COMMODARI ANTINORI GROUP / BMO NESBITT BURNS

PORTFOLIO DEVELOPMENTS: SUMMER 2023

Over the first half of 2023, shaking off worries over inflation, potential recession and geo-political tensions, equity markets rallied sharply. As at June 30, 2023, on a total return basis, the S&P/TSX Composite Index gained 5.70% while elsewhere, the S&P 500 and MSCI World Index rose 14.27% and 12.84% respectively in Canadian dollars.

Over the same period, fuelled by an upward re-pricing of many of our unduly marked down securities from 2022, portfolios managed by Commodari Antinori Group posted healthy gains.

Below is a list of notable portfolio standouts and detractors for the period. It will be interesting to see if next year, current laggards also find themselves among our top performers. Now that's a streak we can get behind!

Source: BMO Retail Information Systems **Notable Contributors**	**Price Change[1]**	Source: BMO Retail Information Systems **Notable Detractors**	**Price Change[1]**
Meta Platforms Cl A Com Stock	133.3%	Charles Schwab New	-33.0%
Wayfair Cl A	91.8%	Nutrien Com	-21.3%
Rolls Royce Holdings Plc Spons	68.5%	Elevance Health	-15.3%
SNC Lavalin Group	46.9%	Saputo	-11.7%
Oracle Corp	43.0%	Unitedhealth Group	-11.3%
Carmax	33.6%	Universal Music Group	-10.7%
Alphabet Cl C Cap Stock	33.0%	Johnson & Johnson	-8.9%
Taiwan Semiconductor Mfg Co Sp	29.8%	Alibaba Group Holding ADR	-8.6%
Air Cda Vtg & Var Vtg Shs	28.2%	Paypay Holdings Com	-7.5%
Micron Technology	21.8%	Enbridge	-7.5%

[1]Year to date price change as at June 30, 2023. Computed in Canadian currency.

During the first half of this year, we opportunistically trimmed our stakes in Meta, Elevance Health, UnitedHealth Group and the iShares S&P/TSX Capped Energy Index and increased our investments in CarMax, Intercontinental Exchange, Nutrien and Wayfair.

On the heels of the collapse of several small regional banks in the U.S. we initiated a new position in Capital One Financial and significantly added to our holding in Charles Schwab. We discuss the merits of the latter in detail in our most recent video – *Schwab: A Closer Look*.

Of course, only time will tell how current fears and concerns will play out over the years. We learned long ago not to get too distracted by such things and rather, concentrate our efforts on the developments directly affecting the long-term cash flows at our portfolio of companies. Here are just some highlights.

Meta Platforms, Facebook's parent company and our top performer for the period continues to attract more and more advertising dollars to its door. Despite their 2022 advertising revenue growing only modestly from 2021, it is still impressively 60% higher than 2019 pre-Covid levels. This growth brought with it reduced margins as the company likely hired well more than what it needed to fuel its growth. Management has since realized its error and recently announced several rounds of layoffs and other initiatives to curtail expenses.

Elevance & UnitedHealth Group, our two managed care companies, both continue to post solid operating results and this, despite a rising cost of doing business brought on, in part, by its customers now receiving treatments previously deferred due to Covid. Both companies are off to a great start in 2023, with Elevance increasing revenues by 10.5% and UnitedHealth cracking the $90 billion quarterly revenue mark for the first time in its history.

Capital One Financial, our largest and most recent addition to client portfolios, is the tenth-largest bank in the U.S., the second-largest auto finance company, and the fourth-largest credit card issuer – *what's in your wallet!*

Their use of mobile and online channels to both acquire and service accounts allows them to enjoy the benefits of being a large national bank without the costly expense of operating a large branch system. Essentially, they are a data-driven company disguised as a bank. As a result, since 2012, they consistently enjoy one of the best operating expense ratios in the industry.

Impressive yes but combined with the fact that Capital One is still led by its extraordinary founder, Rich Fairbank, who finished first in his class at Stanford Business School and has paid himself zero salary since 1997 – priceless! That's the kind of partner we love!

Although we are certain that credit costs will rise in the future, Capital One is in a strong position to weather this eventuality and, in our estimation, its share price has been unduly marked down. The real risk is here is Rich deciding to retire.

Despite the future always being uncertain our disciplined process and the strength, performance, and competitive position of the businesses that we own give us the confidence to face uncertainty as we always have. Calm and level-headed!

As always, thank you for the privilege of your confidence.

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July 10, 2023

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