Notre Dame Investment Club

January 20, 2019

Dear Investment Club Members,

The performance of the Notre Dame Investment Club as of December 31, 2018 is set forth below:

FY 2018 Attribution

Contributors	
Nike	16.9%
Verizon	6.9%

Detractors	
TransWorld Entertainment	(46.8%)
Infinera	(34.1%)
Cabot Oil & Gas	(22.7%)
Yandex	(20.1%)
Valero Energy	(19.9%)
Baidu	(17.4%)
Quest Diagnostics	(16.0%)
Blackstone	(10.4%)
Tegna	(10.2%)
Apple	(8.8%)
Landstar System	(7.9%)
Booking Holdings	(4.7%)
Williams Sonoma	(4.2%)
S&P 500 Index	(0.7%)
Global Payments Inc.	(0.5%)
John Deere	(0.4%)

FY2018 Return	
NDIC	(7.9%)
S&P 500	(6.2%)

Holdings as of December 31, 2018

Name	Position	% of Portfolio
Apple	$34,703	5%
Baidu	$29,341	4%
Blackstone	$26,531	4%
Booking Holdings	$27,559	4%
Cabot Oil & Gas	$23,468	3%
Global Payments Inc.	$39,189	6%
John Deere	$40,276	6%
Landstar System	$26,309	4%
Nike	$45,967	7%
Quest Diagnostics	$31,809	5%
Valero Energy	$19,867	3%
Verizon	$25,299	4%
Williams Sonoma	$30,270	4%
Yandex	$47,917	7%
S&P 500 Index	$138,706	20%
Cash	**$107,548**	**15%**
Total	**$694,773**	

General Commentary

After a long period of steady growth, volatility returned to equity markets in 2018. Following the optimism surrounding President Trump's economic policies in 2017, the stock market rally suddenly came to an end in early October, 2018. There are two main culprits to the sudden bearish sentiment that has since taken over the market: rising interest rates and lurking

geopolitical tension. The trade war with China has many investors worried, and Fed Chair Jerome Powell remains relatively hawkish about additional rate hikes in 2019. In addition to that, oil prices began to tumble and retreated to 18-month lows. After being up as much as 7.4% in late September, the Notre Dame Investment Club ended the year with a (7.9%) return.

The NDIC believes that this volatility is going to continue in the near future. As investors, we need to embrace this volatility and look to capitalize on the opportunities it might provide. In times of uncertainty, mispricing is more likely to occur and we must work together to find great ways to put our money to work. Warren Buffett said it best: "be fearful when others are greedy, and greedy when others are fearful".

Despite last year's performance, we will maintain our long-term investment horizon and are constantly working to find companies we are confident in. We do recognize that we have to be more effective in managing the portfolio and executing trades, especially when some of our positions are near their target prices. We have begun a strict process to review our current positions, and with your help we will be able to achieve a portfolio allocation we feel confident in.

New Positions

Baidu Inc (NASDAQ: BIDU)
Analysts: Rafa Campos, Ryan Ciemny

Baidu is the leading Chinese internet search provider with 80% of the Chinese search engine market share. The company operates a business model similar to that of Google, deriving the majority of its revenue from online marketing and advertising services.

We decided to invest in Baidu due to the following factors: it is a dominant search engine in a market with strong regulatory barriers to entry; it has a solid core business that will be enhanced by current investments in Artificial Intelligence; trading at around 14.0x EV/EBITDA valuation, we saw it as a cheap opportunity to initiate portfolio exposure to the Chinese economy. We see the Chinese government's protection of domestic companies as a significant competitive advantage that is likely to be sustained into the future.

Despite slowing growth, China remains a remarkable growth story. Tech adoption remains strong and GDP driven by consumption is projected to grow by more than two times by 2030. We believe current trade war concerns do not significantly affect Baidu's intrinsic value, and thus we are willing to weather the storm while it lasts in order to capitalize on future growth. We remain confident in this position.

