



# LaPorte Torch Fund

10.1.2022 – 9.30.23

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Dear Mr. and Mrs. LaPorte,

We would like to begin by thanking you for giving us the opportunity to gain such an invaluable experience. During this fiscal year, we have attained experience that has put us years ahead in our professional journey. This experience will surely continue to pay dividends as we graduate and move on into our careers. The LaPorte Fund has given us the opportunity to learn about financial markets from a real-world, practical sense rather than the traditional classroom approach. We graciously thank you for investing in the Torch Fund program and, more importantly, investing in us and our futures.

This fiscal year (“FY”, running from October 1, 2022, to September 30, 2023) brought much uncertainty and volatility in the markets. The Federal Reserve hiked rates to battle ongoing inflation, sending fear through markets. This fear was heightened by bank runs and the collapse of Silicon Valley Bank and other regional banks.

In the second half of the fiscal year (“H2”), we saw a rally within the Information Technology sector as well as inflation hitting a yearly low. However, the Federal Reserve kept rates steady and high. While we are unsure when inflation will reach the Fed’s target rate of 2%, our outlook has led us to continue holding a defensive position in equities while staying long duration in fixed income.

During H1, we liquidated our positions in Omnicom Group, Inc. (OMC) and Sonoco (SON). We added to our fixed income allocation and added duration to the portfolio by purchasing shares in a long-term treasury fund (TLT) in December. Then in early March we became concerned about possible rising yields, as well as a renewed strength in economic data, and purchased an ultra-short treasury fund (TTT) and another negative duration fund invested in interest-only MBS strips (RISR).

Immediately after, regional banks saw a run on deposits. After assessing the situation, we decided this was a buying opportunity and purchased a regional banking fund (KRE). We then closed all negative duration hedge positions as we saw a cooldown in the rate cycle. Proceeds from closing our hedge helped fund a barbell strategy consisting of principal only treasury strips (GOVZ) and short-term treasuries (MINT).

In late summer, our dynamic market outlook led to a rebalancing of the portfolio. To fund purchases we liquidated the Williams Companies, Inc. (WMB), and reduced positions in WisdomTree Floating Rate Treasury Fund (USFR), and Starbucks Corporation (SBUX). The proceeds funded increased positions in long-term treasuries (TLT and GOVZ), short-term treasuries (MINT), municipal bonds (BLE), and emerging market bonds (TRECX). Additionally, we purchased new shares in a passive technology fund (VGT).

As an investment management team, we hold our fiduciary responsibilities as our highest priority. Our most important goal is to grow the LaPorte Fund with conviction through both responsible and intuitive investing methods. Mr. and Mrs. LaPorte, we are incredibly grateful to have been given the opportunity to manage your portfolio. This experience has given us memories and lessons that we will carry well past our time at the University of Tennessee. We truly appreciate the support you provide to us and the finance program here at Rocky Top.

Sincerely,

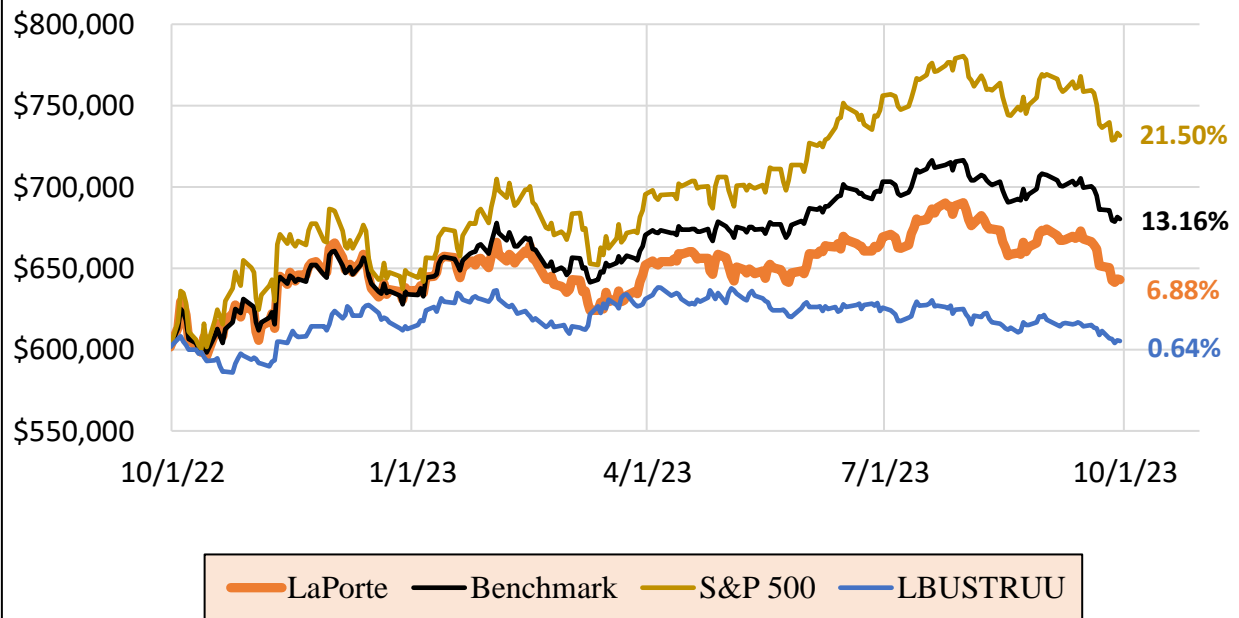
The LaPorte Torch Fund Team

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## Performance Summary

### PORTFOLIO VALUE VS BENCHMARKS



### Torch Fund Performance

	H1	H2	FY	FY Benchmark Relative
<b>LaPorte</b>	8.41%	-1.41%	6.88%	-6.27%
<b>Carroll</b>	9.12%	3.47%	12.91%	-0.25%
<b>Haslam</b>	11.97%	1.27%	13.40%	0.24%
<b>McClain</b>	13.72%	0.10%	13.83%	-0.17%

Performance Metrics				
	Portfolio	Benchmark <sup>a</sup>	S&P500	BETFX <sup>b</sup>
Standard Deviation <sup>c</sup>	12.78%	11.24% %	17.06%	10.68% %
Sharpe	0.3315	0.8697	1.0476	0.7950
Treynor	0.0390	0.0977	0.1787	0.0927
Tracking Error	0.0395	N/A	N/A	N/A
Information Ratio	-1.3995	N/A	N/A	N/A
Beta	1.08	1.00	1.00	0.92

<sup>a</sup> Weighted benchmark is composed of 60% S&P 500 and 40% Bloomberg Barclays Aggregate Bond Portfolio (LBSTRUU).

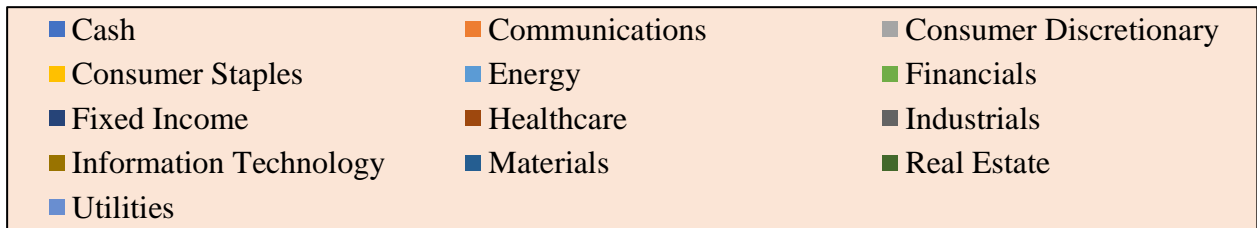
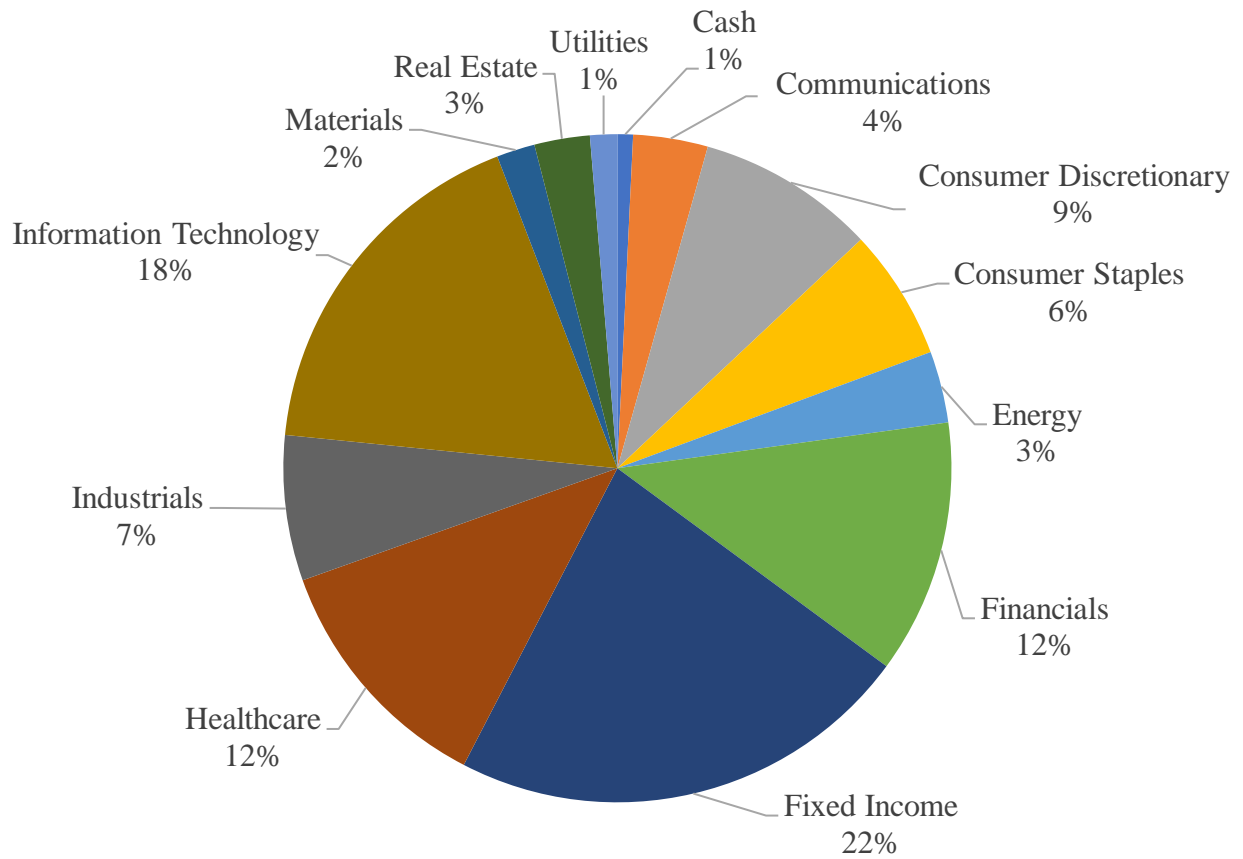
<sup>b</sup> BETFX is the Morningstar Balanced ETF Asset Allocation Fund.

<sup>c</sup> Calculations are annualized from daily returns for the period.

Asset Allocation (%)			
	Beginning	End of H1	End of FY
Equities	73.85%	69.11%	69.70%
Fixed Income	21.51%	25.52%	29.33%
Cash	4.64%	5.37%	0.98%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Asset Allocation (\$)			
	Beginning	End of H1	End of FY
Equities	\$444,214	\$450,684	\$448,232
Fixed Income	\$129,400	\$166,423	\$188,612
Cash	\$27,887	\$34,995	\$6,286
<b>Total</b>	<b>\$601,501</b>	<b>\$652,102</b>	<b>\$643,129</b>

# Portfolio Details



## Portfolio Details

Ticker	% Return	\$ Return
<b>Equities</b>		
AAPL	24.57%	\$3,395.00
AMGN	16.97%	\$2,715.92
AMZN	4.30%	\$1,873.26
BAC	-1.24%	-\$148.71
CRM	-7.99%	-\$968.00
CVS	-24.31%	-\$5,703.51
GD	6.58%	\$586.32
HR	-14.41%	-\$1,369.70
IBM	23.66%	\$2,811.00
JPM	42.60%	\$5,119.80
KRE	-2.33%	-\$253.82
LOW	13.45%	\$1,288.63
MSFT	26.22%	\$8,428.22
NDAQ	-12.79%	-\$3,001.50
NEE	-24.60%	-\$2,569.85
OMC	42.38%	\$5,882.64
PEP	6.74%	\$781.72
PG	18.47%	\$1,445.70
PRU	16.39%	\$1,912.16
RTX	-9.30%	-\$1,864.45
SBUX	19.04%	\$4,491.16
SMH	57.93%	\$8,364.80
SON	0.88%	\$97.43
TMO	0.06%	\$13.16
TTD	30.79%	\$4,968
UNH	2.46%	\$367.50
VALE	6.04%	\$650.16
VGT	-8.15%	\$1,952.13
WM	-3.13%	-\$466.86
WMT	25.06%	\$3,250.00
WPC	-16.42%	-\$1,695.78
XLE	3.76%	\$744.25
<b>Fixed Income</b>		
AGG	0.62%	\$181.31
BLE	-6.09%	-\$1,815.72
GOVZ	-18.04%	-\$3,245.33
MINT	2.24%	\$403.38
TLT	-13.62%	-\$2,714.47
TRECX	5.28%	\$1,147.50
USFR	2.71%	\$1,646.62
WFCPRL	-1.16%	-\$448.00

# Transactions

<u>Period</u>	<u>Date</u>	<u>Quantity</u>	<u>Price</u>	<u>Company</u>	<u>Ticker</u>	<u>Amount</u>
<b>Purchases</b>						
H1	11/7/22	423	\$29.09	Signify Health Inc.	SGFY	\$12,306.40
H1	12/2/22	140	\$106.62	iShares 20+ Year Treasury Bond ETF	TLT	\$14,926.60
H1	12/2/22	220	\$90.04	Energy Select Sector SPDR Fund	XLE	\$19,809.10
H1	1/5/23	30	\$497.35	United Health Group Inc.	UNH	\$14,920.50
H1	3/10/23	512	\$18.57	Healthcare Realty Trust Inc.	HR	\$9,505.38
H1	3/10/23	110	\$63.02	ProShares UltraPro Short 20+ YR TRSY	TTT	\$6,932.20
H1	3/10/23	412	\$31.19	FolioBeyond Alt Inc & Int Rate Hdg ETF	RISR	\$12,850.30
H2	4/4/23	425	\$28.19	Bank of American Corp.	BAC	\$11,980.70
H2	4/20/23	250	\$43.56	SPDR S&P Regional Banking ETF	KRE	\$10,890.00
H2	4/28/23	731	\$50.32	WisdomTree Floating Rate TRSY Fund	USFR	\$36,780.30
H2	5/8/23	131	\$99.20	PIMCO Enhanced Short Maturity ETF	MINT	\$12,995.20
H2	5/8/23	534	\$13.11	iShares 25+ YR TRSY STRIPS Bond ETF	GOVZ	\$7,000.47
H2	5/31/23	55	\$220.38	SalesForce Inc.	CRM	\$12,120.90
H2	7/27/23	53	\$451.73	Vanguard Information Tech. Index Fund	VGT	\$23,941.80
H2	7/27/23	788.29	\$8.88	T Rowe Price EMERG MRKTS CORP	TRECX	\$7,000
H2	7/27/23	50	\$100.17	iShares 20+ Year Treasury Bond ETF	TLT	\$5,008.50
H2	7/27/23	50	\$99.84	PIMCO Enhanced Short Maturity ETF	MINT	\$4,991.75
H2	7/27/23	864	\$12.72	iShares 25+ YR TRSY STRIPS Bond ETF	GOVZ	\$10,988.90
H2	7/27/23	667	\$10.51	BlackRock Municipal Income Trust II	BLE	\$7,006.84
<b>Sales</b>						
H1	12/2/22	30	\$300.16	Accenture PLC	ACN	\$9,004.59
H1	12/2/22	97	\$94.03	Amazon.com, Inc.	AMZN	\$9,120.70
H1	12/2/22	13	\$214.92	Lowes Companies, Inc.	LOW	\$2,793.87
H1	12/2/22	50	\$254.43	Microsoft Corp.	MSFT	\$12,721.20
H1	12/2/22	75	\$104.88	Starbucks Corp.	SBUX	\$7,866.14
H1	3/8/23	0.631	\$8.44	T Rowe Price EMERG MRKTS CORP	TRECX	\$5.58
H1	3/10/23	21	\$227.59	Amgen Inc.	AMGN	\$4,779.35



