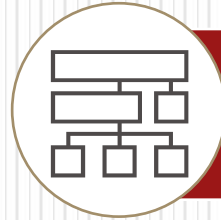


# OSIF Board Presentation Fall 2018



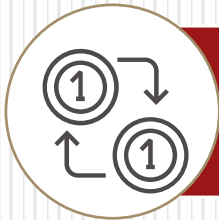
# Agenda



**Background and Investment Foundation – Maddi Barnett**



**Market Climate and Performance Overview – Sara Goetze**



**Transactions – Dylan Bastved**



**Equity Research and Moving Forward – Spencer Hong**

# Governance with OSIF



# Governance with OSIF

**Three Teams**

**Market Allocation**

**Due Diligence**

**Voting Method**

**Communication**

# Steps for Stock Purchase

## Tuesday

- Stock picks and sells deliverable with reasoning due by 6pm

Transactions



## Wednesday

- Due diligence occurs

Follow-up  
Investments



## Thursday

- Discussion and voting

Voting Rights



# Groundwork

## **Bull Market**

- **Strong economic condition**

## **Long-term Strategy**

- **5 to 10-year outlook**

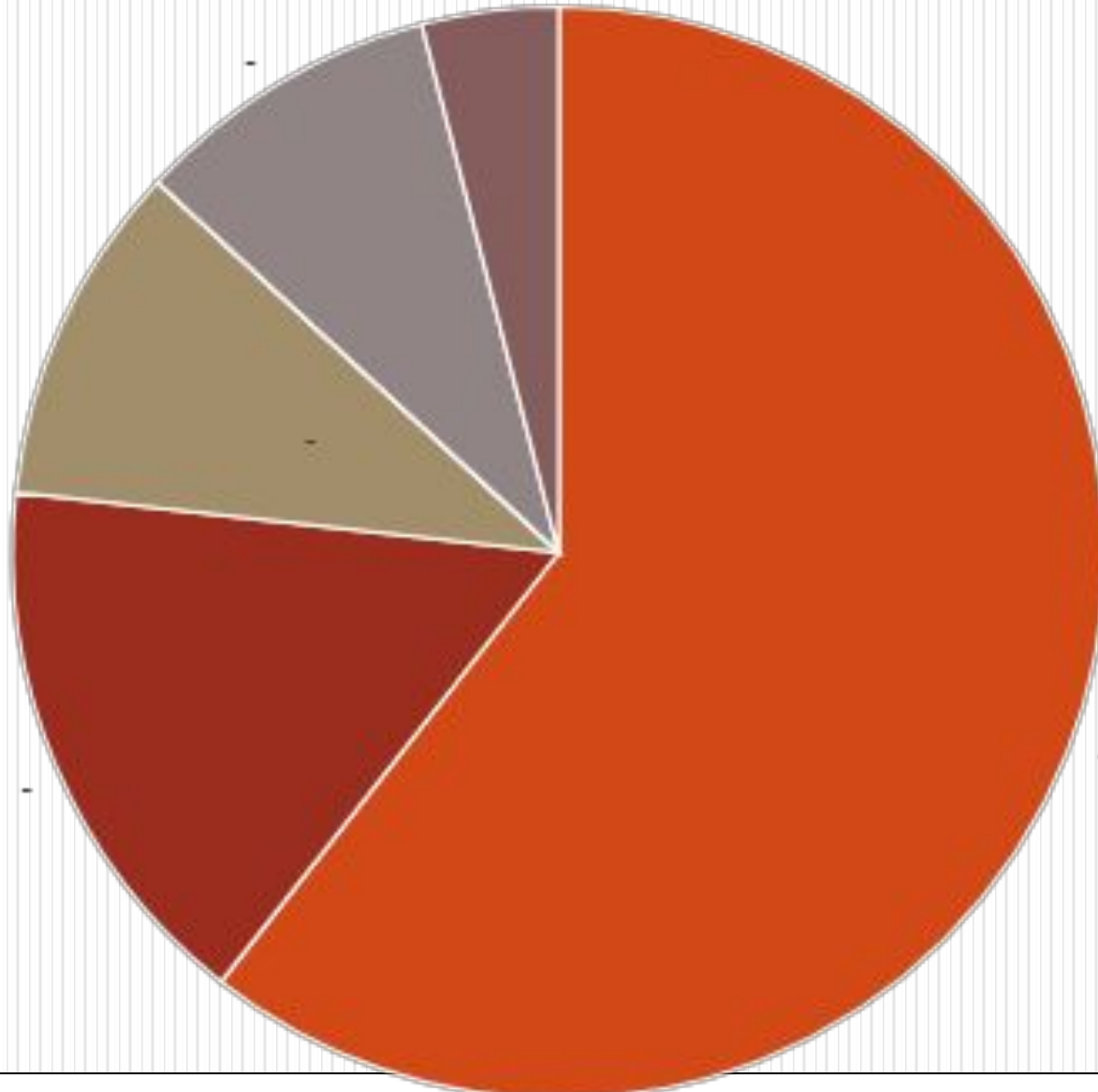
## **Market Allocation**

- **Created by market allocation group**

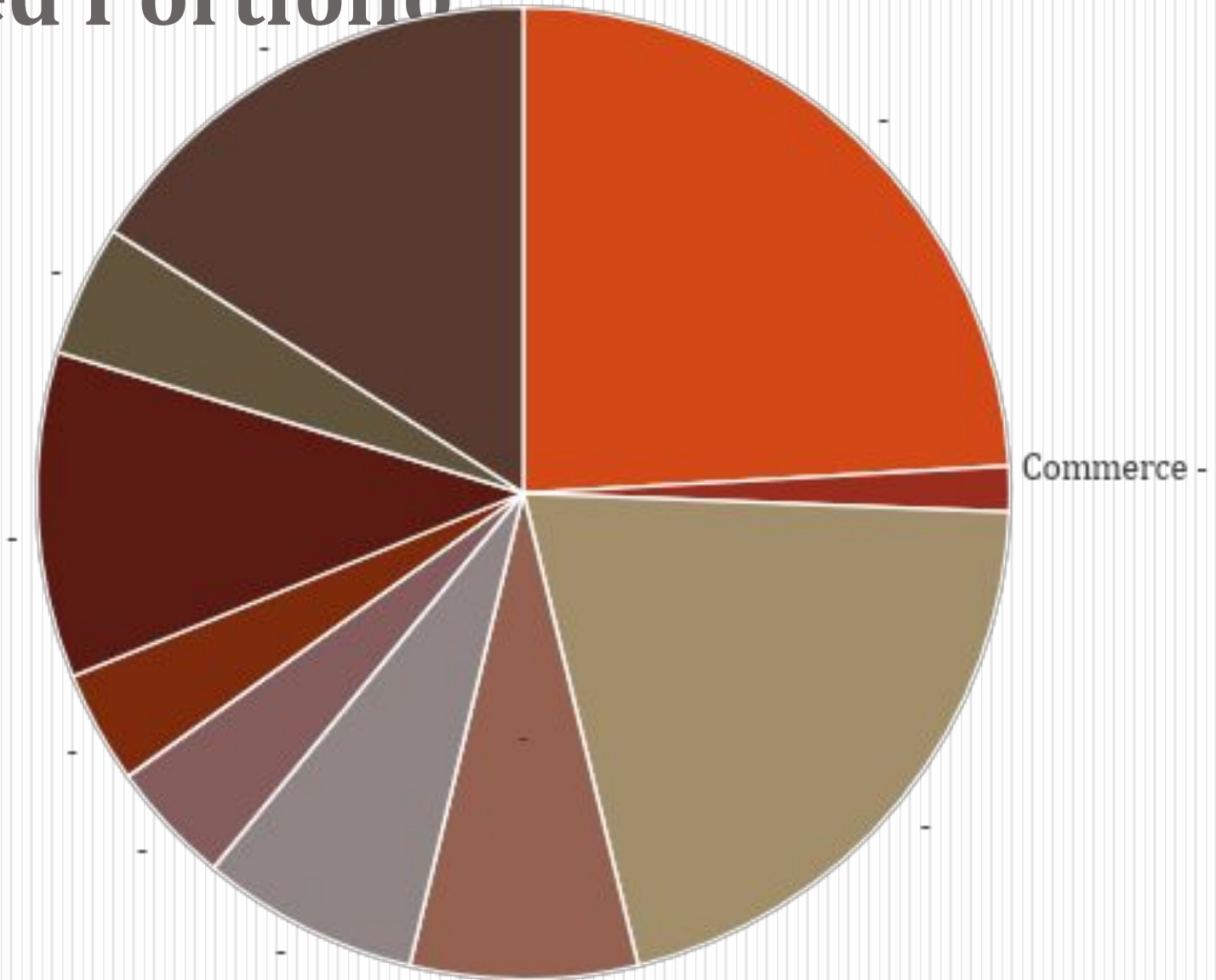
## **Ethics Discussion**

- **Business ethics**

