

**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.**

Berkshire Hathaway, the private equity firm managed by Warren Buffett, announced on 17 July 2018 that it would lift the repurchase threshold for its stock repurchase programme, which limited the purchase of the company's stock to the equivalent of 120% of book value. The threshold has applied since 12 December 2012, after the programme was launched on 26 September 2011 at an initial threshold of 110%. That was when we first introduced Berkshire Hathaway in our investment report, citing Buffett's previous publication of a method for approximate calculation of intrinsic value and the significant undervaluation of the stock. We calculated 170% of the book value for the intrinsic value and 104% for the stock market price. Buffett was trying to take advantage of this undervaluation. Unfortunately, he never really had the opportunity to do so, because the repurchase threshold was always too low.

In the five quarters since the threshold was raised, Buffett has bought back USD 4.2 billion worth of his own stock. Given the company's liquid assets totalling USD 124 billion, it would make sense to make a bolder purchase, as the discrepancy between intrinsic value and stock market price is currently greater than it has been for a long time. The current market price amounts to 125% of book value and the intrinsic value amounts to 146% of book value. In the long term, and this is

unique to Berkshire's business model, the intrinsic value is likely to grow by around 10% p.a., as it has done over the last two decades. This is primarily due to the premium volume generated by the four insurance lines, which can be invested profitably until claims are incurred. Since the historical combined ratio is below 100%, the premium volume (float), which has grown to USD 127 billion and is tantamount to long-term refinancing with negative interest rates, creates a constant demand for investments, which drives the expansion of the empire. In our opinion, Berkshire Hathaway has been relatively misunderstood for decades. This is due to a widespread unfamiliarity with the calculation of the static intrinsic value and the expansion based on a dynamic perspective as described above. In addition, one assumption used in Buffett's heuristics is now too conservative. It allowed the normalised pre-tax results of unlisted subsidiaries not active in the insurance business to be multiplied by 12. The factor will be much higher today because interest rates are low and corporate income tax has fallen from 35% to 21% as a result of the 2018 US tax reform. Buffett is not currently able to make any major acquisitions and his investment decisions in recent years have only been of average quality. However, Berkshire Hathaway is a core investment for us. Buffett should never be written off. At the same time, the company has already significantly increased its independence from him in terms of personnel and structure.

Sincerely yours



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