STERN IAG

Board of Advisors Meeting

Mar 26th, 2021

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Letter from Portfolio Managers

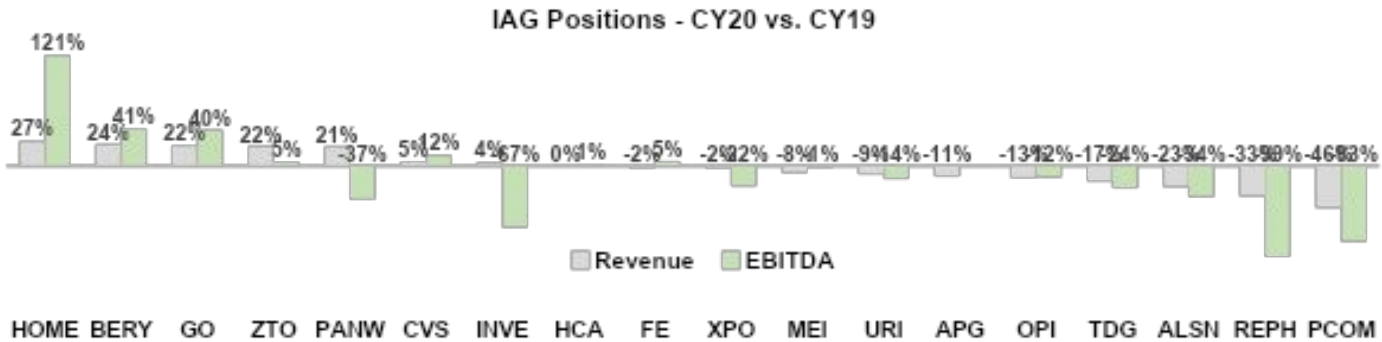
Dear Board of Advisors,

First and foremost, we'd like to share a few updates on the organization front. We are pleased to announce that we've elected our new portfolio managers, Caleb Nuttle and Tony Wang, for 2021-2022, and this meeting marks the transition from us to them. Caleb has been in the club for more than two years and currently oversees the training program, and Tony for more than a year. They have both brought several positions in the past and are committed to the organization.

We have also finished a new round of recruiting for our training program and would like to welcome a few new hires: Haojun Yang, Alexander Kovalchuk, Mikhail Talib, Akhil Aggarwal, and Pranav Kanchi. We will further evaluate fit and commitment to the club as they complete the training materials.

We are happy to report that IAG has outperformed the S&P 500 by 15%, resulting in an AUM of ~$60.5K. In the next oversight, we will present sector benchmarks and a multi-factor regression analysis to get some color on whether we are generating Alpha.

In terms of developments in the market, vaccinations are well underway, and new cases are dropping steadily. As of today, 26% of the U.S. population have already received their first dose. Although going "back to normal" is still far, and some argue that we never may, the current developments bode well for the overall recovery. In fact, several of our portfolio companies saw YoY growth when measured on a full-year basis, despite the impact in the first half (see below).



After a wave of new positions since the beginning of COVID, we are currently left with $5,500 cash in the portfolio (8.4%). As the bulk of our positions are added to the portfolio with long-term oriented rationales, sell decisions are made under more limited circumstances. As a result, we also became increasingly critical of new positions and will seek to view them in comparison to our existing positions when proposing them.

Today, we are pleased to share the proposal to add a stake in Concrete Pumping Holdings (NASDAQ: BBCP), which is a scaled concrete pump operator rolling up the industry.

This will be the last meeting for us as portfolio managers. We are deeply grateful for all the learnings and friendships during our time in IAG, and we certainly hope to stay connected with everyone we've met along the way. We are confident in and look forward to see how the organization develops going forward.

