# BUILDING THE NEXT BERKSHIRE

## How We Would Construct a Modern Conglomerate


### Abstract

This paper outlines how we would build a modern Berkshire Hathaway from first principles. We frame the firm as a permanent capital platform focused on long term compounding rather than near term performance. Our approach centers on governance, capital discipline, and a clear hierarchy of capital allocation across operating businesses, public markets, and opportunistic investments. Rather than replicate historical playbooks, we propose an institutional design aligned with today's market structure and long duration ownership.



Aditya Mishra, Asset Management*
Soham Sahay, Investment Banking*
Laith Shaikh, Risk Management*

*Represents aspirations, and not current job roles

Dedicated to Warren Buffett and the late Charlie Munger,

*whose wisdom and example inspired our pursuit of careers in finance*

## Contents

# Executive Summary

This paper sets out a comprehensive blueprint to build a modern, Berkshire-like capital compounding institution designed for durability, scalability, and superior long-term outcomes. Our ambition is not to replicate Berkshire Hathaway's historical trajectory, which was shaped by a unique combination of regulatory conditions, market inefficiencies, and individual brilliance, but to distil its enduring principles and apply them rigorously in today's economic and market context. At its core, this is a blueprint for building an institution whose primary purpose is the disciplined allocation of capital over multi-decade horizons, with governance, incentives, and capital structure explicitly aligned to that goal.

Our investment objective is singular: to maximize long-term growth in intrinsic value per share. We measure success over extended periods, typically ten to twenty years, rather than through quarterly or annual performance metrics. We do not manage to benchmarks, nor do we optimize for asset gathering. Instead, we seek to create a platform with permanent or quasi-permanent capital that allows us to act countercyclically, absorb volatility, and exploit periods of market dislocation when others are constrained by liquidity needs, leverage, or short-term performance pressures.

We believe that public and private markets continue to systematically misprice duration, reinvestment optionality, and high-quality management teams, particularly during periods of macro uncertainty or cyclical stress. A structurally patient capital base, combined with a centralized and highly disciplined capital allocation function, creates a durable edge. Cash is treated as a strategic asset rather than a residual, providing optionality and downside protection while preserving the ability to act decisively when risk-adjusted returns are compelling.

In defining what it means to be Berkshire-like in a modern context, we emphasize outcomes and principles rather than form. A modern Berkshire-like institution is characterized by permanent capital, rational and opportunistic capital allocation across asset classes, meaningful ownership in operating businesses, and a governance model that prioritizes long-term value creation over near-term optics. We operate with a high tolerance for concentration where conviction and downside protection are strong, and an equally high tolerance for inactivity when opportunity cost exceeds expected returns.

Unlike traditional asset managers, our model is not driven by fee maximization, benchmark tracking, or continuous deployment mandates. We are indifferent to short-term relative performance and focus instead on absolute, risk-adjusted compounding over full cycles. This orientation allows us to hold cash, increase exposure during drawdowns, and exit positions when expected returns compress, without concern for tracking error or client flows. Incentives are aligned with long-term intrinsic value growth rather than assets under management or annual performance targets.

Capital structure is a critical enabler of this model. We favor equity-heavy capitalization, modest and conservative leverage only where cash flows are predictable, and liabilities that are either long-dated or structurally stable. The objective is to ensure that capital is never forced to be liquidated at unfavorable prices. Return expectations are framed realistically. We target long-term compounding meaningfully above public equity indices and nominal GDP, while acknowledging that returns will be lumpy, path-dependent, and uneven across years. Preservation of capital and avoidance of permanent impairment are treated as prerequisites to superior long-term returns.

Risk management in this framework is structural rather than tactical. The principal risks include capital misallocation, overconfidence during favorable periods, governance slippage as scale increases, and cultural drift away from long-term thinking. These risks are mitigated through simplicity in organizational design, conservative financial policies, clear investment hurdles, and an institutional culture that rewards sound decision-making over outcomes driven by luck or short-term market movements. Transparency, intellectual honesty, and a willingness to remain within our circle of competence are central to risk mitigation.

The implementation roadmap over the first five years is deliberately pragmatic. The initial phase focuses on establishing governance, codifying the investment philosophy, and building a track record in public markets where liquidity allows for rapid learning and iteration. As capital and credibility scale, the focus gradually expands toward acquiring meaningful stakes in operating businesses with durable economics, strong management, and reinvestment opportunities. Throughout this period, we prioritize balance sheet strength, operational discipline, and the development of a repeatable capital allocation process.

In sum, this paper presents a practical and institutionally robust framework to build a modern capital compounder that is structurally advantaged to think long term, act rationally across cycles, and compound intrinsic value over decades. The objective is not to be active for activity's sake, nor to optimize for short-term success, but to build an enduring institution whose performance is the natural outcome of disciplined capital allocation, patience, and sound judgment exercised consistently over time.

# Understanding Berkshire: *A Structural Analysis*

Berkshire Hathaway is best understood as a capital allocation institution rather than an insurance company, a conglomerate, or an investment fund. While its operating subsidiaries span insurance, railroads, utilities, manufacturing, retail, and services, these businesses are inputs into a broader system whose primary purpose is the disciplined accumulation and redeployment of capital over very long-time horizons. The defining feature of Berkshire has always been centralized capital allocation combined with deeply decentralized operations, supported by a permanent corporate structure that is explicitly designed to avoid forced behaviour, short-termism, and capital misallocation.

At its core, Berkshire is a vehicle that gathers capital at low or negative cost, retains it indefinitely, and allocates it rationally across a wide and flexible opportunity set. The operating companies are not assembled to create synergies, cross-selling opportunities, or shared cost structures. They exist to generate durable, predictable cash flows and, where appropriate, to reinvest internally at attractive rates. When internal reinvestment opportunities are limited or unattractive, excess capital is sent upstream to the parent, where it is redeployed without regard to industry boundaries, accounting classifications, or conventional portfolio construction frameworks.

Equally important is understanding what Berkshire is not. It is not an insurance business whose value is primarily a function of underwriting margins. Insurance is a funding mechanism, not the end product. It is not a traditional conglomerate driven by scale, diversification narratives, or centralized operational control. It is not an asset manager focused on fee income, relative performance, or continuous capital deployment. Many attempts to imitate Berkshire fail because they focus on replicating the surface characteristics, such as owning multiple businesses or holding a portfolio of public equities, while ignoring the underlying governance, incentive, and decision-making architecture that made those outcomes possible.

