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MANAGEMENT'S LETTER TO PARTNERS



Dear Partner,

In 2018, the Aquamarine Fund returned **-13.3%** vs -4.4% for the S&P 500.

Since the fund's inception in September 1997, our investors' capital has compounded at a rate of **8.8%** annually vs 6.7% for the S&P 500, 7.7% for the Dow Jones Industrial Average, and 3.6% for the FTSE 100. The Aquamarine Fund's total return from inception is **504.7%** vs 294.4% for the S&P 500.¹

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

Commentary

It's never pleasant to report negative numbers to you, especially when Aquamarine has also underperformed the S&P 500. In 2018, we trailed the index by 8.9 percentage points. There are a couple of specific explanations for this underperformance:

First, I've been unwilling to buy into the tech leaders of our day. In spite of their poor performance at the end of 2018, they are still the main driver of the indexes. In retrospect, it was a mistake not to buy into great businesses like Amazon and Google a decade ago. But I don't intend to compound that mistake by overpaying now that the FANGs seem fully valued.

Second, some of the stocks that performed extraordinarily well for us in 2017 gave back some of that outperformance in 2018. In particular, Fiat Chrysler fell, partly in response to the tragic loss of its CEO, Sergio Marchionne, who died in July at age 66. General Motors and our banking stocks also struggled, and the effect was exacerbated because we owned long-term warrants, which exhibit greater volatility than the underlying stocks.

We will discuss GM in more depth in the Post Mortem section of this letter (see page 11), since I recently sold our position. As you know, I try to avoid oversharing about our current holdings because it's harder for people to change their minds once they have publicly staked out a particular position. Suffice it to say that Fiat Chrysler remains exceptionally cheap, and I take comfort in having a first-rate partner in the chairman, John Elkann.

While I'd be happier if 2018 had been a banner

year like 2017 (when we were up 34.9%), it's always worth emphasizing that we are playing a long game at Aquamarine. So it makes no sense to get overexcited when we have a good year or despondent when we have a lousy one. Over the fund's 21-year history, we have had six down years, including 2015 (-16%), 2008 (-46.7%), and 1999 (-6.7%). We have also trailed the S&P 500 in 8 of those 21 years. In the past, our weaker periods have invariably been followed by strong rebounds — a reminder of why it's so important to stay the course, despite the inevitable ups and downs that we are bound to experience along the way. (Indeed, for what it's worth, Aquamarine rose 11.4% in January 2019).

Over the long run, our steady, long-term investment approach has paid off. Since its inception in 1997, Aquamarine has beaten the S&P 500 by 210 percentage points. To put this another way, \$1 million invested in the index grew to \$3.625 million, while \$1 million invested in Aquamarine grew to \$6.047 million by the end of 2018. Over time, our modest margin of outperformance (2.1 percentage points per year) has produced a good deal of additional wealth for Aquamarine's partners.

Still, these aren't the numbers I dreamed of when I launched Aquamarine in 1997. Back then, I imagined myself generating high double-digit returns. It's true that it's been a difficult era for stock-market investors: the S&P 500 has averaged only 6.7% a year over 21 years. The FTSE 100 has averaged just 3.6% a year. Along the way, we've had to navigate the Asian Financial Crisis, the dotcom bubble and bust, the terrorist attacks of 9/11, and the market meltdown of 2008-09 when we experienced the worst financial crisis since the Great Depression. Against that backdrop, our market-beating return of 8.8% a year — after fees and expenses — looks pretty good.

Nonetheless, it's fair to ask the uncomfortable question of why I haven't outperformed by a higher margin – and, most important, what that might tell you about the nature of the fund in which you're invested.

First of all, it turns out to be even harder to beat low-cost index funds than I ever realized as a young fund manager. The market is increasingly efficient, and we are competing against a lot of highly intelligent and highly motivated people. Over the last 21 years, I've seen many of them close their funds after years of underperformance.

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Some got unlucky. Some took too much risk and blew up disastrously. It's humbling to see how many talented stockpickers have fallen by the wayside since I started and how few have built funds that have survived for two decades.

I'm also writing this shortly after watching Charlie Munger speak at the Daily Journal's annual meeting, where he emphasized just how difficult it is to earn outsized returns and pointed out the importance of having realistic expectations. As Charlie put it, investors should be "cheerful" if

they earn, say, six percent a year over a lifetime.

But I think there is also a more personal reason why I haven't outperformed by a bigger margin. By nature, at least when it comes to money, I have a built-in tendency to be fearful and a powerful bias to be conservative.

Early on, when I had \$15 million in assets under management, I invested a grand total of \$200,000 in Duff and Phelps. It was a terrific investment, a seven-bagger, but I didn't invest aggressively enough for it to have a huge impact. That is my natural psychology. Mohnish Pabrai jokes that I'm fearful about investing money, but have been willing to take bigger risks with my life. For example, I used to ride a motorcycle in New York. This isn't rational, but it's a real aspect of my personality.

