RUANE, CUNNIFF & GOLDFARB INVESTOR DAY 2016

PLAZA HOTEL, NEW YORK CITY

MAY 20, 2016

Disclosures:

Please consider the investment objectives, risks, and charges and expenses of Sequoia Fund, Inc. (the "Fund") carefully before investing. The Fund's prospectus contains this and other information about the Fund. You may obtain year-to-date performance as of the most recent month end, and a copy of the prospectus, by calling (800) 686-6884, or on the Fund's website at www.sequoiafund.com. The prospectus should be read carefully before investing. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Average Annual Total Returns as of June 30, 2016	Year to Date	1 Year	5 Years*	10 Years*
Sequoia Fund	-13.19%	-26.70%	6.44%	5.99%
S&P 500	3.84%	3.99%	12.10%	7.42%

* Average Annual Total Return

The performance data shown represents past performance and assumes reinvestment of dividends. Past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

The S&P 500 Index (the "Index") is an unmanaged, capitalization-weighted index of the common stocks of 500 major US corporations. The Index is not meant to be indicative of the performance, asset composition or volatility of the Fund. The Fund's results may differ markedly from those of the Index, in either up or down market trends and interest rate environments. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees or other expenses. It is not possible to invest directly in an unmanaged index.

As reflected in the current prospectus dated April 29, 2016, the Fund's Annual Fund Operating Expenses for 2015 were 1.03%. Ruane, Cunniff & Goldfarb, the Fund's investment adviser, has agreed to reimburse a portion of the Fund's operating expenses. This reimbursement is a provision of Ruane, Cunniff & Goldfarb's investment advisory agreement with the Fund and will be in effect only so long as that investment advisory agreement is in effect.

Investing in the Fund involves risk. Investors should carefully review the risks associated with an investment in the Fund and understand those risks before investing. The principal risks of investing in the Fund include market risk, value investing risk, non-diversification risk, foreign (non-US) risk, currency risk, small-cap and mid-cap company risk, managed fund risk and liquidity risk. As of June 30, 2016, the top ten holdings of the Fund included:

Berkshire Hathaway, Inc.	17.4%
TJX Companies, Inc.	8.0%
MasterCard, Inc.	5.5%
Alphabet, Inc.	4.7%
O'Reilly Automotive, Inc.	4.7%
Mohawk Industries, Inc.	4.6%
Fastenal Company	4.5%
Rolls Royce	3.7%
Constellation Software	3.4%
Dentsply Sirona	3.0%

Disclosures (continued)

The Fund is "non-diversified," meaning that it invests its assets in a smaller number of companies than many other funds. As a result, an investment in the Fund has the risk that changes in the value of a single security may have a significant effect, either negative or positive, on the Fund's net asset value per share. The Fund also invests in foreign securities, which involves the risk that the value of the Fund's investments in securities of foreign issuers will be affected adversely by foreign economic, social and political conditions and developments or by the application of foreign legal, regulatory, accounting and auditing standards or foreign taxation policies or by currency fluctuations and controls. The risks to the Fund and, therefore, to an investment in the Fund, of investing in foreign securities include expropriation, settlement difficulties, market illiquidity and higher transaction costs. The prices of foreign securities may move in a different direction than the prices of U.S. securities. In addition, the prices of foreign securities may be more volatile than the prices of U.S. securities.

Any sector focuses of the Fund are subject to change, and past returns are not indicative of future returns. The cash generation of a company in which the Fund invests may not continue given market or other conditions, and portfolio turnover may change depending on future circumstances.

Fund holdings and/or sector weighting are subject to change and should not be considered recommendations to buy or sell any securities. Current and future portfolio holdings are subject to risk.

Shares of the Fund are offered through the Fund's distributor, Ruane, Cunniff & Goldfarb LLC. Ruane, Cunniff & Goldfarb LLC is an affiliate of Ruane, Cunniff & Goldfarb Inc. and is a member of FINRA.

Other Information

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The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

Except as otherwise provided, portfolio holdings are as of the date of the meeting and are subject to change without notice. Ruane, Cunniff & Goldfarb Inc. makes no representations that it will update the contents of this transcript or that it will provide information of similar nature or in this format in the future.

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Remarks have been edited for clarity and relevance. We have omitted the names of most questioners to protect their privacy.

David Poppe:

Good morning. I want to welcome all of you and thank you for coming today to our annual investor meeting. Greg Alexander recalls Bill Ruane holding a meeting in his office over 30 years ago with about a dozen or so Sequoia shareholders. I apologize for the crowded conditions today and the fact that some of you may have to watch the meeting from an overflow room. We booked this ballroom many months ago. We knew we had outgrown the St. Regis ballroom, but we did not anticipate quite this level of interest.

We know the big crowds today are the result of our disappointing performance over the past eight months. You are here because you are concerned about your investments with us and about our management transition. We fully expect to hear criticism and pointed questions this morning. However, in light of the important changes that have occurred here, we are going to add a bit more structure to the meeting this year.

I will begin by talking for a bit about the state of our firm: what is changing and what is too important to change. My colleague, John Harris, who will be joining me on the Sequoia Fund Board of Directors, will discuss our investment results. We will talk about our investment process, and I will try to tackle some of the questions clients have been asking us about Valeant. The changes to the meeting structure are designed to address directly what we think are the major issues facing our firm: what the leadership will look like going forward, what happened with Valeant, and how our research process works.

In all, these reports should take about an hour. After that, we expect to have 90 minutes to answer your questions.

Before I start on the state of our union, let me remind everyone that this is a voluntary meeting. We enjoy doing it and we plan to keep doing it. We get to see many good friends and it is healthy for us to stand up in front of you and talk about our process and our results. It is also good for us frankly to have so many clients and friends see the depth and strength of our team. But we do not invite the public or the press, and we ask everyone to honor the off-the-record nature of this gathering by not taping, transcribing, tweeting or reporting about it. This meeting has always been for our clients, and we will issue an edited transcript over the summer as we have always done.

Okay, with that, where are we today? We have managed through a two-year transition in two months. During that time, the analyst team, our director of client services, Jon Gross, and I have spoken to more than 500 clients, many of you in person. And without minimizing the stress we have created for you, we feel that we are moving forward and each day spending a little less time on client-facing activity and more time on investment research. Both are important, but ultimately stock-picking will drive your returns.

We have lost some clients and some assets. You have probably read about that, but we remain a very strong firm. We have nearly $20 billion dollars in assets under management, including $5 billion dollars in the Sequoia Fund, more than $9 billion dollars in separate accounts that are managed in similar fashion to the Sequoia Fund, and about $5 billion dollars in the private investment partnerships, managed by our colleagues John Harris and Greg Alexander. As our size indicates, we remain very healthy. We have retained all of our key employees and our entire research budget.

We started the year with 22 people in stock research. Bob retired and our lead Valeant analyst resigned. The other twenty people in research remain in place. We intend to add research analysts over the course of the year. And, for the record, our most important employee, Jo Ann Chiarelli, is staying. For those of you who do not know her, Jo Ann was Bob's assistant for 27 years and is one of the unsung heroes of our firm. The research team has been together for years. Nearly all of the senior people were handpicked by Bill, Rick, and Bob. We benefit enormously from the culture Bill Ruane and Rick Cunniff created and from the great long term results they, and we, have generated for clients. We have been deeply moved by our clients' loyalty and long-term perspective, and we know that is a reflection on Bill, Rick, and Bob. We believe we offer an unusually good work environment for someone who is passionate about long-term investing. Our stability over many years means our people have internalized our values and priorities. There is no cultural shift that is happening or that needs to occur. We simply continue doing what we do well.

Our investing philosophy will not change. We remain committed to a bottom-up, research-driven process that results in a focused portfolio of

25 – 35 businesses that we know very well. Bill Ruane liked to say that your six best ideas in life will do better than all your other ones. And you should expect the top half dozen or so companies in your portfolio to make up a large chunk of the assets. During Bob Goldfarb's eighteen-year tenure as CEO, we broadened our research focus and added more analysts to our team and more positions to Sequoia. But we remain committed to the idea of a focused portfolio of equities selected after intensive research and held for years.

We have written to you that we have established an investment committee. That feels like a change. Many clients ask how the committee will work, and I hear two common remarks. One: Committees do not work. Two: Investing is a business of individual talent — One portfolio manager creates the value; others support that portfolio manager. Let me point you back to history. From at least the 1980s through 2002, four people signed all the Sequoia mailings to clients: Bill Ruane, Rick Cunniff, Bob Goldfarb, and Carley Cunniff. All four were on the Sequoia Fund Board. When Carley retired, I replaced her on the Board. My predecessors did not call it a "committee," but there has always been a collaborative process here. Bob and Bill worked very closely together for many years. But Rick and Carley had strong voices and they weighed in. Bill always believed the lead analyst on a project had to have a say in the investment, and we have always been run that way. I can tell you that in 2000, Bill wanted to buy TJX and Ross Stores, and I was his lead analyst on that project. I told him buying Ross was a bad idea, as TJX was, in my opinion, the better company. Since then, TJX has risen in price by almost fifteen times our original cost. But Ross has done about the same. I wish we had owned them both! But the point is, Bill listened to the analyst. As the years passed — and unfortunately we lost Carley then Bill then Rick — Bob and I became Sequoia co-managers. We still ran the firm so that two portfolio managers and the lead analyst on each security worked closely together on new ideas and needed to agree to add a position to Sequoia.

The new structure simply formally acknowledges this way of working with the difference that three senior analysts, Chase Sheridan, Trevor Magyar, and Arman Kline, will be a second set of eyes reviewing research and portfolio positions, working with me, John Harris, and the lead analyst on a specific stock. This is not different from the way we have always worked. And let me note that Chase, Trevor, and Arman among them have more than 30 years of tenure here and are more than ready for additional responsibility.

On the question of individual talent, Bill Ruane and Rick Cunniff both managed individual client portfolios for decades with different styles and great results. Bob Goldfarb had a brilliant career. Greg Alexander has outperformed the Standard & Poor's Index in his partnerships over more than 25 years, investing much more globally than Sequoia does. John Harris has outperformed the Index in his partnerships since its launch in 2008, again with a more global focus.

