Webcast Transcript (Abridged)
Bob Gottesman Team 1Q 2021 Update, April 23, 2021

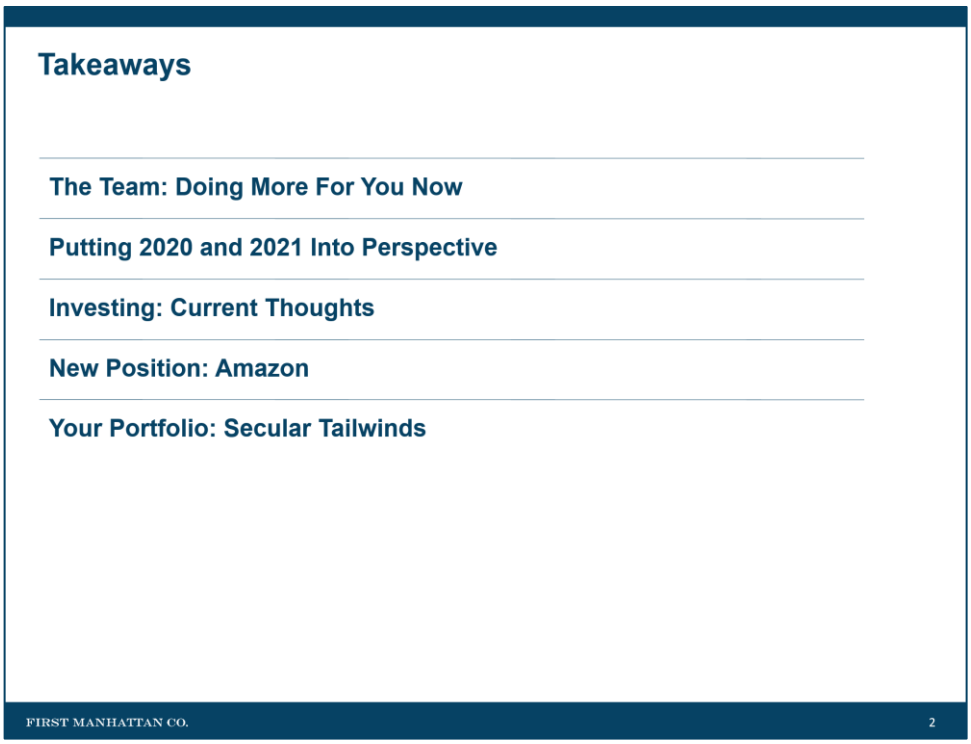
SPEAKER: BOB GOTTESMAN

Welcome everyone. This is our fourth webcast. We started hosting these webcasts last July during the lockdown resulting from the COVID-19 pandemic when most people were working remotely. During that time, we took advantage of the opportunity to connect with you in a different way than just writing quarterly letters. I thought this would be much more engaging, and I hope you feel it has been.

A little over a year since the beginning of the pandemic, I think First Manhattan Co. has adapted well. I think our team has adapted well, and we've become tighter. I think we really are doing a very good job. I'd like to introduce the members of the team—Adam Schwartz, who has been with the firm for almost 20 years, Marvia Campbell for about seven years, Nicole Sliwa for about two years, and Wyatt Neyman joined the firm in July.

This is an opportunity for the team to address you as well and be part of this webinar. Let me start with the first slide, which is our mission statement—to deliver excellent long-term results to our clients, to deliver excellent service to our clients, to broaden and deepen our relationships with you into the next generation, and we'd also like to do even more for you.

Let's go to the next slide. These are the takeaways we want to leave you with. Number one is that we would like to do even more for you now, and Nicole will talk about that. We would like to put 2020 and 2021 into perspective for you, and I'll be talking a little about that. Then, Adam will discuss how that translates into our approach to investing. We'll discuss a new position we have bought in your accounts, Amazon, and Wyatt will be talking about that. Then, we will close with a review of the portfolio—the top 15 positions and the tailwinds we see in the companies that are in the portfolio. Right now, I'll hand it over to Nicole.



