Portfolio Practicum Report

2017—2018

Creighton University | Heider College of Business

Program History

Now in its 26th year, the Portfolio Practicum program began in 1992 with $100,000 of University endowment monies. Under the supervision of multiple faculty advisors over the years, the Creighton University Student Portfolio (CUSP) Fund has swelled to over $7.5 million, and it continues to be a premier experiential learning opportunity for the Heider College of Business' top finance students.

Robert Johnson, PhD, CFA®, CIAI, president and chief executive officer of The American College of Financial Services, established Creighton's Portfolio Practicum as a direct result of his personal experience seeking employment as a college graduate: "I repeatedly heard during interviews that investment management firms wanted people with some practical money management experience."

With this struggle in mind, Johnson created the Portfolio Practicum course so students could enter the work force with necessary industry experience. At the time, it was the country's only two-course sequence program in which undergraduate students managed actual money. Since then, Creighton's Portfolio Practicum has served as the model for numerous other university curriculums and ranks in the nation's top 20 student-run investment programs. Portfolio Practicum has enjoyed a remarkable history, with speaking appearances by Warren Buffett and beating benchmarks on a regular basis.

With over a quarter of a century of preparing its students for successful careers in finance, Portfolio Practicum has achieved Johnson's dream of giving recent graduates a competitive edge in the job market.

Gerald R. Jensen, PhD, CFA®

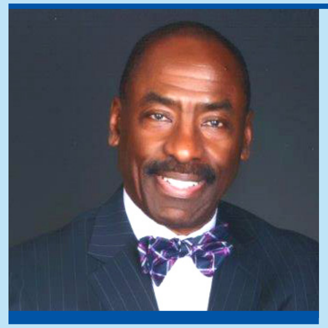
Professor, Department of Economics and Finance

2017 was an excellent year for the Creighton University Student Portfolio (CUSP) Fund. From a performance stand point, the Fund produced a return (after all costs) that matched our benchmark, so that does not deserve an excellent rating. However, I believe the student managers accomplished an astounding feat as their investment style was out of favor during 2017. Specifically, as most value investors can attest, 2017 was not kind to value investing. In fact, the value premium (return to value portfolios minus the return to growth portfolios) was -13.85 percent. While the students have discretion over the CUSP Fund investment style, given Creighton's location in Omaha, do they really have any other choice than to adopt a value tilt?

While I celebrate the managers' performance accomplishment under trying conditions, I am much prouder of the students' progression in terms of investment knowledge and understanding of the practice of investment management. From the beginning to the end of the term, the twenty-two student managers transitioned from a diverse group of talented students to a highly efficient and effective investment management team.

A primary course objective is to develop the skills needed to make investment decisions that are backed by thorough quantitative and qualitative analyses. Student managers are required to offer compelling support for each investment decision the Fund makes. Students are encouraged to exercise independent thought and judgement but to always have valid support for their recommendations. This year's class achieved this objective completely.

I'm saddened to see the current investment team move on but am comforted by my belief that they have left the portfolio in great shape. To match the accomplishments of this year's class, next year's class of student managers has much work to do.



Michael L. Green, MBA

Portfolio Practicum instructor
President and Owner, EverGreen Capital Management

I am happy that Dr. Jensen decided to increase the size of the class for our student portfolio managers. It gives the students an opportunity for more varied interaction as they analyze the companies and economic sectors. The more critical input they acquire, the sharper their decision-making skills become. It's vital for students to develop sound critical thinking to make solid investment decisions. We stress to the students that it is important to know how and why a company makes a profit so that they will understand what to look for when a decision is profitable.

It's very rewarding to see the students progress throughout the year. As they make presentations, you can see their maturity develop and understanding of equity analysis grow. This group has done an excellent job managing the portfolio and is leaving a strong legacy for their successors.

It has been a pleasure to work with them, and I wish them the best as they move into their respective careers.

Anthony R. Hendrickson, PhD

Dean, Heider College of Business
Professor of Business Intelligence and Analytics

For over 25 years, the Heider College of Business' top finance students have invested a portion of University endowment funds through the Portfolio Practicum course. I am extremely proud to share that the 2017—2018 Portfolio Practicum class has exceeded the $7.5 million mark through their analysis and investment decisions. This kind of growth is staggering. The CUSP Fund's worth is now 75 times higher than its initial 1992 value of $100,000. Please join me in congratulating the faculty and students for their continued success with the Fund and wishing them the best in their future finance careers.

Students

Mitchell Albrecht
Gilbert, Arizona
Finance & Accounting
Internships
Quicken Loans, Scottsdale, Arizona
Gemini Fund Services,
Omaha, Nebraska
Goldman Sachs, SLC, Utah
Employment
Goldman Sachs, Salt Lake City, Utah

Eric Austin
Clive, Iowa
Finance & Entrepreneurship
Internships
Syverson Strege, Des Moines, Iowa
TD Ameritrade, Omaha, Nebraska
Triage Staffing, Omaha, Nebraska
Employment
Berkshire Hathaway Energy,
Des Moines, Iowa

Scott Borcher
Pawnee City, Nebraska
Accounting & Finance
Internships
National Indemnity, Omaha, Nebraska
Union Pacific, Omaha, Nebraska
BKD LLP, Omaha, Nebraska
Deloitte, Omaha, Nebraska
Yahoo!, Omaha, Nebraska
Employment
Deloitte in Chicago, Illinois

Daniel Broderick
Dubuque, Iowa
Finance
Internships
Hy-Vee, Des Moines, Iowa
Creighton University
Employment
Applying to Medical School

Charlie Bolton
Grosse Pointe, Michigan
Finance
Internships
Vendorin Inc., Omaha, Nebraska
Northstar Financial, Omaha, Nebraska

Cody Cullen
Plymouth, Minnesota
Finance
Internships
TD Ameritrade, Omaha Nebraska

Thomas Digenan
Hinsdale, Illinois
Finance
Internships
MKM Partners, Chicago, Illinois
CFRA Research, Rockville, Maryland
Strategas Research Partners,
New York, New York
Employment
Robert W. Baird, Milwaukee, Wisconsin

