University of Virginia | DARDEN Capital Management

THE ADVISOR

Q4 2019

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A LETTER FROM THE CEO

January 24, 2020

Greetings,

It is with great pleasure that we bring you the Q4 2019 edition of *The Advisor*. Within the remaining enclosed pages, you will find an investor letter from each of our five portfolio teams detailing their experiences during the quarter, as well as select investment ideas. Also featured in this edition is an interview with Jake DuBois (Darden '16), Founder and Managing Member of Blue Hawk Investment Group. We hope you enjoy!

Church Waesche, DCM CEO

At the end of 2018, the market narrative centered on expectations for continued interest rate hikes, escalation in the US-China trade war, and slowing global GDP growth. However, for those with the fortitude to stay invested despite the headlines, 2019 proved to be an exciting and profitable time to be long the market. The Federal Reserve cut interest rates three times and stocks soared to all-time highs. It was a reminder to stick to what you're good at, which for most of us doesn't include making macroeconomic forecasts. Thankfully, DCM's portfolio teams ignored the "experts" and stayed focused on our core competency – bottom-up fundamental stock picking. This discipline led to another year of exceptional returns in 2019 and we are proud to announce that for the first time in DCM's history, assets under management have surpassed $20 million. The continued strong performance is a testament to DCM's investment process which encompasses deep fundamental research, spirited team debate, and thoughtful, collaborative decision making. Congratulations to all of DCM's current and past members on this remarkable achievement!

An additional highlight from the quarter included another successful iteration of DCM's premier event—the Darden @ Virginia Investing Challenge (DVIC). This year marked the 8th installment of DVIC, featuring 12 teams representing the nation's top MBA programs, as well as UVA's McIntire School of Commerce. Our theme for this year's competition was "ESG: The Rise of Responsible Investing," a theme that continues to be top of mind for many money managers and investors. This year's winning pitch was **Ulta Beauty (ULTA),** presented by the team from the Columbia Business School – denying McIntire, the runner-up, its quest for a three-peat. We are particularly grateful to have been able to construct a final round panel of judges with strong DCM ties this year including Ichiro Suzuki ('84), Peter Grant ('86), Bob Smith ('87), Tad Smith ('87), Don Wilkinson ('92), Gibboney Huske ('97), and Danny Mooney ('08). Thank you also to our other alums who participated as judges in the first round of the competition and we hope that you all will join us again next year.

As we move forward into the New Year, the Executive Team remains focused on providing the best possible experiential learning opportunities for our members. We have several exciting speakers planned who we hope will complement the learnings of the academic program and build upon the sessions we hosted during the Fall. In addition, we have developed several crossover opportunities between the first and second-year classes designed to help ensure a smooth transition as we move ever so quickly towards the selection of the DCM Class of 2021.

As always, DCM is continuously looking for ways to engage and learn from our alumni and to raise the profile of Darden in the investment management industry. We hope that the enclosed pages evoke fond memories of your Darden experience, and maybe even provide a new idea or two. If you would like more information on anything provided here, or simply want to reconnect with your DCM fund, please do not hesitate to reach out. We would be happy to host you back at Darden anytime, and hope to see you in the Capital Markets Room again soon. Thank you for your continued support.

All the best,

Church Waesche
CEO, Darden Capital Management
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2019–2020 DARDEN CAPITAL MANAGEMENT

EXECUTIVE TEAM

Church Waesche	Chief Executive Officer
Clarke Ryan	Chief Investment Officer
Bevin Landry	Chief Financial Officer
Trenton Hegseth	Director of Research

JEFFERSON FUND

Adrian Moral	Senior Portfolio Manager
Andres Campos	Portfolio Manager
Zachary Elkaim	Portfolio Manager
Anna Mazur	Portfolio Manager

CAVALIER FUND

Charles Perkins	Senior Portfolio Manager
Vin Paruchuri	Portfolio Manager
Robbie Hoffman	Portfolio Manager
Dalton Werner	Portfolio Manager

MONTICELLO FUND

Katharine Watson	Senior Portfolio Manager
Carson Willoughby	Portfolio Manager
Yujing Sun	Portfolio Manager
Aditya Singh	Portfolio Manager

DARDEN FUND

Nicholas Kordonowy	Senior Portfolio Manager
Jade Palomino	Portfolio Manager
Ragini Bhuyan	Portfolio Manager
Cameron Hector	Portfolio Manager

ROTUNDA FUND

Scott Steever	Senior Portfolio Manager
Ann-Catherine Begley	Portfolio Manager
Waleed Jehandad	Portfolio Manager
Christian Pratt	Portfolio Manager

ALUMNI INTERVIEW SERIES

As we carry through on our commitment to highlight our strong alumni base in the field of investment management, this issue features an interview with Jake DuBois of Blue Hawk Investment Group. Mr. DuBois is an active alumnus of Darden and we thank him for contributing his time and insights. We hope you enjoy reading! We look forward to highlighting other outstanding alumni in the investment management industry in future editions of *The Advisor*.

Jake DuBois, Darden Class of 2016

Biography: Mr. DuBois is the Founder and Managing Member of the Blue Hawk Fundamental Growth Fund, LP, a long-short hedge fund he founded in 2016. Mr. DuBois has over 11 years of investing experience. Prior to founding Blue Hawk, Mr. DuBois served as the President & CEO of Darden Capital Management, an investment organization that managed $11M of the Darden School's endowment as of the end of his tenure. In the summer of 2015, Mr. DuBois worked as an Analyst at Sirios Capital Management covering the business process outsourcing industry. From 2011 to 2014, Mr. DuBois worked as an associate at T. Rowe Price supporting the large-cap growth team. Mr. DuBois is a graduate of the University of Virginia Darden School of Business (2016) with a concentration in Asset Management and of Emory University School of Arts and Sciences (2008) with a degree in Psychology.

Q: What do you value most from your time in Darden Capital Management (DCM)? Tell me about your specific experience.

A: Darden Capital Management (DCM) was my first opportunity to lead an investment organization, an opportunity I really value. While I had investing experience as an individual contributor prior to Darden, the role of DCM President allowed me to develop confidence leading an investment team and organization, a transition that can be challenging.

My focus was on building out a repeatable and scalable investment process across all of the Funds, one in which each holding had a clear, concise, and idiosyncratic thesis and a price target grounded in a valuation framework. My goal was to create a centralized quality control and risk management framework without stifling the individual creativity of each PM and their respective teams. This balance is a tough one to strike, so it was a great to have an opportunity to practice in this quasi-academic, quasi-practitioner setting.

The other area I really enjoyed was the opportunity to work with the Darden Board of Directors, the ultimate fiduciary for the Funds. Investing publicly and with transparency comes with a territory in the industry so investing an $11 million sleeve (at the time) of the school's endowment and reporting the results to the Board was great preparation towards what I'm doing now. There are not many other places one can get this type of experience. In addition, I made some great relationships as part of this process and am thankful to the Board for the opportunity.

And lastly, I would be remiss if I did not mention how much I enjoyed attending and participating in the weekly meetings of the Cavalier Fund, DCM's long short fund. I learned so much at that conference table, both through the fielding of questions from classmates after pitching different stocks and just listening to others present their ideas and hearing how they think. I worked with some great young investors and developed some lifelong friends.

Q: Why did you decide to start your own firm right out of Darden?

A: I'll do my best to answer this question concisely. At graduation I had 8 years of investing experience and a couple of mentors who were industry veterans telling me I was pretty good at this. So, like any investment I make, I had my investment thesis – that I had a knack for investing. With that premise, I had two options: (1) Join a firm and try to prove myself again, first within the firm and then to the investor community if given the opportunity or (2) Start my own firm and go to market. Well-known pressures within the industry led me to conclude that getting an opportunity to prove my skill as an investor within a firm involved more luck than most people realized. In addition, even if I landed in the right opportunity, I knew from my prior experience that my incentives might not be perfectly aligned - if I'm good and invest well, the firm would capture much of the upside. If not, I would be fired and be looking for a new career.

The solution – go to market and bet on myself. If I'm good (and patient), the market will come to realize over time, and I would capture the upside – not just monetarily, but also around building something that I'm proud of. That's what energized me and got me excited – the prospect of building something great. Alternatively, if I didn't invest well and my original hypothesis proved false, I would be out of a job anyway, just like I would at an existing firm. Furthermore, I've always been very entrepreneurial and non-traditional and thrived in situations in which my back is against the wall. From the outside it may seem like a big jump, but it just made sense to me.

The event that fully pushed me over the final hump was when a prior investing head of one of the prestigious University Endowments guest-lectured in my Portfolio Management class, and I was able to pick his brain about how they look at new firms. He was a wealth of information, and said there are never enough good, young investors striking out on their own and creating the types of firms that he would love to invest in.

I couldn't be happier about the decision. While certainly not the easier path, it has been incredibly rewarding and there is no way I could have learned as much as I have without starting my own firm. It's not for the faint of heart, but I've thoroughly enjoyed the journey thus far.

Q: Can you describe Blue Hawk's investment process and how it's unique? What is your edge?

