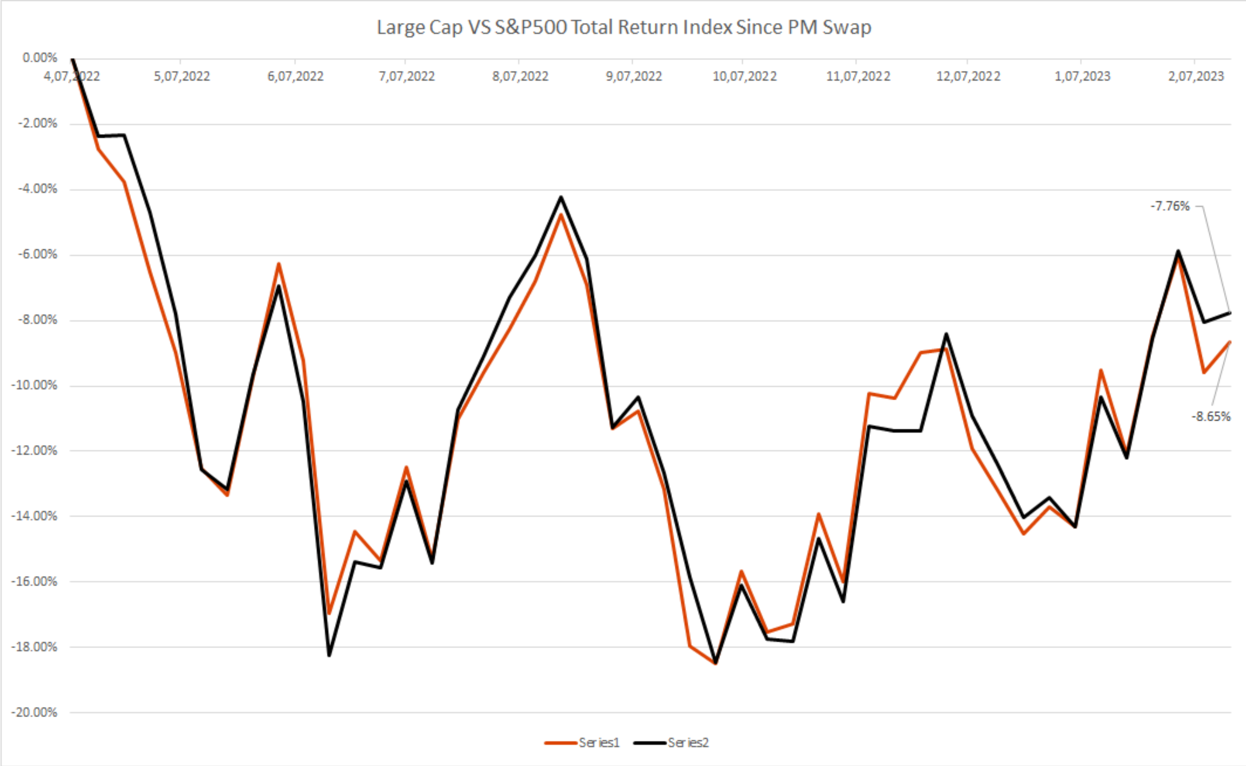
Fall 2022 Quarterly Report

Large-Cap Portfolio Performance

The second quarter of the year can be marked by a massive decrease in volatility following an unexciting earnings season, and mid terms where republicans won the house majority but failed to take any additional seats in the senate. While the yeild curve maintained its inversion, and inciting additional recession fears in technology stocks, gains in defensive stocks held up our portfolios value. Notably, our portfolio, when compared to the benchmark S&P500 maintained its inception outperformance, maintained its 3 year outperformance, and ended the year…. Some trends within the market that our organization is watching is negative investor sentiment with with federal reserve, increase in volatility in the first three quarters with a decrease in volatility post Q3 earnings and midterms, and finally a demand from investors for companies to become FCFF positive while growing their earnings.



