

Undergraduate Student Managed Fund

Fall 2017 Portfolio Report

Team Wilkos



Introduction

Co-Lead Managers: Dan Glucksman & Stephen Mwangi

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Undergraduate Supervisor: Chris Wilkos

Fund Director: Chinmoy Ghosh

Agenda



Portfolio Overview



Investment Process



Sector Overview & Economic Overview



Portfolio Performance & Individual Holdings



Future Outlook

Portfolio Overview



Philosophy

Outperform the S&P 500 over a 10 year investment horizon by discovering value in companies not reflected in their market price



Style

Utilize bottom up security analysis to uncover undervalued securities through disciplined research and analysis



Strategy

Managers will survey their sectors to find companies with strong business models that have an adequate margin of safety

Investment Process

When analyzing companies, we look for strong financials, attractive valuations, and effective business models that exhibit many of the following characteristics:

Brand Leadership



Long-term Growth Prospects



High Barriers to Entry



Innovative



Investment Process

Risk Management Strategies

Due Diligence

- ✓ In-depth research required for each investment idea



Hedging

- ✓ 25% stop-loss orders on all investments



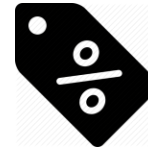
Diversification

- ✓ Investments across different sectors



Margin of safety

- ✓ Invest with a margin of safety



ECONOMIC OVERVIEW

Economic Outlook – U.S.

GDP Growth	Employment	Consumer Confidence	Inflation	Private Fixed Investment
3% Q3 growth Projections of 2.2%-2.5% 2017 GDP growth	4.1% Nov. 2.7% Q3 wage growth	17-year record high 125.9 in Oct.	1.3% Core PCE YoY 10 year TIPS spread at 1.8%	Up 5.8% YoY Q3 Positive manufacturing output

Modest growth with tightening labor market below the natural rate of employment expected to raise inflation closer to Federal Reserve target of 2%

Economic Outlook – Fiscal Developments and Global Economy

U.S. Tax Plan

- \$1.5 trillion in tax cuts
- Corporate tax rate 35% → 20%
- Capping interest deduction to 30% EBITDA
- Eliminate itemized deductions but double standard deduction
- Lower pass-through rates

NAFTA

- Potential cause for instability
- Tax plan would make exports expensive

China

- Slowing GDP Growth – 6.8% YoY
- New consumer growth model
- \$3.1 trillion USD in FX reserves
 - Less capital outflows
 - Appreciating Yuan
- Mature credit cycle

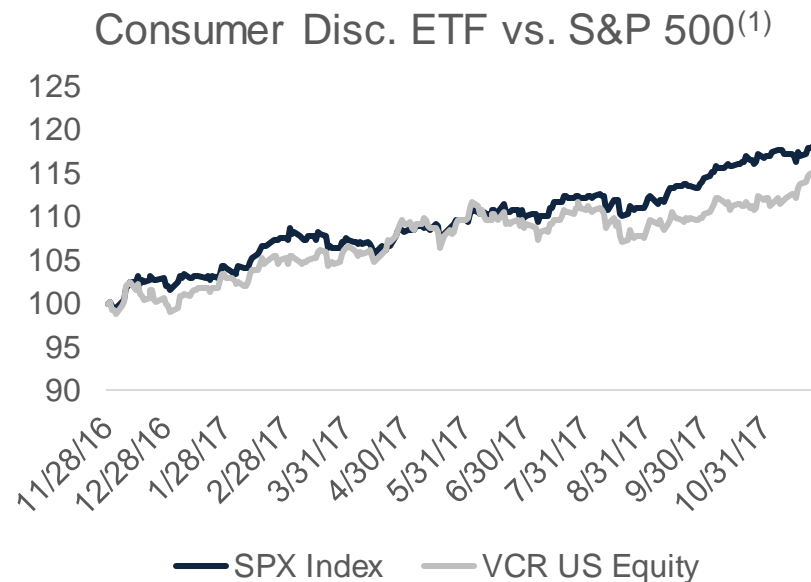
Eurozone

- UK: strong unemployment recovery forcing recent rate hike
- IMF expects 1.9% GDP growth

