University of Virginia | DARDEN Capital Management

THE ADVISOR

Q4 2020

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A LETTER FROM THE CEO:

January 29, 2021

Greetings,

We are pleased to bring you the Q4 2020 edition of The Advisor. Within the enclosed pages, please find updates from each of the five fund teams on portfolio activity over the last quarter, as well as featured DCM stock pitches and an interview with Mac Dunbar (Darden '10) Principal & Director of Research at Vulcan Value Partners.

As 2020 came to a close, current members of DCM reflected on how much the world changed since we took over the portfolios in March. These changes have undoubtedly taught us lessons on investing and the markets, but also on managing teams and being resourceful during difficult times. As much as I wish all 24 DCM members could physically get together to celebrate our hard work, I am proud of everyone's ability to adapt as we became a truly "global" operation. Throughout Q4, members were located far from the library's Capital Markets room to be with family— funds continued to meet virtually from Colorado, Iowa, California, Canada, and China. The commitment to DCM and managing the portfolios through these additional complexities as shown by our team is inspiring. Fund meetings have been said to be a source of joy and comfort throughout what has been a lonely quarantine for many. The bonds and friendships we have made throughout this experience will last beyond our time at Darden and we thank you all for supporting this program!

Even though we became more comfortable managing the portfolios through COVID-19 related market activity, Q4 2020 posed new challenges. The opportunity to manage through a U.S. Presidential election is not presented to every DCM class, so we feel fortunate to have had that unique experience. We thought critically about how to position the portfolios for success during and after the election, debating implications for the markets through various scenarios. Outside of a few minor rebalancing moves, we felt confident in the fundamentals of our holdings and kept portfolios largely untouched around the election. Keeping in mind the Endowment's long-term investment horizon, we believe any short-term noise we experience throughout our tenure should not steer major changes in any fund's portfolio construction, although event-driven volatility did spark productive conversations around position sizing. We have enjoyed using tools on FactSet such as attribution and geographic revenue breakdowns to add other important context to our portfolio monitoring processes.

The 9th annual Darden at Virginia Investing Challenge (DVIC) took place virtually on Friday, October 30th, 2020. We are incredibly proud to report a successful event including record breaking attendance with over 100 attendees. Darden virtually hosted 20 MBA teams that pitched COVID-19 recovery ideas—first place went to Columbia Business School (Live Nation Entertainment Inc; LYV), and second place went to Wharton (Caesar's Entertainment Inc; CZR). A huge thank you goes out to Sarah Silke, DCM CFO, for organizing and executing a great event, as well as to all the Darden alums that volunteered as judges! Recordings of both DVIC and UVIC are available on the Mayo Center website.

We continue to take advantage of the virtual environment by hosting speakers and training events. We look forward to providing more opportunities like these, including personal finance educational sessions and financial services career panels this coming quarter. Thank you to Darden alums Caitlin Fitzmaurice ('11), Mac Dunbar ('10), and Jeff St. Denis ('04) for speaking with DCM about your careers in investment management! We also spoke with Sarah Edwards from Cambridge Associates about her role as an ESG/MRI Investment Director. Over 40 DCM club members virtually attended HBS' Investment Conference in November and we are excited to help cover the cost of other conferences like this in the future.

More details on fund-specific moves are available in the Senior Portfolio Managers' letters in the remaining pages of this document, but we are pleased to share higher-level performance numbers, as well.

- As of December 31, 2020, assets under management was approximately $25.9 million.

- We continue to be pleased with relative performance since our inception in March. Four out of the five portfolios are still outperforming their relative benchmarks by more than 600 bps—an accomplishment we know is rare in the investment management industry. We attribute this outperformance to our concentrated portfolios and stock selection.

DCM Portfolios & Benchmarks	Q4 2020	Performance Since March 31, 2020
Cavalier Fund	12.3%	57.2%
S&P 500	*11.5%*	*47.2%*
Darden Fund	33.6%	88.0%
Russell 2000	*29.3%*	*72.4%*
Jefferson Fund	11.7%	48.5%
Russell 1000 Value	*16.0%*	*40.2%*
Monticello Fund	13.7%	54.4%
MSCI ACWI	*14.2%*	*48.4%*
Rotunda Fund	13.0%	36.7%
S&P 500	*11.5%*	*47.2%*

Data as of December 31, 2020. Benchmark returns represented by ETF equivalents.

As I noted in last quarter's letter, our team is grateful for the incredible experiential learning platform that is Darden Capital Management. This program creates countless opportunities for both personal and professional growth, and we hope to thank you for your continued support by making you all proud of what we accomplish this year.

Please let us know if you have any questions or suggestions— we would love to see you virtually at a fund meeting! Our members are eager to learn from our alumni and to raise the profile of Darden in the investment management industry. If you would like more information on anything provided here, please do not hesitate to reach out. For more information and background about the Class of 2021, please visit the DCM page on Darden's website. Thank you again for your time and support.

All the best,

Rachel Gibson

Rachel Gibson
CEO, Darden Capital Management
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2020–2021 DARDEN CAPITAL MANAGEMENT

EXECUTIVE TEAM

Rachel Gibson	Chief Executive Officer
Tim Wills	Chief Investment Officer
Sarah Silke	Chief Financial Officer
Daniel Shipman	Director of Research

JEFFERSON FUND

Nick Feinman	Senior Portfolio Manager
Ralph Blasey	Portfolio Manager
Aditya Jhaveri	Portfolio Manager
Mica Soliven	Portfolio Manager

CAVALIER FUND

Jamie Egan	Senior Portfolio Manager
Tarun Inderchand	Portfolio Manager
Frank Musella	Portfolio Manager
Katie Ryan	Portfolio Manager

MONTICELLO FUND

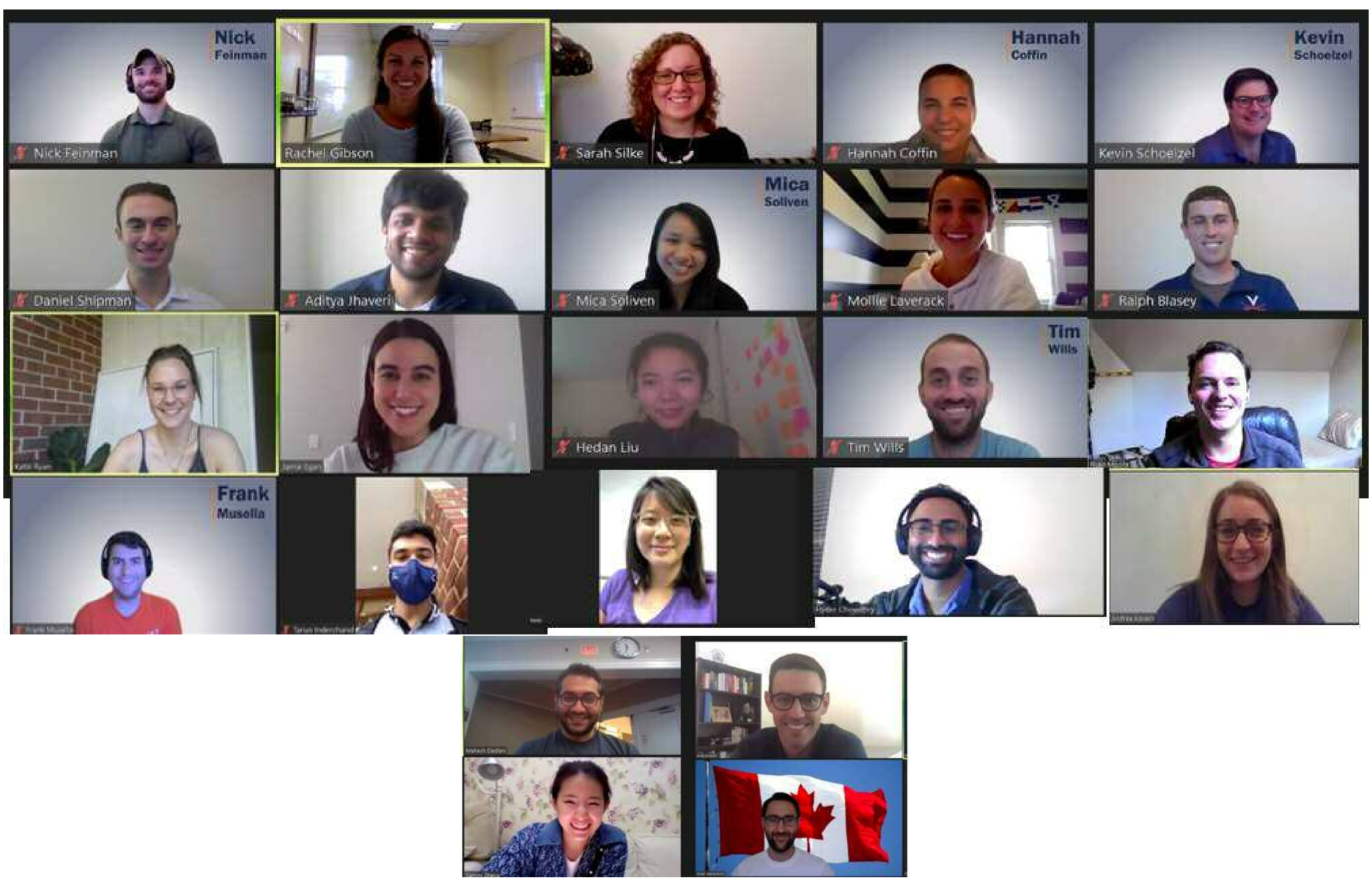
Mahesh Dadlani	Senior Portfolio Manager
Andrea Kovacs	Portfolio Manager
Sammi Zhang	Portfolio Manager
Ryan Moore	Portfolio Manager

DARDEN FUND

Kevin Schoelzel	Senior Portfolio Manager
Jovan Atanackovic	Portfolio Manager
Stephanie Tse	Portfolio Manager
Andy Bedenk	Portfolio Manager

ROTUNDA FUND

Hannah Coffin	Senior Portfolio Manager
Mollie Laverack	Portfolio Manager
Hedan Liu	Portfolio Manager
Hyder Chowdhry	Portfolio Manager



ALUMNI INTERVIEW SERIES

As we carry through on our commitment to highlight our strong alumni base in the field of investment management, this issue features an interview with Mac Dunbar of Vulcan Value Partners. Thank you, Mac, for spending time with DCM this past Fall!

