

May 2015

## Berkshire Hathaway 2015 AGM

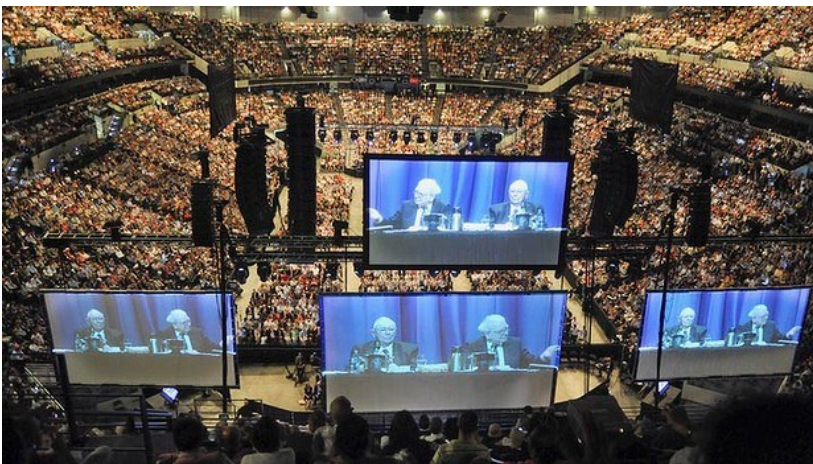
Omaha, Nebraska

*50 Years as a Profitable Partnership*



We had the privilege of attending the 2015 Berkshire Hathaway Annual Shareholders Meeting in Omaha, Nebraska. This was my third trip to the meeting in as many years and the event continues to grow in size and scale. 2015 marked the 50th anniversary of the Warren Buffett / Charlie Munger “Profitable Partnership” at Berkshire Hathaway. There was a real sense of celebration at the meeting. We started the day at 4 a.m. and stood in line for three hours. We had come too far to miss out on a good seat! There were thousands of others doing the same thing, mind you. Over 40,000 attended the meeting.

We were treated to six hours of inspiration and insights from two of the world’s greatest investors, Warren Buffett (84) and Charlie Munger (91). The format was similar to the previous years with 3 hours of questions, a 1 hour break and another 3 hours of questions, followed by the AGM. There were three panels: firstly, financial journalists Carol Loomis (former Fortune Magazine Editor), Becky Quick (CNBC), and Andrew Ross Sorkin (The New York Times). The second panel was made up of three sell side analysts, and finally there were microphones scattered around the Conference Centre for shareholders. In addition to the meeting, there is also an Exhibition Hall featuring most of Berkshire Hathaway’s companies including Coca Cola, Brooks, BSNF Railway, See’s Candy and Heinz.



We share our key takeaways from the day with you below – we have tried to summarise our thoughts under different topics. We hope you enjoy reading these notes as much as we enjoyed attending the meeting. It was another wonderful experience for my father Robert, Will and myself.

As with previous years, we note that this was a self-funded trip with no expense to BKI Investment Company.

A view from the Exhibition Centre. There were reports of up to 40,000 shareholders and visitors in attendance.

### *Value Investing*

Two years ago, the meeting revolved around a specific theme on how the US economy was tracking. In 2014, the emphasis was more on how to buy a business. There was no clear single thematic in 2015, however as the day evolved it became apparent that the “50 Year Profitable Partnership” became extremely successful by simply practicing patient, long-term investing. We try hard to emulate that style here at both BKI and W.H. Soul Pattinson and as we wrote in a recent quarterly report, investors need to “stay the course”, be patient and focus on the long-term.

CM: *Value investing will never go out of style. Who the hell doesn’t look for value when they buy something?*

WB: *It never gets that popular though.*

CM: *I don’t think there is anything else that makes any sense except for value investing. People look for easier ways of doing things, but that’s a mistake.*

WB: *No one buys a farm to make money next week or next month. They buy it for the long term as long as the valuation is right.*

CM: *That’s not a bad way to think about stocks.*



## **What characteristics do they look for in a company to buy?**

CM: *We don't have a one size fits all system to buy businesses. They're all different.*

WB: *Always keep learning. We often actually look for things we do not like - which stops the deal. We are looking for things that we believe we have a reasonable understanding on how they'll look in 5 or 10 years and that eliminates a great many businesses. But they're not the same question for each business.*

There was a question on "cigar butt" investing – Did Charlie try to talk Warren out of buying IBM?

