2021 ANNUAL LETTER

“The best investment you can make, is an investment in yourself. The more you learn, the more you'll earn.” – Warren Buffett

CMC SIF

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2020-2021 Pitches

Williams-Sonoma (NYSE: WSM)

Consumer Group Portfolio Manager: Will Wallace

Company Overview

Williams-Sonoma (NYSE: WSM), a premier US retailer, was founded back in 1956 and is currently headquartered in San Francisco. WSM's products include a range of items for the home such as cookware, tools, furniture, lighting and décor, and more. The business's portfolio of brands includes Williams Sonoma, Pottery Barn, West Elm, Rejuvenation, and Mark and Graham.

Williams-Sonoma effectively uses a digital-first strategy in which brick and mortar locations are meant to supplement ecommerce sales (~70% of total revenue in the most recent fiscal year). The company's sophisticated, scalable omni-channel platform has been instrumental to recent growth and the overall customer experience.

Financial Summary (USD)	
Market Cap (Fully Dil.)	$12.85 Billion
Share Price	$163.00
52 Week High/Low	$194.69/$65.25
P/E	18.9x
EV/EBITDA	8.5x
Debt/Equity	92.9%
5Y Average ROE	30.3%
5Y Revenue CAGR	5.9%
EBITDA Margin	17.9%

Investment Thesis

<u>Leading home goods and furnishings retailer:</u> Williams-Sonoma is a leading home goods and furnishings retailer poised to capitalize on industry tailwinds. First, the company's omni-channel presence with a robust digital platform gives WSM a great advantage. Not too long ago, 90% of retail dollars were spent in person. Over the course of the past couple years this has fallen to below 80% which has in large part been driven by Covid-19 and the ecommerce industry is expected to grow at a CAGR of 15% for the next five years. This growth paired with the still significant proportion of retail dollars spent in store presents a unique opportunity for a business with an omni-channel presence like Williams-Sonoma. Multiline retailers that have been capable of reaching customers through a variety of channels have flourished in recent years such as Target and Walmart. The retail landscape is increasingly customer-centric and WSM is a leader in providing a high-quality shopping experience no matter a customer's preference for brick and mortar locations or ecommerce.

Furthermore, housing prices have surged over the past year due in part to Americans fleeing city life during the pandemic. The uptick in home buying has led to increased prices and a relative lack of housing supply. This shortage of homes for sale is expected to continue in the coming years. We believe many Americans will look to improve their current homes given this macroeconomic dynamic. Moreover, consumers have a heighted awareness of their living spaces following the Covid-19 lockdowns. Given these economic factors and consumer preferences, Williams-Sonoma is a retailer well positioned to profit from industry trends.

<u>Strong financial profile:</u> Williams-Sonoma has a very strong financial profile that allows the company to continue investing in brands, digital offerings, and stay ahead of industry trends. Adaptability is a trait critical to success in the retail industry today. WSM's financial profile of low leverage (net debt of 0.2x) and strong margins offers the company the opportunity to continue investing back into the business and pivot strategies if profitable. Moreover, management forecasts further margin expansion and a steady ROIC that continues to lead the industry.

A great example of such adaptability is management's recent decision to place a greater focus on West Elm. The brand has experienced growth in recent years that well outpaces the broader business. Given this success, WSM executives have rapidly invested in West Elm through opening new stores and beefing up essential components of the supply chain to meet the growing demand. While all good businesses invest in their most profitable segments, the speed with which Williams-Sonoma did so is what separates the company from the competition.

Decision: Hold

Position: 332 shares at $181.12/share

Decision Rationale

Despite the risks noted below, an investment in WSM presented Consumer with an opportunity to gain exposure to a leading omni-channel retailer well positioned in the retail vertical following our group's sale of Target (NYSE: TGT). Out of the three primary risks considered, we thought the greatest was certainly the market's reaction to earnings. Upon further research we decided that despite a jump in the price, the stock still seemed undervalued on both a relative and intrinsic basis. As compared to comps, Williams-Sonoma generally has stronger operational metrics yet lower valuation multiples. Anything that has happened to a stock's price in the past is just noise. *We care about where the equity trades today*. Even after a large increase in price, the investment opportunity still looked quite attractive. Tuning out such noise led us to commit to an investment in WSM.

Risks

1. Benefitted from Covid-19: Williams-Sonoma undoubtedly benefitted from the pandemic as Americans spent more time at home and in turn were more willing and interested in purchasing goods and furnishings for their physical spaces. For instance, many in the labor force ordered furniture and accessories for a home office setup. This increased demand stimulated revenue growth of 15% in fiscal year 2020, a deviation from the trend of single digit growth in prior years. Some analysts question if such growth will continue in a more normalized environment.

2. Competitors gaining market share: The retail and especially ecommerce spaces are competitive. For this reason, there is always the concern of diminishing market share. Once iconic companies like J.C. Penney, Neiman Marcus, and Brooks Brothers have fallen into bankruptcy in recent months. Newcomers like Wayfair that are entirely based online have eaten up market share from legacy players and might threaten businesses like Williams-Sonoma.

3. Spikes in the stock price: On March 17, Williams-Sonoma announced fourth quarter and fiscal year results that smashed consensus estimates. Over the next few days, the stock soared more than 30% from the closing price the day of the earnings release. Our team sourced the investment idea back in late February but did not pitch and make the purchase until early April. Beyond missing out on some significant capital appreciation, there is the concern that investors positively overreacted to good news. Presumably the intrinsic value of the business did not increase by 1/3 overnight.

