

# University of Richmond

## Student Managed Investment Fund



## 2018 - 2019 Annual Report



# Table of Contents

- Letter from the General Manager..... 3
- Overview & History..... 4
- SMIF Advisory Board..... 5
- SMIF Recruitment and Evaluation Process ..... 8
- Investment Policy Statement..... 9
- Economic Overview & Analysis..... 11
- Growth Fund Overview ..... 18
- Growth Fund Attribution Model ..... 20
- Growth Holdings..... 21
- Value Fund Overview ..... 39
- Value Fund Attribution Model..... 41
- Value Holdings ..... 42

## Letter from the General Manager

Dear Advisory Board and Robins School Faculty,

I begin this letter with a great sense of pride and gratitude about the University of Richmond Student-Managed Investment Fund. I am proud not only of our steady performance, but of the diligence displayed by this group week after week for the past year. I am grateful for the honor of serving as General Manager, and for the opportunity that was bestowed upon us as members of the Student-Managed Investment Fund.

Throughout the school year, we did an excellent job of stewarding the University's capital while creating an engaging and dynamic learning experience for the select group of students who participated in the fund. We were able to create and test new investment ideas in a challenging and collaborative environment while tracking against our benchmarks for competitive returns.

The New York City trip we took in September set the stage for this year's performance. I found that many of the strategies and security selections shared with us by professionals on that trip resurfaced in later pitches by SMIF managers. Throughout a year of profound economic and political change in the world around us, this group faced each new challenge in the market with confidence, courageously holding on to our conviction buys in the midst of the late 2018 correction, and resisting the temptation to buy in to positions that didn't align with our outlook when the market began to tick back up at the beginning of the year.

Dr. Earl's faculty advising strategy of "throwing us in to the deep end" and allowing us to "learn to swim" proved effective as we created our own set of expectations and procedures that built on the foundation set by our chartering documents and the work of previous classes. As a group, we strived for technical excellence by enforcing an expectation that all financial analysis and valuation models were informed by deep industry and company research.

In the spring semester, we took a more passive approach to our fund management by deciding against adding any new positions to the portfolio and opting instead to discover how our existing positions would play out. We focused a great deal of our efforts in the last couple of months on recruitment and selection. I made it my personal mission to ensure that we encouraged the best and brightest finance students from across the Robins School to apply and be a part of the SMIF experience. As you will see in this report, we developed a new methodology for quantitatively evaluating candidates that I believe will contribute to the perpetual excellence of the group going forward.

The new managers were selected for their academic achievement, practical finance experience, and technical knowledge demonstrated through written reports and interviews. I am extremely confident that this group will set a new standard for what it means to be a Robins School SMIF Manager.

I speak for all of us when I say that we will remember the role of SMIF in our undergraduate education. I hope this annual report serves as evidence of the accomplishment of the 2018-2019 Student-Managed Investment Fund, and as an indication that the best is yet to come.

Best Regards,

**Jeremy Lacy**  
General Manager  
March 28, 2019

## Overview & History

The Student Managed Investment Fund, also known as SMIF, provides valuable, real-time experiential learning in security analysis and portfolio management. Managers gain real world experience in topics and theories that are discussed in the classroom. SMIF is the capstone course to the investment studies track; a sequence of courses developed by the Finance department over the past decade.

The Student Managed Investment Fund was created in 1993 by the Board of Trustees with a transfer of funds from the University's endowment.

## Process

Managers are chosen through a rigorous selection process that encompasses an application, written research report, and a formal interview. All parts of this selection process are scored quantitatively. The existing Managers make all selection decisions with oversight from the SMIF faculty advisors. Once selected, Managers are encouraged to take courses in the "investment track" consisting of Financial Management, Fixed Income & Derivatives, Investments, and Security Analysis & Portfolio Management. Students manage the fund from April to April and receive one unit of academic credit for their participation in the spring semester. Growth and Value fund meetings are held at least once a week to evaluate the status of the fund and any other administrative duties that are pertinent to its success.

SMIF is completely equity based and is split into a Growth Fund and a Value Fund. The two funds are each comprised of seven to nine managers. A General Manager actively participates in both funds and ensures the professional management of SMIF as a whole.

Managers act as security analysts and portfolio managers. Through many different research sources, information is gathered in an attempt to lead to a buy or sell decision. Practical investment knowledge, through field trips, internships, and a close working relationship with market professionals, enhance the overall educational experience for the SMIF Managers. This generally includes at least one trip to visit alumni working on Wall Street.

SMIF maintains working relationships with alumni and other professionals in the financial services industry, acting as mentors for the managers of the portfolio. The managers work with faculty advisors from the finance department as well as with an Advisory Board consisting of investment professionals from the local Richmond community.

Each year, SMIF continues to improve and plays a unique role in the finance curriculum. Through high caliber students, determination, and professional conduct, the Student Managed Investment Fund will remain one of the most unique and prestigious programs offered at the University of Richmond.<sup>1</sup>

---

<sup>1</sup> As denoted in Student Managed Investment Fund Chartering and Historic Documents

## SMIF Advisory Board

**Rob Allen**

*Capstone Financial Partners*

**Nancy Baganoff**

*University of Richmond*

**Perry A. Corsello, CFA**

*Virginia Retirement System*

**Christopher Dion**

*Lowe, Brockenbough & Co.*

**John Earl**

*University of Richmond*

**Steve Fisher**

*Virginia Asset Management*

**Cederic Fortemps**

*Matrix Capital Markets*

**Patrick Gallagher**

*Boxwood Partners*

**Steve Goddard**

*London Company*

**Chris Haberlin**

*Davenport & Co.*

**Roberta Keller**

*Alexis Advisors*

**Ashley Long**

*1607 Capital Partners*

**Jeffrey McNeill**

*SunTrust Bank*

**Pat O'Hara**

*Agincourt Capital Management*

**Chris Pearson**

*Davenport & Co.*

**Matt Rosenthal**

*Aptimy*

**Doug Sandler**

*Riverfront Investment Group*

**Mark Schlegel, CFA**

*TFS Capital*

**John Sherman**

*Scott & Stringfellow*

**George Smith**

*Davenport & Co*

**Don Steinbrugge**

*Agecroft Partners*

**Jerry Stevens**

*University of Richmond*

**Cody Tafel**

*Thompson, Siegel & Walmsley*

**Dennis Tarrant**

*Davenport & Co.*

**Dan Whitlock**

*Virginia Retirement Systems*

**James Mallory**

*SunTrust Bank*

# Student Managed Investment Fund (SMIF) 2018-2019

## Faculty Advisors

Dr. John Earl

Dr. Jerry Stevens

## General Manager

Jeremy Lacy

## Vice President of Recruitment

Julian Baretta

## Growth Fund Managers

*Head Manager:* Bobby Piluso

Brad Gibson

Christian Berardo

Jack Tierney

Jess Wilson

Kate Schlinke

Keenan Shepard

Luke Knott

Ying Wu

## Value Fund Managers

*Head Manager:* Matt Freda

Casey Begoon

Chilton Gaines

Dennis Smith

Julian Baretta

Pedro Balaban

Rishabh Jain

Ryan McCaffrey

Ryan Pasquali

# **Student Managed Investment Fund (SMIF) 2019-2020**

## **General Manager**

Claire Griffiths

## **Vice President of Recruitment**

Alexandra Kohnert

## **Growth Fund Managers**

*Head Manager:* Sheldon McMeans

Alexandra Kohnert

Andrew Nummy

Bennett Cooper

Blake Goodman

Caleb Michalak

Kathryn Shea

Lexi Serek

Will Gladstone

## **Value Fund Managers**

*Head Manager:* Ben Smith

Caroline Zerkle

Chris Gilbert

Katrina John

Kirsten Lee

Laughlin Ashe

Marty Durkin

Michael Elliott

Ross Dimchev

# SMIF Recruitment and Evaluation Process

## **Overview**

The new manager class is the first class to have been recruited using a new quantitative evaluation process that was proposed by previous managers. We broke the process into 4 steps: Outreach, Application Review, Equity Research Report and Interviews. The process was designed so that SMIF is able to recruit the most competitive applicant pool possible. While applicants were evaluated based on set criteria, the criteria were not released to candidates in an effort to ensure a fair process for all applicants. With the addition of a comprehensive scoring rubric, a new position was created: Vice President of Recruitment. This individual is responsible for assisting the General Manager in the organization and running of the entire recruitment process.

## **Outreach**

This year, the group decided to expand our initial outreach to attempt to reach a more diverse group of students. The General Manager sent a description of SMIF as well as the application process to all Junior Finance concentrations in the Robins School. Members attended each section of Investments and Introduction to Equity Analysis to provide a brief overview of the fund as well as outline the application process. This year we also presented to Alpha Kappa Psi, Delta Sigma Pi, Women in Business, and Finance Society.

## **Application Review**

Applicants were first asked to fill out a brief application explaining their reasoning for why they wanted to join SMIF and they also submitted their resume. Applications were assigned numerical scores based on GPA, prior experience, future internship plans, and college involvement. Applications were graded by a small group of SMIF managers and managers were not allowed to grade applications of related applicants (Greek-life or other student organization affiliations). Applicants were moved to the next step in the process if they met two criteria: A GPA of at least 3.2 and a grade higher than a B if they had completed investments.

## **Equity Research Report**

Each qualified applicant was randomly assigned a stock that SMIF currently owns to complete a research report. They were also assigned a current member to act as a mentor and guide them through the process of writing a research report. Reports were grade based on quality of content and the logic behind their investment thesis. Each report was graded by a current manager and managers were prohibited from grading reports of affiliated individuals. Candidates who completed their research reports were advanced to final round interviews.

## **Interviews**

Each candidate completed 3 separate interviews designed to simulate a super day as used in the investment banking industry. Each interview room had a theme: Technical, Markets, and Behavioral. Similarly, each room consisted of at least 2 current managers who did not share the same Greek life affiliation. Each manager provided a score out of 4 for each individual and scores were averaged to calculate a single final score for the candidate's interview portion of their application. No interview question guide was used or distributed in an effort to ensure the fairness of the interview process.

## **Final Selection**

Each candidate's three scores were aggregated to give a single final score out of 100. The 18 candidates with the highest scores received offers to join SMIF. To select the final candidate, two managers conducted a second round of interviews of three candidates to eliminate and biasing in score caused by different reviewers. The 19th manager was selected by these managers.

# Investment Policy Statement

## *Investment Philosophy*

- The market consistently produces stocks that are incorrectly valued with regard to their fundamentals
- Both the Growth and Value Fund can implement fund-specific strategies to exploit these inefficiencies through fundamental company analysis
- The fund strives to be educational in purpose; while it is our duty to seek investments we deem to be the best use of the University endowment's capital, the goal is to gain greater understanding of the process behind portfolio management
- Growth fund is benchmarked against the SPYG ETF; Value fund is benchmarked against the SPYV ETF

## *Investment Process*

1. Economic, sector, and company research reveals potentially attractive areas
2. Depending on fund, manager utilizes specific screens for underpriced securities in a specific sector
3. Manager pitches investment thesis to his/her respective fund
4. Fund votes on investment thesis, must receive majority vote to acquire position
5. Investments are continually monitored

## *Investment Criteria*

- Properly executed sector and fundamental analysis reveals upside potential that outweighs downside risks
- Managers should consider the sustainability of current fundamentals in the specific context of its sector and industry
- Stocks must be from the Russell 1000 index<sup>1</sup>

## *Sell Discipline*

- Positions are continually reassessed by the fund as a whole, and are sold if:
- Investment thesis/objective (as specified by manager who pitched it) is achieved
- New information changes risk/return profile of investment
- Stop loss is triggered

---

<sup>1</sup> Note: managers have discussed allocating 10% of each fund devoted to small-cap investment. Currently, no small-cap investments are held in either portfolio. However, next year's managers are encouraged to allocate up to 10% of each fund to small cap investments.

- Potentially volatile investments are accompanied by a stop loss that is determined by pitching manager in the context of the individual investment
- Reassessment is required when holding has reached its targeted holding period

### ***Investment Horizon***

Upon takeover of the fund, new managers should reassess all holdings and examine if the investment thesis remains true. Managers must not compromise holding period to one-year in effort to prop up short-term performance for annual presentation to the board. Typical value horizons should range from 3-5 years, and while positions can be liquidated and reallocated if the thesis weakens, decisions should not be made based on the one-year time horizon of the managers on the fund. Typical growth horizons should range from 6 months - 2 years and should not be hindered by manager turnover.

### ***Portfolio Allocation***

- Attempt to diversify sector and individual weightings to manage risk
- Each sector is over or underweighted compared to benchmark based on sector research
- Properly use and monitor the attribution model to ensure that the fund is properly allocated
- Target 12-25 holdings per each side of the fund, with maximum holding as 12.5% of the respective fund

### ***Inactive Trading Period***

By nature of the fund, managers are not allowed to trade during the summer period between spring and fall semester. During this period, cash balance may exceed the 5% barrier. All positions may be guarded by stop-loss triggers in case of market downturn during the inactive trading period. Stop-loss trigger should be loose enough to allow for market volatility.

# Economic Overview & Analysis

## Part 1: U.S. Economy

The US economy continues to trend upwards as it recently made an impressive milestone for the longest bull market in history – nine years, eight months, and twelve days. The labor market is tight, sporting a record level of unemployment and rebounding wage growth. The three major stock indices, DJIA, NASDAQ, and S&P 500, all reached record highs at the end of September. Since 2015, the Fed has been raising interest rates from their all-time low of 0.25%. The Fed had a hawkish monetary policy in 2018 which was intended to combat inflation over the past 3 years of high economic growth, however, they have since halted this policy, and became dovish. The target Fed Funds rate currently sits at 2.25%, and the Fed expressed its intention to not raise rates after the next FOMC meeting, but will continue to evaluate the US Economy.

The unemployment rate has continued to trend downwards from its high in 2009 of 10.13%, reaching 3.8%, a level below the natural rate of unemployment of 4%. This hovers around the lowest level in nearly fifty years. The economy has added jobs every month since October 2010, a 99-month stretch that ranks the longest period of job growth on record. With tighter labor markets, theory suggest that the scarcity of labor supply will push wages higher. Until recently, monthly wage increases persistently undershot economist expectations. This combination of low unemployment and low wage growth aided the Fed’s efforts in combating inflation through steady rate hikes. However, in June of 2018, we began to see the labor slack diminished to a degree (4%) where it finally had upward pressure on wages. Wage growth is now on pace with the average growth we have seen in past post-recovery periods.

The most recent Labor Department data released for September supported our claims of a tightening labor market. Unemployment ticked down from 3.9% to 3.8% as the US most recently added 20,000 jobs. Average hourly earnings rose 2.8% YoY. Inflation currently sits at 1.6%, slightly below the Fed’s target rate of 2%. The Fed will continue to monitor this number closely as wages trend higher, as seen in Figure 1.1.

