

---

**Undergraduate Student Managed Fund**  
***Spring 2018 Foundation Presentation***  
**Team Gilson**



# Introduction

**Co-Lead Managers:** Josh Weist & Anthony Mottolese

**Portfolio Manager:** Ana Walas

**Communications Manager:** Bartosz Walas

**Digital Media Manager:** Jack Leyland

Michael Pehota

Jonathan Stryjek

Alex Barriga

Shawn McAuley



# 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: **13.63%**

Free Cash Flow Yield

❖ Portfolio Average: **5.69%**

Dividend Yield

❖ Portfolio Average: **2.10%**

Margin of Safety

❖ Portfolio Average: **18.33%**

Responsible Debt Levels

❖ Debt/Cash: **3.4x**  
Debt/EBITDA: **2.09x**

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



# Investment Process Highlights & Risk Management

## Allocation Strategy

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

- Potential Upside
- Team Consensus

Our allocations range from **5% to 7%**

## Downside Protection

We decide on the level of a stop loss based on the following factors:

- Volatility
- Group voting system, similar to position size

Our stop losses range from **15% to 20%**

---

## Risk Management Strategy

### Diversification

- ❖ Invest across the major sectors.

### Due Diligence

- ❖ Perform rigorous analysis of all proposed investments.

### Purchasing Strategy

- ❖ Market orders or limit orders.

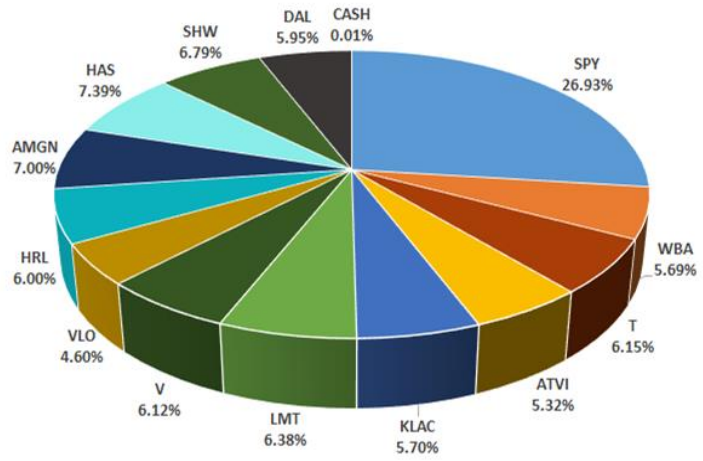
### Margin of Safety

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

# Portfolio Overview

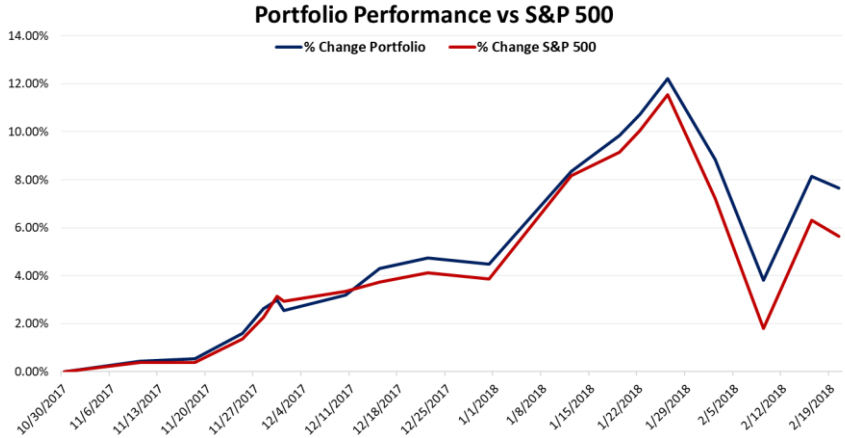
## Allocation

The portfolio is **73%** invested in individual equities with the remaining **27%** in the SPY ETF



## Performance

The portfolio is beating the benchmark by **201 bps** with a **7.65%** return vs a **5.64%** return of the S&P 500



