The Berkshire Hathaway 50th Anniversary Symposium was presented by the Museum of American Finance and the New York Society of Security Analysts to commemorate the 50th anniversary of Warren Buffett's leadership of Berkshire Hathaway. Below are my notes from attending the symposium.

Fireside Chat with Byron D. Trott and Carol Loomis

Byron Trott recalled how he first met Warren Buffett. He was assigned to cover Berkshire Hathaway by Hank Paulson when he worked for Goldman Sachs. Hank Paulson told Trott to call Buffett, which he did. A scheduled one hour meeting between Trott and Buffett turned into a three hour discussion on a variety of topics.

Trott said Buffett gave him a homework assignment to "test" him. It was the assignment for Goldman to create a negative coupon convertible instrument for Berkshire to see if it could be done. In essence, investors in the $400 million SQUARZ deal paid Berkshire ¾% for the privilege of buying Berkshire stock at a higher price in 12 years. It was the only deal ever done like this.

Charlie Munger, Berkshire's Vice Chairman, thought it was a horrible idea as he thought Berkshire would end up issuing stock at too low of a price in connection with the deal. Much of SQUARZ was redeemed prior to Berkshire having to issue stock, but Charlie still said, "I told you so." Buffett continued to believe the deal was better than free float and joked how Charlie always is the "Abominable No Man."

Trott was instrumental in bringing several deals to Berkshire Hathaway, including the Mars/Wrigley investment and the acquisitions of McLane, the Pampered Chef and Marmon, where

Trott represented the Pritzker family. Berkshire paid $4.5 billion for 60% of Marmon and eventually $8 billion for the total company. Marmon has nine industrial silos with 125 companies. The Marmon deal was the longest deal Trott worked on with Buffett with negotiations lasting 5-7 weeks. Duracell, which Berkshire will be acquiring in the first quarter of 2016, will be put under Marmon management. Trott thinks the cash flows from Duracell and their strong balance sheet will do very well under Marmon management.

Trott described Buffett as the perfect 10 times two. He is a perfect 10 on the human side given his humbleness, sense of humor and positive attitude. He also is a perfect 10 on the capital allocation side with his incredible mind and photographic memory.

Buffett always stresses high ethics among his businesses by telling his managers that they should never do anything they wouldn't want to read about on the front page of a national newspaper. Buffett also exhibits incredible discipline and patience in his investing, noting investors do not need to swing at every pitch. Trott, idescribing Buffett's discipline, exclaimed, "If you knew the deals he turned down over the years, it would make you cry!" However, Buffett knew that every ten years or so, he would be able to use his cash more effectively if he practiced patience and discipline in making deals. Cash on cash returns is the way Buffett measures his returns and not leveraged returns. He seeks durable and long-lasting businesses.

Trott has recently spoken with Buffett who agreed that since 2010 multiples have inflated which makes deal making more difficult. Buffett remains disciplined and unemotional when it comes to making deals.

Carol Loomis agreed that Buffett was an incredible business person. Buffett told Trott to ask Carol about dating Ty Cobb. Carol then relayed the story about how she had appeared on a quiz show, Tic Tac Dough, and won for four days. She was a sports nut and answered all the sports questions impressively. Ty Cobb happened to be watching the show and asked his nephew to call Carol to see if she would have lunch with Ty Cobb. Of course, she did not initially believe the nephew when he called, but finally agreed to have lunch with Cobb. They had a delightful lunch and then Ty Cobb asked her to attend the Old Timers game with him, which she did. While her father encouraged her to keep dating Cobb, she was only 27 and Cobb was 69, so she knew it needed to stop.

The conversation turned back to Trott and the financial crisis in 2008 when Goldman Sachs was teetering until Buffett invested $5 billion in the company. Trott and Buffett spoke regularly during the crisis. Buffett had always had a special fondness for Goldman Sachs as they had provided him with funding during his early days of investing. After a 20 minute negotiation during the financial crisis, Buffett agreed to invest $5 billion in Goldman through preferred stock yielding 10% and warrants. During the five days leading up to the negotiations, Goldman Sachs was experiencing a “run on the bank” as were most financial institutions at the time. Goldman desperately needed $10 billion. After Buffett agreed to provide $5 billion and went on CNBC announcing the deal, Goldman was then able to raise another $5 billion by issuing stock. They also spoke with a sovereign fund about providing a $10 billion backup line of credit, which they ultimately did not need.