SECTOR OVERVIEW

Consumer Discretionary

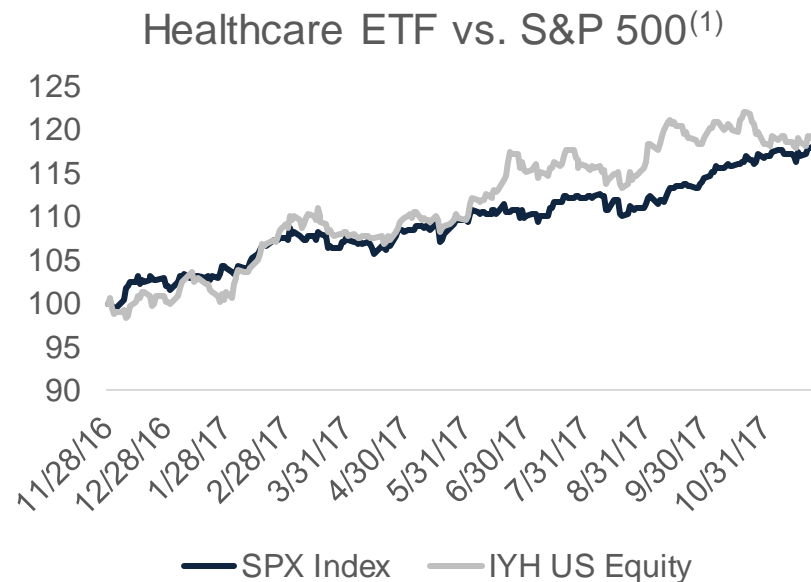
- Performance:
 - 3.05% below S&P 500
- Future Outlook:
 - Increasing consumer confidence
 - Decreasing unemployment rates
- Risks:
 - E-Commerce trend
 - Changing consumer tastes
- Current Holdings: SBUX, DIS



(1) Prices reflective of November 27, 2016 – November 24, 2017.

Healthcare

- Performance:
 - 1.37% above S&P 500
- Future Outlook:
 - Aging population
 - Strong balance sheets and dividends
- Risks:
 - Affordable Care Act uncertainty
 - Changing regulation
- Current Holdings: DHR, CELG



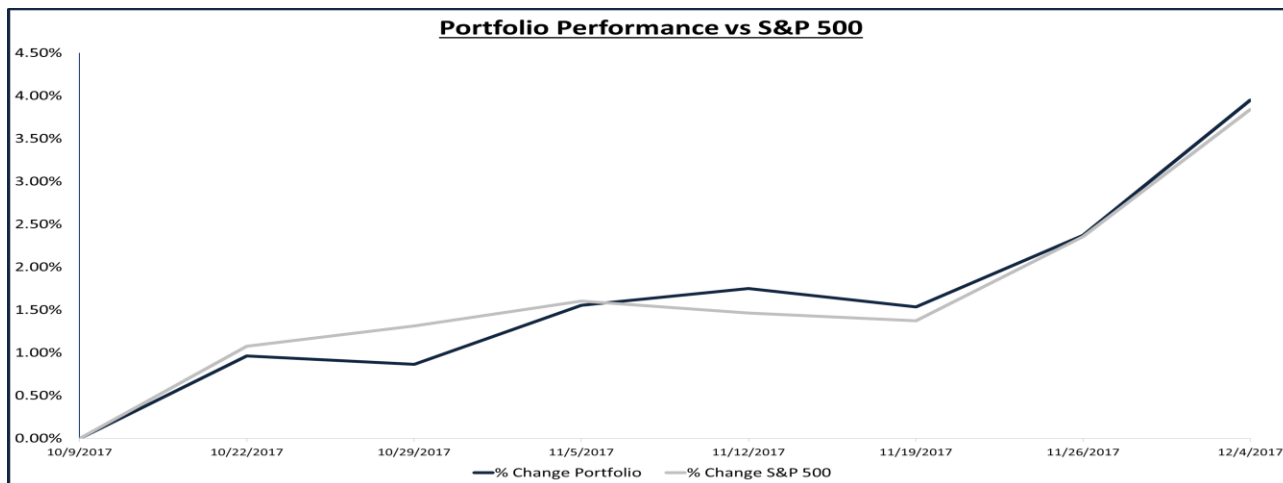
(1) Prices reflective of November 27, 2016 – November 24, 2017.