My natural tendency to invest cautiously was reinforced by Aquamarine's unusual origin story. Starting out, my father entrusted me with all of his liquid net worth. This was a wonderful display of trust, and it gave me the assets I needed to launch my career as a fund manager. But it was a mixed blessing in that I was, understandably, scared of losing his life savings. I was not an entrepreneur and didn't want to risk principal when I had no idea how I would ever make it back. As a result, I was often more conservative than I should have been.

I was also overly influenced by two other towering figures in my life: Buffett and Pabrai. This is complicated because they, like my father,

have been enormously beneficial influences on me. Buffett, for example, taught me how to be an ethical investor. But my reverence for him made me less open than I should have been to investing in great tech companies like Apple, Amazon, and Google. Similarly, it was incredibly helpful for me to see up close how Mohnish thinks probabilistically. But my admiration for him made me less careful than I should have been about appraising (and meeting with) corporate management, which might have helped to avert my costly mistake with Horsehead Holdings.

When I have truly thought independently, I have come up with some extremely profitable investment ideas, including Duff and Phelps, Raffles Education, EVCI, and Weetabix. I didn't follow anyone into these stocks. There was no warm sense of being in the company of great investors, though I later discovered that some of them had already invested in these companies.

Looking back on these experiences has helped me to recognize how important it is never to follow others slavishly, however much I admire them. As I write in my *Investing Principles* (which start on page 21), "It's smart to learn from the best in the business, but never at the expense of thinking critically for myself."

I'm not telling you any of these things either to justify myself or to beat myself up. Rather, I think it's important for you, the partners in Aquamarine, to understand the nature of the beast. It helps if I'm brutally honest, so I can work to counteract my flaws and so you can

make a balanced assessment of whether or not they are outweighed by my strengths.

Fortunately, Aquamarine's long-term, value-oriented approach to investing is so powerful that it has worked well over time, despite my mistakes along the way. It's natural to look back and see things that I wish I had done differently, especially after a challenging year. But I'm reminded of my hero, Ernest Shackleton, who taught me that mistakes are a part of the journey. The big picture is what counts. And the big picture is that 210 percentage points of outperformance is a decent result.

It also gives me deep satisfaction to know that Aquamarine charges exceptionally low fees and that our partners have been protected from the fate of most fund investors, who have been overcharged for underperformance. I care tremendously about treating Aquamarine's shareholders as partners in spirit, not just in name, and our interests are fully aligned. It's also worth noting that my conservatism, which has lowered our margin of victory, has also significantly lowered our risk of loss.

I like the fact that India is a dynamic, English-speaking nation that is poised to become one of the two largest economies in the world over the next 30 years. I'm positioning our portfolio to benefit from that long-term growth.

Looking forward, I am optimistic about our portfolio and the future performance of the Aquamarine Fund. But it's wise to keep in mind Munger's cautionary words about maintaining realistic expectations, particularly when most stocks are not resoundingly cheap. My friend William Green, who is a shareholder in Aquamarine, recently mentioned to me a conversation he had with Francis Chou, a renowned fund manager based in Toronto. Chou remarked to him that a 10% percent annual return is "enormous," since you double your money in seven years, make four times your money in 14 years, and make eight times your money in 21 years.

We currently own 18 stocks and have about 40% of the fund in our top four holdings. Following our sale of GM, we have roughly 10% of our assets in cash, which gives us plenty of dry powder to take advantage of opportunities as they arise, particularly during periods of market volatility when others are rushing to sell. At the moment, I see a fair number of lower-quality companies that *look* cheap, but I've avoided buying them because I view them as value traps. I prefer to hunker down and wait patiently until more obvious opportunities come along.

That said, I recently bought an Indian stock that I expect to own for many years — an unusual business that's extremely well-positioned to play a critical role in the on-going success of India's economy. So far, it's a 4% position. I'm also about to buy a second Indian stock — a strong business that's very cheap.

As you might expect, I'm edging into India slowly and somewhat gingerly, but I like the fact that it's a dynamic, English-speaking nation that is poised to become one of the two largest economies in the world over the next 30

years. I'm positioning our portfolio to benefit from that long-term growth. My focus is on companies that are integral to the economy and likely to deliver great returns over time, instead of speculative stocks with more upside potential but a much greater risk of loss.

I also bought a U.S. stock recently and have made it a 6% position. If I were more aggressive, it might be 30% of our portfolio by now because I'm convinced that the upside potential is great and that there is a negligible risk of loss. But there is always a part of me that wonders, "What don't I know?" It would certainly be arrogant for me to insist that there is no chance of losing. It's important to acknowledge that this aversion to risk may be a flaw and a limitation, but I think it's also a virtue and a safeguard against hubris.

