2022

2022 Crummer SunTrust Portfolio Recommendations: Crummer Investment Management 23rd Anniversary

Jason Philips
Rollins College

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Denis Golubev
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Connor Jensen
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Kovi Katz
Rollins College

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Crummer Investment Management

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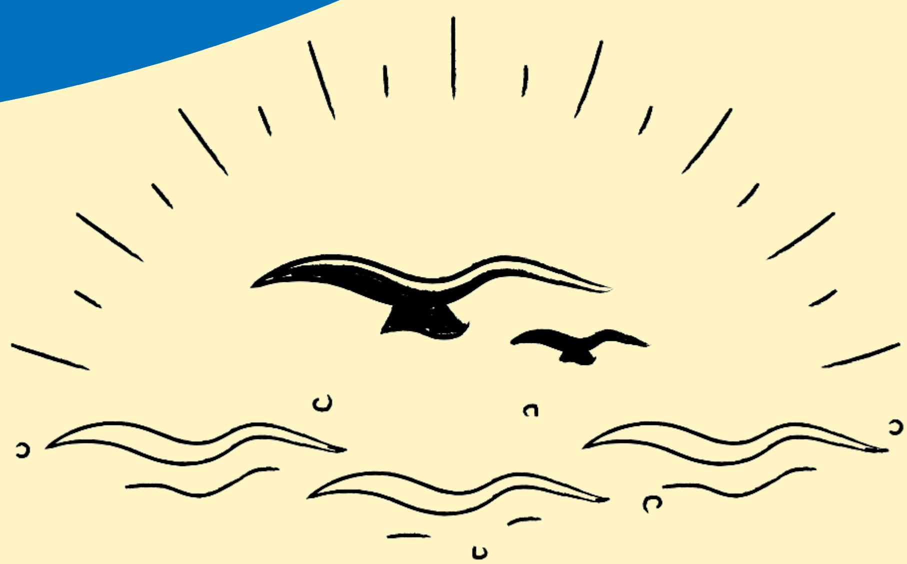


Crummer

Graduate School of Business
Rollins College

Introduction

We would like to thank you for your service to the Crummer SunTrust Portfolio. Without your participation, Crummer students would not benefit from the unique insight you bring to managing an active portfolio.

We have been fortunate to listen and learn from some outstanding guest speakers who have been generous with their time and expertise: Phillip Rich, Chief Investment Officer, Seaside Bank; James Ferrell, Equity Research Associate, Cowen and Company; Gerardo Abril, Manager, SeaWorld Parks & Entertainment; Robert Zhang, Senior Research Analyst, DePrince, Race and Zollo; Dr. William Seyfried, Professor, Crummer Graduate School of Business; Marc Miller, Partner, DePrince, Race and Zollo; Rick Ahl, President, Ahl Investment Management; Jay Menozzi, Principal and Chief Investment Officer, Orange Investment Advisors, LLC; Dr. Rob Roy, Senior VP and Chief Investment Officer, AdventHealth; Alexis Callahan, Vice President for Investor Relations, Tupperware Brands; Deryck Harmer, Managing Partner and Founder, Springlake Partners.

SunTrust (now Truist) endowed this portfolio to provide scholarships for future Crummer students and to give current students a practical, hands-on learning opportunity. This year, we are pleased to be able to disburse $55,000 to be used for scholarships. We are extremely grateful for SunTrust's generosity and investment in higher education. We have all learned a great deal from this experience and the responsibility of managing real money.

Our first challenge is to establish a portfolio position that takes advantage of economic opportunities while avoiding unnecessary risk and conforming to the Crummer SunTrust Investment Policy Statement (IPS). We are also tasked by the IPS to operate at two levels simultaneously – tactical for the near term, and strategic for the long run. Additionally, this portfolio presents some unusual portfolio management challenges by trading only once a year, in early April.

Our tactical approach began with a top-down sector analysis. We established an economic forecast based on research and consultation with economists, including Professor William Seyfried of the Crummer School and Philip Rich of Seaside Bank. We based our equity and fixed income split on that forecast with a modest allocation to bonds of 10%. That forecast also drove our allocation among the eleven S&P sectors: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Healthcare, Industrials, Information Technology, Materials, Real Estate, and Utilities. This year, we forecast moderated but strong economic growth amid inflationary pressures within the next twelve-month period and we tilted the allocation towards sectors that should do well in such a macro environment while paying attention to post-pandemic dynamics and the war in Ukraine.

Our asset class allocation embodies the long-run strategy of our portfolio. The IPS sets asset class ranges from low to moderate risk to keep the portfolio from being whipsawed by transitory market cycles. Our equity allocations entail a reasonable level of risk, consistent with our view that the stock market will relatively outperform the fixed income market as the interest rates are expected to rise between now and March 2023. We maintain an allocation to a sector ETF in each sector to ensure diversification. Due to enrollment constraints, we actively manage only five sectors this year with a limit of two individual stocks in each sector. The remaining sectors are invested 100% in their sector ETF. Fixed income is our anchor sector, providing a hedge against the risk of an economic slowdown adversely impacting our equity holdings. Consistent with our upward shifting yield curve projection, we are at the low end of our IPS range for fixed income at 10%, which is the same as last year's and slightly higher than the 9.6% market position on February 28, 2022.

Furthermore, we have continued to incorporate the theme of Environmental, Social, and Governance (ESG) investing into our portfolio selection process. Whether you believe a high ESG rating signals a company's prospects or that ESG ratings are a popularity contest, the ESG wave is sweeping the equity markets. Regardless of a security's consistency with this theme, all recommendations must be undervalued after rigorous quantitative and qualitative analysis. In other words, our intent is not to maximize the ESG impact of our portfolio but to tilt towards this factor. Specifically, the proposed equity holdings in this year's portfolio have a weighted average FTSE ESG score of 3.38 out of 5, while S&P 500 holdings have a cap-weighted average score of 3.19.

Since the onset of the COVID-19 pandemic, we have witnessed two extraordinary and unpredictable years in many respects. Inflation levels that have not been seen in the past 40 years, supply chain problems, and the Russian-Ukrainian war all have contributed to an increased uncertainty. We do not intend to simply follow the crowd. Yet, echoing the philosophy of Warren Buffett, "our opinions and beliefs, grounded in economics and guided by all of those who have counseled us," lead us to a strategy that is not significantly different from many investors. Even so, we accept responsibility for our investment decisions. We are investing for the long-term and we have been conservative in our forecasts and recommendations. Simultaneously, in the short term, we are mindful of the need to protect the portfolio's commitment to scholarships.

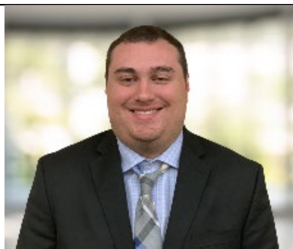
We thank you for your time and participation in this important endeavor.

Sincerely,

Crummer Investment Management Team

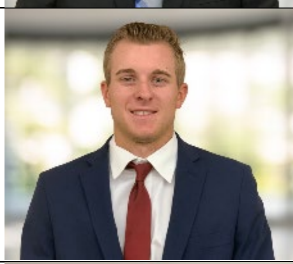
From left to right: Kovi Katz, Michael Capra, Connor Jensen, Denis Golubev, Jason Phillips, Dr. Koray Simsek

Crummer Investment Management Team



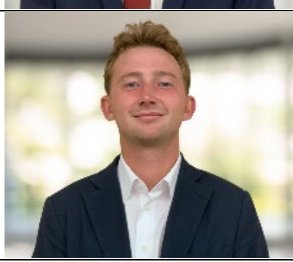
Jason Phillips | Communication Services

Jason Phillips is an MBA candidate at the Crummer School of Business in Winter Park, Florida. He received his BBA in Accounting with a minor in Finance from Manhattan College in May of 2020. Originally from Buffalo, NY, he enjoys playing golf and watching the Bills and Sabres in his free time.



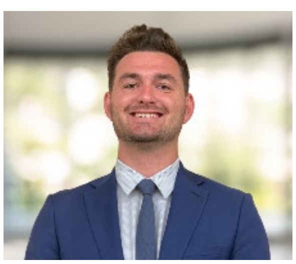
Michael Capra | Consumer Discretionary

Michael Capra graduated from Rollins College in 2021 with a B.A. in Economics. He is expected to earn his MBA in May with a concentration in Finance. After graduation, he plans to pursue a career in the investment industry.



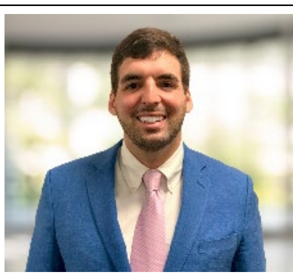
Denis Golubev | Financials

Denis Golubev graduated from SAA School of Management, Turin, Italy in 2020 with a B.A in Business and Management. He is expecting to complete his MBA in May 2022 with a concentration in Finance. With experience in IT and Private Equity sectors, after graduation, he plans to pursue a career in wealth and portfolio management.



Connor Jensen | Healthcare

Connor Jensen graduated from Rollins College in 2020 with a B.A. in Business Management. He is expected to earn his MBA with a concentration in Finance in May. He has had previous internships in investment banking and cybersecurity while obtaining his MBA. He will be working as an Equity Research Associate for Lake Street Capital Markets post-graduation.



Kovi Katz | Information Technology

Kovi Katz graduated Summa Cum Laude with his B.S. from the University of Central Florida's Rosen College of Hospitality Management and is expected to graduate with his MBA specialized in Finance in May 2022. With a strong background in operations management and marketing, he intends on switching gears pursuing financial analyst roles post-graduation.

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Economic Outlook

Introduction

The Crummer Investment Management team has the responsibility of managing the Crummer SunTrust Portfolio. Our mandate is to make appropriate investment recommendations guided by the Portfolio's investment policy statement. Our goal is and always will be to generate long-term growth to support annual contributions to Crummer's scholarship program. The economic decline during the COVID-19 pandemic appears to be behind us as we look towards businesses recovering. We expect the effects of the aggressive monetary policy by the Federal Reserve last year will play a major role into this year, however, we expect recovery and project strong (but moderated) economic growth in the next twelve months. We kept a close eye on 2021's economic performance, studied economic indicators, and gathered information to reach a favorable 2022 economic outlook.

Our investment decisions were discussed in-depth with industry experts and highly-regarded economic analysts. After our many discussions, we developed a consensus outlook for the investment environment in the next twelve months. The current environment in conjunction with a forward-looking outlook influenced our portfolio design and the selection of our recommended securities. We are a risk-averse investment team that believes in the value of investing in socially responsible companies. Our strategy was to find significantly undervalued securities when compared to market value, while also carrying a relatively favorable Environmental, Social, and Governance (ESG) outlook.

Economic Thesis

As COVID-19 complications finally begin to subside, the US economy will continue to move towards its pre-pandemic levels in 2022. However, this is not without increased risks due to the Russia-Ukraine conflict and continued upward pressures on prices. We expect a positive GDP growth combined with slight drop in unemployment, which will provide favorable conditions for the US equities market. However, the excess liquidity is still present in the money supply following the aggressive monetary policy during COVID-19, which will linger into the end of 2022. Due to these conditions, we expect that the Fed will not be able to meet their long-run inflation goal and we will see a prolonged inflationary period this year.

GDP

In 2021, the United States GDP increased by 5.7% as businesses and supply chains began to recover in this phase of the COVID-19 pandemic. Since most businesses began running under normal operations and with the majority of Americans being able to receive vaccines and boosters, the growth should continue. Our team projects a real GDP growth of 3.00% to 3.25% in 2022 as the economy begins to return to pre-pandemic levels. However, with the stimulus efforts winding down, the GDP growth should underperform the rapid growth of the previous year.

Unemployment

Last year, the unemployment rate was able to recover from the sharp job losses of service workers during the COVID-19 pandemic. Currently, the unemployment rate sits at 4.0%, slightly above pre-pandemic levels. We project this hiring trend will continue as companies are desperate for employees and increasing wages and benefits to attract new talent. This will cause voluntary unemployment to decrease as people once again feel safe and adequately compensated in the workplace. We have set a target of 3.8% for unemployment rate at the end of 2022.

Inflation

A surge in inflation during 2021 was triggered by a variety of factors including the increase in the US money supply from government stimulus efforts and monetary policies. This rise in the money supply combined with supply chain backups caused people to chase too few goods and put upward pressure on prices. Last year's overall inflation rate (CPI) came in at 7.0% with 5.5% for the core inflation. With COVID-19 supply chain issues and closures finally subsiding, the Federal Reserve should look to substantially tighten its monetary policy in 2022. Our team believes the Fed will tap the breaks and slowly raise rates rather than slamming on the breaks with COVID-19 and the Russian-Ukrainian conflict lingering. We project an inflation rate of 5.5% and core inflation of 4.5%.

Interest Rates

The US Fed funds rate currently sits at an effective rate of 0% as the country was coming back from its brief recession. However, there is unanimous consensus that the Federal Reserve will look to raise rates this year to curb inflation, the question is how much. We project a 125-150 basis point hike during 2022 as the Fed takes a gradual approach. This should reduce demand enough for the prices to begin to recover, however, it will be a slow process. The 10-year rate will be slightly harder to move and going above 3% would be detrimental to the housing and car industries so we expect the Fed to ease off before that happens. We predict an increase in the 10-year rate to the level of 2.5% by the end of 2022, which will cause the yield curve slope to become slightly flatter.

Fixed Income

The projected economic outlook in 2022 supports the Crummer Investment Management team's decision to allocate 10% to fixed income securities. The combined effect of a moderately strong GDP growth and an upward shift in the yield curve would lead to a relatively underperforming fixed inform portfolio. We believe that the lower end of the permissible range, 10%, as outlined in the IPS, would be the appropriate choice for the fixed income allocation.

Market Outlook

As the United States finally looks to be moving on from the harsh effects of COVID-19 the country will begin to recover but not without some new challenges. Uncertainties in the Russia-Ukraine conflict will tighten utility and commodities prices and spillover effects from the previous year's fiscal and monetary policies during the pandemic will keep inflation lingering. Due to these elevated risks, we have developed conservative estimates about next twelve-month period's market potential.

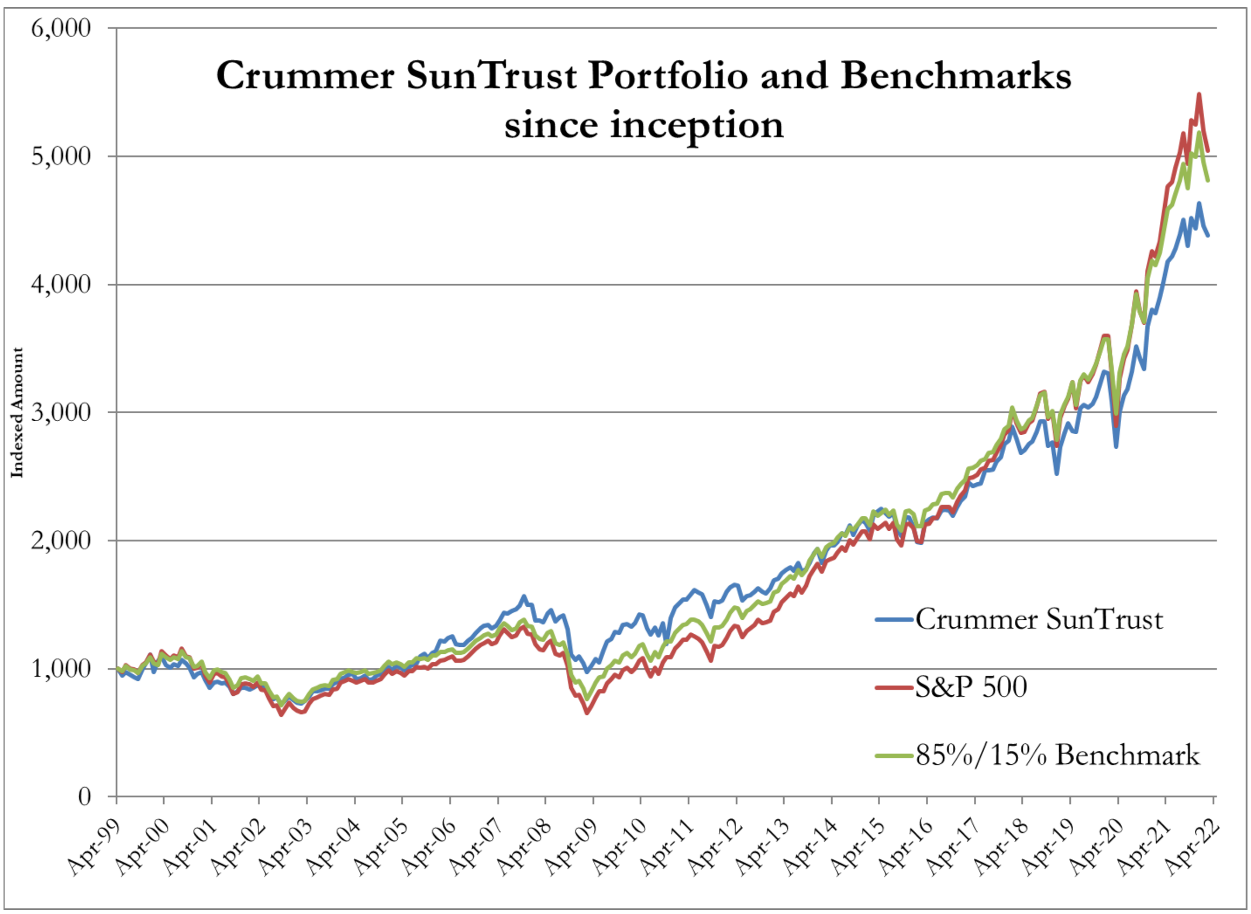
Our long term-investments should be able to take advantage of these uncertain market conditions in 2022 and be in the best position to outperform the market. We are overweighting sectors such as energy, consumer staples, healthcare, and financials as they will be sectors we expect to outperform the market this year. We are underweighting consumer discretionary, real estate, and communications services as they are not in a position to benefit from factors such as rising interest rates and lower disposable income. The Crummer SunTrust Portfolio is in a position to transition out of the pandemic and capitalize on a growing U.S. economy while managing possible risks.