PORTFOLIO PERFORMANCE

Sector Allocation

Sector	% of Total Portfolio	% of Invested Portfolio	S&P 500 Sector Weight
Basic Materials	6.70%	13.40%	2.94%
Consumer Discretionary	9.67%	19.36%	12.14%
Consumer Staples	7.18%	14.36%	8.15%
Energy	0.00%	0.00%	5.90%
Financials	5.57%	11.14%	14.82%
Industrials	5.95%	11.91%	9.99%
Technology	5.77%	11.55%	23.93%
Telecommunications	0.00%	0.00%	1.98%
Healthcare	9.13%	18.28%	14.06%
Real Estate	0.00%	0.00%	2.95%
Utilities	0.00%	0.00%	3.14%
Cash	0.79%	0.00%	0.00%
Total	50.76%	100.0%	100.0%

Portfolio Performance



Undergraduate Portfolio		S&P 500 ETF (SPY)	
Beginning Value	\$ 1,173,920	Beginning Value	\$ 254.37
Current Value	\$ 1,220,281	Current Value	\$ 264.14
Absolute Change	\$ 46,360	Absolute Change	\$ 9.77
% Change	3.95%	% Change	3.84%
Difference in Performance		0.11%	

Equity vs. S&P 500 Performance	
Total Portfolio Performance	3.95%
S&P 500 Performance	3.84%
Equity Performance	3.01%

Portfolio Metrics

Basic Metrics	
Correlation	0.9130
Information Ratio:	0.73
Sharpe Ratio	5.38
Active Return	3.01%
VaR:	-0.41

	Total Attribution	Allocation	Selection
Funds	-0.01	-0.01	0.00
Health Care	0.02	0.42	-0.41
Consumer Discretionary	0.17	0.05	0.13
Consumer Staples	0.88	-0.10	0.98
Industrials	-0.17	0.02	-0.19
Cash	-0.03	-0.03	0.00
Financials	-0.95	-0.31	-0.64
Materials	0.23	0.11	0.12
Real Estate	0.06	0.06	0.00
Utilities	-0.03	-0.03	0.00
Telecommunication Services	0.08	0.08	0.00
Information Technology	-0.09	-0.09	0.00
Energy	0.11	0.11	0.00

Total Portfolio Unrealized Gains

Portfolio												
Ticker	Name	Sector	Dividend Yield	Date Purchased	Shares	Purchase Price	Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
SPY	SPDR S&P 500 ETF		1.81%	10/9/2017	2,275	\$ 254.37	\$ 264.14	\$ 578,694	\$ 600,919	49.24%	\$ 22,224	3.84%
COST	Costco Wholesale Corp.	Consumer Staples	1.06%	10/16/2017	462	\$ 159.12	\$ 189.56	\$ 73,512	\$ 87,577	7.18%	\$ 14,065	19.13%
SBUX	Starbucks Corp.	Consumer Discretionary	2.04%	10/18/2017	1,315	\$ 54.59	\$ 58.76	\$ 71,780	\$ 77,269	6.33%	\$ 5,489	7.65%
AER	AerCap Holdings NV	Industrials	0.00%	10/24/2017	1,397	\$ 52.87	\$ 51.98	\$ 73,859	\$ 72,616	5.95%	\$ (1,243)	-1.68%
BX	The Blackstone Group LP	Financials	7.23%	10/24/2017	2,115	\$ 34.94	\$ 32.11	\$ 73,892	\$ 67,913	5.57%	\$ (5,979)	-8.09%
DIS	The Walt Disney Company	Consumer Discretionary	1.52%	10/24/2017	370	\$ 98.19	\$ 110.22	\$ 36,331	\$ 40,781	3.34%	\$ 4,451	12.25%
DHR	Danaher Corp.	Healthcare	0.60%	10/30/2017	396	\$ 91.52	\$ 92.82	\$ 36,242	\$ 36,757	3.01%	\$ 515	1.42%
VEEV	Veeva Systems Inc.	Technology	0.00%	10/30/2017	1,230	\$ 59.16	\$ 57.25	\$ 72,764	\$ 70,418	5.77%	\$ (2,347)	-3.23%
CELG	Celgene Corporation	Healthcare	0.00%	11/10/2017	728	\$ 101.45	\$ 102.61	\$ 73,857	\$ 74,700	6.12%	\$ 843	1.14%
MLM	Martin Marietta Materials, Inc	Materials	0.84%	12/1/2017	392	\$ 203.30	\$ 208.44	\$ 79,693	\$ 81,708	6.70%	\$ 2,015	2.53%
CASH					9,623		\$ 1.00		\$ 9,623	0.79%		
							Total	\$ 1,170,624	\$ 1,220,280.89	100.00%	\$ 40,033.27	3.95%

