GIVERNY CAPITAL

ASSET MANAGEMENT LLC

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To our clients & friends:

Twenty-one years ago, my wife gave birth to our son. Moments after the birth, a nurse presented him to me, naked and crying. I cradled him in my arms, spoke to him softly, and he promptly urinated on me. It was the happiest moment of my life and a fitting start to the wonderful and occasionally challenging journey that lay ahead.

This month, I launch a new business and investment portfolio in partnership with a terrific firm, Giverny Capital Inc., led by Francois Rochon. It's not quite as momentous for me as that winter morning in 1999, but it's a pretty great feeling. And yes, recent events in the stock market remind me that this new firm, Giverny Capital Asset Management, or GCAM, sets sail in a tempest.

Upon hearing of my plans, a startling number of friends and family blurted out, "Your timing is terrible!" And that was *before* events of February and March. Maybe they're right. We just closed the books, with a thud, on an eleven-year bull market in the US, including the strongest annual return in six years with the Standard & Poors' 500 Index up 31% in 2019. Followed by … this. I feel like the guy who shows up at a party when the floor is sticky and the coffee brewing. Or worse, as the revelers start taking ill.

It will not come as news to many of you that Mr. Market is a manic depressive, capable of delivering irrational exuberance followed by bitter despair, sometimes in the same season of the year. Right now, it's not so easy to argue with Mr. Market's mania. As I write this in late March, it seems clear we are heading toward recession. It's not clear how deep the recession might be, or long it could last, and stock market investors tend to dislike uncertainty even more than bad news. If the spread of novel coronavirus [COVID-19] continues to force social distancing and quarantines, along with the human fatalities conceivably could be wide swaths of the economy. We don't know even basic facts such as how many people have contracted the virus, making it impossible to calculate potential lethality or to calibrate the right response. Erring on the side of caution by shutting down the economy probably is the correct answer, but government is making hard decisions with imperfect information.

Even as the stock market has felt unmoored, I try not to lose sight of the fact that equity investors get paid for tolerating volatility. Stock market returns in the US have hovered around 10% annually for a century. That's an impressive rate of return and it exists partly because periodic recessions and crises cause excruciating pain, terrify people and serve to keep equity prices low relative to the future prospects of American business. This is worth remembering: over the past 100 years, the US stock market has usually been attractively priced relative to future returns.

Which brings me to the thesis of both this letter and this new business. I am launching GCAM because I believe that while the market continues to get more efficient, it is far from perfectly so. Computer-driven trading models seem to have increased the tendency of markets to move to extremes – in the short-term the market is more of a voting machine than ever. But in the long-term, it remains a weighing machine. There remains a niche for the investor who takes advantage of the occasional bad votes to acquire valuable assets for less than their true weight.

It seems obvious to me that over time, visionary owner-managers are more likely to find ways to thrive than conventional management teams. Businesses with extreme competitive advantages will find ways to outperform their peers, maybe now more than ever. I believe a long-term bias to disruptive and profitable businesses with engaged ownership and the ability to reinvest capital should yield satisfactory performance over time, no matter how much pain we suffer in the short-term.

Ultimately, stock market returns and earnings growth converge, and so my partners and I will always be focused on situations where we benefit as that convergence happens. GCAM endeavors to own profitable companies that are not simply attractive compared to their current valuations, but in our estimation have a chance to compound their earnings for many more years.

As many of you will know, I was fortunate to work at another fine investment firm, Ruane, Cunniff & Goldfarb, for 20 years. I departed at the end of 2018. I enjoyed a sabbatical that let me travel and pursue a few self-improvement projects. I spent much of my free time thinking hard about the kind of portfolio I wanted to build and live with during the next stage of my career. As part of that endeavor, I met with many talented investors and fine firms during 2019, sitting in on their research meetings, studying their portfolios and chatting with their leaders about process and ideas. It was an invigorating year and I feel lucky to have had this opportunity.