In my next quarter as the fund manager, I seek to remain underweight technology, keep our cash position at 2% near its lower bound, and allocate capital to company with stable and growing dividends. A common, but extremely important mistake I have seen in past portfolio manager's thinking is the failure to realize the tax benefits we receive as a result of our status as an educational institution. We do not pay taxes on capital gains or domestic dividends we receive. For this reason I believe the best decision is to allocate capital to stable companies with growing dividends, minimize exposure in the technology sector, minimize exposure to debt reliant company's and avoid keeping more than 3% cash on the side in case of a market reversal, for the fiscal year of 2023.

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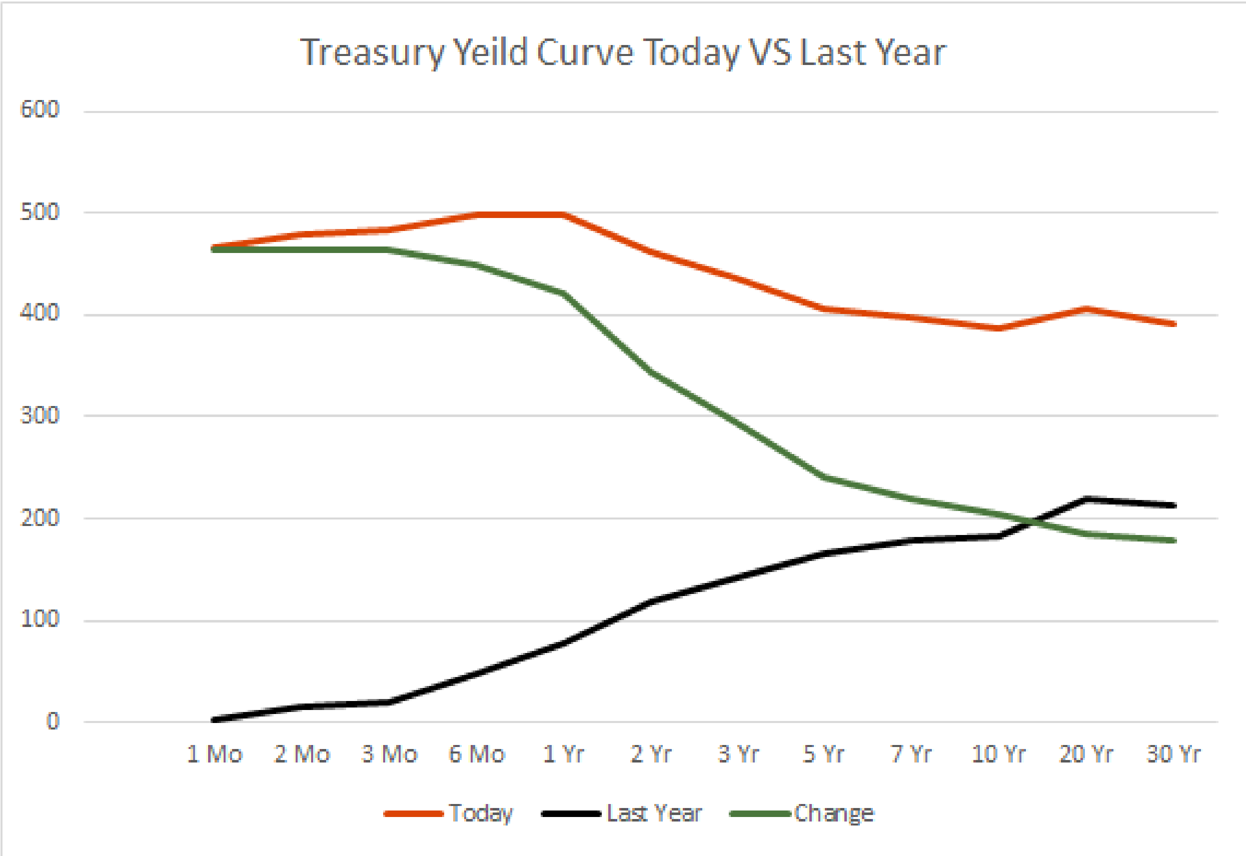
The inverted yield curve is forming a humped shape as investors sell out of the medium term maturities (1yr-3yr) and are long the shorter term and long term maturities. I believe this is because on the medium term horizon, inflation is leaving investors feeling uncertain. Investors feel safe in the shorter term maturities because they can roll them over if inflation remains volatile to avoid being stuck with a position that will be eaten up by inflation. In the long term investors are certain that we will return to a lower inflation rate most likely because of globalization, thus justifying investors to take an inflation adjusted loss in the near term to secure a historically high yield on US government debt. Therefore, investors feel the safest in both short and long term maturities, and are avoiding the medium term maturities.