SPEAKER: NICOLE SLIWA

Great. Thanks, Bob. As a result of the pandemic, many of us have been home for the past year, and I believe it has given us an opportunity to reflect on what is most important to us and to plan for our futures. We have been able to connect with so many of you on what we believe to be much deeper levels as we worked through an unknown period of time. Our mission to deliver excellent service has led to increased conversations around philanthropy, incorporating the next generation, estate planning, and overall financial planning as families.

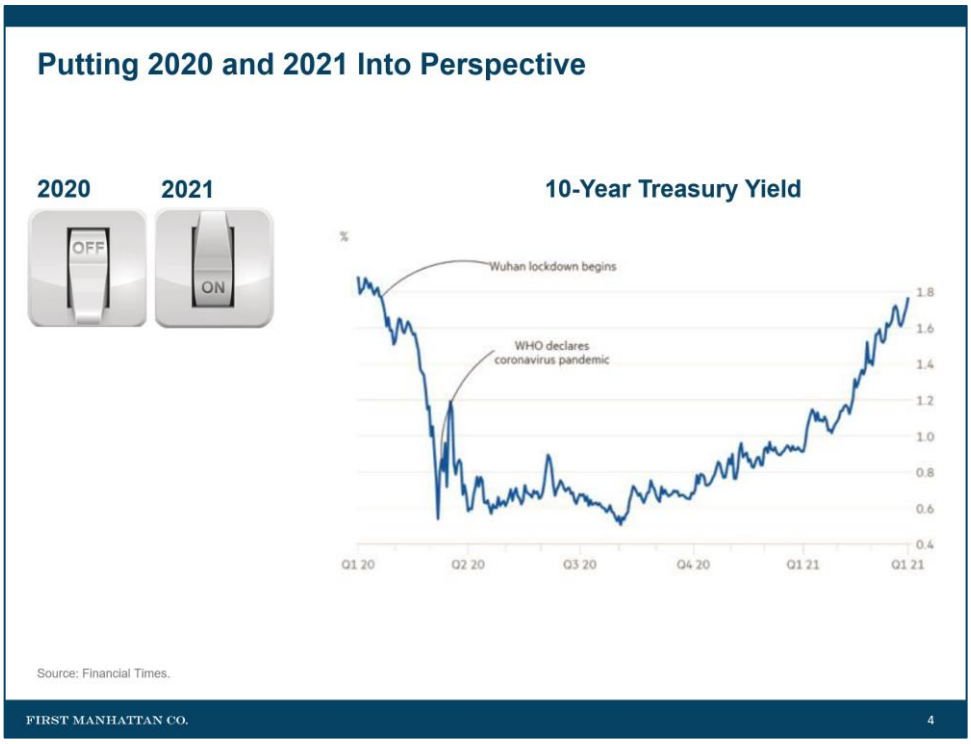
As we have onboarded many new clients this year, we're noticing that more and more of you want to share your fuller financial pictures with us. This allows us to take a more holistic approach to planning for you. The ideas that we generate during these conversations are then communicated back to your accounting and legal teams for potential execution, which seems to be beneficial for many of

you. Whether you need assistance with mortgages or lines of credits, donor-advised funds, or financial planning, we really welcome the opportunity to speak with you. Thank you to the many of you who have taken us up on this opportunity. We are also working behind the scenes to enhance our financial planning offerings.

Additionally, we are focused on enhancing your online experience with First Manhattan within the Client Portal through the use of new technologies. Thank you once again for opening up to us this year, relying on us and most importantly, trusting us. Now, I'll turn it back to Bob.

SPEAKER: BOB GOTTESMAN

Thanks. I'll take the next slide. In thinking about 2020 and 2021, I thought of the image of a light switch. In 2020, I think many of us felt that the light switch went from on at the beginning of the year to off. I think as the year progressed and as we moved into 2021, we saw the opposite. I think we are beginning to see the light switch turning on. 2021 is, I think, a year where we are more optimistic. I think the economy is showing signs of a rebound. I think that activities we put on hold last year, we're now thinking about doing this year, like travel.



Two of us from this team are in the office today. I've been in the office several days during the week. I believe that we are getting back to a more normal way of life. I have seen 2020 referred to as the most eventful year since the end of World War II. I believe that it was the most eventful year, probably for many of us, in our lives. I define eventful as what happened before is not likely to return and what is going to happen going forward is likely to be somewhat different and new and challenging in different ways than we have known. That serves as a backdrop to how we are looking at our investments. Adam will talk a little more about that, but I just wanted to underscore that 2020 was a very, very significant year.

