
Undergraduate Student Managed Fund
Fall 2017 Portfolio Report

Team Gilson



Introduction

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Agenda



Investment Strategy and Risk Management



Economic Overview



Portfolio Overview & Performance



Individual Holdings



Future Outlook

Investment Strategy

Objective

Our objective is to construct a portfolio that will deliver the foundation returns in **excess of the S&P 500 Index** over a **10-year** investment horizon, while maintaining a **conservative risk profile**.

Philosophy

As value investors, we seek to identify securities priced at a **discount to their intrinsic value** in the market. We pay special attention to taking our position at a cost basis that provides us with the most favorable **margin of safety**.

Approach

Our managers employ a **bottom-up** style approach to identifying investment opportunities, with a focus on **rigorous fundamental analysis of company financials, industry trends, macroeconomic conditions and risk factors**. We make use of a variety of valuation methodologies in our process, including the DCF, DDM, and market multiples approaches, among others.

What do we look for?

Characteristics

Return on Invested Capital

❖ Portfolio Average: **18.86%**

Free Cash Flow Yield

❖ Portfolio Average: **6.19%**

Dividend Yield & Safety

❖ Portfolio Average: **2.39%**

Margin of Safety

❖ Portfolio Average: **18.33%**

Responsible Debt Levels

❖ Debt/Cash: **3.3x**,
Debt/EBITDA: **1.93x**

In addition to those characteristics, our most critical evaluation factors are meaningful **competitive advantages** such as:

High Barriers to Entry



Innovation



Brand Leadership



Market Share Strength



Walgreens Boots Alliance



Investment Process Highlights & Risk Management

Allocation Strategy

We decide on allocations for each position based on the following factors:

- Potential Upside
- Safety
- Team Consensus

Our allocations range from **4% to 6%**

Purchasing Strategy

Limit Orders

- High point of 52-week range
- Historically volatile securities
- Significant short term price increases

Market Orders

- Low volatility names
- Low perceived downside
- Large Market Cap

Risk Management Strategy

Diversification

- ❖ Invest across the major sectors.

Due Diligence

- ❖ Perform rigorous analysis of all proposed investments.

Loss Protection

- ❖ 15% stop loss orders for all positions.

Margin of Safety

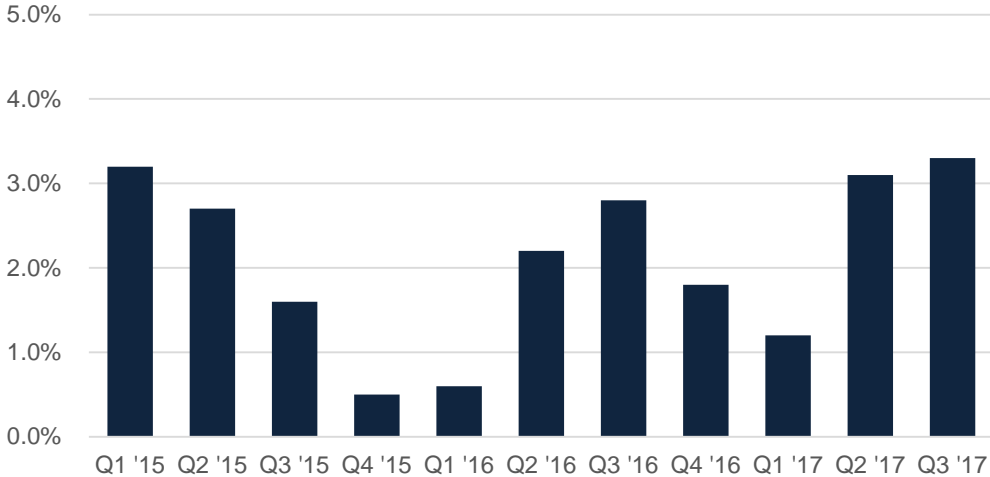
- ❖ Pay close attention to cost basis, and invest only in positions with a margin of safety.

