LIVE OAK
PRIVATE WEALTH

Mid-Year Letter June 30, 2023

"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."

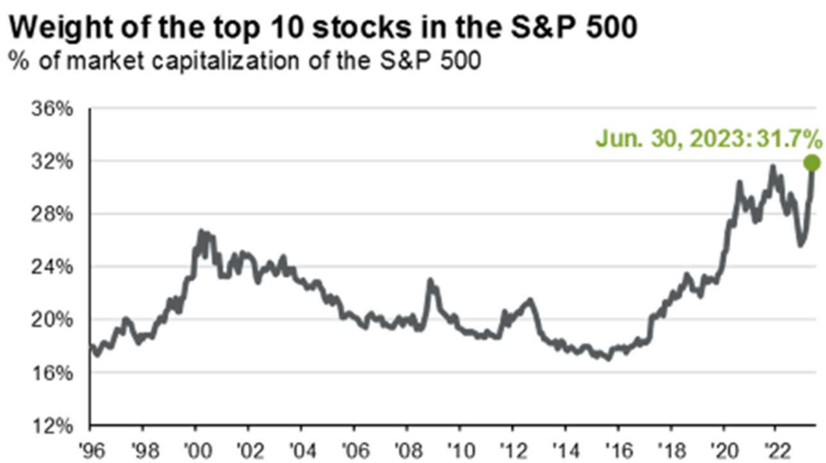
-Benjamin Graham

Market Review
Market Statistics as of 06/30/2023

Index	2023 2nd Quarter	2023 YTD (6 mos.)
DJIA	3.97%	4.94%
S&P 500	8.74%	16.89%
S&P 500 (equal weight)	3.99%	7.03%
S&P Mid Cap	4.85%	8.84%
Russell 1000/Growth	12.81%	29.02%
Russell 1000/Value	4.07%	5.12%
Russell 2000	5.21%	8.09%
NASDAQ Comp.	13.05%	32.32%
Long Term Treasury Bonds	-2.32%	3.58%
Inv Grade Corp Bonds	-0.21%	3.23%
Gold	-2.47%	6.00%
3 Month T-Bill	1.17%	2.25%

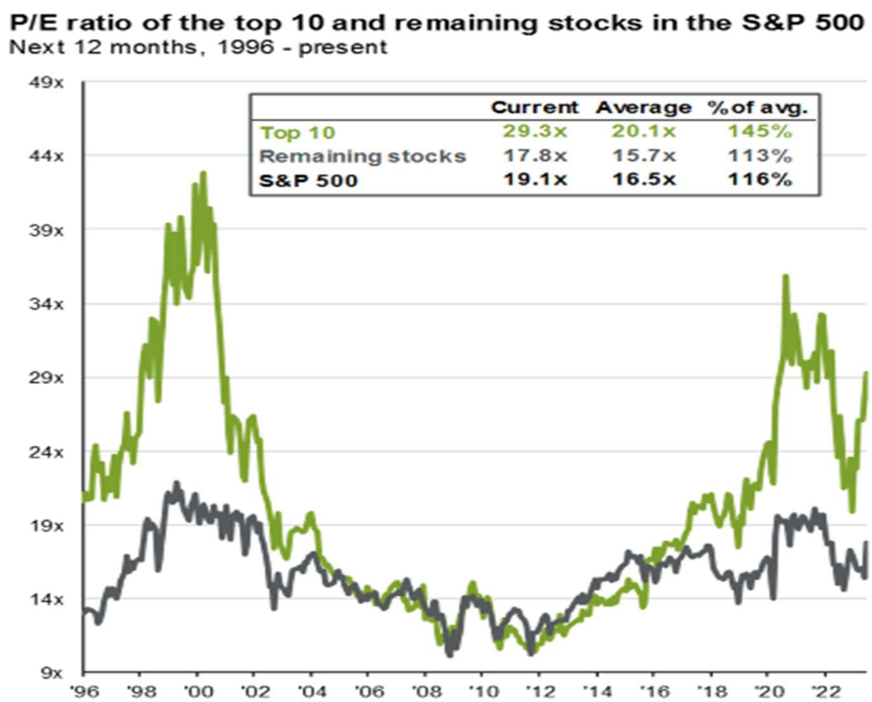
Any number of things could have derailed the equity markets in the first six months of 2023. Despite a banking crisis, the threat of a U. S. debt default, and more rate increases from the Federal Reserve, the markets climbed a "wall of worry" with the S&P rising by 16.9%. Investors have been encouraged by the fact that the Fed's rate increases haven't ended the economic expansion. First quarter GDP increased at a rate of approximately 2% annualized, above the consensus estimate of 1.3%. About the time of the Silicon Valley bank collapse, investors' attention shifted back to the old leaders, mega-cap technology. Mega-cap tech companies have fortress balance sheets and would likely be less impacted by tightening credit than other areas of the market. More importantly, mega-cap tech companies are expected to benefit from artificial intelligence (AI), which overnight, became all the rage and focus of the markets. Sector performance so far this year was largely a reversal of what transpired in 2022. According to B of A Securities, the first half of 2023 marked the narrowest breadth in history with just 25% of stocks outperforming the S&P 500 and the S&P 500 equal-weighted index (+7.03%) trailing the market capitalization index by almost 10%. The Dow Jones Industrial Average (+4.94%), the Russell 2000 Index (+8.09%) and the S&P Mid-Cap 400 index (+8.84%) all trailed the S&P 500 index by a wide margin. In essence, the average stock underperformed the market cap weighted (S&P 500) index in the first half of 2023.

