Berkshire
DIVIDEND STRATEGY

Berkshire Asset Management
46 Public Square, Suite 700
Wilkes-Barre, PA 18701
570.825.2600

"Casual Friday" Commentary

Casual Friday: Back To Basics? + Actively Managing Your Thanksgiving – November 17th, 2023

#TGICasualFriday!

Need to change equity strategies but worried about potential capital gains?
Berkshire Tax Alpha Transition Program

Berkshire sub advises an ETF that attempts to mirror our Dividend Growth SMA: BDVG Fact Sheet

Back to Basics?
While not yet "panicky" (yet) advisor feedback indicates some client frustration.

- "I haven't made $ in 2 years"
- "I thought bonds were supposed to be safe"
- "Why don't we own______?"
- "We might have a recession. Get me out of the market"

Cumulative 2-Year Rolling Returns (10.31.2021 – 10.31.2023)

- Russell Large Growth -10%
- Russell Large Value -7%
- S&P 500 -6%
    - Some reputable large-cap managers down ~20%
- US Bloomberg Aggregate Bond Index -15%
- Russell 2000 -25%,
- MSCI World ex USA -12%

Source: Bloomberg

2 years of flat, zero or negative returns can feel like an eternity to investors. It really is uncanny how seemingly nothing worked over the past couple of years with the exception of the recent Mag 7 rally in '23. While the trend of equities is usually "up" it's far from linear. Most investors say they are in it for the long term, of course, 'till they have to be. It may create pressure for advisors to "Do something!" but chasing last year's winners in a market that keeps reversing can compound the pain. We encourage restraint.

Sometimes in volatile and dislocated markets, maybe it's better to sit back like Stuart Smalley and think "Deep Thoughts" and ask: why you are investing in the first place, what's the client's real goal, and why you picked a specific strategy.

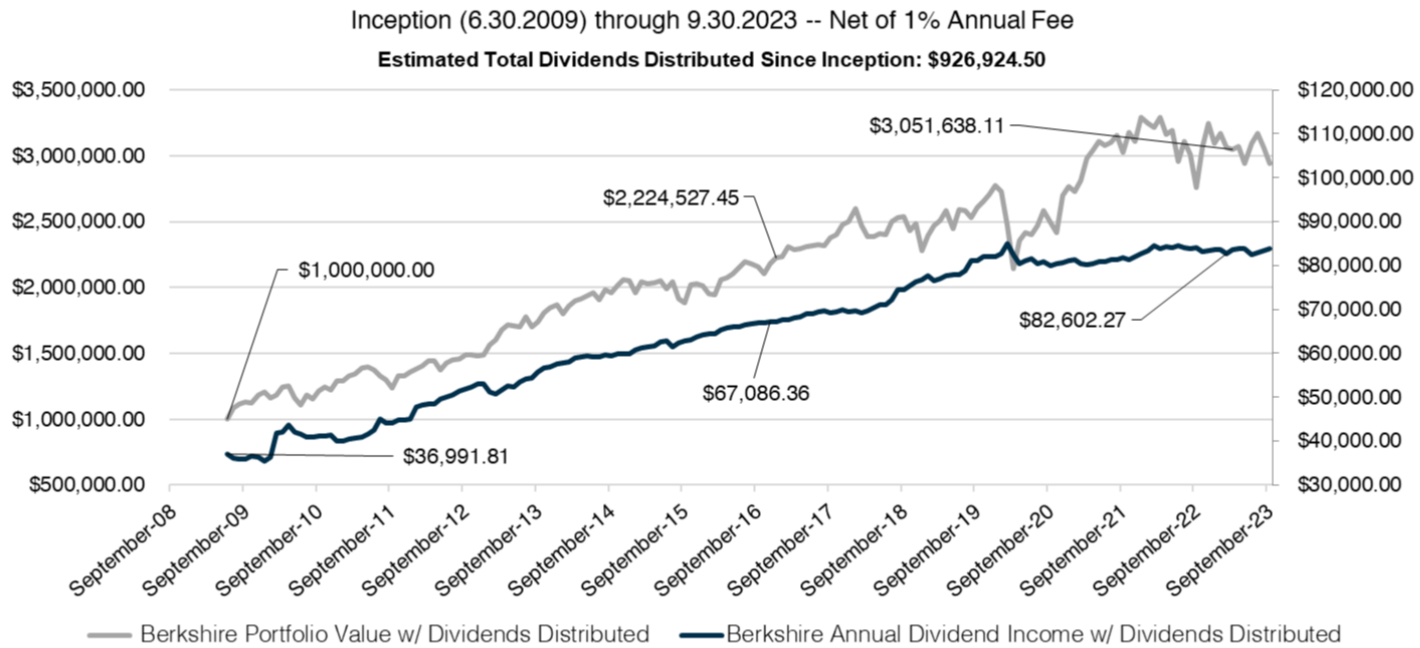
Here is what we hope goes through your mind when you select "B" for Berkshire on your UMA portal, or hand a client a new account form…