ECONOMIC OVERVIEW

Economic Overview - U.S. Economy

- Real GDP Growth
 - 3.1% annual growth yoy
- Low Unemployment
 - 4.1% unemployment rate
- Inflation
 - 2.0% core PCE YoY
- Consumer Confidence 129.5
 - highest since Nov. 2000
- Rising Interest Rates

Real GDP: Percent change from preceding quarter



Economic Overview - Global Economy

China

- Steady GDP growth 6.8% YoY
 - Defying signs of a slowing economy
 - Growth target is 6.5%
- Rebalancing economy to more consumption based

Europe

- On track for fastest GDP Growth since 2007
 - 2.2%
- Political Instability
- Brexit Negotiations



PORTFOLIO PERFORMANCE

Sector Allocation

Sector	% of Total Portfolio	1-month Performance	S&P 500 Sector Weight
Basic Materials	0.00%	0.03%	3.00%
Consumer Discretionary	0.00%	4.99%	11.90%
Consumer Staples	5.13%	4.05%	7.90%
Energy	4.39%	2.08%	5.90%
Financials	5.84%	0.37%	14.70%
Industrials	5.84%	0.41%	10.00%
Technology	8.59%	1.85%	24.50%
Telecommunications	6.39%	6.72%	1.90%
Healthcare	0.00%	0.37%	14.10%
Real Estate	0.00%	4.04%	2.90%
Utilities	0.00%	2.92%	3.20%
Total	36.18%		100.0%

Total Portfolio Unrealized Gains

Portfolio									
Ticker	Name	Shares	Purchase Price	Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
SPY	SPDR S&P 500 ETF	2,297	\$ 256.91	\$ 264.46	\$ 589,633	\$ 607,465	59.24%	\$ 17,831.93	2.94%
WBA	Walgreens Boots Alliance	736	\$ 66.23	\$ 71.45	\$ 48,743	\$ 52,587	5.13%	\$ 3,844.35	7.89%
ATVI	Activision Blizzard	645	\$ 62.06	\$ 61.96	\$ 40,027	\$ 39,964	3.90%	\$ (63.02)	-0.16%
T	AT&T	1,795	\$ 33.47	\$ 36.50	\$ 60,074	\$ 65,518	6.39%	\$ 5,443.34	9.06%
KLAC	KLA-Tencor Corporation	368	\$ 109.45	\$ 103.87	\$ 40,279	\$ 38,224	3.73%	\$ (2,055.24)	-5.10%
LMT	Lockheed Martin	191	\$ 313.92	\$ 313.57	\$ 59,959	\$ 59,892	5.84%	\$ (66.93)	-0.11%
V	Visa	541	\$ 110.83	\$ 110.73	\$ 59,958	\$ 59,905	5.84%	\$ (53.40)	-0.09%
KLAC	KLA-Tencor Corporation	95	\$ 102.09	\$ 103.87	\$ 9,699	\$ 9,868	0.96%	\$ 168.90	1.74%
VLO	Valero Energy	535	\$ 83.47	\$ 84.17	\$ 44,656	\$ 45,031	4.39%	\$ 374.87	0.84%
CASH		46,972		\$ 1.00		\$ 46,972	4.58%		
				Total	\$ 1,000,000	\$ 1,025,424.83	100.00%	\$ 25,424.81	2.54%

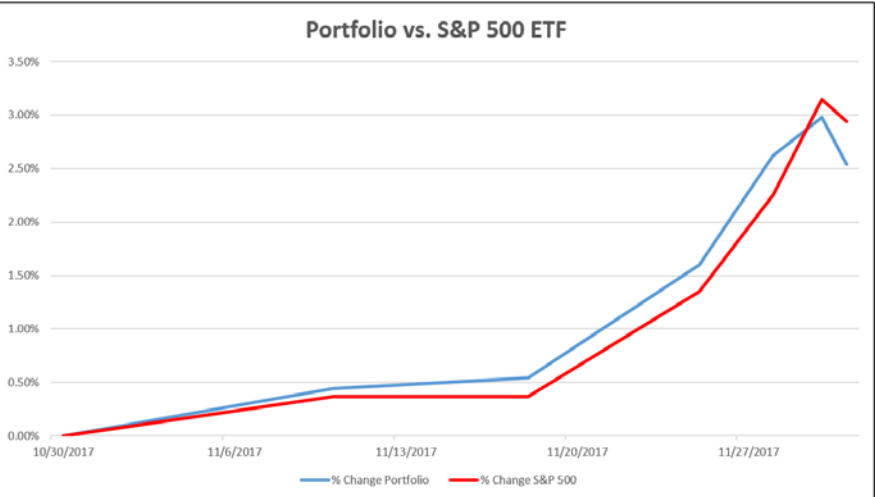
Leader: T with a gain of 9.06%
WBA with a gain of 7.89%

