Undergraduate Student Managed Fund
Fall 2017 Portfolio Report

Team Gilson
Introduction

Co-Lead Managers: Jack Leyland & Alex Barriga
Portfolio Manager: Shawn McAuley
Communications Manager: Anthony Mottolese
Digital Media Manager: Ana Walas

Max Janik
Michael Pehota
Jonathan Stryjek
Bartosz Walas
Joshua Weist
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?

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

### 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**
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**

<table>
<thead>
<tr>
<th>Limit Orders</th>
<th>Market Orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High point of 52-week range</td>
<td>• Low volatility names</td>
</tr>
<tr>
<td>• Historically volatile securities</td>
<td>• Low perceived downside</td>
</tr>
<tr>
<td>• Significant short term price increases</td>
<td>• Large Market Cap</td>
</tr>
</tbody>
</table>

**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

Q1 '15 Q2 '15 Q3 '15 Q4 '15 Q1 '16 Q2 '16 Q3 '16 Q4 '16 Q1 '17 Q2 '17 Q3 '17
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

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of Total Portfolio</th>
<th>1-month Performance</th>
<th>S&amp;P 500 Sector Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Materials</td>
<td>0.00%</td>
<td>0.03%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>0.00%</td>
<td>4.99%</td>
<td>11.90%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>5.13%</td>
<td>4.05%</td>
<td>7.90%</td>
</tr>
<tr>
<td>Energy</td>
<td>4.39%</td>
<td>2.08%</td>
<td>5.90%</td>
</tr>
<tr>
<td>Financials</td>
<td>5.84%</td>
<td>0.37%</td>
<td>14.70%</td>
</tr>
<tr>
<td>Industrials</td>
<td>5.84%</td>
<td>0.41%</td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td><strong>8.59%</strong></td>
<td><strong>1.85%</strong></td>
<td><strong>24.50%</strong></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>6.39%</td>
<td>6.72%</td>
<td>1.90%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>0.00%</td>
<td>0.37%</td>
<td>14.10%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>0.00%</td>
<td>4.04%</td>
<td>2.90%</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.00%</td>
<td>2.92%</td>
<td>3.20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36.18%</strong></td>
<td></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
### Total Portfolio Unrealized Gains

