THE ADVISOR

Q3 2019

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A LETTER FROM THE CEO:

October 24, 2019

Greetings,

It is with great pleasure that we bring you the Q3 2019 edition of *The Advisor*. I'd like to start by taking the opportunity to introduce Darden Capital Management's Class of 2020. Our team of twenty-four took over investment responsibilities on April 1st and hopes to continue the strong performance of all those who preceded us. We hail from seven different countries and bring with us a diverse set of professional experiences across various industries. Several members have also earned the professional designations of CFA, CPA, and JD, as well as advanced degrees. Our group is both honored and grateful for the opportunity to be a part of DCM and will strive to optimally serve all of DCM's constituents during our tenure.

Church Waesche, DCM CEO

In addition to the attributes mentioned above, a common theme across the team at Darden Capital Management is a passion for lifelong learning and we believe that there is no better way to study investing than directly from successful industry practitioners. With that objective in mind, this issue features an interview with Rob Forker (Darden '08) of Polen Capital. He is the lead Portfolio Manager of the Polen International Small Company Growth Portfolio, a concentrated portfolio of high-quality international companies. In the interview, he discusses the investment process applied at Polen, describes the qualities that make the firm unique, and offers advice to Darden students about breaking into the investment management industry. We thank him for contributing his time and insights and hope you all enjoy reading. Going forward, we plan to actively engage our strong alumni base in the field of investment management and include similar such interviews within *The Advisor*.

Back in September, we welcomed 65 new members to Darden Capital Management for the 2019-2020 year. With 148 contributing members in total, interest in DCM across Darden remains strong. Over the last six months, the leadership team has been active in an effort to promote the interest and experience of our members in the investment management industry with a continued emphasis on delivering valuable training and recruiting opportunities. This fall, our team enhanced DCM's First Year Training Program by redesigning the sessions to better meet the needs of the First Year class. Approximately 30 students participated in the structured training program designed to prepare students for recruiting opportunities, external investment competitions, and to ultimately take over the DCM portfolios next spring. We also partnered with the Mayo Center to compile a list of high-quality speakers for DCM's Lunch & Learn Speaker Series which began with two exceptional hedge fund managers this fall and will continue throughout the entire academic year. Finally, we instituted a CFA Scholarship Program to support members who wish to seek training opportunities outside of DCM, believing this will also enhance students' marketability to employers in the investment management industry.

We hope the magnitude of training opportunities will pair well with our team's efforts to broaden the scope of investment management recruiting opportunities throughout the year. Specifically, we've added additional recruiting opportunities at this year's Darden @ Virginia Investing Challenge (DVIC), which includes both formal interviews with sponsoring firms and office hours with visiting judges. The competition is set to take place on November 7th in conjunction with the University of Virginia Investing Conference (UVIC) and will feature students from 12 of the top business schools. Further, we emphasized the need to incorporate new firms into the Investment Management Job Trek this year in order to serve a larger group of student interests and are thankful to Paul Reeder, of the Career Development Center, for making this happen. This past week, the First Year students traveled to Boston to meet with a list of top firms that included Bain Capital, HarbourVest, and MedEquity Capital in addition to our customary visits to MFS Investment Management, Eaton Vance, and Polen Capital, among others. We are grateful to all of our alumni who hosted students and attended the Thursday evening cocktail hour.

Finally, on the performance front, returns continue to be stellar thanks in large part to the leadership of our predecessors. Over the three-year period ended September 30, 2019, four of five funds significantly outperformed their respective benchmarks. With assets under management currently in excess of $19.3 million, DCM remains one of the largest student-run investment funds in the country. This year's portfolio teams are seeking to elevate our research process to new heights by finding creative ways to conduct primary research, visiting companies, and traveling to investment conferences.

On the theme of DCM's legacy inspired by great leadership, I'd be remiss if I did not take this opportunity to thank the Class of 2019 for their contributions to DCM and their mentorship of us as first years. Last year's Executive Team made significant progress in the areas of institutionalization, training, recruiting, and alumni relations, which have already proven beneficial to the members of our community. In addition, last year's Portfolio Managers proved to be tremendous stewards of capital, delivering exceptional returns and leaving our teams with well positioned portfolios. We wish them all success in their professional careers and look forward to the challenge of meeting the high standard they set.

Within the remaining enclosed pages, you will find an investor letter from each of our five portfolios detailing the investment approach and holdings of our portfolio management teams, as well as select investment ideas. Also featured in the investment section is the winning pitch from our fall 2019 First Year Team Competition—a long position in SmileDirectClub recommended by Nick Feinman and Mahesh Dadlani. We hope you enjoy!

In closing, I'd like to reiterate that Darden Capital Management continues to be the premier experiential learning platform at Darden and we strive to be the best student-led investment organization in the country. 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. 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,

ACWaesche

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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

DCM Transition Dinner: Passing the torch from the Class of 2019 to the Class of 2020

ALUMNI INTERVIEW SERIES

One of our goals is to more actively engage and learn from our strong alumni base in the field of investment management. To achieve that end, we are initiating an interview series to highlight our alums in the industry that will be included in each edition of *The Advisor* going forward.

Rob Forker, Darden Class of 2008

Biography: Mr. Forker joined Polen Capital Management in 2018. He is the lead portfolio manager of the International Small Company strategy. Prior to joining Polen Capital, he worked for ten years at Loomis, Sayles & Company with six of those years dedicated to the Global Opportunities Fund as a senior equity analyst and four years as an equity analyst in central research. Before business school, Mr. Forker worked at Bear Stearns and Lehman Brothers on the institutional trading desks. He received his B.A. and M.B.A. from the University of Virginia. Mr. Forker is a member of the Boston Economic Club.

Q. What do you value most from your time in Darden Capital Management (DCM)?

A: The best way to learn anything is by doing. I am so thankful for the board of trustees' decision to allot $250,000 to Darden Capital Management in 1990. This decision made nearly 30 years ago has benefited countless graduates of Darden. Many schools across the country have investment clubs, but a student-run club with real capital provides a powerful learning experience. Darden Capital Management gave me many of the tools I needed to succeed in asset management.

Specifically, I valued the conversations with fellow students about potential and existing investments. Members of Darden Capital Management have diverse backgrounds and opinions. DCM fosters an environment to hear those opinions. And the exchange and debate of ideas leads to better decision making that leads to alpha. This was an early and powerful lesson for me on how to work in an optimal team.

Q: Are there common characteristics/traits that differentiate good investors from bad investors?

A: Yes. Many books discuss this important topic, but I think intellectual curiosity and humility are the two most important traits to enable great investment decisions.

On intellectual curiosity, you need to always "dig." I think a good investor always wants to learn more about a company. We want to know more about a company's culture, what drives the management team, how customers view the product, how the company sells its product, and where the company is struggling versus thriving, and so on. There is only one way to accomplish this search for more knowledge – investing a lot of time and asking the right questions.

Humility is required because good and great investors need to be aware of what they know, what they do not know, and what is not knowable. I greatly respect when an investor says either "I don't know," or "this is too hard." I think highly driven people understandably do not want to quit and want to figure out an investment problem. But sometimes the return on invested time is terrible or the confidence interval behind one's investment thesis remains low.

Bad investors often do not put in the requisite time and are either loud or have high conviction on topics where a conclusion is simply not possible with the information at hand.

Q: Can you describe your investment process and how it's unique?

A: Polen's International Small Company Growth strategy seeks to own quality companies that we believe will compound their value at a mid-teens rate for the foreseeable future. We expect our owned companies to double their value every 5 – 7 years. And we are looking for companies that are not cyclical and have the potential to thrive in nearly any environment. Our investment hurdles are high, and because high quality is rare, the portfolio is concentrated. To that end, we own approximately 30 companies as of today. To put that in perspective, the average number of holdings for an international small cap manager in our Morningstar category is 119.

Our long-term investment time horizon of 3 – 5 years is also unique. Quality businesses are often stronger for longer than many anticipate. We want to hold these great businesses for a long time. In this way, we benefit from time arbitrage. Many other investment strategies have much higher turnover.

Q: Can you talk through how you put the portfolio together?

A: It's all about the team. The best decisions are made when the talents of the team are leveraged. It's not that dissimilar to what we did in a learning team room on a Sunday night at Darden.

To start, we take the approximately 4,300 companies in our investment universe and apply our five guardrails that we feel allow us to identify quality. Our screen is a funnel and not a tunnel. Once the team has a list of several hundred likely quality companies, we begin the hard work. Typically, two members of the team will begin studying a company together. This allows collaboration right from the start. If a company passes our shallow dive, we will move the investment candidate to a deep dive.

In a deep dive, every team member is involved. We each play a role, and assign red team / blue team designations in order to flesh out both sides of an investment case. We also write a pre-mortem, which allows us to envision what might go wrong with the investment before we are owners of the company. Throughout the entire process, we are debating the investment and asking questions. To answer those questions, we will do independent research and then regroup as a team to discuss what we've learned. We also will often speak to the company's management team. While I am the ultimate decision-maker on the portfolio, none of this is possible without the strong team that makes our portfolio reflect our investment philosophy.

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

A: My favorite book is *The Outsiders* by William Thorndike. The book does such a great job of stressing the importance of capital allocation. While most CEOs know how to run their business, few know how to allocate excess cash flows optimally. The author does an incredible job studying world-class capital allocators in various sectors during various times. The common theme, of course, is superior decisions to enhance shareholder value.

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

A: Leverage the Darden network. There are deeply talented alums in the industry who can give you guidance and introduce you to opportunities.

Portfolio Updates

CAVALIER FUND

To Our Friends and Partners:

At the end of March, Robbie Hoffman, Vin Paruchuri, Dalton Werner, and I took over the Cavalier Fund from the preceding class. We are very excited and honored to have the opportunity to manage a pool of capital on behalf of Darden, and we look forward to honing our investment skills over the course of the year. Before discussing our progress in managing the Fund, we wanted to first thank the portfolio managers from the Class of 2019 for doing such a commendable job of managing the Fund and engaging with us throughout the final quarter of last year to ensure a smooth transition. They allowed us to hit the ground running, and thus it has been a busy six months for the team. We are doing everything we can to contribute to the Fund's performance.

GOALS FOR THE YEAR

We spent the first few weeks of the new school year establishing individual and team goals to guide the next six months of our tenure and ensure a high degree of ownership and accountability across the team. As our top priority, we have assigned coverage of existing positions across the team, whereby each team member is responsible for five to six stocks. Monitoring responsibilities include tracking developing news stories or events and drafting earnings summaries on a quarterly basis. It is expected that members keep the broader team updated of any relevant developments to enable thoughtful and informed discussion and allow us to make dynamic decisions if any elements of our investment theses change meaningfully. We are putting renewed focus on portfolio construction and position sizing this year. As positions fluctuate with performance, our goal is to constantly reevaluate the overall portfolio to ensure that our top holdings represent our highest conviction ideas. Conviction is based on both our expected returns for the investment, and the range of expected outcomes. We have dedicated time twice a month to review our position sizing and to allow team members to advocate for any changes in positioning.

With regard to work on new opportunities, in light of the Cavalier Fund's broad mandate and flexible investment philosophy, we are directing our efforts towards 1) sharing expertise across the team to equip each member with the necessary tools to create a comprehensive investment pitch, regardless of the type of security, and 2) developing new decision frameworks and investment checklists to systematize our idea generation and research process around new positions. We believe these are complementary efforts that will help maximize the benefit of our flexible mandate. The frameworks and guidelines should promote efficient vetting of screen results as we scour the investment landscape for new opportunities, effectively focus our due diligence, and uphold consistent rigor in the analysis supporting our decision making.

Finally, we are making an effort to promote more engagement in DCM among first year students. Our discussions during weekly Fund meetings benefit when we have a diverse set of opinions and experiences and Darden provides a rich talent pool from which to draw. We are taking advantage of opportunities during Fund meetings to provide formalized training for first years who are interested in the investment field. As recruiting begins, our goal is to provide constructive feedback and act as a sounding board for those students preparing for stock-pitch competitions and investment management interviews. We all benefitted from the support and guidance of last year's class and believe that now is our time to give back.