We have two prominent alumni who left to launch their own investment businesses and who have outperformed the Index over many, many years. And several of us have managed portfolios internally with good results. So two points: First, we attract and retain a lot of talent. Bob made it a priority over the past decade to invest in research, but we have always been a good home for long-term investors. Second, we have a good process and a focus that has allowed our people to invest well over many years. We push and push on research, sometimes to the point of diminishing returns. And generally, if you make decisions based on large amounts of information you will outperform a person who makes decisions with less information. And information that has been screened by more than one set of eyes and with some skepticism should yield good results.

I would also note that the best ideas in Sequoia have been bubbling up from the research team for more than a decade. I feel good about our creative engine and our analytical rigor. And to repeat, I do not believe our investing personality will change. Bob Goldfarb is a brilliant man and we will miss him, but he was not the primary idea generator at Ruane, Cunniff for the past decade.

I want to discuss one other significant change with you, which is that we are going to cap concentration in a single position at 20% going forward for Sequoia. There could be some exceptions for Berkshire Hathaway for clients with separately managed accounts. We have edited our prospectus and our SEC documents to reflect this change. This comes after much deliberation amongst ourselves and with our clients. We could leave some performance on the table by selling a great company too early, but when we look back at our history, we have had a number of positions get to 20% over the years and, with the notable exception of Berkshire Hathaway,

by the time they got that large, their era of outperformance was generally drawing to a close.

So that I am clear, let me say that I have enormous respect for Bob Goldfarb. He was a strong voice at our firm, and for a decade he and I were a good team. He did an enormous amount for me personally, for which I will always be grateful. But we have been through an extremely stressful period, and at age 71, Bob elected to retire. Two months later, it is clear to me that this was the right decision for him and for us. We wish him well, but we also look forward to the future with determination, optimism and vigor.

Before I finish, I want to introduce the entire research team. You will be hearing from many of them over the course of the morning: Saatvik Agarwal, Girish Bhakoo, Peter Bin, Jonathan Brandt, Arman Gokgol-Kline, Jon Gross, Director of Client Services, Jake Hennemuth, Duncan Horst, Eileen Jang, Antonius Kufferath, Trevor Magyar, Will Pan, Terence Paré, Chase Sheridan, Inder Soni, world famous author Greg Steinmetz, Stephan van der Mersch, Marc Wallach, and I think all of you know Greg Alexander and John Harris, who are up here with me.

Next, let me introduce the Sequoia Fund directors: Board Chairman Roger Lowenstein, Tim Medley, and Bob Swiggett. Eddie Lazarus could not be here this morning. I want to take a minute to thank the Directors for their hard work over the last eight months. It has been a challenging period for us and for them, and they have served with energy and dedication. They care tremendously about Sequoia and have been good advisors to me and good stewards for you. With that, I am going to ask John Harris to give a presentation on our performance history. Thank you.

John Harris:

This is the point where I think you are supposed to say "Thank you" to the person introducing you. But it is interesting; I was talking to my mother the other day, and your mother always knows when you are trying to shoo her off the phone. "So you are trying to get off the phone with me, what is the problem?" I said, "A busy week, Mom, we have got a lot to do. We have got our Investor Day, and I have got to give a talk." She said, "What do they have you talking about?" I said, "I am going to talk about the performance." And there is a long pause, then she says, "They must not like you very much!" "Well, gee thanks Mom. I hadn't thought of it that way."

I do not know quite what the message is in putting me up here, but here I am and we are going to talk a little bit about performance. Before we do that, I know a lot of you in the room. I do not know all of you. So, I am just going to take a second to give a brief overview of my background and how I got to Ruane, Cunniff; so hopefully you know me a little bit better.

I got my undergrad degree at Harvard, where I graduated in 1999. I worked for Goldman Sachs for a couple of years. After that, I worked for the private equity firm Kohlberg Kravis Roberts for a couple of years. In 2003, I joined what was then called Ruane, Cunniff. I spent my first five years at the firm working on our Sequoia Fund team. I was responsible for our investments in O'Reilly Automotive, MasterCard and Hiscox, and I inherited coverage of what at the time was our large investment in Progressive Insurance. In 2007, I started a family of private partnerships, which, as David said, is affiliated with Ruane, Cunniff & Goldfarb in the same way that Greg's partnerships are and which has a broader, more global mandate than what we pursue in the Sequoia Fund. I sit on our management and investment committees, and, again as David said, I am going to join him on the board of the mutual fund.

Okay, as you know, we measure our performance against the passively managed S&P 500-stock index. And we earn our keep by producing more wealth for you over the long-term than you could get from an index fund based on the S&P. Over the very long term, that is from inception in 1970 until 2015 and over the 10- and 15-year periods ending in 2015, I am happy to report that we have outperformed, which you probably already know. Our more recent performance over five years and this last quarter is the reason why my mom was convinced that all these guys do not like me as much as I think they do.

We are going to spend some time putting our recent performance into the context of the market cycle, but before we do that, I just want to stop for a second and be very clear: We are every bit as frustrated with our recent performance as you are, frankly, maybe even more so. This is our life's work and we work hard at it. To put in all the late nights and weekends and the 6:00 AM flights and all the weeks on the road away from the family and to

come up with a set of numbers over the recent past so short of what you expect in the light of our long term record is an enormous disappointment. And frankly, while we outperformed modestly over the ten-year period ending in 2015, we do not feel much better, in part because the year to date performance erases that narrow edge of outperformance. Nobody came here to win by a nose or to be average. And they certainly did not come here to be below average. I can tell you personally the reason that I came here thirteen years ago was that I wanted to be a part of something special. I wanted to have a hand in helping to perpetuate what is still to this day one of the great records in the history of the mutual fund industry.

This raises some obvious questions: What was it that helped create our long-term record? Whatever those things are, are they still a part of this firm? Are they still a part of this team? Hopefully when I am done talking at you, and when my partners are done talking to you, and when we are done answering all of your questions, you will have a better sense for the answers to those questions, which you absolutely deserve.

A good way to get a sense of the ebb and flow of long-term fund performance over market cycles is to look at the rolling five-year compound annual rates of return versus a market bogey. The performance of a concentrated fund like Sequoia will *by design* vary from the market return day to day, week to week, and year to year. By looking at rolling five-year periods, you can get a sense of whether the end-result over a reasonable period of time is worth the worry of going against the crowd. When you work out all these numbers for Sequoia and the S&P 500, you find a pattern which, if you are familiar with the way we invest your capital, probably should not be surprising: Nearly all of the time, we outperform over rolling five-year periods. And we tend to look our best when markets look their worst, and when markets look their best, such as during the bull market peaks of 2000 and 2007, we tend to look our worst. Now, we take a lot of pride in the fact that there are not many periods when we have run behind the rabbit over a five-year stretch.

What is interesting when you do this calculation for the most recent bull market cycle beginning in 2013, is we kept up longer and performed better than we had in the previous cycles, even beating the market when it looked its best. That was really the impact of Valeant in its heyday, and obviously we are a long way from the heyday now. And today, as the market has continued higher, we have slipped behind on a rolling five-year basis.

If you step back for a second, there is an interesting observation to make about our performance by this particular yardstick. If you had not gotten your *Wall Street Journal* for the last year, as I sometimes wish I had not, you could easily come to the conclusion that it is sort of business as usual at Ruane, Cunniff. In other words, with the market looking peak-ish, Sequoia's rolling five-year average return is lagging behind like it has at times like this in the past. Now I know it does not feel like business as usual, and part of the reason it does not feel that way is that sometimes the way you get somewhere matters every bit as much or more as where you actually get to. To illustrate the point, just indulge with me for a second in one of my most favorite recent pastimes: closing my eyes and pretending that I had never in my life heard the words Valeant Pharmaceuticals. Imagine instead that I told you that six years ago we put about 5% of the fund's capital in a stock that has subsequently gone up about 40%. Then nine months ago, we made another investment in the same company XYZ, a much smaller investment, but that one went down 75% or 80%.

Now obviously, neither of those is a good outcome. Any time you lose 80% of anything, I do not care how small an investment it is, that is a bad thing. And to have made an investment six years ago that went up 40% may count as making an absolute return, but you have not had a good result: I do not know what the market is up over the last six years, but it is probably 100% or something like that. Clearly, those two outcomes are bad. But the important point is that they are not necessarily unusual outcomes. I hate to say this, but I can think of probably three times just since I joined this firm that we made small sort of 1%-ish investments in things that went down 50% – 60% – 70% – 80%. These are illustrious names like SMA Solar and First Solar. Serco would be another one. These are things that have happened before, and it is not unusual for us to buy stocks that go up less than the index.

The big thing left unsaid here is the stock we are imagining is the all too real Valeant, which we bought six years ago and which is now up less than the Index, but that between points A and point B went up about fifteen times then went down 90%. That is disappointing and embarrassing. But from the perspective of performance, what matters is *what* happened at the end points and not necessarily *how* it

happened. Of course, the *what* of what happened in this case is not a good result. But it is also a long way from the worst thing that can happen to you as an investor.

In other words, putting the highs and the lows of Valeant to the side, the fact that the fund is lagging behind a bull market runs true to our form. We tend to lag a strong market. And we tend to lead a bear market as we did in 2000 to 2002 and in 2008. The big unknown is when this bull market will end and the next bear market will start. Of course, we do not know any more about that than you do, and obviously past performance is no guarantee of future results and all the usual caveats. But I think it is a reasonable expectation that given the businesses that we own and given the cash balance that we carry in the portfolio, it is probably more likely than not that if the next bear market were to start tomorrow, we would get a result similar to the one that we got in the last two bear markets, and we would outperform by some meaningful margin. But of course we will just have to wait and see.

If you have lived the reality that we have lived for the last nine months and read all the headlines that we have read, it is frankly hard to imagine that this firm has ever looked any dumber than we all feel right now. But the fact of the matter is that we have, three different times! As wide as the gap is today between Sequoia and the Index, it was wider still in 1973, 1980, and 1999. Of course, each of those episodes had its own driving forces, and there is absolutely a debate to be had about whether some of those forces are more or less benign in nature than others. But the important point for our purposes today is that as painful as these periods may be, they are a natural outgrowth of doing things the way that we have always done them. Since the first day that Bill Ruane opened the doors, and it is just as true today as it was then, we have always believed that if you do good investment research and you make generally good judgments, you will be well served over time by concentrating your capital in your best ideas. And certainly if you look over the sweep of the history of Ruane, Cunniff, there is no question that concentration has been a big help to us and to you over time.

