# UNIVERSITY OF WISCONSIN – MILWAUKEE

**MAY 11, 2018 IMCP CLIENT MEETING**

**May 11, 2018**

Investment Management Certificate Program

## Objective and Benchmark

The Milwaukee Growth Fund's objective is to outperform the Russell 1000 Growth Index (US, multi-cap) primarily through a disciplined top down allocation process combined with bottom up security selection emphasizing growth and quality.

## Investment Philosophy

We believe stocks possessing growth and quality provide the best opportunity for alpha and risk management and can be identified through a combination of top down and bottom up analysis. Companies best positioned to take advantage of industry tailwinds provide opportunity to generate high returns, and high quality companies in industries with low growth are purchased for diversification and risk management.

## Investment Process
Two-pronged long-only investment approach:
1. Top down analysis determines the sector and industry allocations.
2. a) In industries experiencing tailwinds, a bottom up approach is used to select individual securities with an emphasis on reasonable valuation and growth. Consider relative industry multiplies ad drivers such as new products, restructurings, secular and economic trends. etc.
2. b) In industries experiencing headwinds, a bottom up approach focusing on companies with financial and operational quality (e.g., improving asset turnover, free cash flow, above average ROE and below average D/E, etc.) to minimize risk.

## Security Selection – Buy and Sell Process

**Purchase** with 4/5 vote, if 3/5 security further researched and discussed at following meeting.
**Sale** at realization of investment thesis and majority vote, and immediate review red flags include (1) industry down 10% relative to sector, (2) stock down 10% relative to sector, (3) or IMCP analyst downgrades thesis.

| | | | |
|---|---|---|---|
| **Max Position** | 10% | **Max OW/UW Sectors** | 10% |
| **# Positions** | 30-50 | **Max Cash** | 5% |



**Asset Allocation Chart**
01/01/2018 to 04/30/2018 — Russell 6 Style Indices
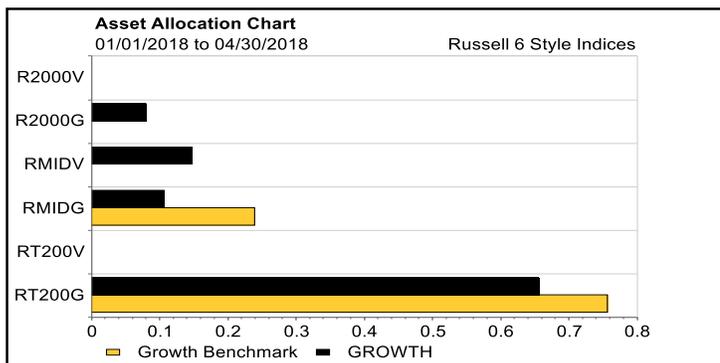
| Period Return | Portfolio | Benchmark | Difference |
|---|---|---|---|
| 10/18/2010 to 4/30/2018 | 178.1% | 185.4% | -7.3% |
| 4/28/2017 to 4/30/2018 | 18.0% | 19.0% | -0.9% |
| One Year | 18.0% | 19.0% | -0.9% |
| Six Months | 9.5% | 5.7% | 3.8% |
| Year to Date | 3.8% | 1.8% | 2.0% |
| One Quarter | -3.1% | -5.0% | 1.9% |
| One Month | 1.5% | 0.3% | 1.2% |

**Assets Under Management**  $562,518





Difference vs Benchmark
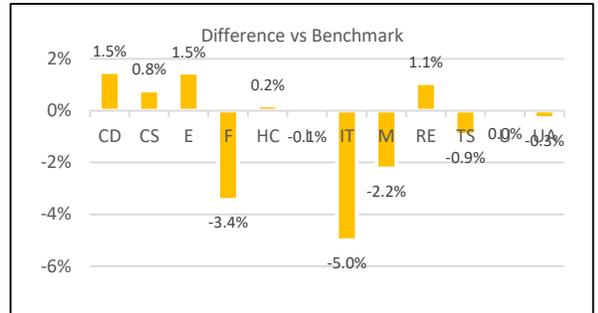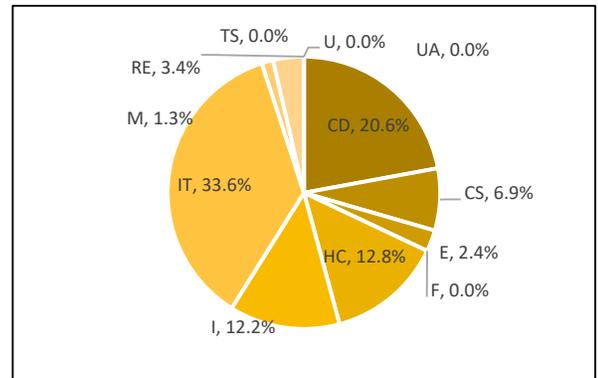
| Factor | Portfolio | Growth Benchmark |
|---|---|---|
| Mkt Cap (Wgt Med, in Bil) | $108,311 | $101,706 |
| Yield | 1.07% | 1.32% |
| FY1 P/E (Wgt Harm) | 20.7 | 20.0 |
| P/CF (Wgt Harm) | 16.3 | 17.8 |
| P/B (Wgt Harm) | 5.0 | 6.3 |
| P/S (Wgt Harm) | 2.4 | 3.0 |
| Hist 3 yr Sales Growth | 12.3% | 11.3% |
| Hist 3 yr EPS Growth | 20.2% | 18.8% |
| Est. 3-5 yr EPS Growth | 17.1% | 15.4% |
| Net Margin | 15.0% | 14.8% |
| ROE | 24.5% | 25.5% |
| ROA | 10.6% | 10.1% |
| LT D/Capital | 40.7% | 44.0% |

