The Blue Chips
Investor Letter
Winter 2020

"It is a mistake to try to look too far ahead. The chain of destiny can only be grasped one link at a time."

Winston Churchill

Statement from the Chair

Chairman of the Investment Committee: David Ozen

In my first Investor Letter, I wrote about the difference between cheap and undervalued. In these times, when the market is in a panic, that lesson is more important than ever before. We are truly in unprecedented times, and unprecedented times call for even more caution. This panic is not like 2008. Whereas 2008 was distress originating in the financial sector, this crisis is caused by people becoming sick and the associated demand side shock. Therefore, we cannot treat it like any old bear market. For once a zero-revenue environment is very realistic for many companies. Analysis and understanding a company's liquidity and balance sheet is crucial. While the government appears to be here to save many industries, these programs have never been executed before. Uncertainty creates risk, and we are all in the business of mitigating risk. So, what may appear undervalued may be cheap.

The pitches presented by our Analysts this quarter once again reached a new height in quality. I am happy to say that the Analysts have made our job as ICOMM hard. We purchased four pitches this quarter, GLDD, GTS, WORK, and BR. The four companies we purchased all share a common theme: strong competitive advantages. GLDD operates as the major player in the federal dredging market with a market share of 46%. While we all know market share is not a competitive advantage, their sustained high market share over time along with federal regulations limiting the ability of new entrants in the market give us confidence that GLDD will continue to be the dominant player going into the future. GTS is the leading healthcare insurance company in Puerto Rico. Their exclusive contract to use the Blue Cross Blue Shield brand in Puerto Rico (and other countries/territories) gives GTS an intangible brand competitive advantage that becomes even more attractive when combined with the scale GTS achieves through its relationship with the Puerto Rican government. WORK is an internal messaging platform used by companies to facilitate workflow, also commonly known as Slack. The business benefits significantly from high switching costs and the platform becomes more entrenched in the user's operations through customizable applications. Additionally, we see great potential in shared channels, which will help WORK also develop a strong network effect and can potentially revolutionize intercompany communications. Lastly, BR operates effectively as a monopoly in the proxy distribution market. Complexity arising in the difference between beneficial ownership and street name creates a niche market that benefits from effective scale. Furthermore, BR is even more attractive due to its compensation structure. Broker dealers hire BR to help distribute proxy materials; however, the actual cost is paid by public issuers and ETFs who payback the broker dealers for this expense. We believe this makes BR's customers price inelastic. All four of these businesses we believe have strong sustainable moats, and as a result all but one has outperformed the S&P in the recent market panic. While all these share a common theme of strong business fundamentals, more importantly at current valuations they all have a strong margin of safety. Additionally, we also took the opportunity in this recent downturn to increase our stake in recently purchased companies, namely CMLS and HCC. We are entering this bear market with a significant portion of cash. Given the quality of our recent pitches, I have no doubt TBC will make the most of this opportunity to snatch up quality businesses at steep discounts. Just be sure that the businesses are undervalued, not cheap.

As always, this Investor Letter contains each sector's pitch and Investment Committee decision, along with other updates about the portfolio. If you have any questions, feel free to reach out to me at dozen@uchicago.edu.

I want to take the time to thank the current members and alumni of TBC for their continued support and commitment. There are many finance-oriented organizations on campus, but none quite like TBC. What makes our club experience so special is not the fact that we run a real money portfolio, but the dedication and hard work the members put into the club. For many of us, TBC takes up the time of another class, if not more. I could not imagine my UChicago experience without TBC and know every second was worth it when I see how far the community has come during my time as a member. I am excited to see the ways TBC will continue to grow as a community and read the new ideas produced.

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Winter Pitches

Great Lakes Dredge & Docks Company (NYSE: GLDD)

Industrials Sector Leader: Brandon Bleyer

Company Overview

Great Lakes Dredge & Docks Company is a Chicago-based dredging services provider that operates primarily on the U.S. Eastern Seaboard and Gulf Coast. The company's revenue is derived from a variety of different project types (% of sales) including capital projects (54%), coastal restoration (28%), maintenance dredging (9%), and the dredging of rivers and lakes (7%). Great Lakes owns and operates a variety of dredges and has the largest fleet of certified dredging vessels compared to any other U.S.-based competitor. It controls 14% of the total U.S. dredging industry but 46% of the federal bid market, whereas the next largest privately-owned competitor marks a 0.7% market share. In fiscal year 2019, GLDD collected $620.8mm of revenue and had an 8.5% EBIT margin. The company traded at a 6.76x EV/EBITDA multiple with a $710mm market cap at the time of the pitch.

Investment Thesis

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

1. <u>Industry leader protected by high regulatory barriers to entry</u>: Since 1920, the Jones Act has prohibited foreign dredging services firms from competing on dredging contracts for national security purposes, which means that all domestic dredging contracts are awarded to U.S.-based firms. The U.S. Coast Guard and American Bureau of Shipping mandates that dredges be specially certified to be eligible for federal projects, which structurally limits the total players in the bidding market. Given high start-up costs coupled with the uncertainty of new entrants winning contracts traditionally awarded to legacy players like GLDD, there are significant barriers to entry in the industry. Furthermore, the largest buyer of dredging services, the Army Corp of Engineers, awards contracts to firms that have a proven record of success and cap their contracts are 125% of government cost estimate, which means firms largely do not compete on price.

2. <u>Strong near-term growth outlook</u>: Many of GLDD's dredging projects are financed through the Harbor Maintenance Trust Fund, which is used to protect and secure U.S. waterways, estuaries, wetlands, and ports from climate change related deterioration. Virtually unanimously supported bi-partisan legislation is currently being considered that would allocate $34bn to the restoration of federal navigation channels, which means a $9bn current surplus would be required to be spent over the next 10 years. State governments and private companies can access part of the $20bn BP Deepwater Horizon oil spill settlement fund and the $50bn Louisiana state Gulf restoration fund, which means consistent and increasing contract volume for GLDD in the next few years. Given the stability of market share and overall vessel capacity, it is likely that GLDD will win a significant portion of the excess capital in the market. GLDD has also indicated it is taking advantage of trends in establishing new port protection and capital projects related to the expansion of the Permian Basin Gulf port ecosystem.

3. <u>Non-secular trends drive long-term industry growth</u>: GLDD benefits from its demand coming from a variety of uncorrelated sources, which are promising tailwinds in the medium-to-longer term. Trends in offshore energy, particularly in the construction of offshore windfarms are projected to become a $70bn market by 2030, which would require dredging services. Additionally, the increasing size of ships requires canal-widening and deepening efforts, which increases the frequency of maintenance and creates a variety of port-deepening assignments. Finally, the effects of climate change, including more frequent and intense hurricanes and flooding, are likely to increase the rate of coastal deterioration and require increased interventions in the long term, a trend that benefits GLDD. Additionally, the company has transitioned towards a recession resilient model, where now 75% of its revenue comes from the federal government (compared to just 23% in 2009) and only 2% of its revenue comes from foreign capital projects.

