LIVE OAK
PRIVATE WEALTH®

# Investment Commentary & Letter to Clients

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liveoakprivatewealth.com
1741 Tiburon Drive Wilmington, NC 28403 | P: (844) 469.5679

**SECOND QUARTER LETTER JUNE 30, 2022**

*I think this is among, if not the most complex, dynamic environments I've ever seen in my career. We've obviously been through lots of cycles. But the confluence of the number of shocks to the system, to me, is unprecedented.*
*- John Waldron*
*Goldman Sachs*

The S&P 500 just experienced its worst first half in over fifty years and its second-worst start to the year since 1935. Bonds, which typically perform well in times of market weakness, have become positively correlated with equities, leaving balanced investors with essentially nowhere to hide. Long-term treasury bonds lost 20.1% in the first half, essentially matching the S&P 500 decline of 19.96%. Much of the decline can be attributed to inflation, which the Fed had assumed would be transitory, but has turned out to be more persistent than expected. This has forced central banks globally to pivot from holding rates near zero to a "hawkish" stance in an attempt to stem inflationary pressures. The S&P 500 has officially entered a new bear market (peak-to-trough decline of 20%), the 27th bear market since 1929. The worry is that central bank actions could push the global economy into recession. The chart from JP Morgan Asset Management below suggests that all of the market decline through the first half of the year can be attributed to price/earnings multiple compression. However, we are aware that with economic weakness, earnings will be under pressure to meet expectations over the next few quarters.

| Share of return | YTD 2022 (6 months) |
|---|---|
| Earnings Growth | 6.7% |
| Multiple Growth | -27.3% |
| S&P 500 Price return | -20.6% |

Source: JP Morgan Asset Management

For the first six months of 2022, market leadership was found in energy (+28%) followed by defensive sectors such as utilities (-2%), staples (-7%,) and health care (-10%). The biggest laggards were consumer discretionary (-33%), communication services (-31%), and technology (-28%). The Russell 1000 Value Index has outperformed the Russell 1000 Growth Index by a whopping 1520 basis during the first half, the largest margin since the "tech bubble". The S&P 500 Equal Weight index outperformed (-16.7%) the S&P 500 (-19.96%) as did international stocks (in US$ -18%).

The S&P 500 is currently trading at 15.7 times forward earnings estimates, essentially in line with historical averages. However, we must point out that earnings are at risk and forward earnings are difficult to predict in a recessionary environment. According to BofA Global Research, the current trailing price-earnings ratio is approximately 18 times compared to 12 times at historical bear market bottoms. While predicting the bottom is difficult, the market certainly presents more opportunities for long-term investors than a year ago. Firmwide our strategy of buying what we believe to be high-quality businesses at reasonable valuations remains our course of action. As always, we will attempt to use market volatility to our advantage, buying weakness and utilizing strength to possibly reposition the portfolio as better opportunities arise.

**Market Statistics as of 06/30/2022**

| Index | 2022<br>2nd Qtr | 2022<br>YTD |
|---|---|---|
| DJIA | -10.78% | -14.44% |
| S&P 500 | -16.10% | -19.96% |
| S&P 500 (equal weight) | -14.36% | -16.68% |
| S&P Mid Cap | -15.42% | -19.54% |
| Russell 1000/Growth | -20.92% | -28.07% |
| Russell 1000/Value | -12.21% | -12.86% |
| Russell 2000 | -17.20% | -23.43% |
| NASDAQ Comp. | -22.28% | -29.23% |

Nothing tests your conviction like falling stock prices. If markets are good at one thing, it's reminding investors that stock prices don't simply go up, uninterrupted, forever. But stock market values are linked to earnings and business values; and earnings, business values, and the market have gone up over time.


Source: YCharts

But markets do drop. Bull markets fade and bear markets arrive. This is an unavoidable reality of investing. And therein lies the challenge…you can't have the long-term gains and wealth creation without the short-term pain of drawdowns. On a family's long-term journey to creating substantial wealth through equity investing and real estate, you have to spend some time losing wealth. Real estate cycles and equity corrections are an integral part of investment markets. Just since we started our investing careers in the mid-1980s, the market has gone down 10% or more about 11 times. Five or six of those times in the last 35+ years have been bear market declines of 20% or more. History has shown that one year out of three, the market will decline by 10% or more.

Stocks of public companies, as well as the value of your local hardware store on the corner, have always fluctuated and always will. Benjamin Graham wrote in 1949 in his famous book, "*The Intelligent Investor"* that the investor is all more intelligent if he behaves like a businessman/businesswoman. Intelligent investors, according to Graham, see themselves as the owners of companies in which they own shares, which helps them become more immune to the fear and greed effects of stock market fluctuations. At the end of this letter is an excerpt from one of Warren Buffett's Berkshire Hathaway letters. It is titled *"How We Think About Market Fluctuations"*. We feel it is better for you to read it and learn, than for us to attempt a rehash.

