TAMID Group at Michigan

PORTFOLIO MANAGEMENT COMMITTEE REPORT

FALL 2020

Equity and Portfolio Data as of January 7, 2020

TAMID GROUP
EXPERIENTIAL LEARNING THROUGH BUSINESS IN ISRAEL

Dear TAMID at Michigan Students, Alumni, Parents, and Friends,

Happy New Year!

Please see the inaugural TAMID Portfolio Management Committee (PMC) report below; we hope this newsletter will bring insight to all of you. For those unfamiliar with PMC, it is a group within the TAMID fund responsible for higher level management of TAMID's portfolio and includes senior industry desk heads and ourselves.

Our goal is to send these reports on a regular basis here on out. This first edition will cover all changes and initiatives implemented during the Fall 2020 semester. Specifically, we will discuss changes to our existing positions, any new positions we have acquired, and longer-term projects dealing with portfolio metrics and rebalancing. We will also offer an opinion on the current state of the market along with insights generated from PMC meetings.

Feel free to reach out should you have any questions, comments or concerns. Forever go blue!

Regards,

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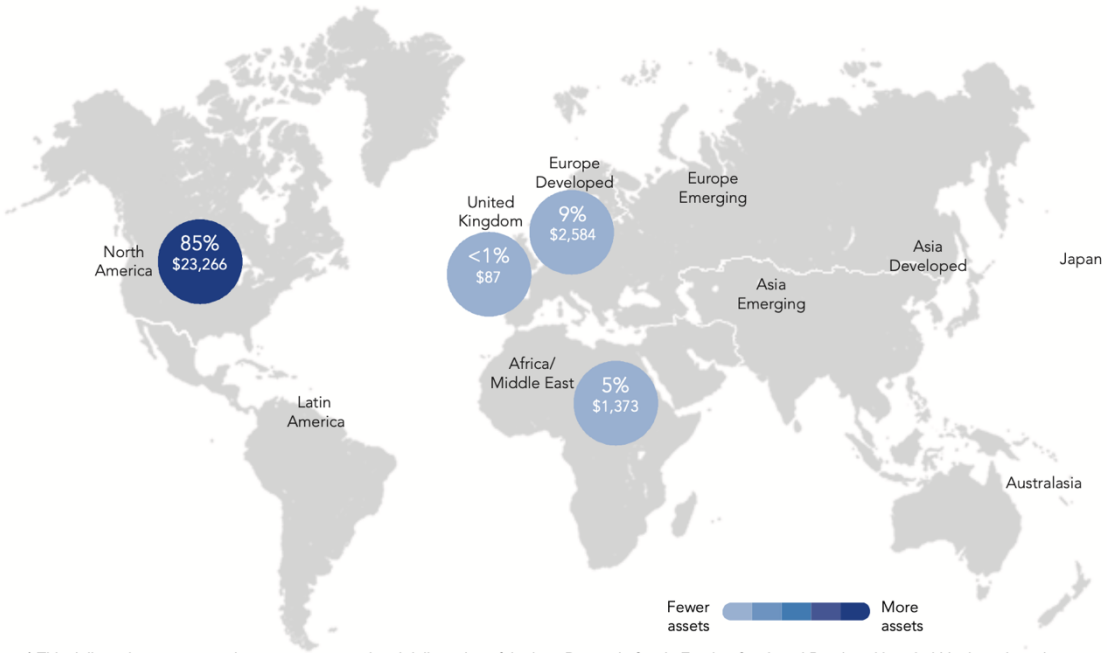
TAMID Group at Michigan Geographic Allocation and End of Semester Portfolio Summary



Summary Results (1)		
	Fall 2020	Difference
Russell 3000	14.75%	10.94%
S&P 500	11.47%	14.22%
NASDAQ	16.01%	9.68%
DOW JONES	9.85%	15.84%
TAMID	25.69%	--

Portfolio Composition by Sector	
Communication Services	Industrials
Consumer Discretionary	Information Technology
Consumer Staples	Materials
Financials	Real Estate
Health Care	Utilities

Equity Exposure Composition by Market Cap (2)	
	Percent of Portfolio
Large Cap	55%
Mid Cap	28%
Small Cap	17%
Total	100%

Equity Exposure Composition by Valuation	
	Percent of Portfolio
Value	9%
Blend	64%
Growth	27%
Total	100%

Holdings by Type	
	Net Portfolio
Equity	21
ETF	3
Total	24

Performance Metrics (3)		
	One Month	One Year
Sharpe Ratio	0.34	0.65
Sortino Ratio	2.52	3.56
Alpha	3.36%	11.59%

(1) Returns from Aug. 24, 2020 to Jan 8, 2021
(2) Large Cap >= $5bn; Mid Cap >= $1bn; Small Cap <$1bn
(3) Calculations made using LIBOR as risk free rates

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Recent Changes in our Equity Holdings

Introduction

Throughout the fall semester of 2020, the fund increased the portfolio's holdings in a multitude of industries: consumer staples/discretionary, healthcare, materials, utilities, renewables, and industrials, while trimming our holdings in the communications sector as well as in our holdings of market-wide ETFs (VOO).

