COMMODARI ANTINORI GROUP / BMO NESBITT BURNS

PORTFOLIO DEVELOPMENTS: SUMMER 2026

On the surface, the first half of 2026 was a perfectly pleasant time to own stocks. The S&P 500 returned 14.26% in Canadian dollar terms, the TSX closed the half up 11.17%, and both indices entered the summer within sight of record highs.

But these results conceal more than they reveal. Beneath the placid averages lay a violent six months. A spring conflict nearly dragged markets into correction; a furious rally then carried them to new records. Underneath it all swung a market caught between euphoria and despair, often about the very same subject. That subject has been artificial intelligence. All year, the market has been hastily sorting businesses into two bins: presumed winners, for which no price is too high, and presumed losers, many of them excellent companies, marked down savagely today for troubles merely guessed at five years hence.

AI may well prove the defining technology of our era; with that we have no quarrel. We do, however, question the confidence of the sorting. Prices can travel five years in an afternoon, but the facts still arrive one quarter at a time. So, while we had little appetite to add to the expensive surface of this market, we found plenty to do underneath it: re-checking the sorting ourselves, selling a little of what the market adores, and buying what it has marked down in haste.

The accompanying table shows the ten largest positive and negative price moves among our holdings this year. True to form, names squarely in the doghouse as recently as December, UnitedHealth and Elevance among them, now rank among our steadiest contributors. We have seen this movie many times over the decades, with Chipotle and Rolls-Royce the poster children: when a business is genuinely excellent, its bad news is usually temporary, and yesterday's laggard has a habit of becoming tomorrow's leader.

Source: BMO Retail Information Systems Notable Gainers	Price Change [i]
Rolls Royce Holdings Plc	28.3%
Taiwan Semiconductor	62.7%
Toronto-Dominion Bank	33.3%
Unitedhealth Group	30.3%
Alphabet Cl. C	16.6%
Power Of Cda Sub-Vtg	21.2%
Ishares Capped Energy Index	24.0%
Elevance Health	14.2%
Canadian National Railway Co	24.7%
Bio Techne	24.4%

Source: BMO Retail Information Systems Notable Decliners	Price Change [i]
Zoetis Cl A	-40.9%
Accenture Plc Ireland Cl A	-52.0%
Universal Music Group	-16.9%
Lululemon Athletica	-43.1%
Intercontinental Exchange	-21.3%
Capital One Financial	-14.3%
Liberty Broadband Corp Cl C	-29.2%
Meta Platforms Cl A	-11.7%
Paypal Holdings Com	-23.4%
Charles Schwab	-4.4%

[i] Year to date price change as at June 30, 2026. Computed in Canadian currency

A word of caution when reading this table: it shows price changes, not our results. Zoetis appears among our worst detractors, down some 41% this year, yet the shares we own have cost us only a mid-single-digit decline, because that very fall is what created our opportunity to buy. The mirror also holds: a stock that rose after we trimmed it flatters us less than it appears. Prices tell you what the market did; they say little about what we did in response.

And we did plenty. Over the last six months we trimmed Rolls-Royce, Taiwan Semiconductor, Nutrien and our energy index holding, completed our exit of Jacobs Solutions, and all but exited Alibaba. With the proceeds, we initiated positions in Zoetis, Accenture, Bio-Techne and MSA Safety, more than doubled our stake in Universal Music Group, and added meaningfully to ICON and Elevance Health. As at June 30th, our top fifteen holdings accounted for roughly 66% of our equity portfolio. A few of these decisions deserve a fuller word.

Source: BMO Retail Information Systems Holdings	% of Equity 30-Jun-26	Yrs. Held
Rolls Royce Holdings Plc	12.8%	10.0
Icon PLC	6.6%	1.4
Toronto-Dominion Bank	5.9%	15.8
Alphabet Cl. C	4.6%	7.1
Unitedhealth Group	4.3%	6.2
Universal Music Group	4.2%	4.8
Taiwan Semiconductor	4.3%	5.9
Elevance Health	3.8%	5.1
Power Of Cda Sub-Vtg	3.1%	6.3
Capital One Financial	2.9%	3.6
Charles Schwab	2.8%	6.1
Nutrien Com	2.8%	6.3
Ishares Capped Energy Index	2.7%	6.3
Zoetis Cl A	2.6%	0.1
Sunbelt Rentals	2.5%	1.2
	65.74%	

Our sales of **Nutrien** and the energy index were exercises in restraint. Both benefited from commodity prices lifted, in part, by conflict in the Middle East, and windfalls born of headlines have a way of retreating with them. These are fine businesses, but they are cyclical ones, and we prefer to lighten cyclicals when events, rather than earnings, are doing the lifting.

