SMF Team Green Fall 2022 Summary

University of Connecticut School of Business

Data as of December 3rd, 2022

Letter to Investment Advisory Board

Members of the UConn Investment Advisory Board,

The 2022 Student Managed Fund Team Green would like to thank you for the opportunity to participate in such a prestigious program. A top-notch educational environment is a great foundation for a career in finance, yet nothing can rival the unparalleled experience of managing a portfolio, conducting market research, and working in a professional team setting.

While this program has been around for over twenty years, this is the first time that a team has consisted of Storrs undergraduates, Stamford undergraduates, and MSFRM graduate students. It is a true privilege to be able to work with members of varying experience, and while a hybrid format may seem difficult, we have made the most of our experience and adapted to the remote style of work that is so common in the corporate world following the pandemic.

The appliance of market knowledge, critical thinking, and financial modeling all play a role in our day-to-day decisions within our portfolio. We pride ourselves on performing our due diligence before investing, along with using a different portfolio allocation structure. While there have been many challenges, we prioritize embracing the opportunity to learn and improve.

Your advice is always welcomed and appreciated. We look forward to meeting with you all again this spring.

Team Green

Team Green

Lead Managers: Andrew Brewer, Juan Perfumo

Portfolio Manager: Furkan Parcal

Risk Manager: Yanting Lin

Communications Manager: Haoxin Zhang

Digital Media Manager: Guo Cheng

Analysts: Shane Brady, Ahmad Hasan, Claudinei Moreira Jr., Brahiam Pena Ramirez, Julian Vivenzio, Yuan Yao

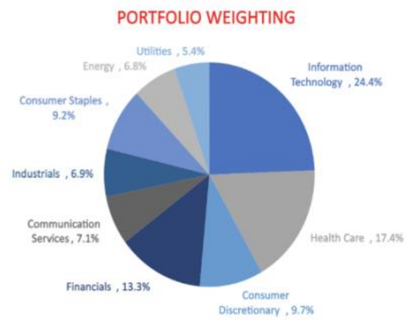
Investment Style Overview

Benchmark & Weighting:

For performance calculations, we used the S&P 500 as a benchmark for overall performance. We also used the SPDR 500 ETF Trust (SPY) to calculate performance within our portfolio, finding the difference between our equities and the ETF that makes up a considerable portion of our holdings.

While the S&P 500 is our performance benchmark, we decided to alter individual sector weightings to remain competitive in today's volatile market. The new weightings can be found below.

Sector	% Invested Portfolio	S&P Sector Weight
SPY	76.81%	N/A
Information Technology	4.66%	24.40%
Health Care	0.0%	17.40%
Financials	4.90%	13.30%
Consumer Discretionary	4.74%	9.70%
Industrials	0.0%	6.90%
Communication Services	5.19%	7.10%
Consumer Staples	0.0%	9.20%
Energy	3.10%	6.80%
Utilities	0.0%	5.40%
Real Estate	0.0%	0.0%
Materials	0.0%	0.0%



Investment Philosophy:

The foundation of our team's investment philosophy is a top-down analysis of industries, sectors, and the firms that we research. We are looking for macroeconomic drivers that would fuel long-term growth in a firm and have taken this into consideration when adjusting the S&P 500 sector weightings to accommodate our strategy.

The main pillars of our investment philosophy are as follows:

1. We seek companies that have cash-heavy balance sheets.
2. Companies with lower debt ratios are more favorable than those with higher ones.
3. We invest in companies with favorable market positions and those who have a competitive advantage over others within the industry.
4. We find companies that we believe are currently trading below their intrinsic value.

The combination of these four pillars combined with our top-down analysis provides a minimal risk approach to investing in S&P 500 securities. We believe that this low-risk approach is superior in current market conditions due to placing safe bets during such uncertain economic times.

Investment Process:

Pitches

When pitching an equity, analysts typically split into groups of 2-3 members and delegate research, financial modeling, and construction of the presentation. Discounted cash flow analysis, sensitivity charts, and comparable analysis are among the financial models used in determining forecasts and estimating intrinsic value of a security. ESG score, revenue compound annual growth rate, and key ratios such as P/E and EV/EBITDA are all presented in pitch decks, along with details of a company's corporate strategy and management.

Voting & Allocation:

Once a stock is pitched to the group it is then time for us to make our final investment decision. For any equity to be bought there needs to be a majority vote of 9/12 members to approve a buy. Otherwise, the company will not be invested in the portfolio. As a team, we decided to create a diverse allocation to our portfolio with the expectation to end with 19 stocks in the portfolio.

