Cranfield School of Management

Quarterly Activity and Management Report
31st December 2020

EQUITY FUND

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FUND GENERAL INFORMATION

FIRST CLOSING DATE	25th November 2020
VINTAGE YEAR	2020
FUND SIZE	USD 100,000,000 (virtual capital)
INVESTMENT PERIOD	November 2020 - Ongoing
ORGANIZATION	Cranfield Finance Society
MANAGEMENT STRATEGY	The purpose of Equity Fund is to acquire, hold, and dispose equity investments in accordance with a long-term driven investment strategy. The Management aims to carefully build a diversified Portfolio comprising of a rich investment blend of various industries and geographical locations, and in line with a futuristic view given the long investment time horizon of the Cranfield Finance Society. In the process, the Fund shall be geared towards generation of consistent investment growth through capital gains and dividend income yielded by the investments made in the capital market.
INVESTMENT STRATEGY	Value Investing, Growth Investing and Income Investing in the secondary market. The Investment team strongly believes that maximization of the Fund's long-term interests is attained by investing in undervalued companies backed by solid fundamentals and future prospects, providing great opportunities for capital growth. Hence, the team does not take into consideration short-term price movements in the financial market. The Fund does not speculate and short sell stocks.
FUND CURRENCY	The Fund is USD denominated. However, investments are made across different geographies in order to a build diversified portfolio. Foreign Currency exchange rate is calculated at the moment of investment.

RISK MANAGEMENT

Considering a long-term time horizon on a low-to-medium risk portfolio, the Fund looks to business performance of every target company rather than market performance.

The Risk management approach of the Fund is to deeply understand the business of companies with the goal of being a business owner rather than stock owner.

That being said, the Fund mitigates the risks by holding a diversified portfolio of equities and avoiding fundamentally risky ventures.

The Fund does not invest in IPO's, in high leveraged or low returns-in-capital companies.

The Fund does not speculate in short-term price fluctuations or high price volatility following an IPO.

The Fund does take into consideration the margin of safety and does not invest in companies considered overvalued by the Management team.

The Fund does not hedge risks with financial derivatives.

In accordance with the investment strategy, the Fund does not short sell assets. Short selling is considered expensive and with high level of risk by the Management team.

TYPE OF RISKS

The Fund is involved in the business risk.

The Fund sees the business risk as what can happen in future years from the time of investment that will destroy, modify, or reduce the economic strength of the business.

Other significant types of financial risks to which the Fund is exposed include nature risks (the risk that the Fund will not achieve its investment objectives throughout the investment period) and currency risks (the risk that the exchange rates of its currency may change in a manner that has an adverse impact on the value of the assets).

REPORTING FREQUENCY

The composition of the fund assets is produced on a quarterly basis.
Activity reports are produced on a quarterly basis.
The market value is bi-weekly calculated and updated.

FEES AND COSTS

As a virtually managed Fund, there is no compensation for the activities executed.
No Administration fees, audit costs, legal and tax advice fees are considered.
However, the Fund takes into consideration the transaction costs of 1% of the total value of the equity sold.

TAX

As a virtually managed Fund, no taxes are applicable.

INVESTMENT PROCESS

PRE-VALUATION PHASE

A preliminary screening is made, according to the Fund's investment strategy and to the specifics of each investment opportunity.

VALUATION PHASE

Qualitative and quantitative analysis is made by the Portfolio Manager(s) who suggests the investment proposal. Depending on the materiality publicly available, valuation is based on past financial performance, estimated future propectives, as well as micro, macro, and risk factors that the target company is involved in.
If applicable, DCF, DDM, F-score and other quantitative valuation methods are used during the valuation phase.

INVESTMENT DECISION

Based on the outcome of the valuation, the Portfolio Manager is required to present the investment proposal on an online videoconference call (such as Zoom) and discuss with other Investment team members. The final investment decision is made according to the «absolute majority» rule.

OWNERSHIP AND MONITORING

Monitoring the assets in portfolio throughout the holding period is instrumental in the Fund's approach. The Investment team conducts periodical reviews of portfolio companies.

SELLING DECISION

In accordance with the investment strategy and with the Risk Management approach, the Fund aims to hold the assets for a very long time, neglecting short-term price variations in the market.
However, the selling decision for a particular asset is made under the following circumstances:

1. Liquidity for more attractive and better investment opportunity;
2. Changing fundamentals, or changing competitive landscape within the invested company.

