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Appendix

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A LETTER FROM THE CEO:

October 30, 2021

Dear Stakeholders,

I am pleased to bring you the Q3 2021 edition of The Advisor and introduce Darden Capital Management’s Class of 2022. Our team comes from a diverse set of professional backgrounds including Biotechnology, Major League Soccer, and the US Navy. Just over 30% of the class are women and five members are CFA Charterholders. I am proud to be part of this team, grateful for the opportunity to reflect on the growth we’ve experienced since taking over the portfolios in April 2021, and eager to update you on our priorities for the year ahead.

After a tumultuous year of virtual and hybrid teaching, students were thrilled to be welcomed back to grounds for full-time in person classes for the 2021-2022 academic year. Across the board we have seen record-level event attendance and interest from First Years, with applications for First Year leadership positions and External Stock Pitch Competition teams doubling last year’s numbers. This year we will be sending groups of students to twelve different stock pitch competitions hosted by our peer institutions. In addition, to meet the tremendous level of engagement from students across the Darden community, we have aggressively built out our First Year Training Program to assist in preparing individuals interested in pursuing a career in asset management with the necessary skills and knowledge to be successful.

We have also doubled down on our commitment to enhancing the diversity of background, experience, and thinking in our community at Darden. Through partnerships with Darden’s Graduate Women in Business (GWIB) and Black Business Students Association (BBSA), we have been actively working to build out a pipeline of Speaker Series and Education events that address the gaps in our community’s financial literacy and encourage students from all backgrounds to consider investment management as a career path.

We continue to prioritize institutionalizing our portfolio monitoring, reporting, and marketing materials. We have invested in expanding our universe of investment data and research subscriptions to ensure our team has access to best-in-class resources. We have integrated portfolio reporting into our Morgan Stanley trading system. We have also been working hard to build out a robust set of pitch materials and models for the team to leverage. Under the guidance of Darden Fund’s SPM Ryan McCarthy, we have developed a comprehensive book report template to help portfolio managers due diligence and monitor names they have inherited from predecessor teams. This has resulted in more critical assessments of our portfolio construction process as it relates to position sizing and book concentration.

This year we have focused on “connecting the dots” to unlock our potential as a group. We have concentrated on taking the special culture of collaboration we already had in place and refining it to ensure that we are well positioned to embrace the changes and challenges we’ve seen through this bull market. By taking advantage of the opportunity to host in-person meetings, we have increased both the frequency and quality of touch points across the group. We have found that this has improved dialogue on names held across the funds, promoted cross-fund pitch attendance, and has facilitated knowledge sharing on screening and diligence processes. Investing requires many vantage points, and we have focused on pushing this further into the organization to promote a meritocratic culture where thoughtful and dissenting opinions are encouraged. I firmly believe this has made us a stronger and more dynamic group.

As Dean Beardsley wrote in The Darden Report Summer 2021 issue, the pandemic has reminded us that “change and uncertainty are the only certainties.” Yet, as we reflect on the year one thing is evident: 2021 has demonstrated the resilience of DCM’s business model, culture, and people. Under the excellent tutelage of the Class of 2021 and Mayo Center faculty, DCM’s legacy of teamwork, integrity, and excellence has remained pillars of our organization. Assets under management continue to grow at a healthy clip and sit at approximately $28.493 million as of September 30, 2021. Across the board our strategies have recorded impressive gains, with the entire portfolio up 30% over the last twelve months. The majority of our portfolios have outperformed their respective benchmark since our inception in March and
our investment team’s asset class positioning and stock selection both added relative value to our portfolios over this period. Please see the performance table below for more information.

Performance Review (as of September 30, 2021)

<table>
<thead>
<tr>
<th>Market Value</th>
<th>% Total Portfolio</th>
<th>Since 3/31/2021</th>
<th>1 Year (9/30/20 - 9/30/21)</th>
<th>3 Year (9/30/18 - 9/30/21)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Darden (Small Cap)</td>
<td>$6,371,474</td>
<td>22.4%</td>
<td>-5.1%</td>
<td>42.6%</td>
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<tr>
<td>Russell 2000</td>
<td></td>
<td></td>
<td>-0.2%</td>
<td>47.7%</td>
</tr>
<tr>
<td>Jefferson (Value)</td>
<td>$5,665,172</td>
<td>19.9%</td>
<td>8.7%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Russell 1000 Value</td>
<td></td>
<td></td>
<td>4.4%</td>
<td>35.0%</td>
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<tr>
<td>Cavalier (Long/Short)</td>
<td>$5,824,069</td>
<td>20.4%</td>
<td>5.7%</td>
<td>21.2%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td></td>
<td></td>
<td>9.2%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Monticello (Global)</td>
<td>$5,597,070</td>
<td>19.6%</td>
<td>7.8%</td>
<td>29.6%</td>
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<tr>
<td>MSCI ACWI</td>
<td></td>
<td></td>
<td>6.5%</td>
<td>28.0%</td>
</tr>
<tr>
<td>Rotunda (ESG)</td>
<td>$5,035,965</td>
<td>17.7%</td>
<td>10.9%</td>
<td>31.1%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td></td>
<td></td>
<td>9.2%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$28,493,749</td>
<td>100.0%</td>
<td>4.9%</td>
<td>30.2%</td>
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</tbody>
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*Benchmark weights are based on individual benchmark index performance weighted by fund market values in each month.

Since taking over the portfolios last spring, our team has worked incredibly hard to build upon the momentum of the prior class and leverage this incredible experiential learning platform for our personal and professional growth. We continue to work diligently to navigate markets and manage the assets that you have entrusted to us. On the subsequent pages, you will find specific details regarding investment results and a discussion of the factors that most affected performance during the reporting period. We warmly welcome opportunities to engage with alumni and encourage you to reach out with questions or suggestions. We thank you for your continued support, as none of this is possible without the backing of all our partners.

All the best,

Samantha Richman
CEO, Darden Capital Management
Richmans22@darden.virginia.edu


### 2021–2022 DARDEN CAPITAL MANAGEMENT

<table>
<thead>
<tr>
<th><strong>EXECUTIVE TEAM</strong></th>
<th><strong>JEFFERSON FUND</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Samantha Richman</td>
<td>Philip Apelles</td>
</tr>
<tr>
<td>Charles Patton</td>
<td>Senior Portfolio Manager</td>
</tr>
<tr>
<td>Mary Winston</td>
<td>Evan Berenholtz</td>
</tr>
<tr>
<td>Richardson</td>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>Mark Llanes</td>
<td>Harrison Clement</td>
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<tr>
<td></td>
<td>Portfolio Manager</td>
</tr>
<tr>
<td></td>
<td>Lauren McDermott</td>
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<tr>
<td></td>
<td>Portfolio Manager</td>
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<table>
<thead>
<tr>
<th><strong>CAVALIER FUND</strong></th>
<th><strong>MONTICELLO FUND</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael D’Onofrio</td>
<td>Mudit Bothra</td>
</tr>
<tr>
<td>James Nish</td>
<td>Senior Portfolio Manager</td>
</tr>
<tr>
<td>Allie Ruark</td>
<td>Stephen Frankiewicz</td>
</tr>
<tr>
<td>Tim Wilson</td>
<td>Tomas Barriga</td>
</tr>
<tr>
<td></td>
<td>Sharon Zhou</td>
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<td></td>
<td>Portfolio Manager</td>
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<table>
<thead>
<tr>
<th><strong>DARDEN FUND</strong></th>
<th><strong>ROTUNDA FUND</strong></th>
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</thead>
<tbody>
<tr>
<td>Ryan McCarthy</td>
<td>Mac Kyle</td>
</tr>
<tr>
<td>Natalie Azarela</td>
<td>Senior Portfolio Manager</td>
</tr>
<tr>
<td>Jonathan Campbell</td>
<td>Percy Oliver</td>
</tr>
<tr>
<td>Brett Johnson</td>
<td>Elizabeth Ughetta</td>
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<tr>
<td></td>
<td>Christina Walters</td>
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<td></td>
<td>Portfolio Manager</td>
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<td>Portfolio Manager</td>
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</tbody>
</table>
Portfolio Updates
CAVALIER FUND

To Our Friends and Partners,

First off, a warm greeting from the Cavalier Fund team. We could not have been more excited to take the reins earlier this year and are pleased to be writing to you today for the first time. Secondly, I would like to provide a special thank you to the Darden School Foundation Board of Trustees and Mayo Center Faculty for making this opportunity possible for us. DCM is the premier experiential learning opportunity for asset management at Darden and we could not be more grateful to take part.

The mandate of the Cavalier Fund is to make both long and short investments with a primary focus on domestic equities with a net long exposure of 80%. As with our predecessors, we employ a bottom-up fundamental approach to evaluating securities with our preferred long investments to be made in companies with sustainable competitive advantages priced at attractive levels. To expand on this approach, we are also looking for companies that are in special situations—spin-offs, binary events, etc. For example, research has shown that spin-offs outperform the benchmark in the months post spin\(^1\). Our preferred short investments focus on the “3 F’s”—Fads, Frauds, and Failures—overly optimistic analyst expectations, signs of earnings manipulation, and fundamentally flawed business models/unsustainable capitalization structures.

The investing climate has made it hard to find conviction around short opportunities, since 2020 the mantra of the stock market seems to have been “stonks only go up” or “to the moon”. Another more recent risk of shorting is that stocks with high short interest might be susceptible to “meme stock tailwinds”—armies of Redditors buying and driving up share prices of highly shorted stocks (i.e. AMC, GameStop). These trends may be breaking as of writing this letter as the Fed begins talk of tapering and the post-summer doldrums kick off, so we are excited to look at new shorts. However, optimism is tampered by the knowledge that the monetary and fiscal stimulus pushing up valuations of stocks remains unprecedented. Mitigating all of this is the prospect of greater levels of inflation—semiconductor shortages, not enough workers, energy price inflation, etc. Net-net, we are cautious about the markets going forward and only want to be long names that have strong competitive advantages and want to be short names that are susceptible to many of the inflation headwinds.

