



COOK & BYNUM
CAPITAL MANAGEMENT, LLC

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Dear Partners:

Below is a table showing the performance after all fees and expenses of Cook & Bynum Capital, LLC (“Fund”) compared to that of both the Standard & Poor’s 500 plus Dividends (“S&P”) and the MSCI All Country World Index plus Dividends (“MSCI ACWI”) from inception through the period ended December 31, 2018.

	Cook & Bynum Capital LLC (i)	S&P 500 + Dividends (ii)	Difference (i) - (ii)	MSCI ACWI Total Return (iii)	Difference (i) - (iii)
2001	14.4%	-2.6%	17.0%	-4.2%	18.6%
2002	23.3%	-22.1%	45.4%	-19.0%	42.2%
2003	16.5%	28.7%	-12.2%	34.6%	-18.1%
2004	2.3%	10.9%	-8.6%	15.8%	-13.4%
2005	0.4%	4.9%	-4.5%	11.4%	-11.0%
2006	24.8%	15.8%	9.0%	21.5%	3.3%
2007*	-10.0%	2.5%	-12.5%	8.1%	-18.1%
2008	-33.2%	-37.0%	3.8%	-41.8%	8.7%
2009	52.9%	26.5%	26.5%	35.4%	17.5%
2010	10.6%	15.1%	-4.4%	13.2%	-2.6%
2011	6.0%	2.1%	3.9%	-6.9%	12.9%
2012	15.9%	16.0%	-0.1%	16.8%	-0.9%
2013	12.0%	32.4%	-20.4%	23.4%	-11.5%
2014	6.3%	13.7%	-7.4%	4.7%	1.6%
2015	-4.6%	1.4%	-6.0%	-1.8%	-2.7%
2016	5.2%	12.0%	-6.8%	8.5%	-3.3%
2017	20.0%	21.8%	-1.8%	24.6%	-4.6%
2018	-13.9%	-4.4%	-9.5%	-8.9%	-5.0%
Cumulative	224.9%	191.1%	33.8%	167.9%	56.9%
Annualized	7.1%	6.4%	0.7%	5.9%	1.2%

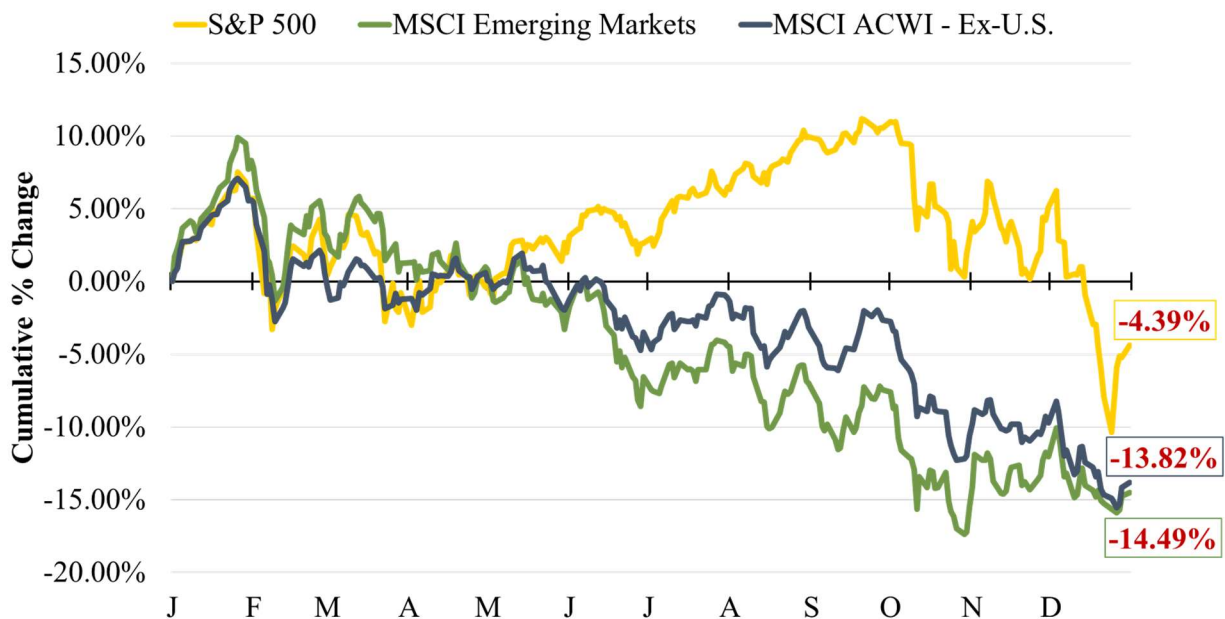
For the fourth quarter of 2018, the Fund was down 9.9% net of all costs. The S&P fell 13.5% for the period and the MSCI ACWI declined 12.7%. Since inception on August 24, 2001, the Fund and its predecessors have returned 7.1% per annum compared to 6.4% for the S&P and 5.9% for the MSCI ACWI.ⁱ

The Fund currently owns nine high-quality businesses. As this is our annual letter, we provide an update on each of these companies below, including an expanded profile of the Fund’s investment in Anheuser-Busch InBev and a tribute to Arca Continental’s CEO Francisco Garza at his retirement. Overall, the Fund’s portfolio changed meaningfully during 2018 as we deployed

all available cash to make new investments or to increase the size of existing ones. These investments were entirely in companies that are based outside of the United States, and we even sold one of our U.S. investments early in the year to free up capital to invest internationally. Our interest in ideas outside of the U.S. was influenced by what befell global stock markets last year.

In 2018, international markets topped in January and declined earlier and to a greater degree than the S&P 500:

Chart 1. 2018: S&P 500 vs. Global Indices



Source: Bloomberg

As we have discussed at length in the past, we like unstable, falling markets. Our expectations for future returns rise as stock prices fall, and we focus our bottom-up research in places where valuations are cheaper. Our efforts were fruitful, and they resulted in a meaningful amount of activity in the Fund's portfolio. In 2018, we initiated two new positions, more than doubled our stake in two existing positions, and incrementally increased the capital committed to a third existing position.

The Fund's substantial and growing exposure to these international markets contributed to the Fund's decline in 2018¹, after it rose 20% in 2017. Our new and existing international holdings were not immune to the impact of these broader stock market and currency declines, hence the markdown in price for most of these businesses in the portfolio (in US\$ terms). Our goal is to buy good businesses whenever they go on sale, trusting in Benjamin Graham's idea that over the long-term the market is a "weighing machine" and a company's stock price will converge with its underlying intrinsic value. While stock price drops require us to sharpen our pencils and re-work our analysis, they also offer us the opportunity to add to our positions if we remain convinced of our conclusions. In fact, we progressively increased the size of our stakes in three companies as

¹ Both of our U.S.-based portfolio companies were up on the year.

their stock prices fell during the year. Overall and most importantly given our primary focus on avoiding permanent impairments of capital, these stock price declines did not coincide with poor business results, and the intrinsic value of the Fund's portfolio grew in 2018.

Portfolio Company Updates

Arca Continental

If we ever open a business hall of fame, one of our first inductees will be Francisco “Pancho” Garza Egloff. Pancho has been the Director General (CEO) of Arca Continental since the company was formed in 2001 when three family-owned Northern Mexican bottlers (Argos, Arma, and Procor) merged their operations. In the subsequent 18 years, Pancho has led acquisitions of bottlers in Mexico, Ecuador, Peru, Argentina, and most recently Texas. Over this period, Arca grew its revenues more than ten times from US\$740 million to over US\$8 billion to become the third largest Coca-Cola bottler in the world.

