11-28-2017

Dr. Harold C. Smith Fund of Ursinus College Official Prospectus, November 28, 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

Authors
Johnathan Myers, Benjamin R. Klybor, Isaac Abrams, Daan Slaats, Parker Wolf, Sam Sjosten, Christian D'Ascenzo, Jonathan Guba, Joseph Heasley, Thomas Kelly, Brendan Werner, and Scott Deacle

Official Prospectus of The Rev. Dr. Harold C. Smith Fund

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

Johnathan Myers / President
Benjamin Klybor / Vice President
Isaac Abrams / Secretary
Daan Slaats / Treasurer
Parker Wolf / Public Relations
Sam Sjosten / Public Relations

Christian D'Ascenzo / Technology Analyst
Jonathan Guba / Semiconductor Analyst
Joseph Heasley / Health Care Analyst
Thomas Kelly / Energy Analyst
Brendan Werner / Analyst

Scott Deacle / Faculty Advisor
November 28th, 2017

Table of Contents

<u>Performance As of Nov. 20, 2017</u>

From the initial purchase date, April 7th 2017, the portfolio has earned +16.07% returns on stock investments alone and 14.4% when cash is included. In the same timeline, the S&P500 has returned 9.9%, and the Russell 3000 has returned 9.62%. WalMart, +33.31%, has increased 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. WalMart has reinvested most of its cash into the business during its most recent quarter, and has continued to reward its stockholders this year. Garmin +21.50% continued its resilience to market fads 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.

Sell Discipline

Our sell discipline is not contingent on stock price, but on how well our thesis for each company holds. We are constantly monitoring news sources to check any change in corporate information. We use historical data to predict the valuation of a company in the future. Over the summer, club officers monitored the fund's performance and communicated via social media. We focused on how well news on each stock conformed to its investment thesis. If our thesis held, we continued to hold the stock. For example, WalMart showed improved e-commerce capabilities relative to Amazon, reducing shipping costs to customers, for example. We therefore decided to continue our position in the company. Club officers continued this sell discipline, monitoring and discussing news on the portfolio's remaining stocks and checking for conformance to their theses. So far, news on the two remaining stocks, Garmin and Wal-Mart, indicates that the companies are still behaving according to our April predictions.

In July, we sold all of our shares of Enanta and Pioneer Natural Resources. We sold Enanta for a number of reasons. The primary reason we sold Enanta was because we believed we had realized our gain from the company, after it had earned 25.81% yield in three months. We were uncomfortable with the high volatility of the biotech sector. In addition, there was little available analysis on Enanta due to our lack of sophisticated research tools. The balance sheet showed a negative income, and the company did not have a PE ratio. We sold our stake in Pioneer Natural Resources because of its unpredictable stock and its high correlation with the price of oil. Our thesis does not include speculating into the future price of commodities. Additionally, we had lost 16.33% of our yield investing in Pioneer, and were uncomfortable holding onto the company any further. These two sales show that the Investment Club strictly follows our valuation strategy as laid out by Edgar Wachenheim III, and return to each company's thesis on a regular basis in order to make the best financial decision.

Stock Selection Process for Fall 2017

As the Investment Club grows in nominal value and in membership, the portfolio requires updating. Each semester and academic school year brings in a new generation of investors, hungry for knowledge and hands-on experience that the Investment Club offers. For the Fall Semester of 2017, we followed the same strategy outlined in the book *Common Stocks and Common Sense* by Edgar Wachenheim III. The Investment Club was split into pairs; each pair was assigned a sector of the economy to investigate. The partnerships conducted extensive research in order to find companies that fit our Investment Thesis.

History of the Student Managed Investment Fund

The Ursinus College Investment Fund 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 the Investment Club, and took the club from simulations, discussion, and workshopping to a fully-operational $12,500 portfolio managed on behalf of the students.

The Harold Smith Fund, which is organized and managed by the Ursinus College Investment Club, was named after the initial donor. The Rev. Harold Smith, a member of the Board of Trustees and class of '55, was an influential figure to the Investment Club and to Ursinus as a whole. Dr. Smith, who began investing as an Ursinus undergrad, believed the investments were a valuable way to apply principles learned in economics and finance classes. Additional donors, such as Hirtle Callaghan, have supported the Ursinus College Investment club through donations. The work that the Ursinus College Investment Club does today would not be possible without outside support.

