

Management's Letter to Partners

Dear Partner,

In 2023, the Aquamarine Fund returned **18.7%**. This compares with **26.3%** for the S&P 500. Since the fund's inception in September 1997, our capital has compounded at a rate of **9.0%** annually, versus **8.3%** for the S&P 500, **8.6%** for the Dow Jones Industrial Average, **7.1%** for the MSCI World, and **3.7%** for the FTSE 100.

The Aquamarine Fund's total return from inception is **874.0%**, versus **716.6%** for the S&P 500, **502.6%** for the MSCI World, and **162.2%** for the FTSE 100.¹

¹ 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.

The Game of Long-Term Compounding

I'm pleased to report to you that our capital has continued to grow at a healthy clip. After a challenging year in 2022 when the fund was down 21%, we rebounded strongly in 2023, gaining 18.7%. We're not yet back at our high watermark, but we're getting closer.

As you know, our mission at Aquamarine is to compound our partners' wealth in a patient and prudent manner over many years—a goal that we've continued to achieve. Since the Aquamarine Fund's inception in September 1997, an investment of \$1 million would have grown to \$9.74 million by the end of 2023. By comparison, \$1 million invested in the S&P 500 would have grown to \$8.17 million, while \$1 million invested in the MSCI World index would have grown to \$6.03 million. It's striking that even our modest level of annualized outperformance has delivered such significant rewards over time. Since 1997, the fund has beaten the S&P 500 by a total of 157 percentage points and the MSCI World index by 371 percentage points.

When I started out as a fund manager 26 years ago, I had visions of producing heroic returns and would have been disappointed by the idea of averaging 9% a year. But if we continue to compound at 9% a year, a \$1 million investment made in the fund at inception in 1997 would grow to \$31.41 million after 40 years and \$74.36 million dollars after 50 years. These numbers are a testament to the extraordinary power of steady compounding sustained over decades.

Viewed in this light, I'm happy with our performance—especially when I think of the many talented and ambitious fund managers who have fallen by the wayside over the last 26 years. Many were knocked out of the game because they tried to shoot the lights out and failed. From my perspective, what matters most is that Aquamarine's path of long-term compounding remains intact. As I'll explain in this letter, that is my number one priority.

Viewed in another light, I'm frustrated that our recent results haven't been better. In 2023, the Aquamarine Fund trailed the S&P 500 by 7.6 percentage points. As I've often emphasized, short-term results carry very little weight. It's inevitable that our returns will be lumpy and that we'll lag the index in some years. But I have now lagged for six years in a row. The last year in which we beat the S&P 500 was 2017. This should be cause for

some serious reflection. I need to take a long, hard look at myself and ask what does—or doesn't—need to change.

Some fund managers might want to hide these facts. They might quietly change the yardstick, comparing themselves to a different benchmark so that their relative returns would look better. Or they could obscure their results by launching another fund. The finance industry has plenty of ways to obfuscate. But I'm not about to do that. I want to be as open and transparent as possible, sharing the information that I would want to have if our positions were reversed and if I were an investor in a fund that *you* were managing. This self-reflection also helps me to clarify my own thinking about the possible causes of this recent stretch of underperformance.

One possible—or partial—explanation that I need to consider is that I may be more distracted than I used to be. These distractions include the responsibilities of a rich and fulfilling family life, which involves a fair amount of travel for me and my wife, Lory, to spend time with our three children, who are now studying in the US, the UK, and Switzerland. It's also fair to say that, in recent months, I've been more caught up

than usual in following—and commenting on—the situation in Israel. In the wake of the October 7 attacks, I feel obliged to speak out publicly about the resurgence of anti-Semitism and the barrage of misinformation about the war in Gaza.

It's also possible that the fund's returns would be better if I were single-mindedly focused on making as much money as possible, instead of wanting to lead a more meaningful life. I want to achieve excellent returns, but not at any price. For better or for worse, there's a part of me that's more of an academic than a swashbuckling hedge fund titan. Do I really want to die without having read great writers like

Dostoevsky, Nietzsche, and Jung, just so that I could make an extra buck or buy an extra house or fly on private jets more often? Reading great fiction or pursuing my fascination with mathematics may contribute to a happier and more balanced life, but my returns might be better if all I cared about was reading annual reports and hunting for new investment ideas. That said, a happy and balanced life seems more sustainable and probably more conducive to long-term investment success—at least, for me.

I'm aware, too, that there's a downside to being relentlessly focused on optimizing financial returns. I've seen the price that many of the most successful investors have paid in terms of broken marriages and problems with their children.

In my case, I'm certain that I operate best as an investor when my family life is happy and stable and when I have a robust circle of close friends. In the long run, the strength of these relationships should help to make me more resilient both personally and professionally. But even if this weren't the case, I would still want to invest a lot of time and energy in nurturing these life-enriching relationships.

Going forward, I think the key is simply to be honest and introspective about this question of whether I might be too distracted or unfocused. There's a tension here, and I need to keep asking myself

● *IF WE CONTINUE TO COMPOUND AT 9% A YEAR, A \$1 MILLION INVESTMENT MADE IN THE FUND AT INCEPTION IN 1997 WOULD GROW TO \$31.41 MILLION AFTER 40 YEARS AND \$74.36 MILLION DOLLARS AFTER 50 YEARS. THESE NUMBERS ARE A TESTAMENT TO THE EXTRAORDINARY POWER OF STEADY COMPOUNDING SUSTAINED OVER DECADES.*

if I'm driving too slowly or if I'm maintaining a steady speed that's sustainable in the long run. I'm also reminded of the old adage that it doesn't matter how slow you go, so long as you don't stop. As we'll discuss, our investment portfolio is also consciously constructed to keep compounding over time—despite my flaws and idiosyncrasies.

A bigger concern, perhaps, is that I've been out of sync for several years with a market that has become increasingly dominated by a highly concentrated group of mega-cap growth stocks. An index of the so-called Magnificent Seven (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) surged by 110% in 2023. These seven companies accounted for about two thirds of the S&P 500's gain for the year. The best performers were Nvidia, which rose 239% in 2023, and Meta, which rose 194%.

We own a tiny position in Alphabet that I bought because I wanted to understand it better. We've also profited from Apple's immense success because it constitutes almost half of Berkshire Hathaway's public equity portfolio. Beyond that, we have no exposure to the Magnificent Seven.

