



Student Investment Association

2022-2023 Mid-Year Report
12/31/2022

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About Us/Investment Strategy

Founded in 2004, Michigan State University's Student Investment Association (SIA) is the premiere investment group at the university and of the Eli Broad College of Business. Its mission is to provide members with an unparalleled understanding of financial markets by providing the optimal education and resources needed for highly motivated students interested in pursuing careers in the financial services industry. These resources include a weekly education series, the sponsoring of investment competitions, exclusive professional development opportunities, and roadshows to visit firms in major financial hubs across the nation. Last year, the organization visited eight firms in New York City on the roadshow for ten members of the organization. This year, SIA expects to take twenty members on a trip to the West Coast, visiting various firms in the Los Angeles Metropolitan Area.

As SIA's goal is to increase the financial acumen amongst all members in preparation for a successful career in finance, the curriculum has been carefully constructed to maximize meetings throughout each semester. A majority of information taught pertains to accounting, valuation, and investment concepts, but SIA also takes time to home in on networking and communication skills that are equally important. With a strong executive board filled with upperclassmen that have placed at top firms in the industry intertwined with a large alumni base in various financial services roles, SIA believes that it has taken the right movements towards its goal of optimizing members' finance education and works relentlessly to ensure that this statement holds true.

Although this curriculum has set forth a strong foundation for members to gain financial knowledge, SIA believes in the value of 'learning by doing' and aims to provide a hands-on experience to the most driven, intellectually curious students. This is done through the analyst program: a program that allows select students to immerse themselves in valuing an investment to add to the organization's \$30,000 USD equity portfolio. As part of the program, members must follow our strategy to invest in small-cap companies that are deemed undervalued by the broader market. Our select group of analysts construct discounted cashflow models, comparable companies' analysis, and a market and firm based fundamental analysis to locate companies and make investments in them. Investments are typically held for 18-24 months to build portfolio value, at which time they are reviewed by select members of the management program to decipher whether they should be sold off or kept. Members of the management program are recruited as research analysts to conduct these analyses.

With a distinguished analyst and management program, SIA has managed to consistently outperform its benchmark, the Russell 2000. Moving forward, we look to prioritize member development and portfolio transparency while growing MSU's presence in high finance.

Economic/Markets Overview

The market climate has changed dramatically over the past 18-24 months. The post-COVID boom with a low-rates market allowed businesses in most sectors to excessively engage in deals and increase their profit ratios, followed by overvalued ratios. On the other hand, supply chain disruptions have forced these industries to hike prices, causing a ripple effect throughout the economy. Macroeconomic indicators such as CPI, PCE, and Non-Farm Payrolls consistently indicated rising costs and an overheated economy. We saw significant stock indices reach record levels and

bond yield skyrocket.

As a response, the Federal Reserve hiked prices in March 2022 at 25 basis points (0.25%) and the markets reacted relatively positively. While there were declines across the board, the markets were thrilled to see that the Fed acknowledged inflation and executed a hike that the markets were already pricing in. Following the first hike, the Fed continued to hike rates 6 more times by the end of 2022, at 50bps, 75bps, 75bps, 75bps, 75bps, and 50bps. For majority of this cycle, macroeconomic data didn't indicate much of a victory over hyperinflation. The job market, a major indicator of economic growth/decline, continued to beat expectations, and Geopolitical events such as the war in Ukraine and policies in China have continued to inflate commodity and manufacturing prices.

Towards the end of 2022, however, there seemed to be a sign of improvement in the fight against inflation. With declining gas and retail prices, consumer confidence has risen. Employment data has shown steady declines and the overall labor market has weakened. This has begged the question of whether a recession is in the works. While this is a matter of opinion, we can expect a further decline in economic activity and weaker market activity in the coming future.

Industry Coverage/Holdings

Consumer & Retail

Overview: The C&R industry can be volatile during economic downturns. Consumer discretionary has been volatile with sub-sectors such as automobiles, durables, and broadline retailers producing returns in the red over the past three months. This reflects inflationary pressures as the average consumer is cutting down average spending. Consumer staples have maintained their value due to the nature of the sub-sector and the constant need for essential goods. SIA's portfolio includes a mixture of both staples and discretionary.