This growth and success are the result of an amazing culture built on a few core principles. First, Pancho often quips, “The customer is the boss!” Arca’s entire organization is geared towards continually delighting customers with its offerings. Years of this focus have helped make Northern Mexico the market with the highest per capita consumption of Coca-Cola products anywhere in the world. Second, Pancho created a culture of excellence among Arca’s associates. We have witnessed this firsthand on store visits in all of its regions. The investor relations departments of most companies avoid introducing investors to deeper layers of management because of their fear that these investors might learn how the organization is actually run. Arca is different, as Pancho has always been happy for us to meet management throughout the organization – he has great confidence that his people are doing the right things. We spent time stranded on the side of the road with the district manager for Tucumán, Argentina after his car ran out of gas, and we have toured bottling plants, dairy processing plants, and points of sale with local and regional managers in Ecuador, Peru, and Mexico. When an organization invests in developing its people, communicates a clear set of goals, incents these employees to achieve them, and always insists on integrity, it can achieve remarkable results. Pancho greets everyone he meets and asks first about his or her health and family. In a recent interview, he shared, “I never tire of saying how important it is to have humility. For me, arrogance is a disease.” Arca’s success, the quality of the team throughout the organization, and the number of people who call him a friend are testaments to Pancho’s dedicated leadership.



At the end of the year, Pancho stepped down as CEO but will remain on Arca's board. Arturo Gutierrez is now CEO, and the company remains in great hands. Arturo has a master's degree from Harvard Law School and has served in various roles within Arca for more than seventeen years, including the last few years as Deputy CEO. We have known Arturo for years and have every confidence that Arca is going from strength to strength. We had a chance to spend time with Pancho and Arturo in October in New York and again in December when they visited us in Birmingham. We are excited about the future of Arca and the opportunities available to the business as a result of the platform they have built. Cook & Bynum has been invested in Arca for more than ten years, and the company has contributed more profits to the Fund than any other investment. We are grateful for their efforts. The next time you drink a Coke, please do so in honor of Pancho Garza.

In the first nine months of 2018, Arca had to deal simultaneously with a number of macroeconomic and political issues but was still able to grow volumes by 9%, revenues by 18%, and cash flows from operation by 8%. Net income was down, although that was primarily attributable to a one-time gain in 2017 for the sale of rights to the Topo Chico brand (in the U.S.) to The Coca-Cola Company². Topo Chico mineral water is increasingly popular in the U.S., where its volume grew 24% in the first three quarters of 2018. Underneath this overall strong operational performance, results were choppy within Arca's South American markets, especially in Argentina as recessionary conditions and inflation hurt consumers' pocketbooks and depressed profits in the territory. Peru was also hurt by soft consumer conditions due to political uncertainty early in the year and a sugar tax increase (since the Fund also owns Arca's Peruvian Coke bottler, Corporación Lindley, directly, we include a more comprehensive discussion of Lindley in its own section). Arca did increase volumes 5% in Ecuador with its launches of Monster and Dasani. Finally, the company made great progress in its new U.S. markets. Volume and revenues were up more than 4% organically in the third quarter of 2018, which is healthy growth for a mature market. Earnings should further improve in the coming years, partially due to a new manufacturing facility the company is building in Houston – the Coke system's first new bottling plant in the U.S. in ten years. Arca expects cost savings to reach \$30 million annually from the plant, providing double-digit returns on the capital invested in the project.

Arca's stock finished 2018 down 18% even as the business increased in value. We expect to earn strong returns over time from the current price, and we will consider expanding the position if the stock price declines further.

Anheuser-Busch InBev

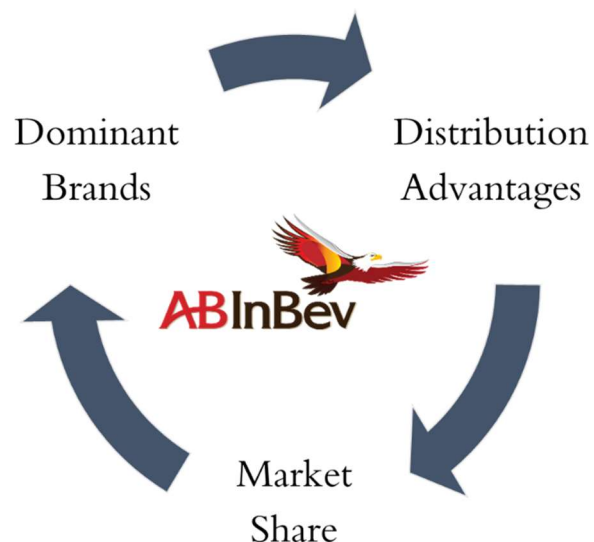
History & Competitive Dynamics

Today, Anheuser-Busch InBev (ABI) is the largest and most profitable brewer in the world. The ABI story began in Brazil in the 1980s with Jorge Paulo Lemann's recognition that the richest man in each Latin American country was the brewer. In Cristiane Correa's book *Dream Big*,

² Topo Chico, a great example of The Coca-Cola Company growing its sugar-free offerings, was originally sourced and bottled by Procor from an "enchanted" spring in Monterrey, Mexico in 1895. Given the success of the product in North America, Coca-Cola purchased rights to sell Topo Chico in the U.S.



Lemann shares, “I was looking at Latin America and who was the richest guy in Venezuela? A brewer (the Mendoza family that owns Polar). The richest guy in Colombia? A brewer (the Santo Domingo group, the owner of Bavaria). The richest in Argentina? A brewer (the Bembergs, owners of Quilmes). These guys can’t all be geniuses... It’s the businesses that must be good.” With that insight, Lemann and his partners went about trying to build a large-scale brewer, beginning with the acquisition of Brazilian-based Brahma in 1989. In 1999, they merged Brahma with Antarctica Paulista to form AmBev, the dominant brewer in Brazil. To this base in 2003, they added Quinsa, Argentina’s #1 brewer and owner of the Quilmes brand. In 2004, the group ventured beyond South America with the acquisition of Interbrew, owner of Stella Artois in Belgium. The expanded ownership group acquired a controlling stake in Anheuser-Busch (a former Cook & Bynum holding) in 2008, in the process becoming the largest brewer in the United States and the world. In 2013, ABI purchased the largest brewer in Mexico, Grupo Modelo (also a former Cook & Bynum holding). ABI then completed its purchase of SAB Miller in 2016, which materially expanded its global footprint, especially in emerging markets. The integration of SAB Miller is ongoing with a number of cost synergies and cross-selling opportunities still contributing to earnings growth.

Lemann and his partners understood that breweries’ strong profitability and high returns on capital were generated by a virtuous cycle of dominant brands, distribution reach, and market share. ABI benefits from all three of these advantages, which are further complemented by its production economies of scale. The company has numerous strong country-level brands in addition to three of the world’s biggest and most recognizable brands: Budweiser, Stella Artois, and Corona. These national and global offerings cover various beer segments and allow the company to graduate consumers from value to mainstream to premium labels over time. ABI’s revenue, margins, and profitability all grow from this “premiumization” effort. Importantly, these brands also command pricing power, which helps grow revenues in line with or in excess of cost increases.



Beer distribution in the United States operates markedly different than it does elsewhere in the world. Following the end of Prohibition in 1933, states passed laws that prevented alcohol producers from selling and distributing directly to retailers. The resulting three-tiered distribution system gives small beer producers access to the scale advantages created by the category leaders, which is one of the key reasons craft brewers have made large in-roads in the U.S. relative to elsewhere in the world. Outside of the U.S., no such legal framework exists, and large brewers do not share their scale distribution advantages with competitors big or small. As a result, the craft competitive threat is much lower.