In the end, I didn't so much have an epiphany as a chance to distill two decades of investment thought and lived experience. I have a former colleague who likes to say, "It's always the humans!" And that turns out to be the answer. It's management that matters most. No matter how much work an investor puts into an idea, the future remains unknowable. In a capitalist economy, creative destruction is always happening. The best insurance against creative destruction is to partner with management teams that do the creating. That is, smart, energetic, honest people who are acting in accordance with a vision, and who have their own financial futures at stake. Over time, great people generate the best results in pretty much every undertaking.

A second experience I've thought about a lot is that investing is a game of mistakes, and even the best portfolios tend to be driven by a small number of their constituents. Bill Ruane, my former boss and one of the all-time great investors, used to say the best investors in the world "only" get it right three-quarters of the time. No matter how hard one works to understand a company and assess its likely future returns, an all-star investor will be wrong one-quarter of the time. One must buy carefully, with a full margin of safety, to minimize the harm of the inevitable strikeouts.

Bill was right, but perhaps not precisely so. I was a mutual fund co-manager for 13 years. Our research process was rigorous and our decision-making deliberate. And in my experience, what drove performance over many years was less a high batting average than a relatively small number of "home runs," stocks that outperformed the Index by wide margins over many years. In baseball terms, one's slugging percentage determines investment outcomes more than one's batting average. Put another way, it is difficult to outperform the market by outsmarting it every day. It's more realistic to think in terms of making relatively few decisions, each carefully considered, with an understanding that if we get a few big ones right, we should do very well.

That brings us to the issue of duration. In my experience, our best ideas weren't simply underpriced on the day we bought them. They were such good businesses that they generated superior performance for many years. Essentially, they were undervalued for a long time.

If the market were truly efficient, that shouldn't happen. A stock I followed closely for many years, the TJX Companies, has risen nearly 20-fold since the summer of 2000, driven mainly by extraordinary earnings growth. Yet for most of that time, the P/E multiple was modest, generally below the market average. I listened for years (and years) as skeptics questioned how a business selling surplus department store apparel could continually find enough inventory to buy. A first-year economics student could tell you that eventually supply chains rationalize. The doubters didn't understand that the economics of producing too many shirts and dresses are quite different from the economics of producing too many cars or trucks. In a business where much of the product is manufactured overseas on six-month lead times, with a very low incremental costs of production, it's far better to make too much knowing you might need TJX to step in than to make too little and miss the fat profits that follow when a department store reorders a best-seller. The apparel vendors do not help investors understand this market dynamic, as they sometimes deny selling their products to TJ Maxx even when their goods are in the stores!

I figured out that TJX would never run out of things to buy in a prosaic fashion. I went to apparel trade shows, met with vendors and asked how they thought about off-price. Over time and many conversations, it became clear that these vendors didn't think of TJX as a buyer of last resort, but as a vital partner. It costs very little to overproduce and vendors know off-price shoppers are value-conscious and may not visit mall-based stores. TJX not only is a safety valve for surplus, it is an outlet for incremental volume. The vendor is "overproducing" knowing full well that the buyer for the end of the run is going to pay less. Today, I believe the market realizes that virtually all large US apparel vendors have sizable budget lines for off-price, whether they admit it publicly or not. There will never be a shortage of goods to buy, because it's smart business to overproduce. TJX has not traded for a deeply discounted P/E multiple for a few years now, but the misperception lasted for a very long time.

That's a long digression to make an important point. The market is fairly efficient, but remains capable of misunderstanding – and hence mispricing – a security for years. Mr. Market doesn't make tons of mistakes but he occasionally commits a whopper. It follows, then, that trying to outsmart the market by trading around positions or turning over an entire portfolio every year or two is unlikely to generate superior results, especially when factoring tax considerations into the equation. For sure, there come moments in the life of even the best businesses when the future prospects look materially worse than the historical results. Then, one must sell. Pragmatism teaches us that the right holding period for a security will almost never be "forever." But the best companies tend to deliver the nicest surprises over the longest timeframe, and when we find such a company our holding period ought to be long.

