SMF Fall 2019 Portfolio Report

UCONN
SCHOOL OF BUSINESS
STUDENT MANAGED FUND

December 5th, 2019
University of Connecticut School of Business
Undergraduate Student Managed Fund
Team White

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Letter to IAB:

Dear Investment Advisory Board Members and UConn Foundation,

Thank you for allowing our team the opportunity to participate in this year's Student Managed Fund program. The SMF program is undoubtedly the most rewarding experiential learning opportunity available to students through the UConn School of Business. Our team has learned so much this semester and cannot wait to hit the ground running at the start of next semester in order to reach full equity allocation. This experience has been the highlight of our academic careers and has broadened our skill sets by teaching a new way of thinking that can only be learned through practice. Most importantly, we have learned to work together as a team, learn from each other, respect each other's opinions, and forge relationships that will hopefully carry over into our professional careers.

The Student Managed Fund program has given us the opportunity to apply knowledge from the classroom to real-world investment decisions. While tracking gains and losses on the portfolio provides us a way of quantifying our abilities, the most impactful takeaway thus far has been learning the methodology of becoming investment professionals and actively managing an equity portfolio. There have been many ups and downs throughout this semester, however our approach to making investment decisions has remained consistent and disciplined. We hope that you learn from this report and obtain a better understanding of our thought process and investment rationale for allocating the portfolio.

Sincerely,

Undergraduate SMF - Team White:

Andrew Blackmore – *Co-lead Manager*
Alexander Flug – *Co-lead Manager*
Kyle Tesei – *Portfolio Manager*
Sean Monaghan – *Digital Media Manager*
Dhvani Visaria – *Communications Manager*
Julia DeMarkey
Michael Burnett
Matthew Grohocki
Austin Goll
Nicholas Beckwith
Alex Greco

Pat Terrion, Jeff Annello, Chris Wilkos & Dr. Paul Gilson – *SMF Program Advisors*

Philosophy:

Team White seeks to find businesses with operations that we can understand, are managed by an experienced management team, and are competitively positioned to drive future value. We believe in buying exceptional business at attractive valuations, well below their intrinsic value, in order to drive performance for the fund. Our approach to each investment is unique and tailored to each specific company through our bottom-up analysis of every business. Our team follows a similar philosophy to Warren Buffett, Charlie Munger, Benjamin Graham, and other intelligent value investors. We approach every investment as if we were buying the entire business outright because it shouldn't matter whether you are buying a single share of common stock or the entire business. Further, we make decisions based on our conviction in the company's ability to generate value over a 10-year time horizon and buying these businesses at undervalued prices.

Style:

Our team primarily focuses on large-cap U.S. equities, however, we do not restrict our screening criteria only based on market cap. As investors, we are more focused on finding great, fundamental businesses that we believe have the longevity and structure to make safe investments. We will discuss our current holdings in our portfolio breakdown, in which we do own some small-cap and mid-cap U.S. equities because the underlying businesses are strong and fundamentally sound. We do not attempt to "time the market" or predict economic or credit cycles because those outcomes are speculative. As a team we narrow our focus on the factors that we can control and be certain of in an investment. These factors include growth prospects, Free Cash Flow generation, capital allocation, management capabilities, operating margins, and economic moat.

It is more challenging to find undervalued stocks in today's market since it has reached all-time highs. As value investors, we sometimes need to look beyond what the market is saying a company is worth, and do our homework to really understand the underlying business. Proceeding this section we will discuss how we have still been able to find companies trading on the market at a price below their intrinsic values all for various reasons, but, what each of these investments have in common are the fundamentals within each company. The efficient market hypothesis suggests that stocks are always priced at their optimal levels given all available information, but as we have learned as a team, investor psychology often causes valuations to become too high or too low compared with intrinsic value, and therefore inefficiently priced. By taking an unbiased viewpoint and looking at the direct fundamentals of a business, our team has been able to find some extraordinary companies that we purchased at a discount to intrinsic value. Our bottom-up approach of evaluating businesses allows us to compare and contrast fundamentals and metics of many different business in order to weed out the poorly structured ones and find those that are strong and undervalued. Although we do not try and predict changes in economic cycles, we do incorporate the current and potential future economic outlooks into our fundamental analysis and discounted cash flow models in order to optimally understand the best and worst case scenarios in each of our investments. Incorporating economic prospects into our investments also helps us see business cycles and understand how changes in the business cycle influence various companies in different ways.

Strategy:

“Diversification is protection against ignorance. It makes little sense if you know what you are doing.” – Warren Buffett

In each of our investment considerations, we perform bottom-up analysis on businesses and their related securities in order to focus on the safety in the underlying business prospects rather than just stock price. We do not speculate future economic changes, however, we thoroughly understand how changes in the economic environment can impact each one of our holdings. We are invested in securities that we know are strong companies and are fundamentally sound.

Some principles that we incorporate into our investment strategy include:

1. Margin of Safety

Even when our team finds an exceptional business, we only feel comfortable investing given we have a solid margin of safety. We think of a margin of safety in the same way a civil engineer would provide themselves with an enormous margin for error when building a bridge. As Buffett coined it, “don't try and drive a 9,800-pound truck over a bridge that says it's, you know, capacity: 10,000 pounds. But go down the road a little bit and find one that says, capacity: 15,000 pounds." When engineers build bridges, they have an enormous margin of error so if one support beam of the bridge gives out, there are many more to still safely support the entirety of the bridge. In our investing, we look for a margin of safety of at least 15%. This provides us with a cushion in case there are any market swings or corrections that can further alter market prices. If a company is pitched however that we really trust and understand the business model, and it does not have at least a 15% margin of safety, we will not throw the idea away, we will keep it in our pipeline and reevaluate if and when the price falls to our margin of safety target.

2. Invest in a business not a stock

When we consider an investment we do not think of it as just buying a tiny percentage of a company, rather, we ask ourselves, “If we had all the money in the world would we purchase this business in its entirety?” By taking this approach we are able to really understand deep down if we strongly admire the business because if we are not willing to purchase the entire company, then we should not be willing to purchase stock in that business. This strategy allows us to rationalize what it is we are really buying at the end of the day and allows us to gauge as a team how fundamentally sound a company is because if we would be willing to spend billions to purchase the entire company than that is a good sign of our confidence in the stock.

3. Capital Allocation

Just as managers have to be extraordinary capital allocators in order to run a successful business, we believe investors must be stellar capital allocators in order to run a fund. Therefore, after we vote to buy a stock we always discuss and vote on how much we plan to allocate to that specific company based on a variety of different facets including economic outlook, growth potential, FCF generation potential, etc. Essentially, if we vote to buy a company we are confident in that business, however, we rationalize that investor sentiment and the economic environment can change valuations rapidly so we incorporate this into our capital allocation strategy. This strategy explains why we have different amounts allocated into different stocks and we discuss the exact nature of our allocations further in this report. We are only willing to sell our investments after a full reevaluation and vote. We have done this with Intel as we will discuss further below, but to touch on it briefly, we believed that there was no additional value left to be achieved from our Intel position. We felt this way because Intel had reached a price on the market that we believe is a fair valuation based on all relevant information including their most recent earnings report and guidance outlines. **We do not simply sell a company because they have reached our price target.** Yes, Intel had reached our price target but that is not why we sold. UnitedHealth Group is another company that has reached our price target but we voted to hold on to this security as we believe there is still a lot more value in this business that is left to be gained.