McGavock Dunbar, CFA (Darden Class of 2010)

Biography: McGavock Dunbar joined Vulcan Value Partners in 2010. Prior to joining Vulcan Value Partners, McGavock worked as an Associate in the investment banking department at Susquehanna International Group.

McGavock earned his MBA from the University of Virginia Darden School of Business. He also has a Master of Education and Bachelor of Arts from the University of Virginia, with a double major in History and Religious Studies.

Q: What do you value most from your time in Darden Capital Management (DCM)?

A: In the Darden way of hands-on learning, DCM gave us an opportunity to take real capital and invest it. We had to grapple with very real questions. *What is our investment philosophy? How do we articulate that philosophy?* It was not only in stock selection and analyzing individual businesses, but also how to put them together as a portfolio. To have that type of experience - from deep analysis to broad portfolio management - as part of my businesses school education and so early on in my career, has proven to be invaluable. Especially when it comes to considering the whole picture of what we try to accomplish as analysts.

Q: What has been your career progression post-Darden? How did you decide Vulcan Value Partners was the right fit for you?

A: Immediately after Darden, I joined Vulcan Value Partners. This was 2010, so it was a challenging time in public equity investing. There was not a lot of on-grounds recruiting for asset management happening. I was interested in finding a place where I could practice investing with a philosophy I believed in. I was fortunate enough to meet our Founder and CIO, C.T. Fitzpatrick, as he was initially creating Vulcan. It was really a startup at that time, and Vulcan managed very little outside capital. The entrepreneurial part was intriguing and exciting to me. Personality-wise, I appreciated the small team and thought I could potentially thrive in that kind of environment. Fortunately for me, Vulcan has found success and has grown into a great organization.

Q: How does your team work together to make decisions? Are there similarities to DCM?

A: There are a lot of similarities between the two. During my time with the Darden fund, we made decisions as a team of five. A lead analyst would bring an idea to the group and we would discuss that idea and the portfolio as a team. That's pretty much how we operate today at Vulcan. For most of my time here, the analytical team and the portfolio management team have been one and the same. DCM was great training for that kind of decision making. It's a unique working relationship to be on that kind of team. The ability to disagree well is an important foundation I developed during my time at Darden; I still get plenty of practice!

Q: What are the most common mistakes you see young investors/analysts make? What are the most important lessons you've learned from your experience at Vulcan?

A: I think this is a business of humility, and the common mistakes I've seen young analysts make comes from overconfidence. The business will teach you that even if your work is correct, things will still go wrong. You have to stay humble because if you don't, the market will teach you to stay humble. One of the things I've discovered working at Vulcan is the importance of considering principles rather than rules. We have key principles guiding our investment philosophy – we are value investors and therefore need a margin of safety when we invest. How we apply this can, and probably should, evolve over time. We are constantly learning from our successes and our mistakes. We evolve as we attempt to improve.

Q: What advice would you give to Darden students interested in a career in investment management?

A: This is a great career for a curious person. I absolutely love what I get to do every day. I think to have that natural curiosity and then to try this on your own through DCM is an important first step. Grappling with your own investment philosophy and speaking with potential employers about that is key. There are a lot of opportunities in this space – large, established players on one end of the spectrum and specialized boutiques at the other. You have to persist and identify opportunities with firms that fit your personal philosophy and may have openings. Don't be afraid to reach out through the Darden network!

Portfolio Updates

CAVALIER FUND

To Our Friends and Partners:

As of December 31, 2020, the Cavalier Fund had a **market value of $5,448,827** deployed across 25 holdings. The fund continues to generate strong risk-adjusted performance relative to our benchmark, noting that since March 31, 2020, our portfolio has delivered a **57.2% return** outperforming the S&P 500 by 10.0% across the same time period.

The largest contributors to fund performance during this period were **Zillow Group** (ZG: +300.2% price change), **Apple Inc** (AAPL: +108.7%), **Spotify Technology SA** (SPOT: +159.1%), **Mastercard Incorporated** (MA: +47.8%), and **Charter Communications** (CHTR: +51.6%). The average portfolio weight of these holdings combined was about 30%, reflective of our decision to maintain a degree of concentration in higher-conviction names for which we believe further upside opportunity remains due to structural competitive advantages within large and growing addressable markets. Short holdings in individual securities have been fully exited; these investments were the largest detractors from performance over the past three quarters.

NOTABLE INVESTMENT DECISIONS

During the fourth quarter we initiated three new long positions that we believe represent attractively priced opportunities:

(1) **AbbVie Inc** (ABBV), a global research-based biopharmaceutical company that develops and commercializes biopharma and small molecule drugs with a focus on specialty therapeutic areas treating conditions such as autoimmune diseases, oncology, virology, neurological disorders, metabolic diseases, and pain associated with endometriosis. ABBV has been trading at a large discount relative to its large cap pharmaceutical peers which is most likely reflecting investor concerns regarding ABBV's revenue concentration and dependence upon HUMIRA, its top-selling drug, which loses patent exclusivity in the US in 2023 and will face severe competition from biosimilars. We recognize ABBV's material progress towards becoming substantially more diversified through its recent and successful product launches and underappreciated pipeline assets. Moreover, its Allergan acquisition completed in May 2020, supports the expansion and diversification of its product pipeline including entry into the growing global aesthetics business. We view ABBV's strong cash flow generation positively and believe capital allocation is well balanced between supporting growth (e.g., R&D investment, M&A) and returning capital to shareholders (e.g., stable and growing dividend). Please refer to "featured investment ideas" for additional detail on our investment thesis.

(2) **Advanced Micro Devices Inc**, a semiconductor company operating through its Computing and Graphics segment (desktop and notebook processors and chipsets, discrete and integrated GPUs, data center and professional GPUS, and development services) and Enterprise, Embedded, and Semi-Custom segment (server and embedded processors, semi-custom SoC products, development services, and technology for game consoles). AMD has experienced enhanced financial performance, driven by gains across diverse markets such as consumer graphics cards, central processing units (CPUs) and data centers. Moreover, the company remains well-positioned to benefit from expected market growth and has successfully expanded its market share in part through capitalizing on the missteps of its key competitor, **Intel Corporation** (INTC). Subsequent to entering this position, INTC received a strongly worded letter demanding changes from activist investor, Daniel Loeb of the hedge fund, Third Point LLC which reportedly holds $1bn stake; markets responded favorably and on January 13th INTC announced leadership changes with Pat Gelsinger, a tech industry veteran, replacing Bob Swan as CEO. We believe a turnaround at INTC will take time, and AMD's investment in R&D will make it structurally challenging for INTC to "catch up" to this technology. That said, we plan to consider how INTC's strategic developments may impact our underlying investment thesis and most importantly our view on AMD's ability to gain further market share.

(3) **Callaway Golf Company** (ELY), an American global sports equipment and manufacturing company that designs, manufactures, markets and sells golf equipment products and accessories. ELY's core equipment business has quickly recovered from the impacts of COVID-19, reaching record sales in Q3 2020 and reflecting broader industry trends (e.g., diversification of golf with the rise in popularity among women). ELY recently announced its acquisition of TopGolf, a rapidly growing golf entertainment business. Investors exhibited skepticism around the deal indicated via a 20% share price drop, despite ELY completing the transaction on highly favorable terms and purchasing TopGolf at a steep

discount. We find the strategic rationale quite compelling as it diversifies ELY's business model, enhances revenue opportunities through cross-sell and expansion of licensing TopTrace technology, and benefits the funding profile (e.g., Callaway's operating cash flow may be used to fund TopGolf's growth).

Additionally, our fund has evaluated **Teladoc Health Inc** (TDOC), a provider of healthcare services and solutions from non-urgent episodic needs to chronic, complicated conditions using a technology platform via mobile devices, the Internet, video and phone. Telehealth has an incredibly large total addressable market, estimated in excess of $120bn, and is poised for growth in the current environment given that the COVID-19 pandemic has increased demand for such services while concurrently leading to an easing of regulation surrounding telemedicine. As a first-mover in the space TDOC has been able to carve out a substantial portion of the market and retain distinct advantages via network effects and its relationships with both Fortune 500 companies and large insurers. Lastly, we believe TDOC's merger with Livongo, a digital disease management company, allows for increased operating efficiency and access to broader markets. Before executing and initiating a position, share price increased materially so we are now renewing conversations around entry timing and assessing whether the opportunity still remains attractive.

