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To: Our Investors in the Chawton Global Equity Income Fund

Quarter ended 31 March 2023

Overview

The Chawton Global Equity Income Fund (the Fund) has performed well since its inception almost four years ago. The GBP B Class Acc. is cumulatively up 37.7% measured to the end of March 2023. This has risen to 40.4% by the end of April which puts the fund in the first quartile of the IA Global Equity Income sector. It also puts it ahead of the IA Global Equity sector average, which has over four hundred constituents, over the same period.

The Fund's aim is to provide a growing income stream and to grow capital over the long term. Each part of this objective has an equal weighting. Including the distribution for this quarter, the total cumulative distribution will be around 10p or just over a quarter of the total return (B Class GBP Acc. Shares) since inception. We estimate share repurchases by constituent companies amount to roughly 2% of the fund net asset value a year and 8% cumulatively. Therefore, the total return of surplus cash amounts to 18% of the 37.7% which is just under a half. With the remaining capital return providing the other half of the return, this is consistent with our objective of broadly equal contributions. I would note that even over a four-year period, this analysis could be distorted by substantial market movements up or down; however, the longer the period during which it is measured, the more I would expect convergence with this result.

Chawton has been designed and set up to be aligned with the long-term interests of its investors. Our partners have most of their wealth invested in the partnership and the Fund. The focus of the firm is on long-term investment returns not asset gathering and therefore avoids the conflicts of interests inherent in the industry.

The aim of this letter is to update you on the progress of the companies you own through being invested in this fund and to illustrate, through this, how we achieve what we are claiming we do. It also provides information on the performance of the fund absolutely and against its benchmarks.

Investment Performance and Activity

Performance

Chawton Global Equity Income Fund performance is shown below for the first quarter 2023 and preceding periods. The Fund results are net of fees and charges and are compared to the benchmark index (MSCI World GBP) and the comparator group as represented by the Investment Association Global Equity Income sector.

	Chawton Global Equity Income Fund	MSCI World TR in GBP	IA Global Equity Income Sector
First Quarter 2023	1.9%	4.8%	2.4%
2022	-8.3%	-7.8%	-1.2%
2021	18.2%	22.9%	18.7%
2020	14.2%	12.3%	3.3%
2019 (from 19 May)	9.3%	8.6%	NA
Since Inception 19/05/2019 – 31/03/2023	37.7%	44.8%	32.7%
Compound Annual	8.3%	9.7%	7.3%

Source: FE fundinfo as at 31 March 2023. Total return in GBP. Past performance is not a reliable indicator of future results. The value of your investments and the income derived from it can go down as well as up and you may not get back the money you invested. * Fund launch 21 May 2019

As our fund history grows, I would recommend focusing on the compound annual return figure as the best representation of how well we are doing both absolutely and relatively. I would summarise this currently as solid, absolutely, at 8.3% but we are targeting a little more.

Activity

Over the 3 months to the end of March 2023, we initiated a new position and sold two holdings which we discuss below. We currently own 33 stocks. We have recently conducted field trips in Switzerland and the USA.

Major Purchases:

Svenska Handelsbanken

Major Sales:

Microsoft
Carlsberg

Svenska Handelsbanken

In 2010, Niels Kroner published a book entitled 'A Blueprint for Better Banking' based on the banking model applied by the Swedish bank; Svenska Handelsbanken (SHB). SHB had successfully negotiated both the Swedish bank crisis of the early 1990s and the credit crisis of 2008 delivering a +419% shareholder return over the last 20 years (to 14 May 2023). Kroner's book established that the bank has succeeded by not committing what he terms the Seven Deadly Sins of Banking and that their approach should be more widely adopted by the sector. Clearly, this has not been the case.

The first of these is imprudent asset-liability mismatches on the balance sheet, the very problem that has taken down The Silicon Valley and First Republic banks through borrowing short (deposits are a form of short-term funding) and lending long – in their case long term, fixed rate jumbo mortgages. The second sin is supporting, through lending, asset-liability mismatches by clients. We are seeing instances of commercial real estate property companies with too much floating rate debt funding fixed term rentals. The other sins are less relevant now (so far) and can be found in the book. SHB is set up and strives to avoid all seven sins.