4. <u>Optimal point of investment given market irrationality</u>: Market interest in GLDD is slim given its low market cap and substandard average trading volume. The market has been overconcerned with a few issues involving (1) the divestiture of the E&I business line, which marked a $6.3mm loss in 2018 and was supposedly symptomatic of the company's formerly poorly-executed acquisitive pedigree, and (2) previously high financial leverage, whereas the company has improved its gross margin to around 18.8% in Q3 2019; prior to this GLDD investors were concerned about poor construction progress on the new Ellis Island dredge, which was delayed and hurt margins for multiple quarters. With the company focusing on its core competencies, emerging from its phase of dredge construction, optimizing its cost

structure, and ending a successful deleveraging campaign, the company is primed to generate outsized returns and drive share price growth going forward.

Key Risks and Considerations

1. High reliance on federal funding: GLDD's revenue source is highly concentrated, which means changes in federal priorities may lead to potential distress. This, however, is unlikely because dredging is largely required to meet the government's longtime priorities at encouraging international trade and national security interest of allowing safe and navigable waterways.
2. Exposure to commodity risk and labor costs: GLDD's single largest operating cost is the price of fuel involved in powering its dredging equipment and transporting dredges to different project sites. This means that an increase in oil prices would lead to a substantial decline in margins. The company utilizes futures contracts to hedge against this risk. GLDD also negotiates labor contracts with several unions, which means a potential for work stoppages and increased labor costs; however, new dredges are much more fuel efficient and require less employees than legacy dredging equipment.

Decision: BUY
Industrials Investment Committee Representative: Richard Archer

The Industrials Sector pitched Great Lakes Dredge & Docks Company (NYSE: GLDD) as a buy in General Meeting on Wednesday, January 29th, 2020. After review, the Investment Committee decided to purchase GLDD. Our reasons are as follows:

FIRST: We find ourselves persuaded by the contract level research performed by the sector. One of the single most compelling arguments was an analysis that showed that in every instance during which GLDD did not win a contract, it was awarded a materially larger contract – we believe this is indicative of a veritable and sustainable oligopoly in which several players are able to compete without stepping on one another's toes. The ability to look at the specific award dates gives more depth to understanding contract structure, which we found helpful for industry analysis.

SECOND: We are compelled by the argument that the past mistakes of GLDD's management were primarily attributable to its former PE owners - in particular, the operating level statistics showing that the number of boats undergoing maintenance returned to normal after Madison exited is indicative of a return to a focus on long-run value. Some members of ICOMM listed as their primary concern that management's incentives may not be sufficiently aligned with common equity holders, and it is true that their compensation structures seem less tied to equity performance than a typical industrials company. However, they have sufficient ties to equity value targets that, when combined with their demonstrated preference for prioritizing long-term investment, we feel comfortable investing.

In conclusion, we believe this is a business with moderate barriers to entry, a very attractive oligopoly structure, and promising and stable long-run demand. To reiterate, ICOMM's primary concern is the alignment of management with shareholders and the degree to which they are able to pay themselves increasing amounts despite less-than-stellar share performance. Additionally, some members raised concerns relating to the valuation; as with many purchases, this is not necessarily a case in which we find an opportunistically or uncharacteristically low valuation; however, the company's multiples seem in line with reasonable assumptions for risk, cash flow conversion, and growth. Overall, we are excited about this investment opportunity.

Triple-S Management Corporation (NYSE: GTS)

Healthcare Sector Leader: Ricardo Mestre

Company Overview

Triple-S Management (NYSE: GTS) is a significant player in Puerto Rico's managed care market with approximately 876,000 members across their system; this represents a 27% market share. Triple S management has the exclusive right to use the Blue Cross Blue Shield name in Puerto Rico, the U.S. Virgin Islands, Costa Rica, the British Virgin Islands, and Anguilla. They offer managed care products in the commercial and Medicare space in addition to the Government of Puerto Rico Health Insurance Markets. Beyond managed care insurance products, Triple S offers life insurance; accident and disability insurance; and property and casualty insurance. Triple S has faced a series of major headwinds that have taken a toll on the stock including hurricane Maria, a relationship with a lobbying firm that was charged with a series of corruption charges by the DOJ, and an FBI raid. Hurricane Maria caused the company to incur many property and casualty claims to the extent that the company has gone beyond the amount covered by their reinsurance. As it relates to the corruption scandal, the company hired Elias Sánchez, an outside consultant that is close friends of the governor of Puerto Rico and was charged with corruption by the DOJ. These recent negative events have made GTS the target of a short seller reports, hitting on the fact that the company has high risk exposure as the result of the corruption scandal and remaining liabilities associated with property and casualty claims from hurricane Maria.

Investment Thesis

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

1. Underwriting Quality: Historically the company has demonstrated stability in its underwriting quality with an improving trend prior to the arrival of Hurricane Maria where the combined ratio was below 100. The company has typically earned returns on equity in the high single digits in the current low interest rate environment. The major exception to this has been in the year following Hurricane Maria where the company had to recognize significant losses as the result of the high P&C claims. Despite this reasonable return on equity driven by a stable underwriting quality across the business segments, the company was trading at a .4x P/B at the time of the pitch. Additionally, following a strong loss within the P&C business, insurance companies generally are able to raise premiums, facilitating the long-term pricing in the market and making the business line much more attractive.

2. Latin American Expansion: The company has opportunities for growth even as the Puerto Rican market shrinks as the result of expansion into new markets. We believe that they are catching favorable macro trends in Costa Rica relating to the switch from a monopoly private health insurance market that will prove favorable for GTS. We believe the company will incrementally be able to expand into some new regions and make profitable investments, mitigating the decline associated with the population trends in the Puerto Rican market.

3. Differentiated View: We have a strong differentiated view on this company as the result of the pessimism that has been priced into the stock relating to recent negative events. The hurricane and corruption charges pose genuine risks to GTS; however, we believe that these risks have been largely overblown. Given the other companies that are involved in the corruption scandal (Microsoft, GILA Corp, AECOM) and the limited seriousness of GTS' offense — the company submitted paperwork for the contract several days late — we believe that it is unlikely that the company loses the contract. Even if they do lose the contract, we believe the loss has already been priced into the stock. As it relates to GTS potentially understating the losses associated with Hurricane Maria, the short seller has been advertising unsubstantiated claims and the figures presented by GTS are consistent with peers.

