

# Investment Advisory Board

Student Managed Fund

Team Blue



# Agenda

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*Undergraduate  
SMF Team Blue*

- ✓ **Team**
- ✓ **Investment Process**
- ✓ **Fall 2019 Fund Performance Review**
- ✓ **Fall 2019 Portfolio Update**
- ✓ **Q & A**



# Introduction

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✓ **Team**

Investment Process

Fall 2019 Fund Performance Review

Fall 2019 Portfolio Update

Q & A



# Meet the Team

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Sean Brown



Francis Stino



Santiago Persano



Alex Greenberg



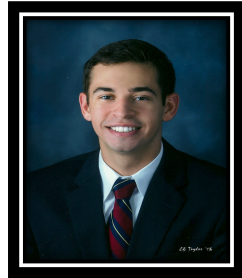
Morgan Van Liew



Andrew Willard



John Brindisi



Justin Wagner



William Mudlaff



Julia Wilson



Evan Cybart

## Leadership

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**Co-Lead Managers:**

*Sean Brown and Francis Stino*

**Portfolio Managers:**

*Alex Greenberg and Santiago Persano*

**Communications Manager:**

*Morgan Van Liew*

**Web Manager:**

*Andrew Willard*

**Instructors:**

*Patrick Terrion, Jeff Annello, Paul Gilson, and Christopher Wilkos*

**Fund Director:**

*Chinmoy Ghosh*





# Investment Process

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# Investment Process

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## Philosophy

- We apply a value mindset
- We seek undervalued, well managed, and wonderful businesses
- We study the investment successes and failures of the greats such as Warren Buffett, Benjamin Graham, and Patrick Terrion



## Objective

- Our undertaking is to serve as a capital allocator for the UConn Foundation, focusing in domestic equities
- We are tasked to apply value investing principles to generate the best returns
- Team Blue's goal is to outperform the S&P 500 over a 10-year period



## Application

- Top-Down Analysis and Sector Breakdown
- Prudent research, critical thinking, and metric screening
- Discounted Cash Flows
- Equity Cash Flows
- Economic Value Added
- Exit Multiples
- Comparative Analysis



# ***As the Semester Has Progressed so Has Our Internal Diligence Process***

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## **We Started with Good Questions but Had Room For Improvement**

- **What is the competitive advantage / moat of the business?**
- **Why has the company taken on so much debt in the past?**
- **How much of the business is owned by the management team?**
- **Who are the customers and are they heavily concentrated in any way?**
- **Why do you think the market is mispricing the business?**



## **Added Holistic Evaluation Around Macro Trends and the Specific of The Business**

- **What is the return on equity and return on invested capital?**
- **Mix of organic vs. inorganic growth over the past five-years?**
- **Are they acquiring businesses to appear to grow?**
- **What is the Impact of stock-based compensation on the business and valuation?**
- **Are they reaching the peak of the current industry/ business cycle?**



# Environmental, Social, and Governance (ESG)

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## Importance

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- Overview: ESG is one of the most important factors Team Blue looks at when looking at a stock selection. A company's impact and relationship with all its stakeholders are of high importance to our investment process.
- Environmental: Waste, pollution, and energy management
- Social: Business relationships, pro bono work, and donating
- Governance: Transparency and integrity

## Statistics

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- Companies with more women on the board have fewer governance related controversies.
- In the United States, women were 40% of new directors
- ESG investing has \$20 trillion AUM
- ESG themed assets have grown by 50% from 2016 – 2018

## Initiatives and Partnerships

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Walgreens Boots Alliance



Sustainability





# Economic Overview

## Economic and Market Data

- GDP was 2% the past two quarters
- Revised jobs data in October
- All time S&P 500 highs, average P/E ratio is 22

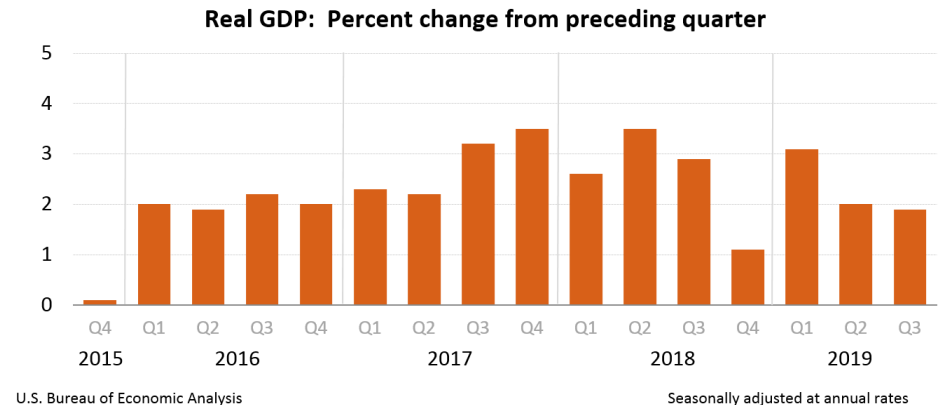
## Protectionist Trade Policy

- Recent developments with US-China and US-Eurozone trade policy are uncertain to materialize in a deal.
- We believe that the trade war is a temporary risk and will not adversely impact our picks on our ten-year horizon.

## Inverted Yield Curve

- Inverted Yield Curve
- Un-inversion of the Yield Curve
- Overall: We believe domestic equities will outperform other investment vehicles over the ten-year period