The S&P 500 index is not the diversified index many investors believe it is. In fact, a recent Barons' article by Lauren Foster labeled the S&P 500 as a "Mega cap Tech Fund". Foster stated, "The S&P 500 isn't really a diversified index anymore: The "Big Seven" technology companies (top seven companies in the S&P 500 index) account for nearly 30% of its entire market capitalization". Apple currently has a market capitalization of over $3 trillion, which exceeds the value of five of the eleven S&P 500 sectors. The Russell 1000 Growth Index is even more skewed to mega-cap tech with the seven top names comprising a whopping 47.5% of the index. Toni Saccognahi of Bernstein wrote a research report June 12, 2023, stating that just 10 stocks (all technology) in the S&P 500 index contributed 90% of the index gain for the year, the highest of any half year period going back 40 years. Sacconaghi also states, "One particularly striking factor about the narrowness of the market in 1H 2023 is that the performance of the 10 stocks powering the rally has been driven by multiple expansion not earnings growth." As shown by the charts below, while the market capitalization for the top 10 stocks as a percent of the S&P has skyrocketed, the earnings contributions have fallen precipitously. Will the hype surrounding AI be enough to sustain this move?



Source: J P Morgan Asset Management

The S&P 500 is currently trading at approximately 19.1 times forward earnings estimates, 16% above the long-term average of 16.5 times. In the chart below, you can see that the top 10 names in the S&P 500 index trade at 29.3 times forward earnings, 45% above the long-term average. If you strip out the top ten names and focus on the bottom 490 names in the S&P 500 index, valuations are a more reasonable 17.8 times forward earnings. We should point out that price earnings multiples typically contract when interest rates rise, however the current rally has been driven by the speculative fervor around artificial intelligence (AI) and the fear of missing out on the next big thing in the market. In summary, the handful of mega-cap tech companies that have driven the market in the first half are richly priced, while the broader market has more reasonable valuations. Our firm's strategy of buying 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 reposition the portfolio as opportunities arise.



As you saw, and hopefully read with our First Quarter Letter, we continue to evolve and attempt to enhance our quarterly communication with you. This mid-year letter will be more investment specific, and the upcoming third quarter letter will be like the First Quarter's, highlighting thoughts and ideas from our financial planning teammates, as well as an investment brief. The noticeable change you will see with this letter is a more comprehensive dive into the ten largest investments in the growth-oriented equity strategy. This is not meant to single out the growth-oriented strategy over our classic value strategy or International, but Bill thought you might have an interest in reading about the businesses in more detail. We welcome your feedback regarding this deeper dive into these larger positions. It is very important to note that we have multiple equity strategies at Live Oak Private Wealth and many of you may or may not own any or all of the positions discussed. Many clients of the firm have had legacy accounts for years that may not have had the capacity to own all positions in all strategies. Equally as important, the top ten growth-oriented positions are not meant to single out (or cherry pick) our best performers. These ten are just the largest of the 26 positions that constitute the growth-oriented model strategy. Much of this is attributed to the tenure of legacy accounts and capital gain constraints. Please do not glean anything preferential from these ten, other than they are currently the largest by invested dollars.

The other noticeable change you will see with our letters going forward is a shift away from discussion around positions that had the largest impacts (good and bad) for our equity strategies. We have made this change because, frankly, at times we struggled with why a position was a meaningful contributor or detractor over such a short period, such as a quarter. Most of the time it was due just to market flows or short-term market volatility. We will continue to report to you the largest price percentage changes (5 up and 5 down) for each of the three model strategies each quarter. You can expect to see deeper dives into our other businesses in our other strategies in future letters.

Live Oak Private Wealth Classic Value Strategy
Commentary and Thoughts

Largest Stock Price Percent Changes
for the Live Oak Private Wealth Classic Value Strategy
Year to Date as of June 30, 2023

Contributors		Detractors	
Alphabet (GOOGL)	35.70%	Charles Schwab (SCHW)	-31.92%
Warner Bros Disc (WBD)	32.30%	Pfizer (PFE)	-28.40%
Fiserv (FI)	24.81%	Int Flavors & Fragrances (IFF)	-24.08%
Comcast (CMCSA)	18.80%	MetLife (MET)	-21.90%
Sony Group (SONY)	18.00%	Bank of America (BAC)	-13.40%

"There is no such thing as a value company. Price is all that matters. At some price an asset is a buy, at another price it is a hold, and at another it is a sell.

-Seth Klarman-Baupost Group

As we entered 2023, it was our belief that the rotation from growth to value was in the early innings. Value strategies typically outperform growth in periods of rising interest rates and higher inflation. On average, the value cycle (value outperforms growth) typically lasts approximately 64 months. However, in mid to late March when we witnessed three bank failures in a matter of weeks, the market sentiment once again began to shift to growth. Keep in mind that the financial sector is the largest sector in the Russell 1000 Value index, creating a headwind for value. Additionally mega-cap tech names have pristine balance sheets and are not typically dependent on bank credit. However, the real catalyst for the shift to growth coincided with Microsoft's investment in Open AI, which owns ChatGPT, a generative AI (artificial intelligence) company. Many of the mega-cap tech names are perceived as being big winners in AI and the "fear of missing out" led massive inflows into mega-cap technology names. Ironically, many of these same mega-cap tech names were big losers in 2022. According to Bernstein's Toni Sacconaghi, tech is "now trading at a 54% premium to the market, its highest level in 45 years other than the dot-com bubble". The top seven names in the Nasdaq 100 now comprise more than 50% of the total weight in the index and a rebalance in the index will occur on July 14th to address the overconcentration. The chart below highlights some of the valuations associated with mega-cap tech driving the Russell 1000 Growth Index up 29% in the first half of 2023.