Buffett at the time was looking for good investment opportunities created by the crisis, but at the same time, he was trying to make a statement to investors that it was “safe to go back into the water.” The Goldman investment did that. While Buffett eventually did fine with the deal, Goldman’s stock remained volatile initially plunging from $130 per share to $50 per share.

Two weeks later, Trott helped GE get a similar structured note deal from Buffett for $3 billion although with better terms than Goldman got. The Buffett deal helped stabilize GE during the crisis.

After those two big deals, Buffett was out of liquid funds, but he wrote the Oct. 2008 op-ed piece for *The New York Times* letting investors know that the stock market would eventually recover before the economy improved with the quip that “If you wait for the robins, spring will be over. “ Through his deal making and his op-ed piece, Buffett helped to restore confidence in the stock market during the financial crisis.

In addition, Buffett helped Hank Paulson by providing ideas regarding TARP during the financial crisis. Paulson told Trott that Warren Buffett is an American icon, and the world does not fully understand how important Buffett was during the crisis. He described Buffett as a “pragmatic optimist grounded in reality.”

During the financial crisis, Buffett called Hank Paulson one night while he was sleeping. When Paulson sleepily answered the phone and heard “Hello, this is Warren,” he thought it was Warren, his mother’s handyman, and almost hung up on him. Buffett provided Paulson with the twist on TARP to require all banks to take TARP and to make it “attractive money, rather than painful money" to accept. Buffett was able to make a complex deal simple, which is one of his strengths. Buffett's call was the pivotal turn in TARP, and Sheila Bair, the chairperson of the FDIC at the time, called Buffett the next day to tell him he had done an extraordinary thing for the country.

When Trott started his merchant bank, Buffett was an early investor. Trott joked that Buffett did not need anyone to manage money for him but wanted to help Trott by "giving his go-kart a push" to get it started. As Trott continued to raise funds, Buffett advised him to "stop fundraising and invest the funds" as good buying opportunities were disappearing. By waiting until Dec. 2010 to invest, Trott said he incurred a "massive miss." Trott primarily does deals with billionaires who own their own businesses but may need liquidity to do a deal or to buy out family members. While Buffett always gets the first call for elephants that become available for sale, there are plenty of other smaller opportunities for Trott to become involved with. He mentioned how the Mars/Wrigley deal was one where the families would only do the deal with Buffett. Trott is still looking for other deals to bring to Buffett with Buffett joking with him that he is in a slump in terms of bringing Buffett an elephant. One deal that Trott did for his own company was Weber-Stephen, the maker of BBQ grills. Buffett told Trott if they ever wanted to sell the whole thing, Buffett would be interested in buying the company.

Trott noted that Carol Loomis was one of the first to recognize just how good Buffett was as an investor. Carol recalled how her husband had a business lunch with Buffett in the 1960's and came home to tell her he had just met the smartest investor in the world. Carol just nodded her head. She and her husband later had lunch with Buffett and his wife, Susie, when they came to New York in 1967. Carol came away from the lunch now believing her husband that Buffett was indeed the smartest investor in the world. They subsequently became early investors with Buffett and now enjoy a “small” Loomis family foundation because of their Berkshire investment.

Trott noted that since 1962, Buffett has earned 21.2% compounded annual returns versus 10% for the S&P 500 with dividends reinvested over the same period. He noted that $15,000 invested with Buffett back in 1962 would now be worth $424 million versus $2.2 million invested in the S&P 500. This demonstrates Buffett’s success in reinvesting free cash flows from his businesses over the decades.

While most family-controlled businesses have a strong number two person at the company, Buffett says Charlie Munger is not a number two but an equal to Buffett at Berkshire. Munger has always been important to Berkshire. Charlie was influential in having Buffett move from the “cigar butt” method of investing to buying quality businesses at a fair value, with See’s Candies being the first example. Since then, it is incredible how much capital Berkshire has deployed into large businesses from Marmon to Iscar to MidAmerican to Burlington Northern Santa Fe. Buffett is always looking for the next elephant, like Precision Castparts, to use the growing cash flows that keep pouring into Berkshire.

Trott noted that Buffett, along with being one of the nicest people he has ever known, is a great teacher and the most responsive and successful student of investing and businesses. As a professional investor, Buffett provides a safe home for businesses that need liquidity but where the managers want to keep running their own business.

