Notre Dame
Investment Club

May 10, 2019

Dear Investment Club Members,

The performance of the Notre Dame Investment Club as of May 10, 2019 (end of the semester) is set forth below.

YTD Attribution

Contributors	
Global Payments Inc.	41.0%
Drive Shack Inc.	37.5%
Yandex N.V.	33.1%
The Blackstone Group L.P.	32.4%
Apple Inc.	26.9%
The Walt Disney Company	22.7%
Quest Diagnostics Incorporated	18.6%
Waste Management, Inc.	18.1%
Cabot Oil & Gas Corporation	15.9%
Landstar System, Inc.	13.3%
NIKE, Inc.	11.4%
The Boeing Company	9.6%
Williams-Sonoma, Inc.	9.3%
Valero Energy Corporation	9.0%
XPO Logistics, Inc.	7.2%
Deere & Company	3.7%
Booking Holdings Inc.	1.5%
Activision Blizzard, Inc.	0.5%
Verizon Communications Inc.	0.3%
Baidu, Inc.	0.1%

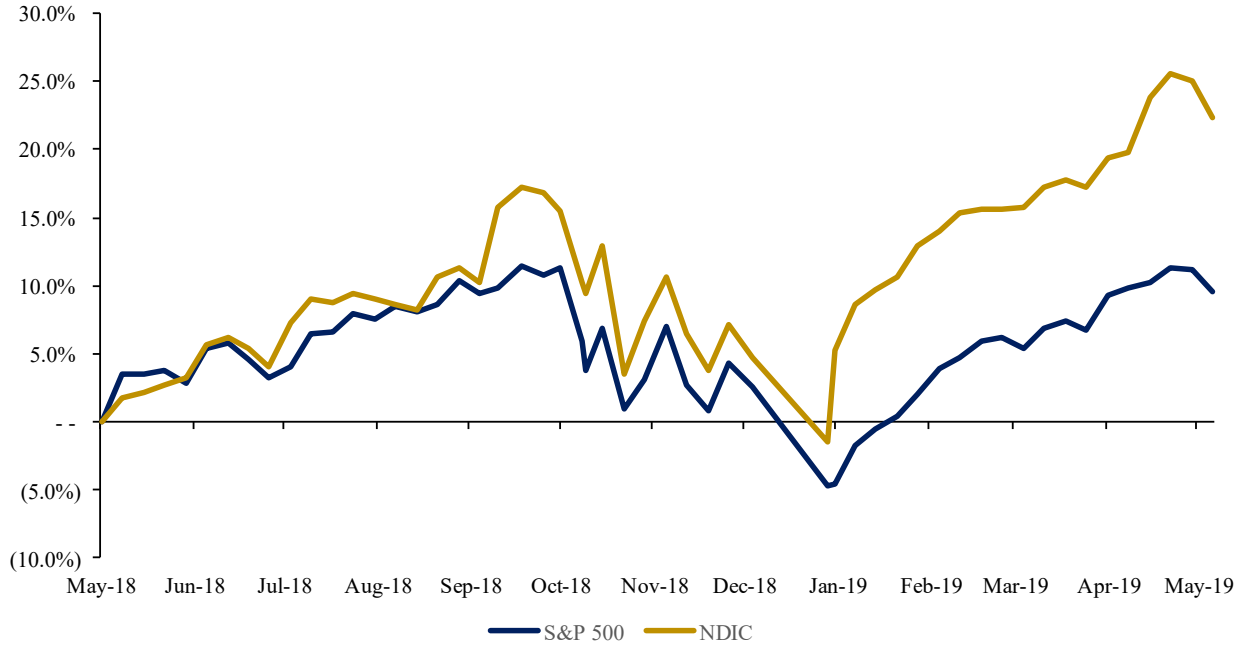
YTD Return	
NDIC	24.2%
S&P 500	14.9%

Holdings as of May 10, 2019

Name	Position	% of Portfolio
Activision Blizzard, Inc.	$36,270	4.5%
Apple Inc.	39,220	4.9%
Baidu, Inc.	29,358	3.7%
Booking Holdings Inc.	27,983	3.5%
Cabot Oil & Gas Corporation	27,190	3.4%
Deere & Company	39,454	4.9%
Drive Shack Inc.	21,123	2.6%
Landstar System, Inc.	29,799	3.7%
Quest Diagnostics Incorporated	37,723	4.7%
The Blackstone Group L.P.	35,115	4.4%
The Boeing Company	35,361	4.4%
The Walt Disney Company	40,776	5.1%
Valero Energy Corporation	21,661	2.7%
Verizon Communications Inc.	25,382	3.2%
Waste Management, Inc.	40,475	5.0%
Williams-Sonoma, Inc.	33,078	4.1%
XPO Logistics, Inc.	38,261	4.8%
Yandex N.V.	20,163	2.5%
S&P 500 Index	144,789	18.0%
Russell 2000 Index	77,455	9.6%
Cash	**$3,397**	**0.4%**
Total	**$804,032**	