FINANCIAL REPORTING

Cash Flows as of 31st December 2020

Cash

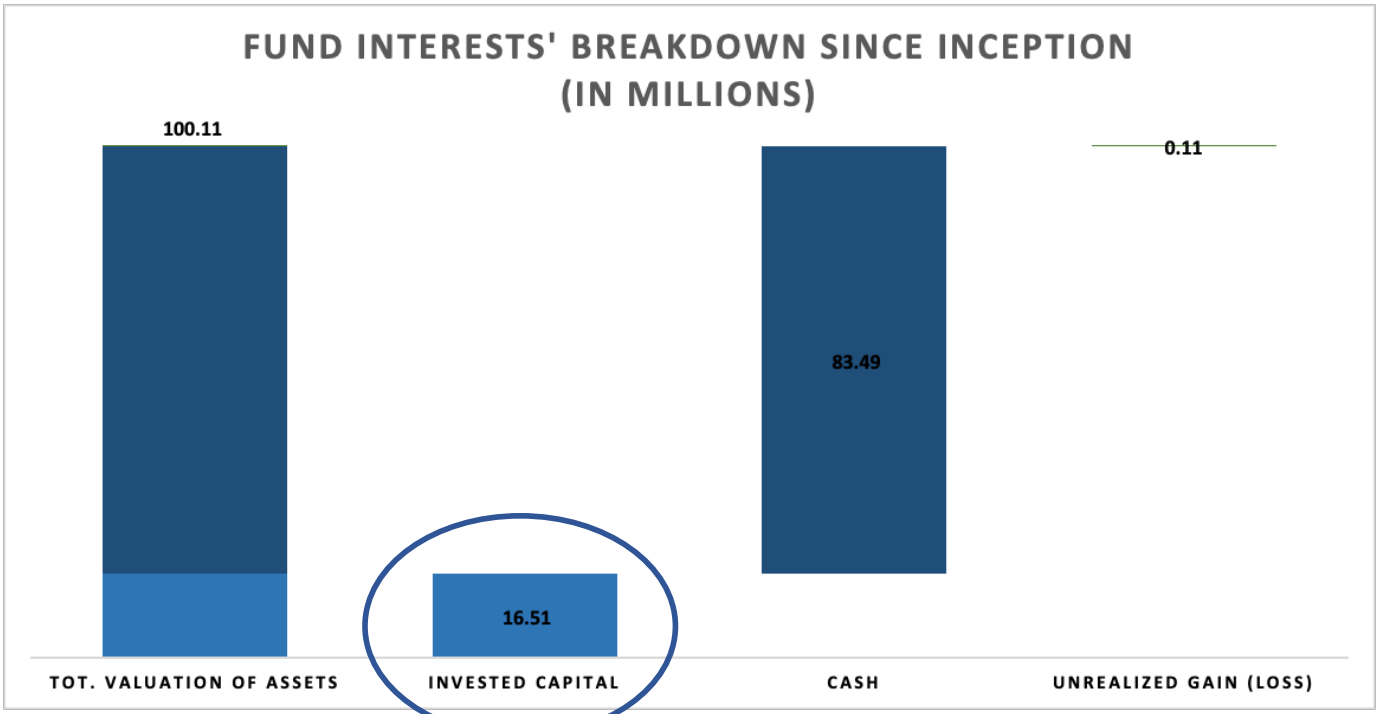
Full Name	Ticker	Date	Number of Shares	At Price	Cash Flow
Mastercard Incorporated	*NYSE:MA*	*25/11/2020*	*7,325*	341.3	-2,500,169.0
Visa Inc.	*NYSE:V*	*25/11/2020*	*11,854*	210.9	-2,499,890.1
Tencent Holdings Limited	*SEHK:700*	*04/12/2020*	*65,876*	75.9	-5,001,977.2
Shopify Inc.	*NYSE:SHOP*	*11/12/2020*	*946*	1,057.9	-1,000,745.0
Intesa Sanpaolo S.p.A.	*BIT:ISP*	*18/12/2020*	*1,270,000*	2.4	-3,005,632.8
NIKE, Inc.	*NYSE:NKE*	*18/12/2020*	*18,209*	137.3	-2,499,731.5
Total Cash Flow					-16,508,145.6
Cash at Beginning					*100,000,000.0*
Cash at Current Valuation Date (as of 31st Dec 2020)					83,491,854.4
Percent of Fund					*83.4%*

