# MANAGEMENT'S LETTER TO PARTNERS

Dear Partner,

In 2022, the Aquamarine Fund returned **-21%**. This compares with -18.1% for the S&P 500 and -17.7% for the MSCI World index. Since the fund's inception in September 1997, our capital has compounded at a rate of **8.7%** annually, versus 8.3% for the Dow Jones Industrial Average, 7.7% for the S&P 500, 6.4% for the MSCI World, and 3.4% for the FTSE 100.

The Aquamarine Fund's total return from inception is **720.9%**, versus 644.5% for the Dow Jones Industrial Average, 546.7% for the S&P 500, 384.2% for the MSCI World, and 130.8% for the FTSE 100.[1]

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

## COMMENTARY

In the quarter of a century since I launched the Aquamarine Fund in September 1997, we've had a total of seven years in which we lost money: 1999, 2002, 2008, 2011, 2015, 2018, and 2022. It's never pleasant to report negative returns, but it's not particularly unusual. We all know that occasional drawdowns are an inevitable aspect of investing. Over the long term, our trajectory has been good, despite all the bumps and bruises along the way. Since inception, the fund has risen 720.9%. To put that in context, we've beaten the S&P 500 by 174.2 percentage points.

Still, 2022 was different. In all the years that I've been managing the fund, I've never seen anything quite like it. For investors, this was a crisis year. A watershed year. Financial markets and the global economy were turned upside down by the war in Ukraine, oil-price blackmail by Russia and OPEC, inflation, soaring interest rates, and deglobalization. It was also a year that marked the end of magical thinking. Investors who had thrown caution and discipline to the wind while chasing after cryptocurrencies and hot stocks learned once again that money isn't free, that valuations matter, and that cash earnings are more dependable than blue-sky dreams.

In many ways, I'd been preparing for a long time for a brutal year of reckoning like this. As a conservative, value-oriented investor, I'd very consciously constructed a portfolio of durable, highly profitable businesses that I believe can survive almost anything short of the apocalypse—companies like Berkshire Hathaway, American Express, Mastercard, Bank of America, Moody's, BYD, Ferrari, and Nestlé. These are high-quality businesses that are built to last.

We paid a price for this conservative approach during the bubble years, when racier stocks like Roku, Zoom, Peloton, Snowflake, Salesforce, Carvana, Cloudflare, Spotify, Shopify, Twilio, Cardlytics, Coinbase, and the like were all the rage. Many companies of this ilk were spending enormous amounts of money to gain market share, and there was a fervent belief among their fans that this aggressive land grab would eventually be rewarded with untold profits.

I spent a lot of time studying these stock-market darlings over the last few years, trying to learn more about these new business models and to make sense of the euphoria surrounding them. I read their annual reports, which typically didn't reveal much—except for a history of growing revenues and growing losses, along with a record of successfully raising funds from the capital markets to continue bankrolling all of this unprofitable growth. I sat in on conference calls, listened to interviews with experts, read newsletters, watched YouTube videos, downloaded podcasts, and tried my best to understand the excitement engendered by these businesses.

Fund managers whom I respect greatly would explain to me why a trail-blazing company was destined to disrupt its industry. I'd get intrigued, hoping that I'd finally found the next Amazon—and would then discover that the stock traded at 20 or 40 times revenues. In the past, 20 times *earnings* might have seemed reasonable. Yet I was somehow supposed to see this wildly overvalued and unprofitable business as a value stock that made logical sense. Again and again, my heart would sink when I looked at the valuations of these high-flying companies.

For many investors in this heady environment, earnings no longer seemed to matter. At VALUEx, the conference that I host in Switzerland each year, I sat through presentations about Snowflake and found myself wondering how anyone could justify paying a multiple of 100 times revenues, regardless of how attractive the business might be. When I asked a skeptical question about potential competitive threats to the company, I got a pitying look that suggested I was too much of an old dinosaur to update my thinking and seize this wondrous opportunity. There was a rolling of the eyes, as if to say, "Oh, you're one of *those* people! You're too stupid to get it!"

To my mind, the valuations of these stocks seemed to make no sense at all. But the investors who jumped on this speeding bandwagon were racking up fabulous returns, making them look smarter and smarter. During the Covid lockdown period, the fear of missing out spread like wildfire, and I couldn't help feeling left out as others cashed in on this purported revolution. Still, I didn't feel safe relaxing or abandoning the valuation criteria that I'd pounded into my head over the last 25 years.

Then the bubble burst. Take Roku, for example. Its stock had hit $479.50 in July 2021 but fell to $38.80 in December 2022. Cardlytics crashed from $157.18 in February 2021 to $3.67 in November 2022. Carvana dropped from $370.10 in August 2021 to $3.72 in December 2022.

These were all stocks that I'd looked at seriously and rejected. At the time, I'd felt slightly embarrassed and disappointed that I couldn't bring myself to consider buying them at what seemed like insane valuations. For example, I'd studied Carvana and felt utterly bemused by the idea of paying a lofty price to invest in a company that had never made a profit, that was run by a CEO whose father was a convicted felon, and that was dependent on the capital markets to continue funding its unprofitable ventures. There was a time when such a company wasn't considered ready for prime time on the New York Stock Exchange. I wanted to buy battle-tested businesses with real earnings, not unseasoned companies that didn't seem ready for institutional investors and that weren't yet capable of funding their own capex and development.

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dodged these bullets. I know a lot of highly intelligent and experienced professional investors who were down as much as 50% or even 75% in 2022. For some, it may be hard to come back from these painful losses and continue managing money.