Deere & Company (NYSE: DE)
Analysts: Sean Keller, Grant Worthington

Deere & Company manufactures and distributes Agriculture & Turf, and Construction & Forestry equipment worldwide. The company has also developed agricultural management

systems using data collection and global satellite positioning technologies to enable farmers to control input costs and yields.

We decided to invest in Deere & Company for the following reasons: John Deere is a dominant agriculture brand with a strong economic moat; the company will benefit from an equipment upgrade cycle and increasing crop demand driven by population growth and the rising adoption of precision farming; as the farm industry shifts towards more advanced technological solutions, Deere & Company will capitalize on its investments in AI and data technology. Due to our long-term investment horizon, we do not see the cyclicality in the agricultural industry as a major risk.

Exited Positions

In December of 2018, we decided to exit the following positions: **TransWorld Entertainment Corporation (NASDAQ: TWMC), Infinera Corp. (NASDAQ: INFN), Tegna Inc. (NYSE: TGNA)**. These decisions were made because we are no longer confident in the investment theses that were presented at the time these stocks were pitched.

Pitch Decisions

Lendingtree, Inc (NASDAQ: TREE) – Hold
Analyst: Dustin Scaringe

Though we like the business model in which the company does not lend directly, we decided to hold because we were not comfortable with the exit multiple used in the analysis and with the uncertainty surrounding the company's ability to compete as they diversify away from its core line of business. We also saw the rising interest rate environment as a risk that would possibly lead to a decline in loan originations.

Trupanion (NASDAQ: TRUP) – Hold
Analyst: Nick Bufalino

The recommendation was a hold. Though we find the business model interesting, we were not comfortable with the risk-adjusted return profile at the price the company was pitched. The "humanization of pets" is an attractive trend and this is a company that we plan to look at again in the near future.

United Healthcare (NYSE: UNH) – Hold
Analysts: Noel Vincent, Spencer Buzdon

We are not allowed to buy UNH stock as it is restricted by the University's socially responsible investment guidelines.

Huntington Ingalls Industry (NYSE: HII) – Hold
Analysts: Sam Chen, Brian Kelly

We decided to hold because we did not see significant drivers for revenue growth and were not entirely convinced that the company will have a sustainable competitive advantage when trying to secure new contracts. We also felt that much of the increased military spending as a result of the Trump administration's foreign policy was already priced into HII's valuation.

General Motors (NYSE: GM) – Hold
Analysts: Patrick Meyer, Anthony Graffia

We decided to hold because we do not foresee any significant competitive advantage leading to durable pricing power. We are also not confident in GM's ability to be a leading player in autonomous driving.

Mercado Libre (NASDAQ: MELI) – Hold
Analysts: Matt Jennings, Brayden Bishop

The recommendation was a hold. We decided to hold mainly due to concerns regarding Mercado Libre's ability to compete with Amazon in the event that the latter decides to intensify its entry into Latin America. There are also significant geo-political risks in some of Mercado Libre's major markets.

Allergan (NYSE: AGN) – Hold
Analysts: Maggie Essner, Ray Pellicano

Though the aesthetics segment has strong brand loyalty and provides the business with recurring revenues, we did not feel as though that was enough to justify an investment, as that is a relatively small part of their business. Additionally, there is a lot of uncertainty surrounding its current drug pipeline, so we decided to hold.

FMC Corp (NYSE: FMC) – Hold
Analysts: Raimundo Riojas, Ricardo de Saint Malo

We decided to hold because we did not see sufficient evidence that FMC would be in the best position to capitalize on the DowDuPont breakup. Though FMC has great brand recognition, we still believe Corteva (the agricultural division of DowDuPont) will maintain significant market share. However, we plan to keep an eye on FMC as they execute the spinoff of their lithium business.

Thank you to all of our members for your continued involvement. We truly appreciate it and look forward to another great semester. A special thanks to the Investment Office, the NDIGI and our faculty advisor, Prof. John Stiver for your continued support.

Please contact the leadership team if you have any questions.

Sincerely,
Rafa Campos

2018-19 President

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