However, every once in a while, it really hurts. And believe me, these periods are no more fun for us than they are for you, but the operative principle at work here is sort of ‘‘no pain, no gain.’’ If you did not have to endure this kind of thing in order to invest the way that we invest then everybody would invest this way. And if you operate in the same way that everybody else operates, the odds are pretty good that you are going to get everybody else’s results, and of course that is not why we are all here today. We want to get a different and better result than the Index. And so even though it sounds almost sadistic to say this, in a way there is something advantageous about the fact that it requires a certain kind of temperament to be able to invest the way that we invest and go through periods like these.

It also, and this is a very important point, it requires a certain kind of client. We do not spend nearly enough time talking about this, but we should. And you should know that we appreciate the fact that we could not operate the way that we do if we did not have clients like you: clients, fellow investors, who have the patience and the perseverance and the loyalty to stick with us through the inevitable ups and downs of managing a concentrated portfolio. If you talked to other people in our business who understand logically the appeal of doing things the way that we do them, but do not do things that way, and you ask them, ‘‘Well, why don’t you? ‘‘More often than not you will hear them say, ‘‘Because I don’t think my clients could tolerate it.’’ Another interesting point is that there are people, several in the hedge fund world who do invest much the same way we do. What they end up doing is trying to legislate loyalty by using mechanisms like lock-ups and gates and things of that nature. It is absolutely fascinating to me that clients of Ruane, Cunniff, all of you, can essentially pull your money out on a daily basis if you want to. And yet, we have managed to invest the way that we do successfully for almost 50 years now, with all of you sticking with us through each of these frankly wrenching periods. We owe all of you a big ‘‘Thank you’’ because you enable the model that has contributed so much to the success of our firm over time, and we would not be able to be who we are without you.

I guess the summary is that what we are going through now is something that we have gone through before. It is painful. We do not enjoy it. We know that you do not either. To some extent it is a function of where we are in the market cycle; to some extent it is a function of the concentrated way that we have always invested your capital. None of that means for a second that it feels good.

As David said, this period has also catalyzed some meaningful change at our firm. I want to spend a couple of minutes talking about that and elaborating a little bit on some of what David said

about what is changing at Ruane, Cunniff & Goldfarb. But much more importantly, and before we get to that, I want to talk about what is not changing at Ruane, Cunniff & Goldfarb, and that is our process and our culture.

If there is one point that I would like all of you to leave here with today, it is that the two pillars upon which the entire edifice has been constructed over 46 years now — our approach to investing and our values as a firm — remain unshakeable. I know that I will sound a little like I am climbing onto a soapbox here, but I think it is important to be very clear about the approach and the values that turn the wheels at RCG: We conduct intensive, fundamental research; we judge thoughtfully and unemotionally; we focus on our best ideas and think with a long-term perspective; we favor high quality businesses and managements, and we exercise discipline about price. Our culture values and nurtures intellectual curiosity and rigor, honesty and integrity, humility and candor, collegiality and kindness.

Okay, off the soapbox and back on the sidewalk: We did not invent any of this stuff. No one here brought it down from the mountaintop. It is all borrowed. In a manner of speaking, what we have been doing over the last 46 years is running a controlled experiment in how effective these principles are. And at least to me, the results are pretty conclusive. I am putting words in people's mouths here, which I wish I did not have to do, but I think I am on pretty firm ground when I say that if Bill and Rick and Carley and Bob were sitting up here next to David, they would tell you that these principles are the primary reasons why the Sequoia Fund has now outperformed the S&P 500, over five decades and five different co-managers.

I know that Greg would tell you that they are the reasons why his partnerships have earned 2.5 times the return of the MSCI All Country World Index since he formalized them about 20 years ago. I would certainly tell you they are the reasons why my partnerships have outperformed the MSCI Index by a similar margin since I started them in 2007. And I think our most prominent alums, one of whom is in the room with us here today, who have gone on to start successful firms of their own and who have outperformed markets by very meaningful margins over very long periods of time, would tell you the same thing. These principles are the primary reasons why they have earned their keep. And it is interesting, because Bill Strong and Tom Russo, alums of our firm, invest in completely different ways. What they own is totally different from what I own, and what I own is very different from what Greg owns. And what Greg owns is extremely different from what we own in the Sequoia Fund. And across the history of the Sequoia Fund — this may or may not be a little known fact — but Bill had different tastes in stocks than Rick did, and Rick had different tastes in stocks than Bob did. What you have here is a lot of different people doing a lot of different things over a lot of different periods of time and in a lot of different contexts all getting similarly successful results. In my opinion at least, it is not for a second a coincidence that you can trace all of their intellectual lineages back to a single firm and a single set of principles.

I would like to tell you that we are all just geniuses. We are not. Elon Musk is a genius. This is a guy who has built this incredible business then as a hobby on the side builds rockets. I do not think that Greg or David could even construct a functioning paper airplane! This is not a story about rare and unique intellect; this is a much simpler and mundane story, and the title should probably be "Better lucky than smart." If there is any genius involved, it is a genius of the system, as the saying goes. Because what you have here is a group of people that was profoundly lucky to have been exposed very early in their careers — thanks in most cases to Ruane, Cunniff, and in Bill and Rick's case, to Ben Graham and Warren Buffett — to a very simple set of principles. And if you mix those principles around with some basic common sense and attract the right kind of like-minded clients, it increases your odds of getting a good result.

In terms of lucky, the other incredibly lucky thing for all the people sitting up here on this stage and all the analysts who have introduced themselves to you down there in the seats is that we are all profoundly lucky to have inherited from Bill and from Rick the unique culture at our firm. I do not have the time to go through the explanation of it in detail, and I hope somebody asks a question about it in the Q&A because we do not talk nearly enough about this. But I guess the quickest way I can summarize it is that if you want to get a good result in this business, you take the people, the process, and the principles and then you mix them around in a pot and let it simmer for a long, long time. And the trick that a lot of people get wrong is you cannot take the pot off the stove too soon; you cannot turn off the heat and say, "I want a result right now;"

you cannot yell at people and say, "Your stock is down this year, what is wrong with you?" You cannot yell at this guy and say, "Well, why haven't you picked a good idea this year;" You cannot start exerting all those pressures that end up leading to bad decision-making at so many firms like ours. And Bill and Rick somehow found a way to create a set of values and a feeling at our firm that I always tell people feels more like a family than a firm, where none of that happens.

So what is the result of that? The result is that they sort of created a giant magnet that ends up attracting people who are constitutionally disposed to think the way we think and are constitutionally disposed to understand our principles. The genius of what Bill and Rick did is they created an environment where if you are someone who just gets it intuitively, you just love being here. And that is an incredibly powerful aspect of what makes this place special. That process and that culture are the soul of this firm. We are as committed to them as we have ever been. That really cannot be emphasized enough.

That is what has not changed. What has changed is we have a new CEO. We have a management committee that basically runs the business side of Ruane, Cunniff. We have an investment committee that handles the investing side of Ruane, Cunniff. Six members sit on the committee, five of them vote to get a position into the Fund, get a position out of the Fund, take something from 1% to 3%, 7% to 9%. You need four out of five votes on this committee. On a day to day basis, David is the portfolio manager of the fund, and he has absolute and total discretion to do whatever needs to be done to respond to whatever may happen in the market on any given day. That was a critical element to this whole construct because the one thing that we did not want to create was some kind of a paralyzing structure where you have to have a meeting about a meeting about a meeting to do anything. We do not have that.

In addition to me and David, the members of the investment committee are Greg Alexander and three of our senior analysts, Arman Gokgol-Kline, Trevor Magyar, and Chase Sheridan, who, by the way, are responsible for a lot of the ideas you see in your portfolios today. They have pretty extensive experience managing client capital over relatively long periods of time. Greg Alexander is a non-voting member of the committee, but as the person with almost twice the tenure of the next longest tenured person on the committee, and by far the longest experience managing client money of anybody on the committee, Greg's opinion in our discussions carries a lot of weight, and we are all very grateful that Greg is a very active member of the committee.

You are going to hear from our senior analysts in a minute, but first I want to give you an idea of the health and the success of the process that David has led at our firm over the last ten years, and really that all of the people that you see up on this dais have contributed to in a big, big way.

Now, it may feel like we own just one stock these days, but we actually own some businesses not named Valeant, like MasterCard, O'Reilly and Dentsply Sirona. These are all companies that we are proud to own. They are great businesses that have generated for the most part really good business results over the last 1 – 3 – 5 – 7 – 10 years, whatever it is, and in some cases the stock prices have done even better than the businesses, which is the famous Bill Ruane "double whammy" as he liked to describe it. You will want to know that the idea to invest in them came from the members of our current committee.

So, I would like to conduct one more thought experiment. Imagine that instead of running the Sequoia Fund with the significant cash position it carries almost all of the time, we had been fully invested in the same businesses and in the same relative percentages over the last fifteen years and into the first quarter of this year. Other than that, no mulligans. Include buying Valeant in the first place, not selling Valeant at $260. Selling some Mohawk at $115 in 2013. Not buying more Mohawk at $20 dollars or whatever it got to in 2009. Not buying more MasterCard at the equivalent of $4 dollars a share in 2009 and maybe again in 2010 when we would have paid $20. That includes buying all those illustrious names like SMA Solar and FirstSolar and Serco, and all of the misses, based on hindsight that are bound to pile up over nine years in a judgment business where you are never going to get them all right. And despite all of that, imagine that we had just run the portfolio fully invested in all the things we owned, warts and all.

I do not have my homework to show you, but we would have outperformed the market by over a percentage point a year over the last fifteen and one-quarter years ending March 31, the last ten and a quarter years ending in March, and the last twelve months ending in March. Imaginary performance does not, of course, do your pocketbook any good. But I do think that it is a meaningful

indication of our team's ability to find, research, and invest in good businesses.

