

## LETTER FROM 2021 MANAGEMENT TEAM



The Herbert B. Mayo Student Investment Fund (SIF) consists of TCNJ Business Students that have a passion for the stock market and work as a team to manage a \$700,000 fund.

As members of the Student Investment Fund, we consider ourselves having a dual mission of both growing and maintaining the funds and ensuring that we, as students, are continuously exposed to investment experience and learning about the economic environment. This past year we have achieved both of these goals with tremendous success.

Focus for the fund this year was future growth coming out of the COVID-19 pandemic. With the portfolio having 50+ stocks, we wanted to eliminate insignificant positions and while entering into companies that we determined were undervalued and positioned to succeed in the long term. This allowed us to increase exposure to certain sectors of the markets.

In achieving our goal, we established positions in Livent Corporation (LTHM), Cardinal Health (CAH), NextEra Energy (NEE), and Taiwan Semiconductors Manufacturing Company (TSM). Companies like Livent and NextEra are positioned well to meet future demand in the shift to clean energy. Cardinal Health and Taiwan Semiconductors are positioned well in their respective industries to see a substantial amount of growth.

We also generated cash from selling stocks in companies for which we saw limited growth potential. A few notable examples include Cisco Systems (CSCO) and Paypal (PYPL). Along the same lines, we reduced our Twilio (TWLO) position by 25 shares to capture realized gains.

The early months of 2021 saw the markets continue to rise coming out of the COVID-19 pandemic, bringing the portfolio with it. With our investing activity, we captured gains in companies that have appreciated since our purchase date while also investing in companies we believed were undervalued in the current environment. Going forward, we want our successors to continue to grow the fund and make smart decisions to increase the value of our portfolio.

The Student Investment Fund is by far one of the most unique experiences we have while at TCNJ. While current seniors have accepted positions with well-established and reputable firms, participants were often asked about the fund and we believe that our participation helped us build a solid foundation for wherever our career path takes us.

2021 SIF Management Team

## **LETTER FROM THE FACULTY ADVISOR**

I started the student investment fund to provide students, primarily finance majors, with an opportunity to make investment decisions involving real money. Since its inception, over 300 students have participated in determining the portfolio's allocation and selecting individual securities to buy and sell. This process has improved the participants' analytical and presentation skills. When the fund started, the S&P 500 stood at 1480. Today, 20 years later, the index stands at 6000. The year has been a challenging environment in which to make investments. Through continued contributions from alumni, dividend and interest income, price appreciation in specific stocks, and the magic of compounding, the value of the fund has grown to over \$700,000.

Beginning in 2014, the fund adopted a policy of "give back" to the community. Entering freshman from Ewing Township were awarded a one-time payment that ranged from \$500 -- \$1,000. While the amount of these gifts will vary each year, increased success by the student portfolio managers should lead to larger distributions to students from our community.

I invite you to contribute to the fund. To make a contribution, please use the form provided in this report.

Herbert Mayo

Professor of Finance

## **HOW THE FUND WORKS**

The Student Investment Fund (SIF) is a group comprised of ambitious students from The College of New Jersey's business school who are looking to gain experience in equity investing and valuation. It provides students the opportunity to research, discuss, and execute investments in a fund with a market value of \$700,000.

During the course of the semester, each member of the SIF is responsible for pitching at least one purchase or sale of a stock. The typical process for making an investment decision begins with a member of the fund researching the market/economy and selecting a company to buy or sell. Next, this company is introduced to the group and an open forum on thoughts and feedback takes place. The group then decides whether or not this company should be further pursued. If a majority of the group decides this discussion is worth continuing, the individual prepares a more detailed presentation of the potential investment. The second presentation typically consists of two parts, the conceptual story behind the buy or sell and a valuation supporting the argument. The presentation is followed by questions and a discussion and once all the members in the fund feel they have adequate information to make an investment decision, a vote takes place. If two-- thirds of the group is in agreement of the investment proposed, the transaction will be executed.

