



# USC Marshall

School of Business

*Center for Investment Studies*

## UNDERGRADUATE STUDENT INVESTMENT FUND

ANNUAL REPORT 2019

# The Annual

## for the USIF Stock Fund 2019

Our period as USIF Fund ("Fund") managers was marked by several key events that impacted the U.S. economy. Markets experienced a significant increase in volatility during our tenure, in part due to the Federal Reserve's hawkish interest rate policy. Investors responded negatively to the Fed's decision to hike rates four times during 2018, with the S&P 500 dropping 6.2% during the year. Market volatility was further driven by declining growth in China and the PRC's escalating trade war with the U.S. Moreover, the imbalance of supply and demand in the global crude oil market led to increased volatility in the energy sector. In the past few months, however, markets have stabilized due to the Fed's announcement that they are unlikely to raise rates in 2019 and the ease in trade tensions with China. These developments have contributed to the S&P rising 12.9% from the start of the year to March 31st, 2019.

In spite of the recent market volatility, we have maintained a disciplined bottom-up investment approach that aims to find high-quality companies trading at a discount to their intrinsic value. Using this philosophy, we deployed capital in eight companies including Lennar and NVIDIA. At the time of our purchases, we felt that both of these companies were fundamentally strong but had been subject to outsized market pessimism, allowing us to enter these positions at attractive valuations. Lennar and NVIDIA have been our two best investment picks, returning 32% and 11%, respectively. We also liquidated investments in eight companies, which we felt were fairly valued and were no longer compelling investments. Overall, our exited investments have fared poorly in comparison to our newer positions.

Two-thirds of the assets in the USIF fund are actively managed, while the rest are passively managed in the completion fund. Overall, the USIF Fund returned 6.01%, with the active portion gaining 8.42% and the passive portion returning 1.31%. During the same period, the S&P 500 was up 9.50%, indicating that our fund underperformed the benchmark by 349 bps. Our underperformance stems from a significant lag in the completion fund and continued investments in companies in which our long-term investment theses have yet to materialize.

In our active portfolio, we were overweight Communication Services, Consumer Staples, and Energy and underweight Industrials, Information Services, and Healthcare. Consumer Discretionary and Informational Technology led the way, contributing weighted portfolio returns of 2.28% and 1.36%, respectively. Financials and Consumer Staples lagged with contributions of -0.84% and -0.29%, respectively. Our active portfolio had a higher market beta and a growth-oriented tilt relative to the S&P 500, and the combination of First Trust Morningstar Dividend Leaders Index Fund (FDL) and Invesco Russell Top 200 Pure Value ETF (PXLV) brought our risk exposure more in line with that of the benchmark.

As of March 31, 2019, the Fund's five largest holdings were Alphabet, Amazon, Facebook, Apple, and JPMorgan Chase. Our five best performing investments in terms of overall portfolio returns were Dollar General, Lennar, Alphabet, Amazon, and Intuitive Surgical. In contrast, our worst five performing positions were in Schlumberger, BlackRock, Constellation Brands, and McKesson Corporation.

# Commentary

for the Student Asset Allocation Fund, sponsored by VanEck 2019

The fourth year of the Student Asset Allocation Fund (SAAF), sponsored by VanEck, was marked by a substantial pickup in global volatility attributable to 1) hawkish Federal Reserve interest rate policy through the 2018 calendar year amidst strong U.S. economic data 2) increased conflict in global trade hindering growth 3) oil volatility spiking to historical levels and 4) the Federal Reserve continuing its tactical QE-unwind via balance sheet reductions.

The SAAF Fund returned 2.42% since we inherited the portfolio on March 31, 2018, closing on March 31, 2019 with a NAV of \$2.41M. Over the same period, our blended benchmark, comprised of 60% global equity, 30% fixed income, and 10% alternatives, returned 3.59%. Through the first six months of our tenure, the SAAF portfolio was 21 bps ahead of the benchmark. The 1.17% underperformance of the fund is predominantly attributable to our increased U.S. equities allocation and decreased fixed income allocation in November.