In turn, businesses that get underestimated often have quirky business models, good management and positive employee cultures. Often, though not always, that management team is headed by a founder or has a founder still involved. These companies aren't mispriced because the market doesn't appreciate quality. Rather, it is very hard for the market to assign a future value to the likelihood of consistently superior execution and decision-making over many years. We believe we can improve our chances of outperforming by investing behind the best decision-makers. And again, we think the best decision-makers tend to be owners with their own financial futures at stake.

While I absolutely subscribe to the theory that we must be careful about what we pay for a security, that mindset is more about defense than offense – minimizing the damage from the inevitable strikeouts. I am pretty sure that in five years I'll be happy I was buying stocks in mid-March 2020, but the primary factor in GCAM's long-term performance won't be timing. It will be individual security selection: did I choose long-term growers? Did I partner with the right people?

I don't want to understate the difficulty in assessing the subtle gradations that separate a good management team from a very good one from a great one. Especially when companies are relatively young or when they're allocating a lot of capital to promising but unproven ideas, it can be very hard to assess the likelihood of long-term success. My partners and I won't always get this right no matter how many trade shows we attend! But assessing management is the fundamental exercise, more than any financial calculation. It's what we intend to spend most of our time doing, because when we marry a strong business model to a top-flight and committed management team, the potential to create value over time rises geometrically.

The good news for long-term investors is that the market of active stock pickers is, to a remarkable degree, hired, fired and compensated based on short-term performance. Active managers are plenty smart, but they're usually more focused on short-term reality than long-term opportunity. They flood into and out of ideas, and even into and out of the stock market, a bit like the fight or flight reactions of prey animals.

This happens for good reason: first, human beings for most of history *were* prey animals. From an evolutionary standpoint, humans are better off overestimating threats than underestimating them. This is part of the reason why the stock market can return 10% annually for a century. We're constantly overestimating threats. [Headline you will never read: *Future usually turns out okay!*]

The short-term investor is intensely focused on the present. But this focus puts one at extreme risk of missing out on the future. If a short-term manager's best holding is 10% overvalued on a given day, he sells it. For good reason: it might underperform next quarter. But since the best companies deliver the nicest surprises over time, that business may never be undervalued again. In fact, the manager who loves to trade around his positions might be right more often than he's wrong; but the ones he trims that never come back to him cause more damage than all the small-scale trading successes. If your performance is driven by home runs, why bunt?

GCAM will be different. I am convinced that in a fairly efficient market that is very good at looking out six months, the best chance an investor has to outperform is to align oneself with dynamic managers who may either be underestimated by the market, or who are just so good that they stand a fair chance of outperforming expectations of people focused on near-term results. My Giverny Capital partners have been successful for more than 26 years following this philosophy. At GCAM, my goal is to own a portfolio of 20-30 stocks that is heavily skewed toward owner-oriented companies that have a chance to grow for many years. I am particularly fond of business models that have proven difficult to copy.

I am a voracious reader of investor letters myself, and I will confess that I think of myself as a good parser of them. Managers often talk about their long-term orientation, their bias to quality and their fealty to Ben Graham and Warren Buffett. But the key test is not what the manager says, but what he does. Ultimately, the portfolio tells us who the manager really is. And so, I'll review GCAM's initial portfolio and allow readers to assess the connection between my rhetoric and behavior. All stock weights are as of the market close on March 25. The market has gyrated recently and these weightings are changing by the day.

Our largest holding at inception is Alphabet, representing 7.7% of the portfolio. The Google search engine advertising business strikes us as possibly the best business model on the planet. Management has used Google's enormous profit engine to reinvest in the research and development of artificial intelligence, autonomous driving, cloud computing and other platforms for the future.

