Trinity Student Managed Fund
Research Team

Bi-Weekly Markets Update

September 27TH, 2023

TRINITY SMF
STUDENT MANAGED FUND

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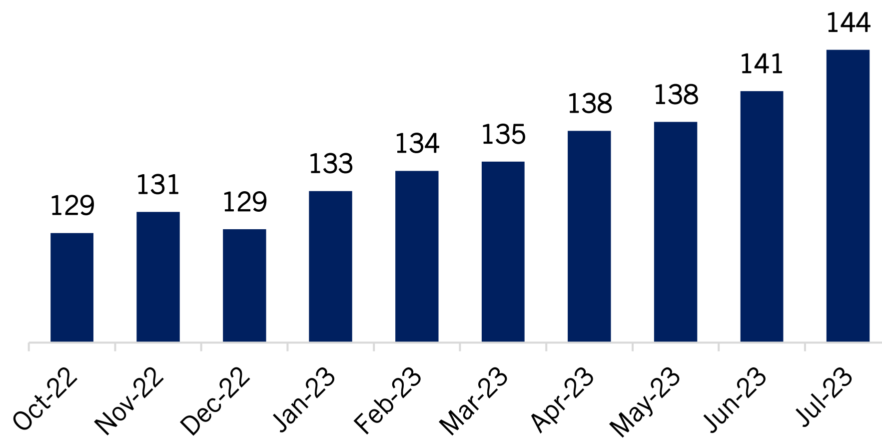
Past Weeks in Review

- BoE interest rates at 5.25%
- Japan inflation rate at 3.20%
- China retail sales to 4.60%

The Next Two Weeks

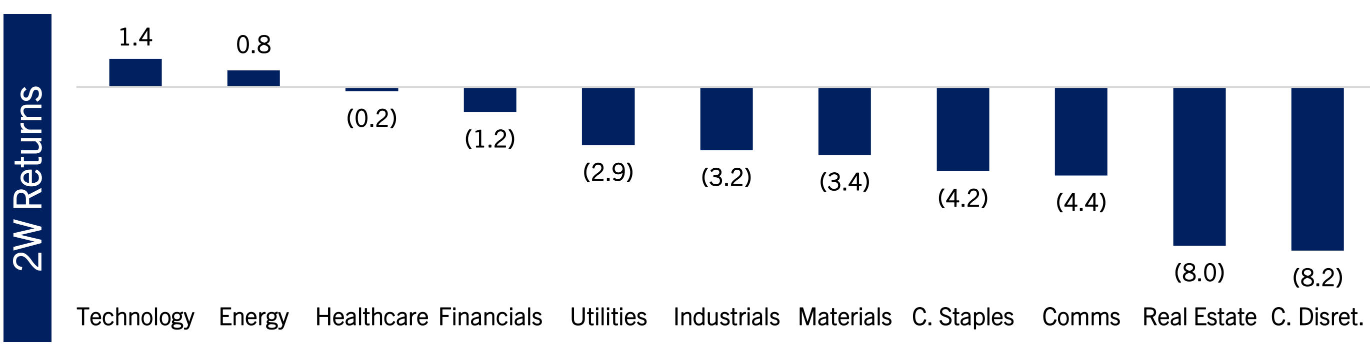
- Chinese NBS manufacturing PMI
- Germany balance of trade
- US unemployment rate

