Investment Insight
10 Insights From Berkshire Hathaway’s Annual Meeting

Key Takeaways
► Berkshire Hathaway held its annual shareholders meeting on May 6 in Omaha, Nebraska. Berkshire’s four main leaders—CEO Warren Buffett and vice chairs Charlie Munger, Greg Abel, and Ajit Jain—were available for questions.
► We’ve long admired Berkshire Hathaway and the wisdom of Buffett and Munger, which is why we’ve made it a ritual to attend or livestream the meeting each year.
► While the Q&A session covered a wide range of issues, we’ve highlighted a select number of topics that we think investors should keep in mind in today’s environment.
► Buffett and Munger have seen it all over their long careers. Both men are highly intelligent and great investors, but as time goes on, what stands out to us is their rationality, ability to laugh at themselves, and willingness to admit mistakes. That’s a very healthy combination, in our opinion.
► The obvious question about Berkshire’s future is succession: What happens to the company when Buffett and his longtime partner Munger are no longer around? In our view, Berkshire is fortunate. They have a thoughtful succession plan that will carry the culture.

Thoughts on the Banking Industry
Buffett was very cautious about ownership of banks, noting that fear is contagious. He also referenced the ease in which depositors can transfer money in the digital era. Buffett said this can create a bank run in a “matter of seconds.” He also said that Berkshire unloaded some bank stocks when the pandemic broke out and that it sold some banks stocks in the past six months as well.

Buffett doesn’t think depositors should be concerned about losing their deposits, no matter their size, noting that all depositors got their money back from failed Silicon Valley Bank. He was quite critical of the poor messaging from politicians, government agencies, and the press, noting that the public is still confused and very worried about the banking system. Buffett also lamented the “messed up” incentives in banking regulation. “That’s the world we live in. It means a lighted match can turn into a conflagration or it can be blown out. And who knows what will happen?”

Buffett emphasized his company keeps around $128 billion in cash and Treasury bills. “We want to be there if the banking system temporarily even gets stalled in some way. It shouldn’t. I don’t think it will, but I think it could.”

He pointed out that directors and executives responsible for any mismanagement at a bank should be punished. Buffett singled out First Republic Bank, the latest regional U.S. bank to fail, for offering nonguaranteed jumbo mortgages at very low fixed rates, sometimes for 10 years, before changing to...
Buffett said a bank can be “a perfectly decent investment” if it follows sound banking methods. We’d note that Berkshire retains a very significant stake in Bank of America BAC.

We agree there are reasons to be cautious about the banking industry, including, for some banks, unmanageable mismatches between assets and liabilities as well as underwriting risks with loans. There’s also the potential for increased regulation.

Our Select Equity portfolios currently have very limited or no exposure to regional banks. We do own stakes in larger banks and other financials (including Berkshire Hathaway BRK.B for the Tortoise and All-Cap Equity), which we believe are sound long-term investments. However, the situation remains fluid. We will closely follow developments on this front and will not hesitate to make changes to the portfolio if warranted. We have invested our portfolios across a variety of industries and sectors. Through diversification and thoughtful stock selection, we seek to strike the right balance between risk and reward.

State of the U.S. Commercial Real Estate Market

In a question about the U.S. commercial real estate market, Munger responded that Berkshire has never been very active in commercial real estate. He also said the hollowing out of downtowns in the United States and elsewhere will be quite significant and unpleasant. Buffett referenced the fact that most people like to buy with non-recourse in real estate, saying, “We are starting to see the consequences of people who could borrow at 2.5% and find out it doesn’t work at current rates, and they hand it back to somebody that gave them all the money they needed to build.”

The commercial office market, especially in U.S. urban areas, was greatly affected by COVID-19 and the resulting increase of remote work since 2020. Also, it appears that we can add commercial real estate to the list of businesses or asset classes that seem to have been inflated by a period of historically low interest rates.

