"In the end, we will remember not the words of our enemies, but the silence of our friends."

Martin Luther King Jr.

Statement from the Chair

Chair of the Investment Committee: Ricardo Mestre

My role as the Chair of the Investment Committee encompasses a dual responsibility to ensure the efficacy of our investment process while maximizing the experience and learning opportunities for the members of the organization. Our goals in the first area are impossible without execution on the latter. This quarter has presented significant challenges to both of these mandates and I am proud of the resilience that has been demonstrated by all the members of this organization.

Beginning with some brief market commentary, COVID-19 and the subsequent actions by the federal reserve have had a substantial impact on the market. Large-cap stocks have flourished as the federal reserve injected capital to improve liquidity and many of the technology names that dominate the S&P 500 have more robust business models in the face of the global pandemic. The S&P 500 is up ~5% on the year (up from down ~30% in late March), while the Russell 2000 is down ~6% on the year (up from down ~40% in late March). As the market has rallied, opportunities for value have become somewhat scarcer and many investors are left questioning high valuation in the face of mid-teens unemployment, reduced fiscal stimulus going forward, and a looming recession. With a long-term capital base, we choose to focus on individual business quality and avoid speculation about the unknowable. This is demonstrated by our investment in MTSC, a small-cap test systems and industrial position sensors manufacturing company with a defensible market niche and attractive return profile in a normalized environment.

Moving on to our club: like everything else in the world, our organization had to adapt to the global pandemic. We wanted to ensure that, despite the necessary changes and uncertainty, TBC would be able to continue to provide an unparalleled educational experience and some sense of normalcy for our members. We transitioned our weekly meetings to a weekly newsletter, which contained informative articles in addition to investment pitches. Furthermore, Brandon (President) and Grace (Vice-President) did a great job of writing a weekly portfolio update in addition to reaching out to alumni for a weekly Q&A.

Despite its challenges, the new Zoom world came with advantages. We were able to reach out to alumni at an unprecedented rate and hear about their experiences. I found all these calls tremendously interesting and the wisdom provided by our alumni network an invaluable resource that we can continue to leverage in the future. (I also got some tremendous restaurant recommendations that I hope to visit sometime in the not-too-distant future.) As a club, we also had the opportunity to do a Q&A with Seth Klarman, a notable value investor and author of *Margin of Safety*. It was fascinating to hear him talk about his investment philosophy, view on current events, and his experience as an investor. Personally, getting the chance to ask questions directly to Seth Klarman was a highlight of my quarter and a dream come true.

It must be said that this quarter has also marked a growing realization by many of the systematic inequalities that exist in our society with a specific emphasis on police violence in Black communities. Images and videos of needless deaths and brutality by police have sparked movements that aim to address this fundamental inequality. I am proud that TBC held a fundraiser for Campaign Zero that raised $1,750 in support of research-based policy solutions to end police brutality in the US. I would like to personally thank everyone that contributed and the Diversity & Inclusion (D&I) Committee that we established at the beginning of the quarter for organizing the fundraiser.

Finally, it is important to me that I recognize what I believe to be the greatest issue that our club faces: the insufficient and unrepresentative diversity among our members. To acknowledge that systemic racism and sexism exist in our society and on our campus is to acknowledge their existence in TBC. Racism and sexism have fundamentally shaped every element of our club since its founding in 2003. It has led to a membership that is historically predominantly male and lacking any significant membership of underrepresented racial minorities. The lack of diversity in gender, race, and background at TBC, and the financial industry as a whole, is antithetical to the very principles on which investing is built. Investing by its very nature demands a variety of perspectives and experiences to capture unexpected opportunities. However, the club's current recruiting practices largely reward those who, like me, come from privileged backgrounds and have had exposure to professional career paths or investing before they came to college. That is not the meritocracy we must strive to be. Our

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exclusive recruitment processes do a disservice to our members and perpetuate the same oppressive dynamics we see in the outside world. If you believe that every student should have an equitable opportunity to learn about investing, gain real experience, and learn from each other's diverse perspectives—I hope you will join me in advocating for change within TBC. We have a lot of work to do, but it is worth it.

In this letter, you will find the sector leaders' summaries of their pitches this quarter, the Investment Committee's decisions on those pitches, and explanations behind exited positions. If you have any questions, please feel free to contact me at rpmestre@uchicago.edu. I am happy we all made it through this tumultuous quarter, and I look forward to (hopefully) seeing all of you in the Fall!

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Spring Pitches

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Bank of Hawaii (NYSE: BOH)

Financial Sector Leader: Adam Keller

Company Overview

Bank of Hawaii is the second largest regional bank in Hawaii, providing a range of financial services to Hawaiian consumers and businesses.

Investment Thesis

The Financial Sector recommends a BUY in BOH for the following reasons:

1. Geographical Barriers to Entry: the Hawaiian banking market is highly oligopolistic, with no competition from major mainland US banks. The Hawaiian economy is fairly small, and the state's geographical isolation introduces high costs and logistical difficulties. To our knowledge, 1992 was the last time a large US bank attempted to enter the market. Bank of America invested heavily in expansion efforts, only to exit the state in 1997, citing a lack of profitability. We believe that the oligopolistic structure of the Hawaiian banking market has allowed BOH to consistently earn a 17% return on average equity, significantly exceeding the returns on equity earned by both local competitors and the largest US banks. Although we expect serious headwinds from Covid-19 (net interest margin compression and elevated loan losses) to depress returns on equity, the bank's long-term earnings prospects remain strong.
2. Loan Portfolio Quality: BOH's loan portfolio is conservatively positioned. Real estate loans are secured at low loan-to-value ratios (57% average), and the significant majority of personal loans are to consumers with FICO scores over 700. Exposure to lodging, retail, and restaurant/entertainment comprises only 11% of the loan book. We are confident in the quality of BOH's loan portfolio and believe that the bank will experience less extreme loan losses than many of its peers. The investment portfolio appears even stronger, with 94% of assets in AAA rated government bonds and agency backed MBSs.
3. Hawaiian Covid-19 Response: We expect Hawaii's economy to perform far better than the typical state. Prudent and decisive actions have limited cases to under 1000, the majority of which have fully recovered. New cases are approaching zero. Geographical isolation limits contact with the mainland, allowing the state to avoid importing cases from outbreak prone regions. These factors will limit the duration and severity of lockdowns, reducing economic disruption.