A: We use a fundamental, bottom up approach to investing. The analysis typically includes an industry analysis generally focusing on competitive forces, competitive positioning, penetration levels, historical growth rates and projected growth rates. The purpose of the analysis is to project what the industry will look like in the future, rather than what it looks like today. We couple the industry analysis with a company level analysis, focusing on the attractiveness of the business model, quality of management (particularly capital allocation track record), financial strength of the business, consistency and visibility of earnings, and free cash flow generation. We form an investment view by overlaying the industry analysis with the company analysis, evaluating the attractiveness of the company's prospects within the context of what the industry will look like in the future. We will typically create a financial model with projections and compare the projections to Wall Street expectations and look at valuation as the final step in the process. Our primary focus is on the long-term prospects of a company when evaluating for a potential investment.

What makes us unique is that we approach investing like business owners and we allocate the majority of our time to identifying and analyzing extraordinary businesses. We are willing to trade short term price volatility for long term wealth creation. Our short book allows us to take bigger bets in times of normalcy and to "back up the truck" in times of distress. We invest in what we know - with a focus on *quality growth* companies and companies undergoing a *product extension* on the long side and *secular decliners* and companies with poor internal controls on the short side. Our niche focus allows us to act with conviction throughout different market cycles, even when these companies may fall out of favor. We have great investors who are critical to our success. And lastly, we are motivated to prove ourselves and so our performance is everything to us creating strong alignment of incentives with our investors.

Q: Can you expand further on that? What do you think really makes you unique?

A: I'll spare you the marketing speak. This industry comes down to depth of analysis, pattern recognition, and discipline and we aim to excel in all three areas, which I believe we have done a pretty good job doing in our first 3 years.

We are at an interesting time in the investing world. With high frequency trading and algorithms, computational finance has largely been commoditized. For this reason, we have found the most value to exist in the 3-5 year time horizon and grounded in qualitative analysis. Shorter time horizons we've found to be filled with too much noise and longer difficult to forecast reliably.

Darden students (and HBS students, sorry) are in luck. The case method is grounded in rigorous qualitative analysis and has a fair amount of overlap with what we do. We spend a lot of our time analyzing and identifying attractive businesses and industries from an investment perspective, using Porter's Five Forces and predicting how the competitive forces within industries will change. The skill comes not in the tools but better execution and superior pattern recognition.

Q: Could you discuss one of your recent investments and why you found the opportunity attractive?

A: Match Group (MTCH) is a stock we're very bullish on and is our biggest holding. Match is the dominant leader in the fast-growing online dating space and own popular brands including Tinder, OKCupid, and Match.com. Some of our best ideas have come from consumer-facing technology stocks with strong secular tailwinds.

We've found that the really big winners, 5-10 baggers, typically are market leaders with competitive moats in industries with large end markets undergoing big shifts in consumer behavior. That's what is going on in the online dating space currently. In 2000, 5% of relationships began online in the US compared to today at 40%[1], and we expect this number to continue to increase. This number is much lower internationally but is starting to increase as the stigma of online dating wears off.

We think investors are too myopic when they look at Tinder and Match as dating businesses. We think social network is a better description based off the network effects, margin profile, and growth opportunities – and we've seen what Facebook stock has done over the last 10 years. With a very strong management team, we think the future is bright for Match Group.

Q: What investing books have had the greatest impact on your investment philosophy?

A: There are so many great books that it's hard to pick just a few. Two of my favorites are Common Stocks and Uncommon Profits by Philip Fisher and One Up on Wall Street by Peter Lynch. I spend a fair amount of time on the behavioral and mental side of investing as well. The Inner Game of Tennis: The Classic Guide to the Mental Side of Peak Performance by W. Timothy Gallwey and Wherever You Go, There You Are by Jon Kabat-Zinn are great reads for any investor.

Q: What characteristics do you think differentiate good investors from bad investors?

A: Great investing over a significant period of time is challenging because it requires managing some very conflicting forces. I'll give an example. I've been fortunate to work with and learn from 3 individuals who had exceptional track records over decades. There's no questioning they are exceptional investors. But I don't think I would ever describe any of them as coming across as overly confident even though you would expect them to be so. Most people assume it's modesty, but I believe there is something deeper going on. Great investing over time in my experience requires the constant adjustment of one's views to incorporate new information – Bayes Theorem I believe is the academic term – and to hold one's views as hypotheses instead of facts. To do this successfully requires the constant questioning of one's views. This insecurity is what fuels the motivation to constantly be in search of new and potentially conflicting information. At the same time, stock market volatility has a way of shaking out weak hands, so investors must maintain firm conviction through market turbulence. Constantly adjusting one's views while maintaining conviction is a very challenging balance to strike and against human nature. The best are able to strike this balance – usually through process and discipline. The book *Superforecasting* by Tetlock and Gardner has some great insight in this area.

Additional examples of competing forces are balancing aggression with patience, adaptability with stubbornness, confidence with humility, etc. I could go on and on.

Q: What advice would you give to Darden students about getting into investment management?

A: I have two pieces of advice. First, one of the wonderful things about being a student is that the professionals in the industries you are trying to join are by and large always open and excited to connect with students so take advantage of it. Reach out to different people in the industry and ask them if they have a few minutes to connect. Then ask them about themselves – their background, how they got in the seat they're in, how they developed their investing style, etc. Now is the best opportunity to do that. You'll gain a lot of great insights about the industry with a secondary benefit of developing a network in a positive, organic way. And second, I believe this is an industry based on mentorship. Wherever you end up, find a great investor and try to learn everything you can from that person. It'll be worth it, trust me.

[1] Source: Disintermediating your friends: How Online Dating in the US displaces other ways of meeting

Portfolio Updates

CAVALIER FUND

To Our Friends and Partners:

After making a sharp turn in late December 2018, the equity market took off in 2019 as the S&P 500 had its best year since 2013, returning 31.5% and surging to record highs. Given this backdrop, we are extremely pleased that the Cavalier Fund was able to keep up with the market rally, generating a 31.2% return. Index gains were supported by the Fed's accommodative policies, stronger than expected corporate profits (albeit slightly declining), and more clarity surrounding the trade war with China and Brexit. Despite the recent rally, we are excited about the Fund's current positions and the potential upside that remains to be captured.

PERFORMANCE REVIEW

The Cavalier Fund posted a return of 9.8% in the final quarter of 2019, outperforming our benchmark by 73 bps. Since taking over the portfolio in March, the Fund is up 20.4%, compared to 15.7% for the S&P 500 Index. Apple, Charter Communications, and HCA Healthcare were the largest contributors to our success in the fourth quarter. Apple had a banner year in 2019, posting an 85% return, and is now the third largest position in the portfolio. The company executed well on its high-margin services business and sold more iPhones than the market anticipated. Revenue growth was also attributable to the company's "wearables" segment as AirPods and the Apple Watch continue to gain popularity. Charter posted positive third quarter earnings and continues to successfully implement its broadband strategy. With revenue growth accelerating and capital spending declining, we expect higher free cash flow conversion that will support the company's share buyback program and lead to further debt reduction. HCA rebounded during the fourth quarter after a difficult start to the year. Third quarter results showed volume and pricing improvements and management signaled better demand trends in its core markets.

The only long position that lost money during the quarter was Markel Corporation which was down marginally. The other detractors for the period came from the short book, most notably from Hertz (-14%) and LPL Financial (-13%). Hertz's solid third quarter results led to a short-term boost to the stock price, but we remain skeptical that the company can continue to cut costs much further and lack confidence in management's ability to grow the top line. LPL Financial, on the other hand, seems to be performing better than expected and we are keeping a close eye on the name to ensure that our short thesis is still intact.

NEW POSITIONS

We initiated four new positions during the quarter, starting with **Allison Transmission** in October. Allison Transmission is the world's largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles. These products are highly engineered and are particularly well suited for vehicles with recurring "start and stop" activity (i.e. buses, emergency vehicles, construction trucks, motorhomes, etc.). The value proposition for fully-automatic transmissions is the product's ability to deliver better acceleration, higher productivity, increased fuel efficiency, and lower operating costs. We like that the company essentially operates as a monopoly in North America and has an estimated 60% global share of the fully automatic transmission market for commercial vehicles. Allison has been able to sustain industry-leading operating and free cash flow margins, generate high returns on capital, and has thoughtful management team who continues to execute on its disciplined capital allocation policies. The thesis is largely predicated on the company's entrenched market position, longer-term growth prospects, and the durability of its operating model. We recognize that the largest concern for investors is related to the threat of electric vehicle engines replacing automatic transmission. However, we believe that the market is overly-pessimistic and were able to buy the stock at an attractive valuation.

We also bought **Nexstar Media Group** stock in October, and it has been one of the top performers for the Fund recently. Nexstar is the largest pure-play local broadcast television and digital media group in the US, reaching approximately 39% of all US households. Revenues are derived from multiple sources, including local and national advertising aired on its portfolio of stations, as well as retransmission rights paid by various cable and satellite television providers. There has been significant consolidation among the broadcast companies over the years, and with the most recent acquisition of Tribune in 2019, Nexstar has emerged as the industry leader. Nexstar is now the top broadcast affiliate for both Fox and CBS as well as the number two partner for NBC. It is well known that cord-cutting and changing viewership habits are putting pressure on advertising and retransmission revenues. However, these legacy media companies tend to be resilient and they generate considerable free cash flow that is often returned to shareholders. We believed that the company had significant upside when we initiated a position at $95, but even at today's price of $130, we still think that the stock is undervalued.