It also makes sense to proceed cautiously at a time when the world is undergoing extraordinary tectonic shifts. Trade wars, Brexit, Trump, Russia, China, populism, the rise of artificial intelligence.... You hardly need to hear me reiterate all of these sources of uncertainty, which make it even harder than usual to guess what the future may hold. In these circumstances, I'm particularly happy to stick with what I know best, which means holding on patiently to the high-quality businesses that we already own. In a sense, we are trying to find a greater degree of certainty and stability in an uncertain and unstable world.

Think of a company like Ferrari, which is the world's No. 1 luxury car brand. It sells fewer than 10,000 cars a year, but it could easily sell 20,000. Ferrari strikes me as an almost impregnable fortress. It has extraordinary economics; it's hard to see how anyone can replace it; and there will always be people who want to flaunt their wealth by owning a beautiful car. Over the long haul, I'm confident

that we will do well with a business like this. So why would I sell it to buy something more speculative, even if Ferrari is comparatively expensive?

In such an uncertain world, I believe that it makes abundant sense to move to the economic high ground and, as much as possible, stay there. In practical terms, this means owning stocks like Berkshire Hathaway, American Express, Moody's, and Ferrari. As I see it, my job is to buy the best assets, without foolishly overpaying for them, and then hold onto them.

The trouble is, the market constantly tries to convince us to sell the best assets and replace them with inferior assets. Stocks like Berkshire and Amex create a particularly high bar because I'm sure that we won't lose money on them in the long run. There is an element here of loss minimization, instead of return maximization. But it seems prudent to build the fund on that rock solid foundation.

Part of Aquamarine's advantage is that we don't get caught up in the many fads and investment psychodramas that distract many investors. For example, it's hard to believe that it was only one year ago when we were being told that crypto-currencies such as Bitcoin and Ethereum were going to revolutionize finance. The craze got so bad that even I was approached with the idea of "tokenizing" shares of the Aquamarine Fund into a crypto-coin and performing our own "ICO" or "Initial Coin Offering." Bitcoin has since crashed from almost \$20,000 to less than \$4,000. Ethereum, which hit a peak of about \$1,400 in January 2018, crashed to less than \$100 later in the year. Now that the bubble has burst, it's hard to detect much excitement about independent crypto-currencies as an investable asset class.

It will be interesting to see whether JP Morgan's

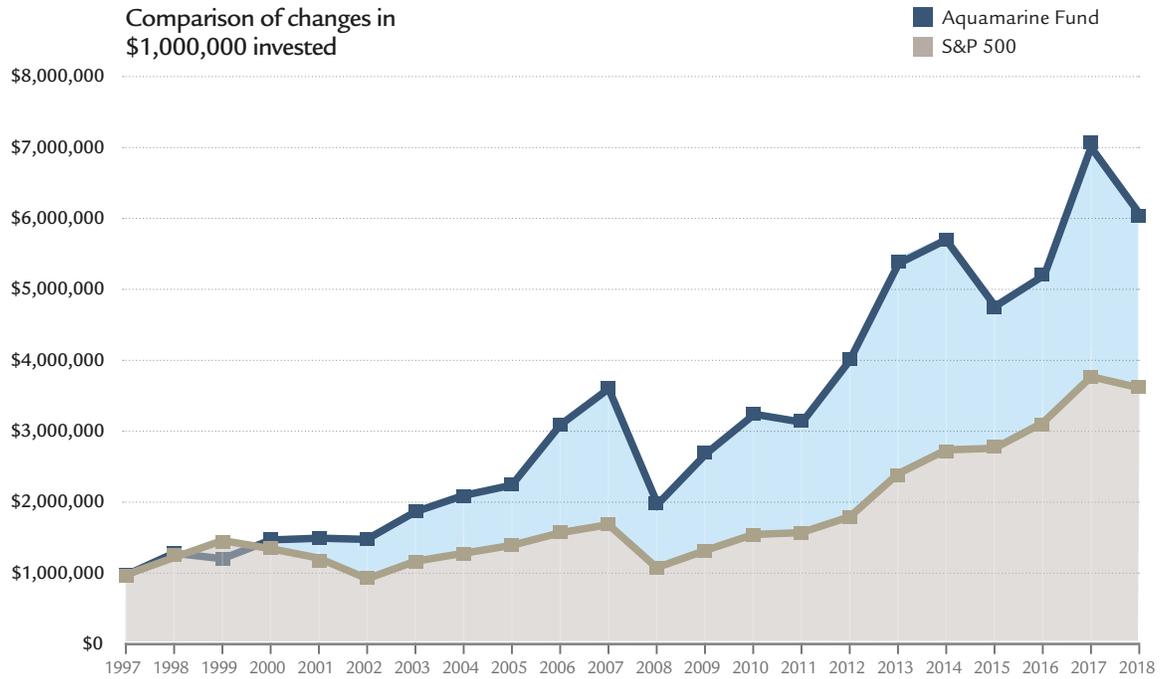
recently reported use of a crypto-currency takes off. If it does, it may drive home the point that the best way to take advantage of new technologies is often to remain invested in second-mover incumbents like JP Morgan, Wells Fargo, and Bank of America.

