MEF
MINUTEMEN EQUITY FUND

Fall 2018 Newsletter

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ISENBERG
UMASS AMHERST

INCOMING LEADERSHIP CHANGE

Leadership of the fund will change hands after the Fall 2018 Semester. Current Portfolio Manager Kyle Menges, Chairman Jim Chappuis, and Head of Operations Yoav Barkai appointed the following members:

Nathan Hallock, Portfolio Manager

Nathan is a senior and has been in the fund for five semesters. As Portfolio Manager, he will be responsible for leading the pitch process and for the overall performance of the portfolio. He will also lead financial modeling and valuation learning workshops for the fund.

Penelope Martin, Chairwoman

Penelope is a senior and has been in the fund for five semesters. Her primary responsibility will be to support the career development of all members of the fund. Her focus will be on helping everyone get an internship or full-time job. She will also lead MEF’s recruiting process.

Women's Development Program

This semester we introduced a new program titled *The Women's Development Program* (WDP). This is part of our goal to increase the number of women in the fund and supports Isenberg's initiative to increase the number of women majoring in finance. The program will be run every fall semester and is open to first-semester freshmen women. It will give women early exposure to our fund and to the different career paths within finance. Furthermore, each woman accepted to the program will automatically receive an interview for a potential full-time analyst position in the fund.

We conducted interviews for the program at the beginning of the semester and accepted three women to the program. Upon being accepted, each woman was paired with a peer mentor (a senior female in the fund) and was expected to attend all fund meetings thereafter. The WDP members also worked on a stock pitch of their own which they presented at the end of the semester.

We were very pleased with our inaugural semester running this program. The WDP members were active participants in meetings and did outstanding work on their stock pitches. We ended up accepting two of the three WDP members as full-time analysts starting next semester. Also, due to the awareness created by this program, we had a record number of women applicants in our regular application process. This program showed immediate results as 3 of the 6 students we accepted into the fund for next semester are women.

Portfolio

At the beginning of 2018, we set three portfolio-level goals: 1) to solidify our fund's investment strategy, 2) to reduce our cash position and 3) to keep better track of our holdings. Below, we break down these goals and the progress we made toward reaching them this year.

1. **Solidifying our fund's investment strategy**
   Entering the year, we realized that our fund did not have a well-defined investment strategy; made glaringly apparent by the lack of consistency in our portfolio. Therefore, at the beginning of the year we constructed an investment strategy we deemed most appropriate for our fund. We decided to follow a *SMID-Cap Value* investment strategy [1]. We communicated this strategy to all our fund members at the start of each semester, giving them a framework to work from when analyzing companies and making investment recommendations. We were mostly successful in adhering to our strategy this year; 6 of the 7 stocks we purchased fit this strategy. It will take some time for our portfolio to closely resemble this strategy, but we are pleased with the progress we made this year.

2. **Reducing our cash position**
   At the beginning of 2018, we held roughly $90,000 in cash, representing 35% of our total portfolio value. This was a result of heavy selling in the previous year. While we wish to maintain a sizeable cash position for the time-being, we would prefer it to be 15-20% of the portfolio [2]. This year our analysts did a phenomenal job finding strong companies at attractive valuations which enabled us to put a lot of cash to work. We purchased 7 new stocks which brought our cash position down to $51,627.33, representing 21% of our total portfolio value. We are content with this current cash position and will continue to re-evaluate it as markets and stock valuations change.

[1][2] See appendix for explanations of these decisions.

3. **Keeping better track of our holdings**
An issue that has plagued our portfolio for a while is our difficulty in tracking what we own. This semester, we decided to use the junior analyst pitches to solve this issue. At the beginning of the semester we assigned each junior analyst a holding in their respective sector that, in our opinion, needed the most attention. The analysts were expected to research their assigned company for the duration of the semester and establish a rating on it by the semester's end. They were also expected to have a working model for their company halfway through the semester and were required to submit a one-page report when their company released earnings. This structure enabled the analysts to take a deep-dive into their company and present a high-conviction recommendation to the fund.

The decision to continue holding a company in our portfolio is just as important as the decision to add a new one. The junior analyst pitches gave us the confidence necessary to continue holding several stocks in our portfolio. Furthermore, they empowered us to sell one holding and add to an existing one.