## WHAT SAVED US FROM GETTING CAUGHT UP IN THIS MADNESS?

In large part, I was protected by the fact that I operate in an ecosystem that supports prudent investment behavior. Going to Berkshire Hathaway's annual meeting in Omaha every year for the last 25 years has helped immensely to reinforce this type of patient, rational mindset. It helps that I live in Zürich, far away from the action on Wall Street. It also helps that I routinely read the writings of careful, measured value investors like Tom Gayner at Markel. Throughout my career, I've immersed myself in this world of value investing, with its emphasis on valuing businesses conservatively and buying them at a discount. The principles and discipline of value investing provide a powerful defense against the lure of reckless speculation.

But I don't want to give you the false impression that I'm immune to the temptations that

> When I looked at companies like Roku, Cloudflare, Cardlytics, Carvana, and Spotify, I kept asking myself: Why are they constantly raising money from the capital markets? Without this influx of new money, their purportedly boundless growth prospects could be in jeopardy. By contrast, the businesses we own in the Aquamarine Fund don't rely on an external lifeline from the capital markets.

were rampant during that period of New Economy euphoria. On the contrary, I *wanted* to own some of those overhyped companies. It would have been much more fun to be part of the cool gang that was getting rich quick, instead of standing on the sidelines feeling stupid and old-fashioned. Soaring stock prices have a weird psychological impact on us, leading to shocking divergences between market prices and the underlying economic reality. I feel the pull of these moods.

Why does this matter? Because it's important to acknowledge our own vulnerability, instead of pretending to ourselves and others that we're too smart to be susceptible to these pressures. At the charity lunch that Mohnish Pabrai and I had with Warren Buffett in 2008, Warren remarked, "I never want to get in debt because I don't want to discover what I'm capable of." If even *he* worries about his capacity to go down the wrong path, how much more careful do I have to be?

It's worth noting that there are also powerful business incentives that can easily lead fund managers to jettison their better judgment. In a bubble, investors don't really want to hear my sober story about the benefits of buying good companies at reasonable valuations and holding them indefinitely so we can compound in a sustainable way over many decades! They want to hear that I understand all these sexy new business models and that I know why it makes sense to pay nose-bleed valuations for them. It's much easier to raise money from investors with this kind of aggressively upbeat story. In short, being a cheerleader for the most fashionable stocks is a thrilling game until the music stops—as it did in 2022.

There's another reason why I don't want to sound too self-congratulatory about the fact that we avoided the implosion of all these dangerously overvalued stocks. It's true that I couldn't bring myself to pay up for the priciest stocks, but I did overpay for a very small stake in Twitter, which I bought with some trepidation in the early days of the Covid crisis. The stock had been hit, and it seemed back then almost like a value investment when I bought it for *only* 10 times revenues. I later realized what a complex and difficult asset it is to manage, which may be why its co-founder and former CEO, Jack Dorsey, prefers to focus on running a financial services company called Block.

In the end, we got lucky when Elon Musk decided to acquire Twitter. The fact that the board readily accepted his offer, instead of negotiating hard for a better deal, shows how little confidence they had in the business. By now, Musk has surely come to the same conclusion that it's an odd and exceptionally challenging company to run, not least because you're damned if you moderate the content and damned if you don't. Our purchase price was around $30. I sold for $50.20 after the price shot up because of the announcement of Musk's purchase, so we ended up making a decent profit despite my mistake. I lit a match and ran through a dynamite factory, but I was fortunate enough to emerge unscathed on the other side. That said, I'd sized the position conservatively enough that the overall risk to the fund was minimal.

Thankfully, that was the closest we came to getting hurt by the bursting of this bubble. Still, the experience of the last year provided a valuable reminder that I can never afford to drop my guard against these temptations. With that in mind, I've added several new items to the investment checklist that I run through whenever I'm considering a potential investment. Here are three of these additions, along with some explanation of the thinking behind them:

First, can the company fund all of its own growth and its speculative investment from internally generated cash flow? Google and Facebook have been doing that. Carvana and others were not. I need to know that a company can live on the cash that it earns from its customers, even if it has no access to money from the capital markets. Companies like Carvana and CarMax can become perilously dependent on the capital markets, which can suddenly close as they did in 2008-09. I don't want to own businesses that are raising money to fund operating losses. I want to own businesses that generate their operating funds in cash so they can survive when the music stops.

This way of thinking was very valuable to me during the bubble. When I looked at companies like Roku, Cloudflare, Cardlytics, Carvana, and Spotify, I kept asking myself: Why are they constantly raising money from the capital markets? Without this influx of new money, their purportedly boundless growth prospects could be in jeopardy. By contrast, the businesses we own in the Aquamarine Fund don't rely on an external lifeline from the capital markets. They generate enough money internally to fund their own growth. They don't need to win popularity contests in the capital markets in order to continue delivering value to their stakeholders.

Second, am I relying appropriately on the company's financial statements, or am I paying too much attention to public statements and presentations in which they may be incentivized to put lipstick on a pig? Also, are their presentations designed to convince me of a reality that may not be true? And are the disclosures in their annual report and 10-K genuinely designed to help me understand the business, or are they a pile of marketing fluff?

Third, does the company regularly rely on and generate its own accounting measures and report those, instead of sticking with generally accepted accounting principles (GAAP)? If the company is veering away from GAAP, is there a good reason for it?

These new checklist items are all practical ways to keep myself grounded firmly in reality. Nothing is more important in times when hype is in the air and expectations are running high.