PORTFOLIO UPDATE

Since the last letter, we have exited our holdings in DocuSign and Canada Goose. All of our team members were restricted from trading this summer because of our internships. While we were regularly monitoring our coverage during this time, we set up trading guidelines in advance to transact if any names moved meaningfully against us. Unfortunately, DocuSign reported negative results in June and the stock fell 15% in a day, triggering an automatic sell in the portfolio. After deliberating among the team, we decided not to re-initiate a position believing that there were better opportunities elsewhere to deploy capital. The stock has rallied substantially in September and the decision to move on has proven to be a missed opportunity. Canada Goose was pitched as a short investment in January and we closed out the position in September for an attractive 35% gain. We believed that the company's growth was unsustainable and subject to fickle fashion trends, its customer base was becoming saturated, and we lacked conviction in management's capital allocation decisions. Over the last two quarters, Canada Goose experienced slowing sales and margin compression and the stock rerated lower on more realistic expectations. While the thesis may still have legs, we elected to take profits and move on and we were excited with the result.

While we have been active as a management team this fall, we have not yet added any new positions to the Fund. There are several opportunities in the pipeline that we are excited about and we have several pitches scheduled over the next few weeks. We look forward to giving you an update on our decisions in the next quarterly letter.

PERFORMANCE REVIEW

We have enjoyed strong performance since taking over the portfolio, mainly to the credit of our predecessors. Since March 31, 2019, the Cavalier Fund has delivered a 9.7% return, compared to 5.0% for the S&P 500 Index. On a trailing 1-year and 3-year basis the Fund has returned 4.5% and 16.2% annually, outperforming our benchmark by 170 bps and 340 bps, respectively. While Fund performance has been broad based, our largest positions have been our biggest winners recently. We try not get excited about short-term performance or attempt to extrapolate those returns too far into the future. The reality is that our portfolio is largely made up of high-quality companies with near-term predictability, and the market has rewarded these types of investments over more traditional value stocks lately. We are confident in the growth prospects for our current holding, but also believe that there is opportunity to supplement our portfolio with new investments in the future.

Brown Forman, Costco, Apple, and American Tower have been the largest contributors to our success over the last two quarters. Despite an uncertain tariff environment and tough comps, Brown Forman has continued to deliver positive results. Spirits remain one of the most attractive consumer product segments from a growth perspective, and Brown Forman is well positioned in the category. The company continues to demonstrate impressive profitability and is experiencing positive growth trends in both domestic and international markets. Costco has also seen notable share price performance, up ~19% since the end of March. Outperformance has largely been driven by e-commerce growth and record membership renewal rates of nearly 90% worldwide. The company recently opened its first Chinese store, which has had unprecedented demand, and we anticipate a long runway for growth internationally.

Apple has been the top performing stock in the Dow Jones Index this year, with gains of ~42% through the end of the third quarter. The company's growth in its services segment has diversified and bolstered its revenue base, giving investors confidence that Apple can drive significant future revenue growth outside of just the iPhone. However, we are also encouraged to see that the newest iPhone 11 unit sales are outpacing expectations. The company has had to increase new iPhone production by 10%, offsetting fears (for the time being) that tariffs are negatively impacting margins. American Tower continues to benefit from increasing mobile data use around the world. Exposure to international markets, predominantly consisting of India, Brazil, and Mexico, remains a tailwind for the stock as these countries are nearly a decade behind the U.S. and are just now building their 4G networks. While the stock trades at healthy valuation on both an absolute and relative basis, we think the multiples are deserved as the company continues to demonstrate longer-term growth in volume, revenue, and earnings.

The major detractors for the period were Pfizer and HCA Healthcare. Shares of Pfizer have been under pressure lately as loss of patent protection on several drugs have convinced investors that future growth will be tepid. During the summer, the company announced that it is spinning off its generic drug business and merging it with Mylan. The stock sold off on the news and has yet to recover. Pfizer is one of the largest most diversified pharmaceutical companies in the world and it significantly benefits from economies of scale and a powerful distribution network. While the valuation looks more attractive at these levels, we are taking a closer look to determine if this investment is worth our time and capital. HCA Healthcare is roughly flat on the year and has experienced a lot volatility over the period. The company suffered from softer surgical volumes in the second quarter which caught the Street off guard. However, we believe that the firm is well-positioned over the long-term as the largest, most efficient for-profit hospital system in the U.S. Its enormous scale allows for negotiating leverage with its commercial payers and supplies vendors creating significant cost advantages and industry-leading margins. We believe that management's increase to full-year guidance might signal better performance in the back half of the year.

PORTFOLIO POSITIONING AND OUTLOOK

We are running a relatively concentrated book, which has been a positive contributor to performance recently. Currently, the portfolio is comprised of 16 long and 5 short positions, with the top ten long positions representing approximately 65% of capital. We have a higher than normal cash buffer that we anticipate putting to use over the coming weeks as we complete our research process on pipeline investments. Short exposure is approximately 7%, and we are actively seeking to increase the number of short positions to bring the overall short exposure closer to our target.

We continue to employ a fundamental, bottom-up approach to investing and think that it is futile to anticipate what the market will do over the coming year. While monitoring the macro environment is important, we spend most of our energy focusing on evaluating growth prospects and value creation potential for individual companies. As a result, our positioning is a direct reflection of our conviction in our names, and does not represent a view on the overall market. We do think that short-term market fluctuations can create some interesting opportunities at times and we will attempt to capitalize on market volatility if we feel that it is leading to mis-pricings.

We always welcome any feedback from our participants and sponsors. 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 look forward to keeping you apprised of the Fund over the remainder of the year.

Sincerely,

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DARDEN FUND

To Our Friends and Partners:

After taking over the fund at the end of last school year, the Darden Team refreshed the portfolio to more closely match the Russell 2000 benchmark sector weightings, remove low-conviction names, and deploy substantial cash holdings. In collaboration with our three talented portfolio managers, we established an investment philosophy to serve as a guidepost for future portfolio decisions,

> *"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."*

At the individual portfolio manager level, we established coverage groups whereby each team member became responsible for five or six portfolio positions. We actively monitor our positions on a weekly basis by following news flow, meeting with company representatives, and producing earnings assessments each quarter. This practice allows us to more closely compare our original theses to outcomes.

Since joining the fund, we have underperformed the benchmark, largely driven by a forced sale of Cloudera and deploying additional cash to existing holdings near the market's peak in May (8% decline in Russell 2000 index since then).

	Darden Fund	Russell 2000
Year to Date	6.6%	13.2%
3/31/19 - 9/30/19	(8.1%)	(2.1%)

Prior to summer break, we worked to redeploy our substantial cash position (15% of portfolio) to maximize the iShares Russell 2000 ETF at 20% weight to minimize our benchmark mismatch while we wait for new high-conviction positions to add. We took profits in some cyclical holdings given concerns about the late stage of the economic expansion, exited positions where appropriate, and deployed additional capital to existing holdings to better match our index's sector weights. Below is a summary of our trading decisions:

- Sold HEICO (HEI), a tremendous niche aerospace equipment provider, at a 309% gain due to it exceeding our fund's $10 billion maximum market capitalization rule.
- Sold Winnebago (WGO), a levered and cyclical RV manufacturer with high fixed costs, at a 49% gain.
- Sold Terex (TEX), a levered and cyclical construction crane manufacturer, at an 18% gain.
- Sold Industrias Bachocos S.A. de C.V. (IBA), a Mexican chicken producer, at a 10% gain due to its international nature not matching our benchmark's domestic mandate.
- Sold Brookdale Senior Living (BKD), the nation's largest senior living REIT, at a 35% loss after management guided to no profitability for three years as they undertake a turnaround plan and rejected the OpCo/PropCo transaction proposed by activist Land & Buildings. This transaction was a key catalyst to our investment thesis and was rejected by management who is instead focused on "righting the ship". Having worked on OpCo/PropCo transactions prior to Darden, there are often issues that are not easily identifiable from the outside that make the transaction not feasible, and we are assuming this is the case here and calling it quits, we wish Land & Buildings the best of luck.
- Sold Ensco Rowan (VAL), a distressed oil field service jack-up lift provider, at a 39% loss as we determined jack-up lift demand is not returning for the foreseeable future. Investors have pressured E&Ps to live within cash flows and capex spend will be focused on the lowest cost areas of production, primarily the Permian, not the Gulf of Mexico.
- We invested additional capital in existing holdings where we felt more comfort including:
    - Apergy (APY) – a niche drill manufacturer and life of well solution provider for the oil field service

industry. We invested additional capital to maintain our energy exposure in the face of selling Ensco Rowan.

- Cloudera (CLDR) – a SaaS provider of tools to manage Big Data. We added to this position to decrease our portfolio's underweight allocation to technology relative to our benchmark. However, following a disastrous Q2 earnings call which featured the exit of the CEO and integration concerns with Hortonworks, the stock opened down over 40%, triggering a stop-loss which resulted in a 59% loss. This single investment negatively impacted our entire portfolio by 3% for the year. Our stop-loss triggered the sale at a time when many others were likely stopped out as well, resulting to a massive loss. The stock today trades where it was prior to the Q2 earnings call after Icahn built up an 18% stake and gained two board representatives. In retrospect, we should have used the market's overreaction to double down on our position, but during the summer we lacked the ability to make new trades and missed out on this opportunity.
- Houlihan Lokey (HLI) – a Middle Market investment bank whose restructuring division provides a measure of countercyclicality and protection in the face of a downturn.
- Limoneira (LMNR) – a geographically diversified citrus producer with water rights pursuing a highest and best use ("HBU") strategy of land development in California.
- National Vision Holdings (EYE) – one of the largest optical retail companies in the U.S. with over 1,000 stores, primarily located inside Walmart locations. We are currently reassessing this name as its contract renewal with Walmart in August 2020 clouds the future of the company.
- Post Holdings (POST) – a leading CPG company whose products are on the shelf and in the fridges of nearly all American homes and provides stable cash flows.
- Silgan Holdings (SLGN) – the largest manufacturer of metal containers in North America and Europe with over 50% market share and leading positions in metal and plastic closures and plastic containers globally. Every time you open a can of Campbell's soup or Coca-Cola you are consuming a Silgan product.
- Stericycle (SRCL) – a leading regulated waste disposal and compliance solution focused on portfolio optimization, deleveraging, and increased efficiencies under new CEO Cindy Miller. We believe this company's substantial barriers to entry and scale make it worth holding during the turnaround.
- TPI Composites (TPIC) – the largest U.S. based manufacturer of composite wind blades servicing the industry's leading wind turbine OEMs through TPI's global outsourced supply chain which benefits from meaningful economies of scales and a growing competitive moat in an industry with tailwinds. While we dislike the high capex required, we are encouraged by the continued growth in backlog and long-term minimum purchase contracts with customers which support the capital investment the firm makes today to build a footprint for market dominance in the future.

We recently added our first new company to the portfolio, International Money Express (IMXI). Intermex is a high growth money remittance provider connecting the United States and Canada to Latin America and the Caribbean and Africa corridors. Latin America is the fastest growing U.S. remittance region ($89 billion annually). The company is a market leader within the U.S. to Mexico and U.S. to Guatemala corridors. The company is uniquely focused within its key end-markets and has established a differentiated base of independent agents across the U.S. as well as dedicated call centers in Mexico and Guatemala to act as a moat and ensure market-leading customer support and satisfaction. This infrastructure has enabled Intermex to continue to increase its market share within its key corridors at a rapid clip. The company's scalable proprietary technology platform has enabled it to invest in opening new corridors and pursue white-label partnership opportunities to diversify its revenue streams and continue margin expansion. We are excited to be at the early stages of a long-term growth opportunity as Intermex gains increasing market share from Western Union, the industry behemoth.

Additionally, we identified EVI Industries (EVI), a laundromat supplies distribution roll-up, as a future potential portfolio addition with the intent to buy opportunistically as it is an illiquid, closely held stock where intraday swings of 4% are not uncommon. I encourage you to read the pitch for this stock, and welcome any feedback you may have as there are smart investors on both sides of this trade. Our portfolio managers were uncomfortable voting to purchase the stock until we speak with investor relations to get clarity regarding concerns of short sellers (depth of pipeline / pace of acquisition integration is key to valuation assumptions). We use a consensus driven approach to making portfolio decisions and look forward to speaking with EVI in the coming quarter to make a decision as a group.

