

Student Managed Fund Fall 2016 Overview

Graduate Fund Management
Team

Dec 8th 2016

bsba.business.uconn.edu

WELCOME TO THE UCONN SCHOOL OF BUSINESS



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ALCOA, INC 9.7

COMPOSITE 2579.31 ▼ 8.68

Agenda

1. Investment Philosophy & Strategy
2. Economic & Political Outlook
3. Process & Practice
4. Asset Allocation & Portfolio
5. Performance & Risk Management
6. Case Studies
7. Q & A



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Investment Philosophy & Strategy

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Investment Philosophy

Value
over
growth

1. Value investors first
2. Bottom-up approach
 - I. Strong fundamentals with sound long-term prospects
 - II. Stocks selling at a discount
3. Individual managers responsible for a sector

Investment Style

Best
stock
first

1. Investing based on value and political & economic outlook
2. During such uncertainty, invest in reliable and fundamentally strong companies
3. Not investing in a sector just for the sake of diversification
4. Focus is on individual stocks

Investment Strategy

Emphasize fundamentals & support with quantitative information

Buy Decision

- Margin of safety
- Understand business
- Expected long term free cash flow yield

Ownership

- Regular management/business valuation
- Industry dynamics
- Competitor dynamics
- Active participation

Sell Decision

- Opportunity cost after tax consideration
- Changes in underlying business/industry

Economic Outlook

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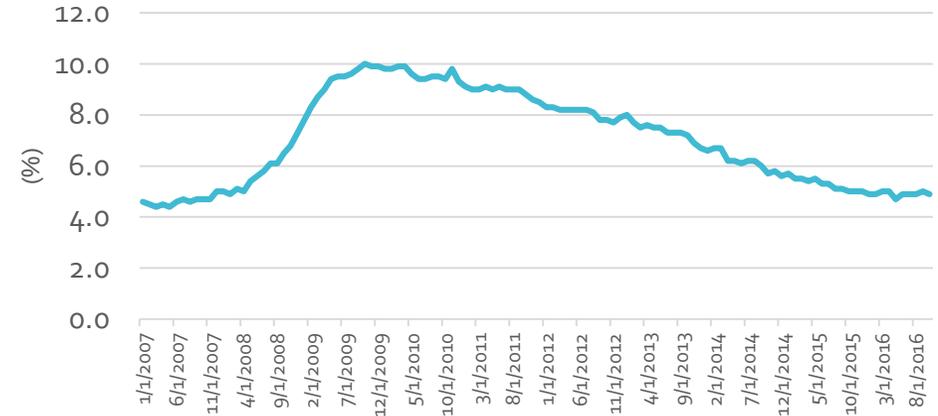
US Economy in a long and mild recovery

Middle of fourth longest expansion

US GDP Growth Rate



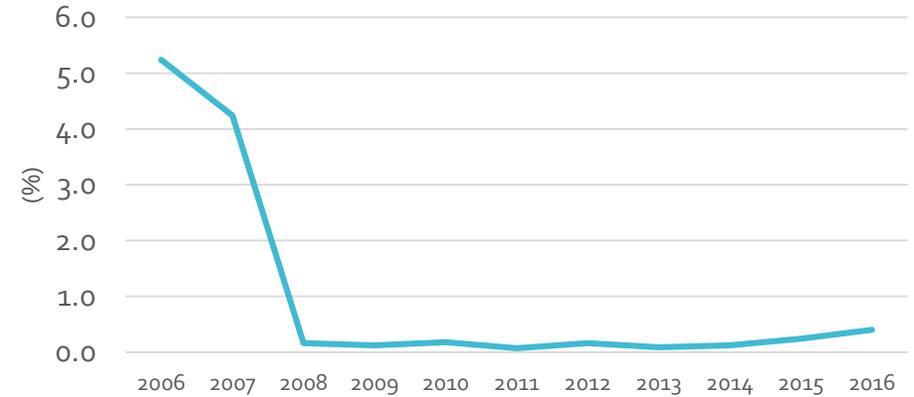
US Unemployment Rate



US Compensation Per Hour (Nonfarm)



Federal Funds Rate



- Q3 GDP growth (3.2%) better than estimated (2.9%)
- Unemployment rate falls (4.6%). Low interest rate.
- Uncertainties: (1) Presidential election (2) interest rate hike

