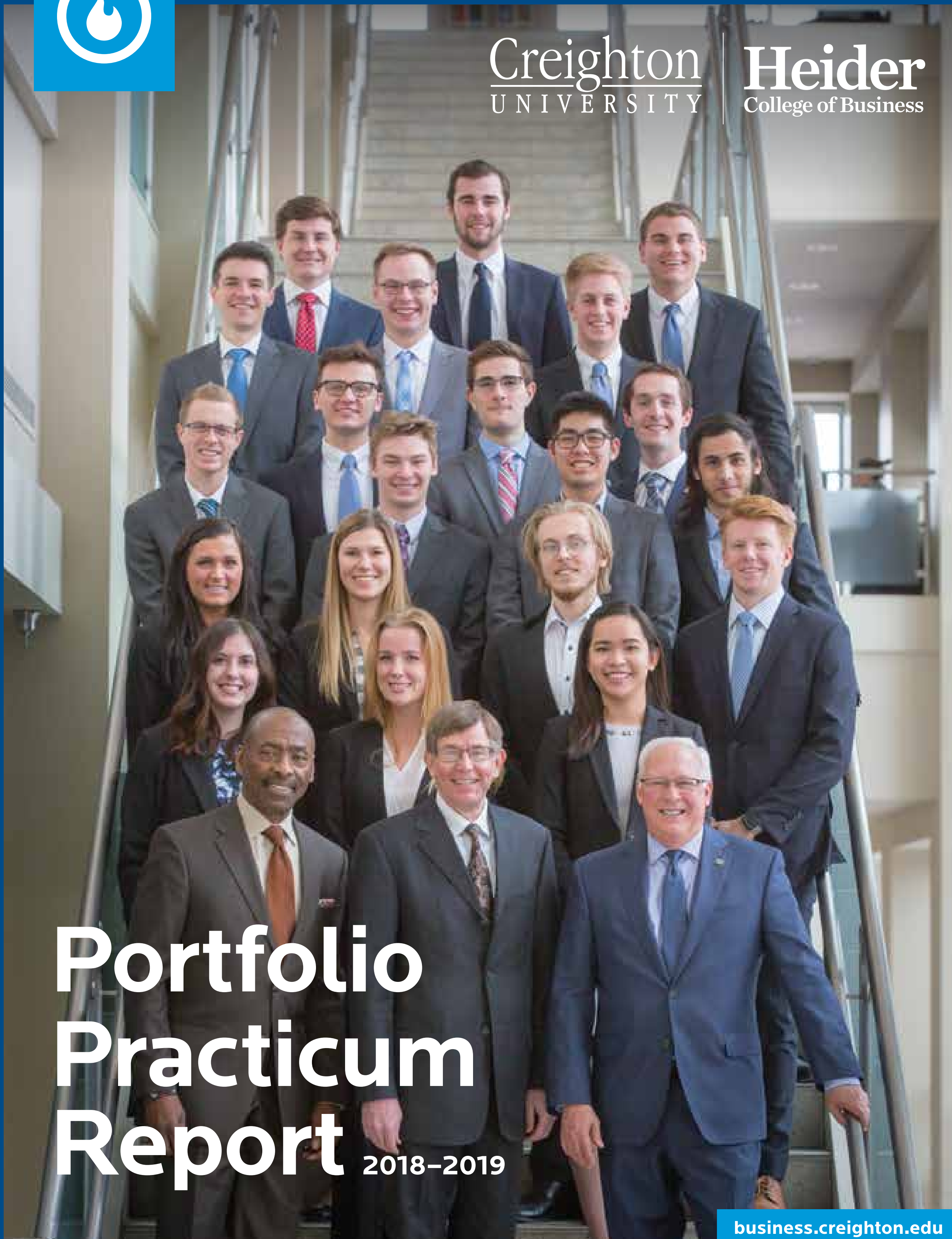
Creighton UNIVERSITY | Heider College of Business



Portfolio Practicum Report 2018–2019

business.creighton.edu

Program History

27 years ago, the Portfolio Practicum program began 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 $7.3 million, and it continues to be a premier experiential learning opportunity for the Heider College of Business' top finance students.

Heider College of Business finance professor, Robert Johnson, PhD, CFA®, CAIA, established Creighton's Portfolio Practicum in 1992 as a direct result of his personal experience seeking employment as a college graduate. Says Johnson: "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 workforce 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.

Anthony R. Hendrickson, PhD

Dean, Heider College of Business
Business Intelligence and Analytics Professor

For the past 27 years, the Heider College of Business' top finance students have invested a portion of University endowment funds through the Portfolio Practicum course. The program is a tremendous learning opportunity for our students, and I am exceptionally proud of our student managers. Investing is never simple or straightforward, and during these turbulent financial times, it is even more difficult. But our students met this challenge and guided the CUSP Fund through the recent volatility to its current value of $7.3 million. That's 73 times higher than its initial 1992 value of $100,000.

Please join me in congratulating the faculty and students for their great success with the Fund and wishing them the best in their future finance careers.

Gerald R. Jensen, PhD, CFA®

Finance Professor, Department of Economics and Finance

2018 was a challenging year for the CUSP Fund. The year, however, provided a tremendous learning environment. As an experiential learning course, that is, after all, the primary purpose of the Portfolio Practicum experience. In addition to learning about the techniques and strategies of investment management, the year offered two valuable lessons that should be indispensable to the students throughout their careers.

First, the students faced the harsh reality that all investment managers face at some point in their career; they were applying an investment strategy that was out-of-favor. Second, the students learned some lessons related to behavioral finance, as biases caused them to miss some opportunities. But, one of my foremost educational mantras is "You learn from your mistakes."

Even though 2018 was unsuccessful as far as CUSP Fund returns, I consider the educational worth of the 2018 experience to be invaluable. The 20 students that completed the course were transformed from a talented and enthusiastic group of individuals to an efficient and cohesive investment management team. Furthermore, that team is much wiser about the potential perils of being a portfolio manager.

Michael L. Green, MBA

Portfolio Practicum Instructor
President and Owner, EverGreen Capital Management

This year's class was able to see how significant volatility affects the market and the portfolio. The CUSP Fund had the first negative investment return since I began teaching the course seven years ago, but I believe this was an important, though difficult, lesson of their learning experience. Being able to separate short-term occurrences from long-term fundamentals is essential to developing solid analytical skills. From that perspective, the market turmoil in the fourth quarter was beneficial to their education as investment professionals.

The 2018–19 class is our largest yet with 20 students. It is also the most diverse, having five young women. This growth is welcomed, and I believe the number will continue to increase going forward.

Being a part of one of the top-ranked classes and largest portfolios of its kind in the country and having the opportunity to select the best students from the Heider College of Business to participate is very rewarding. I wish this class the very best as they finish out their Creighton careers and embark on their professional ones.

