The following is a translated excerpt from the Zen Capital Family Partnership 2013 Letter:

Apple Inc.

Jan 15, 2014

Sometimes investment opportunities pop up in the most unexpected of places, and sometimes the most obvious opportunity is right in front of you. As you know, we generally focus on smaller companies, but in the past year one of our positive contributors has been a company that needs no further introduction – Apple Inc.

It is important to note that Apple has been one of our five to eight portfolio companies. Several other holdings generated a bigger positive contribution to our earnings than what Apple did. I choose to discuss Apple as it's probably very familiar to all readers.

Now, almost every person has an opinion about Apple. This is no attempt to persuade anyone that Apple was a good investment when we started buying shares, but only an attempt to explain my reasoning. In a case like this it's important to distinguish between what you personally think about Apple and its products from what you think about Apple as an investment opportunity. There can oftentimes be a big difference.

It is difficult to have many unique insights on a company of Apple's size, so what you want to do in cases like this is to buy it when the price is low, which is usually when sentiment around it is overly negative.

Apple has a very loyal customer base, a rapidly growing e-commerce platform and has more recently garnered a stronger grip on the companies that cumulatively have now invested billions in development of iPhone and iPad apps. iOS users spend 4x more money in the AppStore compared to what Android users do on Android Market which make iOS development a more profitable endeavor for app developers. The average iOS user also spends 3x more time online compared to the average Android user which makes iPhone users, and thus sales of iPhones, more lucrative for telecom operators.

Meanwhile, Apple shares are priced as if this was one of Apple's last years in the market. When we started buying shares we paid ~6x free cash flow adjusted for the large cash balance Apple sits on (i.e. an implied ~16.5% annual return). The value of one of the world's three to five strongest brands should be higher than that. How much higher is difficult to say, but as the saying goes: *"You do not need to know a person's weight to know whether he is fat or not".*

The consensus view has been very negative and shifted from concerns that Apple is losing market share to Samsung to how the high-end smartphone market is saturated, and then to concerns about the iPhone 5C being priced too high. In all this clutter it was forgotten that you didn't pay more than 6-8x cash flow for Apple's entire operation, which is widely profitable and growing, plus its strong brand.

At the time of our investment, I had no idea or opinion about whether the new iPhone and iPad models would be well received or not. It was not something that had a big impact on my investment decision. Our investment was based on the big picture and our investment horizon was longer than the next couple of quarters. However, there was good reason to believe that Apple would sign an agreement with China Mobile (CM) sometime in the future. CM has 700 million subscribers, and given that Apple sells around 150 million iPhones in a year, an agreement with CM could have a big impact on Apple's earnings. This agreement came faster than I expected and was announced at the end of the year. It was a nice Christmas present for shareholders and for millions of Chinese that could start ordering iPhone 5s/c on Christmas Day. CM estimates that about 10% of their subscribers are potential iPhone customers.

Another surprise that certainly contributed to the appreciation of the shares during the year was that Carl Icahn - one of the world's most successful investors - announced a very big position in Apple a few months after our purchase and began pressing Apple to use its huge cash pile to repurchase shares. No matter what you think of Icahn and his intentions one must admit that he has a valid point. No company in the world needs $130 billion to stay "flexible" about the future. Unless Apple is about to start acquiring smaller countries or begin drilling for oil in space, there is no reason to sit and brood on such a large surplus.

Here are some Apple facts that maybe are not discussed very frequently in the media:

- Apple's renewal rate on the iPhone is >90%, i.e. 90% of all iPhone owners buy a new iPhone in the future. The corresponding figure for Android has fluctuated between 55-80%.

- Apple takes three customers from Samsung for every customer they lose to Samsung.

- Android has 79% market share in the mobile market, but less than 31% of total web traffic. While Apple's operating system iOS has only 14.2% market share, it has over 55% of total web traffic.

- 96% of all iOS devices (iPhone/iPad) are upgraded to an operating system that has been released by Apple in the past 15 months. The corresponding figure for Android is 1.1%.

With all this said, we would not have bought Apple at 15x cash flow. The valuation is less attractive now than when we started buying shares, but still relatively attractive. The valuation is the cornerstone we always lean against and alternative holdings are evaluated and continuously compared with our existing ones.

Jan 15, 2014 **Daniel Glaser**