Best,

Chen Zhou & Jaro van Diepen

Portfolio Managers

II. Performance Analysis

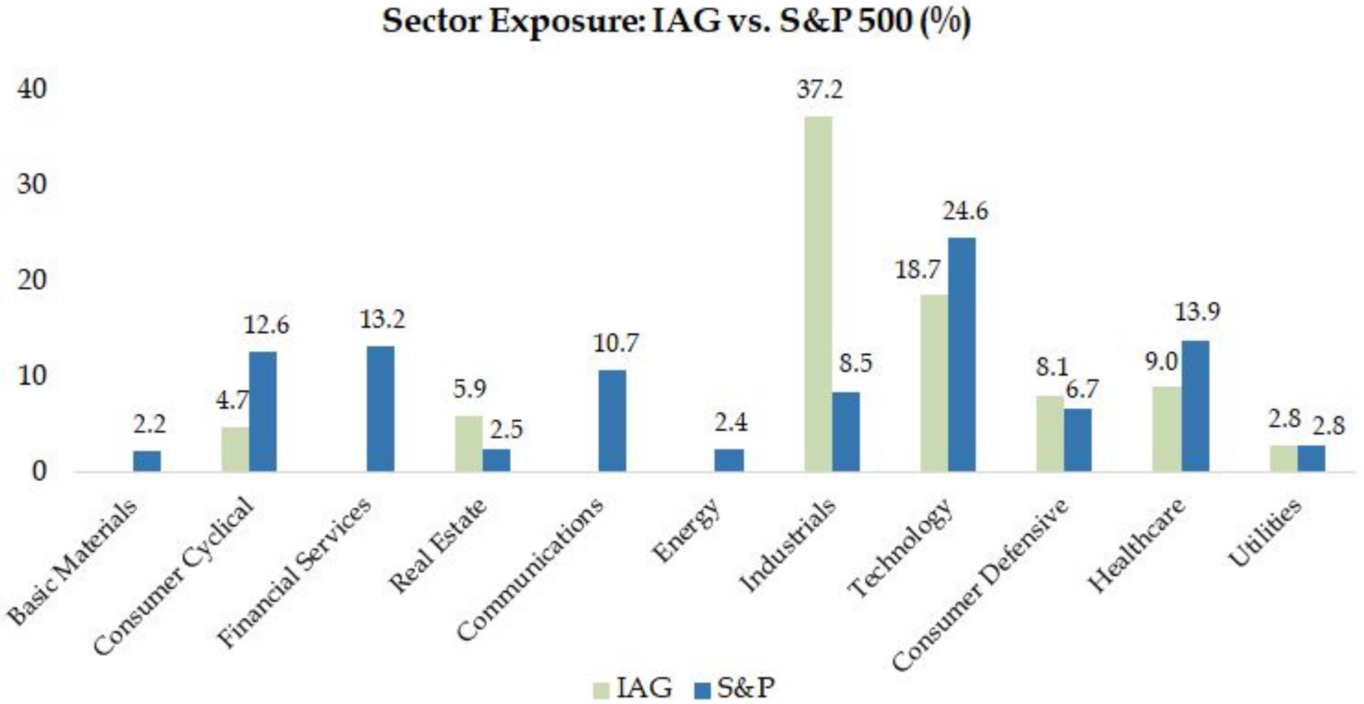
Holdings Summary *(as of Feb 17th, 2020)*