PORTFOLIO PRACTICUM STUDENTS

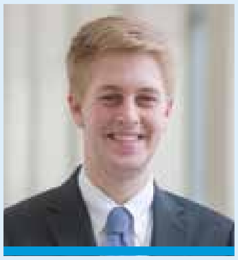
Blake Anderson
Majors: *Finance and Management (Entrepreneurship track)*
Hometown: *Mequon, WI*
Internships:
Northwestern Mutual (Milwaukee, WI);
Robert W. Baird & Co. (Milwaukee, WI)

Josiah Choy
Major: *Finance*
Hometown: *Honolulu, HI*
Internships:
Central Pacific Bank (Honolulu, HI);
TD Ameritrade (Omaha, NE)
Employment:
Mutual of Omaha (Omaha, NE)

Joe Cribbin
Majors: *Accounting and Finance*
Hometown: *St. Louis, MO*
Internships:
United Way of the Midlands (Omaha, NE);
RubinBrown LLP (St. Louis, MO)
Employment:
RubinBrown LLP (St. Louis, MO)

Anh Do (Kim)
Majors: *Business Intelligence and Analytics and Finance*
Hometown: *Ho Chi Minh City, Vietnam*
Internship:
Verizon Media (Omaha, NE)

Jacob Halstrom
Majors: *Economics and Finance (Analysis track)*
Hometown: *Fort Collins, CO*
Internships:
Aylward Enterprises LLC (Omaha, NE);
Yahoo! (Omaha, NE);
Spectrum Financial Services, Inc. (Omaha, NE)



Joey Krebs
Majors: *Accounting and Finance*
Hometown: *Olathe, KS*
Internships:
First Data Corporation (Omaha, NE);
Ernst & Young (Kansas City, MO)
Employment:
Ernst & Young (Kansas City, MO)

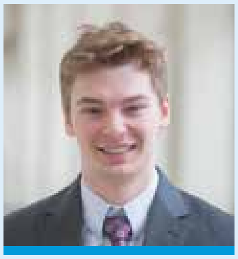
Caroline Lake
Majors: *Economics and Finance*
Hometown: *Madison, WI*
Internships:
Kimberly-Clark Corporation (Neenah, WI);
Automation Arts (Madison, WI)
Employment:
CIBC (Chicago, IL)

Emmett LeFevour
Majors: *Economics and Finance*
Hometown: *Sunfish Lake, MN*
Internships:
Speaker of the House Paul Ryan (Washington, D.C.);
Northstar Capital LLC (Minneapolis, MN)
Employment:
BMO Capital Markets (Chicago, IL)

Morgan Malo
Majors: *Accounting and Finance*
Hometown: *Owatonna, MN*
Internships:
Seim Johnson, LLP (Omaha, NE);
PricewaterhouseCoopers (Minneapolis, MN)
Employment:
PricewaterhouseCoopers (Minneapolis, MN)

Nik McGannon
Majors: *Accounting and Finance*
Hometown: *Minnetonka, MN*
Internship:
PricewaterhouseCoopers (Minneapolis, MN)
Employment:
PricewaterhouseCoopers (Minneapolis, MN)

Andrew Murphy
Majors: *Finance and Marketing*
Hometown: *Corcoran, MN*
Internships:
Union Pacific Railroad (Omaha, NE);
Mutual of Omaha (Omaha, NE);
Cambridge Advisors Inc. (Omaha, NE)
Employment:
FTI Consulting (Denver, CO)



Keegan Phelan
Majors: *Finance and Marketing*
Hometown: *Woodbury, MN*
Internships:
Tributary Capital Management, LLC (Omaha, NE);
Berkshire Hathaway Inc. (Omaha, NE);
Aris Clinic (Woodbury, MN)
Employment:
FTI Consulting (Denver, CO)

Connor Ramlo
Major: *Finance*
Hometown: *Cedar Rapids, IA*
Internship:
Mutual of Omaha (Omaha, NE)

Dayton Rand
Major: *Finance*
Hometown: *Le Mars, IA*
Professional School:
Medical School

Tanner Saporito
Majors: *Accounting and Finance*
Hometown: *Colorado Springs, CO*
Internships:
Gallup, Inc. (Omaha, NE);
Mutual of Omaha (Omaha, NE)
Employment:
FTI Consulting (Denver, CO)

Oscar Skjerven
Majors: *Business Intelligence and Analytics and Finance*
Hometown: *Oslo, Norway*
Internships:
DNB Bank (Oslo, Norway);
First National Bank of Omaha (Omaha, NE);
Ernst & Young (Des Moines, IA)
Employment:
Ernst & Young (Des Moines, IA)

Ryan Southworth
Majors: *Economics and Finance*
Hometown: *Buffalo, NY*
Internships:
Westwood Holdings Group, Inc. (Omaha, NE);
Mutual of Omaha (Omaha, NE)

Mackenzie Tommins
Majors: *Finance and Marketing*
Hometown: *Chanhassen, MN*
Internship:
Union Pacific Railroad (Omaha, NE)

Tarun Velanjeri
Majors: *Finance and International Business*
Hometown: *Baku, Azerbaijan*
Internship:
Deek Aviation (Sharjah, UAE)

Bobbi Whisler
Majors: *Economics and Finance*
Hometown: *Rock Springs, WY*

A Year in Review

Jacob Halstrom | Joey Krebs

The 2018–2019 academic year posed many challenges for the student managers of the Creighton University Student Portfolio (CUSP) Fund. Twenty students worked together to cover 11 sectors, with the Russell 1000 as our benchmark. The CUSP managers implemented a value tilt during 2018, and unfortunately value was substantially out-of-favor for the year. Therefore, the CUSP Fund underperformed the benchmark by 6.6 percent for the year. While this performance is disappointing, it compares favorably with the value premium, which was -9.4 percent for the year.[1]

The student managers' assignments kicked off in March 2018 with manager interviews and continued into the summer, during which students read *Fisher Investments,* by Ken Fisher, outlining the unique investment features of their assigned sector. In addition, during summer 2018, students completed extensive Bloomberg and Excel benchmark training. In order to appropriately allocate capital, the managers familiarized themselves with the investment policy statements of the Creighton Endowment and CUSP Fund. In August, the students began to apply their knowledge by conducting research within their sectors to identify attractive investment opportunities or stocks that warranted removal.

Implementing a disciplined research approach and process, the fund managers chose companies to benchmark. The process began with Bloomberg equity screens, emphasizing key quantitative value drivers. Next, the managers conducted quantitative and qualitative analyses to identify alternatives for the Fund's current holdings. Finally, CUSP managers generated extensive quantitative benchmark analysis reports to select companies they deemed worthy of further qualitative analysis. After completing a final comprehensive qualitative analysis, managers forwarded, and then voted on, trade recommendations.

Looking back, the CUSP Fund's overweight position in Consumer Staples continued to underperform as spending habits reached new lows and interest rates hiked. Likewise, the Fund's position in Hain Celestial (HAIN) significantly weakened 2018 returns as the stock was down 62.59 percent on the year. However, the Fund's underweight positions in the Communication Services and Real Estate sectors, alongside an overweight position in the Industrials sector, helped minimize the Fund's total losses. In addition, the Fund's overweight position in ResMed (RMD), as a part of the Health Care sector, added a significant lift to the CUSP Fund's performance.

Overall, the 2018 calendar year provided a challenge for the fund managers after a record-long bull market in prior years. As interest rates rose and monetary policy tightened, investors became increasingly skeptical on how company profits would be affected, significantly increasing uncertainty and, ultimately, market volatility. Slowing global growth joined growing tensions between the White House and Congress following November's midterm elections, which added to investor uncertainty and market volatility. However, the CUSP managers believe there is opportunity on the value front in 2019, rebounding from the uncertainty 2018 presented.

1. The value premium was obtained from the Kenneth French website and represents the difference between the return to the value and the growth portfolio.

