Western Investment Club

ANNUAL REPORT

2022 / 2023

May 15th, 2023

www.westerninvestmentclub.ca

Our mission is 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 Aidan Sommer & Roshan Puniya

See back for important disclosures


SURIA KLCC

FUND MANAGERS' STATEMENT

Dear fellow members and alumni, as the 2022-2023 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 10-Fold through the invaluable contributions made by its members. Despite navigating volatile market conditions and a continuously evolving business landscape, WIC has remained steadfast in its principle of identifying and buying undervalued securities, which has served as the foundation for the club's growth.

As of May 1th, 2023, the fund's assets under management were quoted at $249,066. The team had to navigate a changing macroeconomic environment, often overlaid with political headwinds and technological disruptions, ultimately resulting in a year-over-year decline of 11.7% in assets. This was accompanied by 3 new investments and the liquidation of 3 previously held positions, which will hopefully better position the portfolio for future long-term success.

Aidan Sommer
Fund Manager

A departure from zero-interest-rate policy, normalization of accelerated COVID trends and ripple effects arising from global conflicts significantly altered the competitive landscape and financial outcomes of many of our key positions, ultimately affecting their value. This helped reinforce the club's philosophy of purchasing businesses for less than our estimates of their intrinsic value and helped shift much of our work back to deep fundamental analysis and inherently, cash-flowing securities. These new headwinds have offered tremendous moments of learning for the entire club throughout the year.

Roshan Puniya
Fund Manager

With many of our legacy holdings now operating in a fundamentally different business and valuation environment than just a year ago, we aimed to shed unfavourably positioned companies and purchase securities with evident reinvestment opportunities and an unwavering core business. We believe that with more disciplined additions and continuously reviewing securities in our portfolio, the fund will be made up of a majority of long-term compounders that will help bring long-term value to the fund.

With the club returning to in-person activities for the first time in 2 years, we were pleased to see our club membership continue to grow, with this year's membership tally reaching 950+ students, making WIC the largest club on campus. We view member growth and participation as key indicators of our club's success and hope that WIC continues to create a strong community of bright and passionate investors at Western.

Thank you to the analyst team for their hard work, the researchers for their dedication, the alumni for their ongoing support, and Western's endowment for their continued help. As Fund Managers, it was an immense privilege to be able to contribute to the club, and we are excited to see the WIC community continue to grow.

We would also like to acknowledge the incoming executive team for their great work over the course of the year. We are positive that the club is in the hands of exceptional and dedicated analysts, who will do great work which will benefit the fund and members greatly in the coming year.

We look forward to seeing the future direction of WIC and are more than optimistic about the club's future.

Sincerely,

Aidan Sommer & Roshan Puniya
Fund Managers, 2022 / 2023

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 750%.

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 35 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 among each industry. Lastly, each of our investments maintains a significant margin of safety to provide downside protection.

FIRMS REPRESENTED

ARES	BDT&MSD	Blackstone
EVERCORE	FARALLON ESTABLISHED 1986	Goldman Sachs
Houlihan Lokey	LionTree	Moelis
Point72	Qatalyst PARTNERS	SILVERLAKE

2022 / 2023 TEAM

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Aidan Sommer
Fund Manager


Max Wang
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CRG Advisor

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David Zhang
TMT Advisor

Kevin Zhou
RA Advisor

Jack Hansen
IND Advisor

Steven Lo
FIG Advisor

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CONSUMER RETAIL


Justin Chan
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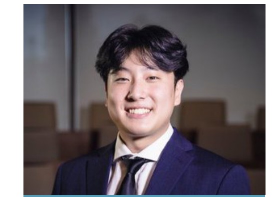
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INDUSTRIALS


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Akul Shah
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Kyra Gilson
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Manuja Weerasinghe
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Akshay Samuel
Junior Analyst


Arun Vora
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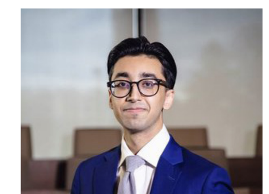
TECH, MEDIA & TELECOM


Aly Dayani
Head Analyst


Caitlin Wong
Head Analyst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Elisa Shi
Analyst


Alyssa Choi
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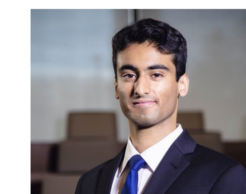
Tarik Irshad
Junior Analyst

FINANCIAL INSTITUTIONS


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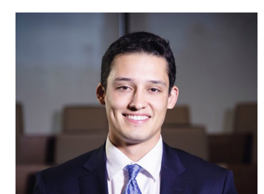
Head Analyst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Gage Burchall
Analyst


Chenxi Li
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Josh Rovner
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REAL ASSETS


Edward Liu
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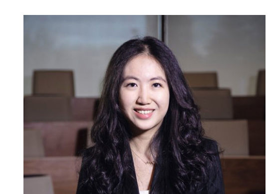
Megan Syho
Head Analyst


Dhruv Bhatt
Analyst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HEALTHCARE


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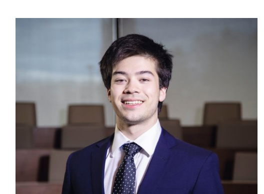
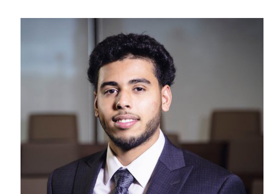
Head Analyst