Company	Price/Earnings ratio (trailing)	Price/Sales ratio (trailing)
Amazon	**305**	**2.5**
Nvidia	**219**	**39.0**
Tesla	**59**	**10.7**
Microsoft	**38**	**12.8**
Meta Platforms	**36**	**6.4**
Apple	**32**	**7.7**
Google	**27**	**5.5**

Nvidia (the poster child for AI) is a chip company that controls approximately 80% of the GPU market. Their chips are designed to handle the specific math involved in AI computing more efficiently than their competitors. Nvidia shares were up just under 200% in the first half of 2023. Our value investment discipline focuses on companies that trade at discount to the market and requires us to sidestep securities that we deem to be excessively valued. The exercise below explains part of our reasoning with regards to investing with a "margin of safety" which we believe is critical to an investor's long-term success.

Which portfolio below would you rather own over the past 18 months? A, B or C?

Portfolio Return	A	B	C
2022	**-29.14%**	**-7.54%**	**-18.11%**
2023 (6 mos)	**29.02%**	**5.12%**	**16.89%**

At a glance, one might assume that portfolio A is essentially even over the 18-month period, while portfolios B and C are down slightly, with Portfolio B having the worst performance. As we have discussed on numerous occasions, one of the keys to compounding is avoiding large drawdowns. If a portfolio loses 50%, there needs to be a 100% gain to get back to even. If a portfolio loses 30%, a 43% gain is needed to get back to even. In the case of the above questions, the best Portfolio to own for the past 18 months was B. The chart on the next page shows the Russell 1000 Growth, the Russell 1000 Value and the S&P 500 indexes. Despite the miraculous rally in the growth index in the first half of 2023, it still managed to have the worst cumulative performance over the 18-month period. The Russell 1000 Value index had the best performance, losing just 2.81%. Just like compounding growth impacts wealth in an exponential, non-linear fashion, so do losses. If you lose less on the way down, you don't have to make as much on the way up. This is one of the primary reasons we favor value over growth. Not to mention the fact that large drawdowns often destroy investor confidence; and often result in clients desire to reduce exposure to equities at precisely the wrong time.

Portfolio Return	Russell 1000 Growth (A)	Russell 1000 Value (B)	S&P 500 (C)
2022	-29.14%	-7.54%	-18.11%
2023 (6 mos)	29.02%	5.12%	16.89%
Cumulative loss	-8.57%	-2.81%	-4.28%

While value has lagged growth over the past six months, our forty plus years of experience has conditioned us to expect times like these. As Seth Klarman stated, "Value investors must be strong and resilient, as well as independent-minded and sometimes contrary. You don't become a value investor for the group hugs. Indeed, one can go long stretches of time with no positive reinforcement whatsoever. Unlike some other fields of endeavor, in investing you can do the same thing as yesterday but achieve completely different reported results. In the long run, the research and analysis you perform should overcome market forces, the fundamentals ultimately matter. But in the short run, markets can trump effort and insight." Jeremy Grantham of GMO has made a name for himself calling the market bubbles of 2000 and 2008 during the periods of euphoria that preceded them. Grantham points out that "we had a complicated but fairly standard-looking super bubble losing air in the traditional way, right up to this recent rally". We're trying to unravel this bubble and we've got a completely different one (referring to AI) that has jumped up on a narrow front". Grantham goes on to say that there is enough enthusiasm (surrounding AI) to propel the broader market over the next couple of months, but ultimately won't prevent the bubble from bursting." GMO believes given current valuations; value stocks should outperform growth by 50% in the coming years.

As the chart below shows the Russell 1000 Value Index trades at 15.8 times earnings versus a lofty 34.7 times for the Russell 1000 Growth Index. This compares with a price earnings multiple of 19.1 times for the S&P 500 index. The dividend yield on the value index is three times that for the growth index. We believe investors underestimate the power of dividends. During the past 50 years, 69% of total return of the S&P 500 index can be attributed to the reinvested dividends and the power of compounding. We would point out that most economists expect some sort of economic downturn to begin sometime later this year or in 2024, given the Fed's tight monetary policy and inverted yield curve. Chris Brightman the chief investment officer at Research Affiliates recently stated, "If we are heading for a recession—as seems likely, all historical indicators point to it—owning highly priced assets seem like a risky proposition." On the other hand, value stocks are trading at a sizeable discount, and seem to be already pricing in a recession.

Index	Price/Earnings	Price/Book Ratio	Dividend Yield
Russell 1000 Value	15.80	2.38	2.32%
Russell 1000 Growth	34.70	12.01	0.77%

Year to Date Portfolio Activity

During the first 6 months of 2023 we sold the balance of our Dollar Tree Stores holding (in taxable accounts) which follows the sale of shares in the fourth quarter in tax-exempt accounts. As we discussed in our year-end letter, the proceeds from the Dollar Tree sale funded our purchase of Target Corporation. We also trimmed our position in Coca-Cola, in accounts where the position had become oversized. In both cases our sales were largely a function of the shares reaching our upside price objective. We also sold our position in Intel in January as we started to doubt Intel's ability to regain the market share lost over the past five years. In addition, Intel has gone from being essentially a debt free company 15 years ago to now carrying long term debt approaching $50 billion. In February, Intel cut the dividend on the common shares by 66%. In late April we initiated a position in Activision Blizzard (ATVI). ATVI is one of the leading video game publishers and is the subject of an acquisition offer by Microsoft at $95/share in cash. Microsoft has received U.S. court approval, but the transaction is still pending approval by Britain's Competition and Markets Authority. At our purchase price, we believe the shares are attractive without a deal and ATVI will receive $3 billion in cash should the deal not close. ATVI's CEO recently projected that the company would have close to $18 billion in cash at year end. ATVI shares trade at approximately 20 times 2023 earnings estimates (lower if cash is stripped out), and we believe they offer an excellent risk/return opportunity.