I would like to introduce our very capable team of portfolio managers—James Nish, Allie Ruark, and Tim Wilson. Collectively, we bring an excellent combination of sector experience across tech, energy, industrials, communications, and healthcare. Our meetings are in person—which would have been a crazy thought last year given how the pandemic unfolded! We strive to foster an open dialogue, feeling comfortable to challenge assumptions and engaging in constructive dialogue. We love having first years and regularly invite guests from other funds and those with investment management expertise outside of DCM, all with an eye toward increasing diversity of thought. We are careful to analyze our investments after we have made them and exited them. I believe we have the right combination of experience, education, intellectual curiosity, and introspection to lead to an incredible fiscal 2021.

The transition process from our predecessors—Jamie Egan, Tarun Inderchand, Frank Musella, and Katie Ryan—went very smoothly. They explained the thesis behind each of the positions and the incoming team had a chance to pressure test the thinking and assumptions with the outgoing team in the Spring of 2021. We also learned of their war stories shorting.

We then set out to define our own process. Each of us was assigned 5-6 names to cover. Then I wanted to ensure our team began with a strong level of understanding of each of our names, so we are halfway through preparing 1-2 page book reports on each to summarize the company overview, original thesis, current thesis, what has changed, etc. From there, each portfolio manager will keep the fund apprised of any changes around earnings releases, company news, and other items that might affect the investment thesis. Jamie’s team already had robust reporting in place—individual holding performance, portfolio concentration, historical performance/YTD performance versus benchmark, and tracking the trading activity/rationale behind our decisions. We are leveraging our predecessors’ reporting to the fullest and using it as context to frame our weekly discussions.

PORTFOLIO CHANGES AND HOLDINGS

In efforts to mirror the sector composition of our S&P 500 benchmark more closely, we looked for investments in industries where it can be hard to find companies with positive long-term outlooks and sustainable competitive advantages. The carbon-based energy industry comes to mind as an example. Despite the carbon headwind as well as a difficult to predict supply and demand situation post-COVID, outgoing SPM, Jamie Egan pitched Devon Energy, with excellent assets across Delaware Basin, Eagle Ford, and others. This name has served beautifully of late as an inflationary hedge. The Company’s average breakeven cost is ~$32/bbl, best in class and providing an excellent margin of safety relative to today’s price. The Fund is up 27% on Devon as of September 30.

We also upsized our positions in a couple of existing names—AMD and Spotify. Our predecessors entered AMD in December 2020 and slowly added to the position through February 2021 at an average entry price of $94.88. We added another 1450 shares at $80.04 on September 14 after the stock was beaten down due to concerns over the semiconductor shortage to total 4200 shares, representing 7.3% of the portfolio as of September 30. The concerns are proving overblown, as the stock has rebounded over $100. Ultimately, we thought the original thesis was very sound—long-term the Company would significantly take Intel’s share. Intel is falling severely behind AMD on their technology through botching roll-out of their new processes—2 generations behind. In buying a new laptop and comparing the stats of the AMD chips vs the Intel chips, the differences become evident quickly.
Regarding Spotify, the Fund entered the name in late 2019 at low conviction (<1% of the fund). In taking control, we wanted to make sure our names were appropriately sized to maximize the return on work in each of us covering 5-6 names and thus Spotify should have been upsized or exited completely. Earlier this year, Spotify reached a high of $387.44. However, Spotify has fallen back to earth of late and we bought more at $243.31 on a well-researched James Nish buy re-pitch. We believe the stock is attractively priced, trading at ~4x revenue. There has been concern about the Company’s strategic direction in being a growth stock not at scale buying back shares as well as slowing advertising spend during COVID, for the MAUs decreased commensurately. We believe these concerns are overblown over the long term—MAUs will recover once advertising spend recovers post-COVID. At the end of the day, it is a growth stock trading at ~4x revenue with a strong flywheel in leveraging the social media aspect of listening to music, monetizing the content creator and the listener side, and having superior scale and data resources than the competition.

The Cavalier Fund decided to make a bet against Biogen given the astounding lack of clinical efficacy on their new Alzheimer’s drug. We recognized that there were political concerns around the bet against Biogen, given the Biden administration’s desire to see an Alzheimer’s solution succeed. We thought the political concerns were overstated since an independent review board had voted in November 2020 as 10 to 0 with 1 abstention against recommending approval of the drug, citing abysmal clinical efficacy. The pitch addressed many of the key elements of a good short—hitting on the “3 F’s” as a perceived “Failure”, room to go down given probability of partial approval priced in, and a binary event in the prospect of a looming FDA approval decision—a very clear catalyst. Options are excellent tools to use when presented with a binary event. For the Cavalier Fund to have executed a traditional short sale, the upside to the stock (downside to the Fund) was potentially unlimited if the drug were to be approved. We identified a put option with expiry just after the projected date of the FDA decision that provided a 1:1 payoff—the amount of capital risked via the option premium was equal to the amount of upside to the option were the FDA decision to have gone our way given our price target. We thought this to be a favorable risk-reward proposition since we thought the drug had dramatically less than 50% chance of approval. We purchased the puts on May 28 to expire on June 11 after the FDA decision. Unfortunately, the FDA decision did not go our way and the option expired worthless. We could not believe that the FDA had approved the drug despite the lack of clinical efficacy and negative findings from the November 2020 review board. However, it is worth pointing out that in the month’s following the FDA’s decision most doctors refused to prescribe the drug due to concerns around clinical efficacy! The stock proceeded to fall from a 52-week high of $468.55 to ~$265—right where we initiated the option position. Unfortunately, the option had already expired. The first lesson is that politics can get in the way of reason. But given the stock decline after approval due to doctors’ refusal to prescribe, there is also a lesson around the timing of the short. The options we used did not offer enough time before expiry to provide any upside for us.

We also exited a few names including Visa, Sabre, and J & J Snack Foods. One of our immediate objectives was to sell one of Visa or Mastercard, because we did not want to own 2 out of the 4 names in an oligopoly—we just wanted to own the best. Our predecessors, Tarun and Katie, obliged and jointly re-pitched both together so we could compare and contrast the two companies. We also invited Martina Hund-Mejean, former CFO of Mastercard, to speak to the fund and answer our questions. Both activities proved very informative, and we ultimately liquidated our Visa position on the basis that Mastercard was better positioned in Europe, has higher revenue per transaction, and has greater returns on capital. Regarding Sabre, we did not think it had a strong enough competitive advantage to sustain from competition. Particularly worrisome was the potential for the
Google partnership to end up with Google encroaching on their territory. We were happy that the Fund was able to realize a gain from the position and we could deploy the cash elsewhere. J&J had a great business pre-COVID as the largest provider of concessions for large events. The Company will benefit from a COVID recovery and return to selling foods at events. However, with secular headwinds around eating healthy and most of their portfolio being more junk food focused as well as the stock being fully valued (pricing in a recovery), we were not seeing much upside.

Switching gears to performance. Since our inception as managers of the Cavalier Fund on March 31, 2021, we have experienced a gain of 7.4% versus the S&P 500 gain of 9.7% as of September 30. Contributing positively are AMD, Alphabet, and Costco providing a 1.8%, 1.4%, and 1.5% contribution to portfolio return, respectively. Detractors include Zillow, Activision Blizzard, and the Biogen puts. Zillow is coming off its stratospheric highs from earlier this year and could present a good opportunity to buy more of a great business. It was hard to foresee many of the Activision cultural issues that have detracted from performance, but the downside is now priced in and we see the name as having a bright long-term future and a sustainable competitive advantage.

Finally, our long-term objects are to put the Biogen episode behind us, find more short opportunities, and continue to look for companies that are attractively priced with sustainable competitive advantages. We look forward to a busy end to 2021 since 3 of us are due to pitch by Thanksgiving!

Sincerely,

Michael D’Onofrio
DonofrioM22@darden.virginia.edu
+1 (918) 407-3674

To Our Friends and Partners,
DARDEN FUND

To Our Friends and Partners:

When the current team took over the Darden Fund, markets were at all-time highs despite the ongoing nature of the COVID pandemic. As of September 30th, the fund’s assets under management reached $6.4 million, down from its previous month-end high of $6.9 million earlier in 2021. As of the end of September, our Fund generated returns of 42.6% in the last twelve-month period, slightly below the Russell 2000 benchmark over the same period. For the quarter ended September 30, 2021 the Darden fund returned -5.1% vs. the Russell 2000 benchmark of -0.2%.

During the last few months, our team took the opportunity to evaluate each name in the portfolio, revisiting the original investment thesis and then considering which of our positions were oriented to succeed in a post-COVID world. We crafted a document called a “book report” and divided up the portfolio. The document essentially outlines our original investment thesis and valuation, and then what has transpired since our investment. We found this incredibly useful when deciding whether to hold, sell, or add to positions, particularly given the volatility in the Russell 2000.

In reviewing our companies, we identified two enterprises we believe remain undervalued in a post-COVID world:

- **International Money Express Inc. (IMXI):** IMXI is an international money remittance company that focuses primarily on transactions emanating from the United States and going to Mexico and Guatemala. When re-evaluating the name, we initially thought it would be one to get rid of, but after digging into the Company we realized it was still undervalued. The Company has a clean capital structure, very low capital intensity, a strong brand, savvy management, and excellent ongoing execution, all while growing organically at 15-20%. At the current valuation of 8x free cash flow and 7x EBITDA, we believe the Company could re-rate significantly over the next twelve months.

- **Sonos (SONOS):** We have recently added to our position in Sonos as we believe the recent decline is overblown and the Company continues to execute on its growth initiatives. We believe in management and the brand and we will continue to add to the audio products business if it remains undervalued by the market.

In terms of new holdings, we added **Legacy Housing Corporation (LEGH)** to our holdings. The position currently represents 1.7% of our fund which we expect to roughly double over the coming months. LEGH is the 4th largest manufactured housing company in the US. The manufactured housing is an underappreciated solution to the affordable housing crisis and one that deserves a closer look by investors. The team identified that there is an extreme shortage of entry level housing inventory in the United States and the median mortgage payment on a manufactured home is ~35% cheaper than the median monthly rent payment. LEGH trades at a steep discount to its comparables, despite having similar ROIC and growth profile and much higher EBITDA margins. The management team is also incredibly aligned as they own a significant portion of the equity and the two founders make $50K in salary with no stock options – instead their incentives align with long term equity value creation.

