THE INVESTMENT GROUP AT UWFA

INVESTOR LETTER

FALL 2020

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Statement from the Investment Committee

From Director of the Investment Group: Ian Klimisch

"*The stock market is filled with individuals who know the price of everything, but the value of nothing.*" – Phillip Fisher

Seldom has the divorce between the stock market and the economy been more apparent than it is today. The S&P 500 returned 16% amid the worst global pandemic since the 1918 Spanish Influenza. Its effect on the economy has been, as you are well aware, devastating. Here is a deluge of key economic data to paint the picture: Unemployment hit 14.7% in April, eclipsing the prior all-time-high of 10.8% reached during peak stagflation in 1982; the first-time unemployment has hit double digits since 2009 and only the third time ever since data collection began in 1948. Since then, it has edged down to 6.7% as of December, leaving nearly 11M Americans still out of work. The US shed $2.2T in GDP between Q4 2019 and Q2 2020, representing a 10.2% contraction. In Q3 it rebounded 8.5%, leaving us still $600B— or 2.7%— short our prior peak. Despite this disastrous year for the American economy and her households, the markets have roared forward with another double-digit year. So how is this possible? The Investment Committee has identified two key drivers:

First, policymakers have acted aggressively, albeit not timely. Jerome Powell slashed the Fed's target rate to zero, expanding their balance sheet by $3.2T since late February. Fiscal stimulus was much slower to follow, as the second round of checks have only recently began hitting American bank accounts. With inflation sitting steady below 2% throughout the course of the pandemic thus far, these capital injections have proved lifeblood to the American small business and the people she employs. They have also provided ample spending money for Americans to put straight into the coffers of Big Tech, and with increasing velocity.

Despite the pandemic, markets in 2020 were emblematic of the entire decade: several mega cap tech companies drove virtually all the S&P's gains amid more interest rate cuts, though the divide between tech and 'not-tech' has never been so pronounced. The top ten tech companies gained 48% this year while the other 490 stocks lost 8%. Let that sink in. Without the ten biggest tech companies, the S&P 500 would have lost 8% in 2020. This is obviously due in part to COVID accelerating consumer and business tech adoption by way of the new work-from-home environment, but it begs the question: will this trend continue in 2021 and the decade beyond? Similarly, what will define the 2020's? Here are the investment committee's predictions:

2021 will see a rotation from tech into cyclical stocks as lockdowns subside following vaccine distribution. This rotation will damage a tranche of tech stocks the investment committee lovingly refers to as 'hype beasts.' These companies boast grossly bloated valuation multiples and often-dubious business models—think NKLA, DASH, UBER, SNAP, and yes, TSLA. Such is the investment committee's *hot take* this quarter (though this opinion is likely now more popular than not): Tesla will be worth less in 2030 than it is today.

This week the disruptive carmaker made Elon Musk the richest man on earth and is now worth more than the next 10 most valuable global auto manufacturers—combined. In the US, Tesla owns 1.1% of the market. There is, admittedly, an Olympic routine of mental gymnastics where Tesla is worth over $700B. This routine involves the belief that Tesla will accomplish all or most of the following: monopolizing the self-driving market and deploying a fleet of inexpensive robotaxis to ferry urban consumers everywhere they go; upending the global utilities sector and becoming the financial beneficiary of its revolution; and dominating the market for electric vehicles as gas-power becomes modern horseback. While Tesla may realize some of these scenarios in part, they will not realize all three.

While money flees 'hype beasts' in search of value, not all cyclical sectors will return to previous levels. Permanent damage has been dealt to airlines, hotels, and oil, amongst others. Commercial real-estate may never fully recover as WFH becomes a permanent staple of the American white-collar economy. Instead, the best performing stocks of 2021 will be in-person retail that successfully developed robust omnichannel capabilities in response to COVID; businesses that are poised to tap into the rebound of in-person shopping while having competitive positioning in e-commerce for the decade to come.

