The Ursinus College Investment Management Company
Newsletter, Spring 2020

Scott Deacle
Johnathan Myers

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Spring 2020

NEWSLETTER

The Ursinus College
Investment Management Company

The Ursinus College Investment Management Company
601 E Main Street
Collegeville, PA 19104
www.ursinus.edu/ucimco
Letter from Prof. Scott Deacle

Faculty adviser to UCIMCO

We all know that 2020 has been a historically difficult time in the markets. But it’s provided a remarkable learning experience for the student analysts of UCIMCO. We now know first-hand that a well-crafted investment thesis can be shattered by something you never anticipated. We’ve always enjoyed discussing the latest market and economic news, but now it affects us in ways we never could have imagined before. The endowment team has had spirited discussions on the path of the expected recovery and the best strategy to adopt in response to the uncertainty. The stock selection team adapted its strategy to search for investments that can thrive in the challenging months and years ahead. I think that when we look back on this time in a few years, we will recognize that, despite the losses, we all grew in ways that we could not have otherwise.

In addition to our response to the COVID-19 pandemic, I am excited about two other recent developments. The first is the growth in our donor base, as more recent alumni have added monetary contributions on top of their generous contributions of time and advice. The second is the development of a women’s investment group that will begin research and investing in the fall. To address the persistent under-representation of women in the fund, I have been working to develop the group this spring with Maureen Cumpstone (’79), director of the college’s U-Imagine Center, alumnae Briana Anderson (’14) and Marina Bitar (’06), and current students Shelby Boyle (’22) and Wendy Luo (’21).

I am disappointed that our seniors – fund co-founder Parker Wolf in particular – likely won’t receive the in-person sendoff they deserve. At the same time, I have much to be grateful for. Thanks everyone for your continued engagement, and I look forward to continuation of the UCIMCO’s growth.

Letter from Johnny Myers ’19

UCIMCO Co-founder

To the Ursinus College family – staff, faculty, students, administration, donors, and friends:

This year’s UCIMCO team was met with many challenges and has exceeded expectations. As we have all been experiencing, the COVID-19 outbreak has caused serious damage on the economy and forced businesses, colleges, and institutions to change the way they operate. The same holds for UCIMCO. Students collaborated from home to work on their investment pitches and put the preservation of the Endowment portfolio first. They considered in real time how a stock market crash like we are seeing now has impacted colleges and universities across the country- and how investing and keeping the mindset of perpetual capital stewardship makes all the difference. I am exceptionally proud of this year’s UCIMCO team members as they make bold, decisive action towards advancing the goals of undergraduate investment companies.
At a Glance

The Ursinus College Investment Management Company, UCIMCO, is a student run endowment portfolio management headed by Parker Wolf and Jacob Kang under the advisement of Dr. Scott Deacle. UCIMCO is split between two teams of student investors, Stock Selection and Endowment. Each team meets weekly to discuss investment strategies, pitches, and current events that would affect the college’s endowment. Our goal is to generate return for Ursinus College’s endowment and to create awareness of the role an endowment plays in the institution’s operation.

Each team is responsible for a part of the endowment’s investment portfolio. New members are part of the Stock Selection group, where we learn the basics of portfolio management and evaluation. We then pitch and select attractive stocks that would best generate return for the endowment. In order to go about these goals, we use value and growth fundamentals as taught by Edgar Wachenheim and Michael Moe, respectively.

As for the advanced students (those who have been a part of the fund for three or more semesters), they manage an endowment style portfolio, which use David Swensen’s investment principles for portfolio management. The Endowment group is split into subgroups which each take on the responsibility of studying and learning about a specific asset class and come to a conclusion of an appropriate weight for each.
Investment Strategies

Stock Selection Value Team

This team applies the value-investing principles promoted by Edgar Wacheheim III in his book *Common Stocks, Common Sense*. Based on that, one thing we really wanted to focus on were ratios. The two most important ratios to us while researching stocks were the debt-to-asset ratio and the price-to-earnings ratio. We wanted to look for stocks that had little to no debt and stocks that were able to pay off their debts. For the price-to-earnings ratios, we wanted to look for stocks with low prices in relation to their earnings. Ratios were not the only factor that were important to us while doing our research. We also wanted to look for stocks that had the potential to perform even with the coronavirus negatively affecting the market. That is why Inovio was a stock we wanted to pursue because they are working on a vaccine that could help treat the coronavirus.

