Berkshire
DIVIDEND STRATEGY

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Process Overview

DIVIDEND STRATEGY PROCESS REVIEW

The Berkshire Dividend Growth Strategy's primary objective is to generate a growing stream of equity income by investing in a diversified portfolio of stocks which we believe have: attractive, consistent and growing dividends. We believe if we are able to achieve this primary goal by purchasing growing companies with solid balance sheets, capital appreciation will follow. A risk profile below that of the average of the S&P 500 is also viewed as desirable. Because of its dividend growth orientation, the portfolio also seeks to perform better than non-dividend paying stocks or bonds in a rising interest rate environment.

ECONOMIC CONDITIONS FAVOR A DIVIDEND ORIENTED STRATEGY

Over time, dividends have made up a substantial portion of the total return generated by US stocks. While relatively high, healthy growing dividends rarely "go out of style"; the current economic conditions may make a dividend component even more important. Excessive borrowing ('leveraging') had a profound but artificial growth effect on our economy throughout the 1980's, 1990's and 2000's until the credit bubble burst in 2008. Since then, consumers, businesses and many governments have been forced to pay down debt. This paying down of debt ("deleveraging") is having a retarding effect on world economies. Economic growth is likely to be positive but below average for some time. Although, a 2-4% dividend may have been viewed as a "quaint" in a roaring stock market, now it is likely to make up a large part of an investors total return. Many high quality dividend paying stocks offer an attractive alternative to certain fixed income investments and offer investors the chance to grow cash flow vs. accepting a fixed one. What's potentially more exciting is many of the equities that fit our evaluation criteria are trading at valuations that are relatively inexpensive.

EQUITY SELECTION PROCESS

Importantly, we believe that intelligent dividend investing is not just composed of shopping for the company with the highest yield. Our process spans three dimensions: current level of dividend, relative safety of the dividend, and importantly, the growth of dividend.

CURRENT DIVIDEND

First we identify companies that have a dividend yield at least that of the S&P 500, preferably higher. Companies that fit these criteria should perform better in a slow growth economy and should provide a cash buffer through equity market volatility. In certain instances the portfolio may purchase securities with nominal or below average dividends, but only if there is clear relatively certain path to normal cash payouts. Philosophically however, we don't believe in paying a high price for a future promise.

POTENTIAL RELIABILITY OF DIVIDENDS

Dividends spring from excess profits after a business pays off all other providers of capital. Since the shareholder is the last in line to get paid, as analysts we wish to see how substantial the claims of individual in a senior capital position are to us.

Berkshire is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients. Over the past 29 years, we have successfully implemented highly focused equity, fixed income and balanced portfolios. Our guiding principle is a belief that success is achieved by combining rigorous, well-crafted investment processes with an exceptional level of client service and attention to detail. Asset Management with a Difference... Diligence, Integrity and Focus.

DISTINGUISHING CHARACTERISTICS

- Focus on dividend growth while maintaining attractive current yield
- Active management of portfolio holdings vs. "set and forget"
- Active management of portfolio weightings vs. a static, equal weighted list of names
- Dynamic management of portfolio beta based on market conditions
- Willing to raise cash tactically vs. "buy and hold forever"*
- Willing to dollar cost average new accounts upon request*
- Custom tax loss harvesting upon request*
- Direct access to Berkshire Portfolio Managers: conference calls, client meetings, portfolio review.

This is why companies with high levels of debt and/or volatile businesses can be undesirable investments. A profitable business that has too much debt can find itself little left over to pay shareholder dividends. So we spend considerable time evaluating the company balance sheet:

Debt to Equity Ratio: How much of the total capital is funded by debt as opposed to equity.

Times Interest Earned: How often do operating profits cover the interest expense?

Credit rating and liquidity of under lying debt if applicable: Bond market spreads and credit ratings provide another view into the company's ability to fund itself.

GROWTH OF DIVIDEND

If our portfolio is going to provide an effective hedge against inflation and provide appropriate client cash flow, it is critical that the company under evaluation demonstrate the prospects for future dividend growth. This is one of the most important parts of our screening process and what makes our strategy unique relative to other dividend strategies.

First we seek a company that has a history of growing the dividend. This gives us good insight into management's view of the dividend, how they allocate shareholder capital, and prospects for growth opportunities within the business itself.

A key metric we use to quantify growth prospects is return on shareholder equity or ROE.

In our opinion, return on equity (ROE) is the best financial yardstick to identify, evaluate and compare the desirability of investments. ROE is the rate of growth a company can maintain in its earnings and dividends, without needing to raise capital. By dissecting ROE into its component parts, we understand the 4 key dynamics of that drive company profitability, namely:

Operating Margins: Operating Profit/Sales
How profitable are core operations?

Asset Turnover: Sales/Assets
How capital intensive is the business?

Leverage: Assets/Equity
How much does the company's use of debt affect returns?

Tax Retention: Pretax Income/Net Income
How well does the company manage its tax obligations?
Keep in mind there is no "right" number for ROE or any one of the components. Some companies have high but volatile ROE's and some companies have lower, but highly stable ROE's. Both can be equally desirable. A company that has very stable operating margins and consistent sales growth allows for management to utilize (think drugs or consumer staples) versus a company that is more cyclical (think semi-conductors or energy companies). In the end the evaluation of ROE is a reliable metric that helps us forecast future dividend growth. Other subjective factors which may play into our process include competitive positioning in the company's end markets, intangibles such as brands and patents, past acquisition strategies of management, and volatility of earnings, just to name a few.