## TWO OUT-OF-FAVOR STOCKS WITH STRONG LONG-TERM PROSPECTS

While I'm glad that we avoided the fallout from the bursting of the bubble, I'm frustrated that we were still down 21% in 2022. There's a part of me that wants to protest that these performance figures are not a fair reflection of my *actual* performance! Of course, plenty of investors fared worse, much worse, getting buried by everything from Snowflake to Bitcoin, not to mention the collapse of FTX. While the S&P 500 fell 18.1%, the tech-heavy NASDAQ index dropped 32.5%, which gives you a sense of how painful the year was for a wide array of investors. But the question remains: Why weren't our returns better, given everything that we got right?

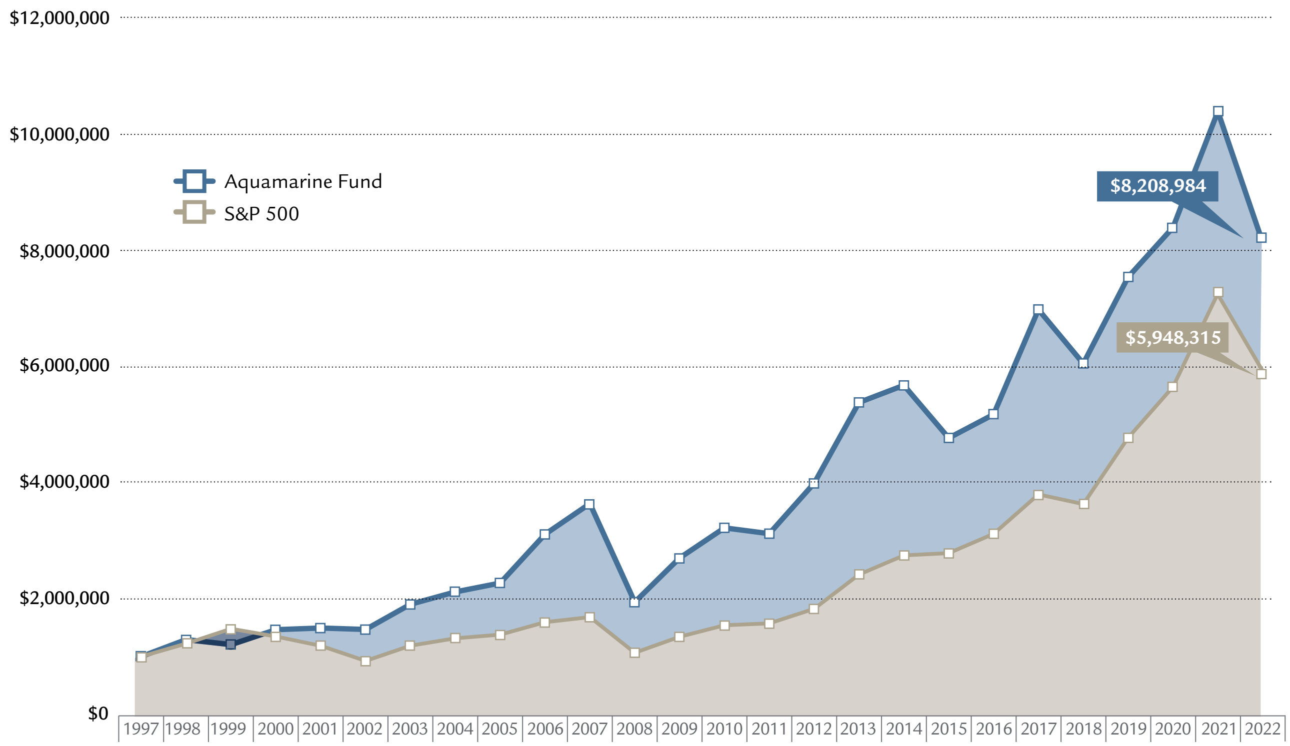
This isn't a matter of making excuses. Rather, I want to make it clearer to you why we were down, so that you have a better sense of how I'm investing your money and why I believe that we're well positioned for the future, despite these short-term, quotational losses.

The key point that I'd like to make here is that our poor returns in 2022 were caused by a very different set of challenges than those confronting most investors. This isn't surprising, perhaps, given that our portfolio is very different from the norm. We were down primarily because the stock prices of two of our biggest holdings—Indian Energy Exchange (IEX) and BYD Company (BYD)—fell sharply. In both cases, the valuation had become slightly overstretched after an earlier period of strong performance. In the short term, it made sense for these valuations to come down a bit. In the long term, the outlook for both companies seems as attractive as ever, given the strength of the underlying businesses. In other words, I'm confident that the losses we experienced in 2022 will prove temporary and are not a permanent impairment of capital.