During our tenure of the fund, we also made the decision to part ways with several legacy positions in the
portfolio. These companies included Axon Enterprise (AXON) and the Invesco S&P Small Cap Healthcare Fund (PSCH). In the case of Axon, the Company eclipsed the $10 billion market cap threshold that is mandated by the Darden Fund. We entered Axon in 2017 at a cost basis of $23.12 and sold this past quarter at $178.85 representing an IRR of 56.3%. We continue to believe in the mission of the company and plan to highlight the stock to some of our sister funds who invest in larger enterprises. On the Small Cap Healthcare ETF position, we decided to sell because our original thesis had played out as anticipated from the onset of the pandemic. We liked the composition of biotech, medical devices, and suppliers, all of which were beneficiaries in the pandemic landscape, and we generated a 39.4% IRR from June 2020. We believe we have identified a short list of single name stocks that represent a better risk reward opportunity moving forward.

We are also planning on selling down our position in Echo Global Logistics (ECHO) after the Company recently entered into a Definitive Merger Agreement to be acquired by The Jordan Company for $48.25 per share in cash. The shares are trading close to the takeover price now and we believe we can reallocate the funds elsewhere in the meantime.

When discussing our goals for our stewardship of the fund and overall investment philosophy, the Darden Fund team has decided to adopt many of the tenets from previous management teams. However, the additional decisions we made were to focus on running a more concentrated portfolio than years past and to target great companies that have the potential to grow outside of our fund’s mandate. We are looking to own companies that will be exceptional compounders and allocators of capital in the early phases of their life cycle. In discussing the return profile of our investments, the team is looking for investments that have compelling reasons to generate returns above market in the next two to three-year time horizon. We are also looking for investments that have a reasonable margin of safety with markets at all-time highs.

Looking to the horizon, we are very excited about many of the names currently being evaluated by our team as future additions to the portfolio. We are looking into some beaten down de-SPAC’s that have fallen more than 50% on management execution issues and negative guidance adjustments. A lot of these stocks are now in the proverbial “penalty box” as the original investors have fatigue but we believe there are some opportunities where the sell-offs are overdone. Other companies we are evaluating range from consumer products companies, mobile gaming platforms, and housing plays.

In closing, our team would like to make special acknowledgement to the outgoing management team of our Fund. Jovan Atanackovic, Andy Bedenk, and Stephanie Tse and Senior Portfolio Manager, Kevin Schoelzel, handed off a portfolio that was ready to grow amid uncertainty in markets and capitalize on the opportunity set in front of us. We are grateful for all their hard work and look forward to the lasting bonds we forged during the handover last spring and as alumni of the small cap fund. As always, our team would gladly welcome any feedback or advice from our alumni and endowment sponsors. Also, I would like to thank members of the Darden Class of 2023, our team has appreciated the level of enthusiasm the first-year cohort has brought to our meetings.

We look forward to managing the fund and getting the opportunity to be active participants in the intellectual endeavors of capital markets. While we are active managing portfolio risk and anticipating shocks to the real economy and financial markets, we believe that in the realm of small caps, there are many great investment opportunities to pursue.
Sincerely,

Ryan McCarthy
mccarthyr22@darden.virginia.edu
(781) 718-8620
JEFFERSON FUND

To Our Friends and Partners,

I would like to begin by saying thank you to the Darden Board of Trustees, the Darden DCM faculty, and the rest of our partners for giving us the opportunity to manage a portion of UVA’s endowment. My team feels incredibly privileged to be given this responsibility, and we appreciate everyone’s continued support.

My name is Philip Apelles and I am the new Senior Portfolio Manager for the Jefferson Fund. Investing is my passion; I view the endeavor as a cerebral pursuit that uniquely combines psychology, history, statistics, and finance to form a discipline that rewards participants in ways beyond material wealth. In my mind investment return serves as a trophy for a job well done, but knowledge and a greater understanding of the world represents investing’s greatest gift.

I am joined by my capable team: Evan Berenholtz, Harrison Clement, and Lauren McDermott. We are thrilled to take the torch from the previous Jefferson team and continue the tradition. We worked closely with last year’s SPM Nick Feinman and his PMs ahead of the Fund’s transfer, and all felt the transition to be seamless. We had an outstanding cash balance available allowing us to make an immediate impact and felt passionate about the Fund’s holdings. Further down below, I outline the changes we made since assuming the portfolio.

Overall, the Jefferson Fund has performed well. Since March 31st, the Fund generated a net gain of 8.7% which outperformed both the Russell 1000 and S&P 500 indices, returning 8.0% and 8.4% respectively. Our largest holdings in Microsoft (+19.5%), Nike (+9.8%), and Google (+29.6%) were the main contributors to the outperformance over the same period. We remain bullish on those three names which combine to represent 21.9% of our total portfolio and are firm believers that concentration drives outperformance. There are also several smaller names in the portfolio which we feel confident about, and plan to continue to push for greater concentration to help further distance ourselves from the indices. They include current holdings of Guardant Health and Carrier, and a new soon-to-be pitched position.

From a more macro prospective, we inherited the portfolio at a seemingly opportune time. Indices across the board were hitting all-time highs, a dovish Fed had pumped trillions back into the economy and planned to delay hiking interest rates till 2023, unemployment rates were recovering nicely, and vaccination rates were accelerating. It seemed, and still seems, like a perfect environment for equities. However, growing concerns surrounding rising inflation that some argue has the potential to spiral out of control coupled with a high-level of optimism already priced into the markets leaves us with a more skeptical outlook than what the picture currently shows. While we believe over the long-term equities remain favorable and given our long-term investment horizon remain close to fully invested, we would not be surprised if some signs of weakness emerge and ultimately promote a pullback. However, a long-term investment prospective is one of Jefferson Fund’s competitive advantages, and while my team will only manage the portfolio for a year, we know the Fund will live on beyond our time at Darden and we seek to take that stance in our allocations.

Lastly, as active managers we treat our differentiated views as our key to success. Unconventional thinking allows us to distinguish ourselves from both other investors and the benchmarks and we believe if our investing is conventional than our results will be conventional. Alternatively, if we make educated decisions that vary
from consensus, we’ll generate unconventional returns and outperform. Below I highlight our trades since receiving the portfolio.

**PORTFOLIO CHANGES AND HOLDINGS**

**Sold: Penn National Gaming (PENN), April 2021. Down 18% Since Exit. 33% Realized Gain**

After acquiring 36% of Barstool Sports in early 2020, Penn National stock has since skyrocketed. A year from its COVID low in March 2020, PENN generated an impressive 3,686% return a year later. However, the recovery, fueled partially by a broader equity rebound and a favorable perspective of Barstool Sports from the larger investment community, started to wane. The business is still primarily a brick-and-mortar casino operator, and in our mind a significantly lofty valuation given Barstool’s status was unwarranted. At the time of sale PENN was trading at over 40x forward P/E which was higher than peers and historical figures. Given general weakness in the stock since it’s peak in March 2021 and stretched valuations that we thought could lead to a further contraction in multiples, we decided to exit the position realizing a 33% gain. The decision proved shrewd given continued downward pressure.

**Bought: Carrier Global Corporation (CARR), April 2021. Up 18% Since Initiation**

After spinning off from United Technologies in April of 2020, Carrier has seen rapid, consistent growth in a volatile market. Carrier is consistently a market leader across several segments of business and retains the first market position in many core business areas. Carrier has taken advantage of a rapidly expanding housing market, as well as the move to decrease emissions and increase energy efficiency of HVAC units. The company has also identified several key areas of growth and is on the forefront of providing ventilation and air purification systems for commercial and residential buildings, allowing many offices and businesses to safely reopen during and after the pandemic. Their new OptiClean system, a dual mode air scrubber and negative air machine, was named a Time Top 100 invention of 2020. As a market leader in commercial refrigeration, Carrier has developed a transport refrigeration cold-chain solution for transporting COVID vaccines from manufacturers to hospitals and injection sites. Additionally, Carrier is poised to expand their global footprint with a recently announced acquisition of Guangdong Giwee Group, a Chinese HVAC and refrigeration manufacturer. Recent earnings exceeded analyst estimates and the company significantly increased guidance for 2021 while simultaneously instituting a share repurchase program and increasing their dividend.

Since purchase, the Jefferson Fund has seen a 18% return in Carrier. Even with a 12% pullback over the last month due to weakness in the overall Industrial Sector, we believe Carrier is uniquely positioned to return to its strong performance. The persistent presence of COVID demonstrates that the need for indoor air quality is more important than ever, while the administering of booster vaccines requires continued cold chain shipping solutions. Additionally, the residential housing market continues to maintain strength going into the remainder of the year. Recent company acquisitions have focused on reinforcing their Fire and Security line of business and increasing technological integration of its air quality monitoring system. These factors, along with continued strength in Free Cash Flow and a commitment to return shareholder value, allow us to remain bullish on Carrier through a turbulent time in the sector.

**Sold: Activision Blizzard (ATVI), May 2021. Down 19% Since Exit. 42% Realized Gain**
COVID served Activision well. With more and more individuals driven inside given lockdowns and quarantines, video game developers saw a spike in both revenues and earnings. For Activision, that led to 25% revenue growth and 46% earnings growth year over year. However, the team believed Activision would give up some of that revenue and earnings growth moving forward when the vaccine started to become more available, and people returned outside. We decided to wait until Q1 earnings to make our decision on whether or not to sell.

Activision had a positive Q1 result, and the stock performed favorably. Given the good news but our bearish future outlook, we decided to sell the news and exit the position. This proved wise, as the company showed slower growth in Q2 and issues with management were raised. While we think Activision is a strong company with a strong portfolio of names like Call of Duty and Candy Crush, we believe Activision will have difficult comps coming out of COVID and decided to sell our stake.

**Increased Position: Nike (NKE), September 2021.** Down 8% Since Increase. 77% Unrealized Gain

For the long-term, our team feels confident in Nike. We believe athleisure is a trend that will remain and with market dominance in both the largest sportswear markets of US and China, we believe Nike will continue to be a winning stock. So ahead of Nike’s Fiscal Year Q1 2022 earnings, the team got together and considered our Nike position. Currently one of our largest holdings, we wanted to think through how earnings would impact our portfolio and come to an opinion on what we believed Nike had in store (pun intended) for us during the call in late September. Nike was under some pressure since it’s mid-summer high and saw a 10% pullback since those highs. Over the summer, Nike issued statements surrounding potential human rights violations in Xinjiang which led to a boycott of the business in China. China represents roughly 17% of Nike’s revenue, so we did not take the boycott lightly. Additionally, the reemergence of COVID in Southeast Asia forced closures in Nike’s Vietnam production facilities and threatened supplies. The combination of potentially poor China sales and supply chain issues led to a bleak consensus for Nike ahead of the call.