Performance of the Crummer SunTrust Portfolio

In 2021, we witnessed one of the best years in equity markets despite the ongoing impact of the pandemic on the economy. However, within the first two months of 2022, one third of that rally was reversed as investors became concerned about persistency of high inflation and, towards the end of February, Russia launched a full-scale attack on Ukraine. Crummer SunTrust Portfolio followed the general market trend throughout the year, closely tracking the benchmark, but began to fall back slightly due to the performance of some stock selections. After last year's trades and the disbursement of our scholarship donation of $50,000, the Portfolio stood at $1,187,902 on April 30, 2021. We ended year 2021 at a peak level of $1,318,347. However, just like the general direction in the markets, this year did not begin well, and as of February 28, 2022, the portfolio was valued at $1,245,676, which is 5% more than on April 30, 2021. Based on this performance, we plan to fund a $55,000 scholarship again this year, corresponding to 5.1% of the three-year average of portfolio month-end balances.

This year marks the twenty-third anniversary of the first $100,000 SunTrust contribution in April 1999. Subsequent annual contributions brought the total investment to $500,000. Since inception, the Portfolio has generated over $590,000 in scholarships, including the 2022 contribution of $55,000.

The chart below shows the Portfolio's performance relative to the S&P 500 Total Return Index and a monthly-rebalanced 85% equity–15% bond benchmark portfolio. Although both indexes have outperformed the Portfolio since early 2012, its difference with the 85-15 portfolio has been shrinking since May 2019.



2021 – 2022 Plan Year Performance Highlights

From May 2021 through February 2022, the Portfolio underperformed the S&P 500 index by about 1% while it closely matched the performance of an 85/15 benchmark at 5%. Absolute performance without considering asset allocation is incomplete and the Portfolio did similar to both benchmarks on a risk-adjusted basis. From May 2021 through February 2022, the Portfolio returned 4.9% with a monthly standard deviation of 3.3% (reward-to-risk of 1.45) while the S&P 500 returned 5.9% with a monthly standard deviation of 4.0 % (reward-to-risk of 1.47) and the 85/15 portfolio returned 5.0% with a monthly standard deviation of 3.4% (reward-to-risk of 1.45). The portfolio's since-inception annual return is 19.2% (with an annual standard deviation of 14.0%) versus the S&P 500 index's return of 22.4% (with an annual standard deviation of 15.%) and the 85/15 benchmark's return of 21.1% (with an annual standard deviation of 12.8%) over the same period. Using the reward-to-risk ratios since-inception, the portfolio (1.37) underperformed both S&P 500 (1.49) and the benchmark (1.65).

Equity Sector Performance

For the 2021-22 portfolio year, the portfolio's tactical equity investments were allocated among the S&P's eleven sectors: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Healthcare, Industrials, Information Technology, Materials, Real Estate, and Utilities. In 2021, the portfolio was tilted toward sectors that were expected to outperform, e.g. Consumer Staples, Financials, and Healthcare. The Sector Index column of the table below shows that three sectors were down while Energy was a runaway winner. Each Crummer SunTrust Portfolio sector holds the sector SPDR ETF – even so, superior stock selection allowed the portfolio to outperform in five sectors: Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. The best stock selections came from Consumer Discretionary – Service Corporation International, Energy – Canadian Natural Resources, and Industrials – Lockheed Martin.

May 2021 through February 2022 Performance		
Sector	**Crummer SunTrust**	**Sector Index**
Communication Services	-10.3%	-9.0%
Consumer Discretionary	1.7%	-2.3%
Consumer Staples	8.8%	11.6%
Energy	43.0%	50.0%
Financials	8.6%	7.8%
Healthcare	-2.0%	8.4%
Industrials	8.3%	-0.9%
Information Technology	12.7%	10.8%
Materials	-3.8%	1.9%
Real Estate	0.4%	7.8%
Utilities	5.2%	4.0%

Bonds and Cash

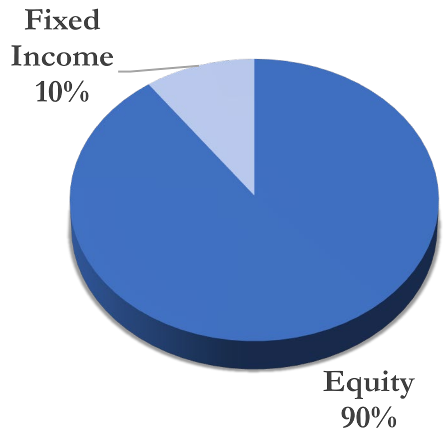
By the end of April 2021, the Portfolio had distributed $50,000 in scholarships, leaving 0.4% allocated to cash, 89.8% allocated to equities, and 9.8% allocated to fixed income (DoubleLine Low Duration and the Vanguard Intermediate-Term Investment-Grade mutual funds). The fixed income investments lost 1% from May 2021 through February 2022, an expected result in a flat/down period for broad bond indexes. After the proposed trades, the Portfolio will hold less than 1% in cash and will generate $55,000 in scholarships – supporting future Crummer students and fulfilling the spirit of the original gift.

Portfolio Design

1. Asset Allocation

The Crummer Investment Management team of this year was able to build an efficient portfolio based on the economic forecast we've developed, identifying the right balance of equities and bonds. We considered a variety of criteria, including historical data, benchmarks, and objectives, to establish the asset allocation.

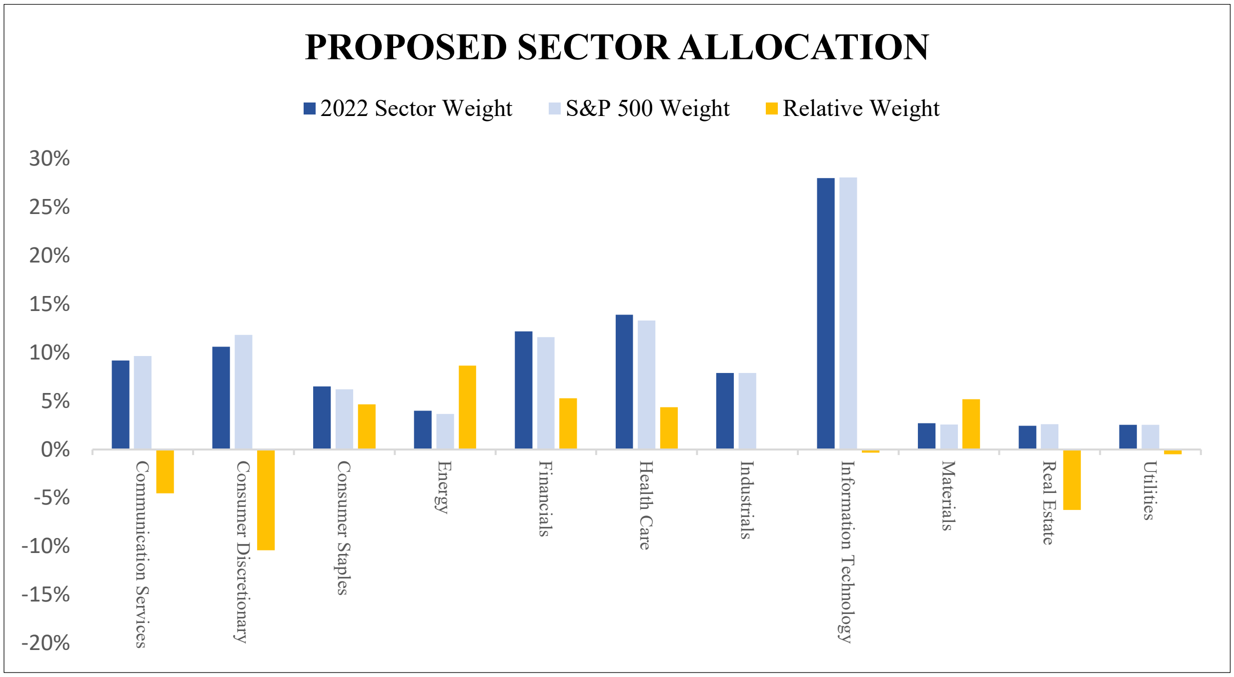
The allocation weights for this year, as represented in the graph below, are 90% equities and 10% fixed income. We believe that the equity market will perform better than fixed income during the next 12 months. Due to the expected interest rates increase of more than 100 basis points we forecast the bond prices to fall, negatively impacting fixed income assets. However, we also believe that allocating more than 90% in equities may have a negative impact on the diversification and on the overall portfolio's risk. IPS also specifies 10% as the lower bound of fixed income allocation.



2. Sector Allocation

The Crummer Investment Management team forecasts instability in the overall macroeconomic scenario during the next 12 months. Interest rates increase during 2022 will more likely bring to a decline of GDP and of current levels of inflation with a consequent increase of unemployment rate. Keeping these assumptions in mind, we carefully reallocated the weights of our portfolio. The sectors were underweighted, overweighted, or kept neutral in comparison with each sector's benchmark. These decisions were based on our economic outlook for the next 12 months as well as sector projections. We have decided to overweight Consumer Staples, Energy, Financials, Healthcare, and Materials sectors and to underweight Communication Services, Consumer Discretionary, and Real Estate sectors. Industrials, Information Technology, and Utilities sectors are neutral-weighted. The degree that they were overweighted or underweighted was derived from the confidence in the sector from the sector analyst and with majority consensus from the team.

The chart and table below show a visual representation of the weights that have been selected by our team versus what percentage the sector holds in the S&P 500. For example, the current weight of the Financials sector in the portfolio is 11.25% and while the S&P 500 benchmark weight is 11.59%, we are proposing that the sector weight be 12.45%. This absolute difference of 0.86% in allocation corresponds to a relative difference of 5%. The reason that we overweight Financials relative to our current portfolio and the S&P 500 is due to our confidence in this sector to outperform the S&P 500 as a result of an expected increase in the interest rates.



Sector	Portfolio Weight [c]	S&P 500 Weight [d]	Relative Weighting	Degree of Tilt vs S&P 500 [a]
Communication Services	9.20%	9.63%	Underweight	-5%
Consumer Discretionary	10.60%	11.83%	Underweight	-10%
Consumer Staples	6.50%	6.21%	Overweight	5%
Energy	4.00%	3.68%	Overweight	9%
Financials	12.20%	11.59%	Overweight	5%
Health Care	13.90%	13.32%	Overweight	4%
Industrials	7.90%	7.90%	Neutral	0% [b]
Information Technology	28.00%	28.09%	Neutral	0%
Materials	2.70%	2.57%	Overweight	5%
Real Estate	2.45%	2.61%	Underweight	-6%
Utilities	2.55%	2.56%	Neutral	0%

[a]: Degree of tilt is the proportional difference ((c-d)/d), not the absolute difference (c-d)
[b]: A range of +/-1% proportional tilt is considered neutral.

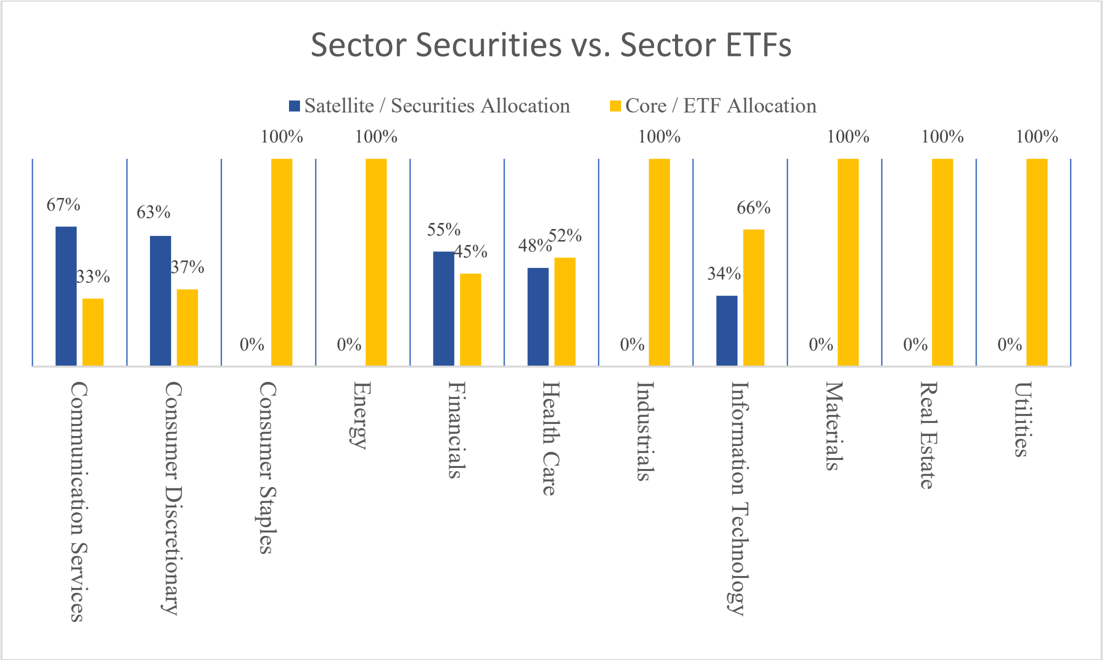
3. Sector Securities vs. Exchange Traded Fund (ETF) Allocation

To calculate the allocation between equities and ETFs in each sector, our team used a risk budgeting approach. This method ensures that the relative risk taken in the active part of each sector portfolio (i.e., allocation to the recommended two stocks) does not significantly deviate from that of the sector ETF, the passively managed part of the sector. For this purpose, we compute the tracking error between the two-stock sector portfolio and the sector ETF within each of the five actively-managed sectors. The ultimate objective is to determine the allocation in the sector's ETF based on a tracking error tolerance threshold that our team has agreed on. The closer the tolerance threshold is to zero, the larger the ETF allocation and the more passive our investment will be. A high tolerance level indicates that we prefer active investment in a specific sector and therefore would allocate a greater percentage of the sector holdings to the two recommended stocks.

Naturally, the tracking errors for two-stock portfolios display variation among sectors. In order to spread the risk of active management somewhat equitably across sectors, the Crummer Investment Management team has decided to set the tracking error tolerance at 10% level for all sectors. The only exception is the IT sector, which is restricted at 6% tracking error tolerance to ensure that neither of the recommended stocks in this sector exceed the 5% limit specified in the IPS as an upper bound for any single security.

We recognize that many of the large-cap US-listed stocks that we recommend may already be held through the sector ETF. Since our recommendations are based on the premise that these stocks are significantly undervalued, we are simply suggesting that they are overweighted relative to their weight in the sector ETF.

The figure below illustrates the ETF vs securities allocation within each sector while the table that follows presents additional information about the tracking error of each sector's two-stock portfolio. For example, the tracking error for the two-stock portfolio in the Healthcare sector is 21%. Since the tolerance level is set at 10%, the total sector allocation to these two stocks is set to 48%, while the rest of the sector (52%) is invested in the ETF.



Sector	Satellite / Securities Allocation [a]	Core / ETF Allocation [b]	Tracking Error
Communication Services	67.3%	32.7%	14.9%
Consumer Discretionary	62.8%	37.2%	15.9%
Consumer Staples	0.0%	100.0%	N/M
Energy	0.0%	100.0%	N/M
Financials	55.3%	44.7%	18.1%
Health Care	47.6%	52.4%	21.0%
Industrials	0.0%	100.0%	N/M
Information Technology	34.1%	65.9% [c]	17.6%
Materials	0.0%	100.0%	N/M
Real Estate	0.0%	100.0%	N/M
Utilities	0.0%	100.0%	N/M

[a] [b]: Securities vs. ETF split is based on the tracking error tolerance of 10%.
[c]: For Information Technology sector, 6% tracking error tolerance was utilized to ensure that individual stock allocations are less than 5% of the portfolio based on IPS constraints.

Putting all this information together, our recommendations indicate that 57.8% of the portfolio to be invested in sector ETFs while the sector stock would constitute 32.2%. This type of diversification may be helpful in mitigating risks given the uncertain economic outlook.

4. Sector Equity Allocation – A Risk Parity Approach

The Crummer Investment Management team utilizes the risk parity approach to determine the allocation between the two stocks within each sector. The risk parity methodology ensures that each stock's contribution to the forecasted sector volatility is the same. In other words, for the two stocks chosen in a given sector, the riskier stock would have less weight than the lower risk stock so that neither one is the dominant source of risk within that sector. As a strategic tool, risk parity helps us diversify risk in an equitable way across all holdings.

5. Security Selection

After an impressive performance in 2021, the equity market began 2022 in very uncertain terms, making investment decisions for the next twelve months a nontrivial task. Furthermore, our relatively small team had to focus on the five S&P 500 sectors with the largest weights. Despite these challenges, our team was able to find two undervalued securities within each of these sectors: Communication Services, Consumer Discretionary, Financials, Healthcare, and Information Technology. Each sector analyst performed a qualitative and quantitative analysis. On the quantitative side, we used the dividend discount model for all dividend paying stocks, and a free cash flow to firm model was used when needed for stocks that pay no dividends. The qualitative analysis consisted of identifying industry trends and company-specific catalysts with a focus on growth opportunities and potential challenges vis-à-vis our economic outlook. ESG dimensions of each company were also considered both qualitatively and quantitatively, utilizing the FTSE Russell ESG rating for the latter. We strongly believe that companies with strong ESG momentum may add significant value to their investors and benefit to the CIM portfolio. While macroeconomic uncertainty can impact the markets in 2022, we believe that the recommended securities are undervalued and poised to outperform their respective sectors in the next twelve months. A list of all recommendations and their proposed weights in the Portfolio are presented in the table below.

