

## Berkshire Hathway:

Warren Buffett's Conglomerate of Great Businesses

**Background:** In 1955 Berkshire Fine Spinning Associates merged with the Hathaway Manufacturing Company which had been founded in 1888 in New Bedford, Massachusetts by Horatio Hathaway with profits from whaling and the China Trade. The merged company was called Berkshire Hathaway Incorporated (BHI) and focussed on the manufacture of suit linings. When Warren Buffett closed his Buffett partnerships, he started buying shares in BHI. He bought his first shares for \$7.50 in 1962. Recently shares traded for over \$250,000, an average return of 21.2% pa.

Today BHI invests in listed companies. The four main listed companies are American Express (\$10.5 billion); Wells Fargo (\$27.2 billion); International Business Machines (\$11.2 billion); and Coca-Cola (\$17.2 billion). This amounts to approximately 59% of the aggregate fair value of the equity securities held by BHI.

It is also a holding company owning businesses in the areas of insurance and reinsurance, freight rail transportation, utilities and energy, finance, manufacturing, services and retailing. Examples are GEICO, the second largest private passenger auto insurer in the United States, and General Re and the Berkshire Hathaway Reinsurance Group, two of the largest reinsurers in the world. Other subsidiaries that underwrite insurance include the National Indemnity Company, Columbia.

Another fully-owned company is Burlington Northern Santa Fe, primarily engaged in freight rail transportation and makes up one of the largest railroad systems in North America.

In the area of energy, BHI companies engage in its generation, transmission and distribution. Among these businesses are Northern Powergrid; MidAmerican Energy Company; PacifiCorp; NV

Energy; BHE Pipeline Group; BHE Renewables; and AltaLink.

Finally, BHI is strongly invested in housing: construction, products, finance and furniture.

**Strategy:** Under the guidance of Warren Buffett, the strategy of BHI is to buy (or invest in) great businesses (high ROE, little debt, strong economic moats, and share-holder focused management) and be prepared to hold for the long term.

Buffett also insists that BHI holds large amounts of cash (currently over \$50 billion) so that he can move quickly should opportunities arise.

**Success Drivers:** Absolute commitment to the principles that were developed years ago. No deviation into a short-term focus or risky investments.

**Founder Vision:** The proven investment principles will be followed for generations.

**Economic Moats:** Buffett is passionate about moats: the BHI principles plus its investments are chosen because they already have strong moats.

**Key Future Risks:** A key risk is the passing of Warren Buffett. However, most of the investments held BHI are already in wonderful businesses. So even if Buffett's successors do not have his ability, it would be some time before this made a significant dent in BHI's performance.

ROE	5 Year Growth	
	SPS	EPS
9.7%	9.62%	16.13%

• M't Cap: US\$403b • 10-yr Total Return: 8.9% pa

**Conclusion:** BHI is an extraordinary company that is likely to be a successful investment for many years, if not decades. (Jan 2017)

*This report is prepared for members of the Conscious Investor Fund. It does not take into account anyone's personal circumstances. Remember, what happened in the past is not always what will happen in the future.*

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