4. Strong Grasp of Business Fundamentals

Before even voting to buy a stock, we make sure that each one of our managers is fully confident in their understanding of the business at hand. We do not enter into the voting process until thorough discussion and questioning surrounding the business, this ensures that everyone has a full grasp of what we are potentially purchasing. There are many different types, structures, and caveats, to different businesses, this is why this strategy is very important and crucial to our investing success. It is easy to misunderstand or not understand a business, so thoroughly reviewing the fundamentals is key to a successful evaluation. Therefore, we take as much time as needed in order to thoroughly go though, ask questions, and evaluate businesses so that each manager is on the same page and has the entire big picture of the business painted in their head before entering the voting process.

Procedure:

Our team follows a relatively strict 5 step process when approaching our investment considerations and decision-making process for the portfolio.

1. Introduction

We ask that each business is discussed amongst the team at least one week in advance in order to allow team members to formulate their opinion, perform independent research, and come prepared with questions. Every stock pitch report is conducted by two analysts and entails in-depth analysis regarding the business operations, industry landscape, supply chain positioning, customer relationships, management team, recent acquisitions, ESG initiatives, and several forms of valuation methods (primarily Comparable Companies Analysis and Discounted Cash Flow Analysis).

2. Presentation ("Pitch")

We aim to complete two presentations per week, involving ~30 minutes of presentation and ~30 minutes of discussion before making a voting decision.

3. Voting

Our voting structure is extremely stringent and requires each pitch to receive 8/11 (72.7%) votes in order to pass to the next phase of voting.

4. Allocation

After determining the Yes/No decision, we vote on the allocation each stock will receive within the portfolio which is based on a range of 5-10% of the total portfolio. This process also requires an 8/11 vote to move towards a higher percentage in the allocation range.

5. Complete Trades

Stocks that are added to the portfolio require each team of analysts to complete a detailed two-page report that summarizes the investment thesis and an overview of the business. Lastly, analysts will work with the Portfolio Manager to complete the necessary trade documents and submit the trade order to Professor Rakotomavo to add the stock to our portfolio.

Portfolio Overview:

The fund has been 60.63% invested across 9 domestic equities with 17.12% remaining in cash and 22.25% remaining in the SPDR S&P 500 ETF. Looking forward, the fund is positioned to invest the remaining portion of cash and SPDR into equities early next semester (our goal is late February or early March). The average position size, excluding SPDR, is approximately 6.74%, with our largest single position in Spirit AeroSystems (9.26% / ~$145K).

The table below shows the GICS Sector breakdown of our portfolio relative to our benchmark, SDPR S&P 500 ETF.

Portfolio GICS Sector Weights

Sector	% of Total Portfolio	% of Invested Portfolio	S&P 500 Sector Weight
Basic Materials	0.00%	0.00%	2.85%
Consumer Discretionary	18.53%	22.36%	12.86%
Consumer Staples	0.00%	0.00%	6.73%
Energy	0.00%	0.00%	6.17%
Financials	7.01%	8.45%	14.65%
Industrials	20.27%	24.46%	9.90%
Technology	7.41%	8.94%	25.78%
Telecommunications	0.00%	0.00%	1.79%
Healthcare	7.41%	8.94%	13.71%
Real Estate	0.00%	0.00%	2.75%
Utilities	0.00%	0.00%	2.81%
Total	60.62%	73.15%	100.00%

The two tables below show the performance of the portfolio from September 31st, 2019 to November 15th, 2019. These tables do not account for the realized gain on the sale of Intel, as well as the unrealized gain corresponding to our purchase of PVH.

Total Portfolio Unrealized Gains

					Portfolio						
Ticker	Name	Industry	Date Purchased	Shares	Purchase Price	Price	Cost Basis	Market Value	% of Portfolio	% of Equity	% Change
SPY	SPDR S&P 500 ETF	S&P	8/31/19	1,183	$ 292.45	$ 311.79	$ 345,968	$ 368,848	22.25%	0.00%	6.61%
LVS	Las Vegas Sands	Hotel & Gaming	9/30/19	1,268	$ 57.34	$ 62.67	$ 72,707	$ 79,466	4.79%	9.09%	9.30%
UNH	UnitedHealth Group	Healthcare	9/30/19	456	$ 213.64	$ 269.40	$ 97,420	$ 122,846	7.41%	14.06%	26.10%
FDX	FedEx Corp.	Freight & Logistics	10/2/19	521	$ 139.77	$ 158.33	$ 72,820	$ 82,490	4.98%	9.44%	13.28%
INTC	Intel Corp.	Semiconductors	10/4/19	2,119	$ 50.34	$ 57.96	$ 106,670	$ 122,817	7.41%	14.05%	15.14%
GD	General Dynamics	Aerospace & Defense	10/25/19	535	$ 176.23	$ 187.08	$ 94,283	$ 100,088	6.04%	11.45%	6.16%
NCLH	Norwegian Cruise Line	Travel Services	10/28/19	1,820	$ 51.76	$ 53.06	$ 94,203	$ 96,569	5.83%	11.05%	2.51%
DFS	Discover Financial Services	Financials	10/28/19	1,374	$ 80.81	$ 84.52	$ 111,033	$ 116,130	7.01%	13.29%	4.59%
SPR	Spirit AeroSystems	Aerospace & Defense	11/8/19	1,667	$ 87.31	$ 92.04	$ 145,546	$ 153,431	9.26%	17.56%	5.42%
ALSN	Allison Transmission	Auto Parts	11/8/19	2,824	$ 45.83	$ 46.42	$ 129,424	$ 131,090	7.91%	15.00%	1.29%
Cash	Cash	N/A	8/31/19	283,867	$ 1.00	$ 1.00	$283,867.00	$ 283,867	17.12%	0.00%	0.00%
						Total	$ 1,553,942	$1,657,641.94	100.00%	100.00%	9.50%

Equity Portfolio Unrealized Gains

Ticker	Name	Purchase Price	Market Price	% Change
UNH	UnitedHealth Group	213.64	269.40	26.10%
LVS	Las Vegas Sands	57.34	62.67	9.30%
FDX	FedEx Corp.	139.77	158.33	13.28%
INTC	Intel Corp.	50.34	57.96	15.14%
GD	General Dynamics	176.23	187.08	6.16%
DFS	Discover Financial Services	80.81	84.52	4.59%
NCLH	Norwegian Cruise Line	51.76	53.06	2.51%
ALSN	Allison Transmission	45.83	46.42	1.29%
SPR	Spirit AeroSystems	87.31	92.04	5.42%
			Total	8.75%

<u>Risk Management:</u>

For each investment our team makes, we assign a 25% stop-loss order below our average purchase price of that company. The reasoning behind a consistent 25% stop-loss across all of our investments is a result of a variety of reasons. First, during our analysis and screening of potential companies, we take into account numerous forms of risk as well as different scenario analyses. Our investment criteria consists of allocating capital into companies who we fully understand and embrace regarding a whole spectrum of fundamental factors. Risk management is innately done while evaluating and screening companies, therefore, when our team votes to purchase a company we have already screened the various risk potential for that stock. By keeping a standard 25% stop loss order on all of our investments, we are managing risk across our overall portfolio to prevent losses of capital, however, we are still keeping a decent cushion of safety where we will not be stopped out of our investments due to exogenous factors such as a market correction.

