# SEMI-ANNUAL PERFORMANCE

April 1st, 2020 - September 30, 2020

Williams College of Business

Xavier University

3800 Victory Parkway

# Annual Report Table of Contents

Board of Executive Advisors . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 3
A Letter from the CEO . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 4
Operational Overview . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 5
Fund Members . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 6
COVID-19 Operational Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 10
Market Summary . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 11
Performance Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 13
6 Month Performance Metrics . . . . . . . . . . . . . . . . . . . . . . . . . . 14
DCF Benchmarked Returns . . . . . . . . . . . . . . . . . . . . . . . . . . . . 15
Turnover Analysis . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 16
Top/Bottom Contributors . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 18
Performance and Risk Analytics . . . . . . . . . . . . . . . . . . . . . . . . 20
ESG Report. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 22
Compliance Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 23
Annual Trade Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 24
Economic Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 32
Sector Reports . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 36
Communication Services . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 36
Consumer Discretionary . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 43
Consumer Staples . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 50
Energy . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 58
Financials . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 64
Healthcare . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 71
Industrials . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 80
Information Technology. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 89
Materials . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 97
Real Estate . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 102
Utilities . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 107
Final Thanks . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 112

## Xavier University Finance Department Board of Executive Advisors

**Michael Andriole**
Chimerix, Inc.
Chief Business Officer

**Denise Banks**
Verso Corporation
Commercial Analyst

**Tony Beal**
Nationville National Partners
AVP National Relationship Officer

**Matthew M. Carlstedt**
Citimark
VP, Investments

**John Caufield**
Phillips Edison & Company
CFO and Treasurer

**Jonathon M. Detter, CFA**
WCM Investment Management
Portfolio Manager

**William Effler**
American Money Management
(Retired)

**J. Douglas Gerstle**
Procter & Gamble
Assistant Treasurer,
Global Treasury

**Brian Gilmartin**
Trinity Asset Management
Portfolio Manager

**George A Haddad, CFP**
Merrill Lynch-The Haddad Group
Senior VP, Wealth Management

**Tami Lee Hendrickson**
Fed. Home Loan Bank of Cincinnati
Senior VP/Treasurer

**Rebecca Hochstetler**
Procter & Gamble
Associate Director, Finance and Accounting, Manila

**William P. Hogan**
American Money Management
Senior VP – Investments

**Kevin R. Kane**
Lang Advisors, LLC
Senior Financial Advisor, Portfolio Manager

**Daniel Kieffer**
Fifth Third Investment Management Group
Director, Alternative Strategies

**R. Bryan Kroeger**
US Bank
SVP-Middle Market Lending

**James Alan Lenahan**
Fund Evaluation Group
Managing Principal/Director of Hedged Strategies

**Thomas E. Lieser, Jr., CFP**
Stifel Financial Services
Managing Director/Investments

**Anne Marie Lynch**
GE Aviation
VP and CFO, Aviation Services

**Brian Motz**
Fidelity Investments
VP, Fidelity Workplace Solutions

**Juan Rivera**
American Express Global Business
Chief Accounting Officer

**Michael W. Schwanekamp**
MFS Investment Management
Managing Director

**Kathryn L. Ward**
The Kroger Company
President, Kroger Personal Finance

**Kevin P. Whelan, CFA**
Opus Capital Management
VP and Portfolio Manager

**Rebecca S. Wood**
Fund Evaluation Group
Managing Principal

Dear D'Artagnan Capital Fund Family and Friends:

Thank-you for taking time to review our performance and analysis for the 2020 semi-annual reporting period, April 1, 2020 - September 30, 2020. This year's group inherited a portfolio that was experiencing its first-ever bear market, and within the first month of operations, witnessed a shift back to a bull market. With an increased focus on external factors, such as the pursuit of a COVID-19 vaccine and shift to remote learning/working in the macroeconomic environment, we prepared more Economic Reports weekly, and dedicated more time to discussing these trends than in past semesters. While we used this data to help us screen stocks and find subsectors with value, as a bottom-up fund we searched to find the most undervalued large cap companies, and achieved success in doing so.

As a team, our first semester in the fund experienced one of the most chaotic times in recent memory as a pandemic with unprecedented global impact shut down both our school and the country. In a matter of days we shifted from on-campus learning to entirely remote, a transition that set us up for success in the coming months. As we took over the portfolio in the summer, and were unable to get together to meet in person, we were prepared to use tools such as Zoom to continue managing the portfolio remotely during the summer months. Additionally, the DCF created the first ever DCF Intern program, where we allowed students over the summer to apply to work on valuations in an attempt to increase the knowledge of incoming analysts, and continue to keep the portfolio in the strongest possible position. We look forward to continuing this exciting opportunity for students to grow prior to starting their first semester in the fund.

Looking at the results for the semi-annual period ended on September 30, we are excited to announce that the DCF had a closing balance of $3,950,301.97 in assets under management, representing a total six month return of 35.88%, beating the S&P 500 Total Return Index by 4.57%. This strong outperformance was a direct result of active management, and the DCF's intuitive approach of eliminating companies from our portfolio that we no longer have conviction in and replacing them with companies which we see to have greater intrinsic value and more potential upside.

I am honored to have had the opportunity to lead this group of 26 students who have worked together through unique circumstances, including students having to shift back and forth from online to in person due to quarantine requirements. Thanks to the dedicated work from groups before ours, we have had the opportunity to manage a significant amount of money, a responsibility we have not taken lightly, and will continue to work through the rest of the semester to help continue this legacy. The previous group of managers taught us that the best thing we could do as a manager class is work to leave the Fund in a better place than we received it, a task we worked hard to achieve. We are very confident in the group of students to whom we will be giving responsibility for the Fund, and are working to guide them as well as previous classes have guided us.

Sincerely,

Conor Davis, Chief Executive Officer

## *Operational Overview*

The D'Artagnan Capital Fund is an actively-managed opportunities fund that focuses on investments in the large-cap and greater equity universe through a bottom-up valuation approach. Equities presented in the fund are researched extensively by sector analysts with the direction of portfolio managers who are responsible for monitoring both the companies currently held in the sector, along with a bench of companies being considered for addition. Through rigorous peer review of valuation models, research, and investment rationales, we seek to continuously outperform our benchmark, the S&P 500 Total Return index, on a risk adjusted basis. This mission is completed by selecting the most undervalued equities within our investable universe while remaining in compliance with our investment policy statement.

The D'Artagnan Capital Fund is solely run by Xavier University students. We manage approximately $4 million for Xavier's Endowment as of September 30, 2020. Per our prospectus, our exposure is limited to large-cap equities, and we currently manage a portfolio of 42 holdings.

Disclaimer: All information contained in this report is the opinion and analysis of the students of the D'Artagnan Capital Fund at Xavier University seeking academic credit. The information is not the work of professionals and should in no way be used to make financial decisions or investments. D'Artagnan Capital Fund at Xavier University is not legally responsible for any use of this information outside of the D'Artagnan Capital Fund's managed allocation of Xavier University's endowment

## *Fund Members: Managers*

**Conor Davis**

Chief Executive Officer

**Harrison Caplan**

Chief Financial Officer

Chief Economist

**Jack Streicher**

Chief Investment Officer

**Alex Nemechek**

Chief Operating Officer

**Brian Price**

Controller

Healthcare Sector Manager

**William Brunner**

Information Technology Sector Manager

**Sebastian Duve**

Communication Services Sector Manager

**Evan Ensminger**

Financial Sector Manager

Real Estate Sector Manager

**Nick Frank**

Chief Compliance Officer

Energy Sector Manager

Utilities Sector Manager

## *Fund Members: Managers*

**Braden Latt**

Consumer Discretionary Sector Manager

Consumer Staples Sector Manager

**Tristan Shafer**

Industrials Sector Manager

Materials Sector Manager

## *Fund Members: Analysts*

**John Aho**

Utilities Sector Analyst

**Will Diedrich**

Healthcare Sector Analyst

**Cole Drake**

Information Technology Sector Analyst

**Chris Fazio**

Consumer Staples Sector Analyst

**Alex Guindi**

Financial Sector Analyst

**Jacob Herman**

Industrial Sector Analyst

**Joe Langhoff**

Real Estate Sector Analyst

**Elena Maloy**

Information Technology Sector Analyst

**Connor McKiernan**

Information Technology Sector Analyst

## *Fund Members: Analysts*

**Fredrick Meccia**

Healthcare Sector Analyst

**Shayla Mendez**

Energy Sector Analyst

**Logan Murray**

Financial Sector Analyst

**Ally Thompson**

Consumer Discretionary Sector Analyst

**Zach Wagner**

Communication Services Sector Analyst

**Andrew Walker**

Materials Sector Analyst

**Operations Report - COVID 19**

The onset of the COVID-19 pandemic greatly impacted the daily operations of the D'Artagnan Capital Fund, as it did the operations of most businesses around the world, beginning in March, 2020. First was Xavier's decision to extend spring break by two weeks, which could have left the Fund without a meeting for two weeks during an incredibly volatile period in the stock market. Instead, the Fund decided to continue with its regular meetings, monitoring and discussing the performance of our various holdings as the stock market tumbled.

The transition to online learning in the spring created new obstacles to holding our regular meetings, including time zone differences forcing students to be in class at 5:30 am, as well as the challenges related to giving compelling and thorough stock presentations over Zoom. The current managers of the Fund experienced this shift as analysts, and took several lessons from the spring semester into both the summer and the fall in order to allow the DCF to continue to function despite the challenges created by the ongoing pandemic.

Over the summer, the DCF launched its first ever "summer internship" program, led by Dr. Hyland, Dr. Pawlukiewicz, and current fund managers. Given the general upheaval in schedules caused by the coronavirus, it was difficult to get all incoming managers and analysts on the same schedule, so the internship program served as a convenient way to gather together a few managers and analysts who had available time in order to make decisions for the Fund and practice modeling to prepare the incoming analysts for their roles. The program ran for approximately five weeks during the summer and was conducted entirely through Zoom.

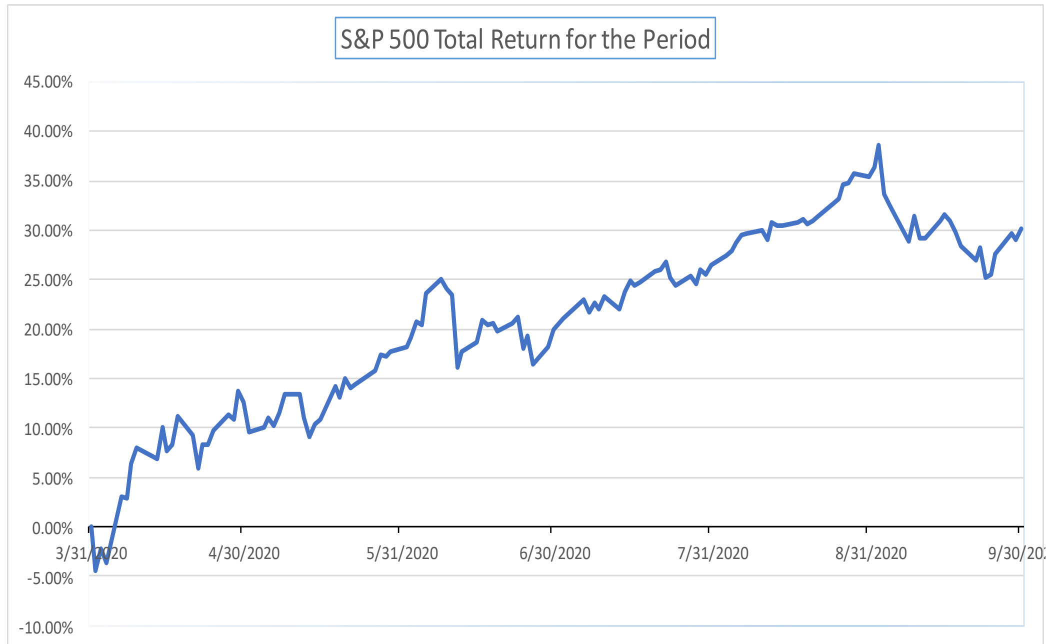
Given our experiences in the spring, the Fund managers were well prepared for the return to campus in the fall amidst a new learning environment. Zoom technology has allowed students in quarantine or with health concerns to attend class and give presentations regularly, and has also provided a convenient platforms for regular sector and manager meetings if they can not be held in person.

Additionally, remote access to the Bloomberg and Capital IQ platforms provided through the university has continued to allow analysts and managers to access the very best in news, research, and data from home as they are encouraged to remain off campus.

In terms of class sessions, the DCF has continued mostly as normal, with a few changes to accommodate for the conditions of global markets. The current managers have chosen to continue the practice begun in the spring of presenting economic reports every week in order to keep analysts up to date with the latest economic data, which has been heavily scrutinized by market analysts since the beginning of the pandemic. Additionally, the sector managers have undertaken "round-table" discussions, in which individual managers discuss trends in their sector as well as the best and worst performers among their subsectors, with the goal of keeping all managers updated on current market conditions and the Fund's strategy to capitalize on those conditions.

Thus, in spite of the unusual conditions, the DCF has both the experience and the resources to continue to function as normal and meet the challenges presented by current capital markets, as well as to carry forward the lessons learned into future operations.

At the beginning of our fiscal period, the S&P 500 was in the first bear market since 2009. However, through a combination of fiscal stimulus provided the Federal Reserve and an easing of lockdown protocols, we witnessed the shortest bear market of all time, and one of the strongest 6 month returns in the history of the S&P 500.



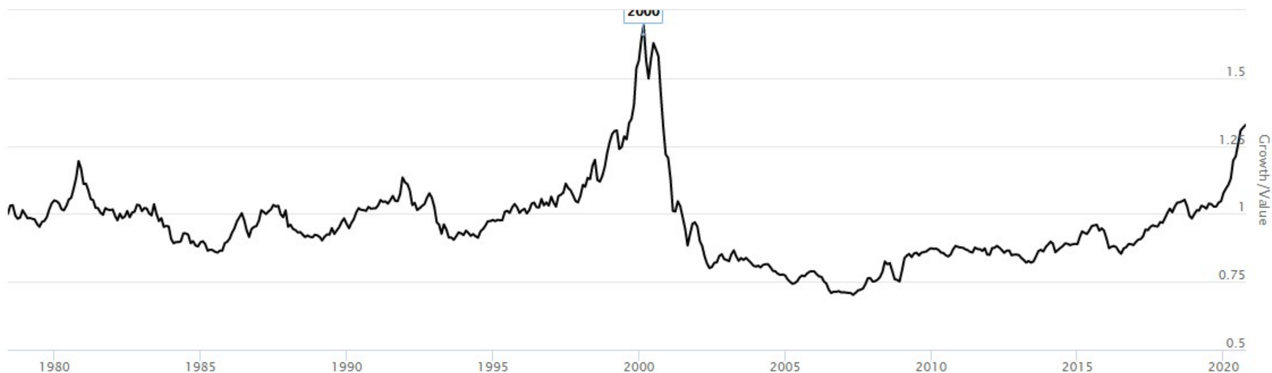

## Federal Reserve Liquidity Injection & Stimulus

Beginning on March 12, 2020, the Federal Reserve began the most aggressive liquidity injection of all time, pumping $3 trillion into the public markets through the purchase of corporate bonds, long dated bonds, and Exchange Traded Funds (ETF's). This was the first time ever that the Federal Reserve purchased ETF's and corporate bonds. This boosted the market because investors saw the Federal Reserve as a form of backstop to prevent companies from going bankrupt. This in turn increased the number of buyers in the market, preventing steep one day falls as seen in the beginning and middle of March. Since June however the Federal Reserve has eased these measures, reducing the balance sheet by $150 billion.

After the Federal Reserve's aggressive liquidity injection, Congress and the president worked together to pass the largest stimulus package of all time, with over $2 Trillion allocated for individuals, and small businesses. On the small business side almost $500 billion was allocated to forgivable, low interest loans offered to keep small businesses above water in a time of unparalleled contraction in the economy. On top of this, most Americans were eligible for a one time payment of $1,200 at a time when the majority of businesses were still shut down. This left people with few choices of how to use their stimulus check including investing it, buying necessary items, or paying off bills, and in the end such a large portion of those who received the checks ended up investing them that they actually changed the landscape of the equity markets. At the start of the year retail investors made up just 15% of the equity markets, yet now retail investors make up ~20% of the equity market. This has led to even further irrationality in the market as institutional investors saw a decreased impact on the changes in markets, and volatility and volume both significantly increased throwing the market into imbalance.

# Growth vs. Value

This year we saw a transition in the performance of growth stocks vs. value stocks as well that played an impact on the overall performance of the market. Since shortly after the market crash of 2000, value stocks have outperformed growth stocks, until finally in 2019, the trend began to switch back the other way. The pandemic saw this trend expand with further expansion of growth stocks, particularly seen in the information technology sector where companies that operated in fields that were seen to be benefited by the pandemic, such as software producers, and video communication services dramatically increased in value. This Trend continued through the summer however, in early September, and through the rest of the month this trend began to reverse and level out/slip slightly back down while again the market shifted, and utilities companies and financial companies began to preform better. Moving forward it will be important to watch this trend and look for any signals on what types of companies we should be looking for in each sector.




Graph of the quotient of the Wilshire US Large-Cap Growth Index by the Wilshire US Large-Cap Value Index

# Consumer Spending

In the United States, over 66% of GDP is accounted for in the form of consumer spending, which was one of the hardest hit areas in the response to the nationwide lockdowns. One simple example of this is that is looking at the impact of restaurants shutting down, and the upstream companies that were impacted by this as a result. As restaurants shut down, Coca Cola, a nationwide beverage distributer lost 52% of sales coming from on premise events, Tyson, a meat producer who supplies poultry to restaurants lost a significant amount of sales as well, and finally, banks who had loaned money out were no longer getting paid by the restaurant, and as a result, they had to increase provisions for losses, decreasing top and bottom line earnings. This type of scenario played out all over the country and companies that provided discretionary products were hurt early on, however, consumer spending began to return with the easing of lockdown guidelines in April, and further easing in May and June leading to increased CPI, and positive price mix for most companies in the discretionary sectors leading to a strong rebound in the second half of the period.

| Performance Metric | DCF | S&P 500 |
|---|---|---|
| 6 Month Total Return | 35.88% | 31.31% |
| Excess Return | 4.57% | - |
| 12 Month Beta | 1.01 | 1.00 |
| Sharpe Ratio | 1.961 | 1.737 |
| Treynor Ratio | 0.355 | 0.311 |
| Jensen's Alpha | 4.38% | - |
| $M^2$ | 4.01% | - |

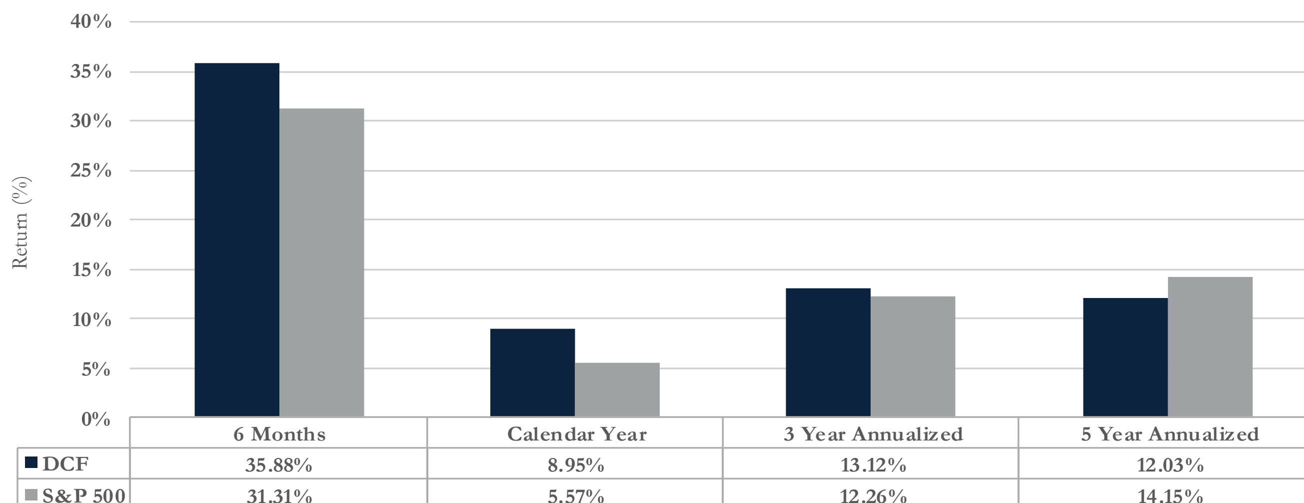
| Portfolio Snapshot | |
|---|---|
| Portfolio Value: | $3,950,301.97 |
| Number of Company Holdings: | 42 |
| 6 Month Turnover: | 31.92% |
| Portfolio Style: | Large Cap Blend |

| Average Sector Allocations | |
|---|---|
| Communications: | 11.18% |
| Consumer Discretionary: | 10.43% |
| Consumer Staples: | 7.11% |
| Energy: | 2.11% |
| Financials: | 10.37% |
| Healthcare: | 14.38% |
| Industrials: | 7.92% |
| Information Technology: | 27.67% |
| Materials: | 2.59% |
| Real Estate: | 2.98% |
| Utilities: | 3.13% |
| Cash: | 0.14% |

**Performance Review**

The D'Artagnan Capital Fund returned 35.88% from the close on March 31, 2020 to September 30, 2020. The DCF's benchmark, the S&P 500 Total Return Index returned 31.31%. Relative to the benchmark, the DCF outperformed by 4.57%. Additionally, the DCF also outperformed on a total risk basis as indicated by the Sharpe and Treynor ratios, which are greater for the Fund than for the benchmark. For the semi-annual fiscal period, the DCF had a beta of 1.01, indicating fractionally greater volatility than the market.

**Total Returns**




| | 6 Months | Calendar Year | 3 Year Annualized | 5 Year Annualized |
|---|---|---|---|---|
| DCF | 35.88% | 8.95% | 13.12% | 12.03% |
| S&P 500 | 31.31% | 5.57% | 12.26% | 14.15% |

# 6 Month Performance Metrics

**Total Return**

The D'Artagnan Capital Fund returned 35.88% during the semi-annual fiscal period from March 31, 2020 to September 30, 2020. The DCF's benchmark, the S&P 500 Total Return Index, returned 31.31%, equating to an excess return by the DCF of 4.57%.

**Beta**

Beta is a measure of systematic risk with the market benchmark having a beta of 1.00. For the annual period, the D'Artagnan Capital Fund had a beta of 1.01 which is slightly higher than the benchmark. This indicates a slightly higher amount of systemic risk. The trailing 12-month beta was calculated using daily returns.

**Sharpe Ratio**

The Sharpe ratio measures performance on a total risk basis using the portfolio's standard deviation over the reporting period. The D'Artagnan Capital Fund's Sharpe ratio was 1.961, which was greater than the benchmark's ratio of 1.737. This represents the DCF outperforming the benchmark on a reward-to-total risk basis.

**Treynor Ratio**

The Treynor ratio measures performance on a systematic risk basis using the portfolio's beta. The D'Artagnan Capital Fund's Treynor ratio of 0.355 was greater than the benchmark's ratio of 0.311. This represents the DCF outperforming the benchmark on a reward-to-systematic risk basis. Given the DCF investment policy statement and strategy, the Treynor ratio is a more appropriate measure of performance than the Sharpe Ratio.

**Jensen's Alpha**

Jensen's alpha measures performance by calculating the excess return of the portfolio above its expected return as predicted by the CAPM, using the appropriate risk-free rate and with the benchmark as a proxy for the market return. The D'Artagnan Capital Fund's alpha was 4.38% which indicates the DCF outperformed the benchmark during the annual period.

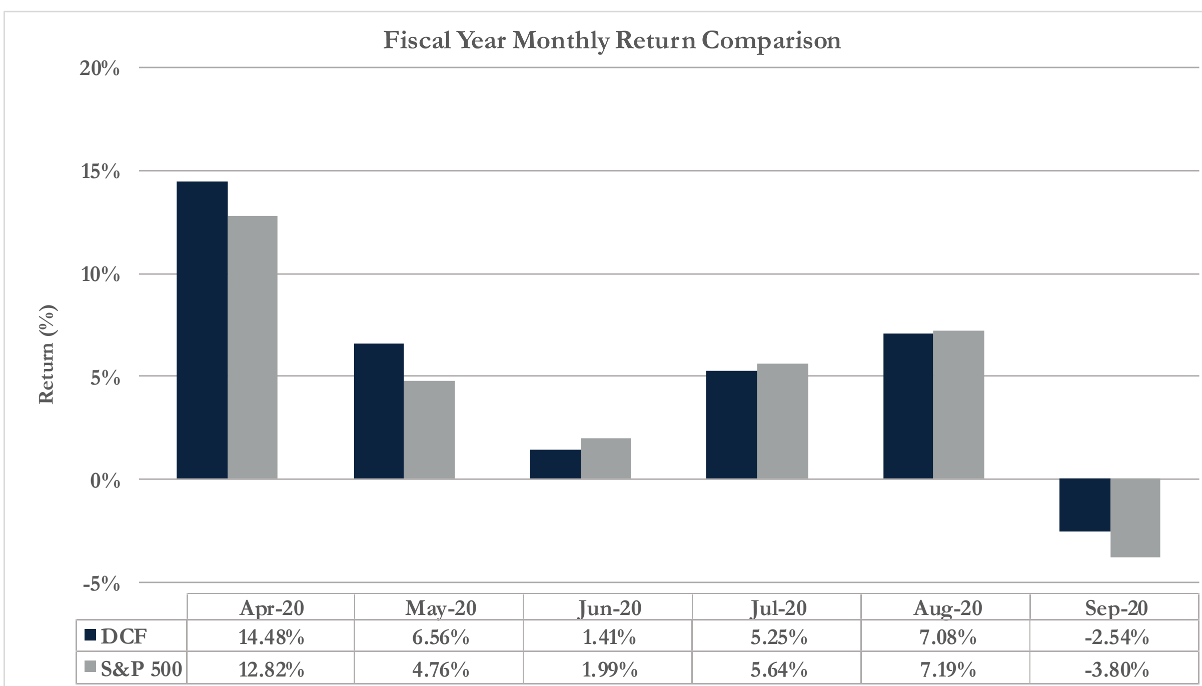
**$M^2$**

$M^2$ measures total risk-adjusted return for the portfolio relative to the benchmark. It calculates the portfolio's expected return using the risk-free rate to lower the portfolio's standard deviation to that of the market. The D'Artagnan Capital Fund's $M^2$ of 4.01% indicates the DCF outperformed the benchmark. This measure coincides with the DCF's Sharpe ratio, given that both use standard deviation as the measure of risk.

**Value at Risk**

The value at risk (VaR) measure is a measure meant to quantify the deviation risk experienced by the portfolio's returns. Using a 95% confidence interval, the DCF's VaR for the semi-annual period was 2.55%, which, based on the portfolio's average value, implies a dollar value of $100,811. This implies that on any given day, there is a 95% chance that the Fund's gain or loss will be less than or equal to $100,811, whereas 5% of the time, it will see greater fluctuation within a single day.

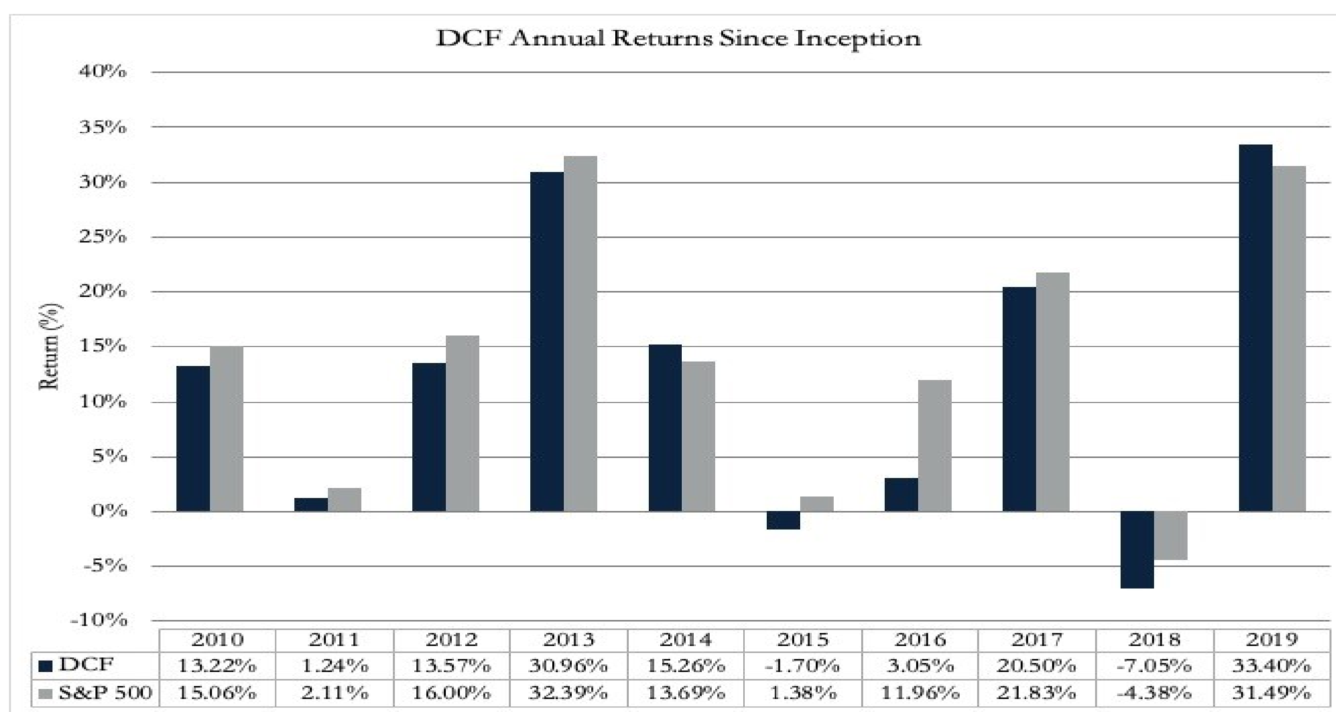
# DCF Benchmarked Returns




| | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 |
|---|---|---|---|---|---|---|
| DCF | 14.48% | 6.56% | 1.41% | 5.25% | 7.08% | -2.54% |
| S&P 500 | 12.82% | 4.76% | 1.99% | 5.64% | 7.19% | -3.80% |

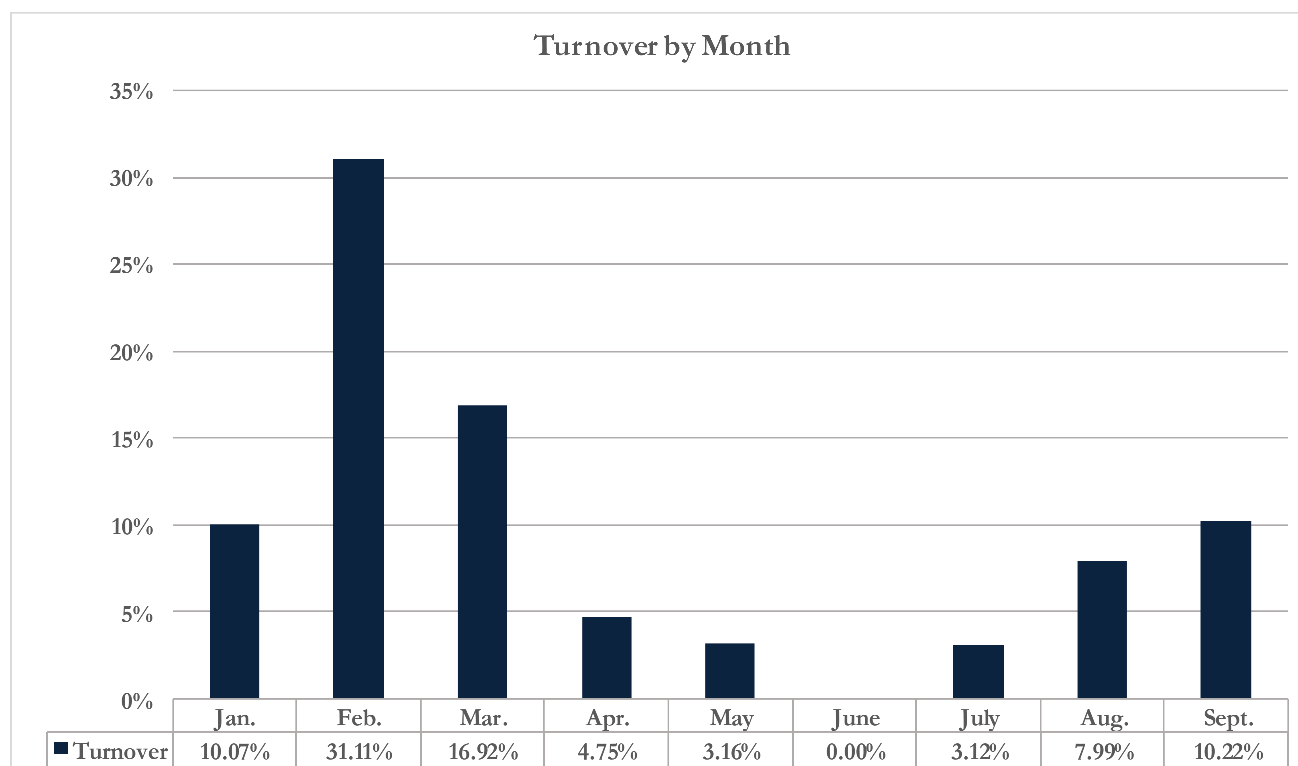
For the semi-annual fiscal period, the D'Artagnan Capital Fund outperformed the benchmark by 4.57%. The DCF's performance against the S&P 500 Total Return index on a month-to-month basis is shown above. Out of the six month reporting period, the DCF outperformed the benchmark during three months – April, May, and September. Its misses were significantly smaller than its beats, such as underperforming the benchmark by only 11 basis points in August.

Looking at calendar year periods, the DCF has outperformed the S&P 500 twice since inception, in 2014 and 2019. The table below outlines the calendar year performance of the DCF compared to its benchmark.




| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| DCF | 13.22% | 1.24% | 13.57% | 30.96% | 15.26% | -1.70% | 3.05% | 20.50% | -7.05% | 33.40% |
| S&P 500 | 15.06% | 2.11% | 16.00% | 32.39% | 13.69% | 1.38% | 11.96% | 21.83% | -4.38% | 31.49% |

# Turnover Analysis




The D'Artagnan Capital Fund's turnover rate for the calendar year to date is shown above, broken out by month. For the semi-annual fiscal period, the D'Artagnan Capital Fund turned over 31.92% of the portfolio. For the calendar year, 81% of the portfolio has been turned over. The abnormally low values over the summer are primarily due to the Fund's operating structure. During the summer months, the DCF is overseen by the Advising Professor and transaction activity is typically low. Each semester, the Fund rotates in new officers and managers, each bringing new outlooks and goals for each sector. As a result, reallocation and trade decisions are made as indicated by the turnover percentages.

For this particular period, given the extreme volatility in capital markets, the Fund was slightly more hands-on over the summer, with the current manager class meeting occasionally via Zoom. All managers were tasked with monitoring their sectors of the portfolio for concerning trends or data, but, given that the portfolio was in a strong position at the end of the spring, few further transactions were required.

## Top Contributors

| Top Contributors | 6 Month Return (%) | Contribution to Return (%) |
|---|---|---|
| PayPal Holdings Inc. | 113.22 | 3.80 |
| Apple Inc. | 74.65 | 2.80 |
| Target Corporation | 71.08 | 2.00 |
| Discover Financial Services | 78.61 | 1.94 |
| Visa Inc. | 24.51 | 1.44 |

* Note: these securities are ranked based on their contribution to the portfolio, which is due to their weighting in the portfolio

### Top Contributors

Over the semi-annual period, the D'Artagnan Capital Fund has held several companies that provided a positive contribution to our overall return. The top five contributors were PayPal, Apple, Target, Discover, and Visa.

PayPal is a technology company that operates a global electronic payments network for online money transfer versus traditional paper cash methods. The COVID-19 pandemic has accelerated the shift for electronic payments, which has been a boom for PayPal's growth this year. Given their rapid share price appreciation, the managers of the DCF revalued the company, and it was overvalued, therefore the D'Artagnan Capital Fund exited its position in the company in August.

The D'Artagnan Capital Fund's position in Apple performed well during the semi-annual period. Apple's continued innovation and brand loyalty have been a staple for the company through these rough economic times. The fund still maintains their stake in the company and believes there is upside to capture as the beginning of the 5G generation of iPhones provides strong incentive for loyal customers to upgrade their devices.

Target is a general merchandise retailer offering a variety of products through both physical and digital channels. Their strong summer performance was driven by a pair of solid earnings calls and a leap of nearly 200% in their digital and mobile sales, a segment of their business they have been fighting to grow as they compete with Wal-Mart. These results give reason to be hopeful that their innovation will help them continue to drive strong growth.

Discover Financial Services operates as a direct payment and services company both domestically and internationally with card services, and personal and student loans. As many other financial companies have grown fearful of rising delinquency rates and charge-offs, Discover has recorded declines in both. This bodes well for their performance throughout the remaining course of the pandemic, and we believe the company has further room for price appreciation.

Visa is a multinational financial services company specializing in electronic money transfer. Similar to Paypal, Visa saw explosive growth as the COVID-19 pandemic fueled a surge in electronic spending and money transfers, leading to greatly increased usage on all of their platforms. As the largest company in their industry, Visa retains many competitive advantages in terms of their ability to capitalize on new technology and new markets within the financial space, and thus the Fund holds strong conviction in their ability to continue to lead their market.

## Bottom Contributors

| Top Contributors | Return (%) | Contribution to Return (%) |
|---|---|---|
| Federal Realty Investment Trust | -6.97 | -0.13 |
| Royal Dutch Shell | -10.90 | -0.09 |
| Tyson Foods Inc. | -1.29 | -0.01 |
| Johnson and Johnson | -0.30 | -0.01 |
| Cash | 0.00 | 0.00 |

* Note: these securities are ranked based on their contribution to the portfolio, which is due to their weighting in the portfolio

## Bottom Contributors

Over the annual period, the D'Artagnan Capital Fund has held just four companies that provided a negative contribution to the overall return. It should be noted that of these four companies, three are new positions, with Royal Dutch Shell, Tyson Foods, and Johnson and Johnson all being added to the portfolio the last few weeks of the period. Therefore, their stated return does not represent the total return of those companies over the 6 month fiscal period. Additionally, Federal Realty was only in the portfolio for a portion of the semi-annual period, as the Fund exited that position within the first few days of April. This shows that, for the vast majority of the fiscal period, all of the Fund's holdings posted positive returns.

Federal Realty is a real estate investment trust specializing in neighborhood shopping centers. They were a strong contributor to the Fund's performance in the spring, but experienced severe declines toward the end of March and beginning of April following a negative earnings call, leading to the listed negative return.

Royal Dutch Shell is an oil and gas supermajor and one of the largest overall companies in the world.

Tyson Foods is a multinational food processor which operates as the second largest processor of chicken, beef, and pork in the world.

Johnson and Johnson is a health care giant which operates across many different markets, including pharmaceuticals, consumer health products, and medical devices.

All three of these companies are new holdings for the D'Artagnan Capital Fund, entered within the last few weeks of the fiscal period, so their negative returns must be evaluated as extremely short-term. The Fund maintains strong conviction in all of these companies for reasons including significant innovation within their field, significant growth potential due to upcoming products, and relative stability throughout the COVID-19 pandemic.

