UNIVERSITY OF CONNECTICUT STUDENT MANAGED FUND

Fall 2022 IAB Portfolio Report

DECEMBER 23, 2022

UNIVERSITY OF CONNECTICUT SCHOOL OF BUSINESS

UNDERGRADUATE STUDENT MANAGED FUND—TEAM BLUE

Data as of December 7, 2022

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LETTER TO THE IAB

Dear Investment Board Members and University of Connecticut Foundation Members,

It is an honor to be a part of one of the most prestigious programs the University of Connecticut School of Business offers undergraduate students. We cannot thank you all enough for your continued support, advice, and everything you do to make this opportunity possible for us. Your dedication to our teams through the SMF speaker series, individually during networking calls, and challenging us in our end-of-semester presentation has significantly contributed to our growth this semester. Your industry expertise, diverse career backgrounds, and desire to help our team have grown us academically and professionally in ways that would not have been possible without the Student Managed Fund.

At UConn, only a few experiences allow students to apply classroom skills to real-world scenarios. The Student Managed Fund gives us the opportunity to challenge ourselves outside the classroom in a year-long experience driven by our team of eleven unique students. Throughout the semester, we expanded our knowledge of financial analysis, formed risk management skills, learned about portfolio management, experienced working on a team, and improved our critical thinking. We are grateful to develop these skills, which will fuel our young professional careers.

It is clear to all of us the Student Managed Fund is the most impactful program during our time at UConn. In only three months, our team has developed a new critical-thinking mindset and is excited to continue our development throughout the following semester. Team Blue is determined to carry on our hard work and use this once-in-a-lifetime opportunity to the fullest.

The following report details our investment approach, process, portfolio overview, and, most importantly, lessons learned. We hope you all enjoy and gain a better understanding of Undergraduate Team Blue's experience this semester.

Sincerely,

Undergraduate Team Blue 2022-2023

PORTFOLIO OVERVIEW

INVESTMENT MANAGERS:

Jordan Ferro:
Co-Lead Manager

Sam Rupff:
Co-Lead Manager

Michael Campisi:
Portfolio Manager

Matthew Iallonardo:
Risk Manager

Cameron Regan:
Communications Manager

Carolina Draghi:
Website Manager

Finn Sheehan

Damon Diamantes

Monica Pydipati

Jake Gallup

Matt Pasquale

SMF Supervisor: Jeff Annello **Trader:** Michel Rakotomavo **SMF Director:** Chinmoy Ghosh

BENCHMARK & STYLE:

Our portfolio performance benchmark is the broad S&P 500 index. Our investment style focuses on a 10–15-year investment horizon viewing short-term performance with an open mind. We primarily target large-cap equities with proven business models, competitive advantages, strong historical performance, and growth potential. We acknowledge companies are rewarded for their commitment to environmental, social, and governance initiatives and maintain that any allocation demonstrates impressive ESG performance. Since our focus is on equities, we have not invested in fixed income instruments this semester.

PHILOSOPHY & STRATEGY:

Our investment philosophy is built on three pillars:

(1) **Focus on a long-term horizon**
  a. 10–15-year investment horizon

(2) **Proven business models**
  a. Focus on companies with strong economic moats
  b. We look for a company's historical ability to beat out different business cycles
  c. Target equities with recurring revenue streams
  d. Emphasize companies that return some value to shareholders

(3) Some type of catalyst
  a. Search for companies that Wall Street misprices for a short-term reason which does not change a long-term business model
  b. Identify companies with future growth prospects or beneficial business re-organizations

We manage our portfolio on the conviction of beating out the S&P 500 index over a 10-to-15-year period. Our team maintains a strong fiduciary responsibility and mandates our portfolio philosophy is followed without exception for all allocations. Investment decisions must follow strict due diligence and include quantitative and qualitative analysis.

