

# Undergraduate Student Managed Fund

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## *Fall 2018 Portfolio Report*

**Team Gilson**



# Introduction

## Leadership Positions

**Co-Lead Managers:** Aniello Infante & Richard Traub

**Portfolio Manager:** Joel Thomas

**Communication Manager:** Anna Simos

**Web Manager:** Jilleen Livingston

## Managers

**Daztar Pagdiwala**  
**Kayla Reuben**  
**Ryan Harrington**  
**Stephen Grammatico**  
**Shirley Gu**

## Faculty

**Supervisor: Paul Gilson**  
**Fund Director: Chinmoy Ghosh**



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# Agenda

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Fund Methodology



Investment Process & Risk Management



Economic Overview & Impact



Portfolio Performance & Individual Holdings



Looking Forward & Lessons Learned

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# Fund Methodology

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## Philosophy

As value investors, we seek understandable, well managed, and competitively advantaged businesses trading at a discount to their intrinsic value with a suitable margin of safety.

## Objective

Our objective is to construct a portfolio that will outperform our benchmark, the S&P 500, over a 10-year investment horizon, while maintaining our fiduciary responsibility to the UConn Foundation.

## Approach

Managers will find suitable investments in two assigned industries while maintaining a conservative risk profile to carry out the investment philosophy. We use a bottom-up analysis to find investment opportunities.



# Investment Analysis -- What We Look For

We perform both quantitative and qualitative analysis on our potential investments before adding them to our portfolio.

## Quantitative Analysis

Characteristic	Portfolio Average	S&P 500
Dividend Yield	2.2%	2.0%
Operating Margin	32.6%	19.0%
ROIC	20.6%	8.4%
Debt/Ebitda	1.94x	3.95x
P/E	15.83x	18.37x
Beta	0.92	1.00
FCF Yield	5.4%	5.2%

## Qualitative Analysis

Market Leader		Innovation	
BLACKROCK			
Brand Strength		Diversified Business Model	
			

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# Investment Process & Risk Management



# Investment Process and Risk Management

## Allocation Strategy

- 7 out of 10 vote minimum for investment purchases
- Initial Full Stake = \$80,000 or 6.25%

### Voting Design:

- 7/10 Votes: 70% of a Full Stake
- 10/10 Votes: 100% of a Full Stake

## Purchase Strategy: Cost Averaging

- Consider short-term volatility, large price movements
- Tranching to lower cost average using multiple limit orders
- Patience and discipline

## Risk Management

- Stop Losses at 25% for all investments
- Rigorous Q&A discussions addressing risks and concerns
- Disciplined cost averaging approach
- Margin of safety at a reasonable level

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# Economic Overview & Impact

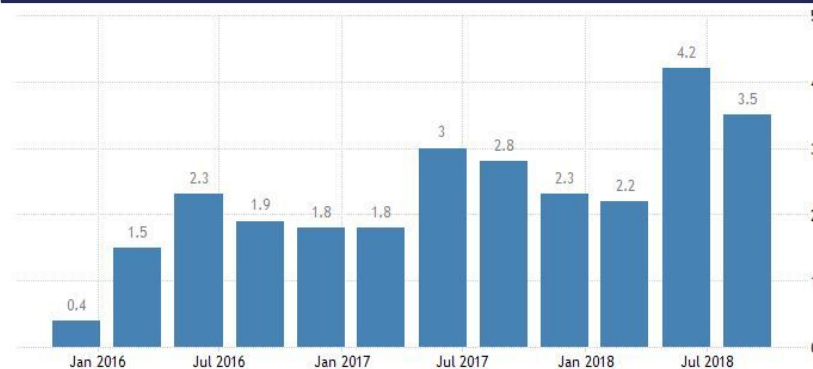




# U.S. Economic Overview

- Real GDP Growth
  - 3.5% for Q3
    - Revised down from 4.2% in Q2
- Lowest unemployment rate in 50 years
  - 3.7% as of October
- New data from today raises concerns
  - Week-end 12/1/18 jobless claims missed expectations for 4th straight week
  - Q3 increase in hourly pay revised down 400 bps
- Big Picture
  - 2% growth in Core Personal Consumption Expenditures (CPE) - on target
  - Interest rates are near their neutral level
  - Global growth might be slowing

