LIVE OAK
PRIVATE WEALTH

Mid-Year Letter June 30, 2024

"Reaping dependably high returns from risky investments is an oxymoron. But there are times when this caveat is ignored—when people get too comfortable with risk and thus when prices of securities incorporate a premium for bearing risk that is inadequate to compensate for the risk that's present."

-Howard Marks

Market Statistics as of 06/30/24

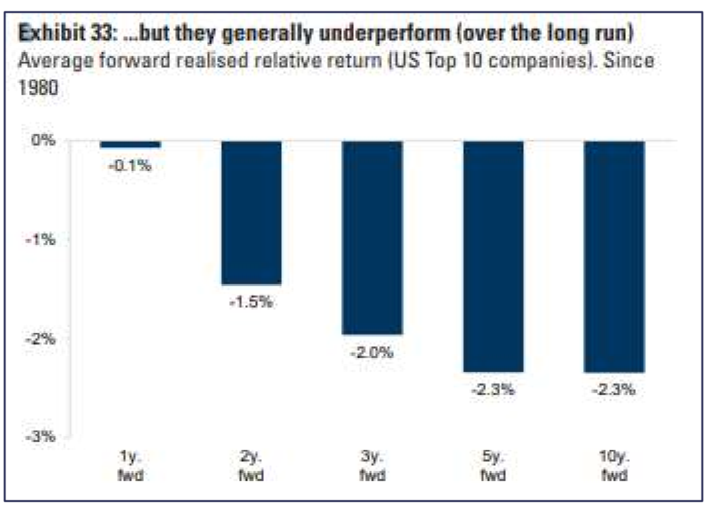
Index	2024 2nd Quarter	2024 YTD 6 Months
DJIA	-1.27%	4.79%
S&P 500	4.28%	15.29%
S&P 500 (equal weight)	-2.63%	5.08%
S&P Mid Cap	-3.45%	6.17%
Russell 1000/Growth	8.33%	20.70%
Russell 1000/Value	-2.17%	6.62%
Russell 2000	-3.28%	1.73%
NASDAQ Comp.	8.47%	18.57%
Long Term Treasury Bonds	-1.55%	-4.44%
Inv Grade Corp Bonds	0.12%	0.04%
Gold	5.26%	12.15%
3 Month T-Bill	1.32%	2.63%

The second quarter of 2024 saw mixed results for the equity markets as strength continued in mega-cap technology companies, while the rest of the market languished. Massive spending on artificial intelligence has sent the Magnificent Seven (Microsoft, Apple, NVDIA, Alphabet, Amazon, Meta, and Tesla) soaring, and they now make up a whopping 32.8% of the S&P 500 index. Despite the lofty valuations in the Magnificent Seven, investors and algorithmic programs are piling in at the expense of the remaining 493 companies where economic growth appears to be slowing. This has resulted in the third narrowest six-month period ever, with only 24% of stocks in the index outperforming the S&P 500 index. For the quarter and 6-month period, the S&P 500 index has outperformed the S&P 500 equal weight index by 6.9% and 10.2% respectively. For the first half of the year, technology (+28%) was the leading economic sector, followed by communication services (+26%). The other nine economic sectors all underperformed the S&P 500 (in the first half of 2024) with real estate actually falling (-4%). Financials (+9.2%) and energy (+9.1%) were the third and fourth best sectors for the period ending 6/30/24. For the first half, growth strategies continued to easily outpace value strategies, and large cap continued to outperform the mid and small cap indexes. Gold prices advanced by (+12.2%) in the first half, while long-term treasury bonds fell (-4.4%) for the same time period.

As we have discussed in previous communications, the S&P 500 index has become a very narrow index in recent years with a top-heavy weighting in technology. Currently, the top 3 companies comprise over 20.8% of the S&P

500, the Magnificent 7 make up approximately 32.8% of the index, and the top 10 companies comprise 37.8%. Piper Sandler's chief investment officer, Michael Kantrowitz, recently wrote, "Talking about the S&P 500 to communicate investment insights to institutional investors has become an exercise in futility". Kantrowitz stated that the 10 biggest stocks in the index account for almost 40% of the index's market cap, and both the index returns and earnings growth are being driven by just a handful of companies. The Piper report points out that rather than reflecting a broad swath of corporate world fortunes, the benchmark index has become captive to the AI trade. Chris Bloomstran, the chief investment officer of Semper Augustus, recently stated that Microsoft, Apple and Nvidia were valued at $9.9 trillion (6/19/24), representing 21.5% of the S&P 500. Bloomstran stated, "The three are today larger than the entire S&P in September 2011, not a market low. Including Google, Amazon, Meta and Tesla, the Magnificent 7 have a $16 trillion combined market value, 34% of the S&P 500 and larger than the entire S&P as recently as February 2016, just over 8 years ago, and most definitely nowhere near a market bottom." Bloomstran points out the extreme multiples to sales and earnings and questions whether margins can be sustained going forward. Bloomstran added, "These are crazy valuations for very large companies that can grow sales and earnings nowhere near as rapidly as they did over the past one and two decades." Bloomstran went on to point out that over the past twenty years there were times when Microsoft and Apple traded at less than ten times earnings. Bloomstran further opined, "At 23 times 2024 expected earnings, the market-cap weighted S&P 500 index is froth with excess and, in my judgement, uninvestable. Under the hood, the majority of stocks are not overvalued. The bifurcation between the dear and the cheap reminds me of March 2000."

