SMIF Student Managed Investment Fund

4th Quarter 2023 Report - The Student Managed Investment Fund (SMIF)

Dear Partners,

Over the past quarter, the broader market ended the year with a strong rally. Much of this outperformance was due to the Magnificent Seven, which directly contrasted the beginning of 2023's uncertainty and fears of a recession. Corporate earnings exceeded Wall Street's expectations, also adding to the rally experienced in Q4 2023. Lastly, with inflation stabilizing, the market reacted positively to the end of possible rate hikes.

Heading into 2024, SMIF believes there could be a correction in the market after such robust market growth driven by seven companies. While this perspective doesn't impact how we pitch potential holdings, it reminds the class not to be too optimistic about a stock's future performance and to consider the risks presented thoughtfully.

As we begin the spring semester, here are a few questions and topics we are discussing: To what extent will the conflict in the Middle East impact the broader market? Will the market's fascination with AI diminish? How will the Federal Reserve approach rate cuts to maintain economic stability and limit negative repercussions?

Allocations & Performance

	Healthcare	Industrials	Technology	Comm Serv	Staples	REITS & Materials	Discretionary	Energy & Utilities	Financials	Cash
SMIF Weight	16.56%	8.23%	26.78%	6.57%	6.05%	5.12%	8.85%	7.71%	13.23%	0.90%
S&P Weight	13.71%	8.54%	27.24%	8.65%	6.68%	4.94%	10.46%	7.08%	12.70%	0.00%
Difference	2.85%	-0.31%	-0.46%	-2.08%	-0.63%	0.18%	-1.61%	0.63%	0.53%	0.90%
4/26 Target	2.00%	-1.00%	0.00%	-2.00%	-1.00%	0.00%	1.00%	0.50%	0.00%	0.50%
8/23 Target	2.00%	1.00%	0.00%	-2.00%	0.00%	0.00%	-1.00%	1.00%	-1.00%	0.50%
Change	0.00%	2.00%	0.00%	0.00%	1.00%	0.00%	-2.00%	0.50%	-1.00%	0.00%

Last quarter, the Equity Strategies team maintained the allocation set in August. In years past, the Equity Strategies team would rebalance the portfolio in December before the class left for winter break and again once the class returned in January. We decided to maintain the allocation set in August until January because, historically, the rebalance didn't alter the allocations much between December and January.

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Ending 31-DEC-2023

	MTD	QTD	YTD	L3Y	Since Inception
SMIF	4.18%	11.07%	21.10%	6.91%	10.01%
S&P 500	4.94%	11.96%	26.53%	8.97%	9.82%

The chart above describes SMIF's performance against the S&P 500 ending on December 31st, 2023. While SMIF has outperformed the S&P 500 since its inception, it has trailed the benchmark this past year and three years. In 2021 and at the end of 2023, we saw a robust rally in the broader stock market. SMIF missed out on much of this outperformance due to our focus on value-based stocks instead of high growth, such as the Magnificent Seven, which generated much of the alpha this past quarter. As a result, SMIF tends to underperform the broader market during periods of record growth as our holdings are generally more mature, stable market players in their industry with more value-based propositions. However, when the broader market cools down or experiences a correction, the SMIF portfolio tends to outperform, resulting in our outperformance over the broader period due to our conviction in the value-based investment thesis.

01-JAN-2023 to 31-DEC-2023

Top Performers (YTD)

Rank	*Holding*	*Sector*	*Return*	*Weight*
1	BLDR	Industrials	147.3%	3.24%
2	CRM	Tech	90.4%	4.62%
3	AVGO	Tech	89.8%	3.38%
4	NOW	Tech	74.1%	3.20%
5	BX	Financials	65.6%	2.03%

Bottom Performers (YTD)

Rank	*Holding*	*Sector*	*Return*	*Weight*
35	SBUX	Discretionary	-5.9%	3.26%
36	XOM	Energy	-7.0%	0.90%
37	DE	Industrials	-7.5%	2.06%
38	WPC	REIT	-15.0%	1.32%
39	NEE	Utilities	-26.7%	2.19%

Builders FirstSource, Salesforce, and Broadcom have tremendously outperformed the broader market in 2023. Salesforce and Broadcom benefited from the exciting prospects of AI over the broader market, resulting in dramatic increases in their valuation. FirstSource continues to benefit from being a market leader with a value-added portfolio and a broad footprint.

On the other hand, holdings such as NextEra and W. P. Carey experienced a substantial downturn in 2023. As the class reflects on 2023, we are considering how we can prevent such significant losses in the future, whether through a stop-loss measure or considering traits in each holding that we should try to avoid. Ultimately, we will still experience some holdings that don't perform to our expectations; however, we are using this situation as a learning opportunity to set up SMIF for further success.

