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Dear Fellow Investors,

"A teacher asks the class a question: 'There are ten sheep in a pen. One jumps out. How many are left?' Everyone but one boy said nine are left. That one boy said none are left. The teacher said, 'You don't understand arithmetic,' and he said, 'You don't understand sheep.'"
–Charlie Munger

Have you ever seen an ad on TV for a diet or weight-loss product featuring dramatic "before" and "after" photos of its users, and then at the bottom of the screen there's fine print saying, *Results not typical* or *Results may vary*? The marketers of the product are legally obligated to add this disclaimer because even if their product is as good as they say, they cannot guarantee amazing results for everyone in every situation. *Individual results may vary.* Indeed they do.

We saw very good risk-adjusted results with our portfolio investments in 2019. However, we should remember that the market is usually much more volatile; we can't expect these kinds of returns every year. That said, our approach is the exact opposite of a "fad diet" in the investing sense. Value investors don't follow trends and hope for fast, eye-popping results. Instead, we stick with what we know works for success in the long run: choosing our investments wisely and exercising patience. Let's allow our successes in 2019 to fuel more good work together in 2020.

Economic Moats: Protecting Financial Castles

"[We] think in terms of [a] moat and the ability to keep its width and its impossibility of being crossed as the primary criterion of a great business. If the moat is widened every year, the business will do very well."
–Warren Buffett

When we are analyzing a company to see whether it is a worthy investment for our portfolio, we look for an economic "moat"—a competitive advantage that allows a company to protect profit and maintain excellent margins over time. Think of a moat around a castle. It serves to keep hostile invaders out, or in our case, rivals who are looking to seize market share with a similar product or service. Morningstar identifies five main types of economic moats. Here are some working definitions and examples of moats utilized by companies in our portfolio:

1. **The network effect** – A company creates a competitive advantage when it acts as a broker. Alibaba connects buyers and sellers from all over the world, which makes Alibaba's platforms incredibly

valuable to both the buyers and the sellers. And as more sellers use Alibaba's platforms, more buyers go to those platforms to find what they are looking for. As a result, Alibaba's global user base grows.

2. **Intangible assets** – Intellectual property can be a powerful tool for keeping competitors out of the market. Tech companies in our portfolio including Qualcomm, AMETEK, and NXP have thousands of patents on their products, which continue to widen their moats.
3. **Efficient scale** – This type of moat occurs when a niche market is effectively served by a few players; that is, the scale of the market creates a natural barrier to entry. Consider Liberty Braves Group, owners of the Atlanta Braves. Major League Baseball is comprised of 30 teams across the U.S. and Canada (a relatively limited number), and the Atlanta Braves own their region. It is unlikely that another company could successfully establish a second MLB team in the region and erode the Braves' profit margin. Danaher is another company in our portfolio that targets niche markets, which results in higher operating margins and stronger cash flows.
4. **Low-cost producer** – Creating a cost advantage is another type of moat. Berkshire has positioned itself as the low-cost producer in multiple industries, including in the insurance business with Geico. With its millions of clients, Geico enjoys economies of scale, and Berkshire's other companies help support Geico's margin.
5. **High switching costs for customers** – If switching to a different product or service would create significant costs to customers (including inconvenience or frustration), they are unlikely to make the switch to a competing product, even if the price is better. This is common in the software industry, and it helps protect the profits of companies whose software is already in use. As they continue to purchase industry leaders in niche industries, Danaher, Roper, and Broadcom are leveraging these high switching costs.

News from Our Portfolio

"Money will come when you are doing the right thing."
–Mike Phillips

Danaher Corporation (DHR) | Ownership: 1%–7%

Danaher continues to be a great company for our portfolio. For the last ten years, Danaher has consistently had a return on equity of more than 10%. Consider also that their 25-year total shareholder return is 5,989%, while the 25-year total shareholder return for the S&P is 777%—a difference of 5,212% and a clear demonstration of Danaher's value over the S&P. We believe Danaher is trading with a margin of safety and at a discount to its intrinsic value.

Broadcom Inc. (AVGO) | Ownership 1%–7%

This U.S.-based designer, developer, and global supplier of digital and analog semiconductors had quite a decade. If you had invested $10,000 in Broadcom on January 1, 2010, it would now be worth $165,155.81—a return of 1,551.86%, not including the reinvestment of dividends. If you had invested $10,000 in the S&P 500 at the same time, it would be around $35,000 today, dividends included. The growth of Broadcom's free cash flow (FCF) in the last five years is impressive too. The firm's FCF increased from $1.725 billion in 2015 to $9.265 billion in FY 2019.