During Q4 2020, we fully exited two existing long positions reflecting our belief that further investment upside had become less certain (e.g., trading above target price levels; shifts that may fundamentally impact earnings potential) and funds could be more effectively allocated to support entry into newly initiated, higher-conviction positions. We sold our position in **American Tower Corporation** (AMT), a real estate investment trust which owns, operates, and develops multitenant communications real estate. We held increasing concern that 5G will reduce the need for AMT's cell tower leasing business thus threatening its core business and our underlying investment thesis. Upon exit, we realized $135k in gains (+100%) from selling our shares in AMT. Around the same time, we exited our position in **Franco-Nevada Corporation** (FNV), an owner and manager of royalties and streams in gold mining and other commodity and natural resource investments. During the period of volatility surrounding the COVID-19 pandemic, this investment provided favorable portfolio hedge characteristics. Share price began to exceed our target price materially and along with our belief that markets are headed towards greater stability (e.g., reduced political uncertainty, COVID-19 vaccination rollout, etc.), we found this an advantageous time to realize $96k in gains (+102%).

We also unwound our short position in **Tesla Inc** (TSLA), a company engaged in the design, development, manufacturing, and sale of fully electric vehicles, energy generation, and storage systems. Our initial investment thesis centered around our perception of an overwhelming disconnect between price and value (e.g., market capitalization exceeding auto industry combined, "irrational exuberance" of investors and unsustainable speculation). We also questioned TSLA's aggressive accounting practices, indicative of low-quality earnings and potential manipulation. We entered a short trade in September but following a period of high volatility and the announcement of its inclusion in the S&P 500, we covered the position fully in mid-November. The Cavalier Fund was not alone in our efforts to exploit a perceived fundamental disconnect between value and price; investors who shorted TSLA stock lost an estimated $40bn+ in 2020, but thanks to discipline surrounding exit points and a conservative approach to position sizing, losses to our fund were limited to less than $30k. Since covering the position, TSLA has appreciated an additional 70% and while we are left struggling to reasonably justify current trading levels, we believe our resources (i.e., time and capital) can be more effectively allocated towards other opportunities.

LOOKING AHEAD

We have broad concerns about potential overvaluation in the equities market and therefore must remain disciplined about trimming and exiting positions in the upcoming quarter. We expect that these market dynamics will present additional challenges in identifying attractively priced long holdings (i.e., "good companies at good prices"), but we are actively assessing several opportunities in the pipeline and look forward to providing you with an update on our trading decisions within the next quarterly letter. We are disappointed that our current short exposure represents less than 3.0% of our market value, remaining well below our fund's mandate. The market environment has been challenging for short sellers nothing that, according to S3 Partners, equity shorts lost an estimated $234bn in 2020 (~$91bn within first three weeks of January 2021). As portfolio managers, we are deeply focused on sourcing new ideas and identifying companies with deteriorating or fundamentally flawed business models, unsustainable capitalization structures, and signs of earnings manipulation. Our commitment to increasing short exposure is a top priority, but we still plan to demonstrate patience and discipline in our investment approach.

We have sought to optimize our cash allocation this past quarter and successfully reduced cash holdings to 3.5% average weight from 7.5%. We achieved improved management of our cash position by: (1) continuing to hold a position in the **Vanguard S&P 500 Index Fund** (VOO) sized at about 2.5% of portfolio value helping to reduce active risk; and, (2) reallocating previously held cash into new investment opportunities. Moving forward, we would like to continue to minimize cash holdings, although recognize that our discretion over cash(-like) holdings will be somewhat influenced by margin requirements related to potential short selling activity. From an industry allocation perspective, we are overweight Communication Services, Information Technology, and Consumer Staples and underweight Financials, Health Care, and Industrials relative to our benchmark. As we generate ideas and identify new investment opportunities, we seek to ensure that broader portfolio implications such as sector concentrations are thoughtfully considered. Furthermore, we recognize that our fund's flexibility allows us to contemplate short selling indexes of sectors in which we are meaningfully overweight relative to our benchmark. For example, we currently hold a short position in the **Communications Services Select SPDR Fund** (XLC) for risk mitigation purposes as we believe it provides hedging benefits given our existing concentration towards this sector.

With respect to the experiential learning component of Darden Capital Management, we plan to pro-actively address preparation for the upcoming transition through: (1) further refinement to our portfolio reporting; (2) clean documentation of investment theses, investment chronology and trading rationale, & useful frameworks; and (3) positioning the portfolio for long-term, sustainable performance. We benefited immensely from our predecessors who ensured the portfolio was well-positioned at the time of transition and spent meaningful time sharing investment knowledge and best practices.

As portfolio managers of the Cavalier Fund, we seek to continually improve our skillset around security selection and portfolio management. Please do not hesitate to reach out if you are interested in discussing our holdings and investment approach in greater detail, or willing to share any feedback or advice. Thank you again to Darden Capital Management, our leadership team, sponsors, and faculty advisors for supporting us in this impactful learning experience. We look forward to addressing the opportunities and challenges that the markets may present in the year ahead.

Warmest regards,

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DARDEN FUND

That's great kid, don't get cocky
- *Han Solo*

To Our Friends and Partners:

The Darden Fund had a spectacular quarter.

Over the last three months, the small cap fund generated a 33.6% return, representing a 427 basis point gain over the Russell 2000. Building on our strong performance, the fund is up 88.0% and has exceeded the benchmark by 1,556 basis points since our team took over management last March.

PERFORMANCE OVERVIEW

Overall, small market cap companies benefited greatly from capital flows and a variety of companies generating strong performance. Within the portfolio, Magnite (**MGNI**) led the way, up an astonishing 324.7% this quarter. More on MGNI later. In addition, Revolve Group (**RVLV**) was up 80.7%, TPI Composites **(TPIC)** was up 77.8%, and Yeti Holdings **(YETI)** was up 47.2%. Closing the quarter, our fund had 21 positions in the portfolio, excluding cash. Of these, seven generated returns greater than the Russell 2000 and only two failed to produce positive returns.

Shifting attention to individual positions, we would like to highlight a handful of developments:

Trupanion: This is a position that had previously been in the Darden Portfolio and recently made its return. First, we are long pet at the small cap fund and believe that the boost in pet ownership from the pandemic presents a huge opportunity for the company. Second, we believe the pet insurance market is a growing and largely unpenetrated market in the US (1% vs 25% in the UK). Finally, Trupanion has gradually grown its total revenue year over year, successfully retained customers (average of 98.6% monthly), and increased total enrolled pets since Trupanion was founded in 2000 by its current CEO Darryl Rawlings. Trupanion underwrites its own insurance policies using pet data collected over their 20 years. In addition, Trupanion has partnered with State Farm and Aflac to underwrite their pet insurance policies with their proprietary data. We believe this company is well positioned to grow within the US market and is expanding internationally through its partnerships.

Boyd Gaming: The casino and hotel operator is a new addition to the portfolio. Overall, the gaming and leisure industry has benefited after recessions during the subsequent economic recoveries. Post-COVID, the *reopening* of the economy will be beneficial as the American public starts getting out of their homes and returning to life as normal. The company was trading at a level below transaction comps when we made the purchase in early December, and we believe the market is not properly valuing the growth potential of Boyd's digital gambling and sports betting platform. In addition to their own initiatives in digital, the firm also owns 5% of FanDuel, providing even greater upside.

Magnite: The advertising technology firm continues to execute well on their strategy. In the third quarter, the company generated $61 million in revenue, a 62% increase from the third quarter of 2019. An additional boost for Magnite came in October when the United States Justice Department sued Google for violating antitrust laws. Since Magnite is a growing player in the ad-tech space, markets viewed Magnite as a beneficiary of this legal action. Our thesis was never predicated on Google suffering for Magnite to gain. Rather, we remain optimistic that the management team will continue to focus on their strategy of gaining share in programmatic advertising and the trend of cord cutting. In December, we trimmed our exposure as Magnite approached 8% of the portfolio. Later in January, Spruce Point Capital Management, a hedge fund specializing in short selling, published a negative report on the company. While we remain positive in our outlook, we decided it was wise to take some of our chips off the table. We remained heavily invested in the stock, but we decided it was time to realize some of the gains and sold roughly half of our position in January. This decision may have been premature, however given the great success of this investment and new uncertainty surrounding some of the claims made in the hedge fund's report, we wanted to be prudent with managing our overall risk.

American Homes for Rent: In the last letter, we discussed how AMH had many features we believed would enable it to succeed during the pandemic. Over the course of the last few months, the company has risen to over $9 billion in market cap. While we believe this company will ultimately surpass our $10 billion limit, we have decided to start selling our position now and reallocate our proceeds into some of the emerging opportunities we are excited about.

In addition, we initiated new positions in Novanta **(NOVT)**, a specialty laser company, and Limelight Networks **(LLNW)**, a firm specializing in edge computing and the backhaul for streaming services. We view great upside in these names and look forward to sharing more details with you next quarter as we hope our theses begin to play out.

DECISION ANALYSIS AND RISK MANAGEMENT

Bull markets can make investing look easy. So, it is in these heady times that discipline matters. Evaluating our trade decisions provide some insight in how our team has maintained discipline. Over our tenure, we executed 12 selling and 19 purchasing transactions. To measure our performance, we analyzed the opportunity costs of these choices compared to identical allocations into the benchmark. In this way we could systematically compare if we would have been better off to remain invested in a position we sold, or whether we had made a poor decision in a new position we chose to buy. With the exception of two rebalancing trades in MGNI and RDFN at the end of the year, all of our sales have been beneficial. Had we remained in our sold-off positions, we would have fallen behind the market in each case. Said differently, we have been great at cutting our losers.