Interest rates often factor into how we look at the big picture. As we have said repeatedly, we believe that interest rates set the bar for the rebound of the economy. Seemingly due to the Feds' response to the COVID-19 pandemic last March, interest rates, which had been low and declining for decades, went to an all-time low. The 10-year rate today is roughly 1.6%, with what we view as a very low risk-free rate of 1.6%.

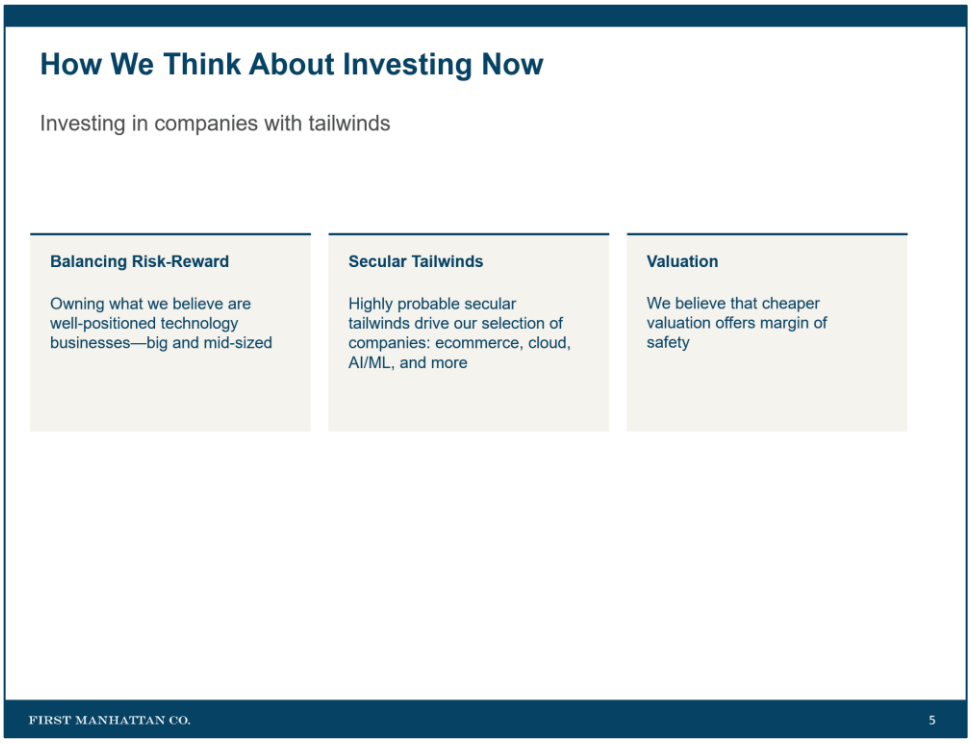
If we look at the ventures market, new business appears to be starting. I read an article in yesterday's *Wall Street Journal* that for every dollar private startups are looking for, there's $5 available. Isaac Newton’s first law of motion is that “an object will not change its motion unless a force acts on it.” We believe that force is going to be interest rates. If interest rates go up to 2%, 3%, 4%, that is seemingly a very significant force on the momentum in this market.

At First Manhattan, we continue to feel we are investing in good companies with tailwinds. We can't predict the future, but we believe we're invested in the right kinds of companies. With that and to

give us more thoughts on our investment approach, Adam Schwartz, please take it over from me. Thank you.

SPEAKER: ADAM SCHWARTZ

Thank you, Bob, and good afternoon everyone. While much has changed over the last year, the way we look at investing and our investment framework has remained constant. My goal over the next few minutes is to share how we think about investing in 2021. The foundation of every investment decision we make is to determine what assumptions are probabilistically likely to occur and what the implicit cost is in lost capital if our assumptions are wrong.



I'd like to paint the picture for you regarding how we look at secular tailwinds. A senior executive of one of our largest holdings recently described his mission as making sure that the ship's sail was as big as possible and that the boat was positioned perfectly, with the wind at his back and the large TAM, or total addressable market, directly in front of it.

