CUSP Investment Style

By Jack Eckels and Noah Schalley

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 lower than their fundamentals would imply. A non-exhaustive list of price multiples we consider when evaluating a company include: price to earnings, price to sales, price to book, price to cash flow and enterprise value to EBITDA.

CUSP managers first attempt to identify equities with price multiples that appear to be low based on our rigorous analysis of firm-specific metrics, which include profitability, growth prospects, risk and governance characteristics. The managers complement this quantitative analysis by performing comprehensive Strength, Weakness, Opportunity and Threat (SWOT) and Porter's Five Forces analyses to determine the qualitative factors that impact firm value. Detecting firms that offer growth at a reasonable price (GARP) is a major theme in our approach.

The Fund's purchase of Nexstar Media in 2022 is a prime example of the application of our strategy. At the time of this writing, Nexstar is America's largest local television and media company with a growing digital media operation. The CUSP managers concluded that Nexstar's price multiples were low based on the company's financial metrics and prospects. For example, its price to earnings ratio, at 7.8, was almost half the industry average even though the firm's prospects appear very promising based on its solid fundamentals and growing media operations. After the Communication Services team presented their research on Nexstar, the consensus of the fund managers was to buy Nexstar given its attractive valuation and favorable prospects.

The value tilt of the CUSP Fund is clearly demonstrated by the relative price to earnings multiple presented in the accompanying table. This ratio is below the benchmark by nearly 5%. The CUSP dividend yield also reflects the value approach. Interestingly, the Fund's price to cash flow, price to book and price to sales ratios run counter to this approach, as they all exceed the benchmark by substantial amounts. This trend is largely due to the Fund's positions in Information Technology and Healthcare, which are sectors in which operating margins tend to be relatively high. For example, the price to cash flow ratios for the Fund's Healthcare holdings is 26.75, and the price to book and price to sales ratios for the Fund's Information Technology holdings are 10.64 and 5.44, respectively.