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Name</th>
<th>Shares</th>
<th>Purchase Price</th>
<th>Price</th>
<th>Cost Basis</th>
<th>Market Value</th>
<th>% of Portfolio</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPY</td>
<td>SPDR S&amp;P 500 ETF</td>
<td>2,297</td>
<td>$256.91</td>
<td>$264.46</td>
<td>$589,633</td>
<td>$607,465</td>
<td>59.24%</td>
<td>$17,831.93</td>
<td>2.94%</td>
</tr>
<tr>
<td>WBA</td>
<td>Walgreens Boots Alliance</td>
<td>736</td>
<td>$66.23</td>
<td>$71.45</td>
<td>$48,743</td>
<td>$52,587</td>
<td>5.13%</td>
<td>$3,844.35</td>
<td>7.89%</td>
</tr>
<tr>
<td>ATVI</td>
<td>Activision Blizzard</td>
<td>645</td>
<td>$62.06</td>
<td>$61.96</td>
<td>$40,027</td>
<td>$39,964</td>
<td>3.90%</td>
<td>$120.35</td>
<td>-0.16%</td>
</tr>
<tr>
<td>T</td>
<td>AT&amp;T</td>
<td>1,795</td>
<td>$33.47</td>
<td>$36.50</td>
<td>$60,074</td>
<td>$65,518</td>
<td>6.39%</td>
<td>$5,443.34</td>
<td>9.06%</td>
</tr>
<tr>
<td>KLAC</td>
<td>KLA-Tencor Corporation</td>
<td>368</td>
<td>$109.45</td>
<td>$103.87</td>
<td>$40,279</td>
<td>$38,224</td>
<td>3.73%</td>
<td>$(2,055.24)</td>
<td>-5.10%</td>
</tr>
<tr>
<td>LMT</td>
<td>Lockheed Martin</td>
<td>191</td>
<td>$313.92</td>
<td>$313.57</td>
<td>$59,959</td>
<td>$59,892</td>
<td>5.84%</td>
<td>$(66.93)</td>
<td>-0.11%</td>
</tr>
<tr>
<td>V</td>
<td>Visa</td>
<td>541</td>
<td>$110.83</td>
<td>$110.73</td>
<td>$59,958</td>
<td>$59,905</td>
<td>5.84%</td>
<td>$(53.40)</td>
<td>-0.09%</td>
</tr>
<tr>
<td>KLAC</td>
<td>KLA-Tencor Corporation</td>
<td>95</td>
<td>$102.09</td>
<td>$103.87</td>
<td>$9,699</td>
<td>$9,868</td>
<td>0.96%</td>
<td>$168.90</td>
<td>1.74%</td>
</tr>
<tr>
<td>VLO</td>
<td>Valero Energy</td>
<td>535</td>
<td>$83.47</td>
<td>$84.17</td>
<td>$44,656</td>
<td>$45,031</td>
<td>4.39%</td>
<td>$374.87</td>
<td>0.84%</td>
</tr>
<tr>
<td>CASH</td>
<td></td>
<td>46,972</td>
<td>$1.00</td>
<td></td>
<td></td>
<td>$46,972</td>
<td>4.58%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>$1,000,000</td>
<td>$1,025,424.83</td>
<td>100.00%</td>
<td>$25,424.81</td>
<td>2.54%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Portfolio Performance</strong></td>
<td>2.54%</td>
</tr>
<tr>
<td><strong>Equity Performance</strong></td>
<td>2.09%</td>
</tr>
<tr>
<td><strong>S&amp;P 500 Performance</strong></td>
<td>2.94%</td>
</tr>
</tbody>
</table>

**Undergraduate Portfolio**

<table>
<thead>
<tr>
<th></th>
<th>Undergraduate Portfolio</th>
<th>S&amp;P 500 ETF (SPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Value</strong></td>
<td>$ 1,000,000</td>
<td>Beginning Value $ 256.91</td>
</tr>
<tr>
<td><strong>Current Value</strong></td>
<td>$ 1,025,425</td>
<td>Current Value $ 264.46</td>
</tr>
<tr>
<td><strong>Absolute Change</strong></td>
<td>$ 25,425</td>
<td>Absolute Change $ 7.55</td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>2.54%</td>
<td>% Change 2.94%</td>
</tr>
</tbody>
</table>

**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
## Basic Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price 10/31</td>
<td>$109.45</td>
</tr>
<tr>
<td>Purchase Price 11/15</td>
<td>$102.09</td>
</tr>
<tr>
<td>Current Price</td>
<td>$103.87</td>
</tr>
<tr>
<td>52 Week High</td>
<td>$110.01</td>
</tr>
<tr>
<td>52 Week Low</td>
<td>$74.66</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>$16.5B</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.18%</td>
</tr>
</tbody>
</table>

### KLAC Share Price

[Graph of KLAC Share Price from 10/31/17 to 12/4/17 showing price fluctuations ranging from $74.66 to $110.01.]
**KLA-Tencor – Thesis & Risks**

**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

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>$66.23</td>
</tr>
<tr>
<td>Current Price</td>
<td>$71.45</td>
</tr>
<tr>
<td>52 Week High</td>
<td>$89.69</td>
</tr>
<tr>
<td>52 Week Low</td>
<td>$63.82</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>$72.93B</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.16%</td>
</tr>
</tbody>
</table>

### WBA Share Price

![WBA Share Price Graph](image-url-here)
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

- Higher-level Thinking
- Investing Discipline
- Identifying Tangible Catalysts
- Market are not Efficient
- Analyzing Investment Risk
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 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

Close Price 11/28: $35.42
Target Price: $43.74
Margin of Safety: 31%
Visa Inc (NYSE: V)

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%