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Letter to IAB

Dear Investment Board Members & UConn Foundation Board Members,

Our team would first like to start off by thanking you for the incredible opportunity that we have been given over the past two semesters. For the past 20 years the Student Managed Fund has been the pinnacle of the Finance Department and the School of Business, and, with exceptional instructors, students, and supporters, this program has flourished and grown to new heights. All of these individuals go above and beyond to contribute to the continued excellence of the program and the greater UConn community. We recognize that participating in this program is both an honor and a privilege.

Altogether, our diverse team of eleven students consist of athletes, officers, and workers from a variety of academic disciplines. This diversity of thought has allowed us to experience unique perspectives in both the in-class lessons as well as their out-of-class applications. With that being said, our team of eleven all agree that this program has been one of the, if not the most, impactful experiences while here at UConn.

Here at UConn, there are very few opportunities to merge in-class instruction with real world application. However, the Student Managed Fund has given us the opportunity to take on new experiences whilst navigating the consequences of our actions. We have all learned so much in such a short time thanks to the program, our instructors, and of course each other.

The Student Managed Fund has given us the opportunity to learn about a wide array of topics including risk mitigation, portfolio management, and fundamental analysis. Additionally, and perhaps most importantly, we have learned to think in a critical manner that encompasses all perspectives of a given situation. We continuously strive to integrate lessons learned from the program into our investing approaches and everyday thinking as we seek to see the world through a new lens. This newfound philosophy has enabled us to overcome emotions, bias, and mental roadblocks when investing in the most competitive markets in the world.

We hope that you enjoy our report and gain a better understanding of the approach, process, and strategy that we deploy for managing our part of the Foundation’s portfolio.

Sincerely,

Team White
Portfolio Overview

Investment Managers

Sam Berkun  Tyler Lasicki  Joe Mascaro
Brandon Milich  Garrett Noonan  Janjer Patel
Ryan Polistena  Abby Pyensen  Jack Rupff
Chloe Jihae Son  Hollis Wivell

Spring Officer Positions

Ryan Polistena: Co-Lead Manager
Jack Rupff: Co-Lead Manager
Garrett Noonan: Portfolio Manager
Tyler Lasicki: Digital Media Manager
Abby Pyensen: Communications Manager

Investment Strategy Overview

Benchmark & Style:
Our Investment strategy is simple: Invest in high conviction equities that are currently trading lower than their intrinsic value. We track our portfolio investments against the S&P 500, specifically the SPDR S&P 500 ETF Trust (SPY) which is used as the funds benchmark. We mainly focus on mid to large cap equities, however our mandate allows us to invest in fixed income assets as well. The team has elected not to actively pursue fixed income instruments given the low interest rate environment, and negative real yields. The fund also holds a mandate to invest in companies that demonstrate commitment to corporate social responsibility and ESG initiatives.

Philosophy & Strategy:
Our team follows a value investing mindset and therefore seeks companies with:

- An understandable businesses model with reasonably predictable cash flows
- A business with primary control over its own destiny and a buffer against uncontrollable events
- A business that generates more cash than is required to operate
• *A business that considers Environmental, Social, and Governance factors in all decisions*

• *A business run by honest, efficient, intelligent, and diverse management who treat shareholders as partners*

To achieve this, our team uses a mix of both top-down and bottom-up approaches where we identify specific companies and industries that we believe are underappreciated and then conduct fundamental analysis while weighing factors such as market capitalization, industry tailwinds, and other prospects to the firm’s and industry’s continued success. First, managers will find attractive investments within their industry coverage groups through comprehensive research while maintaining a conservative risk profile to carry out the investment philosophy. Then, managers will typically engage in comprehensive research, including calls with IR teams, and utilize university resources such as Bloomberg, Morningstar and NetAdvantage to gain a better understanding of both the industry and company in question. Finally, managers will utilize a plethora of valuation methodologies including discounted cash flows, economic value added, and discount dividend models, as well as sensitivity analyses, comparative analysis and exit multiples to better understand the current market pricing of an asset. The dispersion between the market price and our implied share value, using our conservative assumptions, can better assist us in making the decision to buy or sell a security.

**Process:**

Each week, our team screens 1-2 investment pitches that are presented by other team members. These pitches include a full valuation model, industry and company analysis, catalysts for future growth, and possible risks to the company. Then, all metrics are used to calculate the fair value share price. Following an in depth presentation, the team will discuss whether or not to allocate capital into the company. If selected, we then determine an appropriate position size after another round of votes based on our confidence in the selection.

**Selection:**

- Our team requires 8 out of 11 votes for minimum investment purchases
- Our team maintains a 15% maximum allocation limit on portfolio commitment for an individual equity
- All Dissenters (“No voters”) will have the opportunity to share their reasons for dissent prior to allocation voting

**Allocation:**

- Our team’s minimum investment starts at 5%, as we believe anything lower would introduce diversification risk to returns
- Our team requires a majority vote to move on to incremental percentage allocation. For example, if there are only 5 managers who voted “yes” to increase the allocation amount to 7% of the portfolio then the group would stick with 6% for that individual security.
After the foundation’s rebalancing efforts, our team continues to monitor and rebalance our equities as necessary.

Risk Management:
- Our team places stop loss orders are placed at 15% downside at the time of order.
- Our team actively rebalances our portfolio if a position is deemed to be “too big” and reallocate into either SPY or an existing equity that has been purchased.
- Our team typically only presents companies that maintain a 5% or more margin of safety over their market price. This reduces the downside risk and any potential drawdowns that may materialize.
- Our team is continuously conservative in all our estimates and take pride in the due diligence necessary to have realistic assumptions about future growth projections of each company or industry.
- Our team is not afraid to take disciplined profits and take all risk off the table.

Investments & Performance:
- As of April 6th, 2021, 99.95% of the portfolio was invested in 12 securities that fell into the sectors including: Industrials, Communication Services, Energy, and Technology.
- As of April 6th, 2021, the fund was outperforming the market with a total return of 35.3% compared to the benchmark of 21.2%.
- Top performers include: DIS (+54.97%), DE (+71.03%), GOOG (+36.26%), and EPD (+21.83%).
- Every company invested in by the team has yielded a positive return up to this point excluding TRTN, a recent purchase.
Economic Outlook

In order for our team to successfully invest and make prudent decisions, it is imperative that we understand the economic markets that we are investing into. Therefore, we prudently research, discuss, and debate what the current state of the economy is and where we believe it is going in the future (more specifically the next 10 years).

The US Economy

As of this report, an overwhelming majority of our investments are securities listed on either the NYSE or NASDAQ. Therefore, our portfolio is fairly sensitive to changing U.S. domestic economic conditions.