Ulta Beauty, Inc. (ULTA) — Buy

In the consumer discretionary sector, we purchased Ulta Beauty (ULTA). Ulta Beauty is a one-stop shop for premier beauty products, private label products, and personal beauty care. We believe Ulta's strategic real-estate expansion/renovation and enticing rewards programs will position the beauty giant to continue its dominance in the market in the near future as well as in the long term. Even amid COVID-19, the combination of Ulta's immense cash holdings and focus on improving its direct-to-consumer e-commerce platform will allow it to outlast smaller competitors and increase its market share in the near future.

Intuitive Surgical, Inc. (ISRG) — Buy

Intuitive Surgical Inc. develops, manufactures, and markets robotic solutions for minimally invasive surgeries. Intuitive Surgical currently boasts a 38% market share in the robotic surgery equipment manufacturing industry. The company's exclusive joint ventures provide it with much needed raw materials and manufacturing capabilities necessary to build these complex surgical solutions. One of Intuitive Surgical's joint venture partners, Fosun Pharma- a Chinese company affiliated with the CCP, solely distributes ISRG products to the Chinese market, creating high barriers to entry for competitors. Additionally, better classification systems for robotic medical devices through eventual government regulation will likely increase acceptances of these products in smaller hospitals. This will allow the ISRG to increase unit sales through a leasing framework which will further stimulate steady and continued revenues.

Albemarle Corp. (ALB) — Buy

Albemarle is heavily involved in lithium mining and has oil & gas exposure as well. In the near future, we expect lithium prices to increase due to the recent increased environmental focuses. Lithium mining is key to the production of lithium-ion batteries which are the most common type of battery used in the electric vehicle industry, an industry poised for sustained growth. Knowing this, it is important to recognize that Albemarle currently operates the only lithium mine in North America, giving it a considerable edge in supplying lithium to North American companies creating electric-powered products. Additionally, we believe that oil and gas prices will begin to normalize as the economy slowly recovers to pre-pandemic levels. As these two factors will largely affect ALB's margins and profits, we feel that ALB is a relatively safe long-term investment with profitable upside.

XPO Logistics, Inc. (XPO) — Buy

XPO Logistics is a global provider of supply chain solutions, including transportation and logistics services. Within the context of e-commerce expansion, supply chain efficiency has become increasingly important in the success and profitability of companies across every industry. We believe that XPO's proprietary logistics management software and packaging delivery algorithms will be integral to the future of transportation and logistics as many companies focus on supply chain reorganization in the upcoming years.

Ormat Technologies, Inc. (ORA) — Buy

Ormat is the third largest geothermal energy producer in the US and is the only vertically integrated company in the industry. We believe the relatively untapped geothermal industry is poised for growth in the near future, especially under the Biden administration. Ormat's proprietary technology, recent expansion, and vertical integration will allow them to maintain market share in the near term, while the long-term growth of the geothermal industry will boost future profits.

Ericsson (ERIC) — Buy

Ericsson is a Swedish multinational networking and telecommunications company that provides connectivity solutions through data networks. Ericsson's current focus is on the world of 5G, of which they have established 97 commercial agreements across the world. We believe that Ericsson is poised for success due to the worldwide transition to 5G networks along with the lack of trust major countries have with their largest competitor, Huawei. By developing partnerships with key countries as 5G networks begin to enter the mainstream market, Ericsson will be one step ahead of its competitors as the world begins to rely on 5G networks in the near future.

Zoetis, Inc. (ZTS) — Trim Position

We trimmed our exposure to Zoetis by 36% on Nov. 3rd; this move allowed us to realize gains of 63% on the shares sold. With the decision to buy Intuitive Surgical, our portfolio became over-exposed to the healthcare sector. The choice to trim Zoetis rather than Roche Holdings (another healthcare position) was because nearly 7% of our portfolio was allocated to Zoetis, exceeding the desired allocation laid out in the 2020 PMC Investment Policy Statement (IPS).

