# Berkshire
## DIVIDEND STRATEGY

# Berkshire Tax Alpha Transition Program

…a customized solution for portfolios with large embedded capital gains

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# Berkshire's Tax Alpha Transition Program

## A Fully Tax-Managed Transition into the Dividend Growth Strategy

### Common Advisor Problem

Advisors are often "captive" to existing strategies in their clients' portfolios because of large capital gains taxes incurred by a wholesale transition to a new manager traded SMA, or a firm traded Model Delivered SMA/UMA

### Berkshire Tax Alpha Transition Program

- Berkshire creates a temporary hybrid portfolio comprised of Berkshire holdings and the highly appreciated legacy positions of the prior manager
- The goal is to create high correlation to Berkshire Dividend Strategy, while keeping taxes reasonable
- The transition is overseen by a senior Berkshire Portfolio Manager
- Targets an annual tax budget pre-approved by the advisor and their client
- No additional fees[1] – the program is part of Berkshire's normal service offering

### Program Requirements

- Intended for large-cap taxable accounts
- Firms/Advisors must engage Berkshire via a manager traded SMA
- Available at multitude of broker dealers/custodial platforms

# Berkshire’s Tax Alpha Program

## Portfolio Transition Process

1 Compare capital gains tax implications of a full-transition to Berkshire vs. a transition portfolio which includes Berkshire holdings and legacy holdings with high unrealized gains

2 If taxes exceed client constraints, develop a transition portfolio:

- Maintain common holdings
- Incorporate Berkshire strategy positions with limited tax implications
- Sell unattractive/expensive/non-strategic stocks within the tax budget
- Maintain highly appreciated securities which may serve as a close proxy for Berkshire’s existing holdings *(e.g. retain Pepsi for Coke, Lilly for Merck etc)*
- Harvest losses to counter taxes on sales of legacy positions

3 Berkshire advisor/client agree on strategy before trading

4 Year end tax loss harvesting, clear reporting, settling up gains/losses

**Goal:** create a transition portfolio closely correlated to Berkshire Dividend Strategy
Typical transition: 2 calendar years

# Berkshire's Tax Alpha Program

## Advisor Case Study

### Situation

An advisor switched broker dealers, and the prior firm's large-cap strategy was not available. If he swapped in the new firm's strategies via the standard model-delivered SMA option, several of his largest, longest-tenured clients would incur enormous capital gains taxes on the day of the transition. The advisor's regional manager contacted Berkshire to discuss options.

### Solution

The advisor used Berkshire's Tax Alpha Program to approximate the characteristics of Berkshire Dividend Strategy, while keeping capital gains taxes reasonable.

### Results*

| Portfolio size: $538,000<br>Unrealized gain: $96,780 | Net Total Short-term / Long-Term Gains Subject to Taxation |
|---|---|
| Immediate Transition to Berkshire Dividend Strategy | $65,402 |
| Berkshire Tax Alpha Transition Program | $26,552 |

**Switching advisory firms combined with changing money managers is already stressful for clients… why add a huge capital gains tax bill to the mix when there are other options?**



*Please see end note 3 on page 9 of this presentation for important disclaimers

# Berkshire’s Tax Alpha Program

## FAQs Of  Sponsor Firms

| | |
|---|---|
| **Are manager-traded dual contract arrangements going to stress our back office and increase operational difficulty?** | Berkshire’s technology, attention to detail and ability to work in a multi-custodial setting typically allows for few errors or operational headaches for your back office. |
| **Will you be doing step-out trades away from our firm’s trading desk?** | We have never done a step out trade away from a firm's default desk and do not foresee a need to do so. |
| **Will performance or other key portfolio statistics materially differ for the transition portfolios?** | Direct portfolio manager oversight of transition decisions strives to keep similar portfolio metrics (yield, sector weightings, total return). Tracking error for these portfolios is generally low. |
| **Is this an entirely different strategy our firm’s research team needs to monitor?** | High continuity with our approved strategy, and detailed reporting, should address your research and compliance burdens. |
| **How do these portfolios impact our firm’s goal to use UMA products?** | UMA models are efficient, but they have a weakness – sponsor’s model trading does not typically consider tax implications at inception.<br><br>Eliminating major tax bills can make it easier to recruit advisors and clients to your platform.<br><br>Many advisors can use these transition portfolios THEN shuttle the client to UMA portfolios after the tax hit is managed, increasing UMA utilization. |

Berkshire has been managing tax-transition portfolios for more than a decade.

# Berkshire’s Tax Alpha Program

## FAQs Of  Sponsor Firms (cont’d)

| | |
|---|---|
| **In what situations does it generally make sense to use the Tax Alpha program?** | • Advisor switching firms, legacy manager(s) not available<br>• Wholesale manager change by advisor or firm's research team<br>• Advisor switching from advisor directed accounts to fee based |
| **If our firm is going to the time and expense of setting this program up, does Berkshire have marketing resources to raise assets to warrant approval?** | Yes, Berkshire has a unique but well established marketing approach that resonates with advisors and helps support sponsor firm objectives. |
| **Will these portfolios be less profitable or more expensive to operate compared with UMAs?** | We believe there is no more efficient business model than showing your clients a customized money management solution that can defer thousands or even hundreds of thousands in taxes. We believe these transition portfolios ultimately promote your firm's goal of utilizing more UMA’s. |

Berkshire has been managing tax-transition portfolios for more than a decade.

