

## Berkshire Hathaway – Annual Shareholders Meeting Summary

The 2024 annual shareholders meeting of Berkshire Hathaway was notable for being the first without Charlie Munger, who passed away in November 2023. This year, prominent attendees included Tim Cook, Bill Gates, and even comedian actor Bill Murray. The meeting offered insight into the company's future under its new leadership, Greg Abel and Ajit Jain.

Greg Abel will take a more active role in managing Berkshire's operating businesses and its capital allocation strategy. Warren Buffett remarked, "I would leave the capital allocation to Greg. He understands businesses extremely well, and if you understand businesses, you understand common stocks." Ajit Jain, who serves as a vice chairman and heads the insurance operations, is also a key figure in this transition.

One key point from the meeting is that Warren Buffett rarely takes calls from operating managers anymore; these now go directly to Greg or Ajit. This shift highlights the gradual transition to a Berkshire Hathaway without Buffett at the helm.

### Leadership Transition & Succession Planning

The 2024 meeting provided more clarity on Berkshire Hathaway's succession plans. With Warren Buffett acknowledging the limitations of his tenure and Greg Abel set to take over, investors gained valuable insights into the company's future. Greg Abel will manage both non-insurance businesses and the capital allocation strategy. The passing of Charlie Munger seems to have focused Warren Buffett on preparing for the future, and this year's meeting offered more details on what investors can expect. Greg Abel will take on a more active role in investment management than previously expected.

Todd Combs and Ted Weschler, who currently manage about 10% of Berkshire's equity portfolio, are expected to eventually oversee the entire portfolio. Although Buffett hasn't commented on their performance since 2019, he noted that they had slightly lagged the market up to that point. In summary, Buffett has built a strong succession plan with Greg Abel and Ajit Jain at the helm, which should help maintain investor confidence.

### Valuation Insights

The intrinsic value of Berkshire stock has not changed much in the past quarter, but with a lower share price and clearer future prospects, we believe Berkshire stock is back in Buy territory.

## The Thinking Man's Approach



May 2024 | Series #102

Ignacio Pakciarz | CEO

- Charlie Munger's passing appears to have focused Warren Buffett on succession planning.
- Greg Abel will manage Berkshire's operating businesses & capital allocation; Ajit Jain continues leading insurance operations.
- Todd Combs and Ted Weschler, currently managing about 10% of Berkshire's equity portfolio, are expected to eventually oversee the entire portfolio.
- BRK Class A shares rose 11% year-to-date as of May 3, 2024, outperforming the S&P 500's 8% gain. BRK's investment performance has nearly doubled the market's return over 59 years.
- Following the annual shareholder meeting, it was revealed that Berkshire purchased a 6% stake in Chubb worth nearly \$7 billion.
- We don't anticipate Buffett's passing to significantly impact the stock. The breakup value provides a support floor for price downside, while potential spin-offs and dividends could boost the stock.

For more on how we are positioning our portfolios, please contact your investment advisor or [ideas@bigsurpartners.com](mailto:ideas@bigsurpartners.com)



Berkshire's book value rose to about \$398,000 per Class A share. The stock trades for about 1.5 times its March 31st book value, slightly above the past few years' range of around 1.4 times book value. BRK Class A shares closed on May 3, 2024, at \$603,000 per share, up 11% year-to-date, outperforming the S&P 500's 8% gain. However, the shares are down from a late February peak of \$647,000. BRK is the 7th largest member of the S&P 500 index.

Buffett considers book value a significantly understated measure of the company's intrinsic value but does not disclose his estimate. Some analysts believe the intrinsic value is close to \$700,000 per Class A share. The stock is currently valued at about 22 times estimated 2024 earnings.

### Apple Holding Overview

Berkshire's Apple stake is now worth \$165 billion, compared to a cost of around \$30 billion. The position was reduced to \$135.4 billion as of March 31, 2024, from \$174.3 billion as of December 31, 2023. Buffett mentioned he "did not mind at all" raising cash in the current market environment.

Berkshire paid an average of about \$35 per share for Apple, with most purchases between 2016 and 2018. Apple now accounts for over 40% of Berkshire's equity portfolio of about \$380 billion. Buffett also didn't mind paying a 21% corporate tax on the capital gain, expecting higher future tax rates. He expressed concern about the US government fiscal deficit, a sentiment we at BigSur Partners share.