Key Risks and Considerations

1. Macroeconomic Uncertainty: the current economic crisis will damage earnings for all banks. Spending and income shocks will likely cause commercial and consumer loans to default at higher rates in 2020 than at any point in the past decade. Given that we are not macro forecasters, loan losses are somewhat unpredictable.
2. NIM Compression: a bank's profitability is directly tied to its net interest margin – the spread between the rates at which it lends and borrows. The Fed has already cut nominal interest rates to zero, constraining bank profitability. If interest rates fall below zero, the impact on bank profitability could be catastrophic.

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Decision: NO PURCHASE

Financials Investment Committee Representative: Nathan Nangia

The Financials Sector pitched Bank of Hawaii (NYSE: BOH) on Wednesday, May 20th in the newsletter as a Buy. The Investment Committee (ICOMM) decided to not purchase BOH. Our reasons are as follows:

FIRST: While we agree with the Sector's point that BOH operates in a niche market and historically has been able to derive competitive advantages from that, we view this argument as two-sided. The Hawaiian banking market appears to be mature and satiated, and BOH lacks meaningful reinvestment opportunities. Further, we question the sustainability of barriers to entry. Banking is increasingly automated and customer service increasingly outsourced, both of which significantly lower the barriers to entry. As a result, the deposit-side advantages that generate the outsized ROEs could erode significantly.

SECOND: We disagree with the Sector's assessment that BOH's loan book is insulated from the current macroeconomic events. We recognize that BOH's current loan book is well-capitalized and less exposed to tourism and retail which provides a buffer from the current lockdowns. However, BOH's investments in commercial real estate, mortgages, and other sectors not directly impacted by COVID-19 are extremely risky due to soaring unemployment and declining GDP and their secondary reliance on tourism and general activity. Further, the current valuation does not allow for potentially rising loan losses, increasing LDR (due to declining deposits), and potential buyback suspensions or dividend cuts. Finally, the bank continues to increase its use of leverage, aggravating any macroeconomic risk. Thus, we are neither convinced that the valuation presented is reasonable nor that we have a margin of safety.

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MTS Corporation (NASDAQ: MTSC)

Technology Sector Leader: Emily Ballinger

Company Overview

MTS Systems Corp (MTSC) is a scientific equipment supplier that develops performance measurement tools and processes to test the reliability of various industrial and scientific products. Some examples of these systems include tire testing services for automotives, development of an artificial spine for scoliosis research, and a complex seismic test system that conducts earthquake simulations to evaluate the integrity of civil structures. As both the Test & Simulation and Sensors markets serve a wide variety of end-product industries, MTSC is inherently exposed to various industries, from aerospace to entertainment. This in part contributes to MTSC's diverse customer base; the company does not have a significant concentration of sales with any individual customer within Test & Simulations or Sensors. In particular, it primarily serves a "Blue Chips" customer base (e.g. Airbus, Audi, Bridgestone, Hyundai, etc.), some of whom MTSC has 40+ years of engagement with. The primary reason for long term engagement lies in the highly customized nature of MTSC's products, giving rise to substantial product stickiness. Since each customer has their own unique product to evaluate, Testing & Simulation solutions, in addition to their standard testing products, include "engineered products which combine standard product configurations with a moderate degree of customization" and "highly customized, highly engineered testing solutions built to address the customer's unique business need" (10-K FY19).

Investment Thesis

The Technology Sector recommends a BUY in MTSC for the following reasons:

1. Mission Critical Products with Strong End Markets: MTSC provides products and services to several end markets that are hard-hit right now, but permanently require testing and simulation technologies and sensors in order to comply with quality standards. MTSC products are focused on the quality control portion of product development and manufacturing cycles in their end markets. This process tends to be lengthy and necessary because most components are produced at other sites. As a result, companies need to conduct several stages of rigorous testing and inspection audits similar to those used by assembly plants. Regardless of demand fluctuations quality assurance is a built-in step in any product development process that will always need to be completed. This leads to a unique opportunity where MTSC is undervalued because it suffers from capital expenditure reductions from companies in cyclical industries experiencing a trough in the cycle. These capital expenditures are simply delayed and companies in MTSC's end markets will always require these products in order to streamline and complete testing of products.
2. Long Term Potential of Simulation and Sensors Markets: Another point of strength in MTS Corporation's business includes its positioning in markets with long term potential. Exposure to sectors with heavy government spending drove record orders in Testing & Simulation delivered of $176 million in Q2, up 33.6% compared to FY19 Q2. R&D Group brought with them a strong backlog of projects in excess of $35 million, with contract duration stretching into 2021. In addition, academic entities also provide an attractive end market less impacted by the recession. Recently, MTSC received its biggest contract in company history with Tianjin University in China for seismic simulation devices. While the conversion rate between government research funding and contracts with MTSC may not be one-to-one, aggregate increase due to recovery efforts from COVID-19 effect may translate to a more resilient source of demand for MTSC's products and services.
3. Market Mispricing in Corona Headwinds: Having just completed a major series of acquisitions that drew upon their revolving credit facility for funding the firm was in a delicate credit position prior to COVID-19. When the disease accelerated worldwide MTS was caught in the panic, with the departure of their long-term CEO Jeffrey Graves further shocking the market and depressing prices. This is not to say that coronavirus did not affect operations, per their 2020 Q2 earnings transcript, "the safety procedures adopted for the protection of our employees did impact our operational efficiencies, decreasing our production capacity by an estimated 10 to 20%." However, they are not seeing a decrease in demand for their products as they report record order levels, a near-record backlog and continuing strength in the end markets they serve which bodes well for the future. Order placement delays increased from the prior year and on a consecutive quarter basis providing a clear measure of the dramatic turn in short term sentiment brought by the virus during the quarter. Fortunately, in spite of these headwinds, their market

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diversification efforts from the last few years were still highly effective in delivering record orders performance fueled by strong growth in several of the markets comprising their structures category.

Key Risks and Considerations

1. Leverage: MTSC currently maintains a maximum leverage ratio covenant of 5 times with their creditors declining to 4.75 at the end of the fiscal year. This is dangerously close to their current ratio of 4.5x gross debt with upcoming repayment due including a $171 million term loan and $91 million revolving credit facility due July 2023. Despite the expectation of increased revenues from their Envesco acquisition and margin growth from restructuring, they are likely to violate their covenants and trigger a default. However, given the low interest rate environment as well as the equity's cheap price it seems unlikely that this will result in significant downside risk as the firm's reliable revenues and ingrained relationships are unlikely to drive creditors to put the company into default and wipe out equity holders.
2. Industry Stagnation: Historically, the firm has predominantly driven revenue growth via acquisition and macro growth in their end markets. As a result, they are unlikely to be able to utilize channels for organic growth to improve operating revenues. The firm will likely see success as sectors it is exposed to such as green energy or structures recover from the virus. However, given the firm is essentially trading at revenues this risk seems overstated as end market exposure has been shifting towards higher growth sectors where academic and government spending drive revenue outside of market demand.