# Inherited Portfolio

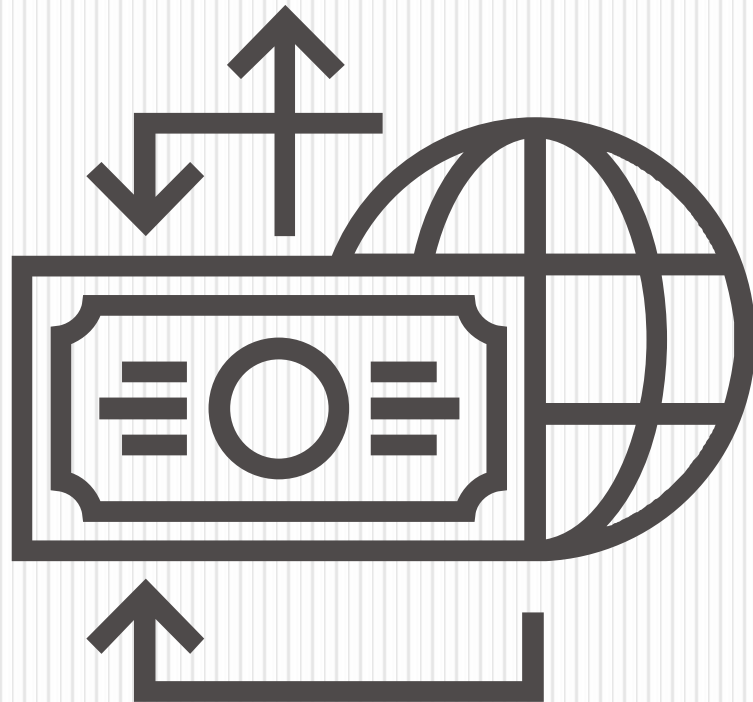


# Inherited Portfolio





# Economic Landscape



# Pre-Correction

## More than nine years of gains

The Standard & Poor's 500 index is in a long bull market: It hasn't had a close-to-close drop of 20% or more since early 2009.

### Weekly index closings



Source: FactSet

@latimesgraphics

**S&P set record  
highs throughout  
August and  
September**

**New NAFTA deal is  
reached**

**Concern around  
trade war**

**Crude oil highs due  
to low stock and  
falling exports**

# Correction

## Rocky October: Dow gives back all 2018 gains

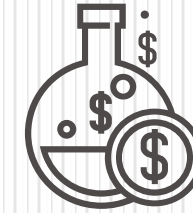


SOURCE Bloomberg  
Frank Pompa/USA TODAY



- Change in cash assumptions
- Markets are hit
  - Slowing growth
  - Trade wars
  - Higher interest rates
- Tech is hit hardest
  - Amazon and Netflix lost about one-fifth of their value
- NASDAQ lost 9%

# Post-Correction



- Changes after the election
- Split congress
- Oil prices continue to decline
- Continued concern with tech
- Santa Claus rally

