SMF SPRING 2018 PORTFOLIO REPORT

APRIL 27, 2018

UNIVERSITY OF CONNECTICUT SCHOOL OF BUSINESS
UNDERGRADUATE STUDENT MANAGED FUND
TEAM WILKOS

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Portfolio Overview

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Investment Managers

Reilly Cotter	Marissa Esposito	Daniel Glucksman
Mark Kugler	Maeve Manley	Stephen Mwangi
Jeff Noonan	Alec Pisanelli	Joaquin Sanchez
Vivek Tedla		

Spring Officer Positions
Co-Lead Manager – Jeffrey Noonan
Co-Lead Manager – Joaquin Sanchez
Portfolio Manager – Mark Kugler
Treasurer/Secretary – Maeve Manley
Web Manager – Alec Pisanelli

Undergraduate Supervisor - Christopher Wilkos
Fund Director - Chinmoy Ghosh

Investment Philosophy

The UConn Student Managed Fund applies the principles of value investing made famous by Benjamin Graham and Warren Buffett to evaluate potential investments for the Fund. Positions are added to our holdings after conducting both qualitative and quantitative research in order to find undervalued stocks. Qualitative research focuses on understanding the quality of the business, competitive landscape of the respective industry, evaluating the company's management team, and assessing risks that affect the company's business model. Quantitative research consists of analyzing a company's and competitor's financial performance in order to value the company on a standalone basis (using a discounted cash flow method). The Fund also evaluates both domestic and foreign news when considering an investment in a company. Though both quantitative and qualitative factors are examined, primary focus is placed on the qualitative, fundamental factors that drive financial performance.

Investment Strategy

In order to evaluate the performance of the Student Managed Fund, the undergraduate team's portfolio will compare its returns to that of the S&P 500 Index. Each investment is analyzed for several key qualitative and quantitative metrics before a decision is made to pursue or decline a particular investment. These metrics include:

- Return on Invested Capital
- Competitive Advantages (such as patents and superior products)
- Strong Leadership
- Effective Business Models

- Shareholder Programs (dividends and share repurchases)
- Long-Term Growth Prospects
- Growth in Earnings and Revenues
- Free Cash Flow Yield
- Balance Sheet
- Potential Risks
- Margin of Safety (as determined by the difference between the calculated intrinsic value and current market price)

Risk Management

The undergraduate portfolio is composed of U.S. equities and cash. In addition to the above criteria, each manager must properly understand the risks of each security. The Fund considers the following risks are of the highest importance:

Business Model Risk – company's business model is unsustainable or easily duplicated
Balance Sheet Risk – company has leverage well above industry average
Management Risk – company may have unreliable management
Aggregation Risk – a portfolio sharing common risks among its holdings

At this time, the portfolio contains only large cap equities. This was not by design, but rather a secondary result of other investment criteria. We acknowledge the risks associated with only investing in large cap securities.

We are maintaining a high level of risk management by putting each selected stock through a rigorous screening and analysis process before committing to a purchase. This process includes analysis of the company's business model, competitive landscape, industry, and corporate social responsibility. Specifically, we take a long-term forward-looking approach to assess whether competitive advantages are sustainable, including the company's financial situation such as debt levels, intelligent allocation of capital, and ability to consistently generate cash for shareholders.

With multiple managers specializing in different sectors, we have been able to successfully diversify our portfolio holdings across multiple sectors to avoid significant aggregation risk. Thus, in the event of a single industry experiencing a downturn, the majority of the portfolio remains unaffected. We continue to monitor the portfolio and reevaluate our existing positions as needed. In the event of any single security or the market as whole taking a highly significant downturn, we hold a 25% stop-loss from the purchase price to cap potential losses. Our risk management focus is centered on long-term performance and capital preservation, so we are not overly concerned with short-term volatility in the market.

Current Market Conditions

Since we began investing in October of 2017, we have experienced both a rising market, and a subsequent market correction and turbulence in the aftermath. After a fall semester characterized by a continuously rising stock market, despite what would normally be market moving geopolitical events, the spring semester brought with it a more tumultuous market. At the beginning of the spring semester markets crested, with the S&P 500 Index at $2,872.87 on January 26th. The market dropped to a low of $2,581.00 on February 8, a drop of -10.16%. Since that initial drop we have seen markets bounce up and down in response to news out of the white house and from across the world, particularly related to fears about a trade war. The big news lately is that inflation is reaching Fed Officials' targets, and the U.S. 10-Year breached 3%, which the market is viewing as a bearish signal for equities.

Process

Each manager specializes in at least three sectors and works with at least one other manager within that sector. These teams then research their sector to determine which companies are trading significantly from their intrinsic value.

The Fund then conducts weekly investment committee meetings during which managers pitch their stocks before the team and Professor Wilkos. During committee, the Fund discusses fundamental factors, such as the business model, growth opportunities and risks of investing in the business, and then decides whether or not the Fund needs more information or is willing or unwilling to invest at that time.

In order to invest in a stock, it must get approval from at least 7 out of 10 managers. After the Fund decides to invest in a business, the group determines how much capital to allocate based on the risks and growth potential of the business and the certainty of the company's future. Each company will be allocated approximately 3%-6.5% of the total capital available to the fund.

The sectors and the corresponding analysts are listed below:

Basic Materials – Daniel Glucksman, Stephen Mwangi
Consumer Discretionary – Marissa Esposito, Daniel Glucksman, Maeve Manley, Jeffrey Noonan
Consumer Staples – Marissa Esposito, Maeve Manley, Vivek Tedla
Energy – Stephen Mwangi, Jeffrey Noonan
Financials – Reilly Cotter, Mark Kugler, Stephen Mwangi
Healthcare – Marissa, Esposito, Mark Kugler, Maeve Manley, Alec Pisanelli
Industrials – Reilly Cotter, Joaquin Sanchez, Vivek Tedla
Information Technology – Daniel Glucksman, Mark Kugler, Alec Pisanelli, Vivek Tedla
Real Estate – Jeffrey Noonan, Alec Pisanelli
Telecom – Reilly Cotter, Vivek Tedla
Utilities – Reilly Cotter, Joaquin Sanchez

Equity Portfolio and Allocation

The Fund has 99.97% of the portfolio invested with 0.23% remaining in cash and 00.00% remaining in the SPDR. Over the course of the academic year, we allocated funds to 17 companies, making follow-on positions in two companies, DIS and GOOG. The average position size excluding the SPDR ETF, is approximately 5.25%, with our largest positions being Veeva Systems Inc. (7.09%/~$89k) Costco Wholesale Corp. (7.07%/~$89k) and . In total, there are 17 positions.

Performance

The charts below depict the performance of the portfolio from October 9, 2017 to April 22, 2018.

Total Portfolio Unrealized Gains

Portfolio

Ticker	Name	Dividend Yield	Date Purchased	Shares	Purchase Price	Price	% of Portfolio	Change	% Change
SPY	SPDR S&P 500 ETF	1.69%	10/9/2017	-	$ 254.37	$ 266.61	0.00%	$ -	4.81%
COST	Costco Wholesale Corp.	1.09%	10/16/2017	462	$ 159.12	$ 193.56	7.07%	$ 15,913	21.65%
SBUX	Starbucks Corp.	2.06%	10/18/2017	1,315	$ 54.59	$ 58.00	6.03%	$ 4,490	6.26%
AER	AerCap Holdings NV	0.00%	10/24/2017	1,397	$ 52.87	$ 52.70	5.82%	$ (237)	-0.32%
BX	The Blackstone Group LP	10.96%	10/24/2017	2,115	$ 34.94	$ 32.23	5.39%	$ (5,726)	-7.75%
DIS	The Walt Disney Company	1.67%	10/24/2017	370	$ 98.19	$ 100.24	2.93%	$ 758	2.09%
DHR	Danaher Corp.	0.66%	10/30/2017	396	$ 91.52	$ 101.34	3.17%	$ 3,889	10.73%
VEEV	Veeva Systems Inc.	0.00%	10/30/2017	1,230	$ 59.16	$ 72.85	7.09%	$ 16,841	23.14%
CELG	Celgene Corporation	0.00%	11/10/2017	364	$ 101.45	$ 88.95	2.56%	$ (4,551)	-12.32%
MLM	Martin Marietta Materials, Inc	0.87%	12/1/2017	392	$ 203.30	$ 196.72	6.10%	$ (2,579)	-3.24%
EPD	Enterprise Products L.P.	7.02%	1/26/2018	2,725	$ 29.34	$ 26.59	5.73%	$ (7,484)	-9.36%
DIS	The Walt Disney Company	1.67%	1/31/2018	186	$ 109.77	$ 100.24	1.47%	$ (1,772)	-8.68%
STZ	Constellation Brands	1.30%	1/31/2018	373	$ 220.07	$ 227.58	6.71%	$ 2,801	3.41%
WM	Waste Management, Inc	2.21%	2/8/2018	940	$ 80.81	$ 82.48	6.13%	$ 1,570	2.07%
TMUS	T-Mobile US Inc.	0.00%	2/15/2018	1,280	$ 58.46	$ 63.09	6.39%	$ 5,932	7.93%
GOOG	Alphabet Class C	0.00%	2/28/2018	69	$ 1,119.35	$ 1,077.25	5.88%	$ (2,905)	-3.76%
EQIX	Equinix Inc	2.24%	3/7/2018	192	$ 390.24	$ 406.06	6.17%	$ 3,037	4.05%
KEY	KeyCorp	2.20%	3/28/2018	3,632	$ 19.37	$ 19.86	5.71%	$ 1,786	2.54%
GOOG	Alphabet Class C	0.00%	4/2/2018	35	$ 1,003.43	$ 1,077.25	2.98%	$ 2,584	7.36%
PYPL	PayPal Holdings Co	0.00%	4/4/2018	1,025	$ 73.08	$ 79.07	6.41%	$ 6,144	8.20%
CASH				2,962		$ 1.00	0.23%		
						Total	100.00%	$40,489.45	7.69%

Total Portfolio Performance vs. S&P 500

Since we began investing, we have outperformed the S&P 500 benchmark, with our portfolio returning 7.69%, versus the SPY performance of 4.81%. Our outperformance can be attributed to a few standout stocks, particularly VEEVA (+23.14%), COST (+21.65%), DHR (+10.73%), and PYPL (+8.20%). Our performance can also be attributed to the favorable cost basis we were able to achieve, after the stock market correction in early February.

