has been running smoothly, as you may have noticed over the past few years.

Starting last year, we began hosting various analysts in our Zürich office for two- to three-month periods. We aim to strengthen Aquamarine's research and portfolio management by finding the right analyst to provide additional expertise, improve decision-making, and enhance returns.

So far, we've had interns from several universities with diverse backgrounds, including the University of St. Gallen and Harvard Business School. This program will continue in 2025, with the ultimate

goal of identifying someone to join full-time. I look forward to updating you on our progress.

### ***PERSONAL MEDICAL UPDATE***

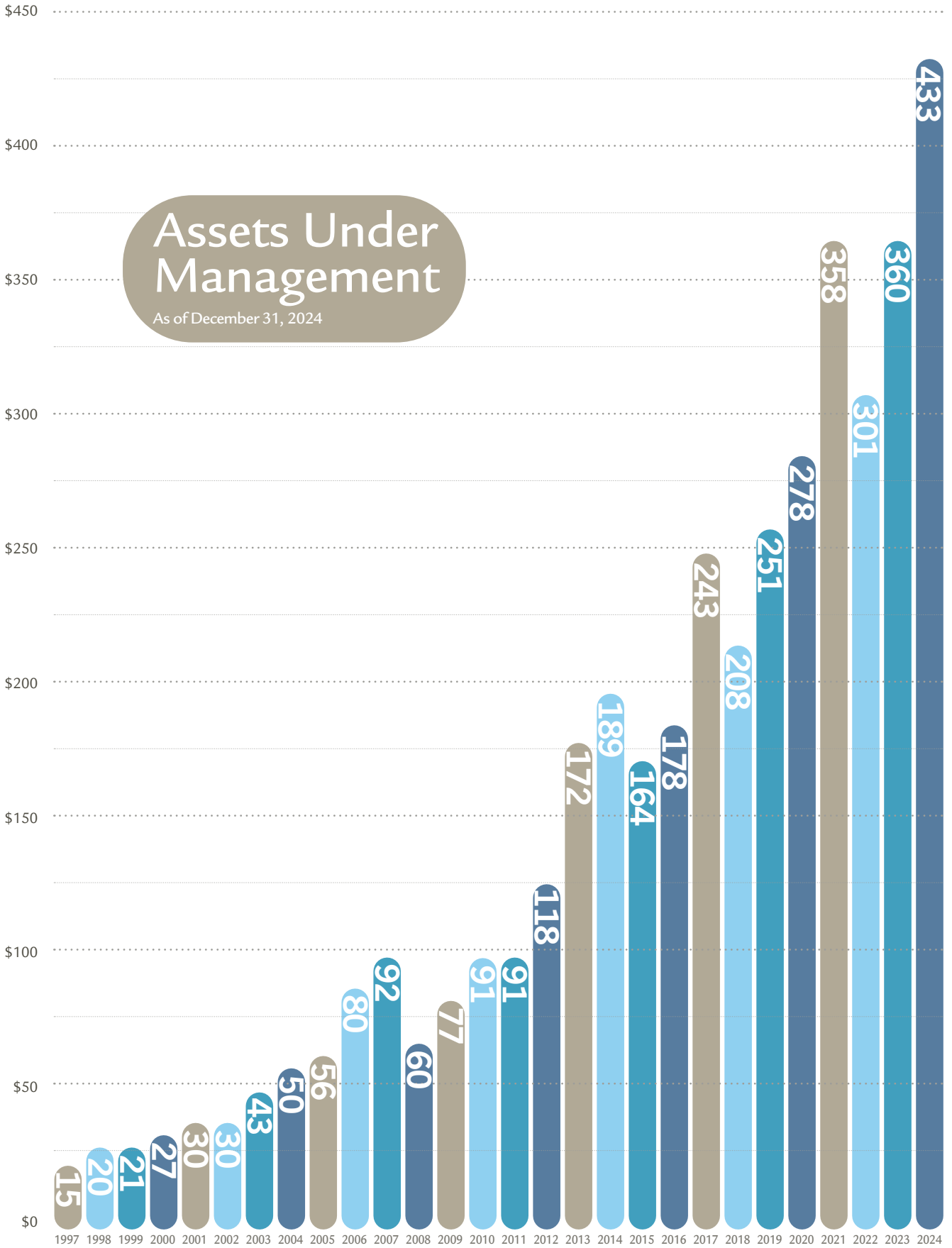
I also want to share a medical update with you.

Towards the end of 2024, an MRI scan revealed a small lesion on the inside of my skull, and I underwent a mini-craniotomy to remove it. The surgery was 100% successful. I am very fortunate that the doctors caught this early, and the lesion was fully removed. However, subsequent analysis of the tissue indicated a potential for regrowth, so I'm now undergoing preventative treatment to minimize the chances of a recurrence.

I share this because you've entrusted me with your hard-earned money, and applying the Buffett-Munger test, this is something I would want to know if I were in your position.

***MY GOAL CONTINUES  
TO BE TO BUILD LONG-  
TERM WEALTH IN  
THE RIGHT COMPANIES  
OVER MANY YEARS—AND  
FOR GENERATIONS TO COME.***

(\$ in millions)



While the operation and therapy have been a distraction and left me more tired than usual, I've been in the office most days, though for shorter hours. I look forward to returning to full strength once treatment is complete in a few weeks. Following the end of therapy, I will be going in for regular checks. And you can be sure that I will keep you, my valued investors and partners, informed if anything changes.

Early in the fund's life, when I lived in New York city, I owned a BMW R1200R motorcycle, which I found to be a practical and enjoyable way to get around town. But shortly after I met Lory she correctly informed me that in the medical profession, motorcycle riders are often referred to as "organ donors." My very weak response is that it was less risky than base jumping (which I have never done—and would never do). Despite some friends recommending that I take the line with her that the motorcycle was a "pre-existing condition" my motorcycling hobby came to a swift and deserved end once I was married to Lory. After all, she is Mexican! My point here is that although I did not voluntarily take on my new health status, I view it as a lot less risky than motorcycling or base jumping.

Thankfully, my health issues have not affected the fund's daily operations. As always, David, Chantal, and the rest of the team ensure that NAV statements, subscriptions, and redemptions are handled smoothly.

Nor has it affected my style of investment. As you know, when it comes to our portfolio I tend to move at a glacial pace, and I stay away from situations that require quick reflexes. Rather, I take my time with my investment research and give portfolio decisions careful consideration. If any-

thing, a renewed awareness of the fragility of all of our lives has redoubled my focus on companies and brands that will survive across generations. My goal continues to be to build long-term wealth in the right companies over many years and for generations to come.

### **THANK YOU**

I am deeply grateful for your continued trust and partnership and I am wishing you all a prosperous and healthy 2025. It was a pleasure to see many of our investors at VALUEx Klosters and I hope to see more of you at VALUExBRK.

And, of course, I look forward to updating you again before too long—at one of our investor dinners or, failing that, on Zoom.

With warm regards,



Guy Spier