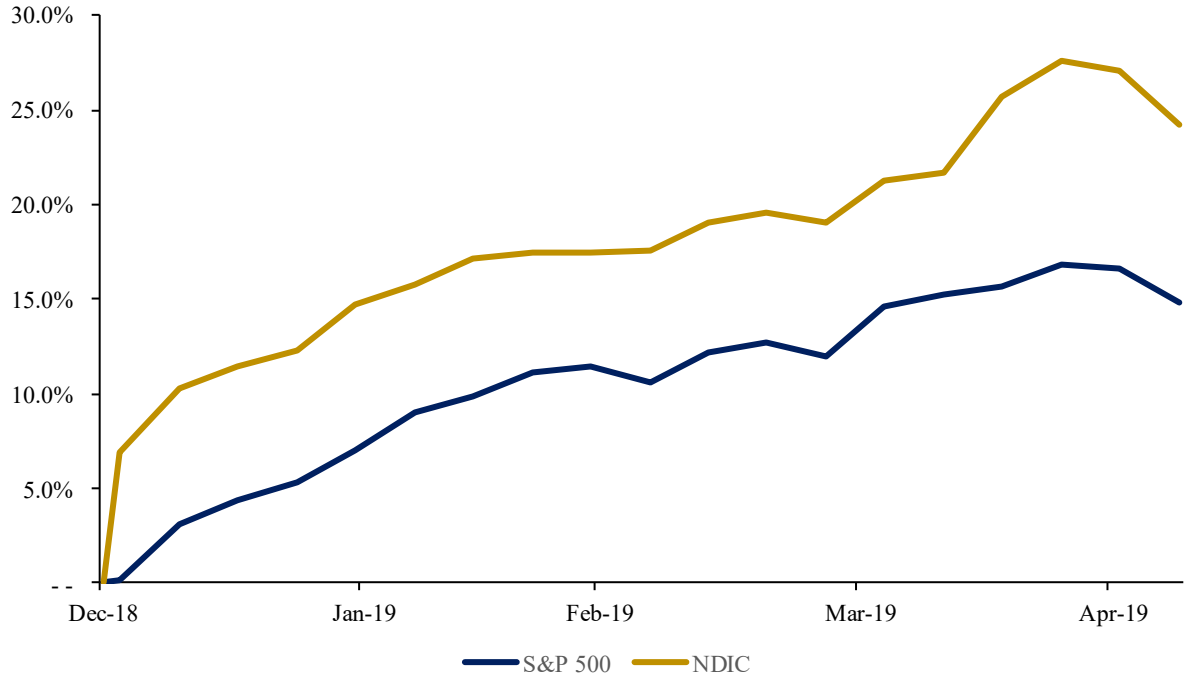
NDIC Portfolio One-Year Performance

The Notre Dame Investment Club saw a return of 22.3% over the prior one-year period, outperforming the S&P 500, which returned 9.5% over the same period.



NDIC Portfolio YTD Performance

The portfolio also outperformed on a year-to-date basis, returning 24.2% compared to the S&P 500's 14.9% over the same period.



General Commentary

Year-to-date, the Notre Dame Investment Club portfolio has returned 24.2% compared to the S&P 500, which returned 14.9% over the same period. The goal of the NDIC is to outperform the S&P 500, and we have been able to do so up to this point. Though this is an exceptional bounce back from our losses last semester, we believe it is unreasonable to expect the rally to continue at this rate. Therefore, we need to be very active in managing the portfolio should market conditions change drastically.

Our goal with the positions we added throughout the year was to establish a solid base for the NDIC portfolio. While we invested in names we feel confident about, most of the positions we initiated were in large-cap companies. Over the past 10 years, growth stocks have outperformed value stocks at an unprecedented level, and we do not believe this trend is sustainable in the long run. For that reason, we plan on focusing on more value opportunities in the upcoming year.

After a very turbulent semester last fall, the overall market started to rise once again. We believe that the main contributing factor to this recovery is the Federal Reserve's shift back towards easy money. In our last letter we said that we needed to embrace the market volatility and look to capitalize on the opportunities it might provide. This shift by the Fed, however, makes finding good investment opportunities at reasonable prices more difficult. For future pitches and investment decisions, we must start thinking about the long-term effects of easy money, both politically and economically.