# S&P 500



# International Equities

**Limited  
Opportunities**

**Country Bias**

**Lack of  
Familiarity**

**Concerns  
with Brexit**

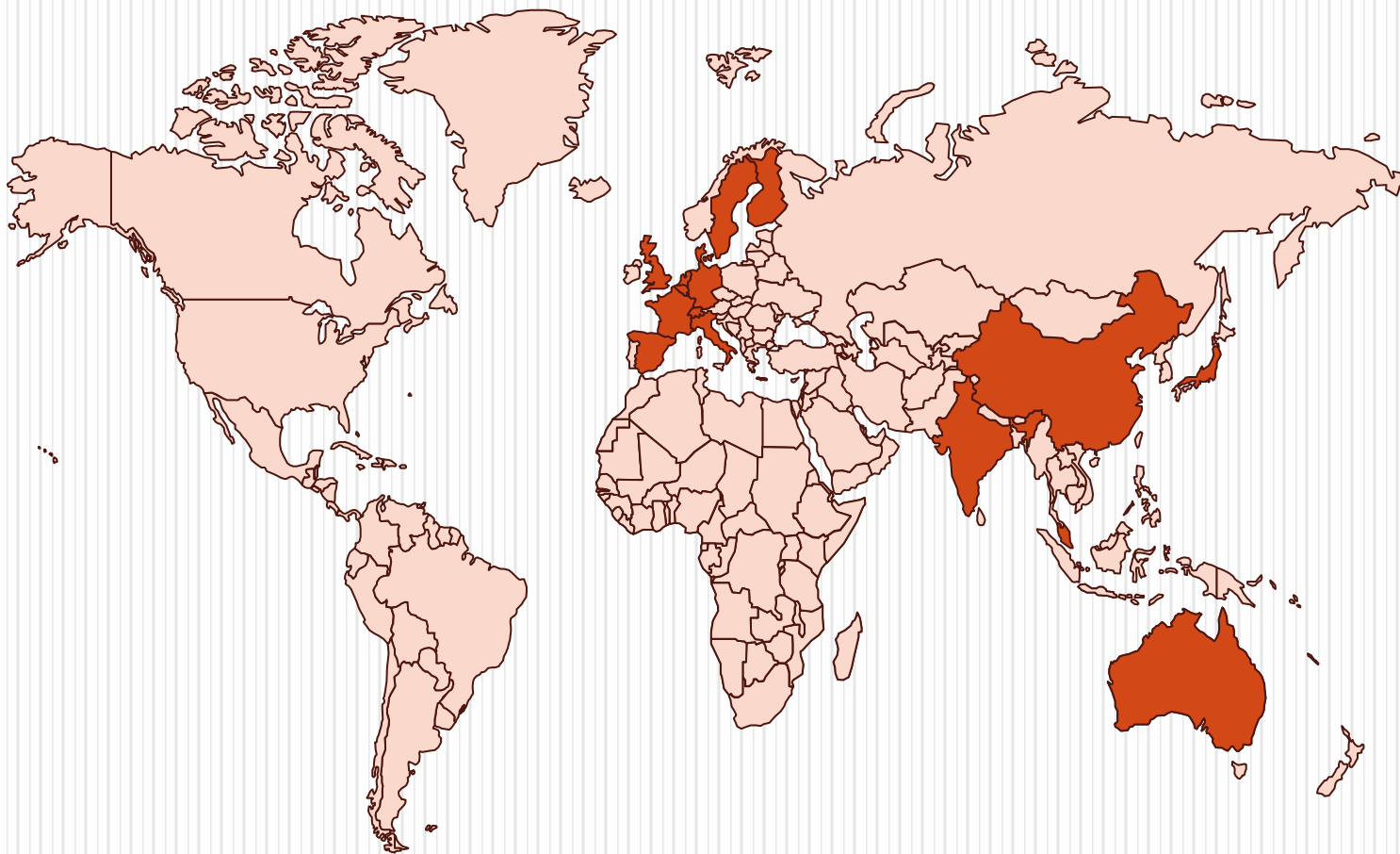
# International Equity Holdings

## Held in ETFs

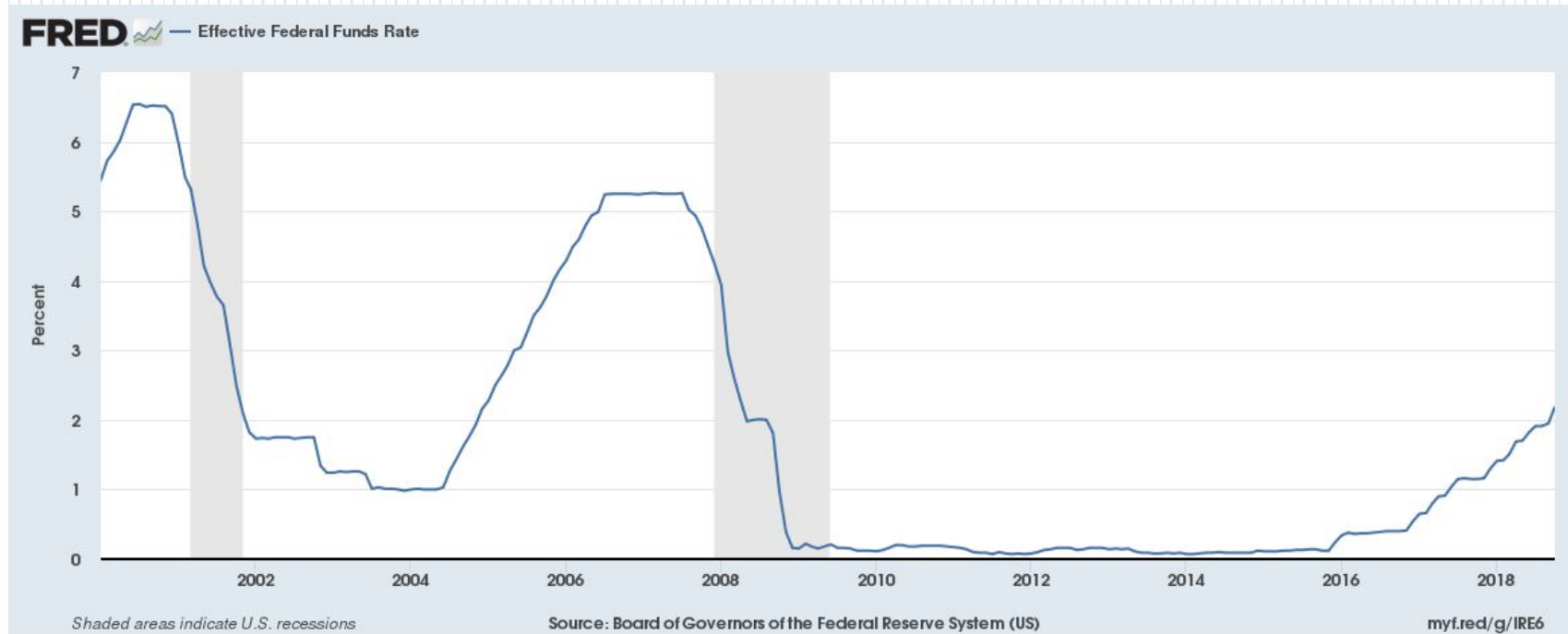
Japan  
United Kingdom  
France  
Germany  
Switzerland  
Australia  
Hong Kong  
Netherlands  
Spain  
Sweden  
Italy  
Denmark  
Singapore  
Finland  
India

## Specific Companies

China  
Denmark



# Bond Markets



## Change in interest rates

- September 26<sup>th</sup>
- 0.25% for target of 2% - 2.25%
- Anticipating another increase for Q4

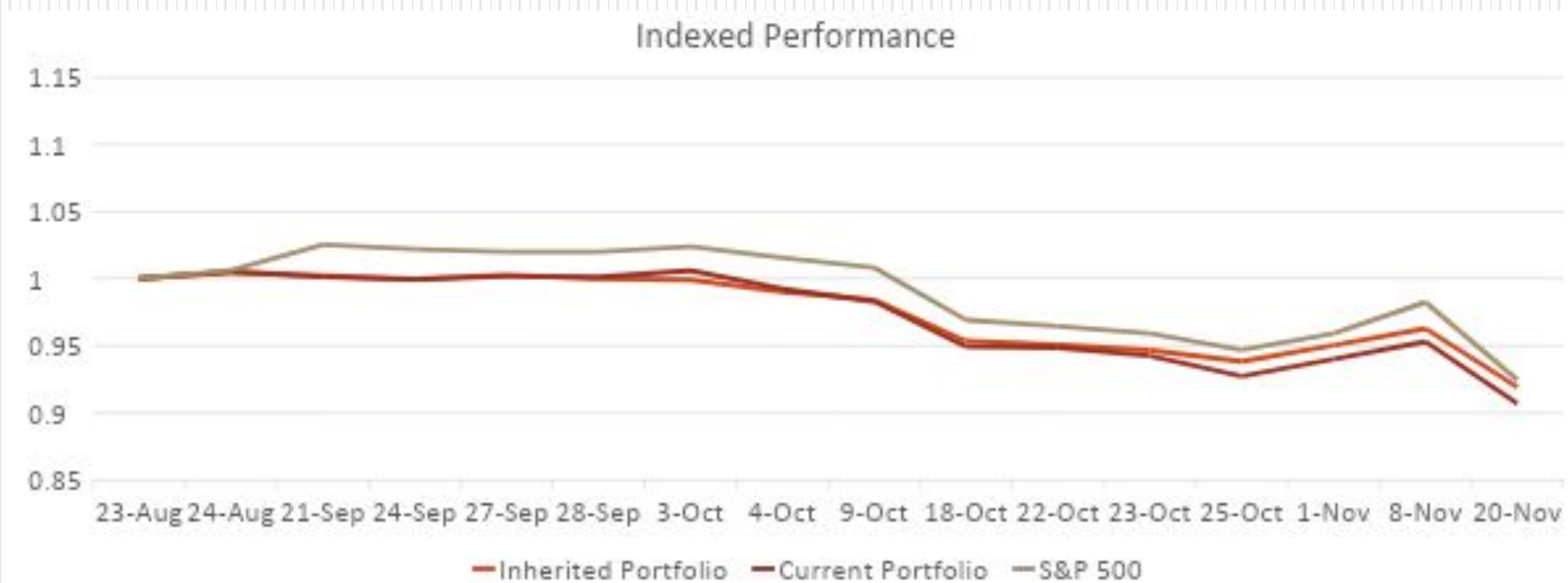


# Anticipated Portfolio Contribution

- OSIF Fall 2018 goal: 5-7% return goal
- Inherited portfolio goal: 4.23% return goal
- Long-term objective of 5.68%