As with Bitcoin and Ethereum, it's been fascinating to watch the investor euphoria engendered by Tesla. I'm hugely impressed with what the company has achieved technologically. But when it comes to Tesla as a stock-market phenomenon, the facts (at least, as I see them) do not seem to matter. It's almost as if Tesla exists in a parallel universe where it can will itself into market dominance, the facts be damned. Maybe Elon Musk can pull it off. Who knows? Either way, I'm happy to stay on the sidelines.

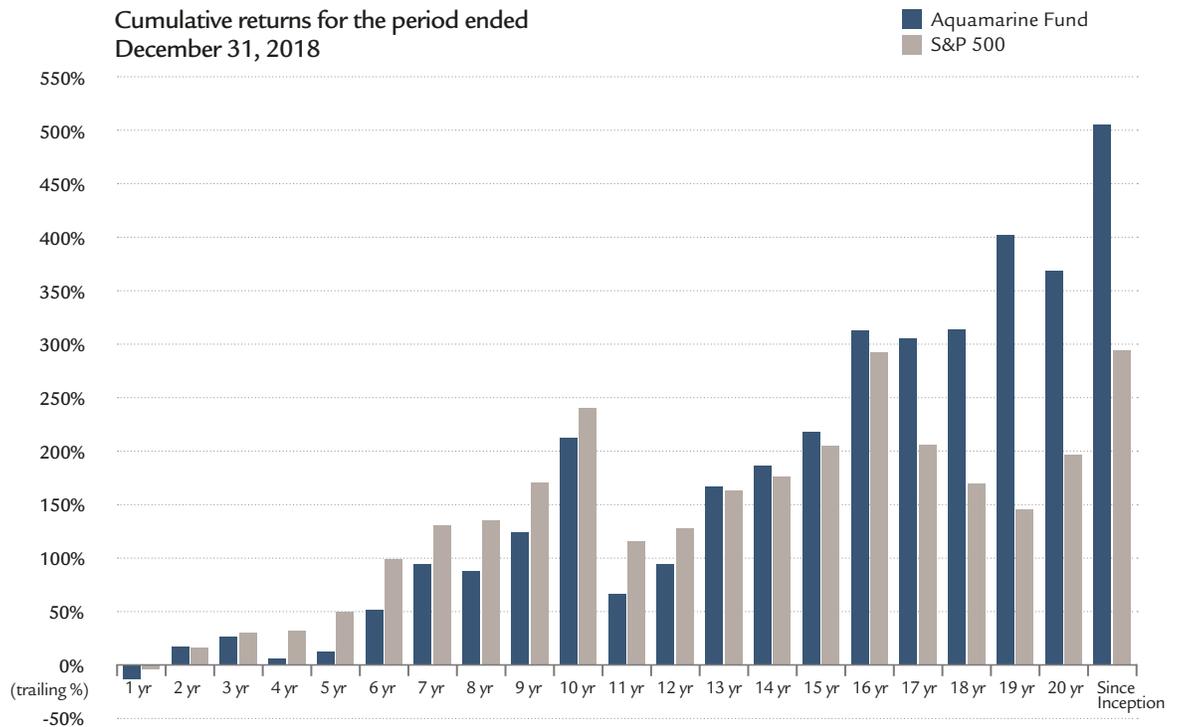
We have also steered clear of the unfolding disaster that is Brexit. It's been luridly fascinating to watch this train wreck, not least because it was David Cameron — my college classmate and occasional tutorial partner — who called the referendum. The leadership class of the United Kingdom is dotted with various classmates and friends of mine. I've been flabbergasted that the leadership of a major advanced economy like the UK can act so irrationally and contrary to the country's economic interests. Thankfully, as investors, we have minimal direct exposure to Brexit. If Britain does crash out of the EU, it will create a lot of short-term pain for others, but it may provide a great opportunity for us to buy into some cheap businesses.

I make no pretense of knowing how Brexit, crypto-currencies, or Tesla will work out. After more than two decades of managing the Aquamarine Fund, it comes naturally for me to label such things as "too hard" or "unactionable," and to move on. Instead,

Aquamarine Fund Performance Relative to the S&P 500 Index



*1997 is based on September 15-December 31 performance.



As I see it, my job is to buy the best assets, without foolishly overpaying for them, and then hold onto them. The trouble is, the market constantly tries to convince us to sell the best assets and replace them with inferior assets.

I concentrate on trying to own a small selection of companies that will, without a doubt in my mind, outlast all of this confusion and uncertainty that dominates the news in the short term.

With that in mind, it's helpful to think about what sort of companies tend to endure. My thinking on this has been influenced by Nassim Nicholas Taleb, the author of *Foiled by Randomness* and *Antifragile*. To cut his long story short, one way to assess future longevity is to look at how long something has been around already. For example, books that have been in print for ages — such as the Bible or *War and Peace* — are likely to remain in print for a long time to come. New books have a much lower likelihood of being around for a long time.