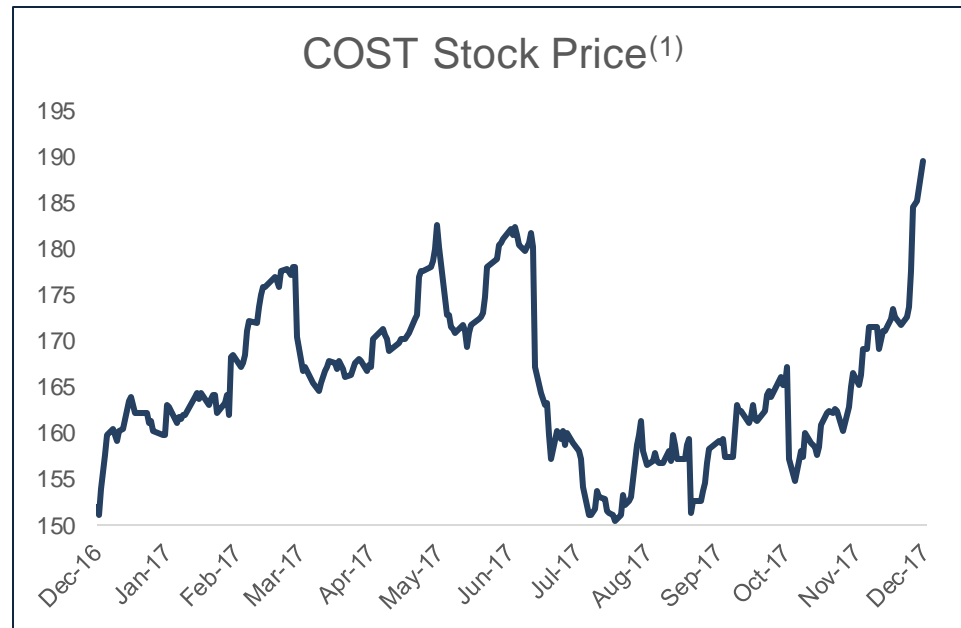
Total Dividend Yield	1.62%
Equity Dividend Yield	1.47%

INDIVIDUAL HOLDINGS

Costco Corporation – Basic Metrics



Basic Metrics	
Purchase Price	\$159.12
Current Price	\$189.61
52 Week High	\$189.61
52 Week Low	\$150.00
Market Capitalization	\$75.43B
Dividend Yield	1.15%



(1) Stock price reflective of December 1, 2016 – December 4, 2017.

Costco Corporation – Thesis & Risks



Thesis

We like Costco because of its strong industry position and value proposition.

We see additional catalysts in:

- **International expansion & construction of new stores** (~30/year)
Strong growth in fee-earning AUM
- **E-commerce growth** (25%+ YTD) & expansion of online offerings
- **Strong membership renewals** (90% historically)