| Top 10 Holdings | Port. | Bench |
|---|---|---|
| Apple Inc. | 7.6% | 6.5% |
| Amazon.com, Inc. | 7.0% | 4.9% |
| Microsoft Corporation | 6.1% | 5.4% |
| Facebook, Inc. Class A | 5.7% | 3.1% |
| Alphabet Inc. Class C | 5.4% | 2.4% |
| Intuit Inc. | 4.4% | 0.3% |
| Seaboard Corporation | 4.3% | 0.0% |
| Boeing Company | 3.9% | 1.4% |
| Home Depot, Inc. | 3.3% | 1.7% |
| HCA Healthcare Inc | 2.9% | 0.0% |
| **Total** | **50.6%** | **25.8%** |

| | Since Transition | |
|---|---|---|
| Statistic | Benchmark | Portfolio |
| Tracking Error | - | 2.73 |
| Beta | 1.00 | 0.92 |
| Active Share | 0% | 64.6% |

## Performance

The fund has underperformed against the benchmark return since inception. Since transition, we are performing in line, and year to date we have outperformed the benchmark.

## Positions

Our top 10 positions make up 51% of the fund. We are overweight all of our top 10 positions, with half belonging to the technology sector. Despite this, technology is the sector with our largest underweight.

## Character

The portfolio has a bias to larger companies. On average, we own slightly cheaper securities than the benchmark with slightly better fundamentals, such as P/CF, P/B , P/S, margins, ROA, debt, etc.

## Attribution and Contribution

| Date | Allocation | Selection | Interaction | Total |
|---|---|---|---|---|
| 10/18/2010 to 4/30 | -8.3% | -0.5% | 2.5% | -6.3% |
| One Year | -1.4% | 1.0% | -0.4% | -0.8% |
| 5/01/2017 to 4/30/ | -1.4% | 0.9% | -0.4% | -0.9% |
| Six Months | 0.2% | 3.5% | 0.0% | 3.8% |
| Year to Date | 0.1% | 1.6% | 0.4% | 2.0% |
| One Quarter | 0.1% | 1.8% | 0.0% | 1.9% |
| One Month | 0.1% | 1.0% | 0.1% | 1.2% |

| Since Transition | Avg Wgt | Return | Contrib |
|---|---|---|---|
| Total | | | 3.8% |
| 5 Highest | 23.1% | 19.6% | 4.0% |
| Amazon.com, Inc. | 6.4% | 33.9% | 1.7% |
| Intuit Inc. | 4.0% | 17.7% | 0.7% |
| Microsoft Corporation | 6.0% | 9.8% | 0.6% |
| Five Below, Inc. | 2.7% | 15.3% | 0.5% |
| Boeing Company | 4.0% | 13.7% | 0.5% |
| 5 Lowest | 16.1% | -10.0% | -1.7% |
| Comcast Corporation Class A | 2.2% | -20.9% | -0.5% |
| Seaboard Corporation | 4.4% | -9.1% | -0.5% |
| Stanley Black & Decker, Inc. | 2.3% | -16.2% | -0.4% |
| PepsiCo, Inc. | 1.3% | -15.2% | -0.2% |
| Facebook, Inc. Class A | 5.8% | -2.5% | -0.1% |

Year to date, we've had all positive attribution metrics. Since transition, we've had a slightly negative total effect, with allocation being our biggest detractor. Since inception, allocation and selection have led to underperformance, but we have picked the winning sectors to overweight.