Key Risks and Considerations

1. Low interest rates: This represents the largest risk to the investment. Any insurance company lives off investment income made on its float and low interest rates keep the company from earning high returns on the assets side. This will serve as a long-run factor that depresses returns on equity. We see this as largely being priced into the stock; however, long-run negative interest rates would create a difficult environment for GTS.

2. Macro population trends in Puerto Rico: The population trend in Puerto Rico has been very bad over the past several decades with many individuals moving to the U.S. as the Puerto Rican economy has deteriorated. We believe that this trend will continue, however, the population shrinkage may be worse than we expect.

3. Medicare / Medicaid policy changes: The healthcare system in Puerto Rico is subsidized in part by the U.S. government which is critical to its continued stability. Negative changes to the subsidies or lower reimbursement rates would negatively impact GTS as it has a large exposure to managed care.
4. Climate Change / Loss Reserves: To the extent that hurricanes continue to hit Puerto Rico with greater frequency the company's P&C business will periodically have major losses. To mitigate this the company has increased the amount of reinsurance on the business. Additionally, the company has continued to be sued for losses associated with Maria and to the extent these losses are greater than those indicated on the company's loss reserve the company may have increased liabilities associated with Hurricane Maria.
5. Corruption Charges: The contract won from the government that is contested as it relates to the corruption charges equals $700MM or 20% of the company's annual revenues. Given then the company's dominant position in the market and mitigants to the management's wrongdoing, we believe that it is unlikely that the company loses the contract.

Decision: BUY

Healthcare Investment Committee Representative: Edward Chang

The Healthcare Sector pitched Triple-S Management Corporation (NYSE: GTS) as a buy in General Meeting on Wednesday, February 5th, 2020. We agree with the sector's rationale and believe that GTS presents an opportunity to invest in a fundamentally sound business facing short-term market overreactions. Our discussion is summarized below:

FIRST: GTS appears to be a fundamentally sound business facing short-term market overreactions. The business captures a meaningfully dominant position in Puerto Rico's managed care industry and displays a reasonably healthy level of operating efficiency relative to peers, as demonstrated by its industry-leading expense ratios. Though not without controversy, GTS arguably controls a competitive advantage amongst private insurers. Additionally, the business has a visible expansionary runway in the Latin American market as private insurers such as GTS become more and more popular relative to existing state-sponsored healthcare systems. These attractive business fundamentals suggest a growth-at-a-reasonable-price investment opportunity.

SECOND: Concerns over the Puerto Rican government severely punishing GTS based on its corruption are likely overblown. If an insurance company goes bankrupt, its claims are inherited by state-run funds. The Puerto Rican government would be liable for extraneous claims even though it already requires aid to honor claims it is presently liable for. Having just emerged from a national debt structuring, this dead man's switch likely prevents the Puerto Rican government from engaging in any overly litigious behavior that would push GTS into bankruptcy.

THIRD: The sector explicitly demonstrates a potential contrarian position— the market is overreacting to the threat of potential future litigation losses, as well as the damage of recent natural disasters, as suggested by short researchers like The Friendly Bear. After researching the litigation dockets, the sector demonstrates that the market has aggressively overestimated the value of GTS' upcoming liabilities and is not improperly accounting for the percentage of lawsuits that they expect to lose. Based on the sector's research, to justify the current market valuation, GTS would have to suffer a more than double litigation loss rate relative to industry. This discrepancy provides us with a significant margin of safety.

Key Risks & Considerations:

1. Unresolved Ligation Claims: Based on the sector's research, we believe that concern over future litigation losses is likely overblown. However, we must acknowledge that our upside is likely compressed due to the unknown impact of unresolved litigation claims as well as the damage of political corruption.
2. Global Warming: With the rise of climate change and global warming, hurricanes and other natural disasters such as Hurricane Maria will occur more and more frequently, posing potential deleterious risks to the property and casualty insurance segment.

Slack Technologies (NYSE: WORK)

Technology Sector Leader: Chris Sun

Company Overview

Slack is a messaging platform that replaces email, allowing companies to sort their communication based on individual threads/channels. Slack runs on a freemium model, meaning smaller corporations can use the software free of charge and ultimately upgrade to enterprise plans that can handle hundreds of users, app integrations, and searchable messages. As of FY19, enterprise customers that contributed more than $100K ACV composed ~46% of Slack's revenue. They derive their revenue on monthly subscription fees, with vary by the specific plan that customers request.

Investment Thesis

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

1. <u>Switching Costs:</u> From a high level, enterprise customers that use Slack risk jeopardizing internal workflows, communications with Shared Channels partners, and past data. Beyond the internal workflow that the platform produces, companies lose centralized security/compliance, business analytics, and a history. For Slack's largest customers, migrating thousands of customers creates a barrier in itself. App integrations and custom-built applications further create switching costs that ultimately engrain users in the Slack ecosystem. Within a given chat, users can type commands that automatically link third-party applications without the need to leave Slack. Custom integrations, utilized by numerous enterprise customers, are custom-built within Slack. The Slack app store, along with these in-house app creations, result in significant switching costs for organizations that currently rely on Slack.

2. <u>Growth:</u> Slack's freemium model enables departments or individuals within larger corporations to test Slack, upgrading to paid subscriptions if they find a need, a form of natural growth. Network effects result internally and externally of companies – as employees increase their usage of Slack to communicate, the value of the platform increases, as does the attraction of joining. Shared Channels, a relatively recent addition, enables collaboration across companies. The variety of use cases across industries, combined with the 26K companies we've seen using Shared Channels as of October 31st, is a compelling growth runway for us. When we think about organic growth, user familiarity is integral for Slack – word of mouth, network effects, and educational discounts result in 37% YoY increases in DAUs, as well as a 50% free to paid conversion rate. Finally, Slack heavily prioritizes its app store, resulting in a rapidly expanding community that creates more tools and accessibility for potential developers.

3. <u>Market Mispricing:</u> Bullish views on Microsoft Teams have driven Slack's stock down, centrally as a result of Teams' announcements of their increasing DAU count. However, looking closely at these numbers, the DAU increase has centrally been a result of slowly migrating users over from Skype for Business to Teams. Teams' use case just isn't the same as Slack – Teams is a clunky communications tool for pre-existing Skype users, whereas Slack users love the product. 70% of Slack's largest customers are paid Office subscriber and Slack's net dollar retention remains steady around 130%, compelling evidence that the Teams threat is severely misstated.

Key Risks and Considerations

1. <u>Competition:</u> There are many substitutes, including email and other pure-play competitors. While Slack is a leader within corporate messaging platforms, it is still a risk that newer startups or Teams could steal new customers.