# Total Portfolio Unrealized Gains

Ticker	Name	Sector	Dividend Yield	Portfolio					
				Date Purchased	Purchase Price	Current Price	Market Value	% of Portfolio	% Change
SPY	SPDR S&P 500 ETF		1.70%	10/30/2017	\$ 257.75	\$ 271.40	\$ 285,784	26.55%	5.64%
WBA	Walgreens Boots Alliance	Consumer Staples	2.22%	10/31/2017	\$ 66.23	\$ 70.91	\$ 52,190	4.85%	7.07%
ATVI	Activision Blizzard	Technology	0.43%	11/6/2017	\$ 62.06	\$ 70.84	\$ 45,692	4.24%	14.15%
T	AT&T	Telecommunications	5.30%	10/30/2017	\$ 33.47	\$ 36.77	\$ 66,002	6.13%	9.87%
KLAC	KLA-Tencor Corporation	Technology	2.15%	10/31/2017	\$ 109.46	\$ 110.55	\$ 40,682	3.78%	1.00%
LMT	Lockheed Martin	Industrials	2.07%	11/8/2017	\$ 313.92	\$ 358.69	\$ 68,510	6.36%	14.26%
KLAC	KLA-Tencor Corporation	Technology	2.15%	11/15/2017	\$ 102.09	\$ 110.55	\$ 10,502	0.98%	8.28%
V	Visa	Financials	0.60%	11/15/2017	\$ 110.83	\$ 122.01	\$ 66,007	6.13%	10.09%
VLO	Valero Energy Corp.	Energy	3.11%	11/29/2017	\$ 83.47	\$ 91.58	\$ 48,995	4.55%	9.72%
HRL	Hormel Foods Corporation	Consumer Staples	2.03%	1/19/2018	\$ 34.60	\$ 33.80	\$ 64,051	5.95%	-2.31%
AMGN	Amgen Inc.	Healthcare	2.60%	1/24/2018	\$ 190.33	\$ 182.98	\$ 74,656	6.94%	-3.86%
WBA	Walgreens Boots Alliance	Consumer Staples	2.22%	1/31/2018	\$ 75.78	\$ 70.91	\$ 10,282	0.96%	-6.43%
HAS	Hasbro, Inc.	Consumer Discretionary	2.31%	1/31/2018	\$ 94.77	\$ 97.77	\$ 80,171	7.45%	3.17%
SPY	SPDR S&P 500 ETF		1.70%	2/1/2018	\$ 282.05	\$ 271.40	\$ 3,528	0.33%	-3.77%
SHW	Sherwin-Williams Co.	Basic Materials	0.85%	2/7/2018	\$ 408.63	\$ 396.67	\$ 72,591	6.74%	-2.93%
DAL	Delta Air Lines, Inc.	Consumer Discretionary	1.91%	2/7/2018	\$ 53.56	\$ 52.47	\$ 63,751	5.92%	-2.03%
AMGN	Amgen Inc.	Healthcare	2.60%	2/7/2018	\$ 180.96	\$ 182.98	\$ 732	0.07%	1.12%
KLAC	KLA-Tencor Corporation	Technology	2.15%	2/12/2018	\$ 101.86	\$ 110.55	\$ 11,387	1.06%	8.54%
ATVI	Activision Blizzard	Technology	0.43%	2/12/2018	\$ 68.92	\$ 70.84	\$ 10,909	1.01%	2.78%
CASH				2/12/2018		\$ 1.00	\$ 55	0.01%	
<b>Total</b>							<b>\$ 1,076,478</b>	<b>100.00%</b>	<b>7.65%</b>