## GDP Growth



## Yield Curve



# ***Fund Performance Review***

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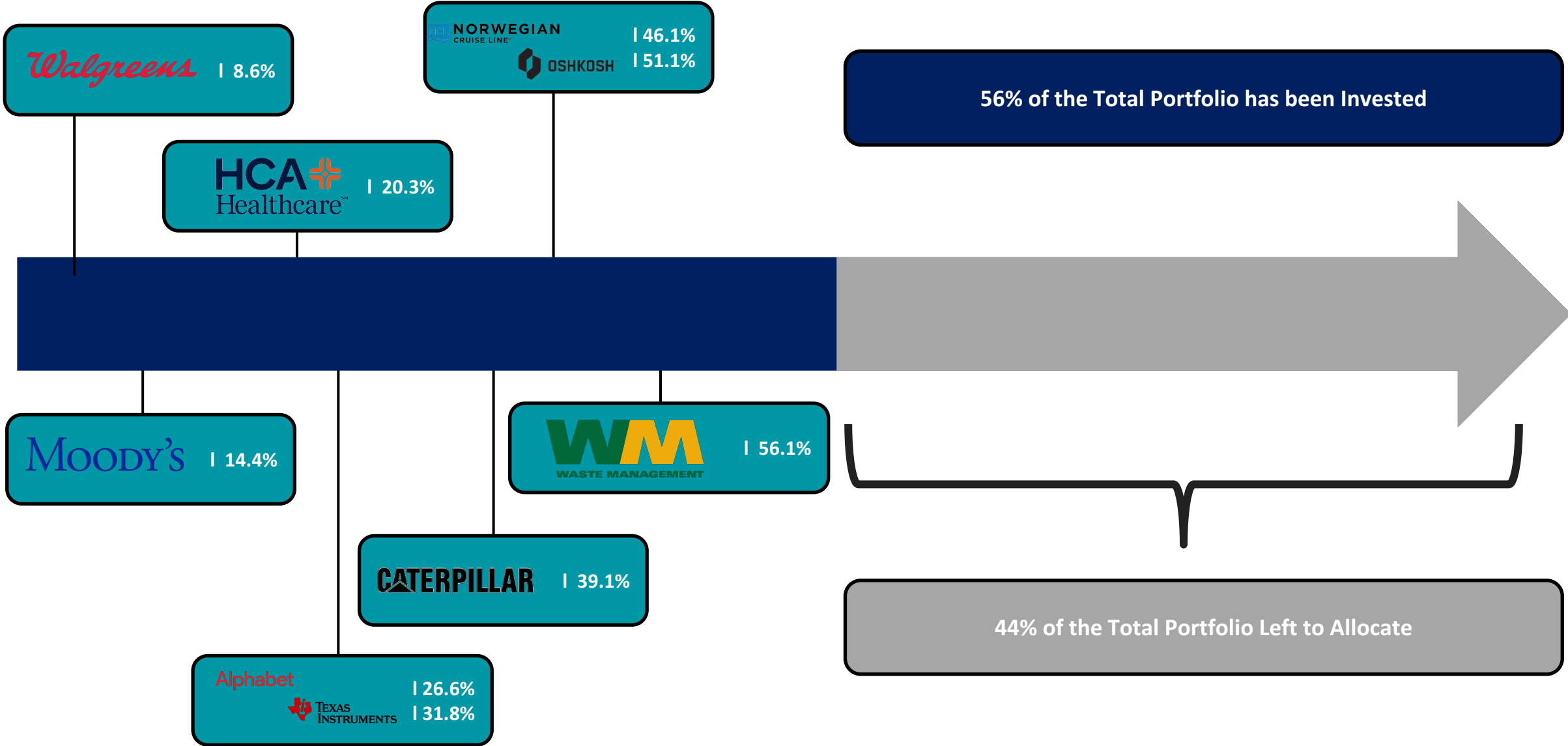


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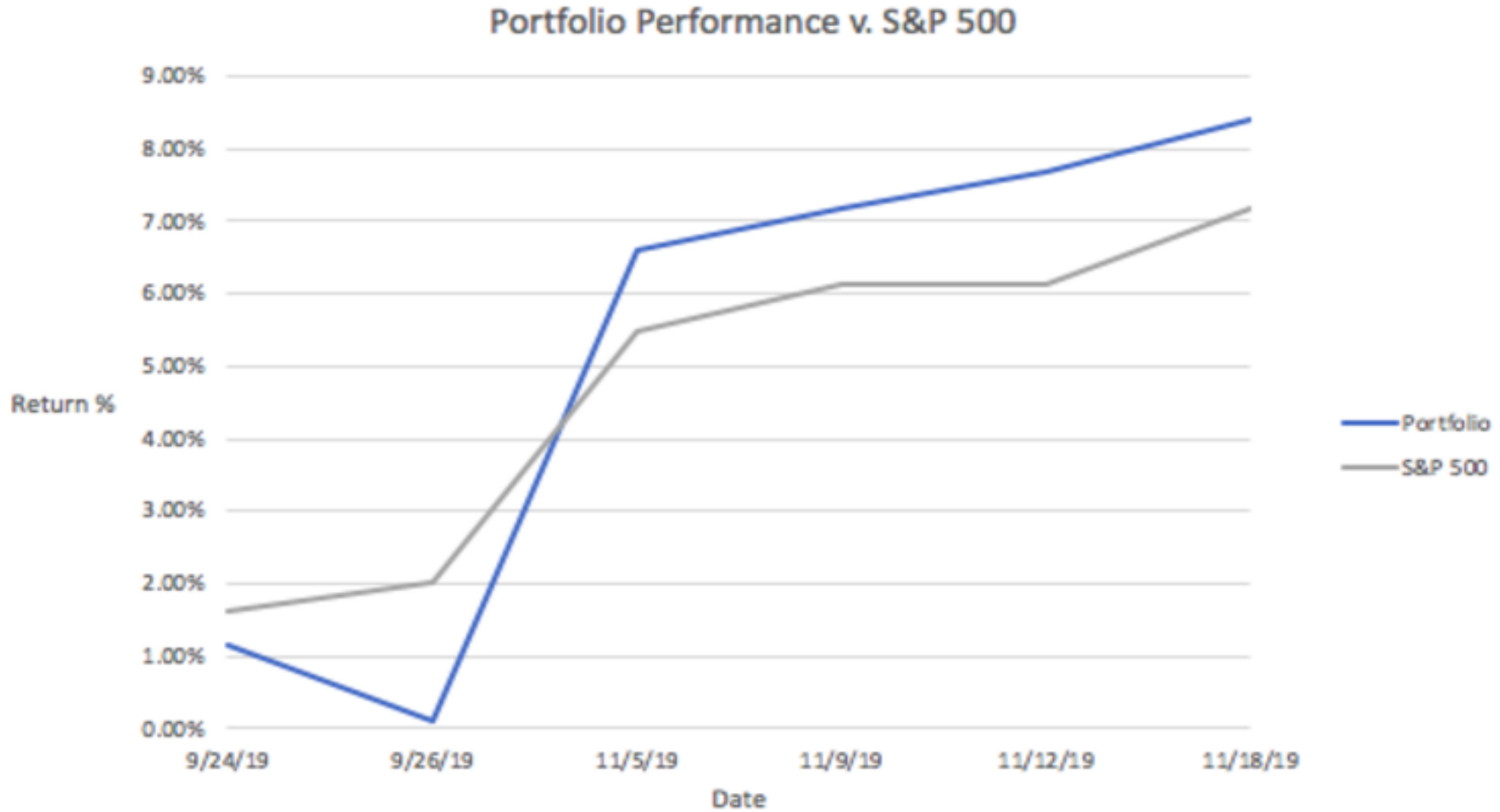
- ✓ Team
- ✓ Investment Process
- ✓ **Fall 2019 Fund Performance Review**
- ☐ Fall 2019 Portfolio Update
- ☐ Q & A