Though many "experts" claim a recession is coming, we feel as though there are still opportunities out there for the NDIC to capitalize on. We currently do not have significant exposure to emerging markets, for example, and that is something we plan on changing as valuations in the US continue to rise. As price discovery becomes more and more difficult, we must be extremely diligent and selective with our investments. Our philosophy is best reflected by this Vincent Van Gogh quote: "the fishermen know that the sea is dangerous and the storm terrible, but they have never found these dangers sufficient reason for remaining ashore".

New Positions

All allocations for new positions were around 5% of our portfolio at the time of trade execution, with the exception of Drive Shack (2.5%). For each trade, we sold a portion of our S&P 500 Index position and used those proceeds to initiate new positions.

Activision Blizzard, Inc. (NASDAQ: ATVI)
Analyst: Niko Martinovic
Price target: $59

Activision Blizzard is the number one global developer and publisher of interactive gaming entertainment content and services. Activision has three meaningful and diverse revenue streams that we believe will continue to demonstrate significant growth. E-Sports and Virtual Reality are the most exciting growth opportunities in this industry and ATVI is the best positioned to take advantage of it with the power of their brands and aggressive R&D spend. We believe the

decline in stock price in late 2018 was primarily driven by analyst sentiment changes, missing expectations, CFO firings and the fact that Bungie games left ATVI. We do not believe these factors will affect ATVI's strong fundamentals. We initiated a position at $46.

Waste Management, Inc. (NYSE: WM)
Analyst: Chris Smith
Price target: $126

Waste Management is a leading provider of waste management and environmental services. The company operates four segments: Collection, Landfill, Transfer and Recycling. We decided to invest in WM for the following reasons: the industry has barriers to entry which include local regulations and high capital requirements; the company has consistently maintained above-average ROIC; management's positive track record with tuck-in acquisitions should continue to drive growth. We initiated a position at $95.

Walt Disney Co (NYSE: DIS)
Analysts: Tom Daly, Sean Baker
Price target: $137

The Walt Disney Company is a mass media and entertainment conglomerate which operates through the following segments: Media Networks, Parks & Resorts, Studio Entertainment and Consumer Products. We decided to invest in Disney for the following reasons: Disney has a very dominant brand which will allow for continued organic growth through theme parks and films; the acquisition of 21st Century Fox will provide a boost in terms of content; we are more bullish than the overall market on Disney's ability to capitalize on the growth of streaming services through Disney+, ESPN+ and Hulu – Disney owns 60% of Hulu following the acquisition of 21st Century Fox. We initiated a position at $112.

XPO Logistics (NYSE: XPO)
Analyst: Colin Gutzmer
Price target: $66

XPO is a leading provider of transportation and logistics services. It operates through two segments: Transportation and Logistics. Within the transportation segment, the company specializes in freight brokerage. Within the logistics segment, XPO specializes in value-added warehousing, eCommerce fulfillment, and supply chain management. We decided to invest because we believe XPO has a strong fundamental business model and that it is in a good position to capitalize on eCommerce's rapid growth and the increasing importance of logistics. Additionally, XPO was trading significantly below the industry average following the loss of a major customer (believed to be Amazon) and a highly-publicized short by Spruce Point Capital Management. We do not believe the concerns raised by Spruce Point are significant and do not think the loss of Amazon as a customer signals any fundamental issues with XPO's business model – we believe XPO was significantly undervalued at the time we initiated our position at $51.

Boeing Co (NYSE: BA)
Analysts: Drew Seketa, Tom Daly, Connor Campbell, DC Morris
Price target: $427

Boeing is a leading designer and manufacturer of airplanes, rotorcraft, rockets, satellites, and missiles. The company operates through three main segments: Commercial, Global Services, and Devense, Space & Security. After the two fatal crashes involving the Boeing 737 Max, shares tumbled almost 20%. We decided to invest because we believe these accidents should not affect Boeing's fundamental value, as current issues with the 737 Max should be easily rectified with low costs, previous Boeing aircraft groundings have had minimal impact on Boeing's performance and high switching costs in the airplane manufacturing industry should limit any loss of customers. We also think the competitive structure in the industry is very attractive, as Boeing is one of two large players. This is a relatively short-term position, with an investment horizon of 6-12 months. We initiated our position at $377. This trade was executed using the proceeds from the sale of our Global Payments position (NYSE: GPN).