SHB has had its critics in recent years. One of the consequences of its approach is that in the good times, it tends to grow slowly as other banks misprice risk. The bank is also unusual in that it relies, and has persevered with, physical bank branches. Its model involves extreme decentralisation and establishing personal relationships with local customers, both better served through a branch structure. It was therefore deemed out of touch with digital technology. Finally, there has been a revolving door at the CEO level. Whilst the latter is mitigated by a major shareholder (Industrivarden) with a long-term outlook, the former two are supportive of good credit underwriting.

We have just met with management and are reassured that the culture of risk aversion remains intact, interest rate risk has been minimised and the credit quality of the loan book is high. We also noted that there is a substantial opportunity for the bank to help its customers improve the environmental ratings of their properties which will be important both for the future value of the house and their ability to apply for mortgage lending on the same. This should be supportive of loan growth as properties are refurbished and new infrastructure, such as solar, installed, but also help the bank improve its Scope 3 emission targets under the Greenhouse Gas Protocol.

One can never be totally certain in banking but with its market value well below book value and SHB currently delivering a 15% return on equity and 7.3% dividend yield, we have initiated a modest position.

Microsoft

At the other end of the spectrum in terms of sentiment is the widely admired Microsoft. We have been steadily reducing our weighting and fully exited near the end of the quarter. The stock has been in the fund since inception and was held by me in my previous global fund. It has appreciated substantially over that time and that has been deserved with CEO, Satya Nadella, superbly executing a brilliant strategy centred around the cloud. My concern now is that the valuation is factoring in a level of growth that will be difficult to achieve given the substantial size of the company. In fact, the company's growth in invested capital has fallen to around 5% per annum over the last 5 years from much higher levels in the prior five. Rising returns on capital augmented the share price performance in this period. Whilst there is good structural growth in their markets, especially with the process of customers transitioning to cloud infrastructure only partly complete globally, recent sales growth has been helped by new, digitally orientated, venture capital backed companies spending generously. With funding now much more difficult to secure, this is likely to subside significantly for a number of years. We also consider it will be difficult to raise returns from current elevated levels. Finally, the current attempt to purchase sizeable gaming company; Activision Blizzard, suggests there is a risk surplus capital might not be returned to shareholders as efficiently as it has been historically. We will keep the company within our wider investable universe and continue to monitor it.

Carlsberg

I have discussed in prior letters how the strength of the Carlsberg management team compensates for some weaknesses in the group's portfolio of operations. Last year the highly regarded Chief Financial Officer, Heine Dalsgaard, announced his resignation and he departed at the end of the year. In March, Cees 't Hart, the Chief Executive and architect of the resurgence in performance of the company in recent years, also decided to leave and this will take place by the end of Q3 2023.

Under this leadership team, the return on capital employed (ROCE) has improved from a 15-year average of 11.1% to a past three-year average of 17.1%. This compares to main peer; Heineken, at a past 3-year average of 9.9% and industry leader; AB InBev at 7.9%, both weighed down by goodwill paid on expensive acquisitions. Carlsberg's total shareholder return over 5 years has compounded at 12.5%, way ahead of the other two at 5.0% and 1.7% respectively (all measured as at 15 May 2023).

This was achieved through excellent strategic planning that was well-communicated to management and employees through the organisation. I have two concerns. Firstly, this will be a hard act to follow and the company still has to address some of its mature European operations where, in countries such as the UK and France, its market positioning is less good. Second, the improved performance is reflected in the valuation which is now at a premium to comparators and the dividend yield has fallen. We have therefore sold our position but still hold Carlsberg Malaysia which covers their Malaysian and Singaporean operations and has a prospective yield of 4.7%. We will continue to monitor the parent.

Our Portfolio Companies

Bossard, Industrial Distributors

We recently visited portfolio company Bossard in Zug, Switzerland where they are headquartered. The company, an industrial C-parts distributor, is amongst our smaller holdings with a market capitalisation of CHF 1.7 billion (as at 15 May 2023). The business is almost 200 years old and is still controlled by its founding family, a structure we like as it generally results in a long term, multi-generational culture.