Copel (NYSE: ELP)

Energy & Utilities Group Portfolio Manager: Audrey Guilloteau

Company Overview

Companhia Paranaense de Energia (COPEL) is a Brazilian electric utility company, the largest company of the State of Paraná, founded on October 26, 1954 with ownership control held by the State of Paraná. The Company directly serves 3,549,256 consuming units, across 393 cities and 1,114 locations (districts, villages and settlements), located in the State of Paraná. This network consists of 2.8 million homes, 63.8 plants, 295.5 commercial establishments and 341.6 rural properties.

Financial Summary (USD)	
Market Value	$3.31 Billion
Share Price	$11.08
52 Week High/Low	$15.36/$11.34
Valuation Range	$16.71/$14.01
P/E	3.8x
P/BV	0.9x
EV/EBIT	5.6x
EV/EBITDA	4.5x
Dividend Yield	20.71%

Investment Thesis

Original investment thesis focused on favorable macroeconomic environment and governmental legislation coupled supported by strong financial performance relative to comparables.

Operational Excellence: COPEL has a diverse portfolio of assets located in a geographical region expected to see significant foreign investment due to recent government legislation. COPEL's focus on renewable generation in a hydro-dominant market make it an industry leader in a country with continuing opportunity.

Downside Protection: COPEL's strong financial performance has shielded the company from recent economic disruptions and shocks from natural disasters. Currently, the Paranese State holds a stake in COPEL which we initially believed would offer downside protection. We now see this as a possible risk, as discussed below.

Under covered, Undervalued: Low profile company with minimal analyst coverage and strong fundamentals offers chance for differentiated perspective. Furthermore, relative valuation of COPEL suggests that the company is significantly undervalued relative to itself historically and to pure play peers.

Decision: Hold

Position: 840 shares at $12.75/share

Decision Rationale

COPEL's dominant position in Brazil's renewable-centric utilities industry offers E&U international exposure in a likely undervalued emerging market. For this reason, we continue to hold while monitoring the current political environment which may put short term pressure on the stock's performance.

Secular trends in Brazil point towards attractive growth opportunities in the hydro-electric space. Since the full pitch, COPEL has begun its divestment program, selling its Telecom business for $444M (USD), roughly $185M above the minimum asking price. On December 7th, COPEL also announced its plans to sell its 51% stake in Compagas for an undisclosed amount. We expect these cash injection to help the business expand into its more profitable business areas through programs such as the grid modernization project. While the Brazilian economy continues to struggle, Brazilian interest rates are expected to increase in the near term while inflation remains constant. COPEL's low debt to cap make it a compelling hold in a high interest rate environment.

Risks

Government intervention and secondary offering will likely cause near-term stock volatility.

1. In early 2021, the Paranese government released a letter requesting the distribution of extraordinary dividends in the highest possible amount (after considering COPEL's cash flow requirements for 2021). A request of this sort from COPEL's controlling shareholder caused a negative reaction in the market causing the stock to fall roughly 7% on January 11, 2021. COPEL will likely comply given the added liquidity pressures arising from the threat of the sale of a stake corresponding to 14.4% of the shares outstanding.
2. Our current impression is that the State Government is attempting to extract financial resources from COPEL before selling a portion of its position in a secondary offering. While this elevates corporate governance risks in the near term, we are confident that there are long term benefits to gain from the possibility of a secondary offering.
3. A smaller government stake in COPEL supports our belief that the government is working to distance itself from the utilities industry by relaxing legislation and selling off stock. Furthermore, our other investment thesis points still support a strong growth story for COPEL. Thus, we will continue to hold this position monitoring the current environment closely in the event of elevated risk of nationalization or fire sale.

Digital Realty Trust (NYSE: DLR)

Financials & REITs Group Portfolio Manager: Sohrab Dubash

Company Overview

Digital Realty Trust (NYSE: DLR) is the second-largest data center real estate investment trust (REIT) that owns and operates data centers and provides colocation and interconnection solutions for customers around the world. The company is headquartered in San Francisco and was founded on March 9, 2004. With 291 data centers in 47 metros across 26 countries, the company leases space to a range of industry verticals including cloud and information technology services, communications, social networking, financial services, manufacturing, energy, healthcare, and consumer products.

Financial Summary (USD)	
Market Value	$47.48 Billion
Share Price	$168.00
52 Week High/Low	$168.07/$124.65
Valuation Range	$16.71/$14.01
P/E	93.81x
P/FFO	27.9x
EV/EBITDA	25.37x
Debt/Equity	1.14x
Dividend Yield	2.76%

Investment Thesis

1. Data Industry Growth Trends: There has been and is projected to be rapid growth in the amount of data produced as an increasing number of operations, applications, and data move into a cloud or other online format—with longer-term growth propelled by digitization in emerging markets. DLR also has an opportunity to create value beyond simply *storing* data—it can reduce latency between customers by creating unified campuses composed of multiple, smaller data centers.
2. Diversified Global Operations and Robust Revenue Model: DLR maintains a strong presence in North America sector alongside a globally diversified data center portfolio. Their lessee companies come from a wide variety of sectors from financial companies to cloud computing ones—and face high switching. Unlike its main competitor Equinix (EQIX), DLR owns virtually all its facilities while Equinix directly owns less than half.
3. Inflation Hedge: Their rent contracts typically have annual built-in price increases of 2-4%—and the real nature of their properties should see real estate price rises blunt the impact of overall inflation. Furthermore, significant growth in the production of data will drive overall demand for future data storage facilities.