Name	Ticker	Security Type	Portfolio Weight
Communication Services Select Sector SPDR Fund	XLC	ETF	2.71%
Consumer Discretionary Select Sector SPDR Fund	XLY	ETF	3.55%
Consumer Staples Select Sector SPDR Fund	XLP	ETF	5.85%
Energy Select Sector SPDR Fund	XLE	ETF	3.60%
Financial Select Sector SPDR Fund	XLF	ETF	4.91%
Health Care Select Sector SPDR Fund	XLV	ETF	6.56%
Industrial Select Sector SPDR Fund	XLI	ETF	7.11%
Technology Select Sector SPDR Fund	XLK	ETF	16.61%
Materials Select Sector SPDR Fund	XLB	ETF	2.43%
Real Estate Select Sector SPDR Fund	XLRE	ETF	2.21%
Utilities Select Sector SPDR Fund	XLU	ETF	2.30%
Interpublic Group of Companies, Inc.	IPG	Stock	2.23%
Verizon Communications Inc.	VZ	Stock	3.35%
NIKE, Inc. Class B	NKE	Stock	3.22%
Target Corporation	TGT	Stock	2.78%
BlackRock, Inc.	BLK	Stock	3.01%
T. Rowe Price Group	TROW	Stock	3.07%
Gilead Sciences, Inc.	GILD	Stock	2.77%
Novo Nordisk A/S Sponsored ADR Class B	NVO	Stock	3.18%
Cisco Systems, Inc.	CSCO	Stock	4.17%
Intel Corporation	INTC	Stock	4.42%
DoubleLine Low Duration Bond Fund Class I	DBLSX	Mutual Fund	9.00%
Vanguard Int.-Term Investment Grade Fund Adm. Shrs	VFIDX	Mutual Fund	1.00%

ESG Overview

Traditional investment portfolios optimize risk and reward without consideration of other investor and stakeholder objectives. Investment decisions require more than just a one-size-fits-all approach. Since 2019, we at CIM have paid special attention to the environmental, social, and government (ESG) factors of our portfolio better connecting our shareholders' sustainable objectives with our investment decisions. According to Global Sustainable Investment Alliance, an estimated 36% of global professionally managed assets already have some ESG components.

Companies that adapt to changing socio-economic and environmental conditions are better able to identify opportunities to further competitive advantage and widen their company's competitive moat. Studies show that millennials have strong brand affinity towards good corporate actors who improve labor conditions, enhance diversity, give back to their community, and take a stand on environmental issues. According to a survey conducted by The Harris Poll on behalf of CNBC in 2021, about one-third of millennials use investments that take ESG factors into account, and we at CIM expect that number to continue to grow.

A common investment misconception is the ideal that investors must give up returns to invest responsibly, but we at CIM disagree with this notion. A growing body of research shows that ESG-focused firms are better at mitigating operational risk. A review of 49 studies on ESG performance by Oxford University and Arabesque in 2014 showed that 88% of companies that focused on sustainability had improved operational performance translating to higher cash flows. With ESG factors as a principal guide at CIM, risk and return remain the core foundations of our portfolio analysis.

In each actively managed sector, CIM analysts used ratings from Sustainalytics and FTSE Russell as a screening tool thereby limiting our universe of stocks. Each of our recommendations are either leaders in ESG within their industry or are actively taking steps to improve their ESG position. Company improvement to ESG factors can drive top line growth by preventing regulatory and legal damages, improving consumer perception, driving productivity, and reducing future costs. As the market continues to shift towards ESG focused investments, CIM will continue maximizing growth by investing in companies that are committed to ESG ideals.

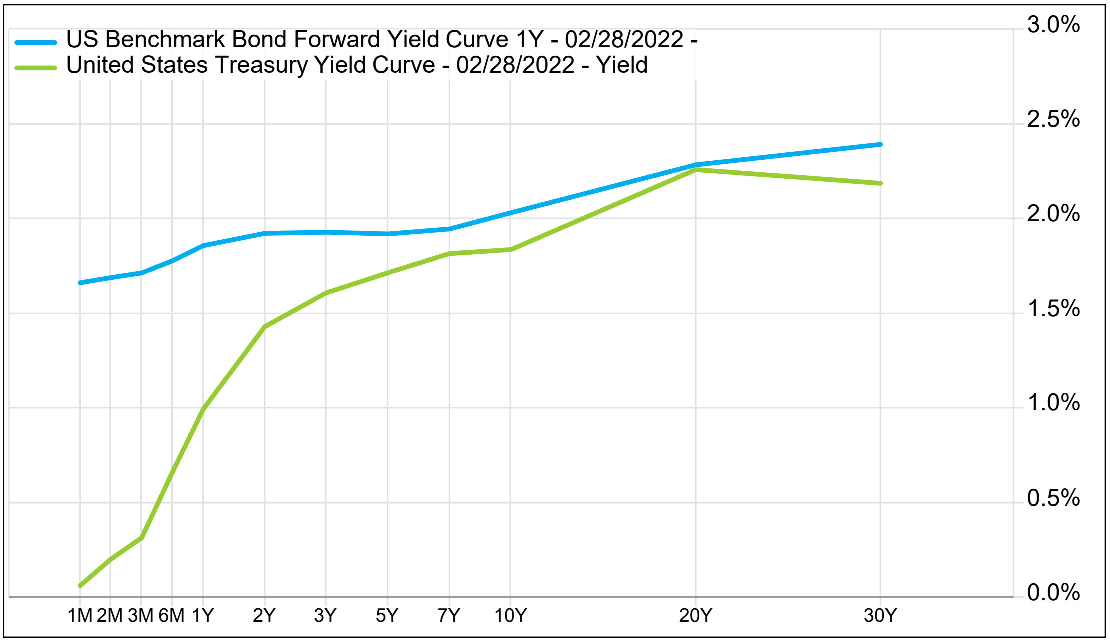
Our tilt towards ESG can also be illustrated quantitatively. The proposed equity holdings in this year's portfolio have a weighted average FTSE ESG score of 3.38 out of 5, while S&P 500 holdings have a cap-weighted average score of 3.19. Each actively managed sector in the portfolio has a positive ESG tilt (as shown in the table below) and the total actively-managed part of this year's proposed portfolio rank on average 9% better than the associated S&P 500 FTSE industry rankings. At the top of each tear sheet, we noted the percentile ranking (out of 100) of each stock's FTSE ESG Score.

Sector	S&P 500 Average FTSE ESG Rating	CIM Average FTSE ESG Rating	Relative Tilt
Communication Services	3.00	3.34	+11.2%
Consumer Discretionary	2.95	3.12	+5.8%
Financials	3.00	3.58	+19.3%
Health Care	3.06	3.13	+2.4%
Information Technology	3.63	3.84	+5.8%

Fixed Income Assets

2022-23 Outlook and Recommendation

As outlined in the economic outlook section, the CIM team believes that interest rates are expected to rise over the next twelve months for all maturity buckets. The Fed is expected to increase interest rates several times to help control inflation. Long-term rates should also increase but not as dramatically as the short-term rates. As a result, the team anticipates a yield curve that is shifted upwards and slightly flattened. These forecasts are consistent with the future interest rates implied by the US benchmark bond one-year forward curve shown below as of February 28, 2022.



Against this backdrop, the CIM team recommends maintaining our fixed income holdings as 10% of our portfolio. This is the minimum admissible allocation to fixed income asset class outlined in the IPS for the Crummer SunTrust Portfolio. Over the last twelve months the fixed income markets have negatively impacted total return of the portfolio, and team anticipates this trend would likely continue in the presence of interest rate hikes.

Logistical Constraints

As a result of having a smaller team of five members, we did not have an analyst assigned to fixed income and decided to hold our two existing mutual fund investments, DoubleLine Low Duration (DBLSX) and Vanguard Intermediate-Term Investment-Grade (VFIDX) fund. However, we ensured that a rebalancing between the two funds are recommended to mitigate the heightened interest rate risk. Since DBLSX has much lower interest rate sensitivity, the CIM team recommends tilting the fixed income portfolio towards that fund.

Mutual Fund Weights

To determine the weights of each fun, we set a target average duration for our fixed income assets. CIM teams in the previous two years have gradually decreased the target duration to 3.0 and 2.5 in the presence of mild interest rate risk.

Since we anticipate a much higher interest rate shifts this year, we have decided to recommend a much larger adjustment to reduce the target average duration of the fixed income portfolio to 1.75 years. This recommendation is contingent on a one-time waiver as the lower bound specified in the IPS is 2.5 years. Given the characteristics of each fund, this target duration level implies allocating 90% of the fixed income portfolio to DBLSX and the remaining 10% to VFDIX. Important characteristics of these two funds and the averages for the overall fixed income portfolio are summarized in the table below.

Fund	Weight	Duration	Maturity (Years)	YTM (%)	Avg. Credit Quality
DBLSX	**90.0%**	1.22	2.9	2.00	BB
VFIDX	**10.0%**	6.54	7.1	2.35	BBB
Overall	**100.0%**	**1.75**	**3.3**	**2.03**	

Sector Analysis

Communication Services

Introduction

The communication services sector is a broad sector that encompasses telecommunication firms, content creations firms, and digital media and advertising firms. The communication services sector has undergone a change a result of the pandemic. Some of the companies in the sector such as social media, digital advertising, and streaming services have seen a rise in their share since the pandemic began. Other large firms such as Disney and Comcast have struggled with the pandemic since they rely on face-to-face revenue.

5G Networks

All three major cell phone networks in the US, Verizon, AT&T, and T-Mobile, have been working over the last several years to build nationwide 5G networks. However, the full rollout of 5G networks have been slow, especially for Verizon and AT&T, despite both companies investing heavily in the marketplace. One of the issues is there is a lack of demand for 5G networks. One plausible explanation is that the 5G technology has emerged before the 4G and LTE networks have matured in terms of consumer demand. Therefore, the demand for 5G networks is still not at its full potential. However, the 5G capabilities of the three companies (Verizon, T-Mobile, and AT&T) position them for long term success.

Streaming and Cable Overview

The sector also includes several streaming services and cable TV providers. Cable networks still hold most of the television time compared to streaming services. However, that does not include other forms of watching content via computers or apps. Streaming and content creation is at an all-time high the market is becoming over saturated with cheap easy options for consumers. As streaming services battle rising costs to continue to produce content for subscribers, maintaining a low monthly cost appears unrealistic in the long term. Netflix increased its monthly cost in January 2022. Although streaming services are growing in terms of market share compared to traditional television, it is unlikely that their current business model is sustainable.

Digital Advertising

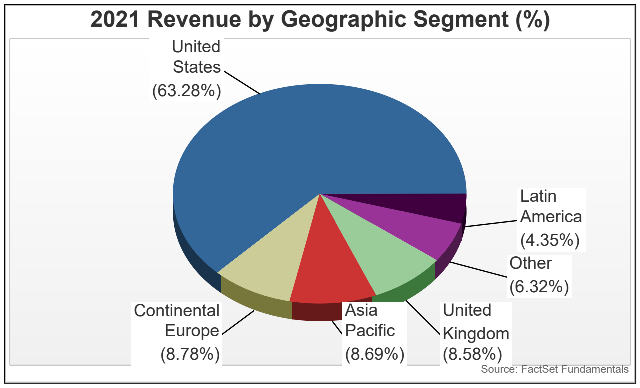
Digital advertising is an area of revenue growth for several firms in the sector. Firms such as Alphabet and Meta rely on digital advertising revenue. Other firms such as IPG have subsidiary companies that operate in digital advertising consulting. Digital advertising is expected to have sustained growth over the coming years. The consumer environment is becoming increasingly mobile overtime and this will help firms that operate in the digital advertising space.

Conclusion and Recommendation

Communication Services sector faces various sources of uncertainty as it includes a wide variety of industries with exposure to different revenue streams. It may also be exposed to significant firm-specific risk as some mega-cap constituents, such as Meta, can display significant volatility. As a result of these sector dynamics, we recommend that the sector is underweighted.

Interpublic Group of Companies, Inc. (NYSE: IPG)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$48.30**	**$36.80**	**1.2x**	**Mid Value**	**3.2%**	**95**	**BBB**



Introduction

Interpublic Group of Companies, Inc., whose roots can be traced McCann-Erikson founded in the 1930s. Interpublic Group of Companies is a holding company that with subsidiaries that specializes in consumer advertising, digital marketing, communications planning, and media buying, public relations, data management. Interpublic has operations in many regions and countries.

ESG Status

Interpublic is high rated in terms of FTSE ESG rating at 95. Interpublic is committed to UN's 17 SDGs (sustainable development goals) An example of this partnering with access to water charity to drill a well to provide a community in Ethiopia with clean access to water. Interpublic has been named to the Dow Jones Sustainability Index (DJSI) North America as one of the top 20% of the 600 largest North American companies as recognition of its commitment to sustainable business practices. Interpublic has an above average ESG rating due to their recognition of outside agencies like DSJI and internal committed to the UN's 17 SDG goals.

The Story Behind the Stock

Interpublic is an outlier holding company in the communication service sector with many subsidiaries operating in global markets (chart). Interpublic's holdings mainly service large commercial clients. Interpublic is not reliant on technology advancement such as most firms in their sector are. That gives them an advantage as Interpublic is less at risk to supply chain issues and adaption of the new network. Interpublic has outperformed the communication services sector over the last several years gaining solid alpha on the sector.

Fundamental Analysis

<u>Balance Sheet:</u>
Interpublic balance shows some interesting data. Interpublic is experiencing a period of rapid growth. Their cash and short term investment accounts have been 1.192b, 2.059b, and 3.270b for 2019, 2020, and 2021 respectively. Interpublic is growing rapidly and their growth in current and total assets over the recent years support that. As that number has gone up each of the last five years. The once concerning element is how levered of a firm Interpublic is as their long-term debt value of $4.485b is higher than the total equity of the firm at $3.605b. This is coupled with the fact that Interpublic cash accounts are lower than their long-term

debt account. This ratio has been steadily improving over the last few years, but it is important that Interpublic continues to improve their debt coverage as their growth rate slows in the coming years.

Income Statement:

Interpublic recently announced their earnings data for 2021. For the full year 2021 Interpublic had net revenue of $9.11 billion which as increase by 12.9% from 2020's revenue. EPS increased significantly as well. Recurring earnings per share went up from $1.63 in 2020 to $2.54 per share in 2021 (chart).

Total net income almost tripled in 2021 as that number went from $.354b to $.973b. IPG latest earnings report show a high growth company that has developed that income from sustainable operations for the firm. Interpublic growth of income has led to a rapid increase in dividends paid to shareholders in recent years. The company also announced a $200 million dollar share repurchase program as of February 2022. This a sign that Interpublic is in a healthy cash position, and the management team views their stock as trading below value.

Free Cash Flows:

Interpublic's free cash flow per share has consistently increased over recent years from $1.00 in 2018 to $4.72 in 2021.

Valuation

Interpublic has grown significantly over the last few years. Their stock price has gone up by 21% per share over the last 12 months. Interpublic's dividends per have also increased in recent years

Using a bottom-up approach for estimation a short-term growth rate of 10.89% was applied to calculate the intrinsic value of the company. A long-term growth rate of 2.5% was applied to intrinsic valuation calculation. This estimate is based off the eventual slowing of Interpublic's current growth rate. A three-stage dividend discount model the results yielded an intrinsic value of $48.30. Through a sensitivity analysis, the range of the intrinsic value of Interpublic is estimated to be $40.40-$59.17. Since the stock is currently trading for less than the minimum of that range, it is concluded that Interpublic is an undervalued stock.

Challenges

Interpublic's main challenge is going to be maintaining their high level of growth that the firm has experienced over the last few years. Since cash flow is high it appears that the company is a strong position, but Interpublic must maintain their increased earnings to maintain debt coverage. Interpublic believes there increase income from operations is sustainable and organic and well that is possible over the short term it is impossible for the company to continue its high growth period forever. They recently decreased their projections for 2022. This led to a recent share price drop after announcing their 2021 results which met expectations.

It will be important for Interpublic will plan for the long term and adjust projections when they see fit. If the firm overestimates their growth and fails to meet those projections the negative effect on the stock price could massive. Proactively adjusting growth expectations in the coming years will show Interpublic is realistic with their current growth rate in recent years. This is the largest concern in investing in Interpublic. Their current growth rate is impossible to maintain over the short term.

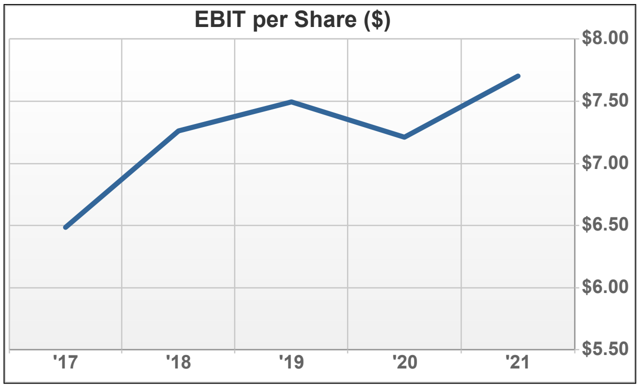
Conclusion & Recommendation

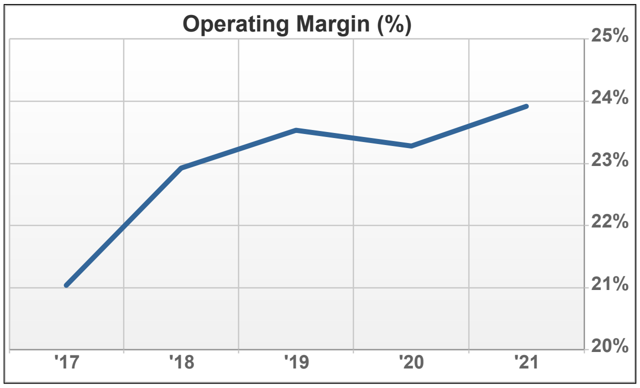
Interpublic has experienced high growth in recent years despite the pandemic and has greatly outperformed other stock in the communication services sector over the last 12 months. We expect this trend to continue given the firm's ability to generate sustainable organic growth.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Verizon (NYSE: VZ)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
HOLD	**$88.59**	**$53.67**	**0.6x**	**Large Value**	**4.7%**	**52**	**BBB+**





Introduction

Verizon Communications, Inc. was founded in 2000 and was formerly known as Bell Atlantic. Today, Verizon is one of the world's largest providers of technology and communications services. Verizon is headquartered in New York City and the first company in the world to launch commercial 5G for mobility, fixed wireless, and mobile edge computing.

