January 2025

Twenty-five Years in the Making

Dear Partners and Friends,

Thanks to your partnership, Tsai Capital now celebrates a 25-year track record. I'm deeply grateful for the trust you have placed in us and for your decision to join us on this remarkable journey. As we pause to reflect on this milestone, it feels essential to reaffirm what we do—and how we do it.

Our approach to investing and managing the business is driven by purpose, carefully shaped and refined over the past quarter of a century. I want you to understand how we've arrived at this moment and how we envision the future, which I can confidently tell you looks very exciting. This letter is not merely meant to mark our achievements but to offer a glimpse into the values that underpin Tsai Capital—values that have been the cornerstone of our success and, I believe, can also provide meaningful guidance in the pursuit of a fulfilling life, no matter what journey you are on.

From the very beginning, I've been inspired by the Japanese concept of *kaizen*, which translates as "change for the good." Rooted in the philosophy of continuous, incremental improvement, *kaizen* teaches that small, steady steps forward ultimately lead to profound, lasting change. But I'm getting ahead of myself.

Family Legacy and Guiding Values

I grew up in Greenwich, CT, surrounded by extraordinary privilege, which deeply influenced my perspective on life. From an early age, I felt the weight of legacy upon me, knowing that I had big shoes to fill. You see, my grandmother, Ruth Tsai, was a pioneer—the first woman to trade shares on the floor of the Shanghai Stock Exchange. Prior to that, she established herself as a successful real estate investor, drawn to the field for its accessibility and the absence of licensing requirements. Ruth was an icon of determination and spirit, encouraging women to follow their dreams in an era when men controlled almost all areas of finance.

My late father, Gerald Tsai Jr., was also a pioneer. Leaving China for America at just 18, he rose to become president of Fidelity Investments, launched what was then the most successful mutual fund offering in American history, and became the first Chinese-American to lead a Dow Jones Industrial company. Yet his achievements extended far beyond financial success and philanthropy; he was a champion for advancing women in finance. He encouraged Muriel "Mickie" Siebert to purchase a seat on the New York Stock Exchange—a groundbreaking move that earned her the title of the "First Woman of Finance." I had the honor of meeting Mickie when I was only eleven, the same year I made my first investment.

As I grew older, I was fortunate to learn directly from some of the most influential minds in business. Larry Tisch, the former CEO of CBS and co-founder of Loews Corporation, was my sister's godfather and a frequent guest in our home. His warm and respectful approach to people, especially the kindness he extended to my sister, left an indelible mark on me. Likewise, Norman E. Alexander, CEO of Sequa Corporation, was not only my father's closest friend but an early supporter of Tsai Capital. Norman's advice on structuring the firm's agreements and his encouragement to act with conviction during market downturns were invaluable lessons that shaped my path forward.

Another formative relationship was with Alan "Ace" Greenberg, the legendary CEO of Bear Stearns. Ace managed some of my mother's investments and a small portfolio of mine. Occasionally, I would call him to discuss the market and specific companies, like Schlumberger. Despite his demanding schedule, Ace always took my calls and carved out time to share his insights—a wonderful display of generosity. His mentorship imparted a vital lesson: the power of concentrating capital in high-conviction ideas rather than overdiversifying—a principle that continues to guide our strategy at Tsai Capital to this day.

From an early age, I understood that my regular interaction with some of the most accomplished investors, business leaders, and politicians was anything but typical. I knew how fortunate I was to be able to learn from them. At the same time, there were other aspects of my family background that were considerably less privileged—and these helped to shape my sense of responsibility and my understanding of how important it is to be a prudent custodian of other people's hard-earned capital.

For a start, I could hardly imagine what it had been like for my mother to grow up with little financial security in Bridgeport, CT as one of 14 children. I was also aware that I could never fully comprehend the emotional and economic hardships that my father's parents had suffered during a 14-year separation from their children. Then, when I was about twenty years old, I discovered a speech that my grandmother, Ruth, had given at her local church. I'll never forget the overwhelming impact of her words, which transformed me, instilling values and a vision that would ultimately shape the mission and spirit of Tsai Capital.

Looking back on the misery and brutality of the Cultural Revolution, Ruth recalled: "In the meantime my life in China was a succession of daily meetings of brain-washing and self-incriminations on any past actions affiliated with my capitalist lifestyle, religious organizations and most of all, my connections related to the U.S.A. I was their target all right…. The meetings usually lasted 3 hours sitting on narrow wooden benches under big tents even in severe winters…. The mental torture was unbearable, but somehow God gave me the strength to endure."

By the time I reached the last page of her speech, tears streamed down my face. Even now, as I write this, I feel the same emotion. Her words struck me to my core, instantly awakening in me an unwavering desire to live and work in a way that honors those who came before me. Understanding my ancestors and their struggles gave me a sense of purpose and duty. That spirit is what inspired me to found Tsai Capital, and it's the same spirit with which I approach the assets you have entrusted to this firm. I want you to know that I manage your precious capital with the same care and diligence as if it belonged to my own family.

Warren and Charlie

Warren Buffett's guiding principles also shaped how we operate. Reading his partnership letters from the 1950s and 1960s, I could see at once how he exemplified qualities such as honesty, integrity, humility, conservatism, and long-term thinking. He inspired me to be a better person—to live a more purposeful life and to do business in accordance with his timeless values. In this manner, I was fortunate to find guidance not only from family and friends but from role models I could study through their writings and public appearances.

Buffett laid down his principles about seventy years ago, but they remain as relevant today as they were back then. They took shape in an era that revered hard work as the bedrock of success—a belief woven deeply into the fabric of the American Dream. Yet, in today's world, I worry that this ethic is waning, eroded by a rising tide of entitlement.

In 2025, too many people have come to expect that success should be swift and effortless—an attitude fueled by instant gratification, swift technological advances, and a life of relative economic ease. But a truly successful life is forged in the fires of adversity. It requires dedication, resilience, and the courage to rise each time we stumble. This holds true not only for individuals but for companies as well. From every setback, a seed is sown—a promise of equal or greater benefit waiting to unfold.

Like so many in the world of investing, I was inspired not only by Buffett but by his legendary partner, Charlie Munger. I'd read his speech on *The Psychology of Misjudgment* time and time again, each line etched into my mind. So, when a call came in August 2018, as I sat with my family on holiday in the Bavarian Alps, my heart leaped. It was a mutual friend, calling to extend a priceless invitation. "Charlie is inviting you to dinner at his home this Wednesday, 6:30 pm," he said. "Can you make it?" I had to break the news to my husband and daughters that I'd be leaving them the very next day. But they understood. They saw the light in my eyes, felt the pull of that rare opportunity, and gave me their full support.

I booked a flight from Munich at noon on Tuesday, so that I'd land in Los Angeles a full day ahead of the dinner. I wanted that extra time, to arrive with ease, unhurried and open, knowing that I'd soon be sitting with one of the wisest minds of our time. The plane touched down on schedule, and I stepped into sunny L.A. a day early, peace filling the spaces where anxiety might have been.

As Wednesday evening crept closer, anticipation swirled within me. What would I wear? What questions would I dare to ask? When should I leave my hotel? I decided on one hour for a mere ten-minute journey, not wanting to risk being a single second late. But fate had other plans: Ubers vanished, taxis were scarce, and sudden traffic rose like a conjured spell. I felt a bead of sweat, unusual for a gentle August night, as the minutes slipped away. Almost an hour, and still the journey was incomplete. But at last, with five minutes to spare, I stood at Charlie's door, steadying my breath, and rang the bell.

His caretaker welcomed me in, guiding me to the living room where the legend himself was sitting peacefully, settled comfortably in his now famous reading chair. Charlie greeted me with a warm, steady gaze. I introduced myself—"Christopher Tsai"—and, after a thoughtful pause, he asked, "Any relation to Gerry Tsai?"

In that moment, I hoped that he wouldn't see me as a momentum investor, like my father once was—a path that, in the eyes of many value investors, teeters close to pure speculation. But Charlie didn't pass judgment; he looked at me, listened to me, and treated me as wholly my own person. It was a simple act of kindness that left an enduring mark. From that moment, I decided to make kindness a core tenet in my approach to business and life. To this day, I keep a photo in my office of me and Charlie together—a visual reminder of how to behave and treat others.

Kaizen and Resilience through Adversity

Last year, I penned a paper entitled *The Power and Challenges of Compounding*[1], exploring how both individuals and companies confront the unexpected, experiencing their own forms of growing pains. I posed a question: if compounding is as potent as Einstein reputedly declared, dubbing it the "eighth wonder of the world," why hasn't it produced far more millionaires and billionaires? Why haven't more people reaped its promised rewards?

[1] Tsai, Christopher. "The Power and Challenges of Compounding." *Tsai Capital*, https://tsaicapital.com/the-power-and-challenges-of-compounding.php.

The answer, I believe, lies in our tendency to disrupt the compounding process before it can truly work its magic. Whether in wealth, health, knowledge, relationships, or countless other realms, compounding requires patience, yet this is precisely where many falter. The principle of *kaizen* that I mentioned at the beginning of this letter reminds us that small, consistent steps can yield remarkable transformations over time. But the waiting is hard to bear. People often shift course, abandon efforts, or lose interest before the slow, steady gains can bear fruit. As a result, they miss out on the profound benefits of this eternal mathematical phenomenon.