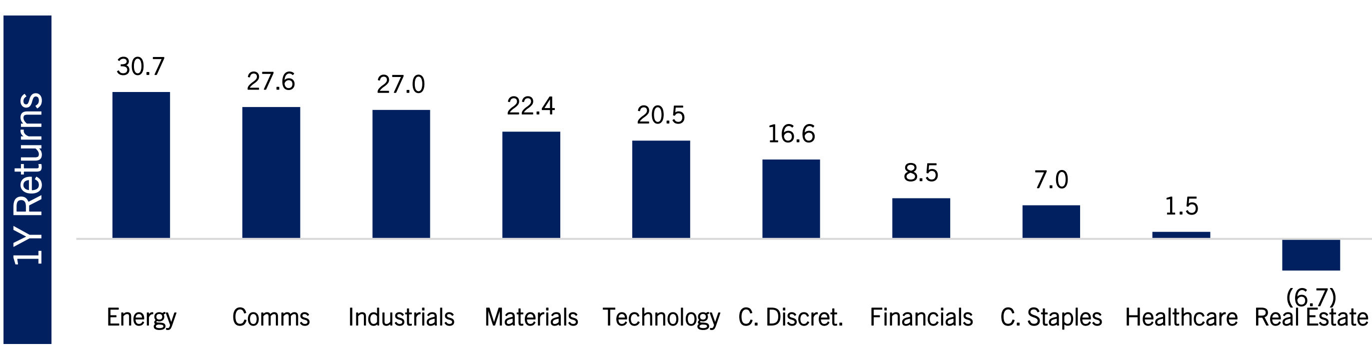
Figure 1: Export Prices in Mexico



Index Returns (%)						
Equities	Level	1 Week	YTD	1 Year	3 Year	5 Year
MSCI	512	(2.4)	10.1	22.8	45.0	188.6
S&P 500	4,275	(1.3)	11.3	17.4	75.2	55.4
Dow Jones 30	33,550	(2.3)	1.3	13.0	23.5	26.8
Russell 2000	1,779	(0.9)	1.6	3.7	20.6	4.9
Russell 1000 Growth	2,660	(1.0)	23.2	22.5	24.5	69.6
Russell 1000 Value	1,498	(1.4)	0.0	10.5	30.4	24.0
NASDAQ	13,093	(1.0)	25.1	21.9	20.0	68.9

Levels (%)						
Key Rates	9/28/23	8/31/23	6/30/23	3/31/23	12/31/22	9/30/22
2Y U.S. Treasuries	5.1	5.1	4.4	4.0	4.4	4.1
10Y U.S. Treasuries	4.6	4.2	3.8	3.6	3.9	4.0
30Y U.S. Treasuries	4.7	4.7	3.8	3.7	4.0	3.9
10Y German Bund	2.9	2.5	2.4	2.3	2.6	2.1
10Y German Bund	2.9	2.5	2.4	2.3	2.6	2.1
30Y German Bund	3.1	2.6	2.4	2.4	2.4	2.1
SOFR	5.3	5.3	5.1	4.9	4.3	3.0





Instacart Warms IPO Market As It Goes Public on NASDAQ

The past two weeks have marked the end of a two-year hiatus in the IPO arena. Against a backdrop of market volatility, soaring interest rates, and subdued tech valuations, investors have steered clear of the IPO market due to its uninviting risk profile. However, August unleashed a wave of excitement, with Arm Holdings, Instacart, and Klaviyo filing to go public. On September 19th, the NASDAQ welcomed Instacart to the market, signifying the first major venture-backed U.S. tech company to go public since December 2021.

Instacart, the online grocery shopping platform, has popularized digital grocery shopping since its launch in 2012. Once considered a luxury service, Instacart swiftly transformed into a household necessity during the COVID-19 pandemic. As we continue to transition into a post-pandemic market, Instacart is navigating a changed landscape where online grocery shopping is no longer vital, thus readying the company to raise equity capital in a more certain market.

With a compelling value proposition consisting of a diverse array of services, retail establishments, and innovative artificial intelligence capabilities, Instacart reached a peak private market valuation of $39.0 billion in 2021. (1) Now, after its first week public, Instacart is valued at roughly $8.3 billion.

THE WINNERS AND LOSERS

The recent wave of initial public offerings has sparked excitement among investors eagerly anticipating more tech companies filing for their potential IPOs. Key investors and institutional buyers involved in Instacart's transition to the public market include PepsiCo, Sequoia Capital, Andreessen Horowitz, T. Rowe Price, and DST Global.

PepsiCo purchased $175 million worth of CART preferred stock in a pre-IPO deal. (2) This purchase can be seen as PepsiCo's strategic move to bolster and expand its digital presence and holdings.

In Instacart's May 2021 investment round, T. Rowe Price and DST Global invested at its $39 billion valuation. Now valued at just under $9 billion, these Series C investors are experiencing unrealized losses as the shares they once bought for $125 are now hovering around $30 per share. In contrast, Sequoia, one of Instacart's largest Series A investors, purchased $8.5 million worth of the company when it was valued at just $0.24 a share in 2013. (3) Despite Sequoia also investing at its peak valuation in 2021, its initial investment labels Sequoia as one of the largest winners in Instacart's IPO issuance.