Economic Outlook:

The Federal Reserve and Jay Powell emphasize how they are driven by data, and until incoming economic data comes in, they will hold rates steady. All the economic data coming in right now (with exception to manufacturing) is positive. Employment is at a decade low, inflation is low but it is not too far off from the Fed's 2% target, and consumer spending is still resilient and that is the bedrock of our economy (69% of the economy).

The Fed began cutting rates back in June, a move that was stated to be a "mid-cycle adjustment" as Jay Powell termed it. Since June, the data coming in regarding the economy is relatively the same, with the exception of manufacturing. PMI numbers, however, should be evaluated cautiously because this is the third time this expansion that PMI outlook has been depressed (2012, 2016, now). When you take into account the fact that we are in a trade war, the outlook for manufacturing is not surprising.

Inflation is stubborn at below 2% as we currently live in an economy with anchored inflation expectations, so the impact of cutting rates will not be as significant on inflation as it was back in the 80's. This anchoring of inflation expectations really started when the Fed announced a 2% inflation target, ever since then, the accelerationist Phillips Curve has not been valid. Therefore changes in U3 unemployment (especially gradual changes), will not have the same impact on inflation as they used to have historically.

Transmission mechanism takes at least a year, so since we started cutting in June, the earliest that the US economy should start to pick up is next summer. With that said, what we need to ask ourselves is does the Fed's historic transmission mechanism of lowering rates work at this low level of rates? This is important because if you think about it, there is an issue at this low level of rates because money has become practically free. What that means for businesses and investors is that every deal has been done, every stock has been bought back, every project has been funded. What free money has done is caused global overcapacity and so lowering rates may not solve that.

Going off that point, it is also important to keep in mind the existence of the credit window and current equity bubble in financial markets. What the credit window is, is the availability of loans and financing for companies who want to take on new projects or service their debt. The thing about the credit window is that it is either wide open or wide shut. Currently, with the nature of near zero interest rates around the globe, that has fanned the flame for excessive borrowing and a deterioration of credit standards. What that means is more and more deals are being made with lower yields and looser restrictive covenants, and eventually, there will be a tipping point where this causes the market to tank. The financial system is in a much more stable place overall than it was back in '08, but, Alan Greenspan's Fed that had a very low interest rate environment allowed all those poor deals to be made in the first place.

With regard to the equity bubble, stocks are overvalued and they are due for a correction, by easing the Fed is only making things worse because it is pushing more investors out of bonds and into stocks. The only way to really fix this bubble is to raise rates but that will not happen any time soon considering the guidance the Fed has recently given.

Lastly, instability in Repo markets has caused concern regarding short-term liquidity and the Fed's credibility in managing the short-term rates. The Fed is considering implementing a standing repo facility which will basically add reserves in order to keep short-term rates from rising. This mechanic is very different than adding reserves to try to push down long term rates which QE was doing. QE is about buying longer maturity assets to try to push down long-term interest rates. Repos are about trying to have enough reserves in the system in order to prevent upward pressure on short-term rates. In both cases, the Fed's balance sheet increases. Right now we have the 10 largest banks in the country hoarding 90% of reserves. These banks are afraid to exchange t-bills for reserves for various reasons. The Standing Repo Facility would drive down the demand for reserves and be a strong control system on the Repo rate.

Lastly, the trade war is a form of fiscal contraction, so right now we are seeing monetary easing and fiscal tightening, so theoretically, these two are offsetting each other. Since the tariffs are a tax on consumers that is a form of fiscal contraction. With that said, the impact of monetary easing is partially going to be offset by fiscal contraction.

GICS Sector Analysis

<u>Communication Services:</u>

Analyst Coverage: Michael Burnett & Dhvani Visaria

The Communication Services Sector has evolved and provided significant value to today's global market. This sector has maintained strong growth in line with the S&P 500 of 22.31% year to date. This June, S&P and MSCI Inc., the two largest index providers, announced that telecom was transforming to communication services, creating large changes within the market. Previously, the telecom sector was one of the smallest sectors' within the S&P 500 and was dominated by Verizon Communication Inc and AT&T Inc. By shifting stocks around the communications services sector is stronger with larger returns. The new S&P 500 communication services sector includes large-cap companies like, Facebook, Alphabet, and Netflix. Recently, there has been a rising demand in wireless technology, providing potential for revenues to rise. The release of the fifth-generation cellular wireless technology, forecasts further demand, as 5G is expected to increase network speed for consumers. Furthermore, advertising revenues have also been strong. Companies are creating more focused, and attractive advertisements that appeal to specific consumers.

While new technologies like 5G provide significant opportunities, they also come with significant costs and the profit outlooks for communications companies spending on 5G remains relatively uncertain. Building on that, large corporations in this sector have begun to attract the eyes of regulators. Large companies like Facebook and Google have substantial amounts of data on their users, raising privacy concerns relating to how they use this data to target certain demographics. Investing in any large communications/technology company now carries the threat of regulation along with it.

Valuations for the communication services sector are slightly cheaper than the overall market. The P/E multiple of the XLC registers at 21.06x relative to 23x for the overall market. Moving forward, exposure to the sector is certainly a possibility however due to regulatory concerns and the perceived maturity of larger communications companies, it is not a priority.

Current Holdings: N/A

Consumer Discretionary:

Analyst Coverage: Matthew Grohocki & Kyle Tesei

Retailers have been getting hit in 2019: Many large retailers including department stores and home improvement stores have faced accelerating reimbursement pressures as well as a soft housing market that has led to underperformance. However, a healthy U.S. economy through 2019 will stimulate a strong holiday season compared with December of last year. Consumer confidence, increasing wage growth, and a low unemployment rate should all combine to positively influence the consumer discretionary sector overall in 2020. As e-commerce continues to grow, and more companies utilize this channel, online sales will outgrow traditional retail sales growth. Online sales currently account for 15% of retail sales within the United States. The trade war, if prolonged through 2020, will hurt the consumer discretionary sector as a large majority of industries within this sector have large exposure to these tariffs. Overall, a continued economic expansion as well as growing ecommerce sales will stimulate the consumer discretionary sector through 2020. Regardless that retail has been negatively impacted from ecommerce growth, consumer discretionary overall is still seeing beneficial results due to growing consumer discretionary income.