Among the purchases, two require candor before celebration. **Accenture** remains under an AI cloud and below our purchase price. We believe the market's fear is overdone; the shares now trade below ten times earnings with a dividend approaching 5%. But the range of outcomes here is genuinely wide, which is why we sized the position modestly from the start. **Universal Music Group**, meanwhile, attracted a rich takeover bid, which we will discuss shortly.

Nothing this period illustrated the market's mood swings better than **ICON**, the Irish company that runs clinical drug trials for the pharmaceutical industry, now our second-largest holding. On paper, the shares ended the half down a quiet 1.6%. In reality, they travelled from roughly $180 to $70 and back — cut in more than half by an accounting scare, then restored once the completed investigation found the overstatement amounted to less than 2% of revenue and was chiefly a matter of *when* dollars were recorded, not *whether* they existed. We increased our share count by more than 80% through the turmoil, and those purchases have already appreciated over 60%. Here lies the uncomfortable truth about such moments: investor conviction cannot be borrowed. Doing the work ourselves allowed us to see a frightening headline for the modest problem it was.

Lululemon, candidly, has tested us most. The leadership question we told you we were awaiting was answered in April, and the board chose Heidi O'Neill, a long-time Nike executive closely associated with the very strategies that damaged Nike. The choice did not inspire confidence. Where ICON's wound was an accounting question around an intact franchise, Lululemon's injury is to the brand itself. We treat the two very differently! Ms. O'Neill takes the chair in September. We will judge her plan on the evidence, but our patience here is measured, not unconditional.

Rolls-Royce, despite repeated trimming, remains our largest holding — by design. Our original shares, purchased years ago, have multiplied roughly eight-fold, and therein lies the lesson: the most expensive mistakes in investing are rarely the stocks that fall, but the great businesses sold too early, whose decades of compounding are forfeited for the brief satisfaction of banking a profit. So, we trim for prudence, because no single company should decide our clients' fate. But we are in no hurry to part with a superb business merely because its price has risen.

Our three healthcare purchases share a common thread. **ICON**, **Zoetis** and **Bio-Techne** are each a toll-bridge on the world's medical progress: testing its new drugs, treating its beloved pets, supplying the proteins researchers cannot work without. Each fell from favor as pharmaceutical and research spending paused, and the evidence increasingly suggests that spending is turning. We did not wait long for a second opinion. In June, Germany's Merck KGaA, an industry insider with a 350-year history, agreed to acquire Bio-Techne for $73 per share in cash — roughly a 25% premium to the market and some 45% above our own cost. We would have preferred to own this gem for decades, but when the smartest money in the industry validates your thesis within months, one accepts the compliment.

A similar compliment arrived at **Universal Music Group**, home to recordings from The Beatles to Taylor Swift, whose shares the market had punished on AI anxieties. Billionaire investor Bill Ackman evidently ran the same arithmetic we did: his firm bid some $64 billion, a premium of nearly 80% to the prevailing price, and the board rejected it as too low. We more than doubled our position.

The lesson threading through all of the above is as old as markets themselves: the market sets prices; judging values remains the investor's job. Its panics hand-delivered us ICON at half price and Bio-Techne before its takeover; its enthusiasms let us lighten Rolls-Royce and Taiwan Semiconductor at generous valuations, and lighten our cyclicals while war did their lifting. The temperament to buy fear, the discipline to sell euphoria, and the honesty to keep score in public — that is the whole of our craft.

Thank you for the privilege of your confidence. We wish you and your loved ones a wonderful summer — enjoy the sunshine.

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