LUXURY & MARKET MOMENTUM:

Capri Holdings Becoming an American Fashion Conglomerate

Kim Do | Joe Cribbin

Capri Holdings (CPRI), formerly Michael Kors Holdings, is attempting to become the first successful U.S. fashion conglomerate through its three brand names of Michael Kors, Jimmy Choo and Versace. Other fashion conglomerates have failed to diversify brand offerings and widen their customer base. Capri, however, has accomplished brand diversity, with a high-end offering in Versace, while maintaining a wide customer base with Michael Kors. All three brands bring value to shareholders with different market exposure: Michael Kors' vast store count, Jimmy Choo's strength in fashion footwear and Versace's high-end luxury apparel appeal. Capri Holdings, named after the Italian island known for its affluence and beauty, seeks to capture luxury, glamor and widespread exposure in one company by tapping into markets that each individual company could not target singly.

Why do the CUSP managers believe that Capri can succeed where other U.S. fashion labels have failed? The answers are global growth, underdeveloped branding and luxury appeal.

First, global growth will be a key driver of Capri's future success. Michael Kors has a vast global store count that Jimmy Choo and Versace can exploit. Capri hopes to grow Versace's retail footprint from around 200 stores to 300 stores globally. Versace is currently the most global of the three brands, led by strong exposure in Asia, which represents 46 percent of total sales. Asia represents a huge area of prospective growth—a potential $1 billion market—for the Michael Kors brand.

Second, Versace and Jimmy Choo are both underdeveloped brands that have profitable growth prospects. The accessory and footwear lines of both companies, which represent a main profit driver in the luxury apparel and goods sector, will experience growth under Capri's leadership. Versace aims to expand both men's and women's accessories and footwear from 35 to 60 percent of revenues; Jimmy Choo expects accessories to comprise 50 percent of its revenues moving forward. Versace will rely on Michael Kors' and Jimmy Choo's expertise in accessories and footwear, respectively, to grow while also expanding brand awareness.

Third, adding Versace to Michael Kors and Jimmy Choo raises Capri's luxury goods appeal. Versace looks to turn momentum in the luxury segment and a high social media following into sales growth through increased marketing. Michael Kors will help Versace further tap into the luxury market through an increase in e-commerce sales. Alongside the accelerated e-commerce development for Versace sits Capri's omni-channel presence, including its customer-relationship management system that gives store associates access to customers' multi-channel transaction history. Increases in e-commerce and omni-channel presence, coupled with Versace's luxury allure, will allow Michael Kors and Jimmy Choo to expand their market share further.

Thus, Capri Holding's future growth prospects are promising. With a plan to turn the three labels into a growing luxury conglomerate through global expansion, further development of profitable segments and an e-commerce-based omni-channel presence, Capri Holdings sits as a favorable holding with CUSP managers as each brand brings segment expertise.

Performance Attribution

Bobbi Whisler | Tarun Velanjeri

As outlined in our investment policy statement, the CUSP Fund is benchmarked against the Russell 1000. Our attribution analysis evaluates the CUSP Fund's performance relative to the benchmark as well as the contribution of security and sector selection to performance. The analysis divides total attribution into allocation and selection effects. The allocation effect refers to the success in overweighting or underweighting specific sectors, while the selection effect reflects the CUSP managers' stock-picking skills.

Performance for the CUSP Fund and Russell 1000 are displayed in the following table. Both experienced negative returns in 2018. The market was highly tumultuous this past year, seeing all-time highs as well as steep drops. This worked against value-oriented portfolios, such as the CUSP Fund, that tend to prefer market stability. For the year, the Fund trailed the benchmark by 6.57 percent.

Although the CUSP Fund had negative returns for 2018, there were sectors that contributed positively to its performance. The Real Estate sector return was 2.17 percent and substantially outperformed the benchmark return, which was -3.57 percent. The Industrials sector was the only other sector where the CUSP Fund outperformed the benchmark (-12.23 percent versus -13.63 percent). The Health Care sector provided the highest returns among all sectors at 6.00 percent, but the CUSP Fund slightly underperformed the benchmark. In contrast, Consumer Staples, Energy and Financials underperformed the benchmark by over 10 percent. The Consumer Staples sector performed particularly poorly—returning -30.15 percent compared to -8.47 percent for the Russell 1000—with much of this underperformance attributed to the disastrous performance of Hain Celestial and Philip Morris. For Financials, the CUSP Fund's poor relative performance can be attributed largely to the awful performance of Affiliated Managers Group.

Overall, sector allocation contributed 0.36 percent to the CUSP Fund, but stock selection contributed -6.93 percent. Overweighting Information Technology and underweighting Energy sectors were wise decisions, but underweighting Utilities was disappointing. Selling Verizon left us with only underperforming AT&T and contributed to poor returns from the Telecom sector. Despite the positive decision to overweight the Information Technology sector, the sector contributed negatively to relative CUSP performance (-1.18 percent) due to the poor performance of the selected stocks. Specifically, chip-related stocks were out-of-favor in 2018, so our overweight position in these stocks hurt performance.

Stock selection contributed favorably to relative Fund performance for Real Estate and Industrials, at 0.23 and 0.21 percent, respectively. All other sectors had negative selection effects, with Financials, Consumer Staples and Information Technology producing particularly disappointing results. Despite the disappointing performance for 2018, we are certain that our sector allocation was satisfactory; unfortunately, our stock selection did not go as planned. As noted previously, much of the underperformance in stock selection can be attributed to our heavy value tilt in selecting stocks and the fact that value was substantially out-of-favor in 2018. Nevertheless, we feel confident that our holdings will perform well in the long term and that CUSP Fund performance will be much better in 2019.

2018 CUSP Performance Relative to Russell 1000

Sector	CUSP Return	Benchmark Return	Difference	Total Attribution	Allocation Effect	Selection Effect
2018 Total Portfolio	-11.35%	-4.78%	-6.57%	-6.57%	0.36%	-6.93%
Consumer Discretionary	-6.90%	-0.18%	-6.72%	-0.65%	0.06%	-0.70%
Consumer Staples	-30.15%	-8.47%	-21.68%	-1.80%	0.00%	-1.80%
Energy	-29.97%	-18.52%	-11.45%	-0.33%	0.24%	-0.57%
Financials	-26.16%	-12.95%	-13.21%	-2.42%	-0.11%	-2.31%
Health Care	6.00%	6.05%	-0.05%	-0.02%	-0.01%	-0.01%
Industrials	-12.23%	-13.63%	1.40%	0.16%	-0.05%	0.21%
Information Technology	-3.74%	3.26%	-7.00%	-1.18%	0.34%	-1.52%
Materials	-25.38%	-16.50%	-8.88%	-0.37%	-0.08%	-0.29%
Real Estate	2.17%	-3.57%	5.74%	0.27%	0.04%	0.23%
Telecom Services	-5.76%	-4.78%	-0.98%	0.04%	0.09%	-0.06%
Utilities	0.00%	4.61%	-4.61%	-0.27%	-0.27%	0.00%

