



**Aquamarine  
Fund**

# Annual Report

2015

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## Aquamarine Fund | Annual Percentage Appreciation

Year	Aquamarine Fund Class A Shares* (1)	S&P 500 with Dividends Included* (2)	Relative Results (1) - (2)
2015	-16.0%	1.4%	-17.4%
2014	5.5%	13.7%	-8.2%
2013	34.9%	32.4%	2.5%
2012	27.8%	16.0%	11.8%
2011	-3.1%	2.1%	-5.2%
2010	19.2%	14.8%	4.4%
2009	39.3%	25.9%	13.4%
2008	-46.7%	-36.6%	-10.1%
2007	17.0%	5.5%	11.5%
2006	37.1%	15.6%	21.5%
2005	7.2%	4.8%	2.4%
2004	11.2%	10.7%	0.5%
2003	29.5%	28.4%	1.1%
2002	-1.6%	-22.0%	20.4%
2001	1.9%	-11.9%	13.8%
2000	21.4%	-9.0%	30.4%
1999	-6.7%	20.9%	-27.6%
1998	26.1%	28.3%	-2.2%
1997*	2.5%	6.0%	-3.5%

### Notes:

\*1997 is based on September 15 – December performance.

\*Represents the performance of Class A Shares. Performance may differ depending on Class and Series.

We have selected the S&P Index because it is a widely known, well understood, and commonly used benchmark of performance. We could just as easily have selected the Dow Jones Industrial Average or the Morgan Stanley World Index which would have given a more favorable comparison. The vast majority of professional investors underperform the S&P Index. Similarly, we have ensured that the presentation of index returns includes the dividends, to ensure an apples-to-apples comparison. By the same token, the returns in the Aquamarine Fund are calculated net of all fees.

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## Management's Letter to Partners

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# Dear Partner,

### INVESTMENT RESULTS

In 2015, the Aquamarine Fund returned -16.0%, versus +1.4% for the S&P 500. Since the fund's inception in September 1997, our investors' capital has compounded at a rate of 8.9% annually, versus 6.2% annually for the S&P 500. The fund's total return since inception is 376.4%, versus 202.4% for the S&P 500.

These figures are net of all expenses and fees, so these are actual returns. The numbers for the S&P 500 include dividends, making this an apples-to-apples comparison.

### COMMENTARY

In absolute terms, 2015 was the Aquamarine Fund's second-worst year since its inception in 1997. (Our worst year was 2008.) Since inception, the fund has outperformed the S&P 500 by 174 percentage points. But last year's returns were disappointing and 2016 is off to a volatile start. As I write

this in February, the S&P 500 is down about 9% for the year. In January 2016, we were down 15%, in part because one of our positions, Horsehead Holdings, filed for voluntary Chapter 11 bankruptcy protection following a sustained drop in zinc prices.

This is a challenging time, and it's painful to report these numbers to you. But it's important to emphasize that this is also a time of considerable opportunity. For value investors like Aquamarine, these periods of market disruption provide long-awaited opportunities to pick up bargains that can drive our returns for years to come. Indeed, 2008 was extraordinarily difficult, but the stocks we bought during the financial crisis set us up for the next six years of great returns. My goal is to be counter-cyclical. It's not easy psychologically, but I strive to be fearful when others are greedy and greedy when others are fearful.

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## Management's Letter to Partners

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The explanations for this market turbulence are well known. They include slowing growth in China and elsewhere; concerns that interest rates might rise; falling commodities prices, with oil down 70% since September 2014; geopolitical tensions; and a heightened aversion to perceived risk. In reality, the economic and psychological forces at play are so complex (and largely ephemeral) that the commentators don't truly know what's going on. Nonetheless, there's a tendency among investors to use these unreliable explanations to drive their investment decisions.

Our goal is to step back from all this noise, which pushes most investors into emotional overdrive, and to focus instead on what is unchanging and real. We're not seeking to make top-down predictions about what is unknowable, and we don't want to make reactive decisions based on the latest news headlines and commentary. Instead, we are focused on attempting to identify a few companies with sustainable competitive advantages that are available at attractive valuations.

It's been a particularly tough period for value investors, mostly because the market was dominated in 2015 by a handful of hot companies, including Facebook, Amazon, Apple, Netflix, and Google/Alphabet. As Seth Klarman has

noted, the ten companies in the S&P 500 with the largest market caps returned nearly 23% in 2015; the other 490 companies fell by an average of 3.5%. The S&P 500's positive return concealed what Klarman described as a "stealth bear market" for most stocks.

This kind of narrow, bifurcated market in which only a few stocks do well is typical of the late stages of a bull market. A key difference between, say, 1999 and now is that today's market-leading stocks are real businesses that are truly changing the economy and the way we live. Still, their valuations appear in most cases to be way beyond what's justified by the quality of the businesses. It's worth remembering that a once-loved blue chip like Microsoft has gone nowhere in a decade; some of today's darlings could suffer a similar fate. Still, fear and confusion are so widespread that investors are acting irrationally, buying whatever is up and selling whatever is down. I can't predict when this cycle will turn, but I'm confident that these disparities won't last.

In the meantime, it's important to remember that our long-term success depends on our ability to remain calm, rational and value-focused in these periods of extreme irrationality, rather than chasing after whatever is

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*THE CURRENT MARKET TURMOIL  
IS CERTAINLY UNCOMFORTABLE,  
BUT IT CREATES PRECISELY  
THE TYPE OF MISPRICINGS THAT  
WE DEPEND UPON IN OUR SEARCH  
FOR UNDERVALUED ASSETS.*

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temporarily popular or abandoning whatever is temporarily unpopular. I'm reminded of the tech bubble in 1999 when we built our huge position in Berkshire Hathaway at a time when it was widely reviled; it has since risen more than four-fold and is still our largest holding.

The current turmoil is certainly uncomfortable, but it creates precisely the type of mispricings that we depend upon in our search for undervalued assets. With \$20 million in cash in early 2016, the fund is extremely well-positioned to take advantage of any opportunities we can seize. I'm happy to report that we've also been receiving additional money from new investors in 2016. I'm fully engaged and focused on taking advantage of the opportunities now presenting themselves, and I'm mindful of my responsibility to you to make the most of them.

A few months ago, I acquired a modest position in a branded goods company with a powerful domestic brand and extraordinary growth prospects. It has some similarities to previous successful investments we made in entrenched consumer companies like Weetabix and Alaska Milk. I'm now actively analyzing various opportunities to invest in superior businesses in the U.S. and Europe that I would like to own for many years. Indeed, in recent weeks, I have bought two more stocks in the U.S., using the market turmoil in February to upgrade the quality of our portfolio by investing in companies that would usually be too expensive for us to buy.

I'm treading carefully, wary of making a mistake. But I've been looking intensively at potential opportunities in areas as diverse as energy, technology, transport infrastructure, consumer goods, and financial services. Part of the challenge

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## Management's Letter to Partners

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is that I'm seeing attractive bargains, but nothing as grossly undervalued as it was in 2008; and many of the better quality stocks have not been that badly knocked down. I'm also slightly gun-shy after this difficult period, so I'm even more sensitive than usual about the possibility of taking excessive risks. Still, I believe that it's now time to be more greedy than fearful. As I look at my peers – some of the calmest and most rational value investors – I'm struck by the fact that they themselves are rattled. Paradoxically, I take it as a positive

sign when even that group is feeling unsettled.

I've also been carefully re-examining several major holdings in our portfolio to assess whether or not the market is right to have marked them down. As I've mentioned in the past, we have large positions in the automobile and financial services sectors, both of which have been hit by speculation that technological change will disrupt these businesses and weaken their moats. There's talk of banks being

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*IT'S EASY TO GET SPOOKED INTO BELIEVING THAT THE DISRUPTERS WILL RULE THE WORLD AND THAT THE GAME IS ALREADY OVER. ON THE CONTRARY, THE MORE I ANALYZE OUR BUSINESSES, THE MORE I BELIEVE THEY ARE AS LIKELY TO BENEFIT FROM TECHNOLOGICAL CHANGE AS TO BE HURT BY IT.*

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disintermediated, of credit card companies facing threats to their networks, and of auto manufacturers being hurt by innovations such as driverless and electric cars. I wanted to figure out how genuine or imminent these threats might truly be.

These technological developments have been so heavily hyped by Silicon Valley and the media that it's easy to get spooked into believing that the disrupters will rule the world and that the game is already over. On the contrary, the more I analyze our businesses, the more I believe they are as likely to benefit from technological change as to be hurt by it. I think our banking and credit card stocks can profit greatly from developments in financial technology. Likewise, our two auto stocks are deeply entrenched businesses with huge competitive advantages; they should do extremely well in the coming years, and they are both very undervalued. The market is focused solely on the potential threats to their moats, but there are real opportunities for these car makers to incorporate these technologies in ways that provide them with remarkable tailwinds.

That said, these technological risks and uncertainties do exist, even if they've been overplayed, and it's not wise to rule

out the possibility of long-term creative destruction. Certainly, the management of our companies will need to adapt intelligently to retain their lead.

In the meantime, I have no doubt that this is a moment when paying calm, careful and deliberate attention to the changing investment landscape can have a tremendous payoff. It's a time of enormous opportunity, and I'm determined to make it count. All of my own money is in the fund and my family is the largest shareholder in the fund.

## POST-MORTEM 1: HORSEHEAD HOLDINGS

Horsehead Holdings was the biggest contributor to our losses in 2015. In early 2016, the company entered a voluntary Chapter 11 restructuring process. The current situation is complex and fast-changing. Suffice it to say, I've been doing everything I can to ensure that the equity investors are treated fairly in the restructuring process, not least by spearheading efforts to form an equity committee to prevent all of the company's assets from being grabbed on the cheap by its bond holders. There is still much to play for, given that Horsehead has extremely valuable assets and is likely to thrive again once the restructuring is complete. The company's short-term prospects

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## Management's Letter to Partners

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were derailed by the very worst of circumstances. But in terms of the long-term valuation of the business, nothing has changed.

Our investment in Horsehead was made for all of the right reasons. The company has an excellent business model and first-rate technology, which originally involved taking a byproduct of recycled steel and using a smelter to produce marketable zinc. This cost-effective and environmentally-friendly process enabled Horsehead to become the largest and lowest-cost recycler of zinc in the U.S. We bought the stock in 2012 at an average price of about \$10 per share and doubled our money by 2014.

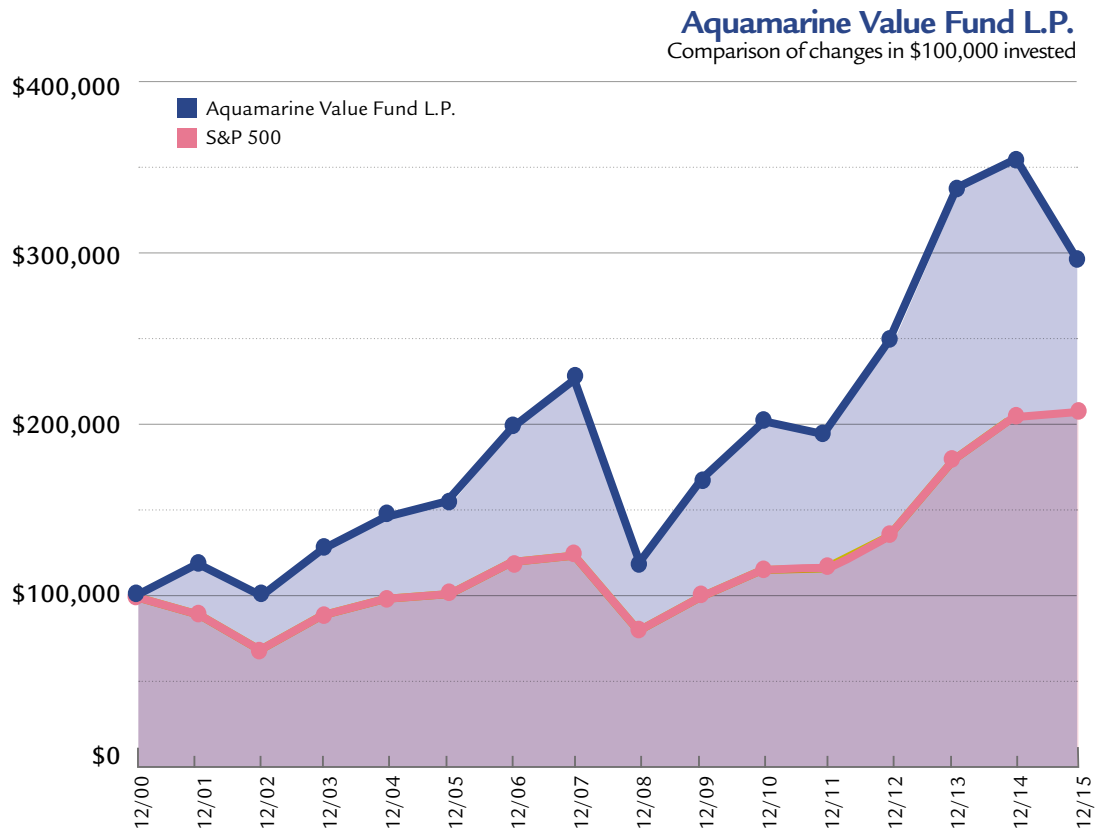
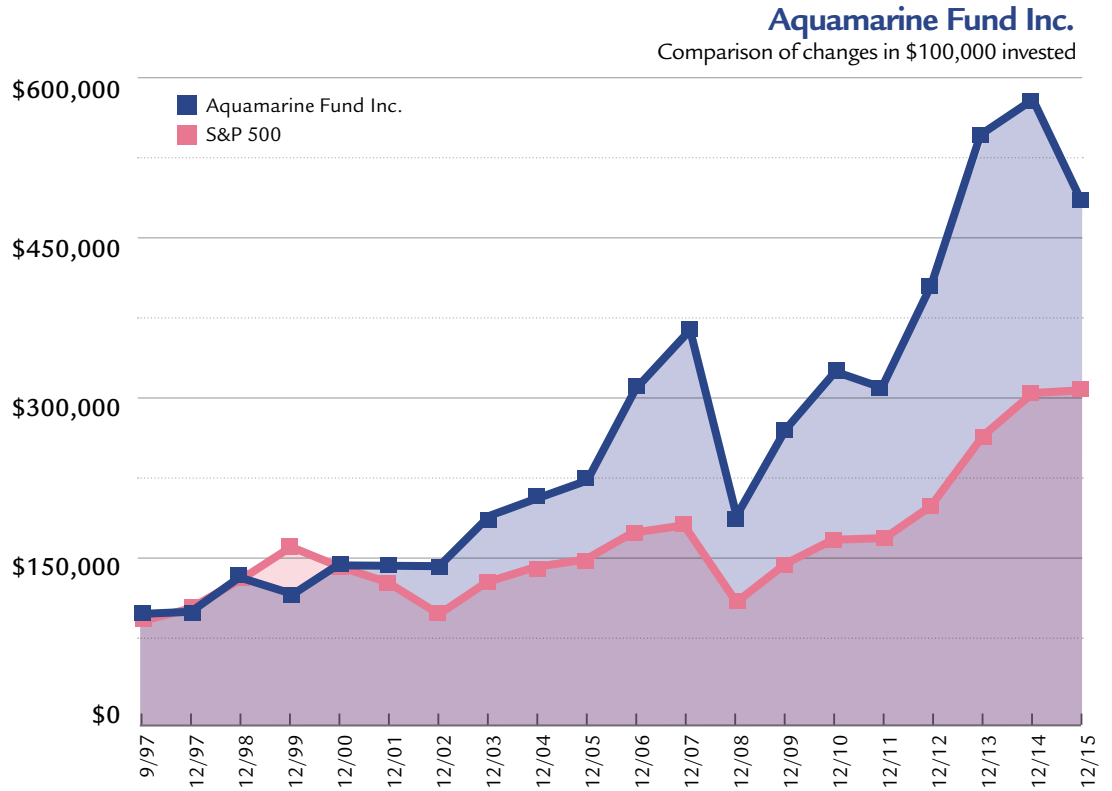
Ironically, Horsehead's troubles began with the decision to replace its smelter-based technology with a superior electrolytic process. When run at capacity, this new process will be lower cost and cleaner. But the company's new plant in North Carolina experienced costly delays and has not yet run at capacity. To tide it over, Horsehead raised capital through debt and equity financing. These setbacks would normally have been no more than a temporary frustration. But the price of zinc collapsed in 2015, producing the perfect storm. Strangely, Horsehead's bankruptcy didn't result

from running out of cash. Rather, there was a technical default on a small line of credit from Macquarie Bank; Macquarie froze Horsehead's bank accounts, which triggered the bankruptcy — shortly before zinc prices finally rebounded. I believe Horsehead didn't need to be thrown into bankruptcy, given that its last audited balance sheet showed assets in excess of \$1 billion, equity in excess of \$400 million, and over \$30 million in cash.

When I write these post mortems each year, I try both to explain our investment approach and also to draw practical lessons from any mistakes I've made. In the case of Horsehead, this isn't easy, either emotionally or intellectually. At some level, the company's dramatic shift from success story to bankruptcy was a black swan event. There's some element of sheer bad luck here that is, unfortunately, a part of investing.