WB: *No, I believe that IBM can adapt technologically. I still believe it is an admirable investment. He found it amusing that Wall St thinks it is good for stocks to keep going up. We have no interest in talking up the investments we own. We are better off with lower prices because either we or the companies we own will be buying stock in the coming years – why would we want to talk it up if we are a buyer?*

CM: *Warren, if people weren't so often wrong, we wouldn't be so rich.*

Most things that have been bought for the Berkshire portfolio are wonderful businesses that they simply nurtured over many years. They believe it a vital part of a business to have a clearly defined, deeply embedded culture.

WB: *Berkshire's culture is as good a culture in a large company as we have seen. Culture has to come from the top. It has to be consistent. It has to be part of written communication. It has to be lived. It has to be rewarded when followed and punished when not. And then it takes a very long time to really become solid. It is like your child seeing what you do, not what you say. It's the same in business. People see how those above them behave and they move in that direction.*



A brush with fame: Warren Buffett meeting BKI's Will Culbert.

## **Coca-Cola**

Coca-Cola is Berkshire's second largest investment position – it owns almost 10% of the company. One shareholder asked an interesting question regarding changing consumer behavior around sugar consumption and how that impacts Coca-Cola. We have found the same level of interest here in Australia. Portion size through the introduction of the 200ml can, as well as Coke Zero and Coke Life products have been the main initiative to fight health and obesity domestically here in Australia. Buffett and Munger were not so politically correct in answering this question, however they made some very valid points around listening to consumers and utilizing brand strength.



WB: Coca-Cola has an enormously wide moat... You will see all food and beverage companies adjust to the expressed preferences of consumers. No company ever does well ignoring its customers. I predict that 20 years from now there will be more cases of Coca-Cola consumed than there are now by some margin.

WB: Coke sold more cases of product last year than ever before. Strength of brand is important and private label has been around longer than I can remember.

WB: Brands have to stand for the promise that is in people's minds. You have to nourish them. You have to enhance it and protect it.

BKI has done a lot of work on Coca-Cola Amatil over the last 12 months. Indeed, we have added to BKI's holding in the stock. We agree that Coca Cola still has "brand strength" and people still get enjoyment out of drinking it. Education will continue to improve perception of the brand and products but it will also improve the offering of Coke products for the benefit of customers. As mentioned, we have seen this recently in Australia with the launch of Coke-Zero and Coke-Life and the smaller portion controlled can offering.

## China

Berkshire Hathaway has unashamedly tied its investment process to the success of the United States of America. Nevertheless, there were some questions around China.

CM: The Chinese have a history of being very entrepreneurial. With the recent volatility in Chinese markets, China looks a lot like Silicon Valley. I think China would do a lot better if more people were value investing-minded and less enamoured with risk. There might be opportunities, but there can also be opportunities for excess and nasty corrections. I think China is wise to stamp down on speculation.

CM: I can't think of anything more important than the future close collaboration between the United States and China. You are talking about the two most important nations in the world. I think it's very important that we trust and like one another and have good relations.

WB: I think China will do fine over some period of time. China and the US will be superpowers for as long as we can see.



## Macroeconomics

Both Buffett and Munger claim they have never made an acquisition or turned down one based on macro forecasts or listening to what an economist has told them. Short term macro forecasts don't matter when you are trying to hold businesses for a long period of time.

WB: We really haven't seen great success in people making macroeconomic predictions. They get a lot of airtime but that's about all that happens.

CM: We are swimming all the time and we will let the tide take care of itself.

WB: Any company that has an economist has one employee too many.

## Energy



There was a sound discussion on renewable energy and global warming - in particular around battery power and storage for the home. Berkshire Hathaway Energy has invested approximately \$15bln into solar and wind projects over the last year. Some say the investment is based around certain tax credits associated with renewable energy (wind and solar in particular); some say that it's such a fast growing and extensive sector that Berkshire almost has to play in the space. Regardless of why, this is also becoming a very topical subject here in Australia .

WB: *The best defence is to have very low cost energy. America has been good at it. But we will use more renewable energy as fossil fuels become more depleted.*

WB: *If renewable energy becomes competitive then it will be a wonderful opportunity. There will be disruption but more opportunity than disruption.*

There was a question on global warming and how some insurers have used global warming to model their future pricing. Berkshire Insurance don't use this overlay.