The investment committee is confident in our theses and will deploy capital with a lighter trigger finger as our more conservative strategies have moved to our new portfolio, "Husky Traders." In the pages that follow you will see the stocks that were pitched for inclusion in our portfolios as well as the investment committee's decisions and rationale. I am proud of our club's resilience throughout this pandemic and look forward to another quarter of growth and success.

Fall Pitches

Tattooed Chef (NASDAQ: TTCF)

Sector Leader: Monserrat Villasenor

Company Overview

On October 15, 2020, Ittella International, a plant-based food company, and Forum Merger II Corporation, a special purpose acquisition company, merged to form Tattooed Chef. Currently, Tattooed Chef is shifting its attention from private label to brand label, focusing on the rapid expansion of consumer reach and profitability. It offers a broad portfolio of innovative plant-based food products that are available in the frozen food sections of national retail stores across the US. Signature products include zucchini spirals, riced cauliflower, acai and smoothie bowls, etc. The company launched its e-commerce site on October 26, 2020, to further expand its distribution channels.

Investment Thesis

The Consumer & Retail team recommends a BUY in TTCF for the following reasons:

1. Increased Demand for Frozen Food and Plant-Based Alternatives: With the sales of plant-based foods growing 13% annually, Tattooed Chef is well-positioned to continue growing with the market. Having a diversified product selection allows it to target multiple segments within the frozen food category. Consumers who purchase frozen food with convenience as a priority rose from 49% in 2017 to 57% in 2019, while US Frozen Retail Sales totaled $55.2bn. To respond to the growth, the company doubled production capacity in 2020.
2. Proven Track Record for Developing New Products: Under its private label in 2019, Tattooed Chef had a product line of 12 items which later expanded to 18 and counting in 2020 after they went public. They produce healthier, cleaner, and more fruit & vegetable-based products as opposed to its competitors as they develop new products. For example, Tattooed Chef's Açaí Bowl sold $0.2 million in its first month, which rapidly expanded to $9.3 million in the 12th month. A variety of Tattooed Chef products follow a similar pattern of growth.
3. Deal with Retail Stores & New e-Commerce Site: As of Q2 2020, Tattooed Chef's products were in just 7% of Walmart Stores, according to CEO Sam Galletto. He is confident that this could rise to 50% by the end of 2020, extending the brand to thousands of additional stores. The company also signed a deal with Costco Wholesale and had planned to enter regional departmental stores. Moreover, after the launch of its e-commerce site on October 26, 2020, consumers can seamlessly shop and have their favorite products delivered to their front doors.
4. Revenue Growth & Branded Sales: Revenues increased by 65.3% to $41.0 million in Q3 2020, compared to the prior-year period. Their Net Sales are projected to grow at a 66.7% CAGR, outperforming the market plant-based market CAGR of 15%. The company also currently aims to gradually shift from private label to own-brand, which will increase brand recognition and reputation and eventually improve margins. In Q3 2020, branded product sales increased by 288% to $22.6 million, surpassing private label sales for the third consecutive quarter.

Key Risks and Considerations

1. European Lockdown: Tattooed Chef focuses its production of raw materials in Italy in order to supply non-genetically modified organisms (non-GMO) and organic produce. This usually serves them with an advantage since they can categorize their products as gluten-free, kosher, non-GMO, and USDA organic, but the recent closures in Europe due to COVID-19 may disrupt their supply chain and create product shortages. Plants in Italy, opened in 2017, provide most of the ingredients, and closures could cause a halt in production.
2. COVID-19 Vaccine: With Pfizer and Moderna likely to receive FDA approval after their vaccines demonstrated 90% and 95% efficacy respectively in clinical trials, stay-at-home effects might diminish. However, young adults' proactive and busy lifestyles of the working-class might keep the increasing demand for frozen ready-to-eat products. Consumer behavior after COVID-19 needs further observation.

