Darden Capital Management

UNIVERSITY of VIRGINIA

DARDEN SCHOOL of BUSINESS

Richard A. Mayo
Center for Asset Management

# THE ADVISOR

# Q3 2022

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# A LETTER FROM THE CEO

November 30, 2022

To our Stakeholders,

With great pleasure, we at Darden Capital Management bring you the Q3 2022 edition of The Advisor. In the following pages, you will find letters from each of our six Senior Portfolio Managers detailing fund activity and select investment ideas. Our team of twenty-eight brings a diverse set of professional backgrounds and a common passion for investment management. Our team comprises of over 40% female members and represents five different continents bringing together unique global perspectives. Our team is extremely proud and grateful for the opportunity to continue offering a true investing laboratory in the Darden community.

Since September, we have welcomed 98 new members, and now have a total of 142 paying members, the interest in DCM remains strong. We have expanded our FY Liaison program given the strong demand from first-year students to become involved with DCM. This year we will be sending groups of students to 11 stock pitch competitions hosted by top MBA programs in the US. Approximately 34 students participated in our stock pitch training program, and we have already seen positive results. Most notably, two first year teams have won 2nd place at the UNC Alpha Challenge and 3rd place at the Cornell Stock Pitch Competition.

We continue to work diligently to further institutionalize our operations. We have updated our Operating Guidelines to i) reflect the Inaugural Real Estate Fund, ii) improve DCM's corporate governance, and iii) redefine the ESG mandate of the Rotunda Fund, among other initiatives. We are also pleased to report another successful iteration of DCM's premier event—the Darden at Virginia Investing Challenge (DVIC). This past October marked the 11th annual edition of DVIC which was held in person in Charlottesville after two years of being virtual due to COVID-19. The event was a success with participation from 11 teams across 10 MBA programs in the US and UK. Our theme for the competition was "Pricing Power to Out-Earn Inflation", which is in line with the University of Virginia Investing Conference 15th annual edition with a focus on "Rising Rates, Inflation, and Geopolitical Stress". This year's winning pitch was Warner Music Group (NYSE: WMG), presented by the team from Wharton. We are grateful to our judges Peter Grant ('86), Alex Picou ('89), Nate Segal, Neil Kansari ('08), Jake DuBois ('16), Daniel Mooney ('01), Peter Wilson ('18), Chad Morgan, Rachel Gibson ('21), Charles Perkins ('20), Pedro Matos (DCM Faculty Advisor) and our corporate sponsors The London Company, T.Rowe Price, JPMorgan Chase & Co, and Brown Advisory.

Regarding investment performance, since we took over the portfolios in March, we have navigated an extremely volatile macroeconomic environment with persistent inflation that drove the Fed to increase rates at an accelerated pace from almost 0% to ~4%, on top of a war in Europe that triggered an energy crisis. As expected, this has exerted downward pressure on valuations across the board. DCM has followed the public markets closely – at a consolidated level for the period beginning March 31 and ending September 30, the fund underperformed by 290 bps vs. our weighted average benchmark. Ona more granular level, 1/2 of the portfolios have outperformed while the other 1/2 of portfolios underperformed vs. their respective benchmarks.

The permanent nature of our asset base allows us to invest for the long term. Therefore, we make investment decisions where the thesis may take a year or longer to materialize. We are aware that our long-term mindset might deliver mixed results in the short term, but we are confident that in the long term, it will result in durable and consistent capital appreciation.

Our class is the reflection and continuation of more than three decades of DCM classes, we want to take this opportunity to thank the Class of 2022 for their mentorship. We would not be here if it was not for their leadership and tremendous commitment to the program. We wish them all the best in their careers and look forward to making them proud as we strive to raise the bar even higher.

I would also like to take the opportunity to recognize the hard work and valuable contributions of the 2023 DCM Leadership Team, as we would not be here without their devotion to the program. This group of 9—CIO June Sun, CFO Julia Hyland, COO Nishit Shah, and Senior Portfolio Managers Christophe Drapanas, Emily Greene, Jacob London, Jim Braun, Lins Agokeng, and Roberta Periquet—represent some of the most outstanding members of my MBA class and I feel lucky to have the opportunity to work and learn from them every day.

We will continue to work diligently to make the best investment decisions with the capital we have been entrusted with. We warmly welcome feedback and opportunities to engage with alumni, so please reach out with your questions or suggestions. We want to thank you again for your continued support as our organization would not be possible without the backing of UVA and Darden community.

Sincerely,

Pablo A. Fleitas
CEO
Darden Capital Management
FleitasP23@darden.virginia.edu

## CLASS OF 2023 EXECUTIVE TEAM


Pablo A. Fleitas, CEO


June Sun, CIO


Julia Hyland, CFO


Nishit Shah, COO

# CLASS OF 2023 DARDEN CAPITAL MANAGEMENT

## EXECUTIVE TEAM

| | |
|---|---|
| Pablo Fleitas | CEO |
| June Sun | CIO |
| Julia Hyland | CFO |
| Nishit Shah | COO & Head of Research |

## JEFFERSON FUND

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|---|---|
| Emily Greene | SPM |
| Alex King | PM |
| Jamahn Lee | PM |
| Yash Goray | PM |

## CAVALIER FUND

| | |
|---|---|
| Jim Braun | SPM |
| Kehinde Abiodun | PM |
| Rachel Hurst | PM |
| Raghav Mathur | PM |

## MONTICELLO FUND

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|---|---|
| Roberta Periquet | SPM |
| Jigar Shah | PM |
| Paulina Nunez | PM |
| Vanisha Goyal | PM |

## DARDEN FUND

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| Christophe Drapanas | SPM |
| Brian Horne | PM |
| Patrick Nilsen | PM |
| Sukari Brown | PM |

## ROTUNDA FUND

| | |
|---|---|
| Jacob London | SPM |
| Nirali Kansara | PM |
| Pilar Bennett | PM |
| Rachel Sorrells | PM |

## COLONNADE FUND

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|---|---|
| Lins Agokeng | SPM |
| Jay Barden | PM |
| Mercedes Campbell | PM |
| Troy Zieman | PM |

# PORTFOLIO UPDATES

## CAVALIER FUND

To Our Friends and Partners,

A warm greeting from the Cavalier Fund. In our time managing the fund, markets have been extremely turbulent, allowing us to learn tremendously through the most valuable of teachers, experience. We were able to complete 4 pitches, one from each of our portfolio managers, and have entered into a position into one of those pitches, while also exiting three positions that the fund was invested in prior to our involvement, while also engaging in weekly meetings enabling discussions of markets and potential investment ideas and generating strong involvement from the new crop of First Years.

As a refresher, the mandate of the Cavalier Fund is to make both long and short investments with a primary focus on domestic equities with a net long exposure of ~80%. We focus primarily on fundamental research in developing investment ideas, focusing largely on compounders; namely companies that enjoy competitive advantages, attractive entry points, and long runways for growth. However, we also look for special situation opportunities —binary events, significant changes in business or expectations, etc. While we have not had any short pitches to date, our expectation is that these pitches will also largely be fundamentally driven, looking at opportunities where either the market has grown too optimistic on a name in a way which we do not believe is sustainable, or names that we believe are in significant decline which has not fully been reflected in market prices.

During our time managing the fund, we have seen pitches for CD Projekt S.A. (CDR.WA), Block, Inc. (SQ), Berkshire Hathaway, Inc. (BRK-B) and YETI Holdings, Inc. (YETI). All of these were fundamentally driven pitches, focused on the expected outperformance of the company driven by competitive advantages, as well as looking for opportune timings in the market. To date, we have only purchased one of these names, Berkshire Hathaway, due to a desire to not sell too many underperforming names at market lows, however we remain interested in CD Projekt and Yeti, and may purchase them in the future. I will now address each of these ideas individually:

**Berkshire Hathaway:** While BRK is one of the more complicated companies in the market to analyze effectively, the pitch for BRK focused around the company's combination of effective investment strategy and dry powder, which we view as extremely attractive in a turbulent market such as the one we have found in 2022, as well as a strong underlying collection of fully owned companies, many of which we believe to be effective compounders in their own right. When combined with a sum of the parts valuation which indicates some undervaluation relative to peers, we have initiated a ~3% position in the name and expect it to drive strong performance for the fund over the coming quarters and years.

**CD Projekt:** This name was pitched as a potentially compelling turnaround story for a Polish video game designer, who released an underperforming game in late 2020 and saw the stock punished to a degree that we felt was unwarranted given the prior strong track record of development and excellent IP assets. We chose not to invest in the name in the near term given limited available capital to deploy and worries that a declining market and recessionary fears may punish an international video game developer further despite strong underlying fundamentals but may look to initiate a position in the future.

**Block, Inc.:** The pitch for SQ was driven largely by a belief in the company's strong ecosystem of products across the payments and communication services spaces, most notably it's Square retailer payments platform, CashApp mobile financial services product for consumers, and AfterPay consumer financing offering. After discussion, we felt as though there was tremendous competition for these products, were worried about potential lack of focus given investments into unrelated offerings such as the TIDAL music streaming service, and potential for payments volumes to decline in a recessionary environment, leading us to decide to stay away from the name.