In a recent research piece by Goldman Sachs, entitled "The Concentration Conundrum", Peter Oppenheimer discusses the risk of high stock concentration and "a market that becomes dominated by a few stocks becomes increasingly vulnerable to either disruption or anti-trust regulation". The report points out that just over 10% of the Fortune 500 companies in 1955 have remained on the list during the 62 years through this year. The Goldman reports point out "Of the current top 50 companies in the index in the U. S. only half of them were in the top 50 a decade ago, and many companies did not even exist before the 1990's (NVDIA, Amazon, Netflix, PayPal, Alphabet, Salesforce, Tesla and Facebook). While one might expect that buying the dominant top ten companies since 1980 and holding over different time horizons (from one year out to ten years), would provide outsized returns going forward, but in fact, the Goldman report concluded that buying the top 10 companies and holding proved to result in lower relative returns compared to the S&P 500 index (see chart below).



Source: Datastream, Goldman Sachs Investment Research

The bifurcated markets are certainly frustrating today for active investors (such as Live Oak Private Wealth) who pay attention to valuation metrics in our investment decision making process. We must recognize how dominant "passive" investing strategies have become and the fact that they are driven by "flow of funds" and not traditional investment fundamentals. The most recent quarterly letter from Ben Inker of GMO focused on passive investing and its impact on the markets. The GMO Executive Summary concluded with the following statement: "If passive investing helped push up the prices for mega-caps or push down the prices of other stocks in a way that was not justified by their underlying fundamentals, future returns will be better for the undervalued stocks and worse for the overvalued ones."

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It is important to remember that we write this in-depth commentary twice per year, with this mid-year letter being one and the next one in January 2025. In the off quarters, these commentaries are written by other teammates which include educational content from our financial, trust and estate planning team, as well as others from the investment team.

In the commentary from our first quarter, reference was made to "sleeves", and portfolio activity within them. "Sleeves" was a new descriptive term that has not been used in past commentaries. To clarify, sleeves are specific equity strategies. Many readers will recall we manage three distinct public equity strategies: (1) Focused Opportunity, which mandates growth at a reasonable price, (2) Classic Value, which is classic low-valuation style with an income component and (3) International, which is a core ADR mandate focused 100% outside the U.S.

We believe you should not box yourself into one approach or strategy. Markets for public equities do change and evolve over time; cycles have not been repealed, and our number one goal for clients is to <u>grow your capital</u>. We are not pigeonholed into one strategy, and we believe low-valuation-based value investing strategies are just as important as more growth-oriented strategies are. As a matter of fact, we feel strongly that today's markets are overlooking the attractiveness of disciplined, value-oriented strategies, as well as the rest of the world.

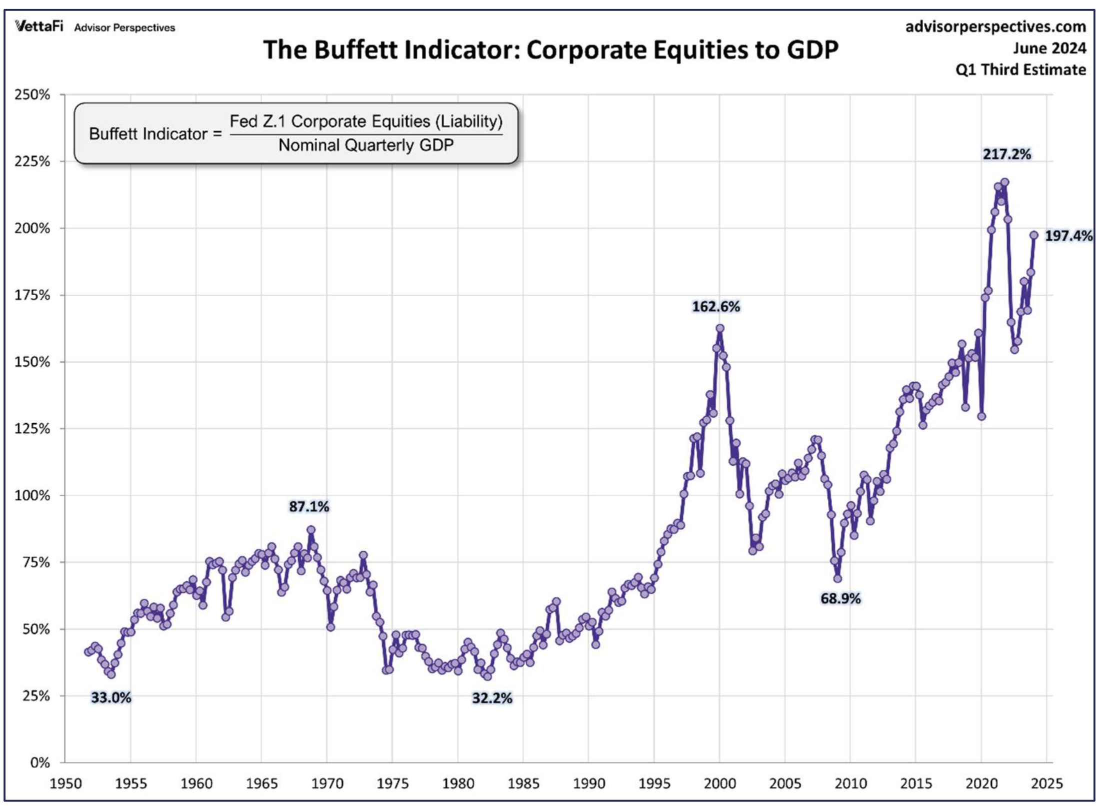
In the following pages, we will elaborate on investments in each of these strategies, including our thoughts on activities so far this year. We feel it is paramount that you understand why you own what you do.

