

CM LEGACY FUND

July, 2023

Dear

We managed to have a positive return this quarter, after treading water for the last twelve months in a market that featured rising interest rates, more regulation, a banking crisis and a slowing economy. Your investment in CM Legacy Partners LLC advanced +3.7% during the 2nd quarter of 2023. It has been an extremely unusual year to date. Over 95% of the broad market performance came from 7 technology stocks: Nvidia, Amazon, Meta Platforms, Google, Microsoft and Apple. If a portfolio didn't own all of these companies it was likely to lag the performance of an S&P 500 index. Health care, financials and energy stocks all had negative returns so far in 2023. The average energy stock was down -10%. Fortunately, we do own Microsoft (our largest and best performer year to date) but our significant energy positions neutralized our results in the first half.

What has worked for the first half of 2023 is unlikely to work for the second half. The technology stocks that took off beginning in January based on Artificial Intelligence hype and computer driven momentum models are now trading at extreme valuations. We think the market will rotate back to real assets that are necessary to grow the economy and will thrive after the Federal Reserve ends their interest rate hikes and the U.S. dollar weakens.

Oil is going through a routine correction within an ongoing uptrend. The fundamentals haven't changed. Demand for energy is breaking pre-covid records and without billions of new investments in supply, there is going to be a shortage and much higher prices. U.S. crude inventories relative to monthly consumption of oil is at its lowest level in 25 years. Energy companies are trading at low valuations and have robust, sustainable income streams. This investment thesis is currently contrarian and may be early but once the market starts looking past a recession, we expect to make a lot of money in this very important sector.

The raw materials needed to build out any form of energy transition are also in a severe supply/demand imbalance. In order to provide the batteries required for an expanding fleet of electric vehicles, the world needs to at least triple the amount of copper, cobalt, nickel and lithium that is currently being mined. Getting permits and initiating construction on a new mine generally takes 10-15 years and is impossible in many jurisdictions! As well as investing in oil and natural gas companies, we have exposure to gold, silver, copper, uranium and lithium. These are mostly in the form of long-dated call options that will benefit from current government energy policies that almost guarantee shortages and higher prices.

The CM Legacy Partners LLC portfolio owns a collection of first-class businesses with characteristics of high growth, rich profit margins, attractive free cash flow and in many cases investor friendly dividend and share repurchase programs. We are diversified, but with a concentrated 18 stock portfolio we do not generally pay attention to index or sector weightings. Our top five holdings are: Microsoft, Blackstone, Costco Wholesale, United Healthcare and Chevron.

If you have any questions, please do not hesitate to contact me at 917-225-6002 or cam@kcorba.com. You can also review our website at www.cmlegacy.com.

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