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DVI
DAVID VAUGHAN INVESTMENTS

QUARTERLY PERSPECTIVE

PARDON US FOR THE WEIGHT

Will Williams
Chairman, President & CEO

Accountability and transparency are hallmark characteristics of the DVI client experience. For more than four decades, we have successfully built the firm on the foundation that the more our clients understand, the more they will appreciate the firm's value proposition. Other asset managers in the industry tend to rely on smoke and mirrors to attract and retain clients—a path we simply will not take. Without fail, DVI strives to provide a measured, thoughtful and unemotional assessment as to the current market environment and how it aligns or deviates from longer-term historical perspective.

Granted, change is inevitable, but change must be evaluated within a reasonable and rational framework. At the heart and soul of this evaluation is the concept of risk management. How does one make investment decisions that will increase the probability of success while limiting the potential for loss?

Fiduciary Dilemma

For an asset management firm that emphasizes or mandates constructing diversified equity portfolios, the current market environment creates a considerable fiduciary dilemma. On one hand, the investing public embraces the S&P 500 Index as the go-to U.S. diversified domestic equity index, but closer inspection of the index's composition reveals quite a disparity: The S&P 500 is not truly diversified.

As of June 30, nearly 33% of the entire index's market capitalization is held within ten companies (less than 2% of the 503 index constituents), exceeding the prior all-time high of 31.9% established in March 2000 at the peak of the technology bubble. And currently, a mere five companies make up nearly 25% of the index. Each one of these five companies (Apple, Microsoft, Google, Amazon and Nvidia) has achieved the distinction of attaining a market capitalization more than $1 trillion.

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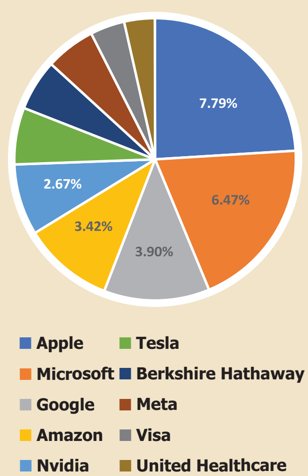
Top Ten Holdings – (S&P 500 Index)

		Market Capitalization (In Trillions)	% of Index
1	Apple	$ 3,050	7.79%
2	Microsoft	$ 2,532	6.47%
3	Google	$ 1,527	3.90%
4	Amazon	$ 1,337	3.42%
5	Nvidia	$ 1,044	2.67%
6	Tesla	$ .829	2.12%
7	Berkshire Hathaway	$ .745	1.90%
8	Meta	$ .736	1.88%
9	Visa	$ .486	1.24%
10	United Healthcare	$ .448	1.14%
	S&P 500 Index	$ 39.128	
	Top Five % Weight	$ 9.490	**24.25%**
	Top Ten % Weight	$ 12,286	**32.54%**



Source: Factset, S&P Global

UTILITIES

Brian Christensen, CFA
Senior Vice President & CIO

Investing in the common stock of publicly traded utility companies has long been a core component of the DVI Equity Strategy. This industry group delivers both a relatively high, consistently growing dividend stream, and a reliable, predictable earnings growth. Furthermore, because these businesses deliver critical energy resources to their customers, they're granted relative monopoly power in their given geographical regions.

Able to generate consistent revenues by heating our homes in the winter and cooling them in the summer, utilities are minimally impacted by changes in the economic or business environment. Big David was never a fan of investing in bonds and would regularly ask, *"Why would I own a bond that is going to pay me a fixed rate of interest and return to me my original investment, when I can own a utility stock that pays a growing stream of income from the dividend and my principal will grow as the stock grows?"* In most cases, the answer is you wouldn't.