On the bench for pitches for the coming quarter are Revolve Group (RVLV) an Instagram friendly e-retailer for fashion conscious consumers, SiteOne Landscape Supply (SITE), a landscaping supply roll-up story, and Yeti Holdings (YETI), the designer, marketer, retailer, and distributor of high-performance consumer products, best known for their iconic cooler and thermoses. We look forward to continuing to update you throughout the year on our portfolio.

We gladly welcome any feedback from our participants and sponsors. Thank you to the eager first years who have set aside time from recruiting to join our weekly sessions, and thank you to the faculty and alumni who take an interest in our operation.

Sincerely,

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JEFFERSON FUND

To Our Friends and Partners,

By way of introduction, my name is Adrian Moral and I am the Senior Portfolio Manager of Darden Capital Management's Jefferson Fund. It is an absolute pleasure and honor to have been entrusted with this role and all of the responsibilities that come with it. Being part of Darden Capital Management (DCM) was one of the most important factors when deciding to come to Darden and ever since starting this educational journey last year it has been my number one priority. I am truly excited about this opportunity and for all that I and my team will be bringing to the Jefferson Fund for the next year. This allows me to segue nicely to introducing my team of Portfolio Managers who will be joining me in this wonderful experience – Anna Mazur, Zachary Elkaim, and Andres Campos. They have all been incredibly valuable to managing our portfolio hitherto, and I can assure you they are equally excited as I am about this unique opportunity.

When we officially took over the portfolio on April 1, 2019, we discussed the type of experience and interaction that we wanted to take from our role at the Jefferson Fund, and all four of us tallied on using this opportunity to experience the role of an Analyst/Portfolio Manager at an investment firm. We concurred on having ownership and accountability and always acting in the benefit of the fund and on standing against being agreeable and instead on being challenging–but respectfully–to one another and our investment ideas so that we could all grow more confident about them and learn from them. Finally, we agreed on acting on the highest standards of responsibility, ownership, and commitment to the fund and to take our positions as stewards of your capital very seriously.

This is our first of three quarterly letters and I will like to use this opportunity to communicate and share with you some of my thoughts on investing, as well as updating you on our portfolio changes and performance. In this first letter, I want to start by discussing some of my thoughts on our fund's framework and how it fits into my general view on investing, then walk you through our actions for our first six months managing the portfolio, and finally update you on our portfolio performance thus far. I hope you find this letter useful, and since investing is a continuous learning discipline, that you can learn and take something home with you from it as well.

SECTION 1: INVESTMENT PHILOSOPHY & MY THOUGHTS ON INVESTING

The Jefferson Fund is DCM's value-oriented fund. For the past two years and through two management teams–started and instituted by Ryan Hennessee and continued by Michael Kellett's and my team–the Jefferson Fund has had a framework looking to invest in businesses: (1) with a sustainable competitive advantage (wide moat), (2) managed by people with equal parts talent and integrity, and (3) that trade at a fair or reasonable price. This means that historically–for the past two years–the Jefferson Fund has taken a more modern and particular approach than that of the traditional value investing approach. When we talk about traditional value investing, we must talk about Benjamin Graham–one of the first and foremost proponents of this approach–and whose original strategy was to look for investment opportunities in securities that traded far below its asset liquidation value or so to speak its intrinsic value. This traditional approach looked for deep-value opportunities where one could get the classic fifty cents on the dollar, whereas the Jefferson Fund looks to invest in companies with the presence of a moat that provides them with the ability to reinvest their cash flows in their business and generate an above-average rate of return, therefore, compounding their value. This modern approach is looking for companies that will grow to a much larger value in the future but still at a reasonable price today i.e. buying $1.50 or $2.00 in the future for $0.80 today.

In addition to this "historical" approach–and motivated by my experience from my summer internship and some of my learnings from other courses at Darden where I have had the opportunity to read and learn about great minds and value investing proponents such as Howard Marks–I also want to bring behavioral finance to our framework in order to find investment opportunities in mispriced situations where the price of a security has deviated too far from what we believe is its intrinsic value; a little bit more in line with the traditional value investing approach but combined with the modern approach of behavioral economics. I believe this approach is able to generate incredibly profitable ideas if used correctly or to put it in the words of Howard Marks, "Inefficient markets do not necessarily give the participants generous returns.

Rather, it's my view that they provide the raw material –mispricings– that can allow some people to win and others to lose on the basis of differential skill."

This new approach that I want to bring to our fund stems from my belief that DCM is not only a great real and tangible learning opportunity, but also the premier experiential learning experience at Darden to bring and apply all of our newly acquired knowledge and learnings from our other courses at Darden together.

SECTION 2: OUR FIRST ACTIONS

Next, I would like to walk you through some of our first actions and decisions we have made so far as managers of the Jefferson Fund.

Buy: Eastman Chemical Company (EMN), August 2019

Starting this past August, we initiated a new position in Eastman Chemical. This was our first approach and decision stemming from what we believe is a behavioral mispricing.

Eastman Chemical (EMN) is a specialty chemicals manufacturer that produces a broad range of chemical additives, advanced chemical materials, and fibers for a broad range of end-use applications. EMN has 48 manufacturing facilities in 14 countries. The 5 largest end-use markets for EMN products are automotive, consumables, building & construction, industrial chemicals, and cigarette and tobacco making up 20%, 16%, 13%, 11% and 8% of revenues respectively.

EMN price has been in absolute and complete decline since the summer of 2018, mostly caused by fear of the trade war threats between the US and China, which has negatively affected the market general's view of EMN. The trade war has not only negatively affected the market's view but has also damaged EMN's fundamentals, causing panic and destocking on most of EMN's customers, especially the ones located in China. EMN's customers in Asia make up quite a bit (~25%) of the total revenues and most of the products they sell in this market are on the high-margin end of the spectrum. This negative overview has caused a dramatic overreaction on EMN's price which opens up a great window of opportunity to invest in a strong business that generates high returns of capital to its shareholders through dividends and buybacks and with a relatively good moat.

At first sight, it seems that EMN is exposed to markets with threatened growth potential (tobacco and automotive) and some others with headwinds from secular trends (consumables and packaging) where people have been moving away from non-recyclable, non-compostable products. Nevertheless, the company is releasing new products for new markets (apparel, electronics, etc.) which require relatively low investment given that are made with same or similar processes and raw materials to offset some the lost revenues and has also been releasing new pulp-based and cellulose-based bioplastics to position themselves in a better place given the new trends on some of their legacy markets.

EMN appears to have some kind of moat at least in terms of innovation in certain products and in terms of customer relationship as evidenced by 9 years of stable EBIT margins around 15%. Although I don't think it is a pretty strong moat that can stop the entrance of competition because even though they are on the high-end, specialty chemicals business it is still just chemicals. What gives them an edge over the competition is the management's ability to be nimble enough to redirect the business and their customer relationships as the industry evolves and changes as evidenced by the complete transformation of the business in 2004.

Finally, I would like to finish up by outlining some of the risks to my investment thesis and pointing out the mitigants to each of these. One of the main risks of this thesis is the trade war. As long as this continues to be a big topic in the headlines, EMN will continue to get beaten down by the market – both from a multiple and from a fundamental perspective due to the bullwhip effect. Although in the short-term this would greatly negatively affect the price of EMN due to a generalized negative overview of the market, I believe in the long-term the market should adjust its expectations of EMN and it will eventually price it at a more reasonable valuation. Similarly, the bullwhip effect EMN has been going through for the last few quarters will slowly balance out as the industry gets used to the new trade regulations and the supply chain stabilizes.

One of the headwinds EMN is facing is a decrease in both revenues and margin on its Fibers segment, specifically on products related to the cigarette and tobacco industry, which historically has been one of the highest margin segments. EMN's management has a history of adjusting its business in an evolving and changing industry as evidenced by the complete transformation it underwent around 2004. Management has been well aware of this issue and has been repurposing and restructuring some of its Fibers facilities, which used to be completely dedicated to the cigarette and tobacco industry, to manufacture other fiber products for different end-use applications. Finally, another headwind for EMN that could materialize in the future and negatively affect them comes from the generalized decrease in the overall use of plastics. Again, management has been well aware of this issue and through its sustainable innovation efforts has been working on developing and launching new bioplastics that are recyclable, biodegradable and more environmentally friendly. EMN has been commended and awarded in the last few years because of its innovations and environmental efforts.

Buy: Mylan (MYL), September 2019

At the end of the month of September, our Portfolio Manager, Anna Mazur, re-pitched Mylan. The reason behind revisiting this recent investment was because it had been our worst performer in the portfolio so far and we felt that we needed to take another look at the company ourselves given that the original pitch was clearly not materializing. In addition, during the summer, a merger agreement between Pfizer's Upjohn and Mylan was announced and we felt that this changed the original perspective and we needed to update our thoughts taking into consideration the possibility of having a new combined entity along with all its consequences. (Please see the Featured Investment Ideas section for the full Mylan pitch).

Sell: Realogy Holdings (RLGY), May 2019

Realogy is a real estate and relocation services company. It owns several real estate and brokerage brands, such as Century 21, Coldwell Banker, and Sotheby's International. Realogy had been the worst detractor for more than a year and had gone down from the original purchase price of $33.51 to $8.36 at the time of exit. Not only that but we also felt that the original thesis for Realogy did not hold anymore. Let me dwell a little bit more on that. Having a portfolio that turns over its management each year, we depend so much on what can be shared to us from the past management team both in knowledge and conviction on some of the names in the portfolio and it was our team's feeling that the reason behind holding Realogy any longer was that it had gotten too cheap not to hold and that the upside reward was far greater than the downside risk. We felt that this reasoning did not align with our fund's investment philosophy and that we were better off adhering to our investment philosophy and selling the investment.

Sell: Verizon Communications (VZ), May 2019

Verizon is an American telecommunications company that offers wireless products and services. It is the second-largest wireless telecommunications provider in the United States. Similar to Realogy, we felt that Verizon's original thesis did not hold anymore and from what we could get from our past counterparts the thesis was now a "bet" on 5G and on Verizon winning the 5G "race". Once again, we decided that this thesis did not fit into our framework or adhere to our investment philosophy and thus exited the position and planned to make use of that cash further down the road on higher conviction ideas that would fit into our framework.

SECTION 3: PERFORMANCE

Finally, I would like to update you on our performance hitherto. Please take in mind that we follow this practice given its nature as 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 7.9% in the six months ended September 30, 2019. It is worth noting that our benchmark, the Russell 1000 Value Total Return Index returned 5.3% on this same period. Our top three performers as of October 17, 2019 were **Activision Blizzard** (+22.1%), **Microsoft** (+20.8%), and **S&P Global** (+20.2%).

On the other hand, our bottom three performers were **Realogy** (-27.1%), **Mylan** (-21.1%), and **salesforce.com** (-7.7%). As I mentioned above, we exited our position in Realogy on May 8, 2019, and we have recently revisited and reevaluated our thesis on Mylan. We will continue to closely monitor the business performance and valuation of all the companies in our portfolio, keeping in mind that our focus is on long-term results and that we will not let our decisions and opinions be biased by any short-term market disruptions so long as we do not see any general secular trends or any overall industry disruptions that have a negative impact on our companies' businesses.

CLOSING REMARKS

Once again, it is my honor to have your time and attention and a great pleasure to share some of my thoughts on investing– a subject I am so passionate about–with you. The entire Jefferson Fund team is excited to tackle our responsibility as managers of this great fund and we reassure you of our commitment to our fund and DCM. 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 beyond excited and humbled for the opportunity to steward and grow the portfolio. We thank our investors, our client, and our predecessors. 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, I'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 countries, representing nearly 3,000 constituents. While the index covers 85% of the investable global equity markets, the FAANG stocks and other US household names have been driving the majority of the fund's performance over the past year. 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 approaches to stock selection. Through this combinatory approach, we hope to strengthen our awareness of the industries and geographies in which we invest 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 on 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. If you'd like to share your perspective on one of our holdings, our portfolio, or in general, we'd love to connect with you and invite you to reach out.

