Memo: Investment letter

From: Miles Bryant, Joey Faudskar, Vidhu Raj, Frank Perry, Norah Alrasheed, and Lauryn Keller

TO: OSIF Board

April 25 2022

Dear OSIF Board of Directors,

It has been an honor to manage the O'Neill Student Investment Fund. This last semester presented us with invaluable experience managing real money for a real portfolio. We truly enjoyed the responsibility of making impactful decisions for the betterment of the fund. With the market volatility and macroeconomic events of the current semester, we have grown as investors in a variety of environments, giving us the real excitement and pain that comes with money management. We sincerely thank you for this unique learning opportunity.

The following sections detail our investment decisions from this semester, ending April 25th. We will also provide insight about our investment thought process along with the overall macroeconomic and geopolitical climate. We will then talk about inflation and the decisions made by the Federal Reserve. Finally, we will provide our thoughts on the outlook for the economy and potential opportunities that the O'Neill Student Investment Fund can capitalize on during the current market cycle.

Macroeconomic Events

The global economy experienced a seesaw effect in early 2022 due to the reduced impact of Covid-19 restrictions. Demand surged for traded goods at a rate that outpaced supply causing numerous supply chain disruptions and delays. As a group, we took this into consideration and factored it into our buy and sell decisions. Along with supply chain issues, we saw a major increase in the price of oil.

The fund had exposure to oil through Royal Dutch shell early in the semester and we felt that this position would improve. However, the price of crude oil and the performance of the position were not as correlated as previously thought. Oil prices increased to over $100 a barrel mainly as a response to the geopolitical conflict in Eastern Europe. As a result, the price of gasoline reached a 10 year high in the United States. To ease the cost at the pump and promote discretionary spending, President Biden was forced to release 1 million barrels a day from U.S. reserves.

Lastly, foreign direct investment (FDI) also increased in Q1 2022. FDI surged back to above its pre-pandemic level in 2021, and the UN Conference on Trade and Development reported a positive outlook for FDI growth as of February 2022. However, manufacturing limits and continued supply chain disruptions reduced confidence in global growth for many companies. To make matters worse, the newest Covid-19 lockdown in China has the potential to result in major losses for U.S. equities. If China cannot resume production soon, the majority of tech, automotive and industrial companies who have interconnected supply chains in China will experience major delays, if not stoppages. This would result in lagging production and poor stock performance. With this as a potential pitfall on the horizon, the group decided to limit our exposure to some of our tech stocks with supply chains in China.

Inflation and Federal Reserve

Inflation reached a 40 year high of 8.5 percent according to the Consumer Price Index report in March. During the semester, the Fed raised interest rates by 25 basis points and signaled several further increases which created additional market volatility. As a team, we decided that an increase of interest rates would prove to be beneficial for companies in the financial services sector. Increased investments in financial companies became one of our core strategies for the semester. Some of the companies we chose to invest in were Bank of America, Goldman Sachs, Coinbase and XLF financials ETF. Further rationale about these positions will be touched on in later sections. Apart from the rising Consumer Price Index there has been quite a lot of talk about shadow inflation. This is a reduction in quality of products, instead of raising prices. Examples of this we have seen since Covid-19 could be stores and restaurants limiting hours or only offering take-out. It is not quantifiably visible like in the CPI, but a shadowing factor is that we pay "more" for products due to the lack of quality and the lack of accessibility.

With the Fed signaling multiple interest rate hikes of at least 50 additional BP, we are confident that these strategic moves will result in growth for the fund in the short run. However, now that recession risks are elevated, we encourage future classes to be cognizant of how interest rate hikes will affect the market as a whole. We implore them to utilize that information to reduce or increase their position in some of the fund's financial stocks. With rate hikes and the yield curve inverting, many believe a recession is more likely than not.

Geopolitical climate

The most prominent geopolitical event that impacted our portfolio was the war between Russia and Ukraine. Disruption of Russian energy and other commodities exports as a result of the conflict contributed to rises in global energy and food prices in Europe and in the United States. While the hope was that this war would be brief, it is becoming clearer that this will be a conflict lasting longer than expected. We also had to deal with investor confidence during this time. The war set off a panic and the large-scale selling of equities, yet we continued to hold our positions which proved to be the correct decision.

