COMMODARI ANTINORI GROUP / BMO NESBITT BURNS

COMPANY HIGHLIGHTS: SUMMER 2022

Before we look under the hood at some of our portfolio holdings, know this: the sky is not falling! We have weathered recessions and bear markets before, some of which were much worse than what we have seen this year. While these times are unpleasant, we can count on the fact that, like the sun, recessions and bear markets eventually set only to reveal a new and brighter dawn.

A recession might shrink near-term earnings but it will not significantly impair a company's intrinsic value. We say this with certainty because most of a company's value is derived from profits that will be earned more than five years down the line and not solely from their current earnings. Given the tumultuous period that we are currently in, this knowledge makes waiting for a new dawn a little more bearable.

The most valuable lesson we have learnt in our many years of experience is that a sensible philosophy, combined with unwavering discipline will allow us to perform successfully through uncertain times, inevitable mistakes, and vexing surprises. Over the last three months, we have done just that. As a result, we now own a collection of some of the very best businesses in the world that are run by some of the most talented leaders in the world. Let us introduce some recent additions to our portfolio holdings and review some notable developments from the last few months.

Alibaba Group is the world's largest online and mobile commerce company according to its gross merchandise volume. Its major businesses include: Taobao Marketplace, China's largest online shopping destination; Tmall.com, a third-party platform for brands and retailers; Juhuasuan, an online group buying marketplace; and Alitrip, the company's online travel booking platform.

Earlier this year, we decided to significantly add to our position in Alibaba. This decision was made after its share price was considerably impacted by Chinese regulatory tensions and delisting fears, as well as the Russia-Ukraine war.

Despite these events and developments, Alibaba delivered a respectable performance in the fiscal third quarter and posted revenues of $38.1 billion in the December period, which exceeded consensus estimates. As we look ahead, long-term growth should clock in at a double-digit pace, making Alibaba all the more appealing to investors.

Wayfair, a recognizable addition to client portfolios, needs no introduction as it marks the second time it has made its way into client accounts. Long-standing clients will recall parting with the company back in 2020 at roughly $300 a share. At the time, the decision to sell was based solely on price as we never soured to the business.

Due to unfavourable operating results in recent quarters, Wayfair's share price sunk to a level not seen in many years. This shift created an opportunity with a healthy margin of safety to buy into the company once again. Over the next decade, Wayfair is likely to post solid growth in revenues at a very compelling price.

Micron Technology, Inc. is a major supplier and manufacturer of memory and data storage solutions that are used in a wide range of electronic devices, from personal computers to smartphones. Micron's share price pulled back due to market fears that the end of the chip cycle was near. While it is difficult to determine when the current cycle will slow or end, we see few signs of it happening any time soon. The increase in demand for memory and storage solutions, which is tied to secular trends in artificial intelligence, 5G networks, electric and autonomous vehicles, and cloud computing, is just starting to pick up steam.

Despite these optimistic indications, Micron's share price currently trades at a single digit price-to-earnings ratio and at a hair above book value. However, given the company's competitive positioning and strong opportunity for growth, we decided to add to our position in Micron over the last quarter.

Elevance Health, Inc., formerly known as **Anthem, Inc.**, decided to change its name to better reflect its move beyond traditional health insurance services and to encompass the additional services they provide to support their customers throughout their care journey. Essentially, Elevance connects clients with the care, the support, and the resources they need to lead healthy lives.

Elevance is well positioned to meet the needs of an aging population as it has a deep portfolio of industry-leading digital, pharmaceutical, behavioural, clinical, and complex care solutions. Moving forward, we continue to expect satisfying results from this business.

CarMax, Inc. continues to invest heavily in the development of their omni-channel model. Consumer behaviour in the automotive retail market is shaped by the internet and by the availability of information and prices. In order to maintain their market-leading position, CarMax has been forced to invest in their response to these shifts in consumer behaviour.

We see this as a glass half-full situation. While CarMax has not seen an exceptional return on their multi-year investment in omni-channel to date, this huge operating expense should enable them to drive transactions both online and in stores in the coming years. We believe that this is the direction the consumer is going in and CarMax's significant investment is encouraging as it will be difficult for other used car retailers to follow suit—they simply do not have the resources.

Our belief is that CarMax will transition from a share taking model, driven by in-store foot traffic, to a new era in which they take share and are propelled by their omni-channel investment. We are happy to be along for the ride.

Meta, the parent company of Facebook, was significantly impacted by Apple's capital privacy changes, which took effect late last year. Essentially, to improve transparency around app tracking, Apple set permissions around their Identifier for Advertisers (IDFA), which allowed advertisers to provide personalized ads and to track ad interactions. As a result of these permissions, many chose to limit ad tracking. This major change broke a specific way in which platforms and advertisers, including Facebook, targeted viewers, coordinated activities, and sold products.

Despite efforts to mitigate the impact of this change since it was announced two years ago, Meta was significantly affected by this and suffered a $10 billion revenue hit, which it will phase in over the course of 2022. All told, the hit had an 8% impact on the top line.

The good news is that this revenue hit is a one-time occurrence and there is no longer a need to worry about App Tracking Transparency. In the first quarter (Q1), Meta was still able to grow by 10% at constant currency and had it not been for the hit, would have reached nearly 20% growth—that is in addition to last year's Q1 growth of 48%. Meta continues to prove that it is a company capable of strong growth and is a solid platform for advertisers, in many ways, it is the best media that you can buy.

There is no doubt that this is a stressful period for investors. Although these times are unpleasant, we have been here before and can say with confidence that our disciplined approach, coupled with more than twenty-five years of experience, will successfully guide us through this period—this too shall pass.

Summer is upon us and wherever this vacation season may take you, rest assured that we have a firm grip of the wheel here, so be sure to relax and enjoy yourself!

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