I would never have predicted that zinc prices would plunge below the marginal cost of production and remain there for so long, given that global zinc supplies were tight and that demand was steady. And I would never have predicted that Horsehead would have such trouble getting its plant up and running, given that there are four similar plants in other parts of the world. Simplistic as

## Performance Relative to the S&P 500 Index



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## Management's Letter to Partners

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it might sound, this is a reminder that many more things can go wrong with an investment than we can possibly imagine and that the markets will occasionally produce bizarre situations that defy logic — hence the need to diversify and to require a significant margin of safety as an insurance policy against bad luck or misjudgment.

In retrospect, I made one serious mistake with Horsehead that I'm determined not to repeat. I saw its debt rising a year ago and failed to recognize how vulnerable this could make the company in extreme circumstances. Knowing the vicious nature of leverage, I should have been more sensitive to this increased risk. To avoid repeating this error, I'm in the process of creating an "in-flight" investment checklist, which includes these two questions: has the company we own taken on new debt, and have its leverage ratios changed significantly? If a company hits one of these tripwires, it may not be necessary to sell, but I need to monitor these growing risks carefully on a daily or weekly basis. We've typically done best by operating as patient, buy-and-hold investors. But in a dynamic situation like this, I have to be open to the possibility of getting out quickly.

After several years of strong returns,

there's also a tendency to become more concentrated and less risk averse. To guard against the risk of overconfidence, I intend to limit new positions to 5-7% of our portfolio at the time of purchase. I'm glad that I avoided buying more shares of Horsehead as the stock plummeted — one benefit of the fact that I am, by nature, a relatively cautious investor. Even so, our position should have been smaller. As Sir John Templeton warned, "Even the best portfolio manager is not right more than 65% of the time." I need to avoid being overly concentrated, given that investing is an imperfect science, that I will inevitably make my share of mistakes, and that there is always the possibility of black swan events.

In this case, Horsehead should have been no more than 3% of our portfolio at purchase, whereas our initial position was around 7%. In part, this was because the fund's success had led me to believe that we could occasionally afford to make bigger bets that could potentially pay off hugely. There was — and is — plenty of upside potential with Horsehead: if zinc prices were strong and the plant operated properly, the company would generate hundreds of millions of dollars a year in EBITDA. But I was lulled into a false sense of security about the possible risks. It wasn't just

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*I MADE ONE SERIOUS MISTAKE WITH HORSEHEAD THAT I'M DETERMINED NOT TO REPEAT. I SAW ITS DEBT RISING A YEAR AGO AND FAILED TO RECOGNIZE HOW VULNERABLE THIS COULD MAKE THE COMPANY IN EXTREME CIRCUMSTANCES. KNOWING THE VICIOUS NATURE OF LEVERAGE, I SHOULD HAVE BEEN MORE SENSITIVE TO THIS INCREASED RISK.*

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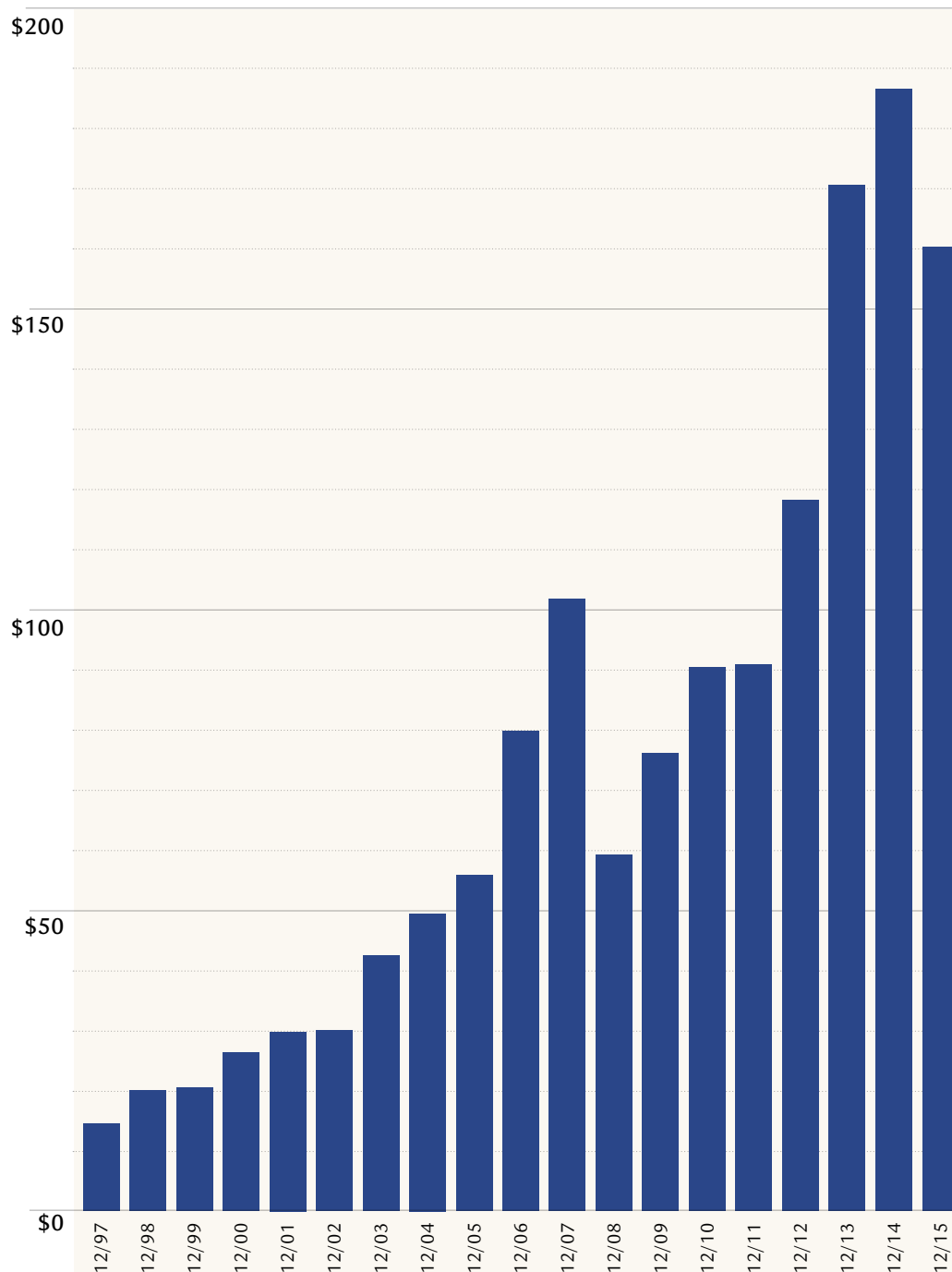
that the financial leverage was growing. Horsehead was also highly sensitive to two key variables — a sharp move in zinc prices and its make-or-break project to build the new plant.

An investment with these “spiky” risk characteristics needs to be viewed very differently than, say, a Berkshire Hathaway or a Nestlé, which have been dependable, core holdings of ours for many years. These diversified, high-quality companies tend to grow fairly steadily and to be somewhat anti-fragile. In a slow and relatively sedate way, they keep getting better. By contrast, Horsehead’s operating

leverage, financial leverage and sensitivity to zinc prices accentuated both its upside and its downside. It was the investing equivalent of an incredibly unforgiving hole on a golf course with sand traps and water guarding the green. Based on that risk profile, a 3% initial position would have been more appropriate. What’s more, when the plant was being delivered and there was much exuberance about Horsehead’s future, I should have taken some or all of our money off the table. Given that the market swings between extremes of exuberance and despair, I need to pay close attention when the pendulum has moved too far in either direction.

## Aquamarine Fund | Assets Under Management

(\$ in millions)



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## Management's Letter to Partners

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### POST-MORTEM 2: RAFFLES EDUCATION CORPORATION

Starting around 2003, we made a string of successful investments in the for-profit education sector. I focused on post-secondary education because I was struck by the compelling economics of the business. Decisions about college typically come at a time when students (and their parents) feel intense uncertainty about their future. College offers a last chance to get a great start in life, so brands and reputations count. It's a bit like buying an engagement ring. Given all the uncertainties, as Warren Buffett has quipped, you don't just want to go for the low bid.

This factor has a powerful impact on the economics of the business. Price is equated with quality in the consumer's mind, and demand actually increases as prices rise. Consider the value of a place at the top 20 private colleges in the U.S. They continue to raise prices, yet demand never suffers because the perceived value of these brands on a graduate's resume is so high. I was also struck by studies showing that the lifetime value of a college degree was more than \$1 million in terms of earnings power, dwarfing the cost of even the priciest college degrees.

After extensive research, we invested heavily in two U.S. education companies, EVCI and DeVry. Both proved to be extremely profitable investments. Thankfully, I sold them before the Obama Administration came to power and created a far less benign environment for the for-profit education sector in the U.S. Meanwhile, I also expanded my search internationally, visiting education companies in India, the Philippines, Oman, and Singapore. In Raffles Education Corporation, I found a business that met all of my criteria. Headquartered in Singapore, Raffles was rapidly expanding its offerings around Asia, tapping into the aspirations of a growing middle class that was eager to provide its offspring with the best possible start. My due diligence took me to the company's campuses in Singapore, Mumbai, Shanghai, and Chongqing. I saw how its energized management team applied a similar formula in each new market, producing graduates whose reputable degrees, good English skills and global outlook attracted many employers.

I invested 5% of the fund's capital in Raffles, and the stock ran up six-fold in less than two years. Given its lofty valuation, I sold most of our shares, pocketing an enormous profit. Aquamarine posted a return of 37% in

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## Management's Letter to Partners

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2006, largely thanks to this investment in Raffles. Then, during the financial crisis of 2008-09, the stock nosedived, along with many other stocks in emerging markets. I bought back what I had sold at about half the price.

Raffles continued to expand dramatically, opening campuses in Jakarta, Bangalore, New Delhi, Ahmedabad, Chennai, Hyderabad, Kolkata, Phnom Penh, Colombo, Dhaka, and Manila. But the company changed its asset-light strategy, acquiring a huge complex in Tianjin called Oriental University City. This made Raffles the owner of a large piece of Chinese real estate and a number of colleges in the national education system (as opposed to China's private education system). I wasn't that comfortable with this intensified focus on China or the potential for Oriental University City to eat up capital. But I respected the company's CEO and largest shareholder, given what he'd achieved in building the business and the returns he had delivered to us.

This admiration led me, for a while, to discount a decline in the company's quality of earnings. Instead of generating cash from its core business, Raffles increasingly reported earnings and cash generated by selling off pieces

of the Oriental University City campus. At the same time, student growth fell off, partly because China's education system was restructured so that parents found it more attractive to use public universities. My analysis was that, even if the Chinese business did not work out, Raffles had an extraordinary business in the rest of Asia. In reality, these other businesses didn't deliver the level of growth I had expected, and the accounting standards continued to decline. So, in 2015, I sold almost all of our shares. In all, we made three times our money in Raffles. But we would have had a six-fold return had I not reinvested in the company.

As with Horsehead, Raffles strayed significantly from what had previously worked — in this case, with its costly expansion in China. I've added another question to my checklist, which would have helped in both cases: has the company made a large investment in a plant or other business where the economics are untested or which may take a long time to work out? In the past, I mainly used my investment checklist *before* buying a stock. But I've come to realize that I also need to make better use of an "in-flight" checklist to conduct formal, hard-nosed reviews of our holdings at regular intervals. As Charlie Munger has said, we always

need to be wary of “boiling frog syndrome,” whereby we fail to notice tiny, incremental changes in a business. Using an “in-flight” checklist on a regular basis would have helped me to recognize sooner that debt levels were rising insidiously at Horsehead and that accounting standards were declining quite rapidly at Raffles. I should not have accepted this deterioration in the quality of earnings at Raffles and should have moved swiftly to sell the stock, instead of watching as it drifted down.

It’s also important for me to recognize that different types of company require a different mindset. With a Nestlé or a Berkshire, it’s okay to have some degree of inertia. In fact, it’s typically an advantage, since my patience gives these superior businesses time to compound over many years or decades. But with a company like Raffles or Horsehead, you can’t afford to take this patient, hands-off approach. With every investment, I need to ask myself if it’s truly a core position that we can hold indefinitely (or permanently), or if it’s a shorter-term opportunity to bet on a less stellar company whose stock is temporarily mispriced. In recent years, we did very well in some shorter-term plays like London Mining and Chesapeake Energy, which I bought when they were extremely cheap, rode to recovery, then sold before

they ran into trouble again. With Raffles, I should have done the same thing, instead of trying to convince myself that it was a better business than it really was.

Part of the problem is that it’s easy to believe you have the magic touch when you’ve just made six times your money on a stock. Perhaps you’re so smart that you’ve discovered the next Buffetesque CEO! This is why it’s so important to be brutally self-aware and to work constantly at managing myself.

As always, my goal is to learn these expensive lessons well and to adjust my investment process accordingly. That way, this hard-earned knowledge can benefit us considerably in the future. Please note that I’ve updated and significantly expanded the investing principles section of this annual report, which begins on page 19; it now does a better job of reflecting what I’ve learned about what works and doesn’t work. I hope you will find it helpful in terms of understanding the thinking that underlies the fund. It also reflects the fact that this is a dynamic process and that I am constantly learning.

## ORGANIZATIONAL AND REGULATORY UPDATE

In last year’s letter to shareholders, we reported that we had submitted

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## Management's Letter to Partners

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the Financial Market Supervisory Authority (FINMA) registration for our Swiss entity, Aquamarine Zurich, in February 2015. We also reported that we were grappling with the data required for FATCA submission. And we reported that we had put in place rigorous SEC compliance and ethics procedures and testing programs for Aquamarine's U.S. operations. Since then, we've made good progress on all three of these organizational and regulatory fronts.

In September 2015, FINMA granted Aquamarine Zurich a license as an Asset Manager for Collective Investment Schemes, with a six-month grace period to adopt all of the changes detailed in our application. We are currently working on that process, which involves the appointment of three new directors and a robust risk management and compliance function for Aquamarine Zurich. As for the SEC, they sent us a six-page request for information in October 2015. Orly Hindi, our Chief Compliance

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*I'M DETERMINED TO ADHERE TO THE TIME-TESTED DISCIPLINE OF INVESTING IN SUPERIOR COMPANIES AT ATTRACTIVE PRICES AND HOLDING THEM FOR THE LONG TERM, WHILE TRYING AS MUCH AS POSSIBLE TO TUNE OUT THE SHORT-TERMISM AND NOISE THAT LEAD MOST INVESTORS TO UNDERPERFORM.*

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Officer, sent them everything they asked for. It took an entire week to gather all of the information. But we were pleased to see the benefits of the strong compliance process we had put in place over the previous 18 months.

Meanwhile, we were grateful that our investors sent us the requisite tax forms to allow us to file for FATCA on time. We were able to report that all of our investors for both the onshore and offshore fund were appropriately qualified to invest in their respective fund. As a result, we were not required to submit any investor names to the regulators.

Another positive organizational change was the establishment of a new relationship with Northern Trust as our Custodian in June 2015. We've retained an excellent relationship with Credit Suisse and UBS, which both remain as service providers to the fund in the banking and brokerage arena. We have also established a new brokerage relationship with Interactive Brokers.

Looking ahead, we anticipate more compliance requirements in Europe, with the U.K. and OECD Common Reporting Standards both scheduled to kick in this year. We are also looking at introducing a new class of shares that

will be designated with U.K. Reporting Fund status. This may have certain tax advantages for U.K. investors.

## SUBSCRIPTIONS, REDEMPTIONS, AND NET NEW CAPITAL

In 2015 we received new subscriptions for \$16.3 million, of which \$15.8 million came from 19 new partners. Welcome! We also received redemption requests of \$5.8 million, of which \$2.5 million was for complete withdrawals by seven shareholders in the fund. I'm always sorry to see shareholders go, but life circumstances change and I'm delighted that these investors have done well in the fund.

## LOOKING FORWARD

Since the fund's inception 18 years ago, we've experienced our fair share of ups and downs. The challenges we've faced have included the reverberations of the Asian financial crisis; the tech and Internet bubble of the late '90s, when most value investors lagged the market by a huge margin; the subsequent tech crash; the bursting of the U.S. housing bubble; and the worst financial crisis since the Great Depression. These have certainly been eventful times. Along the way, I've made plenty of mistakes, but I've also steadily improved by methodically learning from them and

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## Management's Letter to Partners

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refining my investment process. Having recently turned 50, I'm heartened by the fact that investing is one field where we can continue to get better with age, experience, and effort.

Despite my own flaws and the many bumps in the road, the Aquamarine Fund has outperformed the indexes by a wide margin. That's a testament to the enduring power of the value investing approach, which is best exemplified by investors like Warren Buffett and Charlie Munger. It's an approach that works remarkably well over the long run, even though it falls out of favor from time to time. I'm determined to adhere to the time-tested discipline of investing in superior companies at attractive prices and holding them for the long term, while trying as much as possible to tune out the short-termism and noise that lead most investors to underperform. I'm confident that this approach will serve us well in the future, just as it has served us well in the past. Now is not the time to change course.