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Decision: BUY

Technology Investment Committee Representative: Christopher Sun

The Technology Sector pitched MTS Systems Corporation (NASDAQ: MTSC) on Wednesday, May 27th as a buy. The Investment Committee decided to purchase MTSC. Our reasons are as follows:

FIRST: MTSC provides a fundamentally necessary and mission critical service to its clients. Testing systems are used in custom environments in which past performance and reliability are of utmost importance, benefiting existing players. The company's efficient scale is evidence of a strong moat that continues to protect the company in its expansion into new end markets. Furthermore, the competitive positioning is strongly advantageous, as relationships often continue across future contracts.

SECOND: The valuation is attractive. Intuitively, MTSC is seeing the low point of its cycle, given the coronavirus. Given the cheap price, it makes sense to buy now, since our long-term view is that the cycle-adjusted intrinsic value is far higher. While we are concerned about certain growth opportunities in new end markets and locations, the core business still is selling at an attractive price. Concerns over leverage and auto/oil exposure are likely overstated, a source of our contrarian view.

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XPO Logistics (NYSE: XPO)

Industrials Sector Leader: Darius Hong

Company Overview

XPO Logistics is a global logistics provider of supply chain solutions. The company operates under two key segments, transportation and logistics, accounting for 64% and 36% of total revenue, respectively. XPO is a leading provider of B2B freight transportation in both North America and Europe, operating based on a blended model of brokered, contracted, and owned fleet. The services encompassed by the transportation segment include freight brokerage, last mile logistics, expedite shipments, intermodal freight, less than truckload, full truckload, and global forwarding. Under the logistics segment, XPO provides E-commerce fulfillment, omnichannel solutions, reverse logistics, and smart warehousing. As the second-largest contract logistics provider in both Europe and North America, XPO uses proprietary technology to manage complex supply chain operations, advanced automation, workforce productivity, and fulfillment.

Investment Thesis

The Industrials Sector recommends a BUY in XPO for the following reasons:

1. Insulation from the Economic Downturn, with Strong Drivers of Revenue Recovery: We believe that XPO will not be as negatively impacted by the pandemic as the market suggests. It operates in diverse end markets, many of which will be impacted very differently than they were in prior recessions, with E-commerce and consumer packaged goods already showing strong growth in 1Q20. Furthermore, as Europe recovers and begins to reopen, the impact of closures in the United States will be mitigated on the company's 2Q20 and FY20 financial results. XPO's variable cost structure, non-unionized labor, and asset-light business model allow the company to alter its operations and flex its cost structure to navigate the current economy. Ultimately, XPO's services are mission-critical to producers, so as soon as production begins to ramp up, we can expect to see XPO quickly recover from the financial impacts of COVID-19. It is important to recognize the incentives the government has in letting these producers reopen.
2. Strong Economic Moats: XPO benefits from economies of scale, with an industry-leading network of logistics sites and last mile hubs allowing them to efficiently position goods within one- and two-day ground transportation range of over 90% of the U.S. population and in close proximity to retail stores for rapid inventory replenishment. Furthermore, XPO's services are deeply entrenched into all aspects of customers' supply chains, from freight brokerage, to intermodal transportation, to last-mile delivery, to contract logistics, creating immense switching costs for customers. Most competitors are specialized in just one or two avenues, allowing XPO to offer a meaningfully different value proposition. This multimodal service naturally creates cross-selling opportunities, with 90 of XPO's top 100 customers by revenue using two or more of their services and 55 of their top 100 customers using 5 or more services as of FY19. Additionally, XPO has been able to increase operating margins from negative levels in FY15 to 4.93% as of FY19 through automation, empty mile reduction, and yield improvement – further cost reduction from automation paired with consistent, annual price increases on contract renewals will help the company realize further margin expansion in the long run.
3. Well-Poised to Capture Growth in E-Commerce and Freight Outsourcing: XPO benefits from strong positioning in the high-growth E-commerce sector as the largest outsourced E-fulfillment provider in Europe and possessing a major platform for E-fulfillment in North America. The sector is predicted to continue to grow globally at a double-digit rate through at least 2024, making it difficult for many companies to handle fulfillment in-house while providing high levels of service and keeping operations lean. XPO's wide network and veritable experience within fast-growing E-commerce categories makes them a valuable partner to customers who want to outsource order fulfillment and personalization, product returns, and other service-intensive parts of the supply chain.

Key Risks and Considerations

1. Weak demand environment as a result of COVID-19 pandemic: The world transformed by the COVID-19 pandemic is rife with uncertainty. Long-term demand for XPO's services could be significantly reduced due to prolonged economic shutdown and second-order consequences, including reduced disposable income and increased customer churn through bankruptcies and downsizing. We cannot know for certain when countries/states will fully reopen, but we believe that demand will remain stronger than the market expects

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due to political cues, accelerated trends in outsourcing (driven by companies' desires to streamline operations in the face of economic hardship), and an a-synchronicity between the situations in Europe and the United States (acting as a hedge against volatility in XPO's revenue).

2. Inability to effectively capture E-commerce growth trends: E-commerce will experience significant growth in the coming years – the question is how effectively XPO will be able to capture this growth. There are two points of concern here: Amazon and industry peers. First, Amazon is expanding their logistics operations and delivery services, putting pressure on transportation and logistics companies by either pulling contracts or poaching customers. XPO is immune from the first concern as Amazon has already pulled their main contract with XPO (priced in), while the second concern may be irrelevant as that does not seem to be Amazon's goal, but even if it were, XPO's deep integration into clients' supply chains incurs high switching costs. Second, XPO's leading position in E-fulfillment, as well as its superiority in reverse logistics, expedited shipping, and cross-border E-commerce, means that XPO is likely to experience higher volume per customer and a greater number of customers than its peers, suggesting that XPO is well-positioned to capture E-commerce growth trends.