Laggard: KLAC with total weighted loss of -3.77%

Portfolio Performance

Equity Vs. S&P 500 Performance	
Total Portfolio Performance	2.54%
Equity Performance	2.09%
S&P 500 Performance	2.94%

Undergraduate Portfolio		S&P 500 ETF (SPY)	
Beginning Value	\$ 1,000,000	Beginning Value	\$ 256.91
Current Value	\$ 1,025,425	Current Value	\$ 264.46
Absolute Change	\$ 25,425	Absolute Change	\$ 7.55
% Change	2.54%	% Change	2.94%
Difference in Performance			-0.40%



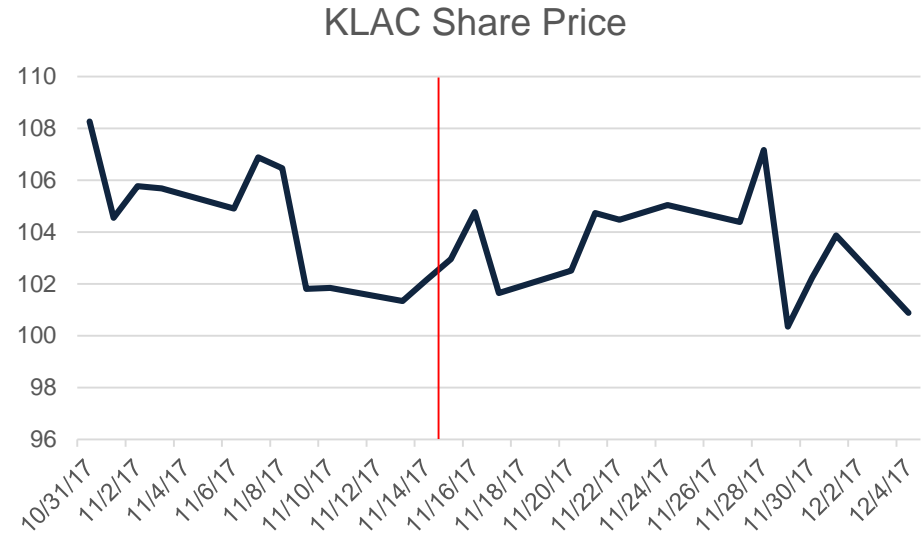
Portfolio Allocation

- 36.2% of the portfolio invested
- 5% remaining in cash (due to outstanding limit orders)
- 59.29% remaining in the SPY ETF
- Information Ratio: 0.18

INDIVIDUAL HOLDINGS – HIGHLIGHTS

KLA-Tencor (NASDAQ: KLAC)

Basic Metrics	
Purchase Price 10/31	\$109.45
Purchase Price 11/15	\$102.09
Current Price	\$103.87
52 Week High	\$110.01
52 Week Low	\$74.66
Market Capitalization	\$16.5B
Dividend Yield	2.18%