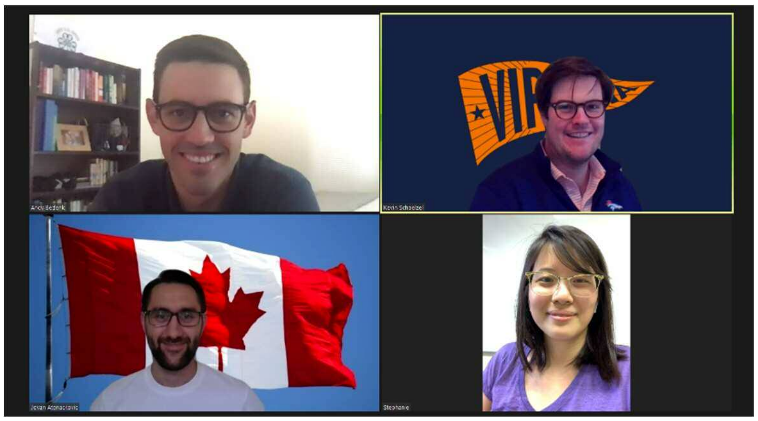
Our purchases were also impressive, with 63% of our transactions generating excess returns to the benchmark. Of the laggards, three were trades in new positions we bought in the last six weeks. We have conviction that these companies are undervalued with the potential to be successful allocations for our fund however, it will take some time for their true value to emerge. In selecting investments, we do not want to jump onto the momentum freight train. Of the new purchases during our tenure, our only sizeable miss has been in Federal Signal Corporation **(FSS)**. The catalyst to unlocking additional value in this name is closely linked to fiscal policy in Washington. With a new administration that has pledged unity, we can think of nothing more galvanizing than infrastructure spend. Well, maybe a few things. But we are still optimistic that FSS will benefit from the financial recovery and legislation to invest in America. However, we continue to closely monitor the company, and should they fail to execute, or Congress continue to neglect their responsibilities, we will not hesitate to reallocate those funds to more productive areas.

We are very proud of the performance we have been able to generate this quarter and year. However, as Han Solo warned Luke Skywalker, *don't get cocky kid*. As the analysis above has indicated, the small cap team has done a skillful job creating returns in excess of the market. However, it is critical that we continue to exercise prudent risk management and judicious selection in our portfolio.

Going forward, we remain fully aware of the growing gap between the financial markets and actualities of the *real* economy. Almost all indicators show that the market is running hot, with many valuations stretched to historic highs. However, as legendary investor Stanley Druckenmiller has opined, central bank's actions and the "focus on the movement of liquidity" are driving forces in the market. With over $3 trillion created last year, representing roughly 20% of existing dollars, Jerome Powell has indicated that the Federal Reserve will continue to be supportive of markets through sustaining low rates and other extraordinary measures. Given this context, our team's challenge now is to find investments that have great long-term opportunities with superior business models and then buy these companies with a realistic sense of their valuation. At times it will pay to be patient and even defensive. As discussed in our first letter, the team's philosophy has been to run a concentrated portfolio of companies that we believe could outgrow our mandate through their appreciation. We want to be in the winners during the salad days of their public market lifecycles in order to generate excess returns while protecting against the downside. Despite a great quarter, turbulence eventually will return to capital markets. As it stands, we believe we have constructed a portfolio of all-weather companies with years of opportunity ahead of them.

CLOSING THOUGHTS

As I said in the opening line of this letter, it truly was a spectacular quarter for the fund. We know that some aspects of this growth were highly idiosyncratic and we will see prices rise and fall as the vagaries of the market continue. Our team is oriented toward the long-term with the goal of identifying superior companies led by exceptional management teams. As we barrel into our last quarter as the stewards of the fund, we continue to be grateful to the DCM Alumni network, the Mayo Center, and our peers here at Darden. It is a true privilege to have this opportunity and we could not be more appreciative of the sustained support.



Thank you again,

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JEFFERSON FUND

To Our Friends and Partners,

Hello again from your Jefferson Fund team. Before diving in, I would just like to say again that we hope everyone reading this letter is in good health, along with family members and loved ones.

The Jefferson Fund's performance during the fourth quarter of 2020 was a gain of 11.7%. This compares to a gain of 16.0% for the Russell 1000 Value Index. For the period of our tenure (March 31, 2020) through the end of 2020, our portfolio returned 48.5%, compared to 40.2% for the Russell 1000 Value Index. For the fourth quarter of 2020, our performance was aided by investments in LVMH, DIS, GOOGL, INSG, and BR, which together positively contributed 6.5%, and performance was negatively impacted by CRM, ORLY, MCD, and AMT, which detracted 1.2%. We continue to hold conviction in each of the names listed above with the notable exception of AMT, which we fully exited in mid-November. Please see our discussion of portfolio changes and holdings for further detail.

Overall, the Jefferson Fund maintains a cautiously optimistic stance on markets, and we are notably more constructive on the economy, which we believe is well positioned to rebound in the second half of 2021 assuming continued production and accelerated distribution of the vaccines. The Federal Reserve and new administration have indicated that the highly accommodative fiscal and monetary stimulus will continue, with the incoming administration pushing for an additional $1.9T stimulus package and the Federal Reserve continuing to purchase $150B of treasuries monthly. In normal times, this combination of policy actions would be hugely positive for the outlook of financial assets. However, the past 10 months has been anything but normal. Over this period, markets have seemingly detached themselves, at least somewhat, from underlying fundamentals. Valuation of the S&P 500 index is a full 50% above its 10-year average, 34% above the 5-year average, and 17% above the average of the last 12 months.

As we continue to learn and attempt to make sense of the rising risk appetite in the stock market, our best evolving understanding is simple. Rates and spreads in fixed income markets are at historic lows, private markets remain functional with adequate access to stimulus funding, and private equity and venture capital funds are struggling to deploy hoards of dry powder in a more competitive and more expensive marketplace. In our view, investors are simply left with few options outside of traditional equity markets to invest their money, and this issue is magnified by the amount of "new money" created in the last 10 months. As we look ahead, we do not see much in the near term to change this dynamic. Thus, with vaccine distribution now underway and pledges for continued fiscal and monetary support, we believe the stock market could finish 2021 higher yet. Our stance remains: we continue to prefer holding stakes in the cash flow streams of high-quality companies trading below our view of intrinsic value than build cash or venture into less familiar territory. We continue to look for companies with demonstrable competitive advantages, in attractive end markets that have a long runway for excess return generation. Please note, to anyone reading this letter with interest, I and/or the Jefferson Fund would love to discuss your opinions on the state of markets. Please feel free to reach out to me directly (contact information below).

I would now like to share with you several portfolio updates at the Jefferson Fund, including key portfolio changes and review certain holdings where we continue to maintain high conviction. Please feel free to share your thoughts and ask any questions that you have after reading.

PORTFOLIO CHANGES AND HOLDINGS

Sell: American Tower Corporation (AMT), November 2020

In mid-November, we decided to exit our remaining position in American Tower (AMT). AMT is a REIT that owns, operates, and develops multitenant communications real estate in the US and internationally. For the last two decades, AMT has been a fantastic compounder. However, we fear that the next generation of wireless technology, namely 5G, has the potential to drastically change the outlook for AMT and the dynamic in the communications real estate market. The US and Europe are leading the way in the deployment and infrastructure build necessary to bring 5G to market. Unfortunately, although AMT operates globally, over two thirds of operating profit and cash flow currently come from the US market. The shorter wavelength of 5G means that it can carry vastly larger amounts of data much faster than 4G, but it also means that 5G has much shorter range. 4G wavelengths have a range of about 10 miles, while 5G wavelengths have a range of only ~1,000 feet (<2% of 4G). In our view, the implications of this are severalfold. One, 5G is going to require a HUGE amount of cell towers (however they are cheap, discrete, and easy to install). Two, 5G towers are going to need to be located close to end users. In cities, we believe 5G towers will begin cropping up on streetlights, the sides of buildings, and rooftops. And third, the roll out of 5G will take time and it will start in the most densely populated areas of the country first. Although we do not believe 4G technology is going away anytime soon, we do believe that over time, 5G technology poses an existential threat to AMT's core business model. Thus, we decided to exit our position fully while valuation multiples remained generous.

Buy: Smile Direct Club (SDC), December 2020

In December, we initiated a 2.5% position in Smile Direct Club (SDC). Smile Direct Club is a vertically integrated, direct-to-consumer medical technology company. The company's main product is its clear aligner, which is an alternative to brackets and wire braces. SDC was the first company to offer clear aligners directly to consumers, bypassing expensive and prohibitive orthodontic patient visits. Instead, SDC utilizes a network of dentists and orthodontists via its tele-orthodontist platform. The result of this innovative business model is an unparalleled value proposition to the consumer. A standard course of care for an SDC patient costs $1,950 vs $5,000-$9,000 for Invisalign or traditional braces. SDC also offers flexible spending plans that are used by nearly 70% of current customers. Furthermore, it is estimated that ~85% of people worldwide have mild to severe malocclusion (crooked teeth), however less than 1% are treated annually. By removing barriers of physical proximity to an orthodontist and offering an unmatched value proposition, SDC aims to "democratize orthodontics." Given SDC's 80% gross margin profile and massive untapped market, we believe SDC has an opportunity to grow into an excellent medical technology compounder over the next several years. Despite this best-in-class growth potential, the company currently trades at a discount to its MedTech and Dental peers. We are continuing to look at opportunities to add to this position over the coming months as the pandemic continues to unfold.