ESG Status

Verizon Communications, Inc. has an FTSE ESG rating of 52. According to Verizon 's ESG report for the year of the 2020 a large portion of their ESG focus comes from improving internet connectivity for all people in affordable manner. For Verizon's new 5G network they plan on having 50% of their electricity from renewable sources and having a plan for net zero emission by 2035. Verizon has become the first US telecom company to issue a green bond, and Verizon have issued three rounds of these bonds since 2019. The three bond rounds have raised nearly almost $3billion in proceeds which have been fully allocated to renewable energy, energy efficiency, green buildings, and biodiversity and conservation Verizon's services result in high electricity consumption which most of which is currently from nonrenewable resources. Through the investment in renewable energy Verizon is improving in terms of ESG with solid potential, but is currently an average firm.

The Story Behind the Stock

Verizon has a large advantage in its infrastructure with their 5G network capabilities. It is unlikely that Verizon will face new competition besides current competitors T Mobile and AT&T. Verizon has superior advantage in offering more services with TV, Internet, and Mobile phones. T Mobile only provides mobile services and hotspot internet connection. AT&T has invested heavily in acquiring DirecTV in 2015 which has lost the firm money. The full rollout of all 5G networks has been slow since the demand is yet to exist. Verizon has diversity in its revenue streams as they provide sell goods and services to consumers and commercial sector. This means they are not solely reliant on one sector for their revenue. In the new future Verizon has a great opportunity to succeed with its 5G infrastructure in place and tangible ESG goals over the next decade to improve the sustainability of the firm.

Fundamental Analysis

<u>Balance Sheet:</u>

Verizon has decreased its current assets over 2021 to $34.30b from a value of $52.12b. A large portion of this is a result of decreasing Cash from $23.37b to $4.02b. As a result, Verizon has invested heavily in long term assets within its 5G network which have increased from $3.26b to 10.06b in the last year. One big shift is the interest coverage ratios for Verizon over the last years as the quick and current ratios were both at 1.3 at the end of 2020. In 2021 those numbers have decreased below that one mark to 0.7. This is a result of Verizon opting to decrease its liquidity. This is not a concerns as 2020 was the only year since 2014 with the current and quick ratios above 1.0 Verizon used its high liquidity that existed at the end of 2020 to invest in their long-term assets over the 2021 to improve the long-term strategic position of the company.

<u>Income Statement:</u>
Verizon reported net profit margins at 16.5%, up from 13.9% last year and slightly above the five-year average. The company also had an increasing in earnings from $17.8b in 2020 to $22.07b in 2021. EBIT per share went up from $7.21 and $7.70 per share over the last year (chart). This is trend as EBIT per share has steadily risen over the last five years. Verizon's gross margin decreases slightly from 47.1% to 45.7%. That mark is not concerning since the five-year average is 45.8% and the mark has consistently hovered around that mark since then. Verizon has shown key operational improve over recent years as well, since their operating margin has increased from 20.6% to 23.9% from 2016 to 2021 (chart). Considering 2020 sales and GDP growth was greatly slowed by the pandemic Verizon has a solid recovery year with a high growth rate in all the key revenue and earnings metrics.

<u>Free Cash Flows:</u>
Free cash flow per share has decreased dramatically from 2020. It went down to $4.64 in 2021 from FCF high value in $5.69. Verizon continued its trend to increase dividends per share by $.05 cents annually in 2021.

Valuation

We determined it would be best to use a short-term growth rate of 3% for Verizon due to high market share and the presently slow rollout of their 5G network. We also determined a more conservative long term growth rate of 1.5% would be best to measure Verizon's intrinsic value. These are intentionally conservative estimates since Verizon is a mature firm that has a large existing market share. A three-stage dividend discount model concluded the intrinsic value of $88.59 which is well above the market price of $53.27. Our sensitivity analysis yielded a value range of $74.48 -$108.81. Even with taking a conservative approach for Verizon's short and long term growth rate there is still high upside in both out intrinsic value and range calculations.

Challenges

The first challenge Verizon faces is the constant delaying and slow roll out of the 5G network. Despite financially preforming well the price per share has gone down over the last 12 months. A major factor for the short-term success will be how quickly they are able to implement their 5G network as the useful life and depreciation of the PPE for that network's infrastructure has already begun. Following through on their ESG long terms goals. From environmental perspective achieving the goals by issuing nearly $3 billion in green bonds helps, but that also increases how levered Verizon is. That in turn will increase the risk of the firm since there is an increase in long term debt obligations. Since Verizon is showing a pattern of using debt financing to invest in renewable energy. Verizon should eventually be able to sustain and support these renewable energy initiatives without the creation of more debt.

Conclusion & Recommendation

Verizon's 5G infrastructure and the gradual penetration of this technology in the market represent a clear area of growth and expansion. Furthermore, its growing commitment to renewable energy through green bonds make it an attractive investment.

With our intrinsic value, the company is currently undervalued. We recommend a HOLD.

Consumer Discretionary

Introduction

Consumer Discretionary sector is comprised of companies that offer products and services that are considered non-essential. Consumers can choose to avoid purchases from these companies without a significant impact to their well-being. When consumers find themselves with ample amounts of disposable income, these companies tend to thrive, as there is more demand for their products and services. In times when disposable income is limited, demand dwindles. The industries that make up this sector include automobiles and auto components, leisure products, textiles and apparel, hotels and travel, restaurants, household durables and appliances, diversified consumer services, media distributors, internet and direct marketing retail, multiline retail and specialty retail.

Challenges

At the height of the pandemic, stimulus was an integral part of relief for consumers and for the continued growth in the economy. Many individuals found themselves using relief not only for essential purchases, but to also finance their non-essential spending. As COVID-19 has continued to slowdown from its peak and all the economy has roughly now reopened, the government has decided to pull the plug on further administration of relief and stimulus. With concern for persistent inflation in the backdrop, future interest rate hikes becoming imminent, and the absence of government aid for individuals, disposable income growth is expected to significantly slow down. Many companies within the sector will have a difficult time continuing to grow as demand for their products and services stagnates in the absence of growth in discretionary spending.

Macroeconomic Outlook

When analyzing the outlook of the sector, the current and future state of the US macroeconomic environment must be considered. Various inflation metrics are at 40-year high levels. Given the Federal Reserve's recent meetings, we are forecasting interest rate hikes of 1.25%-1.50% over the course of the year to help combat inflation. As a result, disposable income levels are expected to be impacted, pushing individuals to gear their spending towards more essential products in the next twelve months.

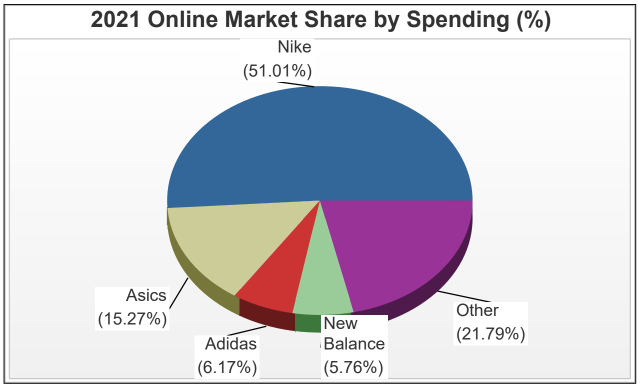
Conclusion and Recommendation

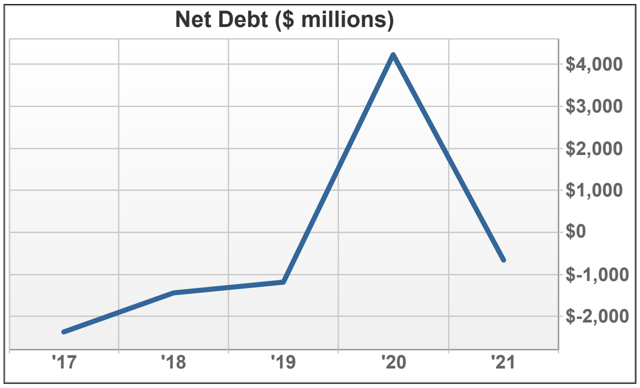
The Crummer SunTrust Portfolio adopts a short-term tactical sector tilt relative to the sector market weights of the S&P 500 index, anticipating market movements in the one-year horizon. Given the absence of consumer stimulus and the macroeconomic framework, the team has decided to underweight the Consumer Discretionary sector at 10.6% relative to the benchmark weight of 11.83%.

The recommended stocks within the sector are valued using a three-stage dividend discount model. A bottom-up approach was used to calculate short-term growth rates accompanied by our qualitative analysis of the companies' short and long-term growth prospects. The impact of share repurchases were considered in all our models.

Nike, Inc. (NYSE: NKE)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$167.90**	**$136.55**	**1.5x**	**Large Growth**	**0.9%**	**47**	**AA-**





Introduction

Nike, Inc. was founded in 1964 and is a world leader of athletic footwear and apparel. Nike offers its products to consumers in 170 countries around the globe.

ESG Status

In the late 1990s and early 2000s, Nike saw itself in the spotlight for its questionable practices involving outsourcing their labor. Since, Nike has taken measures to address this issue, such as the implementation of a code of conduct and leadership standards, which were recently emphasized in their 2021 Forced Labor Statement. The company holds the top spot in 2021 amongst its footwear and apparel competitors in an ESG transparency and performance ranking of the 1000 largest U.S. public companies created by 3BL Media. Looking ahead, according to their sustainability report, Nike is focused on its sustainable development goals (SDG's) centering around the planet, equality within the workplace and for its customers. Their current FTSE Russell relative ESG score is 47 out of 100. Nike is confident that they are promoting a positive vision for the future, not only in the community, but throughout their company. The progress they have made in their labor practices, the strong impact they are having in the community, and the steps they are taking to preserve the environment, showcase the massive strides they have made as a company. These improvements foster a sense of optimism for what they are capable of in the future.

The Story Behind the Stock

Nike's continued dominance within their industry has always been something to count on (chart). Their expansion into new markets around the globe has furthered their reach each year. Management's diligent work in addressing controversies within the workplace and their continued focus on the planet and community has been acknowledged by the public. Through the pandemic, Nike has demonstrated their ability to grow through digitalization and online sales, as NIKE Brand Digital sales increased by 12 percent in the second quarter of fiscal year 2022. We believe that the online framework will help drive Nike's business, especially with its recent preparation for the metaverse era where they plan to establish a market for virtually branded sneakers and apparel. Our thesis is that Nike will continue to be an industry leader, while further revolutionizing the industry and pioneering the digitalization trend in sports apparel and footwear. With these tailwinds, Nike stock will continue to trend upwards as these changes gain wider adoption.

Fundamental Analysis

Balance Sheet:
Nike has maintained a healthy cash flow over the last five years even through the height of the pandemic. Cash and short-term investments have increased in 2021 by 53.36% compared to 2020. The company is financing its digital expansion and metaverse prospects with a combination of profits and borrowing. Long-term debt has increased from $3.5 billion two years ago to roughly 12.3 billion. Given the company's commitment to more digitalization and operation through the pandemic, we are not alarmed by this value. Net Debt has become negative in 2021 (chart), highlighting that cash growth has outpaced debt growth.

Income Statement:
Nike reported net profit margins of 12.9%, up from 6.8% last year. Net income was $5.7 billion in 2021, which is a 125% increase from 2020. Sales in 2021 increased by 18.9% from 2020 and the company saw recurring EPS growth of 141% year-over-year. The company attributes its strong financial performance in 2021 to its strong connection and recognition with consumers around the world. With the upside and continued acceptance of digital innovation, the company plans to continue to invest in the digital framework to set a foundation for its long-term growth, which is a pillar of our thesis. The company has seen positive results from NIKE Brand Digital, with sales in North America growing 40% year-over-year in second quarter of fiscal year 2022.

Free Cash Flows:
Free cash flow per share in 2021 was $3.70, which is above the five-year trend. The company paid dividends of $1.22, resulting in a consistent increase over the five-year period. Nike also has an aggressive share repurchase program. Since June 2018, the company has repurchased $6.4 billion worth of shares.

Valuation

Nike's strong brand recognition and improved ESG metrics have been present as of recent. The company's recently devoted effort to digitalization and entrance into the metaverse, combined with the ability to evolve during the pandemic have set the premise for our valuation model. We used a three-stage dividend discount model to arrive at an intrinsic value for Nike's stock. A bottom-up valuation model yielded an impressive 20.00% short-term internal growth rate, which reflects their digital growth and potential of operations in the metaverse in our opinion. We estimated a long-term sustainable growth rate of 3.13%. A blend of US and World GDP and inflation rates were used because over half of Nike sales are international. The most likely intrinsic value was $167.90, adjusted for expected share repurchases. Our sensitivity analysis estimates Nike's stock intrinsic value between $146.65 and $192.11 adjusted for share repurchases. Even our most pessimistic inputs produce a value above the current market price, signaling a great opportunity.

Challenges

As Nike's sales depend largely on consumer discretionary spending, its financial results are sensitive to changes in the macroeconomic framework. As inflation continues to rise, the probability of numerous rate hikes has become inevitable, while future consumer spending levels remain uncertain. With roughly half of Nike's revenue being generated in the US, the company could face lower revenue levels or stagnated growth in the year ahead. With the pandemic in the backdrop, Nike's retail operations could face risks, as countries impose new lockdowns. However, given Nike's efforts in digitalization and plans to enter the metaverse, we do not see overall company revenue taking a hit from this and would expect more of a shift towards online purchasing. We assess this challenge as low probability.

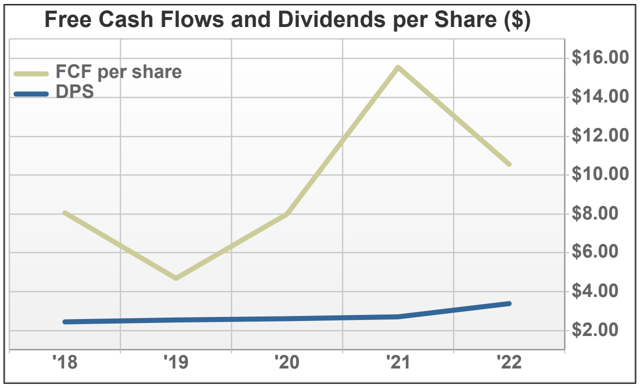
Conclusion & Recommendation

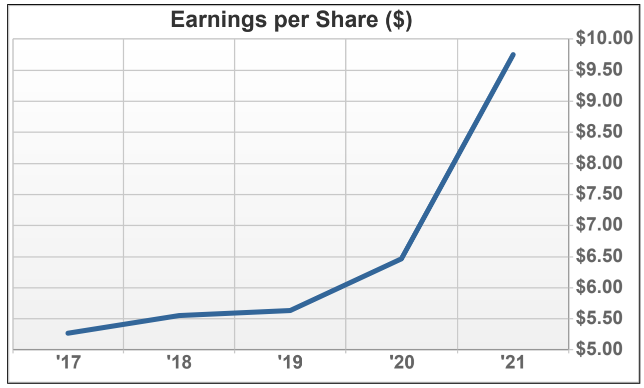
Nike's digitalization efforts and ability to grow the company online should lead to further growth. As the metaverse framework gains traction and Nike asserts its influence, we expect the stock price to continue its rise. Furthermore, Nike will remain an industry leader and continue to dominate the market as it evolves.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Target Corporation. (NYSE: TGT)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$279.56**	**$199.77**	**0.6x**	**Large Core**	**1.8%**	**77**	**A**





Introduction

Target was founded in 1902 and is a leading general merchandise retailer that sells products in all 50 states of the US through retail locations and their digital sales channel.

ESG Status

Target highlights its devotion and commitment to making a difference for the planet, people and communities. The company has developed "Target Forward" to set specific goals that address ESG related issues involving business operations, partners, and communities. Some of the company's ESG highlights of 2021 included an additional $1 billion invested in their employees through wages, healthcare, and other necessary support. Another highlight was the addition of new renewable energy projects that will provide more clean resources for business operations. Target was ranked 26th in the annual 100 Best Corporate Citizens ranking from 3BL in 2021. Their overall FTSE Russell ESG rating is 77 out of 100.

The Story Behind the Stock

Target has consistently demonstrated its ability to grow and evolve since its existence. The rise of the pandemic brought into question how the company would be able to uphold this growth story in unprecedented times. As of late, Target CEO Brian Cornell said retail locations are continuing to see high levels of traffic, despite the circumstances of the pandemic. The pandemic prompted the company to evolve digitally, which has made them better-rounded. They reported a continued rise in their digital sales of 29% growth in Q3 2021 in comparison to Q3 of 2020 in a recent earnings call. Furthermore, in 2021, Target fortified its partnerships with Ulta Beauty and Apple by establishing in-store locations within its retail stores. Through these partnerships, Target customers are now able to engage with well-known brands. On top of all of that, the company has remained a dividend-paying juggernaut through continuous increased dividend payments since its inception. Yet, the stock is more than 40% off its all-time highs. Primarily, we attribute this to the faltering macroeconomic outlook and the battering of many equities. Our thesis is that Target is a profitable, well-known company that is continuing to revolutionize through digitalization and new partnerships, while also providing an appealing dividend framework. The market will eventually price these metrics in, leading to an increase in share price.