This doesn't entirely apply to companies. But there is a strong argument for looking at what has worked for a long time in business. And here I have a few thoughts to share with you about how to invest in a world that is rapidly and radically changing.

Let's start with Charlie Munger's insight that the best way to earn your success is to deserve it. One conclusion that I draw from his observation is that I should align myself with businesses (and

individuals) that are working hard to build an ecosystem in which they can earn a reasonable return while also making the world a better place. Almost all of the world's great businesses deliver one of the following benefits, or some combination of them:

- They save money for their customers.
- They save time for their customers.
- They provide their customers with extraordinary experiences.
- They help their customers to live a better or healthier life.

For example, GEICO saves people a lot of money on car insurance. Walmart, Costco, and Amazon save customers money on many products that they need or want. Amazon has the added advantage of saving them time. Credit rating agencies save corporations enormous amounts of money by enabling them to borrow at a lower cost. Credit card providers save people time and worry, not least by offering them ease of payment and by removing the need to check their bank balance before they pay. Luxury goods companies, such as Tiffany and the Swiss watchmakers, help people to feel special and to celebrate happy occasions.

I continue to try to buy such businesses when they become available at prices that seem reasonable to me. At the moment, most companies that are making profits while having a noble purpose are very richly valued. Occasionally, I also buy businesses that don't meet these criteria, if the price seems ridiculously cheap. But our priority is to invest in durable businesses that deliver things that people will need even in a changing world. It's revealing that Buffett has focused so heavily on companies that meet many basic human needs, such as building materials, carpets, paints, furniture, and energy.

Meanwhile, I avoid companies that may be enormously profitable but cause social harm, such as tobacco companies and casinos. Sooner or later, as happened with the tobacco firms, society might make them and their shareholders pay for this harm.

Owning businesses that are part of the solution, not part of the problem, has enormous benefits in terms of reducing risk and sailing our ship through whatever storms might arise over the *next* 21 years. But I don't consider myself an "impact investor" or a "social investor." They are often willing to overlook lower (or non-existent) returns while focusing on the social good that their investment is creating. Personally, I find that laudable. But it's often the case that such investors are fabulously rich or are investing on behalf of someone who is fabulously rich.

I believe that my role is to deliver the best long-term investment results I can achieve, instead of trying to achieve non-measurable "social returns." If I do my job properly, then Aquamarine's partners can have a tremendous social impact by sharing their wealth with others in all sorts of wonderful ways.

Post Mortem: General Motors

In 2012, having done a great deal of research into the automobile industry, I invested aggressively in Fiat Chrysler and General Motors. The short rationale is that investors tend to view an industry with a rearview mirror, neglecting to understand how it may be changing. The auto industry had a sorry past, including several recent bankruptcies. Not surprisingly, investors hated these companies. But I could see that the auto sector's future was much rosier than its past.

For one thing, GM and Chrysler had both emerged from bankruptcy with renegotiated labor contracts, which dramatically reduced their operating costs in the U.S. In GM's case, there was the added attraction that we were able to invest in long-term warrants negotiated by the U.S. government and struck at \$18.

Our GM warrants performed solidly, but nowhere near as well as I had expected. In the end, we doubled our money over seven years. Fiat Chrysler has worked out much better, and it continues to be a major position for Aquamarine.

One reason for this disparity is that GM wasn't as badly misunderstood as Fiat Chrysler. But there is also a difference in the quality of the management. I have great respect for GM's CEO, Mary Barra, but she is embedded in a Detroit-centric view of the world, which is difficult to escape. A number of activist investors have tried to get GM to be more efficient in its capital structure, but they haven't had much success.

By contrast, Fiat Chrysler has a superb management team in place, even without Marchionne

at the helm. Incidentally, it now seems that he knew that he had only a short time to live and kept it secret even from Elkann. Instead of retiring, Marchionne threw himself into his work with extra dedication and fury, knowing that his most meaningful life would come from his job. The company is still not done with its restructuring, and I expect a lot of good things to happen in the coming years. In the meantime, it's debt free, and its extraordinary value is still largely unrecognized.

My main reason for selling GM is that I see better opportunities elsewhere, not that I dislike the company or am negative about its prospects. In particular, I wanted to free up cash to invest in India. But it's also true that the auto industry doesn't allocate capital well, that the conditions in the industry aren't that attractive right now, and that GM is not one of the world's great businesses.

At times, I need the flexibility of mind to buy reasonable businesses at great prices. But it's important not to fall in love with these cheap stocks and hold them longer than they deserve. In general, I've avoided being trigger-happy or overly reactive to market developments. This approach has served us well over time. But I should have been *more* trigger-happy with GM, selling it earlier when the price was higher. I've added an item to my in-flight checklist to remind myself of this lesson.

After all, there is a huge difference between a cheap stock like GM and a great business like Ferrari. I need to be more clinical when it comes to these lower-quality businesses. I should be reluctant to sell a great business at any price. But we don't have to own *everything* forever.

