
**Undergraduate Student Managed Fund
Spring 2018 Portfolio Report
Team Gilson**



Agenda



Investment Strategy



Investment Process



Portfolio Overview



Individual Holding Case Studies



Lessons Learned

Introduction

Co-Lead Managers: Josh Weist & Anthony Mottolese

Portfolio Manager: Ana Walas

Communications Manager: Bartosz Walas

Digital Media Manager: Jack Leyland

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Jonathan Stryjek

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Undergraduate Supervisor: Paul Gilson

Fund Director: Chinmoy Ghosh



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: **12.6%**
 - Benchmark: 7.39%
- Free Cash Flow Yield
 - ❖ Portfolio Average: **5.4%**
 - Benchmark: 4.26%
- Dividend Yield
 - ❖ Portfolio Average: **2.1%**
 - Benchmark: 1.96%
- Margin of Safety
 - ❖ Portfolio Average: **20%**
- Responsible Debt Levels
 - ❖ Debt/EBITDA: **1.9x**
 - Benchmark: 1.48x

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 **4% 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.

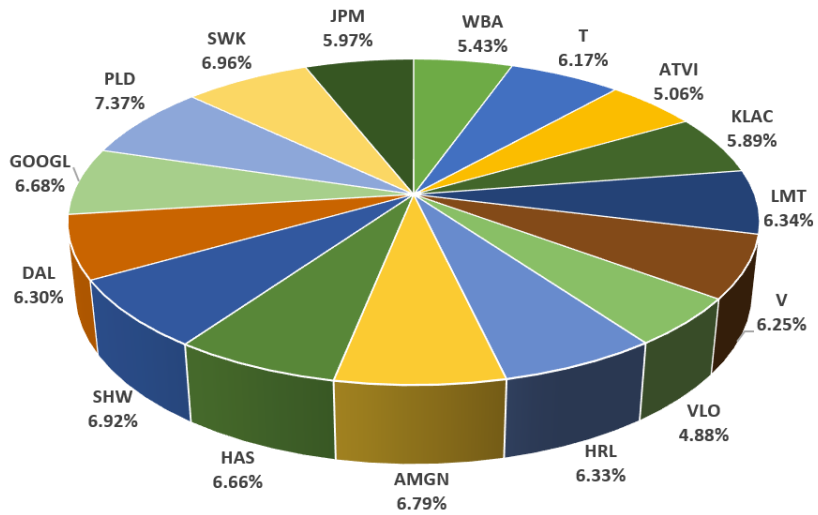
Margin of Safety

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

Portfolio Overview

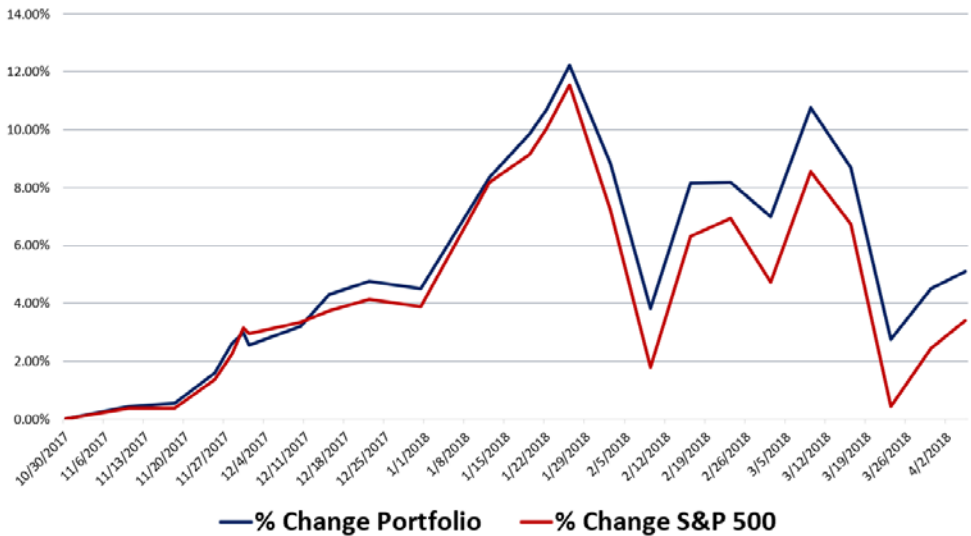
Allocation

Average Position: **6.27%**



Performance vs S&P 500

The portfolio is outperforming the benchmark by **171 bps** with a **5.11%** return vs a **3.40%** S&P 500 return.