### Post-Buffett Outlook

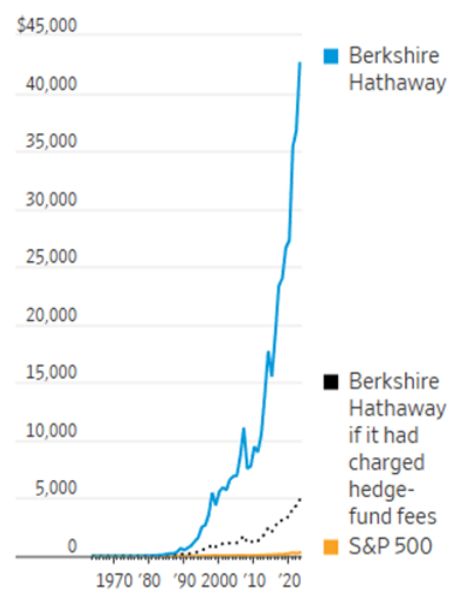
We believe Buffett's passing will not significantly impact the stock price. The break-up value of Berkshire's conglomerate provides a support floor, and potential spin-offs offer upside. The probability of introducing a dividend could also increase, potentially boosting the stock.

However, it's worth mentioning that Buffett's will instructs that the majority of his wife's inheritance be invested in a low-cost S&P 500 index fund, rather than in Berkshire stock, suggesting no major change in Berkshire's dividend policy post-Buffett.

Since our investment in BRK at BigSur Partners, we view it as "the best hedge fund manager in the world" with no management or performance fees. Unlike hedge funds with high fees, Berkshire's structure has driven its superior performance. If Buffett had charged conventional hedge fund fees, investors would have earned only about 10% of their actual gains, and Buffett himself would be much wealthier.

Berkshire's investment performance has nearly doubled the market's return over 59 years. A hypothetical hedge fund version of Buffett with 2%/20% fees would have also beaten the market, but by far less. AQR Capital Management's analysis shows that while the S&P 500 compounded at 10.2% annually and Berkshire at 19.8% annually, a fee-charging version would have returned between 13.6% and 15.9% annually.

Cumulative value of \$1 invested in early 1965



Source: AQR Capital Management



## Q1 2024 Performance Summary

Berkshire's operating profits rose 39% after taxes in the first quarter to a record \$11.2 billion, driven by strength in its property and casualty insurance business and higher investment income. The quarterly earnings included a \$2.6 billion underwriting profit at Berkshire's insurance businesses, up from \$911 million a year earlier. Investment income rose to \$2.6 billion from \$2 billion, reflecting higher short-term rates and cash balances.

Berkshire's cash balances grew to a record \$189 billion as of March 31st, up from \$167.7 billion on December 31, 2023. Higher Q1 profits were driven by a turnaround at Geico, Berkshire's large auto insurance unit, which is the No. 3 auto insurer in the US behind State Farm and Progressive.

Subsequent to the annual shareholder meeting, Berkshire's purchase of a 6% stake in Chubb worth almost \$7 billion was revealed. The news of Berkshire's stake in Chubb, accumulated from the third quarter of 2023 through the first quarter of this year, had been kept confidential for two quarters. This has generated some speculation that Berkshire might seek to purchase all of the big global property and casualty insurer, as it would be complementary to its existing insurance business portfolio.

We believe two of the biggest drivers of Berkshire's continued outperformance and why we continue to see it as a long-term holding are:

1. The company's insurance operations generate low-cost float, which can be invested for further growth. Float refers to the amount of money an insurance company holds from premiums paid by customers that has not yet been paid out in claims. At the end of 2023, this float exceeded \$147 billion.
2. Its wholly-owned subsidiaries in various industries create a diversified stream of cash flows. Industries like insurance, railroads, energy, manufacturing, and retail create a diversified stream of cash flows. This decentralized structure creates synergies and advantages that increase Berkshire's value beyond just the sum of its parts.

## Conclusion

Berkshire Hathaway's leadership and investment approach are expected to remain consistent with Buffett's principles after his passing. With a solid succession plan in place, we believe the company will maintain its value and investor confidence. At the current share price, we see value in being long-term investors, despite possible short-term volatility following Buffett's passing.

Berkshire's break-up value and \$380 billion PE portfolio provide a valuation floor and upside potential. Our main question is whether Greg Abel's operational skills will translate into effective capital allocation. Buffett and Munger had this ability, and Buffett expressed confidence that Abel's strong business acumen will enable him to make sound investment decisions for Berkshire.