# Performance Comparison & Portfolio Ratios

| Fund Name | Symbol | 6 Months | Calendar YTD | 3-Year Annualized | 5-Year Annualized |
|---|---|---|---|---|---|
| American Century Equity Growth A | BEQAX | 28.75% | 4.27% | 9.98% | 11.71% |
| Colombia Contrarian Core Adv | CORRX | 30.96% | 7.10% | 10.94% | 13.04% |
| JP Morgan Equity Index C | OEICX | 30.65% | 4.81% | 11.11% | 12.91% |
| Lazard US Equity Focus Open | LZUOX | 30.12% | 3.96% | 11.45% | 11.89% |
| Voya US Stock Index Port 2 | ISIPX | 30.89% | 5.06% | 11.51% | 13.38% |
| Category Average | | **30.27%** | **5.04%** | **11.00%** | **12.59%** |
| | | | | | |
| D'Artagnan Capital Fund | DCF | 35.88% | 8.95% | 13.12% | 12.03% |

The above table compares the D'Artagnan Capital Fund's 6 Month period (April 1 to September 30), Year-to-Date, 3-Year and 5-Year returns against large-cap mutual funds with similar characteristics to our portfolio. Utilizing Morningstar's mutual-fund screening tool, blended large-cap funds that solely invested in large-cap equities were filtered to achieve a base sample size. We chose to use the same five funds from last year as comparisons in order to provide a base for historical performance. Across the 6 Month, Year-to-Date, and 3-Year periods, the D'Artagnan Capital Fund outperformed in comparison to the category averages, including outperforming all five of the comparable funds in the 6 month fiscal period. The D'Artagnan Capital Fund underperformed in comparison to the category average in the 5-Year period.

| Metric | DCF Weighted-Average Ratio | S&P 500 TR Ratio |
|---|---|---|
| P/E | 30.60x | 57.96x |
| P/BV | 9.00x | 13.53x |

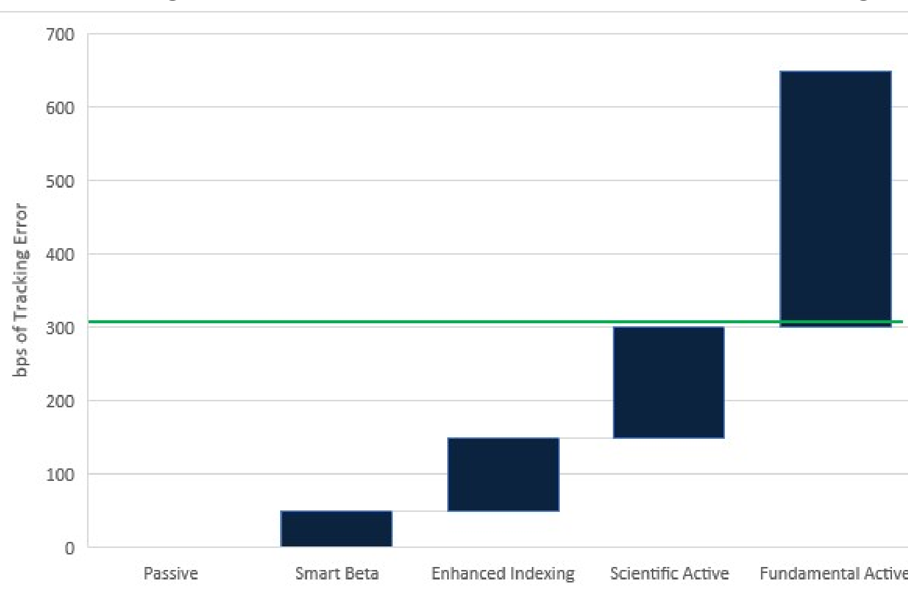
The above table lists the D'Artagnan Capital Fund's portfolio multiples. The DCF's P/E ratio, 30.60x, was significantly lower than the S&P 500 Total Return's ratio of 57.96x. The P/E ratio is found by dividing the Share price by earnings per share of a particular company. In the case of the portfolio, the P/E shows the weighted-average of all the securities ratios. The DCF's P/BV of 9.00x was considerably lower than the S&P 500's metric of 13.53x. The P/BV is calculated by dividing the price of a share of stock by the book value per share.

For the Fund to have a lower P/E than the market is a representation of our strategy of searching for undervalued stocks. One common method of finding under valuations is searching for companies with superior performance but lower P/E ratios than their competitors.

All values used are TTM values and are weighted averages based on each equity's weight within the fund or index.

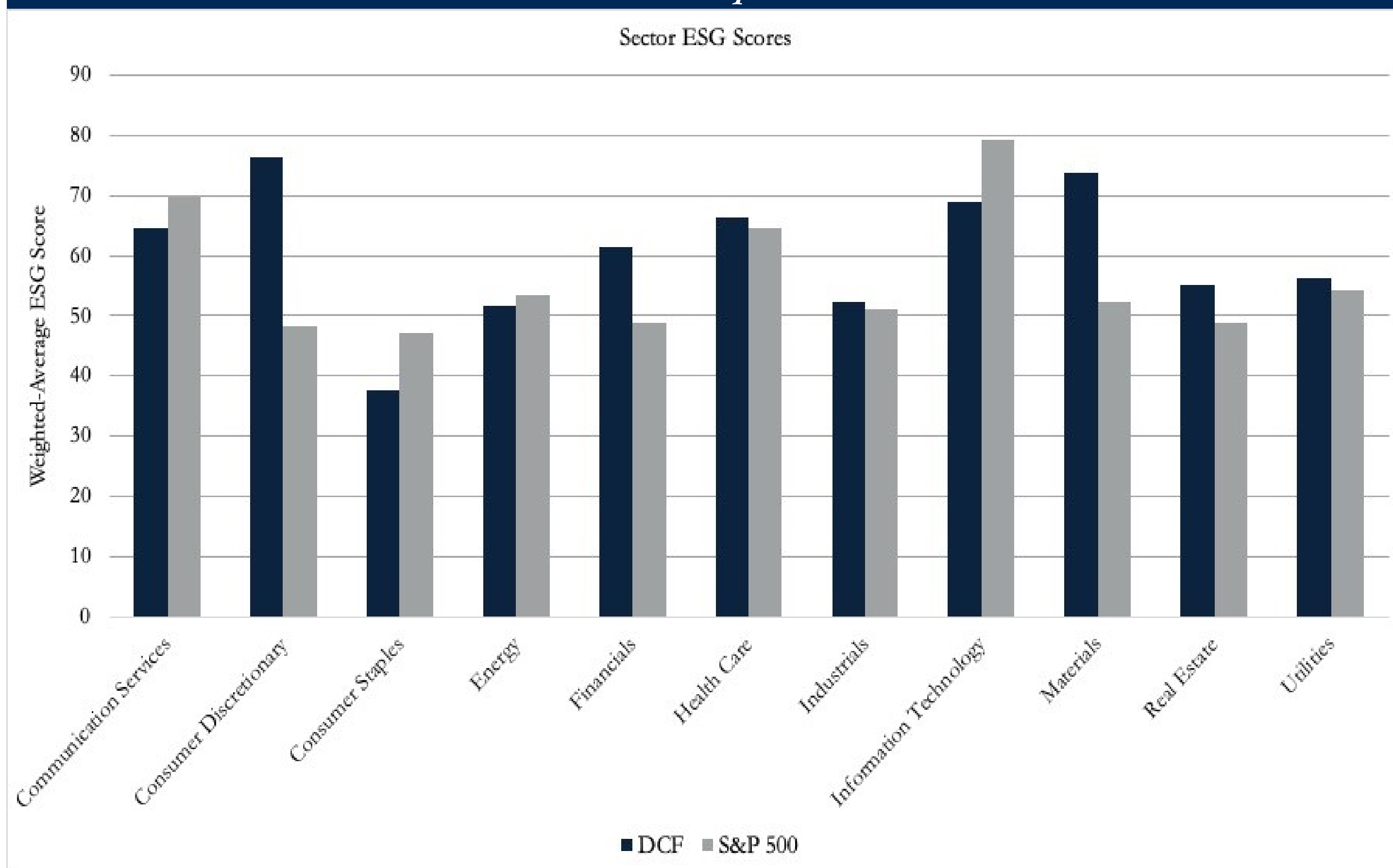
The D'Artagnan Capital Fund operates as a large cap actively-managed equity fund. The Fund seeks to identify and invest in roughly 40 to 50 companies that are fundamentally strong and undervalued by the market. Our goal is to outperform the S&P 500 Total Return Index on a risk-adjusted basis. Active management involves deviation from the benchmark, which can be referred to as tracking error. It is a measure that shows the percentage by which a fund's returns are expected to differ from those of its benchmark. Tracking error is also known as "active risk" and the D'Artagnan Capital Fund's portfolio had an active risk of 303 basis points over the past twelve months. On a given day, our portfolio can under or outperform the benchmark by 3.03%.

Most funds can be categorized into equity strategies based on tracking error. The categories range from a "pure index" to "enhanced index" to "active fundamental management" like the D'Artagnan Capital Fund. They are characterized by tracking error ranges as follows: 0 bps (passive), 10-50 bps (smart beta), 50-150 bps (enhanced indexing), 150-300 bps (scientific active), and 300-650 bps (fundamental active). Given the D'Artagnan Capital Fund has a tracking error of 303 bps, the DCF falls on the lower end of the Fundamental Active range. This value also falls directly within our required tracking error range as stated in the Fund's policy statement. The Fund is required to target a tracking error between 200 and 400 basis points, a range which is designed to allow for active management while also controlling the amount of risk that the Fund undertakes on the high end.




Unfortunately, we were unable to use the Bloomberg BI tool to analyze our risk relative to the benchmark due to the requirement of a paid subscription to the host company in order to do so. However, the majority of the Fund's active risk typically stems from economic non-factors. Economic factors that influence risk include country risk, currency risk, and industry risk. Since the Fund invests almost entirely in American companies and benchmarks its sector weights against the S&P 500's weights, these three risks tend to make up a relatively small portion of active risk. On the other hand, non-factor risk is all of the risk which arises from the individual companies in which a Fund is invested. It typically makes up about 70% of the Fund's active risk.

In summary, an elevated level of tracking error is inherent in the DCF due to its actively managed nature. The tool does not aid us in our valuations or stock selection, but serves as a way to analyze where our risk lies within the portfolio.




*Graph based on Sustainalytics ESG rank. All ESG Scores are calculated as a weighted average by sector*

The D'Artagnan Capital Fund does not have any specific requirements laid out in our investment policy statement with regards to ethical investing. However, sustainable investing is one of the hottest trends in the investing world, and so the Fund believes it is important to regularly track our performance relative to the benchmark in order to better understand our holdings. ESG is a rating given based on a number of criteria, including environmental impact, standing with various social issues (diversity, women in leadership, executive compensation), and adherence to certain government regulations. Companies are also judged based on their transparency in providing this information to prospective investors. Sustainalytics rankings are particularly useful because companies are scored on a basic index, with a score of 99 implying a placement in the 99th percentile of all publicly graded companies. Thus, higher scores imply better compliance with ESG criteria.

The Fund scores higher than the benchmark in its weighted average ESG score in 7 of 11 sectors, while placing lower in Communication Services, Consumer Staples, Energy, and Information Technology. The Fund widely outperformed in the Consumer Discretionary Sector, where three of its four holdings (Starbucks, Target, and Home Depot) score above an 80.

However, it should be noted that higher ESG scores are not necessarily a good determinant of return. For example, the Fund's ESG score in Health Care is above the benchmark, but the Fund underperformed in that sector. Similarly, the Fund's Communication Services score is below the benchmark, but the Fund outperformed that sector by more than 10%.

ESG scores remain a good way to understand the ethical and legal standing of a company, but have little correlation to returns in our portfolio. While the Fund has no specific plans to adopt an ESG investing strategy, we will continue to monitor ESG results to watch for emerging trends surrounding these statistics.

During the period from April 1, 2020 to September 30, 2020, there was one instance in which the D'Artagnan Capital Fund was out of compliance with the Investor Policy Statement.

On May 7, 2020 the DCF decided to expand its position in Bristol-Myers Squibb Co. (NYSE: BMY). However, a trading error resulted in the DCF entering into a position in Badger Meter Inc. (NYSE: BMI) instead. The position consisted of 33 shares with a value of approximately $2,000. Badger Meter does not meet the requirements of the Fund's investable universe as outlined in our investment policy statement. Once this error was realized, the DCF completely exited the position in Badger Meter Inc. on July 22, 2020.

As of September 30, 2020, the DCF is in complete compliance with the Investment Policy Statement.

# Fiscal Period Attribution Analysis and Top Holdings

| Sector | Relative Weight (%) | Asset Allocation (%) | Security Selection (%) | Excess Return (%) |
|---|---|---|---|---|
| **Communication Services** | 0.30 | 0.00 | 1.21 | 1.21 |
| **Consumer Discretionary** | -0.40 | -0.08 | 0.28 | 0.20 |
| **Consumer Staples** | -0.06 | 0.00 | 0.00 | 0.00 |
| **Energy** | -0.51 | 0.14 | 0.31 | 0.45 |
| **Financials** | 0.19 | -0.03 | 1.64 | 1.61 |
| **Health Care** | -0.40 | 0.05 | -0.69 | -0.64 |
| **Industrials** | 0.00 | 0.00 | 1.08 | 1.08 |
| **Information Technology** | 0.08 | 0.08 | -0.42 | -0.34 |
| **Materials** | 0.01 | 0.01 | 0.42 | 0.43 |
| **Real Estate** | -0.03 | -0.03 | 0.80 | 0.77 |
| **Utilities** | -0.02 | 0.00 | -0.16 | -0.16 |
| **ETF** | 0.00 | 0.00 | 0.00 | 0.00 |
| **Cash** | 0.14 | -0.04 | 0.00 | -0.04 |
| **Total** | — | 0.10 | 4.47 | 4.57 |

The D'Artagnan Capital Fund's semi-annual attribution analysis is shown in the table above. Attribution analysis was broken out by each sector as well as the average cash holding. Over the fiscal period, asset allocation was positive, meaning the Fund ended up slightly overweight in well-performing sectors. More importantly, security selection was widely positive, indicating that the equities chosen by the Fund significantly outperformed their respective sectors.

The largest positive contributions to excess return came from significant outperformances in Financials, Communication Services, and Industrials. These positive contributors were partially offset by negative excess returns in the Health Care and I.T. sectors. Overall, the DCF outperformed the benchmark by 4.57% for the 6 month fiscal period.

| Top Holdings | Average Weight in Portfolio |
|---|---|
| Visa Inc. | 5.40% |
| Microsoft Corporation | 5.31% |
| Apple Inc. | 5.00% |
| Bristol-Myers Squibb Co. | 4.18% |
| Cisco Systems Inc. | 4.07% |

# 3 Year Annualized Attribution Analysis

| Sector | Relative Weight (%) | Asset Allocation (%) | Security Selection (%) | Excess Return (%) |
|---|---|---|---|---|
| **Communication Services** | 0.60 | -0.02 | 0.57 | 0.55 |
| **Consumer Discretionary** | 0.72 | 0.06 | -0.32 | -0.26 |
| **Consumer Staples** | -0.33 | 0.01 | 0.15 | 0.16 |
| **Energy** | 0.90 | -0.29 | 0.05 | -0.25 |
| **Financials** | 0.10 | -0.01 | 1.17 | 1.16 |
| **Healthcare** | -1.03 | 0.00 | -0.62 | -0.62 |
| **Industrials** | 0.84 | -0.07 | 0.30 | 0.23 |
| **Information Technology** | -2.04 | -0.33 | -0.24 | -0.57 |
| **Materials** | -0.35 | 0.02 | -0.09 | -0.07 |
| **Real Estate** | -0.19 | 0.01 | 0.21 | 0.22 |
| **Utilities** | 0.08 | 0.00 | 0.37 | 0.37 |
| **ETF** | 0.41 | -0.05 | 0.00 | -0.05 |
| **Cash** | 0.29 | -0.02 | 0.00 | -0.02 |
| **Total** | — | -0.69 | 1.55 | 0.86 |

The above table shows the D'Artagnan Capital Fund's 3-year annualized attribution analysis. Some of the sectors that contributed positively to excess return were the Communication Services, Financials, Industrials, and Utilities sectors. These positive contributors were partially offset by negative excess returns in the Healthcare and Information Technology sectors. Overall, the DCF outperformed the benchmark by 86 basis points on an annualized basis over the 3-year period.

## 5 Year Annualized Attribution Analysis

| Sector | Relative Weight (%) | Asset Allocation (%) | Security Selection (%) | Excess Return (%) |
|---|---|---|---|---|
| **Communication Services** | 1.78 | -0.06 | 0.70 | 0.64 |
| **Consumer Discretionary** | 0.25 | 0.01 | -0.61 | -0.60 |
| **Consumer Staples** | 0.11 | -0.01 | -0.43 | -0.44 |
| **Energy** | 0.79 | -0.19 | 0.20 | 0.01 |
| **Financials** | 0.92 | -0.06 | 0.56 | 0.50 |
| **Health Care** | 0.41 | -0.01 | -1.14 | -1.15 |
| **Industrials** | 0.79 | -0.02 | 0.04 | 0.02 |
| **Information Technology** | -4.72 | -0.63 | -0.57 | -1.20 |
| **Materials** | -0.47 | 0.01 | -0.18 | -0.17 |
| **Real Estate** | -0.52 | 0.03 | 0.05 | 0.08 |
| **Utilities** | -0.02 | 0.00 | 0.23 | 0.23 |
| **ETF** | 0.34 | -0.05 | 0.06 | 0.01 |
| **Cash** | 0.33 | -0.05 | 0.00 | -0.05 |
| **Total** | — | -1.03 | -1.09 | -2.12 |

The above table shows the D'Artagnan Capital Fund's 5-year annualized attribution analysis. Among the sectors that contributed positively to excess return were Communication Services, Financials, and Utilities. These positive contributors were partially offset by negative excess returns in the Information Technology and Healthcare sectors. Overall, the DCF underperformed the benchmark by 212 basis points on an annualized basis over the 5-year period.

# *Semi-Annual Trade Report*

April 1, 2020 - September 30, 2020

## *Communication Services*

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 5/7/2020 | ViacomCBS Inc. | VIAC | Sell | $6,833.51 |
| 9/16/2020 | Walt Disney Co | DIS | Sell | $43,225.05 |
| 9/16/2020 | Facebook, Inc. | FB | Buy | $28,659.38 |
| 9/21/2020 | Walt Disney Co | DIS | Sell | $492.66 |
| 9/28/2020 | ViacomCBS Inc. | VIAC | Buy | $2,167.41 |

## *Consumer Discretionary*

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 5/7/2020 | Expedia Group Inc | EXPE | Buy | $7,924.89 |
| 5/7/2020 | Starbucks Corporation | SBUX | Buy | $7,921.88 |
| 9/16/2020 | Home Depot Inc | HD | Buy | $12,804.56 |
| 9/28/2020 | Target Corporation | TGT | Buy | $2,047.41 |

## Consumer Staples

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 5/7/2020 | Procter & Gamble Co | PG | Sell | $33,129.22 |
| 5/7/2020 | Walmart Inc | WMT | Sell | $32,999.86 |
| 5/7/2020 | Kroger Co | KR | Buy | $60,445.13 |
| 8/31/2020 | Walmart Inc | WMT | Buy | $12,920.85 |
| 9/16/2020 | Constellation Brands, Inc. | STZ | Buy | $3,496.87 |
| 9/28/2020 | Procter & Gamble Co | PG | Sell | $45,837.72 |
| 9/28/2020 | Tyson Foods, Inc. | TSN | Buy | $42,667.91 |

## Energy

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 4/22/2020 | Chevron Corp. | CVX | Sell | $32,371.28 |
| 8/19/2020 | Phillips 66 | PSX | Buy | $28,792.94 |
| 8/31/2020 | Phillips 66 | PSX | Buy | $7,944.48 |
| 9/16/2020 | Phillips 66 | PSX | Sell | $36,556.22 |
| 9/16/2020 | Royal Dutch Shell | RDS.A | Buy | $30,005.69 |
| 9/28/2020 | Royal Dutch Shell | RDS.A | Buy | $847,49 |

## Financials

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 4/15/2020 | Berkshire Hathaway Inc. | BRKB | Sell | $40,102.65 |
| 4/15/2020 | BlackRock, Inc. | BLK | Sell | $40,268.95 |
| 4/15/2020 | Discover Financial Services | DFS | Buy | $82,230.65 |
| 5/7/2020 | Berkshire Hathaway Inc. | BRKB | Sell | $2,097.58 |
| 5/7/2020 | BlackRock, Inc. | BLK | Sell | $2,000.99 |
| 5/7/2020 | Discover Financial Services | DFS | Sell | $2,090.29 |
| 5/7/2020 | JPMorgan Chase & Co. | JPM | Sell | $2,124.73 |
| 8/31/2020 | Discover Financial Services | DFS | Sell | $13,734.70 |
| 8/31/2020 | JPMorgan Chase & Co. | JPM | Sell | $6,844.92 |
| 9/16/2020 | Discover Financial Services | DFS | Sell | $1,967.45 |
| 9/28/2020 | Discover Financial Services | DFS | Buy | $1,317.40 |

## Health Care

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 5/7/2020 | Centene Corp | CNC | Buy | $1,977.75 |
| 5/7/2020 | Humana Inc | HUM | Buy | $1,882.90 |
| 5/7/2020 | Merck & Co., Inc. | MRK | Buy | $2,002.31 |
| 5/7/2020 | Stryker Corporation | SYK | Buy | $2,115.31 |

## Health Care (cont.)

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 8/19/2020 | Humana Inc | HUM | Buy | $29,779.81 |
| 9/16/2020 | Centene Corp | CNC | Sell | $72,638.20 |
| 9/16/2020 | Johnson & Johnson | JNJ | Buy | $86,166.93 |
| 9/21/2020 | Centene Corp | CNC | Sell | $1,842.59 |
| 9/28/2020 | Humana Inc | HUM | Sell | $6,848.85 |

## Industrials

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 5/7/2020 | Cintas Corporation | CTAS | Sell | $6,694.04 |
| 5/7/2020 | Waste Management, Inc. | WM | Sell | $6,776.34 |
| 8/31/2020 | Waste Management, Inc. | WM | Buy | $11,416.25 |
| 9/16/20 | Masco Corp | MAS | Sell | $56,571.09 |
| 9/16/2020 | Axon Enterprise Inc | AAXN | Buy | $57,975.00 |
| 9/21/2020 | Masco Corp | MAS | Sell | $660.98 |
| 9/28/2020 | Lockheed Martin Corporation | LMT | Sell | $2,349.52 |

## *Information Technology*

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 4/22/2020 | Solaredge Technologies Inc | SEDG | Buy | $33,348.51 |
| 5/7/2020 | Solaredge Technologies Inc | SEDG | Sell | $9,940.83 |
| 5/7/2020 | Motorola Solutions Inc | MSI | Buy | $25,980.10 |
| 5/7/2020 | Badger Meter, Inc. | BMI | Buy | $1.893.84 |
| 7/22/2020 | Badger Meter, Inc. | BMI | Sell | $2,073.70 |
| 7/22/2020 | Motorola Solutions Inc | MSI | Sell | $113,101.46 |
| 7/23/2020 | Broadcom Inc | AVGO | Buy | $128,189.78 |
| 8/19/20 | Solaredge Technologies Inc | SEDG | Sell | $58,584.59 |
| 8/31/20 | Paypal Holdings Inc | PYPL | Sell | $214,285.56 |
| 8/31/2020 | Apple Inc. | AAPL | Buy | $47,099.73 |
| 8/31/2020 | Microsoft Corporation | MSFT | Buy | $175,737.56 |
| 9/16/2020 | Broadcom Inc | AVGO | Buy | $6,283.86 |
| 9/28/2020 | Cisco Systems, Inc. | CSCO | Sell | $131,445.12 |
| 9/28/2020 | Fortinet Inc | FTNT | Buy | $129,469.75 |
| 9/28/2020 | Broadcom Inc | AVGO | Buy | $6,970.46 |

## *Materials*

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 8/31/2020 | Eastman Chemical Company | EMN | Sell | $8,635.23 |
| 9/16/2020 | PPG Industries, Inc. | PPG | Buy | $3,777.25 |
| 9/28/2020 | Eastman Chemical Company | EMN | Buy | $557.06 |

## *Real Estate*

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 4/1/2020 | Federal Realty Investment Trust | FRT | Sell | $35,381.59 |
| 4/1/2020 | Ventas, Inc. | VTR | Buy | $35,645.40 |
| 5/7/2020 | Crown Castle International Corp | CCI | Sell | $2,009.84 |
| 5/7/2020 | Ventas, Inc. | VTR | Sell | $2,014.91 |
| 8/31/2020 | Crown Castle International Corp | CCI | Sell | $11,085.30 |
| 9/16/20 | Crown Castle International Corp | CCI | Sell | $2,170.91 |

## *Utilities*

| Date | Company | Ticker | Buy/Sell | Amount |
|---|---|---|---|---|
| 9/16/2020 | Duke Energy Corp | DUK | Sell | $6,543.46 |
| 9/28/2020 | NextEra Energy Inc | NEE | Buy | $3,141.46 |

**United States & China Trade War**

For the past two years, the trade war between the United States and China has raged on and has had serious impacts on financial markets and national economies. It seemed for a while that a solution to this complex problem would be many years away and, in some respects, unattainable. However, in January of 2020 a "Phase One" deal was signed between the two superpowers that included an additional purchase of nearly $200 billion dollars of U.S. exports over two years. Investors and US companies alike cheered on the news, and it seemed as if a major obstacle towards normalizing trade relations between the two countries was removed.

Unfortunately, the relationship seems to have soured quite a bit. The Peterson Institute of International Economics recently produced a report tracking progress of the "Phase One" deal and it suggests that China is below its purchasing targets by a large amount. Displayed in the graph below, China is lagging on that agreement by more than 50% based on the numbers provided by both Chinese imports and US exports. Additionally, the US deficit with China has climbed to its highest level since 2008. The deficit will only increase if China does not make good on its promise to purchase US goods as outlined in the trade agreement.

Another sign of a souring relationship between the United States and China are threats from American policy-makers to delist Chinese companies from the NASDAQ and NYSE. Since November of 2019, eight Chinese-owned companies with a combined market capitalization of over $1 trillion have added listings in Hong Kong as a backup in case their U.S. shares are delisted. This number is increasing at a rapid pace as more Chinese companies are being enticed with relaxed regulations and no risk of being delisted in their home country. Among those selling stock in Hong Kong is Alibaba, who cited the increased scrutiny of companies based in China as a reason for adding a listing in Hong Kong.

The recent controversy surrounding TikTok has been just the latest headline in this ongoing struggle between the two countries. The Trump administration cited security concerns over the handling of American data on these applications and provided a deadline upon which the app would be banned in the U.S. The commerce department has stated that these restrictions could be lifted if the administration's concerns regarding data security are resolved. This would be through an audit of their data practices or a U.S. corporation buying out the apps local operations. In TikTok's case, their saving grace might be found in a deal currently in the works with Oracle. That being said, the US-China relationship has taken a tumble from where it was back in January and the Phase One deal has lost some of its luster. If tensions continue to rise and China does not deliver on the terms agreed upon in the Phase One deal, we could see a significant increase in volatility in U.S. and global equity markets.

## The Fed's COVID-19 Strategy

In response to the COVID-19 pandemic, the Federal Reserve immediately took a multi-faceted approach in hopes of limiting economic damage. On March 15th of 2020, the Federal Reserve announced it would slash the target interest rate to nearly zero, with a target range of 0-.25%. In an FOMC meeting in September the Fed decided to leave the target interest rate at the range of 0-.25% until inflation rises to 2% and labor market conditions are at levels consistent with their assessment of maximum employment. Chairman of the Federal Reserve Jerome Powell stated in the meeting that the Fed will "remain highly accommodative until this economy is far along in its recovery". Fed officials believe the combination of cheap money and moderately higher inflation gives them more wiggle room to stimulate the economy as needed in the future.

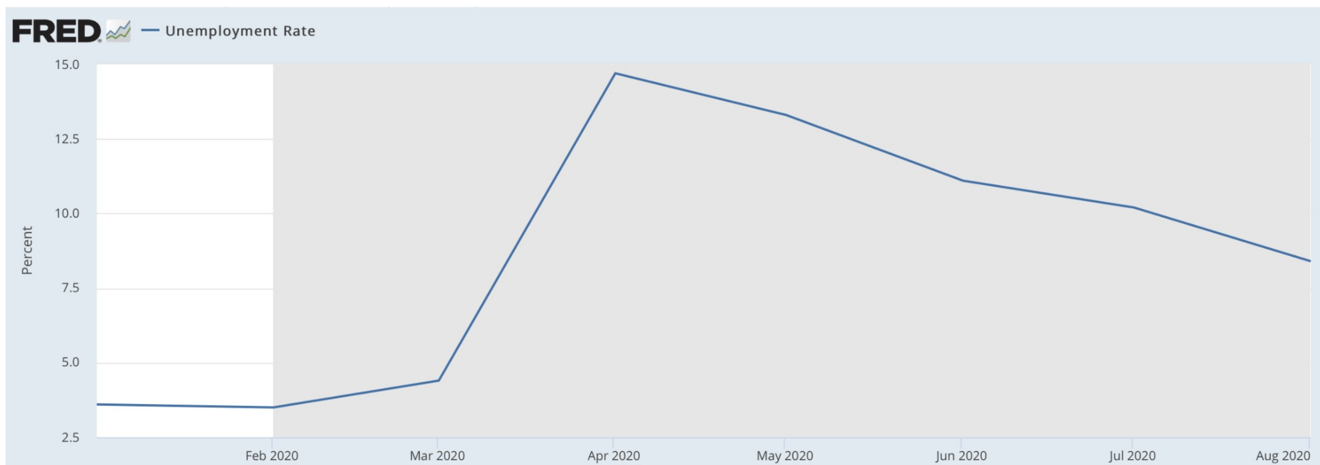
Slashing the federal funds rate is not the only major step the Fed has taken in response to the pandemic. It was implemented alongside a massive quantitative easing program that includes buying corporate debt for the first time ever. According to data from the Fed, they purchased more than $200 billion in government-guaranteed mortgage-backed securities, as well as $500 billion in Treasury securities. The Fed's balance sheet went up to $7 trillion in May, up from its $4.3 trillion mark before the onset of the pandemic.

Both the cutting of the federal funds rate and the quantitative easing program represents a landmark shift in the overall strategy of the Fed from a pro-active to a re-active strategy. Previously the Fed would pre-emptively raise rates to stave off higher inflation while the new strategy is a reactionary one, allowing inflation to run above 2% for a period of time in order to achieve that target in the long run.

Then in August, the Fed officially announced this profound shift in monetary policy. The prior "proactive" approach was found to be an outdated method to keep inflation in check after the body conducted a two year study that found low unemployment has not sparked inflation in the same ways it had in decades prior. The Fed's new "reactive" approach is an attempt to make up for the lack of inflation over the past decade. To attain this feat, the Fed would try to push unemployment as low as possible in an effort to spark inflation, in which case when inflation is above 2%, the Fed would consider prior to raising rates. Essentially, this would be achieved by keeping rates pinned near-zero for many years, as they just recently re-confirmed.

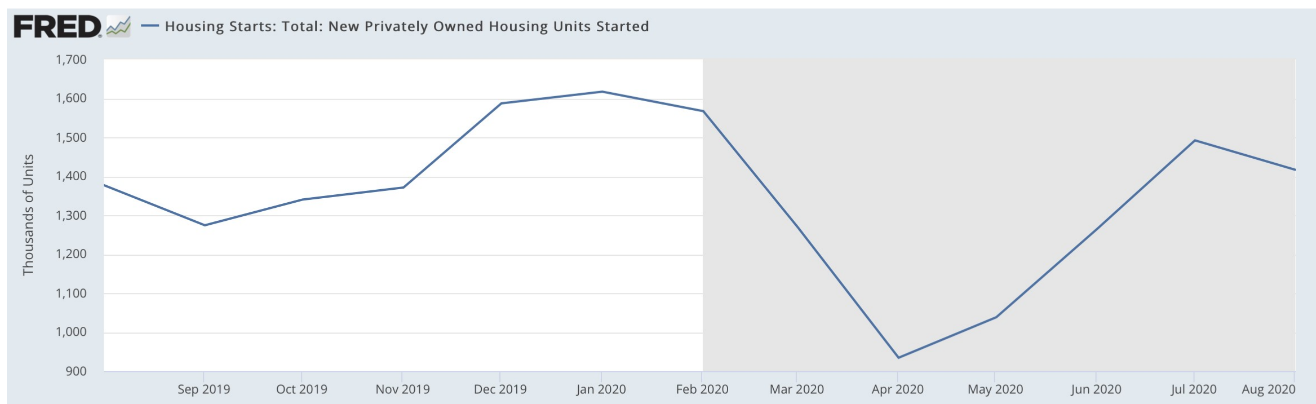
## Employment Statistics

In April, 2020 the unemployment rate reached 14.7%, the highest since the Great Depression. The significant increase in the unemployment rate from a stable 3.3% in February to its April mark was due primarily to the COVID-19 pandemic, in which non-essential businesses throughout the country were forced to close. As various states throughout the country began to reopen at the end of the summer, the unemployment rate dropped 6.3% to its current level at 8.4% as of August. While there has been a significant decrease in the unemployment rate from its peak, a surprisingly high jobless claims number produced by the Labor Department on September 24th, 2020 suggests a slowdown in the recovery of the labor market. While the labor market has recovered immensely from the detrimental blow of COVID-19, it is not out of the woods just yet. It will take time for the economy to fully recover, and the path to full recovery may be bumpier than originally expected as the spread of the novel coronavirus continues across the country.




## Housing Data

Housing starts have rebounded from the low point in April, of 934,000 units to its current level at 1.4 million units. Housing starts saw a large dip in March from the impact of COVID-19 and the liquidity fears that came along with them. As cheap money from the Fed's Quantitative Easing program began flooding the market in late March and the economy began to reopen, the number of new housing starts increased as well. The resurgence in the housing market can also be seen in weekly mortgage applications figures.



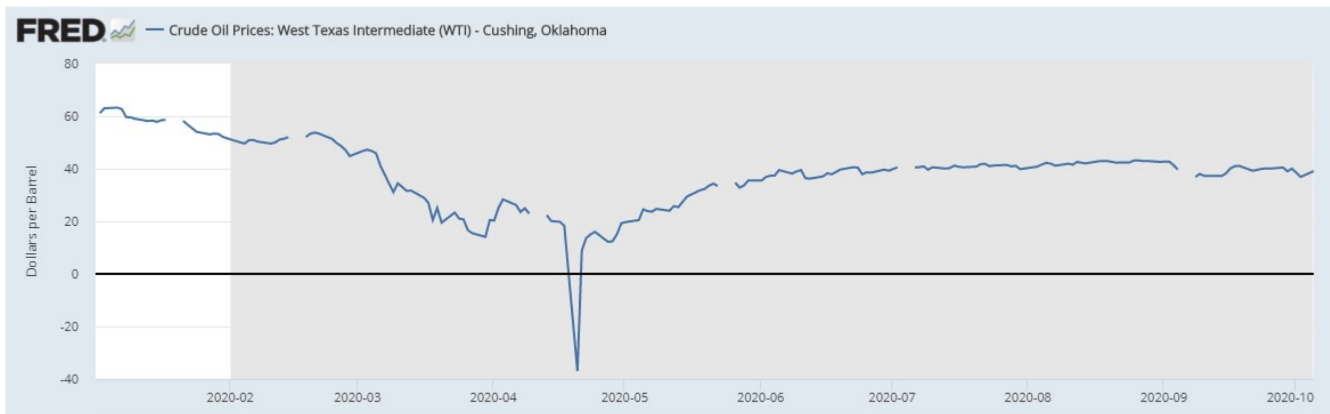

## Oil Market

Throughout 2020, oil has been among the hardest hit asset classes. The onset of the virus resulted in tens of millions of Americans hunkered down at home, significantly reducing demand from daily drivers and air travel. This came on the back of the US becoming the largest oil producer in the world thanks to hydraulic fracturing, or "fracking," in the Permian basin in Texas. In March 2020, the US pumped a record of 13 million barrels per day, according to data from the EIA.

As the pandemic continued, global demand dropped to a low of 83 million barrels per day in the second quarter from 101 million barrels per day in the fourth quarter of 2019. While demand was plummeting, Russia and Saudi Arabia were in the midst of a price war after Saudi Arabia's state-run oil company, Saudi Aramco, cut the price on their most popular oil grade. This sparked a lengthy feud between the nations. The combination of the price war and global drop led a drop in oil prices to a low of $11 per barrel. Notably, oil futures went negative in

April after storage was near full and refiners no longer wanted additional stock. These effects were further amplified by investors rapidly selling their contracts after they learned they had to take possession of the physical commodity. As a result of all this, OPEC+ finally reached an agreement to institute a 9.7 million barrel per day production cut, the largest ever. Such measures, in addition to the gradual drop in US production of nearly 3 million barrels per day, was meant to help prop up the oil market.

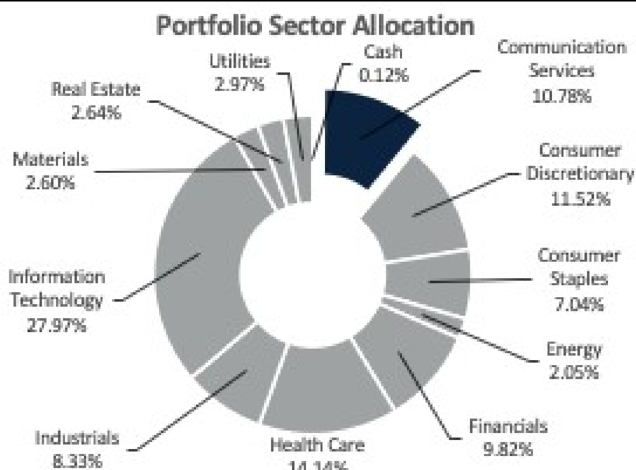
The oil cuts have played a part in stabilizing the market to the current $40 range. However, most US producers are still unprofitable at these prices. The stabilization has been further aided by the re-opening of states economies, which has brought drivers back on the road. Air travel, on the other hand, is still severely lagging. Further recovery in oil will have to be driven by demand via everyday drivers and air travel, both of which may be heavily contingent upon an approved vaccine if they are to return to pre-pandemic levels in the near future. That being said, the oil market is not expected to return to pre-COVID-19 levels until 2023, according to industry analysts and veterans.

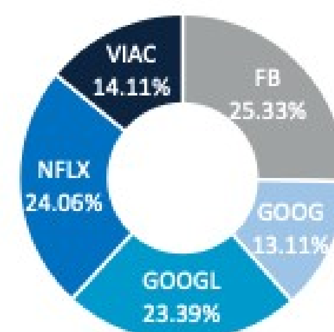


# Communication Services Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Alphabet Inc.—Class A & C | GOOG GOOGL | Interactive Media Services | 42.50% | 3.98% | $155,505.60 | 26.13% |
| Facebook, Inc. | FB | Interactive Media | 29.49% | 2.76% | $107,902.80 | 57.01% |
| Netflix, Inc. | NFLX | Movies and Entertainment | 28.01% | 2.59% | $102,506.15 | 33.16% |
| Viacom CBS Inc. | VIAC | Broadcasting | 16.43% | 1.52% | $60,109.46 | 103.65% |



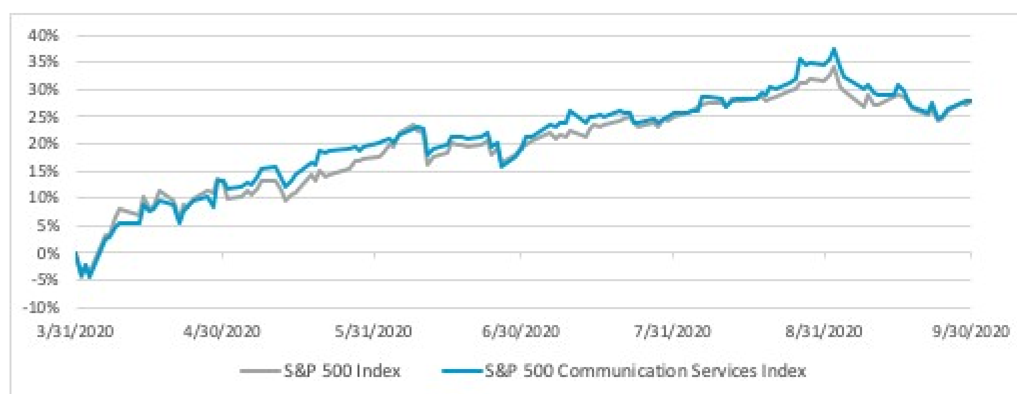

## Communication Services Sector Overview

The DCF currently has four positions within the Communication Services sector, with a majority of our positions within the Interactive Media subsector, alongside positions in both Broadcasting and Movies and Entertainment. During the semi-annual period, the DCF exited its position in The Walt Disney Company, while increasing its existing position in Facebook Inc.

The Communication Services sector is made up of traditional telecommunication companies as well as both Entertainment and Social Media companies. During the period, the sector saw positive growth, with many of our holdings, including Alphabet Inc., Netflix Inc., and Facebook Inc., being impacted positively by the effects of the COVID-19 pandemic.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 41.08% |
| Benchmark Sector Return: | 30.77% |
| DCF Sector Weight: | 11.18% |
| Benchmark Weight: | 10.88% |
| Asset Allocation: | 0.00% |
| Security Selection: | 1.21% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Sebastian Duve |
| **Sector Analyst:** | Zach Wagner |




**Industry Analysis**

Over the past six months, the Communications Services sector has outperformed the overall market. Over the reporting period, the DCF's holdings grew 41.08%, greater than the 30.77% growth of the S&P500 Communication Services Index. Ultimately, the effects of COVID-19 have benefited some of the constituents of the sector, while others have had significant negative impacts on their revenues. The Fund has taken this into consideration by focusing both on the short-term effects that COVID-19 has had on the sector, as lwell as looking at the long-term viability of these companies revenue streams and how they can be jeopardized due to macro events.