NXP Semiconductors NV (NXPI) | Ownership 1%–7%
In December 2019, global semiconductor manufacturer NXP completed the acquisition of the wireless connectivity assets of Marvell (MRVL) in an all-cash transaction valued at $1.76 billion. NXP acquired Marvell's WiFi Connectivity Business Unit, its Bluetooth technology portfolio, and related assets to create new revenue opportunities in its target end markets. Marvell reported $300 million in revenue in FY 2019, and NXP expects revenue related to the acquired assets to double by 2022. According to NXP CEO Richard Clemmer, the move will allow NXP to offer their customers "the broadest portfolio of Edge solutions which includes tailored security and a full suite of wireless connectivity…"

AMETEK, Inc. (AME) | Ownership 2%–7%
In October 2019, global electronic instruments manufacturer AMETEK completed its acquisition of Gatan, a manufacturer of instrumentation and software for electron microscopes, in an all-cash transaction valued at $925 million. With annual sales of around $180 million, Gatan was formerly held by Roper Technologies, Inc. (ROP), which you might recognize as another company in our portfolio. Gatan is considered a "premier brand" in electron microscopy and is a natural complement to AMETEK's Electronic Instruments Group.

Liberty Braves Group (BATRA) | Ownership 1%–8%
To put it modestly, Liberty Braves Group has had a good run since the opening of The Battery Atlanta, its 1.5-million square-foot mixed-use entertainment destination. Included in Phase 2 of the development project is Block C, which will include a 140-room Aloft hotel and is expected to be completed in summer 2020. The construction of the thyssenkrupp complex, featuring a 420-foot-tall elevator test tower, will be ready in fall 2021. Over the last four years, the total revenue of The Battery Atlanta and SunTrust Stadium has shown a Compound Annual Growth Rate (CAGR) of 21%. The total number of regular season tickets sold in 2019 was 2,665,000, with an average of 33,000 tickets sold per game and a record 17 sellouts. TV ratings were up 13%, and SunTrust Park will host the 2021 MLB All-Star game. To top it all off, in 2019 the Braves claimed the NL East Division title for the second straight year and won 97 regular-season games.

New Purchase

"It's not about earnings; it's about wealth creation and levered cash-flow growth.
Tell them you don't care about earnings."
–John C. Malone

Discovery Communications, Inc. (DISCA) | Ownership: 1%–5%
Discovery Communications, Inc., calls itself "the global leader in real life entertainment." Its brands include household names Discovery Channel, HGTV, Food Network, TLC, Travel Channel, Animal Planet, and OWN: Oprah Winfrey Network. We first became interested in Discovery when they announced their intent to purchase Scripps Networks Interactive, Inc. in 2017. The deal between Discovery and global media company Scripps was finalized in 2018 for almost $12 billion. In 2019, we noticed that Discovery's stock value was low compared with its intrinsic value and decided to invest. Within a week of our purchase, billionaire businessman Dr. John C. Malone, who made his fortune in

media and entertainment investments (you can read more about him in our September 2018 letter), bought another $75 million worth of Discovery.

Also worth noting is Discovery's free cash flow. In 2010, their cash flow was $668 million. In 2020, it is almost $3.1 billion—a CAGR of 16.5% over the last ten years. Because of the size of its international market, Discovery also stands as an attractive acquisition target. For a sense of scale, the Discovery Channel alone has 361 million international network viewers—30 million more than the total population of the United States.

JDP Bond Portfolio

The following table provides a brief summary of how the JDP Bond Portfolio has performed on average over the last three years:

JDP Bond Portfolio by Quarter*

2016	Yield**	2017	Yield**	2018	Yield**	2019	Yield**
Q1	6.5%	Q1	6.2%	Q1	7.1%	Q1	7.3%
Q2	6.1%	Q2	6.4%	Q2	7.3%	Q2	7.1%
Q3	5.9%	Q3	6.9%	Q3	7.8%	Q3	7.2%
Q4	6.0%	Q4	6.5%	Q4	7.4%	Q4	7.4%

*Monthly yield average **Does not include redemption

Staying Focused

"We can always kind of be average and do what's normal. I'm not in this to do what's normal."
–Kobe Bryant

While it's gratifying to have a good year and see great returns on our investments, it is worth reminding ourselves what got us there: staying focused on value, quality, and analyzability. We must remain disciplined even—especially—when times are good. You are part of a special group. We, as a firm, continue to be very selective about who we add to our growing family because we only want to work with those whom we admire, respect, and love. Thank you for your trust. We will always work hard to remain worthy of it.

Cordially,

Joseph Del Principe