H1	3/10/23	220	\$87.73	Omnicom Group Inc.	OMC	\$19,300.44
H1	3/10/23	195	\$56.25	Sonoco Products Co.	SON	\$10,968.68
H2	4/28/23	85	\$279.60	Accenture PLC	ACN	\$23,765.80
H2	5/2/23	110	\$62.23	ProShares UltraPro Short 20+ YR TRSY	TTT	\$6,845.30
H2	5/2/23	100	\$31.68	FolioBeyond Alt Inc & Int Rate Hdg ETF	RISR	\$3,167.98
H2	5/2/23	112	\$31.83	FolioBeyond Alt Inc & Int Rate Hdg ETF	RISR	\$3,564.93
H2	5/2/23	200	\$31.82	FolioBeyond Alt Inc & Int Rate Hdg ETF	RISR	\$6,363.94
H2	5/5/23	38	\$311.53	Microsoft Corp.	MSFT	\$11,838.04
H2	7/27/23	321	\$34.17	Williams Companies Inc.	WMB	\$10,968.48
H2	7/27/23	695	\$50.31	WisdomTree Floating Rate TRSY Fund	USFR	\$34,965.80
H2	7/27/23	105	\$101.64	Starbucks Corp.	SBUX	\$10,672.12

# Economic Outlook

## **Period Performance:**

Due to persistent inflation in late 2022 and throughout 2023, we expected economic contraction, followed by an easing of monetary policy. Within equities, we adopted a conservative approach, leading to reduced allocations in volatile sectors like Consumer Discretionary and Information Technology. In fixed income, expecting falling interest rates, we extended duration. This resulted in forgone equity gains during the 2023 bull market and fixed income losses as yields climbed higher. In H1 (10/1/22 - 3/31/23), the LaPorte Fund achieved 8.41%, compared to the benchmark's 11.29%. In H2 (4/01/23 - 09/30/23), the LaPorte Fund reported -1.41%, with the benchmark at 1.49%. For the fiscal year, the LaPorte Fund posted 6.88%, trailing the benchmark's 13.16%.

## **Domestic Economy:**

While improved economic growth and reduced inflation fostered hope for a soft landing, recent monthly data signals a potential economic slowdown. Business spending, buoyed by manufacturing investments, remained strong, but the risk of declining corporate profits may hinder future investments. Consumers, despite benefitting from significant job growth and rising wages, eroded savings and increased debt. This led to rising delinquencies, amplified by tightening monetary policies, higher energy costs, and impending student loan payments. The housing market stabilized amid constrained supply and higher mortgage rates. In summary, the US economy is expected to sustain moderate growth but is increasingly sensitive to potential shocks, with a chance of a recession still lingering by the end of 2024 and higher odds for a 2025 recession if risks persist.

## **Global Economy:**

Despite Europe's avoidance of an energy-induced recession and China's shift from their "zero-COVID" policy, both regions have demonstrated weaker-than-expected performance, presenting a complex global economic outlook. Nevertheless, there are promising economies such as India, benefiting from favorable cyclical and structural factors, and Japan, experiencing increased tourism and exports. Lower export prices from China could assist in tackling inflation, and a potential weakening of the US dollar may be advantageous for American investors. Emerging markets, particularly in East Asia, present appealing opportunities to tap into significant technology trends that could rival those in the US.

## **Looking Ahead:**

Due to economic uncertainty, fluctuating yields, elevated interest rates, and rising geopolitical concerns, the LaPorte Fund has adopted a more defensive stance for the FY. However, we remain vigilant and committed to regularly evaluating our 2024 outlook.

# Communication Services Sector

Julia Veri

## **Period Performance:**

The Communication Services sector of the LaPorte portfolio returned 36.00% over the fiscal year, whereas the S&P 500 Communication Services sector returned 38.26% over the same period. Currently, one holding comprises the LaPorte portfolio's exposure to the Communication Services sector, which is The Trade Desk. The Trade Desk (TTD) is a demand-side platform that provides data-driven, superior advertising solutions. A demand-side platform is an automated ad buying platform where companies and advertisers can purchase digital ad inventory. In March 2023, the LaPorte portfolio liquidated Omnicom Group Inc. (OMC) to realize capital gains and increase our weight in Fixed Income. The Communication Services sector makes up 4.67% of the LaPorte portfolio, which is underweight compared to the S&P 500's weight of 8.91%.

## **Looking Ahead:**

The Communication Services sector contains a broad set of firms including telecommunications, media, and advertising. Due to the sector's diverse nature, some firms are more economically sensitive and other firms act more defensively<sup>2</sup>. The sector also appeals to both growth and income-oriented investors. Consumer spending and the Federal Reserve's monetary policy play a key role in this sector, especially since our only current exposure is to TTD, an economically sensitive and volatile holding. Fed policy impacts consumer spending and sentiment. We will closely watch the effects of the Federal Reserve's aggressive monetary policy as it could negatively impact the sector going into 2024. Conversely, increased consumer spending and positive consumer sentiment drove the sector in the past fiscal year. The Communication Services sector will continue to become more defensive as people and firms depend increasingly on technology<sup>3</sup>.

# The Trade Desk

## TTD

<b>H1 Total Return:</b>	1.94%	<b>H2 Total Return:</b>	28.30%
<b>FY Total Return:</b>	30.79%	<b>Beta:</b>	1.972
<b>Initial Shares:</b>	270	<b>Final Shares:</b>	270
<b>Initial Value:</b>	\$16,132.50	<b>Final Value:</b>	\$21,100.50
<b>FY Dividend Yield:</b>	0.00%	<b>H2 Holding Action:</b>	Hold

### **Description:**

TTD is a technology company that operates the largest demand-side platform delivering data-driven, digital advertising solutions. Clients can purchase mobile, video, and display advertising platforms with help from automation. TTD generates revenue by charging a fee on clients' total advertising spend on their platform. The company's ability to provide modern and superior advertising solutions to their clients is what distinguishes them in the Communication Services sector.



### **Growth Drivers:**

TTD provides clients with omnichannel marketing techniques by seizing the opportunities that Connected TV offers while retaining the benefits of other digital channels. Connected TV refers to devices that have access to the Internet, for example, Smart TVs. With TTD's platform, clients will experience superior advertising techniques. TTD announced the launch of Kokai in June 2023, which is a media buying platform that utilizes AI to create more powerful digital advertising. Kokai deploys deep learning algorithms with access to more than 13 million advertising impressions every second.

### **Risk Factors:**

Digital advertising is one of the most economically sensitive industries within the Communication Services sector. Businesses may reduce advertising budgets during challenging economic periods<sup>4</sup>, rendering the industry inherently risky and volatile. Data privacy concerns can pose challenges for companies that are heavily reliant on data to learn about consumers<sup>5</sup>, such as TTD. Nonetheless, TTD boasts their commitment to data protection through Unified ID 2.0<sup>6</sup>.

# Consumer Discretionary Sector

Jackey Zheng

## **Period Performance:**

During the fiscal year, the Consumer Discretionary sector within the LaPorte Fund delivered a total return of 12.36%, slightly underperforming the S&P 500 Consumer Discretionary sector return of 13.62%. Our investments in this sector include Amazon (AMZN), Lowe's (LOW), and Starbucks (SBUX), which yielded returns of 4.60%, 13.45%, and 19.04%, respectively. The sector constitutes 11.27% of the LaPorte Fund's equity holdings, representing an overweight position compared to its 10.67% weight in the S&P 500 index. In response to our economic outlook, we decided in July to divest 105 shares of SBUX. This move was prompted by concerns about the uncertain economic environment and the expected reduction in consumer spending<sup>7</sup>. It reflects our defensive stance, to maintain a neutral or underweight position in the Consumer Discretionary sector relative to the benchmark.

## **Looking Ahead:**

The Consumer Discretionary sector, known for its acute responsiveness to economic cycles and demand elasticity, currently faces headwinds. This is due to the possibility of another interest rate hike this year, with the current federal funds rate between 5.25% - 5.50%, and the resolute stance of the Federal Reserve in its hawkish monetary policy<sup>8</sup>. These challenges are compounded by consumers contending with diminished purchasing power and reduced disposable income, resulting in constrained demand for nonessential goods and services. Despite recent Consumer Price Index (CPI) data offering some relief, inflation remains notably above the Federal Reserve's targeted 2%, thus exacerbating the plight of discretionary companies. This grapples with escalating input costs and the subsequent erosion of profit margins, often passing those extra expenses on to consumers.

Despite persistent concerns regarding inflation, rising interest rates, and decelerating economic growth, we have optimistic expectations for the S&P 500 in 2024. We believe we will see a resurgence of the bull market rally, mainly fueled by the potential shift in the Federal Reserve's stance from rate hikes to rate cuts. This shift is anticipated to have a favorable ripple effect on consumer spending, ultimately benefiting the consumer discretionary sector. Simultaneously, in the scenario of a successful soft landing for the US economy, analysts are optimistic about the prospect of double-digit earnings growth among S&P 500 companies in the forthcoming year.

Even with notable economic improvements in 2023, concerns loom regarding a potential 2024 recession. The most significant risks to the stock market next year include heightened inflation, stringent monetary policies, and the possibility of a slowdown progressing into a US recession. Moreover, external factors such as the US presidential election and geopolitical tensions also contribute to this uncertain landscape.

# Amazon.com, Inc.

AMZN

<b>H1 Total Return:</b>	-10.80%	<b>H2 Total Return:</b>	23.07%
<b>FY Total Return:</b>	4.60%	<b>Beta:</b>	1.453
<b>Initial Shares:</b>	360	<b>Final Shares:</b>	263
<b>Initial Value:</b>	\$40,680.00	<b>Final Value:</b>	\$33,432.56
<b>FY Dividend Yield:</b>	\$0.00%	<b>H2 Holding Action:</b>	Hold

## Description:

Amazon.com, Inc. is a multinational technology company that specializes in online retail services. Its operations are categorized into three segments: North America, International, and Amazon Web Services (AWS). North America primarily focuses on retail sales of consumer products and subscriptions through North American online and physical stores; International pertains to similar activities but with an international scope; Finally, Amazon Web Services (AWS), is responsible for providing a wide range of computing and storage services to a diverse array of entities, including startups, enterprises, government agencies, and academic institutions worldwide.



## Growth Drivers:

AMZN's growth is driven by several factors, including expanding its e-commerce business that is capitalizing on the global trend toward online shopping, particularly in emerging markets. This growth is exemplified by AMZN's Q3 performance, with a 13% increase in revenue to \$143.1 billion and a substantial profit jump to \$9.9 billion compared to \$2.9 billion the previous year<sup>9</sup>. Secondly, diversification into various sectors like healthcare, logistics, and smart devices complements their portfolio and promotes cross-selling and ecosystem expansion. Additionally, Amazon Web Services (AWS) continues to be a substantial revenue source, further fueling the company's growth. AWS sales in Q3 increased by 12% YoY to reach \$23.1 billion<sup>10</sup>. These factors, along with other growth opportunities, underline AMZN's robust position in the market.

## Risk Factors:

While AMZN offers substantial growth potential, it also faces significant risks. Regulatory scrutiny, like antitrust and data privacy concerns, heightens as global oversight increases. Handling extensive customer data puts AMZN at risk of cyberattacks and data breaches, jeopardizing its reputation and finances. The company also faces a labor movement risk due to its large and diverse workforce. They have been under scrutiny for their labor practices, including concerns about workplace conditions, employee treatment, and resistance to unionization.

# Lowe's Companies, Inc.

LOW

<b>H1 Total Return:</b>	9.48%	<b>H2 Total Return:</b>	5.01%
<b>FY Total Return:</b>	13.45%	<b>Beta:</b>	1.063
<b>Initial Shares:</b>	51	<b>Final Shares:</b>	38
<b>Initial Value:</b>	\$9,578.31	<b>Final Value:</b>	\$7,897.92
<b>FY Dividend Yield:</b>	2.12%	<b>H2 Holding Action:</b>	Hold

## **Description:**

LOW, the world's second-largest home improvement retailer, operates over 1,700 stores in the US and more than 450 stores in Canada. Catering to homeowners, renters, and professionals, Lowe's offers a vast array of home improvement products and services. Renowned for its commitment to customer service, the company not only provides a diverse product range but also facilitates installation, repair, and maintenance through contractor collaborations. With a strong online presence and ongoing investments in digital platforms and product expansion, Lowe's aims to maintain its competitive position in the home improvement retail sector.



## **Growth Drivers:**

Lowe's growth prospects encompass several key avenues. First, its commitment to enhancing its e-commerce platform aligns with the ever-growing trend of online shopping, despite a 9% decline in net sales to \$25 billion in Q2 2023 YoY<sup>11</sup>. This strategy seeks to attract a wider customer base and boost sales. Second, Lowe's strategically targets the professional services segment, catering to a diverse array of pro customers, including contractors and repair remodelers. Despite grappling with challenges like a 1.6% decrease in comparable sales, the company displayed resilience with robust spring recovery and growth in the pro and online segments.

## **Risk Factors:**

Economic downturns, exemplified by potential recessions, could reduce consumer spending on home improvement, impacting Lowe's sales and profitability<sup>12</sup>. In the future, Lowe's may face a steeper slowdown due to weak housing market trends as mortgage rates near 8%. These factors may negatively affect consumer decisions and builders grappling with slower home sales and higher prices. Moreover, competition from Home Depot and online retailers could limit Lowe's market share and pricing power.

# Starbucks Corporation

## SBUX

<b>H1 Total Return:</b>	24.91%	<b>H2 Total Return:</b>	-6.49%
<b>FY Total Return:</b>	19.04%	<b>Beta:</b>	0.922
<b>Initial Shares:</b>	280	<b>Final Shares:</b>	100
<b>Initial Value:</b>	\$23,592.80	<b>Final Value:</b>	\$9,114.92
<b>FY Dividend Yield:</b>	2.50%	<b>H2 Holding Action:</b>	Hold

### Description:

SBUX is involved in the art of roasting, marketing, and retailing specialty coffee. The company's stores offer an array of coffee blends, handcrafted beverages, food items, and merchandise. Additionally, SBUX provides an extensive range of coffee products, including whole bean and ground coffee, as well as ready-made beverages and snacks. Under its brand umbrella, Starbucks encompasses Teavana, Starbucks Reserve, Princi, and Ethos. With a global presence through both owned and licensed stores, SBUX has established itself as one of the world's foremost coffee and quick-service restaurant brands, boasting a network of over 35,000 locations worldwide.