PORTFOLIO PERFORMANCE OVERVIEW

Since we took the helm of the Monticello Fund in April 2019, the MSCI ACWI Index delivered a 3.61% return and the Monticello Fund delivered 12.98%. Over this time, we sold out of four positions, each for different reasons, trimmed one holding, and bought only one stock. We are astounded and excited that we were able to generate 937 bps of alpha during this time but can hardly take too much credit; rather we thank our predecessors for making sound investment decisions. Our top performers over this period include Celgene (NYSE: CE) at 24%, Apple (NASDAQ: AAPL) at 24%, and Wal-Mart (NYSE: WMT) at 23%. Our worst performers include Pfizer (NYSE: PFE) at -14%, Phillip Morris (NYSE: PM) at -9%, and Splunk (NASDAQ: SPLK) at -8%.

We're excited about short-term returns but refuse to become content. Of far greater importance is long-term return. Over the past year, we've only generated approximately 86 basis points of alpha – a win that pales in comparison to our short-term returns. This will serve as an important lesson for the team moving forward. When reporting returns, one must be honest about return period, and provide a variety of metrics to be as honest and transparent to our investors as possible.

KEY LEARNINGS: SELLING & BUYING

In short, our goal is to generate alpha. As active managers, one of the toughest lessons we're learning is why and when to sell. Seth Klarman once said, "Buying's easier, selling's hard – [it's] hard to know when to get out." We agree.

In Q2 2019, we sold Gildan (NYSE: GIL) to capture gains. Upon reviewing the existing investment thesis for the purchase and assessing the current and future landscape, we came to the conclusion that this investment opportunity had peaked. The stock price exceeded its target and we had reasonable conviction that the firm's ability to create value was on a downward trajectory with a degrading competitive edge. We plan to redeploy the cash from the sale in Q4 2019. During Q2, we also sold DaVita (NYSE: DVA) for similar reasons.

In late Q2, we sold Cloudera (NYSE: CLDR) for different reasons. Prior to finishing our first year at Darden, we agreed upon several policies for the summer period, including selling only if a stock hit a 30% decline in stock price. Sure enough, when Cloudera's CEO resigned, the stock price tanked, and we sold out of our position. We can learn many lessons from this story. First, perhaps we should have agreed upon a smaller, more thoughtful, reason-based downward volatility band. A 30% decline was difficult to stomach. Second, one should "buy low and sell high." As one of our portfolio managers recently pointed out, Cloudera's stock price has regained some of its momentum. Had we been patient and refrained from selling out as the stock price tumbled, we could have sold at less of a loss. Or, one could argue, selling was the wrong idea in general, especially as the stock had been purchased only months prior. Lastly, we continue to remind ourselves that hindsight is 20/20.

Sociedad Quimica y Minera (NYSE: SQM) is my favorite sale story because it really challenged our conviction. Sociedad Quimica y Minera is a Chilean company that produces lithium, iodine, plant nutrients, and other industrial chemicals. It was purchased last year. When the 2019-2020 class took over the Monticello Fund portfolio, we each spent some time coming up to speed on our investments and reviewing their return profiles. SQM had declining profits, so we investigated the company, the industry, and the former team's investment thesis.

We believe several factors drove down the stock price. First, the industry overall experienced a sudden change in demand for lithium. China is SQM's biggest consumer, so when China removed subsidies that propped up demand for electronic vehicles (which require lithium as an input), global growth, which had historically been driven by China and the US, fell by approximately 14%. Further, over-supply in lithium continues to pressure the price. SQM shifts to volume strategy and the lack of quality constrains the company's ability to request higher margin. The formerly projected tripling of lithium sales by 2025 now seems less of a base case and more like an exaggerated bull case. Additionally, SQM recently embarked on an expensive expansion of capacity and new product development. This resulted in a significant uptick in capital expenditure. This is quite a risk to take if demand does not meet supply, resulting in excess capacity in a market that is already oversupplied. Lastly, we believe the firm's cost of capital is likely higher than previously projected. SQM's struggle is not unique. SQM is suffering partially from industry factors and partially from operating factors.

Competitor Albemarle has suffered similar volume declines, which it has helped offset with expense management and reduced capital expenditures, opposite to SQM. Before we hit the sell button, we also checked analyst estimates. Interestingly, per ThompsonOne, 8/9 analysts estimated future earnings declines. It became clear to us that SQM is not a value play over the next few years. We became reasonably convinced that the firm will continue to exist, but will struggle over the next few years and our capital can be better deployed elsewhere. Nonetheless, we're now a bit spooked. In just a few months, factors which could have reasonably been expected to hold true over a long time horizon were flipped on their head. These factors completely upset SQM's profitability. If things can go negative so quickly in this instance, how quickly can they flip the other way?

Since joining the Monticello Fund, we've reviewed and considered several investing opportunities but have purchased only one stock – Nike (NYSE: NKE). The biggest challenge we found regarding buying was whether this company would be the one to generate long-term excess return. We know that the return profile for each holding differs, and we like this. We consciously invest in stocks with lower volatility that we think will slowly generate steady reliable returns, and we have a few that we think will have higher growth rates over the next few years. Still, our biggest debates were whether Nike has a competitive moat, whether it was at a discount, how it fits into our profile, whether it would give us the country, asset, and other exposure we were seeking, and whether another company that had yet to be pitched to us would be a better investment. I liken our Nike purchase, which has generated a 13% holding period return, to a bank's securities lending desk. Securities lending is one of the last mainstays of relationship-based banking in the secondary market. We've been saying for years that it's only a matter of time before it becomes automated, exchange-based, and the trader's role is eliminated, but it hasn't happened yet and isn't on the radar for the next few years. In a similar regard, we like that, even though Nike has faced and continues to face intense competition from peers and could be competed away, because of its celebrity athlete sponsorship strategy and ability to dominate the competition by being the biggest, first to market, and leader that is constantly improving and doing better, Nike remains dominant. If we were day traders, I don't think we'd have put our bets on Nike. But, as long-term value investors, we think Nike's a great horse for us.

GOING FORWARD

We have huge shoes to fill. The previous Monticello Fund portfolio managers (Sofia Scott, Wenda Sun, Sid Rajagopalan, and Tris Worth) were very thoughtful in managing the portfolio, adding new ideas and trimming where necessary. Sofia proceduralized the portfolio manager transition as much as possible, though I admit I still connect with her on occasion for deep dives when our team's view contradicts a decision her team made, and for general insights. This continuity and connection have been helpful to us. In true Darden fashion, we have the same goal as the former managers – to pay it forward and cultivate a better portfolio and process for the next team.

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,

Katharine Watson
WatsonK20@darden.virginia.edu

ROTUNDA FUND

To our Partners and Friends,

On behalf of Darden Capital Management, please allow me to introduce myself. My name is Scott Steever, and I have the honor of assuming the Senior Portfolio role of the Rotunda fund for the 2019-20 year. I want to thank you all individually for entrusting in us your time and capital. This is an incredible opportunity and a hallmark of the Darden experience – many current students and prospective students we speak with are heavily influenced by the unique opportunity this club provides.

I write to you today with several goals in mind. First, I want to reintroduce you all to the Rotunda fund at a high level. Next, I hope to communicate the investment philosophy of this fund for the upcoming year, as well as outline some of the convictions, issues and questions inherent to managing an ESG-oriented fund. Third, I will outline the fund's performance from a portfolio view, as well as provide select commentary around certain securities the team has made recent active decisions around. Fourth, I will put forth our objectives for the upcoming year. Finally, and most importantly, I want to request that you all, as active readers, reach out to me personally to discuss any comments, suggestions, questions or wisdom you might be willing to offer.

In true Darden fashion, these letters are to be used as an invitation to open the discussion in a two-way fashion with you, our investors and readers, and use this as a platform for engagement between alumni and students. Our predecessors have done a fantastic job of passing on the torch, so to say, and we hope to continue and further this strong tradition of learning and performance. In this regard, I would like to lastly thank Kyle Rose, Emily Caldwell, Jay Kanakiya and Anne McKenna for a smooth transition and a strong portfolio to begin our year.

WHO WE ARE

First, to help guide the conversation, I think it's important to explain who and what the Rotunda fund is, and how create value for our stakeholders. We are an ESG-focused fund responsible for $3.9mm of capital provided by the endowment and the board of trustees. Despite much talk in the investment community around the viability and purpose of an ESG-focused fund, our mandate is identical to our brother and sister funds in DCM – to deliver outsized risk-adjusted returns relative to our benchmark, minimize our systemic risk to various market forces and provide a sound learning foundation for our members.

I am lucky to be accompanied by three incredibly capable and driven portfolio managers dedicated to defining the fund. Ann-Catherine Begley, Waleed Jehandad and Christian Pratt join me for this year in managing the portfolio and defining the direction going forth for generations to follow.

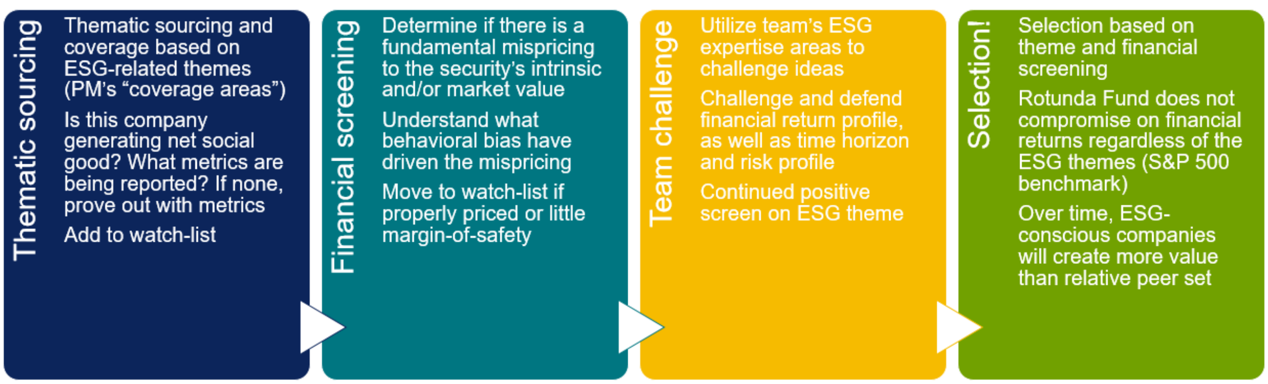
We are currently benchmarked against the S&P 500 – a benchmark that our team believes captures our goal as an organization to outperform the broader market and prove our ESG thesis. Our team is currently viewing other benchmarks (e.g. MSCI) to measure our performance against other ESG-focused funds, however, it is our belief that outperforming the broader S&P achieves our goals and allegiances to our stakeholders. Our philosophy is to invest in companies who (a) have an innate impact-focus to their business (e.g. triple bottom-line) and who (b) perform highly in ESG and sustainability metrics with the intention that, over time, these individual securities will outperform and show reduced systemic and stochastic risk compared to similar securities who underperform in these metrics.

INVESTMENT THESIS AND PROCESS

There is an increasing amount of research and debate from academics and practitioners alike surrounding the viability of an ESG-focused fund, and we address these concerns head on. Our position aligns with that of the major advocates: a fund with an ESG and general impact-oriented lens will outperform its peers without such mandate on a risk-adjusted return basis through several modes. At the security level, our thesis is that a company who performs more highly on their *industry-relevant* ESG metrics will outperform their peers over the long run. To give a broad example, a firm with leading governance policies around executive incentive structure and compensation will outperform their peers over time as it would be making more long-term oriented decisions, rather than focusing on short-term metrics and skewed motivations. At the fund level, these long-term oriented securities would, in theory, have reduced volatilities, thereby diminishing beta. Our thesis is strengthened by the many dissection reports into ESG funds, showing a mass outperformance against the market, dispelling many commonly held “concessionary capital” associations with ESG-related funds.