We both draw on Buffet a lot, especially during volatile times. One of our favorite Buffett maxims is that the stock market exists to serve investors, not instruct them. We think this speaks to the importance of distinguishing between the fundamental performance of a business and the price movement of its stock. Investors minding both can periodically be served by the market when business fundamentals and share prices diverge as many are doing today. Too often, however, investors allow themselves to be informed only by the share price movements from which business fundamentals are inferred. These investors are not served by the market. Rather, they are "schooled" by it and typically to their detriment when it comes to compounding their wealth.

During volatile times when prices are dropping and the news is awful, wrestling with market movements is stressful. We understand from psychological study that during times of stress we shorten our time horizons. A physical response to stress is to get motivated to take care of business in the here and now. Medical studies have shown our blood pressure rises, our body mobilizes energy to the tissues that need it most, our short-term memory dominates, and we set aside long-term projects like immune systems and reproduction. When stressed like this, focusing on the short-term vs. the long-term leads to a "fight or flight" mentality, but when the stress passes, we return to a more balanced state.

Why are we thinking about this? This is an important cognitive understanding for money managers as stress encourages short-term focus. It is of paramount importance to "zoom out" and lengthen your time horizon during periods like we are in currently. So, let's zoom out and look at one of America's greatest companies, Microsoft. The table on the following page, we created from an idea that originated in the 1972 classic book "*100 to 1 in the Stock Mark*et" by Thomas Phelps. The idea behind the table was referenced again recently by an investor we admire, Chris Mayer, who wrote his own book, "*100 Baggers"*.

| Year | Revenue Per Share | Earnings Per Share | Dividends Per Share | Book Value Per Share | Return on Equity |
|---|---|---|---|---|---|
| 2021 | $22.09 | $8.05 | $2.19 | $18.88 | 47.08% |
| 2020 | $18.81 | $5.76 | $1.99 | $15.63 | 40.14% |
| 2019 | $16.23 | $5.06 | $1.80 | $13.39 | 42.41% |
| 2018 | $14.16 | $2.13 | $1.65 | $10.78 | 19.45% |
| 2017 | $12.33 | $3.25 | $1.53 | $11.36 | 31.92% |
| 2016 | $11.38 | $2.56 | $1.39 | $9.22 | 27.01% |
| 2015 | $11.34 | $1.48 | $1.21 | $9.98 | 14.36% |
| 2014 | $10.34 | $2.63 | $1.07 | $10.9 | 26.16% |
| 2013 | $9.19 | $2.58 | $0.89 | $9.48 | 30.09% |
| 2012 | $8.67 | $2.00 | $0.76 | $7.92 | 27.51% |

Source: Guru Focus

Here above are Microsoft's earnings, dividends, sales, return on equity, and book value for the last 10 years. Notice that the share price column is missing. Thomas Phelps asked in his book 50 years ago if a businessperson looking at only the figures above would have been buying and selling the stock. He of course used a different business. Just look at the financials. This has been a wonderful business to own…**for ten years**. And had you focused just on the business results and not the share price and held the business and not traded in and out due to recession concerns, pandemics, war, Federal Reserve policy, and interest rates, you would have compounded your investment at 23.60% over ten years.[i]

You rarely read in other investment letters anything similar to a table like this. Most letters don't focus on the long-term financial results of their investees. Most opine, inaccurately, about the stock market and its direction, etc. There have been many rallies and selloffs in Microsoft shares over the last ten years and stretches where Microsoft trailed the market. Many owners (short-term ones) of Microsoft listened to Wall Street analysts proclaiming times to "underweight", "buy", or "trim" based on a myriad of nonsensical reasons. Looking only at the figures in the table above, would you have sold this stock? It is up 23%+ compounded in ten years and yet currently finds itself down about 25%. The path from 2012 and 2021 was dicey at times and not as smooth as the financials would lead you. But had you focused on thinking as a business owner and the business results in the table, year to year, it is doubtful you would have sold the stock.

## LIVE OAK PRIVATE WEALTH GROWTH STRATEGY
## COMMENTARY & THOUGHTS

The recent correction, as is often the case, has particularly affected several of our businesses that were highly valued by the stock market previously. These businesses have exhibited above-trend growth recently and have been juiced by algorithmic quant models that were keying off of unsustainable low-interest rates. It should never be forgotten that even stocks of great companies can be disappointing investments in the short term.

| Security | 52 Week High | 52 Week Low | Percent Change |
|---|---|---|---|
| Apple | $182.94 | 129.04 | 29% |
| Charter Communications | $825.62 | $407.75 | 50% |
| Alphabet (Google C) | $3,042.00 | $2,044.16 | 33% |
| Mastercard | $399.92 | $303.65 | 24% |
| VISA | $252.67 | $185.91 | 26% |
| Microsoft | $349.67 | $241.51 | 31% |
| Moody's Corp. | $407.94 | $251.01 | 38% |
| Danaher | $333.96 | $233.71 | 30% |
| | | | Average 32% |

We, again are long-term investors in businesses. We don't play the stock market. We use the daily "auction" of the stock market to occasionally buy and sell pieces of a business when it makes sense to do so. Our interests are aligned with yours, as we are invested in the same portfolio you have. We are willing and able, thanks to you, to look out over two or three years. We believe this gives us an edge over most in the markets…as more money is driven by the models and machines, the more likely it is that the security's price becomes disconnected from its long-term value.