When it comes to business and investing, it's essential to remember that stocks don't rise in a straight line. In fact, growth stocks—the focus of our strategy—often follow a step-like trajectory, with sharp increases followed by periods of consolidation, and then sharp rises again. However, during times when a stock declines or remains stagnant for several years, it's human nature to seek out the excitement of what's currently popular. In doing so, many lose patience, sell their holdings, and, in turn, miss the next phase of growth, which often arrives when least expected.

Regrettably, most individuals place undue emphasis on stock prices, which are among the least significant indicators of a company's true value. Instead of reacting to price fluctuations, it's far wiser to focus on changes in business fundamentals. Elements such as sales, earnings, and return on capital are the forces that ultimately shape a stock's trajectory over the long term and determine the enduring value of an investment.

This principle of focusing on steady, meaningful progress instead of fleeting outcomes extends beyond investing. A friend who's achieved great success in the business world and in life once remarked, "You want to win a gold medal in the Olympics. You want to learn a musical instrument. You want to learn a foreign language. You want to build Berkshire Hathaway. What's the formula? Dogged, incremental, constant progress over a very long-time frame."

The elegance of this formula lies in its ability to unleash exponential growth, not only in tangible accomplishments but also in a profound sense of personal fulfillment. Paradoxically, I believe that a life free from adversity is not what we should aspire to. True happiness, in my view, emerges from confronting challenges and triumphing over them. Much like Odysseus' arduous journey home in *The Odyssey*, it is through facing trials—be they treacherous seas, deceptive sirens, or fearsome Cyclopes—that we reap the rewards of resilience and growth. Yet, as with Odysseus, this journey begins with a clear awareness of the obstacles before us, for only then can we navigate them with purpose and determination.

Awareness

Over the years, and particularly over the past year, I've worked hard to deepen my understanding of Buddhism. My daily meditation practice has transformed my approach to life and my perspective on the world. Two central practices in Tibetan Buddhism—*Vipashyana* and *Shamatha*—have, in turn, profoundly influenced the investment philosophy at Tsai Capital.

Vipashyana, or "insight meditation," is a foundational practice aimed at gaining a deep understanding of the nature of reality. The term itself is often translated as "clear seeing." While *Shamatha* focuses on calming the mind, *Vipashyana* goes a step further by cultivating an undeluded understanding of the true nature of things—including the reality that everything is in a state of flux and nothing is permanent.

In Tibetan Buddhism, *Vipashyana* helps practitioners see through the illusions and misunderstandings that cloud our perception of the world. It encourages us to experience the world as it is, rather than through the lens of preconceived beliefs or desires. Refraining from judgment to uncover the truth is no small task; it requires clarity of mind, focus, and openness to the possibility that our assumptions might be wrong. My daily meditation practice is integral to cultivating these qualities and has become central to my thinking process and how I manage your money.

In investing and life, it's essential to question assumptions and cultivate a ceaseless curiosity about why things unfold the way they do. This mindset sharpens our ability to stay grounded in reality, helping us to navigate complexity and avoid pitfalls. I try to apply this principle rigorously by constantly challenging and stress-testing my own ideas. Through this practice, I strive to gain a deeper understanding of the nature of reality—an understanding that anchors all of my decisions.

Tesla, Proust, and the Power of Seeing with New Eyes

We live in an era defined by rapid technological transformation, a pace of change that challenges our innate tendency to think linearly rather than exponentially. Human nature often underestimates the speed at which new technologies can reshape society, particularly when reinforcing feedback loops accelerate their adoption. For investors, these dynamics underscore the importance of recognizing potential technological disruptions, even in the most entrenched and established enterprises.

Marcel Proust, author of the monumental French novel *In Search of Lost Time (À la recherche du temps perdu)*, wrote, "The real voyage of discovery consists not in seeking new landscapes, but in having new eyes." Proust, who lived from 1871 to 1922, witnessed a period of astounding innovation, including the emergence of the telephone (1876), electricity (1879), and the automobile (1886). In ways that were impossible for him or his contemporaries to foresee, these technologies would catalyze societal evolution, propelling humanity into the industrial age before igniting the frenetic energy of the "Roaring Twenties."

A century later, we find ourselves on the brink of yet another transformative era, driven by breakthroughs in artificial intelligence (AI), blockchain, DNA sequencing, energy storage, and robotics. These advances hold the potential to reshape human civilization in far-reaching ways that are, once again, unforeseeable. What discoveries lie ahead? To be living in such a time of unprecedented innovation is truly exhilarating, and I'm confident that our portfolios are strategically positioned to capitalize on the waves of progress unfolding before us—even though we can never hope to predict precisely what will happen.

In markets and business, Proust's call to "see with new eyes" is especially prescient. As investors on a journey of discovery into unknown territory, we're required to cultivate a particular mindset: constant adaptability, a willingness to challenge outdated models, and an openness to new paradigms. Clinging to a flawed or outmoded worldview not only blinds us to unfolding realities but also invites costly mistakes.

This rigidity is particularly evident among investors who hastily judge a company's valuation without delving deeply into the underlying economics. Value investors often dismiss richly-valued businesses or, worse, construct short theses without a thorough understanding. As the famed economist John Kenneth Galbraith aptly put it, "Faced with the choice between changing one's mind and proving there is no need to do so, almost everyone gets busy on the proof." The lesson is clear: the key to navigating today's markets lies in intellectual humility, curiosity, and the courage to see the world anew.

I find far greater intellectual satisfaction in trying to understand why a company might be undervalued at 65 times forward earnings than seeking comfort in a seemingly low valuation[2]. In my early years as an

[2] Tsai Capital's initial purchase price of $41.66 per Tesla share was approximately 65 times our forward earnings estimate at the time. The average purchase price is calculated on a dollar-weighted basis over the entire period of February 2020 through April 2020, inclusive of commissions and adjusted for splits. Past performance is not indicative of future results.

investor, my father imparted a crucial lesson: there are no shortcuts to success or to uncovering true opportunities. “Do the work,” he would say. He also cautioned me against the obsession with precision that often permeates Wall Street, reminding me that the world does not conform to tidy certainties. What truly matters, he believed, is not the illusion of control, but a clear sense of direction.

Were it not for him, I likely wouldn’t have spent three years researching Tesla to fully grasp its competitive advantages and understand why it’s not “just another car company.” In a sense, Tsai Capital investors owe a great debt of gratitude to my father, given our success with Tesla.

While studying Tesla, I dove deeply into the history of transportation and was struck by how enduring the horse-and-carriage was. Dating back to around 2000 BCE in Mesopotamia and the steppes of Central Asia, horses were harnessed to chariots for warfare and ceremonial purposes—lightweight, two-wheeled vehicles reserved mainly for elites and warriors. Over time, this mode of transport spread to the general public and remained dominant until the early 1900s.

Then, on October 1, 1908, Henry Ford introduced the Model T, the first automobile mass-produced on an assembly line—a breakthrough that would transform both transportation and manufacturing. Yet at the turn of the twentieth century, the established horse-drawn carriage industry largely dismissed the automobile. Understandably, the infrastructure for cars was minimal—no paved roads, no fueling stations, and no established supply chains. *Carriage Monthly*, a respected publication of the time, questioned the future of automobiles, musing: “Humankind has traveled for centuries in conveyances pulled by beasts; why would any reasonable person assume the future holds anything different?”

It’s worth noting that much of the general public also initially resisted the advent of automobiles. E.M. Forster, in his 1910 novel *Howards End*, captures this sentiment with remarkable skill, employing the car as a powerful symbol of the intrusive forces of modern industrialism. Published just two years after the introduction of the Model T, the novel critiques the automobile’s disruptive effects on the natural world and traditional values, reflecting the zeitgeist of an era grappling with rapid technological change.

Forster vividly portrays throughout the novel how cars bring noise, pollution, and a pervasive sense of restlessness, standing in stark contrast to the serenity and profound connection to the land that Howards End, the country house central to the novel, epitomizes. He writes, “And month by month the roads smelt more strongly of petrol, and were more difficult to cross, and human beings heard each other speak with greater difficulty, breathed less of the air, and saw less of the sky. Nature withdrew: the leaves were falling by midsummer; the sun shone through dirt with an admired obscurity.”

Of course, we now know how the future unfolded. Despite initial reluctance to embrace this new technology, automobiles quickly disrupted the horse-drawn carriage. Car sales surged exponentially, rising from less than 5% of the vehicle fleet in 1905 to 95% by 1925. The adoption curve followed by automobiles mirrors that of many disruptive technologies before the car was introduced, including the spinning wheel, steam engine, and printing press.

As I explored the rapid and radical disruption caused by the internal combustion engine (ICE) vehicle to the existing industry, it became evident that skeptics overlooked the dramatic differences between these modes of travel. While both aimed to carry passengers from Point A to Point B, the ICE vehicle offered a far more efficient method, ensuring its ultimate triumph.

That historical set up is analogous to the situation with today’s electric vehicles (EVs), which are two to three times cheaper per mile to operate than ICE vehicles—a massive cost advantage.

Cost Category	EV (per 100 Miles)	ICE (per 100 Miles)
Fuel/Electricity	$4 - $5	$12 - $14
Maintenance	$1 - $2	$5 - $8
Total	**$5 - $7**	**$17 - $22**

Source: Tsai Capital Estimates, U.S. Energy Information Administration (EIA), AAA, Consumer Reports, EPA, Edmunds, International Council on Clean Transportation (ICCT), U.S. Department of Energy (DOE).