Analysts in the Ursinus College Investment Club focus on investing in companies whose valuation is not currently reflected in market prices. Members of the Student Managed Investment Fund are value investors. Analysts search for companies with low and serviceable debt, reasonable to high levels of cash on hand, realistic plans for growth, and a commitment to innovation and change.

The Ursinus College Investment Club prides itself on full participation of all members, efficient bureaucracy, and a dedicated passion for learning. All active members vote on whether a stock should be added to the portfolio based on an extensive write-up of each stock. We predict above S&P 500 average returns because of our organized structure and cohesive research on stocks.

Our long-term goal is to create a strong and lasting portfolio, and we seek to achieve steady and long-term growth. The stocks we select for our portfolio have value that is not yet realized by the market.

In line with Dr. Smith's advice, education about stocks, the market, and the economy as an entity remains the top priority of the Ursinus College Investment Club. While generating a healthy portfolio is an ambitious goal, our club values parallels the values that Ursinus College holds in prestige. The Ursinus College Investment Club shapes the minds that shape the world.

Governing Principles

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 evaluating economic, industry and security analysis; and to effectively communicate our understanding of investing strategies and fundamentals to others. Our goal is 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 Harold Smith fund, which is a $12,500 portfolio owned by the college. Participating in the Harold Smith fund entails: conducting independent research on stocks, evaluating market trends presenting findings in a group setting, using advanced online tools such as, Yahoo! Finance, Mergent Online, the Wall Street Journal, ValueLine, SEC Filings, and corporate Investors' pages, answering specific questions about findings and conducting follow-up research that answers questions raised during meetings, and working closely with the Executive Committee and various Faculty to make an informed decision about investing.

Participants of the Harold Smith fund 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 Finance office. The Analyst Directors consist of the President, Vice President, and Secretary. The Analyst Directors educate new analysts how to conduct research and provide a strong leadership role for analysts. The Analysts are all active members of the Investment Club. All Analysts conduct research on stock selections, present findings to the Investment Club, and decide which stocks to use in the final portfolio.

All Analysts, including Analyst Directors, will present on a specific company they have researched. Valid support as to why/who the investment is expected. Support material should be distributed prior to committee meetings. Members will decide which stocks to put in the portfolio. Investment decisions will be made once a variety of investment options have been presented by students. Investment decisions will not be made without written analysis. Consensus of the 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.

Portfolio Allocation Charts

Initial Investment, 4/7/2017	Dollar Value	Portfolio Division
WMT	$2,460.41	19.68%
GRMN	$2,521.50	20.17%
PXD	$2488.20	19.91%
ENTA	$2,494.94	19.88%
Remaining Cash	$2,534.95	20.28%

Value of Investments, 11/20/2017	Dollar Value	Portfolio Division
WMT	$3,314.32	23.44%
GRMN	$3,076.00	21.75%
Remaining Cash	$7,755.51	54.83%

Rebalances, 11/21/17	Quantity	Price	Amount	Portfolio Division
Sold 12 GRMN @ 61.945	12	61.945	$736.37	16.66%
Sold 10 WMT @ 97.3655	10	97.3655	$966.69	16.40%
Bought 27 MASI @ 87.5499	27	87.5499	($2370.80)	16.76%
Bought 105 SRI @ 22.5016	105	22.5016	($2369.62)	16.75%
Bought 51 MU @ 48.405	51	48.405	($2475.61)	17.50%

<u>Thesis for Garmin</u>

<u>Garmin Ltd.</u>	**Industry: Technology**
NASDAQ: GRMN	**Market Cap: $9,413m**
Headquarters: Schaffhausen, Switzerland	**Share Price at Purchase: $50.43**

Thesis Sentence: 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. Since Garmin is late to the wearables market, they are selling their products as high-end, and it's working. Their wearables division is up eightfold in two years, and is showing no sign of decrease. These wearables are far more high tech than their competitors, for example their Approach S6 can measure the speed of its wearer's golf swing and has maps for more than 40,000 golf courses. Garmin also does all of its manufacturing in-house through its signature vertical integration, so switching directions is less problematic than other companies that require assistance from partners. In order for the company to endure in its operating industries it will need to adapt as it has successfully done in the past.

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. With its entry into the wearables market it is providing a new base by which it can continue to increase profits. 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.