The C-part industrial distribution 'industry' is characterised by the words 'many' and 'small'. It involves the distribution of many small, low value items such as fasteners, and the market is populated by many, mostly small, companies competing on price. However, these parts feed into a complex logistical process involving the manufacturing of high value complex equipment. Failure to properly manage their design, logistics of delivery and inventory levels can result in damaging delays, quality issues and less efficient operations. Bossard's business model is to seek to work with their customers from the design phase of a new production line to help them best manage their C-parts to optimise quality and efficiency of operations. This might involve changes to the design of the actual C-part along with planning how the parts will be made available and inventory re-stocked.

The company has just exceeded CHF 1 billion in revenues for the first time in 2022. In contrast, Fastenal, a US competitor (and also held in our fund), was founded in 1967 and is just shy of USD 7 billion in revenues. Whilst Bossard has been relatively hampered because it is more difficult to grow from a European base across many diverse countries with different businesses practices and regulations, compared to the unified US market, it is evident that the company has now finally achieved critical scale both in Europe, the USA and Asia.

Scale, once gained, confers competitive advantage through a network effect. The more customers, the more infrastructure can be sweated leading to greater cash flow to invest in innovation, technology and customer acquisition. Bossard has made this breakthrough through a different approach to its US comparators. Whilst they focus on breadth of inventory and speed of delivery, Bossard leads with its consultancy services.

Once competitive advantage is established, these companies can take market share rapidly, growing well above industrial production. At the same time they achieve returns on capital well above the cost of capital due to the asset light nature of the business where manufacturing is carried out by the suppliers. Interestingly, the company is gaining new customers in what it terms the sunrise industries of electric vehicles (Tesla is a customer), robotics, railways and medical technology. Whilst good management remains crucial for Bossard to deliver on its potential, our field trip and supporting analysis suggests it continues to be a good, long-term holding with the potential to be one of our faster growers.

US Railroad operators and Union Pacific

I took the opportunity of being in Omaha for the Berkshire Hathaway annual general meeting to also visit the headquarters of Union Pacific (UNP), the US railroad operator which is owned in the fund. The company's network encompasses both the west coast of the United States and also the mid-west, Gulf coast and southwest markets. The latter two are seeing higher population growth and investment levels compared to the rest of the US. It also crosses into Mexico at six different points and extends up to Canada. There are four US operators after extensive industry consolidation and two Canadian. Transporting goods via rail has considerable advantages over its main competition, trucking, through being much more energy efficient and relatively future-proof through the ownership of the land providing the pathway.

Although seemingly capital intensive, much of the capital was laid down decades, even centuries, ago through the purchase of the land, its adaption for rail and installation of track and other infrastructure. Capital expenditure now is more incremental, consisting of repair and maintenance and marginal improvements such as new sidings to improve efficiency.

There are reasons to suggest that the next decade could play to the strengths of rail transportation. This is due to the lack of investment in infrastructure in the US following the great financial crisis combined with the capex-heavy 'green energy transition' resulting in the need to transport commodities and bulky building materials. At the same time the trucking industry in under pressure through the higher cost of fuel and labour shortages whilst customers such as auto manufacturers and food and beverage companies need to reduce Scope 2 emissions and reduce energy consumption. This could see freight move back to rail after years of the opposite trend.

However, UNP has been experiencing some management and governance issues. These partly relate to a concept termed Precision Scheduled Railroading (PSR) which was pioneered by the Canadian operators and involves focusing on the most efficient management of individual freight cars rather than the prior focus on assigned full train configurations. It results in improved efficiency and reduces staff requirements considerably. However, it can also result in reduced customer service, especially at the smaller end and increased pressure on the remaining staff. It has swept through all the operators except BNSF (owned by Berkshire Hathaway) and dramatically increased operating margins. However, cracks have appeared, especially post COVID following the mass layoffs prior to COVID, with staff shortages and more accidents impacting safety records. This has been further exacerbated by union issues at the Los Angeles ports which are the main conduit for Asia inter-modal traffic. With one large shareholder putting pressure on the board, UNP's CEO is to depart the company and a search is underway for a replacement.