Similarly impacted are the faces behind Instacart – specifically co-founders Apoorva Mehta, Max Mullen, and Brandon Leonardo. After stepping down as CEO in 2021, Mehta left with a 10% stake in the company. At its peak valuation, Mehta's stake was worth a massive $3.5 billion. With the current valuation, his equity stake is now worth $1.3 billion. (4) Despite Mehta's almost two-thirds equity decrease, taking the company public will allow Instacart to gain access to more money and expand their business model into new endeavors such as increased digital advertising. While issuing Instacart's IPO, Mehta also sold 700,000 shares, realizing $21 million, while his two cofounders sold 1.5 million shares for a combined total of $43 million. (5)

Taking over as CEO after Mehta, Fidji Simo holds 900,000 shares of Instacart, valued at $27 million. In addition to her hefty stock holding, she also holds the attention of Silicon Valley, as people closely watch to see how the 37-year-old, handles competition, navigates the process of going public, and pioneers the return of the US IPO market.

WHAT THIS MEANS FOR THE IPO MARKET

With Instacart, Arms, and Klaviyo all launching their IPOs last week, investors, venture firms, and high-growth startups are closely monitoring the market to assess whether the IPO window will become lucrative again. If investors remain optimistic about the market, more late-stage startups have the potential to file for their IPOs. This could lead to the revival of the IPO market that many players have been patiently awaiting since 2021.

With interest rates on the rise, raising capital as a private company (in private markets) has become a challenging endeavor. Issuing an IPO as a late-stage startup could be an almost guaranteed way to raise equity capital, regardless of a company's profitability margins.

In 2024 and 2025, the IPO market holds the promise of substantial improvement, especially as unconventional tech companies seek to raise capital. Additionally, intriguing investments like chipmakers are already initiating their IPO filings, with Arm Holdings leading the charge. Regardless of whether Instacart's transition to a public company yields success in terms of revenue growth and profitability, it signals the dawn of a reinvigorated IPO market, drawing in other exciting unicorns and late-stage startups.

WHERE DOES THIS LEAVE INSTACART?

As the excitement continues to build around the potential IPO market revival – especially Instacart's public offering and share price movement – investors should not forget to cast a watchful eye on its competitors including DoorDash, GoPuff, and Walmart. While Instacart enjoys a competitive advantage thanks to its extensive fleet of couriers and a wider range of grocery stores and products available to consumers, it appears to be trailing behind its rivals.

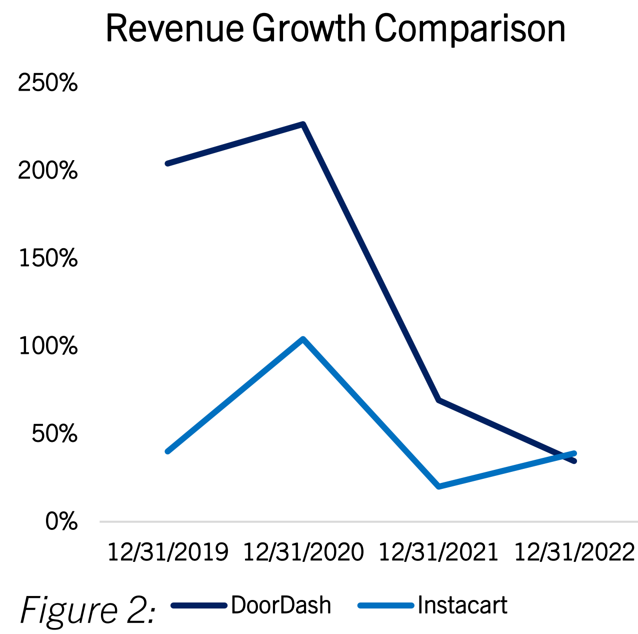


Figure 2:

DoorDash has demonstrated faster revenue growth compared to Instacart (6) and boasts lower price-to-sales and price-earnings ratios, potentially signaling an undervaluation and making it a more enticing investment prospect than Instacart.

While the offering brought Instacart more than $420 million in cash (7), its growth is sluggish, share prices remain static, and the company still seems to be learning how to remain profitable and thrive in a post-pandemic market, following years of net losses. (8)

Trading under the ticker CART, Instacart's initial offering started at $30.00 per share. By the second day of trading, share prices had dropped to an underwhelming $30.10, only marginally above the IPO price. By the end of its first week trading, the market closed with share prices returning to $30.00 per share.