Individual Stock Performance

Overall, we have seen moderate returns in our portfolio. More specifically, we have seen our strongest returns in our investments in Consumer Discretionary and Technology stocks. Our largest gains of 21.65% and 23.14% since purchase, comes from Costco and Veeva**.** Costco rebounded from a July low of ~$150 after strong FY 2017 earnings and improved investor sentiment. Strong revenue gains and e-commerce growth calmed investor fears over the impact of the Amazon/Whole Foods merger. Veeva has risen on faster-than-expected adaptation of their higher margin Veeva Vault suite of products and overall growth in highly regulated industries in which they operate. Our largest loss thus far is Celgene, which is down 12.32% from our purchase price of $101.45 per share. Shares declined when regulatory approval for Ozanimod, a key pipeline drug, was delayed beyond 2018. We believe Celgene is an attractive long-term holding because of its thickening pipeline of cancer-treatment drugs and impressive growth across their portfolio. However, in late March, we decided to halve our position in Celgene and reallocate the capital to Google, a stock we expect to have more near-term upside.

Economic Outlook

Though not macro investors, upon selecting potential investment opportunities for the Undergraduate Student Managed Fund, our team analyzes the current state of the global economy by focusing on macro-economic factors that will impact our investments in both the short and long term. Some of these economic factors and trends include:

US Economy & Monetary Policy

The U.S. economy remains strong even with a slightly slower 2.3% annual GDP growth in Q1 2018. Latest U-3 unemployment in March stayed steady at 4.1% to what economists believe is below the natural rate of unemployment accounting for frictional employment, workers that are transitioning between jobs, and structural employment, worker skills displaced by technology. We expect this tightening labor market to continue to drive wage growth. At an increase of 3.18% Q1 YoY being one of the strongest post-recession figures. These drivers, coupled with a 17-year record consumer confidence (128.7 in April) should pick up inflation close to the Federal Reserve's inflation target of 2%. Using the Fed's preferred measure of inflation which excludes the prices of food and energy, Core PCE stood at 1.6% YoY in February. Evaluating the market's expectations, the break-even 10-year TIPS spread takes inflation considerations closer to 2.17% in April. We see further signs of a strong economy looking at private nonresidential fixed investments which is often a leading indicator of GDP up 7.6% YoY in Q4 2017.

The newly appointed Fed Chair is expected to be Jerome Powell who will look towards normalizing the Fed's balance sheet below the $4.4 trillion in treasuries and mortgage-backed securities. We will continue to monitor treasury yields currently passing the 3% mark as a sign of how interest rates and valuation expectations are received in the market.

The August through September natural disasters of Hurricane Harvey and Irma especially affected Texas, Florida, and Puerto Rico. Harvey expects to reach $73.5 billion in economic and productivity loss ranking second to Hurricane Katrina in 2005. Congress approved for nearly $52 billion in funding to FEMA, flood projects and insurance, and low-interest credit to Puerto Rico. A third round of funding for $44 billion was additionally requested for congressional approval. These disasters largely affected leisure & hospitality, oil extraction, and agricultural production, but saw increased activity in emergency services and repair efforts.

Fiscal & Political Developments

President Trump's recent trip to Asian nations and ongoing renegotiation talks on NAFTA and trade wars in general suggests the U.S. will look to form more bilateral trade agreements versus multilateral trade in the future. This could potentially cause moments of instability among corporates with established supply chains and distribution operations. Trade uncertainty could follow during negotiations and hinder corporate investment confidence between nations. Intuitively assuming corporate tax cut are realized, a rush of capital flows in the U.S. will increase trade deficits. On NAFTA, a Mexican election in 2018 with a populist front-runner candidate will likely change the negotiation backdrop.

Global Economy & Foreign Monetary Policy

One factor that we often consider when evaluating potential investments is international exposure. Two major economies that we focus on are China and the Eurozone.

Considering exports, the trade weighted dollar index lately came off its January post-recession peak from 128 down 8.7% as of April. This may indicate the dollar has come off its strong appreciation path and provide a boost to US exports. Due to low global rates of inflation, most central banks continue accommodative monetary policies while the dollar remains strong.

China posted 6.8% Q1 GDP growth, but the IMF expects economic moderation with 2018 forecasted at 6.4%. Even with more moderate growth in China, a rising consumer demographic will propel the new growth model forward. Alibaba announcing $25 billion in sales on Singles Day is a demonstration of this shift from savings to spending. On central banking, China's foreign reserve balance stood at $3.1 trillion USD in March showing short term increases. This can be explained from less capital outflows and an appreciating Yuan. We view this reserve balance as a potential tool the Chinese government can use to aid in the event of an Asian crisis. We will also monitor China's leverage as it amassed a large amount of non-performing loans and many credit agencies downgrading China. This issue largely stems from state-owned enterprises and banks providing easy lending. At some point, credit will no longer be able to sustain economic growth and the country will experience a deleveraging cycle.

The European economy shows signs of recovery. UK has sustained a strong unemployment recovery with latest figures at 4.4%. This forced their central bank to hike rates since Brexit to keep up with inflation pressures. The UK's OBR forecasts of 2% GDP growth for 2017 fell short at 1.8% and projects slower growth of 1.5% in 2018. Overall the IMF expect Eurozone GDP to be 1.9%. Eurozone unemployment improved to 8.9% in September and continue to recover. More importantly, will be to monitor possible electoral upheaval in Italy and anti-Eurozone candidates winning in Netherlands, France, or Germany.

Oil & Commodities

Industrial commodities prices continued to strengthen in the third quarter, while most agricultural prices remained stable overall. In the oil market, inventories continue to decrease due to strong market demand, caps on OPEC production, and the stabilizing of U.S. shale oil production. Oil prices are forecast to average $65 a barrel over 2018, up from an average of $53 a barrel in 2017, on strong demand from consumers and restraint by oil producers, while metals prices are expected to rise 9 percent this year, also on a pickup in demand and supply constraints, the World Bank said on Tuesday.

Prices for energy commodities – which include oil, natural gas, and coal -- are forecast to jump 20 percent in 2018, a 16 percentage point upward revision from October's outlook, the World Bank said in its April Commodity Markets Outlook. The metals index is expected to rise as an 9 percent drop in iron ore prices is offset by increases in all base metals prices, led by nickel, which is forecast to rise 30 percent.

Agricultural commodities, including food commodities and raw materials, are anticipated to see a price rise of over 2 percent this year on diminished planting prospects. Weather disruptions are expected to be minimal.

Oil prices are expected to average $65/bbl over 2019 as well. Although prices are projected to decline from April 2018 levels, they should be supported by continued production restraint by OPEC and non-OPEC producers and strong demand. Upside risks to the forecast include constraints to U.S. shale oil output, geopolitical risks in several producing countries, and concerns the United States may not waive sanctions against Iran. Downside risks include weaker compliance with the oil producers' agreement to restrain output or outright termination of the accord, rising output from Libya and Nigeria, and a quicker-than-expected rise in shale oil output..

While natural disasters such as Hurricane Harvey and Hurricane Irma have recently impacted oil prices in the southeastern United States, these are normal occurrences during hurricane season and do not represent any long-term disruption to the industry. Likewise, fears of La Nina have not materialized this cycle and are not expected to greatly impact the sector in the foreseeable future.

Sector Analysis

Materials

The materials sector makes up about 2.9% of the S&P 500 with 27 constituents and has seen a -5.57% return year-to-date. Materials is sensitive to changes in the business cycle and depends on strong economy. It is also sensitive to the price of raw materials and is largely driven by supply and demand fluctuations. The materials sector is comprised of five major industries: chemicals, construction materials, containers and packaging, metals and mining, and paper and forest products. Chemicals include agricultural, basic and diversified, and specialty which are all widely used for manufacturing. Construction materials is highly cyclical and fragmented with companies dominate in certain niche areas. Containers and packaging serve food and beverage, household products, and pharmaceutical with dispensing and protection of products. Metals and mining companies supply commodities used in many of the other sectors. Companies that perform well tend to have substantial mine reserves, an extent of projects, and steady production. Paper and forest products operate in lumber and building supply, paper, and timberland markets where electricity and transportation tend to be the biggest expenses.

There has been a strong trend of mergers and acquisitions in the chemicals materials sector. The Dow-DuPont mega-merger closed and there has been other activity from Akzo Nobel, PPG, Axalta, and others in the chemical space. The industry looks to benefit from accelerating residential construction, continued growth in non-residential construction, and the possible increased in infrastructure benefit from the government.

Current Holdings: Martin Marietta Materials (NYSE: MLM)

Information Technology

The Information Technology (Tech) sector includes companies that make hardware and software, as well as companies that provide services in data analytics, technology implementation, and technology process improvement. Companies in this sector include Facebook, Amazon, Apple, Netflix, and Alphabet. Year-to-date the technology sector has returned 2.62%. Over the past 20 years, tech has experienced more growth than any other sector.

The semiconductor subsector has performed especially well YTD with the PHLX rising 41.93%. Some of the trends bolstering growth in the semiconductor subsector and the information technology sector as a whole are cloud computing, big data, SaaS, IoT, autonomous vehicles and artificial intelligence. There are two factors that could negatively impact tech. The first is a downturn in the global economy. The tech sector is increasingly global, and if a large economy such as China's falters, it could hurt the whole industry. The second factor is the potential of increasing interest rates over the next year. Increased rates mean increased costs of raising capital, which could make it more difficult for companies to invest in growth opportunities.

Current Holdings: Veeva Systems (Ticker: VEEV), Alphabet (Ticker: GOOG), PayPal (Ticker: PYPL)

Energy

Across the energy complex the driving narrative of the last couple of years has been the substantial decline in prices. From crude to natural gas and its derivatives, prices have come under pressure as a result of overproduction that has stemmed from a rebalancing of power, most evidently seen in the global crude oil market. Through technological advances, previously unextractable "tight" oil in plays across the United States (most notably the Permian and Eagle Ford Shales) began producing millions of barrels.

The story of the last eighteen months has been one of balancing prices with production. Producers must to produce in order to cover costs but cannot produce to the extent to which price fall below the point at which production becomes uneconomical. Early 2016 saw prices dive below $30 / barrel as forecasts for global growth (and therefore demand for oil) showed worrying negative indications. These were the lowest prices in years and quickly recovered (West Texas Intermediate closed below $30 / barrel for only 13 days in 2016). Today oil prices are recovered and stabilized largely stabilized between $60-$70 / barrel for West Texas Intermediate and $65-$75 / barrel for Brent (though WTI has closed above $68 / barrel and Brent above $75 / barrel in recent days.

The Student Managed Fund currently sees value in companies within the energy value chain that can perform independent of commodity price swings and take advantage of the broad-based domestic push for increased infrastructure. We would find these companies even more attractive if the market has grouped these companies with those that live and die with commodity prices and so has assigned a price that we deem to be below intrinsic value.

Current holdings: Enterprise Products Partners (Ticker: EPD)

Consumer Discretionary

The Consumer Discretionary Sector includes companies whose businesses are the most sensitive to economic cycles. It consists of a manufacturing segment as well as a services segment. Within the manufacturing segment is automotive, household durable goods, textiles & apparel, and leisure equipment. The services segment consists of hotels, restaurants & other leisure facilities, consumer retailing & services, and media production & services.

