Overview

- ❖ Market sentiment is improving
- ❖ The undiversified S&P 500
- ❖ The coast looks clear(er)

July 31, 2023

Dear Partner:

For the half year ended June 30, 2023, fully-invested accounts in the Starvine Flagship Strategy increased 13.2% to 17.3%, while fully-invested accounts in the Mid-Large Cap Strategy increased 12.1% to 12.6%. During the period, the S&P TSX Total Return Index[1] increased 5.7% and the S&P 500 Total Return Index increased 14.2% in Canadian dollars (16.9% in USD).

Annualized results to June 30, 2023	Flagship	Mid-Large Cap
Inception date	*Feb. 10, 2015*	*Mar. 16, 2017*
Trailing:		
One year	26.1%	18.7%
Two Years	0.3%	-1.0%
Three Years	18.6%	16.5%
Four Years	11.5%	10.2%
Five Years	7.9%	7.7%
Six Years	8.8%	7.9%
Seven Years	11.2%	*n/a*
Since Inception	7.0%	7.9%

The composite figures above are unaudited and include discretionary fee-paying accounts within each respective mandate. Composite results are presented as time weighted rates of return, net of management fees and other expenses. Results will vary with subscription date, most notably for recently formed accounts whose position weightings and cash levels tend to differ initially from the investment strategies. Clients will therefore each have their own net-of-all fees performance results from investing in Starvine. References made

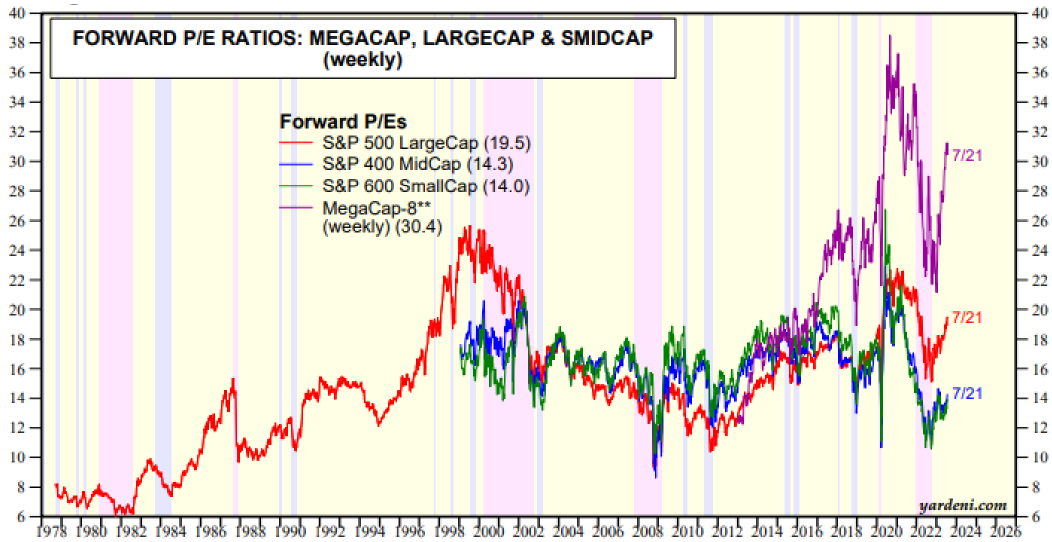
[1] The benchmarks cited by Starvine are standards against which the performance of the strategies can be measured. However, the Starvine strategies approach portfolio construction with a bottom-up approach and thus do not refer to the composition of any index as a reference from which to select securities. Performance of the strategies may differ significantly relative to benchmarks in any time period.

to indices may provide clients with a benchmark to compare results. However, the Starvine strategies are operated with a bottom-up selection framework and thus no effort is committed to tracking any index. Lastly, the composite results displayed above should not be interpreted as a reference for future returns.

Calendar year results:	Flagship	Mid-Large Cap
Inception date	*Feb. 10, 2015*	*Mar. 16, 2017*
YTD	13.8%	12.5%
2022	-18.8%	-21.0%
2021	49.0%	45.3%
2020	5.1%	6.2%
2019	19.9%	21.4%
2018	-6.7%	-6.6%
2017	14.5%	3.9%
2016	4.2%	*n/a*
2015	-8.4%	*n/a*

Commentary

In the first half of 2023, we witnessed a rebound in the equity markets that was accompanied by favorable macroeconomic trends. Inflation has been easing, which has led to a slowdown in the Fed's hiking of interest rates. However, the strong year-to-date performance of the S&P 500 Index (+16.9% total return) has been strongly skewed by a handful of mega-cap tech companies. Recall that the S&P is a market-weighted index, meaning if the top constituents experience a large gain, their impact on the overall average is disproportionate. Case in point: the total return of the equal-weighted version of the S&P 500 was 7% for the first half of 2023, nearly ten percentage points lower than the most commonly referenced, market-weighted benchmark. In other words, most of the gains this year for the S&P 500 is attributable to big tech, and therefore the market is not as heated as it may appear on the surface.



Source: Yardeni Research

As illustrated in the above chart, the discount of small- and mid-cap stocks relative to large-cap stocks still persists, at least compared to most points since 1999. Key to the recent multiple expansion of large-caps has been the outperformance of the MegaCap-8 (Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, NVIDIA, and Tesla).

In addition to the end of interest rate increases on the horizon, growth stocks have benefitted from a theme that has captured investors' imaginations in 2023: artificial intelligence. Although there is little room to debate that AI is a disruptive technology, the fervor and speculation surrounding stocks associated with AI is reminiscent of most manias. Speculators desiring to participate in the theme have piled into shares of companies that are associated with AI, without regard to valuation. Share prices move on emotion, but gravity eventually kicks in.

Trading activity in the Starvine strategies saw an uptick last quarter, with the addition of one and the exit of three positions. Behind these moves were the replacement of two names by one in the watchlist that was much more undervalued. The third removal was the result of the announcement of a take-under by the CEO.

I would like to quote myself from the year-ago letter, when the fear quotient in the market was much higher:

"Had one concentrated into mid caps and below in past downturns, there would have been an opportunity to gain from multiple expansion in short order. I believe we are seeing another similar opportunity now, but with less macroeconomic uncertainty relative to 2008 and 2020."

The rebound from June 2022 has been quite strong, and without a doubt, in hindsight it was a missed opportunity for those who sat on the sidelines with ample liquidity to invest. But the past is the past, and what matters is what should be done now for the future.

The stage could be set for a continued market rally as the remainder of 2023 unfolds, as market participants digest the news of lower inflation readings and hence become less tepid about future interest rate increases. Or do current stock prices adequately price in those expectations? Either way, the long term, bottom-up investor should not be concerned so long as the valuation work is being maintained with sufficient accuracy. I sleep well with the conviction that the Starvine strategies hold a mix of quality companies with excellent capital allocators at the helm. That the majority of the companies are still trading at defensive or cheap valuations sets us up well for the future.

Sincerely,

Steven Ko
Portfolio Manager

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