Total Portfolio Unrealized Gains

Portfolio										
Ticker	Name	Sector	Dividend Yield	Shares	Current Price	Cost Basis	Market Value	% of Portfolio	% Change	
WBA	Walgreens Boots Alliance	Consumer Staples	2.22%	883	\$ 64.65	\$ 55,512	\$ 57,087	5.43%	2.84%	
T	AT&T	Telecommunications	5.30%	1,795	\$ 36.14	\$ 60,074	\$ 64,871	6.17%	7.99%	
ATVI	Activision Blizzard	Technology	0.43%	799	\$ 66.53	\$ 50,641	\$ 53,157	5.06%	4.97%	
KLAC	KLA-Tencor Corporation	Technology	2.15%	569	\$ 108.71	\$ 60,803	\$ 61,857	5.89%	1.73%	
LMT	Lockheed Martin	Industrials	2.07%	192	\$ 346.85	\$ 60,341	\$ 66,637	6.34%	10.43%	
V	Visa Inc.	Financials	0.60%	542	\$ 121.23	\$ 60,072	\$ 65,699	6.25%	9.37%	
VLO	Valero Energy Corp.	Energy	3.11%	535	\$ 95.88	\$ 44,654	\$ 51,296	4.88%	14.87%	
HRL	Hormel Foods Corporation	Consumer Staples	2.03%	1,895	\$ 35.11	\$ 65,563	\$ 66,533	6.33%	1.48%	
AMGN	Amgen Inc.	Healthcare	2.60%	415	\$ 172.00	\$ 78,922	\$ 71,362	6.79%	-9.58%	
HAS	Hasbro, Inc.	Consumer Discretionary	2.31%	820	\$ 85.40	\$ 77,711	\$ 70,028	6.66%	-9.89%	
SHW	Sherwin-Williams Co.	Basic Materials	0.85%	183	\$ 396.75	\$ 74,936	\$ 72,754	6.92%	-2.91%	
DAL	Delta Air Lines, Inc.	Consumer Discretionary	1.91%	1,222	\$ 54.21	\$ 65,441	\$ 66,220	6.30%	1.19%	
GOOGL	Alphabet Inc. Class A	Technology	0.00%	68	\$ 1,032.64	\$ 75,973	\$ 70,220	6.68%	-7.57%	
PLD	Prologis, Inc.	REITS	3.12%	1,254	\$ 61.76	\$ 76,974	\$ 77,424	7.37%	0.58%	
SWK	Stanley Black & Decker, Inc.	Industrials	1.61%	474	\$ 154.29	\$ 72,041	\$ 73,133	6.96%	1.52%	
JPM	JPMorgan Chase & Co.	Financials	1.94%	561	\$ 111.88	\$ 60,887	\$ 62,765	5.97%	3.08%	
CASH							\$ 56	0.01%		
						Total	\$ 1,040,547	\$ 1,051,100	100.00%	5.11%

Leader	Valero
Laggard	Hasbro

Sector Allocation & Portfolio Metrics

Sector	% of Total Portfolio	S&P 500 Sector Weight	Relative Weight
Basic Materials	6.92%	3.07%	3.85%
Consumer Discretionary	12.96%	11.80%	1.16%
Consumer Staples	11.76%	8.05%	3.71%
Energy	4.88%	5.90%	-1.02%
Financials	12.22%	14.90%	-2.68%
Industrials	13.30%	10.20%	3.10%
Technology	17.67%	23.72%	-6.05%
Telecommunications	6.17%	1.93%	4.24%
Healthcare	6.74%	14.33%	-7.59%
REITS	7.37%	2.92%	4.45%
Utilities	0.00%	3.16%	-3.16%
Cash	0.01%	0.00%	
Total	100.0%	100.0%	

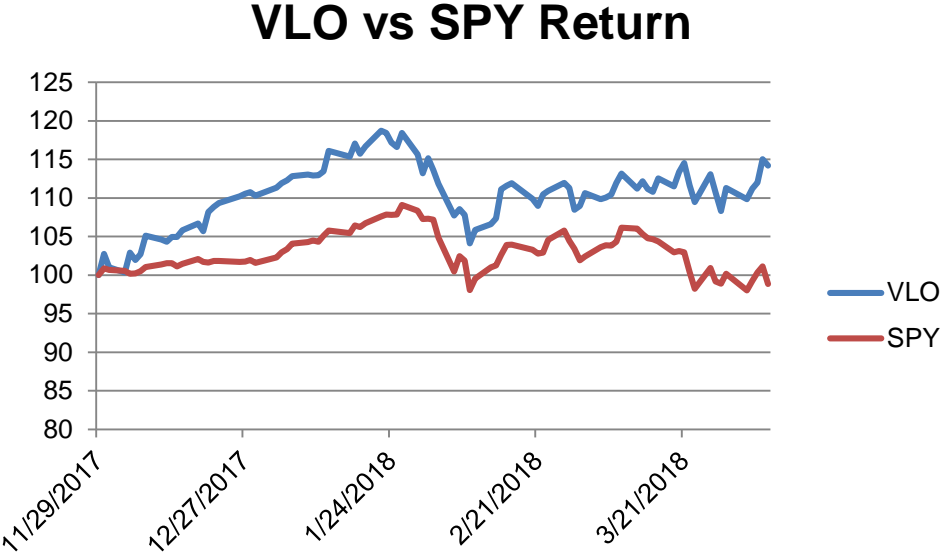
Portfolio Metrics	
Sharpe Ratio	0.49
Information Ratio	1.13