It is no surprise that we are currently experiencing a very unorthodox time in our nation’s history. Between COVID-19 and the political implications of an election cycle, the economy has been stuck between a rock and a hard place with a stock market that is even less discernible moving forward. We saw 33% growth in Q3 GDP versus Q2 with 2021 expected to see growth of around 8%. Unemployment hovering at 6.9% with long term NAIRU of 5-6% remains elevated compared to before COVID-19, but wage growth has been a solid 3.5% in Q3.

Real yields remain at all time lows and we have seen core PCE of just 1.4%. A very dovish Fed is expected to keep yields low for quite a while. This accommodation has made investors flock toward historically riskier assets (stocks) in an effort to make yield and therefore has continued to drive prices higher. In the near term, we believe it is important to take all these factors into account including: historically low rates, an extremely accommodative Fed, more expected fiscal stimulus, and a weak dollar when making investment decisions.

In summary, 2020 and 2021 has seen modest growth and recovery from the March and April lows of COVID-19, and we believe there will be strong growth to come in 2021. Additionally, historically low real yields and a Fed that is committed to their “lower for longer” strategy will
continue to drive fund flows into the equity market. Also, it is important to mention our value investing strategy. Although growth outperformed value by 30% in 2020, our portfolio has done incredibly well compared to the broader market. Expectations for value to outperform growth in 2021 remain high, but regardless, our investments into sound companies that derive real value help insulate us from more dramatic economic changes that can plague the markets.

**Sector Analysis**

**Communication Services**

The Communication Services sector comprises companies that offer services like traditional telecoms, as well as media and entertainment companies that facilitate communication and provide their own content. There are five major industries in this sector including Diversified Telecommunication Services, Wireless Telecommunications Services, Media, Entertainment, and Interactive Media & Services.

For 2020, the Communication Services Index had a return of 25.27%, outperforming the S&P 500 Index which had a return of approximately 18.5%. The sector has a large average P/E ratio of 39.70 and an average dividend yield of 3.82%. As a sector, YoY revenue grew just over 13%, but the Communications Services sector was one of the few sectors that stay-at-home guidelines benefited. The nature of their services proved essential for people in a stay-at-home environment, especially with consumers searching for home media and entertainment options, and these businesses saw a boom in demand.

This sector has not received all good news however, as an increase in calls for antitrust litigation against many of these large search engine/social media companies have brought regulatory uncertainty to these businesses. In addition, these same companies have been under scrutiny for their section 230 legal protections, introducing even more uncertainty into the future of these prominent companies. Yet, a strong potential growth driver is poised to advance this sector even further. The 5G rollout already underway should strongly support this sector as it spreads across the country and is woven into infrastructure. This will come with high capital expenditures in the near-term though, and the pandemic has slowed the process of the rollout. Overall, Communication Services should continue to grow despite some of these regulatory risks, particularly with the pandemic accelerating the expansion of many industries within the sector.

**Current Holdings:**

Alphabet Inc. – Class C (NASDAQ: GOOG)
Nintendo (OTCMKTS: NTDOY)
Walt Disney Co (NYSE: DIS)
**Energy**

The Energy sector focuses on businesses that provide the services and equipment that allow companies to extract sources of energy from the earth, along with companies that do the exploration, production, refining and marketing of fossil fuels like oil, natural gas and coal. Some industries that fall under this sector include Oil and Gas Drilling and Production, Pipeline and Refining, Mining Companies, Renewable Energy, and Chemicals.

The Energy sector struggled in 2020 falling nearly 38% for the year. This compares to the S&P 500 index which grew around 18.5%. This drop was caused by the onset of the pandemic, with a simultaneous price war between OPEC and Russia. With the price war initiated right as the pandemic exploded, a massive oil shock on both the supply and demand side rocked the sector. Although this price war quickly found a resolution, oil demand still remains depressed due to lack of demand brought on by COVID-19. This continued uncertainty for the oil market has depressed the energy sector, however better market conditions in 2021 could prime it for a bounceback year.

With the global economy recovering from the pandemic, oil demand should continue to return, albeit slowly. Additionally, large diversified energy companies are in a much better position now than a year ago—many with strong balance sheets and easy access to cash—which can drive growth going forward. These factors are positive overall for the sector, but the overarching uncertainty may continue to weigh on the sector as a whole.

**Current Holdings:**
Enterprise Products Partners (NYSE: EPD)

**Industrials**

The industrial sector stocks are generally involved directly in the production of capital goods like aircraft, electrical equipment, and industrial machinery, or the provision of transportation services and infrastructure. This is a broad sector that covers many industries, some of which include Aerospace & Defense, Construction & Engineering, Transportation Infrastructure, and Airlines. The wide range of this sector exposes it to many distinct industries, thus the pandemic had a diverse set of consequences for the businesses classified under this sector.

For 2020, the Industrials sector underperformed the S&P 500 Index, having a return of approximately 7% compared to the broader index’s approximate return of 18.5%. It had a massive average P/E ratio of 105.27, but a low average dividend yield of 1.93%. As a historically pro-cyclical sector, Industrials may be poised for a solid 2021 as markets have begun to trade
similar to what is normally seen in the early stages of a business cycle. The prospect of an increase in infrastructure spending is also good news for this segment and the steady recovery of the transportation and air freight industry should aid in the comeback.

One of the largest drags on this sector in 2020 was airline stocks, which were severely harmed by the COVID-19 pandemic. With business travel and tourism depressed, airlines experienced one of the most difficult shocks of all the industries. Fortunately, with progress made on the vaccine it appears that air travel may recover, but it remains to be seen if business & leisure travel ever return to their pre-pandemic levels. Despite all the uncertainty surrounding the extent to which some industries will be able to recover, macroeconomic tailwinds seem to be in favor of at least average performance of the Industrials sector.

Current Holdings:
Deere & Company (NYSE: DE)
Triton International (NYSE: TRTN)
Emerson Electric Company (NYSE: EMR)

Technology

The Technology sector contains nearly all the essential industries to today’s internet-powered, device-driven world. Dominated geographically by Silicon Valley, its six major industries include Communications Equipment, Electronic Equipment, IT Services, Semiconductors, Software, and Hardware. It is a highly concentrated sector, with a handful of its major companies representing over 50% of the sector’s weight due to their influence. As the premier sector of the twenty-first century thus far, this group continued its strong performance in 2020 as the onset of the pandemic only emphasized society’s reliance on these businesses’ products and services.