This leads me to another observation, given the team's demonstrated ability to find good investments: We should probably trust our process a little more in the future than we have in the past. In fact, if you look further back in the history of the firm, 20 or 25 or 30 years, you would see more evidence that it would probably behoove us and you if we ran the portfolio more fully invested in the future than we have in the past. This does not mean we are going to go out tomorrow and take all the cash in the Fund and put it in the stock market because we are not. That would not be us. But over the next 1 – 2 – 3 – 4 – 5 years, you probably should look for us to run the portfolio closer to fully invested.

Okay, this is the end of the road for me. But before I leave, I want to talk about one other responsibility that we have. And this is an incredibly serious one. This is the responsibility that we have to Bill, to Rick, to their legacies and to all of you to match up to the incredibly high standard that they have set for us, and that you demand of us, and produce for all of you a better set of numbers over the next few years than we have over the last. I absolutely believe that we will do that, but I also want to be straight with you and set your expectations appropriately. And this is a conversation that I actually had the other day over breakfast with our youngest and newest analyst, Eileen Jang. She was saying "You know, a lot of things are changing here at Ruane, Cunniff. You have been here a long time. What are you worried about?"

I told her that what I am worried about is the fact that we always control the process; we control the ideas; we do the research; we pick the stocks, and we pick what we pay, but over one or two or three years, what we do not control is the outcome. That is in the hands of the market. We do not have any control over that. Over the long term, it is a different story, and that is why — this is just me talking; you can take it for what it is worth — but that is why I am as confident as I can be of anything in this world that if we execute our process at the level that I know we can, and if we live our values and our culture in the way that I know we will, we will end up eventually with the result that I know all of you expect from us and that we expect from ourselves, and we will have better news to share with you in the future than we have today. I can tell you that we all eagerly look forward to that moment.

And now it is my great pleasure to turn it over to my partners and more importantly my friends, Arman Kline, Chase Sheridan, Trevor Magyar and Greg Steinmetz. Thank you.

Chase Sheridan:

Thank you John. That was terrific. I know everyone is anxious to get into the Q&A, but if you will indulge us for just about ten more minutes, we would like to touch on a topic that is important to us and, we suspect, important to most of you: namely, the specific means by which the group in front of you today intends to increase the value of your portfolio over the next several years.

We have talked about our research process a bit this morning, but for many clients it is still an abstract thing. It need not be. We want you to understand how we conduct research because that research drives all of the decisions that we make allocating your capital. We also enjoy it, and we are proud of what we do.

The critical thing to understand is that while the next several ideas that make it into the Sequoia portfolio might be new to many of you, they are unlikely to be new to us. Often, the seeds of a new investment idea germinate for years before you see the result in the portfolio. For example, when you receive your next quarterly Sequoia statement, it will include an investment in a company that Trevor Magyar has followed since 2010. It will also include a company that Greg Steinmetz has researched intermittently since the year 2000. Sixteen years! When Greg found this idea, he still had Don Draper's hair. So when John Harris tells you that most of the Sequoia team has worked together for more than a decade at Ruane, Cunniff & Goldfarb, and our collective tenure is over 190 years, what does that mean in a practical sense? It means we have a long institutional memory.

When an analyst pursues an idea, he works methodically and documents his findings in writing. He makes his research available to the entire firm in real time or close to it; everyone is free to chime in and we are constantly learning from one another's experiences. There is no turf to defend and we all have the same goal, out-performance. The analysts collaborate daily in their work.

The universe of investment alternatives for a firm of our size is large. But it is limited, and I can assure you that 190 years of collective work is enough to reach some degree of familiarity with the majority of that universe. We have a sizeable backlog

of high quality companies that we know very well. And with a number of these, we are simply waiting for our moment. So our approach is best illustrated by using concrete examples. Let me cede the floor to Greg Steinmetz to give you one such instance. Greg was responsible for our investment in Precision Castparts.

Greg Steinmetz:

For those of you who might not know, Precision Castparts manufactures turbine blades and other hard-to-make parts for airplanes and jet engines. We did our first work on this company and wrote our first memos on it in 2003. We realized that it occupied a unique position in the aerospace supply chain and that it would be very hard to get a Boeing jet off the ground without parts made by Precision Castparts. The trouble was that Precision was and is a highly capital intensive business and it operates in a cyclical industry. When you invest in something like that, we knew that we had to be careful. So what did we do? As is so often the case, we did nothing. But we did not forget about it.

Fast forward to December of 2008. Remember those good old days: Lehman Brothers, Bear Stearns. The world was melting down; a lot of investors were scared to death. I was one of them. I was hiding under my desk when Chase came to me and said, ‘‘Precision Castparts? You know about that company. It has shown up on my screen as being not only affordable because stocks are down, but it is still growing. And it is a very profitable business. Maybe you should take another look.’’

I think it was that same week Arman, who had done a bunch of work on Rolls-Royce, the engine maker, came up to me and said, ‘‘A lot of my contacts for Rolls-Royce are telling me that the 800-pound gorilla in the components business is Precision Castparts. Maybe you should take a look.’’ So we cranked up the research process again. We crunched the numbers, but it still took us about four months even though we had known the company before. But at the end of that process we discovered that not only was Precision as strong as it was in 2003, but it had gotten even stronger. So we started buying the stock.

The stock really got hurt last year when aerospace started to go through one of its slow periods and oil and gas, which is another of Precision’s end markets, got pounded when crude prices plunged. But we stayed with Precision because we knew from our research that planes still could not go up in the air without parts made by Precision Castparts; we held on and we even bought a little bit more. As you may know, the story has a happy ending. Berkshire Hathaway ended up buying the company earlier this year for about $32 billion dollars and we more than tripled our investment.

Chase Sheridan:

Thank you Greg. Greg is Sequoia’s most prolific researcher, and he is an expert in industrial companies. So it does not surprise any of us that he found Precision all the way back in 2003. I think the most interesting part of that story for me is how Arman’s intensive work at the time on Rolls-Royce served as a catalyst for Greg to refocus his work on Precision Castparts. Good communication creates serendipitous results. I think Trevor’s experience, sourcing Dentsply Sirona, provides a particularly good illustration of the benefits of communication and collaboration, Trevor?

Trevor Magyar:

Thanks, Chase. For those of you who are not familiar with the company, Sirona was a US-listed Germany-based maker of high-end dental equipment with a particular focus on digital technology. Just a few months ago, the company merged with Dentsply, a US-based maker of consumable dental supplies. Dentsply Sirona shares currently trade for $62. The fund purchased its shares in Sirona for less than $23 dollars on a merger-adjusted basis in 2011.

Sirona’s flagship product is called CEREC, which is the combination of an intra-oral scanner, some really nifty CAD-CAM software, and a miniaturized mill for making dental crowns. What CEREC does is enable a dentist to design and produce a custom-made crown in a single visit by a patient. No more sending gooey impressions to a lab by the dentist, and no walking around with a temporary crown for several weeks for the patient. CEREC allows the dentist to do it all in one visit. Dentists love it. Patients love it. This is truly world-beating technology.

When I originally researched Sirona, I quickly learned that both Greg and Terence had explored the potential of CEREC in the early part of the last decade as part of their work on Patterson, a dental distributor that the fund owned at the time. Specifically, they had noticed that Patterson paid $100 million dollars cash up front to Sirona for a long-term exclusive distribution agreement for CEREC. What that told them was that CEREC was something special.

Now at the time, Sirona was a private company. But when I happened upon it a handful of years later, after it had gone public, I had all of Greg's and Terence's research at my fingertips. And the two of them immediately offered to educate me on the basic landscape of the dental industry. Those conversations helped to confirm my instincts and expedite my research. The big point here is that my new idea was not really new. And it was not really mine either.

Sirona is just one example. Everybody up here has others. All of us, when we are looking for the next great idea for the fund really do benefit enormously from all the work that the team has done over the years. Just as Greg and Terence's work benefited me in the case of Sirona, my work will hopefully benefit someone else at some point in the future. Maybe we will be looking at something in the dental space; maybe they will be looking at something tangential to it. We really do work as a team here. We are wired that way as individuals. We have also seen over many years just how powerful and effective that approach is.

Chase Sheridan:

By now you are probably getting a sense that we have already turned over a lot of the available stones in our search for promising investments. But the world is always creating new businesses for us to examine, and in certain cases we run across something we have not seen before, and our institutional memory in those cases does not provide us with much help. We have to develop our expertise from scratch through the long process of scuttlebutt-based research that is our hallmark. Our methods for researching a new idea are pretty standard, but we believe the duration and intensity of the work we put into each idea is very unusual. We know we are doing a good job when the managers at the companies we follow progress from being pleased with our interest to exasperated with our attention to detail. It is not easy for a company to join the Sequoia portfolio. One CEO deemed us "the highest maintenance non-shareholders" he had ever met. We wear that label with pride, although occasionally we do graduate to being high maintenance shareholders.

Our investment in Idexx, a manufacturer of veterinary diagnostic equipment, is an example of an unfamiliar company that graduated to an investment in a reasonably short period of time. Arman Kline sourced this investment in 2003 with an assist in the research from Greg Steinmetz. Idexx has appreciated nine fold over our holding period. But I will ask Arman to refrain from taking a victory lap and instead share with us how he got comfortable with Idexx, in light of the fact that it represented new ground for the firm.

Arman Gokgol-Kline:

Thanks Chase. Idexx was a pretty fast project for us: we went from first memo to a purchase in around six months, which is about as fast as things go around here. Even though it was a fast project we covered an enormous amount of ground. Over six months, Greg and I went to three veterinary conferences, probably talked to over 100 veterinarians and dozens of distributors, competitors, and former employees. At these veterinarian conferences, Greg and I would spend our days meeting with executives and the sales folks from the competitors and the distributors trying to understand the business and educate ourselves on the market. With an hour to go in the day, we would go to the lobby, take a shot of coffee and make a pact, which is that we were going to talk to at least fifteen veterinarians each before we left the exhibit hall and went to dinner. Talking to those customers was really the invaluable piece of the research and helped us understand how good Idexx's products were, how important its distribution was, and how customers thought about diagnostics.