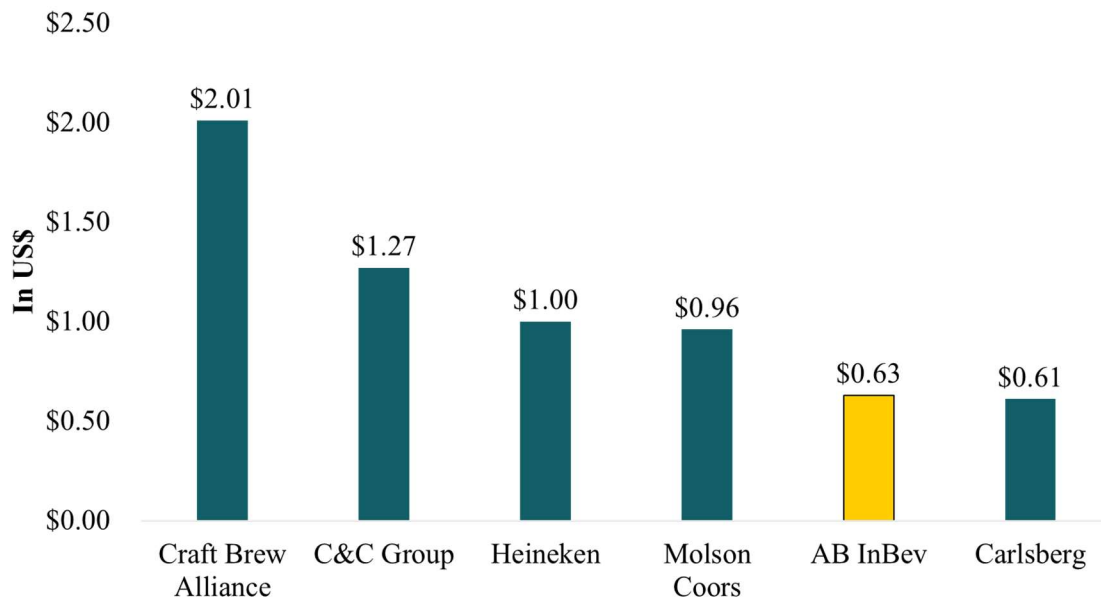
Chart 2. Route-to-Market Dominance Outside of the U.S.

	United States	Emerging Markets
Tier I: Production		
Tier II: Distribution	Third Party Distributors/ Wholesalers	
Tier III: Retail	Sales Mix: Majority Modern Retail Meaningful On-Premise	Sales Mix: Majority On-Premise Fragmented, Informal Retail

Source: Cook & Bynum research

Additionally, in emerging markets, the retail marketplace is far more fragmented with formal channels representing a smaller portion of sales. In the formal market, retailers typically operate their own distribution centers and allow small producers to access their stores simply by delivering to the distribution center. To serve the informal market, on the other hand, a producer must send a truck to every point of sale. This direct store delivery route-to-market is cost prohibitive for new entrants in emerging markets, making distribution a secondary moat for the leading consumer good in a category beyond the brand equity that is familiar to Western investors. ABI further complements this distribution reach with manufacturing economies of scale that give it, alongside Carlsberg, the lowest unit production costs in the industry:

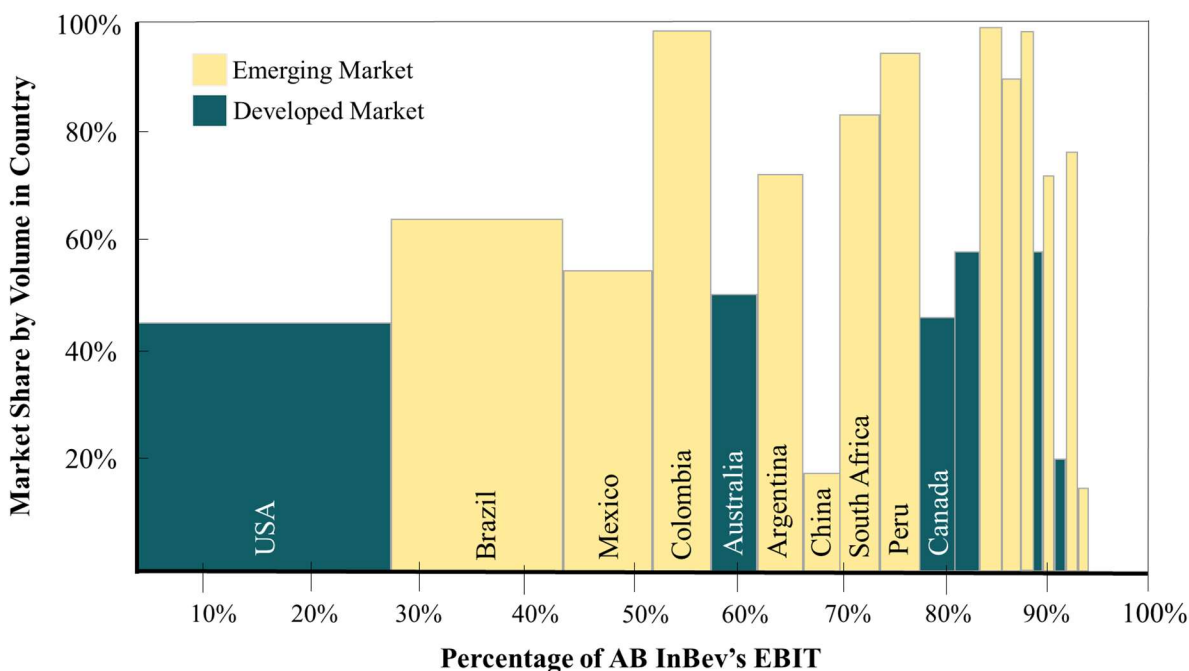
Chart 3. Total Cost per Liter



Source: ABI filings

In Chart 4 below, the *horizontal* axis shows the percentage of the company’s total operating profits – Earnings Before Interest and Taxes (EBIT), in this case – earned in each market, and the *vertical* axis shows the market share for each country. Note the 50% or greater market share in many of the company’s countries, including 95%+ market share in Colombia and Peru:

Chart 4. Market Share in (Y-axis) & EBIT Share for (X-axis) Major Markets



Source: Company filings, Redburn 2017 estimates; Note: Top 10 markets labeled

These impressive market shares are not an accident but rather a natural result of ABI’s virtuous cycle in which market share, dominant brands, and distribution advantages reinforce one another.

Reinvestment Opportunities & ABI’s Geographic Footprint

Another important takeaway from Chart 4 above is that while ABI is based in Leuven, Belgium and the U.S. is its largest market, the company is really an emerging markets business. In 2017, 63% of the company’s EBIT came from its operations in developing economies. By 2027, we expect that figure to rise to 77% as faster growth continues in Latin America, China, and Africa. The rising middle class in these markets will be a tailwind for both volume and price growth for at least the next two decades. ABI’s management understands these dynamics well, and the team is responding with smart capital allocation decisions. The company is harvesting profits from the United States, which are likely to shrink in the next decade (more on this below), and reinvesting them in faster-growing, less mature foreign markets. Additionally, the projects in which the company is investing are “easy decisions” that will dig the company’s competitive moat deeper and enhance long-term profitability. Examples include investments in (1) marketing initiatives that promote the cross-selling of higher-margin premium brands, (2) coolers for mom-and-pop stores that improve revenue at the point of sale, and (3) manufacturing plants that better meet demand in emerging markets and lower production costs.

