Montreal, March 16, 2020.

Dear Partners,

The stock market has continued its sharp decline in recent weeks due to fears of the spread of COVID-19 (coronavirus). The recent decline in equity markets is now close to 30% (for the S&P 500).

As you are surely aware, our society has decided to take drastic measures to curb the spread of the virus. Presumably, the decision to shut almost everything down will affect the profitability of companies for at least one quarter. But it is a temporary pause. To date, the loss of life has been low and therefore the ability of the population to produce goods and services has not changed drastically in a few weeks.

In 27 years of investment, I have lived through other crisis. I recall after September 11, 2001, the feeling of having no idea what the immediate future holds was similar. Some had said that no one was going to fly anymore. Disney's stock had dropped drastically as some said that no one would go to its theme parks anymore. It turned out to be short-lived.

From the very first day that Giverny Capital opened its doors, we have always selected to invest in strong companies, with sustainable competitive advantages and healthy balance sheets with the capacity to weather crises and recessions. Their long-term intrinsic value has not changed by a great degree in a few days.

For example, Berkshire Hathaway (our largest holding) has in excess of $120 billion in cash in its portfolio. The company can make investments like buying back its own stock or make other acquisitions.

Google also has more than $100 billion in cash and investments. Facebook has $50 billion dollars in cash and investments (and I have never seen as many people on Facebook as these days). Our banks like Bank of America and JP Morgan will be affected by the flattened interest rate curve, but their balance sheets are stronger than ever. Visa, Ametek, Heico, Constellation Software, etc. are all companies with strong balance sheets. They will still be in business when the economy returns to normal.

At the risk of repeating ourselves, we understand that it is not pleasant to see the market value of your portfolio decline. We are much more than empathetic with our partners: we are authentically in the same boat since we are invested in the same portfolio.

In order to give you a little more perspective, here is a table of the most important stock market corrections over the last 60 years. Long term partners will recognize this table that we first presented in 2008-09. We detail the respective levels of stock market declines versus the performance of the subsequent five years.

Year	Crisis Event	Market Correction	**5 years +**
1956-1957	Suez Canal Crisis	-18%	**100%**
1962	Cuban Missile Crisis	-22%	**87%**
1967	6-day war in Israel	-22%	**85%**
1970	Recession	-33%	**47%**
1973-74	Oil Shock / Recession	-48%	**106%**
1979	2nd Oil Shock	-18%	**106%**
1982	Recession (interest rate 15%)	-24%	**240%**
1987	Stock Market Crash	-36%	**104%**
1990	Recession / Iraq War	-13%	**121%**
1997-98	Asian crisis	-21%	**28%**
2000-2002	End of the techno bubble	-50%	**98%**
2008-2009	Financial Crisis / Recession	-56%	**207%**
August 2011	European crisis	-19%	**107%**
March 2020	Coronavirus crisis	-30%	**?**
Average		-29%	**110%**

You will notice that, on average, the stock market decline during corrections was in the order of 29%. And five years later, the stock market (the S&P 500 index) generated a subsequent return of 110%. Not only has the market regained lost ground in five years, but in the vast majority of the time it has returned to record territory.

There is a fundamental reason for it. Companies on average increase their profits by about 6-7% per year and pay an average dividend of 2-3%. This has translated into a total historical annualized return of 8 to 10% for equities over many years. Such an annual return compares very favorably with that of cash and of U.S. 10-year bonds, which yields 0.2% and 0.8% respectively. In fact, in our view, the disparity between the valuation of equities and those of bonds has never been as great as it is now.

To benefit from the long-term economic benefits of equities, one ingredient is essential: you must remain invested in equities. Ben Graham, in his 1949 book "The Intelligent Investor," explained that the stock market is like a manic-depressive (bipolar) entity. And that the key to success is to consider yourself as <u>owners</u> of the companies held in your portfolio and not to be influenced by stock market fluctuations. This is an easy advice to follow in times of rising markets; but it is in periods of decline that it matters most. It is only those who sell in panic in declines who become the real losers of the volatility inherent in financial markets.

The whole Giverny Capital team is at your disposal if you would like to communicate with us.

Kind regards,

François Rochon

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President