We, therefore, feel we have a time horizon edge we can exploit. This edge has gotten stronger as markets have become faster and more quant-model-driven. The liquidity that is provided by these computer-driven programs adds to the volatility of stock prices, which creates more opportunities for long-term investors. It is imperative to have the proper temperament and be willing to accept the ups and downs that come with today's markets. Few are wired this way, which is why even marvelous stocks can become so disconnected from their long-term fair values. Stock prices, in the short-term, move much more than business value, which by definition, causes mispricings. Human nature, fear, and greed will forever be the culprit and an edge can be gained by understanding this simple concept and then being prepared to capitalize on it. Which is exactly what we are doing.

## LIVE OAK PRIVATE WEALTH GROWTH STRATEGY
### SECOND QUARTER PORTFOLIO ACTIVITY

Volatility was a friend to us in the quarter as we opted to sell our positions in Verizon and Bristol Myers and capitalize on what we perceive to be attractive prices in several of our existing portfolio companies. We added to Brookfield Asset Management, Charter Communications, Microsoft, Alphabet (Google C), and Danaher. While Verizon (still currently owned in the LOPW Value Strategy) and Bristol are fine businesses, we felt that the price declines in the others presented an opportunity to increase our position and hopefully better future growth and share returns.

We were fortunate to be able to finally get back to Omaha for the Berkshire Hathaway meeting in late April. This was among the most intensive research trips we have taken, and our schedule was filled daily from early morning to late in the evening. We were fortunate to be included in MOI Global's Ideas Meeting Friday morning, followed by an invitation to a luncheon hosted by famed investor Guy Spier. We concluded Friday with a dinner hosted by the Columbia Business School with a great speaker lineup, including Tom Russo and Mario Gabelli and others. Saturday was the highlight of the weekend to attend the Berkshire meeting in person for the first time since 2019. It was invigorating to be face to face again. We didn't leave Omaha with any white-hot actionable ideas, but we reestablished some key contacts as well as met several new ones that we can learn from and share ideas. We were quite pleased to learn that Warren and Charlie had deployed over $50B in new investments, especially considering Berkshire Hathaway is our largest and longest-held portfolio business. Connor was able to take in the Markel meeting in Richmond, VA, which is becoming equally as valuable as an investment resource. He was able to connect with other analysts and portfolio managers, many of which own a lot of the same stocks we do. He also came back with new contacts that we will be leveraging in the future.

## Contributors and Detractors for Live Oak Private Wealth Growth Strategy

### Our thoughts on positions that had the most positive impact on the strategy for the period ending 2Q2022

**Bristol Myers (BMY) (+4.3%)**
Bristol Myers is a leader in cancer, cardiovascular, and immune disorder therapeutic drugs. Bristol's focus remains on immuno-oncology as they shed non-pharmaceutical businesses. Major patent expiration is threatening future earnings and forcing the company to buy growth through acquisition, such as spending $4B on Turning Point Therapeutics. We have opted to sell our shares in Bristol and will be looking for better growth opportunities given the recent declines in the markets.

**FedEx Corp (FDX) (+2.5%)**
FedEx remains the world's largest express package provider. We are encouraged after participating in FedEx's first Investor Day in years. The company highlighted key strategic initiatives and intends to raise its focus on revenue quality by prioritizing yields over volume growth. New management and leadership are considering several initiatives that should allow for the company's delivery operations to continue to grow with favorable e-commerce trends.

**UnitedHealth Care Group Inc (UNH) (-0.2%)**
UnitedHealth Care is one of the largest private health issuers, providing medical benefits to 50 million members globally. The company's business results continue to lead to scale benefits and its momentum continues to deliver solid top and bottom-line results. The company's integrated strategy, under one roof, has resulted in UnitedHealth being envied by many in healthcare and insurance and some aspects are even being cloned by CVS-Aetna. Leading in the Medicare Advantage plan business will most likely continue to pay dividends.

**Dollar Tree Stores (DLTR) (-2.3%)**
Dollar Tree operates 16,162 stores across 48 states and five Canadian provinces under the Dollar Tree and Family Dollar banners. The new strategic direction the company is now taking appears to be paying dividends, as top-line sales expand and increased gross profit is leading to higher earnings. Acceleration of this new strategic direction is timely given the current inflationary environment.

**CarMax Inc (KMX) (-4.2%)**
CarMax is America's leading used car dealer and most profitable used car leader. Thanks to its size and efficiency, it has the lowest per-unit advertising logistics and reconditioning costs, CarMax continues to gain market share and now is a leader in transitioning more sales to online and omnichannel. Competitor Carvana meanwhile is down -91% year to date.

## Our thoughts on positions that had negative or the least positive impact on the strategy for the period ending 2Q2022

**HCA Healthcare Inc (HCA) (–33.0%)**
HCA Healthcare operates the largest collection of acute-care hospitals in the United States. 189 hospitals, 121 freestanding outpatient surgery centers, and a broad network of urgent care clinics reinforce HCA's competitive position. The company was just coming off of the setbacks from the Pandemic when labor issues reared their head, pressuring the bottom line. We believe, pricing power should resume later this year and other cost advantages should prove to be a substantial part of HCA's ongoing competitive advantage.

