EQUITY | JUNE 2022

Berkshire Hathaway's Annual Shareholders Meeting: *Back in Force*

Elizabeth Hiss, *Equity Research Analyst* and Maneesh Bajaj, CFA, *Portfolio Manager*

BERKSHIRE HATHAWAY'S 2022 ANNUAL SHAREHOLDERS MEETING was a celebration of American business surging back to life and a testament to the resounding optimism that long term investing can continue to be a force for value creation and societal advancement.

The 11 tons of See's Candy brought to the Century Link Center in Omaha, Nebraska was a perfect way to underscore the fervor and abundance of Berkshire Hathaway's long-storied annual shareholders meeting at the end of April, its first in-person meeting in three years. While Chairman and CEO Warren Buffett's notorious investing dogma is well known, it was nonetheless fascinating to hear him reaffirm Berkshire Hathaway's two primary tenets for investment decisions: the paramount requirement to avoid the impairment of shareholder capital, and the necessity to pursue value creation in any investment endeavor. With Berkshire being one of Flexible Equity's top 10 holdings[1] it was encouraging to hear the first tenet reiterated in person by the firm's venerable leadership.

Perhaps even more encouraging to hear affirmed was the second tenet, given how deeply ingrained it is in Flexible Equity's investment philosophy as well. Similar to Buffett's, Flexible Equity's approach is to seek not only management teams whom we can view as partners and not just managers of a stock price, but also companies creating durable value through their products and services over the long term, not fads or near-term value extraction opportunities.

Keeping with tradition, Buffett and Co-Chairman Charlie Munger presided over the event to discuss the company's portfolio, and share their thoughts on the evolved structure of the equity market, share buybacks, inflation, the role of the Federal Reserve, and more—all imbued with the acerbic wit for which they have become known over Berkshire Hathaway's 57-year history.

Equity market structure: a devolution into a "casino"

Aside from their well-known denunciation of crypto currencies as a farce, Buffett's and Munger's second most fervent criticism of the day was their characterization of the U.S. stock market's evolution into a casino, whereby new entrants are gambling public companies "like poker chips," as Buffett put it. But while Berkshire Hathaway is synonymous with long term investing, he conceded that the market's recent structural shift has made some aspects of the long-term investors' life easier. The existence of gambler-like investors increases the potential for mispricing and liquidity, which can serve as viable entry points for long-term positions.

[1]As of 03/31/2022. Portfolio information shown is based on a representative institutional Flexible Equity account and is provided as Supplemental Information. Please see the end of the presentation for a GIPS compliant presentation and important disclosures.

No country would have wanted or envisioned a system in which long-term investors and gamblers treat the market like a casino, but the stock market has nonetheless worked incredibly well since its founding as an engine of growth and a catalyst for societal advancement.

—Warren Buffett

We believe Berkshire's purchase of Occidental Petroleum in the first quarter of 2022 illustrates the point well. According to Buffett, 40% of Occidental is owned by "four passive firms, leaving only 60% of the float" available to investors. However, in the span of two weeks Berkshire was able to amass a 14% position in the company. The frequency and volume of trading in that 60% float of the company's stock from a combination of strategies with short-term trading algorithms, significant option volume, and other retail short-term trading created the volatility and pretext to build their meaningful position. Prior to the market's casino-like evolution, establishing such a position would have taken meaningfully longer than two weeks, perhaps even months, Buffett said.

Of course, Buffett's decision to buy shares in Occidental was not born out of short termism. As always, Buffett had followed the company for years and concluded that it fit among one of the firm's – and the world's renewed focuses: energy resiliency and security. At several points throughout the day Buffett and Munger discussed the importance of harnessing the major tailwinds currently in energy security in ways that are critical to the country and beneficial to shareholders long term. In Flexible Equity, we couldn't agree more, which is why we recently took advantage of market volatility to increase holdings in Baker Hughes (Baker), an energy services company poised to benefit from the recovery in global oilfield services spending, a favorable supply-demand environment, and its growing liquefied natural gas (LNG) operations. And while the current environment bodes well for Baker, its potential in the new energy economy gives us more confidence in its longer term prospects, too. In our view, Baker's technology portfolio and its demonstrated expertise in new energy offerings—namely carbon capture, utilization and storage, and hydrogen—distinguishes the company from competitors and portends meaningful revenue growth as those markets expand.