Figure 1.1

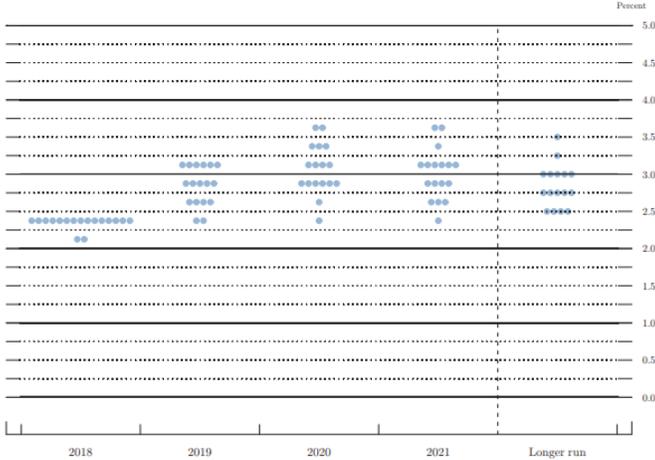


In response to the September jobs report, the Fed has decided to move forward with an ‘accommodative policy.’ This is a neutral policy position that will focus on raising interest rates at a steady pace without restraining economic activity. The Fed is aiming to reach a ‘neutral level’ that shows to be around 3% as shown in Figure 1.2. The Fed will continue to monitor wage growth, oil prices, and the unemployment rate as our economy approaches a period of uncertainty. Historically, tight labor markets combined with rising prices lead to an overheated economy and recession.

**Figure 1.2**

For release at 2:00 p.m., EST, December 19, 2018

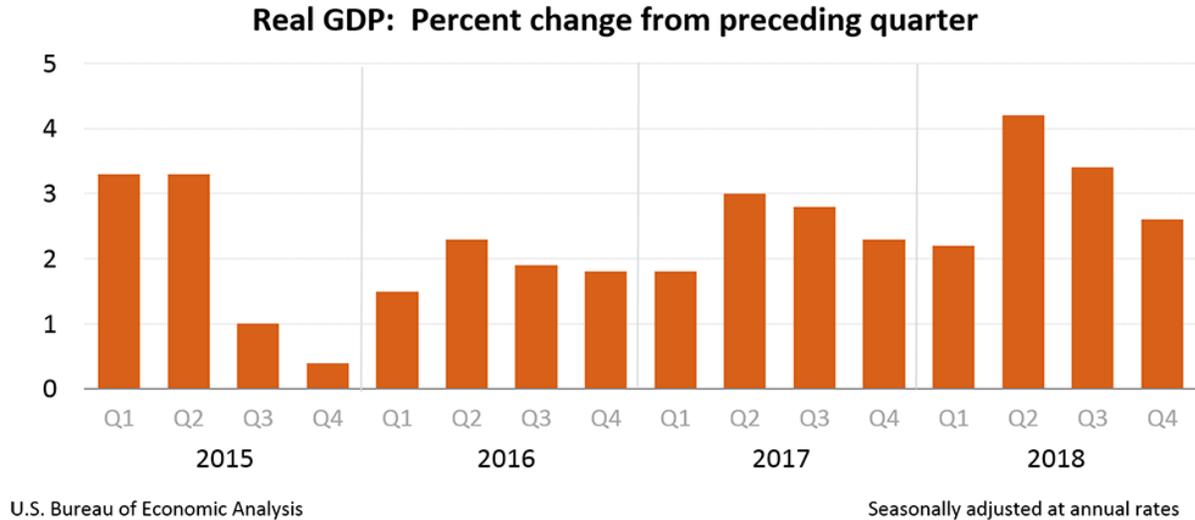
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The law of demand suggests that as wages push higher, firms will demand less labor. At this higher wage, labor will become more productive to capture the additional compensation and not be displaced. GDP growth is a broad measure of productivity across the US. Real GDP rose at a 2.6% seasonally adjusted annual rate in the fourth quarter, as seen in Figure 1.3. This report reinforced the view that the US economy had robust footing in the fourth quarter, powered by gains in consumer spending and business investment. Output is expected to expand at a solid pace in the third quarter, but is anticipated to cool down during the second quarter next year.

Forecasts anticipate 2.5% first quarter output growth. The big pillars of the economy: consumer spending and business investment, are expected to remain strong. Consumer sentiment has remained steady at 18-year highs. This is a sign that consumer spending should remain strong through the end of the year aided by robust job growth, rising real wages, and tax cuts fueled from lower income tax rates. Business investment for corporations in the S&P 500 was at a record high for two consecutive quarters as spending on equipment, factories, and other capital goods boomed. Consistent with late-cycle behavior, the pace of this investment growth is expected to slow in quarter three, as seen in Figure 1.4. Although slowing, spending is still expected to push third quarter GDP numbers higher. In a reversal from the second quarter, trade is expected to pull back the GDP number. This is a reflection of political tensions, tariffs, and temporarily shifting trade patterns.

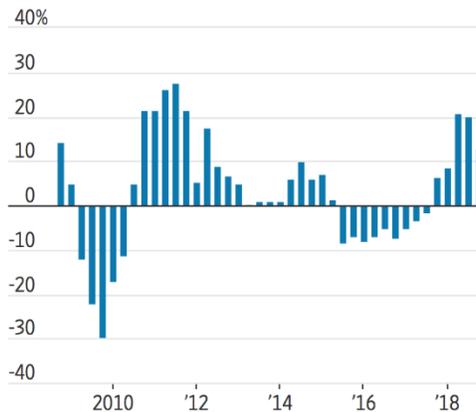
**Figure 1.3**



**Figure 1.4**

#### Investment Boom

Change from previous year in capital expenditures among S&P 500 companies.



Note: Compares like for like companies; 4Q2018 is estimated

Source: Credit Suisse

The Trump Administration passed new tax law at the beginning of 2018 that had implications for corporations and individuals. Included in the law was a \$1.5 trillion tax cut for corporations. Corporations are now being taxed as a flat rate of 21% down from 35%. The extra cash flow companies now have had their disposable is being put to use through increased business investment, as mentioned previously, and given back to shareholders in the form of dividends and share buybacks. Equity markets and the US economy have enjoyed the additional stimulus provided by the tax bill this year. Additionally, individuals have enjoyed a slight tax break this year, with further cuts promised by the Trump administration in the coming year. The top rate dropped from 39.6% to 37% and the lowest rate remains at 10%.

The US dollar has strengthened this year alongside robust economic growth and the favorable tax bill. The dollar has appreciated by 5% in real effective terms since February. The tax bill has incentivized many multinational corporations to move money back to the US. This means that they are buying US dollars to replace other foreign currencies, increasing the relative purchasing power of the dollar. Additionally, US equities have outperformed all other asset classes this year. Capital has flowed into the US as investors chase that yield, pushing the price of the dollar higher.

The US 2018 midterm elections were held on November 6. The markets expected that the Republican Party would continue to hold the Senate and the Democrat party would turn the House of Representatives. The results reflected these expectations. The market experienced a brief rally on the back of election results. With a bipartisan Congress, there is a smaller likelihood of further tax cuts which would exacerbate the federal deficit. Additionally, having a split Congress is expected to limit Mr. Trump's ability to continue using aggressive tariffs as a bargaining tactic with foreign nations. However, volatility in the markets quickly returned, extending the broader market sell-off seen throughout October and early November.

## **Part 2: International Economy**

Global growth is expected to reach 3.9% in 2018 and 2019 as the economic expansion is slowing down (World Economic Outlook). Growth prospects for emerging and developing economies are diminishing as oil prices are rising, yields in the US are rising, trade tensions, and dollar denominated debt becoming more expensive as the dollar appreciates relative to other currencies. The tariff increases by the United States and the retaliation from trading partners are increased the likelihood of long laster trade wars that could have adverse effects on the global economy. As the US economy continues to expand, the consumption of imports will continue to widen the trade deficit, further exacerbating trade tensions. Marco Buti, the head of the European Commission's economics department said: "Should extensive new tariff and non-tariff barriers emerge and spread globally, the negative impact on international trade and global growth would be sizeable."

### **I. Asia**

China: Trade concerns are at the forefront of the global macroeconomic viewpoint. With the U.S. recently imposing a 10% tariff on an additional \$200bn of Chinese imports, escalating concerns over a China-U.S. trade war have contributed to a risk-off sentiment among global investors in 2018. China has expressed that it will impose retaliatory tariffs ranging from 5-25% on \$60bn of U.S. goods, although President Trump has claimed an additional \$267bn of Chinese imports (essentially all remaining Chinese goods) will be hit if China retaliates. This has led to a sell-off in Chinese technology stocks, as well as leading the NASDAQ to come under pressure. Chinese equity markets are at their lowest level since 2016. Most recently, President Trump has been ridiculed because his tariff battle with China has led to a 10-year high US trade deficit and US spending has increased \$69 billion, consisting of increase in costs that are passed onto consumers.

### **II. Europe**

Germany: Angela Merkel is stepping down as head of Germany as the populists were angry at her relaxed border policies. Escalating political tensions are unlikely ahead of next summer, though 2H19 elections remain a risk. Merkel may be best positioned to negotiate either the European Commission or

the ECB Presidency for a German candidate. Germany's focus has turned to domestic issues, reducing political capital and time spent on European issues, indicating that room for compromise with the EU is more limited now than over the past decade. The potential for change in the German government with more conservative leadership could mean a tougher stance on Euro area rescue mechanisms if they become necessary while the ECB is withdrawing policy support. In an effort to solve the trade dispute with the U.S., German officials say the Merkel government hopes to embrace U.S. natural gas to perhaps diffuse the Trump Administration's threats to sanction the proposed Nord Stream 2 gas pipeline project (that would double Russia's existing gas export capacity to Germany). With the Merkel-led German national government faltering and Angela Merkel expected to step down, uncertainty has reduced market enthusiasm for German securities despite a booming labor market and subdued inflation.

*Italy:* New populist coalition is the greatest risk to the Eurozone and at the heart of discourse over intercepting those crossing the Mediterranean. Concerns over Italian bonds à debt around 130% of GDP. Italian bonds testing 3% mark. The Italian government faces a November 13 deadline to revise its 2019 draft budget plan and submit it to the European Commission. Italian data continues to come in soft with GDP stalling in Q3 below consensus expectations of 0.1% qoq. Additionally, October's PMIs unveiled weakness in the manufacturing sector, signaling domestic demand slowing. Job creation has been skewed toward low-quality jobs. These factors hint at the possibility for next year's GDP performance may fall short of the Italian government's forecasts. Further market concerns have been warranted by the economic outlook for the country becoming more challenging and speculation of delayed implementations to some spending decisions in the 2019 budget bill.

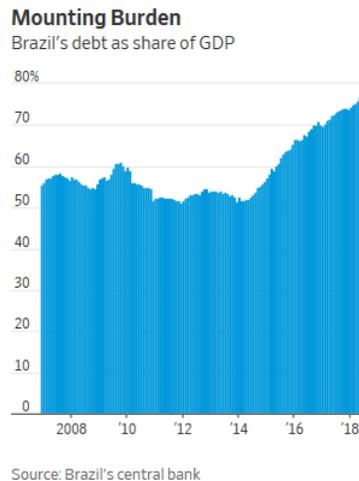
*European Central Bank:* Inflation exceeded its 2% target in June, the first time since December 2012, and accelerated to 2.1% in July. Mostly due to effects of energy prices, but core inflation also reached 1.2% in recent months. The ECB said they will keep interest rates at record-lows for longer as its weakening economy derailed its plan to withdraw stimulus. The ECB is expected to hold USD \$3.2 trillion at the end of 2018 and this level is expected to be held through the forecast period. Headline inflation is expected to come in at 1.7% this year and 1.4% in 2019, versus consensus and ECB expectations of 1.7% in both years. For core inflation, 2018 expectations lie at 1.0% and 2019 is left unchanged at a weak 1.4%.

### **III. Emerging Markets**

*Turkey:* Recep Tayyip Erdogan has pressured the central bank to keep rates down, but on Sept. 13 it raised rates by 6.25% to 24%, far exceeding market expectations. The lira has fallen by 40% against the dollar in 2018 and inflation is nearly 18%. YoY growth in Turkey has slipped 7.4% in Q1 and 5.2% in the second. 18 of Turkey's lenders were downgraded by Moody's. Erdogan faced a coup in 2016; won a subsequent election then held a referendum to tighten his control.

*Brazil:* Far-right candidate Jair Bolsonaro won Brazil's presidential election. As the largest economy in Latin America, Bolsonaro's economic is expected to offer market-friendly policies while reducing the size of Brazil's government. Bolsonaro aims to reform the country's economic policies, reflecting the anti-establishment sentiment achieving political success globally, following the victory of Andrés Manuel López Obrador in Mexico's presidential election earlier in 2018. These reforms include spending curbs, privatizations, and a loosening of labor market laws to support a gradual economic recovery. Brazil's public debt to GDP currently sits at 77% (Figure 2.1) and 80% of government spending is mandatory spending (55% accounted for by pensions).

**Figure 2.1**



One of Bolsonaro's key aims is tackling Brazil's debt problem through pension reform, halving the number of government ministries and extending privatization of state enterprises. Brazil's key challenge is a growing debt burden that has been bolstered by massive social security obligations. Investors should be focused on the potential for fiscal savings from any future cuts to benefits following social security reform. Despite the Brazilian economy recovering from a 2015-2016 recession, Brazilian risk assets have rallied since Bolsonaro's polling prospects improved ahead of the first round of the election. The Central Bank of Brazil has been holding rates at a record low of 6.5% with room to tighten in the face of any inflation scares. Brazil's longer-term prospects hinge on the new administration's progress in addressing government debt levels following the conclusion of a series of contentious political matches in Latin America.

#### **IV. Middle East**

Saudi Arabia: Tensions with Saudi Arabia have escalated over the recent death of Washington Post journalist Jamal Khashoggi, an outspoken critic of the Saudi government. Additionally, the ongoing conflict in Yemen as well as President Trump efforts to influence oil prices have strained tensions. Mr. Trump, seeking to mitigate threats to the U.S. economy following the midterm elections, has pressed the Saudis and OPEC to keep oil production at current levels, instead criticising oversupplied conditions that should lead to lower oil prices. These criticisms of the Saudi government come as the U.S. has ended refueling support for the Saudi-led coalition fighting against Houthi rebels in Yemen. While Mr. Trump is not expected to impose drastic sanctions over the Khashoggi killing, the Trump Administration is reportedly considering sanctions on some Saudi officials.

Oil: On November 8, the U.S. crude benchmark fell into bear market territory having fallen 20% from its October 3 peak of \$76.41 per barrel. Following a selloff on fears of growing U.S. output and weakening global demand, West Texas Intermediate crude hit a low of \$55.69 per barrel on November

13. A strong dollar, boosted by strength in the U.S. economy and interest rate hikes by the Federal Reserve, has weighed both on oil prices and the global demand outlook. A stronger dollar makes commodities such as oil more expensive in international markets by eroding the purchasing power of currencies that have weakened relative to the dollar. Moreover, the Energy Information Administration (EIA) has raised estimates for U.S. daily output to 11.60 million barrels per day for the week ended November 2 due to an apparent increase in production from offshore projects in the Gulf of Mexico coming online. However, it is unlikely that U.S. production will continue to soar in 2019 given long-term development cycles, high costs, and a lingering recovery from the last downturn in oil prices.