Market Cap Analysis

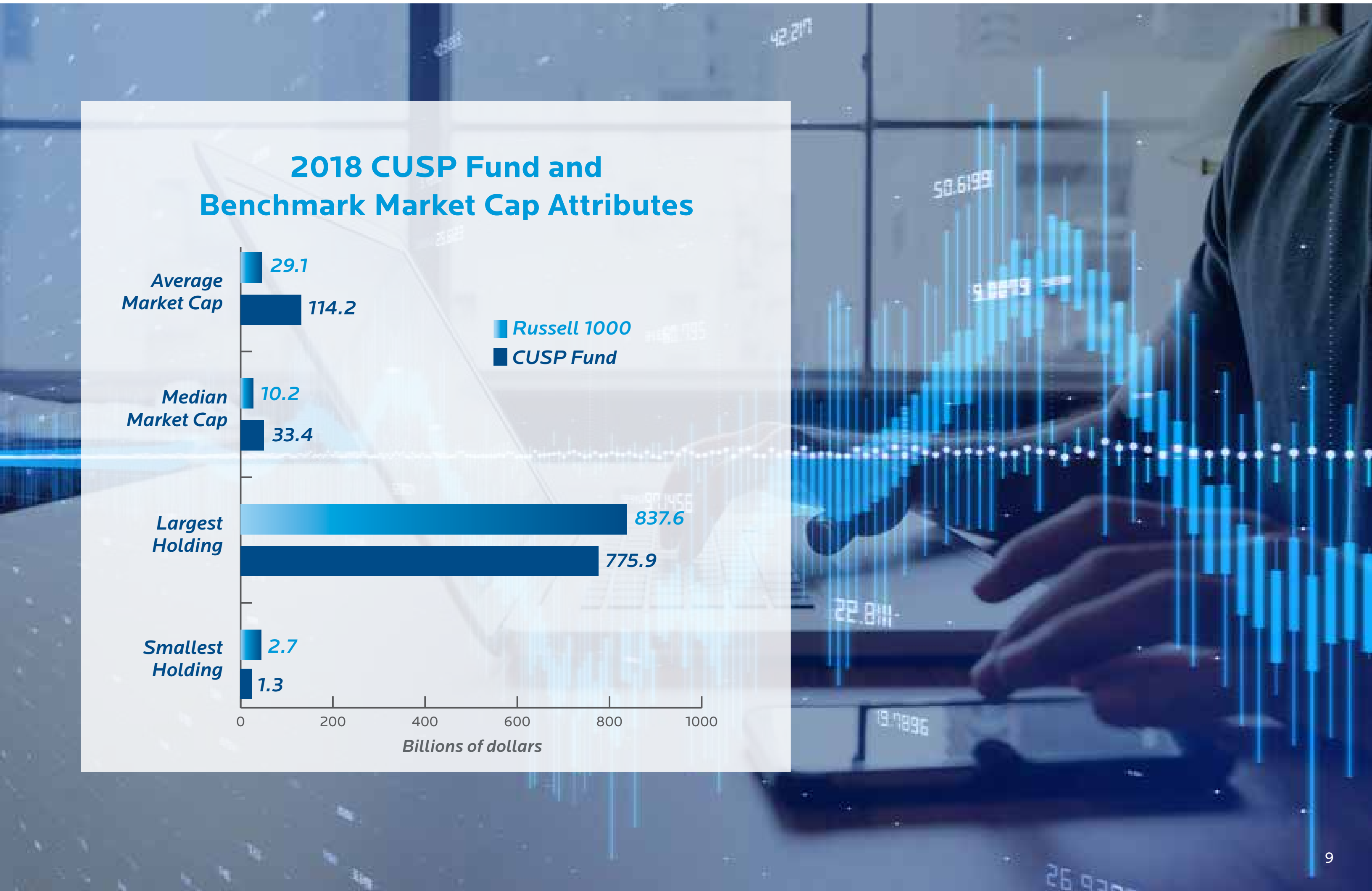
Emmett LeFevour | Caroline Lake

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

As illustrated in the Market Cap Attributes figure, the CUSP Fund's size characteristics deviate considerably from the Russell 1000. On average, relative to our benchmark, the CUSP Fund is more heavily allocated toward large cap stocks. At year-end 2018, the average market cap of stocks held by the CUSP Fund was $114.2 billion, whereas the average market cap of stocks within the Russell 1000 was considerably smaller at $29.1 billion. Likewise, the median market cap of CUSP Fund equities was $33.4 billion versus a mere $10.2 billion for the Russell 1000.

The data presented correspond with the CUSP Fund's investment strategy, which is a core and satellite approach. The core holdings of the CUSP Fund consist of large, financially stable companies, while the fund takes targeted positions in smaller companies that are considered to have strong upside potential. By holding positions in equities such as Alphabet (market cap = $724 billion), Microsoft (market cap = $775 billion) and AT&T (market cap = $368 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 MKS Instruments (market cap = $3.5 billion), Acuity Brands (market cap = $4.6 billion) and Triton International (market cap = $2.4 billion), the Fund maintains exposure to smaller, specialized firms that offer greater potential upside.

Overall, the CUSP Fund holds 48 different stocks. The CUSP Fund's heavy weight toward its core holdings is reflected by the fact that one-third of the Fund's holdings (16 stocks) have market caps exceeding $100 billion. Furthermore, eight of the Fund's holdings have market caps exceeding $200 billion, which makes them mega-cap stocks. Representing the satellite positions in the Fund, the Fund also holds 16 stocks with market caps below $10 billion, with nine of those stocks having market caps below $5 billion.



Capturing Value through Satellite Holdings

Andrew Murphy | Keegan Phelan

The CUSP Fund applies a value-oriented investment style, which seeks out equities with intrinsic values that exceed their market price. Student managers target equities with attractive relative valuations, strong growth prospects and the ability to generate robust future cash flows. The Fund's core-satellite strategy provides an opportunity to target smaller companies that embody these characteristics, while focusing on large financially stable firms for its core holdings.

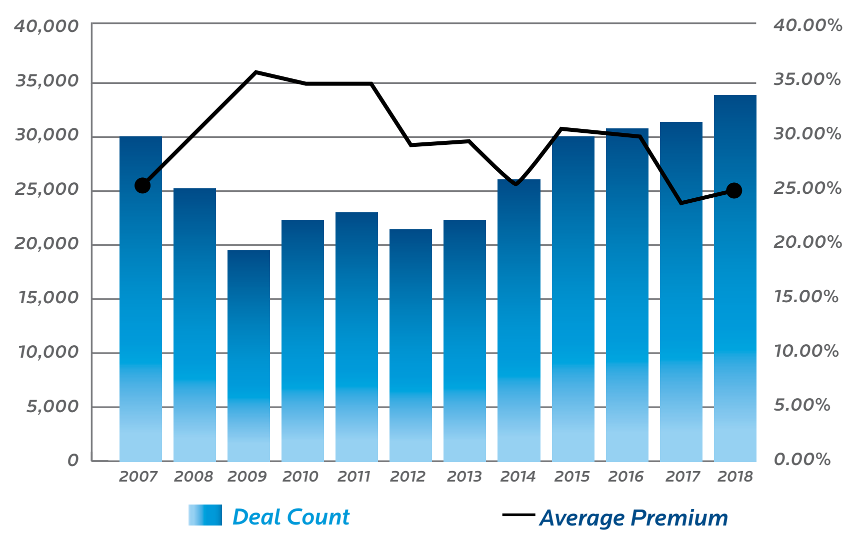
As a direct consequence, several of the CUSP Fund's holdings are receptive to mergers or acquisitions by larger competitors. Although the Fund does not have a central focus on purchasing acquisition targets, our satellite approach is naturally conducive to acquiring firms that are attractive acquisition candidates. The benefits of our satellite holdings are twofold. First, relatively small firms with growth prospects that are attractively valued have the potential for considerable capital appreciation regardless if they are acquired. Second, an acquisition offers the Fund the opportunity to profit from the acquisition premium paid by the acquirer. The CUSP Fund's long-term outlook allows us to fully benefit from any share price appreciation, whereas investors pursuing firms that are already takeover targets capture only a fraction of the premium. An analysis of 318,000 deals over 12 years (2007-2018) shows that acquirers pay an average 25.39 percent acquisition premium.

