



January 12, 2023

In 2022, Banyan's equity composite returned -14.5% compared to the S&P 500's total return of -18.1%. Over the trailing three- and five-year periods, our equity composite compounded at 6.6% and 9.9% per year, respectively, despite a difficult 2022 (click [here](#) for more details).

One performance metric cannot capture the richness of a year. This is especially true in years like 2022. Your portfolio is more than ticker symbols that tick up and down on weekdays. It is a carefully selected group of companies with real people, making real things, and earning real money. Each has its own unique story complete with characters, a plot, and unexpected twists.

Corporate stories are critiqued daily by investors in public markets, and stock prices reflect the opinion of these critics. There is no reading ahead, unfortunately, so critics cast their votes having not read the next chapter, much less the ending. To bridge the gap, investors close their eyes and dream about the future in some years; they fear tragedy lurks on the next page in other years.

At the start of 2022, investors confidently penciled in fairytale endings. They were afraid to turn the page by yearend. Our portfolio was not immune from this shift in mood. As for what was actually written in 2022, the pages were uneventful for most of our companies, although some hit upbeat tones and one took an ugly turn. All of this was reflected in our companies' stock prices.¹

2022 Performance of Banyan Holdings

<u>Holding</u>	<u>Opening Price</u>	<u>Closing Price</u>	<u>Price Return</u>	<u>Dividends</u>	<u>Total Return</u>
Cigna	\$229.63	\$331.34	44.3%	\$4.48	46.2%
Alleghany	\$667.59	\$848.02	27.0%	\$0.00	27.0%
Markel	\$1,234.00	\$1,317.49	6.8%	\$0.00	6.8%
Altria	\$47.39	\$45.71	-3.5%	\$3.64	4.1%
Berkshire Hathaway	\$299.00	\$308.90	3.3%	\$0.00	3.3%
Parker Hannifin	\$318.12	\$291.00	-8.5%	\$5.02	-6.9%
American Express	\$163.60	\$147.75	-9.7%	\$1.99	-8.5%
Danaher	\$329.01	\$265.42	-19.3%	\$0.96	-19.0%
Liberty Sirius XM	\$50.85	\$39.13	-23.0%	\$0.00	-23.0%
Laboratory Corp.	\$314.21	\$235.48	-25.1%	\$2.16	-24.4%
Apple	\$177.57	\$129.93	-26.8%	\$0.91	-26.3%
Vontier	\$30.73	\$19.33	-37.1%	\$0.10	-36.8%
Charter Communications	\$651.97	\$339.10	-48.0%	\$0.00	-48.0%
CarMax	\$130.23	\$60.89	-53.2%	\$0.00	-53.2%
Altice	\$16.18	\$4.55	-71.9%	\$0.00	-71.9%

In hindsight, Charter and CarMax started the year with too much fairytale penciled in. Investors assumed the bubbly growth each enjoyed during the pandemic would neatly repeat chapter after

¹ Dividends are not assumed to be reinvested since we do not automatically reinvest dividends. To calculate total returns, we add the annual dividends to the closing price. The closing price for Alleghany is its acquisition price, and the closing price of Altice is the price at which we sold. The closing price for other holdings is the yearend price.

chapter, year after year. Neither storyline proved true, and their post-pandemic chapters are sure to deliver some surprises. Accordingly, their stocks started 2022 expensive and ended cheap.

Should we have sold these stocks early in 2022 and repurchased them later? With perfect hindsight, yes. Was it a mistake not to? No. These are strong companies we hope to own for years. In such instances, trading in and out due to valuation is likely to do more harm than good. Letting strong companies compound uninterrupted tends to be a more profitable approach.

Altice, on the other hand, was a clear mistake. Its story took a nasty turn in 2022. It became clear during the year that management had underinvested, and therefore over earned, in years past as costs rose rapidly and subscriber losses mounted. To make matters worse, management arrogantly took on too much debt. Weakening fundamentals and high leverage made for a toxic brew in 2022.

We did not appreciate the magnitude of Altice's issues or how its issues would compound on one another. It also took us too long to update our views. We should have cut our losses sooner. Our mistake cost us all in 2022, but we learned a valuable lesson. A cheap price can rarely compensate for a multitude of business issues. Never can it compensate for arrogant management.

On the positive side, Cigna's story hit an upbeat tone in 2022. It continued to have success in the commercial health insurance market, and its acquisition of Express Scripts, a prior holding of ours, looks better by the day. Despite strong performance during the year, Cigna's valuation remains reasonable. It offered a growing owners' earnings yield of almost 7% at yearend.

Our P&C insurance companies hit upbeat tones as well. Alleghany's standalone story came to an end in October when it was acquired by Berkshire. Berkshire itself did well despite poor loss trends at GEICO. Markel, too, had a good year thanks to robust repricing of existing policies and new business wins. Interestingly, Berkshire bought roughly 3.5% of Markel's shares during the year.

On the tax front, our loss on the sale of Altice had a silver lining. It offset our gain on Alleghany for all but a few clients. We also harvested losses on Vontier and repurchased it 31 days later at a slightly lower price. Finally, we were able to exchange Charter at a loss in many portfolios for Liberty Broadband, which is just another way to own Charter but at a greater discount.

Finally, it is worth noting that our largest holding at yearend was cash and cash equivalents, mainly comprised of six-month Treasury Bills now offering annualized yields exceeding 4.8%. This does not signal a bearish view, however. It is merely a byproduct of bottom-up decisions. We prefer the stock of a great company at a reasonable price, but Treasuries will do until we find another one.

Suffering a loss is never easy, especially a double-digit loss, but occasional losses are part of every financial story, even the brightest. While we may not know what the next page holds, we know what the coming chapters will be about – ***building permanent wealth***. The characters may change, but this is, and always has been, the story of Banyan. We are optimistic about what lies ahead.

Sincerely,



Drew Estes
Portfolio Manager