Largely because EVs are so much more efficient than gas-powered cars, their adoption will likely follow the same exponential growth trajectory that defines nearly all disruptive technologies. Just as the spinning wheel, steam engine, automobile, cable television, and streaming services were swiftly embraced despite early skepticism, the path toward widespread EV adoption seems clear. Still, when it comes to Tesla in particular, there remains a deeper truth—one that many investors have yet to fully grasp.

Tesla isn't a car manufacturer! Sure, the company's factories churn out cars, but Tesla is fundamentally an advanced electronics and software company that just happens to attach its computers to wheels. While it looks like a typical car, its architecture is as radically different from an ICE vehicle as an ICE vehicle was from a horse-drawn carriage. Understandably, Tesla's economics are totally different from the economics of the traditional auto industry. That's the underlying reality.

In thinking about Tesla or any potential investment opportunity, I focus on the top line, the present value of future cash flows, the quality and profitability of the business, and the company's unit economics.

At the 2022 Graham and Dodd Annual Breakfast, Todd Combs of Berkshire Hathaway emphasized the critical importance of examining a company's unit economics as a foundational step before addressing valuation. Allow me to clarify: neither Todd nor I are referring to metrics such as customer acquisition costs (CAC) or lifetime value (LTV). Rather, we are focused specifically on profit per unit—whether that unit is a restaurant meal, a bottle of soda, or a car. The specific product or service is immaterial. What matters most is gaining a clear understanding of profitability and the underlying drivers of net income per unit, ultimately translating to net income per share.

This focus on unit economics is particularly relevant when considering Tesla and the broader automotive industry. Tesla and the incumbent auto manufacturers are producing fundamentally different products with inherently distinct economic structures, making direct valuation comparisons with Ford, General Motors, or Stellantis illogical. Tesla is also making significant long-term investments in its business, which suppresses current earnings, thereby skewing investors' perceptions of the company's valuation.

Countless times, I've heard people argue that Tesla's market value is irrational because it exceeds the total market value of all of its competitors combined. On the surface, that seems like a reasonable claim. But when we look at history, such arguments often miss the mark.

In effect, those making this argument are suggesting that the market value of Tesla—represented by the numerator—shouldn't surpass the combined value of competitors B, C, D, and E, represented by the denominator. But why should that be the case?

We know that a company's market value is meant to reflect the present value of its future cash flows. If an industry is being disrupted, the future cash flows of the incumbents are likely to decline, while the disruptor's cash flows are expected to grow.

When viewed in this light, it becomes clear that as the disruptor's cash flows expand and the market value adjusts accordingly, the disruptor's worth will multiply—perhaps 2X, 3X, and beyond—as the incumbents falter or fade. This is particularly true when considering that fractions increase exponentially as the denominator approaches zero. In fact, Apple appeared undervalued in 2007 when its market value was just 1X that of all its competitors combined.

We are now investing in an age of disruption, where it's more important than ever to think ahead rather than backwards, to ask, "Where is the world ultimately heading?" We must resist the impulse for quick, surface-level judgments and must reconsider valuation with new eyes. This isn't a matter of abandoning our discipline and loosening our standards. Rather, it's a recognition that GAAP (Generally Accepted Accounting Principles) often fails to capture the economic realities of rapidly-growing companies. In other words, we need to engage in thoughtful, in-depth analysis and not reflexively recoil from a seemingly high valuation without fully understanding the business and the underlying system dynamics. We need to strive for awareness of the underlying nature of things.

While I believe the trajectory toward widespread EV adoption is increasingly clear, it's unlikely that all EV manufacturers will endure. This is especially true given that technology-driven markets, including the EV sector, often exhibit "winner-take-all" or "winner-take-most" dynamics.

Tesla is well-positioned relative to its EV rivals, as we believe it's way ahead on the cost curve. This advantage is largely attributed to the principles outlined in Wright's Law, which states that production costs decrease by a consistent percentage with each doubling of cumulative production. Since the company is now producing about two million vehicles a year, we estimate that Tesla's EV production costs are 20-30% lower than those of most competitors. This cost advantage is the true nature of reality, underpins Tesla's economic moat, and helps to explain the company's seemingly rich valuation.

Lastly, it's important to note that traditional automakers have never written code before—because they never had to do so. Now, however, they are competing in an arena where Tesla's software and tech-centric approach is the true differentiator. That will become even more apparent as the world transitions toward autonomous vehicles that rely on deep learning and neural networks. Without understanding this, it's impossible to fully grasp what sets Tesla apart and why it's valued as it is. Love him or loathe him, Elon Musk has built a company with a formidable economic moat that is deeply rooted in this foundational reality.

Probability and Shades of Grey

That said, we live in a probabilistic world, so we can never truly be sure of anything—regardless of how diligent we might be and how much research we do.

While deepening my studies of Buddhism, I recently came across the writings of the Tibetan Buddhist master Chögyam Trungpa Rinpoche. In *The Path of Individual Liberation*, he wrote, "In terms of our domestic life, we may feel we have everything under control. We know how to book tickets on an airplane or to hitchhike across the country, and we have all the maps figured out. However, although we may feel we have everything under control—or we may not feel that way, and wish we could—there are still a lot of loose ends. Such loose ends cannot be covered simply by running down a list. Our list becomes so large that finally we cannot handle it without more and more energy."

At Tsai Capital, our investment approach is grounded in thorough fundamental research, and we always think in terms of probabilities. Naturally, we assess whether an investment has a margin of safety—meaning, is the stock trading at a sufficient discount to our estimate of its intrinsic value to account for potential errors in judgment? Beyond that, we aim to understand the range of possible upside scenarios. Could the company's market value reach $1 trillion, $5 trillion, or even $10 trillion?

Because the world is uncertain and there are a lot of "loose ends," we're just not going to know the future outcome with precision—and I'm okay with that. We don't need precision as long as we can understand the range of potential outcomes in relation to the price we pay.

In a talk that I gave at the Zurich Project conference in 2023 entitled *Investing in an Age of Disruption*[3], I emphasized that successful investing requires embracing probability and navigating shades of grey. While it's crucial to stay within one's circle of competence—a space I define as having deep fluency about what's really going on—we must also resist the temptation to grow complacent. Instead, we should actively push against the edges of that circle, striving to expand it through continuous learning, curiosity, and a willingness to explore new ideas, all in the spirit of *Vipashyana*.

This mindset is essential for thriving in an uncertain world. Similarly, the legendary jazz pianist and composer Bill Evans, in his interview *The Creative Process and Self-Teaching*, observed, "You could be too cautious. You could be cautious to the point where you never discover anything. I think you have to have a certain adventurous spirit." While Evans was speaking about music, his insight resonates deeply with me as an investor. Both disciplines demand a balance of caution and boldness, a willingness to explore the unknown while also remaining anchored in one's expertise.

Alignment

When I was about 12 years old, my father and I set out on a fishing trip on Long Island Sound. Our time together was rare, but when he was with me, he was fully present. I remember the pride I felt as I took the helm of my new 16-foot Boston Whaler, the boat rocking gently as we anchored about a mile from shore. In my youthful eagerness, I cast my line into the wind, unaware of the consequences. The hook flew back and struck my face. My father, with swift authority, said, "Christopher, you can't do that! You must position yourself with the wind at your back, just like in investing."

That simple yet profound lesson has been at the core of our investing approach ever since I launched Tsai Capital. We strive not only to align ourselves with the general direction in which the world is moving, but also to partner with visionary management teams and invest in technologies that are scalable, transformative, and useful. Our businesses are at the forefront, riding the crest of change and navigating each new wave and unexpected situation with purpose.

Aligning with investors who understand and appreciate our long-term, market-agnostic investment philosophy and our focus on high-quality growth businesses is vitally important. This alignment serves as one of our most significant competitive advantages. It enables us to seize opportunities when valuations are most attractive and allows me to focus fully on executing our strategy rather than expending energy on conversations.

Over the past 25 years, there have been a few occasions when I erred in welcoming investors who initially seemed to share our investment philosophy, only to later discover a misalignment in values. These mismatches created challenges and discomfort for both parties. To prevent such situations, every prospective investor now receives our *How We Invest*[4] letter before we accept capital. Additionally, I

[3] Tsai, Christopher. "Investing in an Age of Disruption." *Tsai Capital*, 8 June 2023, https://tsaicapital.com/investing-in-an-age-of-disruption.php.
[4] Tsai, Christopher. "How We Invest." *Tsai Capital*, https://tsaicapital.com/how-we-invest.php.

encourage our current investors to revisit that letter periodically, reaffirming our shared principles and ensuring ongoing alignment with our time-tested investment approach.

Investment Approach and Strategy

Although change is inevitable, my objectives remain steady: the preservation and long-term growth of your capital. It is both an honor and a privilege to work alongside investment partners who genuinely share our investment philosophy. For this reason, we are highly selective about who joins the Tsai Capital family, ensuring that our goals and values are aligned.

Our shared success is achievable only through a unified group of high-quality investors. As Helen Keller once said, "Alone we can do so little; together we can do so much." This timeless insight encapsulates the deep value we place on fostering enduring partnerships.

Before diving into specifics, please allow me to explain why the S&P 500 Index is a suitable alternative to Tsai Capital and may therefore be used as a *long-term* benchmark to assess relative performance. But first, understand that a) the S&P 500 Index's investment guidelines—and hence the nature of its investments—are rather different from those of Tsai Capital; and b) in the short term, our performance may yield surprising results—both good and bad—relative to the benchmark, which should neither be cause for concern nor celebration.