PROCESS:

Team Blue's investment process begins with ongoing research. Managers are assigned sectors to stay up to date on but act as generalists. We see value in the experience gained from pitching equities from different sectors. Companies are identified with a blended bottom-up and top-down

approach. We look for companies in both our everyday environments and in the industries that we believe have the greatest potential. In addition, we also use tools such as Blomberg and CapIQ to screen for companies with different criteria. A general screen enables us to pinpoint companies with solid quantitative performance. Once a manager pinpoints an equity of interest, in-depth equity research follows. The most common resources are a company's 10-k, investor relations materials, earnings calls, sell-side reports, and additional information from CapIQ and Bloomberg.

Once a manager is confident in their investment idea, a formal pitch to our team follows. Our managers are required to pitch at least once a semester. Pitches are done in person on Fridays and are 15-20 minutes, followed by a question-and-answer section. Our team maintains an open mind throughout this process and welcomes constructive criticism. In addition, our fund supervisor, Jeff Annello, is always present to give his input and advice for future pitches. The voting process is in-person after a pitch and requires a supermajority (8/11) vote for allocation. We believe that in person voting is essential and are all comfortable sharing our opinion, whether in agreement or dissent. Percentage allocation is proposed in the pitch by the managers presenting. Managers typically suggest a 5-10% allocation depending on their confidence in the company and the sector's attractiveness. A simple majority vote can increase or decrease percentage allocation. Finally, our portfolio manager submits the trade with a 20% stop loss provision.

The work continues after an investment is made. Managers are expected to keep up to date on earnings calls and any relevant company updates and notify our team. Equity performance is monitored in excel with all relevant financial metrics.

INVESTMENTS & PERFORMANCE:

Our portfolio consists of four strong equities: Johnson and Johnson, Microsoft Corporation, Lowe's Companies Incorporated., and TJX Companies Incorporated. Overall, we are 27.77% allocated to equities is less than our initial plan of half allocation by the end of the first semester. We maintained a strong pipeline of investment ideas and presentations this semester, but unfortunately ran into some roadblocks. Out of the seven pitches this semester, Texas Instruments, Starbucks, and Datadog did not make it into our portfolio. We received our portfolio later than expected; by that time, it was over two weeks since the Texas Instruments pitch. The time in between eroded the manager's proposed margin of safety and did not give us the security we needed to invest during such a volatile time in the market. We placed a limit order for Starbucks given the company received better-than-expected earnings the day before the company was pitched. Unfortunately, Starbucks never returned to an acceptable price for

allocation. Datadog was rejected and placed on our team's watch list due to an unproven business model. Our goal this past semester was to maintain our fiduciary responsibility and hold true to our investment philosophy. Our low allocation is acceptable given our aim to remain disciplined, although we commit to being fully allocated by the end of the spring semester.

Our securities fall in the Information Technology, Health Care, and Consumer Discretionary sectors. We do not have plans to mirror percentage allocation in different sectors to the S&P 500 but use comparisons for benchmarking purposes. We plan to remain diversified as we continue to allocate. On October 25th, 2022, the S&P 500 broad index closed at $3859.11. We used December 7th as the final trading day for the Fall semester. By this time, the S&P 500 saw an unrealized gain of 5.51%. During this time, our portfolio gained 5.05%, 46 bps less than the broad S&P 500 index. We are not concerned with this given these equities will perform exceptionally long-term.

***SPY value as stated in portfolio is a cost basis. Not used for benchmark purposes.*
Benchmark market close 10/25/2022 S&P 500 Price @ $3859.11**