When asked whether Buffett will be remembered most as an investor, business manager or philanthropist, Trott said, “All of the above!” One hundred years from now, Buffett will still be seen as the best investor of all time. Berkshire Hathaway also will still be intact 100 years from now. Buffett has joked that he will be controlling the company from the grave. Buffett is also a great business manager. Matt Rose, the CEO of BNSF, told Trott that Buffett is amazing in the knowledge he accumulates. Rose said, “He knows more about the railroad business than I do.”

Investors Inspired by Berkshire Hathaway: William A. Ackman and Seth Klarman with Roger Lowenstein as moderator

When asked how they first encountered Buffett, Ackman said he was interested in becoming a good investor so he asked his father for recommendations on what to read. His father recommended Ben Graham’s, *The Intelligent Investor.*

Ackman first met Buffett when he attended a Larry Cunningham conference. Susie Buffett happened to have a seat next to her empty, so Ackman sat next to her and chatted with her. She then invited him to sit with them at lunch. When Buffett went to the buffet line, Ackman followed him and watched in amazement as Buffett got to the end of the buffet line and salted all of his food heavily, including his brownies.

When Ackman went to Harvard Business School in the 1990’s, he discovered that there were no classes on investing. He started a self-study program by reading all the investment books he could find, including Seth Klarman's *Margin of Safety*. He went to see Seth Klarman, who was kind enough to talk to him about investing.

Seth Klarman first worked at Mutual Shares under great investors, Max Heine and Michael Price. He said Warren Buffett was common parlance there, so that is how he first encountered Buffett. Klarman has been aware of Buffett ever since he got into the investment business. Klarman noted that Buffett's article on *The Superinvestors of Graham and Doddsville* demonstrated that value investing is so logical.

He said value investors have a value "gene" that is not common in the rest of society. Klarman recounted the story of a friend who enthusiastically wanted to become a value investor. Klarman sent him all types of value investing books to read and talked to him about value investing. About three months later, his friend called him and said he quit value investing because it didn't work.

Ackman noted that some of the things he learned from Buffett were to concentrate your investments, invest in durable and high-quality businesses and to be greedy when others are fearful. Ackman joked that his recent experience with his Valeant investment might also teach him to be fearful when others are fearful.

He added that it is important not only to learn what a business moat is but also how durable it is. He said several of Buffett's investments had moats when he initially invested in them like World Book encyclopedia and his newspapers such as *The Washington Post.* However, in a dynamic world, the moats eroded. While Buffett's investment principles are right, they are hard to implement.

Lowenstein noted that Buffett is very focused on "not losing" money.

Ackman agreed that investors should look for investments where it is almost impossible to lose money and also possible to make lots of money.

Klarman added that the world does change rapidly even if you think you have a margin of safety, so it is important to know how to size your investment positions. He believes that while you can lose money on any individual security, you don't want to lose money on a portfolio basis over the long term. You especially don't want to lose money if it can put you out of business.

Ackman noted that Berkshire's insurance business is all about losing money but they take on probabilistic risks.

Klarman discussed Buffett's evolution from deep value investing to investing in good businesses at a fair price. Buffett initially had a "cigar butt" phase of investing. Then with the influence of Phil Fisher and Charlie Munger, he began buying high quality companies at bargain prices in the 1970's. Then when the bargains disappeared, he began paying fair prices for high quality businesses.

Klarman noted that investors need to be flexible. While investors can kneel at the temple of Graham and Dodd, the world will change due to technological and competitive pressures.

Klarman admired Buffett for not handing investors investment ideas or a treasure map but teaching investors how to apply investment principles. He noted that Buffett does not give out investment formulas because judgment is critical in understanding quality. Business is hard as capitalism erodes profits.

Klarman noted that it was better to have been a value investor in the 1950's as no one was doing value investing back then.

Klarman stated that Buffett has instilled a great culture at Berkshire Hathaway. No one else gets calls from families willing to sell them their family jewels like Berkshire does.

Ackman said Buffett is so beloved because the average guy can buy Berkshire stock. Buffett has made more people rich than anyone else. This is in contrast to George Soros who only invested for the rich. In addition, Buffett is revered for giving away all his fortune to society. In addition, Buffett has been a great educator and as Hank Paulson noted, Buffett helped rescue the country during the financial crisis.

When Ackman was asked if he had ever been on the other side of a Buffett investment, he said he had never shorted a Berkshire stock investment. He mentioned that Charlie Munger had said that Valeant was a deeply immoral company. Valeant is one of Ackman's largest investments.