We try to do the same thing when constructing your portfolio. We monitor the macro and the micro, but we focus a lot more on the micro in terms of our companies and the industries that we follow. Historically, both long term and short term has shown us that macro events like the pandemic or monetary stimulus provide entry points or external valuation supports in given points in time.

We believe that cheaper valuation offers a margin of safety, but that the best risk-reward mitigation tool is knowing both what you own and what its intrinsic value is. If an investor buys high-quality

companies that grow over time at a fair or reasonable price instead of an excessive or irrational price, we anticipate that he or she will be somewhat protected if growth expectations or a company's fundamentals don't materialize or live up to the market's expectations in the medium term.

We do not believe that cheap exists in the market today. Why are we comfortable owning such large concentrated positions in large tech platforms? Because we believe the secular tailwind from digitization, AI, machine learning, and cloud computing, to name a few, will benefit our portfolio companies, enabling them to continue to grow, compound, and gain market share over time.

Our observation is that, over time, large tech platforms tend to get larger if they don't mismanage themselves or stop innovating. Through our ongoing research efforts, we seek to ensure that all of the things that we underwrote when we first invested are still going strong throughout our ownership of the company. While 2021 is still young and we believe it's impossible to find cheap in this market, we remain opportunistic and ready for the market to serve up opportunities.

No two opportunities are expected to ever look the same, but we believe that the benefits of having done your research ahead of time is that when companies miss expectations or fall out of favor, investors who can discern if this single event was a speed bump or an investment thesis breaker, are more likely to act decisively, which we believe will result in favorable long-term returns. I'd now like to pass it over to Wyatt, who's going to walk you through one recent example of this by way of a recent investment example.

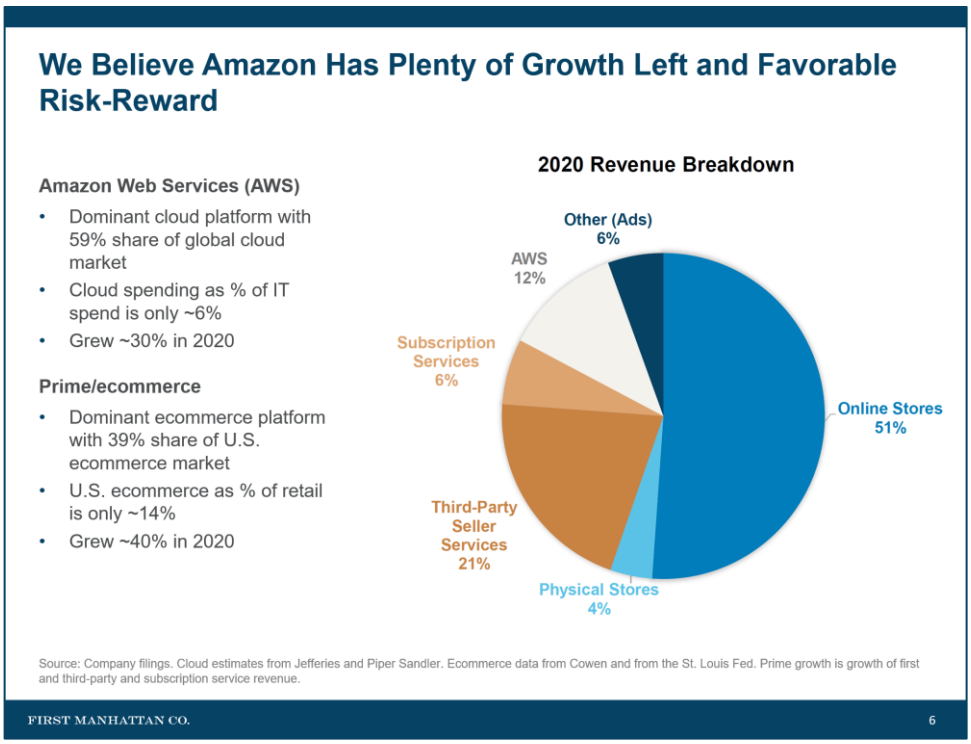
SPEAKER: WYATT NEYMAN

Hi everyone. As we consider the points Adam just made, we believe that our most recent purchase, Amazon, is really very much in line. First, in today's market, when we consider potential upside and risk of capital loss, we find a favorable risk-reward in a large tech company like Amazon. Second, Amazon appears to have a handful of tailwinds in large growing markets in which they're well-positioned. We're comfortable betting on Amazon to continue winning because of what we view as an incredible track record of growth and innovation at the company's core.

