



5-2-2017

Dr. Harold C. Smith Fund of Ursinus College Official Prospectus, May 2, 2017

Johnathan Myers
Ursinus College

Benjamin R. Klybor
Ursinus College, beklybor@ursinus.edu

Isaac Abrams
Ursinus College

Daan Slaats
Ursinus College

Parker Wolf
Ursinus College

See next page for additional authors

Follow this and additional works at: https://digitalcommons.ursinus.edu/smith_fund_prospectus

 Part of the [Finance and Financial Management Commons](#), and the [Portfolio and Security Analysis Commons](#)

Click here to let us know how access to this document benefits you.

Recommended Citation

Myers, Johnathan; Klybor, Benjamin R.; Abrams, Isaac; Slaats, Daan; Wolf, Parker; Sjosten, Sam; and Deacle, Scott, "Dr. Harold C. Smith Fund of Ursinus College Official Prospectus, May 2, 2017" (2017). *Ursinus Student-Managed Investment Fund Prospectus*. 1. https://digitalcommons.ursinus.edu/smith_fund_prospectus/1

This Prospectus is brought to you for free and open access by the Ursinus College Student Managed Investment Fund at Digital Commons @ Ursinus College. It has been accepted for inclusion in Ursinus Student-Managed Investment Fund Prospectus by an authorized administrator of Digital Commons @ Ursinus College. For more information, please contact aprock@ursinus.edu.

Authors

Johnathan Myers, Benjamin R. Klybor, Isaac Abrams, Daan Slaats, Parker Wolf, Sam Sjosten, and Scott Deacle

The Rev. Dr. Harold C. Smith Fund of Ursinus College

Managed by the student members and faculty of the Ursinus College Investment Club

Official Prospectus

May 2, 2017

Johnathan Myers / President
Benjamin Klybor / Vice President
Isaac Abrams / Secretary
Daan Slaats / Treasurer
Parker Wolf, Sam Sjosten / Public Relations Officers
Scott Deacle / Faculty Advisor



Via longa ad divitiae est via recta ad divitiae; vitae aliae ad divitiae ducent ad exitium.

Table of Contents

| | |
|---|----|
| History and Mission of the Student Managed Investment Fund..... | 3 |
| Governing Principles and Investment Strategy..... | 4 |
| Thesis for Enanta Pharmaceuticals (NYSE: ENTA)..... | 7 |
| Thesis for Garmin Ltd. (NYSE: GRM) | 9 |
| Thesis for Pioneer Natural Resources (NYSE: PXD) | 10 |
| Thesis for WalMart Stores, Inc. (NYSE: WMT) | 11 |
| Performance..... | 13 |

History and Mission of the Rev. Dr. Harold C. Smith Fund

The Ursinus College Investment Club was founded in 2003 by Ursinus student Daniel Uba, who currently works in the investment industry as a supervisor at Vanguard. From 2007 to 2011, the club was defunct, partly due to turnover in the faculty adviser position. It was resurrected in 2011 by Dr. Andrew Economopoulos and student Matt Yuros. During this time, Dr. Scott Deacle became the club adviser. The club became defunct again in Fall 2015, but students Anthony Chang and Johnathan Myers changed the image of the Investment Club in Spring 2016. They raised funds for a student-managed investment fund and took the club from simulations, discussion, and work-shopping to the management the Rev. Dr. Harold Smith Fund, a \$12,500 portfolio managed on behalf of the college.

The Smith Fund was named after its initial donor, the Rev. Dr. Harold Smith, a member of the Ursinus class of '55 as well as an investment manager, ordained minister, and member of the Ursinus Board of Trustees. Dr. Smith believed that practical experience researching and investing stock would be a valuable component of students' training in finance and economics. The work and learning that the Ursinus College Investment Club does today would not be possible without his support.

Student analysts working on the Smith Fund strive to be value investors, looking for companies whose valuation is not currently reflected in market prices. They search for firms with low and serviceable debt, reasonably high levels of cash, realistic possibilities for rapid growth, and a commitment to innovation and change. The investment club's long-term goal is to create a strong and lasting portfolio, and we seek to achieve steady and long-term growth.