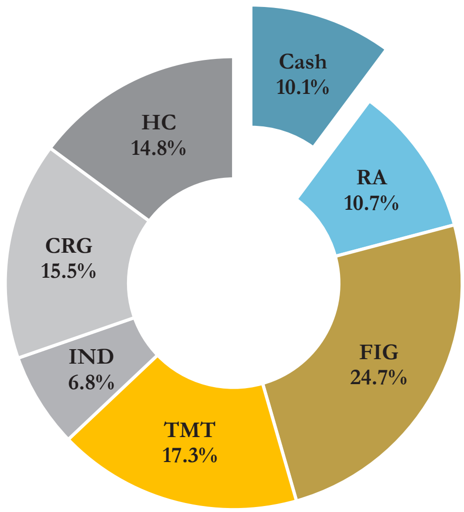

Alexadner Goleszny
Head Analyst


Adrian Gaymes
Analyst

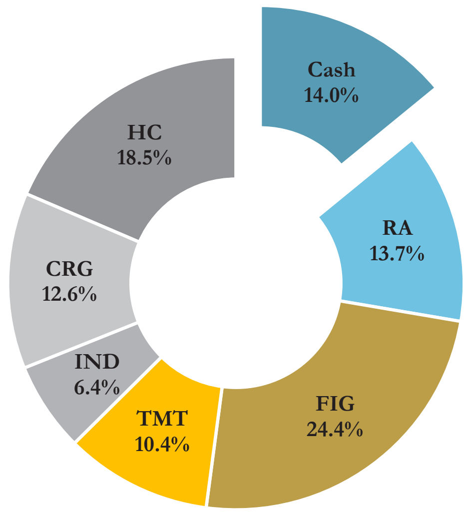

Nick Woollcombe
Analyst


Ronit Mirchandani
Junior Analyst

PORTFOLIO
AT-A-GLANCE

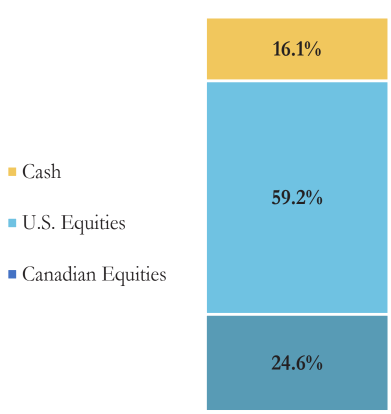


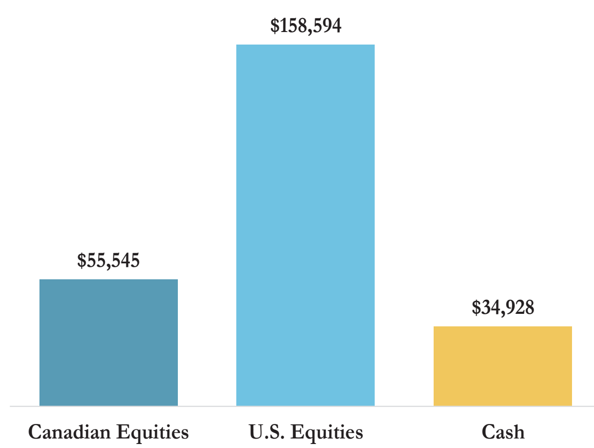
INDUSTRY ALLOCATION
APRIL 29TH, 2022



INDUSTRY ALLOCATION
MAY 1ST, 2023

With low valuations making the disposition of many legacy holdings unattractive, and many terminal value-oriented (in other words, growth-y) investments taking a hit across TMT, CRG and FIG sectors, WIC elected to dispose of 3 holdings and make 3 new investments (1 in HC, 1 in IND, and 1 in FIG) during the 2022-2023 academic year. This has helped add greater business quality, cash-yielding assets to the portfolio, and shed underperforming assets.



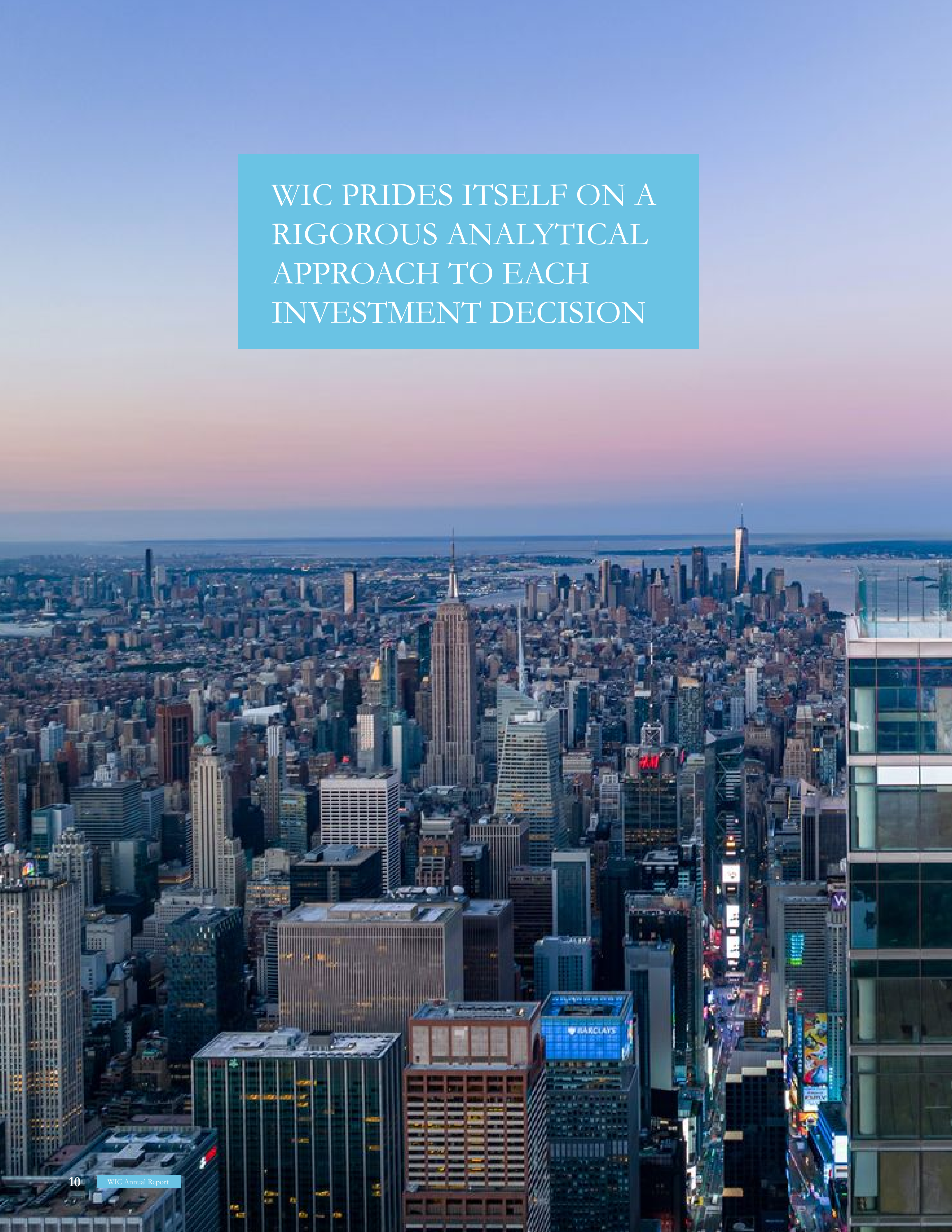


WIC's portfolio is comprised of cash, U.S. equities and Canadian equities. The fund faces foreign exchange risk given significant U.S. equity holdings and does not take action to hedge USD exposure. Cash is held in a Canadian dollar savings account allowing for immediate withdrawals.