The slowed share price could suggest that investors may not yet be fully ready to embrace unconventional tech companies back in the market. However, it could also signify that investors are keen on Instacart and are rather waiting to buy shares at a discount. Regardless of its position as a favorable investment, it has generated a positive surge of momentum and optimism for 2024 and the renewed IPO scene.

UAW Strike Against the Big Three

Over 12,700 UAW workers have been on strike since September 15th as part of a coordinated labor action targeting the Big Three Detroit automakers. (General Motors, Ford, and Stellantis.) The union claim they are not making enough money to support their families or futures for "bone-breaking work." The tiered employment system and wages of $18-$23/hour have UAW President Shawn Fain saying they are "prepared to do whatever it takes." UAW have demanded a 36% raise over a four-and-a-half-year contract term including an immediate 10% hike, along with shorter work weeks, the reinstatement of defined benefit pensions, and stronger job security as automakers make shifts towards electric vehicles. The strikes have halted production in three plants: Ford Michigan Assembly Plant in Wayne, the Stellantis Toledo Assembly Complex in Ohio, and the GM Wentzville Assembly Plant in Missouri. US President Biden has signalled support for the Union's efforts as he believes new agreements with automakers should ensure a robust market for auto jobs going forward. His outlook particularly affects Ford and General Motors as they are headquartered in the U.S.

PAST EXAMPLES

The strike is one of the most ambitious U.S. industrial labor actions in decades and the first coordinated strike on all three automakers simultaneously. In 1945, UAW organised 32,000 workers to launch a strike against General Motors which lasted for 113 days and was one of many labour strikes ongoing at the time after World War II.

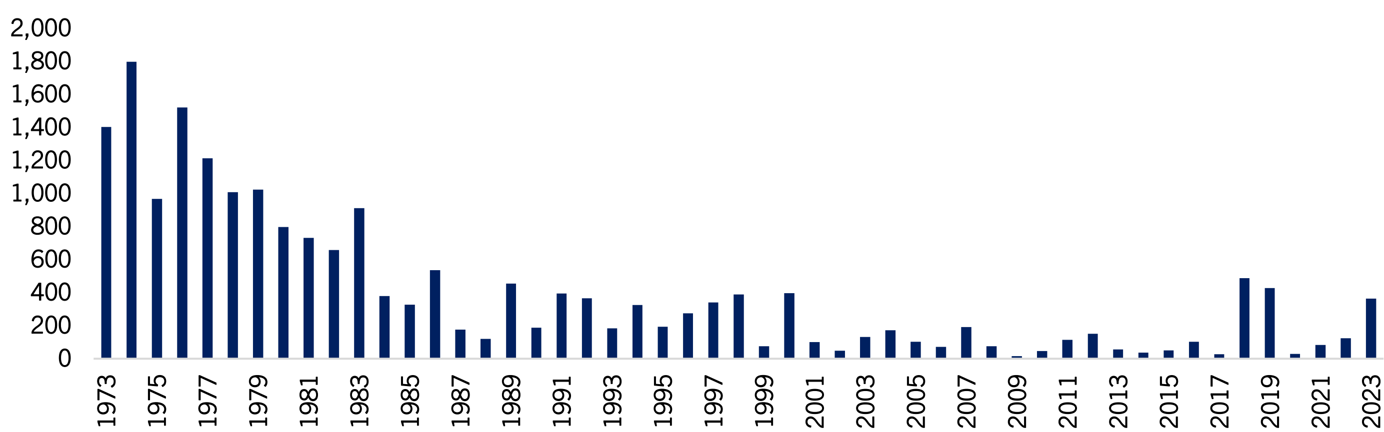
UAW argued that high productivity of modern industrialism could aid the prosperity of the American people. The strike was only partly successful. In 2019, a strike by 48,000 workers cost General Motors over $2 billion as it closed 34 plants across the U.S. and disrupted work in both Canada and Mexico. After 40 days, UAW walked away with a four-year contract, including bi-yearly 3% wage increases.

CONSEQUENCES

There have been "reasonably productive discussions" between the UAW and Ford, however, no serious progress has been made as of yet. There are several possible consequences:

- Increased cost of second-hand and new vehicles: a potential shortage of specific car models could trigger consumer panic purchases which would drive up prices
- Cost to the American economy: if a strike hit all the Detroit Three and lasted 10 days, $5.6 billion would be cut out of the U.S. economy

Figure 3: Thousands of Employees Involved in Work Stoppages (U.S.)