Creating entry opportunities for long-term investors aside, the market's devolution into a casino is nonetheless one that no country would have wanted or envisioned, said Buffett. But who is at fault here? It is the banks who "catch crumbs falling off the table of capitalism through their trading fee commissions and the call and option shilling they push on investors," Buffett said. It is a simple case where incentives beget outcomes for the banks where "all the money is in turning things over and they make more money when people are gambling than investing." Buffett and Munger invoked Robinhood Markets, Inc. as an insidious force in the casino market. As a smartphone trading app, Robinhood extracted much more value from customers than it created via fees and payment for order flow, they said. Consequently, Buffett and Munger see some poetic justice in the company's recent downfall.

Our view is that Buffett and Munger believe that the practice and discipline of long-term investing—i.e., evaluating fundamentals, management, culture, and buying when you can assess a discount to intrinsic value—has changed little in the last 40 years. What has changed are the rules of engagement with the market and indeed the market structure itself. One must alter the way they maneuver through less available free-floating stocks, more spurious liquidity, and more frequent and robust trading volatility.

Buffett emphasized other ways Berkshire has resisted acquiescing to such developments in the market, including company management issuing short term and non-GAAP guidance, or accepting without pushback all that has become thought of as necessary to play the game in corporate America, whether it be using investment banks for every transaction, paying their fees, or giving special meetings to sell-side analysts to earn a "buy" rating. There is a certain democratic ideal of shareholder capitalism imbued in Buffett's approach: No shareholder is above another, and none is the recipient of more attention, regardless of how large and influential the investor may purport to be.

Share buyback decisions must consider opportunity costs and existing shareholders

Berkshire used their sizeable cash on hand to buy back $21.7 billion in shares in 2021, which understandably prompted some questions from the audience. In response, Buffett shared his philosophy around buybacks. As buyers of Berkshire's stock, they are always considering two variables: is there a more compelling investment opportunity in a new business, which always takes precedence over buybacks, and; will the buyback improve things for the remaining shareholders? Evoking a point Buffett made earlier in the day about the importance of weighing every investment decision through the lens of opportunity cost, he said "buying back shares of your own business at the right price is always a great idea," and that Berkshire's stock was at the right price for several months in 2021. Further to this point, they favored putting capital to work in the purchase of Allegheny Insurance, HP and Occidental in the first quarter of 2022 at a time when markets sold off.

Buffett noted that as an investor one can always endeavor to make shrewd assessments of a company and buy their stock. However, a way to enhance any value created can be to align with a management team who makes shrewd decisions in how they, in turn, repurchase their shares. He offered their investment in American Express (AMEX) as an example, in which Berkshire has owned shares since the 1990s. In fact, they last increased their position with new shares in 1998 when their position was around 11% of the company. However, through AMEX's purchases of their own shares, Berkshire's ownership has increased to 20% of the company today—a striking example of AMEX creating value for their shareholders. Using an oft repeated farming metaphor to explain the shareholder value creation via buybacks, he said the AMEX example was like farming a few acres and suddenly finding the acres you farmed have reached several hundred.

Investors in Flexible Equity may find this familiar when thinking about the strategy's position in Microsoft Corporation, (MSFT). While certainly no stranger to share buybacks since the tech giant went public in 1986, Microsoft has accelerated buyback initiatives meaningfully over the past decade. Prior to this past fall's announced $60 billion buyback program, the company launched $40 billion in buybacks in both 2016 and in 2013. Having owned MSFT in

There is a certain democratic ideal of shareholder capitalism imbued in Buffett's approach: No shareholder is above another, and none is the recipient of more attention, regardless of how large and influential the investor may purport to be.