Live Oak Private Wealth Growth Strategy
Commentary and Thoughts

Largest Stock Price Percent Changes
for the Live Oak Private Wealth Growth Strategy
Year to Date as of June 30, 2023

Contributors		Detractors	
Apple	+49.29%	Charles Schwab	-31.92%
Microsoft	+42.00%	CVS Health	-25.82%
CarMax	+37.46%	*Ardagh Metal Pkg.	-21.83%
Google C	+36.33%	Bank of America	-13.38%
HCA Inc.	+26.47%	Danaher	-9.58%

*Sold

"Know what you own, and why you own it."
-Peter Lynch

The primary objective of the change we have made with this semi-annual letter is to share with you in more detail the investment thesis behind several of the more meaningful companies in our growth-oriented strategy. Our wish is for you to fully understand the nature of our thought process for our chosen investments. Over the short term, the public market for businesses is irrational and volatile to say the least but over the long term, the markets will eventually adequately reflect the worth of the business. We remain steadfast in our belief that the most powerful compounder of wealth lies in buying and holding the shares of great companies that possess sustainable competitive advantages. We believe that participating in the growth of earnings and cash flow over time adds value versus trading between companies and sectors and therefore we focus 99% on bottom-up fundamentals of businesses rather than top down economic and macro aspects of markets out of our control.

Our performance for the first six months of 2023, relative to the indices, was disappointing. The indices, especially the NASDAQ, were overwhelmingly dominated by a very select sector of large cap technology stocks, as mentioned earlier. We played along with our positions in Apple, Microsoft, and Google, but these three and our smaller position weights couldn't keep up with the indices. We don't manage the strategy to meet or exceed a benchmark although over the long term we have captured a large portion of market returns with lower exposure and taking less valuation risk in our opinion. Our investments in financials (Wells Fargo, Bank of America, and Charles Schwab) did us no favors, as the financial sector underperformed the market by a large margin.

It appears for now that the mini banking crisis has ended. There appears to be no large systemic fallout from the failures of Silicon Valley and First Republic bank. We do believe there may be detrimental effects coming that will dampen economic activity, and these lag effects should most likely be felt from a pullback in lending by banks. Banks have lost a cheap source of funds to lend due to higher government borrowing costs and pressures to pay depositors more. These higher funding costs that banks face should squeeze already depressed net interest margins. Goldman Sachs economists estimate that roughly a 10% decline in bank profitability reduces lending by 2%. We are watching closely for another round of possible deposit anxiety at banks if commercial real estate loans prove to be as problematic as some are saying. More bank capital may have to be set aside as provisions against these risks go up. Regulatory wise, we feel like the probability for increased regulation and oversight may be heightened. Possibilities include ending the exemption that allowed some banks to not count unrealized losses in their securities portfolios towards their regulatory capital. You could see some regional banks have to raise additional capital diluting existing shareholders. More bank earnings may likely be needed to be retained as well, which could crimp lending and reduce optionality around capital allocation, resulting in lower returns on tangible equity and return on invested capital.

Therefore, these concerns are why we elected to sell our shares in Wells Fargo at the end of May. We wanted to reduce our exposure (not eliminate) to true financials businesses primally engaged in lending. We continue, for now, to hold Bank of America. Charles Schwab is a different animal yet has been affected by recent interest rate moves as well and their decision regarding the duration of their securities portfolio.

Our investment in aluminum can maker Ardagh Metal Packaging proved to be a mistake and we sold the remainder of these shares in April. We underestimated the effects of the rapid rise in rates and capacity shifts in cans for this very small, levered company. Persistent supply chain inflation didn't help either. We recycled much of the proceeds from the sale of Ardagh Metal Packaging and Wells Fargo into high quality fixed income as rates increased, as well as additional shares in Charter Communications. Other notable detractors were CVS Health and Danaher.

Ten Largest Investment's in the Live Oak Private Wealth Growth Strategy as of June 30, 2023

1. Berkshire Hathaway

In our opinion, Berkshire is in great shape. Operating earnings from a widely diversified group of businesses, including Burlington Northern Sante Fe railroad, GEICO insurance, and one of the largest electric utilities in the country, could rise this year and approach $35 billion. Warren Buffett is investing our capital… spending $11 billion to buy Allegheny Insurance, $8 billion for Pilot Flying J Truck stops, not to mention buying back shares in Berkshire itself as well as adding to energy stocks. Given the prodigious amounts of free cash flow the Berkshire businesses produce, Berkshire still has over $100 billion in Treasury Bills earning 5% +. Berkshire to us is as solid of a defensive "sleep at night" stock that we own. Other Buffetteer's we admire, such as Chris Bloomstrand in St. Louis, value Berkshire on what is coined "look through" earnings, at 15 times earnings. This compares favorably to a market of stocks at 18 times. Relative to our estimate of intrinsic value, Berkshire is 20 to 25% undervalued. GEICO, its big auto in insurer has underearned in recent years which could be changing, and Mid-American Energy is unrivaled due to its massive scale. We remain very comfortable in our largest and longest held investment in Berkshire Hathaway, especially with Warren Buffett as our 1) Chief capital allocation officer and 2) Chief risk officer. Berkshire is also owned in our classic value equity strategy.