As for the Fund's specific choice of subsectors, the Diversified Telecommunication Services sub-sector is one in which the Fund does not hold any positions. While the roll-out of 5G technology is exciting, we currently do not find enough conviction in this innovation to take a position in one of the constituents. The performance in the sub-sector has been flat, in part because the economic impacts of COVID-19 have made cellular companies like Verizon and AT&T take up more forgiving stances when it comes to customer bills.

The sub-sector in which we currently find the most conviction is the Interactive Media & Services sub-sector, as we hold two out of its three constituents, Alphabet and Facebook. While both of these companies have essentially all of their revenue tied to advertising, the impact of an economy in which businesses are not as willing to spend significantly on advertising was not as damaging as suspected. A significant increase in interaction with social media platforms as a result of mandatory global lockdowns caused both Alphabet and Facebook to hit all-time highs during the reporting period. The Fund believes these positions are essential to our investments given how these two companies are so connected to our daily lives, and are able to generate revenue off of this connection.

Within the Entertainment sub-sector, we have seen major differences in impact on each of the constituents. Our only holding within the sub-sector, Netflix, has been able to prosper during the pandemic, while our former position, The Walt Disney Company, has seen significant damage to its segments. Our conviction within Netflix has been strengthened by both its performance and its ability to not only maintain a focus on pop culture during the pandemic with shows like Lion King and Love is Blind, but also its ability to produce award winning content like Schitt's Creek. While Disney+ has created strong competition to Netflix, the impacts to Disney's parks, studio entertainment, and cruise line was enough for the Fund to exit that position in search for better opportunities .Also within the segment are video game companies like EA and Take-Two that have seen strong growth during the pandemic. The Fund currently believes these companies are overvalued, but is monitoring developments within that space as it continues to grow at high rates.

## What's Changing in Communication Services

### Transition from Linear TV to Streaming

The Age of Streaming has taken over media and entertainment companies, as many rush to establish their own streaming options while still trying to hold onto revenue from traditional linear television. The ability to watch an almost endless library of shows and movies from any convenient device has caused a mass migration to platforms like Netflix, Hulu, Disney+, CBS AllAccess and Peacock, among others. Companies are now making major investments into not only their platforms, but the content they offer on them. The most notable part of this trend has been newcomers to the industry, such as Netflix and Hulu, that have been able to become major players within the market. They have also been able to do so in differing ways, with Netflix focusing on their own content creation while Hulu focuses on licensed content and live TV. Companies like Dish are not going to be able to survive with current operations, while companies like ViacomCBS and Comcast that are deeply rooted in traditional TV will need to focus on converting their current customers over to their streaming options in order to keep pace.

### Growth in Gaming and Esports

The video game industry is currently experiencing a revolution in many areas, from how customers play games to how they interact with the content within those games. The advent of Twitch livestreaming and various levels of competitive esports leagues has not only become culturally popular, but also presents massive business opportunities, as signaled by Amazon's purchase of Twitch. Along with this, cloud gaming is revolutionizing where games are played. The rollout of cloud gaming platforms from both Alphabet and Google, provide the ability to play Xbox games on Samsung devices, and the transition to subscription services like EA Play and Xbox Games Pass has made it easier for gamers to play practically whatever they want to, wherever they want, and on whatever platform they want.

### Growth of Social Media Platforms and Anti-Trust Concerns

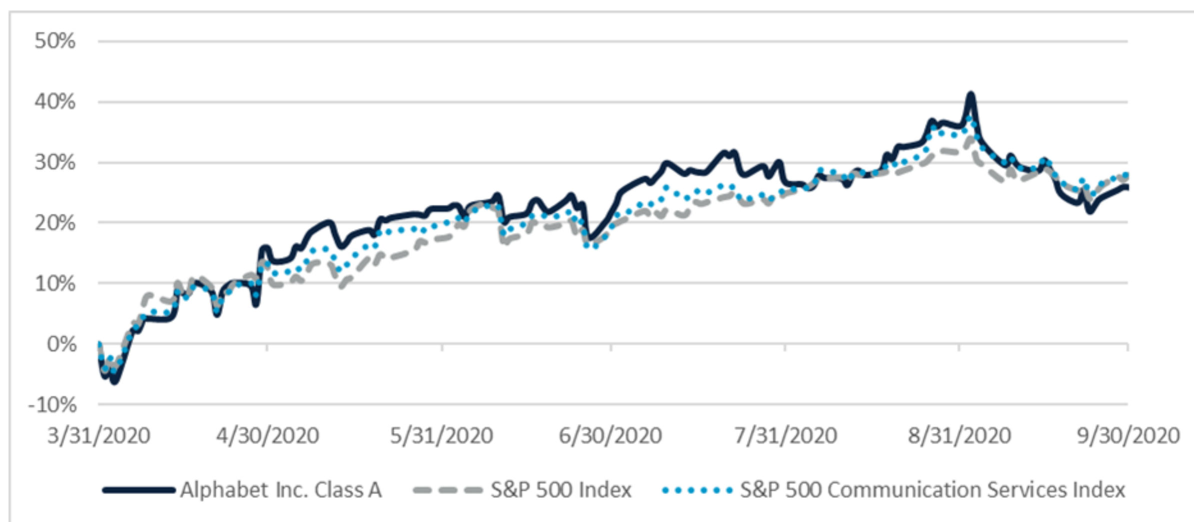
Companies like Facebook and Snapchat are among many social media companies that are updating their operations to keep users on their platforms longer, and in turn increasing ARPU (Average Revenue per User). Facebook's additions of Marketplace, Dating, and Gaming, and Snapchat's rollout of its Discover platform and use of augmented reality, shows these companies innovating beyond their original uses. Ultimately, these companies are more than just a place to connect. The future of these platforms is a place where consumers can communicate, shop, read the news, and play games. The majority of these efforts are for the sole purpose of increasing appeal to advertisers.

There has been recent pushback by the US government into these companies and others like Alphabet, Apple and Amazon based on concerns about their dominance against competitors and the sheer size of these companies. As many of these companies expand their services, they are being accused of having too much control, most notably in their ability to promote their own products in place of those of their competitors.

Currently, the DOJ seems poised to file a lawsuit against Alphabet, with states potentially following suit, along with rumors of a lawsuit against Facebook. While a break up of the companies is a possibility, more plausible measures could include separation of platforms from their businesses, or an amendment to antitrust laws to promote greater ability for consumers and business to move between tech platforms. The upcoming lawsuit against Alphabet has the potential to send shockwaves to both the largest companies in the sector, but also in the S&P500, and their overall market share.

**Alphabet, Inc. Class A & C (Nasdaq: GOOGL, GOOG)** Interactive Media Services

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 68 (A), 38 (C) | 3.98% | 42.50% | 26.13% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.08 | $1,456.60 (A), $1,469.60 (C) | $1,773.96 | 26.13% |




## Company Description

Alphabet is an international online advertising conglomerate which operates mostly through their main segment, Google, as well as a few others. Products offered through Google include Ads, Android, Chrome, Cloud, Maps, and Play, just to name a few. Google also offers hardware products like the Pixel smartphone and their series of Chromebook laptops. Other notable segments of Alphabets operations are Calico, CapitalG and Waymo.

## Investment Rationale

Alphabet's increased focus on innovation is what makes them such a valuable company and is why they have been able to continue their success. These innovations include their development of smart home technology like the Google Home, and test runs with autonomous vehicles through their Waymo segment. Not only does Alphabet provide solid revenue growth, it also does so through a diverse set of product offerings. These allow customers to take advantage of a number of services in tandem. Products like the Chromebook, Pixel, and Google search engine are prime examples of a complete Google ecosystem. Google's search engine has made up almost 87% of the market share for their respective industry, while Google Ads has proven to be a main form of marketing for both small and large businesses alike. Growth in e-commerce specifically has been a main driver in the increase of spending for ads on the Google platforms.

## Competitors

Amazon, Inc. (NasdaqGS: AMZN)

Facebook Inc. (NasdaqGS: FB)

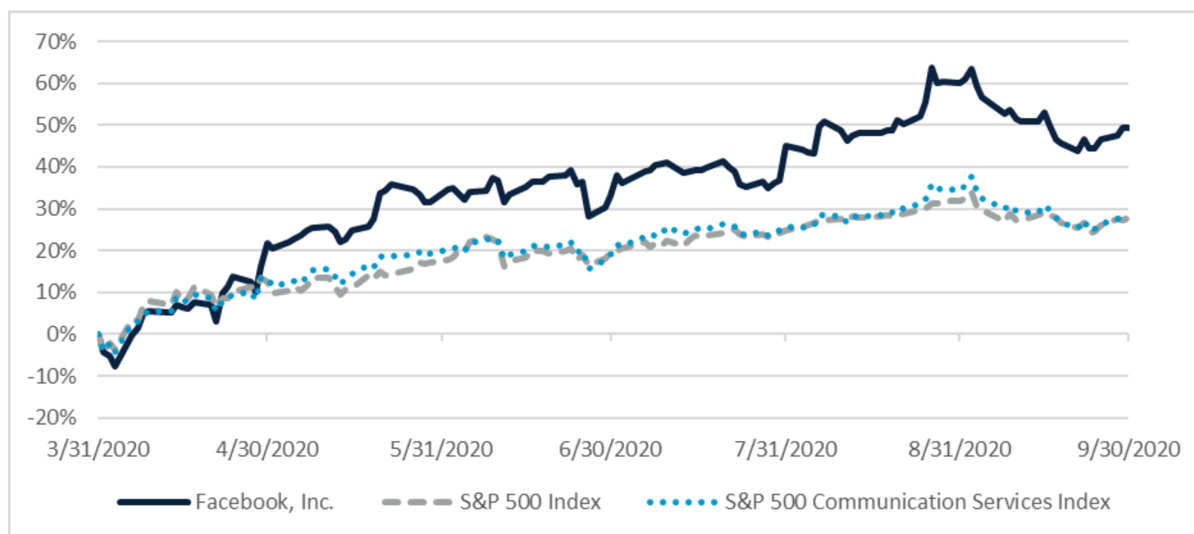
Snap, Inc. (NYSE: SNAP)

## Analyst Coverage

Zach Wagner

**Facebook, Inc. (NasdaqGS: FB)** Interactive Media Services

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 412 | 2.76% | 29.49% | 57.01% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.26 | $261.90 | $340.55 | 57.01% |




## Company Description

Facebook is a social media and technology company based in the U.S. Along with their main product, the website Facebook, they also are home to companies like Messenger, Instagram, WhatsApp and Oculus, which provide stronger user growth in international markets. With over 2.7 billion average monthly users, Facebook is the largest social media platform in the world.

## Investment Rationale

Between its ownership of Facebook and Instagram, the company has a large share in the social media industry for both the younger and older generations. With the recent additions of Marketplace, Dating and Watch to Facebook, the brand continues to diversify into different markets. This further helps their developments into different demographic groups and offers some type of service for everyone. Such advancements have been made with Instagram as well, adding Instagram stories, TV and group messaging. With Facebook and Instagram being top performers in the social media market, we see high potential with the company going forward, especially as it continues to broaden its reach within the digital environment through new products and forms of interaction.

## Competitors

Twitter, Inc. (NYSE: TWTR)

Alphabet Inc. (NasdaqGS: GOOGL)

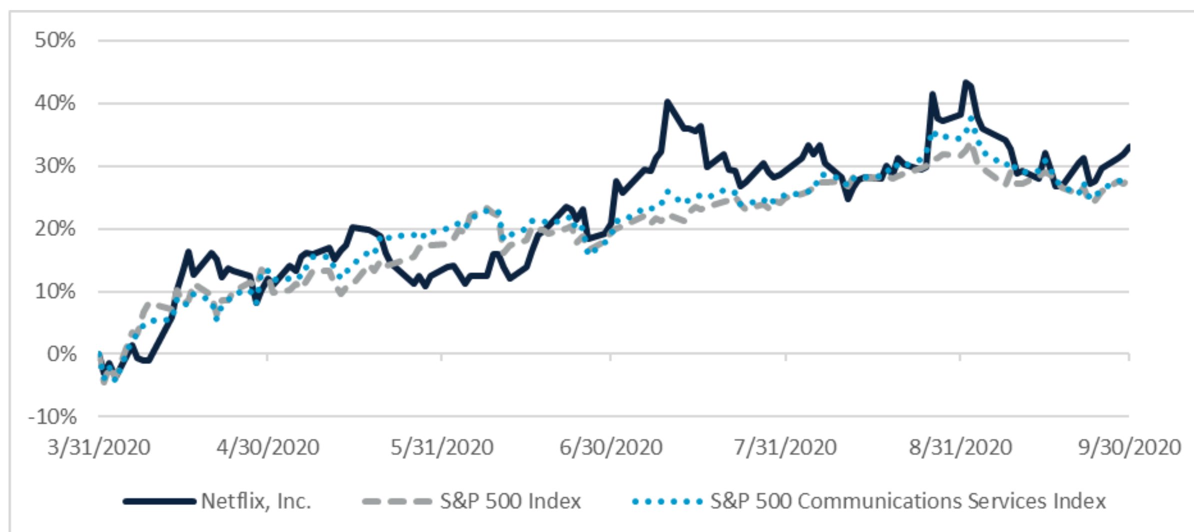
Snap, Inc. (NYSE: SNAP)

## Analyst Coverage

Zach Wagner

**Netflix, Inc. (NasdaqGS: NFLX)** Movies and Entertainment

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 205 | 2.59% | 28.01% | 33.16% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.97 | $500.03 | $506.66 | 33.16% |




## Company Description

Netflix is an international subscriber-based streaming company. Netflix started in the DVD rental industry and transformed into one of the first on-demand streaming services, revolutionizing the consumption of movies, TV shows, and more. Since they released their streaming platform, they placed themselves in the very front of the industry. The streaming services industry is still relatively new and Netflix has been able to offer their services in over 190 countries, as well as the addition of producing their own content domestically and abroad.

## Investment Rationale

Since the addition of Netflix's subscription-based streaming platform, the company has seen impressive growth in their revenues. Going forward, they plan to increase their own content production in order to stay ahead of the domestic competition like Disney+, Hulu, Apple TV and Amazon Video. With their own content production comes more competition from traditional TV companies. They have had great success in their own content, which has been nominated for and won awards the past few years. What Netflix did early was recognize the little competition they would face internationally, and strategically planned to enter these international markets. International operations already make up more than 50% of revenues and with solid growth in subscription count, they are still expanding. Now with the success of their own content, they not only license popular movies and TV shows, but produce them as well.

## Competitors

The Walt Disney Company (NYSE: DIS)

ViacomCBS Inc. (NasdaqGS: VIAC)

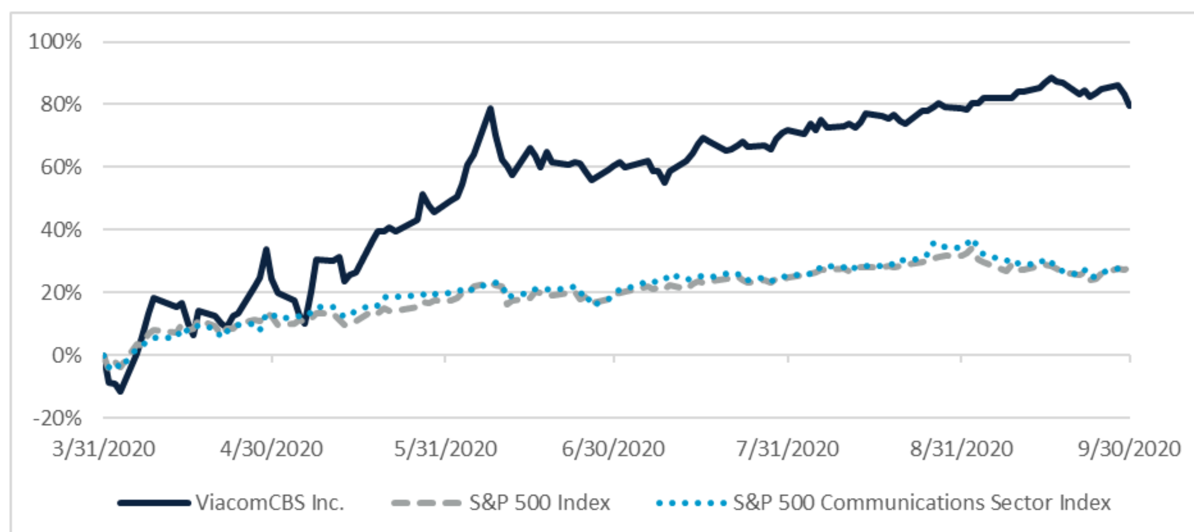
Comcast Corporation (NasdaqGS: CMCSA)

## Analyst Coverage

Zach Wagner

**ViacomCBS Corporation (NasdaqGS: VIAC)** Broadcasting

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 2,146 | 1.52% | 16.43% | 103.65% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.86 | $28.01 | $40.09 | 103.65% |




## Company Description

ViacomCBS operates in the multimedia production and content delivery services industries. They are home to franchises like the CBS networks, Comedy Central, MTV, Nickelodeon and Paramount. These all are reputable and popular content channels which have been successful for decades. ViacomCBS has adjusted to market pressures to move into the streaming industry by rebranding CBS All-Access to Paramount+ and have linked their CBS sports channels to an online platform where games can now be streamed on smartphones or laptops, making their content more accessible.

## Investment Rationale

Regardless of the markets reaction to the merger of Viacom and CBS, the new partnership will supply the company with more future revenues. Along with that, this will help them offer more content on streaming platforms in order to compete in a tough market. Along with Paramount+, ViacomCBS also owns Pluto TV, which is a free streaming service. Sports are also a huge bonus for this company since CBS benefits from that revenue source for them. Some of the main sports are the PGA Tour, NFL, SEC football and UEFA Premier League. With sports, comedy, news and kids shows, ViacomCBS is well diversified in their industry and will continue to advance their market position with strong growth in the future.

## Competitors

The Walt Disney Company (NYSE: DIS)

Fox Corporation (NasdaqGS: FOXA)

Comcast Corporation (NasdaqGS: CMCSA)

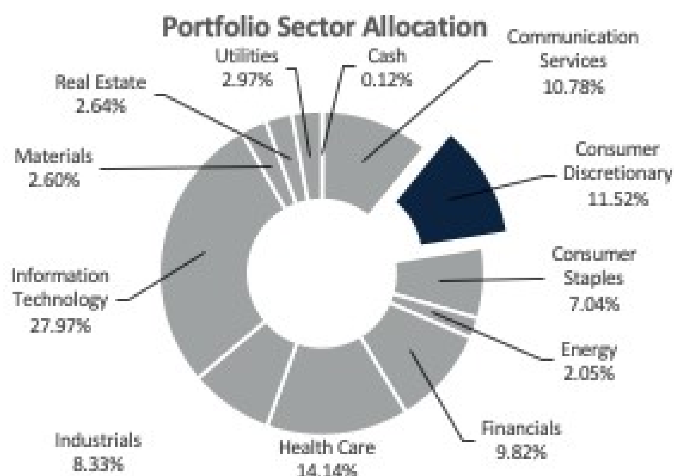
## Analyst Coverage

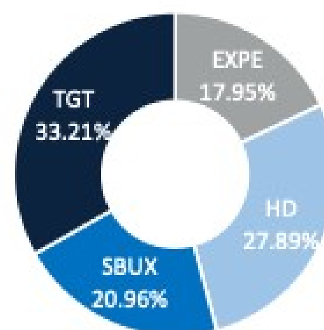
Zach Wagner

# Consumer Discretionary Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Expedia Group, Inc. | EXPE | Internet & Direct | 17.95% | 2.09% | $81,695.79 | 62.95% |
| Starbucks Corporation | SBUX | Restaurants | 20.96% | 2.41% | $95,371.20 | 32.11% |
| Target Corporation | TGT | General Merchandise | 33.21% | 3.85% | $151,123.20 | 71.08% |
| The Home Depot, Inc. | HD | Home Improvement | 27.88% | 3.18% | $126,913.47 | 50.41% |



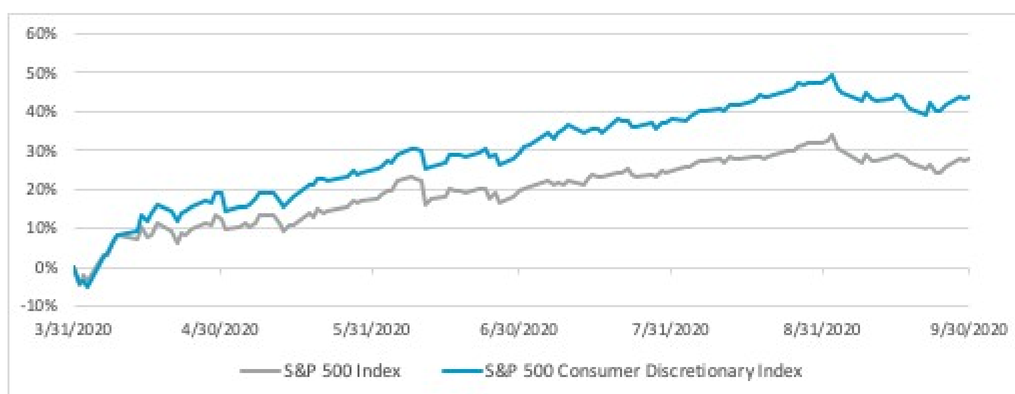

## Consumer Discretionary Sector Overview

The DCF currently holds four positions in the Consumer Discretionary sector. Target is the largest holding in the sector making up 3.85% of the portfolio. The DCF did not make any changes to the Consumer Discretionary holdings over the semi annual period. These holdings had reached their lows at the beginning of the period and the DCF felt that our holdings still had a strong long term outlook, especially as the economy began to start to open back up. The DCF ended up returning 54.44% in the sector with considerable contributions from each of the four holdings.

The four positions in this sector can be primarily divided into two subsectors: Consumer Services and Retail.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 54.44% |
| Benchmark Sector Return: | 52.87% |
| DCF Sector Weight: | 10.43% |
| Benchmark Weight: | 10.83% |
| Asset Allocation: | -0.08% |
| Security Selection: | 0.28% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Braden Latt |
| **Sector Analyst:** | Ally Thompson |




**Industry Analysis**

Over the semiannual period, the Consumer Discretionary sector has performed strongly compared to the S&P 500., returning 47.97% compared to 31.31% from the market at large.

The Consumer Discretionary sector has been one of the biggest beneficiaries of the economy opening back up. The Fund's holdings in the retailing subsector reflected most of the growth we have seen. Coming off of a year in which this sector saw negative returns, consumer confidence has re-emerged as positive economic out-looks and stimulus checks have helped guide these positive returns.

The biggest contributor to our return in this sector was Target. Target saw their stores reopen during the period and that led to increases in revenue, alongside explosive growth in their mobile ordering and e-commerce segments. This growth was driven largely by consumer stimulus, distress among small businesses, and mall based retailers, leading to market share gains. Additionally, canceled vacations due to COVID-19 have been re-allocated toward consumer purchases.

Another one of our holdings; Home Depot, was able to capitalize on these trends as well. Home Depot's subindustry, home improvement retail, saw beneficial factors such as low rates on home equity loans and mort-gages, stable home prices, and a rebound in the housing market. People stuck at home for weeks on end chose to undertook a record number of DIY home improvement projects, fueling additional spending at Home Depot and its competitors. Seasonal peak sales in the spring and summer also contributed to this strong return.

The Fund decided to continue to hold Expedia despite the uncertain future outlook on the travel industry. Expedia has in turn returned 66.70% over the annual period. We felt that as the economy began to open back up, global travel and the tourism industry had already reached their lows and were set to see positive returns through-out the fall and into next year.

In the consumer services subsector, the Fund saw Starbucks return 30.62%. While the major quick-service restaurant chains increasingly leverage their digital/mobile ordering capabilities and their rollout of third-party de-livery services, same restaurant sales began to decrease. Starbucks' reopening of restaurants as well as loyalty pro-grams and their customer base enabled these returns. The Fund is currently screening for companies in this sub-industry that will capitalize on the consumer shift to quick service restaurant chains that are able to satisfy custom-ers throughout delivery and capitalize on market share gains during the COVID-19 pandemic, upon which the companies within this industry mostly pivoted to the off-premise sales channels (delivery, carryout etc.) to meet a surge in demand.

## What's Changing in Consumer Discretionary

### Quick-service restaurant chains

Quick-service restaurant chains are increasing their digital/mobile ordering capabilities and their rollout of third-party delivery services. This has led to heightened demand in this subsector as consumers are trending more towards quick service compared to dine-in services. The restaurant industry has experienced a steep decline in same-restaurant sales as customer traffic significantly decreased amid the pandemic versus modest increases in menu prices. Also, there has been a recent slowdown in some international markets. Over the past few years, the restaurant subindustry has been exposed to labor and food commodity cost inflation. With relatively low pricing power, several restaurant chains will likely absorb some of the higher operating costs, creating margin pressures. Looking forward, the Fund is actively screening companies in the quick service chain to capitalize on the increase in demand on digital and mobile ordering and the shift in consumer spending from dine-in restaurant chains to quick service.

### Uncertainty Remains for Travel/Cruise & Resort Industry

Most cruise lines resumed some guest operations in September and plan to continue limited operations over the following months of 2020. That being said, it remains impossible to predict sales for the full year as it is unknown when the majority of cruise lines can sail again. Internationally, with ongoing travel restrictions amid the pandemic, the cruise industry recently announced temporary closures of all global operations. This followed a wave of mass cancellation and redeployment of sailings, as the U.S. Centers for Disease Control and Prevention (CDC) issued their own warning against cruise travel. Although the industry is undervalued at current prices, the uncertainty and volatility until a vaccine is produced will force the Fund to look for more attractive industries moving forward. Our current holding of Expedia is with the conviction that they had reached their lows and have the same long-term outlook despite their temporary struggles.

### Consumer Spending

Much like our positions in Walmart and Kroger, Target and Home Depot have seen heightened demand with their e-commerce platforms. With consumers stuck in their homes for several months, demand jumped for the home improvement retail subsectors. Shifting consumer spending from restaurants, travel, and live entertainment to home improvement projects give this subsector a bullish outlook. On the other hand, as consumer confidence begins to return to pre-COVID levels, Target has been one of the few benefactors in the retail segment. The retailer's ability to generate online sales revenue will be crucial with consumer spending habits moving forward and in competing with Amazon. We believe Target will continue their momentum due to their loyalty program, store renovation programs, and expansion. For these reasons, Target is one of the only retailers in the consumer discretionary sector we see value in given the uncertainty surrounding malls and the retail scene in general.

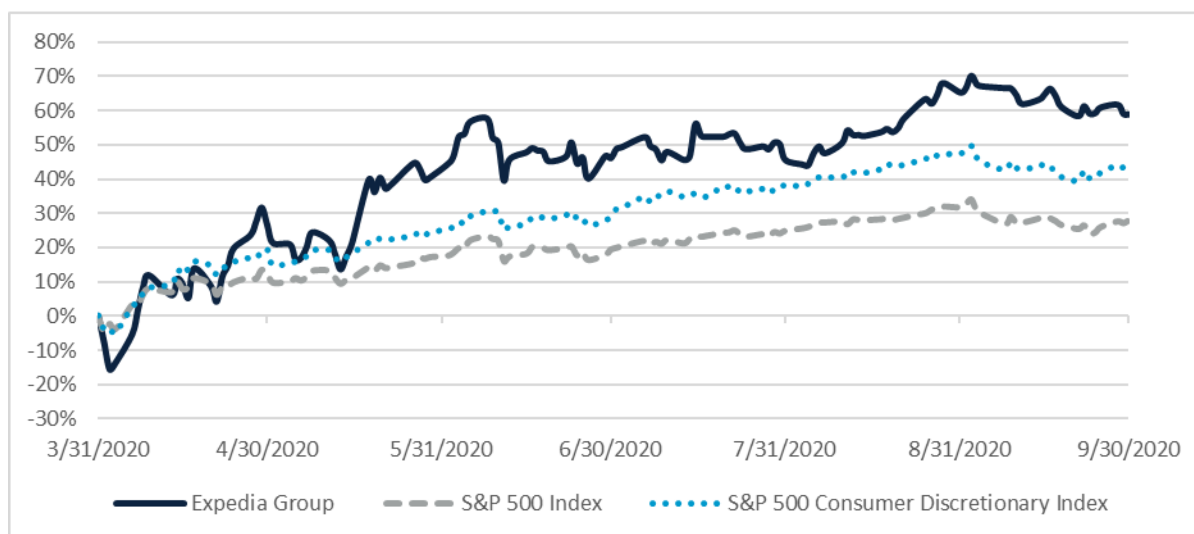
### Athleisure

Athleisure is the style of clothing worn as athletic apparel but also suitable for casual, everyday wear. Since the trend was established by Lululemon, there has been growth across the industry as other companies adapt to the trend. Moving forward, this is an important trend to watch as the athleisure market size was valued at $155.2 billion in 2018 and is expected to reach $257.1 billion by 2026. Lastly, favorable industry dynamics like an accelerated and partly coronavirus-inspired shift to healthy and active lifestyles will benefit this subsector.

**Expedia Group, Inc. (NasdaqGS: EXPE)**

Internet and Direct Marketing Retail

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 891 | 2.09% | 17.95% | 62.95% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.66 | $91.69 | $155.30 | 62.95% |




## Company Description

Expedia Group, Inc. operates as an online service for travelers worldwide. Subsidiaries include Hotels.com, Expedia.com, Orbitz, Travelocity, CarRentals.com, HomeAway, Hotwire.com, Trivago, and Vrbo. The company has a market capitalization of approximately $12.5 billion. Through the company's subsidiaries, Expedia Group, Inc. provides a host of travel accommodations for customers, whether for leisure or business purposes.

## Investment Rationale

Due to travel restrictions during the COVID-19 pandemic, Expedia has seen a decrease in its usual seasonal trends. Expedia is continuing to focus on expanding their international operations, targeting Europe, Asia Pacific, Canada and Latin America. Expedia is also increasing its online presence, creating voice-activated travel searches and messaging boxes on their websites to make for an easier experience. Online travel agents will continue to grow, as travelers continue to rely on search engines for simplifying their travel plans. Expedia continues to enhance their business through acquisitions with online travel websites, diversifying into all sorts of travel activities from home rentals, hotel bookings, travel accommodations, and car rentals all in one location. The convenience trends seen in recent years will help Expedia continue to grow revenues.

## Competitors

Booking Holdings Inc. (NasdaqGS:BKNG)

TripAdvisor (NasdaqGS: TRIP)

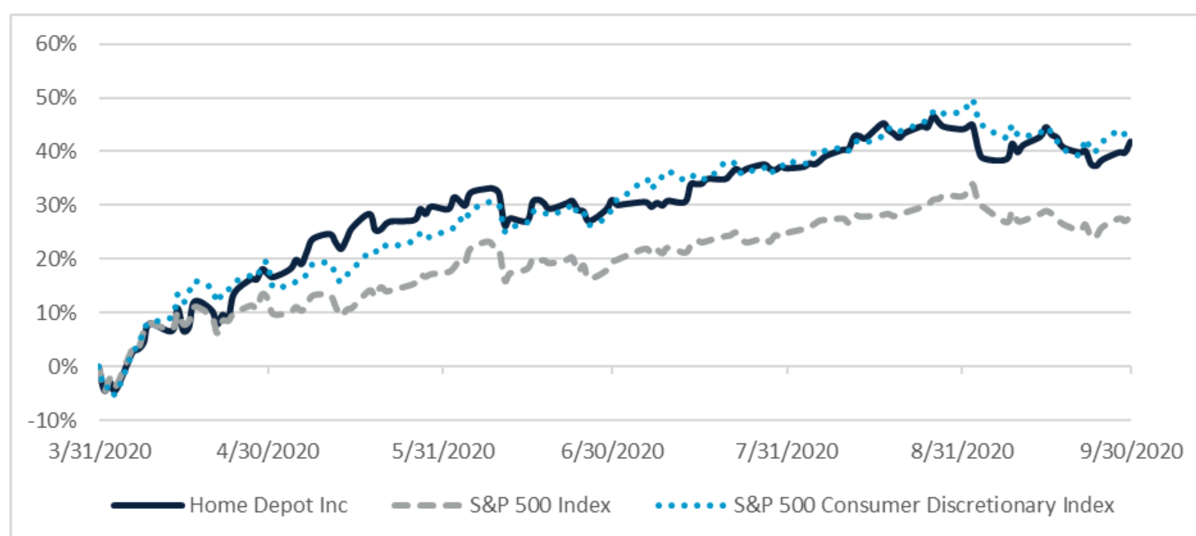
Ctrip.com International, Ltd. (NasdaqGS: CTRP)

## Analyst Coverage

Ally Thompson

**The Home Depot, Inc. (NYSE: HD)** Home Improvement Retail

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 457 | 3.18% | 27.89% | 50.41% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.09 | $277.71 | $292.66 | 50.41% |




## Company Description

Home Depot is the world's largest home improvement retailer. The company carries building materials, lawn and garden products, home décor items, as well as other home improvement services offered in stores and online. They currently have more than 2,200 stores in the United States, Canada, and Mexico. The company has a market capitalization of $298 billion. In each of their stores, the company carries over 35,000 products, and over 1 million products online.

## Investment Rationale

Home Depot was deemed as an essential business during the COVID-19 pandemic. Due to stay-at-home policies within many states, people have taken the extra time at home to do home renovations. Home Depot saw a large increase in demand and continued to work hard to keep up with it. The usual clientele includes professional and do-it-yourself home improvers. The company has seen an increase in DIY customers and is planning efforts to retain them. Home Depot's online revenues hit an all-time high during the peak of the pandemic. The growth during a global crisis shows the longevity and stability of the company's operations. Improved omni-channel operations will further help Home Depot grow clients, generating top and bottom line growth in the coming years.

## Competitors

Lowe's Companies Inc. (NYSE: LOW)

Tractor Supply Company (NasdaqGS: TSCO)

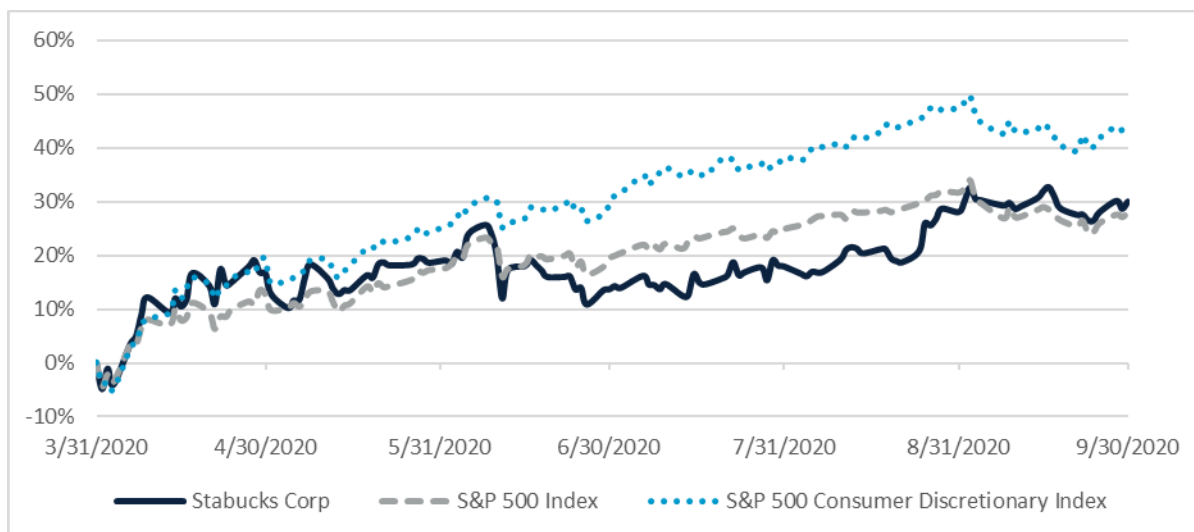
Williams-Sonoma, Inc. (NYSE: WSM)

## Analyst Coverage

Ally Thompson

**Starbucks Corporation (NYSE: SBUX)** Restaurants

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,110 | 2.41% | 20.96% | 32.11% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.81 | $85.92 | $104.49 | 32.11% |




## Company Description

Starbucks Corporation operates as a coffee retailer. The company has over 32,000 stores globally, making it the largest coffee chain in the world. The company offers hot and cold beverages, as well as breakfast and lunch options. Starbucks sells its own licensed product to grocery stores around the world. Starbucks owns companies such as Teavana, La Boulange, Evolution Fresh, Seattle Coffee Co., and Ethos Water. These acquisitions have offered more packaged products to Starbucks customers.

## Investment Rationale

Starbucks faced a loss in revenues during the COVID-19 outbreak. However, the company has been making plans on becoming more mobile-friendly. Starbucks has been updating their business models by adding more pick-up abilities in stores, alongside plans to increase availability of curbside delivery and drive-thru options. During the pandemic, Starbucks has been moving forward with these nearly contactless innovations. Whether it's through digital media or sustainability, the company is pushing for innovation, and following the pandemic will have a quicker and more efficient ordering process that will create the opportunity to increase revenue as well as margins.

## Competitors

Dunkin' Brands Group Inc. (NYSE: DNKN)

McDonald's Corporation (NYSE: MCD)

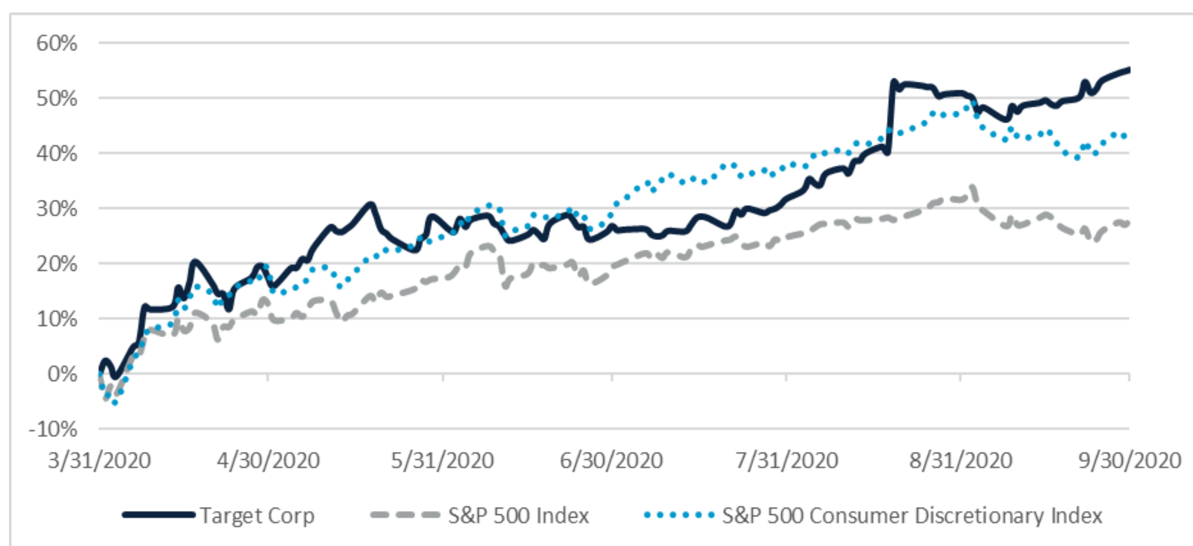
Keurig Dr. Pepper Inc. (NASDAQ: KDP)

## Analyst Coverage

Ally Thompson

**Target Corporation (NYSE: TGT)** General Merchandise Stores

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 960 | 3.85% | 33.21% | 71.08% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.85 | $157.42 | $175.54 | 71.08% |




## Company Description

Target Corporation is one of the largest retailers in the United States, with over 1,800 stores as well as having a large online presence. The company's products include office supplies, clothing, home essentials, electronics, and grocery, among many other products. Target has 45 of their own private labels for products that range from food to pet care. The company also offers services such as Target Optical and pharmacy, which are performed through a partnership with CVS.

## Investment Rationale

Target has seen a strong growth in its online sales, largely due to customers shopping online during the COVID-19 pandemic. Target is deemed as an essential business, which provides confidence in the longevity of the company. Target continues to innovate and find ways of ensuring customer retention. The company has been innovating their operations through the introduction of "Shipt", curbside pick-up, and in-store pick up. These online innovations have created a strong increase in revenues, while facilitating customer convenience. Target has also been investing in enhancing store fronts and building smaller, more efficient store fronts to reach wider demographics.