Third, we were monitoring Amazon’s stock price and noticed that between August 1, 2020, to the end of March 2021, it was basically flat while the rest of the market surged. We asked ourselves the question, “Is this company better or worse positioned now than it was six months or a year ago?” We thought it was better. As the world changed dramatically and we saw how reliant society became on companies like Amazon, we thought the flat stock price didn't quite make sense and offered us an opportunity to buy the stock.

Now, in terms of valuation, the multiple of free cash flow we paid and the growth profile of Amazon made us think that we had a comfortable level of downside protection. Most, if not all of us, are familiar with Amazon and know that the stock has performed well. But as we sit here today and look out three to five years, we still think Amazon has a long runway for profitable growth with its growing ads business, Amazon Web Services, which is its cloud business, and the Amazon Prime ecommerce business.

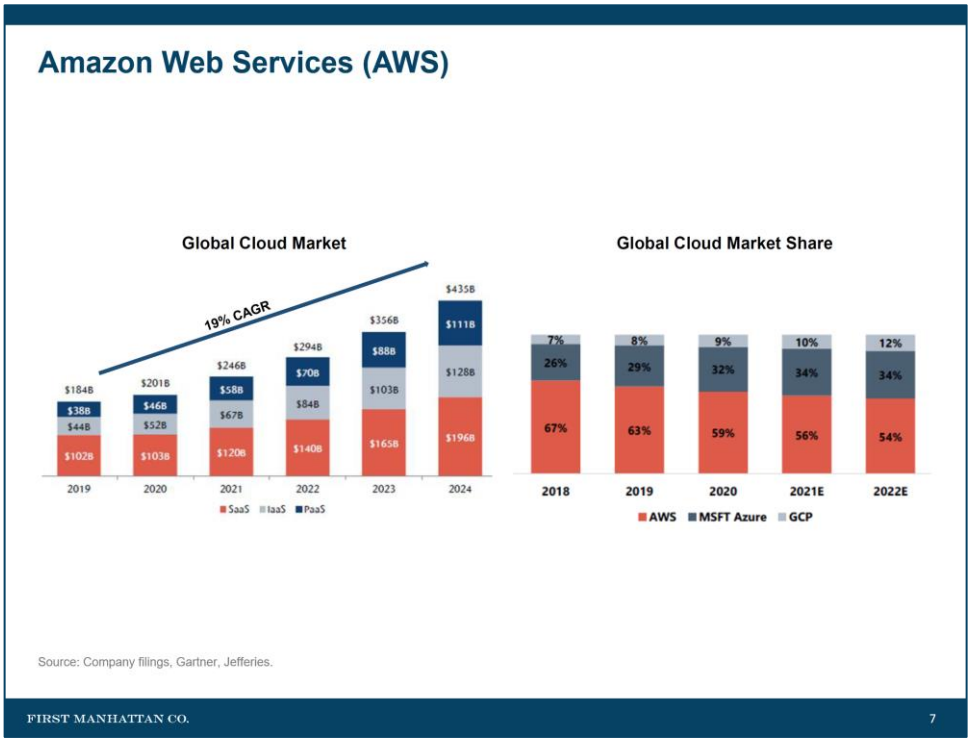
I'm going to focus on both AWS and Amazon Prime to show how Amazon fits the profile of what we look for in an investment. First, AWS, which is Amazon Web Services, it's the largest cloud services provider in the world with 59% market share. We think this market is in early days, with global cloud spending today making up only 6% of total IT spending.



This market is projected to grow 19% a year to reach roughly 430 billion by 2024. In 2020, AWS grew 30%, and we estimate that it will grow at least at the rate of the market. If they do, we believe it will double by 2024. Across the board, AWS appears to check our boxes. We believe it has a long runway of growth, tailwinds, and market dominance.