- American Outdoor Brands, Inc. (AOUT) - 2.65%
 - American Outdoor Brands (AOUT) represents our largest holding within the consumer and retail sector. After its IPO in August 2020, the stock rose as COVID heavily impacted consumers to spend more on leisure and outdoor products. However, as recovery from the pandemic became present, the stock price has been on a continuous decline and has not fared well recently. This holding is one that is likely to be sold in the future.
- G-III Apparel Group, LTD. (GIII) - 1.28%
 - G-III Apparel Group (GIII) makes up only ~1.3% of our portfolio but constitutes our presence in the apparel industry. While the stock initially recovered from its COVID decline, we've seen a continuous decline in price since April 2021. G-III's stock price took an additional hit on November 30th, slicing the price in half in just one day's time. Similar to AOUT, our position in G-III is likely to change.

Financials

Overview: The financial sector has historically been thought to perform well during rate hikes, but this applies to only certain institutions and sub-sectors. Asset management, insurance, consumer

finance, and investment services have all provided returns in the green over the past three months, with financial administration providing returns in the red. SIA's holdings in the financial sector include holdings in consumer finance and investment services.

- **Huntington Bancshares (HBAN) - 5.76%**

- Huntington Bancshares (HBAN) serves as our largest holding within the financial sector. While Huntington operates in the Midwest, international supply chains such as onshoring and lockdowns in China ultimately affect the company's operations. Despite rising interest rates, Huntington has performed well over the past six months with a price increase of 13.62%.

- **Prosperity Bancshares (PB) - 4.87%**

- Like HBAN, Prosperity Bancshares (PB) also operates within personal/commercial banking services. International supply chains, as well as interest rates and credit quality, have all played a significant role in the bank's performance. PB has performed decently over the past six months, netting an increased stock price of 3.01%.

- **Lazard LTD. (LAZ) - 3.07%**

- One of the longest-tenured positions in our portfolio is Lazard LTD. (LAZ). This position not only aligns closely with what SIA associates with, it also represents one of our most successful holdings. Lazard's stock price has declined over 20% in the past twelve months but can be seen as an opportunistic buy as the rise in inflation and interest rates are responsible for the bulk of the decline.

Technology

Overview: Technology is an extremely broad sector in the sense that it includes a basket of essential products and non-essential products. In terms of sub-sectors, computer hardware produced returns in the red over the past three months, which is a result of global chip shortages and supply chain bottlenecks. SIA's holdings in technology do include stocks in this sub-sector.

- **Dolby Laboratories (DLB) - 8.02%**

- Dolby Laboratories (DLB) makes up a significant portion of our portfolio and is the third largest position, making up 8.02% overall. Discretionary consumer products have taken a hit due to inflation, ultimately being the main cause for the 27.81% price decline over the past twelve months. While the price decrease can be concerning, Dolby has separated itself from the competition by incorporating "Dolby Vision" and "Dolby Atmos" in televisions, movie theaters, and Apple Music.

- **Evertec, Inc. (EVTC) - 8.02%**

- Evertec, Inc. (EVTC) also holds a noteworthy weight within our portfolio, making up 8.02%. As described above, inflation has made a large impact on discretionary consumer products and on Evertec specifically. In the past year, we've seen a decline of nearly 37%. While a rebound in the technology sector is expected, we are actively seeking positions

in better-secured companies within the industry.

Industrials

Overview: Industrials can be susceptible to economic patterns, but we have seen the sector perform well over the past three months, with service-related firms providing lower returns. Firms that specialize in tangible goods, especially tangible goods that are necessary for economic activity like airlines, trucking, etc. It is important to note that the volume of production has declined overall in this sector.