**Walt Disney Co (DIS) (–31.1%)**
Walt Disney, AKA the "house of the mouse", continues to entertain the world through its theme parks, live-action animated films, and ESPN and ABC. Fortunately, or unfortunately, depending on how you look at it, the markets are obsessed these days with subscription models, especially streaming. Disney has come under pressure from a slowdown in subscription growth of Disney+, its streaming business as well as PE multiple contraction. As investors, we are comforted by the world-class Disney brand, and assets, such as theme parks, which are virtually impossible to replicate.

**Ardagh Metal Packaging (AMBP) (-26.5%)**
Ardagh supplies consumer metal beverage cans, including beer, soda, energy drinks, and pre-mixed cocktails. As a fairly small company ($3.8B market cap) and its origin as a SPAC, many short-term market participants have lost interest in the company as the correction has intensified. We applaud the company's recent changes with capital allocation, as we enjoy our first two dividends and welcome potentially $200 million of stock being repurchased. The long-term trend away from plastics to more aluminum is definitely gaining momentum and we believe Ardagh is well-positioned globally to capture the opportunity.

**Verisign Inc (VRSN) (-25.72%)**
Verisign is the company you never have heard of except that when you consider the company is the sole authorized registry for .com or .net domains, you appreciate its critical role in the internet's infrastructure. Cybersecurity risks are increasing, and the company has had to invest in technology to mitigate, temporarily depressing margins. We remain comfortable with Verisign's exclusive registry agreements, especially due to the built-in price escalators that companies will pay upon the renewal of their domain names.

**Charles Schwab Corp (SCHW) (-24.37%)**
Charles Schwab operates in banking, brokerage, and asset management. As one of the largest firms in the investment business, with $8 trillion of assets, Schwab is a financial sector powerhouse. From our observation, the scale benefits and efficient business model should continue to allow Schwab to be a key financial player over the next decade. Interest-related revenue is the largest driver of the

company's earnings, so we may start to enjoy that tailwind as rates continue to increase. Trading should pick up as the correction runs its course too.

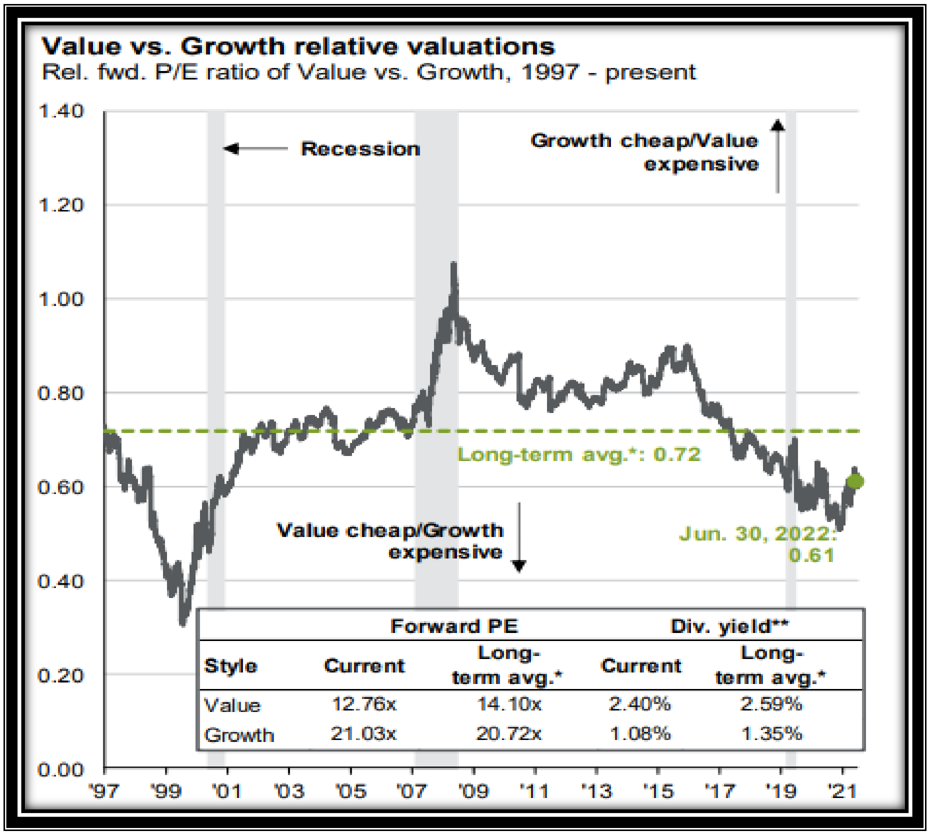
## LIVE OAK PRIVATE WEALTH CLASSIC VALUE STRATEGY
## COMMENTARY & THOUGHTS

*"For most investors, the best strategy is not the one that will give you the highest returns but a good one you can stick with through difficult times."*
*Joel Greenblatt*