Central to Berkshire's model is the strict separation between operating management and capital allocation. Operating managers are granted exceptional autonomy over day-to-day decisions, including pricing, staffing, capital expenditures, and competitive strategy. They are not required to meet quarterly earnings targets, provide guidance, or engage in internal budget negotiations. This autonomy is not merely cultural but economic, as it allows managers to focus on long-term business health rather than short-term reported results. In return, managers are expected to behave as owners, protect the economic franchise of their businesses, and communicate candidly about capital needs and opportunities.

Capital allocation authority, by contrast, is tightly centralized. Decisions regarding acquisitions, divestitures, major investments, and the deployment of accumulated cash are made at the parent level. This ensures that capital is not reinvested simply because it exists within a particular subsidiary. All uses of capital must compete against each other on a common economic basis, measured by expected long-term returns and risk of permanent capital impairment. This centralized internal capital market is one of Berkshire's most powerful structural advantages, allowing it to avoid the endemic problem of capital being trapped in low-return businesses.

Insurance float plays a critical but often misunderstood role within this system. Float is not the business itself but a source of long-duration, low-cost funding that expands the opportunity set available to the capital allocator. When underwriting is disciplined, float behaves economically like negative-cost leverage that does not require mark-to-market liquidation. This allows Berkshire to hold risk assets through periods of volatility, deploy capital aggressively during dislocations, and accept short-term earnings volatility in pursuit of long-term value creation. The true value of float lies not in its size, but in its stability, duration, and the discipline with which it is managed.

Historically, Berkshire's outperformance has not been driven by a single factor, but by the interaction of several reinforcing advantages. These include a permanent capital base that eliminates forced selling, a willingness to concentrate capital when expected returns are compelling, a long-term tax-efficient holding structure, and a governance model that prioritizes judgment over process. Importantly, outperformance has also been a function of what Berkshire consistently avoided. It avoided excessive leverage, avoided complex financial engineering, avoided chasing growth for its own sake, and avoided organizational complexity that would dilute accountability.

Many investors and would-be imitators misinterpret Berkshire by focusing on the visible components rather than the underlying system. Some view it primarily as an insurance platform, ignoring the fact that insurance without disciplined capital allocation does not produce superior long-term results. Others attempt to recreate Berkshire by assembling a collection of disparate businesses, assuming that diversification itself is a source of value. Still others focus on public equity investing, overlooking the importance of operating cash flows, internal capital mobility, and control over reinvestment decisions.

The most common misinterpretation is the belief that Berkshire's success can be replicated through structure alone. In reality, the structure is a necessary but insufficient condition. The model requires exceptional capital allocation judgment, patience, and a willingness to be meaningfully out of step with prevailing market sentiment for extended periods. Without these elements, the same structure can easily produce mediocrity or worse.

In sum, Berkshire is best viewed as an institutional expression of rational capital allocation, built on a foundation of permanent capital, decentralized operations, conservative financial policies, and long-term orientation. Its success was not accidental, nor was it purely a function of historical circumstance. It was the outcome of a coherent system that aligned incentives, governance, and decision-making with the objective of compounding intrinsic value over decades. Any serious attempt to build a modern Berkshire-like institution must begin with a clear understanding of this system, rather than a superficial imitation of its visible components.

## The Operating Model: *Designing for Permanence*

The operating model is the foundation upon which long-term capital compounding is built. If the objective is permanence, then structure, governance, and liquidity design must be engineered explicitly to withstand market cycles, leadership transitions, and periods of underperformance. We view operating model design not as a legal or organizational afterthought, but as a primary source of competitive advantage. The wrong structure can force behaviour that destroys value, while the right structure expands the feasible decision set across time and market conditions.

At the highest level, we favour a holding company architecture that centralizes capital allocation while decentralizing operations. The holding company exists to own assets, allocate capital, and set high-level governance standards. It does not exist to manage businesses operationally, extract synergies, or optimize consolidated financial metrics. Operating subsidiaries are treated as long-duration assets with their own economic identities, cultures, and management teams. This separation is essential to attract high-quality operators and to prevent capital from being reinvested merely because it resides within a particular business.

A holding company structure also allows capital to move freely across businesses without triggering the organizational friction that characterizes traditional conglomerates. Cash generated by mature or low-growth subsidiaries can be up streamed and redeployed into higher-return opportunities elsewhere within the enterprise. Conversely, businesses with strong reinvestment opportunities can be supported without relying on external capital markets. This internal capital market is disciplined through centralized decision-making and common return thresholds, rather than negotiated budgets or political influence.

In evaluating public versus private vehicle considerations, we recognize a fundamental trade-off between capital permanence and capital flexibility. Public markets offer access to large pools of capital, liquidity for shareholders, and valuation transparency. However, they also impose continuous pricing, disclosure obligations, and the risk of shareholder turnover during periods of underperformance. Private structures offer greater insulation from market noise and more control over the shareholder base, but limit access to capital and reduce liquidity for owners.

We believe a public holding company can be compatible with a long-term compounding strategy, provided the shareholder base is properly oriented and governance is designed to resist short-term pressures. This requires clear communication of objectives, a demonstrated willingness to tolerate volatility, and a track record of rational decision-making across cycles. The public listing should be viewed as a source of capital and credibility, not as a referendum on quarterly outcomes. Liquidity is a feature for shareholders, not a constraint on management behaviour.

Capital permanence is central to the operating model. We explicitly design the institution to avoid forced selling, covenant-driven deleveraging, or redemption risk. This influences decisions around leverage, liability duration, and asset liquidity. We favour equity-heavy capitalization and long-dated or structurally stable liabilities. Short-term funding that can be withdrawn or repriced during periods of stress is avoided, even if it appears cheaper in benign conditions. The objective is to ensure that the firm can remain a buyer of risk assets when others are forced to sell.

Liquidity constraints are treated as strategic parameters rather than operational inconveniences. We maintain sufficient liquidity at the holding company level to meet obligations, fund opportunistic investments, and support subsidiaries during downturns. At the same time, we are willing to hold less liquid assets where the expected long-term returns justify the trade-off, provided the overall balance sheet can support that illiquidity. Liquidity is managed at the system level, not asset by asset.