## Risk and Risk Adjusted Performance



Multi-Statistic Chart
01/01/2018 to 04/30/2018
Beta, Sharpe Ratio, Info Ratio, Jensen Alpha — Growth Benchmark, GROWTH



Multi-Statistic Chart
01/01/2018 to 04/30/2018
Annualized StdDevn All Periods, Tracking Error (Anlzd All Periods), Treynor Ratio, VaR 130 Period 90% Confidence — Growth Benchmark, GROWTH



Downside Capture % vs. Upside Capture %
01/01/2018 to 04/30/2018
Growth Benchmark, GROWTH
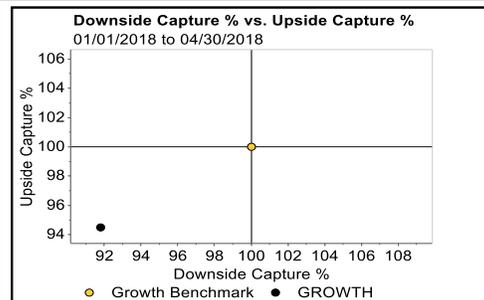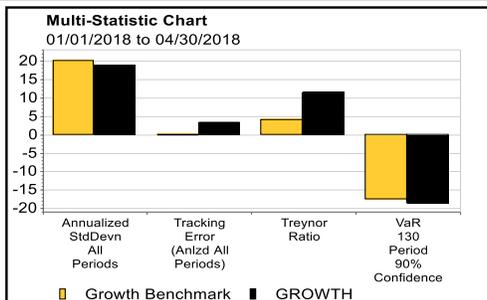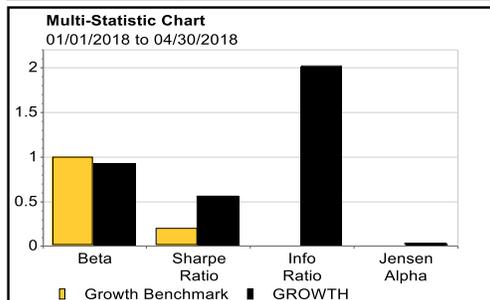
Since transition, the portfolio has had slightly more risk than the benchmark and performed in line; our risk-adjusted ratios are lagging.

## Portfolio Strategy and Evolution

Over the year we increased our exposure to Technology and Consumer Discretionary, while decreasing our exposure to Financials and Telecommunication Services. Brand new positions achieved include EL and NFLX, and eliminated positions include DIS and FIVE. We also formed strategic opinions on the FAANG stocks in order to capture market returns while still managing activley. A few more pitches conducted througout the year include MSFT, EXPE, and SWKS. As a team, we provided weekly performance and reviewed opportunities by using a self-made screening tool on FactSet.

# CLIENT PRESENTATION

# MANAGEMENT: UNDERGRADUATE STUDENTS

**Karissa Zanoni,**
B.B.A. Finance & Accounting
Fund Service Specialist
U.S. Bancorp
**Consumer Staples**
**Consumer Discretionary**
**REITs**

**Christian Pacheco**
B.B.A. Finance
Public Finance Intern
R.W. Baird & Co, Inc.
**Healthcare**
**Energy**
**Telecom**

**Gurcharan Singh**
B.B.A. Finance
Former Investment Analyst Intern
Baird Advisors
**Financials**
**Technology**
**REITs**
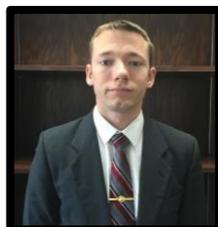
**Justin Brant**
B.B.A. Finance
Portfolio Strategy Team
Cornerstone Macro
**Industrials**
**Materials**
**Technology**

**Daniel Macek**
B.B.A. Finance
Fixed Income Sales & Trading
intern
Piper Jaffray & Co
**Materials**
**Financials**
**Consumer Discretionary**
**Utilities**

# PRESENTATION OVERVIEW

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## Objective

Outperform benchmark on a *relative return basis* while maintaining ample *portfolio diversification* through:

➤ Strategic allocation to sectors (primary)
➤ Superior stock selection through bottom-up analysis (secondary)
➤ Tactical allocation to sectors based on expectations and performance (tertiary)