2018 Trade Activity:

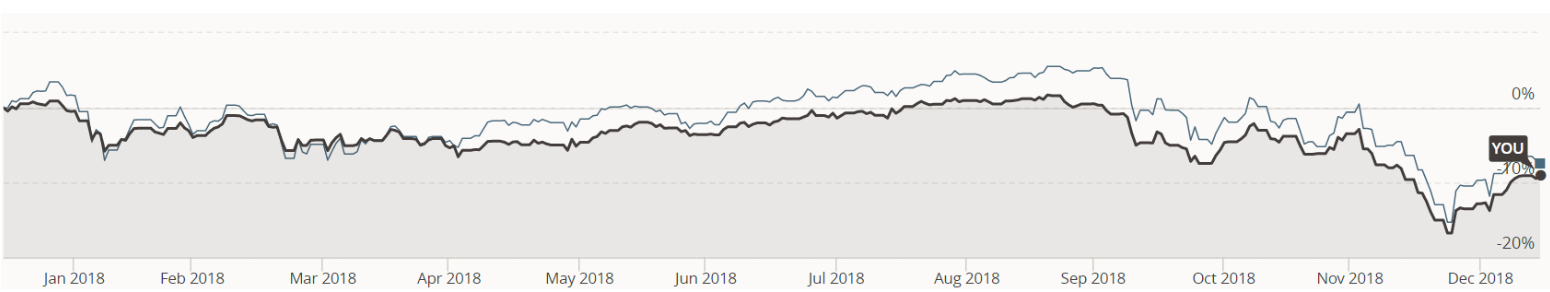
Spring 2018	
Buys	Sells
Gladstone Commercial Corp. (GOOD)	N/A
Cardinal Health (CAH)	
Dick's Sporting Goods (DKS)	
Primoris Services Corp. (PRIM)	

Fall 2018	
Buys	Sells
Molson Coors Brewing Co. (TAP)	Littelfuse (LFUS)
Gentex Corp. (GNTX)	Reductions of Current Positions
Lazard, Lte (LAZ)	Encompass Health (EHC)
Additions to Current Positions	
Primoris Services Corp. (PRIM)	
Westrock (WRK)	

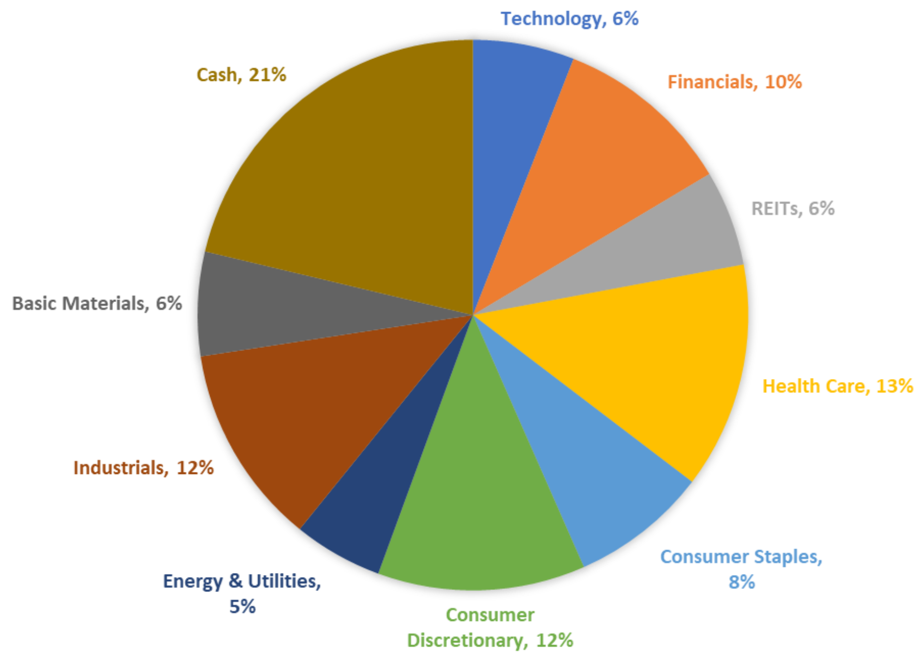
2018 PORTFOLIO PERFORMANCE VS. S&P 500

1-Year Performance:

MEF Portfolio: -9.2% S&P 500: -7.5%



CURRENT PORTFOLIO ALLOCATION



<u>Comments on Portfolio Performance & Allocation:</u>

Our underperformance in 2018 was primarily driven by a decline in equity markets, combined with the poor performance of a handful of our holdings. The following 3 holdings: Westrock (WRK); down 42%, Ameriprise Financial (AMP); down 37%, and Altria (MO); down 31%, were our worst performing holdings in 2018. All 3 of these holdings were assigned to junior analysts this semester and, after an in-depth review, we decided to keep them in the portfolio. While we are certainly displeased with our 2018 performance, we remind ourselves that we are long-term investors. We remain confident in the long-term performance of our portfolio and are excited about the investments we made this past year, understanding that it will take some time for the investment theses to unfold.

Over the last couple years, we have shrunk our number of holdings from 42 to 28 which has transitioned our fund from a disjointed index fund to a high-concentration equity fund. We are finally witnessing tracking error between our fund and the index because of this, and because of our decision to focus on small and mid-cap companies. We think this structural transformation has given us a platform to meaningfully outperform the index in the long-run.