The Electrification Opportunity

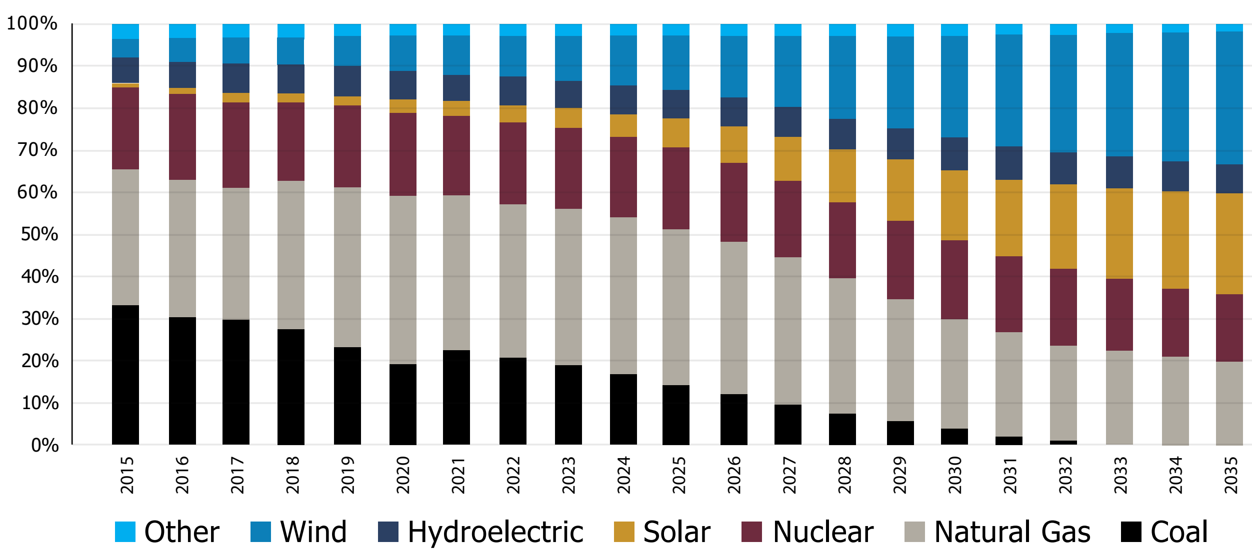
As the leaders of our country push for electrification of what seems like nearly every aspect of our lives (from vehicles to buildings and homes), the business of generating electricity has become increasingly complex. The investment opportunities become amplified when we factor in strict mandates for energy to become "cleaner and greener" by transitioning power generation from coal to renewable sources.

The chart below highlights the magnitude of this transition from high carbon coal to primarily renewable energy sources for electricity generation. In the United States, the rapid expansion of clean energy requires a significant build-out of the transmission system—the portion of the electricity grid that transports power from the generation source to the distribution network serving the end user. Morgan Stanley expects renewables penetration to grow from approximately 15% of generation currently to 41% by 2030 and 56% by 2035.

New renewable energy projects have typically been built in remote locations, making the investment opportunity associated with transmission even more potentially lucrative. A recent Princeton University study titled *Net-Zero America* estimates the U.S. may need to expand the nation's transmission system by 60%-75% by 2030 if we intend to meet the government's 2050 net-zero emission goals. This translates to meaningful growth in the rate bases of impacted utilities.

Department of Energy data further indicates that roughly 70% of the U.S. transmission system is over 25 years old. Grid resiliency and hardening to ensure system reliability will require significant capital investment. According to the *Net-Zero America* study, factoring high electrification rates and a range of renewable energy penetration levels indicates that $290-$320 billion in capital will be needed by 2030 and $480-$730 billion by 2035—solely for transmission expansion and improvement.

US Generation by Fuel Type



Source: Morgan Stanley Research

UTILITIES

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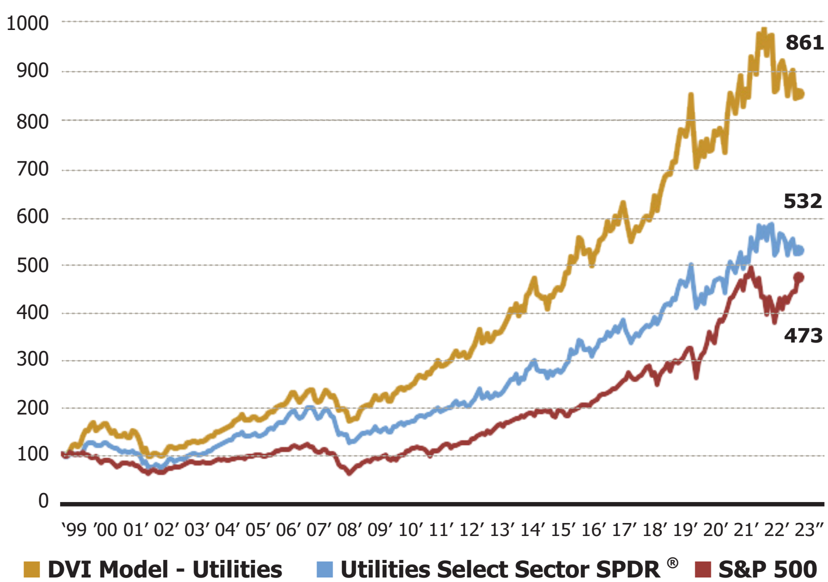
What's more: A Department of Energy study suggests 47,300 gigawatts of new transmission—equating to a 57% increase from the current transmission grid—will be needed by 2035. Utilities with the greatest proportion of transmission in their asset base and located in areas with strong renewables growth are optimally exposed to this long-term growth opportunity.