Uncertainties: Presidential race & New administration

92% (10 out of 11 positions) invested before 11/8

Strategy adjusted after 11/8

		
Financial Services	Deregulates banks - Dodd Frank?	Continues Obama's policy
Healthcare /Pharma	Repeals Obamacare? Drug price gouging?	Continues Obamacare Control drug price
Energy	Turns to traditional energy	Follows Paris Agreement Favors renewable energy
Telecom/Technology	Keeps Net neutrality ? Tightens H1B ?	Continues current policy
Industrials	Rolls out more infrastructure	Focus on infrastructure
Defense	Asks allies to pay more. Spends more on def.	More budget on defense
All (e.g. Carrier, Rexnord)	Retracts TPP agreement 35% tariff for companies manufacturing abroad Cuts corporate tax	Carries out TPP

- Before 11/8: Too close to speculate. Invested in stocks with solid business model
- After 11/8: Canceled one pitch for renewable energy. Keep an eye on defense stocks.

Defense stock: A client's shopping cart

Let clients check out all they want?



Donald J. Trump @realDonaldTrump · Dec 2

Interesting how the U.S. sells Taiwan billions of dollars of military equipment but I should not accept a congratulatory call.

22K 39K 122K



Type	Equipment	Unit Price	Stock
Fighter	F-35B	\$104M	Lockheed Martin (NYSE: LMT)
Helicopter	Sikorsky SH-60R Seahawk SikorskyMH-53E Sea Dragon	\$28 M \$24M	Lockheed Martin (NYSE: LMT)
Destroyer	Arleigh Burke destroyer	\$1.8B	General Dynamics (NYSE: GD) Northrop Grumman (NYSE:NOC)

- Taiwan's military equipment purchase budget in 2017 climbs to 53B
- Japan agrees to pay for possible markup of US military support

Process & Procedure

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Procedure

Sector allocation and stock selection

- Each manager was assigned one sector; selected one stock from sector assigned;
- Stock Selection
 - Bottom up approach—identify undervalued stocks;
 - Reviewed sector and industry report– company environment;
 - Performance indicators
 - eg: US restaurants: comparable store sales; Airlines: revenue passenger miles etc
 - Screened 2-3 stocks;
 - Qualitative: business models; strategies; competitive advantage; investment opportunities.
 - Quantitative: DCF; price multiples; price transactions in the market.
 - Made stock pitch decision.

Equity evaluation and selection process

7 / 10
vote in

15%
stop loss

Inform team of the stock pitch

Recommend the stock at meeting

Vote on the stock

Vote on the positions and 15% stop loss

Review stocks and update information

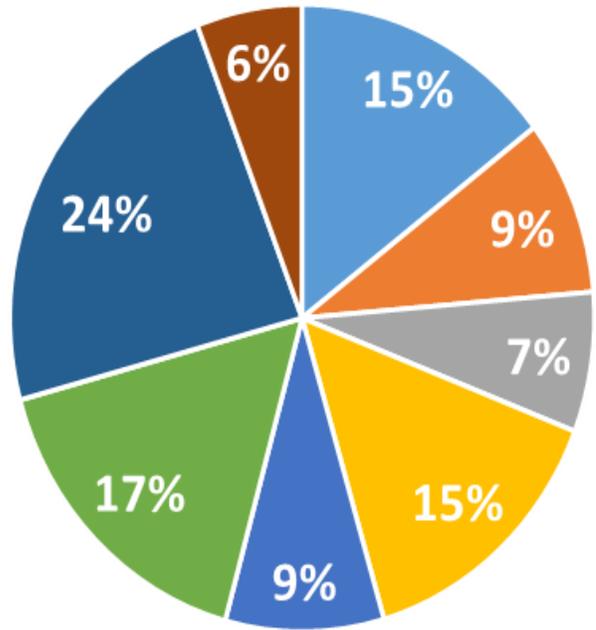
Asset Allocation & Portfolio

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Invested in 8 out of 10 industry sectors

Overweight on Telecom



- Consumer Discretionary
- Consumer Staples
- Financials
- Healthcare
- Industrials
- Information Technology
- Telecom
- Utilities