The Ursinus College Investment Club prides itself on full participation of all members, efficient bureaucracy, and a dedicated passion for learning. In line with Dr. Smith's advice, education about stocks, the market, and the economy remains its top priority. While generating a healthy portfolio is an ambitious goal, our club values parallels the mission of Ursinus to enable students to become independent, responsible, and thoughtful individuals.

Governing Principles and Investment Strategy

The Ursinus Investment Club's mission is to help students learn and understand the complexity of financial markets, securities, and institutions; to develop skills in economic, industry and security analysis; and to effectively communicate our understanding of investing strategies and fundamentals to others. We aim to develop a deep and thorough understanding of investment strategies, complete thorough research on companies, and make informed and thesis-driven decisions that will help grow the portfolio. The Ursinus College Investment Club is solely responsible for the Smith Fund, is a \$12,500 portfolio owned by the college. Participating in the Smith Fund entails the following: conducting independent research on stocks, evaluating market trends presenting findings in a group setting, using online research tools, answering questions about findings, conducting follow-up research, and working closely with the Executive Committee and various Faculty to make informed investing decisions.

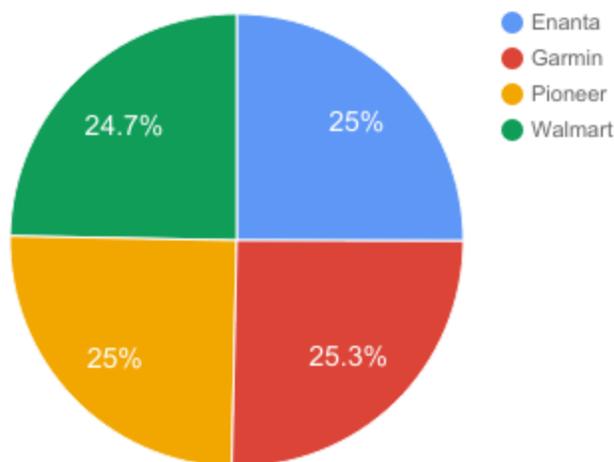
Smith Fund participants are organized into three levels of membership: the Executive Committee, Analyst Directors, Analysts, and General Members. The Executive Committee consists of the Club President, Vice President, Secretary, and Faculty Advisor. The Executive Committee organizes meetings, approves final decisions, collaborates with analysts to develop stock picks, reaches out to potential new members, participates in club meetings, and communicates orders to the Ursinus business office. The Analyst Directors consist of the investment club's President, Vice-President, and Secretary. The Analyst Directors educate new analysts on how to conduct research and provide leadership. Analysts and Analyst Directors conduct research on stock selections, present findings to the Investment Club, and decide which stocks to use in the final portfolio.

Analysts and Analyst Directors make presentations on their research to the entire team. Investment decisions are made once a variety of investment options have been presented by analysts and a consensus has been reached on attractive bets. Investment decisions are not made without some written analysis. Consensus of the Executive Committee members is required before all security transactions. Once the investments in the portfolio are secured, the Investment Club will meet weekly to review the performance of the portfolio. A special meeting of the Investment Club can be called by the Faculty Advisor, or by any member of the Analyst Directors with the approval of a Faculty Advisor.

The Smith Fund selected purchased its first four stocks on April 7, 2017. Smith Fund analysts found what they believe to be undervalued stocks through a number of avenues. The primary strategy was to find stocks with low price-to-earnings ratios relative to appropriate benchmarks, including sector and industry price-to-earnings ratios. Within those subsets, analysts identified companies with strong balance sheets based on their debt-to-assets, current, and quick ratios. Analysts then searched for companies with the potential for rapid earnings growth in the next two to three years if one or two changes that have a reasonable chance of occurring in fact occur. As the below pie chart shows, the club invested roughly equal amounts of about \$2,500 in each stock. Though the chart does not reflect it, \$2,500 of the fund's \$12,500 initial capital remains in cash.

