Year-End Letter December 31, 2023

"Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day"
- Charles T. Munger (1924-2023)
Vice Chairman | Berkshire Hathaway

MARKET REVIEW AND COMMENTARY 2023

Index	2023 4th Quarter	2023 12 Months
DJIA	13.09%	16.18%
S&P 500	11.69%	26.29%
S&P 500 (equal weight)	11.87%	13.87%
S&P Mid Cap	11.67%	16.44%
Russell 1000/Growth	14.16%	42.68%
Russell 1000/Value	9.50%	11.46%
Russell 2000	14.03%	16.93%
NASDAQ Comp.	13.79%	44.64%
Long Term Treasury Bonds	12.15%	2.74%
Inv Grade Corp Bonds	7.91%	8.40%
Gold	12.54%	14.68%
3 Month T-Bill	1.37%	5.01%

As we started 2023, expectations were gloomy for the financial markets. As the Fed raised rates at the most rapid pace since the 1980s, investors were braced for a possible recession. In March, the rapid pace of rate increases created a "digital" run on Silicon Valley Bank, Signature Bank and First Republic Bank, as fears mounted over losses in the bank's bond portfolios. While the market initially swooned on the banking woes, investors followed Taylor Swift (Time Magazine estimated that Swift's New Era Tour grossed over $5 billion in the US in 2023) and decided to "shake it off" and focus on Generative AI, which many believe is the next "big thing". The mega-cap tech names generate massive cash flows and possess pristine balance sheets, which became increasingly important at a time when the banking system was under siege. These events essentially created a mania, propelling mega-cap tech shares higher. The Magnificent Seven (Nvidia, Apple, Microsoft, Alphabet, Amazon, Tesla, and Meta Platforms) jumped approximately 75% in 2023, leaving the rest of the market in the dust.

Looking back a year ago, it was our view that rates would be higher for longer. We also felt that inflationary pressures would be "sticky" and difficult to bring down quickly. The economy appeared likely to head into a recessionary period and that corporate earnings would come under pressure. With higher levels of interest rates, we felt that price/earnings multiples would contract, making it a difficult year for equities, particularly growth stocks. The market defied expectations and took off with excitement over AI, which Goldman Sachs predicts could increase U. S. productivity growth by 1.5% a year over the next ten years. Through most of 2023, mega-cap tech led the market while the rest of the market languished. The equal-weighted S&P 500 was down for the year through October, before rallying 17% in the last two months of the year. Small cap and mid-cap stocks experienced similar price action, with essentially all of their gains coming in the final quarter. The market broadening

towards year-end can largely be attributed to the Fed, which pivoted in December and indicated rate cuts might be on the way in 2024.

Despite the 26.29% rally in 2023, the S&P 500 is now up just 3.42% over the last 2 years and the Nasdaq Composite is still down 2% over the two-year period. The Magnificent Seven are up 9% over the last two years, however, Tesla, Amazon, and Google remain below levels from two years ago. The past two years have essentially been a grind in the market. Value trounced growth in 2022, while growth trounced value in 2023. Treasury bonds, which turned in a respectable 2.74% in 2023, are the worst performing asset class over the two-year period, down 26%. Investment grade corporate bonds returned 8% in 2023 but are still down over 8% for the two-year period. The table below shows just how difficult the markets have been for investors. While tech has been spectacular this past year, a good portion of the move was just mean reversion and a bounce back from a horrific 2022. The table also gives some perspective on the pain that has been inflicted on bond investors. Keep in mind, this is after a major rally in bonds associated with the Fed's pivot on December 13, 2023. In our opinion, part of the volatility over the past two years can be attributed to the continuation of dislocations and disruptions caused by the pandemic. As we begin 2024, we are hopeful that the economy and investor behavior will return to a somewhat more "normal" environment. That said, as stewards of your capital, we must always be prepared for the unexpected and how it will impact asset prices.

A Look Over the Past 2 Years

Index	2022	2023	Cumulative 2 Year Return
DJIA	-6.86%	16.18%	8.21%
S&P 500	-18.11%	26.29%	3.42%
S&P 500 (equal weight)	-11.45%	13.87%	0.83%
S&P Mid Cap	-13.06%	16.44%	1.23%
Russell 1000/Growth	-29.14%	42.68%	1.10%
Russell 1000/Value	-7.54%	11.46%	3.05%
Russell 2000	-20.44%	16.93%	-6.97%
NASDAQ Comp.	-32.54%	44.64%	-2.49%
Long Term Treasury Bonds	-28.30%	2.74%	-26.33%
Inv Grade Corp Bonds	-15.44%	8.40%	-8.34%
Gold	.36%	14.68%	15.09%
3 Month T-Bill	1.46%	5.01%	6.54%

The S&P 500 is currently trading at approximately 19.5 times forward earnings estimates. This higher than normal ratio is somewhat skewed due to the heavy concentration in the top 10 stocks, which now make up 32.1% of the index. The top ten names (S&P 500) trade at just under 27 times forward estimates, while the remaining stocks trade at a more reasonable 17.1 times forward estimates. For the past twenty-five years the average price earnings multiple on forward earnings has approximated 16.7 times. Firmwide, our 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.