### Growth Drivers:

The company boasts an array of diverse and promising growth avenues. First, its international expansion, especially in emerging markets like China, offers substantial potential<sup>13</sup>. In fiscal 2023, Starbucks anticipates a 3% growth in store count in the US, and a remarkable 13% in China. Second, continued investments in its digital ecosystem, including the mobile app, rewards program, and delivery partnerships, enhance customer engagement and convenience with over 31 million active users. Lastly, the increasing consumer demand for sustainable and ethically sourced products aligns with SBUX's commitment to ethical sourcing, environmental responsibility, and community initiatives. This commitment not only appeals to socially conscious consumers but also contributes to long-term growth.

### Risk Factors:

SBUX faces intense competition from established and local coffee chains, necessitating innovative strategies to distinguish themselves, particularly in mature markets<sup>14</sup>. The company is also highly sensitive to volatile commodity prices like coffee beans, which can impact costs and profit margins. Moreover, SBUX's dependence on consumer discretionary spending ties its performance closely to economic cycles. During economic downturns, consumers may cut back on non-essential expenses, affecting sales and profitability. Another significant risk is the vulnerability to unions, given SBUX's extensive workforce. Even a slight increase in per-worker costs could affect the company due to its large employee base, with employees being a considerable expense for each store.



# Consumer Staples Sector

Payton Layne

## **Period Performance:**

During the fiscal year, the Consumer Staples sector of the LaPorte portfolio had a total return of 16.91% compared to the S&P 500's sector index return of 7.46%. The Consumer Staples sector of the LaPorte portfolio returned 14.98% in H1 and 1.70% in H2. However, these returns still outpaced the S&P 500 sector index which returned comparative returns of 13.60% in H1 and -5.47% in H2. The LaPorte Fund retained positions in PepsiCo (PEP), Procter & Gamble (PG), and Walmart (WMT), returning 6.74%, 18.74%, and 25.06% respectively. The sector accounts for 8.32% of the LaPorte Fund equities holdings, which is overweight compared to the weight of 6.57% in the S&P 500 index. This is in part because the Consumer Staples sector traditionally serves as a defensive sector, which our fund felt was necessary during a time of increased rate hikes and economic uncertainty.

## **Looking Ahead:**

Consumer spending is inherently cyclical, influenced by macroeconomic and systemic shifts within the economy. However, expenditures on products categorized as consumer staples follow a notably different pattern. This distinction arises from their consistent demand, regardless of the prevailing economic conditions. Consequently, the Consumer Staples industry remains resilient throughout economic cycles, maintains low market volatility, and generally exhibits a weak correlation with the broader market. In addition to these conditions, most firms within this sector have a strong dividend payout. As a result, the Consumer Staples sector typically exhibits its greatest strength during the late stages of an economic cycle, often when the economy is poised to enter a recession. Investors tend to lean towards the sector as a defensive haven during these times.

Although non-cyclical, recessionary headwinds are still impossible to avoid. Recessions come with rising input costs, which affects profitability and margins. Products in this category can be replaced with cheaper alternatives. Consumer staple firms will rely on consistent demand and brand loyalty to produce earnings. Overall, the Consumer Staples sector will continue to serve as a defensive sector for the LaPorte Fund. As economic uncertainty remains a concern and talks of an upcoming recession are still looming, the LaPorte portfolio expects to retain an overweight allocation in Consumer Staples.

# PepsiCo, Inc.

PEP

<b>H1 Total Return:</b>	13.07%	<b>H2 Total Return:</b>	-5.67%
<b>FY Total Return:</b>	6.74%	<b>Beta:</b>	0.490
<b>Initial Shares:</b>	71	<b>Final Shares:</b>	71
<b>Initial Value:</b>	\$11,591.46	<b>Final Value:</b>	\$12,030.24
<b>FY Dividend Yield:</b>	2.99%	<b>H2 Holding Action:</b>	Hold

## Description:

PepsiCo is a prominent player in the food and beverage industry, operating in over 200 countries. The company is the leading global convenience food and beverage company with its portfolio including brands such as Cheetos, Doritos, Gatorade, Lays, Mountain Dew, Pepsi-Cola, and Quaker. PepsiCo makes, markets, distributes, and sells their products. These operations include authorized bottlers, contract manufacturers, and other third parties. The company's customers include wholesale distributors, food service customers, grocery stores, drug stores, convenience stores, and more.



## Growth Drivers:

PEP's strategy continues to focus on research and development of new products as well as marketing techniques to attract new customers. PEP is known for its fun, youthful, and aspirational image. They often use popular celebrities and cultural references in their advertising campaigns coupled with constant changes to packing and appearance. Their diverse portfolio includes carbonated drinks, sports drinks, water, coffee, and convenience foods<sup>15</sup>. This diversification creates multiple revenue streams, reducing the risk of only having one product.

## Risk Factors:

The emergence of healthy living trends has grown over the past few years and PEP's products are typically considered unhealthy. This trend continued this summer when the World Health Organization classified aspartame as 'possibly carcinogenic' and weight loss drugs grew in popularity. Accordingly, PEP's carbonated soft drinks sales, specifically, are projected to have little growth. PepsiCo must continue to face the challenge of keeping a balance between taste appeal and health considerations. With 45% of sales coming from outside the United States, they must rapidly adapt to divergent economic and demographic trends. Currency changes and global inflation also impact labor relations and their overall operating environment.

# Procter & Gamble Co.

PG

<b>H1 Total Return:</b>	19.22%	<b>H2 Total Return:</b>	-0.64%
<b>FY Total Return:</b>	18.47%	<b>Beta:</b>	0.614
<b>Initial Shares:</b>	62	<b>Final Shares:</b>	62
<b>Initial Value:</b>	\$7,827.50	<b>Final Value:</b>	\$9,043.32
<b>FY Dividend Yield:</b>	2.58%	<b>H2 Holding Action:</b>	Hold

## Description:

Procter & Gamble manufactures and markets consumer products in various segments including baby, beauty, grooming, fabric and home care, feminine and family care, and healthcare. The company boasts a diverse portfolio of approximately 35 brands including Bounty, Crest, Gillette, Old Spice, Pampers, Pepto-Bismol, Puffs, Swiffer, and Tide. Operating in over 180 countries, half of their sales come from outside the US. PG predominantly distributes its products through mass merchandisers, grocery stores, drug stores, department stores, and wholesalers.



## Growth Drivers:

PG is the leading household and personal-care manufacturer, maintaining some of the most well-known brands within their respective product categories. PG's reputation for reliability from its brands fosters lasting relationships with its retailers. This reliability gives them a competitive advantage over more risky, unproven suppliers whom retailers are more reluctant to work with. Additionally, the company has an impressive track record of paying dividends for 133 consecutive years and has increased their dividends per share for 67 consecutive years<sup>16</sup>. This provides investors with a steady income and reassured confidence that the company can generate cash flow.

## Risk Factors:

As inflation begins to rise, a common trend among consumers is to gravitate towards cheaper, private-label brands. While consumer staple products are typically affected later in this occurrence, PG brands typically hover in the higher price range. However, PG's strong brand loyalty and product superiority help offset this trend. They are also exposed to changes in foreign-exchange rates with over half of sales coming from outside the US. The firm is also at risk of profit fluctuations due to global manufacturing locations.

# Walmart Inc.

WMT

<b>H1 Total Return:</b>	14.12%	<b>H2 Total Return:</b>	9.62%
<b>FY Total Return:</b>	25.06%	<b>Beta:</b>	0.631
<b>Initial Shares:</b>	100	<b>Final Shares:</b>	100
<b>Initial Value:</b>	\$12,970.00	<b>Final Value:</b>	\$15,993.00
<b>FY Dividend Yield:</b>	1.43%	<b>H2 Holding Action:</b>	Hold

## Description:

Walmart stands as the largest retailer in the US and the largest employer in the world. WMT operates discount stores, supercenters, and neighborhood markets. The company offers a variety of products such as groceries, apparel, house appliances, electronics, household staples, pharmaceutical products, automotive tools, and more. Walmart operates through three main segments: Walmart US, Walmart International, and Sam's Club.



## Growth Drivers:

WMT has a robust presence in the US, with 90% of Americans living within 10 miles of a store<sup>17</sup>. Their large presence and access to a vast customer base are subsequently used to negotiate favorable terms with suppliers, enabling the company to provide consumers with competitively priced goods. WMT also offers its own private-label brands, adding to the array of affordable alternatives. In times of economic constraint, consumers will trend towards cost-effective shopping destinations, a trend that notably benefits WMT. They also are actively enhancing their online marketplace by investing in e-commerce fulfillment centers and growing their Walmart+ subscription program. As online shopping increases, they could see these facets produce substantial returns in the future.

## Risk Factors:

Online shopping and digital innovation continue to challenge traditional brick-and-mortar retailers. Thus, WMT has started heavily investing in its online platform. Economic tightening could also have negative effects on Walmart. They sell many non-essential products, which would decrease in sales as consumers cut back on spending. Lastly, WMT has recently accumulated high debt and interest expenses. This is attributed to the various areas they are trying to improve on such as supply chain automation, e-commerce fulfillment centers, and omni-channel services.

# Energy Sector

Riley Fish

## **Period Performance:**

In the fiscal year, our portfolio's Energy sector faced a significant decline with a return of -32.06%, in stark contrast to the S&P 500 Energy index which showed a positive return of 29.80%. The sector accounts for 4.24% of the overall fund, slightly lower than the index's 4.84% weight. Notably, we bought XLE in December and sold WMB in late July.

## **Looking Ahead:**

Geopolitical conflict between Russia and Ukraine is currently the biggest source of risk<sup>18</sup>. Russia has historically been one of the largest oil providers worldwide but now is facing sanctions from the European Union, the US, Japan, and many other countries that have banned the import of Russian oil<sup>19</sup>. This creates opportunities for other oil providers to fill the demand formerly supplied by Russia. If this conflict persists, close monitoring of this situation will have major implications for the Energy sector<sup>20</sup>.

Green policies for alternative energy can shift as party majorities shift. It will be important to keep an eye on the policies of our government and who is in control. Traditional party lines and history show that the Republicans are largely in support of many of the long-standing institutions in the Energy sector, while Democrats generally are looking for new energy, renewable, and alternative energy solutions that could cause shifts in the Energy sector<sup>21</sup>. US elections should be closely monitored when looking at the future of this sector, as well.

# Williams Company, Inc.

## WMB

<b>H1 Total Return:</b>	7.34%	<b>H2 Total Return:</b>	15.93%
<b>FY Total Return:</b>	23.96%	<b>Beta:</b>	0.683
<b>Initial Shares:</b>	321	<b>Final Shares:</b>	0
<b>Initial Value:</b>	\$9,190.23	<b>Final Value:</b>	\$0.00
<b>FY Dividend Yield:</b>	5.31%	<b>H2 Holding Action:</b>	Sell 321 Shares

### Description:

Williams Companies is a midstream energy company. WMB owns and operates 33,000 miles of pipelines including Transco and Northwest pipeline systems. Natural gas sales constitute the majority of WMB's revenue, although the company conducts operations across the natural gas value chain including gathering, processing, interstate transportation, storage, wholesale marketing, and trading of natural gas. WMB handles about a third of the natural gas used every day in the US for clean-power generation, heating, and industrial use.



### Liquidation Thesis:

The decision to liquidate our position in WMB in July was driven by our outlook on the Energy sector and the need for a weighting adjustment in our portfolio. Our fund wanted to mirror our S&P 500 benchmark more closely in energy weighting. Our fund believed that the liquidation of this holding and subsequent allocation of funds elsewhere was advantageous. With WMB outperforming the XLE ETF and the S&P 500 Energy benchmark, we felt we could realize a gain in WMB and move forward holding the ETF. Additionally, the outlook of the overall Energy sector has been murky with the uncertainties involved with the Russian War in Ukraine<sup>22</sup>. With this conflict, we believed holding an individual stock in this sector may provide more unsystematic risk than would be advisable. For those reasons, our fund believed it would be best to liquidate our position in WMB and use the proceeds from the sale elsewhere.

# Energy Select Sector SPDR Fund

XLE

<b>H1 Total Return:</b>	-6.17%	<b>H2 Total Return:</b>	10.79%
<b>FY Total Return:</b>	3.76%	<b>Beta:</b>	0.676
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	220
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$18,885.80
<b>FY Dividend Yield:</b>	2.98%	<b>H2 Holding Action:</b>	Buy 220 Shares

## **Description:**

The Energy Select Sector SPDR Fund is a prominent US-based ETF mirroring the Energy Select Sector Index, focusing on large-cap US energy stocks primarily engaged in crude oil and natural gas development, drilling, and related services<sup>24</sup>. The portfolio is market-cap weighted, offering a low-risk exposure to the Energy sector. Its top holdings include Exxon Mobil Corp (XOM) at 21.64% and Chevron Corp (CVX) at 18.18%, with other significant positions held in Schlumberger NV, ConocoPhillips, Marathon Petroleum Corp, and EOG Resources Inc. The fund is dominantly invested in oil and gas companies, at 80% of the portfolio, with allocations to oil and gas services, 10%, and pipelines, 8.5%, respectively.



## **Growth Drivers:**

The energy landscape is influenced by several key factors<sup>25</sup>. Conservative lawmakers, currently in control, have enacted legislation supporting the petroleum industry, a boost for XLE. Additionally, collaborations between nations with fewer environmental constraints are expanding global partnerships. Ongoing conflicts in Russia have pushed Western countries to diversify their oil sources, fostering growth in production from alternative nations. Despite discussions around renewables and electric vehicles, the nation's reliance on traditional energy remains steadfast.

## **Risk Factors:**

XLE faces challenges from various fronts<sup>26</sup>. Oil price fluctuations have led to mixed returns, with strong three-year performance but weaker results over the past five and ten years. Russia's War in Ukraine disrupted the Energy sector due to bans on Russian oil imports, affecting XLE's stability. Political regulations, such as state governments supporting renewable energy initiatives, and utility companies' carbon emission reduction plans pose risks. Additionally, the shift toward eco-friendly alternatives, driven by climate concerns, presents challenges.

# Financials Sector

Jack Benkert

## **Period Performance:**

The Financials sector returned 6.91% for the FY. The LaPorte portfolio underperformed compared to the S&P 500's Financials sector index's return of 11.71% for the FY. The LaPorte portfolio currently holds Bank of America (BAC), J.P. Morgan Chase & Co. (JPM), SPDR S&P Regional Banking Index (KRE), Nasdaq, Inc. (NDAQ), and Prudential Financial, Inc. (PRU), returning -1.24%, 42.60%, -2.33%, -12.79%, and 16.39%, respectively. The Financials sector comprises 16.12% of the LaPorte portfolio's equity holdings, overweight the S&P 500s Financials sector by 3.25%. JPM was a top performer for the portfolio during the FY. Its strong performance is attributed to its large presence as the biggest global retail bank, new acquisitions, and its outperformance compared to analysts' expectations. We purchased BAC and KRE post banking crisis in March yet have not seen much movement from the original purchase price.

