Western Investment Club

ANNUAL REPORT

2020 / 2021

May 15th, 2021

www.westerninvestmentclub.ca

Our Mission: To build interest in capital markets among young investors at Western University and teach the fundamentals of investing.

THIS ANNUAL REPORT REPRESENTS A COLLECTIVE EFFORT FROM OUR TEAM TO PROVIDE TRANSPARENCY INTO THE FUND

This annual report is dedicated to all the former members and alumni of the Western Investment Club. Without your hard work WIC would not be possible.

CONTENT

Produced by Connor McSweeney & Shahryar Safdar

See back for important disclosures


WESTIN

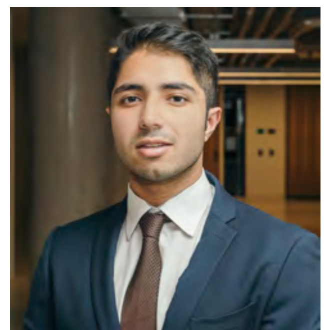
FUND MANAGERS' STATEMENT

Dear fellow members and alumni, as the 2020-2021 academic year has concluded, we are excited to provide you with an update on WIC's progress. Since its inception in 1996, WIC has grown its AUM 11-Fold through the invaluable contributions made from its member. Despite volatile market conditions, and a consistently evolving business environment, WIC has not wavered from its value investing principles, and it is this discipline that has allowed the club to thrive and continue to grow.

As of April 30th, 2021, we are managing a fund of $265,888 in assets under management. Since April 30th, 2020, WIC's fund has appreciated 33.2%. Despite a year of ongoing political headwinds, trade tensions, an oil crisis and a global pandemic, the team was able to make 6 new investments and sell 4 previously held positions.

Connor McSweeney
Fund Manager

This past year was no exception, and we are incredibly proud of all that we have been able to accomplish. Despite the year being virtual, WIC was able to expand its member base, and deliver more educational content to its members than ever before. We measured our success on the performance of the fund, and the development of our analyst team and our general members and have outperformed our expectations on all fronts.



Shahryar Safdar
Fund Manager

The past 12 months have been riddled with uncertainty, and all of us have had to adapt to some form of a "new normal". However contrary to what we may have thought at the outbreak of the pandemic, the world has not halted, and a lot of businesses have been able to adapt to the virtual workplace. Large beneficiaries of this have been Technology firms, which are now the largest sector that WIC has invested in. However certain businesses have not been able to adapt due to a variety of reasons ranging from the decline in disposable income to the lack of ability to deliver their service through a virtual medium. Coming into the pandemic, WIC was invested in business such as this, and in most cases, we decided to trim or offload our positions over concerns of solvency.

We witnessed the rise of "Reddit investing" and "meme stocks". A frenzy arose around certain stocks, leading to astronomical valuations, and great returns for investors who were able to time the market. WIC, however, does not engage in the business of timing the market. Our investing approach has always been focused on purchasing high-quality assets, at attractive valuations with strong catalysts in the near to long term. We believe that the pandemic has provided ample opportunity, but given the uncertainty, it was harder than ever to discern between attractive investments and value traps. During this year, our analysts went above and beyond what was expected of them to produce high-quality analysis and found investments with asymmetric risk-reward profiles.

In addition to the analysts, we are incredibly grateful to the general members who not only remained consistently engaged in discussions during our weekly meetings but also made tangible contributions to the fund. We truly believe the general members this year, were more involved in the pitch process than ever before.

We find great comfort in the fact that there is a great group of leaders in the analyst team and general members, whom we hope will be stewards of the club and the fund in the future. Flora Sun and Anthony Hua were two tremendous analysts on the club this year, who will be serving as Co-Fund Managers this upcoming year. We could not be prouder of their development and are excited to see all that they accomplish.

Sincerely,
Connor McSweeney & Shahryar Safdar
Fund Managers, 2020 / 2021

OUR ORGANIZATION

Our fund was officially created in 1996 with the generous donation of $25,000 from Mr. Cameron S. Marshman, in honour of his wife. Since then, we have managed it with a value investing philosophy. Mr. Marshman's wish was to educate and foster the next generation of investors at Western University by giving them a chance to invest real capital. Today, that donation has grown more than 700%.

FUND STRATEGY

WIC employs a bottom-up fundamental investing approach to every investment. Each idea begins with a screening process to find stocks that are trading below their intrinsic value. Our analysts then conduct an extensive research procedure to understand and evaluate the company. The process can sometimes take months for a single idea. WIC attempts to truly understand a company's valuation as well as the key drivers of its future growth potential before executing a trade. We believe that by conducting an exhaustive research process, we minimize the risk of unforeseen challenges.

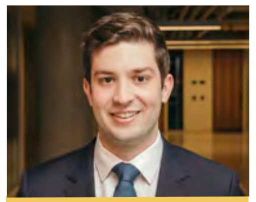
For over 40 years, WIC has applied a disciplined approach to portfolio construction. Since all of our investments are high conviction ideas, we do not use beta diversification in our portfolio. However, we try to allocate capital evenly across our groups to find the best ideas within each industry. Lastly, each of our investments maintains a significant margin of safety to provide downside protection.

FIRMS REPRESENTED

Goldman Sachs	Morgan Stanley	KKR
Scotiabank	Houlihan Lokey	Evercore
Barclays	Credit Suisse	JPMorgan Chase & Co.
SilverLake	Ares	Point72
CPP Investments	Moelis & Company	P/W/P Perella Weinberg Partners