Decision: NO PURCHASE
Investment Committee Representative: Toan Nguyen

Monserrat Villasenor, Jailyn Fonseca, and Roger Chen pitched Tattooed Chef (NASDAQ: TTCF) as a buy in a General Meeting on Tuesday, December 1st, 2020. After review, the Investment Committee decided to not purchase TTCF. Our reasons are as follows:

FIRST: At the time of the pitch, Tattooed Chef (TTCF) had a product mix that consisted mainly of plant-based products such as acai bowls and cauliflower rice. While demand for these products exists as a result of consumer trends such as the rise in popularity in the Keto diet and healthier eating, we feel that the market for plant-based products is already saturated by other players in the market and that TTCF was not bringing any new offering to the market that could materially differentiate themselves. Furthermore, as TTCF's current product portfolio consists of mainly plant-based products rather than plant-based meat alternatives, we did not have a strong conviction of further product development that would push into any new markets to generate revenue growth for Tattooed Chef.

SECOND: As we were concerned with TTCF's ability to grow top-line revenue in a saturated market, we also wanted to analyze TTCF's potential for future growth. For TTCF to be a major player in the plant-based food market, TTCF must break into the plant-based meat alternative market which currently has several well-capitalized companies such as Beyond Meat, Impossible Foods, and conglomerate food companies with the capital to invest in research and development. Beyond Meat and Impossible Foods have established themselves are market leaders in the plant-based meat alternatives market giving them the first-mover advantage. As TTCF is a young company with an immature business model, we saw that as a weakness that could cause them to struggle as they attempt to raise capital to continue research and development that is necessary to break into the plant-based meat alternatives market.

THIRD: As the market continues to look for publicly traded companies working to serve the exponential demand for plant-based products and plant-based meat alternatives, we believe that TTCF was able to solve their short-term liquidity problems through their IPO using a SPAC, however, we still believe that tougher days are ahead. Beyond TTCF's under-developed corporate structure relative to many other food companies that TTCF competes with, we see manufacturing as a major bottleneck within their operations. TTCF operates by planting their crops as well as processes their product using only two locations within Italy and Los Angeles. As TTCF currently stands, we identified several issues with their current manufacturing process. First, by owning several parts of their supply chain, in the case where there are bad harvests, that could create significant losses for TTCF. Second, as Covid-19 is ravaging Europe especially Italy, we predict possibilities of lockdowns hindering their normal operations. Lastly, by operating in Italy and the US, TTCF could face significant geopolitical issues arising from an incomplete trade agreement between the UK and the EU.

CONCLUSION: Base on our analysis of TTCF's product mix and the immensely competitive market where TTCF directly competes, we concluded that TTCF has a low probability of winning in this market. Furthermore, because of TTCF's immature business model and potential for manufacturing bottlenecks, the investment committee decided against making an investment into TTCF because of the low conviction we have in TTCF's ability to innovate and outperform their competitors.

Splunk Inc. (NASDAQ: SPLK)

Sector Leader: Blake Musberger

Company Overview

Incorporated in 2003, Splunk (SPLK) is a multinational corporation that produces software that analyzes, visualizes, monitors, and indexes all types of data from website inquiries to manufacturing information and everything in between. SPLK offers two primary products: "Enterprise" and "Cloud." Enterprise, SPLK's flagship product, is a real-time software platform that collects and analyzes massive amounts of data. SPLK Cloud, its newest product, includes most features from Enterprise with the added benefit of being offered to consumers via the cloud. These products have a variety of applications such as monitoring infrastructure, reducing security incidents by strengthening cyber defense, maximizing application performance, and much more.

Investment Thesis:

The Technology, Media, and Telecommunications team recommends a BUY in SPLK for the following reasons:

