

Extra: Buffett Pick Todd Combs' Favorite Banks

On October 25th, Berkshire Hathaway announced the hiring of Todd Combs.

Warren E. Buffett, Berkshire's CEO, commented "For three years Charlie Munger and I have been looking for someone of Todd's caliber to handle a significant portion of Berkshire's investment portfolio. We are delighted that Todd will be joining us."

Todd is 39 and has been managing Castle Point Capital for the past five years. Simultaneously with the issuance of our announcement, Todd issued a letter to the limited partners of Castle Point Capital announcing his decision to join Berkshire.

Combs has focused on financial services investments and may be joining Berkshire due to GEICO investment chief Lou Simpson's retirement this December.

According to the website of Stone Point Capital, which provided capital to Combs' investment partnership, "Castle Point Capital is a long/short equity hedge fund focused exclusively on the financial services sector. Formed in 2005, the fund is based in Greenwich, Connecticut and is managed by Todd Combs. Trident III provided the hedge fund's seed capital in November 2005."

Combs managed \$395 million on July 1st, according to a letter obtained by Reuters. Combs' fund has generated a gross return of 33% since inception in November 2005, compared to a 49% drop in the SPDR Financial Services fund.

Carol Loomis provides additional insight into Combs in a *Fortune* article:

Buffett described Combs as an "all-American type" who is not the least bit interested in publicity, an attitude unlikely to shield him from it. Now a resident of Darien, Conn., Combs is by birth a Floridian who graduated in 1993 from Florida State University with majors in finance and multinational business operations.

Once out of school he worked for Florida's comptroller and later moved to Progressive Insurance, where he was involved in the all-important activity of setting automobile insurance rates. Progressive is an arch-competitor of Berkshire's GEICO.

Combs' direct route to Berkshire began in 2005 when he began to manage Castle Point, a new long/short hedge fund set up to take positions in financial services companies. Castle Point was seeded with capital by Trident III, one of four Trident funds established over the years by private equity firm Stone Point Capital. Castle Point raised \$500 million over two years and began full scale investing in late 2007.

A more traumatic moment to start any kind of fund, much less one focused on financial services, can hardly be imagined. The stock market had just months before hit a peak and begun to sink into the chaos of 2008. Had Castle Point been only a "long" fund, it would have met immediate disaster.

But the fund's short positions apparently saved it. Buffett describes Combs' record through the financial crisis as "pretty good."

Read more about Todd Combs at The Rational Walk (www.rationalwalk.com).

The following is a snapshot of Todd Combs' favorite investments in the financial services sector. **In the banking industry, Combs recently added to an already sizable position in U.S. Bancorp (USB) and initiated a new position in PNC Financial (PNC). He has also been buying shares in State Street (STT) and CIT Group (CIT).**

MOI Signal Rank™ – Top Ideas of Castle Point Capital Management⁵

	Company / Ticker	Market Value (\$mn)	Price		Shares Owned		Holdings as % of		P/E (Est.)		Price/Tang. Book
			Recent (\$)	Δ from Jun. 30	Recent ('000)	Δ from Mar. 31	Co.	Fund*	This FY	Next FY	
1	MasterCard / MA	31,751	242.64	22%	102	70%	<1%	8%	18x	15x	9.2x
2	State Street / STT	20,264	40.40	19%	561	60%	<1%	7%	12x	11x	2.2x
3	U.S. Bancorp / USB	45,226	23.59	6%	1,020	28%	<1%	8%	14x	11x	2.9x
4	RenaissanceRe / RNR	3,325	60.60	8%	255	21%	<1%	5%	7x	8x	1.1x
5	Western Union / WU	11,816	17.90	20%	1,224	36%	<1%	7%	13x	12x	n/m
6	CIT Group / CIT	8,086	40.38	19%	357	new	<1%	5%	19x	16x	1.0x
7	PNC Financial / PNC	28,783	54.72	-3%	185	new	<1%	3%	11x	9x	1.5x
8	CME Group / CME	19,069	283.69	1%	51	2%	<1%	5%	18x	17x	n/m
9	Chubb / CB	18,219	57.92	16%	255	28%	<1%	5%	11x	10x	1.2x
10	Chatham Lodging / CLDT	150	18.52	4%	107	new	1%	<1%	56x	17x	n/m