In November 2018, the Health Care team presented Celgene to the full class of student managers in a preliminary benchmark presentation. Celgene appeared attractively valued relative to its own historical price-multiples and the Biopharmaceutical sector, while reporting strong growth in its operating margins. Through a subsequent SWOT analysis, student managers determined the business demonstrated stable growth through its current product offerings and a strong pipeline of five key oncology and immune-oncology drugs. The analyses culminated with Celgene's purchase on December 6, 2018. On January 3, 2019, Celgene was acquired by Bristol-Myers Squibb for $74 billion, which represented a 54 percent acquisition premium. The transaction is the largest deal on record in the Biotechnology & Pharmaceuticals sector and is set to close during the third quarter of 2019. The acquisition announcement occurred just over one month after the CUSP Fund executed its purchase of Celgene.

Per the M&A agreement, Celgene shareholders will receive one Bristol-Myers Squibb share and $50.00 in cash for each share of Celgene. In addition, shareholders will receive one contingent value right (CVR) for each share, which will entitle the shareholder to a future payment of $9.00, pending authorization of three FDA drug approval milestones by early 2021. On February 8, 2019, the transaction was valued at approximately $91 per share. The CUSP managers have not yet determined whether the position will be sold or held until conversion into Bristol-Myers Squibb shares.

Source: insidermedia.com/insider/northwest/wyg-acquires-carlisle-based-consultancy-group

Average Premium Relative to Deal Count



The Long-Term Benefits of a Core-Satellite Approach

Morgan Malo | Nik McGannon

The CUSP Fund applies a core-satellite investment strategy. The "core" portion comprises most of the portfolio and consists of large, attractively priced, financially stable firms that follow our benchmark, the Russell 1000. The smaller "satellite" portion supplements the core holdings by targeting small- to mid-size companies with strong growth prospects to achieve diversification and opportunities for above-average returns.

The CUSP Fund's Health Care sector has accrued long-term benefits from this strategy, specifically through its investment in ResMed Inc. In February 2016, after a comprehensive evaluation, the CUSP Fund acquired 2,600 shares of ResMed.

ResMed develops, manufacturers, markets and distributes medical devices and cloud-based software applications that diagnose and treat respiratory disorders that occur during sleep. Sleep disordered breathing (SDB), specifically sleep apnea, is the main focus of the firm's operations. As the number of people with sleep apnea nears one billion worldwide, ResMed continues to grow and succeed as the medical community becomes more aware of the dangers of sleep disordered breathing.

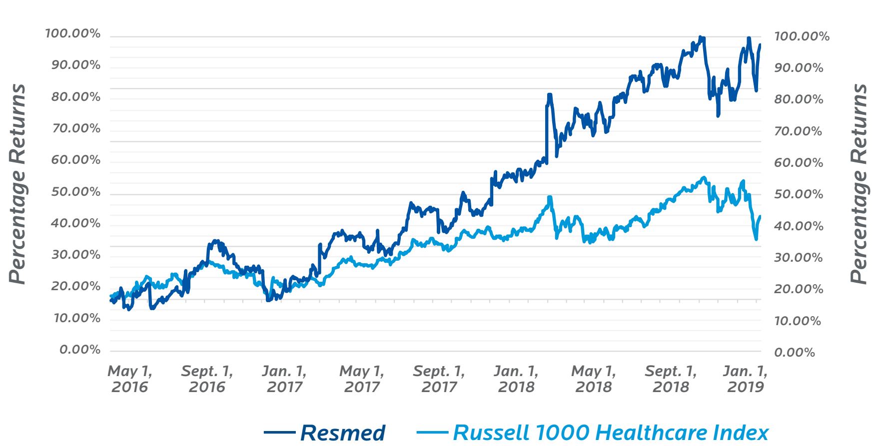
By emphasizing a single segment—sleep disorder products in the medical device sector—ResMed focuses on developing existing products and concentrates its resources on the innovation of new sleep disorder products. ResMed's senior management team has extensive experience in the respiratory area of the medical device industry. ResMed's leveraged management expertise in combination with its purposeful reinvestment of resources in sleep disorder products has led to great success in the medical device sector.

In the past year, ResMed's sales growth reached 13.23 percent; relatedly, its cash from operations growth reached 21.54 percent, versus its three-year average of 13.04 percent. With these metrics, ResMed has proven its ability to not only increase sales but translate these increased sales into cash available for reinvestment, distributions to investors and much more. ResMed also shows impressive profitability, most notably through its last annual operating margin (23.15 percent) and net profit margin (13.49 percent). For a small-cap growth firm focused on promoting growth through R&D, marketing and facility expansion, ResMed shows remarkable expense control.

Since ResMed's purchase, it has been the star of the sector with a cumulative return of 112.40 percent. Meanwhile, the Russell 1000 Health Care index's cumulative return was only 62.61 percent during that same period. ResMed's performance, in excess of the index, is illustrated in the figure. In the last year, ResMed returned 36.38 percent, and with the Fund's large position in the stock, ResMed's return was able to offset the low returns of its sector peers within the portfolio.

ResMed, a small-cap single operating sector firm, has almost single-handedly allowed the Health Care sector of the CUSP Fund to match the Health Care index. ResMed's superior performance reinforces the importance of our satellite holdings. They benefit the Fund through diversification, while also providing opportunities for the Fund to produce above-average returns.

ResMed's Outperformance



The CUSP Fund Adapts to Macroeconomic Conditions

Tanner Saporito | Oscar Skjerven

The U.S. economy continues to expand, and most macroeconomic indicators show slowing but continued growth. Current jobs and unemployment reports continue to show a strong domestic labor market approaching full-employment levels. Wages and labor participation have also risen from last year's relatively lofty levels. The Fed has been steadily decreasing its balance sheet after its normalization program began in 2017.

Signs of slowing in the U.S. economy's growth rate have encouraged the Fed to recently move toward a neutral policy stance. As the runoff of Fed assets continues, coupled with continued U.S. economic growth, we expect interest rates to rise above recent levels. The CUSP Fund is poised to benefit from a rising rate environment as several of the Fund's holdings are rate sensitive. Specifically, the Fund has large positions in three banks—Capital One, Fifth Third and Bank of America—and holds a large position in Prudential. Insurance companies are the largest purchasers of long-term bonds and have recently been reallocating their portfolios to new bonds yielding higher rates.

The CUSP Fund managers emphasize the interest rate environment when making decisions for sectors outside of Financials as well. Because rising interest rates depress equity prices, the importance of avoiding over-valued companies is stressed in our selection process. The Fund's value orientation is implemented by investing in value companies with relatively low price multiples and less debt exposure. The Fund's value tilt is reflected by the Fund's P/E ratio of 13.0, versus 18.8 for the Russell 1000.

Global markets felt the sting of rising interest rates accompanied with forecasts of slower global economic growth. The trade tensions with China have also been scrutinized for their potential impact on the overall market. The market correction toward the end of 2018 demonstrated the risk of carrying equity positions with lofty valuations. Therefore, the strategic position of a value-tilt is expected to benefit the Fund while still taking advantage of forecasted U.S. economic growth. Focusing on companies with limited exposure to Asia and Europe is one factor considered when weighing the risks of slower international growth and a strong dollar.