Before we delve into the review of our three equity strategies, we want to remind readers of our unique investment team structure and process. Live Oak Private Wealth is an amalgam of proven, differentiated investment strategies, born out of successful prior businesses. We each came to the table with our own respective strategic styles: "Classic Value" and "Growth at a reasonable price". We added the International Strategy since our founding in 2018. Not all clients of the firm own all equity strategies, for a myriad of client specific reasons. But since many do, we feel we owe you thoughtful updates and reasoning behind portfolio changes. On occasion (like this year), we may even appear in conflict regarding an individual stock like Raytheon. It is not uncommon in the institutional world of equity management to see a stock move between, or be handed off, (i.e., one strategy selling and another buying) to a differentiating strategy, based on the style mandate when that firm offers

multiple strategies with their own disciplines. Should you have questions or concerns or want to know more about any of our updated positions, please contact one of us.

LIVE OAK PRIVATE WEALTH GROWTH STRATEGY
COMMENTARY & THOUGHTS

2023 will be remembered as yet another lesson (or problem) we all face as investors... In that everything changes, and you can never predict what the future holds. Nothing is truly stable or permanent in the financial markets or in life. To us, one of the keys to building enduring wealth is to own resilient, quality businesses and not be tempted to sell them. Famous investor Nick Sleep used to talk about performing "destination analysis", which was his way of focusing on things in life that offered a great long-term destination. He would ask "does this company have a long-term destination in 10 or 20 years"? Costco and Amazon were two of his most successful investments over the life of his Investment Partnership. He talked about working backwards to see if he was seeing the inputs today that were going to lead to a long term, prosperous destination. Inputs such as treating customers well, driving down costs, and treating suppliers well today, would hopefully lead to resilient, quality, profitable investments.

Another famous investor, Guy Spier, talks of finding businesses that represent "economic high ground". We believe this mental model emanated out of a conversation Guy had with Warren Buffett regarding owning the highest quality assets. Owning the best block downtown, with the best office and retail space, was what you were looking for. Or the best corner gas station or McDonald's (Times Square, NY McDonald's versus the one on the outskirts of town) were all you really needed. You were set if you owned these economic high ground assets.

Thinking deeper of this mental model and applying it to stocks brings us to our investment philosophy of trying to own the highest quality, most durable businesses we can find. Unfortunately, they are rarely cheap. The stock market constantly "shows us" businesses on the outskirts of town that appear cheap. Our aim is to try and sidestep these offers and wait for the Times Square McDonald's type of stocks to come available at reasonable prices.

Buying, owning, and holding these trophy property stocks comes with other challenges as well, especially **holding** them during difficult periods. Peter Lynch, the highly regarded manager of Fidelity Magellan, is famous for the quotes below:

> *"Far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in corrections themselves."*
>
> *"The real key to making money in stocks, is not to get scared out of them."*

The last two years have been another prime example of coping with tremendous price volatility of even the "economic high ground" stocks. Drawdowns are a part of investment reality and to be successful at creating enduring wealth, you're going to have to sit through several of these drawdown periods. A drawdown is how much a stock price declines from its peak before it recovers.

In the table below we see the magnitude of the drawdowns we experienced in the last 18 months with several of our investees.

Peak to Trough Drawdown Percentage
Last Two Years

Company	Drawdown Percentage
CarMax	-62%
Brookfield Corporation	-51%
Charles Schwab	-49%
Alphabet (Google)	-40%
Moody's	-39%
Visa	-28%

Berkshire Hathaway, our largest and longest held position, didn't make the table above but has been down -50% four times. Apple, from its IPO in 1980 through 2017, went up over 200-fold, but you had to endure two -80% drawdowns and numerous -40% ones.[1] Over the long-term, whether it is Apple, Berkshire, or many of the stocks above, the most important thing was if the underlying business was continuing to perform. Within a certain range, the best course of action for an investor has been not to sell. During these difficult periods, it is hard to stay rational and focused on the long term. In hindsight, we can clearly see why these great businesses were sold indiscriminately last year and in 2022. The spark to the tinder of the drawdown was rising interest rates due to inflation. This compressed already elevated PE multiples and amplified the calls for recession. Over our almost 40-year careers, we have learned that exceptional businesses rarely suffer for long.

In fact, so far through the end of this year, many of our aforementioned investees have seemingly bottomed and are now hopefully back on the trend higher. We will have to see. Volatility in the short term is exacerbated by the dominance of computerized program trading, controlled by the quantitative algorithms that are so prevalent today.