LIVE OAK PRIVATE WEALTH CLASSIC VALUE STRATEGY
COMMENTARY & THOUGHTS

"Our goal isn't to find good assets, but good buys. Thus, it's not what you buy; it's what you pay for it. A high-quality asset can constitute a good or bad buy, and a low-quality asset can constitute a good or bad buy. The tendency to mistake objective merit for investment opportunity, and the failure to distinguish between good assets and good buys, get most investors into trouble.

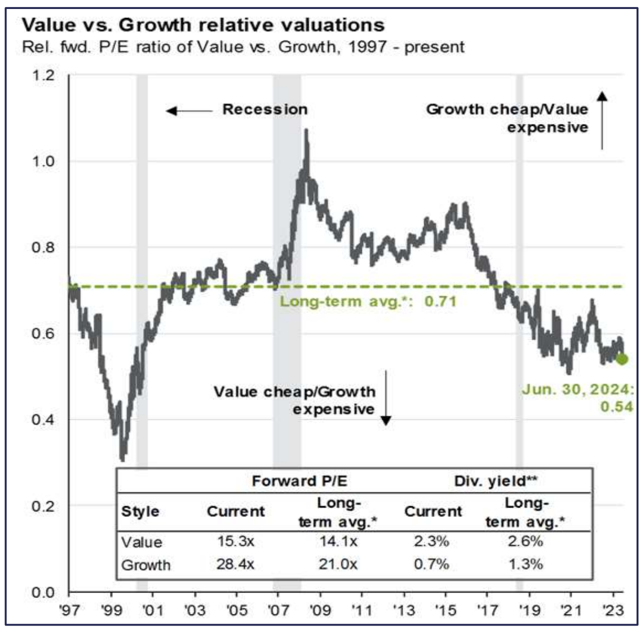
-Howard Marks

The Buffett Indicator (see chart below) is a simple measure that compares the U. S. stock market to the size of the economy, which is calculated by dividing the total market capitalization by gross domestic product. In 2001, Buffet told Fortune Magazine that this was "probably the best single measure of where valuations stand at any given moment". As the chart below shows, the indicator is now flashing a warning, and is approaching levels seen in early 2022. The indicator does not account for the fact that the Magnificent Seven has been responsible for almost all of the gains, while the remaining 493 (S&P 500 components) companies have lagged the market dramatically. With our "value" based mind-set, we look at the Buffett indicator as flashing a warning for the Magnificent Seven and areas that have levitated due to excitement over artificial intelligence, while the broader market seems to be reasonably valued compared to the past.



Source: Advisor Perspectives Buffet Valuation Indicator, 7/2/2024

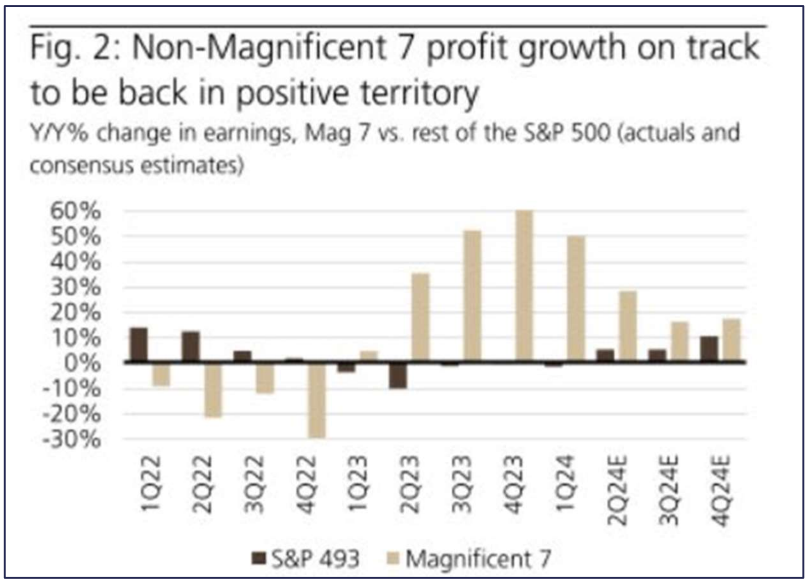
As the chart below shows, valuations of the Russell 1000 Value Index are reasonable at 15.3 times forward earnings, while the Russell 1000 Growth Index is trading at 28.4 times forward earnings. Nvidia, which is probably the biggest beneficiary of artificial intelligence spending, is currently trading at 76 times trailing earnings and 41 times sales. We have traveled down this road before in 2000, when tech stocks soared as investors embraced the "world wide web" and the implications the internet would have on economic growth. Investors were correct with just how big the internet would be, however, paying too high a price was costly for many. From the peak in 2000 to the bottom in 2002, the S&P 500 declined by approximately 50% and the NASDAQ Composite fell 77%. The Russell 1000 Value Index fell 14.7% (cumulative) during the three-year period ending 1/31/2002, with most of the losses coming during the terrorist attack on the World Trade Center on 9/11/01. It took the NASDAQ fifteen years to recover from losses associated with the internet bubble. I would surmise that many of the portfolio managers who are having the most success in the current environment were not around during the 2000-2002 time period.