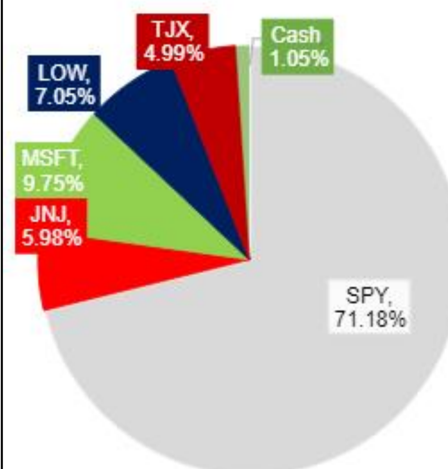
Market Close 12/2/2022

Company	Ticker	Industry	Date Purchased	Shares	Purchase Price	Current Price	Cost Basis	Market Value	Beta	% of Portfolio	% Change
SPDR S&P 500 ETF	SPY	S&P	26-Oct	1962	$ 388.32	$ 406.91	$ 761,883.64	$ 798,357.42	-	71.18%	4.79%
JOHNSON & JOHNSON	JNJ	Pharmaceuticals	14-Nov	375	$ 171.82	$ 178.88	$ 64,432.50	$ 67,080.00	0.57	5.98%	4.11%
MICROSOFT CORPORATION	MSFT	Software & IT Services	15-Nov	429	$ 242.08	$ 255.02	$ 103,852.32	$ 109,403.58	1.10	9.75%	5.35%
LOWE'S COMPANIES, INC.	LOW	Specialty Retailers	28-Nov	368	$ 210.01	$ 214.84	$ 77,284.53	$ 79,061.12	1.05	7.05%	2.30%
THE TJX COMPANIES, INC.	TJX	Diversified Retail	28-Nov	698	$ 80.62	$ 80.19	$ 56,269.97	$ 55,972.62	0.96	4.99%	-0.53%
Cash	Cash	N/A		N/A	$ 1.00	$ 1.00	N/A	$ 11,735.23	-	1.05%	N/A

	Cost Basis	Market Value	Beta	% of Portfolio	% Change
Total w/ S&P (Cost basis)	$1,063,722.96	$1,121,609.97	0.95	100.00%	5.44%
Starting Value	$1,067,644.58	$1,121,609.97	0.95	100.00%	5.05%

SMF Portfolio V.S Benchmark S&P 500	
Total Portfolio Performance	5.05%
S&P 500 Index Benchmark Performance	5.51%
Difference in Performance	-0.46%

Invested Amount	$ 311,517.32
SPY	$ 798,357.42
Cash	$ 11,735.23
% Allocated to Equities	27.77%



Sector	% Invested Portfolio	S&P Sector Weight
SPY	71.2%	N/A
Information Technology	9.8%	26.3%
Health Care	6.0%	15.3%
Financials	0.0%	11.4%
Consumer Discretionary	12.0%	10.9%
Industrials	0.0%	8.3%
Communication Services	0.0%	7.5%
Consumer Staples	0.0%	6.9%
Energy	0.0%	5.4%
Utilities	0.0%	3.0%
Real Estate	0.0%	2.6%
Materials	0.0%	2.5%

ECONOMIC OUTLOOK

For our team to successfully invest and make prudent decisions, it is imperative that we understand the economic markets impacting our investments. To ensure this, we consistently research, discuss, and debate the current state of the economy, and where we believe it is headed in the future (more specifically the next 10 years).

THE US & GLOBAL ECONOMIES:

As of this report, our investments are securities listed on either the NYSE or NASDAQ. Therefore, our portfolio is sensitive to changing U.S. domestic economic conditions. However, we must also keep in mind the broader global economy as well or risk a narrow-minded view of the economic factors impacting our investments.

The U.S. economy continues to adjust from a prolonged era of easy monetary policy to rapid tightening by the Federal Reserve, showing signs of bending but not breaking. A tight U.S. labor market and still strong household balance sheets are supporting consumer spending, the economy's main engine. However, U.S. retail spending and manufacturing weakened in November, stoking fears that the economy is slowing down. The U.S. outlook depends in part on how the economy weathers the Federal Reserve's interest-rate increases aimed at cooling inflation. Although the Fed's rate increases will not be as severe going forward, it is likely rate

hikes will continue through mid-2023, dampening investor sentiment. Additionally, a broad slowdown in the housing market and low consumer confidence has reinforced fears of a looming recession in the coming months.