Understanding these investment decisions and, more broadly, what is happening at the local level in each of ABI's most important markets is a critical piece of our research. Key takeaways for ABI's top ten markets follow:

United States & Canada

ABI currently earns 28% of its operating profits in the United States, which is a market where consumers' evolving tastes and preferences are working against the business. First, beer as a category has been declining slowly for decades versus wine and spirits. Second, over the last decade, craft beer and imports (principally Mexican brands owned by ABI outside of the U.S.³) have taken significant share from ABI's two largest U.S. brands, Bud Light and Budweiser. The combined volume share of Bud Light and Budweiser has declined from around 28% to 24% since 2010. Against this backdrop, however, we have some optimism for ABI in the U.S.

While Mexican imports continue to gain share, Michelob Ultra has been a terrific success with its low carb/low calorie lager, which is well-positioned for current health and wellness consumer trends. Michelob Ultra's sales grew 17% in 2018, and the label is on track to pass Budweiser as ABI's #2 brand in the U.S. in the next couple of years, mitigating Bud Light and Budweiser's revenue declines. Even better, Michelob Ultra is sold at a premium price to Bud Light but is cheaper to produce. As a result, Michelob Ultra's superior economics are moderating Bud Light's and Budweiser's negative impact on margins and profitability.

Importantly for all large brewers, the most recent Nielsen data show year-over-year craft sales slowing from 15%+ growth in 2015 to slight declines by year-end 2018. The deceleration coincides with rising fragmentation in the craft market. Craft drinkers are fickle and frequently try a different beer every time they consume. This transient consumer makes building a branded, scale brewer challenging, as does this consumer's tendency to prefer a "local" beer. The desire for local reduces the possibility that a craft brewer might become the next Sam Adams or New Belgium, both of which were initially regional players that built national footprints. We do not think we will see another such breakout winner anytime soon. Interestingly, both Sam Adams and New Belgium are struggling in this new buy local paradigm, as they both experienced double-digit volume declines in the first nine months in 2018.

Canada, ABI's 10th largest market by profits, has a market share profile and competitive dynamics similar to the U.S. The country has demographic headwinds and its per capita beer consumption will likely shrink over the next decade partially due to competition from wine, spirits, and (maybe) cannabis, which is now legal in the country. Canada's craft segment has reached 6% market share and although regulation varies by province, the route-to-market is often owned, controlled, or supervised by the government, which makes it difficult to exclude subscale players. Despite this, ABI successfully grew the volumes of its own craft brands by double digits during 2018. The company's premiumization strategy is also working, as Corona and Stella Artois enjoyed market share gains during the year. Moreover, ABI is successfully cross-selling its U.S. labels, as Bud Light and Michelob Ultra are among the fastest-growing brands in Canada. We

³ In order to get regulatory approval for its Grupo Modelo acquisition, ABI sold the U.S. rights to manufacture and distribute Corona and other Modelo brands to Constellation Brands. ABI retains these rights outside of the U.S.

anticipate a decline in per capita consumption of beer, but we expect the up-selling of premium labels and the cross-selling of core ABI brands will keep earnings stable over the next decade.

Brazil

ABI dominates Brazil's beer market with 64% market share and the country's three largest beer brands: Skol, Brahma, and Antarctica. ABI's well-developed distribution network in Brazil meets the needs of a fragmented market that has a high portion of on-premise, immediate consumption in restaurants, bars, and bodegas. We visited the country twice in 2018 and were impressed with the company's execution and reach at points of sale. The result is a market with 35% operating margins and returns on invested capital above 35%. While in Brazil, we met with ABI's team, formal channel retailers, and two Coke bottlers (more in a minute on why the latter is important to our analysis).



While ABI's overall positioning in Brazil is excellent, we are closely following the country's evolving market structure and macroeconomic health. In 2017, Heineken bought Kirin to form the #2 brewer in Brazil with a combined market share of 26%. The flagship Heineken brand in the premium segment has a little over 1% share, with the balance of the brands in both Heineken's and Kirin's portfolios selling mostly in the lower-priced and lower-margin value segment. This merger has created a good deal of uncertainty in the market.

Heineken is a strong premium brand in Brazil that has been built over the last decade with distribution from the Coke bottling system. This arrangement is a legacy of Heineken's 2010 purchase of FEMSA Cerveza, which was the beer division of FEMSA (a former holding of Cook & Bynum based in Monterrey, Mexico). In addition to its former ownership of FEMSA Cerveza, FEMSA owns a controlling stake in the largest Coke bottler in the world and the outstanding Mexican convenience store operator, Oxxo. Kirin's brands are distributed through its captive distribution network, and Heineken wants to start using this network to distribute its portfolio as well. Accordingly, Heineken has given notice to remove its distribution from the Coke system before the March 2022 contract expiration. The matter is currently in arbitration with a legal resolution expected in the first half of this year.

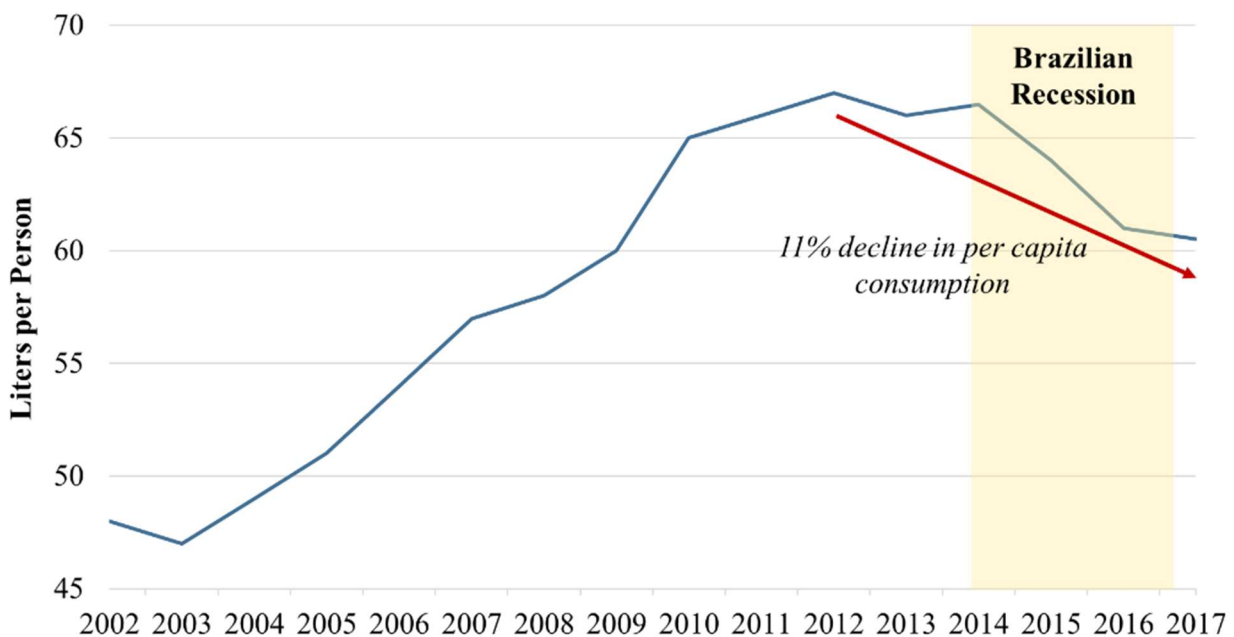
The Coke system does not want to lose Heineken from its distribution network as it represents 7% of its total volume. It is possible that Heineken will remain in the Coke distribution system until 2022, which would be a worse outcome than an earlier termination of the agreement for both Heineken and ABI. The Coke system offers Heineken 400,000 points of sale in Brazil

and helps it move volume. However, according to a series of conversations we had while in Brazil, the structure of the distribution deal gives practically all of the resulting profits from Heineken sales to the Coke system. Heineken would likely be better off if it sold less volume but self-distributed and held on to enough margin to make Brazil a profitable market. The resulting decline in Heineken volume would also be a positive for ABI as most of the volume surrendered would accrue to ABI. We suspect that Heineken's current volume growth in Brazil is artificially enhanced by promotions implemented by the Coke system to improve its bargaining position in the current arbitration. When the Coke system does lose Heineken, we expect the system to look to partner with either a small domestic brewer or an international brewer such as Carlsberg or Diageo and try to repeat the Heineken experience by growing a beer brand on the strength of the Coke distribution system. Long-term this will likely be effective, but it will take at least a decade for it to be important in the market.