## **Looking Ahead:**

The Financials sector's performance moving forward is expected to be closely tied to the broader economy, with potential challenges due to an economic slowdown. Despite the sector's improved financial standing, it remains underinvested, with financials being one of the cheapest sectors in the S&P 500. Areas of opportunity include banks with strong deposit bases, conservative credit profiles, and investments in insurance, which may provide stability and value for long-term investors<sup>27</sup>. The Financials sector has shown resilience following the collapse of Silicon Valley Bank, remaining in line with broader market indices like the Russell 2000 and S&P 500, supported by lower than expected CPI numbers. With the consensus of interest rate cuts moving into 2024, there is potential for increased borrowing activity in banks, contributing to economic growth in other financial industries and signaling a move beyond recent turmoil.



# Bank of America Corporation

BAC

<b>H1 Total Return:</b>	0.00%	<b>H2 Total Return:</b>	-1.24%
<b>FY Total Return:</b>	-1.24%	<b>Beta:</b>	1.070
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	425
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$11,636.50
<b>FY Dividend Yield:</b>	3.51%	<b>H2 Holding Action:</b>	Buy 425 Shares

## Description:

Bank of America Corporation comprises 1.82% of the LaPorte Fund and 16.21% of our Financials sector's holdings. BAC is a major US multinational financial institution that offers banking and financial services to individuals, businesses, and institutional clients. BAC is the second largest bank in the world with \$3.1 trillion assets.



## Investment Thesis:

After the banking crisis in March, BAC's price was trading at a low in comparison to other retail banks in the Financials sector. With a strong asset base and large customer base, BAC was in an attractive position to buy and add to the portfolio with a thesis that it would bounce back to its average trading level. Moving forward, BAC looks to grow the company by expanding its customer base. BAC looks to accomplish this by expanding into new markets and advancing its technology<sup>28</sup>. The firm looks to boost revenue growth with higher interest rates in the high-rate environment stemming from the Fed's rate hikes. This will continue into 2024 as the Fed does not indicate any rate cuts in the near term.

# J.P. Morgan Chase & Co.

## JPM

<b>H1 Total Return:</b>	26.21%	<b>H2 Total Return:</b>	12.82%
<b>FY Total Return:</b>	42.60%	<b>Beta:</b>	0.983
<b>Initial Shares:</b>	115	<b>Final Shares:</b>	115
<b>Initial Value:</b>	\$12,017.50	<b>Final Value:</b>	\$14,985.65
<b>FY Dividend Yield:</b>	2.90%	<b>H2 Holding Action:</b>	Hold

### **Description:**

J.P. Morgan Chase & Co. (JPM) comprises 2.61% of the LaPorte Fund and 17.40% of our Financials sector's holdings. JPM is a multinational financial services and investment banking institution that provides a wide range of financial and banking services to corporations, governments, and individuals worldwide. JPM is the largest bank in the world with \$3.9 trillion assets.



### **Growth Drivers:**

The future of banking is expected to be heavily influenced by advancements in generative AI and blockchain, which will streamline processes and increase revenue through financial technology. As interest rates shift from a high cycle to potential cuts, banks may face fewer defaults and increased economic activity, benefiting from higher loan spreads and a more advantageous lender-borrower relationship. In addition, JPM's strategic expansion into new markets will enable the firm to reach a broader customer base, fostering further growth and market presence<sup>30</sup>. JPM acquired a failing First Republic Bank at a discount in May 2023. This will allow JPM to expand its footprint and continue to grow its revenue. These factors collectively shape the evolving landscape of the banking industry.

### **Risk Factors:**

JPM faces challenges in the form of rising interest rates, potentially reducing profitability by affecting interest spreads and lending activity. Regulatory changes, particularly in compliance and liquidity requirements, could increase the bank's operational costs<sup>31</sup>. Additionally, economic uncertainty and the risk of an economic downturn could adversely impact the bank's lending and investment activities, affecting its overall profitability.

# SPDR S&P Regional Banking ETF

KRE

<b>H1 Total Return:</b>	0.00%	<b>H2 Total Return:</b>	-2.33%
<b>FY Total Return:</b>	-2.33%	<b>Beta:</b>	1.001
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	250
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$10,422.50
<b>FY Dividend Yield:</b>	3.60%	<b>H2 Holding Action:</b>	Bought 250 Shares

## Description:

KRE comprises 1.63% of the LaPorte Fund and 13.10% of our Financials sector's holdings. KRE aims to track the S&P Regional Banks Select Industry Index, primarily investing in securities representing the regional banks segment of the S&P Total Market Index. It follows a market cap-weighted approach, in which larger banks have a greater influence on the fund's performance. KRE is a passively managed fund designed to mirror the regional banking index.

The logo for KRE, consisting of the letters 'KRE' in a bold, sans-serif font. The 'K' is blue, the 'R' is green, and the 'E' is blue.

## Investment Thesis:

The banking crisis in March caused a shockwave through the regional banking index, with many stable regional banks taking a hit to their stock price. With nothing changing fundamentally in the business models within most banks within the KRE ETF, it proposed an attractive time to buy a beat-up industry. The thesis is that regional banks will bounce back to average prices and show resiliency. In the event of a successful soft landing by the Federal Reserve, we expect a boost in economic activity. This will benefit small to mid-cap corporations that often rely on regional banks for loans, potentially driving growth for KRE<sup>32</sup>. Specialization in specific areas allows regional banks to compete effectively with retail banks, as they can concentrate their efforts on gaining a competitive advantage. Moreover, potential interest rate cuts, driven by recent inflation data, are projected to benefit regional banks by stimulating economic activity in the markets, providing them with a predictable timeline for increased revenue. Regional banks face several risks that can impact their performance including commercial real estate exposure, default risks in a high interest rate environment, competition from larger retail banks, and regulations imposed by the Fed<sup>33</sup>.

# Nasdaq, Inc.

## NDAQ

<b>H1 Total Return:</b>	2.84%	<b>H2 Total Return:</b>	-10.32%
<b>FY Total Return:</b>	-12.79%	<b>Beta:</b>	0.982
<b>Initial Shares:</b>	414	<b>Final Shares:</b>	414
<b>Initial Value:</b>	\$23,465.22	<b>Final Value:</b>	\$20,116.26
<b>FY Dividend Yield:</b>	1.81%	<b>H2 Holding Action:</b>	Hold

### **Description:**

Nasdaq, Inc. comprises 3.15% of the LaPorte Fund and 29.05% of the Financials sector holdings. Its most notable business activity is the operation of the NASDAQ Stock Exchange. The exchange is the world's second largest by market capitalization and tends to center around high-tech, public companies. In May 2022, firms listed on the exchange had a combined market capitalization of \$22.4 trillion.



### **Growth Drivers:**

NDAQ's growth is driven by their strong focus on technological innovation, such as trading platforms and AI, which attracts clients and streamlines operations. The increasing demand for data and analytics services enhances their capabilities to gather financial data, as more companies recognize its importance. NDAQ's position as a leading listing venue for tech and high-growth industries is expected to lead to increased economic activity, with more companies choosing to IPO. Furthermore, strategic acquisitions and partnerships, like the recent acquisition of Adenza, bolster its portfolio and global reach, contributing to its growth<sup>34</sup>. Adenza is an end-to-end trading, treasury, risk management and regulatory compliance solutions enable financial institutions to consolidate and streamline their operations. In a way to protect investor's, the SEC proposed reform of payment for order flow which would benefit NDAQ as it could see an increase in volume in its public marketplace activity.

### **Risk Factors:**

The company's growth has been challenged by the high interest rate environment, despite its relative resilience compared to other financial equities. The Federal Reserve's commitment to rate hikes until inflation reaches a safe level remains a key factor to monitor. Furthermore, NDAQ faces data and privacy risks due to its data-centric business, as regulatory changes and data privacy concerns could lead to reputational damage and legal issues. In addition, NDAQ operates in a fiercely competitive industry, contending with other exchanges and markets for market share in both trading activity and listings, involving intense product and price competition<sup>35</sup>.

# Prudential Financial, Inc.

## PRU

<b>H1 Total Return:</b>	-0.69%	<b>H2 Total Return:</b>	17.71%
<b>FY Total Return:</b>	16.39%	<b>Beta:</b>	1.107
<b>Initial Shares:</b>	136	<b>Final Shares:</b>	136
<b>Initial Value:</b>	\$11,666.08	<b>Final Value:</b>	\$12,905.04
<b>FY Dividend Yield:</b>	5.27%	<b>H2 Holding Action:</b>	Hold

### **Description:**

Prudential Financial, Inc. comprises 1.73% of the LaPorte Fund and 26.26% of the Financials sector holdings. PRU provides various forms of financial services across the US and internationally. PRU's services include life insurance, mutual funds, annuities, pensions, retirement related services, and asset management. PRU functions in five main business units: US Workspace Solutions, US Individual Solutions, International Insurance, and Global Investment Management<sup>36</sup>.



### **Growth Drivers:**

PRU anticipates growth through technological advancement, particularly in generative AI, which will streamline operations and enhance their business strategies. They also plan to expand their international business to tap into new revenue streams by increasing their presence in foreign markets. PRU's expansion into China and Asia has reported strong growth in new business and sales. PRU plans to invest around 1 billion dollars into its distribution networks to drive organic growth in the next few years. The constant demand for insurance policies, annuities, retirement plans, and financial products in the insurance and financial planning sector positions PRU well to benefit individuals seeking to secure their financial future<sup>37</sup>.

### **Risk Factors:**

PRU faces a few risk factors: market sensitivity to interest rates and equity prices that can impact investment returns and asset-liability matching, potential changes in regulations that could affect its operations and products due to heavy regulation, and the risk of economic downturns impacting its capital market activities. These factors collectively influence PRU's business performance and financial stability, especially on the solutions and investments side of the business.

# Healthcare Sector

Amritha Thiruveedula

## **Period Performance:**

The LaPorte Healthcare sector returned -2.15% compared to the sector index S5HLTH, which returned 8.21%. The LaPorte portfolio is overweight in healthcare with an allocation of 15.53% while the SPX index comprises of a 13.42% weight in healthcare, making the portfolio 2.11% overweight compared to the benchmark. No healthcare transactions occurred in H2, and the existing holdings include AMGN, CVS, TMO, and UNH. CVS experienced a negative return of -24.31%, ranking among the five poorest-performing stocks across the portfolio for the fiscal year. Conversely, AMGN achieved a positive return of 16.97%, emerging as the top-performing healthcare stock for the year. TMO yielded a marginal return of 0.06%, while UNH delivered a modest return of 2.46%. Collectively, our healthcare holdings displayed relatively subdued returns.

## **Looking Ahead:**

The Healthcare sector has not delivered returns as robust as those observed in previous periods. This is partially attributed to the market's preference for equities in the Communication Services and Information Technology sectors, as well as other higher-growth stocks. The Healthcare sector is noncyclical, and therefore, in times of economic hardship, the sector will perform better than more cyclical sectors. However, since the Inflation Reduction Act of 2022 passed, there has been uncertainty looming around healthcare stocks and the role of government intervention. The effect of this act on the prices and revenue of the companies is still unclear but seems to be leading to lower growth in this sector. Recently, value-based care is growing in the US healthcare system, focusing on quality of care and a patient's experience<sup>38</sup>. In addition, the new class of glucagon like peptide drugs (GLP-1s), which are designed to allow people with diabetes to absorb glucose, are being used as weight loss drugs. This has increased revenue projections for GLP-1s to more than \$100 billion, a fraction of what it was last year. These drugs have boosted growth in LLY and NVO stocks as their drugs Mounjaro and Ozempic have seen a rise in consumer use<sup>39</sup>.

# Amgen Inc.

AMGN

<b>H1 Total Return:</b>	7.20%	<b>H2 Total Return:</b>	12.93%
<b>FY Total Return:</b>	16.97%	<b>Beta:</b>	0.464
<b>Initial Shares:</b>	71	<b>Final Shares:</b>	50
<b>Initial Value:</b>	\$16,003.40	<b>Final Value:</b>	\$13,438.00
<b>FY Dividend Yield:</b>	2.28%	<b>H2 Holding Action:</b>	Hold

## Description:

Amgen Inc., originally established as Applied Molecular Genetics (AMGen) in 1980, is a biotechnology company that operates under one business segment: human therapeutics. This company focuses on unlocking the potential of biology to help patients who are enduring serious medical illnesses by using various tools to digest the elaborate system of human biology. Headquartered in Thousand Oaks, California, Amgen develops various pharmaceutical treatments for cancer, heart disease, and other diseases<sup>40</sup>. They are one of the largest companies in the biotechnology industry, representing 10.4% of the market share. As a US-based company, about 70% of its revenue comes from the US while the other 30% comes from the other 100 countries the business is represented in.



## Growth Drivers:

An aging US population presents AMGN with the opportunity to address a rising demand for pharmaceuticals and to focus on age-related diseases. As technology and science continue to advance, many emerging markets offer AMGN new markets to tap into to grow their customer base. They can leverage their existing research and development to forge strategic alliances and licensing deals to expand their product portfolio and monetize its existing assets.

## Risk Factors:

AMGN is in an industry that requires a high initial cost of capital as manufacturing pharmaceuticals demands research and time to produce. The company maintains a substantial reliance on their wholesale distributors, leading to concentration risk. A contract termination by a key distributor would significantly impact the company's revenue. Lastly, they are heavily regulated by the FDA in the US.

# CVS Health Corporation

## CVS

<b>H1 Total Return:</b>	-20.87%	<b>H2 Total Return:</b>	-4.41%
<b>FY Total Return:</b>	-24.31%	<b>Beta:</b>	0.547
<b>Initial Shares:</b>	246	<b>Final Shares:</b>	246
<b>Initial Value:</b>	\$23,461.02	<b>Final Value:</b>	\$17,175.72
<b>FY Dividend Yield:</b>	1.90%	<b>H2 Holding Action:</b>	Hold

### **Description:**

CVS Health Corporation specializes in healthcare and retail pharmacy services. They offer a wide range of products from prescription medications to cosmetics, pharmacy benefit management (PBM), disease management, and administrative services. CVS is based in the US and operates in Puerto Rico as well. The company is a household name with 110 million plan members and the country's largest drugstore chain with a national network of 66,000 retail pharmacies, and 40,000 chain pharmacies. CVS operates through four main segments: Pharmacy services, Retail/LTC, Healthcare benefits, and Corporate/Other. Pharmacy services accounts for 45% of their total revenue.



### **Growth Drivers:**

CVS has room for growth in e-commerce as they are mostly known for their brick-and-mortar pharmacies. If they can enhance their website and mobile apps, they can grow their business and transition more seamlessly as the world shifts towards a technology-based environment. If CVS expands into Latin America, the multinational expansion can help it grow and increase its revenue. CVS can also expect business growth and opportunities through mergers and acquisitions to diversify into various markets and segments. Lastly, CVS's health insurance business has benefitted from the slow recovery in elective procedures and a fall in COVID that has helped with costs<sup>41</sup>.

### **Risk Factors:**

Walgreens and Rite Aid are CVS's biggest competitors, requiring CVS to differentiate itself. In addition, CVS lacks core competencies, which makes its business model easy to mimic and imitate. The US healthcare industry is highly regulated and hence they are prone to extensive regulations.



