

The logo for Smith Investment Fund, consisting of a dark red square with the text "Smith Investment Fund" in white, stacked vertically.

Smith
Investment
Fund

A wide-angle photograph of the Smithsonian Institution building, a large, classical-style red brick building with a prominent white portico supported by columns. The building is set on a large, green lawn with several trees in autumn foliage. A few people are visible walking on the lawn. The sky is blue with scattered white clouds.

ANNUAL REPORT 2019-2020

Smith Investment Fund



UNIVERSITY OF MARYLAND

COLLEGE PARK

1875

This annual report is dedicated to current members, former members, and anyone else who has supported us. We thank you for your hard work and commitment to Smith Investment Fund.



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A photograph of a white, domed building, likely a university capitol building, partially obscured by trees with vibrant autumn foliage in shades of orange, red, and yellow. The scene is captured from a low angle, looking up at the building. The sky is bright and slightly overcast.

UNIVERSITY OF
MARYLAND'S
PREMIER
STUDENT
INVESTMENT
GROUP

LETTER

May 5, 2020

Dear Friends of Smith Investment Fund,

For the fiscal year 2019-2020, Smith Investment Fund (“SIF”) achieved an absolute return of 39.5%. The S&P 500, our benchmark, returned (0.4%) over the fiscal year. We are thrilled with our results, but we are even more thrilled with the progress we have made in developing SIF into a sustainable investment group at University of Maryland.

General Commentary

This year was an important year for us. Our organization continues to grow and attract the strongest students at University of Maryland. We had a record 83 applicants and accepted nine members for our investment team. We have made significant progress since developing this group, but there is still a lot that needs to be done. We have a long-term vision for SIF to be a leading organization at University of Maryland, providing the best educational experience and having strong connections with SIF alumni.

Returns Commentary

First, we can’t discuss returns without discussing COVID-19. This event has changed the world in the last couple months. It will be a life-changing event for everyone and impact the way we do business and operate in our daily lives. We hope this will end soon and that everyone’s friends and families are safe during this crisis.

As young investors, this crisis is a time for us to learn, reflect, and improve on our investment process. We are all undergraduate students, and this is the first crisis we have faced. Amid so much uncertainty, we remain grounded to our fundamentals – only dipping our minds into things we feel we can adequately predict or control. We like to remind our members of a quote by Peter Lynch: “If you spend more than 13 minutes analyzing economic and market forecasts, you’ve wasted 10 minutes.” And so, we have no viewpoint on markets or the economy for the near term.

Yet, we can’t ignore this crisis. For our portfolio, we reevaluated our investment theses in the context of COVID-19 and feel comfortable with our holdings (see more in portfolio overview section). We did not have a plan for this environment, nor did anyone else in the investment universe, but we remain grounded in our investment process while considering the cone of outcomes for our businesses.

LETTER

We are now considering COVID-19 implications on current holdings and in new investment opportunities, as this will be an event that changes the world. As a result, we have sold our position in Shopify, increasing our cash balance and realizing strong gains as it benefited from the shift towards e-commerce.

So why did we have such spectacular returns? Largely, we got lucky. We did not expect this crisis to happen. We did consider low-cost leadership and digital commerce trends as part of our investments, but we didn't realize how important these factors really are in a downturn. Going forward, we will adhere to a strong risk discipline and stress test businesses against various economic conditions.

The key takeaways for us during this crisis are 1) balance sheets matter, 2) focus more on loss of capital and risk management, 3) focus on things that we can predict or control, 4) continue to maintain an owner's mindset, and 5) remain calm.

We also initiated positions in two businesses (see new positions section): Visa and Activision. These businesses are a strong fit for our investment criteria and well-positioned to grow over the long-term and provide strong returns. Visa and Activision are dominant leaders demonstrating great returns on capital. Run by great management teams, we believe these businesses are heading in the right direction and are executing well against our expectations.

