GIVERNY CAPITAL

LETTER TO OUR PARTNERS

3RD QUARTER 2024

US ELECTIONS

It seems that many partners are worried about the outcome of the US elections. We've been there before! Let's go back eight years together. Here is what I wrote in the conclusion of the 2016 annual letter:

> *We have received several questions about the newly elected US president, Donald Trump. Our role is to manage and be good stewards of your capital. It would be a mistake to let our political ideas, as valid as they may seem in our point of view, to blurry our investment decisions.*
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> *For example, I remember the 2004 US election very well, when the reelection of George W. Bush in early November of that year scared many Canadian investors (for whatever reasons). From November 2004 to today, the total return of the Rochon Global portfolio has been over 400% (12% on an annualized basis). Without taking anything away from Mr. Bush, I sincerely believe that this performance has been achieved because of the exceptional companies we have owned over the past twelve years, with the vast majority of them based in the United States.*
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> *Investing in the stock market is not about betting on the vicissitudes of the political world (and voters). Rather, investing is about owning businesses and nothing else. Strong companies do well because they create unique products and services that serve their customers and potentially enrich their shareholders. Political trends pass but good companies endure. I believe that the vast majority of companies that are doing well do so not because of politicians but in spite of them.*
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> *We will surely face another set of political uncertainties and economic worries over the next decade. They will have one thing in common: they will all be unpredictable. Despite this, what is predictable for a seasoned investor is that owning shares of quality companies will give rise to positive financial rewards over the long run.*

What's happened since the ink dried on this letter from early 2017?

We were right about one thing—we were faced with a group of entirely unpredictable uncertainties. First on the list was the COVID-19 pandemic.

We have had three stock market declines of over 20% since 2017, including one of about 35% in March 2020. We had interest rates at incredibly low levels with many government bonds even having negative interest rates (imagine the harebrained idea of paying governments to lend them money!) Then this was followed by an inflation rate at a level not seen in 40 years.

The Rochon Global portfolio still rose by about 154% over the 7-year and 10-month period since the beginning of 2017, or an annualized return of 12.6% (as of October 31, 2024; see the notes on returns in the appendix to this letter.). Imagine the cost to our partners' portfolios if we had allowed political uncertainty to deprive us of owning solid companies in our portfolio.

The key to obtain good stock market returns is not predicting who will sit in the White House, but rather to focus on owning companies that will generate above-average shareholder returns over the long term.

RESULTS OF OUR COMPANIES

- Fiserv had a great quarter, with revenues rising 7% and adjusted earnings per share (EPS) climbing 17%. The company also repurchased 5.5% of its outstanding shares over the past year.
- M&T Bank had a decent quarter: EPS were up slightly and Return on assets (ROA) increased from 1.41% to 1.45%. The level of distressed loans declined, which is very good news.
- Bank OZK also slightly increased its EPS, rising 4% from the same quarter last year. Its ROA was a solid 1.9%.
- Kinsale Capital Group continues its strong growth, with insurance premiums rising up 19% and EPS increasing by 27%. Its underwriting ratio was 75.7% which is one of the best in the insurance industry.
- Things are (finally) starting to look brighter for Carmax. Car sales grew 5% (4% organically). Though its financing division saw profitability decline by 14% due to higher loan provisions, the company continued to repurchase shares and EPS increased by 13%.

- NVR had a strong third quarter: revenue increased 6%, EPS rose 4% and new orders surged 19%.

- Lululemon increased sales by 7% (2% organic). International sales increased 22% (net of currency effect) and EPS increased 17%. Lululemon opened 10 stores to end the quarter with 721 stores. For the current year, the company expects EPS to grow approximately 12%.

- Medpace's sales increased 8% compared to last year, while EPS increased 35%. New service contracts, however, were down 13%. The company remains confident it can finish the year with revenue increasing more than 10% and EPS rising about 34%.

- Starbucks had a tough end to its fiscal year, with comparable sales declining 7% and net revenue down 3%. EPS followed suit and fell 25%. The company announced Brian Niccol as the new CEO of the coffee chain during the quarter. Niccol was previously CEO of Chipotle—a company that grew EPS 600% during his six-year tenure at the helm.

- Visa's revenue in its most recent quarter rose 12% and adjusted EPS increased 16%.

- Fortune Brands saw its revenue decline 8% in the third quarter, but its adjusted EPS still rose by 2%. The company is forecasting a 7-9% increase in EPS for the current fiscal year.

- Despite all the fears surrounding Google, parent company Alphabet continues to post spectacular results. Revenues increased by 15% during the third quarter. The Google Cloud division increased its revenue by 35% and dramatically increased its profitability, generating operating income of $1.9 billion. The company had one-time gains, but we estimate EPS increased by 26% over the quarter.

- Meta Platforms increased its revenue by 19% and EPS by 37%.The number of active families on its platforms increased by 5% and the average price of its advertising increased by 11%.

- Littelfuse continues to struggle, with revenue declining by 7% and its adjusted EPS dropping by 8%. We believe that 2025 should be a better year for Littelfuse.

- Markel had a solid quarter on the insurance side but a disappointing quarter with its operating businesses (Markel Ventures). On the insurance side, the underwriting ratio improved to 96.4%, while Markel Ventures' operating profits declined by 18%.

- Booking Holdings continued to post excellent results. The number of nights booked on its sites increased by 8% and revenues and profits both increased by 9%. Thanks to its significant share buybacks, EPS increased by 16%.

François Rochon

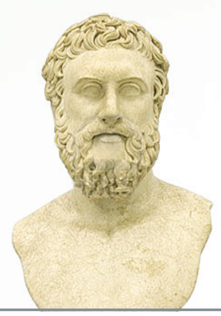
François Rochon
and the Giverny Capital team

GIVERNY CAPITAL

Philosopher's corner

"Our virtues and our failings are inseparable, like force and matter. When they separate, man is no more."

– Nikola Tesla



Notes on our returns

The Rochon Global portfolio is a private group of personal and family accounts managed by François Rochon, the president of Giverny Capital Inc. (GCI). The Rochon Global portfolio has existed since 1993, that is seven years before the registration of GCI as portfolio manager with the AMF. Although the Rochon Global portfolio serves as a model for GCI's clients, clients' portfolio returns can vary. The Rochon Global portfolio returns indicated include trading commissions and dividends but do not include management fees. Portfolio returns of the Rochon Global portfolio have been generated in a different environment than GCI's clients and this environment is considered controlled. For example, cash deposits and withdrawals can increase the returns of the Rochon Global portfolio. Thus, the portfolio returns of the Rochon Global portfolio are often higher than the returns realized by clients of GCI.
Past performance is no guarantee of future results.

Forward-looking information

Some information set forth in this letter constitutes forward-looking information which involves uncertainties and other known and unknown factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. When used in this letter, words such as “expects”, “anticipates”, “intends”, “may”, “believes” and similar expressions generally identify forward-looking information. In developing the forward-looking information contained in this letter, the manager has made assumptions (for ex.: with respect to the outlook for the global economy and publicly traded companies). These assumptions are based on the manager’s perception of factors believed to be relevant (for ex.: historical trends, current conditions, expected future developments). Although the manager believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. Actual results or events may differ materially from those expressed or implied in the forward-looking information. Giverny Capital Inc. undertakes no obligation to publicly update or revise these forward-looking statements.

Message to partners

Please notify us of any changes in your contact information, as well as any changes in your financial situation or investment objectives that could have an impact on Giverny Capital’s management of your assets.