Flexible Equity since 2005, when the stock was trading at around $20-$25 per share, both the company's performance and its buybacks—which have reduced its total share float by roughly 30% since our stake was initiated—have contributed meaningfully to total shareholder return.[2]

Inflation is extraordinary, but there is room for nuance in analyzing the Federal Reserve's actions

With macro dynamics top of mind for all, it was particularly interesting to hear from two investors who have lived and invested through several inflationary cycles. Buffett and Munger noted that macro events such as heightened inflation, recessions, and central bank interventions are neither mundane nor cause for complete panic. Indeed, they are simply part of a functioning free market and can be muddled through.

That said, both acknowledged that it is "extraordinary how much inflation our businesses have seen" as a result of the Fed's stimulus actions and the effects of the pandemic. To emphasize the scale of the Fed's actions, "15 years ago there was $800 billion in circulation, and last week there was $2.3 trillion in circulation," Buffett said. That equates to about $7,000 of currency for every one of the roughly 330 million American citizens. While Munger was slightly more critical, saying the Fed was "drowning the country in money" with unprecedented monetary stimulus, Buffett quickly noted that the Fed "had never had a problem of that scale before," referring to the COVID-19 pandemic. Buffett applauded U.S. Federal Reserve Chair Jerome Powell's actions as necessary and proper given the circumstances. Both were noncommittal on where they think inflation goes from here, but believe it could end in recession.

[2]As of 03/31/2022. Portfolio information shown is based on a representative institutional Flexible Equity account and is provided as Supplemental Information. Please see the end of the presentation for a GIPS compliant presentation and important disclosures.

Amid a year of heightened critique of Fed decision making, Buffett and Munger did take the opportunity to affirm the critically important role the Fed plays in upholding the integrity of markets and, on occasion, the necessity of their intervention to shore up the economy in periods like 2008 and March 2020. Moreover, Buffett suggested that the best hedge to inflation was "investing in yourself," i.e. seek to acquire the kind of unassailable skills that always command pricing power regardless of the value of money.

The role of the corporation goes beyond stakeholders —but they should come first

"You don't put your citizenship in a blind trust when you become CEO," Buffett began in describing the role of a corporation and the extent to which such a responsibility weighs on his mind. A striking but not surprising statement from a leader who employs 360,000 people through Berkshire's enterprises and serves three million shareholders. Indeed, he conceded that the dilemma of how to reconcile his private views and interests as a citizen with those of Berkshire's stakeholders occupies more of his mental capacity than even considering in which businesses to invest.

He characterized the role of a corporation and its leader more so by what they should not do—which is destroy shareholder value. This would include avoiding situations where "someone else" i.e. shareholders, employees, and other stakeholders endure the consequences of his public commentary around an issue. He explained in hypothetical terms that when a corporation takes a position on an issue which then angers the customer base, who in turn seek retribution via boycotting products and services, you eventually hurt the shareholder. "You can make more people sustainably mad than temporarily happy," he said.

However, in our view Buffett may be avoiding a potential upside to corporate endorsements of issues in the public sphere that could ultimately benefit shareholders. One could argue Berkshire's advocating publicly for greater nuclear energy development in the U.S.—which is the focus of investments in their Berkshire Energy portfolio—is such an example where shareholders and the general public are aligned as beneficiaries, i.e. advancing nuclear energy to generate emissions-free energy.

In Flexible Equity, we're taking a similar stance by aligning with companies advocating for migrating as much of their technological infrastructure as feasible to cloud service providers, like Accenture, PLC. Transitioning away from having servers on premises not only reduces costs, but also greenhouse gas emissions, since doing so results in less energy consumption. In recent years, Accenture has shifted its focus to prioritize digital and cloud services, which has been material and meaningful to the company. This includes everything from managing clients' risk and security strategies to cloud transitioning.[3]

Technological advances in risk underwriting

Berkshire has long been an owner of some of the most prolific property and casualty insurance corporations in the country. Buffett made an interesting observation, that the insurance company structure in purest form, is not "set up to succeed under capitalism." And yet they argued that in Geico they have found a business with strong competitive advantages and embedded moats. An audience question pressed them on how Geico has recently ceded share to and underperformed Progressive Insurance—which Buffett attributed to Progressive's advanced position in telematics—the most dramatic evolution in auto insurance since it was invented in 1926.