Source: JP Morgan Guide to the Markets, 6/30/2024

The value strategy that is now known as "Live Oak Private Wealth Classic Value" strategy dates back to 1998, when Jolley Asset Management, LLC was formed. Prior to that, I managed money using the very same "value" strategy at Centura Bank's Trust Division (1990-1998). In fact, Jolley Asset Management was formed so that the "value" strategy could be preserved, as a management change at Centura was pushing for a "closet-index" approach to money management. So, we have essentially been using the same process to manage money using a "value" approach going back 34 years now. We have stuck with our discipline through thick and thin as the markets have cycled back and forth between growth and value (cycles happen). We believe that diversification via companies, sectors, and asset classes are important. We also take our fiduciary duty seriously and our actions will always be to put the "client first". For example, if a new account came to us today and we allocated 33% to seven companies (Magnificent Seven), all of which trade at an average price earnings ratio of 40 times earnings—we would consider that to be a potential breach in our "fiduciary duty". However, that is exactly what happens when one invests in the S&P 500 index today. An investment in the Russell 1000 Growth Index would allocate approximately 47% to the Magnificent Seven. Are investors no longer diversified? Clearly the S&P 500 index is no longer a valid benchmark for the broad market. As we have stated in some of our recent correspondence, the S&P 500 index has morphed into a "large capitalization growth" index, we believe the S&P 500 equal weight index is a more useful benchmark for most clients.

As we have discussed earlier, the valuations of the Russell 1000 Value index appear reasonable, and the S&P 500 equal-weight index currently trades at approximately 17 times earnings. S&P 500 earnings are expected to be up 9.1% for the quarter just ended on a 4.4% rise in revenues. Excluding Nvidia, earnings are expected to rise 7.2% and excluding all of the Magnificent Seven, growth would be 5.2%. According to Bank of America, this would be the first quarter since the fourth quarter of 2022 that "The Other 493" (S&P 500 less Magnificent Seven) has shown higher earnings. We believe this may serve as a catalyst which could result in the average stock outperforming the market cap weighted index going forward.



Source: FactSet, UBS, 7/11/2024

Notable Stock Price% Change Year to Date as of June 30, 2024

Contributors	Detractors
Qualcomm (QCOM) +37.7%	Warner Bros Discovery (WBD) -34.6%
Oracle (ORCL) +33.9%	Boeing (BA) -30.2%
Alphabet (GOOGL) +30.4%	Dollar Tree Stores (DLTR) -24.7%
RTX Corp (RTX) +19.3%	Invesco Ltd (IVZ) -16.1%
JP Morgan Chase (JPM) 18.9%	Diageo (DEO) -13.4%

Portfolio activity for the first half was comprised of new positions in three companies: Newmont, Mosaic, and Jabil, Inc. These initial positions are not full positions, and we would anticipate adding to these positions depending upon market conditions.

Newmont

Newmont (NEM) is the world's largest gold mining company and recently completed its acquisition of Australia's Newcrest Mining in 2023. The shares were added to the portfolio on 1/17/24 at a price of $34.87. At the purchase price, NEM shares dividend yield was 2.9% and significantly below its all-time high of over $86 per share in 2022. We expect Newmont to benefit from higher gold prices and the monetization of non-core assets, which should take place by early 2025. Newmont is expected to earn $3.87 per share in 2024, so the shares were purchased at around nine times earnings.

Mosaic Company

Mosaic Company (MOS) was added to the portfolio on 2/2/24 at a price of $30.69. Mosaic is one of the world's leading producers and marketers of concentrated phosphate and potash crop nutrients for the global agriculture industry. You may recall that we sold shares of Mosaic in March of 2022 at a price of $61.63 per share, so the recent purchase price was at a 50% discount from our sale price. Mosaic shares trade at approximately 10 times expected earnings and yield 2.7% based on our recent purchase price. Mosaic's balance sheet is strong which gives the company the flexibility to navigate in the highly cyclical fertilizer industry.

Jabil Inc.

Jabil Inc. (JBL) shares were added to the portfolio on 5/15/24 at $116.45. Jabil is an electronic manufacturing services provider to two main segments: the traditional electronics manufacturing services (EMS) and diversified manufacturing services (DMS), which includes healthcare and packaging. Jabil has increased its focus to higher growth markets including EV, auto, healthcare, cloud, renewable energy and datacenters. JBL shares trade at approximately 12.6 times 2025 estimated earnings. JBL has reduced outstanding shares from 221 million shares in 2011, to 121.7 million shares today. The company plans a repurchase of $2.5 billion in 2024, largely funded by the sale of its Mobility business.

In the first half of 2024, we trimmed our position in TJX, and exited our Target position.

TJX Companies

TJX Companies (TJX) was trimmed on 2/16/24 at a price of $97.93. TJX is currently performing extremely well and is a beneficiary of the trade down of many consumers who have been impacted by higher inflation. While we continue to like TJX, the shares were trimmed due to valuation. The shares currently trade at 29 times trailing earnings. Keep in mind TJX shares were purchased 3/18/20 during the pandemic when stores were closed at a price of $38.99.