# Thermo Fisher Scientific, Inc.

## TMO

<b>H1 Total Return:</b>	13.76%	<b>H2 Total Return:</b>	-12.06%
<b>FY Total Return:</b>	0.06%	<b>Beta:</b>	0.912
<b>Initial Shares:</b>	47	<b>Final Shares:</b>	47
<b>Initial Value:</b>	\$23,837.93	<b>Final Value:</b>	\$23,789.99
<b>FY Dividend Yield:</b>	0.20%	<b>H2 Holding Action:</b>	Hold

### Description:

Thermo Fisher (TMO) is one of the largest leaders in service science in the world, manufacturing scientific instruments, consumables, chemicals, and other laboratory supplies. TMO has customers around the world, but 55% of their revenue comes from North America. TMO operates in four segments: life sciences solutions, analytical instruments, specialty diagnostics, and laboratory product and biopharma services. Laboratory product and BioPharma services are their largest segment, generating 45% of their revenue.

The logo for ThermoFisher Scientific, with "ThermoFisher" in red and "SCIENTIFIC" in black, underlined.

### Growth Drivers:

TMO can greatly benefit from the growing global hospital supplies market. The global hospital supplies market in FY 2022 was about \$141 billion and is expected to grow to \$170 billion by FY 2027 at a compound annual growth rate of 3.70%. TMO's new products and services are a significant factor contributing to their growth. The company consistently introduces innovative offerings designed to meet customer needs and market demands. In 2023, they announced the launch of Applied Biosystems' TrueMark STI panel, which is a PCR test that detects various STIs.

### Risk Factors:

The company is in an emerging competitive market in the medical equipment industry. Their competitors are slowly growing, and TMO needs to be timelier to introduce new products. The operations of the company's brands are subject to large changes in technology, and they need to adapt to the demand. Another significant concern pertains to the high level of regulation within the industry TMO operates. The FDA imposes stringent regulations on the introduction of new medical products, which entails substantial investments of time and money to secure product approvals<sup>42</sup>.

# UnitedHealth Group Inc.

UNH

<b>H1 Total Return:</b>	4.65%	<b>H2 Total Return:</b>	7.48%
<b>FY Total Return:</b>	2.46%	<b>Beta:</b>	0.451
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	30
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$15,125.70
<b>FY Dividend Yield:</b>	0.00%	<b>H2 Holding Action:</b>	Hold

## Description:

United Health Group Inc. (UNH) owns and manages health systems. They offer healthcare insurance and employee benefits programs by providing employers with products and resources to plan and administer such programs. They are the leading health insurer in the US offering a variety of services to customers nationwide. UNH operates through four segments: UnitedHealthcare, OptumRx, Optum Health, and Optum Insight. United Healthcare's core benefits segment accounts for 55% of its entire revenue, with the largest business being the employer and individual unit.



## Growth Drivers:

The growth in the insurance industry in the US helps UNH as insurance is one of its most profitable segments. Older population levels continue to rise in the US and as a result, UNH's Medicare and Retirement segment is one of the largest revenue drivers<sup>43</sup>. Also, the company is continuing to grow through various acquisitions and partnerships. In 2022, Optum and LHC Group announced they were going to merge, advancing value-based care in patients' homes. Just like CVS, the insurance business for UNH has benefitted from the slower recovery than expected of elective procedures, resulting in fewer insurance payouts<sup>41</sup>.

## Risk Factors:

The Healthcare industry is extremely competitive, placing pressure on UNH to reduce its margins. This can affect sales, the quality of products and services, and their financial performance. As online presence becomes more prevalent, UNH is vulnerable to risks related to online identity theft and hacking. The company is specifically a target as they use IT to perform business transactions and have databases of personally identifiable information.

# Industrials Sector

Om Patel

## **Period Performance:**

The Industrials sector accounts for 8.33% of the S&P 500. The LaPorte portfolio is slightly overweight Industrials with a 9.24% allocation. Currently, the LaPorte portfolio holds three stocks within the sector: General Dynamics (GD), RTX Corporation (RTX), and Waste Management, Inc. (WM). These holdings yielded a weighted average FY return of -1.95%. The return represented an underperformance compared to the S&P 500 Industrials Sector's FY return of 24.52%. This downturn can be attributed to a culmination of rate hikes, a contracting economy, and reports of defects in some of RTX's commercial products. While strong dividends and revenue help maintain the value of our holdings, we remain vigilant in monitoring forthcoming news and financial releases to inform our decision-making process.

## **Looking Ahead:**

The Industrials sector will likely continue to struggle in the immediate future. The upsurge in interest rates and inflation has contributed to a decline in the valuation of stocks within the LaPorte Fund's holdings. Should high interest rates persist or further rise, these companies are likely to encounter sustained adversity on a broad scale. Nonetheless, there are factors that could potentially change this economic outlook. The ongoing geopolitical conflict involving Russia and Ukraine has presented a revenue boost for government military contractors including GD and RTX. If these geopolitical tensions continue to intensify, the revenues of these firms could experience continued growth. It is noteworthy, however, that recent disclosures regarding defects in some of RTX's commercial jet engines have been made. Initial projections estimate an additional expenditure of \$6.5 billion on these defects. While this loss remains manageable for the company, there is the possibility that this projection may escalate. As we look ahead, we will continue to monitor the RTX defects, the Federal Reserve's decisions regarding interest rates, changes in pivotal economic indicators, and unemployment figures.

# General Dynamics Corporation

GD

<b>H1 Total Return:</b>	8.75%	<b>H2 Total Return:</b>	-2.02%
<b>FY Total Return:</b>	6.58%	<b>Beta:</b>	0.643
<b>Initial Shares:</b>	42	<b>Final Shares:</b>	42
<b>Initial Value:</b>	\$8,911.14	<b>Final Value:</b>	\$9,280.74
<b>FY Dividend Yield:</b>	2.39%	<b>Holding Action:</b>	Hold

## **Description:**

General Dynamics is an aerospace and defense company that makes products for both commercial and military clients. They have major contracts with countries such as the US, Poland, and the UK. The company operates in four segments: Aerospace, Marine Systems, Combat Systems, and Technologies. GD offers a broad range of products from commercial planes to ammunition and tanks for militaries.

The logo for General Dynamics, featuring the words "GENERAL" and "DYNAMICS" stacked vertically in a bold, blue, sans-serif font.

## **Growth Drivers:**

One of GD's biggest growth drivers is the geopolitical tensions in Eastern Europe. The US has been providing aid to Ukraine and has not expressed any signals of stopping. This has led to a large volume of contracts coming into GD's hands. They are producing a high volume of tanks and artillery rounds, boosting profits<sup>45</sup>. On the commercial side, GD also expects private jet sales to increase. Gulfstream, which operates under GD, is raising their target sales, booking \$2.5 billion in new orders in Q2 alone. We look forward to updates in contract volume and commercial aerospace sales to see if GD will meet their high expectations.

## **Risk Factors:**

As the Fed continues to hike rates and the economy constricts, the cost of raw materials and production increase. This poses a potential risk of reduced profits. Another risk is supply chain issues<sup>46</sup>. GD is facing a continuation of challenges from COVID. This is being caused by delays and shortages of parts, according to their CEO, Phebe Novakovic. Also, the products they make, such as commercial jets and tanks, are often expensive and very difficult to transport. We will continue to monitor macroeconomic indicators and any updates to their supply chain performance.

# RTX Corporation

## RTX

<b>H1 Total Return</b>	20.97%	<b>H2 Total Return</b>	-25.30%
<b>FY Total Return</b>	-9.30%	<b>Beta</b>	0.662
<b>Initial Shares</b>	245	<b>Final Shares</b>	245
<b>Initial Value</b>	\$20,055.70	<b>Final Value</b>	\$17,632.65
<b>FY Dividend Yield</b>	3.28%	<b>Holding Action</b>	Hold

### Description:

RTX Corporation is an aerospace and defense company that provides systems and services to commercial, military, and government clients. RTX's largest customers include the US and Israel. The company operates in four segments: Collins Aerospace, Pratt & Whitney, Raytheon Intelligence & Space, and Raytheon Missiles & Defense.



### Growth Drivers:

RTX has a growing stream of revenue across their four segments. Pratt & Whitney, a key provider of jet engines to commercial airline companies, will grow as airline travel steadily increases. Collins Aerospace and Raytheon Missiles & Defense will also be positively affected by the growing numbers of US military contracts due to Russia's War in Ukraine<sup>47</sup>. As there is no end in sight for the geopolitical conflicts in Eastern Europe, we predict more contracts will come to RTX as the US continues providing aid.

### Risk Factors:

The biggest risk factor facing the company is the development of widespread engine defects for specific commercial jet engines. The company has announced that there is a powdered metal defect that could affect more than 700 commercial aircraft engines. The company expects that the estimated cost of repairs will be near \$6.5 billion<sup>48</sup>. This is only about 8.22% of their projected \$73 billion in FY revenue, however, there remains uncertainty about the full extent of these expenses. Another risk factor is the increase in costs due to inflation and ongoing economic constriction. Growing raw materials costs make RTX's already cost-intensive products even more expensive while lowering profits. Looking ahead, we will continue to closely monitor any updates to the engine defects and inflationary indicators.

# Waste Management, Inc.

WM

<b>H1 Total Return:</b>	2.69%	<b>H2 Total Return:</b>	-5.72%
<b>FY Total Return:</b>	-3.13%	<b>Beta:</b>	0.536
<b>Initial Shares:</b>	93	<b>Final Shares:</b>	93
<b>Initial Value:</b>	\$14,899.53	<b>Final Value:</b>	\$14,176.92
<b>FY Dividend Yield:</b>	1.84%	<b>H2 Holding Action:</b>	Hold

## **Description:**

Waste Management is a waste services company based in Texas. Since its inception in the 1970s, WM has grown to be one of the largest waste services companies in the US. The company owns or operates over 688 facilities for various waste management processes. WM operates in the US and Canada, providing services to residential, commercial, industrial, and municipal customers. They operate in three segments: Collection, Transfer & Landfill, and Material Recovery.



## **Growth Drivers:**

A major driver for WM is technological innovations. The company conducts extensive research and development to enable automation within its operations. With a strategic focus on automating residential waste collection, WM aims to streamline route times and minimize employee counts<sup>49</sup>. Another growth driver is the increase of market share through acquisitions. WM continues to acquire smaller waste services companies to increase their market share<sup>49</sup>. We look forward to news on operational upgrades and potential acquisitions.

## **Risk Factors:**

Increasing energy costs pose a risk to WM. Energy cost is a major factor due to their massive fleet of vehicles and hundreds of processing plants. Rising fuel costs put a strain on profit margins. Energy costs have also increased the cost of recycling waste at processing plants. These costs have increased along with inflation recently<sup>50</sup>.

# Information Technology Sector

Emily Becker

## **Period Performance:**

For the fiscal year, the Information Technology sector of the LaPorte portfolio returned 19.53%, which is significantly lower compared to the benchmark return of 40.93%. In comparison to its benchmark, the S&P 500, the LaPorte portfolio is underweight by 4.54%. During this period, the LaPorte Fund added two holdings, Salesforce Inc. (CRM) and Vanguard Information Technology sector ETF (VGT), while retaining its positions in Apple Inc. (AAPL), International Business Machines Corporation (IBM), Microsoft Corporation (MSFT), and VanEck Semiconductor ETF (SMH). In the second half of the year, Accenture (ACN) was liquidated, and there was a partial liquidation of Microsoft.

## **Looking Ahead:**

The Information Technology (IT) sector exhibited significant trends during the past year, characterized by a sustained tech rally that peaked in July. This rally was primarily fueled by the sector's prominence and the continued innovation in technologies such as artificial intelligence (AI) and automation, which gained investor interest and confidence. When considering future performance, it is essential to recognize the cyclical nature of the IT sector. Historically, it tends to outperform during economic expansion phases when consumer discretionary spending increases but underperforms during economic contractions when such spending diminishes. In addition to its cyclical tendencies, the IT sector has recently faced challenges in the form of legal action from the Federal Trade Commission (FTC). These lawsuits have raised concerns about antitrust and regulatory issues that could potentially impact major tech companies. Such legal actions have emphasized the need to closely monitor regulatory developments and their implications for the sector's future performance. Looking forward, the IT sector's growth prospects hinge on its ability to navigate these risks while capitalizing on growth drivers like AI and disruptive innovations. Companies within this sector must continuously invest in product differentiation and innovation to remain competitive. Mergers and acquisitions also play a vital role, allowing companies to integrate new products and services. Although the IT sector has the potential for growth, the sector remains exposed to potential regulatory changes, recessionary concerns, and supply chain disruptions, all of which warrant careful consideration in investment strategies within this dynamic industry.

# Apple Inc.

AAPL

<b>H1 Total Return:</b>	19.65%	<b>H2 Total Return:</b>	4.12%
<b>FY Total Return:</b>	24.57%	<b>Beta:</b>	1.239
<b>Initial Shares:</b>	100	<b>Final Shares:</b>	100
<b>Initial Value:</b>	\$13,820.00	<b>Final Value:</b>	\$17,121.00
<b>FY Dividend Yield:</b>	0.56%	<b>H2 Holding Action:</b>	Hold

## Description:

Apple Inc., headquartered in Cupertino, California, is a technology company with a diverse product and service portfolio, specializing in smartphones, computers, tablets, and accessories. In addition to hardware offerings, Apple provides payment, cloud, and advertising services globally. The iPhone product line is the primary revenue driver, comprising over 50% of total sales, followed by Mac, iPad, and related services at 40%, and accessories at 10%. More than 60% of revenue is generated internationally, with Europe and Greater China each contributing 20%, Japan less than 10%, and the broader Asia Pacific region covering the remainder.



## Growth Drivers:

Apple's future growth relies on key factors. The transition to Apple silicon processors in 2021 boosted efficiency and competitiveness across all product offerings. An extended intellectual property deal with ARM<sup>51</sup> beyond 2040 also provides a significant advantage for developing efficient and unique products. Apple's strategy of implementing price increases effectively drives near-term sales growth while maintaining demand stability. The company's focus on emerging markets, notably in India, through the sale of refurbished iPhones, opens opportunities for increased market share and long-term growth. Additionally, Apple's services division, including Apple Pay, App Store, and Apple TV+, offers growth potential through subscriptions and upgrade avenues.

## Risk Factors:

Apple faces inherent risk factors that may impact its profitability including inflation, discretionary spending trends, pricing, and supplier-related challenges. Geopolitical uncertainties, particularly China's ban on Apple products in its government sector, pose a significant risk as China and Greater Asia are pivotal to Apple's manufacturing and supply chain, making any tensions in the region a substantial threat to Apple's business model and supply chain.



# Accenture PLC

ACN

<b>H1 Total Return:</b>	13.29%	<b>H2 Total Return:</b>	-1.78%
<b>FY Total Return:</b>	11.83%	<b>Beta:</b>	1.287
<b>Initial Shares:</b>	115	<b>Final Shares:</b>	0
<b>Initial Value:</b>	\$29,589.50	<b>Final Value:</b>	\$0.00
<b>FY Dividend Yield:</b>	1.59%	<b>H2 Holding Action:</b>	Sold 85 Shares

## **Description:**

ACN is a global professional services company specializing in consulting, technology, and outsourcing services. With a diverse portfolio, ACN supports clients across industries in navigating business challenges and driving digital transformation. The company's revenue streams include consulting services focused on business strategy, technology services for innovative solutions, and outsourcing for optimized business processes. ACN's global reach is evident in its revenue distribution, with substantial contributions from Europe and North America. The firm's commitment to staying up to date on technological advancements positions them as a key player in assisting organizations in adapting to the evolving digital landscape. In H1, the LaPorte Fund moved to shave 30 shares of ACN and in H2, moved to fully liquidate the rest.