Looking forward to the coming quarter, I am excited for our portfolio with recent reports showing inflation decelerating from its end of summer high. Research data shows that interest rates have less to do with equity performance than falling or rising inflation does. Investors and speculators alike are quick to point blame at the federal reserve for the sell off in equities but the majority of the blame for the recent bear market reside instead with inflation rating away growth for companies of all size and domains (excluding energy).

Companies that outperformed this year were those in the energy sector and this with high gross margins, especially those with recurring revenue streams from government entities. A perfect example of this is Axon stock. Investors want positive free cash flow and solid free cash flow growth. There is now a greater opportunity cost for investor dollars than any time in the past decade. Gone are the days of growth at all cost, and now is the day of earnings a cash flow

today. Companies with strong management will make this strategic shift, or already have, as in the case of Pioneer Corporation (NYSE:PXD) and companies that are in the process of this shift, might see some short term relief, but will continue their sell off until the shift is complete as is the case with Amazon (NYSE: AMZN). Amazon, one of our biggest holdings, will be forced to either improve operating cash flows or cut investment. The latter of the two seems to be the most likely as companies are already starting to cut jobs and defer capital expenditures into the future. These actions play directly into the Fed's desires to lower inflation. Since companies will be making less investments and hiring less, their expenses will decrease. Since we operate under the assumption that one entity's expense is another entity's income, we expect that an increase in the unemployment rate will be the result of this belt-tightening and will curb inflation for the foreseeable future. Currently the unemployment rate sits around 3.5% which is great news for graduating students but bad news for the fed since new data shows that a decrease in stock/investment values does not have a negative effect on consumer spending, a primary driver of current inflation.

We expect that the decrease in expenses will drive down inflation eventually but not in time enough for the Fed to see. It is our belief that we are at risk of over tightening. In the event of over-tightening, we expect our portfolio to fare well since we are 7% underweight technology (relative to the S&P500) and are actively moving funds to dividend growing companies with stable and consistent cashflows. In the event that the federal reserve halts the rate hikes we are under the assumption that our portfolio will maintain performance with the S&P500, outperforming slightly on a dividend adjusted basis. In the unlikely scenario that fed cuts rates we are under the assumption that our portfolio will eventually give up ground in the race to beat the S&P500 as we would expect small cap-growth and growth-technology stocks to outperform, of which we are underweight. I must remind the reader that we are under the constraints of A) only investing in US based companies who generate over ½ their revenue onshore, and B) investing in companies of market caps greater than 10 billion.

Despite these constraints I believe that it is the optimal decision to not fight the Fed and its decisions, but instead move in a reactive manner to the Fed. I do not believe it is wise for myself or any portfolio manager of this portfolio in the future to make decisions based on events either. Those events most commonly being earnings, and federal reserve decisions (FOMC meeting primarily).

By the end of Q4 2022, we will have a better idea of where the fed is heading with the rate hikes and a more firm grasp on the situation with inflation. Our portfolio will remain consistent regardless of the market situation or sentiment excluding a black swan event. Our portfolio over the past calendar year has brought in $81,102.19 in dividends, this represents an 12 month trailing yield percentage of 2.31% vs the S&P trailing 12 month yield at 1.82%. The S&P long term yield is 1.85%, for reference. For dividends, our goal as a group will be to generate over $100,000 in dividends in 2023.