Target

Target (TGT) was removed from the portfolio on 3/6/24 at a price of $168.51. The shares were sold as earnings posted a large jump driving the share price higher, however revenue growth continues to disappoint. TGT was purchased 11/16/22 at $154.60 per share.

LIVE OAK PRIVATE WEALTH FOCUSED OPPORTUNITY STRATEGY
COMMENTARY & THOUGHTS

"Money is not made in the buying and selling, it is made in the waiting."

- Charlie Munger

Our goal in writing these commentaries is to share with you our thesis behind the businesses we are invested in. It is not to predict or pontificate about markets, inflation, and interest rates, as we have no predictive ability to do so.

The Live Oak Private Wealth Focused Opportunity Strategy delivered decent absolute results for the first half of the year, driven in part by the strong performance of our large-cap technology companies (Microsoft, Alphabet [Google] and Apple). Continued gains from HCA, Bank of America, and Berkshire Hathaway helped as well. Sore spots continue with Disney, Abbott Labs, and now Dollar Tree. In February, we elected to sell our long-held position in Charter Communications. Charter, with its Spectrum branded cable T.V. bundle and broadband internet, has found itself squarely in the middle of one of the most disruptive periods regarding the way we consume video content. With people streaming from every corner of the earth, not to mention the popularity of YouTube videos and other short-form content, new ways of consuming media have upended the cable bundle with one remote. In retrospect, we should not have waited for as long as we did to recognize the potential disruption to the stock price. Our sale proceeds funded two new starter positions: Floor and Decor and Thermo Fisher Scientific. At the end of May, we initiated a new position in Lululemon from cash reserves.

Notable Stock Price % Change Year to Date as of June 30, 2024

Contributors	Detractors
Alphabet (Google) (GOOG) +30.15%	Dollar Tree Stores (DLTR) -24.84%
Microsoft (MSFT) +18.86%	*Charter Communications (CHTR) -21.99%
HCA Healthcare (HCA) +18.69%	Abbott Labs (ABT) -5.60%
Bank of America (BAC) +18.12%	Brookfield Asset Management (BAM) -5.28%
Analog Devices (ADI) +14.96%	CarMax (KMX) -4.43%

**% Change YTD prior to purchase or sale*

Floor And Decor

Floor and Decor is a specialty retailer primarily selling hard-surface flooring products. The company started in 2000 when George Vincent could not find the specific flooring he and his wife wanted and realized Home Depot and Lowes lacked a breadth of offering. Floor and Decor was a huge beneficiary of the pandemic boom in housing remodels, and now with over 210 stores in 36 states, business has slowed somewhat. We think this slowdown has created a good entry point in this growing retailer. If you were business nerds like us and walked around in FND stores during travels, you would see the constant message "we won't be beat on price." The company is able to achieve superior pricing by sourcing directly from manufacturers, bypassing typical flooring and tile agents, distributors and other middlemen. The warehouse store layouts are about 75,000 square feet and therefore hold much more variety than competitors, especially the local mom and pops. Hard-surface flooring has grown about 5-6% over the last 7-8 years based on research from Floor Covering News. Flooring is somewhat Amazon-proof and hard to Google. "Brands" of tile and engineered hard woods are not as recognizable, so a warehouse style format, with great selection and low prices, is attractive to us. Based on company estimates, the total addressable market for home repair and remodel exceeds $30 billion and is why Floor and Decor hopes to operate 500 stores by 2030. At the company's investor day in 2022, management hoped FND could grow to $17 billion dollars in sales by 2030, with an also hoped for 15% operating margin. If this pans out, and the company can achieve $2 billion+ in operating profit, we should hopefully have a solid, long-term investment.

Thermo Fisher Scientific

Thermo Fisher is one of the world's leading life-sciences companies with annual revenues of approximately $40 billion. Consisting of industry leading brands Thermo Scientific, Applied Biosystems, Fisher Scientific, PPD, Unity Lab Services, and Pantheon, Thermo's team of 90 thousand delivers an unrivaled collaboration of innovative, profitable technologies.

We learned a lot about Thermo and were impressed when we were researching Danaher in 2022. Thermo manufactures and sells instruments and consumables that researchers at universities, hospitals, and pharma/biotech companies use to develop and manufacture drug therapies. Above our pay grade, but molecular biology and information found in genes have important impacts on how our cells interact with certain drugs. Precise instruments, such as cytometers, are needed along with consumables like filters, tubes, reagents and antibody kits to allow for this much needed cell and gene therapy business. Thermo sells these instruments and consumables that pharmaceutical companies use daily to manufacture the drugs they produce. The company supplies products across all phases of the bioproduction process and an ever-growing part of the company is their CDMO business. CDMOs make drugs for other life sciences companies that lack the needed manufacturing infrastructure to do so. It is estimated that three quarters of biotech drugs in active development are from small, capital-constrained companies that contract for a fee with Thermo.

Thermo Fisher acquired PPD (Pharmaceutical Product Development) in late 2018, which has its origin in Wilmington and runs clinical trials as a CRO (contract research organization). PPD is one of the top five CROs in the world, and large pharmaceutical companies like Pfizer, Merck, Lilly, etc. rely on them for phased trials of new drugs.