The one exception would be if the Coke system agreed to distribute Petropolis, the #3 brewer in Brazil with 16% share, because of its recognized brands and existing production capacity in the country. However, Petropolis is currently under investigation for a bribery scandal in the state of Rio de Janeiro, which likely disqualifies the brewer from a partnership with the Coke system. Petropolis is losing market share, and we expect its business to continue to face headwinds and surrender market share to both ABI and Heineken.

Ultimately, Brazil's economic growth is more important to ABI's profits than the changes in the beer industry's competitive landscape. Brazil is emerging from a three-year recession that severely impacted consumer spending and decreased beer consumption:

Chart 5. Annual Brazilian Beer Consumption



Source: Euromonitor

The country has been dealing with the hangover from two decades of corrupt socialism under the da Silva and Rousseff administrations, which robbed the country of much of its economic potential. Happily, during Richard's December visit, people were invariably optimistic that the economy was going to improve in 2019 under the new presidency of Jair Bolsonaro. The exposure of wide-spread corruption thanks to Operation Car Wash has had a profound and positive impact on the country's politics. The country's newspapers are filled with the latest news about the scandal and the jail time imposed on those caught. Consumer confidence is on the rise, and we are cautiously optimistic that there will be an improvement in economic conditions that will increase per capita consumption of beer back to and beyond pre-recession levels.

Elsewhere in Latin America

We believe ABI's operations in Latin America are the crown jewels of its portfolio. Beyond Brazil, the balance of Latin America represents more than 25% of ABI's combined operating earnings, with Mexico, Colombia, Argentina, and Peru all in ABI's top ten markets by earnings. Mexico is the largest of these, which ABI entered in 2013 with its acquisition of Grupo Modelo. The country operates in a stable duopoly with Heineken, who acquired FEMSA's beer operations in 2010. Heineken's local brands are stronger in Northern Mexico (Tecate, Sol) while ABI's are stronger in Mexico City and the South (Corona, Modelo). ABI's 2018 volumes and revenues grew in the high single and double digits, respectively, and we expect industry-wide growth through both volume expansion and premiumization to benefit both players.

ABI's Colombian operation is a legacy SAB Miller business. Decades of consolidation, outstanding execution, and the competitive virtues of the beer business have produced 95%+ market share, some of the highest beer margins in the world, and incredible returns on capital. With insights from developed markets, ABI is getting ahead of potential competitive threats posed by small brewers offering new or local tastes. ABI's robust portfolio of local, import, premium, and mainstream brands in these markets leaves little room for competition to gain a foothold without incurring massive losses. For example, ABI owns Bogotá Beer Company, the leading craft brewery in the country. Of course, ABI's profits in Colombia are not without risk. Chile's CCU (part-owned by Heineken) began operating a new three million hectoliter brewery with the goal of capturing 10% of the Colombian market. We will be watching closely to assess the progress of the endeavor.

Argentina is also a wonderful market for ABI, which it entered through the acquisition of Quinsa in 2002. ABI has higher market share, around 75%, than it does in Brazil thanks to the Argentine national brand Quilmes, local brand Patagonia, Brazilian brand Brahma, and premium imports. The country's recent macroeconomic troubles, highlighted by the ongoing currency instability that forced ABI to apply hyperinflation accounting during the second half of 2018, and Argentina's wine-drinking culture are constraints on growth. Longer term, however, pricing power, premiumization, and the company's dominant market position give us optimism about the durability and growth of ABI's earnings over the coming decades.

In Peru, ABI operates through its Backus y Johnston subsidiary ("Backus"), which it acquired as part of its SAB Miller purchase. ABI owns about 97% of the company's equity, with

around 3% still free-floating. Beyond its ABI ownership, the Fund is a direct owner of Backus shares. Accordingly, our summary of this market and our investment in this business are included in its own section.

Australia

Australia is ABI's fifth largest market by EBIT, and the company accounts for nearly half of all beer sales in the country with Japan's Kirin as a strong #2. Australia is a mature, developed market that experienced limited volume growth in 2018; we expect volume growth to remain subdued going forward. Fortunately, ABI's premiumization strategy grew revenues in the low single digits in 2018 and will continue to grow them in the future (alongside price increases/pricing power). Both ABI's local brands, notably Great Northern, and its global brands, particularly Stella Artois and Corona, are growing quickly, with Corona reaching almost 6% market share.

China

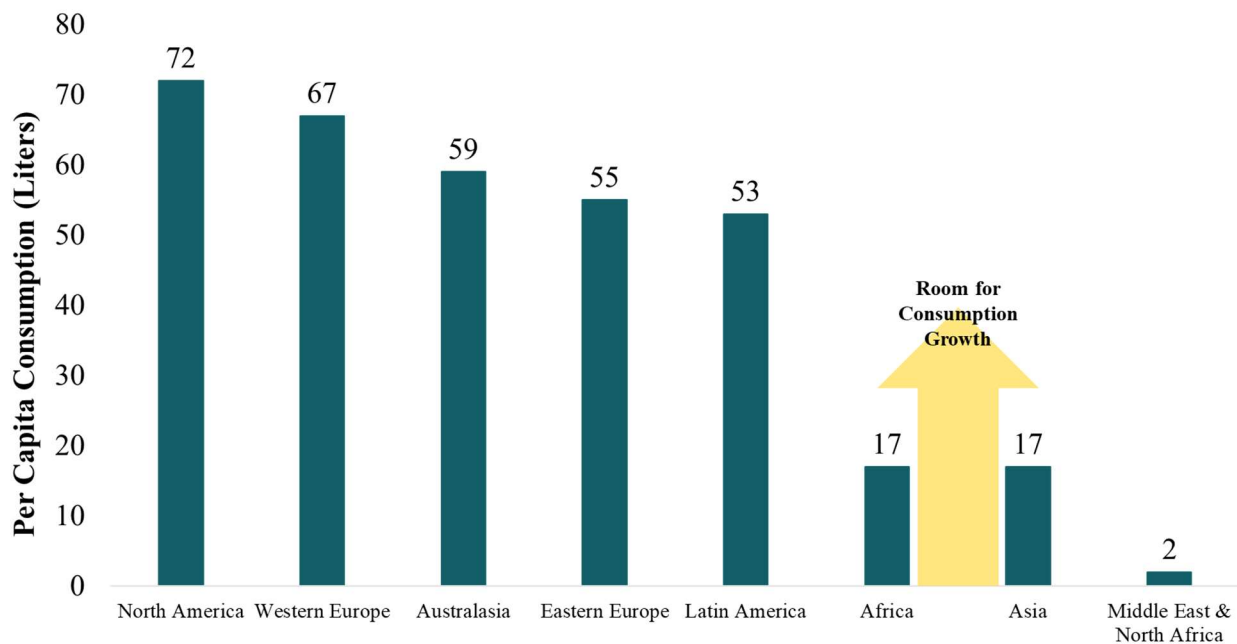
ABI is the third largest brewer in China, but by far the leader in profits as more than half of its volume is premium, high-margin product. The two largest brewers, Tsingtao and China Resources Beer, have mainstream portfolios and lower profitability. The Chinese premium segment and ABI's franchise is growing much faster than the rest of the beer industry, which has slowed after decades of rapid growth but still has plenty of room for per capita consumption to converge with wealthier Asian countries.