## Leader & Laggard

LMT	14.26%
AMGN	-3.82%

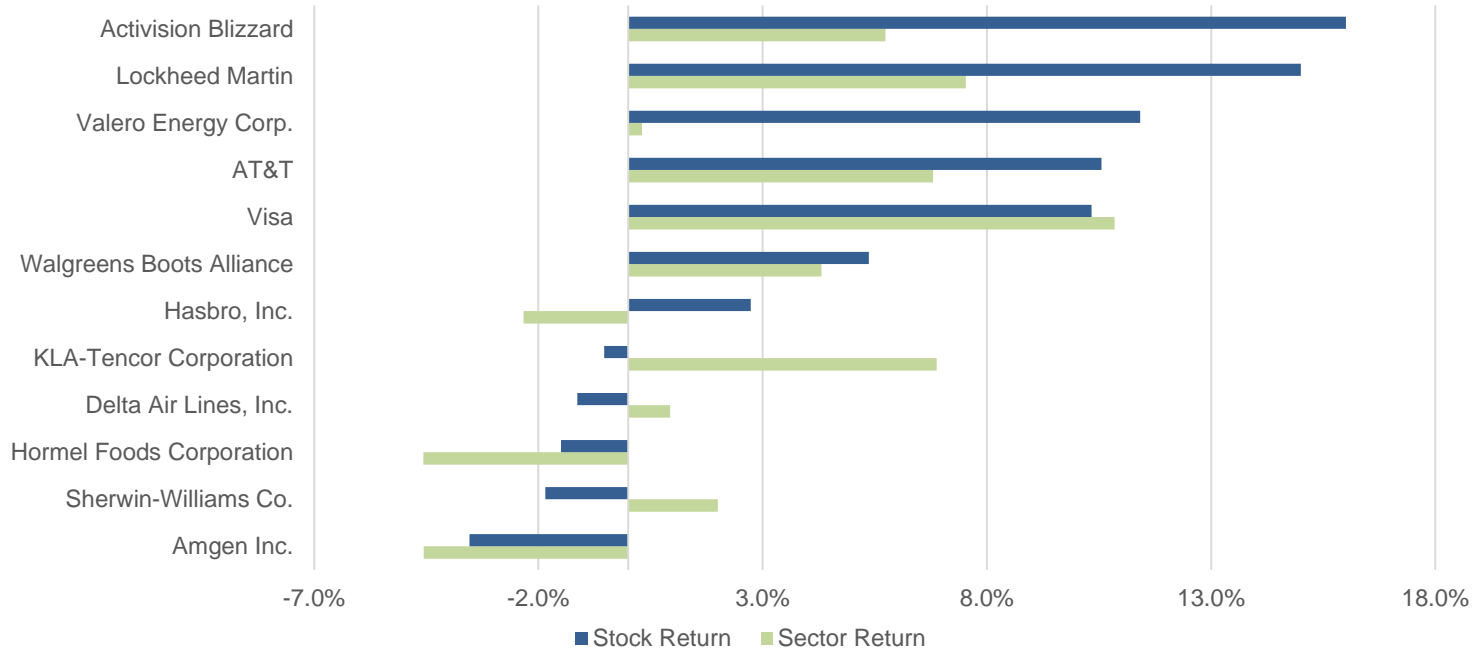
# Sector Allocation

Sector	% of Total Portfolio	% of Invested Portfolio	S&P 500 Sector Weight
Basic Materials	6.74%	9.22%	3.07%
Consumer Discretionary	13.37%	18.28%	11.80%
Consumer Staples	11.75%	16.07%	8.05%
Energy	4.55%	6.22%	5.90%
Financials	6.13%	8.39%	14.90%
Industrials	6.36%	8.70%	10.20%
Technology	11.07%	15.14%	23.72%
Telecommunications	6.13%	8.39%	1.93%
Healthcare	7.00%	9.58%	14.33%
Real Estate	0.00%	0.00%	2.92%
Utilities	0.00%	0.00%	3.16%
Cash	0.01%	0.00%	0.00%
Total	73.12%	100.0%	100.0%



# Performance By Sector

Individual Holding vs Sector Performance Since Purchase Date



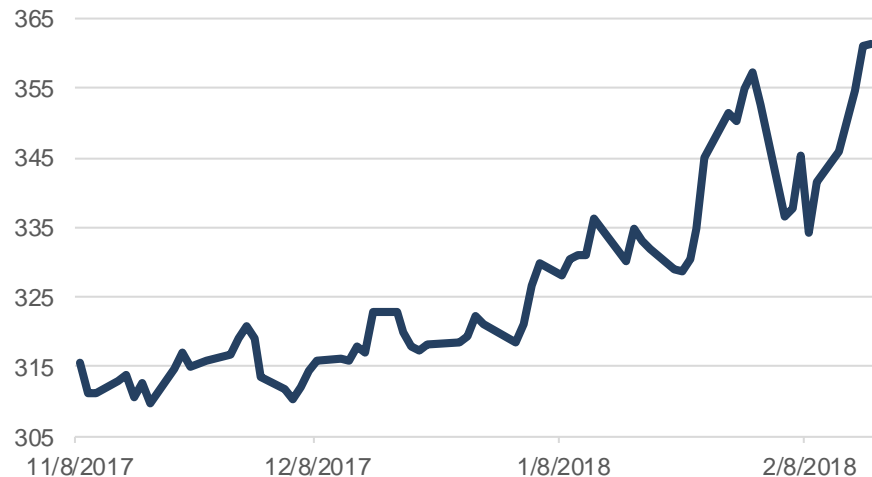
Portfolio Metrics	
Sharpe Ratio vs S&P 500	2.05
Information Ratio vs S&P 500	1.98

# Lockheed Martin (NYSE: LMT)

## Basic Metrics

<b>Purchase Date</b>	11/08/17
<b>Purchase Price</b>	\$313.92
<b>Current Price</b>	\$358.69
<b>Return</b>	14.3%
<b>Market Capitalization</b>	\$103.1 B
<b>Dividend Yield</b>	2.07%

## LOCKHEED MARTIN STOCK PRICE



# Lockheed Martin – Thesis & Risks

## Thesis

- Increases in domestic government spending in Lockheed's business segments, notably rotary and mission systems, are understated
- LMT possess one of the largest economic moats in any industry
- The company is targeting international sales as a top growth prospect and continuously being met with strong demand in the European Union
- Very limited risks in the near future