The four stocks that were selected are Enanta Pharmaceuticals (ENTA), Garmin Ltd. (GRM), Pioneer Natural Resources (PXD), and WalMart Stores, Inc. (WMT). A brief report on each stock and the rationale for its selection follows this section. This report will go to our donors, Ursinus college CFO Annette Parker and others in the college's business office, alumni advisers, and the college board of trustees' endowment committee.

Initial Investment 4/7/2017



Sell Strategy

Our sell strategy is not contingent on stock price but on how well our thesis for each company holds over time. We are not looking for a specific threshold to trigger a sell, but we will be wary of a rapid increase in stock price from any company. We are continually monitoring news sources to check any change in corporate information. We use historical data to predict the valuation of a company in the future. We are constantly forward-looking in our evaluations and know it's penny-wise, dollar-foolish to sell a great company. In the case of damaging events, we are willing to sell our shares of a stock. For example, Enanta is a company that has high risk and the potential for negative returns if their pipeline drug is not passed. If this happens, we will examine our news sources, shareholder information, and historical evidence to arrive at a decision.

Summer Procedures

During the summer vacation, we will monitor stock price fluctuations and regularly re-evaluating our portfolio using our sell strategy. UCIC members will conduct news-based research on companies in the portfolio using online news sources and alert the other members of the Investment Club as needed. Each member will focus on one stock each week, and members will rotate weekly in

order to stay alert and productive over the summer. One shift over the summer will be responsible for the market as a whole, briefly evaluating trends and conducting basic research to report to the other members of the club in a summary. Through this method, we are able to keep researching our portfolios, without burdening the club members.

Thesis for Enanta

Enanta Pharmaceuticals

NYSE: ENTA

Headquarters: Watertown, MA

Industry: Biotechnology

Market Cap: \$580m

Share Price at Purchase: 29.70

Summary: Enanta Pharmaceuticals has several drugs in development which, if approved by the FDA, would see the company to sustained growth over the foreseeable future. While Enanta is in a volatile industry, we believe that it represents a safe selection due to its stream of royalties from its work with AbbVie, its expansion into the potentially lucrative non-alcoholic steatohepatitis (NASH) treatment market, and its continuing self-investment.

Thesis: Enanta has developed, brought to market, and is collecting royalties from a major component, called paritaprevir, in AbbVie's Hepatitis C virus (HCV) treatment, which is called Viekira Pak. The Viekira Pak was AbbVie's 3rd highest grossing product in 2016. Enanta currently has a follow-up component in development and is expanding into the treatment of liver and viral diseases as well. Through their partnership with AbbVie, Enanta has successfully brought its component ingredient for the treatment of HCV to market. While Enanta has a strong balance sheet, this investment is partially a gamble, and its success is contingent on the FDA approval of two of the company's newest drugs; namely glecaprevir, as an additional component to AbbVie's HCV treatment, and EDP-305, for the treatment of NASH. Enanta's potential for quick and sustained growth with the change of a few factors fits perfectly in the Investment Club's thesis for a successful company.

Background: In addition to HCV, Enanta is currently focused on treatments for four other diseases: NASH, primary biliary cholangitis (PBC), respiratory syncytial virus (RSV), and hepatitis B virus (HBV). NASH affects over 3 million Americans each year, PBC affects about 200,000 Americans, RSV may affect about 1-2% of the U.S. infant population, and HBV affects more than 200,000 Americans each year. Enanta's ability to find cures or effective treatments for these diseases will determine its ability to generate rapid earnings growth. Enanta's research so far has led to breakthroughs in treating Hepatitis C, and it is also developing early lead candidates for cures for HBV.