1. Increased Product Ease of Access: Over the last two years, SPLK has taken key steps to increase customer accessibility to its product. In 2019, with the help of Google Cloud and their acquisition of SignalFx (a cloud monitoring software), SPLK moved most of its product onto the cloud. This allows departments to bypass the need for physical hardware installation and maintenance, while still being able to use the analytics software as traditionally done with SPLK Enterprise. Additionally, SPLK has entered key partnerships with AWS, Cisco, SAP, and Accenture. By implementing its own product into each of the subsequent partners' platforms, SPLK enables itself to grow as each partner grows. Because of these partnerships and new cloud offerings, SPLK can deliver their product to more customers and will continue to do so over time.
2. Market Growth for IT Operations: While SPLK has analytics software for many industries, it specializes in IT Operations. Ranked number one by market share in both IT Operations Analytics (ITOA - global market size: $9.3 billion) and IT Operations Management (ITOM - global market size: $11.5 billion), SPLK owns 41% and 13% of each market, respectively. ITOA is expected to grow at a CAGR of 38% while ITOM is expected to grow at an 11% CAGR (IDC) for the next 5 year. Operational data has become abundant due to the increased complexity of IT environments. Businesses need solutions to analyze and interpret huge amounts of data to stay competitive. Traditional analytics software is unable to keep up with the massive amount of operation data being collected, creating an increased need for software such as SPLK that provides more sophisticated systems.
3. Superior Value Proposition: SPLK has proven itself as the market leader for IT Operations and has historically been able to capture most of the growth in the industry. Within each market, SPLK had the greatest revenue growth compared to its competitors in 2019. In this time frame, SPLK's total ITOA revenue grew 30% compared to an industry average of 27%, while total ITOM grew by 32% compared to the industry average of 13% (ITC). Much of this growth is due to the superior value proposition that SPLK offers its customers, reflected by 92 of the Fortune 100 companies using SPLK. Not only does SPLK's software have one of the most advanced AI in the industry, but it is also known to be one of the most flexible products in the market. The software can accept a wider variety of data and inquiries than its competitors, allowing for a greater understanding and interpretation of such data. We can see the overall quality of their product from its consistently high dollar-based net retention rate of 132% (the average for a Software as a Service is 104%). SPLK's superior product makes it well positioned to continue the trend of acquiring market share and growth in the market in the coming years.

Key Risks and Considerations

1. Competition for Market Competitor Consolidation: The data analytics industry includes several players, many of which are larger than SPLK, leaving it to compete against companies with more resources. While SPLK has created a product with a superior value proposition as described above, it lacks the resources needed to acquire competition. Larger companies, such as IBM, have the potential to dominate the data analytics market by acquiring smaller, specialized companies, leaving SPLK vulnerable to being driven out of the market by more established players.
2. Strain from Growth: In recent years, SPLK has seen enormous growth that has placed significant demand on their management, operational, and financial infrastructure. Not only has the average revenue CAGR over the last 5 years been 39.3%, but also 35% of the current workforce of 6,000 has been employed for less than one year. As SPLK

continues to grow, it must effectively integrate, develop, and motivate many new employees, while maintaining the effectiveness of the business execution and the beneficial aspects of the corporate values

Decision: NO PURCHASE
Investment Committee Representative: Ian Klimisch

Blake Musberger, Nathan Destouches, and Gregorius Hanzel pitched Splunk (NASDAQ: SPLK) as a buy in a General Meeting on Tuesday, December 1st, 2020. After review, the Investment Committee decided to not purchase SPLK. Our reasons are as follows:

FIRST: Splunk's disappointing third quarter results raise serious questions about their market positioning. While part of their revenue decline is attributable to their shift from on-prem software to subscription-cloud contracts and the different GAAP treatment it receives, the 11% YoY revenue decline remains incredibly disappointing. This would be easier to swallow had management foreseen this or explained its cause, but management expected revenue to be roughly 10% higher than it ultimately was. Most plausible explanations render SPLK an unattractive stock for our portfolios.

SECOND: Competition from blue-chip brands mounts every day as big tech companies develop their counter offering. The best-case scenario for Splunk seems at this point to be acquired, but in lieu of evidence that Splunk is looking to sell, the investment committee would rather avoid blind speculation praying for quick gains on takeover premiums.

CONCLUSION: The investment committee is not in the business of buying industry losers, and based on their third quarter earnings report, Splunk appears to be exactly that. There is not sufficient evidence that Splunk offers a sufficiently superior product to bigger name competitors to overlook this financial shortfall, nor does their economic moat seem wide or deep enough to keep our noses pinched for the near-term.

Current Portfolio

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2019-2020 Competition Performance