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Decision: No Purchase

President: Brandon Bleyer

The Industrials Sector pitched XPO Logistics (NYSE: XPO) on Wednesday, May 27th as a buy. The Investment Committee decided not to purchase XPO. Our reasons are as follows:

FIRST: We do not believe that there is a sufficient margin of safety to make an investment in this business. XPO has a significant amount of leverage, amounting to roughly half of the capital structure, meaning that the 30% base case upside amounts to a 15% differentiation in enterprise value. Slight changes to the model (i.e. changing terminal D&A to equal Capex) quickly reduce the projected upside to virtually 0, indicating that the company is near fair value. Additionally, XPO seems to trade at comparable valuations relative to other businesses that are similarly positioned within the trucking sector, adding to our confidence that there is not a significant discrepancy in value.

SECOND: The sector indicated that the company has a strong competitive moat as the result of XPO's "industry-leading network of logistics sites and last mile hubs", however, we believe this competitive advantage to be overstated. The logistic side of the business does benefit from a competitive advantage as the result of an extensive network and sticky customer relationships as mentioned above, however, this only makes up ~35% of the company's revenues. We believe the transportation side of the business (65% of revenues) to be relatively commoditized, benefitting a scale player while not providing exceptional long-term returns. The lack of competitive advantage within this segment is demonstrated by the entrance of credible competition (Uber / Convoy) which have demonstrated an ability to provide comparable services, threatening the long-run returns of the incumbent companies.

THIRD: We are skeptical that XPO will be able to capture a sufficient amount of the savings that are achieved as the result of incremental investments in technology that drive increased efficiency. Many of the other market leaders as well as new entrants into the market are investing significantly in technology within each of their platforms to drive incremental operational efficiency and improve the quality of service. We are skeptical in XPO's ability to earn outsized returns on these investments, calling into question the possibility of margin expansion which would serve as a significant potential upside.

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Collectors Universe, Inc. (NASDAQ: CLCT)

Consumer Sector Leader: Will Noddings

Company Overview

Collectors Universe is an authenticator for collectibles that offers authentication services for rare coins, sports memorabilia/autographs, and trading cards. They have several other revenue streams related to the collectibles space such as the sale of publications and hosting trade shows, but the vast majority of their business comes from direct authentication. Within each of their segments, CLCT either has a singular dominant market share or operates in a comfortable oligopoly.

Investment Thesis

The Consumer Sector recommends a BUY in CLCT for the following reasons:

1. Increasing Demand for Authentication: As C2C e-commerce plays a more prominent role within the collectibles markets important to CLCT, the shifting dynamics of e-commerce should increase demand for authentication. First, even as the total amount of memorabilia is relatively steady, the significantly lowered transaction costs associated with selling old collectibles lead to added liquidity. As lowered transaction costs increase the trading volume of collectibles, this leads to added demand for authentication services. Furthermore, CLCT stands to capture an outsized proportion of this growth, as new, naive consumers favor the incumbent with a pristine reputation since CLCT's branding is the most recognizable and trusted in each of their product segments. The importance of trust in e-commerce specifically also favors the incumbent, as consumers skeptical of an individual seller's reputation pay a premium for the unmatched authentication pedigree CLCT provides.
2. Strong Pricing Power: When taking a closer look at CLCT's pricing scheme in each of their categories, it is clear to see that their prices are the outcome of monopolistic as opposed to competitive pricing, confirming their excellent competitive position. Within each category, fees are based on the estimated value of the piece being authenticated, even though it shouldn't take much more labor to authenticate a $100,000 coin compared to a $200 coin, demonstrating that price is not at all based on marginal cost, and instead on consumer WTP. Furthermore, CLCT leverages this pricing power on lower-value items by giving a much longer turnaround time. This not only allows them to maximize utilization of salaried authenticators more efficiently, but also to generate consistent deferred revenue, as consumers pay upfront. Taken as a whole, CLCT consistently demonstrates an ability to reap economic profits through their unmatched reputation.
3. High Barriers to Entry: The trust necessary for an authenticator to gain traction with consumers provides a high barrier to entry, as this trust can only be built by reaching a critical mass of successful past authentications. Auction houses (a primary customer base) do not verify their own collectibles, as they do not have the scale to make it cost-efficient, and do not have the established trust. There is also little incentive for consumers to switch authenticators, as the cost of authentication makes up only a small portion of the overall proceeds that will come from the sale of an item. This dynamic has played out several times historically. Within coins, every major firm was started before 1990, and no new major players have emerged for the past 10 years. Over this same timeframe, a large number of potential entrants have tried and consistently gone out of business. Autographs and memorabilia have similarly seen no new entrants for quite some time. Conceptually, it makes sense that this space would be very difficult for new entrants, and historically this theory has played out repeatedly.

Key Risks and Considerations

1. Cyclicality: At a surface level, this industry seems like it may be highly discretionary. However, the people who collect these items are likely very well off and may not be heavily impacted by a recession. Furthermore, a downturn could spark the sale of more items as people look for extra cash, dropping market prices but not necessarily authentication volume, so the theoretical impact of a downturn is somewhat ambiguous. Taking 2008-2009 as a case study, we can see that they saw slight volume drops in each segment (between 1% and 16%) but also recovered fairly quickly on a unit basis. Some of their financial results are also misleading, as in 2008-2009 CLCT had a Hong Kong subsidiary that lost an incredible amount of money, which is no longer part of the company. Taking the

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impact of this segment away, CLCT actually maintained profitability through this recession. Overall, while there is definitely an impact from global economic conditions, CLCT is not as cyclical as it may seem and should be able to effectively weather a recession.

2. Customer Concentration: In China, CLCT had an exclusive relationship with an individual banking channel, but CLCT wanted to expand operations in China with fewer restrictions. The banking customer rejected CLCT's proposal, which led to a 46% decrease in Chinese sales and a loss of 5% of overall sales. However, this sort of relationship is not the norm for CLCT, and the vast majority of their customer base is extremely diversified, being made up of a variety of individual auction houses, stores, or consumers. This sort of individual consumer power should not be a risk for the rest of the business.
3. Loss of Interest in Collectibles: Many individual collectors are among older demographics, and there is some worry that this sort of interest is a hobby that will fade as generations age, especially as the nostalgia factor doesn't exist in the same way for current young generations. However, CLCT has a large portion of their business dedicated to operations which increase interest in the collectibles space among consumers. They have also demonstrated a willingness to pivot to new categories as consumer preferences change. Furthermore, many view these collectibles as an alternative, investment-grade asset class which can serve as a reliable store of value over time. This type of interest can somewhat buoy demand even as hobby interest slows.

