COMMODARI ANTINORI GROUP / BMO NESBITT BURNS

PORTFOLIO DEVELOPMENTS: SUMMER 2024

Resilient corporate profits, enthusiasm around artificial intelligence (AI) and hopes for interest rate cuts fuelled healthy gains for stocks. In fact, by May 2024, many equity indices had already attained new record highs. As at June 30, 2024, on a total return basis, the S&P/TSX Composite Index gained 6.05% while outside of Canada, the S&P 500 Index and MSCI World Index rose 19.31% and 15.94% respectively in Canadian dollar terms.

Portfolios managed by the Commodari Antinori Group posted robust gains over the same period. This was simply a function of the wonderful collection of businesses that we own – a stable of superior companies diligently focused on their respective key success factors.

The table below details the top ten portfolio standouts and detractors respectively for the six-month period ending June 30, 2024. While the latter causes moderate consternation, we are confident that the period's detractors will ultimately blossom into contributors. It seems to be our trademark!

Source: BMO Retail Information System	**Price**	*Source: BMO Retail Information System*	**Price**
Notable Contributors	**Change** [i]	**Notable Detractors**	**Change** [i]
Taiwan Semiconductor Mfg Co S	*68.3%*	*Liberty Broadband Corp Cl C*	*-31.5%*
Micron Technology	*55.2%*	*Magna Intl Com*	*-26.8%*
Rolls Royce Holdings Plc Spons	*52.1%*	*Wayfair Cl A*	*-14.0%*
Meta Platforms Cl A Com Stock	*43.4%*	*Toronto-Dominion Bank*	*-12.2%*
Atkinsrealis Group	*38.8%*	*Nutrien Com*	*-6.7%*
Oracle Corp	*34.8%*	*Alibaba Group Holding Sponsore*	*-6.5%*
Alphabet Cl C Cap Stock	*31.0%*	*Johnson & Johnson Com Stock*	*-6.1%*
RB Global Com	*17.7%*	*Paypal Holdings Com*	*-4.9%*
Ishares S And P/Tsx Capped Ene	*17.3%*	*Air Cda Vtg & Var Vtg Shs*	*-4.2%*
Elevance Health	*15.7%*	*Carmax*	*-3.8%*

[i] *Year to date price change as at June 30, 2024. Computed in Canadian currency*

Over the first six months of 2024, we significantly reduced our holdings in Wayfair and Walt Disney, and trimmed back our stakes in Micron, Rolls Royce, Meta, Taiwan Semiconductors, Alphabet and the iShares S&P/TSX Capped Energy Index. On the flip side, we increased our investments in Alibaba, Nutrien, Toronto-Dominion Bank, UnitedHealth Group and PayPal.

We initiated a new position in Liberty Broadband, owners of a wide range of communications business, after their principal asset, Charter Communications, the second largest provider of broadband and cable-TV services in the United States, posted disappointing subscription numbers. Stay tuned for the merits of this investment in future discussions.

Brushing short-term stock market performance aside for a moment, as always, we encourage you to remain focussed on what really matters: the long-term cash flows within our portfolio of companies and the durability of the business franchises protecting those said cash flows. If those are strong, time always takes care of the rest!

Here are just a handful of highlights we hope will help provide some colour and context to both:

Rolls Royce Holdings PLC, our largest holding, continues to gain market share in the wide body jet engine space and, more importantly, given its 50% share of backlog orders, should continue to grow revenue well into the future. We take a deep dive into the merits of this investment in our latest video so, if you want to learn more, make sure to scan the attached link and give it a peek. Suffice it to say, given the complexity, time, Federal Aviation Agency regulations and cost of engine development, Rolls Royce has a significant economic moat protecting its business.

Capital One Financial (COF), a position initiated early last year amidst banking fears, recently entered into a definitive agreement to acquire Discover Financial in an all-stock transaction valued at $35.3 billion. Capital One, already a big credit card issuer, also offers auto lending, commercial banking and online banking services. That said, the credit card business is where Capital One sees the biggest margins and earns the best return on equity. With Capital One's strong marketing and exceptional credit risk management, the Discover deal will add to its lucrative credit card business and, if successful at moving card relationships away from the Visa and Mastercard networks onto the Discover network, add a ton of untapped earnings potential to boot.

Micron & Taiwan Semiconductor (TSMC), our two semiconductor companies and top performers for the period, both saw their stock prices rise considerably.

From a business perspective, strong chip pricing has been a dominant factor in recent performance as Micron's top line increased a whopping 58% from last year's quarter and 23% over the prior quarter while TSMC, offset by seasonal weakness for smartphones, increased sales nearly 13% on a year-over-year basis. As great as these results are, the semiconductor business is notoriously cyclical and prone to periodic oversupply and obsolescence. Thus, we trimmed our holdings accordingly suspecting that Mr. Market, drawn by the AI explosion, may have forgotten these important business fundamentals.

Alibaba, plagued with uncertainty from Chinese regulators and inconsistent financial results, has seen its share price trade erratically over the last two years whipsawing between $60 and $120 a share. Once a stock market darling, the current share price is far cry from the $320 level it touched in early 2020 despite now reporting earnings almost 15% higher. Political risk aside, Alibaba with its clean balance sheet, low debt levels and an excellent history of return on capital should eventually be able to find its footing. For one, as global enterprises continue to adopt cloud and cyber security services, Alibaba's Cloud Intelligence Group should contribute more meaningfully to top line earnings moving forward and second, overlooked by Mr. Market's enthusiasm, the artificial intelligence arena likely holds significant long-term upside. Until then, at just 4.5x enterprise value to free-cash flow, the $68 billion of cash Alibaba holds on its balance sheet makes this stock incredibly cheap and easy for us to remain patient with.

Intercontinental Exchange (ICE), our third largest holding, saw contributions from their Black Knight acquisition boost results at their Mortgage Technology segment to more than double the revenues of last year. The integration is going well and, in time, should help ICE better automate the mortgage process, leading to greater operating efficiencies moving forward. All told, management expects to realize $100 million in cost savings this year.

What the near-term holds in store for the economy and the stock market we can only guess. Regardless of the events to come however, we are confident that our portfolio companies will continue to serve up products and services that people need and want and are very well positioned in their respective industries. We learned a long ago that the big money is not in the buying and selling but in the **waiting**. Thank you, Charlie Munger, for this insight.

Above all, thank you for the privilege of your confidence. Wishing you and your loved ones an enchanting summer. Ride the waves on the beach – we will keep watch from shore.

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