Current Holdings: Las Vegas Sands (LVS) and Norwegian Cruise Line Holdings (NCLH)

Consumer Staples:

Analyst Coverage: Alex Flug & Matthew Grohocki

The Consumer Staples Sector has had a fantastic year, appreciating 25% year to date due to a declining economic backdrop and a rotation by investors into perceived safe-haven sectors. Consumer Staples is made up of sub-industries like Beverages, Food Products and Retailing, Tobacco, as well as Personal and Home products. The Tobacco industry has been a laggard of late due to shifting consumer tastes away from cigarettes and other Tobacco products. This is part of an ongoing trend towards health and wellness that is not likely to change in the near to long term. Select Personal products companies like P&G have been struggling with generic products taking market share as well as compressed margins from higher competition, however are still likely to grow in the near future due to their immense scale and in-favor investor sentiment. Food products and retailing segment has also had to deal with compressed margins based on low-cost trends and intensifying competition driving down prices. This is being combated by lean-operations however slowing growth and consolidation among players is a strong possibility. The reason that Investors have been flocking to the Consumer Staples sector is that many of the companies revenue's in this space are reliant on products that are not likely to be put off for later purchase, or replaced easily due to their necessity to life such as food and hygiene products. This perceived safety net gives investors the peace of mind that in the event of adverse economic conditions, the revenues and profits of many of the companies in this sector will be largely unchanged. As a result of this rotation into safe-haven stocks, the valuations of many of Consumer Staples companies have been pushed higher and therefore we see little value in the space to take advantage of currently.

Current Holdings: N/A

Energy:

Analyst Coverage: Alex Greco & Sean Monaghan

The energy sector is primarily involved in producing and supplying energy like fossil fuels and renewable energy. Industrial growth for years has been driven by the energy sector as energy has fueled the overall economy over this time. Non-renewables, fossil fuels, and renewable energy sources are types of energy that are produced in this sector. Energy companies are involved with supplying a variety of energy sources that are all vital for the economic growth.

The volatility of the energy sector depends on growth and earnings prospects for a variety of companies. The energy industry within the broader energy sector is more extensive diversified than only the oil and gas industry alone. Renewable and alternative energy sources are expected to play an important role in future economic progress, this will be perpetuated if the abundance of autonomous vehicles picks up and thrives.

With everything that has recently been going on globally, especially in Iran, the volatility of some energy companies within this sector has been high. Exxon Mobil, Chevron, and Total are all large energy producers in this sector and these companies themselves have seen a lot of volatility due to global affairs.

The energy sector through 2019 has significantly underperformed the broader market with a return of -9.32% compared with the S&P's 16.51% return. The TTM P/E for this sector was 17.51 and this sector is forecasted to achieve a P/E of 19.25 this year. This is a large discrepancy from what was achieved last year and brings to question the rationale of some companies valuations within this sector especially considering the sector was down 9.32% year-to-date. Revenue growth (TTM) was very small for this sector overall with only 1.47% growth. EPS growth (TTM) paints an even bigger picture with it reported at -55.41%. Overall, the energy sector has struggled through 2019 for a variety of reasons such as global tensions and supply concerns. This has caused us to be hesitant in looking at stocks within this sector however we will continue to monitor any developments that occur in this sector and act on any value creating opportunities if present.

Current Holdings: N/A

Financials:
Analyst Coverage: Austin Goll & Dhvani Visaria

The Financial Sector has maintained excellent growth in line with the S&P, appreciating by 24.79% year to date. The sector is comprised of companies that participate in activities such as banking, consumer finance, insurance, and real estate investment, providing financial services to both retail and commercial customers. The strong growth experienced year to date is primarily driven by the Banking and Consumer Finance industries, likely benefiting from the series of rate hikes from 2015 through 2018 that increased interest income. On a historical basis, however, rates have remained low as the yield curve flattens and inverts. When rates are low, the economic conditions open up doors for more investment, creating more economic growth. As net interest income gains greater influence on revenues, the more recent rate cuts may lead to shrinking margins. Despite this, average dividend yields from the sector have increased, and are now above the 10 year treasury yield. According to Fidelity Investments, this is a rare occurrence and bodes well for the future of the sector. With global market changes, we have seen many of these financial companies at a discount with ample room for growth. Overall, we expect the sector to continue to perform in line with the broader equity market.

Current Holdings: Discover Financial Services (DFS)

Healthcare:
Analyst Coverage: Julia DeMarkey & Alex Flug

Healthcare sector has had solid growth year to date, trailing the S&P with a 15.03% appreciation. The sector is comprised of two main groups, those who manufacture healthcare supplies or provide healthcare related services, and owners and operators of healthcare facilities and organization. Healthcare is one of the most complicated and largest sectors in the U.S. economy, compromising approximately one fifth of overall gross domestic product. It is marked by a few distinguishing factors. The government is highly active and intervenes within the sector quite regularly due to high regulation. Secondly, the demand for healthcare services is relatively price inelastic since patients cannot change nor predict the ailments they will face and the following needs, outcomes, and services. Lastly, transaction costs are high in both the provision and coordination of care.

In the past five years healthcare has benefitted from increasing total health expenditure, an aging U.S. population, and rising federal funding for Medicare and Medicaid. Although operators in the segment have and continue to experience changes in the regulatory environment due to political factors, the sector has been able to rise above these unfavorable changes.

The sector's outlook sees consistent growth in the future due to aging and growing populations, increased prevalence of chronic diseases, and advances in digital technologies to improve healthcare demand and spending. Providers and payers will also look to engage with consumers through digital health, wearable devices, and other technologies to improve patient engagement strategies to make better healthcare decisions.

Current Holdings: UnitedHealth Group (UNH)

Industrials:

Analyst Coverage: Nick Beckwith & Andrew Blackmore

The Industrials Sector includes manufacturers and distributors of Capital Goods (aerospace & defense, building products, machinery, etc.), providers of Commercial & Professional Services (commercial services & supplies and professional services), as well as Transportation (airlines, road & rail, air freight & logistics, etc.). The Industrials Select Sector SPDR Fund (XLI) has gained 23.7% year-to-date and has primarily been driven by strong performance by aerospace & defense companies as well as rail & logistics businesses. President Trump's tariff threats have negatively impacted many U.S. based manufacturers as they have significant exposure within their supply chain to foreign suppliers and distributors. The uncertainty surrounding tariff action or inaction moving forward has resulted in lagged performance by many industrial conglomerates, specifically General Electric Co, Nielsen Holdings, and Cummins Inc. Some of the major companies within this sector (which have performed well this year) include Boeing Co, Honeywell Inc, Union Pacific Corp, United Technologies Corp, and 3M Co.

Current Holdings: FedEx Corp (FDX), General Dynamics (GD), Spirit Aerosystems (SPR), and Allison Transmissions (ALSN)

Information Technology:

Analyst Coverage: Sean Monaghan & Kyle Tesei

The information technology (IT) sector is made up of those that produce semiconductor equipment, software, hardware, and internet services. The sector is broken down by industry by software and services, technology hardware and equipment and semiconductors and semiconductor equipment. Intel, our one previous holding in this sector, is in the semiconductor equipment industry within the IT sector.