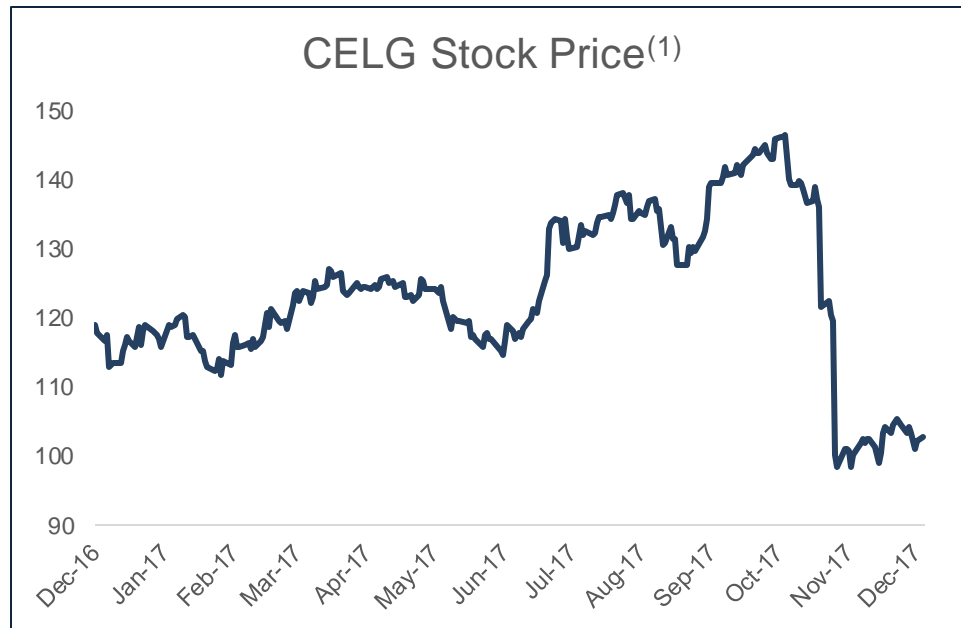
Risks

- Waning consumer confidence and slowing economic growth
- Competitive price environment from other mass retailers (e.g., WMT, AMZN)
- Loss of membership renewals

Celgene Corporation – Basic Metrics



Basic Metrics	
Purchase Price	\$101.45
Current Price	\$102.61
52 Week High	\$147.17
52 Week Low	\$94.55
Market Capitalization	\$81.35B
Dividend Yield	N/A



(1) Stock price reflective of December 1, 2016 – December 4, 2017.

Celgene Corporation – Thesis & Risks



Thesis

We recommend Celgene based on:

- **Economic Moat:** Strong operational history (96% gross margins) and dominance in oncology drugs
- **Strong Products/Pipeline:** High current portfolio growth (15-20%) and pipeline of 100+ drugs including Ozanimod
- **Attractive Entry Point:** Celgene sold off ~30% in October

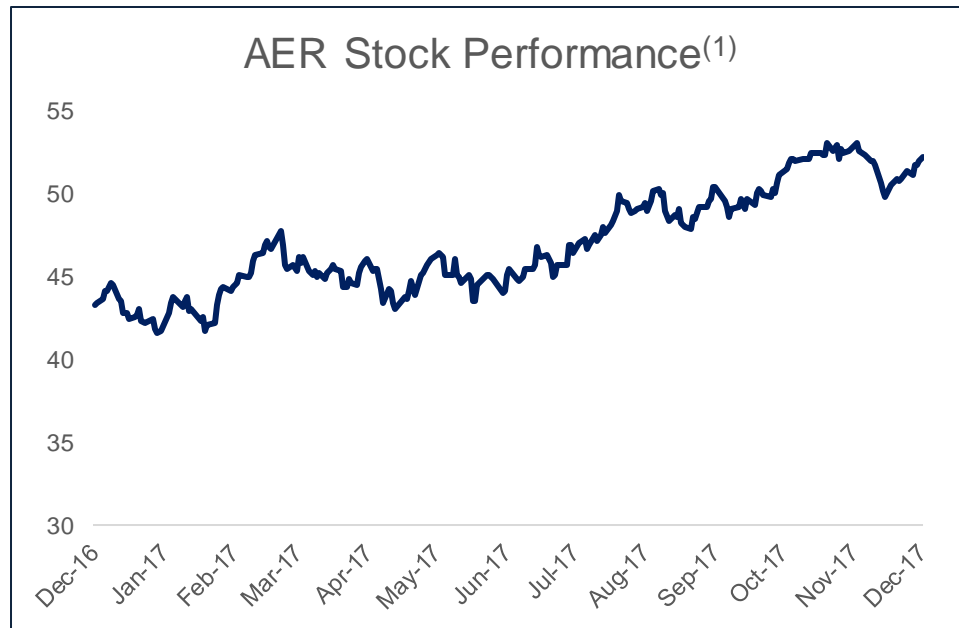
Risks

- Celgene depends on a few key cancer drugs, including Revlimid
- Continued drug sales depends on patent protection
- Negative investor sentiment after guidance revisions

AerCap – Basic Metrics



Basic Metrics	
Purchase Price	\$52.87
Current Price	\$51.98
52 Week High	\$54.50
52 Week Low	\$41.34
Market Capitalization	\$8.21B
Dividend Yield	N/A



(1) Stock price reflective of December 1, 2016 – December 4, 2017.

AerCap – Thesis & Risks



Thesis

AerCap is a strong aircraft leasing operator looking to benefit from air traffic growth

- Largest scale in industry utilizing broadest market knowledge and bargaining power
- Only company with IG credit rating from all 3 agencies
- Low oil prices will facilitate sale of older aircraft

Risks

- Older book of business and high CapEx
- Growing competition with Chinese aircraft lessors
- Strong airline profitability lowering leasing dependence

Blackstone – Basic Metrics

Blackstone

Basic Metrics

Purchase Price	\$34.94
Current Price	\$32.11
52 Week High	\$35.09
52 Week Low	\$25.82
Market Capitalization	\$38.12B
Dividend Yield	7.35%

BX Stock Performance⁽¹⁾



(1) Stock price reflective of December 1, 2016 – December 4, 2017.