As we discussed earlier in this commentary the markets have entered "bear market" territory. It remains unknown if there will be an accompanying economic recession. To clarify, a recession is typically defined by the National Bureau of Economic Research (NBER) as "two consecutive quarters of negative GDP growth". Given that the first quarter's real GDP decreased at an annual rate of 1.6%, it probably makes sense to invest with the assumption that the U. S. economy is currently in recession. By the time the NBER and media actually recognize that we are officially in recession, it is often at the tail end of the downturn and the financial markets have already begun to price in an economic recovery. The equity markets typically bottom approximately nine months before the economy actually rebounds, as the stock market is actually an excellent leading economic indicator. Since 1939, "bear markets" that are accompanied by an economic recession have declined by 34% on average (from top to bottom). "Bear market" drawdowns that were not accompanied by a recession showed an average decline of 30%. The important thing to consider here is that once stocks hit "bear-market" territory, the opportunity cost of exiting the market outweighs the cost of additional short-term pain. While there is likely no Fed "put" to create a V-shaped bottom, the risk-reward for equities is certainly improving with regards to return expectations when one looks out three to five years.

The past two years show why it is so important to invest with a "margin of safety". The pandemic wreaked havoc on the global economy and the government responded with both fiscal and monetary stimulus, creating what in hindsight appears to have been an irrational "bull market". Individual and institutional investors alike extrapolated current trends into the future and valued certain equities at multiples of revenues that were ludicrous and made no sense from a mathematical perspective. ARK Innovation ETF manager Cathie Wood became somewhat of a cult hero and media darling during the pandemic when her portfolio soared, only to crush investors with a 69.2% decline for the year ending 6/30/22. For an investor to make up that one-year loss, would require a return of approximately 233%. When investing with a "margin of safety", it is imperative to understand the difference in a temporary loss of capital and a permanent loss of capital. Which brings us to "value investing" where the whole premise of the strategy is to buy businesses with good balance sheets at a "discount" (based on fundamental data) in an effort to produce satisfactory returns over a full market cycle (bull and bear) rather than outperform in just the bull market. The price one pays for a security is an integral part of value investing, and a key determinant of future returns. Price matters. As Seth Klarman of Baupost Group stated, "Investments are a buy at one price, a hold at a higher price, and a sale at a still higher price."

Value still appears attractive today as the Russell 1000 Value Index trades at a forward price/earnings ratio of 12.76x, versus a long-term average of 14.10 times forward earnings (since 1997). Despite the 28% decline in the Russell 1000 Growth Index year to date, it still trades at 21.03x forward earnings, above the 20.72 average since 1997. As the chart on the next page shows, the forward price/earnings ratio of value vs growth currently stands at .61, which is still well below the .72 average it has traded at going back to 1997. Dividends, which are an important component of long-term total returns, are approximately 2.4% for the Russell 1000 Value Index, versus 1.07% for the Russell 1000 Growth Index. Dividends can act as a "cushion" and help provide a "floor" for investors during protracted market downturns.




*Source: J P Morgan Asset Management*

## Second Quarter Portfolio Activity

During the second quarter, we sold our position in Twitter as the stock spiked on Elon Musk's offer to purchase the company for $54.20. We sold TWTR shares at $51.93 on April 25th, as we were concerned that fundamentals at the company had deteriorated significantly and we were not willing to risk our client's capital on Musk, who has a history of not following through on deals that were floated to the public. Musk recently officially walked away from the deal to acquire TWTR, a decision the Twitter Board of Directors plans to fight. During the quarter we initiated positions in two new companies, Warner Bros. Discovery (WBD) and Boeing (BA). Warner Bros. Discovery was formed on April 8, 2022, after the spin-off of WarnerMedia by ATT and merger with Discovery Inc. The company properties include Warner Bros film and television studios. HBO, Cinemax, Magnolia Network, CNN, U.S. Networks which includes Animal Planet, Cartoon Network, Adult Swim, Discovery Channel, Turner Classic Movies, Food Network, HGTV, OWN, TBS, TNT Travel Channel, and TruTV. WBD is a long-term growth/deleveraging story with wide content and scale to compete with larger media companies. The company expects cost synergies of approximately $3 billion. We also initiated a position in Boeing (BA) during the second quarter. Our expectation is that Boeing shares will recover based upon returning demand for commercial aircraft as we emerge from the pandemic and recover from company-specific issues related to safety/manufacturing. We think the current price of BA shares reflect the bad news and were purchased at approximately $145.8 per share, which is approximately 67% lower than the high of $444 reached in early 2019.

## Contributors and Detractors for Live Oak Private Wealth Value Strategy

### Our thoughts on positions that had the most positive impact on the strategy for the period ending 2Q2022

**Twitter (TWTR) (through date of sale 04/25/22) (+34.2%)**
The original thesis with the Twitter purchase was that TWTR would find a way to monetize the platform effectively or that an acquirer would come in and purchase the company. We exited the position as soon as Musk offered to buy the company at a price of $51.93 per share, up approximately 34% from the end of the first quarter. Just this past week Musk walked away from his bid to buy Twitter. We would expect a lengthy legal battle unless the two sides agree to a lower transaction price.