2. Microsoft

Microsoft, having raised $61 million in their IPO in 1996 valuing the company at $777million, is now worth $2 trillion and original investors have earned 2,000 times their IPO investment. Microsoft is the quintessential technology company that now finds itself possibly at the tip of the spear in Artificial Intelligence. But before we get all hyped up on AI, our investment in Microsoft is because the company continues to be well positioned to help organizations of all shapes and sizes transform to the digital world. Microsoft is a critical business to the majority of the top companies in the world and continues to have very impressive financial results. Over the last 6 years revenues have grown by 10% or more in every quarter but one (just recently), resulting in 13% annualized revenue growth over the past 5 years. [1]Broadly speaking, Microsoft reports its business in 3 operating segments: 1) Productivity and Business Processes, 2) Intelligent Cloud, and 3) Personal computing. The primary driver of Microsoft now is the cloud business and Azure cloud represents approximately 63% of the intelligent cloud business. [2]We think a lot about Microsoft's competitive position across cloud computing, as there is still competition from Amazon AWS and Google. The cloud opportunity appears to have just exploded with the revelations and scope of generative Artificial Intelligence. Andy Jassy, CEO of Amazon, stated recently on a call that he believes the cloud business will be multiples of its current size over time. Microsoft's software optimizes the performance of a given workload in business today. As the total addressable market for the cloud expands, coupled with an overlay of A.I., Microsoft is well positioned to help companies continuously improve and optimize productivity. Microsoft is not a cheap stock, and its current valuation (35 P/E) is not priced to deliver huge returns. However, this is as high of a quality business that there is, in our opinion, run by a very solid management team. We remain comfortable continuing to own Microsoft based on the size of the future opportunity set and the long-term prospects.

1. *Microsoft company filing*
2. *Microsoft company filing*

3. Google

Technically referred to as Alphabet, Google is the world's largest advertising company. Google went public in 2004 with a valuation of $27 billion and has been on one of the market's most impressive compounding journeys since. The company has expanded its core business and increased advertising revenues by over 20% annually for 20 years. We wish we had the imagination years ago to fully grasp what it would mean to "google" something. Google search is the most visited website in the world, with almost 4 billion users. [3]The company generates the largest set of data of what people search for and then fine tunes its offering to strengthen its value proposition further. Some analysts speculate that there may be 10 billion searches per day and 20% trigger at least one display ad.

In addition to googling something, the company as built other software products with over 1 billion users each: [4]

1. Google Photos: > 1 billion users
2. Google maps: > 1 billion users
3. Gmail: >1.8 billion users
4. YouTube: > 2 billion users
5. Chrome Browser: >3.3 billion users

While many of you reading this most likely have an iPhone, the Android operating system is owned by Google which has over 70% of the market share for mobile devices compared to Apple's 27% iOS share. [5] When you imagine just the population of India and other emerging markets now having availability of mobile devices, Google is in a strong position. An Android mobile device costs $50-$100 (USD) vs $400 (USD) for the lowest end iPhone, and devices mostly come with Chrome, YouTube, Gmail, Google maps and "search" already preloaded. What a marvelous, more affordable ecosystem in which to monetize. YouTube is amazing and growing in popularity. Nielsen estimates more than 2 billion people use YouTube every month and spend an average of 1 hour a day browsing the YouTube app on mobile devices. Have you seen the ads? They are getting harder to skip. Nielsen also estimates that over 135 million people in the U.S. use YouTube as their primary platform for TV watching. Google cloud continues to grow, offering alternatives to AWS and Microsoft. Artificial Intelligence is all the rage now and Google has been an "AI First" company for years. Machine and deep learning are embedded in the company's DNA. Google currently trades in the low $120's with an enterprise value of almost $1.5 trillion. The company boasts impressive financials such as 25% operating margins and 27% return on invested capital. Trading for a slight premium to the market as a whole, we remain enthusiastic investors, albeit with a cautious eye to antitrust and regulatory threats.

4. Apple

Long standing investee Apple is one of the most popular consumer products companies in the world. With a seemingly unstoppable business model supported by an ecosystem with 2 billion active Apple users. Now Apple finds itself as one of the largest consumer subscription companies in the world with over 900 million paid subscribers. The company's services revenue emanating from the many subscriptions (Apple Care, App Store, Apple Music, Apple TV, Pay, Cloud, gaming, podcasts, etc.) are approaching 20% of revenue ($80 billion). Speaking of large, Apple is the largest company in the world (by market value) worth a staggering $3 trillion. We feel that the way in which the majority of us are wedded to our iPhone and iPads, our engagement multiplies with other products and services

3. Wikipedia
4. Alphabet company filing
5. Market research data, Alliance Bernstein

Apple provides. This fly wheel of an ecosystem seems to grow and grow from the sticky demand and installed base. Apple boasts tremendous pricing power as iPhone adoption has increased exponentially over time from the 3.5-inch display iPhone 1 ($300) to the iPhone 14 with a 6.7-inch screen ($1,100). The financials of this company are staggering. Over the last ten years, Apple has generated so much free cash flow (over and above what it needed for new product development) that it was able to buy back $593 billion in stock and pay out $139 billion in dividends. [6] Apple's relatively asset light business model supports envious margins and returns on invested capital. We feel, as many do, that the smartphone is the most essential computing device we have. When you think about what the iPhone does and what it has replaced (separate cameras, MP3 music players, eBook readers, web browsing, shopping, etc.) it is amazing. Our long-term involvement as investors in Apple should continue as we think those of us in the Apple ecosystem will stay in the ecosystem and it is doubtful Apple will be left behind by any other revolutionary technology. We do wish the valuation and market cap was lower.