## Real GDP Growth



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

# Economic Impact

## Oil Prices

- Lower oil prices directly affect our investments in the industrial sector
- Oil down 31% from October peak



## Trade Risk

- Global trade is a concern considering tariffs and global tensions
- Some holdings are particularly impacted by China
- Protectionism

## Consumer Confidence

- Down slightly from its 18-year high of 137.9 in October
- 10% decrease in single family homes last month

## Interest Rates

- Yield curve inverting (3 and 5yr)
  - Strong indicator for L-T economic outlook
- Impact on our future investment considerations

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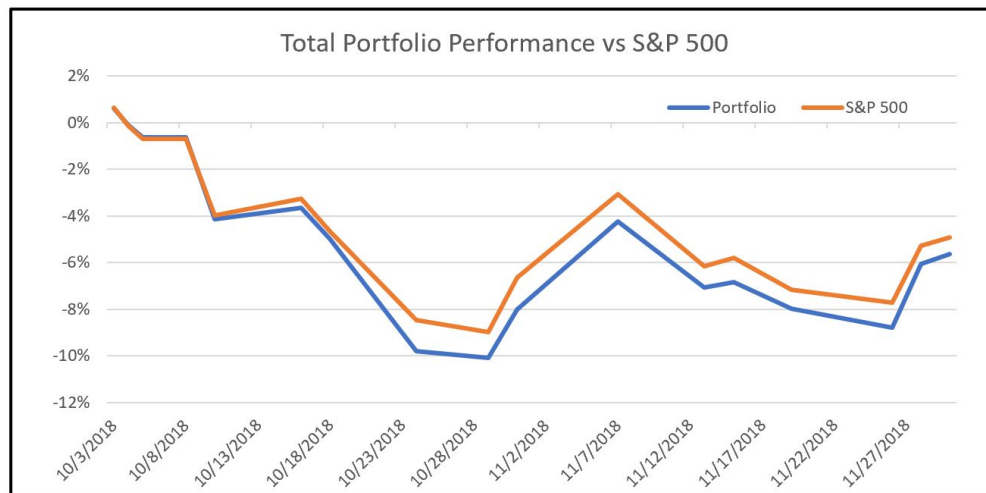
# Portfolio Performance & Individual Holdings



## Sector Overview

Sector	% of Total Portfolio	% of Invested Portfolio	S&P 500 Sector Weight	Target Weight
Consumer Staples	7%	17%	7%	7%
Financials	6%	14%	14%	14%
Industrials	19%	49%	9%	9%
Healthcare	7%	19%	15%	15%
Basic Materials	0%	0%	3%	3%
Consumer Discretionary	0%	0%	10%	10%
Energy	0%	0%	6%	6%
Information Technology	0%	0%	21%	21%
Communication Services	0%	0%	10%	10%
Real Estate	0%	0%	3%	3%
Utilities	0%	0%	3%	3%
Total	39%	100%	100%	100%

# Total Portfolio Performance as of 11/30/2018



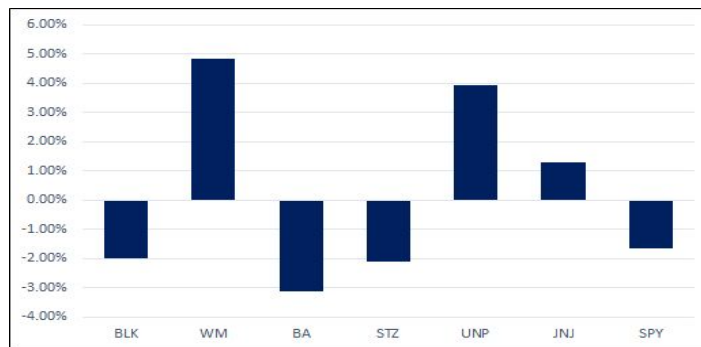
Total Portfolio		S&P 500	
Beginning Value	\$ 1,139,071.20	Beginning Value	\$ 2,896.72
Current Value	\$ 1,076,034.48	Ending Value	\$ 2,760.17
Absolute Change	\$ 63,036.72	Absolute Change	\$ 136.55
% Change	-5.53%	% Change	-4.71%
Difference in Performance:			-0.82%