In November, we began building out a position in **J&J Snack Foods Corp**. J&J is a manufacturer, marketer, and distributor of branded niche snack foods and frozen beverages for the food service and retail supermarket industries. Since the company's current CEO purchased J&J Soft Pretzel company in 1971, it has experienced 48 years of consecutive sales growth. This growth can be attributed to a strategy that emphasizes active development of new and innovative products, penetration into existing market channels and expansion of established products into new markets. The company primarily sells to customers that serve the end-user at the point of sale (i.e. stadiums, schools, restaurants, and convenience stores), but also sells through other channels such as supermarkets. J&J has the dominant market share in a niche market that while sizable, is not large enough to entice more established multinational players. The company's management is long-tenured and has proven adept at deploying capital in a low-growth industry. With substantial cash flow generation and a clean balance sheet, we think the company is well positioned to continue to build out its product offerings and further invest in its operations to maintain its status as a low-cost provider.

Our final investment this quarter was in **Spotify Technology**. We like Spotify for a variety of reasons, and while valuation metrics may appear rich today, we believe that there is significant upside for the stock over the long-term. Spotify has become the largest pure play music streaming service in the world, operating in approximately 78 countries through a digital music library of over 50 million music tracks, podcasts, videos, and other content. It generates revenues from both its subscription service model and an ad-supported freemium model. Spotify continues to see tremendous growth internationally and we estimate that it has captured only a fraction of its total addressable market. Management fully understands that it must be nimble in an increasingly competitive streaming landscape and continues to pursue expansion opportunities and invest in its platform. We are confident that the company's network effects will continue to strengthen as it adds more users and artists.

PORTFOLIO POSITIONING

Currently, the portfolio is comprised of 20 long and 4 short positions, with the top ten long positions representing approximately 65% of capital. Our concentrated portfolio was a positive contributor to performance as the largest positions all performed well in 2019. The investment team had a busy quarter, developing new ideas and making position sizing adjustments. We trimmed our exposure to a few names and used the remaining cash balance to initiate four new positions. The short positions represent approximately 6% of the portfolio, and we are actively trying to increase our short exposure. There are several opportunities in the pipeline that we are excited about and we have several short pitches scheduled over the next few weeks. Having a small short book worked in our favor last year given the market rally, but we believe that there are ample opportunities to add value in individual shorts regardless of the market environment.

As always, we welcome any feedback from our participants, sponsors, and peers. If you would like to discuss any of our investments in more detail, please do not hesitate to reach out. We would like to thank all of the faculty and alumni for your continued support and confidence in our work, and we are excited to see what the markets have in store for 2020.

Sincerely,

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DARDEN FUND

To Our Friends and Partners,

We hope this letter finds you in good spirits with the new decade off to a roaring start (particularly small caps!). The Fed's accommodative monetary policy and continued injection of capital via repo transactions has assuaged investor's concerns that the punch bowl was due to be taken away ten years into the economic expansion. With unemployment at 50-year lows, the market at record highs, positive trade negotiation developments, muted inflation, and the disappearance of the inverted yield curve, investors' concerns regarding an imminent recession have gone to the foreground. As they say in New Orleans "Lassez les bon temps rouler!"

What follows is a brief update of our fund for the benefit of our friends and partners whose support makes DCM possible.

PORTFOLIO CHANGES

Buy: Revolve Group (RVLV), November 2019

We initiated a full position in Revolve Group after a compelling pitch by Jade Palomino who brought our attention to a Generation Z e-commerce powerhouse which stumbled out of the gate as a public company, providing an attractive entry position following Q3 earnings. We are up over 35% in the two months since purchase and look forward to watching Revolve continue to take market share by bringing the power of digital to fashion commerce. (Please find the attached pitch in the Featured Investment Ideas section).

Buy: Yeti (YETI), November 2019

We initiated a partial position in Yeti after a persuasive pitch by Cameron Hector who made the case that the market underestimates Yeti's total addressable market as they expand internationally and reach a broader swath of end-customers through over thirty new product lines expanding far beyond the coolers and thermoses into a full-fledged lifestyle brand. Indeed, female purchases have improved from 9% to 33% of sales over the past three years. Additionally, Yeti is continuing to shift its sales mix to a direct to consumer channel (41% of total sales), driving consistent increases in gross margins to the 50-52% range. We believe the leadership team to be the real differentiator and the recent hire of Melisa Goldie as Chief Marketing Officer brings over fifteen years of experience building a global brand with Calvin Klein. We are encouraged by Yeti's continued follow-through and are up over 21% thus far. We opted to initiate a partial position in part due to a conversation with Adrian Moral of the Jefferson Fund, who we invited to join our discussion as he pitched Yeti as a short due to concerns with future margin compression as knock-off competitors drive Yeti's premium prices down. Cameron offered compelling evidence that Yeti is a premium lifestyle brand and consumers buy their products for more than mere functionality, but rather to help signal their identity as an active outdoor consumer. Recent speculation that VF Corporation may look to acquire Yeti is confirmatory evidence that Cameron's assessment was correct and we regret having not taken a larger position in retrospect.

PERFORMANCE

As a reminder, the Darden Fund's investment philosophy is as follows:

> *"The Darden Fund's objective is long-term growth of capital while minimizing the loss of permanent capital, through a diversified holding of companies tracking the sector weights of the Russell 2000 index. We seek attractively valued, small-cap companies with easily understandable business models, and a clear runway to compound free cash flow generation over the long-term. We take the perspective of investors buying businesses, not stocks. We seek alignment of management interests, effective capital allocation, and lasting competitive advantages."*

While the Darden Fund is operated with these long-term objectives at top of mind, we would like to share our performance since taking over management of the fund.

The Darden Fund returned 3.1% during the nine months ended December 31, 2019. It is worth noting that our benchmark, the Russell 2000 Total Return Index returned 9.5% during this same period. Our top three performers as of January 17, 2020 were **Axon Enterprises** (+36%), **Revolve Group** (+35%), and **Central Garden & Pet** (+29%).

Our bottom three performers were **Cloudera** (-50%), **TPI Composites** (-37%), and **International Money Express** (-16%). Cloudera, our worst performer, was sold out of our portfolio on a stop-loss following the unexpected CEO departure and earnings miss following Q2. TPI Composites continues to have strong long-term fundamentals and we expect EBITDA margins to expand in 2020 as new production lines come online. We believe the stock can re-rate on solid execution and that new contracts and execution of the existing backlog provide positive catalysts as the end market wind demand continues to expand. International Money Express was added in Q3 2019 with a long-term runway for double digit EPS growth over the next three to five years as they expand their geographic reach to the Western United States.

CLOSING REMARKS

We continue to be diligent in seeking value and proactive in mitigating risk. We continue to closely monitor the Fed, macroeconomic conditions, and portfolio company developments and stand ready to harvest gains when the tides change.

On behalf of us managing the Darden Fund, it is our honor to serve as temporary stewards of Darden's capital and we look forward to continued engagement with alumni and interested investors in the future.

Thank you for your time.

Sincerely,

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JEFFERSON FUND

To Our Friends and Partners,

Once again, hello from the entire Jefferson Fund team. Happy New Year and Happy New Decade! We hope that the beginning of this New Year and new decade are off to a great start and bringing presages of a great future ahead. We wish the best of success in your future endeavors to all of our friends and partners that with their support make DCM possible.

This time we will be keep it fairly brief but something that we really wanted to do was to share with you one of the biggest challenges we have faced so far during our tenure managing the Jefferson Fund and share with you what we have learned from it and the approach we decided would be best to tackle it.

LESSONS LEARNED

One of the biggest hurdles we have faced so far surprisingly has not been finding good and exciting ideas and investment opportunities but rather finding a place for them in our portfolio. During these past few months, we have stumbled upon the problem of not having room to allocate new ideas. Given the nature and the investment philosophy of the Jefferson Fund, which is to invest in high-quality, long-term, Warren Buffet's punch card style of businesses, businesses in which we personally believe and we think have very good long-term prospects it is very difficult to assess whether or not to sell out of any of those companies in order to buy a position on any new ideas that arise. Our fund is currently completely allocated and we have less than 1% of our portfolio in the form cash or other short-term allocable securities and this means that with any new idea that arises we need to think carefully and thoroughly about how to allocate it appropriately. This has not only been one of the biggest challenges but also, we think that this has been one of the most important learning opportunities that we have faced.

We have been closely following this issue and discussing it as a team and we have recently reached a conclusion that we believe would add a lot of value not only to our learning journey but also to the Jefferson Fund going forward. We decided that for any new ideas being pitched to the fund the entire portfolio needs to be evaluated and one of our current holdings needs to be selected and reassessed in conjunction. This way it is not only a matter of evaluating a business–as an analyst–but also evaluating how that investment fits into the entire portfolio–as a portfolio manager–. We have decided to start this new practice going forward and we expect all new investment ideas and pitches to be evaluated in conjunction with a re-pitch–either from the same PM or from someone else on the team–of one of the current names. We believe that something that could possibly aid on this process would be to look for any one of our current holdings that is closest in nature of business or industry to the new idea or to look for new ideas inside the same industry or business as any one of our current positions and to evaluate them jointly looking and assessing for the best-in-class company within their industry.