Andrew Grill
Lino Lakes, Minnesota
Finance & Marketing
Internships
Etail Solutions, Arden Hills, Minnesota
Union Pacific Railroad,
Omaha, Nebraska
TD Ameritrade, Omaha, Nebraska
Mutual of Omaha, Omaha, Nebraska
Employment
Goldman Sachs, Salt Lake City, Utah

Nick Guarino
Missouri Valley, Iowa
Finance & Economics
Internships
United Way, Omaha, Nebraska
Fist National Bank, Omaha, Nebraska
Union Pacific, Omaha, Nebraska
TD Ameritrade, Omaha, Nebraska
Carson Wealth Management Group,
Omaha, Nebraska
Employment
Carson Wealth Management Group,
Omaha, Nebraska

James Huiskamp
Davenport, Iowa
Finance
Internships
Agman Partners, Omaha, Nebraska
RMB Capital, Chicago, Illinois
Acclaro Valuation Advisors,
Omaha, Nebraska
Employment
Cleary Gull, Milwaukee, Wisconsin

Mary Laughlin
Omaha, Nebraska
Finance & Economics
Internships
TD Ameritrade, Omaha, Nebraska
CFO Systems, Omaha, Nebraska
Employment
Dundee Bank, Omaha, Nebraska

Katherine Lynch
Omaha, Nebraska
Internships
Business Ethics Alliance of Greater
Omaha, Omaha, Nebraska
Institute for Economic Inquiry,
Omaha, Nebraska
Employment
Morningstar, Chicago, Illinois

Charles Manion
Edina, Minnesota
Financial Planning & German
Internships
Union Pacific Railroad, Omaha, Nebraska

Renato Morais
Porto, Portugal
Finance & Economics
Internships
McCarthy Capital, Omaha, Nebraska
Invest Nebraska, Lincoln, Nebraska
Employment
Five Elms Capital, Kansas City, Kansas

Grant Munson
Shoreview, Minnesota
Accounting & Finance
Internships
Travelers Insurance, St. Paul, Minnesota
KPMG, Minneapolis, Minnesota
Employment
KPMG, Minneapolis, Minnesota

Steven Niday
Birmingham, Alabama
Finance and Economics
Internships
Union Pacifc Railroad, Omaha, Nebraska
Employment
Union Pacific Railroad,
Omaha, Nebraska

Trevor Peterson
Oswego, Illinois
Finance & Marketing
Internships
Cambridge Advisors, Inc.,
Omaha, Nebraska
TD Ameritrade, Omaha, Nebraska
First National Bank of Omaha,
Omaha, Nebraska
Employment
Houlihan Capital, Chicago, Illinois

Quin Rowen
Pewaukee, Wisconsin
Finance & BIA
Internships
GE Healthcare, Milwaukee, Wisconsin
Ziegler & Co., Chicago, Illinois
Employment
Brown, Gibbons, Lang & Co.,
Chicago, Illinois

Thomas Schroeder
Edina, Minnesota
Finance & Economics

Nikolas Shad
Papillion, Nebraska
Finance & Marketing
Internships
Dundee Venture Capital,
Omaha, Nebraska
Pacific Life, Omaha, Nebraska
ConAgra Foods, Omaha, Nebraska

Robert Schultz
Brookfield, Wisconsin
Finance & BIA
Internships
Robert W. Baird, Milwaukee, Wisconsin,
Cyprium Partners, Chicago, Illinois
Red Cedar Capital, Omaha, Nebraska

Jennifer Taniguchi
Hilo, Hawaii
Accounting & Finance
Internships
Bank of Hawaii, Honolulu, Hawaii
Union Pacific Railroad,
Omaha, Nebraska
Deloitte LLP, Omaha, Nebraska
Employment
Deloitte, Omaha, Nebraska

A Year in Review

The 2017—2018 academic year was an exciting one for the student managers of the Creighton University Student Portfolio (CUSP) Fund. Twenty-two students worked together to cover eleven sectors with a goal of outperforming the Russell 1000 Index, which generated a 2017 return of 21.7 percent. The CUSP managers matched this return while maintaining a risk position lower than that of the overall benchmark, capping off what the class deemed a success given the challenging environment for value investors in 2017.

The program kicked off in March 2017 with student manager interviews and continued into the summer, during which each student read a book outlining the unique investment features of his or her assigned sector. In addition, during summer 2017, students completed Bloomberg and Excel benchmark training. The students took what they learned in the summer and began instantly applying it when class started in the fall. The new fund managers dove right in to examine the investment policy statements of the Creighton Endowment and CUSP Fund and then went to work conducting research to identify stocks to recommend for addition to or removal from their sectors.

Using a disciplined research approach and process, the students chose companies to benchmark through various means, some of which included Bloomberg Equity Screens and analysis of competitors of the Fund's current holdings. Upon doing so, quantitative benchmark analysis reports were conducted to select companies that CUSP Fund managers deemed worthy of a further qualitative analysis.

Looking back, the Fund's overweight positions in the Financial and Information Technology sectors were a driving force behind 2017's healthy returns. The outperformance in the Information Technology sector was helped heavily by IPG Photonics (IPGP), one of the Fund's strongest holdings and accounting for 2.29 percent of the Fund's total alpha. Additionally, over 50 percent of the securities held in the portfolio generated positive alpha on the year, which helped contribute to an overall return of 21.7 percent. Value investing was out of favor in 2017, so the CUSP Fund's value tilt detracted somewhat from the Fund's performance.

Overall, the 2017 calendar year continued to produce strong returns in what has been one of the longest bull runs in memory. Equity indexes consistently hit new highs as the year progressed, which is something the CUSP managers anticipate could continue again in 2018. However, the CUSP Fund plans to be cautious by maintaining a value tilt going forward. The market is unlikely to deliver as high of return in 2018 as it did in 2017; however, CUSP managers believe there is still opportunity on the value front, and we are excited to continue to seek it out.