CURRENT HOLDINGS

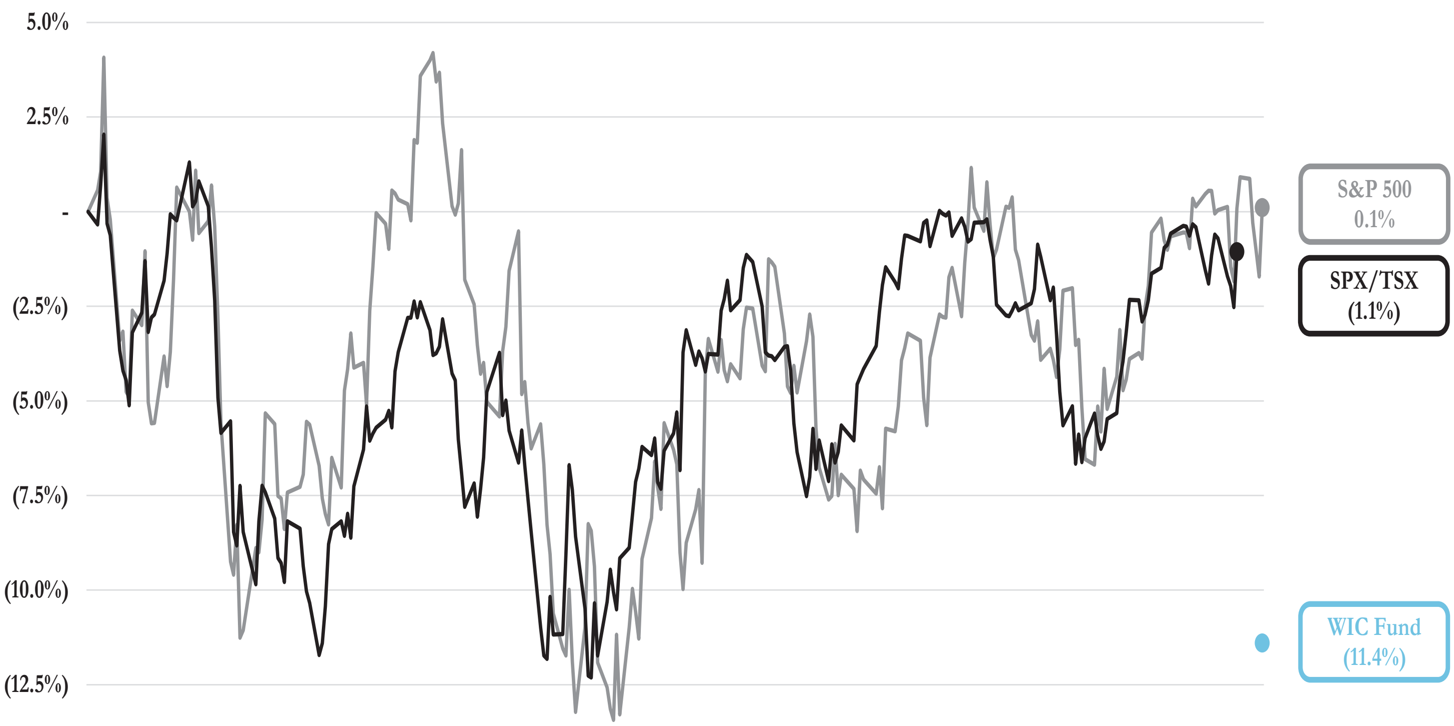
Canadian Holdings	Symbol	Group	C$ Entry Price
Aritzia	ATZ	CRG	$43.57
Artemis Gold	ARTG	RA	1.08
Keg Royalty Income Fund	KEG	CRG	10.70
Lundin Gold	LUG	RA	7.75
Magellan	MAL	IND	18.75
Polaris	PIF	RA	23.42
Suncor	SU	RA	33.13
Toronto-Dominion	TD	FIG	55.82

U.S. Holdings	Symbol	Group	C$ Entry Price
Aercap	AER	IND	$70.92
Align	ALGN	HC	587.38
American Express	AXP	FIG	109.54
Apollo	APO	FIG	67.65
Berkshire Hathaway	BRK.B	FIG	109.54
Catalent	CTLT	HC	36.19
Coherent	COHR	TMT	40.66
EZCorp	EZPW	FIG	8.83
Fiverr	FVRR	TMT	91.21
Fortinet	FTNT	TMT	32.35
Frontier	ULCC	IND	13.13
GoDaddy	GDDY	TMT	106.15
HCA Healthcare	HCA	HC	120.88
Huntsman	HUN	IND	34.48
Intuitive Surgical	ISRG	HC	421.64
KKR	KKR	FIG	71.65
Lumen	LUMN	TMT	17.85
Marathon Petroleum	MPC	RA	104.44
NRG Energy	NRG	RA	49.56
Olaplex	OLPX	CRG	20.21
Radnet	RDNT	HC	28.14
Restoration Hardware	RH	CRG	623.83
SS&C	SSNC	FIG	80.61
Thor	THO	CRG	191.69
Trupanion	TRUP	FIG	110.69



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

FUND
PERFORMANCE



Commentary

Equity markets experienced significant volatility over the last year, with factors such as inflation, continuous rate hikes, and global conflicts causing great uncertainty. WIC's 2022-2023 year closed out with the beginnings of a market rally, led largely by large tech players off of Artificial Intelligence tailwinds. Notwithstanding, international equity indices also experienced significant price appreciation as markets came to terms with much uncertainty introduced at the beginning of the year. The recent large sentiment swings provide further evidence that WIC will be provided with opportunities for attractive investments moving forward.

The S&P/TSX and S&P 500 traded closely in line with each other for the majority of the year, closing down (0.8%) and up 0.1%, respectively, since last year's update. The WIC fund returned (11.4%) in the same period. Despite underperforming both major indices, we do not view WIC's role as trading in and out of markets, and expect short-term volatility in a portfolio meant to preserve and grow capital in the long term. The fund maintained ~80% - 85% gross exposure throughout the year, as we continued to search diligently for undervalued names. We opted for conservatism in deploying capital this academic year, to only enter into investments we felt held a large margin of safety and minimal risk of permanent capital loss. As the fund continues to pivot to names with a larger distribution of possible growth and profitability outcomes, we expect there to be large swings in portfolio value in the coming year, but ultimately the portfolio to trade more in line with the above benchmarks in the future.

CONSUMER RETAIL GROUP
INDUSTRY REVIEW

Opening Statement

The consumer retail industry has undergone a rapid transformation over the past few years as retailers have been forced to adapt to changing consumer preferences and behaviours, accelerated by the pandemic. While inflation has reduced consumer purchasing power, the relatively healthy labour market and increased nominal income are expected to still drive sales growth within the retail industry. While consumers are now spending more on services as they return to their pre-pandemic routines, the shift in consumer spending may impact the retail sales of consumer goods.

Key Industry Trends

Social Commerce

The industry has seen a recent shift in focus toward social commerce — in which a consumer's entire shopping journey is conducted on a social media platform. This trend has been driven by the everyday retail consumer's increasing use and thus reliance on social media. In 2021, 96% of the world's internet users also used social media platforms for an average of two-and-half hours per day, displaying the growing opportunity the platform presents for retailers. Global social commerce sales were valued at $429 billion in 2021 and are expected to reach $1.2 trillion by 2025 at a CAGR of 22.8%. This trend has large implications for the small business and entrepreneurship space, providing them with potential access to huge markets and exposure in an unprecedented way. A recent study found that 59% of social buyers say they are more likely to purchase from a small business through social commerce versus standard online shopping.