GENTEX
CORPORATION



GILEAD



Portfolio Positions

Average
unrealized
gain: 7.72%

58.9%
invested

11
individual
positions

Sector	Company	Unit held	purchase price	Value when purchased	Value today	% Gain (Loss)	Portfolio Weight
Consumer Discretionary	Starbucks	2330	\$ 53.28	\$ 124,131	\$ 136,911	9%	11%
	Gentex	2794	\$ 17.49	\$ 48,878	\$ 54,762	6%	4%
Consumer Staples	Skechers	4806	\$ 20.80	\$ 99,965	\$ 131,348	9%	9%
Financials	Citigroup	1540	\$ 49.53	\$ 76,269	\$ 90,952	14%	7%
Healthcare	Gilead Sciences	1360	\$ 73.42	\$ 99,846	\$ 98,981	1%	8%
	AbbVie	1324	\$ 56.85	\$ 75,272	\$ 80,704	7%	7%
Industrials	Southwest Airlines	2521	\$ 39.61	\$ 99,857	\$ 125,672	18%	10%
Information Technology	Alphabet (Google)	250	\$ 794.26	\$ 198,564	\$ 192,798	-4%	16%
Telecom	AT&T	3175	\$ 39.37	\$ 125,000	\$ 128,429	-1%	10%
	AT&T	1335	\$ 37.41	\$ 49,942	\$ 54,001	4%	4%
	American Tower Corporation	966	\$ 104.16	\$ 100,620	\$ 98,725	-1%	8%
Utilities	Entergy	1023	\$ 73.57	\$ 74,522	\$ 71,356	-6%	6%
TOTAL				\$ 1,172,865	\$ 1,263,361	7.72%	100%

Performance & Risk Management

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Portfolio Snapshot (December 7th 2016)