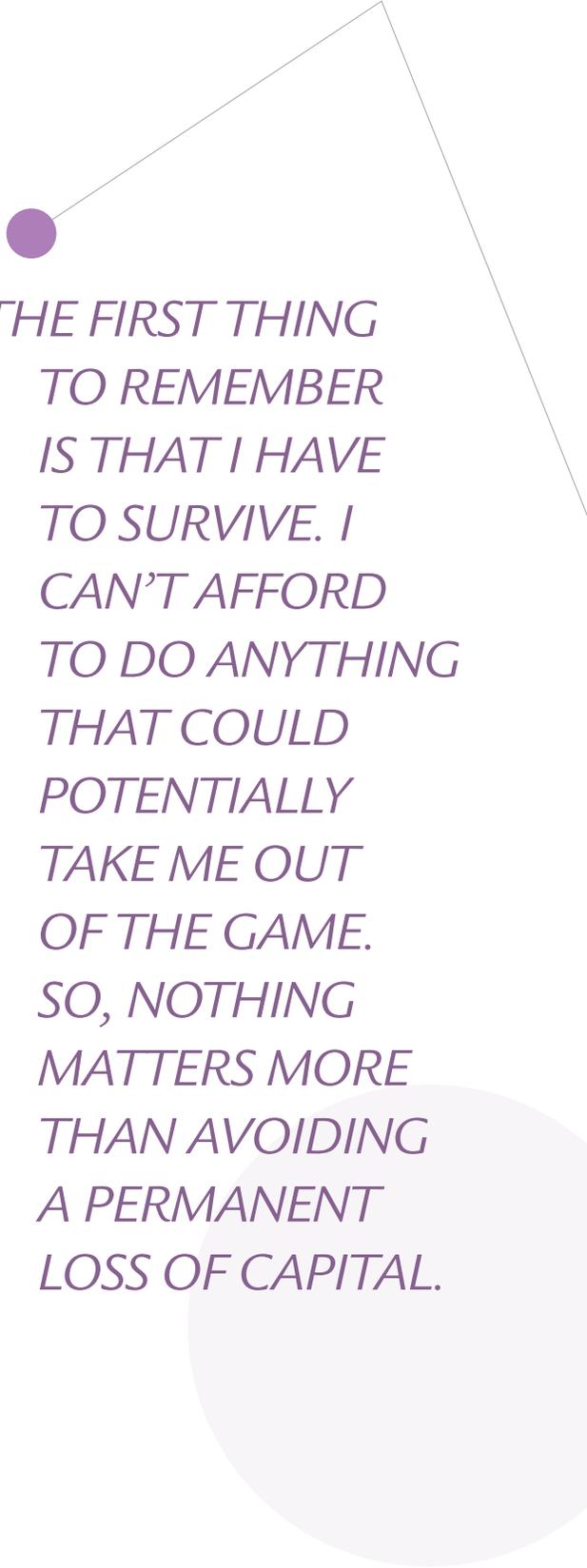
If you weren't invested in these seven stocks over the last few years, the tide was heavily against you—and especially so

if you were invested outside the US. The dollar has gotten stronger. Tech companies in fields like artificial intelligence and cloud computing have gotten stronger, benefiting from tremendous tailwinds. Almost everything else has been relatively weak. But that won't last forever. Eventually, markets turn—though nobody can predict when it will happen.

In the meantime, according to Bloomberg, the combined market value of the Magnificent Seven is now larger than the entire Chinese market, double the size of the Japanese market, and more than four times the size of the UK market. And with an average trailing price-to-earnings ratio of about 47, these seven stocks are far from cheap. There's no guarantee that a concentrated group of immensely profitable but expensive companies will continue to compound at a high rate. At some point, the momentum can reverse, and they could easily go nowhere for a decade.

Of course, I wish that I had owned these stocks, and I should try to learn from my mistakes. At the same time, there's an enormous danger that, in trying to correct for my mistakes, I end up lunging at dumb behavior. The last thing I want to do is blindly chase whatever jackpot strategy has been working best in the casino today. After all, what worked today may not work tomorrow.

When it comes to investing, there are plenty of strategies that pay off spectacularly for



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a while—for example, day-trading dotcom stocks before the bubble burst in 2000, betting on the BRICs when they were all the rage in the late 2000s, shorting bank stocks or mortgage lenders during the Global Financial Crisis of 2008-9, speculating on cryptocurrencies or NFTs during their meteoric rise in 2021, or making leveraged bets on the Magnificent Seven right before they shot up in 2023. But would these strategies work under different circumstances?

In financial markets, there are always some high rollers who are hitting the jackpot at any given time, whether through luck or smarts. It's frustrating to fall behind them, but I need to remind myself that I'm playing a different game—a long game that requires discipline and patience.

My thinking on this subject has been greatly influenced by Luca Dellanna, the author of a fascinating book titled *Ergodicity*. I've had the good fortune to spend time with Luca in person over the last year and our conversations have been extremely clarifying. As Luca explains, when it comes to competitive pursuits like downhill ski racing, motorsports, or investing in stocks, nothing matters more than survival. The winner over the course of a ski season isn't necessarily the fastest

skier. It's the fastest skier who actually makes it to the end of the season without suffering a debilitating accident along the way that would knock him out of the competition altogether. As Luca likes to say, "Performance is subordinate to survival."

The same goes for gambling in a casino. Consider for a moment the croupier at a blackjack table. Every night the croupier plays all comers at the table. Once in a while, a high roller comes along and wins big either at our croupier's table or a nearby table. Meanwhile, the croupier keeps grinding away, benefiting over time from the small edge that the house has over the gamblers. It's not glamorous or exciting for the croupier. It's pretty boring. By contrast, the high rollers are having a blast, raking in their lavish winnings, and celebrating with champagne while basking in the approval of the crowd that's gathered to cheer them on during this winning streak.

But would it make sense for the croupier to switch sides and become a high-rolling gambler? Obviously not. Every night, a different gambler is winning—and while the attention is on them for now, the vast majority of gamblers in the casino can

be relied upon to keep quietly losing. The house inevitably and inexorably wins over time, so it would be crazy for the croupier to give up that long-term, sustainable edge in the hope of hitting it big in the short term as a high roller.

It's much the same in financial markets. In every period, there's a different group of high rollers who hit the jackpot—most recently by loading up on the likes of Nvidia and Meta. Good luck to them. But, as with the croupier, my job is to stick to my knitting and keep the odds of long-term success on my side. How?

Well, the first thing to remember is that I have to survive. Like the skier we discussed earlier, I can't afford to do anything that could potentially take me out of the game. So, nothing matters more than avoiding a permanent loss of capital. I went through this once with Horsehead Holdings, which went bankrupt in 2016, and it's not something that I care to experience ever again. As Luca puts it, "Irreversible losses absorb future gains."