The global economy's deterioration has continued, although not as severely as initially feared, raising hopes that the world could avoid a steep slump in 2023. The outlook in China, the world's second largest economy, remains highly uncertain, as the country continues to grapple with surging Covid-19 cases. There is the potential for a rebound in growth next year as Beijing attempts to ease tough pandemic policies. Europe is experiencing less economic disruption from Russia's decision to limit energy supplies than earlier feared, with consumers and businesses adapting through curbing energy consumption. With these factors in mind, many forecasters see global output rising by around 2% next year. Although it would be a sharp deceleration from this year and well below the 3.3% average seen over the past decade, it would still reflect a small rise in output per person.

Overall, instability remains prominent throughout the global economic markets. Persistent inflation, higher interest rates, geopolitical tensions, and wary consumers have contributed to fears of a recession in the coming months. Some parts of the economy have proved more resilient than others, providing us with a mixed outlook. With the expectation of a prolonged period of volatility, we will remain committed to investing in companies that have a proven business model, remain poised for future growth, and align with our long-term investment horizon.

SECTOR ANALYSIS

INFORMATION TECHNOLOGY:

The Information Technology sector includes Technology Software & Services, Technology Hardware and Equipment, and Semiconductors & Semiconductor Equipment Manufacturers. The sector contains companies such as Apple, Microsoft, Nvidia, Visa, and Mastercard. The sector benefited greatly from Covid-driven trends, including the shift to remote work, surge in demand for PCs and other devices, and an overall greater reliance on technology. However, the sector has been battered over the past year, bringing sky-high tech valuations back to reality.

Sector performance has been -28.14% over the past year, lagging that of the broader S&P 500's -19.12% return. An onslaught of unfavorable economic factors has led to a sell-off throughout the sector. A hawkish Fed, committed to raising rates at a brisk pace, has forced many companies to borrow less money. In turn, investors understand that earnings will subsequently grow at a slower than anticipated rate, decreasing the attractiveness of such investments.

Consumer demand for laptops, PCs, smartphones, and other technological devices has dropped sharply from levels seen throughout the pandemic. Companies have acknowledged this slowdown and admitted demand will continue to drop, contributing to waning investor sentiment.

When looking at semiconductor companies and semiconductor equipment manufacturing companies, the outlook goes from bad to worse. Semiconductors are required for virtually all products we use daily, whether it be refrigerators, cars, or computers. Given the crucial functions semiconductors serve, and heightened demand for technological devices, cloud computing, and other end markets, chip companies soared throughout the pandemic. Due to lack of adequate production capacity, these companies were unable to meet demand, leading to a significant chip shortage that has now abated. Over the past six months, there has been a sharp reversal in demand for many end market products, causing demand for semiconductors to also drop. Subsequently, shares of semiconductor companies have seen significant selloffs, as companies have cited a prolonged period of slowing demand.

The final blow to the sector has been continued antitrust scrutiny and increased government oversight of tech companies across the board. The blocking of various acquisitions, alterations to beneficial laws, and a commitment to cracking down on the power and reach of companies has been felt across the sector. Most recently, the FTC sued to block Microsoft's $75 billion acquisition of Activision Blizzard, highlighting the Biden administration's commitment to challenging all tech company attempts to grow.

With all this in mind, our team believes it is an opportune time to invest in companies throughout the Information Technology sector. Many companies have seen valuations cut in half, providing us with a large margin of safety when performing quantitative analysis. Qualitatively, many of these companies have resilient business models, even amidst unfavorable macroeconomic conditions. Long term, the demand for technology and the integral role it plays throughout society will continue to grow, which in turn will drive growth for companies throughout the Information Technology sector.

HEALTHCARE:

The healthcare sector is one of the most complex sectors within the U.S. and world economy and accounted for nearly 18% gross domestic product in 2020 within the United States. There are many sub-industries within the healthcare sector such as drug manufacturing, medical equipment production, health insurance and healthcare facilities. Companies such as Johnson and Johnson, Pfizer, and Moderna were household names during the COVID-19 pandemic and their respective stock prices saw an upswing during that time. Now coming out of the pandemic the future of the healthcare industry is uncertain.