The graph below compares the total return of the S&P 500 Index to the S&P Utility sector fund for the last 20 years. As depicted, utility stocks clearly have outperformed over most of this time period—only losing their lead in early 2023.

DVI Model Utilities - Growth of $100



Historical Returns					
	1 Year	3 Year	5 Year	10 Year	Incep. (2000)
DVI Model - Utilities	(8.57)	6.08	7.98	10.33	8.59
Utilities Select Sector SPDR® ETF	(3.75)	8.34	8.13	9.27	7.37
S&P 500	19.59	14.60	12.31	12.86	6.84

Source:Factset

Looking Ahead

The investment merits of today's utility companies—driven by the rapidly increasing demand for electricity and the massive amount of capital needed to improve and expand the grid—are already significant. Stock valuations are at discounts to historical averages; annual earnings growth forecasts for the next three years average 7%; and dividends are expected to grow 6% over the same period. If companies meet these expectations, annual total returns are expected to reach 8-10%.

As we consider these attractive fundamentals, DVI has recently increased our targeted allocation to the utility sector. While it's not sexy, investing in the slow and steady nature of utility companies works.

PARDON US FOR THE WEIGHT

Will Williams
Chairman, President & CEO

In good conscience, it's nearly impossible for any investing fiduciary to replicate these types of concentrated company portfolio weightings in a diversified equity strategy for clients. How could we prudently manage risk, when the consequence of such a small handful of decisions could be so material and impactful?

S&P 500 Top 10	March-00
Microsoft	4.4
Cisco	4.2
General Electric	4.0
Intel	3.5
AT&T	3.2
Oracle	2.9
Pfizer	2.8
Verizon	2.5
Time Warner	2.2
Exxon Mobile	2.1
% of Total	**31.9**

Technology Bubble - Prior Peak

As we examine the list of companies that achieved greatness more than two decades ago, only Microsoft remains a market cap leader today—a testament to the constancy of change. The rest of the companies from the March 2000 list remain intact in some form or fashion (GE and Time Warner having experienced major restructurings), with varying degrees of economic and market success.

Technology companies dominated the list back then, too, with Cisco, Intel and Oracle claiming top spots alongside Microsoft. But the technology weighting 23 years ago was nowhere close to today's technology weighting. As of June 30, information technology companies or sector legacies composed nearly 38% of the S&P 500 Index.

Performance - The Tale of Two Years

In contrast to the challenging year that most technology companies faced in 2022, the first half of 2023 has been led by this short list of mega cap technology companies that have been propelled into the spotlight again. It seems like ever since Microsoft confirmed their expanding investment in OpenAI (maker of the ChatGPT tool) in late January, companies positioned to benefit from future developments within the spectrum of artificial intelligence have been off to the races. Given the hype in today's market, investors may have lost sight of both the technology sector's inherent volatility, and the impact that return volatility has on calculating compound total rates of return. Using Meta (formerly known as Facebook) as an example: You would expect the stock's 138% year-to-date return in 2023 to more than offset the 64% decline in fully year 2022. In reality, Meta would need to deliver a 180% rate of return in 2023 just to break even.

The Truth

There is a Chinese proverb that states there are three truths: "Your truth, my truth and the truth." The DVI truth is based on fundamentally convicting ourselves:

- To who we are as a firm;
- To our significant role as a fiduciary; and
- To our genuine sense of responsibility to our clients to do no harm.

When markets challenge our tried-and-true investment strategy, we hold to our convictions and resist capitulating to external pressures. We act with patience and discipline without giving in to the convenience and ease that chasing the latest trends seemingly promises. Sometimes time is not of the essence, and you will simply have to "Pardon Us for the Weight."

	2023 YTD (%) Total Return	2022 (%) Total Return	1 1/2 Years (%) Total Return
Apple	49.29%	-26.40%	9.88%
Microsoft	42.00%	-28.02%	2.21%
Google	35.67%	-38.67%	-16.79%
Amazon	55.19%	-49.62%	-21.82%
Nvidia	179.48%	-50.27%	38.99%
Tesla	112.51%	-65.03%	-25.69%
Berkshire Hathaway	10.39%	3.31%	14.04%
Meta	138.47%	-64.22%	-14.68%
Visa	14.30%	-3.39%	10.43%
United Healthcare	-9.34%	6.95%	-3.04%
S&P 500 Index	16.89%	-18.11%	-4.28%

Source: Factset

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