Decision: Hold

Position: 175 shares at $142.06/share

Decision Rationale

Digital Realty exists in a critical time for data consumption and storage. The industry is experiencing growth trends due to the future technologies on the horizon. This includes data-heavy applications and technologies including 5G, Internet of Things, Cloud Computing, and many others. These technologies will input and output plenty of data which will need to be stored, consolidated, and efficiently analyzed. This is accentuated by the concept DLR coined called Data Gravity.

Through international scaling and diversification, strategic M&A between physical and digital assets, as well as data gravity from dense, consolidated, connected data sets, DLR is poised to scale their returns and it is unlikely that we see a decrease in data usage any time soon.

Finally, in a world filled with Tech IP, DLR has real assets, which provide stability in times of inflation and other price increases. Having this hedge in the form of large data centers, combined with our increasing use of data, indicates that DLR as a company is a great hedge against inflation.

Risks

1. Dividend/Tenants: Dividend and Tenants are first in the list of risks is due to revenue and valuation for the company being driven by these two aspects. DLR had a weighted average lease term of 5.2 years at the end of 2020 with 2%-4% annual rent bumps. While they are in good standing now and will be for the next year or two, the risk of now being able to reup or replace tenants will majorly affect cash flow, the main driver for REITs due to the high dividend that must be paid and high leverage on the books.
2. Fed Rate Changes/Leverage: The FED's vice chair Richard Clarida in a speech on Aug. 4th, 2021stated that he expects the Fed to raise rates in 2023. So, while interest rates can be assumed to remain as low as they have ever been, leverage for DLR as a REIT remains as one of the largest risks that they undertake. Currently debt maturity as of the end of 2020 has a weighted average of 6.9 years with a 2.3% interest rate, and with a two-year outlook of low rates this will be good for a longer-term hold.
3. Tech Disruption: Another major risk is the known volatility and disruption that describes the tech industry. From the Amazon effect to the rise of Tik Tok tech can disrupt any industry and even life within only a few years. DLR's strategy of housing data for anyone who needs it is working, but they must be able to keep pace in an ever-evolving industry that when from CDs to "the cloud" within a decade. Currently DLR is increasing the interconnection services while trying to gather more space and power tenants, to increase the number of services provided to customers, which will this allow DLR to have more sticky customers.

Anthem (NYSE: ANTM)

Healthcare Group Portfolio Manager: Brooklyn Button

Company Overview

Anthem, Inc. (NYSE: ANTM) was founded in 1944 and is headquartered in Indianapolis, Indiana. With over 43 million members across 21 states, Anthem is the second largest provider of health insurance in the United States. Anthem is composed of several companies including Anthem Blue Cross Blue Shield, Anthem Blue Cross, Anthem Life Insurance, and Pharmacy benefits. Anthem offers network-based, managed-care health benefit plans to large/small groups, individuals, Medicaid, and Medicare markets. It operates through four segments: Commercial & Specialty Business, Government Business, IngenioRx, and Other. Anthem's network dominates in highly populated states, and the company maintains long standing relationships with hospitals and care providers that have helped them to negotiate better plans and outperform on cost.

Financial Summary (USD)	
Market Value	$96.82 Billion
Share Price	$395.45
52 Week High/Low	$406.00/$244.10
P/E	21.2x
EV/EBITDA	11.6x
Debt/Equity	63.2%
5Y Average ROE	11.8%
5Y Revenue CAGR	9.0%
EBIT Margin	6.8%
Benefit Expense Ratio	84.6%

Investment Thesis

<u>Strategic cost cutting initiatives:</u> The acquisition of Beacon Health and installation of IngenioRX will enable Anthem to outpace competitors during (i) the shift to virtual care during the pandemic and (ii) the growing behavioral healthcare market. First, in March 2020, Anthem finalized its acquisition of Beacon Health—the largest behavioral health provider in the US. This acquisition will cut costs by reducing the number of preventable visits to the Emergency Room, specifically for patients with mental health disorders and diseases. Second, in January of 2020, Anthem launched its own pharmacy management system called IngenioRX which gives Anthem the ability to manage pharmacy operations in-house, rather than using a 3rd party provider. Since installation, IngenioRX has experienced impressive growth; in the first quarter of 2021, IngenioRX generated an operating revenue of $5.9 billion, making up 18.3% of Anthem's total operating revenue.

<u>Ending litigation with Cigna:</u> In 2015, Anthem and Cigna announced a merger which fell through in 2017 due to an antitrust ruling. Cigna filed a lawsuit against Anthem for ~$15 billion dollars, provoking investor concern and dampening stock price growth. Recently, Anthem came to a draw with Cigna, putting a close to litigation expenses lasting for over four years; Anthem did not pay Cigna any fees. We expect Anthem to benefit from this closure due to (i) the eradicated threat of a $15 billion dollar loss, (ii) reduced litigation fees, and (iii) an end to long term stock price volatility.

<u>Undervalued despite expansive network with suppliers and strong operating metrics on par with competitors UnitedHealth and Humana:</u> At purchase, Anthem was trading below competitors UnitedHealth and Humana in terms of EV/EBITDA and P/E. Despite this, Anthem was experiencing faster growing revenue, higher gross profit margins, and higher earnings growth than UnitedHealth and Humana. Moreover, while Anthem may be smaller than largest player UnitedHealth, Anthem's supplier network is superior since it is highly concentrated in the most populous 14 states. In fact, of the states that Anthem operates in, they have a 30% market share.