It's important also to note that our interests are truly aligned. My family (including my mother and father, my sister, my uncle and my aunt) are the largest shareholders in the fund; all of my own money is invested in the fund; and many close friends are

partners in the fund. Aquamarine is also intentionally structured so that I'm rewarded only if the fund's shareholders do well. A significant portion of the assets are in a share class where there is no annual management fee and where I receive 25% of the profits only after clearing the hurdle of a 6% annual return. In other words, I don't make money unless my partners in the fund make money. A tough year like 2015 rightly inflicts a real measure of financial pain on me personally.

I feel very fortunate to have a stable and steadfast base of partners who have invested in the fund for many years. This stability has helped us to ride through the challenging periods and to profit from the buying opportunities they provide. Thank you for your trust and confidence.

Sincerely,

A handwritten signature in black ink, appearing to read "Guy Spier". The signature is fluid and cursive, with a large initial "G" and "S".

Guy Spier

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# INVESTING PRINCIPLES

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## Investing Principles

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In 1996, Berkshire Hathaway issued its shareholders with a booklet entitled “An Owner’s Manual.” Psychologically, this was a powerful move, since various studies have shown that by writing something down we increase the probability of it happening. I wanted to set down a similar list of principles and share them with my partners in the Aquamarine Fund.

The goal here is not to be comprehensive. Rather, it is to emphasize some important lessons that I’ve learned over the last two decades that seem especially relevant to me and the fund’s investors at this point. Based on what we know from Robert Cialdini about the “commitment and consistency principle,” it’s particularly helpful for me to write down these investing principles and commit to them in this public manner. I will do all that I can to live up to these principles, and I invite you to hold me to them.

# 1 | HARNESS THE MIRACLE OF COMPOUNDING

When it comes to investment results, many investors focus on what happened in the past month, quarter or year. They might compare quarterly or annual results to an index or to the results of other funds. Financially sophisticated investors may talk about the search for alpha (a fancy way of referring to above-average returns) or the pursuit of superior risk-adjusted returns. I pay as little attention as possible to these metrics because they distract me from the true task at hand.

The only metric I find useful is thinking of long-term increases in net worth, or getting the miracle of compound interest to work in our favor. The table below illustrates

**Investment Result - As a Multiple of Original Investment**

Years of Operation	Rate of Return		
	7%	12%	18%
20	4	10	27
40	15	93	750
60	58	898	20,555

the point that seemingly modest differences in the annual rate of return can generate profound differences in the ultimate gain over long periods of time. My goal is to compound wealth at a high rate, while minimizing the risk of permanent losses of capital. In order to keep my sights on the horizon, I frame the investing challenge as follows: I seek to double the Aquamarine Fund's price per share as many times as possible over the course of my investing lifetime.

# 2 | DON'T LOSE MONEY

Another way to frame the investment challenge is to ask the following question: how can I compound my partners' wealth at the highest possible rate but in a manner that minimizes the probability of a loss? As

the chart here illustrates, the more you lose, the harder it is even to get back to where you started. Big losses are a real killer. Or, as Warren Buffett has said: "Rule No. 1: NEVER LOSE MONEY. Rule No. 2: NEVER FORGET RULE NO. 1."

Initial Loss	Gain Required to Be Whole
10%	11%
25%	33%
40%	67%
50%	100%

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## Investing Principles

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### 3 | AVOID LEVERAGE

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The fastest and most effective way to violate Buffett’s “never lose money” rule is to take risks with capital that we don’t already own. Thus, I don’t lever the portfolio, and I also seek to avoid overly leveraged investments. There’s nothing wrong with getting rich slowly — especially if trying to do it rapidly could end badly, which it often does. I’m reminded of Buffett’s comments about the implosion of Long-Term Capital Management: “Whenever a really bright person who has a lot of money goes broke, it’s because of leverage.... It’s *almost* impossible to go broke without borrowed money being in the equation.”

However, as I’ve come to realize, there is also the risk that leverage can seep slowly and insidiously into our portfolio without me taking sufficient notice — for example, when a company that has performed well for us gradually increases its debt levels. Charlie Munger warns of “boiling frog syndrome,” which is the tendency not to recognize tiny, incremental changes until it’s too late. Given the vicious nature of leverage, I need to monitor such changes closely and be ready to exit a stock in a hurry if the risk level has escalated. On the whole, I look to hold stocks for many years, avoiding the temptation to trim our winners. But when leverage has risen within a company, I have to be more willing to sell.

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### 4 | PLAY CENTER COURT

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Donald Keough, who was president of Coca-Cola and a board member at Berkshire Hathaway, provided an enlightening discussion of ethics in his book *The Ten Commandments for Business Failure*. One problem with playing the game close to the foul line, he explained, is that the foul line moves around. AIG and the Greenberg family discovered this in the realm of insurance. When the foul line was moved by Eliot Spitzer, they found themselves on the wrong side of it. Due to the uncertainty as to where the foul line actually is, playing close to it is a perfect example of how

you can expose yourself to the possibility of low-probability outcomes with extreme consequences.

Another benefit of playing center court is that it usually doesn't require vast amounts of expensive input from lawyers, accountants, and other high-priced advisers. Accountants and lawyers often don't like it when their clients play center court, since people who push the boundaries tend to generate higher fees.

Keough passed away in 2015, but his wisdom will no doubt remain as useful and relevant as ever. "There is no such thing as business ethics," he wrote. "Just ethics. It's not separated from the rest of your life."

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## 5 | PAY ATTENTION TO INCENTIVES

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Charlie Munger once said that while he has certainly understood the paramount importance of incentives in human behavior, even he has grossly underestimated their importance. Many investment partnerships are run by managers who don't have a substantial personal investment in their own partnership and who work primarily with other people's money. This creates an incentive to maximize short-term performance, and it ultimately leads to increased risk.

An important component of the set-up at Aquamarine is to make sure that my incentives are appropriately aligned with the interests of my shareholders. The overwhelming majority of my family's wealth is invested in the Aquamarine Fund, and virtually all of my own money is in the fund. This creates a powerful incentive to minimize the risk of loss. It's also important to note that my family — including my mother and father, my uncle and aunt, my sister and I — are all invested in exactly the same vehicle as the fund's other shareholders. Whatever the investment returns might be, we're partners in this venture and we're all invested alongside one another in the same vehicle.

This is also my only fund, so I can focus on it without distractions. I don't intend ever to launch another fund, since I like the idea of having one investment record for my career. That way, it will be easy to see whether or not I've truly added value. Another key component of our alignment of interests is the fund's zero-management-fee share



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class in which I make money only if my shareholders make money.

It's easy to identify the most egregious ways in which ignoring incentives can be damaging. For example, I can take with a pinch of salt a barber's suggestion that I need a haircut. Similarly, I can steer clear of a sell-side broker who wants to churn my account. However, here's something harder to spot: consider an advisor who is honest, hard-working, and truly desires the best for our fund. While the course of action that he counsels is generally sound, it contains complications that could lead to problems in extreme circumstances. He will naturally tend to discount the downside (hey, it's not his downside, and it might even lead to more work down the road). My job is to recognize that downside. The advisor would certainly survive the hidden but fatal flaw, but I might not. Indeed, someone with good intentions and deep knowledge can still give dangerously flawed advice. While I might catch the egregiously imperfect advice, I also need to be on guard for this kind of subtly imperfect advice.

Over the years, a number of peers on the buy side have become a source of invaluable insights on important business and investment decisions. We often discuss particular companies, pooling our knowledge and exchanging opinions. But even with these trusted friends, I need to be conscious of the subtle ways in which incentives work. For example, someone who wants to convince me to buy a stock might gain something psychologically from the validation this provides. Likewise, I might be vulnerable to the fact that I have a strong tendency to want to be liked. In other words, incentives are not just financial but psychological. It's important to maintain a balance here: I have to remain open to the insights of my peers while never losing sight of the need to do my own due diligence and to retain my independence of mind.

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## 6 | WORK WITH GREAT PARTNERS

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During the financial crisis, several of Aquamarine's shareholders redeemed their partnership interests at the worst possible time, thereby locking in their own losses and reducing our ability to buy stocks at extraordinarily cheap prices. This experience taught me a lot about the importance of having the right partners. One way to

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## Investing Principles

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achieve this is to create the best possible structure for the fund, since this affects the quality of the investors we attract. In our case, this means:

1. Providing a share class in which we charge no management fee — only a performance fee.
2. Allowing only annual redemptions from the fund.
3. Communicating infrequently, but substantively, rather than communicating often but with little more than rewarmed market commentary.
4. Avoiding roadshows and beauty contests designed to attract more assets.

Why are these rules important? With no management fee and only annual redemptions, the fund attracts a group of sophisticated investors who have thought carefully about equities and about what they are looking for in a money manager. These investors tend to understand that I need to be able to think long term to do my job well; my wondering who might want to redeem each and every quarter would be a needless distraction. These investors also recognize that our fee structure (zero management fee, and only a performance fee) is a substantial boon to good long-term results — and that it's fair. This fee structure reflects the fact that I want to make money *with* my partners, not off them.

As for my preference for communicating infrequently but substantively, this is driven by a recognition that I need to focus on investing, without the regular pressure of having to look smart on roadshows or in other fundraising activities. Those activities are a distraction and are inimical to good investment returns.

When it comes to investment research, I also work hard to develop great relationships with a broad range of people who can help me to evaluate investment ideas. As with attracting great partners, there are a few key rules:

1. Keep confidential the investment ideas that are shared with me.
2. Do not trade investment ideas sourced elsewhere until there is clear permission to do so from the originator.
3. Never tell anyone what to do, but give thoughtful and value-added feedback on ideas.
4. Always give credit when and where possible.

These are really just applications of Hillel's advice: "What is hateful to you, do not do to your neighbor." The benefits of behaving decently are cumulative. Charlie Munger, who is famously determined to act honorably at all times, has said: "How you behave in one place will help in surprising ways later."

One of the great lessons I've learned throughout my career is that all business is personal. The vast majority of the time, whenever I have gone beyond the call of duty regarding someone's well-being, it has resulted in all sorts of remarkable, unexpected and fortuitous results for me. As Michael Eisner makes clear in his book *Working Together: Why Great Partnerships Succeed*, perhaps the best way to find a great partner is to be a great partner. That has been true for me in all areas of my life, and it has been true of the people I admire most. Indeed, writing about Munger, Warren Buffett once declared: "In 41 years, I have never seen Charlie try to take advantage of anyone."

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## 7 | BUY BETTER BUSINESSES AT BARGAIN PRICES

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One of the hardest things for me to learn and truly internalize has been to see the market as a pari-mutuel system, much like betting on a horse race. At the races, it's not that hard to identify the fastest horse that will most likely win the race on any given day. However, that horse is unlikely to be the best bet, since the probability of its winning will typically already be factored into the odds offered by the bookmakers. The real skill is to find the *mispriced* bet — the horse whose chances of winning are much greater than the odds suggest. This is much harder, and the opportunities to place such bets are much rarer than most people think.

One benefit of extreme volatility is that it occasionally makes it possible to buy great businesses when they are dramatically mispriced. Think of Buffett loading up on American Express during the Salad Oil scandal in the 1960s or Munger piling into Wells Fargo during the financial crisis when he saw what he later described as "a once-in-40-year opportunity."

Time is the friend of a great business. But if the business was purchased when it was priced to perfection, it has as much potential to impair returns as a much weaker business. Thus, the focus of my investment research is largely oriented towards finding businesses that are mispriced, rather than identifying great businesses and trying to justify paying a high price for them.

On those rare occasions when we can acquire them for an attractive price, my

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## Investing Principles

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preference is to buy the best businesses and then hold them indefinitely. As Munger has said, “If you live in a small town and if you own a good car dealership, McDonald’s franchise, the best apartment building in town, the highest-quality office building in town, you are done.” Investing is hard and there are many things I can miss in my analysis. But when we own better companies, life is more forgiving and we can prosper while paying a little less attention. When we occupy this economic high ground, our portfolio is less vulnerable to market downturns and to my own misjudgments. My long-term goal is to upgrade our portfolio whenever the opportunities arise to invest in superior businesses.



## MAKE THE MARKET YOUR SERVANT, NOT YOUR MASTER

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The constant movement of stock prices is a call to action. The brain also experiences an emotional storm when we see that stocks or the market are falling. I try to detach myself as much as possible from the market’s short-term gyrations, so that I can invest in a more rational, measured and patient way, buying stakes in companies that I can hold for years. I typically check the price of my holdings no more than once a week; I leave my Bloomberg terminal switched off for weeks on end; and I don’t have a TV in my office. Simple rules and practices like these make it easier not to waste my willpower trying to resist the market’s short-term calls to action.

As Ben Graham taught, we need to make the market our servant, not our master. That means using it to our advantage by buying bargains when pessimism reaches extreme levels and by reducing our risk exposure when the crowd is overly exuberant. The key is not to be swept up in the crowd’s bipolar mood swings. If I avoid checking stock prices on a regular basis, it’s easier for me to detach myself from the price action of the market, which is liable to stir up my emotions and cloud my judgment. Likewise, I have a rule that I can’t buy or sell stocks while the market is open. This serves as a circuit breaker, so that I don’t act precipitously. In my early days as a fund manager, I had an in-house trading desk, which brought the market right into the heart of my office in a way that was distracting and disruptive. Now, I place orders by emailing a broker after trading hours, so

that we don't even need to speak with each other directly. These simple strategies make it somewhat easier to keep market noise at a safe distance.

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## 9

## ACT COUNTER-CYCLICALLY

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The stock market — and much else in life — is highly cyclical. When times are tough, it's important to remember that they will get better again; when they're great, it's prudent to bear in mind that they will get tough again. As an investor, I strive to be counter-cyclical: broadly speaking, I want to buy when others are fearful and sell (or, at least, reduce my risk exposure) when others are greedy.

This is easier said than done because the psychological forces at play are so powerful. The fact that you're intellectually aware of these forces doesn't protect you from them. For example, when the market is tumbling, self-reinforcing thoughts kick in that tell you that the world may come to an end. Fear is contagious, and it's easy to get swamped by these intense emotions. Then, when everything is going well and you've made handsome profits for years, it's easy to start believing that you're brilliant and to slip into a state of hubris and overconfidence. There's a terrible vanity that can get into your head merely as a result of all this positive price action. I've experienced this on more than one occasion, proving to myself that I'm far from immune to these perils.

In the good times, the key is to reduce my risk, my leverage, my concentration, and my bets on more aggressive industries. During bull markets, we tend to become more concentrated in our favorite investment ideas. If I can't bring myself to sell them, I should at least force myself to become more diversified, since a diversified portfolio will be less vulnerable when the cycle changes.

I'm increasingly focused on the idea of building counter-cyclicity into my life. Certain investments — for example, Berkshire Hathaway — are counter-cyclical, which helps. Berkshire is designed to be an anti-fragile business that is likely to prosper in good times and bad, not least by buying undervalued assets amid the tumult. Another aspect of being counter-cyclical is to surround myself with people who think and act this way — and to be aware that certain relationships are pro-cyclical

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and therefore more likely to be hazardous. If, say, a contrarian, risk-averse partner in Aquamarine sells a significant portion of his shares after years of strong returns, I need to take notice and ask myself if this is a useful sign that things are becoming irrationally exuberant.

Likewise, it's helpful to pay close attention to the words and actions of investors like Warren Buffett, Charlie Munger, Howard Marks, Francis Chou and Seth Klarman, who have a long and successful history of operating counter-cyclically. Part of the gift of these investors is that they keep their egos in check and remain rational during periods of euphoria. One safeguard against my own vulnerability to hubris and overconfidence is to make sure that I take slightly less risk than the people I respect and admire.

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## 10 | TREAD CAREFULLY AROUND SALESPeOPLE

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The investment business is full of people trying to hawk ideas that serve their own interests — bankers, brokers, sell-side analysts, CEOs, TV pundits, and others. In the past, I found that I made lousy decisions when I bought what people were trying to sell me, since our brains are not wired to make rational decisions when we are confronted with a well-argued pitch from a gifted salesperson. So, I adopted a simple rule: I don't let myself buy anything that's being sold to me.

This is one reason why I never participate in IPOs. When a company goes public, Wall Street puts all of its mind-bending sales power behind it, creating a situation that promotes poor decision-making. It's also why I seldom read research produced by sell-side analysts. As a long-term investor, my interests are in stark opposition to the interests of Wall Street. What I need to do is invest in a few great but undervalued businesses and then stay put, resisting the urge to trade. Wall Street is rewarded for activity; my shareholders and I are typically rewarded for inactivity.

For similar reasons, I explained in my book that I had stopped speaking with corporate management because these are skilled salespeople who often accentuate the positive and discount the negative. In retrospect, I think that was a mistake. For me, it's mostly beneficial to meet with management, given that they are a critical



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piece of the overall puzzle that I need to understand.

That said, the order in which I gather information matters because the first idea that enters the brain tends to have an outsized impact on our thinking. With this in mind, I try to gather the most objective and unbiased data first (for example, by reading the 10k and 10Q), so I can form my own ideas independently before speaking with management. Once I have a clear understanding of the company, it makes sense to visit its facilities and meet the management. On one occasion, a top executive was unenthusiastic about me visiting his company's new plant: I would have done well to see this as a warning signal. In any case, the key isn't to avoid management but to structure the relationship correctly, so that it adds insight, not noise.