For many investors, it's tempting to jump on the bandwagon and adopt whatever strategy du jour has been performing best. But as Luca explains, strategies that have shot the lights out in the short term are generally not "reproducible." Sure, under particular conditions, they perform wonderfully. But if the conditions were different, the outcome of this supposedly winning strategy might be mediocre at best, or a total disaster. This brings us to the critical point.

There is an infinite number of ways in which the world might unfold from here. In one version, the world gets vastly richer, with tamed inflation and stunning productivity gains from breakthroughs in AI. In another version, we wind up in an economic depression worse than the one that followed the Crash of 1929. Needless to say, there is a whole myriad of possible versions of the world between such extremes. None of us knows for sure which one of these many possible worlds will come to pass. So, I need to run the Aquamarine Fund in such a way that we will have a satisfactory result in all of them.

To put it another way, I need to be certain that the success of my investment strategy is "reproducible" over the long run. For example, the strategy must work well enough in a world where incumbent tech

giants like Microsoft and Apple become even more dominant, or in a world where they are displaced by new competitors. It must work well enough in a world where we wean ourselves off fossil fuels, or in a world where we remain as dependent on them as ever. And it must work well enough in a world of high interest rates, or in a world of low interest rates.

I don't want to run the fund in such a way that we'll have a fabulous result in some versions of the world but will be wiped out in others. And I will gladly run the fund in such a way that I reduce our overall returns but ensure our survival. After all, you have to survive so you can play out your hand, so you can place enough bets over time that the law of large numbers will ultimately apply. The name of the game is survival, no matter what.

With that in mind, here is a shocking statement: While I would certainly like to beat the index, there is something far more important. I'd like to continue compounding. Because compounding is what matters most. Over time, compounding will get us to the promised land.

To summarize, I need to keep in mind this simple set of practical principles:

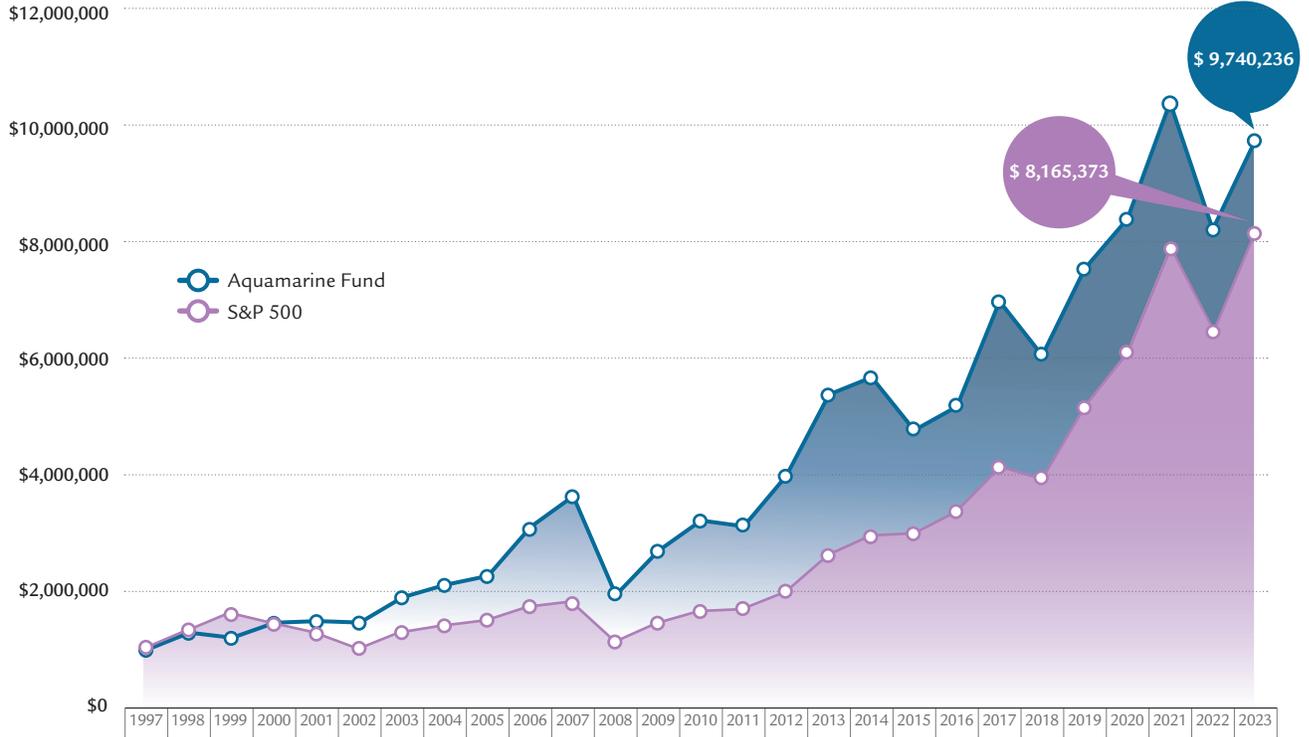
1. Accept the fact that, in any given period, I'm bound to underperform some other winning strategy that appears to be making other investors wildly rich in the short term.
2. Recognize that there will be pressure to stop doing what I'm doing and replicate what's been working brilliantly for these other lucky or skillful investors.
3. Resist that temptation.
4. Focus instead on sticking resolutely to the strategy that I believe will work well over the long run, despite these intermittent periods of underperformance.
5. Make peace with the reality that my long-term strategy will, on a regular basis, make me look and feel stupid over shorter periods of time.
6. Focus exclusively on taking actions that are consistent with my long-term strategy.
7. Look back in 10, 20, or 30 years and see how few of those high-rolling gamblers made it successfully to the finish line.