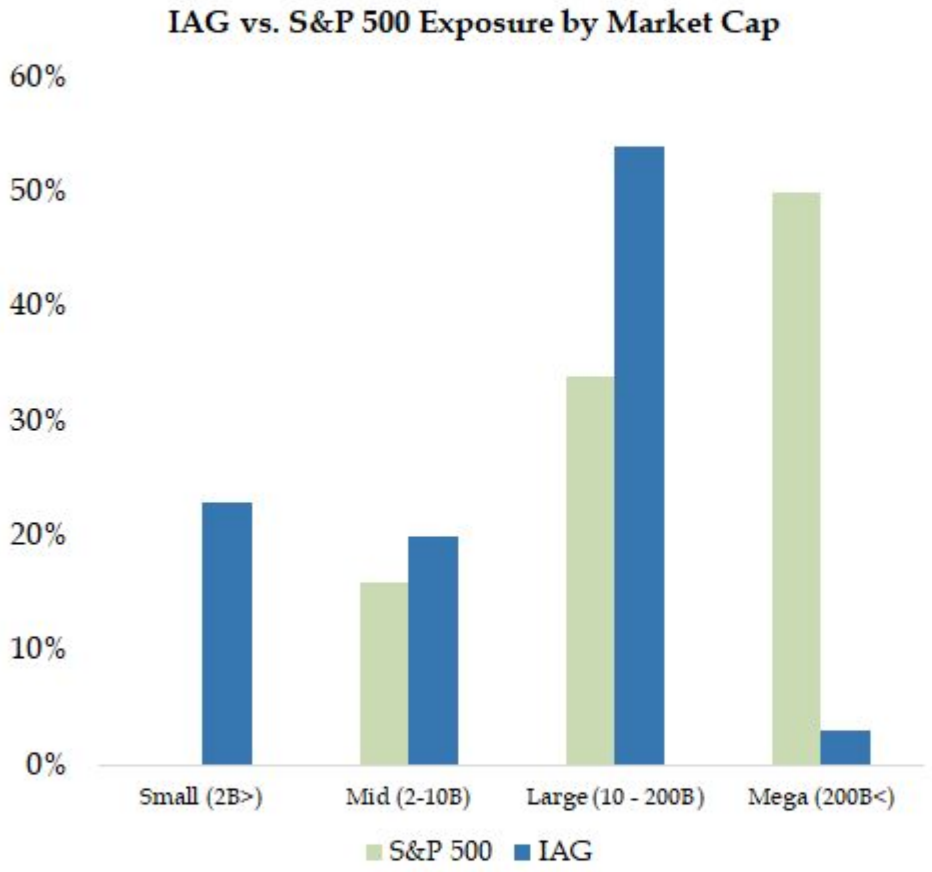
Current Holdings										
Company Name	**Ticker**	**Coverage**	**Date of Purchase**	**% of Portfolio**	**Share Count**	**Price At Purchase**	**Share Price**	**Current Return**	**Morningstar Industry**	**Holding Type**
Allison Transmissions	ALSN	Cody Fang	12/3/19	3.3%	50	$47.42	$39.86	(15.9%)	Industrials	Core
APi Group	APG	Srikar Alluri	9/24/20	5.0%	160	$14.23	$18.90	32.8%	Industrials	Core
At Home Group	HOME	Caleb Nuttle	2/19/21	4.7%	110	$26.89	$25.94	(3.5%)	Consumer Cyclical	Core
Berry Global	BERY	Sophie Pan	12/3/20	5.1%	50	$54.60	$61.42	12.5%	Consumer Staples	Core
Methode Electronics	MEI	Achyut Seth	2/19/21	5.6%	85	$38.56	$40.10	4.0%	Industrials	Core
CVS Health Corp	CVS	Michael Giese	12/6/16	2.4%	20	$77.28	$73.21	(5.3%)	Healthcare	Core
First Energy	FE	Liam Coohill	10/29/19	2.8%	50	$47.30	$34.33	(27.4%)	Utilities	Core
Grocery Outlet	GO	Larry Wang	5/14/20	3.0%	50	$36.45	$36.03	(1.2%)	Consumer Staples	Core
HCA	HCA	Srikar Alluri	9/26/19	5.8%	19	$119.20	$184.59	54.9%	Healthcare	Core
Identiv	INVE	Tony Wang	9/24/20	7.1%	400	$6.26	$10.80	72.5%	TMT	Oppt.
Office Properties Income Trust	OPI	Cody Fang	10/29/20	5.9%	130	$17.73	$27.52	55.2%	Real Estate	Oppt.
Palo Alto Networks	PANW	David Zhou	9/24/20	5.3%	10	$244.75	$321.00	31.2%	TMT	Core
Points International	PCOM	Tony Wang	10/29/20	6.3%	240	$9.95	$15.78	58.6%	TMT	Oppt.
Recro Pharma	REPH	Srikar Alluri	10/29/19	0.8%	160	$13.20	$3.10	(58.3%)	Healthcare	Oppt.
TransDigm Group	TDG	Jaro van Diepen	4/9/20	2.9%	3	$360.46	$592.82	64.5%	Industrials	Core
United Rentals	URI	Caleb Nuttle	3/14/19	7.1%	14	$118.07	$305.41	158.7%	Industrials	Core
XPO Logistics	XPO	Chen Zhou	10/20/19	8.7%	45	$74.41	$116.50	56.6%	Industrials	Core
ZTO Express	ZTO	David Zhou	3/14/19	4.6%	100	$19.28	$27.67	43.5%	Industrials	Core
SPDR S&P 500 ETF Trust	SPY			5.1%	8		$387.52			Core
Total Equity Holdings				91.6%			$55,393.97			
Cash				8.4%			$5,100.00			
Total Portfolio Holdings				100.0%			$60,493.97			