Social commerce offers retailers a new distribution channel which lies at the intersection of content, experience, and networks. It represents a paradigm shift in the e-commerce universe, as consumers no longer utilize social media platforms purely to socialize, but also as a search engine to find and purchase goods. Social commerce streamlines the path to purchase by offering a space where one can read reviews, interact with products, and complete transactions all on one platform. Thus, social commerce decreases the barriers to purchase for consumers, which leads to quicker conversion and capitalizes on impulse buying. As the popularity of social commerce grows, the team is excited to watch discoverability and consumer engagement in the retail realm grow as well.

The Rise of Ethical Consumerism

Consumers are increasingly basing their purchasing decisions on the ethical and sustainable practices of companies, giving rise to a growing trend of ethical consumerism. According to a recent survey, 82% of consumers want companies to prioritize sustainable and people-first practices over profit. Resultingly, many retailers are placing a greater emphasis on incorporating strong ESG (Environmental, Social, and Governance) practices into their business models.

Patagonia, an outdoor apparel company, has been a leader in ESG with its commitment to sustainability and ethical business practices. Its "Worn Wear" program, which encourages customers to repair and reuse their clothing, has inspired other retailers such as H&M, Levi's, and The North Face to follow suit with similar initiatives. Patagonia continues to innovate with new ESG-focused initiatives, including the establishment of the Patagonia Purpose Trust in September 2022. Patagonia's move is expected to inspire other business leaders and companies to adopt ESG practices in their operations and supply chains. This would ultimately lead to a more sustainable future and meet the expectations of consumers who prioritize environmental and social responsibility when making purchasing decisions. Patagonia's success in incorporating ESG practices into its business model has not only earned the trust and loyalty of customers but has also demonstrated that sustainability and profitability can go hand in hand. As the trend towards ethical consumerism continues to grow, more companies will need to prioritize sustainability and take responsibility for their actions to remain competitive in the market.

CONSUMER RETAIL GROUP
SELECT INVESTMENTS

Aritzia (TSX:ATZ)

Aritzia is a Vancouver-based, Canadian fashion brand that sells clothing and accessories, boasting over 100 stores in North America. WIC took a position in Aritzia in November 2021 after recognizing the company's moat, strong fundamentals, and international expansion opportunity. Over the past year, Aritzia saw its stock peak at ~$54 per share in November 2022. In the weeks leading up to its peak, Aritzia had announced an aggressive expansion plan into new markets. After, Aritzia faced a few key events and hurdles that led its stock price to decline. First, was founder Brian Hill's announcement that he would sell ~$70 million worth of Aritzia shares. Then, management revealed margins had compressed following supply chain disruptions. Still, WIC remains confident in the strength of Aritzia's fundamentals and its trajectory. Despite uncertainty, Aritzia continues to strengthen its core business as well as meet its expansion goals.

ARITZIA

Restoration Hardware (NYSE:RH)

Restoration Hardware is a luxury furniture retailer selling home furnishings online, through catalogs, but with a focus on large scale design galleries. The stock has struggled significantly since the end of 2021, with growthy COVID names experiencing a reversion in valuations, coupled with headwinds from rising rates, a weakening housing market, and continued supply chain costs. WIC is continuously betting on the ability of its unique business model within the furniture retail space to drive top-line revenues, while a continued transforma-tion of legacy stores to design galleries, and successful international expansion to drive greater value in the future.

Continued guidance for greater profitability, high inside ownership, and prudent capital allocation through buybacks at depressed valuations give WIC conviction in a higher price target for the stock.

RH

Keg Royalties Income Fund (TSX:KEG)

The Keg Royalties Income Fund is a restaurant royalty income trust for the restaurant brand 'The Keg'. As a royalty income trust, the fund operates as a separate entity from the corporate-owned and franchised restaurants — rather, the fund owns the Keg brand and earns royalties from the restaurants. As a royalty income trust, the fund's stock price typically sees negligible movements as its value comes from regular dividend payouts. In the history of WIC's position in the fund, the only significant movement occurred at the beginning of the pandemic, when restaurant royalty trusts suspended dividend payouts due to uncertainty regarding in-person dining. Since then, the Keg Royalties Income Fund has recovered to a pre-pandemic stock price paired with a 7.24% dividend yield. WIC sees the position as a lower yield but lower risk opportunity for the club to diversify its holdings and protect against downside.

THE KEG®
STEAKHOUSE + BAR

FINANCIAL INSTITUTIONS GROUP
INDUSTRY REVIEW

Opening Statement

Late 2022 through early 2023 was a difficult time for the financial services sector, as cryptocurrency companies saw large failures and poor macroeconomic conditions caused trouble for both traditional banks and innovative fintech companies. Depositors have been far more cautious to store funds with tech-focused and regional banks, while both sponsors and strategics have seen funding for investments dry up. Overall, WIC has increased its exposure to financials and particularly fintech SaaS, through the purchase of SS&C Technologies stock. The company has consistently demonstrated resilience in economic downturns through careful capital.

Key Industry Trends

Bank Runs

The spring of 2023 saw a spree of massive bank failures caused by high interest rates and low investor confidence. The string began with startup- and VC-focused Silicon Valley Bank, which experienced a bank run after announcing a major loss on sale of long-term Treasury bonds that had lost significant value with the rise in rates. This was exacerbated by VC recommendations to portfolio companies to withdraw their funds from SVB immediately, which caused a rush of withdrawals that SVB was unprepared for. In response, three U.S. bank regulators jointly announced that all deposits above $250,000 would be honoured, while the Federal Reserve established a Bank Term Funding Program of loans up to $1mm. SVB was later seized by the FDIC, while its UK arm was acquired by HSBC for £1.

Just days after, Signature Bank and Silvergate both collapsed for largely the same reason in combination with their significant exposure to cryptocurrency, which already took a major hit after the FTX scandal. Both banks were hit with a wave of withdrawals, causing them to sell assets at significant losses. Other tech-focused financial institutions including First Republic Bank were also put under close scrutiny and saw their share prices drop. Most notably, this was a major catalyst for the acquisition of Credit Suisse by UBS, as the former appeared poised for a fatal withdrawal push by major depositors. The Swiss government stepped in fearing the worst and forced UBS into an emergency acquisition with minimal long-term strategic planning. These failures spurred an increase in negative macroeconomic sentiment, with a majority of economists expecting a recession by the end of 2023. Moody's has downgraded its outlook on the financial sector to negative while downgrading the credit ratings of many regional banks. Looking forward, these firms will worry about maintaining growth as deposits shrink and debtors remain less willing to fund business operations with debt.