As a group we still felt that the healthcare industry would be a stable investment for our portfolio given a 10–15-year time horizon and decided to take advantage of the pending uncertainty. To weather this storm, we invested in Johnson and Johnson, as J&J has proven to be a top company within the healthcare industry and has even been crowned a “dividend king” due to how stable its dividend payouts to shareholders have been over the company’s lifetime.

There are some industry trends that show a positive direction for healthcare's future. There is an older population within the United States mainly due to the baby boomer population getting older, which has driven a strong demand for the products offered by the sector. There are also major barriers to entry when it comes to trying to compete against top firms within the industry, which fed well into our thesis of investing in a strongly qualified and stable company with a protective moat like Johnson and Johnson.

One potential issue in the healthcare industry is the major reliance on patents to protect against manufacturing and product rights. Companies will often rely on these patents to protect their products from being copied after they have invested large sums of money into research and development. Patents eventually expire though, and revenue is lost due to customers switching from a private label to a generic brand medicine for a cheaper cost. Another area of concern within the industry is that most growth within the industry is done inorganically as big firms will acquire drugs from smaller companies for a premium. This raises the question of whether the research and development cost that major firms focus a major portion of their expenditures on is worth it. This is done on a case-by-case basis and is a reason why we also felt that investing in Johnson and Johnson was a great decision for our portfolio.

In the past year the healthcare industry has dropped about 11% overall mainly due to how inflated the industry was during the years 2020-2021. Now that there has been an exit from these times the market will see what companies are here to stay and which were just riding the wave.

CONSUMER DISCRETIONARY:

The consumer discretionary sector comprises companies working in a host of different industries, including automotive, distribution, hotels, restaurants, leisure, retail, and consumer goods. Consumer discretionary industries are highly sensitive to economic cycles, with consumer confidence regulating much of their business activities.

The consumer discretionary sector did not fare well in 2022, reporting a 31.15% decline YoY, underperforming the S&P 500, which has declined 19.12%. Increasing inflation, spurred by pandemic after-effects and the Russia-Ukraine war, combined with increasing interest rates has led to decreased confidence in the economy and therefore decreased spending on consumer goods. Retail in particular fell over the course of the year, with consumers largely choosing to budget their money away from spending on consumer goods. It should be noted that the first half of 2022 was marked with supply chain issues that led to tighter inventories amidst surprisingly strong demand, which allowed some retailers to increase prices, but this effect waned as the second half of the year brought increasing recession concerns. However, hotels and general hospitality stocks saw increases throughout the year, spurred by consumers yearning to vacation and take advantage of relaxed pandemic regulations, a characteristic that is only beginning to wane as the year ends.

The outlook for 2023 remains uncertain. Inflation and the current interest rate increases could slow down, an indication for consumers to increase spending with increased disposable income. However, there remains the potential for a recession as an after effect of the increased rate hikes, which would lead to continued declines in consumer spending. This characteristic is likely to also affect the hospitality industry, which is predicted to see slowing growth in the next year as fewer people choose to vacation and instead save money. The current potential for a recession remains unclear, so future potential consumer spending habits are difficult to estimate. These spending habits also differ drastically between lower-, middle-, and upper-income households for this sector, making it even more difficult to predict the potential for the sector in 2023.

UNALLOCATED SECTORS:

With such turbulent macroeconomic behavior in recent months, our team found it most suitable to strip our investment philosophy down to the basics and focus on finding strong companies with an ability to generate reliable cashflows. Our pitches this semester focused around building a strong foundation for our portfolio that we could build off in the spring semester. We remain confident in our investments but recognize a lack of diversification in different sectors, having only allocated to information technology, consumer discretionary, and healthcare thus far. To abate the risks of a heavily concentrated portfolio, our team will look to invest in different sectors this upcoming spring. We will aim to do this without sacrificing our core investment philosophies which we have held true to thus far. We will certainly keep our aforementioned economic outlook in mind as we comb through investment ideas in new and possibly riskier sectors.