On a last twelve-month basis, **IAG's portfolio has returned 76.51%** while the S&P 500 returned 61.12%. This outperformance is partially due to the portfolio being positively skewed to an economic re-opening due to heavy industrial weighting. Since the last oversight meeting, **the spread between IAG's portfolio and the S&P 500 contracted from 18% (2/17/21) to 15% (3/26/21).**

Our opportunistic positions now represent ~20% of our portfolio which is in line with our expectations.

Portfolio Exposure vs. Benchmark





IAG continues to use the S&P 500 as the core benchmark as specified in the fund mandate. While our industrial exposure is still substantially overweight, the two proposed positions today will help improve the composition.

IAG continues to be underexposed to mega-cap positions, yet drastically overexposed to small-cap companies. We will continue to look at the mega cap space for potential opportunities but do not think that the underexposure poses a major issue.

Pitch Log Since Dec 2020 Meeting

Internal Pitches Since Dec 2020 Meeting

	Company	Stage	Date	Analysts
1	At Home Group	Quick Screen	2/2/21	Caleb Nuttle
2	Alico Inc	Quick Screen	2/2/21	Cody Fang
3	Daily Journal Corp	Quick Screen	2/2/21	Tony Wang
4	Vapotherm	Quick Screen	2/2/21	Srikar Alluri
5	MasterCraft	Quick Screen	2/2/21	Sophie Pan
6	At Home Group	First Update	2/9/21	Caleb Nuttle
7	BJ's Wholesale	Quick Screen	2/9/21	Vinny Ye
8	Match Group	First Update	2/9/21	Simran Korpal
9	Diamond Hill	Quick Screen	2/9/21	Tony Wang
10	MasterCraft	First Update	2/9/21	Sophie Pan
11	Daily Journal Corp	First Update	2/9/21	Tony Wang
12	Diamond Hill	First Update	2/16/21	Tony Wang
13	At Home Group	Second Update	2/16/21	Caleb Nuttle
14	SiteOne Landscape	Quick Screen	2/16/21	Achyut Seth
15	BJ's Wholesale	First Update	2/16/21	Vinny Ye
16	Match Group	Second Update	2/16/21	Simran Korpal

Active Pipeline

	Company	Stage	Date	Analysts
1	Match Group	Second Update	2/16/21	Simran Korpal
2	Daily Journal Corp	First Update	2/9/21	Tony Wang
3	MasterCraft	First Update	2/9/21	Sophie Pan
4	SiteOne Landscape	Quick Screen	2/16/21	Achyut Seth

Oversight Meeting

	Company	Stage	Date	Analysts
1	At Home Group	Second Update	2/16/21	Caleb Nuttle
2	Diamond Hill	First Update	2/16/21	Tony Wang