Roku, Inc. (ROKU) — Trim Position

We sold 50% of our holdings in Roku in two rounds of selloffs this semester; we sold 25% on Nov. 3rd and another 25% on Dec 9th for an average realized gain of 101.9%. Though Roku is still one of our top performing holdings, its weight in the portfolio was nearing 10% which was the maximum accepted weight in the IPS, hence we cut the initial 25%. The second 25% cut came after the PMC's decision to acquire a stake in Ericsson, another company in the communication services sector. Since the TAMID portfolio is overweight in communication services, we needed to reduce our exposure in other holdings to make room for our allocation to Ericsson.

Heico Corp. (HEI) — Trim Position

On Nov. 11th, we cut our position in HEI by 33%. This sale locked in realized gains of 369.1%. The decisions to trim HEI were two-fold. Firstly, Heico's rally over the past three years caused it to account for approximately 8% of our portfolio. As mentioned with ROKU, once an equity accounts for 7%-10% of the portfolio, PMC chooses to trim its position. Secondly, after three years of holding HEI, the original thesis points driving the choice to initially buy the stock have mostly expired.

Lions Gate Entertainment Corp. (LGF.A) — Trim Position

We sold nearly 35% of our holdings in LGF.A on Dec 9th; this sale resulted in a realized gain of 67.9%. The decision to sell this position was made in tandem with the second round of ROKU trimming to allow for communication services allocation towards Ericsson. Since LGF.A has a relatively low absolute share price ($9.43), PMC decided we could sell holdings in LGF.A to more acutely lessen our exposure to communication services as opposed to selling off additional shares of ROKU which trade at $329.48 per share.

Hill-Rom Holdings, Inc. (HRC) — Sell

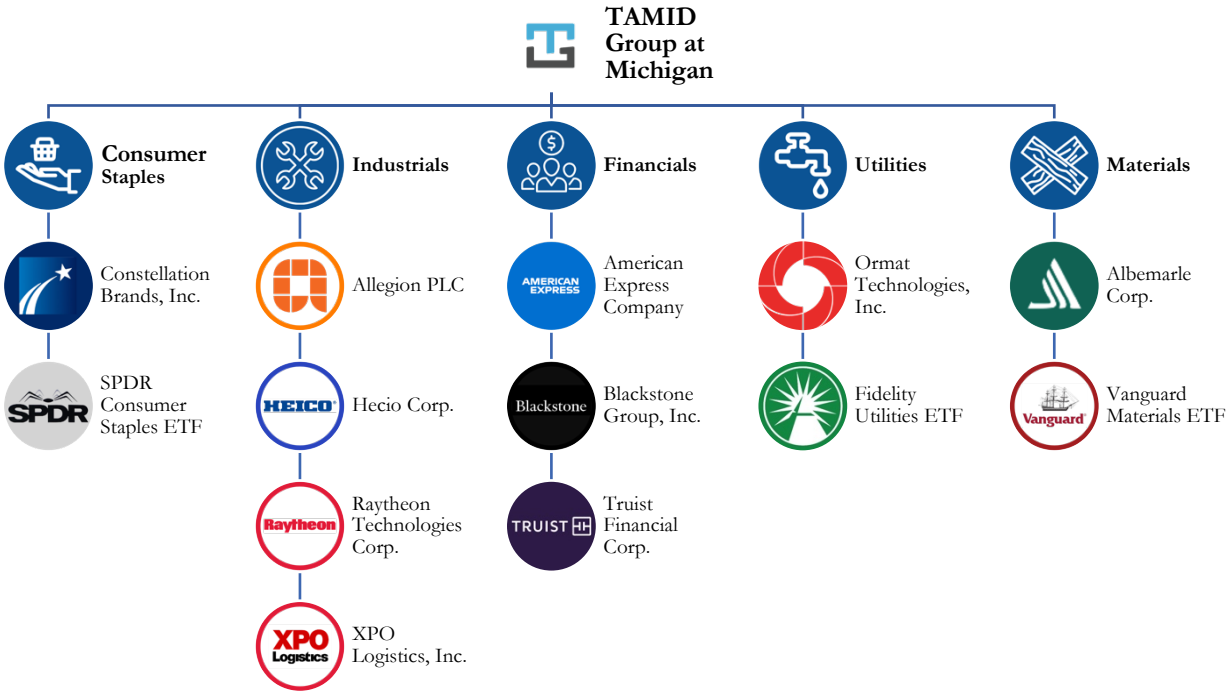
We sold our entire position in Hill-Rom on Oct. 27th for a loss of 16.5%. The decision to sell Hill-Rom was due in part to PMC's decision to buy ULTA, ISRG, and ALB, all of which we believe hold greater potential for upside. Looking back at the original thesis points for buying HRC, members of the PMC noted that most of the supporting factors revolved around pre-crisis demand for hospital beds and related equipment, a driver that is effectively null at this point in time. Additional factors at play in choosing Hill-Rom included its lackluster performance over the past quarter followed by a near 14% recovery from September lows. Furthermore, the portfolio was overweight in healthcare, hence we needed to sell-off some holdings to make room for ISRG.