Year to date, the Consumer Discretionary Sector has increased by 4.96%, which higher than the S&P 500 return of -0.25%. This sector is quite substantial, with a market cap of $5.65 trillion and a market weight of 12.75% (Fidelity).

The Consumer Discretionary sector has a positive outlook due to increasing consumer confidence, a tightening labor market, and higher wages. The unemployment rate has also been declining over the recent years. These factors allow families to have an increasing amount of discretionary income that is available to spend on goods and services. Companies who are able to establish strong brand loyalty and adapt to changing consumer behaviors and expectations will continue to flourish ahead of others within the sector.

Some factors of concern for this sector include the recent trend of shopping online. Consumers have been spending more time searching for the best deals on the internet, which could affect profit-margins within the Consumer Discretionary sector. There has been a significant decrease in mall traffic due to millennials' new purchasing habits and their use of technology. This consumer preference also creates heightened retail competition throughout the market.

Current Holdings: Starbucks (Ticker: SBUX), Disney (Ticker: DIS)

Consumer Staples

The Consumer Staples Sector includes companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverage, and tobacco as well as producers of non-durable household goods and personal products. Other companies that may be classified under Consumer Staples include food & drug retailing companies as well as hypermarkets and consumer supercenters. These companies tend to be seen as consumer necessities; thus the sector as a whole is considered defensive and can be trusted during periods of economic downturn.

The sector is strong and can sustain market fluctuations. It should be noted, however, that the sector faces headwinds including skepticism about President Trump's policies, increased geopolitical tensions with North Korea, and increased competition from international markets. However, these uncertainties make Consumer Staples relatively attractive since the sector is positioned to withstand volatility. Additionally, companies in the Consumer Staples industry benefit from cost cutting initiatives, which is amplified by decreasing energy costs.

A key market factor for Consumer Staples stocks is consumer confidence. With an improving labor market, consumer confidence reaching a 16 year high, and consumer spending at strong rates now may be a good buy opportunity for Consumer Staples. Year to date Consumer Staples has lost 11.93%, lagging significantly behind the broader S&P 500 Index (-0.25% YTD).

Current Holdings: Costco (Ticker: COST), Constellation Brands (Ticker: STZ)

Financials/Real Estate

The financial sector has maintained steady growth as of late, supported by interest rate normalization and the prospect of a steepening yield curve, aiding profitability among banks - the sector's largest industry. The sector rose sharply after the 2016 election due to promises such as deregulation and large-scale corporate tax cuts which are beginning to materialize. Solid economic growth and a tight labor market will contribute to future tailwinds within the industry.

Higher loan growth is expected as businesses capitalize on the increased capital expenditure deductibility over the next five years, and banks will continue to see moderate expansion in net interest margins as they hike their prime rates at a quicker rate than they raise the rates offered to consumers for CDs and other deposits. One trend that is particularly important is how sticky retail deposits continue to be, a measure which is important considering that many banks currently have significant levels of non-interest-bearing deposits. Developments in regulation will also be important, as the government will seek to redefine the level of assets which banks will be subject to heightened oversight. Increasing the level to $250 B from $50 B will provide relief for a number of banks in the industry.

The Private Equity industry is experiencing a post-crisis high in fundraising with the largest players benefitting the most. However, the companies in that space are being regarded with more uncertainty given the proposed changes to how carried interest will be treated in the new tax plan. Units of all major players have struggled although we are confident that any changes will have an immaterial effect on how efficiently these companies can locate opportunities and return capital to unitholders.

Current Holdings: Blackstone (Ticker: BX), KeyCorp (Ticker: KEY), Equinix (Ticker: EQIX)

Industrials

The Industrials sector contains a broad spectrum of companies that produce goods or provide services to both consumers and business for industrial use. The types of companies included in this sector include industrial conglomerates (United Technologies Corporation, General Electric), aerospace companies (Boeing), heavy machinery companies (Caterpillar), airliners (Southwest Airlines, American Airlines Group), shipping companies (FedEx, United Parcel Service), tool manufacturers (Stanley Black & Decker), fire and security companies (Tyco International PLC), defense companies (Lockheed Martin), etc. The industrial sector currently holds a weight of 9.88%. The sector is primarily driven by supply and demand for commercial, industrial, and residential construction as well as demand for manufactured goods.

Industrials generally fare well when the purchasing managers' index (PMI) is above 50. PMI levels stand at 59.3 in March suggesting industrials are in a strong cycle. New orders on U.S. durable goods show positive outlook with Q1 2018 posting 3.9% YoY growth. Sector specific there's a trend in declining auto sales as consumers continue to favor auto leasing and the market is experiencing an inventory glut.

Some important factors that will likely determine the performance of the industrial sector in the upcoming years will be global growth, government spending, and tax reform. Recent data has suggested to investors and to the market that China, the largest developing economy, may be slowing down. This slowing economy will likely reduce the demand for industrial products, with companies producing fewer products. However, increased infrastructure spending plan and protectionist policies on domestic manufacturing industries will likely stimulate domestic industrial companies, such as Caterpillar, and Stanley Black & Decker. In addition, a proposed increase in the defense budget bodes well for companies like Boeing, UTC, Lockheed Martin, and GE. Although global demand may be softening, favorable domestic policies may be enough to offset the disparity between industrial supply and demand abroad.

Year to date Industrials have declined 3.38% compared to the -0.25% the S&P 500 Index.

Current Holdings: AerCap (Ticker: AER), Waste Management (Ticker: WM)

Telecommunications

The telecommunications sector is comprised of firms that erect the backbone of global communications. The driving narratives in the space include cloud infrastructure, and the internet of things (IOT), which hold significant implications for the way consumers and businesses will transact now and in the future. The largest companies in this sector are wireless operators, satellite companies, cable companies, and internet service providers.

Current consumer trends within the sector include consumers choosing to stream video content over the internet. Mobile devices and new technology have added to this demand for higher speed internet services and are driving intense competition within the industry. Corporate trends in the industry are concentrated on M&A activity that seeks to add content delivery features. Comcast's successful bid for NBC Universal in December 2009 and AT&T current contested bid for Time

Warner illustrate this trend. Year to date Telecommunications Services have declined 9.87% compared to the 0.25 pullback in the S&P 500 Index. With decreased equity prices, finding a good buy opportunity may be available even among the heavy competition.

Current Holdings: T-Mobile (Ticker: TMUS)

Healthcare

Overall we view the healthcare sector as an attractive spot to be both in the end of 2017 and moving forward into the future. In general, health care companies have solid balance sheets, a much-improved cost structure, and attractive dividend yields. Additionally, with the aging population in both the United States and Europe, demand for healthcare products and services is expected to increase through 2025, according to Deloitte. Various research firms expect the US healthcare market to grow 6% annually over the next 5-10 years, while the global healthcare market is expected to grow at 5% annually.

As it often the case, the largest risk factor associated with the US Healthcare market is legislative. President Trump was unable to “repeal and replace” the Affordable Care Act in 2017, and has industry experts unsure of when or if another attempt to reform healthcare will occur during his presidency. If a dramatic overhaul is not in the cards, it does seem likely congress will work to make amendments to the current Affordable Care Act; but, the impact of these amendments is subject to much speculation at this point. As a result, the US Healthcare market is experiencing uncharacteristic volatility. While this volatility may make some investors uncomfortable, we believe we can use it to find value in an industry that is only guaranteed to grow in importance for the nation’s largest generation, Baby Boomers.

Finally, BCA Research shows the healthcare industry has historically outperformed during cycles of Fed hiking cycles since the 1970s. As we are currently in a hiking cycle, this is promising research for the healthcare industry. Overall we expect to see solid, but not outsized, returns in the healthcare industry.

Holdings: Danaher (Ticker: DHR), Celgene (Ticker: CELG)

Utilities

Currently, our team has stayed away from the utilities sector given the normalization of interest rates. Historically, an extended period of rising long-term interest rates has been negative for the sector. As economic indicators have improved, investors have moved away from the defensive sector and towards other growth areas.

The headwind of rising interest rates makes utility equities less attractive compared to conservative fixed income instruments. The S&P 500 utility index’s P/E multiple expanded to a record 19.4x, above its high 16 years ago. The spread between the 10-year and the sector’s 12-month trailing dividend yield is the tightest in 15 years. Recent tax changes are proving to be headwinds for utility companies given the reduced value of existing tax credits. Due to these conditions, we are not focusing on the sector but will continue to pay attention to strong companies operating in attractive geographies.

We will continue to monitor companies within the industry given that the recent sell-off may present an opportunity to own an undervalued business. Potential catalysts include continued investment into electrical and natural gas networks, as well as the execution of their defined investment plans, many of which lock in more than 5% in earnings growth. Risks include a cut in regulated returns.

Current Holdings: N/A

Portfolio Positions

Costco (NASDAQ: COST)

On October 16, 2017 we purchased 462 shares of Costco at $159.12 per share.

Costco Wholesale Corporation is the world's largest membership wholesale club with 730+ locations worldwide serving nearly 90 million members. A majority of their stores are in the U.S., Canada, and Mexico, with additional locations in the Asia and EMEA regions. Costco sells an annual membership for $60 or $120 which give cardholders access to discounts at warehouse locations. The company sells a broad array of national brands (3,700 SKUs) as well as Kirkland Signature, their low-cost proprietary brand.

The Consumer Staples GICS Sector has returned 4.44% YTD, while the Hypermarkets & Super Centers sub-industry has returned 10.57%. The industry is positioned to continue its positive outlook, reflecting favorable growth in value-conscious customers. Job growth continues to be steady, and wages, while sluggish, continue to advance. Hypermarkets and Super Centers are poised to gain market share, based on their price advantage to traditional retailers. Revenue growth is expected to be in the mid-single digits based on increased spending by higher-income customers and small businesses, who are attracted by the quality and value offered at these retailers. The industry is positioned well to protect against macroeconomic trends, because of the inelastic demand for consumer staples. Headwinds for the business include continuing downward pressures on margins, rising wages, foreign currency gains and losses, and shipping costs.

COST will deliver long-term returns due to its industry position and operational excellence. Costco's unique value proposition (low-cost, "treasure hunt" experience), strong customer retention (90% historically), and established market share (17.5% w/in Wholesalers) make them an industry stand-out. They have shown resilience amid increased competition from retail comps, with Same Store Sales (SSS) of 7.3% in Q3 2017 vs. consensus estimate 5.4%. Costco's expanding E-Commerce presence (5% of 2016 revenues) and warehouse expansion in the U.S. and abroad (~30 new locations annually) are important catalysts. Additionally, they are ramping up CapEx spending to establish footholds in new geographies, such as France and Iceland in 2017. COST shares declined 17% after news of the AMZN-WFM merger, creating an attractive entry point for long-term investment.

