Berkshire DIVIDEND STRATEGY

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BERKSHIRE BOTTOM LINE

Berkshire Asset Management, LLC (Berkshire) is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients. Our guiding principle is a belief that success can be achieved by combining rigorous, well crafted investment processes with an exceptional level of client service and attention to detail. Asset Management with a Difference... Diligence, Integrity and Focus. Berkshire Asset Management, Inc. was formed in 1986 as a SEC registered investment adviser. In 1999 the company was sold to Legg Mason. In 2007, senior leadership repurchased the firm, forming Berkshire Asset Management, LLC, the company built to serve you today.

OVERVIEW: A VICTORY LAP FOR THOSE WHO HUNG IN THERE!

- Most macro prognosticators had a dismal view of equities in March
- Berkshire advised to remain patient and invested amidst the panic, arguing stocks had already more than reflected grim news and could recover
- Result? Most U.S Equities moved sharply higher from their March lows through 9.30.20
- While U.S. value stocks did not vault as high as U.S. growth stocks, they still rebounded significantly - an attractive outcome vs. moving to cash or fixed income
- In addition to swift policy response, U.S. companies again showed their resiliency and ability to reshape themselves even in something like a pandemic – a trait to be remembered in future crises
- Fundamentals remain tenuous but are moving in the right direction and better than most expected
- U.S. elections remains a wild card as does the path of the pandemic
- YTD market returns have remained concentrated with a narrow list of growth stocks outpacing the average stock by a wide margin

Bottom line? While it may not sound sophisticated, sometimes the wisest, yet most difficult investment strategy anyone can follow is to simply stay the course…especially during market panics.

Source: Bloomberg

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PORTFOLIO/PERFORMANCE OUTLOOK

- 3.21% current dividend yield as of 9.30.2020
- 21 dividend increases in 2020 YTD with an average increase of roughly 5%
- Berkshire 2 dividend cuts. S&P 500 61 dividend cuts.
- 15.64x 12M P/E vs S&P 21.42x 12M P/E

Berkshire's Performance: Two isolated areas of the portfolio have lagged YTD when compared to the broader market. These two areas do not invalidate our process, approach, or long term track record.

1) Act of omission: Not enough high growth tech

- Expensive, many don't pay dividends so why should we own?
- When growth stocks become "speculative", it's likely Berkshire will not keep up.

2) Act of commission: Allocation to banks

- 7% absolute drag on performance
- Sector down approx. -30% vs S&P 500 +5.5%
- Case for banks going forward:
    - We believe the Fed keeping the short end of the curve at 0% will eventually be a tailwind for the banking industry
    - Zero interest rates will support a continuous recovery in the economy - Loan demand will increase
    - Long term rates may return to pre-pandemic levels (10 year 1.5% to 2.0%) while the Fed holds short rates low - NIM expansion
    - Credit quality has been substantially better than expected
    - Banks were expecting 9 to 10% unemployment in the 4th quarter, it might be closer to 7% Meanwhile, most banks are managing their other earnings levers extremely well
    - Although performance has lagged in 2020, investor pessimism will fade form the industry and we believe the banks offer an attractive risk return profile in the years ahead

Bottom Line? We believe the Pandemic has accelerated changes that were already occurring in our economy - U.S. Blue Chip stocks are well prepared, driving change and will capitalize on the shifts. The Berkshire portfolio is positioned for the changing landscape and offers attractive fundamentals in our opinion.

Source: Bloomberg

Continued on backside

EARNINGS GROWTH OBSESSED?

- Growth investors generally believe earnings growth will drive stock prices higher, regardless of valuation
- Although, if valuations are stretched, attractive earnings growth does not guarantee higher stock prices
  - Coke grew earnings from $3.5 billion to $11.8 billion from 1998 - 2011 yet its stock barely budged
  - Microsoft grew earnings from $7.8 billion to $20 billion from 1999-2010, yet the stock went almost no where
- Today, there are a number of game-changing companies with fabulous fundamentals. We do question however, are their prices too high? Will their earnings grow but their prices stay flat like Coke and Microsoft did years ago?
- Sometimes the opposite is true. There are numerous companies with more pedestrian growth prospects but low valuations, attractive dividends and stock prices that may rise at a faster rate than some of today's popular growth stocks

Bottom Line? No growth stock is immune to over valuation. Companies, industries and the economy are adaptive - nothing is inevitable. Over time, valuation and price matters.

Source: Bloomberg

PORTFOLIO CHANGES

Purchases / Position Increase

- Bank of America (BAC) - Increase: Transformed bank; strong loan quality, attractive dividend yield and quality management
- Intel (INTC) - Increase: A short-term product delay creates opportunity; secular growth story (internet of things, cloud, and 5 g), low valuation
- Leggett & Platt (LEG) - Increase: Long time dividend aristocrat; mundane business but demand is high; "selling every mattress I can make" (LEG CEO)

Sales / Trims

- Microsoft (MSFT) – Trim: pristine but approaching our intrinsic value estimates
- Southwest Airlines (LUV) – Sold: dividend suspension – avoided selling at "fire sale" prices
- Wells Fargo (WFC) – Sold: No longer fits discipline - Cut dividend to roughly 1.5% per DFAST guidance

Source: Bloomberg

RETURNS SERIES (as of 9/30/2020)

Index	Ticker	QTD	YTD	Last 1 Year	2019	2018	2017
S&P 500	SPX	8.93%	5.57%	15.14%	31.48%	-4.39%	21.82%
S&P 400	MID	4.77%	-8.62%	-2.17%	26.17%	-11.10%	16.23%
S&P 600	SML	3.17%	-15.26%	-8.32%	22.74%	-8.52%	13.15%
S&P 500 Growth	SPTRSGX	11.75%	20.61%	30.64%	31.13%	-0.01%	27.44%
S&P 500 Value	SPTRSVX	4.79%	-11.47%	-2.68%	31.93%	-8.95%	15.36%
MSCI EAFE	MXEA	4.88%	-6.69%	0.99%	22.77%	-13.31%	25.70%
MSCI EM	MXEF	9.65%	-0.96%	10.84%	18.82%	-14.28%	37.79%
Nikkei 225	NKY	4.59%	-0.35%	8.54%	20.73%	-10.30%	21.34%
US Dollar	DXY	-3.59%	-2.59%	-5.52%	0.23%	4.40%	-9.87%
Oil (Brent)		-0.49%	-37.95%	-32.63%	22.68%	-19.55%	17.69%

Source: Bloomberg

Definitions: The S & P 500 Index is a market capitalization weighted index of the largest 500 U.S. stocks. It is a market-value weighted index (stock price times # of shares outstanding), with each stock's weight in the index proportionate to its market value. The index is designed to measure changes in the economy and is representative of most major industries. You cannot invest directly in an index. Beta is a measure of volatility vs. an index. Current yield is the mean estimated annual dividend amount based on current calendar year, divided by the current stock price. Dividend Payout ratio is the fraction of net income a firm pays to its shareholders in dividends, in percentage. Forward Price Earnings Ratio (P/E) is the ratio of the price of a stock and the company's projected earnings per share.