# Investment Timeline

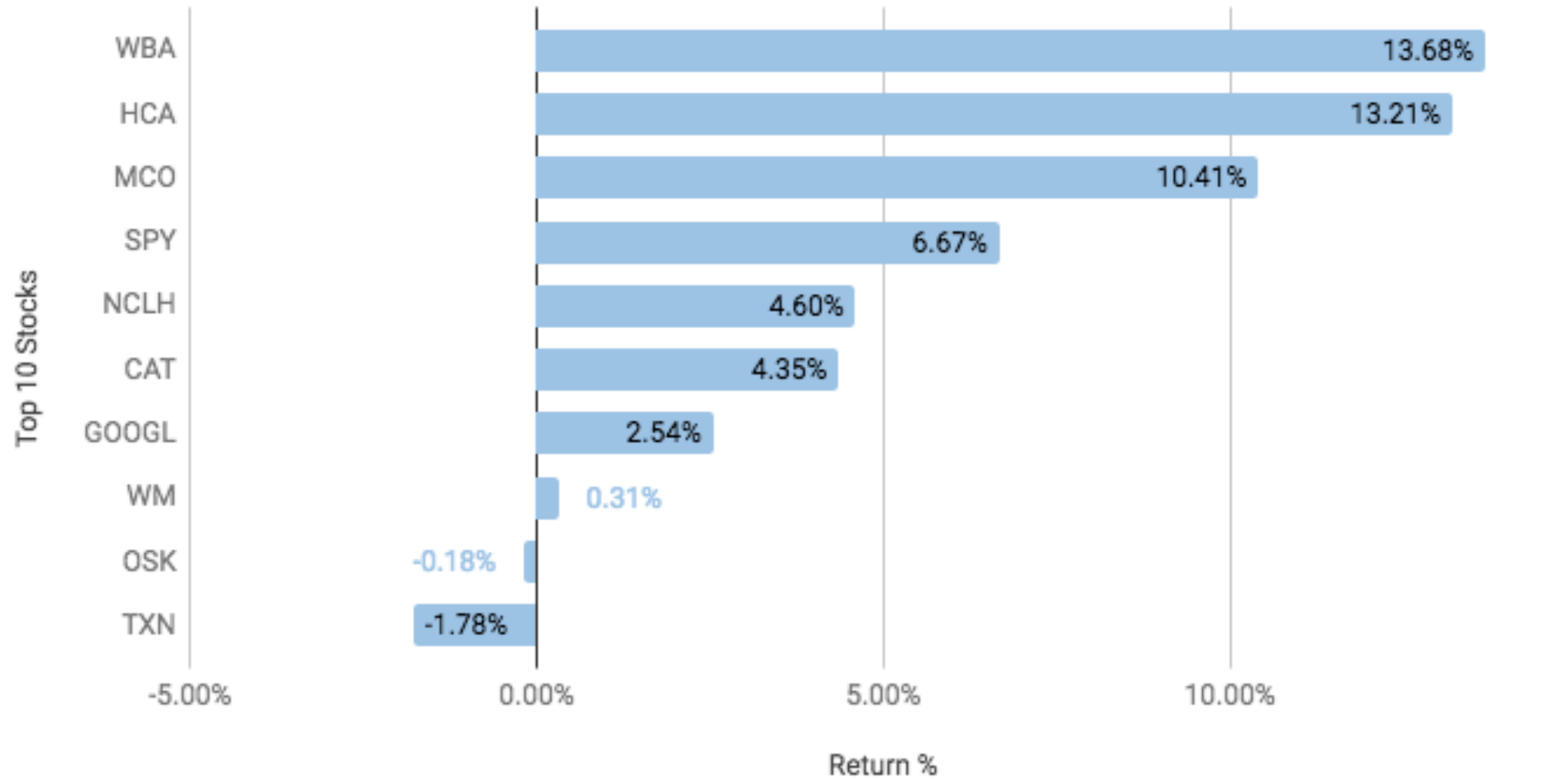


# Portfolio Performance





# Individual Stock Performance



# Portfolio Performance – Unrealized Gains

Portfolio										
Ticker	Name	Sector	Dividend Yield	Shares	Average Cost	Current Price	Market Value	% of Portfolio	\$ Change	% Change
WBA	Walgreens Boots Alliance	Healthcare	2.94%	1,731	\$54.17	\$61.58	\$106,595	8.42%	\$12,827	13.68%
MCO	Moody's Corporation	Financials	0.91%	337	\$202.85	\$223.97	\$75,478	5.96%	\$7,117	10.41%
HCA	HCA Healthcare	Healthcare	1.16%	544	\$121.51	\$137.56	\$74,833	5.91%	\$8,731	13.21%
GOOGL	Alphabet Inc.	Technology	0.00%	61	\$1,284.51	\$1,317.12	\$80,344	6.35%	\$1,989	2.54%
NCLH	Norwegian Cruise Line Holdings	Consumer Discretionary	0.00%	1,704	\$51.71	\$54.09	\$92,169	7.28%	\$4,052	4.60%
CAT	Caterpillar Inc.	Industrials	2.84%	619	\$137.34	\$143.32	\$88,715	7.01%	\$3,700	4.35%
TXN	Texas Instruments	Technology	3.05%	556	\$120.06	\$117.93	\$65,569	5.18%	-\$1,185	-1.78%
WM	Waste Management Inc.	Industrials	1.83%	562	\$111.94	\$112.29	\$63,107	4.98%	\$197	0.31%
OSK	Oshkosh Corporation	Industrials	1.32%	692	\$91.33	\$91.17	\$63,090	4.98%	-\$111	-0.18%
SPY	S&P SPDR ETF	Index Fund	1.79%	1,783	\$292.45	\$311.95	\$556,129	43.92%	\$34,764	6.67%
CASH				64		\$1.00	\$64	0.005%		

