

Financials: Evercore is replaced by Carlyle Group
By Joseph Joas

The CUSP currently consists of eight companies within the Financials sector and four companies specifically within the banking subsector. The banking firms include JP Morgan Chase & Co., Bank of America and Hilltop Holdings. The CUSP managers added Carlyle Group Inc to the sector and sold Evercore Inc. In my presentation, I proposed Carlyle Group Inc. and Stifel Financial Corp as possible buys and Evercore Inc. and Bank of America as potential sells.

Carlyle Group is a leading alternative investment company known for its specialization in private credit, real estate and private equity transactions. Carlyle Group Inc. is well diversified geographically between its operations in the Americas, EMEA and Other – Pacific and has approximately \$373 billion assets under management. The firm has consistently grown assets in spite of the volatility and uncertainty in the financial markets. The firm demonstrates strong profitability metrics and has experienced strong returns relative to that of similar large private equity firms, such as Ares Management, Apollo Global Management, Brookfield Asset Management and KKR & Co. Additionally, Carlyle recently appointed a new CEO, a position that has been vacant for an extended period. The incoming CEO will provide leadership and direction for the company going forward. These historical metrics coupled with the firm's strong balance sheet and reasonable valuation motivated the CUSP managers to add the firm to the CUSP in March of 2023.

Stifel Financial Corp was also considered as a potential addition to the CUSP Fund. Stifel Financial Corp has experienced large growth in its revenues, assets and increasing EPS through operations as well as strategic acquisitions. Most of Stifel Financial Corp's revenue is generated through its Global Wealth Management at 64.8% of total revenues, followed by its Institutional Group at 35.2% of total revenues. This sector includes investment banking, fixed income and equity operations. The CUSP managers viewed the firm's historical growth and metrics favorably but ultimately decided the potential for growth for other subsectors of the banking field provided more appealing return potential.

Given that the CUSP is fully invested and that any purchase must be countered with a sale, I presented Bank of America and Evercore Inc. as potential sells. Bank of America has been in the CUSP since 2017, and Evercore Inc. has been in the CUSP since 2019. The CUSP managers ultimately voted to continue to hold Bank of America. The firm has highly diversified revenue streams in the form of Consumer Commercial Banking, Global Banking, Global Wealth and Investment Management and Global Markets. We believe the firm's prospects, combined with its strong balance sheet and reputation, enhance its potential for appreciation, especially given the recent market developments related to the collapse of Silicon Valley Bank, Signature Bank and Credit Suisse.

I also pitched Evercore Inc. as a possible sale. Evercore Inc. is a leading independent boutique investment banking firm that advises on deals pertaining to mergers and acquisitions, corporate restructurings, financings, divestitures, initial public offerings and private placements. The firm also provides a small amount of equity research to certain institutional investors. Since Evercore Inc.'s revenue is highly dependent on investment banking services at roughly 98%, the firm is highly sensitive to increasing interest rates. This negatively affects deals within the capital markets and overall deals within the pipeline. The CUSP managers decided this large dependence on investment banking services coupled with interest rate effects leaves the firm more exposed to risks that could lead to unfavorable returns relative to others in the industry. We also noted the firm's decreasing return multiples from 2017 to 2022 when compared to industry peers, such as Moelis & Company and Lazard.

The CUSP managers ultimately decided to sell Evercore Inc. and replace it with Carlyle Group Inc. in March of 2023. We believe that Carlyle Group Inc. offers the largest potential stock appreciation in the next three-to-five years through its strong operating ratios, well-diversified business segments and diversification of operations geographically. The CUSP managers believe that the private equity sector, in which Carlyle Group Inc. resides, has greater return potential as compared with Evercore Inc.'s investment banking sector. Thus, Evercore Inc. was sold to gain exposure to these trends.

ADDENDUM: Hilltop Holdings (HTH) is the sole regional bank held within the CUSP. The uncertainty surrounding regional banks in early 2023 spurred the CUSP managers to look closer at this holding. We noted the bank is profitable, has good liquidity and a strong capital base. But we also noted the bank has a relatively high loan-to-deposit ratio. The CUSP managers decided it prudent to sell HTH and replace it with Evercore in April 2023. We did not make the switch because we believe HTH to be flawed. Rather, we are acutely aware that the CUSP Fund

will not be actively managed during the summer months. Thus, we decided to act with an abundance of caution in making the switch. We will reverse the switch once the current market uncertainty has subsided.