## Risks

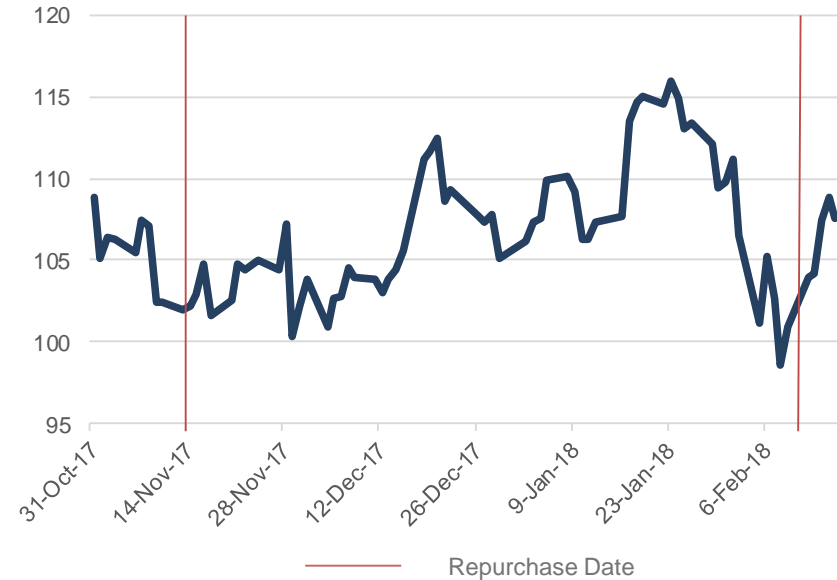
- A reduction in domestic defense spending under a new administration in 2021
- Pressure on cost overruns from current administration
- Failure to capitalize on increase in cybersecurity spending
- Entrants into business segments from current competitors

# KLA-Tencor (NASDAQ: KLAC)

## Basic Metrics

<b>Original Purchase Date</b>	10/31/17
<b>Weighted Purchase Price</b>	\$105.47
<b>Current Price</b>	\$110.55
<b>Return</b>	3.48%
<b>Market Capitalization</b>	\$16.8B
<b>Dividend Yield</b>	2.15%

## KLA TENCOR STOCK PRICE



## Thesis

- A wider variety of more complicated semiconductors is expected to increase demand for KLA's products
- KLA consistently commits more resources to R&D than their competitors
  - This helped them become a leader in their niche, with Gross and Profit margins 10-20% & 5-10% higher, respectively, than competitors
- High Capex and R&D requirements create a wide economic moat because new entrants would require significant capital to reach current levels of development

## Risks

- The semiconductor market has traditionally been tied to consumer electronics, making it very cyclical
- One of our stated risks was the all-time high price at which we pitched the stock, which ended up coming to fruition
- This niche has very high margins, and may attract companies that compete in close spaces (LAM Research)

# Portfolio Outlook

---

## Current Investments

- Monitor investment performance by reassessing each holding's thesis
- Monitor stock prices compared to target price, and update projections
- Track domestic and global 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

---

# Questions?

---

# Appendix



# Total Portfolio Unrealized Gains

Sector Name	Last % Change ▼ 04:20 PM ET 02/16/2018	1 Day	5 Day	1 Month	3 Month	YTD 02/16/2018 -
Utilities (.GSPU)	+0.75%	+0.75%	+2.85%	-0.82%	-11.21%	-5.32%
Health Care (.GSPA)	+0.70%	+0.70%	+4.01%	-1.72%	+5.80%	+3.23%
Real Estate (.GSPRE)	+0.66%	+0.65%	+1.75%	-1.85%	-8.51%	-7.07%
Telecommunication Services (.GSPL)	+0.52%	+0.52%	+2.42%	-0.87%	+12.23%	-4.21%
Consumer Staples (.GSPS)	+0.40%	+0.40%	+3.42%	-2.24%	+2.52%	-2.68%
Industrials (.GSPI)	+0.05%	+0.05%	+4.60%	-4.05%	+9.61%	+1.82%
Financials (.GSPF)	-0.11%	-0.11%	+4.72%	-1.01%	+10.84%	+3.59%
Information Technology (.GSPT)	-0.19%	-0.19%	+5.83%	+0.39%	+6.49%	+5.54%
Energy (.GSPE)	-0.25%	-0.25%	+1.93%	-12.50%	+0.69%	-6.17%
Materials (.GSMP)	-0.32%	-0.32%	+3.51%	-4.62%	+5.35%	-0.02%
Consumer Discretionary (.GSPD)	-0.44%	-0.44%	+3.92%	-0.27%	+13.50%	+6.19%
S&P 500 ® Index (.SPX)	+0.04%	+0.04%	+4.30%	-1.94%	+6.54%	+2.19%

## Total Portfolio vs. S&P 500 Performance

S&P 500 Performance	5.64%
Difference in Performance	2.01%