Our Grove of Oak Trees

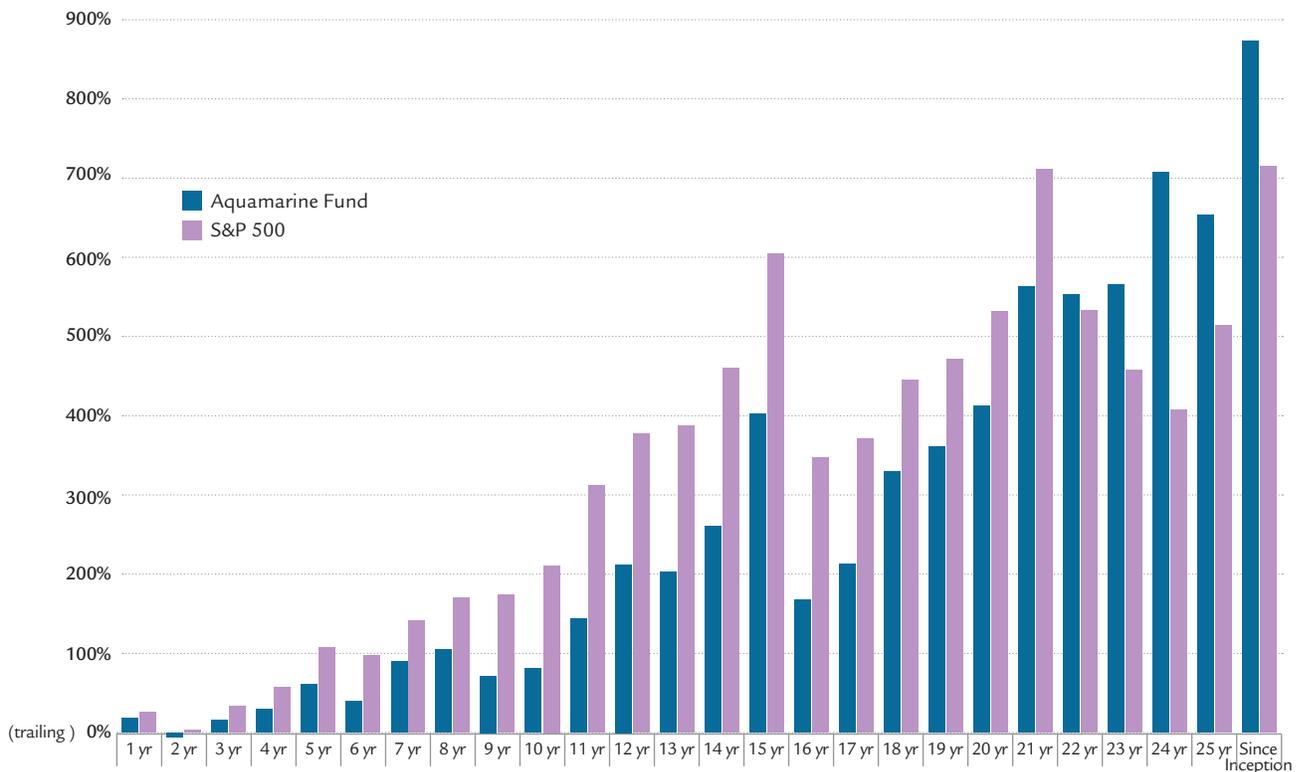
Our strategy at Aquamarine is built on a bedrock belief in the benefits of owning exceptional businesses that are highly likely to compound at an attractive rate for many years to come. At the core of our portfolio, we hold a fairly concentrated

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 26 Year Period 1997-2023



*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 2023. 2 year trailing shows the cumulative return for December 31, 2021 - December 31, 2023. 3 year trailing shows the cumulative return for December 31, 2020 - December 31, 2023.

WHILE I WOULD CERTAINLY LIKE TO BEAT THE INDEX, THERE IS SOMETHING FAR MORE IMPORTANT. I'D LIKE TO CONTINUE COMPOUNDING. BECAUSE COMPOUNDING IS WHAT MATTERS MOST. OVER TIME, COMPOUNDING WILL GET US TO THE PROMISED LAND.

selection of these long-term compounders, which occupy what I regard as the economic high ground. To put this another way, these companies remind me of oak trees—strong, resilient, and capable of enduring over long periods of time even under the most challenging conditions.

Our largest holdings include a patiently held collection of these sturdy oaks, each of them so deeply rooted in the global economy that they would be remarkably difficult to displace. For example, we have big positions in companies like Berkshire Hathaway, BYD Auto, American Express, Mastercard, and Bank of America, along with smaller positions in Moody's and Nestlé. I don't view anything as a truly permanent holding because circumstances change, and it's

dangerous to fall in love with your stocks or commit publicly to owning them forever. I prefer to think of these stocks as “core-for-now” holdings. That said, I'm comfortable giving these businesses the time and space to continue growing and compounding at a reasonable rate.

There's some risk that my desire to exercise the virtue of patience might tip over into the flaw of lethargy. But, in general, I've found that we're much better off when I don't meddle too much with our portfolio. Companies like Berkshire, Nestlé, and American Express may not be growing very rapidly, but they just keep grinding away year after year, and they steadily increase our stake along the way by buying back shares. We don't need to be in a hurry. We're not rolling dice with the high rollers in a casino. We're planting and nurturing our grove of oak trees.

Would our returns be better if, say, I sold some of our Berkshire stock and moved into something racier and more speculative? Maybe. But you have to decide whether you're in a get-rich-quick mode or, like Aquamarine, in a stay-rich mode. Berkshire, which accounts for about 19% of our assets, is the embodiment of steady, durable, persistent compounding. Over the past 25 years, our original investment in the company has grown from about \$13 million to \$66 million. My guess is that Berkshire will continue to perform well for a decade after Warren Buffett (who is 93) is no longer in charge. But when the time comes, I'll need to check in to see how his successors are doing and how decisions are made. At some point, the company and its exemplary culture are likely to decay. In the meantime, I see no reason to pare back this mighty—and growing—oak.

It might be helpful to share in more detail how I think about these nitty-gritty decisions about whether to buy or sell a stock—and, for that matter, how much to invest.

As you know, I'm constantly searching for businesses that can become long-term compounders, but I rarely find them. When I finally identify a strong contender, the question is: How much should I buy? At one point, before the Global Financial Crisis, Mohnish Pabrai talked about his ideal of a 10x10 portfolio—in other words, 10 positions of 10% each. For investors who are smart enough and calm enough, that might be fine. But in my case, I need to allow for the reality that there are so many things that I don't know and so many things that can go wrong.

With this in mind, I've come to the conclusion that investing 5% of our assets in a new position—at cost—is an appropriate level of risk for me and my investors. A 5% position is big enough that it can have a significant impact on our wealth, but it won't be devastating if the investment goes wrong and we suffer a 50% loss or even a total wipeout.

Not all positions make it to 5%. I tend to track 200 or so companies at various levels of granularity. Sometimes, there comes a moment when I realize that I won't learn more about a company unless I actually own it. So, I will initiate a small starter position. There is something about owning the shares that changes my relationship to the investment idea. I start to understand how the company is communicating with me. Once I own the stock, I continue to delve deeper—and I sometimes decide not to buy more. This happened with Alphabet, Alibaba, Prosus, and Daily Journal. In each case, we still own our starter position, but I never added to it.

Once we own a stock, I keep researching and monitoring the business to see how it develops. As part of my research, I read as much I can, talk to knowledgeable people, and make company visits. Of course, I'm just an outside observer, with no access to inside information. So, I make inferences based on the sum of my inputs, trying to reach conclusions as to whether the management is allocating capital rationally and intrinsic value is heading in the right direction.