However, we looked at Lululemon’s (LULU) recent earnings beat and explored how that could help inform our current outlook. While Lululemon’s business is mainly apparel and Nike has a large footwear segment, we wanted to better understand LULU’s e-commerce/DTC trends which could help inform Nike’s DTC business which generates higher margins. After an in-depth look at Lululemon and what consensus currently predicted for Nike, we thought Nike’s operating margins could be higher than expected. Additionally, while we believed China sales would see slower growth than normal, we believed sales in North America could pick up the slack given a return to school and an increase in athletic activities as gyms and sports resumed given the vaccine rollout. Additionally, we believed supply chain issues would resolve themselves with a potential redirect of production to key manufacturers like Shenzhou which are based in China and have not closed recently due to COVID. Nike has a global supply chain network, and we believed leveraging a diverse array of varying manufacturers based in various locales would allow Nike to maintain adequate production. With a potential for higher margins and a meet on sales, we thought now would be an opportune time to increase our stake in Nike given our bullish long-term thesis.

While Nike beat on earnings, sales fell short. However, the revenue miss was not the driver for poor performance post-earnings. Nike instead updated guidance and changed management’s goal of mid double digit revenue
growth to single digit revenue for FY 2022. Supply chain issues were indeed here to stay, and the business would remain under pressure through the fiscal year. Given the change in guidance, the stock underperformed. However, the team is still bullish on Nike for the long-term and while we may have missed on timing, we will remain in the name for the foreseeable future. With a decent amount of cash still on the sidelines, we feel encouraged to continue to have contrasting opinions until we can properly allocate the cash across our portfolio.

Sold: SmileDirectClub (SDC), May 2021. Down 35% Since Exit. -30% Realized Gain

SmileDirectClub originally was a conviction name previously inherited from the past Jefferson Team. However, after some deliberation within our current team we grew skeptical over SmileDirectClub’s (SDC) growth potential especially after April’s cybersecurity attack. Additionally, the team took an inside look at the benefits of SDC’s liners versus competitors like Invisalign or Candid which offer a similar service and did not find enough differentiation. One of SDC’s main advantages is their ability to circumvent orthodontists but after discussing we concluded that patients need a real evaluation in an office, not a digital scan that’s then submitted to dentists. The team also viewed consumer reviews, and many were negative which did not help brand reputation. Lastly, the team worried that SCD was mostly financed by debt and burned cash quickly so we decided to exit.

In closing, we at the Jefferson Fund want to say thank you to Darden, DCM, and our board of trustees for the incredible opportunity to manage a portion of the school’s endowment and help give back to the school that has given us so much.

Sincerely,

Philip Apelles
Appellesp22@darden.virginia.edu
(917) 442-7697
MONTICELLO FUND

To Our Friends and Partners,

Hello and welcome from your new Monticello Fund team. First and most importantly, we hope that everyone reading this letter is staying safe and healthy, along with family members and loved ones. My name is Mudit Bothra. I am the new Senior Portfolio Manager of the Monticello Fund and I am thrilled to have the opportunity to lead the new Monticello team. With me this year is Jose Tomas Barriga, Sharon Zhou, and Stephen Frankiewicz. We are all extremely excited for the opportunity to manage this portfolio and look forward to updating you along the way with our latest investment and market insights.

Our approach to managing the Monticello fund builds upon the philosophy that has guided our predecessors: Quality and Value in the context of our global mandate. We seek to own companies with substantial moats that operate in attractive markets and are captained by responsible and robust management. We combine this aspect with the notion of Value, which, in its crudest form, is defined as a discount to intrinsic value. This framework helps guide our screening, assessment, and investment decisions.

As part of our portfolio management process, we have distributed coverage amongst the team members, whereby each portfolio manager is responsible for five to seven names. Upon taking ownership of the portfolio, we recognized two things that were important to address: we have positions spread across many portfolio companies (26) and our fund is still tilted towards domestic companies (64%) despite its global mandate.

We see the merits of having more concentrated positions (≥3% of fund value) in a smaller set of companies, as it enables us to monitor fundamentals and earnings more closely and are taking active steps towards moving our portfolio in this direction. Similarly, as the designated global equity fund for DCM, we believe that we are better positioned to seek returns globally while contributing to the diversification of the overall DCM portfolio. While we do not expect, nor do we intend to make these changes happen overnight, we are staying vigilant analyzing how our decision-making aligns with these goals. We believe that the current portfolio construction represents layers of careful considerations – our exposure towards domestic companies has strongly contributed towards our positive performance (8.30%) relative to the MSCI ACWI benchmark (6.38%). We plan to continue to be mindful of these considerations as we analyze current positions and future opportunities.

GLOBAL MARKETS OVERVIEW

Global equities have rallied to new highs in the third quarter of 2021, powered by strong economic and corporate earnings growth, particularly in the US and Europe. The positive performance of global equities continued into the second and third quarters of 2021. While economic growth expectations picked up across North America and Asia, the recovery in Latin America faced headwinds due to an uneven vaccine rollout. In the U.S., despite continued investor concerns about rising inflation and after impressive first quarter real GDP growth of 6.4%, the S&P 500 hit an all-time high in September. With the support of strong corporate earnings and a decline in COVID-19 cases, European markets also had a solid quarter. Given the economic recovery and
signs of rising inflation, central banks in many countries have begun laying out timelines to normalize monetary policy, such as increasing policy rates and tapering asset purchase programs.

The Delta variant has renewed concerns about the prolonged impact the pandemic may have in coming quarters. From our perspective, the news flow from around the world has been more positive than anytime since the pandemic began. Growth is picking up in Asia, in Europe, and here in the U.S. and pent up demand is prevalent across many sectors and industries, especially the demand for cloud services and devices from businesses and consumers all over the world. Monticello Fund is uniquely positioned to benefit, owing to concentrated holdings in MSFT (~8%), GOOGL (~4%), and APPL (~8%).

**PERFORMANCE OVERVIEW**

As of September 30, 2021, the Monticello Fund had a market value of $5,597,070 deployed across 26 holdings. The fund continues to outperform our benchmark on a risk-adjusted basis, noting that since March 31, 2021, we have delivered 8.30% total return which exceeds the MSCI ACWI (6.38%) by 193bps across the same time-period. This level of alpha is consistent with the Monticello Fund’s 3-year historical performance. The largest contributors to fund performance during this period were Intuitive Surgical Inc. (ISRG: +34.54%), Alphabet Inc. (GOOGL: +29.62%), and Royal Dutch Shell Plc. (RDS.B +22.77%). The average portfolio weight of these holdings in aggregate was about 9.5% of portfolio value and is reflective of our decision to maintain a degree of concentration in higher-conviction names. We also intend to increase exposure to RDS in the coming months, bringing the position closer to 3% of the fund’s value. Deere & Company (DE: -9.94%), Royalty Pharma Plc. (RPRX: -12.81%) and Alibaba Group Holding Ltd. (BABA: -34.70%) were the bottom three positions that negatively contributed to performance over this period, but despite recent underperformance, we maintain conviction in the underlying investment theses as well as the broader earnings and growth potential for these holdings.

**FUTURE OUTLOOK**

In the near term, IMF expects growth to remain strong—6.0% in 2021 and 4.9% in 2022—and monetary policy to remain loose. The Federal Reserve, which is likely to announce its plans to taper quantitative easing in the fourth quarter, has been at pains to stress it will remain data dependent, and that the start of tapering does not imply any particular timeframe for interest rate increases. Of course, a backdrop of global equities at record highs and interest rates at record lows is an uneasy reality for many investors. Debates about the path by which the global economy returns to “normal” will contribute to volatility, even if the Fed has committed to managing this process carefully. The spread of the coronavirus delta variant, China’s regulatory crackdown, and geopolitical uncertainties all present additional risks. However, we believe that the confluence of additional stimulus checks for individuals, massive economic stimulus, and extremely low interest rates has created an environment for explosive growth around the globe.

**Regional Snapshot:**

- **United States** - The U.S. economy is likely to sustain above-trend growth into 2022. However, the easiest gains appear in the rear-view mirror at the end of the third quarter as the recovery phase of the business cycle matures. Strong fundamentals have helped power the stock market to new highs. Wage inflation...
is a key risk to this view. It is running unusually strong for this stage of the cycle, and record hiring intentions from businesses could exhaust spare capacity in the year ahead. Fiscal stimulus negotiations continue to grab headlines in Washington, D.C. The tax provisions in these bills are likely to be the most impactful for financial markets.

- **Eurozone** - Euro area looks on track for a return to above-trend growth over the fourth quarter and into 2022. Vaccination rates are high, and the euro area has more catch-up potential than other major economies, particularly the United States. The euro area is also set to receive more fiscal support than other regions, with the European Union’s pandemic recovery fund only just starting to disburse stimulus. Europe’s exposure to financials and cyclically sensitive sectors such as industrials, materials and energy, and its relatively small exposure to technology, gives it the potential to outperform as delta-variant fears subside, economic activity picks up and yield curves in Europe steepen.

- **United Kingdom** - As of mid-year, UK GDP was still nearly 4.5% below its pre-pandemic peak. We see plenty of scope for strong catch-up growth as borders are fully re-opened and activity normalizes. Supply bottlenecks and labor shortages have triggered a sharp rise in underlying inflation and created concerns that the Bank of England (BoE) may start rate hikes in the first half of 2022.

- **China** - We expect Chinese economic growth to be robust over the next 12 months, supported by a post-lockdown jump in consumer spending and incremental fiscal and monetary easing. The major consumer technology companies have seen significant drops in stock prices recently due to more aggressive regulation. Some uncertainty remains around the path of future regulation, especially as it relates to technology companies, and as a result we expect investors will remain cautious on Chinese equities in the coming months.

- **Latin America** - Latin America has been hit hard by the effects of the COVID-19 pandemic and the limitations of its policy response from both a public health and an economic policy perspective. Broadly helping the region, however, has been the rise in commodities prices on the global economic recovery. Following a broad inflation acceleration over the last year, most countries in the region are expected to gradually raise rates up to 2022. The heavy election cycle this year, which included critical elections in Mexico and Peru in early June, will continue to contribute to uncertainty, particularly in markets such as Peru and Chile, which may well see a swing to the left in terms of policy depending on final results and the outcome of constitutional change in Chile.