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Decision: MONITOR

Consumer Investment Committee Representative: Joshua Soong

he Consumer Sector pitched Collectors Universe Inc. (NASDAQ: CLCT) on Thursday, June 4th as a buy. The Investment Committee decided to monitor CLCT. Our reasons are as follows:

FIRST: We are attracted to the company's strong product offerings in its niche industry. Already, the oligopolistic nature of collectibles grading bestows incumbents like CLCT with a strong moat. However, CLCT has further distinguished itself by successfully branding itself as a Tier 1 authenticator whose stamp of approval is universally accepted by both dealers and collectors. Brand reputation and trust is the lifeblood of any authentication services firm so CLCT's Tier 1 status – a status only shared by one other firm – is an unparalleled competitive advantage. This brand power has translated into expanding volumes and pricing power leverage across its coins, trading card, and autograph segments. Moreover, we view the industry's lack of disruption or new entrants positively as this reinforces CLCT's commanding position in the industry.

SECOND: The Sector suggested that Company growth will be driven by increased product penetration coupled with end-market growth. While we generally agree that both factors will yield growth for the Company, we find it difficult to pinpoint the degree to which the Company will benefit from such factors. For example, certain sub-verticals like baseball trading cards are experiencing severe market size contractions and, while we believe growth in other sub-verticals will offset such declines, there is little data to help predict the magnitude of such shifts.

THIRD: At the share price during the time of the pitch, we were unconvinced that there was a comfortable margin of safety. Share prices traded in the mid-teens to low-twenties – a price we would have bought at – in the months preceding the pitch but recovered to what we believe was fair value by June. As such, since CLCT has the hallmarks that we look for as value investors, we continue to monitor share prices with the intention of initiating a position should share prices withdraw to April levels.

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MSG Networks (NYSE: MSGN)

Communications Sector Leader: Will Reid

Company Overview

MSG Networks, Inc. (NYSE: MSGN) is a regional sports network headquartered in New York. They spun off from the Madison Square Garden Company (NYSE: MSGS) in 2015, which mainly operates stadiums and sports teams. MSGN operates two regional sports networks (RSNs), MSG and MSG+. These networks provide professional sports coverage, featuring exclusive partnerships with several NBA and NHL teams, as well as programming for NFL teams from New York. These teams include the Knicks, Rangers, Islanders, Devils, Sabres, Giants, and Bills.

Investment Thesis

The Communications Sector recommends a BUY in MSGN for the following reasons:

1. Regional Network Monopoly: By restricting how local viewers can watch live sports, RSNs enjoy significant bargaining power and operate essentially as regional monopolies. Due to their lucrative market, historically MSGN has been significantly more profitable than peers, with high operating margins, returns on invested capital, and free cash flow growth.
2. Strong Negotiating Power: To sustain these monopolistic benefits, MSGN negotiates contracts with two separate parties: the sports teams and the distributors. Negotiations with teams allow MSGN to gain the rights to broadcast their games, while negotiations with distributors guarantee coverage of MSGN content among local channels. MSGN is uniquely positioned to negotiate both types of contracts favorably due to its shared ownership with the largest NY sports teams and strong bargaining power with distributors.
3. Overblown Cord Cutting Woes: The market is severely mispricing MSGN due to misperceptions about the long-term viability of cable, as well as the company's ability to negotiate contracts with streaming services. In the long run, content is king, and recently MSGN has managed to navigate the renegotiation of cable contracts in unfavorable conditions successfully while simultaneously gaining traction with streaming providers.

Key Risks and Considerations

1. Concentrated Customers: MSGN relies heavily on 5 contracts to generate over 50% of their revenue – the market appears to be pricing in a high probability of loss on at least one contract, but if they were to lose multiple that would severely impact valuation and possibly push them into insolvency.
2. Double Leverage: Due to the nature of their long-term contracts with the sports teams, MSGN is threatened by the double-edged sword of both operating and financial leverage, making them extremely sensitive to small changes in subscriber counts of their distributors.

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Decision: NO PURCHASE

Communications Investment Committee Representative: Jacob Tucker

The Communications Sector remotely pitched MSG Networks Inc. (NYSE: MSGN) as a buy on Wednesday, June 10th. The Investment Committee (ICOMM) decided not to purchase MSGN, though noted the merit of the sector's argumentation. Our reasons are as follows:

FIRST: As far as valuation goes, there was too much unpredictability in the investment to justify its inherent risk. Though we agree that there is a chance MSGN is being unfairly punished, given its high-quality assets and the broad strokes analysis of industry analysts ready to toss cable-based businesses aside, certain idiosyncratic aspects of MSGN proved enough to sway our decision in a negative fashion. For instance, while the company's initial leverage made the investment appear attractive on the surface, additional risks inherent to this weighty capital structure made us question the sector's assertion of a relatively low 4.9% WACC. Upon a holistic consideration of the inherent risk to this investment, the Investment Committee could simply not see a way to justify the downside with the relatively minimal expected IRR.

SECOND: While the value proposition of RSNs was clearly explicated by the sector, we did not feel there was convincing enough evidence to justify the premium placed on the business due to its foothold in the New York market. Though there are some trends that indicate increased loyalty from New York residents, we did not feel comfortable extrapolating those trends forward, given the increasing momentum of cord cutting; tenuous agreements with suppliers; an uncertain future for sports given the current pandemic; and the potential misalignment of incentives with the Dolan family. This was coupled with the fact that there does not exist thorough information on the economics of a shift to streaming, which would drive a meaty portion of the company's long-term cash flow generation potential. Ultimately, the inherent uncertainty of investing in a dubious industry was not met with the preponderance of data necessary to provide a clear margin of safety.

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AMN Healthcare Services Inc. (NYSE: AMN)

Healthcare Sector Leader: Austin Wang

Company Overview

AMN Healthcare Services is the U.S's largest healthcare staffing firm and utilizes a full-service business model where they provide hospitals with workforce solutions including, but not limited to: traditional staffing, workforce education, billing management, vendor management, telehealth solutions, and full time recruitment outsourcing. Unlike most staffing firms, AMN also focuses most of its staffing efforts on nursing and allied solutions, which make up 64% of its revenues.