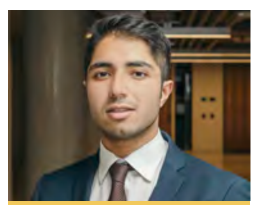
2020 / 2021 TEAM

EXECUTIVE


Brad Perez
Co-President


Connor McSweeney
Fund Manager


James Silva
Co-President


Shahryar Safdar
Fund Manager

ALUMNI ADVISORS

Charles Korn
IND Advisor

Katherine Xu
NR Advisor

David Zhang
TMT Advisor

Bowen Qian
REHG Advisor

Feroz Qayyum
CRG Advisor

Jack Hansen
FIG Advisor

ADVISORY BOARD

Kevin Zhou
Advisor

Matthew Ting
Advisor

Harsh Naik
Advisor

Vinayak Modi
Advisor

Andrew Kim
Advisor

Sam Tammen
Advisor

Fina Pang
Advisor

CONSUME
R RETAIL


Caitlyn Liu
Head Analyst


Harrison Thomas
Head Analyst


Allen Cheng
Analyst


Peter Matthews
Analyst


Aidan Sommer
Junior Analyst


Megan Syho
Junior Analyst

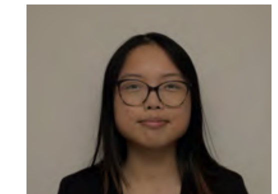
INDUSTRIALS


Harsh Shah
Head Analyst


Nick Tommasini
Head Analyst


Sammy Fleisher
Analyst


AryanPaliwal
Analyst


Amy Dong
Junior Analyst


Malav Patel
Junior Analyst

TECH, MEDIA & TELECOM


Roy Katznelson
Head Analyst


Leslie Wu
Head Analyst


Jun Kim
Analyst

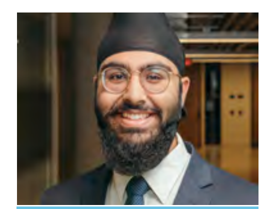

Flora Sun
Analyst


Waleed Sawan
Junior Analyst

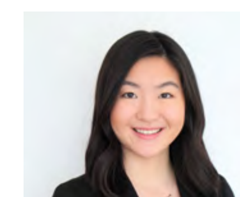

Max Wang
Junior Analyst

FINANCIAL INSTITUTIONS

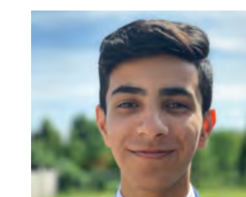

Laura Bozzo
Head Analyst


Uv Sandhu
Head Analyst


Aly Dayani
Analyst


Emily Li
Analyst


Jack Karpinski
Junior Analyst


Apaar Vijay
Junior Analyst

NATURAL RESOURCES

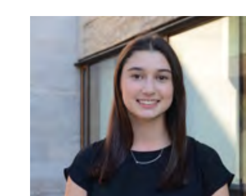

Gabrielle Gregg
Head Analyst


Owen Stimpson
Head Analyst

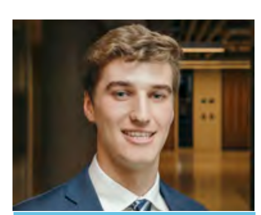

Garrick Bracken
Analyst

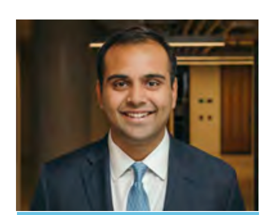

Nitin Reddy
Junior Analyst


Edward Liu
Junior Analyst

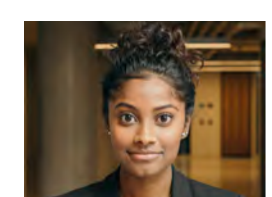

Chloe Macklin
Junior Analyst

REAL ESTATE, HEALTHCARE & GAMING

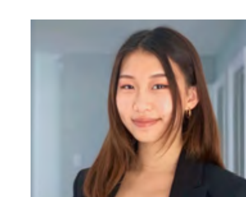

Liam Niznick
Head Analyst


Maanit Patel
Head Analyst

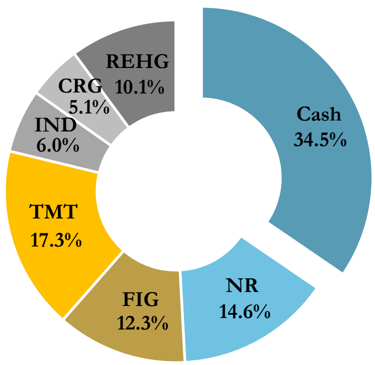

Anthony Hua
Analyst


Kate San
Analyst

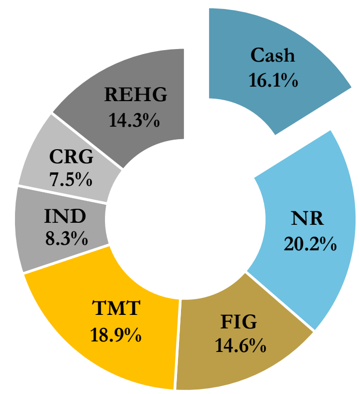

Roshan Puniya
Junior Analyst


Jessica Yin
Junior Analyst

PORTFOLIO
AT-A-GLANCE

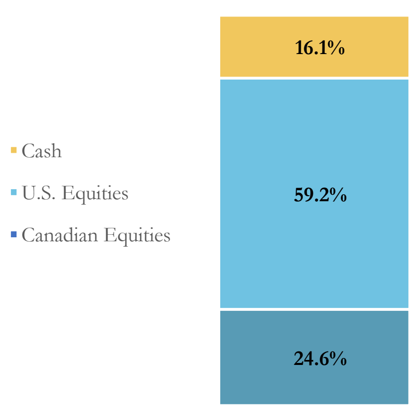


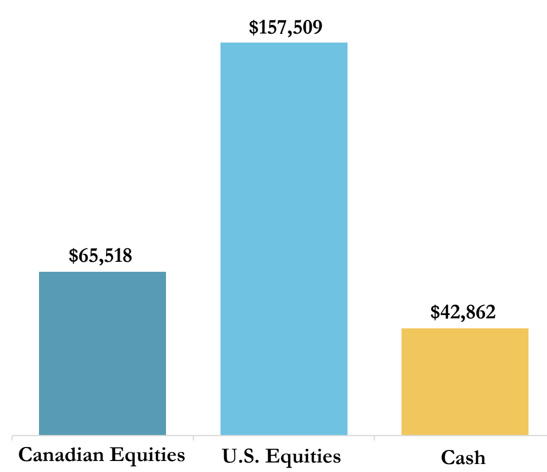
INDUSTRY ALLOCATION
MAY 1ST, 2020



INDUSTRY ALLOCATION
APRIL 30TH, 2021

Over the course of the year, WIC identified interesting opportunities across multiple industries. Overall, we made 6 new investments across Natural Resources, Financial Institutions, Industrials, Technology, and Consumer Retail. We exited 4 holdings, as some of our theses played out or were proven wrong.