## Competitors

Walmart Inc. (NYSE: WMT)

Amazon.com, Inc. (NYSE: MCD)

Costco Wholesale Corporation (NYSE: COST)

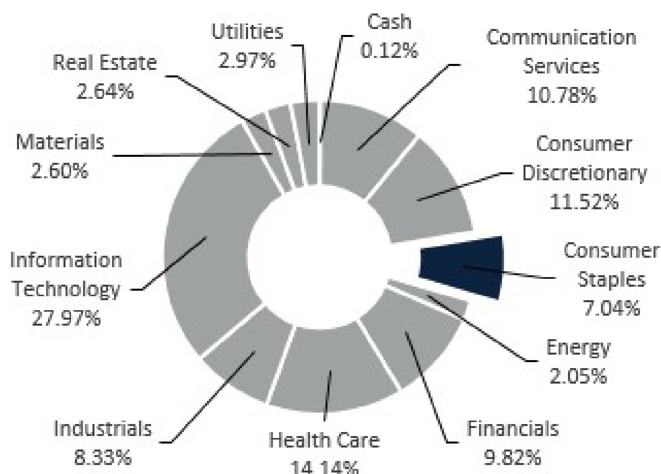
## Analyst Coverage

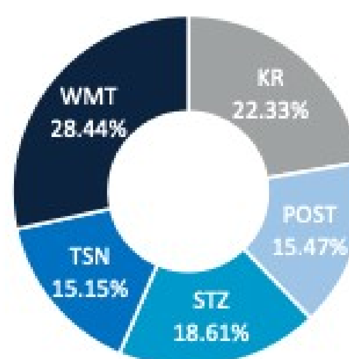
Ally Thompson

# Consumer Staples Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Constellation Brands, Inc. | STZ | Beverages | 18.61% | 1.31% | $51,736.23 | 33.38% |
| Kroger Company | KR | Food Retail | 22.33% | 1.58% | $62,055.30 | 3.87% |
| Post Holdings, Inc. | POST | Packaged Food | 15.47% | 1.07% | $43,000.00 | 3.65% |
| Tyson Foods, Inc. | TSN | Packaged Food | 15.15% | 1.07% | $42,111.84 | 4.18% |
| Walmart, Inc. | WMT | Discount Stores | 28.44% | 1.98% | $79,049.15 | 24.19% |



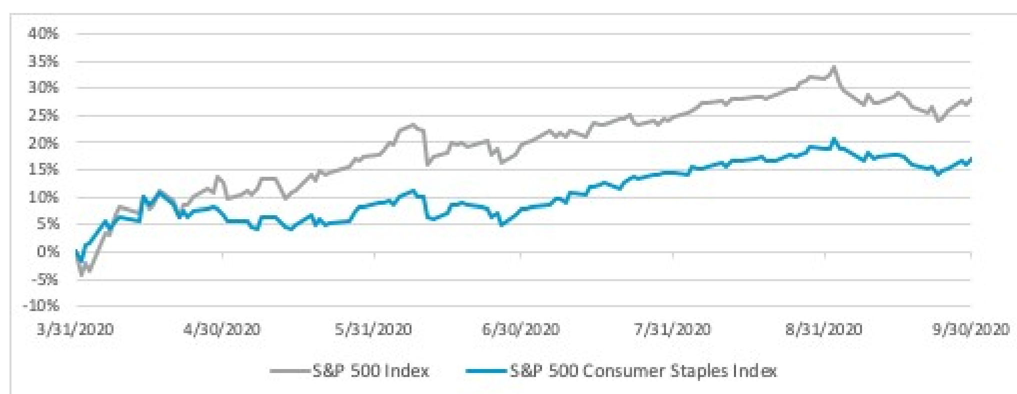

## Consumer Staples Sector Overview

The DCF holds five positions in the Consumer Staples sector. Walmart is the largest holding in the sector , making up 1.98% of the portfolio. For the entirety of the semi-annual period, the Consumer Staples sector held Walmart, Kroger, Constellation Brands and Post Holdings. In September, the DCF decided to exit its position in Procter & Gamble in favor of Tyson Foods. The new position was taken as the DCF felt that there were several positive economic factors that will benefit Tyson Foods moving forward and that Procter & Gamble had reached it's calculated intrinsic value.

The DCF'S holdings can be broken down into three subsectors: Food Retail, Beverages, and Packaged Food.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 18.94% |
| Benchmark Sector Return: | 19.34% |
| DCF Sector Weight: | 7.11% |
| Benchmark Weight: | 7.17% |
| Asset Allocation: | 0.00% |
| Security Selection: | 0.00% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Braden Latt |
| **Sector Analyst:** | Chris Fazio |




**Industry Analysis**

Over the semi-annual period, the Fund held positions in the following subsectors: Food & Staples Retailing , Food , Beverage & Tobacco and Household & Personal Products .

In the Food & Staples subsector, the Fund holds Walmart and Kroger. Not only is this industry relatively recession-proof, but they have been seeing significant increases in demand. Walmart has posted a return of 20.09% over the semi-annual period, while Kroger has returned 9.99 %. Our holdings in these two companies are based on the expectation for future growth within this subindustry . According to the US census Bureau, US grocery sales increased 13% in April, 14% in May, and 12% in June. The Fund believes that this heightened demand will continue as restaurants remain limited in operations, alongside a massive increase in the number of people working and attending school from home. Walmart and Kroger have also seen substantial growth in their e-commerce developments over the semi-annual period, further contributing to their strong returns.

In the Food, Beverage & Tobacco subsector, the Fund holds Constellations Brands and Post Holdings. In Constellation's distillers subindustry, there was some concern towards the beginning of the semi-annual period with decreases in restaurant and bar sales, and generally soft demand in wine and spirits brands. However, Constellation's unique portfolio has led to them posting returns of 32.18 % over the semi-annual period. Constellation's focus on positioning their portfolio more towards favorable industry trends such as high end beer (imported and craft), premium wine, and their cannabis investment with Canopy Growth has contributed to these positive returns. Bars and restaurants reopening also has helped the past couple of months within this industry. Strong retail sales further bolstered their returns, as investors examine the future of the bar and restaurant industry.

On the other hand, Post Holdings has seen a 3.13% return over the semi-annual period. Within the packaged food industry, there has been fierce competition and growth in retail sales due to high demand. As opposed to competitors in this industry, Post continues to innovate their portfolio, acquire companies in higher-growth industries and increase their international exposure. Post's Premier Protein Brand is well positioned in the protein supplement category, for example, an industry that is expected to see a CAGR of 8% from now to 2027.

## What's Changing in Consumer Staples

### Transition to Online Grocery

During the pandemic, online grocery sales have seen some of the highest growth rates in history. While it is unclear how long the heightened demand for online groceries will remain, the industry is poised to see continued growth. Prior to the pandemic, roughly 3%- 5% of all U.S. grocery spending occurred online. In comparison, in the U.K., about 7%-8% of grocery sales occurred online, and in France, about 5%-6% of all grocery sales occurred online. Changed consumer behaviors and uncertainty with many restaurants and other food-away-from-home outlets such as theaters, stadiums, and schools will continue to see this increase in demand and the percentage of online grocery will continue to rise in the US. Our positions in Kroger and Walmart put us in a position to benefit from these growing online trends. Moving forward, we view Walmart and Kroger as the companies to see the biggest impact. Walmart's release of Walmart+ should cause even more online demand moving forward.

### Packaged Meat Industry

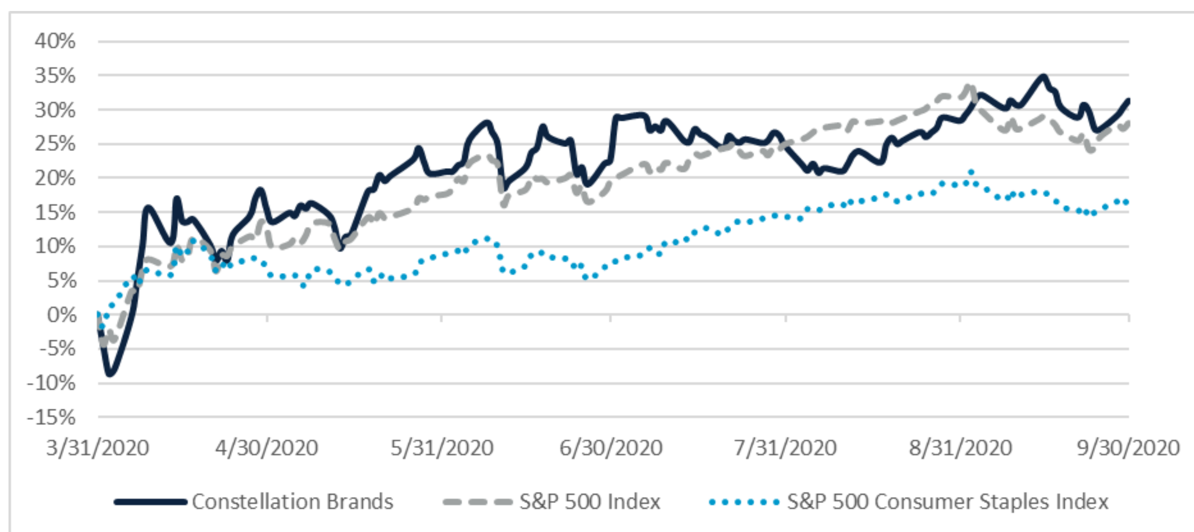
The packaged meat industry has been hit hard during the COVID pandemic due to many factors, including inefficiencies caused by repurposing plants, lower production, supply chain issues, and more. The issues with this industry are short term, and both the short- and long-term outlooks are promising. In the short term, there is currently a massive protein shortage caused by African Swine Fever and US protein processors are well positioned to fill this void. China recently halted pork imports from Germany, which should also favor U.S. protein processors. China also recently lifted its U.S. chicken import ban, which will help absorb any excess U.S. protein supply as a result of Covid-19 disruptions. Lastly, over the past year, the U.S. signed at least three major trade agreements, which will likely help increase the demand for U.S. protein . The Fund recently added a position in Tyson Foods as they are in the best position to benefit from these developments within their market.

### Rising Competition in the Hard Seltzer Market

The rapidly-growing alcoholic seltzer market has now reached a projected valuation of $3.7 billion. As companies in the beverage industry continue to flood this market with new products, growth will remain strong, but market share will become harder and harder to capture. Much like the food and beverage sector, the ability to innovate with new flavors will be crucial for companies to benefit from this industry. Most recently, Coca-Cola has entered the market with their agreement with Molson Coors to manufacture, market and distribute their Topo Chico hard seltzer brand. With the increased competition in the alcohol and beverage industry as a whole, the Fund only holds Constellation Brands due to their diverse portfolio and stake in Canopy growth, which has large potential as the emerging cannabis market is expected to be worth up to $6 billion in the United States upon legalization from the FDA.

**Constellation Brands, Inc (NYSE:STZ)** Distillers and Vintners

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 273 | 1.31% | 18.61% | 33.38% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.94 | $189.51 | $208.58 | 33.38% |




## Company Description

Constellation Brands and its subsidiaries produces, imports, and markets beer, wine, and spirits in United States, Canada, Mexico, New Zealand and Italy. Constellation Brand's largest brands are Corona and Modelo in beers, Kim Crawford and Meiomi in wine, and Svedka vodka in spirits. Constellation has made significant investments into Canopy Growth which is a world leading, diversified cannabis company. Constellation's main customers are wholesalers, retailers, and on premise locations.

## Investment Rationale

Constellation's core brands like Corona and Modelo have established the company as the largest contributor in the growth of the beer market. Constellation's continuous innovation of its products such as Corona, which already has a wide variety of flavors, just released new products like "Corona Seltzer" and "Corona Refresca". These continuous innovations and new products offer substantial revenue growth due to the high consumer interest in this booming market. As of November 2020, Constellation acquired 38.6% of Canopy Growth, which is a world leading cannabis producer, distributer, and seller. This significant investment positions Constellation for large growth as legislation is passed and the cannabis market continues to grow both domestically and internationally.

## Competitors

Anheuser-Busch InBev SA/NV (ENXTBR:ABI)

Pernard Ricard SA (ENXTPA:RI)

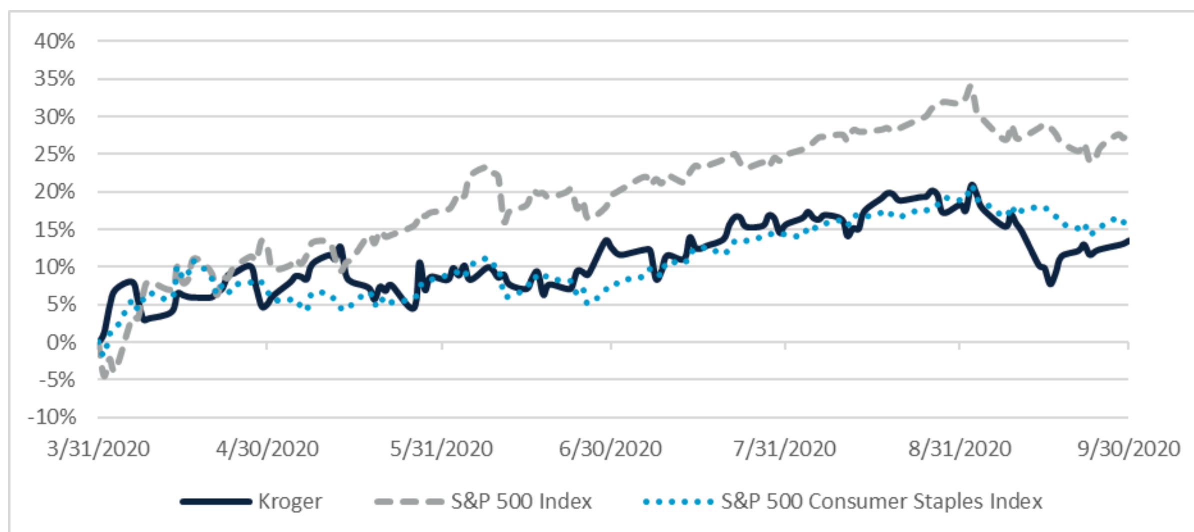
Molson Coors Brewing Company (NYSE:TAP)

## Analyst Coverage

Chris Fazio

**Kroger Co. (NYSE:KR)** Food Retail

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,830 | 1.58% | 22.33% | 3.87% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.35 | $33.91 | $41.96 | 3.87% |




## Company Description

Kroger is a large scale retailer that operates supermarkets, multi-department stores, marketplace stores, and price impact stores. Kroger is currently the largest supermarket by revenue and holds the place as the second largest general retailer by revenue. Kroger operates in over 35 states directly or indirectly through its subsidiaries in 2,757 total supermarkets. Kroger carries a large variety of products in their stores including both popular and Kroger brands.

## Investment Rationale

Due to the coronavirus, restaurants have been closed and customers have looked to Kroger to fulfill their food and beverage needs. This pivot in demand offers an opportunity for significant growth and Kroger has capitalized by offering grocery pick up options, leading to a 30% grocery demand increase since March. Kroger is offering online pick up throughout many of their stores and this convenience tool helps Kroger keep up with the increased demand and maintain revenues. Kroger is in an industry that is not affected heavily by recessions because the grocery stores fulfill a basic need to consumers. Kroger's other businesses such as their gas stations and pharmacies position the company well for the future and offers opportunities for sustained revenue growth.

## Competitors

Costco Wholesale Corporation (NasdaqGS:COST)

Walmart Inc. (NYSE:WMT)

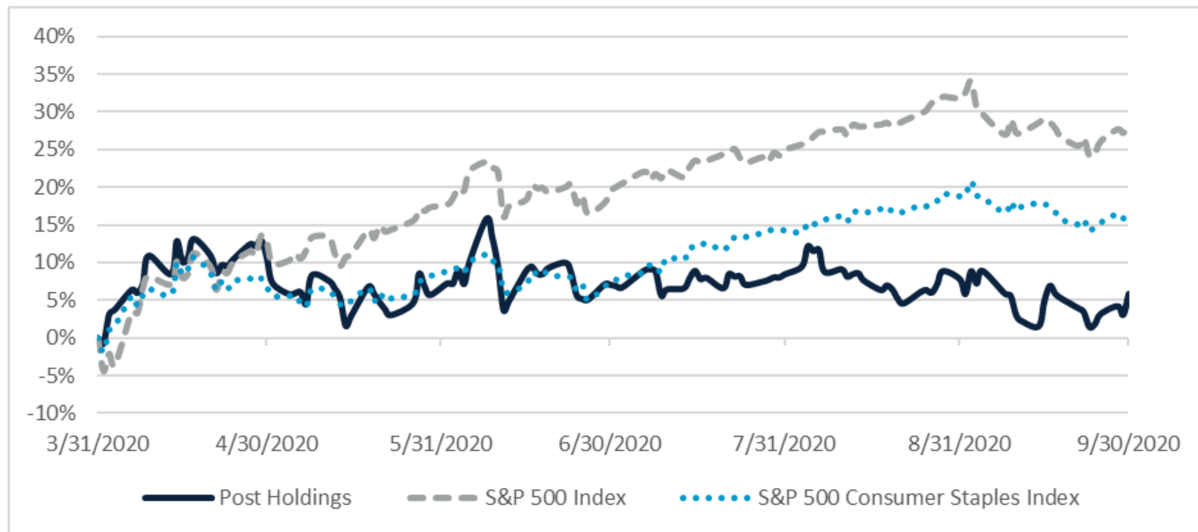
Dollar General (NYSE:DG)

## Analyst Coverage

Chris Fazio

**Post Holdings, Inc (NYSE:POST)** Packaged Foods and Meats

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 500 | 1.07% | 15.47% | 3.65% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.73 | $86.00 | $118.34 | 3.65% |




## Company Description

Post Holdings operates as a consumer packaged goods company with operating segments: Post Consumer Brands, Weetabix, Food Service, Refrigerated Retail, and BellRing. Post's products mainly consist of ready-to-eat and hot cereals with notable brands such as "Honey Bunches of Oats", "Pebbles", "Oreo O's" and more. Under the Weetabix brand, they currently holds the top brand in the UK for cereals and breakfast drinks. In the refrigerated retail segment, Post offers egg, sausage, cheese, and potato breakfast products.

## Investment Rationale

Despite trends going towards healthier breakfast options Post is uniquely positioned for considerable growth mainly in their ready-to-eat cereals. Post has been focusing on trying to encourage the snacking function of cereal and growing their sugary cereal brands as market demands have shown that there is a demand shift back towards sugary cereals. Post's brands such as "Fruity Pebbles", " Oreo O's", and a new Sour Patch Kids cereal give Post the opportunity to take advantage of this demand shift. Posts product portfolio consisting of RTE cereals and their refrigerated retail segment that offers egg and sausage breakfast products make Post a company that is resistant to future recessions as these products meet consumers' daily needs.

## Competitors

Kellogg (NYSE:K)

General Mills (NYSE:GIS)

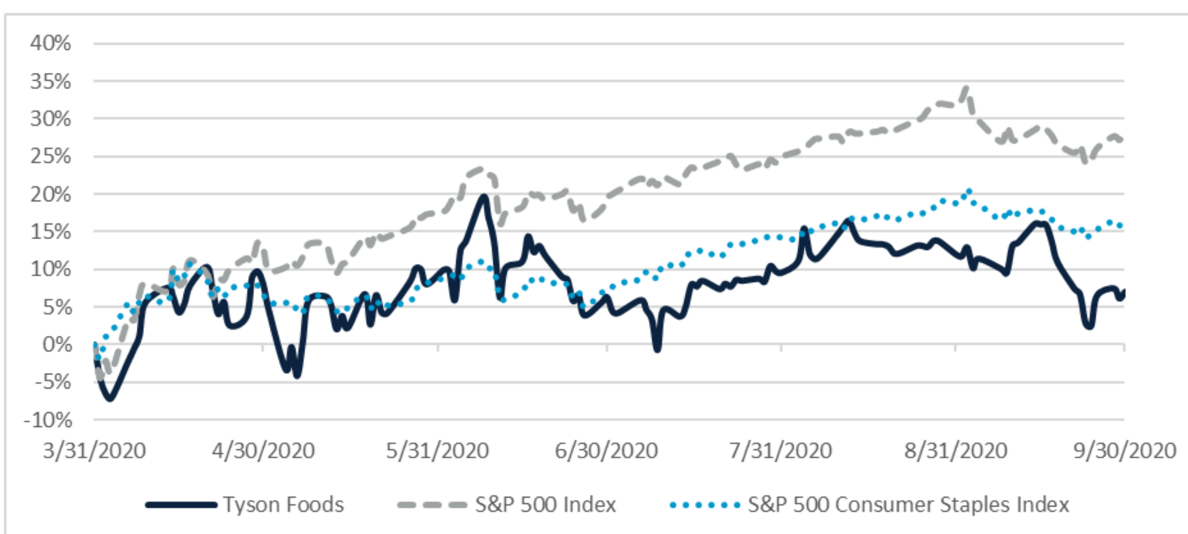
Mondelez International, Inc (NasdaqGS;MDLZ)

## Analyst Coverage

Chris Fazio

**Tyson Foods, Inc (NYSE:TSN)** Packaged Foods and Meats

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 708 | 1.07% | 15.15% | 4.18% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.65 | $59.48 | $94.53 | -1.29% |




## Company Description

Tyson foods is a worldwide seller, producer, and manufacturer of select and prepared beef, chicken, and pork, products. Tyson Processes live fed cattle and market hogs and dress and prepare primal and sub-primal meat cuts as well as packaged meat products. Tyson is affiliated with notable brands such as Hillshire Farms, Jimmy Dean and more. Tyson operates in four segments which are: Beef, Pork, Chicken, and Prepared Foods and their customers are grocery retailers, grocery wholesalers, meat distributors, restaurants etc.

## Investment Rationale

Tyson is well positioned for future growth because of the demand shifts and growth of the protein industry. Tyson is already a leader in the protein industry and the U.S Department of agriculture expects overall protein priodution to increase 2%-3% year over year in 2020. Tyson has also been active in investing in companies related to them for example, in 2019 Tyson consolidated their position in MFG Holdings, Keystone Foods, and acquired the Thai and European operations of BRF S.A which is a Brazilian food company. These investments show promising growth in the future as people buy more and to keep up with demand Tyson has recently opened a new production facility in Kazakhstan. With the industry growing and strategic acquisitions and facilities Tyson has a promising future for revenue growth.

## Competitors

Conagra Brands, Inc (NYSE:CAG

Kellogg Company (NYSE:K)

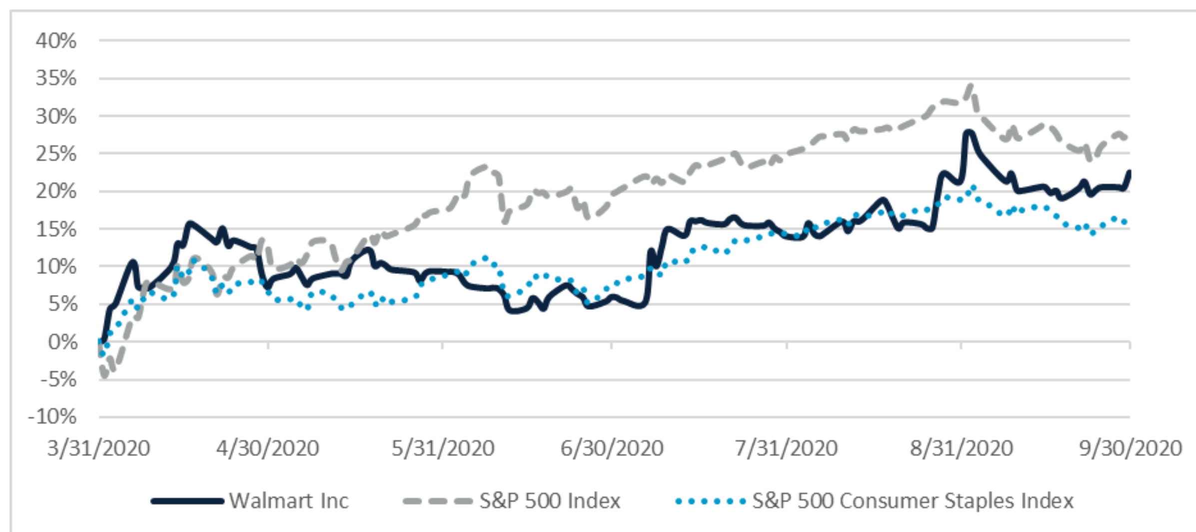
The Kraft Heinz Company (NasdaqGS:KHC)

## Analyst Coverage

Chris Fazio

**Walmart (NYSE:WMT)** Hypermarkets and Super Centers

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 565 | 1.98% | 28.44% | 24.19% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.28 | $139.91 | $162.75 | 24.19% |




## Company Description

Walmart is a American multinational retail corporation that operates a chain of hyper markets, discount department stores, and grocery stores. Walmart serves over 265 million customers daily in approximately 11,500 stores, along with numerous e-commerce websites in 27 countries. Walmart operates under 3 segments: Walmart US, Walmart International, and Sam's Club. Walmart has become the worlds largest company by revenue.

## Investment Rationale

Walmart has become a dominant company, setting a pace that competitors have struggled to match. Both before and throughout the COVID-19 pandemic, Walmart has made significant investments into their e-commerce operations, improving their same–day delivery, same-day pickup and other processes. According to their 2nd quarter earnings report, e-commerce sales have increased by 97% with strong results across all channels. Due to Walmart and their associated brand's websites, they have positioned themselves as a more dominant force online than their competitors with their convenient free in-store pickup and delivery strategies only matched by Amazon.

## Competitors

Target Corporation (NYSE:TGT)

Costco Wholesale Corporation (NasdaqGS:COST)

Korger (NYSE:KR)

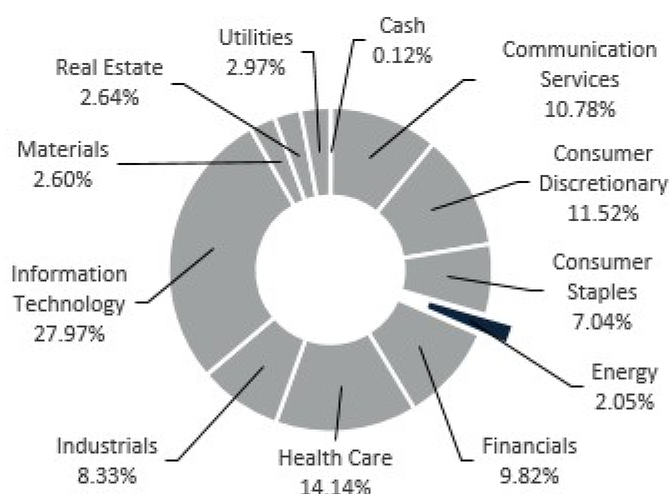
## Analyst Coverage

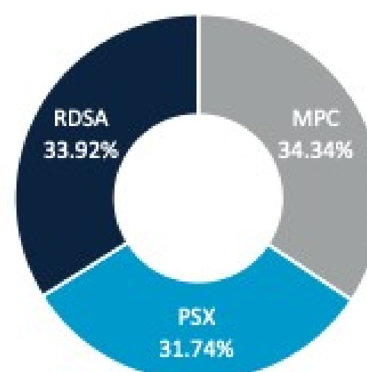
Chris Fazio

# Energy Sector Report

**Holdings as of March 31, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Marathon Petroleum Corporation | MPC | Oil and Gas Refining and Marketing | 34.34% | 0.71% | $27,873.00 | 28.27% |
| Phillips 66 | PSX | Oil and Gas Refining | 31.74% | 0.66% | $25,764.48 | -0.74% |
| Royal Dutch Shell | RDS.A | Integrated Oil and | 33.92% | 0.72% | $27,535.98 | -10.90% |



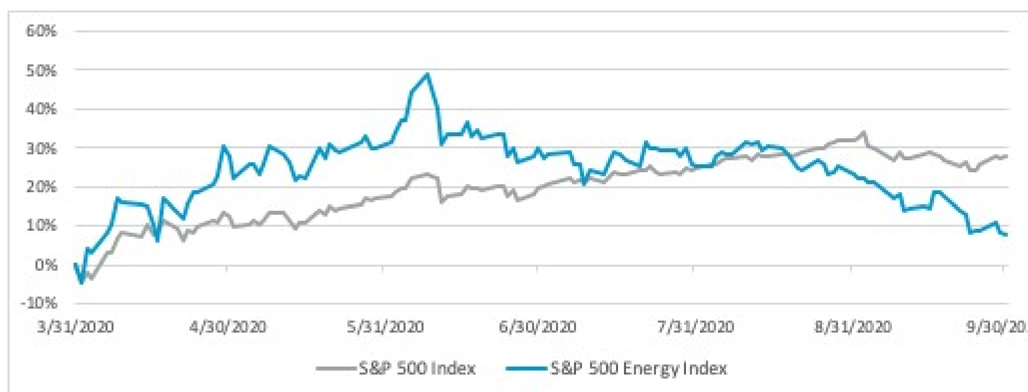

## Energy Sector Overview

The D'Artagnan Capital Fund has three holdings in the Energy Sector. All three of these companies participate in the exploration for and production, transportation, and refining of oil. Our holdings are also involved in the production and sale of natural gas. These provide exposure to the upstream, midstream, and downstream oil segments.

The Energy Sector is in the midst of recovering from the impact that COVID-19 has had on oil demand. Phillips 66 and Royal Dutch Shell produced negative returns for the fiscal period. Marathon Petroleum Company has helped the sector have overall positive returns with a very strong performance in the last 6 months. Marathon's outperformance, combined with strong returns provided by Chevron, which the Fund held for only a portion of the fiscal period, provided a strong outperformance of the benchmark sector.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 19.52% |
| Benchmark Sector Return: | 4.77% |
| DCF Sector Weight: | 2.11% |
| Benchmark Weight: | 2.62% |
| Asset Allocation: | 0.14% |
| Security Selection: | 0.31% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Nick Frank |
| **Sector Analysts:** | Jonathan Aho<br>Shayla Mendez |




**Industry Analysis**

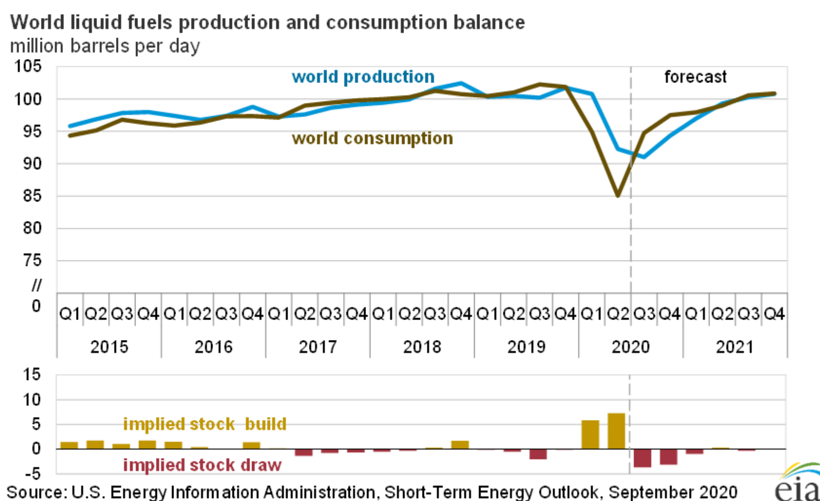
The largest driver in returns in the energy sector continues to be the price of oil. The Fund holds a diverse collection of integrated oil companies including Royal Dutch Shell, Phillips 66, and Marathon. This gives the Fund exposure to downstream, midstream, and upstream oil production. These companies also offer exposure in retail, chemical, and renewable segments. All of the energy companies held by the D'Artagnan Capital Fund have begun moving a portion of their production into renewable energy and petrochemical production, which can help hedge against the impact that oil prices have on their stock value. However, due to the sharp decline in demand for oil during the COVID-19 pandemic, as well as the Russia-Saudi Arabia price war, oil prices have continued to weigh heavy on the performance of these companies.

In April, the price of WTI oil for delivery in May was negative for the first time in history, due largely to suppressed demand and an insufficient storage capacity. In May, the price per barrel of oil was at $22.50. This sev-erally hurt the ability of energy companies to be able to maintain a profit. This period saw more than 20 mid-sized oil firms in the United States declare bankruptcy. As a result, many companies engaged in cost-cutting practices, including cutting capital expenditures and dividends. As the country began to come back from a total lock down, the demand for oil began to rise, and with it the price. By mid-June, the price per barrel of oil broke the $40 mark on account of agreements reached by OPEC and major oil producing countries to cut production as well as an increase in oil demand. At this level, oil companies were finally able to realize a profit on their sales. Because the surplus of oil in the world is so high due to a sharp decrease in demand, oil has struggled to recover its price in full. On account of this, oil prices have not seen high gains in the last several months. By September, oil prices were around $42 per barrel. At these levels, large integrated companies can produce sustainable cash flow, but it will largely impede their ability to expand. Many companies are still committed to cutting costs and ensuring that they have enough liquidity to operate not only until the demand for oil outpaces the current production, but also until the large surplus of oil is depleted.

## What's Changing in Energy

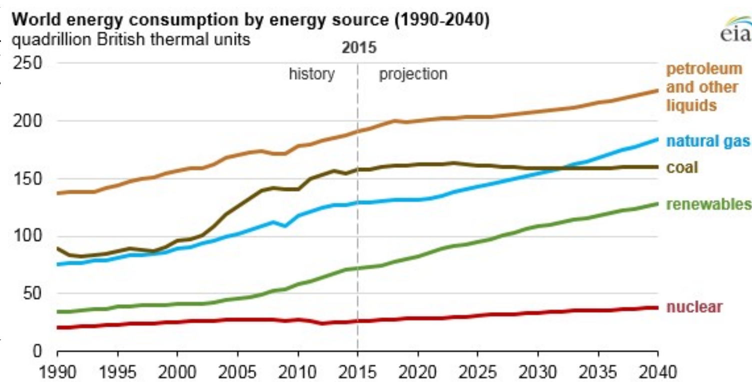
### Increasing Global Demand for Oil

One of the large changes expected in the Energy Sector is demand rising above supply for the first time since the outbreak of COVID 19. As countries begin to reopen, the industry expects to see demand for petroleum products begin to rise. The consensus is that demand is just surpassing production, but it will take until Q2 in 2021 to use the surplus of oil that was accumulated during the shutdown. By 2021, projections say that this shift in demand will allow oil prices to rise to above $45 per barrel conservatively, and above $50 optimistically. As a result, many oil companies will be in a position to become profitable once again and should see value, that was lost during the market crash, begin to return.



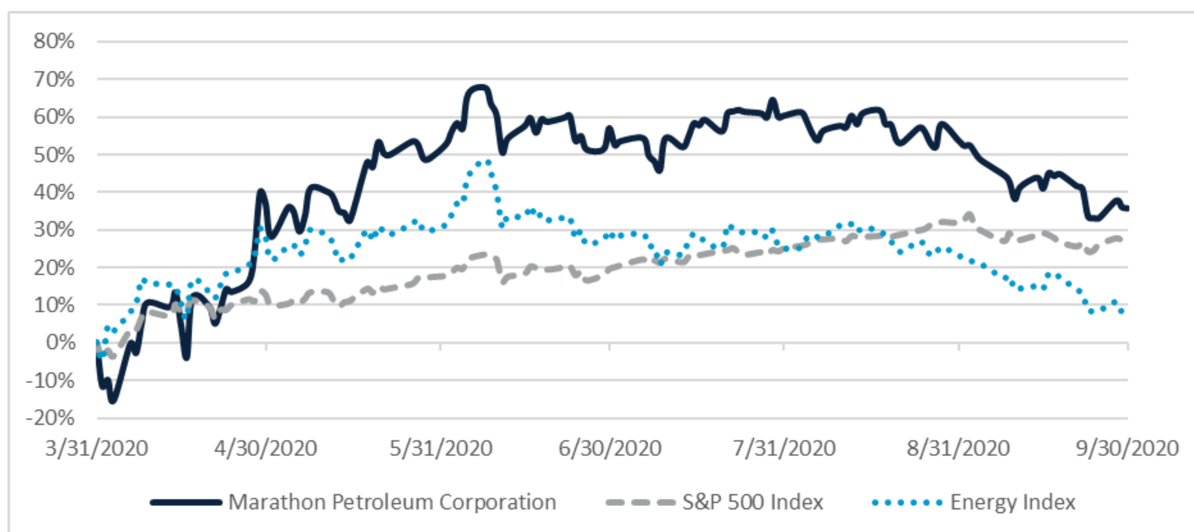

### Increasing Shift to Renewable Energy Production

A serious shift to reduce carbon emissions and begin producing energy from renewable sources has begun in most major oil companies and is expected to continue, and likely increase, in the future. Several integrated oil companies like Royal Dutch Shell have committed a material amount of assets to stay atop a changing energy landscape. This has included increasing their electricity production capacity by purchasing renewable assets. By the year 2040, it is projected that renewables will grow by over 300% in the global energy mix. Experts forecast that in the next 20 years renewable energy will close the gap with oil as the leading power source in the global energy mix by around 600 equivalent tons of oil. This period will also see coal production decrease and natural gas become the second leading source of energy. Additionally, as oil companies look to reduce their carbon emissions, renewable energy production can be a concrete step in the right direction. With an election upcoming, the tightening of emission standards is a real concern for the sustainability of the industry. Many companies have plans in place to have a net zero carbon footprint by 2050. While this is a lofty goal, there is no doubt that the industry is looking at this problem proactively and seeking long term solutions before the emission penalties are undoubtedly levied on them in the near future.



**Marathon Petroleum Corporation (NYSE: MPC)** Oil and Gas Refining and Marketing

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 950 | 0.71% | 34.34% | 28.27% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 2.14 | $29.34 | $48.40 | 28.27% |




## Company Description

Marathon is an oil and gas company that operates primarily in the United States. It operates in three segments: refining and marketing, retail, and midstream. The refining and marketing segment refines crude oil across the U.S. into refined products and ethanol for sale. The retail segment sells transportation fuels and convenience products at retail stores across the country. The midstream segment transports, stores, distributes, and markets crude oil products across the country.

## Investment Rationale

Marathon has historically been a leader in the oil refining market in the United States. The coronavirus pandemic has hit marathon especially hard as use of its products in the US has fallen because of countrywide lockdowns. As a result of falling revenue, the company cut its dividends, which caused investors to panic, despite this decision was to help the company maintain liquidity during this pandemic. Through a strategic partnership with MPLX, Marathon has been able to increase the volume of oil that they transport across the Midwest. Marathon's purchase of Andeavor has allowed it to become the largest independent oil refiner in the United States passing Valero Energy. The company has also set goals to reduce greenhouse gas emissions. As the economy returns to normal levels, this stock will regain its lost value.

## Competitors

Chevron Corporation (NYSE: CVX)

Phillips 66 (NYSE: PSX)

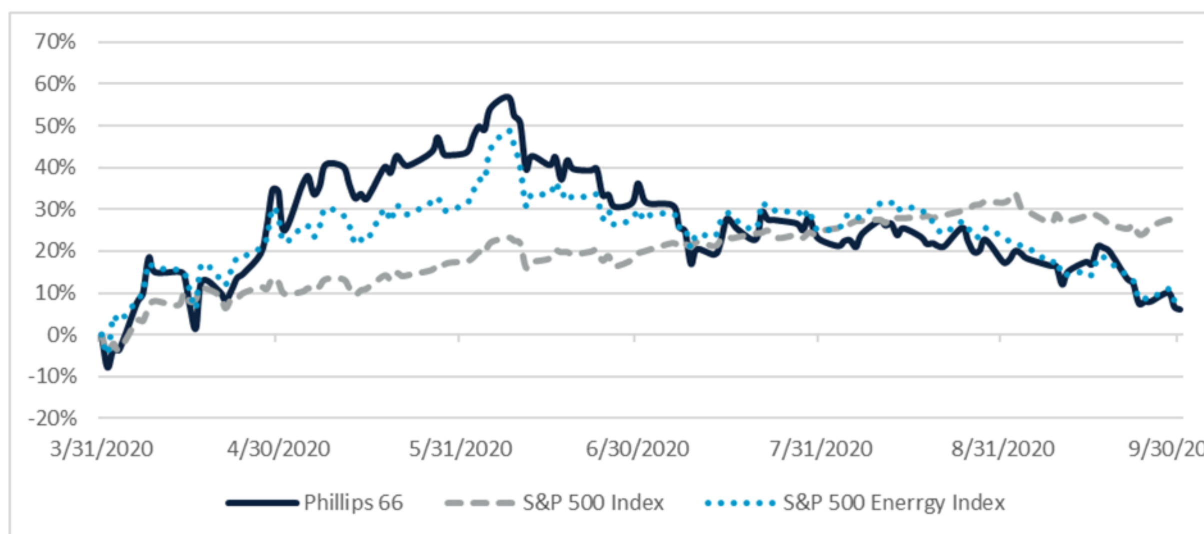
Exxon Mobil Corporation (NYSE: XOM)

## Analyst Coverage

Jonathan Aho

**Phillips 66 (NYSE: PSX)** Oil and Gas Refining and Marketing

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 497 | 0.66% | 31.74% | -0.74% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.54 | $51.84 | $80.36 | -0.74% |




## Company Description

Phillips 66 is multinational energy company that operates through four segments: midstream, refining, chemicals, and marketing and specialties (M&S). The midstream segment engages in the transportation of crude oil and other refined products to market and provides storage services for products. The chemicals segment manufactures and markets various specialty chemical products. The refining segment engages in the refinement of crude oil and other feedstocks into petroleum products. The M&S segment purchases for the marketing and resale of refined petroleum products.