"I'm hiring Berkshire with the goal of generating and growing dividends to solve the income and inflation needs of my clients. They are seeking to buy quality dividend payers my clients will appreciate, and understand. I think it can be a permanent part of my client's portfolio. I know the people running the portfolio, and I know they are committed to helping my business."

This mindset de-emphasizes "making as much money as possible" "keeping up with a benchmark" or "timing the market". Classic approaches that might lead to material missteps over time. Its usually better for advisors to under promise and over deliver.

And

"Hopefully, they can do this in the ***next*** *ten years…I think my clients are going to be pretty happy."*



Please reference later pages in this presentation for Returns Net of 3% Fees. 3% fee represents the max fee in "wrap" programs in which Berkshire Dividend Strategy participates. Intended for illustrative purposes only. Income chart is based on the assumption $1,000,000 is invested in the Berkshire Dividend Growth and Income Strategy at the inception of the Berkshire Dividend Growth and Income composite. (6/30/2009) The $1,000,000 investment is adjusted monthly based on the stated monthly total returns for the given composite. This includes distribution of the dividend monthly based upon portfolio current yield at the end of each month. The monthly adjusted account values are then multiplied by the current yield of the respective composite. The resulting monthly income figures are then charted in the graph. Dividends are not guaranteed, and may be subject to change. 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. A fee of 1% annually is included in analysis. Berkshire Dividend Growth and Income current yields are calculated in Zacks from a representative account only. Individual account yields and returns can vary. Calculation limitations: Changes of the underlying holdings in the index or composite can change current yield calculations. This can lead to various ranges of results that may appear more or less favorable. Example: Stock A with 3% current dividend yield is sold. Stock B with 4% current dividend yield is purchased. This would result in higher yielding portfolio but is not the result of "dividend growth". https://berkshireasset.com/wp-content/uploads/2023/10/Dividend-Strategy-Scorecard-3Q-2023-Marketing-Edition.pdf

And hopefully, you notice…*"Wow. Cumulative dividends almost equate to the original cost of the portfolio. And you know what, this cash flow has accumulated and grown through one crisis after another. (Recessions, banking panics, low inflation, high inflation, pandemics). Yet, they stick with their discipline through thick and thin."*

But you might also be thinking:
"2023 has been a bit bumpy….has anything changed? What are they doing to try improve the portfolio?"

Our answer: a couple problem stocks in the portfolio this year, (that we are reassessing) but our discipline and intensity has not wavered.

And here are the proactive moves we've made to attempt to upgrade quality and dividend growth prospects:

PPL – Add to Position – New Target Weight 2.70%

- Higher interest rates negatively impacted prices in the space, creating an attractive entry point
- PPL restructured business lines over the past few years
    - Sold non-strategic UK assets, and purchased Rhode Island's Narragansett Electric Company.
    - Creates a more streamlined, domestic business
- Attractive ~3.85% dividend yield, expected to grow @ 6-8% annually
- Relative valuation attractive vs peer group
- Strong balance sheet, A+ credit
- Potential Risks: Slow growth industry, capex for energy transition

5-3-2003 Added: EOG Resources (EOG) – Trimmed: PNC Financial (PNC)