Charlie Bolton
Tom Digenan

Beating the Retail Ice Age

Why ULTA was purchased

On Nov. 8, 2017, the CUSP Fund executed a purchase of health and beauty retailer Ulta Beauty. We purchased Ulta (ULTA) during a time in which many traditional retailers have been rebuffed due to the changing landscape of the industry. E-commerce, particularly Amazon, has dominated the retail space in recent years, forcing many traditional retailers to cut costs and close stores. In 2017 alone, more than 9,000 brick-and-mortar stores closed, with 50 retail companies filing for bankruptcy. Traditional retailers are struggling to gain the attention of consumers, especially millennials, who have become accustomed to the simplicity of online shopping. The environment has become increasingly competitive as online retailers are winning over customers with speed and convenience. However, the retail landscape is not all doom and gloom; companies like Ulta show many signs that they will continue to be competitive.

So why do the CUSP managers believe that Ulta can succeed amid these difficulties in the Retail sector? The answers are in-store experience, product offerings and customer loyalty.

First, the beauty and cosmetics industry is not one that will quickly succumb to online retailers like Amazon because beauty and cosmetics customers rely on the advice of experienced professionals when deciding between products. Additionally, users prefer to test beauty and cosmetic goods before they commit to the actual purchase.

Second, the brand mix that Ulta offers is a benefit to the company. Ulta offers both mass-market and prestige brands within its stores, which helps the company appeal to a broad array of consumers. Prestige brands are more expensive than mass-market brands but less expensive than the offerings of other luxury cosmetic companies, such as Lancôme and Benefit Cosmetics. In addition to makeup and beauty products, Ulta also offers a wide range of salon and styling services, including hair and skin treatments, which cannot be performed online.

Third, Ulta also has a very strong customer loyalty program, accounting for more than 90 percent of its annual sales. Customers who sign up for the loyalty program spend 25 percent more, on average, than customers not participating in the program.

Thus, Ulta's future growth prospects are promising. Ulta has made a concerted effort to increase its online sales from its established customer base. Ulta's revenue from e-commerce has grown an average of 53 percent annually in the past three years, and CUSP managers are confident that there is still substantial room for growth.

Jimmy Huiskamp
Quin Rowen

Taking a Risk on Small-Cap Technology

The CUSP Fund has had past success in identifying a few select smaller firms with strong growth prospects to supplement its core holdings in large, financially stable firms. After a thorough analysis, the team decided last fall that Fabrinet, a technology equipment firm that manufactures imaging components and modules, offered an attractive opportunity. With a market cap of $1.5 billion, we saw a small-cap company with attractive financials and high growth prospects. Therefore, a decision was made to purchase Fabrinet by trimming the portfolio's position in IPG Photonics, which at the time was nearing the portfolio's five percent limit for a single equity holding.

Thomas Schroeder
Bobby Schultz

There were several factors that drove our decision to purchase Fabrinet. During our benchmark analysis, the class was very impressed with the firm's growth prospects coupled with its relatively low price multiples. In addition, Fabrinet had produced last annual sales and CFO growth of 45.43 percent and 50.64 percent, respectively. Based on the SWOT analysis that we performed, the class took notice of Fabrinet's strong vertical integration in terms of both manufacturing and design capabilities. The purchase decision was also supported by our belief that optical technology will continue to grow in demand as additional applications are identified for optical products.

Fabrinet has a somewhat unique manufacturing strategy whereby its large manufacturing operations are located in Thailand, which allows for low-cost production, while the firm utilizes facilities across the United States and United Kingdom to refine its products to exact customer specifications. Fabrinet designs its customized products in close proximity to its customers to allow for customer input on product refinements before ramping up its full-scale production process in Thailand.

There were also several risk factors that the team assessed before making the decision to commit capital to Fabrinet. Consistent with most small-cap, technology firms, Fabrinet's stock price has been quite volatile over time, with a 52-week low price of $24 and a high price of $47. Team concerns about Fabrinet's risk, however, were allayed by the firm's strong liquidity, low debt ratio and ability to generate sizable operating cash flow. Overall, after conducting a thorough quantitative and qualitative examination of Fabrinet's characteristics, we felt its benefits outweighed its inherent risks.

How the Tax Plan Affects the CUSP Fund

The Tax Cuts and Jobs Act was passed and signed into law on December 22, 2017. Prior to this most recent change, the last significant tax reform was made over 30 years ago in 1986. The new tax law will affect individual and corporate taxes for the year ending 2018.

Niko Shad
Jennifer Taniguchi

The new tax bill is very favorable for corporations, which should translate into favorable financial performance for most firms held in the CUSP Fund. The biggest change is the reduction in the corporate tax rate, which now has a maximum of 21 percent versus 35 percent previously. This change will save hundreds of millions of dollars for many of the companies in our portfolio.

Another provision in the new tax law relates to foreign corporate earnings. Prior to the bill's passage, U.S. companies were incentivized to keep foreign profits in offshore accounts in order to defer U.S. taxation. Once profits were repatriated to the U.S., taxes were due. The new law introduces a territorial system whereby the U.S. will not tax income earned by multinational firms abroad. Instead, taxes will be paid in the jurisdiction where income is earned. There are provisions in the law, however, to prevent multinationals from avoiding the payment of taxes by moving income to jurisdictions with minimal tax rates. The new law also creates a transitional period in which funds held abroad can be repatriated to the U.S. by paying a low, one-time tax. It is estimated that multinational firms hold $2 to $3 trillion overseas, and much of this money is expected to flow back to the U.S. Large multinational technology firms in particular hold large cash hordes abroad. We expect the repatriation of this money could spur merger and acquisition activity, which bodes well for several of the CUSP Fund holdings. In particular, Bank of America should see an uptick in its investment banking operations, while a few of our smaller to mid-sized technology firm holdings may appreciate as they become takeover targets.

A final provision in the tax law calls for the immediate expensing of firm capital investment. This provision is likely to spur significant investment in equipment, which bodes well for manufacturing firms like Boeing, a strong performer in the CUSP Fund. The investment team plans to evaluate several industrial firms in the coming weeks to try to identify an additional industrial holding. The team is looking for a firm with strong fundamentals and an attractive valuation that is positioned to capitalize on the new tax plan as well as the proposed infrastructure spending plan.

Macroeconomic Conditions and CUSP

The changing interest rate environment is sure to affect the CUSP portfolio, as interest rates in the past few years have been very depressed compared to long-term averages.