We can’t argue that in recent times, there has been a tailwind for ESG-focused companies from the significant influx of both retail and institutional investor money which has potentially both boosted the price and the volatility of ESG stocks while doing very little to the underlying value of the stock. Despite potential boosted returns from this “green-washing”, we do not view this as a fundamental value-add to our strategy, as this is purely a speculative movement in the market and does not reflect any change in intrinsic value that the company is creating. As a fund, we monitor these movements within our portfolio and assess the capital allocation decisions (share buybacks in particular) in the face of these potentially inflated prices. However, as the velocity of these movement slows down, we believe the volatility will diminish. In the mean-time, we rely on our investment process to identify the proper securities at the proper time for our portfolio.

We utilize a “positive screen” to guide our investment process. In short, we search for companies and securities who are outperforming in ESG metrics *OR* create financial value that is lockstep with their impact value created, either of which helps provide a unique competitive advantage over their peers. Once we have created a compelling value thesis around the ESG metrics of the company, we then screen for a financial case. In doing so, we view ourselves as a traditional value fund in this regard. We test for fundamental mispricings in the market through various behavioral events and biases, and look to buy securities for $0.80 on the dollar for what we think will be priced well over a dollar within our investment thesis horizon. This creates a challenge, as it significantly narrows the universe even further. We are, however, comfortable with a thinner margin of safety, as we believe a thicker margin is built in through the ESG advantage.



PERFORMANCE

At time of writing, the Rotunda fund holds an aggregate of $3.9mm in equities and has returned a 4.3% return in the past six months, since the portfolio transition. This falls 14 basis points short of our benchmark return, the S&P 500 index at 4.4%. Cash balance currently sits at 0.5% of available capital.

Our portfolio composition sits relatively in-line with our benchmark; however, we are growing increasingly concerned in regards to our over-exposure to consumer discretionary. In the wake of an impending economic slowdown, we feel as though expectations and consumer spending in this area can only diminish, and so we continue to look to reduce our exposure in this category.

The top performers of the fund over the past six months have been: **CVS Health Corp (NYSE: CVS)**, **NextEra Energy, Inc. (NYSE: NEE)** and **Starbucks Corp (NASDAQ: SBUX)**, returning 20.7%, 20.7% and 17.2%, respectively. This has been extremely encouraging to our thesis, as these stocks have all undergone recent re-pitches to evaluate their ESG and financial theses, and all exhibit strong ESG focus and performances, executing on the investment theses.

The top detractors from the fund over the past six months have been: **PVH Corp (NYSE: PVH)**, **CyberArk Software Ltd. (NASDAQ: CYBR)** and **DuPont de Nemours, Inc. (NYSE: DD)**, returning (29.9%), (14.4%) and (14.0%), respectively. With most of these holdings taking a significant hit over the summer while trading access was extremely limited for our team, we have since spent significant time re-evaluating these stocks and companies and are looking to trim positions. As of now, we feel as though these stocks still hold upside to them with little risk at current valuations, and so we have chosen to hold them over cash until we determine our next high-conviction position where we would reallocate the funds to.

Most of our detractors to date have had significant exposure to the current trade war. We believe it prudent to view the trade war as a long-term item for businesses moving forward. Thus, companies with significant Chinese exposure must be re-evaluated with a long-term outlook on earnings effects. For example, PVH, who owns brands like Calvin Klein and Tommy Hilfiger, showed investors just how exposed their supply chain and customer base was to China in a recent earnings report. Additionally, their brands are most likely to be hit hardest in any sort of economic slowdown, as their customer base is not recession-proof, nor have they garnered quality brand loyalty as many of their competitors have. We look forward to re-evaluating this opportunity in the coming week.

OBJECTIVES

Looking forward to the current year, our objectives are as follows:

- Beat our relevant benchmark while staying true to our investment model and continuing our long-term outlook and conviction in holdings (keeping trading tax implications in mind)
- Refine our investment thesis and model, and create a replicable structure/model moving forward to communicate to future generations to ease the transition path
- Build out industry-relevant ESG metrics and create tribal knowledge for ESG security selection
- Investigate and evaluate ESG credit (e.g. municipal bonds) and passive investment vehicle opportunities for low-conviction capital
- Build out an open line of communication between alumni/investor networks and the Rotunda fund to ensure all questions are being answered and the fund is operating with as much tribal knowledge as possible

Additionally, we have a list of ongoing questions we, as a fund, look to answer and implement to create value. Examples of these include the following:

- Do capital requirements for measuring and reporting ESG metrics automatically screen small to mid-cap companies? How could we determine and exploit this?
- What are the relevant metrics for each industry? How should we go about weighting these and making a subjective review more objective?
- Should we exclude industries based on the social outcome of their products? Or should we look for best-in-class companies?

CLOSING REMARKS

To close out, I want to thank you all again for your time and trust. We accept this responsibility and opportunity with excitement and passion, and look forward to creating value for all stakeholders involved. Again, I urge you all to not hesitate in reaching out for any reason. We look forward to a fantastic quarter and year.

Sincerely,
Scott Steever
SteeverS20@darden.virginia.edu

Featured Investment Ideas

EVI INDUSTRIES (EVI)

TARGET PRICE: $51 (+47%)

Nicholas Kordonowy, CFA, Darden Fund

Company Data	
Price	$34.81
Market Cap	$408.9MM
Enterprise Value	$444.4MM
EV/EBITDA (NTM)	21.4x
P/E (NTM)	32.2x

BUSINESS DESCRIPTION

EVI Industries is a distributor that sells, leases and rents commercial, industrial, and vended laundry and dry-cleaning equipment and steam and hot water boilers manufactured by others and supplies related replacement parts/accessories. In addition, EVI designs and plans turn-key laundry, dry cleaning, and boiler systems and provides installation and maintenance services to its customers. EVI has over 30 thousand customers (largest 8% of sales) including commercial, industrial, institutional, government, and retail customers in the U.S., Canada, the Caribbean and LatAm.

EXECUTIVE SUMMARY

EVI Industries is in the early stages of a transformational roll-up of the commercial laundry distribution industry and is able to use its $140mm RC facility to acquire companies at 3.0-5.0x EBITDA using a combination of debt (up to 3.5x) and equity (currently trading at 21.4x NTM EV/EBITDA) leading to minimal shareholder dilution while growing revenue and EBITDA in a dramatic fashion for the next decade +. Backed by the Nahmad family (pursued a similar roll-up of the HVAC industry over the past three decades to the tune of 100x+ shareholder returns (Watsco) and controls ~70% of EVI after taking control in March 2015 with nephew Henry Nahmad operating as CEO). EBITDA margins have come under pressure recently as the company has invested in staff and technology to integrate its heavy pipeline of tuck-in acquisitions and a limited float and liquidity has led to 24% of outstanding shares sold short. In the long-run the compounding effect of the roll-up of this highly fragmented industry will lead to substantial free cash flow, expanded future EBITDA margins, and commensurate growth in the stock.

INVESTMENT THESIS

1. The short sellers are short minded, underestimating run-rate margins: This illiquid security (30% float) has suffered short selling pressures over the past year as EBITDA margins have decreased from 8.9% to 5.7% due to the buildout of HQ staff and technology to integrate eight acquisitions in the past year. The market is misinterpreting temporary margin degradation as permanent impairment of the firm's operating profitability. In reality, Henry has spent over five years analyzing this highly fragmented (100+ distributors for laundry equipment in the U.S.), multi-billion dollar industry and has invested in his acquisition machine to build a footprint for a highly scalable roll-up with EBITDA margins that will revert back to, and likely exceed, historic norms as EVI builds additional scale and bargaining power.

2. The market underestimates the speed of acquisitions and size of TAM: The market underappreciates EVI's public currency as a true differentiator which complements their model of keeping existing management in place, leading to deals at 4-5x EBITDA in a mix of cash and stock which aligns the interests of mom-and-pop operators who want liquidity and diversification of risk while continuing to operate their own business. EVI has become the buyer of choice for baby-boomer operators looking for an exit plan. The pipeline of small distribution firms and TAM of $6bn commercial laundry equipment, $4.5bn commercial boiler market which grows at GDP rates provides the ability for EVI to double in size (currently ~$250mm run-rate sales) for the next five years. Additionally, EVI can expand into industrial detergents ($20bn) and commercial kitchen ($25bn) markets for future growth.

3. Growing moat and high recurring revenue: There is limited competition within a geographic region (distributors for a brand are given geographic exclusivity) with stable demand and a built in replacement lifecycle (not dependent on new residential starts) which creates a stable cash flow platform to fund roll-ups and provide comfort running leverage of 3-4x while acquiring businesses at 4-5x. As EVI builds scale its bargaining power with suppliers is amplified and the level of service it can offer as a distributor increases, creating a positive feedback loop which will enable EVI to build market share at the expense of its smaller competitors (and increase their willingness to sell to EVI and get stock in this growing enterprise).

VALUATION

(Left table) Assumes organic growth of 3% annually, $100mm Revenue acquired annually at 8% EBITDA margin using 3.5x debt with remainder stock valued at current share price of $34.81/share and a terminal EV/EBITDA of 15.0x after year 5 based on Watsco's 15.8x discounted at 9% Cost of Equity.

(Right table) Same assumptions, but assumes 5.0x EV/EBITDA for acquired company and sensitizes EVI exit EV/EBITDA.

		Discount rate			
		7.0%	8.0%	9.0%	10.0%
Acquired EV/EBITDA	4.0x	80.3%	73.3%	66.7%	60.3%
	4.5x	68.4%	61.9%	55.7%	49.8%
	5.0x	58.0%	51.9%	**46.1%**	40.5%
	6.0x	40.7%	35.3%	30.1%	25.1%
	6.5x	33.4%	28.2%	23.3%	18.6%

		Discount rate			
		7.0%	8.0%	9.0%	10.0%
Terminal EV/EBITDA	10.0x	(0.2%)	(4.1%)	(7.8%)	(11.3%)
	11.0x	11.4%	7.1%	3.0%	(0.9%)
	12.0x	23.1%	18.3%	13.8%	9.4%
	13.0x	34.7%	29.5%	24.5%	19.8%
	14.0x	46.4%	40.7%	35.3%	30.2%
	15.0x	58.0%	51.9%	**46.1%**	40.5%

RISKS

1. Economic downturn causes drop in capital spending on new equipment sales: In the 2009 contraction, Steiner Atlantic, the predecessor firm to EVI, did not see a drop in sales until 2010, at which point the economy was in an upswing, limiting a cash crunch when credit conditions are unfavorable. The large install base of existing units provides additional maintenance revenue if new unit purchases are temporarily deferred.

2. High supplier concentration: Purchases from the top four manufacturers account for approximately 75% of total purchases. The distribution model could come under pressure if the manufacturers consolidate and gain bargaining power, or if a supplier encounters issues as a going concern. This risk is mitigated by long-term distribution agreements with geographic monopolies.

3. Accretion of acquisitions depends on high stock price, a self-reinforcing relationship: If EVI's stock price declines this makes it a) more difficult to convince sellers EVI is the buyer of choice and to accept stock as part of consideration price which b) could slow the rate of acquisition which c) could lead EVI's stock price to decline further, reinforcing this effect. Additionally, if EVI's valuation declines the accretion of acquisitions decreases, further adding to valuation pressures in a self-reinforcing downward spiral. This risk is mitigated by both the extremely low purchase price of targets relative to EVI (4-5x EV/EBITDA vs. ~22x for EVI) and the lack of another buyer who offers stock as consideration. Additionally, EVI's $140mm RC facility enables them to offer the seller cash and stock (no seller note required), a large benefit relative to other potential purchasers who lack the financing flexibility of EVI.