5. United Health Group

United Health Group is a health care and well-being company of nearly 380,000 colleagues, with a mission to help people live healthier lives and make the health system work better for everyone. United Health Group has two distinct and complementary businesses working to help build a modern, high performing health system through improved access, affordability, outcomes, and experiences. United Healthcare is the gold standard in insurance, covering a full range of health benefits, enabling affordable insurance coverage, simplifying the doctor-patient experience and delivering access to high quality care. Optum combines clinical expertise, technology, and data to empower people, partners, and providers with the guidance and tools they need to achieve better health. Working with governments, companies, and health care professionals, UNH serves 150 million people. Healthcare is a huge part of our economy, where spending is estimated to be above $4 trillion per year and growing. Considering the innovations around new therapeutics and treatments, coupled with an aging of our population, growth should continue. The managed care area of healthcare, where United Healthcare dominates, benefits from sustainable trends that should continue to contribute to growth. The trend of expansion in the government's coverage of Medicare, Medicaid, and the individual exchanges, lends a solid tailwind to the company. According to U.S. Health and Human Services data, this continuing trend of outsourcing these expanded government programs to private firms has led to 50% of seniors being on a privatized form of Medicare. Where the real strength and competitive advantage of United Health stands out is the evolution of the insurance company from being the financer of care to being the quarterback of healthcare delivery and services. Optum plays a critical role in this important aspect, especially as the industry is evolving around value-based care and technology. Optum and United's large geographic footprint and scale enables building out systems to better manage "care journey" pathways. United's size and scale really matters when it comes to efficient claims processing as you want to be as big as possible to be able to negotiate rates with providers and have good provider relationships. Given the company's breadth of offerings, we think they can increase their earnings more than the typical S&P 500 company. On the company's most recent analyst day (which we participated in) they forecasted almost $359 billion in revenues with $32 billion in operating income this year. Beyond this year, the company is hoping to deliver on its long-term goal of growing earnings by 13% to 16%. If they are successful at that, we should benefit as stakeholders in this wonderful company.

6. Dollar Tree

Dollar Tree, which also owns Family Dollar, has a simple, yet highly profitable business model of providing a broad base of customers with their basic everyday household needs. The Wall St. Journal

6. 1Q Apple SEC Filing

recently wrote about the Mercedes cars in the dollar store parking lots not being an illusion. With inflation raging, consumers of all financial demographics are shopping more and more at dollar stores. The Dollar Tree banner holds a very attractive spot in US retail with a defensive model and a differentiated position. Up until late 2021 Dollar Tree sold all its products for $1. Now repositioned for a variety of reasons (mostly inflation) the company has a multi price point offering with the majority of their assortment at $1.25 and additional items at $3 and $5. Over 50% of items in the store are in the variety category (arts and crafts, balloons, party supplies, and toys) as well as a large amount of seasonal goods for Halloween, Christmas, etc. The transition to the $1.25 price point has been successful thus far with positive traffic trends, store comp sales, and margin expansion. The next evolution in this reset is Dollar Tree aggressively expanding into $3, $4, and $5 frozen and refrigerated products. Coolers in the back of the store feature each price point with an attractive selection of proteins, pizza, ice cream, and more. Our main investment thesis and excitement from our perspective is improvement in the Family Dollar banner. It has now been eight years since Dollar Tree outbid Dollar General for Family Dollar. History has shown that they paid too much ($9 billion) and strategically failed to understand the two different go to market strategies of the two banners. Last year Family Dollar generated only $129 million in operating income, its worst result in more than 10 years, (normally $400 million +). [7] Having now written down the investment by $3 billion, Dollar Tree is under pressure from an activist investment firm which has recruited the retired CEO of Dollar General out of retirement, accompanied by a new slate of experienced executive teammates to run Dollar Tree. Truist Wealth Research claims the new CEO, Rick Dreiling, was successful at increasing Dollar General's sales per store from $1.1 million to $1.6 million and operating income from $31,000 to $150,000. This drastic improvement came from improvements in supply chain merchandising and culture improvements. We recently attended Dollar Tree's investor analyst day meeting and learned of the key initiatives underway, mainly getting the pricing at Family Dollar at parity with key competitors and cleaning up and remodeling stores for a better experience. Additionally, we will see more combo stores (half Dollar Tree- half Family Dollar). At the end of 2022, about 640 of the 6,000 Family Dollar stores were combo's but growing. A lot of capital will need to be invested to transform Family Dollar, which is currently affecting total profitability and thus the stock. We like the incentives the new CEO (and team) has in turning this company around. The Dollar Tree board of Directors granted him a 5-year option to purchase 2.2 million shares at $157 per share. With the stock currently in the low $140's, we like our position. And we like the dollar store business as the stigma of shopping their wanes. No matter how much money you make, everybody likes a deal.

7. HCA Healthcare

HCA is the largest for-profit hospital company in the US and is positioned in some of the most attractive local markets in the country. When you think of a hospital an image comes to mind, and yes HCA has 184 of those large typical facilities. They also have a diversified mix of other facilities such as 123 Ambulatory surgery centers, 170 urgent care centers, 104 free standing emergency rooms. HCA boasts over 1,300 physician clinics with 47,000 active and affiliated medical staff. [8] HCA is the most efficient and lowest cost operator in the for-profit hospital industry. It is quite hard for anyone to open a new hospital, as a Certificate of Need (CON) is required. The number of hospitals in the US has not kept up with population growth and a large majority of hospitals in the US are less competitive non-profit or government owned. HCA has consistently grown in-patient volumes in the mid-single digits, which is significantly better than most competitors and its industry. We feel these volume trends can hopefully continue due to the attractive demographics in its markets as well as the pent-up demand for elective procedures that are starting to happen now that we have distanced ourselves from the Covid-19 pandemic. The aging boomer population who are active, coupled with increased diseases such as