Buffett suggested that the best hedge to inflation was "investing in yourself," i.e. seek to acquire the kind of unassailable skills that always command pricing power regardless of the value of money.

[3]Portfolio information shown is based on a representative institutional Flexible Equity account and is provided as Supplemental Information. Please see the end of the presentation for a GIPS compliant presentation and important disclosures.

An enduring culture that extends beyond a single person

While Buffett and Munger must understandably tire of people asking them what will happen when they die, the running question is not without merit: both men are over 90 years of age. More specifically, many wonder how Berkshire would carry on in the hands of Greg Abel—the current head of Berkshire Energy, who was present at the meeting. Buffett did note that Abel might not be given the full freedom that he himself has enjoyed to act quickly and unilaterally without Board approval to take advantage of an investment or transaction. Yet Buffett extolled the enduring tenacity of Berkshire's culture, and implored that it was detached from any one individual, including himself. The culture, he said, is characterized by employees who see Berkshire as their entire career and no one "is thinking about options vesting schedules or retirement timelines." That said, we do wonder who will be capable of filling the gulf Buffett will eventually leave, and just not at Berkshire, but in society at large. It is hard to summon an example in corporate America, the investment sphere, and even among world leaders who commands the respect and track-record of Warren Buffett. Who else could amass 40,000 people voluntarily on an April Saturday in Nebraska to hear him wax on for six hours?

Through all of today's uncertainty—optimism is warranted

While it may seem that the bulk of the content shared at the meeting was critical of our current environment—i.e. the market, corporations and short termism—remarkably we left not with the impression that sanctimonious weathered investors think everything is getting worse, but that there is resounding optimism that the role of long-term investing will continue to be a force for good and value creation.

FLEXIBLE EQUITY STRATEGY[4]

- **Concentrated and high-quality:** a portfolio of typically 30-45 U.S. mid- and large-cap stocks managed with an emphasis on maintaining a margin of safety
- **Style box agnostic:** a bottom-up approach to seeking companies across growth and value spectrums; invest with the idea that owning stock equates to partnering with management and business ownership
- **ESG due diligence:** conducted early and consistently throughout the investment process to determine companies' exposure and management of material ESG risks

[4]Portfolio information shown is based on a representative institutional Flexible Equity account and is provided as Supplemental Information. Please see the end of the presentation for a GIPS compliant presentation and important disclosures.

Brown Advisory Institutional Flexible Equity Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Ann. Standard Deviation (%)	Benchmark 3-Yr Ann. Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets ($USD MM)*	GIPS Firm Assets ($USD MM)*
2020	20.8	20.3	18.4	20.1	18.5	41	0.3	2,550	59,683
2019	37.3	36.8	31.5	12.8	11.9	42	0.4	2,196	42,426
2018	-3.3	-3.7	-4.4	12.3	10.8	41	0.3	2,263	30,529
2017	25.1	24.6	21.8	11.4	9.9	50	0.3	2,912	33,155
2016	9.9	9.4	12.0	12.1	10.6	52	0.2	2,883	30,417
2015	-2.0	-2.4	1.4	11.1	10.5	56	0.2	2,686	43,746
2014	14.0	13.5	13.7	9.2	9.0	49	0.2	3,195	44,772
2013	37.5	36.9	32.4	11.9	11.9	44	0.4	2,247	40,739
2012	19.9	19.5	16.0	14.6	15.1	40	0.3	1,818	26,794
2011	5.8	5.4	2.1	18.5	18.7	43	1.1	1,714	19,962
2010	11.1	10.3	15.1	22.7	21.9	45	0.7	1,811	16,859
2009	37.1	36.0	26.5	21.3	19.6	48	3.4	1,905	11,058