Decision: Purchase

Position: 169 shares at $295.76/share

Decision Rationale

With these three investment theses at play, we believe Anthem was, and still is, a strong buy. Anthem's recurring revenue model enabled by premium payments makes Anthem's cash flows steady and predictable. This relatively low risk investment provides our portfolio with stability to balance more volatile holdings in our portfolio, such as Global Blood Therapeutics (NASDAQ: GBT) and Intellia (NASDAQ: NTLA). Moreover, Anthem adds diversity to the healthcare portfolio as our only holding with exposure to health insurance industry. Since purchase, Anthem has returned 31.58%. Moving forward, we are confident in Anthem's management to continue to drive profitability and growth.

Risks

4. <u>Industry-wide increasing healthcare costs:</u> The COVID-19 pandemic has increased healthcare costs due to higher utilization rates of medical facilities, services, and other hospital and pharmaceutical costs. Additionally, throughout the pandemic, Anthem has continued to offer full coverage for COVID-19 testing and treatment and government action has required Anthem provide additional COVID related treatment costs.

5. <u>Decline in commercial membership</u>: During the COVID-19 pandemic, 15 million Americans lost employer-based, commercial health insurance due to increased unemployment. Since commercial customers are Anthem's most profitable sector, there was concern this would reduce gross margins. This risk is mitigated by Anthem's high exposure to the government sponsored sector (which makes up 60% of total customers) rather than the commercial sector (which makes up 24% of total customers). In comparison, largest competitor UnitedHealth's customer base is 32% Medicare/Medicaid customers and 56% commercial customers. Additional industry tailwinds are generated by Biden's commitment to expand the Affordable Care Act, which has increased the desire for government sponsored Medicare and Medicaid programs. Through the SEP (Special Enrollment Period), from April 15-August 15 uninsured Americans can sign up for subsidized insurance; so far, this plan has increased the number of insured Americans by over 1 million.

China Index Holdings (NASDAQ: CIH)

Materials & Industrials Group Portfolio Manager: Sam Swansen

Company Overview

China Index Holdings is a leading data and marketing services provider to the Chinese real estate market. CREIS, the company's proprietary data platform, is CIH's prized jewel which contains a set of benchmarks and databases that are widely adopted by real estate market participants in China. The company operates under four segments: data services, analytics services, promotion services, and listing services. Data services consist of the company's SaaS platform, which contains information on land specs and development activity in China. The analytics segment consists of additional data modules and customized research reports. CIH also helps its clients promote their brands on their influential industry reports and through both online and offline marketing events via the promotion segment. The company also operates *3fang.com*, an online commercial real estate listing website.

Financial Summary (USD)	
Market Value	$173.1 Million
Share Price	$1.96
52 Week High/Low	$0.94/$3.14
EV/Earnings	1.6x
EV/EBIT	1.5x
EV/Revenue	0.8x
Debt/Equity	8.5%
3Y Average ROA	49.3%
3Y Revenue CAGR	23.8%
EBIT Margin	51.1%

Investment Thesis

<u>High barriers to entry:</u> CIH's proprietary data platform, CREIS, is the market leading real estate data analytics product in China and the sole real estate data provider for 5 (out of 6 in total) state-owned banks in China. Although this industry is very young, CREIS is protected by strong barriers to entry. With 20+ years of research experience, CIH developed the earliest, most comprehensive, and widest professional real estate database that covers over 900,000 land plots and 340,000 real estate projects. CIH's closest competitor, CRIC, offers better coverage in some smaller cities. However, it lacks breadth of data and doesn't have a land SaaS tool. CIH faces competition from independent research contractors because the Chinese real estate informatics industry is still in its early stages. However, these independent contractors are not able to scale their business. CIH has spent decades building its reputation amongst real estate market participants. As a result, CREIS possesses strong pricing power and high switching costs. Some of CREIS' product offerings cost upwards of $90,000 per year. Despite the hefty price tag, renewal rates are exceptionally high at over 90% among existing clients.

<u>Powerful network effect and long growth runway:</u> China Index Holdings has an exceptionally sticky, recurring revenue business model with a strong and underappreciated network effect that requires virtually zero capital to grow. Similar to Bloomberg, annual price increases are a regular feature of CIH's services. The company's strategy is to reinvest the excess revenue derived from higher service costs into improving the quality and increasing the quantity of service offerings. As the quality and quantity of services increases, this attracts more customers. More customers lead to more profits, which can be reinvested into more service enhancements via R&D and marketing costs, which attracts even more customers. CIH's promotion services are also closely tied to the data and analytics segments. As CREIS' network of users expands, CIH's brand becomes increasingly powerful, and the company's industry reports and marketing events gain even more traction. CIH also operates in a very young industry with huge untapped growth potential. Although the company has been around since 1994, we believe the company is still in the first inning of growth.

<u>Cigar butt valuation offers outrageous margin of safety:</u> Even though CIH is a healthy, growing business with an impenetrable balance sheet (net cash) earning triple digit returns on deployed capital and 40%+ FCF margins, it is selling for less than 2x earnings on an EV basis. Meanwhile, its American counterparts like CoStar and RealPage sell for triple digit earnings multiples. We believe CIH's current price is completely unjustified, and that the cigar butt valuation offers bountiful margin of safety to the investment. Just as Michael Burry once said, "specific, known catalysts are not necessary. Sheer, outrageous value is enough."

Decision: Purchase

Position: 15,000 shares at $1.96/share

Decision Rationale

Although we have concerns about the management team, we are comfortable owning shares of CIH because we think the absurdly low valuation compensates us very well for risks related to corporate governance. This is a unique situation in which a great business is trading at a dirt-cheap price, which we think is an opportunity ripe for mispricing. Nevertheless, there are still several key risks that remain, which we intend to monitor closely.