Starting Value	Market Value	% of Portfolio	\$ Change	% Change
\$1,166,199	\$1,266,093	100.00%	\$99,894	8.57%



# Portfolio Performance - Sector Allocation

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<u>Sector</u>	<u>Target</u>	<u>% of Total Portfolio</u>	<u>% of Invested Portfolio</u>	<u>S&amp;P 500 Sector Weight</u>
Basic Materials	5.00%	0.00%	0.00%	2.31%
Communication Services	5.00%	0.00%	0.00%	10.42%
Consumer Discretionary	12.00%	7.14%	12.47%	9.85%
Consumer Staples	10.00%	0.00%	0.00%	7.78%
Energy	5.00%	0.00%	0.00%	4.33%
Financials	15.00%	5.86%	10.48%	15.73%
Healthcare	10.00%	14.30%	25.79%	14.21%
Industrials	10.00%	17.06%	30.50%	9.98%
Real Estate	5.00%	0.00%	0.00%	3.07%
Technology	15.00%	11.61%	20.75%	18.84%
Utilities	8.00%	0.00%	0.00%	3.48%
Total	100.00%	55.97%	100.00%	100.00%



# Portfolio Performance – Comparison to Benchmark

Portfolio Performance	
S&P 500 Return (SPY)	6.67%
Total Portfolio Return	8.57%

Sector	Beta	DIV Yield	P/E	P/B	Debt/EBITDA
Communication Services	1.08	0.00%	30.02	4.68	0.33
Consumer Discretionary	1.06	0.00%	11.96	1.81	3.53
Consumer Staples	1.03	2.90%	12.54	2.36	2.42
Financials	1.12	0.88%	29.50	88.42	2.45
Healthcare	1.09	1.13%	14.05	-	3.64
Industrials	1.16	1.97%	14.17	4.12	2.51
Technology	1.06	2.72%	21.92	12.27	0.87
Portfolio	1.10	1.50%	15.80	4.28	2.70

Sector	Beta	DIV Yield	P/E	P/B	Debt/EBITDA
Communication Services	1.03	1.29%	21.79	3.44	2.59
Consumer Discretionary	1.01	1.30%	24.08	7.99	3.49
Consumer Staples	0.78	2.74%	21.21	6.12	3.22
Financials	1.07	1.99%	13.93	1.47	7.27
Healthcare	1.02	1.66%	20.83	4.37	2.95
Industrials	1.05	1.89%	19.32	5.01	3.19
Technology	1.08	1.32%	24.74	7.43	1.84
SPY	1.00	1.86%	20.65	3.49	3.42





# Fall 2019 Portfolio Update

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# Case Study: Walgreens Boots Alliance

Analysts: Justin Wagner and Julia Wilson

## Business Overview

18,500 stores and 390 distribution centers

Three Main Segments: Retail Pharmacy USA, Retail Pharmacy International, Pharmaceutical Wholesale

Comparative Retail Drug Store Revenues:

- WBA: \$100b
- CVS: \$80b
- Wal-Mart Pharmacy: \$35b

## Ownership Summary



### Stefano Pessina

CEO and owner of 15%

Stefano has overseen the mergers of all Alliance with Boots, and later Alliance Boots and Walgreens in 2015. He currently serves as the company's CEO.



### Student Managed Fund

Allocating 8.6% of Portfolio

Average Cost: \$54.17 / share  
Current Price: \$62.25 / share  
Appreciation: 15%

## Recent Developments

Private equity firm KKR has announced a proposed deal to take WBA private

If a deal is agreed upon it will be the largest leveraged buyout in history

With a current market capitalization of \$55b, the deal, if were to happen would most likely make each share worth ~\$80. Our original investment was \$54.



Walgreens Boots Alliance

KKR



# Case Study: HCA Healthcare

Analysts: Julia Wilson and William Mudlaff

## Business Overview

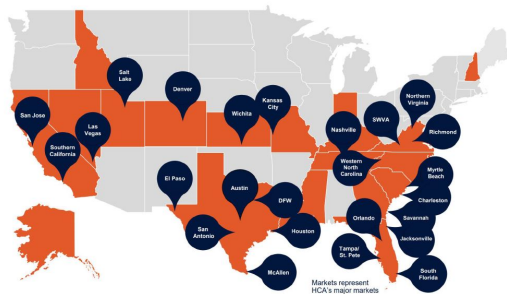
Largest hospital operator, surgery center, emergency care, urgent care, walk-in clinic business

Has significant or dominant market presence in 7 of top 10 retiree markets

Operates 175 general and 3 psychiatric hospitals with 46,687 and 412 licensed beds, respectively

Revenue Sources: Managed Care: 52.4%, Medicare: 21.1% Managed Medicare: 11.8%

## Information



### Student Managed Fund

Allocating 5.8% of Portfolio

Average Cost: \$121.51 / share

Current Price: \$134.37 / share

Appreciation: 11%

## Developments and Trends

In 2006, KKR made a \$33.6b acquisition, the largest of its time

In 2010, HCA went public, stock has compounded >300% since

Industry shift to low-cost healthcare options

Aging population migrates to concentrated regions:

- Florida: 69k
- Arizona: 31k
- South Carolina: 12k
- Texas: 8k

## Investment Thesis

### Position

25% of market share in the markets it operates in. Texas: 32% Florida: 43.7%

### Continuum of Care

Strong network of outpatient facilities

### Growth

Well positioned in key, growing markets: Nashville, Houston, and Dallas



# We've Learned Just as Much From The Companies We Decided Against

## Rejections

The Goodyear logo features the word "GOODYEAR" in a bold, yellow, sans-serif font. A yellow winged foot is positioned above the letter "Y".The GNC logo consists of the letters "GNC" in a large, bold, red, sans-serif font. Below it, the tagline "LIVE WELL." is written in a smaller, red, sans-serif font.The Atlas Air logo features the words "ATLAS AIR" in a bold, blue, sans-serif font. Below it, the word "WORLDWIDE" is written in a smaller, blue, sans-serif font. To the right of the text is a yellow graphic of a globe with a grid pattern.The Adobe logo features a red stylized "A" icon to the left of the word "Adobe" in a bold, black, sans-serif font.The Prologis logo features a green and blue globe icon to the left of the word "PROLOGIS" in a bold, green, sans-serif font.