Financials: The company's financials show a strong balance sheet very strong cash. Its cash and cash equivalents grow consistently over the past five years, with its current ratio and quick ratio almost tripling from 11.68 to 29.43 and 10.98 to 28.26 respectively. Since Enanta saw losses last quarter, its P/E ratio is now negative (-62.50). Over the past five years, however, it has been consistently undervalued compared to its industry as its P/E ratio has averaged 14.22 compared to the industry average of 24. Although the company is currently losing money, it has more than enough liquid assets to cushion the present downturn. In addition, Enanta has been and remains free. Since its initial public offering, it has only paid interest on debt for one year.

Growth, Market Analysis and Risk: Many things could dent Enanta's share price over the coming year and beyond: the FDA could deny the application for the HCV treatment, glecaprevir,

even though the FDA has given it priority review; the firm's expansion into the Japanese market could be stifled by tariff barriers; and the market for its NASH drug could end up being smaller than anticipated. Many of these risks are, however, independent of each other. In other words, for Enanta to perform significantly worse than we anticipate, many uncorrelated things would have to go wrong. We believe that Enanta has the potential for massive growth in the future with minimal risk because of their work with AbbVie, its expansion into the treatment market, and its continued research and development.

Thesis for Garmin

Garmin Ltd.

NYSE: GRMN

Headquarters: Schaffhausen, Switzerland

Industry: Technology

Market Cap: \$9,413m

Share Price at Purchase: \$50.43

Summary: We believe that Garmin is a smart choice, since the company is already recognized as a leading worldwide provider of GPS technology and additionally successfully launched its new wearable product. It should therefore await a steady growth in the foreseeable future.

Thesis: Garmin's GPS based products are supplied to a broad range of industries. Therefore its resources are spread across various markets as the company does not specifically focus in any particular area. Garmin's recent successful entrance into the wearables industry shows how the company has been able to adapt and innovate its technology in order to fulfill the consumer's needs. In order for the company to endure in its operating industries it will need to continue to adapt.

Background: Garmin is a provider of consumer and commercial electronics.. It designs and manufactures multiple GPS based devices for various markets. Its five business segments include automotive, marine, aviation, outdoor and sports. The company's vision is to be the global leader in every market they serve, with their products being sought after for their compelling design, superior quality and best value. It hopes to be an enduring company by creating superior products that play an essential part in the customers' lives.

Financials: Garmin's financials appear fairly similar to the average in its industry. It is a financially stable company with a low P/E ratio of 18.91 (Industry average: 26.02) and a low Debt-to-Equity ratio of .28 (Industry average: 1.06. At the moment it has a quick ratio of 2.27 (Industry average: 3.76) and a high Interest Coverage Ratio of 126.54 (Industry average: 9.22). Furthermore, between 2015 and 2016 the sales in Garmin's wearable increased by 324%.

Growth, Market Analysis and Risk: Garmin's growth will depend on its ability to continue to adapt to the consumer's needs. It has increased its spending in R&D, which should hopefully pay off in the long run to create flourishing products. Garmin has done well with its release of its wearable to compensate for the declining automotive personal navigation device (PND) market. There still may be some risk though, since the company has been relatively dependent on PND, but its revenue in the automotive segment has been declining in the past years due to less demand. However, we expect that Garmin will continue to grow steadily in the booming wearable market, mainly competing against Apple's and FitBit's similar wearable device. It may outcompete these companies and come out as a leader in this market.

Thesis for Pioneer Natural Resources

Pioneer Natural Resources

NYSE: PXD

Headquarters: Irving, TX

Industry: Natural Resources

Market Cap: \$29,645m

Share Price at Purchase: \$191.40

Summary: Pioneer Natural Resources extracts oil primarily from low-risk shale fields in the United States. Though in a temporary downturn, Pioneer is in the oil and natural sector, which we believe will rebound in the next two to five years.

Thesis: Pioneer has a clear and visible path to earnings growth for the next decade through its Texas-based oil producing structure. Growing sales, effective use of technology, and smart selection of oil drilling prospects has generated growth in re-investment that we and other analysts to expect produce rapid growth in cash flow. Pioneer management has laid out an operational goal of 15%+ annual total production growth through the year 2026. They have been reducing costs and operating more efficiently through a vertically integrated system that we expect to perform better than the 12.5% service cost inflation experienced in the oil industry throughout this year. Maintaining a strong balance sheet is a top priority for the firm as it continues to expand through the oil industry. We believe that it has high potential in a strong market.