Rebound from Recent Trough
As of 12/31/23

Security	Percent Change
Alphabet (Google)	61%
Moody's	57%
Visa	44%
Charles Schwab	40%
Brookfield Corporation	38%
CarMax	35%

[1] Mayer, Chris, *100 Baggers: Stocks That Return 100-to-1 and How to Find Them* (New York, NY: Laossez-Faire Books, 2018)

“To do nothing at all is the most difficult thing in the world, the most difficult and the most intellectual.”

- Oscar Wilde

Investors and portfolio managers alike normally maintain a natural urge to sell stocks that have gone up. Worn out cliches such as “Let’s take some money off the table” or “No one ever lost money taking a profit” reinforce this behavior. Taking profits may be prudent at times but can also hinder the long-term accumulation of wealth. The power of investing in, and holding great businesses possessing sustainable competitive advantages, remains our key objective in creating and sustaining enduring wealth. Some believe selling assets that have gone up in value, leads one to protect profits. The world is a crazy place, markets are volatile, and they fear profits will evaporate. This is known as the “disposition effect” and it can also cause one to hold on to losers because of the behavioral bias towards loss aversion. Many investors don't operate in environments that are optimized for solid decision making. We have learned through study and painful experiences that recognizing these sources of cognitive biases, and their sometimes-detrimental effects, are imperative to long term compounding of wealth.

Selling and generating capital gains also creates friction to the long-term compounding of wealth. We attempt to generate the highest “after-tax” rates of return we can for you, while remaining conservative, thoughtful investors. We prefer to own great “economic high ground businesses” whose intrinsic values grow at nice rates, as this allows us to defer selling as long as possible. An example being an assumption of a 10% pretax rate of return for a year. The after-tax rate of return for a stock bought and sold every year is 7.30% (assuming capital gains taxes of 27%). If a stock is held and sold after 10 years, the after-tax return is over 8.02%. A $100,000 investment compounded annually for 10 years at 7.30% grows to $202,300, whereas the same $100,000 compounded annually for 10 years at 8.02% grows to $216,343.

One of the highlights of our unique investment research style was the opportunity Bill had this fall. Bill was able to participate in a fireside chat with legendary investor Seth Klarman in Boston. This was primarily a book tour regarding *Security Analysis*, which Seth Klarman was lead editor for the seventh edition. The important takeaways gained personally from time in the same room with Klarman were as follows:

- Pay attention to investment history.
- A naturally contrarian temperament is beneficial as it allows you to tolerate the market telling you that you are wrong.
- Having a deep curiosity about everything around the business you are invested in, its suppliers, industry, and competitors will help you.
- Having mental models regarding mistakes and what makes you realize that you are wrong about an investment. How you get out with deep humility, can serve you well.
- When looking at a stock you must presume everyone has the same information you do; they just might miss the decision.

A key thought and mental model that we will be using more in the future was brought about by two thoughtful questions:

- Why does this opportunity exist?
- How do you know you are right (as a buyer) and the seller is wrong?

When we think about how important it is to have an edge in this business, we are fortunate that our investment team structure within Live Oak Private Wealth is a competitive advantage. Being able to practice long-term arbitrage in markets consumed with “short-termism” is a competitive advantage we feel we can and will exploit to your advantage.

LIVE OAK PRIVATE WEALTH GROWTH STRATEGY PORTFOLIO REVIEW

Since last writing to you in mid-year, activity in the strategy picked up in conjunction with price volatility. In August, we sold our position in Raytheon and added to our position in CarMax. In September, we sold our small position in Comcast and our long-held position in CVS Health. In October, we received Veralto, which was spun out of Danaher. We elected to sell Veralto and reinvest those proceeds into additional Danaher shares. We added incrementally to Dollar Tree at the end of September, primarily in taxable accounts for potential tax loss harvesting opportunities.

We have written in past letters, available on our website, about our investment thesis on CarMax, Danaher, and Dollar Tree. We have not discussed much regarding Raytheon and CVS Health. We inherited Raytheon from our previously held investment in United Technologies, a conglomerate which owned Carrier (HVAC), Otis Elevator Company, and Pratt & Whitney (aircraft engines). UTX chose to merge with Raytheon, primarily a defense contractor in 2020. The combined entity then spun-out Carrier and Otis as standalone companies and integrated the aerospace and defense businesses of Raytheon and UTX. Rarely do these mega mergers prove accretive to long-term shareholders, and this, so far, is another example in our opinion. Raytheon then made another acquisition of Collins Aerospace. Management seemed more focused on integrating all of those various businesses, rather than maximizing shareholder value, in our opinion. The final straw for us has been the continuing problems with Pratt and Whitney's important commercial jet engine. The engine, used by Airbus, has had numerous issues, and are having to be taken off the wings of planes for servicing. This caused a recent $3B charge, which the company said may ultimately cost up to $7B. Speculation is that the company will be focused on this issue, however, and financial impacts may be felt into 2025. We opted to sell and move on. We made a little money start to finish from our original investment in United Technologies.