Thesis

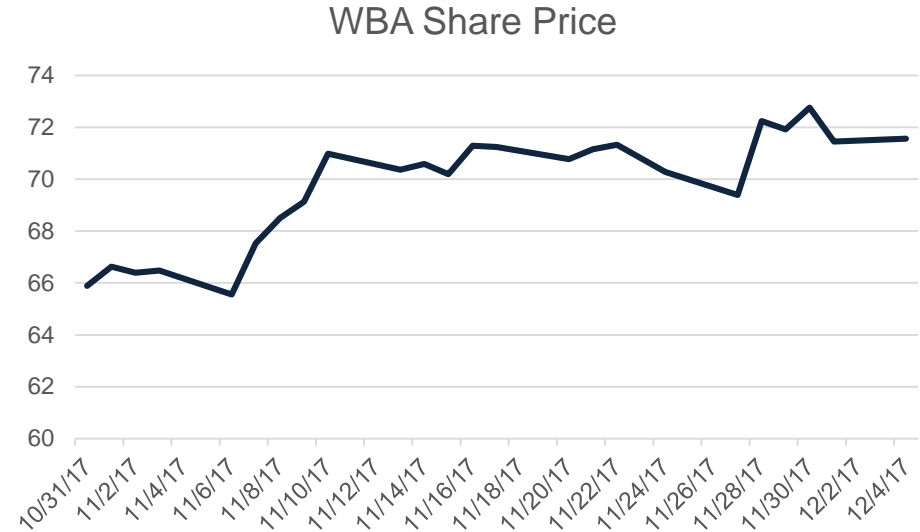
- Continuing demand for increasingly complex semiconductors
 - IoT, VR, AI, autonomous vehicles
- Substantial investment in Research & Development
 - Has averaged 16% of revenues in each of the past three fiscal years
- Market leader
 - Over 50% market share
 - Strongest margins amongst peers
- Fast-growing business in China

Risks

- Highly concentrated customer base (Two customers of over 10%)
 - Both customers have comprised over 10% of revenues for over 3 years
- Risk of competition offering a product bundle (Lam Research or Applied Materials)
 - Regulatory Issues
 - Lower specialization

Walgreens Boots Alliance (NASDAQ: WBA)

Basic Metrics	
Purchase Price	\$66.23
Current Price	\$71.45
52 Week High	\$89.69
52 Week Low	\$63.82
Market Capitalization	\$72.93B
Dividend Yield	2.16%



Walgreens Boots Alliance – Thesis & Risk

Thesis

- Strong buying opportunity created by market overreaction to “Amazon effect.”
- Cash acquisition of 1,932 Rite Aid stores creates significant market share advantage in the US.
- Retail portion of business has remained resilient in the face of brick and mortar headwinds.
- Significant hidden assets in the form of 23% stake in supplier AmerisourceBergen
- Favorable macroeconomic trends

Risks

- Amazon disruption remains salient risk factor
- Uncertain US healthcare legislative environment
- Continuing pharmaceutical pricing pressure
- Potential for adverse changes in reimbursement policy
- Increased competition CVS, Walmart and Costco