Background: Pioneer was developed through a merger in 1997 of two companies that were built through acquiring and exploiting oil fields. Along with production throughout North America, Pioneer Natural Resources also operates internationally. The company has consistently found low-risk sites to operate on. Recently, in 2013, Pioneer Natural Resources successfully merged with Pioneer Southwest Energy Partners L.P., strengthening its financials in the process.

Financials: Pioneer is strong in short-term assets, shown in its 1.96 quick ratio as well as its 2.11 current ratio, 0.31 total-debt-to-equity ratio. Along with that, the Enterprise Value is 41.93, the EPS trend this quarter is .16, and the current year's expectation is 1.84, with next year's being 4.36. EPS last year at this time was -.64, and last quarter it was .49. It has astounding growth estimates.

Growth, Market Analysis and Risk: Overall, Pioneer Natural Resource is showing us a low-risk opportunity with high potential within the Gas and Natural Resource sector. The market that PXD flows throughout is stable and can provide support even if the company underperforms. It can finance its 15% compound production growth within cash starting next year if oil and natural gas prices are at least \$55 and \$3, respectively. Only 15 companies have matched Pioneers growth rate and projected growth rate in the past several years, and most of those companies are technology sector giants. We believe that it has great estimated potential to outperform the market for the next ten years.

Thesis for WalMart

WalMart Stores, inc.

NYSE: WMT

Headquarters: Bentonville, AR

Industry: Multinational Retail

Market Cap: \$229,853m

Share Price at Purchase: 74.80

Summary: The acquisitions of smaller companies, growth into developing countries, and competitive online services make WalMart a stock that promises steady and growing returns.

Thesis: WalMart is the United State's largest company by revenue, with fiscal year 2016 revenue of \$482.1 billion. WalMart has managed to maintain domination in the market by purchasing a number of smaller retail companies, including ModCloth and Moosejaw. WalMart has developments in the United States as well as internationally, focusing on markets in Mexico, Chile, other South American countries, and many European countries. WalMart is a company that promises steady growth through the acquisition of smaller companies, the competitive growth of online retail, and the expansion into developing countries.

Background: WalMart was founded in 1962 by Sam Walton, who had opened a number of "Five and Dime" business models that operated on low profit margins but high volume sales. WalMart's business model has stayed consistent with the founding principles, and its economic influence has spread across the globe. By 1990, WalMart became the largest retailer by revenue in the United States. WalMart has historically taken advantage of modern economies, from being the nation's leader in using solar panels to its acquisition of jet.com and competition in online retail. WalMart's ability to adapt to current trends and acquire smaller companies makes it one of the most competitive and influential companies in the world.

Financials: WalMart's ratios and numbers show steady growth and initiative. Currently, WalMart is an undervalued stock: its P/E ratio is 15.33, which is nearly half of the service sector of the economy's P/E ratio of 33.00, and discount variety stores' 21.70. WalMart's 2016 current ratio is 0.93, which shows marginal growth since 2010 with a 0.87 current ratio. WalMart's interest coverage is 9.77 as of 2016, which demonstrates that WalMart has functioning liquid capital and can cover its debts quickly. WalMart's debt to equity ratio of 0.62 shows that WalMart's combined long-term and short-term debts are unlikely to overwhelm the company if it hits a rough patch. WalMart's dividend yield is 2.78%, which is the second-highest compared to big box stores such as Costco, Dollar General, and PriceSmart. WalMart's dividend yield has steadily increased over the past few years, which suggests that WalMart is a safe, stable, and secure company.