Governance framework and board design are critical to sustaining permanence. We believe the board's primary role is to protect long-term shareholders from both managerial short-termism and external pressures. The board should be small, experienced, and economically aligned, with members selected for judgment rather than representational diversity or procedural compliance. Deep understanding of capital allocation, risk, and long-term business economics is more valuable than operational specialization.

Board incentives should be structured to reward long-term intrinsic value growth rather than short-term stock price performance. Equity ownership, long vesting periods, and limited turnover are preferred. The board must also serve as a check on overconfidence during periods of success, ensuring that capital discipline is maintained even when external validation is strong. Independence of thought is more important than formal independence under listing rules.

Reporting philosophy and disclosure discipline are deliberately conservative. We aim to communicate clearly, candidly, and consistently with long-term owners, while avoiding the trap of managing to quarterly expectations. Financial reporting complies fully with regulatory requirements, but narrative disclosure focuses on long-term economics, capital allocation decisions, and changes in intrinsic value rather than short-term earnings volatility. We avoid providing guidance that could constrain future decision-making or encourage myopic interpretation of results.

We believe disclosure should reduce information asymmetry without increasing behavioural pressure. This means explaining why decisions were made, what trade-offs were considered, and how outcomes should be evaluated over time. It also means acknowledging mistakes openly and early. Credibility with long-term shareholders is built not through optimism, but through intellectual honesty and consistency of process.

In aggregate, this operating model is designed to maximize decision quality over time rather than optimize for any single metric or constituency. Permanence is not an abstract aspiration but a structural outcome of choices made around architecture, capital, governance, and communication. By designing the institution to endure periods of volatility, underperformance, and external scepticism, we expand the opportunity set available to the capital allocator and increase the probability of superior long-term compounding.

## Capital Sources: *Engineering High-Quality, Long-Duration Capital*

The quality of capital is as important as the quality of assets it is deployed into. Superior long-term outcomes are rarely the result of superior forecasting alone. They are more often the consequence of an institutional balance sheet that is designed to endure volatility, resist forced behaviour, and expand the feasible decision set during periods of stress. In this context, capital sourcing is not a financing exercise but a core strategic function. We approach capital engineering with the explicit objective of maximizing duration, stability, and flexibility while minimizing fragility and behavioural constraints.

Equity capital is the foundation of permanence. We view equity not as a commodity to be raised opportunistically, but as a scarce and expensive form of capital whose issuance must be governed by strict discipline. Equity issuance is justified only when it is expected to increase long-term intrinsic value per share. Market conditions, valuation relative to intrinsic value, and alternative sources of capital are central considerations. Issuing equity simply because market appetite exists or because it accelerates growth in absolute size is value destructive if it dilutes existing owners at unattractive prices.

Dilution control is therefore a first-order priority. We prefer to issue equity infrequently, in size, and only when expected returns on incremental capital materially exceed our cost of equity. Share repurchases, conversely, are viewed as a form of capital allocation that can create substantial value when executed below intrinsic value. The symmetry between issuance and repurchase discipline reinforces credibility with long-term owners and signals that equity is treated as ownership, not currency. Equity compensation is similarly constrained and designed to align long-term incentives rather than supplement short-term cash costs.

Insurance float has historically been one of the most powerful funding advantages in capital allocation driven institutions, but its role must be understood with precision and realism in today's environment. Float is not inherently valuable. It becomes valuable only when it is stable, long-duration, and obtained at low or negative cost through disciplined underwriting. In such cases, float behaves economically like non-callable leverage that does not require mark-to-market liquidation. This characteristic materially expands the opportunity set available to the capital allocator.

However, the viability of insurance float today is constrained by competitive underwriting markets, regulatory scrutiny, and capital adequacy requirements. Achieving structurally attractive underwriting economics requires scale, expertise, and cultural discipline that cannot be acquired quickly. We view insurance float as a potential funding advantage rather than a prerequisite. Where underwriting discipline cannot be sustained across cycles, float becomes a liability rather than an asset. The presence of float must never justify lower investment standards or incremental risk-taking elsewhere in the organization.

Beyond traditional insurance, we recognize the existence of alternative float-like structures that can provide long-duration, low-cost capital when structured prudently. These include customer prepayments, deferred revenues, subscription models, and negative working capital businesses. When such liabilities are stable and contractually or behaviourally durable, they can function as a source of funding similar to float. The critical distinction lies in predictability and optionality. We avoid structures where customers can rapidly withdraw, renegotiate, or demand repricing during periods of stress.

Alternative float-like capital must be evaluated conservatively. We assess not only its accounting treatment but its economic behaviour under adverse scenarios. The objective is to ensure that these liabilities reduce rather than increase balance sheet fragility. When appropriately structured, they can support investment in long-duration assets and allow the institution to act countercyclically without reliance on external capital markets.

Leverage, when used, is employed conservatively and intentionally. We do not view leverage as a tool to enhance returns in benign conditions. Instead, we view it as a potential amplifier of both decision quality and decision error. Excess leverage reduces optionality precisely when opportunities are greatest. Accordingly, we limit leverage to levels that can be comfortably serviced under severe stress scenarios, using conservative assumptions around cash flows and asset values.

Debt maturity profiles are structured to avoid refinancing risk. Long-dated, fixed-rate liabilities are preferred over short-term or floating-rate instruments, even if the latter appear cheaper at a point in time. Covenants are minimized to reduce the risk of technical default or forced deleveraging. We accept a higher apparent cost of capital in exchange for greater resilience and strategic flexibility.

Cost of capital optimization is approached dynamically across cycles rather than statically at a point in time. We recognize that the marginal cost of different forms of capital fluctuates with market conditions, investor sentiment, and macroeconomic regimes. Our objective is not to minimize headline cost of capital in favourable environments, but to ensure access to capital when it is scarce and most valuable. This often implies raising capital opportunistically when it is abundant and refraining from doing so when it appears cheapest but carries latent constraints.

Over a full cycle, institutions that prioritize durability and flexibility often achieve a lower effective cost of capital than those that pursue short-term optimization. By maintaining balance sheet strength, credibility with long-term capital providers, and a demonstrated willingness to act rationally during dislocations, we position the organization to attract high-quality capital on favorable terms when it matters most.