**YETI Holdings, Inc.:** YETI was pitched as a fast-growing consumer products brand in the exciting outdoor products space, which had seen some slowing in its sales growth and margins. The market viewed this slowing as likely to continue for the foreseeable future and driven by a combination of increased competition and market saturation, while we viewed it more as driven by supply chain constraints and unlikely to represent an ongoing trend once those constraints were alleviated. While we like the name, we decided to hold off on purchasing until after the 3Q earnings release, as we did not have a strong view on near term sales trends and believed that there was some potential for underwhelming performance/guidance, particularly given the unexpected resignation of the company's CFO. We may purchase YETI in the future once we are past the overhang of earnings.

We also exited a few positions in the quarter, including exiting our short of Calix (CALX) and selling Uber (UBER) and Zillow (ZG). All of these positions were exited at a loss, as while we did not wish to sell our losers at the bottom, we did not see significant opportunities for outperformance in the near term and wished to deploy our capital on some of our more exciting new ideas that had been pitched. We continue to evaluate all our names for possible breaking of the original thesis, or attractive selling points if we do not see opportunities for continued outperformance in the name.

From a performance standpoint, the Cavalier fund returned (22.3%), trailing the Benchmark of the S&P 500 by ~140bps. A significant portion of this underperformance was driven by a few large underperforming names in the Communications Services and Information Technology spaces, as higher rates and sector rotation drove multiple contraction and caused negative returns for a large portion of our portfolio.

Our top performing names in the portfolio during our tenure have been Devon Energy (DVN) and Dollar General (DG). Devon Energy was helped by the significant increase in oil prices driven by the Russian invasion of Ukraine and subsequent disruption of the global energy supply chain. While we remain convinced that Devon is a strong operator, with several compelling internal initiatives that can drive earnings growth and capital return to shareholders, we are watching this name as a potential one to rotate out of given the lack of likelihood for another significant rally in global oil prices. Dollar General has been a strong performer for the fund during the ~2 years we have owned it, driven by a combination of strong same store sales growth and a continued runway for significant reinvestment into the business through the opening of ~1000 new stores per year, and we will likely continue holding the name as a compounder.

Our largest underperformance came from Advanced Micro Devices (AMD), Alphabet (GOOGL), Charter Communications (CHTR), and Apple (AAPL). These generally carried similar themes of tech driven companies that we believe provide outstanding services for customers but have been punished by the market due to multiple collapses in the tech space. We still believe strongly in the potential for outperformance in the future for AMD, GOOGL, and AAPL and may look for opportunities to reinvest at more attractive multiples in coming months.

From a lesson's standpoint, two key things stand out. The first is to be willing to act more quickly on closing out of positions, even in times of market turmoil. For the positions that we closed, we were considering closing them earlier in the year, but decided against it due to market conditions. In the future we will look to be more decisive in exiting positions where we do not think that the thesis still holds or where we do not see outperformance as possible in the future. The second key lesson is that portfolio composition matters significantly in terms of returns vs the benchmark. While we will continue to be bottoms up focused on our idea selection process, our underweighting of industrials and financials, and overweighting of tech and consumer discretionary were a significant headwind in our performance vs the benchmark. In the future, we will be more cognizant of our idea selection and relative weighting against the benchmark, while not allowing it to dictate our portfolio composition.

We thank you for your support of Darden Capital Management and the Cavalier Fund and look forward to a fruitful rest of the year, where we can continue to engage in hands-on market learning and hope to deliver strong returns for the fund.




Sincerely,

Jim Braun
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# COLONNADE FUND

To Our Friends and Partners:

The Colonnade Fund has outperformed the USRT benchmark by 90 bps and returned (25.6%) since March 31, 2022. Most of our performance have been correlated with the decline in the USRT ETF, where our capital remains invested while we find higher conviction names to deploy dry powder into. We continue to operate in an ambiguous interest rate environment which makes it challenging to deploy capital. We feel good about the three new positions that we initiated coverage on (ARE, STAG, CCI) as long-term compounders that are well-capitalized to deal with market volatility.

The Colonnade fund recently began operating as Darden Capital Management's (DCM) newest fund in Q4 of 2022. Since the inception of the fund, the team has been extremely busy drafting our inaugural bylaws, evaluating optimal valuation methodologies, and pitching and investing in three undervalued REITs. Instrumental to our growth and development have been the numerous real estate professionals who have helped guide us in the right direction and paved a great foundation for the progression of the fund. To date, we have invested in three REITs that we have identified to be severely undervalued, and defensive given the rising rate environment. Together these three REITs comprise our current portfolio:

1) **STAG Industrial INC. (STAG):** We have initiated a core (3%) position in Stag Industrial. STAG is a REIT that purchases industrial and warehouse buildings in secondary and tertiary markets. Being active in secondary markets translates into the ability to purchase properties at higher cap rates, which means STAG typically does not get involved in bidding wars with competitors aiming to acquire the same properties, resulting in value preservation. We continue to like the industrial space and believe that there is significant long-term potential for this subgroup to outperform other subgroups particularly due to the emergence of e-commerce and the limited supply of "last mile" delivery. Lastly, this REIT continues to lag its peers by trading at a significant discount to NAV.

2) **Alexandria Real Estate Equities INC. (ARE):** Alexandria Real Estate is one of the premier REITs focused on developing, leasing, and selling life science buildings. We initiated a position at $160/share because we felt that the business was well insulated from the work-from-home migration trend (life science facilities need scientists to be in the lab in person to do their jobs). Additionally, we believe this stock is insulated from the cyclical upswing due to infectious disease studies. Although the name has been down (~16%), we feel very strongly that the company will be able to outperform the market given a more stable macroeconomic environment post the midterm elections and with recession concerns starting to settle. We continue to be optimistic that purchasing the best-in-class operators will be a winning strategy in the long-term and are convinced that the market is unfavorably penalizing the name due to the decline in office assets.

3) **Crown Castle INC. (CCI):** Crown Castle is a REIT that invests and operates wireless infrastructure. The company has a significant moat in that it is part of just one of three wireless infrastructure operators with massive scale. The company has shifted focus to fiber and small cell offerings (which historically have not been as profitable as their towers business). However, we strongly believe that the market is discounting the network densification that is associated with small-cell technology, especially in markets where capacity demand is the strongest (NYC, CA, etc.). We believe CCI has the strongest ability to compound over time given that demand for data and the cost constraints it takes to develop and operate towers continually increase. There is a risk that the consolidation of wireless carriers (T-Mobile/Sprint merger) will decrease profitability for tower REITS as fewer and fewer carriers exist as customers – however, we believe that the street is overemphasizing this point and not placing enough credence on the long-term demand for wireless infrastructure (usually as carriers migrate to 5G).

The Colonnade fund continues to monitor rate movement actively and is looking for stability in the markets before choosing to deploy additional capital. Rates are pivotal to many of the REITs that the Colonnade Fund monitors, and therefore our jobs are becoming increasingly difficult as we try and find a bottom for many of the names in our investable universe. In Q2, we shifted our focus to seeking companies with more predictable cash flows, which we found are mainly industrial and multifamily names. We believe that multifamily is among one of the most resilient asset subcategories given the leases are shorter (annual vs. 5-10 years) which enables multifamily REITs to adjust for inflation on an annual basis as opposed to mark-to-market rents in five to six years in triple net lease.

Since we are a newer fund, we have been very conservative with how we deploy capital. In Q2, we have three pitches scheduled to take place. We are excited about adding to our portfolio as we currently have ~75% of our capital deployed in our benchmark index and the remaining ~25% deployed into three names, as discussed above. We anticipate that by next year, we will increase our percentage of actively deployed capital from 25% to 50%.

Additionally, we are proud to work with many of our Darden alumni who are currently involved in evaluating or investing in real estate and/or REITs. We have reached out to many alumni including Helal Ismail and Elvis Rodriquez and have received training from Green Street, S&P Capital IQ, and McCombs School of Business real estate professor, Greg Hallman. We believe the additional real estate-specific training has taught us many valuable lessons and allows us to be more prepared and educated in current market trends – especially in the real estate market which enables us to become better, more informed investors.

As always, our team would gladly welcome any additional feedback or advice from our alumni and endowment sponsors. Also, I would like to thank members of the Darden Class of 2024, as our team has appreciated the level of enthusiasm the first-year cohort has brought to our meetings.




Sincerely,

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## DARDEN FUND

To Our Friends and Partners:

As of September 30th, the fund's assets under management reached $3.9 million, down from the previous quarter of $4.2 million. As of the end of September 2022, our Fund generated returns of (38.6%) in the last twelve-month period, underperforming the S&P 600 Small Cap benchmark return of (20.1%) over the same period. For the quarter ended September 30, 2022 the Darden fund returned (7.6%) vs. the S&P Small Cap benchmark of (5.2%).

The volatility in the broader market, particularly in the small cap landscape, has led to painful mark-to-market performance since the spring. We are in process of reevaluating all our names with a close eye on how each company, business model, and industry will hold up in an inflationary and rising rate environment. We also acknowledge that while mark-to-market losses are painful, volatility creates opportunities to redeploy capital into new and more attractive investments. As such, our team continues to evaluate each name in the portfolio, weighing their prospects against companies on our watch list that may represent better uses of our capital.