2. <u>Margin Expectations:</u> Steady state margins are unpredictable and volatile, with sensitivity in the valuation. Ultimately, we believe that a 30-35% operating margin is reasonable and still includes a margin of safety.

Decision: BUY

Technology Investment Committee Representative: Henry Gao

The Technology Sector pitched Slack Technologies (NYSE: WORK) on Wednesday, February 12th, 2020 in General Meeting as a buy. The Investment Committee (ICOMM) decided to follow the sector's recommendation and purchase WORK. Our reasons are the following:

FIRST: We have a strong conviction in the business quality of Slack. Although the business is still in its mid-growth stage, we believe that Slack has created a visible economic moat in the enterprise solution space and is an archetypical combination of expanding network effects and increasing switching costs. Moreover, we are especially pleased with the business' cost structure and customer acquisition strategy.

1. Network Effects: Slack's offerings directly lead to three distinctive dimensions of network effects that have been expanding simultaneously and rapidly – they are respectively present in the (a) intra-enterprise, (b) inter-enterprise, and (c) user-developer dimensions. As its primary offerings focus on enterprise productivity and collaboration, the internal usage within each organization across teams and departments steadily propels the intra-enterprise network effects. The development of shared-channels has enabled direct and seamless collaboration amongst organizations on Slack platform, and will serve as the foundation for the inter-enterprise network effects. Lastly, the user-developer network effects are fueled by the rapid increase in creation and usage of both third-party and custom-built applications on the Slack platform.
2. Switching Costs: Through its expanding network effects, Slack continues to raise the switching costs for its users and demonstrates < 3% churn for enterprises. The intra-enterprise network effects demand that the decision of switching must be made on a near enterprise-level, and the inter-enterprise network creates a degree of user stickiness on an industry or supply-chain level. The user-developer network effects, as demonstrated through the creation of mission-critical custom-built applications by each organization, discourage users from switching to other platforms and rebuild these functionalities.
3. Cost Structure: Slack not only enjoys a substantial degree of operating leverage due to its SaaS/PaaS model, but also adopts an economically competitive customer acquisition strategy during this critical growth period. The firm capitalizes on its expanding intra- and inter-enterprise network effects by prioritizing the cheapest bottom-up organic growth, and limiting its spending exclusively on decision makers at large enterprises.

SECOND: We take on two contrarian viewpoints against market commentaries – we believe there is an overreaction on the impact of Microsoft Teams ("Teams") and overlooked upside from the shared-channels features. We recognize that Teams poses an active threat to Slack's offerings, evident due to not only the service overlaps, but also the extensive coverage of Slack in Slack/Microsoft's communications. However, fundamentals suggest that Teams would unlikely surpass Slack, and at best co-exist with Slack in the long run. In fact, multiple third-party applications have been integrated to Slack to allow cross-communication between Slack and Teams within an organization, while Slack remains as the preferred and premium platform. Next, we believe the shared-channels feature will materially transform the inter-enterprise collaboration landscape. This will not only aid near-term customer acquisition, but also generate sizeable switching costs and pricing power in the long-term.

THIRD: We will not claim that WORK is undervalued by a significant margin of safety, but we believe that the stock is at worst reasonably priced with a risk profile skewed toward the upside and a potential near-term catalyst. The firm's unprofitable profile and slowing growth raise concerns about its objectively high valuation, but its strong unit economics and long growth runway should sufficiently offset the shortcomings. Also, its debt-light capital structure allows us to be comfortable with short-term fluctuation and to truly take on a long-term investment horizon Furthermore, the market valuation suggests a rapid multiple shrinkage over the next five years to an overly bearish level relative to peers, especially to industry peers with a poorer business quality. Lastly, we recognize that the recent developments of COVID-19 will likely serve as a catalyst for customer acquisition as virtual collaboration becomes an increasingly mission critical role. Note that the effect will most likely unfold via the “freemium” mechanism and result in a delay between user adoption and improved profitability.

Other Considerations

1. Continue to Monitor the Teams-Slack Competition: We believe in an overreaction with respect to Teams, but certainly do not dismiss it as a real competitor. Based on our technical understanding of their products, Slack will continue to be the preferred choice, especially for developers, but Microsoft will likely continue to devote its war chest toward Teams. However, for now, we have observed organizations adopting Slack even after experiencing Teams for free with their existing Microsoft agreements.
2. Refine the Mature-State Assumptions: Our view on valuation is quite sensitive to the mature state assumptions, especially profitability. We should therefore continue to incorporate new incremental information to refine the assumptions and re-evaluate the thesis.
3. Monitor the COVID-19 Developments: We suspect volatile market movements driven by uncertainty related to the pandemic, instead of by business fundamentals. That said, we should monitor for more attractive entry points and/or adjust its relative portfolio positioning.

Broadridge Financial Solutions (NYSE: BR)

Financials Sector Leader: Jacob Tucker

Company Overview

Broadridge Financial Solutions (NYSE: BR) is a global fintech leader providing investor communications and technology-driven solutions to banks/broker-dealers, mutual funds, corporate issuers, and wealth management firms. Its services include investor communications, securities processing, data and analytics, and customer communication solutions. The proxy services business processes 80+% of shares in the United States and 50+% in the rest of the world, and accounts for 79% of revenues. The company has been independent since 2007, spun off from Automatic Data Processing (ADP).

Investment Thesis

The Financials Sector recommends a BUY of BR for the following reasons:

1. Monopoly Positioning in Highly Profitable Financial Services Verticals: Providing visibility into 95% of all ETF assets and 90% of all mutual fund assets, Broadridge stands alone as a service provider in this realm. Its most frequent competitor is companies processing proxy statements themselves; however, Broadridge's deep economies of scale render this decision unwise for most companies. This effect is broadened when we consider Broadridge's one-stop shop service model, offering a coordinated set of services to its customers that has been built up from a robust history of tuck-in acquisitions.

2. Recession Resilient Business Model: Proxy packages and services such as trade-processing, record-keeping, compliance, and regulatory performance are mandated by law and unlikely to be cut. 90+% of revenue is recurring, and companies have very little incentive to deviate to a higher cost in-house investor service. Thus, unlike most financial firms, Broadridge can gain customers in a recession due to its ability to save its clients' money. Using the Great Recession as a case study, we see that BR's financials maintained a healthy level throughout. An additional benefit however, to the BR business model is that due to the lack of correlation with market downturns, BR is able to use its healthy position to make tuck-in acquisitions at attractive prices, of which it made four during the last downturn.