Our CVS Health position dates back to 2018 and has proven to be a value trap. The company screened attractive based on earnings valuation, which now in hindsight, was a dead giveaway. CVS Health may yet be another example of a large merger failing to be accretive and rewarding for shareholders. CVS acquired Aetna in late 2017 for $69B, with exciting prospects for a transformational moment in healthcare. We invested initially at $64 in 2018 and bought more shares in 2019 and in 2021. Revenue and EBIT growth never really accelerated. When we sold this year at $66 or so, the PE multiple was close to the same as it was in 2018 at $64. Five years was enough.

Contributors & Detractors for LOPW Growth
7/1/23 – 12/31/23

Positive	Negative
Brookfield Asset Management (BAM) +23.11%	Aon PLC (AON) -15.70%
Charles Schwab (SCHW) +21.38%	United Parcel Service (UPS) -12.28%
Brookfield Corporation (BN) +19.23%	HCA Healthcare (HCA) -10.81%
Bank of America (BAC) +17.36%	CarMax (KMX) -8.32%
Alphabet (GOOGL) +16.5%	Danaher (DHR) -3.61%

A word on performance for the year with this strategy. When accounting for our higher than typical cash balance we carry, we feel "OK" with our performance on an **absolute** basis. Relative to the equal weighted S&P 500 we were "OK" as well but compared to the cap weighted S&P 500, we underperformed. There is not room in our investment philosophy or our risk tolerance to allow for 31% of your investment account to be invested in seven mega cap tech stocks (at 48 times earnings), which would have been required to meet the cap weighted S&P 500 performance for the year.

LIVE OAK PRIVATE WEALTH CLASSIC VALUE STRATEGY
COMMENTARY & THOUGHTS

> *"I didn't get rich by buying stocks at a high price-earnings multiple in the midst of crazy speculative booms, and that is not going to change."*
>
> **-** *Charlie Munger*

While trying to recap 2023 we think our mid-year commentary continues to accurately explain 2023 and what transpired for value investors in 2023: "*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 3 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 OpenAI, 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."

WHY VALUE?

We are sure a number of clients wonder why we steadfastly remain value investors given that growth has outperformed value over the past ten years. Over the years, growth and value styles have taken turns dominating the market. Coinciding with the bursting of the internet bubble from 1/1/2000 through 12/31/2009, the Russell 1000 Value Index trounced the Russell 1000 Growth Index by approximately 6.5% (annualized) a year. The following decade (1/1/2010 through 12/31/2019) the Russell 1000 Growth Index outperformed the Rusell 1000 Value Index by 3.42% (annualized) a year. For the 24 years ending 12/31/2023, the Russell 1000 Value Index has returned 7.08% annualized versus 6.85% for its growth counterpart.

As Charlie Munger stated, *"Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things."* With that quote in mind, look at the chart below comparing the growth and value indexes for the last two years. It is easy for investors to have a recency bias regarding the financial markets, and we would doubt many would believe that the value benchmarks would have outperformed growth for the past two years. As we have discussed ad nauseum, the key to long term compounding is avoiding large losses, which are very difficult to recover from. This principle alone explains why value has held its own over the past two years. We reminded investors in our mid-year letter that a 30% decline requires a 43% gain to get back to even, which is essentially what we saw happen with the Russell 1000 Growth Index over the past two years. Value investing typically lags the market in strong bull moves but performs better in bear market phases. Essentially, you don't have to make up much in the up markets if you don't lose as much in the down markets.

Index	2022	2023	Cumulative
Russell 1000 Growth	-29.14%	42.68%	1.1%
Russell 1000 Value	-7.54%	11.46%	3.05%

We take our role as a portfolio manager very seriously. Our job not only requires us to navigate the financial markets, but it also requires us to attempt to keep our clients "in the game" during market declines. Acting on emotion or trying to time the market's direction can compromise a portfolio's long-term return potential. Just look at the 2022 example above. Assuming a client had a $1,000,000 investment in the Russell 1000 Growth Index, how would they feel (and react) when they got their 2022 year-end brokerage statement showing a value of $708,600? All clients have different risk tolerance levels, but most begin to worry when they experience declines approaching 10%. The lower drawdowns that are typically associated with the value-style of investing enables us to keep our clients invested and "in the game". As Morgan Housel states in his excellent book, *The Psychology of Money*, *"But good investing isn't necessarily about earning the highest returns, because the highest returns tend to be one-off hits that can't be repeated. It's about earning pretty good returns that you can stick with, and which can be repeated for the longest period of time. That's when compounding runs wild."*

"The future is never clear, and you pay a very high price for a cheery consensus."