Fintech Slowdown

Due to similar reasons to the bank crisis, companies innovating in the financial services industry experienced a difficult year. Total fintech deal value dropped by 65% from its high in 2021, with deal count down over 50%. This has caused many early-stage companies to wind down operations, with about 500 startups raising at least $1mm as opposed to 1,000 in early 2022. Layoffs occurred across the industry, with Stripe, Chime, and Chargebee each letting go of >10% of staff.

Major players including American Express, PayPal, and Block respectively fell by 13%, 15%, and 40%. BNPL saw losses driven by increased regulatory scrutiny, as a result of increased delinquencies and late fees. Especially in the current inflationary environment, regulators appear worried that BNPL will cause consumers to go further in debt with associated high rates. As such, the US Consumer Financial Protection Bureau has issued a report outlining a plan for stricter oversight and may follow proposed UK legislation to carry out affordability checks. The FTX scandal also shed uncertainty on the entire crypto vertical and indirectly led to some bank failures. As a leading firm in the space, its sudden downfall exacerbated already -present fears about the short-term future of crypto, with a rebound unlikely until macroeconomic sentiment improves. However, some companies including Fiserv and H&R Block, both up 20%, saw significant appreciation. These outliers tended to be fundamentally strong, defensive consumer-focused players that fared well despite headwinds in their respective sectors. In the short term, an impending recession could be worrying for many fintechs as they lose access to growth capital and consumer spending dries up. As with many other industries, executives will have to shift focus from growth at all costs to profitability and cash flow. However, long-term innovation in fields including blockchain and artificial intelligence is expected to generate a wave of improved fintech products across all verticals.

FINANCIAL INSTITUTIONS GROUP
SELECT INVESTMENTS

SS&C Technologies (NASDAQ:SSNC)

SS&C Technologies is the world's second-largest provider of back-end software for financial services firms. Its solutions target traditional and alternative investment funds, wealth and asset managers, private equity funds, investment banks, retirement plans, and even health plans. It generates revenue through software subscriptions, licenses, and maintenance fees, and creates strong long-term relationships with customers across diversified contract agreements. SS&C follows a rigorous acquisition model with 2-3 deals every year, adding niche industry leaders to its already large portfolio of 150+ products. Due to macroeconomic weakness, consensus estimates revealed bearish views on all facets of the business, from retention rate and AuA affecting top-line to a weak leverage profile and poor backdrop for M&A execution. However, SS&C has a proven ability to grow organically and inorganically in past recessions. We see significant upside coming from margin improvements and accretive M&A, which will prove the business model's strength to investors and result in a significant multiple rerate toward that of competitors.

EZCorp (NASDAQ:EZPW)

EZCorp is the second-largest operator of pawn shops in the U.S., with a significant presence in Latin America as well. In exchange for consumers taking out loans, EZCorp uses tangible personal property such as jewellery, instruments, or electronics for collateral. It generates revenue from pawn loan service charges and merchandise sales of inventory collected from defaulted loans. A WIC holding initiated in 2020, the company has seen 23% appreciation in the past year and traditionally performs well in poor macroeconomic conditions due to consumer preference for alternative financing options. Consensus targets were beaten in all four quarters, with revenue beats ranging from 18% to 24% and EPS beats ranging from 20% to 220% signalling effective operational improvements. These caused significant price hikes throughout the year. EZCorp also increased its presence inorganically in the Florida and Caribbean regions, while expanding its offerings to luxury products through the purchase of a Las Vegas-based provider.

Trupanion (NASDAQ:TRUP)

Trupanion is a provider of pet medical insurance in North America and Australia. In addition to its primary monthly subscription, the company creates B2B relationships to offer employee benefit plans and underwriting services. New customers are acquired through various channels, including vet partnerships, territory managers, and online leads. Unlike competitors, it offers 24/7 preapprovals and claim payment at time of checkout. Initiated in 2022 by WIC, Trupanion stock suffered a difficult year due to its positioning as a discretionary good during tough economic times. As a result, earnings estimates were significantly missed in the first three quarters. These were driven by significantly higher expenses than expected as top-line beat expectations every quarter, and was a major setback in management's goal to reach 15% AOM. Throughout the year, Trupanion acted on its goal – and WIC thesis – of expanding market share through a partnership with a Canadian provider and acquisition of an Eastern European provider.

HEALTHCARE
INDUSTRY REVIEW

Opening Statement

As opposed to 2021 when healthcare providers did very well due to increased admissions, 2022 was a year for payers' (insurers) success as utilization and hospital visits decreased substantially, despite expected demand from deferred care. In addition, uncertain hospital expenditure from recession fears due to labour shortages provided unique opportunities for differentiated players to outperform the market. Overall, WIC has increased its exposure to healthcare businesses through investment in Intuitive Surgical.

Key Industry Trends

Artificial Intelligence Impacting Drug Discovery

Artificial intelligence is rapidly transforming the pharmaceutical industry, particularly in drug discovery and development. AI-powered technologies and algorithms are increasingly used to identify new drug targets and design novel molecules, potentially revolutionizing traditional drug development.
AI can analyze vast amounts of data, including genetic and clinical information, to identify patterns and predict potential drug candidates. By automating the drug discovery process, AI can dramatically reduce the time and cost involved in bringing new drugs to market. In addition, AI can help identify patients who are most likely to benefit from a particular treatment, enabling personalized medicine.

One of the most promising applications of AI in drug discovery is the design of novel molecules. Algorithms can generate and screen thousands of potential drug candidates in hours, dramatically accelerating the drug discovery process. Some companies already use AI-designed molecules in clinical trials, and many more are expected to follow.

While there are significant challenges to integrating AI into the drug development process, including regulatory and ethical considerations, the potential benefits are substantial. AI can potentially transform the pharmaceutical industry by accelerating drug discovery, reducing costs, and improving patient outcomes. As such, many pharmaceutical companies are investing heavily in AI technologies and partnerships with AI companies to stay ahead in this rapidly evolving industry. Several publicly traded companies are likely to be impacted by the trend of AI in the pharmaceutical industry:

- Pfizer Inc. - The company has partnered with several AI startups to improve its drug discovery process. It has also developed an AI platform called "ATOM" to accelerate drug discovery.
- Merck & Co. - The company has invested heavily in AI technologies, including a partnership with Iktos to design new molecules.
- Novartis AG - The company has a dedicated AI unit, Novartis AI, focused on using AI to accelerate drug discovery and development.

Rise of Value-Based Care

As healthcare moves toward a value-based care model, healthcare providers must shift their focus from fee-for-service to better patient outcomes, efficiency, and cost savings.