Portfolio Performance:

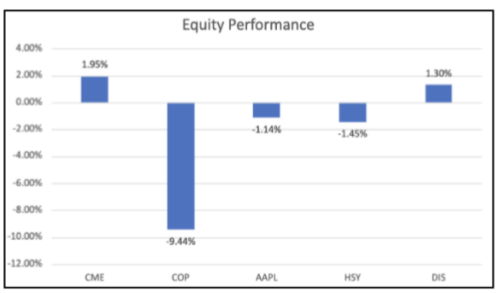
Currently 22.36% of our portfolio is invested in 5 securities. These securities fall within the following sectors: Consumer Staples, Energy, Communication services, Technology, and Finance. Our team has not allocated capital to the following sectors: Materials, Utilities, Healthcare, Consumer staples. The summative data detailing our portfolio's performance can be found below:

Total Portfolio V.S. S&P 500 Performance

S&P 500 Index Benchmark	
Beg. Value	$3859.11
Current Value	$4071.70
Abs. Change	$212.59
% Change	5.51%
Difference in Performance	

Portfolio Performance V.S. S&P 500 Performance	
Total Portfolio Performance *(including SPY)*	4.94%
Total Portfolio Performance *(excluding SPY)*	-0.63%
S&P 500 ETF SPY Performance	5.51%
Difference in Performance *(excluding SPY)*	-6.14%

Equity Performance



Company	Ticker	Buy Price	Current Price	% Change
Conoco Phillips	COP	$134.82	$122.10	-9.44%
Apple Inc.	AAPL	$149.50	$147.81	-1.14%
The Hershey Company	HSY	$231.31	$234.66	1.45%
The Walt Disney Company	DIS	$98.13	$99.40	1.30%
CME Group	CME	$173.25	$176.63	1.95%

Economic Outlook

Our investment strategy is grounded in thorough economic research and analysis. Our team continuously monitors global and domestic economic conditions to better inform our investment decisions. While we do not engage in market timing or speculation, we do use the available data to predict market movements and make informed decisions.

Since the initiation of our investment journey, the markets have shown a high degree of volatility, as shown by the VIX still being above 20, reaching its peak of 33 in October. Despite these fluctuations, we feel confident and remain patient with our picks. As Warren Buffet once said, "The stock market is a device for transferring money from the impatient to the patient."

Markets have taken a significant hit this year with discussions of a potential recession and its severity. There have been multiple factors responsible for increased volatility. Among these factors are inflation, rate hikes and geopolitical tensions.

The ongoing issue of inflation has had a negative impact on investor sentiment. With inflation rates reaching 8% in 2022, consumer confidence has been significantly affected. Initially, the Federal Reserve deemed inflation as transitory, however, this has not been the case. Nevertheless, recent increases in rates have shown signs of inflation beginning to cool off.

The market has seen a significant shift in the past few months, with rates rising rapidly and reaching the current levels of 4.25%-4.5% set by the Federal Reserve. This trend has had a significant impact on growth stocks, resulting in notable declines of over 40% for blue chip names such as Amazon, Netflix, and Alphabet.

Geopolitical tensions have dominated the news this year with Russia invading Ukraine. This invasion has had a deteriorating impact on the financial markets worldwide. More specifically, the commodity markets have been severely impacted by the invasion. Which is partly responsible for supercharged inflation since Russia, the second largest producer of oil, was banned from exporting oil and related commodities. In turn energy stocks provided phenomenal results for investors while other sectors tumbled. Moving forward energy will be cooling off but still provides a hedge against possible further inflation.

Recently, China has been making headlines due to a resurgence in COVID-19 cases. This has led to increased concerns among investors regarding the potential impact on the global economy, as China is a major player in international trade and supply chains. The recent outbreak has raised worries about supply chain disruptions, which could lead to delays and shortages of goods. Although, unlike previously, China has been relatively lenient on covid lockdowns.

We remain confident that opportunities for investment still exist amidst market volatility and uncertainty. As Peter Lynch famously said, "If you want to avoid bear markets, you have to avoid bull markets." Which is why we would not be slowing down our pitch pipelines due to any macro concerns.