Market assumptions and allocations						
	<i>Return</i>	<i>Allocation</i>	<i>Contribution</i>	<i>TMV</i>	<b>Current Weight of total portfolio</b>	<i>Contribution</i>
<i>Cash on hand</i>	0.00%	1%	0.00%	76,000.00	15.94%	0.00%
<i>US equity</i>	5.10%	50%	2.55%	288,286	60.48%	3.08%
<i>International Equity</i>	7.40%	30%	2.22%	49,956	10.48%	0.78%
<i>EM</i>	7.00%	8%	0.53%	-	0.00%	0.00%
<i>Fixed Income</i>	2.40%	5%	0.12%	44,511	9.34%	0.22%
<i>Alternatives</i>	4.00%	7%	0.26%	17,889	3.75%	0.15%
<i>Total</i>			<b>5.68%</b>			<b>4.23%</b>
<b>Total portfolio value</b>				<b>476,643</b>		

# Performance Measurement: Sharpe Ratio



	Pre-correction	Overall
Our portfolio	0.035	-0.310
S&P	0.034	-0.129

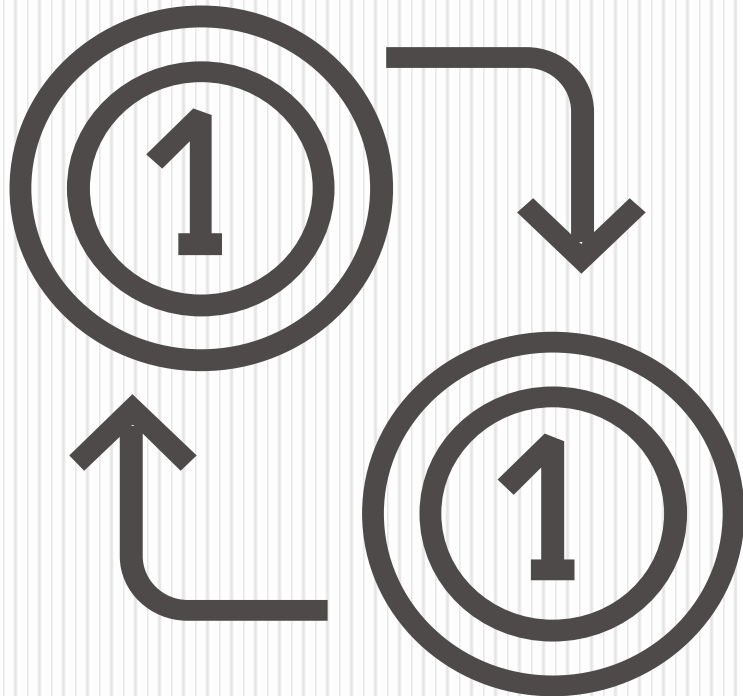
# Portfolio Balance: Weekly



Starting Portfolio Balance August 13th : \$463,557.30

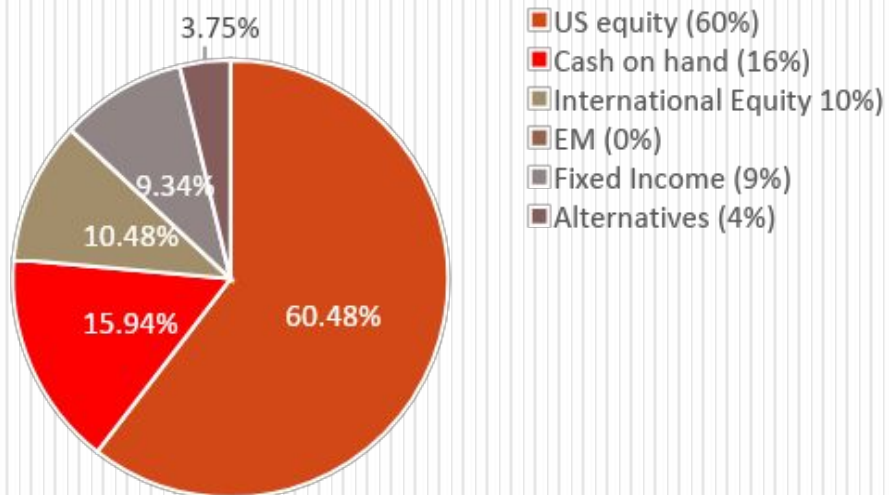
Ending Portfolio Balance November 29th : \$422,098.06

# Transactions

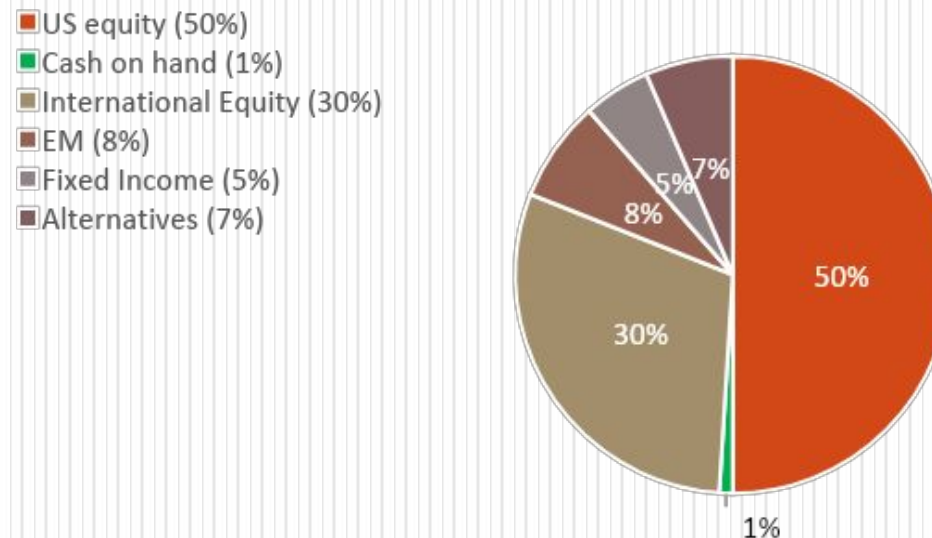


# Initial Allocation: Overweight Cash

**\*Inherited Capital Allocation**

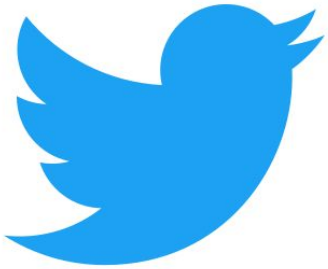


**Desired Capital Allocation**



- Put cash to work -> drive returns
- Late cycle -> high allocation in tech, desire to hedge with non-cyclical