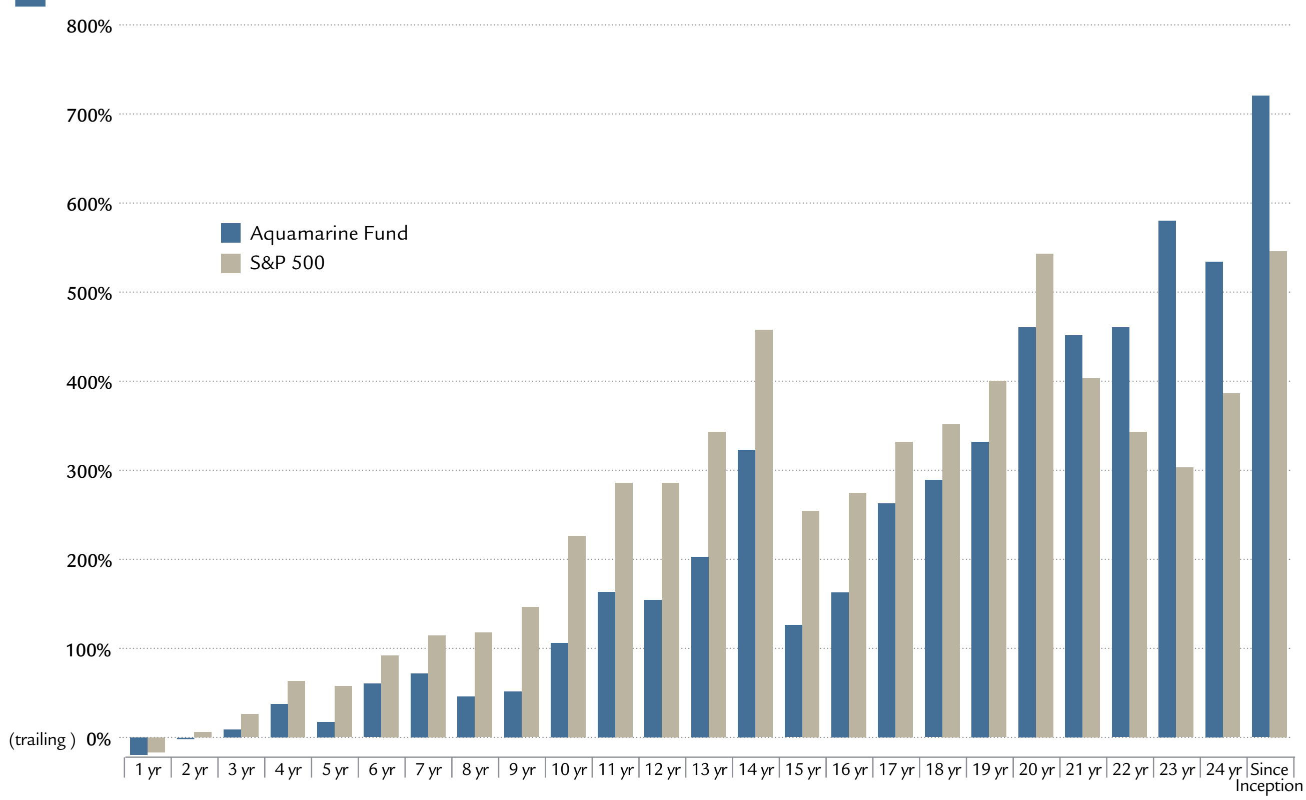
Just to give you a quick snapshot, BYD is a

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

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




## Cumulative Returns for the 25 Year Period 1997-2022




*This chart shows trailing cumulative returns of the Fund since inception as compared to the S&P 500 - i.e. 1 year trailing shows the return for 2022. 2 year trailing shows the cumulative return for December 31, 2020 - December 31, 2022. 3 year trailing shows the cumulative return for December 31, 2019 - December 31, 2022.

In the short term, trimming your winners may make sense, reducing your volatility and lowering your exposure to expensive stocks. That's comforting when lots of eyes are watching you. But in the long run, our returns should be much better if I resist the temptation to trim our winners and simply accept the volatility along the way.

Chinese conglomerate that started out as a manufacturer of rechargeable batteries and has since expanded to become an enormously successful producer of electric and hybrid cars, buses, trucks, forklifts, and the like. In 2022, its stock price was hurt by negative sentiment over China's Covid lockdowns, worries that the Chinese government may have become less amenable to the principles of Western-style free market capitalism, and fears about what this shift might mean for foreign investors. Like its rival, Tesla, there was also a sense that BYD's stock had become overpriced after a spectacular runup.

While I'd agree that BYD's valuation was on the high end, it wasn't out of the realm of what was reasonable—and it's not nearly as expensive as Tesla, despite being a much better business. In the future, BYD's valuation should exceed Tesla's, given its growth prospects in China and globally. Meanwhile, BYD's sales and earnings are exploding, and it's brilliantly led by Wang Chuanfu. At the Daily Journal's annual meeting in February 2023, Charlie Munger remarked, "He's a damn genius. He's been thinking about the right things 17 hours a day all his life. He's a workaholic, and he can do things that ordinary human beings can't do."

Munger added, "At the current price of BYD stock, little BYD is worth more than the entire Mercedes Corporation's market capitalization. It's not a cheap stock. On the other hand, it's a very remarkable company." This gets at the crux of the issue. It's possible that I should have trimmed our position slightly when the valuation was even higher. Both Buffett and Munger sold some of their shares in BYD in 2022, having made spectacular gains over many years.

The trouble is, it's difficult to buy a great business once, let alone twice, and I have no confidence in my ability to trade in and out. In the early days of the Covid pandemic, I took the precautionary measure of raising some cash by selling part of our stake in Ferrari, which had been a massive winner for us. Since then, the stock has continued to soar. Thanks to my prudent decision to trim that flower, we've missed out on millions of dollars in additional gains.

In the short term, trimming your winners may make sense, reducing your volatility and lowering your exposure to expensive stocks. That's comforting when lots of eyes are watching you. But in the long run, our returns should be much better if I resist the temptation to trim our winners and simply accept the volatility along the way. If you want to own stocks with the potential to become 100-baggers, all of the evidence suggests that you need to be able to hold them through periods when the valuation may be overstretched and remain steadfast during periods of decline. So, for better or worse, I decided to let BYD run.

The story at IEX is not dissimilar. As with BYD, this is a strategically important company with remarkable growth prospects. The company runs an electricity exchange on which an excess of energy can be offloaded to other participants in India's energy market. The exchange makes it possible to match supply and demand in an efficient manner in a nation with a critical and rapidly growing need for energy. It also provides a reliable price-discovery mechanism for all of the players in the energy market, ranging from power producers to consumers. IEX strikes me as a great business that occupies the economic high ground, so I was willing to pay a premium price when I bought it in 2019. The stock went nowhere for a while and then quadrupled in 2021.