Fundamental Analysis

Balance Sheet:

Target has seen some great improvement within their balance sheet in the last five years. Specifically, their Cash Conversion Cycle has seen the most improvement over this period. Year-over-year their Cash Conversion Cycle has decreased from 0.5 days to -2.8 days in 2021. What this implies is that they are now converting their Sales into cash sooner than their accounts payables are due. Considering that the 5-year average is 4.5 days, we can see how fast they are managing to do this, and they are doing it much quicker than their main competitor Walmart, whose Cash Conversion Cycle is 1.3 days for the same period.

Income Statement:

Target reported net profit margins of 6.56%, up from 4.66% last year. The company's $4.368 billion net income in 2021 earnings was a 33.6% increase from 2020. Sales in 2021 increased by 19.7% from 2020 and the company reported record recurring EPS of $9.75 (chart). The company attributes its strong financial performance in 2021 to large amounts of traffic in retail locations and an increase in sales on its digital platform. The flexibility of their operating model highlights the company's ability to serve their customers no matter how they choose to shop.

Target's performance continued through the third fiscal quarter of 2021, with sales growth of 10.46%. In addition, net income margin increased 55.2% and EBIT margins increased 31.77% over the last twelve-month period.

Free Cash Flows:

The company has increased their dividend over the last 20 years and most recently paid dividends of $0.90 (quarterly). Yet, the free cash flow growth has outpaced dividend growth over the past five years (chart). Through its share repurchase program, the company repurchased $2.2 billion of shares in the third quarter of 2021. $14.6 billion of share repurchases remain in the program that was approved in August 2021.

Valuation

Target's revamped in-store traffic, digitalization efforts for its online platform, new partnerships with Apple and Ulta Beauty, and impressive dividend history have set the premise for our valuation model. We used a three-stage dividend discount model to arrive at an intrinsic value for Target's stock. A bottom-up valuation model yielded a 10% short-term internal growth rate, which reflects their new partnerships and growth in their digital platform. We estimated a long-term sustainable growth rate of 3%. Long-run US GDP and inflation rate estimates were used because Target operates solely in the US. The most likely intrinsic value was $279.56, adjusted for expected share repurchases. Our sensitivity analysis estimates Target's stock intrinsic value between $241.96 and $323.16 adjusted for share repurchases. Our most likely intrinsic value represents roughly a 30% increase from the current price.

Challenges

Target's revamped in-store traffic, digitalization efforts for its online platform, new partnerships with Apple and Ulta Beauty, and impressive dividend history have set the premise for our valuation model. We used a three-stage dividend discount model to arrive at an intrinsic value for Target's stock. A bottom-up valuation model yielded a 10% short-term internal growth rate, which reflects their new partnerships and growth in their digital platform. We estimated a long-term sustainable growth rate of 3%. Long-run US GDP and inflation rate estimates were used because Target operates solely in the US. The most likely intrinsic value was $279.56, adjusted for expected share repurchases. Our sensitivity analysis estimates Target's stock intrinsic value between $241.96 and $323.16 adjusted for share repurchases. Our most likely intrinsic value represents roughly a 30% increase from the current price.

Conclusion & Recommendation

Target's strong consumer sentiment, digitalization platform growth, and development of new partnerships will lead to further growth this year. With the presence of a growing dividend and the company's consistent share repurchase program, we believe these will contribute to the Target growth story and eventually be reflected in stock price.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Consumer Staples

Overview

The Consumer Staples sector consists of companies that focus on food/beverage retail, as well as household goods, personal hygiene products, and alcohol and tobacco. In times of volatility, uncertainty, and economic downturn, the sector is viewed as a conservative and defensive play and tends to perform well.

Sector Outlook

Given the macroeconomic outlook and the anticipated rate hikes to combat inflation, we expect heightened volatility in the broader market. As individuals endure the various rate hikes and lower levels of disposable income, we anticipate most to allocate their income towards the purchase of essential services and products, which are provided by the companies in this sector.

Conclusion

Based on the sector outlook, we expect that Consumer Staples companies would have a favorable trend over the next twelve months. We recommend this sector to be slightly overweighted at 6.50% relative to the S&P 500 weight of 6.21%. This sector will be managed passively in the sector ETF over the next twelve months.

Energy

Overview

The energy sector is comprised of numerous companies that are focused on the exploration and production, refining, storage, and transportation of oil/gas, coal, and consumable fuels. Companies that foster the transportation of these commodities through equipment and services are included in the sector as well. The central catalysts of this sector are global oil and gas prices, which tend to perform in a volatile manner, creating uncertainty for investors. In times of rising inflation, energy companies tend to perform well because demand for these commodities are inelastic in comparison to other sectors.

Sector Outlook

Important factors to be considered in the Energy sector are price and global output of crude oil, political risks, economic conditions, and trade policies. Due to supply demand imbalances, crude oil prices were already trending high, however we began seeing crude oil prices as high as $130 per barrel in early March 2022. The invasion of Ukraine by Russia has been the driving force of the recent surge in level and volatility of prices. With many sanctions being placed on Russia, who is a global leader in reserves and the exportation of natural gas, uncertainty continues to plague the market. As the global economy continues to monitor the situation and countries consider alternative sources for these commodities, we expect the prices to remain elevated and volatile. While considering this, we also are accounting for high levels of inflation and the perceived rate hikes by the Federal Reserve throughout the year.

Conclusion

According to the one-year outlook that is expected to lead to favorable margins within the sector, we propose to overweight this sector at 4% relative to its S&P 500 weight of 3.68%. This sector will be managed passively in the sector ETF over the next twelve months.

Financials

Introduction

Financial sector represents approximately 11.50% of S&P 500. It is composed by banks, insurance companies, credit unions, credit card issuers and REITs. Companies within the sector are usually mature and well-established firms. Digital transformation and the increased role of artificial intelligence and robotics within financial services are some of the main trends that will characterize the next twelve months for the Financials sector. However, the macroeconomic outlook and the tensions related to the Russia-Ukraine conflict can add further volatility and impact the growth of the sector.

Growth Opportunities

The sector presents short-term concerns but also long-term opportunities, which could help financial firms overcome challenges and ascend to new heights. After a strong sector growth during 2021, we expect to have a slower increase in performance over the next twelve months. Technology and innovation will continue to play an important role with the sector. Banks are discovering advantages of bank-fintech partnerships, which are beginning to re-shape the financial services landscape of the future. According to the 2022 Financial Services Outlook Survey by WSJ, a significant majority (85%) of customers and businesses who use AI-based solutions either strongly agreed or agreed that AI helped them generate alpha. Additionally, 38% of respondents expect significantly better revenue prospects from digitally advanced firms in 2022. However, macroeconomic conditions can influence and strongly impact the sector. The Fed is likely to increase the interest rates by more than 100 basis points by the end of the year in order to limit borrowing, correct an overheated economy and inflation spikes. It will consequently lower the borrowing levels, economic activity, and job growth. Rate growth would increase rates for mortgages, auto loans, credit cards, and business loans. On the other hand, rebound in non-interest income from higher trading revenues and growth in fee-based businesses can lead to an overall top line growth.

Challenges

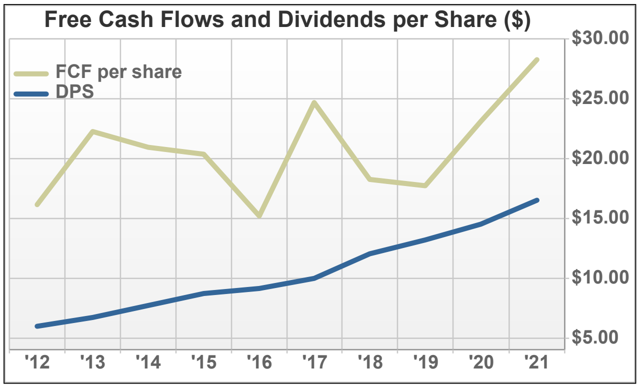
There are several challenges that the industry is going to face during in the near term. One of them is the geopolitical risk related to the ongoing military conflict between Russia and Ukraine. Uncertainty present in the region followed by a very strong political and economic response from the Western governments may impact to global economic stability. Another challenge can be represented by the political gridlock around the end of 2022. Debt-ceiling debate and midterm elections in November are some of the events that the investors should be aware of, and which can impact the U.S. macroeconomic outlook. Climate change and ESG policies remain at the heart of the insurance and finance sector, impacting both the asset and liability side of the balance sheets, and as such, these will be key themes to watch in 2022.

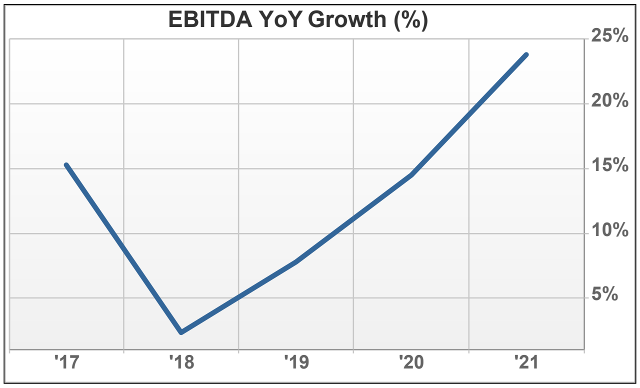
Conclusion

Our recommendation is to overweight the Financials sector at 12.20% since the interest rate rise can represent an important push for the profitability of the sector itself. Our team was able to identify two undervalued companies with strong balance sheets and cash flow potential, which can add stability to the portfolio against the macroeconomic uncertainties.

BlackRock Inc. (NYSE: BLK)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$993.83**	**$743.89**	**1.7x**	**Large Core**	**2.6**	**89**	**AA-**





Introduction

BlackRock Inc. is the largest investment manager in the world, with $10 trillion in assets under management (AUM) at the end of 2021. Passive strategies account for around two thirds of long-term accounts and the company has clients in more than 100 countries. Institutional clients represent 80% of the total of AUM.

ESG Status

BlackRock Inc. is highly focused on the ESG policies implementation within its investment process. This transition was one of the goals for Larry Fink during the past years. ESG risk analysis is embedded in 100% of regular portfolio risk reviews and represents one of the main factors during the investment decisions. Recent implementation to Aladdin, the electronic system of BlackRock Solution, allows managers to integrate more than 1,200 key performance indicators in order to gain insights and improve the decision-making process.
The company has the ESG rating of 89 and it is ranked third among all the financial companies within S&P500. In 2020, the company became a member of UN Global Compact organization, which emphasizes how much effort the management is putting towards the sustainable investments and ESG developments.

The Story Behind the Stock

Over the past 30 years, the company has evolved from a small start-up to a worldwide leader in the investment management industry. Aladdin, after 20 years of its creation, is managing more than $20 trillion of assets and BlackRock Inc. has the largest market share in the industry. The successful results during the past were due to the fact that BlackRock Inc. has a large variety of investment vehicles and has successfully attracted cash flows to index investing. The AUM grew up from $3.79 trillion to approximately $10 trillion during the past 10 years, following a similar growth pattern of stock price and highlighting a successful management and performances of BlackRock Inc.

Fundamental Analysis

Balance Sheet:
BlackRock Inc. had a solid growth of cash liquidity from 2020 Q3 to 2021 Q3 with an increase of 13.2%. The company holds an overall 6.1% of debt on its balance sheet, composed mostly of long-term debt. Total debt-to-asset ratio showed a slight increase during the past five years, however the five-year average value of 3.9% highlights one more time the strong balance sheets of the company.

Income Statement:
BlackRock Inc. reported a continuous and stable increase of sales during the last 5 years. In fact, in 2021 it had an outstanding growth of almost 20%, the best result of the past 10 years. Net income growth was positive since 2017 at except for 2018, when there was a large increase of income tax expenses. EBITDA growth has accelerated since 2017 and had a 24% increase from 2020 to 2021 (chart). It was the best performance of the past 10 years.

BlackRock experienced an 11% CAGR growth of total expenses during the past 5 years which was mainly due to new technological investments and higher promotional costs. However, the increase was also combined to a 9.8% CAGR of Revenues during the same time period and a large increase of sales performances. The company outperformed the average growth of the financial sector of S&P500 by 7%.

EPS continued its growth during the past 5 years and had always positive performances at exemption of 2018 when there was a decrease of 12% if compared to 2017. As mentioned before it was due to a strong impact of income taxes expenses. The company had also an increase of EPS per share from $31.85 per share to $38.22 per share during the 2020/2021 time period. BlackRock Inc. showed strong consistency from the profitability point of view, having net margins constantly over 25% during the past 10 years.

Free Cash Flows:
Over the past 10 years, company's free cash flows and dividends had a positive trend. Free cash flow per share in 2021 was the highest ever at $28 per share. As a result, the company paid $16.52 in dividends, 14% higher than 2020 (chart). BlackRock Inc. also has a strong share repurchase program. During the past 10 years, the company was buying back the shares in a stable and continuous manner, which has also impacted the stock price favorably during the period.

Valuation

The combination of strong performances during the past years combined to management's focus on ESG policies and the efforts towards investment opportunities within fintech technologies made the company a leader inside the industry. For the valuation method, we used a three-stage dividend discount model to arrive at an intrinsic value for BlackRock Inc. stock. Following the bottom-up approach, we estimated 11.88% for the short-term growth rate and a long-term growth rate of 3%. For the discount rate we used the CAPM method which gave us the cost of equity of 7.10%. Given these assumptions and including the average stock repurchase during the past 5 years we have the intrinsic value of $993.83. The sensitivity analysis estimates BlackRock Inc. stock's intrinsic value between $752.90 and $1.392. From the quantitative analysis we can see that the stock is undervalued, and the price is expected to rise during the next year.

Challenges

We consider the overall economic outlook to be one of the main challenges for this year. We believe that the uncertainty about the monetary policies for this year will not directly affect the stock but can impact the economic environment overall. Another challenge could be the internal concerns about racial and gender discrimination episodes occurred during the past year. However, the company addressed immediately the issue hiring an external firm to solve the problem and promoting the importance of concepts as equity, diversity, and inclusion within corporation's culture. Another challenge can be represented by firm's large investments in fossil fuel companies and stocks, which were negatively criticized by climate activists and environmentalists at the beginning of 2022.

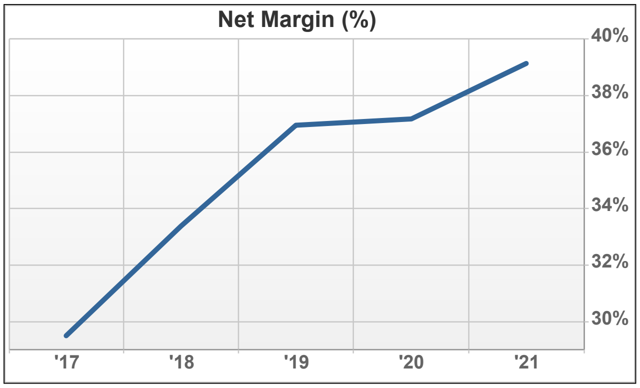
Conclusion & Recommendation

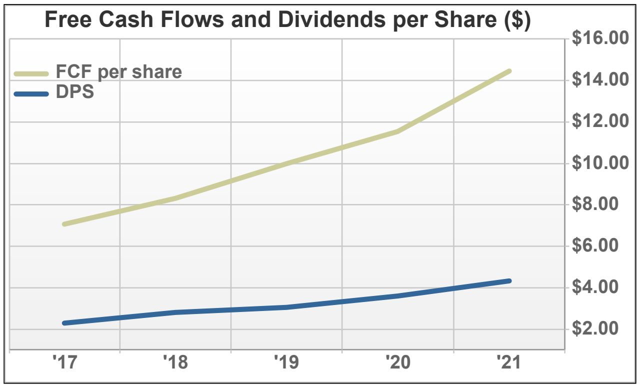
BlackRock's focus in ESG investments combined with a strong balance sheet and the stability of its payout policies will increase the stock price during the next year.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

T. Rowe Price Group Inc. (NASDAQ: TROW)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$268.93**	**$144.56**	**0.9x**	**Mid Core**	**3.3%**	**90**	**NR**





Introduction

T. Rowe Price provides asset-management services for individual and institutional investors. It offers a broad range of equity, fixed income, ETFs, mutual funds, and index funds. At the end of 2021, the firm had $1.688 trillion in managed assets.

ESG Status

Focus on improving ESG data integrity and the expansion of ESG capabilities were the principal objectives of T. Rowe Price during the past years. The creation of several frameworks within the existing RIIM (Responsible Investing Indicator Model) platform was only few of the projects which helped the company to achieve a FTSE ESG rating of 90. The firm is ranked second among the financial companies listed in S&P500 and the new CEO Rob Sharps is strongly focused on the achievement of sustainability goals and objectives. T. Rowe Price has analyzed over 15,000 of companies with its own research model building successful relationships and partnerships with 1002 firms in 2020. In March 2021 T. Rowe Price became a signatory of the United Nations (UN) Global Compact, which is the largest corporate sustainability network; strongly supporting its environmental goals and policies.

The Story Behind the Stock

T. Rowe Price has been in the industry for more than 80 years and was successfully able to go through different economic outlooks and environments. Uncertainty and market volatility expected to occur in 2022 may be a good opportunity for the company to outperform again the peers and its competitors. The stock provided an average 12% return over the past decade and the dividends have consistently increased since 1986. A scenario of high interest rates may benefit T. Rowe Price since investors will increasingly turning toward active management funds from passive indexes as they search for higher returns and performances. It happened during the timeframe 2004/2006 when the company had a CAGR revenue growth of 19%. The management's goal in 2022 will be focusing on value and small cap stocks maintaining a strong cash balance and increasing their allocation in bank loans.