The Technology sector had a return of around 44% in 2020, far outperforming the broader market which saw a return of approximately 18.5%. The sector had a fairly high average P/E ratio of 46.31 and saw average EPS increase nearly 50% from the year before. Many of these technology stocks were at the forefront of the transformation to a stay-at-home environment, powering many of the software and devices people needed to work from home or interact with friends and family. Specifically, increasing consumer demand for PCs, gaming hardware, software, personal devices and online payment services drove this positive performance.

There are still many long-term growth drivers present for this sector and the effects of the pandemic only accelerated the digital trend that was already in motion. Yet, it is important to note that investor optimism on future growth potential has pushed these technology valuations well above their historical average. This, paired with the concentration of the sector in a few
companies, adds some uncertainty on if this sector can match its tremendous performance in 2020.

Current Holdings:
Citrix Systems Inc. (NASDAQ: CTXS)
Stamps.com Inc. (NASDAQ: STMP)
Lam Research Corp. (NASDAQ: LRCX)

Healthcare

The healthcare sector has seen sustained growth in the U.S. over the past decade. The industry accounts for close to 17.7% of U.S. GDP, and its share is expected to rise to 19.4% of GDP by 2027. Services offered by subsectors in healthcare include hospitals, ambulatory healthcare services, nursing and residential care facilities and social assistance services. Each of these subsectors have experienced steady increase in demand, driven by population demographic changes and increasing healthcare expenditures.

The coronavirus pandemic has imposed pressure on the global healthcare sector to accelerate adaptation and innovation. The impact is evident in the industry’s transition to patient-centric models, increased investment in technology, and accelerating use of value-based care models.

The recent adoption of digital health innovations, such as tele-healthcare, has paved the way for significant cost savings and enhanced accessibility to care. Medical technology and innovation is positioned to revolutionize the healthcare industry, with the medical device market expected to reach $641Bn in global sales by 2023. Healthcare organizations’ expanded use of cloud data and analytics, coupled with value-based payment models, have resulted in improved outcomes at lower cost for consumers and providers alike. Not to mention, demographic changes are a key driver of growth in the industry. Medicare is the fastest growing segment of the health insurance market, with 10,000 baby boomers aging into Medicare daily. Over the course of the elections, healthcare has been a predominating topic among voters and legislators. Under the Biden Administration, healthcare policies may shift to enhancing the Affordable Care Act (ACA) which may result in state incentives to expand Medicaid coverage and the roll-back of certain Trump-era healthcare policies.

Current Holdings:
UnitedHealth Group (NYSE: UNH)
Financials

The financial services sector contains companies that provide financial services to commercial and retail consumers. Types of firms include banks, investment companies, insurance companies, real estate firms, and more. The sector is typically divided into seven different industries made up of the following: Banks, Capital Markets, Consumer Finance, Diversified Financial Services, Insurance, Mortgage REITs, and Thrifts and Mortgage Finance. This sector has gone through many changes over the last few decades with technology rapidly changing what is possible for many financial companies.

The financial sector has returned just over 80% over the last twelve months which compares favorably to the S&P 500 index which has returned just under 50% over the same time period. Many banks achieved new heights during the COVID-19 pandemic as they came to support businesses desperately in need of cash during the early months. With increased consumer spending and an economy primed for an explosive year, the financial sector appears to be in a good position to continue the success it has seen over the last year.

Low interest rates remain a risk for this industry and the Federal Reserve has indicated that rates could remain low for the foreseeable future. This could weaken future profits for banks, but a strong economic recovery with these low rates would be an overall positive for the sector. Questions still remain on truly how well the economy can bounce back as the reopenings continue, but the financial sector should have a sturdy runway for another year of strong performance.

Current Holdings:
Synchrony Financial (NYSE: SYF)

Unallocated Sectors

Five other sectors—Consumer Discretionary, Consumer Staples, Materials, Real Estate, and Utilities—remain unallocated in our portfolio. We acknowledge the importance of diversifying our portfolio across multiple sectors to hedge against sector-specific downturns, and have worked diligently to find the best companies within the six sectors we have already allocated in our portfolio. Nevertheless, we also believe that diversifying for diversification’s sake can harm an investment strategy as our value investing principles should not be compromised simply to invest in a company in a specific sector. Our intention is always to find companies that meet our rigorous standards regardless of their sector. Therefore, investments were not forced in order to gain exposure to any one sector.
Portfolio Positions

Deere & Company (NYSE: DE)

On September 22, 2020 we purchased 464 shares of DE for $217.58 per share at a total cost of $100,957.00.

John Deere operates under 3 segments: Agriculture and Turf (A&T), Construction and Forestry (C&F) and Financial Services. Under their A&T segment, Deere provides a full line of equipment for all farming and turf needs including crop harvesting, turf and utility, hay and forage, crop care, and tractor equipment. Under their C&F segment, Deere provides a full line of construction, earthmoving, roadbuilding, and timber harvesting equipment. Deere maintains the most complete forestry equipment in the world. As part of a recent acquisition in 2018, Deere added Wirtgen Group in order to capitalize on growing demand for road development and maintenance. Under their Financial Services operations, Deere provides credit servicing, mainly for retail purchases and used equipment taken as trade-ins. A growing, yet stable business under their financial arm is their equipment leases to governmental organizations.

DE operates in two major industries: construction and agriculture. The construction industry is closely tied to the global economy and economic growth and can therefore often be more risky. This sector is highly influenced by the real estate market and has seen solid advancements in recent months with positive housing start figures. Moving forward, national and global construction spending is supposed to continue to expand into 2021. The agriculture industry saw short-term destabilization in commodity prices during the pandemic but has since recovered. Farmer sentiment remains fluid and continues to improve with a strong outlook on crop prices for 2021 ahead.

As a leader in the farm and heavy construction industry with a supportive financing arm, John Deere (DE) is a standout among its peers and is poised for both conservative and continual growth for years to come. We see 5 key drivers that will continue to propel DE forward in months and years to come. Firstly, with utilization of new technologies and AI, along with robust R&D expenditures, DE continues to remain the market leader in precision agriculture. Secondly, the growth in their Construction & Forestry arm (C&F) will be supported by a pending infrastructure bill, urbanization, and movement into more road building activities. Thirdly, the U.S.-China trade deal presents the opportunity for an additional $200B in crops to be purchased from farmers and therefore prop up the agriculture industry in general. Federal assistance to crop losses from the pandemic will also continue to boost farmer confidence and capital, thus allowing them a great opportunity at purchasing DE equipment. Finally, growth in aftermarket
sales as the result of an ageing equipment fleet will spur new demand and top line growth for DE.

Risks to DE include: operating in highly competitive markets that are on the nexus of technological innovation, heavy reliance on raw materials for production of their machines makes them vulnerable to price swings, changes in the real estate and infrastructure markets can have a significant impact on the C&F arm of the business, and fiscal and monetary changes in governmental policy could adversely impact John Deere’s growing financing arm.