Our goals over the next two quarters will be to consolidate the portfolio into our highest conviction names while diversifying the portfolio from a sector allocation perspective. The portfolio is significantly overweight the Consumer Discretionary and Information Technology sectors. These sectors outperformed the broader market over the last few years but have significantly underperformed recently. Our biggest regret is not taking a more active approach to portfolio rebalancing when we assumed control in April. In hindsight, selling many of the Discretionary and IT holdings that had significantly run up through COVID and redeploying that capital into other sectors would have allowed us to better weather the recent volatility. Two sectors we are particularly focused in gaining exposure to are the Industrial and Healthcare sectors given their resilience during economic downturns and a few structural tailwinds we believe advantage select businesses.

Recent transactions have been steps in the right direction to better position our portfolio:

- **Sold Avaya (AVYA):** Avaya provides enterprise communication solutions to improve communication and collaboration in the cloud, on-premise, or a hybrid of both. We originally invested in Avaya during a change in company strategy that we believed would allow the company to become more competitive and regain market share, unfortunately, this thesis did not play out and we exited the position entirely.

- **Sold Redfin (RDFN):** Redfin operates an online real estate marketplace and provides real estate services, including assisting individuals in the purchase/sale of homes. The company benefitted greatly from the COVID housing boom but has made questionable capital allocation decisions recently. Ultimately, we decided to exit the position given concerns around the company's Properties business unit where the company buys and sells homes off its own balance sheet. We believe this is a low margin business and increases Redfin's exposure to general market risks.

- **Bought Atai Life Sciences (ATAI):** Atai is an early-stage life sciences business focused on developing mental health therapies to treat depression, substance abuse, anxiety, PTSD, and other indications. The company has over 13 drugs in its pipeline and four enabling technologies, many of which have $1 billion-plus annual sale potential, if approved. While this investment is one of the riskier positions within the portfolio, we have sized it accordingly (2.5% of total portfolio) and believe the market is severely mispricing the potential upside opportunity. Most importantly, the company is well capitalized, with enough cash to fund all operations until 2025.

We are very excited about many of the names currently being evaluated by our team as future additions to the portfolio. We are looking into a few Healthcare names that focus exclusively on women's health as we believe this sector is underserved and poised for meaningful growth. Within Industrials, we are evaluating businesses with long track records of success that should benefit from the re-shoring of supply chains and a focus on domestic production.

As always, our team gladly welcomes any feedback or advice from our alumni and endowment sponsors. Also, we would like to thank members of the Darden Class of 2024, our team has appreciated the level of enthusiasm the first-year cohort has brought to our meetings.

The opportunity to manage a slice of the endowment and invest real capital through market volatility has been an invaluable experience. We look forward to providing our next update in the spring with hopefully better results!




Sincerely,

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SPM Darden Fund
Darden Capital Management
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## JEFFERSON FUND

To Our Friends and Partners,

Overall, the Jefferson Fund has performed in line with the benchmark over the most recent reporting period. With a return of (19.7%) we have slightly underperformed the Russell 1000 Value Index (18.1%). However, the fund outperformed the S&P 500 which generated a (20.9%) return over the period. Our positions in O'Reilly, T-Mobile, and Meta contributed the most to our overall return. We remain bullish on O'Reilly, as we believe that fundamentally O'Reilly is a compounder stock. The Jefferson Fund sold its position in Meta in April of 2022 in an effort to decrease our technology names. Out of our technology portfolio of stocks, we viewed Meta as the weakest and lost conviction about the future of the advertising revenue stream given increased competition and iOS privacy changes. Additionally, the fund was not sold on the idea of the Metaverse, especially as we return to in person interactions coming out of the pandemic. In terms of new positions, we added four new names to the portfolio in the Spring of 2022: Pfizer, American Express, T-Mobile, and Hanes. We exited the Hanes position earlier this fall due to the thesis around the Champion brand not playing out and because of its small initial size in our portfolio. The investment rationale for the other three stocks will be discussed below.

This quarter the Jefferson Fund has diligently worked to reposition our portfolio to more traditional value names, become more concentrated, and move into more recession-proof stocks now that we are seemingly in a post-COVID world. This summer, the equity market as a whole was weak due to increased economics headwinds. High inflation, interest rate hikes, and fear of recession have brought into question the sustainability of corporate earnings. In April 2022 the fund had almost a 30% exposure to the technology industry. Growth stocks tend to do badly in a higher interest rate environment because there is less cash flow to reinvest in future growth. In an effort to move into more value-oriented names we sold our position in Meta and trimmed down other tech names to reduce our exposure to ~20% of the portfolio.

As a result of the change in market conditions, the Jefferson Fund team has been disciplined at reviewing names in our coverage universe and making sure the original investment thesis still holds. We have achieved more concentration in our portfolio by selling names that we lacked conviction and represented less than 2% of our portfolio. These names included Guardant Health, Lowe's, Hanes, and Spirit. We reinvested the proceeds in those sales to increase our weight and average down our cost in American Express and Pfizer. We also initiated a sale of Nintendo, which was around 2% of the portfolio. The investment thesis centered around COVID-19 dynamics that are no longer in place today.

Going forward we believe that value names will continue to outperform growth names. "Value" sectors such as financials, energy, and healthcare will continue to be a focus for our portfolio. The Jefferson portfolio already has 20% exposure to the financial sector and we continue to view that sector favorably as those companies are beneficiaries of a higher interest rate environment. Increasing exposure to the healthcare and energy sectors will be a priority moving forward into 2023 for the Jefferson fund. As such future pitches will focus on companies in these industries.

SELECT PORTFOLIO CHANGES AND HOLDINGS

Bought: Pfizer (PFE), April 2022 – *(5.6%) down since initiation*

Pfizer Inc. is a research-based global biopharmaceutical company. It engages in the discovery, development, manufacture, marketing, sales and distribution of biopharmaceutical products worldwide. The investment thesis revolved around two central merits: Pfizer is the best positioned to take advantage of the longer-term COVID-19 market with their development of the Paxlovid pill and the Comirnaty vaccine. Secondly, the company is in a good financial position to execute on major business development deals. Pfizer expects to be a growth company for the next decade. ReViral, Biohaven, and GBT alone have potential to contribute $10 billion in peak sales. Pfizer's plan is to add incremental revenues from business development in the 2025-2030 timeframe. Finally, PFE is exhibiting signs of being a compounder. They are buying back shares and investing heavily in R&D and bolt on acquisitions.

Bought: T-Mobile (TMUS), May 2022 – *16.2% up since initiation*

T-Mobile US, Inc. is engaged in providing wireless communications services. The Company provides wireless services to postpaid, prepaid, and wholesale customers. It also provides wireless communications services to these customers, as well as a selection of wireless devices and accessories. It provides service, devices and accessories across T-Mobile, Metro by T-Mobile, and Sprint, through its owned and operated retail stores, as well as through its Websites, T-Mobile app and customer care channels. In addition, the company sells devices to dealers and other third-party distributors for resale through independent third-party retail outlets and a variety of third-party websites. The investment theses centers around three points: US Market 5G Leadership, margin improvement projections, and capitalization on Sprint merger synergies ($70bn in cost synergies related to 5G). T-Mobile has the largest and fasted 5G coverage nationwide and had the earliest roll out of this technology among the big three providers. The company is focused on market subscriber growth and has a history of exceeding net subscriber adds with the ability to decrease costs and CAPEX leading to increased future free cash flow projections. TMUS operates in an industry that is relatively protected from recession due to consumer and business reliance on data connectivity.

Bought: American Express (AXP), April 2022 – *(23.3%) down since initiation*

AXP is a globally integrated payments company with leadership positions in providing credit and charge cards to consumers, small businesses, midsized companies and large corporations around the world. AXP operates through three segments: Global Consumer Services Group (GCSG), Global Commercial Services (GCS) and Global Merchant and Network Services (GMNS). The thesis centers around four points: Increasing penetration in the Millennial/Gen Z demographic, Capturing the $11.1T SME market, Industry leading fundamentals, and increased domestic and international travel spend. Millennials and Gen Z are driving 60% of new card acquisitions and billed business from this segment is up more than 50% relative to 2019 levels. They make up ~75% of new Platinum and Gold cards whose fees have a CAGR of 14% versus an industry fee CAGR of 6%. Additionally, AXP is focused on becoming more embedded within US SME customer base where payments will digitize over the next few years. The acquisition of Kabbage will allow AXP to become the preferred provider for both new and existing clients. AXP continues to outperform other peers in Net Charge-Offs. They have well diversified revenue streams: merchant fees, interest income from card and loan balances, commission, and membership fees. Finally, AXP is poised to benefit from increased travel spend and international penetration. We believe that excess consumer savings will increasingly be spent on travel and experiences in lieu of goods and discretionary items.