Then next is Amazon Prime, the dominant ecommerce platform in the U.S. with 39% market share. We believe this market is also in early days, with U.S. ecommerce comprising only 14% of total retail spend in 2020. We estimate that the business grew 40% in 2020, and we project it to continue to grow at least at the pace of ecommerce, so in the mid-teens. Amazon Prime appears to check our boxes with what appears to be its long runway of growth, tailwinds, and market dominance.

Moving to the next slide and diving a little further into AWS, which is basically the cloud. We tend to take the cloud for granted because we don't see it. But if it wasn't for the cloud, we believe the world would have gone dark in 2020. When we work from home, stream a movie, or listen to music, it is often thanks to the cloud. Today, AWS provides servers, storage, remote computing, and more to companies. They don't have to invest in the infrastructure themselves. We view it as the building blocks of the IT world.

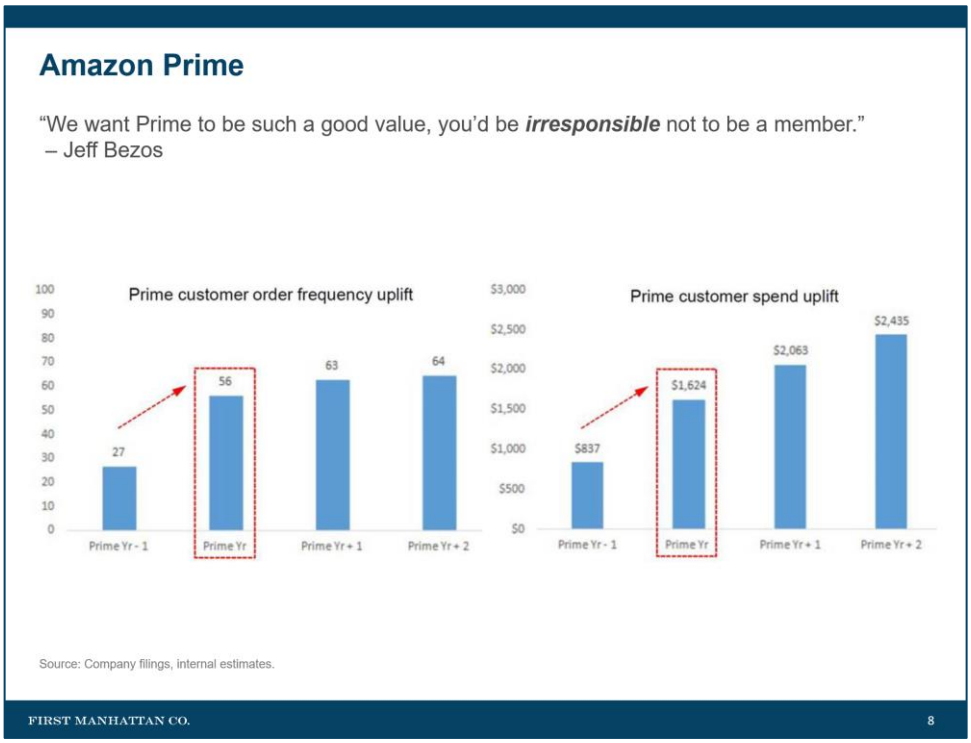


Businesses appear to go with AWS for IT infrastructure because it's cheaper, more secure, reliable, flexible, saves time, reduces risk, and offers better performance. We think this is a phenomenal business because ultimately the big get bigger and enjoy economies of scale and this results in barriers to entry. We believe that businesses like AWS put up massive amounts of capital to build out the infrastructure, and very few companies have the resources to compete.

Taking conservative estimates, we believe that AWS is worth approximately $550 billion today and that it could be worth over $1 trillion in three years. Now, moving to the next slide, Amazon Prime and the ecommerce business. Prime has 200 million members worldwide, and I'm sure quite a few of us are amongst those 200 million. Membership grew an estimated 33% last year. This consistent Prime member growth we've seen is quite significant because the Prime member appears to be incredibly valuable to Amazon.

We estimate that Prime members double non-Prime members when it comes to frequency of purchases and total value of purchases. Prime members are responsible for the majority of spending on Amazon's ecommerce platform. We expect growth to continue for a few reasons, the first is the value proposition appears to be incredibly strong. This is evidenced by retention rates north of 90%, which seems to indicate that no one cancels. Second, we believe they have room to raise prices. They're adding more to the bundle, such as healthcare and grocery, and have only raised prices twice since 2005.