7. Dollar Tree Analyst Day Presentation
8. HCA company data

diabetes and cancer in older populations, feed into HCA's network of facilities and services, further boosting long term trends. One of the many traits we look for in a great investment is resilience. Healthcare is quite resilient, and the acute care hospital industry is almost recession resilient. During the great financial crisis (GFC) in 2008, HCA produced very solid results and during the 2020 Covid-19 pandemic, HCA's attractive characteristic carried them through as well. We are also looking for strong management teams with a keen eye on capital allocation and HCA's management has an excellent track record of returning capital to us as owners. HCA has returned over $15B in the form of repurchases and special dividends since going public in 2011. [9] Revenues and operating earnings grew from $41B to $60B and $6B to $10B respectively from 2016 to 2022. We like strong balance sheets and liquidity positions in our investments and HCA checks this box too.

8. Markel Group

Markel is primarily a specialty insurance company insuring the likes of summer camps from liability, thoroughbred horses, specialized professionals like architects and classic car collections. By focusing on areas where it has underwriting expertise and knowledge, Markel can write policies more profitably. Disciplined underwriting (the willingness to walk away from business) is paramount to long term success in the insurance business. Over the last ten years, Markel has reported an average annual combined ratio of 95%. The combined ratio is calculated by taking the expenses of the company plus loss claims paid out divided by the premiums received, and a combined ratio of less than 100 means the company is profitable. Our interest in Markel years ago came about through our investment in Berkshire Hathaway. We watched Berkshire through the years invest insurance premiums received, not just in quality fixed income, stocks, etc., but by buying entire businesses. Markel is "mini-Berkshire like" in that in 2005, Markel bought its first entire business (in addition to quality bonds and stocks) embarking on what is now Markel Ventures. Markel Ventures has now bought several billion dollars of private businesses ranging from bakery equipment to cranes to fire protection solutions. These investments are becoming meaningful to Markel's financials with more than $400 million earned in 2022. [10] These businesses and their earnings went a long way to offsetting the very low interest rates the company was earning on its quality bond portfolio and possibly led to an enviable position of not having much of any commercial real estate investments like many insurances companies. Investment wise, Markel has $8 billion in stock investments overseen by a very astute investor who we know personally and admire. Since 1990, Markel's annualized equity returns have been 12%. We feel like Markel is a coiled spring on the cusp of compounding book value at a higher rate (6% for the last 5 years) due to 1) higher interest rates on the quality bond portfolio, 2) increased pace and size of Markel stock buybacks, and 3) continued disciplined insurance underwriting in what remains a hard market (more profitable/ higher premiums) for pricing. Markel takes very seriously how it calculates what they think the company is worth. In our opinion, it is a very conservative business-like approach to their estimate of value. We won't bore you here with their math, but it's $2,200 per share. At the current price of around $1,350, we like our opportunity. Assuming the company doesn't make a killing on the insurance side of the business (because it is difficult and very competitive) the investment engine of the company is increasing in horsepower every year. Per share "investments" in Markel have doubled over the past 10 years. The potential for further compounding over the next 10 years is very enticing to us. A lot of bumps in the night have happened in the world in the last 35 years since Markel went public. There have been many bull and bear markets and many insurance calamities. Book value per share at Markel has compounded at 13% per year since 1986, which gives us tremendous confidence in the future and the company is run by the caliber of people we like to partner with. [11]

9. HCA Investor Presentation, 2022
10. Markel Group 1Q report
11. Markel Group 2022 Annual Report

9. Danaher

Danaher might not be a household stock name you are familiar with. Danaher has evolved over the last 35 years, transforming itself from a collection of industrial businesses (plastics, tire changers, engine retarders, hand tools) to a world class life sciences business. At the heart of this marvelous company lies the "Danaher Business System" which has contributed to the consistent outperformance of the stock for over 40 years. The DBS is a set of constantly updated best practices that functions as a playbook for all employees, providing day-to-day structure, with focus and therefore continuous improvement is the mantra at Danaher. Coming out of the great recession in 2010 the company continued to veer away from its industrial origins and acquired medical diagnostics giant Beckman Coulter. Previously, Danaher had acquired other life sciences businesses in mass spectrometry (analyzing molecules for studying proteins in biological research) molecular devices and analytical instruments. Further acquisitions of Nobel BioCare, Pall Corp, and Cepheid catapulted the company into next-gen gene sequencing associated with diseases like HIV and cancer. Cytiva was carved out of GE and now part of Danaher, is a major bioprocessing player and Aldevron is the company's big bet on cell and gene therapies. Now, Danaher is a pure play life sciences company. Our position in the stock is fairly new. We bought our original position in March of 2022, some more in May of '22, and topped off our position in October last year. We might have been a little early with our initial purchase as Danaher was coming off huge results during the COVID years and recent hikes in interest rates have dented Danaher's premium PE multiple. Positive structural trends in bioprocessing and gene and cell therapies, as well as contracts with late-stage clinical trials, support our long-term mindset for investment. Much of the company's revenue is recurring and critical to the health care industry. Margins in the business are generous, in the high 30's. Danaher remains laser focused on return on incrementally invested capital and creating further shareholder value and we eagerly embrace our investment with this premium healthcare sciences company.