Year-to-date, the IT sector has outperformed the broader market, yielding a return of 31.55% compared to the S&P's 16.51%. 2018's actual GAAP P/E was 31.18, with a TTM revenue growth yield of 8.37% for the sector. The estimate for 2019 P/E for this sector is 32.79, and that is slightly above the actual P/E from 2018.

Not unlike other sectors, IT has been getting hit with the development of trade tensions and the trade war because of the sectors large exposure to China and tariffs. As time progresses, and short-term trade war tensions are no longer a problem, this sector and its volatility specifically will wind down because it will not be as headline driven as it is today. We are keeping a long-run perspective on this sector and are evaluating where we see the next big trend happening in technology to cause a big shift in this sector. We believe the development of quantum computing and the cloud will play an enormous role in the future for both consumers and companies and we expect the transition from chips into more quantum computing to be a huge disruption for business both within, and outside the IT sector. Overall, this sector is healthy and has been performing very well year-to-date, as trade tension and further advancements in technology continue to develop new trends will serve as tailwinds for this sector.

Current Holdings: Intel Corp (INTC)

Materials:

Analyst Coverage: Nick Beckwith & Alex Greco

The basic materials sector is made up of companies who are involved in the development and processing of raw materials. This sector includes companies engaged in forestry, mining and metal refining, and chemicals. This sector is closely involved with construction and thus explains the volatility of many of these companies within this sector whose quarterly performance often depends on the construction environment and even housing starts. Within the basic materials sector, companies are involved in the physical acquisition, development, and initial processing of raw materials such as oil and gold. Mined products are the most popular material within this sector and include metals and ores.

This sector plays a vital role in the economy as many companies outside of this sector rely on this sector for their raw materials in order to manufacture their products. Therefore, this sector is very intertwined with many businesses and industries and can often trade of headlines pertaining to major customers / consumers of raw materials.

More so than most sectors, supply of raw materials, especially in regards to oil, significantly impact the volatility of this sector as a whole. Whenever headlines come out regarding a lack of supply of oil or any supply shocks cause price swings for many of the energy companies within this sector.

The P/E of this sector last year was 22.11 and is projected to be 21.93 this year. Revenue growth (TTM) for this sector was 11.32% with a 2.92% EPS (TTM) growth. Overall, this sector has underperformed the broader market, as Materials have returned 11.57% compared to the S&P's 16.51% return year-to-date.

Current Holdings: N/A

Real Estate:

Analyst Coverage: Julia DeMarkey & Austin Goll

The Real Estate Sector is comprised of three main segments; residential real estate, commercial real estate, and industrial real estate. The residential segment focuses on the buying and selling of properties used as homes or any other non-business purpose. The commercial segment is mainly used for business purposes, whether that be retail or office space. The industrial real estate segment includes properties for manufacturing and functioning. All of these segments include publicly traded real estate investment trusts (REITs) which are portfolios of properties whose stock prices investors will frequently use to determine and analyze industry trends.

Year to date the sector has enjoyed solid growth, appreciating by 23.42%. This growth is mainly fueled by the current low interest rate environment, which has given investors access to comparatively cheap funding so they can continue to purchase property with the goal of achieving a greater income. Another growth driver is apartment demand, which according to the Wall Street Journal reached a five year high this spring.

Moving forward however, the sector may face challenges related to its own reasons for success. Rising interest rates could slow investments flooding into the sector, while businesses pushing to meet apartment demand could lead to an oversupply. Despite these challenges, no immediate threats to the sector are present at this time and therefore our outlook is to marketperform.

Utilities:

Analyst Coverage: Andrew Blackmore & Michael Burnett

The Utilities sector covers services that range from electric power generation and transmission, natural gas distribution, steam supply, water supply, and sewage material. It also includes independent power producers and energy traders. More recently, it has focused on companies that engage in generation and distribution of electricity of renewable sources such as wind turbines and solar panels. Since utilities are part of the public services landscape, it is heavily regulated. Utilities is comprised of large companies that offer multiple services such as electricity and natural gas, and then there are many smaller companies that specialize in specific services such as water. The larger companies include American Water Works Company Inc., NextEra Energy Inc., Duke Energy Corporation, and Exelon Corporation, together making up approximately 10% of the Utilities market share. The other companies that make up approximately 90% of the market, compete at the regional level compared to the national level, due to the naturally fragmented nature of the industry from regulation.

Over the past five years, utilities has seen more stagnant growth due to low electricity demand and the declining prices in natural gas. Although these negative trends have affected the sector, an emphasis on clean energy regulation has benefitted many operators in the electricity-generation area. However over the next five years, utilities is projected to pick up steam and grow more rapidly. Future trends that will help utilities grow include an expected rise in electricity demand, increasing electricity prices, and a rebound in the price of natural gas.

Overall, this sector has underperformed the broader market as utilities has returned 12.52% year-to-date compared to the S&P at 16.51%. Last year, the utilities sector had a P/E of 27.58 and this year it is predicted to be 20.04.

Current Holdings: N/A

Portfolio Holdings

UnitedHealth Group (NYSE: UNH)

Analyst Coverage: Julia DeMarkey & Kyle Tesei

GICS (Level 1 → 4): Health Care → Health Care Equipment & Services → Health Care Providers & Services → Managed Health Care

On September 30th, 2019 we bought 456 shares of UNH stock at a price of $213.64 for a total of $97,420.

UNH operates two primary business segments: 1) Health Benefits (UnitedHealthcare) and 2) Health Services (Optum). Within the Health Benefits segment there are four business units: Individual & Employer (30%), Medicare & Retirement (41%), Community & State (24%), and Global (5%). Within the Health Services segment there are three business units: Optum Health (24%), Optum Insight (9%), and Optum Rx (67%). UNH is primarily a healthcare benefits provider and issuer of health insurance, however they have expanded their business to include a robust services business. UNH generates 79% of revenue from premiums and the remainder (21%) comes from sales of healthcare products, services, and investment. Some recent M&A activity we have seen for UNH includes Patients Like Me, Med Express, XL Health, Catamaran, & DaVita Medical Group. Acquisitions add synergies to UNH and allow UNH to cross-sell their business segments to new customers. Cross-selling, UNH will sell insurance policies through UnitedHealthcare to Optum users and sell health services through Optum to UnitedHealth Care users.

Our investment thesis is centered around three main points: Cost Advantage, Growth Potential, and Market Control. First, UNH's size and scope within the industry allow for cross-selling between their health benefits and health services business segments. This large membership base gives them negotiating leverage over their competitors leading to lower medical costs per member. Optum provides UNH with a unique competitive position as they are able to acquire more business by utilizing their current client base. Second, growth in policy enrollments and lower rates for customers allow for UNH to continue to be a low-cost provider to customers. Their previously mentioned strategic acquisitions have allowed the business to expand into different verticals within the healthcare sector in order to diversify revenue streams. Third, UNH has demonstrated significant market control through their insurance book and being able to effectively integrate acquisitions into their traditional business operations. Furthermore, by UNH combining their insurance operations with one of the largest pharmaceutical benefit managers (PBMs) in the country makes for sizable cost benefits compared with less integrated peers. On a state-by-state basis, United is positioned as either the largest or second largest insurer in premiums written in 28 states.