Costco has a proven business model (high-density/low-cost) that allows them to price products lower than industry comps (20% cheaper than WMT, 7% cheaper than AMZN on average). They emphasize low labor costs (by selling products directly from pallets), high inventory turnover, and high employee satisfaction and retention. Because of this operational excellence and skilled capital allocation, Costco has grown EBITDA margins in the last 5 years (3.70% to 4.15%) and returned between 11 and 14% on invested capital. Their experienced management team (13 year average tenure) has shown ability to withstand price competition and maintain consistent margins.

Costco faces a few primary risks, the first being waning consumer confidence and slowing economic growth. Consumer expenditures are subject to broader market conditions, and as a result open the business up to some risk, which we feel is mitigated by Costco's low-cost value approach. Secondly, Costco faces competitive pricing pressures from its competitors, including Amazon, which is mitigated by its efficient operations and supply-chain capabilities. Additionally, Costco faces risks associated with its membership renewal rates because of competition from other wholesale clubs and Amazon Prime. The performance of Costco's online business and the nature of its product offerings serve to mitigate this risk.

As of April 23, 2018, we have an unrealized gain of 21.65% on COST.

Starbucks (NASDAQ: SBUX)

On October 18, 2017 we purchased 1,315 shares of Starbucks at $54.59 per share.

Starbucks Corporation retails, roasts, and provides its own brand of specialty coffee. The Company operates retail locations worldwide and sells whole bean coffees through its sales group, direct response business, supermarkets, and on the World Wide Web. Starbucks also produces and sells bottled coffee drinks and a line of ice creams. They are the world's #1 specialty coffee retailer, Starbucks has more than 25,000 coffee shops in 75 countries. The outlets offer coffee drinks and food items, as well as roasted beans, coffee accessories, and teas. Starbucks operates more than 12,700 of its own shops, which are located mostly in the US, while licensees and operate roughly 12,375 units worldwide (including many locations in shopping centers and airports). In addition, Starbucks markets its coffee through grocery stores, food service customers, and licenses its brand for other food and beverage products.

The coffee industry as a whole has enjoyed a healthy 4.6% compound annual growth rate in US Dollar sales since 2012. This growth has mainly been driven by the increase in popularity of single-cup brands and single-cup sales. In 2012 single-cup sales accounted for 21% of all coffee sales, but that figure is up to 41% today. The outlook for 2018 for the entirety of the US coffee market is less promising, analysts predict a slower 2% growth rate, but international growth projections are higher. The Chinese coffee market is expected to grow as much as 5% annually in the coming years as key coffee producers and distributors double down their investments in the region. Overall the market is seeing a shift towards on-the-go coffee sales as firms continue to cater to millennials' consumption habits. These sales are expected to grow at 3% annually.

Starbucks' expansion efforts into China represent significant growth potential for the company. Opening stores in China at a rate of one every 15 hours, Starbucks is quickly moving to gain market share in the largest consumer goods market in the world. This expansion is built upon Starbucks' already world famous brand. The coffee they provide and the upscale in-store experience they offer consumers are distinct competitive advantages for the business. As such, Starbucks is an organization positioned for continued growth and success in the long run.

Starbucks' main competitors include Dunkin Donuts, McDonald's, Burger King, and establishments owned by Yum Brands. Dunkin Donuts is the organization which competes most directly with Starbucks, as both companies are predominantly coffee restaurants. While McDonald's and Burger King's brand are more widely known throughout the world, Starbucks is the brand that first comes to mind when consumers think "coffee."

Starbucks' main competitive advantage is their strong brand and the brand equity they have built among customers. Starbucks today is synonymous with an upscale coffee experience. It is a place that offers free Wi-Fi for customers to come drink coffee, get work done, and enjoy the true Italian coffee shop experience that inspired Howard Schultz to take over the company in 1987. Starbucks is able to offer a consistent experience to all guests due to the organization's no-franchisee policy and its strict licensee terms. Starbucks is the market leader in the specialty-café space.

Brand recognition is a major part of Starbuck's business model. Their idea of the third place and their premium brand are key drivers of growth. If their reputation were to be tarnished you would see growth both internationally and domestically slow. This would have major implications on the valuation of the business.

As of April 23, 2018, we have an unrealized gain of 6.26% on SBUX.

AerCap (NYSE: AER)

On October 24, 2017 we purchased 1,397 shares of AerCap at $52.87 per share.

AerCap is the global leader in aircraft leasing. Their business model involves buying, selling, and leasing hundreds of aircrafts to earn a consistent spread on their portfolio. As of June 30, 2017 AerCap owned, managed, or had on order 1,539 aircraft in its portfolio. With one of the most attractive order books in the business, AerCap has one of the most comprehensive portfolios on the market. AerCap's headquarters is in Dublin and has full service offices in Amsterdam, Los Angeles, Shannon, Fort Lauderdale, Singapore, Shanghai, Abu Dhabi, Seattle, and Toulouse. AerCap has over 200 active customer in 80 countries including American Airlines, British Airways, Air France and many more.

AerCap participates in the highly attractive aerospace leasing sector. Trends within the sector include air traffic growth increasing on average by 5.5% seasonally adjusted. Even with major macroeconomic events and acts of terror, the aerospace market has remained extremely resilient. Over the past 20 years the world aircraft fleet has doubled while the operating lease fleet size has quadrupled. More and more airlines see the lease market as a faster, cheaper, and more efficient means for fleet growth. Additionally, the growing middle class (2.8BB to 4.8BB in the next 20 years) and continued growth in globalization are strong trends for continued growth within the industry.

AerCap is positioned well within the growing aerospace leasing industry and sector. With one of the most attractive order books in the industry, approximately 200 customers in 80 countries, and a strong portfolio management team AerCap is positioned for continued growth and success in the long run. AerCap's three main competitive advantages are their broad market penetration, strong relationships with OEM's, and skilled management team. Being the largest aircraft leasing company gives them strong bargaining power with the OEM's. Lastly, AerCap's management team leverages their strong sector knowledge to make hundreds of intelligent buy/sell decisions.

AerCap, however, is not without risks. The two major risks AerCap faces are aircraft oversupply and rising interest rates. Aircraft oversupply could reduce aircraft prices diminishing the value of AerCap's fleet. Additionally, because AerCap's business is so reliant on debt rising interest rate may result in significantly higher interest rate expenses.

As of April 23, 2018, we have an unrealized loss of of 0.32% on AER.

Blackstone (NYSE: BX)

On October 24, 2017, we purchased 2,115 shares of Blackstone for $34.94 per share.

Blackstone is a leading global alternative investment firm providing asset management services and investment vehicles focused on private equity, real estate, credit, hedge fund solutions, and infrastructure. Blackstone fundraises from institutional investors and deploys capital to invest in assets with upside. Through value-added initiatives, the firm drives price appreciation until they can strategically exit the position and return value to their investors. Management fees are earned based on a percentage of assets under management (AUM) and performance fees are determined based on how the assets perform. Fee-earning AUM drive revenues for investment firms such as Blackstone. The firm is organized as a limited partnership and offers units, rather than shares.

The prevailing environment has supported profitability, namely in higher asset levels benefitting fee-related earnings (FRE). The largest managers, such as Blackstone, are reaping the greatest rewards and fundraising is at a post-crisis high. Alternative asset managers are seeing limited fee pressure relative to their traditional counterparts and they have found profitable ways to approach this trend. Institutional investors are seeking tailor products for their portfolios allowing for large players to customize vehicles to meet their needs. As global assets continue to rise, alternatives have achieved a market share of 11% and are projected to reach 13% by 2020. The industry is seeing large amounts of undeployed capital, with $900B of dry powder.

Blackstone's strong growth of fee-earning AUM will continue to drive both FRE and distributions to unitholders. The strong fundraising environment and $90B in dry powder will serve as tailwinds to drive this growth. A shift towards permanent capital vehicles will offer the firm more control over earnings, with smoother performance and the ability to allow strong investments to deliver more value over longer holding periods. Shifting away from traditional drawdown funds will allow for more value to be delivered to Blackstone's clients. The new $40B infrastructure fund will substantially add to FRE beginning in 2019 while capitalizing on a crucial need in this country.

Blackstone's main competitors are Apollo Global Management, Oaktree Capital Group, KKR & Co., and the Carlyle Group. These firms compete for the same assets and Blackstone's strength can be seen through the firm's unparalleled fundraising efforts. The closest competitor – Apollo – has $150B less in AUM. Blackstone's suite of vehicles and amount of available capital positions the firm for continued success amongst peers.

With $371B in AUM, Blackstone's competitive advantage lies within their ability to leverage the largest capital base in the industry along with their exceptional operational expertise. With $90B in dry powder, their patient and disciplined nature means that any turn in the cycle will present new opportunities. The firm's extensive relationships allow them to operate on a global scale and the communication between their various business lines supports their mission for responsibly deploying capital.

Blackstone is exposed to traditional risks within their industry, many of which relate to prevailing asset prices across regions and classes. While their performance does not track public markets, the firm's move towards net asset value fees increases their direct exposure to market performance. Also, the firm's unique business structure carriers unique tax implications for investors such as distributions being eligible to be taxed as regular income.

As of April 23, 2018, we have an unrealized loss of 7.75% in Blackstone.

Disney (NYSE: DIS)

On October 24, 2017, we purchased 370 shares of Disney for $98.19 per share. After the announcement of an agreement between Disney and Twenty-First Century Fox, our thesis and model were updated to reflect the pending acquisition. We then decided to purchase an additional 186 shares of Disney for $109.77 on January 31, 2018.

The Walt Disney Company is a diversified, global entertainment conglomerate operating in four main sectors: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products & Interactive Media.

Media Networks is the largest segment, consisting of cable and broadcast networks, and TV and radio stations. Major TV stations include ABC, ESPN, Disney Channels, and Freeform. Revenue is generated mainly from fees charged to cable providers and advertisers, and the sales of Disney programming rights. The Parks and Resorts segment is comprised of domestic and international theme parks and resorts Disney owns or has ownership in. Revenue is generated from ticket sales, hotel stays, and in-park purchases. Studio Entertainment produces and acquires motion pictures, direct-to-video content, musical recordings, and live stage plays under Walt Disney Pictures, Pixar, Marvel, Lucasfilm, and Touchstone. Revenue in this segment is generated from the distribution of films, ticket sales, distribution of music, and licensing of intellectual property. Lastly, Consumer Products licenses Disney characters for the creation of various products, merchandise, and electronic games. Revenue is mainly generated from licensing agreements and sales of the products in the company's retail stores.