PORTFOLIO POSITIONS

JOHNSON & JOHNSON (NYSE: JNJ):

On November 14th, we purchased 375 shares of Johnson and Johnson at $171.82 per share at a total cost of $64,432.50.

Johnson & Johnson is a multinational conglomerate leader in its three business segments: Pharmaceuticals, MedTech, and Consumer Healthcare. The company is the largest manufacturer of pharmaceutical products in the United States and the second-largest producer of medical devices. The company plans to spin-off its Consumer Healthcare segment by the end of 2023.

Our first allocation for our portfolio was JNJ which provided a solid foundation to hedge volatility. We see value in the company's history for stability in times of economic turmoil and long-term performance compared to the S&P 500. JNJ consistently devotes more revenue to research and development than its competitors and still produces enough free cash flow to increase its dividend continuously for 59 years. Finally, we see long-term value from the strategic spin-off of the Consumer Healthcare segment because it will allow each company to focus on its core competencies. Johnson and Johnson produce substantial recurring revenue through their strong pipeline of medical devices and drugs, which have 20 years of patent

protection attached. Currently, JNJ has fourteen drugs that make over one billion each in revenue, with top drugs contributing over five billion each fiscal year. In addition, the company has the potential for over fourteen new approvals by 2024. A considerable concern is the patent cliff of Stelera, a 9-billion dollar per year drug, but this will cause short-term softness. Drugs such as Darzalex and Invenga have had significant revenue streams ($4B+), and patent protection for more than ten years will pad the company's revenue streams. The company is dedicated to expanding its MedTech business segment and recently announced the acquisition of a medical technology company Abiomed for 16.6 billion dollars which is the world leader in breakthrough heart, lung, and kidney support technologies.

Consistently innovated for over 100 years and with a strong brand image, the consumer health segment will thrive as a new public entity under the name Kenvue. This type of spin-off is among many in the healthcare industry; Pfizer & Merck Spun out their consumer businesses. The complexity of healthcare needs and strategic focus for consumer business makes sense for the spin-off to happen now.

Johnson and Johnson is backed with solid financials and a triple-A credit rating. The company has a strong dividend yield of 2.78%, which has grown for 59 consecutive years. In addition, the company has strong operating margins with even more significant pharma margins. Ultimately, Johnson and Johnson is a company that continues to unlock value for shareholders, will outperform during economic turmoil, and fits perfectly in our investment philosophy.

As of December 2nd, 2022, we had an unrealized gain of 4.1% on JNJ.

MICROSOFT CORPORATION (NASDAQ: MSFT):

On November 15th, 2022, we purchased 429 shares of MSFT at $242.08 per share at a total cost of $103,852.32.

Microsoft is a dominant software company focusing on three business segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. The company sells its products through OEMs, distributors, and resellers, and directly through digital marketplaces, online stores, and retail stores. Microsoft was founded in 1975 and is headquartered in Redmond, Washington.

Microsoft is an attractive investment for many reasons, the first being its resilient business model. The model itself is built upon three pillars: an integrated system of products, high customer switching costs, and strong recurring revenues. Microsoft's broad portfolio of products are integrated within businesses and consumers alike. Microsoft Office alone is used by more than a million companies worldwide, and Azure, Microsoft's cloud platform, is used by 95% of Fortune 500 companies. These products have been relied upon for decades, with competitors being unable to replicate the different consumer and business applications that Microsoft provides. For customers, moving on from Microsoft's software applications is unfeasible, given the sheer amount of data housed on various programs. And for Azure in particular, once data is housed on the cloud platform, it is very expensive to switch to a different provider. Microsoft's rock-solid recurring revenue stream is built upon a variety of monthly and annual subscription options that are tailored to customer needs. Given the necessity of these software programs, and the many years they have been used by businesses and consumers, cancellations remain low.