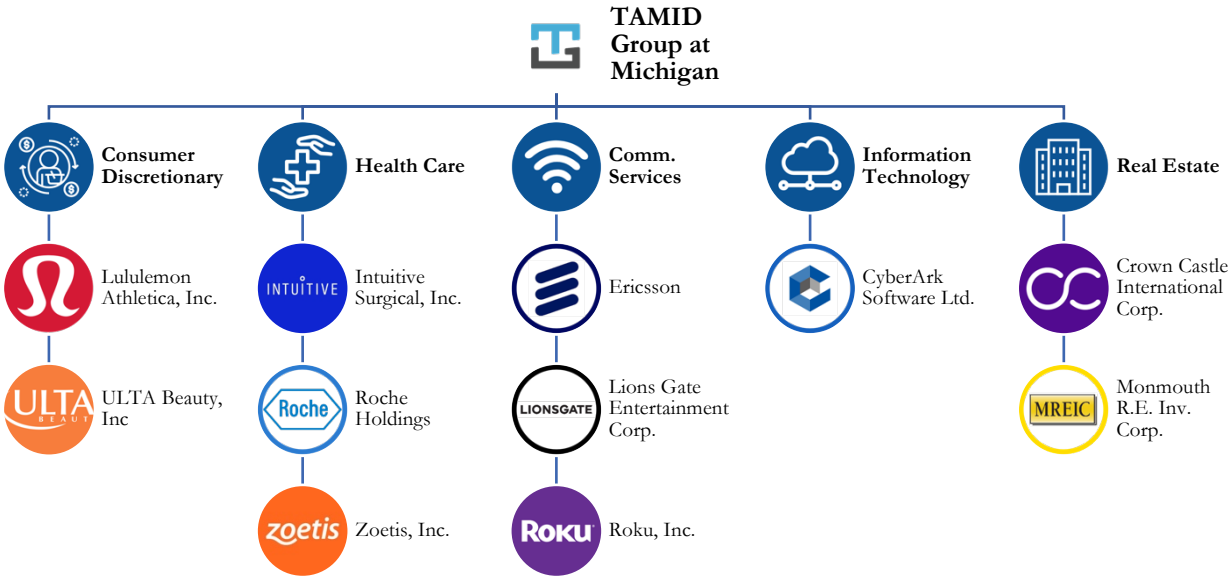
Portfolio Overview

Summary of Holdings

Company	Ticker	Quantity (Shares)
Fidelity Money Market (Cash)	SPAXX	2070
Albemarle Corp.	ALB	11
Allegion PLC	ALLE	7
American Express Company	AXP	6
Blackstone Group, Inc.	BX	21
Crown Castle International Corp.	CCI	6
CyberArk Software Ltd.	CYBR	9
Fidelity MSCI Utilities Index ETF	FUTY	29
Ericsson	ERIC	80
Heico Corp.	HEI	15
Intuitive Surgical, Inc.	ISRG	2
Lions Gate Entertainment Corp.	LGF.A	130
Lululemon Athletica, Inc.	LULU	4
Monmouth R.E. Inv. Corp.	MNR	67
Ormat Technologies, Inc.	ORA	9
Roche Holdings	RHHBY	18
Roku, Inc.	ROKU	6
Raytheon Technologies Corp.	RTX	7
Constellation Brands, Inc.	STZ	4
Truist Financial Corp.	TFC	12
Ulta Beauty, Inc.	ULTA	4
Vanguard Materials Index Fund ETF	VAW	4
Consumer Staples Select Sector SPDR Fund	XLP	25
XPO Logistics, Inc.	XPO	10