# Assessment of Inherited Portfolio

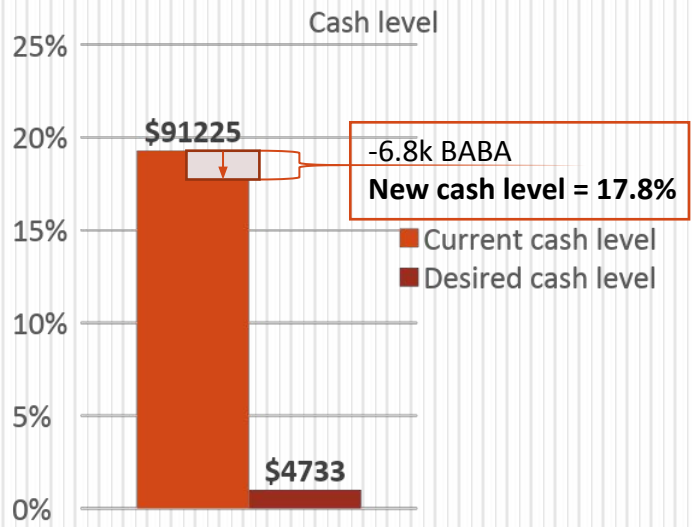


Initial purchase price: **\$44.33**  
Market price Sept. 6th: **\$31.44**  
Total inherited loss: **-29.1%**



- Quick run-through of the inherited portfolio
- Twitter stood out
- Fundamental analysis: didn't believe in business model
- Major sell-off -> short-term rebound
- Set stop-loss Sept 6th at \$29/share
  - 100 day MA
  - Psychological resistance
- Executed September 17th

# Alibaba (BABA): Medium and Long-term Opportunity

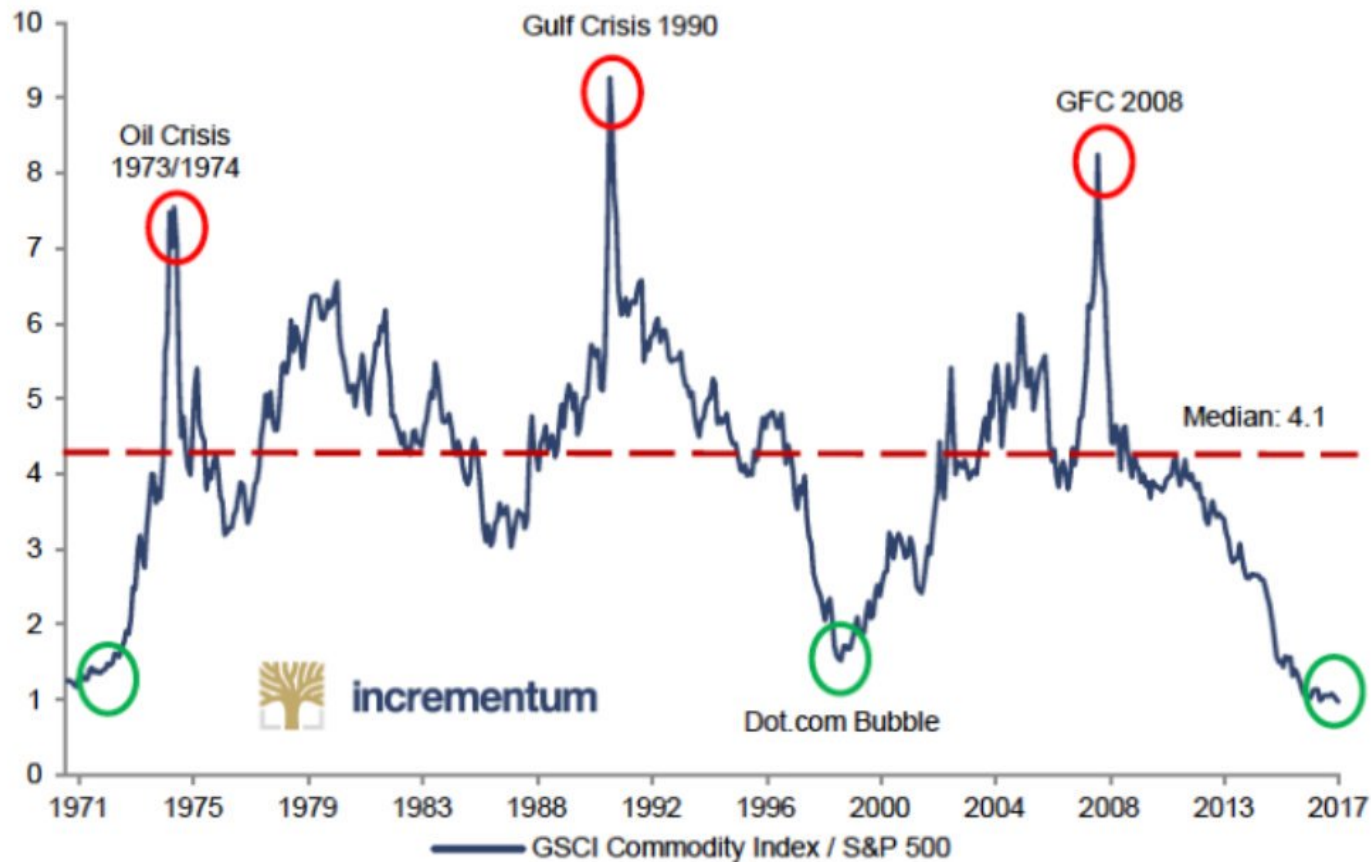


- Decent sell-off due to trade war
- Fundamentals:
  - Belief in business model & capabilities
  - 61.9% year over year revenue growth
  - Higher net margins relative to online competitors
  - Analyst consensus: Buy
- Increase international exposure
- Price target at 200
- Jack Ma quit shortly after and trade war unsolved
- Medium-term hold to target price