## **Transactions 2020-2021**

### **Livent Corporation (LTHM) and NextEra Energy, Inc. (NEE)**

Two investments made this semester to capitalize on innovations in clean energy were Livent Corporation (LTHM) and NextEra Energy (NEE).

The Student Investment made its first investment of Spring 2021 in Livent Corporation, which was pitched by Julia Ahart and Jake Mansure. Livent is a major lithium supplier and the only pure-play provider in North America. Consumer and industry trends point to Electric Vehicles as the future for automobiles and transportation. Lithium is a key resource in the manufacturing of batteries that power electric vehicles, and we believed that Livent is well-positioned to leverage the global transition to electric vehicles. Livent was spun-off from its parent company, FMC Corporation in 2018, and with it, they brought technological expertise, capability, and know-how to produce high-performance lithium compounds that are helping meet the growing demand for lithium. Livent's direct ownership of its brine-based Argentina mine gives the company cost-advantage over competitors, and they have already established key supplier partnerships with Tesla and BMW. The Fund acquired 200 shares of Livent at \$17.38, totaling \$3,476. The purchase of Livent helped diversify the Basic Material sector of the portfolio.

Following our investment in Livent Corporation, the fund decided to make an investment in NextEra Energy, Inc. (NEE). NEE provides the services of a traditional utilities firm with an expanding innovative segment focused around providing renewable energy sources. For instance, NEE has embarked on a \$65 million project to utilize solar power to produce hydrogen energy, set to be complete by 2023. The fund saw NextEra as a way to expand its diversification in the utilities sector while also having a foothold in the future of energy. The fund felt renewable energy was important to capture in our portfolio due to both a favorable political climate and increased worldwide demand for clean energy. As a fund with a long-term mindset, the members agreed on NEE's strong potential over the next 5+ years. Additionally, investment in NextEra will enable the fund to receive a quarterly dividend of \$0.385 per share, which is projected to see a 5-year growth of 12.5%. The fund bought 50 shares of NEE at a share price of \$73.48, representing a total investment of \$3,674.

### **Taiwan Semiconductors Manufacturers (TSM)**

TSM is a world leader in the semiconductor industry. Pitched by Kai Michaud and Brian McCormick, the fund invested in 50 shares with a cost basis of \$122.49 resulting in a total transaction cost of \$6,124. TSM currently dominates the industry in production and market share while it continues to grow at a rapid pace. Manufacturing includes both a wide range of semiconductors from bigger, less powerful silicon wafers, to smaller, more refined and powerful semiconductors. TSM currently holds 54% of the market share for the world production of semiconductors. With ongoing contracts with tech companies like Apple, Qualcomm, AMD, and NVIDIA, TSM is the major supplier for the world's top semiconductor producers. They have strong plans to build more GigaFab facilities to increase production of the more powerful semiconductors. Considering the current semiconductor shortage in the market, TSM has received a contract from the U.S government to expand into Arizona to help meet the demand. New technologies such as iPhones and computers require the use of more powerful semiconductors,

which TSM thrives at producing at a large scale. Major investments in new and existing production plants were viewed by fund members as a great growth opportunity for the company.

Currently TSM is the one of two semiconductor companies in the world, Samsung being the other, that can manufacture the newest type of semiconductor being the 5nm chip. This allows more advanced calculations to happen faster, creating more value for customers. TSM and Samsung are currently both working on new technology in the industry by shrinking the size of the semiconductor to 3nm and then 2nm, further boosting performance of the chips. While Samsung and TSM are competitors, Samsung is a way more diverse company that ranges from semiconductors to phones, screens and laptops. This makes TSM more competitive in the semiconductor field because no other company has the manufacturing capacity that TSM has to fill strong demand. Going into the future, the demand for semiconductors is projected to be as vigorous as it currently is as new electronic products, and their respective industries, will continue to expand and TSM will be there to meet the needs.