Benjamin Graham famously observed, "In the short run, the market is a voting machine but in the long run it is a weighing machine." I cite this quotation as a simple reminder that short-term performance data provides little assistance in evaluating long-term investment performance. By its nature, the stock market creates constant price action, and this volatility is often amplified by human emotions, inevitably resulting in short-term outperformance or underperformance for any money manager who diverges from the index. Over the long run, however, this price action phenomenon balances out, leaving stock selection—or, more precisely, *business* selection—as the key driver of investment returns.

As you know, very few money managers outperform the S&P 500 Index over the long run. It is on this basis, and this basis alone, that I recommend using the S&P 500 Index as a *long-term* benchmark by which to judge our performance—ideally, over a minimum of five years or more. Anything less than that is far too short a time frame to evaluate investment performance.

Our sole objectives are the long-term growth and preservation of your capital. We pursue these goals by rigorously following our *Core Disciplines* (Exhibit II) and maintaining an unwavering commitment to our investment approach, as detailed in *How We Invest* (Exhibit III). However, before delving deeper, let's address a topic that often captivates others: the general market.

First of all, it's important to recognize that nobody can consistently predict what the market is going to do. That's a fool's game. Rather, all of my attention is devoted to finding the best individual investments that I believe offer significant upside potential and a margin of safety at the time of purchase. If you feel that an alternative strategy is essential to an investment program, you *should not* be invested with Tsai Capital.

I think the long-term growth aspect is best attained by investing in *compounders*. We define a *compounder* as a high-quality growth business that we believe has a durable competitive advantage and can reinvest capital at high rates of return over a long period of time.

We particularly like *compounders* that don't fully flex their pricing power, benefit from a network effect, and share efficiencies from increasing scale with customers. These types of businesses often have the widest economic moats and the longest runways for growth.

When we find an attractive business at a sensible price, we like to buy in size and hold on for many years—ideally, more than a decade. This long-term approach is inspired by a foundational insight that is widely attributed to Albert Einstein: "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."

While growth is our goal, a basic mathematical concept illustrates the importance of capital preservation: whereas a 50% loss reduces $1 to 50 cents, a 100% gain is now needed to recover back to the initial $1 of capital. This phenomenon grows in a non-linear fashion as demonstrated by the disconcerting fact that a 400% gain is required to offset an 80% loss. It's worth remembering Carl Jacobi's exhortation: "invert, always invert." Bearing that in mind, the best way for investors to make money is first not to lose it.

There are a vast number of techniques available to avoid losses, but many of these guard against quotational loss—that is, a loss as a result of volatility. However, we define risk as a permanent loss of capital. Our best hedge against it is a large margin of safety—or discount to intrinsic value—at the time of purchase. Accordingly, we welcome short-term volatility, as it occasionally grants us the chance to buy high-quality growth businesses at large discounts to intrinsic value.

Please note, a margin of safety is not a precisely quantifiable number, and it therefore lacks the comforting (yet often misleading) sense of precision inherent in some strategies. Nonetheless, our insistence on buying stocks at a discount to their intrinsic value provides a crucial safeguard against uncertain and unknowable variables in any business. On this front, I side with John Maynard Keynes, who remarked, "I would rather be vaguely right than precisely wrong."

Ideal investments are hard to find, especially in times of market euphoria. I seek to avoid investing in trees that appear to grow to the sky—that is, situations in which valuations drastically exceed intrinsic business values. This disciplined approach has helped us to successfully navigate an array of perilous periods, including the dot-com bubble that burst in 2000, the housing bubble that triggered the Global Financial Crisis, and the outbreak of COVID-19. And since our buying and selling decisions are not tied to general market behavior, we may be spectators for long periods of time. Our preference for inaction motivates us to swing hard when we see a pitch we like. This approach results in a relatively focused portfolio—which, as previously mentioned, may substantially deviate from our benchmark over short time frames.

In the long run, it becomes easier to assess whether a money manager truly possesses the talent and temperament required to outperform. But quality tends to be much harder to evaluate in the investment industry than it is in most other service industries. For example, when you bite into a steak at your favorite restaurant, there's an instant-feedback system that immediately reveals the flaws or virtues of your meal. In investing, the instant-feedback system (think short-term market deviations) doesn't provide nearly as much insight into quality as it does in that restaurant. Accordingly, a mistake may occur at the time an investment decision is made, but it's often not until years later that the results of that decision surface.

In practical terms, what all of this means is that it's vitally important for you to understand the logic of our investment strategy, and why I believe that this patient, disciplined approach is likely to serve us well over time. Problems often arise when there's a mismatch between a money manager's long time horizon and an investor's relatively short time horizon. The strength of the alignment between Tsai Capital and its investors makes it possible for us to take advantage of short-term volatility and to adhere to the long-term view in ways that should ultimately benefit us all. With this in mind, I urge our investors to maintain a long time horizon, allowing the eighth wonder of the world—compounding—to perform its miracles.

Portfolio Update and Performance Review

For the year ending December 31, 2024, the Tsai Capital Growth Equity Strategy gained 23.0% after fees, and 24.5% before fees, as compared with a total return of 25.0% for the S&P 500 Index.

Since inception 25 years ago, the Tsai Capital Growth Equity Strategy gained 604.5% cumulatively after fees, and 886.4% before fees, as compared with a total return of 526.7% for the S&P 500 Index.

Tsai Capital's performance, since inception, equates to an annualized return of 8.2% after fees, and 9.7% before fees, as compared with an annualized return of 7.7% for the S&P 500 Index. More information about our historical returns can be found in Exhibit I at the end of this letter.

Performance of the strategy, since inception, was achieved without the use of leverage, derivatives, and short selling.

In 2024, we sold our entire position in Hershey and purchased Copart, Markel, and QXO. For more information on QXO, please see below.

The portfolio is now comprised of 23 businesses, up from 21 at the start of 2024. We believe that these are all high-quality growth companies that are *driving* change as opposed to being *disrupted* by it.

In my view, we're particularly well-positioned to benefit from the AI revolution, which represents the most transformative technological advancement since the advent of the internet. Although there is arguably some hype surrounding AI, and valuations for certain companies appear overinflated, our research suggests that most AI-related stocks are not experiencing the same kind of bubble we saw with technology stocks in 1999 and 2000.

Many of the companies we own are leading the charge in the AI revolution, with others set to reap substantial benefits as they integrate these transformative technologies into their operations. As with the release of the iPhone in 2007, the full range of AI's potential applications is beyond our imagination.

We believe that autonomy—embodied in self-driving vehicles and humanoid robots—will be one of the earliest large-scale applications of AI. Tesla is at the forefront of this revolution, setting the benchmark for what's possible. Similarly, companies like QXO are harnessing AI to revolutionize entire industries, with QXO gearing up to transform the building products distribution sector. The company recently appointed Ashwin Rao as its Chief Artificial Intelligence Officer, marking a bold step forward. My family friend Brad Jacobs, who is the founder, chairman, and CEO, said, "Artificial intelligence will permeate everything we do at QXO, from demand forecasting to inventory management and e-commerce. Ashwin is recognized as one of the brightest minds in enterprise AI, and he will be instrumental in positioning QXO as the most tech-forward company in the industry."

Under such visionary leadership, we are witnessing the transformative potential of AI across industries, unlocking unparalleled opportunities for growth and innovation. This momentum is further reinforced by the fact that our holdings are guided by skilled capital allocators and that they are benefiting from one or more positive feedback loops. Additionally, these companies enjoy long runways to deploy capital at attractive rates of return. Despite our strong returns in 2024, our analysis indicates that the overall portfolio remains undervalued—though not to the same extent as it was a year or two ago.

Our top five positions are listed below in alphabetical order, along with our most recent insights and the year when they first entered the portfolio. Our strategic target calls for the top five positions to account for 37% of capital, while our top ten are intended to account for 57% of capital. Please note that your individual account allocation may vary from these targets due to market conditions and other factors.

- **Alphabet** (GOOG—Year of First Purchase: 2017)
  Sundar Pichai, who became CEO of Alphabet in 2019, is currently leading the company through multiple antitrust cases, one of which involves Google Search. Despite these regulatory challenges and growing competition from large language models like ChatGPT, DeepSeek, Microsoft Copilot, and Perplexity AI, we believe Google is at the forefront of the AI race and is well-positioned to navigate a fast-changing environment.

  The company also owns YouTube, which has over two billion monthly users and a rapidly-expanding subscription business. While we have concerns about competition from AI chatbots, we believe Google Search has a strong economic moat that is underpinned by data and insights that the chatbots lack—at least, for now.

  Alphabet also owns one of the three major cloud companies (Google Cloud Platform), not to mention a number of private businesses with the potential to reward shareholders richly over time. Putting it all together, we believe the Google ecosystem—supported by intangible assets, network effects, cost advantages, and customer switching costs—can propel Alphabet's overall revenue growth at a compound annual rate of about 10% over the next five years.

  With approximately $105 billion ($8.61 per share) in cash and securities, net of debt and operating leases, the company has a robust balance sheet. Its free cash flow conversion remains excellent.

- **Amazon.com** (AMZN—Year of First Purchase: 2017)
  Amazon was founded by Jeff Bezos in his garage in 1994 and today dominates the markets it serves. The company's e-commerce business is gaining market share, despite its immense size, while its cloud services division, Amazon Web Services (AWS), is by far the leading cloud provider. We estimate that AWS now generates 60-65% of the company's total operating profits.

  Both Amazon retail and AWS benefit from numerous competitive advantages and deliver a high customer value proposition. Rather than leveraging its size to maximize short-term profits, the company follows a scale-economies-shared business model, sharing a generous portion of its margin with the consumer. This creates a flywheel effect that reinforces the company's ecosystem.