## Pitfalls and Mitigants

- **Business was overly leveraged relative to current and projected earnings**
- **Understand destructive impact of interest expense and identifying operating leverage**
- **Business was significantly overvalued relative to price determined by DCF**
- **Re-evaluate model while committing to realistic assumptions, be okay with cutting our losses**
- **Large amounts of stock-based compensation (SBC) or M&A distorting earnings and free cash flow**
- **Use organic growth to grow earnings, treat SBC like Capex by subtracting it from Free Cash Flow**





# Q&A

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# Appendix

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# Appendix: Moody's

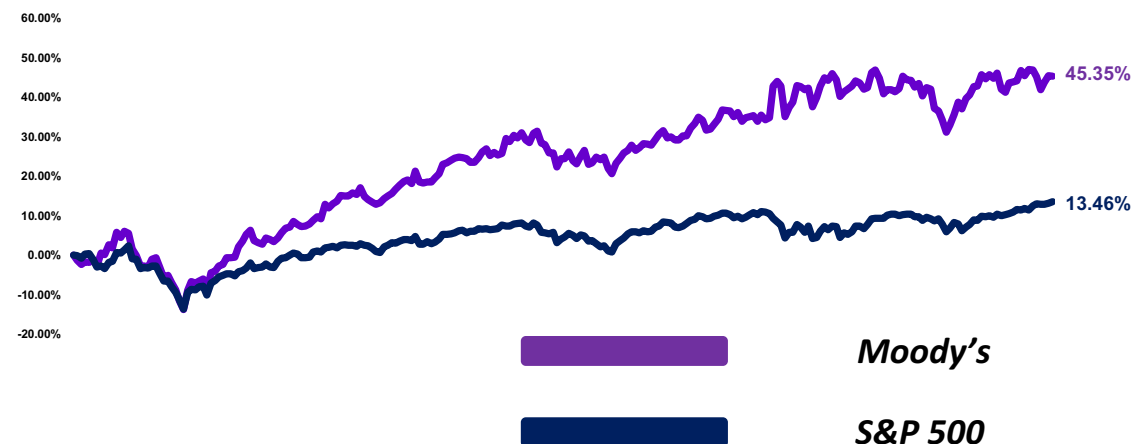
## About the Company

- Independent provider of credit ratings, economic opinions, and related financial information.
- Moody's Investors Services (MIS) provides traditional credit ratings and market reporting
- Moody's Analytics (MA) MIS provides traditional credit ratings and market reporting covering over \$74+ trillion of global debts

## Investment Thesis and Risks

- **The successful proliferation of Moody's Analytics division has diversified the company and provided strong stable growth.**
- **Increasing M&A activity targeting financial information sources will provide Moody's with unbeatable reach and distribution power.**
- **Lower volume of M&A and CAPEX spending despite increasing deal sizes**
- **Potential anti-trust and stricter regulation of industry oligopoly**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	MCO
Price Paid:	\$196.81
Closing Price 11/15/19:	\$221.38
Target Price:	\$221.21
Projected Margin of Safety:	12.39%
Portfolio Weight:	5.90%
Analysts:	Alexander Greenberg and Santiago Persano



# Appendix: HCA Healthcare

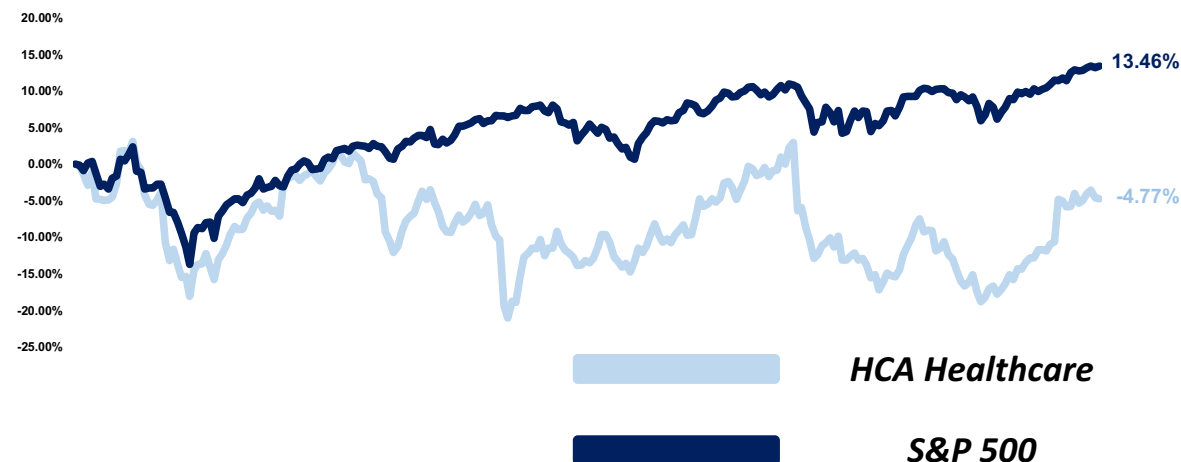
## About the Company

- Leading Healthcare provider in the United States with 184 general, acute care hospitals, 125 ambulatory service centers (ASCs), 137 urgent care centers, 3 psychiatric hospitals, and 1 rehabilitation hospital
- HCA's commitment to providing excellent services across the continuum of care translates into a leading position (1 or 2) in market share in 28 of its 37 markets

## Investment Thesis and Risks

- Strong positions in growing markets, robust presence across the continuum of care, and has plans for measured expansion into new markets
- Recent acquisitions in North Carolina and Georgia position HCA well in the rapidly developing urban south
- **US healthcare reform: 40.9% of HCA's revenue is derived from Medicare and Medicaid programs**
- **Aging population put significant pressures on margins**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	HCA
Price Paid:	\$121.51
Closing Price 11/15/19:	\$136.78
Target Price:	\$130.88
Projected Margin of Safety:	8.7%
Portfolio Weight:	5.89%
Analysts:	William Mudlaff and Julia Wilson