Investment Thesis

The Healthcare Sector recommends a BUY in GTS for the following reasons:

1. Market overreacts to COVID-19 threat despite strong macro tailwinds: AMN lost around 40% of its market cap after COVID-19 delayed elective procedures and diminished AMN's physician staffing revenues. However, AMN's focus on nursing staffing has allowed them to actually grow revenue in 2020, and healthcare burnout trends accelerated by COVID-19 will continue to drive topline growth. Unlike AMN, many highly levered, private equity owned competitors are cutting salaries and facing bankruptcy. We expect AMN to come out of COVID-19 in a highly favorable competitive landscape where there is stronger demand for staffing services and fewer large competitors in the space.
2. AMNs full-service business model provides a differentiated-value-proposition and creates sticky customer relationships: The market views AMN as a traditional staffing company with a largely commoditized product. However, 67% of AMN's revenue comes from full service "workforce solutions" in which they provide software solutions, billing infrastructure, traditional staffing services, full time recruitment, etc. as a one-stop-shop. We believe this capability differentiates them from competitors as evidenced by their comparatively higher margins and their five-year+ partnerships with hospital networks like Kaiser and Stanford.
3. Growth through new technology offerings and acquisitions: AMN can accelerate revenue growth through cross-selling newly acquired technology businesses. For example, many of AMN's staffing customers have now switched to also using AMN's vendor management and revenue cycle management software. Through their recent acquisition of Stratus Health, AMN also became the U.S.'s largest provider of telehealth language interpretation for hospitals. These acquisitions fit in to AMN's goal of being a true one-stop-shop for workforce solutions and offer a strong avenue for high recurring revenue growth.

Key Risks and Considerations

1. Depression resilience: The market views AMN and other staffing businesses as highly vulnerable to economic declines. In 2009, AMN suffered an enormous revenue drop as nurses and physicians chose to return to full-time careers for financial stability. However, we believe high rates of reported burnout will counteract the return to full-time jobs. Furthermore, due to the uneven distribution and timing of COVID-19 surges across the country, hospitals will be incentivized to continue to rely on temporary staffing as demand continues to shift rapidly across different geographies. Even if full time work becomes more popular, AMN is hedged against this threat as they have become the U. S's largest provider of full-time healthcare recruitment services.
2. Hospital Consolidation: Hospital M&A activity has increased considerably over the past few years. Although hospital consolidation often means pricing pressure for staffing firms, AMN's enormous scale and wide breadth of solutions offer significant value to large hospital networks. Furthermore, the consolidation of hospitals opens more opportunities for AMN to find long-term hospital partnerships which can drastically boost their recurring revenue. AMN's scale also seems to allow it to maintain steady margins and better manage pricing pressure when compared to competitors. For example, while AMN has a consistent 10-13% operating margin in its nursing segment, the next largest nursing staffer, Cross Country Healthcare, has been unprofitable for the past few years.

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Decision: NO PURCHASE

Healthcare Investment Committee Representative: Neha Kavi

The Healthcare Sector pitched AMN Healthcare Services (NYSE: AMN) on Thursday, June 11th, 2020 as a buy. The Investment Committee (ICOMM) decided to not purchase AMN. Our reasons are as follows:

FIRST: We did not see a clear competitive advantage for AMN. Although AMN may benefit slightly from economies of scale, staffing is a commoditized product and the technological solutions AMN also provides did not seem to be enough to offset this and differentiate AMN from its peers. Furthermore, one of the proposed areas of growth for AMN was the predicted second wave of COVID-19 and thus the increased need for staffing solutions by hospitals. However, this would not only also benefit AMN's competitors, but we did not see a reason to believe this was not already priced in.

SECOND: We would not have a sufficient margin of safety in purchasing AMN. The proposed margin of safety was dependent on AMN being able to cut operating costs aggressively in the near future, which we did not believe was justified given the uncertainties around COVID-19.

THIRD: AMN has primarily grown through acquisitions, yet with each acquisition in the past year, its operating costs have increased as a percentage. It is unclear if AMN can derive synergies from its acquisitions. Part of this may be that AMN has been aggressively shifting towards its technological segment and as this aggressive growth slows, AMN's costs may decrease. However, without seeing this pattern yet and given the uncertainties in the macro environment, this was not enough of a reason to trust that future acquisitions will realize synergies when previous ones did not seem to.

FOURTH: We are unconvinced about AMN's ability to maintain all of its customers and grow revenue going into a likely recession. Given AMN lost a number of clients in the Great Financial Crisis and that in economic downturns, people tend to be more averse to leaving their jobs, we cannot depend on AMN being able to hold onto all of its customers or for nurse turnover to increase. Although this recession is unique in that nurses in particular are overworked and experiencing extreme burnout, it is unclear how that will balance with their economic concerns in a recession.

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H.B. Fuller Company (NYSE: FUL)

Natural Resources Sector Leader: Frank Li

Company Overview

H.B. Fuller (FUL) is a global market leader in adhesives, with a direct presence in 37 countries and serving customers in 125 countries. Its products are used as inputs to a wide range of consumer and industrial goods including food packaging, clothing, vehicles, and electronics. The business is divided into three segments: Hygiene, Health, and Consumable Adhesives (HHC), Engineering Adhesives, and Construction Adhesives, which represented 48%, 39%, and 13% revenue, respectively.

Investment Thesis

The Natural Resources Sector recommends a BUY in FUL for the following reasons:

1. Innovation-focused, diversified, and resilient business model: FUL has consistently improved its creation process through more than 160 patents, which enable FUL to create more effective products than its competitors, therefore sustaining its competitive position and facilitating value accretion. Its innovative solutions and differentiated products also lead to higher switching costs. With more than a hundred years of operation and technology centers in 10 countries around the world, FUL understands the needs of its customers. In many cases, FUL creates customized solutions for its clients, with products that contain 3-10 specialty chemicals to serve specific purposes. The switching costs for customers are quite apparent, as alternatives include resource-intensive training and testing or purchasing competitor products that are subpar and less effective. Fuller also has diversified end-use and geographical markets, which helps protect against downturns and reduce cyclicality. In each end industry FUL serves, adhesives are a small but crucial part of the supply chain. As a flow product, these adhesive applications often account for around 1% of COGs for its customers. It is clear that FUL's adhesive products are not commoditized, but rather highly complex solutions optimized for specific tasks and goals, which allow FUL to have considerable margins. FUL's global industry positioning and scale also enables the company to adapt to market trends more efficiently and to be geographically hedged. Due to a relatively spread out global demand, FUL is resilient to currency fluctuations and, to a certain degree, the effects of regional economic shocks.
2. Industry tailwinds with attractive growth opportunities: Fuller is an industry leader in growing and highly fragmented markets that present the possibility for potential growth through acquisitions of smaller players. The adhesives industry also has strong growth opportunities powered by many overarching trends, including shifts from fasteners to adhesives, increased ecommerce activity and demand for sustainable packaging, increased demand for energy efficient buildings, and more. Moreover, various new technologies and innovations, including electric vehicles, e-commerce, and 5G technology, have raised the demands and requirements for adhesives significantly. FUL is well-positioned to take advantage of these new trends as a result of their larger market share, reputation for quality, strong innovation capabilities, and diversified customer base.
3. Strong Balance sheet and consistent payout policy: FUL has committed to strengthening its balance sheet by substantially reducing debt. FUL holds 1.90 billion in long term debt due to the acquisition of Royal Adhesives in 2018. However, the company has a three-year debt pay-down plan where they intend to pay-down $600 million by the end of 2020, and they are currently ahead of schedule. Additionally, FUL has also been driving down working capital in recent years from 21.3% at the end of 2017 to 18% at the end of 2019. With new initiatives focused on inventory management, the expectations are that the company will reduce working capital another 1-2% in 2020. Furthermore, FUL has been consistently paying out and raising dividends even through the uncertainty of COVID-19, and this year marks its 51st consecutive year of increasing dividends.
4. Market Mispricing due to COVID-19: H.B. Fuller's stock fell in March 2020 to a low of $25.69 from a 52-week high of $52.40, as market attributed risks presented by COVID-19 to it. However, all 72 factories of FUL remain fully operational, and its short supply chains insulates FUL from disruptions in the shipping industry. As FUL has a diversified portfolio of products, the company actually expects increased sales in their Hygiene, Health, and Consumables segment, which provides material used in the medical industry as well as for personal hygiene, for

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example. While the economic downturn caused by COVID-19 will likely lead to a decrease in their construction adhesives segment, it only constitutes 14% of their total sales. Looking back, despite the recession in 2008, H.B. Fuller reported EBITDA down only 1.2% in 2009, due to its diversifications in end-markets and geographical regions, as well as long-standing relationships with customers. We believe that HB Fuller has a similar capacity to adapt following COVID-19. Recent oil price drops also benefit HB Fuller, as the majority of H.B. Fuller's raw materials are some form of petroleum or natural gas derivatives, and 75% of their COGS result from raw materials. The company expects to take 9 months to realize savings from decreased oil prices, so the market has not yet priced those savings in.

Key Risks and Considerations

1. International Operations and Foreign Exchange: FUL is subject to different regulations and special situations in different markets and has exposure to foreign exchange fluctuations. However, Fuller has great experience in managing the challenges of being an international company. It also uses derivatives and has short supply chains to mitigate and minimize currency.
2. Substantial Competition in Operating Segments and Geographic Areas: FUL's products are sold in highly competitive markets where positions are subject to external factors such as supply and demand in end-use markets. However, with their strong customer relationships and innovative capabilities, they have a global reach and a great breadth of products that are customized to customer needs, which will help FUL maintain and grow its industry position.
3. Exposure to commodity prices: Most of the raw materials used in FUL's manufacturing process are petroleum/natural gas-based derivatives. However, FUL uses strategic sourcing agreements that limit price increases. It also has substitute raw materials approved for use on its manufacturing processes, giving it leverage over price negotiations with suppliers and further mitigates the risk.
4. Cyclicality: FUL's Engineering and Construction Adhesives segments both face moderate cyclicality, but their largest Hygiene, Health, and Consumable segment faces low cyclicality, which is evident in the favorable impacts of COVID-19 to the segment. Thus, its diversified portfolio of end markets helps FUL mitigate the risks of economic downturns.

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Decision: NO PURCHASE

Natural Resources Committee Representative: Parth Patel

The Natural Resources Sector pitched H. B. Fuller (NYSE: FUL) on Saturday, June 13th as a buy. The Investment Committee (ICOMM) decided to not purchase FUL. Our reasons are as follows:

FIRST: H. B. Fuller has a good, lesser commoditized business model within the Natural Resources sector due to its sticky customer relationships and patent-protected technology. Manufacturing firms tend to develop relationships with certain adhesives companies that serve specific needs for their set of products. The sector's main driver was H. B. Fuller expanding these sorts of relationships within their high growth Engineering branch at a CAGR of 10-15% in the coming years. ICOMM agreed on the importance of this high growth division but disagreed on the magnitude of growth and how strongly it would affect valuation. At the price it was pitched, ICOMM believes that even divisional growth slightly higher than the industry projected CAGR would not produce enough upside to justify an investment. Hence, we decided to monitor the business in case an opportunity arises.

SECOND: At this point in time it is hard to see H. B. Fuller's path forward given moderate to slow organic growth in the past couple years (in its HHC and Construction divisions), uncertainty from the Covid-19 pandemic, and a highly fragmented industry. Management has not indicated strong interest in a roll-up strategy and given the volatile times, a decent amount of leverage existing on the balance sheet, and tight credit market, H. B. Fuller does not seem to have the capacity drive growth at an attractive pace in the near term either organically or inorganically, which is needed to warrant the valuation/margin of safety proposed by the sector.

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Exited Positions

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Lumentum Holdings Inc. (NASDAQ: LITE)

Investment Committee Chair: Ricardo Mestre

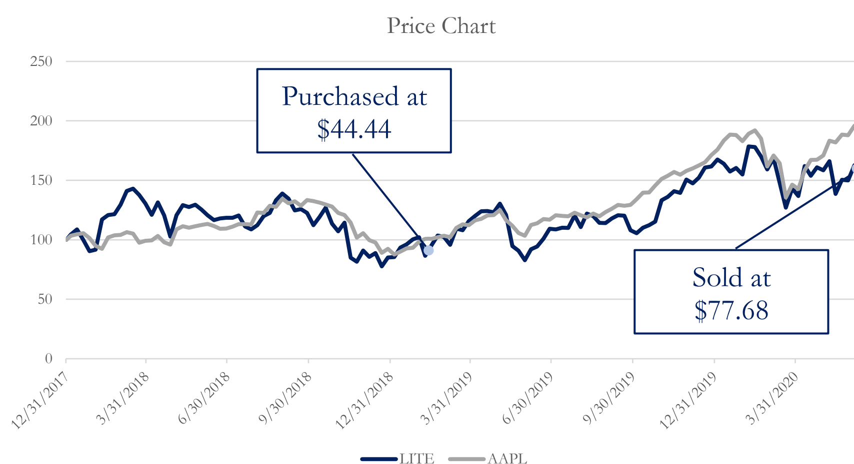
The investment committee decided to sell LITE on Wednesday, June 3rd. The original investment thesis in addition to the rationale of the investment committee for the sale are listed below. We earned a 52.6% IRR on the investment.