Our Select Equity portfolios currently don’t have any direct exposure to commercial real estate, except for the Dividend portfolio, which has less than 3% invested in Spirit Realty Capital SRC, a REIT that generally owns single-tenant properties for businesses like fitness centers, car washes, retailing, and quick-service restaurants. The company has no material ownership of office buildings, the main area of current stress in the commercial real estate market. Our financials do have exposure to real estate through loans and investments, and that bears watching. The smaller regional banks tend to have a much higher percentage of total assets in commercial real estate loans than the larger banks that we’ve tended to favor.

Diversification vs. ‘Deworsification’

Asked whether it was dangerous for Apple AAPL to represent 35% of Berkshire’s portfolio, Buffett vehemently disagreed, saying Apple is not 35% of the portfolio when including all the company’s privately held businesses. He then opined that Apple is a better business than anything else Berkshire
owns. Buffett did concede that Berkshire has a fair amount of money invested in Apple, but no more than it has invested in the railroad business.

Munger held no punches, rebutting the criticism that Berkshire’s portfolio is not sufficiently diversified: “One of the inane things that’s taught in modern university education is that a vast diversification is absolutely mandatory in investing in common stocks. That is an insane idea. It’s not that easy to have a vast plethora of good opportunities that are easily identified….I’d rather be in my best ideas instead of my worst….Pretty well, you should ignore most of the notion of our experts about what I call the ‘deworsification’ of portfolios.”

We also favor a focused approach to investing. With our Select Equity portfolios, we typically invest in 20-50 individual stocks. In our view, this gives us sufficient diversification while still allowing for a couple of clear-cut advantages. First, as Munger suggested, it allows us to concentrate the portfolio in our highest-conviction ideas. Second, a focused portfolio allows us to follow our individual investments much more intensively, which we think gives us a special confidence to seize opportunities to buy low and sell high. We believe that investing in this manner gives us the best odds of delivering superior returns for investors over the long haul.

**Short-Term vs. Long-Term**

On choosing between short-term profits and long-term defensibility, Buffett favored the latter, saying the answer is to control your destiny. He asserted that Berkshire feels no pressure from Wall Street and that management is not working for a bunch of people who care about whether the company beats the quarterly estimate. Rather, they are working for the shareholders. Buffett also emphasized the importance of lifelong learning, understanding human behavior, and investing in companies with economic moats: “We keep learning more about how people behave and how a good business can turn into a bad business and how some good businesses can maintain their competitive advantage over time.”

When it comes to investing, our focus is also on the long run. To us, a stock is not a wiggly line on a chart. Rather, a stock is a stake in a business, and the value of that business will be determined by its long-term earnings and cash-generating power. Hence, we think like owners of a business, putting a great deal of thought into buy and sell decisions. Our goal is to buy undervalued shares of generally high-quality businesses that possess competitive advantages, generate consistent growth in profits and cash flow, and maintain solid balance sheets. We strive to invest in companies led by competent management teams and boards who prioritize long-term shareholder value. Berkshire Hathaway is a perfect example, in our view!

**Separating Emotion From Investing**

Buffet was asked whether his emotions ever led to bad investment decisions. While he acknowledged making his share of bad investment decisions, he couldn’t recall making an emotional investment decision in his nearly six-decade leadership of Berkshire.
We think Buffett’s ability to remain rational when others are gripped with fear or enticed by greed is one of his greatest strengths. He has organized his life and Berkshire Hathaway as a company to ensure more logical decision-making. For example, Buffett surrounds himself with other very rational people, including Munger, Jain, and Abel and investment managers Todd Combs and Ted Weschler. He has said being in Omaha instead of New York City, where 50 people may be whispering in his ear, has helped in this regard. Berkshire’s strong balance sheet, company culture, decentralized structure, and incentive systems also help to ensure more rational thought, in our view.

We too strive to minimize emotional and other cognitive biases in our investing. Our aim is to be deliberate and logical in our decision-making by following a disciplined, long-term approach to investing, heavily influenced by legendary investors like Buffett, Munger, and Ben Graham, among others.