Ackman said he would never invest in one of Berkshire's largest investment holdings, Coca-Cola. He thought Coca-Cola was deeply immoral in that they were trying to displace water with sugar water for children. He said Coke has done more to create obesity than any other company and has inflicted "enormous damage on society" through too much sugar consumption. He noted that Buffett is "genetically interesting" in that he can consume 6-7 cans of Coke a day without becoming obese. He said Buffett has joked that he has not consumed any water since the 1950's.

Seth Klarman said he does not short stocks, so he has not been on the opposite side of Berkshire investments. He added that it is the nature of the insurance business that the business needs to be a fortress like Berkshire. Folks have confidence in Buffett. The Berkshire model might not work as well for anyone else. In a post-Buffett world, Berkshire may encounter problems as conglomerates do not have a great history. Klarman was concerned that without Buffett's capital allocation skill, Berkshire may not be as successful in generating and reinvesting cash flows.

When asked to compare his business model at Pershing to Berkshire's business model, Ackman joked that he did not want to taint the Berkshire brand by comparing Pershing to it.

Ackman added that the Berkshire business model will be studied in business schools for the next 100 years. He noted how Berkshire is different than most other companies. Berkshire has fewer board meetings, focuses on book value growth, has a great communicator as the CEO, attracts the right shareholders, and has been on the right side of politics.

Ackman notes that it will be important for Buffett's successor to not only be a great operator but also a great communicator as that has been critical to Berkshire's success given its many businesses. The successor will need great capital allocation skills, be a great business manager and be a great communicator.

Klarman agrees that Buffett communicates extremely well. Klarman copied Buffett with his own quarterly letters to investors.

He said the quality of fund letters is high due to others attempting to emulate Buffett. Buffett's letters are consistent and reassuring. Buffett lets investors know that Berkshire conducts business as usual and in a disciplined manner despite a volatile world.

Ackman said despite Berkshire's size, they have avoided regulatory scrutiny unlike many other firms which become targets as they grow large. Lowenstein recounted how Berkshire did go under regulatory scrutiny early on with an SEC investigation into Blue Chip Stamps. Klarman added that if that investigation had gone against Berkshire, history would be different.

Klarman noted that all investors that build a firm set the culture. Berkshire has a Buffett-centric culture. Post-Buffett, it will be interesting to see if the business model is still successful.

Ackman noted that Buffett's successor may improve Berkshire operations. Many Berkshire businesses have founders near retirement. There may be room for optimization of Berkshire businesses. Ackman cited 3G Capital, which enables Buffett to outsource the firing of people at investments like Kraft Heinz.

Ackman believes Berkshire will do well for a long time, although he sees Berkshire's insurance operation as the biggest risk since it requires the right person to manage the business.

Klarman noted that business in general is getting a bad name due to Wall Street behavior during the financial crisis and companies like 3G firing people without transferable skills. Klarman questioned whether any successor to Buffett can be successful.

Ackman agreed that he was not sure that Berkshire's next CEO will get a pass from political and regulatory scrutiny.

In the Q&A session, Klarman said there are more people that call themselves value investors than there really are value investors. He said the academic world defines a value investor as someone who invests in low P/E or low price-to-book stocks. He said that is not at all what most value investors do. Value investing is nuanced. Markets are not efficient due to human nature and the cycles of fear and greed.

Ackman said the vast majority of capital is one-day capital as mutual fund investors can redeem their investments in a day. Hedge fund money is generally locked up for 1-2 years. The structure of the industry forces value investors into a trading strategy. High-frequency trading and ETF's result in greater volatility in stock prices than in business fundamentals. It is hard to be a value investor when money is taken away.

Klarman noted how Buffett closed his partnership when the stock market became crazy. Now Buffett can hold cash and be patient so he is able to take advantage of opportunities when they occur.

Lowenstein noted that value investors represent no more than 5% of the investment business. Klarman said he thought there were more deep thinkers in the industry today so that value investing has become more competitive. However, many lack the structure to be able to withstand market downdrafts.

Klarman was asked if he might be a potential successor to Buffett. He said he will not play any role at Berkshire as he already has the best job in the world. He noted that Buffett has found two very smart people to take on the investing role at Berkshire with Todd Combs and Ted Weschler.

Ackman added that it is almost impossible to fill Buffett's shoes. Given Berkshire's huge capital base and with returns that cannot be replicated, it will be very difficult to find someone to take on the role as Buffett's successor.