On the international front, OPEC appears committed to continue production cuts in response to a weakened global demand forecast. In addition, output has risen materially in several key OPEC nations: Saudi Arabia has seen an increase from 9.95 million barrels per day to 10.63 million barrels per day; the U.A.E has seen an increase from 2.85 to 3.16 million barrels per day; Iraq--long seeking to increase production--has seen output soar from 4.441 to 4.653 million barrels per day; and Russia, though not part of OPEC, has also witnessed an increase in production. Venezuela's economy has been in collapse and the country is not expected to lift oil production--even though 90% of the economy's revenue is reliant on production. Iran is largely a wildcard with sanctions recently reenacted in November, though little impact has been seen thus far. Saudi Aramco announced that it will abandon plans for a ~\$70bn corporate bond sale to fund an ownership stake in SABIC, Saudi Arabia's national petrochemical company, due to concerns over uncertainty in the oil market increasing the cost of borrowing and dampening the demand for Aramco debt. Though it seems unlikely that OPEC will continue to cut output and allow the United States to absorb global demand, current levels of uncertainty in the market warrant the recent pullback and suggest volatility will remain high in the near-term.

## **V. Trade**

*Trade Talks:* The United States reached a trade agreement with Mexico and Canada, revamping the current agreement called NAFTA. The United States-Mexico-Canada Agreement (USMCA) focused on logistics surrounding car manufacturing and dairy products. This was an important accomplishment for the Trump Administration, and the market responded positively to it. Optimism for the German economy has improved since President Trump agreed to refrain from imposing auto tariffs on the European cars in an August meeting with European Commission President Jean-Claude Juncker. Current figures point to 0.5% growth in the German economy in Q3. Both Germany and Italy face high rates of asylum-seekers entering the country each day.

# Growth Fund Overview

## **Growth Fund Philosophy**

The Growth Fund’s investment philosophy consists of three foundational principles: market inefficiency, the supremacy of a top-down approach, and security momentum. We believe that by actively managing our portfolio we can achieve above-market returns—that is, returns in excess of our benchmark, the S&P 500 Growth Index. We believe that an optimal investing strategy first establishes a broad economic outlook that identifies industries with exceptional growth potential and follows this with analysis and selection of individual securities within those favorable industries. Additionally, we believe that rising stock prices tend to rise further, while falling prices tend to keep falling.

## **Growth Fund Strategy and Tactics**

The Growth Fund’s investment strategies and tactics are rooted in the three foundational principles of our investment philosophy outlined above. Our managers employ a top-down investment strategy by first conducting thorough economic analysis of the domestic economy, as well as researching global economic factors that may impact domestic industries and firms. Some economic factors we have been monitoring this year have included: foreign and domestic monetary policy, unemployment numbers, oil prices, the Chinese economy, and U.S. consumer spending. We have also monitored industry factors, including: technological trends, demographics trends, lifestyle trends, industry regulation, industry life cycle, barriers to entry, substitute products or services, customer bargaining power, supplier bargaining power, and existing competition.

Once our managers have discerned industries with outstanding growth prospects, they search for the most advantageous stocks within those industries. The Growth Fund believes in the investing principle of momentum—that is, we believe that rising stock prices (“winners”) tend to rise further, while falling stock prices (“losers”) tend to continue falling. Within the industries that we have determined to be favorable, we screen for stocks with recent high returns. We then employ other techniques and strategies from both fundamental and technical analysis in our pursuit of excess return.

SMIF ’18-’19 conducted a range of methodologies in order to determine the implied fundamental value of the firms we invested in including: discounted cash flow analysis, company comparable using a range of multiples and S&P Normalizations. While growth investing is primarily concerned with the story of the firm and less about a company’s implied value relative to its current price, we used the valuations to see if we felt the story warranted a higher implied upside. If we liked a company’s business model, but felt the valuation was above levels we thought were justified by the story, we would likely turn to other investments. We identified trends in the current market that would grow as rapid adoption took place such as Genome Sequencing, and sought out firms that were best positioned to take advantage of that trend. We were less concerned with firms that produced steady cash flow, and focused more on companies that had extreme top line growth. As growth investors, we were not deterred from firms that were not profitable.

## **Buy Decisions and Sell Discipline**

We generally predict holding periods of 6 to 18 months as research has shown that this is approximately the period over which momentum generates excess return. However, we will occasionally make trades based on shorter-term market views. We endeavor to establish price targets and we continually reassess our positions based on new economic, industry, and company news. Thus, we make sell decisions when a stock has reached its price target and our re-evaluation has not changed our view, or when the stock has failed to reach its price target (or even declined) and our re-evaluation has changed our view.

## **Performance Overview**

- Over the past year, our fund has had a return of 10.87%, while our benchmark, the SPDR S&P 500 Growth Index, returned 9.64%. Our fund outpaced the benchmark by 1.23%.
- Our sector weights are currently: Technology 23.73%, Consumer Discretionary 28.01%, Healthcare 10.06%, Financials 11.01%, Industrials 9.59%, and Cash 17.61%.
- We are currently overweight Consumer Discretionary by 11.34%, Financials by 5.66% and cash 17.61%.
- We are currently underweight Healthcare by 7.30%, Industrials 0.28%, Technology by 18.03%, and Consumer Staples 4.21%.
- We currently have zero exposure to the Energy, Real Estate, Utilities, Consumer Staples or Telecom sectors.
- Our best performing positions are: Square Inc. +48.95%, and Abbott Laboratories +36.71%, Netflix +26.06%, and Estee Lauder +24.74%.
- Some of our worst performing positions were Baidu Inc., Raytheon Company, and Illumina Inc.
- The beta of our portfolio is 0.97.

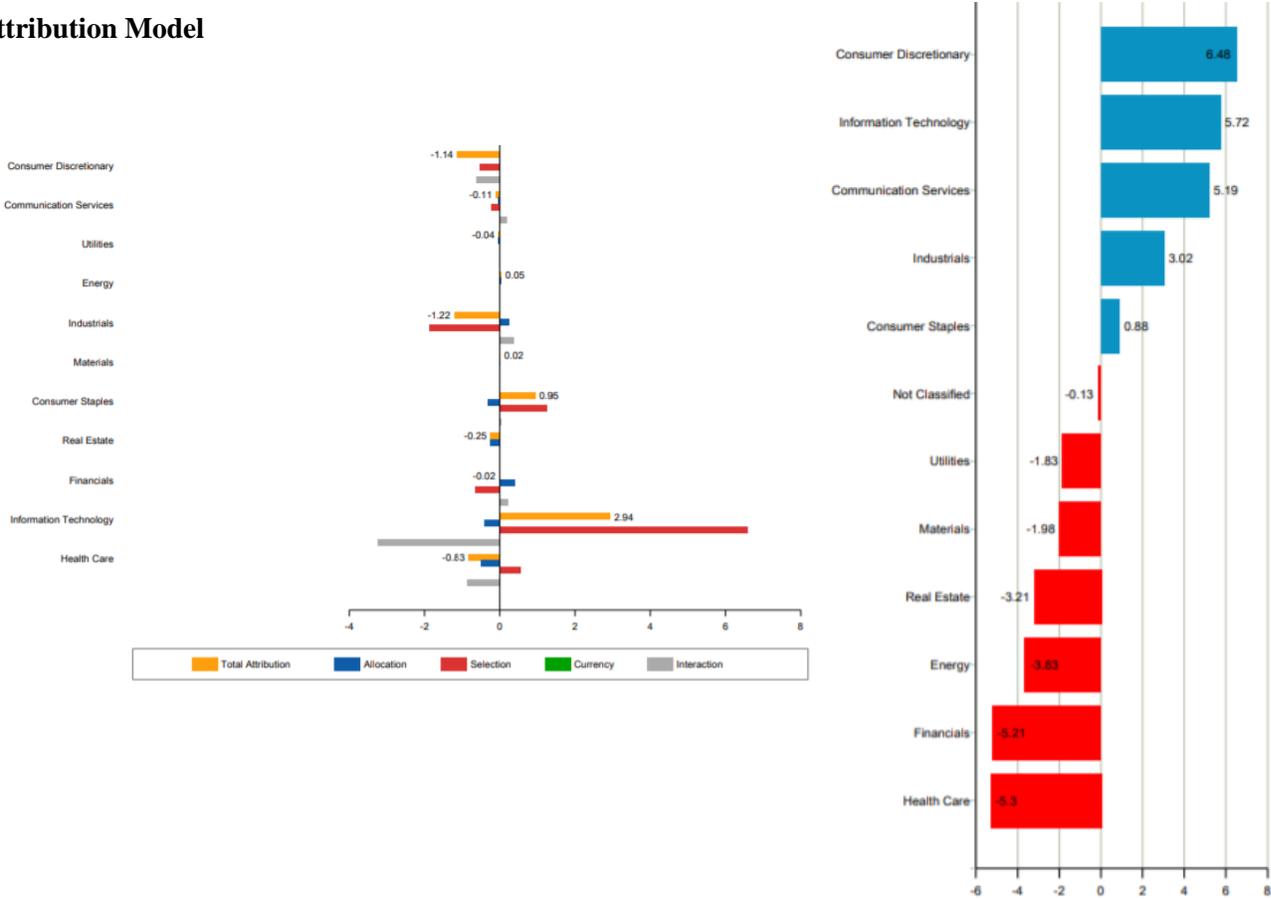
# Growth Fund Attribution Model

## Attribution Model Overview

Growth Fund achieved returns of 10.87%, excess of 1.23%, for the year 2018 – 2019. The sector with the highest alpha, 2.6%, was Information Technology, and lowest, -2.1%, was Health Care. The overall allocation effect was -3.4%, suggesting overweighting of wrong sectors during the year, with Health Care contributing the most, -0.5%. However, the selection effect was 5.1%, suggesting an outstanding selection of assets by the managers, with the highest contribution from Information Technology.

Some of the most notable selections that had the highest total returns were Square (49.0%), Abbott Laboratories (36.7%), Estee Lauder (24.7%), Microsoft (24.1%), and Match Group (23.9%). Compared to the benchmark, SPDR S&P 500 Growth ETF, the most overweighted sectors were Consumer Discretionary and Information Technology, and the most underweighted sectors were Health Care and Financials.

## Attribution Model



## Growth Holdings

### **Abbott Laboratories**

Ticker: ABT

Current Price: \$78.22

Purchase Price: \$66.80

### **Company Description**

Abbott Laboratories discovers, develops, manufactures, and sells a broad and diversified line of health care products. It operates through the following segments: Established Pharmaceutical Products, Nutritional Products, Cardiovascular and Neuromodulation Products, and Diagnostic Products.

### **Top-Down Reasoning**

The health care sector is in a strong position. It has had decent performance over the past 12 months and this level of performance should continue into 2019. In terms of the balance sheet, firms in the sector are in a good position with large amounts of cash. Additionally, demand is on the rise for health care products and services, due to an aging population. Lastly, the sector may see a continued benefit should rate hikes rise. The healthcare sector has historically outperformed during times of increasing fed rates.

### **Upside Catalysts:**

- **Synergies from Recent Acquisitions:** The acquisitions of St. Jude and Alere have provided synergies that helped sales growth of 17% for the quarter yoy and led management to up full year guidance for EPS. The acquisition of St. Jude in particular helps Abbott in the cardiovascular, diabetes, and neuromodulation lines of business.
- **New Products:** New products such as Freestyle Libre and Masters HP rotating heart valve top the list of the innovative products Abbott has been adding to their offerings.
- **Organic growth** in 6-7% range with EPS expected to grow in 12-16% range

### **Downside Risks:**

- **Slowed Growth in Medical Devices:** Lost market share in the cardiac rhythm management space to competitors Boston Scientific and Medtronic
- **Increased competition** in molecular diagnostics space
- **Regulatory uncertainty** within the space poses an issue to the whole sector

### **Investment Thesis**

Favorable conditions within the healthcare industry combined with strong catalysts make Abbott an attractive investment. The acquisitions of St. Jude and Alere have been paying off thus far, and their organic growth is strong in the 6-7% range. Their stock is currently sitting at the top of the 52-week range so for that reason I assign Abbott a hold rating.

## **Adobe Inc.**

Ticker: ADBE

Current Price: \$255.98

Purchase Price: \$215.00

52-Week Range: \$277.61/\$204.95

Target Price: \$275.00

### **Company Description:**

Adobe Systems is a software and services company which helps customers create, distribute, and manage digital content from the cloud. One of the top publishing software providers, it has been known for flagship products such as Acrobat, Photoshop, Flash, and Dreamweaver. Adobe serves customers such as content creators and web application developers with its digital media products, and marketers, advertisers, publishers, and others with its digital marketing business.

### **Top-Down Reasoning:**

Continued global digitalization and improvements in technology will continue to support the information technology sector. Adobe benefits from a strong brand name and a continued focus on research and development in order to diversify and increase revenue streams in a competitive market.

### **Upside Catalysts:**

- Subscription-based model shift will continue to boost revenues and demand for products
- Strong margins and free cash flow compared to competitors
- Diversification in product portfolio through acquisitions (Magento, Marketo, Allegorithmic)

### **Downside Risks:**

- Technology valuations remain high, and Adobe is no exception with a trailing P/E of 48. While, Adobe is well positioned with its subscription revenue model and cloud computing to continue to perform well, a shift into a recession could hurt demand and operating margins.
- Adobe faces heavy competition in the digital marketing space against competitors such as Salesforce and Oracle.

### **Investment Thesis:**

We believe Adobe's flagship products, diversification in revenue, and growth resulting from cloud computing and a SaaS business model make it well-placed to continue to achieve strong growth in earnings.

## **Amazon.com, Inc**

Ticker: AMZN

Current Price: \$1,620.80

Purchase Price: \$1,495.60

52-Week Range: \$1,307.00-\$2,050.50

Target Price: \$2,140

### **Company Description:**

Amazon.com, Inc. is an American electronic commerce and cloud computing company based in Seattle, Washington. It offers a wide range of products and services through its websites and digital platforms. The company is internationally diversified with products that include merchandise and content that it purchases for resale from vendors and those offered by third-party sellers. In addition, Amazon manufactures and sells a line of electronic devices such as the Alexa and Echo. Through its recent acquisition, Amazon now owns and operates the Whole Foods Market brand of grocery stores.

### **Top-Down Reasoning:**

Driven by increased consumer spending and the rapidly growing number of total internet connections, revenue for the e-commerce industry in the United States is expected to rise at an annualized rate of 9.2% over the next five years. Global retail e-Commerce market is expected to witness a high growth on account of favorable attitude towards new shopping channels and is projected to grow at a CAGR of 10% from 2016 to 2024. The industry is at the growth stage of its life cycle. At 35.2%, Amazon is the only player with greater than 5% of U.S. market share at the e-Commerce industry. The global market for public cloud is expected to expedite at a CAGR of 22.78% during 2017 to 2023, a market where 10% of Amazon's sales come from.

### **Upside Catalysts:**

- Since cloud computing business has been a hot topic, Amazon can take advantage of the increased demand for SaaS (software as a service).
- Amazon's strategy of gradually merging online and offline retail can help it not only reshape the retail landscape but also fend off competition.
- Amazon has built a strong position in the fast-growing market and the high growth are likely to be sustained over the next few years.