Top Holdings of Castle Point Capital Management – By Dollar Value

	Company / Ticker	Market Value (\$mn)	Price		Shares Owned		Holdings as % of		P/E (Est.)		Price/Tang. Book
			Recent (\$)	Δ from Aug. 30	Recent ('000)	Δ from May. 28	Co.	Fund*	This FY	Next FY	
1	MasterCard / MA	31,751	242.64	22%	102	70%	<1%	8%	18x	15x	9.2x
2	U.S. Bancorp / USB	45,226	23.59	6%	1,020	28%	<1%	8%	14x	11x	2.9x
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4	Western Union / WU	11,816	17.90	20%	1,224	36%	<1%	7%	13x	12x	n/m
5	RenaissanceRe / RNR	3,325	60.60	8%	255	21%	<1%	5%	7x	8x	1.1x
6	Starwood Property / STWD	961	20.20	19%	740	23%	2%	5%	16x	n/a	1.1x
7	Chubb / CB	18,219	57.92	16%	255	28%	<1%	5%	11x	10x	1.2x
8	CME Group / CME	19,069	283.69	1%	51	2%	<1%	5%	18x	17x	n/m
9	CIT Group / CIT	8,086	40.38	19%	357	new	<1%	5%	19x	16x	1.0x
10	PennyMac Mortgage / PMT	291	17.30	9%	816	9%	5%	4%	11x	7x	.9x

New Positions

Broadridge Financial / BR
Chatham Lodging / CLDT
CIT Group / CIT

Hartford Financial / HIG
Leucadia National / LUK
PNC Financial / PNC

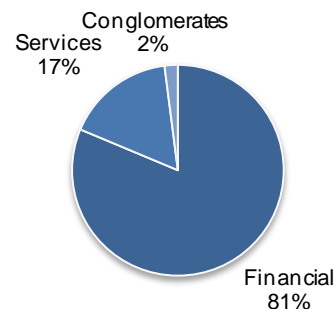
Sold Out Positions

Assurant / AIZ
First Citizens / FCNCA
Reinsurance Gr. America / RGA
Signature Bank / SBNY
TD Ameritrade / AMTD
Two Harbors Investment / TWO

Portfolio Metrics *

Portfolio size	\$316 million
Top 10 as % of portfolio	58%
Median market value	\$11 billion
Average market value	\$21 billion
Median P/E (this FY)	14x
Median P/E (next FY)	11x
Median P / tangible book	1.3x

Sector Weightings *



* Based on equity holdings disclosed in 13F-HR filings with the SEC. Excludes portfolio cash, leverage, certain non-U.S. holdings, and non-equity securities.

⁵ MOI Signal Rank™ answers the question, “What are this investor’s top ten ideas right now?” Rather than simply presenting each investor’s largest holdings as of the recently filed quarter end, the MOI’s proprietary methodology ranks the companies in each investor’s portfolio based on the investor’s current level of conviction in each holding, as judged by the MOI. Our proprietary methodology takes into account a number of variables, including the size of a position in an investor’s portfolio, the size of a position relative to the market value of the corresponding company, the most recent quarterly change in the number of shares owned, and the change in the stock price of a position since the most recent quarterly filing date.

The following is a quick look at each of the four banking-related institutions among Todd Combs' top ten holdings:

U.S. BANCORP (USB)

Minneapolis-based U.S. Bancorp, with \$291 billion in assets, is the parent of U.S. Bank, the 5th-largest commercial bank in the U.S. The company operates 3,013 banking offices in 24 states and 5,323 ATMs and provides banking, brokerage, insurance, investment, mortgage, trust and payment services products.

Assets

U.S. Rank	Company	\$Billions
1	Bank of America	\$2,364
2	J.P. Morgan	2,014
3	Citigroup	1,938
4	Wells Fargo	1,226
5	U.S. Bancorp	283
6	PNC	262
7	SunTrust	171
8	BB&T	155
9	Regions	135
10	Fifth Third	112

Market Value

U.S. Rank	Company	\$Billions
1	J.P. Morgan	\$158
2	Bank of America	136
3	Wells Fargo	134
4	Citigroup	113
5	U.S. Bancorp	43
6	PNC	29
7	BB&T	16
8	SunTrust	12
9	M&T	10
10	Fifth Third	10

2007

- ✓ Minimum 20% ROE
- ✓ Reducing credit and earnings volatility
- ✓ Targeting 80% return of earnings to shareholders
- ✓ Providing high-quality customer service
- ✓ Investing for future growth
- ✓ 10% long-term EPS growth