Berkshire Hathaway Shareholders: Paul Lountzis, Thomas A. Russo, Whitney R. Tilson and Jason Zweig (moderator)

As the session began, Jason Zweig joked that only Warren Buffett could fill a room without even being present.

Whitney Tilson said he has owned Berkshire Hathaway for 20 years. His position sizes have ranged from 3% of his portfolio to 30%. Currently, he has been adding to his Berkshire position and now holds a 5% position size in Berkshire, which is his third largest position. He said he owns Berkshire because it is a safe and cheap stock with decent growth prospects. He pegs the current intrinsic value of the company at $267,000 per A share. He calculates the intrinsic value by adding together Berkshire's investments per share and 10 times the company's pre-tax earnings. He said Berkshire currently is a $.75 dollar bill.

Tom Russo mentioned the article Buffett wrote years ago on why he first purchased GEICO. Since then, GEICO has gone from insuring 150,000 folks to insuring 11 million today. Buffett recognized that GEICO had a margin of safety and was a business franchise with attractive business fundamentals. Russo feels the same way about Berkshire, and he has never sold any of his Berkshire shares as it is a company that aligns its interests with shareholders and has no agency costs. Buffett owns 30% of Berkshire and only pays himself $100,000 a year. Berkshire has a corporate structure that can move around capital efficiently. A very valuable part of Berkshire's business is Buffett's capacity to do nothing until the right opportunity comes along. Berkshire's culture will remain intact post-Buffett. Buffett has drawn like-minded businesses to Berkshire.

Paul Lountzis said Berkshire is his largest holding and represents 20%-25% of the equity component of his portfolio. He is often asked why anyone pays him a fee for holding Berkshire, and he said it is because he is paid to study the company more broadly and deeply than they can. He said a deep culture permeates Berkshire's organization, which is Warren-centric. This has transformed the company into a solid, steadily-growing business. BNSF, Iscar and Lubrizol will all do well even post-Buffett. There is enormous embedded value in Berkshire. GEICO, alone, is worth 10-15 times more than what it is carried on the books. Berkshire has the financial strength to pay a dividend. At the same time, Berkshire has the capacity to do deals of any size, while also having the privilege of doing nothing. Buffett doesn't have to swing at a deal unless it meets his investment criteria.

Tilson said Buffett has been his role model. Buffett communicates very openly with investors. He and Charlie look for ways to be humble.

Lountzis agreed that Buffett has had a profound impact on the investment world. He looks for permanent investments and has a long time horizon that stretches out for decades. Buffett is a wonderful and terrific human. He tries to be a first-rate person who is consistent and loyal, with these attributes permeating the organization. Berkshire's culture is unparalleled.

Russo noted how the academic world is seductive in teaching investors about magic formulas that offer rewards without risks. However, he pointed out that there is no science in investing. Buffett seeks companies that can reinvest cash flows at high rates and over the long term. He also attempts to eliminate agency costs by looking at family-controlled businesses.

Tilson admitted that he has an emotional attachment to Berkshire. He said over the last 20 years, there have been five spectacular times to own Berkshire. The time to buy is whenever Berkshire's stock price languishes. However, if Berkshire's stock price were to quickly rise 25% today, Tilson would trim back his position.

Lountzis lamented that with the mutual and hedge fund structure, it is very difficult to get permanent capital. With his investors, he asks them: 1) what is the purpose of their investment? Are they seeking growth and income?; 2) What is their investment time horizon?; and 3) What is their risk-tolerance, both financially and emotionally? He attempts to build multi-generational relationships. When investment positions get too high, such as 18%-30% of a portfolio, he trims back the positions to control risk. He attempts to educate his clients through lengthy letters twice a year.

Tilson noted that Berkshire is a unique entity with $1.5 billion of cash a month flowing into the company. Berkshire has a robust reinvestment engine with Buffett able to invest anywhere in the world. Berkshire's business model is very difficult to replicate. While folks lost confidence in Buffett during the Internet bubble and the financial crisis with the wild swings in Berkshire's derivative positions, Buffett had permanent capital to take advantage of opportunities.

Russo commented that the "ability to do nothing" is so valuable in the investment business. Berkshire provides the evidence. Buffett educates investors and turns down the noise of Wall Street. He is content to sit around and read all day until an opportunity presents itself. Buffett is a student of businesses. With a desire to learn and a zeal for knowledge, investors can share Buffett's courage to hold investments when the market turns against them.