### **Cardinal Health, Inc. (CAH)**

The largest acquisition during the Spring 2021 for the Student Investment Fund was the purchase of Cardinal Health, Inc. (CAH), which was pitched by Jake Mansure. The fund acquired 200 shares at \$61.13 on April 20th, 2021, totaling \$12,226. Cardinal Health is the third largest distributor of pharmaceuticals and medical products in America and serves 100,000 locations, including pharmacies, ambulatory surgery centers, clinical laboratories, physician offices, and 75% of U.S. based hospitals. Additionally, Cardinal Health operates the largest radiopharmaceutical network in America, which is an emerging cancer therapy. The strategy behind the purchase of Cardinal Health was due to the rising median age in America since the demand for pharmaceuticals and medical products for an aging population will increase. As technology progresses, so will the introduction of breakthrough drugs. Cardinal Health is well-positioned to meet these demands and distribute new high-end specialty drugs as they operate in an oligopolistic industry with stringent barriers to entry that allow for sustainably high returns on a massive capital base. Cardinal Health has developed key relationships with major retail pharmaceuticals and PBMs, which gives the company strong purchasing and negotiating power when it comes to generic pharmaceuticals.

Cardinal Health was an attractive investment because of its status as a dividend aristocrat. Cardinal Health has seen 32 years of consecutive dividend growth and will provide additional dividend income for the Fund. Also, it was determined that the fair market value for Cardinal Health was more than what the company was trading for at the time of the purchase, suggesting the security was undervalued. With many securities believed to be overvalued, Cardinal Health was an attractive investment since it was undervalued, which allowed us to increase our exposure in the Health Care sector.

### **Cisco (CSCO) and PayPal Holdings, Inc. (PYPL)**

Two key divestitures that the team made this semester was selling Cisco (CSCO) and PayPal (PYPL).

Cisco Systems, Inc is a technology company engaged in designing and selling a range of technologies across networking, security, collaboration, applications and the cloud. Cisco Systems products include infrastructure platforms, applications, security, along with other products. At the time of this sale, Andrew Donoghue and Lawrence Kruglyak believed the fund was overweight in the information technology sector and we wanted to liquidate some holdings to increase our cash position. We chose to

sell Cisco Systems in efforts to reduce our sector exposure because of its poor historical performance, especially during the COVID-19 pandemic, and low perceived future growth. As established in the beginning of the semester, the goal of the fund was to invest in companies that were positioned to experience high future earnings growth in tomorrow's economy. On February 9, we sold all 100 shares for \$4,518 after fees. We believed we could use the cash from this sale to decrease the sector exposure and put it into a company that better fit our funds goals. The cash generated from this sale was used to fund the acquisitions previously stated.

PayPal is an American company that operates an online payments system to support online money transfers. The company operates as a payment processor for online vendors, auction sites, and many other commercial users and charges a fee in exchange for benefits such as one-click transactions and password memory. The security was originally purchased in the fall of 2019 and saw over 200% growth in appreciation. The sudden growth in the company can be attributed to a surge in digital sales in lieu of traditional paper transactions due to the implications surrounding the COVID-19 pandemic. Because of this surge, PayPal was determined to be significantly overvalued. At the same time, Apple, Google, and Amazon have entered the online payment industry with pre-established user bases that eclipses PayPal, as well as new start-ups that offer more innovative business models that has forced PayPal to adapt to keep up with the ever-changing industry. With this, the team decided to sell all holdings of PayPal (100 shares at \$267) to achieve our goal to invest in undervalued positions with long-term growth and pay a dividend to increase our exposure in certain markets sectors. Significant proceeds from the sale of PayPal went towards the purchase of Cardinal Health.

### **Twilio Inc. (TWLO)**

Twilio, a US-based customer resource management cloud communications platform, was part of a partial divestiture effort. The focus of Twilio's discussion was in regards to the massive appreciation upon the initial investment made back in 2017. Twilio is a strong company due to its leading position in its business sector and large customer base, including services like Netflix, Uber, and Shopify at the time. Additionally, its history of recent acquisitions could lead one to be assured that Twilio remains positioned as a growth company within its field. That so, the team also concluded that Twilio's position remains troubled by its continued unprofitability, decreasing profit margins, and substantial increase in market capitalization — which was found confounding to justify. Ultimately, at the time, Twilio was still positioned as a strong company with additional opportunity for growth, though overall risk required a partial divestiture in the firm.