Drive Shack (NYSE: DS)
Analysts: Sam Chen, Colin Gutzmer, Matt Jennings
Price target: $6.70

Drive Shack Inc. is a leading owner and operator of golf-related leisure and entertainment business. We decided to invest in Drive Shack because it is undergoing a fundamental change in its business model. The company has transformed its business model from a REIT to an *eatertainment* provider using its existing real estate assets and expertise in the golf industry. Additionally, Drive Shack has transitioned from its spinoff management team of private equity professionals by hiring veterans of the hospitality and entertainment industry with strong backgrounds in corporate expansion. In addition, millennials are seeking active experiences in which consumers pair an activity with food and beverage consumption in a social setting, and we believe DS is well-positioned to capitalize on this trend. We believe that insufficient analyst coverage and uncertainty regarding the company's transformation are contributing to the mispricing of DS. Due to the risks associated with a company of this size, we decided to go with a smaller allocation (~2.5% of the portfolio) and initiated it at $5.30.

Exited Positions

Nike (NYSE: NKE)
Analysts: Kyle Adlaka, James Irwin

In April, we exited our Nike position at $87. This represented a 14% annualized return since we bought it in 2015, compared to an annualized return of 8% by the S&P 500 over the same period. We decided to sell because we believe that the growth expectations for Nike's women's, athleisure and international segments are high and have already been priced in by the market.

Global Payments (NYSE: GPN)
Analysts: Jonathan Plas, Angela Wang

In April, we exited our Global Payments position at $136. This represented a 27.8% annualized return since we bought it in 2015, compared to an annualized return of 8% by the S&P 500 over the same period. We decided to sell as we felt the stock was fairly valued given the pricing pressures that will likely result from growing competition within the payment processing industry.

Trimmed Positions

In an effort to rebalance our portfolio going into this summer, we decided to trim the following holdings: **Apple Inc. (NASDAQ: AAPL)**, **Deere & Company (NYSE: DE)**, **Walt Disney Co (NYSE: DIS)**, **XPO Logistics (NYSE: XPO)** and **Yandex (NASDAQ: YNDX).** These positions had been performing very well and the portfolio was starting to get overly exposed to them. We trimmed all of them to around 5% of the portfolio with the exception of Yandex, which was trimmed to 2.5% (see below). In order to eliminate some of the cash drag we had been dealing with throughout the year, we also decided to allocate our cash into S&P 500 and Russell 2000 Index Funds. We will sell portions of those positions and use those proceeds in order to execute new trades in the future.

Yandex (NASDAQ: YNDX)
Analyst: Jeremy Hu

In May, we decided to trim our Yandex position to 2.5% of the portfolio. We sold 1197 shares at $36. This represented a 27% annualized return since we bought it in 2016, compared to an annualized return of 12% by the S&P 500 over the same period. We decided to sell a substantial portion of this position due to geopolitical uncertainty in Russia and volatility in oil prices (Yandex's stock price is highly correlated with oil prices). This position has done very well for us and we were looking to lock in some of its gains. We decided to keep an allocation of 2.5% because we believe Yandex Taxi, the company's online ride-sharing service, and Yandex's possible expansion into Turkey have the potential to be very successful.

Pitch Decisions

Applied Materials, Inc. (NASDAQ: AMAT) – Hold
Analyst: Jason Kidwell
Price target: $48

Applied Materials is a supplier of equipment, services and software used by a variety of companies to manufacture semiconductor chips. We decided to hold due to concerns that included: high customer concentration – three customers accounted for over 40% of AMAT's sales; cyclicality of the semiconductor industry – we did not feel comfortable in our ability to determine when it would be the right time to initiate or exit this position given the highly cyclical nature of the industry; potential threat of Asia: cheaper production and vast advances in

technology by Asian firms that source from national suppliers could have adverse effects on AMAT's financial performance.

Carvana (NYSE: CVNA) – Hold
Analyst: William Schipke
Price target: $47

Carvana is an online-only used car dealer that allows customers to shop, finance, and trade in cars through their website. We decided to hold due to a few main concerns including: credit cycle – if credit dries up and Carvana is no longer able to keep selling loans to banks like Ally, that could have a significant adverse effect on the company; cost of capital – their cost of debt is currently very high, and we are not confident that they will be able to issue more equity if they keep burning cash; lack of a sustainable competitive advantage: other than the car vending machines, the "better service" provided by Carvana is not proprietary and could easily be copied by CarMax and other competitors; management – the father of the CEO is a convicted felon and seems to play a substantial unofficial role in the management of Carvana. Additionally, Mark Walter (CEO of Guggenheim) is a major CVNA shareholder and an insurance company he owns has been buying off securities backed by Carvana auto loans. This was a significant red flag which, along with the other reasons, led us to decide holding was the correct decision. Unfortunately for us, Carvana shares are up more than 50% since we passed on it.