Organizational Commentary

We continue to improve SIF to provide a better experience for all our members. We are changing the way we train Academy Associates and improving the roles of all members. We want to provide a hands-on experience and continue to make organizational decisions solely based on the experience of our members. They are the top priority.

The executive team recruited nine incredibly bright students this year. You can find their names on the team page; but we couldn't be happier with this year's Academy class. We don't give them nearly enough credit for the hard work they do, but we are so grateful to have such motivated individuals. Without them, SIF would be nothing.

Closing

We'd like to reiterate our appreciation for our members, alumni, and those who have influenced SIF. All of us at SIF are still learning and we only hope to become better people and investors. We are certain that SIF's future will be bright – driven by exceptional people.

LETTER

We are still in the early stages of developing SIF and have a lot of work to do. We are confident that the next executive class will be able to continue our vision. Again, our members are the top priority and their experience comes first. We stress a businesslike approach toward investing, and we are aligning member experience with this process.

Our promise to you – never predicting short-term movements and infinitely improving.

Sincerely,

The SIF Executive Team

ABOUT US

Overview

Smith Investment Fund is a student-managed, long-only, equity-only investment group at University of Maryland. We are dedicated to educating students about investing, the financial services industry, and portfolio management. We are the foremost group on campus that offers students the opportunity to partake in hands-on investing in a collaborative setting.

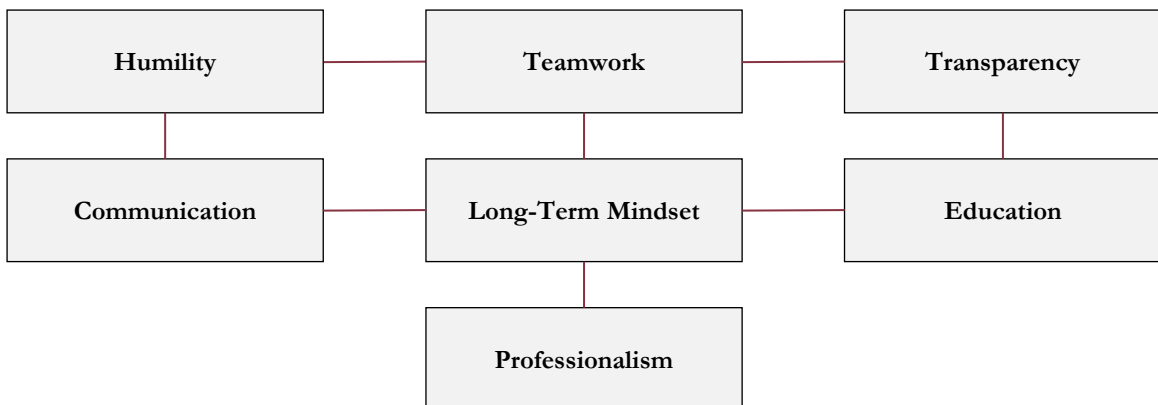
Our mission is to invest our capital at high absolute returns. We recognize that our performance will be a result of the success we have managing several internal factors, all of which are related to our culture. We hope to educate SIF members on various topics, including fundamental research and decision making, aim to outperform the market on an absolute basis, and connect members with our extensive and active alumni network.

History

SIF was founded in 2018 by a group of motivated undergraduate students, Ryan Thornburg ('19), Harman Gill ('20), Logan Riegel ('20), and Sean Mathew ('21), with a deep interest in investing and continuous learning. These individuals wanted to improve how students are taught finance and business analysis at University of Maryland while bridging the financial services industry with students.

Culture and Values

At Smith Investment Fund, we strive to enforce a culture that promotes independent thinking in a team-based environment. We are focused on developing critical thinkers through collaboration and delivering performance to the fund. Our core values include:



ABOUT US

Organizational Structure

SIF endeavors to generate high absolute returns. To achieve this goal, the investment team conducts fundamental research on businesses. SIF is a 4-year commitment and offers students the opportunity to partake in a different role each year. Academy Associates are first year undergraduate students undergoing intensive training before joining our investment team. This involves learning our strategy, accounting, valuation, and understanding financial careers. They are then invited to join as Associates to monitor our holdings, conduct research, and assist with other tasks. Associates are paired with an Analyst, who lead the deep-dive research into new potential ideas. Portfolio Managers, final year students, are responsible for overseeing the portfolio, operations, recruiting, and leading SIF.