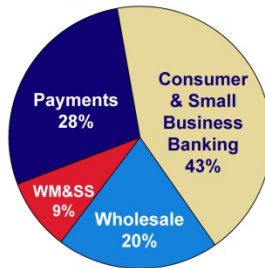
2010

- ✓ Normalized ROE 17-19%
- ✓ Reducing credit and earnings volatility
- ✓ Targeting return of the majority of earnings to shareholders
- ✓ Providing the highest-quality customer experience
- ✓ Investing for future growth
- ✓ Realizing 8-10% normalized long-term EPS growth

Payment Services

- ✓ Retail Payment Solutions
- ✓ Corporate Payment Systems
- ✓ Global Merchant Acquiring

Revenue Mix By Business Line



Consumer & Small Business Banking

- ✓ Metropolitan Banking
- ✓ Community Banking
- ✓ Consumer Lending
- ✓ Mortgage Banking
- ✓ Small Business Banking

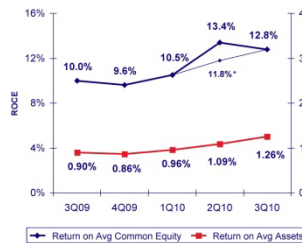
Wholesale Banking

- ✓ Corporate Banking
- ✓ Commercial Banking
- ✓ Commercial Real Estate

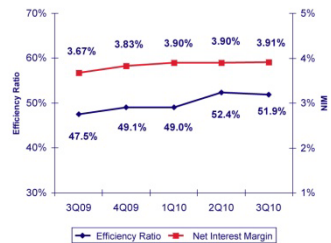
Wealth Management & Securities Services

- ✓ Wealth Management
- ✓ Corporate Trust
- ✓ FAF Advisors
- ✓ Fund Services
- ✓ Institutional Trust & Custody

ROCE and ROA



Efficiency Ratio and Net Interest Margin



Source: Company presentations dated October 20th and September 15th, available at <http://bit.ly/bgSKy5>

PNC FINANCIAL SERVICES GROUP (PNC)

Pittsburgh-based PNC Financial Services Group is a diversified financial services organization providing retail and business banking; residential mortgages; specialized services for corporations and government entities, including banking, real estate finance and asset-based lending; wealth and asset management.



June 30, 2010	U.S. Rank ¹
Deposits \$179 billion	6 th
Assets \$262 billion	8 th
Branches 2,458	5 th
ATMs 6,539	5 th

Asset Management
One of the largest bank-held asset managers in the U.S.

Corporate & Institutional
A leader in serving middle-market customers and government entities

Residential Mortgage
One of the nation's largest mortgage platforms

Retail
Footprint covering nearly 1/3 of the U.S. population

BlackRock
A leader in investment management, risk management and advisory services worldwide

Retail Banking

- ▶ Grew checking relationships by 53,000 during 3Q10 vs. 20,000 during 2Q10
- ▶ Online bill payment active customers up 8% vs. 2Q10
- ▶ Customer and employee engagement remain high

Asset Management

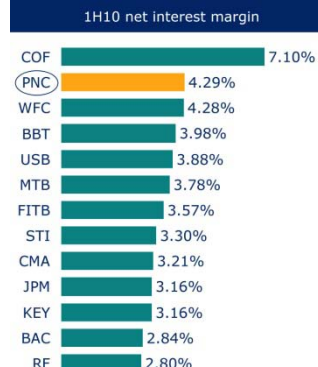
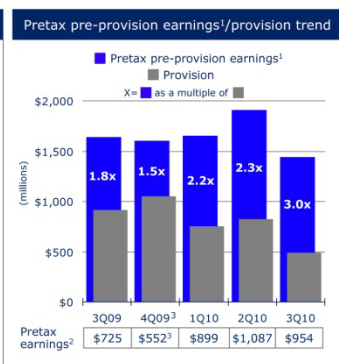
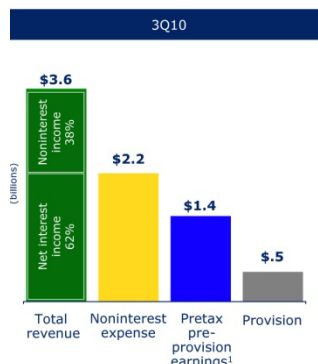
- ▶ Outperformed sales and client acquisition goals
- ▶ Assets under administration over \$200 billion at September 30, 2010
- ▶ Referrals from other business segments in newly acquired markets up 40% vs. 2Q10

Corporate & Institutional Banking

- ▶ Continued to add clients at a record pace
- ▶ YTD10 Treasury Management¹ revenue up 9% vs. YTD09
- ▶ YTD10 Capital Markets¹ revenue up 19% vs. YTD09

Residential Mortgage

- ▶ Loan originations of \$2.7 billion up 17% from last quarter
- ▶ YTD10 servicing fees up 15% vs. YTD09
- ▶ Expenses down 29% YTD10 vs. YTD09



Source: Company presentations dated October 21st and September 14th, available at <http://bit.ly/blIITA>

STATE STREET (STT)

State Street provides services to institutional investors, including investment servicing, management, research and trading. With \$19 trillion in assets under custody and administration and \$1.8 trillion in AUM as of June 30th, State Street operates in 25 countries and employs 29,000 people.