I often get things wrong, despite my best efforts. For example, my investment in Seritage Growth Properties has been a notable failure so far, losing three quarters of its

value. Likewise, Alibaba has lost two thirds of its value since I purchased it. In both cases, I've considered selling to free up cash for a new investment, but I ended up holding on. Was I wrong to buy Seritage? Yes. But I still believe there's enormous upside potential and that the current CEO is doing an excellent job. As for Alibaba, China's tech industry has become a brutally tough part of the market, but I think the company should be absolutely fine in the end, and the stock is exceptionally cheap.

In general, I have a strong inclination to hold onto what we own, unless I see that the long-term value of a business has been impaired, or I realize that the management team are not the type of people I want allocating capital on our behalf. I'm also acutely wary of churning our portfolio to pursue the next bright, shiny object. Over the last quarter of a century or so, I've learned again and again that extreme patience is the name of the game.

Thankfully, despite my many mistakes and misjudgments, our winners have outweighed our losers by a huge margin. Just consider three of the most powerful long-term compounders in our portfolio: Mastercard, Bank of America, and BYD. I invested \$1.02 million in Mastercard and have watched that tiny investment grow to \$28.04 million. I invested \$5.18 million in Bank of America and have watched it grow to \$25.85 million. I invested \$4.99 million in BYD

and have watched it grow to \$42.54 million. I'm mentioning these successes not to be self-congratulatory but to give you a tangible sense of just how lucrative it can be to buy and hold great compounders for the long term, resisting the urge to tinker with them.

Winners like these turn into large, core positions that dominate the fund, so it might seem at first glance like I'm making big, aggressive bets in an attempt to construct a highly concentrated portfolio. At the end of 2023, our top seven holdings (Berkshire, BYD, American Express, Mastercard, Ferrari, Indian Energy Exchange, and Bank of America) accounted for almost three quarters of our assets. But all of these investments started out as relatively modest positions and then grew dramatically because of my willingness to let our winners run.

One of the greatest challenges of this investment approach is deciding whether to sell or trim a stock that has skyrocketed and become overvalued. I'm willing to live with moderate overvaluation, not least because I know how hard it is to buy a great business once, let alone twice. If a company is truly a long-term compounder, it may be worth holding even through periods of extreme overvaluation. In fact, studies show that the best multi-baggers have appeared to be overvalued for most of their trajectory. In retrospect, one of the costliest mistakes I ever made was to cash out of CRISIL, India's leading credit rating agency, many years too soon.

Still, you can't abandon prudence and discipline. Early in my investing career, I helped EVCI to do a debt-for-equity swap. That catalyst and the removal of the debt overhang resulted in the stock soaring more than seven-fold in a short period. I felt like a genius and

fell in love with the company. This was a mistake because it *wasn't* a true long-term compounder, and it was never going to live up to the inflated expectations embedded in the stock price. When a stock soars, the key question to ask myself is: What's the likelihood that this really is one of the great businesses, and not just a flash in the pan? The emotional rush that comes from a rapidly rising stock price can make it tough to see reality in a cold, dispassionate way, but if I have any doubt about the enduring quality of a business, it makes sense to take at least *some* of our money off the table.

One current example shows how challenging these decisions can be. It involves Ferrari, which we've owned ever since it was spun out of Fiat Chrysler in 2016. For all of the time that we've held this stock, I've regarded it as richly valued based on current

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, 2023:

Holding	Market Value \$	Percentage of Partners' Capital	Original Cost \$	Gain/(Loss) \$	Gain/(Loss) %
Berkshire Hathaway	66,425,147	18.86%	13,371,678	53,053,469	397%
BYD Auto Co Ltd	42,542,405	12.08%	4,986,800	37,555,605	753%
American Express	39,341,400	11.17%	10,907,959	28,433,441	261%
Ferrari NV	26,952,822	7.65%	332,807	26,620,015	7,999%
Mastercard	28,043,033	7.96%	1,019,194	27,023,839	2,651%
Indian Energy Exchange	26,663,460	7.57%	10,557,400	16,106,060	153%
Cash	22,830,095	6.48%			

earnings. Then again, Ferrari is an extraordinary, one-of-a-kind luxury brand—more than just a car company. So, I believed we were justified in holding on, despite the valuation. Finally, I sold half of our position during the Covid-19 crisis, deciding that it was sensible to free up some cash and reduce our risk exposure during a period of extreme uncertainty. That sale cost us a lot of money as the stock continued to surge. Thankfully, I sold only half of our shares back then. By the end of 2023, the value of our remaining stake in Ferrari had risen from about \$333,000 to \$26.95 million—an 8,000% return.

In early 2024, I trimmed our Ferrari position once again. On the one hand, Ferrari, like Hermès, is one of those rare luxury brands that are virtually impossible to recreate. On the other hand, the company could face significant risks in the coming years, including questions over the transition to electric vehicles. In the meantime, there's a heady sense among investors that Ferrari can do no wrong. Its exalted reputation was further burnished when Lewis Hamilton—a seven-time world champion in Formula One—recently announced that he's leaving Mercedes to join the Ferrari team in 2025, fulfilling his “childhood dream.”

To me, it seemed clear that I had to scale back our position in Ferrari, given that the whole world is cheering for the

I'M ACUTELY WARY OF CHURNING OUR PORTFOLIO TO PURSUE THE NEXT BRIGHT, SHINY OBJECT. OVER THE LAST QUARTER OF A CENTURY OR SO, I'VE LEARNED AGAIN AND AGAIN THAT EXTREME PATIENCE IS THE NAME OF THE GAME.

company and that its stock is priced for perfection. Even with a business this good, storm clouds will eventually appear. There are never just blue skies ahead. My decision may prove to be wrong or premature, but I have to maintain my discipline to ensure that we stay in the game no matter what.

This way of thinking is deeply influenced by the fact that almost all of my family's net worth is invested in the Aquamarine Fund. The extended Spier family is by far the largest investor in the fund.

For us, like you, the stocks that we own are more than trophies. They represent financial security for my family and for many good friends and loyal partners who have entrusted me with their hard-earned savings.