Idea Generation and Voting

Investment ideas are generated by Portfolio Managers and are selected based on 1) criteria fit, 2) competency, 3) long-term outlook, and 4) sustainability of the business. SIF aims to hold variant perceptions on investment ideas as well as work to understand the key drivers of growth.

Associate-Analyst teams work together to conduct intensive research on a business over a semester and pitch the company to the Portfolio Managers. The Portfolio Managers then rank the businesses and conduct dialogue with Analysts on exiting positions and a coverage plan moving forward. Only one idea will be pitched out per semester to retain our long-term horizon.

Portfolio Structure

SIF maintains a concentrated portfolio. We believe that a concentrated portfolio allows us to maximize returns and minimize risk. We view risk from a business owner's perspective and thus, can minimize it by investing in high conviction ideas that strongly fit our investment criteria. Our goal is to avoid loss of capital while having exposure to high-quality businesses experiencing significant growth.

The portfolio is geography agnostic, allowing us to find the best businesses across the globe.

Investment teams conduct in-depth research on businesses to understand the key value drivers of growth and minimize capital loss

“Why put a dollar in your 11th pick when you could put more in pick number 1, 2, or 3?” – Ted Weschler

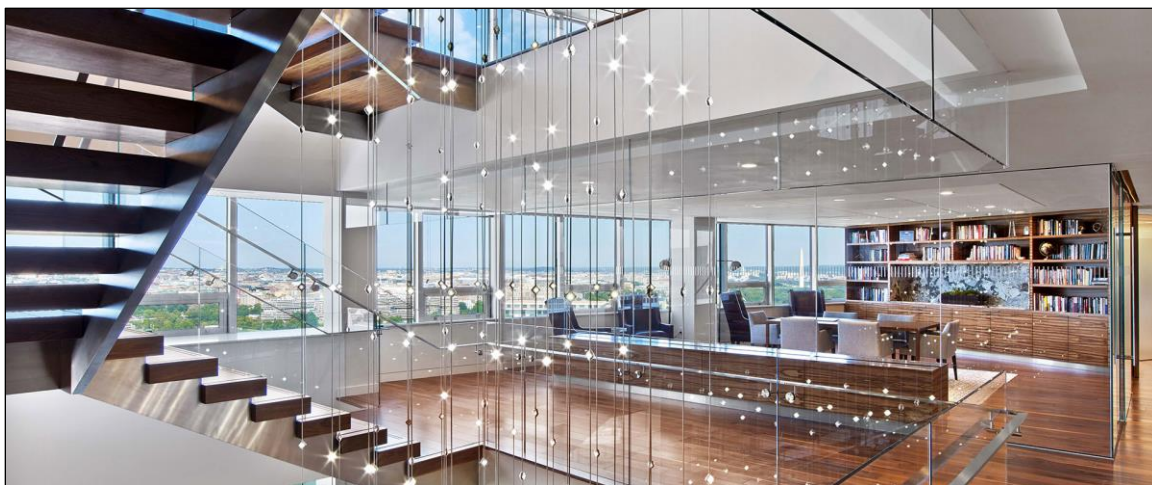
ABOUT US

Alumni Relations and Mentorship

Founded in 2018, SIF is focused on developing a strong alumni network that will play an integral role in our members' education and development. As of 2020, we have placed alumni in various industries with professional experiences including asset management, investment banking, real estate, and private equity. Mentors, upperclassmen, and alumni play an active role in SIF providing career advice, interview preparation, investment advice, and connections with other professionals.