However, Russia's invasion of Ukraine in February 2022 caused oil prices to shoot through the roof. This affected IEX in an interesting way. Prices surged on the exchange, which represents a true market price for energy, but this caused volumes to drop and revenues to slip moderately as buyers searched elsewhere for cheaper power. Short-term investors saw this decline in volumes and dumped the stock. Still, the future looks as bright as ever for IEX, which remains a dominant and vital force in an economically critical sector. In the meantime, the company has been buying back stock, benefiting shareholders like us. Despite the poor performance of the stock over the last year, I have no doubt that the best is yet to come for this business.

The point is that the underlying businesses at BYD and IEX look as robust as ever. Sure, the valuation for both stocks was high—but not astronomically high. And, unlike many companies that took a hit in 2022, these are businesses that generate real earnings and prodigious amounts of cash, which gives them the capacity to keep investing in their core and adjacent businesses.

To put it in context, this temporary setback is an entirely different situation than the one we experienced when Horsehead Holdings filed for bankruptcy in 2016 and we suffered a permanent loss of capital. In that case, I'd planted grape vines that burned to the ground. In the case of BYD and IEX, our vines are intact and should continue to produce beautiful wines for a long time to come. Yet as we saw in 2022, we can't expect a classic vintage every year.

It's important for me to acknowledge that our investment returns are always going to be lumpy. This comes with the territory, especially when you own a relatively concentrated portfolio. At the start of 2022, we had 15.1% of our capital invested in BYD and 12.8% in IEX. Still, if I'm right in my assessment of these businesses, the market should reward us in the long run.
Meanwhile, as I mentioned in last year's annual letter, it's also worth bearing in mind that the worst times in the stock market

are often followed by the best, with sharp downturns frequently followed by equally dramatic upswings. This is not a prediction, just a reminder that it tends to be sensible to sit tight so that you don't miss out on those rapid rebounds, which often account for much of the market's overall return. We recently saw another striking instance of this time-honored pattern: After a challenging year in 2022, the fund rose 10.2% in January 2023.

I certainly don't want to learn the wrong lesson from 2022 by reducing our exposure to big, patiently held core positions in exceptional businesses like BYD and IEX. On the contrary, I want to own more businesses like these, continuing to hold them through thick and thin.

## BANKING ON QUALITY IN TIMES OF TURMOIL

Aquamarine's preference for high-quality, durable businesses also seems appropriate to me in a world that feels increasingly unstable. Russia's war in Ukraine has shaken the foundations of the rules-based order that had previously held firm since 1945. It's acutely unsettling to witness the outbreak of another catastrophic war on the continent where two world wars were fought in the 20th century. The threat of escalation remains high, with the added risk that Russia and the US are both nuclear superpowers. I recently spoke with a professor of international business at Harvard who observed that the world hasn't been this close to nuclear war at any time since the Cuban Missile Crisis in 1962. The outcome of the war in Ukraine will also have an impact on China's thinking about whether to invade Taiwan. All in all, the stakes could hardly be higher.

As we all know, the last few years have been exceptionally challenging. In addition to these geopolitical threats, we've lived through the Covid pandemic, political dysfunction and polarization in the US and elsewhere, escalating tension between China and the US, an increase in extreme weather events, high inflation, and rising interest rates. I hope that calmer minds will prevail, that political leaders will recognize that it's in their own interest to work together, and that the institutions we have in place will prevent some kind of tiered collapse. I'm not a pessimist, but it's a dangerous time, and we can't ignore this backdrop of heightened uncertainty.

How does this affect the way I invest? I want to own enduring and essential businesses that are particularly well positioned to carry us safely through these stormy waters. I don't want to buy lower-quality assets that look cheap.

It also feels more secure to invest in a superpower like the US than in weak countries that are more likely to get pushed around. In fact, our portfolio is invested almost exclusively in the US, China, and India. We also own Nestlé, an essential global business headquartered in Switzerland. Despite my concerns, I'm inclined to agree with Charlie Munger, Ray Dalio, and Howard Marks, who have all invested heavily in China in the expectation that its leaders are unlikely to act in irrational ways that would damage their own self-interest. As for India, it seems highly likely to me that the country will continue its march toward prosperity.

Over the last 25 years, I've managed the Aquamarine Fund through multiple crises: The Asian crisis in 1997-98, the 9/11 terrorist attacks in 2001, the Global Financial Crisis in 2008-09, the outbreak of Covid in 2020, and now the geopolitical crisis triggered by Russia's war in Ukraine. What's different this time is that I've seen no need to make any changes to our portfolio. I'm comfortable with our asset allocation and confident in the quality of our companies. As a result, I didn't buy or sell anything in 2022, other than our fortuitous exit from Twitter when Musk offered to buy us out. In previous crises, new facts led me to reassess our portfolio and conclude that some of our holdings weren't as strong or secure as I'd previously believed. Not this time.

While it's disappointing to experience the quotational losses of 2022, I see no lasting damage to the companies we own. If anything, they are stronger now than they were a year or two ago. I hope this gives you a good measure of comfort and reassurance. None of us knows what the future holds, but our portfolio should perform well in the years to come as these exceptional businesses deliver growing value.

In the meantime, I'll continue to search intensively for new opportunities to invest at attractive valuations in other great businesses that occupy the economic high ground. As I write this in early 2023, we have roughly 10% of our assets in cash, giving us plenty of dry gunpowder.

My goal is simple: To continue compounding in a sustainable way for decades to come. As in 2022, we're bound to encounter some frustrations along the way. I'm also bound to make my fair share of mistakes. Still, the market tends to reward patience and discipline in its own good time.