As of December 7, 2019, we have an unrealized gain of 31.15% on UNH.

FedEx Corp. (NYSE: FDX)

Analyst Coverage: Alex Greco & Sean Monaghan
GICS (Level 1 → 4): Industrials → Transportation → Air Freight & Logistics → Air Freight & Logistics

On October 2nd, 2019 we bought 521 shares of FDX stock at a price of $139.77 for a total of $72,820. On November 21st, 2019 we purchased an additional 269 shares at a price of $153.0872 for a total of $41,180.46. Our aggregate exposure now has a cost basis of $144.34.

FDX operates four primary business segments: 1) FedEx Express (53.5%), 2) FedEx Ground (29.5%), 3) FedEx Freight (10.9%), and 4) FedEx Services (6.1%). FedEx Express provides urgent courier services available 365 days a year. Interestingly enough, 90% of Americans live within 5 miles of a drop-off location. FedEx Ground has recently expanded services to 7 days a week and is transitioning to an independent service provider model (ISP). FedEx Freight specializes in Less-than-Truckload (LTL) shipping at flat rates. Recent advances in shipping and operations technology has allowed for increased efficiency and improved service quality. FedEx Services provides sales, marketing, IT, and customer service for our customers and other lines of business. Some recent M&A for FDX includes TNT Express in Europe, Flying Cargo Group in Israel, and Cargex in Latin America.

Our investment thesis is centered around three primary points: Market Overreaction, Growth Potential, and Growing Infrastructure. First, FDX was down ~46% at the time and we saw this as a market overreaction due to uncertainty surrounding the implications of the trade war. We believe that there is still significant value potential present in FDX. Second, FDX has phenomenal growth prospects through ecommerce expansion and further global expansion. Third, FDX's growing infrastructure through strategic investment in their fleets and specialization of services provides FDX with a significant competitive advantage.

As of December 7, 2019, we have an unrealized gain of 12.5% on FDX.

Intel Corp. (NYSE: INTC)

Analyst Coverage: Nicholas Beckwith & Michael Burnett
GICS (Level 1 → 4): Information Technology → Semiconductors & Semiconductor Equipment → Semiconductors & Semiconductor Equipment → Semiconductors

On October 4th, 2019 we bought 2,119 shares of INTC stock at a price of $50.34 for a total of $106,670.

Intel is one of the world's largest microchip makers. They design and manufacture microprocessors for the global PC and data center markets. Their business segments and revenue proportions are as follows; Client Computing/PC centric (52%), Data Center (32%), Internet of Things (5%), Non Volatile Memory & Programmable Solutions (6%).

Intel is primarily known for their PC centric products, manufacturing processors found in Dell, HP, and Lenovo computers. We view this revenue stream as a consistent source of cash flows for intel, allowing them to reinvest in business units with higher potential growth rates. Although PC revenues have been relatively stagnant in recent years, we see the potential for future growth in the segment primarily due to chinese gaming market tailwinds. Intel also maintains a dominant presence in the Data Center business where they've seen double digit growth in recent years. We believe that Intel will continue to dominate in this segment and benefit from an expanding total addressable market expected to reach $90 billion by 2022. Finally, Intel is expected to see high potential growth rates in their Internet of things group where they will benefit from continued adoption of AI and autonomous technologies. Intel is taking advantage of this market primarily through inorganic growth strategies, recently acquiring MobileEye, the world's leading autonomous vehicle technology company. We view this segment as well positioned, and due to Intel's significant cash balance and revenue streams we see them as being primed for success in the coming years.

Our primary reasoning for purchasing intel in the $50 range was our belief that the market was underpricing Intel's growth opportunities and dominant market positioning. At the time of purchase, Intel was trading at 11.4x price to earnings, a nearly 25% discount to its 10 year average P/E and a 44% discount to its competitors. We believe this to be a result of the markets fears of increased competition with the likes of AMD and Nvidia as well as fears of quantum computing dominance in the future. We see competitive fears as overdone presenting us with an attractive buying opportunity.

As of November 25, 2019 we have sold all 2,119 shares of INTC at a price of $57.99, representing a 15.2% realized gain. The liquidation of our Intel position is a result of our belief that the company's intrinsic value was being accurately represented by the market. We reevluated all relevant data and our previous valuation, as well as adjusted Q3 earnings data and guidance forecasts, we viewed the upside potential for Intel as limited based on their current market valuation.

Las Vegas Sands (NYSE: LVS)

Analyst Coverage: Michael Burnett & Matthew Grohocki

GICS (Level 1 → 4): Consumer Discretionary → Consumer Services → Hotels, Restaurants & Leisure → Casinos & Gaming

On September 30th, 2019 we bought 1,268 shares of LVS stock at a price of $57.34 for a total of $72,707.

Las Vegas Sands is the world's largest casino operator by market cap. LVS operates in three geographic regions, Macao (66% of revenue), Singapore (22%), and Las Vegas (12%). Macao is the largest gaming market in the world, generating nearly three times more gaming revenue than the city of Las Vegas on an annual basis. In this region LVS owns and operates 5 casinos and generates approximately 36% of total EBITDA produced on the Cotai Strip. LVS is competitively positioned in this reason and maintains durable barriers to entry as the Chinese government regulates gaming licenses to a maximum of 6. In the Singapore region, LVS owns and operates the Marina Bay Sands, one of Singapore's most visited tourist destinations. Here, LVS maintains significant competitive advantage as only 2 gaming licenses are issued in the region. Finally in the Las Vegas segment, LVS owns and operates the Venetian Resort and Sands

Expo Center. This region is significantly more competitive, however LVS has enjoyed consistently growing revenues in recent years.

Moving forward we believe that LVS will benefit from lucrative expansion opportunities as they improve upon their current structures and look to expand into Japan pending legislative approval and issuance of gaming licences. LVS will be expanding their famed Marina Bay Sands location where they will be building a fourth tower and convention center. They will also be rebranding currently existing casinos in Macao. These expansion and improvement opportunities will create value for shareholders as each new venture is projected to yield a return on invested capital in surplus of 20%, a significant premium to their cost of capital.

Our investment thesis for LVS is derived from four primary aspects. First, we see their competitive positioning in their respective markets as undervalued by the market. Legislative barriers to entry in both Singapore and Macao will provide durable barriers to entry for years to come. Second, we see their expansion and growth opportunities in their current markets as well as the potential expansion into Japan as extremely lucrative, the execution of these projects will create long term value on behalf of shareholders. Third, we view their capital allocation and selectivity when it comes to expansion as impeccable. LVS offers a 5% dividend and will continue to return cash to shareholders, only pursuing growth opportunities that will offer ROIC in surplus of 20%. Fourth and finally, we see the current stock price as a discount due to speculation that the Macao and Hong Kong economies may be slowing as a result of the trade war. We see risks related to the trade war as already factored into the market price presenting us with an attractive buying opportunity on shares of LVS.