Performance By Sector

	Total Attribution	Allocation	Selection
Basic Materials	-4.81%	-2.18%	-2.63%
Consumer Discretionary	-6.03%	-4.15%	-1.88%
Consumer Staples	-2.05%	-7.51%	5.46%
Energy	19.62%	4.15%	15.47%
Financials	12.53%	6.94%	5.59%
Industrials	8.49%	2.25%	6.24%
Technology	-1.27%	2.87%	-4.14%
Telecommunications	8.54%	-6.54%	15.08%
Healthcare	-8.37%	-7.31%	-1.06%
REITS	1.11%	1.05%	0.06%
Utilities	0.00%	-7.47%	0.00%

Valero Energy (NYSE: VLO)

Basic Metrics	
Purchase Date	11/29/17
Purchase Price	\$83.47
Current Price	\$95.88
Return	14.87%
Market Capitalization	\$36.084 B
Dividend Yield	3.34%



Thesis

- **Financial Strength:** Valero's strong liquidity position provides significant protection against a severe industry downturn or other financial shock.
- **Demand for petroleum products** should continue to expand as the overall global economy improves, and industrial activity picks up.
- **Complex refineries** and concentration in the Gulf Coast allow it to process light or heavy crude, depending on which offers the greatest discount.

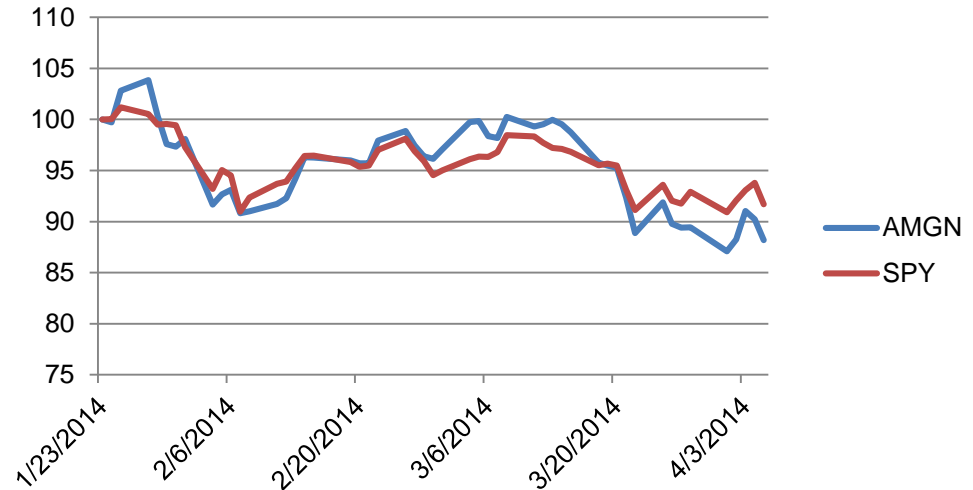
Risks

- **Changing government regulations** (environmental regulations) to reduce emissions and global warming.
- **Narrowing spread** between Brent, the global benchmark of crude oil, and its US counterpart, West Texas Intermediate (WTI) in the future.
- **Demand for gasoline** and other fuels will fall as automobiles become increasingly more fuel efficient.

Basic Metrics

Purchase Date	1/24/18
Purchase Price	\$190.33
Current Price	\$172.00
Return	-9.58%
Market Capitalization	\$121.21 B
Dividend Yield	3.00%

AMGN vs SPY Return



Thesis

- **Strong Industry Position:** Amgen is the largest independent biotech firm and is positioned well against entrants and has long-term patents for important drugs to protect against competition.
- **Innovation:** Amgen's ability to develop innovative products to substantially growth revenues, including the introduction of biosimilars.
- **Financial Strength:** Attractive operating margins and cash flows.

Risks

- **Regulation:** Increased regulation whether through U.S. healthcare reform or through the phase trial processes.
- **Reliance on Third Parties:** Sales depend on 3rd party materials, reimbursements, drug delivery mechanisms, and other medical devices.

Lesson Learned



Investing Discipline



Identifying Investment Opportunities



The Importance of Team Dynamics



Identifying and Analyzing Investment Risks



Consistent Involvement with Market and Investments



Higher Level Thinking

Thank You!

UConn School of Business Dean..... John Elliott
SMF Director & Finance Department Head..... Chinmoy Ghosh
Undergraduate Supervisor..... Paul Gilson
Administrative Coordinator..... Laurel Grisamer

UConn Foundation
Investment Advisory Board

Questions