III. Key Holdings Update

Portfolio Updates Since Dec 2020 Meeting

Company	Ticker	Update
Allison Transmissions	**ALSN**	Since the last oversight meeting, there has not been any additional corporate communication. We continue to closely monitor the company, especially North America On - Highway demand. In February, the company guided to 2021 Net Sales in the range of $2,265 to $2,415 million and adjusted FCF in the range of $390 to $450 million. We have updated our estimates to match guidance and believe that the company still has room to take share. The company has continued to gain share in the class 4-5 truck market and we are quite pleased with how the business has been able to successfully navigate through the pandemic.
APi Group	**APG**	We would like to propose a hold on the API Group. The company is up significantly since our purchase price as we see the market recognizing the proper multiple of the business. We see the company on the acquisition strategy and are patiently waiting for a possible larger marquee purchase. Even though the company has re-rated we see further upside through sustained margin improvements. We remain vigilant for any infrastructure stimulus that could help the company's project based construction side. Potential stimulus particularly for 5G expansion remains promising. The company has taken on additional debt but leverage remains in the target range at 2.4x.
At Home	**HOME**	We first initiated our position on At Home Group (HOME) on 2/19/21, at an average cost basis of $26.89 per share. Currently, the shares trade at $30.88, reflecting a 14.8% upside on the position. This past week, At Home announced their Q4 earnings, which came in above street expectations in terms of sales growth and EBITDA margin. The company saw Q4 net sales increase by 41.3% to $562 million, with comparable store sales increasing 30.8% YoY, well above expectations of 23%-24%. The company also continued their deleveraging, reducing their already low leverage ratio to 0.5x, which is down significantly from the 3.2x it was at a year ago. Q4 outperformance was primarily driven by the company's ability to sell through 90% of their Christmas inventories at full price, which is significantly higher than the average 70% rate seen historically across other seasons. Additionally, the company was able to reach 20% of inventories being directly sourced, boosting gross margin by 1%. Overall, for the quarter, gross margins were up by 9.5%, 4.5% of which came from improved product mix and inventory turns. Overall, based on this positive news, I would recommend continuing to hold our position with HOME.
Berry Global	**BERY**	From the last oversight meeting, Berry has issued the 2020 Impact Report which emphasizes its position as an industry leader in terms of post-consumer recycled plastics usage. Furthermore, as of February 2021, Berry has received an ESG Risk Rating of 16.1 from Sustainalytics, which places it in the 10th percentile in the Global Universe and 13th percentile in the Containers & Packaging industry assessed by Sustainalytics - activist investor Canyon Partners previously urged Berry to lean further in ESG trends and correct market misconceptions about the sustainability of its products. Berry has also further secured access to over 600 million pounds of PCR content by 2025 and made investments in advanced and mechanical recycling methods. These initiatives continue to propel Berry's organic growth strategy forward. There have not been any financial results released since the last meeting, and we propose to hold our stake in Berry as they continue to deleverage and capitalize product development in fast growth substrates.