Buy: Penn National Gaming (PENN), November 2020

In November, our fund bought shares in gaming and sports betting operator Penn National (PENN). PENN owns an operates various chains of casinos in the US, concentrated in the Midwest and Las Vegas. Their goals is to be the casino "you can drive to rather than fly to". While the COVID-19 pandemic has taken a toll on its top line in 2019, PENN is in the process of rolling out an online sports betting application as a result of its recent partnership with Barstool sports, a sports media company. The promise of our investment in this stock lies in the company's ability to combine its skill at gaming operations with the loyal sports fan base that Barstool has built. As sports betting becomes legal more and more states, PENN is positioning itself to take advantage of the largely untapped online sports betting market. Initial traffic into its app has surpassed expectations, and the stock has risen almost 40% since the time we invested. Our hope is that PENN continues to build its sports betting network and becomes the primary online sports betting franchise in the US while states continue to legalize sports betting.

Buy: NextEra Energy, Inc. (NEE), November 2020

In the utilities and energy sector, we added a 3.5% position in NextEra Energy (NEE) in November. NEE is the largest wing and solar energy producer in the world. We see excellent opportunities for growth ahead as the world shifts slowly, but definitely, towards cleaner, more sustainable renewable energy sources. The new Biden administration has placed an even heavier emphasis on the battle against climate change and the shift to renewable energy sources. Renewable energy sources are expected to cover 38% of energy needs by 2050. This places NextEra in a great position as the company continues to develop more projects and grow its portfolio across the different renewable energy sources. With their 15 GW of renewable energy backlog exceeding their existing energy portfolio, we expect that NextEra will take advantage of the momentum in the sector as strong demand is expected for the years to come. Coupled with this great momentum is a well-oiled firm that has remained resilient throughout the pandemic. Other utilities have started the shift towards renewables, but none have been able to match the skill and efficiency of NextEra in taking on these projects. In addition, despite the effects of COVID-19 on the overall economy, NextEra has remained strong, continuing to deliver strong earnings and dividend growth. Their adjusted EPS is expected to growth an additional 6-8% in the next three years. This truly cements NextEra's position as the "best in class energy utility" for years to come.

COMPANIES WE ARE MONITORING

Medical Properties Trust (MPW)

Also in December, we took a close look at Medical Properties Trust (MPW). MPW is a REIT that both acquires and develops triple net leased hospital facilities. MPW is currently one of the world's largest owners of hospitals with 385 properties and approximately 42,000 beds mainly in the U.S. and Europe. They tend to utilize sale-leaseback transactions in which the current owner has immediate cash needs. Throughout the COVID-19 pandemic, MPW collected 98% of rent from tenants with the other 2% deferred with interest. We see MPW as recession resilient and a company with extremely stable cash flows, a strong pipeline of new deals, and an attractive investment opportunity given its 5% dividend yield. The main risk to this investment is its ability to fund future acquisitions without dilutive equity issuances. As we have seen recently, MPW's equity issuances are not only dilutive but also increase the dividend burden. However, we believe MPW is well capitalized for the immediate term and, given overall valuations in the broader market discussed above, that MPW represents a good investment opportunity given the dividend yield and possible share price appreciation.

In closing, we at the Jefferson Fund want to say thank you to Darden, DCM, and our board of trustees for the opportunity to oversee this portion of the school's endowment. We are humbled and grateful for this learning opportunity and we look forward to updating you again in the spring.

Sincerely,

Nick Feinman
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+1 (518) 396-7848

MONTICELLO FUND

To Our Friends and Partners,

We hope this letter finds you well and wish you all the very best for the new year.

The pandemic has forced a dramatic change to our behavior and the general economic activity, providing us with a reminder of the complexity of today's interconnected world. The market, however, ended the year on an upbeat note as stocks seem to be cheering out loud on the prospect of COVID vaccines. We remain cautiously optimistic in our approach, staying true to our investment process and guidelines as we gradually open our eyes towards some resemblance of light at the end of the tunnel.

Our focus in the last quarter was set around developing new ideas, reevaluating our smaller positions, and reassessing our portfolio exposure. We started the quarter with around 17% of dry powder invested in the MSCI ACWI Index as we were in the middle of our continued effort to reduce portfolio names and establish more substantive, concentrated positions.
We sought to employ this capital to increase our global names and exposure in underrepresented industries, putting on our Quality and Value lenses in an environment where massive global monetary stimulus continues to keep upward pressure on asset prices.

PERFORMANCE OVERVIEW

During the fourth quarter, our fund generated a 13.7% return, taking our year-to-date performance for the nine months ended 12/31/2020 to 54.4%. This compares to the 48.4% return of our MSCI ACWI benchmark. Over a three-year period, the fund has generated an annual return of 12.9%, while the benchmark generated 7.9% over the same period. Our top five performers for the quarter were **Aercap** (+80.9%), **MercadoLibre** (+54.8%), **Disney** (+46.0%), **Royal Dutch Shell** (+39.3%), and **Bank Mandiri** (+35.1%).

Our bottom five performers for the period were **Alibaba** (-15.8%), **American Tower** (-6.6%), **AstraZeneca** (-4.7%), **Tractor Supply** (-1.6%), and **Unilever** (-1.2%). Alibaba was one of our more recently initiated positions, but it suffered from a wave of negative sentiments due to regulatory pressures in China and whispers of potential delisting from the US (which have since been laid to rest). We recognized some of these risks when we initiated our position and remain confident in our long-term thesis of investing in a market leader with a strong moat and rapidly growing market. Our investment in another recently initiated position, AstraZeneca, also suffered from lower than expected efficacy of its COVID vaccine. While our thesis relied largely on the company's strong drug portfolio across multiple therapeutic areas, we recognize the potential short-term impacts from the news surrounding the development of its COVID vaccine.

PORTFOLIO CHANGES

While some pockets of the market have gone back to their pre-COVID levels, we continue our focus to identify attractive investment opportunities through our Quality and Value approach. We have also spent more time this quarter revisiting and reevaluating our thesis on existing investments and identifying opportunities to adjust our portfolio accordingly. Below is a summary of our trading decisions:

Sell: Discover Financial Services ($60.4)
Sold our position in Discover as the stock price achieved our long-term price target. We also witnessed diminishing moat as the company faces increasing competition against more established players and emerging fintech platforms in the highly competitive credit card issuer and electronic payment industry.

Buy: Royal Dutch Shell Plc ($24.1)
Initiated our position in Royal Dutch Shell, one of the largest integrated energy players in the world. Our thesis was based on the opportunity to invest in a world-class energy company at a historically low valuation. The company is also primed

to face the decarbonization trend due to its leadership in natural gas, expertise across new energy toolbox, and management's renewable energy transformation plan.

Buy: AstraZeneca Plc ($53.0)
UK-based AstraZeneca engages in the research, development, and manufacture of pharmaceutical products. We believe that the company holds a wide moat in the form of a strong drug portfolio in the oncology, cardiovascular, and respiratory therapeutic areas, along with a diversified exposure across different geographical markets. AstraZeneca's COVID vaccine, while not expected to be sold at a profit, also provides value addition through manufacturing scale and virology expertise.

Buy: Alibaba Group Holding Ltd ($276.1)
Expanded our emerging market portfolio through an investment in the stock of Alibaba. We believe the company holds a strong leadership across the Chinese e-commerce, cloud computing, and financial technology industry, and the stock price dip in September provided an attractive value proposition to invest in a rapidly growing business. While the stock price has more recently faced some regulatory headwinds, we believe the core business remains strong and is poised to benefit from the long-term trend of increasing digitalization and growth of China's middle-class population.

Sell: Survey Monkey Inc ($24.0)
Exited our position in Survey Monkey as part of our reassessment of the fund's technology exposure. We believe the position lacks conviction around the company's ability to pivot its core survey product to enterprise customers and its uncertain path towards a profitable business model. The stock price also seemed to have captured the short-term business tailwind arising from the increased use of survey products in the COVID environment.

Sell: Open Text Corp ($45.1)
Exited our position in Open Text as part of our reassessment of the fund's technology exposure. We note the increasing competition in the Enterprise Information Management space and uncertainties around the integration of new acquisitions as fundamental risks to the investment, favoring stronger conviction technology names in our portfolio.

CLOSING REMARKS

Darden Capital Management and the Monticello fund continue to be sources of valuable lessons to everyone in the portfolio management team. As we approach the end of our tenure, we seek to continue enriching our experience and maximizing our contribution as temporary stewards of Darden's capital. We expect a busy quarter ahead as we continue our diligence in seeking for opportunities and optimizing our portfolio for the future management team.

As always, we welcome any feedback that you may have and would be more than happy to discuss any of our investment in more detail. Please do not hesitate to reach out to us and thank you for your time.

Regards,
Mahesh Dadlani, CFA
Dadlanim21@darden.virginia.edu

ROTUNDA FUND

To our Partners and Friends,

Welcome back and Happy New Year! Thank you again to our predecessors and continued supporters. I know I speak for the whole Rotunda Fund team when I say that the DCM educational experience is simply unparalleled. We all appreciate the opportunity and look forward to continuing the legacy for the classes after us.

With events like the presidential inauguration and the first doses given of the new COVID-19 vaccines already behind us, 2021 is sure to contain plenty of learning opportunities for us to continue to grow as investors. Since taking over the Fund, our current benchmark (S&P 500) has returned 47.2%, an astounding comeback from March's lows. During the same time frame, the Rotunda Fund has returned 36.7%. Despite underperforming our benchmark, we have made progress in closing the gap and will seek to further reduce that spread. Below are some remarks regarding recent portfolio changes and positioning.