According to the World Bank, U.S. real GDP is expected to increase by 2.5 percent in 2019, compared to 2.0 percent in other advanced economies.[1] Furthermore, the S&P 500 price targets remain bullish across Wall Street, with targets ranging from 2,750 to 3,250 across the board.[2] The S&P 500 closed on December 31, 2018, at approximately 2,507; thus, the targets represent an increase of 9.69 to 29.64 percent, respectively. This leading indicator shows confidence in the U.S. market and the expectation for further growth in 2019.

Moving forward into 2019, CUSP managers will continue to emphasize macroeconomic conditions and adapt our value-tilt strategy to the environment. Despite the risks of rising interest rates and slower global growth, the managers believe the current holdings are well positioned to capitalize on expected economic developments.

1. worldbank.org/en/publication/global-economic-prospects
2. cnbc.com/market-strategist-survey-cnbc

Investment Style

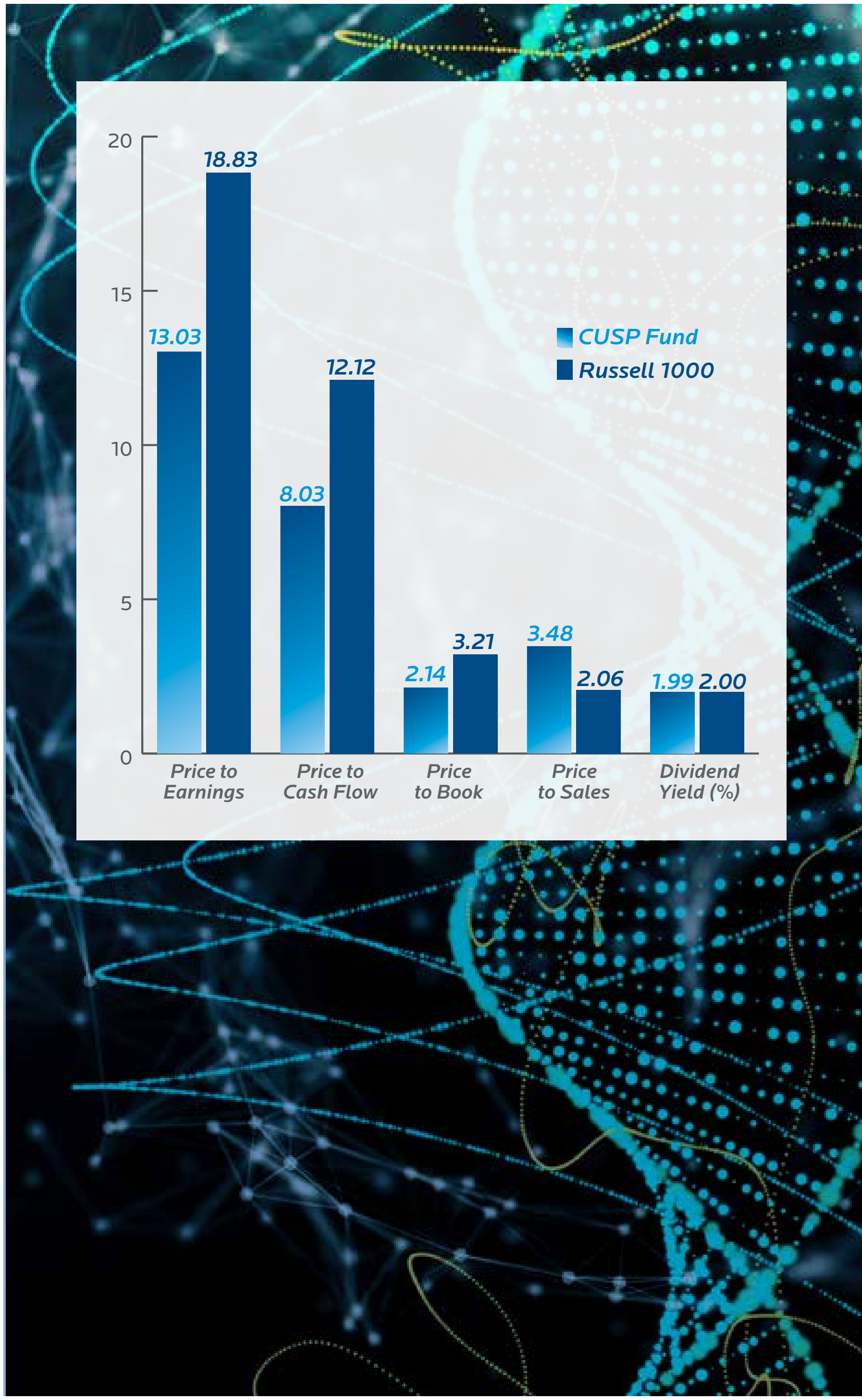
Mackenzie Tommins | Ryan Southworth

The CUSP Fund applies a value-based approach to investing; the objective is to find equities whose intrinsic value exceeds the current market price. Our approach is characterized by identifying companies with price multiples that are unjustifiably low. Some price multiples we consider when evaluating a company include: price to earnings, price to cash flow, price to book and price to sales.

CUSP managers first attempt to identify equities with price multiples that are unjustifiably low based on our in-depth analysis of firm financial metrics, which include profitability, growth prospects, risk and governance characteristics. Managers complement this quantitative analysis by performing comprehensive SWOT and Porter's Five Forces analyses to determine the qualitative factors that impact firm value. A major theme of our approach is detecting firms that offer growth at a reasonable price (GARP).

The Fund's purchase of Celgene Corporation in 2018 offers an example of the application of our strategy. Celgene is a biotechnology company that discovers, develops and commercializes medicines to treat cancer and inflammatory disorders. The managers concluded that Celgene's price multiples were unjustifiably low based on its financial metrics and prospects. For example, its price to earnings, at 8.92, and price to cash flow, at 10.33, were much below the average even though the firm's prospects looked very promising based on its solid fundamentals and strong pipeline of new drug offerings. After the Health Care team presented their research on Celgene, the consensus of the Fund managers was to buy Celgene due to its attractive valuation.

The value tilt of the CUSP Fund is clearly demonstrated by the relative price multiples presented in the figure. The Fund's price to earnings, price to cash flow and price to book are all substantially below the benchmark. For example, the Fund's price to cash flow value (8.03) is more than 33 percent lower than the benchmark level, which is 12.12. Interestingly, the Fund's price to sales (3.48) runs counter to the other measures, as it exceeds that of the benchmark (2.06). This anomaly is due largely to the Fund's overweight positions in Information Technology and Health Care, which are sectors in which operating margins tend to be relatively high. The price to sales ratios for the Fund's Information Technology and Health Care holdings are 5.21 and 4.63, respectively.