With wages increasing above expectations and inflation on the horizon, the Fed may increase the pace of interest rate increases. The Fed grew its balance sheet considerably following the financial crisis; however, it is positioned to reduce its security holdings as it raises interest rates. Rising rates should bode well for the CUSP Fund as it is overweight in the Financials sector by 1.72 percent. Our bank holdings, which include Bank of America, Capital One and Fifth Third Bancorp, will benefit from rate hikes and will experience net interest margin increases. Insurance companies are the largest bond purchasers in the market and will also benefit from rising rates, as they will see an increase in returns. Bonds held to maturity will not suffer from price reductions, while the firms will be able to reinvest in new bonds yielding higher rates. Thus, our holding in Prudential Financial should benefit from the rising rates as well.

Rising interest rates, however, will act as gravity on stock valuations, putting pressure on how much stocks will rise in the future and perhaps even deterring market indexes from advancing. At a time of lofty valuations, rising interest rates can have an especially negative impact on stock valuations. For this reason, the CUSP Fund has established a value tilt by investing more heavily in value companies with lower price multiples. For example, the P/E ratio of the CUSP Fund is 18.8, compared to the Russell 1000 P/E of 23.0.

Although we see rising interest rates as a potential danger for stock valuations, the current economic environment, whether in the U.S. or the rest of the world, is strong, and this bull market seems to be more durable than past ones. Therefore, while the fund is tilted toward value, we have taken some strategic positions to benefit from projected economic expansion. According to the IMF and World Bank, U.S. and Global GDPs are expected to increase in 2018 by 2.7 percent and 3.1 percent, respectively.* Furthermore, according to Goldman Sachs, S&P 500 organic earnings are expected to grow 9 percent, and the Jobs and Tax Act is expected to boost U.S. companies' earnings by 10 percent and U.S. GDP by 0.3 percent. The new legislation, along with recent job expansion and wage growth, have boosted U.S. consumer confidence to levels not seen in many years. These factors bode well for consumer discretionary companies due to the expected increase in consumer spending. We expect the CUSP Fund's overweight position in the Consumer Discretionary sector to benefit from the strong confidence numbers. Our holdings in Michael Kors, Walt Disney, Toyota and Ulta Beauty are likely to be the biggest beneficiaries.

In sum, we believe that the market is being pulled by interest rates on one side and by strong economic prospects and earnings growth on the other. While there are reasons to be cautious about the current state of the market, there are also reasons to be optimistic. Thus, going forward, our overall stance is to maintain a tilt toward value stocks. However, we will continue to look for opportunities to take strategic positions to capitalize on favorable economic developments.

Grant Munson
Renato Morais

***IMF source:** imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018
World Bank source: worldbank.org/en/publication/global-economic-prospects

2017 CUSP Fund Sales

Mattel Inc
3,500 | MAT | $18.50

We chose to exit our position in Mattel due to its weak prospects and poor financial performance. Mattel exhibited a pattern of decreasing margins and negative growth in terms of sales and free cash flow.

Tupperware Brands Corp
2,400 | TUP | $59.70

We sold our position in Tupperware due to its limited upside potential compared to alternative consumer discretionary firms. Tupperware's revenue growth had declined significantly and further deterioration was forecasted. In contrast, other retailers, such as the firm we purchased, Ulta Beauty, were experiencing strong sales growth, and analysts projected additional double-digit growth in sales.

General Electric Co
3,500 | GE | $18.18

General Electric began divesting major parts of its company, including its lighting business. Furthermore, its financial position had deteriorated considerably, and it announced a dividend cut, something our team found worrisome. These were prominent considerations in our decision to exit our position in GE.

Monsanto Co
1,400 | MON | $120.03

Due to the 2016 agreement by Monsanto to be acquired by Bayer, we decided to exit our position in Monsanto. The team felt that Monsanto's price had plateaued and the funds could be invested more productively elsewhere in the Materials sector. Specifically, the team targeted LyondellBasell Industries for purchase.

MetLife Inc
3,070 | MET | $54.64

The CUSP Fund held positions in two large insurance companies, Prudential and MetLife. The team decided to exit its position in the weaker of the two, which it judged to be MetLife. Relative to MetLife, the team felt that Prudential had better growth and profitability metrics, while selling with similar price multiples.

Schlumberger Ltd.
2,000 | SLB | $78.538

We decided to exit our position in Schlumberger Limited, an oil and gas services firm, to return the Fund to a neutral position in energy. The team decided to take a neutral stance in the Energy sector based on the view that oil prices were near their peak.

Cody Cullen
Eric Austin

2017 CUSP Fund Purchases

Katherine Lynch
Mary Laughlin

Alphabet Inc
1,350 | GOOG | $871.84

Alphabet added diversity and growth to the Information Technology sector of the CUSP Fund. The stock is positioned to perform well as online activity grows. Many analysts expect Alphabet to be the first American company to reach $1 trillion in market capitalization.

Bank of America Corp
5,700 | BAC | $24.02

Bank of America has been steady in a volatile Financials sector. It plays a prominent role in both the commercial and investment banking areas, which positions it well to prosper as interest rates increase and the economy expands.

Fabrinet
2,700 | FN | $37.17

Fabrinet is an industry leader in the production of optical technologies, which is an area deemed to offer great promise. Its revenue has grown tremendously over the past few years, yet Fabrinet maintains a strong operating margin and attractive price multiples.

Acuity Brands Inc
900 | AYI | $165.08

Acuity Brands is a leading provider of lighting systems. The company has the largest market share of 18 percent in the LED light industry and has shown strong sales growth in recent years, demonstrating that Acuity is well positioned to maintain and grow its market share.

LyondellBasell Industries
1,400 | LYB | $105.26

LyondellBasell is the world's largest producer of polypropylene and Europe's largest maker of polyethylene, the key ingredients included in plastics of all kinds. The company's strong dividend, combined with appealing price multiples, factored into our purchase decision.

Ulta Beauty Inc
510 | ULTA | $199.54

Ulta Beauty operates in the makeup and hair care industry, an industry that has grown 12 percent in the last year. Anticipating the decline in brick and mortar retail sales, Ulta has been proactive by growing its e-commerce business to attract online buyers. Revenue from e-commerce has grown on average 53 percent in the past three years, and management is confident that there is still significant room to grow.