Lountzis noted Buffett is multi-dimensional combining math and analytical strengths with incredible people skills. No organization has everything that Berkshire has.

Tilson said the succession issue is the biggest issue facing Berkshire. While Ted and Todd seem like great investors, they do not have 70 years of experience like Buffett. Buffett also sees deals that his successor may not see. Berkshire Hathaway has been one of the greatest businesses ever under Buffett's stewardship. In Tilson's opinion, the odds go up that Berkshire's business becomes mediocre post-Buffett.

Russo said Buffett has encouraged companies under the Berkshire umbrella to reinvest cash flows into other businesses. Lubrizol went from timid (as a public company) to bold (as a Berkshire company) in making acquisitions. Russo worries about the loss of Buffett due to his cheerleader role within Berkshire and also his ability to craft compensation packages specifically tailored to each Berkshire business that keeps an alignment of interests.

Lountzis said he has no worries about Berkshire as long as Buffett remains healthy. Post-Buffett, he worries about the change in the Board of Directors as many of the board members are also in their 80's and 90's. Many Berkshire businesses are loyal to Buffett. When a new generation of leaders of these businesses emerges, will they be as loyal to Buffett's successor? Buffett has operated Berkshire with limited corporate governance as he believes a web of deserved trust works better in the organization. Will this work as well in a post-Buffett organization? It will require a huge team effort among Greg Abel, Ted Weschler and Todd Combs to keep Berkshire's culture intact.

Tilson believes the S&P 500 may provide 5% annual returns over the next 15 years with Berkshire likely able to generate 10% annual returns. On an actuarial basis, Buffett should live to at least 93, so Tilson believes Buffett will continue to manage Berkshire for another five years and perhaps another 10 years. In a post-Buffett world, Berkshire will likely continue to outperform the market by a couple of percentage points and do so with less risk.

The Value of Partnerships: Thomas Gayner, John Phelan and James Grant (moderator)

James Grant said he called Todd Combs to help him with questions for the panel.

When Tom Gayner was asked if he worked in Richmond, VA to be away from the maddening crowds, he admitted Richmond was a quiet and reflective place. However, he chose to live there as he went to the University of Virginia and wanted to stay close with Richmond being the nearest city that offered him a good job.

John Phelan said he worked in New York City to easily attract talent to his firm. He said his firm prides itself on independent thinking, and they do not share their investment ideas with other firms. They do not have many Bloomberg terminals in their office. Decision-making abilities are measured at the firm. They won't take more than a 1% position in a stock unless they visit the company's management team. They are considering opening an office in London so they have the mornings to think before the U.S. market begins trading.

Gayner said, "Mindset trumps location."

James Grant recounted the story of the recruit who went to Tweedy Browne's office for an interview. He noted how the ambient noise in the office of most firms could clue one in on whether the market was up or down. At Tweedy Browne, it was hard to tell if the market was even open as value investors in that shop spend more time researching companies rather than watching the market and trading feverishly.

Phelan said at his firm they have semi-permanent capital. There needs to be a balance between short-term and long-term investments. They do not benchmark against any indices. Their benchmark is to make money. They have the luxury of not having to be 100% invested. Historically, they have been 85% invested. Buffett and Munger figured out that simplicity works in incentive systems, recruiting and value principles.

Gayner agreed that it is important to strip away things that don't work. He also agreed with Buffett that being a businessman has made him a better investor. Through Markel Ventures, Gayner has a greater appreciation for how hard it is to run a successful business over a long time. He considers a day successful if he learns something new during the day as business knowledge is cumulative.

Phelan agreed by saying that passion is a driver in the investment business.

Gayner said he wants like-minded associates with integrity and intelligence but with a diverse point of view as he believes that builds sound partnerships. He also believes a sense of humor is a great mark of intelligence.

Phelan believes Buffett and Munger are very similar rather than complementary in their partnership. Phelan, over his career, has worked for Hank Paulson, Sam Zell, Eddie Lampert and Michael Dell. They all taught him different lessons. With Hank Paulson, he learned to never give up. Paulson always wanted to get control of a situation and then figure it out. Sam Zell always has conviction in his investments, but he won't bet too much too early. Eddie Lampert is a student of businesses and people. Lampert is more akin to Buffett and Munger than the others. Michael Dell is a great operating manager.

Buffett is known for his discipline and the ability to do nothing for a long time. This is very hard to emulate.