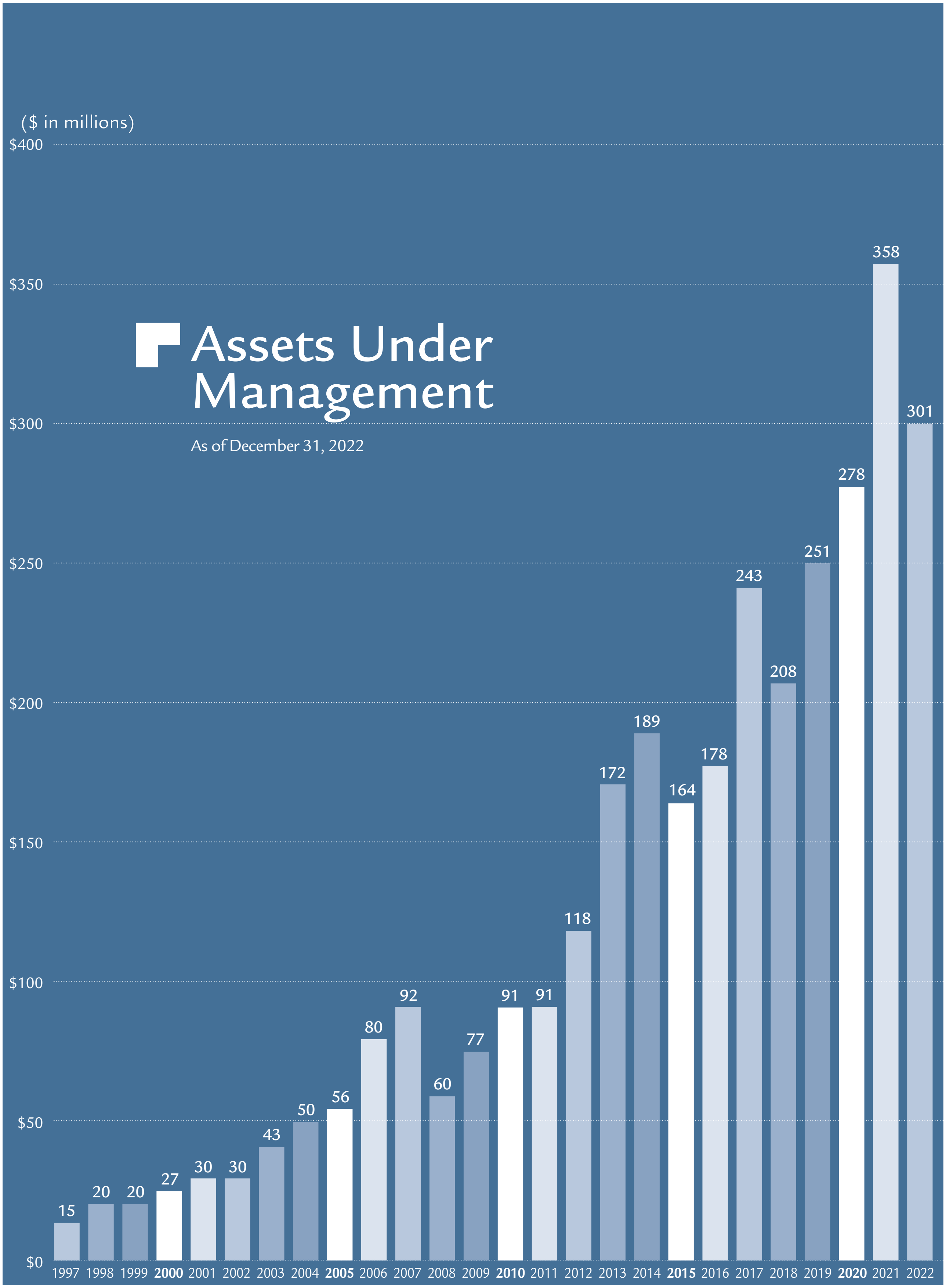
## SUSTAINABLE INVESTING IN THE BROADEST SENSE

It's worth adding that, when I talk about investing in a sustainable way, I'm defining the notion of sustainability in the broadest sense. For many years, I didn't think seriously enough about the environmental impact of the businesses in which I invested. More recently, my thinking on this front has evolved considerably. I hope to write more about this at a later date, but for now, I'd like to give you a brief overview of my perspective on this increasingly important topic.

I started out as a child of Thatcherism and a devout believer in Adam Smith. I had a deep faith in the "invisible hand," trusting that free markets would incentivize self-interested individuals to operate in a way that would ultimately benefit society. I embraced Milton Friedman's view that our job as investors and capitalists is simply to maximize profits. The invisible hand would take care of the rest—and, if it failed to do so, governments

To give you a clearer sense of how your money is invested, here's a snapshot of our largest positions—at cost and at their current market value—as of December 31, 2022:

| Holding | Market Value $ | Percentage of Partners' Capital | Original Cost $ | Gain/(Loss) $ | Gain/(Loss) % |
|---|---|---|---|---|---|
| Berkshire Hathaway | 57,492,669 | 19.51% | 13,381,800 | 44,110,869 | 330% |
| BYD Auto Co Ltd | 38,265,228 | 12.99% | 4,986,800 | 33,278,428 | 667% |
| American Express | 31,027,500 | 10.53% | 10,906,129 | 20,121,371 | 184% |
| Bank of America | 25,431,026 | 8.63% | 5,181,863 | 20,249,163 | 391% |
| Mastercard | 22,863,248 | 7.76% | 1,019,194 | 21,844,054 | 2143% |
| India Energy Exchange | 22,333,811 | 7.58% | 10,557,400 | 11,776,411 | 112% |
| Cash | 23,416,645 | 7.95% | | | |


Assets Under Management
As of December 31, 2022
($ in millions)
$400
$350
$300
$250
$200
$150
$100
$50
$0
15
20
20
27
30
30
43
50
56
80
92
60
77
91
91
118
172
189
164
178
243
208
251
278
358
301
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

and politicians would have to step in and change the regulations. When I first came into contact with environmentalists while I was at business school, my dismissive response was basically, "This isn't my problem. I'll just wait until the government regulates, and then I'll comply with their regulations."