PORTFOLIO ADDITIONS

Buy: Electronic Arts (NASDAQ: EA), October 2020

Recognizing our underweighting to sectors such as Communication Services, I pitched, and our team voted to initiate a 3% position in Electronic Arts. Electronic Arts is a global market leader in the interactive entertainment space with over 300mm registered players around the world. EA has a critically acclaimed portfolio of games and a more thoughtful and integrated ESG profile than close peers. Despite record earnings and tailwinds from COVID-19, EA was trading at ~14% off its 52-week high making it an attractive investment opportunity. Investment highlights include robust and diverse foundation of best-in-class IP and gaming franchises, a large and growing global gaming TAM, high quality financial position coupled with attractive returns, and a superior and improving ESG profile relative to industry and peers. Since initiating, our position is up 14.8%.

Buy: Amazon.com (NASDAQ: AMZN), November 2020

Following my discussion about "FAANG" stocks in the previous edition, Portfolio Manager Hyder Chowdhry moved to pitch Amazon.com for consideration in our portfolio. Hyder's investment thesis was predicated largely on Amazon's retail business having a defensible moat, the significant growth potential ahead for Amazon Web Services (AWS) and cloud computing, and how Amazon's sustainability policies will generate higher returns for the business in the future. Having three other strong-conviction Consumer Discretionary names already in the portfolio at the time, we opted to initiate a mid-size position in AMZN and currently remain slightly overweight to the sector. Since initiating, our position is up 6.7%.

Buy: PayPal Holdings (NASDAQ: PYPL), December 2020

We initiated a 5.0% position in PayPal based on Portfolio Manager Mollie Laverack's recent pitch. PayPal manages a two-sided proprietary global technology platform that links customers, which consist of both merchants and consumers, to facilitate the processing of payment transactions. Eager to increase our allocation to Information Technology names, Mollie developed strong conviction in PayPal based on its leadership in the digital technology and mobile payments space, strong product portfolio, and focused approach to ESG. We also saw it as a good complement to our existing position in **Visa (NYSE: V)**. Since initiating, our position is up 10.7%.

Buy: Renewable Energy Group (NASDAQ: REGI), December 2020

Given our Fund's "best–in-class" approach to security selection, Portfolio Manager Hedan Liu took this opportunity to pitch Renewable Energy Group. Renewable Energy Group is the largest and only pure US biofuels producer that provides investors with exposure to the rapidly growing renewable diesel market. Having previous renewable energy experience, Hedan provided a compelling pitch for adding this name to our portfolio with an investment thesis focused on REGI's plant technology and supply chain capabilities, ongoing downstream initiative to drive higher margins, upcoming build out for future renewable diesel plant, and tailwinds from both state and federal incentives. Since initiating, our position is up 27.2%.

PORTFOLIO POSITIONING

As of writing this, the Rotunda Fund's aggregate value sits at $4.4mm, with 99.2% long exposure to equities and a 0.80% cash position. In addition to the names highlighted above, we continue to routinely review attribution analysis for the Fund to aid us in our portfolio positioning. Over the last quarter, we trimmed our exposure to four holdings including: **NextEra Energy (NYSE: NEE)**, **CyberArk Software (NASDAQ: CYBR)**, **iShares MSCI USA ESG Select ETF (NYSE Arca: SUSA)**, and **American Water Works (NYSE: AWK)**. These changes were largely to provide us with cash to shift into our new positions as well as for rebalancing purposes.

Since we inherited the fund, we have strategically continued to trim our holdings of both NextEra Energy and American Water Works, both Utilities stocks. We have high conviction in these names; however, the Fund has historically held rather large positions. Based on attribution analysis, we would like to see the combined weighting for these two names brought down, more in-line with our benchmark allocation. Therefore, we will continue to strategically trim these names when appropriate.

CyberArk Software, a name we feel has underperformed and been overlooked but represents an appealing space for us, is certain to face some longer-term tailwinds from the recently discovered SolarWinds hack. We trimmed this name as a way to make room PayPal but still feel strong conviction, especially given the ever-increasing cybersecurity threats we face.

PERFORMANCE HIGHLIGHTS

Top Performers:

Ticker	Security	Total Return (31-Mar-20 – 26-Jan-21)
CYBR	CyberArk Software	93.7%
LH	Laboratory Corp. of America	75.6%
ULTA	Ulta Beauty	68.3%

Bottom Performers:

Ticker	Security	Total Return (31-Mar-20 – 26-Jan-21)
DAL	Delta Airlines	(20.4%)
GILD	Gilead Sciences	(7.9%)
AMZN	Amazon.com	6.7%

CLOSING REMARKS

Looking ahead, we continue to stay dedicated to our ESG investment philosophy, being cognizant that it is one of long-term focus, not short-term gains. In our last few months managing the Fund, we are committed to staying vigilant as we seek new ideas for the portfolio. As always, we welcome any feedback or questions and continue to appreciate our readers' support.

Sincerely,

Hannah Coffin
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Featured Investment Ideas

PAYPAL HOLDINGS, INC. (PYPL)

TARGET PRICE: $225.64

Mollie Laverack (Rotunda Fund)

Company Data	
Price	$192.67
52 Week High-Low	$82.07-215.83
Market Cap	$230.3B
Enterprise Value	$225.0B
EV/EBITDA	32.2x

Business Description

PayPal Holdings, Inc. engages in the development of technology platforms for digital payments. Its solutions include PayPal, PayPal Credit, Braintree, Venmo, Xoom, and Paydiant products. The firm manages a two-sided proprietary global technology platform that links customers, which consist of both merchants and consumers, to facilitate the processing of payment transactions.

Executive Summary

PayPal is a market leader within the digital technology and mobile payments sector and has emerged as one of the largest payment solutions providers on the back of its strong product portfolio and two-sided platform. Currently, PayPal's peer-to-peer payment service, *Venmo*, is the key catalyst behind the solid growth in its total payment volume, and *One Touch* continues to be the most rapidly adopted product. The company is trading at a ~13% discount to its 52-week high. In addition, PayPal ranks the highest among its peer group in terms of its thoughtful and extensive ESG profile, making it a very attractive investment opportunity.

Q3-20 Key Metrics:

Business Overview

PayPal revenue streams are classified into two categories: (1) Transaction Revenues (91%), the Net transaction fees charged to consumers and merchants primarily based on the volume of activity, or Total Payments Volume. (2) Other Value-Added Services (9%), the Revenue earned through partnerships, gateway fees, subscription fees and other services that are provided to its merchants and consumers. This also includes revenues derived principally from interest and fees earned on loans and interest receivable.

Investment Thesis

1. Safety and simplicity of transactions

PayPal's safety and simplicity of transactions and the fact that it's both a brand and technology pioneer differentiate it from competitors. The company's risk management and tokenization help secure legitimacy of transactions and prevent illegal or fraudulent transactions. Notable protection services include security of financial information, 24/7 account monitoring, secure technology, and global purchase protection.

2. Successful partnerships and acquisitions

As one partnership example, PayPal's ongoing strategic partnership with Visa in the United States, Europe and Asia-Pacific provides enhanced consumer choice, point of sale acceptance, instant money withdrawal facility and data quality. In addition, PayPal recently completed the buyout of Honey Science Corp. for about $4 billion. This acquisition will strengthen its presence in the e-commerce market, and the deal will aid in the access of new sources of data and insights into online shopping behavior of consumers.

3. The mobile revolution & Gen Z/millennial consumers
Today, more than half of the global population owns a smartphone, and the increase in smartphone usage means that now more online buyers use their phones to buy online. Consumers now expect to see quicker, easier and clearer ways to make their electronic payments at ease. In addition, millennials and Gen Z have been reshaping the payments landscape, and seamless user experience and payment integrations with mobile banks are essential to capture these consumers.

3. Superior and extensive ESG profile relative to industry peers
The company's mission and vision involve democratizing financial services powered by the core values of collaboration, inclusion, innovation, and wellness. PayPal's 4 strategic pillars for their ESG Strategy include Social Innovation, Employees and Culture, Environment Sustainability, and Responsible Business Practices.

Risks

1. Primary downside risks and Covid-19 spillover
Primary risks include lower consumer spending, a lesser magnitude of demand for electronic payments than currently anticipated, new or more stringent regulatory requirements, increasing competition, and/or a generalized downturn in economic conditions. PayPal could also see a spillover from COVID-19 effects which could impact the stock's performance and these estimates as well.

2. Increasing competition in the payments space
PayPal operates in a highly competitive global payments industry with its participants, many of which are traditional financial services companies such as MasterCard and Visa, enjoying dominant and secure positions. PayPal, being an intermediary, is vulnerable to competitive moves from these companies in the digital wallets space, although they have not gained much traction so far.

3. The roll-off of the unbranded eBay business
Expected to represent a 3.5-point headwind to revenue growth in the December quarter. However, the branded business with eBay represents the majority of the eBay volume. The branded business is also generally more profitable, and a high percentage of this will be retained.

ABBVIE INC (ABBV)

TARGET PRICE: $140

Jamie Egan (Cavalier Fund)

Company Data	
Recommendation	Buy
Price	$104.20
52-Week Range	$62.55 – $104.82
Market Capitalization	$184.0B
Price / Earnings	9.9x

as of November 25, 2020

Business Description

AbbVie Inc is a global research-based biopharmaceutical company that develops and commercializes biopharma and small molecule drugs with a focus on specialty therapeutic areas treating conditions such as chronic autoimmune diseases, oncology, virology, neurological disorders, metabolic diseases, pain associated with endometriosis, and other serious conditions.