We believe this differentiates us from other student groups and organizations, as it develops a fly-wheel effect that creates active alumni and develops connections with their firms. As the network grows, we are continually looking for new ways to involve our alumni network through activities such as pitch competitions, training sessions, office visits, and structured mentorship programs.

Learning and Professional Events



During the 2019-2020 fiscal year, SIF visited the office of Sands Capital Management, an institutional asset manager, and discussed several of Sands' investments as well as careers in finance. SIF also held an investment case study on campus led by Mike Raab (Portfolio Manager at Sands Capital, '11) and Ryan Thornburg (Research Associate at Sands Capital, '19).

We continue to maintain connections with professional firms and hold experiential learning events for our members.

OUR TEAM

The SIF team has a strong, family-like culture dedicated to delivering on our mission. We believe in a diverse, collaborative approach to share key insights into industries, businesses, and powerful trends.

2019-2020 SIF Investment Team

Logan Riegel '20
Portfolio Manager

Harman Gill '20
Portfolio Manager

Sean Mathew '21
Analyst

Vasmi Patel '22
Analyst

Charlie Talucci '22
Analyst

Matthew McVeigh '22
Analyst

Aislinn Verma '23
Academy Associate

Caroline Dull '23
Academy Associate

Ethan Silberberg '23
Academy Associate

Emma Liu '23
Academy Associate

Audrey Lin '23
Academy Associate

Megan Belliveau '23
Academy Associate

Sean Liu '23
Academy Associate

Will Chen '23
Academy Associate

Gemma Abbott '23
Academy Associate



INVESTMENT PROCESS

Philosophy

- We view stock as ownership in a business and approach investing as acquiring the whole business while retaining management.
- We believe, over the long-term, above-average growth will be rewarded with share price appreciation.
- We do not view volatility as risk.
- We exercise patience and maintain a long-term horizon.

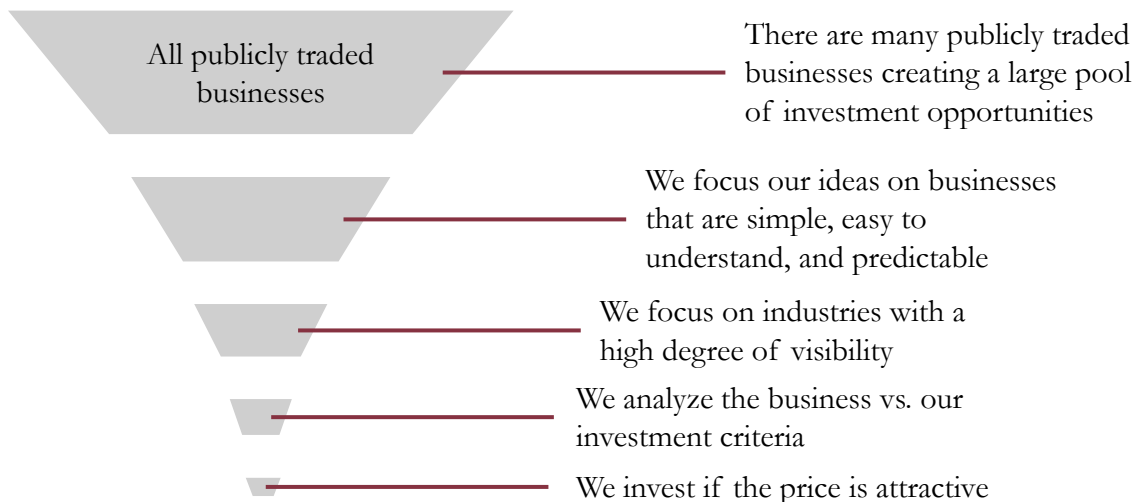
“We like a business with enduring competitive advantages that is run by able and owner-oriented people. When these attributes exist, and when we can make purchases at sensible prices, it is hard to go wrong.” – Warren Buffett

Approach

- We employ a bottom-up, research driven approach seeking dominant, durable businesses in attractive industries.
- We focus on businesses and areas that we understand and can build conviction around.
- We focus on the key variables of an investment and aim to be unbiased.