Risks

6. Pending winding-up petition: Evenstar's special situations department proposed a winding-up petition against CIH's former parent company, Fang Holdings (NYSE: SFUN) last year in November. As a result of the petition, SFUN's convertible notes originally due in 2022 have become due on demand. This resulted in both SFUN and CIH delaying their 20-F filings. CIH could potentially be liable for the convertibles, but SFUN seems to have sufficient asset coverage to pay down its debt. SFUN has ~$730 million of debt and roughly the same amount in current assets (~$220 million in cash). They also have long-term investments of over $370 million and ~$715 million of fixed assets under GAAP accounting. Even if CIH becomes liable for the convertibles, the stock goes from being insanely cheap to being slightly less cheap. Less than $170 million of the 2022 notes remain outstanding according to CIH's 2019 20-F filing (it's most likely less than that now). Something else that eases our concerns about the winding-up petition and the convertible notes is that Evenstar Capital, the petitioner, is a large CIH shareholder who owns almost 10% of the shares outstanding. We seriously doubt someone would go through all this work just to try and lose money.

7. Chairman controls the company: Chairman/founder, Vincent Mo, controls the company with 68.7% of CIH's voting rights through his ownership of super voting Class B shares. Nevertheless, Mr. Mo has skin in the game, as he owns ~16% of CIH's total shares outstanding. Mr. Mo's willingness to eat his own cooking eases some of our concerns related to conflict of interest.

8. Headwinds with price increasing strategy: During COVID-19, CIH faced headwinds with its price increasing strategy. As a result, the company did not increase the cost of any of its services in 2020 and instead focused on growing its customer base. Since a CREIS subscription is already so expensive, the company may face prolonged headwinds with their strategy of routinely jacking up prices. This may also be a sign of an eroding competitive advantage. However, we believe we have ample margin of safety if this is the case, as even zero growth implies a huge discount to intrinsic value at CIH's current price.

Arista Networks (NYSE: ANET)

Technology, Media, and Telecom Group Portfolio Manager: Frederick Qin

Company Overview

Arista Networks (NYSE: ANET) is an American computer networking company headquartered in Santa Clara, California, USA. The company designs and sells multilayer network switches to deliver software-defined networking (SDN) solutions for large data-center, cloud computing, high-performance computing, and high-frequency trading environments. These products include an array of 10/25/40/50/100 Gigabit Ethernet low-latency cut-through switches and Arista's own Linux-based network operating system, Extensible Operating System (EOS), which runs on all Arista products.

Financial Summary (USD)	
Market Value	$17.7 Billion
Share Price	$231.32
Revenue	$2.4 Billion
P/E	24.4x
EV/EBITDA	17.3x
EV/Revenue	6.2x
Gross Margin	64.1%
EBITDA Growth 1 Yr	18.78%
Revenue Growth 1 Yr	12.05%
Debt to Capital	3.31%

Arista Networks is a classic disruptor that challenges industry giants such as Cisco. Arista's cloud-based networking technology beats outdated hardware in both possible speeds and maximum load and capacity. With an increase in the processing of data, Arista is an essential player on the forefront of the rapid development of cloud-based services.

Investment Thesis

Undercurrent to high growth cloud computing market: Cloud computing is a known high-growth area in the technology space as large technology giants such as Amazon, Microsoft, and Google have invested heavily into the field. Almost all companies in the space, especially cloud-based software companies, already have extreme growth potential priced in. We believe Arista, as a supplier of essential hardware and embedded software offerings in the cloud ecosystem, has been overlooked due to the complex nature of the product and less bullish investor view of hardware products. Arista will benefit greatly from cloud expansion and is currently trading at a significant discount.

Unrealized and undervalued acquisitions: In the past few years, Arista has mode several strategic acquisitions to expand the company's targetable market and streamline product innovation. In 2018, Arista acquired Mojo Networks and Metamako. The former allows Arista to integrate enterprise-grade WiFi components into their networking technology while the latter provides chips to drastically increase the speed of information delivered across within their networks. In 2020, Arista acquired Big Switch Networks which allows expansion into products for big data workloads which is a rapidly developing space. We believe the market has underreacted to the growth potential and unrealized synergies of these acquisitions.

Solid foothold in niche market: Software-defined networking is a highly technical and relatively niche subset of the broader cloud computing market, greatly mitigating the threat of new entrants. Among their primary competitors, only Cisco networking products can rival the performance and efficiency of Arista's solutions but contain legacy software and steeper prices. In addition, Arista's continued reliability and innovation has led to lasting partnerships with technology giants including Microsoft, SAP, VMWare. We see Arista continue to be one of the leading players in the market for many years to come.

Decision: Hold

Position: 300 shares at $233.34/share

Decision Rationale

Arista is a champion of pairing its next-gen hardware with software-defined architecture that gives a network operator increased visibility into traffic trends and the tools to manage the flow. They have done a superb job facilitating the synergies with their acquisitions of Mojo Networks and Big Switch Networks for their software and Metamoko for their hardware. Approaching the one-year anniversary of the Cognitive Campus cloud, Arista said it is close to meeting its target of $100 million in annual sales. Arista has made contracts with industry giants such as Amazon and Microsoft and does not appear to be slowing down. 400Gb ethernet will be standard in the future as well and Arista is pioneering the development. Lastly, the company has taken significant market share from the networking giant Cisco to grow to an annual $2.3 billion business. They have also become 8% of the network switch industry in such a short amount of time. We should keep our ANET holdings as the company can surge to as much as $300 per share if we wait for the inevitable rebound.