Portfolio Updates Since Dec 2020 Meeting

Company	Ticker	Update
CVS Health	**CVS**	CVS reported an increase of revenue of 4.6% to $268.7bn in FY20 compared to the prior year. The Pharmacy Services Segment saw a 1.9% decline in Q4 from price compression, while the Retail/LTC Segment revenue increased 6.6% due to increased prescription volume and COVID-19 tailwinds. Additionally, its HCB segment saw YoY revenue increase of 11.4% as a result of membership growth due to the ACA risk corridor program. Overall, the growth in the Government businesses were partially offset by declines in its commercial business, while the utilization of total healthcare services began returning to near-normal seasonal levels. Operating income increased 16.1% for FY2020, primarily due to the firm-wide cost saving initiatives in 2020. In terms of developments, CVS is looking to add more markets to its fully integrated Aetna connected plan, which is expected to result in approximately $350mm in incremental revenue in 2021. Additionally, it announced that it will reenter the individual public exchange market as of 2022 after evidence of market stabilization as the ACA has evolved. We propose holding our stake in CVS in light of the full-year results, which show no deterioration in the condition of the business. The thesis proposed in our Oct-19 reevaluation is still largely intact, and we shall continue to monitor the Aetna integration and the HealthHub rollout.
First Energy	**FE**	We propose holding First Energy at $34.39. Recent investigations into potential corruption and racketeering charges have depressed the company's valuation. Prosecutors allege that FE executives paid $61 million through Generation Now, a non-profit organization, to the House Speaker of Ohio to aid the passage of House Bill No.6. As mentioned in our thesis, the company has refocused to regulated utilities, which helps to fix rates and provide more stability for the company. In terms of Q4 Earnings, the company saw growth in the residential and a commercial distribution decrease of 8.1 percentage points during the same period, primarily due to downstream impacts of COVID which was largely in line with expectations. The company also had a one-time non-recurring charge tied to the decoupling in Ohio which caused them to miss Q4 EPS. Notably, as of March 16th, FirstEnergy has given Carl Icahn two board seats. Icahn currently controls over 3% of company shares worth over $600mm and post-announcement shares rose 7.4%. In terms of dividends the yield continues to be maintained at roughly 5%. Upcoming dividends are expected to remain in line with dividends for 2020.
Grocery Outlet	**GO**	Since the last meeting, Grocery Outlet released 2020Q4 earnings. They were able to continue stable store expansion with new store growth of 10% (or 35 stores), in line with their original goal of 10% annual expansion despite difficulties in Covid. In other words, their real estate pipeline appears to remain strong. Management released earnings in early March with top store sales growth of 12.7% and adjusted EBITDA growth of 32%. Net income in 2020 grew an incredible 5.93x from $15.4 M to $106.7 M and grew as a percent of sales from 0.6% to 3.4% . This was attributable to new store growth, comparable store sales growth (12.7%), decrease in interest expense (56.4%), and a significant income tax benefit. One thing to note is that their high annual comp store sales were bolstered by the high store traffic and large basket sizes during Q1 and Q2 of 2020. They also continued stability on the supply side by adding 400-500 suppliers this year, normal for a typical year but highlighting their stable recession-proof advantage in 2020. For the future, Management expects 2021 EBITDA margins as a % of sales to be in line with 2019 performance. For the first quarter of 2021, they also expect comp store sales to decrease in the high single digits as hoarding trends decline.

Portfolio Updates Since Dec 2020 Meeting

Company	Ticker	Update
HCA Healthcare	**HCA**	In looking at HCA, the company has bounced back quicker than anticipated from Covid-19. Company continues to capitalize on the struggles of smaller operators with the most recent acquisition of the outpatient business of Brookdale Senior Living. Outpatient business declined by 4%, due to deferred care by individuals as the second Covid-19 wave took hold. On the costs side, we see many one time impacts to margin including nursing staffing pressure, and increasing drug costs due to Covid. The company has reinstated dividends and buybacks and has committed to upping capital spending. HCA now has 9bn in authorized buybacks that will most likely be done in the next 12-18 months. Our thesis remains intact, and we look forward to seeing the return of normalcy later in the year.
Identiv	**INVE**	Since our last meeting, Identiv reported Q4 and full-year results which were largely in line with our thesis; management has become quite forthcoming with RFID KPI's. Highlights included RFID unit shipments of 130mm chips, gross margin contraction from 44% in FY19 to 39% in FY20, and, interestingly enough, ASP delta of 20%. The unit shipments indicate that the Singaporean RFID facility is currently ~65-70% utilized, up sequentially from ~50% in 2019. Gross margin contraction was driven by PPE investments to accommodate high-end customers and should quickly revert. Notably, while revenues increased 30% in Q4, SG&A reduced 4%, showing early signs of the operating leverage we projected in our thesis. Lastly, the most unexpected consequence of RFID growth was the pricing power associated with higher-end, sophisticated NFC technology. This was a call option that we initially disregarded but should be a material value driver going forward. Despite substantial share price appreciation, we still believe that Identiv has a long reinvestment runway and propose a hold.
Methode Electronics	**MEI**	Since our last meeting, Methode Electronics is up 4.3%, reaching an all-time high of $47.01 before selling off in the past few days that is likely attributed to the semiconductor shortage headwind challenging auto production for OEMs. MEI reported FY21 Q3 earnings early March - while sales were up 3.3% YoY, net income and margins slightly declined due to COVID-19 related supply-chain disruptions. The company also reduced gross debt by $103 million during Q3, bringing LTM net debt/EBITDA to .1x - a sign of an extremely healthy balance sheet that the company can use to fund any inorganic growth through acquisitions or initiating a share buyback program that management hinted at considering. Regarding fundamentals, the supplier's one-stop-shop value proposition is expected to provide >10% organic growth in FY22, with increasing EV exposure is expected to reach mid-teens by FY22 that aligns with our thesis point of increasing top-line growth from a healthy pipeline of EV programs. Customer consolidation is expected to improve, as sales from any single customer is expected to drop from 50% (from four years ago) to below 25%. Margins are expected to normalize and expand in the long-term with the strength of the industrial segment and low inventory levels in need of production ramping up from the OEMs, but this is all contingent on how long the chip shortage is expected to last (management predicts till end of Q1 next year). At ~8x EV/EBITDA, MEI continues to trade at a discount to peer average of 13.6x, despite continuing to maintain strong fundamentals, a healthy balance sheet, and 9% FCF yield. Thus, we believe MEI is a hold.