For the decade ended 2019, Alphabet stock returned 16.9% per year, well ahead of the 13.5% return for the S&P 500. More importantly, Alphabet's earnings per share compounded at 16.7% for the decade vs. 9.8% for the Index components. We like this math! On top of this, Alphabet has grown its spending on Research & Development much faster than revenue in recent years, pressuring its operating margin and earnings growth. For 2020, we think Alphabet's R&D spend once again will grow faster than revenue and profit – though amid the current COVID-19 pandemic we hesitate to guess about this.

While it is possible that a portion of this R&D spend is being wasted on moonshots that will never come to fruition, we think it more likely that several of Google's seedlings start generating profits this decade. We don't believe Alphabet can grow EPS by nearly 17% per year for another decade, but we do think its earnings power is significantly in excess of its reported numbers. As its platform investments either start contributing to profit or stop consuming so much investment, Alphabet should be able to maintain a healthy growth rate for years. Perhaps one day Alphabet may find an opportunity to invest its $120 billion cash balance, nearly one-sixth of the market capitalization.

Our second largest holding is Carmax at 6.6% of the portfolio. Carmax has one of the more deceptively good business models I know. Selling used cars in a no-haggle environment doesn't sound very hard. But to date, no one else has been able to copy the model profitably. Many have tried. It's possible to undersell Carmax, but it's much harder to undersell Carmax and also acquire trade-ins efficiently, recondition them for resale, provide a fair financing offer to customers and maintain trust, while earning a healthy profit. Carmax has gobbled up market share almost continuously since its founding and roughly quadrupled its earnings per share over the past decade. Yet it still holds only about a 2% share of the enormous U.S. used car market.

Recently, Carmax has begun selling more cars via the Internet, which could further lower its costs while reaching more customers. Test markets with Internet sales and store-based sales have generated stronger sales than markets with stores only, suggesting Carmax's market share gains could accelerate as it rolls out Internet sales nationwide this year. Carmax has warned that its so-called omni-channel initiative will require increased investment for a couple of years. We're happy to see management make this investment and believe this company is not close to maturity. Carmax shares have fared poorly in the current market rout. If people are quarantined, they can't buy cars. This is expensive inventory to have sitting on lots and used cars seem to decline in value by about $10 per day. So Carmax may be in for a rough patch as its inventory sits in the sun and loses value. Shares have been wildly volatile this month, losing half their value before rebounding a bit this week. We're content to hold Carmax as it builds a dominant franchise over time.

Our third-largest holding is Berkshire Hathaway at 6.5% of the portfolio. We feel fairly confident saying Berkshire will not be GCAM's performance leader in the years to come. It is so large that CEO Warren Buffett's investment options are limited to giant companies, which themselves often have limited prospects for future growth. Similarly, the current business mosaic consists of mostly mature US businesses that do not set the heart to racing. But that steady portfolio throws off enormous amounts of cash for Mr. Buffett to reinvest and at a recent quote of $180 for the B shares, the whole collection trades for about book value at the end of 2019. We view Berkshire as something of a hedge against a prolonged recession – it has more than $100 billion in cash it could invest and past experience shows us that beleaguered CEOs trek to Omaha, hat in hand, looking for Berkshire's help in troubled times.

In recent years, Berkshire's new investments have not performed up to our expectations. For every Apple, there has been a Precision Castparts or a Kraft Heinz. But we don't lose sleep owning this collection of good companies attached to a wheelbarrow filled with cash. We would be thrilled if Buffett dedicated billions to stock repurchase at current prices, but short of that, we'll watch the cash pile higher in our wheelbarrow.

Progressive Corp. is our number four holding, at 6.0%. Progressive competes in the crowded and commodity-like auto insurance industry but has developed over decades both superior underwriting capabilities and an ability to sell auto insurance direct to consumers, which lowers its cost structure. Today, Progressive consistently earns the highest underwriting margins in auto insurance and grows faster than any of its major rivals. We believe its heavy investment in telematics over the past two decades has widened its lead in underwriting vs. all comers. While others can duplicate the investment in telematics, the value is in analyzing the data, including thinking of new ways to use it – and here Progressive's lead will not narrow until others have years of data in hand and the scientists to parse it.