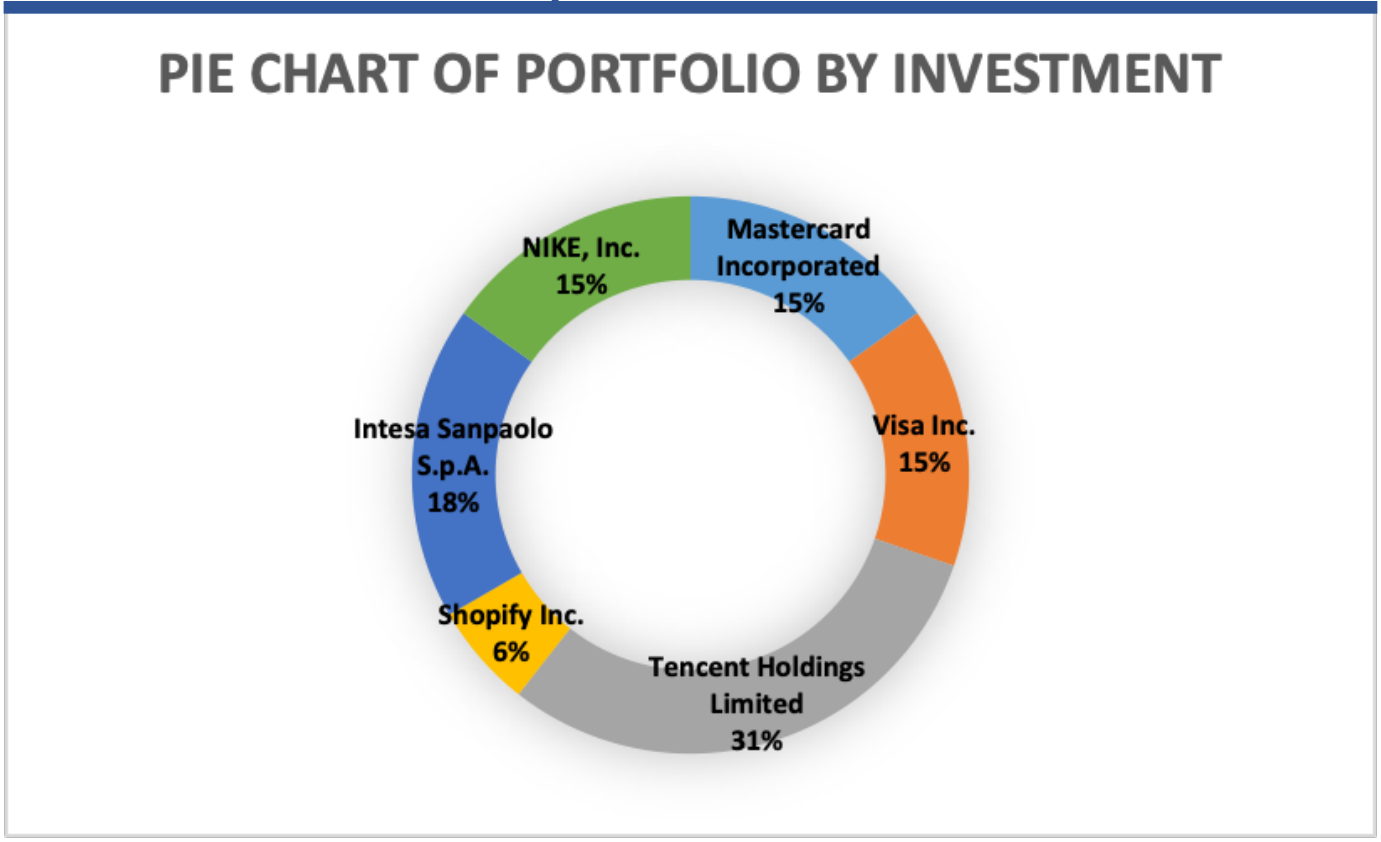
Assets market values as of 31st December 2020