Portfolio Updates Since Dec 2020 Meeting

Company	Ticker	Update
Office Property Income	**OPI**	We remain confident in the thesis behind OPI. The company seeks to continue with its capital recycling program, guiding to $100m - $300m of asset sales this year. In Q4 2020, the company acquired a $35.1 million corporate headquarters and reached an agreement to acquire a $27 million property in Boston. Leasing activity has also been stronger than expected with 3.7mm square feet in discussion (19% increase QoQ). The largest concern around the stock is the dividend, however the company maintained the quarterly dividend at a CAD payout ratio of 63%. Overall, the tenant turnover was already expected and we believe, priced in. Stronger leasing activity and a resumption of the capital recycling program stands to benefit the company in both the short and long term.
Palo Alto Networks	**PANW**	We would like to hold PANW at $323.6. The company has beat market expectations in its 2Q21 earnings call, with billings of $1.2 billion, or 22% yoy growth, and revenue $1 billion, or 25% yoy growth. Adj. FCF margin remains strong at 32.7%. Consequently, management has updated guidance for the whole year by increasing top line growth projection by 2-3% and higher earnings per share. The firm's strategy of cross-selling its new security products to existing customers while continuing to acquire new ones is well-executed. Although technology stocks have seen large adjustments recently, PANE remains an attractive long-term target with superior risk-reward.
Points International	**PCOM**	We propose a hold on PCOM at $15.78, up 59% from our initial entry. Much of the original discount has been corrected, but the business still trades at 7x 2019 EBITDA, which we consider a conservative proxy for sustainable earnings power. Even amidst unfavorable macro conditions, with passenger volumes remaining depressed, Points has successfully signed on 6 new partners in 2020 thanks to a partnership with Amadeus IT. Given the most mature partners generate roughly 3x the gross profits of these new partners, there is a long cross-selling runway. We believe that PCOM remains a cheap, attractive bet on travel recovery and propose a hold.