As SMIF prepares for its first pitches in 2024, we should ask ourselves how to find more companies like Builders FirstSource, Salesforce, and Broadcom to generate increased outperformance against the broader market. What trends or traits do the top performers have in common, and how can we identify those in new SMIF portfolio prospects? What can we learn from our bottom performers to improve our overall performance?

Recent trades

The REIT's team proposed buying Public Storage and selling part of Martin Marrietta to help diversify the portfolio. The REIT's team wanted to realize some of its gains from Martin Marietta and reduce its exposure to materials. The team believed Public Storage would be an excellent addition to the SMIF portfolio through its strong market presence, growth opportunities, and geographic diversification. Public Storage only received a 59% conviction rate from the class and failed to pass. The class had higher conviction in Martin Marrietta's growth prospects and didn't believe in the investment rationale to buy after the stock's 18-month decline.

The Financials team proposed buying Moody's and shaving 2.3% from Global Payments and 16.8% from Aon. Financials still had conviction in both holdings but wanted to realize some gains and further diversify their portfolio. The Financials team liked Moody's due to its economic moat, strong financial performance, and ability to innovate. Moody's ultimately passed with a 62% conviction rate from the class.

The Industrials team proposed buying Waste Management, selling out part of Raytheon, and shaving 7% from Builder's FirstSource. Industrials was still bullish on FirstSource but wanted to realize some of their earnings as the stock had increased by 58% since purchase, accounting for 35% of Industrial's portfolio. Industrials wanted to sell Raytheon due to the stock's volatility and general underperformance against the Industrial sector. They also believed many of the thesis points had been played out and wanted to purchase a stock that had more conviction from the class. Industrials pitched Waste Management due to their industry dominance, operational efficiency, and continuous macroeconomic tailwinds. Waste Management passed with a 73% conviction from the class.

The Consumer Discretionary team proposed buying McDonald's, selling out of Dollar General, and shaving 2% from Starbucks. While Dollar General was a top performer in 2022, the company struggled to pass inflation to its customers and suffered from diminishing margins, with management indicating that the trend would likely continue. Discretionary wanted to get out of Dollar General before their earnings worsened. Consumer Discretionary still liked Starbucks due to its market dominance and its ability to innovate but wanted to realize some gains. Consumer Discretionary liked McDonald's due to its appeal to low-income customers, outstanding margins, and store innovations. McDonald's received a 70% conviction rate from the class.

The Technology team proposed buying ServiceNow and selling out of Fortinet. The Technology team lost conviction in Fortinet as the company missed its guidance for Q3 billings and the firewall hardware pullback, erasing all of its gains in 2023. Technology believed that ServiceNow would be a good addition to the SMIF portfolio by being a market leader, product portfolio offerings, and robust growth prospects. ServiceNow received an 84% conviction rate from the class.

The Healthcare team proposed buying AstraZeneca and selling Steris and Fortrea. Healthcare wanted to sell Steris as the thesis points had already played out, and the company has been experiencing productivity issues over the past two years. The management team is unsure when the productivity issues will be resolved. Labcorp completed a spin-off of its CRO division in July 2023, resulting in Fortrea. There is some uncertainty in the market regarding how Fortrea will operate as an independent company. As only 2% of the healthcare portfolio, the healthcare team felt the allocation would be more beneficial elsewhere. The Healthcare team believed AstraZeneca was a strong buy for the SMIF portfolio due to its robust pipeline, strong and expanding partnerships, and innovation to drive growth. AstraZeneca received an 82% conviction rate from the class.

Class Operations

Class operations are continuing as usual. In addition, Tyler and Catherine have put significant effort into planning the 2024 Stock Pitch Competition, which will take place on February 22-23. UGA will be well represented by our Portfolio Manager and Director of Alumni Relations as they prepare to present their pitch. More than 50 teams applied, and 15 were granted admittance. We are excited for the competition and networking opportunity.

Conclusion

The majority of 2023 experienced uncertainty in the broader market due to record inflation, high interest rates, and low unemployment. However, as we have a better sense of rate cuts, stabilizing inflation, and a healthy job market in 2024, we hope to take advantage of this period and generate exceptional buying opportunities for the fund. Thank you for your continued support, and feel free to reach out if you have any questions or comments.

Best,

Tyler Ege
President

Catherine Shih
Vice President

Hugh Stacey
Portfolio Manager

Ashley LaPrade
Director of Alumni Relations