Equities

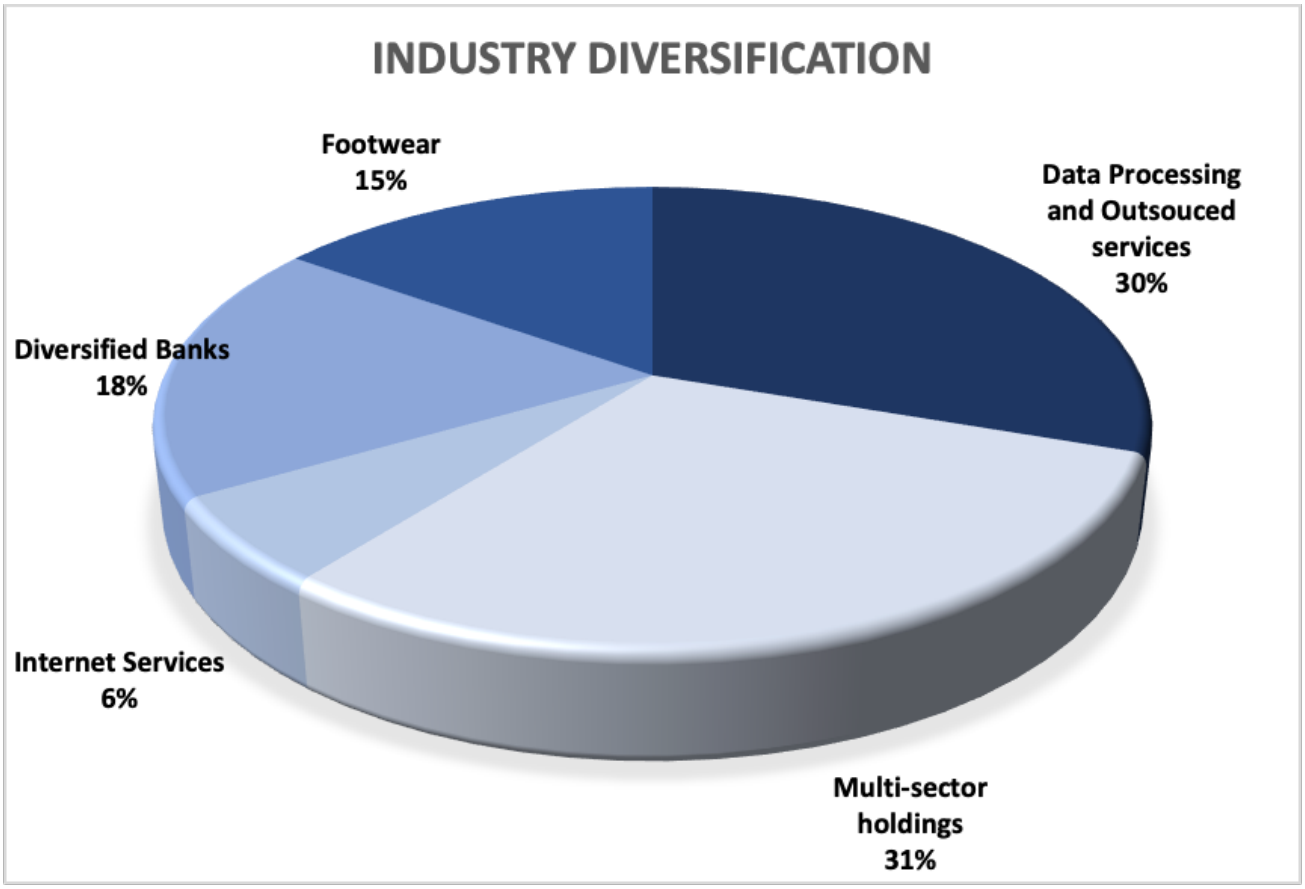
Full Name	Ticker	Percent of Fund	Number of Shares	Current Price (USD)	SUM in USD
Mastercard Incorporated	*NYSE:MA*	2.6%	*7,325*	356.9	2,614,585.5
Visa Inc.	*NYSE:V*	2.6%	*11,854*	218.7	2,592,825.4
Tencent Holdings Limited	*SEHK:700*	4.8%	*65,876*	72.7	4,792,019.8
Shopify Inc.	*NYSE:SHOP*	1.1%	*946*	1,132.0	1,070,824.7
Intesa Sanpaolo S.p.A.	*BIT:ISP*	3.0%	*1,270,000*	2.3	2,971,253.9
NIKE, Inc.	*NYSE:NKE*	2.6%	*18,209*	141.5	2,576,027.2
Total		16.6%			16,617,536.6
Percent of Fund					*16.6%*