- **The Mosaic Company (MOS) - 7.34%**
 - The Mosaic Company (MOS) is our largest holding within the industrials sector with a weight of 7.34%. The stock price has decreased over the past six months but has seen an overall increase of 10.90% YTD. We believe our position in MOS to have potential upside as the stock is currently trading near its 52-week low of 37.08.
- **EnerSys (ENS) - 6.65%**
 - EnerSys (ENS) is our second largest holding within the industrials sector and has been our best industrials performer over the past six months, boasting over a 20% price increase. This stock is a HOLD as the industrials sector regains stability and interest rates begin to cool down. The stock is also trading between its 52-week low/high.
- **Masonite International Corporation (DOOR) - 6.50%**
 - Masonite International Corporation (DOOR) has slightly recovered from its poor performance over the past twelve months. While the company's YTD stock price has declined over 30%, the price is beginning to rebound with an increase of 3.35% over the past six months. The main cause of the YTD decline is the rise in interest rates and the effect that's had on the commercial building and home markets. We will keep a close watch on this stock in the months ahead as we anticipate further fluctuations to occur.

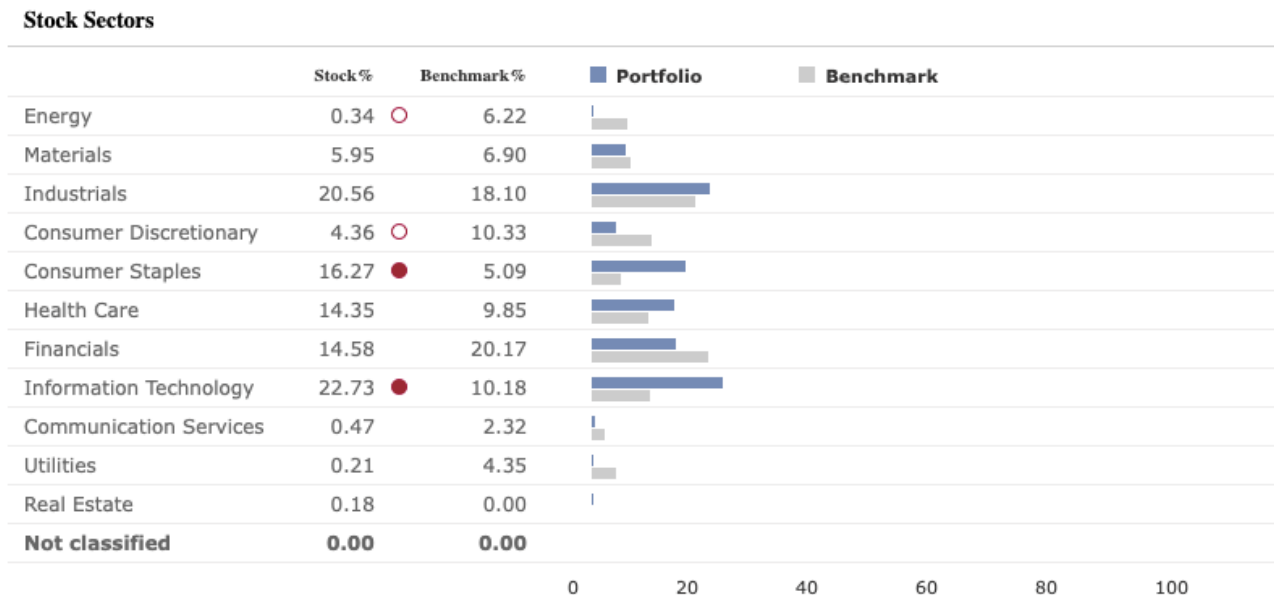
Healthcare:

Overview: Healthcare is another sector that continues to maintain value during recessionary environments. In the past three months, all sub-sectors of healthcare have overperformed, especially biotechnology, medical equipment, and healthcare providers. Especially considering the rise in demand for healthcare after the COVID pandemic, we can see additional investments in this field in the coming years. SIA's holdings in healthcare include mainly biotechnology firms.

- **Stryker Corporation (SYK) - 8.80%**
 - Stryker Corporation (SYK) is not only our largest holding in the healthcare sector but is also one of the largest holdings in our entire portfolio. While the healthcare industry is less volatile in recessionary periods, Stryker's stock price has seen a drop of ~9% YTD but has seen a growth of over 20% in the past six months. This recent performance has us optimistic about SYK's future as we await a HOLD or potentially a BUY.

- **Addus Homecare Corporation (ADUS) - 2.82%**
 - Addus Homecare Corporation (ADUS) only makes up 2.82% percent of our portfolio but is a testament to our diverse investment strategy. Despite recent labor challenges in the homecare industry, Addus grew sales by 11% y/y in Q3 2022. Successful acquisition strategies could place Addus in the position to grow and expand across more states.