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## 11 | USE A CHECKLIST

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Atul Gawande discusses this subject at length in his excellent book, *The Checklist Manifesto*. Our minds are filled with all sorts of evolutionary quirks that seriously degrade the rational decision-making ability of even the most intelligent investors. I try to counter these tendencies by using checklists.

Before making any investment, I run the idea through a checklist that summarizes as many known investment mistakes as possible — mistakes made in the past either by me or by other money managers. I ask myself whether I might be committing the same mistakes again. Using a checklist as a circuit breaker has prevented me from making a number of bad investments. This method isn't foolproof, but my experience is that it has reduced my error rate dramatically. Most of the work on the checklist was done by my great friend Mohnish Pabrai, and I am deeply grateful to him for the collaboration.

My understanding of the power of checklists continues to grow. In the past, I primarily used a checklist *before* making an investment in order to see what factors I might be missing. More recently, I've also turned my attention to building an "in-flight" checklist to help me monitor growing risks that may be developing within companies that we already own. I believe this process of reappraising companies that we own needs to be done in a regular, formalized manner. Otherwise, there is a

psychological tendency to overlook these mounting risks, particularly in companies that have performed well for us. My in-flight checklist includes questions such as these: has this company we own taken on any new debt, have any of its leverage ratios changed significantly, and has the price of a key raw material changed significantly?

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## 12 | RUB MY NOSE IN MY MISTAKES

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Even with a checklist, I'm still going to make my share of mistakes — partly because investing is hard and the world is complex, and partly because of flaws in my own idiosyncratic wiring. As Sir John Templeton observed, even the best investors are wrong about a third of the time. This is a humbling business, and there are times when I will inevitably look foolish.

When I do make mistakes, I'm committed to admitting them, analyzing them, and learning from them. As Charlie Munger has said: "I like people admitting they were complete stupid horses' asses. I know I'll perform better if I rub my nose in my mistakes. This is a wonderful trick to learn." At the same time, it's not helpful to be paralyzed by regret over mistakes. I need to understand what went wrong, be honest about it, and then move on.

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## 13 | DON'T TALK ABOUT CURRENT INVESTMENTS

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As the psychologist Robert Cialdini explains, we need to be careful about taking public positions. Once we've made a public statement, the "commitment and consistency principle" makes it difficult for us to back away from our position, even if we have come to regret that opinion. With this in mind, I try to avoid walking into the trap of making statements about any stocks that we currently own, since the situation might later change or I might discover that I was wrong. This is why I prefer

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## Investing Principles

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not to discuss our current investments in public settings such as annual meetings, shareholder letters, and media interviews.

Occasionally, I've violated this rule when I thought it was particularly important to be candid with the fund's partners about a particular situation. For example, during the financial crisis, I made it clear that I was finding extraordinary opportunities to buy cheap stocks like Cresud and London Mining. Then, in early 2016, I sent a letter to shareholders to explain my thinking about how we were positioned to take advantage of an unusually turbulent market; I mentioned one company by name and alluded to our investment in two unnamed car companies. One partner in the fund responded by firing off an emotional email telling me that I should stick with "nice staple goods companies" and "rest in peace." I can understand any investor being upset when I've lost some of their hard-earned savings. But discussions like these tend to be counterproductive, creating psychological conditions in which it's harder to make dispassionate decisions. Overall, the fund will do better if I try to exercise my best judgment in a state of quiet, calm detachment.

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## 14 | CONSTRUCT THE RIGHT ENVIRONMENT

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After the financial crisis, I moved from New York to Zurich, where I set about constructing an environment in which I could think and invest more rationally. The goal wasn't to become smarter: it was to build an environment in which my brain wouldn't be subjected to such an extreme barrage of distractions, expectations, greed, envy, and other destabilizing forces that were likely to exacerbate my own irrational tendencies. This reflects my belief that managing the non-rational part of my brain is an integral part of managing my investment portfolio.

It helps me to work in an environment that is serene and even slightly boring. The fact that Zurich is physically detached from Wall Street also makes it easier to think for myself and go against the crowd. It's no coincidence that some of the greatest contrarian value investors located themselves far from Wall Street: Warren Buffett works out of a nondescript office building in Omaha; Sir John Templeton settled in the Bahamas; Seth Klarman works out of an unflashy office in Boston.

As I discussed in my book, I've also tried to tilt the odds of success in my favor by

constructing my immediate work surroundings in ways that encourage me to think and act calmly, instead of reacting impulsively to the short-term movements of the market. My office has a “busy” room with several computer screens; I placed my Bloomberg terminal there on an adjustable-height desk and positioned it so that I’d have to stand to use it – a practical way of ensuring that I wouldn’t spend hours subjecting myself to a fire hose of information that might lead me to act too frequently or too emotionally. Instead, I spend as much time as possible in my library down the hall, where it’s easier to shut out the noise, without any access to flashing screens.

I still believe that it’s extremely helpful to create the right physical environment. But I’ve come to realize that it’s even more important to nurture the right relationships as a means of constructing a stable *emotional* environment. Nothing matters more than having a happy relationship with my wife, my kids, my parents, my closest friends, and my colleagues. They play a crucial role in supporting me during difficult times, and they can also help me to see when my moods might be getting out of kilter. I’m not impervious to the emotional swings of the market. So it’s important to have people in my life who can tell me if I’m at risk of getting overconfident when everything is on the rise or if I’m becoming too fearful and despondent in times of extreme volatility.

There are immeasurable benefits to structuring my life so that the right people are in my inner circle. To cite just one example, Aquamarine’s COO, Mark Chapman, has taken on a formal responsibility for helping me to create better risk-management procedures. Investors often complain about companies that have weak governance. But what about my *own* governance? I’m committed to improving it by ensuring that I have the right people in my environment. Nurturing these relationships is a vital component of building a successful business and a successful life.

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## 15 | DON’T JUST PREDICT RAIN: BUILD AN ARK

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Warren Buffett once quipped: “Predicting rain doesn’t count. Building arks does.” There are various ways in which I’m working to strengthen my investment process to protect the fund from floods. As I mentioned above, part of this is a matter of



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making investments that are counter-cyclical, using checklists to avoid recurring mistakes, building the right relationships, and detaching myself from the mood swings of the market.

As part of the process of registering with Switzerland's Financial Market Supervisory Authority (FINMA), we've also instituted more formal procedures for controlling risk. For example, before buying a stock, I now have to produce a signed document explaining exactly why I'm making the purchase. In addition, we perform a quarterly review within Aquamarine in which we discuss questions such as which companies in the portfolio have taken on more leverage.

This shift towards a more formal structure is helpful in regularly focusing my attention on risk. If I were Buffett, I wouldn't need to keep my errant mind on track by writing out a formal explanation of why I'm buying a particular stock. But for me, the discipline of having to do this is useful because it forces me to think through certain issues that I might otherwise gloss over. Strange as it might sound, I'm actually trying to reduce my own freedom, to restrict my range of motion — not in a way that hobbles me, but in a way that acknowledges how easy it can be for me to miss something. There's so much that I can learn by studying and replicating investors like Buffett and Munger, but my wiring is different. So I have to set up an environment and a process that works for me, helping me to become the best version of myself.

In analyzing companies, there are also important ways of protecting ourselves against certain negative outcomes. For example, it's critical to focus on the worst-case scenario. I need to ask myself unpleasant questions such as what will happen to Berkshire Hathaway if Buffett proves to be mortal, just as I should have asked myself what would happen to Horsehead Holdings if the price of zinc were to halve. I didn't have a game plan for that eventuality. This was a useful but expensive reminder that I need to rehearse such moves before taking them.

Another insurance policy against mistakes in analyzing individual companies is to look more carefully at the quality of earnings — a focus that has largely fallen out of fashion. It's not just a matter of judging the *absolute* quality of earnings, but also of recognizing the direction in which they're headed. The question needs to be: is the quality of earnings deteriorating? It's striking that Berkshire Hathaway socks away so much more cash than it reports, whereas many companies dress up their accounts to mask the fact that the business is actually getting weaker. If the quality of earnings is deteriorating, it's a clear sign that I need to take risk off the table.

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# 16 | BE THE LAST MAN STANDING

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One of my overriding concerns should be to assume less risk than others. I need to look carefully at where everyone else is on the risk curve and then make sure that I'm not going out as far on it as they are. That way, when floods do occur, we shouldn't suffer as badly and should be in a better position than others to act opportunistically. My in-flight checklist can help on this front by specifying that, whatever I'm doing, I need to make sure that I'm doing less of it than other people. Berkshire Hathaway takes this approach to insurance by maintaining about ten times more capital than anyone else and resisting the temptation to underwrite too much risk. Buffett has structured the company in such a way that, in extremis, he's the last man standing. This must be a defining characteristic of my own investing approach.

Buffett once remarked: "When you build a bridge, you insist it can carry 30,000 pounds, but you only drive 10,000 pound trucks across it. And that same principle works in investing." But how can I establish the appropriate margin of safety when I don't know what's going to roll across my bridge? I can imagine what's going to roll across it, but I can't be precise about it. What I *can* do is to make sure that my bridge is better than, say, 99% of all the other bridges. That way, I'll be in the least-worst situation if things go wrong — and I should be able to make hay when other people's bridges begin to break.

To put it another way, I may still be left holding the bag, but I'll be holding less of it than anyone else. This is a simple but hugely important concept. If I can successfully execute on this idea — not least, by reducing risk when many other investors are assuming risk in an increasingly complacent manner — it will make a tremendous difference to the fund over the coming decades.

There's a part of my personality that yearns to operate like an engineer, gauging with absolute precision how much risk is out there. But it's impossible to get absolute measures of risk. So, it's more useful to measure in relative terms where I stand compared to everyone else. My question should be: "Is the environment fearful or greedy, and where do I stand on that spectrum?" When the environment is greedy, my objective is to be less greedy than everyone else.

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## 17 | KEEP LIFE SIMPLE

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Occasionally, we can find ourselves in extreme situations where there's a risk of becoming emotionally flooded — where the stress is so intense that the mind virtually shuts down and we feel temporarily unable to make smart decisions. One aspect of building an ark is to set up my life in such a way that I have a good deal of emotional resilience to draw upon if extreme circumstances arise. It helps to invest real effort in building a happy family life. It also helps to have no debt and to live within my means. I believe it's also important to keep my life simple.

It's tempting to take on too much in times when all is well, acting on the assumption that the economy will keep expanding and our own fortunes will keep growing. We also assume that we will be able to handle the volatility when it comes. But it's worth acknowledging that it might be accompanied by other factors that could push us beyond what we can handle. In a perfect storm, an investor might simultaneously be faced with a market meltdown, marital problems, multiple businesses to run, health concerns, philanthropic obligations, and financial pressure to lay people off. The details are unpredictable. But the point is that there can be a negative lollapalooza in which multiple pressures occur simultaneously. I'm wary of taking on too much during the good times — of overreaching or overcomplicating my life. Having one fund to run is hard enough.

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## 18 | EMBRACE ADVERSITY

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Adversity in investing, as in life, is a certainty. The writings of Marcus Aurelius taught me that the real question is how we handle this adversity when we eventually encounter it. Amid the turmoil of the financial crisis, his writings were a constant companion, teaching me that until adversity comes along, our virtues are theoretical.

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It is only when we actually have to act courageously, honestly and with forthrightness that we get to prove that we have those virtues in reality, instead of merely aspiring to have them. We would all prefer not to deal with adversity. But if and when it comes, it's an important opportunity. As much as possible, I need to embrace it.

It helps to have powerful role models. For example, Sir Ernest Shackleton succeeded in getting all of his men home safely from the Antarctic – despite horrendous conditions and his own grievous misjudgments and mistakes. Misjudgments and mistakes, like adversity, are inevitable. If I handle them the way that Shackleton did on his great voyage, we will be much better off.

Likewise, Thomas Edison made a virtue of his setbacks, famously stating: “I have not failed 700 times. I’ve succeeded in proving 700 ways how not to build a light bulb.” Nobody likes to fail, any more than they like to be tested by adversity. But people who learn their lessons, who pick themselves up and keep going, have earned the right to consider themselves truly successful.

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# FINANCIAL STATEMENTS

## Aquamarine Master Fund, L.P.

(A BRITISH VIRGIN ISLANDS INTERNATIONAL LIMITED PARTNERSHIP)

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## INDEPENDENT AUDITORS' REPORT

To the General Partner and Limited Partners of

### **Aquamarine Master Fund, L.P.**

We have audited the accompanying financial statements of Aquamarine Master Fund, L.P. (the "Master Fund"), which comprise the statement of assets and liabilities, including the condensed schedule of investments as of December 31, 2015, and the related statements of operations, changes in partners' capital and cash flows for the year then ended (all expressed in United States dollars), and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Master Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Master Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aquamarine Master Fund, L.P. as of December 31, 2015, and the results of its operations, its changes in partners' capital and its cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte Ltd.*

March 18, 2016

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## Aquamarine Master Fund, L.P.

**STATEMENT OF ASSETS AND LIABILITIES***At December 31, 2015 (Expressed in United States dollars)*

	<b>Notes</b>	
<b>ASSETS</b>		
Investments in securities, at fair value (cost: \$105,538,932)	4, 5	\$146,214,137
Due from brokers		17,399,465
<b>Total assets</b>		<b><u>163,613,602</u></b>
<b>LIABILITIES</b>		
Capital withdrawals payable		1,434
Due to related parties	7	2,306,870
Accrued tax payable		147,787
Accrued expenses and other payables		97,071
<b>Total liabilities</b>		<b><u>2,553,162</u></b>
<b>PARTNERS' CAPITAL</b>	<b>6</b>	<b><u>\$161,060,440</u></b>

See notes to the financial statements

## Aquamarine Master Fund, L.P.

**CONDENSED SCHEDULE OF INVESTMENTS***For the year ended December 31, 2015 (Expressed in United States dollars)*

Principal Amount of Shares	Description	Percentage of Partners' Capital	Fair Value
<b>INVESTMENTS IN SECURITIES, AT FAIR VALUE</b>			
<b>COMMON STOCKS</b>			
<b>United States of America</b>			
	Commercial Services	3.97%	\$6,401,420
	Consumer Finance		
590,000	Bank of America Corp.(cost: \$4,043,820)	6.17	9,929,700
	Other	7.29	11,736,900
	<b>Total Consumer Finance</b>	<b><u>13.46</u></b>	<b><u>\$21,666,600</u></b>
	Diversified Financial Services		
272,430	American Express Company (cost: \$14,480,546)	11.76	18,947,507
	Insurance		
140,600	Berkshire Hathaway Inc. Class B (cost: \$10,112,100)	11.53	18,564,824
30	Berkshire Hathaway Inc. Class A (cost: \$3,269,700)	3.68	5,934,000
	<b>Total Insurance</b>	<b><u>15.21</u></b>	<b><u>\$24,498,824</u></b>
	Mining	1.68	2,706,000
	Pipelines	0.01	10,850
	<b>Total United States, (cost: \$53,608,710)</b>	<b><u>46.09%</u></b>	<b><u>\$74,231,201</u></b>

See notes to the financial statements

Principal Amount of Shares	Description	Percentage of Partners' Capital	Fair Value
<b>INVESTMENTS IN SECURITIES, AT FAIR VALUE (continued)</b>			
<b>COMMON STOCKS (continued)</b>			
	<b>Brazil</b>		
	Commercial Services, (cost \$3,944,141)	1.58%	\$2,543,611
	<b>China</b>		
1,550,000	Auto Manufacturers, Byd Co 'H'Cny1 (cost: \$4,986,800)	5.30%	\$8,529,230
	Beverages	0.15	241,985
	<b>Total China, (cost: \$5,213,273)</b>	<b><u>5.45%</u></b>	<b><u>\$ 8,771,215</u></b>
	<b>Italy</b>		
2,000,000	Auto Manufacturers, Fiat Chrysler Automobiles N.V., (cost: \$9,979,267)	17.42%	\$28,051,904
	<b>Jordan</b>		
	Mining, (cost: \$919,302)	0.19%	\$308,560
	<b>Singapore</b>		
	Commercial Services, (cost: \$5,486,852)	0.38%	\$608,192
	<b>Switzerland</b>		
	Food		
110,000	Nestlé S.A., (cost: \$4,282,277)	5.08%	\$8,184,132
	<b>Zimbabwe</b>		
	Building Materials, (cost: \$2,342)	0.00%	\$ -
	<b>TOTAL COMMON STOCKS, AT FAIR VALUE (cost: \$83,436,164)</b>	<b><u>76.19%</u></b>	<b><u>\$122,698,815</u></b>

See notes to the financial statements

## Aquamarine Master Fund, L.P.

**CONDENSED SCHEDULE OF INVESTMENTS**

For the year ended December 31, 2015 (Expressed in United States dollars)