PORTFOLIO ANALYSIS

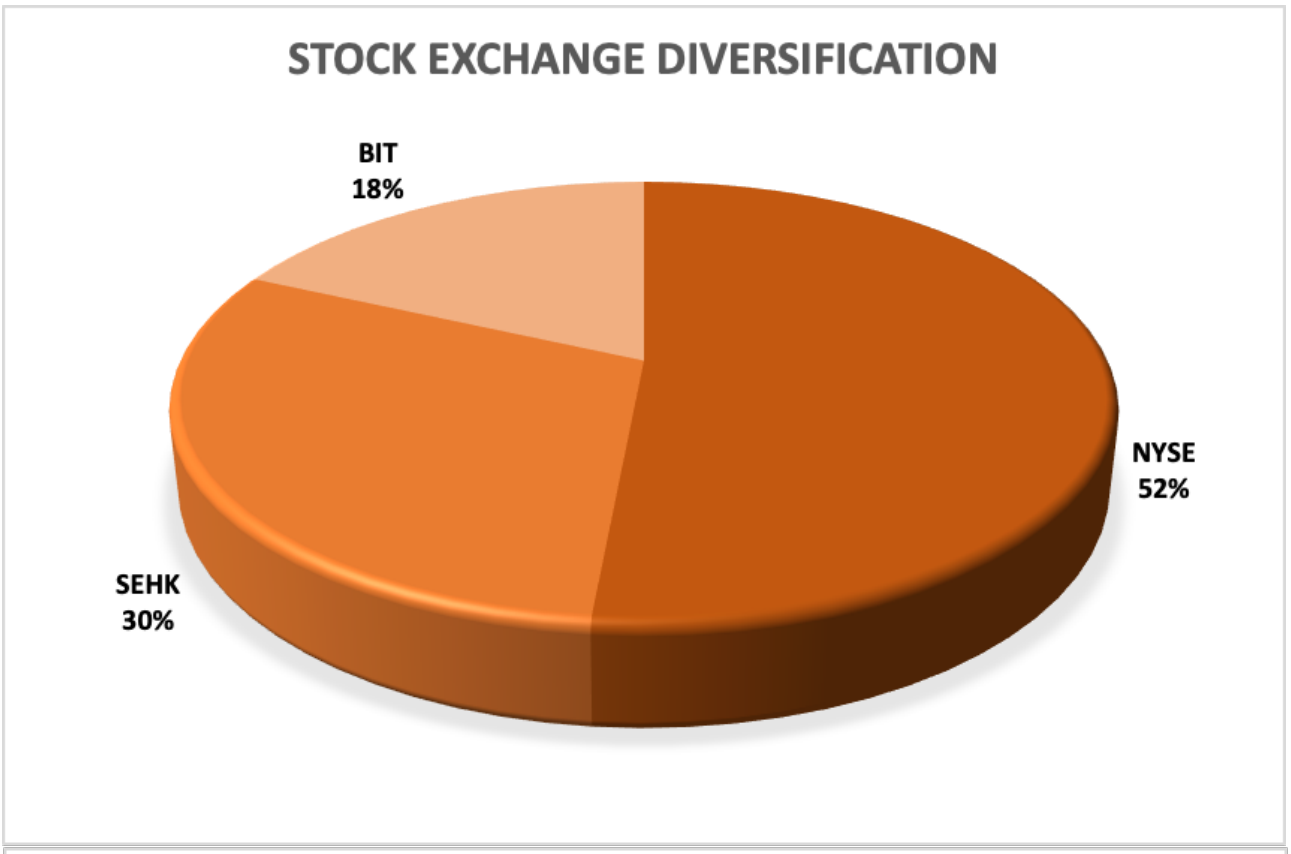


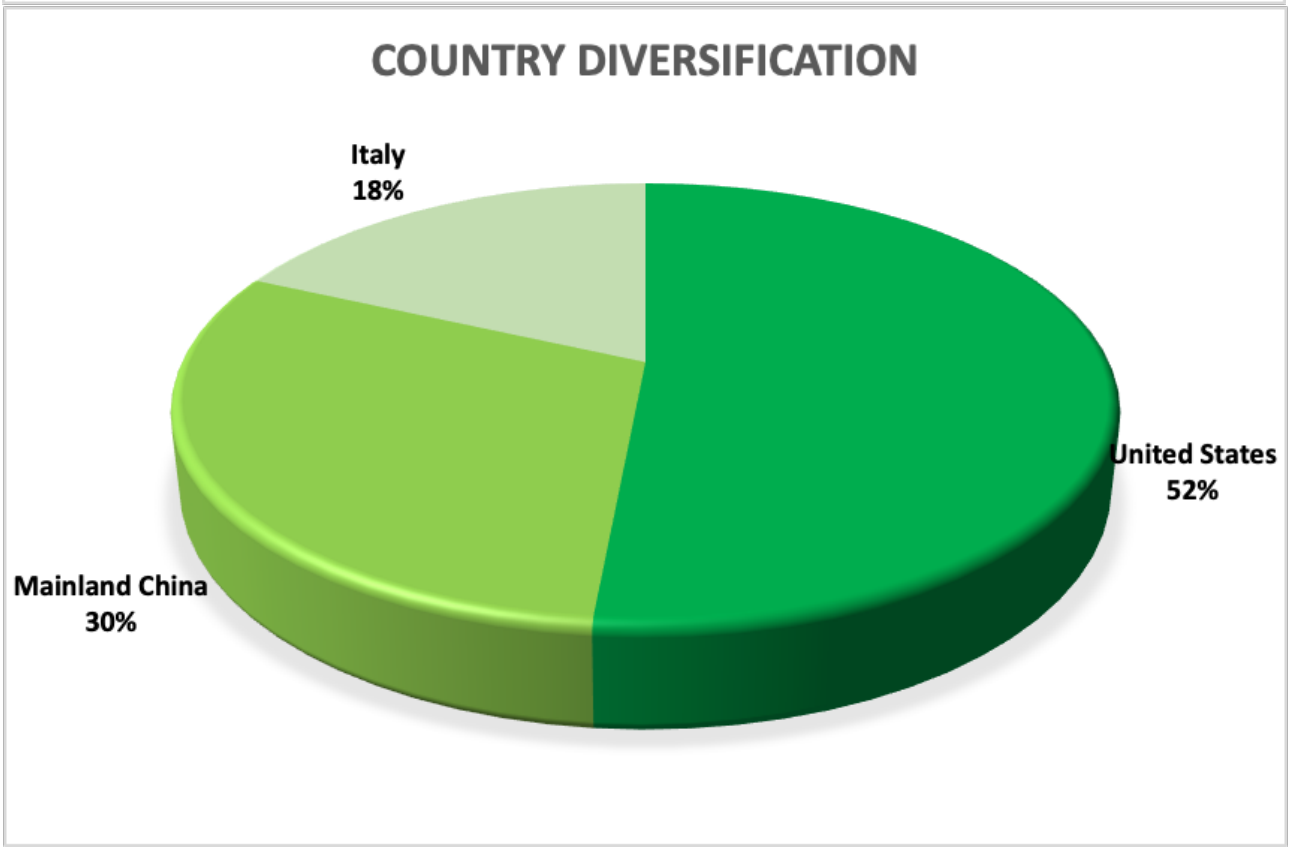


Industry Diversification



Geographical Diversification





PORTFOLIO COMPOSITION

Equity Fund's portfolio is composed of six companies as of 31st December 2020, whose activity, characteristics and investment rationale are presented in the following pages.