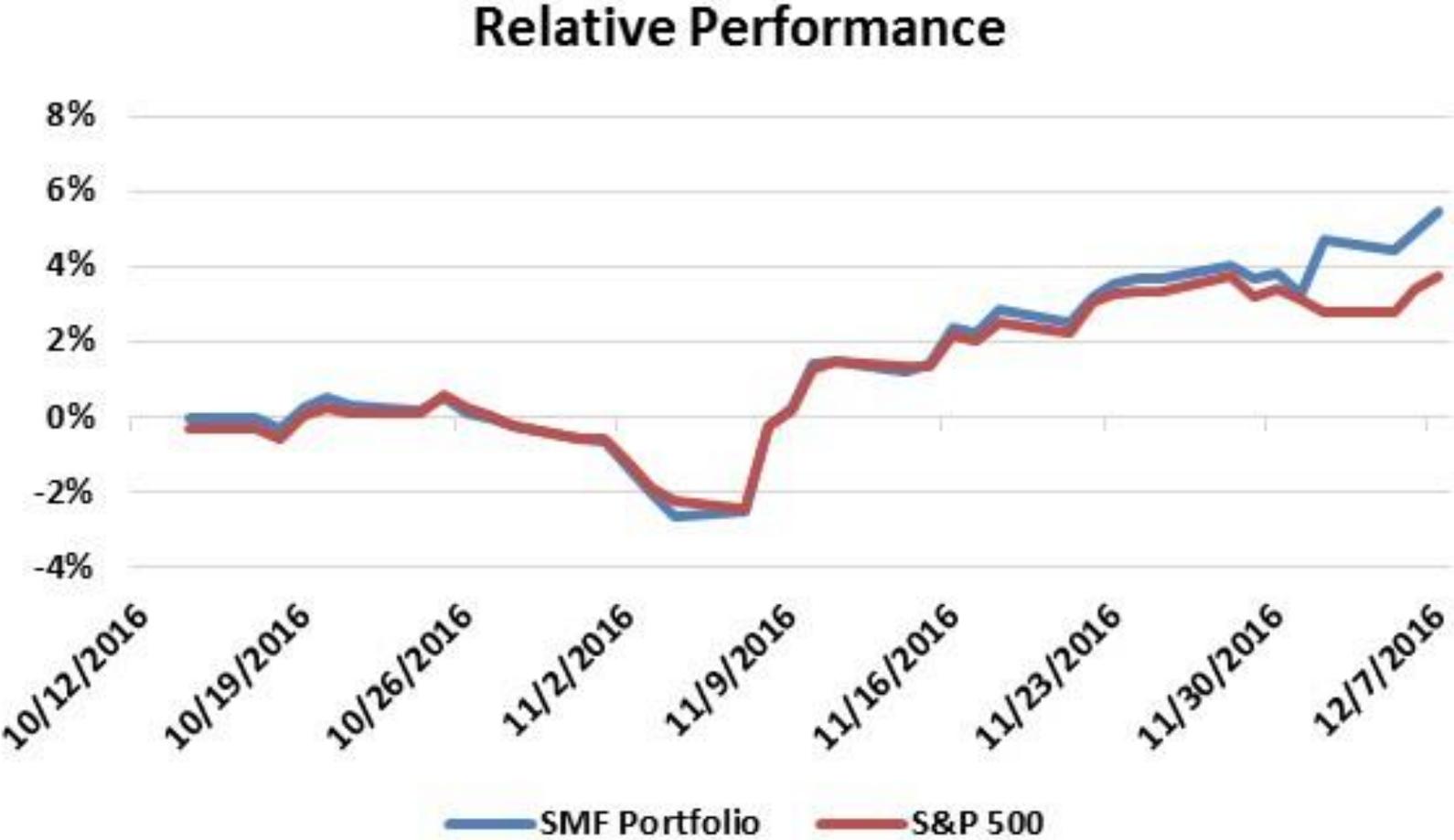
58.9%
invested

Portfolio
return
6.6%

	12-Oct-16	7-Dec-16
ETF	\$1,999,930	\$732,196
Equity	-	\$1,263,361
Cash	\$11,260	\$148,880
Total	\$2,011,190	\$2,144,437

Portfolio performance: SMF vs. S&P500

Invested portfolio (excluding ETF) showed a return of 7.72%.
Vs
S&P 500 showed a return of 4.78%



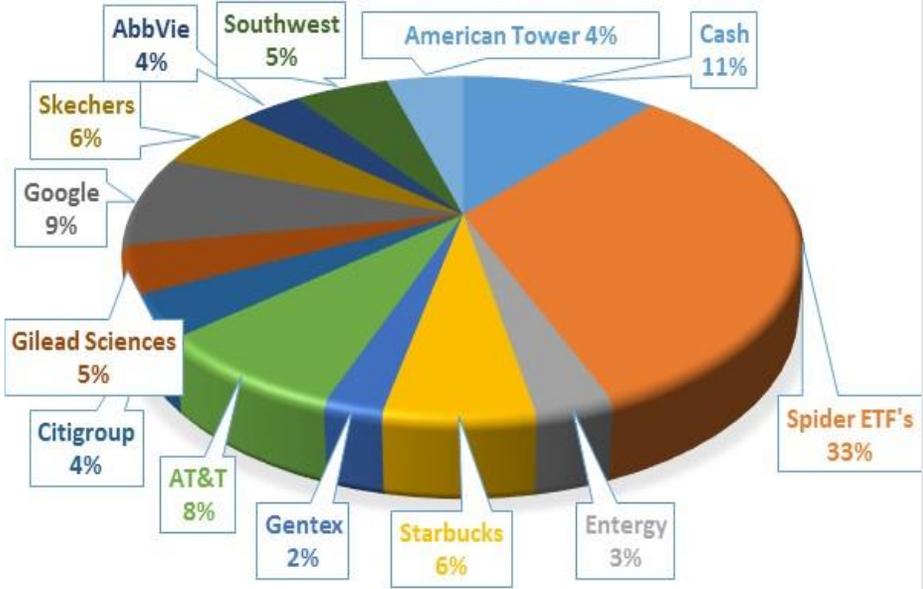
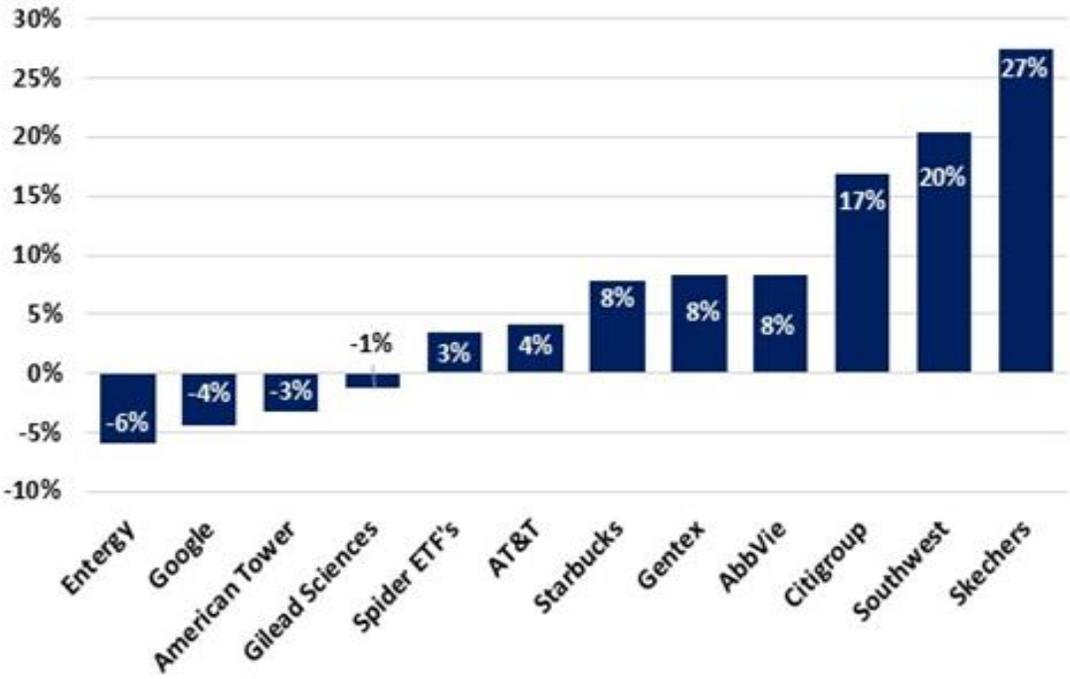
Portfolio performance: SMF vs. S&P500