Gentex Corp
5,500 | GNTX | $18.72

Gentex's diverse product line includes automatic-dimming rearview mirrors, fire production products, HomeLink modules and several other driver safety products. Gentex holds a near monopoly on the auto-dimming car mirror, with nearly 92 percent of market share.

Corning Inc
3,400 | GLW | $31.69

Corning Inc. is the largest producer of glass substrates for LCD displays. Corning's customer base includes Apple, Verizon and Samsung, providing the glass for most of their smartphones. We pointed to the company's robust profit margin and consistent sales growth in our analysis.

Cerner Corp
2,800 | CERN | $52.20

Cerner provides health care solutions, which is an area viewed favorably for potential expansion given the aging population and focus on improving efficiency in health care. Cerner also secured a major Department of Defense contract and has established operations in international markets, both of which establish a competitive advantage for the company.

Cadence Design Systems Inc
3,200 | CDNS | $31.48

Cadence Design Systems is a leading software development firm that offers an exposure to the increasing opportunities in cloud computing, intellectual property and "the internet-of-things" technology. Cadence invests nearly a third of its revenues in R&D, while boasting value in quantitative metrics, such as enterprise value to earnings.

FedEx Corp
520 | FDX | $193.01

FedEx's Express segment and its posture as a market leader uniquely position FedEx to take advantage of the industry demand for speed, which spurred our buy decision. As online shopping and the demand for faster global delivery services expand, FedEx will prosper.

Graphic Packaging Holding Co
7,600 | GPK | $13.06

Graphic Packaging is an integrated provider of paperboard packaging solutions. The firm operates very efficiently, as evidenced by an operating margin that is far above the industry average. GPK is well-positioned to benefit from the expanding need for packaging materials as online shipping soars.

Welltower Inc
1,765 | HCN | $68.25

Welltower was selected as the Fund's first REIT holding. Welltower has interests in senior housing and health care properties, which are areas viewed favorably based on U.S. demographics.

Sector Allocation

The table and pie chart illustrate the CUSP Fund's 2017 yearend sector allocation relative to our benchmark, the Russell 1000.

Steven Niday
Charlie Manion

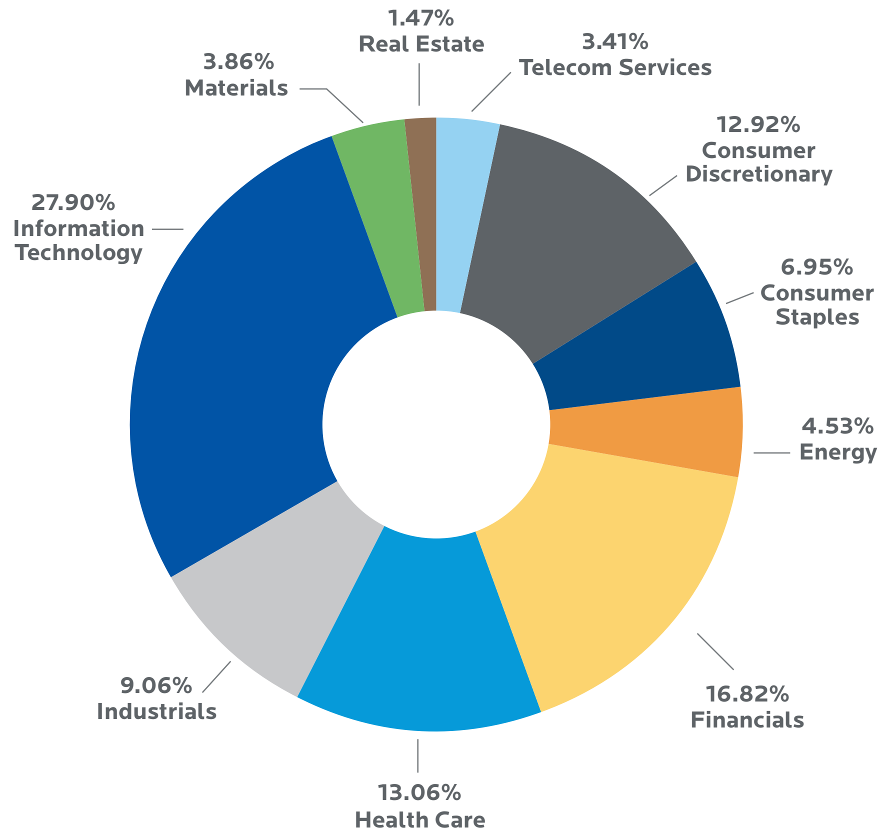
The CUSP Fund is noticeably overweight in the Information Technology (IT) sector, which was intentional based on the team's view that IT would outperform other sectors. This proved to be a sound decision as we saw strong returns from IT in 2017, accounting for nearly 50 percent of the Fund's return. On the other end of the spectrum, we intentionally underweighted sectors, such as Real Estate, Energy and Utilities. This allowed to us to avoid smaller or negative returns that were generally yielded in these sectors.

In addition to IT, we established overweight allocations to Financials and Telecom. The decision to overweight Telecom was motivated by the Fund's tax exempt status. The Telecom stocks held by CUSP have dividend yields exceeding 4.5 percent, which were fully realized due to the Fund's tax status. In addition to IT, Financials saw a strong return in 2017, which contributed a positive return for CUSP and promoted the creation of higher alpha.

Going forward, the provisions in the 2017 tax bill, along with a rising interest rate environment, support the team's decision to continue overweight positions in IT and Financials and underweighting Energy, Real Estate and Utilities. The team also plans to move toward holding neutral positions in Industrials and Telecom by increasing investment in the former and reducing investment in the latter.