# Appendix: Norwegian Cruise Line

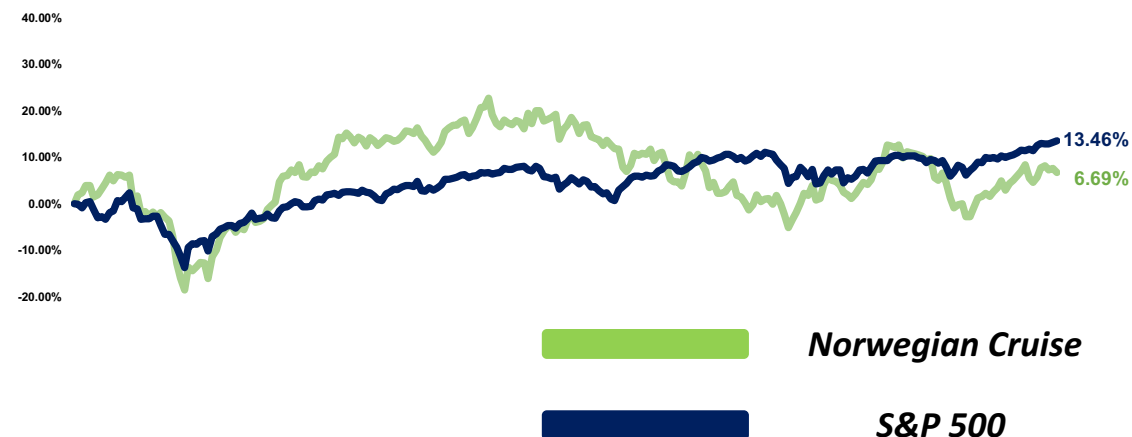
## About the Company

- The smallest of the three leading international cruise lines with 26 ships, 54,400 berths and 450+ destinations
- **Composed of three separate brands**” Norwegian, Oceania, and Regent Seven Seas, each of which serve a different demographic of the cruise market
- **Drives best in class yield through** enhanced product offerings and efficient fleet usage

## Investment Thesis and Risks

- **Chinese and Asian-Pacific market is rapidly growing and Norwegian is positioned to benefit via strategic initiatives**
- **Underpenetrated international cruise market provides excellent growth opportunities for the brand**
- **IMO Fuel Regulations: Beginning Jan 1 2020, a new global limit on sulfur content of fuel of 0.5% is being put in place**
- **Rise of nationalism and protectionism may negatively impact international travel**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	NCLH
Price Paid:	\$51.71
Closing Price 11/15/19:	\$53.49
Target Price:	\$71.54
Projected Margin of Safety:	39.76%
Portfolio Weight:	7.21%
Analysts:	William Mudlaff and Morgan Van Liew



# Appendix: Alphabet – Class A

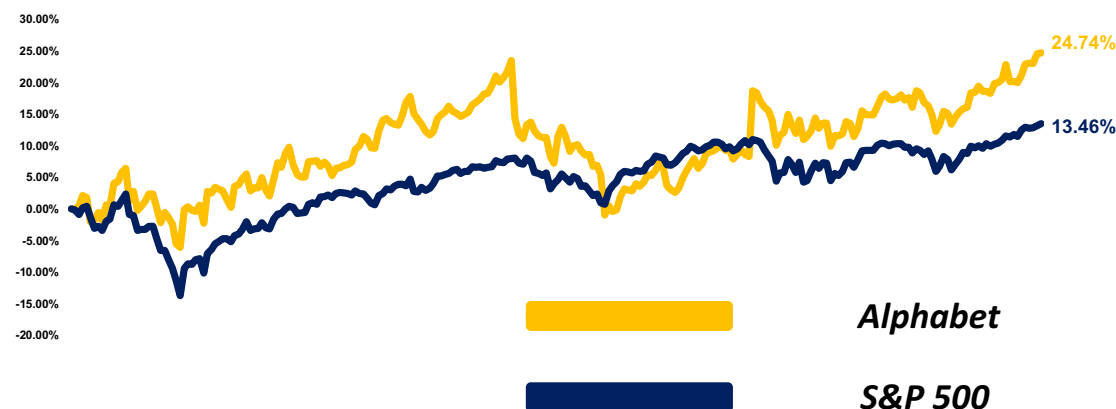
## About the Company

- Holding company most known for its primary business, **Google**
- **Operates in two main segments:** Google (99% of revenue) and Other Bets (<1% of revenues)
- Google earns a majority of its revenue through **advertising and search functions**. Other Bets is made up of experimental companies like financing solutions and self-driving cars

## Investment Thesis and Risks

- Google has established itself as a leader in innovating and technology
- Integrated into everyday life and pushing into new technologies such as **cloud computing, AI, and quantum computing**
- Google has **50% market share** of the online advertising market
- **Undiversified revenue stream: 86% of Google's revenue comes from online advertising**
- **Antitrust regulations could disrupt Google's monopoly**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	GOOGL
Price Paid:	\$1,284.51
Closing Price 11/15/19:	\$1,319.84
Target Price:	\$1,327.00
Projected Margin of Safety:	7%
Portfolio Weight:	6.37%
Analysts:	Morgan Van Liew and Andrew Willard





