



Memo: Investment letter

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To: OSIF Board

August 8, 2022

Dear OSIF Board of Directors,

We are grateful to have had the opportunity to manage and make impactful decisions in the O'Neill Student Investment Fund. Throughout the semester, we gained invaluable experience in making financial decisions with real money and real consequences in volatile markets with a myriad of macroeconomic events. We thank you for this unique learning opportunity to gain experience as investors.

We managed the portfolio through three main macroeconomic events: **geopolitical tension**, record **high inflation**, and record federal **rate increases**. The following overview details these events, their relationship to our investment decisions and market sentiment, and our outlook for the future.

Macroeconomic Events

Geopolitical Climate

The Ukraine-Russia crisis slowed global growth and contributed to inflation resulting from energy supply disruption and increased cost of commodities. The impact of the crisis influenced our decision-making: we kept stocks in defense and cybersecurity and chose to continue holding our stock in Raytheon Technologies Corporation as we believe it can provide short-term growth to our portfolio. We made an additional purchase of CrowdStrike, a cybersecurity company, as cybersecurity is an indirect risk of the Ukraine-Russia crisis.

We also believe that the current China-Taiwan tensions will have an impact in the cybersecurity space, further benefiting our investment choices. Additionally, as tension in United States (US) and China trade continues, the CHIPS act recently passed will increase production of semiconductors in the US which should result in lower costs in cars, appliances, and computers.

High Inflation

Throughout the summer, the US experienced the highest inflation of the past 40 years with minimal signs of slowing down. Demand surplus with limited supply has not been exclusive to the US, as both Great Britain and Germany have also seen historical highs. Given our investment decisions, the US market was our primary focus.

A variety of contributing factors have set the stage for current inflation, including the pandemic-era stimulus bills. These bills, however, were not the sole reason for inflation as they did allow Americans to save money and pay down debt. Consumer spending shifted from services such as flights, hotels, and restaurants to goods such as furniture, personal electronics, and appliances. These rapid shifts created further complications as there has been a diminished and disrupted supply chain primarily due to COVID lockdown restrictions in manufacturing facilities overseas.

Further, the Russian invasion of Ukraine impacted food and fuel prices as regions of the world cut off oil purchases from Russia.

We believe there are signs of inflation slowdown as US consumer confidence declined in July to the lowest level since February 2021. We are also observing slow but consistent lowering of fuel and commodity prices. As of August 3, the average rate on 30-year mortgages slipped to 5.55 percent, down from 5.59 percent the previous week and hitting a four-week low. The July Jobs Report showed the US added 528,000 new jobs as the unemployment rate fell to 3.5 percent. We are cautiously optimistic about inflation being contained but are aware of potential headwinds still on the horizon.

Federal Reserve and Interest Rates

The Personal Consumption Expenditures (PCE,) the Federal Reserve's primary barometer for measuring inflation, rose 6.8 percent in June. To cool the market, the Federal Reserve responded with record breaking rate increases of 75 basis points in June and July. As a result, we believe we are beginning to see some cooling in housing and commodities, however, we have yet to receive reflective data on lagging indicators, such as Consumer Price Index (CPI) and PCE.

Throughout the summer, we have seen mortgage rates increase with the increased federal funds rate. We are now seeing price drops, reduction in mortgage applications, and median price corrections in some of the hottest markets of 2021. The rate changes by the Federal Reserve have been effective in making lending more expensive and reducing affordability of mortgages and other financing. We are also seeing weakness in commodity input, such as corn, wheat, and soy. We believe the price drops to be a leading indicator that inflation may have peaked.

Fund Holdings and Performance

Our semester began with a fund market value of \$448,475 invested across 76% equities, 11% fixed income securities, and 13% money market/cash holdings.

Due to specific macroeconomic trends and the opportunities created, our trades throughout the semester focused primarily on the US equities market. We shifted the portfolio's composition from a 70-75% equity growth strategy to an 80-85% equity growth strategy. See Appendix A for details of the semester's buy and sell decisions.

We made our decisions based on evaluating qualitative and quantitative factors surrounding each company, including their fundamentals and valuation, forecasts, micro - and macro - economic trends, changes in market sentiment, competitive landscape, and other identified opportunities.

The evaluations conducted require speculation regarding future events. In hindsight, and based on the performance of these decisions after their transaction, the team's best decisions have included:

| HOLDING | DECISION | TRADE DATE | TRANSACTION PRICE (\$) | CURRENT PRICE (\$) | GAIN/(LOSS) (%) |
|--------------------------|-----------------|-------------------|-------------------------------|---------------------------|------------------------|
| AMAZON.COM INC | BUY | 6/17/22 | \$ 102.74 | \$ 140.80 | 37.04% |
| MICROSOFT CORP | BUY | 6/10/22 | \$ 255.07 | \$ 282.91 | 10.91% |
| CROWDSTRIKE HOLDINGS INC | BUY | 6/10/22 | \$ 169.19 | \$ 191.17 | 12.99% |

The team's worst decisions have been:

| HOLDING | DECISION | TRADE DATE | TRANSACTION PRICE (\$) | CURRENT PRICE (\$) | GAIN/(LOSS) (%) |
|---------------------|-----------------|-------------------|-------------------------------|---------------------------|------------------------|
| UNITED RENTALS INC | SELL | 6/24/22 | \$ 249.77 | \$ 323.43 | 29.49% |
| COINBASE GLOBAL INC | SELL | 6/3/22 | \$ 69.39 | \$ 93.05 | 34.10% |
| META PLATFORMS INC | BUY | 6/10/22 | \$ 176.94 | \$ 167.11 | -5.56% |

The decision to sell United Rentals Inc. centered around the potential impacts of rising rates and recession on the construction industry. We determined a greater risk than reward in cryptocurrency at the time of the Coinbase Global Inc sale. We misjudged market sentiment surrounding Web 3.0 at the time of the Meta Platforms Inc. acquisition.