With Idexx, the investment was not so much based on key insights. As the stock's high PE told us, the market already knew Idexx was a great business. Instead, what got us over the line was all of our research and the conviction it gave us in just how good a market the veterinary market was becoming. If we were going to pay a high PE, we needed to have high conviction in the quality of the company, its market, and its durability. Our conversations and our research gave us that conviction.

We did not let off the gas in our research intensity once we owned it. Among other things, as our families can tell you, Greg and I have spent the last thirteen Martin Luther King holiday weekends together in Central Florida going to the North American Veterinary conference. That continued work allowed us to maintain our conviction, the fruits of which we saw in 2008 when we added to our position after the stock got hit in the general market downturn. That 2008 decision to add to our position, I should note was just as big, if not bigger than our initial decision to buy. We already owned a mid-to-high-teens percentage of the company, and we knew buying more would mean we were going to

own 25% of the company. In fact, we had to go to Idexx's board and ask it to increase its poison pill limit. Conviction is crucial in all of our investments but especially when we become a large part of the company's float. And conviction is the result of our process of primary research.

David Poppe:

Thank you. We are almost ready for Q&A, but I thought it might be helpful before we start taking questions from the audience if we addressed some of the most common questions we have been getting for the last two or three months about Valeant.

The first one: Why did you ever invest in Valeant?

That is a very good question. We try to invest in companies that we believe have differentiated models, good management teams, and sustainable competitive advantages. In 2010, the pharmaceutical industry had been getting poor productivity out of bloated R&D budgets for years. The idea of building a platform company with strong sales forces in key product lines such as dermatology, ophthalmology, neurology and with a mix of over-the-counter products and branded generics outside the US seemed smart. In an era of cheap capital, borrowing to buy finished R&D from other companies seemed a less risky approach to developing new products than doing so from scratch, given the industry's track record of a low rate of success. A number of companies ended up copying many of Valeant's ideas. But as others copied Valeant, the price of acquisitions rose, and the economics of deal making declined.

We did enormous research into all aspects of the business, enough to know many specific criticisms being leveled at the time against Valeant were wrong. We made judgments based on what we knew. And it is now painfully clear looking back that our assessments were off base. In particular, acquisitions made after the Allergan deal failed in 2014 now appear to have been poorly considered. This and other management mistakes particularly around pricing increases caused a significant deterioration in the business and brought about intense scrutiny from health care payers. We clearly underestimated Valeant's dependence on significant price increases on some of its products to drive its earnings growth, and we overestimated the capability of management.

Number two: What are you going to do with Valeant?

We have reduced the position significantly since March 31. However, releasing further details about our trading plans is not in your interest or ours. We continue to follow Valeant closely. Going forward, our goal remains to own unusual and well differentiated businesses, run by talented management teams that avoid excessive leverage and focus on long-term results.

Why did you let the position get so large?

For about five years, it seemed Mike Pearson was a great capital allocator and that Valeant would be a compounding machine for years to come. In our history, we have benefited enormously from decisions to let good stocks continue compounding even as they grew to large sizes in our portfolios. As Valeant grew larger, we had a vigorous internal conversation with each other and with the Sequoia Fund board. In the end, Bob and I made a judgment that Mike was a capable leader and that Valeant could keep compounding.

And finally: How could you have so misjudged Mike Pearson?

Bob Goldfarb thought Mike was one of the most brilliant CEOs he had ever met. And Bob had a 45-year track record of getting these things right. In particular, Bob and I believed Mike's opinions on the unproductive nature of high fixed-cost R&D were accurate. While there were issues with Mike's personal life, he was a dynamic and extremely hard working person. ValueAct, a fine firm with a significant investment in Valeant, hired him to be CEO, and Mike attracted many former McKinsey partners who followed him to the company as well. He was highly regarded by his former McKinsey clients, who themselves are some of the most prominent executives in the pharmaceutical industry. He seemed intensely focused on shareholder returns, which was attractive to us.

For Q&A, we ask each person to ask just one question then get back into the queue so that as many people as possible have an opportunity to ask a question. With that, do we have any questions?

Question:

As probably some of you know, we are the plaintiffs in a derivative class action which hopefully will benefit Sequoia, not damage Sequoia. You have presented details of three of your purchases, which are informative and highly laudatory. But you have not said one word about the procedures that took place with respect to Valeant when it was $260. Who discussed what? What were the details that were discussed? How much reliance was there on a gentleman a couple of years out of Harvard? What role did the directors have? Why did two directors

quit over Valeant? What went wrong in the decision to keep Valeant from 260 down to 30?

David Poppe:

We viewed Valeant as a fundamentally healthy company coming out of 2014 and really believed that it could continue to compound. It had done a number of acquisitions successfully: Bausch & Lomb seemed like a successful acquisition. The judgment internally was that Valeant could continue to compound for us. There was an enormous amount of research done; we had a person almost full time on Valeant, and at various times other people chipping in on Valeant. And clearly as I mentioned in the prepared remarks, we made some judgments. As we look today, clearly we mis-assessed the situation.

John Harris:

I want to also chime in there for a second, and address a couple of things you mentioned. First of all, in terms of relying on Rory Priday, whom I guess you are referring to, nobody was relying on Rory. Rory was the primary researcher on the project, but there were multiple eyes on this at Ruane, Cunniff. Ultimately Bob, who had been at this firm for 45 years and contributed so much to our long term performance, had very much earned the right to have the final say in that debate.

Question:

What I want to know today is not anything that you did with your analysts. It is how you are going to make the big problem smaller going forward. I do not want to see another Lehman, where I worked.

David Poppe:

The big problem is already quite a bit smaller. It is not as big a portion of our portfolios as it was when Bob retired in March and the capacity to do harm is less. We have a lot of work to do going forward to deliver the kind of performance you expect, but Valeant is not an outsized portion of portfolios today. Simply mathematically the amount of harm that it can do is far less. We continue to watch it closely.

Question:

I have been a shareholder for 35 years. Would you please give us your best estimate as to amount and timing of distributions?

David Poppe:

We may have a distribution a bit earlier in the year than in a normal year. We are talking about re-opening the mutual fund on some of the financial services platforms; so it may make sense to make a distribution early. I will tell you that even though we have some losses on Valeant, we have an enormous amount of gains in the fund. So you will have gains, not losses. And we do not expect to have a capital loss this year. We had one tranche of shares of Valeant that was purchased for Sequoia that had a large loss, but any subsequent sales would have gains.

Question:

I have been a shareholder for over 40 years. And I am actually the second generation of a four generation family of Sequoia holders. And if my parents didn't have the foresight to get myself, my sons, and my grandchildren into the Sequoia Fund, we wouldn't be able to live the lives that we are living right now. So for that, I want to say thank you. I see a lot of very young shareholders here today in attendance too. And so I just want to say that you have done a great service for me and my family and probably the vast majority of the people here in this room. I also just want to add one thing: it has been extremely refreshing to have put a personality back to the Sequoia Fund, after many years of really not seeing the personality that you presented to everybody here today. So thank you, and I wish you the best of luck.

David Poppe:

Thank you.

Chase Sheridan:

I think we will remove the one question limit for you. [Laughter]

Question:

I think my question is directed at David and Jonathan Brandt because I gather you two are covering Valeant now. Given that you have talked a lot in the past about Valeant and how the situation got to where it was, could you comment on its prospects going forward given the management change, strategy change and all the rest of it. Can it become the type of company that Sequoia normally likes?

David Poppe:

I think Valeant has a very difficult path ahead, much of it its own doing. The company has brought intense scrutiny to itself from health care payers who were, I think rightly, offended by efforts particularly at Philidor apparently to hide things from the payer community. I think the government clearly has Valeant in its crosshairs, and it will continue to be a

target of scrutiny there. I think generally there is much more intense focus on the pricing decisions made by the branded pharmaceutical companies and there will be more price pressure on everyone. That does not mean that Valeant will not do well in the future. But because of the large debt load that Valeant carries that I think was acquired based on an assumption that it would be possible to continue to take large price increases in the future, Valeant is in a difficult spot. It has some very valuable assets, and we have known Joe Papa, Valeant's new CEO, for years. We have owned Perrigo, which Papa ran before going to Valeant. He did a good job at Perrigo, overall. But he has a difficult task ahead. Valeant has to build stronger corporate communications, government relations, and financial functions. There is just a lot happening. Our belief is that Valeant probably should not be a core holding for sure and probably not a long-term holding for our type of investing and our firm. But we are watching it closely. We will see Joe in the near future, but I believe that the path ahead for Valeant will be pretty rocky.

Question:

I have been a shareholder for more than three decades. And I think you have done a very good job of building and protecting value in general. My question is, "Who plays the role of skeptic in the investing process?" And I want to read something from the last time you had a problem like this, which was the Porsche-Volkswagen controversy. This is something that Greg Alexander said at the 2010 meeting. "It is a real testimony to the dangers of hubris. Management seized defeat from the jaws of victory; the management got carried away. It is just an example of a good idea taken to its disastrous extreme." I think that seems to describe what you have been talking about with Valeant. I just wonder as I said, "Who was designated to play the role of skeptic, and what happened?"

David Poppe:

I think we have a table full of them upfront. I do not think anybody here is a pushover. I think particularly after the experiences we have been through, there are going to be really sharp eyes looking at everything we do internally and, we know, externally as well. I do not think we lack for internal skeptics.

John Harris:

There is a reason why the structure of the firm is a little bit different now than it was in the past. The way we operated in the past was totally appropriate, given the history of the firm and given Bob's immense contributions to that history. But I guess because of an accident of that history, we ended up in a situation where one person really wielded enormous influence internally, and that can be a fantastic thing. It can also have its downside. I think both systems can work, but I think that the changes we made will be to the good.

Question:

My question is, you have a management fee and also you have a lot of cash. But when I redeem shares, you do not give me cash. Instead, you give me shares in companies that I have not chosen. I do not understand why you hold so much cash. In my company, I do not do that. But when I made a large redemption, you paid me with shares.