- MASTERCARD INCORPORATED
- VISA INC.
- TENCENT HOLDINGS LIMITED
- SHOPIFY INC.
- INTESA SANPAOLO S.P.A.
- NIKE, INC.

MASTERCARD INCORPORATED

Date of Investment	25/11/2020
Country	United States
Stock Exchange	NYSE
Total Invested Amount	2.5M
NOSH purchased	7,325
Price per share	USD 341.3
Current Trading Price	USD 356.9

ACTIVITY

Mastercard Incorporated operates as technology company that connects consumers, financial institutions, merchants, governments, digital partners, businesses and other organizations worldwide, and enables them to use electronic forms of payment instead of cash and checks.

The company provides a range of payment solutions and services using its family of brands, including Mastercard, Maestro and Cirrus.

COMPANY'S STRATEGY

The company's strategy is to grow, diversify and build its business through a combination of organic and inorganic strategic initiatives. The key elements of the company's strategy include growing its core business globally, including growing its consumer and commercial products and solutions, as well as increasing the number of payment transactions it switches; working with new customers, including governments, merchants, financial technology companies, digital players, mobile providers and other corporate businesses; creating and acquiring differentiated products to provide unique, innovative solutions that it brings to market to support new payment flows and related applications, such as real-time account-based payments and the Mastercard Track suite of products; and providing services across data analytics, consulting, marketing services, loyalty, cyber and intelligence, and processing.

INVESTMENT RATIONALE AND VALUATION

1) As a market leader, Mastercard has a durable competitive advantage: its platform connects thousands of financial institutions and millions of merchants in over 210 countries and territories. This creates a network effect and forms the foundation of Mastercard's competitive advantage;

2) Mastercard has a long tenure of consistency in terms of market capitalization and dividend payment. The reasons can be found in its extremely high Ebitda margin (60% in 2019) and net margin (48% in 2019), and its ability in generating free-cash-flow, boosting free cash at an 8.2% annualized rate. The Management team believes that this trend will continue in the upcoming years;

3) The company has a very good solvency ability, with NFP/Ebitda of 0.2x as of September 2020 LTM;

4) According to DDM, the company's price was undervalued at the moment of investment.

VISA INC.

Date of Investment	25/11/2020
Country	United States
Stock Exchange	NYSE
Total Invested Amount	USD 2.5M
NOSH purchased	11,854
Price per share	USD 210.9
Current Trading Price	USD 218.7

ACTIVITY

Visa Inc. is a global payments technology company providing electronic payment solutions to its clients worldwide. It is one of the largest retail electronic funds transfer networks used globally. Visa provides transaction processing services through its global processing platform, VisaNet, payment products, and other value-added services to its clients. In addition, the company has adopted new digital payment and security technologies, such as contactless and tokenization. The company has a presence in more than 200 countries and territories worldwide. More than 188 billion global transactions are processed through VisaNet each year. VisaNet is Visa Inc.'s reliable and secure processing system, which has supported the company's growth across the world. A majority of credit and debit cardholders in the U.S. prefer Visa and there are 3.3 billion Visa cards in use today. Most of its clients are consumers, businesses, banks, and governments.

COMPANY'S STRATEGY

The company's three strategic areas of focus include investing and growing card-based payments, accelerating its efforts in non-card, cross-border payments and digitizing domestic accounts payable/accounts receivable processes. Central to the company's long-term strategy is attracting, developing and retaining the best talent globally with the right skills to drive its success.

INVESTMENT RATIONALE AND VALUATION

1) Visa plans to bring business-to-business (B2B) payments to 32 new countries, more than doubling its reach. That comes as lucrative cross-border transactions are under strain;
2) Visa Token Service generated an estimated $1 trillion in e-commerce sales in just over five years after launch. Tokenization helps to protect users' payment data and is seen as a growth driver. Visa acquired several small tech companies offering tools for tokenization and dispute resolution;
3) According to its most recent annual report, Visa expects to move $17 trillion in consumer spending and $15 trillion-$20 trillion of business spending to cards and digital formats. Currently, much of that spending is still done in cash and checks;
4) Payment processing is a profitable business. Visa stock leads most rivals with a 66% pretax profit margin. Visa's 36% return on equity far exceeds the minimum 17% required by investors.

TENCENT HOLDINGS LIMITED

Date of Investment	04/12/2020
Country	Mainland China
Stock Exchange	SEHK
Total Invested Amount	USD 2.5M
NOSH purchased	65,872
Price per share	HKD 588.40 (USD 75.90)
Current Trading Price	HKD 564.00 (USD 72.40)

ACTIVITY

Tencent Holdings Ltd. is an investment company, which engages in the provision of value-added services and online advertising services. It operates through the following segments: Value-Added Services, Online Advertising, and Others. The Value-added Services segment involves online and mobile games, community value-added services, and applications across various Internet and mobile platforms. The Online Advertising segment represents display based and performance based advertisements. The Other segment consists of trademark licensing, software development services, software sales, and other services. The company was founded by Yi Dan Chen, Hua Teng Ma, Chen Ye Xu, Li Qing Zeng, and Zhi Dong Zhang in 1998 and is headquartered in Shenzhen, China.