Zillow (NASDAQ: ZG) – Hold
Analyst: Dane Williams
Price target: $48

Zillow is an online real estate database company. We decided to hold because Zillow is attempting to diversify from its core business and competitive advantage through the very capital-intensive Zillow Homes, in which Zillow has begun to buy and sell homes. We do recognize that Zillow may have an informational advantage to offer the best prices, however. Additionally, Zillow is getting into the mortgage business. Instead of being an aggregator and advertising firm for "premier agents", it is becoming a real estate and finance firm. Because of these two very different business models, the future performance of the company is unclear, and we did not feel comfortable making an investment.

WD-40 Company (NASDAQ: WDFC) – Hold
Analysts: CJ Jacobs, Quinn Jacobs
Price target: $204

WD-40 is a global marketing organization that develops & sells products that solve problems in workshops, factories and homes. We decided to hold for the following reasons: lack of new product development and generally long life of products lead to very infrequent purchases and limits the company's growth prospects; because WD-40's brand is its main competitive advantage, we believe international expansion will prove harder than the analysts projected; at the time it was pitched, the company was trading at over 20x EV/EBITDA, which is a very high multiple compared to its peers (or by any standard, for a company like this one); model assumptions were very aggressive and gave an upside of only 20% with no significant catalysts.

Turtle Beach (NASDAQ: HEAR) – Hold
Analysts: Robby Sveda, Alex Tullman
Price target: $22

Turtle Beach is a global gaming accessory manufacturer, focusing on headsets. We decided to hold for the following reasons: though Turtle Beach has brand recognition, we see no sustainable competitive advantage – we believe a more financially stable and recognized entity (i.e. Microsoft, Sony); could potentially start competing; lack of exposure to Asia, where much of the rapid growth in the video gaming market is coming from.

Supernus Pharma (NASDAQ: SUPN) – Hold
Analysts: DC Morris, Garrett Smith, Evan Radomski
Price target: $51

Supernus is a specialty pharmaceutical company focused on developing products to treat central nervous system diseases. We decided to hold for the following reasons: political risk – concerns regarding drug pipeline – we are not comfortable with the risk associated with one or more of these drugs not receiving FDA approval, and believe the model did not account for this risk; lack of diversification in current drug portfolio; uncertainty as to how new regulations would affect Supernus following 2020 election.

Competitions

Congratulations to our members Drew Seketa, Tom Daly, Connor Campbell and DC Morris, who placed 2nd at the Buckeye Capital Investors Stock Pitch Competition hosted by the Ohio State University. A special thank you to former NDIC Vice President Grant Ebenger, who mentored the team.

We are planning on attending competitions hosted by Cornell University and the University of Michigan this fall.

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

New Leadership Team

As my four years at Notre Dame come to an end, I would like to thank the alumni and past board members who continue to support the club and have made it into what it is today. The Notre Dame Investment Club has been an integral part of my experience at Notre Dame, and I truly hope it expands its reach and continues to help students as much as it has helped me. It has been an honor to lead the club over the past year, and I am excited to officially announce our new leadership team:

President
- James Campion (jcampion@nd.edu) – *Class of 2020*

Vice President
- Lauren Weetman (lweetman@nd.edu) – *Class of 2020*

Board Members
- Erin Martinez (emarti18@nd.edu) – *Class of 2020*
- Amanda Wall (awall3@nd.edu) – *Class of 2020*
- Sam Chen (schen11@nd.edu) – *Class of 2020*
- Ray Pellicano (rpellica@nd.edu) – *Class of 2021*
- Jason Kidwell (jkidwel1@nd.edu) – *Class of 2021*
- Drew Seketa (aseketa@nd.edu) – *Class of 2021*
- Maggie Essner (messner@nd.edu) – *Class of 2021*
- Spencer Buzdon (sbuzdon@nd.edu) – *Class of 2021*
- Sean Baker (sbaker8@nd.edu) – *Class of 2021*
- Grant Worthington (gworthin@nd.edu) – *Class of 2021*
- Matt Jennings (mjennin5@nd.edu) – *Class of 2021*
- Connor Campbell (ccampb20@nd.edu) – *Class of 2021*

This is an outstanding team and I am confident they are capable of taking the Investment Club to the next level.

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

Please contact the new leadership team if you have any questions.

Sincerely,
Rafa Campos

2018-19 President

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