Holdings by Sector





Holdings By Portfolio Weight

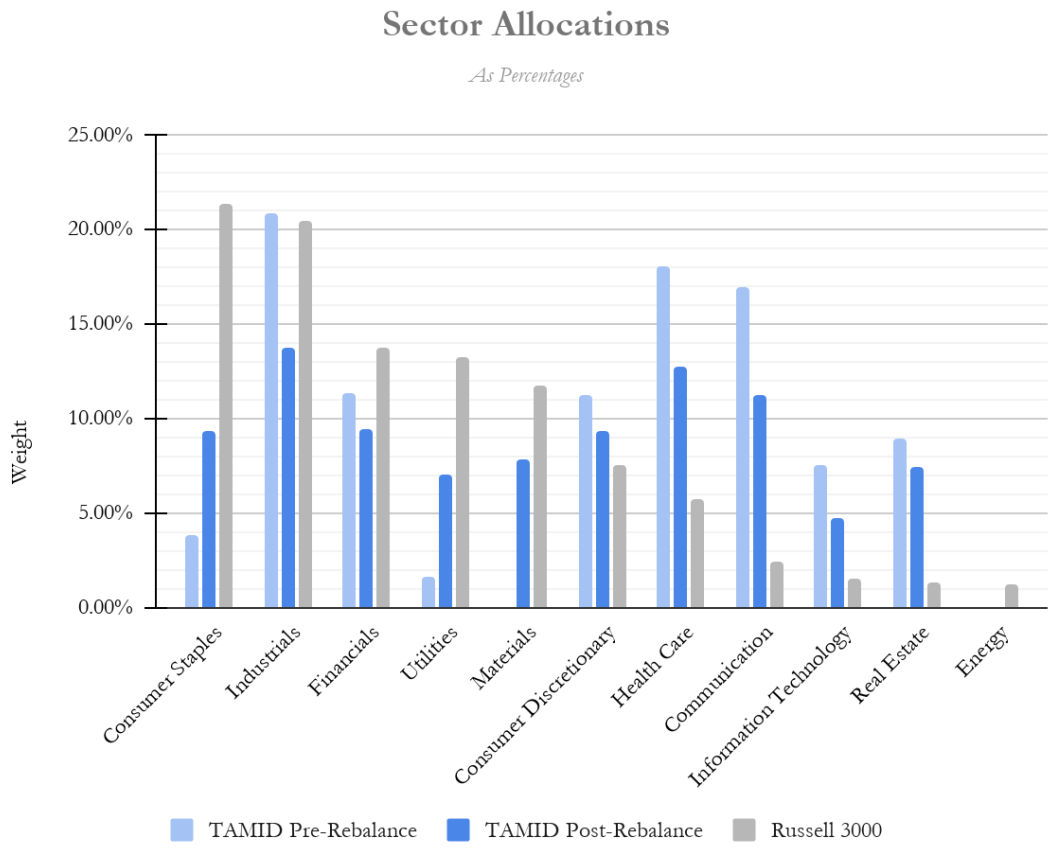
Company	Ticker	Weight
Consumer Staples Select Sector SPDR Fund	XLP	6.19%
Intuitive Surgical, Inc.	ISRG	5.63%
Albemarle Corp.	ALB	5.49%
Lululemon Athletica, Inc.	LULU	5.34%
Blackstone Group, Inc.	BX	5.01%
HEICO Corp.	HEI	4.87%
Roku, Inc.	ROKU	4.79%
XPO Logistics, Inc.	XPO	4.41%
Fidelity MSCI Utilities ETF	FUTY	4.30%
Monmouth R.E. Inv. Corp.	MNR	4.21%
Zoetis, Inc.	ZTS	4.13%
Ulta Beauty, Inc.	ULTA	3.97%
CyberArk Software Ltd.	CYBR	3.94%
Ericsson	ERIC	3.50%
Crown Castle International Corp.	CCI	3.40%
Constellation Brands, Inc.	STZ	3.16%
Roche Holdings	RHHBY	2.88%
Lions Gate Entertainment Corp.	LGF.A	2.87%
Allegion PLC	ALLE	2.86%
Ormat Technologies, Inc.	ORA	2.67%
American Express Company	AXP	2.62%
Vanguard Materials ETF	VAW	2.27%
Truist Financial Corp.	TFC	2.08%
Raytheon Technologies Corp.	RTX	1.81%
Total (Equities)		**92.39%**
+ Cash		7.61%
Total (Portfolio)		**100.00%**