**Merck (MRK) (+9.2%)**
Merck reported an excellent first quarter, led by blockbuster drug Keytruda, with GAAP earnings[ii] up 57% on sales growth of 50%. Merck shares are attractively priced at 13 times expected earnings and yield just under 3%.

**Pfizer (PFE) (+1.7%)**
Pfizer reported strong first quarter results largely based on year-over-year revenue growth of 77% due to continued strong demand for COVID-19 vaccines and therapeutics. While we are hesitant to extrapolate out what the vaccines mean for revenues and earnings going forward, we continue to like the shares trading at approximately 10 times earnings and a dividend yield of 3%.

**Coca-Cola Company (KO) (+0)**
Coca-Cola first quarter revenues and earnings rose by 20% on a revenue increase of 18%. KO is expanding successfully into alcoholic beverages with its recent foray into Topo Chico Hard Seltzer (partnership with Molson Coors) and Jack and Coke (partnership with Brown-Forman). KO shares trade at a lofty 26 times earnings and yield 2.9%.

**Unilever (UL) (-1.7%)**
After a successful foray into Proctor & Gamble, activist investor Nelson Peltz has purchased 1.5% of the shares of Unilever and joined the board of directors. After, UL's recent failed acquisition of the consumer business of GSK, it is expected that Peltz will help streamline the company and revive its stagnant share price. Unilever shares yield 4.3% so investors get paid to wait for the turnaround.

### Our thoughts on positions that had negative or the least positive impact on the strategy for the period ending 2Q2022

**Warner Brothers Discovery (WBD) (-44.8%)**
We would assume that some weakness in Warner Brothers Discovery might be due to a share overhang related to the fact AT&T holders (income-oriented investors) received 73% of WBD shares and have little interest in owning the new company which pays no dividend. That coupled with Netflix's surprising subscriber loss and weak first-quarter results, have investors questioning the whole DTC (Direct to Consumer) streaming model. WBD CEO David Zaslav is highly respected and

has already begun to cut costs in an attempt to achieve some $3 billion in cost synergies. While we are disappointed in the share price action since purchasing, we like the fact that we are invested alongside board member and major shareholder John Malone.

**Walt Disney (DIS) (-31.1%)**

Disney shares were weak this past quarter, despite a strong recovery in theme parks and rising subscribers at Disney+. With the slowing subscriber growth at Netflix, investors have been focusing on how the streaming industry will be impacted and Disney shares have suffered in sympathy with the whole group of streaming players. (See comments on Netflix and Warner Bros. Discovery above.) Disney shares, which are also a holding in LOPW's Growth strategy, seem well-positioned going forward and attractively priced with the shares down approximately 50% off their 52-week highs.

**Invesco Ltd (IVZ) (-30.8%)**

Invesco shares have been weak over the past quarter largely due to investor concerns about the outlook for the money management industry, given weak global equity and bond markets. Weak financial markets pressure assets under management (AUM) and management fees for companies like IVZ and we would expect the shares to struggle in the near future as market volatility continues. Invesco shares are cheap compared to the market, trading at under 6 times earnings and a dividend yield exceeding 4.5%. Activist investor, Nelson Peltz holds a 9.86% stake in Invesco. Peltz paid as much as $23.46/share for IVZ shares in early April

**Volkswagen (WVAGY) (-27.8%)**

Over the past 3 months, all of the major automakers have been under severe selling pressure as fears of a recession have intensified. Volkswagen is the world's second-largest car company and has planned to offer shares of wholly-owned Porsche in an IPO later this year to help fund their transition into electric vehicles. Porsche is expected to be valued at approximately $82 billion, which is currently more than the total market capitalization of Volkswagen. This would imply that if one buys shares in VWAGY today, you get the rest of the VW group, which includes Audi, Lamborghini, and Bentley for free. Volkswagen shares appear cheap, and we believe the Porsche IPO will be the catalyst that lifts the shares in the second half of 2022. VW currently trades at less than 5 times the forecasted earnings.

**Charles Schwab (SCHW) (-24.4%)**

Charles Schwab is a holding company with subsidiaries in wealth management, securities brokerage, banking, and asset management. SCHW's first quarter came in somewhat below expectations as trading revenues were weaker than expected. With the acquisition of TD Ameritrade in late 2020, Schwab now has client assets of $7.9 trillion. We believe SCHW shares, which traded over $96 per share in the past twelve months, are attractive at current levels. Schwab is also a holding in Live Oak Private Wealth's Growth Strategy.

## LIVE OAK PRIVATE WEALTH INTERNATIONAL STRATEGY COMMENTARY & THOUGHTS

Extreme volatility was the best way to describe the second quarter in our international strategy. Investors globally struggled to understand what effects the ongoing Russia-Ukraine conflict, rising inflation, central bank tightening, and further Covid-19 lockdowns in China would mean to the markets. Currency effects, such as the very strong U.S. dollar and the opposite very weak Japanese Yen, created a further challenging environment.