3. Attractive Growth Runways through SRD II: In 2007, European parliament passed the Shareholder Rights directive, a mandate that significantly augments European-listed companies' responsibilities to shareholders. In 2014, the directive was amended in a manner that enhanced the directive's mandate. Broadridge has been at work for years working on a distributed ledger solution to address these new requirements and is the only company that has been doing so to the degree that they have. Thus, we expect Broadridge to be able to capture broad swaths of new competitors who need to find a cost-saving and quick solution for the regulation that is set to be in effect by September 2020. Based on conservative estimates derived from the profits the company already extracts from European companies this will likely be a boon to the bottom line.

4. Market Mispricing due to One-Time Events: We believe that a slight opportunity has also arose through the recent market movement that resulted from a miss in event-driven earnings. Our research found that this dip was largely due to a decline in mutual fund board elections, which are not cyclical and likely to occur at normal levels going forward.

Key Risks and Considerations

1. Management Stock Sales: Management has been offloading significant numbers of shares over time. However, we find this risk to be digestible, given the portion of compensation provided through equity, and the relatively high CAGR at which the stock price has appreciated.

2. Growing Trend of Consolidation: The financial sector often sees increased economies of scale being achieved through consolidation, and BR is slightly disadvantaged should companies go this route. While a legitimate risk, BR retains most of its revenues when mergers occur, so unless there was a drastic level of consolidation, our position would likely remain strong.

Decision: BUY

Financials Investment Committee Representative: Kevin Ren

The Financials Sector pitched Broadridge Financial Solutions (NYSE: BR) as a buy in General Meeting on Wednesday, February 19th, 2020. After review, the Investment Committee decided to purchase BR. Our reasons are as follows:

FIRST: We agree with the sector's assessment of Broadridge's competitive positioning, namely that it operates as a monopoly in the proxy delivery business with the company processing over 80% of proxy services for all outstanding shares in the United States. Broadridge has delivered sustained ROIC (~20%) in significant excess of WACC (~8%) and will likely continue to do so in the future, providing us assurance of their competitive advantages. Additionally, we view significant barriers to entry resulting from the complexity of trade clearance and settlement systems in the United States and high switching costs arising from the low costs of their services relative to their importance and value for publicly traded companies.

SECOND: We appreciate the counter-cyclicality of Broadridge's business model. The sector pitched the company deep into a historic bull market, noting the recession resilience of the business as a key thesis point, and we are now potentially facing a major global economic slowdown due to COVID-19. Broadridge is insulated from the impact of COVID-19 as businesses are mandated by law to continue facilitating proxy services. Importantly, the sector provided clear evidence of BR's fundamental strength in the Great Recession where its net revenues went down 3% and net earnings went up 4% while S&P average revenues diminished 11%.

THIRD: Broadridge has ample opportunities for reinvestment and TAM expansion as the European parliament passed a proposal increasing the magnitude of SRD II mandate, which expanded the responsibilities that European-listed companies have towards their shareholders. This avenue for growth allows BR to diversify its revenues globally while remaining within its core competencies. While the proposal was ratified in 2017, a significant delay between its passage and technology development/implementation means that the fundamental impact has yet to be realized. With the product expected to launch in the latter half of this year, we expect to see an acceleration of growth yielding attractive forward multiples and supporting an argument for undervaluation.

FOURTH: Given the sector's projection of high-teens IRR and the inherent predictability and low uncertainty associated with the business model, we believe that at the time of the pitch BR represented a quality business trading at a very reasonable price. As BR has traded down roughly in line with the market in light of COVID-19, it may represent an even more attractive opportunity today given the factors described above.

News Corporation (NASDAQ: NWSA)
Communications Sector Leader: Nathan Nangia

News Corp

Company Overview

News Corp is a media conglomerate operating four core businesses: News and Information Services, Publishing, Real Estate Services, and Subscription Video which account for 49%, 17%, 11%, and 22% of revenue. News and Information Services comprise of newspapers, including WSJ and The Times, and NAM, a marketing agency. Publishing comprises solely of Harper Collins. Real Estate and Subscription video both come from majority interests; Real Estate from a stake in REA, a global real estate platform, and Subscription Video from Foxtel, an Australian television company.

Investment Thesis

The Communications Sector recommends a BUY of NWSA for the following reasons:

1. High-Quality Newspapers: Not only does News Corp own the most reputable and profitable newspapers globally, but the business is in a strong financial position. Net Subscriptions to News Corp newspapers have increased ~5% annually for the last three years, and their digital presence has exploded, because of significant social media references. Furthermore, both monetization and the transition to digital-only services continue to be successful as seen by increasing operating margins and revenue. Confidence in the business' continued ability to perform can be distilled into their strong brand recognition and the continued transition to higher-margin digital media. Despite market perception, recent newspaper bankruptcies have been the result of leverage (up to 81x Net Debt/EBITDA!), not poor industry fundamentals.

2. Strong E-Book Growth and Publishing Business: Harper Collins, the second-largest global publisher, benefits from bargaining power and economies of scale. Publishers fight for authors; therefore, the largest publishers attract the best authors and benefit from cost-advantages to scale. The shift to e-books has been smooth for Harper Collins with 5% YoY e-book sale growth, which brings e-book and audiobook sales to 20%+ of revenue. Furthermore, digital formats are higher margin. The smooth, non-cannibalistic transition to digital formats coupled with strong industry competitive dynamics ensures a strong cash-flow generating business.

3. Network-effect Driven Real-Estate Services: REA operates a global real-estate platform that connects potential homebuyers with sellers, much like Zillow. REA is the largest digital realtor in Australia and generates a ~19% ROIC compared to ~3% for competitors, clearly showing their competitive advantage. Furthermore, REA has been inorganically building out their international business and now controls significant portions of the Indian, Malaysian, Thai, and Hong Kong real estate markets.

4. Turnaround for Video: Foxtel is the largest cable TV provider in Australia with over 50% of the population subscribed. Recently, Foxtel has struggled due to cable-cutting and high churn but has recently released an OTT sports service, Kayo. Kayo has shown incredible success with triple-digit subscriber growth. Foxtel has announced plans for other OTT options following Kayo's success. Finally, Foxtel and Netflix are complements with over 23% of the Australian population subscribed to both services, which signals differentiated value propositions between the services.

5. Mispricing: With these competitive dynamics in mind, only a few assets are required to justify NWSA's current valuation. Real Estate alone justifies ~40% of share price, News and Information ~28%, Publishing ~32%, and Foxtel ~30%. Thus, the business trades at a significant discount to value and has a significant margin of safety.

Key Risks and Considerations

1. Murdoch Family: This News Corp was spun-out from the Murdoch-controlled News Corporation in 2013. However, the Murdoch family does not control News Corp, with only a 39% stake in voting shares.

2. "Dying" Industries: Any incorrect assessment on the value and outlook of an industry could materially impact our upside. However, our value is justified without all the theses being correct.