Principal Amount of Shares	Description	Percentage of Partners' Capital	Fair Value
INVESTMENTS IN SECURITIES, AT FAIR VALUE (continued)			
AMERICAN DEPOSITORY RECEIPT (ADR)			
	<b>Egypt</b>		
	Diversified financial services, (cost: \$1,346,060)	0.30%	\$479,601
	<b>South Korea</b>		
	Iron/Steel, (cost: \$5,124,604)	1.54%	\$2,475,200
	<b>Switzerland</b>		
	Food, (cost: \$80,781)	0.10%	\$154,421
	<b>TOTAL AMERICAN DEPOSITORY RECEIPT (ADR), AT FAIR VALUE (cost: \$6,551,445)</b>	<b><u>1.94%</u></b>	<b><u>\$3,109,222</u></b>
WARRANTS			
	<b>United States of America</b>		
	Auto Manufacturers		
1,000,000	General Motors Co 07/2019 Call 18.33, (cost: \$13,405,433)	10.12%	16,294,200
	Consumer Finance	2.56	4,111,900
	<b>Total United States, (cost: \$15,551,323)</b>	<b><u>12.68%</u></b>	<b><u>\$20,406,100</u></b>
	<b>TOTAL WARRANTS, AT FAIR VALUE (cost: \$15,551,323)</b>	<b><u>12.68%</u></b>	<b><u>\$20,406,100</u></b>
	<b>TOTAL INVESTMENTS IN SECURITIES, AT FAIR VALUE (cost: \$105,538,932)</b>	<b><u>90.81%</u></b>	<b><u>\$146,214,137</u></b>

See notes to the financial statements

## Aquamarine Master Fund, L.P.

**STATEMENT OF OPERATIONS***For the year ended December 31, 2015 (Expressed in United States dollars)*

	<b>Notes</b>	
<b>INVESTMENT INCOME</b>		
Dividends (net of withholding taxes of \$289,645)		\$851,616
		<u>851,616</u>
<b>EXPENSES</b>		
Management fee	7	2,042,113
Administration fee	8	203,762
Brokerage and bank expenses		92,668
Professional fees		60,786
Other expenses		9,923
Interest		6,021
		<u>2,415,273</u>
<b>NET INVESTMENT LOSS</b>		<u>(1,563,657)</u>
<b>NET REALIZED GAIN AND NET CHANGE IN UNREALIZED APPRECIATION FROM INVESTMENTS AND FOREIGN CURRENCIES:</b>		
Net realized gain from:		
Investments in securities		2,240,788
Foreign currency transactions		37,776
		<u>2,278,564</u>
Net change in unrealized depreciation:		
Investments in securities	4, 5	(28,667,894)
Foreign currency transactions		(2,841,106)
		<u>(31,509,000)</u>
<b>NET REALIZED GAIN AND NET CHANGE IN UNREALIZED DEPRECIATION FROM INVESTMENTS AND FOREIGN CURRENCIES</b>		<u>(29,230,436)</u>
<b>NET DECREASE IN PARTNERS' CAPITAL RESULTING FROM OPERATIONS</b>		<u>\$ (30,794,093)</u>

See notes to the financial statements

## Aquamarine Master Fund, L.P.

### STATEMENT OF CHANGES IN PARTNERS' CAPITAL

For the year ended December 31, 2015 (Expressed in United States dollars)

	General Partner	Special Limited Partner	Limited Partners	Total
PARTNERS' CAPITAL, DECEMBER 31, 2014	\$ -	\$11,013,527	\$175,582,440	\$186,595,967
INCREASE/(DECREASE) IN PARTNERS' CAPITAL:				
<i>From operations</i>				
Net decrease in partners' capital	-	(1,662,022)	(29,132,071)	(30,794,093)
Incentive allocation	1,434	8,127	(9,561)	-
<i>From capital transactions</i>				
Capital contributions	-	-	11,129,331	11,129,331
Capital withdrawals	(1,434)	-	(5,869,331)	(5,870,765)
PARTNERS' CAPITAL, DECEMBER 31, 2015	<u>\$ -</u>	<u>\$9,359,632</u>	<u>\$151,700,808</u>	<u>\$161,060,440</u>

See notes to the financial statements

## Aquamarine Master Fund, L.P.

**STATEMENT OF CASH FLOWS***For the year ended December 31, 2015 (Expressed in United States dollars)*

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**CASH FLOW PROVIDED BY/(USED IN):****OPERATING ACTIVITIES:**

Net decrease in partners' capital from operations	\$(30,794,093)
Adjustments to reconcile net decrease in partners' capital resulting from operations to net cash used in operating activities:	
Net realized gain from investments	(2,240,788)
Net change in unrealized depreciation on investments	31,667,523
Payments for investments purchased	(11,784,700)
Proceeds from investments sold	10,060,810
Decrease in accrued tax payable	(307,663)
Increase in due from brokers	(1,844,485)
Decrease in due to related parties	(6,397)
Increase in accrued expenses and other payables	21,812
<b>Net cash used in operating activities</b>	<b><u>(5,227,981)</u></b>

**FINANCING ACTIVITIES**

Capital contributions received	11,129,331
Capital withdrawals paid, net of changes in capital withdrawals payable	(5,901,350)
<b>Net cash provided by financing activities</b>	<b><u>5,227,981</u></b>

NET CHANGE IN CASH AND CASH EQUIVALENTS -

CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR -

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CASH AND CASH EQUIVALENTS, END OF THE YEAR \$ -

See notes to the financial statements

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2015 (Expressed in United States dollars)*

#### 1. ORGANIZATION AND BUSINESS ACTIVITY

Aquamarine Master Fund, L.P. (the “Master Fund”) was formed as an International Limited Partnership in the Territory of the British Virgin Islands (“BVI”) on February 7, 2007 in accordance with the Partnership Act, 1996, and commenced trading on April 1, 2007. The Master Fund is also registered under the BVI Securities and Investment Business Act 2010, as a “professional” mutual fund.

The Master Fund operates under a “master/feeder” structure where its investors invest substantially all of their investable assets in the Master Fund. The Master Fund’s feeders are Aquamarine Fund, Inc., a BVI Business Company (the “Offshore Feeder”), and Aquamarine Value Fund, L.P., a Delaware Limited Partnership (the “Onshore Feeder”), (collectively the “Feeder Funds”).

The investment objective of the Master Fund is to compound wealth for investors over the long term. Entirely consistent with this goal is a strict focus on the potential downside for any investment. Conceptually, the objective is to “double” investors’ wealth several times over the course of a lifetime. Practically, this translates into the goal of outperforming most equity indices by 5-15% annually.

Aquamarine Capital Management, LLC (the “Investment Manager”), a New York limited liability company serves as the investment manager to the Master Fund and is responsible for certain administrative and investment advisory services for the Master Fund. The Investment Manager is a registered adviser with the Security Exchange Commission (“SEC”) and its principal decision maker is Guy Spier.

Aquamarine Zürich AG (the “Asset Manager”), a Swiss company limited by shares, which is affiliated to the Investment Manager through common ownership, is sub-contracted by the Investment Manager to provide asset management services in Switzerland to the Master Fund. On September 21, 2015 the Swiss Financial Market Supervisory Authority (“FINMA”) granted the Asset Manager a license as an Asset Manager for Collective Investment Schemes.

The General Partner of the Master Fund, Aquamarine GP Ltd., (the “Master Fund GP”) and the Special Limited Partner of the Master Fund (the “Special LP”) are not affiliates of the Investment Manager nor the Asset Manager.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and are stated in the United States (“US”) dollars. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

##### Investment Company

The Fund is considered an investment company pursuant to Accounting Standards Update No. 2013-08, Financial Services - Investment Companies (Topic 946): Amendments to the

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Scope, Measurement and Disclosure Requirements ("ASU 2013-08"), and therefore follows the accounting and reporting guidance for investment companies.

#### Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and the differences could be material.

#### Investments valuation

The Master Fund values its investments in accordance with Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820") which defines fair value, establishes a framework for measuring value, and requires certain disclosures about fair value measurements.

Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. See note 4, Fair Value Measurements for further discussion relating to the Master Fund's investments.

Securities listed on national securities exchanges are valued at their last sales price on the day of valuation. If no sales occurred on that day, such securities shall be valued at the last closing bid prices for investments if held long and their last closing asked prices for securities sold short. If no bid or asked prices are quoted on such date, the security shall be fair valued by certain methods as the Investment Manager shall determine in good faith to reflect its fair market value. The change in unrealized appreciation on investments in securities is reflected in the statement of operations.

#### Geographical and industry classifications

The geographical and industry classifications included in the condensed schedule of investments represent the Investment Manager's belief as to the most meaningful presentation of the classification of the Master Fund's investments.

#### Derivative financial instruments

The Master Fund enters into derivative financial instruments such as warrants. Derivative financial instruments are recorded at fair value at the reporting date. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the statement of operations as they arise. See Note 5 for quantitative and qualitative disclosures on the Master Fund's derivative financial instruments.

#### Securities sold short

The Master Fund engages in short sales as part of its investment strategy. A short sale is a transaction in which the Master Fund sells a security it does not own. The proceeds received for a short sale are recorded as a liability and the Master Fund records an unrealized gain or loss to the extent of the difference between the proceeds received and the fair value at the reporting date of the open short position. The Master Fund records a realized gain or loss when the short

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

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position is closed out. By entering into short sales, the Master Fund bears the market risk of an unfavorable change in the price of the security sold short in excess of the proceeds received. While the transaction is open, the Master Fund will also incur an expense for any dividends and/or interest which will be paid to the lender of the securities.

#### Fair value of financial instruments

The fair value of the Master Fund's assets and liabilities which qualify as financial instruments under ASC 825, Financial Instruments: Disclosure about Fair Value of Financial Instruments, approximates the carrying amounts presented in the statement of assets and liabilities.

#### Cash and cash equivalents

The Master Fund considers cash at bank, short-term deposits and other short-term highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

#### Due from brokers

Due from brokers includes cash, foreign cash and margin balances with the Master Fund's clearing brokers. The Master Fund receives interest on cash balances and pays interest on margin debit balances as determined by the brokers based on market rates. The cash at brokers may partially relate to securities sold short and its use may be therefore restricted until securities are purchased to cover the outstanding short position.

#### Capital withdrawals payable

The Master Fund recognizes capital withdrawals payable in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"). Capital withdrawals are recognized as liabilities when the amount requested in the capital withdrawal notice becomes fixed.

Prior to December 31, 2015, the Master Fund received redemption notices to be paid after year end but based on December 31, 2015 capital balances. Within the context of ASC 480, such capital withdrawal notices represent an unconditional obligation of the Master Fund at December 31, 2015. The liability to such partners is presented in the statement of assets and liabilities as "capital withdrawals payable".

#### Revenue and expense recognition

The Master Fund records its transactions in securities, including short sale of securities, on a trade date basis. Realized gains and losses on investment transactions are determined based on the first in, first out cost basis. Interest income is recorded on the accrual basis. Dividend income is recognized on the ex-dividend date and is recorded net of withholding taxes, where applicable. Interest expense and other operating expenses are recorded on the accrual basis.

#### Foreign currency

Investment in securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into US dollar amounts on the respective dates of such transactions.

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The Master Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments in the statement of operations.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Master Fund's books and the US dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gain and loss arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal year end, resulting from changes in exchange rates.

#### Income taxes

Under the current laws of the BVI, the Master Fund is not subject to income taxes. The Master Fund intends to conduct its affairs such that it will not be subject to taxation in any jurisdiction, other than withholding taxes on investment income and capital gains, where applicable.

The Master Fund reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.

In determining the major tax jurisdictions, the Master Fund considers where it is organized and where it makes investments. The Master Fund's US Federal and state tax returns for 2011 to 2014 remain open for examination by tax authorities and tax positions associated with foreign tax jurisdictions remain subject to examination based on varying statutes of limitations.

Based on its review, the Master Fund has determined that ASC 740, *Income Taxes* ("ASC 740") has a potential tax liability and therefore provision for income taxes was recorded. The accrued tax payable balance in the statement of assets and liabilities is a provision for the potential tax liability of 15% "on-exchange" tax upon disposal of Brazilian equities.

The Master Fund is not aware of any other tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months. The determination of income taxes is based on complex analyses of many factors, including matters that are subject to interpretation.

Individual partners of the Onshore Feeder, General Partner and Special Limited Partner of the Master Fund are taxed on their proportionate share of the Master Fund's income.

#### Recent accounting pronouncements

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which contains limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The new standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2015 (Expressed in United States dollars)*

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instruments. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2018. Management has reviewed the requirements of ASU 2016-01 and is currently evaluating the impact on the financial statements of the Master Fund.

#### 3. DUE FROM BROKERS

The “Due from brokers” balance in the statement of assets and liabilities includes the net cash and cash equivalents due from brokers at December 31, 2015. This amount includes cash denominated in foreign currencies with a fair value of \$2,178,348 (cost \$2,482,048) at December 31, 2015.

#### 4. FAIR VALUE MEASUREMENT

The Master Fund selects an appropriate valuation technique for the market conditions and for which sufficient, reliable data inputs are available. The Master Fund distinguishes between inputs that are based on market data obtained from independent sources and inputs that reflect assumptions from one market participant as to actions of other market participants and emphasizes those valuation inputs based on market data. A determination of what constitutes “observable market data” requires significant judgment.

Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Inputs to valuation techniques used by the Master Fund to determine the fair value of an asset or a liability are prioritized based upon a hierarchy, which gives priority to observable inputs in the marketplace that are more objective, rather than inputs that are more subjective because they have been derived through extrapolation or interpolation from market data. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following describes the three levels of the fair value hierarchy, provides general characteristics and examples of measurement inputs associated with each hierarchical level as well as valuation techniques used by the Master Fund for components of its financial instrument inventory.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level 1** Inputs are unadjusted quoted prices in active markets that are accessible at the measurement date for identical and unrestricted assets or liabilities. The types of investments included in Level 1 are exchange traded equities and derivatives. Level 1 investments are primarily securities that are listed or traded on a national or global exchange.

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Level 2 Inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs and may include:

- Quoted prices in markets that are not considered to be active for identical or similar assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are observable or can be corroborated by observable market data, or price quotations vary substantially either over time or among market makers (e.g., some brokered markets), or in which little information is released publicly (e.g., a principal-to-principal market)
- Inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
- Inputs that are derived principally from or corroborated by observable market data through correlation or by other means (market-corroborated inputs)

Level 3 Inputs that are inputs both significant to the fair value measurement and unobservable, including inputs that are not derived from market data or cannot be corroborated by market data. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 inputs reflect the Master Fund's assumptions that it believes market participants would use in pricing the asset or liability.

Level 3 inputs are based on the best information available in the circumstances, which may include indirect correlation to a market value, combinations of market values or proprietary data.

At December 31, 2015, all of the Master Fund's investments were valued using Level 1 inputs.

## 5. DERIVATIVE FINANCIAL INSTRUMENTS

The Master Fund may trade in derivative financial instruments with off-balance sheet risk in the normal course of its investing activities. These derivative financial instruments may involve, to a varying degree, elements of risk in excess of the amounts recognized for financial statement purposes. The notional or contractual amounts of these instruments represent the investment the Master Fund has in particular classes of financial instruments and does not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered.

ASC 815, *Derivatives and Hedging* ("ASC 815") is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Master Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Master Fund's statements of assets and liabilities, operations and cash flows.

The value of a warrant has two components: time value and intrinsic value. A warrant has a limited life and expires on a certain date. As the expiration date of a warrant approaches, the

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

time value of a warrant will decline. In addition, if the stock underlying the warrant declines in price, the intrinsic value of an “in the money” warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result, there is the potential for the Master Fund to lose its entire investment in a warrant.

Master Fund traded warrants in equity securities which were listed on a major stock exchange. The warrants are reported in investment in securities at fair value in the statement of assets and liabilities with the resulting net unrealized gains and losses in investment in securities reflected in the statement of operations. Any gains and losses realized from the purchase and sale of these securities were computed on a first-in, first-out basis.

The following table identifies the fair value amounts of derivative instruments included in the Statement of assets and liabilities as well as in the Condensed schedule of investments, categorized by primary underlying risk.

The following table also identifies the net realized gain/(loss) and net unrealized appreciation/(depreciation) amounts included in investment in securities in the Statement of operations, categorized by primary underlying risk

#### Fair value of derivative Instruments as of December 31, 2015

Underlying Risk Type	Statement of Assets and Liabilities Location	Derivative Assets	Derivative Liabilities
Equity warrants	Investments in securities, at fair value	<u>\$20,406,100</u>	<u>\$ -</u>

#### The effect of derivative instruments on the Statement of Operations for the year ended December 31, 2015

Underlying Risk Type	Amount of realized gains/(losses) on derivatives recognized in income	Change in unrealized appreciation/(depreciation) on derivatives recognized in income
Equity warrants	<u>\$ (40,837)</u>	<u>\$(2,072,037)</u>

As of December 31, 2015, the derivatives held by the Master Fund were not subject to any master netting or similar agreements.

## 6. PARTNERS' CAPITAL

### Capital contributions

The Master Fund GP may admit new limited partners and permit limited partners to make additional capital contributions on the first business day of each calendar month or at any other

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time in the Master Fund GP's sole discretion. The minimum initial and additional contribution to the Master Fund by each investor shall be such minimum as determined by the Master Fund GP from time to time.

#### Capital withdrawals

A limited partner has the right upon five days prior written notice to the Master Fund GP to make a partial or total withdrawal from its capital account as of the last business day of each calendar quarter or such other date as determined by the Master Fund GP.

#### Allocation of net profits and net losses

Net profits or net losses during any fiscal period shall be allocated as of the end of such fiscal period to the capital accounts of all the partners in the proportion that the balance of each partner's capital account as of the beginning of such fiscal period bore to the aggregate of the capital accounts of all the partners as of the beginning of such fiscal period.