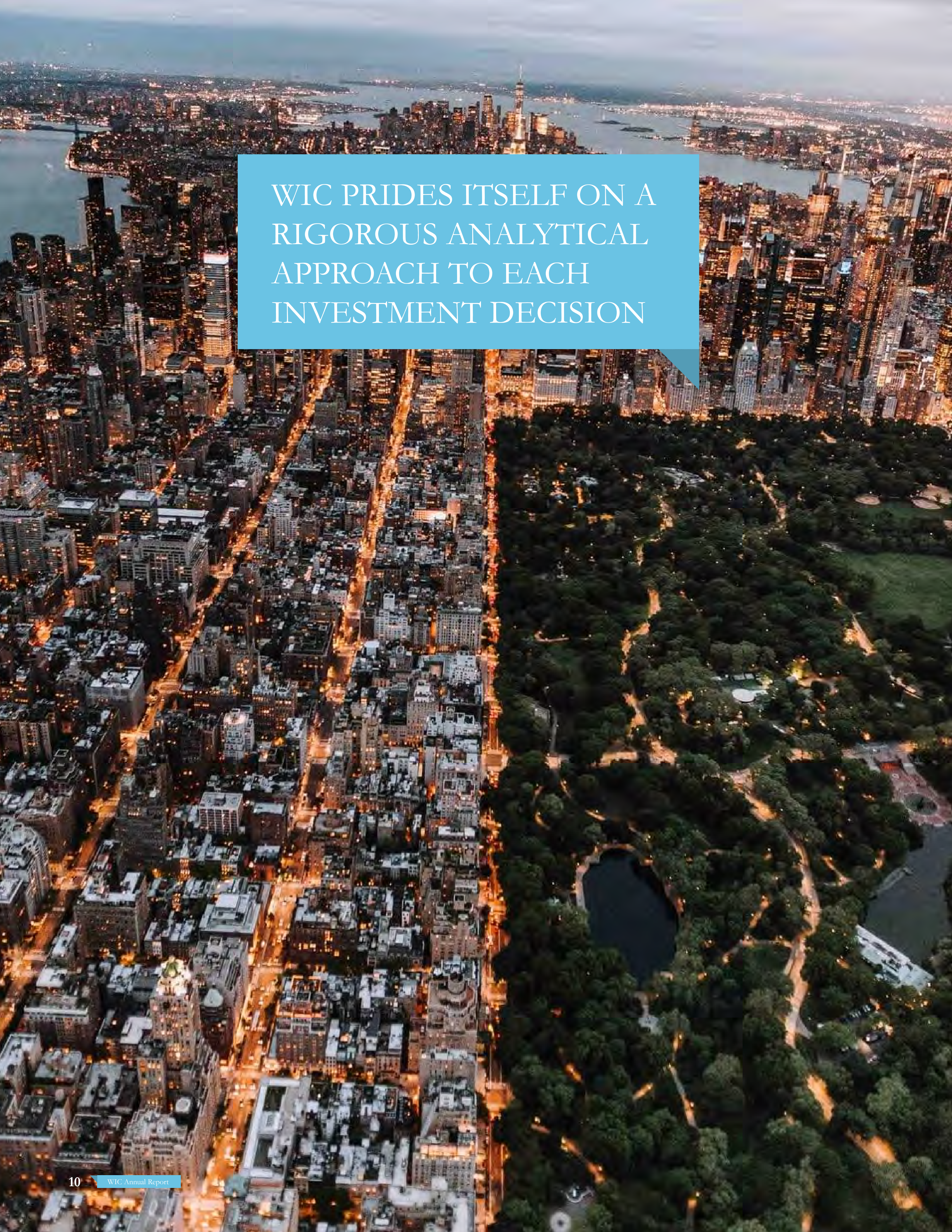


WIC's portfolio is comprised of cash, U.S. equities and Canadian equities. The fund faces foreign exchange risk given significant U.S. equity holdings and does not take action to hedge USD exposure. Cash is held in a Canadian dollar savings account allowing for immediate withdrawals.

CURRENT
HOLDINGS

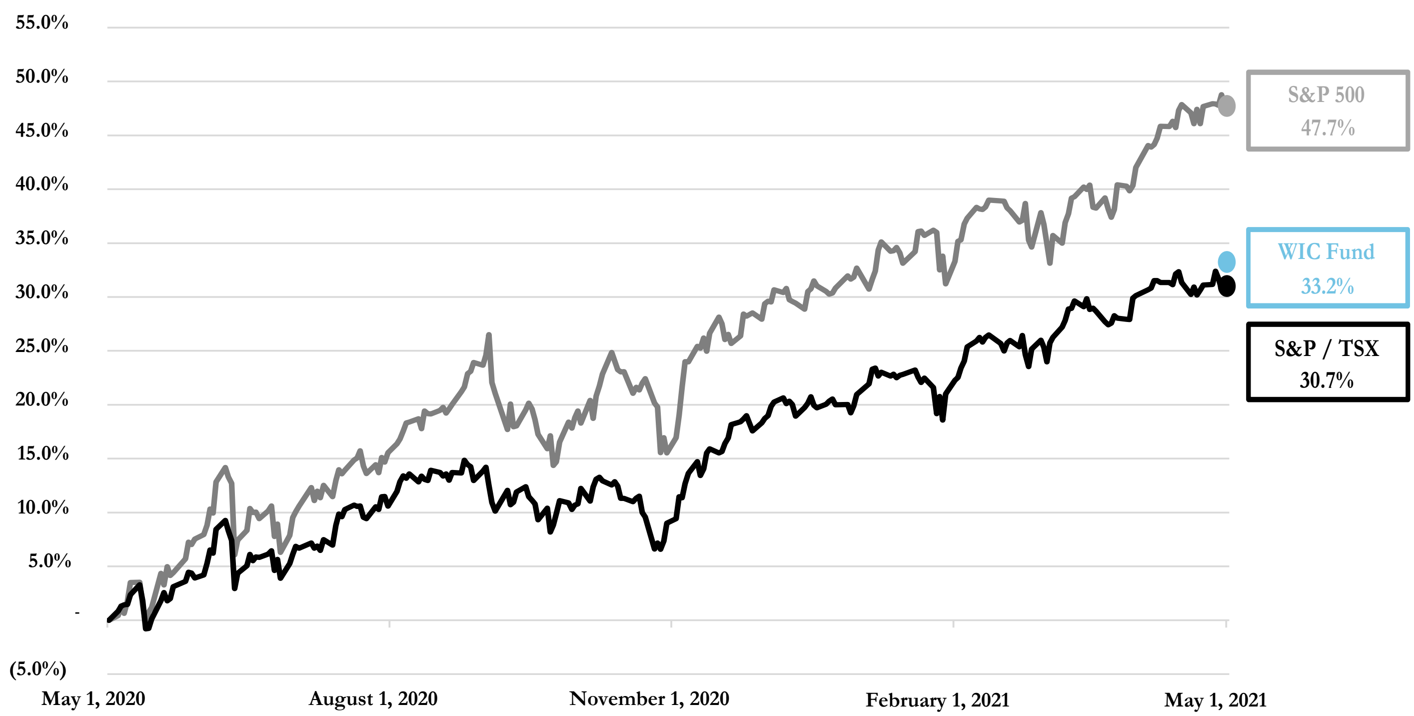
Canadian Holdings	Ticker	Group	Entry Price
Artemis Gold	ARTG	NR	$1.08
Keg Royalties Income Fund	KEG.UN	CRG	10.79
Lundin Gold	LUG	NR	7.75
Magellan Aerospace	MAL	IND	18.75
Polaris Infrastructure	PIF	NR	23.42
Power Corp of Canada	POW	FIG	34.75
Suncor Energy	SU	NR	33.13
Toronto Dominion Bank	TD	FIG	55.82
Transcanada	TRP	NR	43.58
Whitecap Resources	WCP	NR	3.40