We were attracted to the business as we learned more about the life sciences industry through our Danaher Investment. We have also come to appreciate the fact that we were early in our initial purchase of Danaher in 2022, as both Thermo Fisher and Danaher were coming off of an incredible business cycle high from the COVID-19 pandemic. Thermo has a long, credible history of earning high margins and returns on invested capital. We like to invest in secular themes that appear durable with tailwinds present. We think we are still in the early innings of growth in cell and gene therapy, gene editing, and especially CRISPR technology which is very promising. The entire human genome is extraordinary, and we feel that artificial intelligence could play an exciting role in Thermo's ability to assist the biotech industry in influencing the human genome.

Our key thesis for Thermo Fisher is the fact that they own superior life sciences assets which makes the barrier to entry for competitors quite high. Thermo has proven to have a profitable M&A strategy and has profitably grown through many acquisitions. We estimate the company can continue to grow 6-7% organically and possibly increase operating margins through productivity enhancements made available by A.I.

These metrics above, while not assured, could imply a high teen ROIC (return on invested capital) over the long term. Like most high-quality businesses, at a glance, Thermo is not undervalued. We feel comfortable based on our entry point ($553.56) that we can earn solid, long-term total returns from the stock while simultaneously enhancing our entire portfolio with another high-quality business with a secular growth theme.

Lululemon

Lululemon Athletica is a designer, distributor, and retailer of technical athletic apparel, footwear, and accessories, based in Vancouver, Canada. Eighty percent of their revenue is generated in the U.S., with the majority via women's yoga, running, and training/fitness inspired pants, shorts, tops, and accessories. The company sells its products primarily through company operated stores as well as direct-to-consumer (e-commerce) with sales of $9.6 billion. The core of Lululemon's competitive advantage is based on its strong brand awareness and the fact that they hold a leading position in high-quality yoga and active clothing. This strong brand position has given the company pricing power and has allowed it to have one of the highest margins in the industry with very envious returns on invested capital. Gross margins and ROIC over the past 4 years have averaged over 50% and 37% respectively. The global activewear market, while competitive, is expected to grow 5-6% through the end of this decade, according to research sources. Estimates are for a $750 billion sportswear market opportunity by 2030. We like the opportunities for growth here.

The market for athleisure is getting more competitive, and Lululemon's very attractive margins and profitability have attracted numerous upstart competitors. They were already competing successfully against the likes of Nike, Adidas, and Under Armour. As competition has increased, and inflation has affected higher-end consumer spending, growth at Lululemon has slowed. The company recently guided the investment community to growth in the 10-11% range, down meaningfully from the past. Therefore, the stock has "re-rated" much lower, falling from $510 to $300. This is typical of market dynamics when expensive stocks, based on past valuation metrics, start to slow, the stock tanks as the growth-oriented funds sell first and ask questions about future growth later. At our entry price ($296), we feel like the business trades for 17 times EBIT (earnings before interest and taxes) and 24 times trailing net earnings. Based on listening to management, which we have come to respect, our estimates have Lululemon growing revenues and earnings for the next two years at 12%, resulting in a PEG ratio (PE/earnings growth) of 2. We feel comfortable that management and the board understand the myriads of capital allocation and therefore assume at this valuation, the highest and best use of capital is retiring shares through buybacks; in fact, the company upped its buyback authorization meaningfully last quarter. If we are correct in our assumption of 12% earnings growth and a stable PE around the mid-20s plus a healthy buyback yield, we could have a low double digit compounded return in the future.

One important aspect of the stock we think a lot about: is the price decline an overcorrection, or is it a broken growth story? Lululemon is the market leader and may not be able to keep outgrowing the market, especially when they are already number one. Upstart competitors are not new in this category, but in today's social media world, the appearance of hot brands can take on a life of their own. We will be watching closely how Alo, Vuori and other activewear brands fair over time, especially in terms of profitability. We will be watching inflation data and personal income statistics as well to gauge discretionary spending capacity.

China remains a high-potential growth market for Lululemon, and the numbers have proven this. China sales growth was 33% in 2022 and 75% in 2023, and 28 new Lululemon stores were added in 2023. Bernstein research forecasts China growth for the company to be 30% over the next 3 years, and we are optimistic for continued growth.

Walt Disney

Our Disney position is under strong consideration for sale as we remain unsure about the company's ability to transition the media content assets they own (ABC, ESPN, Disney Channel, History Channel, A&E Network, Lifetime T.V.) from linear and cable bundled formats to profitable, subscription-based DTC (direct to consumer) streaming. They will make this transition eventually, but we cannot evaluate the future profitability. The theme park business is fine, albeit slowing, and Disney will always be what is referred to as a "blue chip stock", but we should have considered selling or trimming it in 2021. It certainly has been a sore spot in this strategy since starting Live Oak Private Wealth. Many of you may recall we became Disney shareholders through the merger with 21st Century Fox in 2019. Disney is not overly expensive now and still resides in the Value strategy. The stock will most likely be higher one, three, and maybe five years from now; we just question how much higher. We feel like there are better growth opportunities for this capital in this strategy.

