A Year in Review

By Alex Littleton and Josephine Otto

The student managers of the Creighton University Student Portfolio (CUSP) Fund for the 2021–2022 academic year had a successful year. Nineteen students worked together to cover nine sectors, with the Russell 1000 as our benchmark. The Russell 1000 index generated returns of around 24.75% from January 1, 2021, to January 1, 2022. The CUSP Fund returned approximately 26.40% for the year. The outperformance of about 1.65% allowed us to meet our goal of exceeding the benchmark. We believe we were able to make meaningful modifications to the portfolio this year. We added several stocks we feel will enhance the portfolio in the years to come. We also made sales and trimmed positions with the goal of managing risk within sectors and the portfolio as a whole.

We first met in April 2021 to set the stage for the coming year. Prior to the start of summer, we were assigned sectors and CUSP companies we were to follow. Over the summer, we monitored price changes and wrote summary reports of the quarterly earnings of each of our companies. We also read the 10-K and a quarterly earnings call transcript for one of our assigned companies to better familiarize ourselves with company research and financials. We began the fall semester by studying the investment policy statements of the Creighton Endowment and CUSP. From there, the work turned towards evaluating companies both within the CUSP and as possible additions to the portfolio.

During the fall semester, we worked in teams of two to study the economics of our sectors and make presentations of our findings. We examined earnings for CUSP companies to analyze sources of growth and risk. We practiced ratio analysis and valuation to prepare for evaluating our equity investments. Late in the fall semester, we ran screens on our sectors and made a presentation to the class of CUSP managers with a goal of identifying attractive potential additions to the CUSP. The process began with Bloomberg equity screens, emphasizing key quantitative value drivers. We used an extensive quantitative benchmark analysis report to select companies deemed worthy of further qualitative analysis. We presented our research to the other student managers, who then voted on which firms we would pursue and analyze more completely.

We started the spring semester by further refining our valuation techniques while adding to our knowledge about cash flows and earnings. We researched the companies we chose during our benchmarking analysis and compared them with companies in the CUSP. We made two presentations to the class. In the case of some teams, the first presentation resulted in changes to the CUSP. In most cases, the class made recommendations for further analysis of companies based on this first presentation. Our second presentation was based on the votes from the first presentation of the semester.

We, as CUSP managers, were also engaged in an ongoing analysis of the overall portfolio. When this year's CUSP managers took over the portfolio, the fund was underweight in Consumer Discretionary and Communication services, two sectors that have struggled over the past year. But, overweight allocations in the Materials and Industrials sectors helped mitigate some of those losses, as those sectors outperformed in early 2022. While we made changes to individual company holdings, we also adjusted the weights of individual companies within the CUSP to either try to manage risk within a sector or across the portfolio as a whole.

While the fund outperformed the benchmark, overall, the academic year provided a challenge for us as fund managers and analysts. The financial results for many companies were drastically changed from historical trends due to the effects of the pandemic. Through thoughtful discussion throughout the year, we tried to discern how supply chain disruptions, chip shortages and changes in consumer behavior would affect our investments. Later, as interest rates rose and monetary policy tightened, investors became increasingly skeptical about how company profits would be affected, significantly increasing overall market volatility. In the face of all of this, as CUSP managers, we believed there were opportunities on the value front in 2022. During this historic era of disruption in equity markets, we did our best to structure the CUSP to provide attractive returns in the future while hopefully being able to withstand unexpected risks and events.