DE’s corporate social responsibility highlights include: Compliance with emission standards, promoting stewardship of the land, empowering economic development, and promoting and growing an independent and diverse Board of Directors.

As of April 2021, we had an unrealized gain of 75.73% on DE.

**Alphabet Inc. – Class C (NASDAQ: GOOG)**

On October 16, 2020 we purchased 89 shares of GOOG for $1,568.88 per share at a total cost of $139,630.54.

Alphabet Inc. (GOOG) is a holding company that operates through the Google and Other Bets segments. Its most prominently known segment, Google, includes its main internet products. The Other Bets segment consists of early innovative businesses. These moonshot inventions operate with the goal of solving radical problems as thriving businesses in the medium to long-term future, and range from an autonomous vehicle unit to helium balloons that provide solar-powered internet services in remote areas.

Google operates in four major industries: search engines, digital advertising, cloud computing, and hardware products. We see potential for growth in each of these, while focusing on gains in the cloud computing industry amidst the COVID-19 pandemic and the transition to work from home. We believe that there is substantial potential for Alphabet to capture market share in this segment via Google Cloud Platform and G Suite Productivity Tools. A glimpse of this was seen during the first quarter of 2020. While the advertising business was struggling, Google Cloud revenue increased 52%.

We believe that Alphabet’s strong position in the tech industry coupled with continuous innovation will allow it to continue leading the sector and delivering above average returns. Growth in the cloud computing industry will allow Alphabet to continue having an edge over competitors. This potential combined with Google’s footprint in the advertising space and its
ability to pursue alternative investment opportunities via Other Bets will allow it to remain at the forefront of the tech industry for years to come.

There are multiple risks that could negatively impact the share price of Alphabet. During the COVID-19 pandemic, weakening revenues were seen in the digital advertising business. This was due to shifts in the digital ad ecosystem and changes in consumer behavior. As the vaccine begins to be rolled out, we expect the advertising industry to recover as businesses gain traction once again. Regulatory risks are a constant concern for a company with the size and depth of Google. This fall, the Department of Justice’s antitrust probe joined one of many accusations in anticompetitive behavior and of biased search results that Google has been accused of.

In our valuation, we assumed a weighted average cost of capital of 9.5%. We believe that a terminal growth rate of 3.5% is justified by Alphabet’s ability to continue dominating the advertising market while expanding into other areas of potential growth, highlighted by expansion in the cloud computing industry. Our target price is $1,738.56 with a margin of safety of 9.78%.

As of April 2021, we had an unrealized gain of 53.62% on GOOG.

**Nintendo (OTCMKTS: NTDOY)**

On October 23, 2020 we purchased 1,492 shares of NTDOY for $65.51 per share at a total cost of $97,740.47.

Nintendo is an international leader in the interactive entertainment industry. It develops, produces, and markets hardware and software for both TV-linked and handheld consoles. It maintains a vast collection of intellectual property, owning beloved characters like Super Mario, Pokémon, Kirby, Donkey Kong and more. It currently derives the vast majority of its revenue from the Nintendo Switch platform. This consists of the Switch and Switch Lite consoles, thousands of software titles, and the Nintendo Switch Online service.

The Consumer Electronics and Video Games industries are rapidly growing due to changes in consumer tastes, which has only accelerated due to the stay-at-home orders brought on by the COVID-19 pandemic. In fact, according to a study by NPD, 32 million more Americans are playing video games in 2020 than there were playing in 2018. Additionally, 35% of gamers have reported higher playing times and 94% reported an increase in engagement on platforms they were already using. Nintendo is poised to take advantage of this blossoming industry, despite the fact that their two competitors, Sony and Microsoft, released their next-gen consoles in mid-November 2020. The PlayStation 5 and the XBox series X do not compete directly with Nintendo’s flagship platform--the Switch--as the Switch has a different target demographic with
a lower price point, exclusive Nintendo titles, and even its design which features portable handheld gaming. Indeed, Switch sales have continued to increase and outnumbered both the Series X and PS5 in November.

In our valuation, we calculated a weighted average cost of capital of 9.3%, and used a terminal growth rate of 4.5%. Our target price was $73.26, and this gave us a margin of safety of 7.8%. Nintendo has easily surpassed this mark, selling for $79.15 at market close on January 14, 2021.

Nintendo’s current business model and product offerings, along with its future prospects, position it for success and growth moving forward. It continues to enjoy booming and growing success from its flagship Switch platform, and saw outstanding performance in the last fiscal quarter and holiday season. Its Nintendo Switch Online service grew 73% from January to September and represents a source of growing recurring revenue. Incredible results from new game releases like *Super Mario 3D All Stars*, as well as a slate of upcoming game releases and growth in the mobile gaming segment also point to a promising future. New, unique, products like *Ring Fit Adventure*, an exercise action role play game, and *Mario Kart Live: Home Circuit*, an augmented reality game, should be growing sources of revenue. COVID-19 has resulted in a boon for the video game industry, and Nintendo has reaped the rewards, growing sales 113% last quarter. Its surge in hardware sales represents a foundation for more software sales. The company’s exclusive family of characters represent a competitive advantage over rivals and a stable source of demand. Its rock-solid balance sheet, with zero debt and over $14 billion in cash, lowers risk.

The greatest risks facing Nintendo include competition from rival hardware and software manufacturers and disruption of supply chains and delays in product launches associated with the COVID-19 pandemic. Additionally, foreign exchange fluctuation has the potential to hurt revenue realized from international sales. A potential decline is Switch sales would hurt the company, as these represent most of its revenue.

Nintendo emphasizes protecting the environment and working towards a sustainable society. It relocated its Spain office to reduce energy consumption; its U.S. office committed to using 100% renewable energy. All offices are committed to the most efficient shipping and operating strategies to reduce energy consumption and CO2 emissions. The company publishes a Corporate Social Responsibility report every year detailing its efforts in this area. It has an ESG score of 18, which is classified as “Low” and ranks it 79th out of 765 companies in the “Software and Services” industry.

As of April 2021, we had an unrealized gain of 9.74% on Nintendo.
The Walt Disney Company (NYSE: DIS)

On November 3, 2020, we purchased 584 shares of DIS for $121.94 per share at a total cost of $71,212.96.

The Walt Disney Company is a diversified family entertainment and media enterprise, who over the years has successfully acquired and integrated subsidiaries such as Pixar, Marvel, and 21st Century Fox. Disney operates in four business segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct to Consumer & International. Having successfully created a one-of-a-kind, integrated platform, their engaging consumer experience and creative storytelling has created lifetime brand loyalty passed down through generations.

