Notre Dame
Investment Club

January 31, 2019

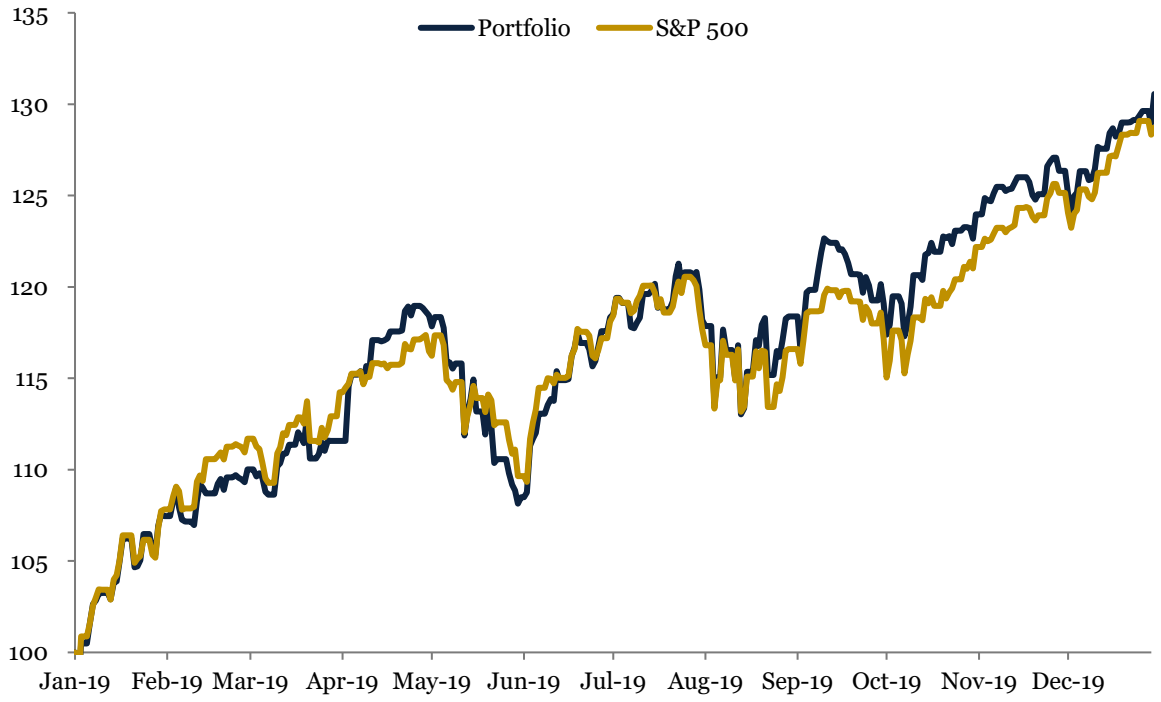
Dear Investment Club Members,

The performance of the Notre Dame Investment Club as of December 31, 2019 is set forth below.

Index	Month (%)	3 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)	ITD (%)	Inception Date
NDIC	2.91	8.32	30.79	11.86	10.23	8.23	7/1/1988
S&P 500	3.02	9.07	31.49	15.27	11.70	10.53	7/1/1988*

*Modified to match club's inception date

Illustrative NDIC Portfolio One-Year Performance



General Commentary

The Notre Dame Investment Club's performance in the 12-month period to the 31st of December 2018 was 30.79% compared to our benchmark, the S&P 500, which returned 31.49% over the same period. While the primary purpose of the club is to educate students, we strive to outperform our benchmark when possible.

A year ago, the market was recovering from a tumultuous end to 2018, and we capitalized on this by purchasing 6 new companies at attractive prices in the spring. This fall, a wide array of speakers and scheduling conflicts limited our opportunity set, allowing a total of only 6 pitches. Additionally, low interest rates and strong consumer have driven the market to all-time highs. As a result of these factors, we did not add any positions this semester. While some may be disappointed by this inaction or believe the board acted overly pessimistic, we think this is reflective of the harsh reality of investing. Similar to Santiago in Hemmingway's *The Old Man and the Sea*, investors can go long periods of time without finding any high-conviction opportunities. However, if we are able to remain patient and level-headed in our pursuit, then we will ultimately be rewarded with success. As Buffett says, *"We don't get paid for activity, just for being right."*

While our portfolio displayed little change over the course of the semester, we are happy to report we made great strides in other aspects of the club. First, our attendance at meetings has been phenomenal — averaging 84 sign-ins across the 5 meetings with data collected. This turnout has been driven by eager freshman and sophomores, averaging 56% and 36% of attendees, respectively. We have attempted to tailor our workshops this semester to this younger crowd, with topics ranging from introductory finance terminology to developing a stock pitch. This coming semester, we are hoping to increase engagement by initiating industry coverage groups targeted for freshman involvement.