As of December 7, 2019, we have an unrealized gain of 11.87% on LVS.

General Dynamics (NYSE: GD)

Analyst Coverage: Julia DeMarkey & Alex Greco

GICS (Level 1 → 4): Industrials → Capital Goods → Aerospace & Defense → Aerospace & Defense

On October 25th, 2019 we bought 535 shares of GD stock at a price of $176.23 for a total of $94,283.

General Dynamics is a global aerospace and defense company that offers a broad portfolio of weapons and services. They have five different business segments; Aerospace (24%) , Combat Systems (17%), Information Technology (23%) , Mission Systems (23%), and Marine systems (13%). Each segment has multiple business units that are responsible for its own performance. GD generates revenues by engaging in government contracts to produce specific defense equipment requested. When companies back out of deals earlier than expected, they are still required to front the costs already incurred and any planned labor through backlog agreements. Because of GD's highly innovative culture, we see them solidifying large government contracts in the future, as they continue to tend to changing technology demands.

Looking forward, military expenditures and commercial aircraft production are projected to increase in the coming years. Gulfstream, which is one of the business units in the Aerospace division makes up 60% market share in the commercial aircraft business. Furthermore, the amount of digital threats continues to increase as technology advances. With GD's most recent acquisition of CSRA, they were able to form their IT segment which is used to combat these types of problems. This distinguishes GD from other aerospace & defense companies which usually lack IT-specific segments. Because of GD's competitive advantage in their IT department, they have been able to successfully win large contracts with national governments over other aerospace and defense companies. We see this as a high growth segment that will provide GD with increasing returns over our 10-year time horizon.

Our investment thesis is based on the themes mentioned before with favorable industry trends, highly innovative culture, and recent M&A that has helped them grow tremendously in recent years. GD has slowly been acquiring small businesses worldwide to improve their customer service support resources. They operate repairs out of worldwide service centers that continue to produce revenue on already-sold products.

As of December 7, 2019, we have an unrealized gain of 4.15% on GD.

Norwegian Cruise Line Holdings (NYSE: NCLH)

Analyst Coverage: Andrew Blackmore

GICS (Level 1 → 4): Consumer Discretionary → Consumer Services → Hotels, Restaurants & Leisure → Hotels, Resorts & Cruise Lines

On October 28th, 2019 we bought 1,820 shares of NCLH stock at a price of $51.76 for a total of $94,203.

Norwegian Cruise Line Holdings is a luxury cruise line catering to middle class consumers. They went public in 2013 after previous ownership from Apollo Global Management. NCLH generates revenues through its 26 cruise ships, belonging to its three subdivisions: Norwegian Cruise Line (18 Ships), Oceania Cruises (6 Ships), and Regent (4 Ships). Each of these divisions generates revenue through ticket sales (70.4%) and Onboarding & Other (29.6%). NCLH's last acquisition was of Prestige Cruises International, Inc., comprised of the Oceania Cruises and Regent Seven Seas Cruises subdivisions.

The primary strategic goal moving forward is deploying eleven new ships over the next 8 years in order to grow the fleet from 26 ships to 37 ships and further increase available berths from 54,400 to 82,100 by 2027. This will allow for significant top-line growth of the next 8 years; however, management is relentlessly focused on further improving bottom-line performance in order for shareholders to realize significant returns as they embark on this strategic initiative.

Global expenditure on cruise lines is expected to reach $57 billion by 2027, compared to industry revenue of $38 billion in 2017, representing a 4.1% CAGR. There are 3 primary operators in this industry; Carnival (24.9%), Royal Caribbean (12.5%) and Norwegian (9%) represent 46.4% of the market.

Our investment thesis for this company comes in three parts: first it has an enhanced product offering, second it has a best in class yield out of its competitors, and third it is underpenetrated in the international cruise market. Its onboard experience includes key-card access enclave for its ships, music-oriented charters through its acquisition of Sixthman, and upscale berths on its vessels. Its best in class yield includes revenue generation from its Casino operations and onboard revenue through pre-cruise booking. Finally, NCLH has opportunities to grow international, especially in China. Chiense tourists spend on average of $2,000 per international trip and total outbound expenditures are expected to be $315 billion in 2020. NCLH looks to capture this through its cruise line, Norwegian Joy, which specifically caters to Chinese customers.

As of December 7, 2019, we have an unrealized gain of 5.7% on NCLH.

Spirit AeroSystems (NYSE: SPR)

Analyst Coverage: Andrew Blackmore & Matthew Grohocki

GICS (Level 1 → 4): Industrials → Capital Goods → Aerospace & Defense → Aerospace & Defense

On November 8th, 2019 we bought 1,667 shares of SPR stock at a price of $87.31 for a total of $145,546.

Spirit AeroSystems is one of the world's largest non-OEM designers and manufacturers of aero structures for commercial and defense aircrafts. Spirit applies research and emerging technologies in designing, fabricating, assembling and integrating components and structures for premier commercial and defense aerospace programs like Boeing and Airbus. SPR's primary business units comprise of Fuselage Systems (55.4%), Propulsion Systems (23.6%), and Wing Systems (20.9%).

SPR recently acquired Asco Industries for an original purchase price of $650MM in cash in 2018, and recently reduced this value to $420MM in 2019 due to unexpected issues during closing process. Furthermore, SPR announced the acquisition of select assets from Bombardier facilities in their 3Q19 earning call and will pay ~$1BB in cash. This acquisition will increase aggregate factory square footage by ~20% and provide additional revenue diversification with contracts for Boeing, Airbus and Bombardier components.

Our investment thesis began with recognizing that SPR's stock has been oversold in the last 8 months due to an overreaction surrounding the Boeing 737 crashes and subsequent indefinite grounding. We were able to get comfortable with this after learning that production has not slowed down as a result of this incident and is expected to increase in 2020 due to higher production capacity. Recent strategic acquisitions will allow for further revenue diversification over the next few years among our key customers Boeing and Airbus. Further, SPR's deep relationships with these key customers and suppliers of raw materials show that SPR is able to maintain adequate production levels and play a key role in the supply chain. Lastly, the ability to produce in high quantity and keep up with OEM demand show that SPR has the capabilities to further expand beyond existing relationships.

As of December 7, 2019, we have an unrealized gain of -3.45% on SPR.

Discover Financial (NYSE: DFS)

Analyst Coverage: Sean Monaghan & Dhvani Visaria

GICS (Level 1 → 4): Financials → Diversified Financials → Consumer Finance → Consumer Finance

On October 28th, 2019 we bought 1,374 shares of DFS stock at a price of $80.81 for a total of $111,033.

Discover Financial Services, operates as a direct banking and payment services company. Discover's goal is to provide banking and credit products that help people achieve their financial goals from establishing good credit, to paying for a college education, to consolidate debt. Discover is best known for their Discover-brand credit cards, which are used by more than 25 million members. Their direct banking segment makes up 82% of their revenues, this includes their credit cards, loans, and deposits. Their payment services makes up the rest of the 18%, including services such as PULSE, Diners Club, and Network Partners Business.