- Warren Buffett

After a year where growth stocks and the Magnificent Seven dominated the markets, let's take a look at valuations. On a price to earnings basis, the Russell 1000 Growth Index is trading at 32.75 times earnings, more than double that of the value counterpart, which trades at 15.5 times (see chart below). While we agree that it makes sense for investors to pay a premium for growth, in our opinion, the pendulum has moved too much in that direction. According to J. P. Morgan Asset Management, growth stocks (on a price/earnings basis) currently trade at 140.3% of the 20-year average, while value stocks trade at 108.9% of their twenty-year average. Growth investors would also argue that price/book is no longer as meaningful because much of the value in a business may be an intangible asset, which is not accurately reflected on the balance sheet. We would concur

with that view, however, in some instances book value is a metric worth looking at. More importantly, dividend yields on the Russell 1000 Value Index are more than three times that of growth issues. According to Fidelity Investments, since 1930 dividends have accounted for 40% of total stocks market returns and 54% of returns during periods of high inflation.

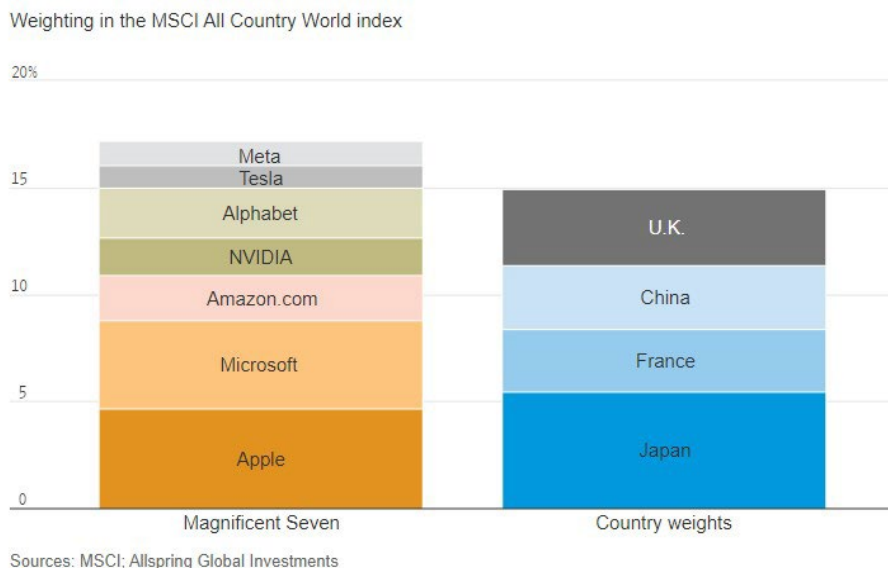
Portfolio Characteristics	Russell 1000 Growth	Russell 1000 Value
Price/Earnings	32.75	15.5
Price/Book	11.73	2.31
Dividend Yield	0.76%	2.37%

As conservative value managers, one of our goals is to maintain a diversified portfolio for our clients. Diversification is a two-edged sword; lack of diversification can both help or hinder performance. We would point out today that the growth index (Russell 1000 Growth) and the S&P 500 are becoming non-diversified. The heavy weighting to mega-cap technology drove performance of both indexes, while the average stock languished and was actually down until late in the year. The chart below shows how concentrated the S&P and Russell 1000 Growth Index have become.

Weights of Top 10 Holdings

S&P 500	Russell 1000 Growth	Russell 1000 Value
31%	51%	17%

When examining the top ten holdings in the S&P 500 index, eight are currently technology stocks. The top 7 stocks in the index are all mega-cap tech names that the financial media refers to as the "Magnificent Seven": Apple, Microsoft, Amazon, NVDIA, Alphabet, Tesla, and Meta Platforms. All seven companies possess fortress balance sheets and have tailwinds from AI (artificial intelligence) and cloud computing. As of November 16, 2023, the market capitalization of those seven mega-caps approximated $11.5 trillion, or approximately 30% of the S&P 500 index. On a price/earnings basis, the Magnificent Seven are very expensive at an average multiple of approximately 48 times earnings. On December 17, 2023, the Wall Street Journal stated, "The influence of the big tech stocks is massive on a global scale too. Within the MSCI All Country World Index—a benchmark that claims to cover about 85% of the global investible equity market—the combined weighting of the Magnificent Seven is larger than that of all of the stocks from Japan, France, China, and the U.K."



In summary, value strategies such as ours took a back seat to growth in 2023. The past year was an extremely frustrating one for value investors; and Frank would tell you it was probably the most difficult environment to work in since the 1999-2000 period. Rob Arnott, the founder and chairman of Research Affiliates, was quoted in a recent Wall Street Journal article pointing

out the parallels between the current period and the tech bubble, when investors were correct in predicting that the internet would be transformative but had little clarity on which companies would ultimately win big from the technology. He goes on to point out that he expects value to outperform growth over the next decade much like it did after the internet bubble. As we have discussed above, U. S. stocks are currently expensive, on a historic basis, and in comparison to foreign markets. We believe the overvaluation is largely a function of the premium valuations on mega-cap technology companies which dominate the major indexes. As we discussed earlier, over the last 24 years, the Russell 1000 Value Index actually outperformed the Russell 1000 Growth Index, this despite the transformative advances in technology that have occurred. We think our value strategy, with a focus on risk before reward, will serve our clients well moving forward.