John Harris:

I think one aspect of what I was trying to convey earlier is that over the full sweep of the history of the firm, we have carried I do not know what the average cash balance in the fund has been from the beginning to end, but it is probably a pretty significant number, certainly relative to what you typically see in the mutual fund industry. Yet we were able to outperform net of the management fee significantly over that full sweep of history even with all the cash. So it certainly is possible to do, but I take the point. It is pretty clear, just looking back at history that we would be well advised to run with less cash in the future than we have in the past, and as I said I think that is a change you will probably see. In terms of your other question about the in-kind distributions, that is a really important point that I do not think has been covered well in the press.

David Poppe:

We never want to inconvenience any shareholder, but the way the rules work is when we have a large redemption in Sequoia, we have the option to pay the shareholder in cash or with securities. The advantage of redeeming with securities is that we can use securities that the Fund has owned for many years and have large unrealized capital gains. When we give those shares to shareholders, redeeming part or all of their positions, it is a minor inconvenience because they then have to sell the securities to get cash. They receive the full value of their Sequoia shares, but it makes the capital gains disappear out of the fund for the continuing shareholders. It is extremely tax efficient. At most, it is a minor inconvenience for the

redeeming shareholder and a significant benefit for the continuing shareholders. We want to do things that are good for continuing shareholders. That is always our highest priority.

Question:

I have been a shareholder for the last five or six years. I am really concerned over what went on with Valeant. Even last year I had a question in my mind how this stock went up and up and up without ever coming down. But my concern now is why is Mr. Goldfarb not here apologizing to the shareholders? He was responsible for what went on. And, as you say, you work as a team. But why was no one questioning him?

David Poppe:

It is a fair question, and the answer is simple. We went through a very stressful period. We talked to Bob, we — this group here — talked to Bob about how we would make decisions going forward and the best way to work together going forward. And Bob elected to retire. He could have come today. Of course he would be welcome, but he is not here today. He elected to retire.

Question:

I am a shareholder for the last two or three years. My question is not about Valeant. I understand hindsight is always 20-20. I think you had a large percentage invested in Berkshire Hathaway back in the early 1990s, and it did well for you. The question I have is, take Sirona Denstply, which Trevor talked about. Great company, you put 1.4% of your total portfolio into that company. Now after you spent all those hours of research and days and months talking to the management team, why is Sirona only getting 1.4% of attention or investment versus Valeant? When you entered that in 2010 I believe it was I think 10% and that grew to 30%. That leads to my second question which is, are you guys talking about limiting any investment that exceeds a certain threshold?

John Harris:

Maybe the broader point that you were touching on is worth just addressing for a second. In a way, you could argue that there was sort of a second derivative impact to our involvement with Valeant, which is that I think when something that gets that big and when the primary decision maker at the firm becomes so focused on it, it can sort of suck the air out of the room in terms of our process and make it harder to get other ideas into the fund.

Chase Sheridan:

To your question about the size of that position, I think David mentioned that we will continue to run a concentrated portfolio. We are going to have 25 – 35 positions and it is the goal to make all positions be of a meaningful size.

Question:

My name is Joe Amaturo and Bill Ruane was my best friend. I may have been the first person to invest in this firm. He was visiting with us for Thanksgiving in 1969, after having lost his first wife. But what I wanted to say is this: Bill Ruane was an outstanding person. He had so much integrity; he was such a great guy personally. He was smart as hell, and what I appreciated here this morning was the respect that you all expressed for him and his concept for this company. If you think this is a big problem, you have to look back at the beginning of the firm when we obtained the license to become a stockbroker and shortly thereafter, the value of the Sequoia Fund dropped about 40%. So the start was not too great, and that can happen. But I think after all these years, each one of you I think was so sincere, talked about his method, his methodology, and his concept of integrity and honesty. I can't see anything but success for you guys, congratulations.

David Poppe:

Thank you Joe. I think we speak for everybody here; Bill and Rick were two of the most remarkable people any of us ever met, and our job is to carry on.

Question:

I have been a shareholder for about five or six years. When I read your prospectus or other documents, you talk about fundamental principles of investing. You talk about making sure a company can finance its growth from the internal cash that has been generated from operations. You talk about self-funded growth; you talk about high returns on invested capital. But when I look at the Valeant investment, it just seems all the principles that you have articulated in your prospectus and that you really tout were all violated. There were no checks and balances as the borrowing continued. Valeant has over $31 billion dollars in debt. Where was the due diligence process? Where were those principles? I am just very disappointed. It is good to come over here and talk about a good investment process and your legacy of exceeding the returns of the market. But it does not seem that there was any due diligence that was given to that investment in the

way that you articulate in the prospectus. You say something in the prospectus, but when making investment choices, you do not actually use those principles to select those investments. I would like some more detail on that. Thank you.

David Poppe:

At the end of 2014 after the Allergan deal failed, Valeant had about $15 billion dollars of debt and it actually generated a reasonable level of free cash flow during the year and paid down about $2 billion dollars of debt. Valeant seemed to be making very good progress toward reducing its debt. In 2015, after the Allergan deal failed, there were clearly deals that it turned out were not in the shareholders' interest. The Salix deal was the largest, but Addyi was another one. The Marathon deal, which involved dramatically raising prices on some cardiac drugs was another one. There were clearly things that Valeant did in 2015 that have hurt the shareholder a great deal. But through the end of 2014 and the failure of the Allergan deal, it did strike us that Valeant was making progress; that the business model was working and that the debt was not excessive. Clearly there were decisions made after that deal failed, which we were slow to recognize and turned out worse than we expected.

Question:

I am here with my son who is third generation Sequoia. My dad was a member of Cap Cities; so we have been around for a while. His sister, on my encouragement a few months ago, invested in Sequoia right at the peak. And since that time, the value of her investment has obviously eroded by a lot. But as John Harris pointed out earlier, the last ten years of performance are not something that you are particularly proud of either. And that took place during the tenure, really, of the people who are sitting on the stage today.

In a learning organization, you seek out the root cause and take corrective action. I think I understand the root cause: Big contributors over a long period of time get big voices. That makes sense. It almost overran the analysis. I think I understand what happened: There was a big fight over the decision; people left. And then you guys determined corrective actions culturally and reinforced the process that the firm was built on by setting up the committee. That is my translation of what you guys are saying. The question I have going forward is, do we stay? It is really a hard question for me. I would hate to sell my shares in Sequoia for lots of reasons. However, I have got to make a decision. The question is, for the last ten years the results for Sequoia have not been as great as they have been historically. How do I have confidence and trust that the next ten years will be better?

David Poppe:

I cannot promise you anything because we do not know what the future will bring. I can tell you that we have a process that has worked very well for a long time. We have a team that was for the most part hired by Bob, Rick, and Bill. The team is passionate about the mission and works well together, but it also understands what it is that we have done historically that has worked, and we are committed to continuing to do that. The market does not always cooperate with you, but I think from a process standpoint and an intellectual standpoint we have the firepower that we need. We have people who have been successful finding good stock ideas, and we have people who work well together. I feel good about it; I understand why you would not. It is a traumatic thing to go through; we have caused our investors a lot of pain. But I do think there has been a rapid response, a strong response and a commitment to the language in the prospectus that the other gentleman was citing and to a process that we have executed well for a long time.

John Harris:

The performance you referenced, the five and ten-year results, which we are not proud of, were all heavily impacted by a very big judgment that we made that I think we have all described as a judgment that was not a good one. But the question you ask is a fair one, and the the decision you have got to make is, was that judgment reflective of some endemic flaw in the process and the culture and the way we do things around here, or was it not? You have heard from us today; you are going to hear another hour or so of Q&A. Ultimately that is the decision you have got to make. We cannot make it for you. I personally have a very strong opinion about what the answer to that question is, but ultimately you have got to answer it for yourself.

Trevor Magyar:

I agree. The question is an entirely fair one. I think both David and John have rightly emphasized the process, and we believe in the process. I guess just one other point though; the last several months have been incredibly stressful for you and therefore for us. But I have got to say, coming out of this, and this probably falls into the "take my word for it"

bucket, but there is a huge amount of energy that has been unleashed internally. You cannot see it, but as painful as this period has been, I really do believe we are stronger than we were three months ago, and there is a lot of energy and enthusiasm about the future.

Greg Alexander:

I will just throw in one more comment. We are all up here. We have made our presentations; it seems like life has just been going along steadily. It has not. It has been a real helluva six months. Bob was the primary contact person for many clients at the firm, and he suddenly left. We did not know many of those clients personally. They did not know us. And our assets went down suddenly. All of us here have other career options. And yet, not a single person left except for Bob and Rory, who worked on Valeant.

We have all chosen to just work from dawn to dusk, all day, all night, all weekend for the last six months because we recognize how unusual and how valuable the culture of the firm is. If you listen not to us, but if you talk to the best researchers on Wall Street, we have a reputation for doing the best work in the business, and that is something we all love to do. He is lucky whose vocation is his avocation. And they will tell you that there is no place like Ruane, Cunniff & Goldfarb for that. In the midst of all this difficulty, I have probably had different people come by the office every week or two for the last few months, people who would like to come here. Where they work, they have a stock, they spend a lot of time working on it, and it is gone the next week. Someone says it did not go up, whatever. There is almost no place like here, and that is why we are fighting so hard to keep it as it is and to make it better. It has really been a pleasure and honor for me to see everybody working like this, and the groundswell of support from you all is truly appreciated.

Question:

Bill Ruane was a personal friend of my parents. He was their stockbroker before he went independent as an advisor. Could you enumerate what changes in sell policy guidelines are the result of the Valeant experience?

David Poppe:

Two things: One is we have talked a lot internally about having a very rigorous review process of positions at 10% and again at 15% as they get to that level of our assets under management. Two, we have a discipline of trimming a position at 20% so that in the future, no position gets past 20%. That becomes automatic. Also one thing about the committee that I feel encouraged about is you will have a senior analyst looking at every project, helping us evaluate and assess, just more eyes on the biggest positions. I think that can only help as well. If you have maybe a little of rotation of the analysts who are responsible for the position and fresh eyes looking at it, you will get new questions that you had not thought of, and I think that should help us.

Question:

I would like to hear from the analyst who covers Rolls-Royce. That is another company engulfed in much turmoil, even to the point that the British government, which is normally hands off, has threatened to intervene in event of a hostile takeover.