Over the past decade, there has been a movement called "the war on cash." Meaning that consumers are straying away from paying for goods in cash and switching to digital, debit, and credit payment options. We forecast that this "war on cash" will continue in the U.S. and accelerate internationally. Discover is a direct beneficiary of this trend which will only continue to grow in the future. An accelerating amount of the Millennial and Gen-Z cohort are now getting student loans, buying houses, and credit cards. Discover has a robust offering centered around students and a significant market share in this demographic. Discover will benefit from this greatly now, and in the future because of the historical credit card retention rate that people carry throughout their life.

Our investment thesis is based on their three main factors; competitive advantage with their closed-loop system, interest rate spreads, and international opportunities. Discover operates a closed-loop card system, meaning that they process a customer's transaction as well as finance their purchase. Their closed-loop system gives them a competitive advantage in security, efficiency, and user data. Discover generates most of its profits off of interest rate spreads from their credit card. The current interest rate environment is advantageous to them because they have access to cheap capital, and can still charge a significant premium in interest to their customers. Discover is primarily based in the US and has significant growth potential internationally, especially with their Diners Club Card.

As of December 7, 2019, we have an unrealized gain of 4.34% on DFS.

Allison Transmissions (NYSE: ALSN)

Analyst Coverage: Michael Burnett & Julia DeMarkey

GICS (Level 1 → 4): Industrials → Capital Goods → Machinery → Construction Machinery & Heavy Trucks

On November 8th, 2019 we bought 2,824 shares of ALSN stock at a price of $45.83 for a total of $129,424.

Allison Transmissions is the world's largest manufacturer of fully automatic transmissions for medium and heavy duty commercial vehicles and medium and heavy duty tactical U.S. defense vehicles. Allison operates under six distinct business segments: North America On-Highway (51%), North America Off-Highway (2%), Outside North America On-Highway (14%), Outside North America Off-Highway (6%), Defense (5%), and Services (22%). Allison's products are primarily found in class 6-8 trucks, school buses, motorhomes, US defense vehicles, and commercial vehicles primarily used in the mining, energy, and construction industries. Allison went public in 2012, just a few years after they were spun off as a subsidiary of GM. Since that point they have heald dominant market share in the US ranging from 70 to 80 percent in their target markets.

Demand for automatic transmissions has grown in the past three years and is expected to grow. Looking forward, Allison sees significant potential in markets overseas where countries are transitioning from standard to automatic transmissions. This is most prevalent in developing countries such as India and China due to their rapid growth with heavy traffic congestion and busy streets. Automatic transmissions are easier to drive in these types of conditions compared to the standard transmissions. The off-highway markets are also expected to grow in the next five years both domestically and internationally due to projected growth in the mining and fracking sectors.

Allison boasts impressive metrics from a free cash flow standpoint, they maintain a consistent double digit free cash flow yield that has grown at a 14.3% CAGR over the past ten years. Allison maintains industry leading EBITDA margins and ROIC, registering at 41.6% and 20.7% respectively. We see their ROIC metrics as a sustainable long term value creation method for investors. We also expect Allison to continue buying back shares in the high single digits, as well as issuing a consistently growing dividend, offering investors a double digit "no growth yield" over the years to come.

Our investment thesis is focused on the three themes just discussed; international growth, market control, and capital allocation. With favorable macroeconomic trends in countries overseas, Allison is hoping to increase their penetration of fully-automatic transmissions of 5% outside of North America. Allison holds a leading market position in many sectors and also maintains exclusive relationships with OEMs who in turn have exclusive relationships with customers. Lastly, Allison has proven in its solid performance with impressive financial metrics. They maintain a free cash flow yield that has grown at an excellent CAGR of 14.3% over the past ten years. They have greatly increased the number of their share buybacks recently with 10.66% in 2017 and 9.7% year-to-date. Additionally, they have been making strategic acquisitions to help foster their inorganic growth.

As of December 7 2019, we have an unrealized gain of 4.32% on ALSN.

Phillips-Van Heusen (NYSE: PVH)

Analyst Coverage: Alex Greco & Kyle Tesei

GICS (Level 1 → 4): Consumer Discretionary → Consumer Durable & Apparel → Textiles, Apparel & Luxury Goods → Apparel, Accessories, & Luxury Goods

On November 18, 2019 we bought 824 shares of PVH stock at a price of $99.59 for a total of $82,062.16.

PVH designs and markets branded apparel in more than 40 countries. Their key fashion categories include men's dress shirts, ties, sportswear, underwear, and jeans. They own two of the leading designer brands in the entire clothing industry; Calvin Klein and Tommy Hilfiger, which generate more than 80% of PVH's revenue. PVH also owns several smaller brands, including IZOD, Van Heusen, and ARROW, and also licenses brands from third parties. PVH distributes their clothing wholesale to retailers and through company-owned stores.

PVH has shown the ability to grow both organically and inorganically in the past. Organically, PVH has found various outlets to grow through including e-commerce, international expansion and the women's clothing market. PVH is adapting their direct to consumer sales platform and efficiency online showing their ability to grow with changing consumer trends. In 2018 PVH had $1 Billion in sales through their digital channels, which represents a 20% growth from 2017. The development of their e-commerce channel has helped reduce their dependence on struggling department stores.

Internationally, PVH has expanded through a variety of ways such as through their joint manufacturing venture in Ethiopia which will help them supply more clothing more efficiently to the European market. PVH continues to take advantage of joint ventures in distribution to support their brands globally. 50% of Tommy Hilfiger's apparel revenue is derived from Europe, likewise, PVH is further expanding their sales into Asia. Calvin Klein has large growth potential in Europe where Tommy Hilfiger already holds a strong presence.

PVH's main competitors are Ralph Lauren Polo, Under Armour, and VF Corp, but we believe the international growth potential for PVH poses a very significant revenue growth opportunity compared to their competitors. The consumer discretionary clothing market is already saturated in North America, that is why growth in China as well as Europe will help grow PVH over the next 10 years. We also included the possibility of an acquisition of a third large brand for PVH in our model. If this does occur, this will also significantly help grow PVH overall.

Our investment thesis is focused on both PVH's strong track record performance achieving both organic and inorganic growth, as well as their growing potential in both the foreign European and Asian markets. Correspondingly, we saw PVH's market price as undervalued relative to what we believed they should be worth based on their growth prospects. In our model, we accounted for capex associated with inorganic growth expenses and still calculated a fair price over 26% above where PVH was trading on the market. PVH was most likely undervalued on the market due to their exposure to China with all of the trade tensions going on right now. Likewise, PVH was being priced as if it was itself a retailer, however, PVH is not a retailer but an independent supplier of clothes who does not have one single retail customer accounted for more than 10% of their revenue stream. As retail has continued to struggle through 2019, PVH has irrationally been getting hurt as well regardless of relatively strong year.

As of December 7 2019, we have an unrealized gain of 1.83% on PVH.