Executive Summary

ABBV share price performance has been impacted by market concerns regarding the 2023 loss of patent exclusivity in the US for HUMIRA, the world's top-selling prescription medicine and ABBV's single largest product accounting for 58% of net revenue in 2019 and 61% in 2018. ABBV has taken pro-active steps to address this patent cliff particularly by continuing to diversify its product portfolio through investment in its pipeline and acquisition of on-market assets. Successful new launches and an evolving mid/late-stage pipeline should support stable growth post-HUMIRA loss of exclusivity with a positive outlook supported by its historically strong financial execution and the recent acquisition of Allergan which further diversifies its product portfolio into neuroscience and the global aesthetics business.

Investment Thesis

1. **Successful product launches and underappreciated pipeline assets**: recently launched medicines such as Skyrizi, Rinvoq, and Vraylar have outperformed expectations and should have broader applications with new indications representing a significant growth opportunity. Robust portfolio of on-market and pipeline assets will help mitigate the impact from the loss of US exclusivity to HUMIRA
2. **Strong conviction around the strategic rationale of recent Allergan acquisition**: ABBV completed the $64bn acquisition of Allergan in May 2020 creating a combined biopharmaceutical company with leadership in key therapeutic areas. The acquisition provides immediate scale and profitability to ABBV's growth platform including access to, and dominant positioning within, the fast growing global aesthetics business via Botox® Cosmetic and JUVÉDERM® brands. The integration plan remains on-track is expected to realize more than $2 billion of expected annual cost synergies over a three-year period
3. **Impressive financial performance and balanced approach to capital allocation**: ABBV has a historically robust financial performance with adjusted net revenue and diluted EPS expected to reach $45.9bn (+14.9% 5-year CAGR) and $10.47 (+19.5%) in 2020, respectively. ABBV generates strong FCF ($12.8bn or 40% of revenue in FY19) that provides enhanced financial flexibility and support for a growing and sustainable dividend, investment in R&D and on-market assets, and the capacity to rapidly deleverage following its acquisition of Allergan

Valuation

Our DCF base case implies a $143 share price (+37% upside to current trading price) with sensitivity analysis indicating resiliency even when stressing HUMIRA erosion assumptions to overly conservative levels. Based on consensus estimates, the median 2020 P/E ratio of large, publicly trade biopharmaceutical peers implies an ABBV share price of $140.78, the median 2021 P/E ratio of 12.9x implies an ABBV share price of $157.62. As of November 25, 2020, Wall Street Analysts had an average target price of $111.45 (16 Buy/Overweight recommendations; 6 Hold; 0 Sell/Underweight) with positive commentary regarding the post-HUMIRA loss of exclusivity outlook; we expect raises in price targets following the next earnings release in early February.

Portfolio Considerations

The Cavalier Fund is materially underweight Healthcare with exposure to the sector representing only 3.5% of our portfolio value compared with 13.5% of the S&P 500 benchmark. From a portfolio construction perspective, the addition of ABBV would increase the allocation to healthcare and provide exposure to a different sub-segment than our existing long holding in **HCA Healthcare** (HCA), a health care services company engaged in operating hospitals, freestanding surgery centers and emergency rooms, and urgent care centers.

Risks

1. **HUMIRA erosion may be more severe than anticipated:** despite extensive sensitivity analysis, revenue concentration to a single product that loses patent exclusivity presents a meaningful risk; ABBV may be unsuccessful in pursuing strategies to differentiate HUMIRA from competing products or diversify its product portfolio at the necessary pace
2. **Failure to get key pipeline assets to market:** future growth and long-term success for pharmaceutical companies depend on the development of pipeline products and commercial execution/launch of new products and indications
3. **Risks stemming from the Allergan acquisitions:** ABBV may have overestimated cost synergies or experience integration challenges; additionally, the transaction has added meaningful leverage to the balance sheet, although management remains committed to deleveraging targeting Net Debt/EBITDA of 2.5x by the end of 2021
4. **Unfavorable and/or unexpected shifts in regulatory and tax landscape:** political dynamics limiting pricing power/reimbursements could adversely impact earnings potential; an unfavorable change in corporate tax rates may have a more pronounced impact on ABBV relative to peers as it has benefited from tax policies under the Trump Administration (currently has one of the lowest effective rates across all U.S. Large-Cap Pharma companies)

ALIBABA GROUP (BABA)

TARGET PRICE: $300

Sammi Zhang (Monticello Fund)

Company Data	
Price (11/16/2020)	$258.31
52 Week High-Low	$169.95 - $319.32
Market Cap	$693.5B
EV/EBITDA	34.4x

Business Description

Alibaba Group Holding is one of the leading e-commerce giants in China. Alibaba Group engages in providing online and mobile marketplaces in retail and wholesale trade. Its big data-centric growth strategy, with transaction data from its marketplaces, financial services, and logistics businesses allowing it to have high engagement with customer and move into cloud computing, media/entertainment, and online-to-offline services. Over the last few years, the company has transformed itself from being a traditional e-commerce company to a conglomerate that has businesses ranging from logistics and food delivery to cloud computing.

Business Segmentation

Segment	Core Commerce	Cloud and AI	Digital Media & Entertainment
Most Recent Q Revenue	RMB 130,922 MM US $19,283 MM 29% YoY	RMB 14,899 MM US $2,194 60% YoY	RMB 8,066 MM US $1,188 MM 8% YoY
% of Total	84.4%	9.6%	5.2%
EBITDA Margin	35% Down from 38% LTM	-1% Improved from -4% LTM	-9% Improved from -41% LTM
Major Business	*China Commerce Retail* 淘宝网 Taobao.com 天猫 TMALL.COM *Local Consumer Services* 饿了么 ele.me 口碑 FRESHIPPO *China Commerce Wholesale* 1688 *International Commerce Retail* AliExpress Lazada *International Commerce Wholesale* Alibaba.com *Cainiao Network* CAINIAO 菜鸟	Alibaba Cloud 钉钉 天猫精灵	UC UC News YOUKU 优酷 Tudou

Executive Summary

2020 was an unsteady year for Alibaba, from the rapid post-Covid sales recovery to the rise and fall of Ant's IPO, from the new antitrust guidelines for internet-based monopolies in China to the potential ban in the US stock market. The accumulation of uncertainties and political headwinds in a short period of time created a discount in the stock price. We believe the strong fundamentals and moats in Alibaba's business have positioned it to weather the risks well.

Investment Thesis

1. Network Effect

A strong network effect allows leading e-commerce players to extend into other growth avenues, and nowhere is that more evident than Alibaba. Its highly synergistic ecosystem enables it to ramp up in lower-tier cities and local services and maintain high user engagement. Alibaba has also been building one of the most comprehensive business ecosystems in the world, covering a wide range of business offerings, which together create compelling network effects. The company's unrivaled dominant position in its core business and its pioneer ecosystem that creates a long-standing barrier to entry, and numerous drivers, including enhancing monetization and stable GMV growth outlook, as well as new growth opportunities such as rural/cross-border/cloud/logistics.

2. Best positioned in Digital Economy
Alibaba's long-term ability to deliver strategic innovation, solid execution, and technological strength in digitalizing the retail sector though cloud and logistics are the backbone infrastructure for its digital economy strategy and its unrivaled competitive advantages. Innovation is in Alibaba's DNA. The track record in business innovation developed great technology and data infrastructure which best positioned Alibaba to achieve operational efficiency improvement and enhance the connection with merchants, especially high-quality merchants. The integration of local services with Alibaba's ecosystem should start to show results and it expects higher consumer penetration rate within the Alibaba digital economy.

3. Investment for future growth
Strategic investment to supplement core business and tap into new sectors while consistently emphasis on synergies.

Valuation

Scenario Analysis	Price	Upside to Current Price	Description
Bull	$339	34%	Assumes that Alibaba can grow revenue 43% per annum and continue to leverage the network effect to improve margin.
Base	$300	16%	Generally consistent with consensus estimates. Assumes that Alibaba continues to grow revenue 40% per annum. Assumes that Alibaba's margins deteriorate slightly due to increased SG&A. Other ratios are maintained at historical norms.
Bear	$254	-2%	Margins deteriorate and revenue grow slows due to increased competition in a dynamic market.

Risks

1. Political Headwind
Trade wars are headwinds for Alibaba as these erode profit margins and affect the overall economy. While regulation or consumer privacy concerns limit the use of data and the effectiveness of Alibaba's advertising, internet monopoly regulations threat to Alibaba's leading position in China's retail e-commerce market. Competition and political issues that may impact the global development of Alibaba Cloud.

2. Competition
More intense competition in the local retail business and lower-than-expected lower-tier market development.

3. Integration and Management Risk
Alibaba completed several acquisitions over the past year and while these acquisitions are augmenting its key capabilities and enabling it to expand both in China and internationally, integration risks and Management risks remain, as Alibaba's business covers different industries.

TRUPANION (TRUP)

TARGET PRICE: $80

Stephanie Tse (Darden Fund)

Company Data	
Price	$119
Market Cap	$3.1B
Enterprise Value	$2.9B
EV/20e Rev	7.5x
52-Week High	121.26
Broker Price Targets	$10.50 - $17

Business Description

Trupanion is a pet insurance company and the only publicly traded company in this underpenetrated, fast-growing market. The company's core solution is to address the company with the largest share is Nationwide with 47% market share (Trupanion trails at 22.5%). The company underwrites medical insurance plans for cats and dogs in the United States, Canada and Puerto Rico. Trupanion's sources of revenue come from their subscription business and other business (primarily B2B). Its primary channel is through veterinary doctors who recommend their plans to clients. The industry is anticipated to grow; driven by several trends. Trupanion focuses on a metric called Nirvana which is defined as the referrals from members adding pets or referring friends offsetting churn in the business, it's captures the importance of retention to the business. As of Q2 2020, 6 territories have entered the state of Nirvana. Trupanion has two sources of income, 84% from their subscription business and 16% from other businesses (writing policies for third parties).