Disney does business across three large market segments: pay – TV market, travel & tourism, and movies & streaming. The pay – TV market has seen a general, slow decline in revenue production in recent years, as consumers are moving away from cable. Disney was impacted greatly by the onset of the COVID-19 pandemic, having to completely close down all studio entertainment production, as well as parks and experiences. Now, with phased reopening strategies, they are starting to see a reprieve, but the closures of these industries negatively impacted revenues across all businesses. A bright spot stemming from the pandemic has been the success of streaming. Stay at home orders, along with work from home and a general consumer preference to avoid potential exposure hazards has brought ‘binging’ on direct-to-consumer platforms to the forefront. Subscriber growth has grown, and an emphasis is being seen in the release and conception of original content.

In our valuation, we calculated a weighted average cost of capital of 9.5%, and used a terminal growth rate of 4.5%. Our target price was $141.68, and this gave us a margin of safety of 14.9%. Disney has reached share value levels far greater than our implied share price, as it has reached a price of $171.44 as of market close on January 15, 2021.

We believe that Disney is uniquely positioned to remain a leader amongst their peers, as well as become a prominent player in the emerging streaming sector. Already a market leader in global entertainment, the Company has an unrivaled ability to create and monetize brands through dominant franchise. Their broad diversification across business segments will allow for accelerated growth in the DTC segment; with a global portfolio already exceeding 100MM paid subscribers. On top of this, they have developed Strategic acquisitions and partnerships that have grown their already expansive content library, as well as opened more opportunity into DTC with their 67% ownership in Hulu through the acquisition of 21st Century Fox. Despite the negative impacts from the pandemic, we see this as only temporary and recognize Disney’s unique market position and the plans they are making for prolonged success.
The greatest risks facing Disney include prolonged negative impacts resulting from the COVID-19 pandemic, as well as concerns related to their newly expanded upon DTC focus. In regards to the pandemic, continual resurgences of cases could cause greater limited capacity constraints and even more shutdowns of in-person business segments such as Parks, Experiences and Products, and Studio Entertainment. Both of which make up a large majority portion of DIS revenues. Pertaining to DTC, these risks focus on increased competition in the space of original content releases and insufficient subscriber base growth in streaming ventures.

Disney’s approach to corporate social responsibility is built on their long legacy of community and workplace engagement. Some highlights from FY2019 of their many, wide-reaching programs include: $338.2M in charitable contributions, 315 acres protected through their conservation effort, and 612,000 hours of volunteer work recorded. Additionally, their environmental sustainability commitment to protect our planet as they grow their business has brought about change for more sustainable designs and a move to renewable electricity.

As of April 2021, we had an unrealized gain of 52.55% on DIS.

**Enterprise Products Partners (NYSE: EPD)**

On November 12, 2020 we purchased 5,319 shares of EPD for $18.28 per share at a total cost of $97,231.22.

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.” They are a midstream energy company with operations that 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 50,000 miles of pipelines; 260 MMBbls of storage capacity for NGLs, crude oil, petrochemicals and refined products; and 14 Bcf of natural gas storage capacity.

The industry is in the midst of a transition that began as commodity prices began falling in 2014. The strongest players have practiced financial discipline and laid the groundwork for future growth, while the weaker players have struggled to continue paying distributions (leading some to restructure in order to survive). EPD has shown a best-in-class ability to operate in these
conditions by continuing to increase its distribution while maintaining a superior, investment grade credit rating and executing on its growth projects.

EPD is positioned to grow due to its diverse portfolio of operations, strategic usage of its current assets, and its entrance into innovative technologies and commodities. With over 50,000 miles of pipelines, and tentacles in multiple commodity markets, EPD will be a first choice for NGL and other commodity producers for years to come. Additionally, although the company continues to build new projects, EPD has been able to take advantage of assets already in service in order to capitalize on the influx in volumes, for example within the Permian Basin. Finally, placing an emphasis on LPG and petrochemical products will allow EPD to expand its horizons all the while helping emerging markets in their quest for societal development.

Risks to EPD include: accidents along its extensive network, deterioration in commodity demand and political action against energy emancipation.

EPD’s corporate social responsibility highlights include: harnessing solar-sourced power and continuing to expand its facilities, a YoY decline in total CO2 emissions – 19% improvement over the last decade, and LPG Exports can eliminate 20 million metric tons of CO2 emissions compared to coal.

As of April 2021, we had an unrealized gain of 29.32% on EPD.

**Citrix Systems Inc. (NASDAQ: CTXS)**

On November 20, 2020 we purchased 979 shares of Citrix Systems for $121.85 per share at a total cost of $119,291.15.

Citrix is an enterprise software company who creates a digital workspace that provides unified, secure, and reliable access to all applications and content employees need to be productive - anytime, anywhere, on any device. This is all because they want to help companies improve the productivity and user experience of their most valuable assets, their employees. Citrix accomplishes this goal through their flagship product, Workspace (70% of revenue), and associated services. Citrix is in the process of transitioning their customers to the cloud, and from a perpetual license to a subscription business model. This will include benefits such as predictable revenue streams and reduced COGS. Citrix also has long standing partnerships with firms such as Microsoft and Google and a number of large and reliable customers including 99% of the Fortune 100.

Although the reopening of the U.S. economy may result in businesses moving a range of employees back into offices, it is likely that the work- from- home structure and employee
flexibility will remain in place. In 2019, 16% of workers were fully remote, this number has jumped to 80% in 2020. It is unlikely that this trend will continue perpetually, however even if this number reverts back to ~20% in 2021/2022 it is likely that clients will retain the software regardless, still requiring a base level of remote work infrastructure. In addition to accelerating work from home (WFH) software adoption, COVID-19 has also validated the idea that people can be productive at home. It has proven that businesses can continue to operate despite a bulk of their workforce working from the confines of their own home. This validation paired with peoples neutral or positive experiences with WFH will be a long-term driver of Citrix client retention and growth.

Our thesis holds that Citrix is at the forefront of a long and persisting shift to work from home and flexible work options. They are well positioned to take advantage of this due to their transformation to a subscription SaaS business model, longstanding (sometimes 30+ year) partnerships and client base (including 98% of the Fortune 500). All of this working in tandem with Citrix’s reasonable price relative to its peers, puts Citrix in a unique opportunity to create and sustain tremendous value.

In our valuation, we assumed a weighted average cost of capital of 9%. We believe that a terminal growth rate of 4.5% is justified by Citrix’s strong long-term positioning and existing relationships. Our target price is $125 with a margin of safety of 5.4%.

The most relevant risks and considerations for CTXS include, but are not limited to its reliance on strategic partnerships that are essential to their business and the potential for specialized new SaaS competitors to disrupt their business

As of April 2021, we had an unrealized gain of 15.16% on CTXS.