#### Special Limited Partner

The Special LP is entitled to receive a portion of the incentive allocation with respect to the Offshore Feeder's capital account in the Master Fund. At December 31, 2015, the Special LP's proportionate interest in the partners' capital of the Master Fund is approximately 5.81%.

## 7. RELATED PARTY TRANSACTIONS AND BALANCES

#### Management fees

Under the terms of an investment management agreement dated April 1, 2007 the Investment Manager has agreed to render investment management services to the Master Fund.

The Investment Manager receives a monthly management fee in arrears of an amount equal to approximately 0.0833% (1% per annum) for applicable non-related party investors and approximately 0.1667% (2% per annum) for related parties, as of the last business day of each calendar month.

Management fee is payable by Class A limited partners of the Onshore Feeder, and Class A/B shareholders of the Offshore Feeder. No management fees are paid by the Special LP, Class B limited partners of the Onshore Feeder and Class C shareholders of the Offshore Feeder. During the financial crisis, in order to ensure that the Investment Manager had the required funds for operations, related parties elected to pay management fee of 2%, regardless of the class in which investments are held. The Investment Manager expects that this arrangement will be terminated in due course.

For the year ended December 31, 2015, the Investment Manager earned \$45,128 from the Onshore Feeder and \$1,996,984 from the Offshore Feeder, of which \$152,522 is payable at the reporting date.

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

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#### Incentive allocation

##### *Offshore Feeder*

Incentive allocation is calculated on the Offshore Feeder in accordance with the confidential information memorandum dated October 1, 2008 as amended in July 2010.

Subject to the “loss recovery account provisions” discussed below, the following amounts will be reallocated (in the aggregate) from the Offshore Feeder’s capital account in the Master Fund collectively to the Master Fund GP’s and Special LP’s capital accounts in the Master Fund:

- (i) at the end of each calendar quarter of the Master Fund, 20% of the Class A/B aggregate net increase, in excess of the Class A/B hurdle return;
- (ii) at the end of each calendar year of the Master Fund, 25% of the Class C aggregate net increase in excess of the Class C hurdle return.

The incentive allocation shall be allocated as follows: 15% will be allocated to the capital account of the Master Fund GP, and 85% will be allocated to the capital account of the Special LP.

Class A/B hurdle return means an amount equal to one percent (1%) of the portion of the Offshore Feeder capital account balance in the Master Fund which is attributable to Class A/B shareholders, calculated as of the beginning of each calendar quarter. The Class A/B hurdle return will be adjusted throughout the applicable period to reflect additional contributions and withdrawals by the Class A/B shareholders of the Offshore Feeder in the Master Fund. The Class A/B hurdle return is cumulative with respect to each quarter during a calendar year but not from year to year.

Class C hurdle return means an amount equal to six percent (6%) of the portion of the Offshore Feeder capital account balance in the Master Fund which is attributable to Class C shareholders, calculated as of the beginning of each calendar year.

The Class C hurdle return will be adjusted throughout the applicable period to reflect additional contributions and withdrawals by the Class C shareholders of the Offshore Feeder in the Master Fund. The Class C hurdle return is non-cumulative with respect to each calendar year.

Under a loss carry forward recovery account, no incentive allocation is made from the sub-capital account of a particular shareholder of the Offshore Feeder until any net loss previously allocated to the sub-capital account of such shareholder has been offset by subsequent net profits. Any such loss carry forward will be subject to reduction for redemptions on a pro rata basis.

Incentive allocation shall be credited as of the end of the performance period to the capital account of the Master Fund GP and Special LP. The Master Fund GP and Special LP may, at their sole discretion, waive or reduce the incentive allocation with respect to any shareholder.

For the year ended December 31, 2015, \$8,127 and \$1,434 were allocated from the Offshore Fund to the Special LP and the Master Fund GP respectively.

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*Onshore Feeder*

Incentive allocation is calculated on the Onshore Feeder in accordance with the amended and restated confidential private placement memorandum dated January 1, 2008.

Subject to the “loss recovery account provisions” discussed below, the following amounts will be reallocated (in the aggregate) from the Onshore Feeder’s capital account in the Master Fund to the Master Fund GP’s capital account in the Master Fund:

- (i) at the end of each calendar quarter, 20% of the Class A aggregate net increase, in excess of the Class A hurdle return;
- (ii) at the end of each calendar year of the Master Fund, 25% of the Class B aggregate net increase in excess of the Class B hurdle return.

Class A hurdle return means an amount equal to one percent (1%) of the portion of the Onshore Feeder’s capital account balance in the Master Fund which is attributable to Class A limited partners, as of the beginning of each calendar quarter. The Class A hurdle return will be adjusted throughout the applicable period to reflect additional capital contributions and withdrawals by the Class A limited partners in the Master Fund. The Class A hurdle return is cumulative with respect to each quarter during a calendar year but not from year to year.

Class B hurdle return means an amount equal to six percent (6%) of the portion of the Onshore Feeder’s capital account balance in the Master Fund which is attributable to Class B limited partners, calculated as of the beginning of each calendar year. The Class B hurdle return will be adjusted throughout the applicable period to reflect additional capital contributions and withdrawals by the Class B limited partners in the Master Fund. The Class B hurdle return is non-cumulative with respect to each calendar year.

Under a loss carry forward recovery account, no incentive allocation is made from the sub-capital account of a limited partner of the Onshore Feeder until any net loss previously allocated to the sub-capital account of such limited partner has been offset by subsequent net profits. Any such loss carry forward will be subject to reduction for withdrawals on a pro rata basis.

Incentive allocation shall be credited as of the end of the performance period to the capital account of the Master Fund GP. The Master Fund GP may, at its sole discretion, waive or reduce the incentive allocation with respect to any partners. For the year ended December 31, 2015, there was no incentive allocation made to the Master Fund GP from the Onshore Feeder.

Related party balances

A summary of the related party balances at the reporting date is as follows:

Due to Investment Manager	\$ 152,522
Due to General Partner	\$ 2,154,348
	<u>\$ 2,306,870</u>

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2015 (Expressed in United States dollars)*

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#### 8. ADMINISTRATION AGREEMENT

The Master Fund and the Feeder Funds entered into an administration agreement with Prime Management Limited (the “Administrator”) a subsidiary of SS&C Globe Op for the provision of certain accounting, administrative and investor services. The Master Fund pays the Administrator an annual fee calculated and payable on a monthly basis. The fee is calculated based on certain percentages of the partners’ capital of the Master Fund at the beginning of each month and is subject to a monthly minimum of \$5,000.

For the year ended December 31, 2015, total administration fees of \$203,762 were incurred of which \$19,676 was payable at the reporting date.

#### 9. RISK FACTORS

Investment in the Master Fund involves significant risk factors and is suitable only for persons who can bear the economic risk of the loss of their investment, who have limited need for liquidity in their investment and who meet the conditions set forth in the private placement memorandum. There can be no assurances that the Master Fund will achieve its investment objective.

Investment in the Master Fund carries with it the inherent risks associated with investments in securities, as well as additional risks including, but not limited to, the following:

##### Short sales

The Master Fund’s investment portfolio includes short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in the price of a particular security. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Master Fund of buying those securities necessary to cover the short position.

There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of securities to rise further, thereby exacerbating the loss. As a result, short sales create the risk that the Master Fund’s ultimate obligation to satisfy the delivery requirements may exceed the amount of the proceeds initially received or the liability recorded in the statement of assets and liabilities.

The Master Fund had no short sales during the year ended December 31, 2015.

##### Borrowings and leverage

The Master Fund may utilize leverage in its investment program by entering into short sales, options and other similar techniques.

The concept of leverage is based on the premise that the Master Fund’s cost of borrowing will be at rates that normally will be lower than the rate of return earned on the longer term investments it holds.

While the use of leverage may increase the returns on capital invested in the Master Fund, the use of leverage also increases the risk of loss of such capital, because the claims of lenders on assets and income of the Master Fund will be senior to the claims of the investors.

#### Financial instruments and associated risks

The Master Fund maintains active trading positions in a variety of derivative and non-derivative instruments as directed by its investment management strategy. The investing activities of the Master Fund expose it to various types of risk, which are associated with the financial instruments and markets in which it invests. Such risks include, but are not limited to, market risk, credit risk and liquidity risk.

#### Market risk

Market risk is the risk that future changes in equity and commodity prices, interest rates and foreign exchange rates may make an instrument less valuable or more onerous. Market risk includes price risk, interest rate risk and currency risk. All investments held are subject to market risk, are recognized at fair value, and all changes in market condition directly affect net increase/decrease in partners' capital resulting from operations.

The Master Fund manages its exposure to market risk in accordance with risk management principles set by the Investment Manager for buying or selling instruments.

*Price risk* – The Master Fund is exposed to market risk on financial instruments that are valued at market prices. Specifically, a risk exists that the ultimate selling price of such financial instruments may differ from their estimated fair values at December 31, 2015.

*Interest rate risk* – Certain of the Master Fund's financial assets and liabilities are interest bearing and as a result the Master Fund is subject to risk due to fluctuations in the prevailing levels of market interest rates.

*Currency risk* – The functional currency of the Master Fund is the US dollar. The Master Fund invests in financial instruments denominated in currencies other than its functional currency. Consequently, the Master Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of the portion of the Master Fund's assets or liabilities denominated in currencies other than US dollars.

#### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Master Fund. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

Substantially all financial instruments are cleared through and held in custody primarily by two major international institutions. The Master Fund is subject to credit risk to the extent that these institutions may be unable to fulfill their obligations either to return the Master Fund's securities or repay amounts owed.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Master Fund seeks to conduct business with counterparties of good credit standing.

## Aquamarine Master Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

#### Liquidity risk

Liquidity risk is the risk that the Master Fund may have difficulty in liquidating its positions due to existing or unforeseen market constraints. The Master Fund's financial instruments may include investments that are traded over-the-counter, which are not traded in an organized public market and may generally be illiquid. As a result, the Master Fund may not be able to quickly liquidate investments or to respond to specific events such as deterioration in the credit worthiness of any particular issuer.

At December 31, 2015, the Master Fund's listed securities are considered to be readily realizable as they are listed on major United States and international stock exchanges.

These risks are monitored on an ongoing basis and the composition of the portfolio is amended accordingly while adhering to the investment guidelines set forth in the Master Fund's confidential information memorandum.

#### 10. FINANCIAL HIGHLIGHTS

The following financial highlights are calculated for the limited partners taken as a whole and exclude data for the Master Fund GP and Special LP.

Individual limited partner's returns will vary due to the timing of capital contributions and withdrawals, different management fees and incentive allocation arrangements.

##### Total return

Total return before incentive allocation	(16.12)%
Incentive allocation	-
Total return after incentive allocation	<u>(16.12)%</u>

##### Ratio to average limited partners' capital\*

Operating expenses before incentive allocation	1.45%
Incentive allocation	0.01
Operative expenses after incentive allocation	<u>1.46%</u>
Net investment loss before incentive allocation	<u>0.97%</u>

\*Ratios of operating expenses and net investment loss are computed based on the monthly average of the partners' capital of all limited partners for the year.

#### 11. SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring through March 18, 2016, the date that these financial statements were available for issue, and found that there were no significant events which would have a material bearing on these financial statements.

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# FINANCIAL STATEMENTS

## Aquamarine Fund, Inc.

(A BRITISH VIRGIN ISLANDS BUSINESS COMPANY)

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of

### **Aquamarine Fund, Inc.**

We have audited the accompanying financial statements of Aquamarine Fund, Inc. (the "Offshore Feeder"), which comprise the statement of assets and liabilities as of December 31, 2015, and the related statements of operations, changes in net assets and cash flows for the year then ended (all expressed in United States dollars), and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Offshore Feeder's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Offshore Feeder's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aquamarine Fund Inc. as of December 31, 2015 and the results of its operations, its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte Ltd.*

March 18, 2016

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## Aquamarine Fund, Inc.

**STATEMENT OF ASSETS AND LIABILITIES***At December 31, 2015 (Expressed in United States dollars)*

	<b>Notes</b>	
<b>ASSETS</b>		
Investments in Aquamarine Master Fund, L.P., at fair value		\$128,415,709
Cash and cash equivalents		1,512,035
<b>Total assets</b>		<b><u>129,927,744</u></b>
<b>LIABILITIES</b>		
Redemptions payable		120,779
Accrued expenses and other payables		20,993
<b>Total liabilities</b>		<b><u>141,772</u></b>
<b>NET ASSETS</b>	<b>3</b>	<b><u>\$129,785,972</u></b>

See notes to the financial statements

## Aquamarine Fund, Inc.

### STATEMENT OF OPERATIONS

For the year ended December 31, 2015 (Expressed in United States dollars)

	Notes	
<b>NET INVESTMENT LOSS ALLOCATED FROM AQUAMARINE MASTER FUND, L.P.</b>		
Income		\$659,427
Expenses	4	(2,304,792)
		<u>(1,645,365)</u>
<b>EXPENSES</b>		
Professional fees		25,115
Administration fee	5	36,675
Office expenses		10,325
Director's fees and expenses		10,000
		<u>82,115</u>
<b>NET INVESTMENT LOSS</b>		<u>(1,727,480)</u>
<b>NET REALIZED GAIN AND NET CHANGE IN UNREALIZED DEPRECIATION ON INVESTMENTS AND FOREIGN CURRENCIES ALLOCATED FROM AQUAMARINE MASTER FUND, L.P.</b>		
Net realized gain on investments and foreign currencies		1,875,016
Net change in unrealized depreciation on investments and foreign currencies		(25,095,873)
<b>NET REALIZED GAIN AND CHANGE IN UNREALIZED DEPRECIATION</b>		<u>(23,220,857)</u>
<b>NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>		<u>\$ (24,948,337)</u>

See notes to the financial statements

## Aquamarine Fund, Inc.

**STATEMENT OF CHANGES IN NET ASSETS***For the year ended December 31, 2015 (Expressed in United States dollars)*

NET ASSETS, DECEMBER 31, 2014	\$152,181,601
INCREASE/(DECREASE) IN NET ASSETS	
<i>From operations</i>	
Net investment loss	(1,727,480)
Net realized gain on investments and foreign currencies	1,875,016
Net change in unrealized depreciation on investments and foreign currencies	(25,095,873)
Net increase in net assets resulting from operations	<u>(24,948,337)</u>
<i>From capital transactions</i>	
Issuance of shares	
Class B Series 2	750,000
Class B Series 3	1,500,000
Class C Series 2	2,500,000
Class C Series 9	596,626
Class C Series 10	83,316
Class C Series 11	1,000,000
Class C Series 12	1,964,331
Class C Series 13	28,266
Class C Series 14	500,000
	<u>8,922,539</u>
Redemption of shares	
Class A Initial Series	(132,104)
Class A Series 1	(2,877,234)
Class B Series 1	(451,910)
Class B Series 2	(596,626)
Class C Series 1	(2,110,501)
Class C Series 3	(201,456)
	<u>(6,369,831)</u>
Net increase in net assets from capital transactions	2,552,708
NET ASSETS, DECEMBER 31, 2015	<u>\$129,785,972</u>

See notes to the financial statements

## Aquamarine Fund, Inc.

### STATEMENT OF CASHFLOWS

For the year ended December 31, 2015 (Expressed in United States dollars)

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#### CASH FLOW PROVIDED BY/(USED IN):

##### OPERATING ACTIVITIES:

Net decrease in net assets from operations	\$(24,948,337)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Net realized gain on investments and foreign currencies allocated from Aquamarine Master Fund, L.P.	(1,875,016)
Net change in unrealized depreciation on investments and foreign currencies allocated from Aquamarine Master Fund, L.P.	25,095,873
Net investment loss allocated from Aquamarine Master Fund, L.P.	1,645,365
Payments for purchases of Aquamarine Master Fund, L.P.	(4,284,356)
Proceeds from sales of Aquamarine Master Fund, L.P.	4,905,000
Increase in accrued expenses and other payables	(14,059)
<b>Net cash provided by operating activities</b>	<b><u>524,470</u></b>

##### FINANCING ACTIVITIES

Proceeds from issuance of shares, net of changes in subscriptions received in advance	6,422,539
Payments on redemption of shares, net of changes in redemptions payable	(8,097,717)
<b>Net cash provided by financing activities</b>	<b><u>(1,675,178)</u></b>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (1,150,708)

**CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR** 2,662,743

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**CASH AND CASH EQUIVALENTS, END OF THE YEAR** **\$1,512,035**

See notes to the financial statements

## Aquamarine Fund, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2015 (Expressed in United States dollars)*

#### 1. ORGANIZATION AND BUSINESS ACTIVITY

Aquamarine Fund, Inc. (the “Offshore Feeder”) was incorporated in the British Virgin Islands on June 26, 1997 under the International Business Companies Act and commenced operations on June 26, 1997. On January 1, 2007, the Offshore Feeder was automatically re-registered under the BVI Business Companies Act, 2004. The Offshore Feeder is also registered under the Securities and Investment Business Act, 2010 as a “professional” mutual fund.

The Offshore Feeder operates under a “master/feeder” structure, where Aquamarine Master Fund, L.P. (the “Master Fund”), a BVI International Limited Partnership, is the master fund. The Offshore Feeder invests substantially all of its investable assets in the Master Fund, together with Aquamarine Value Fund, L.P. (the “Onshore Feeder”), a Delaware Limited Partnership (collectively, the “Feeder Funds”). As at December 31, 2015, the Offshore Feeder’s proportionate interest in the partners’ capital of the Master Fund is approximately 80%.