We were also fortunate enough to host unbelievable speakers this semester — a practice which we hope to continue and grow in future semesters. Kevin Birzer, CEO of Tortoise Capital, returned for his third year to give a discussion on the future of energy and sustainability; Will Brennan, Managing Partner of Long Path Partners, introduced students to his fund's "ownership" approach to public equity investing; and we partnered with NDIGI to host Jack Brennan, Chairman Emeritus of Vanguard, who described his path to success and shared valuable career advice. We cannot thank these three incredible speakers enough for their time and commitment to our club and blessed university.

Finally, we launched a new website this fall, which has enabled us to share valuable resources with club members and better monitor the club's historical decisions. Like our portfolio, this

website is a constant work in progress, so please let us know if you have any suggestions for future improvements. You can visit the website at investmentclub.nd.edu.

Exited Positions

If you ask any investor what the most difficult parts of their job are, we bet a majority of them would mention selling in some capacity. This is because in selling an investor is either implicitly acknowledging their own mistake or parting with a cherished success – both of which entail cognitive biases which hinder objective decision making. The best investors are able to avoid these biases, but the difficulty in doing this is evident by the underperformance of most fund managers.

The difficulty of selling is intensified by the club's leadership and member turnover, often leaving us holding companies that few club members are familiar with. This has driven us towards a tendency of inaction, with 4 of our now 12 holdings tracing back to our first point of data in May of 2015. This issue has served both as the club's greatest asset, allowing winners to compound, and Achilles heel, allowing investment theses to break with no repercussions.

With this in mind, we continuously work to improve our own selling process. This semester, each board member was assigned a company to monitor and make weekly buy / sell recommendations – this allowed us to sell positions without requiring students to perform extensive reviews. From these discussions, we found four core principles to justify sell decisions this semester:

1. Does this Company fit the mandate of our long-term oriented equity portfolio?
2. Do we have a competitive advantage over the market in assessing this Company?
3. Has the core thesis changed significantly since the initial pitch; if so, do we have enough conviction in this new thesis to hold this Company moving forward?
4. Is the valuation in our price target range; if not, can we justify holding this Company at the current price?

With these in mind, please find brief summaries regarding our exited positions below.

Baidu Inc. (BIDU)

Analysts: Angela Wang & Lily Luo

Baidu has been one of our biggest losers over the last year and a half, and, while we can sit wishing we sold sooner, we believe it serves as a great lesson for the club moving forward. This is because Baidu fell under two criteria of our selling principles, a broken thesis and a lack of competitive advantage, yet we still failed to recognize our mistakes. By not being located in China or following the Chinese market closely, we overlooked Baidu's deteriorating moat in search and limited pricing power. Upon our reassessment, we realized the Company's future now centers on AI, a prospect which we lack conviction in, so we sold in mid-December for a loss of ~41%. Moving forward, we plan to focus primarily on North American companies which we can both better understand and monitor.

The Blackstone Group (BX)

Analyst: Erin Martinez

We exited our position in Blackstone following significant appreciation driven by the Company's conversion to a C-Corp. While Blackstone is a strong fundamental business, we believed the recent run-up in price was unjustifiable given the lack of underlying changes in the core business. This analysis was benefitted by two of our board members, Erin Martinez and Matt Herzog, both covering Blackstone through our Applied Investment Management (AIM) class. As a result, we sold Blackstone in August for a ~58% gain in a little under a year.

The Boeing Company (BA)

Analysts: Connor Campbell, Sean Baker, and Tom Daly

Our decision to sell our stake in Boeing was an easy one, as we unanimously agreed it did not fit our club's mandate. Boeing was added to the portfolio following Connor, Sean, and Tom's pitch at the Ohio State competition last fall, the prompt of which was to pitch a stock with near-term upside potential. Boeing fit this mold given its early signs of trouble with the 737 MAX at the time, but we lacked a positive long-term outlook on the Company and sold accordingly for a 7% loss in August.

Valero Energy Corporation (VLO)

Analyst: Amanda Wall

In *One Up on Wall Street*, Peter Lynch breaks companies into 6 groups, one of which being cyclicals like Valero, for which he writes, *"Timing is everything in cyclicals, and you have to be able to detect the early signs that business is falling off or picking up."* With this in mind, we came to realize that no board members or club members had a definitive, edge-worthy view on the energy markets, and, as a result, we decided to sell the position. It is possible years down the line that this sell will look foolish, but we would rather miss out on a Company we have little conviction in than get burned holding the same.

Williams Sonoma (WSM)

Analyst: Spencer Buzdon

Williams Sonoma has been a solid performer for the portfolio, returning ~10% annualized since 2017. The decision to sell Williams Sonoma was not as obvious as some of the other decisions; however, our analysis found home furnishing industry headwinds and lower gross margins left Williams Sonoma poorly positioned for future growth. This resulted in little remaining upside, and we felt we had more conviction in the market and our other portfolio companies.