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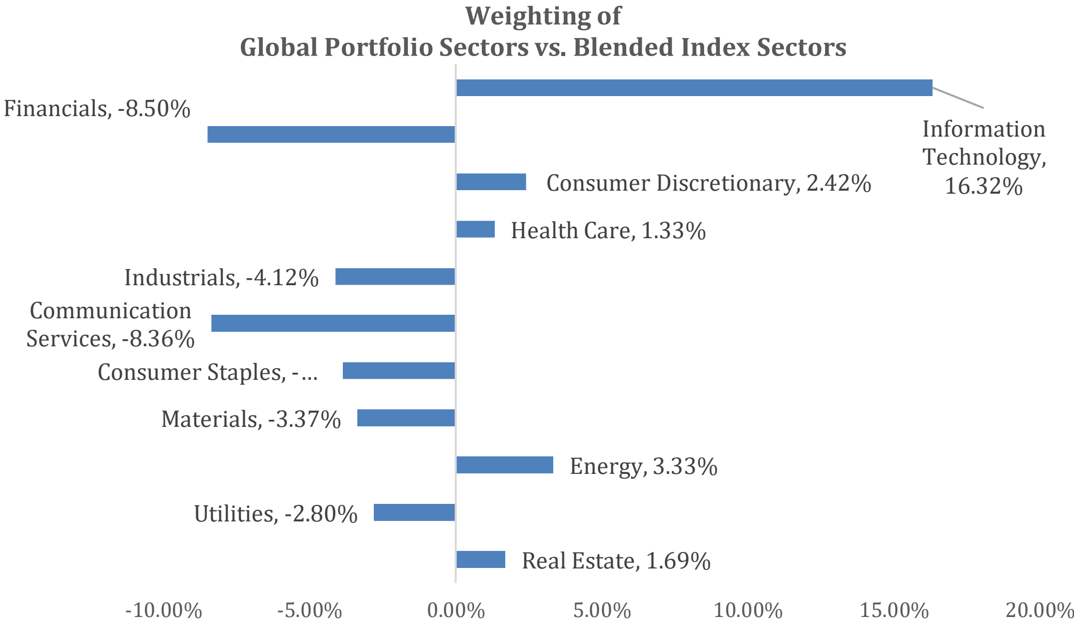
Global Portfolio Performance

Our Global Portfolio is a mixture of companies based in the United States that generate over half of their revenue internationally and firms based outside of the United States. We use a weighted blend of the MSCI ACWI ex USA and the S&P 500 indices as our benchmark index. During Quarter 3 of 2022, our global portfolio underperformed the blended benchmark index with an alpha loss of 3700 basis points with JD.com, Brookfield Renewables, and Estee Lauder leading the pack as the only three stocks with negative performances. Growing economic uncertainty in China, fears of a European energy crisis, and a tumultuous political scene in the United Kingdom are weighing heavily on international firms. Consequently, American companies trading internationally in dollar-denominated transactions have suffered from increased foreign exchange costs with the U.S. Dollar Index ($DXY) hitting a 20-year high of $114.78 in early October of this year.



Since the start of 2022, the global portfolio returned -23.1% while the blended benchmark index fell -16.1%, due to our overexposure to the semiconductor industry which has suffered from slowing demand and excess inventory. Similar to the semiconductor industry, healthcare firms are returning to pre-pandemic sales after experiencing massive sales growth during the pandemic. Consumer discretionary has also taken a hit in 2022 as consumers are tightening their wallets as inflation continues to be high and central banks are rising interest rates worldwide.