We are certainly very excited about this new practice and we hope that it will prove to be of high value and in the best interest for the Jefferson Fund. We are looking forward to share with you some of the results of this new practice and update you on our learning journey as well as on new ideas and our approach for each of them in future letters. We already have some new investment ideas in mind that we are excited to evaluate through this lens and framework.

PORTFOLIO CHANGES

Next, I would like to walk you through some of the decisions and changes we have made to the Jefferson Fund during this quarter.

Buy: General Dynamics Corporation (GD), November 2019

We initiated a full position on General Dynamics. Zachary Elkaim pitched General Dynamics and we thought that it was an astounding idea. Not only is General Dynamics a high-quality, wide-moat business with strong competitive advantages but also the economics of its business operate in a somewhat different cycle as the rest of the economy and this could prove to be a good diversifier. (Please find the attached pitch in the Featured Investment Ideas section).

Buy: Wheaton Precious Metals Corp. (WPM), December 2019

The past month of December our Portfolio Manager, Andres Campos, pitched Wheaton Precious Metals. Wheaton Precious Metals is one of the two leading royalty and streaming mining companies in the world. This business model consists of providing capital to larger mining companies during the mining site construction in exchange for the streaming rights over some of the site's production. In Wheaton's case, those streaming rights are always related to precious metals at multi-metal production sites. During the production phase, Wheaton acquires the mineral in exchange for a cash payment that represents only a fraction of the mineral's market value.

The main thesis of his pitch was to attain exposure to gold in order to diversify our portfolio into alternative investments that would have less or even negative correlation to our equity holdings to be prepared in case of a market or economic downturn. It is worth mentioning that we decided not to initiate a full position because we felt that the company by itself did not fit into our investment philosophy and as we mentioned a few months back, adhering to our investment philosophy is one of our primary goals for this year. Initiating a full position on WPM would have meant getting too much idiosyncratic risk to a company that we felt did not strictly embodied the characteristics that we look for on high-quality businesses and that whatever diversification we could get from the exposure to gold did not offset this. Nevertheless, we thought that the idea of diversifying the portfolio was good and we decided to buy a small position–of all our cash position at the moment–on WPM, essentially parking our cash on "gold" through WPM.

PERFORMANCE

Similar to last quarter, I would like finish by updating you on our performance hitherto. (Please keep in mind that we follow this practice given that it is an industry standard and we like to do it in order to share some of our thoughts on performance and to be as transparent as possible on the impact of the Jefferson Fund's management's–current and past–decisions with you but we do not generally abide by this performance metrics for our decision-making process as we believe our most important role as managers is to create a portfolio that will prevent permanent loss of capital while at the same time generating above-average returns.

The Jefferson Fund returned 16.2% during the nine months ended December 31, 2019. It is worth noting that our benchmark, the Russell 1000 Value Total Return Index returned 13.0% during this same period. Our top three performers as of January 17, 2020 were **Microsoft** (+44.5%), **S&P Global** (+41.0%), and **United Rentals** (+38.9%).

On the other hand, our bottom three performers were **Realogy** (-27.1%), **Mylan** (-9.5%), and **Verizon** (-4.6%). Two of our bottom three performers (Realogy and Verizon) are companies that we have sold out of our portfolio and we recently revisited and reevaluated our thesis on Mylan and we feel very confident about it.

CLOSING REMARKS

Finally, it is my honor to have your time and attention. I look forward to reaching out to you again and sharing more about our fund in the future.

Thank you for your time.

Sincerely,

Adrian Moral
MoralA20@darden.virginia.edu

MONTICELLO FUND

To Our Friends and Partners,

Thank you for tuning in! The Monticello Fund team is thoroughly enjoying the intellectual rigor and experiential education from stewarding our portfolio. Yujing Sun, Aditya Singh, Carson Willoughby and Katharine Watson thank our investors, our client, our predecessors, and our readers. Each of you have played a significant role in providing us with this unparalleled education-in-practice investment management opportunity. We are very grateful.

GUIDELINES AND INVESTMENT PHILOSOPHY

As an introduction to our new readers and a refresher for our repeat audience, we'd like to first review our operating guidelines and investment philosophy. These combined serve as the bedrock of who we are as a fund.

Summary of Key Operating Guidelines

The Monticello Fund seeks to invest in a blend of companies across the globe. The fund adheres to several DCM-determined parameters, invests only in companies with a minimum market capitalization of $2 billion, and utilizes the MSCI All-Country World Index (ACWI) as a performance benchmark. The MSCI ACWI tracks midrange and large-capitalization companies across 23 developed markets and 26 emerging markets, representing approximately 2,700 constituents. While the index covers 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market, US household dominate the index's top 10 constituents. We measure alpha as the difference between the fund's actual performance and the MSCI ACWI returns over the same time period.

Investment Philosophy

We invest only in companies that we believe demonstrate a long-term competitive moat and will generate value within the context of our overall portfolio. In part because the portfolio manager role in Darden Capital Management is application-based, we view our management of the Monticello Fund as both a fiduciary obligation and a learning opportunity. Our team draws from both value and growth investing philosophies, with a preference for value. This is not to say we ignore other perspectives. We consider modern portfolio theory, factor, and quantitative investing as other approaches capable of generating outsized returns and can certainly learn from these; however, our approach has traditionally attempted the path of a value investor. In this vein, this year, we are using a combination of top-down and bottom-up approach to stock selection. Through this combinatory approach, we hope to strengthen our awareness of the industries and geographies to which we gain exposure and enhance our ability to place our bets on the right horse.

Our Team Approach

We believe each team member has a valuable perspective and engage in healthy debate prior to making consensus-driven trading decisions in line with our operating guidelines. We also believe our portfolio can be better managed through more informed monitoring. To help achieve this goal, each of the four of us is responsible for covering approximately six companies and providing a bi-weekly update to the team. Along with this, because we are a global fund, each of us has also held ourselves accountable for serving as the "expert" on specific geographies and industry subject matter based on heritage, professional, personal, and academic experiences and interests. In the words of Charlie Munger "I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you." Our team operates under this mantra. We are committed to leveraging our personal, professional, and academic networks to gain and to share with each other more informed investment insights. We'd be grateful for your perspective on our quarterly letter, one of our holdings, our portfolio, or in general. We'd love to connect with you and invite you to reach out!

PORTFOLIO PERFORMANCE AND ACTIVITY

Portfolio Performance

Since we took the helm of the Monticello Fund in March 2019, the MSCI ACWI delivered a 13.90% return and the Monticello Fund delivered 18.54%. Over the past quarter, the MSCI ACWI Index delivered 9.39% return and the Monticello Fund delivered 8.39%. Our top performers since taking on the portfolio include Apple (68%) and Microsoft (42%). Our worst performers are Telenor (-6%), and Pfizer (-5%).

Portfolio Activity

In 3Q19, we focused on familiarizing ourselves with our holdings, developing an opinion on each, and right-sizing or selling existing business holdings in our portfolio. In 4Q19, our focus shifted to investing our dry powder into new exposures. We purchased Class A shares of Alphabet (NASDAQ: GOOGL), General Electric (NYSE: GE), and Intuitive Surgical. (NASDAQ: ISRG) and sold only one company, JD.com (NASDAQ: JD). Each of our new holdings has a very different proposition and we're excited about the future of each.

Last quarter, we acknowledged that much of the MSCI-ACWI performance was driven by its exposure to Facebook, Amazon, Apple, and Google. We contemplated whether some of the outperformance may have been due to our lesser exposure to the "FAANG" stocks. In spite of our hesitancy around their aura, we decided to introduce GOOGL into our portfolio, so our FAANG exposure now includes Apple and Google. We then increased our position and GOOGL is now one of our larger holdings. Alphabet Inc, parent of the Google search engine, is a giant spanning many factions of the technology space. Our investment thesis in GOOGL begins with the assumption that GOOGL will maintain its search engine monopoly and revenue generating capabilities through online ads. The search engine provides more cash than is needed to run the business, thus serving as a source of investable funds for product line diversification. Because GOOGL has developed unique data superiority that translates into capturable synergies with its bets/acquisitions, it is uniquely positioned to generate more value than would otherwise be possible. Lastly, GOOGL's acquisition and partnership strategy has provided the company with a foothold into potentially disruptive and high growth spaces. We believe that GOOGL's core business combined with its partnerships will help the company to be relatively resistant to the effects of a slowdown in the economy when this does occur. In the short time we've invested in GOOGL, the business has generated 12.82% unrealized return. We anticipate continued above average gains and invite you to read more about Aditya's GOOGL pitch in the Featured Investment Ideas section of the newsletter.

GE is the first restructuring/turnaround story we've introduced into our portfolio. Once a blue-chip name that could do no wrong, one needs to look no further than its two-year sell-off post-2016 for some evidence of the extent to which the company has lost the favor and trust of investors, business partners, and its broader stakeholder base. As new owners of GE, much of our confidence stems from the change CEO Larry Culp has implemented and his plans for the company moving forward. We believe Culp is successfully turning around the conglomerate through selling off non-core assets to de-lever and drive operational efficiencies. Culp has narrowed the firm's focus to areas of competency, including healthcare and aviation, where it will likely maintain its strong competitive moat or monopoly. To us, GE is a solid company that's been through a tough time. Its stock price has been beaten down to bargain levels. With GE, we're comfortable with our margin of safety. We believe that, under Culp, the company will deliver on its promises and increase in value. We're not disappointed by our short-term returns – we've generated over 5% unrealized gains since purchase.