### **Downside Risks:**

- The competition in online retail is heating up.
- While expansion opportunities increase globally, currency continues to have a significantly negative impact on its e-commerce results.
- Amazon's global margins is under pressure.

### **Investment Thesis:**

According to its stellar financial performance, proven track record of innovation, and customer-centric business model, Amazon is expected to grow rapidly in the next few years. The one-year price target, calculated as the average of an S&P normalization, discount cash flow model and the analyst estimates, implies a 32% upside at \$2,140.

### **Ametek Inc**

Ticker: AME

Current Price: \$80.96

Purchase Price: \$80.55

52-Week Range: \$63.14 - \$81.92

Target Price: \$95.00

#### **Company Description:**

Ametek is a global manufacturer of electronic instruments and electromechanical devices in the aerospace, power, health care and industrial markets. The firm is headquartered in Berwyn, Pennsylvania, and has 150 manufacturing facilities throughout the world. The geographic breakdown of sales is 50% in the U.S., 25% in Asia, and 25% in Europe. One of the two main divisions, the electronic instruments group (EIG) creates instruments for oil & gas, automation, aircraft and engine sensors. The other division, Electromechanical group, creates electrical connectors and heat exchangers for aerospace and defense, hydraulic pumps, industrial blowers and aviation maintenance.

#### **Top-Down Reasoning:**

The U.S economy is growing at a slower rate than the previous few quarters with Q4 2018 GDP growth of 2.6%. In addition, a strong labor market with unemployment at 3.8%, inflation below the Fed's target of 2% at 1.5% and interest rates hovering around 2.5%, many U.S. stocks are poised to take advantage of the strong economy. Despite the slower growth, Ametek's industry is seeing an uptrend in demand for more advanced technologies. There has been major consolidation amongst the largest players in the space, with M&A accounting for the majority of growth in the industry.

#### **Upside Catalyst:**

- Management announced a goal to double the company in the next through years through a combination of organic growth and inorganic growth. The Street as a whole has accepted this plan which is reflected in the bullish sentiment by equity research analysts and a stock that has performed well in the end of 2018 and beginning of 2019.
- Ametek has historically had a strong acquisition methodology where they looked for strong management teams and solid cultural fit, operational synergies, and technically differentiated products and services. Most of their acquisitions have been EPS accretive by the first year.

#### **Downside Risks:**

- Inability for management to stick to the goal of doubling the company without putting the company in financial risk.
- Issue debt to acquire companies resulting in higher leverage and lower coverage ratios which can negatively affect the company's liquidity and free cash flow balance.

#### **Investment Thesis:**

Ametek Inc. has a goal of doubling its revenue to \$8bn by 2022 through both organic and inorganic growth. The company has been extremely effective in its past acquisitions and will likely continue the trend as it seeks to acquire companies that offer differentiated products. Historically, it has outperformed its peers in organic growth and with the acquisition growth, it has been able to expand into other sub-industries much faster than its peers.

## **Alibaba Group Holding Ltd**

Ticker: BABA

Current Price: \$175.03

Purchase Price: \$181.20

52-Week Range: \$129.77-\$211.70

Target Price: \$230

### **Company Description:**

Alibaba Group Holding Ltd. was founded in 1999 and is based in Hangzhou, the People's Republic of China. Alibaba is a Chinese multinational holding company and one of the largest internet companies in the world. Their subsidiaries provide e-commerce, retail, internet infrastructure, AI, technology, online financial, and internet content services. Alibaba's e-commerce and retail service platforms include Alibaba.com, AliExpress, Taobao, Fliggy Corporate, Tmall, Lazada, and 11 Main. The company provides consumer to consumer and business to consumer, but primarily provide their solutions for businesses.

### **Top-Down Reasoning:**

China is the largest and most innovative retail e-Commerce market in the world. With a forecasted CAGR in the double digits, online retailing is expected to grow from 18.4% of total retail sales in 2018 to 25% by 2020. The internet sector is maintaining sales momentum in 2018 on strong demand for mobile ads and e-commerce goods. Longer-term revenue levers, such as artificial intelligence, virtual reality and messaging, remain nascent.

### **Upside Catalysts:**

- The Chinese economy has seen great economic growth with a GDP Growth rate of 6.0% in 2019 as compared to 2.4% in the US.
- Alibaba has the most access to the growing Chinese economy where consumers are gaining more spending power and access to internet.
- Alibaba is invested in expanding into the international market which offers an opportunity for significant growth beyond just China.

### **Downside Risks:**

- China is predicting a slowdown in growth in 2019 from 6.5% to 6.0%.
- Alibaba has strong competitors such as Amazon, eBay, Baidu, Tencent, and JD.com.
- China has yet to achieve their change to an internet and consumer driven economy which Alibaba heavily relies on in order to reach its long-term growth potential.
- Aggressive investments and acquisitions in the industry pose uncertainties.

### **Investment Thesis:**

Alibaba dominates the online retail and the cloud computing markets in China which is Asia's largest economy and is projected to become the largest economy in the world. Alibaba is positioned well to capitalize on growth opportunities in both the Chinese and international economies. With favorable economic outlook, this is a great opportunity to buy rapid growth at a relatively cheap price. The one-year price target, calculated as the average of three valuation models and the analyst estimates, implies a 31.4% upside at \$230.

## **Baidu Inc.**

Ticker: BIDU

Current Price: \$166.65

Purchase Price: \$230.08

52-Week Range: \$153.78-\$284.22

Target Price: \$220

### **Company Description:**

Baidu, Inc. operates an internet search engine. The Company offers algorithmic search, enterprise search, news, and image searches, voice assistance, online storage, and navigation services. The Company attracts over one-third of China's online advertisement spending, is a global leader in Artificial Intelligence, and operates China's number one video streaming service. Although the Company's main focus is in China, Baidu also has operations in Brazil, Indonesia, Thailand, and Japan.

### **Top-Down Reasoning:**

We selected Baidu because it has been a high growth company for many years and operates in the growing Asian market. It has a unique advantage over its competitors as a company that is thought of as the "Google of China."

### **Upside Catalysts:**

- China has the world's largest Internet user population, at 731 million, and Baidu is the leading internet search provider with the largest market share in China's search engine market.
- Baidu's iQivi video streaming service presents an excellent opportunity for future growth in video and monetization
- The Chinese government is trying to increase growth with stimulus measures, which may bolster Chinese companies back to high levels of earnings and stock prices.
- Baidu plans to utilize its strength in search and video to capitalize on AI technology, which is supported by China's commitment to lead the future of AI.

### **Downside Risks:**

- Increasing competition from competitors such as Alibaba and Tencent threatens their ability to dominate the advertising and digital streaming markets.
- Baidu is highly exposed to the Chinese market and, if the trade war between China and the United States does not end, Baidu's stock price will continue to drop.

### **Investment Thesis:**

We believe that the company will benefit China's e-commerce strength and additional emphasis on online advertising. Its leadership in the search, and video field and entrance into future technologies such as artificial intelligence will drive the stock price moving forward. We think that Baidu's growth is cheaply priced, especially after the recent sell-off of Chinese stocks.

## **Estee Lauder, Inc.**

Ticker: EL

Current Price: \$160.83

Purchase Price: \$126.58

52-Week Range: \$121.41 - \$163.79

Target Price: \$170

### **Company Description:**

Estee Lauder (EL) is one of the world's leading manufacturers and marketers of prestige skin care, makeup, fragrance and hair care products. EL's products are sold in over 130 countries. Brands include: Estee Lauder, Clinique, MAC, La Mer, Bobbi Brown, Jo Malone, Origins, Bumble & Bumble, Smashbox, Tom Ford, Aveda, Too Faced, and Aramis. The company sells its products through department stores, specialty multi-brand retailers, upscale perfumeries, pharmacies, and salons and spas; freestanding stores; e-commerce Websites; stores in airports and on cruise ships; in-flight and duty-free shops; and self-select outlets. It has operations in the Americas, Europe, the Middle East, Africa, and the Asia Pacific. The Estée Lauder Companies Inc. was founded in 1946 and is based in New York, New York.

### **Top-Down Reasoning:**

Given concern over the possibility of an economic slowdown in 4Q18 and uncertainty regarding global macroeconomic trade conditions, large-cap, global growth opportunities seem attractive. While remaining focused on significant possibilities for growth, Estee Lauder remains positioned to capitalize upon a propensity for consumers to spend on high-end beauty and makeup products during the gift-giving season. Moreover, EL is a dominant player in high-end fragrance and cosmetic categories sold in more than 150 countries worldwide, giving the company a globally diversified portfolio to access in the event of an economic downturn. Finally, EL has four brands generating over \$1bn revenue; with the namesake Estee Lauder brand growing 22% in FY18.

### **Upside Catalysts:**

- 20 - 25% of sales attributable to new products / line extensions indicates willingness to adapt to consumer trends to remain current
- Core brands remain underpenetrated in global distribution

### **Downside Risks:**

- Slowdown in major country markets, especially with outsized exposure to China
- Slow consumer acceptance of new products
- Concerns over weak U.S. department store traffic trends
- Decelerating travel retail with Chinese customs agents implementing tighter controls

### **Investment Thesis:**

Estee Lauder has an enviable portfolio of high-end beauty brands that has led to a wide economic moat in prestige beauty category with an estimated 15% of the global market share. The company maintains material pricing power given that skin care consumers are averse to untested products, the its lines have strong brand recognition and demand for EL high-end products are somewhat inelastic. Moreover, the company is executing well on its strategy with EL brands' prestige positioning will serve well in international markets and U.S. Finally, high-touch services to Estee's eCommerce platform (how to videos, online beauty advisors, etc.) will garner heightened brand loyalty.

**Facebook, Inc.**  
Ticker: FB  
Current Price: \$171.26  
Purchase Price: \$160

### **Company Description**

Facebook, Inc. is the world's largest online social network, boasting over 2 billion active users. The Company website allows people to communicate with their family, friends, and coworkers via messaging, photo sharing, and event-creating features. Facebook Inc. consists primarily of Facebook, Instagram, Messenger, and WhatsApp. These platforms can be used on mobile devices and on desktops. 90% of Facebook's revenue comes from advertising. Facebook has been under a microscope recently after a data breach in March 2018 followed by investigation by the FTC and push for tighter regulation coming from Washington.

### **Top-Down Reasoning**

Facebook's 4Q results easily beat consensus expectations and daily user count grew sequentially in the largest advertising spending markets (US and Europe) even as the firm remains in the midst of addressing data security and privacy issues. In addition, Facebook managed to further monetize their users during the quarter. Further growth by Instagram, IGTV, and stories will continue to attract advertisers to Facebook's platform. However, management did not change its 2019 guidance and expects further deceleration in top line growth. In addition, management expects capital expenditures and expense growth to outpace revenue growth in 2019. Facebook's continued growth in ad revenue per user (ARPU) indicates advertiser's willingness to pay more for Facebook-placed ads as they expect a higher return on investment from targeted ads. Going forward, Facebook is expected to have double digit top-line growth going through 2023. With further investment in R&D, content creation, and data security, it is expected for the company's operating margin to decline. Over the next 5 years, CAGR for total revenue is expected to be 17% with an operating margin of 36%.

### **Upside Catalysts:**

- 5% five-year CAGR in Facebook's monthly active user due to strong growth in ASIA
- Clear-cut social media leader and the synergies that come with its portfolio
- Over 2 billion monthly active users that spend over 50 mins a day on its apps

### **Downside Risks:**

- Many users are concerned about FB's many recent and significant breaches
- However, they are investing heavily in data security
- Investors are concerned with growing calls to regulate FB especially in the UK and EU
- Facebook's main platform losing prominence or becoming "uncool"
- Instagram and WhatsApp among others are good hedges

### **Investment Thesis**

Facebook is a behemoth of a company that continues to attract the money of advertiser's due to its highly engaged users and ability to specifically target customers. It has been a rollercoaster of a year for the company, but they are finally starting to gain some momentum after their dip this past summer. With the combination of their main platform ginormous market share and their recently acquired and extremely successfully apps such as Instagram and WhatsApp, Facebook is poised to continue their dominance.

**Alphabet Inc.**  
Ticker: GOOGL  
Current Price: \$1,149.97  
Purchase Price: \$1,026.60  
52-Week Range: \$977.66-\$1,291.44  
Target Price: \$1,380

**Company Description:**

Alphabet Inc. is an American multinational conglomerate. The Company's portfolio encompasses several industries, including technology, life sciences, investment capital, and research. Alphabet's subsidiaries include Google Inc. and its Internet Products, such as Access, Calico, Chronical, Google Ventures, CapitalG, Verily, Waymo, X, and Google Fiber. Alphabet is also engaged in advertising, sales of digital content, applications and cloud offerings, and sales of hardware products.

**Top-Down Reasoning:**

The reason why we screened Google was because of how heavily weighted it was in the benchmark. Google is a quality name that gives us exposure to technology and emerging markets.

**Upside Catalysts:**

- Search advertising continues to gain market share of global advertising budgets. Their core business fuels revenue and profit growth for shareholders in the short-term, and allows the company to make big bets in other areas in the future.
- Alphabet's large long-term investments such as Waymo, a self-driving technology development company, will be a key driver of share growth over the long-term.
- Investments in video content is driving continued monetization at YouTube.

**Downside Risks:**

- Over 90% of the Company's net advertising revenue comes from Search, which is being threatened by mobile and app-based search engines.
- Alphabet's competes with companies such as Apple and Amazon, who have growing cloud and consumer-device businesses.
- Rising scrutiny of digital ads and invasion of consumer privacy clouds the future of Google's core business and threatens Google's core business and investor confidence.

**Investment Thesis:**

Alphabet is well positioned for long-term growth and remains top large cap technology pick. Alphabet dominates the online search market with global market share of above 80%, and has a number of growth opportunities with, such as its bet on self-driving technology. The Company has built a competitive moat, which is derived from its scale and network effects.

## **Lululemon Athletica, Inc.**

Ticker: LULU

Current Price: \$143.59

Purchase Price:

52-Week Range: \$77.97-\$164.79

Price Target: \$189.03

### **Company Description:**

Lululemon Athletica is an international designer, distributor and retailer of athletic clothing products based out of Vancouver, BC, Canada. Their main products include fitness pants, shorts, tops and jackets designed for both active men and women. The company operates through two segments: 426 company owned stores as well as direct to consumer online. The company's revenue is generated through three main geographical locations: The United States, Canada and China.

### **Top-Down Reasoning:**

As the U.S. and much of the rest of the world has been experiencing a cultural shift that places a larger emphasis on living healthy lives through diet and exercise, a new segment within the apparel industry has taken form: athleisure. This intersection between workout and casual wear is what Lululemon was founded on and it is easily the most recognizable name in the segment. Consumer confidence, which is crucial for companies like Lululemon operating in the consumer discretionary space, was up 7.9% in February from the month before showing that people feel encouraged about the economy and will likely continue to spend more on discretionary goods.

### **Upside Catalysts:**

- High growth in their direct to consumer segment with net revenue growing 46% year over year. With the company relaunching their website at the end of 2017, management expects sales in this segment to grow from 21.8% currently to 30% by 2020.
- Heavy expansion into the Asia Pacific market has seen sales grow 37% year over year. Management expects sales from this segment to grow from 11% of total sales currently to 20-25% by 2020.