  Amazon's approach of investing heavily in the business today to create shareholder value later masks the company's underlying earnings power. As consumers continue to shift their spending from in-store purchases to online shopping, and as data continues to migrate from on-premise servers to the cloud, we expect Amazon to grow revenues at a low double-digit rate for at least the next five years and to significantly increase its operating margins.

- **Apple** (AAPL—Year of First Purchase: 2016)
  We initiated our investment in Apple in 2016 and elevated it to a core holding in 2018, the same year the company introduced its redesigned 13-inch and 15-inch MacBook Pro models. Under Tim Cook's visionary leadership, Apple has consistently redefined innovation in hardware and software.

  The September 2024 launch of the iPhone 16, with its groundbreaking AI capabilities, including enhanced image generation tools, marks another inflection point. We believe this transformative device is the foundation for an AI-driven supercycle and could entice approximately 100 million consumers to upgrade, reinforcing Apple's leadership in the industry.

Today, Apple's ecosystem spans over two billion active devices, supported by a rapidly-growing base of subscription services. This strategy has helped to turbocharge customer engagement and spending. In the most recent fiscal year, which ended in September 2024, Apple's high-margin services division accounted for 39.3% of total gross profits, up from 32.8% just two years ago.

Apple's financial footing remains exceptional, with approximately $50 billion in net cash and marketable securities. Looking ahead, we expect earnings-per-share growth to outpace revenue growth, driven by margin expansion and continued share buybacks.

- **QXO** (QXO—Year of First Purchase: 2024)
  We initiated a position in QXO at approximately $11 per share. Under the leadership of Brad Jacobs, the company is in the early stages of executing a bold plan to consolidate and disrupt the $800 billion building products distribution industry. Having previously invested in two of Brad's highly successful ventures, United Rentals and XPO Logistics, Tsai Capital is excited to support his latest endeavor.

  It's our goal to partner with exceptional capital allocators. Having followed Brad's remarkable career for nearly three decades and having spent many hours speaking with him over the years, I consider him one of the best in the field. Notably, his personal commitment of $900 million to QXO further aligns his interests with ours.

  With approximately $5 billion in cash and no debt, QXO is well-positioned to make its first acquisition in North America, targeting a major player in the industry. Based on Brad's proven playbook, we believe this initial acquisition will serve as a platform for further acquisitions.

  Although QXO's stock price has appreciated since our initial purchase, we believe the market has yet to fully recognize the extent to which the company is likely to deploy capital at attractive rates of return, not to mention the economic moat that Brad has already built. The company's advantages are grounded in an exceptional network of professional contacts that he has developed over decades and a carefully curated team of driven and talented professionals, many of whom have worked with him in the past.

- **Tesla** (TSLA—Year of First Purchase: 2020)
  We've owned Tesla since February 2020 and initially paid an average of about $41.66 per share[5]. Tesla is a leading AI company that has formidable competitive advantages across various sectors, including electric vehicles, software, and energy storage.

  A true outlier, Tesla operates in an entirely unconventional way, often creating market confusion and attracting criticism from short sellers and from those who mistake the company for what it is fundamentally not—a traditional car manufacturer.

[5] The average purchase price is calculated on a dollar-weighted basis over the entire period of February 2020 through April 2020, inclusive of commissions and adjusted for splits. Your individual account average purchase price may differ from the average purchase price of the firm's managed accounts because of market conditions and/or other factors. Past performance is not indicative of future results.

> Under the visionary leadership of Elon Musk, Tesla has adopted a scale-economies-shared business model, deliberately lowering prices, enhancing the customer value proposition, driving adoption, and expanding the total addressable market.
>
> Tesla's unique products, extensive scale, and cost advantages are challenging the viability of legacy auto manufacturers, which are encumbered by hundreds of billions of dollars in outdated property, plant, and equipment as the industry transitions to EVs—and, ultimately, to autonomous vehicles. While competition is bound to intensify, we believe Tesla will greatly boost its production and delivery of vehicles as the overall market for EVs continues to expand.
>
> Tesla is at an inflection point. Going forward, we expect the company to focus on robotics, next-generation vehicles, ride-sharing, and autonomy. Eventually, we expect it to license its self-driving software to competitors, thereby generating recurring licensing revenue at enviably high margins of 70-80%. We love this new trajectory because it's likely to widen the company's impressive economic moat even further, while also positively impacting margins and returns on capital.
>
> This investment aligns well with our preference for companies that have rock-solid balance sheets (we estimate that Tesla has about $26 billion of net cash), a history of exemplary capital allocation, and the ability to reinvest capital at high rates of return into large addressable markets.

Looking Ahead

As we gaze ahead at 2025 and beyond, one truth remains undeniable: the only constant in life is change. This insight dates back at least as far as the Greek philosopher Heraclitus, who is said to have observed more than 2,500 years ago that "Everything flows." In our era, change is not only constant but ever-accelerating. Driven by advancements in areas like AI, machine learning, autonomous driving, cloud computing, transportation electrification, and robotics, this disruption will reshape entire industries.

The good news is that our portfolio has been consciously constructed to benefit from this unfolding future. As my father taught me all those years ago, it's always wise to have the wind at your back.

This is why our top holdings include Alphabet, Amazon, Apple, QXO, and Tesla—companies that exemplify forward momentum. I'm confident that the outstanding fundamentals, distinctive cultures, and exceptional leadership of these and the other 18 high-quality growth companies in your portfolio will provide a solid foundation for your investment with Tsai Capital. Together, we will continue to embrace change and innovation, creating ideal conditions for long-term success in this brave new world.

Closing Reflections and Appreciation

When I founded this firm a quarter of a century ago, we lived in radically different times. Back then, Bill Clinton was President of the United States and the Netscape Navigator browser was still in its infancy! But one thing hasn't changed. To this day, I remain deeply inspired by the words and example of my grandmother, Ruth Tsai, whose struggles on behalf of her family instilled in me a profound sense of duty to honor and safeguard my clients' hard-earned capital.

Whether wealth is inherited or self-made, I believe we are called upon to respect those who came before us by protecting and nurturing that capital and building on whatever opportunities their efforts may have afforded us. This commitment does not mean avoiding every downturn; rather, it compels us to navigate through the difficult times with care and with the goal that our investors' capital not only remains safe but proliferates over time. We have always held, and will always hold, a long-term perspective that we believe is designed to increase our investors' wealth prudently and sustainably over many years and decades.

From the outset, Tsai Capital's mission has been to help a select group of families and organizations to preserve and grow their assets, securing their present and enabling their future. At the very heart of this company and this mission lies an unwavering dedication to the well-being and prosperity of everyone who has entrusted us with their capital. I am deeply grateful for your trust and partnership on this journey.

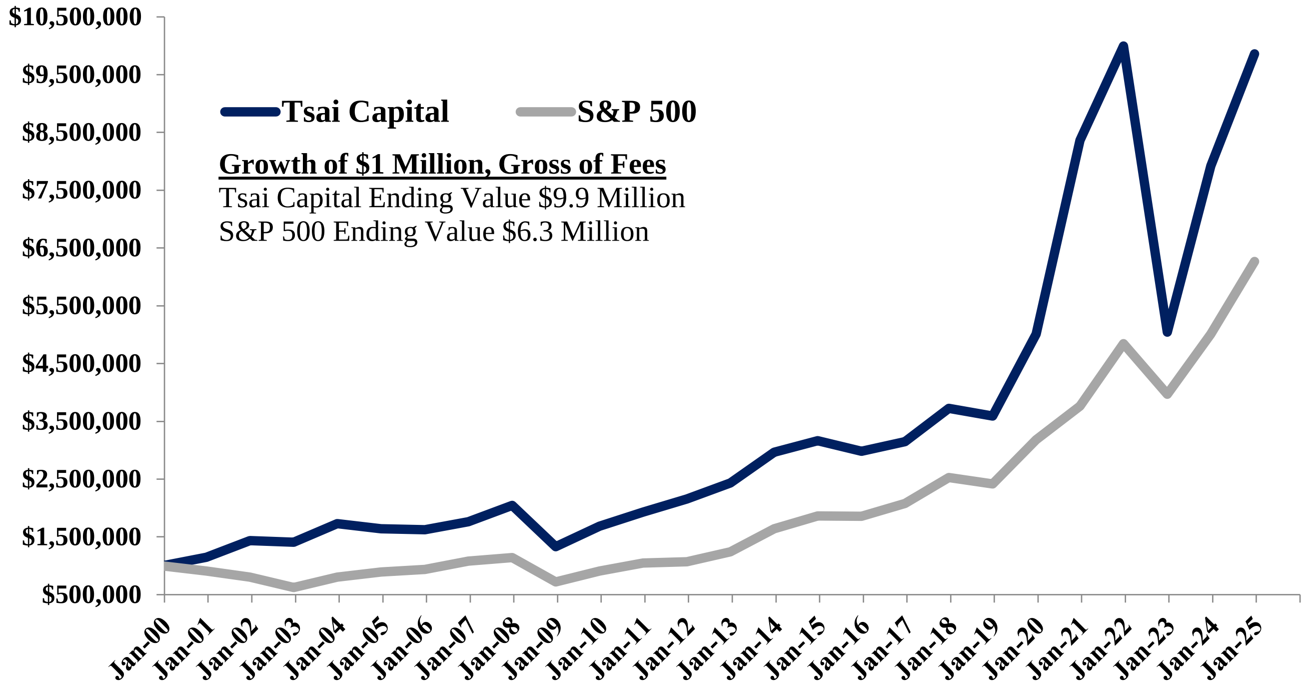
As always, please feel free to contact me with any comments, questions, or suggestions. For further insight about our portfolio and how we're positioned for the future, you may also want to check out some of the recent interviews I've done, which you can find below in the "Highlighted News" section of Exhibit VII or on our website.

