

Investment Style CUSP 2023-24

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The Creighton University Student Portfolio (CUSP) Fund uses a value investing approach to assess the stocks it holds, considers purchasing, or plans to sell throughout the year. Value investing involves evaluating a company to determine if the intrinsic value is above where it is currently priced. As the market starts to recognize the company is undervalued, the stock should appreciate to its intrinsic value. One of the perks of value investing is that if you buy a stock that is undervalued, it can lower your downside losses on your investment as you are already buying at a discounted price. Some of the ways to gauge whether a stock may be undervalued is using different pricing multiples and ratios such as Price-to-Earnings, Price-to-Cash Flow, Price-to-Book, and Return-on-Equity. The class uses these metrics to determine if a company's stock might appreciate to its intrinsic value over time.

CUSP Fund managers start their research by screening for certain metrics, including the aforementioned, to narrow down a wide pool of options to a group that fits criteria more fitting of a company that may be undervalued. This process then moves into looking at these specific companies and looking into their balance sheets, statements of cash flows, income statements, industry analysis, internal company analysis, and competitive advantages to figure out whether the company is potentially undervalued and therefore an attractive investment.

One example of the value investing at work was demonstrated through the CUSP's addition of Warner Music Group to the portfolio in March of 2024. Warner is one of the world's leading music entertainment companies. Record labels include: Atlantic Records, Warner Records, Elektra Records and Parlophone records. The firm is home to many of the world's most popular and influential recording artists such as: Ed Sheeran, Bruno Mars, and Dua Lipa. In 2021, Warner acquired 300 Entertainment for \$400 Million. This acquisition improved their musician portfolio adding Megan Thee Stallion, Young Thug, and other successful artists. Through acquisitions, Warner continues to grow their portfolio and gain access to new fanbases through unique artists. At the time of purchase, Warner Music Group was trading well below industry averages for valuation metrics including their P/E of 27.6x, and EV/EBITDA of 14.6x compared

to industry average P/E of 34.0x and EV/EBITDA of 21.5x. The firm also boasted a significantly higher ROE than its comps. We believe that this firm is well positioned to take market share from the other competitors in the space with their commitment to finding young talent. The potential undervaluation, ambition to grow and acquire new businesses, and the buzz around the firm has prompted us to add WMG to the Communications Sector of the CUSP portfolio.

The value-driven approach to investing should be evident when looking at overall portfolio metrics. To do this, we compare our current holdings to the CUSP benchmark, the Russell 1000 index, which is tracked by the ETF IWB. As shown in the table below, the CUSP portfolio has a drastically lower P/E ratio at 19.56 in comparison to the IWB at 24.32. This is an indicator of a value approach, showing the CUSP has stocks currently in its portfolio that are potentially trading at a discount relative to their intrinsic value. The CUSP Portfolio offers a dividend yield of 1.67%, slightly lower than the IWB's 1.79%. While value stocks typically are expected to have a higher dividend yield, the difference is small. The CUSP Portfolio's P/CF ratio sits at 13.85, lower than the IWB 16.74. This measurement indicates that the CUSP Portfolio holdings are priced lower relative to their cash flow generation, further showing our emphasis for value investing in the portfolio. The CUSP P/B ratio of 3.97 is lower than the IWB's 4.31. The lower P/B for the CUSP portfolio is another indicator that is consistent with a value approach.. Finally, the CUSP Portfolio has a higher ROE at 17.25 compared to the IWB at 16.40. By itself, ROE doesn't indicate a value approach. To interpret this ratio, you also need to consider a firm's amount of leverage. There is certainly a "tilt" in our portfolio when evaluating ROE. In our case, the ROE is more a measure of profitability than value. Many of the firms in the portfolio we hold engage in share repurchases which decrease book value. In fact, a number of the firms owned have negative book value of equity due to persistent share repurchases. These firms have historically generated cash flow in excess of what's needed to fund corporate growth. Two examples of negative equity are CUSP holdings Philip Morris and McDonald's. These skew the computed ROE measure downward.

Overall, value investing is generally defined as searching for stocks with a low P/E, low P/B and a high dividend yield. Choosing stocks that fit these metrics is not as clear cut as simply screening on these metrics. Value investing only works if the stock is actually undervalued

relative to its intrinsic or true value, and the stock price eventually climbs to correct the mispricing. A key to value investing is avoiding value traps, meaning firms whose stock price never reverts to this type of mean. The table below suggests the CUSP managers have been consistent in applying a value approach. Future returns will tell if the managers have invested well.