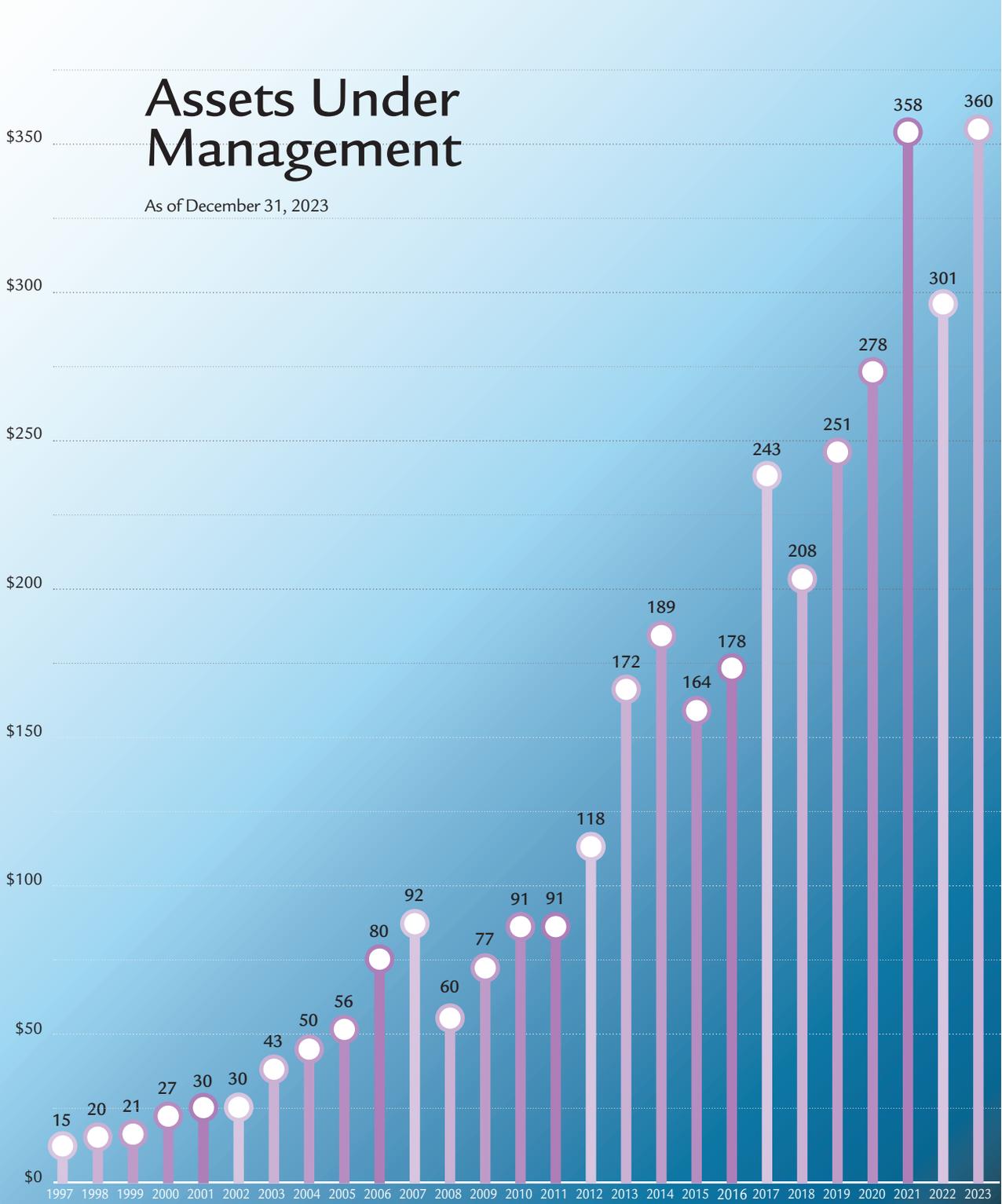
As I hope you can see, I'm not trying to optimize or be perfect, but to make reasonable decisions at the margins. Fortunately, I don't *have* to be the very best investor to do exceptionally well over time. What I've come to realize is that the key is really to get just a couple of big ideas right. In our case, the big ideas have been remarkably simple:

- (1) Focus on long-term compounding by buying and holding good businesses.

(\$ in millions)
\$400

Assets Under Management

As of December 31, 2023



(2) Reduce friction by resisting the urge to trade the portfolio.

In my experience, you don't even need to own the *best* compounders, though it would be wonderful if you did! You'll do extremely well over the course of your investment life if you simply hold *good* businesses that keep compounding over many years—so long as you avoid self-defeating behavior like trading too much, shorting, leverage, or living beyond your means.

This time-tested approach has enabled me to build considerable wealth for our long-time investors over the last 26 years. I briefly strayed from this path when I made a recklessly aggressive bet on Horsehead more than a decade ago. I won't do it again. Given my personality and my family's outsized stake in Aquamarine, it makes much more sense to stick with reasonable investments that can't kill us—and then leave the miracle of compounding to work its magic. This is a good way to live, and it's a reproducible strategy that should continue to work well for decades to come. This isn't a heroically bold strategy that aims to shoot the lights out, but it provides a very high likelihood of a good—and possibly excellent—outcome.

It's important to understand that this is the game we're playing, and to be comfortable that it suits your financial goals and your temperament, so you can stick with it and enjoy the benefits of sustainable, long-term compounding.

Our Indian Investments

Aquamarine's assets are largely invested in dominant businesses that have already demonstrated their resilience. That said, we also own a few smaller, riskier businesses that are less proven, but that appear to have tremendous upside potential. Going back to our tree analogy, you could say that our portfolio includes several giants oaks clustered at the heart of our garden (for example, Berkshire Hathaway, American Express, Mastercard, and Bank of America); a towering oak that's closer to the garden's edge (BYD, a fantastic Chinese business located in an environment that's riskier, both politically and economically); and a few younger, faster-growing saplings that could eventually turn into oak trees (CARE Ratings and Indian Energy Exchange).

I want to write briefly about these two Indian investments, CARE and IEX, because they both have the potential to become great compounders. Between them, at the end of 2023, they represented slightly less than 10% of our portfolio, with about 7.6% in IEX and 2.1% in CARE.

Warren Buffett and Charlie Munger have written in the past that they would rather have a lumpy return of 15% a year than a smooth path to a return of 10% a year. IEX has followed the lumpy route, taking us on quite a turbulent ride over the last five years.

As I explained in last year's shareholder letter, IEX is a strategically important company with compelling growth prospects. It runs an electricity exchange on which an excess of energy can be sold to other participants in India's energy market, allowing them to match supply and demand in an efficient manner. I first bought the stock in 2019 and rode it up as it quadrupled in 2021. Then, in February 2022, Russia invaded Ukraine. As a result, oil prices surged on the exchange, causing volumes to plunge as buyers sought cheaper sources of energy elsewhere. In the wake of this geopolitical turmoil, IEX's stock price dropped almost 50%.