- Fiduciary heritage since 1792
- More than 28,900 employees in 25 countries
- Core business managing and servicing financial assets
- AA- senior debt rating (Bank)
- Operating-basis earnings per share growth of 9% compounded annually over the 10 years 1999-2009*

Asset Servicing	Investment Research and Trading	Asset Management
Investor Services <ul style="list-style-type: none"> \$18.0 trillion* in assets under custody and administration Largest provider of investment manager operations outsourcing Largest servicer of alternative assets** 	Securities Finance <ul style="list-style-type: none"> Approximately \$2.2 trillion in lendable assets* Approximately \$421 billion in average assets on loan* Lending across more than 30 international markets Approximately 450 customers and 145 approved borrowers, worldwide 	Global Markets <ul style="list-style-type: none"> Over \$32 trillion in volume traded across asset classes in 2009 Transitioned assets for over 90 of the Top 300 US pension plans and completed over 1,000 transitions in 2009, representing more than \$330 billion in value
		Global Advisors <ul style="list-style-type: none"> \$1.8 trillion* in assets under management Largest worldwide institutional assets*** Investment solutions across the risk/return spectrum

*As of June 30, 2010

We Provide
<ul style="list-style-type: none"> 75% of the world's largest money managers and asset owners with foreign exchange services and transition management services, and quantitative research and technology-driven tools Largest provider of mutual fund custody and accounting services in the U.S.
We Manage
<ul style="list-style-type: none"> \$1.78 trillion in assets worldwide World's largest pool of institutional assets
We Service
<ul style="list-style-type: none"> 20% of the hedge-fund market More than \$650 billion of offshore assets We strike the NAVs for about 41% of the US mutual funds provided every day to NASDAQ More than \$7 trillion in assets in investment manager operations outsourcing



Source: Company presentation dated July 30th, available at <http://bit.ly/bn5lyV>

CIT GROUP (CIT)

Founded in 1908, CIT is a bank holding company with \$35+ billion in finance and leasing assets. It provides financing and leasing capital to one million small business and middle market clients and their customers across 30+ industries. CIT maintains leadership positions in small business and middle market lending, factoring, retail finance, aerospace, equipment and rail leasing, and global vendor finance.

Bank Holding Company With Over 100 Years Commercial Lending Experience	Corporate Finance	Lending, leasing, advisory and other financial services to small and middle market companies	Portfolio Assets \$10B
Focused on Small Business and Middle Market Companies	Trade Finance	Factoring, lending, receivables management and trade finance to companies in retail supply chain	Portfolio Assets \$3B
Solid Business Franchises Operating Within Attractive Markets	Transportation Finance	Lending, leasing and advisory services to the transportation industry, principally aerospace and rail	Portfolio Assets \$12B
Reorganized Capital Structure Provides Flexibility to Refine Business Model	Vendor Finance	Financing and leasing solutions to manufacturers and distributors around the globe	Portfolio Assets \$7B
\$55 Billion in Assets and \$8 Billion Market Capitalization	Consumer	Liquidating portfolio consisting of run-off student loan portfolio and receivables from other consumer lending activities.	Portfolio Assets \$9B

Benefits
<ul style="list-style-type: none"> "Fair Valued" Balance Sheet Capital Liquidity Minimal franchise damage
Challenges
<ul style="list-style-type: none"> Rebuild Management / Team Cost of Funds / Liability Structure Regulatory Relations Repair franchise value

	Q2 2010	Q1 2010
Managed Assets	\$55 Billion	\$58 Billion
Pre-Tax Income	\$214 Million	\$140 Million
Net Income	\$142 Million	\$97 Million
Earnings Per Share	\$0.71	\$0.49
Total Capital Ratio	18.2%	16.1%
Book Value	\$8.6 Billion \$43.11 per share	\$8.5 Billion \$42.63 per share
Tangible Book Value	\$8.2 Billion \$41.07 per share	\$8.1 Billion \$40.43 per share

Source: Company presentation dated October 14th, available at <http://bit.ly/bQ7uE9>