\*40 shares bought for \$169.5/share on 09/25

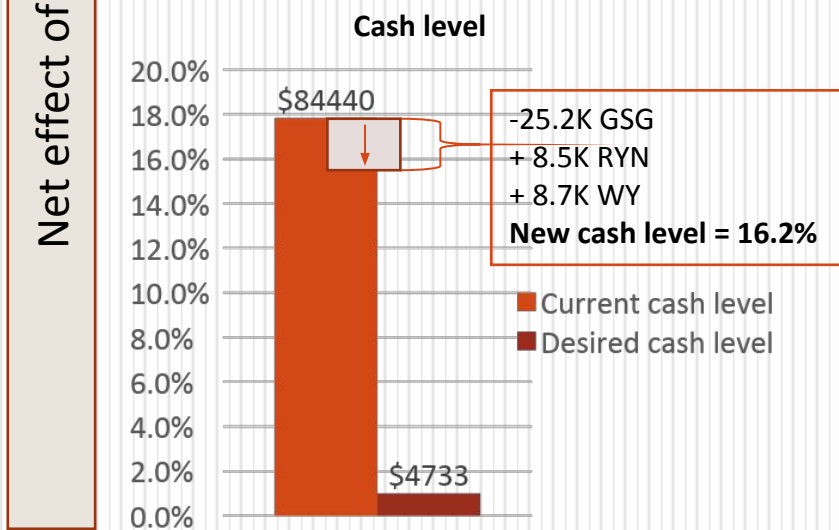
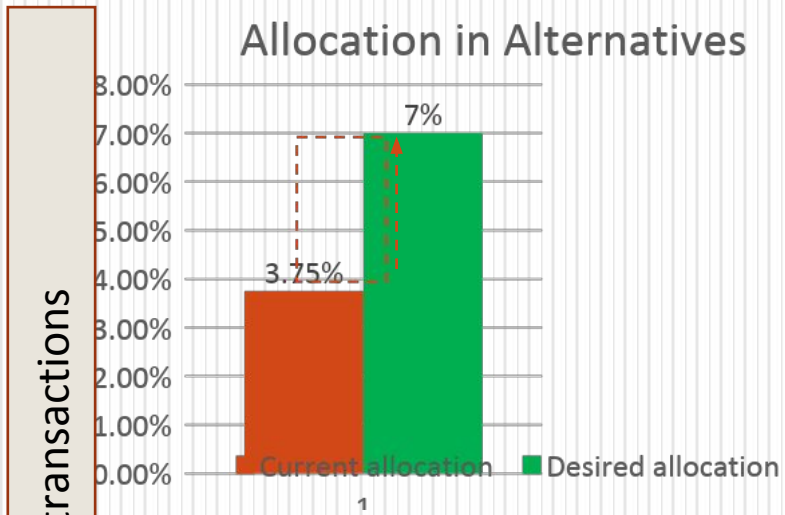
# Commodities at Record Lows: Opportunity

GSCI/S&P500 ratio: equities expensive, commodities cheap?





# Commodity Strategy

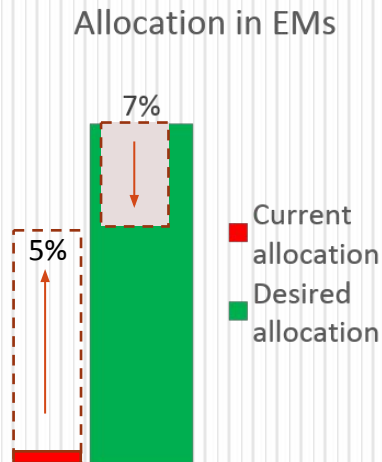
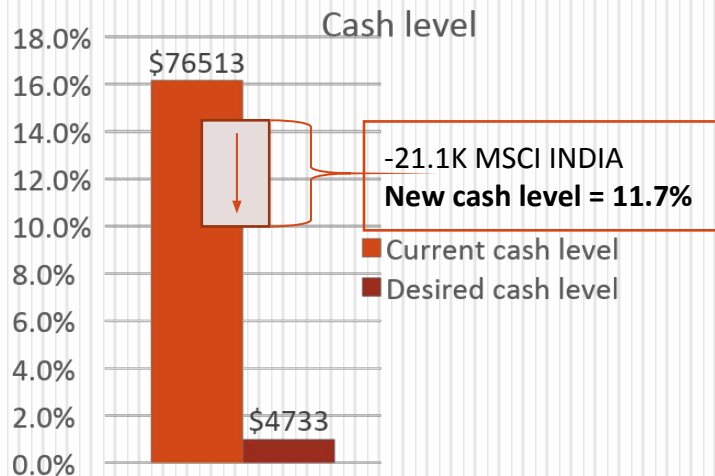


- Weyerhaeuser (WY) and Rayonier (RYN) not considered the right plays
- Didn't believe in the buy thesis from the previous group (increasing demand for wood for construction)
- Sold both at a loss
- GSCI ETF: broad exposure
- Risk: large holding of oil -> fluctuations
- Reach desired allocation in alternatives and drive down cash on hand

# Evaluating Global Markets: Long in India



- Int. Team assessed global markets by region
- EU, JP, and AU are considered mature markets
- EMs in bear markets, India stood out
  - Strong GDP & population growth
  - Rising middle class
  - Change EM and int. allocations



- iShares India ETF (INDA)
  - Broad exposure
  - Low management costs
  - 10% exposure in energy (non-cyclical)
  - Trend-line
  - Added as long-term hold

# Re-evaluated Inherited Stock: IQIYI Inc (IQ)

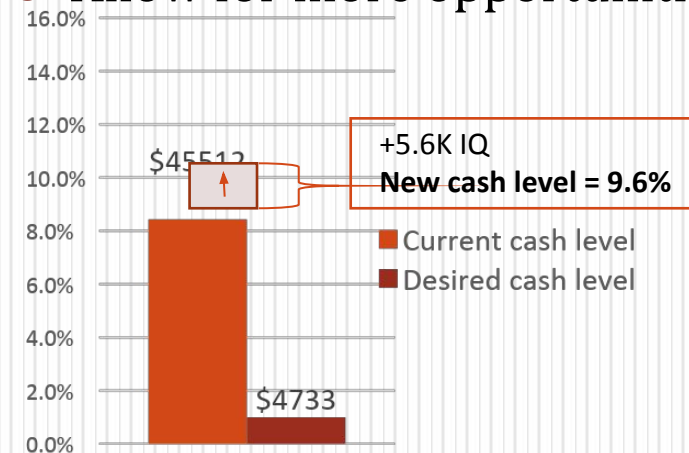
Inherited purchase price: **\$33.20**

Market price Oct 23th: **\$24.94**

Total loss: **-24.9%**



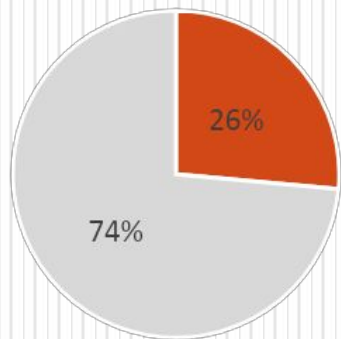
- Increasing loss -> assess the company
- Bought on hype – overpriced – downward trend
- Strong userbase growth
- Future competition
- Analyst consensus: poor performance
- Prevent further losses -> Sell
- Allow for more opportunities