I would now like to share with you several portfolio updates at the Monticello Fund. Please feel free to share your thoughts and ask any questions that you have after reading.

**PORTFOLIO DECISIONS AND ACTIVITY**

**Sold: American Towers Corporation (ATC - $254.29), April 2021**
Exited our position after considering ceiling on potential growth and margins, erosion of pricing power due to customer concentration, and risk of a rise in interest rates. We entered the position in February 2018 and realized +79% gain at exit.

**Bought: Royalty Pharma (RPRX - $42.75), May 2021**
Bought RPRX to gain exposure to early-stage biotechnology company that has unique business model and substantial first-mover advantage. Though the performance till date has not been impressive (-12.81%), we continue hold high conviction in business fundamentals that would eventually reflect in the share price
performance over the longer term.

**Bought: Total Energy SE ADR (TTE - $46.66), May 2021**
Increased our allocation from 2% to 2.5% to reflect a strong conviction in the underlying quality of the business and Total’s commitment to renewable energy supported by a strong balance sheet, providing greater financial flexibility.

**Bought: Energy Sector ETF (XLE - $53.16), June 2021**
Redeployed excess cash to the energy sector ETF to hedge against inflation because of ability of energy companies to pass on the input costs to customers.

**POST PERFORMANCE PERIOD ACTIVITIES**

We rebalanced our position in MSFT from 9.8% to 7% to continue to be compliant with DCM operating guidelines. We realized +956.90% return upon rebalancing. We continue to have strong conviction in MSFT against the backdrop of strong commercial bookings growth in both cloud and server segments with an expectation that MSFT will sustain double-digit growth in FY22.

**Bought: Daimler (DDAIF - $89.74), October 2021**
We bought a 3% (-of fund’s value) position to obtain exposure to the European auto industry. We believe Daimler is uniquely positioned for success in the existential EV race and provides an opportunity to capture value before the firm’s truck spin-off is finalized by the end of Q1 2022.

**CLOSING REMARKS**

Once again, the team is very excited to take on the management of the fund and look forward to leaving our mark in the process. While these turbulent times have impacted our lives in unexpected ways, we see it as an unparalleled learning opportunity to further enhance our skills and knowledge in a subject that we are very passionate about. We thank you for the opportunity and encourage you to reach out directly with any questions.

Sincerely,
Mudit Bothra
BothraM22@darden.virginia.edu
+1 (434) 328-0959
ROTUNDA FUND

To our Partners and Friends,

First and foremost, I want to again thank the portfolio managers from the Class of 2021 – Hannah Coffin, Hyder Chowdry, Mollie Lavarack, and Hedan Liu. Each served as an excellent mentor while actively managing the Rotunda Fund. They were instrumental in helping transition the Fund to the Class of 2022 this past spring. We thank you all for your guidance and leadership!

My name is Wallace “Mac” Kyle, and it is with great pleasure that I step into the role of Senior Portfolio Manager for the Rotunda Fund this academic year. As a brief introduction, the Rotunda Fund seeks to provide outsized risk-adjusted returns by integrating sustainability research and environmental, social, and governance (ESG) measures using materiality metrics to outperform peers in each sector or industry. We believe a positive screening approach is best for our portfolio analysis in aligning with Darden and UVA values and standards. The Fund engages in in-depth research of ESG considerations alongside traditional valuation metrics to choose securities that will return the highest ROIC amongst the investable universe.

Joining me as portfolio managers on the Fund are my classmates Percy Oliver, Christina Walters, and Elizabeth Ughetta. Of the many opportunities for career exploration and learning at Darden, DCM provides a truly unique, hands-on, and collaborative experience for students interested in investment management. Our team is exceedingly grateful to have been chosen as stewards of the Rotunda Fund this year and look forward to a great year of investing and continued learning.

EARLY ACTIONS

Our class officially assumed responsibility of the fund on April 1, 2021. Following the transition, we immediately split up the names within the portfolio amongst all portfolio managers. This left us each with about 5-6 names to continually update investment theses on. To remain accountable, we created an earnings release calendar for all names and set up alerts through FactSet to ensure timely updates on our investment theses. We are working
on developing book reports for all our names and intend to have one finalized for each security by the end of November. Every week, a team member will present a book report and the team and visiting students will ask questions on the security. It is a comprehensive process that allows us to create a detailed investment thesis. This allowed each of us to jump in and further familiarize ourselves with our holdings’ investment merits.

We believe the S&P 500 is a benchmark that is aligned with our investing universe and provides a broad representation of the market. In proving out our ESG mandate and thesis, we believe outperforming the S&P 500 is an appropriate hurdle and one we hope to surpass consistently for our investors. As a secondary and unofficial performance measure, we also track our Fund’s performance against the MSCI North America Large Cap ESG Leaders index to view our returns relative to another ESG-focused index.

Our primary initiative and goal this year, with my experience in ESG investing at Calvert Investment Management over the summer, is to further expand our ESG framework and develop something longer lasting for future members of the fund. Prior, our framework is taken from basic sources such as Sustainalytics or Moody’s, with checklists for PMs to help categorize ESG risks. Going forward, we plan to develop a stringent materiality approach, looking at the industry or sector the company is involved in and understanding the underlying risks thereof.

Another initiative we are working on is having more ESG-experienced guests visit for fund meetings. Moya Connelly, a part-time professor at Darden who worked as a Portfolio Manager at DWS as the Head of Sustainable Investments, has been crucial in further developing our ESG framework and considerations. As an experienced advisor, we are confident that she can provide additional support throughout the rest of our tenure. Another guest we hosted this quarter was Stephen Byrd, who is a Managing Director at Morgan Stanley and the Head of North American Equity Research for Power, Utilities, and Clean Tech. Stephen joined us in September to discuss the economics of clean energy, new technological opportunities, and how natural gas is going to play a key role in the transition. Talking with Stephen gave me pause to invest further in the clean tech space as pure-play ESG names for the fund. After a personal conversation with him, I’m confident there are several areas that we can further invest in for the Rotunda Fund. We plan to have several more guests this year including Carolyn Miles and Mary Margaret Frank, professors at Darden, and analysts from Calvert Investment Management.

Following the summer, I ran an attribution analysis to better understand how portfolio names have performed since taking over in April 2021. Although we hold few mega-cap stocks, as the ESG risks tend to be convoluted, Alphabet (NASDAQ: GOOG) has been a strong performer this year, up 31% since April. As the stock approached 10% of the portfolio, we reluctantly sold out of the stock to remain within the mandate despite an expected earnings surprise in July. Despite outperforming our benchmark since taking over the fund by 2%, there were weak performers in our portfolio including Twilio, Inc. (TWLO) and Renewable Energy Group, Inc. (REGI). We have discussed these names in depth and plan to act soon, with REGI being pitched just prior to the board meeting. REGI’s modest initial sizing and subsequent weak performance means that it has remained a very small portion of our portfolio. With that, the PM on the name is pitching the stock in the week leading up to our Board of Trustees meeting to decide whether there’s a potential opportunity given its 70% departure from a 52-week high earlier this year.
INVESTMENT PHILOSOPHY

DCM is special in that the students alone decide how to evaluate the current investment mandate and update it for future years. The Rotunda Fund has seen several iterations over the last few years, with seemingly boilerplate documents rolled forward. With my experience in ESG investing at Calvert this summer, and the help of advisors such as Moya Connelly and Carolyn Miles, I’m working on updating our framework to incorporate sources including SASB, TCFD, and UNPRI. Using a materiality approach, we will identify areas of concern and related ESG risks throughout our portfolio and set Rotunda Fund on a standardized track. The below is how I think about the Fund’s investment philosophy which I want to share with you all today.

The Rotunda Fund seeks to invest in companies that provide risk-adjusted returns that outperform the market over the long-term by mitigating ESG risks and actively addressing relevant and material industry-related sustainability issues better relative to peers. By doing so, we believe these companies provide “best-in-class” opportunities for both risk management and value creation. In developing an investment thesis, the Fund will also consider companies that exhibit on-going commitments and efforts to improve their ESG profile.

As we further develop our framework SASB’s Materiality Map will be a crucial tool in our analysis. SASB’s tool highlights, by industry and by sustainability-related business issue, what sustainability risks are highest. Although a useful tool, performing in-depth research into companies CSR and sustainability reports provides the most information in determining how the company mitigates risks compared to peers. An important distinction that we’ve discussed is the element of greenwashing and companies simply reporting elements of their business that are not material in mitigating ESG risks. Additionally, companies need to increasingly consider governance risks, as TCFD notes is the largest core element of climate-related financial disclosures. Understanding key executives, management, and employee incentives around sustainability are vital in implementing long-term ESG standards in an organization. I’m excited to provide future years with a more standardized process to consider ESG investment risks in the Rotunda portfolio.

PERFORMANCE HIGHLIGHTS

As of September 30, 2021, the Rotunda Fund total value stands at $5.1mm and has returned 11.3% since our transition date (April 1, 2021). Our benchmark, the S&P 500, has returned 10.0% in the same period. We are encouraged by this outperformance but recognize that remaining attentive and updating investment theses as we go is important for continued success. We contribute much of our success to the higher weighted names in our portfolio, particularly Alphabet (GOOG) and CBRE Group (CBRE) with 31.0% and 18.7% returns, respectively. Some of the misses that we’ve experienced, such as Renewable Energy Group (REGI) and Twilio (TWLO) with -21.7% and -8.9% returns, respectively, have been less than 3% of our portfolio. We believe that although ESG has been a significant factor in our selection, it is not the primary component of recent success. We choose names within each industry that have outperformed peers for several factors, and we remain fairly in line with benchmark industry allocation.

PORTFOLIO UPDATES

HMS Holdings Corp. (HMSY): Veritas Capital-Backed Gainwell completed an acquisition of HMS in April 2021
that provided the fund with about $150k in liquidity. Although we were not expecting an acquisition per a prior investment thesis, HMS provided strong returns through its holding period.

**Financial Select Sector SPDR Fund (XLF):** With inflationary fears looming in June 2021, we decided to put the cash from HMS to work by investing in the financials sector through an ETF.