Other than the price of oil, the largest impact directly related to the war was our defense and cybersecurity positions. The fund is seeing gains from Raytheon and Crowdstrike holdings. Raytheon was bought last semester as a solid diversification position. Yet this war has increased demand for Raytheon's Javelin missiles and Stinger portable air-defense. Raytheon is poised for long term solid revenue and earnings as a result of geopolitical tensions. As the conflict continued and other countries began sanctioning Russia, there was widespread fear of cyber-attacks as a form of retaliation. Because of this, we added to our position in Crowdstrike which provides cloud workload and endpoint security, threat intelligence, and cyber-attack response services. We feel that these positions are vital to have in the portfolio in the short run. As long as the conflict remains we expect these two stocks to be on an uptrend in a rather volatile environment.

Investment decisions

Below are the investment decisions the team made during the entirety of the semester. Each decision was taken to a vote, and justification for each trade was expressed.

	BOUGHT					SOLD				
Date	***Ticker***	***Quatity***	***Price***	***Total***	***Total Spent***	***Ticker***	***Quantity***	***Price***	***Total***	**Realized Gain/Loss**
1/12	XLF RTX EFA GDLC	121 11 26 43	41.42 91.07 79.58 23.65	-5011.82 -1001.74 -2069.08 -1016.95	-9099.59	LQD	-29	130.15	3774.33	-132.69
1/19	DUTCH GS	85 43	51.1 348.16	-4343.19 - 14970.95	- 19314.14	LQD	-117	128.45	15028.57	1572.99
1/26	SONY COIN	45 28	110.19 181.58	-4958.55 -5084.24	- 10042.79	LQD	-79	127.15	10044.8	-626.71
1/28	NFLX	26	381.23	-9911.98	-9911.98	LQD	-39	127.7	4980.27	-292.53
2/2	RTX COIN BAC	38 27 107	92 186.49 46.8	-3496 -5035.23 -5007.59	- 13538.82	LQD	-67	127.93	8571.35	-487.05
2/9	EFA CRWD CRWD COIN	45 8 7 17	77.64 185.53 185.69 214.5	-3493.8 -1484.24 -1299.83 -3646.5	-9924.37					
2/10						LQD LQD	-0.262 -64	124.5 124.5	32.61 7967.63	-687.98
2/16	MSFT MSFT KBWB KBWB	16 0.674 135 0.78	299.86 299.86 73.65 73.65	-4797.68 -202.1 -9942.53 -57.45	- 14999.76	DHR	-38	268.63	10207.71	418.67
3/2						BSV	-250	79.53	19882.39	-84.02
3/9	AAPL GOOGL	63 8	161.51 2625	- 10175.13 -21000	- 31175.13	BSV SONY SHEL	-126 -45 -295	78.98 96.92 52.75	9951.42 4361.37 15561.17	-179.47 -597.18 +1572.99
3/30	HD APD APD	17 43 0.637	307.86 252.08 252.01	-5233.57 - 10839.44 -160.53	- 16233.54	AAPL GDLC GDLC	-63 -98 -150	178.1 23.6 23.64	11220.44 2312.8 3546	1045.31 -54.84 -126
4/12						BSV	-193	77.57	14970.93	-897.52

Fund Performance/benchmark

Our team began the term with 65% of our portfolio allocated to stocks, 25% allocated in bonds and 10% in cash. With the Fed driving a lot of our initial investment decisions, we felt financials were a good place to start considering the impact of the ongoing talks of rate hikes. This led us to make a few investments in that sector; initially adding to our financial ETF (**XLF)** and then our cryptocurrency exposure **(GDLC).** We also ended up taking additional investments in financial institutions previously mentioned like **Goldman Sachs (GS)** and **Bank of America (BAC).** With bond yields climbing and the 10 minus the 2-year chart headed towards inversion we also decided to consistently lower our long-term bond (**LQD)** positions and push the capital into cash. Long-term bonds were continuously losing value for us in this high inflation environment when originally, we felt they would be safe in this volatile market. This caused us to end with a slightly higher stock allocation at 79% and 21% in bonds and cash combined. Another major driver for us this term was the ongoing geopolitical issues in Russia and Ukraine. This drove us to try to hedge against this major event and we added to both our cybersecurity and defense positions. These positions were **Crowdstrike (CRWD)** and **Raytheon (RTX)** and actually ended up being two of the best trades for our team.