U.S. Holdings	Ticker	Group	Entry Price
Aercap	AER	IND	$70.92
American Express	AXP	FIG	109.54
Apollo Global Management	APO	FIG	67.65
Astronics	ATRO	IND	44.54
Berkshire Hathaway	BRK.B	FIG	135.23
Catalent	CTLT	REHG	36.19
Covanta	CVA	NR	19.82
EZCorp	EZPW	FIG	6.27
Federal Agricultural Mortgage	AGM	FIG	111.18
Fortinet	FTNT	TMT	161.77
HCA Healthcare	HCA	REHG	120.88
Huntsman Corp	HUN	IND	24.49
II-VI	IIVI	TMT	28.92
International Flavors and Fragrances	IFF	IND	152.86
Iron Mountain	IRM	REHG	56.50
Lumen Technologies	LUMN	TMT	17.85
Marathon Petroleum Corp	MPC	NR	74.18
Premier	PINC	REHG	44.54
QAD	QADA	TMT	27.71
Qualys	QLYS	TMT	48.85
Radian	RDN	FIG	27.50
Restoration Hardware	RH	CRG	623.83
Stericycle	SRCL	IND	45.94
Synchrony Financial	SYF	FIG	46.60
Teradyne	TER	TMT	67.38
Teva Pharmaceuticals	TEVA	REHG	46.41
Thor Industries	THO	CRG	191.68
Trecora Resources	TREC	NR	16.02



WIC PRIDES ITSELF ON A RIGOROUS ANALYTICAL APPROACH TO EACH INVESTMENT DECISION

FUND
PERFORMANCE



Commentary

The beginning of the new academic year was marked by a continued rally following the March 2020 crash that occurred at the onset of COVID. However, in mid-June concerns over inflation began dominating the narrative. Blue-chip retailers like Walmart and Target issued worrying guidance around margins, while consumer spending shifted away from discretionary purchases towards staples. Federal Reserve Chairman's comments around a "transitory" inflation environment eased concerns however and markets continued to rally through the end of the academic year, with US stocks reaching record highs.

The WIC fund returned 33.2% in the same period. Despite the relative underperformance to the S&P 500, we are proud of our team's performance and research. Given WIC's bias towards slower growing companies, we view the fund's performance as relatively in-line considering the divergence in performance between "growth" and "value" companies during the year. While we do not view the world or our stocks by this categorization, we cannot ignore the role that factors play in today's markets. As always, we continue to strive to improve our analysis of companies through deep and unique research and use volatility to deploy capital in high margin of safety investments.

CONSUMER RETAIL GROUP
INDUSTRY REVIEW

Opening Statement

The consumer retail industry has seen a large variance in performance due to the breadth of subsectors. Consumer staples remained largely unhindered by the Pandemic, whereas the consumer discretionary sector faced a much darker fate. Meanwhile supply chain shortages have led the industry to a cross roads.

Key Industry Trends

Consumer Staples vs Consumer Discretionary

The Consumers universe can broadly be split into Consumer Staples and Consumer Discretionary companies. Consumer Staples performed incredibly well in the early innings of the pandemic as consumers started to stock up, and demand skyrocketed over fears of lockdowns and shortages. On the other hand, Consumer Discretionary companies faced a tumultuous period. Many of them required in person participation and were unable to transition over to virtual medium to deliver their service. Additionally, rising unemployment and uncertainty led to consumers being more conscious about their spending habits. However more than a year removed from the pandemic, Consumer Discretionary industries appear to be bouncing back. Within Consumer Discretionary, the luxury goods sector is likely best poised for success. The wealthiest 10 percent of Americans have been able to add more than $8 Trillion dollars to their net worth due to increased savings, relatively limited layoffs in white collar jobs, and strong investment returns across multiple asset classes.

The jury is still out on which trends were short term, and which ones are more structural and are here to stay. However, some appear to be more permanent than other. Amongst these is the increased adoption of digital services such as grocery shopping. The pandemic also led to a phenomenon referred to as "home nesting". Given the lack of out-of-home leisure activities available, individuals started to invest more in upgrading their homes purchasing goods such as gaming equipment, home gyms, and backyards and gardens. As per McKinsey, this trend is expected to stay as some high-income individuals are expected to continue to prefer hybrid work environments post-COVID and will continue to invest more in their homes.

Supply Chain

Outsourcing manufacturing and increasingly complex supply chains had become the new normal prior to the pandemic. It seemed like a no brainer to lower cost, and supply chains seemed impenetrable. Over the past 18 months we have learnt that this is no longer the case. Many companies faced large supply constraints, whether that be a rise in input costs or in some cases, a lack of ability to source inputs at all (at least in a timely fashion). However, over the past couple of decades the art of outsourcing has been refined, and layers of contractors and subcontractors have been able to lower costs. Consumers are unlikely to be able to absorb the costs, so companies in most situations will not be able to pass those on. The crossroads that companies find themselves at today is a difficult one. The trade off between reliability and costs is a difficult one, and we are unsure what the outcome will be. However we do remain confident, that companies will continue to examine this situation, and will likely pivot in some shape or form.

CONSUMER RETAIL GROUP
SELECT INVESTMENTS

RH (NYSE:RH)

The newest addition to the CRG portfolio was an investment in RH (Restoration Hardware) made in February 2021. RH is a luxury home retailer operating 68 galleries, 38 outlet stores, and 14 Waterworks showrooms in the U.S. and U.K. The team had strong conviction in the company's ability to generate shareholder return through the Company's continued runway for domestic and international growth in store count and its superior unit economics and scaling opportunities from design galleries.

Despite the markets hitting RH hard at the onset of the COVID-19 pandemic, the stock rallied back hard and the team believes that the approaching high valuation is well supported by its unique business model and a belief that the market for home furnishings will continue to ride the wave of housing starts in the coming years.

SeaWorld (NYSE:SEAS)

At the beginning of the 2020/2021 school year, the fund went through a series of sell pitches to identify companies the team felt had been hit hard by the COVID-19 pandemic and didn't have a reason to believe any further shareholder value could be created. As a result, the fund's position in SeaWorld was exited, generating a total net return of 4.1% IRR since the initial investment made in March 2016.