## Benchmark

Russell 1000 Growth Index

➤ Largest 1000 stocks
➤ Large and mid-cap stocks

# PERFORMANCE SINCE INCEPTION 10/18/2010
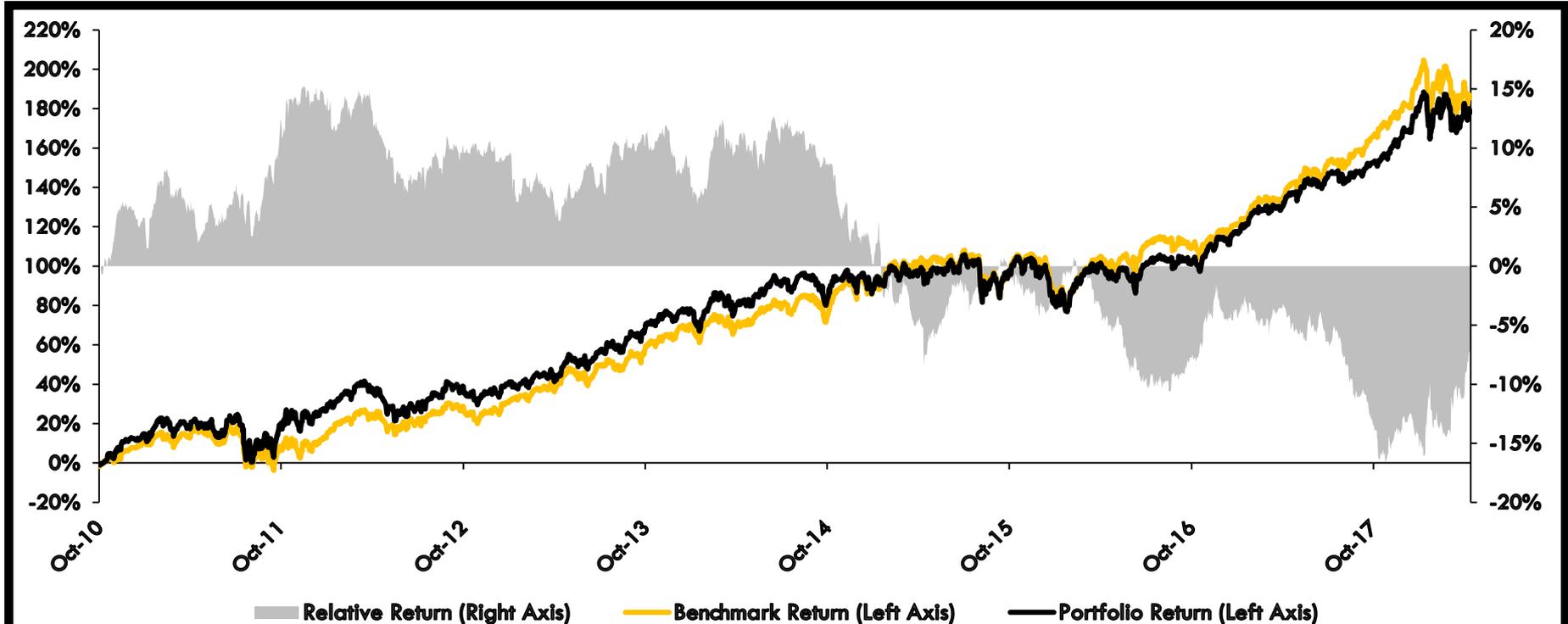


The Milwaukee Growth Fund has produced a total return of 178.11%* while the benchmark has produced a total return of 185.41%

## Underperformance 7.30 %

* Returns are provided by FactSet, which differs from actual due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet, and while not exact, they provide a good overall representation of performance attribution and risk.