The initial proposal regarded a sale of 50 shares of Twilio, out of the 100 shares held. This would've decreased our stake from approximately \$39,000 to \$19,500. Instead, considerations were made regarding the value of these funds as cash, as Twilio was the last proposal for the semester, and a consensus was reached to sell 25 shares. This totaled in a divestiture in excess of \$9,750, with the fund still holding 75 shares in the firm.

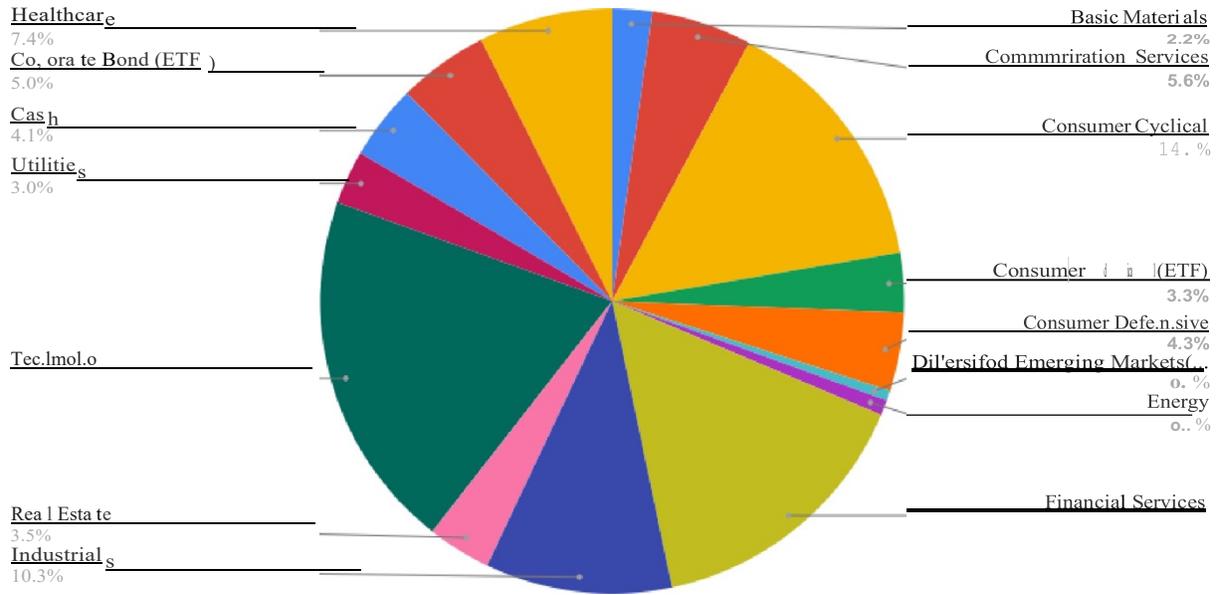
## **Considerations**

### **Delta Airlines (DAL)**

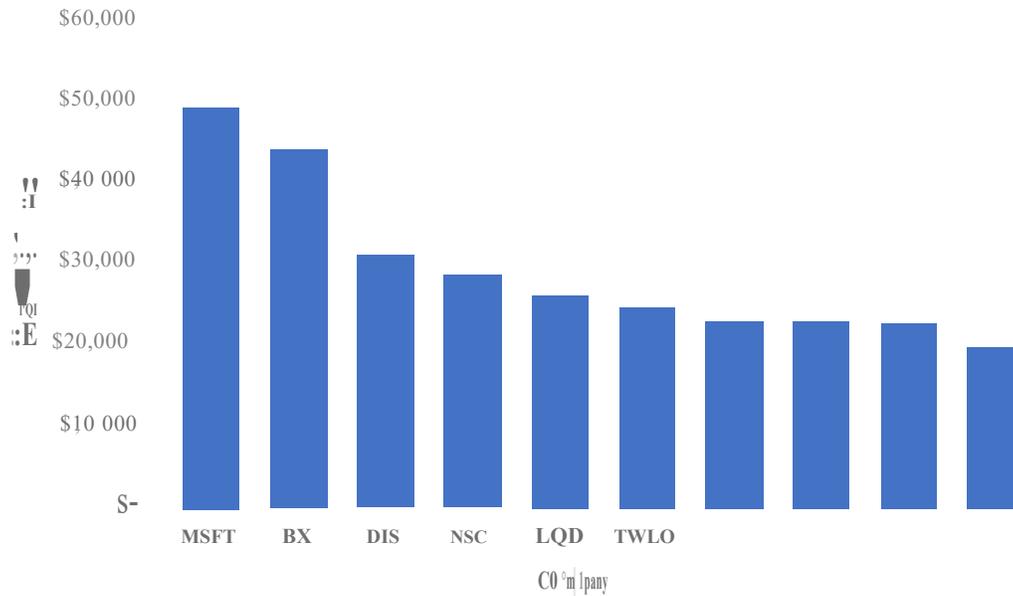
One security we considered to divest was Delta Airlines at the price of \$45.18. Delta Airlines is a leader in the air travel industry, especially in the domestic air travel market with its closest competitors being United Airlines and American Airlines. In the presentation, it was brought up that the airline industry is mature with strong competition, that COVID restrictions had persisted in keeping people from using air travel services, and that ending US energy will increase the cost of crude oil, driving up the costs related to operations and keeping the stock price from returning to pre-COVID levels.

On the other hand, increased rollout of American vaccinations administered, increasing travel interest as restrictions eased, and Delta's sector exposure of being primarily engaged in domestic flights provided a positive argument for keeping the stock in the portfolio. Also, the opposition believed it was not the proper time to divest from this holding, as Delta was still trading below pre-pandemic highs. Since we had originally bought it for \$47.16, selling at the current market price would incur a loss of \$1.98 which was not an attractive prospect. Ultimately, it was concluded that Delta Airlines stock price likely wouldn't fall again; conversely, it would likely see a rise based on investor confidence and increased demand greatly fueled by people wanting to travel as soon as possible with relieved COVID restrictions. Accordingly, it better fell in line with the objectives of consistent capital appreciation to hold the stock.