Looking Forward

Future Outlook

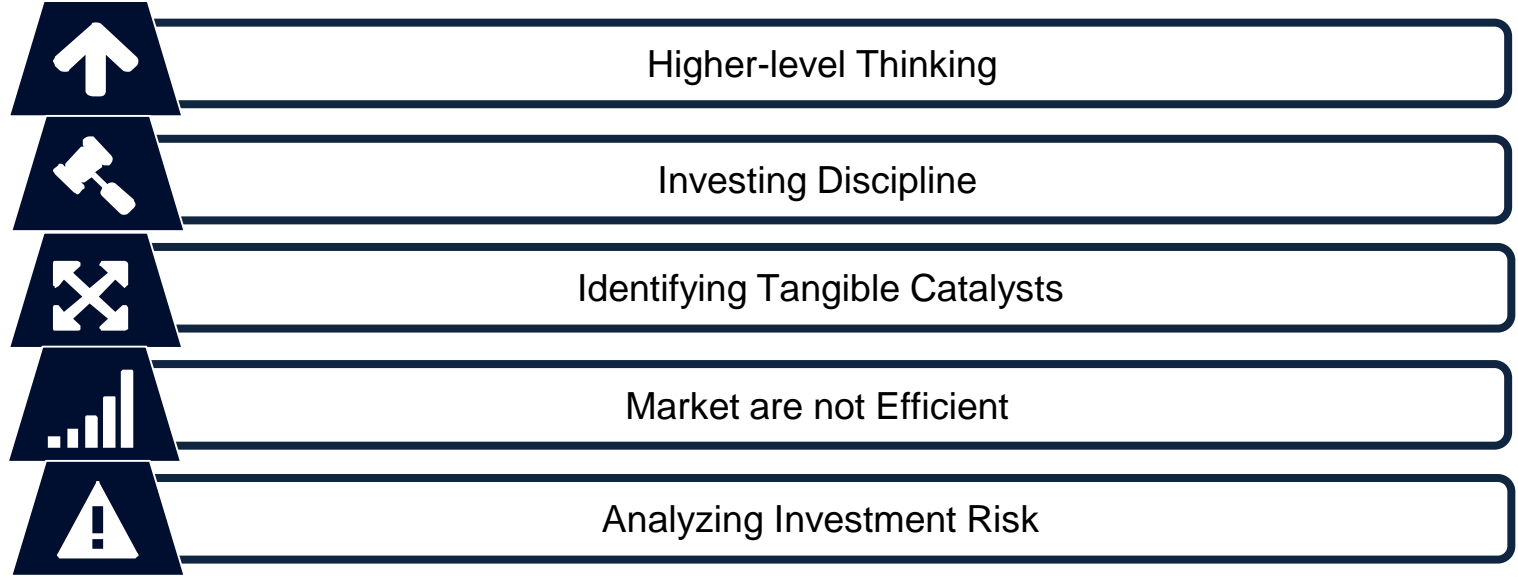
Current Investments

- Reassess outstanding limit orders
- Monitor investment performance by reassessing each holding's thesis
- Sell out of positions if the market price hits the target price without a change in the investment thesis
- Track domestic and global macroeconomic indicators and industry trends

Future Investments

- Improve stock selection process
- Look for attractive investments in unallocated sectors
- Identify changing industry trends that will provide value opportunities

Lessons Learned



Questions?

Appendix

Activision Blizzard (NASDAQ: ATVI)

Activision Blizzard will create long run value due to:

- Strong franchise portfolio
- Industry leader in rapidly growing E-Sports industry
- Omnichannel presence
- Consistent ability to create innovative content



Close Price 11/28: \$65.97

Target Price: \$76

Margin of Safety: 23%

Valero Energy Corporation (NYSE: VLO)

Valero Energy will provide long run value due to:

- Financial strength
- Demand for petroleum products
- Leadership in input flexibility



Close Price 11/28: \$83.24

Target Price: \$96

Margin of Safety: 15%

The Home Depot (NYSE: HD)

The Home Depot will provide long run value due to:

- Favorable tailwinds in the housing remodeling sector
- Technological adaptation and innovation
- Growing professional customer base



Close Price 11/28: \$176.61

Target Price: \$185.77

Margin of Safety: 12.4%

Lockheed Martin Corporation (NYSE: LMT)

Lockheed Martin Corporation will provide long run value due to:

- Strong economic moat
- International growth
- Well positioned against new entrants and competition



Close Price 11/28: \$319.02
Target Price: \$349.11
Margin of Safety: 11.4%

AT&T will provide long run value due to:

- Diverse product platforms that includes telecomm and TV service with global reach
- As the Internet of Things (IoT) expands more devices will depend on data networks
- Strong stable free cash flows allow them to provide a consistently large dividend and reinvest internally



AT&T

Close Price 11/28: \$35.42

Target Price: \$43.74

Margin of Safety: 31%

Visa will provide long run value due to:

- Payments network twice the size of nearest competitor in terms of both # of transactions and value of transactions
- Significant macroeconomic headwinds in non-cash transaction volume growth and increasing financial integration in emerging markets
- Market leading gross margins by over 10%
- Consistent ability to innovate and keep pace with fast moving payments technology space



Close Price 11/28: \$113.35
Target Price: \$122.62
Margin of Safety: 11%