Stock Selection Growth Team

Using Michael Moe’s strategy, which he outlined in his *Finding the Next Starbucks* book as a guiding principle, the more experienced stock selection team members looked for growth stocks. The strategy focuses on identifying small-cap stocks, super trend, and the four Ps (people, product, potential, and predictability) when it comes to finding a potential business to invest in. A small-cap business market capitalization is anything between $250 million to $1 billion. This group of companies has a higher growth prospect as it is relatively cheaper compared to bigger businesses and tends to be undervalued as investors have yet to realize their potential. The super trends we identified are waste management and mobile card payments. We chose Visa and Waste Management to invest in. Though they are not small-cap, both companies are in good standing despite the current market situation and should not be disrupted too much by the economy as their businesses are considered essentials in the present. Both companies’ portfolios and plans reflect stability and further growth.

Endowment Team

Each semester, the endowment team reads excerpts of Yale University Chief Investment Officer David Swensen’s book Pioneering Portfolio Management. While it promotes some investment and research strategies that aren’t available to UCIMCO given its resources, the book provides the endowment group with the basic premises that endowments should strive for inter-generational equity and serve as backstoppers to institutions in times of economic stress. As a result, the endowment group invests in diversified ETFs that represent major asset classes such as U.S. Equities, U.S. Treasuries, and Emerging Market equities. The group uses a mean-variance optimal portfolio as a baseline for weights on each asset class and then researches macroeconomic trends to determine adjustments on the weights relative to the baseline.
Endowment at Work

Last semester, UCIMCO celebrated Ursinus College’s 150th year anniversary with a $1,869 contribution to the college’s general fund as part of #Giving2UCDay on December 3rd, 2019. The contribution builds on the student-managed investment fund’s first transfer of $250 to the general fund on last year’s #Giving2UCDay. Working collaboratively to grow the fund enables UCIMCO to increase its support of the college and its own operations. After receiving initial operating support from the Ursinus Business and Economics Department, the Marcon Fund, and donors, UCIMCO began this year to cover some of the costs of its research, field trips, and semi-annual presentation dinners. As we actively manage the portfolio this semester to navigate the challenges of the COV-19 pandemic, our group has gained invaluable real-world investing experiences. UCIMCO will continue to devise new portfolio management strategies as we strive to make our donations to the college more and more significant going forward. “As our fund continues to illustrate strong potential to donors and alumni, we have increased our fund’s position and it has allowed us to stretch our group’s capabilities. Donating a portion of our portfolio to the school allows UCIMCO to take a small step in reaching our overarching goal of maintaining the intergenerational wealth of Ursinus” said senior UCIMCO Chief Investment Officer Parker Wolf ('20), an applied economics major and fund co-founder.
New at UCIMCO

COVID-19 and Us

Amid the COVID-19 pandemic, our group needed to react accordingly and change our short-term investment strategy. The broader financial markets took a substantial downturn in late February 2020 and our team decided to re-think our investment philosophy. Our endowment team focused on preserving the fund’s purchasing power, while our stock selection team mainly focused on public equities with strong solvency or products and services that contribute to virus prevention.

Stock Selection Team

After the normal stock screening process took place before the virus outbreak, leadership decided to change the stock screening process. Analysts were asked to change their investment philosophy. They were given the option to either pitch public equities with strong solvency and recession-proof revenue outlook, or stocks that provide a competitive advantage in the virus recovery (pharmaceutical and healthcare companies to name two). Analysts posted PowerPoint presentations with voiceover material to pitch their selected stock. Constructive criticism for each presentation was provided by other team members and CIO Parker Wolf in the discussions. The results came in and the group had voted for two pharmaceutical stocks, Inovio and Gilead, resulting in a tie. The group held a separate vote to select one of the stocks. This new selection process was designed to avoid downside risk in the current state of the market. Our group expects volatile stock market activity and we decided to mitigate the fund’s risk by implementing this new process.