2017 Yearend Sector Weights

Sector	CUSP Weights	Russell 1000 Weights	Difference
Consumer Discretionary	12.92%	12.96%	-0.04%
Consumer Staples	6.95%	7.31%	-0.36%
Energy	4.53%	5.42%	-0.89%
Financials	16.82%	15.10%	1.72%
Health Care	13.06%	13.21%v	-0.15%
Industrials	9.06%	10.49%	-1.43%
Information Technology	27.90%	24.18%	3.72%
Materials	3.86%	3.29%	0.57%
Real Estate	1.47%	3.25%	-1.78%
Telecom Services	3.41%	1.85%	1.56%
Utilities	0.00%	2.70%	-2.70%

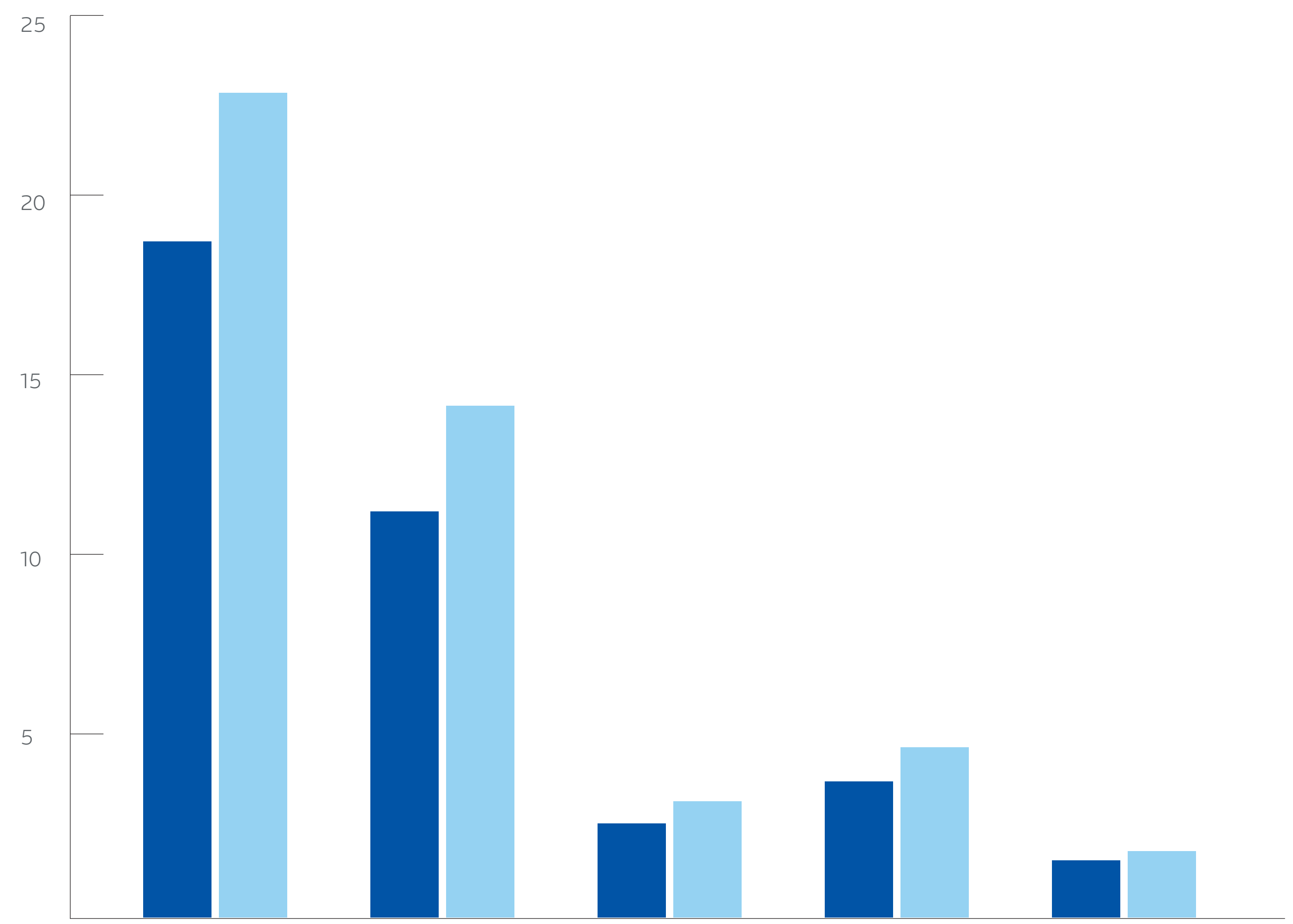


Investment Style

The investment style of the CUSP Fund is based on finding equities with intrinsic values that exceed their market price.

Mitchell Albrecht
Andrew Grill

This leads fund managers to take a value-based approach in evaluating price multiples. Some of the important multiples examined include Price-to-Earnings, Price-to-Cash Flow, Price-to-Book and Price-to-Sales. The following chart provides the valuation multiples for the CUSP Fund in relation to its benchmark, the Russell 1000. The difference in multiples supports the Fund's objective of establishing a value tilt. By establishing a value tilt, the fund managers believe they are able to enhance fund returns by identifying equities selling with price multiples that are below their justified levels. Items considered in determining an equity's justified multiples include metrics, such as profitability ratios, DuPont analysis, growth measures and risk assessment. In addition, a SWOT analysis is conducted to investigate whether valuation discrepancies between a firm's justified and actual price multiples are warranted. While the Fund applies a value tilt, we also take targeted positions in firms with impressive growth prospects. For example, Fabrinet, a stock that was purchased in the fall semester, has a market cap of only $1.5 billion. The firm experienced annual revenue growth over the past three years of 28.61 percent, and last year's revenue growth was 45.43 percent. Not only does Fabrinet display impressive growth prospects, but it also has relatively low price multiples for a firm exhibiting such strong growth. Additionally, Fabrinet generates significant cash flows. The Fund holds firms with a great diversity of features; however, the same process and due diligence is conducted to identify firms that fit the Fund's overall strategy.



