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Dear Partners,

Below is a brief summary of the results up to and including the fourth quarter of 2009 for Abrams Bison Partners, L.P.

	Partnership Gross	Partnership Net	S&P 500	Gross Outperformance	Net Outperformance
Annualized Since Inception	15.8%	12.8%	(1.2%)	17.0%	14.0%
Total Since Inception	319.4%	222.6%	(11.1%)	330.5%	233.7%
2009	43.3%	37.0%	26.5%	16.8%	10.5%
2008	(8.7%)	(8.7%)	(37.0%)	28.3%	28.3%
2007	(2.1%)	(2.1%)	5.5%	(7.6%)	(7.6%)
2006	32.2%	25.8%	15.8%	16.4%	10.0%
2005	2.4%	1.9%	4.9%	(2.5%)	(3.0%)
2004	16.0%	12.8%	10.9%	5.2%	1.9%
2003	34.3%	27.4%	28.7%	5.6%	(1.3%)
2002	8.3%	6.6%	(22.1%)	30.4%	28.7%
2001	17.4%	13.9%	(11.9%)	29.3%	25.8%
2000 (Apr - Dec)	22.1%	17.7%	(11.1%)	33.2%	28.8%

Investing falls into the general category of making good predictions, and, since this is the tenth annual letter, I thought it might be useful to take a step back and share my thoughts on this topic. After this, I will discuss the factors that have driven the fund's outperformance over the last few years. Finally, I will discuss one investment we made this year. My hope is that the step back together with the prior and current detailed company discussions will improve your understanding of how your money is being invested.

In a complex world, I make predictions rarely and reticently

The world is very complex in relation to our brains' computational power

The world is very complex in relation to the minds of even the smartest people, and consequently often incomprehensible. As a result, I come to every investment with the following worldview about making predictions: You don't know what facts you don't know. In addition, it is not humanly possible to collect the hundreds of facts you need to make your prediction. Even if you know the facts, you do not know the relationship between a fact and the thing you are trying to predict (a straight line relationship, a curved line, in steps, in some type of feed-back loop for instance), and often that relationship changes over time.

This complexity often leads to unpredictable investment outcomes

Investors often encounter complex, even incomprehensible, situations. For example, you face them in any industry that can be changed quickly by one person's ideas. Think about the impact on Microsoft of the two Google founders and Steve Jobs. It is impossible to know the ideas of the handful of people that will dramatically reshape Microsoft in the next decade. Another place you face them is when predicting the impact of a new technology on a business. Paper was meant to be destroyed in the 1980's by the PC, the movie business was to be destroyed by VHS, and, more recently, stores and branch banking destroyed by the internet. The forecasts were made too confidently because no one could predict the size of consumers' desire to print, to watch movies immediately in theaters or to know where their money was held physically. One final example – the impact on a company's sales volume when it raises prices, encounters a recession, or faces new competition from a close substitute. For instance, no one knew at what gas price people would stop driving or how that might vary over time or over different economic cycles until we lived through high prices in 2008.

The best investment managers are just one-eyed kings

The solutions to the types of questions we care about are almost by definition difficult. Anyone can predict the sun will rise tomorrow, but nobody gets paid for that. The market is good at answering many of the easy questions about companies. However, this is enough only to provide a very approximate guess of the ultimate value of each stock. A fully omniscient manager could have bought ten of the decade's best performing stocks[1] in 2000 and made more than ten times his original investment over the decade without making another trade. If he was permitted to replace his portfolio half-way through the decade, he could have made more than forty times his money, and if permitted to replace his portfolio every year, he could have earned more than 10,000 times his original investment. Even the best stock picking managers earn just a small fraction of these amounts. Clearly, even the best are not omniscient; they are merely collecting some small scraps of information that the market was not able to properly price.

This worldview is a useful guide. Here are some ways that it impacts the way I manage the Partnership.

Be modest and invest rarely

Indeed seeing the best, most respected managers as merely one-eyed men in the land of the blind is very humbling. Rather than aiming for impossible omniscience, we have to acknowledge our very human limits. There are only a limited number of investments where any one person can have a large advantage in pricing. Limiting the number of investment positions is, for me, an expression of this modesty.