## Investment Rationale

Phillips 66 has been a leader in the energy sector for a long time and has shown strong revenue growth in recent years as a result of their capital investments. Phillips 66 has been materially impacted by the coronavirus pandemic as they saw demand for their products drop around the world. This drop in demand is not a result of changing or degrading products offered by them, but of macroeconomic events. They have invested heavily into expanding their midstream and chemical segments, and have begun looking towards the future, transitioning towards green energy. They are aware that oil is a finite resource and have begun making plans to break into the renewable energy market to continue to be a leading energy provider, regardless of what form that energy takes.

## Competitors

Chevron Corporation (NYSE: CVX)

Marathon Petroleum Corporation (NYSE: MPC)

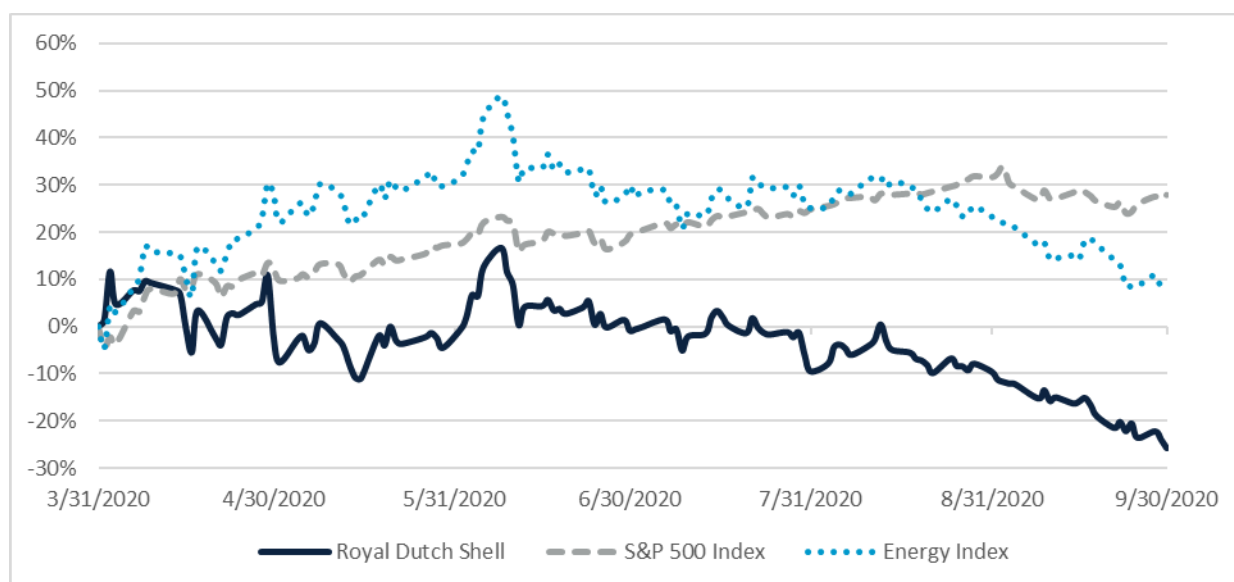
Exxon Mobil Corporation (NYSE: XOM)

## Analyst Coverage

Jonathan Aho

**Royal Dutch Shell plc (ENXTAM: RDSA)** Integrated Oil and Gas

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,094 | 0.72% | 33.92% | -26.36% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.78 | $25.17 | $32.41 | -10.90% |




## Company Description

Royal Dutch Shell is a multinational energy company that engages in the exploration, development, refinement, and sale of oil and natural gas as well as a petrochemicals. Shell operates in three primary segments: integrated gas, upstream and downstream. The integrated gas segment engages in liquefied natural gas activities and the conversion of natural gas into gas-to-liquid fuels and other products. The downstream segment is involved in the transportation and sale of oil and chemical products worldwide. The upstream segment is involved in the exploration for and refinement of crude oil and natural gas.

## Investment Rationale

Royal Dutch Shell has remained competitive in the oil industry and continually paid dividends to shareholders for a very long time. The coronavirus pandemic has negatively impacted the company to a large degree, causing revenues to drop. As a result, Shell cut dividends by two-thirds, to which the market reacted very negatively.. This dividend cut was to strengthen the company's balance sheet and maintain liquidity during this pandemic. Shell has set forward a plan to transition into renewable energy and has started taking the first steps, such as opening a large windfarm off the coast of the Netherlands which will open by 2023. This a big step towards transitioning to environmental sustainability. The company's recent struggles leave their stock with lots of upside once they are able to reinstate their full dividend and begin growing revenues again.

## Competitors

Chevron Corporation (NYSE: CVX)

BP p.l.c. (LSE BP.)

Exxon Mobil Corporation (NYSE: XOM)

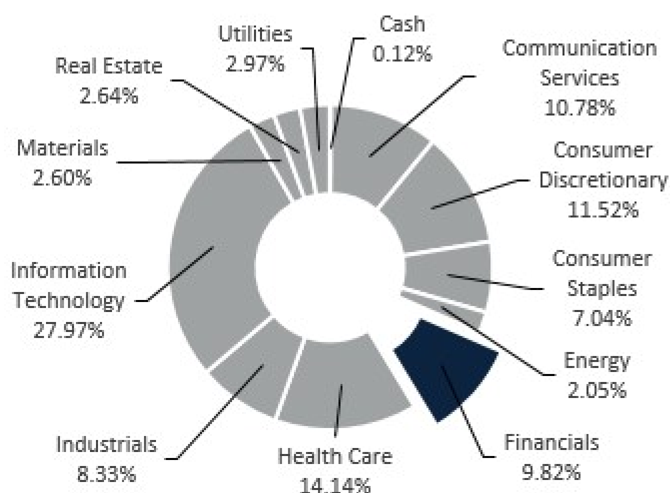
## Analyst Coverage

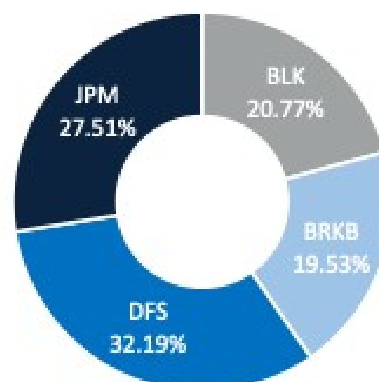
Jonathan Aho

# Financials Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | Annual Return |
|---|---|---|---|---|---|---|
| Berkshire Hathaway, Inc. | BRK.B | Multi-sector Holdings | 19.53% | 1.91% | $75,806.64 | 16.47% |
| Blackrock, Inc. | BLK | Asset Management | 20.77% | 2.03% | $80,587.65 | 29.75% |
| Discover Financial Services | DCF | Consumer Finance | 32.19% | 3.07% | $124,920.36 | 78.61% |
| JPMorgan Chase & Co. | JPM | Diversified Banks | 27.51% | 2.70% | $106,763.43 | 9.13% |



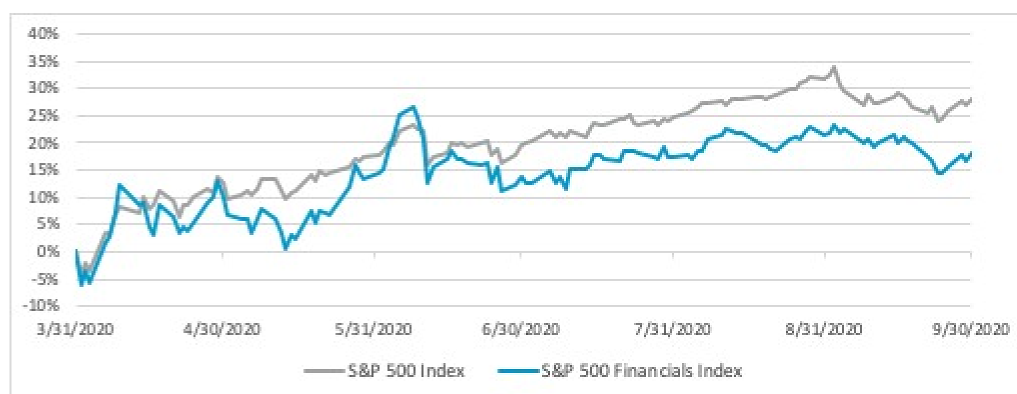

## Financials Sector Overview

The Fund holds positions in four different sub-sectors: Asset Management, Multi-Sector Holdings, Diversified Banks, and Consumer Finance. Over the semiannual period, the S&P 500 Financial sector has returned 17.19%. The Fund has outperformed the benchmark by returning 32.82% in this sector.

Throughout this semiannual period, the Fund has been looking for more holdings in asset management and insurance. These subsectors have been doing well in this period due to the COVID-19 pandemic having lesser impact on their cash flows than it has had on other companies. All of our current holdings have been revalued to account for the effects of the pandemic, and the Fund continues to compare these new valuations to other companies in its search for better opportunities.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 32.82% |
| Benchmark Sector Return: | 17.19% |
| DCF Sector Weight: | 10.37% |
| Benchmark Weight: | 10.18% |
| Asset Allocation: | -0.03% |
| Security Selection: | 1.64% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Evan Ensminger |
| **Sector Analyst:** | Logan Murray<br>Alex Guindi |




**Industry Analysis**

The S&P 500 Financial Sector has experienced a poor performing year due to macroeconomic effects caused by COVID-19. This semi-annual period, the DCF's Financials Sector has risen 34.85%, beating the benchmark sector by 15.32%. The sub-sectors in which the DCF currently has holdings are Multi-Sector Holdings, Asset Management, Diversified Financials, and Diversified Banks. While all of the Fund's holdings provided positive returns for the period, Discover has been the top performer for the sector, followed by Blackrock.

There have been drastic changes in the financial markets brought about by the COVID-19 pandemic and the resulting Federal Reserve actions, which have pushed the Fund away from investing in traditional banks. Big banks have not shared in the gains of the rest of the sector due primarily to historically low interest rates. The Fund also chose to individually update the models for all four of the current holdings in order to adjust the valuations to better reflect current market conditions. Even with more pessimistic outlooks, all four models indicated that the stocks were undervalued, strengthening our conviction in their growth prospects. The Blackrock update showed great upside potential due to the company selling bonds and ETF's to the Federal Reserve. The Financial sector has been crushed due to low interest rates, but Blackrock's dominance as the best asset manager firm globally has helped them actually grow through this economic downturn. Berkshire Hathaway, has displayed strong growth opportunities following Warren Buffett's investment of $7 billion into five Japanese companies, helping further diversify the holding of Berkshire, and providing exposure to foreign currencies at a time when the dollar is weakening leading up to the election. Additionally, Berkshire recently purchased a stake in Snowflake upon their IPO, something they haven't done before (buy a stock on IPO day) bringing further excitement to both Snowflake and Berkshire . Berkshire Hathaway has been dominant in economic downturns because of their ability to invest in companies that have strong operations but have witnessed a downturn because of macroeconomic conditions. As the industry experienced losses, Blackrock and Berkshire Hathaway have outperformed the sector at large due to strong leadership, and willingness to adapt to new economic conditions.

The current macroeconomic environment of low interest rates that are likely to persist through 2023 has pushed the Fund primarily toward Diversified Financials, Asset Management, and Multi-Sector Holdings. Focusing on these subsectors will create growth opportunities even if the sector as a whole continues to struggle. However, the Fund plans to continue to monitor the situation around banks and other financial institutions to look for buying opportunities, as they may begin to appear with the continued strengthening of the economy.

## What's Changing in Financials

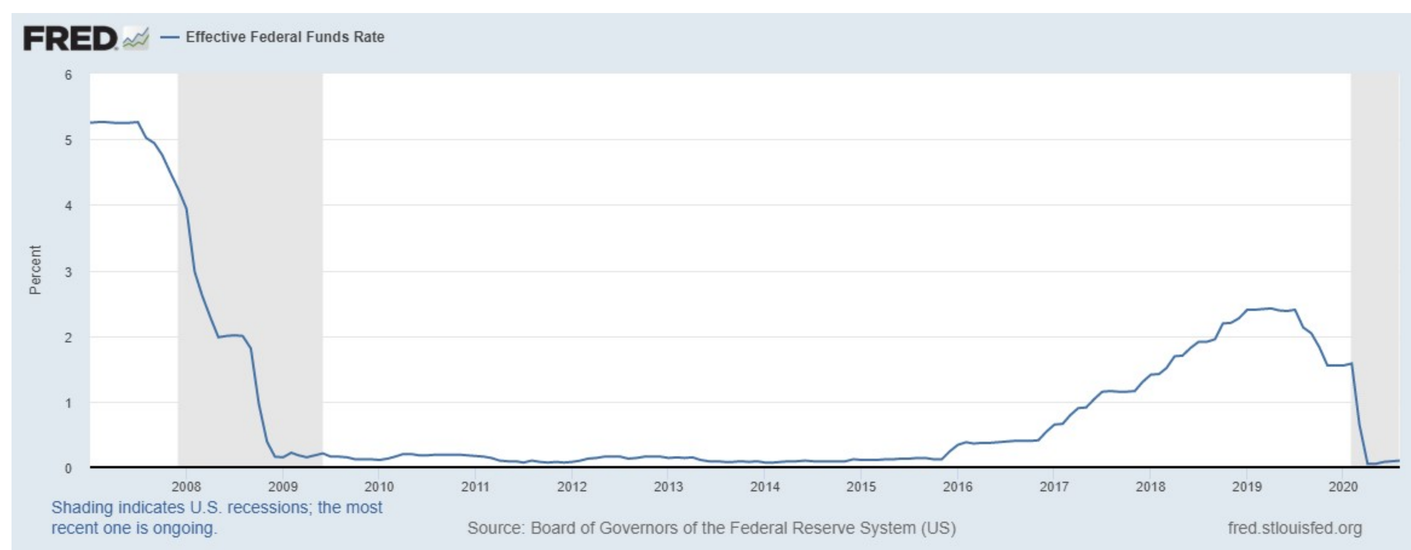
### Technology

Technology is going to play a major role in the Financial sector going into the future, as technological innovations and competition from tech-based financial companies such as Paypal and Visa have pushed traditional institutions toward more technological operations. Technology has benefited Blackrock with its implementation of Aladdin, an industry-leading fin-tech solution to personal portfolio management, which can help Blackrock move away from asset-based fees. Technology will also benefit financials by delivering more accurate customer data, allowing them to better track and understand the needs and wants of their customers across all of their segments. It is an amazing opportunity for whoever can use data analytics to unlock more information about their customers. Also, the "sharing economy" may lead a drive toward decentralizing asset ownership and using technology to find efficient matches between providers and users of capital, rather than going to a bank. People have seen this with Nerd Wallet and other technologies using data analytics to give the consumer the best match. Technology will always be evolving in the financial sector and it will be imperative for companies to adapt to new trends.

### Interest Rates

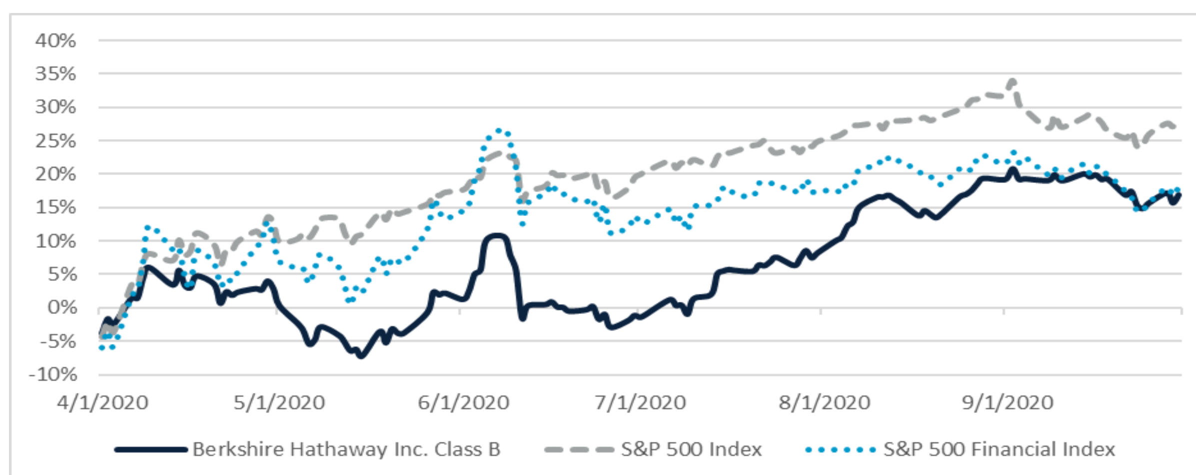
From the beginning of the Fund's semiannual period, the Effective Federal Fund Rate was already substantially cut. The July, 2019 rate cut was the first since the Great Recession. This decrease was due to the Fed's balance sheet decreasing. This led to the lending banks getting lower interest rate fees from consumers. Then in March, the Fed slashed rates to 0-0.25%. This was taken as an emergency action in light of the COVID-19 pandemic in an effort to provide liquidity for small banks and to prevent a complete stoppage of spending in the economy. Since then, the Fed has confirmed its intent to keep interest rates at near-zero for at least the next 3 years, unless the economy is able to return to full employment and normal rates of inflation before that time. This decision will have ongoing ramifications for banks, as their margins on loans will dwindle and they will be faced with a flood of refinancing applications.

The graph below displays the Effective Federal Fund Rate from 2007 to September 30, 2020.



**Berkshire Hathaway Inc. (NYSE: BRK.B)** Multi-Sector Holdings

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 356 | 1.91% | 19.53% | 16.47% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.81 | $212.94 | $265.34 | 16.47% |




## Company Description

Berkshire Hathaway is holding company owning numerous subsidiaries across a large number of diverse industries. The company's primary business endeavors are insurance, freight transportation, and energy. Insurance is the company's largest business segment headed by GEICO, their largest insurance holding. The company has been under the leadership of CEO Warren Buffett since 1970. Berkshire Hathaway operates primarily in the United States but does provide insurance and related products internationally through its other subsidiaries.

## Investment Rationale

Berkshire Hathaway Energy, which holds several large subsidiaries, has been experiencing growth in their renewable sustainable energy businesses with potential to continue growing moving forward. Repowering existing facilities with new wind and water projects has greatly increased earnings from some subsidiaries such as MidAmerican Energy and NV Energy in 2020 while lowering operating costs at the same time. The company's railroad, utilities, and energy businesses currently maintain large investments in capital assets and are forecasting nearly 27% increases over the remainder of 2020 that will give Berkshire Hathaway the ability to further grow their current holdings in these industries and partner with others. Berkshire Hathaway recently reached an agreement to acquire 100% of Dominion Energy, a natural gas transmission and storage business, along with its subsidiaries, which will allow Berkshire Hathaway Energy to add $9.7 billion in asset value to its portfolio.

## Competitors

The Allstate Corporation (NYSE: ALL)

W.R. Berkley Corporation (NYSE: WRB)

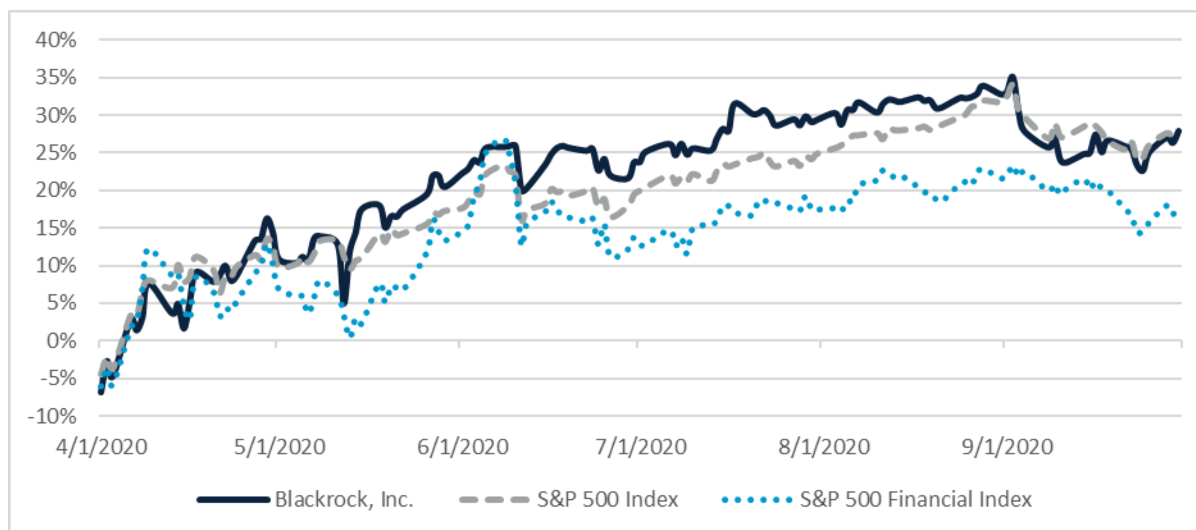
The Travelers Companies, INC. (NYSE: TRV)

## Analyst Coverage

Logan Murray

**BlackRock, Inc. (NYSE: BLK)** Investment Management

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 143 | 2.03% | 20.77% | 29.75% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.24 | $563.55 | $586.00 | 29.75% |




## Company Description

BlackRock, Inc. is the largest investment management firm in the world with $7.3 trillion in assets under management. They primarily provide their services to institutional, intermediary, and individual investors. They also manage funds, as well as providing global risk management and advisory services. While headquartered in New York, BlackRock serves governments, companies, and foundations worldwide.

## Investment Rationale

BlackRock is the world's largest asset manger and has been able to keep their management team together since the company was founded in 1988. Earlier this year, when the Federal Reserve began purchasing record amounts of corporate bonds and exchange-traded funds, about half of these purchases went into BlackRock funds. This has driven clear results for the company, as earnings per share has barely dropped this year which is incredible in this economic climate. Their deal with the Fed also shows the confidence in BlackRock to still be the best company at managing investments. They have continuity going for them, as well as a best-in-class reputation for effective management that places them in solid position for significant growth.

## Competitors

KKR & Co, Inc. (NYSE: KKR)

T. Rowe Price Group, Inc. (NasdaqGS: TROW)

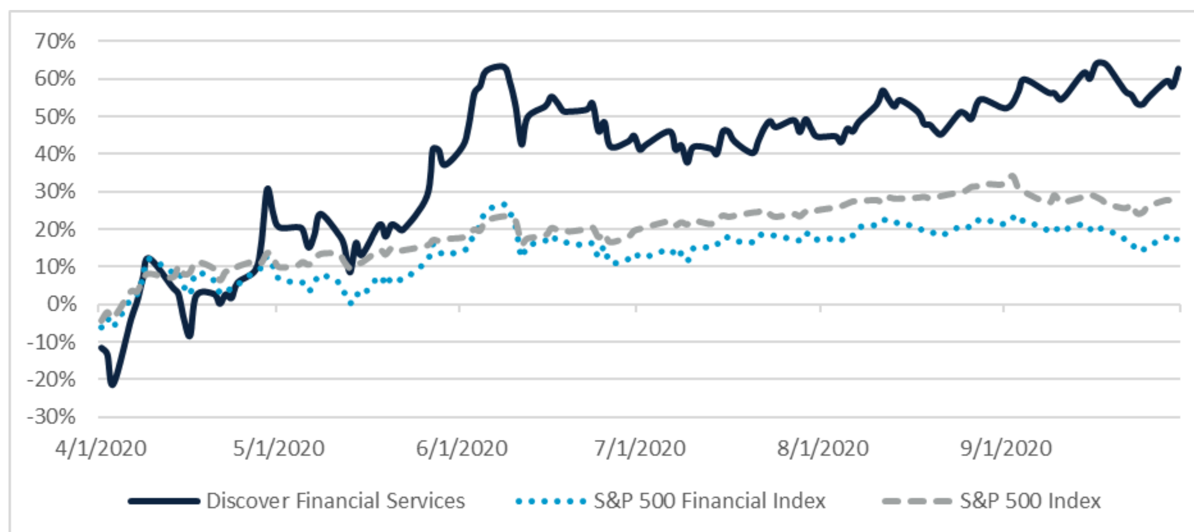
The BlackStone Group Inc. (NYSE: BX)

## Analyst Coverage

Alex Guindi

**Discover Financial Services (NYSE: DFS)** Consumer Finance

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 2,162 | 3.07% | 32.19% | 65.14% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.87 | $57.78 | $76.29 | 78.61% |




## Company Description

Discover Financial Services (DFS) is a banking company that currently services nearly 60 million cardholders. The company operates through two segments: direct banking and payment services. The direct banking segment includes consumer banking and lending products, consisting of Discover credit cards and other consumer banking products such as student loans, personal loans, and home equity loans. The payment service segment is composed of PULSE network and Diners Club. PULSE is the nation's leading debit/ATM network that links cardholders served by various financial institutions to ATMs and P.O.S. Diner's Club is a global card acceptance network.

## Investment Rationale

Discover has established themselves as a leading banking service and credit card provider in the United States. The company has been experiencing strong 5-year revenue growth of 4.8%, the highest among comparable companies, attributable to growth in interest income primarily driven by year over year increases in credit card transaction and sales volume. The mix of credit cards and loans presents Discover with the ability to recover strongly following an economic downturn. Discover is continuing to focus on capital deployment through loan growth and is focusing its marketing strategy on adding new accounts to continue this growth while keeping expenses flat. Strong recovery following previous recessionary periods due to the significant decrease in provision for loan losses leaves Discover in strong position in a post-COVID world.

## Competitors

American Express Company (NYSE: AXP)

Capital One Financial Corporation (NYSE: COF)

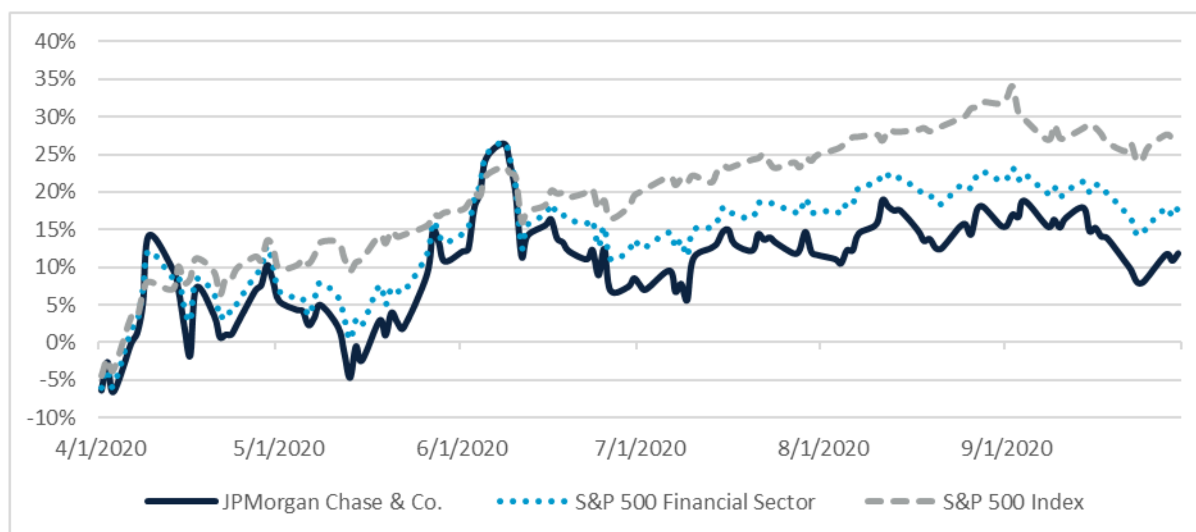
Synchrony Financial (NYSE: SC)

## Analyst Coverage

Logan Murray

**JPMorgan Chase & Co. (NYSE: JPM)** Diversified Banks

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,109 | 2.70% | 27.51% | 9.13% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.14 | $96.27 | $112.04 | 9.13% |




## Company Description

JP Morgan Chase & Co. is currently the world's sixth largest bank with $2.5 trillion in assets. They are also the largest in the United States. JP Morgan offers a variety of services over their four operating segments: Consumer & Community Banking, Corporate & Investment Bank, Commercial Banking, and Asset & Wealth Management. Their clients include both corporations and individuals, with the latter group served primarily through their Chase Bank branch.

## Investment Rationale

JP Morgan has enjoyed strong growth over the past decade and been one of the industry leaders in getting returns on their assets as well as equity due to strong leadership and the ability to adapt to unusual economic environments. While near-zero interest rates are expected to last through 2023, JP Morgan has such a diverse revenue stream that they will be able to continue to grow through a time of near-zero interest rates. They have shown the ability to rebound before, namely following the 2008 recession, and they have only gotten better at growing revenues and cutting expenses since then with the expansion of automation. Their provisions for loan losses is abnormally high this year due to the economic downturn, so look for that number to decrease in the coming years which will drive up their earnings by a substantial amount.

## Competitors

Bank of America Co. (NYSE: BAC)

Citigroup Inc. (NYSE: C)

Wells Fargo and Company (NYSE: WFC)

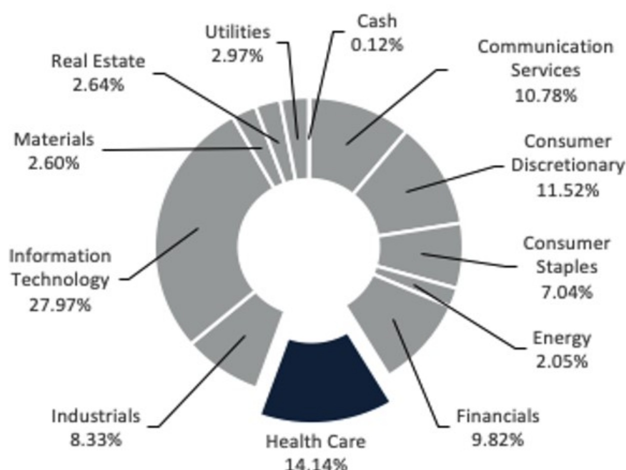
## Analyst Coverage

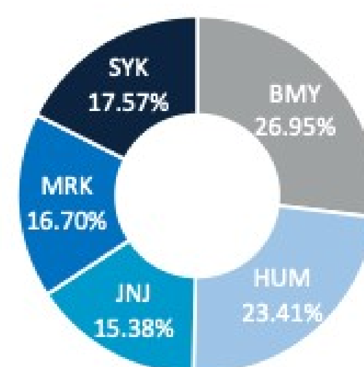
Alex Guindi

# Healthcare Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Bristol-Myers Squibb Co. | BMY | Pharmaceuticals | 26.95% | 3.82% | $150,544.13 | 9.87% |
| Humana, Inc. | HUM | Managed Health Care | 23.41% | 3.24% | $130,789.24 | 32.23% |
| Johnson and Johnson | JNJ | Pharmaceuticals | 15.38% | 2.17% | $85,903.76 | 15.09% |
| Merck and Co. | MRK | Pharmaceuticals | 16.70% | 2.36% | $93,318.75 | 9.46% |
| Stryker Corporation | SYK | Medical Equipment | 17.56% | 2.46% | $98,142.27 | 25.91% |



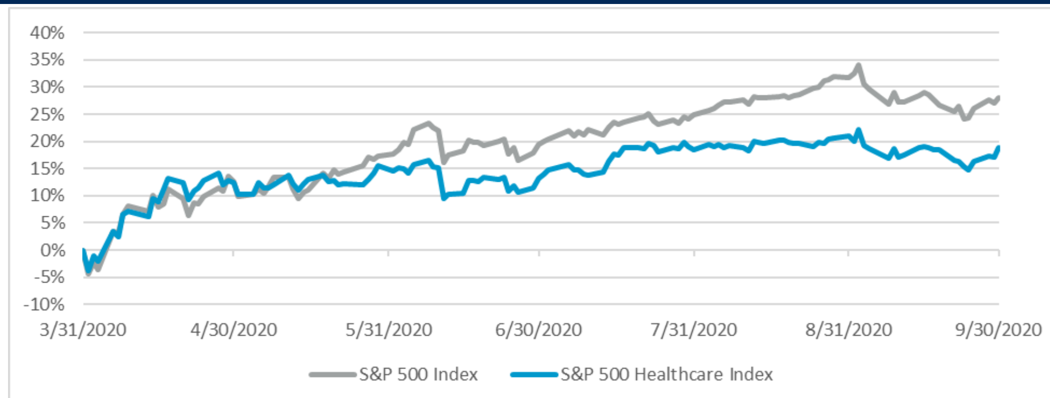

## Healthcare Sector Overview

Within the Healthcare Sector, the Fund currently holds the majority of its positions in Pharmaceuticals companies, with additional positions in Managed Health Care and Medical Equipment. Each position has been specifically chosen due to its superior growth prospects compared to their comparable companies.

The Fund has sought ways to stabilize the Healthcare sector during a period of extreme economic and market volatility. Merck provides very stable returns, with a beta of 0.47, while Johnson and Johnson's massive size and numerous segments help protect it from economic downturns. Moving forward, the Fund plans to seek additional opportunities in high-growth segments as the effects of the coronavirus eventually wear off of the economy.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 14.92% |
| Benchmark Sector Return: | 20.25% |
| DCF Sector Weight: | 14.38% |
| Benchmark Weight: | 14.78% |
| Asset Allocation: | 0.05% |
| Security Selection: | -0.69% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Brian Price |
| **Sector Analyst:** | Will Diedrich<br>Freddy Meccia |




**Industry Analysis**

The Healthcare sector of the S&P 500 can be broken down into a number of smaller subsectors. The sector at large consists of equipment and services, as well as pharmaceuticals and life sciences. These can be further subdivided, with the former containing healthcare equipment, providers and services, and healthcare technology, and the latter being comprised of biotechnology, pharmaceuticals, and life science tools and services.

The Healthcare sector of the S&P 500 underperformed the benchmark during the fiscal period, returning 20.25% compared to the 31.31% return realized by the benchmark. This underperformance can be attributed primarily to the fact that the healthcare sector has been more directly impacted by the ongoing coronavirus pandemic than perhaps any other sector of the economy. Despite withstanding the early surge in the spring better than the index, the healthcare sector struggled through the summer, as the ongoing effects of stay-at-home orders and a fearful public drastically reduced revenue streams.

Each subsector, however, has not been evenly impacted by the pandemic. Managed care companies struggled throughout the summer months as utilization rates plummeted due to a near complete halt on elective, and even some non-elective, surgeries. Biotechnology companies also posted weak returns as COVID-19 concerns halted many of the clinical trials that are vital to their continued growth and success. These two sectors underperformed both the S&P 500 index and the healthcare sector for the fiscal period, returning 17.26% and 11%, respectively.

During the fiscal period, this performance by the managed care sector affected two of the Fund's holdings, Centene and Humana, to varying degrees. Centene, despite showing strong growth prospects due to a recent acquisition of WellCare, struggled all summer, with a pair of earnings misses in April and July due in large part to decreased utilization. In total, it returned –5.74% for the Fund over the fiscal period. In recent weeks, the Fund chose to exit its position in Centene, given concerns over the long-term impact of the coronavirus and the company's ability to recover. Meanwhile, Humana surged, with a pair of large earnings beats and increased guidance for the remainder of 2020, led primarily by continued strong growth in the rapidly-expanding Medicare Advantage segment. Humana's 32.23% return made it the Fund's best healthcare performer for the period.

To the positive, the healthcare equipment subsector posted a strong fiscal period, with a 29.57% return that beat the industry average and nearly matched the index. This rise was reflected in the Fund's holding of Stryker Corporation, which posted a strong 25.91% return for the period.

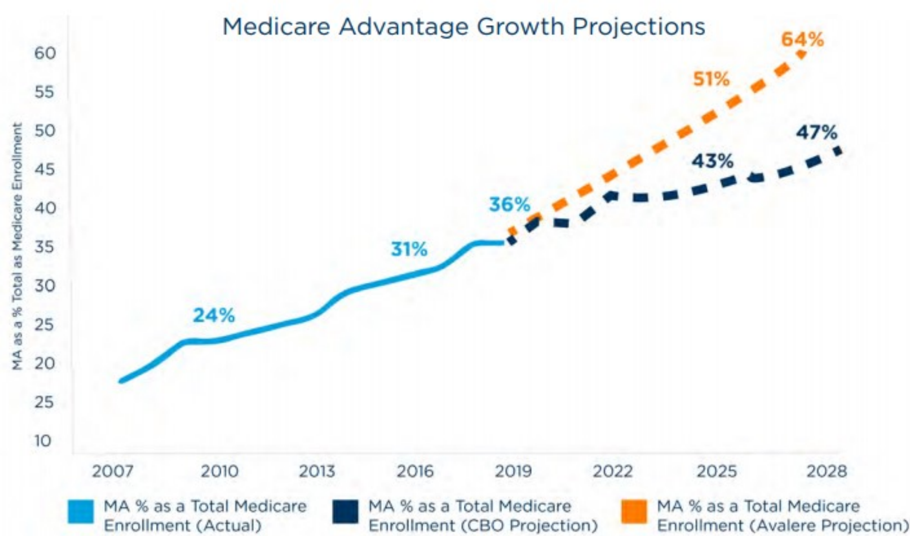
Moving forward, the Fund continues to seek opportunities in companies exhibiting strong growth despite the ongoing pandemic, most notably in the healthcare equipment and life sciences segments.

## What's Changing in Healthcare

### Political Pressures - Health Insurance

The original passage of the Affordable Care Act in 2010 and subsequent expansion in 2014 drove millions of Americans into the healthcare insurance market, generating significant growth for insurance companies who were able to capitalize on the new influx of customers. The stock market reflected this, as the managed care sub-sector of the S&P 500 returned over 200% from the beginning of 2010 to the end of 2014, roughly double the return on the S&P and about 50% greater than the Healthcare sector as a whole.

Now, those same companies face significant pressure from both sides of the political aisle in a hotly-contested presidential race, as the current administration seeks to roll back many ACA provisions, and Democrat hopefuls push a "Medicare for All" plan that would completely alter the makeup of the healthcare market. While it is far from certain that the latter plan would succeed in a deeply polarized political space, the progress within this market will have significant impacts on stock market performance, and may directly impact the Fund's position in health insurance companies. In order to protect against these political pressures, the Fund has specifically chosen to invest in Humana, which has become one of the leaders in the Medicare Advantage space. MA has grown significantly as a preferred alternative to Medicare, and is projected to continue such growth in the future. Humana's sizable market share in this area gives it the best growth prospects among its competitors.




Source: The Impact of COVID-19 on the Health Insurance Industry. Avalere Health, 2020

### Political Pressures - Pharmaceuticals

In addition to health insurance, there is significant political pressure around drug prices, with rare bipartisan agreement that drug prices should be lower, and possibly controlled in some way. In September, President Trump signed an executive order aimed at lowering the price paid by the government for a wide range of drugs covered by Medicare Part B. Since lower drug prices is sure to be popular among American voters, it is likely that whichever party wins in November will continue pushing for lower prices in whatever ways they are able.

## What's Changing in Healthcare (cont.)

Such action would significantly hurt pharmaceutical companies, who often rely on high drug costs within their 20 year exclusivity window to recover the millions of dollars spent on research and development for that drug. If prices are significantly controlled by the government, it may impact the ability of those companies to continue innovating with new drugs, as well as placing pressures on revenues, which would be reflected in stock market performance. The Fund currently holds positions in Bristol-Myers Squibb, Johnson and Johnson, and Merck in the pharmaceuticals space, but is currently evaluating the Merck position. The Fund holds strong conviction that Bristol-Myers is the most undervalued pharmaceutical stock on the market, but is considering moving its Merck position into another segment that may offer more upside.

### Telehealth

One of the largest changes brought about in the healthcare industry by the COVID pandemic has been the rapid growth of telehealth offerings, which enable doctors to continue to meet with patients through a safe, virtual setting. Telehealth had already seen rapid increases in recent years as improved technology made the medium more useful. Now, the pandemic has only added to the growing interest, with telehealth demand expected to increase 64% in 2020, which would contribute to a 38% compound annual growth rate over the past 5 years.

Adding to this organic growth, the Centers of Medicare and Medicaid Services (CMS) and President Trump decided in March to expand Medicare telehealth, allowing all beneficiaries to use telehealth services at any location. Given the widespread support for telehealth, it is likely that these changes, or at least parts of them, will become permanent. Telehealth will provide additional costs to healthcare providers in the near term, but should also provide massive revenue opportunities in the future for those companies that are first to implement wide scale and innovative approaches to the practice.