Sector Allocation

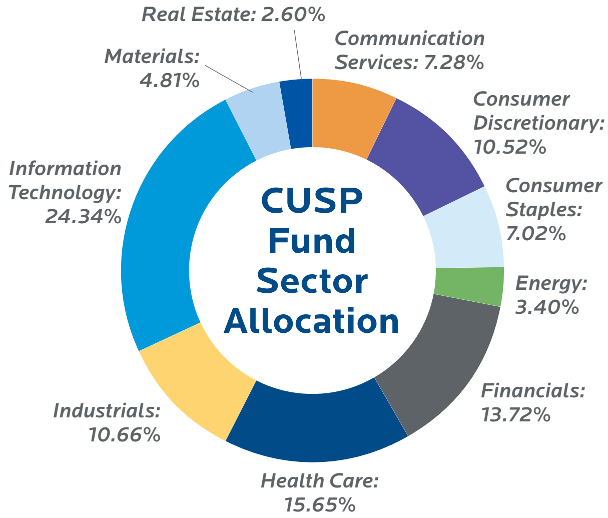
Blake Anderson | Jo Choy

Sector	CUSP Weight	Benchmark Weight	CUSP Over (Under) Weight
Communication Services	7.28%	9.60%	(2.32%)
Consumer Discretionary	10.52%	10.10%	0.42%
Consumer Staples	7.02%	6.70%	0.32%
Energy	3.40%	5.74%	(2.34%)
Financials	13.72%	14.30%	(0.58%)
Health Care	15.65%	13.92%	1.73%
Industrials	10.66%	10.14%	0.52%
Information Technology	24.34%	20.19%	4.15%
Materials	4.81%	3.05%	1.76%
Real Estate	2.60%	3.42%	(0.82%)
Utilities	0.00%	2.85%	(2.85%)

As reported in the table, the CUSP Fund is overweight in Information Technology (IT), Materials and Health Care, and underweight in Utilities, Energy and Communication Services. Notably, the Telecommunication Services sector is now re-branded as the Communication Services sector, a change effective Sept. 21, 2018. Telecom was the smallest sector in the Russell 1000 at the end of 2017, registering just 1.85 percent of the index. At the end of 2018, the new Communication Services sector, which now includes names such as Facebook, Netflix, Disney and Alphabet, represents 9.60 percent of the index. The IT sector saw the biggest drain with this switch, shrinking in size from 24.18 percent of the Russell 1000 to 20.19 percent. As such, the CUSP Fund underwent a similar change, seeing our holdings in Telecom/Communication Services jump from 3.41 to 7.28 percent and our IT holdings drop from 27.90 to 24.34 percent.

Though 2018 witnessed weakening of the IT names that had boosted our 2017 returns, the managers feel well positioned for a rebound of our IT holdings in 2019. Our conviction in IT is reflected in our large overweight position of 4.15 percent. Looking at Health Care, we believe that the total addressable market is growing as more people have access to health care and proper treatments. In addition, aging demographics in the U.S. position health care companies to capitalize on the growing needs of older generations. Lastly, we feel confident in our overweight position in Materials as we believe trade and infrastructure talks have hit “maximum uncertainty.” As trade talks solidify and government budgets get passed, our Material holdings companies will allow us to capitalize on the resulting increase in spending on construction and manufacturing.

On the other end of the spectrum, sectors that are underweight saw mixed performances. The negative returns in Communication Services were tempered by our underweight position, though our returns in that sector did beat the benchmark. We remain cautious about this sector as some of the names now included in Communications Services have traditionally been labeled as Consumer Discretionary (i.e. Disney and Netflix). This follows our thesis that economic expansion is in the later innings when these companies traditionally underperform. Turning to Utilities, our avoidance of this sector is based on expected future interest rate hikes; Utilities typically underperform in a rising interest rate environment.



Another notable change for the Fund in 2018 was the shrinking of our holdings in Consumer Discretionary stocks. The CUSP Fund finished 2018 with 10.52 percent of our holdings in the sector, down 2.40 percent year-over-year. The managers feel that economic expansion for Consumer Discretionary is in the later innings, and we have shifted out of investments in the sector that typically underperform during slowing economic growth. We are now relatively in line with the benchmark, only 0.42 percent overweight in Consumer Discretionary at 2018 year-end.


DENTIAL FINL
0.31
at&t
T
32.04
0.35
TM.N

2018 Buys and Sells

Connor Ramlo | Dayton Rand

PURCHASES:

Transaction	Rationale
Store Capital Corp (STOR): 2,850 shares @ $24.54	Store Capital has more than 2,200 single-tenant properties located across 49 states. We were attracted to this REIT for several reasons. It has consistently posted strong double-digit annual revenue growth, which is accompanied by an expanding profit margin. REITs engaged in single-tenant triple-net leases, like Store Capital, look poised to continue outperforming peers. Additionally, Warren Buffett's Berkshire Hathaway took a 9.8 percent position in Store Capital in June of 2017, making it the second largest equity holder in the firm.
Ventas Inc (VTR): 1,480 shares @ $47.10	Ventas Inc is a REIT that holds a portfolio of triple-net leased properties, senior living operations and office operations. In addition to increasing its profitability dramatically as of late, Ventas has also reduced its leverage. Finally, the company has plenty of capital available to acquire more properties in the future.
Albemarle Corp (ALB): 1,450 shares @ $104.63	Albemarle is one of the world's largest producers of bromine and lithium. Global demand for lithium is expected to grow dramatically in the future due to the element's usefulness in producing batteries, pharmaceutical intermediates and a myriad of other items. As Albemarle recently gained exclusive exploration and acquisition rights for lithium in Argentina, we are confident in the company's ability to capitalize on the growth in demand.
Lam Research Corp (LRCX): 1,080 shares @ $152.26	Lam Research Corp designs and manufactures wafer fabrication equipment for the semiconductor industry in addition to providing other services. Lam Research has been steadily improving its profitability metrics, such as operating margin and ROA, but its stock price has declined as a result of trade tensions between the United States and China. We viewed this as an opportunity to take a position in a profitable, growing company at a bargain price.
MKS Instruments Inc (MKSI): 1,120 shares @ $75.93	MKS Instruments manufactures instruments and components used to control and analyze gasses in the semiconductor manufacturing process. Its financial performance and growth metrics exhibited favorable trends. The team saw an opportunity to add a firm with strong fundamentals at a reasonable price. In the prior year, MKS posted 48 percent growth in revenues and 95 percent growth in CFO; meanwhile, only about 9 percent of its stock price was based on growth options. MKS has also diversified its operations to protect against the inherent volatility of the semiconductor industry.
Microsoft Corp (MSFT): 1,340 @ $111.56	Few mature companies have ever succeeded in reinventing themselves, but with the development of its Intelligent Cloud and Productivity and Business Processes segments, Microsoft has found new avenues for growth. Last year, Microsoft posted 14 percent growth in revenues, which was largely due to rapidly increasing demand for its cloud-based software applications and cloud infrastructure. As cloud computing grows, Microsoft is poised for further revenue growth.
Celgene Corp (CELG): 2,050 shares @ $73.74	Celgene is a biopharmaceutical company specializing in cancer treatment drugs. Its strong fundamental metrics, particularly those of growth and profitability, led the team to conclude that the stock was trading at a significant discount to its intrinsic value. This belief was quickly affirmed by the market, as Bristol-Myers Squibb acquired Celgene for $74 billion, a 54 percent premium, just one month after we took our position.