# PERFORMANCE SINCE TRANSITION 4/30/17
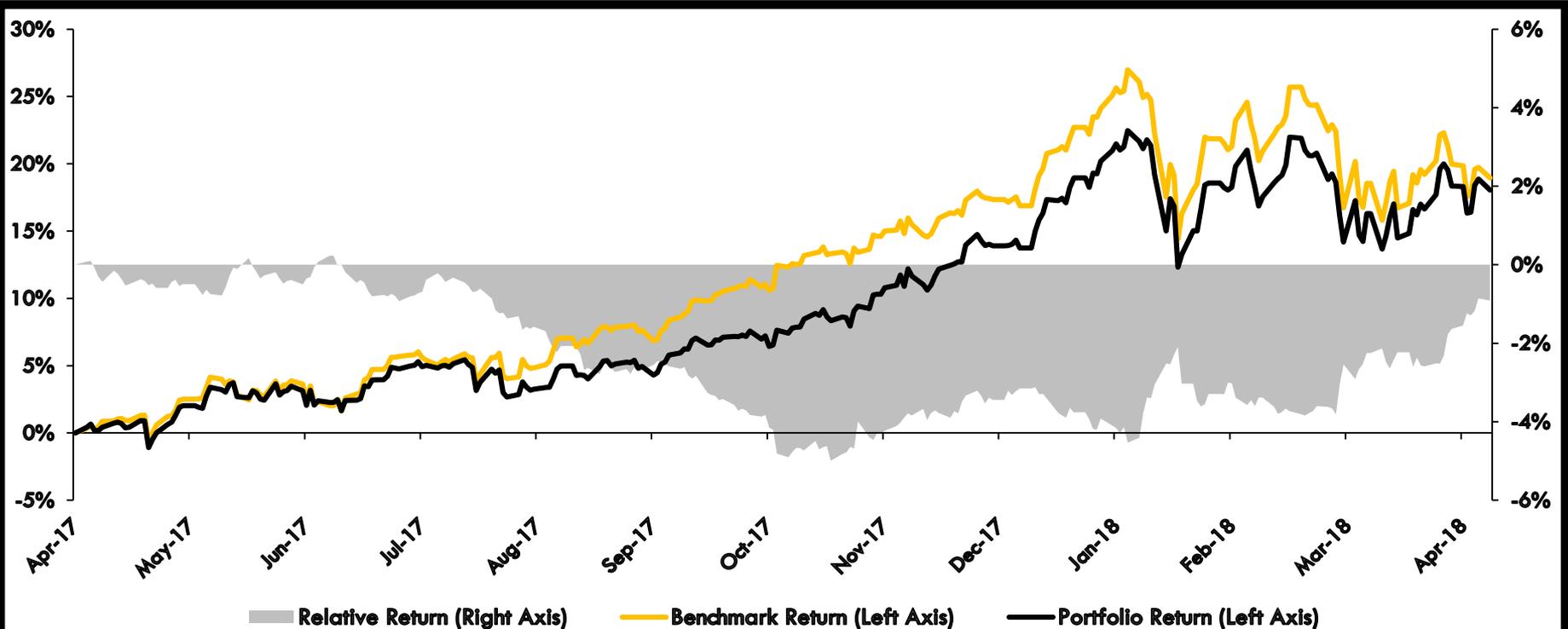


The Milwaukee Growth Fund has produced a total return of 18.05%* while the benchmark has produced a total return of 18.96%

## Underperformance: 0.91%

* Returns are provided by FactSet, which differs from actual due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet, and while not exact, they provide a good overall representation of performance attribution and risk.

# PERFORMANCE SINCE 1/1/18
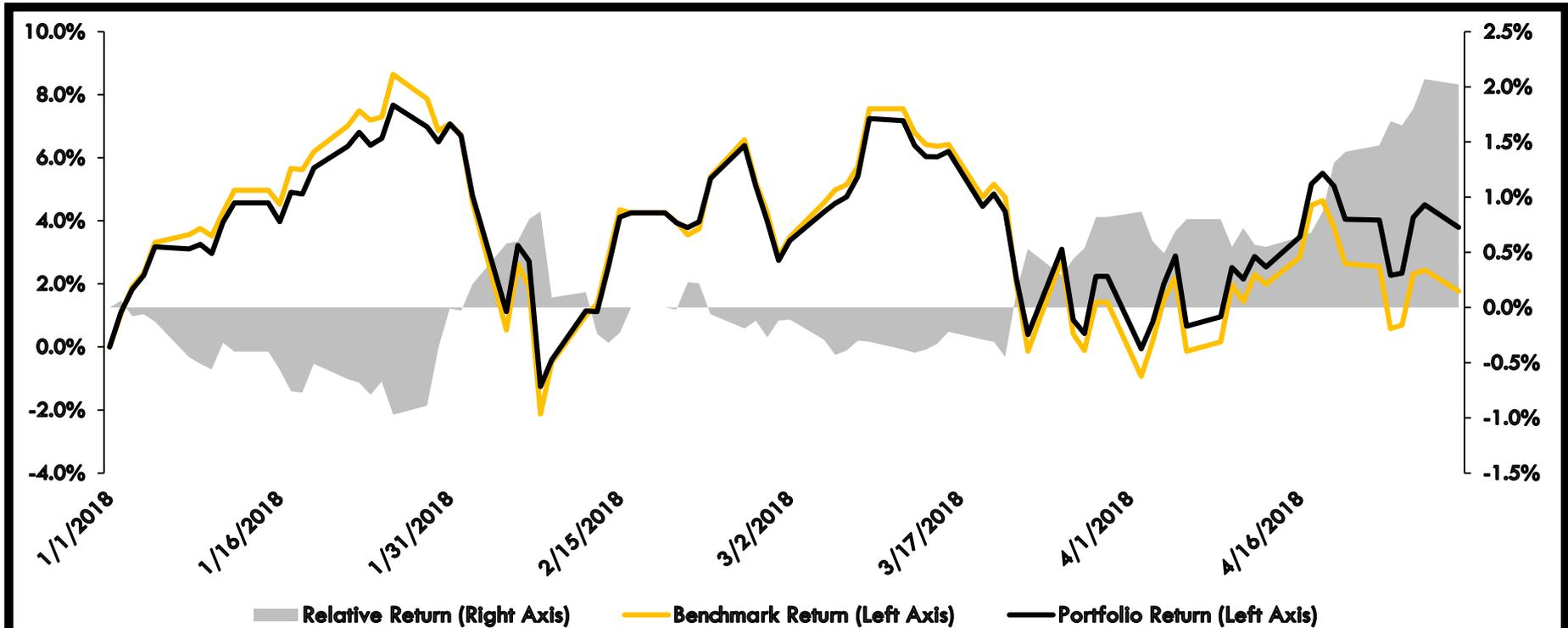


The Milwaukee Growth Fund has produced a total return of 3.79%* while the benchmark has produced a total return of 1.77%

## Outperformance: 2.02%

* Returns are provided by FactSet, which differs from actual due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet, and while not exact, they provide a good overall representation of performance attribution and risk.