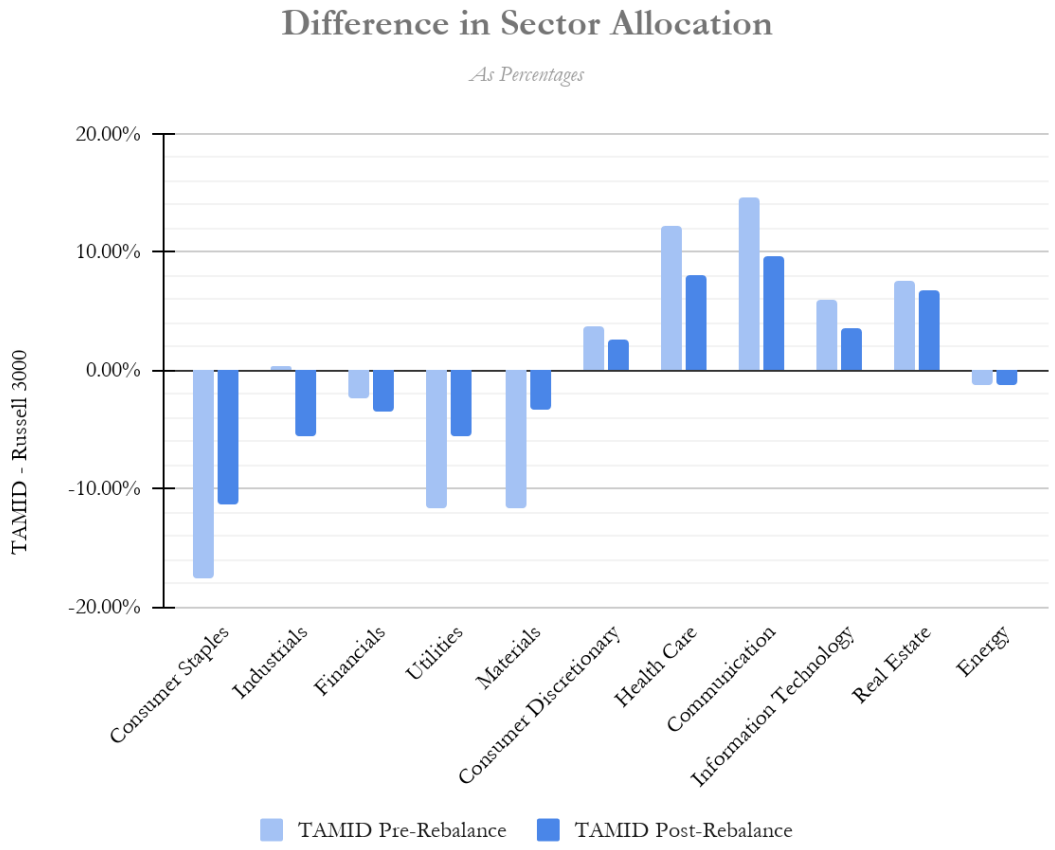
Benchmarking Update

One of the PMCs goals for this year was to more closely track and develop our portfolio around the Russell 3000. The Russell 3000 is a capitalization-weighted stock market index, maintained by FTSE Russell, that seeks to be a benchmark of the entire U.S stock market. After taking a look at the breakdown of the Russell by sector weight, we compared this to our portfolio.

Though we are aiming to benchmark against the Russell 3000, PMC has elected to practice an overweight/underweight strategy where we selectively increase our exposure to sectors for which we are more bullish. In consideration of future additions to our portfolio, we will consider our exposure to certain sectors in addition to the validity of the thesis of the individual stock being pitched.

Please see the below charts for the sector breakdown of the Russell and the breakdown of our portfolio before any changes were made. We have also included a comparison table demonstrating the difference between each sector by weight in our portfolio and the Russell 3000.





As seen in the chart above, TAMID is within a few basis points of Russell allocation in almost all sectors. Prior to our rebalancing efforts, the TAMID portfolio was most underweight in consumer staples, utilities, and materials. To remedy this, we added positions in ETFs covering those sectors to increase our exposure to more defensive names and diversify away from technology companies which have outperformed over the past year. We have also trimmed positions in healthcare and communication services to more closely model Russell 3000 sector allocation. As of now, TAMID is most over exposed to communication services, healthcare, and real estate and under exposed to consumer staples, industrials, and utilities.

Overview of ETF Allocations

Consumer Staples Select Sector SPDR Fund (XLP) — Buy

We preferred XLP given that it is the largest ETF covering consumer staples and had the most balanced allocation of positions. The top four individual positions are Procter & Gamble, Walmart, PepsiCo, and Coca-Cola.

Vanguard Materials ETF (VAW) — Buy

VAW gives us broad exposure to the materials sector. We liked the fact that it was a mid-blend ETF and had more balanced weighting of large and mid-cap positions within the index. The top holdings are Linde PLC, Air Products & Chemicals, Sherwin-Williams, and Ecolab.