Dollar Tree

Dollar Tree's core lower-income customer is currently battling fierce macroeconomic headwinds (primarily inflation) and is now focused on fewer store visits, smaller basket sizes, and purchasing consumable necessities versus discretionary "nice-to-haves". Margins are quite thin in the dollar store business, and consumables have even lower margins than discretionary "nice-to-haves". The Family Dollar banner is fairing worse than Dollar Tree, and now nine years after buying Family Dollar, the company is rapidly closing underperforming stores and reviewing strategic alternatives for the rest of the banner, including a sale or a spin-off. It is frustrating to realize how much the inflation impact has affected the lower-income dollar store customers in the last year. Operating performance overall remains good thanks to the Dollar Tree Store banner. After this recent price correction on softer business trends and the potential to exit Family Dollar, the business value is quite attractive (at 16 times earnings estimates), and we remain bullish long term. The stock may remain in the penalty box for a few quarters as the lengthy strategic review of Family Dollar plays out.

LIVE OAK PRIVATE WEALTH INTERNATIONAL STRATEGY
COMMENTARY & THOUGHTS

Globally, the markets outside of the U.S. continued to climb the "wall of worry" made up by stubbornly persistent inflation, election regime changes, government deficits, and a Middle Eastern war that some worry could trigger World War III. Russia/Ukraine continues to complicate the world's macro stage and China is still struggling to get its growth engine humming. Not to mention that all the returns have been accruing to the Magnificent Seven in the U.S.

Our strategy had respectable performance in the first half on the backs of a giant move in Taiwan Semiconductor. Safran, Schneider Electric, and Holcim contributed to the first-half performance. Continued pressure on consumer pocketbooks due to inflation and further normalization post-pandemic weighed on spirits companies Pernod Ricard, Diageo, Heineken and consumer packaged goods company Nestle.

In January, we added to our position in Pernod Ricard on weakness as spirits volumes continue to normalize from the COVID-19 pandemic super cycle. The outlook for the Chinese consumer is still murky, but the global long-term growth prospects for the company's brands remain intact. We expect mid-single-digit sales growth over the next year. In February, we sold our small positions in Spotify, Daikin, and GVC Holdings (Entain). We felt that Spotify had rebounded sufficiently from the sell-off last year and was trading above its intrinsic value. Daikin failed to participate in the rally many Japanese businesses did, and our thesis around growth in the HVAC business failed to really move the stock. GVC Holdings (Entain) struggled to gain revenue and stock momentum, and we felt that money could be better invested elsewhere.

Therefore, in the spring, we made two new long-term investments with these proceeds: Ashtead Group and Evolution AB.

Notable Stock Price % Change Year to Date as of June 30, 2024

Contributors	Detractors
Taiwan Semiconductor Manufacturing +67.13%	Pernod-Ricard SA -23.23%
*Spotify +26.69%	Diageo PLC -13.44%
Safran SA +20.67%	Nestle SA -11.40%
Schneider Electric SE +19.66%	*Daikin -7.45%
Holcim LTD +13.10%	DNB ASA -7.33%

**% change YTD prior to purchase or sale*

Ashtead Group

The Ashtead Group, domiciled in the U.K., will be better known to most of you as Sunbelt Rentals. Sunbelt's operation is based in South Carolina and rents equipment that customers use to build, repair, and maintain property and structures. The company also provides backup generators, HVAC, and general equipment for hospitality, entertainment, and special events structures used by the likes of Formula One for the Las Vegas Grand Prix. Sunbelt stands ready to provide temporary structures, restroom trailers, lighting for emergency response and restoration due to flooding, tornados, and hurricanes. They are not just a rental tool company.

This is a simple business. Sunbelt buys equipment from the likes of John Deere, JLG, Bobcat, and many other OEMs and rents it out on a short-term basis over the course of six to seven years before selling it, most often back to its rental customers and sometimes through auctions. According to historical company data, approximately $10,000 spent on equipment generates $2,500 to $3,000 per year for 6-7 years in annual rental cash flows from equipment that sells for approximately $4,000 at the end of its useful life. This is approximately a 2 to 2.5 times pre-tax return on investment over 7 years, which is an approximate low 20% internal rate of return. This, of course, is historical and highly dependent on the utilization rate of the equipment and the economy, to a degree.

Sunbelt has grown over time both organically and through M&A, with attractive economics. Now that inflation and higher interest rates have made M&A more expensive, the company currently projects that 75% of the next 5 years of growth will come from growing organically.

Bill was fortunate to spend a few days in Atlanta this April at Sunbelt's Capital Markets Day. Frankly, this was not the typical investor event, as it was also the company's presentation of its next-5-year business plan to 5,000 employees. All Sunbelt salespeople and managers were there as well as investment analysts and numerous suppliers. We all heard a single message presented to both employees and investors and came home impressed by an organization that oozed a strong and loyal culture. We appreciate Sunbelt's focus on customer obsession, and we especially like the CEO who acts as a founder and embodies the owner type mentality in the way he talks, acts, and manages.

Financial projections given by the company for the next five years call for 6-9% organic sales growth, a return on invested capital of 20%, margins to increase to 26-28%. This could equate to 10-11% earnings growth, which seems reasonable. From our initial investment at $268, we like the potential for growth that lies ahead.

Evolution AB

Evolution creates video content (live casino games) for online casinos. Online casinos offer players entertainment through a realistic casino experience from their homes via high-quality video streaming. Evolution has specialized live game studios equipped with advanced technology and professional dealers that create an immersive and interactive gaming environment. As a player from home, you can interact with dealers through live chat while playing blackjack, roulette, poker and other casino games. The combination of Evolution's technology and human interaction delivers an exciting and genuine casino experience to online players.

