Investment style

By Evan Hughes and Emma Cox

The Creighton University Student Portfolio (CUSP) Fund follows a value-based investing approach to evaluate stocks that we hold, purchase or sell during the year. This approach is characterized by analyzing a stock's price multiples to determine if its implied intrinsic value is in line with the market value. Some of these price multiples include Price-to-Earnings, Price-to-Book, Enterprise Value-to-EBITDA and Price-to-Cash Flow. Some industries, such as insurance, banking and real estate, called for more specialized ratios. Regardless, the class portfolio managers attempted to use different multiples or metrics to measure each firm's profitability, return to shareholders and future prospects.

CUSP Fund managers start their evaluation of new additions to the portfolio by researching and analyzing stocks whose prices appear to be lower than their intrinsic value. This research involves a deep dive into a company's capital structure, management, balance sheet, cash flows and competitive advantage analysis that managers use to decide if a company is a worthwhile investment at its price.

One example of the value-based investing strategy at work was demonstrated through the CUSP's addition of Kroger to the portfolio in March of 2023. Kroger is one of the largest grocery store companies in the country and owns brands like Fred Myer, Bakers and Ralph's. The firm recently agreed to acquire Albertsons, though it has faced some SEC resistance, making completion of the merger uncertain. Kroger has shown strong growth over the past 10 years, even through the pandemic, and continues to strengthen its technological efficiency and private label brands. At the time of presentation, Kroger was trading at 10.7x P/E, significantly lower than its five-year average of 12.2x. It was also trading at a significant discount compared to the industry average of 16.1x. Its sustainable growth rate was also estimated at 15.3%, and this, along with the aforementioned metrics and its investment in private labels, led the CUSP managers to pitch and ultimately purchase Kroger.

The value-based approach to investing is especially evident when looking at the CUSP Fund as a whole. The chart shown below shows the CUSP's average P/E ratio is 13.5, compared to the IWB 20.6. IWB is an ETF that mimics the CUSP benchmark, the Russell 1000. This is a 34.4% difference and demonstrates the CUSP's commitment to investing in stocks that have a reasonable valuation or even a margin of safety. The CUSP also has a substantially lower P/CF and a higher ROE than the benchmark. A majority of these differences are due to security selection since the CUSP sector allocations tend to mimic the benchmark. Still, there are some differences in sector weighting. The CUSP is slightly overweight in firms in the

Consumer Staples and Materials sectors, which tend to have lower P/E ratios. Finally, the CUSP firms have a higher average ROE than the benchmark, a result that sometimes implies a tilt towards growth. However, a number of CUSP firms engage in significant amounts of share repurchases, which drives the book value of equity down and in some cases even negative. In these instances, ROE is not necessarily a measure of growth versus value. In the case of the CUSP, this measure does indicate a tilt towards firms that are consistently profitable.