

# AVENIR CORPORATION

---

## INVESTMENT MANAGERS

January 2021

Dear Friends and Fellow Investors,

2020 was a challenging and transformative year for financial markets. With the sudden emergence of Covid in the U.S. in late February, investors faced unprecedented uncertainty and volatility as governments and businesses came to grips with acute economic dislocation. The immediate response of federal policy makers was massive, and, fortunately, successful in providing liquidity to financial markets and bridging the economic gap to avert a prolonged recession. While several industries were harmed significantly by the pandemic, others thrived amid the rapid acceleration of existing trends toward a digital economy. By late summer, the S&P 500 recovered from its March lows, and upon the announcement of a vaccine towards year-end, ended up around 16% for the year.

The market's momentum has continued thus far in 2021, spurred by the belief that vaccinations will be widely distributed by late 2021, the Federal Reserve will remain accommodative and the Biden administration will succeed in providing much more economic stimulus. Valuations are elevated, and the S&P 500 at 24x 2021 earnings implies a robust recovery later this year. We are heartened by the prospects for a successful vaccination effort and expect that many sectors flattened by the pandemic will recover to varying degrees, but we also recognize that many uncertainties remain around the effectiveness and duration of the various vaccines and expect the next few months will be challenging and volatile.

As for the continued support of financial markets by the Federal Reserve's low interest policies and additional government spending, we can only proceed with the knowledge that nothing lasts forever and remain disciplined in our approach. The Fed's pandemic response has clearly distorted asset values although to what degree is unknown. The reach for yield has driven asset price inflation across many sectors including fixed income, housing and certain areas of the stock market, as well as renewed interest in cryptocurrencies and speculation in entities such as Special Purpose Acquisition Companies, or SPACs. At this time inflation expectations remain muted, but the Federal Reserve has made clear its intention to continue current easy money policies until inflation picks up to 2% on a sustained basis. Success in this endeavor implies higher interest rates which would be negative for fixed income and mixed for housing and the stock market depending on the economy at that time. Further, while additional stimulus to keep the economy afloat may be necessary, we recognize that eventually the bill will come due in the form of higher taxes.

For investors, this dynamic environment presents challenges as well as opportunities as technology and innovation enable astute companies to adjust and thrive. Several businesses we own benefitted immediately from the accelerated rate of change in their industries. However, our portfolio was not immune to the adverse effects of the pandemic. During the year, we exited two of our long-time investments due to the changing economics of their respective industries and redeployed capital into existing holdings, as well as new investments which are well positioned

to perform in the evolving economic environment. In general, we are concentrating our investments in our best ideas that are positioned to compound shareholder's capital for years to come.

With the onset of the virus in 2020, the *unthinkable* happened, the latest in a long line of such unthinkable events and certainly not the last. This only reinforces our conviction for investing in superior businesses with outstanding management and strong balance sheets that can endure economic disruptions and thrive in a rapidly evolving marketplace.

We are honored by your trust in Avenir. As always, please call or e-mail if you have any questions or would like to discuss your portfolio in more detail. Meanwhile, we hope that you and your families are healthy and safe, and we wish you all the best in the year ahead.

Respectfully,

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.