Endowment Team

The endowment team’s fundamant goal is to preserve the fund’s purchasing power by weighting six asset classes. Given the circumstances, the team decided to direct its focus on the future economic outlook, when the virus would slow down and how we should rebalance the fund. Tracking statistics on virus confirmed cases and deaths, unemployment filings, and stock market direction were important focus points of the group. With heavy losses in our fund’s ETFs holding U.S. equities, U.S. real estate, developed market equities, and emerging market equities, the group came to the consensus that the fund should consider rebalancing the weightings on each ETF. In order to vote on a decision, the team decided to assign six returning leaders – Parker Wolf, Jacob Kang, Hakan Atillasoy, George Psaradakis, Kareem Elghawy, and Michael Buck, to make a quantified proposal. The group’s proposal attempted to find a middle ground between liquidating the entire portfolio, rebalancing the fund to October benchmarks, or do nothing. The first step of the proposal included selling 50% of current ETF holdings. After selling, the group would monitor the COVID-19 case and death statistics provided by The Washington Post. If there was a five-day decline in COVID-19 deaths, this would qualify the fund’s “BUY” signal. Therefore, this metric would point to the virus’ “peak” of the virus,
meaning that the government may allow non-essential businesses to re-open. When this decline is illustrated, trading orders will be put into place to weight each asset class’ ETF to the October benchmarks. The group proposed this idea to cut losses (and lock in Treasury gains) and lower the average buy price for each ETF. They assume that the market will positively respond to a decline in COVID-19 deaths. Moreover, after proposing the idea and answering questions from analysts, a voting poll was set. The “Elder” proposal was selected and chosen. This was a complicated process but provided an emphasis on learning portfolio management, crisis management, and trading mechanisms.

**ESG Investing**

This semester, UCIMCO took a turn towards pioneering ESG investing in student managed investment funds. These types of investments focus on three main priorities: Environmental sustainability, Social progressiveness, and strong Governance. In a way, ESG investing aims to reduce holdings in companies generally seen as negatively impactful for society or poorly run. While many liberal arts colleges and universities have begun to adopt these principles in the past decade, ESG is far from the commonplace, especially in student-run funds.

As such there exists practically no framework for ESG Investing for a fund of this size. Major questions arose during our discussion of whether to implement this form of investing. Does ESG limit exposure to certain markets? Will these funds be completely diversified? What if the ETF we purchase fails to target ESG-strong companies?

These questions raised fierce debate among members in both investment teams. Ultimately, UCIMCO had decided to begin its foray into ESG investing the following semester, given the chaos of the Coronavirus shutdown. That said, students accurately identified very strong ETF candidates for consideration for the next semester, for US equities, international developed and developing markets, and even for US corporate bonds. Additionally, students created a framework for not only reducing exposure to non-ESG equities, but also for maintaining diversification in the endowment fund.
Investment Performance

Stock Selection Fund Performance: Oct. 18, 2019 – April 1, 2020

<table>
<thead>
<tr>
<th>Stocks</th>
<th>Buy</th>
<th>Sell</th>
<th>Dividends</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luna Innovations</td>
<td>$2,478.56</td>
<td>$3,154.10</td>
<td>-</td>
<td>27.3%</td>
</tr>
<tr>
<td>Uber Technologies</td>
<td>2,482.22</td>
<td>2,049.82</td>
<td>-</td>
<td>-17.4%</td>
</tr>
<tr>
<td>Callaway Golf</td>
<td>2,499.01</td>
<td>2,247.54</td>
<td>$144.00</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Hill-Rom Inc.</td>
<td>2,454.24</td>
<td>1,914.92</td>
<td>120.96</td>
<td>-17.0%</td>
</tr>
<tr>
<td>Raytheon Co.</td>
<td>2,389.49</td>
<td>2,116.45</td>
<td>192.24</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Cash</td>
<td>206.58</td>
<td>206.58</td>
<td>0.32</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$13,336.55</td>
<td>$11,668.41</td>
<td>$457.52</td>
<td>-14.8%</td>
</tr>
</tbody>
</table>

Overall, our stocks performed at a decent level until the coronavirus pandemic hit. With the exception of LUNA, none of our stocks outperformed the market, however every month until February of this year we were able to bring in a gain. Additionally, we did not hold onto all of our stocks throughout the semester. We sold off our remaining shares of Uber in November of 2019, our investment in LUNA in December and our Callaway shares in February. Our stocks were performing very well going into the new year, when the effects of the Coronavirus started to hit our economy along with halting production in China. These effects were a factor in Callaway’s drop and our sale of their stock. As for Raytheon’s stock, the coronavirus has taken away spending from national defense therefore causing a decline in Raytheon’s stock. And as for Hill-Rom, even though it produces medical supplies, its shares took a deep dive with the rest of the market in late February and March.
Endowment Fund Performance: Oct. 18, 2019 – April 2, 2020