“The market has never spoken to me.” – Julian Robertson

“The first rule of compounding: Never interrupt it unnecessarily.” – Charlie Munger



PORTFOLIO OVERVIEW

Smith Investment Fund Summary

Portfolio Summary

Equity Value	10,052
Cash Value	3,901
Total Value	\$ 13,953

	SIF	S&P 500	MSCI World Index
2019 Fiscal Year Return ¹	39.5%	(0.4%)	(5.4%)
Cumulative Return Since Inception ²	39.5%	1.1%	(3.5%)
Annualized Return Since Inception ²	39.5%	1.1%	(3.5%)

(1) Year ended 5/1/2020 (2) Returns from inception, 5/11/2019

Commentary

During our fiscal period, we achieved significant outperformance with a return of 39.5% vs. a decline of 0.4% in the S&P 500. This is amidst the backdrop of the coronavirus pandemic that has gripped the world over the past months and created a blanket of uncertainty among investors. We have no outlook on when, if, and how this pandemic will end and when markets will recover. We simply focus our portfolio on factors we can analyze and control – taking an owner’s mindset and looking at the long-term outlook of business fundamentals.

We initiated our portfolio with five businesses: HDFC Bank, Zooplus, Match Group, Shopify, and StoneCo. During the year, we exited our position in Shopify and realized triple digit gains. We believe Shopify is a fantastic business with a long runway for growth, but the business has seen its share price rise rapidly as Shopify leverages ecommerce growth during the pandemic. We also sold out of HDFC and StoneCo; we feel as if our competency in these businesses is not as strong and thus, includes higher uncertainty risk. We acquired shares of Visa and Activision during the fiscal year.

With constant headline news and volatility causing many people to speculate on the recovery of markets and businesses, we take a 10,000 foot-view to our macro-analysis and attempt to shutter out noise; continuing to concentrate our thoughts toward the long-term impact on our businesses.

We continue to monitor our positions and believe all our holdings will 1) withstand the turmoil given strong balance sheets and market positions, 2) come out stronger, and 3) continue to derive strong growth backed by compelling stories and durable moats.

CURRENT HOLDINGS

Visa, Inc.

Visa is a global payments network connecting merchants, consumers, governments, and financial institutions across the globe. Visa provides a toll-bridge product and mints a royalty on world spending. The business benefits from secular trends as it drives the conversion away from cash and expands into new use cases including push payments. With a deeply entrenched product, outstanding management team deploying capital to shareholders, low capital requirements, and significant staying power, Visa is a strong fit for our portfolio.



Match Group, Inc.

Match Group is a leading provider of dating products with a strong branded portfolio: Tinder, Match, PlentyOfFish, Hinge, OkCupid and more. Match is pioneering the online dating industry as it remains nascent and benefits from a widening moat with its strong brand and network effects. There are substantial levers Match can utilize including low penetration in online dating globally, fragmented industry with clear advantages for M&A, increased monetization through roll-out of new products, and facilitation of industry trends.



Activision Blizzard, Inc.

Activision Blizzard is a video game publisher and developer based in California. The business has world-class intellectual property including Call of Duty, Candy Crush, World of Warcraft, Hearthstone, and more. During 2018, shares traded down significantly due to poor earnings and other negative headline news. Management has since positioned the business for growth by implementing microtransactions, downloadable content, and expanding to mobile. Also, the industry is highly attractive due to its recession-resilient nature, continuous innovation, healthy growth pace.



CURRENT HOLDINGS

Zooplus AG

Zooplus is the leading online pet food retailer in Europe. Zooplus is one of the few businesses that has successfully warded off Amazon and benefits from shared economies of scale. It offers the best customer service, lowest price point, recurring and necessary products, and a well-incentivized management team. We acquired shares at a highly attractive price providing a margin of safety compared to its long-term earnings power and dominant market position.



