



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Portfolio Changes + What's Holding You Back? – February 21st, 2025

#TGICasualFriday!

Berkshire is hiring a PA based internal wholesaler! If you know a qualified professional, (2-5 years of experience) they can email a resume to careers@berkshiream.com.

If you know someone give me a call to discuss @ 570.406.3300

We're excited about several portfolio changes this week...

Add New Position - A.O. Smith Corporation (AOS): Target Weighting 2.00%

- ~150-year operating history with strong brands in water heater, boiler and purification systems
- 85% of water heater sales are replacements = steady, reliable stream of cash flows
- Housing shortage may provide tailwinds to the business for years
- Solid balance sheet with minimal debt, in our view
- ~2.05% current dividend yield, ~35% payout ratio, 5 yr dividend growth ~7.50%
- *Forward Capital Allocations?* Share repurchases and ~10% annual dividend growth targets
- We view tariff risks and slow housing turnover are built into the stock price

(Source: Bloomberg)

Capital Allocation Priorities



Strategic Investments

- ✓ **Organic Growth**
Mix of Capex, R&D and new product development
 - Invested \$73M in Capex in 2023; ~\$105-110M in 2024
 - R&D totaled \$98M in 2023
- ✓ **M&A**
Strategic M&A to drive shareholder value
 - Clear strategic filters and financial criteria
 - Cultivate active pipeline



Returning Capital to Shareholders

- ✓ **Dividend**
Philosophy: Growing, competitive & sustainable dividend
 - Conduct peer analysis and assess yield / payout ratio
 - 5-year dividend rate per share CAGR of 10%
 - Over 30 consecutive years of dividend increases
- ✓ **Share Repurchases**
Share repurchases remains a key component of capital allocation strategy¹
 - 2024 target: ~\$300 million

(Source: A.O. Smith Investor presentation - <https://investor.aosmith.com/static-files/4417c60a-6f9c-4031-b89f-06cc2a48eccc>)

Trim Position – Walmart (WMT): New Target Weighting 2.50%

- Valuation targets, position size, cash raise for A.O. Smith.

Add to Position – Hershey (HSY): New Target Weighting 1.50%

- Recession-resistant business with enduring multi-generational brands
- Dividend increases 51 out of the past 52 years (2009 “paused”)
 - Increased dividend ~13% annually over the past 5 years
 - 3.35% dividend yield w/ ~50% payout ratio, providing ample support for continued dividend growth
- Trading @ lowest relative valuation in ~25 year on depressed earnings
- “Cocoa crisis” poses a risk to the business and created a steep sell-off in the stock
- Automations, logistic efficiencies and optimizing the supply chain creating opportunities for improved margins
- Ability to acquire and expand market share or diversify. Only 1% of international market share

(Source: Bloomberg)

Pfizer (PFE): Sell – New Target Weighting 0.00%

- Covid windfall, “wasted” on non-accretive acquisitions to date
 - We remained patient but R&D pipeline not materializing as expected
- Eliquis and Prevnar patent cliffs upcoming 2026
- “Late to the game” commitment on GLP-1 + Plus, its candidate, Danuglipron, shows significant side effects

(Source: Bloomberg)

M&T Bank (MTB): Add to Position – New Target Weighting 2.75%

- *MTB volunteers to take the Fed’s upcoming stress test*
 - A positive exam may free up capital paving the way for lending growth, deals or capital return to shareholders.
- Loan portfolio accounts for ~65% of revenue = leveraged earnings growth on the health of economy
 - 28 years of consecutive dividends with no interruption (including '08-'09)
 - ~2.75% current dividend yield, ~35% payout ratio, 5 yr dividend growth ~6%
- In general, some weakness in lower tier credit presents risks for banks

(Source: Bloomberg)

J.P. Morgan (JPM): Trim Position – New Target Weighting 4.50%

- Risk management, position was approx. 5.5% of model portfolios
- Tailwinds: Continued consolidation in banking, steepening yield curve and healthy loan volumes
- Valuations elevated, ~15x Forward PE, ~2.2x P/B w/ 1.80% dividend yield

(Source: Bloomberg)

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What's Holding You Back from Delegating What You Need to Let Go Of?

Kitces provides a super helpful episode to prioritize time, tasks and objectives!

- Delegation dilemma: While “delegate and let go” is often advised, many find it psychologically challenging to relinquish control -- though it frees up time for higher-value work.
 - Other dilemma aspects: Advisors doubt anyone would enjoy their least-favorite tasks and believe they can complete certain tasks faster / better themselves.
- Hire an ‘opposite’: Bring in someone with complementary strengths -- like an operations-focused person for detail-heavy tasks (Everyone doesn’t want to play quarterback)
- Long-term payoff: Focus on strategic / highest order work (or personal time), ultimately boosting scalability and growth potential.

Kitces & Carl Ep 151 - <https://www.youtube.com/watch?v=k24FkUPucqs&t=3s>

Bonus? Larger teams solving complicated issues serve bigger clients and money way more money.

Exhibit 3 Practice Type Archetypes, 2023

	 Investment Planner	 Case-Based Planner	 Comprehensive Financial Planner	 Private Wealth Manager
Service Complexity	Money Management			Comprehensive Financial Advice
Description	Build basic portfolios and focus exclusively on asset management for nearly all clients	Provide modular issue-based planning with most clients. May emphasize asset management or financial planning as their value proposition	Develop complete financial plans with nearly all clients based on an extensive analysis of their goals, assets, and liabilities	Specialize in comprehensive wealth management with all clients
Advice Provided to Clients	Money management, basic financial advice	Investment management, targeted financial planning services such as retirement guidance and education funding	Investment management, a broad range of financial planning services including basic estate planning, insurance/ risk, etc.	Complete suite of financial planning and investment services including charitable giving, stock option planning, and complex trust and estate planning
% of All Industry Advisors	7%	57%	26%	10%
% of All Industry Assets	9%	50%	23%	18%
Average AUM per Practice (\$ millions)	\$285	\$210	\$230	\$822
Average Client Size	\$600,000	\$562,500	\$642,857	\$1,818,182
Core Market: % of HNW Clients (>\$5 million)	8%	7%	7%	37%
Average Practice Headcount	2.7	4.0	4.4	7.6
% of Practices with Specialized Staff	13%	21%	29%	52%
# of Planning Services Offered	3.9	6.7	9.5	9.6

Source: Cerulli Associates | Analyst Note: Cerulli assesses practice types through a series of survey inputs on various criteria. Although Cerulli buckets advisors into distinct archetypes to display data, many advisors believe a blend of the archetypes more accurately represents their practice. Cerulli assigns each advisory practice a core market range based on the investable assets of the majority of the practice's client relationships. Specialized staff roles include paraplanners, investment research, marketing, or compliance.

The Battle for Overhead Bins Is Raging. These Are the Rules to Play By.

https://www.wsj.com/lifestyle/travel/carry-on-bags-overhead-bins-flight-expectations-c8b364ab?mod=lifestyle_trendingnow_article_pos1

Have a great weekend!

Gerry

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