INVESTMENT RATIONALE AND VALUATION

1) Tencent's online gaming revenue surged 45% year-over-year, marking an acceleration from its 40% growth in the second quarter, and accounted for a third of its top line. Tencent's gaming growth accelerated through the COVID-19 pandemic as more people stayed at home, and maintained that momentum even after the lockdowns ended. The segment's gross margin also expanded year-over-year as it generated more revenue from higher-margin first-party games instead of licensed ones;

2) Tencent's WeChat (known as Weixin in China) ended the quarter with 1.21 billion monthly active users (MAUs), up 5% from a year ago. This monolithic platform continues to expand with millions of Mini Programs, which let users make payments, order products, hail rides, and access other services without ever leaving the app. Tencent also owns the older messaging platform QQ, which still hosts 617 million mobile MAUs, the streaming media platforms Tencent Video and Tencent Music, the e-sports streaming platforms Huya and DouYu, and other smaller apps. It also operates smaller social video games within those platforms. Tencent's total social networking revenue from all those apps, which include subscriptions and in-app purchases but exclude digital ads, rose 29% year-over-year and accounted for 23% of its top line;

3) Tencent's ad revenue rose 16% year-over-year, accelerating from its 13% growth in the second quarter, and accounted for 17% of its top line. By comparison, online advertising revenue at Baidu, China's top search engine, has fallen year-over-year for six straight quarters;

4) Tencent's fintech and business services revenue, which mainly comes from Tenpay/WeChat Pay, its various fintech services, and Tencent Cloud, rose 24% year-over-year and accounted for 27% of its top line;

5) Considering the long-term, Tencent is a perfect buy according to our investment strategy.

SHOPIFY INC.

Date of Investment	11/12/2020
Country	United States
Stock Exchange	NYSE
Total Invested Amount	USD 1M
NOSH purchased	946
Price per share	USD 1057.9
Current Trading Price	USD 1132.0

ACTIVITY

The company builds Web- and mobile-based software and lets merchants set up online storefronts that are rich with retail functionality. Merchants use the company's software to run their business across all of their sales channels, including web and mobile storefronts, physical retail locations, social media storefronts, and marketplaces. The Shopify platform provides merchants with a single view of their business and customers across all of their sales channels and enables them to manage products and inventory, process orders and payments, fulfill and ship orders, build customer relationships, source products, leverage analytics and reporting, and access financing, all from one integrated back office.

COMPANY'S STRATEGY

The key elements of the company's strategy include improving its base of merchants; improving its merchants' revenue; continuous innovation and expansion of its platform; continuing to improve and develop its ecosystem; continuing to expand its referral partner programs; and continuing to build for the long-term.

INVESTMENT RATIONALE AND VALUATION

1) Has over a million merchants signed to the Shopify platform. Shopify has always put its merchants first building, designing an easy to start, but robust and scalable platform;
2) Strong growth trend. Monthly recurring revenue grown 47% CAGR over past five years and overall revenue up 71% CAGR;
3) Booming merchant solutions segment (grew 132% in Q2 2020). Provides solutions alligned with customer needs such as shipping & fulfillment services and capital funding;
4) Innovation and Long-term strategy. Made numerous successful product improvement influence by the Covid Pandemic, such as the buy-now-pay-later option and customer pick up;
5) Serves merchants of varying sizes. Business can use platform for as low as $9 per month to interact with customers. This range provides a fantastic market opportunity;
6) Shopify Flywheel generates growth in merchants through its network effect;
7) Massive market of $78 billion (based on small business global market). Shopify is also tapping into large enterprises as it constantly expands its portfolio of services
8) Company's large investments in previous years has provide a scale to take on big projects, including its $ 1billion fulfillment network and $1.4 billion loans provided through Shopify Capital.
9) A consistent and strong positive trend in profitability expected over coming years. Shopify has diverted its prior earnings into valuable growth focused investments. With cost scaling, profits are projected to rise consistently.

INTESA SANPAOLO S.P.A.

Date of Investment	18/12/2020
Country	Italy
Stock Exchange	BIT
Total Invested Amount	USD 3M
NOSH purchased	18,209
Price per share	EUR 1.93 (USD 2.4)
Current Trading Price	EUR 1.92 (USD 2.3)

ACTIVITY

The company provides banking and financial services worldwide with focus on the commercial banking activities, as well as retail, corporate, and wealth management activities in Italy. ISP operates in six business units: Banca dei Territori, Corporate & Investment Banking, Public Finance, International Subsidiary Banks, Eurizon Capital, and Banca Fideuram.

