

Capturing value through satellite holdings

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The CUSP Fund managers approach investing with a focus on value-oriented stocks and companies that can be purchased with a margin of safety and a promising future in terms of growth and valuation. The portfolio is benchmarked against the Russell 1000 index, and we, as managers, monitor and evaluate 55+ holdings while maintaining sector allocations generally in line with the benchmark. We utilize a core-satellite approach that allows the opportunity to establish true financial stability (core) while promising future growth prospects (satellite). Core holdings are roughly defined as those that hold such potential for future growth that the class would be highly unlikely to sell them. About 40% of the portfolio holdings are considered core.

While core holdings help the portfolio track the benchmark, satellite holdings provide opportunities for growth. Said another way, satellite holdings present an opportunity for growth over and above the index. Having a mix of core and satellite holdings affords the portfolio opportunity to outperform the benchmark of the Russell 1000, provided the CUSP Fund managers choose the right satellite holdings. The managers of the CUSP take a long-term approach that involves investing in companies that are well positioned financially and economically, today and in the future.

An example of a satellite holding is NXP Semiconductors (NASDAQ:NXPI). NXP Semiconductors designs semiconductors and software for mobile communications, consumer electronics, security applications, in-car entertainment and networking. NXP offers semiconductor solutions and products to automotive, wireless infrastructure, lighting, mobile and computing applications. It is a long-standing supplier in the semiconductor industry and operates globally. China accounts for roughly 40% of its sales, with Singapore and the United States next in line with about 10% of sales each. NXP is unique in the fact that it is headquartered in the Netherlands and thus not affected by the recent CHIPS Act. Overall, the company has a very diverse portfolio within the semiconductor market, is extremely active in the M&A and has a healthy valuation. CUSP managers spend a significant amount of time and effort investigating satellite companies such as NXP. Any such firm must stand on its own financially but also must fit within the portfolio based on risk.

As mentioned above, core holdings have demonstrated long-term potential combined with a reasonably moderate risk profile. One such core holding is J.P. Morgan (NYSE: JPM). JPM operates in the financial industry with a business focus spread across investment banking, wealth management and commercial banking. JPM derives about 40% of its revenue from consumer banking and 37% from investment banking. JPM has a broad customer base and competes on a global scale, allowing it to navigate the relatively volatile market conditions of recent quarters.

JPM's strong dividend yield of 3.07% combines with a dividend growth rate of 13.54% over the past five years. This adds to the firm's stature as a core holding. The CUSP managers spent quite a bit of time investigating the Financials sector, and JPM in particular, ultimately deciding it possessed all of the characteristics desired of a core holding. It remains a foundation for the financials sector of the CUSP.