- Businesses near strike sites will see revenue slow: workers on strike are only receiving $500 a week from the Union, meaning spending in those communities is likely to drop
- Tax revenue will decline: fewer people working means less corporate and income taxes can be collected. This could result in a less favorable business environment characterized by reduced government contracts, infrastructure challenges, and economic instability
- Impact on President Biden's re-election prospects: the $800 billion auto industry accounts for 3% of economic output. This is especially focused on the Midwest, where pivotal states, such as Michigan, hold significance in Biden's campaign.

Energy Prices in Ireland and Europe

In August 2022, the energy crisis in Ireland and Europe, primarily due to the Russia-Ukraine conflict, reached its peak. Since then, the cost of wholesale electricity has fallen by 72.5%, coming after a period of very high prices. However, households will only see a decrease of 10%-15% in prices starting in October 2023.

Hedging strategies have been fundamental to energy suppliers to protect them from price volatility. An energy producer, uses forward contracts to sell future output at today's price, ensuring price stability and guaranteeing future earnings (although there is a risk of fluctuation in input costs). Major distribution operators, such as ESB networks, secure a reliable energy supply through this hedging process.

IRELAND

The Central Bank warned about Irish electricity prices as consumers paying over 70% the average price, making them the 3rd most expensive in Europe. The electricity network in Ireland is made up of the transmission grid and distribution network, managed by EirGrid and ESB Networks, respectively. The main question remains: why are Ireland's prices this high?

1. Lack of domestic fuel sources: Ireland heavily relies on imports as over 70% of fuel supply comes from the UK
2. Location: Ireland is located at the end of the European gas pipeline which accumulates additional charges every time gas crosses a country's network. Furthermore, being located between the US and the rest of Europe with a cool climate, Ireland is the ideal location for companies such as Microsoft and Google to establish hyperscale data centres which contribute to high electricity demand and higher prices
3. Over reliance on fossil fuels: the renewable infrastructure in place in Ireland is poor and Eirgrid charges large fees for connecting renewables to the grid
4. Market Dominance: ESB generates around 40% of the country's electricity and has been accused of using its dominant market position to maintain high prices. Some firms are failing to pass on benefits of wholesale price drops to consumers to boost their profits.

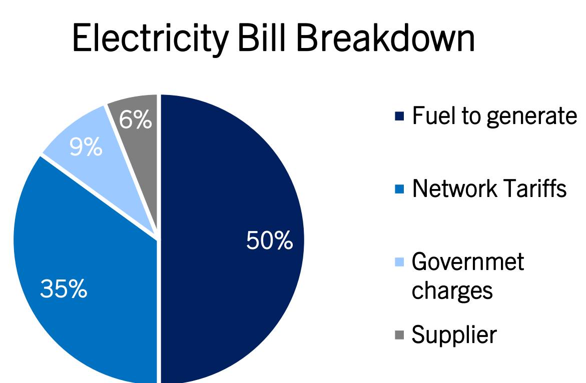
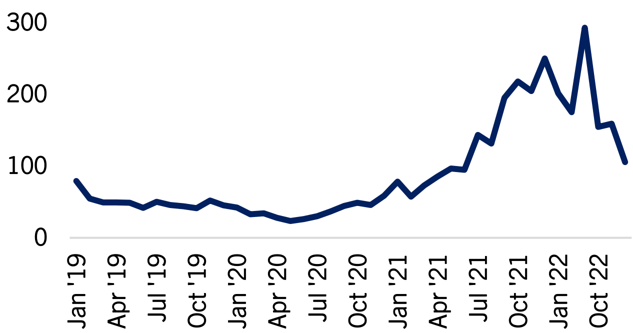


Figure 4:

Overall, the reliance on fuel imports and the supply constraints, along with increasing demand from the Irish data centres have a significant impact on the price of energy and electricity.

Energy companies continue to reap excessive profits due to their use of hedging strategies. The Irish government recently signed a new windfall tax which will tax energy companies on profits made in 2022 and 2023 and are proposing to pass this as energy credits to Irish households. It is hoped that household electricity bills will continue to decrease in Ireland.

Figure 5: Ireland Electricity Prices (2019 - 2023), €/MWh



Bernard Looney's Resignation and the Future of BP

After a 32-year career with Britain's petroleum giant, BP, CEO Bernard Looney has resigned due to failure in disclosing past relationships with several female colleagues. These allegations initially surfaced in May of 2022. They were deemed acceptable under BP's code of conduct by the company's legal team and board of directors, as Looney had disclosed the information before assuming his role as Chief Executive. (9) However, a second investigation was launched in early September 2023 in response to several new allegations, ultimately leading to Looney's resignation.