A big factor in this growth is how ABI's global premium brands resonate with the Chinese consumer. For example, Budweiser is extremely popular, and Chinese sales of Bud surpassed U.S. sales of Bud last year. One competitive concern worth noting: Heineken recently completed a tie up to allow China Resources Beer to sell for the multinational in the country. We will watch the developments of this arrangement with interest, but the large and growing pie provides opportunities for multiple competitors to succeed.

Africa

ABI has the largest market share in many African countries, including South Africa, Tanzania, Uganda, Mozambique, and Ghana. In aggregate, these markets represent over 220 million consumers. Consistent with the levels of per capita income in Africa, 80% of alcohol consumption is still informal including spirits distilled at home or beer brewed in small batches that only has a three-day shelf life. The opportunities for these African consumers to move to ready-to-drink value beer are enormous for brewers that have the brands and distribution network to reach them. That transition will happen over the next twenty years in Africa, and ABI is well-positioned to benefit thanks to its SAB Miller acquisition, which gave the company a strong portfolio of offerings across segments and superior distribution reach on the continent. Additionally, Africa will have significant population growth over the next thirty years – current estimates are for an additional 1.3 billion people on the continent by 2050 – that will serve as a strong tailwind to growth.

Chart 6. Global Beer Consumption by Region



Source: Kepler Cheuvreux, Canadian

Our Investment

Our core investment criteria have been the same since our founding – circle of competence, business, people, and price. Since 2001, we have invested extensively in the beverage industry both in developed and developing markets. Three of these previous investments were in brewers, which are businesses we have long admired because of the predictability and durability of their cash flows thanks to the competitive dynamics we outlined above – dominant brands, superior distribution reach, and large market shares.

ABI's controlling shareholders include the Belgian families of Interbrew, the Colombian Santo Domingo family, and the Brazilian partners of 3G Capital – Jorge Paulo Lemann, Marcel Herrmann Telles, and Carlos Alberto Sicupira. 3G's partners have a track record of long-term wealth creation with a number of successes in Brazil along with Burger King and Kraft Heinz (in partnership with Berkshire Hathaway). The firm is particularly known for its zero-based budgeting approach to cost-cutting and judicious capital allocation. This approach has successfully increased margins and cash flow across its platform companies, although 3G has been criticized for going too far with its cuts, particularly at the expense of brand-building. ABI's marketing spend, however, has increased as a percentage of revenue in recent years, and it remains in-line with its competitors' spending.

ABI carries more leverage than we typically like in an investment; as of the end of last year, ABI's ratio of net debt-to-EBIT was 5.7x. We are comfortable in this case for a couple of reasons. First, the non-cyclical, resilient nature of the beer business and the resulting long-term stability of the company's operating earnings should yield sufficient cash flows to service current debt levels, even in an economic downturn. Second, more than 80% of the company's debt

matures after 2023, and 95% of its debt has a fixed coupon relieving any sensitivity to rising interest rates. Lastly, management has demonstrated a commitment to dealing with the debt intelligently. At the end of the third quarter of 2018, ABI announced a 50% dividend cut so that the company could divert cash into reinvestment opportunities and faster debt retirement. While we applauded the move, the market disagreed with this decision, which sacrificed short-term return of capital for what we expect to be increased long-term earnings. In fact, one of our biggest concerns with existing debt levels is how they restrict ABI's financial flexibility and strategic options. Paying down the debt faster will improve both weaknesses while also de-risking the business. We would have supported discontinuing the dividend altogether for a few years.

As of year-end 2018, we estimate that ABI offered a 7% owner earnings yield after the stock fell nearly 40% during the year (making it, by far, the largest detractor from the Fund's performance in 2018). We expect these owner earnings to grow in the mid-single digits annually over the next decade thanks to secular volume expansion (led by emerging markets), pricing power, cost rationalization, and investments in projects that promise returns on invested capital of nearly 20%. In total, we believe the Fund's investment in ABI should compound at an attractive rate from here – safely in excess of 10% annually. The potential for accretive acquisitions and/or share buybacks down the road provides further upside. Most importantly, we believe there is minimal risk of any permanent impairment of capital at today's stock prices.

We believe 2018's stock price drop created a buying opportunity, and ABI's insiders seem to agree. The people who should know the business the best bought more than US\$700 million of the stock in the open market:

Chart 8. Selected 2018 ABI Insider Share Purchases (in Euros)

Date	Shares	Price	Amount	Purchasers
1/12/2018	500,000	EUR 95.91	EUR 47,955,000	Alexandre Van Damme -- Board Member, Interbrew family
3/6/2018	1,000,000	90.09	90,090,000	Alexandre Van Damme -- Board Member, Interbrew family
5/10/2018	67,800	79.54	5,392,812	Marcel Herrmann Telles -- Partner of 3G Capital
6/22/2018	1,000,000	84.22	84,220,000	Alexandre Van Damme -- Board Member, Interbrew family
8/14/2018	1,024,665	85.96	88,084,616	Partners of 3G Capital
9/6/2018	34,500	77.43	2,671,427	Ricardo Moreira -- ABI COPEC Division President
9/18/2018	51,870	76.98	3,992,953	Paul Cornet Ruat -- Board Member, Interbrew family
10/26/2018	3,551,168	65.62	233,038,418	Partners of 3G Capital
10/26/2018	20,000	65.00	1,300,000	Elio Leoni-Sceti -- Board Member
10/26/2018	135,000	65.49	8,841,150	Elio Leoni-Sceti and Paulo Lemann -- Board Members
10/26/2018	4,000	73.98	259,579	Olivier Goudet -- Board Member, CEO of JAB Holdings
10/30/2018	1,000,000	65.95	65,950,000	Alexandre Van Damme -- Board Member, Interbrew family
11/1/2018	259,000	67.29	17,428,068	Paulo Lemann -- Board Member
12/3/2018	30,273	67.57	2,045,547	Marcel Herrmann Telles -- Partner of 3G Capital
12/17/2018	100,000	61.50	6,149,912	Ricardo Moreira -- ABI COPEC Division President
Total:			EUR 657,419,482	

Source: FSMA, Cook & Bynum research

While insufficient evidence on their own, insider purchases frequently signal an undervalued business. This indication is particularly strong in ABI's case given the sophistication of the buyers, their track record of intelligent capital allocation, and the sheer size of their recent purchases. We are excited to partner with this group in the interest of long-term wealth creation.

Backus y Johnston

We established a new position in Backus, Peru's dominant brewer, during the first half of 2018. Given the company's limited free float, shares are thinly-traded. Accordingly, it took some time to build the position, and we continue to add to it incrementally when a block of additional shares becomes available at an attractive price. While the company is not the cheapest in our portfolio (and its stock price went up nearly 15% during 2018), Backus is an incredible business that we would be happy to own for a long time. The company enjoys outstanding brand equity and greater than 95% market share thanks to some of the best brands of any product category in the country: Cusqueña, Pilsen, and Cristal. In fact, one of Peru's best soccer franchises and winner of the 2018 Peruvian league is named Sporting Cristal after the beer and is owned by Backus. We have studied the company's execution at the point of sale on a series of research trips over the past seven years. Backus is an excellent operator that benefits from terrific economies of scale thanks to a world-class distribution network that reaches all of the formal and informal corners of its marketplace. It was also recently named the best place to work in Peru and is a source of national pride. In total, the company's moat produces 40%+ returns on tangible assets, 70% returns on equity, and operating margins greater than 45%. A 2018 excise tax increase imposed by the new Vizcarra government reduced volumes by low single digits. Fortunately, the underlying tax structure favors scale brewers, so the excise tax jump should not have much impact on longer-term results. We expect the business to grow revenues and earnings for years to come as the size and wealth of Peru's middle class expands, and management executes its strategy of introducing Budweiser, Stella Artois, and Corona to the appropriate points of sale, which helped to roughly double the volume of these higher-margin products in 2017.