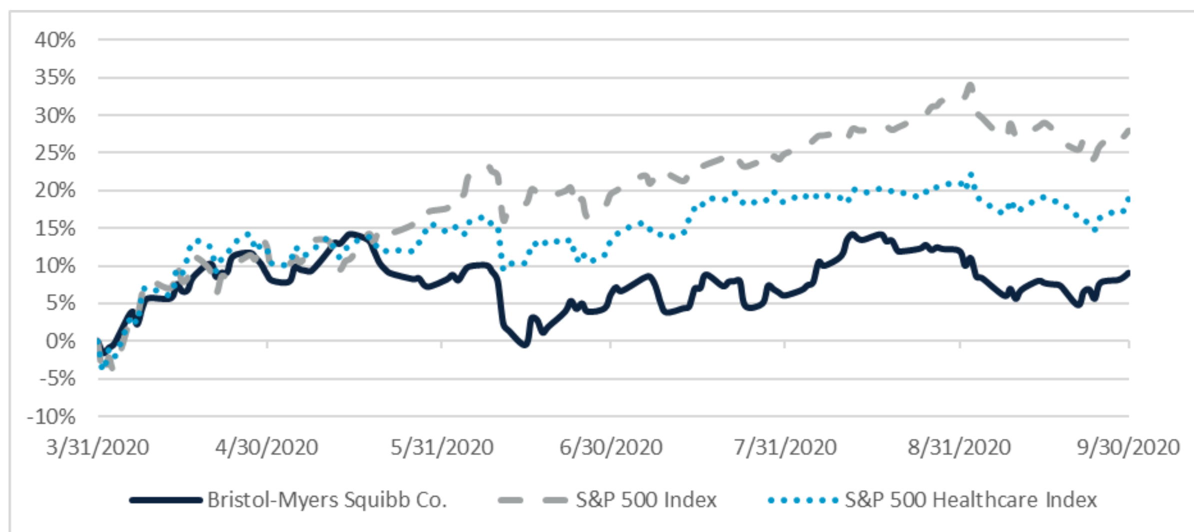
### Coronavirus Treatment and Detection

As the coronavirus continues to ravage the globe, all eyes are on healthcare companies involved in the production of potential treatments, tests, and vaccines for the disease. Some of these companies have seen massive shifts in stock price based on their news surrounding the coronavirus, such as a massive increase for Abbott Laboratories when news broke that they would sell $750 million worth of COVID rapid tests to the U.S. government, or, recently, when Moderna's vaccine candidate showed signs of generating a strong immune system response in elderly patients.

As it still remains highly speculative to try to predict which companies will be the most successful in their COVID treatments, the Fund has avoided gambling on a certain company based solely on prospective growth due to a successful treatment or vaccine. However, the Fund recently did choose to enter a position in Johnson and Johnson. J&J is currently in Phase III clinical trials of a coronavirus vaccine that has so far shown highly promising results, and has certain competitive advantages over other candidates. Most notably, it requires just one dosage, rather than two or three, simplifying distribution and administration. However, the Fund holds strong conviction in J&J regardless of the revenues from this vaccine. We believe that the company's current business operations are undervalued, and that such a large and successful company will provide needed stability in a highly volatile stock market. While a coronavirus vaccine would certainly cause a welcome boost in stock price, our position in this company is not solely reliant upon it.

**Bristol-Myers Squibb Company (NYSE: BMY)** Pharmaceuticals

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 2,497 | 3.82% | 26.95% | 9.87% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.68 | $60.29 | $77.00 | 9.87% |




## Company Description

Bristol-Myers Squibb is a biopharmaceutical company that develops and manufactures drugs. They are headquartered in New York City, and were founded in 1887. They are known for their specialty drugs, most notably those in hematology, oncology, cardiovascular, and immunology. Two of their highest selling drugs are Opdivo and Eliuis. Opdivo is used to fight anti-cancer indications, while Eliquis is used as an oral inhibitor to prevent strokes. Bristol-Myers has a variety of pharmaceutical agreements with Pfizer, Otuska, Nektat, GRYT Health, and Ubiquigent Limited.

## Investment Rationale

Bristol–Myers relies on their two main drugs (Opdivo and Eliuis) for over 50% of their revenue. These drugs hold exclusivity until 2026 and 2028, respectively, and are expected to continue to drive strong sales growth, especially after news broke September 24 that Opdivo is proven to significantly improve disease-free survival in patients with an aggressive form of bladder cancer. Additionally, Bristol-Myers' acquisition of Celgene gave them the rights to Ide-cel, a T-cell therapy drug which is currently undergoing FDA review. If approved, it is expected to generate several billion in revenue over its lifetime, providing exceptional growth prospects for the company. This strong combination of existing and pipeline drugs places Bristol-Myers Squibb in a strong position to drive revenue growth for many years.

## Competitors

Merck & Co. (NYSE: MRK)

Johnson & Johnson (NYSE: JNJ)

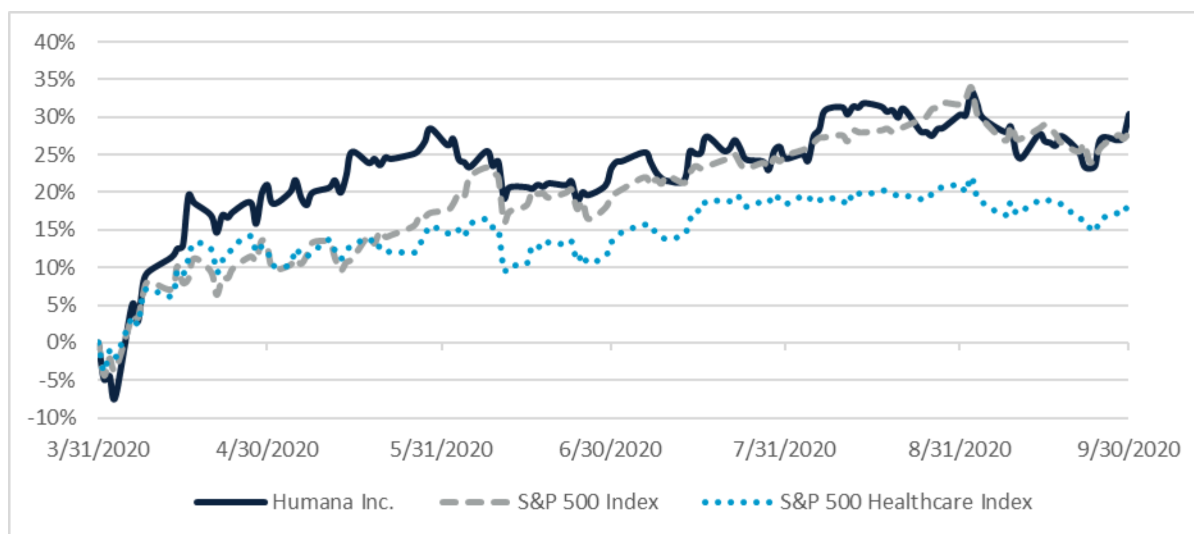
AbbVie Inc. (NYSE: ABBE)

## Analyst Coverage

Freddy Meccia

**Humana (NYSE: HUM)** Managed Health Care

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 316 | 3.24% | 23.41% | 32.23% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.89 | $413.89 | $431.86 | 32.23% |




## Company Description

Humana is a health and well-being company that is headquartered in Louisville, KY. They offer products to employer groups and individuals, as well as government-sponsored plans. Humana operates with four segments: Medicare, Group and Specialty, Medicaid, and Health Care Services. Humana's largest segment is Medicare, a federal health insurance program for people over the age of 65. Medicare accounts for over 80% of Humana's revenue, while Group and Specialty account for 13.5%. At the end of their 2019 fiscal year, Humana had over 17 million members in medical benefits.

## Investment Rationale

Humana has a strong position in the Medicare Advantage Industry (MA). This places them in prime position to be a market leader in a hot area of the industry with an aging population. According to the U.S. Census, the number of U.S. residents aged over 65+ is expected to double over the next four decades. Beyond just their focus on MA, Humana has also made strides in other healthcare markets. They have increased revenue contributions from their relatively new Medicaid products, even as they compete with companies that have operated in that industry far longer. Their wide exposure to all healthcare markets, and especially their strong share of the rapidly-growing MA market, positions Humana well to continue strong growth.

## Competitors

Anthem Inc. (NYSE: ANTM)

Centene Corporation (NYSE: CNC)

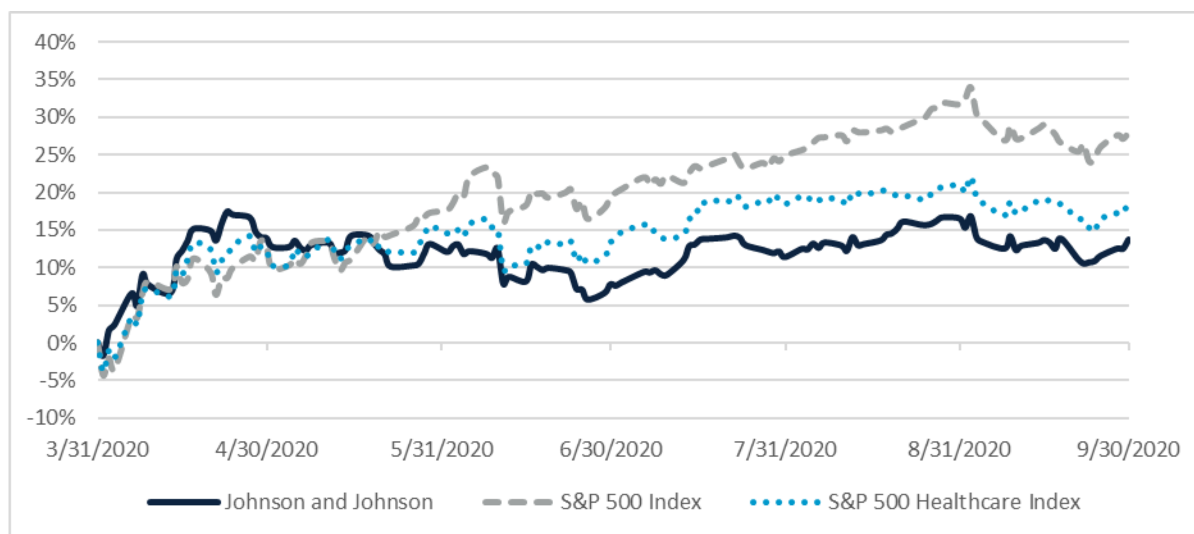
United Health Group Inc. (NYSE: UNH)

## Analyst Coverage

Freddy Meccia

**Johnson & Johnson (NYSE: JNJ)** Pharmaceuticals

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 577 | 2.17% | 15.38% | 15.09% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.68 | $148.88 | $170.82 | -0.30% |




## Company Description

Johnson & Johnson is a multinational corporation that is headquartered in New Brunswick, New Jersey. They are the largest drug company worldwide by overall sales. J&J is split into three individual segments: consumer health, pharmaceutical, and medical devices. Pharmaceuticals is their largest segment, making up almost 50% of their 2019 revenues. They are currently in the late stage development of a COVID-19 (SARS-CoV-2) vaccine that has started to see positive testing results.

## Investment Rationale

J&J has drugs such as Remicade, Tremfya, Darzalex, and Imbruvica that each generated several billion dollars of sales in 2019. All four target different diseases, giving them strong diversity across pharmaceutical markets. J&J is currently working on the Vely's Digital Surgery Robotic System, which will be used for urological procedures, specifically kidney stone removal. This system is projected to be released in late 2022 or early 2023. J&J is also a leader in the development of a COVID-19 vaccine, which recently began its phase 3 trials. If released, this will greatly increase revenues due to such a high demand for this product. In a volatile stock market, J&J's massive size and diversified offerings help mitigate downside risk, while their work on potential blockbuster products for the future provide the opportunity for significant upside.

## Competitors

Merck, & Co., Inc. (NYSE: MRK)

Bristol-Meyers Squibb Co. (NYSE: BMY)

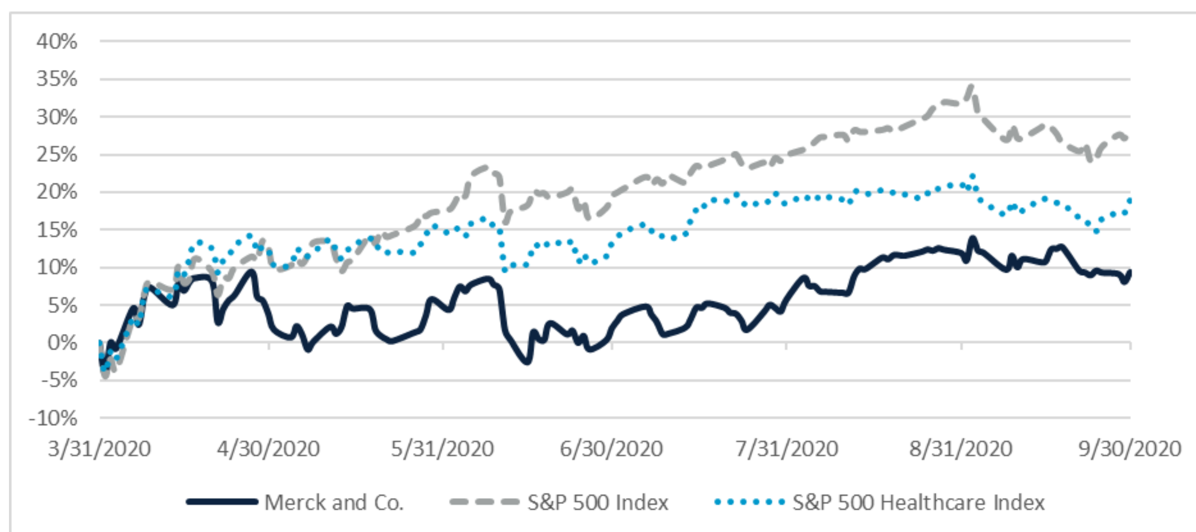
Proctor & Gamble (NYSE: PG)

## Analyst Coverage

Freddy Meccia

**Merck & Co., Inc. (NYSE: MRK)** Pharmaceuticals

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,125 | 2.36% | 16.70% | 9.46% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.47 | $82.95 | $88.27 | 9.46% |




## Company Description

Merck is a global health care company that offers services through prescription medicines, vaccines, biologic therapies, and animal health products. Merck is one of the world's leading pharmaceutical health care companies, operating through the following four segments: Pharmaceutical, Animal Health, Healthcare Services, and Alliances. Merck's mission is to provide health, social, environmental, and economic impact for all people and communities throughout the world.

## Investment Rationale

Merck announced that they will be creating a new drug company, Organon & Co., which will include Merck's women's health, legacy brands, and biosimilars businesses. Merck is creating Organon in order to allow themselves to grow faster and put more of their focus on the rising sales of their market-dominating oncology drug Keytruda. In addition to Keytruda's rising sales and the implement of Organon in 2021, Merck is in the midst of making serious additions to their pipeline. Merck currently has 20 programs in Phase 2, 24 programs in Phase 3, and 3 programs submitted to regulatory authorities for review. With pipeline advancements, the addition of Organon in 2021, and an increase in operations and focus with Keytruda, Merck will continue to outperform their competitors in the market and drive growth.

## Competitors

Amgen, Inc. (NasdaqGS: AMGN)

AstraZeneca PLC (LSE: AZN)

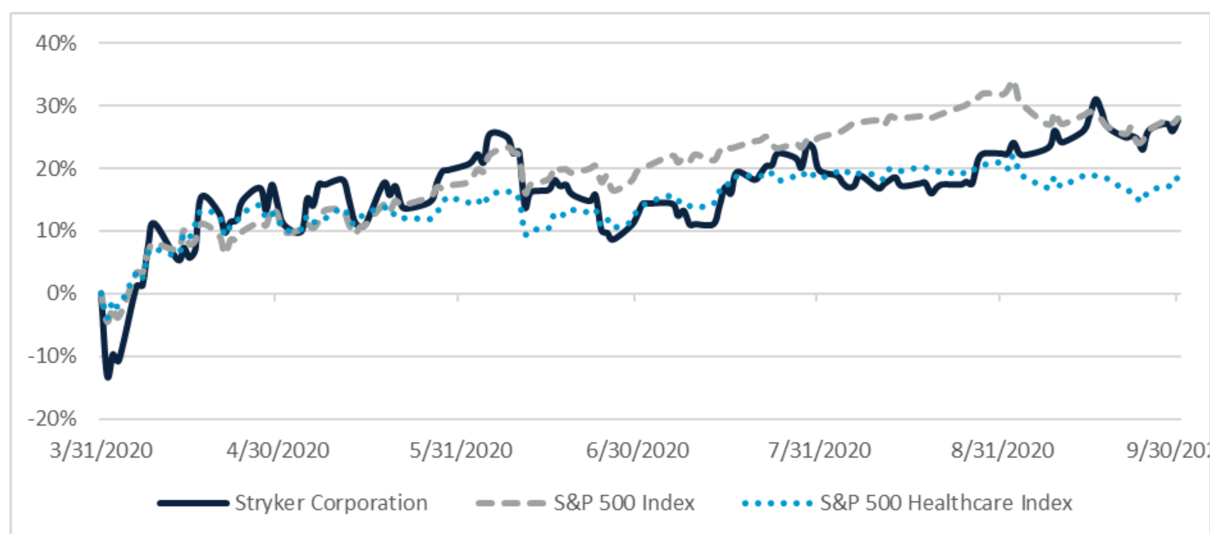
Bristol-Myers Squibb Company (NYSE: BMY)

## Analyst Coverage

Will Diedrich

**Stryker Corporation (NYSE: SYK)** Health Care Equipment

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
| --- | --- | --- | --- |
| 471 | 2.46% | 17.57% | 25.91% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.84 | $208.37 | $231.39 | 25.91% |




## Company Description

Stryker is one of the world's leading medical technology companies, and operates through three main segments: Orthopaedics, MedSurg, and Neurotechnology and Spine. Within Stryker's main operating segments, Stryker offers implants, surgeries, surgical equipment and systems, and a wide range of other specialized medical devices and products for those they serve. MedSurg is the largest of these segments, providing more than 40% of total revenues.

## Investment Rationale

Stryker has significantly increased their R&D costs which has allowed them to become more technologically advanced than their competitors. Specifically, Stryker has made significant advancements in their Orthopaedics and Neurotechnology & Spine business operations. They have made advancements in their hip and knee replacement procedures and technology, along with advancements in their development of minimally invasive surgical procedures and techniques. Recent expansion into emerging markets provides additional opportunity for driving strong growth, and acquisitions of Mobius Imaging and Cardan Robotics add further to Stryker's industry-leading position. As their portfolio of products continues to grow stronger, Stryker can be expected to continue driving results for the future.

## Competitors

Abbott Laboratories (NYSE: ABT)

Baxter International (NYSE: BAX)

Boston Scientific Corporation (NYSE: BSX)

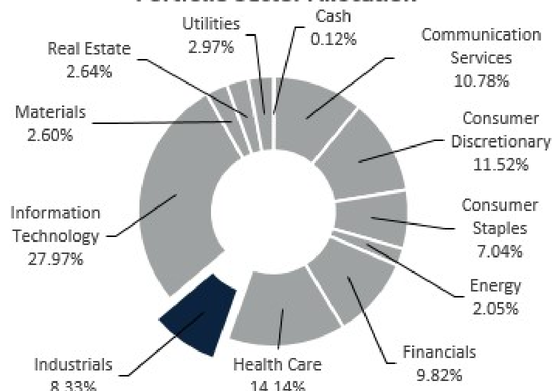
## Analyst Coverage

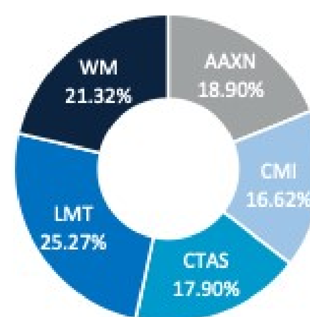
Will Diedrich

# Industrials Sector Report

**Holdings as of September 30th, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Axon Enterprises, Inc. | AAXN | Aerospace & Defense | 18.90% | 1.55% | $62,220.20 | 28.16% |
| Cintas Corporation | CTAS | Commercial Services & Supplies | 17.90% | 1.49% | $58,910.91 | 92.14% |
| Cummins, Inc. | CMI | Construction & Machinery | 16.62% | 1.41% | $54,690.44 | 58.33% |
| Lockheed Martin Corp. | LMT | Aerospace & Defense | 25.27% | 2.16% | $83,171.76 | 14.48% |
| Waste Management, Inc. | WM | Commercial Services & Supplies | 21.32% | 1.80% | $70,165.40 | 23.49% |




## Industrials Sector Overview

The Fund currently holds five stocks in the Industrials sector: Axon Enterprises, Cintas, Cummins Inc, Lockheed Martin Corp and Waste Management Inc. These holdings cover a variety of subsectors, from Aerospace and Defense to Construction.

Cintas was the primary driver of the strong outperformance of the sector benchmark, with massive returns over the past six months due to earnings beats on the back of better-than-expected commercial activity during the coronavirus lockdowns.

Moving forward, the Fund continues to search across all subsectors for opportunities in companies whose operations are recovering quickest from the coronavirus, as well as those, like Cintas, that can help other companies do the same.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 44.76% |
| Benchmark Sector Return: | 31.61% |
| DCF Sector Weight: | 7.92% |
| Benchmark Weight: | 8.04% |
| Asset Allocation: | 0.00% |
| Security Selection: | 1.08% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Tristan Shafer |
| **Sector Analyst:** | Jacob Herman<br>Andrew Walker |

**Industry Analysis**

Over the past fiscal year, Industrials as a whole narrowly beat the S&P 500. However, the sector struggled in the early portion of the year, but surpassed the S&P in late August when trade returned as countries began to re-open their economies . The Industrials sector has been volatile over the fiscal year, primarily due to the upcoming election that will have a severe and sudden impact on the entire sector. Both candidates have very different views on things such as defense spending as well as trade. While we hold Lockheed Martin, which has exposure to the upcoming election, our other holdings of Cummins, Waste Management, Cintas, and Axon Enterprises operate in more stable markets which helps to minimize risk from the ongoing COVID-19 pandemic and upcoming election. One industry we chose to avoid is Airlines. While there sub-sector fell we do not view this as a sign of opportunity, since the risk involved with lost revenue and consumer sentiment towards airlines moving forward caused us to avoid the industry as a whole.

Aerospace and Defense stocks have lagged behind the S&P 500. This is surprising due to the stability of government spending. However, many are worried that defense spending will see a decline moving forward as we move into a pivotal election. The United States government gave out trillions of dollars in COVID relief funds, causing the national debt to rise. If the government wants to cut some of this deficit, defense spending seems like a likely cut. Both sides of the aisle have also pledged to introduce a new bill on infrastructure, which would make the US government budget even tighter. The DCF currently holds Lockheed Martin and Axon Enterprises in this sub-sector. Axon Enterprises is grouped under the umbrella of Aerospace & Defense but they operate in different markets than the rest of the companies in this industry. We chose to have analysts value companies in this sector, but ultimately decided to only hold Lockheed Martin, as they have the most potential in this sector. Lockheed Martin already has a $1 trillion contract with the government over the next 30 years, which puts them in a good financial position. They also do 28% of their business outside of the U.S, high for a defense contractor. With Axon Enterprises selling to mainly police departments, we felt comfortable holding them along with Lockheed Martin, as they have different customer bases and are exposed to different risks.

Commercial Services & Supplies also provided growth in the sector. This sub-sector includes companies that provide facility services, security, and office services. Within this sub-sector, the DCF holds two stocks: Waste Management and Cintas. This sector benefited from increased facility and office cleaning due to COVID-19. Not all offices are completely open, but those that are, require much more equipment to keep their employees safe. This will not be a short term change either, companies will take extra precautions to protect their employees and customers moving forward. Both holdings should benefit from this change.

**Industry Analysis (cont.)**

Over the last six months, the DCF sold out of Masco and bought Axon Enterprises. Masco benefited from the home improvement trends because of quarantine, causing their stock price to rise well above its calculated intrinsic price. After a revaluation we chose to exit our position. Masco was replaced by Axon Enterprises, a supplier for police departments. Axon sells tasers, body and car cameras, and run a cloud based evidence software. With the nationwide push for body cameras and non lethal weapons, Axon will see their revenue from these products grow. Their cloud based evidence system, "Axon Evidence" is always available to police departments. It can be accessed from squad cars as well as the office. It can also store any file type, uses AI to identify certain markers like license plates, and auto tags the files for quick and easy search. This suite of products could fit perfectly into the national movement toward increased police accountability.

## What's Changing in Industrials

Industrials is increasingly subject to global politics. Global trade wars have become a regular risk associated with industrials companies. With the rise in trade disputes worldwide, industrial companies could see their costs rise as many of their products are manufactured overseas. As the 2020 election gets closer, defense spending has become a point of contention. Depending on the winner of the election, the sector could see a shift in revenue for the Aerospace and Defense industry.

### Defense Spending

In the next year, the biggest driver of change will be the 2020 U.S. presidential election. Both candidates have different views on factors that directly impact the industrials sector, primarily international trade and defense spending. Defense and Aerospace makes up about 13.7% of Industrials market cap, and President Trump proposed a 2021 budget of $705.4 billion for the US Department of Defense. President Trump has increased the defense budget significantly throughout his time in office and it is likely he will continue this trend if re-elected. If Joe Biden wins, it is likely this budget will be cut or remain stagnant throughout his term, halting revenue growth in the industry.

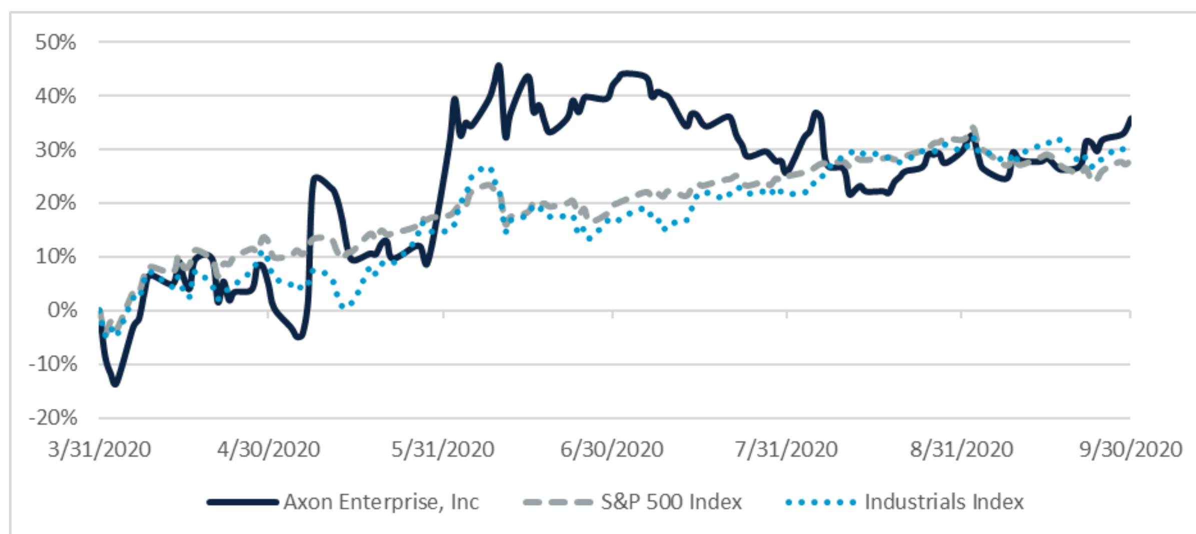
Another change in the push to cut the U.S. budget deficit. Infrastructure and Healthcare are big deals to both the Trump and Biden campaigns. There have been reports that both Biden and Trump are considering a $1 trillion infrastructure package in early 2021.  Most projections have a COVID vaccine being released in the first or second quarter of 2021, which will require major spending in order to distribute it across the entire country to populations most in need. Both of these will be large hits to the federal budget, likely dampening any chance for growth in the defense industry.

### Trade Uncertainty

Trade negotiations worldwide will continue to impact the sector as a whole. Donald Trump's America-first mentality has resulted in tariffs on several major trade partners, which has hurt overseas revenue. Joe Biden has a more free-trade mentality which will open American companies up to opportunities overseas but also expose them to more competition from international companies. The uncertainty regarding the upcoming election has pushed companies to reconsider overseas investments.

**Axon Enterprise, Inc. (NasdaqGS: AAXN)** Aerospace and Defense

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 686 | 1.55% | 18.90% | 28.16% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.59 | $90.70 | $107.99 | 7.33% |




## Company Description

Axon Enterprise, Inc. develops, manufactures, and sells conducted energy weapons (CEWs) worldwide. The company operates through two segments: TASER and Software and Sensors. A large portion of their business operations are with police departments across the United States, offering products like body cameras, in-car video systems, cloud based records management, and non lethal weapons like tasers. Axon Enterprise, Inc. sells its products through its direct sales force, distribution partners, online store, and third-party resellers.

## Investment Rationale

Axon Enterprises has positioned themselves to benefit from the large push towards more police accountability and use of non-lethal weapons throughout the United States. Their primary market is tasers but they have branched out into new businesses in recent years. Axon will see large growth in their revenues as more cities around the United States require body and car cameras for their police departments. Axon also manages a cloud based evidence software known as "Axon Evidence". Police departments use this service to catalog pictures, videos, and other files for different cases. Axon Evidence is available anywhere the police officer needs, including their squad car and their phone. Axon is in a great position to benefit from the change in police accountability moving forward.

## Competitors

Tyler Technologies, Inc. (NYSE: TYL)

Everbride, Inc. (NasdaqGS: EVBG)

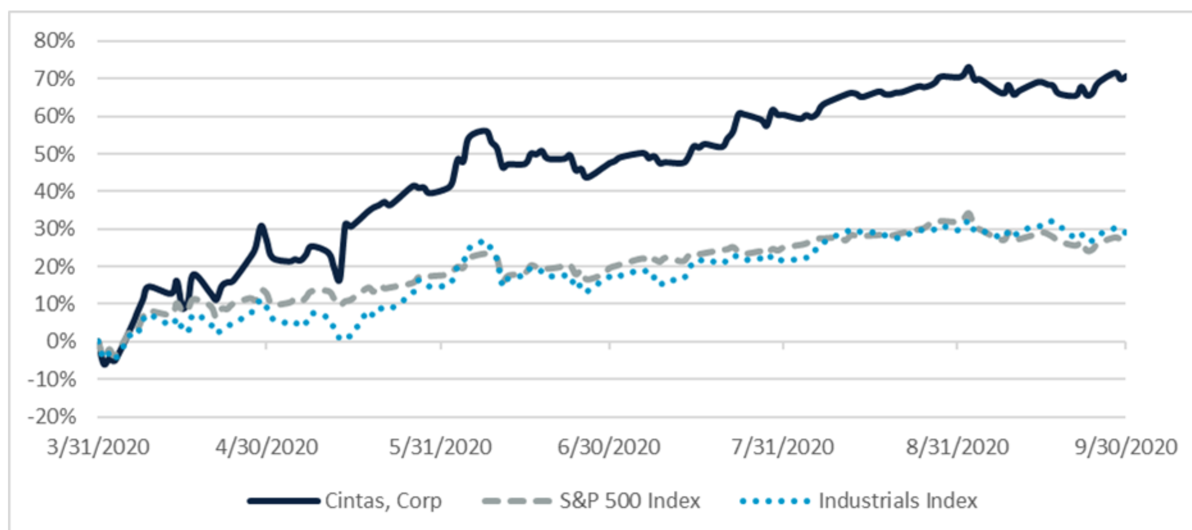
Cubic Corporation (NYSE: CUB)

## Analyst Coverage

Jacob Herman

**Cintas Corporation (NYSE: CTAS)** Commercial Services & Supplies

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 177 | 1.49% | 17.9% | 92.14% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.50 | $332.83 | $337.57 | 92.14% |




## Company Description

Cintas Corporation provides corporate identity uniforms and related business services specialized to business partners, primarily in North America, Latin America, Europe, and Asia. It offers first aid and safety services, and fire protection products and services to help protect their business partners from a variety of disasters. The company provides its products and services through its distribution network and local delivery routes, or local representatives to small service and manufacturing companies, as well as major corporations.

## Investment Rationale

Cintas' specialization has allowed them to control a large portion within solutions services. This positioning will be maintained given the large economies of scale in their operations. After the G&K Services acquisition, the international powerhouse only competes with much smaller firms. Cintas will continue to realize strategic benefits from their $2.2 billion acquisition of G&K services, positioning themselves well in markets like New York and Los Angeles. The implementation of their new enterprise resource planning system helps curtail inefficiencies within Cintas' operations. This new ERP system is focused on cost-cutting in sales processes, financial reporting, human capital management, corporate management, and cross segment sales. Cintas expects this system to be fully implemented midway through 2020.

## Competitors

Aramark (NYSE: ARMK)

UniFirst Corporation (NYSE: UNF)

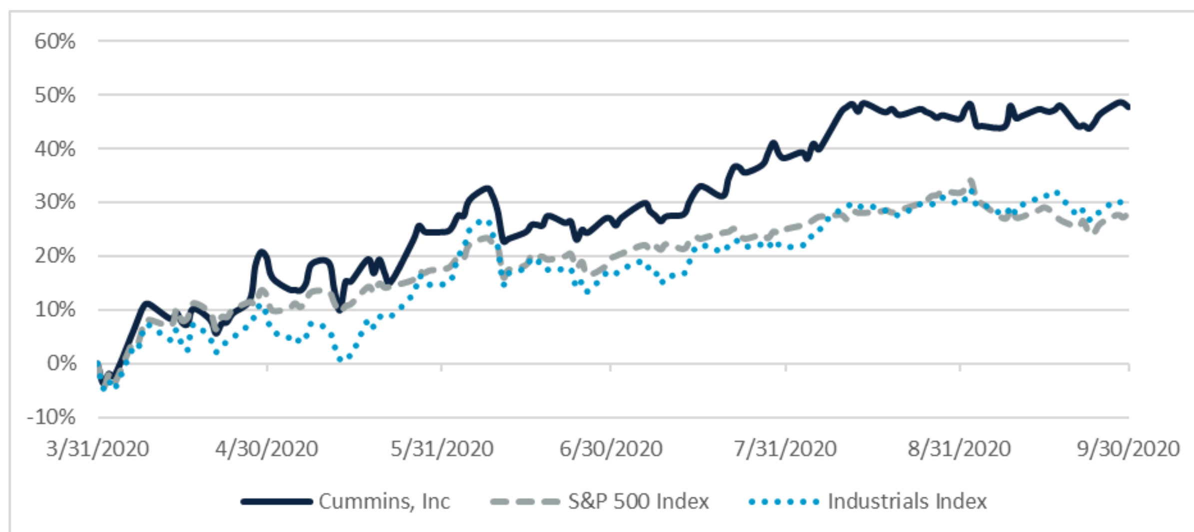
McGrath RentCorp (NasdaqGS: MGRC)

## Analyst Coverage

Jacob Herman

**Cummins Inc. (NYSE: CMI)** Construction Machinery and Heavy Trucks

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 259 | 1.41% | 16.62% | 58.33% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.18 | $211.16 | $248.27 | 58.33% |




## Company Description

Cummins Inc. designs, manufactures, distributes, and services diesel and natural gas engines and products worldwide. It operates through five segments: Engine, Distribution, Components, Power Systems, and New Power. Cummins manufactures diesel and natural gas powered engines for the heavy and medium-duty truck, bus, recreational vehicle, light-duty automotive, construction, mining, marine, rail, oil and gas, defense, and agricultural markets. They also provides standby and prime power generators, controls, A/C generator/alternator products under the Stamford and AVK brands.

## Investment Rationale

Cummins produces type-8 truck engines where demand is projected to grow in the coming years. Given the growth of e-commerce and competitors scrambling to find the top speed to deliver products to customers, trucking has become an increasingly profitable business. Furthermore, Cummins has recently started to manufacture electric excavators in a partnership with Hyundai. Cummins just released both an electric-powered transit bus and electric school bus. As city government directs funds to reduce their carbon footprint, electric busses will likely become the norm, benefitting Cummins. Finally, Cummins will be the first in the industry to release a power drive system, allowing trucks to use electric engines until their energy output exceeds the electric engines. At that point, power then switches over to a traditional diesel engine.

## Competitors

Caterpillar, Inc. (NYSE: CAT)

PACCAR, Inc. (NasdaqGS: PCAR)

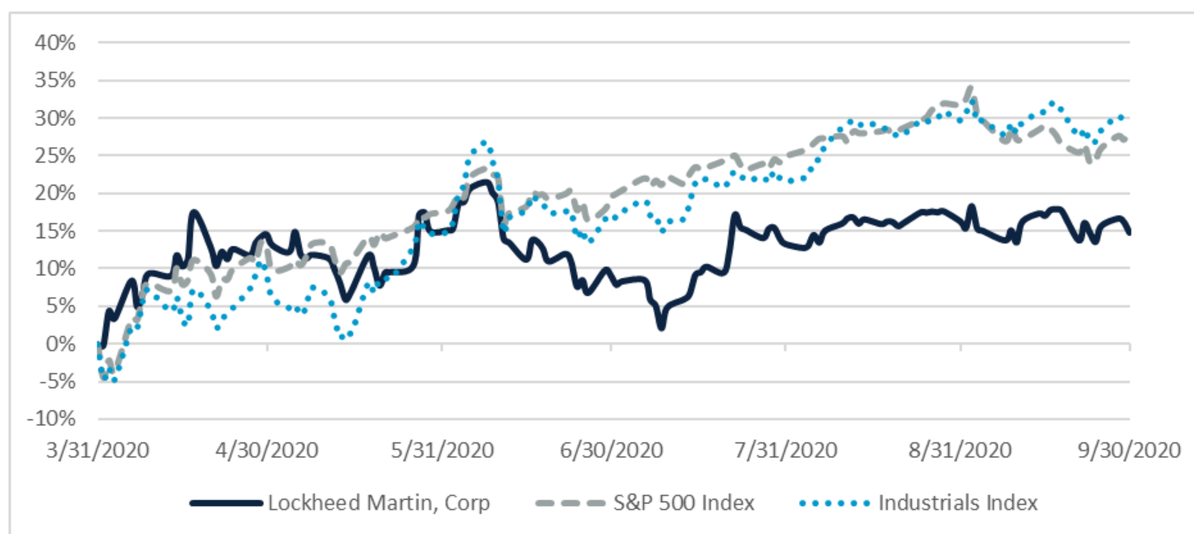
Deere and Company, Inc. (NYSE: DE)

## Analyst Coverage

Jacob Herman

**Lockheed Martin Corp. (NYSE: LMT)** Aerospace and Defense

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 217 | 2.16% | 25.27% | 14.48% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.93 | $383.28 | $442.52 | 14.48% |




## Company Description

Lockheed Martin is a global security and aerospace company that is principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems, products, and services. It operates in four main segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space Systems. The majority of Lockheed Martin's business is done holding critical U.S Department of Defense and U.S and other government contracts, ensuring stability in future growth. They produce the F-35 Fighter Jet, considered by many to be the best model in the world.

## Investment Rationale

Lockheed Martin is always at the cutting edge of advanced technology and science. Their F-35 Fighter jet, considered the most advanced fighter jet in the world, boasts short take-off and landing capabilities. Furthermore, 3 of the 5 fighter jets utilized by the U.S Military are Lockheed Martin produced jets. As of Dec. 31st, their historic $143B backlog extending beyond 2025 provides optimism for Lockheed Martin's mid to long-term growth. As of Dec. 31st, they had 374 production aircraft in backlog. Their most stable product, the F-16 Fighting Falcon, represents nearly half of the U.S fleet. Their critical segment of missile defense also provides the new military unit known as the United States Space Force. Time and time again, the industry leader consistently earns the top government contracts and will continue to see this success.