Disney has historically maintained a strong brand with undoubted consumer loyalty. It operates as a market leader in the entertainment and media industries. It has the capital to support changing operations, and the influence to be a market mover. Disney will continue to provide long term value through its global presence and brand, studio and media success, and timeless ability to attract consumers.

Currently, Disney is breaking into the Direct-to-Consumer media market. As more consumers are ‘cord cutting’ and opting for a digital experience, Disney is positioning itself to capture this demand. Specifically, through Disney’s recent 75% stake in BAMTech, a sports streaming platform, Disney will sell ESPN content on the Direct-to-Consumer market in 2018. Additionally, Disney is launching a streaming platform of its original programming. This will be the only way to access Disney’s content. With prices to be below competitors, Disney is expecting to capture a large market.

Additionally, Disney is experiencing large international growth. After opening Disney Shanghai in 2016, Disney has already broke even on costs and seen over 11 million visitors. With this awareness and success, Disney plans to open more attractions tailored to the consumer preferences, attracting more visitors. Disney is also expecting box office success in its Studio segment in 2018, with 9 ‘blockbuster’ potential films in the pipeline. This success would boost the Consumer Products and Interactive Media segment as well.

In December of 2017, Disney and Twenty-First Century Fox announced a definitive agreement for Disney to acquire assets from Twenty-First Century Fox for $52.4 billion in stock. The deal is pending regulatory approval but is expected to close in the summer of 2019. Disney will acquire significant assets from Fox within television, film, and direct-to-consumer (DTC) markets. For example, this acquisition would bring Disney Fox Sports Networks, *Avatar,* and a 39% stake in Sky, a DTC telecommunications company in the United Kingdom. Additionally, Disney would receive a 30% stake in Hulu, increasing their ownership to 60%.

Overall, Disney saw this deal as an opportunity to increase their catalog of intellectual property across many segments. First, Disney would become a majority shareholder of Hulu, making it a major player in the streaming market. Similarly, Sky would not only enhance their DTC and SVOD capabilities, it would allow them to do so globally. In addition to Sky, this acquisition expands Disney’s international presence. Sports networks will stretch into Europe, India, and Latin America, complementing ESPN and supporting Disney further as it penetrates global markets. Likewise, Fox’s 350 channels reach 170 countries. Lastly, financially, this acquisition would provide Disney with $2 billion in cost synergies by 2021, accelerate revenue, and grow EPS as soon as the second year after the close. Importantly, Disney’s CEO, Bob Iger, will extended his contract until 2021 in order to participate in the integration of Fox’s assets.

Disney’s main competitors are Comcast, Time Warner, 21st Century Fox, CBS Corp., and Discovery Communications. However, Disney operates within many different industries, as it is a diversified conglomerate. In respect to the main competitors, Disney is the largest company, with a leading P/E, EPS, and EBITDA. However, Disney's biggest asset is its brand, giving it a competitive advantage other media conglomerates do not have. Disney not only has influence over its peers, but also over its consumers, allowing it to be secure as the market changes.

Some risks Disney faces are, firstly, changes in technology and consumer consumption, particularly regarding ESPN and cable streaming, are reducing a demand for certain products. However, Disney is adapting their business model to create alternative distribution channels to capture the market lost in this area. Secondly, is it difficult to protect against intellectual property and company data theft. IP is critical to Disney's success, so they are devoting "substantial resources" to protecting against theft and fight against unlicensed product use. Lastly, Disney's success is dependent on consumer tastes and current market conditions. However, Disney is investing resources to develop products tailored to current consumer preferences and is hedging against economic downturn, which they have historically overcome.

As of April 23, 2018, we have an unrealized loss of 1.79% on DIS.

Danaher (NYSE: DHR)

On October 30, 2017, we purchased 396 shares of Danaher at $91.52 per share.

Danaher Corporation is a well-diversified industrial and medical conglomerate whose products test, analyze, and diagnose. Its subsidiaries design, manufacture, and market products and offer services geared at worldwide professional, medical, industrial, and commercial markets. Examples of Danaher's products include water quality test kits, microscopes, dental turbines, and many other products a doctor would use on a daily basis. Danaher's businesses are broken up into four main segments: Life Sciences, Diagnostics, Dental, and Environmental & Applied Solutions. These business segments account for 32%, 30%, 16%, and 22% of total revenue, respectively. Danaher operates across the globe, with roughly 38% of revenue coming from the United States, 30% from Europe, and the remaining 32% coming from other regions with an emphasis on Asia and Australia.

Since Danaher operates in such disparate segments of the industrials industry, it is difficult to characterize one broad overarching trend affecting Danaher's business. That said, 78% of revenue is associated with healthcare in one form or another, which is promising given the fact that the U.S. healthcare market is expected to grow at 6% annually through 2025. Worldwide, the $7.5 billion healthcare industry is expected to grow at 6.0% annually, with more growth seen in transition economies to the tune of 7.5% annually. These growth assumptions are absent of any healthcare major reform taken by the United States or other major nations. Although speculating on politics is a losers game when it comes to making investment decisions, it should be noted that any healthcare policy changes made by the United States will cause increased healthcare spend both domestically and across the globe. Such a change would positively affect many of Danaher's business segments.

Danaher's ability to target, acquire, and deploy the Danaher Business System into their operating companies. Over the last five years Danaher has acquired companies like Pall, Cepheid, and Phenomenex. Their ability to buy strong brands within the healthcare space and then deploy the

Danaher Business System to improve operating margins through increased efficiency is unlike anything their competitors are able to do. Danaher has a 25+ year track record of successful acquisitions and implementations of the Danaher Business System.

We believe Danaher's strong management team, commitment to the Danaher Business System, and its positioning as a market leader in the Healthcare and Life Sciences space will enable to firm to grow over the next 10 years. The Danaher business system is a tried and true method of integrating acquired companies into the broader organization and improving operating margins through increased efficiency. This combined with stable revenue growth around 6% annually makes Danaher an attractive investment.

With this being said, Danaher is not without risks. A large part of Danaher's business takes place within the healthcare industry. Legislative uncertainty regarding the Affordable Care Act and the broader healthcare industry could be of concern. Additionally, Danaher achieves a lot of its growth through acquisitions/spinoffs. The unsuccessful execution of one of these would cause a reduced valuation of the business.

As of April 23, 2018, we have an unrealized gain of 10.73% on DHR.

Veeva Systems (NYSE: VEEV)

On October 30, 2017, we purchased 1,230 shares of Veeva Systems for $59.16 per share.

Veeva is a healthcare information technology company that provides cloud-solutions specifically tailored to the life sciences and other highly regulated industries. Veeva's solutions to its greater than 550 customers provide two essential functions, sales and marketing and research and development. Their products provide these functions through the use of their commercial cloud, which offers more traditional CRM services, and their Veeva Vault. Veeva Vault is a proprietary platform of unified applications that allow a company to address every step of the product development lifecycle. Veeva looks to add more applications to their Vault platform which will increase customer integration.

The life sciences industry is a $1.7 trillion industry that is growing at a 6% CAGR. Within the industry, $50 billion is annually devoted to IT spending and $7 billion is specifically focused on cloud-solutions. Currently, Veeva only consists of 9.6% of their total addressable market, which provides room for significant growth in the life sciences industry. The life sciences industry is highly regulated and demands the need for compliance and quality control software. Veeva is able to capitalize on this demand as a best of breed, unified platform. This integration will reduce the costs associated with bringing a drug to market.

In addition to their specialization in the life sciences industry, Veeva is looking to expand out into other highly regulated industries with their Vault QualityOne software. So far, Veeva has 10 customers outside of life sciences, including a top 5 consumer packaged goods company.

Veeva stands at the crossroads of two dominating factors in the life science space – innovation and regulation. Here the company has excelled and executed in the past – and is positioned to transform the industry. They look to leverage their best of class products and services to increase and further penetrate their customer base. Their expansion into OLS industries with their QualityOne application looks to increase their TAM and provide a beachhead for future products. They look to take advantage of cross-sell products which will increase their customers switching costs and lead to a wider economic moat.

Veeva has a distinct competitive advantage because they are the only unified cloud-solutions platform in the life sciences industry. They also have best of breed products which customers have looked to integrate more of as their relationships have matured. Companies are looking to replace the logo soup of providers for their old CRM needs with Veeva's one-stop-shop solution. They are competing with legacy providers such as Oracle and SAP that do not have the life sciences focus, integrated platforms, or Veeva's proprietary Vault platform.

Veeva faces the risk of having large software companies start to specifically focus on the life sciences industry. Veeva looks to defend their position by having many years of experience focusing on the space and providing specialized solutions through their unified platform and proprietary Vault system. Data security can be a problem with any large, sensitive data set, but Veeva's integrated platform and annual testing ensures data security. Their risk of expansion into OLS industries threatens their innovation and quality in life-sciences related software. Veeva has continued to innovate their Vault platform and look to roll-out two new applications in the next year. They are devoted to the life sciences industry and have only worked with early-stage integration of their QualityOne application OLS.

As of April 23, 2018, we have an unrealized gain of 23.14% on VEEV.

Celgene (NASDAQ: CELG)

On November 10, 2017, we purchased 728 shares of Celgene at $101.45. After declining to $88.63 in 2018, we sold about half of our position (364 shares) to free up capital for use in other positions. Though our confidence in the stock long term persists, we believed other companies in the portfolio, specifically Alphabet, would be stronger in the short-term. We maintain our half position to hopefully recoup losses in the long run.

Celgene is a biopharmaceutical company that discovers, develops, and commercializes primarily cancer drugs. It is global, with operations in 60 countries and sales in 70; however, half of its revenue is generated in the US. Currently, Celgene's R&D expense is 31% of revenue, but their R&D capabilities are unique in that they partner with other research facilities. With this, they can share the cost and the risk of developing new drugs.

Celgene's five largest drugs by percent of revenues and disease type are: Revlimid (62%, blood cancer); Pomalyst (12%, blood); Otezla (9%, psoriasis/arthritis); Abraxane (9%, breast/pancreatic cancer), and Vidaza (5%, blood). Revlimid's patent expires in 2027 in the US, and 2024 internationally. However, Celgene is extensively expanding the use of its current drugs in order to gain market share, while also developing over 100 other drugs, several of which are expected to be blockbusters.

While historically successfully navigating an intensive FDA regulation process and patent restrictions, Celgene demonstrates strong operational performance in the oncology treatment space, has an expanding portfolio of billion-dollar drugs, and is currently at a discounted price basis.

Celgene is a dominant drug manufacturer. While growing international operations, they command a peer-best 96% gross margin and are on pace to grow EPS by 19.5% CAGR through 2020. They dominate the myeloma (blood cancer) and psoriasis/arthritis markets, boasting high-teens revenue growth over the previous five years. Additionally, Celgene is not only focused on creating new drugs, but also finding new areas that their current drugs can be applied to, quickly and effectively growing their market.