**Actively managing portfolio with valuable, growing companies with economic moats provides greatest opportunity to generate alpha**

➢ **The best of both worlds (growth and value)**

➢ **Sustainable investments - moats**

➢ **Taking over/underweight positions against the benchmark provides a lever for risk control**
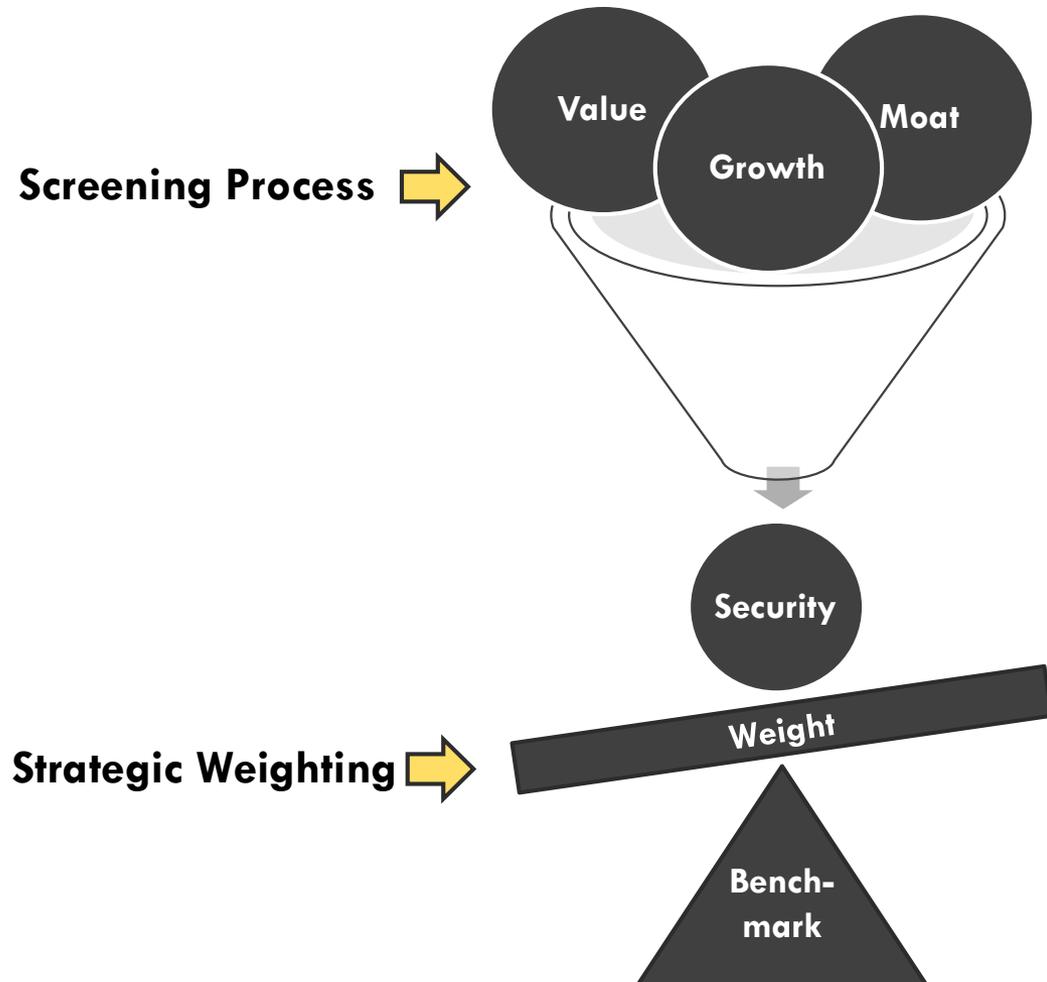
| Two bottom-up strategies to beat our benchmark: | |
|---|---|
| **Strategic Weighting** | **Three-Factor Screen** |
| ➢ Largest companies cause major movements in benchmark<br>➢ Actively positioning the weights of these companies provides further opportunities to generate alpha | ➢ Industry relative<br>➢ Three-factor<br>    ➢ Growth – LTM earnings acceleration<br>    ➢ Valuation – quality relative fundamentals<br>    ➢ Moat – sustainable competitive advantage |
| **Economic Analysis** | |
| ➢ Determine sector allocation and individual stock weighting | |