Second Half Portfolio Activity

Portfolio activity was quite a bit higher than normal in the second half of 2023. Sales included Verizon, International Flavors and Fragrances, Activision Blizzard, Bayer AG, and Volkswagen. In addition, we trimmed TJX where the position had become over-sized. Activision Blizzard was sold as the merger with Microsoft received approval and the shares approached the deal closing price. Sales in Verizon, International Flavors and Fragrances, Bayer, and Volkswagen were all the result of deteriorating fundamentals and lack of visibility with regards to a turnaround. Dollar General was an unusual situation, the shares were purchased on 8/24/2023 at 155.22, some 41% below the 2022 high. Our entry in the shares was pre-mature as fundamentals continued to deteriorate leading us to swap the position into Dollar Tree Stores, which we felt were much further along with regards to many of the headwinds facing the dollar store industry. Thus far the swap has been a net positive for the portfolios, not to mention the tax benefits for taxable accounts. Dollar Tree was previously a holding of the Live Oak Private Wealth Classic Value strategy and were sold within the last year at considerably higher prices than our most recent purchase. Oher activity included purchases of Agilent Technologies, RTX Corp, McCormick and Vishay Intertechnology. Agilent Technologies is a leading supplier of instruments and diagnostic equipment for the life sciences industry. Shares were purchased approximately 27% below their all-time highs and the company has a long history of growth and strong free cash flow generation. RTX, formerly, Raytheon (also a former holding) was an opportunistic purchase, as the shares had declined due to problems related to Pratt & Whitney's engine manufacturing process. The company appears well positioned to benefit from historic demand in commercial aerospace and defense. We also purchased shares of McCormick, which is a leading spice and flavorings company. McCormick shares were purchased approximately 40% below 2022 highs and has a consistent history of revenue and earnings per share growth. Vishay Intertechnology was purchased late in 2023. Vishay is the largest U. S. and European manufacturer of passive components and capacitors. Vishay's business is diverse with exposure to automotive, medical, industrial, and military/defense applications. Vishay's shares trade at a big discount to the market at ten times earnings.

Contributors & Detractors for LOPW VALUE 7/1/23 – 12/31/23

Positive	Negative
Dollar Tree (DLTR)* +35.60%	Bayer (BAYRY)* -33.90%
Boeing (BA) +23.40%	Dollar General (DG)* -31.40%
Qualcomm (QCOM) +21.50%	Volkswagen (VWAGY)* -21.90%
Activision Blizzard (ATVI) +21.50	Pfizer (PFE) -21.50%
Charles Schwab (SCHW) +21.40%	Zimmer Biomet (ZBH) -16.40%

**% Change since purchase or sale*

LIVE OAK PRIVATE WEALTH INTERNATIONAL STRATEGY
COMMENTARY & THOUGHTS

For as long as we can remember, investing globally with international stocks has faced a variety of challenges and headwinds. Performance relative to U.S. stocks in recent years has lagged due to a myriad of reasons, yet international stock valuations and fundamentals are attractive. We believe 2023 is the start of a long-term opportunity for patient investors.

The second half of the year introduced new economic uncertainty with the armed conflict between Israel and Hamas-lead Palestinian militant groups, that broke out October 7th. Aside from this new geopolitical and macroeconomic volatility, it appeared that international stocks were finally waking up from years of slumber. Very low, manipulated interest rates in the U.S., and the resulting strong dollar have contributed to underperformance in stocks outside of the U.S., throughout a majority of the quantitative easing period that we have been in for quite some time.

Considering the sheer dominance of the S&P 500, juiced by the Magnificent 7 mega-tech influence, the MSCI EAFE (index/proxy for international stocks) has experienced the largest cycle of underperformance versus the S&P 500 since 1970. You must go back to 2007 to find the last glimmer of notable outperformance for international stocks. A multitude of causes such as economic concerns in Europe over the last several years and the regulatory environment in China, have been headwinds. There have been energy crises, political upheaval in South America, and countless other geopolitical and macro-economic reasons for lack of enthusiasm in stocks outside the U.S.

Yet many great businesses have persevered and prospered throughout. We have a rigorous and intensive research process that focuses on companies with earnings growth and high returns on capital that are competitive leaders with distinct advantages run by good capital allocations. Aside from our misstep in China in 2022, several of our investees have had solid performance throughout this year as well as in the past during this out-of-favor period for international indices. Icon PLC continues to benefit from robust demand from the pharmaceutical and biotech industry for clinical trial work. There continues to be favorable new drug developments that need testing for efficacy. Taiwan Semiconductor has benefited for years selling chips to Apple and Samsung for smartphones. The demand for generative artificial intelligence has certainly juiced Nvidia, whose manufacturing is done by TSM. The outlook going forward for the company is bright, in our opinion, now that destocking seems to finally be over from the bloated inventories built up at the tail end of the pandemic boom. Ferguson, the plumbing distributor, has managed the housing and remodel business for plumbing fixtures and components quite well. The company’s capital allocation, especially through stock buybacks, has helped boost the stock. We currently have three or so businesses in the strategy that are not performing up to our standards and are “on watch” and considered a potential source of funds for better ideas. They are, Unilever, Entain PLC, and Euronet Worldwide.

