

Buffett Validates Private Management Group's Japan Strategy

In a major validation of our Japan strategy, Warren Buffett announced that he had bought large positions in five Japanese trading companies (referred to in Japan as Sogo Soshas). The purchases included shares in two Private Management Group holdings, Itochu and Sumitomo Corporations. Both stocks were up significantly in Japanese trading and we have seen good follow through with wide press coverage in the U.S. This is clearly wonderful news and supports our long-held belief that these are terrific companies trading at attractive prices.

Mr. Buffett was quoted in today's Wall Street Journal:

"I am delighted to have Berkshire Hathaway participate in the future of Japan and the five companies we have chosen for investment," said Mr. Buffett. He said the five companies "have many joint ventures throughout the world and are likely to have more of these partnerships."

Itochu and Sumitomo have been discussed in our client letters and our Annual Meetings so you should be familiar with these large, diverse, and global companies. Both companies have many subsidiaries and various operations in diversified areas including food, automotive, cable, media, medical, technology, natural resources, real estate, and other areas. Both trade at large discounts to U.S. companies even though their quality is sound, they have respectable growth prospects, and solid track records (especially Itochu).

Buffett's move into Japan and Asian trading companies helped our other Japanese holding, Shinsei Bank, and appeared to spur gains in CK Hutchison and First Pacific - similar Asian companies we own. Interestingly, one of the other companies he bought, Mitsui, was also owned by us in the past (we sold and redeployed some of proceeds earlier this year). His move to broaden Berkshire Hathaway's investment scope could spur other investors to look at these areas and potentially further help valuation multiples.

In our visits to Japan, we have met with management of Itochu, Sumitomo, Mitsui, and other companies. Despite a closed reputation, we found management open and friendly. The management teams are impressive, shareholder-oriented, and focused on performance. Recent changes in corporate governance rules and improvements in capital allocation policies further reinforced our belief that these are underappreciated companies.

Our Quality Foreign Holdings are Underappreciated

We have said that our high-quality foreign holdings have not received the U.S. investor's respect that they have deserved for years. Some of that is lack of familiarity and maybe due to custodian (mis)reporting (see below). Thanks to Buffett, that should improve as U.S. investors now become more familiar with these blue-chip companies. We would

include other wonderful blue-chip companies like CK Hutchison, Investor AB, Pargesa, Bayer, Ardagh, Brookfield Asset Management, Fairfax Financial, Grupo Financiero Inbursa, and even smaller First Pacific. At some point, we hope to add Resolute Forest, Aegon, and Teva to the list, but they are all in the process of turnaround efforts. However, this does not include quality U.S. based companies with large international operations (other Buffett holdings, Liberty Global and Liberty Latin America, are just two examples).

Important Reminder for Foreign Stocks: Online Data is Misleading

Finally, this gives us another opportunity to again note that online data for foreign holdings is misleading. We have had some limited success in getting this corrected, but please remember the following:

- Dividends: Your custodian shows foreign dividends as "NA" which specifically means "not available" (not "not applicable"). In other words, almost all our foreign holdings pay dividends, but it still shows "NA." By the way, in many cases the dividends are large. Worth noting is that foreign companies generally pay twice per year versus the U.S. quarterly dividend norm. For tax efficiency, foreign securities are generally held in taxable accounts because some dividends are subject to foreign-tax withholding. The foreign-tax withholding is not included in statement values (you can claim the tax credit on your income tax return). Note that for return purposes, you'd add back these foreign-tax withholdings (returns on specific holdings and portfolios are difficult if not impossible to calculate manually so let us run these for you - we've seen many examples of invalid numbers resulting in invalid conclusions).
- Foreign securities may look like over-the-counter stocks online. They are not. Many stocks trade millions of shares per day in their primary markets - which are not listed online. These trades take unique knowledge so do not trade these foreign securities, especially without knowing exactly what you are doing. There are many considerations, but they should almost always be traded in the company's primary market (not the U.S.) and you must be very careful of bid-ask spreads, bad quotes, and foreign currencies, to name a few. We have seen a few examples of frankly horrible trades done by unknowing investors. Let us trade these - that is why you are paying us and we really do have your best interest in mind.

***As always, it is a pleasure and a privilege to service your portfolio needs,
and we thank you for your trust and business.***



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