### **Downside Catalysts:**

- Lululemon sells premium priced products so any economic downturn or recession would negatively impact the company's sales and growth potential.

### **Investment Thesis:**

Lululemon is a rapidly growing company that is capitalizing on not only the U.S.'s cultural shift towards living a healthy lifestyle, but also the world's shift in that direction. It looks to be in good position to expand further into online sales and international expansion as it generates strong free cash flow, holds no debt and has a large amount of retain earnings to fund growth and investments.

**Microsoft Corporation**  
Ticker: MSFT  
Current Price: \$111.00  
Purchase Price: \$87.20  
52-Week Range: \$117.25/\$87.8  
Target Price: \$125

**Company Description:**

Microsoft is a leading technology company. Its signature Windows operating system and Office suite of productivity software dominate their markets. The company's cloud computing platform, Azure, is one of the leaders in that burgeoning market. Millions of people interact on LinkedIn, the business-oriented social network that Microsoft owns. Microsoft's customers range from individuals and small businesses to the world's biggest companies and government agencies. Microsoft makes tablets (Surface), game consoles (Xbox), and even laptop computers, and it also owns Skype, the video meeting service. Geographically, Microsoft's revenue is evenly split between the US and other countries.

**Top-Down Reasoning:**

Microsoft is heavily weighted within our benchmark. Continued global digitalization and improvements in technology will continue to support the information technology sector.

**Upside Catalysts:**

- Large client base within enterprise segment represents an opportunity for continuation of strong results across OS, Office, cloud, and database. This segment represents over half of total revenue and is more profitable than the consumer business.
- Strength in cloud computing revenue through Azure platform which is on the forefront of research and development in cloud computing.

**Downside Risks:**

- The server and cloud services business is heavy with competition from mega-cap companies such as Amazon, Oracle, IBM, Apple and Alphabet. These companies have seen strong growth in the field and all are expected to continue to push onward and try to increase growth prospects.
- Maturing markets and potential for slowdown in Azure growth.

**Investment Thesis:**

Microsoft has outpaced other competitors and technology stocks. Growth in Azure cloud-computing services is incredibly strong and this segment of the business is well positioned to grow, even in the event of a market downturn. Despite declining PC sales and competition in cloud-computing, Microsoft remains a strong stock for its existing client relationships, strength in earnings, and foreseeable dividend increases.

**Match Group**  
Ticker: MTCH  
Current Price: \$53.03  
Purchase Price: \$44.50  
52-Week Range: \$31.69-\$60.91  
Target Price: \$60

**Company Description:**

Match Group, Inc. owns and operates subscription-based online dating websites and applications. The Company offers online dating and matchmaking services. Match Group serves customers worldwide. Match Group has headroom for growth in the online-dating market, where it enjoys an almost-monopoly status amid fragmented competition. Tinder is driving sales upside as the company keeps adding paid options and increases subscribers. Other brands in the Match portfolio are stabilizing after sales were hurt by a shift to mobile characterized by user churn, competition and cannibalization.

**Top-Down Reasoning:**

Global internet companies' sales growth will likely remain robust in 2019 amid steady demand in end-markets, including digital ads, e-commerce and cloud services. There is a rise in online dating. Currently, more than 30% of married couples meet online. Opportunities for growth exist within the sector, including user-friendly apps, using big data to drive business decisions, cognitive computing and machine learning.

**Upside Catalysts:**

- Increasing market space dominance in a growing market.
- The Network Effect: Increased usage and engagement with online dating platforms.
- Tinder's dominance is expected to maintain and grow in 2019.
- International revenue grew 51% and international subscribers grew 36%.

**Downside Risks:**

- Cybersecurity threats and tight regulations regarding personal data important factors that make or break companies in this industry
- Stock option program dilutes bottom line for shareholders.
- Debt and acquisition strategy posts additional risks.

**Investment Thesis:**

Match Group will continue to exert its influence, exploiting the network effect to block out many other competitors. Forward thinking new leadership and strong brands will propel Match Group forward to capitalize on changing lifestyle trends and growth in the online dating market. Given these prospects, Match Group is a buy that will return substantial positive return. The one-year price target, calculated as the average of three valuation models and the analyst estimates, implies a 13.14% upside at \$60.

**Netflix, Inc.**  
Ticker: NFLX  
Current Price: \$349.60  
Purchase Price: \$284.08  
52-Week Range: \$231.23-\$423.21  
Target Price: \$400

**Company Description:**

Netflix operates an internet subscription service for TV shows, documentaries, and movies. Customers are able to stream this content onto their internet devices (computers, phones, tablets) or televisions through their TV provider or game console system. The company is headquartered in Los Gatos, CA and operates on a global scale, catering to over 190 different countries. 55% of their revenues are sourced from domestic streaming, while 45% of their revenues are sourced from international streaming.

**Top-Down Reasoning:**

Moving from Q4 '18 to Q1 '19, the US economy has proven its continued strength through strong labor markets and American business. In February, the economy added 20,00 jobs and the unemployment rate fell to 3.8%. This data gives us no reason to believe that consumers will cut their consumption of online streaming services through 2019. The streaming industry has continued to expand domestically and globally as more households transition from cable TV to online services. NFLX currently holds a dominant position in the streaming industry.

**Upside Catalysts:**

- Growth of global subscriber base in all regions through localizations of their business and differentiated content.
- Expansion of content offerings into 2019: larger movie selection, producing of original content, and release of new seasons of their most popular content.

**Downside Risks:**

- As a high-growth and FAANG stock, NFLX trades on market movements. Another market correction in the near future poses a threat for NFLX stock.
- Increased competition entering the streaming industry
- Continued cash burn could keep FCF negative for a longer than projected

**Investment Thesis:**

Netflix is a strong growth company that has leveraged their flexible business model to outperform their competitors (traditional TV service providers) during this transitional period to online streaming services. Their dominant and growing presence in both domestic and foreign markets is projected to continue increasing their consumer base in the coming years and the introduction of a 5G network would be advantageous to these efforts. Netflix has been proactive in addressing their areas of weakness and is expected to become FCF positive in the next 2 years as a result of a growing global demand and higher subscription prices.

## **Raytheon Company**

Ticker: RTN

Current Price: \$179.72

Purchase Price:

52-Week Range: \$144.27-\$229.75

Target Price: \$201.57

### **Company Description:**

Raytheon Company is a technology company that specializes in defense, homeland security, and other government markets throughout the world. To support its customers worldwide, Raytheon serves defense and intelligence markets via five business segments: Integrated Defense Systems (IDS), Missile Systems (MS), Space and Airborne Systems (SAS), Intelligence, Information and Services (IIS), and Forcepoint. The US Government accounts for 68% of Raytheon's sales and it is the Pentagon's fourth-largest contractor.

### **Top-Down Reasoning:**

Given that much of the defense and aerospace industry is highly dependent on government contracts, the main driver of performance is based on defense spending. Because of President Donald Trump's support for increased defense spending, the DoD's budget allocation rose 7.36% to \$686 billion in 2019. Also, given current geopolitical tensions between the U.S. and countries like Russia, Turkey, China and North Korea, Raytheon is well positioned to capitalize on these tensions through a higher demand for their products and services.

### **Upside Catalysts:**

- Near record high of \$42.4 billion in backlog orders support mid-single-digit revenue growth into the next decade. Also, 40% of this backlog is made up of international contracts which are often higher-margin. This is up from 28% in 2012.
- Heightened geopolitical tensions can bode well for well positioned defense stocks in the form of increased defense spending and orders.

### **Downside Catalysts:**

- A decreased defense budget in 2020 would pose as a headwind for future sales.
- New peace treaties and arms deals between rivaling countries would lower demand for Raytheon's products.

### **Investment Thesis:**

Due to Raytheon's place at the top of a very specialized and profitable industry, strong margins, deep order backlog, and current geopolitical tensions I believe that Raytheon deserves a Buy rating. Furthermore, Raytheon has a larger international presence than any of its competitors, leaving it less exposed to the political uncertainty surrounding the U.S. today. Ultimately, I believe that government and current macro events will continue to drive the defense sector even higher, with Raytheon well positioned to experience all of the benefits.

## **Square, Inc.**

Ticker: SQ

Current Price: \$77.59

Purchase Price: \$29.40

52-Week Range: \$101.15-\$43.72

Target Price: \$81.58

### **Company Description:**

Square, Inc. provides payment solutions along with a suite of other business solutions to small- and medium-sized businesses. Its software assists in processing, receipts, inventory, and reporting. Its personal app, Cash App, provides person-to-person payment transfer as well as cryptocurrency trading. The Square Register provides the hardware POS as well as the Software-as-a-Service portion of the payments processing system. With a 2.75% transaction fee, Square competes with the larger processing firms while providing agile and high-performing platforms, enabling small business to accept cards transactions where it may otherwise be too expensive or cumbersome to do so. Jack Dorsey is the CEO of both Square, Inc. and Twitter, Inc.

### **Top-Down Reasoning:**

The US economy, while showing creeping signs of slowing, is robust and strong. Unemployment continues to touch historic lows, while GDP and inflation sit near sustainable and Fed-target levels. Low interest rates support financials like the Square Capital lending arm. Cash App diversifies the firm away from merchant-only revenue streams, and the firm has room to grow geographically. The firm sits in an attractive position in attractive industries in a robust domestic economy.

### **Upside Catalysts:**

- Market penetration of small and local merchants that cannot afford processing systems from larger players
- Mobile app that generates revenue from individual consumers
- Square Capital business lending arm integrates its services and completes full suite of small business products

### **Downside Risks:**

- Global economic slowdown decreasing consumer spending
- Rise and acceleration of online-only retailers such as Amazon.com which do not use Square's services

### **Investment Thesis:**

The firm's comprehensive suite of business offerings and mobile app for individuals will allow for revenue growth and increasing market penetration. Scale will increase margins, and geographic diversification will further accelerate top-line growth. The firm sits at the intersection of two of the fastest growing industries and is a leading player in both: Software-as-a-Service and FinTech.

## **Teradyne, Inc.**

Ticker: TER

Current Price: \$38.75

Purchase Price: \$40.40

52-Week Range: \$28.73-\$50.68

Target Price: \$45

### **Company Description:**

Teradyne is a Massachusetts-based company whose core business entails developing and supplying back-end testing equipment for semiconductors. In the past few years they have begun to enter the Collaborative Robot (Cobot) space through recent acquisitions of Universal Robots (2015) and Mobile Industrial Robots (2018). Teradyne's main business caters to large companies such as Apple, Samsung, and Qualcomm, while their newer robotics business caters to companies of all sizes.

### **Top-Down Reasoning:**

The global economy has modernized rapidly in the past decade. Globalization has driven demand for. Semiconductors are a main component in advanced electronics and communication devices. As developing nations continue to advance and 5G networking is introduced, the demand for semiconductors will drive higher. Additionally, as the cost of labor continues to increase, large manufacturers are expected to invest in collaborative robots over human labor. Strong wage growth in the US economy coupled with low unemployment rates is expected to drive demand for cobots higher.

### **Upside Catalysts:**

- Continue to build out the Industrial Automation segment through organic and inorganic growth
- New product releases by Apple
- Multiple expansion as TER begins to trade similar to pure play robotics companies

### **Downside Risks:**

- High exposure to Apple (AAPL) - decreased orders would pose supply chain risk
- Competitors entering the Cobot market
- Potential to be bought out by a pure play robotics company (ex. Fanuc)

### **Investment Thesis:**

Teradyne is smartly leveraging their strong core business of manufacturing back-end test equipment to generate cash reserves that are being reinvested into the company. Through recent acquisitions, Teradyne has become the lead player in the collaborative robotics business. In 2018, Industrial Automation accounted for only 16% of TER's revenues, while by 2020 it should account for closer to 30%. As Teradyne expands into this high-growth industry, it is expected to see an appreciation in stock price as it increases in value and experience multiple expansion as it achieves higher growth potential.

## **Illumina, Inc.**

Ticker: ILMN

Current Price: \$310.68

Purchase Price: \$370.01

52-Week Range: \$372.61-\$225.82

Target Price: \$395.00

### **Company Description:**

Illumina, Inc. is the world's leader in manufacture of machinery used for genetic analysis and DNA research. Its tools are used by researchers in life sciences and pharmaceuticals whose roles are to isolate and analyze gene expressions. Beyond manufacture of its machines, Illumina offers direct-to-consumer services and consumables that offer recurring revenue streams (consumables accounted for nearly 70% of top line in 2018).

### **Top-Down Reasoning:**

The US economy has grown strongly in the past several years, with positive real GDP growth, consistent employment growth, and tax cuts. All of these factors play acutely to a run in equities. The Growth Fund managers adopted a portfolio with little exposure to Healthcare in 2018, and Illumina offered a play into a niche industry with few players. With stability in top-line growth and cash flows, the strength of its core businesses allows for an air of insulation from decelerating growth, while maintaining room for positive yearly gains.

### **Upside Catalysts:**

- Investments in developing technologies through subsidiaries and acquisitions (Pacific Biosciences purchase for \$1.2bn in 2018)
- Direct-to-consumer pervasiveness through Ancestry.com, 23andMe, and other new and expanding companies
- New best-in-class product launches: NovaSeq (2017) and iSeq (2018)

### **Downside Risks:**

- Accelerated competitive growth in new, agile firms with innovative technologies
- Regulation concerns in healthcare are ever present, with specific regard to data privacy and insurance reimbursements for genetic testing
- Future sales tied to population growth rate: full genotype sequencing useful in individuals once in lifetime

### **Investment Thesis:**

Illumina is an industry leader in a rapidly growing industry in the Healthcare sector. With an impressive R&D budget, the firm is at the forefront of innovation capture and has an ability to both grow naturally and purchase inorganic growth in M&A. The future of genome sequencing is the hope that someday each person will have his gene sequenced at birth to help identify and treat chronic illnesses and to allow treatment research to be earlier and more accurate.

**Visa, Inc.**  
Ticker: V  
Current Price: \$153.75  
Purchase Price: \$143.91  
52-Week Range: \$116.03 – 156.82  
Target Price: \$165.00

**Company Description:**

Visa, Inc. (“V”) is the Western World’s most dominant global player in electronic payments and transaction processing. Visa licenses its brand via credit and debit cards to member financial institutions that issue credit and account services to merchants and individuals. Visa makes money by processing transactions on its ‘VisaNet’ network. Boasting a pervasive international network and robust technological infrastructure consisting of 16,800 financial institutions, 44 million merchant partners, billions of cards currently in issuance around the world, and the ability to securely process 60,000 transactions per second, we recognized the company’s wide moat and future growth prospects as a compelling reason to buy stock in the company.

**Top-Down Reasoning:**

Despite the noise and excitement about potential disruption in this sector, we view the payment processing industry as a very attractive place to be right now for the established players. Global transaction volume (\$), which drives the industries revenue, is projected to triple from 2016 to 2026 according to the Nilson Report, with most growth occurring in Asia Pacific and the United States. With the ability transact in ~160 currencies and experience operating in 200+ countries/territories, Visa is the best positioned to continue to take advantage of the long-term growth in the international economy. In 2017, Visa doubled their merchant acceptance in India to 2.5 million merchants.