10. Brookfield Corporation

Brookfield, founded in 1899 to build tram and electricity lines in Brazil, was initially know as Brascan- an illusion to its Brazilian operations and Canadian headquarters. Now Brookfield is an immense sprawling global asset conglomerate with almost $1 trillion in assets. Legendary investor Marty Whitman of Third Avenue Capital used to talk about "wealth creation companies" whose sole purpose was to create or compound wealth. These types of companies stand in contrast to typical companies who provide a specialized product or service. Nike sells athletics shoes and Pepsi sells soft drinks and snacks. These companies focus on sales growth, margins, and competition. Wealth creation companies (like Brookfield) are focused on asset allocation and investing. Berkshire Hathaway and Markel are similar examples of this concept. Investors in wealth creation companies need to focus on the management team, their capabilities, and performance and Brookfield has had a two-decade long streak of 20% compounded annual returns. [12] Brookfield is well positioned to benefit from the long-term secular tailwinds of super cycles in 1) digitalization, 2) decarbonization, and 3) deglobalization. Before all of the hype with artificial intelligence, data was one of the fastest growing commodities. Increases in data consumption are projected to double in the next 24 months especially as tailwinds from cloud migration and AI accelerate. An example of Brookfield's investment in this area is the $15 B joint venture with Intel to help fund their semiconductor plant in Chandler, AZ. Brookfield is a major global player in the massive trend of transitioning to a net zero carbon economy. This is a multi-decade initiative and estimates range as high as a $100 trillion opportunity. Renewables (such as nuclear, wind, and solar) are fast becoming a major source of electricity generation in most countries around the world. Lastly, as global geo-political strife continues between the likes of Russia- Ukraine, and China-

12. Brookfield Corporation 2022 Annual Report

Taiwan, as well as viral pandemic threats evolve, many multinational companies are rethinking all aspects of their supply chains. Globalization in this regard, especially medical essentials and semiconductors, is starting to reverse and reshoring is accelerating. Opportunities in manufacturing, housing, and logistics are immense. We are excited to be long-term investors with Brookfield due to their scale, flexibility, and global presence. We should benefit from growing distributable earnings from this global wealth creation company for years to come.

Live Oak Private Wealth International Strategy Commentary and Thoughts

Largest Stock Price Percent Changes Year to Date as of June 30, 2023

Contributors		Detractors	
Spotify	+103.36%	LANXESS AG	-25.31%
Daikin	+35.61%	DBS Group	-7.81%
Taiwan Semiconductor	+35.48%	DNB ASA	-4.35%
Holcim	+31.20%	Willis Towers	-3.71%
Schneider Electric	+30.04%	Phillip Morris	-3.55%

While not all calm on the western front, the global markets had a better first half with slightly less volatility. Europe's much anticipated recession has produced some pockets of weakness from the European Central Banks tighter monetary policy and the ongoing Russia- Ukraine war, but we wouldn't call is a full-blown recession quite yet. In Asia, the broad eastern economies are recovering, especially the services component of the economy. Note that Asia didn't experience the rapid interest rate shock that we did, as inflation hasn't been anywhere near as intense as in the US and Europe. India and Japan are contributing to what appears to be a solid recovery in Asian macro- economic fundamentals.

The banking crisis that erupted on the West Coast of U.S. this spring also spread across the pond to Europe as perennially challenged Credit Suisse was the folded into UBS after the Swiss authorities engineered a swift deal as Credit Suisse was on the brink of insolvency. Our positions in financials, Development Bank of Singapore and DNB in Norway, prospered through this period just fine, yet financials as a sector remain unpopular abroad as in the U.S.

The year-to-date performance for the strategy was very solid in relation to the indices, but there is always room for improvement. The strategy is light on technology but our position in Taiwan Semiconductor benefited from the hype and momentum related to Nvidia's A.I. chip as well as continued chip business with Apple. Spotify recovered nicely from the bottom last fall, and we are approaching break even on this position. German chemical company LANXESS AG continues to struggle from Russia- Ukraine war effects and a general slowdown in economic activity in Europe. We are in the process of a re-evaluation of our thesis regarding LANXESS.

Activity wise for the first half of the year was light with the only meaningful trading related to adding to Phillip Morris in several accounts. We remain of the belief that the global markets outside the U.S.

offer much potential for investment gains. Many global markets remain slightly undervalued relative to U.S. markets and are increasingly levered to faster growing economies, especially China and emerging markets like India.

Final Thoughts

Looking back on our 2022 year-end letter for reflection yields a few observations. We wrote that we opportunistically looked forward to this year and the bear market finally running its course and the markets bottoming in October of 2022. While it has only been eight months since then, most likely the worst is over, but we can't know for sure.

We also wrote about being inspired by the intriguing and exciting development regarding artificial intelligence and specifically Chat GPT. We wish we had the imagination then to have predicted the sheer craze certain stocks have captured related to this still burgeoning industry. We touched on the successful nuclear fusion reaction after 60 years of research, and the optimism felt. We still feel today, as then, shorting USA Inc. is most likely a losing proposition in the long run.

Additionally, we wrote then and still feel now, that the incredible 40-year tailwind of declining interest rates has ended. That a "sea change" is now upon us that most likely will alter how many assets are valued. Chasing yield from zero and accepting low to mid-single digit cap rates are most likely destined for future historical finance class case studies, as risk free T-bills now yield 5.25%.

Our entire team remains humbled each day for the privilege of helping you through the myriad of challenges and opportunities investing your assets and helping you plan for the future. We are appreciative of your willingness to compensate us for something that is so important to us all. We find it hard to believe that in just a few short months we will be celebrating our five-year anniversary. The "business "of Live Oak Private Wealth continues to grow, prosper, and succeed in our mission...thanks to you.

We look forward to our continued shared success together.

With warmest regards,

Frank G. Jolley, CFA	J. William Coleman, III
Co-Chief Investment Officer	Co-Chief Investment Office