## Important Disclosures and Disclaimers

This material is distributed for informational purposes only and intended solely for BigSur Wealth Management, LLC ("BigSur" or the "Adviser") clientele and or other parties to whom BigSur chooses to share such information. The discussions and opinions in this document (or "report") are intended for general informational purposes only, and are not intended to provide investment advice and there is no guarantee that the opinions expressed herein will be valid beyond the date of this document. While taken from sources deemed to be accurate, BigSur makes no representations regarding the accuracy of the information in this document and certain information is based on third-party sources (e.g. Bloomberg, Factset, Wall Street Journal) believed to be reliable, but has not been independently verified and its accuracy or completeness cannot be guaranteed. Any asset allocation proposals described herein are based on proprietary ratings and categorizations which involve varying levels of subjective analysis and interpretation. The asset allocation breakdown is intended to be a summary of BigSur's view on each asset class and its risk components which includes various factors including, but not limited to: market conditions and trends, correlation of securities, volatility, interest rate and issuer risk.

This article is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation, and the particular needs of any specific investor. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. Any strategies referenced BigSur believes may present opportunities for appreciation over the subsequent time periods. BigSur closely monitors securities discussed and client portfolios and may make changes when warranted as a result of evolving market conditions. There can be no assurance that any investment strategies and/or performance included or referenced in the article will remain the same and investment strategies, philosophies, and allocation are subject to change without prior notice. Any specific securities or companies identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that any investments in securities and/or sectors identified and discussed were or will be profitable. BigSur may change its views on these securities at any time. There is no guarantee that, should market conditions repeat, these securities will perform in the same way in the future. Any performance illustrations shown herein have not been audited and may reflect the reinvestment of dividends, interest and other earnings. Any performance and return illustrations have not been independently verified or audited by BigSur. Returns may be estimated and may not reflect actual performance. Further, past performance and returns may be subject to revision. BigSur does not undertake to update this information, and the results discussed may change without notice.

There are many factors that an investor should be aware of when trading options which can impact their overall performance such as market volatility, interest rates, and time horizon. Investors should only engage in options trading that is best suited to their financial condition and option experience. There is the potential to lose your entire investment in options as well as suffer unlimited downside loss. The options strategy outlined in this commentary only reflects BigSur's opinion and is subject to change at any time. Before trading options, you should understand these risks and carefully review and read the booklet entitled "Characteristics and Risks of Standardized Options" which is available at [www.theocc.com](http://www.theocc.com). BigSur can provide you a copy of this booklet as well.

Please also note that this commentary is not investment research or considered a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. In discussion of any strategy, results and risks are based solely on assumptions and hypothetical examples. Actual results, performance and risks will vary depending on specific circumstances. You are urged to consider carefully whether such services in general, as well as the products or strategies discussed in this material, are suitable to your needs.

Certain public offerings of Alternative Investment products (e.g. interests in real estate, private equity and hedge funds) are generally offered in reliance upon an exemption and do not require registration under the Securities Act of 1933.



Alternative Investments, therefore, pose additional risks which are different from those inherent in traditional investments. Investments in Alternative Investments may also involve the use of leverage which involves a high degree of risk factors including substantial loss of initial investment. Alternative Investments are not required to provide periodic pricing or valuation information to investors. As such, Alternative Investments are highly illiquid and are generally not transferrable without the consent of the sponsor/issuer.

This report may include forward-looking statements and all statements other than statements of historical fact are to be considered forward-looking and subjective (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can provide no assurance that such expectations will prove to be correct. Many factors including changing market conditions and global political and economic events could cause actual outcomes, results or performance to differ materially from those discussed in such forward-looking statements. BigSur shall not be responsible for the consequences of reliance upon any opinion or statements contained herein, and expressly disclaims any liability, including incidental or consequential damages, arising from any errors, omissions or misuse.

This information is highly confidential and intended for review by the recipient only. The information should not be disseminated or be made available for public use or to any other source without the express written authorization of BigSur. Distribution of this document is prohibited in any jurisdiction where dissemination of such documents may be unlawful. Please contact your investment adviser, accountant, and/or attorney for advice appropriate to your specific situation.

For complete disclosure information please go to: <https://www.bigsurpartners.com/disclosures/>

BigSur Wealth Management, LLC  
1441 Brickell Avenue, Suite 1410  
Miami, FL 33131  
Office (Main): 305-740-6777  
Fax: 305-350-9998  
<http://www.bigsurpartners.com>