## Competitors

General Dynamic, Corp. (NYSE: GD)

Northrop Grumman, Corp. (NYSE: NOC)

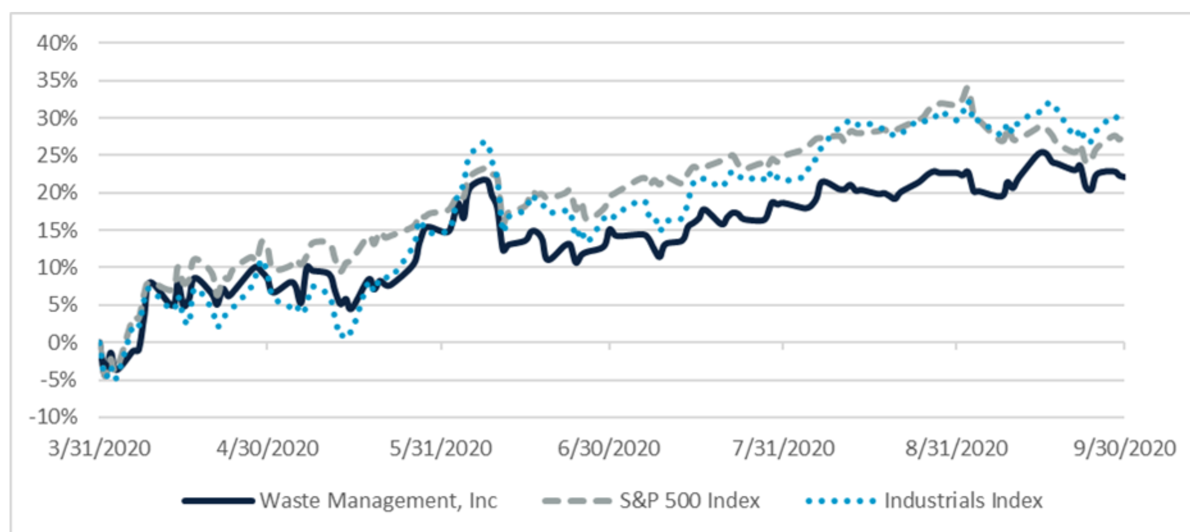
Raytheon Company. (NYSE: RTN)

## Analyst Coverage

Jacob Herman

**Waste Management, Inc. (NYSE: WM)** Commercial Services & Supplies

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 620 | 1.80% | 21.32% | 23.49% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.73 | $113.17 | $148.61 | 23.49% |




## Company Description

Waste Management, Inc. provides waste control and environmental services to residential, commercial, industrial, and municipal markets throughout North America. They pick up and transport waste and recyclable materials from wherever it was generated to material recovery facilities or disposal sites. They are North America's leading provider of waste control services and own 249 landfill sites and 302 transfer stations throughout North America. They pride themselves as well in being the leading recycler in the continent primarily through paper, cardboard, glass, plastic, and metal.

## Investment Rationale

Waste Management is the leader in waste control and environmental services and has an extremely large client base. With sustainability being a huge concern for governments, more regulations are being put in place for waste control. More companies are hiring Waste Management to prevent any fines or violations of government regulations. Waste Management will profit from the increase in government regulations as they offer some of the highest quality disposal services nationwide. Waste Managements is the world's largest private recycler and has been working on developing ways to create renewable energy from their landfills. As environmental regulations become stricter throughout the country, Waste Managements nationwide disposal and recycling service will see large and consistent revenue growth throughout the coming years.

## Competitors

Republic Services, Inc. (NYSE: RSG)

Waste Connections, Inc. (NYSE: WCN)

Clean Harbors, Inc. (NYSE: CLH)

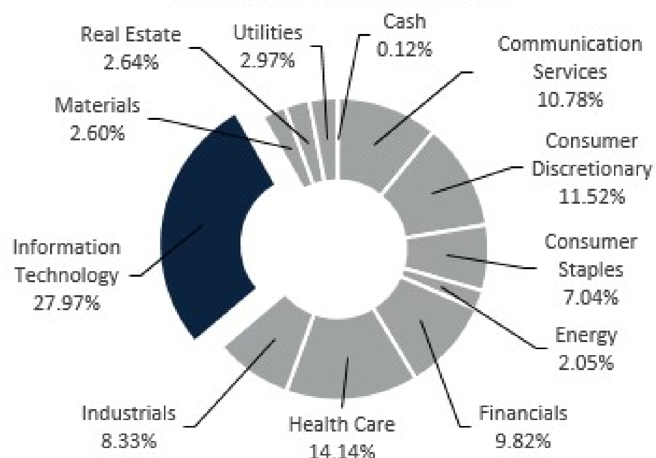
## Analyst Coverage

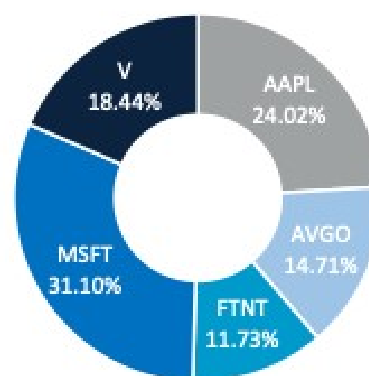
Andrew Walker

# Information Technology Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 month Return |
|---|---|---|---|---|---|---|
| Apple, Inc | AAPL | Technology, | 24.02% | 6.68% | $265,437 | 82.99% |
| Broadcom, Inc | AVGO | Semiconductors | 14.71% | 4.15% | $162,487 | 56.74% |
| Fortinet, Inc | FTNT | Systems Software | 11.73% | 3.29% | $129,591 | 16.45% |
| Microsoft Corporation | MSFT | Systems Software | 31.10% | 8.65% | $343,679 | 34.06% |
| Visa, Inc | V | Data Processing and | 18.44% | 5.19% | $203,769 | 24.51% |



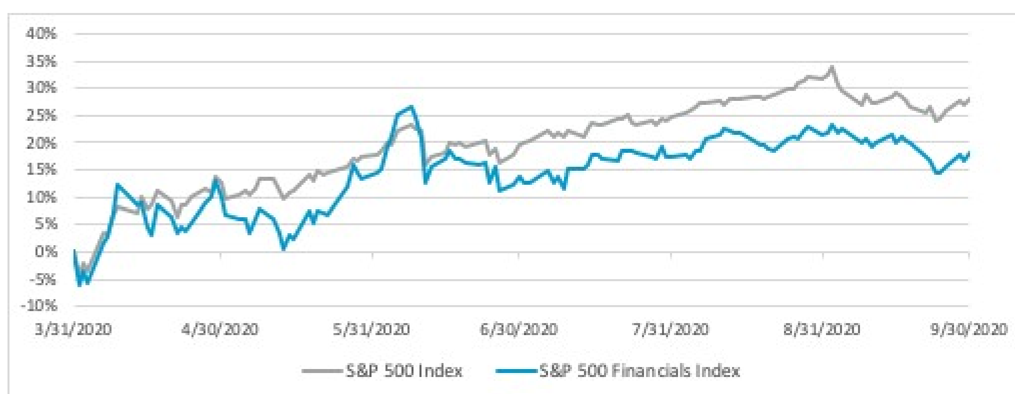

## Information Technology Sector Overview

The DCF currently holds five stocks in the information technology sector. Our holdings, in order from highest to lowest weight are Microsoft, Apple, Visa, Broadcom, and Fortinet. The are four sub-sectors within the IT sector holdings: Technology, Hardware Storage and Peripherals, Semiconductors, Systems Software, and Data Processing and Outsourced Services.

While I.T. has become the hottest sector in the market, the Fund continues to search for ways to outpace the benchmark sector's gains. While conviction remains strong in Apple and Microsoft to outperform the market, the Fund has also chosen to shift funds into Broadcom and Fortinet, less popular stocks that hold a strong market share of their respective industries.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 43.59% |
| Benchmark Sector Return: | 46.13% |
| DCF Sector Weight: | 27.67% |
| Benchmark Weight: | 27.03% |
| Asset Allocation: | 0.08% |
| Security Selection: | -0.42% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Will Brunner |
| **Sector Analyst:** | Cole Drake |
| | Elena Maloy |
| | Connor McKiernan |




**Industry Analysis**

In these last six months, the economy has continued to recover from the government enforced lockdowns put in place due to the pandemic. These lockdowns have generated more demand for products and services from the IT sector. This has generated huge growth for many businesses within the IT sector, especially within the semiconductor, software application, and consumer electronics sub-sectors. Many companies within these sub-sectors have recently reach all time high market capitalization and price-to-earnings ratios. On one hand, this has produced significant returns for many of the IT sector holdings, namely SolarEdge, PayPal, Microsoft, and Apple. On the other hand, finding undervalued companies within the sector who have strong fundamentals has become increasingly difficult. We have strong conviction in the software application and semiconductor sub-sectors. We have recently valued Workday, Salesforce, Qualcomm, and NVIDIA, but all have yielded overvaluations. The Fund will continue to search for value within these sub-sectors.

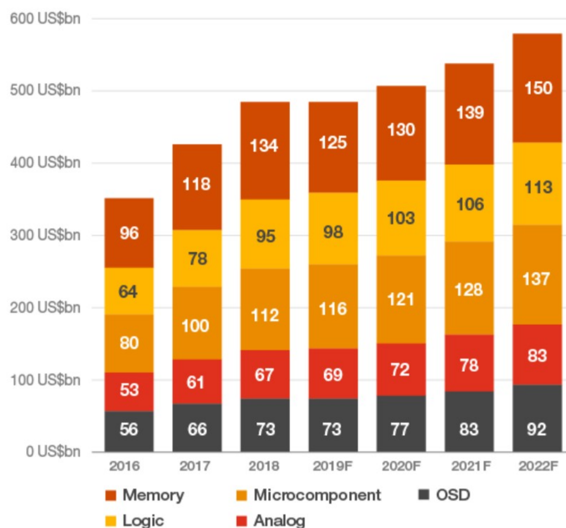
The many holdings in the IT sector have provided the Fund with significant growth during the recovery from the government mandated lockdowns. This growth primarily came from holdings in the software applications, consumer electronics, and online payments sub-sectors. With many people working remotely, demand for products to assist in the new work format were filled by Apple and Microsoft. Both of these companies experienced a surge in their consumer electronics segment, primarily from laptops. Apple also benefitted from health tracking wearable tech, while Microsoft gained significantly more users on Office 365 and Intelligent Cloud. PayPal also grew during the recovery as need for online payments skyrocketed, providing the company with a surge in active users and payments on their platforms.

Other subsectors have not performed as well as the consumer electronics, software applications, and online payments segments. Visa and Cisco have been the IT sectors lagging performers, due primarily to macroeconomic trends. While online shopping has reached all time highs, overall spending is down, hurting Visa's bottom line. Like Visa, Cisco has also bene a victim of low consumer spending, as Cisco's revenue growth tends to be highly correlated with trends in economic spending. So when that metric falls, Cisco tends to get hit harder than most. Businesses who buy from Cisco only upgrade their network hardware when they have funds to do so since it is typically not time sensitive to upgrade equipment. Since many businesses are now trying to reduce costs, upgrading to the newest hardware is not something that many of these cash-strapped companies will be looking to do in the near future.

## What's Changing in Information Technology

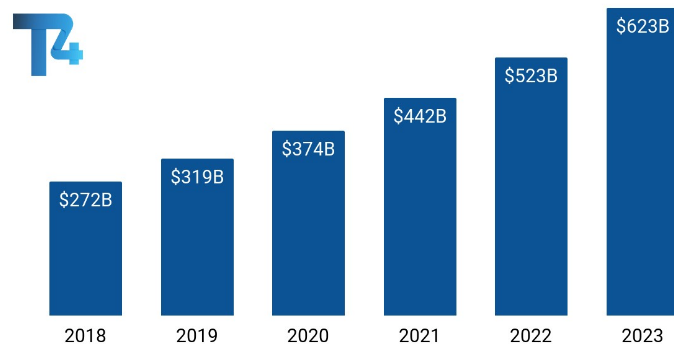
### Semiconductors

After the COVID-19 pandemic hit, semiconductor companies quickly moved to protect supply chains and prepare for a post-pandemic world. In the new normal, the way businesses operate will change  Businesses now need to rethink their businesses models for adapting and overcoming challenges faced during this time. Now more than ever, gathering business intelligence in order to make timely decisions is crucial. The pandemic has accelerated the need for business to use smart business AI technology, and therefore has also fueled the development of those programs. In 2018, global semiconductor sales were about $480 billion, up from about $350 billion in 2016.  By 2022, global semiconductor sales are estimated to be close to $600 billion, with growth primary coming form the demand for semiconductors in the automotive and data processing markets. In the past, semiconductor manufacturers saw strong growth that correlated with the emergence of new technology.  This is evident in the boost in sales in the early 2000s with the popularity of PCs and in 2007 during release of the iPhone. Over the next decade, the increasing use of smart business intelligence AI is expected to have a compounded annual growth rate of 50%, increasing from $6 billion in annual sales to over $30 billion by 2022.



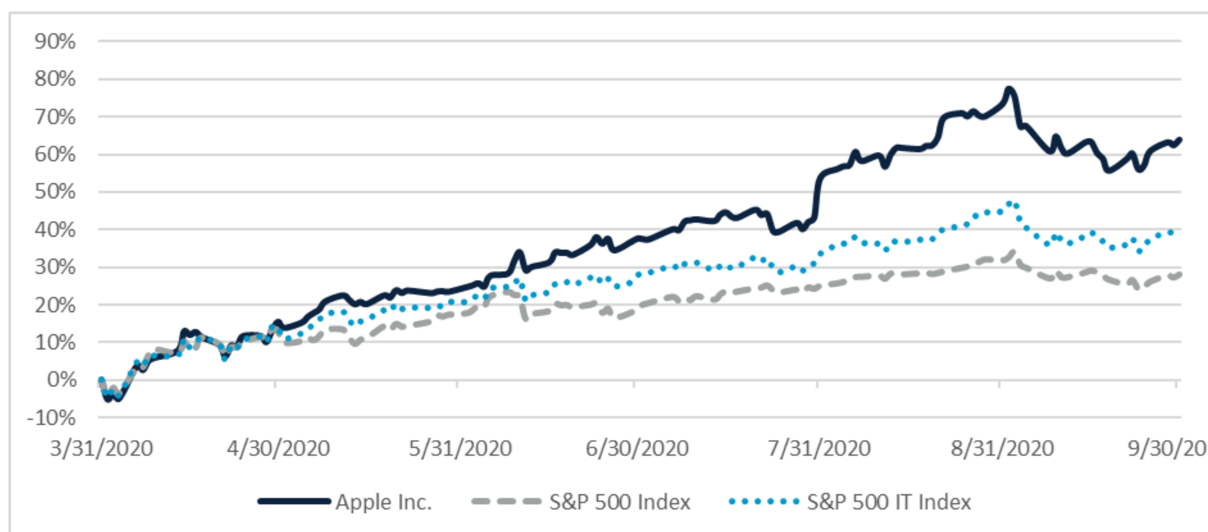

### Cloud Computing

The pandemic has forced businesses to find ways to save on costs while also being able to improve productivity and efficiency.  The cloud computing market will be able to provide these benefits as businesses look to modernize and better analyze data trends.  Analyzing data trends is crucial for businesses to make strategic decisions, but requires larger storage capacity.  Cloud computing is able to provide this larger data storage at costs less than an onsite storage. Currently around 80% of companies with more than 1,000 employees use cloud computing in at least part of their businesses operations.  That is expected to be over 90% by 2024. Global sales of cloud services are expected to grow 73% between 2018 and 2021, from $160 to $277 billion.  In 2019, Google announced a quantum computing breakthrough that makes today's most powerful computers nearly obsolete. The market for cloud computing is still reaching new businesses today, and with the constant innovation in this industry, growth and expansion should climb for decades.



**Apple, Inc. (NasdaqGS: AAPL)** Technology, Hardware, & Storage

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 2,292 | 6.68% | 24.02% | 82.99% |
| **Beta** | **Current Price** | **Target Value** | **Return For DCF** |
| 1.28 | $115.81 | $124.25 | 74.65% |




## Company Description

Apple is an Information Technology company that designs, manufactures, and sells smartphones, computers, tablets, and other accessories across the globe. Apple also offers services, such as Apple Pay, Apple Arcade, and Apple News+ as part of an ever-expanding Apple ecosystem of products. Consumers of Apple include everyday people, small and large businesses, schools, and the government. Products are sold at Apple stores, as well as online, or through third party cellular networks stores.

## Investment Rationale

Apple has grown to be a market leader by capturing a wide and consistent customer base that continues to come back for the latest products, and now services. Apple has seen growing success in terms of their Apple Pay, Apple News+, and Apple Arcade. Especially with Apple Pay, Apple has been able to significantly increase the speed of transferring funds and ease of use for customers. They have seamlessly transitioned to 5G, and continue to stay at the cutting edge of the smartphone market. Lastly, they will be developing their own chips for their computers, giving them increased ability to mesh their products in a way that no other company can, as well as growing margins on those products.

## Competitors

Microsoft Corporation (NasdaqGS: MSFT)

Alphabet, Inc. (NasdaqGS: GOOG.L)

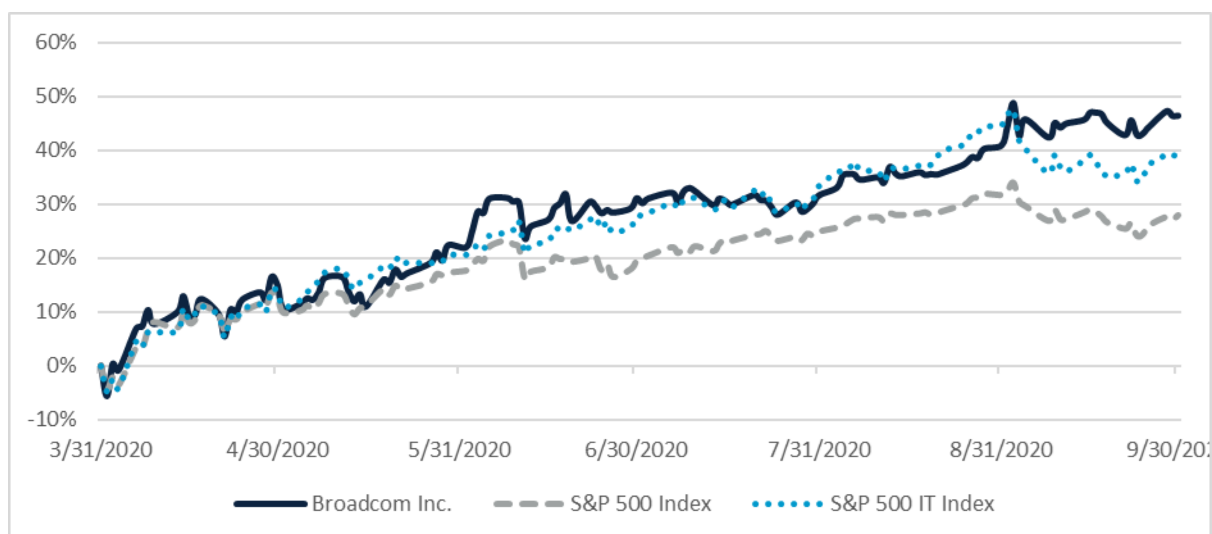
HP, Inc. (NYSE: HPQ)

## Analyst Coverage

Cole Drake

**Broadcom Inc. (Nasdaq: AVGO)** Semiconductors

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 446 | 4.15% | 14.71% | 56.74% |
| **Beta** | **Current Price** | **Target Value** | **Return For DCF** |
| 0.95 | $364.32 | $402.82 | 17.62% |




## Company Description

Broadcom develops and licenses system-on-chips, integrated circuits, RF, Wi-Fi, Bluetooth, and GPS technology that facilitates wireless engagement between electronic devices. Broadcom's semiconductor and networking solutions enable broadband access markets and secure data transportation, while their comprehensive infrastructure software program provides remote data storage capabilities. Broadcom is segmented into three segments: Semiconductor Solutions, Intellectual Property Licensing, and Infrastructure Software.

## Investment Rationale

Broadcom is poised for success as the global economy recovers from the COVID-19 pandemic shutdown. Broadcom's 5G chipsets are expected to be a stronger driver of revenue as expectations for global smartphone shipments come to fruition in the next several years. Ultimately, Broadcom's large cash hoard, past success with mergers and acquisitions, and diverse and innovative product mix will set it apart from other competitors in an industry that is poised to explode on the back of rapid advancements in communications technology that will be brought about by the beginning of the 5G era.

## Competitors

Intel Corporation (NasdaqGS: INTC)

NVIDIA Corporation (NasdaqGS: NVDA)

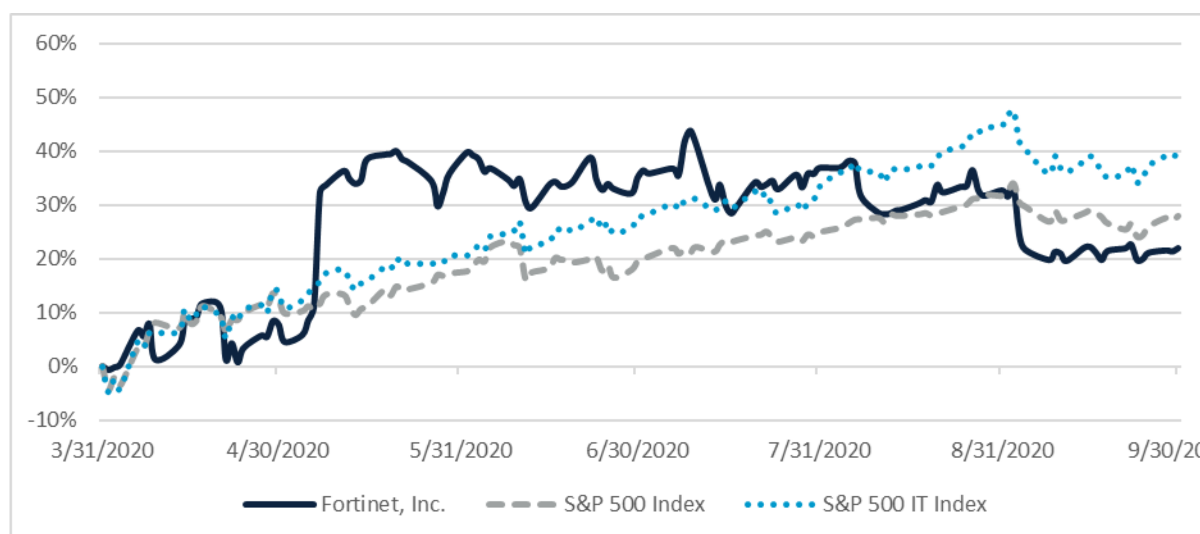
QUALCOMM Incorporated (NasdaqGS: QCOM)

## Analyst Coverage

Connor McKiernan

**Fortinet, Inc. (NasdaqGS: FTNT)** Systems Software

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 1,100 | 3.29% | 11.73% | 16.45% |
| **Beta** | **Current Price** | **Target Value** | **Return For DCF** |
| 0.84 | $117.81 | $127.48 | 0.10% |




## Company Description

Fortinet, Inc. provides broad, integrated, and automated cybersecurity solutions worldwide. They offer Fortigate, hardware and software licenses that include firewall, intrusion prevention, anti-malware, VPN, WAN, and more. They do business with large and small companies in a wide range of fields including, telecommunications, technology, government, financial services, education, retail, manufacturing, and healthcare.

## Investment Rationale

The market is currently underestimating the impact of the SDWAN improvement from the OPAQ acquisition in late July, 2020 on future revenue growth. This acquisition now gives Fortinet the most complete cloud security package on the market with strong security as well as wide scale cloud access. Between 2015 and 2021, cybercrime damages are estimated to increase from $3 trillion to $6 trillion, which means that products and services that Fortinet offers are becoming even more essential for companies in order to have optimal security. In addition, with such a wide product and service offering, Fortinet has everything a company needs in terms of network and data security. Fortinet has and will continue to have the ability to adapt to constantly changing customer needs as a result of this strategy moving forward.

## Competitors

Juniper Networks, Inc.(NYSE: JNPR)

Cisco Systems, Inc. (NasdaqGS: CSCO)

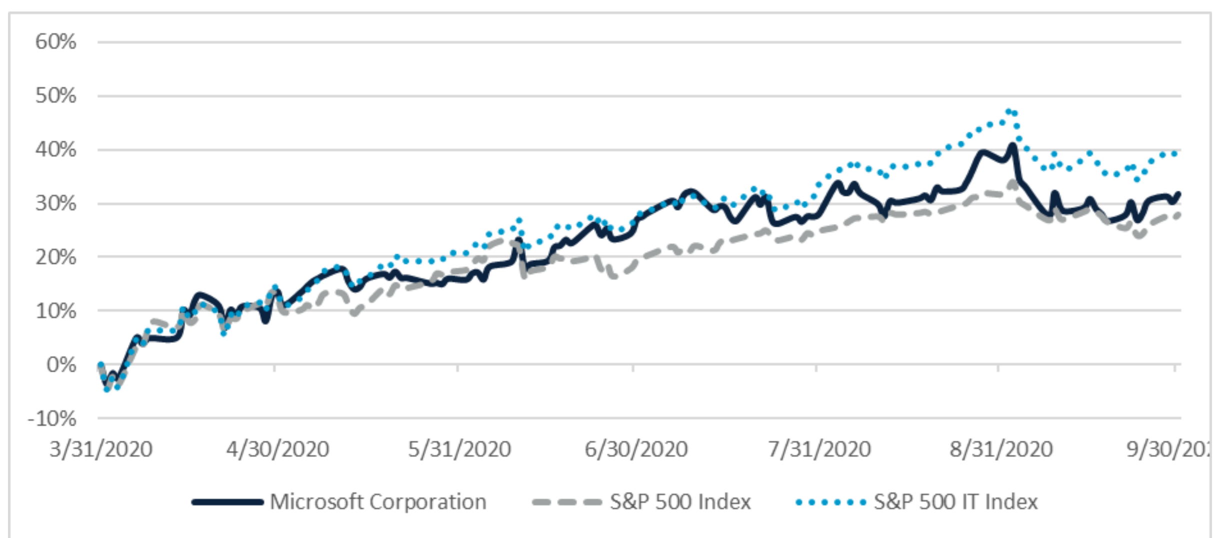
Palo Alto Networks, Inc. (NYSE: PANW)

## Analyst Coverage

Cole Drake

**Microsoft Corporation (NasdaqGS:MSFT)** Systems Software

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,634 | 8.65% | 31.10% | 34.06% |
| **Beta** | **Current Price** | **Target Value** | **Return For DCF** |
| 0.89 | $210.33 | $237.96 | 34.06% |




## Company Description

Microsoft is a technology company that operates, develops, and licenses a slew of personal and commercial productivity enhancements, a professional connectivity platform, intelligent cloud services, operating systems, a gaming ecosystem, and personal computing devices, among other technology solutions. Microsoft is segmented into three businesses: Productivity and More Business Processes, Intelligent Cloud, and More Personal Computing.

## Investment Rationale

Microsoft's growth in recent quarters has been driven by optimal social conditions. Amidst the quarantine and social distancing era, businesses have fundamentally changed the manner in which they conduct operations and communications. Microsoft's Office 365 and Azure (productivity and intelligent cloud) products have benefited from surging market demand driven by increased cloud usage and productivity software subscriptions. Microsoft is also prepared to reap the rewards of its highly anticipated gaming console release this holiday season, the XBOX Series X. As cloud usage and productivity needs continue to dominate the market, Microsoft is poised to fulfill this demand and drive a new wave of commercial technology.

## Competitors

Alphabet Inc. (NasdaqGS: GOOG.L)

Apple Inc. (NasdaqGS: APPL)

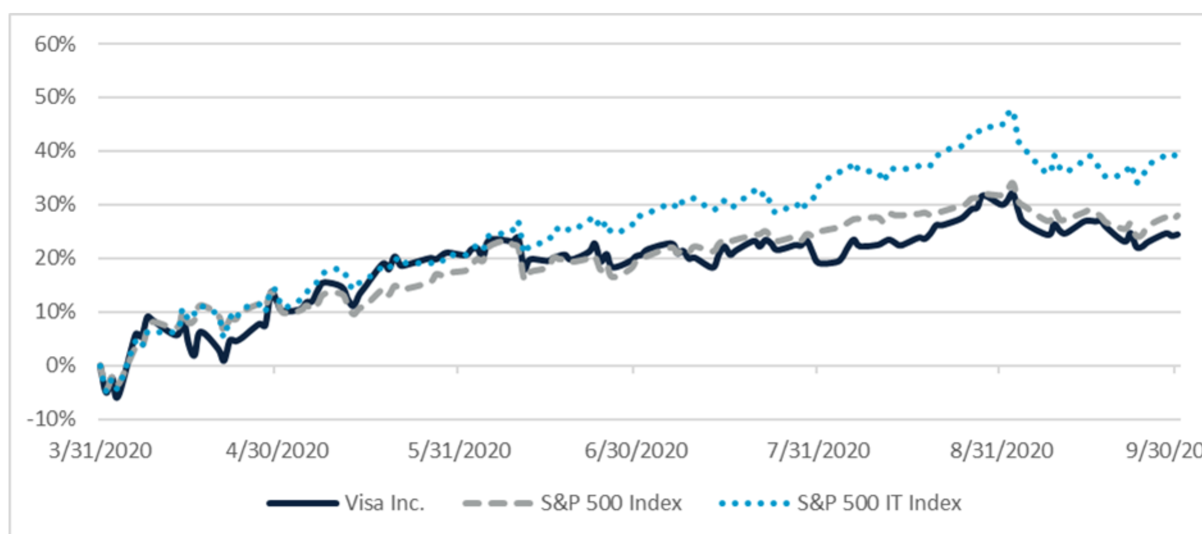
Oracle Corporation (NYSE: ORCL)

## Analyst Coverage

Connor McKiernan

**Visa, Inc. (NYSE: V)** Data Processing and Outsourced Services

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 1,019 | 5.19% | 18.44% | 24.51% |
| **Beta** | **Current Price** | **Target Value** | **Return For DCF** |
| 0.90 | $199.97 | $217.08 | 24.51% |




## Company Description

Visa, Inc. is a global payments technology company. Visa facilitates commerce through the transfer of money and information among consumers, merchants, financial institutions, businesses, strategic partners, and government entities. Their processing network, VisaNet, capable of managing more than 65,000 transaction messages in a second, enables authorization, clearing, and settlement of payment transactions. Additionally, Visa offers card products and other valued-added services. Their services are provided under Visa, Visa Electron, Interlink, V PAY, and PLUS brands.

## Investment Rationale

With Visa investing heavily in technology in anticipation of a cashless world ahead, the company is seeing consistent, growth. Their two recent offerings, "Tap to Pay" and Visa Direct, demonstrate their ability to innovate based on market demands, and continue to push top line growth with better margins. "Tap to pay," compatible with both Apple Pay and Google Pay, allows customers a quicker, simpler way to complete transactions in person with limited contact. Visa Direct gives users the ability to pay anyone with a debit or prepaid card without having to issue a check or use cash. Visa is a strong long-term investment as they are a forward-moving company with the proven mission of enhancing ease and efficiency when it comes to managing and transferring funds.

## Competitors

Mastercard, Inc. (NYSE: MA)

PayPal Holdings, Inc. (NasdaqGS: PYPL)

Fiserv, Inc. (NasdaqGS: FISV)

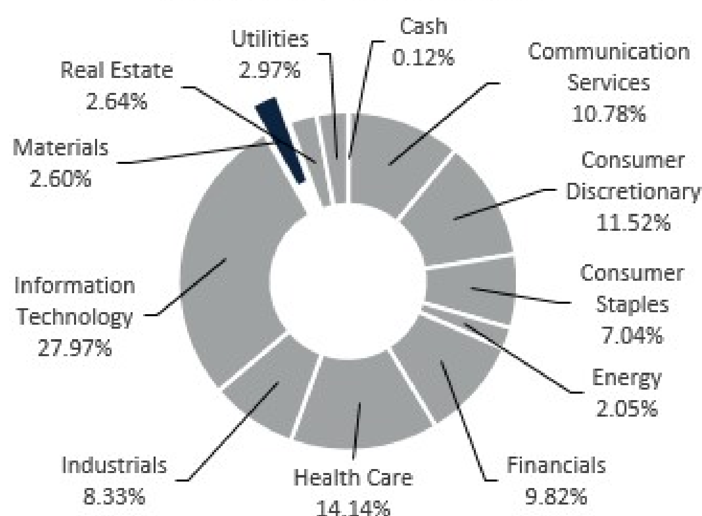
## Analyst Coverage

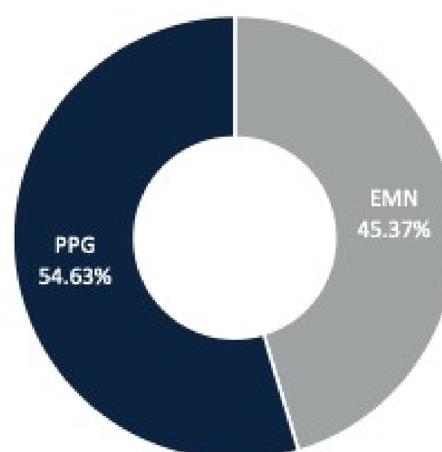
Elena Maloy

# Materials Sector Report

**Holdings as of September 30th, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Eastman Chemical Co | EMN | Diversified Chemicals | 45.37% | 1.18% | $46,637.64 | 70.68% |
| PPG Industries Inc | PPG | Specialty Chemicals | 54.63% | 1.42% | $56,156.80 | 47.54% |



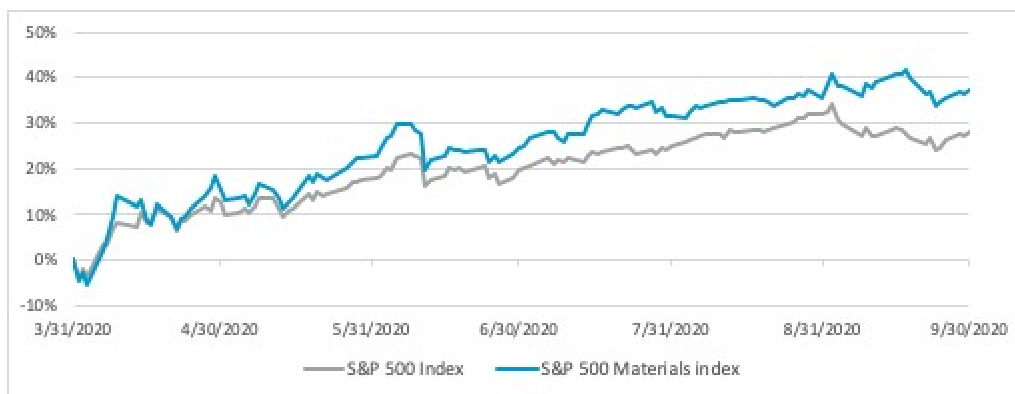

## Materials Sector Overview

The Fund's positions in the Materials sector have not changed over the fiscal period, as it continues to hold strong conviction in both Eastman and PPG. Both have outperformed the market over the past 6 months, and have additional room for growth due to strong efficiency and sustainability initiatives from Eastman, and a market-leading position for PPG.

Eastman Chemical Company is in diversified chemicals and PPG Industries in specialty chemicals. While the Fund continues to value companies in all materials subsectors, it currently finds the most opportunity present in these two companies within the chemicals space. Industry and economic trends may shift this conviction in the near future, and for this reason the Fund will be closely monitoring the field.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 55.16% |
| Benchmark Sector Return: | 42.78% |
| DCF Sector Weight: | 2.59% |
| Benchmark Weight: | 2.52% |
| Asset Allocation: | 0.01% |
| Security Selection: | 0.42% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Tristan Shafer |
| **Sector Analyst:** | Andrew Walker |




**Industry Analysis**

Materials had a positive return YTD, slightly above the S&P 500. Over the past 6 months, Materials moved almost directly in line with the S&P 500 until late August, when the S&P dropped slightly while Materials entered a temporary holding pattern. Our strategy regarding Materials was conservative going into the upcoming election. We have valued companies with high upside while minimizing risk. Given the current political and economic climate in the US, some companies within this sector may be more highly impacted by ongoing issues such as trade wars and economic fluctuations.

The two stocks that the DCF owns in Materials, PPG and Eastman Chemicals, are in the Chemicals sub sector. Chemicals has outperformed the S&P 500 for the year, but has missed the mark set by the Materials sector as a whole. The Chemicals subsector operates in commodity and diversified chemicals, fertilizer chemicals, agriculture chemicals, and industrial gasses. While PPG is best known for their commercial paint, they generate a lot of their revenue from industrial and automotive paints and coatings. They suffered due to a significant drop in demand in the automotive industry, but made up for a portion of that lost revenue due to an increase in home projects during quarantine. While agriculture and fertilizers were relatively unaffected, industrial gasses took a small loss due to the shutdown of different sections of production throughout the economy.

Eastman chemical produces a diverse range of products that includes chemicals as well as polymers, fibers, paint additives, and many more. Eastman reported no disruption in their supply chain to vital customers throughout the pandemic. Before the COVID pandemic, they had the best performance for a first half of a fiscal year in the company's history. They view their diverse businesses as a positive, as they saw certain markets, such as transportation, take a hit during the beginning of the pandemic, but these poor performers were held up by more stable segments such as medical and agriculture. They are now seeing recovery in their impacted markets.

With the economy rebounding as well as the majority of manufacturing plants reopening, chemicals, along with the rest of the sector, should see a boost in their revenue moving forward. As mentioned, Materials is highly reliant on underlying economic conditions, and as markets continue to improve over time, Materials has the opportunity to be a market leader by capitalizing on the new spending opportunities that present themselves.

## What's Changing in Materials

The Materials sector has been volatile over the last 6 months. The combination of supply chain issues that stemmed from the COVID-19 pandemic as well as the upcoming election have put the traditionally stable industry into a period of uncertainty. However, the sector has a high degree of correlation with economic and market conditions, and so the current upswing in market activity due to the gradual slowing of the coronavirus pandemic should provide an opportunity for short-term growth, which should allow the sector to make up for lost ground.

### Supply Chain and International Investment

Most materials companies do business overseas, so the slowing of international trade and closure of borders due to COVID-19 caused significant supply chain issues. Today, most trade has been restored, but companies are likely to be cautious about large investments overseas moving forward. As the coronavirus pandemic showed the risks associated with large segments of business being located in different countries, many companies will begin to think twice before expanding into new markets. This could inhibit growth in the sector moving forward. With the supply chain back to normal and most industry reopened worldwide Materials has already felt the majority of the impact of the coronavirus on their revenues. Moving forward, the sector will likely be much less volatile than the last 6 months, as revenues should normalize to their expected levels.

### Election

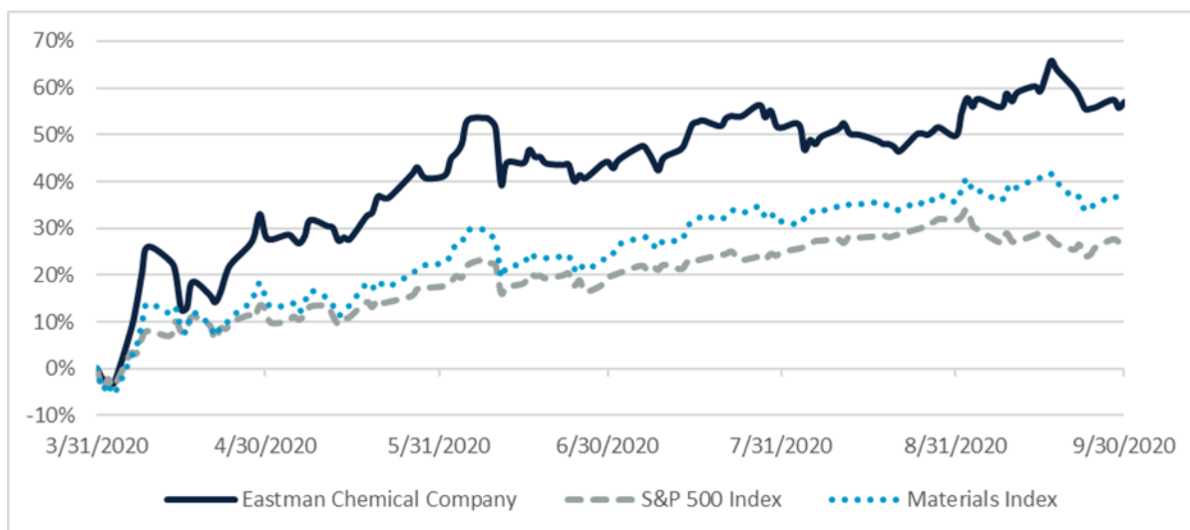
The US presidential election will also play a large part in the future of the sector. Both candidates have very different views on trade, each with their own pros and cons. Donald Trump has shown a much more U.S. focused view on trade, which could prohibit materials companies from growing in foreign markets. However, this would protect their domestic markets from overseas competition. Joe Biden is much more pro-trade, which would allow opportunities for growth but would also open up these companies to competition from foreign markets. The election results will likely influence materials companies' strategy moving forward..

### Rotation toward Value

While not directly related to the operations of these companies, the Materials sector of the stock market could benefit from an emerging trend towards investing more money in value stocks over their growth couterparts. As mentioned earlier in this report, the recent volatility in equity markets and the large and ever-growing valuations stamped on big tech companies have given investors reason to pause and reconsider their strategy. It is much more likely that there are underpriced opportunities in conservative sectors like Materials than in the inflated values of the Information Technology sector. As investors look to mitigate against current market volatility, stable companies with reasonable valuations in the Materials sector may prove to be an enticing option. And as investors continue to make these types of moves, it is likely that valuations for these companies will begin to rise as well.