We ended the semester with a fund market value of \$469,846 invested across 84% equities, 11% fixed income securities, and 5% money market/cash holdings.

Based on fund holdings at the beginning of the semester (as of May 12, 2022) and at the end of the semester (measured on July 31, 2022), we have identified relevant performance benchmarks to include the S&P 500, a 70% equity-blended portfolio, an 85% equity-blended portfolio, and the MSCI World Index. Our portfolio leans heavily toward US equity investments, thus the relevancy of an S&P 500, 70% equity-blended, and 85% equity-blended portfolio comparison. The MSCI World Index captures large and mid-cap representation across 23 developed market countries; despite the heavy weight toward US equity investments, other investments within our portfolio span developed markets throughout the world.

The relevant time frames selected for analysis were 1-month, 3-months, 1-year, and 3-years. The 1- and 3-month time frames most closely represent the Fund's performance (relative to the identified benchmarks) while under the guidance of our semester's cohort. The longer time frames provide a high-level comparison of prior cohort performance.

Fund performance metrics:

| | 1-MO | 3-MO | 1-YR | 3-YR |
|------------------------|--------|--------|---------|---------|
| OSIF | +7.06% | +0.21% | -13.47% | +4.62% |
| S&P 500 Index | +9.22% | +0.39% | -4.64% | +13.36% |
| Index Blend 85% Stocks | +6.85% | -0.92% | -9.68% | +8.32% |
| Index Blend 70% Stocks | +5.93% | -0.54% | -9.05% | +6.01% |
| MSCI ACWI ex USA | +3.43% | -4.75% | -15.13% | +3.07% |

The fund for Summer 2022 outperformed all major indices for the 3-month period, which is the most equivalent period for our semester. We are proud that, except for the S&P 500, we have outperformed all other comparison indices over the past 1-month period. However, the fund's performance lags most other indices for the 1- to 3-year time frames; we are hopeful this semester's major buy and sell decisions help to close those gaps.

Outlook

Geopolitical risks will continue to influence the energy supply. Gasoline prices have started to drop as recession fears remain and global fuel demand declines. Commodity prices have begun to fall, yet are still highly volatile, thus we assume these risks will for the near term.

We will continue to see interest rates increase but we remain optimistic that rate hikes will be lower once lagging indicators, such as the PCE, begin to signal inflation has peaked and is cooling. We see well-positioned and timed rate hikes by the Federal Reserve to avoid stagflation and a deep recession. We will continue to see decreased affordability on mortgages and borrowing in the short term, but we forecast a turn soon.

These continued challenges and the last two-quarters of the negative Gross Domestic Product (GDP) signify that we were in a recession, yet we endorse a bullish market strategy in the near term. We believe we have seen peak inflation, rate increases will be of lesser magnitude, and shifts in geopolitical tensions will contribute to rebounding the market.

Thank you

Managing the O'Neill Student Investment Fund for the family, faculty, and board was an opportunity for us to learn about the investing process and increase the scholarship fund. We celebrated successes in our trades and experienced humility in others. An invaluable experience, this class has revealed to us some of the challenges in maximizing returns and managing risk. Thank you for allowing us this opportunity.

Appendix A

Summer 2022 Fund Transaction Detail

| HOLDING | DECISION | TRADE DATE | SHARES | PRICE (\$) | AMOUNT (\$) |
|--------------------------|----------|------------|------------|------------|---------------------|
| SHOPIFY INC | BUY | 7/29/22 | 73 | \$ 34.49 | \$ 2,517.77 |
| SHOPIFY INC | BUY | 7/22/22 | 62 | \$ 39.27 | \$ 2,430.07 |
| MCDONALD'S CORP | BUY | 7/15/22 | 29 | \$ 254.02 | \$ 7,366.58 |
| DOLLAR GENERAL CORP | BUY | 7/8/22 | 20 | \$ 253.91 | \$ 5,078.20 |
| UNITED RENTALS INC | SELL | 6/24/22 | -28 | \$ 249.77 | \$ (6,993.56) |
| AMAZON.COM INC | BUY | 6/17/22 | 97 | \$ 102.74 | \$ 9,965.78 |
| MICROSOFT CORP | BUY | 6/10/22 | 20 | \$ 255.07 | \$ 5,101.40 |
| META PLATFORMS INC | BUY | 6/10/22 | 28 | \$ 176.94 | \$ 4,954.32 |
| CROWDSTRIKE HOLDINGS INC | BUY | 6/10/22 | 30 | \$ 169.19 | \$ 5,075.70 |
| COINBASE GLOBAL INC | SELL | 6/3/22 | -72 | \$ 69.39 | \$ (4,996.08) |
| BANK OF AMERICA CORP | BUY | 6/3/22 | 109 | \$ 36.43 | \$ 3,970.87 |
| | | | 368 | | \$ 34,471.05 |