The team felt that on top of the original thesis points no longer being relevant or actually materialized, SeaWorld's management had failed to materially improve the operations of the business as margins continued to fluctuate and market share was lost to its competitors. Additionally, WIC felt uncomfortable with SeaWorld's high leverage of 8.5x Net Debt / LTM EBITDA and was uncertain whether the financial markets would remain open to the company for the duration of park closures. Fundamentally, the fund felt that there were more efficient places to invest in the industry that would generate better returns.

Keg Royalties Income Fund (TSE:KEG)

The Keg Royalties Income Fund is a WIC legacy holding that purchased The Keg trademarks and related property from Keg Restaurants Ltd. The Partnership, in turn, granted KRL an exclusive license to use The Keg rights for a term of 99 years. The income fund receives royalties of about 4% of all Keg restaurant revenues. The company closed all Keg locations at the onset of the COVID-19 pandemic to comply with government regulations. During the summer months of May through July, Keg locations were able to open at limited capacity for indoor dining which enabled the Trust to increase monthly distributions to unitholders from $0.035 to $0.05. However, once these relaxed restrictions were pulled back, Keg locations saw a reversion back to the old monthly distribution of $0.035.

As a result of the sensitivity to indoor dining regulations, WIC remains optimistic heading into the second half of 2021 that increased vaccination rates will be correlated with the relaxation of indoor dining regulations, which should drive continued strong performance from this legacy holding.

FINANCIAL INSTITUTIONS GROUP
INDUSTRY REVIEW

Opening Statement

Despite concerns that the financial sector may see a similar faith to what it saw in the Global Financial Crisis, however the financial services industry has been able to weather the storm in large parts due to stimulus by the Federal Reserve. Meanwhile the adoption of technology within the industry has remained quite robust.

Key Industry Trends

Insurance Experiences Accelerated Adoption of Digital Transformation

The insurance industry outperformed expectations during the COVID-19 pandemic, and experienced structural changes that are likely to be permanent. As lockdowns became commonplace across the world, the insurance industry had to transition to an online model, and customers were forced to adopt this. InsurTech has been growing for the past couple of years, and the pandemic has only made customers more accustomed to the digital distribution of insurance.

Health concerns have been heightened by the pandemic and has led to an increased demand from a younger population. There was an ~8% increase from in life insurance applications from individuals under the age of 45. Given widespread unemployment and uncertainty, 65% of consumers want a product which will cover credit card bills in the event of a pandemic-related job loss, and 60% want a life insurance product which will provide access to a funds in the case of an emergency.

Similarly commercial consumers have been experiencing volatility and drastic declines in demand, are now seeking insurance products to protect them from such events. 75% of small-to-medium enterprises want a product which will cover three month of businesses expenses in case of forced closure, and 68% want a product which will cover against liability if a customer or employee was to catch a disease in the workplace.

Banking Industry Struggles But Outperforms Global Financial Crisis

The banking industry saw strong growth in deposits as consumers feared continued lockdowns and dedicated a larger portion of their income to savings. However, the inflow of deposits was heavily being directed towards larger banks, as consumers deemed them to be "Too Big to Fail" and as a safe haven for wealth. Despite a strong deposit base, banks were unable to maximize value since loan demand remained weak.

The outlook for midsized banks remains relatively bleak as they are unable to compete with larger banks due to their lack of scale which limits their ability to invest in technology and lend at attractive rates due to bloated operating expenses. They also lack the goodwill that local, community banks have.

Whether the spike in short term adoption of banking online remains intact remains to be seen. Prior to the pandemic, as per the Federal Reserve, 43% of consumers choose their bank based, primarily, on the proximity of their branch locations. Since reopening, banks have seen an 80% bounce back in in-person transaction volume, as per Bancography. However, banks remain hopeful that online banking remains in place so that they can reduce the operating expenses associated with their physical locations.

FINANCIAL INSTITUTIONS GROUP
SELECT INVESTMENTS

Radian Group (NYSE:RDN)

Radian Group is private mortgage insurance company based in the United States. Despite Radian growing its book at a strong clip, it's underwriting standards remained robust and overall credit quality was above industry levels. However, when the pandemic hit, fear about a housing collapse started, and it was expected that mortgage insurers would have to make large payouts to cover defaults. A multitude of factors led to this not occurring. The government's rapid response with stimulus checks, coupled with lenders being more flexible with payment plans were able to backstop the defaults, and allowed individuals to stabilize their financial situations. Businesses were able to transition to a virtual work environment and reduce layoffs, and through the past 18 months we have seen unemployment levels make a recovery as we get closer to pre pandemic levels. Radian saw its valuation drop more than 50% after the pandemic struck, and we chose to hold our position. Today Radian has made a rapid recovery, and is almost back at pre pandemic levels, and is higher than what we purchased it for in 2018.

EZCorp (NASDAQ:EZPW)

EZCorp is a pawn shop operator across the United States and Latin America. The company provides an alternative source of funding for those who need small loans for short durations. Compared to the other alternative such as pay day loans, we believe that the business is a lot less risky and faces little to no regulatory headwinds. As concerns over the pandemic grew, we believe that EZCorp was an attractive investment for us, due to it being more resilient than some of the other names in our portfolio. Despite EZCorp being relatively flat since the pandemic, we are pleased and take comfort in the fact that it counteracted some of the losses our other investments took.

Apollo Global Management (NYSE:APO)

Apollo Global Management is an alternative asset manager investing across several asset classes including, but not limited to, private equity, credit, and real estate. The pandemic created an environment in which there was fear about the ability to raise capital. However, Apollo had deep expertise as a distressed investor, and was able to continue to attract limited partners from across the globe. Apollo trades at a discount to its peers but has an impeccable track record in which it has never lost money in a fund, and has a robust base of capital through its insurance vehicles. A sudden change in management caused further uncertainty in the firms ability to continue to perform. However, we believe that those concerns are overblown and that the key-man risk is not a factor in this situation.

INDUSTRIALS
INDUSTRY REVIEW

Opening Statement

The outlook for the industrials sector remains quite diverse given how different the drivers of various verticals are. The future of travel remains uncertain as leisure travel may be impaired by the Pandemic, and we may have seen a permanent paradigm shift in business travel. However corporations are continuing to invest and demand for industrials products remains robust.

Key Industry Trends

Questionable Outlook for Airlines

Among one of the hardest hit industries from the COVID-19 pandemic was the airline industry. Global flight traffic was down 48.8% in 2020 and revenues were down 40.0% compared to the previous year. In addition to revenues being down drastically, corporate-level debt also increased substantially by US$180 billion, which is over half of 2020 total airline revenue, according to a McKinsey study.