It's fair to wonder whether auto insurance is a long-term declining industry, based on safety advances in cars and the potential for autonomous driving. There is a welcome trend to fewer accidents on the road. But today's cars have so many sensors and cameras in their bumpers and mirrors that each accident tends to be expensive to resolve. In auto insurance terms, accident frequency is down but severity is up. And while autonomous driving is coming, it probably is not coming soon. Americans bought roughly 17 million new cars and trucks in each of the last six years. Many of those vehicles will be on the road into the 2030s. And ride sharing may be creating *more* miles driven annually, not less, as some passengers call for an Uber or Lyft rather than take public transportation. We'd stipulate that eventually auto insurance will become a sunset industry, but we think Progressive can grow for many years before this happens.

We have a 5.2% position in Constellation Software, a founder-driven software conglomerate that has allocated capital at a genius level for many years. Chairman and CEO Mark Leonard has done something incredibly rare, which is to create a senior leadership team of strong capital allocators who are always on the lookout for small software companies that would fit nicely inside Constellation. Serial acquirers typically have modest returns on invested capital, but Constellation boasts a return on invested capital in excess of 30%. This is an expensive stock, but I am very content to let this team invest its cash flow on our behalf. If management can maintain anything remotely close to the 30% return while investing an incremental $600 million or so annually, it won't take long for Constellation to grow into, and then out of, its current valuation.

Our top five stocks at inception represent 32% of the portfolio. These are sizable positions, taken because we believe strongly in the long-term outlook for these companies.

Our second five represent 23% of the portfolio at inception. This group include Charles Schwab, SS&C, Heico Class A shares, Markel Corp., and Arista Networks. The weights here range from 4.9% for Schwab to 4.0% for Arista.

At Charles Schwab, the eponymous founder's vision of delivering great service to individual investors at low cost has aged beautifully. Recently, Schwab cut most trading commissions to zero, a customer-friendly move that will cost it about 7% of annual revenue and some loss of profit. Less diversified competitors, however, faced the loss of up to 25% of revenue, a hit they could not afford. Schwab next agreed to buy top competitor TD Ameritrade in a deal that will create a technologically advanced firm serving both retail investors and registered investment advisors. Talk about making your own luck!

Schwab's greatest asset today is not low costs, but investor trust. It has grown new brokerage accounts at about a 6% rate for years, and we don't see that slowing. In fact, we believe Schwab has grown new brokerage accounts at an accelerating rate in March, even with most of its branch offices closed. The stock has been punished recently because its earnings likely will decline as interest rates trend toward zero – Schwab earns most of its profit from the interest margin spread it earns on customers' cash deposits. But eventually interest rates will normalize above zero and Schwab will keep growing organically, so long as it maintains that bond of trust. It earned $2.67 per share in 2019. It may well earn less in 2020, but I feel sure the combination with Ameritrade will create a firm with significantly greater future earnings power.

SS&C is a founder-driven company that owns much of the software used by the investment industry to manage trading, client accounting, fund administration, transfer agency and other back office functions. Founder and CEO Bill Stone owns about 12.5% of the company. I remember the day at my old job when I realized that SS&C owned every service provider we used to run our business: our trading software, client accounting system, transfer agent, etc. I felt in me a little surge of both dread and greed!