The investment objective of the Offshore Feeder is to compound wealth for shareholders over the long term. The Offshore Feeder intends to achieve its investment objectives through its investment in the Master Fund, which has the same investment objectives as the Offshore Feeder.

Aquamarine Capital Management, LLC (the “Investment Manager”), a New York limited liability company serves as the investment manager to the Offshore and Onshore Feeder Funds and the Master Fund and is responsible for certain administrative and investment advisory services for the Feeder Funds and the Master Fund. The Investment Manager is a registered adviser with the Security Exchange Commission (“SEC”) and its principal decision maker is Guy Spier.

Aquamarine Zürich AG (the “Asset Manager”), a Swiss company limited by shares, which is affiliated to the Investment Manager through common ownership, is sub-contracted by the Investment Manager to provide asset management services in Switzerland to the Master Fund. On September 21, 2015 the Swiss Financial Market Supervisory Authority (“FINMA”) granted the Asset Manager a license as an Asset Manager for Collective Investment Schemes.

The General Partner of the Master Fund, Aquamarine GP Ltd., (the “Master Fund GP”) and the Special Limited Partner of the Master Fund (the “Special LP”) are not affiliates of the Investment Manager nor the Asset Manager.

The performance of the Offshore Feeder is directly affected by the performance of the Master Fund. The Master Fund utilizes the services of the Investment Manager to invest the assets of the Offshore Feeder, together with the assets of the Onshore Feeder.

The financial statements of the Master Fund, including the condensed schedule of investments, are included at the end of this report and should be read in conjunction with the Offshore Feeder’s financial statements.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and are stated in United States (“US”) dollars. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

## Aquamarine Fund, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

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#### Investment Company

The Offshore Feeder is considered an investment company pursuant to Accounting Standards Update No. 2013-08, Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements ("ASU 2013-08"), and therefore follows the accounting and reporting guidance for investment companies.

#### Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and the differences could be material.

#### Valuation of investment in the Master Fund

The Offshore Feeder records its investment in the Master Fund at fair value based on its respective percentage of the Master Fund's partners' capital. Valuation of securities held by the Master Fund is disclosed in Note 2 of the Master Fund's notes to the financial statements (the "Master Fund's Notes").

ASC 820, *Fair Value Measurement and Disclosures* ("ASC 820") defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. Additional disclosures due to the impact of ASC 820 on the Offshore Feeder's underlying investments held within the Master Fund are included in Note 4 of the Master Fund's Notes.

#### Cash and cash equivalents

The Offshore Feeder classifies cash at bank, and short-term deposits with original maturities of three months or less as cash and cash equivalents.

#### Revenue and expense recognition

The Offshore Feeder records its proportionate share of the Master Fund's income, expenses, and realized and unrealized gains and losses. The Master Fund's income and expenses recognition policies and allocation are discussed in Note 2 of the Master Fund's Notes.

Income and expenses that are directly attributable to the Offshore Feeder are recorded on the accrual basis as incurred.

#### Redemptions payable

The Offshore Feeder recognizes redemptions payable in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"). Redemptions are recognized as liabilities when the amount requested in the redemption notice becomes fixed. Prior to December 31, 2015, the Offshore Feeder received redemption notices to be paid after year end but based on December 31, 2015 net asset value. Within the context of ASC 480, such redemption notices represent an unconditional obligation of the Offshore Feeder at December 31, 2015. The liability to such shareholders is presented in the statement of assets and liabilities as "redemptions payable".

#### Foreign currency

The books and records of the Offshore Feeder and the Master Fund are maintained in US dollars. The foreign currency translation policy is discussed in Note 2 of the Master Fund's Notes.

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### Income taxes

Under current BVI law, the Offshore Feeder is not required to pay taxes in BVI on either income or capital gains. Accordingly, no provision for taxation has been made in these financial statements for the Offshore Feeder. The Offshore Feeder intends to conduct its affairs such that it will not be subject to taxation in any jurisdiction, other than withholding taxes on investment income and capital gains allocated from the Master Fund, where applicable.

The Offshore Feeder reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. In determining the major tax jurisdictions, the Offshore Feeder considers where it is organized and where it makes investments. The Offshore Feeder is filing a protective return in the United States. The tax returns for 2012 to 2015 remain open for examination by tax authorities. Tax positions associated with foreign tax jurisdictions remain subject to examination based on varying statutes of limitations. The Offshore Feeder is also not aware of any other tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months. The determination of income taxes is based on complex analyses of many factors, including matters that are subject to interpretation.

### 3. SHARE CAPITAL

#### Authorized share capital of the Offshore Feeder

As of April 1, 2007, the Offshore Feeder no longer offers Class A shares. Instead, the Offshore Feeder offers the Class B shares, which have the same rights, privileges and terms as the Class A shares, except for the terms of redemption as noted below. As of January 1, 2008, the Offshore Feeder offers Class C shares.

The authorized capital of the Offshore Feeder is \$100,000 and consists of 1,000 voting non-participating, non-redeemable shares of par value \$0.01 each (the “Ordinary shares”) and 9,999,000 non-voting, participating redeemable shares of par value \$0.01 each (the “Participating shares”). The authorized capital of the Offshore Feeder may be divided into different classes with varying rights attached to each class. The Participating shares are divided into Class A, Class B and Class C Participating shares (respectively, the “Class A shares”, the “Class B shares”, the “Class C shares”, each a “Class” collectively, the “Shares”).

The Ordinary shares of the Offshore Feeder are held by the Master Fund Special LP (the “Special LP”). The Articles of Association of the Offshore Feeder empowers the Board of Directors (the “Board”) to create different classes of shares.

The Shares are issued in series with a new series being issued on each date that the Offshore Feeder permits subscription for shares. The series are issued consecutively per class (i.e. commencing with A1, B1, C1 etc.). Each of the outstanding series of shares participates rateably with all other outstanding series of the same class in the Offshore Feeder’s fees, expenses, assets and earnings with respect to such series.

The Shares are issued in various series to reflect equitably the differing incentive allocation attributable to each series.

At the end of each quarter or year as applicable, all series that do not have a loss carry forward available to them will be converted into the initial series of the applicable class of Participating shares unless the initial series has a loss carry forward, then the next available series that does

## Aquamarine Fund, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

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not have a loss carry forward shall be used in its place. Certain series may not be subject to the conversion at the discretion of the Board of Directors.

#### Issued share capital

##### *Ordinary shares*

1,000 shares at \$0.01 par value issued and fully paid.

##### *Participating shares*

18,246.04 Class A shares at a \$0.01 par value issued and fully paid.

13,086.57 Class B shares at a \$0.01 par value issued and fully paid.

22,137.70 Class C shares at a \$0.01 par value issued and fully paid.

#### Dividends and distribution

It is anticipated that the Offshore Feeder will not declare any dividends or make any distributions to its shareholders.

#### Subscriptions

Shares may generally be subscribed to on the first business day of each month by giving two days written notice, or such other days approved by the Board of Directors in its sole discretion. The initial purchase price per share for each series of shares is \$1,000. The minimum initial subscription for shareholders in the Offshore Feeder is \$500,000 for Class A/B shares and \$1,000,000 for Class C shares. These amounts are subject to reduction at the discretion of the Board of Directors.

#### Redemptions

Shares will be redeemed at the redemption price equal to such shares' net asset value (the "NAV") as of the close of business on the redemption date.

Class A shareholders have the right upon 20 days prior written notice to request a partial or total redemption of its Class A shares as of the last business day of each calendar month or such other day as determined by the Board of Directors.

Class B shareholders have the right upon 60 days prior written notice to request a partial or total redemption of its Class B shares as of the last business day of each calendar quarter or such other date as determined by the Board of Directors.

Class A and B shareholders are subject to a redemption fee of five percent (5%) of the redemption proceeds for redemptions made by a shareholder within the first six months after each subscription. A redemption fee of two percent (2%) will be charged for redemptions made by a Class A and B shareholder, occurring any time following the first six months and preceding the 12-month anniversary of each subscription. The Board of Directors may, in its sole discretion, waive or reduce the redemption fees.

Class C shareholders have the right upon 60 days prior written notice to request a partial or total redemption of its Class C shares as of the last business day of the calendar month on which the Class C lock-up period (defined below) expires, and thereafter, on the last business day of the calendar month on each 12-month anniversary of the expiration of the Class C lock-up period, or such other date as determined by the Board of Directors.

A shareholder may not redeem any series of its Class C shares until the expiration of the 12-month period following the purchase of such series of Class C shares, (the Class C lock-up period), without the prior written consent of the Board of Directors.

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### Allocation of net profits and losses

As the Offshore Feeder is made up of more than one class and series of shares, the NAV per share of each class and series is calculated by determining that part of the NAV of the Offshore Feeder attributable to each class and series and dividing this value by the number of shares of that class and series in issue and rounding the result to two decimal places. Any increase or decrease in the NAV of the Offshore Feeder will be allocated between the classes and series based on their pro rata NAVs at the previous valuation date adjusted for any subscriptions and redemptions in the relevant period.

### Net asset value per share

The following table summarizes the shares outstanding, the NAV per share and the net asset value for each class of shares and series at the reporting date.

	Net asset value \$	Number of shares	Net asset value per share \$
Ordinary shares	<u>1,000</u>	<u>1,000.00</u>	1.00
<b>Participating shares</b>			
<b>Class A</b>			
Class A Initial Series	10,514,491	2,207.07	4,764.00
Class A Series 1	71,966,292	16,038.97	4,486.96
	<u>82,480,783</u>	<u>18,246.04</u>	
<b>Class B</b>			
Series 1	7,175,455	4,946.57	1,450.59
Series 2	126,539	150.00	843.59
Series 3	1,257,162	1,500.00	838.11
Series 9	8,572,727	6,490.00	1,320.91
	<u>17,131,883</u>	<u>13,086.57</u>	
<b>Class C</b>			
Series 1	20,190,461	10,990.69	1,837.04
Series 2	2,120,809	2,500.00	848.32
Series 3	172,195	200.00	860.97
Series 4	1,755,598	2,000.00	877.80
Series 5	850,945	1,000.00	850.94
Series 6	856,829	1,000.00	856.83
Series 7	82,152	100.00	821.52
Series 8	141,507	171.10	827.05
Series 9	510,391	600.00	850.65
Series 10	71,215	83.32	854.75
Series 11	884,635	1,000.00	884.64
Series 12	2,022,479	1,964.33	1,029.60
Series 13	26,978	28.27	954.43
Series 14	486,112	500.00	972.22
	<u>30,172,306</u>	<u>22,137.70</u>	

## Aquamarine Fund, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

#### Share transaction summary

	Shares outstanding January 1, 2015	Shares converted during the year	Shares issued/ transferred during the year	Shares redeemed/ transferred during the year	Shares outstanding December 31, 2015
Class A Initial Series	2,231.51	-	-	(24.44)	2,207.07
Class A Series 1	16,588.97	-	-	(550.00)	16,038.97
Class B Series 1	5,215.33	-	-	(268.76)	4,946.57
Class B Series 2	-	-	750.00	(600.00)	150.00
Class B Series 3	-	-	1,500.00	-	1,500.00
Class B Series 9	6,490.00	-	-	-	6,490.00
Class C Series 1	11,926.97	50.20	-	(986.48)	10,990.69
Class C Series 2	100.00	(100.00)	2,500.00	-	2,500.00
Class C Series 3	400.00	-	-	(200.00)	200.00
Class C Series 4	2,000.00	-	-	-	2,000.00
Class C Series 5	1,000.00	-	-	-	1,000.00
Class C Series 6	1,000.00	-	-	-	1,000.00
Class C Series 7	100.00	-	-	-	100.00
Class C Series 8	171.10	-	-	-	171.10
Class C Series 9	-	-	600.00	-	600.00
Class C Series 10	-	-	83.32	-	83.32
Class C Series 11	-	-	1,000.00	-	1,000.00
Class C Series 12	-	-	1,964.33	-	1,964.33
Class C Series 13	-	-	28.27	-	28.27
Class C Series 14	-	-	500.00	-	500.00

#### 4. RELATED PARTY TRANSACTIONS AND BALANCES

##### Management fees

The Offshore Feeder, as a limited partner in the Master Fund, pays a monthly management fee to the Investment Manager who provides the Offshore Feeder with continuous supervision of the Master Fund's assets, including the composition of its portfolio and furnishes advice and recommendations with respect to investments, investment policies and the purchase and sales of investments in securities and derivatives.

Management fee due to the Investment Manager is recorded in the financial statements of the Master Fund. The amount has been charged to each of the Feeder Funds' capital accounts in the Master Fund. Management fee is discussed in Note 7 of the Master Fund's Notes.

For the year ended December 31, 2015, a total management fee of \$1,996,984 was incurred and \$150,364 is payable at the reporting date by the Master Fund for the Offshore Feeder. The fee is included in the expenses allocated from the Master Fund in the statement of operations.

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### Incentive allocation

Incentive allocation to the Master Fund GP and the Special LP are recorded in the financial statements of the Master Fund. The amount is allocated to each of the Feeder Funds' capital accounts in the Master Fund. Incentive allocation is discussed in Note 7 of the Master Fund's Notes.

For the year ended December 31, 2015, the incentive allocations to the Master Fund GP and the Special LP from the Offshore Feeder were \$1,434 and \$8,127 respectively.

### Share capital

The Offshore Feeder has related party shareholders inclusive of the Special LP. The shareholdings of these related parties total \$82,078,296 and represent approximately 63% of net assets at the reporting date.

## 5. ADMINISTRATION AGREEMENT

The Master Fund and the Feeder Funds entered into an administration agreement with Prime Management Limited (the "Administrator") a subsidiary of SS&C GlobeOp for the provision of certain accounting, administrative and investor services.

## 6. RISKS FACTORS

Due to the nature of the "master/feeder" structure, the Offshore Feeder may be materially affected by the risk factors affecting the Master Fund as discussed in Note 9 of the Master Fund's Notes.

## 7. FINANCIAL HIGHLIGHTS

The per share operating performance, total return and ratios to average net assets are calculated for the initial series of each share class. An individual investor's per share operating performance, total return and ratios to average net assets may vary from these amounts and ratios based on different management fee and incentive allocation arrangements and the timing and amount of capital transactions.

## Aquamarine Fund, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2015 (Expressed in United States dollars)

The following represents the per share information, total return and ratios to average net assets and other supplemental information for the year ended December 31, 2015:

Per share operating performance	Class A Initial Series	Class B Series 1	Class C Series 1
Net asset value, beginning of the year	\$5,672.23	\$1,727.15	\$2,165.50
Income from investment operations			
Net investment loss	(41.94)	(12.77)	3.99
Net realized and unrealized gain from investments	(866.30)	(263.79)	(332.44)
Total gain from investment operations	(908.24)	(276.56)	(328.45)
Net asset value, end of the year	<u>\$4,763.99</u>	<u>\$1,450.59</u>	<u>\$1,837.05</u>
Total return before incentive fee	(16.01)%	(16.01)%	(15.17)%
Incentive fee	-	-	-
Total return after incentive fee	<u>(16.01)%</u>	<u>(16.01)%</u>	<u>(15.17)%</u>
Ratios to average net assets *			
Operating expenses before incentive fee	1.25%	1.25%	0.27%
Incentive fee	-	-	-
Operating expenses after incentive fee	<u>1.25%</u>	<u>1.25%</u>	<u>0.27%</u>
Net investment income/(loss) before incentive fee	<u>(0.79)%</u>	<u>(0.79)%</u>	<u>(0.20)%</u>

\* The ratios are computed based upon the weighted average net assets of shares as a whole throughout the year.

#### 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring through March 18, 2016, the date that these financial statements were available for issue.

Subsequent to year end, the Offshore Feeder received subscriptions of \$250,000 and redemptions of \$4,056. There were no other material events subsequent to year end which require disclosure.

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# FINANCIAL STATEMENTS

## Aquamarine Value Fund, L.P.

(A DELAWARE LIMITED PARTNERSHIP)

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## INDEPENDENT AUDITORS' REPORT

To the General Partner and Limited Partners of

### **Aquamarine Value Fund, L.P.**

We have audited the accompanying financial statements of Aquamarine Value Fund, L.P. (the "Onshore Feeder") which comprise the statement of assets and liabilities of as of December 31, 2015, and the related statements of operations, changes in partners' capital and cash flows for the year then ended (all expressed in United States dollars), and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Onshore Feeder's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Onshore Feeder's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aquamarine Value Fund, L.P. as of December 31, 2015, and the results of its operations, its changes in partners' capital and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte Ltd.*

March 18, 2016

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## Aquamarine Value Fund, L.P.