Decision: NO PURCHASE

President: Lance Hao

The Communications Sector pitched NWSA on Wednesday, February 26th, 2020 in General Meeting as a buy. The Investment Committee (ICOMM) decided not to purchase NWSA. Our reasons are as follows:

FIRST: When it comes to valuation, the margin of safety is simply not large enough to justify an investment in a company with such high complexity. Though we agree that NWSA may be a best in class operator in their News and Publishing segments, other segments of the business seem less attractive. A majority of the valuation comes from REA and Move, but not only are these businesses difficult to value, we lack the complete information to do so. To add on to this concern, a portion of the "market mispricing" may come from a conglomerate/holding discount, which the sector did not include into their analysis – if this discount is perpetual in nature, then the margin of safety shrinks further.

SECOND: We are not confident of the company's dedication to asset sales. While the sector provides an example of one upcoming disposition, NAM, all other past dispositions have been much smaller in size and not served to simplify corporate structure. There is not enough evidence at the moment that management is committed to monetization and realizing value. In summary, though NWSA may have some assets with strong cash flows, our valuation is dubious at best. With a minimal margin of safety, our lack of conviction in the potential catalyst makes it difficult to justify a purchase.

Sunrun Inc. (NASDAQ: RUN)

Natural Resources Sector Leader: Parth Patel

Company Overview

Sunrun Inc is the market leading provider of clean, affordable solar energy and storage to homeowners. It engages in the design, development, installation, sale, ownership, and maintenance of residential solar energy systems in 22 states, DC, and Puerto Rico. Solar service offerings are provided in one of two ways: selling the solar system directly to the consumer or with fixed or variable pricing under 20 or 25 year energy purchase agreements that generate recurring, contracted revenue for multiple decades for RUN.

Investment Thesis

The Natural Resources Sector recommends a buy of RUN for the following reasons:

1. Market leader with high in quickly growing market: The residential solar market is expected to grow at a 15-25% CAGR in the next decade. This is made possible because the cost of solar energy has been decreasing at a fast rate. In many states, solar has reached grid parity, which means it is cheaper than traditional utilities, opening up a new whole new market for solar as the most cost-effective choice. Sunrun is both the fastest growing and largest residential solar player. It has been able to grow due to its use of non-recourse debt and tax equity project financing strategies that drastically decrease upfront costs and working capital, enabling Sunrun to service more demand at a faster rate. In addition, Sunrun's direct to consumer model and high marketing investment have enabled it to become the leading brand. It has lucrative sales partnerships with firms like Costco, Home Depot, and Comcast to increase its reach to consumers.

2. "Sticky" business with stable performance and opportunities for cross selling: The majority of Sunrun's business comes from its Customer Agreements ("subscriptions") segment, which includes all panels it installs and owns on top of residents' houses, while the residents purchase the energy produced directly from Sunrun. These purchasing contracts last 20 to 25 years and give Sunrun a steady stream of cash flows, with high likelihood of renewal at the end of the period. This long customer relationship enables Sunrun to cross-sell its new product, the Brightbox battery, which stores electricity for the household and further monetizes the customer relationship. Finally, the Federal government has announced a gradual stepdown in Solar Investment Tax Credit (ITC), which will decrease the tax subsidies residential solar providers benefit from. Sunrun is disproportionately insulated from this because ITC will remain for commercial solar projects, which its "subscription" model is counted as. This will lead to an increased shift from system sales to solar subscriptions, which are higher margin for RUN and allow them to continue to benefit from the solar ITC.

Key Risks and Considerations

1. Defaults: A key assumption resulting in Sunrun's undervaluation is a low default rate on contracts going into the future (1%). Historically the number has been less than 1%, however, Sunrun has not lived through a full business cycle. The NR sector sees this as a smaller issue because solar energy has reached grid parity in the states in which Sunrun currently operates, meaning it is the cheaper alternative versus traditional utilities for a non-discretionary good.

2. Reliant on liquid Capital Markets: Sunrun is heavily reliant on capital markets to continue its operations due to their project financing-based business model. If, for example, its cost of debt spikes due to an industry shock or interest rate shock, Sunrun would be disproportionately hurt versus its peers. This is mitigated by the fact that Sunrun will still have the ITC for its "subscription" revenue streams and can later choose to use company debt instead of non-recourse debt to finance its projects at a lower rate, once it has reached sufficient scale.

Decision: NO PURCHASE

Natural Resources Investment Committee Representative: Cale McCormick

The Natural Resources Sector pitched Sunrun Inc. (NYSE: RUN) on Wednesday, March 4th, 2020 in General Meeting as a buy. The Investment Committee (ICOMM) decided to not purchase RUN. Our reasons are as follows:

FIRST: We are concerned about our ability to assess critical aspects of the company, such as geographic distribution. Furthermore, many details about management, such as a board being composition (only non-industry participants and management), past lawsuits, share buyback authorization, and media hype all cause us to be more wary and increase the importance of our need to make granular assessments. The market share and growth of this company demonstrate that the company has a competitive advantage in the space. The sector points to its first mover advantage in financing, which is a compelling story. However, without being able to better quantitatively and qualitatively assess this advantage, we cannot be confident that it will not effectively be replicated by one of the many emerging competitors, even if none have been able to do so before.

SECOND: We are not confident in the valuation presented by the sector. Given the long-term nature of the business, the sector does not expect the business to be cash flow positive in the next 10 years. Therefore, all the value of the company, or lack thereof, must be extrapolated from long term projections. Some of these projections, such as market share growth and margin expansion due to aggressive decreases in sales and marketing costs, can be feasibly justified qualitatively, but the sensitivity of the valuation to these measures leaves no comfortable margin of safety. This problem is compounded by the company's opaqueness, as discussed above.

THIRD: Although not discussed at much length during the defense of this company, the current macroeconomic conditions have highlighted that this company has higher exposure to macroeconomic risks than it would superficially seem. The sector highlighted the fact that macroeconomic downturns should not seriously affect the company's ability to sell its product, as it is oftentimes cheaper than traditional utility. However, this company's ability to get attractive non-recourse financing from commercial banks is seriously in question in a macroeconomic downturn. Given the company's long-term nature, it needs a constant stream of good financing for decades, which given the recent developments seems unlikely to happen without at least some periods of prolonged interruption.

Mesa Air Group (NASDAQ: MESA)

Consumers Sector Leader: Joshua Soong

Company Overview

Mesa Air is a small-cap air carrier that contracts with legacy American carriers to fly to regional routes. It operates flights under the American Eagle and United Express banners for American Airlines and United Airlines, respectively. In FY2019, the Company operated a fleet of 145 aircraft that conducted 730 daily departures.