The third is Prime penetration. The international opportunity for Prime is proving to be an early success. They are a dominant ecommerce player in countries like the UK, Germany, and Japan. We estimate that Amazon Prime customers contribute approximately $900 billion in lifetime value to Amazon. In summary, when we look at Amazon, we think we have a favorable risk-reward with the opportunity the market provided us. We get to own what we view as numerous, dominant, world-class businesses under one roof, each appearing to have multiple tailwinds driving their large and growing markets. We anticipate a long runway of above average growth on the horizon. I will now hand it over to Bob to speak about your portfolio.



SPEAKER: BOB GOTTESMAN

With each webinar, we have been highlighting one or two recent purchases. On this list of top 15 that we have, we have talked about Alibaba, Keysight, UnitedHealthcare, and now Amazon in webcasts. That's four out of 15. If you aggregate by industry, broadly speaking, 10 of the 15 fall into technology. You have two companies that are what I would call asset management firms, and they are managing significant amounts of assets in what we call alternative space—that's KKR and Brookfield.

Then, we have Nestle, we have UnitedHealthcare, and we have Berkshire Hathaway. Amongst the 15, we have four that are $1 trillion or more in market cap. We have six that are in the mega billion market caps, $300 to $750 billion in market cap. We have five that are in the $14 to $67 billion. This is not the kind of market caps that I recall when I started managing money, but this is where we are, and we feel this is where we want to be.

When you look at the columns, you see the year-to-date returns, and you see the 2021 estimated price earnings ratio. I would just say, in terms of year-to-date, the S&P 500 Index was up 6% at the end of the quarter.

Top 15

COMPANY (sorted by alphabetical order)	TICKER	MARKET CAP*	YTD RETURNS	2021E P/E
Alibaba Group	BABA	$ 637,500	(2.6)%	22.3x
Alphabet	GOOG	$ 1,541,200	17.7%	32.4x
Amazon.com	AMZN	$ 1,681,100	(5.0)%	69.7x
Apple	AAPL	$ 2,234,700	(7.8)%	30.0x
Berkshire Hathaway	BRK.B	$ 615,500	10.2%	24.9x
Brookfield	BAM	$ 67,053	8.0%	15.1x
GoDaddy	GDDY	$ 14,437	6.4%	53.7x
IAC	IAC	$ 24,581	14.2%	-
Keysight Technologies	KEYS	$ 26,610	8.6%	25.2x
KKR & Co.	KKR	$ 30,330	21%	19.6x
Microsoft Corporation	MSFT	$ 1,947,900	6.3%	35.0x
Nestle S.A.	NSRGY	$ 326,8500	(5.3)%	24.5x
PayPal Holdings Inc.	PYPL	$ 310,500	3.7%	53.8x
Prosus/Naspers/Tencent	700-HK	$ 746,300**	7.9%**	33.1x**
UnitedHealth Group Incorporated	UNH	$ 374,800	6.5%	21.4x
S&P	SP50	$34,989,078	6.2%	22.4x

Top 15 holdings and YTD returns as of 3/31/2021. Market Cap and P/E/ as of 4/21/2021.
*Values are in millions of USD.
**Tencent market cap, returns, and P/E.

Sorted by alphabetical order. Past performance is not a guarantee or indication of future investment returns. A list of all portfolio recommendations made by our group during the preceding 12 months is made available upon request. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presented in these materials.

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You can see some of the stocks are down a bit, and then you have some that are up. But most of the stocks are, give or take, in the zone of zero to 10%. We're not looking at market in terms of strategy, we're looking at owning companies for the long term. These are companies, by and large, that we think that can grow 10 plus percent a year or more.

In closing, thank you for participating. We hope that this is a good experience in terms of being able to share our thoughts and communicate with you. We probably will send out another questionnaire just to get your feedback—how we can do things better, if we should focus on something else, whether this agenda is good or we should change it. We hope that you'll let us know. We look forward to the next quarterly webinar in July. Have a great weekend and thanks again. Bye.