As far as sector allocation is concerned, we do not typically pay close attention to our sector weightings relative to the index. We do strive to maintain 2-4 holdings per sector, which we think is a manageable number of holdings for our analysts to cover and keeps us from becoming severely under-or-overweight any sector. Aside from that, we tend to let our bottom-up investment approach naturally dictate our portfolio allocation; we become more heavily invested in sectors where we can find the most undervalued companies, and vice-versa.

You may notice that we *are* severely underweight TMT (tech and telecom) with a 6% portfolio weighting compared to a 30% weighting in the S&P 500. This is due to our struggle to find value in tech this past year, and because we just sold our 2nd largest tech holding, Littelfuse (LFUS). Increasing our weighting in tech to a more reasonable level is something we will prioritize in 2019.

FULL-TIME JOB & INTERNSHIP PLACEMENT

One of the primary goals of our group is to place our members into top internships and full-time positions. Each year, our placements have gotten stronger. This year has been no exception. Below is a summary of our members' placements.

Full-Time Placements

Jim Chappuis Miller Buckfire Investment Banking New York, NY	Kyle Menges C&S Wholesale Grocers Corporate Finance Keene, NH
Tom Glinski Goldman Sachs Equity Research New York, NY	Penelope Martin Goldman Sachs Commercial Banking New York, NY
Nate Hallock General Electric Corporate Finance Boston, MA	Dan Cornelius Citigroup Sales & Trading New York, NY

Internship Placements

Sophia Nolasco J.P. Morgan Sales & Trading New York, NY	Nick Goetz Credit Suisse Leveraged Finance New York, NY
Jack Stansky Dell EMC Internal Sales Hopkinton, MA	Edden Nativ Citigroup Sales & Trading New York, NY
Hiep Nguyen TD Securities Sales & Trading New York, NY	Joseph Wong BNY Mellon Wealth Management Boston, MA
Dan Roytman J.P. Morgan Sales & Trading New York, NY	Rohit Kalepalli BNP Paribas Quantitative Research New York, NY
Sedona Claypoole Dell EMC Corporate Finance Hopkinton, MA	Tim Costanzo Fidelity Investments Investment Research Boston, MA
Kyle Aikman J.P. Morgan Equity Research New York, NY	

Appendix

1. **Why the SMID-Cap Value Strategy?**
   We decided to follow a *SMID-Cap Value* strategy because we thought that focusing on smaller companies could give us an edge. Due to our limited resources, we think that focusing on less-covered companies will increase our odds of finding market mispricing's and could put us at less of an information disadvantage to other investors. Furthermore, as equities are becoming more correlated, we think that holding some stocks outside the common indexes will give us a better chance to meaningfully outperform.

   We also think that focusing on smaller companies could give our fund members a leg-up during interviews. We think that pitching lesser-known stocks during interviews could differentiate us from other candidates. It also increases our chances of knowing more about the company than our interviewer, which is usually beneficial.

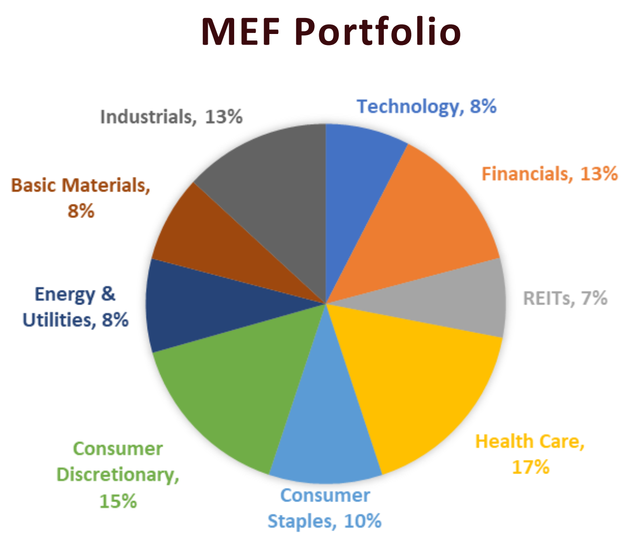
   The main reason we chose to follow a value investing strategy is because that seemed to be the strategy we generally followed in the past. It is worth mentioning that there can often be a fine line between a value-play vs. a growth play vs. "core", or "GARP". In any investing strategy your goal is to find companies you think are worth more than the value reflected by the current stock price. When we say that we are a "value" fund, we typically mean that we seek to find companies that are currently unloved by the market and offer a sufficient "margin of safety". This is our general rule of thumb but does not mean we won't occasionally jump on a company with more of a growth story that may appear more fairly-priced by the market.