Summary of Original Thesis:

1. Unrealized Long-Term Market Potential of VCSEL: Huge market potential as sensors are adapted in smartphones leading to a $3.0+ bn addressable market (33x of current production) in the smartphone market alone, without considering tablets, robotics, autonomous driving, and more.
2. Monopoly Position in VCSEL/Improving Other Segments: LITE currently has a monopoly position in the VCSEL industry. Even if runner-up II-VI finally succeeds in its VCSEL research after numerous years of failure, LITE will most likely benefit from a rational pricing competition under the duopoly. In the other segments, LITE has high exposure to cyclicality but, is relatively well protected due to its size and continuous consolidation in these industries.
3. Mispriced due to Inaccurate Market Perception: LITE's stock has an exceptionally high correlation with Apple to a degree that is largely unjustified. LITE has a 0.96 correlation with Apple after controlling for market variance and appears to be just another Apple supplier, despite contracts with other larger smartphone suppliers.
4. Attractive Valuation and Margin of Safety: LITE is trading at an attractive level from both a fundamental and relative perspectives. As the vast majority of LITE's future value will come from its 3D Sensing operation, we conclude that LITE is trading at a sizeable discount. Compared to the peer group (~23x EV/EBIT TTM), LITE as a fundamentally stronger company trades merely at 11.5x which further confirms our valuation.

Summary of the Investment Committee's Rationale:

LITE has continued to trade as a proxy for AAPL, giving the company a massive increase in value as AAPL increased in price by almost 100% over the holding period. As shown in the stock price graph below, the stocks continued to trade at a close correlation as people believed the futures of both companies to be fundamentally tied. While AAPL has been re-rated and earned a high quality CPG-like multiple for what people view as a highly competitively advantaged company, LITE remains in many unattractive end markets where they lack a strong competitive position (Telecom, Datacom, Lasers). The majority of LITE's revenue comes from these unattractive segments, with all the upside dependent on the success of the sensors business. We believe this segment is high risk with a highly uncertain industry structure and necessitates a continued large amount of investment in research if the company wishes to build a sustainable competitive advantage. To take on this risk, we believe we would have to earn significantly higher returns than what is implied by the current price. Furthermore, the company has fallen behind our internal estimates targeting $2,465MM of revenue by fiscal year 2021. Given all these factors, we decided to sell the LITE at $77.68 which compared favorably with the sector's 2021 valuation which sought prices between 80.15 – 86.33 with an estimated EPS range of $6.17 - $6.64.



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Portfolio Weightings

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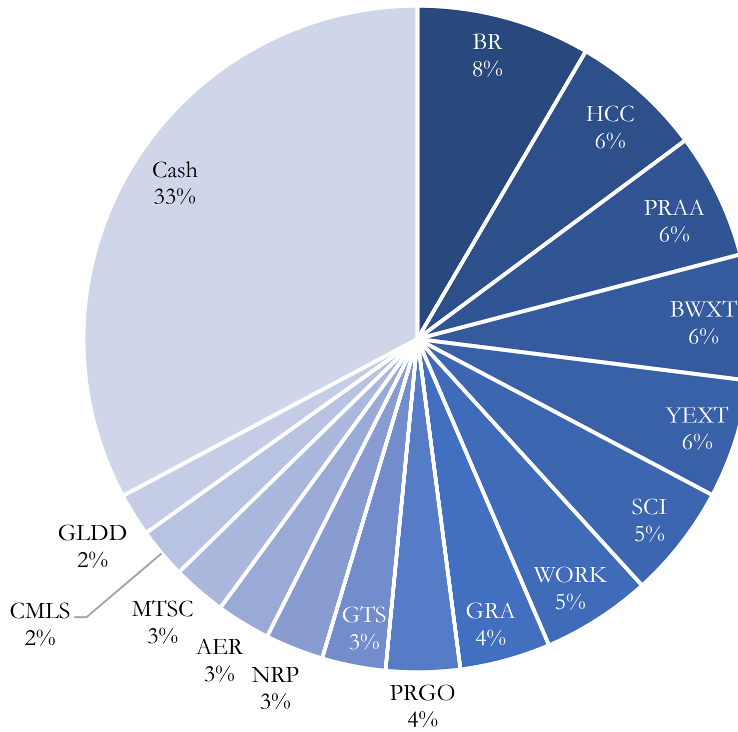

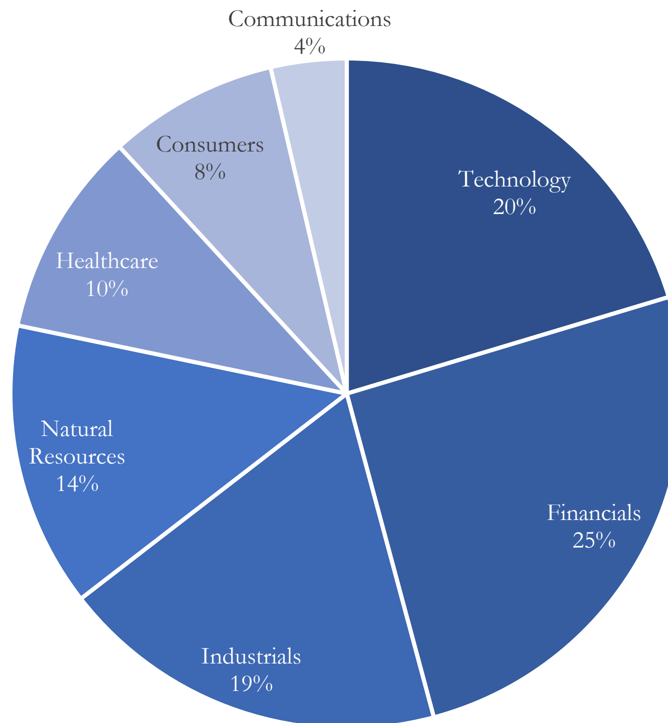

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