Gayner noted that Berkshire has an evolving eco-structure as dynamic systems change over time. Berkshire's 3G partnership has been criticized for its zero-based budgeting. Berkshire has defended 3G's cost-cutting tactics as profits are important for businesses. Berkshire's techniques and styles of management may change over time.

Phelan tries to reverse-engineer Berkshire's processes over five-year periods. He has his team look at the macro factors and valuations during five-year periods and then look to see what Buffett was saying and doing during those time periods. He wants them to study how Buffett was positioning Berkshire depending on whether it was an inflationary or deflationary macro environment. What risks did Buffett take? What companies was he buying? By studying Berkshire this way, his conclusion was to go long Berkshire. These studies also have influenced the risk-taking and asset allocation at his firm.

Gayner noted how Buffett has evolved as an investor from a net-net investor to paying more for quality. Gayner believes business managers do not alternate between smart and stupid. Just because a company has one bad year, Gayner will stick with the company or buy more if the stock price has been marked down. He mentioned Walgreen as a company he admired for a long time but it was never cheap enough for him to buy until they ran into some temporary problems with Express Scripts a few years ago, which gave him the opportunity to invest in the company.

When asked about current investment opportunities, Phelan said he was holding 18% cash currently, which is on the high side of his typical cash holdings. He is seeing fewer investment opportunities among public companies but relatively more among private companies. He stated that their firm is company-focused rather than market-focused. He is doing more selling than usual.

Gayner imitated Munger, by saying, “I have nothing to add.” He agreed with Phelan that there are few investment opportunities currently.

James Grant said there was a sign at the Buffett grocery store which read: “Good meat priced right is better than bad meat priced cheaply.”

Phelan discussed how they spend time on big things to avoid risk at his firm. They are rolling over 10-year U.S. Treasuries as a hedge. If the 10-year Treasury were to spike to 5%, the market would drop substantially. They also are short the Japanese yen and Chinese currency. They want to create asymmetric hedges to manage risk. Phelan is very worried about the credit markets. He said the Fed believes it is in charge of events, but events are in charge of the Fed. While his portfolios are positioned defensively, he is not bearish on the U.S. economy. However, he is seeing wage pressures across businesses.

Gayner simply said the best hedge is a good business. At Markel, they are lucky as they have a profitable insurance business, which generates underwriting profits so cash comes in the door on a regular basis. They have a low-cost investment operation. In addition, through Markel Ventures, they own businesses which compound cash internally. As a result, he has options on what are the best ways to put the cash flows to work each day.

When asked what he reads, Gayner says he always reads James Grant's newsletter as Grant is a great economic historian. He also reads Larry Cunningham's work. He reads a great deal of history books and agrees that one of the best investments is a biography. He recommended David Brook's book, "The Road to Character."

Phelan said he currently is reading "Future Crimes," a book about cybersecurity. He also is reading many managerial books.

Gayner advised investors to always do a post-mortem on investment decisions for those that work and those that don't work.

Larry Cunningham, Keynote Address

Larry Cunningham first met Warren Buffett and Charlie Munger when he hosted a conference in 1996. Among Cunningham's dozens of books are *The Essays of Warren Buffett* and *Berkshire Beyond Buffett*. (I have read both books, which are excellent. I highly recommend them.)

At the conference in 1996, people kept asking what would happen to Berkshire's stock price if Warren Buffett were to die. Larry Cunningham apologized to Buffett about the question. Buffett joked, "It won't be as negative for shareholders as it will be for me."

Charlie Munger remarked to Cunningham how different Berkshire is today than in 1996. Back then, Berkshire's investments were approximately 80% public stocks and 20% operating companies. Today, it is just the opposite. However, Berkshire's core values have remained the same.

Buffett's single greatest accomplishment is that he has created an institution that is greater than himself with the best succession plan possible. The bulk of Buffett's success has been his partnership attitude. As Buffett has outlined in the very first principle in Berkshire's owner's manual:

Although our form is corporate, our attitude is partnership. Charlie Munger and I think of our shareholders as owner-partners, and of ourselves as managing partners. (Because of the size of our shareholdings we are also, for better or worse, controlling partners.) We do not view the company itself as the ultimate owner of our business *assets but instead view the company as a conduit through which our shareholders own the assets.*

Despite Berkshire's galactic size today, Buffett retains the partnership spirit. Berkshire has huge competitive advantages given the frugality of the company and the loyalty and trust of managers and shareholders.