**Upside Catalysts:**

- The consistent transition from paper checks to digital payment systems will be ongoing for the next decade or more, alone creating estimated revenue growth in the 4-5% range for Visa.
- Rapid expansion in to emerging markets, especially those in the Asia-Pacific and Latin American regions, will create millions of new customers with first-time access to the technological infrastructure that makes digital payments possible.
- Revenue model is hedged against local country inflation because it is set as a percentage of the total transaction value plus a standard fee.

**Downside Risks:**

- Emergence of new payment technologies such as square and blockchain pose a mild threat to the business model. It is more likely that they will just force Visa (and their competitors) to adapt quickly, rather than forcing them out of business.

**Investment Thesis:**

Visa’s tripartite growth strategy – deepen partnerships, drive digital, and expand international access – is well-developed and has been executed upon well since the installation of Alfred Kelly as CEO in December, 2016. The combination of Visa’s high barriers to entry, competitive position in an attractive market, and compelling growth strategy justified the decision to buy the stock.

## Value Fund Overview

### Value Fund Philosophy

The Value Fund's philosophy is based on the belief that market inefficiencies exist, and attempt to take advantage of these inefficiencies by identifying stock prices that we determine as undervalued. We follow a top-down macroeconomic analytical approach to find undervalued stocks in industries that have trailed their respective benchmarks. We determine which industries to consider based on strong macro fundamentals and bright prospects for future performance. Within these industries we then seek to invest in companies that are undervalued by 5% to 15% when compared to direct competitors and industry averages. We then take into consideration the undervalued companies that have also demonstrated strong sales and earnings growth to ensure the companies we have chosen are not just undervalued, but also good companies with strong financials.

### Value Fund Strategy and Tactics

We begin our investment selection using a top-down approach. We develop in-depth analysis of broad macroeconomic factors and trends through an examination of relevant data, including current interest rates, monetary policy, unemployment, consumer spending levels, oil prices, and the political environment, all in an attempt to narrow our analysis to individual sectors. After determining which industries we want to overweight and underweight in our portfolio, each manager uses industry specific valuation methods to find companies with a stock that they believe to be undervalued. When selecting a "value" stock, a manager attempts to value the company independently of its current market price. This is done by evaluating some of the following metrics: P/B, P/E, P/S, or whatever metric is most appropriate to value a company within the industry they are analyzing. These metrics are then compared to industry averages, as well as direct competitors to determine whether the stock is currently being priced at a seemingly "unfair" discount. Value investing typically works within a two-to-five-year time frame, therefore we seek to find stocks with catalysts that fit that invest horizon, despite only having control of the fund for twelve months.

### Buy Decisions and Sell Discipline

Once a manager has selected an investment opportunity based on the strategies outlined in the "Strategy and Tactics" section, the manager continues extensive research into the company and the stock. Eventually, the manager will create a formal pitch that will be presented to the Value Fund as a whole. The manager pitching the investment will provide his or her rationale behind the investment, as well as a target price. If the rest of the managers decide to invest in the stock, it becomes each managers' responsibility to closely monitor that stocks performance. Our ultimate goal is to hold the stock until it reaches its target price, but unexpected circumstances may arise that lead the managers to liquidate the position early and reinvest into a stock that they believe has more risk-adjusted upside potential. At each meeting, the managers discuss current trends in the markets as well as any current events that could have an impact on their holdings. This allows for a perpetually solid understanding of the holdings in the Value portfolio, as well as any headwinds that may arise.

### **Value Fund Performance**

- Since inheriting the fund at the end of March 2018, the value fund returned 2.42 % loss while the benchmark, the SPDR S&P 500 Value Index, returned 3.74% during the period. Therefore, our portfolio trailed the benchmark by 1.33% during the period.
- Sectors held in the value fund's portfolio cover most of the core GICS sectors, including: Financials, Healthcare, Energy, Industrials, Consumer Staples, Real Estate, Utilities, Consumer Discretionary
- Top Performers: DHR, AMT, CELG
- Worst Performers: STZ, CVS, HD

### **Valuation Technique**

As a top-down fund, our portfolio strategy begins with an analysis of the macro economy, its primary industries and their subindustries. By identifying the promising industries according to our economic outlook, we analyze the dynamics underlying each industry to find the subindustries in which we would like to participate. Using comparable ratios, we monitor the universe and deduce the stocks that appear to be undervalued in their respective industries, which would then be grounds for further analysis.

SMIF '18-'19 Value's preferred valuation methodology is a multiples comparable analysis when conditions allow. In complement to our understanding of the industry and market conditions, we normalize a company's P/E, P/B, P/S, and P/CF against the S&P 500 over the last 7 years to obtain an implied share price that helps us determine if the company is over or undervalued compared to the market. If a company that is in an industry where some specific multiples are more appropriate, we are also sure to include those metrics in our analysis. This is especially helpful when considering value relative to comparable companies. We then compare a company's P/E, P/B, P/S, and P/CF to its closest competitors and obtain a second implied share price to help us determine if the company is over or undervalued compared to its industry. Using these two numbers in conjunction with the 12-month price target of analysts, we are able to arrive at our price target for a company.

Although we participate in all the primary GICS industries to afford our portfolio satisfactory diversification, our top-down analysis seeks to find the subindustries likely to outperform. By also focusing on underpriced stocks within those subindustries, we are able to find opportunities with strong potential for multiple expansion. The potential for multiple expansion is diligently analyzed by examining the growth potential underlying both the industry and the company's earnings. Doing so, we establish forecasts for the price multiples we employ to derive price targets. Finally, by weighting a multiple-scenario analysis by their probabilities, we obtain an expectation of the price and time horizon in which the stock is likely to converge to its intrinsic value. If we then calculate the internal rate of return and compare it to the expected return on equity, we are able to deduce if alpha can be generated.

# Value Fund Attribution Model

## Attribution Model Overview

Since we received control of the fund on 3/29/18 the portfolio has grown 2.42%, or roughly \$6,657 in value. The benchmark for the Value Fund- the SPYV ETF appreciated BY 3.74% in value over the same period. This suggests, on a total return basis, an alpha of -1.33%.

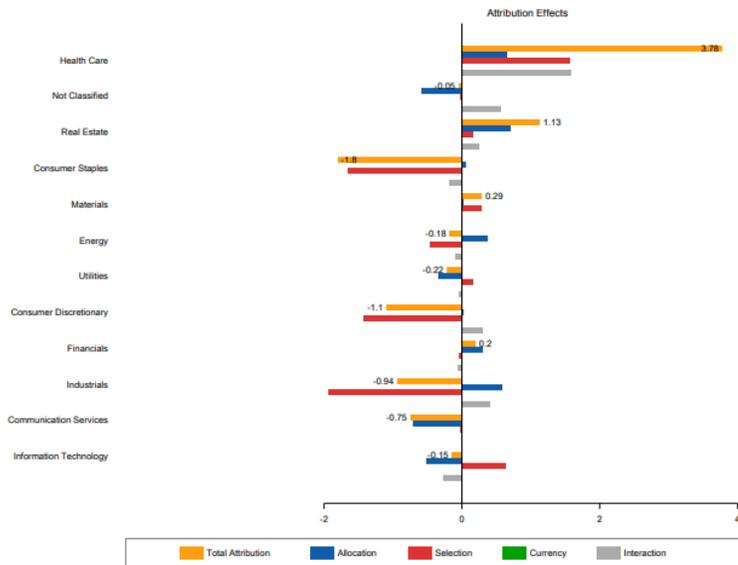
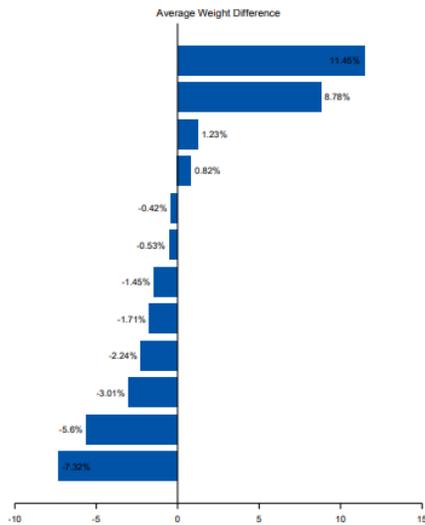
The attribution model suggests that our active performance was due to selection effect- our ability to invest in superior stocks within a sector. This effect was most pronounced in the Healthcare, and Information Technology sectors. Within healthcare, which attributed 3.78% of our returns, we saw HCA, DHR, and CELG appreciate 37%, 27%, and 27% on a total return basis, respectively. Within IT, we saw TXN return almost 20% on a total return basis since we took our position. Lastly, we saw significant returns in the Real Estate sector, with AMT increasing in price over 30%.

Return Summary

Return Summary	
Portfolio Return	5.06
Benchmark Return	4.84
Active Return	0.21

Active Return Attribution Summary

Active Return	0.21	Interaction	2.43
Allocation	0.53		
Selection	-2.74		
Currency	0.00		



## Value Holdings

### **American Tower Corporation**

Ticker: AMT

Purchase Price: 143.22

Current Price: 188.06

52-Week Range: 133.53-189.48

Price Target: 196.43

#### **Company Description:**

American Tower Corporation is a REIT that owns, operates, and develops wireless communication towers in the United States and abroad. The majority of the company's income comes from large cell carrier companies leasing antennae space on their towers. AMT collects "rent" similar to a landlord collects rent from tenants. These leases are generally long term and have built-in escalations. American Tower is the ideal provider for today's wireless communication networks.

#### **Top Down Reasoning:**

Unemployment levels have been below 5% for approximately three years now. This entails that the middle-lower class now has buyer power and access to goods that they previously did not. One thing that these people have been spending their extra income on is smartphones. Today over 77% percent of Americans own smartphones up from 60% in 2015. Not only are these smartphones increasing in quantity, but they are increasing in quality. With the upcoming release of 5G in the United States and 4G networks abroad, the data being consumed by portable devices is expected to grow at an average CAGR of 31% annually and this is expected to increase. American Tower, the provider of antennae sites to cellular carriers in a position to grow substantially in this market of growing data demand.

#### **Upside Catalysts**

- Long-term guaranteed cash flows with built-in escalations.
- Owns far and away the largest portfolio of towers, will able to see higher returns on their existing towers in the future
- The increasing use of data links directly to the demand for antennae sites

#### **Downside Risks:**

- 88% of AMT's US revenue was generated from the 4 large cell carriers. If there is a merger or one fails AMT will see large revenue losses
- AMT does not own the land that their towers are on, these landowners have power over AMT when they must renew their ground leases.

#### **Investment Thesis:**

Due to the growth in the cell tower industry, and AMT's dominant position within that industry I believe that AMT is in a position to see excess returns in the coming years. They have been able to increase both their revenue, and EBITDA by over 10% for three years in a row now, demonstrating they are ready to capture the value in this growing market. AMT is aggressively pursuing growth opportunities outside of the United States as well. I think that because of their international expansion, and the proven growth in data demand AMT is primed to do well even if the market does not. We believe that the stock still has plenty of room to grow.

## **Bank of America Corp.**

Ticker: BAC

Current Price: \$28.55

Inherited Price: \$29.99

52-Week Range: \$22.66 - \$33.05

Target Price: \$33.09

### **Company Description:**

Bank of America Corporation, through its subsidiaries, provides banking and financial products and services for individual consumers, small and middle-market businesses, institutional investors, large corporations, and governments worldwide. It operates through four segments Consumer Banking, Global Wealth & Investment Management, Global Banking, and Global Markets.

### **Top-Down Reasoning:**

A position in BAC was pitched by previous managers of the value fund on grounds that gradual increase of the interest rate (Fed target rate) will allow for companies in the sector to attain larger spread to maximize profit. Additionally, the former managers were optimistic about US M&A and capital markets with increased foreign direct investment to the US. We remained bullish on BAC as this thesis still holds with current Fed chair Jerome Powell's generally hawkish attitude. Although rate raises have been put on hold while the economy faces some uncertainty while trade talks with China are continuing, Powell has expressed a desire to continue these increases once the dust settles. Furthermore, strong US economic data related to unemployment and consumer confidence suggest that we can expect consumption to remain robust. Overall, the financial sector has stabilized after a rough patch as investors appear to be attracted to the lower valuations and solid balance sheets. The selling of financial stocks appears to have been a bit overdone unless we are headed into a recession, which does not seem likely.

### **Upside Catalysts:**

- Higher interest rates increase spread
- Favorable regulatory changes
- Improving consumer finances
- Continuous cost saving activities improving bottom line

### **Downside Risks:**

- Highest levels of debt in M&A markets since pre-crisis levels
- Continuously slowed rate hikes

### **Investment Thesis:**

Although we incurred a small loss with BAC during our holding period, we remain confident in the stock in the long run. With net interest income on a steep incline, core expenses down on the year, and improved credit quality on the horizon, we still see room for growth. If markets remain choppy, it will be important to keep an eye on BAC's top-line growth in order to keep a finger on the pulse of the stock.

## **Celgene Corporation**

Ticker: CELG

Current Price: \$88.12

Purchase Price: \$69.58

52-Week Range: \$58.59-\$95.30

Target Price: \$96.86

### **Company Description:**

Based in Summit, New Jersey, Celgene Corporation operates as a global biopharmaceutical company, focused on the discovery, development, and commercialization of therapies designed to treat cancer and immune-inflammatory related diseases. CELG's lead product is Revlimid, designed to treat bone marrow cancer, which represents two-thirds of their annual sales. CELG also receives royalties on sales of ADHD drugs Focalin XR and Ritalin, licensed to and sold by global drug maker Novartis. CELG's two largest customers are CVS and McKesson, each accounting for 10% of sales. CELG expects to move about 10 novel agents into testing within the next couple of years, and to release data from about 20 phase III trials within that time period. In early 2019, CELG agreed to be acquired for \$74 billion by Bristol-Meyers, in a combination of stock and cash.

### **Top-Down Reasoning:**

The Biopharmaceutical industry was down roughly 3.06% in 2018, due to drug pricing, competition, and large macroeconomic events such as brexit issues and trade wars. For large cap Biotech companies, 2019 could see potential growth. As valuations are currently lower, we could see this sector driven by M&A. This could create an exciting environment, particularly as a value investor. As we continue to see an aging population, healthcare will also drive this industry. In addition, legislation is expected to provide tax breaks for Biotech companies, which will help their bottom-line.

### **Upside Catalysts:**

- Acquisition by Bristol-Meyers going through
- Diversification of portfolio through growth of existing drugs
- Key pipeline drugs pending approval will boost revenues and diversify portfolio

### **Downside Risks:**

- Lack of diversification of current portfolio
- FDA approval failures
- Revlimid patent expiration in 2022

### **Investment Thesis:**

CELG is a leading biopharmaceutical company, whose pipeline is current significantly undervalued. With growth in other drugs and drugs currently in their pipeline, we will see CELG continue to diversify their portfolio of drugs, to expand revenue growth, driving value to investors.