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

Sincerely,
Emily Greene
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## MONTICELLO FUND

To Our Friends and Partners,

It is with great honour and enthusiasm that we take over the reins of the Monticello Fund this Academic Year. My name is Roberta Periquet, and I am the new Senior Portfolio Manager. I am joined by Vanisha Goyal, Paulina Nunez, and Jigar Shah. We look forward to the challenge of navigating this unique and volatile time for our generation.
We aim to continue advancing the goals of previous management, which were to trim down the number of companies in our portfolio to result in more concentrated positions, and to increase exposure to more international names (given our global mandate). At present, each portfolio manager covers between seven and eight names each—we hope to adjust this down to about five names each. This will yield improvements in the level of attention we can allocate to each investment position, resulting in clearer and more targeted strategic decisions. 24% of our current portfolio is made up of our position in domestic names. Our goal is to increase this to ~40%, which should also address some of the overlaps we have with other funds in exposure to certain names.

*GLOBAL MARKETS OVERVIEW*
In July, the IMF revised downward its forecast for global growth in 2022 to 3.2% and 2.9% in 2023. The IMF mentioned that the world's three largest economies (the US, China, and Europe) are stalling and many of the downside risks they identified previously are materializing: higher inflation, worse than anticipated growth in China, further negative spillovers from the war in Ukraine and the associated sanctions and countersanctions. The disruptions caused by stressed supply chains globally and the aftermath of Russia's invasion of Ukraine has caused a spike in commodity prices. According to Blackrock, the Great Moderation, from mid-1980s until 2019 before the Covid-19 pandemic struck, was a remarkable period of stability of both growth and inflation. We were in a demand-driven economy with steadily growing supply. Borrowing binges drove overheating, while collapsing spending drove recessions. Central banks could mitigate both by either raising or cutting rates. In contrast, currently the sensitivity of high debt levels to higher interest rates makes it harder to contain inflation via rates. Central banks are likely to veer between favouring activity over inflation, and vice versa. Investors benefit from owning credit nowadays. Most fixed income assets are yielding 4% or more for the first time in over a decade. The pandemic policy response allowed firms to boost cash buffers and issue longer-term debt at record-low interest rates.

*PERFORMANCE OVERVIEW*
As of 30 September 2022, the Monticello Fund has a market value of $4,7mm deployed across 28 holdings. The fund has slightly outperformed its benchmark—since 31 March 2022, we have delivered a (21.8%) total return which exceeds the MSCI ACWI by 20 bps across the same period. The largest contributors to fund performance during this period were Deere (2.45%), Apple (7.01%), and Microsoft (11.46%). The average portfolio weight of these holdings in aggregate was 23.14%. We suffered losses in several tech names over the summer, which have unfortunately offset the gains we made in other industries, such as finance (particularly in emerging markets) and energy. We are currently in the process of cutting our losses in these tech positions as we do not see the initial investment theses that were put forward last year being realised in the next year. At the same time, we are looking to increase our positions in more defensive industries such as healthcare and industrials.

*FUTURE OUTLOOK*
Global economic activity is experiencing a sharper-than-expected slowdown, higher inflation: US and euro contraction in 2022, Russia's invasion of Ukraine and prolonged COVID-19 lockdowns in China with a growing property sector crisis. Normalization of monetary and fiscal policies that delivered unprecedented support during the pandemic is cooling demand as policymakers aim to lower inflation back to target. Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024. Global growth is forecast to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. The global economy's future health rests critically on the successful calibration of monetary and fiscal policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions and structural reforms to support.
Some risks - Policy paths in the largest economies could continue to diverge, leading to stronger USD and cross-border tensions. More energy and food price shocks might cause inflation to persist. Tightening in financing conditions could

trigger emerging market debt distress. Halting gas supplies by Russia could depress output in Europe. China's property sector crisis could spill over to the domestic banking sector. Geopolitical fragmentation could impede trade and capital flows, further hindering climate policy cooperation. The balance of risks is tilted firmly to the downside, with about a 25% chance of one-year-ahead global growth falling below 2.0%.

Regional Snapshot

- **United States** – The U.S. economy grew at a 2.6% annual rate in the third quarter but showed signs of a broad slowdown as consumer and business spending faltered under the weight of high inflation and rising interest rates. US consumers boosted their spending on services, albeit at a slower pace. Businesses cut their investment in buildings. Residential investments fell at a 26.4% annual rate in the third quarter and the average 30-year fixed mortgage rate eclipsed 7% for the first time in more than 20 years. Technology companies that saw their sales and stock prices rise earlier in the pandemic are feeling the effects of a slowing economy. The trajectory of the economy largely depends on how consumers fare in the coming months. They are still benefitting from a tight labour market that is holding up stronger amid persistent staffing shortages. But spending gains have moderated this year, and many economists expect consumers, as well as businesses, will retreat more as rising interest rates take effect.

- **Eurozone** – The Eurozone economy is under an unprecedented level of stress due to disruptions caused by the ongoing war in Ukraine, surging energy prices, persistently high inflation, and the risk of Russia cutting access to gas supplies in the winter. Against this backdrop, the Eurozone grew at 0.7% in Q2 2022 relative to Q1, which actually beat most forecasters' expectations and indicates that the Eurozone managed to escape the downturn that hit markets such as the United States and China during this period, primarily due to tourism in Italy and Spain rebounding. Manufacturing continues to suffer from supply chain challenges. Significant headwinds are likely to continue in the second half of the year and are likely to worsen. The high degree of uncertainty following Russia's invasion of Ukraine and high inflation have strained the consumer sector, which should have driven the recovery in 2022. Current consumer sentiment data suggests that even the stable labour markets and additional savings from the pandemic will probably not be enough to offset these negative influences. Moreover, the interest-rate turnaround by the European Central Bank (ECB) has created a new monetary policy environment in the Eurozone and unexpected political events such as the snap election in Italy in autumn have added to uncertainty.

- **United Kingdom** – A rapid vaccine rollout and emergency support measures to protect jobs and incomes ensured the UK economy's recovery from the COVID-19, but this is slowing amid continued supply shortages and rising inflation. Fiscal policy must balance gradual tightening, providing well-targeted temporary support to households vulnerable to rising costs of living, supporting growth, and addressing significant investment needs. The government considers accelerating progress towards net zero to be fundamental to augment energy security. The UK is among those leading the world in reducing domestic greenhouse gas emissions, has a strong institutional framework and a broad political consensus supporting the target to reduce net emissions to zero by 2050. Markets have reacted favourably to Rishi Sunak's replacement of Liz Truss, the shortest-serving prime minister in UK history, after her flagship economic plan, the so-called 'mini-budget' was rejected by investors, causing a meltdown in financial markets and UK assets to slide. The new prime minister has promised 'economic stability and confidence' after the 'mistakes […] made' by his predecessor. His top priority will now be to tackle an economic crisis, with many Britons struggling to cope with the sharp rise in the cost of living and surging energy bills.

- **China** – China's economy rebounded at a faster-than-anticipated clip in the third quarter, but a more robust revival in the longer term will be challenged by persistent COVID-19 curbs, a prolonged property slump and global recession risks. Helped by a raft of government measures, the world's second-largest economy expanded 3.9% in July-September from a year earlier, faster than the 0.4% growth in the second quarter. Final consumption accounted for 2.1% of a total 3.9% GDP growth, while capital formation (investment) and net exports accounted for 0.8 and

1.1 percentage points, respectively. The economy was buoyed by manufacturing, with separate data showing industrial output in September rose 6.3% from a year earlier, beating expectations for a 4.5% gain and 4.2% in August. However, domestic demand waned towards the end of the quarter as a flare-up in coronavirus cases led to lockdowns, while export growth slowed and the key property sector further cooled, pointing to a fraught recovery. Further clouding the outlook, China looks set to continue with its ultra-strict COVID policies endorsed by the ruling Communist Party, which wrapped up its top leadership reshuffle with Xi Jinping securing his third term. The new line-up of China's top governing body has heightened fears among investors President Xi will double down on ideology-driven policies at the cost of economic growth. Hong Kong shares slid to 13-year lows and the onshore yuan fell to its weakest level in 15 years. Aside from the domestic risks, China's economy will be pressured externally by the Ukraine crisis and a global slowdown due to interest rate hikes to curb red-hot inflation.

- **Latin America (LatAm)** – In 2021, LatAm rebounded from economic contraction over the last two years because of the pandemic. Growth prospects, however, remain moderate. In July, the IMF raised its 2022 economic growth forecasts for LatAm and the Caribbean to 3.5% from 3% because of stronger-than-expected activity in the 1H22 on favourable commodity prices, still-favourable external financing conditions, and the normalisation of activities in contact-intensive sectors, nevertheless it lowered its projections for 2023 to 1.7% from 2% on shifting commodity prices and external financing conditions. Inflation is showing no signs of reduction. Moreover, high commodity prices have affected trade balances and fiscal accounts within the region also forced central banks to accelerate the upward trend of interest rate hikes. Equity capital markets in the two largest countries showed divergent results. In the case of Brazil, the BOVESPA Index has been resilient by rising 9% and 8.1 YTD and LTM, respectively, while for Mexico the IPC Index decreased 8.8% and 6.3% YTD and LTM. Sovereign bonds yields raised, in line with inflation and central bank's target rate, to 7.2% and 10.1% for Brazil and Mexico.