In its pipeline, Celgene has over 100 drugs in clinical phases. Several of which (e.g. Ozanimod and Idhifa) are projected to be billion-dollar drugs. With the near term installation of these key drugs, Celgene is on track to reach its projected 14.5% revenue CAGR and 19.5% EPS CAGR by 2020. Beyond 2020, the continued investment in R&D through external partnerships and pipeline of 100+ other drugs will continue to grow Celgene.

Additionally, Celgene's 2017 Q3 results sent shares down ~33%. Although management announced 11% sales and 21% EPS year-over-year growth and a $3.8 billion share repurchase program, 2017 and 2020 projected results were adjusted slightly downward. Management is fully committed to meeting these new price targets, and this selloff provides an attractive entry point.

Celgene's main competitors are Biogen, Gilead Sciences, and Amgen. Celgene's drug portfolio is diversified among blood and other cancers while Biogen, Gilead Sciences, and Amgen are focused on neurology, HIV/AIDS, and blood deficiency, respectively. Although they are all drug companies, Celgene dominates the oncology market, especially in blood-based cancers.

Additionally, compared to its competitors, Celgene has the largest R&D expenditure as a percent of net sales. This allows them lead the market in drug discovery and patenting. Additionally, through their R&D capabilities and market specialty, Celgene has benefitted from pricing power. The prices of their drugs have risen in the past years, yet demand is still met. However, sales growth is mainly generated from volume, not price, giving Celgene insurance if prices are forced to come down. R&D efficiency and price leadership helps Celgene earn industry-leading gross margins (96% and growing) and impressive EPS growth.

We recognize a few important risks with our recommendation of Celgene. First, Celgene derives more than 60% of its annual revenues from its blockbuster cancer drug, Revlimid. Failure to diversify revenues through product development may put profitability at risk when the drug's patents expire (2024 in Europe, 2027 in US). Next, recurring sales of their key drugs relies on patent protection. Patents for Celgene's four largest drugs expire between 2023 and 2028. A diversified pipeline of 100+ drugs and releases of new billion-dollar drugs should mitigate these risks. Finally, a recent pipeline miss (Mongerson) and trimmed guidance caused a sell-off in October. Negative investor sentiment may limit upside in the near term. We believe investors will return to the stock as their pipeline materializes in the long-term.

As of April 23, 2018, we have an unrealized loss of 12.32% on CELG.

Martin Marietta Materials (NYSE: MLM)

On December 1, 2017 we purchased 392 shares of Martin Marietta Materials at $203.30 per share.

Martin Marietta is a leading supplier of aggregates products, cement, ready mixed concrete, and asphalt and paving services. An active participant in industry consolidation, Martin Marietta has completed 85 acquisitions since its IPO in 1994. These have strengthened its position as a major player in key markets. The company's business model stresses identifying attractive markets to enter as well as invest in present markets to drive organic growth. Historically, government infrastructure spending drives half of the business' volumes while the more cyclical residential and non-residential construction industries make up the remainder of revenues.

The construction aggregates industry is fragmented in the U.S., consisting of over 5,600 companies. The 10 largest companies comprise 35% of the market share. Martin Marietta is second to only Vuclan Materials. The concretes and aggregates market sales in the U.S. is historically broken down between half public and half private. The public sector sales look to be increasing from federal government infrastructure spending through the increased highway spending from the FAST Act, passed in Dec. 2015. Municipalities are looking to contribute to this growth from state's DOT funding. The U.S.'s infrastructure report card from the ASCE gives the U.S. a D+ grade. This demonstrates the need for public investment in the country's infrastructure. The private sector looks to bolster growth through accelerated housing starts in residential construction and continued growth from non-residential construction.

The failure of Washington to deliver on infrastructure promises as well as record precipitation in key geographies have depressed MLM's valuation. These pressures are neglecting present strong fundamentals that are poised to drive durable growth through the remainder of the construction industry's recovery. We believe MLM's presence in financially strong states will drive demand. They have seen strong pricing power in the face of externally-pressured volumes and management has made gathering plentiful reserves a long-term capital focus.

Martin Marietta's main competitors are Vulcan Materials, Eagle Materials, and CRH. These are all publicly traded concrete and aggregates companies that operate in slightly different geographies.

Martin Marietta produces 73% of their revenue from TX, CO, NC, IA, GA. These geographies all have high demand for road spending and the financial strength to support it. Martin Marietta's management has been diligent in expanding their geographical footprint with a roll-up strategy due to the importance of location in the industry. Quarries need to be within 70 miles of the aggregate's destination otherwise they become unprofitable due to the transportation costs. This is difficult because of the environmental and zoning regulations that make it increasingly difficult to develop new quarries and expand existing ones. Martin Marietta's reserves near the Texas Triangle and other key geographies give them a competitive advantage.
Any construction materials company is going to experience some cyclicality. However, the concretes and aggregates market receives 50% of their sales from the public sector. This allows

for better visibility with multi-year contracts and less sensitivity to the cyclicality of the private sector. Another possible risk is government standstill not allowing increasing funds towards infrastructure. This is mitigated by the fact that Martin Marietta has private sector exposure and they operate in states that have the need for infrastructure investment and the stability to support it from their state's DOT budgets.

As of April 23, 2018, we have an unrealized loss of 3.24% on MLM.

Enterprise Products Partners (NYSE: EPD)

On January 26, 2018 we purchased 2,725 shares of Enterprise Products Partners at $29.34 per share.

EPD is a publicly traded Delaware limited partnership, the common units of which are listed on the New York Stock Exchange ("NYSE") under the ticker symbol "EPD." EPD was formed in April 1998 to own and operate certain natural gas liquids ("NGLs") related businesses of EPCO and are a leading North American provider of midstream energy services to producers and consumers of natural gas, NGLs, crude oil, petrochemicals and refined products. Their midstream energy operations currently include: natural gas gathering, treating, processing, transportation and storage; NGL transportation, fractionation, storage, and export and import terminals (including those used to export liquefied petroleum gases, or "LPG," and ethane); crude oil gathering, transportation, storage, and export and import terminals; petrochemical and refined products transportation, storage, export and import terminals, and related services; and a marine transportation business that operates primarily on the United States ("U.S.") inland and Intracoastal Waterway systems. Their assets currently include approximately 49,300 miles of pipelines; 260 MMBbls of storage capacity for NGLs, crude oil, petrochemicals and refined products; and 14 Bcf of natural gas storage capacity.

EPD is an upper-tier player in the midstream pipeline business. Their market cap, north of $63 Billion, makes them the second largest player in the space behind Enbridge at $67B; and direct competitors Williams Partners are far behind at $42B. Additionally, EPD dominates with over 50,000 miles of pipelines. While competitors like Kinder Morgan and Energy Transfer Partners do boast closer to 70,000, EPD is still far ahead of Enbridge with 18,000 and ETP with 10,000. Together, this combination of market cap and pipeline scale makes EPD a dominant midstream player.

EPD's main competitive advantage is economies of scale. No other player in the MLP marker has the same combination of market cap and an expansive pipeline network that they do. Additionally, EPD is well positioned to benefit from recent legislation lifting restrictions on internal NGL exports. This is because they have multiple shipping and loading docks in the Houston coastal area, as well as eighteen deep water ethane holding tanks. Finally, their industry leading credit rating of Baa1 is a competitive advantage.

EPD is positioned to grow due to its economies of scale, future growth projects, and innovative technology. With over 50,000 miles of pipelines, EPD will be a first choice for NGL producers for years to come. Additionally, the company is projecting $5.2 Billion in new pipeline developments over the next eight quarters. With their industry-leading credit rating, EPD is uniquely positioned to capitalize on projects competitors could not afford. Finally, new discoveries in the isomerization of butylene will enable EPD to produce 26% more petrochemical feedstock by converting waste products back into useable material.

As of April 23, 2018, we have an unrealized loss of 9.36% on EPD.

Constellation Brands

On January 31, 2018 we purchased 374 shares of Constellation Brands at $220.07 per share.

Constellation Brands is a global producer and market of beer, wines and spirits. They have a wide variety of brands and also has the right to brew and market Mexican Beers, such as Corona and Modelo. They are the number one multi-category supplier, the number one high-end beer company and the number one imported beer company in the U.S. Additionally, they are the leading premium wine company in the world. They currently operate two breweries in Mexico and operate across 20,000 acres of vineyards to produce their wine.

In the beverage alcohol industry, there recently has been a trend towards premium beers, including imported and craft beers. Constellation Brands is well positioned in this market due to their two most recent craft brewery acquisitions: Funky Buddha Brewery & Ballast Point. There also has been a trend in consuming healthier beverages, as consumers become more health conscious. To tailor to these consumers, Constellation Brands has extended their Corona brand to develop “Corona Premier”. This beer has less carbohydrates and less calories than Corona Light that is currently being sold on the market. A fast-growing legal drinking age demographic are Hispanics growing at about 3% annually until 2025. This is expected to boost the imported Mexican beer demand.

Constellation Brands has a wide arrange of premium beers, wines, and spirits. With the increasing trend towards premium beverages, this company has a great product portfolio to select from. This company is able to detect consumer trends early on such as the heightened appeal of craft beers. They have positioned themselves well in these growing markets and are able to sustain high operating margins across all three categories they produce. They continue to add to their existing product mix through acquisitions, which are experiencing high double digit growth. Lastly, their ability to innovate and differentiate their products helps to appeal towards younger generations and allows for margin expansion.

Constellation Brands boasts the competitive advantages of being the number one leader across the imported beers segment that’s gaining more popularity among consumers. While the industry category achieves growth slightly above 2%, Constellation Brands expects their business to grow between 9 to 11% with the acquisition of two craft breweries and key brands like Modelo and Pacifico increasing distributions. As the largest multi-category player in the industry, the company can adjust their product portfolio across beer, spirits, and wine to accommodate changes in consumer tastes. Their Constellation Ventures arm also lends to early detection and visibility of blockbuster brands ripe for acquisition. Compared to peers, the company’s financial leverage lies below main competitors such as Anheuser-Busch and Molson Coors allowing Constellation Brands to take on important acquisitions or look for better financing.

Over competitors, Constellation Brands recently secured a new brewery capacity in Mexicali to expand the supply of their imported beer. Among their highest cost components is glass manufacturing which the company has taken positive measures to increase production at its lowest cost supplier and add two new furnaces.

Finally, the company continues to spend in marketing to create brand equity across categories. Their efforts in wine and spirits are to invest in a small selection of focus brands which are starting to see double digit growth and margin expansion simply from digital media, television ads, and higher consumer awareness. Their competitive advantages also lie in continual product innovation and premiumization from launching new products such as the Michelada, Corona Premier, or Black Box to meet consumer preferences.