# Total Portfolio Performance Breakdown: as of 11/30/2018

## Total Portfolio Unrealized Gains

Ticker	Name	Shares	Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
BLK	BLACKROCK INC	142	\$ 428.01	\$ 62,004.30	\$ 60,777.42	5.65%	\$ (1,226.88)	-1.98%
WM	WASTE MANAGEMENT INC	895	\$ 93.75	\$ 80,039.85	\$ 83,906.25	7.80%	\$ 3,866.40	4.83%
BA	BOEING CORP.	200	\$ 346.76	\$ 71,576.00	\$ 69,352.00	6.45%	\$ (2,224.00)	-3.11%
STZ	CONSTELLATION BRANDS INC	371	\$ 195.76	\$ 74,177.74	\$ 72,626.96	6.75%	\$ (1,550.78)	-2.09%
UNP	UNION PACIFIC CO.	335	\$ 153.78	\$ 49,563.25	\$ 51,516.30	4.79%	\$ 1,953.05	3.94%
JNJ	JOHNSON & JOHNSON	525	\$ 146.90	\$ 76,135.50	\$ 77,122.50	7.17%	\$ 987.00	1.30%
SPY	SPDR S&P 500 ETF	2397	\$ 275.65	\$ 671,847.94	\$ 660,733.05	61.40%	\$ (11,114.89)	-1.65%
				\$1,085,344.58	\$ 1,076,034.48	100%	\$ (9,310.10)	-0.86%

## Individual Holdings Performance as of 11/30/2018



# Equity Portfolio: Unrealized Gains as of 11/30/2018

## Equity Portfolio Unrealized Gains

Ticker	Name	Shares	Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
BLK	BLACKROCK INC	142	\$ 428.01	\$ 62,004.30	\$ 60,777.42	14.63%	\$ (1,226.88)	-1.98%
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STZ	CONSTELLATION BRANDS INC	371	\$ 195.76	\$ 74,177.74	\$ 72,626.96	17.49%	\$ (1,550.78)	-2.09%
UNP	UNION PACIFIC CO.	335	\$ 153.78	\$ 49,563.25	\$ 51,516.30	12.40%	\$ 1,953.05	3.94%
JNJ	JOHNSON & JOHNSON	525	\$ 146.90	\$ 76,135.50	\$ 77,122.50	18.57%	\$ 987.00	1.30%
				\$ 413,496.64	\$ 415,301.43	100%	\$ 1,804.79	0.44%

# Waste Management (NYSE: WM)

Basic Metrics	
Purchase Date	9/26/2018
Average Purchase Price	\$89.43
Current Price	\$93.75
Return	4.83%
Market Capitalization	\$39.6B
Dividend Yield	2.03%





## Thesis

### Steady Cash Flows

They have a strong commitment to increasing revenue while reducing costs

### Low Leverage

When researching the financial data behind the company, we found high performance and low leverage

### Stable Performance

We saw WM as being a stable company and a market leader with consistency that would help our portfolio

## Risks

### Rising Fuel Costs

This is a risk because most of their fleet runs on diesel

### Decline in Recycling Revenue

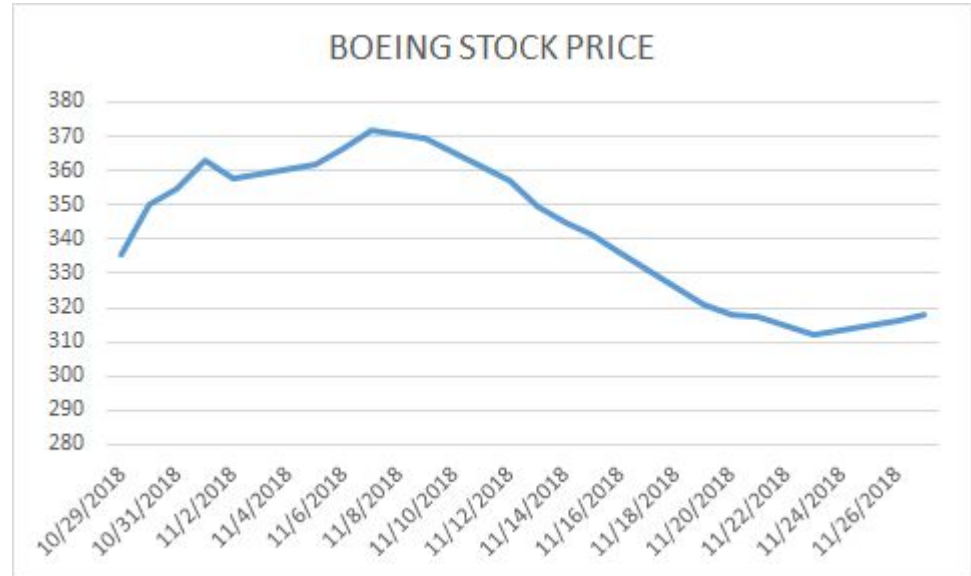
Changing standards worldwide are a threat to traditional revenue sources