Our view from the discussions we had with management, and other work, is that PSR is an early example of sophisticated data analytics increasingly available with the latest digital technologies. Whilst we encourage this approach, customer service and staff welfare must be prioritised as long-term value drivers of the company – UNP amongst some of the others, has blown with the Wall Street wind and focused on quick delivery of financial results. It is interesting that the Buffett owned BNSF is taking a more measured approach. That said, issues are addressable, and the (temporary) problems have allowed us to build our position at attractive entry prices.

It is also interesting to note that Canadian Pacific, perhaps the most accomplished practitioner of PSR, has made some interesting strategic moves through investing in port capacity on the Canadian Pacific coast providing a much more efficient alternative to Los Angeles. It also has recently acquired Kansas City Southern, the last remaining medium-sized network which stretches down from Kansas to Texas, the Gulf Coast and into Mexico. This has set up a network that could be very well placed for the potential 'golden age of railroad growth' suggested by the afore-mentioned large UNP shareholder[1]. We are carrying out some investigative work on this name.

Berkshire Hathaway

I attended the 2023 Berkshire Hathaway (Berkshire) annual general meeting in Omaha, Nebraska, which pertains to the 2022 financial year. Berkshire, held in the Fund, is now a complicated company. It is classified as a general insurance company, but I think it is better described as a concentrated closed-ended investment company with a well-constructed portfolio. This consists of general insurance companies with bonds and a portfolio of quoted equities held to fund claims, a railroad operation (BNSF), an energy utility (BHE), a large collection of private manufacturing and service businesses and a significant holding in Apple.

For those interested in more information on the various areas, I set out my detailed notes from the meeting in the Appendix to this letter.

Berkshire is near a crucial juncture as we approach the time when its architects Warren Buffett and Charlie Munger are succeeded. In my detailed notes, I focus on the operational aspects of the businesses more than the investment philosophy and approach that the duo freely impart in every meeting. This is more relevant to our consideration of its prospects as a long-term investment now. It was notable that Greg Abel, who will succeed as CEO and Ajit Jain, who will have sole responsibility for the insurance operations, were also on stage for the morning question and answer session of the AGM. They present as very able operators but will clearly not have the impact or influence of Buffett. What I do think will persist is the culture of long-termism, decentralisation and the attractiveness of the platform to selling founders and their families who wish to see their business retained in good hands. It is also clear that the Berkshire businesses do run into problems like other companies and sometimes require fresh management to take them forward.

A key issue is capital allocation where Buffett is probably irreplaceable. We do not know for certain how this will develop but one signal recently given is increasing the level of surplus capital returned to shareholders. You will see from the notes that the company has started to buy back shares in material amounts reducing the share count by 11%. It is possible a dividend will be introduced. The second possibility is that a skilled capital allocator emerges from the management roster. Candidates here could be Ted Weschler and Todd Coombs who currently manage some of the public equity portfolio. Another could be Jo Brandon who ran Allegheny, a Berkshire Hathaway imitator that was acquired by Berkshire in 2022 or even Tom Gaynor, the highly regarded CEO of Markel, another successful insurer following the Berkshire model.

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[1] Soroban Capital

I consider the succession to be well-planned and will be well executed with the prospects for the company remaining very positive given the high quality of the constituent businesses. For a Fund such as ours, the likelihood of increased capital returns to shareholders is highly attractive.

Stewardship

Acting as owners of the businesses we invest in on behalf of our clients is a key tenet of the firm's investment strategy. We seek to engage with companies so as to assure ourselves that the business strategies pursued are aligned with the interests of our clients. Further, we exercise the Fund's rights as a shareholder by actively voting in annual general meetings in line with our Voting Policy. The guiding principle of our policy is that Chawton will not support management's voting proposals where they will negatively impact a company's ability to generate and sustain high returns on invested capital and undermine its efforts to contribute to the evolution of a healthy, equitable and low-carbon society.

In Q1 2023, we participated in four annual general meetings, voting upon a total of 78 proposals. The firm abstained from voting in relation to two proposals presented in the meetings of two companies. In both instances, executive remuneration packages were not structured in such a way as to explicitly incentivise management to pursue strategies that maintain superior returns on invested capital. In such circumstances, we engage with the appropriate board member of the company to understand why this is not the case and how else this objective is achieved.