Investment Thesis

The Consumers Sector recommends a BUY of MESA for the following reasons:

1. Coronavirus Fears and Underwhelming 2019 Present Compelling Entry Point: At the time of our pitch on Wednesday, March 11th, 2020, the United States was just starting to see an exponential rise in domestic coronavirus cases. China, Italy, and Iran had already been placed on a CDC Level 3 Travel Warning, and transmission fears had caused major carriers like United and American to announce flight and staff reductions. Moreover, Mesa as a company was coming off a disappointing 2019 where dismal operating metrics had caused American Airlines to remove three planes from Mesa's contract. However, as value investors, we take a long-term view: operating numbers from the first three months of 2020 were improving and the coronavirus pandemic would, inevitably, subside. It was not our intention to time the end of the coronavirus; rather, we believed that the coronavirus, coupled with a bad 2019, represented a good entry point to buy into a business whose contracts — as you will see in the next thesis point — effectively ensured it would be a cash flow machine.

2. Unique Contract Structure: Regional carriers have been able to negotiate favorable contracts that effectively remove several of the biggest cost risks in the aviation industry. Mesa's contracts entitle it to a guaranteed minimum monthly revenue stream for each aircraft in service as well as additional payments for each flight and block hour flown. More incredibly, Mesa passes on all fuel costs and the majority of its maintenance, insurance, and ground operation costs to United and American. In effect, this means that Mesa does not care whether its flight is at 100% capacity or at 10% capacity; so long as the flight takes off (and, hopefully, lands), Mesa will collect from United and American. This contract structure is beneficial because the industry's profitability is directly inversely correlated with jet fuel prices. Thus, by removing this correlation, Mesa's operating cash flows are relatively stable and predictable. Additionally, for planes that Mesa purchases, the majority of the lease payments are structured to terminate when the plane's operating contract terminates. This eliminates any overhanging "tail risk" that may arise when a plane comes off contract (and no longer generates revenue) but the Company still has to pay for it.

3. Several Catalysts for Future Growth: Putting "pandemic" and "growth" in the same presentation may seem counterintuitive but it is our belief that Mesa has several compelling long-term growth prospects. Firstly, its core passenger business will continue to see growth as a result of American and United's union agreements. These union agreements contain "scope clauses" which limit the number and size of regional jets that can be flown. However, these agreements will soon be up for renegotiation, and the historical trend has been toward a relaxing of these clauses, especially as management has expressly stated increased regional flights are imperative to the profitability of higher-margin hub-to-hub and international flights. This is evidenced by Mesa's recent United negotiations that not only saw its contract extended but also bestowed the Company with an additional 20 jets to operate. Finally, management has put forth a potential expansion into the cargo business. While details surrounding this endeavor remain scarce and we discount such growth prospects accordingly, we believe that this expansion is viable given Mesa's low labor costs and geographic footprint.

Key Risks and Considerations

1. Contract Termination: A pivotal part of our thesis is Mesa's contracts and the hedges it provides. That said, what stops airlines from canceling these contracts outright? Firstly (and specific to American), American owns approximately 7% of Mesa's stock, so a contract cancellation would hurt American as well. More importantly, legacy carriers, as a result of their union agreements, have to pay much higher wages to pilots and staff than regional carriers like Mesa do. Aside from fuel, labor is the next largest expense for airlines, so any savings on this front makes a material impact on the

bottom line. Thus, given the industry's structure, Mesa's lower labor costs mean it is cheaper for legacy carriers to outsource these flights than to bring them in-house.

2. Late-Cycle Economy: Most people agree that decelerating growth and declines in profit margins point to an industry nearing the end of a cycle. We do not dispute this. Rather, we point out that Mesa's unique contract structure shields it from a substantial amount of the revenue and profit cyclicality characteristic of the industry. Moreover, even by late-cycle multiples, Mesa is unjustifiably discounted. For example, Mesa's forward P/E is less than half that of its competitor Skywest.

3. Liquidity: Implicitly central to this entire presentation is the belief that Mesa can weather the coronavirus pandemic. Mesa, as with many airlines, depends heavily on operating cash flow to service debt and capital lease obligations. To that end, we created a liquidity roll to see how strong Mesa's balance sheet was. From our analysis, which incorporated extremely conservative consumptions (ie. full-year flights were down by ~50% compared to 2019), we determined that Mesa could remain liquid for over a year under such dire conditions without declaring bankruptcy.

Decision: NO PURCHASE

Consumers Investment Committee Representative: Avita Timbadia

The Consumers Sector pitched Mesa Air Group (NASDAQ: MESA) on Wednesday, March 11th, 2019 in General Meeting as a buy. The Investment Committee (ICOMM) decided not to purchase MESA, despite the few merits of the business raised in the pitch: attractive valuation and insulation from the current COVID-19 situation due to its unique contract structure. Our reasons are as follows:

FIRST: MESA may not be directly exposed to the COVID-19 situation due to the insulation that the unique contract structure provides. However, we find that the effects of the current attack on the airline industry would indirectly seep into the business. The sector argues that the airline industry is one of the highest priority industries for the White House and would be one of the first to receive crisis assistance whether it's through low or no-interest loans or tax deferrals However, we do not believe that we should rely on federal assistance when little has been done to substantiate this. 75% of revenue is still exposed to diminished demand which introduces significant uncertainty especially given the possibility for Net Debt/EBITDA to spike to prior bankruptcy levels in a bear case scenario.

SECOND: The Association of Flight Attendants and Airline Pilots Association (ALPA) Union appears to have strong negotiating power over both MESA and its customers (United/America) and has the potential to continue squeezing MESA of its cost advantage. The strong negotiating power places an upper limit on the TAM of the business through scope clauses that they could potentially be introduced. In 2017, MESA ratified new contracts with their flight attendants and employees which led to large increases in across-the-board pay and "initial pay raises of up to 20%". This widened their largest operating expense, flight operating costs, to 31% of revenue in 2018 to 2019 from 24% in 2016. MESA is once again vulnerable to a similar squeeze in the 2021 negotiations, causing it to lose its cost advantages over other regional airlines.

THIRD: It is likely that MESA's margins will likely erode in the near time as maintenance cost increases and warranties expire due to the aging of their E-175 aircraft, which comprises nearly half of their total fleet. Recent increased efficiencies which have driven recent Revenue Passenger-Miles growth appear to be a one-time change and will likely rely on higher capex through purchased planes to continue as well.