# Re-evaluation of Allocation during the Correction

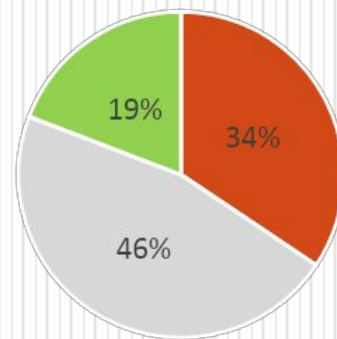


Portfolio - Oct. 18



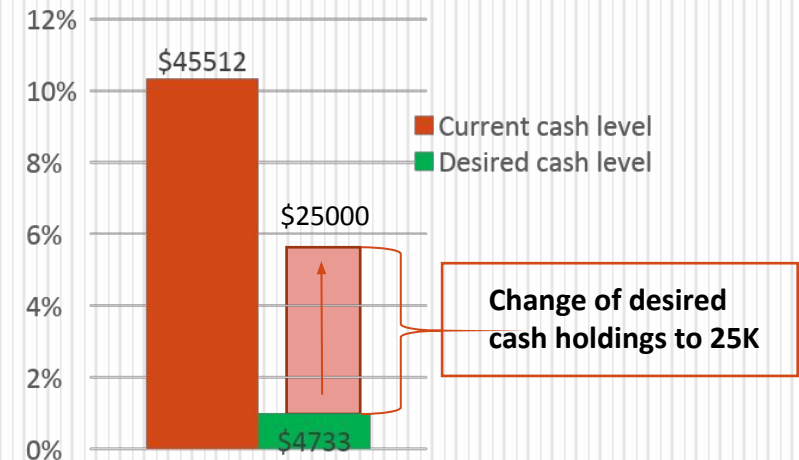
Technology Others

Portfolio - Oct. 18



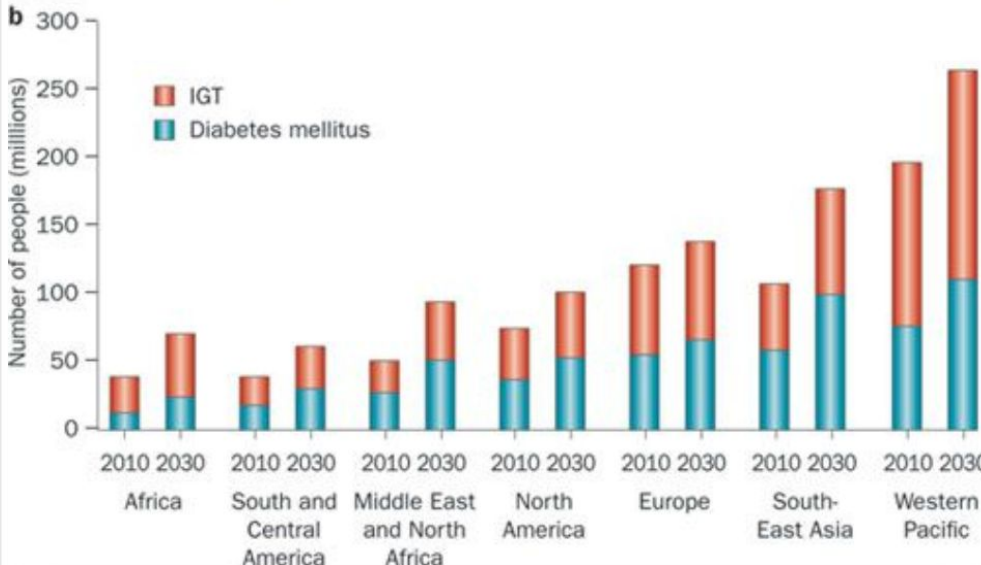
Cyclical Sensitive Defensive

- Discussion around bear market or correction
- Belief in correction but reducing our risk:
  - Less tech
  - More non-cyclical
  - More cash on hand

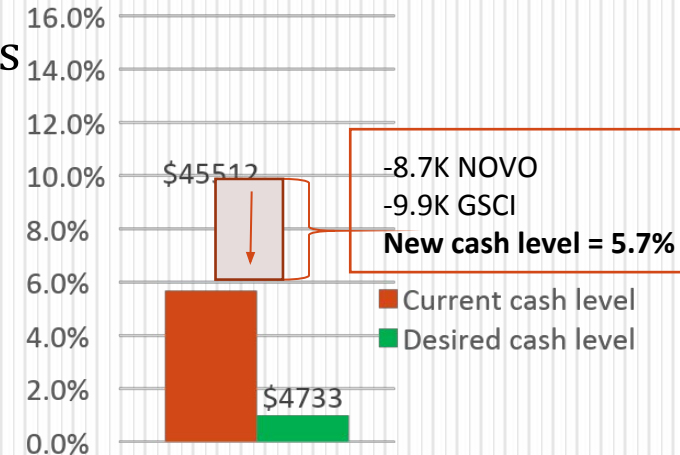


\*During the correction our portfolio value fell sharply, cash percentage out of total portfolio value thus grew without us changing anything.

# Hedging Risk with Non-Cyclical Stocks: Buy Novo-Nordisk (NVO)



- Danish diabetes medicine company
- Past 6 years: diabetes spending increase by over 10% a year globally
- Solid financials: \$17 BN revenue, 34% margin
- Non-cyclical stock
- Underpriced:
  - Correction
  - Eli Lilly disclosed phase 2 data
- Strong R&D capabilities

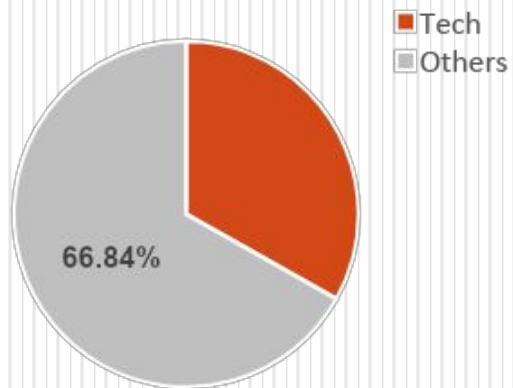


\*Source: Statista (2018), Nature Review (2012)

# Amazon (AMZN): Bought at a Discount

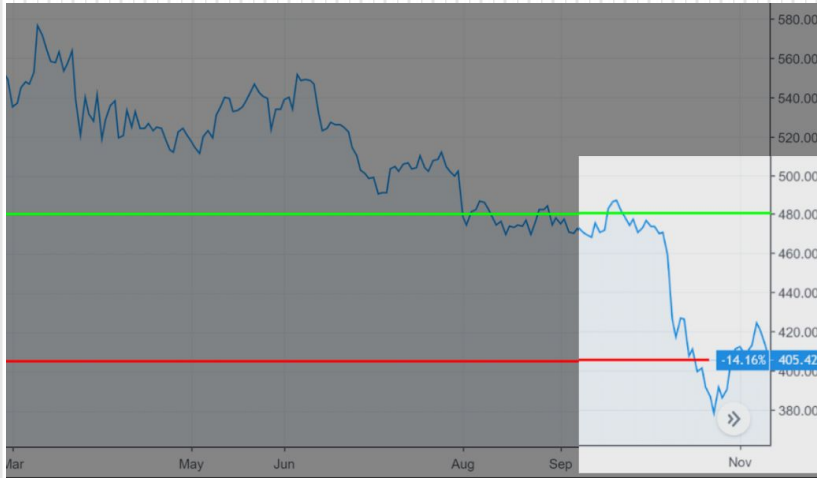


Large Tech Exposure

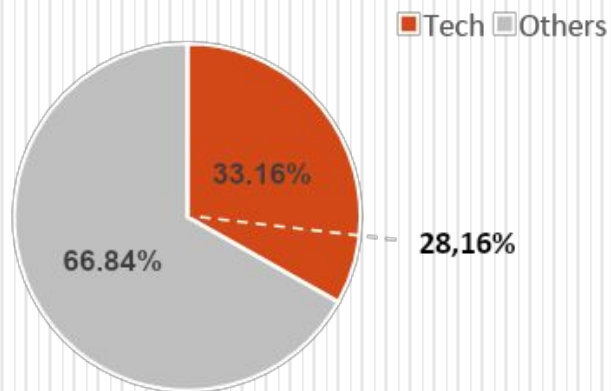


- 25% decline during correction
- Investment thesis
  - Long-term belief in the company
  - Short-term rebound
- Increased tech exposure