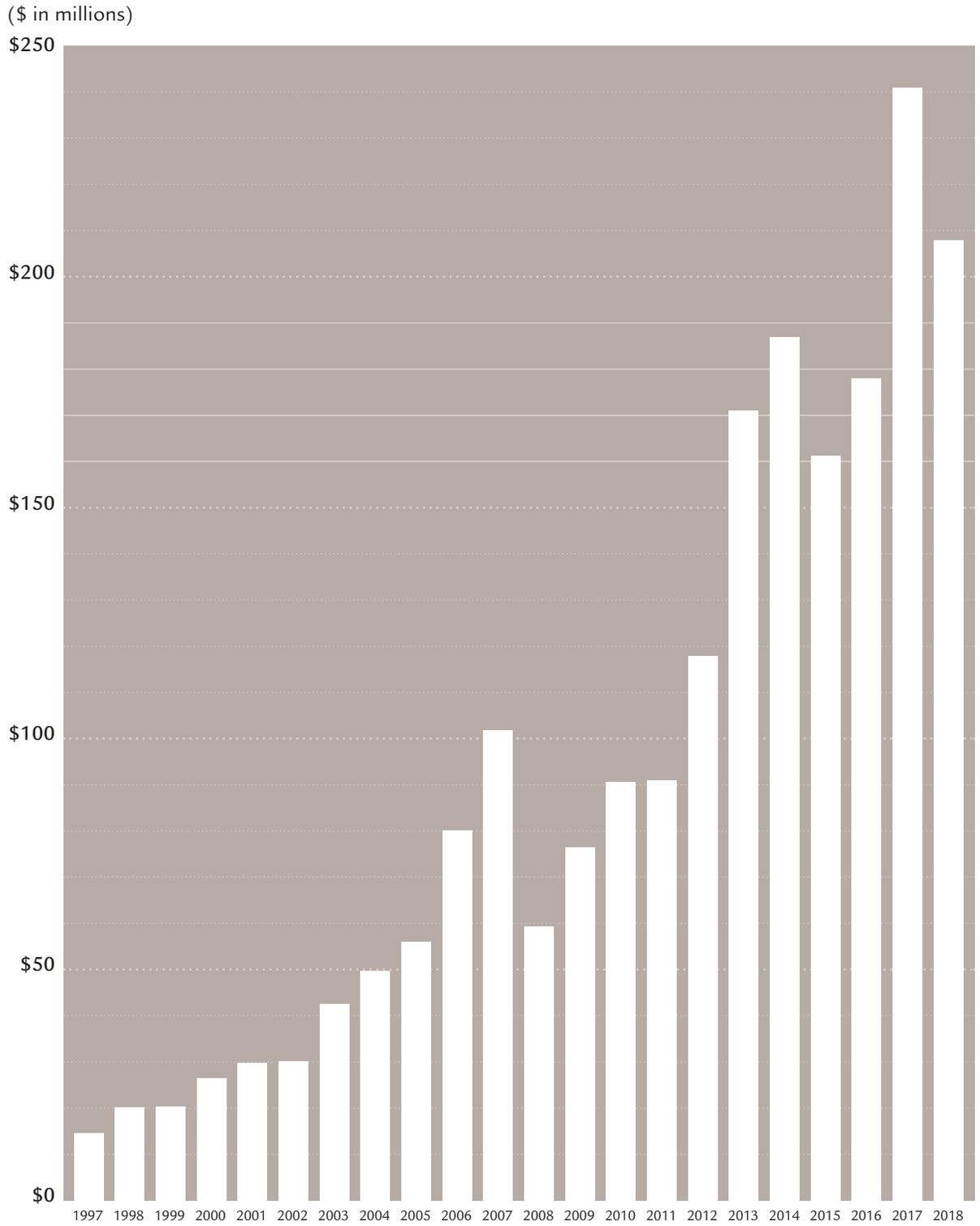
Our Value Proposition in the Age of Artificial Intelligence

A lot of questions have been swirling lately about the impact of artificial intelligence and machine learning on the art (and business) of investing. Some people have argued that independent investment managers like Aquamarine will go the way of the dodo — a casualty of AI, increased computing power, and machine learning. I want to discuss this briefly because I think it might be useful in terms of helping you to understand my idiosyncratic business strategy and how you fit into it.

First, let's talk about AI. I want to share with you a little bit about my (meager) understanding of some important concepts related to computer science — albeit, with the caveat that I am neither a computer scientist nor a mathematician.

We live in a world where dramatically increased computing power is being applied to solve a panoply of problems, including image recognition, driverless cars, and stockpicking. Does that mean that we're moving into a world where there will be no space for stockpickers and investment managers? I don't think so.

What I have learned in my forays into this subject is that computer problems can be categorized according to different classes of complexity. And it turns out that it's not hard to define a simple problem and to prove mathematically that, in practical terms, it would require an almost infinite amount of computing power to solve it. Of course, many problems are becoming solvable with increases in computing power, and these advances can make our lives immeasurably better. But there



*1997 is based on September 15-December 31 performance.