Sector Analysis

Energy:

Current holding: ConocoPhillips ((NASDAQ: COP)

The energy sector is made up of companies that are involved in the exploration, production, and distribution of energy resources such as crude oil and natural gas. Some of the types of companies found in the energy sector are oil and gas drilling and production, pipelines and refining, mining companies, renewable energy, and chemicals. These companies also supply drilling and other energy-related services. Companies like ExxonMobil, Chevron, Schlumberger, EOG Resources, and ConocoPhillips, to name a few, are considered leaders in the energy industry. Their performance often sets the tone for the broader energy sector.

Consumer confidence and business cycles are two economic factors that directly affect the energy sector. Demand for energy resources and prices may decrease during market downturns as consumer spending on energy decreases. In contrast, higher demand for energy resources and higher prices may result from periods of economic growth when consumer spending on energy increases. The energy sector is also highly impacted by government policies and regulations, including taxes, subsidies, and environmental regulations.

One way to track the performance of the energy sector is through the Energy Select Sector SPDR ETF (XLE), a broad-based ETF that tracks the energy sector. The energy sector weighting in the S&P 500 is 5.15%. As of December 2022, it's worth noting that the energy sector has had a robust performance. Although the S&P 500 fell 18.17%, the energy sector saw growth of 64.17% from January 2022 to December 2022. Strong performance has been mainly attributed to a rebound in oil prices, increased demand for energy resources, as well as the ongoing war between Russia and Ukraine. This has disrupted the supply chain for the entire globe and has led to an increase in energy prices.

For 2023, it's also expected that China's economy will fully reopen from the lockdown measures taken due to Covid-19, which could further increase gas prices as China's reopening and the war in Ukraine do not show signs of slowing down.

Communication Services:

Current holding: Walt Disney CO (NYSE: DIS)

The Communication Services segment consists of social media companies, Internet search companies, video game makers, telecommunications providers, and streaming media, among other communication services that make up the bulk of this sector. The sector showed a gradual upward trend as the COVID-19 pandemic ended. The Communication Services sector is cyclical, which means it is sensitive to business cycles. The Communication Services sector's Communication Services sector stocks follow the overall economy.

Year to date, the Communications Services sector returned 7.91% outperforming the return of the S&P 500, 4.16%. The difference from the S&P 500 is 3.75%. Comparing P/E ratio to the S&P 500 of 19.17, the Communication Service Sector has a lower ratio,12.47.

The outlook for this area is mixed at best. The sector will be heavily influenced by market volatility, the risk of recession, higher inflation, etc. It will be difficult for the sector to remain unaffected by these factors in the future. Meanwhile, the telecom services industry includes a wide range of companies and sectors, with companies providing utility services supplying slow and steady growth for the sector. Overall, we believe that there is a long-term investment opportunity in the communication services sector, but it will be underperforming the S&P 500 for a brief period.

Technology:

Current holding: Apple Inc. ((NASDAQ: APPL)

The Technology sector includes IT Services, Software, Communications Equipment, Technology Hardware, Storage and Peripherals, Electronic Equipment, Instruments and Components, and Semiconductors and Semiconductor Equipment. Software is the largest sub-sector, taking up more than half of the sector's market value. Companies in the technology sector engage in research, development, and distribution of technologically based goods and services. Companies within this sector offer a wide range of products and services from individual consumers to large corporations. Consumer goods include products such as computers, mobile devices, wearable technology, home appliances, and other products. Many corporations rely on companies within the technology sector to help them grow or improve their business operations. The technology sector is also composed of tech run social media companies' platforms such as Facebook and Twitter. The technology sector is slowly shifting into blockchain which includes metaverse, NFTs, and cryptocurrencies. The outlook for the sector in 2023 shows limited growth due to continued issues of inflation and low economic growth. The consensus is that the technology sector is expected to have returns around the single digits in 2023.

Financials:

Current holding: Chicago Mercantile Exchange Group (NASDAQ: CME)

The financial sector consists of companies whose business operations provide financial services to commercial and retail customers. This sector is made up of many different industries ranging from traditional banks, investment banks, insurance companies, real estate brokers, consumer finance companies, and mortgage lenders. This sector is heavily regulated. The economy's health depends largely on the strength of its financial sector. The revenue of the financial sector comes from loans, insurance, and transactional services. The outlook for the sector in 2023 largely depends on the economy's stability, but the continued rise of interest rate will help the sector.

