Student Managed Fund
Fall 2016
Overview

Graduate Fund Management Team
Dec 8th 2016
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
Investment Philosophy & Strategy

Graduate Fund Management Team
Dec 8th 2016
Investment Philosophy

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

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

Graduate Fund Management Team
Dec 8th 2016
Middle of fourth longest expansion

- 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

#### 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.

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

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

#### Strategy adjusted after 11/8
Defense stock: A client’s shopping cart

Let clients check out all they want?

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

<table>
<thead>
<tr>
<th>Type</th>
<th>Equipment</th>
<th>Unit Price</th>
<th>Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fighter</td>
<td>F-35B</td>
<td>$104M</td>
<td>Lockheed Martin (NYSE: LMT)</td>
</tr>
<tr>
<td>Helicopter</td>
<td>Sikorsky SH-60R Seahawk SikorskyMH-53E Sea Dragon</td>
<td>$28 M $24M</td>
<td>Lockheed Martin (NYSE: LMT)</td>
</tr>
<tr>
<td>Destroyer</td>
<td>Arleigh Burke destroyer</td>
<td>$1.8B</td>
<td>General Dynamics (NYSE: GD) Northrop Grumman (NYSE:NOC)</td>
</tr>
</tbody>
</table>
Process & Procedure

Graduate Fund Management Team
Dec 8th 2016
Procedure

- 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.
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

Graduate Fund Management Team
Dec 8th 2016
Invested in 8 out of 10 industry sectors

- Consumer Discretionary
- Consumer Staples
- Financials
- Industrials
- Telecom
- Healthcare
- Information Technology
- Utilities
### Portfolio Positions

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

- Average unrealized gain: **7.72%**
- 58.9% invested
- 11 individual positions
### Portfolio Snapshot (December 7\(^{th}\) 2016)

<table>
<thead>
<tr>
<th></th>
<th>12-Oct-16</th>
<th>7-Dec-16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ETF</strong></td>
<td>$1,999,930</td>
<td>$732,196</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>-</td>
<td>$1,263,361</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td>$11,260</td>
<td>$148,880</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,011,190</td>
<td>$2,144,437</td>
</tr>
</tbody>
</table>

- 58.9% invested
- Portfolio return 6.6%
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

<table>
<thead>
<tr>
<th></th>
<th>SMF Equity Portfolio (Equity)</th>
<th>S&amp;P 500 (SPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Yield</td>
<td>1.85%</td>
<td>2.12%</td>
</tr>
<tr>
<td>Price to Earnings</td>
<td>14.70</td>
<td>20.49</td>
</tr>
<tr>
<td>Price to Cash flow</td>
<td>8.91</td>
<td>12.03</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>9.08</td>
<td>10.78</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>14.68%</td>
<td>8.45%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>4.12</td>
<td>2.62</td>
</tr>
<tr>
<td>Beta</td>
<td>0.98</td>
<td>1.00</td>
</tr>
<tr>
<td>Total Return</td>
<td>7.72%</td>
<td>4.78%</td>
</tr>
</tbody>
</table>
Top performers:
- Skechers: 31%
- Southwest: 26%
- Citigroup: 19%
Risk Management

15% stop loss

Diversification Benefit

<table>
<thead>
<tr>
<th></th>
<th>Daily</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Volatility</td>
<td>0.91%</td>
<td>14.43%</td>
</tr>
<tr>
<td>Portfolio Mean</td>
<td>0.08%</td>
<td>21.1%</td>
</tr>
<tr>
<td>95% VAR</td>
<td>-1.7%</td>
<td>-7.17%</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td></td>
<td>1.37</td>
</tr>
<tr>
<td>Jensen Alpha</td>
<td></td>
<td>3.01%</td>
</tr>
</tbody>
</table>
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)
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

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

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?

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
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.

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
How do we see the future?

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

Graduate Fund Management Team
Dec 8th 2016