We want to be successful because we deserve to be successful, because we deliver enormous value to you, and because we operate with total integrity. When I think about how to build our competitive moat, it's not just about buying high-quality businesses. It's about how we behave.

are some problems that are likely never to be solved by computers.

With this in mind, let's think about the task of creating a form of AI that could replace the independent stockpicker. In order to learn, the AI has to train itself on a data set. In the case of Alpha Go, the rules of the game were simple enough that the AI could play itself in order to create its own data set. But that is a game whose rules are known.

The world of human affairs is infinitely more complex. Humans, corporations, raw materials, economic conditions, markets, and prices are all interacting. We don't know the rules. So

we need to learn them by using a data set. But when it comes to stockpicking, the data required might include all economic history, all annual reports, all regulatory filings, all news releases, and so on. In other words, the magnitude of the stockpicking problem is almost unimaginably immense. By comparison, developing driverless cars is a cinch because the rules are relatively easy to define. Yet that's a problem that is still nowhere near to being solved.

Now, I don't doubt that sophisticated computer programs can be designed to take advantage of minor price movements that occur over milliseconds and to shave off minuscule gains based on those micro-movements. But the challenge of designing computer programs to replicate the long-term success of, say, Buffett, Munger, Seth Klarman, or Li Lu is quite another matter.

People in Silicon Valley are intoxicated with the idea that computing power can solve every problem on the planet. But I suspect that the investment challenge will never be solved to the satisfaction of these techno optimists, partly because they underestimate the immense complexity of the problem and the quantity of data required to solve it. The best answer to this problem is not machine intelligence, but human intelligence.

Just ask yourself for a moment: What makes Buffett so successful? How has his system at Berkshire generated so much wealth? It's not just that he and Munger are intellectually brilliant or have worked hard to deserve their success. It's also, in part, that they have generated enormous amounts of goodwill over a lifetime of investing. Thanks to the power of reciprocation, they have a global set of brains working for them. There are countless people (me included) who are so grateful that we wouldn't hesitate to help

them if we could. And this goodwill system has been amplified by investing in businesses that are operating in the same manner — delivering enormous value to others and acting with admirable integrity.

It's this human factor that lands Buffett with the best ideas, the best people, the best deals. What better moat could there be? These all-important human traits and behaviors are impossible to replicate with any computer program — and yet they are absolutely central to Buffett's and Berkshire's success.

But why is any of this relevant to you? It's relevant because what we are attempting to do at Aquamarine is to build exactly the same type of moat. We want to be successful because we deserve to be successful, because we deliver enormous value to you, and because we operate with total integrity. When I think about how to build our competitive moat, it's not just about buying high-quality businesses. It's about how we behave. It all starts with the most basic moral principles. For example:

- Tell the truth.
- Mean what you say and say what you mean.
- Treat people well.
- Keep what is told to you confidential.
- Don't tell people what to do, but share the benefits of your own experience.
- Seek to deliver value to your stakeholder groups before extracting value for yourself.
- When extracting value, extract only a small proportion of the value that you have created for others.

The people I admire most in the world of business and investing embody this kind of behavior. That

includes Buffett, Munger, Peter Kaufman, and others. Not surprisingly, they tend to be found around companies that also embody this way of operating, such as Berkshire Hathaway, Costco, and others.

But our goal at Aquamarine is to protect and grow the money that has been entrusted to us. Telling the truth and trying to be decent people is not enough to protect you from the many ways in which the world wants to separate you from your wealth. For example, there are trading costs, custody costs, taxes, the economic environment, behavioral uncertainties, and the difficulty of selecting the right investments. All of this has led me to think more broadly about how to create value for you.

**So, Here is
the First
Value
Proposition:**

**1. I want to help you to
conserve your financial
resources.**

The world is an uncertain place and life is full of uncertainties. While I wish that I could guarantee you endlessly high returns, I can't. But I *can* guarantee you that we won't charge you much. That is the promise at the core of our zero-management-fee share classes. They make the Aquamarine Fund a remarkably low-cost way to invest in stocks. It has happened to me in the past that my competitors have called me up and told me that my fees are too low. That is a good thing.

Aquamarine's fee structure should help you in a very direct way. But I hope it also sets a silver standard that you can apply to other service providers. I say "silver standard" because the gold standard of behavior is Buffett, who earns an annual salary of \$100,000 to run Berkshire. I

aspire to be the gold standard but will settle for the silver standard for now.

2. I want to help you to think long term.

An increasing number of our investors now own our longer-term share classes. For example, we now have a five-year share class in which investors are charged no annual management fee and pay no performance fee unless we have delivered a 6% annual return. The reduced performance fee is 15% (instead of 25%), but only *after* we have exceeded that 6% annual hurdle. In the world of active management, this is an extraordinarily fair arrangement.