At the beginning of our tenure, we were bullish on U.S. and emerging markets (EM) equities and bearish on U.S. and international fixed income. We were very active this year, buying 16 ETFs and selling/trimming 11 positions. We saw four quarter-point hikes in 2018, and ultimately the effect of these rate hikes meant a stronger U.S. Dollar and a substantial outperformance by U.S. equities versus EM equities, as EM central banks struggled to defend their currencies against the rates divergence. Given the EM sell-off over the summer, we increased our allocation in November by buying iShares MSCI Brazil ETF (EWZ) and iShares Core MSCI Emerging Markets (IEMG). On the back of the October/November sell-off paired with the flattening of the U.S. yield curve, we positioned our fixed income portfolio shorter duration, selling out of VanEck Vectors

International (IHY) and iShares Intermediate Bond Credit (IGIB).

We grew more bullish on U.S. equities, thinking the correction was over and that U.S. economic data would remain strong. Thus, we initiated new positions in First Trust NASDAQ Cybersecurity (CIBR) and First Trust US Equity Opportunities (FPX). However, global equities continued to sell-off through early January driven by uncertainty regarding the US-China trade war and Fed rates policy in addition to severe retail outflows.

Our tactical positioning to the cannabis ETF, ETFMG Alternate Harvest (MJ), proved particularly successful; MJ, our third best performer, contributed 55 bps to our overall portfolio return. We also bought two alternatives ETFs, Global X SuperDividend REIT (SRET) and Aberdeen Standard Physical Palladium Shares ETF (PALL). For international developed equities, we sold WisdomTree Japan Hedged Equity (DXJ) and iShares Edge MSCI Multi (INTF), believing there was a better risk reward profile in EM and U.S. equities relative to international developed equities for the remainder of 2019 and through the next three years.

The SAAF portfolio is well positioned for the transition period. Heading into the summer months it is positioned overweight US Equities, EM Equities, and Alternatives and underweight International Equities and Fixed Income in relation to our blended benchmark.

On behalf of our class and future portfolio managers for the SAAF Fund, we would like to thank Mr. & Mrs. Van Eck for supporting our academic endeavors.

Thank you,  
USIF 2019

**USIF Stock Fund Financial Highlights***(as of 3/31/2019)***USIF Fund Performance Summary**

<b>USIF Fund</b>	<b>% Change Since 3/31/18</b>
USIF Active Portfolio (Current Holdings)	8.42%
USIF Total Portfolio	6.01%
S&P 500 Total Return Index (Benchmark)	9.50%

**Fund Assets Summary**

<b>Date</b>	<b>Market Value of Assets</b>	<b>Return</b>	<b>SPXT (Benchmark)</b>	<b>Return</b>	<b>Difference</b>
3/31/18	\$1,245,349.00		\$5,173.19		
6/30/18	1,307,914.14	5.02%	5,350.83	3.43%	1.59%
9/30/18	1,384,901.31	11.21%	5,763.42	11.41%	(0.20%)
12/31/18	1,171,036.57	(5.97%)	4,984.22	(3.65%)	(2.31%)
3/31/19	1,320,248.84	6.01%	5,664.46	9.50%	(3.48%)

**Top Five Equity Holdings**

<b>Stock</b>	<b>Ticker</b>	<b>Market Value</b>	<b>% of Total Portfolio</b>
Alphabet Inc. (Class A and Class C)	GOOG	\$92,755.93	10.51%
Amazon.com, Inc.	AMZN	51,641.75	5.85%
Facebook, Inc. Class A	FB	51,507.21	5.84%
Apple Inc.	AAPL	41,409.10	4.69%
NVIDIA Corporation	NVDA	38,066.72	4.31%

**Top Performing Companies**

<b>Company Name</b>	<b>Ticker</b>	<b>Sector</b>	<b>Contribution</b>
Dollar General	DG	Consumer Discretionary	0.92%
Alphabet Inc. (Class A and Class C)	GOOG	Communication Services	0.89%
Lennar Corporation	LEN	Consumer Discretionary	0.88%
Intuitive Surgical, Inc.	ISRG	Healthcare	0.66%
Amazon.com, Inc.	AMZN	Consumer Discretionary	0.65%

**Worst Performing Companies**

<b>Company Name</b>	<b>Ticker</b>	<b>Sector</b>	<b>Contribution</b>
BlackRock, Inc.	BLK	Financials	(0.68%)
Constellation Brands, Inc. Class A	STZ	Consumer Discretionary	(0.56%)
Booking Holdings Inc.	BKNG	Consumer Discretionary	(0.55%)
Schlumberger NV	SLB	Energy	(0.55%)
McKesson Corporation	MCK	Healthcare	(0.29%)