Arman Kline:

Rolls-Royce is one of two manufacturers of jet engines for the large Boeing and Airbus airplanes. GE is the other. We have talked about Rolls quite a bit over the last few years because of the amount of change that has occurred in that business. I will kind of touch on it quickly and then I will let Antonius, who works on it with me, comment as well.

Aerospace, the most important of Rolls' business segments, has continued to do pretty well. The sales onto the new airframes have continued to grow. Rolls is the sole supplier on the A350, which seems to be doing well, and on the A330 Neo, which is scheduled to come out next year. Rolls is one of two suppliers on the 787. So, from a market share perspective, Rolls is in pretty good shape.

The business is a razor-razor blade model. You sell the razor, in this case the engine, for little to no profit, if not a slight loss. Then you get 20-to-30 years of razor blade sales — service and spare parts — at nice margins. Rolls is going from a situation where it had about 18% of the installed base of the wide body market to having over 50%. When you have a big ramp up like that in the sales of the razors, which is the low-margin part, you get pressure on the business's margins. But it is actually a very good thing to happen if you have a sufficiently long-term perspective because of all the razor blade sales you can expect in the future.

The accounting for a business with such long-term commitments is very complex. But at the end of the day, the question is if we look out five or ten years and we see all those new engines coming into service, are they going to generate the profits

and the return that we want? If we think the answer to that question is yes, and we do, then the right decision is to hold it through this turmoil. In fact, it is exactly the type of investment that we should be good at.

Antonius Kufferath:

The key point here to remember is that Rolls-Royce is one of the world's premier industrial businesses. On the wide body side of its civil aviation business, it operates in a duopoly. Only Rolls and GE manufacture engines with greater than 70,000 pounds of thrust. Everybody here flies regularly. You know engines cannot fail. Faultless operation is absolutely mission critical. Aircraft manufacturers are therefore very, very reluctant to try a new supplier or one who is new to a class of engines. So, you just do not see many new companies trying to get into the aircraft engine business.

The second point to remember is growth prospects are good. World travel as measured by passenger kilometers is likely to grow annually around 4% to 5% for a long time. That drives demand for engines and it drives more hours of engine uptime and so more aftermarket services on which Rolls-Royce earns nice margins. You are looking at investing in an industry that has a secular tailwind that should last your lifetime and well through your children's lifetimes. And Rolls-Royce sits there right there, at some of the most critical parts of that transportation chain.

Finally, another point I would like to mention is that there have been significant changes in management at Rolls-Royce. When we initially looked at the most recent management change with Warren East coming in as the CEO, I think there was a little bit of skepticism. Then we saw Warren East, looked at what he said, and we had conversations with him. And so far he is saying and doing all the right things that are in the interest of the company and of the shareholders.

I would like to point out one example of that. It is well known that Rolls-Royce has to improve its manufacturing efficiencies, and therefore the company needs a strong Chief Operating Officer. We talked to Warren East about that, and he was very clear on it. But he said he wants to find the right person who will not be rejected by the organization, somebody that will be embraced by the organization. That is one of the clues we look for in an agent of change, somebody who has a true emotional intelligence as he goes about making the key personnel appointments.

Tom Russo:

I am here to speak as a friend of the firm, as an alumnus of the firm, and as the head of a firm that owes much of its own existence to the wonderful effect on us from the Sequoia Fund over many years. I wanted to personally thank all of you on the dais for taking the deep examination that you have taken into your firm, into the heart of the firm, and coming up with a solution that I think promises to increase the future returns from the Sequoia Fund enormously. You have without question the most interesting and effective research team in the industry. And I am only worried when I think about what has been said so far about your efforts, that there are 930 memos, there are 13 out of 14 holidays spent at a veterinary conference, and there are six months of research on PCP after having already researched it. But getting it right is so important, and you research so hard to do that. I am not sure when Trevor said that as a result of the experience you are going to energize this research team even more, just what that means because I don't think it is possible. So the notion of then opening up the platform for ideas that flow more freely into the portfolio when they are deeply undervalued, out when they are fully valued, and long gone before they are overvalued is very promising. To couple that float with your ongoing research should be very rewarding.

I think the comments that John made at the start were very reassuring, but I would say that there is one thing that he probably got wrong, which is that I think Gregory Alexander can build a rocket ship!

John Harris:

You get to fly in it!

Gregory Alexander:

I just want to say Tom, we will endeavor to remain open-minded, but not so open-minded that air is blowing through!

Question:

I am a plaintiff in the Sequoia derivative lawsuit. My husband and I sent you a letter as to why the press has been barred from this meeting. In past annual meetings you have had the press. Could you give us a reason?

David Poppe:

The meetings have always been off the record. We are not a public company and this has never

been a public meeting. We are very focused on communicating with our clients but we have always been otherwise a quiet firm.

Question:

I am a new investor. I am a huge fan and follower of Buffett. Buffett generally says it is very important to learn from one's own mistakes; but even more important to learn from others' mistakes. So with great humility, could you please elaborate on three important lessons that you have learned going forward, especially in terms of your thought process in investment decision making.

David Poppe:

One is more eyes on the project. We had already been doing a lot of that, having two analysts work on a project because the work tends to go better, it goes faster. And it is good to have differing perspectives on a project. I think that is something that we will do in the future. With the committee, there will certainly be more than two eyes on every project as it moves forward. I think that can only help us get both faster and better. I think the automatic review on a successful investment as it gets to 10% – 15% of the portfolio is also a good idea that will help us going forward. The mechanical discipline of selling some at 20% is client-friendly in my opinion and could help as well.

We have a strong, hardworking team of people, and we just need to make sure that we are collaborative, that we are talking to each other about the direction that the firm is going in and the decisions that we are making. We do not have to be unanimous about every decision and we will not be equally passionate about each one. But we have enough talent that the more we listen to each other, the better we will be.

Chase Sheridan:

Being explicit about certain safeguards is a useful part of the process. We have a second set of eyes assigned to every major position in the portfolio. We have talked quite a bit about being explicit about the inherent biases in some of our sources and about making sure that as we assemble the mosaic, we rely on sources that we think are objective and make sure that we have a very large variety of sources that we get information from. That helps inform our judgment.

Greg Alexander:

Those are some internal changes. You may have been asking also if there is anything we have learned, just general lessons about investing. One thing that I think we all learn and relearn in this age of accelerating changes is that things change, businesses change, business conditions change. Competitive conditions change, and even CEOs change, CEOs whom you thought you had pretty well pegged can themselves change.

Question:

I do not understand how your board works. I do not care that you blew it on an investment decision because that happens. But we do not know what happened with the board. The assumption is there were people on the board looking out for our interests. They were not listened to; they resigned. They ended up being right, and we would not have to pay for this big room if they had been listened to, we think. So in the interests of candor, what does the board do? Is there a change in how the board operates? I know it is a balance because you do not want the board micromanaging you. But it turned out the board was right.

David Poppe:

I would love nothing more than to pay for a smaller room next year. It would make me very happy. I am not a corporate governance expert, but a mutual fund board looks out for the shareholders of the mutual fund to make sure that the manager is not mistreating them. The board is not a co-manager of the fund, and it is generally not involved in investment decisions, but it does exercise oversight to make sure that we are acting appropriately. The manager ultimately has to make the investment decisions, and the board has to evaluate whether the manager is behaving well in all aspects of running the business: the fees that are charged, the commissions that are charged in trading, that we are shareholder friendly. I think our board does a good job; the directors are clearly independent, if nothing else you know that they are independent. And in this case the two members who resigned remain on friendly terms with the firm and with me, for what that is worth. They resigned over an issue of concentration in the portfolio and not over any other issues. The chairman of the board of Sequoia is an independent director. I will ask him, Roger Lowenstein, to give his sense of how the board operates and should operate.

Roger Lowenstein:

As David said, the role of the board is not to pick the stocks or size the stocks or sell the stocks. But it is certainly to put intensive scrutiny on all

positions and particularly positions that get so big and so controversial. You mentioned the two directors who left. You would be wrong in thinking that questions or concerns or scrutiny came from only those two directors. The concerns that were expressed were expressed by the entire board, and the questions, and intense questions, came from the entire board.

Ultimately the job of the board, since we are not picking stocks, the most important responsibility is to make sure that we have the right people who are picking stocks. Obviously that is Ruane, and within Ruane for a long time that was led by Bob Goldfarb. Someone with his record, a long, long record of success had a tremendous amount of capital with the board, and that was well earned. The time came when there was a change made. As David said earlier, I think that change was for the better for Bob, but more importantly for those of us here, for the firm and for all of us investors. And I will say that the board has tremendous faith now in the people making the decisions, and, as some of them have stressed, in the way those decisions are being made and in particular in the more collaborative way the decisions are being reached.

Question:

I wanted to ask two things quickly, and forgive me if in fact you have answered this first question, but I did not understand. To what extent was Bob's previous power to push through these Valeant investments a function of written law within the firm, so to speak? Or was it unwritten law based on culture and precedent pertaining to Bill and Rick's previous roles such that decisions could be made by Bob all but unilaterally? If it is unwritten law, has the written law been put into place and changed internally? Secondly, I just wonder to what extent might the ethics of Ruane, Cunniff play into choices going forward?

John Harris:

In terms of the ethical piece, that is an interesting and a very valid question, and you are not the first person to have asked it of us. This is a complicated subject that we have debated internally for a long, long time. The issue with adding that as an overlay to our process is that these are inherently subjective judgments, and different people have different points of view about what is and what is not an ethical business. Some people are uncomfortable owning casino businesses; some people would feel uncomfortable investing in the tobacco industry. Some people would feel uncomfortable investing in businesses that make sugary drinks or fast food or things of that nature or energy companies, or companies that do fracking.

I am not certain of my facts, but this may date all the way back to Bill. We just made a decision that we were not going to make those decisions on behalf of our clients and I guess, in a way, impose our own moral and ethical views on all of you. But it is a very fair thing to want to have your ethical views expressed in your investment program, and there is a whole branch of our industry that offers socially responsible investment funds that have different objectives depending on what your personal ethical concerns are. And that is a very legitimate way to invest your money if that is what you want to do. But it is just not something that we have ever chosen to do.