**Disruptive Technology and Its Impact on Business and Investing**

In response to a question about artificial intelligence and robotics, Buffett and Munger shared some high-level thoughts. Munger predicted we will see a lot more robotics and stated that robotics at BYD (in which Berkshire owns a 10% stake) are incredible. Munger was also skeptical about AI, as he thinks old-fashioned intelligence works pretty well.

We are not surprised that this topic came up, given the buzz around ChatGPT that started late last year. Large language models are not a new concept, but the user-friendly ChatGPT has gained instant popularity as a ubiquitous software tool. The technology is impressive, as people can get answers to questions in real time as they would by having a conversation. Most corporations will be looking to use this advancement to improve their businesses.

The Select Equities team has a long-standing view that change and disruption from technological advancement can also be very impactful in nontechnology industries. Disruption in competitive advantages can occur in all industries. We look to invest in companies that can enhance a competitive advantage and cost structure with technology. And we try to avoid situations where a business model can be greatly disrupted by new advancements.

Another question was about disruptive technologies’ potential impact on value investing. Munger shared his view that value investors will have a harder time, with so many competing for diminished opportunities, and warned investors to get used to making less. Buffett disagreed with Munger, saying that there are plenty of opportunities and that technology does not make a difference, because what gives you opportunities is other people doing dumb things. Buffett also pointed out that he and Munger have always disagreed on this subject.

Buffett referenced time arbitrage as remaining a great advantage when he said, “The world is overwhelmingly short-term-focused. And if you go to an investor relations call, they’re all trying to figure out how to fill – obviously, to show the earnings for the year. And the management is interested in feeding the expectations that will slightly be beaten. I mean that is a world that’s made to order for anybody just trying to think about what you do that should work over 5 or 10 or 20 years.”
The Select Equity portfolio managers do not face any pressure to beat benchmarks on a short-term basis. We can hold out-of-favor stocks when more short-term-oriented firms might feel pressure to sell even when the stock is attractively priced. We prefer to invest with management teams that have a focus on increasing intrinsic value on a per share basis and don’t focus on beating their numbers each quarter.

**U.S.-China Relations and TSMC**

There were several audience questions related to China, including one about geopolitical tensions and Berkshire’s decision to sell over 80% of its investment in Taiwan Semiconductor Manufacturing Co. TSM just one quarter after taking the initial position.

Munger addressed the geopolitical tensions directly: “I think that tension has been wrongly created on both sides. I think we’re equally guilty of being stupid. If there’s one thing we should do, let’s get along with China, and we should have a lot of free trade with China in our mutual interest. And I just can’t imagine. It’s just so obvious. There’s so much safety and so much creativity that’s possible.”

On TSMC, Buffett said it’s one of the best and most important companies in the world, but he doesn’t like its location in Taiwan, and he reevaluated that. This is an example of Buffett changing his mind based on updated information and analysis. Three of Berkshire’s top ten equity positions—American Express AXP, Moody’s MCO, and Coca-Cola KO—have been owned for decades. However, not every equity investment becomes a long-term holding, for a variety of reasons. The Select Equity portfolio managers believe in continuous learning. To us, “buy and hold” is not “buy and forget.” Our team continually revisits our theses on stocks to ensure they are still worth holding.

This is not the first time that Buffett has bought a large position in a technology company and then sold most of the shares the following quarter. In the third quarter of 2018, Buffett purchased over 42 million shares of enterprise software firm Oracle ORCL, only to sell the entire stake the next quarter. In a response to a question about selling Oracle during a February 2019 CNBC interview, Buffett provided this rationale: “Larry Ellison [co-founder and chief technology officer] has done a fantastic job with Oracle……I changed my mind in terms of understanding the business, not in terms of evaluating it. I mean Oracle is a great business, but I don’t think after my experience with IBM [IBM], I don’t think I understand exactly where the cloud is going.”

Oracle was already owned in the Tortoise portfolio when Buffett moved in and out of the stock, and it remains a large holding in that portfolio. TSMC is owned in the Hare portfolio, and we agree with Buffett’s view about the geopolitical risks with the stock. However, we think those risks are at least partly priced into the shares. We still believe the company is a dominant player in semiconductor manufacturing with a long runway for continued growth. As with all positions, we will continue to monitor the risk/reward of TSMC versus other opportunities.