I am reticent about reaching certainty

I am very skeptical of reaching a conclusion by lazily applying a simple theory or analogy to a fact I already know. I am very aware that most of the time I will have to examine a number of different facts or theories, understand their likelihood, size of contribution, impacts on each other, and various tradeoffs between them. I always prefer to maintain the attitude that reasonable people can disagree with me. I never want to miss facts or ignore ideas that challenge my thesis. An important part of being a good investor is recognizing complexity.

I will only invest when I feel that we have a significant advantage

The opportunities to predict better than the market will always be rare. I will continue to be careful, focus on problems that are amenable to evaluation, and only invest your money in those few cases when I feel we have a significant advantage.

Recent Fund Performance

The fund performed well

In 2009, the market was up strongly and while the fund did even better, a single year of performance is not a very useful measure. So instead of looking at 2009, let us look at the three years from 2007 to 2009. I picked this period because this measures the return from the fund's previous peak and from the beginning of the bursting of the housing bubble. As you can see from the table below, analyzing the fund over a longer period would have resulted in an even more favorable comparison. Since 2007, the fund is up a gross 28% versus the S&P 500's decrease of 16%. This is 44 percentage points of outperformance by the fund over the S&P 500 during this period, or almost 13% per year.

Total Performance to Dec 2009 from Jan	**Partnership Gross**	**Partnership Net**	**S&P 500**	**Gross Outperformance**	**Net Outperformance**
2009 (1 Year)	43.3%	37.0%	26.5%	16.8%	10.5%
2008 (2 Years)	30.9%	25.1%	(20.3%)	51.2%	45.5%
2007 (3 Years)	28.2%	22.5%	(15.9%)	44.1%	38.5%
2006 (4 Years)	69.4%	54.1%	(2.7%)	72.1%	56.8%
2005 (5 Years)	73.5%	57.0%	2.1%	71.4%	54.9%
2004 (6 Years)	101.3%	77.2%	13.2%	88.1%	64.0%
2003 (7 Years)	170.2%	125.7%	45.7%	124.6%	80.0%
2002 (8 Years)	192.6%	140.7%	13.5%	179.1%	127.2%
2001 (9 Years)	243.5%	174.2%	0.0%	243.5%	174.2%
Since Inception	319.4%	222.6%	(11.1%)	330.5%	233.7%

[1] Even if the manager is only permitted to purchase stocks with market caps of greater than $500 million

We did not need to sell to a greater fool to make money

About half of our investments at the beginning of 2010 are in the same companies that we held at the beginning of 2007. The portfolio we held at the beginning of 2007 would have been profitable had it been held without me making any trades until the end of 2009. The same is true of the portfolios we held at the beginning of 2008 and 2009. This outcome is consistent with our goal of not needing market timing ability to make money. We do not need to worry about finding a greater fool to sell to because we try to sell before a stock is overpriced. The businesses we buy go up and stay up. In fact, we have been selective enough that while the businesses we buy have significantly outperformed, even the businesses we sell have outperformed the market.

When we sold, we sold good companies to buy better ones

In addition to enjoying the benefit of our original 2007 portfolio performing well, the exposure changes we made in this period were profitable. Each year on balance, the company additions we made, net of reductions, raised the return of the portfolio. While many stocks we sold performed very well after we sold them, overall the positions we added did better than the ones we sold.

Since the beginning of 2007, about two-thirds of the fund's outperformance versus the S&P 500 would have been earned even if we made no changes to the portfolio over the three year period. The other third was due to selling some companies and buying those that were more attractive.

The Future

If I were omniscient, I would predict the timing of market peaks and subsequent troughs over the next few years, keep the fund fully invested until a peak and completely in cash until a trough. However, I do not think anyone can consistently make money this way. Instead of making prophecies only a prophet should be attempting, we attempt to own businesses that will survive the set of potential macro-economic risks and that are priced at a discount large enough to mitigate some of these risks in case they occur.