Intuitive Surgical Group, best known for da Vinci Surgical Systems, develops, manufactures, and markets robotic products designed to improve clinical outcomes of patients through minimally invasive surgery. It is a US company with international presence. We have conviction in ISRG as a business investment for several reasons. First, ISRG has created a strong competitive position for itself by identifying and capturing markets with high barriers to entry. Even if new entrants do enter the market, the high growth and low penetration rate in the U.S. robotic market can still allow multiple players to win. Second, it has strong business-to-business relationships with hospitals. Lastly, and very importantly, ISRG has received FDA clearance on two technologies that will improve the da Vinci Surgical Systems. As the aging boomer population continues to drive up the demand for healthcare, ISRG is well-positioned to meet consumer demand and to maintain create barriers to entry for those hoping to compete in providing similar supply.

From the time we discussed ISRG as an investment idea to the time we were able to purchase shares, the stock price shot up significantly. Our timing delay led to a miss in some of the upside and we're currently running a (.17%) unrealized loss on ISRG. We're ok with this. We're not short-termists or arbitrageurs. We consider ourselves as passive owners of an exciting company that has both short and long-run growth potential. In the spirit of experiential learning, losing out on some of the 4Q19 stock price jump in ISRG helped us realize just how much timing matters. It also introduced us to the careful balance of skill and luck in investing. We may have had the skill to identify a great company, but we either lacked the skill to time our investment or got unlucky in missing out on some huge upswing in stock price (or both).

In Q4, we sold only one company, JD.Com. The sale was a decision several months in the making. We reviewed former Monticello Fund pitches and valuation of JD, held a private interview with a company employee, reviewed the market and competitors, and analyzed the company itself. We found investor presentations and management earnings transcripts to be of particular value. While we believe the company does deliver great value to customers, we're less convicted on its ability to generate positive returns to shareholders. When compared against competitors (Alibaba) and viewed holistically, we weren't left with strong positive conviction for JD's potential in our portfolio. Last year, the Monticello Fund PM team carefully assessed adding Alibaba to the portfolio and maintaining a position in JD. They eventually decided to maintain the JD position and provided a target price. We reviewed the pitch and largely agreed with the target. When we held our final discussion on JD, the company's price had just exceeded our target, and we sold, capping our losses.

KEY TAKEAWAYS

Last quarter, our key learning was why and when to sell. This past quarter, we've learned about patience, market timing, and company valuation. The lesson we started to learn but have farthest to go centers around patience and timing deployment of capital. Many seasoned investors have termed the past year as a market in which to be invested. We agree; it's been great to be invested in 20+ winning companies. Yet, in 3Q19, we also took profits on some of our holdings to free up cash for potentially better return opportunities. Once we had an abundance of excess cash, we found ourselves debating price versus value on a weekly basis. If we believe a company's value will increase to our target over a two-year horizon, does it matter (give or take several percentage points) what price we buy at today? If it matters, should we wait for the market to correct? Even if we believe the market should correct itself over the next couple of months, do we think it will, and if so, when? Gee, it would have been great to be able to take advantage of a market correction like we had in December 2018. It would have been great because our stomachs would have dropped at the loss in invested portfolio value and it would have been great because we had a good deal of cash we could have deployed into stocks at lower prices. Instead, I've had the message "Nike hit a new 52 week high" pop up on my notifications so many times I fear impending immunity! For better or for worse, we have only experienced managing the portfolio through some pretty good times.

This past quarter also tested our valuation techniques. We challenged each other's investment theses not just on the write-ups, but on the revenue and cost drivers as well. We compared our estimates versus analyst estimates. When our expectations deviated from industry experts, we learned to dig into their operating models and our own to understand factors driving the differences. While valuation is a basic, foundational step in analyzing a company, debating best case, worst case, and base case scenarios as a team expanded our mindset as to the possible trajectories of our holdings. We continued to grow in our ability to think critically and objectively about each investment decision.

Going Forward

We have a busy quarter ahead of us. We'll be analyzing at least nine new businesses to add to our portfolio. We're interested in rotating our positions in the financial sector from companies underperforming our expectations to competitors with management teams successfully achieving growth in markets that are being more and more deeply disrupted. We'll also be assessing our industrials holdings, slimming our holdings, and taking more convicted bets on certain companies. Also, some of our companies have highly correlated returns. In the next quarter, we'll continue to seek to diversify our overall portfolio. When we do buy, in addition to adhering to our aforementioned investment philosophy and investing guidelines, our selections will be in the spirit of 1) Enhancing a portfolio that will generate outsize returns in a market that keeps ticking higher; 2) Bolstering our portfolio's ability to withstand a recessionary market; and 3) Intentionally providing (or limiting) exposure to specific companies, industries, and geographies.

We'd love to hear your comments, questions, and get to know you! Please don't hesitate to reach out to say hello. Or if you find yourselves on Grounds, we'd love to connect in person. Thanks for reading!

All the best,

The Monticello Fund Team
Reach us at watsonk20@darden.virginia.edu

ROTUNDA FUND

To our Partners and Friends,

I write you today to update you on the performance of the ESG-oriented Rotunda fund for the fourth fiscal quarter (Q4), ending December 31, 2019. Since the start of the fourth quarter on October 1, 2019, the Rotunda fund has returned 7.71% relative to our benchmark, the S&P 500, at 6.12%, for a net outperformance of 1.59%. As of December 31, 2019, the Rotunda fund's holdings have returned 15.55% since portfolio transition on April 1, 2019, relative to our benchmark, the S&P 500, returning 16.14%, for a net underperformance of (0.59%). The Rotunda fund manages an aggregate of $4.27mm, with 99.70% long exposure to U.S. domestic equities. Cash position sits at 0.30% of available capital.

OUR QUARTER'S OVERVIEW

Our fourth quarter began and ended very decisively with changes to both our fundamental strategy, as well as tactical portfolio additions, subtractions, and reallocations. I credit this in part to a pensive third quarter on our individual positions and fund strategy. However, this was largely due to our team's focus and execution as they delivered thorough, convincing and decisive analysis on our positions, allowing for swift team-based decisions being executed at weekly meetings, both on the fund level and with individual positions. Several legacy names in the portfolio required further analysis to determine if the core thesis was broken or the fundamentals of the business, or its valuation, would need modification. This resulted in exits from several positions, GLW and DOW highlighted, and deciding in GLW's case that we believed the fundamental thesis in their growth trajectory was broken in their proprietary Gorilla glass' contribution to the company's bottom line. In DOW's case, understanding that we did not have the proper understanding, and after conducting primary research with various DOW/DD employees and the firm's strategy and division of operational responsibilities post-spinoff was unclear gave us the signal that at this moment, we were uncomfortable holding the position.

A REFINED STRATEGY

Amid this quarter, J.P. Morgan research published a retrospective study on the performance of various ESG methodologies: Negative/Exclusions Screen, Positive/Best-in-class Screen, Norms-based Screen, and ESG Integration Screen. I highly recommend this article to any reader who is curious as to the various methods investors have derived to practice ESG investing successfully (Titled: *ESG – Environmental, Social & Governance Investing: What's the best way to invest in ESG?* [November 22, 2019]). While in our opinion, many of these retrospective studies have trouble in pinpointing the true methodology of any individual fund, as there is an incredible amount of overlap in individual names that pass each of these screens (see the appendix within the article), this does provide a roadmap in where "sticky" capital is landing these days amongst institutional investors – those companies who are able to prove an integrated approach between their business and relative "impact" or "ESG" metrics, as measured by agencies like MSCI, Sustainalytics and CECP.

Our initial strategy was to allow our individual security selections to follow any of the above methodologies, so long as the thesis proved strong and defensible from a valuation, business and integrated standpoint. However, based on the evidence shown by this article, and in conjunction with our internal discussions, we concluded to eliminate both positive and negative screens. From a security selection standpoint, we feel these approaches do not differ from various other non-ESG methodologies, less a single screen to exclude industries. More importantly, positive ESG metrics effective in a positive screen often biases towards companies who have the ability to put capital into these reporting functions. We feel an integrative approach truly reflects the sustainable competitive advantage that strong-ESG companies will exhibit over time.

INDIVIDUAL PERFORMERS

Our top performers contributing to the fund's performance over the last quarter have been: **PVH Corp (NYSE: PVH)**,

CBRE Group (NYSE: CBRE) and **CVS Health (NYSE: CVS)** returning 22.75%, 19.73% and 19.15%, respectively. Despite the outperformance by PVH this quarter (largely due to quarterly earnings stability), we remain cautious about the projected growth expectations of the company relative to its present valuation in the face of shifting consumer preferences and a geographical tilt towards the east. CBRE and CVS continue to compound for us as high-conviction businesses with incredible TAM's, a defensible and growing market position, and brilliant capital allocation decisions.