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>October</th>
<th>April</th>
<th>Dividends</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>$8,928.75</td>
<td>$8,175.00</td>
<td>$57.59</td>
<td>-7.8%</td>
</tr>
<tr>
<td>U.S. Corporate Bonds</td>
<td>$2,924.22</td>
<td>$3,032.09</td>
<td>$23.67</td>
<td>4.5%</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td>$12,754.53</td>
<td>$13,606.78</td>
<td>$78.70</td>
<td>7.3%</td>
</tr>
<tr>
<td>U.S. Real Estate</td>
<td>$12,222.75</td>
<td>$10,175.52</td>
<td>$114.32</td>
<td>-15.8%</td>
</tr>
<tr>
<td>Developed Equities</td>
<td>$8,272.44</td>
<td>$7,480.44</td>
<td>$87.10</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Emerging Equities</td>
<td>$8,850.26</td>
<td>$7,404.50</td>
<td>$181.80</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Cash</td>
<td>$792.29</td>
<td>$792.29</td>
<td>$-</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$54,745.24</td>
<td>$50,666.62</td>
<td>$543.38</td>
<td>-6.5%</td>
</tr>
</tbody>
</table>

The UCIMCO endowment performance this past semester was relatively strong. During a time of unprecedented global uncertainty, our endowment was able to mitigate loses while still capturing returns. Between October 18, 2019 and April 2, 2020, the S&P 500 was down 15.5%, whereas our portfolio was down only 6.5%. Our returns can be attributed to our overweight allocation towards treasuries, which yielded 7.3%. In addition, corporate bonds were our only other positive performing asset class at 4.5%. Our Equities and REITs asset classes have struggled throughout the past semester. US Equities returned –7.8%, US Real Estate -15.8%, Developed Equities –8.5%, and Emerging Equities -14.3%. Despite poor performances in these asset classes, UCIMCO did have success in helping maintain purchasing power in our endowment.

Endowment Fund Outlook

Last semester, UCIMCO chose to take a defensive position. This position consisted of overweighting Treasuries due to fears of an incoming recession. The recession we expected last fall is underway, though not in a way we could have forecasted.

Several asset classes, many of which are prominent among those that UCIMCO monitors, are currently discounted as a result of a bear pullback in the market in February and March. Conventional wisdom indicates that asset classes should be purchased at discounted price points. In the long term, UCIMCO is bullish as markets will likely stabilize and yield favorable returns for the fund. The biggest question, however, is when this will occur.

This led to changes in the buying strategy this semester, selling 50% of existing assets in early April to hold more cash on hand. We hope that increased liquidity will ensure safer, improved returns on the market as we continue to observe it in the coming weeks and buy assets as market conditions improve.
UCIMCO is bullish on the market and its members generally believe that markets will stabilize over time but hopes to not let this belief overshadow our top priority of maintaining purchasing power.

Endowment Weighting Strategy

After our decision to rebalance and sell 50% of existing assets in order to hold more cash, our new weights are shown in the graph below. When we do decide to buy back our holdings at a new price point, we will do so with the weights as follows: We decided to weight U.S. Treasuries more heavily in order to take a more defensive position in these highly volatile and uncertain times. We are also assigning an overweight to the U.S. Real Estate class, as we are confident that after the Covid-19 outbreak, investments in U.S. Real Estate will be attractive. We have decided to underweight Corporate Bonds because of the extreme uncertainty with how corporations will be affected in the long run after Covid-19. As a result of high levels of uncertainty, we are sticking to normal weights for all equity classes. We will reevaluate these positions and their weightings when the time comes for the fund to repurchase the ETF’s at their new purchase price.

Endowment Portfolio Current Weights
Stock Selection Fund Picks

Visa (V)

Background:

Visa is a global payment technology company that consumers, businesses, banks, and governments use for digital currency. It began in 1958, and now the company operates in 200 countries and territories around the globe. In a global age, where payments are now digital and instantaneous, Visa allows its users to purchase almost anything from anywhere, which has helped businesses thrive over the past few decades.

Thesis:

There are three megatrends that have led us to take an interest in Visa. The first is that with population increase there are more potential cardholders. The second is the rise in online shopping. With the ability of online shopping, purchases with Visa cards can increase. Lastly, mobile card payments exceeded cash payments globally a few years ago, which means this trend is only in the beginning stages of development.

We believe that Visa is poised to have steady growth over the next few decades. They are the largest player in their industry, which is an advantage in a scalable industry. They have also made key company acquisitions, like Earthport, which will allow Visa to handle transactions from start to finish using its own network. Lastly, the stock has always shown steady and positive growth, even during the likes of the 2009 recession. Seeing how discounted the price of this stock was, due to the recent market turmoil, and combining that with the success the stock has experienced in its entirety, we concluded that Visa would be a fantastic stock for this fund to hold.

Our price target for Visa is $230 in the next 1-2 years, once a full market recovery is reached.