Berkshire also has blemishes with rare errors made by the management and investment team. While most of Berkshire Hathaway's capital allocation decisions have succeeded spectacularly, there have been some notable failures. Berkshire Hathaway, the textile operation, was the first example. Dexter Shoes was another example. General Re and its opaque derivatives was another example. General Re would have gone bankrupt after 9/11 if it had not been part of Berkshire.

There have been awkward and unusual departures of executives once considered as successors to Buffett, including David Sokol, the head of MidAmerican, and Richard Santulli, the head of NetJets. There also have been media attacks on various subsidiaries, such as the recent negative press on Clayton Homes. Without an investor relations department at Berkshire, these attacks are not addressed on a timely basis.

Larry Cunningham's next book on Berkshire will be "Beauty and Blemishes."

Berkshire's strengths include its acquisition strategy, which has saved enormous fees for shareholders. Most companies come to Berkshire if they are looking to do a deal so Buffett just waits for the phone to ring. Buffett spends his day reading and exercises great discipline on deals by staying within his circle of competence.

Berkshire uses internal funds and float to pay for acquisitions. Buffett believes in borrowing sparingly. With disciplined underwriting at the insurance operations, float has grown over the decades to more than $85 billion. In addition, excess capital from some subsidiaries is used to fund other subsidiaries in an efficient manner under the Berkshire corporate umbrella.

A Berkshire strength is its Board of Directors, which are paid token sums compared to six-figure salaries at other firms. Berkshire's Board acts more like an old-fashioned advisory council with family and friends monitoring the operations. They receive no liability insurance.

Berkshire's shareholders are also a strength of the firm. The typical Berkshire shareholder is an individual rather than an institution. In many cases, Berkshire is the single largest holding of the individual. Berkshire shareholders devour the company's annual report with nearly 40,000 shareholders attending the annual meetings.

Decentralized management at Berkshire is also a strength of the company compared to the centralized management at most firms. Berkshire only has two dozen people at the corporate headquarters with more than 340,000 employees at the firm. Berkshire managers get to run their businesses as their own. Buffett's primary advice to Berkshire's managers is to make sure they preserve the company's reputation.

While some are critical of Berkshire's lax corporate governance, Buffett has said he would rather suffer the visible costs of a partnership structure rather than the invisible costs of bureaucracy.

Buffett is a long-term investor with Berkshire's investment time horizon "forever." Buffett has never sold a subsidiary. When he acquires a business, he promises the managers a commitment to permanence. He tells the managers to think of their business as the only asset that they can hold for 50 years and to manage it accordingly. Berkshire's partnership value can be measured by the discount companies are willing to sell their business to Berkshire in exchange for autonomy.

See's Candies defined the future path of Berkshire Hathaway, when Buffett recognized the value of paying for quality. Another transformative deal will likely be the $400 million acquisition of the German motorcycle parts company Buffett recently acquired. While this was a small deal, it reminded Cunningham of the See's Candies deal. The source of the motorcycle deal was friends of friends. The company has a strong regional brand, a strong reputation, no debt and was owned by a family. It was an exquisite acquisition in which Berkshire paid a fair price for a great franchise. This deal allowed Buffett to make a footprint in Europe with the hope of recreating Berkshire's business model in Europe over the next 20 years.

During the question and answer period, Cunningham noted that Berkshire's successor will face pressure to pay dividends. He acknowledged that there may also be pressure to divest some of Berkshire's underperforming units such as The Pampered Chefs and NetJets.

Berkshire is rational with its compensation packages. Incentives are tied to the value drivers under management's control.

Buffett's letters to shareholders have been consistent and featured a clear investment philosophy. There have been some themes in Buffett's essays over the decades. During the '80's, he wrote about accounting issues; in the '90's, he wrote about merger and acquisition activities; in the '00's, he wrote about corporate governance issues; and in the last 15 years, he has written about macro issues such as housing and trade deficits.

When asked about Berkshire's partnership with 3G Capital, Cunningham noted that Buffett has a great admiration for Jorge Lehman. Buffett served with Lehman on Gillette's board of directors. In their joint acquisition of Heinz and Kraft, Buffett has defended 3G's cost-cutting by noting that bloated headcounts should be reduced. Berkshire on its own has never acquired a company with a bloated headcount with the plan to fix it. However, Berkshire is not responsible for how companies it invests in operate their business. For example, Berkshire does not make operational decisions for Coke. In the same regard, 3G Capital is in charge of managing Kraft Heinz.

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