The top detractors from the fund include: **DuPont de Nemours (NYSE: DD)**, **Unilever (NYSE: UN)** and **American Water Works Company (NYSE: AWK)**, returning (5.52%), (5.20%) and (0.82%), respectively. DuPont continues to underperform on earnings and guidance, as the business continues to exhibit supply-chain risk as well as an unclear vision of how the post-spinoff company will operate and communicate itself clearly to investors. We remain in high conviction of Unilever in the wake of several high-profile hires from rival P&G and an outspoken focus on incubating brands internally with the right people on the bus to do so.

CLOSING THOUGHTS

While a strong performance for our highlight names, and specifically the performance of our recent addition ULTA to the portfolio, has given us momentary affirmation, we are cognizant of the fact that our ESG thesis and strategy is most prominently highlighted over the long-run, as stochastic, company-specific risk is mitigated away. And so, in line with much of the ESG-orientation research, we posit that any superior returns achieved above our benchmark are merely a function of individual security selection—fundamentally and quantitatively—while the reduction in portfolio volatility and beta is achieved through an ESG tilt.

An interesting thought I will end with, which we as a fund have been wrestling with, is the "inevitability" of an impending correction that is trending in many conversations. We have posed and wrestle with the question – are we anticipating based on mechanical signals we have become over-attuned to the recent cycles and thus face recency bias? How much of the market performance could be a trend versus a cyclical movement? Furthermore, is it not possible that we are in the middle of our age's revolution (information/data, sustainability, self-driven globalization to name a few), similar to that of the industrial revolution in the late 1700's, skeptical of the level of fruits yet born? If so, can we fundamentally accept the growth assumptions underlying the seemingly overinflated assets, and link them to the exogenous factors we see? For our current holdings and future picks, we challenge ourselves to apply these questions and tests to understand and invest in "growthier" securities, in addition to our traditional "value" approach – all in conjunction with our ESG thesis.

Sincerely,

Scott Steever
SteeverS20@darden.virginia.edu

Featured Investment Ideas

NEXTSTAR MEDIA GROUP (NXST)

TARGET PRICE: $171 (+66%)

Dalton Werner, Cavalier Fund

Company Data	
Price	$97
Market Cap	$4.7bn
Enterprise Value	$8.9bn
EV/EBITDA	9.0x
P/E	9.7x

BUSINESS DESCRIPTION

Nexstar Media Group is the largest pure-play local broadcast television and digital media group in the United States, reaching approximately 39% of all US households. NXST recently completed the acquisition of Tribune Media, which apart from giving it additional scale in broadcast television also gave it ownership of WGN American and 31% of TV Food Network, a top tier cable asset, as well as interest in several digital media efforts. Revenues are derived from multiple sources, including local and national advertising aired on its portfolio of stations, as well as retransmission rights paid by various cable and satellite television providers. The primary costs are programming and affiliate costs paid to networks and program distributors, as well as salaries, benefits and newsgathering costs incurred at the station level, many of which are fixed.

EXECUTIVE SUMMARY

Legacy media has been under considerable competitive pressure, particularly from new technology entrants. Local media in particular has been under significant pressure, as traditional ad dollars have moved online. However, these businesses continue to generate considerable cash flow and face limited competition at the local level. The broadcast industry has been moving toward a more distribution-oriented model, where stations and broadcasters receive payment cable and satellite providers in exchange for allowing these providers to distribute their content. NXST has pursued an aggressive acquisition strategy to achieve the scale needed to operate in this new world, and has a management team with a proven track record of integrating acquisitions. Management have proven themselves to be capable capital allocators, whether deploying capital or returning it to shareholders, and NXST will continue to generate significant amounts of free cash flow.

INVESTMENT THESIS

1. The retransmission model has allowed NXST to capture a new, growing revenue stream. Kagan and Bloomberg Intelligence project that these fees are expected to grow from $11.72bn in 2019 to $16.2bn in 2024, a 7% compound annual growth rate. Broadcasters currently deliver over 30% of television viewing audiences but only receive 12-14% of programming fees. Fees will continue to grow until the relationship between fees and viewers is more balanced. Following the acquisition of Tribune, Nexstar should be able to leverage its scale to capture a greater portion of this revenue stream.

2. News of legacy media's death is greatly exaggerated. While the heyday of television is over, it is still a sector capable of considerable free cash flow generation. Nexstar alone is projected to generate over $1bn in free cash flow per year over the next four years. Within the advertising business, local has historically been much more stable and predictable. In 2018 local accounted for 73.2% of their spot advertising revenue (national and local advertising ex-political). Nexstar has a focus on deploying high-quality local sales forces in its markets, and in many cases only has penetration with 5% of registered businesses in a given market, which represents an opportunity to expand their footprint. Furthermore, management feels that many of the stations acquired from Tribune were under-marketed, and expect that they will be able to drive better advertising outcomes. Local TV has traditionally been a major recipient of political ad spending, and Nexstar is well positioned to capture what is expected to be a record level of political ad spending heading into 2020.

3. A divestiture of cable assets offers management another lever with which to unlock value. As part of the Tribune deal, NXST acquired WGN America and 31% of the Food Network and Cooking Channel, with Discovery holding the remainder. NXST acquired these assets at ~7x cash flow. However, recent deals have traded north of 10.5x, implying a valuation of

$3.9bn for these assets alone. In the interim Food Network generates considerable cash flow while requiring little to no investment.

VALUATION

Valuation was derived using a DCF model with 3 operating cases. A summary of the outputs and key drivers is presented below:

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$251	143%	Stable topline with meaningful growth in retrans and political. Increased scale drives margin expansion
Base	$171	66%	Haircut all revenue synergies and model flat topline growth. Cost synergies drive some margin expansion.
Bear	$78	(24%)	Revenue begins to decline in low single digits and management struggles to integrate Tribune. Programming costs rise faster than anticipated.

RISKS

1. NXST is highly leveraged, with over $8.6bn of debt

- PF net leverage at the time of the Tribune closing is 4.9x, ahead of management's initial projections
- NXST is expected to deploy a significant amount of FCF to repay debt and reduce leverage to less than 4.0x by EOY 2020

2. Broadcasting is a highly regulated industry, and NXST faces stiff oversight from the FCC and other regulatory bodies

- NXST has benefitted from deregulation under the current administration, which has allowed the consolidation of the television station industry, particularly the 2017 FCC ruling that eased ownership restrictions for multiple stations
- NXST is currently up against the FCC's ownership cap of 39% households
- NXST management gas proven deft at navigating the regulatory environment, including mandatory divestitures resulting from both the Tribune and Media General deals. In the case of the Tribune divestitures management achieved a better price than expected, and the industry continues to see multiple expansion
    - Apollo recently purchased stations from Cox for ~10x, well above 7.0x NXST paid for Tribune

3. Television is facing an increasingly competitive landscape from within the industry and other forms of media

- Broadcast fills a specific niche in people's lives, offering viewers access to news and sports
- Cord cutting mainly effects cable TV subscriptions, as many people choose to retain access to over the air broadcast feeds
- Local advertising is less variable than national ad campaigns
- The current outlook for retransmission fees remains favorable, with multiple payers ranging from CBS to regional networks reporting a strong outlook
- As the largest player in the sector, NXST is the best positioned as affiliate agreements come up for renewal over the next few years.

ULTA BEAUTY (ULTA)

TARGET PRICE: $269 (+8%)

Bevin Landry, Executive Team

Company Data	
Price	$249.88
Market Cap	14.10B
Enterprise Value	15.6M
EV/EBITDA	13.16
P/E	20.6

BUSINESS DESCRIPTION

A one stop shop for all things beauty. Ulta offers cosmetics, skin care, and salon services through both its 1,200 brick and mortar stores and its e-commerce platform. As the beauty and personal care market leader in the US, Ulta offers an array of products across all price points including Kylie Cosmetics, Kiehls, and its own proprietary cosmetic line.

EXECUTIVE SUMMARY

Q2 (August) Ulta had a one-day stock price decline of 30% after lower than expected Q2 results and management's revision of expected 2019 sales and earnings outlook. Despite the lower than revised Q2 results, Ulta is driving growth not commonly seen in the industry with double digit top-line growth and same store sales growth of ~5% per annum which peers have struggled to match. Ulta's continuous enhancements in digital marketing, data collection, and e-commerce as well as investment in improving its operational efficiencies all bode well for a long-term growth trajectory. In Q3, Ulta's numbers exceeded Wall Street's expectations demonstrating the market's overreaction in the beauty market industry. As the largest specialized beauty retailer in the US, all of Ulta's previous long-term growth drivers also remain intact.

INVESTMENT THESIS

1. Strength of its brand: Ulta makes up 30% of the US retail specialty market (12% of the total US retail beauty market) and carries more product and brands than any other US specialty beauty retailer. Through its strong brand Ulta can gain access to prestige beauty brands and new product such as its Q3 partnership products including Florence by Mills (Millie Bobby Brown), KKW Beauty by Kim Kardashian West, Pattery by Tracee Eliis Ross, The Ordinary, Sunday Riley and Kylie Skin by Kylie Jenner. Because of the depth of products and its one stop shop approach, Ulta appeals to all ages and demographics.