In aggregate, our approach to capital sources is governed by a simple principle. Capital should expand the opportunity set, not constrain it. By emphasizing equity discipline, realistic assessment of float economics, conservative leverage, and cycle-aware cost of capital management, we aim to engineer a balance sheet that is structurally advantaged to compound capital over decades rather than optimized for transient conditions.

## Investment Universe and Asset Selection Framework

Our investment universe is defined not by asset class labels or index boundaries, but by the set of opportunities that allow us to deploy capital at attractive risk-adjusted rates over long periods of time. The asset selection framework is designed to be flexible, valuation-driven, and grounded in business fundamentals rather than market narratives. We seek to allocate capital where durability, reinvestment optionality, and downside protection coexist, and we are indifferent to whether these characteristics are accessed through operating company acquisitions or marketable securities.

When evaluating operating company acquisitions, our primary focus is on the quality and durability of the underlying business rather than near-term financial optimization. We prioritize businesses with strong competitive positions, pricing power, and resilience across economic cycles. Predictable cash flows, low capital intensity, and high incremental returns on invested capital are central attributes. We favor businesses where long-term value creation is driven by reinvestment at attractive rates rather than continuous acquisition or financial engineering.

Management quality is a critical determinant in acquisition decisions. We seek owner-oriented managers with demonstrated operational discipline, long-term orientation, and cultural alignment. Our preference is to retain existing management teams and provide them with autonomy, rather than impose centralized operational control. Businesses that require significant turnaround expertise, aggressive cost cutting, or continuous strategic intervention are generally avoided, as they introduce execution risk and managerial distraction that undermine long-term compounding.

Marketable securities and controlled businesses are viewed as points along a continuum rather than distinct categories. Public equity investments allow us to acquire fractional ownership in high-quality businesses at prices that can deviate materially from intrinsic value, particularly during periods of market stress. They offer liquidity, optionality, and the ability to scale exposure efficiently. Controlled businesses, by contrast, provide influence over capital allocation, governance, and reinvestment decisions, and allow us to capture the full economic value of long-term ownership without reliance on market sentiment.

Our choice between marketable securities and controlled businesses is driven by relative opportunity cost rather than strategic preference. When public markets offer attractive entry points into businesses we would otherwise be willing to own outright, we are comfortable expressing conviction through marketable securities. When private markets or negotiated transactions provide superior economics, alignment, and long-term control, we pursue outright or majority ownership. The common thread is a focus on intrinsic value and long-duration ownership rather than liquidity characteristics.

Sector preferences are informed by structural economics rather than cyclical considerations. We favor sectors where competitive advantages are sustainable, capital requirements are rational, and long-term demand is supported by structural trends rather than discretionary consumption or regulatory arbitrage. Businesses tied to essential services, infrastructure, recurring consumption, and long-lived assets are generally more attractive than those dependent on rapid technological change, fashion, or speculative demand.

We explicitly avoid sectors where long-term economics are structurally impaired by commoditization, excessive capital intensity, or persistent regulatory uncertainty. Industries where returns are driven primarily by leverage, financial complexity, or short-term price movements fall outside our core competence. Avoidance is as important as selection. The discipline to say no to superficially attractive opportunities protects capital and preserves focus for situations where our edge is most pronounced.

Geographic scope is global but selective. We are willing to allocate capital across jurisdictions where property rights are respected, capital markets are functional, and regulatory frameworks are stable and predictable. Political risk, legal enforceability, and currency stability are treated as integral components of the investment thesis rather than secondary considerations. We avoid jurisdictions where capital controls, arbitrary regulation, or weak governance can impair long-term value regardless of business quality.

Currency considerations are addressed at the business and portfolio level rather than through short-term hedging. We prefer businesses that generate revenues in currencies aligned with their cost structures or that possess pricing power sufficient to adjust to currency movements over time. Currency diversification is a natural outcome of global investment rather than an explicit objective. Hedging is employed selectively and conservatively, primarily to mitigate balance sheet risk rather than to express macro views.

Valuation discipline underpins every investment decision. We anchor our analysis in intrinsic value derived from long-term cash flow generation, reinvestment potential, and terminal economics. We do not rely on relative valuation metrics or market multiples as primary decision tools. A meaningful margin of safety is required to account for forecasting error, unforeseen risks, and adverse scenarios. The margin of safety is not a fixed percentage but a qualitative assessment of downside protection relative to price.

We are willing to remain underinvested when valuations do not offer sufficient compensation for risk. Patience is a competitive advantage in a market environment that rewards constant activity. When dislocations occur and prices diverge materially from intrinsic value, we are prepared to act decisively and at scale. The combination of valuation discipline, flexible investment universe, and long-term orientation forms the core of our asset selection framework.

In aggregate, this framework is designed to ensure that capital is deployed only when the balance of probability Favors long-term value creation. By focusing on business quality, governance, structural economics, and valuation, rather than asset labels or market narratives, we aim to build a portfolio that compounds intrinsic value through a combination of discipline, patience, and rational risk-taking across cycles.

# Capital Allocation Playbook

Capital allocation is the central function of the institution and the primary determinant of long-term outcomes. All other activities, including operating excellence, financial reporting, and governance, exist to support the quality of capital allocation decisions over time. Our playbook is designed to be simple in principle, rigorous in application, and flexible across market environments. We do not seek activity for its own sake. We seek to deploy capital only when the expected long-term return meaningfully exceeds the opportunity cost of doing nothing.

The first and most important allocation decision is the choice between internal reinvestment and external deployment. Internal reinvestment within existing businesses is preferred when incremental capital can be deployed at high and durable returns, supported by competitive advantages and long run demand. Such reinvestment benefits from informational advantages, operational familiarity, and lower execution risk. However, internal reinvestment is not assumed to be optimal by default. Businesses with limited reinvestment capacity are expected to remit excess capital to the holding company rather than pursue marginal projects to sustain reported growth.

External acquisitions and investments are evaluated against the same return thresholds as internal opportunities. We do not apply a lower hurdle to acquisitions to justify expansion or diversification. External deployment is attractive when it offers superior economics, better reinvestment optionality, or greater downside protection relative to internal uses of capital. The ability to compare opportunities across business lines, asset classes, and geographies using a common framework is a core advantage of centralized capital allocation.