## **Liquidation Thesis:**

The decision to liquidate our ACN position in May was driven by the company's YTD outperformance and our fund's strategic objective to position ourselves advantageously in the market. Seeking to reduce exposure to the volatile IT sector and generate cash for potential opportunities, we viewed the liquidation as a proactive step. ACN's fiscal Q2 2023 earnings report, while featuring positive elements such as exceeding EPS and revenue expectations, also revealed a downward revision of full-year guidance and plans for workforce reductions. The decision to liquidate ACN was driven by its expected associated risks. The company's sensitivity to economic uncertainty was evident in recent struggles during tech industry layoffs. ACN's exposure to the cyclical IT sector, coupled with potential disruption from technological advances like artificial intelligence, and the risk of eroding client confidence due to technological shifts, posed concerns. This decision, grounded in a pragmatic assessment of the IT sector and ACN's specific dynamics, aimed to navigate risks, reduce volatility, and position our fund favorably for future opportunities. The liquidation decision was executed in May, allowing our fund to adapt to evolving market dynamics and strategically reposition our portfolio.

# International Business Machines Corporation

## IBM

<b>H1 Total Return:</b>	13.11%	<b>H2 Total Return:</b>	9.56%
<b>FY Total Return:</b>	23.66%	<b>Beta:</b>	0.646
<b>Initial Shares:</b>	100	<b>Final Shares:</b>	100
<b>Initial Value:</b>	\$11,881.00	<b>Final Value:</b>	\$14,030.00
<b>FY Dividend Yield:</b>	4.73%	<b>H2 Holding Action:</b>	Hold

### **Description:**

International Business Machines Corporation (IBM) is a globally recognized Information Technology company headquartered in Armonk, New York. IBM offers computer solutions, technology consulting services, and support services through its three main segments: IBM Software, IBM Consulting, and IBM Infrastructure. IBM serves clients in over 175 countries, with revenue generated worldwide, including the US, the Greater Americas, Europe, Middle East, Africa, and the Asia Pacific region.



### **Growth Drivers:**

IBM actively focuses on empowering clients by harnessing hybrid cloud and Artificial Intelligence (AI) to transform their businesses. The company differentiates itself through a robust network of partners, providing clients with diverse alternative products and services. In 2021, IBM strategically invested \$3.4 billion dollars through 15 acquisitions to secure new technologies and product lines, actively driving revenue growth. These acquisitions play a crucial role in shaping IBM's evolving product portfolio, with emerging opportunities contributing significantly to the company's revenue streams. This proactive approach positions IBM as a key player in innovation moving forward, actively delivering comprehensive solutions to meet evolving client needs.

### **Risk Factors:**

IBM faces potential risks, including the impact of economic downturns on the demand for IT services. Economic challenges often hit the IT sector first. Another concern is the slowdown in consulting services within the IT sector, possibly leading to reduced tech spending. Additionally, IBM has experienced a decline in market share within its consulting services segment. The underperformance of its consulting unit has led to IBM's underperformance in comparison to its competitor's YTD.

# Microsoft Corporation

MSFT

<b>H1 Total Return:</b>	19.00%	<b>H2 Total Return:</b>	9.16%
<b>FY Total Return:</b>	26.22%	<b>Beta:</b>	1.182
<b>Initial Shares:</b>	138	<b>Final Shares:</b>	50
<b>Initial Value:</b>	\$32,140.20	<b>Final Value:</b>	\$15,698.50
<b>FY Dividend Yield:</b>	0.95%	<b>H2 Holding Action:</b>	Shaved 88 Shares

## Description:

Microsoft Corporation, headquartered in Redmond, Washington, is a global technology giant known for its diversified product and service offerings. The company operates across multiple segments, which include productivity and business processes, intelligent cloud, and person computing. MSFT generates revenue through software licensing, subscription services (Office 365), cloud computing services (Azure), hardware sales (Surface devices, Xbox consoles), and advertising (Bing). Its product portfolio encompasses widely used applications like the Windows operating system and office suite, and it had a strong presence in the cloud computing market through Azure.



## Growth Drivers:

Microsoft's strategic focus centers on cloud services, AI, and digital transformation solutions. The company aims to provide innovative tools and services for individuals and organizations. Microsoft's diverse range of software applications positions it to attract customers seeking to upgrade their IT infrastructure and expand their capabilities. The company also actively pursues strategic acquisitions to strengthen its market position. MSFT has a competitive advantage in the hybrid work structure, benefiting from consistent revenues generated by its Microsoft Teams products as companies maintain hybrid work models<sup>52</sup>. The incorporation of AI in the chat function of teams is expected to drive success and revenue growth. MSFT is implementing AI across its product portfolio, with Azure being a key area for adaptation. This new technology is anticipated to generate an additional \$5 billion in revenue, with an associated price increase on Office 365.

## Risk Factors:

Microsoft faces concerns regarding the impact of AI on its margins, especially in the case of Azure, which is a high-cost product. Economic conditions that lead to a slow in IT spending may affect certain segments of Microsoft, particularly cloud services. While Office 365 is expected to remain non-cyclical, cloud services could be at risk during an economic downturn.

# Salesforce Inc.

## CRM

<b>H1 Total Return:</b>	0.00%	<b>H2 Total Return:</b>	-7.99%
<b>FY Total Return:</b>	-7.99%	<b>Beta:</b>	1.564
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	55
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$11,152.90
<b>FY Dividend Yield:</b>	0.00%	<b>H2 Holding Action:</b>	Bought 55 Shares

### Description:

Salesforce Inc. (CRM), headquartered in San Francisco, specializes in customer relationship management software and applications. Its innovative software connects customer data across various applications to assist companies in marketing and selling their products and services. CRM caters to a diverse customer base, including industries like financial services, healthcare, and telecommunications<sup>53</sup>. Most of its revenue, more than 92%, comes from subscriptions, and the remaining 8% from professional services. Salesforce operates in Cloud Products that encompass customer management, sales, marketing, commerce, and AI. It has integrated acquired companies like Slack, Tableau, and Vlocity to enhance customer interaction and efficiency.



### Investment Thesis:

The investment thesis for CRM revolves around their potential for a post-pandemic economic recovery. This aligns with their reliable track record of steady growth, improved AI capabilities, and strategic investments in R&D. While the company has faced recent revenue challenges due to economic conditions, they remain a significant CRM software provider. Their business model's flexibility and focus on customer loyalty, along with an expanding customer base under multiple contracts, points to a clear path for financial recovery. Moreover, CRM's commitment to innovation, as reflected in the doubling of its research and development investments since 2020, positions them well for long-term growth. This fiscal year, CRM has undergone management changes, with its former Co-CEO resigning and leaving the role solely to Marc Benioff. Since this leadership change, CRM has shown enhanced efficiency, reduced reliance on mergers and acquisitions, and substantial share repurchases that makes CRM an attractive choice for the LaPorte portfolio.

# VanEck Semiconductor ETF

SMH

<b>H1 Total Return:</b>	43.77%	<b>H2 Total Return:</b>	10.17%
<b>FY Total Return:</b>	57.93%	<b>Beta:</b>	1.409
<b>Initial Shares:</b>	78	<b>Final Shares:</b>	156
<b>Initial Value:</b>	\$14,439.36	<b>Final Value:</b>	\$22,616.88
<b>FY Dividend Yield:</b>	0.00%	<b>H2 Holding Action:</b>	2-for-1 Stock Split

## Description:

The VanEck Vectors Semiconductor ETF (SMH) is an exchange-traded fund designed to capture the performance of the semiconductor industry. SMH provides the LaPorte portfolio with exposure to companies involved in the design, manufacturing, and sale of semiconductors and related products. Semiconductors are integral components in a wide array of technologies, from smartphones to electric vehicles, making this ETF a strategic choice for capitalizing on the sector's long-term growth. By holding SMH, the LaPorte Fund can efficiently participate in the industry's expansion while diversifying risk across key players according to market cap within the industry.



## Growth Drivers:

The growth potential of SMH is attributed to several factors. Continued technological advancements, including the rollout of 5G, the rise of AI, and the growth of the Internet of Things (IoT), fuel the demand for semiconductors<sup>54</sup>. Additionally, the post-pandemic economic recovery is boosting the sales of electronic devices and gadgets, further enhancing the semiconductor industry's prospects. The automotive industry's shift toward electrification and autonomous driving is heavily reliant on semiconductor technology, offering another avenue for growth. In the semiconductor industry, companies play different roles. For instance, Taiwan Semiconductor Manufacturing Company (TSM) specializes in making chips, while companies like Nvidia and Qualcomm focus on designing them. On the other hand, integrated device manufacturers (IDMs) like Intel and Samsung do both. Including this variety of chip companies, from manufacturing to design, within the ETF is beneficial for the LaPorte Fund, offering a well-rounded investment that covers all aspects of the semiconductor industry.

## Risk Factors:

However, it is important to be mindful of risk factors. The semiconductor industry is vulnerable to supply chain disruptions, which can significantly impact production and sales. Moreover, geopolitical tensions, trade frictions, and export restrictions can disrupt the global semiconductor supply chain. Elevated valuations of semiconductor stocks may also expose the sector to potential market corrections.

# Vanguard Information Technology ETF

VGT

<b>H1 Total Return:</b>	0.00%	<b>H2 Total Return:</b>	-8.15%
<b>FY Total Return:</b>	-8.15%	<b>Beta:</b>	1.292
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	53
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$21,921.60
<b>FY Dividend Yield:</b>	0.85%	<b>H2 Holding Action:</b>	Bought 53 Shares

## Description:

The Vanguard Information Technology ETF (VGT) is an exchange-traded fund that tracks the performance of the Information Technology sector in the US equity market. It provides the LaPorte portfolio with exposure to technology companies engaged in software, hardware, IT services, and semiconductors. VGT follows a passive investment approach, aiming to replicate the performance of its benchmark index, the MSCI US Investable Market Technology 25/50 index. This approach is designed to offer diversification within the Technology sector without the need for individual stock selection<sup>55</sup>. The fund's top holdings include tech giants like Apple and Microsoft.



## Investment Thesis:

VGT presents an opportunity for the LaPorte portfolio to gain broad exposure to the Information Technology sector, which is being driven by key growth drivers such as digital transformation, artificial intelligence (AI), and cloud computing. The ongoing digital transformation across industries is fueling demand for technology solutions in various applications that offer substantial growth opportunities. The shift to cloud-based software continues to benefit companies providing cloud infrastructure and software. However, there are potential risks to consider, including regulatory scrutiny of tech giants, elevated valuations of tech stocks, and concerns related to the economic environment. VGT has historically delivered strong returns but has experienced recent headwinds. Monitoring regulatory developments and economic indicators related to IT spending and innovation trends will be important moving forward.

# Materials Sector

Om Patel

## **Period Performance:**

The Materials sector accounts for 2.45% of the S&P 500. The LaPorte portfolio currently holds a slightly underweight allocation in Materials, at 2.38%. Within this sector, the LaPorte portfolio maintains a single position in Vale S.A. (VALE), having divested in Sonoco (SON) during H1. These holdings collectively generated a fiscal year return of 3.46%, which underperformed in comparison to the S&P 500 Materials sector's robust return of 18.06%. This underperformance can be attributed to factors such as economic contraction, escalating operational costs, and concerns about VALE's primary market, China. We will continue to monitor Vale's operations and the economic dynamics of China. We remain committed to exploring alternative opportunities within the Materials sector.

## **Looking Ahead:**

The Materials sector is expected to face ongoing challenges, reflecting recent trends. Interest rates and inflation have significantly increased operational expenses for companies operating within this sector. If interest rates remain unchanged or continue to rise, these companies are likely to experience continued difficulties. One factor to consider going forward is the economic stability of China. China is currently facing deflationary issues, which have caused a decrease in production levels. Given that China represents one of the largest customer bases for raw materials, this has translated into decreased sales for many companies. We will closely monitor the actions taken by the People's Bank of China, the nation's central bank, in addressing this economic deceleration. On a broader scale, the slowdown of US rate hikes and subsequent decrease in rates will provide a boost to the Materials sector. Our investment decisions will be made from a holistic approach, which will consider company-specific factors along with these macroeconomic considerations.

# VALE S.A.

## VALE

<b>H1 Total Return:</b>	21.43%	<b>H2 Total Return:</b>	-12.99%
<b>FY Total Return:</b>	6.04%	<b>Beta:</b>	0.656
<b>Initial Shares:</b>	808	<b>Final Shares:</b>	808
<b>Initial Value:</b>	\$10,762.56	<b>Final Value:</b>	\$10,827.20
<b>FY Dividend Yield:</b>	2.59%	<b>H2 Holding Action:</b>	Hold

### **Description:**

Vale S.A. is a mining company headquartered in Brazil, which provides raw materials in the form of iron ore, iron ore pellets, and various other metals. With operations spanning across Brazil and various countries across five continents, VALE is recognized as the world's largest iron ore producer, producing 307 million metric tons in 2022. The company operates through two primary segments: Iron Solutions and Energy Transition Materials.



### **Growth Drivers:**

VALE's growth trajectory is driven by the advances of mining technology. Innovations in location awareness and machine learning have paved the way for automation in many of VALE's operations, leading to safer and more cost-effective operations<sup>56</sup>. In addition to technological advances, VALE's market share in the iron ore industry stands as a critical driver of its success. With ownership of some of the world's largest iron ore reserves and the distinction of being the world's leading iron ore producer, VALE plays a pivotal role in meeting global demand for steel production<sup>57</sup>. This provides a very promising outlook for VALE. Looking forward, it is important to monitor iron ore output by VALE and prices for iron and steel.

### **Risk Factors:**

A notable risk factor for VALE is China's economic instability. China is currently facing deflationary issues, leading to a significant reduction in new construction and manufacturing projects, subsequently, diminishing the demand for iron and steel<sup>58</sup>. This poses a concern for VALE, given that their biggest customer base is the Chinese market. There are also some political risk factors to consider. Steel tariffs from countries would raise prices and reduce growth, making it more difficult for VALE to do business. A flare in the continued political instability in Brazil can also hurt foreign investor sentiment. We will continue to monitor VALE's financial health in correlation with economic issues in China as well as any news related to new policy or legislation changes.



# Real Estate Sector

Julia Veri

## **Period Performance:**

The Real Estate sector of the LaPorte portfolio returned -14.86% over the fiscal year. The S&P 500 Real Estate sector index returned -1.67% over the same period. The two Real Estate holdings in our portfolio are Healthcare Realty Trust and W.P. Carey. Healthcare Realty Trust (HR) is a real estate investment trust (REIT) that invests in medical outpatient facilities and medical office properties. HR has returned -14.41% since it was purchased in March 2023. The team invested in HR to gain exposure in the Healthcare sector, which historically acts more defensively<sup>61</sup>. W.P. Carey (WPC) is a global REIT that primarily invests in industrial/ warehouse and retail properties and returned -16.42% over the fiscal year. Compared to the S&P 500, we are overweight in Real Estate by 1.15%.

## **Looking Ahead:**

The Fed indicated in their September meeting that they intend to keep rates higher for longer than the market originally anticipated<sup>60</sup>. Real estate development and acquisitions require substantial capital, so most transactions use debt financing. The secured overnight financing rate (SOFR) is frequently used as a baseline interest rate<sup>63</sup>. As long as rates stay high, and consequently borrowing costs do also, then new property development will remain low. Higher interest rates can increase cap rates as well. Investors can seek higher returns on their investments when interest rates are higher. Looking to 2024, the Real Estate sector could continue to be hurt by higher for longer rates and higher cap rates.