### Commodity Risk

Prices on recycled materials are subject to market fluctuations

# Boeing (NYSE: BA)

Basic Metrics	
Purchase Date	10/29/2018
Average Purchase Price	\$357.88
Current Price	\$346.76
Return	-3.11%
Market Capitalization	\$189.4B
Dividend Yield	2.15%

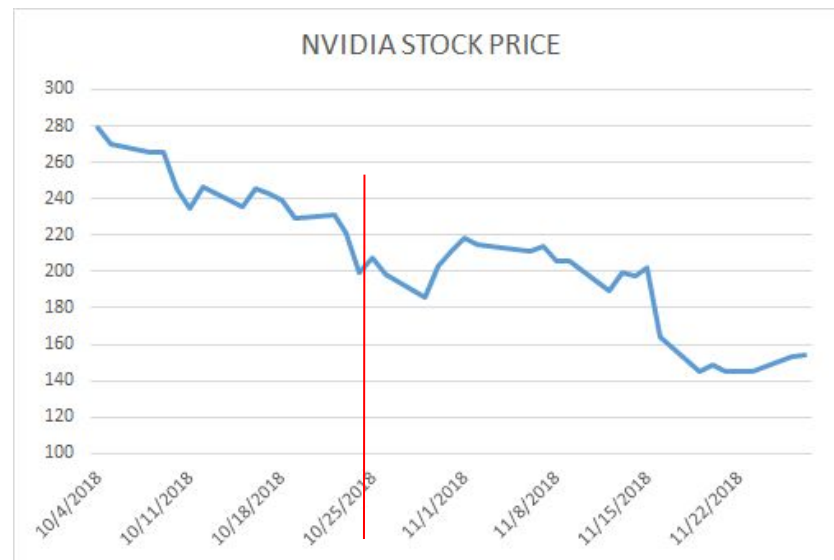


<b>Thesis</b>	<b>Risks</b>
<p><u>Shareholder Value</u> Proven commitment to increasing shareholder value through buybacks and dividends</p>	<p><u>China and Global Trade</u> 1/3 of all 737 planes are sold to China Commodity risks for input costs (steel, oil)</p>
<p><u>Profitable Business Model</u> As part of an oligopoly, they have tremendous pricing power</p>	<p><u>Airline Specific Growth and Profitability</u> Government spending on defense impacts contracts</p>
<p><u>Industry Growth and Positive Outlook</u> Positive outlooks in commercial airline growth and defense, space and security</p>	<p><u>Asset-Specific Risk: Plane Crash</u> Plane crash and uncertainty as to Boeing's responsibility</p>

# Nvidia (NASDAQ: NVDA)



Basic Metrics	
Purchase Date	10/4/2018
Average Purchase Price	\$262.61
Stop Out Price (10/26/18)	\$199.35
Return (selling at stop loss)	-24.00%
Return (without selling at stop loss)	-39.00%
Market Capitalization	\$97.6B
Dividend Yield	0.44%



## Thesis

### Necessity

Nvidia's products are essential to current computer systems in a variety of industries because of their position as a leader in computing

### Growing Demand in each Market

New markets in technology such as AI, VR and autonomous transportation will all need Nvidia's products