**Berkshire Hathaway’s Recent Financial Results**

Berkshire released first-quarter results the morning of the annual meeting. Its operating earnings, excluding investment gains and losses, increased 12.6% versus the year-ago quarter to $8.1 billion. Buffett advises investors to focus on this operating earnings figure as the best way to gauge the overall
progress of the company. Given how the stock market can fluctuate in any quarter, the unrealized gains and losses of Berkshire’s equity holdings are just noise. For us, the main business that stood out in the results was BNSF, with a 9% decline in operating earnings. The railroad’s freight volume was down 10% versus a year ago, which lines up with Buffett’s general comment during the Q&A session about the economy: “I would say that in the general economy, the feedback we get is that, I would say, perhaps a majority of our businesses will actually report lower earnings this year than last year.”

There were a few notable capital allocation items. Berkshire stepped up the level of share repurchases, spending $4.4 billion in the first quarter. This was the firm’s highest quarterly buyback since the fourth quarter of 2021. Berkshire was a net seller of stocks in the first quarter, with purchases of $2.9 billion and sales of $13.3 billion. Berkshire’s cash balance as of March 31 was $130.6 billion, up slightly from $128.6 billion as of Dec. 31. The company is earning a much higher rate on its short-term U.S. Treasury notes versus a year ago.

The Select Equity portfolio managers are fans of our companies opting for share repurchases when done sensibly, which to us means that the shares are trading at a discount to intrinsic value and represent a better investment opportunity than the alternatives (like additional investment in the underlying business or acquisitions). We are less pleased when companies systematically repurchase shares regardless of price, especially when there are better uses for the capital. In evaluating stocks, we consider the board and management’s allocation of capital to be one of the most important factors. Berkshire Hathaway continues to score very highly with us on any ranking related to management or capital allocation.

In terms of individual stocks within the company’s equity portfolio, there were a few notable insights from the Q&A session. At the tail end of a long response to a question about Berkshire’s holdings in Occidental Petroleum OXY and Chevron CVX, Buffett said, “We will not be making any offer for control of Occidental, but we love the shares we have. And we may or may not own more in the future, but we certainly have warrants on, which we got as part of the original deal, on a very substantial amount of stock at around $59 a share. And that will last a long time. I’m glad we have them.” Berkshire’s ownership stake in Oxy exceeds 20%, so there had been some speculation about buying the entire business. Buffett clearly squashed those rumors.

In response to a question about Apple being Berkshire’s largest equity (non-wholly owned business) by a wide margin, Buffett responded, “Our criteria for Apple are different than the other businesses we own; it just happens to be a better business than any we own. And we put a fair amount of money, but we haven’t got more money than we’ve got in the railroad. And Apple is a better business.” We don’t view Buffett’s statement as controversial, given the current dominance of Apple’s ecosystem and consumer loyalty. Buffett is comfortable with Apple because he sees it as a consumer-driven business, not a technology firm. We think that Apple leveraged its technology prowess to establish a profitable business model as well as to please consumers with ease of use across various products like iPhones and iPads. In our opinion, what makes the railroad such an attractive business is that we don’t see any viable substitute over the next 20-30 years. With Apple, we think there’s potential disruption risk when we look out beyond the next decade.
**Berkshire Hathaway's Future**

After this year’s meeting, we remain enthusiastic owners of Berkshire Hathaway in our All-Cap Equity and Tortoise portfolios. The obvious question about Berkshire’s future is succession: What happens to the company when Buffett and his longtime partner Munger are no longer around? In our view, Berkshire has been fortunate that these two have remained healthy and engaged for so long. This allowed for a succession plan to become well established with strong executives, investment managers, and a board of directors who will carry on the culture.