As an illustration of our approach, we recently engaged with the Board of Bossard, discussed above. As a result of our written correspondence with the Chair of Bossard's Remuneration Committee, we satisfied ourselves that given the company's asset-light business model and the cyclical business environment within which it operates, current metrics used to determine compensation levels, namely gross profit (as a measure of profitable growth) and operating profit (as a measure of operational excellence and overall profitability), are the most important determinants of the sustainability of high returns on capital.

Whilst inventory turnover is also a key factor, minimising inventory levels must be balanced with customer satisfaction. Management needs to be able to increase inventory levels at times when prices and lead times rise, as they have done in the last two years. Although in the short-term this strategy lowered returns on invested capital, it was valued by customers and provided the company with an edge against competitors who were not able to provide as wide a level of inventory.

We believe that this case-study exemplifies our nuanced approach to engagement, and we will continue to provide you with detail on our stewardship activities as we progress through the year.

<u>Conclusion</u>

As we approach the fourth anniversary of the TB Chawton Global Equity Income Fund, we are pleased that performance has been good, with a compound annual growth rate of over 8% which puts the Fund ahead of its global equity income and global equity comparators. Around half of this return has been capital growth and half income, in line with the fund objective.

We have been reducing positions in the technology sector and beverage sector on valuation grounds and have initiated a small position in one of the highest quality banks globally which is trading below book value and offers a high immediate return on our capital invested.

We met with management of several portfolio companies namely Bossard in the industrial distribution market, Union Pacific, a railroad operator and Berkshire Hathaway which operates across a number of industries. Bossard has achieved critical mass in a fragmented industry where scale confers competitive advantage and this should feed into accelerating market share growth. Union Pacific is putting effort into getting to grips with the advantages digital analytics can provide for railroad operations and has a well-positioned network in what could be a golden age for railroad transport. Berkshire Hathaway has planned well for succession and we believe its prospects are strong post Warren Buffett.

We have a robust stewardship process where we seek to engage with management and make them aware of our views and also listen to their arguments. We fulfil our ownership responsibilities including actively voting at the annual general meetings of all the companies owned in the portfolio.

I hope this letter has provided greater insight into our process and progress. Please do not hesitate to contact me if you have questions or would like me to run through our associated presentation.

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As a concentrated equity portfolio of typically less than 50 stocks the fund may involve higher volatility and therefore higher risk for those with shorter term investment time horizons (under 5 years). The value of an investment and the income from it can fall as well as rise as a result of market and currency movements and you may not get back the amount originally invested. You should therefore regard your investment as long term. Details of the risk factors are included in the fund's prospectus available at www.tbaileyfs.co.uk/funds

Appendix

Notes from the Berkshire Hathaway AGM, 3rd and 4th May 2023

Insurance businesses

The wholesale insurance market is coming out of a 15-year soft market. However, even the December 2022 renewal period saw capacity come out of the woodwork. April 2023 at last saw a genuine hardening post the Ukraine War shock and Ajit Jain (who runs the insurance businesses) was able to write some meaningful business principally several billion of Florida P&C at good prices. This does increase their liability in the region if a really big hurricane hits a major population centre, but the risk reward is attractive.

It is clear that GEICO, (Berkshire's auto insurer which is the third largest in the US) has not been optimally managed in recent years and Todd Coombs is doing a good job of rectifying this. Telematics is being deployed on 90% of new business but there is only a 50% take-up. There are 600 legacy IT systems which are being replaced by 15. However, many of the fintech new entrants are finding how difficult it is to price risk. A similar argument applies to the car companies seeking to offer insurance supported by data collected from the latest vehicles such as Tesla and GM. Input is still required on the wider circumstances of the customer and then risk appropriately priced. This threat has been highlighted before in the history of auto insurance but makes a good narrative for Wall Street to sell securities. An overarching target of a 96% combined ratio has been set.

Railroad Operation

Kathryn Farmer, the Chief Executive (having joined the company in 1992), recognises there is more to be done to capture the benefits of PSR. Labour issues and port issues hit in 2022 (as with UNP). The company also had a controversy; having come to an agreement with an Indian reservation regarding transporting an agreed amount of oil over their land, they breached this limit and suffered a derailment that caused a spill. My concern is that the inefficiencies and unreliability of the Los Angeles ports is a structural impediment for the western railroad operators.