<u>Thesis for Masimo</u>

Masimo Company
NASDAQ: MASI
Headquarters: Irvine, CA

Industry: Medical Devices
Market Cap: $4.47 B
Share Price at Purchase: $87.55

Thesis Sentence: With strong financials and a healthy balance sheet, Masimo Corporation should continue to grow at a steady pace through its use of innovative technology to produce new health monitoring devices that will continue to be a necessity for hospitals around the globe.

Thesis: Masimo Corporation is a small company with healthy financials. They operate by producing and selling quality oximeters with unique technology to medical centers. These products are innovated by the company to help for more accurate devices. Masimo has industry-leading pulse oximetry led by their OEM Technology Boards. They also assist in health care of noninvasive blood oxygen monitoring, newborn care and screening for heart disease. To go along with this, the CEO has set out guiding principles and a mission statement that shows strong and disciplined leadership to provide medical help for anyone in need.

Background: Masimo Corporation headquarters in California and was created in 1989. Right now the CEO still remains founder and chairman, Mr. Joe Kiani. The company is a small competitor amongst rather large companies like Medtronic PLC or Abbott Laboratories. Masimo has a reputation in being the global leader of noninvasive monitoring technologies and will continue to do so based on performance. Currently Masimo has 1,566,000 units installed base of oximetry worldwide, a 5.7% increase YTD.

Financials: To begin, it is important to evaluate key components and ratios of the company in order to understand its financial health. The P/E ratio of Masimo is 13.56 and Return on Equity is 65.87%. These financials are showing to be strong as the P/E is under 15 and the ROE is clearly above 20%. The company also had a net income of $346.54 million and a net margin of 45.83%. In considering the true health of the company, we also looked into the balance sheet financials. The current ratio is 3.16 while the quick ratio is 2.59. Along with that, cash and cash equivalents had increased $173,654 within the fiscal year of 2016.

Growth, Market Analysis and Risk: Comparatively within Masimo Corporation's sector, Masimo has a 13.56 Trailing P/E ratio, while the healthcare sector has a 38.85 Trailing P/E. The firm's beta reads as a 0.97, showing lower risk than the market risk. In the fiscal year of 2016, the company has shown tremendous growth margins over the past 5 years in operating income, net income and EPS. The 5-year growth margin for all three are 37.21%, 36.39% and 40.01%, respectively. We find this company undervalued and believe that its innovation will continue to keep it a strong, low market cap competitor.

Thesis for Micron

Micron Technologies
NYSE: MU
Headquarters: Boise, ID

Industry: Semiconductors
Market Cap: $54.94B
Share Price at Purchase: $48.41

Thesis Sentence: Micron is a major player in the semiconductor industry, has a strong balance sheet, and can grow in the next three to five years as semiconductors become more widespread and more powerful with technological advances.

Thesis: Micron has continuously proved that they are capable of new innovation and can create new products. They operate in a market that is 95% saturated between 3 companies, one of them being micron. They are willing to make large changes and innovations to keep up and even exceed what their competitors are doing. Some of these progressions include to change from SAN to SSD for memory systems, 3D to Xpoint technology, GDDR5X graphics memory chips, and their hybrid memory cubes. As the tech industry progresses into more advanced territory, the expertise that Micron has in the Memory sector will be ever more important. Chips are slowly getting smaller and smaller, while the need for larger memory grows higher. Micron is in a technology sector that will not be eliminated as technology progresses further, we believe it might even flourish. Micron is a good long-term buy in a market dominated by short term volatility. And while we are worried that the sector it is in is constantly changing, Micron is in a very good position to resist this change.

Background: Micron Technology was founded in Boise, Idaho, in 1978. The company began as a consulting business for semiconductor design, but switched to manufacturing shortly after. Micron has founded and acquired a number of companies in the same industry. Micron manufactures DRAM memory components and modules, flash memory cards, and most recently, solid-state drives. They entered the Nasdaq 100 and have proven to be a major player in the semiconductor industry.

Financials: Micron has solid financials and is focused on innovation, which fits perfectly into the criteria for our portfolio. With a PE of 10.56 to an industry average of 24.38, Micron is very clearly undervalued. Its Quick ratio is 1.74 to an industry of 0.97, and thus shows that it is in a very good spot for long term financial health and performance. An important balance sheet ratio is the Debt/Equity ratio, and with a 0.53 ratio to an industry 0.7 we are not worried, but will be monitoring it as earnings change. Micron is in an ever changing industry, and with a low market cap of 53.59B, it is flying under the radar of most investors. We believe micron to be a solid investment that will provide returns that satisfy our thesis of growth.