My next contact with environmentalism came when Al Gore addressed the TED conference. I was highly skeptical, not just because of my free market ideology, but because I knew how hard it is to build accurate models for incredibly complex systems like the economy and the environment. There are too many unknown variables and complex interactions to be confident of anything. I was also sympathetic to Bjorn Lomborg's view that global warming is just one of the immense problems facing mankind. Shouldn't the priority be to stage a "dash for growth," so that we can lift people out of poverty and disease before we focus on combating global warming? I was also intrigued by the promise of geoengineering as a means of cooling the planet.

Still, my views were gradually changed by experts like Cameron Hepburn, a professor of environmental economics at Oxford and director of the university's economics of sustainability program at the Institute for New Economic Thinking. As he saw it, this faith in geoengineering was a bit like admitting a drug addict to the emergency room when they're ravaged by drugs and giving them opium or morphine to calm them down, ignoring the fact that what they really need is a detox. What's more, in the unlikely event that we could actually arrive at some kind of international agreement on how to do this, what if we got it wrong and wrecked the planet?

This made a lot of sense to me, and it led to a simple insight. We have only one planet, and it's our only home for the foreseeable future. If we continue to have a colossal impact on it without concern for the environmental consequences, we're taking an unacceptable risk of catastrophe. If an asteroid of the type that caused the extinction of dinosaurs were heading for Earth, does anyone doubt that it would galvanize us into action? Climate change may be happening in slow-motion over decades and centuries, but that doesn't mean that it will be any less calamitous than that asteroid. We can't be sure. Even if the probability of catastrophe is low, we can't take the gamble. Systemic risks must be taken extremely seriously, even if they are relatively remote.

The rational response to this threat is to focus with considerable urgency on reversing the impact that we've had on the planet over the last two centuries. It's a Herculean task, but it's also quite manageable. By some estimates, reversing our carbon emissions will cost 5% of global GDP. That's not an impossible number. But the political will isn't there, either in democratic or authoritarian countries. So, it falls on intelligent, thoughtful people and responsible, far-sighted corporations to take action on an individual basis, creating a coalition of the willing.

In fact, a corporate coalition of the willing is already being created. Brian Moynihan, the CEO of Bank of America, recently declared that his firm will establish minimum environmental standards that corporate clients will have to meet in order to do business with the bank. These standards will be well above the bare legal minimum. Vicki Hollub, the CEO of Occidental Petroleum (which has become an indirect holding through our stake in Berkshire Hathaway), has set a goal for her firm to become carbon neutral—not just by reducing carbon emissions but by investing in carbon capture and storage. Steve Squeri, the CEO of American Express, is aiming for net zero in 2035. Mark Schneider, the CEO of Nestlé, is aiming for net zero by 2050. Responsible businesses like these will not only align themselves with a carbon-neutral world but will nudge their suppliers and customers in that direction, refusing to do business with those who fail to comply.

These trends have profound implications for all of the companies in which we invest. If they don't think carefully about their environmental footprint, they are liable to get clobbered—and so are we. The threat of being harshly penalized or boycotted is intensifying, and those that pursue practices that are not sustainable may, sooner or later, be removed by society. What's more, there are plenty of companies with apparently profitable businesses that may prove much less profitable once they have to account for their legacy environmental impact.

With all of this in mind, part of my due diligence for any investment must involve a careful review of a company's sustainability policies and practices. The good news is that we're already well positioned on this front. As I noted earlier, holdings like Bank of America, American Express, and Nestlé are leading the way within their industries. Berkshire Hathaway Energy has been investing heavily in areas like solar and wind energy. IEX is a leading player in the drive for greater energy efficiency in India. BYD is at the forefront of electric cars in China and beyond.

As always, my focus is on generating good returns, and I'm not about to become an impact investor. But I have no doubt that my heightened emphasis on environmental sustainability should be a long-term benefit both to our fund and to society. Consistent with my desire to be part of the solution, I've also made a modest personal payment to a Swiss company, Climeworks, which is a leader in carbon removal through direct air capture and permanent underground storage. This won't move the needle, but it's one tiny step in the right direction.

## AQUAMARINE'S VALUE PROPOSITION

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

We're also constantly looking for ways to leave more money on the table for our partners. For example, in 2022, my conversations with Mark Chapman and David Jud led us to realize that there would be a significant benefit to partners who renewed their investment at a time when the fund was below its high watermark, since the high watermark from the previous period would be preserved. We put together a spreadsheet that we've used to explain this to all of our renewing investors. The accounting isn't complicated, and we'll be happy to talk you through it, if you'd like to know more. Suffice it to say, we saw an opportunity to reduce the cost of investing in the fund in a way that benefited our partners, not me! This mindset isn't common in the financial world, but it's a source of real pride for us to behave in a way that feels fair and honorable.

We then realized that we should extend this benefit to partners making additional investments in the fund. This required a little work on our part to ensure that it would be simple to administer. Some of our partners have already taken advantage of this opportunity. Again, please let us know if you're interested in renewing your investment or investing additional money, and we'll be glad to help you do it in a way that can reduce your costs and leave more money on the table for you.