Yandex (YNDX)

Analyst: Maggie Essner

Contrasting Yandex and Baidu is an interesting case study because it shows the cognitive biases that come with stock prices. Starting the semester, we immediately sold Yandex, as the Company had appreciated past our target price for an annualized gain of ~34% since 2017, and we felt we had a lack of informational edge in Russia. At the time, we acknowledged that we also lacked an edge in China and, hence, should sell Baidu. However, it is easier to let go of a winner and sell for a gain than to accept defeat and sell for a loss, so we sold Yandex and kept Baidu. This is a classic example of the disposition effect and is best analogized by Peter Lynch, once again in *One Up on Wall Street*, when he said *"Selling your winners and holding your losers is like cutting the flowers and watering the weeds."*

Modified Positions

As the semester came to a close, we found ourselves holding a portfolio composed of ~40% combined S&P and Russell 2000 ETFs. With this composition, it became obvious that it would be nearly impossible to outperform, much less deviate from our benchmark. As a result, we decided to increase our sizing in a select number of positions (new position as %): Apple (10%), Drive Shack (5%), Disney (8%), and Verizon (5%).

For Apple, Disney, and Verizon, these modifications reflected our club's recent mindset: a preference for quality. These may not be the cheapest in our opportunity set or even portfolio, but we believe that the relative importance of their products and long-term mindset of these firms provide a margin of safety that valuation cannot easily convey. In regard to Drive Shack, this reflected our desire to become increasingly concentrated and eliminate any future 2.5% positions, which we experimented with last year. We hope that holding a smaller number of companies will allow better maintenance of our positions in the future and, hopefully, drive outperformance over the long-term through concentration.

Pitch Decisions

Hemisphere Media Group (HMTV) – Hold
Analysts: Sean Baker, Colin Gutsier, and Erin Martinez
Price Target: $24

Equinix (EQIX) – Hold
Analysts: Leo Schneider and Robby Sveda
Price Target: $599

Mastercard (MA) – Hold
Analysts: Munyen Loi and Daniel Feldmeier
Price Target: $329

Kohl's (KSS) – Hold
Analyst: Colin Gutzmer
Price Target: $70

R1 RCM (RCM) – Hold

Analysts: Conor Neal, Conor Brady, and Zach Margovskiy

Price Target: $15

Arista Networks (ANET) – Hold

Analysts: Connor O'Brien and Alex Tullman

Price Target: $230

Competitions

Congratulations to our members Sean Baker, Colin Gutzmer, and Erin Martinez, who placed 2nd at the Cornell Undergraduate Stock Pitch Competition. They pitched Hemisphere Media Group (HMTV) in the final round – the deck and model can be found on our website. A special thank you to Steve DuFour for mentoring the team.

We were also proud of Connor Brady, Connor Neal, and Zach Margovskiy, who placed in the top half of Michigan's highly competitive Engage UIC Competition. They pitched R1 RCM (RCM) – the deck and model can also be found be on our website. Thank you to NDIC Alum, Connor Oleferchik, for mentoring the team.

Alumni – if you are interested in mentoring future competition teams, please reach out to us at invclub@nd.edu.

New Initiatives

New Site: As mentioned previously, we have launched a new site, which can be found at investmentclub.nd.edu! We hope this site can help keep our club members better informed both in regards to the portfolio, our weekly workshops, and various investing resources.

Notre Dame Investment Club Stock Pitch Competition: This spring, on February 27th, we will be hosting our first internal stock pitch competition. This competition will be for strictly Notre Dame students, and we had 21 teams submit initial applications last fall. This will be held in conjunction with NDIGI's Women's Investing Summit and offers participants the opportunity to win a cash prize and dinner with attendees of the summit. We hope that 10 years from now this

competition will be the club's annual highlight and offer club participants to learn from some of the best in the industry!

New Leadership: Thank you and best of luck to our board members who left this semester to travel abroad! We would also like to introduce our new board members who will help coordinate the club and make portfolio decisions: Colin Gutzmer, Alex Tullman, Robby Sveda, and Tom Daly.

Moving Forward

The club's portfolio will likely never be drawn upon – it will keep growing for as long as the club stays alive. This leaves some wondering why we participate in the club and try as hard as we do to outperform the market. The answer is simple: continuous, compounded learning. The foundation of this club is centered on education, and, with each meeting and portfolio decision, we are perfecting ourselves and compounding our knowledge. The process of learning is never complete, and we hope with every dollar of appreciation each club member is growing intellectually.

"A finite game is played for the purpose of winning, an infinite game for the purpose of continuing the play." – James P. Carse, Finite and Infinite Games

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Thank you to all of our members for your continued involvement. A special thanks to NDIGI, the Investment Office, our sponsors, Prof. John Stiver, and our new faculty advisor, Prof. Colin Jones for your continued support.

Please contact us at invclub@nd.edu if you have any questions.

Sincerely,

James Campion & Lauren Weetman

2019-20 President & Vice President

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