I would also like to extend my sincere thanks to our advisory committee members, service providers, and the CEOs of our portfolio companies (Exhibits IV, V, and VI) for their invaluable contributions to our clients' success.

As I reflect on all that lies ahead, I am filled with excitement. Though my grandmother and my father are no longer with us, I carry forward a legacy that they would be proud of, as we sail this sturdy ship into the future, with the wind firmly at our back.

With gratitude,
Christopher Tsai

Exhibit I
Tsai Capital Growth Equity Strategy
Composite Performance
25 Years: January 1, 2000 (Inception) – December 31, 2024



Note: We have displayed the above supplemental performance graph before fees to provide investors with clear insight into the portfolio’s underlying performance. Individual account performance and fees vary depending upon the amount of assets under management. Net and gross performance information for the Tsai Capital Growth Equity Strategy composite is listed below.

Past performance is not indicative of future results. See “Important Disclosures” at the end of this letter.

Exhibit I (Continued)
Tsai Capital Growth Equity Strategy
Composite Performance
25 Years: January 1, 2000 (Inception) – December 31, 2024

Annual Time Period	**Tsai Net**	**Tsai Gross**	**S&P 500**
2024	23.0%	24.5%	25.0%
2023	55.3%	57.0%	26.3%
2022	-50.3%	-49.5%	-18.1%
2021	17.8%	19.5%	28.7%
2020	64.6%	67.0%	18.4%
2019	37.5%	39.5%	31.5%
2018	-4.9%	-3.7%	-4.4%
2017	16.9%	18.3%	21.8%
2016	4.5%	5.6%	12.0%
2015	-6.0%	-5.8%	-0.5%
2014	5.4%	6.7%	13.7%
2013	20.4%	21.9%	32.4%
2012	11.6%	12.9%	16.0%
2011	10.7%	11.7%	2.1%
2010	12.7%	14.5%	15.1%
2009	25.2%	26.8%	26.5%
2008	-35.8%	-34.9%	-37.0%
2007	14.3%	15.9%	5.5%
2006	7.2%	8.7%	15.8%
2005	-2.6%	-1.2%	4.9%
2004	-6.6%	-5.2%	10.9%
2003	20.9%	23.1%	28.7%
2002	-3.6%	-1.9%	-22.1%
2001	22.4%	24.8%	-11.9%
2000	12.6%	14.9%	-9.1%

Annualized Time Period	**Tsai Net**	**Tsai Gross**	**S&P 500**
1 Year	23.0%	24.5%	25.0%
5 Years	13.0%	14.6%	14.6%
7 Years	13.4%	15.0%	13.9%
10 Years	10.9%	12.3%	13.1%
Since Inception	**8.2%**	**9.7%**	**7.7%**

Cumulative	**Tsai Net**	**Tsai Gross**	**S&P 500**
25 Years	**604.5%**	**886.4%**	**526.7%**

Note: We have selected the S&P 500 Index because it is a widely-known benchmark of performance. The vast majority of professional investors underperform the S&P 500 over the long run. We could just as easily have used the Dow Jones Industrial Average or the MSCI World Index. Tsai Capital's returns are calculated both gross and net of all fees and expenses. The S&P 500's returns include dividends, ensuring that this is an apples-to-apples comparison.

Exhibit II
Core Disciplines

All-in and Win-Win: Tsai Capital, today, is the result of a quarter century of hard work and continuous, incremental improvement in all areas of the business. Our success—and our clients' success—would not be possible were it not for an aligned group of investors who share a similar mindset. We are all-in.

It's our mission to bring a scientific spirit and integrity to the business of investment management and to create win-win outcomes. We seek to build long-term relationships with all our counterparties while being guided by the African proverb: "If you want to go quickly, go alone. If you want to go far, go together."

Remember Einstein: In choosing individual securities, Tsai Capital ignores (or exploits) short-term volatility and focuses instead on the potential for long-term capital appreciation. This approach broadens the universe of our investment opportunities as other market participants, generally operating under institutional constraints, have a much shorter time horizon.

Once we have made an investment, we seek to hold it for many years. This long-term strategy is inspired by an insight widely attributed to Albert Einstein: "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."

Invert, Always Invert: Preservation of capital is of paramount importance to successful long-term investors. How come? Well, just consider this simple mathematical principle: while a 50% loss reduces $1 of capital to 50 cents, a 100% gain is then necessary to recover the initial $1 of capital. Moreover, this phenomenon expands in a non-linear fashion: for example, a 400% gain is required to offset an 80% loss. Carl Jacobi's famous exhortation—"invert, always invert"—clearly applies to investing, where the best way to make money is first not to lose it.

That's why we always require a margin of safety before purchasing any stock. No matter how outstanding a business may be, we will commit capital only when we believe the market offers us a large discount to the company's intrinsic value.

Never Forget Tussman: Knowledge acquired through a multidisciplinary approach is essential to understanding the world and to minimizing risk. Our extensive network of fellow investors, analysts, executives, and business owners helps in idea generation and due diligence.

We strive to be open-minded in order to understand all the major factors that might affect the outcome of an investment. Our goal is to eliminate blind spots. Our research process is inspired by the late Joseph Tussman, a philosophy professor and educator who observed, "What the pupil must learn, if he learns anything at all, is that the world will do most of the work for you, provided you cooperate with it by identifying how it really works and aligning with those realities."

Follow the Business, Not the Market: We are convinced that nobody can consistently predict what the market will do. That's a fool's game. Our capital allocation strategy is, therefore, market agnostic. Instead of obsessing, as so many others do, about the direction of the general market, we focus on business fundamentals. All of our attention is devoted to finding the best individual investments that offer significant upside potential and a margin of safety at the time of purchase.

It's All in the Swing: Our preference for inaction motivates us to swing hard when we see a pitch we like. This results in a relatively focused portfolio—which may substantially deviate from our benchmark over short time frames.

We are solely focused on investing in compounders, which we define as high-quality growth companies with durable competitive advantages and the capacity to reinvest capital at high rates of return over long periods of time.

Finally, in our quest to invest in truly exceptional companies, we prefer certain business models—particularly those that benefit from a network effect or some other kind of positive feedback loop. That's because growth created in a self-reinforcing manner can be highly durable.

Exhibit III
How We Invest

We believe in transparency. This is particularly important at the beginning of a relationship, so investors can make a sound decision in choosing whether to invest with Tsai Capital.

There's an old African proverb that says, "If you want to go quickly, go alone. If you want to go far, go together." I couldn't agree more. Therefore, in order to encourage an alignment of interests, this letter is sent to all prospective investors before we engage in a deeper conversation.

Historically, the S&P 500 Index has outperformed the great majority of money managers and most other indices. It's my belief that this index is a suitable alternative to Tsai Capital; I therefore propose it as a *long-term* benchmark to use in assessing our performance.

I must, however, clarify one point. Over the short term, our performance may yield surprising results—good or bad—relative to the benchmark. But this should neither be cause for concern nor celebration. That's because our approach is to compound capital over the long term, ideally in businesses that we can own for a decade or more. With this in mind, I ask investors to judge our performance using evaluation periods in excess of five years. Anything less than that is far too short a time frame to evaluate our results.

As an investor, my only objectives are the preservation and long-term growth of capital. But first, let's address what many people are obsessed with: namely, the general market. Trying to predict where it's headed is a fool's game. So, all of my attention is devoted to finding the best individual investments that I believe offer significant upside potential and a margin of safety at the time of purchase. If you feel that an alternative strategy is essential to an investment program, you *should not* be invested with Tsai Capital.

Ideal investments are hard to find, especially in times of market euphoria. I seek to avoid investing in trees that appear to grow to the sky—that is, situations in which valuations drastically exceed intrinsic business values. This disciplined approach has helped us to successfully navigate an array of perilous periods, including the dot-com bubble that burst in 2000, the housing bubble that triggered the Global Financial Crisis, and the outbreak of COVID-19. And since our buying and selling decisions are not tied to general market behavior, we may be spectators for long periods of time.

Our preference for inaction motivates us to swing hard when we see a pitch we like. This results in a relatively focused portfolio, which, as previously mentioned, may substantially deviate from our benchmark over short time frames. But these fluctuations are of little importance to the long-term investor. I ignore them, and I ask you to do the same.

Finally, let me be clear that volatility is not the same as risk. Volatility is price fluctuation, whereas risk is the potential for permanent capital loss. Unlike many others, we think of volatility as our friend because it occasionally grants us the opportunity to buy shares in high-quality growth businesses at large discounts to their intrinsic value. I focus on preserving capital so that we'll be in a strong position to seize those rare and precious opportunities when they arise. Over time, this patient and disciplined investment approach allows the eighth wonder of the world—compounding—to perform its miracles.

Christopher Tsai

Exhibit IV
Team Tsai

Management and Advisory

Christopher Tsai, President and Chief Investment Officer

Christopher Tsai is President and Chief Investment Officer of Tsai Capital, an investment management firm focused on the preservation and long-term growth of capital on behalf of select families and organizations. With more than two decades of experience, and as a third-generation investor whose financial roots date back to World War II, Mr. Tsai leads the firm's investment activities and is Chairperson of the firm's advisory committee.