David Poppe:

On the process question, we have always been a process-light firm, which means a lot of verbal agreements, a lot of understandings, a sense of partnership, and so not much written law. We have relied more on handshake agreements: "This is how things should be. This is what we think we should do." Bob and I were co-managers of the fund, and our practice was to be unanimous on decisions and for ten years in almost every case we were unanimous in our decision-making. I do believe in the Valeant situation specifically, there were from me and from others powerful views expressed about the position. As the stock price rose to thirteen times our cost in five years, it became somewhat difficult to have your voice heard. I think, going forward, we will opt to have a bit more formal structure, be less process-light. We have talked to you about some specific things that we are going to institute and that will make it a little clearer on how the process will work. I still think what works best for us is a partnership structure in which we talk about it and make decisions together. We will have more process, but I do not see us being process-heavy in the future.

Question:

I would like to know whether any agencies are investigating your firm, investigating Mr. Goldfarb, or investigating anyone else.

David Poppe:

I think the right answer for that kind of question is that we do not comment on litigation or regulatory matters.

Question:

I had a question stemming from Valeant. One thing I noticed about Sequoia and you guys up there is that, unlike a lot of other investors, you have a pretty significant focus on the management teams in the businesses you invest in. In light of Valeant, do you weigh your confidence in management less versus the quality of the business now than you did before? Secondly, I understand the position size cap, but could you give us a little more color on how you rank each position in your fund? Are you ranking those in terms of which ones have the highest returns and IRRs, and are you taking into account risk profile when you are ranking positions from 1 – 10?

Chase Sheridan:

I will address the second part first. We do not size positions according to expected IRR because as you correctly note, you have to factor risk into the equation. There are certain investments in our portfolio that are real anchors, incredibly steady, defensive businesses that we know will do well in good times and bad. If the IRRs are the same, the steadier, more durable business deserves a higher weighting. We recently put something into the portfolio that we think has very good prospects. But we limited the size of this particular investment because there is some element of tail risk on the downside. We want to be aware of that. It is a not a formula. I do not think given the way we invest, for the durations we invest, that formulas work. It is a subjective judgment. But certainly, we factor risk into our decision-making process when constructing the portfolio.

David Poppe:

On the management team question, we will always be focused on the management team. We are management-quality focused investors. My experience of doing this is you cannot really look out ten years. People do models, but you cannot really look out and see what is going to happen even five years out in the future. But you know things will come up that you did not anticipate. My experience has been that the best management teams make the best decisions when crazy things happen. And mediocre management teams tend to make poor decisions when the unexpected happens. So I think we will stay a CEO-focused, management-quality-focused firm.

That said, you have to have a mosaic of sources both inside and outside the company, and you have to pay attention to what people outside the company tell you. Of course you are paying attention to numbers and other information. But it is a very good question with respect to Valeant. Historically, that has been good for us. We have been able to make great decisions when management teams were more accessible and we could make a good judgment of management quality. In this case I will just repeat, Bob did think Mike was one of the most brilliant CEOs he had ever met.

Question:

I have been an investor for four decades. And I have known Rick Cunniff and his family since I was a kid. My family and I have benefited a lot from being owners; so thank you for that. I accept and understand that things go bad; investments go bad. My question is looking forward more and wondering what you see looking forward let's say to the next five to fifteen years: how the world, the global balance is changing, how the environment is changing. How in your research, are you looking forward?

David Poppe:

I will just start, and maybe one of the guys will chime in because it actually is a big topic. There is more information available today in real time by far than even in the recent past. I can remember that you used to order 10-Ks over the phone and pay $30 and they would come in the mail eventually. Today, information is available on your desktop the second the filing is out. There are many smart people looking at every idea, and you have to be humble about that. Our business attracts a lot of very intelligent people. I do think that there is still room for good judgment and common sense. And I think that our long-term perspective maybe makes us a little bit different and gives us a little bit of an advantage. The research focus continues to be important, but as I said, there is more information available quickly than even five or seven years ago. Our advantages going forward will be elbow grease, common sense, and a long-term perspective.

John Harris:

There was one thing that David mentioned that really I want to latch onto, which is humility. There is a saying in this business that there are two kinds of investors, people who are humble and people who are in the process of becoming humble but may not know it yet. There is a big debate about whether the world is changing faster today than it has in the past or not. I guess my point of view is that it does feel like the pace of change is faster than it used to be. You see industries and businesses that you would never have imagined could be disrupted knocked off

their pedestals or that are in the process of being knocked off. It is humbling to watch. I think it is very important that in an environment like that you proceed in a humble manner. We try to do that.

The other interesting aspect of what we do and the way the firm is set up is that we have lots of different people doing lots of different research projects on lots of different types of businesses all over the world. Some of them we do not own in the Sequoia fund or are not researching for Sequoia Fund. But we are in a learning business, and the learning and the insights that are gathered through that research have plenty of value to the investment process that impacts all of you as investors in Sequoia Fund. So I think a breadth of information and experience is helpful but nothing is more helpful than humility.

Arman Kline:

Maybe I will just add to that. I mentioned in my remarks on Idexx that one thing we were focusing on was its durability and in that case we were talking about a high PE, but to your point about the rate of change, we have really started to focus on this question of how durable the assets are, what the opportunity for disruption is and over what time frame. I think those are key questions.

Question:

I have been a shareholder for a couple of decades; my children are in the fund. I have a question on a specific name and its future prospects, in the vein of the past fourteen meetings I have attended. What are the prospects for Hiscox?

John Harris:

Hiscox is an insurance company based in the UK and it is just a fantastic business. We talked about paying attention to management quality. That is one of the best managements we have in the portfolio, and I guess I would just reiterate the point that David made. We do enormous amounts of research. We talk to all kinds of people; we try to tick every box, cross every *t*, dot every *i*. You can do all of that, but if you are going to be a long-term owner of a business, there are bound to be surprises. And there is absolutely no question that when you are with great management teams, the surprises tend to be good ones, and when you are not, they tend to be bad ones.

In this case, there have been a lot of surprises because the structure of that industry has changed in some really negative ways. There is a whole lot of capital that has entered the insurance and the reinsurance industry that has a much different cost and return expectation than the capital that has supported the insurance liabilities in the more recent past. That has had a very negative impact on pricing for many of the lines that Hiscox writes. You would think that in the context of massive price deflation, someone selling the product that they sell would not have had a terribly good run over the last five years. In fact, Hiscox has had a marvelous run. Part of the reason why is that the wind has not blown very strongly and the ground has not shaken very strongly in the past few years, but that is not the whole story there. Hiscox has way, way, outperformed many of its peers, all exposed to the same earthquakes and hurricanes and everything else that Hiscox is. The management has been so adept at adapting the company's exposures to the new environment. Hiscox shrunk what had been previously big businesses that were exposed to deflationary forces into small businesses, then found new veins to mine, and growing what had been small businesses in nichey areas that were less affected by some of these larger forces into really big businesses. Who would have imagined Hiscox would do that? Those are the decisions that a really strategically astute management makes, and that is why we have had such success there.

Now that management team will not stay forever unfortunately. So a big question for us is, "Who comes next?" There have been two generations now of really excellent management, the founder, Robert Hiscox, and the current CEO, Bronislaw Masojada. I think the big question with Hiscox is, "Who is the next act?" We do not know the answer yet.

Question:

I remember taking some comfort years ago from Mr. Ruane talking about staying out of foreign investments by and large. Is that still current thinking?

David Poppe:

On international investments, I have said to many of you over the last couple of years that we have not done as well internationally as I expect and you should expect from us. It is frustrating because John and Greg are much more global investors, and they have done very well. We continue to look for best of breed, great companies wherever we find them. We are not averse to looking in Europe. We do like developed market corporate governance and

accounting that we can understand. We have not done as well as I think we should be able to do. I will say our international investments have been hurt by currency fluctuations. We are not hedging currency and our thought has always been if you buy international stocks, over time the currency evens out. So, why incur the frictional cost of trying to hedge? Yet the pound and the euro have declined against the dollar over the past decade. We are well aware that we have not done as well as we expect so far, but we are not ready to give up. That said, I do believe that the majority if not the large majority of your dollars will be invested in North American companies going forward.

Question:

I want to focus on going forward. You are in two businesses: You are obviously researching great businesses to buy, but you also need clients to stick around. And what I worry about going forward is some of the tweaks to the process might sound good to clients but may take away from the performance in the future.

John Harris;

I just want to say one thing quickly, and I am sure other people have comments. But not for a second did we make any of these decisions about how the firm is structured right now because we thought it optically would look good to the outside world. There is one reason and one reason only why we set things up the way we did; because we thought each move we made was the absolute best way of going forward to get the results that you want to get.

Trevor Magyar:

I would just add to that something that both David and John touched on. The changes that are being made, really are not that significant. It is really more a formalization of the kind of collaborative culture that we have always had. We believe that a collaborative culture, making sure that there is broad participation across the team and not just the investment committee, is a key part of driving performance. We believe in our process and we believe in one another, and we think this is the right structure to drive performance in the years to come.

Chase Sheridan:

Any alterations to our process are made because we think they are improving the firm ultimately and I will just say in my investment career, which goes back a decade before I joined Ruane, Cunniff, I have learned that process is extremely important. Brilliance helps, but I know we have the talent among the analyst group here to generate fantastic returns. Then the question becomes do you have the right process once you have got the talent in place. Every alteration to our process is done with the idea of improving the firm and moving it forward, and I think that the changes you have seen are going to be very beneficial.

Arman Kline:

I would just quickly add, when I first joined the firm Mr. Ruane took me out to dinner. And I asked him what his key insights were to managing a business like this successfully. He said the number one rule is the analyst has to be involved in the management of the portfolio. If you get a break between the people managing the portfolio and the analyst, things do not work. We have always been run that way. This is simply a formalization of that ethos.

Trevor Magyar:

If my history is right, I think Bill's business card, read, ''Analyst,'' not ''Portfolio Manager.''

David Poppe:

I think in closing I want to thank Bob Goldfarb for caring so much about the quality of the research team. I want to thank Greg Alexander for dressing up! And I want to thank all of you for staying with us, and we will see you next year. Thank you very much. END.