# Decreasing Tech and Taking Home Profits

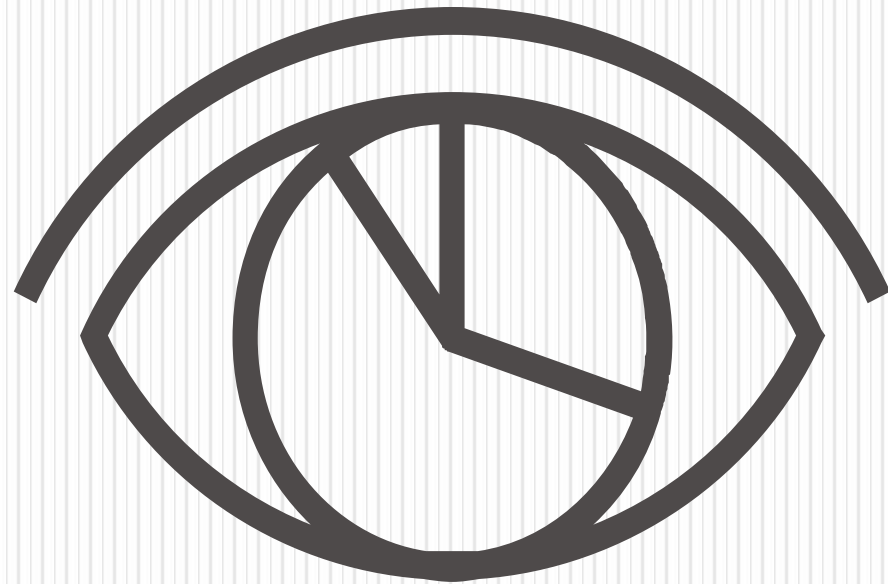


Tech Exposure



- Took profits from Google (GOOGL) + PowerShares QQQ Trust (QQQ)
- Equity Research Report on BlackRock -> Buy
  - Market price: \$405.42
  - Fundamental valuation: \$480.53

# Equity Research and Moving Forward





# Equity Research Reports



**BLACKROCK**



# Fundamentals

**Income statement &  
balance sheet**

**Revenue growth,  
NOPLAT, capital  
efficiency ratio**

**Total present value**

# Equity Research Comparison

<b>Company</b>	<b>Current Share Price</b>	<b>Forecasted Share Price</b>
<b>TripAdvisor (TRIP)</b>	<b>\$63.20</b>	<b>\$18.80</b>
<b>Biogen (BIIB)</b>	<b>\$321.72</b>	<b>\$308.06</b>
<b>Jones Lang LaSalle (JLL)</b>	<b>\$139.27</b>	<b>\$81</b>
<b>BlackRock (BLK)</b>	<b>\$406.88</b>	<b>\$480.53</b>

# Overvalued – TripAdvisor, Biogen, and JLL

	Industry	Market Cap	Annual Revenue	Product
TRIP	Travel Services	\$8.38 billion	\$1.6 billion	Reviews and booking services
BIIG	Biotechnology	\$64.32 billion	\$13.2 billion	Biological therapies
JLL	Real Estate	\$6.34 billion	\$14 billion	Leasing, consulting, and investment management services

# Buy - Blackrock

**\$22,000  
investment**

**Catalysts for  
growth**  
- Asia  
- Aladdin (PaaS)

# Lessons Learned



- **Long deliberation**
- **Statistics over fundamentals**
- **Thesis conversation**
  - **Long term impact vs. temporary setback**
- **Biased towards systemic risk**
- **Strengths and weaknesses of committee structure**

# Course Experience



- **Leveraged ETFs not suitable for this class**
- **Importance of a solid thesis**
- **Investing is unpredictable**
- **Learned to accept losses**
- **Cyclical vs. non-cyclical stocks**

# Moving Forward

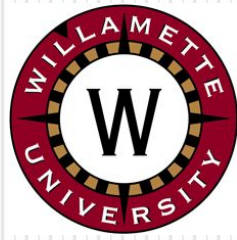


- **Ban leveraged ETFs, futures, and options**
- **Focus on the actual portfolio**
- **Create a thesis that encompasses more possible market scenarios**
- **Continued comprehensive equity research**
- **Background information among different industries**



# Notable Stock Market Orders over Winter Break

<b>Company</b>	<b>Sell Lower Limit</b>	<b>Sell Upper Limit</b>
Amazon (AMZN)	\$1,400	\$1,950
Alibaba (BABA)	\$140	\$200
BlackRock (BLK)	\$385	\$480
Raytheon (RTN)	\$150	\$225



# Thank You and Q&A



# Price of Oil



# Apple: AAPL

- Price: \$1,663.62/share
- Quantity: 52 shares
- Value: \$9,308.26
- Gain/Loss: - \$702.38

# Amazon: AMZN

- Price: \$1,663.62/share
- Quantity: 20 shares
- Value: \$30,203.60
- Gain/Loss: - \$3,068.75

# Alibaba: BABA

- Price: \$178.35/share
- Quantity: 80 shares
- Value: \$11,664.40
- Gain/Loss: - \$ 2,603.46

# BlackRock, Inc.: BLK

- Price: \$404.92/share
- Quantity: 54 shares
- Value: \$21,872.70
- Gain/Loss: \$6.85

# Vanguard Short-Term Bond ETF: BSV

- Price: \$79.87/share
- Quantity: 570 shares
- Value: \$44,471.40
- Gain/Loss: - \$1,052.02



# iShares MSCI EAFE ETF: EFA

- Price: \$67.54/share
- Quantity: 525 shares
- Value: \$32,313.75
- Gain/Loss: - \$3,8558.50

# Goldman Commodity Index: GSG

- Price: \$17.55/share
- Quantity: 2,000 shares
- Value: \$31,240.00
- Gain/Loss: - \$3,858.50

# iShares Core S&P Mid Cap ETF: IJH

- Price: \$182.89/share
- Quantity: 51 shares
- Value: \$9,222.84
- Gain/Loss: - \$104.47

# iShares S&P SmallCap 600 Index: IJR

- Price: \$74.91/share
- Quantity: 267 shares
- Value: \$20,438.85
- Gain/Loss: \$438.60

# iShares India ETF: INDA

- Price: \$32.54/share
- Quantity: 650 shares
- Value: \$20,780.50
- Gain/Loss: - \$370.50

# Novo-Nordisk: NVO

- Price: \$43.62/share
- Quantity: 200 shares
- Value: \$8,794.00
- Gain/Loss: \$69.05

# Powershares QQQ Trust ETF: QQQ

- Price: \$150.23/share
- Quantity: 279 shares
- Value: \$44,602.33
- Gain/Loss: \$2,688.36

# Raytheon: RTN

- Price: \$206.06/share
- Quantity: 75 shares
- Value: \$13,059.00
- Gain/Loss: - \$2,395.20



# S&P 500 ETF: SPY

- Price: \$253.32/share
- Quantity: 234 shares
- Value: \$62,038.08
- Gain/Loss: - \$2,761.05

# Financial Sector ETF: XLF

- Price: \$28.13/share
- Quantity: 710 shares
- Value: \$18,602.00
- Gain/Loss: - \$1,371.70

# Health Care Select Sector ETF: XLV

- Price: \$87.59/share
- Quantity: 225 shares
- Value: \$20,391.75
- Gain/Loss: \$684.67