### Financial Stability

Nvidia is a stable company with a large amount of free cash flow

## Risks

### Political Risk/Trade War

Political tensions especially in Asia have the potential to harm output

### Losing Competitive Advantage

Need to look out for other technology companies developing similar products

### What happened to Nvidia?

We learned about asset-specific risk as we saw Nvidia decline 39% from our purchase price from factors such as a decline in crypto mining and an oversupply in the secondary market

# Nvidia Recent Decline

## Overview

- Q3 2018 revenue miss
  - \$3.18b vs \$3.24b consensus.
- Cryptocurrency crash
- Economic slowdown or trade war effects
  - Long term impact limited
- Semiconductor Industry Decline
  - GPU's essentialness



- Lowering Forecasts: 2018 Q4 revenue revised down \$3.4b to \$2.7b
  - Gaming slowdown
- Proven demand -- Nintendo Switch, Cyber Monday

# Lessons Learned

## Going Forward

- 9-1 vote in favor of re-entry = 72k stake
- Tranching approach more spread out, based on price and time
- Recognize the volatility of NVDA stock
  - 1-2 tranches before earnings
  - 2-3 tranches after earnings if long term thesis holds

## Lessons Learned

- Value of tranching investments on price vs. price + time
- Investing through market and sector cycles
- Maintaining conviction and strategy through adversity
- Seek the positives in negative situations

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# Looking Forward & Lessons Learned





# Looking Forward

## Current Holdings

- Stay informed on company specific performance
- Continuous evaluation of industry trends and economic indicators
- Ensure theses remain consistent with overall investment strategy



## Future Investments

- Increased focus on CSR
- Focus on profitability over long-term investment horizon
- Seek investment opportunities in underallocated sectors



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# Lessons Learned

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Seek out investments with a strong qualitative advantages



Evaluate companies based on financial data



Develop presentation and verbal reasoning skills



Resist behavioral market movements



Exercise fiduciary responsibility of Foundation's endowments

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# Questions



# Appendix

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## Johnson & Johnson (NYSE: JNJ)

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Johnson & Johnson was **accepted** and is expected to create long-run value due to:

- Core focus on innovation through the development of new drugs and advanced medical technology
- Continual support of its products through various educational and technical services
- Well - recognized brand that is sustainable through fluctuations in economic cycles



NYSE: **JNJ**

Closing Price 11/2/18: **\$140.68**

Target Price Range: **\$156 to \$173**

Margin of Safety: **11% to 23%**

Analysts: **Jilleen Livingston and  
Daztar Pagdiwala**

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## Constellation Brands (NYSE: STZ)

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Constellation Brands was **accepted** and is expected to create long-run value due to:

- Significant competitive advantage through strong brands
- Demonstrated its ability to innovate and adapt to changing consumer tastes
- Operational efficiency found in the company, excellent leadership, and high returns on equity and capital



Constellation  
Brands

NYSE: **STZ**

Close Price 10/30/18: **\$198.47**

Target Price: **\$230.22**

Margin of Safety: **16%**

Analyst: **Aniello Infante & Richard Traub**

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## BlackRock (NYSE: BLK)

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BlackRock was **accepted** and is expected to create long-run value due to:

- Key positioning as the industry leader in asset management
- Wide range of innovative platforms and products
- Steady and sustainable long-term growth and profitability



NYSE: **BLK**

Close Price 10/3/18: **\$477.13**

Target Price: **\$537.14**

Margin of Safety: **13%**

Analyst: **Aniello Infante & Richard Traub**

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## Union Pacific (NYSE: UNP)

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Union Pacific was **accepted** and is expected to create long-run value due to:

- Key positioning as the industry leader in the railroad industry
- Cost efficiency from its industry leading metrics
- Steady and sustainable long-term growth and profitability



NYSE: **UNP**

Closing Price 11/2/18: **\$141.34**

Target Price: **\$169.42**

Margin of Safety: **20%**

Analysts: **Kayla Reuben and  
Joel Thomas**



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## T-Mobile (NASDAQ: TMUS)

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An investment in T-Mobile was **denied** due to:

- Firm's inability to be a market leader in innovation and technology
- Highly saturated market that leaves little room for company to increase the revenue
- Too much uncertainty regarding firm's future mergers and overall growth



