

## CUSP 2023 sector allocation

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Sector	Port	Index	Over/Under Allocated
Information Technology	24.99%	24.65%	0.34%
Health Care	14.50%	14.34%	0.16%
Financials	12.07%	13.50%	-1.43%
Consumer Discretionary	11.02%	10.10%	0.92%
Industrials	10.56%	9.37%	1.19%
Communication Services	8.89%	7.80%	1.09%
Consumer Staples	8.63%	6.89%	1.74%
Real Estate	3.95%	2.89%	1.06%
Materials	3.23%	2.82%	0.41%
Utilities	0.00%	2.80%	-2.80%
Energy	2.15%	4.64%	-2.49%

The CUSP Fund is benchmarked against the Russell 1000 Index. We attempt to match CUSP sector allocations with the Russell 1000 Index. There are two significant departures from this. First, we do not hold any Utilities. The absence of Utility holdings within the CUSP represents an underweighting relative to the 2.80% weight in the index. The CUSP makes up for this underweight with the slight overweighting of other sectors. Second, we are mandated by the University to divest fossil fuel stocks within the energy sector by 2025. The CUSP Fund managers determined the best course of action is to maintain the current holdings until a later date. With a potential reduction coming soon, we can expect the CUSP to be underweight by about 4.64% in the Energy sector as well, leaving room for overweighting in other sectors.

Even though CUSP performance is measured against the Russell 1000 Index as a benchmark, we do not strive to simply match the index. Our holdings within each sector can vary meaningfully from the holdings within the index. We strive to generate alpha through security selection and allocation. We hold just under 60 names in the CUSP, which means each sector is represented by very few holdings. Because our holdings are relatively concentrated in the number of positions held, we typically strive to invest no more than 3% of the portfolio in any single name. We believe this is a prudent way to manage risk and offers the best practices of diversification.

The table above shows the current weighting of each sector and how these weightings compare to the benchmark (as of April 28, 2023). We are currently overweight all sectors, except the Financials, Utilities and Energy sectors, as mentioned above. As the semester progressed, the CUSP managers altered weightings and holdings by adding new names to the portfolio while removing companies we believe do not hold as much relative value in the long term.

It is important to note that, when dealing with relatively concentrated positions, granularity matters. We hold Visa (V) within the CUSP. Some services report Visa in the Financial sector, while others place it in the Information Technology sector. This is an important issue for the CUSP since Visa is weighted 2.57% within the portfolio. Moving that one holding shifts the

sector weight discussion significantly. Since we are benchmarked against the Russell 1000, we referred to the index to determine where Visa is placed within the index, which is Information Technology. We followed a similar process with other holdings.

If we moved Visa to Financials, some may question our relatively significant underweight other holdings in the Information Technology sector. CUSP managers make a conscious effort to keep each equity position below a 3% weight. We believe this brings best allocation practices and lower individual equity risk. By contrast, Apple (AAPL) and Microsoft (MSFT) make up 6.52% and 5.53% weighting in the Russell 1000, respectively, but only a 2.9% and 2.39%, respectively, in the CUSP. As macroeconomic turmoil continues, the CUSP managers elected to add an addition firm to the Technology sector, replacing Fabrinet (FN) and Micron Technologies (MU) with Adobe (ADBE), Corning Incorporated (GLW) and NXP Semiconductors (NXPI).

The CUSP has a more concentrated exposure to Consumer Discretionary and Consumer Staples equities compared to the Russell 1000. Within the Consumer Discretionary space, the portfolio managers voted to purchase Crocs Inc. (CROX) amid expectations of continued growth from the acquisition of HEYDUDE. To free up funds to make this purchase, we sold Hasbro Inc. (HAS). In Consumer Staples, we voted to purchase Kroger Co. (KR) to benefit from the expected cost synergies and market position after the anticipated merger between Albertsons and Kroger. To make this investment, Constellation Brands (STZ) was sold.

The CUSP exposure to the Financial sector is underweight compared to the Russell 1000 index. Moves within this sector include the trimming of our position in Evercore Inc. (EVR) and an investment in Carlyle Group (CG). This move comes from the managers' increasing favor of the Private Equity space over the Investment Banking space amid low valuation for private equity funds and slowing deal pipelines for investment banks. We also elected to temporarily cut Hilltop Holdings (HTH) for the summer months, as the new class will be monitoring changes daily. The current CUSP managers determined it prudent to move out of regional bank stocks while students are away during the summer. The CUSP managers spent a great deal of time discussing this sector, especially given the impact rising interest rates and the turmoil in regional bank stocks have had. An added concern is the impact of persistently high inflation on costs for insurance companies. In the end, the CUSP managers could not identify another entity within the sector that offered a risk/return profile available in stocks in other sectors. Thus, we decided to leave the sector relatively underweight.

The CUSP exposure to the healthcare industry is slightly above the weighting that Healthcare represents in the Russell 1000. During the school year, Horizon Therapeutics became a merger target, which pushed the stock price up. We took the opportunity to divest the firm at favorable valuation. To offset the sale, McKesson (MCK) and Exelixis Inc. (EXEL) were added to the CUSP.

The CUSP ended the year with more exposure to the Industrials sector than the Russell 1000. Significant movements were made within the sector as a bid to acquire Triton International Ltd. (TRTN) sent the stock to all-time highs. The favorable valuation motivated CUSP managers to

sell Triton from the portfolio. The CUSP managers then added two equipment rental companies to diversify exposure in the space: Herc Holding (HRC) and United Rentals (URI).

The Materials sector remains slightly overweight compared to the Russell 1000 index, as does Real Estate and Industrials. Changes to the portfolio within the Materials sector include a divestment from Lyondellbassell Industries N.V. (LYB) and Freeport-McMorRan Cos. (FCX) amid favorable valuations and uncertain forecasts. The managers of the CUSP then decided to invest in Nutrien Ltd. (NTR), gaining exposure to the international food supply chain. Minor changes were made to the CUSP holdings in the Real Estate sector, including trimming its position in VICI and adding a position in Medical Properties Trust (MPW). No changes were made to the CUSP in the Communication Services sector.

Overall, the CUSP managers tried to balance the portfolio to manage the macroeconomic risks associated with a potential recession as well as to benefit from the expansion of the economy domestically and abroad in the coming years. We do so using security selection while avoiding the allure of sector rotation strategies.