Rising inflation and interest rates were the primary culprits for the toll international equities took in the quarter. But while daily life here at home may be returning somewhat to post-pandemic normal, this is not the case elsewhere, especially in China. COVID-19 continues to be highly disruptive to supply chains, particularly in China where the government's zero-Covid 19 policies have resulted in severe lockdowns in its largest cities. This has led to continued clogged ports and idle factories.

These unpredictable supply chains, whether due to COVID-19 risks or geopolitics, have much of the world reconsidering globalization. Between Russia's aggressiveness and China's saber-rattling toward Taiwan, globalization's hidden risks are coming to the forefront. Mix in European climate policy and now the Russia-Ukraine conflict is a critical risk to many European businesses that are dependent on Russian natural gas. Hopefully, the recent trade deals between the U.S. and Europe regarding increasing U.S. exports of liquified natural gas (LNG) will ease the pain eventually.

While revenue growth trends remain somewhat favorable for now, we are watching closely the rising input costs in many areas of the global economy. We are triple checking our portfolio business in this highly inflationary environment to see that they are maintaining their margins because if they can't, they will be penalized. Our longstanding philosophy of investing in global businesses that have dominant market positions and clear competitive advantages helps us screen for pricing power. We remain committed to our investment process focused on identifying companies possessing sustainable growth and selling for reasonable valuations.

## LIVE OAK PRIVATE WEALTH INTERNATIONAL PORTFOLIO ACTIVITY

This quarter we initiated a new position in Willis Towers Watson (WTW) at $207.11 per share. Willis Towers Watson is a global insurance advisory and brokerage firm. They operate primarily in corporate risk and brokerage, benefits delivery, investment risk, and reinsurance. Much of Willis's business is almost tollbooth-like and thereby a relatively stable producer of free cash flow. Through a significant merger in 2016, the combination of Willis and Towers Watson provided an opportunity to cross-sell into each other's customer bases, reduce costs, and achieve greater tax efficiency. Our interest in investing in Willis came about through a transaction we noticed between private equity firm, The Carlyle Group and White Mountains Insurance group. Carlyle paid 23 times EBITDA for a division of White Mountains similar to Willis. At a price of $207 for WTW, we were essentially paying 11 times EBITDA. AON, which we own in our Focused Opportunity Strategy, is priced currently at 15-to-16-times EBITDA. Over the last 12 months, Willis has been able to generate significant free cash flow and is on track with its growth plan and capital return plan.

### Contributors and Detractors for Live Oak Private Wealth International Strategy

### Our thoughts on positions that had the most positive impact on the strategy for the period ending 2Q2022

**JD.com (JD) (+8.86%)**
**Baidu (BIDU) (+5.50%)**
**Alibaba (BABA) (+3.16%)**
We will lump these three Chinese technology and e-commerce companies together, as the overwhelming primary reason for their contribution this quarter related to suggestions by the Chinese government that they may dial back its crackdown on the tech sector and pledge further stimulus

efforts as the country faces its slowest growth in three decades. We remain opportunistically invested in the long runway ahead in China for e-commerce.

**Philip Morris International (PM) (+2.03%)**
With 23% global market share (excluding the U.S. and China), Phillip Morris is the world's largest publicly traded tobacco company by volume. Its massive scale gives it meaningful pricing power in our current inflationary environment. The company continues to successfully commercialize its "heated" iQOS product and we enjoy the generous 5% dividend.

**Unilever (UL) (-1.65%)**
Unilever is the global diversified provider of Dove® skin products, TRESemme'® hair products, Hellmann's® Mayo, and Lipton Tea®. A steady as she goes business, Unilever is now focused on streamlining efforts and cost reductions. Trian Partners, an investment firm we admire, has taken a large stake and a board seat and is pressing for more change and an increase in shareholder value. We continue to enjoy Unilever's 4% dividend yield, while future value is being unlocked. Unilever is also owned in LOPW's Value Strategy.

## Our thoughts on positions that had negative or the least positive impact on the strategy for the period ending 2Q2022

**Spotify (SPOT) (-38.95%)**
Obviously, we were quite early in our purchase of Spotify. Like many businesses that were priced off of revenues and not earnings, there has been a comeuppance for the shares. We remain quite interested in the company's podcast initiatives and potential 40%+ margin potential, not to mention the $140B market opportunity in audiobooks. The ubiquity of having your music, podcasts, and books on any of your devices available to listen anywhere and everywhere gives us confidence in the long-term investment potential.

**Schnieder Electric (SBGSY) (-31.53%)**
Tough markets persist in Europe, as the Russia-Ukraine conflict continues to depress shares of Schnieder. The company's business results emanating from specialized focus on digital automation, energy management, and the Square D brand of electrical components, are solid, but the short-term market players are pricing in a doozy of a recession in Europe. We feel comfortable with the long-term competitive value proposition Schnieder offers to us as investors.

**Entain PLC (GMVHY) (-30.18%)**
Entain is a global sports betting, gaming, and interactive entertainment company. The shares suffered this quarter as rolling Covid-19 lockdowns affected the company's business and a weaker macro-economic environment in Europe, plus inflation is reducing customers' rate of spend on gaming. Once these transitory negatives abate, we are confident in the long-term growth of sports betting and gaming.