What especially piques my interest is that while SS&C is very profitable, many of the banks offering custodian and other back office services have exited over the years. There is a shrinking pool of competitors, high barriers to entry in the form of regulation and required technology investment, and a relatively low cost to the end customer. I can say confidently that investment firms find it difficult to switch fund administrators or client accounting software. The result is that SS&C has a sticky user base and some pricing power. Skeptics posit that SS&C will struggle as active management declines, but Stone responds that SS&C is not paid based on assets under management but based on trading and transactions. Every financial transaction must be recorded. There is no sign that transaction volumes across mutual funds, hedge funds, private equity, banks, healthcare and other financial institutions are in decline. SS&C has grown its adjusted earnings per share at a 20% rate for the past decade yet typically trades at a discount to the S&P 500 multiple.

Heico has been one of the best performing stocks in the US over the past 20 years, and we feel lucky to have bought it at recent prices. Run for three decades by Laurans Mendelson and his sons Eric and Victor, Heico has pioneered the market for private label aftermarket parts for the aerospace industry. It has made scores of small acquisitions of niche parts manufacturers and today has an extensive parts catalog and unparalleled skill at working with the Federal Aviation Administration (FAA) to get approval of new products. Giverny Capital has owned Heico for years, but the stock generally is so expensive we did not hold much hope of establishing a position for GCAM. We responded to the recent decline in the Heico Class A shares by buying a significant position. Undoubtedly, airlines are going to fly many fewer miles this year, and consequently buy fewer spare parts. But long-term, it feels inevitable that FAA-approved private label spares will take share from OEM parts, given the substantial price disparity. Like Carmax, Heico has a low-single digit market share in an enormous industry. It grew its operating income from $90 million to $460 million over the past decade, and in our estimation can grow for many more years. The Heico Class A shares have identical economic rights to common shares, but fewer voting rights, and typically trade at a discount.

Markel Corp. is an insurance company very much modeled on the example of Berkshire Hathaway. Like Berkshire, it has a stellar record of investing its profits and float, the premiums it holds in cash as it waits to pay future claims. This investing prowess in turn provides it with more capital with which to grow its insurance operations. At year-end, Markel's equity portfolio included more than $7.5 billion of good-quality stocks – sadly, their quoted prices are a lot lower today. Markel's investments, including a large bond portfolio, threw off more than $450 million last year in interest and dividends alone. At a recent share price of about $800, the interest and dividends alone represent a 4% yield on the stock.

In recent years, Markel has started buying whole businesses – much like Berkshire – and today it generates $2 billion in revenue from a dozen wholly-owned businesses inside Markel Ventures. There is some risk these smaller businesses could be damaged by a prolonged recession. But Markel has four income streams: insurance underwriting; dividends and interest from its investments; income from Ventures; and capital gains from its stock portfolio. Importantly, we do not believe Markel has significant underwriting exposure to business interruption or event cancelation insurance.

Arista Networks makes switching equipment and routers used by cloud computing titans Microsoft and Facebook, as well as large data centers and corporations. Arista competes with the formidable Cisco Systems by building innovative and less expensive hardware that it combines with Linux-based operating software to make it easier for customers to operate their data networks. The growth of cloud computing and hyperscale data centers has been a boon to Arista: from 2015 to 2019, Arista nearly tripled revenue and grew operating profit by 440%.

While Arista has several thousand customers, Microsoft and Facebook generate about 40% of revenue as they invest massively in their cloud networks. Recently, these two giants have slowed their rate of spending, causing Arista's stock to tumble. There is risk in this level of customer concentration, but we think the growth of cloud computing and large-scale data centers means these two and many others will be investing heavily in their networks for years. And we are persuaded that Arista's model – great hardware controlled by user-friendly software that allows customers to manage their rapidly growing data center networks – is a winner.

The next 15 stocks in the GCAM portfolio include Credit Acceptance Corp., Facebook, Ametek, JP Morgan, Mastercard, Five Below and Eurofins Scientific, all weighted between 3% and 4% of the portfolio. They're followed by Charter/Liberty Broadband, TJX, Intercontinental Exchange and First Republic Bank, all between 2% and 3%. Smaller positions include A2 Milk, Jacobs Engineering, Activision and Amazon, all between 1% and 2%. We view Liberty Broadband and Charter as one holding, as Liberty's primary asset is Charter stock.