As India's dominant electricity exchange, IEX is at the center of the transformation of the country's vitally important power sector. Its future should be bright, despite the reversal sparked by the war in Ukraine. But now there are new clouds on the horizon. Competitors, who are jealous of IEX's dominance, are seeking to

do an end-run around the company by getting regulations changed so they can muscle their way into this business by creating a rival exchange. These proposed changes fly in the face of a regulatory framework set up in 2003 and could lead to an epic debacle in India's energy markets, including power outages, misallocation of resources, and embarrassment for India's Central Electricity Regulatory Commission (CERC).

I've written to the Commission to express my belief that these regulatory changes could create mayhem—if they allow them to go through. Given that the existing exchange system is working well, why mess with it? My hope is that cooler and more rational heads will prevail, that any rule changes will be incremental, and that this trusted system won't be undermined by a self-serving interloper. Having previously invested in exchanges like ITC, I also believe that the dominant exchange is likely to win out no matter how reform happens. This was certainly the case when liberalization came to the trading of stocks.

Still, there is clearly more uncertainty for IEX than I had expected. Some regulators seem determined to risk dragging India back to the days when it was perceived as a country that was

incompetent at capitalism and destined to be eternally poor. Whatever happens, IEX is still likely to play a prominent role, but its prospects would be diminished—along with our returns—if this regulatory risk becomes a reality.

This situation highlights a perennial challenge that I face as an investor. It's hard to tell whether a company like IEX can truly become an oak tree, as I believed, or whether it's really just a sapling that enjoyed a growth spurt and could still get blown down by a storm. This doesn't mean that we shouldn't own it, but it does mean that our position size should be modest enough to reflect this uncertainty. I'm sure to make some mistakes in picking these potential multi-baggers, and I want to sleep well at night. So, I'm happy to invest a maximum of 5% at cost, and I will avoid dreaming that these promising saplings can ever become a Berkshire Hathaway.

In a perilous world, there's also a strong argument for staying closer to the center of the garden, favoring businesses in more developed markets. This is a lesson I was reminded of recently when I spent time with my Harvard Business School classmate Sir Chris Hohn, who has made billions for himself and his investors while focusing his attention on about 200 companies in North America and Western Europe. Over time, this way of thinking may lead us to lighten

up a bit on stocks like IEX in India and BYD in China. As Chris has shown, there's plenty to do at the center.

That said, I'm extremely optimistic about the future of CARE, a small Indian company that has the potential to make us many times our investment. We currently own about 3% of the company. In general, it pays to own the number one player in an industry. When it comes to Indian credit ratings, that spot belongs to CRISIL—by quite a margin. But I've also come to realize that it often pays to own the number two. Companies like PepsiCo and Bank of America have prospered mightily while playing second fiddle to Coca-Cola and JPMorgan Chase. Among other reasons, the challengers often have more room to improve, or they may be hungrier, or they may push harder to find great partners than if they were sitting comfortably in the lead position.

CARE is the challenger in India's ratings business. It has come a long way since it was founded, but there is still a long way to go. If all goes well, the company will make an enormous contribution to India and will make a lot of money in the process.

My case for owning CARE starts with India's sovereign debt rating. The country currently ranks as the world's fifth-largest economy, or the third largest based on purchasing power parity; it has a debt-to-GDP ratio of around 82% (considerably lower than the ratio in, say, the US and Japan); and it borrows predominantly in Indian rupees. Despite these and many other strengths, India has a BBB- credit rating from S&P Global, which means that the country sits just a notch above non-investment grade. Amazingly, countries like the Philippines, Thailand,

and Botswana all have higher credit ratings than India, which is one of the most dynamic powerhouses of the global economy. This seems preposterous to me and makes no sense.

There are many reasons for this, but at least some of them are subjective and dubious. Part of the problem is that the people who judge India's creditworthiness are sitting in New York and London, where they work for the big three global ratings agencies: S&P, Moody's, and Fitch. It's an outmoded form of foreign domination over a powerful nation that broke free from the British empire in 1947. In China and Japan, local ratings agencies have given a much higher rating to their home country's sovereign debt than the ratings given by the big three. It's my view, and the view of many other observers, that India's homegrown ratings agencies should be able to rate the country's sovereign debt—and should also rate other countries' sovereign debt.

This would be good for India, for the depth and breadth of its financial markets, and for the projection of the nation's soft power. What's more, it would also be beneficial to break the stranglehold maintained by the big three, which were shamefully

AMAZINGLY, COUNTRIES LIKE THE PHILIPPINES, THAILAND, AND BOTSWANA ALL HAVE HIGHER CREDIT RATINGS THAN INDIA, WHICH IS ONE OF THE MOST DYNAMIC POWERHOUSES OF THE GLOBAL ECONOMY. THIS SEEMS PREPOSTEROUS TO ME AND MAKES NO SENSE.

complicit in the irresponsible behavior that caused the Global Financial Crisis. Having a reputable, homegrown Indian credit ratings agency far away from the traditional capitals of New York and London would be a small step in redressing the global imbalances and injustices that have historically worked against India. It's high time.

Will it happen? At some point in the coming years, it's eminently possible. For now, I'm in regular contact with CARE's management, and I'm trying to play a positive role as an ally and advocate, making the case in private and public for why this needs to happen. It's an example of "friendivism" on my part. If you're reading this and agree with my views, please get in touch. I'm looking for support and would be delighted to band together.

There's no guarantee of success in this endeavor, but I'm confident that CARE is generally headed in a positive direction, whether or not this sovereign ratings opportunity materializes. Most important, I've sized the position appropriately. As I write this, we have a little less than \$10 million riding on CARE, whose stock price has more than doubled since we bought it. If

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everything pans out and it turns out to be a 20-bagger, I'll regret not having owned a bigger position. But if, for whatever reason, it doesn't work out, it won't be painful. This is a good example of the way we plant a bunch of seeds in fertile ground and wait to see how they grow.

Aquamarine's Value Proposition

As I reiterate each year, my principal obligation is to build wealth prudently, responsibly, and sustainably for all of our partners in the Aquamarine Fund. I take great pleasure in the fact that you and I are on the same side and that I'm rewarded only if I perform well on your behalf. This sense of partnership isn't just talk. It's baked into the fee structure of the fund.

I continue to believe that the Aquamarine Fund offers exceptional value to its investors, with our value proposition built on three pillars:

- Alignment of your interests and mine, with the fund genuinely structured as a partnership. As you know, the overwhelming majority of my family's life savings is invested in the fund. Why is this so important? Because it means that I eat my own cooking and am profoundly committed to the ongoing success of this fund, which is the rock upon which my family's financial security is built.
- Low or zero management fees. I'm dedicated to

providing the best possible offering to our partners. Above all, I strongly encourage investors to take advantage of the shareholder classes that charge no annual management fee. I should mention that members of the Spier family pay a 2% annual management fee. This reflects my commitment to providing an exceptionally fair deal for the fund's partners.