NEW POSITIONS

We added two high quality businesses to our portfolio this fiscal year: Visa and Activision Blizzard. These businesses fit our investment criteria and we believe will provide strong returns over the next 5+ years.

Visa

Visa was founded in 1958 as BankAmericard and since then has transformed the way we conduct transactions and the flow of money globally. It is a global technology business that connects a myriad of businesses, consumers, and financial institutions together. Its core products include a processing infrastructure, transaction processing services, digital products, merchant products, and risk products.

The investment thesis on Visa is simple; it is a high-quality, capital-light business that provides an integral product for economic growth. The payments network industry is a natural oligopoly. Visa and Mastercard dominate the industry benefiting from a deeply entrenched product and first mover advantage. The networks built by these two giants have provided a toll road for all payments and are protected by high barriers to entry given regulation, high switching costs (there are no other alternatives), and global scale. This attractive industry structure gives these businesses significant operating leverage, as demonstrated by Visa's 67% operating margins.

The cusp of the thesis is the continued conversion away from cash and check to card and digital payments. However, we believe the financial space is undergoing a massive inflection in the way payments and institutions transact. Digital commerce represents a long runway as it is growing 20%+ per annum, and Visa is expanding its network and use cases with its push payment platform. This has been growing 100%+ per annum and gives Visa access to a broader payments market representing \$15 trillion+ in additional volumes.

Visa's management is world-class. They have demonstrated a superb ability to execute and sign partnerships as well as execute on accretive acquisitions. Visa generates significant free cash flow and nearly all excess cash flow is returned to shareholders through buybacks and dividends. We believe Visa will continue to grow earnings over the long-term.

Activision Blizzard

Activision is a global developer and publisher of interactive content and services. The business creates and sells content and services on video game consoles, personal computers,

NEW POSITIONS

and mobile devices. Activision operates with three segments, along with several branded games:

- 1) Activision Publishing – Call of Duty, Crash Bandicoot, Spyro, Skylanders, eSports leagues
- 2) Blizzard Entertainment – World of Warcraft, Overwatch, Diablo, Hearthstone
- 3) King Digital Entertainment – Candy Crush, Bubble Witch, Farm Heroes

We became interested in Activision as its price dropped significantly from a high of ~\$80 to ~\$45 due to missed earnings, layoffs, and loss of key executives. We thought this was overstated for a business with a portfolio of high-quality franchises.

“A great investment opportunity occurs when a marvelous business encounters a one-time huge, but solvable, problem.” – Warren Buffett

First touching on the industry, we believe the global video game and entertainment industry is very attractive. Entertainment is a highly valuable and sticky product, and we believe video games are top-tier. Video games provide an unmatched user experience, are increasingly monetizable, strongly branded (demonstrated by Call of Duty releases every year), and highly scalable once products are developed, resulting in high returns on capital. This industry is recession resistant and is seeing increasing engagement among users. Additionally, video games are one of the few industries where we see consistent innovation with visibility into the future.

Since the fall-off in 2018, management has delivered progress on its growth initiatives. Activision has released major new content including Call of Duty games and Classic World of Warcraft, among others. Management is also focused on increasing monetization through the form of microtransactions and downloadable content, which will minimize the risk of a “hit-or-miss” product. Mobile is facing secular tailwinds as smartphone penetration across the globe is increasing and people are spending more time on their phones. For example, the launch of Call of Duty Mobile was a huge success driving active users.

Its competitive advantages are scale and brand, developing games is an intensive process but as mentioned before, easily deployable to a wide audience. We believe Activision could see margins expand as the shift towards digital drives increased monetization and market share expansion in international markets.

We like the risk/reward scenario of Activision and believe management is taking the right steps in creating shareholder value.

JOB PLACEMENT

SIF is proud to continuously foster professional development across industries and develop an active alumni base providing unmatched mentorship and guidance for our members.