FIVE BELOW (FIVE)

TARGET PRICE: $188 (+53%)

Church Waesche, Executive Team

Company Snapshot (10/8/2019)	
Share Price	$123.26
52 Week Range	$86.57 - $148.22
Market Cap	$6.9B
Enterprise Value	$6.6B
Debt/Total Capital	0.0%
EV/EBITDA NTM	27.5x
Price/Earnings NTM	34.3x

Financials	2017A	2018A	2019E	2020E	2021E
Revenue	$1,278.2	$1,559.6	$1,902.4	$2,334.6	$2,849.2
Revenue Growth %	*27.8%*	*22.0%*	*22.0%*	*22.7%*	*22.0%*
Operating Profit	157.4	187.2	230.2	287.2	356.1
Operating Margin %	*12.3%*	*12.0%*	*12.1%*	*12.3%*	*12.5%*
EPS (Diluted)	1.84	2.66	3.23	3.99	4.91
EPS Growth %	*41.5%*	*44.4%*	*21.4%*	*23.6%*	*23.0%*
ROIC	22.1%	23.7%	21.8%	20.9%	20.1%

INVESTMENT THESIS

I believe FIVE is a compelling LONG with a 15% 3-year IRR and a 3.5-to-1 upside/downside skew. FIVE is an outstanding business that has broad customer appeal and offers a differentiated, treasure-hunt like in-store shopping experience that is difficult to replicate online. The Company has grown revenues at a 24% CAGR over the last five years, delivers returns on capital north of 20% that have been stable over time, generates abundant free cash flow with a long runway to reinvest in new stores that have attractive economics, and has a strong balance sheet that includes zero debt and a management team that has proven it can consistently execute at a high level. The Street is hung up on valuation, quarterly fluctuations in same-store sales growth, near-term margin headwinds from the China tariffs, and underestimating the rate at which FIVE will be able to open new stores over the coming years. Moreover, the Street continually undervalues quality business like FIVE because they underestimate both the magnitude and durability of growth. The bet is that FIVE can open roughly 1,000 stores over the next five years while delivering 2-3% same store sales growth and modest scale driven margin expansion.

COMPANY OVERVIEW

Five Below is a rapidly growing specialty value retailer offering a broad range of merchandise, priced at $5 and below, targeted at tween and teen customers and their parents. The company sells a dynamic assortment of products including “trend-right” and daily use products, with categories including Leisure (51% of sales), Fashion and Home (31%), and Party & Snack (18%). Five Below currently operates a total of 833 locations across 36 states, located in shopping centers across a variety of urban, suburban and semi-rural markets.

INVESTMENT POSITIVES

1. Differentiated Value Proposition: FIVE offers an unmatched product mix consisting of ‘trend-right’ and everyday merchandise at price points of $5 and below, targeted at tweens and teens and displayed in eight separate category worlds – sports, tech, create, party, candy, room, style, and now. The Company is also constantly monitoring and identifying emerging trends in the tween and teen markets and is able to quickly identify and respond to these trends through its strong relationships with 800+ vendors. Moreover, FIVE’s stores are engineered to make for a unique, easy to navigate, and engaging in-store atmosphere with upbeat music, vibrant signs, low sightlines across the store, and iconic fixtures that encourage interaction with products. Because the stores are filled with products that change frequently and the in-store atmosphere is fun, it creates a treasure-hunt like shopping experience that provides excitement for customers and makes FIVE a destination visit. The average customer shops 10x per year, purchases 60 items, and spends over $150. FIVE’s in-store experience has also provided insulation from e-commerce as it’s hard to recreate this type of shopping experience online. Low average ticket size and a perception of compelling value provide additional barriers to online competitors. Overall, the combination of a dynamic merchandising strategy, fun in-store experience, and low-price points drives repeat sales, limits cyclical fluctuations experienced by many other retailers, and provides FIVE durable competitive advantages.

2. Superior New Store Economics: FIVE has been disciplined in sticking to a specific formula to open and operate new stores, with new store growth supported by strong new unit economics. New stores usually open at over 90% productivity and generate payback in 7-8 months. A typical ~8,500 square foot store generates annual sales of $2.2m and four-wall EBITDA of $450K on a net investment of only $300K (store buildout, inventory, marketing, labor, etc.) — a return on investment of ~150% in the first year. Notably, over half of FIVE's top 25 stores all-time were opened in the last year. Five Below's store metrics also are superior to other dollar stores. For example, FIVE generated sales per square foot of $294 in 2018 vs. Dollar General at $231 and Dollar Tree at $193. Similarly, Five Below's EBIT dollars per square foot were $33 in 2018 vs. Dollar General at $19 and Dollar Tree at $15.

3. Long Unit Runway: FIVE still has a long runway ahead of it as it expands into new geographies and increases penetration in existing markets. The company's current long-term target of 2,500 stores is likely to prove conservative as the store model has proven to be successful in urban, suburban, and semi-rural markets and varying types of shopping centers. Additionally, the company's lightning quick new store payback period and robust cash flow generation of mature stores allows FIVE to fund new stores at an accelerated pace, above what the Street is projecting. The Company updated its long-term target number of stores from 2,000 to 2,500 in early 2018 and I expect similar such revisions to take place in the near future as new stores continue have overwhelming success. The Company invested in two new distribution centers across the US in recent months and plans to add several more to support this growth.

4. Same-Store Sales Initiatives: FIVE has delivered over 10+ straight years of positive same-store sales growth demonstrating the consistency and durability of the model as well as the predictability. This has resulted in average sales per store increasing from $1.5m in 2012 to $2.2m in 2019. Going forward, FIVE should be able to deliver at least 2-3% growth in same stores sales. This is achievable for several reasons. First, FIVE will continue to benefit from its dynamic merchandising strategy and trend-right products as well as differentiated in-store experience that will help drive repeat customer visits. Second, FIVE likely has some pricing power as it has the ability to flex its merchandise offering in the $1-$5 range and still offer high quality at value prices – a competitive advantage compared to traditional dollar stores that have to stay under $1. The company is also experimenting with products priced at $10 and below which could further this advantage and help drive incremental sales. Third, as FIVE continues to expand into new markets and increase its marketing spend, this will help build the Company's brand awareness and expand its customer base. Notably, brand awareness has risen from 45% in 2015 to 61% in 2018. Fourth, the Company has rolled out a formal store remodel program for its older stores to allow for speedier checkout, an expanded impulse section, etc. that will enhance the overall shopping experience and provide a lift to same-store sales. Fifth, the maturation of new stores should provide modest contribution, albeit to a lesser extent, given new store productivity is very high. Finally, the Company updated its IT systems in 2018 in anticipation of developing and rolling out a loyalty program over the next few years, which once offered, will help increase the average number of customer visits per year.

5. Modest Margin Expansion: FIVE has been able to slowly increase its margins as the company has grown. Currently, the company has one of the best operating margins in the industry at 12.0% in 2018 vs. Dollar General at 8.5% and Dollar Tree at 8.3%. FIVE will have further opportunities to drive margin improvement over time despite near term headwinds from the China tariffs. A primary driver of the margin expansion will come from leveraging its cost structure as it continues to increase its store base and drive average net sales per store. FIVE also intends to capitalize on opportunities across its supply chain as it grows its business and achieves further economies of scale. These opportunities include improved sourcing costs through its strong vendor relationships and negotiating power.

VALUATION

My base case target price of $188 represents a 15% 3-year IRR and is based on 25x my 2023 EPS forecast. Earnings growth will be driven by new store openings (~925 over the next 4.5 years), same store sales growth of ~2-3% per year, and operating margin expansion of ~20 bps per year. Over the last 1- and 3-year periods, FIVE has traded at an average

		2023 EPS				
		5.90	**6.70**	**7.50**	**8.00**	**8.50**
Multiple	**15**	89	101	113	120	128
	20	118	134	150	160	170
	25	148	168	188	200	213
	30	177	201	225	240	255
	35	207	235	263	280	298

NTM P/E multiple of 37x and 33x, respectively. During this time, the company grew revenues at a 1-year CAGR of 22% and a 3-year CAGR of 23% with returns on capital in the low twenties. Over the medium-term, I expect the company to grow at a similar rate with stable returns on capital, but forecast multiple compression from 36x today to 25x in three years to reflect an inevitable slowing of the growth rate beyond 2023 (though still healthy in the mid-teens) due to the law of large numbers. The company's dollar tree peers currently trade at a median of 23x NTM EPS and its fast-growing retail peers currently trade at a median of 26x NTM EPS. I believe FIVE will continue to warrant a higher multiple in three years relative to where peers trade today given the company's higher sales and earnings growth outlook (longer runway) and predictability of the model. However, realizing current multiples may be inflated due to our position in the business cycle, I've conservatively applied a multiple of 25x.

My bear case of $89 represents a -10% IRR and assumes FIVE struggles to find suitable real estate to fund rapid new store growth and is only able to open ~400 new stores over the next 4.5 years with 1-2% same store sales growth and no margin expansion. In this scenario, as growth slows significantly, the multiple also compresses toward the market multiple of 15x.

My bull case of $298 represents a 34% IRR and assumes FIVE opens ~1,200 new stores over the next 4.5 years similar to Dollar Tree and Dollar General during their high-growth phase, grows same store sales at ~3% per year, delivers ~20 bps of margin expansion per year and holds near its current multiple.

All-in-all, I see a nearly 3.5-to-1 bull/bear skew indicating favorable risk/reward.

KEY RISKS & MITIGANTS

1. Availability of Suitable Real Estate: FIVE seeks to operate stores in high-visibility, high-traffic retail venues because 55% of its traffic is driven from co-tenants. As FIVE continues to expand its store count, it may become more difficult to find suitable locations. If FIVE in unable to continue to find good real estate, it could slow expansion of new stores and/or limit the success of newer stores if placed into less desirable locations. However, as other brick-and-mortar retailers continue to struggle and close down stores, this likely won't be an issue for FIVE in the near future.

2. Staying Trend Relevant: FIVE's business model in part relies on fads and trends to help drive same-store sales and this can cause volatility in quarterly and yearly results, making it difficult to predict same store sales growth. This has been a constant concern for investors yet the company continues to find ways to deliver on this front as evidenced by the company's 10+ straight years in positive same store sales growth.

3. Cost Inflation (Including Tariffs): Given FIVE's pricing model with all items priced at $5 and below, the company could have difficulty raising prices in the event of cost inflation whether from tariffs or otherwise (~40% of SKUs are priced at $4-$5). However, the company recently raised prices on certain items to $5.55 and the results have been successful so far. Additionally, the company's strong negotiating power with vendors and its "Ten Below" test could mitigate future risks related to cost inflation.

4. Competition: While FIVE doesn't currently have any direct competitors, the company nonetheless competes for the mindshare, traffic, and spending money of its teen and tween customers. If other products or retailers gain favor, this could indirectly take share from FIVE. Additionally, if FIVE decides to move upstream to offer more expensive products with its $10 and below concept, it will start to go head to head with large discount retailers such as Walmart and Amazon where success will be more difficult to achieve.

CYBERARK SOFTWARE (CYBR)

TARGET PRICE: $122 (+24%)

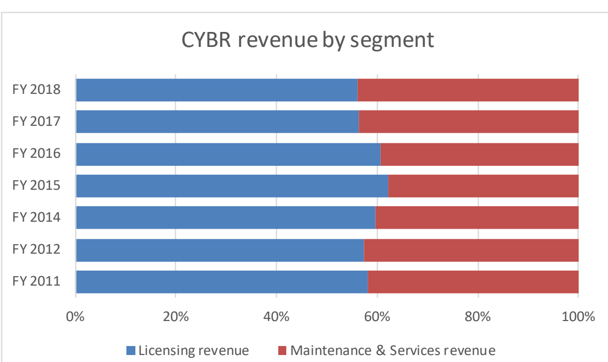
Scott Steever, Rotunda Fund

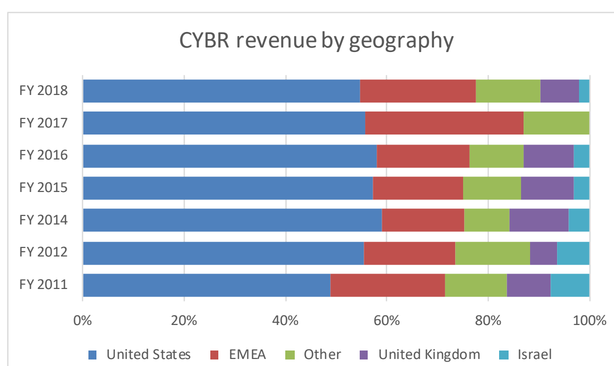
Company Data	
Price (as of 9/29/19)	$98.69
Market Cap	$3.725bn
Enterprise Value	$3.473bn
EV/EBITDA	27.1x
P/E	58.4x

BUSINESS DESCRIPTION

CyberArk Software is a provider of access security software (cyber-security IT) to clients and companies of varying sizes and industries. Predominantly, CyberArk sells Privileges Access Management (PAM) defense software that allows for safe individual sessions by the user in a highly-confidential setting, as well as detection and response against potential security incidents and breaches. The PAM market has grown exponentially recently, and is expected to continue growing at a high velocity, as attackers have focused in on privileged users as an easy target to gain access to a system's entire database. CyberArk sells its PAM products as both a software on-premise for clients as well as a SaaS, cloud-based product – a shift the industry will continue to migrate to. CYBR generates revenue through licensing deals (which is reported as "License Revenue" category), through the maintenance of this software and from professional services offered to its clients within the cyber-defense infrastructure space (reported as "Maintenance and Professional Services Revenue"). CYBR markets its products and services globally.