Consumer Staples:

Current holding: The Hershey Co. (NYSE: HSY)

The consumer staples sector is comprised of companies manufacturing products that are typically used/consumed daily. Packaged foods, cleaning supplies, and other household goods that have relatively inelastic demand provide this sector with a robust reputation during times of economic uncertainty and helps to maintain price levels.

This sector's defensive position was able to net it a 0.37% return on the year, outperforming the S&P and resisting inflationary threats. This trend is projected to continue into 2023, with the most promising performance coming from companies who offer private label brands and essentials. Rising input costs and wavering consumer sentiments pose lesser of a threat compared to other sectors, and while cost of goods might increase, margins are projected to stay relatively stagnant. The consumer staples sector will remain a defensive play in 2023, and will provide the portfolio with a low-risk component.

Unallocated Sectors:

The consumer discretionary, healthcare, industrials, and utilities sectors all have yet to receive an allocation. These sectors will be used to diversify our portfolio and hedge it against risks that our current holdings are facing. We will be aggressively researching and investing in low-risk mid-cap stocks within these sectors in order to create a barbell portfolio and combat the volatility we have seen in industries such as IT.

Portfolio positions:

Chicago Mercantile Exchange Group (NASDAQ: CME)

Performance as of 12/3/2022: **+1.95%**

On October 26, 2022, we purchased 312 shares of Chicago Mercantile Exchange for $173.25 per share at a total cost of $54,054

CME is the largest derivatives exchange (marketplace) in the world trading $350 billion of notional value per day. They offer clients the ability to trade futures, options, cash and OTC markets, optimize portfolios, and analyze data. Headquartered in Chicago, IL. CME is used to hedge exposure in many different areas. For example, Global banks hedge their exposure to interest rates in their mortgage loans, credit card loans, and commercial loans. Global banks also use CME to hedge their exposure to foreign exchange from international commerce from banks' clients. Asset managers hedge exposure to investments in equities and fixed income. Commodity producers hedge fluctuations in the price of the commodity. Trading firms trade futures to speculate on the future price of an instrument.

CME's biggest revenue drivers are average daily volume, revenue per contract, trading days. The biggest cost driver is compensation which can be influenced based on percentage of inflation. The biggest competitors and indirect competitors of CME are ICE, MSCI, NDAQ, SPGI, and LSEG.L. This is because they do not offer the same contracts based on their current offerings. For example, an individual can trade the Euro-dollar contract only with CME. The biggest risk CME faces is if regulators step in to take away their monopoly or have a similar case with the financial crisis in 2008 where too many people defaulted at once. CME is the largest exchange in future contracts with about 90% market share. CME is a natural monopoly. CME's moat is strong and allows it to control almost all derivative markets. Their biggest economic moats are network effect, strong pricing power, high switching cost, and high marginal contribution.

Conoco Phillips (NYSE: COP)

Performance as of 12/3/2022: **-9.44%**

On November 14, 2022, we purchased 281 shares of Conoco Phillips for $134.82 per share at a total cost of $37,885.77.

Conoco Phillips is a U.S multinational exploration and production company specializing in early-stage production of liquified natural gas, crude oil, bitumen, and natural gas liquids. The firm currently produces 1,731 million barrels of oil per day and has 6.1 billion barrels in proved reserves. Conoco currently has revenue producing assets and operations on six continents across the globe including the land in the Permian basin.

Majority of COP earnings are coming from the lower 48 of the United States while still diversified across the globe with roughly 35 percent of earnings coming from outside the lower 48. This provides an economic advantage relative to other exploration and production firms that don't have a global reach. ConocoPhillips also has a strong balance sheet with a total debt to EBITDA ratio of .92 and net debt to equity of 37.62 we believe COP is in a strong position to continue to provide value to shareholders for a prolonged period.

Apple Inc. (NASDAQ: AAPL)

Performance as of 12/3/2022: **-1.14%**

On November 15, 2022, we purchased 350 shares of Apple Inc for $149.52 per share at a total cost of $52,330.25.

Apple Inc. is a technology company that designs, manufactures and markets smartphones, computers, tablets, wearables, accessories, and services. It is currently the most valued company in the world at a market capitalization of $2.381T. In terms of industry outlook, IT spending in 2023 is projected to be $4.6T. Volatility on a global scale is affecting the industry overall. Although, the industry is growing at an accelerated rate, with it also being greater than 10% of the global economy.