*PORTFOLIO DECISIONS AND ACTIVITY*

**Bought: ASML, October 2022**

We bought ASML to reflect strong conviction in the underlying product and quality of technological moats built by the company in the semiconductor industry, persistent growth in chip demand and increased government investments to achieve sovereignty. Its business stands strong in the wake of recent restrictions implemented by the US government on high tech chips.

**Sold: COHR, October 2022**

We sold Coherent (earlier II-VI) on the back of changing preferences of their major customers, recent investments in markets dominated by heavyweights such as Samsung and LG, and dilution of stake of common shareholders resulting from high-priced stock-and-debt acquisitions with no announcement of share repurchases.

*CLOSING REMARKS*

We look forward to making the most of the learning experience that presents itself to us in the coming months. We are grateful for this opportunity and encourage our followers to reach out with any questions.




Sincerely,

Roberta Periquet
SPM Monticello Fund
Darden Capital Management
PeriquetR23@darden.virginia.edu

# ROTUNDA FUND

To our Friends and Partners,

As of September 30th, 2022, the Rotunda Fund has returned (20.0%) since April 2022. This represents an over-performance of 85 bps relative to our benchmark, the S&P 500, over the same period. Our positions in Ulta Beauty +0.7%, VMWare (6.5%), and Unilever (3.8%) contributed the most to our overall return, with an aggregate weight of 12.5% of the fund. Our largest detractors from overall return have been Alphabet Inc (31.1%), Accenture PLC (23.7%), and CBRE Group (22.7%), with an aggregate weight of 21.4% of the fund. Compared to our benchmark, the fund is currently 7.5% and 5.5% overweight in the Health Care and Information Technology sectors, respectively.

The fund's tilt toward technology and growth stocks in a rising interest rate environment has been the primary driver of its losses over the last seven months. While we have taken steps to mitigate our exposure to growth stocks, we've retained positions in those growth stocks for which we still hold a high degree of conviction in our investment theses. With that said, looking forward, we have been focused on more value-oriented plays with the potential to capitalize on continued macroeconomic volatility. More specifically, we are currently evaluating ways to reduce our exposure to Information Technology and re-allocate to relatively counter-cyclical sectors.

While the fund maintains a focus on companies' fundamentals in the short and medium term, we continue to seek investments with the potential to outperform their peers thanks in part to a superior ability to manage ESG risks and capture sustainability-related opportunities. We believe the financial materiality of these risks and opportunities will become more pronounced over the medium and long-term, and therefore that the potential for the fund to outperform the market will grow over this time horizon as well. To this end, in May 2022 the fund formalized and codified its guidelines for the integration of environmental, social, and governance factors into our decision-making process. We are happy to make this document available upon request.

Below I elaborate on the trades we have executed since April 2022.

## Portfolio Changes and Holdings

**Bought: Opendoor Technologies (OPEN),** April 2022, (64%) since initiation

Opendoor Technologies operates as an online platform for buying, selling and trading-in residential properties. Opendoor is the leading digital platform for residential real estate, or iBuying. The investment thesis revolved around the company's cash flow profile and balance sheet, and its first-mover advantage in the iBuying market. Over the last several months, the stock has suffered from both market and idiosyncratic risks. As a result of rising interest rates (and mortgage rates), the company began to lose money on a significant portion of its transactions over the summer. The summer also saw Opendoor announce a significant write-down related to an FTC settlement of a matter concerning its advertising practices from 2017 to 2019. We remain confident in the strength of Opendoor's value-proposition, its competitive position in the iBuying market, and the potential for growth of the iBuying market. At the same time, the company is still likely to face macroeconomic headwinds through 1H 2023, and we will continue to monitor these trends and their implications for our position.

**Sold: Starbucks,** May 2022, +44% realized gain since February 2018 initiation

Starbucks Corp. engages in the production, marketing, and retailing of specialty coffee that operates globally across 81 markets. While the company has enjoyed a successful expansion into China and other emerging markets, we grew concerned with the magnitude and likelihood of risks related to the country's Covid-zero policy. Lockdowns and other restrictions pose threats not just to Starbucks' existing store locations in China, but also to the company's plans for continued expansion, which are critical in the face of unfavorable macroeconomic and labor conditions in the U.S. At the time of the sale, we also sought to adopt more defensive positions in less cyclical stocks, and the sale allowed for this re-allocation. While store traffic has remained depressed in China, Starbucks has still been able to continue the development of new stores. While Q3 earnings beat expectations, margins continue to be squeezed by labor shortages and supply chain challenges.

**Sized-up: CVS,** May 2022, (1.6%) since up-size, +38% since Feb. 2018 initiation

CVS is a diversified health solutions company and pharmacy benefits manager. CVS also serves an estimated 35 million people through traditional, voluntary and consumer-directed health insurance products and related services, including expanding Medicare Advantage offerings and a leading standalone Medicare Part D prescription drug plan ("PDP"). At the time of the additional purchase, we sought to allocate capital to less cyclical sectors. We also shared a favorable outlook on the company's transition towards becoming a multi-channel, full-service health care provider. We continue to expect the company to realize cost savings through the consolidation of retail locations over the next two years, and are encouraged by successful expansions of Minute Clinics and Health Hubs thus far.

**Sold: Twilio Inc. (TWLO) September 2022,** (84%) since February 2021 initiation

Twilio Inc. develops and publishes Internet infrastructure solutions including its cloud computing platform that allows web developers to integrate phone calls, Internet protocol voice communications, and text messages into web, mobile, and phone applications. The fund's initial thesis hinged on the acceleration of companies' digital transformation efforts being driven by the pandemic, and the company's ability to capture these opportunities based on its leading position in the communications platform as a service (CPaaS) market.

Twilio has been particularly vulnerable to rising interest rates and may therefore see an increase in valuation once macroeconomic headwinds ease. However, the fund has become increasingly concerned about Twilio's competitive environment, and the potential for its offerings to be rendered obsolete. The momentum of voice over internet protocol and in-app messaging are particularly troubling, as they are alternatives to Twilio's core products. Additionally, while investors reacted favorably to the company's recent announcement that it would layoff over 10% of its workforce, in our view, this seemed to be at odds with the company's heavy reliance on revenue growth and their need to grow market share given increasing pressures on their margins. These long-term concerns about the viability of Twilio's business model drove our decision to exit our position, despite the fact that the company may benefit from in an improved interest rate environment in the near to medium term.

In closing, on behalf of our team, I would like to thank Darden, DCM, and the Board of Trustees for the enriching opportunity to take part in this experience. We are grateful for your ongoing trust, support, and commitment. We welcome your questions and input and look forward to keeping you up to date on our progress.

Sincerely,

Jacob London
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# FEATURED INVESTMENTS

# BERKSHIRE HATHAWAY INC. (NYSE: BRK)
# TARGET PRICE: $374.84

**Jim Braun – Cavalier Fund**

| Company Data | |
|---|---|
| Price (11/22/22) | $315.76 |
| 52 Week High-Low | $259.85-$362.10 |
| Market Cap | $695.1B |
| Enterprise Value | $672.3 |
| EV/EBITDA | 13.4x |

**Business Description:**
Berkshire Hathaway, Inc. engages in the provision of property and casualty insurance and reinsurance, utilities and energy, freight rail transportation, finance, manufacturing, and retailing services. It operates through following segments: GEICO, Berkshire Hathaway Reinsurance Group, Berkshire Hathaway Primary Group, Burlington Northern Santa Fe, LLC (BNSF), Berkshire Hathaway Energy, McLane Company, Manufacturing, and Service and Retailing. The GEICO segment is involved in underwriting private passenger automobile insurance mainly by direct response methods. The Berkshire Hathaway Reinsurance Group segment consists of underwriting excess-of-loss and quota-share and facultative reinsurance worldwide. The Berkshire Hathaway Primary Group segment consists of underwriting multiple lines of property and casualty insurance policies for primarily commercial accounts. The BNSF segment operates railroad systems in North America. The Berkshire Hathaway Energy segment deals with regulated electric and gas utilities, including power generation and distribution activities, and real estate brokerage activities. The McLane Company segment offers wholesale distribution of groceries and non-food items. The Manufacturing segment includes industrial and end-user products, building products, and apparel. The Service and Retailing segment provides fractional aircraft ownership programs, aviation pilot training, electronic components distribution, and various retailing businesses, including automobile dealerships, and trailer and furniture leasing. The company was founded by Oliver Chace in 1839 and is headquartered in Omaha, NE.

**Executive Summary:**
Berkshire is a large conglomerate with a compelling package of operating assets as well as a management team that offers best in class asset allocation. From an operating asset perspective, Berkshire owns and operates 60+ companies across a variety of sectors. Some of the largest and most well-known include BNSF Railroad, GEICO Insurance, Duracell Batteries and Lubrizol Chemicals, however they run the gamut from consumer facing apparel and food brands to industrial and construction companies to financial and energy companies. In addition to these operating assets, Berkshire also owns significant stakes in a number of public equities, with its largest ownership stakes in DaVita Inc., the Kraft Heinz Company, and American Express. Berkshire also has $100B+ in dry powder, which historically management has used effectively to buy operating assets at attractive prices. We looked at the business from a sum of the parts perspective, shown at right, which we think shows upside to the current valuation of the combined company.