Exited Positions

This quarter, ICOMM decided to undergo a portfolio rationalization following a series of purchases. It is important to consider that TBC is a permanent portfolio run by impermanent people. Thus, we decided to sell off many of our legacy holdings which we no longer had a strong view on along with a few broken theses to free up capital for future generations of Analysts. We were lucky to exit many of these positions before the worst of the market sell-off. For simplicity sake, for portfolio holdings bought in multiple periods the IRR presented is for the original purchase; purchase price however is a blended number. A summary of our sales is below:

Sold American Airlines Group (NASDAQ: AAL) for $19.53

Bought at $39.85 (-44.18% IRR)

Sold Covetrus (NASDAQ: CVET) for $10.79

Bought at $37.03 (-70.13% IRR)

Sold Lee Enterprises (NYSE: LEE) for $1.46

Bought at $2.94 (-49.15% IRR)

Sold Pandora A/S (OTCMKTS: PANDY) for $11.18

Bought at $26.95 (-52.23% IRR)

Sold Sberbank of Russia (OTCMKTS: SBRCY) for $14.11

Bought at $18.85 (-10.99% IRR)

Sold Trinity Industries (NYSE: TRN) for $20.43

Bought at $25.37 (-8.26% IRR)

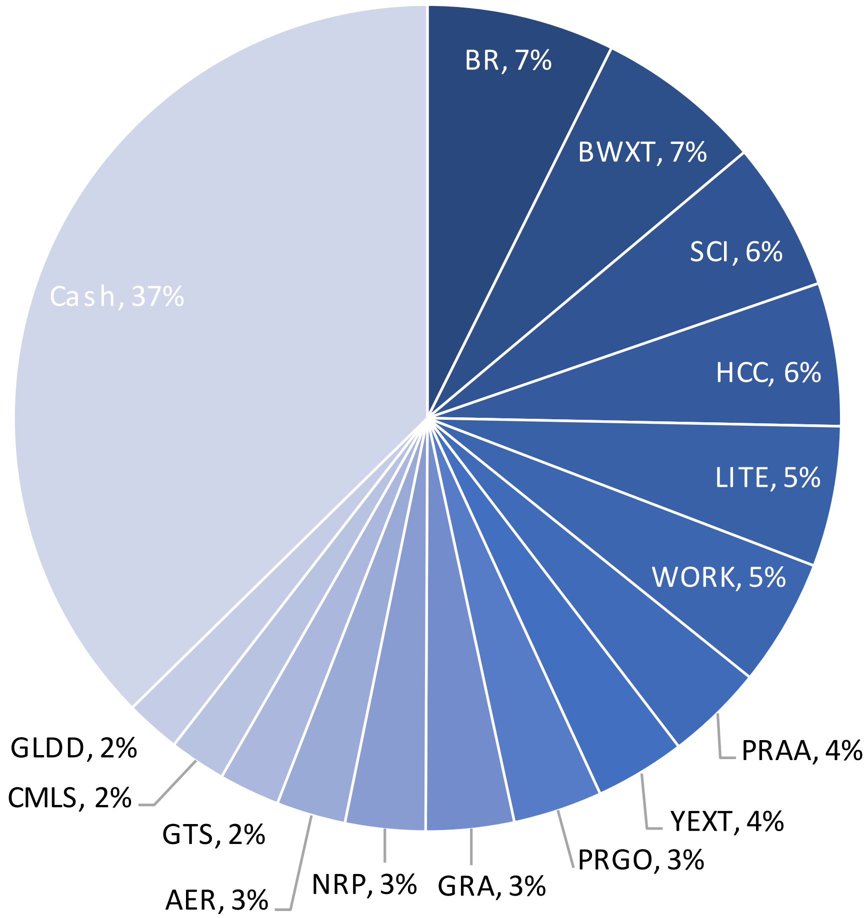
Note: IRR is inclusive of sale of shares given in the Arcosa spin-off sold on 11/06/2018

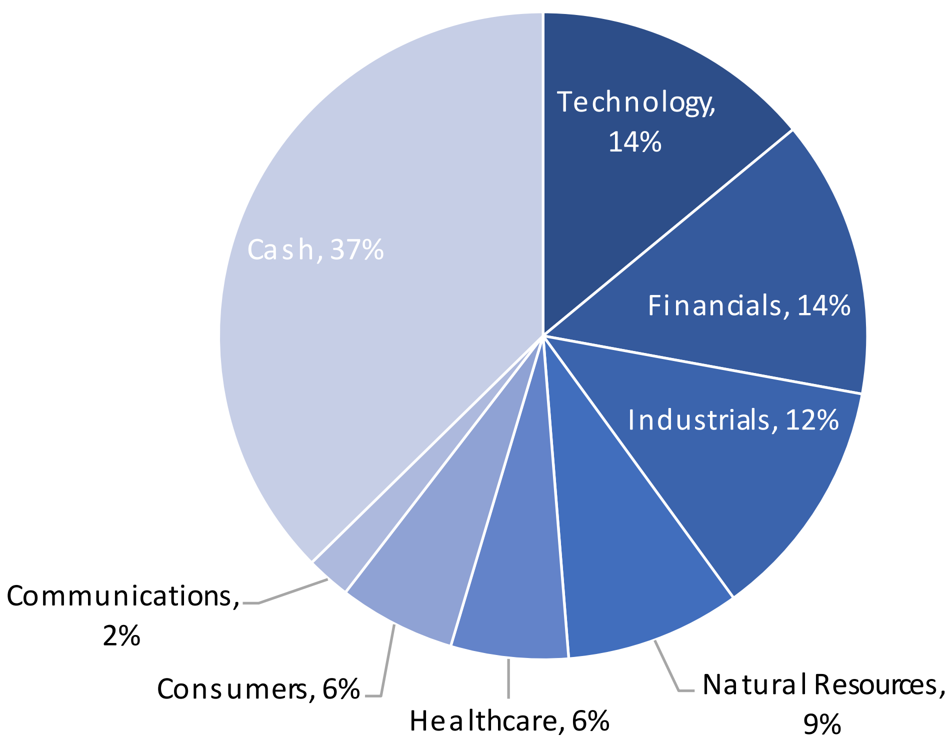
Sold U.S. Bancorp (NYSE: USB) for $45.54

Bought at $38.76 (41.34% IRR)

Note: the majority of our return generated on USB was driven by dividend payments

Portfolio Weightings


BR, 7%
BWXT, 7%
SCI, 6%
HCC, 6%
LITE, 5%
WORK, 5%
PRAA, 4%
YEXT, 4%
PRGO, 3%
GRA, 3%
NRP, 3%
AER, 3%
GTS, 2%
CMLS, 2%
GLDD, 2%
Cash, 37%


Technology, 14%
Financials, 14%
Industrials, 12%
Natural Resources, 9%
Healthcare, 6%
Consumers, 6%
Communications, 2%
Cash, 37%