CyberArk protects PA users in three ways: securing human users, securing application credentials and securing administration privileges. Securing human users takes care of the "bad internal users", or malicious person(s) internal to the organization who may be able to use various means from within the organization to infiltrate a privileged access user credential. Securing application credentials is the typical "backdoor" that is seen in many external hacker strategies. This works by taking advantage of the AI-ML algorithms developed when converting to the cloud. These credentials can often be tapped into by attacking the code that orchestrated the transition, and issued static or dynamic credentials to all users. Finally, administrative privileges are prone to human error. These attacks are the typical malware, phishing and social engineering attacks, which requires deceiving a human with privileges or access to the network which opens the front-door for hackers into the network. CyberArk creates a hard wall, requiring their own 3rd party credentials and entry-ways through all three pathways to the PA user. The 'lay-on' security tool protects the root of the issue, the PA user, and can be seamlessly integrated into the network's development. The "keys to the kingdom" are housed in a 3rd party environment.





EXECUTIVE SUMMARY

CYBR is the market leader in a segment of security that has only recently been gaining traction in the press as the future of security for both enterprise and SMB. Their growth profile should be expected to continue into the near future as the middle-market and international expansion is pursued (as the market is only being shaped now in these two landscapes). Competition is currently weak during this expansionary phase – vital to long-term success since switchover costs are high for clients and the sales cycle is long (18-24 months) for CYBR clients. Finally, CYBR's balance sheet is optimized for a growth company, with no debt and plenty of cash, giving it a sufficient cushion in the long-term to both pursue growth as well as margin expansion once the industry begins consolidation.

INVESTMENT THESIS

1. Lockstep income – With every dollar of income CYBR earns, businesses around the world are more protected against cyber-security threats. This creates a lot of potential societal good – increasing the ease of doing business in underdeveloped countries (an area that CYBR has not historically pursued, mostly due to lack of cyber-infrastructure or necessary funds, however with the roll-out of PAM Core, a mid-cost solution, this has been said to be a focus area for CYBR going forward). In addition, this protects individuals working at every organization from identity theft. CYBR can be viewed as a company that provides protection from information and identity theft for all of its stakeholders.

2. Market opportunity – Gartner (largest industry analyst) has continually pushed out articles and research on PAM being the most important aspect to security going forward, both within the US and abroad (EU and APAC). PAM is growing at a rate of 19% y/y, almost two times the growth rate of the overall security market (10%). CYBR performed a study in early 2018, determining the TAM of the PAM market to be ~44,000 organizations. With CYBR currently addressing ~4,800 customers, this means CYBR – the overwhelming market leader in PAM – has a penetration rate of only 11%.

CyberArk is one of few companies targeting Privileged Access Security (PAS), essentially the securing agents and creators of the networks and devices that are frequently targeted in cyber-attacks rather than the end-user devices and networks that most security firms are protecting. As hackers continually find new vulnerable "points of attack" to exploit, CYBR is one of few companies to target the root of the attack on information, the PA users. 90% of all network takeovers are tied to administrative credentials or identity theft.

There exists some skepticism in the market if there is as big of a need in middle-market business and SMB for such a comprehensive solution like PAM. For one, we are seeing increased regulations unrolled across the US, forcing mandatory cyber-protection across companies of all types (e.g. the California Data Privacy act). This has instigated much conversation about mid-market IT managers to consider housing the "keys to the kingdom" in a 3rd party environment.

3. Ability to win in the middle market – CYBR has recently been investing internally in growing their sales force as well as product capabilities to be able to serve this high-growth segment. Particularly, CYBR's Core PAS product has recently been seen as a cost-effective solution to the middle market. Thus, this market is poised to expand exponentially, and with CYBR's Core PAS product, this offers the right level of security at the right price to capture this market.

4. Lagging of competition – Competition in the PAM space is lagging significantly, with smaller firms who are currently incapable of capturing large enterprise business making up the large portion. The other main competitor, CA, was just recently acquired by a larger organization, giving an even larger timing gap to CYBR to pursue larger enterprise contracts. Winning individual contracts is key, as the cost of switching is extremely high for organizations, and CYBR owns the largest contract period at 18-24 months (typically 9 months). This provides not only sticky revenue already existing, but allows for further expansion into other high-priority enterprise clients.

5. Proven same-customer revenue growth model – CYBR released a report on their recurring and upselling/cross-selling opportunities with the following data: existing customers accounted for 55% of licensing revenue in 2018 despite 20% customer growth y/y. 1/3 of all customers return for an add-on purchase each year, while their mature enterprise clients (on contract with CYBR for >8 years) spend 7x their initial purchase. This gives CYBR a strong recurring revenue growth profile, where it won't have to rely as heavily on new-customer growth in the future when the market matures.

VALUATION

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$153	55%	Market saturation/maturity reached in 2027 for new MM and international customers of PAM; Company is able to maintain its customer base and grow cross-selling and grow M&S sales within customer base, share improves; margins improve moderately during growth phase, and improve significantly to analyst guidelines upon maturity and conversion to a mature company.
Base	$122	24%	Market saturation/maturity reached in 2025; M&S grows at a moderate pace with its current customer base and continue, share grows a small amount; margins do not improve during growth phase, then improve significantly over maturity phase in line with expectations.
Bear	$92	-6%	Market saturation/maturity reached in 2023; M&S growth slows at a larger magnitude than anticipated meaning that share is actively being taken as segment grows; margins improve moderately immediately as company moves quickly into maturity phase with market, however margin expansion execution underperforms.

RISKS

The major risks to CYBR are predicated around the future potential of the growth of its market share, as well as the potential of the market it lives in. A disproportionate amount of this company's valuation is derived from large future growth numbers. Although the market seems promising in trending towards the PAM solution side of things in the middle-longer term, there is extremely high innovation risk. However, CYBR has shown itself to innovate with the market in the past, and is investing in growing out emerging segments for PAM, further proving the size and growth of the market as a whole. Other risks include the following:

1. CYBR does not improve its governance metrics relative to its peers (from Bloomberg).

- This is a concern; however relative to other industries their performance in governance is solid. Additionally, their lockstep income mission where every dollar of income produces a social good for the capitalist world provides a strong position for the company moving forward as social outcomes yield outsized returns. So long as they are best-in-class on the forefront of cyber-security innovation, they will continue to produce societal returns.

2. Increased competition as PE firms consolidate competitors in this area and begin approaching Enterprise client (e.g. CA).

- Rising tide floats all boats. In a business that is so dependent on third-party recommendations, Gardner's report putting CYBR at #1 in product and visionary established CYBR as a far-away front-runner in PAM.

3. Private equity and middle-market firms are increasing in volume as well, which could threaten the market share for the growing middle-market segment, where much of CYBR's growth in 2-5 years exist; all while CYBR's Chief Revenue Officer has left.

- CYBR recently addressed the leaving of their Chief Revenue Officer in a recent analyst call and offered several high-profile potential replacements for Ron Zoran. These replacements are all established and have a strong reputation for growing in the area where the company is positioning itself – international and SMB business growth.

4. Ability to convert to a margin-improvement machine as the PAM market begins move from a growth market to a consolidation and mature market.

- The company's balance sheet carries no debt and a significant amount of cash, giving it the potential firepower necessary to invest in improving margins organically or acquiring higher-margin smaller businesses. The company's free cash generation ability in its growth phase gives investors positive sentiment about its ability to return cash to shareholders upon maturity.

OTHER FACTORS

All in all, I recommend leaving this stock in the portfolio for the time being but keep it on the "watch list" as a stock to cut when cash is needed to invest in a position that aligns more with our ESG thesis. No true ESG positive-screening metric can be made for this stock, as they are underperforming relative to their other cyber-security peers in ESG metrics. As the stock currently has some upside, we are currently underweight in our technology holdings and investors have recently disproportionately revalued the growth prospects in my opinion, this still makes sense to hold financially. Although, the limited upside due to the high valuation it has been given reinforces the "watch list" criteria.

CITIZENS FINANCIAL GROUP (CFG)

TARGET PRICE: $42 (+17%)

Katharine Watson, Monticello Fund

Company Data	
Price (as of 2/12/19)	$36.02
Market Cap	~$16.1BN
NI (2018A)	~$1.7BN
P/BV (2018A & 2019E)	~80%
P/E (2018A)	10.0x
P/E (2019E)	10.1x

BUSINESS DESCRIPTION

Citizens Financial Group, founded in 1828 and headquartered in Providence, RI, provides products and services via two operating segments: Consumer Banking and Commercial Banking. The Consumer banking segment offers consumer retail and commercial banking products and services in the United States. The Consumer Banking segment offers traditional banking products and services, including checking, savings, home loans, education loans, credit cards, business loans, and unsecured product finance and personal loans, as well as wealth management and investment services to retail customers and small businesses. This segment also provides indirect auto finance for new and used vehicles through auto dealerships. The Commercial Banking segment offers various financial products and solutions, such as loans, leases, trade financing, deposits, cash management, commercial cards, foreign exchange, interest rate risk management, corporate finance, and capital markets advisory capabilities to a variety of commercial, government, and not-for profit customers. CFG operates exclusively in the United States. The company services customers through approximately 1,150 branches in 11 states across the New England, Mid-Atlantic, and Midwest regions, as well as through online, telephone, and mobile banking platforms. CFG maintains approximately 130 retail and commercial non-branch offices located in its banking footprint and in other states, and the District of Columbia.

EXECUTIVE SUMMARY

CFG is a steady, reliable investment. The company is experiencing top line growth (~9% in 2018) in core and noncore business while controlling expenses to expand margins. CFG is growing through accretive acquisitions and continued penetration in fee businesses, including foreign exchange and interest rate products as well as letter of credit and loans. The firm is also growing net interest income and net interest margin in its retail, credit card, mortgage, and student loan offerings, though these were ever so slightly offset by a decline in home equity and auto loan income in 2018. Areas in which CFG performed less well this past year were due primarily to market forces to which CFG's peers would not have been immune. Changes in loan losses and loan loss provisions were small, at the lower bound of management guidance. Over the past five years, CFG has delivered consistently increasing ROTCE, EPS, maintained CET1, income growth, and other key metrics that investors watch. Further, CFG has committed to increasing its dividend payment as well as continue its annual share repurchase trajectory, CCAR results permitting. Also, CFG just placed a new debt issue. Management communicated that the cash will be used to continue to fund healthy operations.