Fundamental Analysis

Balance Sheet:

T. Rowe Price has maintained a growing cash flow over the last five years. It had a continuous growth of approximately 15%. The company shows a healthy balance sheet, financing its operations mainly through the use of short-term obligations and leases. The company has only 2% of its assets in long-term debt which positively impacts the firm's financial freedom and flexibility.

Income Statement:

T. Rowe Price Group reported a continuous increase in net income since 2016. Net margin has improved in all of the past 5 years, which underlines the capability of the company to continuously generate profits (chart). The company achieved an important increase of 23.6% in Sales in 2021, the best result of the last 10 years. The overall strong performance of the company was due to a 28% increase of assets under management and a successful partnership with Charles Schwab. The acquisition of Oak Hill Advisor at the end of the past year underlined the focus of TROW on the alternative market strategies.

The launch of Global Impact Credit Strategy in U.K during the past year highlights the effort of T. Rowe Group in developing and following ESG investment strategies. EPS per share CAGR growth was of 16.6% during the past 5 years reaching the amount of $ 13.12 per share in FY 2021.

Operating Income had a 5-year CAGR of 11.61% and the operating margin was 50% in 2021, growing by 7% since 2018.

Free Cash Flows:

The company had an impressively stable and consistent FCF per share and DPS growth during the past 5 years. Free cash flow per share in 2021 was $14.47 per share and had a 5-year CAGR of 14.9%. Dividends per share had a 5-year CAGR of 13.6% and reached $4.32 per share in 2021 (chart). T. Rowe Price Group also has a share repurchase program, which was consistent with the dividends payments during the past 5 years.

Valuation

T. Rowe Price Group's focus on ESG investments and expansion to alternative credit markets made the company successful in across active management funds. With this premise, we used a three-stage dividend discount model to arrive at an intrinsic value for company's stock. Following the bottom-up valuation model, we utilized a 12% short-term internal growth rate. We used as a reference the 5-year average reinvestment rate, which was of 18%, and kept in mind the volatility of the markets with a near future outlook concerning the interest rates rise. We estimated a long-term sustainable growth rate of 3%. For the discount rate we used the CAPM method which gave us the cost of equity of 7.2%. Given these assumptions adjusting for share repurchases, we arrived at an intrinsic value of $268.93. The sensitivity analysis estimates T. Rowe Price Group stock intrinsic value between $194.07 and $396.53. From the quantitative analysis we can clearly notice as the stock is undervalued even under conservative assumptions.

Challenges

We consider that the overall uncertainty of the economic scenario in 2022 and the monetary policy effects can represent one of the challenges for the company. In the short term, the recent change of CEO can keep impacting the stock price. However, we believe this impact to be temporary since the new CEO has 25 years of experience in upper management positions with a very successful career path inside T. Rowe Price Group.

Another factor to keep in mind is the possibility of further COVID outbreaks and the market reaction on the development of new variants. However, very high operating margins of the company may provide enough safety for the shareholders and investors.

Conclusion & Recommendation

We believe that T. Rowe Price Group's active involvement within ESG investment field, a strong balance sheet and company's investment plan for the 2022 will bring the stock to rise.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Healthcare

Introduction

The Healthcare sector consists of businesses that manufacture medical equipment or drugs, provide medical insurance, or facilitate medical services to patients. The Centers for Medicaid and Medicare Service (CMS) predicts that National Healthcare spending in the United States is expected to grow at an annual rate of 5.4% until 2028, slightly above the projected GDP growth rate of 4.3% during this period. This will allow healthcare's share of the US economy to rise from 17.7% today to 19.7% in 2028 creating a positive outlook and growth potential for the industry.

Opportunities

Finally, the majority of Americans have had the opportunity to take a COVID-19 vaccine and many people are once again feeling safe in their everyday activities. This will allow companies within the healthcare sector to return to their prior operational stability. Mayo Clinic reports that 65.1% of eligible Americans have been vaccinated and 76.5% have at least one dose. With most people having access to the booster shot as well, Americans are feeling as safe as ever resuming normal life. During COVID-19 many people were forced to live a stagnant lifestyle, which can lead to a deterioration of personal health and an increased need for pharmaceuticals or treatment. The percentage of individuals with obesity in the US is expected to increase from 35% today to 44% in 2028 with the overweight population approaching 76%. This will dramatically increase the need for obesity and diabetes care, along with other pharmaceuticals. Obesity-related conditions such as stroke, heart disease, type 2 diabetes, and certain types of cancer are some of the leading causes of preventable, premature deaths. As technology develops, companies will be able to produce drugs with increased effectiveness at a cheaper cost. We see a great opportunity in healthcare within the pharmaceutical industry to capitalize on these trends as new drugs are developed and demand steadily grows. Leaders in the pharmaceutical industry such as Novo Nordisk and Gilead Sciences will be poised to benefit from these trends.

Challenges

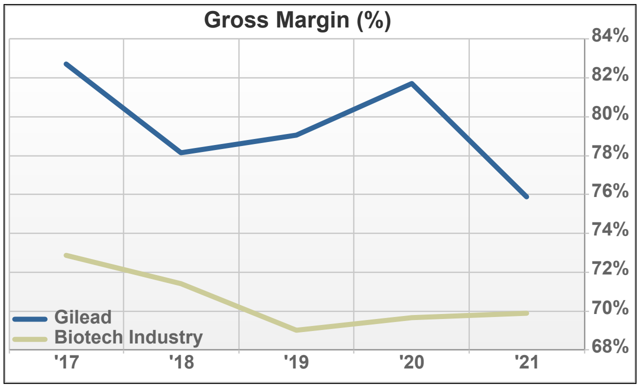
In 2021, the effects of the COVID-19 pandemic lingered with new variants and supply chain issues challenging the healthcare sector. Looking ahead, the sector should be able to resume normal pre-pandemic operations and be able to capitalize on elective surgeries that have been put off and newly developed treatments in the industry. If another COVID-19 variant outbreak reaches the healthcare industry it will be prepared but will limit most company's capacity to innovate and growth may have to be pushed back yet another year. Another challenge is that many healthcare workers are experiencing extreme physical and mental fatigue with 55% of frontline healthcare workers reporting burnout and 69% among younger staff members reporting burnout. Therefore, a major staff shortage could be a concern in the industry if it is not addressed quickly.

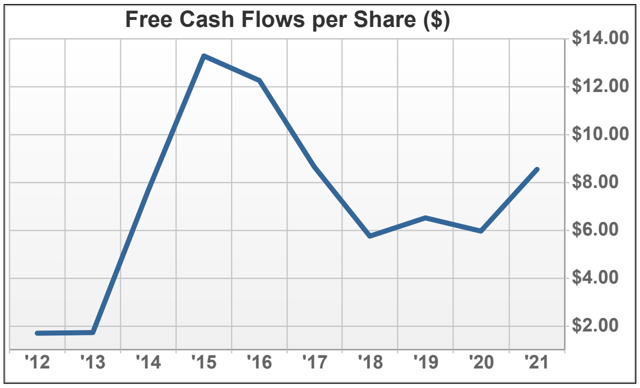
Conclusion and Recommendation

The Crummer Investment Management Team has decided to slightly overweight the Healthcare sector at 13.9% of the portfolio, a positive 4% tilt over the sector benchmark. There are increasing positive indicators in the sector and new demand for new pharmaceuticals increases and potential advancements in the industry outweigh the negative effects of COVID-19 in the previous few years. The long-term strength of the industry looks positive and there are no signs of slowing down.

Gilead Sciences, Inc. (NASDAQ: GILD)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$96.86**	**$60.40**	**0.5x**	**Large Value**	**4.8%**	**56**	**BBB+**





Introduction

Gilead Sciences was founded in 1987 and is one of the largest biopharmaceutical companies in the world. They are known for developing antiviral drugs for HIV, hepatitis, and influenza. Gilead is headquartered in Foster City, CA, and operates in 111 countries around the world. They boast an impressive five-year sales CAGR of 9.1% and a five-year reinvestment rate of 11.9%.

ESG Status

Gilead has committed to a responsible growth strategy and is on track to reach its 2016 goal of reducing its emission by 25% in 2025. Gilead also participates in the American Chemical Society's Green Chemistry Institute roundtable groups and works to make their drugs more sustainable. They have also had a positive social impact on their communities and have donated $409 million in COVID-19, health, racial equity, wildfire relief, and LGBTQ+ support. They have responded to criticism about their drug prices being unobtainable for some and have introduced tiered pricing with discounts based on disease burden and income level. They currently have in place initiatives to introduce an equal representation of minority and women employees in senior management levels by 2025.

The Story Behind the Stock

Gilead develops and markets a very diverse offering of drugs to cure various illnesses and diseases. They also have a very healthy pipeline of drugs looking to combat diseases such as COVID-19 and various cancers. They are currently working on advanced cell therapy treatments to cure diseases as well. Their new drug Veklury® has played a key role in curbing COVID-19 and will continue to be in high demand as COVID-19 lingers. Their largest segment of HIV treatment was up 7% in the past year with sales of $4.5 billion. The COVID-19 pandemic showed the importance of new drug development. Thus, Gilead's promising pipeline of new drugs, combined with their staples, reflects a promising outlook for the future. Gilead has also been acquiring innovative companies at an impressive clip to give them access to new breakthrough drugs and manufacturing methods. High margins on Gilead's new and existing drug products will allow them to continue to grow their free cash flow and satisfy investors.

Fundamental Analysis

Balance Sheet:
Gilead has continued to show steady growth while investing in new drug development. They have also been working hard to reduce their working capital in recent

years which reduces their need to excess cash. They are now reaping the benefits of their COVID-19 drugs that incurred heavy R&D focus and expenses in 2020 and 2021.

Income Statement:
Gilead has continuously had some of the strongest margins in the industry with an 83.4% gross margin in 2021 (chart). They have also shown an impressive return on equity with an average return of 21.3% over the past five years. Their sales and EBIT have had a CAGR of 12.1% and 10.3% respectively over the past decade. Their 2021 revenue was also up 11% from their mid-year guidance showing strong momentum going into 2022 and beyond.

Free Cash Flows:
Gilead has a significant five-year adjusted reinvestment rate of 10.5% after throwing out both a high and low outlier. They also have been positively trending with a 43.8% increase in their free cash flow per share (chart). They pay out a substantial quarterly dividend of $0.73 that is often supplemented with sporadic share repurchases. However, the repurchase amount has fluctuated greatly over the past decade going from 0.5 billion in down years to over 11 billion in years of significant growth. Their dividend yield of 4.78% provides a great payout along with the potential for future earnings growth.

Valuation

Gilead's wide range of drug products combined with new potential market disrupters paints of positive signal for the company going into 2022. A bottom-up valuation model with a three-stage dividend discount H-model yielded a short-term growth rate of 9.79% that was then adjusted down three percent based on Gilead's maturity. We estimated a very conservative long-term sustainable growth rate of 2% for the company. Our economic forecast estimated a cost of equity of 5.85%. The future value of share repurchase was not added in due to the sporadic nature of the buyback amounts. Due to the maturity of the company the short-term growth rate would immediately decrease to the long-term growth rate over the next two years. This model derived a target price of $96.86 for the stock with a range of $87.55 to $136.88 based on sensitivity analysis with varying short and long-term growth rates. We believe this is an accurate but conservative estimate with potentially greater upside through stock buybacks or a longer period of short-term growth. Gilead also provides great value with a considerably lower price-to-earnings ratio than its competitors. Gilead's P/E ratio is currently 9.3 compared to 27.0 and 13.3 in its direct competitors of Ely Lilly and Novartis. This price target gives the stock an upside of about 60% from its current price of $60.40.

Challenges

Gilead may face various challenges in the future such as a negative social outlook of the pharmaceutical industry along with the company's recent legal troubles. Gilead recently had to pay $1.25 billion to ViiV Healthcare Co, due to patent infringement. This is not Gilead's first settlement, and they will have to continue to focus on their ESG to turn around public perception. According to Gilead, this lawsuit and its unexpected expenses cost investors around $0.80 per share during Q4. The pharmaceutical industry has often been accused of price gouging and limiting access to potentially life-saving drugs. Another legal battle could be detrimental to Gilead as they recover from their most recent one. However, CEO Daniel O'Day says Gilead is committed to increasing its focus on ESG to eliminate these challenges.

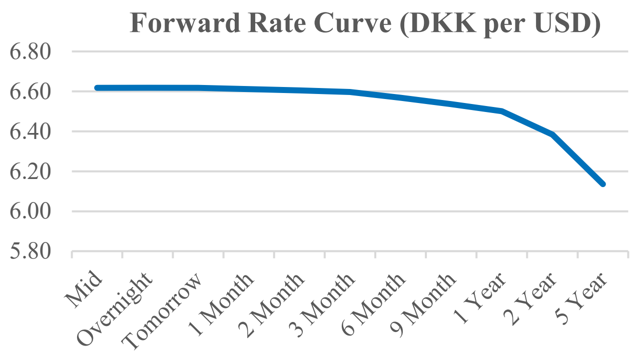
Conclusion & Recommendation

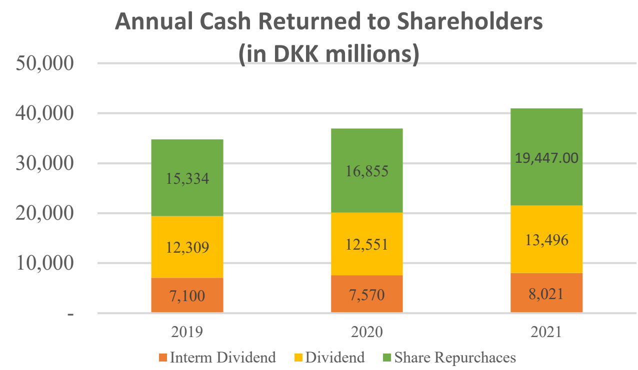
Gilead is poised to capitalize on its existing stable of drugs while continuing to develop a promising pipeline of new pharmaceutical products that will positively impact people's lives. They provide a substantial dividend yield combined with an industry-low P/E and great growth potential.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Novo Nordisk A/S ADR (NYSE: NVO)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$148.53**	**$102.95**	**1.6x**	**Large Growth**	**1.1%**	**69**	**AA-**





Introduction

Novo Nordisk is a Danish pharmaceutical manufacturer founded in 1923 that markets its products in over 180 countries worldwide. Novo's drugs specialize in diabetes care, and they are consistently one of the world's largest insulin producers. Novo has enjoyed steady growth over the past five years with a sales CAGR of 6.5% and an impressive average reinvestment rate of 37.2%.

ESG Status

Novo Nordisk places a substantial emphasis on ESG and has reported integrated statistics on their ESG efforts since 2004 in their annual reports. As for the environment, Novo has made it a key point to minimize its harmful impact. They reported that 100% of their power for production sites was produced from renewable energy in 2021. Additionally, 99% of their waste was recycled or used for energy production with less than 1% going to landfills. Novo has also had a positive social impact collaborating with various diabetes awareness organizations and is working to make insulin available to more communities. They also have achieved a figure of women in 43% in senior leadership and have a goal of 45% by 2025. They are also constantly ranked in Fortune's top 100 places to work.

The Story Behind the Stock

Novo Nordisk has constantly been growing at a rapid pace and is on track to capitalize on higher instances of both type 1 and type 2 diabetes worldwide. According to the Center for Disease Control (CDC), the percent of Americans with diabetes has grown from 4.4% in 2000 to 11.3% today. The CDC also reports that 23% of American's are also living undiagnosed with diabetes and 38% of the US population already has developed prediabetes. With people today living a much more stagnant lifestyle throughout COVID-19 combined with an increasing obesity rate this number will continue to rise. This increase in diabetes will cause large demand for Novo's lifesaving insulin products for various types of diabetes.

Fundamental Analysis

<u>Balance Sheet:</u>
Novo Nordisk has experienced an increasingly healthy balance sheet over the past few years. They have also been debt free until recently in 2021. However, even with this small increase in leverage their net debt to total capital ratio is still 13.3%, well below their US counterparts.

Income Statement:

Novo's net income has seen a CAGR of 11.4% over the past decade with sales growth being positive each of the past five years. Novo's also maintains a healthy operating margin of 41.9% has allowed them to be very profitable. With an inelastic product and high barriers to entry, this figure will continue to stay high. Their five-year return on assets has been very high with an average of 33.2%. This has led to a return on equity of 71.2%, a 3.9% increase from the year prior.

Free Cash Flows:

One of Novo's most impressive statistics has been an average reinvestment rate of 37.8% over the past five years. This shows that they are continually reinvesting into their company and expecting to capitalize on their customer growth. Their free cash flow per share has also been increasing steadily with a 26.4% increase in 2020 and an 11.4% increase in 2021. Novo pays an unconventional dividend structure in comparison to US-based companies paying out two dividends a year with a traditional dividend in March and an interim dividend in August (chart). In total last year, their dividends were 1.05 USD per share. In addition, a large portion of their share's value comes from stock repurchases. They have repurchased between 2.0 and 3.1 billion USD worth of stock every year for the past decade. This year their 3.09-billion-dollars in stock repurchases equates to about $1.35 per share. As Novo Nordisk continues to be flush with cash, these share buybacks should continue and slowly grow.

Danish Krone to US Dollar Outlook:

Novo Nordisk trades on the NASDAQ Nordic exchange and pays out dividends in Danish Krones (DKK). This is then converted back to US Dollars for their ADR on the NYSE. An appreciation of the DKK to the USD would result in increased value for the ADR shareholder. The exchange rate between the two currencies is about 6.62 DKK per USD. The Danish Krone has been very stable over the past five years and has seen little volatility in exchange rate with the USD. Furthermore, the yield curve for the Danish Krone is flat for a year and then downward sloping, signaling a possible appreciation of the currency (chart).