Growth, Market Analysis and Risk: The semiconductor industry is experiencing a generation of growth as a result of an increase in products that used advanced computing software. From coffee makers to automobiles, semiconductors are entering different markets. Micron has grown +144% YTD, and shows no sign of stopping. However, the market is competitive with Wall Street favorites like AMD, NVDA, and AMAT- this saturated market can hurt Micron's chances at high profitability in the long run.

Thesis for Stoneridge

Stoneridge, Inc. | **Industry: Auto Parts**
NYSE: SRI | **Market Cap: $625.40M**
Headquarters: Novi, MI | **Share Price at Purchase: $22.50**

Thesis Sentence: Stoneridge shows financially healthy signs: a solid balance sheet, relatively low debt and increasing cash on hand. This can allow for the company to generate increasing future returns, by expanding its market share through strategic M&As as well as continuously launching innovative high-end quality products.

Thesis: Stoneridge operates in 3 segments: control devices, electronics and PST. Its control devices segment mainly sells products such as sensors, switches, valves and actuators. This segment accounts for nearly 60% of total net sales, and has mainly improved year-over-year due to new products sales, growth in the North American vehicle markets and new program sales in China's market. The company has further received various business awards in this segment, which can help continue its trend of regional and customer diversification. Its electronics segment mainly sells electronic control units and driver information systems. The recent launch of a new driver information product in North America, an Electronic Logging Device (ELD), serves as an example of the company's increasing global leveraging. Further, Stoneridge and Orlaco jointly developed the Mirror Eye mirror replacement system in July 2015, which is an industry-leading solution to enhance the safety and fuel economy of commercial vehicles. Overall, it seems that Stoneridge has the potential to perform well financially in next couple of years.

Background: Founded in 1965, Stoneridge, Inc. is a global designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the commercial vehicle, automotive, off-highway and agricultural vehicle markets. Its products and systems are key elements in the management of mechanical and electrical systems to improve overall vehicle performance, convenience and monitoring in areas such as emission control, fuel efficiency, safety and security. Currently Stoneridge operates in 15 countries, which enables it to supply its products to global and regional vehicle manufacturers around the world. Some of its biggest customers are Ford Motor Company, General Motors Company, Scania Group, Daimler and Volvo. Stoneridge also sells to aftermarket distributors and mass merchandise. The company aims to deliver value to its customers, employees and shareholders through the development and manufacture of profitable, technologically advanced products combined into system-based solutions to serve the global passenger and commercial vehicle markets.

Financials: Stoneridge appears to fit well within our thesis, as it has a relatively low P/E ratio as well as a strong balance sheet. With a 8.22 Trailing P/E ratio compared to the sector's 16.7 P/E ratio, it is noticeably undervalued. It further has a current ratio of 2.24 while the industry average is 1.44. Similarly its quick ratio of 1.47 is better than the industry's 0.95. In terms of the debt/equity ratio, Stoneridge's 0.58 lies just below the industry's 0.64. Overall, its financials seems healthy and can provide a foundation for future growth.

Growth, Market Risk, and Analysis: Stoneridge's growth efforts will focus on developing products that its customers and end markets desire, while delivering them at high levels of quality and cost effectiveness. The acquisition of its long-term strategic partner, Orlaco, serves as an example of the company's plans to continue innovating and further increasing technology content per vehicle. It must be mentioned though that its Brazil-based PST segment, a joint venture, has experienced some economic headwinds and lower demand for automotive products throughout 2016. This can remain a risk for the future, however, Stoneridge's operational improvements through cost reduction and business realignment actions could lead to sustainable margins and cash flow in the future for its PST segment.

<u>Thesis for WalMart</u>

<u>WalMart Stores, inc.</u>
NYSE: WMT
Headquarters: Bentonville, AR

Industry: Multinational Retail
Market Cap: $229,853m
Share Price at Purchase: $72.37

Thesis Sentence: 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 $33b last fiscal year, and had an operating income of over $1b. WalMart Mexico has a revenue of $31.7b, a net income of just over $1b.