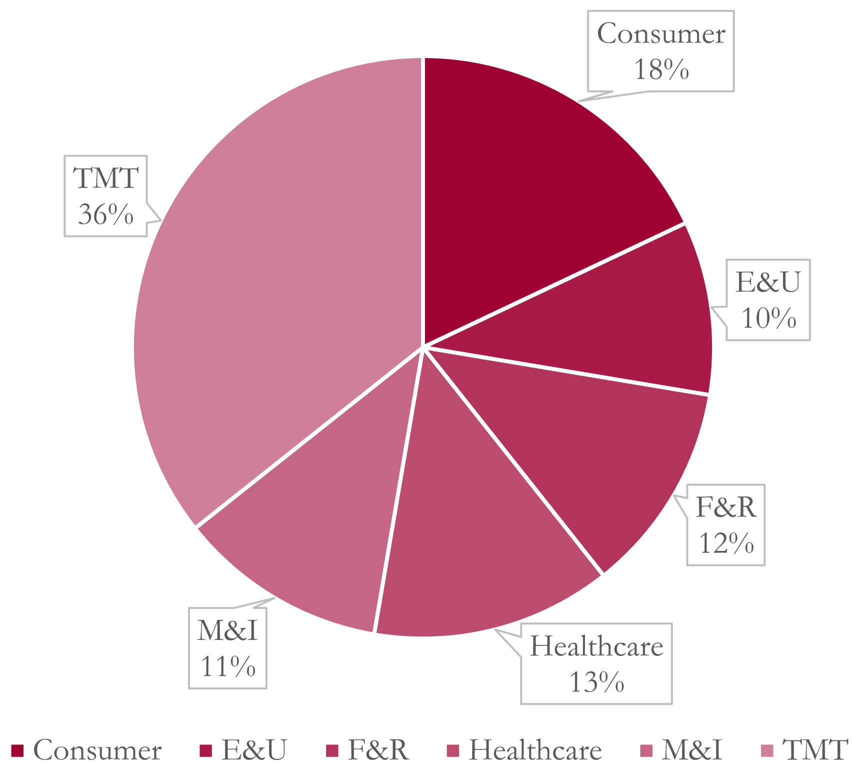
Risks

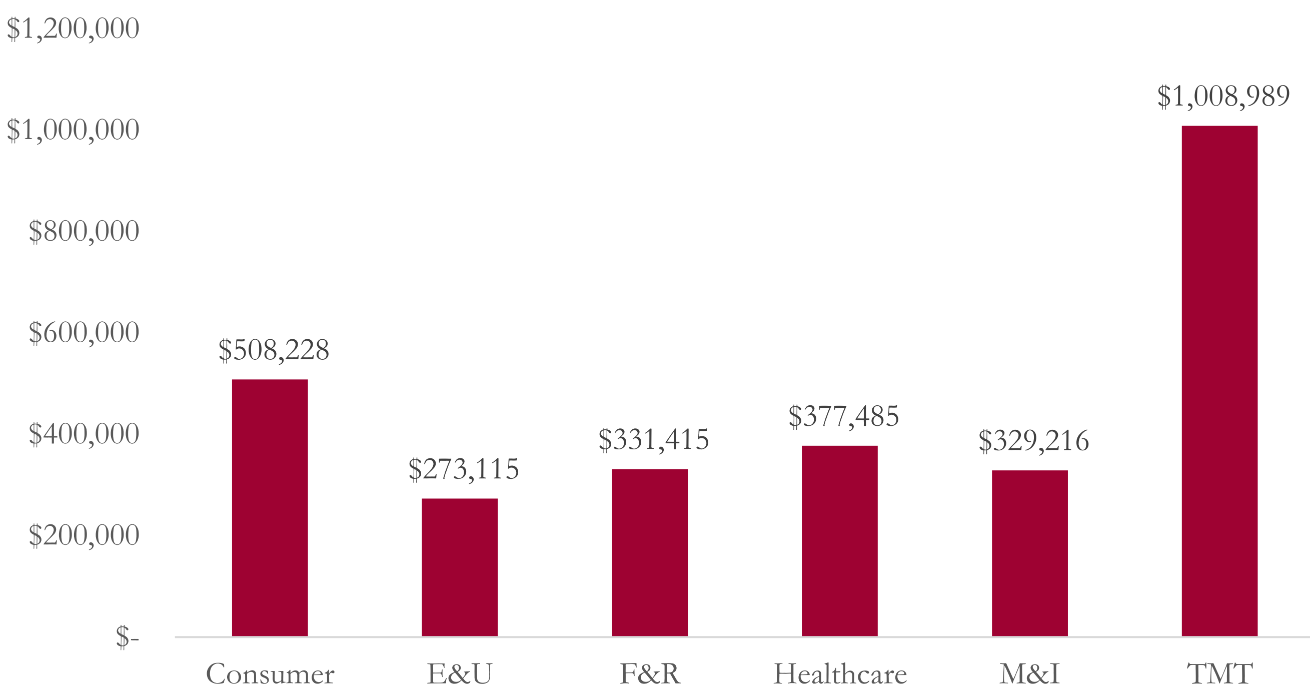
9. <u>Pandemic-related volatility:</u> Arista stock saw some volatility over the last year, as some large cloud customers scaled back on their purchases of equipment, hurting sentiment, and affecting the company's valuation. The company has reported lower revenues YoY because of muted demand in the cloud business, owing to the adverse impact of the coronavirus pandemic. Supply chain constraints have also been an issue, with the company struggling to deliver its popular hardware timely due to some factory shutdowns and worker layoffs. Arista expects near-term volatility to continue due to the coronavirus pandemonium despite the underlying strength of the resilient business model and the diligent execution of operational plans.