**Strategic weighting provides an opportunity to generate alpha while also providing a lever to manage risk**

| Screen | | |
|---|---|---|
| Relative to 200 largest comparable companies | | |
| Neutral | Overweight | Underweight |
| ➤ Excessive sell-side analyst coverage<br>➤ Our analysts are unable to form a view different from consensus | ➤ Score high in screening process<br>➤ Tailwinds<br>   ➤ Industry<br>   ➤ Sector<br>   ➤ Company-specific view different from consensus | ➤ Score poor in screening process<br>➤ Headwinds<br>   ➤ Industry<br>   ➤ Sector<br>   ➤ Company-specific view different from consensus |

# PORTFOLIO CHARACTERISTICS AS OF 4/30/2018

- ➤ Portfolio versus the benchmark
  - ➤ Higher market capitalization
  - ➤ Valuation metrics
    - ➤ Higher FY1 P/E
    - ➤ Lower P/CF, P/B and P/S
    - ➤ Lower Yield
- ➤ Growth and profitability metrics
  - ➤ Higher growth
    - ➤ Companies with historical rapid sales and EPS growth
    - ➤ Companies with estimated higher EPS growth
  - ➤ Higher net margin

- ➤ Return on investment and capital structure
  - ➤ Lower ROE
  - ➤ Lower debt
  - ➤ Higher ROA

| Characteristics | Milwaukee Growth Fund | Growth Benchmark |
|---|---|---|
| Mkt Cap (Wgt Med, in Bil) | $108.3B | $101.7 |
| Yield (6 mo) | 1.07% | 1.32% |
| FY1 P/E (Wgt Harm) | 20.7 | 20.0 |
| P/CF (Wgt Harm) | 16.3 | 17.8 |
| P/B (Wgt Harm) | 5.0 | 6.3 |
| P/S (Wgt Harm) | 2.4 | 3.0 |
| Hist 3 yr Sales Growth | 12.3% | 11.3% |
| Hist 3 yr EPS Growth | 20.2% | 18.8% |
| Est. 3-5 yr EPS Growth | 17.1% | 15.4% |
| Net Margin | 15.0% | 14.8% |
| ROE | 24.5% | 25.5% |
| ROA | 10.6% | 10.1% |
| LT D/Capital | 40.7% | 44.0% |

*FactSet, as of 4/30/2018*

# SECTOR ATTRIBUTION SINCE TRANSITION

- Our allocation effect suffered from positions in IT and cash
- Our selection effect benefitted from better picks in CD and I
- Our interaction suffered from F and M
- Our Total effect benefitted from CD and I but was hurt by HC and cash
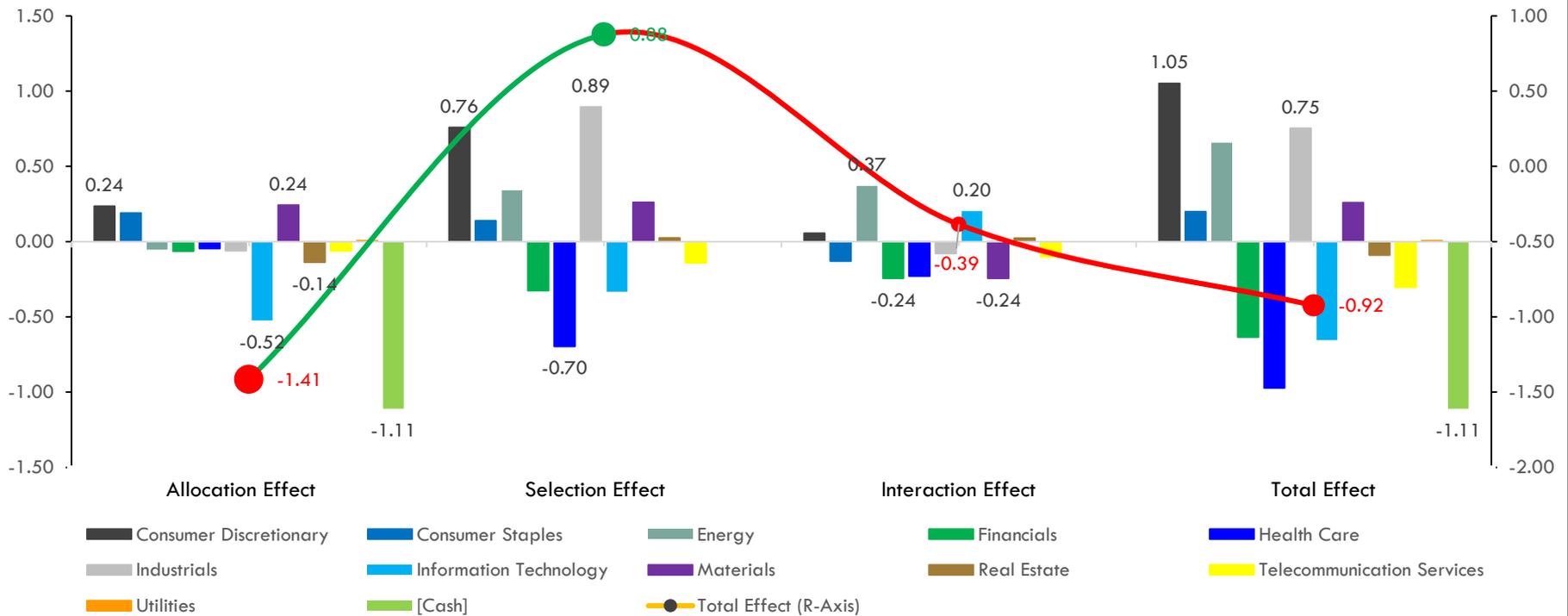