## **CVS Health Corporation**

Ticker: CVS

Current Price: \$55.96

Purchase Price: \$62.21

52-Week Range: \$55.80 - \$82.15

Target Price: \$74.00

### **Corporate Description:**

CVS Health Corporation is an American retail pharmacy as well as a healthcare company. The firm is headquartered in Woonsocket, Rhode Island and operates across 49 states, the District of Columbia, Brazil, and Puerto Rico with 9,803 stores. CVS serves approximately 5 million customers daily through its two main segments: Pharmacy Service and Retail/LTC. Pharmacy Service accounts for 62.19% of the company's revenue whereas Retail/LTC makes up 37.81% of sales.

### **Top-Down Reasoning:**

Fourth quarter 2018 U.S GDP growth of 2.6% beat expectations of market analysts. This combined with an unemployment rate of approximately 4% and high consumer confidence, indicate that the U.S economy continues to be strong. However, real estate startups have decreased and with the potential for further interest rate increases, several market participants are wary of a recession in the next year. The healthcare sector is one that can be categorized as a more defensive industry, with companies that have lower Betas to the overall market. In addition, within the healthcare sector, CVS is a pharmacy giant with thousands of stores mainly across the east coast of the United States. CVS is likely to suffer consequences in the case of a future recession, however the firm does not operate with consumer discretionary spending, in addition to the fact that a large part of its products and services are acquired with insurance payments. Thus, in case of an economic slowdown, we believe that CVS will be a counter-cyclical security that will be incredibly valuable to hold in the portfolio. Lastly, the stock price is near its 5-year low currently, and has plenty of upward potential.

### **Upside Catalysts:**

- Merger with Aetna may prove to add significant value. Recently appointed CIO to oversee the integration of technology infrastructure to create synergies from the combined firms.
- CVS plans to expand its ecommerce business with an investment of \$350 million in 2019.

### **Downside Risks:**

- Further discovery of overpaying for acquisitions. CVS was recently downgraded for paying too much for Omnicare and if the same occurs with Aetna the stock will suffer.
- Threat of further healthcare expansion from Amazon and other competitors.
- Overall economic slowdown

### **Investment Thesis:**

CVS is a highly regarded, incredibly stable, pharmacy retail company with an extremely experienced management team. The firm's stability and positioning within the defensive healthcare sector will provide strong portfolio protection in case of a recession in the near future. The acquisition of Aetna, combined with positive investments into digital healthcare by the company also point to CVS' growth potential. The company is currently trading near its 5-year low due to a lowering of 2019 estimates and a discovery of overpaying for Omnicare, but we believe that it is vastly undervalued.

## **Chevron Corporation (CVX)**

Current Price: \$122.20

52-Week Range: \$100.22 - \$131.08

Target Price: \$140

Recommendation: Hold

### **Company Description:**

Chevron Corporation is an international energy company known for the production and transportation of crude oil and natural gas. The company is responsible for refining, marketing, and distributing fuels on a global scale. It is also involved in chemical and mining operations, power generation, and energy services. Chevron's global operations explore for and produce oil and oil equivalents, refines them into various fuels and other end products, and sells them through gas stations, airport fuel depots, and industrial channels. Its brands include Chevron, Texaco, and Caltex, and comprise 8,000 domestic and 6,000 foreign gas stations

### **Top-Down Reasoning:**

- U.S. oil production remains strong as the nation positions itself as a major exporter. Exploration expenditures have been lowered due to the high supply outstripping global demand, but the glut of oil in the United States remains a positive trend for domestic producers.
- Global oil demand is expected to continue to accelerate over the next five years. This growth will be led by emerging economies due to new infrastructure as well as increased consumption. China and India will play a major role in this global demand growth.
- Industry focus on long-term objectives such as sustainable and environmentally-friendly energy will help to develop a clearer future should oil demand begin to permanently decline in the future.

### **Upside Catalysts:**

- Strong upstream portfolio, sees lots of value in its Permian Basin assets, which it predicts will be a linchpin of growth through 2020.
- Relatively low need for Capex compared to competitors.
- Lowest breakeven oil price required to cover its dividend in the industry (\$48/bbl).

### **Downside Risks:**

- Asset portfolio outside the US not as strong.
- Missed earnings have historically led to significant negative reactions towards the stock.
- Continued volatility in oil prices may leave Chevron questioning the value of further oil exploration in the near future.

### **Investment Thesis:**

Chevron remains a strong American oil producer, with a variety of industry trends working in its favor. It has valuable upstream assets and a diversified downstream business to mitigate volatility in the production and sale of oil products. Because of the continuing growth in global oil demand and the recent explosion of the U.S. oil export market, Chevron is poised to profit off of a low breakeven oil price and valuable portfolio designed for long-term growth. This exposure to oil remains valuable to the Value Fund portfolio and I am therefore recommending a hold.

**Delta Airlines, Inc.**  
Ticker: DAL  
Current Price: \$49.58  
Purchase Price: \$54.46  
52-week Range: \$45.08 - \$61.32  
Target Price: \$66.14

**Company Description:**

Delta Air Lines, Inc. is an Atlanta-based airline providing scheduled passenger air travel as well as cargo and technical services. Delta is one of the largest airlines in the world carrying over 180 million passengers per year. Their fleet of over 800 aircraft connect 320 destinations across 60 countries and 6 continents. Delta is a founding member of the SkyTeam alliance allowing Delta customers to connect to a network of 20 airlines with access to over 1,000 destinations across the globe. In the United States, Delta operates out of a network of hubs including Atlanta, Detroit, Los Angeles, Minneapolis, New York, Salt Lake City, and Seattle.

**Top-Down Reasoning:**

Consumer confidence reached all time high levels in 2018 while the global economy continued to expand. This has allowed Delta to continue to expand capacity without meaningful decreases in utilization rates while also not sacrificing pricing power. Similarly, the strength in the global economy favors Delta's network of code share partners. Chinese mid-class growth continues to allow Delta to maximize its profit of their west coast hubs as well as their investment in China Eastern Airlines. Late-2018 also saw a decline in oil prices after they had reached highs near \$80 per barrel. The drawback has allowed Delta to return to margin expansion.

**Upside Catalysts:**

- Delta's cabin segmentation efforts should make meaningful impacts on their income statement in FY19 as they begin to rollout new offerings on transatlantic routes.
- One Delta cost initiative combined with their fleet renewal program aims to bring Delta back to margin expansion in FY19.
- Delta's continued focus on customer experience will enhance Delta's pricing power in 2019.

**Downside Risks:**

- Oil prices rise to 2018 levels leading to margin compression
- A general economic downturn would likely lead to a decline in consumer demand

**Investment Thesis:**

Delta continues to illustrate why they are considered to be the leading airline in the country. Their operational performance record over the past 3 years provides investors with the comfort of knowing that they are investing in a company that has excellent management capable of leading the airline through fleet renewal with disciplined capital spending and a manageable debt load. A return to margin expansion in Q4 2018 should boost earnings and provide for a solid foundation moving into 2019.

## **Danaher Corporation**

Ticker: DHR

Current Price: \$125.89

Purchase Price: \$97.91

52-Week Range: \$94.59 - \$128.39

Target Price: \$133.00

### **Corporate Description:**

Danaher Corporation is an American conglomerate operating in the areas of design, manufacturing, and marketing of industrial, healthcare, and consumer products. The firm was founded in 1969 and is headquartered in Washington D.C. The company operates in four different market segments: Environmental & Applied Solutions, Dental, Life Sciences, and Diagnostics. Danaher is the parent company to over 20 operating subsidiaries, both within the United States and in foreign countries.

### **Top-Down Reasoning:**

Fourth quarter 2018 U.S GDP growth of 2.6% beat expectations of market analysts. This combined with an unemployment rate of approximately 4% and high consumer confidence, indicate that the U.S economy continues to be strong. However, real estate startups have decreased and with the potential for further interest rate increases, several market participants are wary of a recession in the next year. The healthcare sector is one that can be categorized as a more defensive industry, with companies that have lower Betas to the overall market. In addition, within the healthcare sector, DHR is a globally diversified giant, and is unlikely to suffer extreme consequences in the case of a future recession. The firm does not operate with consumer discretionary spending, and the growing baby boomer population only serves to increase its customer base. Thus, in case of an economic slowdown, we believe that DHR will be a counter-cyclical security that will be incredibly valuable to hold in the portfolio.

### **Upside Catalysts:**

- Danaher has acquired GE's biopharma business, which generates nearly \$3 billion in sales annually.
- The company is involved in industries with secular growth and positive demographic trends as well as a 3-year beta of 1.05 meaning that it does not pose great systematic risk.

### **Downside Risks:**

- Danaher will now assume responsibility over GE's biopharma business pension liabilities, which could impact the firm's future risk outlook.
- The stock price is close to its 52-week high and fears of overpaying for GE's biopharma business or that selling its dental unit were not ideal decisions will hurt the stock price.
- Overall economic slowdown

### **Investment Thesis:**

Danaher is a highly regarded, incredibly stable, globally diversified company with an extremely experienced management team. The firm's stability and positioning within the defensive healthcare sector will provide strong portfolio protection in case of a recession in the near future. The acquisition of GE's biopharma business, combined with the trends of deregulation and growing baby boomer population point to the conglomerate's future growth potential. The stock is currently trading near its 52-week high but we believe that there is still further room for it to increase in value.

## **The Walt Disney Company**

Listing: DIS

Current Price: \$113.19

52 Week as of 4/23/18: \$120.20 - \$97.68

12-Month Price Target: \$133.91

Recommendation: Buy

### **Corporate Description:**

The Walt Disney Company is an entertainment company that conducts operations in media network, studio entertainment, theme parks and resorts, consumer products and interactive media. The Company produces motion pictures, television programs, musical recordings, books and magazines. They operate multiple cable programming services including ESPN, Disney Channels, and ABC, as well as resorts in Florida and California.

### **Top-Down Reasoning:**

Although global economic growth is expected to slow, it is very unlikely a recession will occur in the United States. Wage growth remains steady while inflation continues to persist at a low level. Monetary policy is expected to be unchanged until at least the summer of 2019. Job growth is slowing but the economy is still operating near full employment. As wage growth outpaces inflation, consumer purchasing power increases. Overall, the macro-economic environment is one that will benefit Disney.

### **Upside Catalysts:**

- High expectations for Parks & Resorts segment, coinciding with the opening of the immersive “Star Wars” attraction, Disney’s biggest “single-themed land expansion” ever
- Upcoming 2019 titles for Studio Entertainment segment as well as the closing of the 21<sup>st</sup> Century Fox acquisition
- Expanding direct-to-consumer segment with Hulu, Disney+ and ESPN+

### **Downside Risks:**

- Inability to maneuver consumers’ changing preferences (cable cord-cutting)
- Decline in movie attendance tied to increased streaming and rising prices
- Economic downturn or recession leading to less disposable income

### **Investment Thesis:**

Disney had a strong FY 2018 with EPS up 24% for the year. The Studio Entertainment segment generated a record \$3 billion in operating income, which should improve due to its 2019 slate, which includes remakes of Disney classics, the new Avengers film, and exclusive access to 21<sup>st</sup> Century Fox titles. Attendance at parks was up 4% in 2018 while per capita spending at the resorts was up 9%. The new “Star Wars” attraction opening in FY 2019 is a major catalyst for the Parks & Resorts segment. The Company is now a majority-owner of Hulu following the Fox acquisition and is also rolling out ESPN+ and Disney+ to expand its streaming platform portfolio, making it stronger competition to the likes of Netflix and Amazon. Due to its past financial performance, brand name and future catalysts, Disney earns a buy rating.

**HCA Healthcare Inc. (HCA)**  
Current Price: \$135.37  
52-Week Range: \$93.03 - \$147.42  
Target Price: \$151  
Recommendation: Hold

**Company Description:**

A major health services chain in the United States, HCA operates 170 hospitals in the United States and the U.K. These hospitals act as acute care centers, offering patients treatments related to urgent care, cancer treatment, and outpatient rehabilitation. The company is responsible for 5% of the U.S.' hospital services and is highly rated in its healthcare delivery and performance.

**Top-Down reasoning:**

The U.S. Healthcare Industry's change from a fee-for-service to a value-based model will help major hospital chains develop customer loyalty, brand, and reputation as the industry begins to focus on wellness rather than illness. Hospital chains with efficient management and room for capital expenditures will be able to capture value from Electronic Health Records, virtual care, and other novel medical technology. An aging population and growing prevalence of chronic disease will drive hospitals to develop long-term solutions to keep these expensive demographics profitable.

**Upside Catalysts:**

- Increased hospital admission and healthcare needs from the large and aging "Baby Boomer" generation could greatly improve revenues, especially in HCA's primary Florida market.
- Continued revenue growth from insured patients as well as lowering service to Medicare/Medicaid and uninsured patients will drive revenue growth.
- A continuance of management's disciplined expansion and hospital refurbishment will further HCA's focus on quality healthcare delivery through cutting-edge facilities.
- Acquisition of Mission Health should add \$175mn in EBITDA beginning in FY 2019

**Downside Risks:**

- While HCA has been able to lower its revenue from Medicare and Medicaid recipients, it is still a major percentage of revenue. As these patients are often serviced at a monetary loss, an increase in patient visits from this demographic could lower revenues. Should HCA's major markets in Texas or Florida reform Medicaid or Medicare to provide for more citizens, HCA would likely see major losses.
- HCA's major exposure to Texas and Florida - roughly 50% of its overall market - leaves it at risk to any changes in state legislature related to healthcare.

**Investment Thesis:**

HCA is one of the premier American hospital chains, with strong management and deliberate growth leading to strong long-term performance. We believe that the hospital's management will be able to handle the transition to value-based care and will be able to strategically implement greater electronic health accessories to improve patient outcomes and streamline care. HCA's exposure in major markets such as Florida and Texas will help them achieve exposure to older demographics, which will require more care due to the rise in chronic disease in America. We are confident that HCA will continue to perform well and provide for its customers and serve as a key investment in the Value portfolio.

**Home Depot**  
Listing: HD  
Current Price: \$191.35  
52 Week as of 4/23/18: \$158.09 – 215.43  
12-Month Price Target: \$220.00  
Recommendation: Hold

**Corporate Description:**

Home Depot (“HD”) is a home improvement retailer that sells building materials and home improvement products. Operating primarily in North America, they are one of the world’s largest home improvement chains and one of the largest retailers in the U.S. with 2,300 stores in North America and over 40,000 items available. They target the “do-it-yourself” and professional home improvement markets and have recently begun offering “do-it-for-me” installation services for things like carpeting and cabinetry. Home Depot has slowly grown their e-commerce operations through their websites and mobile apps.

**Top-Down Reasoning:**

There are four primary factors impacting the demand for Home Depot’s products and services: the level of household formation, home price appreciation, housing turnover, and the age of the housing stock. Home price appreciation has hovered in the high single digits since 2013 after the turnaround associated with the financial crisis, supporting incremental investments in the home. Household formation and housing turnover increases demand for HD’s products and services, and while those numbers have cooled lately, HD has been able to reap the benefits of a strong housing market. Finally, the biggest macro-driver of sales for Home Depot is the age of the housing stock – the average age of homes in the U.S. market. As this continues to climb year-over-year, we suspect that it will create greater demand for the product offering of HD.