The path forward is uncertain given that a substantial portion of airline revenue comes from business travel which is set to remain subdued given work-from-home trends that proved sufficient during the pandemic. As a result, the airline industry will be dependent on leisure travel and tourism to drive a recovery and pay off the ballooning debt that these businesses will carry. General consensus is that demand won't return to 2019 levels until after 2024 and that a full recovery may not even be achieved.

As a result of how the industry has changed through the pandemic, the Fund stayed away from investments within the commercial airline space and avoided making new investments in businesses exposed to airlines altogether.

Supply Chain Transformations

The lockdowns instituted by many governments around the world proved to be a tremendous obstruction to manufacturing activity and global supply chains. At the beginning of the pandemic, a reliance on global supply chains exposed weaknesses in many countries' abilities to source personal protective equipment (PPE) to keep their citizens and workers safe. In the fall of 2020 and winter of 2021, several waves of high COVID-19 cases saw lockdowns lifted and then put back on again. As a result, the flow of raw materials and finished goods was relatively unstable which created tremendous uncertainty for many industrial businesses.

Going forward, industrial companies will continue to aim for more autonomous and technology-dependent supply chains. This includes hands-free and self-driving components that will allow for greater efficiency and a safer work environment. Additionally, the expected onshoring of supply chains in North America will allow industrial firms to rely on regional transportation infrastructure and avoid black swan events such as when the Evergreen blocked the Suez Canal. However, according to a study conducted by EY on senior-level supply chain executives in late 2020, increased visibility remains a top priority in the next 12-36 months and a top 3 priority through 2021. This visibility will be aided by vaccine roll-outs which will allow for greater easing of lockdowns which will hopefully be permanent.

INDUSTRIALS
SELECT INVESTMENTS

International Flavors & Fragrance (NYSE:IFF))

In December 2020, WIC invested in International Flavors & Fragrances (IFF) which is a leading innovator of sensory experiences that enhance the taste and scent of consumer-packaged goods. The team invested in IFF with a belief in its wide economic moat and pricing power given that IFF's products are top criterion in influencing a consumers' purchasing decision, but only makes up 0.5% to 2.0% of the end product's cost. Additionally, the team took a contrarian view in believing that management would be successful in integrating its acquisition of Frutarom and the medium- to long-term benefits that the merger with DuPont's N&B business would provide.

Since the investment was made, IFF has completed the merger with DuPont's N&B business and Sachem Head Capital Management, an activist hedge fund, took a stake in the business and saw its founder, Scott Ferguson, be appointed to the Board of Directors. The Fund is pleased with this investment and believes that value will continue to be realized for the benefit of all shareholders.

Magellan Aerospace (TSE:MAL)

Magellan Aerospace (MAL) was an investment made in December 2016 with the belief that margin improvement was poised to be realized through organic growth and strategic M&A, risks surrounding the F-35 fighter jet program were overblown, and a sell off around the announcement of Brexit was unjustified given the minimal exposure MAL has to the region. In September 2020, the investment was being reassessed to analyze if the previous investment theses were either achieved or no longer relevant.

Although directly exposed to commercial aerospace and having had margins improve prior to the COVID-19 pandemic, a decision was made to continue holding MAL given a strong belief that the company will receive the bid for Canada's Future Fighter replacement program. Additionally, analysis yielded that there still continues to be room for margin improvement. Thus, MAL continues to lend the Fund exposure to the aerospace industry from, what we continue to believe, a well-justified position.

Huntsman Corporation (NYSE:HUN)

Huntsman Corporation (HUN) is a producers of chemicals used in plastics, automotive decor, and housing and construction end-markets. The investment was originally made in February 2019 and was pitched by the natural resources team, however was reclassified this year under the industrials group. WIC took a contrarian view on the company based on the market over-pricing its stake in Venator as well as the market over-pricing the commodity exposure HUN possesses.

Through the COVID-19 pandemic, HUN was better prepared than other industrial companies with a healthy balance sheet and immediate liquidity of US$2.6 billion; all achieved without having to tap capital markets. Additionally, HUN sold off its remaining stake in Venator for net proceeds of US$250 million in cash. WIC remains positive on the outlook for HUN and believes that greater diversification towards specialized chemicals will improve valuation and provide shareholders with greater returns.

NATURAL RESOURCES
INDUSTRY REVIEW

Opening Statement

The natural resources sector has experienced strong performance over the past year supported by strong oil and gas, base and precious metals, and other commodity prices. Particularly within industrial commodities, it is expected that said prices are now rebounding from pandemic-lows which will support or expand upon valuations within the given sectors.

Key Industry Trends

Resurgence in Oil

The COVID-19 pandemic saw an immediate weakening in oil prices linked to an expected and actual weakening in demand stemming from jet fuel, diesel, and gasoline usage. The weakening of oil prices forced many oil companies to incur asset write-downs which were done in tandem with capital expenditure budget reductions. As a result, drilling activity declined substantially for the calendar year 2020 and rig counts remained low, drastically hurting profitability with the hopes of riding out the remainder of the pandemic. However, the cutback in drilling and investment activity left global supply short during the first half of 2021 when consumers began traveling by car and by plane once again. Thus, oil prices have been gaining positive momentum with WTI and Brent Crude sitting at US$63.58/bbl and US$66.76/bbl, respectively. For producers that managed to remain afloat throughout the pandemic, it can be expected for them to take advantage of favorable pricing to restructure their balance sheets in order to operate at more favorable levels of leverage and to ensure access to sufficient liquidity.

Boom in Base Metals

During the Fund's fiscal year, copper prices increased ~91.5%. The increase can be explained by broadened growth in demand as well as limited supply, leaving many base metals investors to believe that 2021 could see the birth of a super-cycle. Almost 70% of copper consumption can be traced to usage in construction (ie. water pipes) and electronics (ie. copper wiring). Geographically, about half of copper demand comes from China while the remainder largely comes from Europe, the US, and Japan. Despite the slowing of the Chinese economy during the pandemic, demand through 2021 and 2022 is expected to remain elevated given a recovery in the Chinese economy and the expectation of multi-trillion dollar infrastructure bills, such as President Biden's, which are being used to stimulate economies. Copper prices are additionally being supported through record-low stockpiles on the supply-side. As a result, base metals companies have seen strong performance with large producers such as BHP Group and Rio Tinto up 57.1% and 62.1%, respectively.