We won't describe these 15 in detail, but we will say that we think we have a healthy mix of large companies with strong market positions and good growth prospects and younger franchises such as Five Below, A2 Milk and First Republic Bank, with differentiated business models and great growth prospects. We added our old friend TJX to the portfolio recently as our experience is that TJX grows faster in bad times than good, as distressed apparel vendors cut deals and value-conscious consumers gobble them up.

Since we stress the importance of good management, we should concede the point that Facebook's management has not acquitted itself well in recent years. It's also true that Facebook commands an extraordinary level of engagement from its users and is arguably the best advertising vehicle in existence.

At inception, GCAM maintains a 7% cash holding. I expect to invest this in the weeks ahead, given the number of fine businesses available at compelling prices these days. Our holdings Alphabet, Berkshire Hathaway, Facebook and Arista Networks hold so much cash that we effectively have another 3.5% of our portfolio held in cash by our management teams. We hope they take advantage of the opportunities available to them in this market, even if simply to buy back their stock at attractive levels.

An earnest MBA student once asked me for the secret to choosing the right interest rate to use in a discounted cash flow model. He was clearly agonizing over this question. I wished I'd answered, "It's always the humans!" Instead, I smiled politely and thought to myself, that's not the right question.

Yes, investing is a math exercise. Price sensitivity is crucial. But because we're looking into the future and trusting people to make good decisions on our behalf, we absolutely have to choose the right people and cultures. If we recognize that portfolio performance is usually driven by a relatively small number of long-term winners, and that these winners most often are run by passionate managers, often founders or a second-generation with a deep-rooted interest in the success of their offspring, we must then redouble our efforts to find more of this type of company.

The market will occasionally give us an attractive price on a great business that is, nevertheless, not run by a founder or an unusually entrepreneurial leadership. We'll go where we find value. But we will gravitate back to the fields where we've enjoyed the most success.

We are never inclined to compromise on management quality. Peter Lynch once said that he wants to own businesses that could be run by an idiot, because one day most of them will be. We feel differently: when mediocrity rises to the top, it's time for us to go.

We're leery of leverage. There are a couple of businesses in the GCAM portfolio with significant leverage – SS&C and Charter – but SS&C has mostly recurring contractual revenue which it retains at roughly a 96% annual rate. It generates a lot of free cash and took on much of its leverage to buy the fund administrator DST in a deal that, to us, looks brilliant. It is steadily reducing that leverage. Charter is essentially a lightly regulated utility offering broadband Internet to consumers who increasingly live their lives online. Because these businesses have very stable revenue streams, their higher leverage appears manageable.

Alert readers will recognize that we have a high overlap with our partners at Giverny Capital. We both want to own the same kinds of companies. We've walked different paths to get to this place; going forward the portfolios may resemble one another even more closely as we work together on ideas. I believe in the power of a strong partner to challenge and clarify one's own thinking, and after five months working with the team of Francois Rochon, JP Bouchard and Francois Campeau in research, I am convinced I chose the right team. We would encourage you to find the 2019 Giverny Capital letter to clients and other information about the firm at givernycapital.com.

One question I asked myself as I thought about where I would work next was if I would be comfortable hiring this firm to manage my family's assets if I couldn't do it myself. Giverny Capital easily passed that test. My wife and I will invest the majority of our net worth in the GCAM portfolio. Giverny Capital and GCAM are working jointly together in research every day and if something were to happen to me, Francois Rochon would step in to manage GCAM, which should provide any investor with a high degree of comfort.