# Appendix: Texas Instruments

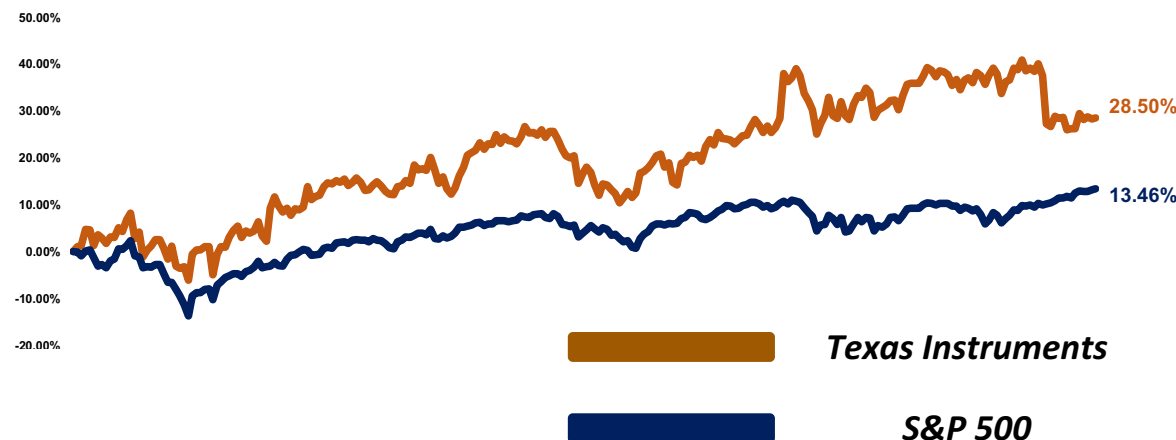
## About the Company

- Designer and manufacturer of high-quality processors.
- Through have two main segments of which they own 18% market share in: analog and embedded processors.
- TXN manufactures 40% of inputs in house, 40% from subcontractors, and 20% from external foundries.
- All products are made open source, which allows its customers to invest their own R&D.

## Investment Thesis and Risks

- Emerging technologies which will lower cost of sales or increase demand for analog and embedded processors.
- TXN benefits from adoption of 300mm silicon wafers, wide bandgap semiconductors, automated driving, IoT, and 5g.
- **Substantial competition from large and small corporations domestic and abroad.**
- **Moore's Law will flatten, and processor capabilities will decelerate.**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	TXN
Price Paid:	\$120.06
Closing Price 11/15/19:	\$117.89
Target Price:	\$141.00
Projected Margin of Safety:	19%
Portfolio Weight:	5.18%
Analysts:	Francis Stino



# Appendix: Caterpillar

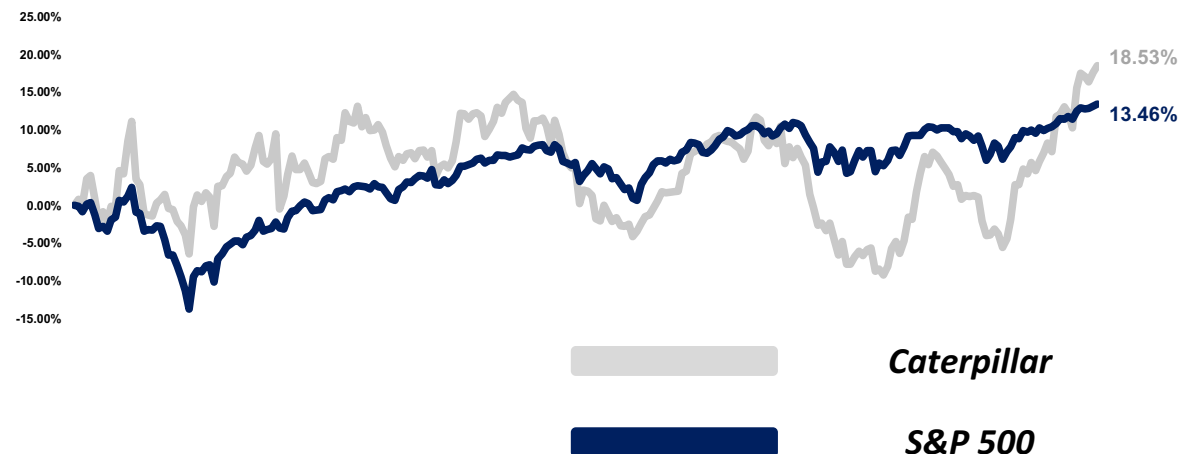
## About the Company

- Leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial turbines and diesel-electric locomotives
- Business segments include: Construction & Industries, Energy & Transportation, Resource Industries, and Financial Products
- Construction Industries and Energy & Transportation account for 76% of sales

## Investment Thesis and Risks

- During a recession, CAT will be able to generate significant sales from government-led infrastructure improvement programs
- CAT's innovative technology and advanced data analytics tools will help grow sales both domestically and internationally
- **Environmental protection laws may require significant compliance costs**
- **Business correlated with government and business investment in infrastructure**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	CAT
Price Paid:	\$137.34
Closing Price 11/15/19:	\$143.59
Target Price:	\$148.48
Projected Margin of Safety:	6.01%
Portfolio Weight:	7.03%
Analysts:	Alexander Greenberg and Santiago Persano



# Appendix: Oshkosh

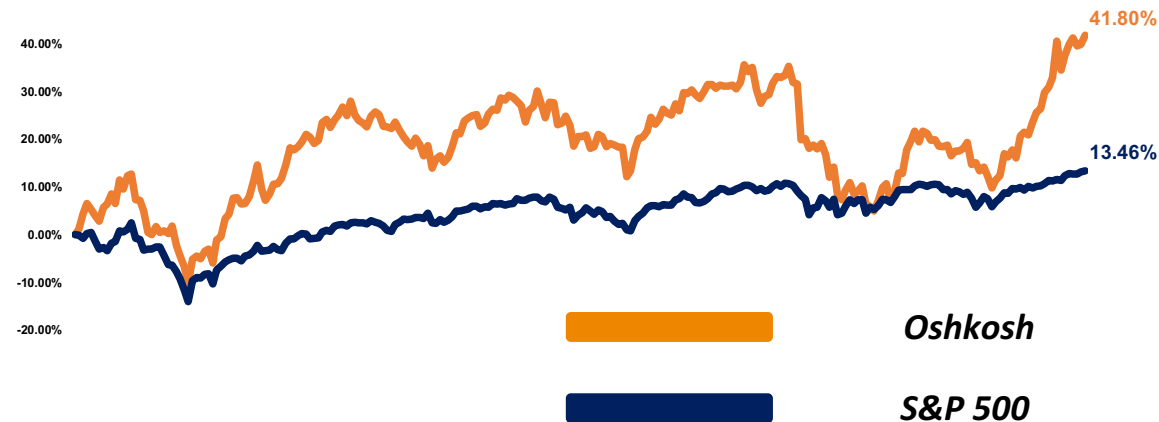
## About the Company

- Designer, manufacturer, and marketer of **specialty vehicles and vehicle bodies**
- **Operates through four segments:** Access Equipment, Defense, Fire & Emergency, and Commercial
- **Customer base** includes governments, equipment rental companies, construction contractors, manufacturing companies and home improvement center