Fidelity MSCI Utilities ETF (FUTY) — Increase Position

Though we already held a position in FUTY, we increased our exposure to utilities to more closely balance our sector allocations to that of the Russell 3000. The top individual positions within FUTY are NextEra Energy, Duke Energy, Dominion Energy, and Southern Co.

Vanguard 500 ETF (VOO) — Sold

Given the overarching change to our portfolio indexing strategy, we decided that we should sell VOO as it only gave us broad exposure to the market as a whole rather than individual sector exposure. We now seek to look at our positions on a more specific, sector basis. Selling our position in VOO enabled us to allocate cash to the aforementioned ETFs.

Risk Metrics

Portfolio Statistics			
	One Week	**One Month**	**One Year**
Sharpe Ratio	-0.03	0.34	0.65
Sortino Ratio	1.26	2.52	3.56
Alpha	2.93%	3.36%	11.59%

*Risk-free rates utilized are the 52-week LIBOR high

The table above provides a synopsis of standard portfolio risk metrics that most hedge funds track. The numbers and percentages listed are the values calculated for the Michigan TAMID Portfolio as of late November 2020. In the next issue of this report, we will provide a more transparent look at how we arrived at these numbers. A brief summary of each metric is included below as well as link to further reading for those interested in learning more about these metrics.

Sharpe Ratio

The Sharpe Ratio is a metric used to quantify a portfolio's return relative to the risk taken in positions. It is calculated by taking the excess return of the portfolio less the risk-free rate divided by the standard deviation of individual asset returns within the portfolio. Investment managers target a ratio greater than 1.0. For further information on this risk metric and its usage, click here.

Sortino Ratio

The Sortino Ratio is similar to the Sharpe Ratio, however it measures total return against the downside return of a portfolio's holdings. One can calculate a portfolio's Sortino Ratio by taking the total return less the risk-free rate and then dividing by the standard deviation of all negative asset returns within the portfolio. For further information on this risk metric and its usage, click here.

Alpha

A portfolio's Alpha is used to determine how much a portfolio is beating the market, however it is not as simple as taking the portfolio return less the market return over a set time period. Alpha is calculated by taking the total portfolio return less the risk-free rate minus the portfolio beta multiplied by a benchmark return (in TAMID's case the Russell 3000) less the risk-free rate. For further information on this risk metric and its usage, click here.

Key Risk Metric Takeaways

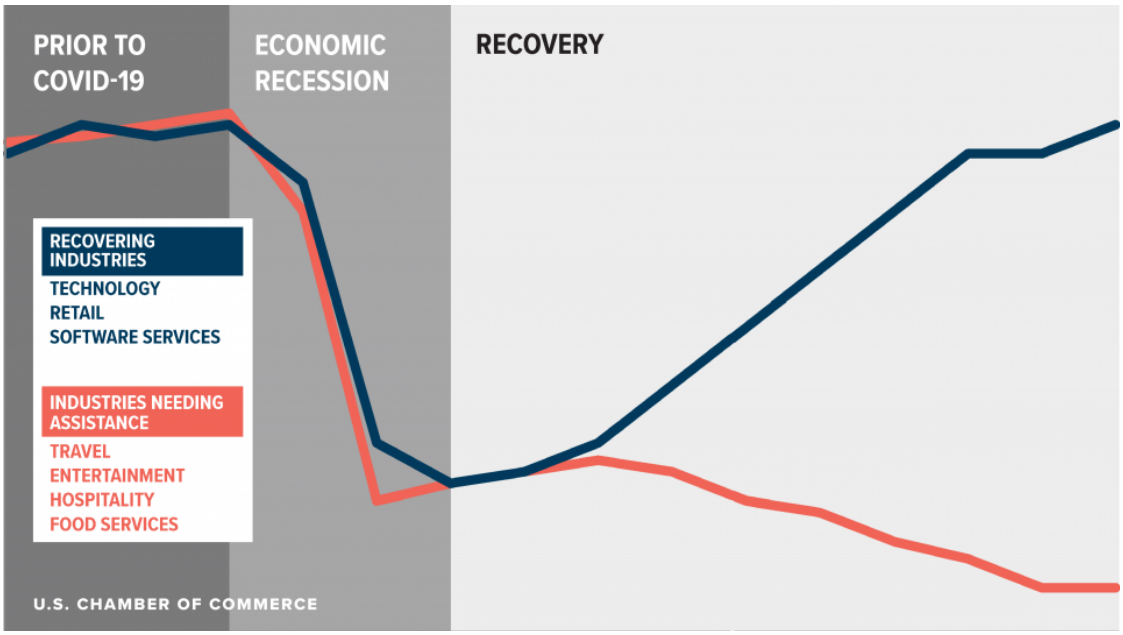
As the Sharpe Ratios indicate, the TAMID portfolio's returns do not make up for the risk taken on. The Sortino Ratios paint a different picture, however, as they only take into account the downside risk (or bad risk) when determining a standard deviation of return by which to divide. When analyzing risk-adjusted returns using the Sortino Ratios, TAMID is performing very well as our return is 1.26-3.56x that of our downside standard deviation. This coupled with our positive alpha shows that our fund is not only generating solid returns relative to our risk but is also beating the Russell 3000.