**Berkshire Hathaway -- Sum of the Parts Valuation**

*$ in millions*

| | Earnings | Multiple | Value |
|---|---|---|---|
| Cash and Fixed Income | | | $160,288.0 |
| Fair Value of Equity Securities | | | 350,719.0 |
| Manufacturing, Service and Retailing | $10,470.0 | 15.0x | 157,050.0 |
| BNSF | 4,958.0 | 22.8x | 113,042.4 |
| BHE | 2,307.0 | 21.7x | 50,061.9 |
| Other (Insurance Underwriting) | 936.0 | 11.8x | 2,313.8 |
| Sum of the Parts Equity Value | | | 833,475.1 |

| | A Shares | B Shares |
|---|---|---|
| FDSO | 0.6 | 1,291.2 |
| Par Value | 5.0000 | 0.0033 |
| Conversion | 1,515.1515 | 1.0000 |
| Equivalent B Shares | 932.3 | 1,291.2 |
| Current Share Price | $484,340.00 | $322.83 |
| Equity Value | 298,030.4 | 416,842.2 |

| | |
|---|---|
| Market Cap | 714,872.6 |
| Sum of the Parts Equity Value | 833,475.1 |
| *Premium* | *16.6%* |

| | |
|---|---|
| Current B Share Price | $322.83 |
| Implied B Share Price | $374.84 |
| *Premium* | *16.1%* |

**Investment Thesis:**

1. *Anti-fragility*
    - Buffett has demonstrated the ability to take advantage of choppy market conditions in buying quality companies at excellent prices
    - We expect BRK to have opportunities to deploy its $144 billion war chest in 2022/2023

2. *Ownership of best-in-class companies, including a favorable basket of banking stocks and profitable industrial, energy, and insurance companies*
    - Unlike private equity, BRK portfolio companies will be more conservatively capitalized, making them more resilient to defaults in adverse market conditions

3. *Historical returns of 20% (CAGR) vs 10% S&P 500*

4. *BRK pioneered the model of owning insurance companies and "investing the float"; long-time owner of GEICO and recent acquisition of Allegheny*

**Risks:**

1. *Warren Buffett hangs it up*
    - At age 91, there is an ever-present risk that Buffet retires from his post; we consider this the greatest risk to the thesis as we expect some selloff in the stock should it happen
    - Greg Abel (59), vice-chair of non-insurance companies, is the planned successor; having an experienced lieutenant lined up to take over mitigates this risk somewhat

2. *Investor pressure to a) separate Buffett's dual CEO/chairman role and b) improve climate change reporting*
    - Vote to split CEO/chairman role was struck down this past weekend; could re-emerge in the future
    - Holdings in energy/utilities could weigh ESG ratings

3. *"Bet on America" – Buffett famously invests in American economy and businesses*
    - Will the US economy be as strong the next 100 years as it was the previous 100?

# ALEXANDRIA REAL ESTATE EQUITIES (NYSE: ARE)
## TARGET PRICE: $143.82

**Mercedes Lee – Colonnade Fund**

| Company Data | |
|---|---|
| Price (11/25/22) | $154.12 |
| 52 Week High - Low | $126.74 - $224.95 |
| Market Cap | $25.29B |
| Enterprise Value | $39.33B |
| 2022E FFO | 8.42 |

**Business Description**
Alexandria Real Estate Equities, Inc. is an urban office real estate investment trust. The firm engages in the ownership, operation, development, and redevelopment of life science and technology properties. It also provides a space for lease to the life science and technology industries, which are primarily located in AAA urban innovation cluster locations. The company was founded by Alan D. Gold, Gary A. Kreitzer, Joel S. Marcus, and Jerry M. Sudarsky in October 1994 and is headquartered in Pasadena, CA.

**Executive Summary**
Alexandria Real Estate Equities, Inc. (ARE) has 41 million rentable square feet of properties rented to over 1,000 tenants in major metropolitan areas. Nearly half of ARE's annual rent comes from investment grade pharmaceutical companies. We believe that healthcare companies are relatively less sensitive to macroeconomic volatility especially as we witnessed a global pandemic that necessitated the need for large and reliable R&D facilities. We believe ARE still has a lot of room to expand into developing world-class research facilities that will continue to attract top healthcare tenants in locations where healthcare professionals are readily available.

| Scenario | Price | Upside to Current Price | Description |
|---|---|---|---|
| Bull | $170.05 | 10.3% | Assumes the multiple is 20.1x |
| Base | $143.82 | -6.7% | Assumes the multiple is 16.2x |
| Bear | $114.73 | -25.6% | Assumes the multiple is 15.3x |

**Investment Thesis**

1. *First Mover Advantage*
   - Alexandria is well-positioned to continue growing in a booming real estate asset class. As a pioneer in real estate development and investing, along with being the largest lab and life sciences-focused REIT, Alexandria has developed a first-mover advantage.

2. *Key Partnerships*
   - Alexandria has robust and deep-rooted relationships, that allow them to continue growing a healthy pipeline of opportunities. In 2021, Alexandria hit an annual leasing volume record of 9.5M rsf, driven by key partnerships such as with Moderna which represented over 1M rsf.

3. *Attracting the Best Healthcare Tenants and Professionals*
   - Alexandria has a market presence in the largest, and most established university and research clusters around the country. Being in metropolitan cities ensures that the top healthcare tenant continues to release their spaces and ensure they can attract top healthcare graduates.

**Risks**

1. *Interest Rate Risk*
   - The biggest risk to ARE is interest rates. ARE is highly correlated to interest rates because of its long-duration leases – over 95% of long-term debt is fixed.

2. *Oversaturation in Major Metropolitan Markets*
   - The overreliance on major metropolitan cities remains one of the biggest risks to our thesis. Since ARE's

campuses are concentrated in specific markets (San Diego, San Francisco, Seattle, New York, and Boston) however, healthcare tenants may start expanding to other coastal markets seeing tremendous growth in millennials.

*3. Life Sciences Dependent*

- Overdependence on life sciences as an asset focus. If there is a shift in demand from the life science market, there could be an adverse effect on ARE.

# FEDERAL SIGNAL CORPORATION (NYSE: FSS)
# TARGET PRICE: $50.00

**Brian Horne – Darden Fund**

| Company Data (as of 11/22/2022) | |
|---|---|
| Price | $49.21 |
| 52 Week High-Low | $31.86 – $50.56 |
| Market Cap | $3.0B |
| Enterprise Value | $3.3B |
| EV/EBITDA | 15.0x |

**Business Description**
Federal Signal Corp. engages in the design and manufacture of products and integrated solutions for municipal, governmental, industrial, and commercial customers. It operates through the Environmental Solutions Group and Safety and Security Systems Group segments. The Environment Solutions Group segment is involved in the manufacture and supply of street sweeper vehicles, sewer cleaners, vacuum loader trucks, hydro-excavation trucks, and water blasting equipment. The Safety and Security Systems Group segment offers comprehensive systems and products that law enforcement, fire rescue, emergency medical services, campuses, military facilities, and industrial sites use to protect people and property. The company was founded in 1901 and is headquartered in Oak Brook, IL.

**Executive Summary**
FSS has been a great investment for the Darden Fund since investment in May 2020, returning 68% since inception and growing to over 7.0% of the portfolio.

FSS is the prototypical business the Darden fund is searching for in the current environment. The company's end markets and customers are resistant to economic downturns, demand for its products and services stand to benefit from the re-shoring of supply chains and domestic manufacturing, and management has proven decisive and capable in leading the company.

| Scenario | Price | Upside to Current Price | Description |
|---|---|---|---|
| Bull | $50 | 1.6% | Slightly overbought due to defensive nature of industrial stocks during uncertain economic environment (~30x P/E; 15 year high) |
| Base | $45 | (8.6%) | Moderate revenue growth with slightly rising costs, (19x P/E; historical avg) |
| Bear | $36 | (26.8%) | Reduced demand from gov't customers combined with value stock sell-off during falling interest rate environment (16x P/E) |

However, despite the company's desirable profile, we believe the market is fully valuing the company today. As you can see above in our target scenarios, FSS has nearly reached our Bull scenario price target of $50. Thus, as part of our valuations-based sell discipline, we expect to sell down FSS over the next quarter, using it as a source of liquidity for new investments we believe will earn a higher expected return for the portfolio.

**Investment Thesis**

*1. Defensive Industry and Customer Base*
- End markets are resistant to spending cuts during economic downturns due to the essential nature of many of FSS' products and services.
- Large customers are federal, state, and local governments and municipalities, resulting in a stable core of customers that are less sensitive to economic downturns.

*2. Re-shoring of Supply Chains and Manufacturing Capabilities Back to US*
- Increased spending on US infrastructure and the focus on bringing supply chains and manufacturing capabilities back to the US will drive revenue growth for FSS's portfolio of solutions and services.