My vision for GCAM is clear, but I'm launching the firm at a peculiar and precarious time. None of knows how much suffering the COVID-19 pandemic will cause, nor when it will end. It is true, however, that the US stock market has recovered strongly from recession, war and catastrophe many times before. Francois sent me the following chart recently[1]:

Year	Crisis	Correction	**5 years +**
1957	Recession	-21%	**100%**
1962	Cuban missile crisis	-29%	**112%**
1966	Vietnam war	-23%	**70%**
1970	Recession	-32%	**55%**
1973-74	Oil shock	-50%	**111%**
1979	Second oil shock	-21%	**138%**
1982	Recession (& high interest rates)	-28%	**274%**
1987	October crash	-36%	**127%**
1990	Recession /Iraq war	-20%	**127%**
1997-98	Asian crisis	-22%	**28%**
2000-2002	Tech bubble burst	-50%	**122%**
2008-2009	Great Recession	-56%	**207%**
August 2011	European crisis	-22%	**124%**
March 2020	Coronavirus pandemic	-35%	**?**
Average		-32%	**123%**

As of this writing, it feels as if we will suffer a recession in 2020, despite the Herculean efforts of the federal government to cushion the economic blow and subsequent positive response of the market. S&P constituent earnings a month ago were forecast to be $172 for 2020. Who knows where they will end up this year, but if they recover to $160 or so in 2021, then the S&P 500 Index at 2,475 on March 25 was trading at for about 15x forward earnings. That would not represent a historically cheap P/E multiple, but we've rarely seen interest rates so low. The spread between the earnings yield on stocks and US Treasuries strikes us as favorable to stocks. The more important point, though, is that GCAM is trying very hard to buy franchises that can

[1] The decreases and increases represent our best effort to calculate the decline to the lowest level of the S&P 500 followed by the highest level within the next five years, including dividend payments.

grow over the next five and 10 years. Even if things get worse – we have no crystal ball – we're trying to make decisions that we could live with for years.

I am energized about the journey ahead. Trying to beat the S&P 500 is not a humble undertaking. I am confident in GCAM's process and my partners', but also very aware the stock market can swing to extremes and stay there. I read the enjoyable memoir of Charles Schwab recently, and was reminded that the Dow Jones Industrial Average hit 1,000 for the first time in 1966, and then traded mostly lower for 16 years before permanently breaking through 1,000 in late 1982. I can recall Bill Ruane reminiscing about nearly going out of business in 1974, only to have Sequoia Fund generate several years of significant outperformance starting in 1975. A sound investment process works, but it won't always feel that way.

For those who elect to join me, I can make a few simple commitments. My Giverny Capital colleagues and I value your trust and will be rational and responsible stewards of your capital. We will treat clients as partners, which is how we would expect to be treated if the roles were reversed. I will level with you when I make an error – and I will make a few. My family portfolio will serve as the GCAM model, meaning I will be invested in the same securities as GCAM clients and we will walk side by side.

Most of all, you can be sure that as the founder of this fledgling enterprise, I have both a passionate interest and most of my family's assets invested in its success. If this approach makes sense to you, I'd be delighted to discuss further.

Sincerely,

David M. Poppe

PS – GCAM is housed in short-term office space while our permanent office is under construction. Until May 31, we can be reached as follows:

667 Madison Avenue, 5th floor
New York, NY 10065
212-845-5383

After June 1, we will be in our new offices (knock on wood!):

600 Madison Avenue, #2300
New York, NY 10022
646-845-4193

PPS - In January, I joined the board of directors of Central Securities Corp., a closed-end fund with roughly an $800 million investment portfolio. Central is run by a terrific investor named Wilmot Kidd. It has an exceptional performance record over Wilmot's nearly 50-year tenure, driven by sound fundamental research, good judgment and long holding periods. After serving 16 years as a mutual fund director, I feel I can be helpful to Central's board. But I also expect working with Wilmot and his team will help me continue to improve as an investor. I have worked with Central's compliance group to minimize any potential for conflicts in trading, but there could be times when this role could affect GCAM's trading. I feel that my board service should be a benefit to GCAM's results, as well as to Central. If it's not, I'll stop serving.