# Healthcare Realty Trust

HR

<b>H1 Total Return:</b>	4.12%	<b>H2 Total Return:</b>	-17.80%
<b>FY Total Return:</b>	-14.41%	<b>Beta:</b>	0.678
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	512
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$8,527.26
<b>FY Dividend Yield:</b>	8.12%	<b>H2 Holding Action:</b>	Hold

## Description:

HR is a REIT headquartered in Nashville, TN that owns and operates medical outpatient and medical office buildings that are primarily located around market-leading hospital campuses. HR also provides leasing and property management services to 93% of its extensive portfolio, spanning a substantial 41.8 million square feet<sup>62</sup>. HR's in-house project management team can oversee all aspects of the development process, which allows them to differentiate themselves.



## Growth Drivers:

The company's strategy is to develop medical outpatient facilities and acquire facilities in a niche part of the real estate industry. Real Estate is a cyclical sector; however, HR positions itself in a more defensive sector, Healthcare. The aging US population is driving demand for outpatient medical facilities. According to JLL, the 55+ age group is the largest consumer of US healthcare services<sup>65</sup>. Outpatient demand for ages 55+ is forecasted to grow 16.9% by 2025. The nature of outpatient facilities is also a growth driver. Outpatient services include x-rays and other imaging, minor surgeries, and bloodwork. These visits require patients to attend in-person, not virtually, so there is a need for these physical facilities.

## Risk Factors:

"Medtail" is a growing trend in the healthcare real estate industry<sup>64</sup>. Medtail describes medical facilities located in retail areas. These properties are located in established retail centers, so patients are easily able to find their doctor's office. Since HR's strategy is to build and acquire outpatient facilities and medical office buildings near hospital campuses, this trend could negatively impact their strategy.

# W.P. Carey

## WPC

<b>H1 Total Return:</b>	14.01%	<b>H2 Total Return:</b>	-27.42%
<b>FY Total Return:</b>	-16.42%	<b>Beta:</b>	0.613
<b>Initial Shares:</b>	148	<b>Final Shares:</b>	148
<b>Initial Value:</b>	\$10,330.40	<b>Final Value:</b>	\$8,634.62
<b>FY Dividend Yield:</b>	7.92%	<b>H2 Holding Action:</b>	Hold

### Description:

WPC is one of the largest diversified global net lease REITs. They primarily invest in industrial/ warehouse and retail properties, commonly through sale-leaseback transactions and built-to-suit developments. Their portfolio consists of 1,475 properties, representing over 176 million SF, in 26 countries across North America and Europe. WPC's strategy is to hold a diversified portfolio to generate long-term sources of income.



### Growth Drivers:

WPC announced their office portfolio spin-off and sell-off in September 2023. Management believes that their valuation multiples are being negatively impacted by their investment in office properties<sup>65</sup>. Following this strategic move, WPC will have no exposure to office real estate. Net Lease Office Properties (NLOP) is the spin-off REIT that will be publicly traded. NLOP will consist of 59 office properties primarily located in North America, which represent 10% of WPC's annualized based rent (ABR). WPC has been slowly decreasing their weight in office real estate over the past couple of years, due to work-from-home trends. This move will expedite their timeline to focus more on industrial/ warehouse and retail properties<sup>66</sup>.

### Risk Factors:

WPC's strategy is to hold their properties as long-term investments, so they are highly reliant on rent payments and high occupancy rates. Fortunately, they boast high occupancy rates of 99.00%, and 29.90% of their tenants are considered investment grade, according to June 2023 reports<sup>67</sup>. While their office divestment could have long-term benefits, the intrinsic value of their portfolio changed, so the stock saw losses post-announcement. There was also poor communication from management to investors about the future of WPC's dividend payments. This contributed to low investor confidence, which negatively impacted the stock price as well. We will continue to monitor the effects of the spin-off.

# Utilities Sector

Riley Fish

## **Period Performance:**

In the fiscal year, our portfolio's Utilities sector experienced a return of -24.60%. The S&P 500 Utilities sector index showed a stronger return of -6.69%. The Utilities sector makes up 1.49% of our total portfolio, compared to the index's 2.33% weight, making us slightly underweight. Currently, one holding comprises our portfolio's exposure to the Utilities sector. NextEra Energy (NEE), which is a Florida based utility company that specializes in renewables<sup>68</sup>. NEE ended the year poorly and incurred the largest percentage loss in our portfolio.

## **Looking Ahead:**

Monitoring interest rates is crucial for the sector's future, especially given recent challenges. Lower interest rates coupled with strategic government funding and modernization efforts could pave the way for substantial growth. The \$1.2 trillion Infrastructure Investment and Jobs Act presents a significant opportunity, and understanding its impact on utility companies' finances and tracking the projects is essential. The infrastructure bill aims to invest significantly in clean energy, modernize the grid, promote electric vehicle adoption, and address climate change by supporting various renewable energy products and initiatives. This bill provides a chance for the sector to modernize and embrace data-driven approaches. However, there is a potential risk in the shift towards clean energy. If existing utility giants fail to provide clean energy solutions, emerging companies delivering clean energy directly to end-users and back into the grid might thrive, posing challenges for traditional multi-utility companies<sup>69</sup>. Vigilance in navigating these factors is crucial for investors in this evolving landscape.

# NextEra Energy, Inc.

NEE

<b>H1 Total Return:</b>	-0.56%	<b>H2 Total Return:</b>	-24.46%
<b>FY Total Return:</b>	-24.60%	<b>Beta:</b>	0.807
<b>Initial Shares:</b>	133	<b>Final Shares:</b>	133
<b>Initial Value:</b>	\$10,428.53	<b>Final Value:</b>	\$7,619.57
<b>FY Dividend Yield:</b>	3.26%	<b>H2 Holding Action:</b>	Hold

## Description:

NEE is a leading player in North America's electric power and energy infrastructure sector<sup>70</sup>. It is a significant force in global renewable energy. The company operates through two key segments: Florida Power and Light (FPL) and NextEra Energy Resources (NEER). FPL is Florida's largest energy provider, focusing on power generation, transmission, and distribution, serving 5.8 million customer accounts. NEER is the world's largest producer of renewable energy, specializing in wind, solar, and battery storage projects across the US and Canada<sup>71</sup>. FPL, contributing around 80% of NEE's revenue, prioritizes delivering affordable energy to over 12 million Floridians. NEER, accounting for approximately 20% of revenue, excels in renewable energy generation and innovative battery storage solutions<sup>72</sup>.



## Growth Drivers:

Customer base and usage are booming in Florida, driven by the state's 1.9% population growth in 2022, the fastest-growing state in the US. FPL's strategic acquisitions have solidified its position as the primary power provider in Florida. Despite some setbacks in recent deals due to legislative hurdles, the company continues to pursue expansion opportunities. Moreover, the shift towards renewables, supported by increased funding, tax credits, and electric vehicle mandates, bodes well for NEE<sup>73</sup>.

## Risk Factors:

In their 2022 annual report, NEE outlined various risks to their operations. These challenges included facility startup issues, supply chain disruptions, property damage, environmental concerns, and dependence on specific fuel sources. Additionally, NEE faces political uncertainties tied to green policies. Despite being a major player in renewable energy, their operations, particularly in solar and wind, are vulnerable to shifts in political agendas. Additionally with the recently high interest rates, their subsidiary NEP cut its dividend, leading to a negative market reaction and increased risk for NEE.

# Fixed Income

Evan Sarsha

## **Period Performance:**

In the portfolio's Fixed Income sector, we experienced a return of -3.50%, whereas our benchmark achieved a return of approximately 0.64% percent. Throughout the year, we consistently maintained an average duration fluctuating between eight and nine years exceeding that of our benchmark, which finished with a duration of about six years. This higher duration led to increased interest rate risk and due to the Federal Reserve's aggressive rate hikes throughout the year, we underperformed. We held a high average duration because of our belief that rates had peaked several times during the year, reflecting our bearish economic outlook. We increased our weighting in fixed income from about 25% to 30% throughout the fiscal year to resemble our benchmark more closely and match our bearish outlook. In December, we added TLT to our portfolio, further elevating our average duration. Then in March, we briefly hedged our high duration holdings by buying negative duration holdings such as RISR and TTT, which shorted the long duration bond market. However, we later sold these holdings, once again believing that interest rates had reached their peak. The regional banking crisis and a rapid decrease in inflation rates led us to anticipate a rate cut by the Fed to avert a potential recession, which did not materialize. High duration holdings, such as BLE, GOVZ, and TLT, with durations of 10, 15, and 20+ years, constitute roughly 50% of our fixed income allocation, exposing us to substantial interest rate risk.

## **Looking Ahead:**

Moving forward, we are considering increasing our weighting in short-duration holdings such as MINT or USFR thereby reducing overall interest rate risk and decreasing the average duration in the portfolio. This would enable us to leverage the advantages of high short-term interest rates while effectively managing the ongoing uncertainty surrounding future rate trends. Additionally, if the long end of the treasury yield curve continues to rise, we will continue to lose value in our long duration holdings. Conversely, should rates decline in 2024 due to economic deceleration, our long duration holdings are anticipated to yield more positive returns than our short-duration holdings, potentially offsetting some of the losses incurred in the previous fiscal year.

# iShares Core US Aggregate Bond ETF

AGG

<b>H1 Total Return:</b>	4.83%	<b>H2 Total Return:</b>	-4.08%
<b>FY Total Return:</b>	0.62%	<b>Beta:</b>	0.119
<b>Initial Shares:</b>	304	<b>Final Shares:</b>	304
<b>Initial Value:</b>	\$30,290.56	<b>Final Value:</b>	\$28,588.16
<b>Dividend Yield:</b>	3.28%	<b>H2 Holding Action:</b>	Hold
<b>Duration:</b>	5.89		

## **Description:**

The iShares Core US Aggregate Bond ETF (AGG), managed by BlackRock, offers comprehensive coverage of the US bond market with holdings spanning from 0.02 to 20 years, making it accessible to diverse segments of the US bond market. AGG prioritizes portfolio diversification by incorporating bonds of varying durations and types including treasuries, corporate bonds, and mortgage-backed securities.



## **Growth Drivers:**

The Federal Reserve's interest rate decisions will influence AGG's potential growth due to its moderate duration. The ETF has decreased its average duration since the beginning of H2 from 6.29 to 5.89 in accordance with the bond sell-off we are seeing in the market. Dividend payouts should remain high, particularly if the Federal Reserve maintains high interest rates moving into 2024.

## **Risk Factors:**

AGG holds 11,432 different assets, with over 50% of them consisting of government debt and mortgage-backed securities, commanding a value of \$88 billion in net assets. The fund is comprised of 14.90% industrial debt holdings, making it susceptible to default during a recession<sup>74</sup>. However, default risk remains less significant due to the portfolio's size and the types of debt it acquires. AGG carries moderate interest rate risk, given its duration of 5.89.

# BlackRock Municipal Income Trust II

BLE

<b>H1 Total Return:</b>	9.79%	<b>H2 Total Return:</b>	-12.86%
<b>FY Total Return:</b>	-6.09%	<b>Beta:</b>	0.500
<b>Initial Shares:</b>	2,282	<b>Final Shares:</b>	2,949
<b>Initial Value:</b>	\$24,485.86	<b>Final Value:</b>	\$26,953.86
<b>Dividend Yield:</b>	4.46%	<b>H2 Holding Action:</b>	Buy 667 Shares
<b>Duration:</b>	14.54		

## **Description:**

BlackRock Municipal Income Trust II (BLE) generates income free from regular federal income tax. Under typical market conditions, the trust allocates at least 80% of its assets to investment-grade quality municipal bonds. The trust has a relatively high duration and a wide variety of municipality holdings in different US states.



## **Growth Drivers:**

With a duration of 14.54, BLE has the potential to yield capital gains should the Federal Reserve decide to reduce interest rates in the future. Given the ongoing economic conditions, we are witnessing a persistent rise in the long end of the US Treasury yield curve, which indicates an increased likelihood of higher dividend payouts.

## **Risk Factors:**

BLE has low default risk attributable to the wide variety of investment-grade municipality holdings. However, it is important to recognize that BLE has notable exposure to interest rate risk given its extended duration. We will closely monitor the stabilization of treasury yields to assess the potential for capital losses or gains resulting from fluctuations in interest rates.



# iShares 25+ Year Treasury STRIPS

GOVZ

<b>H1 Total Return:</b>	0.00%	<b>H2 Total Return:</b>	-18.04%
<b>FY Total Return:</b>	-18.04%	<b>Beta:</b>	0.149
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	1,398
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$14,595.12
<b>Dividend Yield:</b>	1.31%	<b>H2 Holding Action:</b>	Buy 1,398 Shares
<b>Duration:</b>	26.71		

## Description

The iShares 25+ Year Treasury STRIPS Bond ETF aims to replicate the performance of an index composed of the principal payments of US Treasury bonds, known as "STRIPS" or "Separate Trading of Registered Interest and Principal Securities," with maturities of 25 years or more.



## Investment Thesis

To align with our bearish outlook for this fiscal year and our anticipation that the Federal Reserve will cut rates, we bought GOVZ, which invests in US treasury STRIPS. Treasury STRIPS represent US bonds initially sold below par value, providing the full-face value at maturity. These securities further separate principal and coupon payments, with holders receiving the final payoff solely at maturity<sup>75</sup>. GOVZ purely invests in government STRIPS resulting in a high duration, with maturities of 25+ years indicating that there is a chance for significant capital gains if the Federal Reserve lowers the federal funds rate. Conversely, GOVZ is susceptible to interest rate risk due to its high duration. If rates continue to rise, this holding will depreciate. Whether or not long-term rates will rise or short-term rates will fall is going to be the main determinant in GOVZ price heading into 2024.

The decision to invest in GOVZ was made in accordance with our decision to increase our fixed income allocation by following a barbell strategy. A barbell strategy is achieved by investing in only short-term and very long-term bond ETFs disregarding intermediate holdings<sup>76</sup>. This allows us to capture short-term interest rates while potentially earning higher yields in a declining interest rate environment, which we projected throughout the end of 2023 and moving into 2024. We chose GOVZ as our long-term investment because it has a longer duration than our previous long-term bond ETF, TLT, and is one of the only funds that exclusively invests in government STRIPS. The default risk is very low because GOVZ exclusively holds US treasuries, an extremely safe asset.

# Enhanced Short Maturity Active ETF

MINT

<b>H1 Total Return:</b>	0.00%	<b>H2 Total Return:</b>	2.24%
<b>FY Total Return:</b>	2.24%	<b>Beta:</b>	0.012
<b>Initial Shares:</b>	0	<b>Final Shares:</b>	181
<b>Initial Value:</b>	\$0.00	<b>Final Value:</b>	\$18,125.34
<b>FY Dividend Yield:</b>	5.40%	<b>H2 Holding Action:</b>	Buy 181 Shares
<b>Duration:</b>	0.02		

## Description:

The Enhanced Short Maturity Active Exchange-Traded Fund (MINT) is a dynamic fixed income ETF managed by PIMCO. MINT focuses on short-term, investment-grade bonds with low credit risk. The ETF maintains a portfolio duration of less than one year, effectively mitigating interest rate risk. MINT strategically leverages on current short term interest rates, aiming to provide competitive yields while reducing losses associated with rising treasury yields.