EOG Resources

- Increased capital discipline is creating more free cash flow throughout the industry
- Investment grade balance sheet; Cash on balance sheet exceeds debt
- "Minimum" 60% of free cash to shareholder return with dividends as a "priority"
- Generous and timely special dividend program

- Technology shifts created enhanced cost structure -- EOG estimates 10% return on capital at $42 a barrel
    - Other key stats: Strong dividend growth, Forward P/E: 8.92%, Roughly 2.75% dividend yield (6.30.2023)
- Potential Risks: Economic sensitivity, longer-term transition from fossil fuels

PNC Financial
- Low valuation, attractive yield but plenty of negative headline / fundamental risks near term
- This move signals our potential desire to gradually reduce bank exposure
- Potentially higher regulation likely spells systemically lower ROE's and dividends long term

3-16-2023 Added: Lowe's Companies (LOW)
- Growth potential from secular housing trends
- Management focusing on the return of capital to shareholders vs. capex on stores
- Outstanding shares nearly halved over the past decade
- Increased dividend 30%+ last year, maintains healthy dividend payout ratio
- Spending in technology expected to unlock significant margin expansion
- Attractive entry point, relative valuation in historically low range
- Potential Risks: sensitivity to retail trends, housing cycle, and changes in dividend policy

3-2-2023 Added: Mondelez International (MDLZ) - Sold: Kimberly-Clark (KMB)

Mondelez
- *Maintains a similar risk and sector profile as KMB*
- *Believe the brand loyalty and pricing power with food, is superior to tissues and care products*
- *Retired over 25% of the share count over the years*
- *Payout ratio less than 50% with prospects for double-digit dividend growth*
- *Solid exposure to international markets, bringing diversity and growth*
- Potential Risks: Regulation on high sugar foods, “Ozempic” effect

Kimberly-Clark
- *Dividend growth has been stingy lately (2-3%),*
- *Payout ratio north of 80%*
- *Questions surrounding brand loyalty and maintaining margins*

5-12-2022 Added: Deere & Company (DE) - Sold: Warner Bros. Discovery (WBD)

Deere & Company

- Aggressive dividend increases the past 3-5 years
- Room for payout ratio to expand. DE is targeting 25-30% div payout ratio; currently 19%
- “A” rated balance sheet
- Farm fleet is relatively old: replacements needed
- Soaring agriculture prices are causing a new cap ex spending cycle
- Farming is going high tech with increased use of “precision farming”
- While cyclical, free cash flow margins are attractive with the opportunity to increase margins long term
- Potential Risks: Government policy, economic sensitivity

Thanksgiving Planning Made Easier: Who Says Active Managers Can’t Add Value?

Best Time to Travel:
https://www.travelandleisure.com/thanksgiving-2023-traffic-best-worst-driving-times-aaa-8401488

Most Luxurious Recipes: Decadent!
From caviar-topped deviled eggs to cocktails crafted with floral gins
https://www.foodandwine.com/holidays-events/thanksgiving/extra-thanksgiving-recipes

Wine Ideas From Forbes:
https://www.forbes.com/sites/johnmariani/2023/11/17/a-miscellany-of-new-wines-for-thanksgiving/?sh=191a4b2c3b5c

Have a great weekend,
Gerard

Gerard Mihalick, CFA

Dividend Strategy Portfolio Manager/Partner
Berkshire Asset Management, LLC

may not contain any specific security at any time, and decisions to invest should not be made based on the presumed or current composition of any model portfolio - A complete list of holdings in the Berkshire Dividend Growth Strategy.

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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. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. You cannot invest directly in an index. BEst (Bloomberg Estimates) Earnings Per Share (EPS Adjusted) estimate returns Earnings Per Share from Continuing Operations, which may exclude the effects of one-time and extraordinary gains/losses. 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. Alpha, Beta and capture ratios are represented as calculated by Morningstar.

Risks: Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an individual's investment portfolio. 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. The dividend strategy may include bundled services also known as a "wrap fee program". Because there is typically a low turnover in the strategy, this may be more costly for some investors. No one should assume that any information presented serves as the receipt of, or a substitute for, personalized individual advice from a qualified advisor or any other investment professional.

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