Identified risks include a change in consumer tastes given the industry offers a wide variety. Most of this risk can be mitigated as Constellation Brands is the largest multi-category player and can shift marketing and resources to brands that are in popular demand. A second risk consists of commodity risk across the cost of their inputs such as grapes. The company currently hedges about 56% of their commodities and has over 20,000 acres of vineyards to lower costs if prices increase drastically. Finally, new trade agreements may impact their imports coming to the U.S., but management has stated that costs could be shifted across borders especially the purchase of natural gas that powers their breweries in low cost nations. Furthermore, any shocks to trade would send the price of the Mexican Peso down and ultimately lower cost of goods produced.

As of April 23, 2018, we have an unrealized gain of 3.41% on STZ.

Waste Management (NYSE: WM)

On February 8, 2018 we purchased 940 shares of Waste Management at $80.81 per share.

Waste Management is the largest non-hazardous waste operator, servicing 21 million customers across 48 states and Canada. The company owns nearly 400 collection operations, 249 active solid waste landfills, 297 transfer stations, and 104 recycling centers. The company is vertically integrated and has significant economies of scale – 66% of waste it collects disposed at its own landfill. In the Collection business, they generally set up long term service contracts with clients. For the residential market, contracts are generally 3-7 years and the fees are paid by either municipalities or the actual individual homeowner. Commercial and industrial contracts are typically 3 years, with fees depending on the type and scope of service. Generally, WM supplies a large dumpster for businesses to use, which enables them to collect trash with one truck and operator. The Landfill business is the most profitable, and is a source of competitive moat due to the environmental and regulatory barriers in place to operation of landfills. The Transfer business is also an important part of the business because haulers will stop there when a disposal site is not nearby. This is where the garbage is sorted. Third party haulers also use these stations to dump waste, and WM charges a “tipping fee” for this. The last part of their business is Recycling, which is currently only 8% of revenue, but is the first to introduce residential single-stream recycling, which has resulted in a dramatic increase in the volumes collected.

The waste management industry is a very competitive market with a few key drivers. The largest driver is population, because as the population grows, the volume of trash increases. Another important driver is manufacturing and construction, which is most notably seen in the way revenue decreases in the winter months as construction slows. This results in some slight seasonality in earnings. Severe storms also have an impact on the business, as post storm clean up generates additional volumes.

Our investment thesis centers around three pillars: cash is king, expert capital allocators, and internalization. First, WM has demonstrated a capability to generate steady and robust free cash flows, all while maintaining a best in class credit rating. Having this access to cash provides strategic flexibility to the business. Secondly, management has proven themselves to be expert capital allocators. This is seen in their nearly 12% ROIC, and strategic acquisitions (supporting their roll-up strategy) and divestitures. Thirdly, they have the largest and most diverse asset and customer base, which begets a symbiotic relationship between business segments that leads to lower operating leverage.

Waste Management is a leader in corporate social responsibility. This is highlighted by their leadership in their green initiatives for wildlife preservation, green energy, and recycling. As part of their methane to energy business, they create enough energy to power more than 500,000 homes every year. Their ESG Disclosure Score is 27.3, which compares to an industry average of 19.9. They also have better scores in % Independent Directors and % Women on Board, with 81.8 vs 79.0 and 18.2 vs 14.8, respectively.

Waste Management is the leader in the waste management industry, with the highest ROIC. In the US, there are three top tier firms which are, WM, RSG, and WCM. These three firms have the largest market shares, totaling nearly 48% of the market. The remaining players consist of governmental players (think municipal garbage pick-up) and many small local and regional players. These players are all subject to the same high levels of regulation, which creates high barriers to entry in this industry. It is also difficult to leave the industry, particularly if you own landfills, because the government requires that you manage those landfills into perpetuity to prevent environmental damage.

Waste Management has a lot of competitive advantages over other firms, the biggest being its economies of scale. Since the business is already so large, and integrated (note 66% top to bottom) it means that they can leverage a multitude of cost savings up and down the value chain, which puts them way ahead of the competition. Something interesting to note is their balance sheet strength. They are under-levered compared to their competitors, and now with tax reform, they will have the ability to go on a spending spree and accelerate their roll up strategy. They also have strong management, that has a proven history of good strategic decision making.

The main risks we foresee impacting WM, include threats from competitors in their highly competitive industry. They also face risks of increasing regulation and exposure to commodity prices in their recycling business.

As of April 23, 2018, we have an unrealized gain of 2.07% on WM.

T-Mobile US Inc.

On February 15, 2018 we purchased 1,280 shares of T-Mobile US Inc. at $58.46 per share.

T-Mobile US, Inc. provides mobile communication services under the T-Mobile and MetroPCS brands in the US, Puerto Rico, and the U.S. Virgin Islands. The company's largest operating segments are Postpaid Wireless, Prepaid Wireless, and Equipment Services from which they derive 48%, 23%, and 23% of their revenue, respectively. T-Mobile operates as a low-cost industry disruptor offering low-prices, great service, free bonuses, and simplicity as they strive to redefine wireless as "The Un-carrier." T-Mobile grows their user base by offering plans with superior value to those of their competitors while leveraging the capabilities of their nationwide wireless network.

The wireless industry has seen a more aggressive behavior by the major players as competing offerings have continually resulted in lower consumer wireless prices, as many plans and practices are being simplified for the consumer. Growth in smartphone sales have continued to encourage users to compare wireless providers and the recent iPhone releases have ushered in an upgrade "supercycle". The highest growth demographics include those 45-54 and 55+. Additionally, the growth of wearables and IOT devices has been an area of growth in the industry. The emergence of 5G coverage is expected to be complete by 2020 as firms such as T-Mobile have been heavily investing in these next-generation networks for years.

On April 10th 2017, news broke that T-Mobile and Sprint's parent companies Deutsche Telecom and Softbank were in discussing a potential merger for the third time. If completed, this merger would combine the third and fourth largest telecom providers in the USA. The combined entity would surpass AT&T as the second largest telecom provider in the USA and would be poised to surpass Verizon within the coming years. The merger talks started again as both T-Mobile and Sprint begin their investment in a 5G network. By combining both entities they can better leverage their capital and network capabilities and create a truly unmatched wireless network. There are anti-trust concerns and the talks have just began, but the possibility for the merger provides significant upside for T-Mobile.

We purchased a full position in T-Mobile given their exclusive focus on the wireless market, best customer growth in the industry, and increasing quality of their newly national network and offerings. We believe the company is undervalued because the market is discounting how successful the company's growth has been and how effective management has executed on their strategic initiatives. T-Mobile's network expansion since 2014 is the principal driver of their growth although their distribution and presence lacked in newly covered geographies, or about 33% of the country. As they become a truly national network, their strengthened presence will result in covering an additional 40 million subscribers, of which they are expected to capture at least 10 million. Over a ten-year time horizon, we are confident that this growth will result in T-Mobile having a scale similar to that of Verizon and AT&T within the wireless space and ultimately increasing the pace at which they return capital to shareholders.

The main risks we see affecting T-Mobile are consumer churn rates in the highly competitive mobile telecom industry, potential government regulation, and pressure from competitors offering unlimited plans and integrated offerings similar to that of T-Mobile.

As of April 23, 2018, we have an unrealized gain of 7.93% on TMUS.

Alphabet

On February 28, 2018 we purchased 69 shares of Alphabet Class C at $1,119.35 per share. After selling shares of another position in our portfolio (Celgene) and price of Alphabet dip, we saw this as a strong buying opportunity, and on April 2, 2018 we purchased 35 additional shares of Alphabet Class C at $1,003.43 per share. In conjunction to the price dip, we believe that Alphabet's performance and business model position it to be solidified in the market, while its 'Other Bets' will expand its offerings and capabilities in the future.

Alphabet is a leading technology company known most notably for Google. The holding company was formed in 2015, and divides its segments into Google and Other Bets. Google is the leading internet search engine, and 86% of its revenue is derived from advertising. Breaking this down, the majority of advertising revenue is from advertisements on Google sites, while other advertising consists of advertising on affiliate websites using Google's platform. Other Bets are 'moonshot' ideas that revolutionize their respective industries. Nest (automated thermostats), Verily (healthcare), Waymo (autonomous driving cars) are beginning to generate revenue.

Generally, the Information Technology industry has seen very fast and substantial growth. Although there have been market fluctuations recently, as technology develops and the user base grows, the industry will benefit. However, for the advertising industry specifically, global spending continues to grow with a strong emphasis on digital and mobile advertising, whose revenues are expected to be $250 billion worldwide by 2020. Additionally, the Cloud Computing industry is expected to reach $160 billion by 2020, as well. More specifically, there is an increasing shift toward Subscription Video on Demand (applicable to YouTube). Alphabet is positioned to adapt to these trends.

Our investment thesis revolves around three key factors. Firstly, Alphabet has a strong core business. It is the industry leader with a sustainable and profitable core business that grows in both volume and through synergies in its business model. Next, Alphabet is focused on the future. Beyond Google, Alphabet is launching revolutionary innovations that will expand Alphabet's market. Last, as technological capabilities improve globally, Alphabet will see international expansion allowing it to grow its business further.

With this thesis, there are also catalysts that will boost Alphabet in the near term. Specifically, while Other Bets have not generated revenue for Alphabet in the past, it is working extensively to invest in various ventures that are beginning to be monetized. Additionally, as Artificial Intelligence capabilities grow, Alphabet's is able to harness it in all aspects of its business, and most significantly in its "search" functionality. Lastly, Alphabet experiences a significant ecosystem effect, as all of their devices are linked in a cohesive way that strengthens their platform.

Alphabet is the industry leader and dominates the market. Its biggest advantage is its business model. As the internet expands, Alphabet is positioned to grow with it. Additionally, its acquisitions like YouTube and ownership of Android expand and streamline its top line. Alphabet's ecosystem effect, along with its expanding its AI capabilities, positions it to grow far beyond other competitors. Lastly, with over $100 billion of cash, Alphabet has the unique ability to invest in R&D and take risks on innovative bets.

However, Alphabet also faces many risks to their business. First, tech companies specifically face a lot of legal actions, and Alphabet is especially susceptible from its Other Bets. Next, many of the bets Alphabet places are in risky market segments and may not result in desired outcomes. Lastly, Alphabet faces a lot of competitive pressures from other players and could pressure its market share.

As of April 23, 2018, we have an unrealized gain of 3.60% on GOOG.

Equinix (NASDAQ: EQIX)

On March 7, 2018 we purchased 192 shares of Equinix at $390.24 per share.