**Spider S&P Homebuilders ETF (XHB):** With additional cash remaining from the HMS acquisition, we felt confident in a continued housing boom and invested in the homebuilding ETF in June 2021.

**Montrose Environmental Group (MEG):** Hannah Coffin and I pitched MEG in April 2021 as a pure-play ESG name for the portfolio. We held off on purchasing the security until reaching a more desirable price. Patience paid off by doing a weighted cost purchasing method between June 2nd and July 19th buying a total of $110k for the fund. We have seen a 30% return on this investment in just a few months and believe there is still room to run with our current valuation.

**iShares MSCI USA ESG Select ETF (SUSA):** With additional cash from dividends and prior years managers, we invested in SUSA. We plan to keep a lower percentage of cash than prior managers as we’re confident in market performance and wanting to remain correlated with the market.

**Alphabet Inc. Class C (GOOG):** As the name approached almost 10% of the portfolio, we decided to divest about $100k. GOOG continues to perform well and we have strong conviction in the name regarding ESG controversies and developing sustainable practices.

**CLOSING REMARKS**

After a strong first half of our tenure, we are looking to make some changes to the portfolio in the next 6 months. I am hopeful that we will make more investments in pure-play ESG names including the clean tech and decarbonization space. I’m incredibly grateful to have been provided the opportunity to lead a great team of PMs during a hopefully transformational year for the fund.

We look forward to keeping you updated on our progress, and to those that paved the way before us, we welcome and remain open to any questions or input!

Sincerely,

Wallace “Mac” Kyle Jr.
KyleW22@darden.virginia.edu
Featured
Investment Ideas
SPOTIFY TECHNOLOGY SA (SPOT)

TARGET PRICE: $296.00

James Nish - Cavalier Fund

<table>
<thead>
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<th>Company Data</th>
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<td>Price (10/27/21)</td>
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Business Description

Spotify offers music streaming services in approximately 78 countries and territories across the globe through a digital music library of over 50 million music tracks, podcasts, videos, and other content. Services are provided through an “access-based” model, which provides listeners with on-demand content without downloading. Today, revenues from streaming in the U.S. alone amount to ~$10bn, and are growing at a 26% rate. Spotify has two offerings: Premium and Ad-Supported. Premium costs users $9.99/month, with the option to bundle accounts under a Family Plan for $15.99/month. Ad-Supported, or “Freemium” users have access to the same library of music but with sporadic ad interruptions. Nearly 90% of Spotify’s revenue is driven by its Premium user base, with the balance coming from advertising. Advertising revenue is primarily generated through display, audio, and video advertising delivered through advertising impressions. The company enters into arrangements with advertising agencies that purchase advertising on its platform, and revenue is recognized over time based on the number of impressions delivered.

Executive Summary

Spotify is the largest pure play music streaming service in the world, driving and benefitting from the ongoing secular shift from a transaction-based model to an access-based streaming model. It offers a differentiated freemium model at scale and is ramping up paid subscriptions, growing its total Monthly Active Users (MAUs) in double digits. It continues to see tremendous international growth and has captured only a small percentage of the perceived 4.5B Global TAM (1.5B premium users + 3B ad-supported). The company continues to reinvest in its platform, spending 9-10% of revenues in R&D to improve subscriber retention, and these changes are clearly working. It also continues to pursue expansion opportunities, understanding it must be nimble in an increasingly competitive streaming landscape. In addition to a growing podcast effort, the company has recently offered more color into its two-sided marketplace initiative, which connects rising artists with an audience to develop their careers.

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<td>Moderate revenue growth with higher multiple in line with brokers</td>
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<td>Base</td>
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<td>Moderate revenue growth with multiple in line with current valuation</td>
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<tr>
<td>Bear</td>
<td>$247</td>
<td>(9.5%)</td>
<td>Low revenue growth with lower multiple</td>
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**Investment Thesis**

1. **Largest pure play streaming service**
   SPOT has established a clear market leadership (365mm MAUs and 165mm Premium subscriptions and yet there is still significant market opportunity to be unlocked for SPOT. The Company has a loyal and growing customer base, and with access to increasingly massive TAM. 34%+ market share and with only 15% penetration to the 3bn+ global smartphones is a large opportunity in the early innings, can penetrate even more.

2. **New revenue streams**
   CEO focus on advertising revenue, coupled with recent investments in podcasts, will allow SPOT to keep raising prices and stay relevant and sticky. Superior value proposition and customer satisfaction lead to price increases and can help unlock additional advertising spend as <$1bn ad business is fraction of overall radio ad market of $20bn+.

3. **Expanding into new markets is working**
   Revenue multiple expansion as focus on additional content, especially in podcasts continues as 25%+ of podcast listeners now listen to SPOT and SPOT now surpasses AAPL in market share for podcasts (28.2mm vs 28mm). Podcasts is a two-sided market, where SPOT can capture revenue from the artists and the users. Content is king, and SPOT has spent recently on podcast content and will begin to monetize on radio ads.

**Risks**

1. **Large competitors take share**
   Apple, AMZN, and Google offer streaming services similar to SPOT and they have the financial muscle to share buybacks, buy content, and market their products.

2. **Podcasts fail to materialize**
   SPOT is investing heavily in podcast content. This could become a negative long-term catalyst if users do not continue to adopt podcast viewership

3. **Data regulation**
   The new business lines with ads and two-sided marketplace rely heavily on targeted ads and data mining off of customers. If regulations like GDPR & AAPL’s iOS14 changes impact the ability to better monetize ad-supported users this could hamper the goal of expanding ad-supported business to reach ~3B users

4. **Pricing stickiness doesn’t hold**
   Greater churn in response to higher than anticipated sensitivity of recent pricing increase rollouts could lead to a more bearish outlook on ARPU growth.
LEGACY HOUSING CORP. (LEGH)

TARGET PRICE: $27.00

Natalie Azarela & Andy Bedenk ('21) - Darden Fund

### Business Description
Legacy Housing (LEGH) is the fourth largest producer of manufactured homes in the U.S. with three types of home offerings and several types of financing options. LEGH is a buy at $17 with meaningful upside potential ($27 price target) and limited downside risk given current market conditions.

### Executive Summary
We believe LEGH valuation is significantly underappreciated relative to its comps in the space. LEGH trades at a steep discount to its comparables, despite having similar ROIC and growth profile and much higher EBITDA margins. The management team is also incredibly aligned as they own a significant portion of the equity and the two founders make $50K in salary with no stock options – instead their incentives align with long term equity value creation. There are also attractive market conditions with housing shortages and rising prices of site-built homes and a significant growth opportunity with 82% of current sales in only 8 states, not a winner take all market.

### Investment Thesis

1. **Attractive macroeconomic backdrop**

Freddie Mac estimated the housing shortage in 2020 to be about 3.8M units. Entry-level and affordable construction reached a record low in 2020 at 65,000 units. The housing shortage is concentrated at the entry-level / affordable housing bracket – stifling our ability to facilitate more inclusive economic growth. The main driver of the shortfall is the long-term decline in the construction of single-family homes. The construction industry faces hurdles that disincentivize the construction of homes – lumber prices, supply-chain issues, zoning laws, costly permits, skilled labor deficit. Demand for affordable housing is increasing, while the supply remains fixed. Individuals that are in dire need of affordable homes, cannot find homes to buy or rent. As new home prices for site-built homes continue to rise faster than manufactured home sales prices, individuals will increasingly turn to manufactured homes for affordability.

### Company Data

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### Scenario

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<td>Moderate revenue growth and margin improvement with a multiple re-rating</td>
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<tr>
<td>Bear</td>
<td>$15</td>
<td>(12%)</td>
<td>Low revenue growth with no margin improvement or multiple expansion</td>
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</table>
2. **Aligned Management Team**

LEGH is run by its owner/operators who seeded the company with just $50k of equity and have grown through self-funding. The Company has been profitable in every year of existence and are aligned to create long term shareholder value (they only take a $50K salary and no stock options but they own nearly 40% of the equity).

3. **Reasonable Valuation**

In addition to the structural tailwinds over the next few years including new government financing initiatives, demographic trends (millennials buying homes and Baby Boomers downsizing), Manufactured Housing shipments are still ~50% below their 60-year average. The Company is uniquely undervalued due to their in-house financing arm with higher attachment rates than industry standard and their owned retail distribution where they get higher margins than their competitors. At ~9x EBITDA the Company trades at nearly a 50% discount to its closest (albeit larger) comp Cavco Industries.

**Risks**

1. Rising input prices (lumber, etc.) impact ability to maintain margins
2. Borrower credit quality is low and LEGH may see defaults as COVID related forbearances expire
3. Larger more established competition with economies of scale (Clayton Homes - Berkshire)
4. Volatility resulting from 20-30% of revenue being generated by weather related demand and large government customers
5. Housing market has inherent volatility
GUARDANT HEALTH, INC. (GH)

TARGET PRICE: $199.12

Philip Apelles – Jefferson Fund

### Company Data

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<td>EV/Sales</td>
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### Business Description

Guardant Health is a diagnostics company focused on conquering cancer through the development and commercialization of their proprietary liquid biopsy tests. The company leverages Next Generation Sequencing (NGS) to access the molecular information present in patients’ bloodstreams and identify cancer across potentially all stages of disease. Based in Redwood California, the company currently offers 3 different liquid biopsy tests: Guardant 360/Guardant CDx, Guardant Omni, and Guardant Reveal. The tests serve different points along a patient’s journey. Additionally Guardant is developing Lunar-2, an early stage cancer screen, and enjoys several competitive advantages that differentiates the company from other liquid biopsy producers. By potentially offering liquid biopsy assays geared towards serving the entire disease progression, Guardant Health hopes to become a one-stop shop for all oncological diagnostic needs and become the market leader in a still nascent, but rapidly growing market.

### Executive Summary

Inherently, early-stage biopharma revenue is difficult to predict especially with an ever-changing landscape. The street predicts roughly a 25-30% sales CAGR for only the next two years and I believe that to be conservative. Even with low sales uptake from Lunar, I think Guardant can maintain a high-30% sales CAGR through 2026. This is based on sales modelled for each test, both international and abroad. In terms of average sales price (ASP), I see variations between the tests. For US Guardant 360, the current CMS reimbursement price is $3,500. The CMS does not represent the only payer but if the price they reimburse is similar across all payers then $3,500 seems reasonable. However, certain patients ultimately do not pay, and if the uninsured rate of 10.9% is used as a proxy for those who neglect payment, then an average sales price of $3,119 is realized. Management estimated the full-year 2021 ASP for G360 to be $2,600, which is low given previous COVID pressures. I do not imagine international revenue for Guardant 360 to maintain the same elevated price, given single-payer systems, so international ASP takes a haircut. OMNI realizes higher sale prices because biopharmaceutical companies represent the end payer and have stricter contracts. For Reveal, the numbers remain uncertain. Both Signatera (competitor) and Reveal recently launched into a very new market and sales uptake will take at least a year to properly predict. Guardant 360, given it was launching into a new space when first released, is the best proxy for a conservative sales uptake. The TAMs significantly differ, but G360 represents an appropriate comp for the time being. Additionally, while Signatera recently gained CMS reimbursement rate of $3,500, I think past Guardant 360 ASPs are a more accurate representation given Guardant 360 was also later awarded a $3,500 CMS reimbursement rate. For Lunar, I used Cologuard tests to predict sales. Using a 50% risk factor based on the uncertainty surrounding ECLPISE and relative performance to Cologuard, I predict 840k tests sold by 2026. In terms of gross margin, I envision it improving and trending towards gross margin industry leader Exact Sciences as increasing scale helps drive up profitability. Research and Development (R&D) costs will remain high when 2023 until Lunar is released. Then R&D begins to taper down as the business focuses less on development and more on commercialization. A risk would be Guardant
is forced to maintain a high-level of R&D in later years to outcompete competition. If the competitive advantages of relationships with oncologists and strong testing performance lessen, competition can force Guardant into a position of high costs and negative profits for longer. Sales and Marketing will remain high and increase in 2021 to help with the commercialization efforts for Reveal and Lunar. Beyond that, the step-down will be less steep given the relative novelty of LB and the need for further awareness. But as a percentage of revenue it will fall because revenues are growing rapidly. I used Abbott’s diagnostic operating margin to inform the 2026 operating margin, which is close to 24%. While they offer different tests, it helps preview what could be expected in a mature company setting. For the valuation multiple, I used 13x EV/Sales. This is what HelioDx sold for to Veracyte this June and I believe it represents an appropriate exit multiple. FoundationOne was sold for roughly 10x EV/Sales to Roche in 2018, but the market’s potential at that stage was still vague.

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<th>Scenario</th>
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<tbody>
<tr>
<td>Bull</td>
<td>$241</td>
<td>127%</td>
<td>Equal Lunar sales uptake to Cologuard. Gross margin improvement to 75%, similar to margin leader Exact Sciences. EV/Sales price equal to acquisition price of HelioDx.</td>
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<tr>
<td>Base</td>
<td>$199</td>
<td>87%</td>
<td>50% discount to Lunar sales.</td>
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<tr>
<td>Bear</td>
<td>$122</td>
<td>15%</td>
<td>No sales from Lunar given FDA rejection. Perpetual gross margin of 68% and 10x EV/S multiple similar to the acquisition price for Foundation One</td>
</tr>
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</table>

**Investment Thesis**

1. *Providing a Complete Continuum of Care*

Consider a common cancer patient’s journey: a patient experiences symptoms and seeks medical advice, a primary care physician screens for potential causes and diagnoses a disease, then an oncologist selects an appropriate therapy and the cancer hopefully goes into remission. Lastly, the oncologist develops a plan for the long term management of the disease and periodically checks for disease recurrence. Guardant Health, which offers different tests designed for different stages of disease progression, is attempting to play a role in every step along that journey. From early stage screening to post-treatment monitoring, Guardant envisions itself as a one-stop-shop for all cancer testing needs and I believe that positioning will help Guardant best capture the majority of the total $70b (rough global midpoint) TAM that they operate in. No other competitor has the pipeline or current portfolio of marketable liquid biopsy assays to build a similar position across the journey. Beginning with Colorectal Cancer, Guardant has targeted it as the first disease to potentially offer this end-to-end diagnostic solution for. Lunar-2 plans to provide early-stage colorectal cancer screening, Guardant 360 profiles solid tumors (including colorectal carcinomas) to inform therapy selection, and lastly Guardant Reveal, which launched in Q1 2021, manages colorectal MRD (minimal residual disease). To summarize: Lunar hopefully will be the early stage screening test, Guardant 360 handles the prognosis/therapy selection, and Guardant Reveal monitors the disease in the minimal residual disease/recurrence monitoring stage.
2. Established Competitive Advantages

**Strong Testing Performance:**
For early stage detection, Guardant’s Lunar-2 currently outperforms Grail’s pan-cancer test Galleri. While Lunar has been evaluated based on its performance diagnosing solely colorectal cancer and Galleri was initially evaluated across 12 cancer types, I do not foresee Galleri outcompeting Lunar in early stage colorectal screens. Early readouts presented in the 2021 ASCO meeting showed Lunar-2 achieved a 91% sensitivity and 94% specificity profile which if confirmed through ECLIPSE, will most likely result in FDA clearance and CMS approval. Additionally, Lunar-2 currently outperforms Exact Sciences’ LB multi-cancer assay. However, it slightly underperforms against Cologuard in terms of sensitivity. Exact Sciences offers Cologuard, a stool-based early colorectal cancer detection screen which currently dominates the market outside of colonoscopies. Cologuard boasts a 92% sensitivity and 87% specificity performance profile. If Lunar-2 however maintains the same performance in ECLIPSE as the ASCO readout, I have no doubt Lunar-2 will become the market leader in early detection colon cancer screening. The strong performance coupled with greater convenience (most adults are familiar with blood draws, not necessarily providing stool samples) will lead Lunar to capture a significant portion of the market.

**Regulatory Expertise:**
Guardant 360 was the first FDA-approved comprehensive liquid biopsy. Initially released in 2014, it took 6 years to ultimately gain FDA approval proving the difficulty of the FDA regulatory process. But beyond gaining FDA approval, Guardant Health has been one of the leaders in liquid biopsy and knows how to navigate through the LDT and CMS hurdles quickly and efficiently. While regulation is not necessarily a strong barrier of entry given the simpler LDT pathway, regulatory expertise does make or break a company’s ability to gain early adoption and establish critical reimbursement agreements with payers. Regulatory know-how coupled with strong testing performance will be the keys to becoming the future market leader and Guardant currently possesses both. Guardant can also leverage their regulatory expertise to expand indications for tests already in market or grow their pipeline. Because they have the experience of commercializing three liquid biopsy tests, the most across all competitors, I believe they will be able to expand indications quicker than others keeping Guardant a step ahead of competition. If Guardant has the shortest timetable in terms of accessing new disease opportunities, they will continually benefit from first-mover advantages. Additionally, their facility in California was the first liquid biopsy laboratory to be CLIA approved.

**Commercial Scale:**
Currently, Guardant processes all completed tests in its lab in Redwood City, California. They do not send tests to third-party labs, like Quest Diagnostics, to keep turnaround times low and sensitivity/specificity high. Guardant boasts an average 5-day turnaround time, which is below the industry average of 7-10 days. Keeping turnaround times low help differentiate Guardant in scenarios where testing performance does not materially differ. Additionally by keeping processing in-house, Guardant can maintain a high degree of quality control and increase sensitivity/subjectivity. Guardant constantly tweaks their tests, Guardant 360 reformatted into Guardant OMNI represents a classic example, and can improve both testing performance and experiment with other indications. Guardant has also partnered with SoftBank to accelerate commercialization in Asia. With a growing aging population in Japan, Guardant has identified the country as prime target for G360.
year, Guardant alongside their partner SoftBank applied to gain regulatory approval for Guardant 360 through the Ministry of Health, Labor, and Welfare (Japan’s FDA). 33% of Japan’s population is 60 and above, and projections expect that percentage to grow over the next couple decades.

Strong Relationships with Oncologists:
Management highlighted that roughly 10,000 unique oncologists have ordered a Guardant liquid biopsy assay. There are approximately 12,940 oncologists across the U.S., implying that Guardant has penetrated 77% of their oncological market. Guardant 360 has fueled that brand recognition, which will help power adoption across other tests. In a JPM survey, 84% of oncologists used Guardant for therapy selection (Guardant 360). Additionally, 62% of oncologists use Guardant for liquid biopsy MRD (Reveal). Both tests lead in their respective categories amongst oncologists and 54% of oncologists use Reveal in MRD because of familiarity with the provider. Given Guardant’s longstanding position in liquid biopsy and a positive reputation within the oncology community, the company can leverage that trust into higher test volumes. Guardant has the greatest brand recognition across liquid biopsy players because the company was the first to gain FDA approval with Guardant 360, owns a comprehensive portfolio of other tests, and conducted 60 clinical outcome studies alongside 200 peer-reviewed publications. This brand recognition has led to familiarity with oncologists and helped Guardant develop a reputation as a trusted partner in diagnostics.

3. Pure-Play Liquid Biopsy Company

Guardant Health solely focuses on providing liquid biopsy solutions, so the company represents a concentrated bet on the space. While other companies offer tests that service other diagnostic needs, like prenatal care or carrier genomics, Guardant exclusively operates in oncology. Additionally Guardant only uses blood, as opposed to other competitors that analyze other mediums like stool or saliva. This gives Guardant the greatest exposure to the liquid biopsy market which given the secular tailwinds, means they are best positioned to benefit from the rising adoption of liquid biopsy assays. I have little doubt liquid biopsy will replace tissue-based biopsy and expand the entire oncological diagnostics market and Guardant Health, in my opinion, is the best way to play that transition. At the very least, the company can serve as a proxy to invest in secular trends and bet on liquid biopsy tests becoming the norm in oncology. Regardless how the competitive landscape ultimately shakes out, a rising tide lifts all boats.