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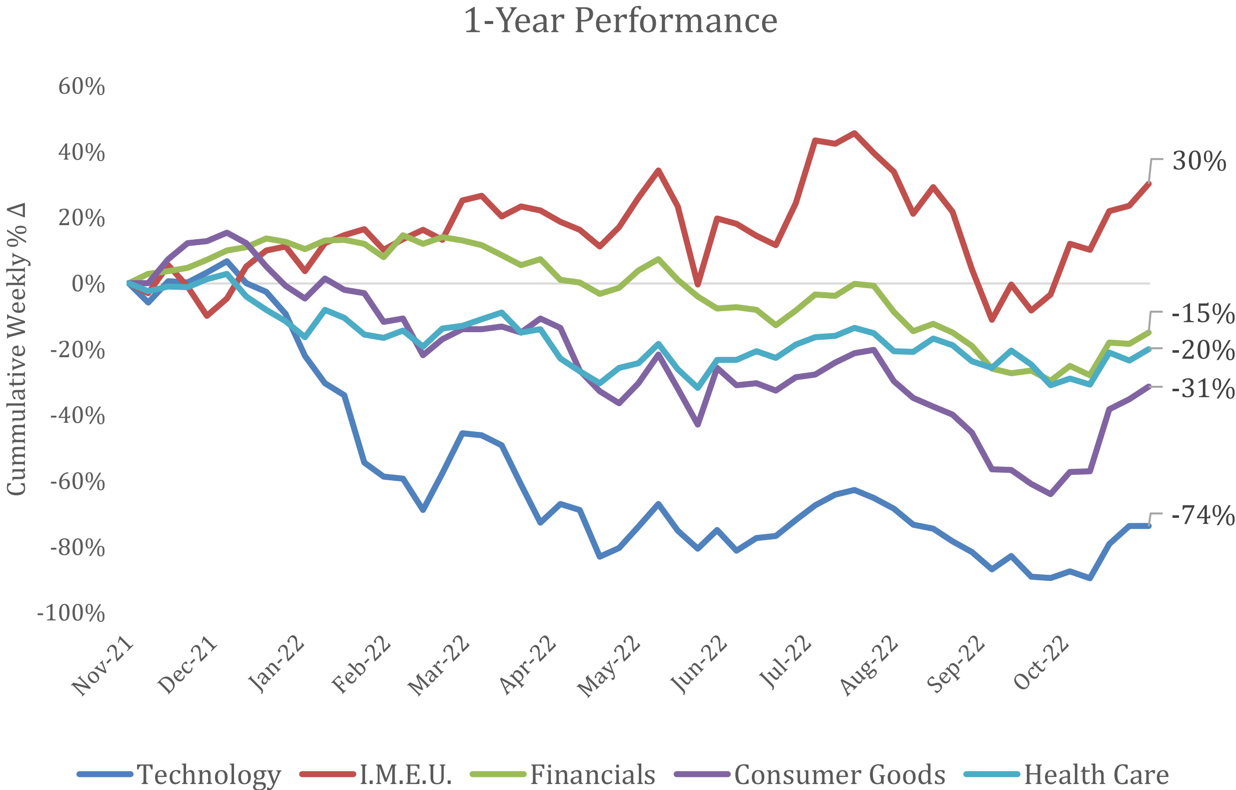

Coming out of a summer bear market rally, my portfolio strategy for Fall was to hold cash until market conditions became more predictable. With global energy prices skyrocketing this year and European countries stocking up on oil to weather the incoming winter season, Exxon Mobil has experienced high sales growth post-pandemic and jumped 25% this quarter and 84.8% YTD. I capitalized on this outsized growth by cutting our Exxon shares by 33% while growing our holdings in VMware, Sony, and Welltower. Besides, Exxon, our other two top performers this Fall season were Sony and Nvidia, gaining 19.5% and 29.5%, respectively.

My strategy for the global portfolio at the end of Quarter 3 and for Quarter 4 is to increase holdings in fundamentally strong companies that have become considerably undervalued in this bear market. I'm looking for firms and industries that may be suffering from short-term interest rate hikes and pandemic hangovers that will not have a material affect on the long-run success of the company. While the performance of 2023 is highly uncertain, the outlook of the global portfolio extends far beyond next year which makes it important to consider, but not overreact, to current market conditions.