**Stamps.com Inc. (NASDAQ: STMP)**

On December 8, 2020 we purchased 360 shares of STMP for $203.84 per share at a total cost of $73,382.40.

Stamps.com is a leading provider of internet based mailing and shipping solutions in the United States and Europe, offering services through the Stamps.com, ShippingEasy, ShipEngine, ShipStation, ShipWorks, Endicia, and MetaPack brands. It offers mailing, multi carrier shipping, consolidation, supplies, branded insurance, back-end integration, and mailing and shipping supplies. It targets small businesses, home offices, larger enterprises, e-commerce merchants, and high-volume shippers. The vast majority of business derives from its mailing and shipping services. It’s mailing services allow customers to print USPS approved postage from their offices, along with other advantages like discounts on postage. Its shipping service
customers to print shipping labels, and offers services such as importing customer orders directly from partners such as Amazon and Shopify, order tracking, automatic optimal delivery, and exclusive UPS and USPS discounts. It charges monthly subscription fees for both these services to small and medium-sized businesses, and offers individual pricing plans for enterprise mailers and warehouse shippers.

Stamps.com is inherently linked with two industries that are poised to experience rapid growth in the near future. Both the E-Commerce industry and the Global Parcels industry have benefited greatly from the explosion of online shopping and Stamps.com plays a pivotal role in connecting businesses with E-Commerce and shipping companies. With consumers moving their shopping habits increasingly to the internet, the E-Commerce industry has been growing quickly and still has much more room to grow. The E-Commerce industry is projected to record a 20.6% CAGR over the next seven years and is expected to reach a total market value of $4.5 trillion by 2027. Additionally, the Global Parcels market grew by about 13% from 2018 to 2019, reaching a total value of $430 Bn. The United States Postal Service, an important carrier partner of Stamps.com, has also seen its annual shipping/package volume double over the last decade from 3.1 Bn to 6.2 Bn. Both of these trends have only accelerated due to the COVID-19 pandemic and even with restrictions largely being lifted, many of these trends should continue.

In our valuation, we assumed a weighted average cost of capital of 8.4% and a terminal growth rate of 3%. Our target price is $221.13 with a margin of safety of 10.6%.

Stamps.com has seen business boom during the COVID-19 pandemic, and stands to see future benefit from its effects. Stamps saw a 32.8% increase in paying customers and a 9.9% increase in revenue per customer in the third quarter. These increases were primarily from increased shipping volume, which Stamps can better monetize compared with flat subscription fees. Because of this and e-commerce trends, these new and higher paying customers represent a sustainable source of growth and revenue moving forward. Stamps.com’s partnerships with current e-commerce leaders like Amazon and PayPal as well as up and coming leaders like Shopify, position it well to take advantage of the booming e-commerce market as well. Its partnerships with MercadoLibre and Alibaba as well as its Global Advantage Program, which makes international shipping quicker and more convenient, position it to benefit from growing international e-commerce. The company’s extremely safe financial position, with zero debt and $400 million in cash reserves, position it to comfortably make future acquisitions and withstand downturns.

Risks to STMP include: a growing list of competitors, inconsistency in sustaining organic growth without acquisitions and a larger-than-expected decline of e-commerce in the post-COVID-19 world.

As of April 2021, we had an unrealized gain of 3.13% on STMP.
On December 14, 2020 we purchased 190 shares of UnitedHealth Group for $338.53 per share at a total cost of $64,320.

UnitedHealth Group is a managed care company focused on enhancing the performance of health systems and overall health and well-being of people as well as working with healthcare professionals to expand access to high-quality, affordable health care. UnitedHealth Group works in two segments: UnitedHealthcare and Optum. UnitedHealthcare is a provider of health benefits, care management, and care delivery for multinational employers, governments, and individuals around the world. UnitedHealthcare caters to approximately 14% of the insured population. Optum is a health service business that serves the broad healthcare marketplace, payers, care providers, employers, governments, and life sciences companies and consumers. Optum operates in three divisions: OptumHealth, OptumRx, and OptumInsight.

The healthcare industry has been deeply affected by the Coronavirus pandemic. Although non-emergency services were at a standstill in 2020, the rescheduled procedures are expected to pick up in 2021 and Medicare enrollment is poised to exceed 9% enrollment in 2020. In addition, the health share of GDP is expected to be 19.4% in 2027. Furthermore, the medical device technology is projected to reach $641B in sales by 2023, and UnitedHealth Group currently invests $3.5B in technology and innovation annually.

We believe that UnitedHealth Group is a strong investment due to its dominant market franchise, strategic mergers and acquisitions and technological innovation. We are confident that despite Covid-19 and other recessionary factors, UnitedHealth Group will be able to generate significant revenue in both their UnitedHealthcare and Optum arms. In addition, Optum’s innovative technology and advanced data analytics tools will help grow medical device sales as well as develop their technological advancement goals.

In our valuation, we assumed a weighted average cost of capital of 9%. We believe that a terminal growth rate of 3% is justified by UNH’s ability to deliver sustained value to a growing base of consumers through their diversified family of business. Our target price is $379.01 with a margin of safety of 12.15%.

UNH is a dominant managed care organization with competitive advantages in the commercial, Medicare, and Medicaid markets. The company has executed an array of strategic acquisitions, resulting in a diversified family of business and competitively low costs. Lastly, the healthcare industry is poised for accelerated growth driven by technological advancements and innovation, the growing Medicare population, and increasing healthcare expenditures. UNH’s diversified core competencies and competitive positioning in the market will enable the
company to fully capitalize on the industry growth for years to come.

The most relevant risks and considerations for UnitedHealth Group include high government regulations and increased medical costs. States require periodic financial reports and enforce minimum capital or restricted cash reserve requirements. In addition, the changing healthcare policy environment in the United States means that UnitedHealth Group needs to adapt to changes in healthcare policy rapidly. That being said, there has already been significant consolidation at the top of the managed care industry. In terms of increasing medical costs, the company depends on its ability to predict, price and manage medical costs to maintain profitability. OptumInsight’s technology and data capabilities allow UHG to more accurately predict, price and decrease medical costs, which we believe will counter the increasing costs that UnitedHealth Group may face.

UNH’s Social Responsibility Highlights include continued investment into sustaining and building a diverse workforce. The company is leading in the development of a next-generation health System - a system that increases access to care, makes care more affordable, enhances the care experience and improves health outcomes. the safety features of its machines - in a socially conscious way.

As of April 2021, we had an unrealized gain of 23.37% on UNH.