Energy utility – Berkshire Hathaway Energy (BHE)

BHE has developed good expertise in installing renewable energy infrastructure which it has demonstrated in Iowa to great success (attracting data centre investment from the big technology companies). They have the capacity and capital to push this across all the States, which is what is needed from a climate perspective, but each state has a different view and approach greatly impeding progress. Also, transmission infrastructure needs overhauling to cope with the different technologies inherent in renewables and BHE also has this capability. This all adds up to significant opportunities to deploy capital for BHE and Berkshire as a whole; however, progress is slow when really the unified approach seen during WW2 is required.

BRK purchased MidAmerican, an Iowa focused energy utility with other power assets including in both in California and UK, in 1999 for $2bn and inherited $7bn of debt. There was an Omaha angle as Walter Scott both personally and through Peter Kiewit Sons' Inc, where he was chairman, held stakes. In 2005, BHE purchased PacifiCorp for $5.1 billion which was focused on Oregon, Wyoming, Washington State, Utah and north California. In 2022, BHE earned $4 billion of net income, 13% of the group figure of $30 billion. With incremental capital being allocated here, I would expect this proportion to grow.

BHE is advantaged as it does not need to pay a dividend as other utilities do and therefore has more capacity to invest both to please the regulator and take advantage of the multiple project opportunities.

Apple

Warren Buffett (WB) regards Apple, which now is a similar proportion of BH as its railroad, as a much better business. His analysis is not based on the technical attributes of the equipment but of consumer behaviour around the brand. He does not think of it as 45% of the public equity portfolio but as part of the wider collection of BH businesses. On a market cap. basis, it is about 21% of BH's market cap.

Other manufacturing businesses (See's, Marmon, Clayton, Estate agents, Lubrizol, Precision Cast Parts (PCP), Benjamin Moore (premium and commercial paints), NetJets

WB both showed in the video and talked about businesses within the group doing business with each other. PCP has combined with BHE to develop a new plant for aircraft parts powered by solar renewable energy. Greg Abel met the management of the Japanese Trading Cos. regarding working with BHE.

The most recent acquisition is Pilot which is the largest network of highway service stations in the USA. BP acquired a similar, although much smaller, business called Travellers. A key difference is that Pilot tends to own the freehold of the land, which might average 15 acres, on which the service station is located. Obviously, there is half an eye on EV recharging.

NetJets was discussed but was also the subject of a rare demonstration outside the meeting by disgruntled pilots. I spoke with one of these to gain perspective. The current CEO, Adam Johnson, took over recently after a period of poor financial performance. Whilst he has managed to improve this and they have 100 additional planes on order to add to the fleet of 600, the business is plagued by pilot attrition. The NetJets network is one of the most complex and widespread of any airline and involves some difficult piloting. Newly trained pilots therefore often are attracted to work there to gain experience but are soon poached by the larger airlines where they can receive better pay for less demanding work. This is putting pressure on the longer tenured pilots. WB and Charlie Munger (CM) tend to use NetJets now but CM relayed the story that he used to travel economy to the meeting and was often clapped by fellow shareholders.

These businesses collectively, termed Manufacturing, Service and Retail, generated $12.5bn in net income in 2022 which is around 42% of the total.

Other public equities (inc. Occidental, Japanese trading cos, Kraft-Heinz, Bank of America, Coca-Cola, AMEX).

In banking, WB does not believe the authorities will let the system collapse. Current events are not unusual as they have frequently occurred before. Wesco was purchased by CM coming out of the S&L crisis. However, both WB and CM are nervous of commercial real estate and the model of borrowing non-recourse to fund properties at ever higher values. Banks can be good investments if managed in the right way. One of Berkshires early successful investments was in Rockford Bank of Illinois and if it had not been for the Holding Company Act of 1970, which prohibited wider conglomerates from holding banks, they might have used banking rather than insurance as a source of float. There were many more bank targets than insurance. WB sold most of his banks immediately prior to the current crisis leaving just Bank of America basically because he cannot now predict the stickiness of deposits. This is a result of poor bank management, poor understanding by journalists, politicians and the reduction in inertia caused by digital technology. The issues at First Republic were obvious in their 10k (annual report) – they were writing jumbo mortgages at fixed rates for long terms. Many banks and especially investment banks are run by managers seeking to enrich themselves – a warning sign for any business. WB related a story of an applicant to run a bank who would only accept the job if they built the tallest and grandest building in the town – he was rejected.

Occidental and Chevron have good positions in the Permian Basin (west Texas and New Mexico) based around traditional oil wells and shale. The latter depletes very quickly whilst the former provides longer term annuity type payments. Whilst the price of oil dominates the short-term economics, WB is comfortable with the long-term outlook based on the effective cost of extraction. He regards the current CEO, Vicki Hollub, very highly. It is interesting that two of Berkshire holdings, Occidental and BNSF, now have female leaders in what were very male dominated industries.

One of the way's WB sources new ideas I term as 'turning the pages'. This alludes to printed company manuals from the likes of Moody's and Value Line which would have a page for each company with summary financial and descriptive data. He was able to find neglected companies at the wrong valuation [example in the Notre Dame lectures of a high-quality insurance company 73% owned by another where the minority quote was on a PE of 1x]. I believe most of these manuals have been replaced by digital databases that require screening which is not quite the same. That said, Buffett's recent ($6 billion invested in August 2020) investment in Japanese trading companies (Marubeni, Mitsui, Mitsubishi, Itochu, Sumitomo, etc) seems to be of this ilk. When first observed, these were generating FCF yields of 14% when the cost of debt in Japan was virtually zero. WB therefore funded the purchases with Yen debt for a monster carry trade. He recently visited Japan with Greg Abel and seemed sufficiently impressed to add to his holdings at higher prices based on the long-term quality of the companies. [estimated return of 3x since initial purchase]. BH now owns around 7% of each.

Fielding a question on Tesla and the auto industry, WB recommended the 1932 GM annual report which was then the leading auto company, as one of the best reports ever. Competition and capital intensity makes the industry too unpredictable. Car dealerships (BH owns some) is a better industry.

<u>BH Financials</u>

The equity (book) value of the company is now over $500 billion, the highest in America because earnings have been retained for investment. However, share repurchases are now being actively deployed to allocate capital. The share count has reduced from 1,624 k in 2019 to 1,450 k at the end of Q1 2023 (-11%).

[Per the 2022 AR, there were 591,564 A shares at the end of 2022 compared to 701,970 at the end of 2019. This represents a reduction of 15.7%. Class B shares outstanding had fallen to 1,302,254,076 from 1,384,481,953 a reduction of 6%. If I divide the B shares by 1,500 to get the A share equivalent, we end up with 1,459,733 at the end of 2022 and 1,624,957 at the end of 2019, a reduction of 10.2%.]

WB acknowledged the build-up of cash to approaching $150 billion and the difficulty of investing the same. It is unlikely a public company would be of interest given the maths of the market valuation of larger companies and the premium required to gain control. That said, there are some high-quality businesses in the private sector with too much debt that might become available at the right price. However, from a financial risk perspective, the debt carried in the railroad and utility offset the cash to leave net debt around zero.

<u>Governance</u>

Upon WB's death, his A shares will pass to designated philanthropies, converted to B shares and sold. This could result in the shareholder base altering and the large institutions such as Blackrock, Calpers owning more and exerting more control in areas such as ESG. WB is sceptical of the passives believing they run these as loss leaders to sell other more expensive product such as themed ETFs.

Greg Abel will be responsible for share repurchases and is well versed in WB's thinking on this. WB does not favour dividends believing them less flexible as they are difficult to cut. Although WB rates Abel, BH is made up of very good businesses and so is less dependent on the quality of the top leadership. [the secret of business is to buy good businesses – Tom Murphy quote]

WB has said before that he sets incentives for subsidiary companies that are bespoke to their business. Of course, as he is responsible for capital allocations, there does not need to be ROIC measures. However, one overarching principal it to employee managers who are motivated from the love of the business rather than financial enrichment. The acquisition criteria are designed to appeal to founders and owners who take pride in what they have achieved and want their company and employees to continue in their established state but either do not want the stress of a public quotation and/or want to sort out succession and inheritance issues whilst in control.