

AVENIR CORPORATION

INVESTMENT MANAGERS

January 2020

Dear Friends and Fellow Investors,

2019 was a remarkable year for equity investors. Despite several notable headwinds, the U.S. economy performed relatively well, and equity markets, benefitting significantly from persistently low interest rates, rebounded from the late 2018 sell-off and gained steam towards year-end as fears of an economic slow-down abated. Specifically, the S&P 500 total return was 31.5% for the year, about two thirds of which retraced the late 2018 declines.

As we have discussed in prior year-end letters, equity valuations are greatly impacted by interest rates and their likely direction. In the fall of 2018, markets balked at the Fed's attempts to raise rates; following the Fed pivot to a more accommodative stance, markets responded positively. In fact, most of the gain realized in 2019 is directly attributable to multiple expansion, with the change in the S&P 500 earnings yield from around 7% to around 5% reflecting investor's willingness to pay more for the same set of earnings. As 2020 is an election year, it is likely the Fed will maintain its current posture for the next few quarters, implying a stable outlook for the economy and interest rates.

However, there are headwinds, starting with relatively full valuations as reflected in the S&P earnings yield in addition to ever growing federal debt and deficits, trade wars, geopolitical tensions, impeachment and an uncertain election that will be contentious. Against this backdrop, we will continue to do what we always do: search for new ideas and weigh them against the returns we are earning on our current holdings. While valuations are generally elevated, our portfolio is currently comprised of several terrific businesses that should compound capital for several years to come, and we have some new ideas that could become significant at the right prices.

Portfolio Review

Our largest holdings led the way in 2019, and the outlook for each company remains favorable for the foreseeable future. These businesses are well positioned for continued growth as their respective industries will continue to benefit from technology investments. The wireless industry has begun a multi-year investment cycle in 5G, the next generation wireless standard, and leading cloud services businesses should continue to prosper as more IT spending by established corporations, as well as governments, moves to the cloud.

Other notable contributors during the year include our long-held investment in a used car retailer that has reinvented itself as an omni-channel offering to meet the needs of its customers however they desire to make purchases, on-line or in the store. Meanwhile, our dine-in family restaurant investment has essentially completed its transition to a highly franchised model which positions the company to further enhance shareholder returns through astute capital allocation.

During the year we added to our position in a business with a unique franchise in the automobile auctions and re-marketing services industry. We think very highly of management and will continue to build this position opportunistically. In addition, we have continued to add to positions in two well capitalized financial services businesses, which remain attractively priced. The two businesses are distinctly different, with one focused domestically on the consumer while the other has a significant international corporate banking franchise. Yet, they are similar in that they have both transformed themselves into focused, lean and solid businesses with significantly reduced risk profiles, improved returns on equity and attractive capital return programs. Lastly, we have reduced or exited a few non-core positions to create capital for allocation to more attractive opportunities.

Summary

While we have enjoyed the general uplift in financial markets, we are acutely aware that any number of factors could cause volatility to increase suddenly and are ready to take advantage of mis-pricings that may occur. Our core holdings are strong franchises in excellent financial shape that should earn attractive returns for the foreseeable future, and our opportunity set for prospective investment is widening.

We are honored by your trust in Avenir and greatly appreciate your confidence. If you have any questions or would like to discuss your portfolio in more detail, please do not hesitate to call. It would be wonderful to hear from you.

Sincerely,

Peter C. Keefe

James H. Rooney

This letter represents the views of Avenir and its portfolio managers at the time indicated and these views are subject to change at any time due to changes in market and other conditions. The information within the client letters was prepared by Avenir's portfolio managers based upon information that is believed to be reliable. Reference to specific industries are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell securities in these industries. Specific industries discussed in the letter do not represent all of the industries in which securities have been purchased, sold, or recommended for advisory clients. At the time of reading investments in the industries discussed may no longer be held by Avenir's clients. The reader should not assume that investments in the industries identified and discussed were or will be profitable.