	Price-to-Earnings	Price-to-Cash Flow	Price-to-Book	Price-to-Sales	Dividend Yield
CUSP Fund	18.81	11.30	2.61	3.78	1.59
Russell 1000	22.95	14.24	3.23	4.74	1.84

Market Cap Analysis

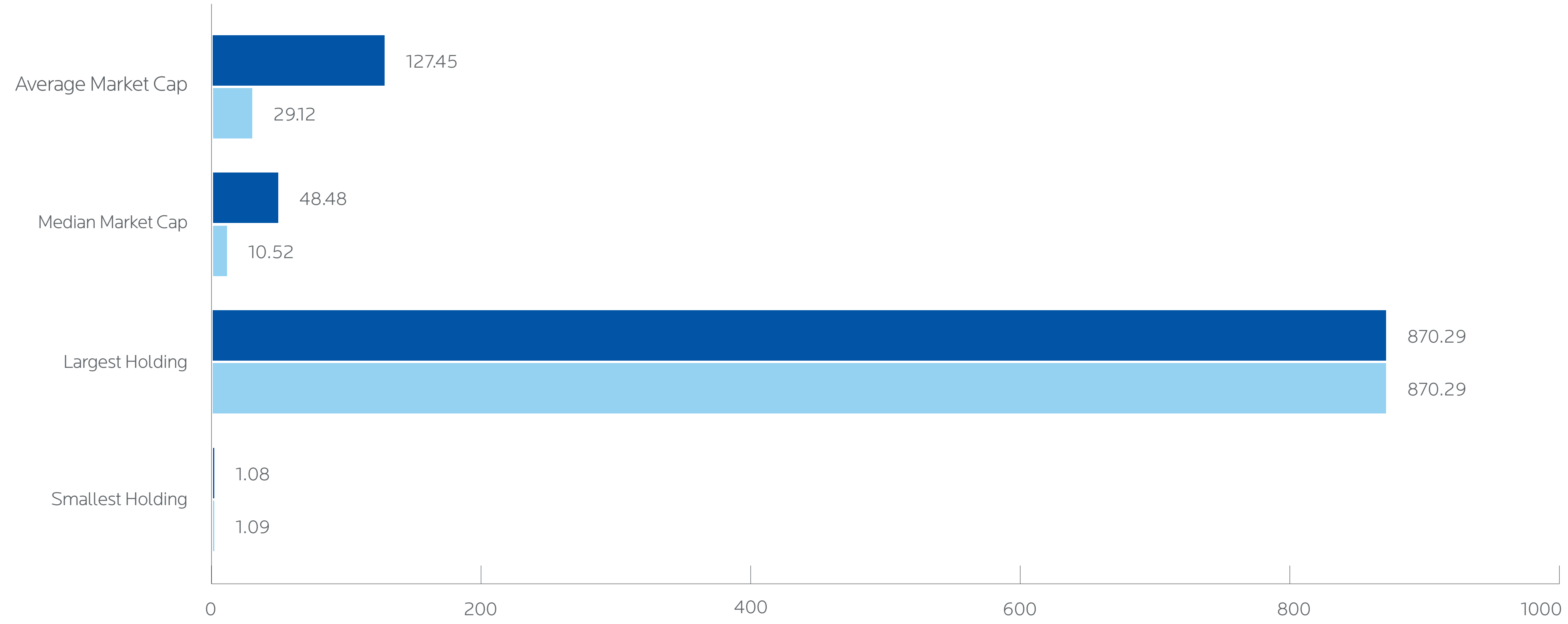
The size distribution of the CUSP Fund's holdings reflects its large-cap core, domestic equity investment style. Consequently, the CUSP Fund targets firms across the size spectrum with the purpose of identifying investments that can provide capital appreciation over the long-term.

Daniel Broderick
Scott Borcher

Accordingly, the CUSP Fund's overall composition corresponds fairly closely with its benchmark, the Russell 1000. At yearend 2017, the average market cap of stocks held by the CUSP Fund was $127.45 billion. Conversely, the average market cap of stocks within the Russell 1000 was considerably smaller at $29.12 billion. The median market cap of equities held by the CUSP Fund was $48.48 billion versus a mere $10.52 billion for Russell 1000 equities.

This data is consistent with the CUSP Fund's investment strategy. We apply a core satellite strategy whereby the primary/core holdings of the CUSP Fund consist of large, financially stable companies, while the Fund takes targeted positions in smaller companies that are deemed to have greater upside. By holding positions in equities such as Apple (market cap = $870 billion), Alphabet (market cap = $731 billion) and Bank of America (market cap = $311 billion), we achieve our objective of holding large, financially-stable firms as our core holdings. Moreover, by taking calculated positions in smaller companies such as Gentex (market cap = $6 billion), Hain Celestial Group (market cap = $4.4 billion) and Fabrinet (market cap = $1.1 billion), the Fund maintains exposure to smaller, specialized firms that offer greater potential upside.

2017 CUSP Performance against Russell 1000



	Average Market Cap	Median Market Cap	Largest Holding	Smallest Holding
CUSP Fund	127.45	48.48	870.29	1.08
Russell 1000	29.12	10.52	870.29	1.09

Performance Attribution

As outlined in our investment policy statement, the CUSP Fund is benchmarked against the Russell 1000. An attribution analysis allows us to evaluate the Fund's relative performance and attribute out- or under-performance to its sources. The attribution analysis we consider separates CUSP's performance into a stock selection effect and an allocation effect. The selection effect refers to the performance attributable to the Fund managers' stock-picking skills, while the allocation effect refers to the success in overweighting or underweighting specific sectors.

The returns for the CUSP Fund and the Russell 1000 are presented in the first two columns of the table. The CUSP Fund had roughly the same performance as the Russell 1000, lagging by only four basis points. 2017 was challenging for value portfolios relative to growth portfolios, and with the CUSP Fund's significant value tilt, some underperformance was expected. With this in mind, we are pleased that the Fund provided an absolute return of 21.64 percent compared to 21.68 percent for the Russell 1000.

Considering CUSP's absolute sector performance, two sectors achieved extraordinary returns for 2017: Information Technology (48.78 percent) and Industrials (32.50 percent). Each sector outperformed the corresponding Russell 1000 sector by over 10 percent. In contrast, Fund performance was hurt substantially by underperformance in the Energy, Health Care and Real Estate sectors. Overall, Stock Selection contributed 0.10 percent to the CUSP Fund, whereas Sector Allocation resulted in a negative effect of 0.14 percent. Overweighting Financials while underweighting Real Estate and Utilities were wise decisions; however, overweighting Telecom was detrimental. Stock selection was particularly strong in the Information Technology sector, as strong stock performance by firms such as IPG Photonics and Micron Technology drove performance. In contrast, poor performance by stocks like Envision Healthcare in the Health Care sector and Apache Energy in the Energy sector resulted in adverse stock selection results for these sectors. Despite slight underperformance for 2017, we are confident that our holdings will perform well in the long term and that we will continue to identify strong stocks to add to the portfolio for years to come.