Equinix is a data center REIT. Their services include colocation, leasing rack space for servers while providing cooling, power, and security. Their second major line of business is interconnections, leasing fiber connections between collocated parties which also collects monthly revenues and an initial instalment fee. Colocation accounts for 78% of revenue, while interconnections account for 16%. The remaining 6% is MIS consisting of managed services only available in select regions.

With technological changes, companies now exchange data, content, internet services, and cloud storage. Equinix has grown a healthy customer mix consisting of five verticals. 25% network providers such as AT&T, 20% financial services such as Bloomberg, 14% Content & Digital media such as DirectTV and Netflix, 13% Enterprise such as Ford Motors, and 28% Cloud & IT such as Amazon Web Services. Hosting these partners within the same data center provides interconnection benefits making the density of partners a distinguishing factor when picking a colocation provider.

Equinix competes with 650 other companies across the globe in data center offerings but maintain their position as the largest data center operator in the world. The data center business looks to be in the early stages of its growth, with Equinix being one of the first movers. The industry looks to grow in double-digits in the future driven by positive trends in global internet traffic, e-commerce, connected devices, high definition video and cloud-based storage and services.

Our investment thesis centers on three pillars: growing demand, top solution provider, and high barriers to entry and switching costs. Nearly 90% of data was created in the last two years just showing how much more demand of interconnectivity and data server space will need to be available in the coming years. As enterprises continue moving to hybrid IT, content and network demands increase, and public clouds make themselves available to collocate these factors will create high sustainable growth in the following years. The company is growing a critical mass of partnerships in key strategic hubs and metropolitan areas for lower latency or reduced operating costs. Together they can support a global customer solution allowing customers to scale their business as needed. The business is very hard to reproduce requiring large amounts of capital and an established set of key partners. Customers also face high switching costs of moving their servers to a different center and usually lock one to three-year contracts. Equinix's premium service alongside higher switching costs allows them to charge a rising premium on their cabinet space.

Equinix is devoted to corporate social responsibility and strong corporate stewardship. They focus on green energy for their data centers and community outreach through their Equinix Impact Program. Equinix is above industry average in both ESG disclosure score and percentage of independent directors.

Equinix competes with a number of competitors across its different business segments, but there is no other data center operator that has the same global scale and operational diversity as Equinix. Their closest competitor is Digital Reality Trust, but they do not operate in all the same business segments as Equinix and they do not have the same robust AFFO metrics.

Equinix's competitive advantages stem from their global footprint, high-quality data centers, and dynamic business ecosystem. EQIX has established a critical mass of customers with an unmatched global scale comprising of 190 data centers in 48 metro areas with 176,000+ cross connects. Equinix's data centers demonstrate operating excellence with a 99.9999%+ uptime record and they provide less than 10 milliseconds latency to more than 90% of the population of North America and Europe. This builds a dynamic business ecosystem that connects 8,500+ customers directly with their customers and partners. The ecosystem hosts connections with almost all carriers available locally and offers access to all major public cloud.

Some of the key risks for Equinix are customer retention, maintaining premium pricing, and operating in a capital-intensive industry. The risks of customer retention and maintaining premium pricing are mitigated through their high barriers to entry and the high switching costs for customers. The capital-intensive industry serves as another barrier to entry because Equinix is willing and able to allocate capital that competitors are not.

As of April 23, 2018, we have an unrealized gain of 4.05% on EQIX.

KeyCorp

On March 28, 2018 we purchased 3,632 shares of KeyCorp at $19.37 per share.

KeyCorp is a diversified financial services company that provides and commercial banking, commercial leasing, investment management, and investment banking for individual and corporate clients. They operate approximately 1,200 branches and 1,500 ATMs in 15 states, primarily concentrated in the Northeast and Northwest US. Currently, about 60% of revenue comes from the interest rate-sensitive Retail and Commercial Banking segment and the remaining 40% comes from the fee-based asset management and investment banking segment.

The US regional banking sector is mature and highly saturated with players who dominate their home geographies. The industry is heavily impacted by interest rates, including 30-yr. mortgage rates, as well as aggregate debt levels in the economy. In 2018, US banks will benefit from several planned rate hikes by the Fed, as well as potential deregulation by Congress. KeyCorp (~$140B in assets) is at the midpoint of US regulatory spectrum, meaning they could see significant compliance cost savings if Congress raises the threshold for SIFI recognition.

We recommend KeyCorp because of (1) revenue gains from their recent acquisitions of First Niagara (FN) and Cain Brothers, (2) best-in-class investment banking (IB) capabilities among regional banks, (3) a burgeoning loan portfolio with low charge-off rates, and (4) a clear plan for operational improvement from management. First, KeyCorp continues to realize cost savings from its merger with FN ($50MM per annum.) and capitalize on advisory relationships from the health-care focused Cain Brothers. Next, we think KeyCorp's full suite of IB products, and its surging fee-based businesses, will drive long-term returns (Segment Rev. increased 25% in 2017). Finally, KeyCorp's loan portfolio has grown steadily through the current economic cycle (13% CAGR 2012-2017), while management has improved cash efficiency and returns on capital. We believe they will achieve their optimistic ROTCE goals as macro factors, such as rising rates and decreased regulation, provide near-term tailwinds.

KeyCorp's closest regional competitors are Capital One, BB&T, US Bancorp, PNC Bank, and SunTrust Bank. Banks are poised to take advantage of the rising interest rate environment given that it will drive net interest margin expansion in the near term. Many of these companies operate in their distinct geographic footholds where they source a large amount of their loans. Many of their direct competitors stand to benefit less from the new Dodd-Frank asset thresholds given their larger size.

The commercial banking industry is comprised of companies with similar business models that are sensitive to interest rates and experience higher profitability during times of tightening. KeyCorp has made strides in building out their fee-based offerings to insulate performance against economic downturns. With an extensive suite of product offerings, KeyCorp's investment banking and capital market capabilities allows them to develop lasting customer relationships and foster growth into the future.

We recognize a few key risks with an investment in KeyCorp. First, the firm has a scattered deposit base across the Northeast region and lacks dominance in any one state. We see the FN acquisition as an important mitigant: the deal increased overall deposits by 30% and thickened their coverage in NY, PA, CT, and MA. We also see risk in KeyCorp's sensitivity to interest rates and the credit cycle, and its expanding debt balance ($15B or 1.02x D/E). However, the firm's credit profile has been strong, the quality of their loans has been improving (NPLs as a % of overall loans is in decline), and all three ratings agencies maintain a stable outlook (Baa2).

As of April 23, 2018, we have an unrealized gain of 2.54% on KEY.

PayPal (NASDAQ: PYPL)

On April 4, 2018 we purchased 1,025 shares of PayPal at $73.08 per share.

PayPal is a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide. Their vision is to democratize financial services, as they believe that managing and moving money is a right for all people, not just the affluent. Their goal is to increase their relevance for consumers and merchants to manage and move their money anywhere in the world, anytime, on any platform and using any device. Their combined payment solutions, including PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products, composes their proprietary Payments Platform. They operate a two-sided proprietary global technology platform that links both customers, which consist of both merchants and consumers, around the globe to facilitate the processing of payment transactions, allowing them to connect millions of merchants and consumers worldwide.

PayPal operates in the digital payments space, which has seen rapid growth in recent years. As early as 2015 only 6% of internet users used a digital wallet daily; that figure is up to 19% for all internet users and 45% of affluent internet users by 2017, and it is expected to grow significantly. While a competitive space, PayPal currently commands a market leadership with over 226M customers who transfer over $131 billion in funds each year. The market as a whole is expected to grow to accommodate upwards of one trillion dollars of transaction volume each year by 2030. PayPal also operates as an intermediary for payment on platforms such as Airbnb and Uber, among others. As these companies look to go public by 2020, they are expected to see increased traffic and subsequent transaction volume, which will serviced by PayPal and others like them. The market is growing on average at 11.3% per year over the past three years.

PayPal is the clear market leader in the digital space. They are the largest, most popular, most trusted, and most secure digital payments platform available to consumers; and in a market that is still so young and growing so rapidly these qualities have PayPal positioned to yield significant returns over a 10 year time horizon. PayPal will remain the number one payments platform for both customers and merchants due to its economic moat and the advantages it enjoys being a double-sided platform at scale.

PayPal faces significant competition in the digital payments landscape. Competitors include Apple Pay, Visa Checkout, and Pay with Amazon, among others. However, each of these competitors offers digital payments solutions almost as an afterthought, whereas this is PayPal's core business focus.

99% of U.S. consumers have heard of PayPal, and 76% of them have used the service before. When this is compared to Apple Pay, the next closest competitor with scores of 86% and 12% respectively, we see just how dominant of a play PayPal truly is. PayPal is the trusted internal funds transferor in over 200 countries, and the fact that they have never had a data breach leaves consumers confident their financial information is safe at PayPal.

As online grows topline, margins are challenged. Ability for management to manage relationships with major card issuers and financial institutions will continue to grow. Existing agreements with both Visa and Mastercard are up for renegotiation in 2020. Additionally, the militarized cyber world that we live in today presents one of the most prescient risk to PayPal's business. A major attack can have a devastating impact on the business, as customer trust would be advisedly impacted, leading to a drop in transaction volume.

As of April 23, 2018, we have an unrealized gain of 8.20% on PYPL.

Lessons Learned:

The Student Managed Fund is a highly respected and coveted program. One of the reasons the program is thought of in such a positive light is students understand their ability to learn in a different way. The Harvard case method taught by Chris Wilkos is a different experience than you get in any other class during your University of Connecticut undergraduate studies. This class paired with the responsibility creating and investment process to manage over $1 million develops a myriad of soft and hard skills for its participants.

One of the key soft skills that students develop in the SMF is the art of thinking. Students are taught to think with questions instead of solutions. We are also encouraged to participate in second and third level thinking. Another key skill is the ability to present and defend your thesis. This skill is honed while pitching stocks through our rigorous investment process. We must be able to field all questions about a company and be able to defend our thesis throughout question. It is imperative we make a persuasive pitch and highlight the important differentiating factors that reiterate our buy recommendation. Throughout the investment process and during the process of crafting our pitches, we must collaborate with our peers. This teamwork and ability to use multiple perspectives allows us to craft an investment process that gives us the greatest chance of reaching our goal of outperforming the S&P 500 index over a ten-year investment horizon.

In addition to the soft skills students develop in the SMF, they also develop a number of hard skills. Students use financial modeling in the forms of discounted cash flows, dividend discount models, and comparable company analysis to value companies in both stock presentations and case studies. These are core valuation methods that the majority of students will use during their full-time employment. Another transferable skill is developing the ability to identify key characteristics of a business model. We are taught to look at companies from a value investor's perspective and look at their growth potential, economic moat, brand leadership, and other key characteristics. The ability to use our resources of Bloomberg, Value Line, and other financial databases provide us with the content we need to become experts in specific companies, industries, and the macroeconomic environment.