We’re quite pleased that Buffett increasingly involves his successor, Greg Abel, in the everyday operations and decision-making for all the Berkshire-owned businesses besides the insurance businesses, which are managed by the very capable Ajit Jain. Buffett’s seal of approval and increased responsibility for Abel gives us, as Berkshire shareholders, more confidence in the company’s long-term prospects. From Buffett: “Greg understands capital allocation as well as I do, and that’s lucky for us. And he will make those decisions I think very much in the same framework as I would make them. And we’ve laid out that framework now for 30 years probably, or something like that.”

We also gained some important insights from an April CNBC interview in Japan with Buffett and Abel after Berkshire increased its stake in five Japanese holding companies. Buffett shared the following on their current working arrangement: “He does all the work, and I take the bows—it’s exactly what I wanted. And he knows more about the individuals, the business, he’s seen them all…Greg is there, and he understands each of our businesses….Greg gets it the same way I get it, but the difference is that he likes to work, and I like to sit around. And I like to allocate capital, and he likes to—he thinks the same way on it as I do, but he also likes to meet everybody that’s running the business. And he understands them, and he’s probably tougher than I would be in terms of getting things done and everything. And so, it’s improved, it’s already improved dramatically—the management of Berkshire. And we think alike on acquisitions. We think alike on capital allocation. I mean, he’s a big improvement on me, but don’t tell anybody…Our managers like autonomy, but they also get lonesome. I give ‘em the autonomy, and but Greg gives ‘em both and he gets somewhat more discipline out of the managers with our hands-off-type operation. He gets more discipline than I would get.”

In our view, Buffett is more aware of his own strengths and weaknesses than any of the other Fortune 500 CEOs. His comments lead us to believe that Berkshire’s business operations are already benefiting from Abel taking more of a leadership role. Our read is that Abel will still provide autonomy to business leaders, but balanced with greater accountability. There has been some public criticism of BNSF not adopting precision railroading like most peers and Geico’s financial performance lagging Progressive’s PGR in recent years. We agree there’s room for improvement in both businesses, and we think it might be more likely to occur with Abel’s increased involvement.

**Berkshire Culture and Life Lessons**

We’ve long admired Berkshire Hathaway’s culture, and that starts at the top. Buffett and Munger lead by example, with their words and actions, and they’ve done so for nearly six decades. As longtime shareholders, it is easy for us to take for granted how unique the company has become in corporate
America. Here is a narrowed-down list of Berkshire’s unique characteristics: a small headquarters staff in Omaha (the anthesis of bloat and bureaucracy), a culture of trust that allows managers to run the businesses in a decentralized manner, a lack of earnings guidance or spoon-feeding of Wall Street analysts, a board of directors with skin in the game via meaningful purchases of Berkshire shares with their own money, and the equal treatment of all shareholders.

Buffett and Munger have seen it all over their long careers. Both men are highly intelligent and great investors, but as time goes on, what stands out to us is their rationality, ability to laugh at themselves, and willingness to admit mistakes. That’s a very healthy combination, in our opinion. Here are a few quotes that stood out this year in terms of lessons we can all be reminded of, whether dealing with investing or other aspects of life:

Buffett: “You should write your obituary and then try to figure out how to live up to it; that’s something you get wiser on as you go along.”

“Don’t make any mistakes that take you out of the game or come close to taking you out of the game. You should never have a night when you’re worried about investing.”

Munger: “Well, it’s so simple to spend less than you earn and invest truly and avoid toxic people and toxic activities and try and keep learning all your life….and do a lot of deferred gratification because you prefer life that way. And if you do all those things, you are almost certain to succeed.”

The Select Equities team sees Buffett and Munger as excellent role models in their commitment to learning, rationality, and integrity. We strive to follow their lead when managing our clients’ portfolios. We are dedicated to continuous learning. Our team also strives to follow a long-term, disciplined approach to investing. We’ve tried to build a culture of trust and respect, which allows our team to engage in well-informed discussions, thoroughly vet stock ideas, and openly discuss mistakes so we can learn from them. We aim to put our clients’ interests first when making any investing decision.
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