### STATEMENT OF ASSETS AND LIABILITIES

*At December 31, 2015 (Expressed in United States dollars)*

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<b>ASSETS</b>	
Investments in Aquamarine Master Fund, L.P., at fair value	\$23,285,099
Cash and cash equivalents	1,989,597
<b>Total assets</b>	<b><u>25,274,696</u></b>
<b>LIABILITIES</b>	
Capital withdrawals payable	916,718
Accrued expenses and other payables	28,870
<b>Total liabilities</b>	<b><u>945,588</u></b>
<b>PARTNERS' CAPITAL</b>	<b><u>\$24,329,108</u></b>

See notes to the financial statements

See notes to the financial statements

## Aquamarine Value Fund, L.P.

### STATEMENT OF OPERATIONS

For the year ended December 31, 2015 (Expressed in United States dollars)

	Notes	
<b>NET INVESTMENT LOSS ALLOCATED FROM AQUAMARINE MASTER FUND, L.P.</b>		
Income		\$144,415
Expenses	4	(98,515)
		<u>45,900</u>
<b>EXPENSES</b>		
Administration fee	5	35,375
Professional fees		21,874
Other expenses		4,660
		<u>61,909</u>
<b>NET INVESTMENT LOSS</b>		<u>(16,009)</u>
<b>NET REALIZED GAIN AND NET CHANGE IN UNREALIZED DEPRECIATION ON INVESTMENTS AND FOREIGN CURRENCIES ALLOCATED FROM AQUAMARINE MASTER FUND, L.P.</b>		
Net realized gain on investments and foreign currencies		271,189
Net change in unrealized depreciation on investments and foreign currencies		(4,592,525)
		<u>(4,321,336)</u>
<b>NET REALIZED GAIN AND CHANGE IN UNREALIZED DEPRECIATION</b>		<u>(4,321,336)</u>
<b>NET DECREASE IN PARTNERS' CAPITAL RESULTING FROM OPERATIONS</b>		<u>\$(4,337,345)</u>

See notes to the financial statements

## Aquamarine Value Fund, L.P.

## STATEMENT OF CHANGES IN PARTNERS' CAPITAL

At December 31, 2015 (Expressed in United States dollars)

	General Partners	Limited Partners	Total
PARTNERS' CAPITAL, DECEMBER 31, 2014	\$307,802	\$21,338,699	\$21,646,501
INCREASE IN PARTNERS' CAPITAL:			
<i>From operations</i>			
Net increase in partners' capital	(57,992)	(4,279,353)	(4,337,345)
<i>From capital transactions</i>			
Capital contributions	-	8,901,000	8,901,000
Capital withdrawals	(249,810)	(1,631,238)	(1,881,048)
PARTNERS' CAPITAL, DECEMBER 31, 2015	<u>\$ -</u>	<u>\$24,329,108</u>	<u>\$24,329,108</u>

See notes to the financial statements

## Aquamarine Value Fund, L.P.

### STATEMENT OF CASH FLOWS

For the year ended December 31, 2015 (Expressed in United States dollars)

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#### CASH FLOW PROVIDED BY/(USED IN):

##### OPERATING ACTIVITIES:

Net decrease in partners' capital from operations	\$(4,337,345)
Adjustments to reconcile net decrease in partners' capital resulting from operations to net cash used in operating activities:	
Net realized gain from investments allocated from Aquamarine Master Fund, L.P.	(271,189)
Net change in unrealized depreciation on investments allocated from Aquamarine Master Fund, L.P.	4,592,525
Net investment loss allocated from Aquamarine Master Fund, L.P.	(45,900)
Payments for purchases of Aquamarine Master Fund, L.P.	(6,845,000)
Proceeds from sales of Aquamarine Master Fund, L.P.	964,330
Decrease in accrued expenses and other payables	(6,449)
<b>Net cash used in operating activities</b>	<b><u>(5,949,028)</u></b>

##### FINANCING ACTIVITIES

Capital contributions received	6,701,000
Capital withdrawals paid, net of changes in capital withdrawals payable	(964,331)
<b>Net cash provided by financing activities</b>	<b><u>5,736,669</u></b>

NET DECREASE IN CASH AND CASH EQUIVALENTS (212,359)

CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR 2,201,956

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CASH AND CASH EQUIVALENTS, END OF THE YEAR **\$1,989,597**

See notes to the financial statements

## Aquamarine Value Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2015 (Expressed in United States dollars)*

#### 1. ORGANIZATION AND BUSINESS ACTIVITY

Aquamarine Value Fund, L.P. (the “Onshore Feeder”) was organized as a Delaware Limited Partnership on March 15, 2001 and commenced operations on April 26, 2001.

The Onshore Feeder operates under a “master/feeder” structure, where Aquamarine Master Fund, L.P. (the “Master Fund”), a British Virgin Islands (“BVI”) International Limited Partnership, is the master fund. The Onshore Feeder invests substantially all of its investable assets in the Master Fund, together with Aquamarine Fund, Inc. (the “Offshore Feeder”) a BVI Business Company (collectively, the “Feeder Funds”). At December 31, 2015, the Onshore Feeder’s proportionate interest in the partners’ capital of the Master Fund is approximately 14%.

The investment objective of the Onshore Feeder is to compound wealth for limited partners over the long term. The Onshore Feeder intends to achieve its investment objectives through its investment in the Master Fund, which has the same investment objectives as the Onshore Feeder.

Aquamarine Capital Management, LLC (the “General Partner”), a New York limited liability company is the general partner of the Onshore Feeder, serves as the investment manager to the Offshore Feeder and the Master Fund and is responsible for certain administrative and investment advisory services for the Feeder Funds and the Master Fund. The General Partner is a registered adviser with the Security Exchange Commission (“SEC”) and its principal decision maker is Guy Spier.

Aquamarine Zürich AG (the “Asset Manager”), a Swiss company limited by shares, which is affiliated to the General Partner through common ownership, is sub-contracted by the General Partner to provide asset management services in Switzerland to the Master Fund. On September 21, 2015 the Swiss Financial Market Supervisory Authority (“FINMA”) granted the Asset Manager a license as an Asset Manager for Collective Investment Schemes.

The general partner of the Master Fund, Aquamarine GP Ltd., (the “Master Fund GP”) and the Special Limited Partner of the Master Fund (the “Special LP”) are not affiliates of the General Partner nor the Asset Manager.

The performance of the Onshore Feeder is directly affected by the performance of the Master Fund. The Master Fund utilizes the services of the General Partner to invest the assets of the Onshore Feeder, together with the assets of the Offshore Feeder.

The financial statements of the Master Fund, including the condensed schedule of investments, are included at the end of this report and should be read in conjunction with the Onshore Feeder’s financial statements.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Basis of preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and are stated in the United States (“U.S.”) dollars. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

##### Investment Company

The Onshore Feeder is considered an investment company pursuant to Accounting Standards Update No. 2013-08, Financial Services - Investment Companies (Topic 946): Amendments to the

## Aquamarine Value Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014 (Expressed in United States dollars)

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Scope, Measurement and Disclosure Requirements ("ASU 2013-08"), and therefore follows the accounting and reporting guidance for investment companies.

#### Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and the differences could be material.

#### Valuation of investment in the Master Fund

The Onshore Feeder records its investment in the Master Fund at fair value based on its respective percentage of the Master Fund's partners' capital. Valuation of securities held by the Master Fund is disclosed in Note 2 of the Master Fund's notes to the financial statements (the "Master Fund's Notes").

ASC 820, *Fair Value Measurement and Disclosure* ("ASC 820") defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. Additional disclosures due to the impact of ASC 820 on the Onshore Feeder's underlying investments held within the Master Fund are included in Note 4 of the Master Fund's Notes.

#### Cash and cash equivalents

The Onshore Feeder classifies cash at bank and short-term deposits with original maturities of three months or less as cash and cash equivalents.

#### Revenue and expense recognition

The Onshore Feeder records its proportionate share of the Master Fund's income, expenses, and realized and unrealized gains and losses. The Master Fund's income and expenses recognition policies and allocation are discussed in Note 2 of the Master Fund's Notes.

Income and expenses that are directly attributable to the Onshore Feeder are recorded on the accrual basis as incurred.

#### Capital withdrawals payable

The Onshore Feeder recognizes capital withdrawals payable in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"). Capital withdrawals are recognized as liabilities when the amount requested in the capital withdrawals notice becomes fixed. Prior to December 31, 2015, the Onshore Feeder received capital withdrawal notices to be paid after year end but based on December 31, 2015 partners' capital balances. Within the context of ASC 480, such capital withdrawal notices represent an unconditional obligation of the Onshore Feeder at December 31, 2015. The liability to such partners is presented in the statement of assets and liabilities as "capital withdrawals payable".

#### Foreign currency

The books and records of the Onshore Feeder and the Master Fund are maintained in U.S. dollars. The foreign currency translation policy is discussed in Note 2 of the Master Fund's Notes.

#### Income taxes

The Onshore Feeder reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. In

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determining the major tax jurisdictions, the Onshore Feeder considers where it is organized and where it makes investments. The Onshore Feeder's US Federal tax returns for 2012 to 2015 remain open for examination by tax authorities and tax positions associated with foreign tax jurisdictions remain subject to examination based on varying statutes of limitations.

The Onshore Feeder is not aware of any other tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months. The determination of income taxes is based on complex analyses of many factors, including matters that are subject to interpretation.

Individual partners are taxed on their proportionate share of the Onshore Feeder's income.

### 3. PARTNERS' CAPITAL ACCOUNT

The Onshore Feeder is currently offering limited partnership interests ("Interests"), which are defined as partners' share of the partners' capital as reflected in each limited partner's capital account. The Interests are divided into two classes, A and B. The limited partners holding Class A Interests are sometimes referred to herein as "Class A limited partners" and the limited partners holding Class B Interests are sometimes referred to herein as "Class B limited partners".

As of December 31, 2015, there are Class A and Class B Interests for an amount of \$2,521,103 and \$21,808,005 respectively.

#### Capital contributions

The minimum investment in the Onshore Feeder is \$500,000 by each Class A limited partner and \$1,000,000 for each Class B limited partner. The General Partner may in its discretion waive the minimum initial contribution amount with respect to any partner. Following initial investment, a limited partner may make additional investments in amounts of not less than \$50,000, subject to adjustment at the discretion of the General Partner. The General Partner may admit new limited partners and permit limited partners to make additional contributions as of the first business day of each calendar month, or at any other time in the General Partner's sole discretion.

#### Capital withdrawals

Class A limited partners may make a complete or partial withdrawal from their capital accounts as of the last day of each calendar quarter, with 60 days' prior written notice to Prime Management Limited a subsidiary of SS&C GlobeOp (the "Administrator").

A withdrawal fee of five percent (5%) of the withdrawal amount will be charged for withdrawals made by a Class A limited partner within the first six months after each capital contribution, and two percent (2%) for withdrawals occurring any time following the six (6) months and preceding the twelve (12) month anniversary of each capital contribution.

Additionally, the General Partner, in its sole discretion may permit any Class A limited partner to withdraw all or any portion of its capital account on a day other than the last day of a calendar quarter and/or on less than 60 days prior written notice subject to a withdrawal fee of two percent (2%) of the withdrawal proceeds, together with the initial Class A withdrawal fee.

Class B limited partners may make a complete or partial withdrawal from their capital accounts as of the last business day of the calendar month in which the Class B lock-up period (defined below) expires, upon 60 days prior written notice to the Administrator. Thereafter, a class B limited

## Aquamarine Value Fund, L.P.

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended December 31, 2015 (Expressed in United States dollars)*

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partner may make a withdrawal on the last business day of the calendar month for each 12-month anniversary of the expiration of the Class B lock-up period, or such other date as determined by the General Partner.

Class B limited partners may not withdraw any capital contribution (and any appreciation thereon) until the expiration of the 12-month period following the contribution of such capital, (the Class B lock-up period), without the prior written consent of the General Partner.

The General Partner in its sole discretion may waive or reduce the Class B lock-up period and/or the notice period required for withdrawals by Class B limited partners. Class B limited partners are not subject to withdrawal fees.

Each withdrawing limited partner will receive, at the General Partner's sole discretion, at least 90% of its estimated withdrawal amount with the balance payable 30 days after the Onshore Feeder's annual audit. The General Partner may in certain circumstances suspend withdrawals from the capital account of the Onshore Feeder.

#### Allocation of gains/losses and management fees

At the end of each month, the aggregate amount of management fees payable by the Onshore Feeder during such month which are attributable to each Class A limited partner shall be charged to such Class A limited partner's capital account, and any net capital appreciation or depreciation will be allocated to all partners (including the General Partner) based on their proportionate share of the Onshore Feeder's partners' capital for such month.

## 4. RELATED PARTY TRANSACTIONS AND BALANCES

### Management fees

The Onshore Feeder as a limited partner in the Master Fund pays a monthly management fee to the General Partner (as the Investment Manager of the Master Fund). The management fee is calculated solely on the partners' capital of Class A limited partners as of the last business day of each calendar month. The Investment Manager provides the Onshore Feeder with continuous supervision of the Master Fund's assets, including the composition of its portfolio and furnishes advice and recommendations with respect to investments, investment policies and the purchase and sales of investments in securities and derivatives.

Management fee due to the General Partner is recorded in the financial statements of the Master Fund. The amount has been charged to each of the Feeder Funds' capital account in the Master Fund. Management fee is discussed in Note 7 of the Master Fund's Notes.

For the year ended December 31, 2015, a total management fee of \$45,128 was incurred and \$2,158 was payable at the reporting date by the Master Fund for the Onshore Feeder. The fee is included in the expenses allocated from the Master Fund in the statement of operations.

### Incentive allocation

Incentive allocation to the General Partner is recorded in the financial statements of the Master Fund. The amount is allocated to each of the Feeder Funds' capital accounts in the Master Fund. Incentive allocation is discussed in Note 7 of the Master Fund's Notes.

For the year ended December 31, 2015, there was no incentive allocation to the Master Fund GP from the Onshore Feeder.

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### Partners' capital

The Onshore Feeder has no related party partners at the reporting date.

### 5. ADMINISTRATION AGREEMENT

The Master Fund and the Feeder Funds entered into an administration agreement with the Administrator as of April 1, 2007 for the provision of certain accounting, administrative and investor services.

### 6. RISK FACTORS

Due to the nature of the "master/feeder" structure, the Onshore Feeder may be materially affected by the risk factors affecting the Master Fund as discussed in Note 9 of the Master Fund's Notes.

### 7. FINANCIAL HIGHLIGHTS

The following financial highlights are calculated for the limited partners taken as a whole and exclude data for the General Partner.

Individual limited partners' returns will vary due to the timing of contributions and withdrawals, different management fees and incentive allocation arrangements. The incentive allocation is borne by the Master Fund.

#### Total return

Total return before incentive allocation	(14.95)%
Incentive allocation	-
<hr/>	
Total return after incentive allocation	<u>(14.95)%</u>

#### Ratio to average limited partners' capital\*

Operating expenses before incentive allocation	0.61%
Incentive allocation	-
<hr/>	
Operating expenses after incentive allocation	<u>0.61%</u>
Net investment income before incentive allocation	<u>0.06%</u>

\*Ratios of operating expenses and net investment loss are computed based on the monthly average of the partners' capital of all limited partners for the year.

### 8. SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring through March 18, 2016, the date that these financial statements were available for issue.

Subsequent to year end, the Onshore Feeder received contributions totalling \$1,800,000 and had no withdrawals. There were no other material events subsequent to year end which require disclosure.

## Team Aquamarine

**GUY SPIER**, Managing Partner

### OFFICE TEAM

**Orly Hindi**, Investor Relations and  
Chief Compliance Officer, New York

**Lynda Brandt**, Events & Administration, Zurich

**David Jud**, Administrative Assistant

### DIRECTORS

**Simon Spier**, London

**Mark Chapman**, British Virgin Islands

### AUDITOR

**Deloitte Ltd.**, Bermuda

### BROKERS AND CUSTODIANS

**UBS**, Chicago

**Interactive Brokers**, Connecticut

**Credit Suisse**, Zug

**Northern Trust**, Dublin

### GENERAL COUNSEL

**Bratschi Wiederkehr & Buob**, Zurich

**Dentons**, New York

**Appleby**, British Virgin Islands

### TAX, ACCOUNTING AND ADMINISTRATION

**Prime Management Limited**, Bermuda

(Aquamarine Master Fund, L.P.,

Aquamarine Fund, Inc., and

Aquamarine Value Fund, L.P.)

**Michael J. Liccar & Co.**, LLC, Chicago  
(K1's, US Tax accounting)

### **Prime Management Limited/ SS&C GlobeOp**

Lorna Nicolas-Bernier

Jonathan Gazzard

Shawn Jezard

Terry Ewart

Patti Griffin

John Whiley

Melanie Simons

### **Deloitte Ltd.**

Mark Baumgartner

Tia Beckmann

Tonya Guishard

Lennesha Morgan

### **UBS, The Desai Group**

Ajay Desai

Tim Dillow

Randy Bruns

Frank Pellicori

Andrew Lindblom

James Stirling

Melissa J Wilczak

### **Credit Suisse**

Raphael Huber

Stefan Huerzeler

Livio Bühler

### **Bratschi Wiederkehr Buob**

Thomas Iseli

Ingmar Snijders

### **Michael J. Liccar & Co., LLC**

Paul J. Jacobazzi

Becky Busuttil

### **Dentons**

Walter Van Dorn

Curtis Stefanak

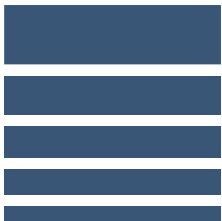
John L. Harrington

### **Appleby, British Virgin Islands**

Nadia Menezes

Chloe Harris

Jeffrey Kirk



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