Activism & Climate Change

Since the beginning of the COVID-19 pandemic, the topic of ESG has remained relevant to both investors and corporate management teams. According to Morningstar, ESG-based funds collected US$51.1 billion in investment inflows in 2020 which is equivalent to 25% of all money that flowed into stocks and bonds in 2019. The growth in ESG investing is a result of more opportunities to invest in ESG Funds as well as greater concern over societal issues such as climate change. As COP26 approaches in November 2021, many governments have set the tone by investing in green energy initiatives as well as adopting new legislation with the hopes of lowering greenhouse gas emissions. These new expectations have put pressure on businesses to willingly adapt or be forced to by their shareholders. ExxonMobil is the most recent example of how climate activist hedge funds have been able to win board seats to help promote aggressive climate goals. Going forward, it is expected that continued shareholder pressure linked to climate-related issues impact capital allocation and management decisions for natural resource companies in general.

NATURAL RESOURCES
SELECT INVESTMENTS

Polaris Infrastructure (TSX:PIF)

The 2020/2021 fiscal year for WIC saw the most recent investment in the renewables sector for the fund. In late January, an investment was made in Polaris Infrastructure which is a developer, owner, and operator of renewable energy projects in Latin America. Polaris currently operates one geothermal plant in Nicaragua and three hydroelectric facilities in Peru, along with a strong pipeline of more renewable assets the Dominican Republic and Panama. The team felt that Polaris was being unjustly discounted to peers given the geopolitical risk profiles of certain Latin American countries and had conviction that a strong foothold in this unique market in tandem with tailwinds for renewable energy would be a compelling investment opportunity when compared to other expensive alternatives.

Although too early to assess investment results, the team is optimistic that Polaris will be able fund the development of its exploration pipeline and renew existing contracts with respective entities to generate superior shareholder value.

POLARIS

Lundin Gold (TSX:LUG)

Lundin Gold was an investment made by WIC in late 2019 to help diversify the fund's outsized exporure to oil and gas. The Company is currently operates a low-cost and high-grade single asset in Ecuador called Fruta del Norte. The team felt that the superior asset quality of Fruta del Norte, strong ownership base with Newcrest as a key strategic shareholder, and a contratian view on value for exploration concessions would lead to superior performance compared to peers.

The COVID-19 pandemic forced Lundin Gold to stop operations at their single asset from March 22 to July 5. Additionally, a local protest hindered transportation to and from the minesite for a period of time in late October. Subsequently, the company lowered its production guidance and raised its production cost guidance. As a result, shares in Lundin Gold only appreciated 5.8% in WIC's fiscal year compared to a benchmark return of 5.0%.

LUNDINGOLD

Marathon Petroleum (NYSE:MPC)

The NR portfolio invested in Northern Tier in 2014. Subsequent to the investment, the initial stake in Northern Tier was converted to shares of Andeavor after a series of acquisitions. In October 2018, Andeavor was acquired by Marathon Petroleum for $23.3Bn, representing a 24% premium to Andeavor's share price. This acquisition transformed Marathon into the largest US refiner by capacity and one of the top five largest refiners globally with an overall throughput capacity of more than 3 million bbl/d.

Although the initial thesis was realized, the team felt more value could be generated subsequently to Elliott Management's activist campaign initiated in September 2019 calling for the company to disband its conglomerate structure. In August 2020, Marathon Petroleum agreed to sell its convenience store operator, Speedway, to 7-Eleven for $21.0 billion in an all-cash transaction, with proceeds used to strengthen its balance sheet and return value to shareholders. As a result, holding onto Marathon during the pandemic allowed the fund to participate in the near triple-digit upside through WIC's fiscal year.

MARATHON

REAL ESTATE, HEALTHCARE, & GAMING INDUSTRY REVIEW

Opening Statement

The pandemic continues to have mixed impacts within the real estate, healthcare and gaming industries. While the outlook of the healthcare and gaming industries broadly improved since March 2020, some real estate assets remain structurally impaired.

Key Industry Trends

COVID-19 Impact on Real Estate

The pandemic caused a sudden collapse in rent and occupancy rates, particularly in REITs exposed to retail and office spaces. Lockdown measures early in the pandemic and the emphasis on social distancing has caused people to stay at home, which disproportionately impacted real estate assets relative to the broader market. Data centers and cell towers remained resilient due to their functions as the core infrastructure layer for internet and e-commerce. This caused dispersion between some REITs and their underlying tenant base, whose customers benefited from federal stimulus and shopped online through direct-to-consumer channels. As vaccination rates improve and different parts of the country enter the re-opening phase, we expect real estate asset prices to recover.

Rise of Digital Health

With the stay-at-home orders early in the pandemic, many patients were forced to receive consultations with their physicians through a virtual platform. Livongo's $19 billion merger with Teladoc became a cornerstone event for pure-play telehealth companies. In addition to this mega-merger, 132 digital health companies were reportedly acquired in the first nine months of 2020. Insurance carriers like UnitedHealth were forced to expand access to virtual care. Many of these telehealth businesses operate on a per-member-per-month monetization model which has yet to be proven as a profitable business model. Despite the monetization challenges, telehealth is filling a hole in the healthcare system and will continue to evolve over the following years.

Online Gaming

Over the past year, the pandemic accelerated the shift to online gaming, which the markets embraced with blockbuster IPOs like Roblox. Despite the focus on metaverse-centric companies, traditional gaming business models have also seen shifts to the online format. Companies like NeoGames and Evolution Gaming exist to help lottery agencies and casinos facilitate their games and online player management systems. In December, WIC looked at Pollard Banknote, a Canadian manufacturer of instant scratch tickets whom also has a joint-venture with NeoGames. These new business models operate at high margins (40%+ EBITDA margin) with scale advantages and sticky customers characterized by traditional lottery businesses. As these companies mature, we will continue to look at attractive entry points.

REAL ESTATE, HEALTHCARE, & GAMING
SELECT INVESTMENTS

Catalent (NYSE:CLT)

Catalent is a contract manufacturing organisation that helps bio-tech companies accelerate the time needed to take drugs to market. WIC's original thesis at purchase in 2016 was predicated around a strong business model and high free-cash-flow generation. Since the initial pitch, the company has consistently generated strong cashflow and has helped to reduce the impact of COVID-19 on its customers. In certain geographies, the company has seen an increase in demand due to the pandemic. In September 2020, the company was added to the S&P 500 Index. Since WIC's initial investment, the stock has returned approximately 201%. The team remains optimistic about the company's future prospects as the pandemic has only increased the spotlight on drug development.

Teva Pharmaceutical Industries (NYSE:TEVA)

Teva Pharmaceutical is the world's largest generic drug producer. As we reported in 2018, Teva continues to struggle to manage its $25 billion debt load coming from its $44 billion acquisition of Actavis in 2016. Although steady deleveraging and numerous product launches provide growth opportunities for TEVA, the legal aftermath of the opioid crisis still looms the stock. In June, JNJ agreed to stop selling opioid medications across the US as part of a $230 million settlement with New York state, removing the company from a trial that still involves TEVA. Despite the litigation tail-risk from the opioid crisis, WIC continues to believe TEVA provides an interesting risk-reward situation as a levered equity.