Intellectually, we all know that it's right to invest patiently and with a long time horizon. But it's not easy for most people to do it. By creating these long-term share classes, we are providing Aquamarine's partners with the right framework and incentives to help them maintain that long-term perspective.

On that note, I think it's worth sharing a brief anecdote. One person who had recently invested in Aquamarine's one-year share class wanted to redeem urgently in order to invest in a get-rich-quick scheme. We explained that it wasn't possible to redeem his shares. A couple of months later, he called to thank me because he had since discovered that the scheme was a fraud. If he had invested in it, he would have lost all of his money.

3. I want to save you time.

The main way that I expect this to happen is by dealing with you in a fair manner that engenders

deep-seated trust. You should not feel like you have to check up on us to make sure that we are doing the right thing. You want to associate with people you can trust to do the right thing even when nobody else is looking. That's the standard that I and the rest of our team at Aquamarine hold ourselves to.

In 1999, Bill Gates wrote a book titled *Business @ the Speed of Thought* in which he discusses the overwhelming importance of trust. Trust may be

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the ultimate killer app — one that predates bits and bytes and has less to do with technology and everything to do with pushing ourselves to a higher level of civilization.

This applies not just to how we must treat our investors, but all of our stakeholders. For example, I have had a long-standing principle of loyalty to our existing suppliers. Our commitment is that we will stick with them so long as they are willing and able to meet our service requirements at a

reasonable price. We won't switch simply because of a short-term glitch.

As Charlie Munger has said, "The highest form a civilization can reach is a seamless web of deserved trust."

4. I want to help you to live a better life.

Increasingly, I realize that there are certain things we can do at Aquamarine more easily than our clients can do. That started when we used our bargaining power to negotiate on your behalf with Charles Schwab for you to house both your Aquamarine shares and your own personal portfolio of securities in an extremely low-cost custody account. We are happy to report that, so far, we have opened 20 Schwab accounts for Aquamarine's shareholders, with a combined asset value of more than \$10 million. Unlike other Registered Investment Advisors, we don't charge you anything for housing your money with Schwab in this way. We do it simply as a way of helping you.

But there are other unexpected ways in which we also hope to improve your lives. For example, I've enjoyed meeting some of our partners in extraordinary environments, including meals with Andrew Feldman in London, with Neil Pasricha in Toronto, with William Green in New York, with James Breiding in Zurich, and with Ngaire Woods in Davos. I also enjoy hosting the annual VALUEx gathering and am encouraged to see an increasingly good turnout by our investors. The event offers you an opportunity to meet other fund managers, do due diligence, and see me in action — all in a gorgeous setting in the mountains of Switzerland.

What I am trying to do is build an ecosystem that delivers tremendous and growing value to Aquamarine's partners — to be more than just

a fund. I recognize that it is a privilege and a responsibility to be entrusted with your money, and I want to do everything that I can to deserve and reward your trust.

Of course, my primary responsibility is — as ever — to build wealth prudently for you. It gives me great pleasure to know that your family and my family are on the same side, and that I will only be compensated if I truly 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%

■ 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 purchasing 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 2018, we received \$12.6 million in new capital and received redemption requests for \$11.5 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 2018 with \$207 million in assets. As I write this in early 2019, we have about \$230 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.

Fund Documents

We have made substantial changes to our fund documents that will come into effect in 2019. Here are the most significant changes:

- We have written the offering documents in plain English, so they are simpler than they were before.
- We have reduced the notice period for Classes E and F to 90 days, as requested by a number of shareholders.
- We have added clarity as to how the redemption and the share class conversion works. Basically, both Classes E and F roll over automatically at the end of their terms unless the relevant redemption notice is submitted 90 days prior to the end of the lock-up period. However, if shareholders miss the redemption notice period date, they still have an option to convert to a shorter lock-up share class up to five days before the end of the lock-up period. If they miss that date, we have added a specific early redemption penalty, which can be applied in critical circumstances to allow a shareholder to redeem with a penalty that is attributable to the other shareholders, not the investment manager.
- We have reduced the additional investment minimums from \$100,000 to \$10,000 so that it's easier for you to make pension contributions and other additional investments.
- We have amended our Privacy Policy to align with the European Union's General Data

Protection Regulations, which were introduced in 2018.

- We have removed all references to investors being able to communicate by fax.
- We have used the SS&C Canada address throughout the documents because that office now serves us, instead of the Bermuda office.
- We will be moving to an online portal for subscriptions and redemptions in 2019. In the past, our investors had to complete a subscription form that ran to more than 50 pages in manuscript. Mercifully, that form will disappear and our administrators will load our new, streamlined subscription and redemption forms on their electronic portal.

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 in hopes 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 21 years match the last 21 years, then Aquamarine's original investors will have made about 36 times their money over 42 years. So, we are off to a solid start. I will be working hard over the next 21 years to deserve — and reward — the trust that you have placed in me.

Warm regards,



Guy Spier
Managing Partner