WB: *Some people put in climate change as a risk factor, but when we price our business every year, I see nothing that tells me on a yearly basis that global warming is something that causes me to change my prices.*

CM: *I don't think it's totally clear what the effects of global warming will be on extreme weather. I think there is a lot of guesswork involved. It's not that global warming isn't happening, it's that you can get so excited about it that you can make all sorts of crazy extrapolations that aren't necessarily correct.*

## Other sage investment, and indeed life, advice

WB: *Investing is an easy game if you can manage your emotions.*

CM: *The reputation you get over a long period of time takes time to build. I think hardly anything is more important than reputation and behaving well using old fashioned principles*

WB: *Someone once told me that when you get old you will have the reputation you deserve. For a while you can fool people but when you get to be my age it's hard to change. The same thing is true of companies.*

WB: *We tend to lean towards being certain to get a decent result rather than hopeful of getting a brilliant one.*

WB: *Money is currently so cheap that it is causing people to do almost anything on the asset side. Berkshire will not lose its discipline.*

CM: *Rationality is a moral duty.*

CM: *Avoid being a perfect idiot and have a good character, keep doing this day after day and it will work.*

CM: *We like making money for ourselves but more so, hate losing other people's money.*

CM (on debt): *It could have made Berkshire bigger but that would make us sweat at night. And it's crazy to sweat at night.*

Finally, the following exchange between an 11 year old boy and Warren Buffett, that had nothing to do with investing, is worth sharing and gives an insight into how Buffett thinks. The boy asked "How do you make friends and get people to like working with you?"

WB: *I was on the obnoxious side early on but you will get a little smarter about human behaviour as you get older. I had wonderful teachers, not in terms of the standard definition of a teacher, but they were people I admired. I asked myself, why do I admire these people? I then asked myself, why not take on some of their qualities? It's not a complicated proposition.*

Look around at the people you like at your school and write down 3 or 4 things they do that you like. Then look at people that put you off and write down 3 or 4 things that you don't like. Then decide to become a person that you yourself would like. You can be generous, friendly, accept things with good humour, don't take credit when it isn't due etc. These are all possible to do. Get rid of the qualities you don't like and you'll do pretty well.

## **Discussions with Operational Management**

In addition to the insights from Warren Buffett and Charlie Munger, we also find it particularly useful to spend time at the end of the meeting talking to Managers of various Berkshire owned companies. Will and I spent well over an hour chatting to operational managers from The Coca Cola Company, Borsheim Jewelers, Clayton Homes, Justin Boots, BNSF Railroad, Brooks, Forest River and Benjamin Moore & Co.

As a follow up from the last two years, we gained great insights into how the US economy was placed, with a focus on Retail, Housing, Manufacturing and Infrastructure. All of them have had an improved year in terms of sales and margin growth, however they are also all conscious that customers are still looking for value and consumer confidence is yet to fully recover. The US economy, although well placed for long term prosperity, seems to have plateaued.

We met with other companies this year whilst we were in the U.S. and we will use these insights to form part of our June 2015 Quarterly Report. These meetings were very interesting and will enable us to compare these companies against some Australian majors to gain a good understanding of how the retail sector is placed domestically.



### **Main Event Entertainment – Dallas, TX**

Main Event is 100% owned by ASX Company Ardent Leisure Group. We were fortunate to spend time with Main Event Entertainment President and CEO, Charlie Keegan and visit two venues in Dallas.



### **Nebraska Furniture Mart – Dallas, TX, Omaha, NE**

We enjoyed a personal tour of the new Nebraska Furniture Mart (52,000sqm of Retail and 120,000sqm Distribution Centre) store in the suburb of The Colony, 40km's north of Dallas. We also met with Ron Blumkin – President and COO and Ryan Blumkin Vice President of Real Estate Development, the Grandson and Great Grandson of the American legend, Rose Blumkin (Mrs. B), the co-founder of Nebraska Furniture Mart (80% owned by Berkshire Hathaway).



### **ConAgra Foods – Omaha, NE**

Meeting with Investor Relations at ConAgra Foods, Chris Klinefelter. ConAgra is a US packaged foods business that produces and sells products under three main consumer brand names 1) Consumer Foods, 2) Commercial Foods and 3) Private Brands. These products are available in supermarkets, restaurants and food outlets and many business-to-business products.

Tom Millner, May 2015

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