SALES:

Transaction	Rationale
Verizon (VZ): 2,690 shares @ $48.38	We chose to exit our position in Verizon after observing stagnation in the firm's profit margins and revenue growth. The team felt Verizon exhibited little upside potential within the Telecom sector, the worst performing sector of 2017 in the S&P 500.
Apache Corp (APA): 2,460 shares @ $39.64	Apache is an oil and gas company with operations in the U.S., Egypt and the UK. The company was forced to divest of major assets in 2017 to adapt to the lower commodity price environment. Apache's revenues dropped more than $11 billion since 2012, and the firm has struggled to realign costs. These were main concerns in choosing to sell our position.
Qualcomm (QCOM): 2,350 shares @ $54.95	We decided to divest of our position in Qualcomm, the wireless communications equipment manufacturer, after multiple years of declining financial performance. Qualcomm posted negative growth to the top-line in three consecutive fiscal periods. Profitability ratios had also been trending downward. Moreover, its stock price had strong negative momentum prior to sale.
Envision Healthcare (EVHC): 2,200 shares @ $38.23	Envision Healthcare provides a wide range of healthcare-related services to patients in the United States. 2017 provided little reason to be bullish on Envision after it reported a net loss for the second straight year. Significantly depressed earnings caused its stock price to lose nearly half of its value in 2017. With little indication the stock would reverse its downward slide, we chose to direct funds elsewhere.
Welltower Inc (WELL): 1,765 shares @ $51.63	We sold our position in Welltower to pursue more attractive investment opportunities within the REIT asset class. Welltower's slowing growth, diminishing margins and stock price depreciation were prominent concerns for the CUSP Fund. The team believed that Store Capital and Ventas Inc showed greater upside potential.
Intel Corp (INTC): 3,000 shares @ $49.13	We decided to sell our position in Intel to take a position in Lam Research. Both firms are in the semiconductor industry; however, whereas Lam Research presents strong fundamentals, Intel exhibits declining fundamentals. Given Intel's depressed profit margin, low recent growth in operating cash flow and lack of a margin of safety, we chose to divert funds to Lam Research.
Kla-Tencor Corp (KLAC): 950 shares @ $96.00	Kla-Tencor designs and manufactures quality control equipment for the semiconductor industry. While the company is profitable and displays other solid fundamentals, we decided to sell our position to take positions in other technology companies we believed to have stronger prospects, such as Microsoft, or larger margins of safety, such as Lam Research.
Gilead Sciences Inc (GILD): 1,700 shares @ $70.89	Due to poor financial performance, we decided to sell our position in Gilead Sciences, makers of HIV/AIDS, hepatitis C and other drugs. Sales of Gilead's most prominent drugs have fallen, and the company's latest project, developing a drug to treat liver disease, is not expected to reach the market for at least several more months. As there is no guarantee this new drug will actually be brought to market in that time frame or that it will revive sales, we chose to move our capital to a more profitable pharmaceutical company, Celgene.

2018 CUSP Fund Yearend Holdings

Sector	Holding	Ticker	Market Value ($)	CUSP Weight (%)	Closing Price ($)	Price Change[a]
Communication Services			**467,876**	**7.28**		
	ALPHABET INC-CL C	GOOG	165,698	2.55	1,035.61	18.78%
	AT&T INC	T	85,620	1.36	28.54	-17.06%
	WALT DISNEY CO	DIS	216,559	3.37	109.65	12.59%
Consumer Discretionary			**675,859**	**10.52**		
	CAPRI HOLDINGS LTD	CPRI	94,421	1.46	37.92	-5.34%
	GENTEX CORP	GNTX	111,155	1.75	20.21	7.90%
	MCDONALD'S CORP	MCD	213,084	3.29	177.57	50.30%
	TOYOTA MOTOR CORP-SPON ADR	TM	132,331	2.06	116.08	-5.66%
	ULTA BEAUTY INC	ULTA	124,868	1.96	244.84	22.70%
Consumer Staples			**451,228**	**7.02**		
	HAIN CELESTIAL GROUP INC	HAIN	53,924	0.87	15.86	-55.06%
	MOLSON COORS BREWING CO-B	TAP	96,595	1.49	56.16	-22.99%
	PEPSICO INC	PEP	193,892	2.99	110.48	10.57%
	PHILIP MORRIS INTERNATIONAL	PM	106,816	1.67	66.76	-24.06%
Energy			**218,546**	**3.40**		
	CALLON PETROLEUM CO	CPE	50,298	0.78	6.49	-49.18%
	CHEVRON CORP	CVX	119,669	1.87	108.79	20.93%
	TRANSOCEAN LTD	RIG	48,580	0.75	6.94	-53.92%
Financials			**881,696**	**13.72**		
	AFFILIATED MANAGERS GROUP	AMG	126,672	1.98	97.44	-32.12%
	BANK OF AMERICA CORP	BAC	140,448	2.18	24.64	2.50%
	BERKSHIRE HATHAWAY INC-CL B	BRK/B	106,174	1.67	204.18	56.87%
	CAPITAL ONE FINANCIAL CORP	COF	151,180	2.36	75.59	4.72%
	FIFTH THIRD BANCORP	FITB	194,122	2.99	23.53	17.06%
	PRUDENTIAL FINANCIAL INC	PRU	163,100	2.54	81.55	0.17%

Sector	Holding	Ticker	Market Value ($)	CUSP Weight (%)	Closing Price ($)	Price Change[a]
Health Care			**1,005,899**	**15.65**		
	CAMBREX CORP	CBM	68,723	1.09	37.76	-31.49%
	CELGENE CORP	CELG	131,384	2.08	64.09	-13.10%
	CERNER CORP	CERN	151,027	2.33	52.44	0.46%
	MEDTRONIC PLC	MDT	181,920	2.80	90.96	18.25%
	PFIZER INC	PFE	176,782	2.78	43.65	35.22%
	RESMED INC	RMD	296,062	4.57	113.87	98.00%
Industrials			**684,765**	**10.66**		
	ACUITY BRANDS INC	AYI	103,455	1.59	114.95	-30.38%
	AMERCO	UHAL	142,728	2.29	328.11	-15.76%
	BOEING CO/THE	BA	225,750	3.48	322.50	123.04%
	FEDEX CORP	FDX	83,892	1.31	161.33	-16.41%
	TRITON INTERNATIONAL LTD	TRTN	128,940	1.99	31.07	-1.30%
Information Technology			**1,564,255**	**24.34**		
	APPLE INC	AAPL	212,949	3.28	157.74	49.86%
	CADENCE DESIGN SYS INC	CDNS	139,136	2.19	43.48	38.08%
	CHECK POINT SOFTWARE TECH	CHKP	179,124	2.76	102.65	16.59%
	CORNING INC	GLW	102,714	1.58	30.21	-4.70%
	FABRINET	FN	138,537	2.19	51.31	37.97%
	IPG PHOTONICS CORP	IPGP	94,031	1.49	113.29	36.53%
	LAM RESEARCH CORP	LRCX	147,064	2.29	136.17	-10.57%
	MICRON TECHNOLOGY INC	MU	120,574	1.88	31.73	124.08%
	MICROSOFT CORP	MSFT	136,104	2.14	101.57	-8.96%
	MKS INSTRUMENTS INC	MKSI	72,363	1.13	64.61	-14.92%
	VISA INC-CLASS A SHARES	V	221,659	3.41	131.94	70.14%
Materials			**309,040**	**4.81**		
	ALBEMARLE CORP	ALB	111,752	1.75	77.07	-26.35%
	GRAPHIC PACKAGING HOLDING CO	GPK	80,864	1.27	10.64	-18.53%
	LYONDELLBASELL INDU-CL A	LYB	116,424	1.79	83.16	-21.00%
Real Estate			**167,397**	**2.60**		
	STORE CAPITAL CORP	STOR	80,684	1.26	28.31	15.32%
	VENTAS INC	VTR	86,713	1.34	58.59	24.34%

a - Represents change in price from original purchase price.

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.

Creighton UNIVERSITY | Heider College of Business

402.280.2700 | *business.creighton.edu*