Portfolio construction is guided by conviction and risk of permanent capital impairment rather than diversification for its own sake. We are willing to concentrate capital in a limited number of opportunities when expected returns are high and downside risks are well understood. Concentration is a consequence of discipline, not aggression. At the same time, we impose pragmatic limits to prevent single investments from creating existential risk. These limits are informed by liquidity, cyclicality, and correlation rather than arbitrary position counts.

We recognize that optimal concentration levels evolve with scale. As capital grows, opportunity sets naturally broaden and marginal returns compress. Portfolio construction therefore adapts over time, balancing the benefits of focus with the need for resilience. Cash is treated as an active position within the portfolio, reflecting our willingness to defer deployment when opportunity cost is high.

Buybacks, dividends, and capital recycling are integral components of the allocation playbook. Share repurchases are pursued when our shares trade materially below intrinsic value and when alternative investments offer inferior risk-adjusted returns. Buybacks are not used to manage earnings per share or signal confidence, but to allocate capital rationally. Dividends are viewed as a residual use of capital, appropriate only when internal and external opportunities do not justify reinvestment and when buybacks are unattractive at prevailing prices.

Capital recycling involves the sale or reduction of positions where the gap between price and intrinsic value has closed or where the investment thesis has deteriorated. Recycling is not driven by holding periods or tax considerations alone, but by a reassessment of opportunity cost. Capital freed from mature or fully valued assets is redeployed into opportunities with superior forward returns or held in reserve until such opportunities emerge.

Exit discipline is as important as entry discipline. We do not assume that long-term orientation implies permanent ownership in all cases. Positions are exited when expected returns fall below our hurdle rate, when risk profiles change materially, or when better opportunities are available. We seek to distinguish between temporary price volatility and permanent impairment. Exiting too early can be costly, but failing to exit when the facts change is more damaging over time.

Error correction is embedded in the process. We assume that some decisions will be wrong, despite rigorous analysis. The critical question is not whether errors occur, but how quickly and objectively they are recognized and addressed. We encourage intellectual honesty and post-investment review, focusing on decision quality rather than outcomes alone. Small errors corrected early prevent large errors from compounding.

Opportunity cost is the primary decision metric that ties the entire playbook together. Every capital allocation decision is evaluated against the next best alternative, including holding cash. This forces explicit trade-offs and prevents inertia from driving outcomes. It also ensures that capital is continually re-ranked based on forward-looking returns rather than historical attachment or sunk costs.

In aggregate, this capital allocation playbook is designed to ensure that every dollar of capital is treated as scarce and valuable. By consistently comparing internal reinvestment, external deployment, shareholder distributions, and inactivity through the lens of opportunity cost, we aim to allocate capital in a manner that maximizes long-term intrinsic value per share across cycles.

## Operating Companies: *Ownership Without Interference*

Long-term ownership of operating companies requires a fundamentally different mindset from that of traditional private equity or conglomerate management. Our approach is rooted in the belief that value is maximized when high-quality businesses are allowed to operate with continuity, autonomy, and cultural integrity, supported rather than constrained by the parent. Ownership, in this framework, is not a mandate to intervene, but a commitment to steward capital and governance responsibly over long horizons.

Our acquisition philosophy is anchored in permanence. We acquire businesses with the intention of owning them indefinitely, subject only to changes in long-term economics or capital allocation priorities. This orientation shapes every aspect of the acquisition process. We avoid transactions that rely on aggressive synergies, financial restructuring, or short-term operational optimization to justify returns. Instead, we focus on businesses that are already well-run, competitively advantaged, and capable of generating durable cash flows without fundamental change.

Post-acquisition integration is deliberately minimal. We do not impose centralized systems, shared services, or standardized operating procedures unless they are clearly value accretive and welcomed by management. The objective is continuity rather than transformation. Integration risk is treated as real economic risk, and we avoid disrupting operating models that are already producing strong outcomes. The parent provides capital, strategic perspective, and governance support, but does not seek to redefine how the business competes or operates.

Management autonomy is a cornerstone of this model. We believe that the individuals closest to the business are best positioned to make operating decisions. Managers are trusted to run their businesses as if they owned them outright, with accountability aligned to long-term performance rather than short-term targets. Compensation structures emphasize sustained value creation, cash flow generation, and capital discipline over annual budget achievement.

Cultural preservation is inseparable from autonomy. We recognize that culture is a critical intangible asset that often underpins competitive advantage. Heavy-handed intervention, frequent leadership changes, or shifting incentive structures can erode this asset quickly. Our role as owner is to protect and reinforce the elements of culture that drive long-term success, not to replace them with generic corporate norms.

Performance monitoring is designed to provide insight without encouraging micromanagement. We focus on a limited set of key indicators that reflect economic reality, including cash flow, returns on incremental capital, competitive position, and balance sheet strength. Reporting is periodic, transparent, and oriented toward understanding trends rather than enforcing precision. We do not manage businesses to quarterly earnings targets or consolidated performance metrics.

Dialogue between the parent and operating companies is candid and infrequent by design. When issues arise, they are addressed directly and constructively, with an emphasis on problem-solving rather than blame. The absence of constant oversight reduces noise and allows managers to focus on long-term decision-making. Trust is earned and reinforced through consistency of behavior on both sides.

Capital deployment at the subsidiary level is governed by clear principles rather than detailed approvals. Operating companies are encouraged to reinvest in their businesses when expected returns are attractive and risks are well understood. Larger capital commitments are reviewed at the parent level to ensure alignment with overall opportunity cost and balance sheet considerations. This balance preserves local decision-making while maintaining discipline across the enterprise.

Excess capital that cannot be reinvested at acceptable returns is returned to the parent without stigma. We actively discourage reinvestment for the sake of growth or organizational status. The ability to return capital is viewed as a sign of discipline and maturity, not a lack of ambition.

Succession planning and leadership continuity are treated as long-term risks that require proactive management. We do not rely on last-minute transitions or external searches triggered by unexpected departures. Instead, we encourage operating companies to identify and develop internal talent over time, with a focus on cultural fit, judgment, and stewardship. Where necessary, we support external hires, but only when they align with the long-term orientation of the business.

Leadership transitions are approached with patience and respect for institutional knowledge. Sudden changes that disrupt culture or strategic direction are avoided. The parent's role is to ensure continuity of values and capital discipline across generations of leadership, recognizing that people, not structures, ultimately determine outcomes.