Valuation

By capitalizing on health trends in the United States and around the world Novo Nordisk will continue to grow and reinvest in their company. A bottom-up valuation model with a three-stage dividend discount H-model yielded a short-term growth rate of 22.15%. We estimated a conservative long-term sustainable growth rate of 2.5%. Our economic forecast estimated a cost of equity of 5.99%. After adjusting for expected share repurchases, we arrived at a target price of $148.53 a share. A sensitivity analysis with fluctuating short and long-term growth rates resulted in a range of $101.82 to $222.23. This target price gives a 45% upside from its current price of $102.95.

Challenges

Novo Nordisk faces challenges from public perception and legislation behind pharmaceutical prices. Legislation to cap prices of insulin, such as former president Trump's executive order, would hurt margins and the bottom line for the company. They also face an ethical dilemma of if companies should be able to control the prices of life-saving drugs that are required by millions of people daily. Despite their great ESG efforts, this perception could hurt the social image of Novo Nordisk. Another challenge they could face is the growth potential of the organization. They have reinvested over 30% back into the company annually over the past decade and could reach capacity sometime in the future. However, they have a healthy pipeline of new products and are branching into new areas of obesity pharmaceuticals that should allow them to continue their growth trajectory.

Conclusion & Recommendation

Novo Nordisk will continue its steady growth and capitalize on health trends such as annual increases in diabetes incidence and prevalence. Their outstanding ESG performance will shine a favorable light on the company, and they will continue to produce products that will save and better the lives of millions around the world.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Industrials

Overview

The Industrial sector consists of firms that manufacture military airplanes, automotive, and other high commercial and consumer products as well as airlines, transportation, and shipping companies. There are both service and production companies. Several companies such as Lockheed Martin are reliant on government spending that drives their revenue when other firms such as commercial airlines sell their services to consumers.

Sector Outlook

Certain firms such as Lockheed and Honeywell are expected to have success with increases sales because of the war between Russian and Ukraine. Other firms such as airlines or shipping companies are going to struggle as a result of rising oil prices. This rise will increase their cost of service and affect these firms operating margins significantly. This sector is a mixed bag of sorts based on our current economic outlook, where the team views some firms as having a positive outlook over the next twelve months and others having a negative outlook over the next twelve months.

Recommendation

As result of some firms in the sector being given a positive outlook and other firms being assessed a negative outlook, we determined to neutral-weight the Industrials sector.

Information Technology

Introduction

The Information Technology (IT) sector consists of companies that provide the following: custom computer programming services; integrated hardware, software, and communication technologies; and on-site management and operation of client's computer systems. The sector is often broken down into the following categories: Software & Services, Technology Hardware, and Semiconductors & Semiconductor Equipment. As of February 28, 2022, the information technology sector has the largest weighting in the S&P 500 at 28.1%. Throughout the COVID-19 pandemic, the success of cloud computing companies, software-as-a-service (SaaS) companies, and at-home technology companies have paved the way for a 'new normal' in which corporations have increased annual IT spending.

Major Trends

After a minor setback in 2020, the industry is returning to its previous growth pattern of 5-6% annually. Software and technology services make up half of all spending in the U.S. market, significantly higher than other regions due to the pre-existing hardware infrastructure already in place. We expect this trend to continue within the United States, while IT firms will continue to build hardware infrastructure around the globe. Economies, jobs, and social lives are becoming more digital, more connected, and more automated leading to higher demand for IT products and services – an ever-accelerating trend.

Blockchain technology, distributed ledgers, and non-fungible tokens (NFTs) are transforming the world slowly, and we will continue to see advances in these technologies in 2022. We expect to see the biggest growth within the sector from the semiconductors & semiconductor equipment segment, as supply chain bottlenecks slowly ease over the next year and pent-up demand is satisfied. Intel Corporation and other semiconductor chip producers are investing heavily into domestic chip foundries which should lead to stability and increased profits down the road. Finally, SaaS companies such as Cisco Systems, Inc. will continue to play a large role in the daily lives of the average worker and socialite. As more information technology infrastructure is built throughout the world, SaaS companies will continue to gain market share.

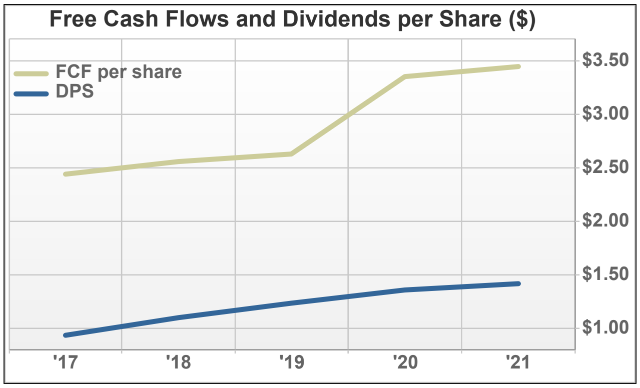
We expect interest rates to rise significantly in 2022 causing bond markets to crash. This can present a major hurdle for the large growth companies that currently dominate the segment. We see this transitory hurdle as an opportunity for many of the large value companies that have been downplayed over the past two years.

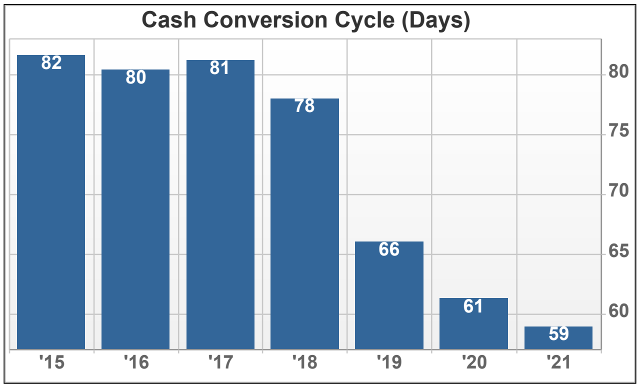
Conclusion and Recommendation

Reliance of US companies on custom programming services, integrated hardware, and technology management bode well for the IT sector. The impact of the COVID-19 pandemic can still be seen, as new innovative technological solutions hit the markets daily. Promising sector-specific dynamics counterbalanced by unfavorable macroeconomic expectations lead us to recommend neutral-weighting for the information technology sector at 28%.

Cisco Systems, Inc. (NASDAQ: CSCO)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
HOLD	**$72.92**	**$55.77**	**0.7x**	**Large Value**	**2.7%**	**83**	**AA-**





Introduction

Cisco Systems, Inc. was founded in 1984 and is one of the largest networking hardware, software, and telecommunication providers in the world operating in over 115 countries.

ESG Status

Cisco has evolved and expanded the way it positively impacts people and the planet for decades. Cisco signed the UN Global Compact in 2000, and now in 2021 Cisco is committing to reach net zero greenhouse gas emissions by 2040. In 2021, over 85% of Cisco's global energy usage came from renewable energy sources.

In 2016, Cisco set a goal to positively impact one billion people by 2025 through social impact grants to nonprofits like Kiva and signature programs like Cisco Networking Academy. Cisco has completed 70% of that goal to date, helping 716 million individuals gain access to water-quality solutions, housing, food, humanitarian relief, financial services, employment, and skills training. Cisco continues to donate $1 million each year to a social startup; in 2021, ZzappMalaria was the winner of the Cisco Global Problem Solver Challenge, creating an app-based solution that can be used to help prevent the spread of malaria in Africa.

The Story Behind the Stock

Cisco's pivot to becoming a software as a service company (SaaS) started early in the 21st century with the acquisition of Webex in 2007 and has grown from there with the notable acquisitions of the NDS Group in 2012, Sourcefire in 2013, Jasper Technologies in 2016, AppDynamics and Broadsoft in 2017, Duo Security in 2018, Acacia Communications in 2019, and ThousandEyes in 2020. We believe this change in direction was in the best interest of the company due to the proliferation of cloud services decreasing the need for Cisco's hardware. In 2020, Cisco achieved their goal of gaining more than half of their revenue from sales in software and services. Moving forwards, we expect Cisco to continue growing the SaaS sector with increased public cloud usage and machine-to-machine connection growth.

Fundamental Analysis

Balance Sheet:

Cisco's cash flow continues to be hindered by the COVID-19 pandemic with a 16.6% decrease in cash and short-term investments from 2020; however, this can partially be attributed to Cisco decreasing their Cash Conversion Cycle by an average of 6 days per year since 2019 (chart). Cisco also decreased long-term debt by

19.5% in 2021 and continued decreasing total-debt by $711 million. These moves have led to Cisco decreasing their debt-to-asset ratio from 60% in 2020 to 57.7% in 2021. We believe this move to a less leveraged capital structure is warranted and displays Cisco's strength during unprecedented times.

Income Statement:

As Cisco's infrastructure platform segment sales have decreased over the past decade, it is important to note a 42.8% increase in revenue from their newer services segment between 2012 and 2021. With revenue remaining near stagnant in the past decade at a CAGR of 0.82%, it is impressive that Cisco has simultaneously increased their net margins with a Net Income CAGR of 3.17% in the same period. We believe this is largely due to their services segment revenue having a lower COGS in the long run than the infrastructure platform segment, and we expect this trend to continue over time as the services segment grows.

In the past decade, Cisco has maintained gross margins between 60% and 65% and an average net margin of 18.14% in 2012-2021. In 2021 Cisco achieved an EPS (diluted) of $2.50, which is a 67.7% increase from 2012 and a 31.6% increase from 2017. It is clear to us that Cisco's management has made appropriate moves to increase EPS and decrease costs throughout the past decade.

Free Cash Flows:

Cisco Systems, Inc.'s dividends have grown at an average of 21.35% annually over the past decade with an average dividend payout ratio of 46.8 between 2012 and 2021. At the same time, Cisco repurchased an average of $7.8 billion common and preferred stock each year. This has resulted in an average Free Cash Flow per Share of $2.69 (chart). Cisco's steadily increasing dividends and consistent stock repurchases throughout tumultuous times are great signs of excellent management.

Valuation

Cisco's successful acquisitions of credible companies, emphasis on ESG standards, and redirection to becoming a SaaS company make it stand out amongst other companies in the information technology sector. With this in mind, we used a three-stage dividend discount model to arrive at an intrinsic value for Cisco's stock.

Using Cisco's high reinvestment rate of 11.28% reflecting their high software R&D budget, we found an adjusted short-term growth rate of 5.64%. We estimated a conservative sustainable long-term growth rate of 3%. By discounting at a 6.3% cost of equity, the most likely intrinsic value was $72.92, adjusted conservatively for expected share repurchases. Our sensitivity analysis estimate's Cisco's stock intrinsic value between $65.48 and $96.82. Even though our sensitivity analysis reveals Cisco to be a highly undervalued stock, we believe our most likely estimates are conservative, supporting $72.92 as a reasonable intrinsic value for Cisco Systems, Inc.

Challenges

Cisco's market leadership in routing, SD-WAN, and wireless are being attacked by incumbents and upstarts. White boxes, being used by service providers and large IT groups, may also be used by more clients, leading to potential loss in branded hardware sales. On top of this, Cisco's legacy hardware-based solutions are being replaced by cloud-based solutions on a global scale. Cisco has responded by disaggregating its hardware and software segments, a move which we think will play out in the long term as their subscription sales continue to rise. Cisco's ample catalogue of cloud software products unites the company's communication legacy with the cloud-based solutions that challenge their hardware sales.

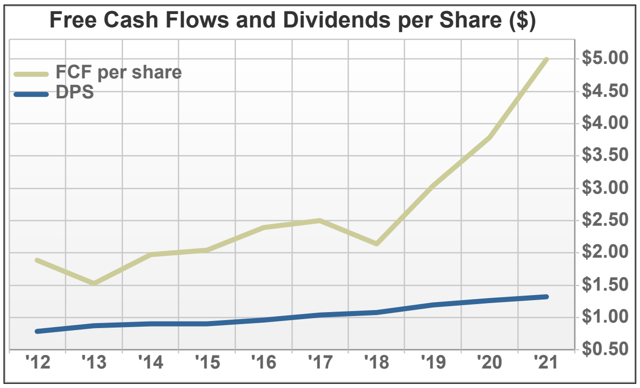
Conclusion & Recommendation

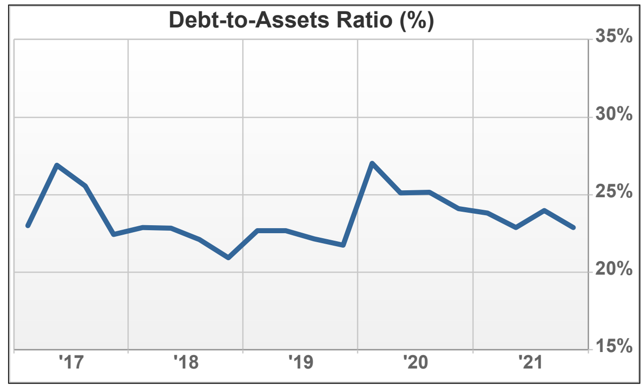
Cisco's redirection into the services segment and continued investments in R&D should lead to continued growth. As cloud integration proliferates throughout business, Cisco is quickly becoming the leader in cloud integrated software. Once the market realizes the potential of Cisco as a SaaS company, the price will rise to fair value.

With our intrinsic value, the company is currently undervalued. We recommend a HOLD.

Intel Corporation (NASDAQ: INTC)

Recommendation	Valuation	Last Price	Relative P/E	Style	Dividend Yield	ESG Rating	Credit Rating
BUY	**$78.15**	**$47.70**	**0.3x**	**Large Value**	**3.1%**	**98**	**A+**





Introduction

Intel Corporation was founded in 1968 and is the largest semiconductor chip manufacturer in the world. Intel developed the x86 series of microprocessors and built facilities in 63 countries and regions worldwide.

ESG Status

In May 2020, Intel Corporation outlined their 2030 Intel RISE Technology Initiative (IRTI) and corporate responsibility goals for the next decade which include using 100% renewable energy and net positive water usage. The IRTI provides a disciplined framework for Intel employees to work with partners towards the UN Sustainable Development goals. In 2020, Intel increased usage of renewable energy to 82% and conserved 7.1 billion gallons of water. Intel also launched the Alliance for Global Inclusion, a coalition focused on four inclusion metrics: leadership representation, inclusive language, inclusive product development, and STEM readiness in underserved communities. Throughout the pandemic, Intel also worked on 230 projects around the globe accelerating access to technology at the point of patient care, ensuring access to online learning for students, and aiding in economic recovery. Intel has also set a goal to increase the representation of women in technical roles to 40% by 2030.

The Story Behind the Stock

Intel Corporation holds the lion's share of the PC and server processor markets. The company sustains this position at the forefront of technological progress by heavily investing in Research & Development, a trend which we expect to continue. As personal computer market growth stagnates, Intel's server processor business has benefited significantly from the global shift to cloud storage, and we believe this growth will continue. Intel has made a series of smart acquisitions to further build its artificial intelligence, automobile, and blockchain offerings including Altera in 2015, Mobileye in 2017, and Habana Labs in 2020.

Fundamental Analysis

Balance Sheet:
Intel has maintained a steadily growing cash flow over the past 10 years. Current assets and total book value have doubled in the past decade. At the end of 2021, Intel held $38.1 billion in total debt and $28.4 billion in cash and short-term investments. With a stable debt-to-asset ratio in between 20% and 27% over the past five years (chart), we believe the firm generates significant cash flow and has ample resources to meet any debt responsibilities, capital expenditure obligations, acquisition requirements, and future shareholder returns.

Intel announced David Zinsner, Micron's CFO since 2018 and formerly Intel's first CTO, as the new CFO starting May 2022. We like the appointment as Zinsner has greatly improved the balance sheet in his current position at a similarly capital-intensive business.

Income Statement:

Intel has nearly doubled its net income in the past decade with a CAGR of 6%. This steady long-term growth in profitability is a sign of Intel's resilience throughout years of changes in consumer spending patterns. Intel has achieved this by investing an average of $12.6 billion annually into Research & Development over the past decade, a level of spending which far surpasses any of its competitors. The ability of Intel Corporation to maintain its market share while adapting to new trends is what allows the company to maintain high gross margins between 70% and 79% over the past decade (2012-2021) and to boast an average net margin of 22.41% over the same decade. We believe these margins will remain high in coming years despite any potential supply chain barriers.

Over the past 5 years, Intel has achieved an average EPS (diluted) of $4.19, almost double the $2.16/share of the 5 years previous, showing Intel's dedication to continuous long-term earnings growth.

Free Cash Flows:

Intel Corporation's dividends have grown at an average of 5.39% over the past decade with an average dividend payout ratio of 38.1 between 2012 and 2021. At the same time, Intel repurchased an average of $6.85 billion common and preferred stock each year. This has resulted in an average Free Cash Flow per Share of $3 (chart). The steady increases in dividends and the stock repurchases are noteworthy considering the simultaneous large investments into Research & Development.

Valuation

Intel's focus on research and development, savvy technology acquisitions, and ESG standards make the company stand out amongst its peers. With these in mind, we used a three-stage dividend discount model to arrive at an intrinsic value for Intel's stock.

Using Intel's high reinvestment rate of 16.8% reflecting their extremely high R&D budget, we found an adjusted short-term growth rate of 5.04%. We estimated a conservative sustainable long-term growth rate of 3%. By discounting at a 5.81% cost of equity, the most likely intrinsic value was $78.15, adjusted conservatively for expected share repurchases. Our sensitivity analysis estimates Intel's stock intrinsic value between $68.25 and $108.28. Even though our sensitivity analysis reveals Intel to be a highly undervalued stock, we believe our most likely estimates are conservative, supporting $78.15 as a reasonable intrinsic value for Intel.