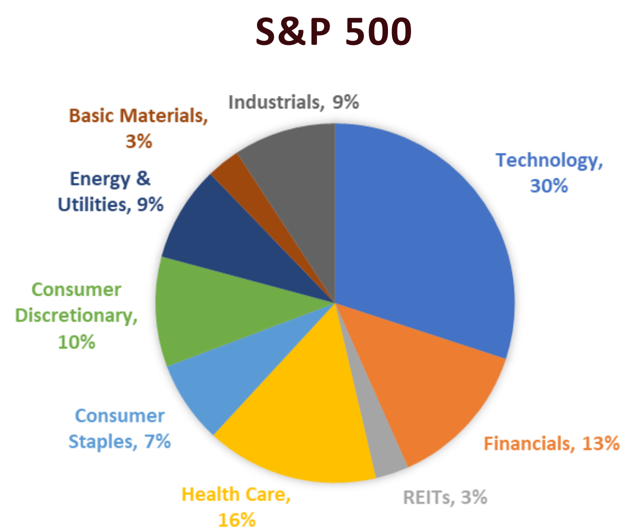
2. **Why do you want a 15-20% cash position?**
   We hold a cash position primarily because we want to have liquidity to capitalize on the egregious mispricing's created by the next bear market. While we cannot predict when the next bear market will occur, we remind ourselves that we are currently in a bull market, until recently perhaps. We assume that a bear market is inevitable and understand the power of having cash to invest in that kind of market environment.

   Again, we cannot predict the market and, therefore, want to always have most of our portfolio value invested. We also do not want to hold so much cash that it suffocates any positive performance we get from our holdings. For these reasons we think a 15-20% cash position is appropriate for the time-being.

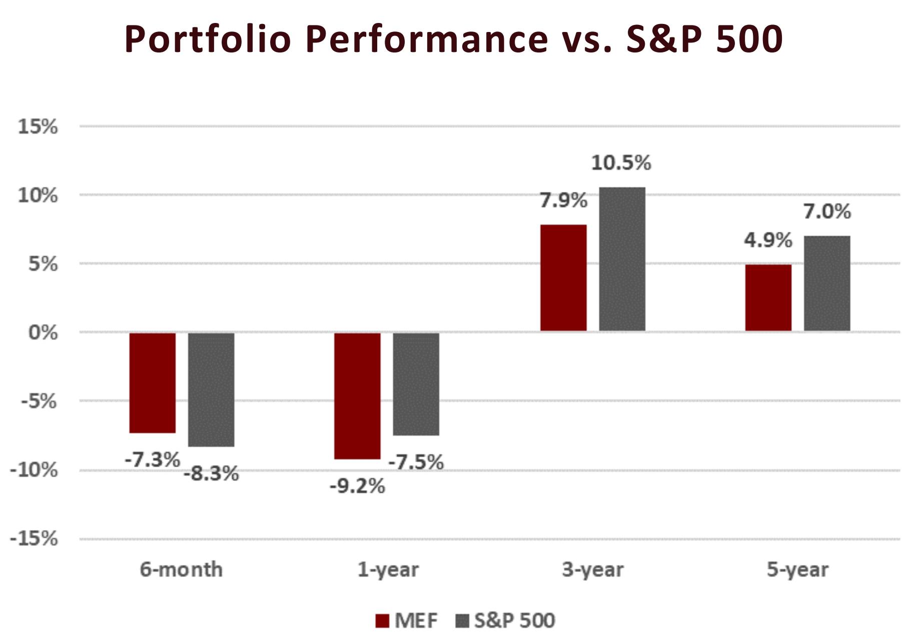
3. **Why benchmark to the S&P 500?**
   The short answer to this is that we do not know a better alternative. It is the index that is closest to matching the current MEF portfolio; 18 of the 28 companies we own are also part of the S&P 500. Secondly, we consider the S&P to be the best, and most commonly used proxy for the U.S. stock market. Lastly, the S&P has proven to be a difficult benchmark to beat over the long-term. For these reasons, we will continue to benchmark ourselves to the S&P 500 for the foreseeable future.

4. How does your fund's sector allocation compare to the S&P 500?
   Below, you will see a side-by-side comparison of our fund's sector allocation to the S&P 500's. Our sector weightings are adjusted to eliminate our cash balance and adjusted for Primoris Services Corp. (PRIM). Primoris is a company we recently bought and is technically part of the Industrials sector. However, it is an energy infrastructure company with significant exposure to oil and gas. To adjust for this, we split the position in two, allocating half to the Industrials sector and half to the Energy & Utilities sector.





<u>Other Portfolio Statistics:</u>



MEF Portfolio Statistics	
Portfolio Value	241, 620
Number of Holdings	28
Dividend Yield	2.4%
Beta	0.7
Portfolio Turnover	10.1%
P/E	19x
EV/EBITDA	13.3x
Return on Assets	11.1%
Return on Equity	38%