Executive Summary

Trupanion was founded in 2000 under the name Vet insurance by Darryl Rawlings. He has served 20 years as the CEO for Trupanion. The company is headquartered in Seattle with about 700 employees. The CEO and executive team own approximately 6% of the company. Trupanion's industry has high barriers to entry with slowing external competitors entering the market. Trupanion's customer turnover is also low with a monthly average customer retention rate reported at 98.7% (this number has varied only within a narrow range of tens of basis points). Additionally, the company's insurance policies stand out from what competitors offer by covering 90% of veterinary costs with no payout limits and historically has had a 70% claims payout rate. Amongst insurers, it's also unique in offering to cover hereditary conditions. The company has reached the $1 billion paid claims milestone and boasts of 1/3 of that amt being paid directly to veterinary hospitals completely revolutionizing the traditional pet insurance reimbursement model. Current model is customer pays upfront and submits reimbursements which may take a month or more to resolve. Their sales channel is also unique, built on the early Coca Cola model, where teams of individuals (Territory Partners) were responsible for face-to-face visits with veterinarians and their staff, driving around in Trupanion branded vehicles for sales calls. About 76% of the company's sales leads are generated from referrals from veterinary doctors. Applying the COVID-19 lens, their business model seamlessly adapted to the new workforce model and the company was able to keep up with claim requests. Recently, State Farm has offered medical insurance for pets through Trupanion, forging a new alliance that challenges other pet medical insurance companies. Trupanion's experience and success with underwriting policies has allowed them to collect revenue directly through subscription premiums where traditional models relied on investing premiums to realize growth.

Investment Thesis

1. Large and growing market in the United States for pet insurance: The pet-care market has expanded 66% in the last decade, though the global economy grew only 43%. In the US, the pet insurance industry is expected to increase at an annualized rate of 13.8% between 2015-2025 compared to the US GDP rate of 1.9%. This reaffirms the industry is in its growth state with much of it being led by the US, where per capita spending on pet care was highest globally at over $150. Trupanion's market penetration in the US is only 1% while in the UK, pet insurance penetration has been observed to be around 25%. Assuming the US and UK markets are similar and the US can achieve a similar rate, that puts the total addressable market opportunity at $32.7 billion.

2. Unique value proposition differentiated from existing companies: Trupanion has created a growing and loyal membership base through its differentiated offerings. Some unique characteristics, vet direct pay enabled by TRUP's patented software designed to work directly with office software, invoices are directly paid to veterinarians, and developing algorithms to automate veterinary invoices

3. Strong management team, valuable industry experience and relationships: Trupanion's leadership team is very strong, Darryl Rawlings has been with the company for about 20 years now. The business of underwriting for pets is data intensive and Trupanion has boasted of having 20 years' worth of data enabling them to offer the best priced plans for each pet with appropriate understanding of their risks. Nationwide, the first largest provider, has its underwriting done through a subsidiary and their financials are difficult to unravel from its core insurance business. The company has focused on marketing through veterinary hospitals and referrals from current members to grow their customer base.

Valuation:

Scenario Analysis	Price	Description
Bull	$111.00	EV/Sales multiple 8x. Attempting to model using DCF is highly dependent on future growth which is difficult to know for this growth company. There is no public comparable company to calculate multiples.
Base	$83.00	EV/Sales multiple 6x. Trupanion's current EV/sales is 3.2x (Dec 2019). Trupanion is established and well positioned to convert new pet owners to their policies.
Bear	$34.16	EV/sales multiple 3x. Trupanion is not able to convert or retain new pet owners under their plans.

Risks:

1. High Valuation and high expectations: Trupanion's price stayed around the $20-30 range since we held it in 2017 and most recently now. We believe the price soared because other investors were excited about the underpenetrated pet insurance market as well as Trupanion's position in the industry. However, as excited as we are, we are cautious about the short-term price boost. There are high expectations for the company to grow and Trupanion will have to manage growing costs associate with increasing revenues.

2. Evolving and fragmented industry: The pet insurance market is continuing to grow with an estimated CAGR of 8% (2020-2026). NAIC is creating a working group with a set of rules around selling pet insurance policies that will be unveiled later in the year. The industry is concentrated around 4-5 major players with Nationwide holding the largest share.

3. Retention Rates and Growing Cost: Trupanion needs to keep an eye on costs from increased business and marketing spends. If Trupanion doesn't minimize costs, it could potentially cost more to process invoices than what is collected from the customers. Additionally, their business depends on retaining existing customers since it's usually more expensive to acquire a new customer. Trupanion's current monthly retention rate is 98.6% but if their rates become less competitive this rate may drop and impact net income.

Appendix

2020–2021 LEADERSHIP TEAM BIOS & CONTACT INFORMATION

(INTERNSHIP INFO FROM SUMMER 2020)

Rachel Gibson — Chief Executive Officer **Email:** GibsonR21@darden.virginia.edu

Prior to Darden, Rachel spent four years at Cambridge Associates working as an Investment Associate on a discretionary investment team within the Pension Practice in Boston. In addition to her client work, Rachel was a management team leader with 19 analyst reports and led the Boston office Investment Analyst Recruiting Team. Rachel graduated from Bucknell University with a B.S. in Business Administration. She will be interning at J.P. Morgan Private Bank this summer.

Tim Wills, CFA — Chief Investment Officer **Email:** WillsT21@darden.virginia.edu

Prior to Darden, Tim was an associate in Corporate Development at 3M, a multi-national industrial company, where he worked on M&A transactions primarily focused in healthcare and industrials. He graduated from Carleton College with a B.A. in economics and is a CFA Charterholder. This summer, he will be interning with Goldman Sachs.

Daniel Shipman, CFA — Director of Research **Email:** ShipmanD21@darden.virginia.edu

Prior to Darden, Daniel spent four years at Boston Private Wealth as a member of the firm's equity research and portfolio advisory teams. Daniel graduated from Northeastern University with a B.S. in Finance and Accounting. He has been a CFA Charterholder since 2018. Daniel will be interning with Bank of America this summer.

Sarah Silke — Chief Financial Officer **Email:** SilkeS21@darden.virginia.edu

Prior to Darden, Sarah was a Senior Investment Performance Analyst and Team Leader at Cambridge Associates in Arlington, Virginia. Sarah graduated magna cum laude from Christopher Newport University with a Bachelor of Science in Business Administration concentrated in Management, with a minor in Leadership Studies. This summer, she will be interning with Fin Venture Capital.

2020–2021 LEADERSHIP TEAM BIOS & CONTACT INFO

(INTERNSHIP INFO FROM SUMMER 2020)

Jamie Egan, CFA — Senior Portfolio Manager: Cavalier Fund **Email:** EganJ21@darden.virginia.edu

Prior to Darden, Jamie was an Assistant Vice President at Deutsche Bank within the Workout and Recovery Management group covering a portfolio of the firm's underperforming assets from a credit risk perspective. Prior to this role, she developed strong expertise as a credit officer specializing in managing the firm's exposure to financial institutions. Jamie, a CFA Charterholder, graduated magna cum laude from Villanova University with a B.A. in finance and economics. She with be joining Evercore Partners as an associate in the Advisory group.

Kevin Schoelzel — Senior Portfolio Manager: Darden Fund **Email:** SchoelzelK21@darden.virginia.edu

Prior to Darden, Kevin was the Policy Director for Walker Stapleton's gubernatorial campaign in Colorado. Before working in politics, Kevin was a Research Analyst at Gatemore Capital Management in New York. Originally from Colorado, Kevin graduated cum laude from Vanderbilt University with Bachelors of Arts in Political Science and Economics & History, as well as a minor in Engineering Management. This summer, he will be interning with Harris Williams as an Investment Banking Associate.

Nick Feinman — Senior Portfolio Manager: Jefferson Fund **Email:** FeinmanN21@darden.virginia.edu

Prior to Darden, Nicholas worked as an Equity Research Associate at Deutsche Bank where his team was responsible for formulating official opinions and investment recommendations for stocks in the Healthcare Technology & Distribution sector. Prior to Deutsche Bank, he held a similar role at Credit Suisse. Nicholas graduated from the University of Rochester in 2014 with a BA in Mathematics and Economics. This summer he is excited to join the Dallas office of BCG as a Summer Consultant.

Mahesh Dadlani, CFA — Senior Portfolio Manager: Monticello Fund **Email:** DadlaniM21@darden.virginia.edu

Prior to Darden, Mahesh spent three years at KPMG, focusing on providing deal advisory and valuations services to clients across different industries and geographies. Mahesh began his career at the Boston Consulting Group's New Delhi office. He received a Bachelors in Commerce with Honors from the University of Delhi and is a CFA Charterholder. Mahesh will be interning at Barclays Investment Bank this summer.

Hannah Coffin — Senior Portfolio Manager: Rotunda Fund **Email:** CoffinH21@darden.virginia.edu

Prior to Darden, Hannah served as Director of Finance for Greene Naftali, a contemporary art gallery in New York City. Hannah graduated from Hamilton College with Departmental Honors and a BA in Art History. This summer, she is headed to Cambridge Associates in Boston for her MBA internship.