Portfolio Updates Since Dec 2020 Meeting

Company	Ticker	Update
Recro Pharma	**REPH**	We would propose a hold on REPH at $3.10. The company faced significant challenges in 2020 that caused EBITDA to shrink from $17.5M to $1.5M and stock price to decrease 83.2% from its pre-pandemic high of $18.48. Much of these challenges were due to the fact that REPH manufactures drugs that had nothing to do with treating COVID or aiding in the pandemic. A headwind facing the company is that the FDA drastically slowed down their approval rate of non-Covid related drugs to focus on the pandemic. Additionally, orders for drugs such as Ritalin slowed down which meant that Novartis did not contract REPH to manufacture as much as they previously had. However, given that nothing materially changed from the last oversight meeting, we believe that this continues to be a monitor and hold. We estimate 2021 revenues to be around $70mm while costs will likely be reduced throughout 2021. While a stock shelf was created ($100mm, 2 million shares), the company has also been making efforts to reduce debt. We will continue to monitor the name closely.
TransDigm Group	**TDG**	We propose holding our position in TransDigm at 597.07 USD, a current return of ~66.6%. Since our last meeting, nothing notable has changed on a company level. TDG has continued with its planned divestitures of businesses acquired in the Esterline acquisition. Specifically, they sold ScioTeq and TREALITY Simulation Visual Systems to OpenGate Capital for $200mm and is scheduled to close in the third quarter of fiscal 2021. Moving on to the macro environment, there has been strong recovery in passenger volumes, a key metric that determines the profitability of TDG's aftermarket operations, the key segment for profitability. When comparing 2020 to 2021 relative to the 2019 numbers, we are at 44% of the 2019 passenger volumes relative to 14% passenger volumes the same week last year. Therefore, with the macro environment improving for TDG, we propose holding our position as a way to get exposure to the economy reopening.
United Rentals	**URI**	We would like to propose holding our stake in United Rentals (URI) at $299.93, up 154% since inception in March 2019. There have not been any significant changes to the company's operating performance since our last update on the position during the previous oversight cycle. Overall, we see the company's improving liquidity position and fleet utilization rates as positive signals on the company. That being said, management guiding lower FCF and EBITDA margins for 2021 is a point for concern, however considering the ground the company is making up YTD from COVID's impact, we don't see this as being the only important metric to look at.

Portfolio Updates Since Dec 2020 Meeting

Company	Ticker	Update
XPO Logistics	**XPO**	Since the last update, XPO's stock price has increased 52% to ~$117 per share, reaching all time high of $126 per share. In terms of FY2020 earnings, full-year revenue was down 2%, largely due to Covid-related impacts in 1H. Revenue recovered in the latter half of the year, with double digit YoY growth for both business segments in Q3 and Q4. The overall revenue per shipment has increased ~4% in FY 2020. The adjusted operating ratio remained relatively stable around 83%, and XPO posted record unlevered free cash flow of $864M for FY2020. Business conditions are relatively stable -- the revenue split has shifted to 60% Transportation (LTL) / 40% Logistics. The European segment of the business has enjoyed a near full recovery. Some recent tailwinds include a demand increase tied to macro factors such as a consumer-led recovery, shift towards outsourcing, and ecom growth. The company is also shifting towards automation, which would improve long term operational efficiency and strengthen its economic moat. Given these, we propose holding our stake in XPO, pending a re-evaluation in 2H21 when the spinoff materializes.
ZTO Express	**ZTO**	We maintain hold for now on ZTO at $28.22. The company's stock price has fallen roughly 12% from $32 since its Q420 and full year earnings announcement. The firm's operating margin has slided to 19% in 2020 from 25% in 2019, and although market share increased 1% to 20.4% in 2020 whole year, there's been a slight Q2Q market share decline in the fourth quarter. There are several reasons behind this: 1) The increased demand as a result of the pandemic is met by even higher increase in supply, marked by new entries such as J&T and JD Logistics (which previously served only in-house deliveries); 2) Ali is investing in its own logistics network system Cainiao which may have resulted in internal competition between the Ali-affiliated firms. However, ZTO remains the strongest player among the Ali-affiliated delivery businesses due to its scale, and benefits from significant cost advantage. Unity cost of revenue improved to 1.08RMB in 4Q20 compared to 1.18RMB in 4Q19. That said, given the changing competitive landscape, we believe it's necessary to do deeper analysis on the business models of the new entries and re-evaluate the position more thoroughly in the next oversight cycle.

IV. Update Notes

V. New Position Proposal