SUMMARY OF PROCESS

So while there are many factors, some quantitative and some qualitative the goal is to buy companies with an attractive, consistent and growing dividend so as the risk adjusted total return profile is superior.

SELL DISCIPLINE

A company is typically sold when its yield falls below that of the S&P 500, its ROE falls below acceptable levels, loses its superior competitive position in the market place, the company abandons sound dividend policy, increases debt to uncomfortable levels or does a misplaced acquisition.

PORTFOLIO CONSTRUCTION

So long as there are attractive candidates, the portfolio will attempt to be broadly diversified across a wide range of economic sectors. While the portfolio will be largely "bottom up" some consideration to macro factors may play a minor role. At any one given time certain portfolios, in aggregate may appear more attractive than another (fundamental or valuation wise). However large or extreme sector concentrations relative to the benchmark in general should not occur. We seek reduced systematic risk, above average quality and lower volatility. From a cash flow perspective, we believe that a typical Berkshire holding can deliver above average dividend increases. The yield on the portfolio should exceed the yield of the S&P 500. If our companies can deliver earnings and dividend wise, attractive appreciation should follow and thus providing strong total return characteristics.

POTENTIAL RISK AND PERFORMANCE CHARACTERISTICS

We owe our investors a frank discussion of potential risks associated with our strategy and baseline expectations of our performance in various market conditions.

Dividends arise from the profits of a business after all other legal obligations to other providers of capital have been satisfied. These include trade creditors, bank loans, senior bond holders, subordinated bond holders, preferred shareholders and of course taxes owed to the government. The dividend is last in line. So while these claims are mandatory, dividends are paid at the discretion of management. Some management's view growing the dividend as an "implicit promise", while some managements want to remain flexible to right size the dividend to adapt to changing business and capital needs. For a stable business with low capital needs, the former approach is appropriate. For businesses that have higher capital needs but perhaps higher growth prospects, the latter approach is appropriate. Dividend policy often sends a powerful signal about how management views its own prospects. Management needs to make tradeoffs between growing the business and maintaining the dividend. Not all decisions will be correct.

There are no guarantees even the best businesses remain profitable, that past growth rate of dividends will continue, or that management will remain committed to its dividend. So there have been instances where a dividend appeared "safe" only to have management cut it at some point due to: deteriorating business conditions, or even they, at their discretion, find what they think is a better use of the money. We believe our screening and fundamental research will be effective in aggregate at selecting the managements capable of generating the type of cash flow growth our clients expect.

As for share price fluctuations, we stick to the premise risk and returns are directly related. The Berkshire Dividend Strategy seeks a risk posture that is below that of the S&P 500. So in theory the portfolio should perform better in a declining market, but we are realistic for its prospects in a rapidly rising market – particularly one characterized by speculation and where low quality assets are coming back in favor. Still in that rising market we still expect a total return that will beat inflation and satisfy individual client objectives.

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Firm: Berkshire Asset Management, LLC is a Registered Investment Advisor under the Investment Advisors Act of 1940. Berkshire Asset Management manages portfolios for individuals and institutions. The firm is also a general partner of three investment partnerships. More information is available by reviewing Berkshire's Form ADV Part 2A.

Performance Composite Disclosure: The composite is composed of assets totaling approximately $210 million as of 12/31/2015. The accounts are actual accounts, and returns are time weighted. The results are not GIPS compliant nor are they audited by a third party. No simulated or model portfolios were included. Trade date accounting is used. Client liquidity and cash flow needs determine whether or not dividends and interest are reinvested back into the portfolio. All index data assumes reinvestment of interest and dividends at the rate of return of the Index. Performance results presented are calculated quarterly with geometrically linked annual returns. Net performance results do not reflect the deduction of investment advisory fees actually charged to the accounts in the composite but they do reflect the deduction of investment advisory fees based on the maximum fixed fee rate charged by Berkshire (1%). Additional solicitor or third party advisor fees may apply and would reduce returns. Actual advisory fees may vary among clients invested in the strategy shown and may be or lower than model advisory fees. Returns for each client will be reduced by such fees and expenses as negotiated in any client contract as discussed in Form ADV Part 2AComposites do not include accounts with performance-based fees.

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. You cannot invest directly in an index. 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.

Risks: Past performance does not guarantee future results. All investing carries risk including risk of principal or income loss. Dividends are subject to change, are not guaranteed, and may be cut. Investing based on dividends alone may not be favorable as it does not include all material risks. There is no guarantee any stated (or implied) portfolio or performance objective mentioned by Berkshire can be met. Berkshire's equity style may focus its investments in certain sectors or industries, thereby increasing potential volatility relative to other strategies or indices.

Market Commentary, Aggregate Holdings, Securities, Sectors, Portfolio Characteristics Mentioned: No statement made in this presentation shall construe investment advice. This presentation is for informational purposes only. Views, comments or research mentioned is not intended to be a forecast of future events. The mention of any security or sector is not deemed as a recommendation to buy or sell. Any reference to any security 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

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