Second Half Portfolio Activity

Portfolio activity was light, as we continued to appraise our portfolio positions and listen intently to what managements were saying about the businesses. We participated in a three-day intensive research dive into European stocks through MOI Global’s European Investing Summit in October.

In September, we sold our German chemical company, Lanxess. Lanxess has been a disappointment and has been challenged by commodity price inputs and supply chain woes partly triggered by the pandemic. The company's recent challenge has been the need to replace some of its primary feedstock for its specialty chemical manufacturing, which is natural gas. When the Russian - Ukraine war broke out, the flow of Russian natural gas into southern Europe was greatly diminished. Lanxess has attempted to replace this critical component with imported liquified natural gas (LNG), which is quite expensive. These higher costs and declining operating leverage, due to slowing revenues, has continued to depress earnings.

We also sold our small position in Japanese tire manufacturer Bridgestone. In retrospect, the pandemic and resulting supply chain issues had significant effects on most all manufacturing businesses. Additionally, inflation played a role in margin compression. We also gained more of an appreciation regarding the ubiquity of the various tire brands, as well as potential risk related to the auto business, as EV's become more mainstream. At the end of the day, the economics became less appealing, and we were not going to meaningfully add to our small position.

The proceeds from the sale of Lanxess and Bridgestone funded a new position in Pernod Ricard. Pernod is one of the world's leading premium spirits companies, serving up some of the world's favorite drink brands in more than 160 countries. Pernod Ricard are "creators of conviviality", with notable spirits such as Jameson Irish whiskey, Malibu rum, Absolut vodka, Chivas Regal scotch, and Beefeater gin. From their roots in Marseille, France, they have created 240 brands, of which 17 are in the global top 100. The company maintains the number two position in premium spirits. Pernod had solid performance this year, including 10% organic sales growth totaling over $12B in earnings. We like the spirits business due to its ability to capture strong pricing action coupled with seemingly never-ending volume growth. Considering the emerging economies of India and others, our estimates of growth in sales are mid to upper single digits with slightly increasing operating margins. Pernod should benefit from some of the declining inflation lately and the Ricard family have been good stewards and allocators of the business's capital over the years. We have admired and followed Pernod for years due to their premium portfolio, unrivaled distribution, and management owners with lots of skin in the game.

Not to "overserve you", we initiated a position in Diageo as well. In November, Diageo issued a trading update, which disappointed Wall Street and its typical short-term oriented participants. The stock, which had already been trending down from pandemic highs, sold off hard November 10th, and we bought our initial position. Diageo was down over 11% in 3 days in November, which provided this opportunity to buy. Bill owned Diageo previously in his career and knows the business well. Frank has owned Diageo as well in the classic value strategy.

Diageo, like Pernod Ricard, commands a dominant position in the spirits industry, boasting a stellar lineup as well as some of the finest and most iconic brands such as Don Julio and Casamigos Tequila, Johnny Walker Scotch, Kettle One and Smirnoff Vodka, and Guinness Beer. Over many years the company has strategically pursued mergers and acquisitions, initially tracing its roots back to 1997 when Grand Met and Guinness merged to form the Diageo we know and respect today. Diageo's recent profit warning, on weaker sales in Latin America and the Caribbean, will result in lower growth of earnings. Many businesses especially spirits businesses, are normalizing (slowing) post pandemic. The profit warning has sent Diageo shares down to the lowest level since the 2020 pandemic, and now flat for five years. We think the price of the business today makes sense.

The slow recovery in China from the pandemic and other economic realities have affected volume growth for all spirits makers. We believe long term the growth prospects will be fine, and different brand categories and geographies will be impacted differently. We feel confident, especially at these entry levels, in the strength of Diageo and Pernod's brands and long-term structural earnings growth, driven by industry growth in demand for premium spirits. 600 million consumers are expected to reach the required drinking age by 2032, and with the middle class and above income brackets continuing to grow, chances are the markets for Diageo and Pernod's brands will expand and continue to grow as well.

Contributors & Detractors for LOPW International
7/1/23 – 12/31/23

Positive	Negative
Ferguson PLC +32.61%	Entain PLC -23.64%
Icon PLC +31.14%	Dakin -18.90%
Holcim LTD +26.26%	Euronet Worldwide -9.97%
DNB ASA +25.76%	Roche Holding -9.36%
Spotify +22.08%	*Lanxess AG -7.44%

**% change since purchase or sale*

In taxable accounts, we did sell some shares in Entain and Euronet Worldwide in certain instances for tax reasons. As we go into 2024, these two portfolio positions, as well as Unilever, are on our watch list and probably will be sold and repositioned into better performing businesses.