**Upside Catalysts:**

- High barriers to entry - Home Depot is not an “item retailer;” they are a “project retailer.” This insulates them from much of the disruption that Amazon has caused to American retailers.
- Relatively low competition in market – the only true competitor that Home Depot has is Lowe’s. Therefore, they own the commanding position in a market that is somewhat of a duopoly.
- Favorable housing market trends including the age of housing stock and average spend per large home improvement project should provide a tailwind.

**Downside Risks:**

- Amazon continues to surprise the market with creative disruptions
- Long-term secular trends associated with changing demographics and preferences
- U.S. housing market downturn

**Investment Thesis:**

Home Depot is a dominant player in a relatively uncompetitive segment of the retail market that is insulated from most of the traditional disruptions in retail due to the “project retailer” model. The company has a fair valuation, high barriers to entry, large free cash flow generation, and market saturation.

## **NextEra Energy Inc.**

Listing: NEE

Current Price: \$188.35

52 Week as of 4/23/18: \$189.43 - \$152.94

12-Month Price Target: \$190.60

Recommendation: Hold

### **Corporate Description:**

NextEra Energy, Inc. provides sustainable energy generation and distribution services. The Company generates electricity through wind, solar, and natural gas. Through its subsidiaries, NextEra Energy also operates multiple commercial nuclear power units. The holding company is mainly comprised of Florida Power & Light (FPL) and NextEra Energy Resources (NEER). They are headquartered in Juno Beach, Florida.

### **Top-Down Reasoning:**

The utility sector performed strongly towards the end of 2018 as investors shifted towards defensive sectors with high-yielding dividends over concerns of global growth and trade rhetoric. Belief that global economic growth will continue to slow makes defensive sectors attractive. Due to current inflation levels, the Federal Reserve is in no rush to hike interest rates. Utilities perform stronger in a low-rate environment. BCA Research also reported that electricity production has been rising.

IEA growth prospects for renewables depicts a bright future into 2022. They expect renewable electricity capacity to expand over 43%. This forecast is a 12% increase from the previous year. Wind and solar is expected to represent more than 80% of global renewable capacity growth in the next five years. The United States is a strong market for renewables, positioning NextEra nicely in the sector. Despite policy uncertainty, the U.S. remains the second-largest growth market for renewables.

### **Upside Catalysts:**

- Florida Power & Light serves a historically fast-growing territory, the coastal areas of Florida, with customers who are relatively captive and price-insensitive users of electricity
- Specialization in wind and solar positions it well in the sector
- Strong reputation – sells at a premium compared to other utilities

### **Downside Risks:**

- Currently overbought
- Potential cut in regulated returns
- Natural disasters

### **Investment Thesis:**

NextEra is a leader in renewables, a space that has attractive growth prospects. It is a safe stock in the sector due to its reputation and gives the value fund exposure to renewables and utilities, a promising industry to be invested in with the current macro-economic environment. Florida Power & Light should also benefit from the growth of the Florida region that they provide services for, as well as the development of four new solar power plants in 2019. It is currently approaching our 12-month price target, thus receiving a hold rating.

## **Prudential Financial Inc.**

Ticker: PRU

Current Price: \$94.11

Purchase Price: \$91.93

52-Week Range: \$75.91 - \$111.18

Target Price: \$113.73

### **Company Description:**

Prudential Financial Inc. provides financial services throughout the United States and several locations worldwide. These services are offered through five primary divisions with a total of \$1.4T AUM: (1) International Insurance, (2) US Workplace Solutions, (3) US Individual Life, (4) Closed Block, and (5) Investment Management.

### **Top-Down Reasoning:**

Given recent market volatility, the life insurance industry stands as an attractive space given its defensive nature. As a whole, the life insurance space had underperformed the broader market index throughout 2018 even as interest rates had risen (10-Yr US Treasury up 66 bps since year-end 2017), breaking a longstanding relationship. Moving forward, valuations are expected to improve if the industry is able to sustain Q2 median operating ROE of 11.9%. Life insurers with lower average bond maturities, such as PRU, are expected to see boosted income from their investment portfolios. Trading at a discount based on P/BV and P/E despite higher ROE, similar EPS growth potential, and strong business trends, PRU stands an attractive value stock.

### **Upside Catalysts:**

- Aggressive international growth in less competitive regions, specifically Japan and Brazil
- Hedging life insurance risk with pension risk transfers reduces overall business risk and increases earnings stability, making for a good hold through a volatile market
- Large variable annuity business risk profile expected to improve as sale of non-guaranteed annuities increase

### **Downside Risks:**

- Persisting mixed business trends leads to 2019 profit pressure
- Substantial operations in Japan expose PRU to uncertain capital market conditions and demographic trends in the country
- Holding PRU puts us overweight in the insurance/financial services industry

### **Investment Thesis:**

PRU leads the industry with a superior ROE of 13.5% and management guidance set for long-term rate of 12-13%. With shares trading essentially at book value, PRU is a value play at current ROE levels that should gradually grow earnings alongside sizable capital returns to shareholders. This, combined with interest rates becoming a tailwind, an industry-leading investment management segment (PGIM) gaining steam, and significant quarterly buybacks scheduled for the upcoming year, solidifies our confidence in PRU.

## **SL Green Realty Corporation**

Ticker: SLG

Current Price: \$91.63 (3/8/18)

Purchase Price: \$92.85

Target Price: \$115

### **Company Description:**

SL Green is a self-managed REIT that finances, acquires, develops, renovates, manages, and leases commercial properties in New York though primarily office buildings in Manhattan. Not only is Manhattan the largest office market in the US by far but SL Green is the largest landlord having a 12% market share. The firm has 49.3 MM SF of aggregate interests, 28.3 MM SF of equity, and 21 MM SF of debt and preferred equity. SL Green specializes in class B assets, buildings older than 25 years but in desirable locations and in generally good conditions. SL Green's business strategy is acquiring class B Manhattan office buildings or value/core plus buildings and making them into class A or core/trophy assets.

### **Top Down Reasoning:**

Manhattan's economic fundamental remained strong throughout 2018 which is a key driver of office demand. The November unemployment rate of 3.3% represented a 650-basis point decline from the peak rate of 9.8% in January of 2010. In addition, the NY MSA has diversified more than any other area in the past decade which has given the market less exposure to the cyclical risks of the financial services industry. In addition, recent headquarters-sized commitments to NYC from companies such as Google display that this trend is likely to persist if not accelerate in the coming years. These factors should further strain supply and demand fundamentals and drive long-dormant wage growth. Leasing activity totaled 35.3 MM SF (70% going to Class A) in 2017 the highest amount since 2014 which helped compress the total vacancy rate by 50 BPS in the 4Q, the lowest since 4Q of 2007.

### **Upside Catalysts:**

- Tenants have been leaving traditional business hubs for trophy spaces in Midtown South and Hudson Yards which helps with SLG's developments at One Vanderbilt and One Madison
- One Vanderbilt is going to be the best located/quality building which has led to the highest rents

### **Downside Risks:**

- Hudson Yards is bringing a lot of new development to West Side, but One Vanderbilt is a hedge
- Amazon Fallout is a big loss to NYC but highlights its status as a tech hub

### **Investment Thesis:**

SLG is a great company currently at a fair price lead by an experienced management team. They are also a very strategic company since as they only operate in one market as they know that market well and believe it's the best in the world. They are the best positioned REIT to take advantage of New York's continued growth and economic prominence. In theory, their stock should rise as its roughly at a 25% discount to their actual asset value. While many might view the Amazon fallout as a disaster, it still highlights the city's position as a tech hub and the commitment that major companies have made without tax breaks such as Google.

## **Constellation Brands**

Ticker: STZ

Current Price: \$168.36

Inherited Price: \$227.92

Target Price: \$201

### **Company Description:**

Constellation Brands is a prominent international producer and marketer of beer, wine, and spirits with operations in the U.S., Mexico, New Zealand, Italy, and Canada. It is the third largest beer company in the U.S. and has many high-end, iconic, and imported brands such as Corona Extra, Corona Light, Modelo Especial, Modelo Negra, and Pacifico. In addition, they are the global leader in premium wine with brands such as Robert Mondavi, Clos du Bois, Kim Crawford, Meiomi, Mark West, Franciscan Estate, Ruffino and The Prisoner. Its premium spirits brands include SVEDKA Vodka, Casa Noble Tequila and High West Whiskey. 90% of their revenue is from the US.

### **Top Down Reasoning:**

While economic expansion and growth in discretionary income definitely helps STZ, the company's low beta and alcohol's nature as an inelastic good means that they are also fairly resilient during recessions as well. The company is very susceptible to demographic factors and more specifically the Hispanic population that is around 40% of the company's consumer base. The US Hispanic population is expected to grow almost 100% from 57.47 million in 2016 to 93.88 million in 2045 in addition to also increasing their discretionary income. Another demographic advantage is that a growing number of millennials drink, beer, wine, and spirits as these customers spend 6 times their singular counterparts. Millennials also seem to favor imported and premium brands, most of the components of STZ's portfolio.

### **Upside Catalysts:**

- Rapid growth in population and incomes of the Hispanic Population
- Millennial's desire to drink across beverage categories and premium/imported brands
- 6% compounded sales growth projected for next 5 years
- 37% equity stake in Canopy Growth with warrants to increase ownership to more than 50%
- Has returned almost 50% in past 3 months

### **Downside Risks:**

- Reliance on its Mexican beer portfolio and risk of issues with importation
- Size relative to Anheuser-Busch and MillerCoors and their ability to make greater investments in advertising or acquire additional craft brands
- Generates majority of revenue from US while rivals are more international

### **Investment Thesis:**

Constellation Brands is poised to take advantage of increases in consumer discretionary income while also being resilient in a recession. Demographics are working in this company's favor. While the market reacted negatively to Robert Sands stepping down from CEO and COO Bill Newlands stepping, in I believe this change is already priced and Newland's experience combined with Sands becoming executive chair will lead the company comfortably. Combined with the above reasons and my valuation I put my price target at \$201.

## **Texas Instruments, Inc.**

Ticker: TXN

Current Price: \$106.92

Purchase Price: \$95.04

52-Week Range: \$118.48 - \$87.70

Target Price: \$109

### **Company Description:**

Texas Instruments, Inc. (TI) is a global manufacturer of semiconductors with facilities in North America, Asia, and Europe. It markets its products to six main industries, namely: industrial, automotive, personal electronics, communication equipment, enterprise systems, and others (like calculators). It has a diversified portfolio of products and sells to more than 100 customers.

### **Top-Down Reasoning:**

The semiconductor manufacturing is infamous for going through volatile prices because of oversupply issues. When data suggested that the downturn had started, the entire industry was punished by the equity markets. However, analyzing past trends, it seemed that corrections happened within six months and the prices rebounded strongly. So, we bought TI at a bargain. Another reason for depressed prices was the U.S. – China trade war. Companies in this industry experienced lower margins because of tariffs (China is a major consumer of semiconductors), and that caused a stronger sell-off for firms in this industry than in the overall market. However, because of its unique position TI was not impacted by tariffs.

### **Upside Catalysts:**

- Improving consignment programs which allowed for better forecast of demand (65% of revenue in 2018).
- Higher industrial and automotive demand due to automation and electric vehicles.

### **Downside Risks:**

- Semiconductor industry cycles will continue to happen in the future.
- Majority of the revenue comes from China (44% in 2018) which is prone to political risk and dependent on China's economy.

### **Investment Thesis:**

TI is well positioned to grow due to market demand of its products. The firm's strong balance sheet and consignment programs will support it in downturns. TI is a strong company with a great diversification, and we believe the stock should appreciate since the current price doesn't reflect the fundamentals of the business and its future growth potential.

## **Unum Group, Inc.**

Ticker: UNM

Current Price: \$36.89

Purchase Price: \$37.80

52-Week Range: \$51.33 - \$26.76

Target Price: \$45

### **Company Description:**

Unum Group is an insurer with business segments in U.S. and U.K. Its products include disability, life, accident, illness, dental, and vision insurance. Most of Unum's revenue comes from deals with other firms that provide insurance for their employees, instead of direct-to-consumer transactions.

### **Top-Down Reasoning:**

As an insurer, rising interest rates in U.S. help improve margins by increasing net interest income. In 2018, the Fed raised the Federal Funds Rate (FFR) four times to their current level of 2.2 – 2.4% helping push up net income for banks and insurers. The workforce in U.S. has also experienced a focus shift from just income to a balance of income and benefits. So, firms need to offer great benefits to retain and hire talented employees. Firms like Unum offer those services and products to employers.

### **Upside Catalysts:**

- Medical cost inflation in U.S. has far outpaced wage growth, increasing demand for health insurance.
- Shift in demographic preferences and slow rise in wages.

### **Downside Risks:**

- Unum's closed (discontinued) segment, long-term care, has high expenses and its future redemptions remain uncertain.
- A slowdown in the world's economy may cause interest rate volatility making interest rate cut a possibility.

### **Investment Thesis:**

Excluding the long-term care segment, Unum has done exceptionally well in terms of operations. It has a strong balance sheet and cash flow generation. The higher interest rates will help the firm increase net income and support the risky discontinued business. We believe that the stock is unfairly valued and Unum should reach its price target given its catalysts.

**Valero Energy Corporation**  
Ticker: VLO  
Current Price: \$85.06  
Purchase Price: \$92.77  
52-Week Range: \$68.81-\$126.98  
Target Price: \$104.22

**Company Description:**

Based in San Antonio, Texas, Valero Energy Corporation is an independent petroleum refining and ethanol producing company that owns and operates 15 refineries in the U.S., Canada, and UK. The company had a combined throughput capacity of approximately 3.0 million barrels per day in the fourth quarter of 2018. The company produces conventional gasoline's distillates, jet fuel, asphalt, petrochemicals, lubricants, and other refined products as well as diesel fuel, low-sulfur and ultra-low-sulfur diesel fuel, and oxygenates. The company also owns and operates 11 ethanol plants in the U.S. with a combined production capacity of approximately 1.4 billion gallons per year.

**Top-Down Reasoning:**

With Valero's refining segment accounting for the majority of the firm's revenue, the price of oil, from a macroeconomic perspective, will have the greatest impact on the firm. The drastic oversupply of oil in the global market that was created by large OPEC member outputs and the U.S. becoming nearly self-sufficient in product pushed the cost of oil lower. This directly benefitted oil refiners, such as Valero, as the firm's input costs are lowered. Despite OPEC restrictions placed on production, oil prices have remained relatively low as CLO has benefited. However, rising tensions in the Middle East pose a risk to current oil prices. With Valero being the second largest independent U.S. refiner, the company should continue to benefit if oil prices remain low.

**Upside Catalysts:**

- Low oil prices in the market allow Valero to decrease input costs and improve margins
- Large refining capacity in the Gulf Coast to help support margins

**Downside Risks:**

- Increasing oil prices will input costs, and put pressure on margins
- Lower demand for exports
- Potential oversupply of refined product in the broader market

**Investment Thesis:**

VLO is a leading independent oil refiner, with a great FCF yield, and will be able to leverage its scale to counteract the negative impact of potentially higher oil prices, which increase VLO's input cost for refining, while maintaining throughput levels.