**Eastman Chemical Company (NYSE: EMN)** Diversified Chemicals

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 597 | 1.18% | 45.37% | 70.68% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.63 | $78.12 | $90.33 | 70.68% |




## Company Description

Eastman Chemical Company is an advanced materials and specialty additive company whose products are found in everyday items. The company operates in four business segments: Additives & Functional Products, Advanced Materials, Chemical Intermediates, and Fibers. Products that are produced and sold are diverse polymers, rubber additives, solvents, and adhesives. In turn, these products are used in plastics, rubbers, construction materials, agriculture materials, water treatment, and various other uses.

## Investment Rationale

Eastman Chemical Company expanded their operations in September 2019 by opening a tire additive division in Shanghai. This expansion will allow Eastman to get a hold on the growing Chinese market as well as increasing efficiency and lowering costs of production. The company made an acquisition of INACSA yarn to create more growth in the textile market. A huge reason for this acquisition was to offset the decreases in revenues the company has seen in their Fibers segment. Eastman has recently introduced new copolyester products and eco-friendly bioplastics. With a new and unique recycling strategy these products should be more profitable as Eastman has put themselves in a position be a leader in sustainability.

## Competitors

Huntsman Corporation (NYSE: HUN)

Westlake Chemical Corporation (NYSE: WLK)

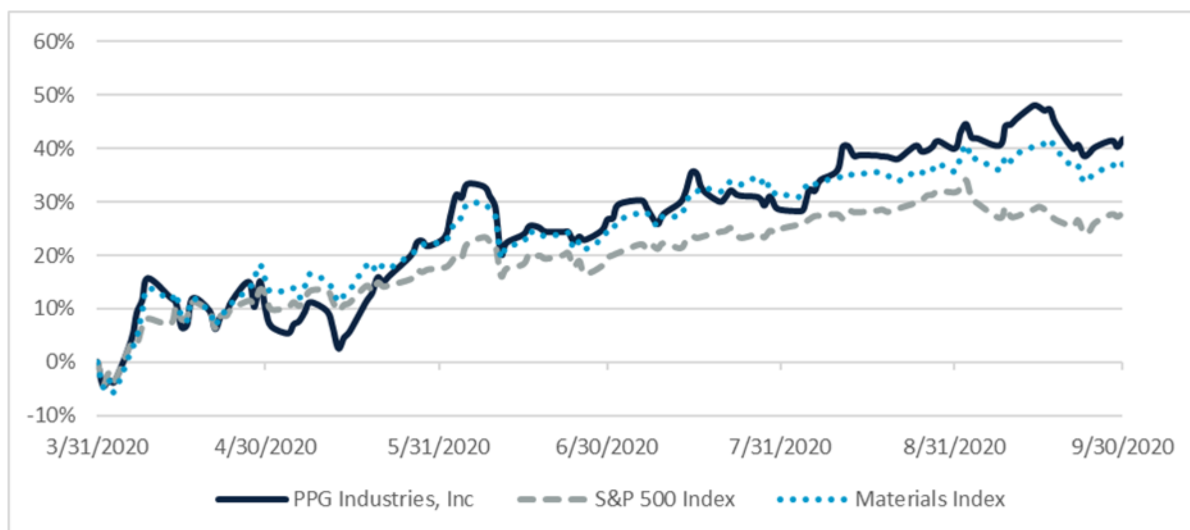
LyondellBasell Industries N.V. (NYSE: LYB)

## Analyst Coverage

Andrew Walker

**PPG Industries, Inc. (NYSE: PPG)** Specialty Chemicals

| **Shares** | **Weight in Portfolio** | **Weight in Sector** | **6 Month Return** |
|---|---|---|---|
| 460 | 1.42% | 54.63% | 47.54% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.26 | $112.08 | $145.00 | 47.54% |




## Company Description

PPG Industries, Inc. manufactures and distributes paints, coatings, and specialty materials throughout the United States and internationally. The company is comprised of two segments: Performance Coatings and Industrial Coatings. The performance segment provides paints and coatings products for the automotive, aerospace, and marine industries. They are also used in architectural projects worldwide. The Industrial segment provides coatings, adhesives, and sealants for automotive and industrial purposes, as well as specialty products for metal pretreatments.

## Investment Rationale

PPG Industries, Inc. is very active in searching for and acquiring businesses. In the past decade alone PPG has made 50 new business acquisitions and they have seen continued success from their business acquisitions. Their growth in sales has averaged over 3% as a result of these acquisitions and, according to the company's management, they plan on continuing the trend of buying out 4 or 5 companies per year. These acquisitions have allowed for PPG to have greater strength in their current markets, as well as expanding to new markets both in the U.S. and abroad. With the proven success of their previous business mergers, PPG has and can put themselves in position to achieve much higher growth in 2021 and beyond.

## Competitors

The Sherwin-Williams Company (NYSE: SHW)

Ecolab Inc. (NasdaqGS: ECL)

Celanese Corporation (NYSE: CE)

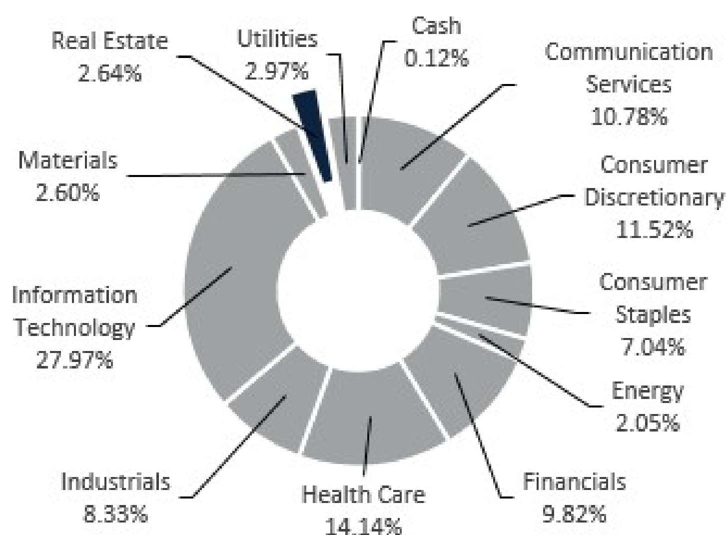
## Analyst Coverage

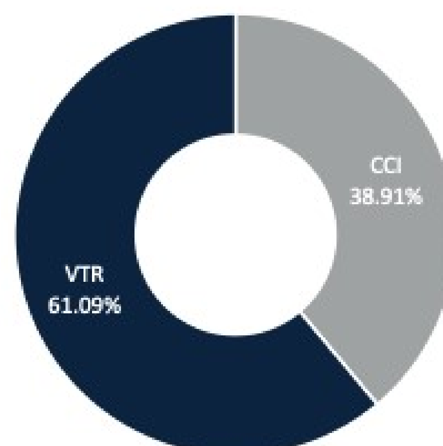
Andrew Walker

# Real Estate Sector Report

**Holdings as of September 30, 2020**

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Crown Castle International Corp. | CCI | Industrial REITS | 38.91% | 1.02% | $40,626.00 | 17.04% |
| Ventas, Inc. | VTR | Specialty REITS | 61.09% | 1.65% | $63,779.20 | 87.06% |




**<u>Real Estate Sector Overview</u>**

In the Real Estate sector, the Fund holds positions in two subsectors: Industrial REIT's and Healthcare REIT's. During the Fund's semiannual period, the S&P 500 Real Estate Sector returned 15.39%. The Fund returned 42.22% in the semiannual period, driven mostly by Ventas.

For the semiannual period, the Fund has been focusing on Industrial and Infrastructure REIT's due lesser impacts of COVID-19 on these areas. Also, with some businesses remaining closed, the DCF is avoiding companies operating in office spaces or hotels The current holdings the Fund has have been revalued in this semiannual period to display the effects of COVID-19.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 42.22% |
| Benchmark Sector Return: | 15.39% |
| DCF Sector Weight: | 2.98%% |
| Benchmark Weight: | 2.81%% |
| Asset Allocation: | -0.03% |
| Security Selection: | 0.80% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Evan Ensminger |
| **Sector Analyst:** | Joe Langhoff |

**Industry Analysis**

The S&P 500 Real Estate Sector has underperformed to the S&P 500 for this semiannual period, while the Fund's Real Estate sector has outperformed its benchmark counterpart by 25.7%. The reasoning behind this outperformance is all due to the sub-sectors and the specific securities chosen by the Fund. The subsectors in which the DCF is involved are Infrastructure REITs and Healthcare REITS, with holdings in Crown Castle International and Ventas. On the other hand, the Fund is choosing to steer clear of companies involved in the lodging and leisure industries, as these are most likely to see the farthest-reaching impacts of the virus.

With Real Estate underperforming the S&P 500, it's imperative that the limited number of stocks the Fund screens have been properly evaluated for potential mispricings. Ventas was purchased last semester and has been recently updated after being the biggest driver behind the sector's success. The update was much needed with Ventas mostly owning nursing homes. Nursing homes owned by Ventas have so far been able to avoid the COVID-19 outbreaks that have plagued many similar residences in recent months. In July, their CEO reported only 2% of residents across all Ventas properties had been diagnosed with COVID-19. A history of strong organic growth and an increased reputation due to the health of their clients have pushed Ventas to the top of their industry. The Fund has Ventas as the largest holding in the Real Estate sector, as is merited by its ongoing performance.

Crown Castle International has also delivered strong growth for the Fund through the semiannual period. Crown Castle operates primarily in the ownership of cell towers and fiber cables. Crown Castle has contracts with cell providers for an average of 25 years which provide consistency in their revenue streams. When combined with their aggressive dividend growth rates over the past decade, Crown Castle presents a strong opportunity for growth. The Industrial REITS have so far been an outlier in the economic downturn, causing them to outperform the rest of the sector over the past six months.

Looking forward, the Fund plans to continue to evaluate the various subsectors within the Real Estate sector in search of the best opportunities. The constantly shifting economic situation facing the United States today makes projections for the near future uncertain, but the Fund will continue to focus on those areas of the economy most positively impacted by developments in market conditions.

## What's Changing in Real Estate

### Immediate Effects of COVID-19

The Real Estate Index of the S&P 500 underperformed the index at large in this semiannual period. However, despite this underperformance, several subsectors have delivered strong returns, including specialty, retail, and industrial REITS, which have significantly outperformed companies operating in hotels, resorts, and residential. As many areas of the economy continue to recover following the worst of the pandemic, questions remain about the long-term viability of some of the REITS in the poor-performing areas. The shift towards a telecommuting workforce may leave REITS involved in office space with diminishing revenues as companies downsize or completely eliminate their office environments. Tourism will eventually return, but the timing of a return remains highly questionable due to all the unknowns surrounding the date and effectiveness of a coronavirus, as well as when travelers will again feel comfortable gathering around other people.

### Importance of Resiliency

The COVID-19 pandemic served as a wake-up call to many REITS that relied on high leverage in order to finance their operations. While the strategy works well in a strong economy, the last few months have reminded everyone just how quickly a recession can appear. Coming out of the pandemic, it is likely that many real estate companies will choose to be more conservative with their balance sheets, utilizing less leverage and holding onto more liquid assets in order to insulate against potential downturns, as even a few months of lost rent payments could completely decimate many companies operating with their current structure.

### Struggling Retail

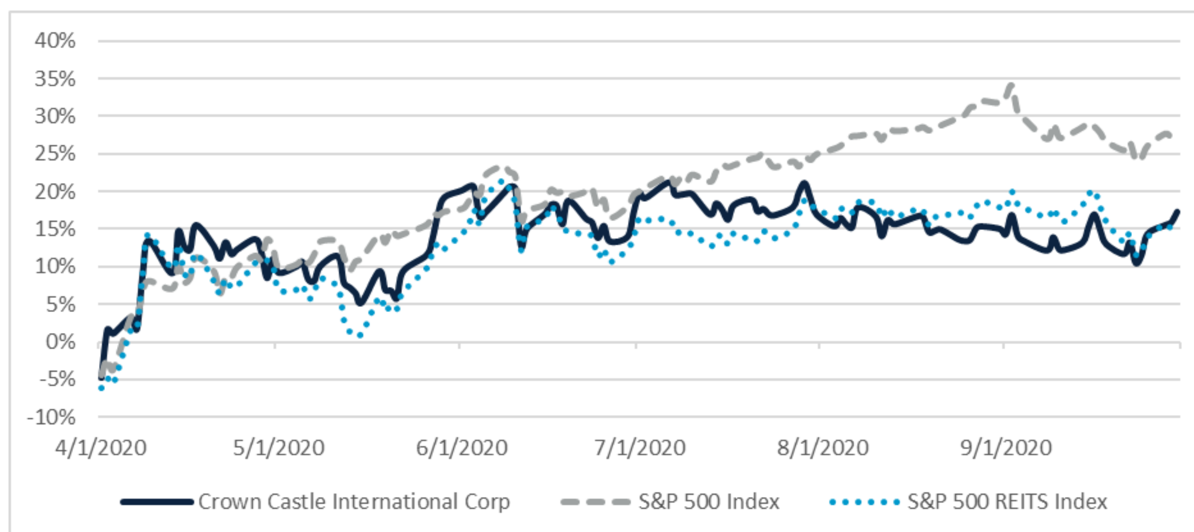
Following a trend over the last handful of years, retail REITS have been struggling heavily under a shift away from brick-and-mortar stores as e-commerce explodes. This transition shows no signs of stopping, as Amazon continues to innovate in new ways to capture new customers, and competitors scramble to keep up. Additionally, the COVID-19 pandemic has served only to hasten this transition, with retail locations such as Target, Walmart, and others noting 100-300% increases in sales on their mobile and e-commerce platforms. Possible avenues remain by which these companies can innovate and join the move towards e-commerce, but such changes will have to happen quickly and decisively in order to stave off a potentially massive loss of business in the near future.

### The Future Home of Big Data

Quite opposite the shrinking retail real estate market, the current trend toward big data utilization, cloud computing, and AI could provide massive opportunities for some real estate companies. As more and more companies begin finding new ways to use data to assist their operations, the massive amount of data that society generates every single second must be stored somewhere. Since most companies do not hold a significant amount of dedicated server or storage space, the opportunity exists for REITS to enter the picture. By providing secure and accessible storage and server facilities, real estate companies have the opportunity to provide a crucial service to millions of businesses while continuing to be on the cutting edge of new developments. The big data market is expected to grow drastically in the near future, and thus will provide significant growth to any company that is able to capitalize on the opportunities that it provides.

**Crown Castle International Corp. (NYSE:CCI)** Industrial REIT

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 244 | 1.02% | 38.91% | 17.04% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 0.34 | $166.50 | $184.45 | 17.04% |




## Company Description

Crown Castle is a cellular tower REIT based out of Houston, Texas. Crown owns, operates, and leases more than 40,000 cell towers and approximately 80,000 route miles of fiber supporting small cells and solutions across every major U.S. market. Crown is the second largest operator of large cell towers in the United States. Crown Castle's nationwide portfolio of communications infrastructure connects cities and communities to essential data, technology, and wireless services.

## Investment Rationale

Our position in Crown Castle is rooted in the value of small-cell revenues going forward, and Crown's competitive advantage in that field. The rationale for our investment is rooted in the market's failure to recognize the value of Crown's advantages in small-cell technology, and the upside potential of 5G technology. Crown is actively increasing infrastructure nationwide as carriers like Verizon and AT&T continue to deploy their 5G networks. Crown has shown positive revenue growth through the COVID pandemic, as well as dividend growth rate, solidifying our stance in the company as it shifts into a very promising era for any company related to the transmission of data and communications.

## Competitors

American Tower Corporation (REIT) (NYSE:AMT)

SBA Communications Corporation (NasdaqGS:SBAC)

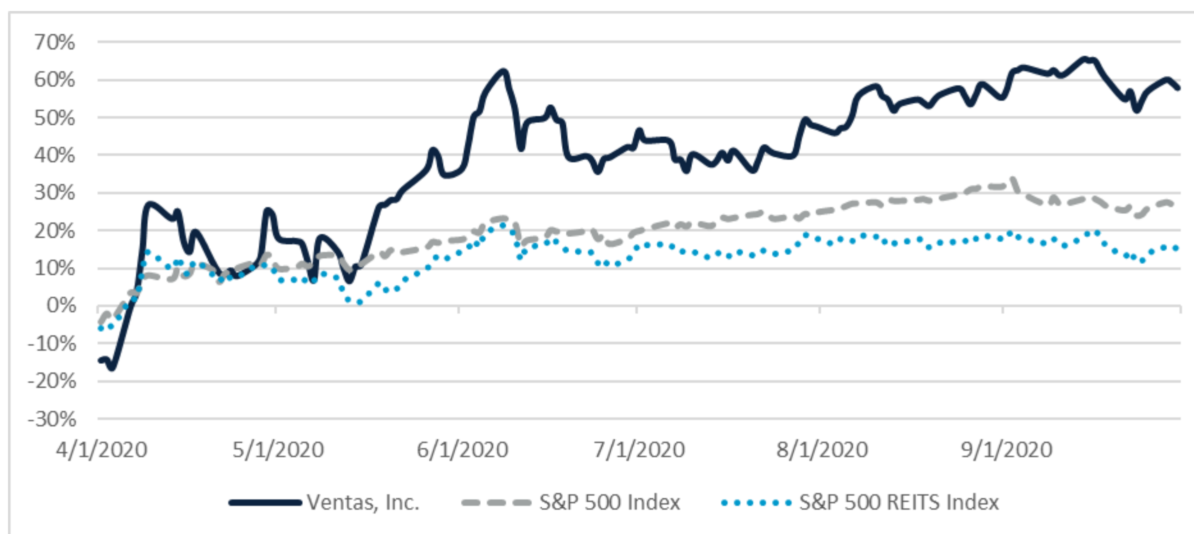
Uniti Group Inc. (NasdaqGS:UNIT)

## Analyst Coverage

Joe Langhoff

**Ventas, Inc. (NYSE: VTR)** Healthcare REIT

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Return |
|---|---|---|---|
| 1,520 | 1.65% | 61.09% | 60.19% |
| **Beta** | **Current Price** | **Target Value** | **Return for DCF** |
| 1.10 | $41.96 | $64.95 | 87.06% |




## Company Description

Ventas, Inc. is a real estate investment trust with its properties located throughout the United States, Canada, and United Kingdom. Ventas operates through three segments: triple-net leased properties, senior living operations, and office operations. As of March 31, 2020, Ventas owned or managed approximately 1,200 properties. Through its Lillibridge subsidiary, Ventas provides management, leasing, marketing, facility development, and advisory services to highly rated hospitals and health systems throughout the United States.

## Investment Rationale

Ventas has shown to be a strong investment in the REIT sector for the past several years due to growth in their multiple operating segments (medical office, senior housing, research and innovation facilities, and healthcare facilities). In March, the market overreacted to COVID, focusing on the impact COVID would have on senior living facilities across the globe. Looking past COVID, the market underreacted to the additional investment into their medical office building segment, the growing need for senior housing to accommodate the Baby Boomer generation, and recent acquisitions of senior housing in markets outside of the U.S. This has shown that Ventas is solid investment that was severely undervalued by the market in late March and early April, and continues to have upside potential moving into 2021.

## Competitors

Welltower Inc. (NYSE: WELL)

Omega Healthcare Investors, Inc. (NasdaqGS: OHI)

HCP Inc. (NYSE: HCP)

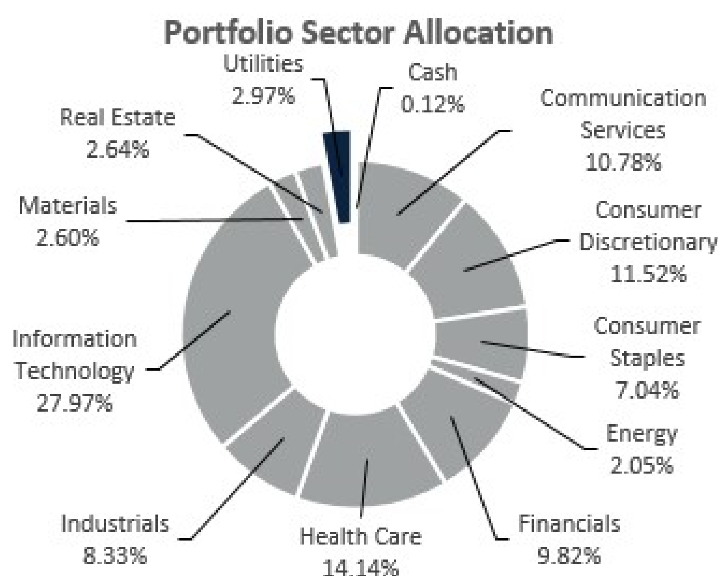
## Analyst Coverage

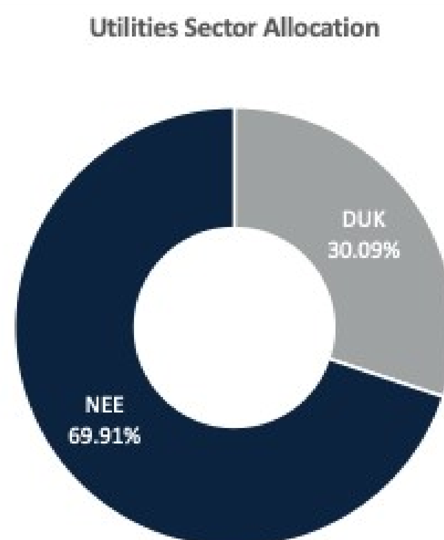
Joe Langhoff

# Utilities Sector Report

### Holdings as of September 30, 2020

| Company | Ticker | Subsector | Weight in Sector | Weight in Portfolio | Market Value | 6 Month Return |
|---|---|---|---|---|---|---|
| Duke Energy | DUK | Electric Utilities | 30.09% | 0.84% | $35,246.88 | 12.04% |
| NextEra Energy | NEE | Electric Utilities | 69.91% | 2.13% | $81,880.20 | 16.57% |



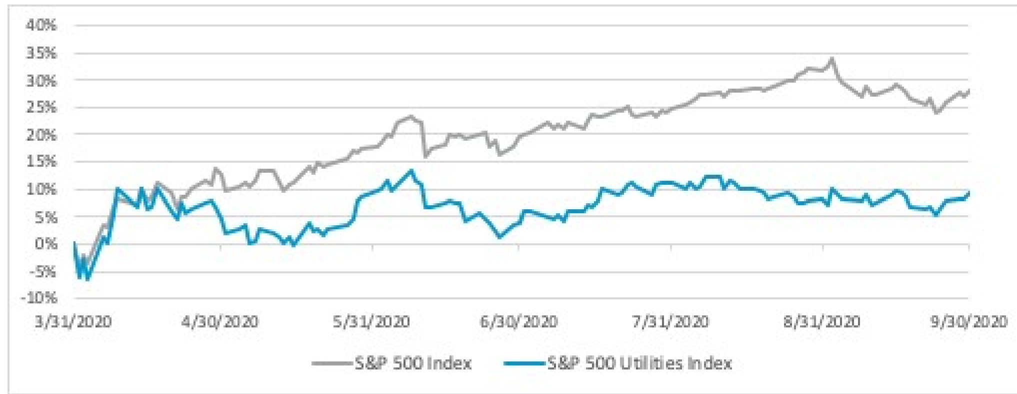

## Utilities Sector Overview

The D'Artagnan Capital Fund has two holdings in the Utilities Sector. Both of the held companies are classified as an electric utilities companies, with a primary focus on delivering electricity and natural gas to their nearly 13 million combined customers. NextEra Energy and Duke Energy are the largest and second largest companies in the sector, respectively.

The Utilities Sector underperformed its benchmark by 5.61%. While both of the companies have seen steady growth in the period, they were outpaced by a field of competitors who took advantage of low petroleum prices. This sector, as it has shown in the past, can show strong returns when the rest of the market is down. On account of the consistent demand for basic goods and services, the sector has performed well over the period.

| Sector Overview | |
|---|---|
| DCF Sector Return: | 14.64% |
| Benchmark Sector Return: | 20.25% |
| DCF Sector Weight: | 3.13% |
| Benchmark Weight: | 3.15% |
| Asset Allocation: | 0.00% |
| Security Selection: | -0.16% |

| Sector Team | |
|---|---|
| **Sector Manager:** | Nick Frank |
| **Sector Analysts:** | Jonathan Aho<br>Shayla Mendez |




**Industry Analysis**

The profits in the Utilities sector are largely driven by the price of commodities. Because the Utilities sector is heavily regulated, it is nearly impossible to increase profits by raising prices. Instead, the companies in this sector attempt to increase profits by cutting costs, which is done primarily through finding innovative ways to acquire the requisite commodities at the lowest possible prices.

**Continuing Decline of Coal**

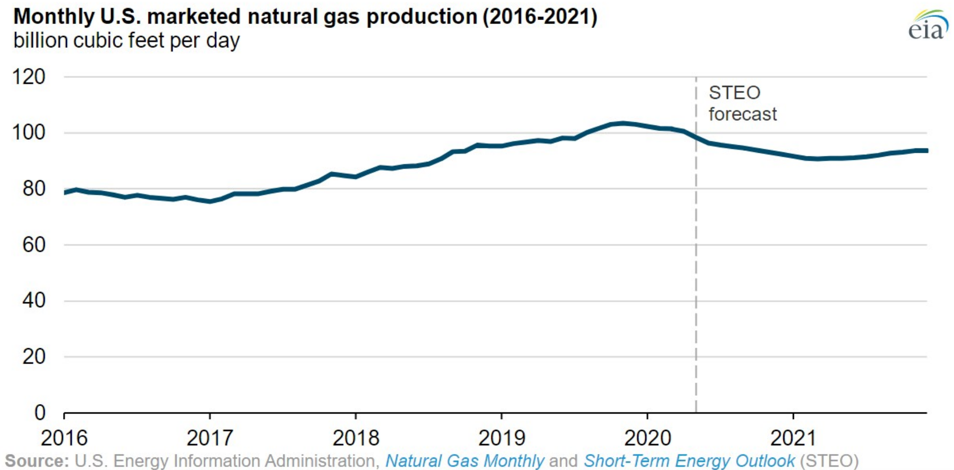
Coal accounted for 28% of US electricity production in 2018, and fell to 25% in 2019. This trend has continued in the first half of 2020 with coal falling to only 22.5% of electricity production. The decline in coal usage has reshaped the landscape of the Utilities sector. While coal plants continue to become more unprofitable and are retired in greater numbers, the Trump Administration has been fighting this change. Yet while the President has so far been successful in enacting some policies to slow the retirement of coal plants, this change is inevitable given the makeup of the market and broad global trends.

**Increased Demand of DERs**

Companies in the Utilities sector have been increasingly displaced by distributed energy resources or DERs. A DER is a local, small scale energy generator. This includes things like solar panels and allows consumers to not be reliant on utilities for their power. In the residential segment, demand for DERs has risen by between 20 and 30% since the outbreak of the COVID-19 virus. This provides an opportunity for utility companies to provide the infrastructure to help this transition. However, this poses another risk of disruption. Several other companies have the resources to get involved in this sector. Oil companies have been heavily investing in renewable energy and could be in a position to get involved in this transition. Additionally, several tech companies like Amazon or Google have already built a reliable customer base and have the resources and technology to get involved in this transition.

## What's Changing in Utilities

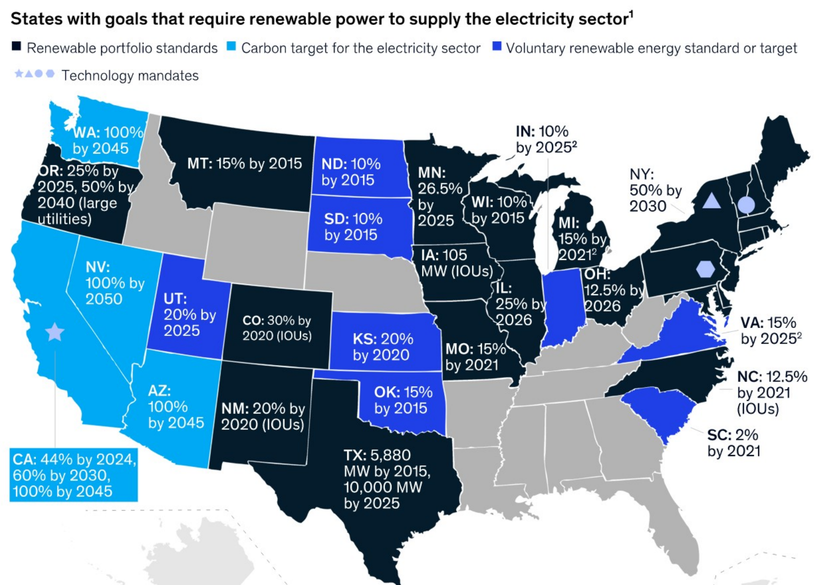
### Natural Gas




In the short term energy outlook, experts predict that natural gas production will fall by about 2% due to the weakening economic outlook. Falling natural gas prices have seen energy companies cut their capital expenditures and this is likely to continue into the future until prices recover. Before the pandemic, it was predicted that natural gas production would be relatively stagnant throughout 2020 due to a surplus that had been accrued. In the long term, natural gas production is still projected to grow at a moderate pace. By 2023, the United States is expected to be the largest producer of LNG in the world. However, as decarbonization becomes a larger goal for most of the country, many utility companies will have to move away from natural gas and add more clean energy to their portfolio.

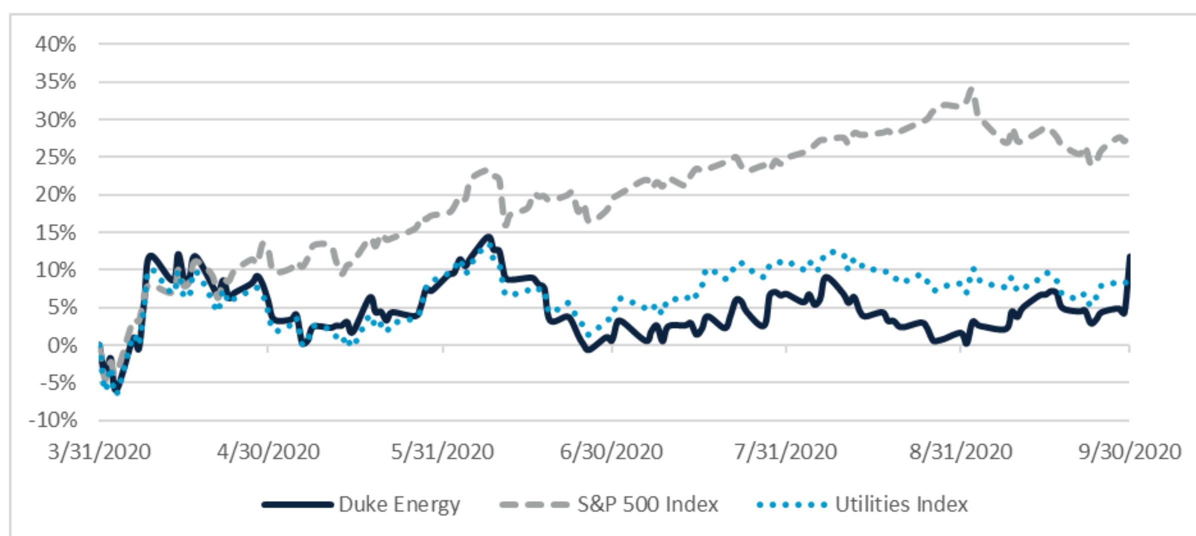
### Renewable Energy

Many states, as seen in the graphic below, are imposing restrictions on the permitted level of carbon emissions from the production of electricity. More than 77% of Americans agree that it is important that we begin developing alternative energy sources. Additionally, renewable energy is increasingly becoming one of the cheapest methods of producing electricity, even outpacing its fossil fuel counterparts in many instances. As a result, many utility firms are shifting to net zero or clean energy sources of production. This will require many companies in the Utilities sector to have increased capital expenditures in the next decade as they begin to shift their production to more clean methods. While coal, petroleum, and natural gas will continue to play a very large role in electricity production in the United States for decades to come, the shift to cleaner energy is undoubtedly something that companies are looking to for their future production needs.



**Duke Energy Corp. (NYSE: DUK)** Electrical Utilities

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Returns |
|---|---|---|---|
| 398 | 0.84% | 30.09% | 12.04% |
| **Beta** | **Current Price** | **Target Value** | **Returns for DCF** |
| 0.23 | $88.56 | $112.29 | 12.04% |




## Company Description

Duke Energy Corporation, together with its subsidiaries, operates as an electric utilities company in the United States. It operates through three segments: The Electric Utilities and Infrastructure segment generates, transmits, distributes, and sells electricity in the Carolinas, Florida, and the Midwest. It uses coal, hydroelectric, natural gas, oil, renewable sources, and nuclear fuel to generate electricity. The Gas Utilities and Infrastructure segment distributes natural gas to residential, commercial, industrial, and power generation natural gas customers. It owns, operates, and invests in pipeline transmission and natural gas storage facilities. The Commercial Renewables segment acquires, owns, develops, builds, and operates wind and solar projects.

## Investment Rationale

Duke Energy is a scale owner of premium utilities. They are the largest regulated utility in North America by rate base, electric customers, and total assets. They operate premium utilities in 7 states across the country, benefiting from diversification and strong regional growth trends. They are well positioned for the transition to renewable energy. They are an industry leader in carbon reduction, with aggressive carbon reduction goals to drive future investment opportunities. Their strong commercial renewable business supports ESG vision and goals. Duke has strong regulated growth outlook with utilities rate base growth of 6% and strong customer and load growth fundamentals.

## Competitors

PG&E (NYSE: PCG)

PPL (NYSE: PPL)

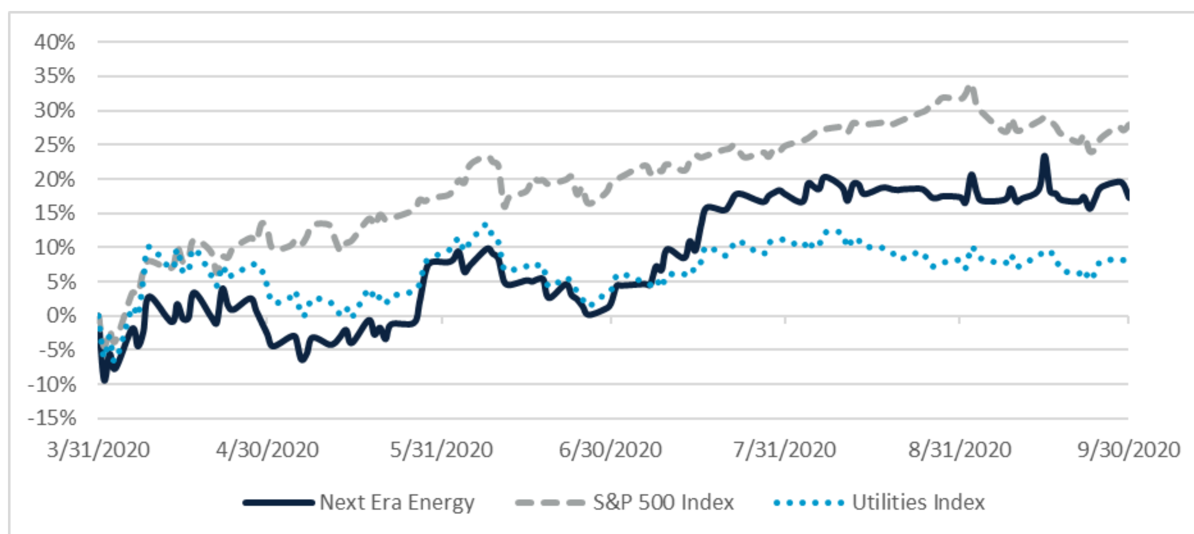
Public Service Enterprise Group. (NYSE: PEG))

## Analyst Coverage

Shayla Mendez

**NextEra Energy, Inc (NYSE:NEE)** Electrical Utilities

| Shares | Weight in Portfolio | Weight in Sector | 6 Month Returns |
|---|---|---|---|
| 295 | 2.13% | 69.91% | 16.75% |
| **Beta** | **Current Price** | **Target Value** | **Returns for DCF** |
| 0.21 | $277.56 | $311.45 | 16.75% |




## Company Description

NextEra Energy, Inc. provides sustainable energy generation and distribution services. The company generates electricity through wind, solar, and natural gas. Through its subsidiaries, Florida Power & Light and NextEra Energy Resources, it generates, transmits, and distributes electric power throughout North America. It also develops, constructs, and operates long-term contracted assets with a focus on renewable generation facilities, natural gas pipelines, and battery projects.

## Investment Rationale

NextEra Energy has focused on the importance of ESG impacts. It owns one of the world's leading wind, solar, and battery storage portfolios. Florida Power & Light (FPL) is recognized as one of the best utility franchises in the U.S. FPL has significant investment opportunities across its system that are expected to generate customer savings and further enhance reliability. It has a total projected capital deployment of $23 B to $25 B from 2019 through 2022. The acquisition of Gulf Power expanded NextEra Energy's Florida regulated operation. Significant opportunities exist to improve the Gulf Power customer value proposition that Next Era Energy will capitalize on. It has a total projected capital deployment of $2.9 B to $3.3B from 2019 through 2022. NextEra Energy Resources will continue to focus on investing in long-term contracted clean energy assets with strong creditworthy counterparties.

## Competitors

Dominion nergy Inc. (NYSE: D)

Black Hills Corporation (NYSE: BKH)

DTE Energy. (NYSE: DTE)

## Analyst Coverage

Shayla Mendez

## *Final Thanks*

As we wind down another successful semester in the D'Artagnan Capital Fund, we would like to take a moment to thank those who have made this opportunity possible for us:

**Board of Executive Advisors:**

We would like to thank Xavier's Board of Executive Advisors for their continued support and interest in the success of the D'Artagnan Capital Fund. We know that you are putting significant trust in us allowing us to manage approximately $4 million of endowment, and take this responsibility very seriously. We look forward to getting the chance to present to you this fall, and share more details on our exciting period. Thank you again for your continued support of the Fund and its contribution to our education.

**Xavier Faculty:**

Without the generous help provided to us by Xavier's dedicated faculty in our prerequisite courses, we would not have been in a position to maintain the legacy of the D'Artagnan Capital Fund. Through our diverse course load and dedicated faculty, every student came into the Fund extremely well prepared to thrive in the this environment. Additionally, we would like to thank them for attending our semi-annual and annual presentations, and giving us some class time to educate younger students about the benefits of the Fund. Thank you again for everything you have done for us to this point, and what you will continue to do going forward, both for us and the next generation of Fund students.

**D'Artagnan Capital Fund and Xavier University Alumni:**

Finally, the D'Artagnan Capital Fund would like to extend its thanks to the alumni, both of the Fund itself and of the university at large, for their continued faith and support over the semesters. The help received from the former students, and those who came in to speak with us and share insights they had learned from previous classes, and in their work outside of the Fund has allowed us to grow both as students and individuals in the community. We appreciate your time and continued support, and hope we can be as helpful as you were to us for future classes to come.

This presentation may be freely distributed, transmitted or otherwise communicated to others, in whole or in part, with the express consent of the D'Artagnan Capital Fund. The terms and provisions with respect to the fund in its final form may differ materially from the information set forth in this presentation.

Neither the D'Artagnan Capital Fund nor any of its affiliates (collectively, "the DCF") have made any representation or warranty, expressed or implied, with respect to fairness, correctness, accuracy, reasonableness, or completeness of any of the information contained herein (including but not limited to information obtained from third parties unrelated to the DCF), and they expressly disclaim any responsibility or liability therefore. The DCF has no responsibility to update any of the information provided in this summary document.

The information within this document is for informational purposes only and should not be construed as a recommendation to buy or sell any investment and the information herein should not be relied upon as being sufficient information to support investment decisions.

The information contained herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. Investors should make an independent investigation of the investment described herein, including consulting their tax, legal, accounting or other advisors, about the matters discussed herein. Certain information contained herein represents views and opinions of the DCF and is based on the experience of the DCF and certain assumptions, any of which may change at any time.

Investing in equities is speculative and involves a substantial degree of risk. Risks include, but are not limited to, the fact that the Strategy has limited operating history; volatile performance; limited liquidity with no secondary market expected and restrictions on transferring interests; potentially high fees and expenses; and a dependence on the Investment Manager, which will have exclusive authority to select and manage the portfolio's investments. Past performance is not indicative nor a guarantee of future returns.

Certain information contained herein may be "forward-looking" in nature. Due to various risks and uncertainties, actual events or results or the actual performance of the DCF may differ materially from those reflected or contemplated in such forward-looking information. As such, undue reliance should not be placed on such information. Forward-looking statements may be identified by the use of terminology including, but not limited to, "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology.

The benchmark is presented solely for the purpose of providing insight into the portfolio's investment objectives, detailing the portfolio's anticipated risk and reward characteristics in order to facilitate comparisons with other investments, and for establishing a benchmark for future evaluation of the portfolio's performance. The benchmark presented is not a prediction, projection or guarantee of future performance. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results.

Past performance in not indicative of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss.