

## Berkshire Pilgrims

Last weekend, a few of us had the privilege of traveling to Omaha, Nebraska to attend the 2014 Berkshire Hathaway (NYSE:BRK-A/-B) shareholders meeting. As long-time followers of Buffetism and Mungerism, we were excited to hear what advice the two oracles would impart. For six hours, Warren Buffett and long-time business partner Charlie Munger answered questions ranging from dividends to politics. Their clear thinking has led to investment decisions that have undoubtedly created shareholder value for many years. From 1965 to 2013, BRK has grown book value per share at a 19.7% compound annual rate versus 9.8% of the S&P 500's total return index. No wonder thousands flock to Omaha every year to grasp the slightest thread of wisdom. Over the weekend, it was evident that their success was a product of some deeply-rooted principles that embed their corporate culture.

Tenet 1: The two have an unwavering trust in each of the companies they own. They look for businesses that are run by committed and capable management teams with enduring competitive advantages that can operate through economic downturns just as steadily as they did through expansions. The proof is in the pudding: Dairy Queen, See's Candies, Coca-Cola and Heinz. These businesses attract captive customers that appreciate the product more than the price. Burlington Northern Sante Fe Railway and most recently AltaLink are other examples of firms with structural competitive advantages and highlight BRK's preference for quality businesses that can be depended on throughout a cycle.

Warren described his job as consisting of two roles. Firstly, to ensure his managers are motivated and operating their enterprises as best they can. This was evident as he was constantly praising his managers for protecting their economic moats and generating ample cash flow for Warren to fulfill his second role, which was deciding where to effectively allocate capital.

Tenet 2: Compounding shareholder wealth for the long term is their *modus operandi*. This is the reason why BRK does not pay a dividend. Instead, BRK prefers to keep a cash stockpile on hand for reinvestment in existing businesses or for accretive opportunities. Warren was clear that a minimum balance of \$20B

should be available at all times. At the end of March 2014, cash reserves stood at \$42B. This capital stands ready to add to BRK's earnings power. The continual reinvestment eventually leads to a compounding effect of shareholder wealth. The ultimate goal.

Tenet 3: Preservation of the unique Berkshire culture is paramount. Individuals will come and go, but culture can withstand time. Both Warren and Charlie are still mentally sharp, but they are not young. A succession plan is in place and both have full faith that their managers will continue running their businesses well after they are gone. A culture based on trust and acceptance of mistakes was observed and is truly unique in this modern business world. Their hands off approach to management and tendency to over trust have promoted a culture that keeps its numerous businesses motivated and unified. They have complete confidence that their corporate ethos has the momentum to carry BRK well after their days are done. And should that day come, Warren's son Howard will become non-executive chairman to uphold their unique culture.

Berkshire shares currently trade at a 1.4x price-to-book ratio and are held in our global equity portfolio. Since 2000, the median P/B level is 1.5x. Though trading near a median level, we find comfort in BRK's ability to persistently grow book value. Its 5-yr median growth rate of 14.4% and 10-yr median growth of 12.0% confirms this. Stock prices fluctuate, but strong businesses endure and over a long time horizon, we believe the share price will reflect the growth in its underlying business fundamentals. Charlie said it best, "The price went up because the value went up." I have nothing to add.

## The QV Team is Growing

We congratulate Steve and Denise Kim for the recent birth of their baby boy Jonas. In addition to the wonderful news, we are currently looking for a motivated individual to join our team-based culture as a Portfolio Administrator. We have added a careers tab on our website [www.qvinvestors.com](http://www.qvinvestors.com) that describes the opportunity. If you know of anyone who may be interested, please direct them to our website.