2.9%
higher
returns
vs.
S&P500

	SMF Equity Portfolio (Equity)	S&P 500 (SPY)
Dividend Yield	1.85%	2.12%
Price to Earnings	14.70	20.49
Price to Cash flow	8.91	12.03
EV/EBITDA	9.08	10.78
Profit Margin	14.68%	8.45%
Return on Assets	4.12	2.62
Beta	0.98	1.00
Total Return	7.72%	4.78%

Individual stock weight & performance

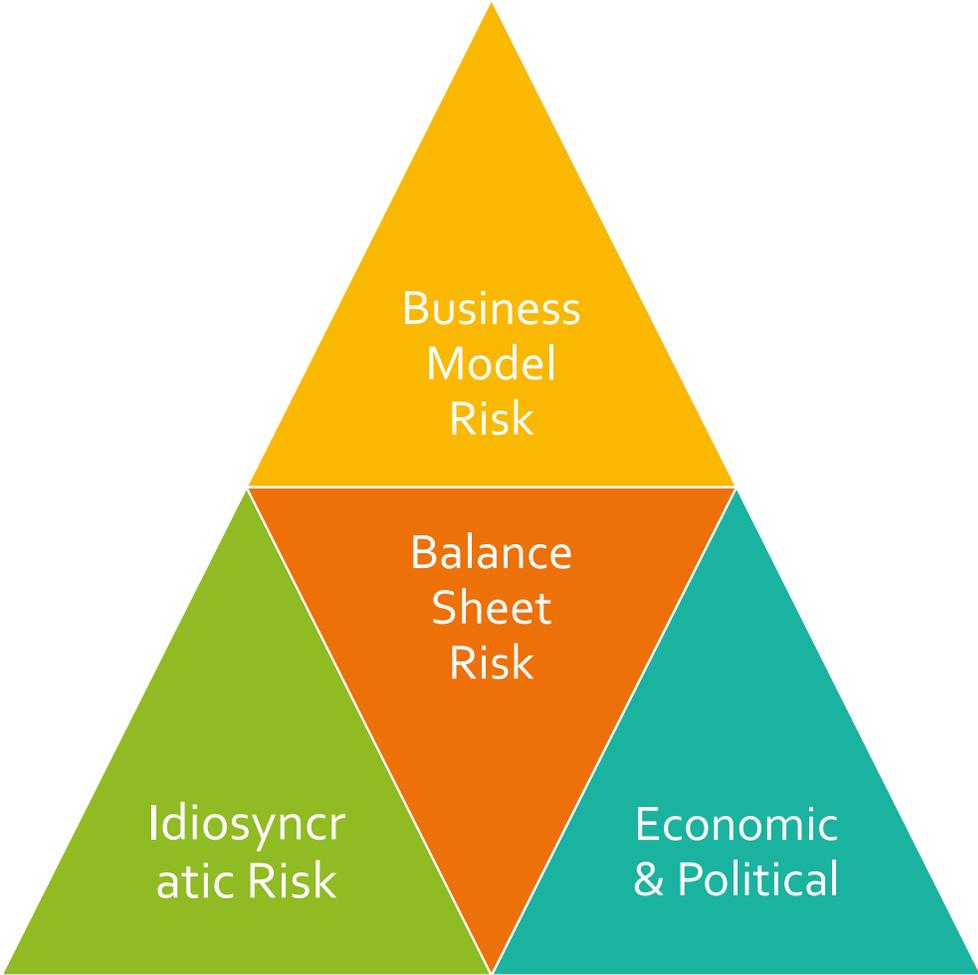
Top performers
 Skechers
 31%
 Southwest
 26%
 Citigroup
 19%