COMPANY'S STRATEGY

Intesa Sanpaolo's strategy is geared towards solid and sustainable value creation for all stakeholders with whom the Bank has relations. The company is aiming at a sharp increase in profitability and efficiency while preserving a low risk profile, deriving from solid revenue creation, continuous cost management and dynamic credit and risk management, with efficient use of capital and liquidity. Significant excess capital and high growth / high value businesses with a European scale allow Intesa Sanpaolo ample strategic flexibility.

INVESTMENT RATIONALE AND VALUATION

1) Very strong company, with a long experience in the banking sector derived from the primitive merger of two historical realities in Italy: Banca Intesa and Sanpaolo IMI;

2) The company, through a network of 6,354 branches, has recently expanded the group by the merger with "UBI Banca", a solid and well run bank in Italy. This strategic M&A has strengthen ISP as a top performing delivery machine in revenue generation (€21Bn in 2019), cost reduction, re-risking, customer base enlargement (+3M clients);

3) In accordance with our investment strategy, the company has a very high potential of growth, with Price to BV of 0.6x and Price to Earnings of 4x at the moment of valuation.

The declining stock price is mainly explained by the negative market sentiment against ISP (and other banking institutions in italy) due to the debt crisis that involved many countries in Europe. However, since 2015, ISP has overperformed against the stock market trend, generating a net income of €2Bn in 2015, €3Bn in 2016, €7Bn in 2017, and €4Bn in 2018 and 2019. The Fund's Management strongly believes that the stock price does not reflect the actual value of the company;

4) The positioning in the international markets is very good, which allows the group both to face localized monetary crises and to exploit any local development opportunities;

5) ISP has been distributing dividends since 2012, with a constant growth every year. The dividend yield at the moment of investment was 10%.

NIKE, INC.

Date of Investment	18/12/2020
Country	United States
Stock Exchange	NYSE
Total Invested Amount	USD 2.5M
NOSH purchased	18,209
Price per share	USD 137.3
Current Trading Price	USD 141.5

ACTIVITY

NIKE, Inc. engages in the design, development, marketing and selling of athletic footwear, apparel, equipment, accessories and services worldwide. The company sells its products through NIKE-owned retail stores and through digital platforms (which it refers to collectively as its 'NIKE Direct' operations), to retail accounts and a mix of independent distributors, licensees and sales representatives in all countries worldwide. Approximately all of the company's products are manufactured by independent contractors.

PRODUCTS

The company focuses its NIKE Brand product offerings in six key categories, such as Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (sports-inspired lifestyle products). The company also markets products designed for kids, as well as for other athletic and recreational uses, such as American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling and other outdoor activities. The company's athletic footwear products are designed primarily for specific athletic use, although a major percentage of the products are worn for casual or leisure purposes.

INVESTMENT RATIONALE AND VALUATION

1) NIKE shares have doubled the market over the last three months and the sportswear power's longer-term outlook is strong despite tough economic conditions;
2) The company reported a 12% increase in profit to $1.25 billion, or 78 cents per share, beating analysts' expectations of 62 cents per share;
3) The firm's Q3 revenue is projected to climb 8%, with its full-year 2021 set to surge 13% and then jump another 11% higher in FY22. Meanwhile, the adjusted earnings are projected to skyrocket 78% this year and another 29% in 2021 and a 12% increase in annual dividend;
4) Nike's continued focus on enhancing its digital strategy has paid off handsomely. In its last quarter, digital sales soared 82% year over year and added around $900 million of sales compared to a year ago. The company's digital sales have already achieved its target of making up 30% of total revenue three years ahead of schedule, and management is confident that the proportion of digital sales can continue to increase even as Nike's stores reopen;
5) Gross margin outlook is also improving, For the full year, Nike now expect gross margin to expand up to 50 basis points versus the prior year, including 35 basis points of foreign exchange headwinds.

EQUITY TEAM

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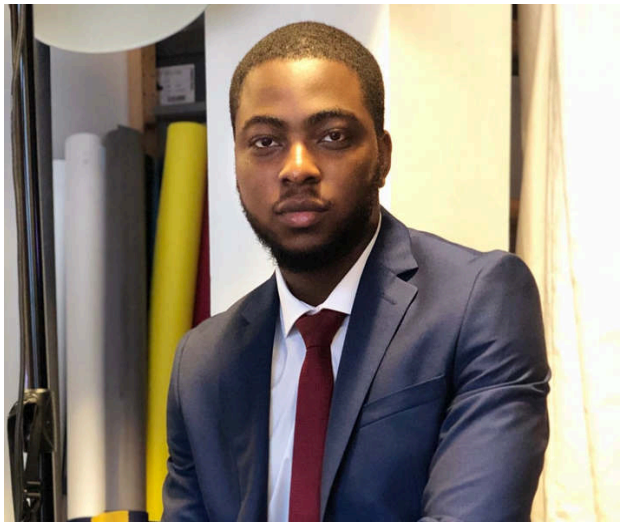

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