Iron Mountain Incorporated (NYSE:IRM)

Iron Mountain (IRM) is a storage and information management services REIT. Over the past year, IRM sold its intellectual property management business to NCC Group for $220 million, freeing additional capital to deploy into its data center development pipeline. Coupled with a continued low interest-rate environment, IRM's 8% dividend yield at the end of CY20 drove incremental yield-seeking investors. Going forward, IRM's valuation appears a bit rich and the company will need to continue to execute on its data center segment to justify the multiple. WIC remains bullish on the underlying business going forward, as our original thesis around data-centers continues to unfold.hich WIC views as positive for the future of Premier and supportive of a continued holding.

TECHNOLOGY, MEDIA & TELECOM.
INDUSTRY REVIEW

Opening Statement

The tech industry has continued to ride tailwinds from the COVID-19 pandemic, with an accelerated shift to cloud, adoption of SaaS products, and investments in cybersecurity. Although demand for digital connectivity and network capacity have reached record levels, telecom companies did not capture much of the value created. Instead, a vast majority of value was accrued to platforms and media businesses.

Key Industry Trends

Cloud Infrastructure and Cybersecurity

The past year of remote work has set a record for investments into cloud infrastructure, and cybersecurity. The astonishing and consistent high growth of companies such as Shopify, Salesforce, CrowdStrike, and many others in the industry have repeatedly surpassed analyst expectations. Collectively, the public cloud market exceeded $2 trillion in market cap in 2020.

While cloud companies have flourished in the pandemic, cybersecurity threats and attacks have as well. Given the move to remote work, cybersecurity offerings needed to be adapted from on-premise solutions. Investment into endpoint, network, identity, access management and cloud security must be made to prevent breaches and other consequences. Irrespective of industry or size, all companies must combat cybersecurity risks which may undermine customer privacy, core operations and a firm's reputation. As illustrated by the SolarWinds hack and its rippling effects uncovered in 2021, cybersecurity should remain top-of-mind for all.

A Perfect Storm for the Global Chip Shortage

The COVID-19 pandemic and work-from-home environment drove heightened demand for electronics, vehicles, and home appliances in 2020 and 2021. At the same time, numerous semiconductor factory shutdowns caused by the pandemic, accidents, and weather-related incidents placed stress onto global supply chains. Unsurprisingly, the record surge in consumer demand was met with insufficient supply. For consumers, lead times for products ranging from consumer electronics to cars and home appliances have translated into delays ranging from several weeks to months. For companies, the cost of purchasing chips has increased dramatically.

Semiconductors or chips are used to power nearly every application of computational technology. They are highly complex and expensive to produce, with only a handful of key manufacturers or foundries across the world. More than 80% of global chip production takes place in Asia, while the U.S. makes up only 12% of global manufacturing capacity.2 In the U.S. alone, semiconductor firms spent $74.2 billion in 2020 on R&D and capital expenditures to make cutting-edge components.3 Given the extent of the shortage and national security concerns, the Biden administration allocated $52 billion to the U.S. Semiconductor industry as part of the 2021 infrastructure bill.

While numerous backlogs and supply deficits will extend into 2022, the demand for chips will only increase with integration of technology across industries. The race to build infrastructure and to develop technical expertise will drive investment and the performance of semiconductor companies moving forward. For now, recovery from existing supply chain disruptions remains to be seen.

Market Exuberance and the SPAC Boom

2020 was widely proclaimed as the year of the SPAC, with a 320% increase to 247 SPAC IPOs and 65 mergers completed in 2020.4 In short, a SPAC or blank check company raises capital from investors to merge with a private company to ultimately take it public. The primary draws of a SPAC are for companies to achieve a higher valuation, to go public with more certainty, lower dilution and fewer regulatory demands. Despite the growing number of companies going public through SPACs, 90% of SPACs have lagged the S&P500 in 2021.

TECHNOLOGY, MEDIA & TELECOM.
SELECT INVESTMENTS

Lumen Technologies (NYSE:LUMN)

Lumen Technologies (Lumen) was formed through the $30.0 billion acquisition of Level 3, a global telecommunications company with ~215,000 miles of fiber lines, by Century Link, the second largest U.S. communications provider to global enterprise customers. However, the merger became very messy from the onset with assets that didn't seem to fit will in the minds of shareholders. As a result, the company traded 5.1x LTM EBITDA and an attractive dividend yield of over 10% at one point.

WIC made an investment in Lumen in early March 2021 on the belief that the company's assets are the modern railroad of technology, the misunderstood narrative around a consumer business in secular decline layered on top of an enterprise-oriented business poised for growth, and a belief in management to continue allocating capital effectively to return value to shareholders while paying down debt from the acquisition. With continued activism around the stock, WIC believes that the business will reach an inflection point where revenue will began to expand as Century Link assets decline to a steady-state.

LUMEN

II-VI (NASDAQ:IIVI)

In 2019, one of WIC's largest holdings (Finisar) was sold to II-VI which is a vertically integrated manufacturer of engineered materials and optoelectronic components for applications in industrial, military and semiconductor markets. The acquisition provided shareholders with $15.60 in cash and 0.222 shares of II-VI which traded at $46.88 at the time of announcement. The fund decided to hold a position in the post-acquisition business with the thesis focusing on synergies through the Finisar acquisition and future growth opportunities. Despite the impacts of the COVID-19 pandemic on the Company's supply chain reliance on China and Germany, it was able to generate significant top-line growth while lowering its net debt leverage ratio 65.7%. As a result, II-VI's stock price as seen tremendous outperformance since pre-pandemic levels. The team will continue to assess the thesis points developed which allowed the fund to hold the pro forma entity in the first place to identify if WIC should realize the returns already generated.

II-VI Incorporated

Fortinet (NASDAQ:FTNT)

In November 2020, WIC made an investment in cybersecurity company Fortinet. The Company provides cybersecurity solutions to a wide array of enterprises, governments, and other organizations. The team had conviction that its strong patent profile and forward thinking innovation in addition to the natural economic moat of the cybersecurity industry gave Fortinet a sustainable competitive advantage. Additionally, the team had conviction that the Company will achieve superior operating performance compared to peers given its first-mover advantage and product strength in the SD-WAN market.

To date, this investment has already generated a return of 76.2% being bolstered by positive market reviews and strong operating performance. As the business continues to the SASE market, the team believes shareholder will continue to be generated as the original investment thesis points begin to mature. As a result, the team looks forward to watching the Company's progress and assessing the relevance of the original thesis points.

FORTINET

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