Market Outlook & Future Plans

Current Opinion on State of the Market

This year was particularly unprecedented and challenging in many ways, yet the market has demonstrated tremendous resiliency with many of the major indices recently surpassing pre-COVID levels. Despite businesses around the country shuttering for a number of months and COVID cases on the rise yet again, the market is showing no signs of slowing. This has been partly due to the tremendous stimulus injected into the economy by Congress and the Federal Reserve's decision to hold interest rates near zero and maintain the current pace and composition of its asset purchases.

Many experts suggest a rather K-Shaped economic recovery where the wealthy are recovering much faster than those who are lower-earners. That is to say the market's performance is not as reflective of the overall state of the economy from a main street perspective. It has largely been the case where industries like technology, retail, and software services have for the most part recovered and have begun rehiring, while travel, entertainment, hospitality, and food services have continued to struggle. Many of these sectors are also weighed down by fears of a debt-overhang. Recently, however, speculation surrounding the vaccine rollout has lifted these stocks as well.



K-Shaped Economic Recovery

Now that we have results from the 2020 elections, it is important to think about the impact of these events from an economic perspective. With Joe Biden in the White House and the democrats controlling both the House and the Senate, we should expect to see more progressive policy passed including additional economic stimulus. However, with such thin majorities in the Senate, and the House, many political analysts say that Biden and Democratic lawmakers will still face scrutiny when trying to pass Biden's bold tax and spending plans. Republicans will still be able to block any bill in the Senate with 40 votes and Democrats will likely fall short of the 60 votes needed to pass significant legislation. All that said, Biden and his party have a number of ways of getting around this such as through a process known as reconciliation allowing the Senate to pass a tax and spending bill with a simple majority, but only once a year. Nevertheless, the Biden administration is expected to pass additional stimulus on top of the $908 billion relief package that congress recently passed. Beyond the $600 check sent to most Americans earlier this month, a democratic controlled Senate led by Chuck Schumer will likely try to send most Americans an additional $1,400 bringing total stimulus to $2000 per eligible American.

Longer term, President Elect Biden is proposing $7.3 trillion in new spending over 10 years, including upgrading the nation's crumbling infrastructure, building a clean energy economy, investing in the manufacturing sector, ensuring the government and its contractors buy American products, providing tuition-free community college, providing aid for Americans to buy or rent homes, and more. To pay for all of this, Biden intends to close tax loopholes for individuals and increase the corporate tax rate from 21% to 28% and tax capital gains and dividends at ordinary rates for incomes above $1 million. Though corporations and individuals are likely to face push back, given how much money has been injected into the economy, we still think there is a lot of money to be made in the markets.

On another note, one interesting thought to reflect upon is the recent popularization of price momentum investing strategies over the past few decades. Cyclicals and small caps have outperformed significantly, especially since the vaccines were announced, and as a result they are now starting to occupy more of the top quintile of 12-month price momentum. This is a key trigger for many passive and systematic strategies to shift their assets. Given the fact that the first quarter of this year is when small caps and cyclicals underperform the most, it is likely that the 12-month price momentum will only increase for these factors over the next number of months. Perhaps it is time for investors to start thinking about getting ahead of this shift before it happens. In terms of sector performance, this

shift and trend would favor financials, energy and capital goods. Losers would likely be defensive sectors like utilities and consumer staples, with the impacts expanding to mega cap technology, communications services, and consumer discretionary. Interestingly, since the end of August, the largest five stocks in the S&P 500 have underperformed by close to 10 percentage points.

Future Plans

With such unprecedented volatility in the market, the role of the PMC is arguably more pressing now than ever before. We will continue to diligently evaluate our current holdings and all proposed additions to the portfolio on a weekly basis. Each new pitch will be analyzed based on its validity and thesis and fit within the overall needs of the portfolio. We hope to continue sending out these newsletters on a regular basis to keep the fund at large as informed as possible. If you have any recommendations, questions, or concerns feel free to reach out to any contact in our opening remarks.