Growth, Market Analysis, and Risk: WalMart is the owner of many companies that operate in wholesale and online retail. Sam's Club, founded in 2012, captures a higher-income demographic with a membership fee and operates the same business model as WalMart. WalMart purchased Asda, a British supermarket retailer, in 1999. In August of 2016, WalMart announced the plan to acquire Jet.com, an online retailer in competition with Amazon, for \$3.3 billion, and purchased the company a month later. In 2017, WalMart expanded into two different wholesale

clothing companies: ModCloth and MooseJaw. WalMart's continuous growth in wholesale business models demonstrate their omnipresence and steady growth.

WalMart's entry into online retail, like most of its business operations, is cutthroat competitive. WalMart unveiled free 2-day shipping online in late January 2017, competing with Amazon Prime's 2-day shipping for \$35/yr. In an interview, the CEO of WalMart US eCommerce said, "We are moving at the speed of a startup. Two-day free shipping is the first of many moves we will be making to enhance the customer experience and accelerate growth."

WalMart has made serious international expansion, with lofty and ambitious goals of expanding into the international market. While the United States is the home of WalMart, the company has serious roots in England, Canada, and Mexico, and has been looking in Chile. Asda, England's third largest grocery store and WalMart's subsidiary, generated a revenue of \$33 billion last fiscal year, and had an operating income of over \$1 billion. WalMart Mexico has a revenue of \$31.7 billion, a net income of just over \$1 billion.

Performance (as of 5/1/17)

| Stock | Current Shares | Purchase Price (\$) | Cost Basis (\$) | Current Price (\$) | Current Value (\$) | Percent Change Since Purchase to 5/1/2017 (%) |
|------------------|----------------|---------------------|-----------------|--------------------|--------------------|---|
| ENTA | 84 | 29.70 | 2,494.94 | 32.13 | 2,698.92 | 8.81 |
| GRMN | 50 | 50.43 | 2,521.50 | 51.83 | 2,591.50 | 2.78 |
| PXD | 13 | 191.40 | 2,488.20 | 172.43 | 2,241.59 | -9.91 |
| WMT | 34 | 72.37 | 2,460.41 | 75.23 | 2,557.82 | 3.96 |
| Portfolio | n/a | n/a | 9,965.04 | n/a | 10,089.83 | 0.97 |

From the initial purchases on April 7, 2017 until the writing of this report on May 1, 2017, the portfolio is up 0.97% (for comparison the S&P500 is up 1.36%, DJI is up 1.21%, and the NASDAQ is up 3.62% over the same time period). While Pioneer is down 9.91%, responsible for the fund's short-term underperformance, the current loss is within our tolerance for keeping it in the portfolio. Pioneer's negative contribution to the fund is expected at this time as the company continues to lessen its relatively small debt burden. As explained above, our main reason for adding Pioneer to the portfolio is its low debt burden when compared to the rest of the oil industry. More cheerily, we see positive returns in the rest of the portfolio. Enanta's performance (up 8.18%) continues to support our analysis that it is a long-term valuable company, not likely to fade away or disappoint any time soon. As evidence, Enanta recently reported high sustained viral response rates in an eight-week trial treatment with AbbVie's forthcoming genotype-3 HCV treatment, for which Enanta has created a key component. Looking to Walmart (up 3.96%) we see that company's continuing campaign to increase its online and technology presence, parts of its business that will only continue to grow in coming years. As evidence Walmart recently announced the initiation of a start-up-like division called "Store No.8" that will be dedicated to seeking out and developing new technologies and innovations to support the company's e-commerce division as well as its traditional, megastore division. Finally, on to Garmin (up 2.78%), where we see the tech company's continued resilience to market fads (Fitbit) and its growing high-tech GPS hardware division. As

Garmin continues to increase its presence in everything from mobile applications and military hardware to medical monitoring and high-quality retail watches, we expect to keep Garmin for its long-run value and let the return generate speak for itself. As the pie chart below shows, the each of the four stocks still occupies a roughly equal share of the portfolio.

While the fund has only been in existent for these short three weeks, all of us here at the fund are proud of what we have achieved so far and are excited about what we plan to achieve in the future.