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2020. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

1. *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1. 2016. the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The Institutional Flexible Equity Composite (the Composite) includes all actual, discretionary, institutional accounts with a flexible value equity objective of 100%. The strategy seeks bargains in "value" as well as "growth" stocks and invests primarily in the common stock of domestic companies with market capitalizations greater than $2 billion at the time of purchase. As of January 1. 2013. the minimum account market value required for Composite inclusion is $1.5 million.
3. ESG considerations that are material will vary by investment style. sector/industry, market trends and client objectives. The strategy seeks to identify companies that it believes may have desirable ESG outcomes, but investors may differ in their views of what constitutes positive or negative ESG outcomes. As a result, the strategy may invest in companies that do not reflect the beliefs and values of any particular investor. The strategy may also invest in companies that would otherwise be screened out of other ESG oriented funds. Security selection will be impacted by the combined focus on ESG assessments and forecasts of return and risk. The strategy intends to invest in companies with measurable ESG outcomes. as determined by Brown Advisory, and seeks to screen out particular companies and industries. Brown Advisory relies on third parties to provide data and screening tools. There is no assurance that this information will be accurate or complete or that it will properly exclude all applicable securities. Investments selected using these tools may perform differently than as forecasted due to the factors incorporated into the screening process, changes from historical trends. and issues in the construction and implementation of the screens (including, but not limited to. software issues and other technological issues). There is no guarantee that Brown Advisory's use of these tools will result in effective investment decisions.
4. Prior to August 2013. the name of the Composite was Institutional Flexible Value. The strategy remains the same.
5. The Composite was created in 1985. The Composite inception date is January 1. 1985.
6. The benchmark is the S&P 500® Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks that is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of dividends and do not reflect any fees or expenses. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers. Standard & Poor's. S&P ®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"). a subsidiary of S&P Global Inc.
7. The composite dispersion presented is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period.
8. Between October 2006 and December 2008, a significant cash flow policy was adopted for the Composite. A significant cash flow is defined as a single flow of cash or securities of more than 25% of the portfolio's market value at prior month end. Accounts with significant cash flows are excluded from the Composite for a grace period, defined as the month during which the flow occurred. Additional information regarding significant cash flow policies are available upon request.
9. Gross-of-fees performance returns are presented before management fees but after all trading commissions. Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Certain accounts in the Composite pay asset-based custody fees that include commissions. For these accounts, gross and net returns are also net of custody fees. Other expenses can reduce returns to investors. Prior to 2011. net performance is based on a model fee using the highest fee in effect, 0.75% applied quarterly. For periods after 2011 actual fees are used to calculate net returns. The standard management fee schedule is as follows: 0.60% on the first $25 million: 0.50% on the next $25 million: 0.45% on the next $50 million: and 0.40% on the balance over $100 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
10. The investment management fee for the Investor Shares of the Brown Advisory Flexible Equity Fund (the Fund). which is included in the composite. is 0.50% for the first $150 million. 0.45% on $150 million to $250 million, 0.40% on $250 million to $1 billion, and 0.38% over $1 billion. and represents the highest fee charged excluding Advisor Shares. The total expense ratio for the Investor Shares of the Fund as of the most recent fiscal year end (June 30, 2020) was 0.84%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
11. The investment management fee for the Dollar Class B Ace Shares of the Brown Advisory US Flexible Equity Fund (the UCITS), which is included in the composite, 1s 0.75%. The total expense ratio for the Dollar Class B Ace Shares of the UCITS as of the most recent fiscal year end (October 31. 2020) was 0.91%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
12. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31.
13. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
14. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
15. Policies for valuing investments, calculating performance. and preparing GIPS Reports are available upon request.
16. Past performance is not indicative of future results.
17. This piece is provided for informational purposes only and should not be construed as a research report. a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy. sell or hold any of the securities mentioned. including any mutual fund managed by Brown Advisory.