INVESTMENT THESIS

1. I believe CFG will continue to experience top line growth from core businesses, new initiatives, and recent acquisitions. Beyond generating returns through fee and net interest income, while expanding margins in core businesses, Citizens is differentiating itself through a number of innovative efforts, including a program called "Tapping Our Potential" (TOP). This program is focused on improving the overall efficiency and effectiveness of the organization while self-funding investments to drive future growth. It is expected to deliver pre-tax expense and revenue enhancements of nearly $90-100 million by the end of 2019. One new product funded by TOP is the new Citizens Access online savings account product, which offers the most competitive savings account return compared to peers. In 2018 alone, Citizens Access attracted over $3BN of new deposits and a largely new customer base. Management and analysts expect these figures to continue to increase. Other competitive improvements the firm has made over the past year include broader DCM, M&A, CRE, FX options and currency swap platform capabilities. With respect to FX alone, revenues have increased 12% over the past year. While costs associated with these buildouts are not publicly available, CFG does appear to be on track to generate positive returns on its major internal infrastructure and capability spends. Lastly, CFG is enhancing its competitive advantage through new and increased penetration in key markets via its acquisition strategy:

- 2018 acquisition of Clarfeld Advisors LLC provides enhanced access to the UNW and HNW clientele;
- 2018 acquisition of Franklin American Mortgage Company enables new scale in the mortgage origination business;
- 2017 acquisition of Ohio-based Western Reserve Partners, including over 30+ M&A professionals, increased CFG's presence in middle market sell-side M&A and its geographic footprint in the Midwest.

2. CFG is led by an exceptional and seasoned management team committed to controlling expenses, continuously improving operations, and working towards a more optimal balance sheet. The CEO, Bruce Van Saun, joined CFG in 2013 from RBS and successfully took the company public in 2014. Since this time, he has been effective in turning the company around, freeing it from the balance sheet constraints of RBS, and began to provide much-needed investment in technology (though there's still arguably a long way to go). He has promoted from within or hired externally a strong leadership team with an average of 30 years of experience at peers across the industry. This team has supported Van Saun through realigning and optimizing the balance sheet while maintaining a disciplined view on credit and streamlining expenses. In 2018, CFG improved the underwriting process through streamlined templates and cycle-time metrics. CFG also revamped Treasury Solutions with a 50% shorter time for onboarding. These initiatives and others have and will result in operational efficiencies. Where CFG is streamlining or enhancing technology, it is with a goal of generating more effective outcomes at lower costs. Lastly, CFG realizes the importance of staying up to date with customer needs and preferences. As such, the company is closing or reducing branch square footage with the goal of a 50% reduction in footprint by 2021. CFG plans to use the proceeds towards digital technology offerings.

VALUATION

For my valuation, I used a PE multiple and 2020 estimated EPS of $4.20.

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$52	45%	High revenue growth from fee and interest income, balance sheet optimization and other expense reduction measures pan out, leading to margin expansion. CFG's acquisitions differentiate the firm beyond expectations.
Base	$42	17%	Moderate revenue growth with slight margin improvements.
Bear	$28	-22%	Decline in fee and interest income revenue growth, failure to capture acquisition synergies, rising or flat cost structure, and hence declining margins.

RISKS

1. Risk: If CFG cannot deliver on its promised goals to shareholders regarding TOP and other initiatives, this would cause pause in my evaluation of management's ability to attract and retain talent, manage down expenses, and optimize the balance sheet on a long-term basis.

Mitigant: Over the past several quarters, CFG has been delivering on its promised goals.

2. Risk: Risk of unaddressed governance issues arising. E.g., antimony laundering or fake accounts for some of the very high new customer data points. If CFG uncovers or releases poor corporate behavior, I believe CFG's stock price could decline significantly as the company loses investor and customer trust.

Mitigant: CFG was under scrutiny during its ownership by RBS and has continued to undergo similar regular scrutiny as peers without major issue raised to-date.

3. Risk: Lack of scale relative to some competitors could create risks for CFG's long-term growth prospects. The recent SunTrust merger with BB&T and acquisition of Solium Capital by Morgan Stanley are key examples where peers are making moves to grow in areas in which CFG is less focused. While neither BB&T nor SunTrust are dominant Citizen's key geographies, encroachment into Citizen's arena by any peers could cause customers to switch and Citizens to suffer financially. Also, this M&A activity could potentially incite other banks to seek M&A opportunity.

Mitigant: CFG is a dominant player in the states and segments in which it operates. Much of the aforementioned M&A activity by SunTrust and BB&T is outside Citizens dominant geographic footprint. More likely, CFG would compete to maintain leadership in its own geographies through additional acquisitions.

4. Other risks: There is the potential for worse than expected trends in credit and capital markets activities, bond underwriting, a slowdown in the economy, and change in the direction of interest rates, or inversion of the yield curve.

Mitigants: CFG is well-capitalized with a CET1 above the peer average of 10%. Additionally, CFG maintains a fairly diversified product offering and customer base even when compared to peers (e.g., KeyCorp, Regions Financial, Huntington Bancshares, First Republic Bank, Zions Bancorp, Peoples United Financial).

OTHER FACTORS

Although CFG exhibits strong growth potential over the foreseeable time horizon, it operates solely in the US and therefore is subject to unique regulatory, economic, and other US-specific growth and risk considerations. Changes in global economic conditions likely affect CFG indirectly through their impact on CFG's commercial customers with international exposure.

MYLAN (MYL)

TARGET PRICE: $41 (+114%)

Anna Mazur, Jefferson Fund

Company Data	
Price	$19.29
Market Cap	$9.951B
Enterprise Value	$23.161B
EV/EBITDA	7.0x
P/E	28.3x

BUSINESS DESCRIPTION

Mylan is a pharmaceutical health care company that develops, licenses, manufactures, markets, and distributes generic, branded generic, and specialty pharmaceutical products. The company currently operates in North America, Europe (via subsidiaries), Asia Pacific (e.g., Japan, China, Australia), and emerging markets (e.g., India, Brazil, Russia, South Africa, Middle East).

In July, Mylan and Pfizer announced the intention to combine Mylan and Pfizer's Upjohn unit in a Reverse Morris Trust transaction expected to close mid-2020, pending regulatory approval. Pfizer Upjohn is the off-patent branded and generic business of Pfizer, includes blockbuster drugs such as Lipitor and Viagra, and represents 20% of Pfizer's revenues. Pfizer and Mylan shareholders will own 57% and 43% of the combined company respectively. In addition, Upjohn will include $12B of gross debt to fund a pre-closing cash payment to Pfizer.

EXECUTIVE SUMMARY

Pharmaceuticals companies have been trading low due to recent scandals such as pharma fueling the opioid epidemic and price-fixing of drugs. In addition, a large number of patents are set to expire over the next 5 years which will hurt sales as generics increase pressure on pricing. However, globally the average lifespan is increasing, incomes are rising, and previously fatal illnesses can now be cured with drugs, all increasing expenditure on healthcare. A combined Mylan + Upjohn company will be well-poised to take advantage of this growth.

INVESTMENT THESIS

1. Timing is right: Mylan is especially trading low due to declining drug prices, manufacturing issues at a key plant leading to stock-outs, involvement in a price-fixing scandal with other drug companies, and risks of lawsuits from the opioid epidemic.

2. Largest specialty-generic drug company: A combined company will unlock significant operational synergies, with gains of $1B annually by 2023. Furthermore, Mylan will be able to bring their product portfolio to high pharma sales growth emerging countries where Upjohn has existing sales infrastructure and local market expertise.

VALUATION

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$58	200%	High revenue growth plus an additional $3B in revenue from new products launching in 2023. All expected synergies from merger achieved.
Base	$41	114%	Moderate revenue growth as projected for the industry. Merger achieves synergies projected by management.
Bear	$15	-22%	Slowed revenue growth and increased R&D expenditure. Synergies from merger significantly less than projected. Large financial impact from opioid epidemic.

* Methodology: A DCF was used to project free cash flows given projected synergies from the Mylan Upjohn Investor Presentation from July 29th, 2019. WACC was calculated using comparables.

RISKS

1. Regulators deny Mylan + Upjohn merger, causing the deal to fall through: Regulators expected to approve merger. Consolidation is predicted for the pharmaceutical industry and Mylan is a smaller player compared to competitors such as Pfizer, Novartis, etc.

2. Limited free cash flows: Mylan + Upjohn have committed to paying off the additional $12B in debt by 2023 while also paying a dividend greater than a quarter of free cash flows as soon as the merger closes. However, synergies from merger expected to start as early as 2020 with $1B annually in savings by 2023.

3. Expiring patents attract competition from generic companies: Increased volume from global expansion expected to mitigate decreases in pricing power. In addition, robust pipeline expected to generate $3B in incremental revenue by 2023.

SMILE DIRECT CLUB (SDC)

TARGET PRICE: $22 (+115%)

Mahesh Dadlani, Nicholas Feinman

Company Data	
Price (as of 10/10/19)	$10.24
52 Week High-Low	$21.10 - $8.73
Market Cap	$4.0B
Enterprise Value	$4.2B
EV/'19e Rev	5.2x

BUSINESS DESCRIPTION

Established in 2014, SmileDirectClub, Inc. ("SDC" or "The Company") engages in direct-to-consumer sales of customized clear aligners for the treatment of malocclusion (crooked teeth). SDC is vertically integrated and removes the inhibitive cost and inconvenience of orthodontic visits for patients. The Company has internal capabilities across marketing, manufacturing, order fulfillment, financing, and treatment monitoring for its patients. SDC is headquartered in Nashville, Tennessee, and raised $1.35 billion in its recent IPO (September 2019) under the ticker SDC.

EXECUTIVE SUMMARY

SDC is a best-in-class growth story, with 3x the forecasted revenue growth in CY2020 relative to comparable companies. Based on current consensus estimates, SDC trades at 5.2x EV/'19 Revenue and 3.3x EV/'20 Revenue compared to 9.8x and 7.3x for the comps, respectively. We believe this discount is primarily due to some lingering questions about the legality of its DTC distribution model and the fact that the company is newly public ("show me story").

We think the company's growth will continue to impress investors driven by its new retail partnerships with CVS and Walgreens. Ultimately, we believe orthodontists will be forced to accept SDC as a viable alternative to the historical standard of care. We apply a 7.3x EV/Sales multiple (comps median) to SDC's 2020e consensus revenue expectation to derive our $22 target price.

INVESTMENT THESIS

1. Large untapped addressable market that historically lacks innovation. SDC operates in the largely untapped direct-to-consumer (DTC) clear aligner market. Globally the orthodontic market is worth ~$945 billion and ~$245 billion in the US. While the market has traditionally relied on orthodontists and dentists as intermediaries, SDC has changed the paradigm and introduced a new DTC concept supported by teledentistry / teleorthodontistry.

	Traditional Orthodontic Model	SDC
Cost	$5,000 - $8,000	$1,895
Convenience	10-15 orthodontist visits	Teledentistry – zero office visits
Access	Limited access (40% US counties with orthodontists)	Access across the US, Canada, Australia, and the UK
Financing	Limited by poor credit	Captive financing for accessible credit

Source: SmileDirectClub Inc. S-1 Filing

2. Unique customer value proposition. While competitors exist in the traditional clear aligner/braces space, SDC attracts consumers with a significantly enhanced value proposition - i.e., treatments are available for an average of $1,895 vs $5,000-$8,000 for competing products administered through an orthodontist or dentist. Leveraging its cutting-edge teledentistry platform, SDC also offers convenience in treatment by eliminating the need for clinical office visits. Notably, SDC's gross margin is comparable to its largest B2B competitor ALGN (mid-to-high 70%), owing to the elimination of the orthodontist's markup (4-6x).

3. Underappreciated growth story. SDC experienced 190% revenue growth in 2018 (146m vs 423m), and we believe growth will continue to impress investors and be a centerpiece of the investment thesis. This growth is being driven in part by a growing number of retail partnerships with household pharmacies (e.g., CVS & Walgreens), to increase its in-person 3D oral imaging capabilities ("SmileShop"). The company's recently signed agreements pave the way for up to 3,000 smile shop locations in CVS & WBA in the next five years.

RISKS

1. Regulatory environment. Regulation on direct-to-consumer sales is subject to significant uncertainty. While cases on mistreatments would be filed towards the contracted orthodontist, SDC still may be responsible for product-related lawsuits.

***2.* Competitive landscape.** Considering the lack of patent protection on clear aligners, existing players in the orthodontist market may enter the direct-to-consumer space. SDC, however, holds competitive advantage due to early entry and significant real estate presence via partnerships.

3. Sustainability during recession period. As clear aligners fall within discretionary spending of consumers, SDC could face difficulty growing revenue and profit during a recession.