

A Year in Review

By Daniel Ralls and Cole Goeltl

The student managers of the Creighton University Student Portfolio (CUSP) Fund had a successful year. Seventeen students worked together to cover 10 sectors, delivering presentations on more than 100 individual securities. The CUSP uses the Russell 1000 as its benchmark, and in 2022, the Russell 1000 had a negative return of -19.1%. Over the same period, the CUSP Fund had a negative return of -15.5%. Notably, the CUSP outperformed its benchmark for yet another year. Over the course of 2022 and 2023, the CUSP managers meaningfully reallocated capital, investing in a variety of companies that we believe will enhance the portfolio's long-term returns while maintaining an appropriate level of risk. The portfolio began the 2022-23 school year with 58 firms. Throughout the year, the class agreed to sell nine holdings and purchase 12, ending with a total of 61 firms in the portfolio.

The class first met at the end of the 2021-2022 school year to discuss expectations for the coming year. Each student was assigned both a sector and a series of companies within that sector to follow throughout the summer. Over the summer, students learned about their firms by reporting on daily stock price changes, listening to quarterly earnings calls and reading both quarterly reports and 10-K's. The goal of this work was for managers to familiarize themselves with their firms as well as their sector.

We started the fall semester by reviewing the investment policy statements of Creighton University's endowment and the CUSP Fund and by learning the fundamentals of value investing. Each sector gave two presentations to the class in the first semester. The first presentation focused on evaluating the firms currently held within the portfolio, as well as providing a brief sector overview. The second presentation was an industry screen, evaluating various companies that we viewed as potential additions to the portfolio.

In the spring semester, each of the sector teams presented its buy/sell recommendations for the portfolio. To ensure quality analysis of every holding within the portfolio for future years, the class decided to attempt to maintain the total number of firms within the portfolio at 60. Therefore, to add a company to the portfolio, each sector had to sell a company from the portfolio. Each presentation was followed by two rounds of voting and lengthy debates. The class decided early in the semester that any buy/sell decision would require a two-thirds vote. While some votes were nearly unanimous, oftentimes a final decision required vigorous debate.

At the end of the spring semester, the class spent five days completing the portfolio's first comprehensive redesign in over a decade. This series of workshops produced more than 20 key initiatives to enhance recruiting, retention, onboarding and portfolio management. Key changes included enhancing investment decision governance, creating a cloud-based knowledge management system and increasing the CUSP's visibility both on campus and online.

While the CUSP outperformed the market last year, it was still a difficult year for the class to act as long-term value investors. How can one estimate the future earnings of a company when the

past several years of earnings are heavily skewed by Covid? What is the long-term value of a company when it can increasingly expect a decades-worth of disruptive innovation and strategic repositioning to occur in a few years or less? After a decade of near-zero interest rates, how should the class account for record levels of inflation and interest rate hikes when estimating and discounting companies' earnings? These questions made it intellectually challenging to predict the economic outlook of any given industry, and the intense stock market volatility made it emotionally challenging to not try to time the market.

Nevertheless, we are confident that we followed a disciplined approach as value investors, and we believe that our thorough analysis will yield positive results in the future. The 2022-2023 school year was a transformational period for both the CUSP Fund and the Portfolio Practicum itself, and we are confident that next year's managers will guide the portfolio to new heights.