### SIF Asset Allocation as of May 4, 2021



### TCNJ SIF Top 10 Holdings by Market Value



## **GIVING BACK TO THE COMMUNITY**

Being in the Student Investment Fund is like being on the board of a company. Therefore, there are more aspects of a business to understand than just making strong investments to generate higher returns. It is also important for the fund to understand the importance of social corporate responsibility, which we get to experience first-hand by donating scholarships to the community through the Ewing Community Award. The Ewing Community Award recognizes the value of strengthening and deepening TCNJ's mutually beneficial relationship with the Ewing Township community. These students, who graduated from either Ewing Township High School or Notre Dame High School, often express the value of this relationship in their messages and are proud to be members of both communities.

This year we were able to award twenty-six \$500 scholarships to deserving, hardworking students from the Ewing community. One of the recipients stated "Your continued donations and support really boost college students' morale and make them strive to be the best they can be, and that's especially true for me." Many others discuss the importance that TCNJ has had in their life. Another recipient noted that "The College (TCNJ) as a whole brings its community together as one loving family and the generous scholarships only add to." The Ewing Community Award highlights social corporate responsibility while strengthening the relationship between the college community and the surrounding area.

## **HOW TO MAKE A DONATION**

Thank you to all our donors for your generous donations throughout the years. Without your generosity, this fund would not be possible. Please visit [give.tcnj.edu](http://give.tcnj.edu) to support the Student Investment Fund.