In 2020, Bernard Looney assumed the role of CEO of BP. While holding the position of chief executive, he steered BP through economic and political upheaval throughout the COVID-19 pandemic and Ukraine war—both of which significantly disrupted energy markets and oil and gas prices. While managing the geopolitical turmoil, Looney continued to maintain his original strategy of transitioning BP to a net zero company and increasing investments in renewable energy. Now, as the search for BP's new CEO is underway, the market closely observes how this strategy may evolve under new leadership.

KEY PLAYERS AND CONTENDERS

Key investors and stakeholders are exercising caution and closely monitoring the company's profitability and strategic direction. Institutional shareholders such as State Street Corporation, Arrowstreet Capital, and Morgan Stanley are optimistic this change in leadership will steer BP towards prioritizing profitability and growth, particularly because the company has lagged competitors like Exxon, Shell, and Chevron in recent years. However, environmental organizations such as Greenpeace and UN agencies are hopeful the strategic path to net-zero emissions, as charted by Looney, will continue to be the focus.
Stakeholders must await the appointment of the new CEO before they can validate their predictions. The list of potential candidates includes both internal and external executives, such as the current interim CEO, Murray Auchincloss, BP's Chairman, Helge Lund, and several Executive Vice Presidents. Notably, external figures like former BP executives Tufan Erginbilgic and Brian Gilvary are also under consideration. (10)

The market has yet to identify a clear frontrunner. BP's former CFO, Murray Auchincloss, currently occupies the Interim Chief Executive role. However, the company has not yet made this decision permanent, as they are deliberating whether they want to retain his expertise within the CFO position. Chairman Lund stands as a strong contender, having previously served as CEO for several other prominent oil companies. However, he may be hesitant to assume such a demanding role in the current economic and political climate. Erginbilgic and Gilvary emerged as formidable candidates back in 2020 when they ran against Looney for the position of Chief Executive, succeeding former CEO Bob Dudley.

Anja-Isabel Dotzenrath, the current Vice President of BP's renewables, stands as an overlooked but strong potential candidate. Notably, she served as the CEO of RWE Renewables before joining BP's leadership team in 2021. (11) Her recent addition to BP's team means she can provide a fresh perspective on the strategies needed to achieve the company's renewable and net-zero objectives. While Dotzenrath is a competent and unexpected choice who appeals to ESG-focused stakeholders, large institutional shareholders may seek a leader who prioritizes profitability over sustainability goals to actively compete with rival companies.