The ability to capitalize on trends in both the gaming and cloud computing industries also makes Microsoft a great long-term investment. An expansive console and game title portfolio has allowed Microsoft to build a loyal gaming customer base. Microsoft's Azure has seen the fastest growth throughout the cloud computing industry, driven by its interconnected platform that is cheaper than its direct competitors of AWS (Amazon) and Google Cloud (Alphabet).

Microsoft remains in a strong financial position that is likely to continue going forward. It is one of two companies in the world with an AAA credit rating, reflecting its unquestionable ability to repay debt. Additionally, Microsoft has seen consistent increases in EBIT margin, debt repayment, and ROE, which reflects strong financial governance. Company leaders have shown a greater commitment to returning shareholder value over the long term, which aligns with our investment philosophy.

Lastly, market volatility has provided us with what we believe to be a great entry point in buying Microsoft. The share price has dropped significantly, as attributed to a broader tech sell-off and unfavorable macroeconomic conditions. The drawback in investment in the Information Technology sector is only indicative of short-term softness for the sector's products, which we believe will not last for an extended period. For these reasons, we believe Microsoft is a great long-term investment for our portfolio.

As of December 2nd, 2022, we had an unrealized gain of 5.3% on MSFT.

LOWE'S COMPANIES INC. (NYSE: LOW):

On November 28th, 2022, we purchased 368 shares of LOW at $210.01 per share at a total cost of $77,284.53.

Lowe's is an American retail company that primarily operates in the home improvement sector with over 1,900 retail locations in the United States. For the past 40 years, Lowe's has served its customers as the second largest home improvement retailer in the country and has shown resilient growth over that time. We see value in Lowe's strong business model that has grown 8% annually over the last two decades. A lot of this growth has and will continue to be driven by their pro-business, which provides steady revenues and helps to grow their market share in various consumer segments. Lowe's 2% dividend and increasing share buyback program has returned billions of dollars to its investors and makes it even more attractive to us as investors.

Despite a slowing economy, Lowe's still benefits from strong tailwinds that will continue to support its growth. The average U.S. home has reached its oldest age since World War II. Now more than ever, homeowners are needing to make necessary and discretionary improvements to their homes. With a slowing housing market, many homeowners will be settling with their current homes for the foreseeable future. This is the time to make improvements to their house that they will be able to enjoy will they still own the property. Whether the improvements are being made by professionals or the homeowners themselves, Lowe's will supply the necessary items to help complete these projects.

Lowe's has seen a significant increase in their return on invested capital over the past few years, mainly due to their operational and managerial improvements. Online shopping, dedicated pickup zones, and dedicated pro-customer attendants have helped improve the shopping experience and are driving better margins for the company. One of the main changes that will help push Lowe's margins even higher is their new market delivery model. This delivery model cuts out stockrooms and unnecessary stops for Lowe's deliveries. Using cross-dock terminals and direct to customer shipping, Lowe's has managed to improve delivery efficiencies and increase their margins significantly.

Since joining the company in 2018, CEO Marvin Ellison has made substantial improvements to Lowe's, and we believe under his guidance this company will see continued and significant growth.

As of December 2nd, 2022, we had an unrealized gain of 2.3% on LOW.

TJX COMPANIES INC. (NYSE: TJX):

On November 28th, 2022, we purchased 698 shares of TJX at $80.19 per share at a total cost of $55,972.62.

TJX is a group of off-price retail stores consisting of T.J. Maxx, Marshalls, HomeGoods, and HomeSense, with an international presence in Canada, Europe, and Australia through Winners and T.K. Maxx. The company differentiates itself from other retailers by offering branded apparel, accessories, and home furnishings at heavily discounted prices. The high luxury offered at lowered prices attracts consumers from all demographics who pursue the high brand lifestyle without wanting to spend excessively.