Portfolio Performance Analytics



Visual 1 describes our weightage in various sectors to the benchmarked Russell 2000 index and portfolios of that strategy. We are currently overweight in the consumer staples and information technology sectors and underweight in consumer discretionary and energy. Sector allocation is a vital aspect of portfolio strategy, and we hope to adjust sector holdings to closely resemble the benchmark.

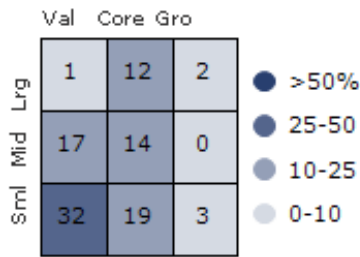
Stock Stats

	Portfolio	Benchmark
Price/earnings	12.29	12.56
Price/book	2.18	1.70
Return on assets (ROA)	8.13	5.08
Return on equity (ROE)	18.97	15.77
Average market cap (\$M)	5,604.04	3,865.04

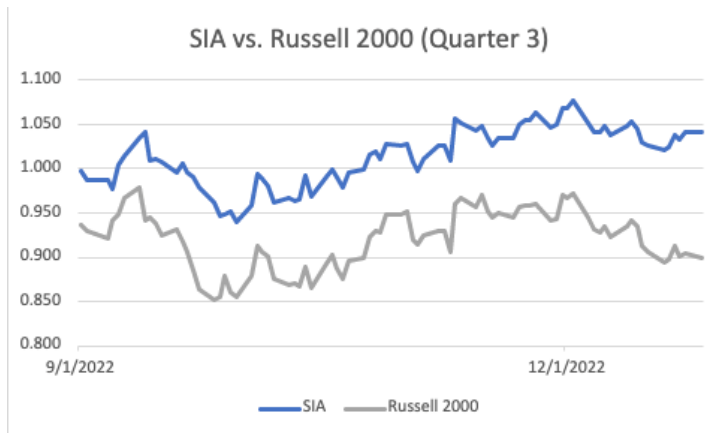
Visual 2 displays key financial metrics of SIA's portfolio relative to the benchmark's metrics. We have managed to beat the benchmark's ROA, ROE, and Price to Book, and was in line with P/E. These figures indicate that our strategy captures the small-cap value market well enough.

Portfolio Performance Analytics

Stock Style



Visual 3 simply describes the composition of our portfolio. It is visible that we still stay true to our strategy, but we haven't shied away from core equities of all market caps to expand our risk profile. SIA hopes to be open to small cap growth equities in the coming investment cycle.



Visual 4 represents our overall returns benchmarked to the Russell 2000 for the third quarter of 2022. It is evident that we have managed to outperform the market at all periods and reflected greater market trends as well.

Market/Portfolio Outlook

We anticipate the markets to remain relatively weak this year. While we don't expect a total recession, there will be a slowdown in the markets in tandem with volatility. The Fed will continue to hike rates throughout 2023, and we hope to take advantage of this by investing in sectors that are more recession resistant, such as consumer staples and financials. While our expectations are neither too lenient nor conservative relative to the markets, we will take the necessary precautions to optimize the portfolio. Our stance is that any upcoming recession or slowdown will not be as severe as economists and markets anticipate, but there will be significant friction. Companies in this market will reach fair and below fair values as well, which is an investment opportunity to our advantage. Essentially, we will be following a "buy the dip" strategy that is common within retail investors.

SIA has managed to consistently perform better than the benchmarked Russell 2000 but have underperformed from a sector standpoint. In other words, our value is derived from mainly a few sectors rather than all market sectors. This could be due to the inability to provide exposure to said sectors, especially materials and industrials. Being able to leverage any exposure in this sector can allow the respective coverage teams to target companies with strong upside and undervaluation. While SIA targets small-cap value, the average market capitalization of our companies crosses \$5B. In the coming year, we will target companies with lower market capitalizations to improve the probability of greater upside. We will also consider pushing for growth stocks in certain sectors as an economic downfall can provide certain companies with the opportunities to produce greater returns. SIA will reevaluate benchmarked results by late May to assess current strategies.