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DADCO Portfolio Performance

The DADCO portfolio is the group's annual competition portfolio through which we compete with 21 other schools in a competition facilitated and funded by D.A. Davidson & Co. The competition begins and ends in September. Given the start date of the competition, the end of fall term marks the end of the first quarter of performance for the 2022/2023 portfolio.

The strategy for the DADCO portfolio this year is to maximize potential profit and limit risk by combining more speculative/riskier (high beta, growth, oversold) companies with more conservative companies. The idea is, if we see a significant bounce in the market due to lowering inflation and potential for a pause to the rate hikes, we may see a period where fear begins to subside. There is a substantial amount of cash sitting on the sidelines that would likely flow into these riskier plays given a situation like this occurs. At the same time, I feel it's important for the reputation of the investment group and the school as a whole to limit unnecessary risk. With this being said, I wanted to include some proven companies that still have some major catalysts in the short term. Given a situation where the market continues to become more and more fearful and the macro economy points in a bearish direction, these companies will mitigate some of the risk that we have taken on in other options. This, along with holding cash, will allow us to place higher in the overall competition so we can avoid a situation like last year (finished 3rd to last place).

School	Current Month 10/31/2022	Month Ago 9/30/2022	1 Month Gain/Loss	1 Month Return
Cal State Northridge	$49,581.77	$45,128.15	$4,453.62	9.87%
Utah State	$53,072.02	$48,562.62	$4,509.40	9.29%
Washington	$48,145.83	$44,191.46	$3,954.37	8.95%
Idaho	$47,825.34	$44,313.33	$3,512.01	7.93%
Boise State	$49,174.09	$45,713.84	$3,460.25	7.57%
Portland State	$51,911.26	$48,341.29	$3,569.97	7.38%
MSU Bozeman	$47,805.42	$44,575.01	$3,230.41	7.25%
Montana	$50,941.22	$47,668.49	$3,272.73	6.87%
Oregon State	$49,574.22	$46,560.16	$3,014.06	6.47%
Washington State	$48,126.07	$45,218.66	$2,907.41	6.43%
Creighton	$45,824.53	$43,174.55	$2,649.98	6.14%
Gonzaga	$48,604.45	$46,106.68	$2,497.77	5.42%
Idaho State	$48,944.62	$46,479.53	$2,465.09	5.30%
Wyoming	$50,512.83	$48,058.69	$2,454.14	5.11%
Oregon	$47,702.68	$45,777.97	$1,924.71	4.20%
Eastern Washington	$48,466.99	$46,660.06	$1,806.93	3.87%
Seattle University	$49,028.36	$47,680.99	$1,347.37	2.83%
Utah	$46,518.91	$46,016.20	$502.71	1.09%
Westminster	$45,521.48	$45,049.62	$471.86	1.05%
Southern Utah	$49,622.97	$50,066.18	($443.21)	-0.89%
MSU Billings	$47,968.69	$48,547.06	($578.37)	-1.19%
SIP Composite	**$1,024,873.75**	**$973,890.54**	**$50,983.21**	**5.24%**
S&P 500				**8.10%**

We finished the quarter (as of 10/31/22) ranked 7th out of 21 schools, outperforming the S&P 500 and the SIP composite since the beginning of the year. In the month of October, the portfolio returned 6.5% slightly falling short of the S&P return of 8.1%. Our current holdings include Nvidia, Coinbase, Blackstone, Costco, Carnival Cruise Line, Teladoc, and Axon. As of 10/24/22 I added Blackstone, Carnival Cruise Line, and Costco in an effort to allocate some of our cash position (which at the time was over $19,000) into assets. The idea was to use fundamental analysis of the market to try and determine a short term bottom. I determined that it

would be better to hold assets in a market bounce or consolidation period, and not wanting to miss out I allocated around $13,000 into a group of companies that I thought aligned with my strategy noted above.