Price at Pitch (10/9): **\$68.25**  
Target Price: **\$77**  
Closing Price (11/27): **\$67.49**

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## The Coca-Cola Company (NYSE: KO)

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An investment in The Coca-Cola Company was **denied** due to:

- Firm's inability to meet changing consumer taste and preference
- Slow growth in firm's highest weighted revenue segment

*The Coca-Cola Company*

Price at Pitch (9/25): **\$45.38**

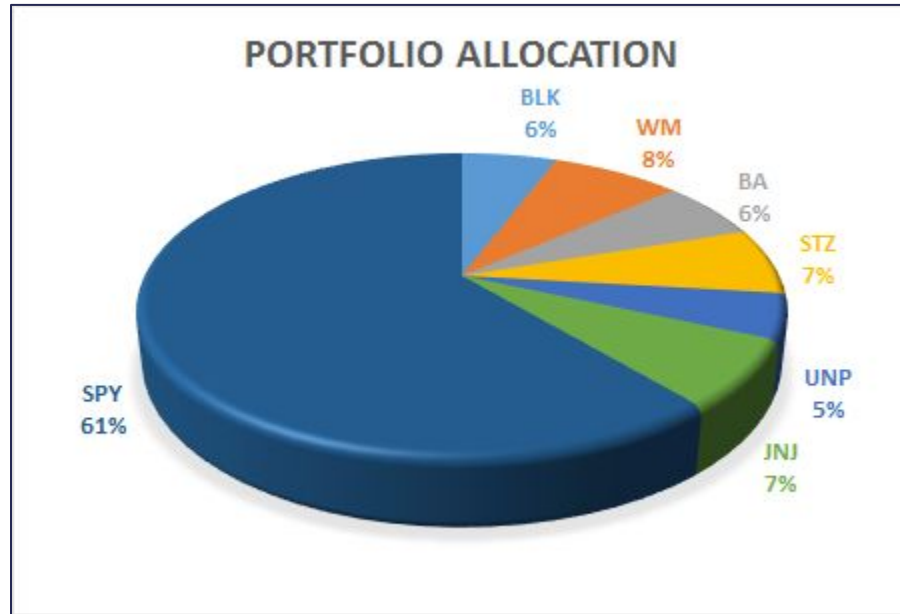
Target Price: **\$49**

Closing Price (11/30): **\$50.40**

## Sector Breakdown

Financial Institutions	Aniello Infante and Richard Traub
Consumer Staples	Joel Thomas and Daztar Pagdiwala
Information Technology	Stephen Grammatico and Anna Simos
Industrials	Ryan Harrington and Kayla Reuben
Healthcare	Jilleen Livingston and Daztar Pagdiwala
Basic Materials	Kayla Reuben and Anna Simos
Real Estate	Shirley Gu and Stephen Grammatico
Consumer Discretionary	Aniello Infante and Richard Traub
Communication Services	Jilleen Livingston and Shirley Gu
Energy	Joel Thomas and Anna Simos
Utilities	Ryan Harrington and Jilleen Livingston

# Portfolio Allocation as of 11/30/2018



## Sector Analysis - Industrials



We have 3 stocks in the industrial sector: Waste Management, Boeing and Union Pacific

They are in the sub-sectors: Waste Disposal, Aerospace and Defense and Railroads

The risks in this sector include trade, oil prices and current position in the economic cycle

We recognize the risks of being too allocated in a sector but also see these companies as sufficiently different enough to not be very over-correlated

Correlation:	WM	BA	UNP
WM	1	0.3641	0.433166
BA	0.3641	1	0.493238
UNP	0.433166	0.493238	1

# Researching Investment Opportunities -- WM Example

## Equity Screen:

- In the S&P 500
- Market Cap > \$10bil
- EPS Growth over past 5 years >0
- Dividend Yield > 2%
- Net Profit Margin over 10%
- Beta between 0.5 and 1.5
- P/E under 30
- EPS growth next 5 years > 0%
- Sales growth past 5 years > 0%
- EPS growth this year > 0%
- Return on Investment > 15%
- Return on Equity > 20%
- Gross Margin >25%
- Operating Margin >15%

# Future Investment Ideas



**Adobe**

