

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.


Berkshire Hathaway Inc.

On 17 July 2018, Berkshire Hathaway announced that the buy-back threshold for the existing share buy-back programme, which restricted the purchase of own shares to a face value of 120% of the book value, would be removed. It had been in effect since 12 December 2012, after the programme was launched on 26 September 2011 with a threshold of 110%. We introduced Berkshire Hathaway in our Investment Report of August 2011, and made reference to Warren Buffett's disclosure of a method for approximately calculating Berkshire Hathaway's intrinsic value. We then calculated the value using 170% of the book value. At the same time, the stock price was only 104% of the book value. Buffett wanted to take advantage of the undervaluation. Unfortunately, he never really got a chance because the buy-back limit was set too low, and because the share price traded above the published buy-back level. At this time, the share price is 139%, and the intrinsic value is approximately 161% of the book value. The intrinsic value is expected to keep growing at approximately 10% p.a., if we just use the increase in the book value over the last ten years as an approximation. This is mainly driven by the premium volume from the four insurance segments, which can be invested profitably until there are insured losses. Since the historic claims and cost ratio is under 100%, the premium volume ("float"), which has grown to USD 116 billion, ensures

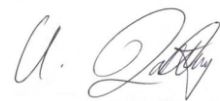
steady investment demand that drives the expansion of the empire. The cost of the float (insurance losses) is not only lower than the cost of alternative refinancing, but rather corresponds to permanent refinancing with negative interest.

A key assumption for calculating the intrinsic value is too conservative from today's point of view, however. Buffett assigned 12 times the price to the normalised pre-tax results of the non-listed subsidiaries that are not active in the insurance business. Today, he would probably assign a much higher factor. Not least because corporate taxes have been reduced from 35% to 21% as a result of the recent US tax reforms. Therefore it makes sense to buy back shares at the current price level, also because Buffett no longer seems to be able to find any investment alternatives for his cash holdings of over USD 100 billion, which would promise higher and similarly secure returns. It is not known whether he will actually take that step or only wants to increase the leeway for his successors. He could start the buy-backs on 6 August 2018, after the company released an enormous quarterly profit of USD 12 billion on 4 August 2018. We have already been waiting for an adjustment to the buy-back threshold since 26 February 2018: At that time, Buffett mused about taking this step in an CNBC interview.

Sincerely yours



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