Mr. Tsai pursues a value-oriented investment approach and seeks high-quality growth companies that offer significant upside potential and a margin of safety at the time of purchase. He uses a multidisciplinary approach to identify companies that he believes have a sustainable competitive advantage and can compound earnings at an above-average rate over the long term. Companies in his portfolio tend to have strong balance sheets, a history of producing high rates of return on capital, and a culture of innovation.

Mr. Tsai's investment approach has been most influenced by Warren Buffett, Charlie Munger, and Phil Fisher, as well as by his grandmother and father, the late investor and philanthropist Gerald Tsai Jr., who was the first Chinese-American to lead a Dow Jones Industrial company.

Mr. Tsai's financial roots date back to World War II, as his grandmother, Ruth Tsai, was the first woman to trade shares on the floor of the Shanghai Stock Exchange.

Prior to forming Tsai Capital, Mr. Tsai was an equity analyst at Bear, Stearns & Co. Inc., John A. Levin & Co., Inc., and Gabelli Asset Management.

When not looking at businesses, he loves running in nature, quiet time with his books and family, submersing himself in the arts, and a perfectly steeped pot of tea.

Mr. Tsai received a Bachelor of Arts degree in philosophy and international politics from Middlebury College.

Kristofer Segerberg, Advisory Committee

Mr. Segerberg has over twenty years of equity investing experience with major investment firms, including nine years as equity long/short portfolio manager with Soros Fund Management LLC in New York. At Soros, Mr. Segerberg managed and co-managed large cap global equity portfolios using long/short equity strategies that combined bottom-up micro fundamental value equity analysis with top-down macro-economic and technical considerations.

Prior to Soros, Mr. Segerberg was a senior equity analyst/portfolio manager with John A. Levin & Co., Inc. in New York, managing and co-managing over $7 billion of value equity accounts pursuing value-with-a-catalyst equity strategies. Prior to Levin, Mr. Segerberg worked in mergers & acquisitions corporate advisory at Macquarie Bank in Sydney, Australia and in mergers & acquisitions and portfolio investments for Brierley Investments in California, USA.

Mr. Segerberg received an MBA degree from Harvard University (1989), supported by full scholarships awarded by the Wallenberg Foundation of Sweden and the Governor-General of New Zealand. Mr. Segerberg received a Bachelor of Science (Honors) degree, with First Class Honors, from the University of Auckland, New Zealand (1985), receiving the Senior Scholarship in Applied Mathematics and the Senior Prize in Pure Mathematics.

Mr. Segerberg is a dual national with Swedish (E.U.) and U.S. citizenships. He has lived in Sweden, Finland, Australia, New Zealand, and the United States.

Jason D. Papastavrou, Advisory Committee

Dr. Jason Papastavrou is the founder and Chief Investment Officer of ARIS Capital Management, LLC. Previously, he was the founder and Managing Director of the Fund of Hedge Funds Strategies Group of Banc of America Capital Management (BACAP), President of BACAP Alternative Advisors, and a Senior Portfolio Manager with Deutsche Asset Management.

Dr. Papastavrou was a Tenured Professor at the Purdue University School of Industrial Engineering, and a former member of the boards of directors of XPO Logistics, Inc. (NYSE: XPO) and United Rentals, Inc. (NYSE: URI). He is currently a member of the board of directors of GXO Logistics, Inc. (NYSE: GXO).

Dr. Papastavrou holds three degrees from the Massachusetts Institute of Technology, including a doctorate in electrical engineering and computer science.

Justin D. Soffer, Advisory Committee

Mr. Soffer has spent more than two decades in digital media and marketing. He is the founder and CEO of Conduit Media, a boutique marketing consultancy that partners with venture and private equity firms to help portfolio companies with growth marketing. Previously, he was the Chief Marketing Officer of FoundersCard, a membership community of more than 100,000 founders, entrepreneurs, and CEOs.

Mr. Soffer was Vice President of Marketing at Travelzoo (NASDAQ: TZOO) and served in a variety of roles at the company from 2003-2018.

He has presented at many national conferences, including the Association of National Advertisers Digital and Social Summit and the Conference on Time and Attention.

Mr. Soffer received a B.A. degree from Wesleyan University in Middletown, CT, and an M.B.A. from Columbia University in New York and London Business School in England.

Exhibit V
Service Providers

Accounting, Administration and Tax

Black Diamond Performance Reporting, LLC

Skwiersky, Alpert & Bressler LLP

Brokers and Custodians

Bank of America Private Bank

BNY Mellon

Citibank N.A.

Interactive Brokers LLC

Pershing LLC

Stifel, Nicolaus & Company, Incorporated

Compliance

D.E. Scott & Associates, LLC

General Counsel

Dechert LLP

Smith, Gambrell & Russell, LLP

Exhibit VI
Portfolio CEOs

Jay Adair—Copart Inc.

Rainer M. Blair—Danaher Corporation

Brian Chesky—Airbnb Inc.

Tim Cook—Apple Inc.

Henry Fernandez—MSCI Inc.

Andrew Florance—CoStar Group Inc.

Thomas S. Gayner—Markel Group Inc.

Ajei Gopal—Ansys Inc.

Elliott Hill—Nike Inc.

Bradley S. Jacobs—QXO, Inc.

Andy Jassy—Amazon.com Inc.

Patrick Kaltenbach—Mettler Toledo International

Jonathan Mazelsky—IDEXX Laboratories Inc.

Ryan McInerney—Visa Inc.

Michael Miebach—Mastercard Incorporated

H. Lynn Moore Jr.—Tyler Technologies Inc.

Elon Musk—Tesla Inc.

Satya Nadella—Microsoft Corporation

Kristin Peck—Zoetis Inc.

Sundar Pichai—Alphabet Inc.

Philip Snow—FactSet Research Systems Inc.

Julie Sweet—Accenture PLC

Ron Vachris—Costco Wholesale Corporation

Exhibit VII
News

<u>Highlighted News</u>

MOI Global, "Christopher Tsai Reflects on Timeless Values in Investing and Life," September 13, 2024

Equity Mates Investing Podcast, "Tesla Deep Dive with Christopher Tsai," June 17, 2024

Richer, Wiser, Happier Podcast, "Real Success with Christopher Tsai," May 25, 2024

Fox Business, "Christopher Tsai Discusses Tesla and Tsai Capital on Fox Business," April 24, 2024

This Week in Intelligent Investing, "Christopher Tsai on Investing in an Age of Disruption," April 4, 2024

Benzinga, "The Art of Long-Term Investing with Christopher Tsai," January 17, 2024

The Acquirers Podcast, "Christopher Tsai on Tesla, Growth Investing, and his Mentor Ron Baron," January 9, 2024

Latticework 2023—MOI Global, "Christopher Tsai in Conversation with Peter C. Keefe," the Yale Club, December 12, 2023

MarketWatch, "What Charlie Munger and Grandma Ruth Taught This Money Manager Whose Portfolio is up 50% This Year," December 5, 2023

Good Investing Talks, "Interview with Christopher Tsai," Part 2, October 26, 2023

Good Investing Talks, "Interview with Christopher Tsai," Part 1, September 28, 2023

Forbes, "An Accidental Momentum Investor's Market-Beating Strategy," September 2, 2023

Bloomberg Businessweek, "Christopher Tsai Is Interviewed by Bloomberg Businessweek," August 1, 2023

Euro am Sonntag, "Christopher Tsai Is Profiled in Euro am Sonntag," June 30, 2023

Zurich Project 2023—MOI Global, Remarks of Christopher Tsai, "Investing in an Age of Disruption," Zurich, Switzerland, June 8, 2023

Talking Billions, "Christopher Tsai—Three Generations in the Investment Profession," December 19, 2022

Latticework 2022—MOI Global, Keynote Speech of Christopher Tsai, "Investing in an Age of Disruption," the Yale Club, December 13, 2022. Available in the Tsai Capital Library at tsaicapital.com

Good Investing Talks, "Christopher Tsai, is Investing an art? Insight from 20+ Years of Successful Investing," February 14, 2022

The Nightcrawler Podcast, "Christopher Tsai, Founder of Tsai Capital: From Curiosity to Human Psychology to Optionality…The Path to Becoming a Great Investor," January 1, 2022

Archived News

Reuters, "Wall St. Week Ahead, Relentless U.S. Stock Rally Faces Fed Test," July 21, 2023

The Wall Street Transcript, "Buying Compounders at Big Discounts to Intrinsic Value," November 9, 2020

The Zurich Project Podcast, "Christopher Tsai on Navigating Through the Crisis of 2020," April 23, 2020

The Zurich Project 2019 Conference—MOI Global, "From Momentum to Value, the Investment Journey of Christopher Tsai," July 6, 2019

All Business with Jeffrey Hayzlett, "What's Your Economic Moat? Interview with Christopher Tsai," October 26, 2017

Nasdaq, "Christopher Tsai Is Interviewed by Jill Malandrino, Global Markets Reporter of Nasdaq," October 11, 2017

The Wall Street Transcript, "Preserving and Growing Capital with High-Quality Growth Companies," October 9, 2017

Yahoo Finance Live, "Christopher Tsai Is Interviewed by Jennifer Rogers of Yahoo Finance," September 25, 2017

Barron's, "At Yum China, Growth is on the Menu," August 26, 2017

Wealth Management Magazine, "Why Successful Investors Position Themselves with the Wind at Their Back," August 2017