We did have some major downsides to our portfolio during this term. Two of the biggest losses were from companies that we originally felt really confident in purchasing. The first was **Meta Platforms (FB)**. This came with hope of a new market, revenue stream, and innovation. While the hopes were high, they were ultimately shattered by slowed user growth from the company and the biggest loss in shareholder value during a single day in the stock market at nearly $230 billion.

The second company that was struggling due to subscriber growth and usage was **Netflix (NFLX)** and after a nasty Q4 reporting the team saw it as an undervalued opportunity. We initially grabbed a great price for the stock and held over 12% gains at one point. Feeling confident we rode the wave and were unfortunately hit with not only another bad reporting but the first loss in subscriber growth in over a decade for the company. Both **FB** and **NFLX** are currently in negative positions for the fund.

It is imperative that we review the performance of the OSIF fund, and understand the overall performance measured against relevant benchmarks. Below we selected the S&P 500

Index, the Dow Jones, and the ACWI. These indexes portray the performance of "the market" and are the default choice to evaluate portfolio performance for many investors. The Dow Jones and S&P are 100 percent equity. That being said, they are not subject to the limitations in asset allocation that the OSIF fund had to follow. Even with this asset allocation restriction, the OSIF fund was able to outperform both Indexes.

	1-Month	3-Month	YTD
O'Neill Fund	1.52%	-4.19%	-4.19%
S&P Index	3.71%	-4.60%	-4.60%
Dow Jones	3.24%	-5.40%	-5.40%
ACWI	0.20%	-5.40%	-5.40%

Overall it has been an extremely tough 2022 for the fund and for us as a team. It's been a true challenge to perform during a bear market. Yet we are proud to say we compare relatively well to our benchmarks and actually outperformed the three by an average of 0.94%.

Outlook

In an already volatile 2022, we see continued restrictions to large growth within the market. Internationally, it appears that supply chains are continuing to struggle with supply/ demand imbalance. This will give headwinds to companies dependent on supply chains overseas especially in China or Russia. In the near future, limiting exposure to tech and automotive industries would be a wise move for the fund. Along with the supply chain issues, if the crisis continues in Eastern Europe, the market will continue to see the price of oil stay inflated. If future classes can find solid oil companies at a decent value, then investing in these positions can be a hedge against overall volatility.

Domestically, with the highest inflation in 40 years the Fed has plans for multiple rate increases in the short to intermediate period. While interest rate increases can lower inflation, they can lead to a recession when interest rates get to a level where lending slows down significantly. This might not be an immediate short-term effect, but it will be important for future groups to keep an eye on. The 2 year and 10-year yield curve did invert briefly this year and this typically signals an upcoming recession. However, the likelihood of a recession occurring in

2022 is still moderate. With all this in mind, we would encourage our future investment groups to pay attention to the Fed decisions along with the trend of the yield curve.

Although the future appears volatile, there are great opportunities for future groups to invest in companies with high dividends to solidify gains for the fund. As our time with OSIF ends, we remain bullish on the following industries: airlines, financials, defense, cybersecurity, and travel.

Note of Thanks

Thank you to the O' Neill family, faculty, and board for the opportunity to manage the O' Neill Student Investment Fund. It has been an invaluable experience that has taught us the value of diligent research, spirited debate, and how putting the pieces of the economy together is a difficult but rewarding endeavor. We thank you for your confidence and appreciate your continued trust.

Sincerely,

The OSIF Spring 2022 Team