2. Exceptional loyalty program: Ultimate Rewards (33.9 million members (an increase of +11% vs. Q3 LY), +20% of American Women (has grown at a double digit rate every year since 2013). 95% of Ulta sales come from loyalty members. Ulta has successfully used this consumer data to increase its share of members' beauty spending thru offering customize discounts to its members. The company also recently acquired two technology companies (GlamST and QM Scientific) for $13.6M and has doubled its warehouse distribution since 2015 to improve its online shopping experience.

3. Overreaction in the slowdown of the US beauty Industry: The market has overreacted for the slowdown in the beauty industry mostly because the cosmetics category which makes up 50% of Ulta's sales has underperformed as a category in Q2. However, despite the slowdown, Ulta has been consistently winning market share, demonstrated by the fact that sales have grown faster than the industry's sales. Q3 earnings released last week proved that Ulta still manages to perform despite challenges in the US beauty industry. Both top and bottom lines improved YoY including an improvement in gross margin driven by strong marketing and merchandising strategies. Premium price celebrity-led beauty brands have also driven demand and margin improvement. Ulta's core customer, millennial women, continues to grow as a share of revenue and Ulta has seen strong sales last quarter in skincare, haircare, and personal care appliances all categories that are also growing within the industry.

VALUATION

Assumptions for Base Case:

Growth: 11% down to 6% growth in-line with Wall Street Estimates, growth increases due to stronger merchandise margin, growth in specific categories, cost optimization program

SG&A: slight increase driven by investments in store labor, international growth expansion initiatives, and digital innovation

Cap Ex as a % of sales: increase in # of stores but increasing average spend of consumer thru service optimization, enhanced personalization capabilities, and digital improvements (AI integration, after pay, etc.)

Multiple Method

Press **F9** to update the data table

Weighted average cost of capital

	269.05	7.00%	7.25%	7.50%	7.75%	8.00%	8.25%	8.50%
Terminal multiple	12.00x	257.02	254.34	251.71	249.11	246.54	244.01	241.52
	12.25x	261.82	259.09	256.40	253.74	251.13	248.55	246.00
	12.50x	266.62	263.84	261.09	258.38	255.71	253.08	250.48
	12.75x	271.42	268.58	265.78	263.02	260.29	257.61	254.96
	13.00x	276.22	273.33	270.47	267.65	264.88	262.14	259.44
	13.25x	281.03	278.07	275.16	272.29	269.46	266.67	263.91
	13.50x	285.83	282.82	279.85	276.93	274.04	271.20	268.39
	13.75x	290.63	287.56	284.54	281.56	278.63	275.73	272.87
	14.00x	295.43	292.31	289.23	286.20	283.21	280.26	277.35

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$299	+20%	Improve operational efficiencies (save $200m through this improvement) sales growth improvement, margin improvement through exclusive products
Base	$269	+8%	Moderate revenue growth with slight margin improvements
Bear	$262	+5%	Recession hits in 2021, residual effect in 2022 resulting in sharp decline in revenue growth.

RISKS

1. Highly dependent on consumer spending (state of economy has a direct effect on sales) and the overall health of the beauty market.

- Despite the slowdown in the beauty market, Ulta continues to gain market share. As the industry leader, an uptick in the beauty market will significantly increase Ulta sales. Ulta has a range of products including lower price points making it affordable even in a downturn.

2. Crowded Market Place – More than 70,000 places to shop for beauty products in the US including retail giants like Amazon and Walmart

- Ulta is able to attract frequent visitation from its customer base through its salons, selection, promotions, and services. In a recent study, 2/3s of women preferred to buy beauty products in physical stores (where they can sample) vs. online platforms.

3. Ulta currently has stores in all major US markets

- Still only has a subset of the beauty market (8%) – room for growth through attracting new customers and increasing current customers' beauty spend through effectively using customer data to promote, merchandise, and increase its depth of sought-after product. Ulta also plans on expanding its omni-channel success into Canada. Starting in late 2020 Ulta will be opening stores throughout the country.

OTHER FACTORS

Ulta is a leader within its diversity of corporate leadership. In addition to having a female CEO, over 50% of Ulta's senior leadership team, board of directors, and corporate officers are female. Ulta Beauty is committed to enhancing the education and well-being of women and their families. Since becoming CEO in June 2013, Mary Dillion has helped Ulta's stock rise 262% on a cumulative basis. Recently the Ulta Beauty Charitable Foundation partnered with Dress for Success, a non-profit that provides economic independence for woman through creating a network of support, professional attire and development tools necessary for success. Ulta provided national funding and 18 local grants to support the Dress for Success clients and programs. Other examples of ways in which Ulta continues to give back to its community include its partnership with Save the Children organization and the Breast Cancer Research Foundation which Ulta has raised more than $27.5 million since the inception of the partnership in 2009. This year Ulta partnered with the Breast Cancer Research Foundation in a fundraising campaign. Through print, in-store, digital, and social media Ulta showcased how donations can lead to life-changing medical advancements. The showcase featured researchers alongside breast cancer survivors.

REVOLVE GROUP (RVLV)

TARGET PRICE: $37 (+144%)

Jade Palomino, Darden Fund

Company Data	
Price	$15.27
Market Cap	$1.05B
Enterprise Value	$1.07B
EV/EBITDA	20.8x
P/E	35.5x

BUSINESS DESCRIPTION

Founded in 2003, REVOLVE is an online fashion retailer catering to Millennial and Generation Z consumers. As a trusted, premium lifestyle brand, REVOLVE offers a vast yet curated product offering totaling over 45,000 apparel, footwear, accessories and beauty styles. REVOLVE more effectively serves its customers by providing a shopping experience that is more targeted than mass market retailers and that offers greater selection than specialty retailers. REVOLVE's proprietary technology platform connects a deeply engaged community of 9.4 million average monthly unique visitors, over 3,500 global fashion influencers, and more than 500 emerging, established and owned brands. In Q3 2019, net sales shipped to customers internationally represented 17% of net sales. REVOLVE currently operates three main websites REVOLVE (87% sales), FORWARD by Elyse Walker (13%), and the recently launched lower price point, superdown. REVOLVE currently serves customers in Europe, Australia, Canada and intends to enter the Asia Pacific market in the near future.

EXECUTIVE SUMMARY

REVOLVE is well-positioned to drive continued top-line growth with increasing profitability, primarily through active customer growth and a growing and thriving portfolio of owned brands. REVOLVE warrants a premium multiple given its strong top-line growth, a disruptive business model, its owned brand portfolio, repeat customer retention, and finally, a low penetration of its total addressable customer base and significant global growth opportunities. The company has driven profitability in fifteen of its sixteen-year history, demonstrating the resilience of the model.

INVESTMENT THESIS

1. The market underappreciates REVOLVE's large and expanding TAM and strong user acquisition growth which makes it well-positioned to drive top-line growth over the next several years. The U.S. digital apparel/ footwear, accessories, and beauty market expected to reach $170bn by '21 from $117bn in 2018. REVOLVE is also less than 3% penetrated in its core demographic of US women aged 18-44. REVOLVE has also expanded its customer base with the recent launch of a lower price point offering, superdown. With REVOLVE's international market still <20% of total sales and a strong following globally (>45% of social media followers across Instagram and Facebook are outside the U.S), the company has a significant runway for growth. REVOLVE will also likely continue to diversify and enhance its product offerings (e.g. moving into men's apparel).

2. Assuming REVOLVE continues to add more unique company-owned brands to its offerings, revenue growth will be driven not only by new users, but also by increased AOV as customers are provided with more product options. The number of orders/customer/year are also expected to continue trending upwards or remain stable.

3. The market underappreciates the growth opportunities presented by REVOLVE's continued gross margin expansion via its owned brands. At 31% of net REVOLVE segment sales in 2018, REVOLVE has the opportunity to drive penetration towards 50% of REVOLVE sales long term. REVOLVE currently operates 21 Owned Brands and 8 of the top 10 selling brands are in-house brands. Assuming private brands eventually comprise 50% of REVOLVE sales, COGS will decrease to result in a margin expansion of ~4%. SG&A will also decrease as the company realizes economies of scale through decreased: selling and distribution costs, general and administrative expenses, fulfillment expenses, and marketing expenses as a result of its increased brand equity.

4. REVOLVE's proprietary technology platform provides the company with a significant competitive advantage. REVOLVE utilizes highly sophisticated and automated inventory management, pricing, and trend-forecasting algorithms to appropriately manage inventory. For example, REVOLVE makes shallow initial buys and uses its technology to identify and re-order or manufacture strong sellers to facilitate constant newness (1,000 new styles launched per week on average), helping mitigate fashion/inventory risk (79% of net sales were full-price in '18 vs. industry average of 60%).

VALUATION

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$81	428%	Long, sustained high growth via new unique customer acquisition, increased AOV, and increased number of orders/customer/year via increased market penetration, international expansion, and product offerings.
Base	$37	144%	Increased growth of unique customers and AOV, while maintaining the average number of orders per customer per year. Decreased COGS as owned brands comprise a larger share of the overall brand portfolio
Bear	$20	32%	REVOLVE fails to realize as many operational efficiencies as it scales. Private brands do not take off, and COGS are therefore kept consistent with today's level. Growth is more tepid than the above scenarios.