**Siemens (SIEGY) (-27.25%)**
Siemens is one of Europe's largest and most significant capital goods companies focused on industrial automation and healthcare. The company's addressable market for its products and services is growing and given Siemens' global footprint, including the U.S. and China, the shares are being overly depressed due to its European domicile. The shares are currently priced at 13 times next year's earnings, sporting a 4.5% dividend. We intend to wait out the tough times in Europe due to Siemens business resiliency.

**Euronet Worldwide (EEFT) (-23.81%)**
Euronet provides payment and transaction processing solutions to financial institutions, retailers, and merchants worldwide. Its ATM machine business operates 42,000 ATM's and 438,00 POS terminals. Obviously, travel has been disrupted affecting many ATMs, especially in Europe. We remain steadfast with our investment due to the almost 70% return on invested capital that the ATM business delivers. Many consider Euronet to have a competitive advantage over other financial institutions due to ATMs being located in many of the best tourist sites.

## FINAL THOUGHTS

When markets are highly volatile and stocks are dropping, it is easy to become more "macro"-centered. Macro-centered in the sense you think more about macro-economic factors such as The Fed, interest rates, politics, inflation, etc. If you allow yourself to become more macro and less "micro" (company-specific or fundamental) centered, then you can become a market watcher and not a business owner. That's the wrong mindset to be in to be successful in investing. Market watching and a macro-centered focus can make you unproductive at times and can paralyze you from making smart decisions for the portfolio.

The pundits on CNBC and Twitter will draw you in with their sirens and machinations regarding what the market will and will not do. There seems to be no activity any more popular on Wall Street these days – whether from investors or some advisors – than trying to predict the stock market. This is despite the fact that all historical studies demonstrate unequivocally that trying to predict the market is a losing strategy.

We won't wager a guess as to when this selloff will be over, as we have no idea. What we do know, with confidence, is we own a well-researched portfolio of businesses we perceive are positioned to do well over the next many years and are reasonably priced. We are opportunistic about the future of America and the companies we are partnered with.

No matter how experienced you may be, or how successful your career has been, swift corrections like we are in are not easy. However, buying and holding what we believe are quality businesses at marked-down prices has proven historically to be how money is made.

Therefore, we remain calm during these tumultuous times and, as always, keep our eyes focused on the long term. We continue to concentrate our attention on finding and keeping great companies to own in our portfolio. We are certainly finding more opportunities and are cautiously taking advantage of what we feel are attractive prices.

We again find ourselves grateful and humbled by our tremendous success thanks to you trusting us with your family's wealth. Our entire team is thankful and appreciative of your willingness to compensate us for doing something we are passionate about. Our entire Live Oak Private Wealth team looks forward to continued shared success together.

With warmest regards,

Frank G. Jolley, CFA
Co-Chief Investment Officer

J. William Coleman, III
Co-Chief Investment Officer

*From Warren Buffett 's 1997 shareholder letter*

## How We Think About Market Fluctuations

A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise. if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.

But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.

For shareholders of Berkshire who do not expect to sell, the choice is even clearer. To begin with, our owners are automatically saving even if they spend every dime they personally earn: Berkshire "saves" for them by retaining all earnings, thereafter, using these savings to purchase businesses and securities. Clearly, the more cheaply we make these buys, the more profitable our owners' indirect savings program will be.

Furthermore, through Berkshire you own major positions in companies that consistently repurchase their shares. The benefits that these programs supply us grow as prices fall: when stock prices are low. The funds that an investee spends on repurchases increase our ownership of that company by a greater amount than is the case when prices are higher. For example, the repurchases that Coca-Cola, The Washington Post, and Wells Fargo made in past years at very low prices benefitted Berkshire far more than do today's repurchases, made at loftier prices.

At the end of every year, about 97% of Berkshire's shares are held by the same investors who owned them at the start of the year. That makes them savers. They should therefore rejoice when markets decline and allow both us and our investees to deploy funds more advantageously.

So smile when you read a headline that says, "Investors lose as market falls." Edit it in your mind to "*Dis*investors lose as market falls --but investors gain." Though writers often forget this truism, there is a buyer for every seller and what hurts one necessarily helps the other. (As they say in golf matches: "Every putt makes someone happy.")

We gained enormously from the low prices placed on many equities and businesses in the 1970s and 1980s. Markets that then were hostile to investment transients were friendly to those taking up permanent residence. In recent years, the actions we took in those decades have been validated, but we have found few new opportunities. In its role as a corporate "saver," Berkshire continually looks for ways to sensibly deploy capital, but it may be some time before we find opportunities that get us truly excited.

### *DISCLOSURES*

*This material is not financial advice or an offer to sell any product and is not a recommendation to buy or sell any particular security. Past performance is not indicative of future results. The opinions expressed are those of the Live Oak Private Wealth Management Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.*

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[i] Gurus Focus

[ii] Generally Accepted Accounting Principles