If we wanted a validation of this strategy, the past ten years was a good test. During one of the market's worst performing decades in the past century, a $100,000 investment in the fund at inception would have grown to $322,600 after all fees. The same investment in the S&P 500 would have been worth less than $90,000.

Looking forward, I expect to continue to invest in well-protected businesses at attractive valuations that generate good returns on capital. This way I can give you a disproportionately large share of the capital growth in an economy that in almost all cases should be bigger in ten years than it is today.

Case study: IMS Health

Our best source of new ideas is our old ideas

We made an investment in IMS Health in August, 2009. At the time, IMS had a market cap of just $2 billion. They sell data on pharmaceutical sales at a worldwide, national, and local level. Drug companies use this data to market their products and to compensate their sales force. We had held this company for the first time in 2000, sold it, but looked at it several times since then. While each time the specifics of the investment and the threat level changed, the thesis that this could be a well-protected business stayed the same.

Thesis: A positive feedback loop leads to large competitive advantages

IMS has an 80% market share in the most important parts of its business across many countries. IMS was the first to provide data to pharmaceutical companies, and this initial advantage created a positive feedback loop. One example of the results of such a loop is switching cost. Over time, pharmaceutical companies built their sales force compensation practices and their data analysis around the IMS data. As a consequence, switching providers becomes a painful IT project and also leads to organizational upheaval because some sales people will get compensated more based on the new data and some less. Another positive loop is that success with IMS's initial products gave the company a large advantage in selling additional products across different geographies. Companies want their data to be consistent both across different data products and across different countries, so IMS was able to leverage its position domestically into international sales, which boosted the value of the initial product as well. Finally there are economies of scale – the greater their scale, the more data they could procure, making it harder and harder for their smaller competitors to compete.

Be reticent about reaching certainty: A simple fact or analogy is not enough

This is a simple thesis, pretty common across many of our investments, and it brings IMS into our investment universe. However, it ignores the facts you need to understand and the tradeoffs you need to analyze in order to make a good decision. For instance, you know they have advantages (the switching costs, the tying benefits and the scale benefits), but you do not know the size of these advantages. You also do not understand the tradeoff the customer is making between the benefits of staying with IMS and the cost of the product. High enough prices will drive away customers in any industry. Generally, these facts and tradeoffs are not quantifiable. You have to make a qualitative judgment about the information you have read, heard, or learned from experience.

Primary and secondary research reduces uncertainty

Besides reading hundreds of pages of articles and financial reports, we have spoken with a total of thirty people about IMS, including a dozen IMS customers at the drug companies, eight former employees, and six current and former competitor employees. Below I highlight a few of the many quotes that deal with some of the questions I have highlighted above, but the conversations were extensive and covered many other concerns we had.

- "I would never compete with IMS in the core business. Too many people have tried and failed." – CEO of major current competitor
- "Never going to see it go away. Absolutely necessary to still track every rep that they are doing their job." Head of IMS data at major pharmaceutical company
- "IMS data is built into the core of a pharma company's sales group. The ID codes from IMS are used everywhere in the CRM system from sales planning and monitoring to compensation." - Former sales director at competitor
- "If you're a global pharma company, you need IMS global data. There is no way to get around this." – Former employee at IMS and competitor
- "In emerging countries, liken China, India, Russia, they are the only game. Even in Europe they have a virtual monopoly." - Former head of division of a major competitor

By doing our research, we tackled our major concerns and became comfortable that their advantages over their competitors were strong and, in fact, growing.

The stock appreciated more than 50%

IMS was approximately a 5% position for the fund. Our first purchase in August was at a price of $14.05 at less than 8X earnings before interest and taxes. The company announced a sale in early November for $22 per share.

Portfolio Structure

Throughout the year, we had less than 100% of our equity invested in stocks on the long side, and we ended the year with 93% gross exposure. Of the capital invested in companies at year end, 37% was invested in companies with market caps greater than $10 billion, 54% in companies between $3 and $10 billion, 0% in companies between $1 and $3 billion, and 9% in companies less than $1 billion.

If you have any questions regarding these results or anything else, please call me.

Yours truly,

Gavin M. Abrams