In aggregate, our approach to operating companies is defined by restraint. By owning businesses without interfering in their day-to-day operations, we preserve the conditions that allowed them to succeed in the first place. This model requires trust, selectivity, and patience, but it creates an environment in which high-quality businesses and managers can compound value over decades, supported by a stable and aligned owner.

## Incentives and Culture: *Aligning Behaviour with Compounding*

Incentives and culture determine how an institution behaves when rules are silent and supervision is absent. Over long horizons, they matter as much as strategy or asset selection. We design incentive systems and cultural norms with the explicit objective of reinforcing long-term compounding, disciplined capital allocation, and stewardship of capital. Poorly designed incentives can undermine even the most sound investment philosophy by encouraging short-term optimization, excessive risk-taking, or organizational drift.

Management compensation structures are built around long-term economic outcomes rather than short-term financial metrics. We avoid compensation frameworks that rely heavily on annual earnings targets, revenue growth, or relative performance benchmarks. Such metrics encourage behaviour that maximizes near-term results at the expense of durability and capital discipline. Instead, compensation emphasizes multi-year performance, cash flow generation, returns on incremental capital, and preservation of balance sheet strength.

Variable compensation is structured to smooth outcomes over time. Multi-year measurement periods reduce the incentive to pull forward earnings, defer necessary investment, or assume hidden risks to meet annual targets. Where appropriate, compensation incorporates qualitative assessments of decision quality, risk management, and adherence to cultural values. This recognizes that not all value-creating behaviour can be captured through quantitative metrics alone.

Equity ownership is a central mechanism for long-term alignment. We believe managers should think and act like owners, and meaningful personal ownership in the business is the most effective way to achieve this. Equity awards vest over long periods and are designed to encourage retention and long-term stewardship rather than short-term monetization. We discourage frequent trading or early liquidation of equity holdings, as such behaviour weakens alignment and introduces short-term bias.

At the holding company level, senior leadership and board members are expected to maintain substantial equity exposure. Alignment at the top reinforces credibility and sets behavioural norms across the organization. Equity compensation is treated as a tool for alignment rather than a substitute for cash compensation or a means to obscure true economic cost.

Avoiding short-term optimization traps requires constant vigilance. Institutions often drift toward behaviors that improve reported metrics without improving underlying economics. Examples include underinvesting in maintenance, overleveraging during favorable conditions, pursuing marginal acquisitions to sustain growth, or using financial engineering to manage earnings per share. We explicitly discourage these practices, even when they are rewarded by markets or peers in the short term.

We reinforce this discipline through communication and example. Leadership consistently emphasizes long-term value creation over near-term results, particularly during periods of external pressure. We are willing to accept short-term underperformance when it is the rational outcome of disciplined decision-making. This tolerance is critical to maintaining integrity of the investment process across cycles.

Preventing empire-building and capital misuse is a central cultural objective. Growth in size is not an end in itself and is never used as a proxy for success. We impose clear capital allocation thresholds and require explicit justification for incremental capital deployment. Managers are not rewarded for expanding asset bases, headcount, or organizational complexity absent demonstrable economic value.

The centralized capital allocation model acts as a structural safeguard against empire-building. By retaining control over major capital decisions at the parent level, we reduce the incentive for operating managers to pursue expansion for personal or organizational prestige. At the same time, autonomy in operations ensures that managers remain focused on business performance rather than internal politics.

Cultural safeguards become increasingly important as the institution scales. Informal norms that work at small scale can erode as layers of management and distance from decision-makers increase. We address this risk by keeping organizational structures simple, limiting bureaucracy, and maintaining direct lines of communication between leadership and operating companies. We resist the creation of committees and processes that diffuse accountability.

Culture is reinforced through consistent behaviour over time rather than formal statements. How capital is allocated during downturns, how mistakes are handled, and how leaders respond to external pressure all send powerful signals. We emphasize intellectual honesty, humility, and a willingness to revise views in light of new information. Mistakes are acknowledged openly, with focus on learning rather than blame.

In aggregate, incentives and culture are treated as strategic assets. By aligning compensation, ownership, and decision-making norms with the objective of long-term compounding, we create an environment in which rational behaviour is not only encouraged but sustained. This alignment reduces the need for rules, oversight, and intervention, allowing the institution to scale without sacrificing the principles that underpin durable value creation.

## Risk Management: *Avoiding Permanent Capital Impairment*

Risk management is the discipline that ensures the long-term compounding engine is not derailed by avoidable errors. At a fundamental level, risk is not about short-term volatility or market fluctuations. It is about the potential for permanent impairment of capital. We distinguish between financial risks, which are measurable and often modelled quantitatively, and behavioural risks, which arise from human judgment, incentives, and organizational dynamics. Both categories are critical, and effective risk management addresses them simultaneously.

Financial risks include leverage, liquidity, interest rate exposure, currency mismatches, and concentration in individual assets or sectors. We deliberately limit leverage to levels that can be comfortably serviced under stress scenarios, recognizing that excessive leverage amplifies both upside and downside but reduces optionality precisely when opportunity is highest. Liquidity is managed systemically rather than asset by asset, ensuring the institution can act countercyclically and deploy capital when others are forced to sell. Concentration and correlation are continuously monitored to prevent hidden exposures that can transform benign positions into catastrophic outcomes under adverse scenarios.

Behavioural risks are equally important and often underappreciated. Overconfidence, herd behaviour, short-term pressure from markets or investors, and cultural drift can all lead to suboptimal decisions that destroy capital. We mitigate these risks through governance design, incentive alignment, centralized capital allocation, and cultural reinforcement. Regular post-investment reviews, scenario analysis, and open discussion of mistakes foster intellectual honesty and reduce the likelihood that errors are repeated or amplified.

Regulatory, reputational, and structural risks also shape the risk landscape. We operate with awareness that regulatory changes can affect both the cost of capital and the viability of certain business models. Reputational risks, while intangible, can materially impact long-term optionality, access to capital, and relationships with management teams. Structural risks, including organizational complexity, opaque decision-making, and insufficient oversight, are addressed through simplicity, transparency, and clarity of roles. We recognize that risk is multi-dimensional and that mitigation requires holistic design rather than isolated solutions.