## Investment Thesis and Risks

- **Government Contracts** - Oshkosh has secured highly valued and coveted contracts with the government to provide light, medium, and heavy vehicles.
- **Innovative Product Line and Components**
- **Future Avenues for Growth**
- **Heavily outsourced manufacturing and production process**
- **Subject to cyclical in construction and warfare markets**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	OSK
Price Paid:	\$91.33
Closing Price 11/15/19:	\$90.28
Target Price:	\$95.54
Projected Margin of Safety:	10%
Portfolio Weight:	4.94%
Analysts:	Fred Stino & Sean Brown



# Appendix: Waste Management

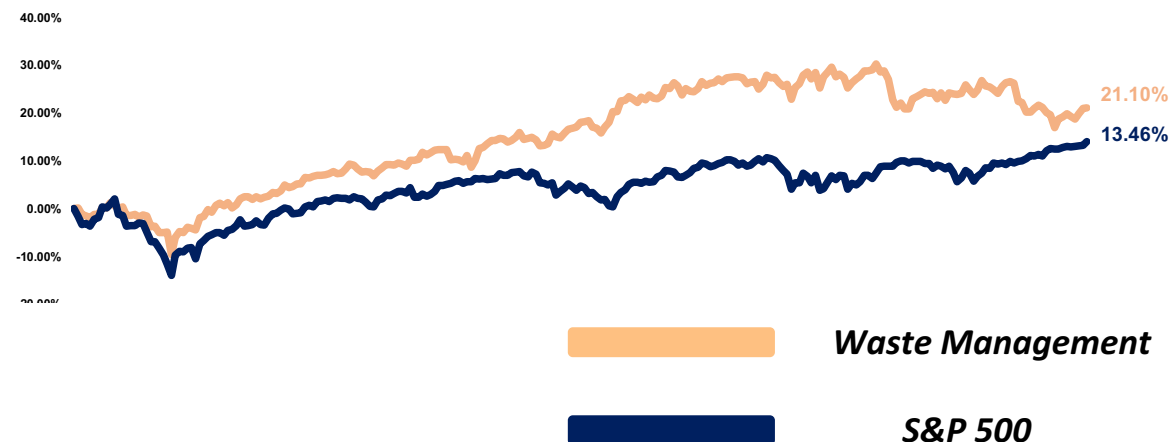
## About the Company

- Provides waste management services including collection, transfer, recycling, resource recovery, and disposal services, and operates waste-to-energy facilities
- Services municipal, commercial, industrial, and residential customers throughout North America
- 250 owned or operated landfills (the industry's largest network), more than 300 transfer stations, and around 100 material recovery facilities

## Investment Thesis and Risks

- Defensiveness through business cycles, strong financials, and leadership within the industry
- Diverse revenue mix with a largely uncorrelated revenue stream
- Net income increased 25.25% in 2018 and generated an ROIC of 14.6%
- **China has imposed new tariffs on the import of recyclable commodities, including wastepaper, plastics and metals**
- **Collection services account for more than 50% of sales**

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	WM
Price Paid:	\$111.94
Closing Price 11/15/19:	\$112.40
Target Price:	\$122.44
Projected Margin of Safety:	11.31%
Portfolio Weight:	5.00%
Analysts:	Julia Wilson and Evan Cybart



# Appendix: HLI Houlihan Lokey, Inc.

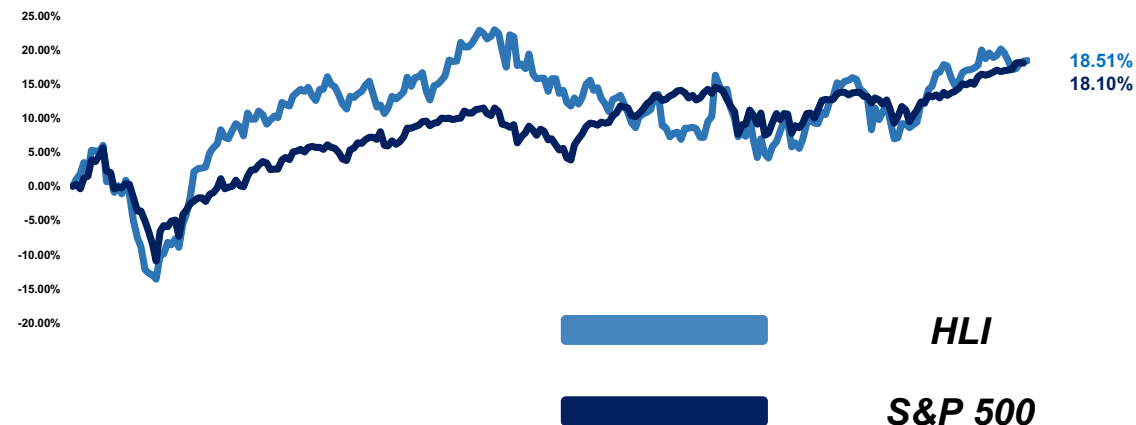
## About the Company

- Established in 1972 and headquartered in Los Angeles, CA, HLI is a growing multinational investment bank with over 1,000 financial professionals spread through 22 locations worldwide
- HLI operates three business segments in Corporate Finance, Financial Restructuring, and Financial Advisory Services which represent 56%, 29.3%, and 14.7% of their revenues respectively

## Investment Thesis and Risks

- Nine strategic acquisitions over the last ten years have enabled HLI to grow its business in new markets and industries
- HLI has been recognized as the No. 1 M&A Advisor for all U.S. Transactions over the last four years and No. 1 Global Restructuring Advisor for five of the past ten years
- HLI is positioned to succeed in both strong and weak economic conditions, providing a hedge against substantial fluctuations in revenue

## 1 Year Performance vs. S&P 500



## Valuation

Ticker:	HLI
Price Paid:	\$47.67
Closing Price 11/20/19:	\$47.70
Target Price:	\$52.95
Projected Margin of Safety:	11.08%
Portfolio Weight:	5%
Analysts:	John Brindisi and Justin Wagner