Technology can help providers better coordinate care, manage chronic conditions, and reduce administrative burdens. Telemedicine and remote monitoring can improve patient access to care and help reduce unnecessary hospitalizations. Similarly, artificial intelligence and machine learning can help providers identify patients at high risk of complications, better allocate resources, and personalize treatment plans.
Clinical integration is another vital aspect of value-based care. Providers can collaborate to share data, standardize processes, and coordinate care across different specialties. This can help prevent duplication of services, reduce errors, and improve patient outcomes. Health information exchanges (HIEs) and accountable care organizations (ACOs) can help facilitate clinical integration and improve population health.
Population health management involves understanding the health needs of a community and implementing interventions to improve outcomes. Providers should focus on prevention, early detection, and disease management to help improve patient outcomes and reduce costs.

Providers should also focus on aligning financial incentives with value-based care. This could involve moving away from fee-for-service models and toward alternative payment models (APMs) that reward providers for better outcomes and cost savings. Providers should also work with payers and regulators to ensure that they have the necessary support to transition to a value-based care model.

HEALTHCARE
SELECT INVESTMENTS

Intuitive Surgical (NASDAQ:ISRG)

Intuitive Surgical is a medical device company focused on designing, developing, and manufacturing surgical robots as well as related accessories. Intuitive Surgical is an industry dominator with ~75% of the market share. At a ~2.5% penetration of potential surgical procedures, the team believes that there is still sizeable runway for Intuitive's growth through expanding into new geographies and adjacent procedures, as well as deepening penetration in existing procedures. Intuitive's early entry into the market and technological superiority has created high switching costs as well as a data flywheel as the more the robots are used, the better the outcomes of the robots, ultimately increasing demand. To additionally stimulate demand, Intuitive has also shifted towards a lease or usage arrangement, decrease upfront cost of these $2mn robots and replac-ing it with recurring revenue, driving utilization and accessory revenues. The team believes that this shift will greatly impact the success of the business, especially as we enter a decreasing hospital expenditure market, but will continue to assess whether Intuitive's performance remains in-line with the investment theses.

Radnet (NASDAQ:RDNT)

Radnet is the largest provider of outpatient diagnostic imaging centers in the US, providing services like MRI, CT, ultrasound, X-ray, and mammography. The company operates these facilities throughout the US through independent and joint-venture facilities to provide different imaging services to patients. The team had conviction that its growth strategy, both through organic methods of opening new clinics in geographic whitespace and inorganic methods of acquisition roll-ups gave Radnet a sustainable competitive advantage in the radiology space.

Throughout this past year RadNet has focused on organic growth, opening a net of two company-operated imaging centers and expanding joint ventures to over 20 other centers. The company continues to operate in a fragmented space, and management has not indicated any new and large competition.

HCA Healthcare (NYSE:HCA)

HCA Healthcare is a Tennessee-based healthcare facility operator that runs 182 hospitals and 2,300+ sites of care across the United States and the United Kingdom. The company is a market leader, with above average organic revenue growth and industry leading margins. Throughout the last year, HCA has been focused on growth within existing markets. The company has worked with physicians to broaden their service offerings to new comprehensive service lines, a growth strategy that is made possible by their immense scale. At the same time, HCA has also continued to differentiate in the market by prioritizing unrivaled quality of care. The main headwinds that the company has faced in the last year revolve around labour shortages, which have been an industry-wide concern. This in turn increases labour costs due to increased salaries to retain employees, and increased contract labour to fill labour gaps. Risks aside, the team is optimistic about the company's continued success, rendering the company a great long-term holding.

INDUSTRIALS
INDUSTRY REVIEW

Opening Statement

Labour shortages, demand surges post-COVID, and a recessionary climate will impact the Industrials vertical in 2023. Some prominent trends have included a shift towards low-cost carriers within the airline industry, increased aerospace & defense spending, and electrification, specifically electric vehicle (EV) development. Industrial companies face a critical point in embracing the changing technological landscape and shift towards autonomization. WIC has increased its exposure to the Industrials space with its recent purchase of Frontier Group Holdings (NasdaqGS: ULCC).

Key Industry Trends

Political Regulations Expediting Shift to Electric Vehicle Future

Across North America, there has been a clear focus on shifting from combustion engine automobiles to electric vehicles (EVs). The goal of Net Zero by 2050 outlined in the Paris agreement has prompted countries to invest in electrification instructure, increase carbon taxes and credits, and increase regulation surrounding resource use and manufacturing. Specifically the goal of creating an environmentally friendly future has had a number of implications for electric vehicle manufacturers.

In the United States, the number of electric vehicle charging ports has increased by nearly 40% over the past few years. This trend will continue moving forward with the announcement of President Biden's Bipartisan Infrastructure Law in November 2021, which seeks to invest $7.5 billion in EV charging, $10 billion in clean transportation, and over $7 billion in EV battery components, critical minerals, and materials. Ultimately, this has translated into record-high sales for electric vehicle manufacturers given the massive ecosystem and infrastructure. For the first time, the number of EVs sold in the United States is set to surpass 1 million units, representing a nearly 6% increase from 2022. The EV manufacturer spearheading much of this growth, Tesla, is making its vehicles more affordable. This year, it reduced the price of its Model 3 sedan by 6% and Model Y SUV by 20%, which could imply a 53% increase in volume of sales. Other automobile manufacturers have begun to release their own electric vehicles as well, which could threaten Tesla's dominance. In Canada, political regulations are also benefiting EV manufacturers. In December 2022, the government published draft regulations requiring that all new passenger vehicles and light trucks sold in Canada after 2035 must be electric zero-emission vehicles. The rules will be phased in gradually, starting with a 20% requirement in 2026.

Global Increase in Aerospace and Defense Spending Due to Geopolitical Tensions

Over the past year, geopolitical tensions between Russia and Ukraine have resulted in numerous countries increasing defense spending. The United States, Russia, China, India, and the United Kingdom have all increased spending and together account for 62% of the total defense market. Globally, investment in military defense has risen by 3.7% to $2.24 trillion, which represents the sharpest annual rise in expenditure in nearly three decades. As a result, aerospace and defense companies have performed well in the Industrials sector., and are expected to do so in the mid-term as well. The continuity of this trend will be a key determinant for many Industrial's holdings in the coming academic year.

The United States increased its defense budget by $26 billion to a total of $842 billion in 2023, which resulted in new contracts awarded to Lockheed Martin, Raytheon, and Boeing. In Q1, Lockheed Martin reported sales of $15.1 billion, reflecting a 16% increase from the previous year. In addition, the company was awarded with a $431 million contract in December 2022 to produce HIMARS launchers, a type of missile launcher, for the Department of Defense. The goal of this contract is to help replenish the stocks of the United States and its allies who sent arms to Ukraine. Most recently, Raytheon was awarded a $1.2 billion foreign military sales contract from the United States Army to provide Switzerland with a new air defense system, in case of further attacks. Above the rest, Boeing has received three contracts year-to-date, totaling $4.3 billion, with the intent of providing aerospace and defense support to the United States.

