



The 2022 Berkshire Hathaway Annual Meeting

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The 2022 Berkshire annual meeting resembled its pre-pandemic self, with tens of thousands of spectators in attendance. Warren Buffett (age 91) was joined on stage by the familiar face of Vice Chairman Charlie Munger (age 98). The duo was also joined by Greg Abel, who is the current CEO of Berkshire Hathaway Energy & Vice Chairman of non-insurance operations and heir as CEO of Berkshire upon Buffett's retirement, and Ajit Jain, who runs Berkshire's insurance operations. The group sat on stage for 5+ hours answering questions and conducting the annual meeting. Conner from our team was able to experience his first Berkshire meeting. John and I wanted to give a 'thank you' to Conner for getting in line at 5:30 am to save seats!

The focal point of the meeting was not around the normal Q&A with Buffett/Munger but rather on the activity within Berkshire during Q1 and the commentary at the meeting pertaining to it. Critics of Berkshire have cited the growing cash balance of the company and Buffett's inability to find reasonable investments. Over the last couple years Berkshire has largely utilized its cash balance to repurchase shares of the company (a decision we agree with, price pending). In his annual letter to shareholders on February 26th, Buffett stated he was finding few opportunities to deploy capital. *"Charlie and I have endured similar cash-heavy positions from time to time in the past. These periods are never pleasant; they are also never permanent. And, fortunately, we have had a mildly attractive alternative during 2020 and 2021 for deploying capital."*

Oh, what can change in a month. During the quarter Berkshire purchased over \$51 billion in equity securities and sold almost \$10 billion, for a net purchase of \$41 billion. Berkshire also repurchased \$3 billion of its own stock. This resulted in Berkshire's cash at the insurance level falling from \$144bn at year end to \$103bn at the quarter ended March 31st. Below is an image from the Berkshire annual meeting showing the timing of equity activity during the quarter. Additionally, higher interest rates compared to levels a year ago will result in significantly more interest income earned on the \$100+ billion in cash and short-term US treasury bills. Interest rate increases alone could add up to \$3 billion of additional income per year assuming the Federal Reserve Fed Funds Rate reaches 3% this year.

Berkshire Hathaway Inc.

Activity in Equities – 1st Quarter
(in millions)

<u>Dates</u>	<u>Purchases</u>	<u>Sales</u>
January 1 to February 18	\$ 2,280	\$ 1,742
February 21 to March 15 *	41,025	3,875
March 16 to March 31	<u>8,551</u>	<u>4,691</u>
Total	<u>\$51,856</u>	<u>\$ 10,308</u>

* Peak Day – March 4th – \$4.6 billion of purchases



Below is our estimate of the announced capital deployed in 2022:

- Chevron (CVX): As of 12/31/2021 Berkshire held just over 38 million shares of CVX, for a position value of roughly \$4.5 billion. In its 10-Q filing ended 3/31/2021, Berkshire listed its stake in CVX at just under \$26 billion, meaning the company purchased around an additional 121 million shares of the company. Depending on the average purchase price, we estimate this could be around \$18-\$19 billion of the invested capital.
- Occidental Petroleum (OXY): Berkshire also allocated capital towards another energy company, Occidental Petroleum. Buffett gave a detailed breakdown of the trading in OXY during the quarter, which resulted in the company purchasing over 136 million shares for roughly \$7 billion. Berkshire, now a greater than 10% owner of OXY, is required to report trading activity on the company. Berkshire has continued to purchase shares of OXY into Q2 and has purchased another \$350 million.
- Activision Blizzard (ATVI): In early January, Microsoft made an offer to buy Activision for \$95 per share. Pending regulatory approval, the acquisition could close sometime in 2022. Buffett liked the discount the ATVI shares were trading at relative to the acquisition offer price and purchased roughly \$4.5 billion worth of ATVI shares.
- HP Inc. (HP): Berkshire allocated roughly \$4.2 billion of capital to the computer hardware company in the first quarter.
- Buffett also added roughly \$600 million to the company's Apple (AAPL) position. He also mentioned allocating \$5 billion towards a few German headquartered companies and rounding out the positions Berkshire already held in the five Japanese trading houses. Because these are internationally headquartered companies, Berkshire is not required to disclose the companies or position sizes.
- The majority of the equity sale was Berkshire's position in Verizon (VZ), a position the company first bought in Q3 of 2020.
- One important capital allocation decision that was announced but will not be reflected in the financials until later in the year is Berkshire's intention to purchase Alleghany Corporation, an insurance company. The acquisition offer was for \$11.6 billion and could close in Q3 or Q4 of 2022. We think the Alleghany purchase makes a lot of sense for Berkshire. The deal was struck at a reasonable valuation for Alleghany. By coming under the Berkshire insurance umbrella, Alleghany will be able to reallocate its investment portfolio (largely bonds) towards higher yielding equity securities, benefit from being a private company inside of Berkshire with

zero focus on short-term results, have reduced borrowing costs, and have access to unlimited capital for growth.

Below is an estimated summary of the activity.

Activity	Est \$ Amount
CVX	\$ 18,500,000,000
OXY	\$ 7,000,000,000
ATVI	\$ 4,500,000,000
HPE	\$ 4,200,000,000
AAPL	\$ 600,000,000
German companies	\$ 5,000,000,000
Japanese companies	?
Total	\$ 39,800,000,000

Outside of the short-term nature of the ATVI investment, Berkshire was able to allocate long-term capital at what Buffett believes is an attractive time. Berkshire's allocation to Chevron makes it the company's 3rd or 4th largest equity position, behind Apple and Bank of America, and in-line with American Express. It's clear by looking at the activity Buffett clearly has a thesis on the US and global energy outlook. Overall, Buffett thinks fossil fuels will still be part of the energy landscape long-term. World energy demand is growing and is forecast to continue to do so. Fossil fuels will meet the need of the population; although alternative sources like solar are going to be taking a bigger piece of the pie (**note: Berkshire is the largest generator of wind and solar power in the US**), the pie itself continues to grow overtime and fossil fuels will still play a big part in it. They're not making any more oil. It's a finite resource and it's a supply demand play over the long-term. We agree with Buffett that it's not a fossil fuel OR alternative energy equation but fossil fuels AND alternative energy. Both will be needed to meet the world's growing energy demand and clearly Berkshire is invested in both approaches.

In closing, Berkshire Hathaway is our largest portfolio investment, and we are satisfied with the continuity plan (Greg Abel and Ajit Jain) and the performance of the company. No business in the US has more tangible net worth (assets) than Berkshire, and we believe the business is built to last much beyond Buffett. We continue to believe Berkshire will perform well long-term because of its diversified income streams, float-generating insurance operations, focused and disciplined capital allocation, pristine balance sheet, and steady investment approach. Its long-term focus and great culture are both rare and durable in a short-term oriented world.

Sincerely,
Austin & John