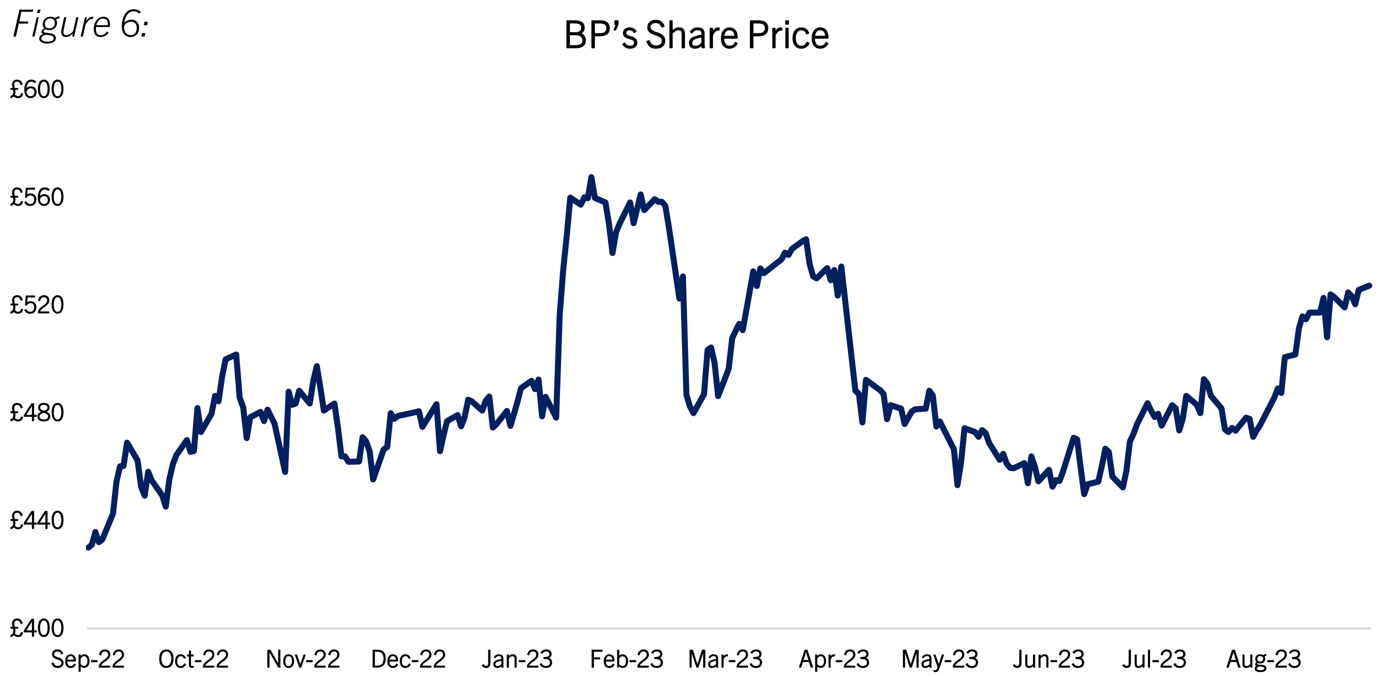
THE FUTURE OF BP

As one of the top 10 largest oil companies in the world by revenue, BP's choice of leadership and strategic direction holds immense significance. The day after Looney's resignation, BP's share price on the LSE experienced a drop from £522.80 to £508.20, but almost immediately rebounded, reaching a high of £525.70 in the following weeks. Ceteris paribus, this suggests the sudden leadership change has not yet produced significant volatility in the company's valuation.

However, BP's profitability and growth have been lagging key competitors like Shell and Exxon. This has led to speculation that BP's new Chief Executive might shift the company's focus back to its traditional oil and gas trade, with renewables playing a secondary role. Investors have been advocating for such a shift since Looney assumed leadership in 2020. Notably, in February 2023, Looney relaxed his renewable energy strategy, resulting in an uptick in BP's share price and pleasing its shareholders.

If the transition to new leadership leads to increased share price volatility, the incoming CEO might succumb to the pressure from profit-driven investors and modify Looney's original strategy. Such a change could drive BP's market performance but may also hinder progress toward the company's sustainability goals.

Figure 6:



About the Contributing Team

MIGUEL M. SHETREET - Head of Research and Investment Officer

Miguel is a third-year Global Business student and is the Head of Research and an Investment Officer in the Trinity Student Managed Fund for the 2023/24 session. Last year, he was the Industrials Sector Manager and began in the fund as a Junior Analyst in the Real Estate sector. After a successful summer, Miguel will be returning to DigitalBridge as a Private Equity Summer Analyst. Additionally, he has also held internships at Charlesbank Capital Partners, Glasswing Ventures, and built an app to combat food waste. His hobbies include surfing, playing poker, and listening to podcasts.

EMILY PAGE - Senior Research Analyst & Head of Mentorship

Articles: "Instacart Warms IPO Market As It Goes Public on NASDAQ"; "Bernard Looney's Resignation and the Future of BP"

Emily is a 4th year Business and Sociology student. Last year, Emily served as a Junior Analyst for the Energy Sector. Along with being a Senior Research Analyst for the 2023/2024 session, she is also serving on the committee as the Head of Mentorship. Outside the SMF, Emily interned for RunRate Ventures LLC, a strategic firm that helps founders launch, scale and monetize new ventures. She held a Global Ambassador position for the cryptocurrency exchange, Binance, and currently works for Gea, an early-stage fem-tech startup. In her spare time, Emily loves to travel, cook, and swim.

ELLA MCKAY - Senior Research Analyst

Articles: "UAW Strikes Against the Big Three"; "Energy Prices in Ireland and Europe"

Ella is a 3rd year Management Science and Information System Studies student and is a Senior Research Analyst for the 2023/24 session. She was formerly a Junior Analyst for the Basic Materials sector. Outside SMF, she has experience working as an intern for mAdme technologies, supporting with financial projections and analysis for new business development. In her spare time, Ella enjoys playing piano, tennis, and travelling

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