- A conservative, long-term, value-oriented approach in which we partner with the best enterprises we can find, compounding wealth in a disciplined and durable manner.

Assets Under Management, Subscriptions, And Redemptions

In 2023, we received \$13.9 million in new capital, along with redemption requests for \$10.7 million. I regard this as part of the normal ebb and flow of assets as our investors' life circumstances change. While I'm always sorry to see investors leave the fund, it gives me immense pleasure to see friends and family benefiting from the appreciation of their holdings over the years. We ended 2023 with \$361.3 million in assets, which gives us sufficient scale to run the fund comfortably, but still allows us the flexibility to react nimbly when necessary.

Aquamarine's Team in Zurich

My mission of compounding wealth for the partners of the Aquamarine Fund would be infinitely harder if it were not for the superb team working alongside me here at our office in Zurich. They handle countless business and administrative tasks with tremendous skill and scrupulous care, and they create a calm and cheerful environment that allows me to focus quietly on my day-to-day work of managing the portfolio. I feel immensely lucky to have this team, and I couldn't be more grateful to them.

As anyone who deals with Aquamarine soon discovers, David Jud is a supremely capable and dependable figure at the heart of our management team. In 2022, I promoted him to Chief Operating Officer and Chief Financial Officer, giving him responsibility for everything from finance to compliance. This is a role that David had been brilliantly trained to perform over several years by Mark Chapman, who took great pleasure in training him. It's been a priceless gift for

David to receive this one-on-one guidance from Mark, whose vast wealth of experience includes many years as the Managing Partner in the Virgin Islands for Deloitte & Touche.

David couldn't have had a better teacher than Mark, but he has also received constant support and encouragement from Chantal Hackett, who always recognized his great talent and character. David, who has worked at Aquamarine since 2014, is too modest to draw attention to his impressive background and accomplishments, so let me just mention a few highlights: He studied mathematics at the world-renowned University of Zurich; he served as a quartermaster in the Swiss Army, where he honed his impeccable logistical skills; and he earned the Chartered Financial Analyst accreditation in 2023 while working full-time at Aquamarine. It's been a delight to watch David grow into this crucial role.

Since joining us in 2018, Chantal has also become a central pillar at Aquamarine. As our Chief of Staff and Investor Services, she manages the daily business of the office here in Zurich; she maintains our relationships with existing investors and onboards prospective investors; she organizes corporate events such as VALUEx Klosters, VALUEx BRK, and our annual meetings; and she manages my calendar, helping in every way to keep my life on track. Her interpersonal skills, her boundless energy, and her

organizational capabilities are a wonder to behold.

One of Chantal's many gifts is that she's also incredible at managing and nurturing talent. She works closely with Mariana Baldé, who runs our mailroom and database and handles many tasks around the office. Mariana is unbelievably efficient, and it's been a joy to see her going from strength to strength in recent years. We've also been very fortunate to have Daan Voskuil here, contributing to everything from analytical research to organizing my library. It's made a world of difference to be able to count on this team's seamless organizational support in everything I do.

As many of you already know, there has been a changing of the guard at Aquamarine in recent months, with Mark Chapman's retirement from the firm at the end of 2023. After many years of invaluable service at Aquamarine, he and I both felt that it was the right time for him to transition to a non-executive, non-supervisory role. This frees Mark up to focus on his many activities in the British Virgin Islands, including his family, the Chapman Property Group, the BVI Olympic Committee, other BVI sporting organizations, and more.

This transition also allows Aquamarine to centralize our

management and decision-making entirely in Zurich. It completes a process that began with my move from New York to Zurich in 2009. Now, for the first time, our entire team is together in one place, instead of being dispersed around the world in the US, the Virgin Islands, and Switzerland. Sharing a single office in Zurich and working in a single time zone is extremely helpful in terms of efficiency and cohesion.

Mark remains a shareholder in the Aquamarine Fund, having taken the bulk of his remuneration in shares. He also remains a much-valued adviser to me and my family. In the meantime, it's impossible to convey the full extent of his contributions to Aquamarine, to our fund's partners, and to the Spier family. Over the last few years alone, Mark's many achievements include:

- Overseeing a change in our regulatory framework, which involved relinquishing our SEC license and moving instead to oversight by the Swiss Financial Market Supervisory Authority (FINMA), which is renowned for its exceptionally stringent regulatory standards.
- Ensuring our compliance with the Foreign Account Tax Compliance Act (FATCA).
- Closing our New York office.
- Teaching and training David Jud in the functions of CFO and COO.
- Finding and hiring Chantal Hackett, who, like David,

has become an integral member of the company's management team.

- Implementing formal structures and processes within the company while also ensuring that I would have the time, space, and flexibility to think creatively.
- Developing and structuring the VALUEx conference, which has provided me with an amazingly rich ecosystem of friends and fellow investors who share insights and ideas.

In short, I will be forever grateful to Mark for taking me under his wing over all these years and sharing the fruits of his rich experience and hard-earned wisdom. It's a reflection of his enduring contribution that he has left us with an extraordinary team that he did so much to build and train.

Thanks

I feel extremely fortunate to have such an exceptional group of shareholders. The Aquamarine Fund's base of sophisticated and loyal partners has stood firm over many years. This has enabled us to take advantage of the great buying opportunities that intermittently arise during times

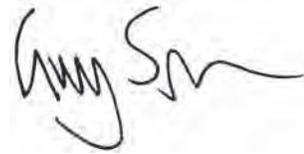
of heightened uncertainty and volatility. It has also given me remarkable freedom to focus my attention on the task of generating good long-term returns. This mindset is a great competitive advantage in an investment world that's increasingly obsessed with the short term.

Many of the partners in our fund came to us through recommendations from existing shareholders who were pleased with our performance, our culture, and our alignment of interests. 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 always pleased to partner with the right shareholders—that is to say, patient, value-oriented, long-term investors who would like to join us in compounding wealth over many years, without unnecessary risk. I'm particularly fortunate to partner with investors who have valuable experiences, insights, and networks of their own. I've enjoyed an ongoing dialogue with many of our partners about different industries and companies and have found

their views extremely thoughtful and enlightening. Whenever we can welcome such people into the Aquamarine Fund, I regard them as a very valuable addition.

Thank you for joining me on this journey. I will do my utmost to be worthy of, and to reward, the trust you have placed in me.



Guy Spier
Managing Partner