Stress testing is a critical tool for evaluating resilience. We model the holding company across extreme scenarios including market collapses, sectoral downturns, operational shocks, and simultaneous failures in multiple subsidiaries. Stress tests examine both liquidity sufficiency and the durability of governance and capital allocation processes. They inform capital buffers, contingency planning, and decision-making protocols that preserve optionality under adverse conditions. Scenarios are treated as learning exercises, not predictions, and guide proactive management rather than reactive adjustments.

Lessons from historical failures inform every aspect of our framework. Institutions that have suffered permanent capital impairment often did so because they failed to account for hidden leverage, misaligned incentives, excessive complexity, or behavioural biases. We study these failures to identify patterns, implement safeguards, and cultivate a mindset of humility. Recognizing that even the best processes are imperfect, we design redundancy, conservatism, and early warning mechanisms into the operating model.

Our approach to risk management integrates these dimensions into a coherent system that preserves both capital and optionality. Financial discipline, behavioural safeguards, governance rigor, and stress-testing practices create a resilient platform that can withstand cycles, absorb volatility, and act decisively when opportunities arise. By focusing on avoiding permanent loss rather than avoiding short-term declines, we ensure that the institution remains positioned to compound capital over decades and sustain the principles that underpin long-term success.

## Scaling the Platform: Constraints, Trade-Offs, and Limits

Scaling a capital compounding institution introduces both unique advantages and inherent challenges. Scale can enhance access to opportunities, provide greater resilience during stress, and enable competitive sourcing of capital and talent. At the same time, scale imposes constraints on deployment flexibility, concentration, and the ability to act decisively. We view scaling not as an automatic objective, but as a series of deliberate trade-offs that must be managed to preserve the conditions for long-term compounding.

Scale is an advantage when it allows the institution to allocate capital across larger or otherwise inaccessible opportunities. A sizable balance sheet enables meaningful investments in high-quality businesses that smaller competitors cannot acquire, facilitates participation in private or negotiated transactions, and provides the flexibility to hold cash and act countercyclically during market dislocations. Economies of scale also reduce marginal operational costs at the parent level and support investment in capabilities that enhance decision-making quality over time.

At the same time, scale is a headwind. As capital grows, opportunities to deploy at superior expected returns diminish, and the risk of marginal capital misallocation increases. The probability that any given position will materially move overall results decreases, making it harder to achieve the same rate of compounding. Concentration that was once advantageous can become impractical, and the opportunity set naturally narrows. Recognizing this dynamic is critical to maintaining discipline, avoiding forced deployment, and preserving optionality.

Managing complexity without bureaucracy is central to sustaining performance at scale. Organizational layers, reporting requirements, and process overhead can accumulate quickly, diluting accountability and slowing decision-making. We combat these tendencies by keeping the centre lean, focusing on critical decision points such as capital allocation, risk oversight, and governance. Processes are standardized only where they enhance decision quality, and we actively resist the creation of functions or committees that do not add measurable value. Transparency and simplicity are treated as strategic priorities.

Talent density at the centre is essential. Scale increases the importance of each individual decision, and the capacity for judgment becomes the limiting factor. We prioritize recruiting and retaining individuals with deep analytical rigor, operational insight, and the intellectual humility necessary to challenge assumptions and exercise independent judgment. The centre's talent must be capable of evaluating complex opportunities, balancing risk and reward, and sustaining discipline across multiple business lines, geographies, and asset classes.

Knowing when not to grow is equally important. We avoid growth for its own sake and do not treat scale as a measure of success. Incremental growth must be justified by the availability of high-quality opportunities and alignment with long-term compounding objectives. We are willing to maintain or even reduce capital under management when doing so preserves optionality, reduces forced deployment risk, or improves overall decision quality. The willingness to remain small relative to opportunity is itself a source of competitive advantage when competitors are compelled to deploy capital irrespective of expected returns.

In aggregate, scaling the platform requires balancing opportunity, discipline, and organizational capacity. By recognizing the dual nature of scale as both advantage and constraint, maintaining simplicity in structure, investing in talent density, and exercising restraint in growth, we preserve the conditions that allow long-term compounding to continue. Scale becomes a tool rather than a target, applied selectively to enhance decision-making and expand opportunity sets without undermining the principles of patience, discipline, and rational capital allocation that underpin enduring performance.

# Measuring Success and Sustaining the Model

Measuring success in a capital compounding institution requires metrics and perspectives that extend far beyond short-term returns or conventional benchmarks. We define success in terms of long-term intrinsic value growth, capital retention, and the durability of the decision-making framework that underpins compounding. Traditional performance measures such as compounded annual growth rate or relative index performance are insufficient, because they fail to capture the quality, sustainability, and optionality inherent in the capital allocation process.

Capital retention and reinvestment efficiency are central indicators of success. We assess not only absolute returns but also the institution's ability to redeploy retained earnings, excess cash, and alternative sources of capital into opportunities that meet rigorous expected return thresholds. Efficiency is measured by the proportion of capital deployed at high conviction relative to total capital available and by the consistency of reinvestment decisions across economic cycles. This metric reflects the organization's capacity to avoid forced deployment, suboptimal reinvestment, and value-destructive activity.

Decision quality is evaluated over full market cycles rather than calendar periods. We recognize that volatility and intermittent underperformance are inherent features of long-term investing. Short-term outcomes provide limited insight into the efficacy of allocation decisions and may obscure structural strengths or weaknesses. Instead, we focus on the soundness of rationale, adherence to process, margin of safety, and alignment with opportunity cost. This perspective rewards patience, discipline, and intellectual rigor, and it encourages learning from mistakes rather than being driven by market perception.

Succession at the capital allocator level is a critical component of sustaining the model. Leadership continuity, judgment, and alignment over decades are rare but essential for preserving long-term compounding. We plan proactively for succession by developing internal talent capable of assuming the central capital allocation role while maintaining the culture, process discipline, and philosophical orientation of the institution. Knowledge transfer, mentoring, and codification of principles ensure that transitions do not disrupt the decision-making engine or compromise the institution's strategic advantage.