10. <u>Increasing research and development expenditure</u>: Arista supplies customers in the rapidly growing and competitive cloud services market growing over 24% YoY despite the pandemic which leads to high expectations for rapid advancements and improvements in networking solutions to maintain Arista's competitive edge. Due to this, we have seen increases Arista's research and development expenditure even through lower YoY revenues due to pandemic market effects. We expect research and development expenditure to continue to grow into the near future, so if Arista fails to deliver competitive products this may be devastating to the company's bottom line.

Holdings Summary

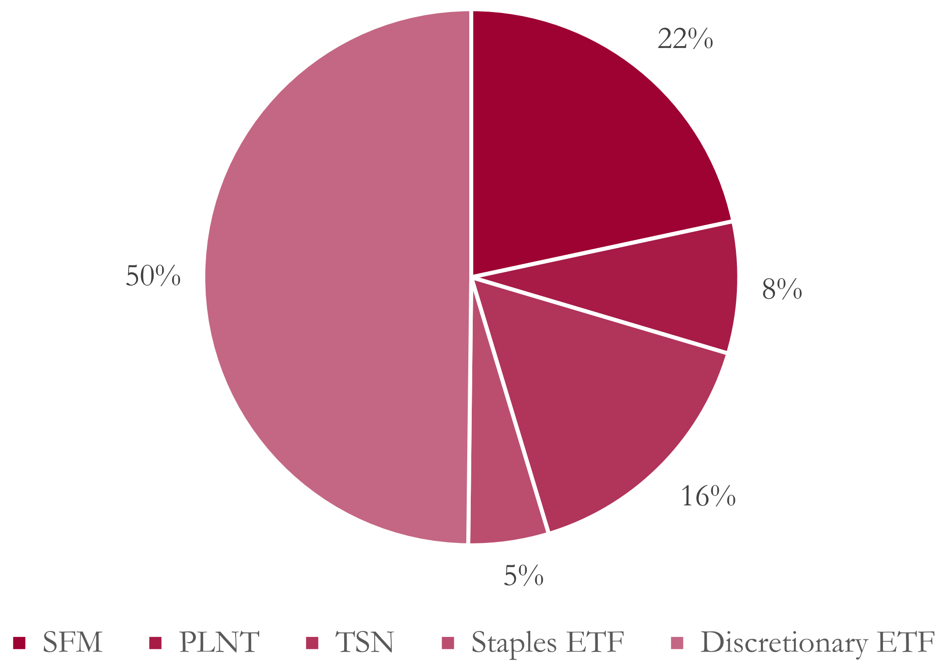
Sector Weightings
As of Spring 2021



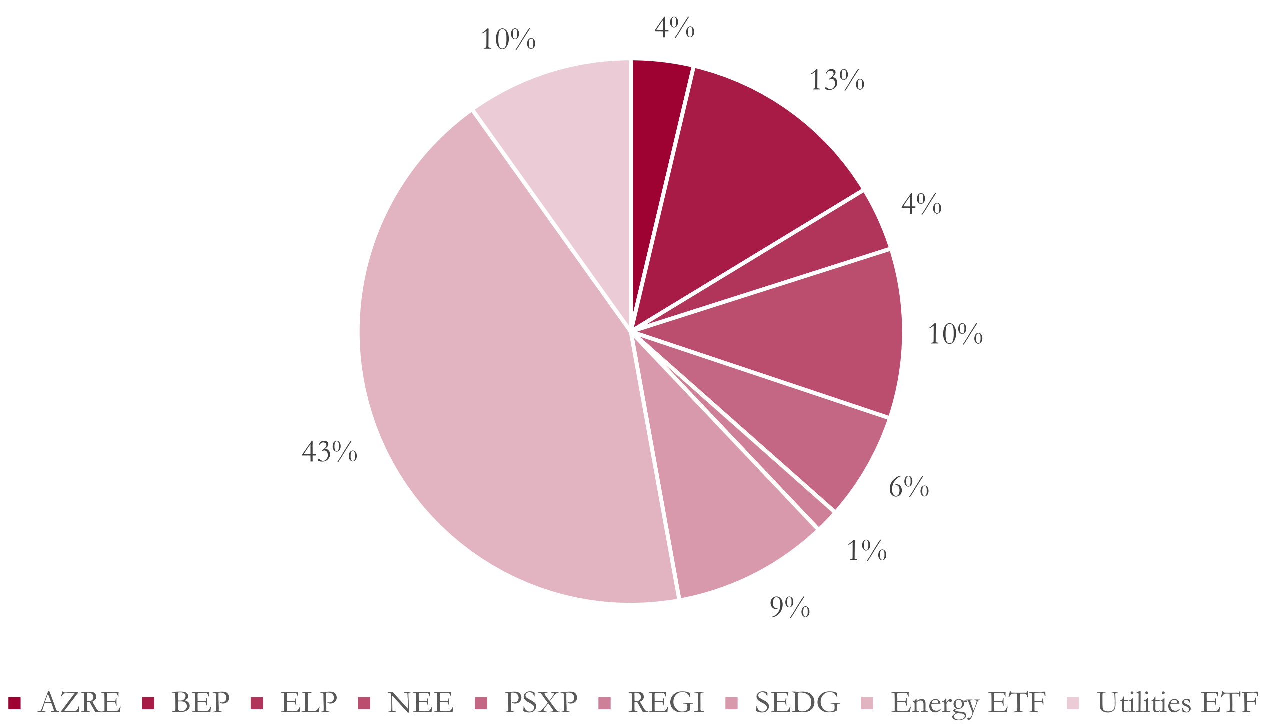


Current Positions

Consumer Group

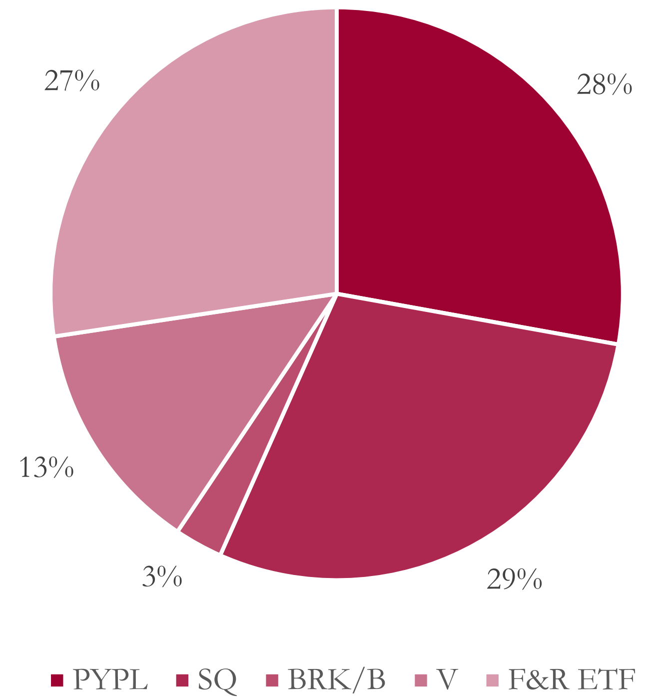


Energy & Utilities Group

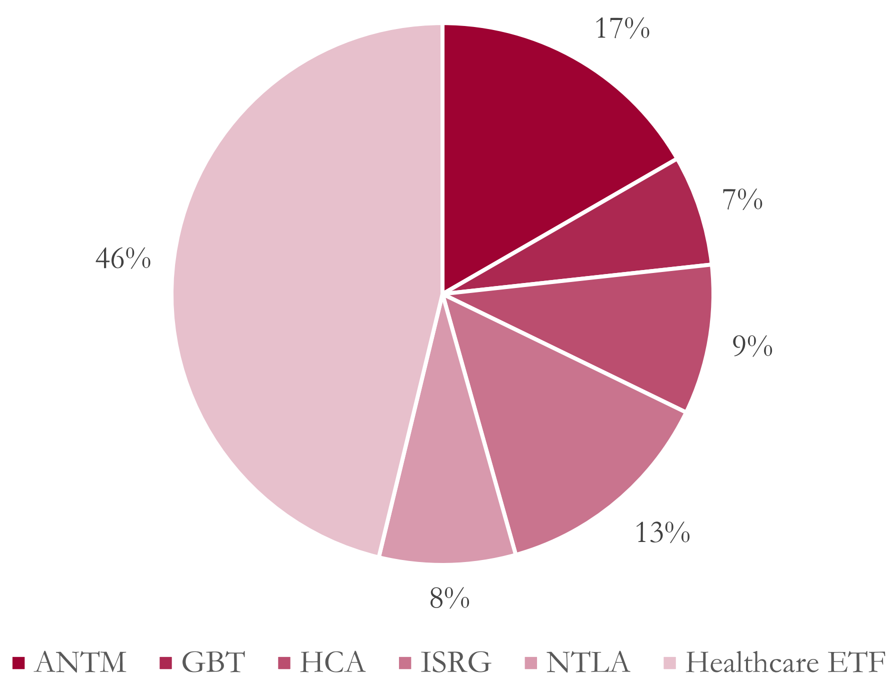


Current Positions

Financials & REITs

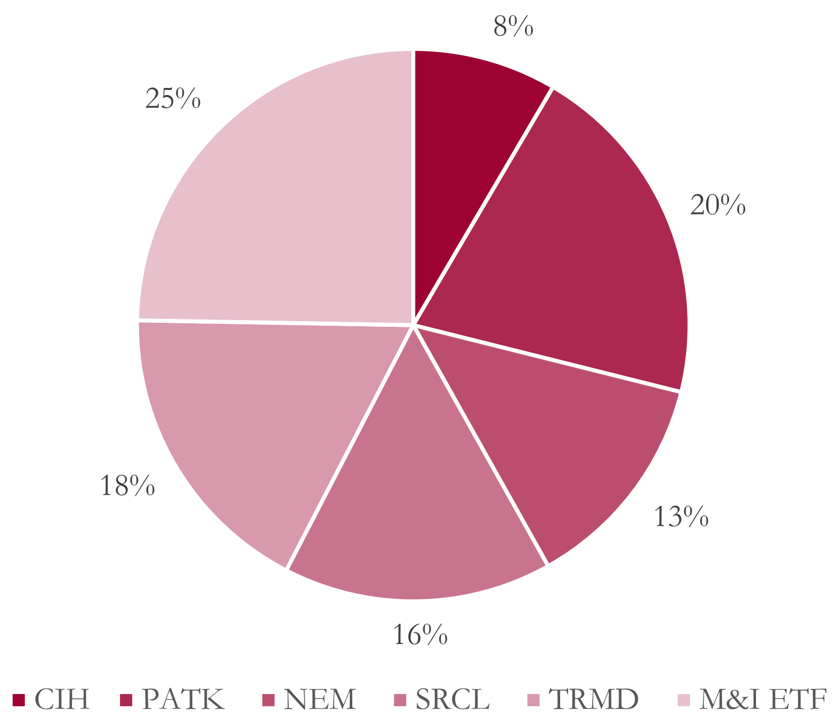


Healthcare & Life Sciences



Current Positions

Materials & Industrials



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