The economy has recently seen rising inflation and rising interest rates to lower inflation. Both situations call for decreased disposable income for consumers, who begin to seek ways in which they can save money. Off-price retail, known as inferior goods, tend to do well during these situations, as was seen with their rising share prices over the past few months. The off-price retail market saw a 40% rise in sales during 2021, the drivers of which have largely continued in 2022. TJX is a leader in this market, with many consumers turning to it as they offer more and better-quality brands than their competitors. TJX also has an edge over its competitors as it is the only American off-price retailer with an e-commerce platform and an international presence. With an incredibly diversified supplier portfolio as well as increased investment in distribution channels and capacity, TJX is positioned to grow its international presence rapidly in the coming years. The company also makes for a strong investment as their growing store count and greater cost management is likely to cause an increase in earnings per share of approximately 12% in the next five years.

There do remain some risks facing TJX. One is the potential of suppliers walking away from distributing to TJX, as selling to off-price retailers is the least profitable option for traditional retailers. However, while some companies decided to begin pulling their stock from TJX shelves, many of these companies are yet to begin doing so. Additionally, TJX has a varied supplier portfolio of over 20,000 vendors which they can continue doing business with. TJX has also met with some quality control issues; however, this has done little to deter customers from continuing to visit their stores. Two prominent threats now are rising supply chain costs, as incremental freight transportation costs are increasing, and increasing rent prices, as TJX rents its storefronts.

However, while both contribute to rising costs for the company, both are short-term risks that are likely to clear up in time. Overall, while there do exist risks for the company, the risks are relatively insignificant.

With the economy still looking down as the holiday season approaches, TJX is well positioned to continue growing its revenues. The larger customer base found through these times is likely to stick following an economic upturn, allowing for strong future growth for TJX.

As of December 2nd, 2022, we had an unrealized loss of 0.53% on TJX.

Conclusion

LESSONS LEARNED:

The responsibility of managing a million-dollar portfolio is something most students will never get the opportunity to do. We are honored and grateful for the chance to hold this responsibility and gain valuable lessons from the program. One of the central goals of the Student Managed Fund is to give students a diverse learning experience, and this is something we realized early on.

The learning journey began last semester during the interview phase of the program. To apply for the Student Managed Fund, students had to submit a write-up with a stock pick, which guided the interview with our undergraduate supervisor Jeff Annello. We all remember sitting there in our interview while Jeff asked questions about our companies that we had never even considered. This fundamental thought process of understanding a company and what makes a good company versus a great company is something we all have developed this semester. Jeff's lectures at the beginning of the semester and continued advice after our pitches engrained critical thinking skills in our minds, guiding us to make responsible investment decisions. The SMF Speaker series was also beneficial in keeping us up to date on current events and helping us understand different investing styles. In addition to the critical thinking skills required to manage a portfolio, our team had the opportunity to expand our technical skills.

As generalists, most of our team worked on multiple pitches and had the experience of learning about companies in different industries. We have all worked through different valuation models and understand the best ways to make projections. In addition, our quantitative analysis of

different companies introduced us to critical financial metrics and the proper way to understand a company financially. Attention to detail is a principle our team focused on greatly. When making an investment decision, we understand it is essential to report accurate due diligence to our team.

On a company level, we learned the importance of risk management and timing. We found that prices can shift dramatically due to different events in a volatile market. In the case of Starbucks and Texas Instruments, their earnings reports gave investors great expectations, which shot the stock price up to levels we could not allocate toward, given our commitment to maintaining our fiduciary responsibility and investment philosophy.

Most importantly, we learned to work together as a team. We realized early on with Datadog that it is critical to have a consensus on what we all think of a company before an investment pitch, as it will save valuable time and effort. Throughout the semester, we all were open to advice from one another and recognized that the most growth comes from hearing each other's perspectives and ideas.

THE FUTURE:

Team Blue is ready to use our knowledge from this semester to excel in 2023. We aim to have a pipeline of at least two pitches per week until we fully allocate in equities. With this, we will maintain our investment philosophy and ensure all allocations follow comprehensive due diligence. As our portfolio grows, we will shift our focus to risk management and diversification.

We could not be more excited to return to work next semester and thank you all graciously for reading our report. On behalf of Team Blue, have an amazing holiday season and new year.