Long-term sustainability of a Berkshire-like model depends not only on performance but also on institutional design. Governance, capital structure, incentives, culture, and operational autonomy must be continuously reinforced and adapted without compromising the fundamental principles of permanence, rationality, and patience. This includes ongoing evaluation of the opportunity set, periodic stress-testing, and preservation of alignment between ownership, management, and the central allocator. The model is designed to endure cycles, external pressures, and evolving market conditions while maintaining the capacity to act decisively when high-quality opportunities arise.

Ultimately, success is the product of compounding capital over decades without sacrificing discipline, flexibility, or alignment. It is measured not in quarterly results or peer comparisons but in the accumulation of intrinsic value, the effectiveness of decision-making, and the resilience of the institution across time. By focusing on capital retention, reinvestment efficiency, decision quality, succession planning, and institutional durability, we ensure that the organization can sustain a Berkshire-like model and continue to generate superior long-term outcomes for shareholders and stakeholders alike.

# Conclusion

Building a modern Berkshire-like institution is not about replicating superficial characteristics, acquiring businesses indiscriminately, or attempting to duplicate historical financial results. We understand that it is the deliberate creation of a system in which capital, talent, governance, and culture are aligned with the objective of compounding intrinsic value over decades. Every structural decision, from holding company architecture to subsidiary autonomy, from capital sourcing to incentive design, is made with the explicit purpose of preserving optionality, mitigating permanent capital impairment, and enabling disciplined deployment over long time horizons.

The central insight is that superior outcomes emerge from the interplay of permanence, autonomy, and disciplined capital allocation. We own operating companies without interfering in day-to-day decisions, deploy capital only when expected returns exceed opportunity cost, and evaluate decisions over cycles rather than quarterly results. We structure incentives and culture to reward judgment, patience, and long-term thinking rather than short-term metrics or organizational growth for its own sake. We leverage scale selectively, manage risk holistically, and maintain the flexibility to act decisively when market conditions create compelling opportunities.

Equally important is the recognition that a Berkshire-like institution is defined as much by what we avoid as by what we do. We avoid empire-building, marginal acquisitions, excessive leverage, and short-term optimization behaviours that could erode long-term value. These negative disciplines, combined with active governance, proactive succession planning, and rigorous evaluation of opportunity cost, create an environment in which capital can grow steadily, even during periods of market volatility or uncertainty.

Sustaining this model requires relentless focus on process, alignment, and long-term orientation. We measure performance not solely by returns, but by the quality of decisions, the effectiveness of capital deployment, and the resilience of governance structures. Our metrics are subordinated to principles that enable durable compounding. Over time, this approach generates not only superior financial outcomes, but also an institution capable of preserving its advantages across generations of leadership and market cycles.

In conclusion, we view a modern Berkshire-like organization as more than a collection of businesses or an investment portfolio. It is a living system designed for permanence, built to allocate capital rationally, and sustained by culture, incentives, and governance that reinforce long-term decision-making. By adhering to these principles, we position the institution to deliver compounding value over decades and maintain the structural and cultural foundations necessary for enduring success.

# Personal Closing Note from the Authors

While writing this paper, we set out to build a framework that goes beyond conventional investing narratives and instead reflects how we think about capital allocation, risk, and long-term compounding in a modern context. Our objective was not only to outline how one might construct a Berkshire-like institution today, but also to understand why certain structural choices matter, how different design decisions impact outcomes, and how disciplined, long-term thinking can preserve and grow capital across decades.

For us, this exercise brought together complementary perspectives. As aspiring capital allocators, risk managers, and financiers, we focused on portfolio construction, opportunity evaluation, and maintaining the discipline necessary for long-term compounding. We considered operational design, governance, and subsidiary autonomy through the lens of sustaining durable businesses without interference. As analysts, we emphasized risk assessment, scenario planning, and structural resilience, recognizing that even the most carefully constructed models are tested by cycles, volatility, and unforeseen events. Across these perspectives, our guiding principle was the alignment of incentives, culture, and governance to support rational, patient decision-making. While writing this paper, we were repeatedly reminded that building a long-term institution is as much about what one avoids as what one pursues. The temptation to expand, micromanage, or optimize for short-term metrics can undermine decades of compounding if left unchecked. We aimed to reflect this tension by highlighting both the levers for value creation and the structural safeguards necessary to prevent permanent capital impairment. Our analysis emphasizes that patience, discipline, and alignment are not theoretical ideals, they are operational imperatives. This paper also represents a key step in our own intellectual development. Writing it forced us to reconcile differing viewpoints, interrogate assumptions, and ground conclusions in evidence rather than anecdote or conviction. It reminded us that building enduring institutions is as much about judgment and design as it is about analysis, and that learning occurs when we examine both successes and failures critically.

We hope that readers find value not only in the frameworks and principles presented, but also in the disciplined and holistic approach to thinking about long-term capital allocation. We thank you for engaging with this work and hope it serves as a useful reference for understanding what it takes to build a modern institution capable of sustaining superior compounding over decades.

To close, we leave you with a line that captures the perpetual, compounding nature of our strategy:

“This a Rollie, not a stopwatch, [ it ] don’t ever stop.”

— Drake, Nonstop

Aditya Mishra

*Aspiring* Fund Manager

Laith Shaikgh

*Aspiring* Risk Manager

Soham Sahay

*Aspiring* Investment Banker

## Disclaimer

This paper has been prepared solely for educational and informational purposes by the authors, who are currently students and not registered investment advisers, financial planners, or licensed professionals of any kind. The content herein reflects our personal research, analysis, and opinions and should not be construed as investment advice, a solicitation, or an offer to buy or sell any securities, financial instruments, or investment products.

The authors make no representation or warranty, express or implied, as to the accuracy, completeness, or reliability of the information contained in this paper. Any projections, forecasts, or estimates included are based on assumptions that may not prove accurate, and actual results may differ materially. Past performance, case studies, or historical examples referenced in this paper are not indicative of future performance.

Readers should conduct their own independent investigation, seek professional advice from licensed advisors, and consider their personal financial circumstances, risk tolerance, and objectives before making any investment decisions. The authors disclaim any and all liability for any loss, damage, or other consequences that may arise from reliance on this paper, including direct, indirect, incidental, or consequential damages.

This paper is intended for academic discussion, research purposes, and skill-building only. It is not intended for distribution as a professional report, recommendation, or guidance to any third party. By reading this paper, the reader acknowledges that they understand the foregoing and agrees that the authors shall not be held responsible for any actions taken based on the content of this work.