Blackstone – Thesis & Recent Struggles

Blackstone

Thesis

Blackstone will continue to provide value to unitholders due to:

- Strong growth in fee-earning AUM
- Launch of new business lines
- Shift towards permanent capital vehicles

Blackstone is a leading alternatives manager and will continue to leverage the largest capital base in the industry.





Recent Struggles

- The private equity industry has come under pressure around how tax reform could affect carried interest.
- Both the House and Senate bills lengthen how long an investment has to be held to be taxed at long-term capital gains rate.

FUTURE OUTLOOK

Portfolio Expectations

We will continue to monitor both market-wide and company specific trends. We will manage the portfolio of companies we have acquired and pursue new opportunities that fit our investment philosophy.

-  Corporate tax cuts
-  Normalization of interest rates
-  Increased infrastructure spending
-  Corporate social responsibility

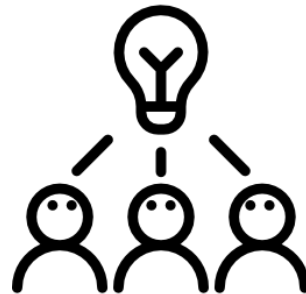
Potential Investment Ideas



Lessons Learned

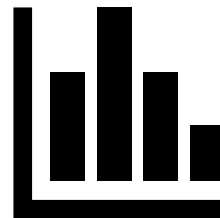
Soft Skills

- ✓ The art of 2nd and 3rd level thinking
- ✓ Ability to present and defend your thesis
- ✓ Collaboration with your peers



Hard Skills

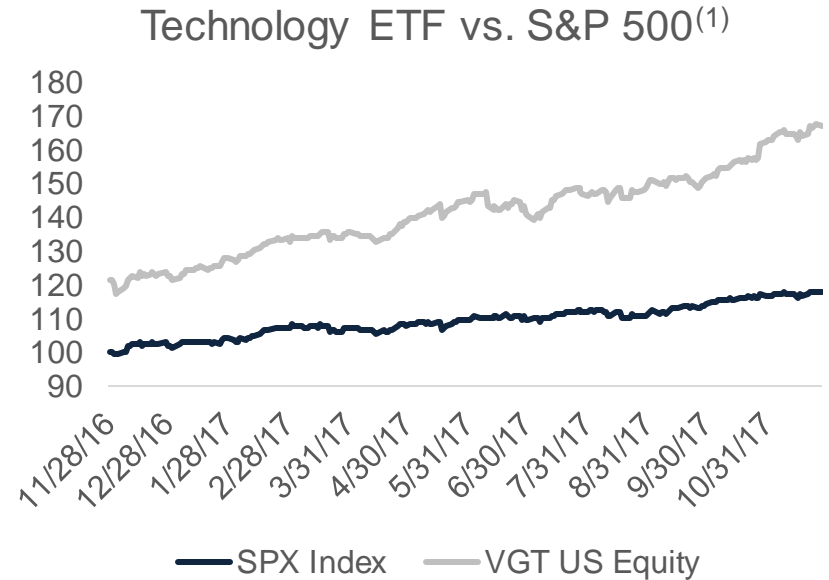
- ✓ Financial Modeling – DCF, DDM, Comparables
- ✓ Identifying key characteristics of a business model
- ✓ Industry expertise and macroeconomic knowledge



Appendix

Technology

- Performance:
 - 19.69% above S&P 500
- Future outlook:
 - Big data, Internet of Thing (IoT), Artificial intelligence
 - Increased spending
- Risks:
 - Global competition
 - Cyber security
- Current holdings: VEEV



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Disney

Thesis: Disney will provide long run value due to its:

- Growing international presence specifically in China
- New direct-to-consumer media platform with ESPN and original content
- Strong studio releases

Disney is a market-mover with exceptional brand loyalty. With this, Disney will be able to continue to innovate across all segments.



NYSE: DIS

Close Price 9/26: \$99/57

Target Price: \$113.50

Margin of Safety: 13.99%

Blackstone – Recent Struggles