Full-Time Placement



Ryan Thornburg '19
Sands Capital Management
Asset Management
Arlington



Harman Gill '20
UBS
Investment Banking
New York



Logan Riegel '20
Stifel
Investment Banking
Baltimore

Internship Placement

Jefferies

Sean Mathew '21
Jefferies
Investment Banking
Charlotte



Vasmi Patel '22
Bank of America
Investment Banking
New York



Matthew McVeigh '22
Sands Capital Management
Asset Management
Arlington



Emma Liu '23
Farrell Advisory
Restructuring
District of Columbia



Sean Liu '23
1776
Venture Capital
District of Columbia



Audrey Lin '23
Frontier
Real Estate
District of Columbia

MEMBER TESTIMONIALS



Harman Gill – Portfolio Manager

“We started SIF as a small-group of students pursuing an interest in investing. Since then, we have grown SIF to become the leading investment club educating students on investing, finance and business topics, as well as cultivating a broad alumni base. Since SIF’s inception, I have already seen how powerful this community has become. From our investment approach to our exceptionally bright members, SIF provides an invaluable experience.”



Aislinn Verma – Academy Associate

“Joining SIF is the best thing I could have ever done. I have learned so much from the club, from technical skills to professionalism and which career would be best for me. I did not expect to find some of my closest friends through SIF, but I am glad that I am able to learn and grow with the people that I call my best friends. I will always be grateful that I was accepted to be a part of SIF and I am excited to give back to the organization in the future.”



Vasmi Patel – Analyst

“Being in Smith Investment Fund has been a great learning experience. The fund truly has a great group of people you want to be surrounded by, as everyone pushes each other to think outside the box and bring unique ideas to the table. The senior members help unlock your potential from the beginning and equip you with the skills needed to get ahead of your peers. I can’t really think of a better place to start my college career.”



Emma Liu – Academy Associate

“My experience in SIF has undoubtedly been one of my favorite parts of UMD. Going through the Academy Associate training process has been a unique and immersive learning experience that I simply could not have gotten from a normal college class. SIF has also given me the opportunity to meet amazing friends and mentors who have provided valuable career advice and motivated me to work hard and improve my investing knowledge. The portfolio managers and analysts really foster an environment that emphasizes continuous learning and growth.”

MEMBER TESTIMONIALS



Gemma Abbott – Academy Associate

“Joining Smith Investment Fund has been the most impactful decision of my college career thus far. Through SIF I've learned more than I ever thought possible in a year and gained lifelong skills, mentors, and friends. SIF has helped me with everything from professional development to technical skills and anything in between. Without SIF my college experience and career trajectory would be completely different.”



Will Chen – Academy Associate

“Joining Smith Investment Fund has been the best decision I've made since joining college. I've learned an incredible amount about finance and investing in just my freshman year and I've been able to apply it in my own portfolio and career searching. The club is extremely tight-knit and filled with the most intelligent, hard-working, and fun individuals. Everyone from upperclassmen to underclassmen are driven towards their goals, yet extremely down-to-earth at the same time.”



Megan Belliveau – Academy Associate

“My acceptance into Smith Investment Fund was the best thing that happened to me my freshman year. It has been a completely transformative experience in my personal and professional development. I have gained invaluable experience and knowledge that has helped me grow into a more intellectually curious and goal-oriented person while cultivating my knowledge of finance. Through SIF, I have made personal and professional connections that I will carry with me through college and my future career.”



Sean Mathew – Analyst

“We founded SIF to provide students with a hands-on investing experience at a young age. In the last two years, I have been able to witness the unparalleled value we have provided our members. In addition to the learning experience, we have cultivated a tight-knit group of lifelong learners who will be in touch long after they graduate. SIF has seen tremendous growth over the past few years, and I am excited to see what the club will do next.”



TESTUDO



Smith Investment Fund

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Disclosure

All analyses and conclusions of SIF are based on publicly available information. The analyses may contain certain statements, estimates or projections prepared with respect to anticipated operating performance, access to capital markets and the values of assets and liabilities. Any SIF material is not a recommendation or solicitation to buy or sell any securities.

Such statements reflect various assumptions and are included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the estimates and projected results.