INDUSTRIALS
SELECT INVESTMENTS

Frontier Airlines (NASDAQ:ULCC)

Frontier Group Holdings, Inc. is an ultra-low-fare airline company headquartered in Denver that provides transportation for passengers in the U.S. and internationally. Key thesis points include an overly pessimistic and unjustified view on budget carriers amidst recessionary pressures, Frontier being poised to become the only true Ultra Low-Cost Carrier in North America, and an undervaluation of its international long-haul routes. Volatility in share price caused by market overreaction to an earnings miss in Q421 led to a sizable subsequent selloff of the share. Conversely, ULCC also spiked by ~20% in July of 2022 with the termination of the merger agreement between Frontier and Spirit, representing far more independent opportunities for future growth. Investor sentiment has also been consistently positive surrounding announcements of route expansions throughout the year which are poised to increase available seat miles and ancillary revenues through long-haul flights. Overall, Frontier's immense runway for future growth prompted WIC to initiate a position as of April 2023.

Huntsman Corporation (NYSE:HUN)

Huntsman Corporation is a global manufacturer of specialty chemicals used in plastics, automotive decor, and construction end-markets. The company operates through four segments: Polyurethanes, Performance Products, Advanced Materials, and Textile Effects. In the past year, HUN stock has declined by more than 23%. This drop in share price is primarily driven by sharp losses in earnings and revenue as a result of demand reductions. In particular, the Polyurethane business experienced a 22% decline in sales year-over-year due to high energy costs and significant destocking in the United States and Europe. While the macroeconomic landscape placed pressure on sales, HUN was able to maintain 13% EBITDA margins year-over-year. Management remains optimistic about its plan to continue compounding EBITDA at ~10% p.a., following the market recovery. Overall, WIC intends to hold its position on HUN as management continues to execute its growth plan.

Aercap (NYSE:AER)

Aercap is a leading global aircraft leasing company providing a range of services to airlines. While throughout the academic year the stock has remained largely level, despite facing challenges due to the Russia-Ukraine conflict, and a few quarter's of underperformance, Aercap has experienced a notable year of growth and resilience in FY 2023. Since COVID, the business succesfully capitalized on the recovery of the airline industry, and is expected to experience growth into the future. WIC views a favorable industry environment and prudent capital allocation through M&A and buybacks as delivering value for the business into the future. As the business continues to build a greater fleet, consolidating the market and transforming into a stronger financial profile, WIC will continue to hold the stock into the near future.

REAL ASSETS
INDUSTRY REVIEW

Opening Statement

Due to the macroeconomic conditions, industries within Real Assets have both under- and out-performed expectations over the past year. Primarily, the aggressive interest rate hikes by the Federal Reserve have had adverse impacts on markets such as real estate and green tech, as rising interest rates have sent investors flocking towards more resilient asset classes. On the other hand, oil & gas surged due to increasing demand, supply constraints due to Russia's invasion of Ukraine, and sustained OPEC production cuts. Overall, WIC has reduced its exposure to Real Assets as a result of selling previous investments.

Key Industry Trends

An Accelrating Energy Transition

One year since Russia's initial invasion of Ukraine, soaring energy prices due to trade sanctions on Russia have led to reduced supply and as a result, soaring fuel prices. Often supplied from a select few major producers, the conflict exposed the need for local energy production, turning governments toward renewables, an increasingly cheaper and more efficient alternative. Furthermore, legislation such as the Infrastructure Investment and Jobs Act and the Inflation Reduction Act in the US have proposed $450 billion in funding towards clean energy and related investments, expediting the transition away from fossil fuels. Coupled with high natural gas prices, green hydrogen and biomethane — two sources of renewable energy — could become more attractive relative to their non-renewable counterparts. However, the clean energy transition is also facing its fair share of headwinds. Most notably, the current macroeconomic environment has led investors to back legacy energy sources, rather than riskier green tech businesses. With significant investments needed in green infrastructure, investor hesitancy could delay the switch. And with several developing countries dealing with economic instability, there exists a need for cheap and oftentimes dirty sources of fuel, such as coal, to meet their energy requirements. Most likely, natural gas and oil will remain critical sources of energy throughout the 20s, but increasing investment and concerns regarding climate change indicate that clean and renewable energy will be a mainstay in the long term.

New Forces in Residential Real Estate

Following a 10-year housing price boom, increased interest rates have made the cost of renting and home ownership more expensive, resulting in reduced demand amongst the backdrop of a weakened economy. According to the S&P seasonally adjusted US home price index, housing prices rose a mere 3.8% year over year in January 2023, compared to 19.3% only a year prior. Over the same time period, hot markets such as San Francisco, New York and Boston incurred declines in the average house purchase price, with decreases of 7.6%, 5.9% and 4.3%, respectively. The primary driver in decreased demand is mortgage interest rates, which have dramatically increased monthly payments for current and prospective property owners. As of March 2023, the average 30-year fixed rate mortgage interest rate was 6.54% compared to 4.2% one year ago. The increased cost of ownership has had a trickle-down effect in rental markets, with the median asking rent in the US rising by 7.5% in 2022, with 2023 expected to carry on this trend. Looking forward to the remainder of 2023, continued decrease in home prices will be necessary before a market revival can occur. However, given high degrees of inflation and the Federal Reserve's objective of curbing inflation above all else, demand and supply from a home building perspective will continue to be constrained.

REAL ASSETS
SELECT INVESTMENTS

Marathon Petroleum (NYSE:MPC)

WIC initially invested in Northern Tier in 2014. Following a sequence of acquisitions, our stake was transformed into Marathon Petroleum shares. MPC is an American petroleum refining, marketing, and transportation company. With more than 130 years of history, the company operates the nation's largest refining system with approximately 2.9 million barrels per day of crude oil refining capacity. Elliot Management initiated an activist campaign in September 2019 calling for the company to disband its conglomerate structure. As a result, MPC sold 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. To date, MPC continues to fulfill the share repurchase program that was initiated post-sale. As of February 2023, the business has repurchased more than $17 billion of company shares - representing more than 30% of out-standing shares. Although the initial thesis has long been realized, the team remains bullish on our position in MPC. We anticipate disciplined capital spending will continue to reward shareholders.

NRG Energy (NYSE:NRG)

NRG Energy is a leading American integrated energy company that generates power and provides energy and related products to a wide variety of customers, primarily end-use customers in the residential, commercial, and industrial sectors. NRG's power generation business is powered through both fossil fuels and renewable sources. With over 30 facilities, the company generates more than 14 GW of power for 6 million customers. WIC initiated a position in NRG Energy in 2022. The company was in the midst of a fundamental shift away from wholesale generation, and towards a more lucrative retail customer strategy that we believed was unfairly pessimistic. Further, we believed their 2021 acquisition of Direct Energy would result in outsized growth through cross-sell opportunities. Since our investment, NRG Energy has begun growing the core business with existing customers through Direct Energy. We continue to hold our position as we believe the company will continue to deliver attractive cash flow growth into the future, and reward investors with dividends and buybacks.