Ratios:

- P/E: 33.23
- Debt-to-Assets: 52.84%
- Quick: 1.69
- Times Interest Earned: 27
Waste Management (WM)

Background:

Waste Management is a waste collection & disposal company based out of Houston, TX. They specialize in landfilling, collection, transfer, recycling, and other services related to the management of waste materials. WM operates in 48 states, as well as Canada and Puerto Rico.

Thesis:

We believe that due to size, industry knowledge, and the mega-trends around this industry, WM is poised to grow over the next 1-3 years. WM is also designed to act as a hedge against a downturn in the economy, namely due to its title as an essential business.

WM’s industry has three main mega-trends that have led to our investment in the company. These megatrends are: US population, rate of waste production, and the price to dispose of one ton of waste. In the case of US population and rate to dispose, there has been year over year growth meaning that with more people, more waste is produced, and it costs more to dispose of. This is also coupled with the average waste produced per person, which has slowed but is poised to increase due to a more disposable economy, as well as the amount of waste being produced during the COVID-19 outbreak. When looking at the financials WM’s management has also increased its profitability while keeping a steady growth pattern through M&A activities. These M&A activities lead to high leverage for all companies in the industry therefore WM’s Debt-to-Asset ratio is in line with the industry, and shows the commitment to growth to shareholders.

In 2016 WM generated a meager profit of $753M USD on $12.9B USD revenue, to $1.9B USD on $14.91B USD revenue in 2019. WM also has been paying a consistent dividend each year of $1.26/share. At the current rate of return on the investments history, we have set a price target of $116 in a 1-3-year range, generating expected returns of around 30.2%.

Ratios:

- P/E: 28.14
- Debt-to-Asset: 159.78*
- Quick: 0.82
- Interest Coverage: 7.01
Inovio Pharmaceuticals (INO)

Background:

Inovio Pharmaceuticals is a research and development biotechnology firm that focuses on the synthetic treatment of infections and cancers. In the past, they have worked on treatments for MERS, SARS, and Ebola, which is why the firm has been noted as a favorable contender for developing a vaccine. The firm is currently performing human trials, as preclinical animal trials showed an increase in immune response. In addition to their 5 million-dollar government grant, Inovio Pharmaceuticals may receive extra funding from the Bill and Melinda Gates Foundation.

Thesis:

We believe that Inovio Pharmaceutical’s share price will significantly increase due to the approved clinical trial testing which is currently in phase 1. Furthermore, Inovio was given a $5 million grant to develop the vaccine and just after, the company’s share trading volume jumped enormously, which signals that investors have confidence in the stock. It is also one of two companies to have approved testing as of April 15, 2022.

Ratios:

• **P/E:** -6.84
• **Debt-to-Asset:** 1841.08
• **Quick:** 2.94
• **Interest Coverage:** -13,151.34
Our Team

Joshua Belder (2023) Stock Selection, Holland, Pennsylvania, Major: Biology, Minor: Psychology


Nicholas Galbraith (2022): Stock Selection, Spring City, Pennsylvania, Major: Environmental Studies


Seongchan Kim (2023): Stock Selection, Wayne (PA), Major: Biochemistry and Molecular Biology


Kevin Travis (2022): Endowment Management, Moorestown, New Jersey, Major: Applied Economics with a focus in Finance and Accounting, Minor: Spanish

Peyton Vostenak (2022): Stock Selection, Delran (NJ), Major: Applied Economics with a focus in Finance and Accounting, Minor: Statistics


Parker Wolf (2020), Chief Investment Officer, Lititz, PA, Major: Applied Economics
Supporters

UCIMCO would not exist without the generous contributions it has received in its time, expertise and money from a variety of Ursinus faculty, alumni, administrators, and parents of students. The fund wishes to thank the following supporters for their contributions:

Ursinus College Business and Economics Department
Isaac Abrams (‘19)
Briana Anderson (‘14)
Ernie Constantine (‘11)
Paul Cottam (‘19)
Maureen Cumpstone (‘79)
Robert E. Deacle, Jr.
Michael Fleming (‘97)
Christopher Guy
Chris Herdelin
Daniel Myers (P ’19)
Johnathan Myers (‘19)
Annette Parker
Erich Pingel (‘11)
Joseph Pursley (‘03)
Susan Stewart (‘80)
Daniel Urban (‘07)

How to Contribute

You can provide financial support to this valuable learning experience for Ursinus students today and in the future by visiting https://www.ursinus.edu/support-uc/ways-to-give/online-gift-form/.

Use the drop down menu under “Designation” to select “Student Investment Fund.”