P I M C O

## Investment Thesis:

We invested in MINT because of the ETF's notable feature of maintaining a short average maturity within its fixed income portfolio. The primary growth determinant lies in the Federal Reserve's decisions regarding the federal funds rate for the US economy. If short-term interest rates remain higher for longer, MINT will continue to distribute high dividends due to the ETF's make-up of short-term bond holdings. MINT exhibits minimal interest rate risk due to the short average maturity of its holdings. Furthermore, this investment decision was made in accordance with the short-term investment side of our barbell strategy. The barbell strategy in fixed income investing is achieved by investing in very low and very high duration holdings and nothing in-between, therefore on a maturity timeline resembling a barbell. MINT was chosen as our short end of the barbell because it provided a higher dividend yield than our other short-term holding USFR (which invests in US floating treasury-rate bonds). Simultaneously, MINT maintains a very low default risk because of its diversified array of holdings across companies with high credit ratings. If the Federal Reserve lowers the federal funds rate in the future, we will consider shifting towards investments that offer the potential for higher returns.

# FolioBeyond Rising Rates ETF

## RISR

<b>H1 Total Return:</b>	0.58%	<b>H2 Total Return:</b>	2.50%
<b>FY Total Return:</b>	3.07%	<b>Beta:</b>	-0.217
<b>Initial Shares:</b>	412	<b>Final Shares:</b>	0
<b>Initial Value:</b>	\$12,850.28	<b>Final Value:</b>	\$0.00
<b>Dividend Yield:</b>	6.47	<b>H2 Holding Action:</b>	Sell 412 Shares
<b>Duration:</b>	-7.33		

### Description:

RISR, an exchange-traded fund by FolioBeyond, distinguishes itself with a unique objective of providing current income to investors while safeguarding against the impact of rising interest rates. Classified as a Mortgage-Backed Security Interest Only (MBS IO), RISR's share price exhibits an inverse relationship between interest rate changes compared to positive duration securities.



### Liquidation Thesis:

Due to our outlook that current interest rates were too high for the US economy long term, we liquidated our position in RISR. This decision was influenced by the emerging regional banking crisis, which we perceived as an early indicator of an impending recession. Additionally, given a significant decline in inflation, we thought that the Federal Reserve was nearing its target inflation rate of 2% and would lower the federal funds rate to avoid a potential recession. However, the Fed never lowered rates and in hindsight, it would have been better to have continued to hold RISR. If the Fed lowers rates moving forward, RISR's price will depreciate accordingly.

# iShares 20+ Year Treasury Bond ETF

## TLT

<b>H1 Total Return:</b>	0.50%	<b>H2 Total Return:</b>	-14.02%
<b>FY Total Return:</b>	-13.62%	<b>Beta:</b>	0.115
<b>Initial Shares:</b>	140	<b>Final Shares:</b>	190
<b>Initial Value:</b>	\$14,891.80	<b>Final Value:</b>	\$16,851.10
<b>Dividend Yield:</b>	3.79	<b>H2 Holding Action:</b>	Buy 50 Shares
<b>Duration:</b>	16.20		

### **Description:**

The iShares 20+ Year Treasury Bond ETF (TLT), managed by BlackRock, tracks the performance of long-term US Treasury bonds. TLT provides a stable source of income through dividends linked to long-term US Treasury bond rates. With minimal default risk backed by the US government, TLT appeals to investors emphasizing capital preservation and seeking to secure current yields for the long-term.



### **Growth Drivers:**

TLT's potential to thrive when interest rates decrease is a significant growth factor. In the event of a Federal Reserve decision to lower interest rates, TLT's share price has the potential to increase, offering the possibility of improved returns compared to shorter-duration holdings. This attribute of TLT can serve as a valuable risk mitigation strategy during periods of economic recession when interest rates are lowered to stimulate economic growth.

### **Risk Factors:**

A significant risk factor for TLT is its pronounced sensitivity to economic interest rate shifts, as demonstrated over the past year. TLT's price exhibits a negative correlation with interest rate increases, thus witnessing price declines with rising rates this past year. TLT has the potential to continue seeing losses if short term rates remain higher for longer and the treasury yield curve corrects itself by long term yields continuing to increase. TLT has little default risk due to its 99.48% weighting in US treasuries.

# T. Rowe Price Emerging Market Corporate Debt Fund

TRECX

<b>H1 Total Return:</b>	7.98%	<b>H2 Total Return:</b>	-0.12%
<b>FY Total Return:</b>	5.28%	<b>Beta:</b>	0.153
<b>Initial Shares:</b>	1,763	<b>Final Shares:</b>	2,551
<b>Initial Value:</b>	\$15,532.03	<b>Final Value:</b>	\$22,094.15
<b>Dividend Yield:</b>	5.34	<b>H2 Holding Action:</b>	Buy 788 Shares
<b>Duration:</b>	4.94		

## **Description:**

T. Rowe Price's Emerging Markets Corporate Bond Fund (TRECX) is an ETF designed to generate high yields by focusing on corporate bonds issued by companies in emerging markets across Asia, Latin America, Europe, Africa, and the Middle East.



## **Growth Drivers:**

Foreign bonds make up 93.99% of TRECX's holdings, with a net asset total of \$359 million. This fund takes on more default risk in emerging foreign markets and therefore requires a higher return. Due to potential non-investment grade bonds, meticulous credit risk research is crucial for the portfolio managers.

## **Risk Factors:**

As a corporate bond fund, TRECX is exposed to default risk and foreign exchange risk within its investment landscape. While its primary focus lies on emerging credit markets with higher development levels, it is crucial to acknowledge the potential impact of inflation and economic fragility, which could extend defaults to countries and debt-issuing entities held within TRECX. Furthermore, the influence of central bank policies and inflationary dynamics is a global phenomenon, each with unique facets in different nations.

# ProShares UltraPro Short 20+ Year Treasury Index

## TTT

<b>H1 Total Return:</b>	-2.93%	<b>H2 Total Return:</b>	2.12%
<b>FY Total Return:</b>	-0.88%	<b>Beta:</b>	-0.319
<b>Initial Shares:</b>	110	<b>Final Shares:</b>	0
<b>Initial Value:</b>	\$6,703.40	<b>Final Value:</b>	\$0.00
<b>FY Dividend Yield:</b>	0.58	<b>H2 Holding Action:</b>	Sell 110 Shares
<b>Duration:</b>	-52.29		

### **Description:**

ProShares UltraPro Short 20+ Year Treasury (TTT) utilizes derivatives to achieve daily investment results that mirror three times the inverse of the daily performance of the ICE Treasury 20+ Year Bond Index. This methodology involves short selling an amount equivalent to negative three times the 20+ year treasury index.



### **Liquidation Thesis:**

Our decision to liquidate TTT was motivated by our assessment of the long-term interest rate landscape in the US, which we deemed to be too high for the long term. This outlook led us to expect a decline in TTT's price in anticipation of potential rate reductions. Our choice was influenced by the emerging regional banking crisis, which we interpreted as an early harbinger of an impending recession. Concurrently, a noticeable drop in inflation rates signaled to us that the Federal Reserve was nearing its targeted rate of 2% at the time. TTT's price has increased since our sell date due to the Federal Reserve continuing to raise the federal funds rate and long-term US Treasury bond yields also continuing to rise. With a duration of -52.29, TTT's price would drop significantly during a time of recession when the federal funds rate is lowered to stimulate economic growth.

# WisdomTree Floating Rate Treasury Fund

USFR

<b>H1 Total Return:</b>	2.08%	<b>H2 Total Return:</b>	1.89%
<b>FY Total Return:</b>	2.71%	<b>Beta:</b>	-0.009
<b>Initial Shares:</b>	478	<b>Final Shares:</b>	514
<b>Initial Value:</b>	\$24,029.06	<b>Final Value:</b>	\$25,864.48
<b>Dividend Yield:</b>	5.34%	<b>H2 Holding Action:</b>	Buy 36 Shares
<b>Duration:</b>	0.02		

## **Description:**

WisdomTree Floating Rate Treasury Fund is an ETF designed to replicate the performance of the Bloomberg US Treasury Floating Rate Bond Index. This ETF tracks floating-rate bonds, offering protection against interest rate fluctuations. By exclusively investing in US Treasury bonds, the ETF effectively mitigates credit risk, benefiting from their government-backed security. While maintaining a low-risk profile, it aims to generate competitive yields linked to short-term interest rates, adjusting as rates change.



## **Growth Drivers:**

USFR is a liquid bond fund primarily composed of three-month Treasury bonds and offers the LaPorte portfolio a shield against an increasing federal funds rate as set by the Federal Reserve. These bonds present minimal default risk and interest rate exposure, serving as a secure repository for funds to capture rising current interest rates. Throughout the past year, USFR's dividend payout has increased as the Federal Reserve consecutively raised interest rates.

## **Risk Factors:**

USFR has a low duration with little to no default risk. However, if the Federal Reserve begins to cut short-term interest rates, we will want to reallocate our funds from USFR to something that can provide better returns in lower interest rate environments. USFR is one of the most risk-free assets in the portfolio and because of its liquidity, it is being used to hold funds when one of the portfolio's assets is sold and used to purchase assets as well.

# Wells Fargo & Company Preferred Stock

WFCPRL (EP031581)

<b>H1 Total Return:</b>	0.81%	<b>H2 Total Return:</b>	-2.02%
<b>FY Total Return:</b>	-1.16%	<b>Beta:</b>	0.363
<b>Initial Shares:</b>	32	<b>Final Shares:</b>	32
<b>Initial Value:</b>	\$38,528.00	<b>Final Value:</b>	\$35,680.00
<b>FY Dividend Yield:</b>	7.50%	<b>Holding Action:</b>	Hold

## Description:

Wells Fargo & Company is a financial services company that provides diversified services including banking, investments, consumer finance, and commercial finance. WFCPRL is a convertible preferred stock with a 7.5% coupon rate in perpetuity. WFCPRL provides a steady stream of cash flow to the LaPorte portfolio.



## Growth Drivers:

WFCPRL would benefit from potential interest rate cuts, as they would improve the coupon rate versus the interest rate, resulting in increased returns. Consistent inflation data will play a crucial role in Federal Reserve decisions regarding interest rates and will help maintain favorable returns for financial institutions and preferred shares. Moreover, Wells WFCPRL's performance relative to market expectations has a direct impact on the convertible aspect of the preferred share, potentially enhancing its market performance and increasing valuation multiples. These factors collectively influence the potential growth and performance of the holding.

## Risk Factors:

WFCPRL is subject to interest rate risk and inflation risk. The Fed hiking interest rates or keeping interest rates at a high-rate hurts the value of the preferred share's dividend payments, as well as the overall value of the holding. Behind the Fed's decision lies persistent inflation and strong economic data that have led the economy to grow but have hurt the value of WFCPRL's dividend.



## Biographies



### Emily Becker

Emily is a Senior at the University of Tennessee, majoring in Finance with a collateral in Economics. This is her second semester on the LaPorte Fund, and she covers the Information Technology sector. She is from Atlanta, Georgia and most recently interned with L'Oréal USA. On campus, Emily serves as Co-Founder & Co-President of Women in Finance, Vice President of Excel Modeling Club, an Officer of the UT Investment Group, and a member of Alpha Delta Pi sorority. She also works as a Senior Bloomberg Analyst in the Masters Investment Learning Center. Upon graduation in May, Emily will be joining Alliance Bernstein as a Multi Asset & Hedge Fund Solutions Associate in New York City.



### Jack Benkert

Jack is from Chicago, Illinois and is currently in his fourth year at the University of Tennessee, majoring in Finance with a minor in Statistics. This is his second semester on the LaPorte Fund, and he covers the Financials Services sector. He currently interns for the University of Tennessee Endowment. Jack is also a member of the Chancellor's Honors program and Tennessee Capital Markets Society. He looks to move back to Chicago after graduating from the University of Tennessee.



### Riley Fish

Riley is from Knoxville, Tennessee and is a Senior at the University of Tennessee majoring in Finance with a collateral in Economics. This is his first semester as a manager on the LaPorte Fund. He covers the Utilities and Energy sectors. Within the college, he has been a member of Alpha Kappa Psi professional business fraternity, working as the finance and budget chair as well as a membership development chair. Last summer, he interned at Deloitte in Atlanta, working as an Engagement Financial Advisor within the Government and Public Services division. Riley will be joining Deloitte full-time in Denver following his graduation in May.



### Payton Layne

Payton is from Dayton, Ohio and is in his third year at the University of Tennessee, majoring in Finance with a collateral in Marketing. He is a first semester LaPorte manager, and he is actively managing the Consumer Staples sector. During his time at the University of Tennessee, he has worked for the Turf Management Crew on the athletic fields and has held various roles within the Beta Upsilon Chi fraternity. This summer he will be joining Mariner Wealth Advisors in Cincinnati, Ohio as a Financial Planning Intern.



### Om Patel

Om is from Cleveland, Tennessee and is currently in his fourth year at the University of Tennessee, majoring in Finance, with a collateral in Accounting. This is his first semester on the LaPorte Fund, and he covers the Industrials and Materials sectors. He most recently interned at AllianceBernstein in Nashville as a US Retail Sales Intern. Outside of class, Om has been Treasurer for the Indian American Association as well as Co-Founder and Exec Board Member for Helping Hands of East Tennessee, a local non-profit. Upon graduation, Om will be returning to AllianceBernstein as an Associate in US Retail Sales.



### Evan Sarsha

Evan is currently in his fourth year at the University of Tennessee, majoring in Finance with a concentration in Business Analytics. This is his first semester on the LaPorte Fund, and he covers Fixed Income. He is from Lake Zurich, Illinois and most recently interned as a Financial Planning Intern at a wealth management firm in Knoxville called The Mentzer Group. On campus, Evan is part of the Excel Modeling Club and competes as an amateur boxer at Ace Miller's Golden Gloves. Upon graduation, Evan is looking to begin a career in asset management as a Financial Analyst.



Amritha Thiruveedula

Amritha is in her fourth year at the University of Tennessee, majoring in Finance with a collateral in International Business. This is her first semester on the LaPorte Fund, and she covers the Healthcare sector. Amritha is from Franklin, TN, and most recently interned at Pathward as a Field Examiner Intern. On campus, Amritha serves as the President of UTK Model United Nations and is also a member of the Alpha Kappa Psi business fraternity. She is looking to pursue a career in equity research after graduation.



Julia Veri

Julia is a Senior at the University of Tennessee majoring in Finance with a collateral in Business Analytics. This is her first semester on the LaPorte Fund, and she covers the Communication Services and Real Estate sectors. She has served as a Peer Mentor for first-year business students, worked with the Graduate and Executive Education events program as a Student Worker, is a member of the Real Estate Club, and is a member of Chi Omega sorority. Last summer, she interned at J.P. Morgan Chase with the Commercial Real Estate lending team in the Dallas office. Julia will join the team as a full-time analyst following her graduation in May.



Jackey Zheng

Jackey is from Jacksonville, Florida and is currently in his fourth year at the University of Tennessee, majoring in Finance with a collateral in Business Analytics. This is his first semester on the LaPorte Fund, and he covers the Consumer Discretionary sector. He most recently interned in Columbus as an Asset & Wealth Management Summer Analyst at J.P Morgan Chase. On campus, Jackey serves as the Co-Founder and Executive Vice President of the Asian Business Club. He has held previous leadership roles including the Vice President of Finance for Sigma Phi Epsilon as well as the Vice President of Public Relations for the Interfraternity Council.

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