FINAL THOUGHTS

In the preface to the 7th edition of *Security Analysis*, written by Ben Graham and David Dodd, Seth Klarman writes:

> *"The world of investments is one of unlimited choices, significant opportunity, and great rewards, as well as shifting landscapes, untold nuances, and serious perils. Against that backdrop, Investors must weigh multiple and sometimes competing objectives: generating income, growing principle over time, protecting against loss and the ravages of inflation, and maintaining a degree of liquidity to provide future flexibility and meet unexpected needs. Finding the right balance is essential."*

We still regard *Security Analysis* as the bible of investing and the fundamental text for the analysis of equities and fixed income. As the year comes to a close, we both think deeply about the quote above as reflection for 2023. Shifting landscapes, competing objectives, great rewards, untold nuances, and especially finding the right balance were certainly front and foremost this year. When we reflect on the year, it is hard to believe that looking back a year ago one would have forecasted 2023 to produce economic output of 2.5%, that employment would have stayed below 4%, the inflation rate would drop to between 3 and 4%, and the markets would have had such strong performance. Yet another reminder of the futility of forecasting the macroeconomic activity.

Uncertainty could not have been more front and center as we began the year, especially with near-term interest rates. Monetary policy dominated the stock market this year. Perception in the public markets was one of loose monetary policy for years, leading to runaway inflation, higher for longer rates, and a possible recession. As we end the year, this perception has shifted and is now being met with talk of a much touted "soft landing". Not fighting the Fed is a well-known investing rallying cry. This catch phrase refers to buying stocks and risk assets when the Fed is lowering interest rates and selling when the Fed is raising them. Obviously, the inflation data has been the key driver of the Fed raising rates over the last 18 months. Now, as we close out the year, both government data and statistics are showing inflation trending downwards. This, coupled with perception of the Fed "pivoting" to easier (lower rates) monetary policy, has led to this very robust rally for stocks in the last two months.

Interest rate assumptions will hold one of the keys to stock and bond prices going forward. The level and direction of interest rates can directly affect the multiple of future cash flows that derive security prices. One of the reasons growth stocks have been so in vogue recently is the persistence of abnormally low rates for most of the last 20 years. Looking at history and going back to the mid-1970s, U.S. ten-year treasury rates have averaged about 6%. In 2000, a 30-year mortgage would have cost about 8%. Today's rates appear high relative to the last 13 years, but these have been abnormal years, in our opinion, considering the full context of longer history.

We end the year on a celebratory note regarding the life of Charlie Munger, who was one of the most rational guiding lights to us in our careers. We have learned so much from Charlie and Warren, especially that each day is small part of a larger journey. A journey to think clearly, learn and improve, behave rationally, and earn trust. Christopher C. Davis, renowned investor, put it deceptively simple in a foreword to a book about Charlie: "The surest way to get what you want is to deserve what you want; deliver to the world what you would buy if you were on the other end; seek out the big ideas in all disciplines (not just investing) and apply them to your decision making."

We will leave you with a few of our favorite quotes from Charlie Munger that resonate with us:

> *"Go to bed smarter than when you woke up."*
>
> *"It takes character to sit with all that cash and to do nothing. I didn't get to where I am by going after mediocre opportunities."*
>
> *"The best thing a human being can do, is to help another human being know more."*
>
> *"The big money is not in the buying and the selling, but in the waiting."*

It is hard to believe it has been just over five years since our founding of Live Oak Private Wealth. We could not have done it without you. Live Oak Private Wealth ends 2023 in very good shape. The business continues to grow, and the team continues to grow. We welcome both Adam Easley and Amanda Miars to the team. Adam joins us as a recent graduate of UNCW and is a client service associate. Amanda Miars, J.D. joins us from a highly regarded local law firm as a wealth advisor. We are blessed to be able to continue to grow our service capabilities and our value proposition with these fine folks.

As you enter 2024 and begin to think about good financial behavior, goals, taxes, etc.… it is a good time to schedule a meeting with your wealth advisor and our other specialized team members. We are proud to be a part of this very talented team of financial professionals, with hundreds of years of experience and a myriad of perspectives. These fine folks truly leverage our more analytical and investment-oriented focus. Our firm would not have had the success it had in 2023 if it was not for the entire Live Oak Private Wealth team.

While we sign this letter as a "couple of old stock guys", we are a formable team of twelve. We are very grateful for your willingness to compensate us for something that we love to do and is so important to us all. We value our partnership in this journey with you and we all look forward to our continued shared success together.

With warmest regards,

Frank G. Jolley, CFA
Co-Chief Investment Officer

J. William Coleman, III
Co-Chief Investment Officer

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