Berkshire
DIVIDEND STRATEGY

Berkshire Asset Management
46 Public Square, Suite 700
Wilkes-Barre, PA 18701
570.825.2600

Special Commentary

Russian Impact - Berkshire Special Commentary – *March 1st, 2022*

Portfolio objective as it relates to international investing:

Berkshire does not own or seek to own foreign listed securities in its portfolio. Therefore, there is zero direct ownership exposure to Russia or Ukraine. However, Berkshire's screenable universe contains a large number of high market cap companies domiciled in the US. Many in the portfolio or under consideration derive revenue and maintain operations at a multi-national level. Targeting specific geographic exposure is not an explicit or stated investment goal. We do however give moderate consideration to these exposures at the company level within the context of the entire investment mosaic.

Risk Management vs. Global Shocks:

We have articulated our investing strategy does not included attempts to time, side step or restructure the portfolio in anticipation of large macro or geopolitical shocks such as pandemics, wars etc. Instead, we seek to maintain investment positions in companies with exceptional financial strength and operational excellence that allows them withstand and adapt during these types of shocks.

Still, we measure & monitor the risks, and are compelled to make opportunistic changes based on potential dislocations created by the crisis.

Russia's Impact on World Economy:

Producing $1.7 trillion in GPP, nominal terms, Russia is a not sizeable economy contributing only 1.6% of World GPP. World, US, and Euro zone GDP eclipses $102, $24, & $18.4 trillion respectively according to IMF data.

Russia does however have impact, at least at the margin, on global energy and select agricultural commodities which could affect supply / demand dynamics of select multinational companies and the global economy.

Calculating and Assessing Russia's Impact:

Specific data to make decisions can be difficult to come by and situations are fluid – Does the company break out Russia/Ukraine vs European sales? How long will sanctions and bans last? What are the exacting percentage of inputs from the regions? Did the company hedge their input costs with futures? If threatened, how well can companies adapt to the challenge. Does the threat actually create opportunity long term? Possibly the most important question; does the event materially affect the LONG run (5-10 years) cash generating ability of the company? And if it does, is the lower growth rate (or other financial attribute) rate already reflected in prices?

Taking nothing for granted, Berkshire's research team is giving careful consideration to certain areas of the portfolio, attempting to quantify and interpret business risks and their impact on valuation. Data in conjunction with inference we believe should be relied upon.

Berkshire has tools to estimate our portfolio's geographic revenue exposure. Berkshire companies, in aggregate generate 63% of their revenue domestically (slightly more than the S&P 500) and 25% from Europe (the same as S&P 500). To illustrate the "Russian" challenge, Bloomberg quantifies segment data from company filings and only 8 companies in the S&P 500 break out revenue by EASTERN Europe which would include Russia.

Although data is not explicitly available, Russia is a 10% contributor to the European economy. And if our European exposure is around 25%, we are inferring there is no out-sized revenue exposure to Russia. – Currently, we believe exposure is very manageable and at best, not material.

Beyond Statistics: What are companies saying?

In addition to this type of quantitative research from the likes of Bloomberg and Zacks, we are drawing on our reservoir of company knowledge and monitoring specific company announcements relating to the crisis.

FINANCIAL: There is virtually zero direct loan exposure to Russian or Ukrainian companies. The bulk of our financial holdings are domestically focused. However, current geopolitical risks may create near term spill-over effects and impact: inflationary pressures, interest rates, economic growth, loan demand, funding costs, perceived counterparty risks widening of credit spreads just to name a few. General uncertainty may have a disproportionate effect on financial institutions. We believe the financial strength and risk management skills at the banks we own make them well suited to mitigate risks associated with these macro events. Shocks such as these are not new to these companies.

- JPMorgan, JPM: Limited direct business operations, they are winding these operations down. Direct Loan exposure to Russia is reported at $550 million according to recent company announcements which is not material.
- One of JPM's counterparties, a hedge fund, which trades nickel recently failed to meet margin, creating near term exposure at $1B.
- We continue to monitor these types of counter party and other credit exposures.

CONSUMER NONCYCLICAL: Much of the noncyclical sector is already dealing with supply strains and inflationary pressures. Russian Ukrainian exposure is an incremental pressure. Portfolio exposure in this sector approximates that of the average S&P 500 company.

