

CUSP 2024 Sector Allocation

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Sector	Port	Index	Diff
Information Technology	28.88%	27.82%	1.06%
Health Care	11.54%	12.10%	-0.56%
Financials	13.07%	13.67%	-0.60%
Consumer Discretionary	10.67%	10.45%	0.22%
Industrials	10.00%	9.67%	0.33%
Communication Services	9.39%	8.98%	0.41%
Consumer Staples	6.87%	5.85%	1.02%
Energy	1.67%	3.99%	-2.32%
Real Estate	2.56%	2.46%	0.10%
Materials	3.64%	2.53%	1.11%
Utilities	1.71%	2.30%	-0.59%

The CUSP Fund is benchmarked against the Russell 1000 index. We attempt to match CUSP sector allocations with the Russell 1000 index. There is one significant departure from this: we are mandated by the University to divest fossil fuel stocks within the Energy sector by the end of 2025. The CUSP Fund managers determined that the best course of action is to begin investing in regulated renewable energy within the Utilities sector while maintaining the current fossil fuel holdings within the Energy sector. We left it to the next class to completely divest from the Energy sector. CUSP managers voted to purchase NextEra Energy (NEE) and First Solar (FSLR) to add exposure to regulated electric and solar, respectively, within the Utilities sector. With a potential reduction coming soon, we can expect the CUSP to be underweight by 3.99% in the Energy sector as well, necessarily causing overweight in other sectors.

Even though CUSP performance is measured against the Russell 1000 Index as a benchmark, we do not strive to simply match the index. Our holdings within each sector can vary meaningfully from the holdings within the index. We strive to generate alpha through security selection and allocation. We hold 65 names in the CUSP, which means each sector is represented by very few holdings. Because our holdings are relatively concentrated in the number of positions held, we typically strive to invest no more than 3% of the portfolio in any single name. We believe this is a prudent way to manage risk and offers the best practices of diversification.

The table above shows the current weighting of each sector and how these weightings compare to the benchmark (as of May 3, 2024). We are currently overweight most sectors, except the Health Care, Financials, and Utilities and Energy sectors, as mentioned above. As the semester progressed, the CUSP managers altered weightings and holdings by adding new names to the portfolio while removing companies we believe do not hold as much relative value in the long term.

It is important to note that, when dealing with relatively concentrated positions, granularity matters. We hold Visa (V) within the CUSP. Some services report Visa in the Financial sector, while others place it in the Information Technology sector. This is an important issue for the CUSP since Visa is weighted 2.57% within the portfolio. Moving that one holding shifts the sector weight discussion significantly. Since we are benchmarked against the Russell 1000, we referred to the index to determine where Visa is placed within the index, which is Information Technology. We followed a similar process with other holdings.

If we moved Visa to Financials, some may question our relatively significant underweight other holdings in the Information Technology sector. CUSP managers make a conscious effort to keep each equity position below 3% weight. We believe this brings best allocation practices and lower individual equity risk. Microsoft (MSFT) and Apple (AAPL) make up 6.38% and 5.44% weighting in the Russell 1000, respectively, but only 3.43% and 2.15% in the CUSP. As macroeconomic uncertainty continues, the CUSP managers elected to add AllegroMicrosystems (ALGM), Analog Devices (ADI), and SS&C Technologies (SSNC) to the Technology Sector and sold Qualcomm (QCOM) and Teradyne (TER).

The CUSP has a more concentrated exposure to Consumer Discretionary and Consumer Staples equities compared to the Russell 1000. Within the Consumer Discretionary space, the portfolio managers voted to purchase FirstCash Holdings, Inc. (FCFS) and Service Corporation International (SCI). Both companies offer strategic and defensive business models, that are well positioned to combat high macroeconomic volatility. To free up funds to make this purchase, we sold O'Reilly Automotive, Inc. (ORLY) and trimmed our position in Casey's General Stores, Inc. (CASY). This shifted some money from Staples into Discretionary, better balancing the portfolio.

The CUSP exposure to the financial sector is underweight compared to the Russell 1000 index. Moves within this sector include selling Evercore Inc. (EVR) and adding East West Bancorp (EWBC). This move comes from the managers' increasing favor of EWBCs resilient performance amidst macroeconomic turbulent due to meaningful loan and deposit expansion and decreasing favor of EVRs decreased deal activity due to the unfavorable economic backdrop. The high interest rate environment also had a significant impact for insurance companies. The CUSP fund managers decided to sell Prudential Financial (PRU) and purchase RenaissanceRe (RNR) after determining a better outlook for the reinsurance subsector compared to the life insurance subsector.

The CUSP exposure to the healthcare industry is slightly below the weighting that Healthcare represents in the Russell 1000. This is due to an underwhelming outlook for the healthcare industry which led us to the decision to divest from ResMed (RMD), a medical equipment company, and refrain from further investment within healthcare.

The CUSP ended the year with more exposure to the Industrials sector than the Russell 1000. Significant movements were made within the sector as 3M (MMM) was sold last summer due to concerns about ongoing litigation and overall company growth prospects, while Boeing (BA) and U-Haul (UHAL.B) were sold due to a highly uncertain long-term outlook and limited prospects for sustained long-term growth. The CUSP managers then added two farm and heavy

construction equipment companies, John Deere (DE) and Paccar (PCAR), and one engineering and construction company, TopBuild (BLD).

The Materials sector remains slightly overweight compared to the Russell 1000 index, as does Real Estate and Communication Services. Changes to the portfolio within the Materials sector include a divestment from Nutrien (NTR) due to our belief that it has little control over the prices of its crop products. We believe there is more promising growth elsewhere in the sector. The managers of the CUSP then decided to invest in Eagle Materials (EXP) and Graphic Packaging (GPK), gaining exposure to building materials and paperboard packaging, respectively. Minor changes were made to the CUSP holdings in the Real Estate sector, including liquidating the position of Medical Properties Trust (MPW) in the Fall due to problems with some of its larger hospital properties and adding a position in Alexandria Real Estate Equities (ARE) in the Spring to diversify into laboratory offices. Changes to the portfolio within the Communication Services sector include a divestment from Nexstar Media Group (NXST) due to its high-margin revenue streams quickly eroding. The managers of CUSP replaced NXST with Warner Music Group (WMG) as we believe this relatively young firm is well positioned to capitalize on significant growth opportunities in the evolving music industry.

Overall, the CUSP managers tried to balance the portfolio to manage the macroeconomic risks associated with a potential recession as well as to benefit from the expansion of the economy and abroad in the coming years. We do so using security selection while avoiding the allure of sector rotation strategies.