Corporación Lindley

Lindley, Peru's Coca-Cola bottler, struggled with some significant headwinds outside of the company's control during 2018. In May, Peru's Ministry of Economy unexpectedly increased taxes on alcohol, sugar, cigarettes, gasoline, and other products. The biggest of these tax increases was the sudden and unexpected jump from 17% to 25% on beverages containing sugar. Lindley passed on this full 8% price increase to customers, which decreased volume by 10%, revenue by 4%, and operating profit by 6% for the first nine months of the year. Lindley's most important competitor, AJE, fared far worse with volume and revenues declining 10% and profitability falling more than 50%. AJE's financial situation is challenged, so management is divesting and closing operations in a number of markets around the world. Using other markets where sugar taxes were

enacted as a guide (including Arca's previous experience in Mexico), we expect volumes to surpass 2017's pre-tax totals in a couple of years. Compounding the impact of these higher taxes, political instability due to the unexpected resignation of Peru's president early in the year retarded infrastructure spending and other investments and weakened consumer confidence. The political climate in the country has stabilized under a new administration, and the economy accelerated in the second half of 2018.

As we hoped and expected, Lindley continued to invest in its business despite these challenges. The company installed over 23,000 point-of-sale coolers and added 700,000 returnable bottles to the market in the first nine months of 2018. These investments will almost certainly yield a nice return. Lindley's new state-of-the-art plant was operational for all of 2018, and the company recently opened a new distribution center in Lima that serves 22,000 points of sale. Discussions with management and store visits in Peru indicate that the company still has a series of high-return reinvestment opportunities to capitalize on in the coming years.

As you may recall, Lindley is majority-owned by Arca following Arca's purchase of the Lindley family's voting stake in 2015. The Coca-Cola Company had been the second largest owner of voting shares until September, when Arca bought Coke's stake at US\$2.26/share. While we hold investment shares that lack voting rights (which is acceptable to us given Arca's controlling position and our confidence in its management), the Fund's shares have the same economic interest. Our average cost is US\$1.06, and the last trade in the investment shares was at US\$1.32/share. This large of a gap between the prices of voting and non-voting shares is irrational, and we expect it to close over time. Just as importantly, we expect that the value of all shares will increase over time as Lindley's owner earnings begin to grow again in 2019 and beyond.

Coca-Cola Embonor

In the first nine months of 2018, Embonor grew revenues about 1% and operating earnings around 8%. Both the company's Chilean and Bolivian operations, each about half of the overall business, contributed to this growth. Chile is a relatively mature Coke market, and we expect long-term earnings to grow in the low- to mid-single digits for the foreseeable future, in-line with 2018 results. In an interesting experiment, the company is beginning to distribute Diageo products in Chile. This effort will not have a large impact on nearer-term results, but it is a free option that could grow into something more significant over time.

While Bolivian operations returned to revenue and earnings growth after the weather impacted 2017, 2018 results were still below our expectations. Economic growth in Bolivia leveled off to around 4% in both 2017 and 2018. Its economy relies on crude oil exports, and oil price declines slowed overall economic growth. While Bolivia has a high per capita consumption of Coca-Cola products relative to its per capita GDP of around US\$3,400, ready-to-drink packages have lots of room for growth as consumers get wealthier. Our research and past experiences in the industry suggest that people consume progressively more of their beverages in pre-packaged formats as their annual incomes rise from US\$5,000 to US\$15,000. With weak competition, dominant brands, and superior distribution, Embonor will expand the consumption of a broader array of ready-to-drink products such as bottled water and fruit juices over the coming years.

The Coca-Cola Company

CEO James Quincey is shifting Coca-Cola to a “total beverages” company with increased innovation and openness, and the company now has 21 brands with over \$1 billion in annual sales across sparkling, still, energy, juice, and water categories. On a regular basis, we speak to bottlers throughout the global Coke system as well as competitors and retailers. The consistent feedback is that Quincey is encouraging greater flexibility, whether that is producing an alcoholic beverage in Japan or distributing Diageo products in Chile. Coke has an enhanced awareness of the power of its global distribution system and is seeking new ways to monetize that reach. Monster Energy drinks are the most recent example of this distribution power. In 2014, Coke took an equity position in Monster and began distributing its products globally, which has been a big success for both companies. During 2018, Coke acquired Body Armor and Costa Coffee with the belief that it can achieve a similar level of success as it did with Monster. Coke has also responded to the global pressure to tax drinks containing sugar by reformulating many products to contain less or no sugar. For example, in a number of markets, Sprite contains no sugar and just has a normal green label without the Zero designation. Coke’s relaunch of Diet Coke in the United States has returned it to volume growth after several years of sharp declines. Fundamentally, Coke is working to meet consumers’ evolving needs and preferences.

Coke has shrunk its bureaucracy, and management has made a conscious effort to decentralize decision-making to on-the-ground experts closer to the individual markets. For example, Coke’s decisions about Argentinean and Chilean markets were formerly made in Atlanta. Now, they are made primarily by a better-informed regional team based in Buenos Aires.

Coke has largely finished its multiyear refranchising effort that transferred underperforming territories to the strongest bottlers in its system, such as Birmingham-based Coca-Cola United and Arca. We expect these best-in-class bottlers’ expertise to help increase North American volumes and revenues in the coming years. Through the first nine months of 2018, volumes increased 2% and organic revenues climbed 6%. Of course, Coke’s long-term success will ultimately be determined by how well the company executes in non-U.S. markets. Around 80% of Coke’s profitability is outside of the U.S., where the company has consistently grown profits in aggregate. Thanks to an emerging middle class and good execution, we continue to expect that Coke will achieve annual earnings growth in the mid- to high-single digits. Given this consistent growth and a current free cash flow yield of around 5%, we expect sufficient returns from current prices.

Liberty Latin America

Liberty Latin America (“Liberty LatAm”) made progress on a number of operational fronts in 2018, which advanced its goal of becoming the leading cable and mobile telecom provider in Latin America and the Caribbean. Liberty LatAm’s biggest and most profitable market remains Chile, where – operating under the VTR brand – it has the largest high-speed internet and cable television business in the country. VTR’s broadband speeds are twice as fast as that of its closest rival, and more and more consumers are upgrading to the leading high-speed offering. This competitive advantage also helps the business cross-sell by bundling its cable television, fixed-

line telephony, and mobile phone offerings. In 2018, VTR's revenues and operating profits expanded by 10% with margins around 40%. Already passing more than 3.5 million homes and with more investment in process, VTR is poised to increase further its penetration in the country and expand its already attractive profit margins.

One of the company's biggest concerns heading into 2018 was the recovery of its Puerto Rico operation following the damage done by Hurricane Maria in September 2017. The team did yeoman's work to fully restore operations by the end of the third quarter in 2018. While all customers are now online and billable, Maria did have a more-lasting negative impact on the size of the market. As of its last disclosure, Liberty LatAm had 699,000 revenue generating units⁴ (RGUs) on the island versus 804,000 before the hurricane in mid-2017. Because the island's population has declined, Liberty LatAm may not return all the way to the 800,000+ RGUs immediately, but we expect the business to continue to gain share from the incumbent telephone operator's considerably slower DSL offering. In fact, estimated 2018 operating earnings of \$150M+ would exceed 2017's total of \$133M. More encouragingly, the greater than \$50M in operating earnings we expect from Puerto Rico in the fourth quarter of 2018 implies a run-rate for 2019 operating earnings in excess of \$200M. This steady upward trend is a nice recovery for a business that was decimated heading into 2018.