Trevor Peterson
Nick Guarino

2017 CUSP Performance against Russell 1000

Sector	CUSP Return	Benchmark Return	Difference	Total Attribution	Allocation Effect	Selection Effect
2017 Total Portfolio	21.64%	21.68%	-0.04%	-0.04%	-0.14%	0.10%
Consumer Discretionary	20.04%	23.39%	-3.35%	-0.45%	0.05%	-0.50%
Consumer Staples	15.92%	12.92%	3.00%	0.29%	0.00%	0.29%
Energy	-14.83%	-1.38%	-13.45%	-1.26%	-0.21%	-1.05%
Financials	20.58%	21.63%	-1.05%	0.02%	0.11%	-0.09%
Health Care	11.26%	22.21%	-10.95%	-1.56%	0.16%	-1.72%
Industrials	32.50%	21.70%	10.80%	0.97%	0.00%	0.97%
Information Technology	48.78%	38.47%	10.31%	1.97%	-0.04%	2.01%
Materials	25.69%	24.22%	1.47%	0.04%	0.04%	0.00%
Real Estate	-3.61%	9.99%	-13.60%	0.07%	0.31%	-0.24%
Telecom Services	0.27%	-1.13%	1.40%	-0.41%	-0.46%	0.05%
Utilities	0.00%	12.31%	-12.31%	0.30%	0.30%	0.00%

CUSP Fund Yearend Holdings

HOLDING	TICKER	MARKET VALUE ($)	COST ($)	CUSP WEIGHT	DIVIDEND YIELD
ACUITY BRANDS INC	AYI	158,400	148,588	2.22%	0.30%
AFFILIATED MANAGERS GROUP	AMG	266,825	186,608	3.73%	0.39%
ALPHABET INC-CL C	GOOG	167,424	139,497	2.34%	0.00%
AMERCO	UHAL	164,391	139,588	2.30%	0.66%
APACHE CORP	APA	103,861	197,545	1.45%	2.37%
APPLE INC	AAPL	228,460	156,202	3.20%	1.45%
AT&T INC	T	116,640	105,615	1.63%	5.04%
BANK OF AMERICA CORP	BAC	168,264	137,000	2.35%	1.32%
BERKSHIRE HATHAWAY INC-CL B	BRHB	103,074	38,400	1.44%	0.00%
BOEING CO/THE	BA	206,437	86,168	2.89%	1.93%
CADENCE DESIGN SYS INC	CDNS	133,824	100,774	1.87%	0.00%
CAPITAL ONE FINANCIAL CORP	COF	199,160	159,544	2.79%	1.61%
CERNER CORP	CERN	194,083	150,331	2.72%	0.00%
CHECK POINT SOFTWARE TECH	CHKP	180,817	155,522	2.53%	0.00%
CHEVRON CORP	CVX	137,709	124,042	1.93%	3.45%
CORNING INC	GLW	108,766	107,796	1.52%	1.94%
ENVISION HEALTHCARE CORP	EVHC	76,032	157,443	1.06%	0.00%

HOLDING	TICKER	MARKET VALUE ($)	COST ($)	CUSP WEIGHT	DIVIDEND YIELD
FABRINET	FN	77,490	100,407	1.08%	0.00%
FEDEX CORP	FDX	129,761	100,363	1.82%	0.76%
FIFTH THIRD BANCORP	FITB	250,305	163,618	3.50%	1.98%
GENTEX CORP	GNTX	115,225	103,035	1.61%	1.81%
GILEAD SCIENCES INC	GILD	121,788	156,697	1.70%	2.90%
GRAPHIC PACKAGING HOLDING CO	GPK	117,420	99,286	1.64%	1.94%
HAIN CELESTIAL GROUP INC	HAIN	144,126	119,970	2.02%	0.00%
INTEL CORP	INTC	138,480	104,325	1.94%	2.33%
IPG PHOTONICS CORP	IPGP	340,467	131,946	4.76%	0.00%
LYONDELLBASELL INDU-CL A	LYB	154,448	147,382	2.16%	3.22%
MCDONALD'S CORP	MCD	206,544	70,775	2.89%	2.23%
MEDTRONIC PLC	MDT	161,500	153,900	2.26%	2.24%
MICHAEL KORS HOLDINGS LTD	KORS	156,746	165,630	2.19%	0.00%
MICRON TECHNOLOGY INC	MU	222,048	168,668	3.11%	0.00%
PEPSICO INC	PEP	210,460	119,123	2.94%	2.64%
PFIZER INC	PFE	146,691	129,516	2.05%	3.53%
PHILIP MORRIS INTERNATIONAL	PM	169,040	121,033	2.36%	3.99%
PRUDENTIAL FINANCIAL INC	PRU	229,960	178,168	3.22%	2.61%
QUALCOMM INC	QCOM	150,447	167,814	2.10%	3.50%
RESMED INC	RMD	220,194	149,534	3.08%	1.61%
TOYOTA MOTOR CORP -SPON ADR	TM	144,974	128,383	2.03%	2.91%
TRANSOCEAN LTD	RIG	74,760	105,402	1.05%	0.00%
ULTA BEAUTY INC	ULTA	114,067	101,771	1.60%	0.00%
VERIZON COMMUNICATIONS INC	VZ	142,382	126,630	1.99%	4.39%
VISA INC-CLASS A SHARES	V	191,554	89,189	2.68%	0.61%
WALT DISNEY CO/THE	DIS	190,830	172,193	2.67%	1.51%
WELLTOWER INC	WELL	112,554	120,488	1.57%	5.46%

Portfolio Practicum Report

2017–2018

The Heider College of Business joins the Portfolio Practicum class in thanking our alumni, friends and business partners for their support. We look forward to working with you as we continue our mission of educating business leaders in the Jesuit tradition and positively impacting the world.

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