**Synchrony Financial (NYSE: SYF)**

On January 20, 2021 we purchased 2,525 shares of Synchrony Financial for $38.81 per share at a total cost of $97,990.

Synchrony Financial is a consumer financial services company that delivers credit, promotional financing, and loyalty programs across a number of industries. Synchrony was derived from its parent company, GE Capital Retail Bank, in June of 2014. The business can be broken down into three main subcategories: Retail Card, Payment Solutions, and CareCredit.

Synchrony’s Retail Card is the leading provider of private label credit cards while also supporting Dual Cards and small and medium-sized business credit products. Payment Solutions is the leading provider of promotional financing for major consumer purchases through private label credit cards and installment loans. CareCredit is the leading provider of promotional financing to consumers for out-of-pocket healthcare expenses. These costs include a range of coverage such as dental, veterinary, cosmetic, vision, audiology, and others.
Harmed by the onset of the COVID-19 pandemic, consumer spending reached record lows as customers stayed home and many decided to save money through the uncertainty. Yet despite the flat income and earnings growth, spending expectations rose to its highest level in four years in November at 3.7%. With this, credit card purchase volumes have steadily recovered, likely spurred by a combination of government stimulus and record low interest rates. This recovery in the unsecured lending market has been stronger than many expected with the average perceived probability of missing a debt payment over the next three months coming in below the 2019 average at 10.19%.

Furthermore, with the short end of the yield curve firmly held at the zero lower bound to meet the Fed’s average inflation target of 2%, the 10 to 30 year yield curve continues to steepen. This economic environment of recovering consumer spending and a steepening yield curve position Synchrony Financial well to drive growth into the future. Another growing industry trend that favors Synchrony is the growth of Point of Sale financing, which is the primary driver for their Payment Solutions segment. Point of Sale installment loans balances are expected to reach a total of $162 billion by the end of 2021.

In our valuation, we assumed a weighted average cost of capital of 9% and a conservative terminal growth rate of 2.5%. Our target price is $51.79 with a margin of safety of 33.05%.

Synchrony Financial will benefit from a broad range of improving macroeconomic conditions including a steepening yield, better unemployment numbers, and greater fiscal stimulus. The company has made tremendous strides in acquiring a diversified portfolio and will greatly move towards cashless payments. We have strong conviction that the Venmo card will be a success and drive purchase volumes for their Dual Issued cards. Also, their product, SetPay will help to insulate them against point of sale competitors and provide another way for customers to finance their purchases. Lastly, bigger data and utilization of AI will drive purchase volumes as marketing schemes become more effective, and greater partner acceptance will occur as data becomes easier to use and implement. Overall, the company is poised to capitalize on the accelerating consumer financing payment trends.

Some risks that may adversely affect our valuation include Synchrony’s reliance on new partner acquisition to drive growth, their lack of control over partner purchase volumes, existing and emerging competitors in the credit space, and interest rate risk.

Synchrony Financial has an ESG rating of 19.4 and is considered to have the most diverse leadership of any financial services company in the Fortune 200. Also, their employee continuing education initiatives are the best in the industry, maintaining the tuition reimbursement benefits of its peers.
As of April 2021, we had an unrealized gain of 12.7% on SYF.

**Lam Research Corp. (NASDAQ: LRCX)**

On February 10, 2021 we purchased 164 shares of LRCX for $534.97 per share at a total cost of $87,736.

Lam Research Corporation (LRCX) is a technology leader in the processes critical for semiconductor processing equipment used in memory chip fabrication. One of its main products is utilized in wafer processing, an integral step in the creation of the active components of semiconductors and their wiring. Lam also does substantial business in building equipment for back-end wafer-level packaging and related manufacturing markets.

The global semiconductor industry is positioned to continue its robust growth in the long-term future enabled by emerging technologies, consistent spending on R&D, and competition among key players. Similarly, semiconductor end use products such as artificial intelligence, smart phones, autonomous vehicles, cloud computing and the like have all been poised to grow rapidly into the near and long term future. The industry is mainly composed (80%) of WFE manufacturing. The four main categories within this segment are the Deposition, Lithography, Etch & Clean, and Process Control. Lam Research has the greatest market share within the etch category.

The investment thesis hinges on three primary pillars: (1) tech advancements and the demand for memory (2) rising global consumption levels and (3) the strategic partnership with ASML. The proliferation of 5G in emerging economies as well as AI, cloud computing, and autonomous driving combined with growing industry exports creates tremendous opportunity for Lam, as the backbone enabling this progress. Furthermore, Lam’s recent partnership with ASML garners a combined market share of 40% and great opportunities for dominance in the industry.

In our valuation, we assumed a discount rate of 8.5% and a terminal growth rate of 4.5%. Our target price is $614 with a margin of safety of 16.3%.

There are three primary risks and considerations. First is the cyclical nature of Lam’s operations which could impact revenue growth. Semiconductors have a relatively short lifespan, and are frequently replaced as new and faster applications are developed. Second is the fact that a small number of large companies account for the vast majority of the semiconductor equipment market. This market concentration has created intense competition between the major players in the industry. Third are the challenges in predicting long-term demand heightened by COVID-19, particularly in market pull, industry shifts, and global geopolitical instability.

As of April 2021, we had an unrealized gain of 19.5% on LRCX.
**Triton International (NYSE: TRTN)**

On February 16, 2021 we purchased 1,325 shares of TRTN for $56.32 per share at a total cost of $74,624.00.

Triton (TRTN) is the world’s largest lessor of intermodal containers. TRTN owns over 6 million TEU’s of containers - $9.6 billion of assets. Operations include acquisition, leasing, re-leasing and sale of multiple types of intermodal containers and chassis. The most important driver for profitability is the extent to which leasing revenues, which are driven by TRTN’s owned equipment fleet size, utilization and average rental rates, exceed our ownership and operating costs. TRTN is the preferred supplier of 4 out of the top 5 largest carriers and is the leading player in a consolidating industry. TRTN has 20 Offices and 3 independent agencies and offers services to 410 third party owned container depot facilities across 44 countries.

The container leasing industry is a beneficiary of increased globalization and the historic demand for material goods occurring in 2021. To illustrate, the US trade deficit in goods and services widened by 17.7% for 2020, driven largely by the high demand for consumer goods with many following stay-at-home orders. The container leasing industry has seen a boom due to this demand, with shipping container prices more than doubling for the last six months and many ports struggling to keep pace with the imports coming from China. Many of these container leasing companies are currently 100% leased as shipping container supplies cannot even meet the intense container demand. This is a consolidated industry with only thirteen global container leasing companies of substance, and TRTN sits at the top. Collectively, these top firms own approximately 52% of all global container equipment. The industry has shown strong, steady growth with the total container leasing market size coming in around $5.15 billion in 2019. This market size is expected to reach $6.1 billion by 2024.

