UIT 26 Changes and Rationale

Change 1:

MCD, +2%

SBUX, -2%

During the past quarter, SBUX has performed extremely well. This performance was driven by the continued rise in consumer spending and more workers in the United States returning to their typical daily routines as lockdown restrictions were eased. Relatively speaking, SBUX is a more premium brand than MCD and as such, has performed well as the upper middle class returned to work. We shifted 2% from SBUX to MCD because we believe that MCD will have a stronger risk/reward ratio in the coming months; it is almost a staple in American households and will continue to see strong sales despite potential consumer volatility from re-implemented lockdowns and/or a slowing growth rate in employment and consumer income.

Change 2:

WSM, -2% (removed)

JWN, +2% (added)

Over the next 15 months, with vaccine deployments, we expect to see a shift towards the "new normal." This new normal has significant implications for all workers as temporary layoffs become permanent to drive margin improvements. However, we believe that the typical upper middle to upper class worker will be less affected by these new changes than others; this is based upon the relative stability of higher income employment numbers throughout the pandemic. Consequently, we expect to see an influx of sales towards items that people need to return to work, particularly work clothes. We believe that this retail opportunity has superior upside compared to the home improvement and home goods rally that has already played out. Nordstrom's average core consumer has a household income of $100,000, resulting in a core customer base that is far less exposed to potential shifts in the labor market than less premium brands. Ultra-premium brands have shown strength through the past year, with a core customer base that maintained household income and sentiment throughout the pandemic. Additionally, Nordstrom continues to increase its online sales as a portion of overall revenue, shifting its business toward the higher margins and increased valuation multiples that are common in online retail.

Change 3:

COP, -2%

RDS.B, -2%

We decreased both ConocoPhillips and Royal Dutch Shell in order to reduce the overall exposure to the energy sector. There has been a significant decrease in global demand for oil and the recovery timeline stretches far past the 15-month investment horizon. Two other trends greatly contribute to the increased risk of the energy sector over the near-term. Firstly, OPEC+ disagreements over supply cuts have been prevalent throughout the pandemic, resulting in a large amount of incremental volatility in crude prices; we believe that these conflicts will persist as certain countries recover quicker and/or are less reliant upon crude exports than others in the cartel. Secondly, we expect that a Biden administration will prioritize green legislation that will have sweeping impacts on the energy sector. Though we predict that the administration will work with energy majors in implementing this legislation, the possible reactionary price movement on stock prices is an increased risk given the 15-month investment horizon.

Change 4:

BAC, +2% (added)

We believe that Banks are extremely undervalued at their current prices. The present interest rate environment is such that there is significant opportunity for improvement in interest income caused by increasing rates. There is relatively low risk that interest income can deteriorate further given that the Fed has stated numerous times that it is not considering negative rates, essentially placing a floor on the domestic interest rate environment.

Change 5:

NVDA, +2% (added)

NVDA was added because of its strong core businesses that offer the potential for significant growth. The strength of NVDA's gaming business was shown by its consistent segment performance over the past year, despite the pandemic. High-performance GPU's are a necessity for running any type of modern videogame on a PC. Additionally, the addressable market continues to grow as gaming becomes increasingly more popular and as PCs continue to increase in market share compared to consoles. This core business provides a stable base of NVDA to grow its other segments that have the potential for extreme growth in the near future, with exposure to major trends such as hyperscale computing, AI, and autonomous vehicles.

Change 6:

AEP, -2% (removed)

We removed AEP in order to reduce the overall exposure to utilities. Given the historically low interest rate environment, rate-based price appreciation for utilities has already occurred (Utilities have an inverse correlation with interest rates). Because of this, share value increases over the 15-month investment horizon will have to be driven by increases in demand and/or electricity rates. We do expect domestic power demand to recover quicker than global oil demand, however, like energy, utilities are also subject to a stretched recovery timeline; we believe that power demand from industrial customers will not recover fully over the near-term.

Change 7:

DD, +2%

We increased the weighting of DuPont de Nemours due to the relatively low valuations of the materials sector in comparison to the broad market, as well as DD's ideal revenue mix. Specific to DD, its end markets are well-diversified with exposure to industries that we believe are poised for significant growth over the near- and long-term, such as smartphone electronics, green technologies, and higher margin specialty products.