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

- Alignment of your interests and mine, with the fund genuinely structured as a partnership.

> While it's disappointing to experience the quotational losses of 2022, I see no lasting damage to the companies we own. If anything, they are stronger now than they were a year or two ago.

- Low or zero management fees. We're dedicated to providing the best possible offering to our partners. Above all, I strongly encourage investors to take advantage of the shareholder classes that charge no annual management fee.
- A conservative, long-term, value-oriented approach in which we partner with the very best enterprises we can find, compounding wealth in a disciplined and durable manner.

## ASSETS UNDER MANAGEMENT, SUBSCRIPTIONS, AND REDEMPTIONS

In 2022, we received $44.8 million in new capital, along with redemption requests for $26 million. Of this $26 million, $14 million was redeemed from the Special Limited Partner's incentive allocation and reinvested in the Offshore Feeder Fund.

While I'm always sorry to see investors leave the fund, it gives me immense pleasure to see friends and family benefiting from the appreciation of their holdings over the years. It's particularly gratifying to be entrusted with additional capital during a challenging period for the stock market.

As you know, a perennial issue for fund managers is that crowd-chasing investors tend to redeem their investments at the worst possible times, selling when valuations are down and buying when valuations are up. We're extremely fortunate to attract partners who are willing to take advantage of market downturns and the compelling opportunities they typically provide for long-term investors. I'm also tremendously grateful to Aquamarine's excellent investor relations team for improving our processes for welcoming new investors to the fund. Thank you!

We ended 2022 with $301 million in assets, which gives us sufficient scale to run the fund comfortably while still allowing us the flexibility to react nimbly when necessary.

## OUR MOVE TO ZÜRICH IS OFFICIALLY COMPLETE

As I mentioned in last year's annual letter, we officially finalized the move of our head office from New York to Zürich in 2022. All of our fund documents were updated as of July 1, 2022. The final step in this process happened in December 2022, when we relinquished our SEC license so that our regulatory oversight is now through FINMA in Zürich and the FSC in the British Virgin Islands. None of these updates impacts the rights and rewards of current or prospective investors. These changes merely reflect the reality that the investment manager and the investor relations team at Aquamarine are now fully based in Switzerland.

As many of you know, I moved from New York to Zürich in 2009, having realized that this new environment was calmer and more conducive to my style of investing. As I wrote in my book, *The Education of a Value Investor,* being based in Manhattan had a destabilizing effect on me: "Moving to Zürich allowed me to cut through the whole Gordian knot of my unhealthy relationships with fund marketers, equity analysts, and other professional 'helpers' who had unhelpfully oriented me toward a standard, New-York-hedgie model of life." Both personally and professionally, I love the efficiency, peace, and tranquility of life in Zürich.

Happily, we still maintain an administrative presence in New York and the British Virgin Islands. We will continue to hold our annual partner meetings in London (March 2023), Paris (June 2023), Zürich (September 2023), and New York (November 2023).

At first, adjusting to the Swiss regulatory structure was difficult. Today, I'm more comfortable with it, and I no longer think of our FINMA registration as merely a regulatory burden. I now see that the structure it provides is extremely helpful. For example, whenever we make a trade, I'm now required to write down in advance my reasons for the investment. I'm also grateful to the independent directors of

My goal is simple: To continue compounding in a sustainable way for decades to come. As in 2022, we're bound to encounter some frustrations along the way. I'm also bound to make my fair share of mistakes. Still, the market tends to reward patience and discipline in its own good time.

Aquamarine Zürich AG, Andreas Mikos and Roland Gysi, for their oversight.

This well-regulated environment has helped Aquamarine to attract the best possible people to our small team. In addition to trusting me directly, they know that they can trust the rigorous Swiss system of supervision and regulation.

I feel immensely fortunate to be working with such a remarkable group of colleagues. Since coming out of semi-retirement to work at Aquamarine, the extraordinary Chantal Hackett has positively overhauled many of our processes. I'm thrilled that we have also created the space for David Jud to study hard for his CFA—just as we were able, in the past, to support Orly Hindi's studies in the executive education programs at Harvard Business School. The entire team also takes great pride in the tremendous progress that Mariana Baldé has made in her professional capacities. Her important contribution to Aquamarine has greatly enhanced my respect for the training practices at McDonald's, which is where she received her original training.

## THANKS

I feel extremely fortunate to have such an exceptional group of shareholders. The Aquamarine Fund's base of sophisticated and loyal partners has stood firm over many years. This has enabled us to take advantage of the great buying opportunities that arise during times of heightened uncertainty and volatility. It has also given me extraordinary freedom to focus single-mindedly on the task of generating good long-term returns. This mindset is a great competitive advantage in an investment world that's increasingly focused on the short term.

Many of the partners in our fund came to us through recommendations from existing shareholders who were pleased with our performance, our culture, and our alignment of interests. If you know of someone who might benefit from investing in the Aquamarine Fund, please don't be shy about introducing them. Feel free to contact me about referrals or anything else by calling +41 44 210 1900 or +1 212 716 1350 or via email at investorservices@aquamarinefund.com.

I'm always pleased to partner with the right shareholders—that is to say, patient, value-oriented, long-term investors who would like to join us in compounding wealth over many years, without unnecessary risk. I'm particularly fortunate to partner with investors who have valuable experiences, insights, and networks of their own. I've enjoyed an ongoing dialogue with many of our partners about different industries and companies and have found their views extremely thoughtful and enlightening. Whenever we can welcome such people into the Aquamarine fold, I regard them as a very valuable addition.

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

Guy Spier
Managing Partner