When analyzing Apple, many factors contribute to the company being valuable to our portfolio. With a recession proof business model, strong FCF, consistent innovation and product releases, Apple is a recommended buy. In addition, the loyal consumer base will continue to help the company through macroeconomic downturns. There are risks with the supply chain, specifically operations in China because of their heavy reliance on manufacturing in this country. ESG risk ranks in the 15th percentile at 17. Overall, we see Apple as a buy for a long-term position.

The Hershey Co. (NYSE: HSY)

Performance as of 12/3/2022: **+1.45%**

On November 21, 2022, we purchased 228 shares of Hershey for $231.31 per share at a total cost of $52,738.68.

The Hershey Company, together with its subsidiaries, engages in the manufacture and sale of confectionery products and pantry items in the United States and internationally. The company operates through three segments: North America Confectionery, North America Salty Snacks, and International.

Hershey's innovation, resistant business model, and strong free cash flows help support its status as a market leader in an industry where growth is not as common amongst competitors. Hershey faces risks such as higher costs of raw materials and supply chain disruptions, yet they still saw a revenue increase of 16% in 2022.

The Walt Disney Co. (NYSE: DIS)

Performance as of 12/3/2022: **+1.30%**

On November 21, 2022, we purchased 590 shares of Walt Disney Co for $98.13 per share at a total cost of $57,895.34

The Walt Disney Company (DIS) is a diversified international family entertainment and media company. It operates through the following divisions: media networks, parks, experiences and products, studio entertainment, and direct to consumer and international (DTCI). The media networks segment includes cable and broadcast television networks, domestic television stations, radio networks and stations. The parks, experiences and products segment owns and operates Walt Disney parks and resorts around the world. The studio entertainment segment produces and acquires live-action and animated films, direct video content, music recordings and live stage productions.

Lessons Learned

Throughout the summer and the fall semester, Yaccov Kopeliovich and Blake Mather have taught each person different approaches and perspectives to investing. They facilitated massive amounts of investing knowledge ranging from technical to soft skills. The Student Managed Fund has been an extremely beneficial program for one reason. It is focused on getting students out of their comfort zone to grow for this is the only way individuals can improve and be a better investor, but more importantly a better person as well. We want to highlight several lessons learned throughout the semester.

Patience: Emotions and biases get the best of people in investing. As a result, it is important to come up with a consistent strategy for dollar cost averaging. It is impossible to consistently time the market. We learned this lesson with Lululemon Athletica Inc (NASDAQ: LULU). The stock jumped 11% the day after the team had voted to buy the stock which resulted in putting the purchase of LULU to a halt. From this point forward we will learn from this lesson and incorporate either limit orders or dollar cost average into more positions, especially if an earnings report is scheduled.

Adaptation: There have been many occasions throughout this semester in which our team has had to adapt to current challenges and come to solutions. One example is having having to restructure all the work after Storrs and Stamford teams combined. This was especially seen when restructuring Asset Allocation to fit what everybody agrees on. We are working within an ever changing market and thus as a team need to be able to adapt and change given whatever challenges we may face. We will continue to adapt as we see fit and work together to manage this portfolio to the best of our abilities.

Financials vs Management: This is a lesson we learned very early into the semester. Just because a company is attractive from a financial perspective doesn't mean non-financial factors can't drastically change performance at least in the short term. For example, Bob Chapek made many improper decisions which led to less confidence in shareholders and the general public. However, Disney plans on changing management to Bob Igner. This taught us to pay more attention to non-financial factors as it plays a large role in each company.

Use financial modelling into investments: The team has been properly conducting research about each industry with the use of porter analysis. The team has been able to use porter analysis to find a range of companies and then use the investment thesis or their economic moats to pick a company to pitch and create a DCF. The ability to create a DCF allowed us to understand the driving factors of each sector and individual company for revenues and the cost.

How to work as a team: Everyone's voice gets through in many ways, like asking questions in a stock pitch or presenting ideas in the group chat. Overall, the goal is to hear everyone's perspectives and create a consensus that most to all agree upon. We also allow analysts to work with others from different sectors to broaden their horizons in the investing world. We allow everyone to get their voice across without judgment. The goal is to establish clear communication and each idea brings us progress in some way.

Filtering news: We have been exposed to a vast amount of information in the internet from different sources. Our job is to understand the information in detail and come up with what sources can be trusted and what is not. For example, FTX went to congress about getting a license to compete with CME because FTX believes they are better at handling risk management than CME. However, it was proved to be false after they collapsed aka lost a lot of money

Team Green thanks you gratefully for reading this report.