Lundin Gold (TSX:LUG)

Lundin Gold is a gold mining company based in Vancouver and operates in Ecuador in South America. WIC invested in LUG in 2019 for portfolio diversification, reducing its previous allocation on oil and gas. Throughout the last twelve months, LUG's stock price rallied 70% to $17.18 CAD, attributing to mining operation recovery, gold price appreciation, and LUG's operational improvements, such as development of automated production at its Fruta del Norte mine. Concerns over inflation and rising interest rates rushed investors towards safer assets like gold, which increased Lundin Gold's revenue by 23% with stock price rising 60% within the later half of 2022. In early 2023, LUG's stock continued to rise by 24% due to gold production that reached all-time high of 140,021 ounces while lowering all-in sustaining costs by 7%. Moving forward, LUG plans to shift from open-pit mining towards more automated driven underground mining.

TECHNOLOGY, MEDIA & TELECOM.
INDUSTRY REVIEW

Opening Statement

The TMT sector suffered the most from the rising interest rate environment as the majority of sub-sectors significantly underperformed the broader market. As a result, several companies saw valuations halve and even fall below pre-COVID levels. Companies cited a plethora of reasons as to why they missed or slashed forecasts including: decreases in IT spending, lowered advertising and marketing budgets, chip shortages, currency headwinds, etc. These headwinds and many others not only affected companies in the public markets, but also delayed private companies from going public. Overall, WIC has maintained its exposure to the sector.

Key Industry Trends

The Generative AI

In November 2022, OpenAI, a non-profit AI research laboratory, released ChatGPT: an AI-powered chatbot built on OpenAI's GPT-3.5 foundational large language model. Almost immediately, a frenzy ensued. ChatGPT gained one million users in only five days as a result of the chatbot's ability to engage in human-like conversations while still possessing a vast degree of knowledge. Seeing this widespread adoption, other companies scrambled to release their own Generative AI-powered technologies – even if, like Google's Bard chatbot, they were not necessarily ready yet. GitHub, an online software repository company, for instance, released an AI-powered coding assistant called GitHub Copilot that can suggest blocks of code for programmers, demonstrating how Generative AI will revolutionize the creation of text, code, images, and videos. Every week since the initial release of ChatGPT, in fact, it seems like there are new innovations in the field including OpenAI's release of GPT-4 in March 2023, a significantly improved foundational large language model.

Moving forward, Generative AI stands to disrupt a wide variety of industries comprising billions of workers as it unlocks better, faster, and cheaper creation. While companies such as OpenAI benefit from a first-mover advantage that will only compound through a flywheel effect that involves increased user activity creating more data that enables better models, it will be interesting to see how other companies will leverage Generative AI to enhance their current products or create entirely new business models. While the Generative AI platform layer is still in its early stages, it is almost certain that the potential for significantly enhanced worker productivity and endless possibilities mean companies that do not embrace the Generative AI wave will be left behind.

Massive Tech Layoffs

2022 saw the tech industry suffering a significant wave of layoffs, with many prominent companies including Google, Amazon, and Meta announcing major cutbacks. There were an estimated 160,000 layoffs in 2022 – more than 2020 and 2021 combined – and 185,000 layoffs so far in 2023. The primary rationale was for tech companies to streamline their bloated operations and cut costs in the face of economic uncertainty. For years, low interest rates created an opportune environment for tech companies to raise capital easily and focus on boosting growth. This was heightened during the COVID-19 pandemic, where lockdowns caused an unprecedented surge in demand for e-commerce, remote work, and other technology. Amid record-high profits, technology companies started a hiring frenzy to meet demand. However, both trends reversed in 2022, with the lifting of COVID restrictions in a post-pandemic reality, and a hawkish series of interest rate hikes by the Federal Reserve to combat inflation. The uncertain macroeconomic environment and slowing revenue growth stemming from a mixture of inflation, fears of recession, continued supply chain issues, and geopolitical tensions caused tech companies and investors alike to favor layoffs as a method to cut expenses and focus on profitability.

Though this trend seems disheartening, there is a silver lining: they represent a relatively small percent of tech workforces in 2022 and 2023. Moreover, laid-off tech workers are quickly finding new employment – tech job postings rose to more than 315,000 in March 2023, up 38% from February, and laid-off employees were able to find a new job within an average of 2 months. While layoffs have slowed in recent months, experts predict that they are likely to continue for at least a few more quarters, as tech companies grapple with shifting market conditions and changes in demand.

TECHNOLOGY, MEDIA & TELECOM.
SELECT INVESTMENTS

Fiverr (NYSE:FVRR)

In March 2022, WIC initiated a position in Fiverr, a leading global marketplace for digital services that aggregates freelancers and businesses. The business primarily generates revenue from transaction-based fees, with newer revenue segments including Fiverr Learn and Fiverr Business. The team had conviction in the tailwinds for organic growth in the freelancing marketplace sector, Fiverr's two-sided aggregator model that provides a strong network effect, and a variant view on spend per buyer and take-rate growth as the company moved up-market and launched verticals with higher take-rates.

Over the past year, Fiverr stock fell 31% as it faced COVID-related hangovers and the tough macroeconomic environment led SMBs, its core customer group, to reduce spending. Despite these challenges, Fiverr's consistent operating cash flow generation points to its resilient business model. The team believes as macroeconomic headwinds lift and Fiverr continues to move up-market, it will reduce its overdependence on the SMB segment and position the business for a strong rebound.

Fortinet (NASDAQ:FTNT)

Fortinet is a leading cybersecurity solutions provider to a wide array of enterprises, governments, and other organizations. WIC invested in Fortinet in November 2020 as a result of the team's conviction in Fortinet's strong patent profile, forward thinking innovation, and resulting sustainable competitive advantage within the cybersecurity market.

This investment has played out favourably for the team, returning over 150% to date. Fortinet's continued above-industry growth and market share capture can be attributed to its first-mover advantage in the SD-WAN market, differentiated product suite, and industry-leading cost for performance. Moreover, Fortinet's recent earnings reports demonstrate its strength as a business and insulation from the broader economic slowdown as it continues to achieve a superior operating performance relative to competitors.

Lumen Technologies (NYSE:LUMN)

Lumen was formed through the $30B 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 enterprise customers. However, the merger became very messy from the onset with assets that didn't seem to fit well in the minds of shareholders. WIC invested in Lumen in early March 2021 with the belief that there was a misunderstood narrative around the business being in secular decline despite being layered on top of an enterprise-oriented business poised for growth.

Amid macroeconomic pressures including inflation and rising interest rates, Lumen's stock lost ground in conjunction with the broader market over the last year, dropping 76% over the past year. The company made a decision late in the year to suspend its dividend due to high levels of debt and the capital-intensive nature of the business, causing its share price to plummet. Despite this, WIC believes as macro-related headwinds taper off and as the enterprise business continues to grow in strength, there is room for price appreciation.

STAY IN TOUCH

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