RISKS

1. Economic downturn causes drop in consumer discretionary spending

- Mitigated by focus on premium segment which is likely to be more insulated from a downturn and introduction of lower price point offering, superdown.

2. Maintaining the speed and flexibility of its supply chain as the company scales.

- Mitigated by strategy of adding new suppliers and deepening company relationships with existing suppliers.

3. Being unable to anticipate and respond to changing customer preferences and shifts in fashion and industry trends in a timely manner could lead to excess inventory or inventory shortages, markdowns and write-offs.

- Mitigated by heavy investment in trend-forecasting algorithms and shallow initial buying strategy.

4. Customer base may not continue to grow or may decline as a result of increased competition and the maturation of the business.

- Mitigated by continued international expansion and targeting additional categories and price points beyond premium apparel for Millennials, such as luxury, beauty, men's apparel and lower price points.

GENERAL DYNAMICS (GD)

TARGET PRICE: $214 (+20%)

Zachary Elkaim, Jefferson Fund

Company Data	
Price	$178.07
Market Cap	$51.149B
Enterprise Value	$67.365B
EV/EBITDA	12.9x
P/E	15.6x

BUSINESS DESCRIPTION

General Dynamics is the world's fourth-largest defense contractor and the second-largest maker of corporate jets by revenues. The company conducts business through five segments: aerospace, combat systems, marine systems, information systems and technology, and mission systems. In 2018, 65% of revenues were from the U.S. government, 21% from international defense and commercial customers, and 14% from U.S. commercial customers.

EXECUTIVE SUMMARY

General Dynamics has an entrenched competitive position in shipbuilding, ground combat systems, and now in information technology services to the US government. The US defense budget will continue to grow, and the Trump administration's focus on naval shipbuilding, the nuclear triad, and army end strength all benefit GD. Management is also incredibly focused on operational efficiency, focusing on margins over markets, improving operating performance and driving profitability. The company has orders from a variety of foreign governments for its military systems, many of which are a generation behind what they are providing the USG. In addition to its pipeline of products, GD services its pre-existing products, locking customers in to maintenance throughout the product lifetime. Finally, GD leverages efficient synergies between its competencies, and does not insist on uniformity when it acquires companies (in contrast to Lockheed), allowing them to remain innovative.

INVESTMENT THESIS

1. GD had a solid 3rd quarter, and management announced the development of a new Gulfstream G700 jet and expects to begin test flights in December and deliveries in 2022. This new aircraft will be the new flagship of the Gulfstream product line. EPS has grown (9.56 FY17, 11.22 FY18, currently 11.5), with much of this attributable to the Gulfstream segment. Historically, GD’s issue with costs in this segment have contributed to investor wariness and poor performance relative to other defense companies. I believe this wariness is still priced in, but less if not no longer, a factor. As of December 2018, GD had an approximate two-year backlog of business jets. With corporate profits having improved significantly since late 2009, orders for business jets will likely continue to improve going forward.

2. GD recently acquired CSRA for $9.7 billion in cash, making it the largest provider of IT services to the U.S. federal government, with estimated annual revenues of about $5 billion. The purchase means GD provides information technology services to U.S. government clients in national security, civil government, and health care and public health. Synergies in terms of management are likely to occur (estimated at 2%), and GD now has a very large, low CAPEX-related revenue stream. This business unit is also expected to carry operating margins above the overall corporate average, CFRA thinks this should help drive growth in EPS over the next several years.

3. In terms of the ground vehicle business, combat systems, is poised for significant growth thanks to international demand. In addition, the U.S. defense budget is returning to growth, and it is likely that the U.S. Army will begin a long-delayed vehicle modernization program. GD supplies many of the components and machines that the US army uses.

4. Marine systems operate as in a duopoly for large U.S. Navy ships and submarines (GD is the second largest military shipbuilder and one of only two shipbuilders capable of building nuclear-powered ships) and the Columbia program should drive growth and provide near-term cash flows thanks to advances.

VALUATION

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$289	63%	Better than expected cost synergies and margin performance from CSRA, a stronger than expected ramp on G500/G600 and faster than expected margin recovery, Continued strength in defense budgets with ongoing support for GD programs.
Base	$214	20%	Moderate revenue growth with slight margin improvements.
Bear	$176	-1%	Worse-than-expected defense budget outcomes, including pressure on legacy GD programs. The large-cabin business jet market deteriorates again (or competition increases beyond our expectations) requiring deep discounting and/or production cuts.

RISKS

1. Demand for GD's military weapons systems is driven mainly by growth in the U.S. defense budget (40% of world military spending). However, defense budgets may decline going forward, due to pressure resulting from high U.S. budget deficits and increased entitlements spending.

- GD has locked in long-term orders from the USG, has maintenance requirements, and Congress would be unlikely to shutdown manufacturing centers in their districts.

2. CSRA will not deliver the promised synergies and GD is less efficient rather than more.

- CSRA still generates significant revenue. While there would be some downward pressure, the company would still be generating profits from this vertical.

3. The bet on Gulfstream fails as business jet demand will weaken and Gulfstream will face challenges. This will require deep discounting and/or production cuts.

- Gulfstream has traditionally driven GD share price down. However, the long backlog of orders, strong corporate positions, and expansion into Asian markets will help lessen this blow.

OTHER FACTORS

- GD announced a 9.7% increase in the quarterly dividend to $1.02 per share marking the 21st consecutive year of dividend raises.

- Of its competitors it is the second cheapest P/E ratio, has the lowest P/S ratio, and it is a cheaper buy than most of its peers.

- Lockheed Martin is the world's largest defense business, but investors in recent years have become concerned over the company's growing reliance on the F-35 Joint Strike Fighter to hit its revenue targets. The F-35 accounts for about one third of sales and is only now beginning to ramp up to full production. GD is priced at a discount to its competitors due to civilian programs.

ALPHABET (GOOGL)

TARGET PRICE: $1,400 (+12%)

Aditya Singh, Monticello Fund

Company Data	
Price	$1,264.30
Market Cap	$876.60B
Enterprise Value	~$770B
EV/EBITDA	17.71x
P/E	22.78

BUSINESS DESCRIPTION

Alphabet, on the face of it, can be called a Software Technology company. However, since its inception as a Search Engine, the business has diversified to such an extent that it cannot be classified into any particular sub-vertical. Alphabet has business interest in almost every vertical of technology either through direct products of through acquisitions and partnerships.

REVENUE GENERATION

Alphabet has many sub-segments that generate revenue and the major sources are listed below –

1. Advertisements – Ads on google search are primary revenue drivers for Google. Google currently has about 70% market share for the overall ad-money with Facebook being a distant second in the space.

2. Data – The data collected from user's search preferences are sold to partner corporation in order to increase the effectiveness of advertisements and

3. Hardware – Alphabet sells a slew of hardware products such as phones, laptops, gaming console, smart home products, etc. to generate revenue.

4. Software – Alphabet owns the Android ecosystem and a slew of productivity apps along with providing Google Cloud services which generate revenue.

5. Other Bets – Alphabet has a lot of smaller high-tech companies under its umbrella such as Waymo, DeepMind, Nest, etc. which have the potential to become huge cash generators in the future. At the moment, they generate comparatively small revenue of $159M but are looked as exciting prospects for the future and Google's strengths in other areas enables significant investment for R&D without putting the company at risk.

INVESTMENT THESIS

1. Established Monopoly- Alphabet has established monopoly in two different markets, namely the Search Engine space and the Mobile Software space (Android). The network effect has led to a monopolistic situation in both these markets and Alphabet has no competitors in the space. Within mobile software space, Apple is a strong competitor with iOS, however, Android has more than 70% market share in terms of total devices sold. Additionally, the ingrained level of dependence on the software ecosystem via Android and Search makes them

2. Low Capital Intensity – Alphabet is primarily a software company and hence, does not requires significant investment into projects for continued operations. However, the company has been investing heavily in R&D to keep up with the competition and enter new markets. Alphabet invested 23B in the last two months into the company.

3. Capital Structure – Debt forms a very small portion of the overall capital structure of the company and it has quite low interest payments.

4. Cash Flow Generation – Alphabet has strong cash flow generation owing to market dominance and generated $50B in Operating Cash Flow last year.

5. Defensible stock – Alphabet has proven to be particularly defensible when other tech stocks within the FANG group have struggled in recent times due to the utilitarian nature of service and revenue generation method it employs.

6. Headwinds in Gaming Industry – Google launched Stadia as a competitor to Xbox and PlayStation consoles for the future and have staked a strong claim for the ~$25B gaming industry. It is still to be seen the market share it would be able to accumulate but it would be additional cash flow for the company.

7. Recent Breakthrough with Quantum Computing – Alphabet recently made breakthrough with quantum computing that could increase the computational power for processors a hundred times over and could have huge implications for the future of the tech industry in general.

VALUATION

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$1,500	20%	Assuming that GOOGL continues to expand on its cloud capabilities and gaming lineup.
Base	$1,400	12%	Assuming that the company is able to maintain its current growth rate trends.
Bear	$1,300	4%	Assuming a stagnated growth for the company due to recessionary environment.

RISKS

1. Competition from other tech giants in the gaming, cloud services and internet advertising space.

2. Regulation of big-tech.