# Berkshire's Tax Alpha Program

## Firm Benefits

### Service Benefits

- Unique program backed by experience and personal service
- Eliminates a key roadblock to recruiting top producing advisors and their clients
- Helps firms jettison underperforming strategies or pursue other initiatives without burdening clients with taxes
- Customized value-added service that advisors and their clients appreciate
- Helps transition long-tenured advisor directed accounts toward SMA/UMA model
- No additional management fees[1]

### Operational Benefits

- Berkshire experience allows for simple set up and connectivity with your back office
- Berkshire efficiently and carefully manages execution (trading, new account set up, reporting, etc.)
- Technology/investment capacity to run thousands of transition portfolios
- High level of service and attention to detail for your advisors and your firm's clients

# Berkshire's Service Mission

Berkshire's Tax Alpha Program was developed in response to the needs of advisors and their clients. Facilitating advisor success is a critical element of Berkshire's overall Service Mission.

**The Berkshire Tax Alpha Program Service Mission**

Whether advisors are using the Tax Alpha Transition Program or Berkshire Dividend Strategy, Berkshire will equip the transitioning advisor with a comprehensive understanding of Berkshire's equityphilosophy, process, and performance to enable them to effectively attract, manage and retain assets during transition.

- Initial deep dive on Berkshire process and client talking points
- Articulating the case for dividend growth stocks and Berkshire holdings
- Email notifications of portfolio changes and dividend increases
- Weekly "Casual Friday" email series: portfolio updates, business building ideas and current events
- Direct assistance with new business (client calls, seminars, transition planning, etc.)
- On-going access to Berkshire Portfolio Managers. Interaction encouraged!

# About Berkshire

**Strategically growing boutique firm with 30-year operating history**[2]

- Targeted marketing initiatives: focus on investment results & service vs. “mass marketing”
- Highly focused on U.S. large cap - not trying to be all things to all people
- “Inside the huddle” advisor access with weekly communication to ensure on-going due diligence
- Employee owned: Independent, flexible, and responsive to client needs

**Portfolio and process**

- Benefits of enduring dividend growth, compounding cash flow, and quality companies
- “Forward looking” process: seeking to identifying perennial dividend growers before they are recognized in the market - (“emerging aristocrats”)
- Buy companies with “business owner” mindset
- Low turnover – High conviction
- Seeks attractive results in “up” markets and less volatility in “down” markets
- Owning in SMA format allows for direct ownership and transparency
- Hiring Berkshire as core manager allows advisor to focus on other value-added services

# Endnotes

[1] Fees for Unified Managed Account (UMA) Programs are negotiated between Berkshire and the sponsor and may vary depending on a number of factors including the number of model portfolios that the sponsor is purchasing and the total assets under management for the sponsor. Berkshire charges a fee to each sponsor of a UMAs Program that enters into a contract for Berkshire to develop a model portfolio to assist in the management of the sponsor's client accounts. Berkshire typically charges UMA Program sponsors an annual fee of .25% to .40 % of the strategy assets under management.  Clients may assume other expenses such as brokerage commissions, transaction fees, custodial fees, wire transfer fees and other fees and taxes charged to their account which are unrelated to the fees Berkshire collects. Berkshire does not accept commissions or compensation for the sale of securities or other products purchased in the client accounts. See Berkshire's Form ADV Part 2A Brochure for additional information related to fees and expenses.

[2] Berkshire Asset Management, Inc. was formed in 1986 as a SEC registered investment adviser. In 1999 the company was sold to Legg Mason. In 2007, senior leadership repurchased the firm, forming Berkshire Asset Management, LLC.

[3]The sample case study is not a claim of investment performance. It is intended to provide a sample of an actual proposal given to a prospective client showing potential capital gains tax implementations based on two different approaches to restructuring their portfolio .“Immediate Transition to Berkshire” was derived from client obtained cost basis assuming the account was fully transitioned to Berkshire upon inception.

“Tax-Alpha Berkshire Transition Portfolio was created by the same tax cost information. Berkshire investment professionals used its existing knowledge of large cap universe, various Bloomberg evaluation tools, and its portfolio trading management system to evaluate which highly appreciated securities were reasonable proxies for Berkshire holdings and should be maintained in the client's portfolio to defer potential gains to a later period of time.

The sample prospective client portfolio contained legacy positions of large cap equity securities, which closely correlated to holdings in the Berkshire Growth Dividend portfolio. Thus, the results of this approach may very significantly based on a number of factors and not directly correlate to the case study provided. This case study is intended to facilitate further discussion related to the process utilized by Berkshire to assist advisors and clients contemplate potential tax implications associated with a change in investment managers.

Berkshire attempts to customize each portfolio to each client's risk tolerance for capital gains at the inception of the relationship. Therefore, tax saving/tax deferral will vary from account to account based on account size, holdings, market fluctuations, tax bracket, age of the account. This is not an exhaustive listed of all tax factors considered and there is no guarantee Berkshire can actually attain a particular tax saving in any given year. Although we take possible tax consequences into consideration, Berkshire does not provide legal or tax advice.  Taxes related to this program are the client's sole responsibility. Please consult your tax or legal advisor regarding any tax treatment or consequence related to this program.

This approach may not be suitable for all clients (e.g., Non-Taxable Accounts, such as IRAs). Berkshire will provide an analysis of an account for your specific criteria utilizing this approach at your request.