- General Mills (GIS) – The uncertainty of wheat prices will undoubtedly challenge margins – the question remains how much of the input increase can be passed to the consumer without impact demand. We believe General Mills has strong brands and much of this can be absorbed in price increases. Also, General Mills may have flexibility in suppliers and they may have costs hedged.

- McDonalds (MCD) temporarily shuttered approx. 950 restaurants in the impacted region. Collectively, this accounts for roughly 9% of total revenue. While not immaterial, this was quickly reflected in the stock price and does not create a long-term business or financial risk to the company.
- Pepsi (PEP) actually does report sales to Russia and it is approximately 4% of revenue. Russia is the company's third largest markets. While not immaterial the loss of revenue does not create any near-term financial strain or affect our enthusiasm for the company's performance over time.

On the positive side, we have numerous companies in the portfolio which for a variety of reasons are outperforming the broader markets.

- Many large technology companies we cover report only 1-3% of revenue exposure to Russia.
- Our allocation to drug stocks is fairly insulated from economic uncertainty and have been a solid defensive position. Valuations are attractive in the space; yields are favorable and broader demographic tailwinds are intact.
- Our energy stocks have benefitted from oil prices. And our industrials have benefitted in nuanced ways i.e., Lockheed Martin has garnered attention as "increased defense spending" appears imminent and Norfolk Southern benefits from shipping more Canadian oil.

Supply Chain Impact:

With the exception of higher energy prices, which impacts a huge swath of world economy, we do not believe the Russian invasion changes the already strained supply chain. A few of companies we cover have some factory operations there which could be threatened. Higher wheat prices as mentioned will materially impact our holding in General Mills.

Portfolio Change:

We have made one change in the portfolio this quarter based on company fundamentals not related to the Russian crisis. We sold our small position in Viatris (VTRS). The evolution of Viatris as a public company has not met our expectations, the balance sheet is now highly levered, putting its dividend at risk. Prospects to grow the dividend are weak. The company is disposing of higher growth business and make large capital commitments to R&D. This capital reallocation changes our discount rate and we no longer wish to own the company

Recent Results/Down capture during crisis:

Analysis shows our exposure to dividends, value bias and quality attribution factors as contributing to positive relative performance year to date. We believe the portfolio is durable and well positioned to capitalize on these positive factor exposures and trends.

Conclusions?

Overall, we're pleased with how our portfolio has responded to this broader market correction. We also believe the portfolio is positioned well at this time and the crisis, in its current form, does not create any unique risks to our portfolio vs. other U.S. large cap strategies, nor does it prompt wholesale changes. Given how every crisis is unique (that's what makes it a crisis) as is standard practice, we are screening, running labs and completing increased due diligence on each of our companies owned and under consideration to create the optimal risk return profile for clients of the Berkshire Dividend Strategy.

Contact:

Gerard Mihalick, CFA, Portfolio Manager
gmihalick@berkshiream.com or (570) 825-2600

Jason Reilly, CFP®, VP Distribution
jason@berkshiream.com

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. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. You cannot invest directly in an index. BEst (Bloomberg Estimates) Earnings Per Share (EPS Adjusted) estimate returns Earnings Per Share from Continuing Operations, which may exclude the effects of one-time and extraordinary gains/losses. Beta is a measure of volatility vs. an index. Upside/Downside capture ratios refer to a portfolios performance as a percentage of either positive returns (upside) or negative returns (downside) vs. an index. Standard Deviation is a measure of total risk. Alpha, Beta and capture ratios are represented as calculated by Morningstar.

*or sector is used to explain the portfolio manager's rationale for portfolio decisions or philosophy. Research or financial statistics cited regarding securities or sectors do not contain all material information about them. Any securities mentioned represent a partial list of holdings whereas Berkshire portfolios typically contain approximately 30-40 securities in percentage weightings ranging from 1-5%. A complete list of holdings from a representative account is available upon request. Overall portfolio characteristics mentioned are from a representative account deemed representative of the strategy; data may be compiled from Bloomberg, Baseline or Berkshire estimates. Individual holdings, performance and aggregate characteristics of actual portfolios may vary based on a variety of factors including market conditions, timing of client cash flows and manager discretion. This presentation contains Berkshire opinions and use of Berkshire estimates which are subject to change at any time. Berkshire employees may have personal positions in any securities or sectors mentioned. Charts, presentations or articles may be obtained from third parties and Berkshire does not guarantee their accuracy. *Platform restrictions may apply. Preliminary returns are based on composite estimates only. Individual accounts will vary.*