*3. High-Quality Management Team*
- Management demonstrated strong leadership during the COVID pandemic, gaining essential status during

lockdown and successfully navigating worker safety and supply-chain issues.
- The team also took advantage of volatility in 2020 and 2021, acquiring three businesses that further strengthened their competitive positioning.

**Risks**

1. Supply Chain Issues – Chassis supply for FSS's Environmental Services vehicles have been hampered by supply chain issues. While FSS has done a good job securing chassis supply, this product segment is important to FSS and could adversely affect revenue and earnings if further disrupted.
2. Growth Expectations Underpinned on Further Government Spending – The market's expectations of additional infrastructure spending and/or re-shoring of supply chains and manufacturing may prove to be overly optimistic.
3. Rising Rates Strain Customer's Access to Credit – Customer purchases may slow in a rising rate environment because FSS customers typically fund purchases with debt.
4. M&A Synergies Fail to Materialize – Recent acquisitions destroy value without realized synergies.
5. Unionized Labor Force – Portion of FSS' labor force is unionized, exposing FSS to potential work stoppages should wage disputes materialize driven by inflation fears.

# AMERICAN EXPRESS COMPANY (NYSE: AXP)
## TARGET PRICE: $182.11

**Yash Goray – Jefferson Fund**

| Company Data | |
|---|---|
| Price (11/23/22) | $154.22 |
| 52 Week High-Low | $130.65-$199.55 |
| Market Cap | 115.5B |
| Enterprise Value | 131.0B |
| P/E (Dec '21) | 16.32 |

**Business Description:**
American Express ("AXP") is a globally integrated payments company with leadership positions in providing credit and charge cards to consumers, small businesses, midsized companies and large corporations around the world. AXP operates through three segments: Global Consumer Services Group (GCSG), Global Commercial Services (GCS) and Global Merchant and Network Services (GMNS).

**Executive Summary:** American Express presents an unique opportunity to invest in a financial name in a time of rising interest rates. AXP is less exposed to factors that typically affect financial stocks – mortgage rates, exposure to bad credit, equity market volatility. Additionally, the company is not as affected by yield curve inversion as other financial stocks. Additionally, American Express is good bet on recovery of travel and dining as COVID fears subside. Finally, given the current macro environment AXP's ability to pass on costs to customers provides a good hedge against high inflation.

**Investment Thesis:**

1. American Express is increasing penetration in the Millennial/Gen Z demographic

The Millennial/ Gen Z demographic is driving 60% of new card acquisitions and billed business, up compared to 2019 levels. They make up ~75% of new Platinum and Gold cards whose fees have a CAGR of 14% versus the industry fee CAGR of 6%. In addition, these demographics have 50% increased spending compared with older cohorts and have better credit quality.

2. American Express is capturing the $11.1T SME market

American Express is focused on becoming more embedded within US SME customer base where payments will digitize over the next few years. Its acquisition of Kabbage will allow AXP to become the preferred provider for both new and existing clients. American Express has a ~45% share of US SME card-based spend volume (3x the next competitor), but only has a 20% share of lending.

3. Industry leading fundamentals

AXP continues to outperform other peers in Net Charge-Offs (NCOs); credit metrics at historical lows even as loan balances rebuild. It has a diversified revenue stream – merchant fees, interest income from card and loan balances, commission and membership fees. It is expected to be the fastest revenue grower in financials with a 2021-2023 CAGR of 16% vs peer average of ~7%.

4. Poised to benefit from increased travel spend and international penetration

AXP is poised to benefit from increase in T&E and other expenditures related to post-COVID lockdown return to normalcy. Excess consumer savings will increasingly be spent on travel and experiences in lieu of goods and discretionary items

**Risks:**

1. Inflation drives down consumer spending

- Mitigation: Most revenues from discount fees; power to increase discount fee to offset lower spending; wealthy clientele

2. Travel recovers slowly
    - Mitigation: T&E spend is improving as premium consumers continue to spend more on travel than on goods
3. Deterioration of consumer credit due to rising unemployment
    - Mitigation: AXP customers have the highest average credit scores. Average consumer has a 750 FICO score whereas the average SME has an average of >720 FICO score

# ASML HOLDING N.V. (NASDAQ: ASML)
# TARGET PRICE: $606.00

### Vanisha Goyal – Monticello Fund

**Business Description**

| Company Data | |
|---|---|
| Price | $577.50 |
| 52-Week High/Low | $733.20/$375.75 |
| Market Cap | $232.9B |
| Enterprise Value | $233.0B |
| EV/EBITDA | 34.0x |

ASML manufactures Lithography systems used for the manufacturing of semiconductor chips. Demand for their products comes from Logic (e.g., Intel, Samsung, TMC) and memory chip manufacturers (e.g., Micron, SK Hynix). ASML derives additional revenue from services and upgradations of lithography systems.

| Scenario | Price | Upside to Current Price | Description |
|---|---|---|---|
| Bull | $676.00 | 17% | 1. Recoups some of the revenue lost through fast delivery plan (without FAT)<br>2. Improved gross margin in 2023 by negotiating better contracts, overcoming inflationary shock<br>3. Improved EBIT margin due to better workforce management |
| Base | $541.00 | (6%) | |
| Bear | $408.00 | (29.35%) | 1. Does not recoup any revenue lost due to supply chain constraints<br>2. Is not able to overcome the inflationary shock and therefore not able to improve the gross margin in 2023<br>3. No improvement in EBIT margin |

**Executive Summary**

ASML is the global leader in lithography, the technology that enables mass production of microchips. The company has invested over two decades with more than €6B in research & development. It is already working on the development of its next generation EUV technology called High-NA, which should enable even further chip shrinking by 2025/26 and further strengthen ASML's competitive advantage over peers. ASML has a revenue of $22B, generates $11B in free cash flows and employs more than 30,000 workers.

ASML is the only company globally that offers the latest and most precise chipmaking machines. Without ASML there wouldn't be any new iPhones. While Japan's Nikon and Canon once dominated the worldwide market for lithography systems, both pulled the plug on the development of EUV systems. As the sole provider of next-generation EUV lithography systems, ASML has one of the strongest positions in the semiconductor value chain. EUVs generally cost around $150-200M each. A cutting-edge chip plant needs 10-18 of these machines, which are one of the biggest capital costs for chipmakers.

The linkage between chip makers and tool makers is much more than a customer supplier relationship. Back in 2012, ASML was struggling with EUV and needed some financial help to complete the technology and needed support from customers. Customers were also pushing hard for wafer tools and demanding DUV tools, so ASML had its hands full, much like Intel today. It needed help in the form of money. Intel, Samsung & TSMC each invested substantial sums in ASML. Intel invested and owned 15% of ASML, TSMC 5% and Samsung 3%. Today, Intel is dependent upon ASML for its entire future. There is an inflection point coming up in the industry today, its high-NA EUV, basically the second generation of EUV technology. If ASML anoints Intel as the high-NA EUV champion in exchange for its commitment and Intel gets preferential access to tools over TSMC as its reward, that could be the difference to get Intel back in the Moore's Law game ahead of TSMC.

**Investment Highlights**

*1. Increased processing close to data source instead of the cloud*

Connected IoT is expected to create up to 175 ZB data per year by 2025 requiring processing close to data source instead of the cloud

*2. Increased demand for leading edge logic chips across applications*

Growth in high performance computing (HPC), which includes cloud computing, AI, gaming, PCs, and laptops, is being fueled by TSMC customers such as AMD, Nvidia and Intel. Other areas of strong growth are crypto (Bitmain, Nvidia, others), networking (Marvell, Broadcom, others), and automated driving (Mobileye, Nvidia, others). Even smartphones (Apple, Samsung), continue to see healthy wafer growth at the leading edge.

*3. Moore's Law and Increasing complexity of sub-28 nm nodes*

Moore's Law will drive complexity through multiple patterning use of immersion systems, and through rising layer count, increasing the utilization of EUV systems

*4. Vested interest from customers leading to faster iterations to meet latest tech demands, monopoly in EUV technology*

Intel, Samsung, and TSMC each invested substantial sums in ASML to fund the development of EUV technology. Intel invested and owned 15%, TSMC 5% and Samsung 3%. Today, Intel is dependent upon ASML for its entire future, as ASML is the only manufacturer with EUV technology.

*5. Increased international government investment in achieving technological sovereignty*

Significant investments from the governments of the US, the EU, India, China, South Korea, and Japan in their efforts to achieve technological sovereignty in securing semiconductor supply for local industries will lead to an increased number of manufacturing bases.

**Risks**

*1. ASML's end-to-end supply chain is facing a shortage of materials, hampering their growth*

The demand increase could lead customers to change their sourcing strategy to become less dependent on ASML, which may impact market share in certain product offerings.

*2. Increased demand putting pressure on internal production capacity and, externally, on the end-to-end supply chain*

ASML is dependent on suppliers to increase capacity. It takes time to build production space and equipment required for expansion

*3. Challenges in hiring and retaining the workforce to both ASML and its suppliers in the current competitive labor market*

Current processes and systems may not be able to adequately support growth.