Evolution's revenue model primarily relies on commission fees, where they earn approximately ten percent of operating profits from their casino games. Additionally, they can customize certain game experiences for customers (dedicated tables of blackjack, for example) for a monthly fee. New online casinos pay a set-up fee for the company's games, and these games are highly scalable. Therefore, margins are quite high. Our thesis includes a durable competitive advantage, consisting of intellectual property, network effects, and high switching costs, all of which contribute to its leading position and make it challenging to compete against.

According to research sources that follow the brick-and-mortar casinos businesses like Wynn Resorts and MGM Resorts, the global online gambling market is growing and expected to reach $150 billion by 2023.

Evolution has grown revenue at a five-year growth rate of 50%. Continuously launching new games and variations of traditional games has contributed to this high-growth rate as demand continues to grow for online casino games. Revenues are global with 40% Europe, 37% Asia, 12% North America and 11% ROW. With personnel costs making up 17% of expenses, employees are the major expense for the company, and while rising, operating margins have still increased. In 2023, based on company filing data, the company generated over €900 million in free cash flow, representing a free cash flow margin of over 50%. Between 2013 and 2020, Evolution consistently achieved returns on capital of 30% to 35%. Should these above metrics continue, we should enjoy nice returns over time. Our initial investment ($117.47) corresponded with a valuation for the business of approximately 17 times net earnings.

Regulatory risks and ever-changing, complex laws and regulations governing the gaming industry are abundant, and many of the company's employees are located in the low-cost economies of eastern Europe. Evolution should continue to benefit from being a crucial infrastructure provider to the gaming industry, and its past record and success will hopefully endure.

LIVE OAK PRIVATE WEALTH FIXED INCOME STRATEGY

COMMENTARY & THOUGHTS

We have not written in the past about our fixed income strategy. Frankly, there hasn't been much to write about as yields have been so low for so long, and we were not allocating many assets to fixed income. First and foremost, we philosophically consider any client allocation to fixed income to be quite conservative and serve as a buffer to equity volatility and to provide income. A client's allocation to fixed income is derived from their wealth advisor's financial planning and goal analysis that is specific to each client and is predicated on their unique needs and objectives.

Our balanced strategies are currently laddered over 4 years and can include bond allocations, generally between 25% and 50% depending on the client's goals and objectives. We use public fixed income markets exclusively at this juncture, but we continue to research and learn about private credit offerings. We remain somewhat wary of the popularity of private credit due to additional fees, illiquidity, and sponsor incentives that may not align with ours.

Depending on the client, we utilize investment-grade municipal bonds, corporate bonds, and U.S. Treasuries. Currently, we are positioned more heavily in U.S. Treasuries as a firm, but weights vary between accounts. High-quality municipal bonds that offer call protection are hard to come by, and corporate bonds require particularly careful consideration given where we are in the economic cycle.

Our current thinking has our fixed-income exposure still quite short in duration at less than four years. In some of our balanced strategies, we recently extended duration a small amount by adding fixed income securities in some accounts in 2027 and 2028. We do not have any edge in forecasting interest rates, but our experience is leading us to be wary of reaching too far for yield as we cannot predict what inflation will do. Interest rates of 4-5% on Treasuries, 5-6% on corporates, and 3-4% on municipals feel about normal given the current environment. These rates are substantially higher than they have been in recent years, but dramatically lower than what we have seen in our careers. We were just laughing the other day, reminiscing about the eight percent tax-free yields on N.C. municipals that were available when we got in the business in the 1980s.

FINAL THOUGHTS

In just two short months, Live Oak Private Wealth will turn six years old. Since inception, we have endeavored to achieve superior, long-term, tax advantaged, risk-adjusted returns for select high-net-worth families and institutions. Our core values remain in serving clients with fair fees and being aligned with you by having "skin in the game". Our team of 12 has the overwhelming majority of its liquid net worth invested alongside you. We are incentivized to protect this capital first and grow it over the long term.

We were remiss in not introducing you to our newest teammate during last quarter's communication. We are very excited and privileged to introduce Amanda Miars, J.D., as the newest member of Live Oak Private Wealth. After practicing trust and estate planning law for a well-respected law firm for over ten years, Amanda will be serving clients as a wealth and estate advisor for us. She has tremendous experience and success, advising high-net-worth individuals, families and business owners in business succession planning, asset protection, complex wealth transfer structures and taxation. Amanda and her husband Reynolds live in Wilmington with their two children Remy and Gigi. We look forward to you meeting Amanda when you visit our offices.

We too are fortunate and appreciative to have Addie Hileman as a summer intern. Addie has been absorbing all aspects "financial" at Live Oak Private Wealth this summer. She is from Raleigh, N.C., and is a rising junior at the University of North Carolina Chapel Hill. We thank Addie for helping us produce this commentary for you, as well as many other things in our business she has helped with.

Our growing team at Live Oak Private Wealth remains humbled each day by the privilege of serving you by investing your assets and helping you plan your family's financial future. We appreciate your willingness to compensate us for something that is so mutually important to us all. The "business" of Live Oak Private Wealth continues to grow, prosper and succeed in our mission. The two of us are lucky to work alongside our other ten partners and teammates and they have proven to be wonderful colleagues and friends over nearly six years together. More importantly, our firm is lucky to have you and we 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

DISCLOSURES:

LIVE OAK
PRIVATE WEALTH®