Bloomberg, "Tsai Capital Bets Starbucks Can Crack the China Code," August 9, 2017

TheStreet, "Apple Has a Massive $250 Billion Cash Pile That Should Be Used on These Blockbuster Acquisitions," August 3, 2017

Mic, "You've Got These Top Money Priorities in the Wrong Order," July 19, 2017

Citywire, "American Know-How Meets Chinese Wisdom," July 3, 2017

MarketWatch, "This Money Manager Aims to Hold on to Stocks for Decades," June 13, 2017

PaymentsSource, "How Pizza Hut and Payments are Fueling China's Retail Revolution," May 30, 2017

Mic, "Will Investing in Wine, Art and Fancy Cars help You Get Rich Fast? Here's the Truth." April 25, 2017

Barron's, "Mead Johnson's Formula," November 5, 2016

Business Wire, "Jason D. Papastavrou Appointed to Tsai Capital Corporation Advisory Committee," October 24, 2016

The Wall Street Transcript, "Investing in the Best of the Best," July 18, 2016

Barron's, "Viacom's Hidden Value," January 30, 2016

Bloomberg Briefs, "Tsai Capital Likes Mead Johnson on China Growth," November 4, 2015

CNBC, "China Crash Underscores Risk for US Investors," July 8, 2015

Barron's, "Is the Party over in Shanghai?" June 1, 2015

Private Air Magazine, "Christopher Tsai: Taking the Financial World by Storm," Spring 2015

Barron's, "Stocks Fall 1.3% on Oil and Currency News," January 16, 2015

Barron's, "Jobs Report Lifts Indexes to Record Highs," December 8, 2014

Bloomberg Briefs, "Hedge Funds: SPOTLIGHT Opportunities Abound in Late Stage of Bull Market: Christopher Tsai," October 21, 2014

Bloomberg Radio, "Christopher Tsai is Interviewed for "Taking Stock," hosted by Carol Massar and Michael McKee," October 8, 2014

TheStreet, "Christopher Tsai is Interviewed by Gregg Greenberg for TheStreet," October 7, 2014

The Wall Street Transcript, "Investing in Growth Global Equities with a Focus on Value," September 1, 2014

Fox Business, "The Cost of Doing Business in China," August 7, 2014

Crain's New York Business, "Frothy Markets Ready to Pop?" August 3, 2014

Kapitall, "A Long-Term Approach: Christopher Tsai on Investing in Asia," June 23, 2014

ETF.com, "Hedge Fund Shorting Emerging Markets," June 18, 2014

TheStreet, "Christopher Tsai is Interviewed by Gregg Greenberg for TheStreet," June 10, 2014

China Money Network, "Christopher Tsai: Betting on Asian Consumer Names Like Jardine Matheson," April 30, 2014

FINalternatives, "Q&A: Tsai Capital Founder Sees Long-Term Opportunities in Emerging Markets," April 10, 2014

Fundweb, "Christopher Tsai: Ignoring Asia's Middle Class Will Be A Costly Mistake," March 24, 2014

Bloomberg Radio, Christopher Tsai is Interviewed for Taking Stock," hosted by Pimm Fox and Carol Massar, March 5, 2014

Business Superstar, "Q&A Discussion with Christopher Tsai, President & Chief Investment Officer," February 24, 2014

Barron's, "Stocks Close Near Record Highs, Up 2%," February 15, 2014

Business Insider, "Meet the Hedge Funder Whose Finance Roots Date Back to the Shanghai Stock Exchange During WWII," February 12, 2014

Barron's (Cover Story), "On the Rise," April 29, 2013

Barron's (Cover Story), "Big Money Poll: Dow 16,000!" April 22, 2013

FINalternatives, "Looking Ahead to 2012: The Hedge Fund Industry Speaks," January 6, 2012

Welling@Weeden, "Second Generation," December 16, 2011

HFM Week, "Tsai Capital Debut Fund Targets Institutions," June 22, 2011

FINalternatives, "Tsai Capital Launches First Hedge Fund," June 3, 2011

Reuters, "Distressed Consumer No Longer Boon for Wal-Mart," May 18, 2010

Barron's (Cover Story), "Be Very Careful," April 26, 2010

Barron's, "Coke Can Float Your Boat," April 20, 2010

Reuters, "US-Consumers Could Upgrade Brands—Tsai Capital," March 30, 2010

Barron's, "10 for the Money," November 23, 2009

Dow Jones News Wires, "Tales of the Tape: Buybacks Seen Bolstering Bed Bath & Beyond," November 6, 2009

Wealth Manager, "The Money Factory," April 30, 2007

Barron's, "A Good Name Above All," September 11, 2006

Barron's, "Happy Days—Part II," May 1, 2006

On Wall Street, "Focused on the Long Term," October 2005

Ticker Magazine, "Twenty Undervalued Growth Stocks," August 2005

The New York Sun, "The Tsai Method of Selection: Stick to the Fundamentals," July 20, 2005

Investment Advisor Magazine, "Catching up with…Christopher Tsai," June 2005

Investor's Business Daily, "Stock Buybacks on Record Pace, A Bullish Indicator for Investors," November 12, 2004

Investment & Pensions Europe, "Fine Art of Art Investing," October 2004

Financial Planning Magazine—SMA Adviser, "Tsai Capital—The Next Generation," September 17, 2004

Worth Magazine, "Back Door to China," September 2004

Barron's, "A Methodical Man," August 23, 2004

The Palm Beach Post, "Experts Say Fund Scandal Not Scaring Off Investors," November 18, 2003

Important Disclosures

Past performance is no indication or guarantee of future performance and no representation or guarantee is being made as to the future investment performance of Tsai Capital Corporation's separately managed accounts or any entity.

The S&P 500 Index is a benchmark of unmanaged securities. It is not a security that can be purchased or sold. Individual account performance and investment management fees incurred by clients may vary, as fees for smaller accounts are higher, on a percentage basis, than for larger accounts. Additionally, securities held by individual accounts may differ significantly from the Tsai Capital Growth Equity Strategy composite of separately managed accounts. Individual accounts managed by Tsai Capital Corporation may have experienced materially less favorable results than those portrayed by the composite over any particular period of time. Performance data excludes proprietary accounts through December 31, 2023, and excludes accounts with net assets below $200,000 through December 31, 2021. Performance data excludes accounts and/or time frames in which short selling strategies were applied, and accounts that are considered "nondiscretionary" by the adviser due to client-mandated or other account restrictions. The inclusion of any of the aforementioned excluded accounts and/or time frames may have led to less favorable results had they been included in the composite. Returns include the reinvestment of dividends, interest and other earnings.

This information is for illustration and discussion purposes only and is not intended to be a recommendation, or an offer to sell, or a solicitation of any offer to open a separate account or become an investor in a private fund managed by Tsai Capital Corporation, as the case may be, nor should it be construed or used as investment, tax, ERISA or legal advice. Any such offer or solicitation will be made only by means of delivery of a presentation, prospectus, account agreement, or other information relating to such investment and only to suitable investors in those jurisdictions where permitted by law.

Further, the contents of this letter should not be relied upon in substitution of the exercise of independent judgment. The information is furnished as of the date shown, and is subject to change and to updating without notice; no representation is made with respect to its accuracy, completeness or timeliness and may not be relied upon for the purposes of entering into any transaction. The information herein is not intended to be a complete performance presentation or analysis and is subject to change. None of Tsai Capital Corporation, as investment advisor to the separately managed accounts, or any affiliate, manager, member, officer, employee or agent or representative thereof makes any representation or warranty with respect to the information provided herein.

In addition, certain information has been obtained from third party sources and, although believed to be reliable, the information has not been independently verified and its accuracy or completeness cannot be guaranteed.

The attached material was provided to investors in Tsai Capital Corporation's separately managed accounts at a specific past point of time, advice that may no longer be current or timely. References to past specific holdings of that specific vehicle and matters of related historic fact must be seen in context (as would have been apparent to investors in that vehicle) and are not intended to refer directly or indirectly to specific past recommendations of Tsai Capital Corporation (other than as an indication of language sometimes found in the newsletters). Any reference to a past specific holding or outcome is not intended as representative. None the less, for individuals actively interested in investing in such Tsai Capital Corporation's separately managed accounts, a list of recommendations made by Tsai Capital Corporation with regard to the vehicle in question will be made available on request.

Certain statements on the attached material, including but not limited to (a) statements of things that "are well known" to be the case (other examples include: "In hindsight people often say, "I should have known better," and more often than not, they did."), (b) statements with the phrase "always", and (c) certain similar statements, are not intended to represent absolute literal fact, but rather represent certain colloquialisms/mannerisms expressed by select market participants (but not necessarily individuals associated with Tsai Capital Corporation).

All data presented is historical and it should not be assumed that investors will experience returns in the future comparable to the performance presented herein. Investment returns may vary significantly at any time from the data provided herein. Results are unaudited and are presented net and gross of management fees.

References herein to Tsai Capital's efforts to minimize losses and seek a margin of safety should not be construed to imply an absence of risk in any investment. All investments carry risk, including the risk of loss of investment principal. Additionally, short-term market volatility may present increased risks for investors who have shorter investment horizons due to impending or current liquidity needs.

The information provided herein is confidential and proprietary and is, and will remain at all times, the property of Tsai Capital Corporation, as investment manager, and/or its affiliates. The information is being provided for informational purposes only. A copy of Tsai Capital Corporation's Form ADV, Part 2 is available upon request. Additional information about the Advisor is also available on the SEC's website at www.adviserinfo.sec.gov.