*4. Defending against intellectual property claims.*

*5. Indirect impact of the Russia-Ukraine conflict*

ASML does not currently have operations in Russia or Ukraine, however, the impact of military action in Ukraine creates uncertainty in the macroeconomic environment. This military action, sanctions, and other measures taken in response have and could further adversely affect the global economy, the financial markets, and supply chain which may impact customer demand, delivery of products and services to clients, ability to obtain parts and components, and gas supply. In addition, the conflict amplifies the surge in energy prices, commodity prices, transportation costs, inflation, and cyber-attacks.

# CVS HEALTH CORP. (NYSE: CVS)
# TARGET PRICE: $122.38

**Rachel Sorrells – Rotunda Fund**

| Company Data | |
|---|---|
| Price (4/22/22) | $101.68 |
| 52 Week High-Low | $74.97-$111.25 |
| Market Cap | $133.5B |
| Enterprise Value | $194.2B |
| EV/EBITDA | 9.99x |

**Business Description:**
CVS is a leading diversified health solutions company with more than 9,900 retail locations and nearly 1,200 walk-in medical clinics. CVS is also a pharmacy benefits manager with approximately 110 million plan members with expanding specialty pharmacy solutions and a dedicated senior pharmacy care business serving more than one million patients per year. CVS also serves an estimated 35 million people through traditional, voluntary and consumer-directed health insurance products and related services, including expanding Medicare Advantage offerings and a leading standalone Medicare Part D prescription drug plan ("PDP").

**Executive Summary**
CVS is evolving beyond a retail drugstore into a leading multi-channel, full-service healthcare provider. With its increasing focus on primary care services through its custom-centric, integrated healthcare model, it is well-positioned to capitalize on changing market dynamics and deliver shareholder value through operational cost savings and more efficient and lower cost service offerings.

| Scenario | Price | Upside to Current Price | Description |
|---|---|---|---|
| Bull | $171.16 | 68.3% | Rising sales growth per management expectations; falling SG&A due to cost reduction initiatives |
| Base | $122.38 | 20.4% | Moderate sales growth with COGS and SG&A levels maintained |
| Bear | $109.29 | 7.5% | Poor sales growth with COGS and SG&A levels maintained |

**Investment Thesis**
1. *Well positioned to capitalize on changing market dynamics*

Increasing focus on an integrated healthcare market will allow CVS to capitalize on changing market dynamics, including increases in digital healthcare and trends towards more integrated service models that combine traditional primary care elements and other forms of care delivery. Compared to competitors, CVS has a unique collection of assets leading to network effects, economics of scale, high switching costs, and intangibles (e.g., brand name).

2. *Strong growth drivers*

Gains from Aetna acquisition (Nov. 2018) include broad based revenue growth and operating margin expansion. Strong cash flows will allow for investment in key growth initiatives. Expansion of MinuteClinics and HealthHUBS will continue to be key growth drivers, improving customer engagement and delivering healthcare in a more convenient, cost-effective manner.

3. *Operational cost savings*

Plans to shut down and consolidate 900 stores between 2022 and 2024 will drive cost savings and efficiencies. Plans to operate more efficient and lower cost service offerings will help improve the bottom line and allow for greater focus on key growth areas.

**Risks**
1. *Potential impact on earnings of opioid litigation*

In late 2021, found liable for contributing to opioid epidemic in two Ohio counties (ruling being appealed). Reached a settlement in March with the State of Florida for $484M (without admission of liability or wrongdoing). Payments to be made over a period of 14 years.

*2. Potential management changes due to fallout from sexual harassment allegations*
Several employees, including executives, were fired following an internal investigation into how the company handled sexual harassment complaints.

*3. Potential reduction of highly profitable prescriptions due to 340B program curtailment*
Legislation currently requires drug manufacturers to sell certain medications at large discounts to pharmacies. Could reduce the number of highly profitable prescriptions filled.

*4. Drop in traffic and COVID-19 related revenue as the pandemic slows*
Management expects vaccine volumes and in-store diagnostic testing volumes to decrease by 70-80% and 40-50% respectively in 2022.

# CLASS OF 2023 LEADERSHIP TEAM BIOS

**Pablo Fleitas — Chief Executive Officer**
Prior to Darden, Pablo was an Associate at Mizuho Securities within the Latin America group focused on debt capital markets and direct financing for large corporates and governments in the region. He also held roles within AB InBev's Global Treasury and CADIEM's asset management division. Pablo graduated from the National University of Asuncion with a B.A. in Economics and from the KU Leuven with an MSc. in Economics. This summer he interned at Citigroup in the Investment Banking Global Media and Telecommunications group.

**June Sun — Chief Investment Officer**
Prior to Darden, June was an Investment Associate at Sequoia Heritage and managed a $10Bn global portfolio as a member of a 6-person investment team. She also spent two years as a Private Equity Associate at Basalt Infrastructure Partners leading and executing all phases of M&A transactions for North American Infrastructure assets. June started her career as a Leveraged Finance Investment Banking Analyst at Wells Fargo Securities. June graduated from Michigan State University with a B.A. in Finance. She has completed Levels 1 and 2 of the CFA program. This summer, June interned with Oaktree Capital Management in their Infrastructure Investing strategy in New York City.

**Julia Hyland — Chief Financial Officer**
Prior to Darden, Julia was an Associate at Lord, Abbett & Co., a mid-sized, privately held, asset manager based in Jersey City, NJ. She was responsible for managing research relationships and strategic efforts with key distribution partners related to business development, asset retention, platform placement, and sales. Julia graduated from Colgate University with Bachelor of Arts in Political Science. This summer she interned at J.P. Morgan Private Bank in New York City.

**Nishit Shah — Chief Operations Officer and Head of Research**
Prior to Darden, Nishit was an Equity Investment Analyst at Nepean Capital, a boutique investment management firm based out of Mumbai where he was the lead analyst for 7 sectors. Nishit also spent more than 2 years as an Equity Associate at Edelweiss Asset management, one of the biggest asset managers in India. He started his career as a Wealth Advisor at Viscorp Investment, a wealth management firm which is a part of his family business. Nishit is a qualified Chartered Accountant (Indian CPA), CFA Level 2 candidate with a Bachelor's in Commerce from the Narsee Monjee College of Commerce and Economics (University of Mumbai). He interned at The London Company over the summer as part of the public equities investing team. Nishit is an avid traveler and enjoys penning his experiences in travelogues.

**Jim Braun — Senior Portfolio Manager: Cavalier Fund**
Prior to Darden, Jim was a Senior Equity Research Analyst at Cleveland Research Company (CRC), a boutique sell-side research firm focused on channel-based research for large institutional investors. In his time at CRC, Jim covered a variety of sectors including Oilfield Services, Environmental Services, Transportation, and Agriculture, as well as spending some time in Market Research for eCommerce. In addition to his work at CRC, Jim is a CFA Charterholder and worked part-time teaching financial modeling to undergraduates for Adventis CG.

**Lins Agokeng — Senior Portfolio Manager: Colonnade Fund**
Prior to Darden, Lins Agokeng served as a Director of Commerical Sales for a commercial real estate boutique firm in New York City. He has closed over $40M in commercial real estate transactions. Prior to XRE NY, Lins worked at Bank of America as a senior treasury analyst on the restaurant finance team. This summer, Lins interned at Goldman Sachs on the Investment Banking Real Estate team.

**Christophe Drapanas — Senior Portfolio Manager: Darden Fund**
Prior to Darden, Christophe was an associate at DW Healthcare Partners, a lower middle-market, healthcare-focused, private equity firm. He began his career as an investment consultant at Cambridge Associates. Christophe graduated from Bucknell University with a B.A. in Economics and Philosophy. This summer he interned at DW Healthcare Partners in their Park City, Utah office.

**Emily Greene — Senior Portfolio Manager: Jefferson Fund**
Prior to Darden, Emily was a Vice President at Citigroup Global Markets Inc, in the Public Finance Department. She specialized in municipal financings for US Airports and Airlines. Emily graduated from Villanova University with a B.A. in Economics and minor in Mathematics. This summer she interned at Vanguard in their Investment Management Summer MBA Program.

**Roberta Periquet — Senior Portfolio Manager: Monticello Fund**
Prior to Darden, Roberta worked at the Corporate Strategy and Develpment office at Ayala Corporation, the Philippines' oldest conglomerate. She has also worked as an investment analyst at Campden Hill Group, a private client fund manager; and as a brand manager for Globe Telecom, the country's second-largest telco. Roberta graduated with a Master of Arts (Honours) in Classics from the University of St Andrews in Scotland in 2016. This summer she interned at Bank of America's Investment Banking Division in New York.

**Jacob London — Senior Portfolio Manager: Rotunda Fund**
Prior to Darden, Jacob was a Manager of Investor Engagement on Water Risk at Ceres, a non-profit focused on sustainability and capital markets. In this role he educated and collaborated with institutional investors integrating risks associated with climate change, water scarcity, and water pollution into portfolio management and stewardship. Jacob also worked as an analyst for the Energy & Utilities practice of The Brattle Group, an economic consulting firm. Jacob holds a B.S. in Economics from the Massachusetts Institute of Technology. This summer he interned with BlackRock on the BlackRock Sustainable Investing team in New York.

# THANK YOU

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