Given the heightened demand in freight shipping, global shipping container lease prices have tripled in price. This trend will continue into the latter half of 2021, although demand will likely remain heightened for the foreseeable future. The industry has grown at an 8% CAGR from 1989-2019 and is projected to grow at a 5% CAGR into 2026. This is mainly due to the shift in global manufacturing capacity to lower cost areas like China & India, continued globalization & trade, and the move from cargo shipped in bulk shipping to containers. Containerized trade is the most efficient means of transporting goods from point A to point B since ports have been automated to remove containers off of ships. Triton is well positioned as the industry leading container lessor and will continue to benefit from these tailwinds.

Risks to TRTN include: reversal in consumer trends to spend more money on services and experiences, default risk from its shipping counterparts, and a decline in port activity that allows for a clear up in congestion and therefore a downward swing in container prices.
As a global industry leader, TRTN is committed to supporting global causes. Since their industry is focused on connecting the world through international commerce, TRTN has partnered with Doctors Without Borders/Medecins Sans Frontieres (MSF) to spread their lifesaving work across the world as well. They created a hashtag, #Triton4MSF, that is printed on special edition refrigerated containers that helps to spread awareness of the organization, as well as raise money. When people see the shipping containers with the hashtag, they can take a picture and post it to social media, where TRTN will donate $100 for every post (up to a maximum of $50,000). Additionally, TRTN is focused on reducing its environmental impact with efforts to limit water & electric usage at its many global offices, as well as tracking and decreasing its carbon footprint.

As of April 2021, we had an unrealized gain of 0.08% on TRTN.

**Emerson Electric Co. (NYSE: EMR)**

On February 18, 2021 we purchased 710 shares of Emerson Electric Company for $84.51 per share at a total cost of $59,998.55.

Emerson Electric Co. is a multinational corporation that provides products and engineering services for a range of markets. The business can be broken down into two main subcomponents: automated solutions and commercial/residential solutions. Automated solutions is the largest segment of the business grossing 66% of revenues in FY 2020. This part of the business offers an array of products and services such as software, consulting, valves, actuators, measurement and analytical instrumentation, and more in order to optimize production for manufacturers and other industrial enterprises. The commercial and residential segment of the business can be further fragmented into climate technologies and tools & home products, accounting for 24% and 10% of revenues respectively. Climate technologies provide products and solutions that promote energy efficiency, enhance household and commercial comfort, and protect food quality and sustainability through heating, air conditioning, and refrigeration technology. Tools and home products offer appliance solutions and a line of professional tools.

Examining Emerson Electric Co.’s revenues by end market will aid in gaining a true scope of the breadth of the business. Oil and gas enterprises were the largest recipient of products and services (19%), followed by residential (15%), chemical (11%), power (10%), commercial (9%), discrete and industrial (9%), cold chain/refrigeration (8%), refining (6%), life sciences and medical (3%), and the remaining 10% accounting for other various markets. Emerson Electric Co. consistently serves household-name brands. The automated solutions arm of the business works with companies such as Amgen, Shell, Duke Energy, and DOW while the
commercial/residential segment serves Home Depot, Amazon, Lowe’s and others.

The largest driver in our investment thesis is the shift in manufacturing and industry towards digitalization and sustainability. Nowadays companies are very cognizant of its carbon footprint and aim to improve on energy conservation, limit personnel usage, and improve on optimization. Emerson Electric Co. is positioned well to suit these needs with its Plantweb digital ecosystem. This portfolio of technologies, software, and services is the most comprehensive and integrated industrial IoT portfolio in the industry. The second driver is Emerson Electric Co.’s growth from acquisitions. Eight acquisitions in 2019 generating a combined $300M in revenues by the end of fiscal year. More recently the company has bought Paradigm, Aventics, and Open Systems International with an additional goal of $4B acquisition by 2023. Lastly, the business has an extremely robust balance sheet. Emerson Electric Co. has consistently generated positive and growing free cash flows year over year.

The US industrial machinery market is positioned well and has an estimated CAGR of 6% through 2024 with particular growth in the agriculture and construction industries. The industrial machinery market is poised to realize additional growth in conjunction with the development of the automobile industries and green technologies. The automobile industry will generate more demand for robotics, software solutions, rubbers, and plastics. Oil refineries will need to transition to smarter technology in order to limit carbon footprint, disaster situations, and save on energy. Technologies in the packing, refrigeration, and heating industries are merging towards energy conserving softwares and operations too.

In our valuation, we assumed a discount rate of 8.5% and a terminal growth rate of 4.5%. We derived an implied share price of $89.00 and a margin of safety of 5.5%.

As of April 2021, we had an unrealized gain of 11.38% on EMR.
Lessons Learned

Throughout the course of the past academic year, the Student Managed Fund has proved to every individual of this team what a true privilege and honor is to be a member of such a great program. Despite all of the obstacles brought on by the COVID-19 pandemic, from navigating effective remote communication to finding ways to continue healthy debate in security selection and allocation, the commitment and intensity of the program has been phenomenal. While there were of course some minor bumps in the road, every team member has surely taken advantage of each opportunity and challenge presented by Patrick Terrion and Jeff Annello.

The summer assignment to individually prepare a valuation was a great way to start off the process and get a taste of how much we had to learn. It taught us basic valuation techniques as well as what goes into equity selection. Upon beginning the fall semester, the lessons introduced in the course built upon themselves and developed a greater comprehension of financial modeling and valuation skills through discounted cash flows, comparable company analysis, and dividend discount models. The Harvard case studies taught valuable skills and approaches to then utilize in the SMF. Perhaps the most important skill that we have grown to develop is sifting through the copious amounts of information at our disposal to determine what is useful and what is not. From there we craft a target price, margin of safety, and sensitivity analysis, which is then defended by our different assumptions. Additionally, by becoming familiar with resources such as Bloomberg, Value Line, and other financial databases, we can formulate an argument for a firm’s business model and the drivers impacting the valuation. Such include growth potential, leverage, and other telling financial factors. Everyone has a different viewpoint and interpretation of what a valuation tells us, yet the well fostered environment to be able to articulate this and confidently back up an argument with support from the ideas presented by instructors is what continues to make the Student Managed Fund the prestigious and highly respected program that it has become and continues to be today.

While we are far from completely mastering any of these topics, this program has broadened our thinking and enhanced our hard skills in an environment surrounded by like minded individuals. We are excited for what is to come in the next semester and enter it with a newfound confidence in our ability to know when something is truly attractive and worth its value, and knowing when the hype is exceeding the potential of an investment.