Liberty LatAm's Cable & Wireless (C&W) division encompasses much of its business in Central America and the Caribbean. In its Chile and Puerto Rico markets, Liberty LatAm primarily offers services over its hybrid fiber/coaxial cable network, with an emphasis on high-speed broadband internet service. In this type of market, an operator whose network is the only one to pass a home can typically make an outsized return on capital. If a competitor passes the same home, prices and returns on capital typically fall. As a result, the first mover usually enjoys excellent economics permanently, as a competitor is loath to enter an already-covered market. Such is not the case in the wireless business where switching costs are low, and antennas are commonly co-located on towers owned by third parties. In markets with two or even three mobile operators, results can be satisfactory, but in markets with four operators, price competition and customer churn typically erode profits.

In November, we visited C&W's operations in Panama, which is primarily a mobile phone market for Liberty LatAm, to better understand the dynamics at play in a market with four operators. We found what we expected: the four operators were competing away profits as they aggressively pushed to steal customers from one another. Fortunately, the government recently passed legislation that will allow consolidation. Regardless of whether it plays a part in the consolidation, Liberty LatAm will likely benefit as the market loses a competitor or two in 2019.

We also visited Costa Rica on the same trip to check on Liberty LatAm's recent acquisition of Cabletica, the leading cable company in the country. As opposed to most of its markets, Liberty LatAm and a competitor pass many of the same homes in Costa Rica due to the relative youth of

⁴ A revenue generating unit (RGU) is industry jargon for each billable service sold to a customer. For example, a customer who has just high-speed internet service equals one RGU. A customer who has cable television and fixed-line telephone services, in addition to high-speed internet, equals three RGUs.

the cable industry in the country, regulators' historical aversion to mergers, and a high concentration of the country's affluent customers in the urban capital of San Jose. Over time, we expect Liberty LatAm to bring cable to unserved homes elsewhere in the country and drive consolidation in the industry. Both of these efforts should improve scale, reduce competitive pressures, and increase returns on capital.

In the Caribbean, Liberty LatAm competes most often with Digicel. Thanks to an over-leveraged balance sheet, Digicel is in financial distress. The company is slashing capital expenditures to meet debt payments and is also selling assets to raise cash. Underscoring the precariousness of the company's financial condition, Digicel bonds due in 2020 and 2022 yield approximately 35% as the market lacks confidence that the company will be able to borrow new money to repay these bonds' principal when they come due. We expect Digicel's financial duress to be a tailwind for Liberty LatAm in these markets as Digicel is unable to compete on price and is underinvesting in its network.

Recently, Millicom and Liberty LatAm confirmed that they engaged in discussions about a possible merger. Millicom provides telecommunications principally in Central America with substantial wireless assets. Mauricio Ramos, its CEO, previously worked for Liberty Global and serves on the John Malone-influenced Charter Communications' board alongside Liberty LatAm's CEO, Balan Nair. Both companies have an enterprise value of about \$10 billion and could almost certainly shed costs following a combination. The two companies walked away from the discussions without an agreement; we suspect price was the likely stumbling block.

Liberty LatAm's stock price has not responded to the progress we saw in 2018, as it traded down over 30% to finish around \$16 as of year-end. As a result, Liberty LatAm trades at a mere seven times our expectation for 2019 owner earnings⁵, and we expect this earnings stream to grow 5-10% annually for the foreseeable future. We doubled the size of our investment in the company during the year given the combination of stock price weakness and operational performance improvements. It has the biggest discount to intrinsic value of any company in our portfolio, and we expect to enjoy a satisfactory return over the next few years. We would make Liberty LatAm a larger position for the Fund if the company's debt levels were lower.

Berkshire Hathaway

We had the opportunity to spend a few hours with one of Berkshire's top managers earlier in 2018. Our primary takeaway from that meeting is that Berkshire continues to have a deep bench of outstanding people operating in a highly rational culture. Maintaining this culture and continuing to attract outstanding talent are keys to Berkshire's success over the next thirty years. We have built positions in Berkshire twice in our careers – both times at approximately 1.1x book value. The company is cheap at those levels. We create more complicated models to value Berkshire, but the book value shorthand works fairly well. Currently, Berkshire trades at about

⁵ Our April 2018 letter profiles Liberty LatAm and includes a discussion of some of the intricacies of reported earnings versus owner earnings for the company.

1.4x book value if one values the equity portfolio at current market prices, which is the valuation at which Berkshire bought back shares in the third quarter.

Undisclosed Position

We will keep the Fund's final investment, which will reflect an approximate 4% position in the Fund's annual audit, unnamed for now. We are actively considering additional share purchases to increase our investment in the company, which is based in and operates across several markets in Asia, so we would prefer to not disclose the company's identity in this forum. We plan to provide an overview of the business when appropriate.

Closing

Thank you for placing both your trust and \$325 million in assets with Cook & Bynum. Our investment philosophy and research disciplines remain unchanged, as they have since our founding in 2001. We eschew leverage to minimize risk and to maximize long-term returns. We make concentrated investments when we feel that risk is low and potential returns are high, recognizing that bigger stakes can be taken when outcomes are more certain. We insist on a margin of safety in the hope of avoiding permanent losses of capital, and we never feel pressured to make an investment. Just as importantly, we remain fully committed to treat you as we would want to be treated if our respective positions were reversed. We invest substantially all of our liquid net worth alongside our investors – we expect to earn the same returns as you. We have deliberately designed this Fund's structure and our rule of investing in our funds to align, as closely as possible, our incentives with your goals. We are deeply grateful to be able to do this work on your behalf. If you are happy with the service that you have received to date, we encourage you to expand your existing relationship with us. The fund is fully invested, and we believe we can intelligently invest more capital in current holdings and in companies in our research pipeline. We hope either one or a combination of our investment vehicles will continue to suit your needs.

Respectfully,



Richard P. Cook



J. Dowe Bynum



David A. Hobbs

Inception-To-Date Growth of \$100,000 Investment

from 08/24/2001 to 12/31/2018



This document shall not constitute an offer to sell, or the solicitation of any offer to buy, any interests described herein, which may only be made at the time a qualified offeree receives a confidential private offering memorandum describing the offering and related risk factors. Past performance is no guarantee of future results.

ⁱ* Cook & Bynum Capital, LLC took its first clients on February 15, 2007. Returns reflect this short quarter.

The performance results set forth in the table on a preceding page and the “Inception-to-Date Growth” shown in the graph below represent the net, pre-tax return that would have been realized by an investor who had invested \$100,000 in the Composite Portfolio of accounts managed by Cook & Bynum Capital Mgt. LLC at inception on August 24, 2001, had subsequently invested the proceeds in Gullane Capital Partners, LLC upon its formation on May 1, 2003, and then moved the resulting capital to the Fund on February 15, 2007. Trade-date valuation is used for all performance calculations, and dividends and interest have been accounted for on a cash basis in the Composite Portfolio. The Composite Portfolio is comprised of all accounts on a time-weighted basis since inception and these performance results have not been audited. The performance results for Gullane Capital Partners and the Fund have been audited annually. The performance results are net of all fees, expenses, and allocations and include the reinvestment of accrued dividends and interest. Gullane Capital Partners charged a percentage of assets under management and a performance fee to investors. Cook & Bynum Capital Mgt. only charged investors a percentage of assets under management; the Fund similarly only charges investors a percentage of assets under management. Annualized return is calculated from inception using a 360-day year.