Risk Management

15%
stop
loss

Diversif-
ication
Benefit



	Daily	Annual
Portfolio Volatility	0.91%	14.43%
Portfolio Mean	0.08%	21.1%
95% VAR	-1.7%	-7.17%
Sharpe Ratio		1.37
Jensen Alpha		3.01%

Case Studies

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Industrials: Southwest Airlines (LUV:\$49.85) ↑ 26%



Purchase: \$39.61

Purchase Date: 2-Nov

Shares Held: 2521

Position: \$125k (10%)

Forward P/E: 10.5

Dividend Yield: 1.1%

Fair value: \$51.49

Investment Thesis:

- Low oil prices + Capacity rationalization across the industry
- Margins aided by revenue and mix improvements from redeploying flights
- New international routes & new reservation system to spawn growth

Reasons for strong performance:

- Timing: Attractive valuation enticing critics like Warren Buffett to buy stake
- Labor negotiations concluded and contracts ratified.

Outlook:

- Unit Revenues set to rise. Traffic Stats shows improving demand
- Smooth labor relations
- Recovery in Oil (LUV: \$1.83/gl)



Not heavy on Financials: Citi Group Inc. (C:\$59.06) ↑19%



Purchase: \$49.53

Purchase Date: 19-Oct

Shares Held: 1540

Position: \$91k (7%)

Forward P/E: 11.5

Dividend Yield: 1.1%

Fair value: \$61.58

Investment Thesis:

The result of election:

- Expectation for Deregulation
- Election raises interest rate hike expectation this December

Outlook:

- 3Q' 16 results showed solid performance across the franchise
- Strong capital and liquidity position
- Well positioned going forward



Why invest in AT&T (T:\$40.45) twice ? 4%



Purchase: \$39.37 & \$37.41

Purchase Dates: 19-Oct & 10-Nov

Shares Held: 4510

Position: \$182k (14%)

Forward P/E: 13.64

Dividend Yield: 5.07%

Fair value: \$55.31

Initial Thoughts:

- Strong company with stable and consistent dividend yield. Acquisition of DirecTV helps diversify from ultra competitive wireless consumer market.
- Performance from 10/11/16 (date purchased) to 11/10/16 (reinvestment date): (4.98%)

Why did stock perform poorly?

- Merger with Time Warner announced on 10/22/16.
- Deal worth more than \$85 billion. AT&T agreed to pay \$107.50 per share. Shares valued at \$89.48 day before announcement. Current intrinsic value is \$98.95 per share.
- Proposed merger met with skepticism and negative outlook. Will anti-trust legislation prevent this merger? Will Trump administration prevent this deal?

Why invest in AT&T (T:\$40.45) twice ? ↑ 4%



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Purchase Dates: 19-Oct & 10-Nov
Shares Held: 4510
Position: \$182k (14%)
Forward P/E: 13.64
Dividend Yield: 5.07%
Fair value: \$55.31

Why get back in?

- We still believe this company has strong fundamentals.
- Strong Free Cash Flow projections, in part to DirecTV business.
- AT&T willing to overpay (+14% current market, +9% intrinsic) for shares (\$107.50 vs \$93.98/\$98.95), but merger likely to prove beneficial as AT&T gains many valuable brands and will now control the content that they once merely just supplied.

Performance from 11/10/16 (date repurchased) to 12/7/16: **+8.13%**

Outlook: Bullish going forward. Average

annual revenue growth of 6% over last 5

years. Increasing dividends for past 32

consecutive years. Time Warner merger

positions AT&T to capitalize on importance

in providing content, and growing consumer

preference of apps over television.



How do we see the future?

5 year
horizon
with
weekly
review

Fully
invested by
3/1

10+
positions &
15+ pitches

Financials &
Defense?

Looking at
JNJ, PRU, V,
LMT

1. Evaluate current investments to Buy, Hold or Sell
2. JNJ, well diversified, paid increasing dividend for past 50 years,...
3. PRU pays strong dividend and expected to benefit from rising interest rate environment
4. Bullish on Visa's strategy in mobile payments & emerging markets
5. LMT stands to benefit if president elect's tweets reflect the policies to follow

Thank You

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