Challenges

Intel is facing manufacturing delays and must successfully maintain its competitive advantage to prevent market share loss to new threats. To fight against the worldwide supply chain issues, Intel will invest $20 Billion into a new chip making facility in Ohio – with the government providing around $2 billion in incentives. Intel has also faced issues breaking into the smartphone market, as mobile device usage continues to grow at the expense of PC usage. Additionally, the rise in artificial intelligence has increased competition in data centers as competitors leverage GPUs to accelerate server workloads. Consequently, Intel's acquisition of Altera, Mobileye, and Habana Labs have positioned the company to fight off broad accelerator competition.

Finally, TSMC and Samsung's 7-nm process nodes were released and in use ahead of Intel. We believe that Intel's delays in progress are transitory, and we expect Intel to get ahead of their competitors with its Intel 4 process node thanks to EUV lithography.

Conclusion & Recommendation

Intel's savvy acquisitions and investments into R&D should lead to continued growth. Once the market realizes Intel can overcome short-term supply disruptions, the price will rise to fair value.

With our intrinsic value, the company is currently undervalued. We recommend a BUY.

Materials

Overview

The materials sector consists of firms that supply the raw materials for commercial and consumer users. These firms provide materials in the chemicals, construction, containers, metal, mining, and paper products sector. Some of the largest firms in the sector are Linde plc (LIN) and Ecolab Inc. (ECL). Linde, a multinational chemical company, is responsible for most of the supply of chemical used by commercial firms. Ecolab is a water treatment, water purification, and cleaning and hygiene firm.

Sector Outlook

The sector is likely to benefit from inflation as they will be able to charge their commercial and consumer products a premium since the demand for these products is unlikely to decrease based on our economic outlook. Although the cost of production is likely to increase, operating margins for most firms will not be heavily impacted since they will be able to charge higher prices to customers. The sector as whole has a positive outlook from the team. Most firms are expected to maintain their current success and growth rates in this sector.

Recommendation

As a result of our expectation of a steady demand for the sector's products and services, we are proposing a slight overweight of the Materials sector.

Real Estate

Overview

The Real Estate sector represents 2.6% of S&P500. The sector is mostly composed by REITs and companies operating within residential real estate, commercial real estate, and industrial real estate.

Sector Outlook

According to Statista, real estate sector in U.S is expected to have a CAGR of 3.61% in the 2022 – 2025 timeframe period. Inflation uncertainty combined with an expected rise in the interest rates are the most important drivers for this sector in the next twelve months. Real estate prices are sensitive to the actions of the FED and, in this case, the forecasts of multiple interest rate hikes can significantly affect the profitability of REITs. On the positive side, we expect to see a gradual return of workers to the offices and an increased demand for warehouses and distribution centers, which should bode well for commercial REITs. However, higher interest rates make the relatively high dividend yields generated by REITs less attractive if compared with fixed income securities, reducing their appeal to income-seeking investors.

Conclusion

We forecast that the expected interest rates rise of more than 100 basis point during the next year will impact the profitability of REITs and will have a larger impact if compared to the increased demand for offices and buildings. In conclusion, our team recommends underweighting the sector at 2.45% compared to its S&P 500 weight of 2.61%.

Utilities

Overview

Utilities sector constitutes 2.56% of S&P 500 as of end of February 2022. The companies within the sector are firms which provide or generate energy, electricity, gas, and water to residential buildings, offices and households.

Sector Outlook

According to IBISWorld, the global market is expected to reach $8,105.48 billion in 2026 at a CAGR of 7.9%. The rapid growth in investments in renewable power generation capacities is expected to drive the utilities market during the forecasted period. A large number of power generation companies are heavily investing in renewable energy sources, especially in the U.S and European countries. The utilities sector had a traditionally defensive nature in the past business and economic cycles. Expected macroeconomic events such as interest rates hikes may have a negative impact on the companies operating in the sector. Utilities companies often have consistent dividend yields but high debt levels, since their infrastructure requires large periodic capital expenditures. Most U.S electricity is produced by natural gas and coal, consequently, the fluctuations and the prices of crude oil don't impact the companies operating in the sector.

Conclusion

In conclusion, considering the combination of macroeconomic factors and sector outlook, we recommend neutral weighting this sector at 2.55%.

Appendix

Crummer SunTrust Portfolio Investment Policy Statement

(Revised April 2021)

Crummer SunTrust Portfolio

1.1 History The SunTrust Banks of Central Florida Foundation contributed all of the Crummer SunTrust Portfolio's (Portfolio) initial assets, totaling $500,000 beginning with $100,000 per year in 1999, and no additional contributions are expected. The Portfolio is part of the Rollins College endowment and is exempt from federal income taxes.

1.2 Purpose The Portfolio was established to fund periodic scholarships for students at the Crummer Graduate School of Business and to provide Crummer students with practical experience in portfolio management. The Portfolio expects to exist in perpetuity and the only required distribution is the funding of scholarships.

1.3 SunTrust Scholars SunTrust Scholarships are funded by an annual amount established by the Crummer School that generally follows the endowment distribution policy of Rollins College.

Governance

2.1 Students The students in Crummer's portfolio management class (class) act as security analysts and portfolio managers, making recommendations on portfolio strategy and individual asset selection, subject to the guidelines and limitation set forth in this Investment Policy Statement. This statement assumes the class is only offered in the spring term (January to April).

2.2 Oversight An Oversight Committee (Committee), consisting of industry practitioners, a member of the Rollins College Board of Trustees, if the Board so chooses, a member selected by the Vice President of Finance at Rollins College and a Crummer faculty member, provides guidance for the Portfolio. The overall philosophy of the Committee is one of oversight and not direct portfolio management. When the class is not in session, however, changes in the portfolio can be made by the Committee but only in light of events with the potential to significantly impact the portfolio's value.

2.3 Prohibited Transactions No transactions for the portfolio can be undertaken that are contrary to the SunTrust gift agreement, if any, or to applicable Rollins College Trustee policies.

Long-term and Short-term Investment Approaches

3.1 Long-term Strategy The Portfolio operates in both long-term and short-term environments. As a perpetual portfolio, its long-term investment strategy is designed for a conservative investor who seeks a real total rate of return that will maintain the purchasing power of the Portfolio after distributions and net of expenses. A long-term portfolio will inevitably encounter many market cycles, so the asset allocation is expected to be relatively constant. Table A contains the current long- term real growth and inflation expectations. These expectations are subject to an annual review by the class.

3.2 Short-term Tactics On an annual basis the Portfolio will adopt a tactical (short-term) sector tilt relative to the sector market weights of the S&P 500 Index. This investment tactic is designed to take advantage of short-term (one year or less) market movements by establishing the managers' economic outlook and then underweighting sectors that are expected to do poorly and overweighting sectors that are expected to do well. The current S&P 500 sectors are shown in

Table B. Tactical sector targets may deviate as much as +/- 50% from each sector's S&P 500 market weight (e.g. if the Consumer Discretionary sector has a market weight of 12%; the tactical target weighting may vary from 6% to 18% of the total equity allocation). Up to two sectors may be eliminated from any representation in the portfolio provided that the resulting re-allocation does not violate upper bound (150% weighting) of the remaining sectors. Both individual equity securities and sector exchange-traded funds (ETFs) can be used to achieve the desired sector allocations.

3.3 Objective These short-term and long-term approaches are consistent with the intent to protect the Portfolio's value in down market environments and increase its value in up market environments while funding scholarships—all without incurring a permanent destruction of principal value.

Long-Term Perspective and Asset Allocation

4.1 Risk in the Portfolio comes, in part, from the allocation among asset classes and investment styles within asset classes. The Portfolio's asset classes, strategic targets, and designated benchmarks are discussed in Section 10.2 and listed in Table C. Monitoring asset allocation, combined with a sector focus, is designed to keep the Portfolio consistent with both its short and long-term goals.

4.2 Quantitative analysis is used to address risk management. Techniques include, but are not limited to, Value-at-Risk and evaluation of portfolio alternatives such as risk parity, mean-variance optimization, minimum variance, and equal allocation. Risk should be consistent with the portfolio's target rate of return.

Rate of Return

5.1 Target The Portfolio's target rate of return incorporates the investment goals and spending policy. The target rate of return, investment goals, and expected volatility are interrelated and must be viewed as such. The long-term target rate of return goal that accommodates the Portfolio's expenses and distributions is attached as Table A.

5.2 Horizon The investment horizon of the Portfolio is perpetual and preservation of the real value of principal is necessary with such a long-term perspective.

5.3 Investment Decisions Long term objectives guide asset allocation decisions. Short term opportunities guide sector weight decisions.

5.4 Growth The primary source of Portfolio growth is expected to be judicious and timely security selection. While the Portfolio might fund additional scholarships with a more aggressive asset allocation (e.g., all equity)—prudence, and the perpetual life of the Portfolio, suggest a less risky approach that will allow the value of the Portfolio to rise with the US economy. This organic economic growth is expected to be in line with historical experience—in the range of 2 to 2½%.

Portfolio Transactions

6.1 The class recommends one portfolio composition per year to the Committee. The Committee has the authority to make changes in these recommendations.

6.2 Trades in the Portfolio are made in only one batch each year, typically in mid-April, following the class presentation to the Committee. See Section 2.2 for exceptions.

Cash Requirements

7.1 Scholarship Funding Because the date of the scholarship draw varies around the end of the College's fiscal year (May 31), as of May 1 the Portfolio will hold a cash reserve large enough to cover the annual scholarship funding rather than requiring security liquidation.

7.2 Transactions Costs and Fees Trading costs and fees will be funded in cash and incorporated into the annual transactions to avoid forced security liquidation and will usually be covered by normal sell recommendations.

Volatility

8.1 The target rate of return will ultimately dictate the level of risk in the Portfolio. If the expected volatility of the Portfolio is deemed inappropriate, the class will recommend a change in the target rate of return to the Committee.

Income, Appreciation and Taxes

9.1 The Portfolio pays no taxes on investment income and, therefore, the investments are not tax sensitive. Portfolio distributions are not limited to realized income and, therefore, the Portfolio need not generate income to fund its spending policy. The cash requirements can be met by liquidating securities (see Section 7) and usually will be covered by normal sell recommendations.

Sector and Asset Allocation

10.1 Short-term Sector Allocation To achieve its short-term tactical investment objective the Crummer SunTrust Portfolio's assets shall be managed by under- and overweighting S&P's market sectors. The current sectors are listed in Table B, but these may change from time to time. The tactical target deviations are +/- 50% of their S&P 500 market weights. Cash is a separate asset class and governed by the asset allocation policy.

> 10.1.1 Exchange Traded Funds To allow the class to thoroughly analyze current and prospective security holdings, each sector shall hold an appropriate ETF and, at most, three individual securities. The amount allocated to the ETF and the individual securities in each sector is subject to a risk budget. Justification of the risk budget is part of the annual report.

10.2 Long-term Asset Allocation Asset classes are outlined in Table C. In the short-term, security selections are driven by sector weights and, although stable asset class allocations are important for risk control, they are flexible enough to allow tactical sector allocations in the short run.

> 10.2.1 Equity Styles Asset allocation recognizes equity investment styles to help manage the risk of the portfolio. Investment styles within the equity asset class are defined as follows:
>
> > 10.2.1.1 Value–companies believed to be undervalued with potential for capital appreciation.
> >
> > 10.2.1.2 Growth–companies that are expected to have above average long-term growth in earnings and profitability.
>
> 10.2.2 Market Capitalizations Asset allocation differentiates between securities based on the market capitalizations of different companies. Market capitalizations are defined as follows:

10.2.2.1 Small Cap–companies with total market capitalization less than one billion dollars.

10.2.2.2 Mid Cap–companies with total market capitalization between one and five billion dollars.

10.2.2.3 Large Cap–companies with total market capitalization greater than five billion dollars.

10.2.3 International–equity investments in companies domiciled outside the U.S. are limited to American Depository Receipts (ADRs) listed on major U.S. exchanges or to mutual funds or exchange traded funds.

10.2.4 No target allocation will be set for equity styles and market capitalizations; however, each equity selection will be identified with a style and market capitalization. Overall weightings with respect to style and market capitalization will be supported by the current economic and market outlook. Overall market capitalization weightings will not deviate excessively from those found in the overall US equity market.

10.2.5 While equity styles go in and out of favor over time, the portfolio's strategic risk control relies on a stable asset allocation near the target. Chasing the best performing equity style is inconsistent with maintaining value in the long term.

10.3 Bonds Bonds function as both an asset class and a sector.

10.3.3 Allocation Range The portfolio relies on the bond asset class to moderate risk over the long term through diversification. Therefore, the bond allocation range is limited.

10.3.4 Bonds as a Sector Bonds are similar to a sector with an economic outlook that the managers have the flexibility to incorporate into the portfolio.

10.3.5 Risk Control The bond allocation's ability to temper the portfolio's risk is dependent on reasonable controls over the risk of the bond portfolio.

10.3.6 Effective Duration To establish risk control, the bond portfolio's effective duration is bounded between 2.5 and 5.5 years.

10.3.7 Flexibility and Risk Control By varying both the bond allocation and the effective duration, the managers have enough flexibility to take a view of the bond sector's prospects without distorting the risk profile of the portfolio.

10.4 Diversification Limit No individual asset in the portfolio may represent more than 5% of the total market value of the portfolio. This rule does not apply to mutual funds or exchange traded funds.

10.5 Derivatives The Crummer SunTrust Portfolio may contain derivative securities. Typically, the Portfolio will only use derivatives as a hedge in association with the derivatives class. In this case, a separate written proposal must be approved by the instructors involved. The cash required by these hedges will constitute no more than 10% of the Portfolio's market value.

Rebalancing Procedure

11.1 Should the asset allocation range for a particular asset class or sector be breached by reason of gains, losses, or any other reason, the class will recommend whether to rebalance the assets to the target asset class allocation, taking into account the transaction cost. In addition, the Committee shall have the authority to review the actual allocations at any time to insure conformity with the adopted tactical and strategic allocations. See Section 2.2. The assets will not be automatically rebalanced on any set schedule.

Custodian

12.1 Truist Bank (formerly SunTrust) is the custodian for the assets of the Crummer SunTrust Portfolio.

Table A		
Target Rates of Return, Components, and Spending Policy		
	Long Term	**Short Term**
Administrative and Trading Expenses	½ - 1%	½ - 1%
Allowance for Inflation	1 - 3%	Consumer Price Index
Distribution from Portfolio	3½ - 5½%	As Indicated Annually
Portfolio Real Growth	2 - 2½%	> 0%
Target Total Return	8 -11½%	Dependent on Above

Table B	
Crummer SunTrust Portfolio Equity Portfolio Sectors	
S&P 500 Sector	**Benchmark**
Communication Services	S&P Communication Services Index
Consumer Discretionary	S&P Consumer Discretionary Index
Consumer Staples	S&P Consumer Staples Index
Energy	S&P Energy Index
Financials	S&P Financials Index
Healthcare	S&P Healthcare Index
Industrials	S&P Industrials Index
Information Technology	S&P Information Technology Index
Materials	S&P Materials Index
Real Estate	S&P Real Estate
Utilities	S&P Utilities Index
Target Deviation for any sector is +/- 50% of its S&P 500 market weight	

Table C				
Crummer SunTrust Portfolio Asset Allocation Guidelines				
		Target Range		
Asset Class	*Low*	*Mid*	*High*	Benchmark
U.S. Equity	60%	70%	80%	S&P 500
International Equity	10%	15%	20%	MSCI - EAFE
Fixed Income	10%	15%	20%	Barclays US Float Adjusted Index (Vanguard Total Bond Market Index Fund)
Cash		Minimal		90-day T bill rate
Minimum weight for any asset class is 5% except Cash				

Value at Risk

Introduction

Value at Risk (VaR) calculations quantify the potential downside of a portfolio over a specific time frame to a certain degree of confidence. Low-probability, 'Black-Swan' events happen in finance, and the VaR equation helps determine the risk associated with these worst-case-scenarios. Finally, VaR can be used to compare a potential portfolio to a benchmark. In addition to VaR, Expected Shortfall shows the extreme outlier cases worse than those in the VaR equation. Expected Shortfall is sometimes used by conservative financial professionals instead of VaR to achieve a more cautious outlook.

Methods of Calculation

The Crummer Suntrust Portfolio has a continuously repeating one-year investment horizon, due to the nature of the annual decision-making course. Keeping with years past, we at CIM calculated VaR and Expected Shortfall with a 95% confidence interval using historical monthly returns over the past two decades. With this confidence interval in mind, we attempt answering these questions:

1. What is the most amount of value CIM can expect to lose in dollars over the next year? (VaR)
2. If we lose more than VaR, how much value in dollars can we expect to lose? (Expected Shortfall)

Assumptions

Value at Risk (VaR) and Expected Shortfall were both calculated using solely the equity portions of the portfolio (90%), assuming that this portion contains the large majority of the risk. Our benchmark portfolio is created using eleven GICS sectors and their current weights in the S&P500. Each sector in the portfolio is represented by the Select SPDR ETF for the sector. We then run a simulation to generate monthly scenarios with rolling returns comparing the benchmark portfolio to our own.

Conclusion

The value of the equity portion of the Crummer Suntrust Portfolio as of February 28, 2022 is $1,125,891.40. With our VaR calculations, we are 95% confident that we will not lose more than $255,437.31 over the next year. The table below shows our calculations which place our VaR and Expected Shortfall lower than the benchmark. However, we can also see that the benchmark expected return is 4 basis-points higher than our proposed portfolio. Overall, it seems that we have successfully reduced the risk of the portfolio with very little change to the overall expected return.

	Benchmark	Proposed Weighting
Value at Risk (VaR)	$257,739.63	$255,437.31
Expected Shortfall	$354,845.30	$354,598.64
Expected Return	9.88%	9.84%
Volatility (Std. Dev.)	17.16%	17.11%