Risks
1. Intensifying Competition

The $70b global TAM has attracted many new entrants. There are at least 5 separate private companies in the liquid biopsy space and 8 public companies with liquid biopsy tests either in market or in development. This also fails to include any new players who may attempt to rollout their own liquid biopsy assay in the future. While the TAM is large, there are many separate players trying to split the pie. However, I envision either acquisitions or competitive forces decreasing the number of competitors as the industry matures similar to other industries. Liquid biopsy is still in its late introduction phase in terms of the industry lifecycle, and with that comes many unknowns and potential threats.
2. Poor Clinical Data

Guardant’s ability to penetrate the early screening market hinges upon Lunar’s ECLIPSE trial. The street believes Lunar will perform similarly in ECLIPSE as it did in the ASCO readout, albeit with somewhat lower efficacy given more patient sample variability, but it is still generally unclear what the trial will conclude. Greater clarity will emerge post ECLIPSE results and current stock performance is greatly tied to the trial. In the near-term, ECLIPSE is the greatest driver of stock performance. Additionally, other companies may outperform in sensitivity/specificity against GH assays which may hinder the company’s ability to gain strong adoption throughout colorectal cancer disease progression.

3. Valuation Contraction

Across all metrics, valuation is a concern for Guardant Health. Currently, TTM EV/Sales is 34.6x and is significantly higher than peers like Exact Sciences and Natera that trade at EV/Sales multiples closer to 15-20x. The market expects significant growth, and any disruption could materially affect the multiple and stock price. From a forward EV/Sales ratio, the trend is downward but still elevated. That said, GH is the only $10b+ company with 25-30% expected sales growth each year over the next two years out of the companies mentioned. For that level of expected growth, the market values Guardant at a premium relative to both its peers and the market. If ECLIPSE highlights poorer than expected Lunar testing performance, the stock has a lot of room to fall.
DAIMLER AG (DDAIF)

TARGET PRICE: €102.11

Stephen Frankiewicz – Monticello Fund

Company Data

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Business Description

Daimler AG engages in the production and distribution of cars, trucks, and vans. It operates through the following segments: Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, Daimler Buses, and Daimler Mobility. The Company also provides services such as insurance, fleet management, investment products, and credit cards. The company was founded by Gottlieb Daimler and Carl Benz in 1926 and is headquartered in Stuttgart, Germany.

Executive Summary

Daimler AG presents the opportunity to invest in a world class, diversified automotive company at a unique time and relatively attractive valuation. The Company has announced that it will spin-off its truck and van division by the end of 2021, which will ultimately lead to higher value attribution for the separate business, implying material upside potential. Additionally, the firm’s acquisition of YASA, Ltd. will play a unique role in the firm’s electric vehicle (EV) transition. We believe Daimler AG is the best positioned traditional automotive firm to capitalize on the existential EV race due to its technological capabilities and diversified revenue streams.

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<td>Base</td>
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<td>Low revenue growth and margin improvement</td>
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<tr>
<td>Bear</td>
<td>€70.82</td>
<td>(1%)</td>
<td>Very low revenue growth with no margin improvement</td>
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*Assumes a sum of parts valuation

Investment Thesis

1. Positioned for Success in the Existential EV Race

Daimler’s diversified product offering anchored by the Mercedes-Benz brand spans across segments and geographic regions. The Company’s acquisition of YASA and its decision to spin-off the truck division will better position the firm to challenge Tesla and other rivals in the market for premium EVs.

2. Management Conservatism, Strong Balance Sheet and Robust Liquidity Support Future Growth and Transformation

Costs will continue to be highly scrutinized by management while top line revenue will benefit from a market recovery and upcoming product launches. This should lead to significantly higher margins across segments in
future years. Company’s relatively strong balance sheet will be a competitive advantage throughout EV transition.

3. **Opportunity to Capture Value Before Daimler Truck Spin-Off is Finalized**

Spin-off of the truck division allows re-rating of both businesses, leading to material upside for the combined entity. Investor valuations still accounting for holding and/or conglomerate discounts which will dissolve in the near term.

**Risks**

1. Transition to successful EV future is dependent on regulation as well as dramatic changes to supply chain and EV infrastructure
2. Slowdown in the premium car market (China, Europe, North America)
3. Delays in the execution of the Daimler Truck spin-off could lead to a loss in confidence in management’s ability to get the transaction done and/or execute value proposition
4. Major acquisition of a competitor or consolidation among peers could negatively impact investment theses
MONTROSE ENVIRONMENTAL GROUP (MEG)

TARGET PRICE: $100.00

Mac Kyle & Hannah Coffin ('21) – Rotunda Fund

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<td>EV/EBITDA</td>
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Business Description
Montrose is a small cap diversified environmental services company that has offerings including air measurement and lab services, leak detection, water and PFAS (a family of industrial chemicals) treatment, soil and groundwater remediation, and environmental emergency response. The primary missions and targets are to bring clean water to communities, improve air quality, reduce greenhouse gas emissions, and bring clients new renewable energy technology. Clients include both government and commercial organizations. The company was founded in 2012 and went public in July 2020.

Executive Summary
MEG is a pure-play ESG company as a one-stop diversified shop with high-growth potential environmental services with a focus on and high commitment to ESG excellence.

Investment Thesis
1. High Growth with strong cash flow profile and balance sheet
Montrose revenues have grown organically 9% over 2016 to 2019 and 17% in 2020. CAGR has been around 20%+ as the company has been driven my M&A. MEG is within a highly fragmented industry with no true leaders, providing an opportunity for success in a large and growing addressable market. MEG has a record of strategic and financially accretive acquisitions. During multiple earnings calls, leadership has noted a multitude of acquisition targets in their pipeline. There is a critical need for MEG’s services with political and secular tailwinds

2. Recurring Revenue and Diverse Customers
Montrose has experienced strong customer satisfaction in its business with 90% recurring revenue in 2020. No single client made up more than 7% of net service revenue. The end market is diverse in industry, which continues to expand with acquisitions and varying services.

3. Pure-play ESG profile
As a pure-play ESG name in the environmental services space, we believe this is a great addition to the Rotunda fund and feel the firm remains committed to its foundations. MEG defines its practices according to the UN SDGs and integrates aspects of SASB, GRI, and TCFD into its sustainability framework. Additionally, MEG recently raised a sustainability-linked credit facility where they receive a pricing adjustment based on certain metrics met, including diversity and inclusion.
Risks

1. **High Debt Profile of $170mm**
   As company growth is significantly based on acquisitions, it's no surprise Montrose is highly levered.

2. **Preferred Equity is a drag on deployable cash**

3. **Valuation is currently high**
   We believe that although MEG has higher multiples than several peers (27.3x vs. 14.3x) we believe it is warranted due to high growth and strong/expanding margin profile, even as a smaller player.
2021–2022 LEADERSHIP TEAM BIOS

Samantha Richman — Chief Executive Officer

Prior to Darden, Samantha was a Product Specialist at Man Group, a global active investment management firm, covering Alternative Risk Premia and Multi-Strat strategies. In this role, she worked with Portfolio Managers and Relationship Managers to support capital raising, investment strategy, and product development efforts. Samantha graduated from the University of North Carolina at Chapel Hill with a B.A. in Political Science. This summer she interned at KKR in their Client & Partner Group.

Mary Winston Richardson — Chief Financial Officer

Prior to Darden, Mary Winston spent four years at Garson Lehman Group (GLG) working as a Senior Associate on the Strategic Projects team. In this role, she conducted consulting engagements to provide private equity clients with strategic insights to inform investment decisions across the deal process for consumer goods, business services, technology, and industrial sectors. Mary Winston graduated from the University of Virginia with a B.A. in Art History and Media Studies with a concentration in Media Policy & Ethics. This past summer, she interned in investment banking in Evercore’s M&A Strategic Advisory Practice.

Charles Patton — Chief Investment Officer

Prior to Darden, Charles spent five years at Wells Fargo analyzing credit risk for the Wealth and Investment Management business with a focus on margin and mortgage loans, later transitioning to a role analyzing the impact of changes in economic variables on the bank’s Investment Portfolio. Charles graduated from the University of North Carolina at Chapel Hill with a B.S. in Business Administration and a second major in History. He has been a CFA Charterholder since 2019. He interned at the University of Virginia Investment Management Company (UVIMCO) this summer, helping the university with manager due diligence and asset allocation decisions for its endowment and related funds.
Mark Llanes — Chief Operations Officer

Prior to Darden, Mark was an Equity Research Analyst at Credit Suisse Toronto within the Metals and Mining group focusing on North American precious and base metals securities and co-led precious metals commodity forecasts and outlook. He also held roles within KPMG’s M&A Advisory group and Deloitte’s Assurance group. Mark earned his Bachelor of Business Administration from the Schulich School of Business at York University and holds both a Chartered Professional Accountant and Chartered Accountant designations. During the summer, he interned at Morgan Stanley San Francisco as an Investment Banking Associate.

Michael D’Onofrio — Senior Portfolio Manager: Cavalier Fund

Prior to Darden, Michael worked in healthcare strategy consulting at Vizient, the 3rd largest healthcare management consultant. Prior to that, he founded a health-IT startup, Presage Health, which was a spin out of IP he patented while working as a product manager at Maxim Integrated. Michael graduated from Duke University with a B.A. in Public Policy and Markets & Management. This summer he interned with Credit Suisse Investment Bank.

Ryan McCarthy — Senior Portfolio Manager: Darden Fund

Prior to Darden, Ryan was an investor at TZP Group, a middle market private equity firm in New York City focused on investments in Technology & Business Services and Consumer Products & Services companies. Prior to TZP Group, Ryan was an Investment Banker at Macquarie Capital in the Leveraged Finance & Financial Sponsors Group. He graduated from Villanova University with a B.S. in Finance.
Philip Apelles — Senior Portfolio Manager: Jefferson Fund

Prior to Darden, Philip worked at his family business, The GTO Group, where he served as both a principal shareholder and a data strategist. Originally from New York, Philip graduated from Vanderbilt University with a BA in Mathematics and Economics. This summer he interned at Fayez Sarofim & Co as an Equity Research Associate.

Mudit Bothra — Senior Portfolio Manager: Monticello Fund

Prior to Darden, Mudit worked in various roles with Deloitte, PwC and EY, advising clients across industries and geographies on internal audits and process improvement. In addition to holding a Bachelors in Commerce, Mudit has also cleared all three levels of the CFA program. He interned with Credit Suisse’s M&A Group this summer.

Mac Kyle — Senior Portfolio Manager: Rotunda Fund

Prior to Darden, Mac worked at Allen & Company, an investment bank in New York, in their Wealth Management group. Mac graduated from the University of Richmond in 2015 majoring in Accounting, Finance, and General Management. He interned at Calvert Investment Management and Research, an ESG investment firm owned by Morgan Stanley.

THANK YOU FOR YOUR CONTINUED SUPPORT!