*FactSet, 4/30/2018 - 4/30/2018*

# SECTOR ATTRIBUTION SINCE LAST CLIENT MEETING

➢ We've had all positive effects, led primarily by CD, HC and E sectors
➢ Our detractors were primarily IT and F
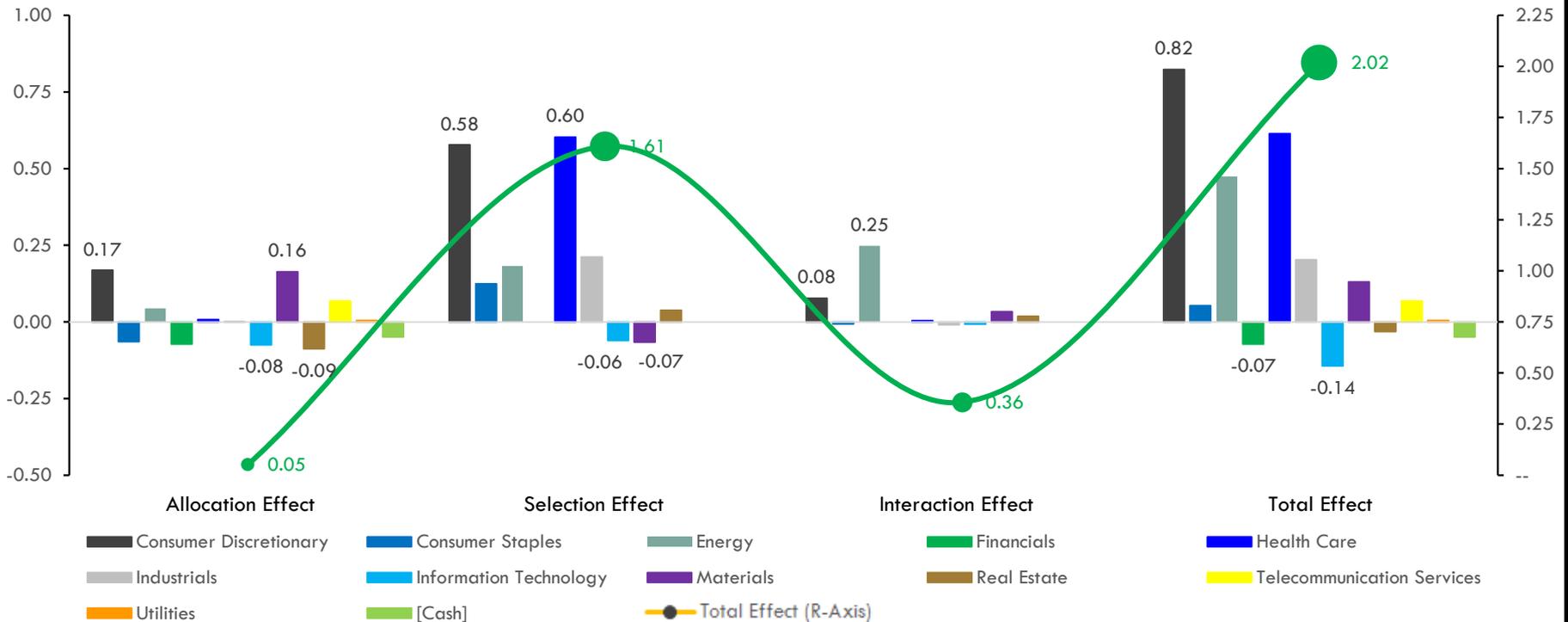


FactSet, 1/1/2018 - 4/30/2018

- Stock specific factors helped performance January through April, while style/economic sensitivity factors negatively impacted portfolio return
- Positive CD & Industrial sector performance helped stock specific return
- Overall, we have improved total effect by 62% since our lowest point (10/31/2017)

**Total Performance Attribution Since Transition**



Legend: Risk Stock Specific Effect | Risk Factors Effect | Cumulative Stock Specific Effect | Cumulative Factors Effect | Total Effect
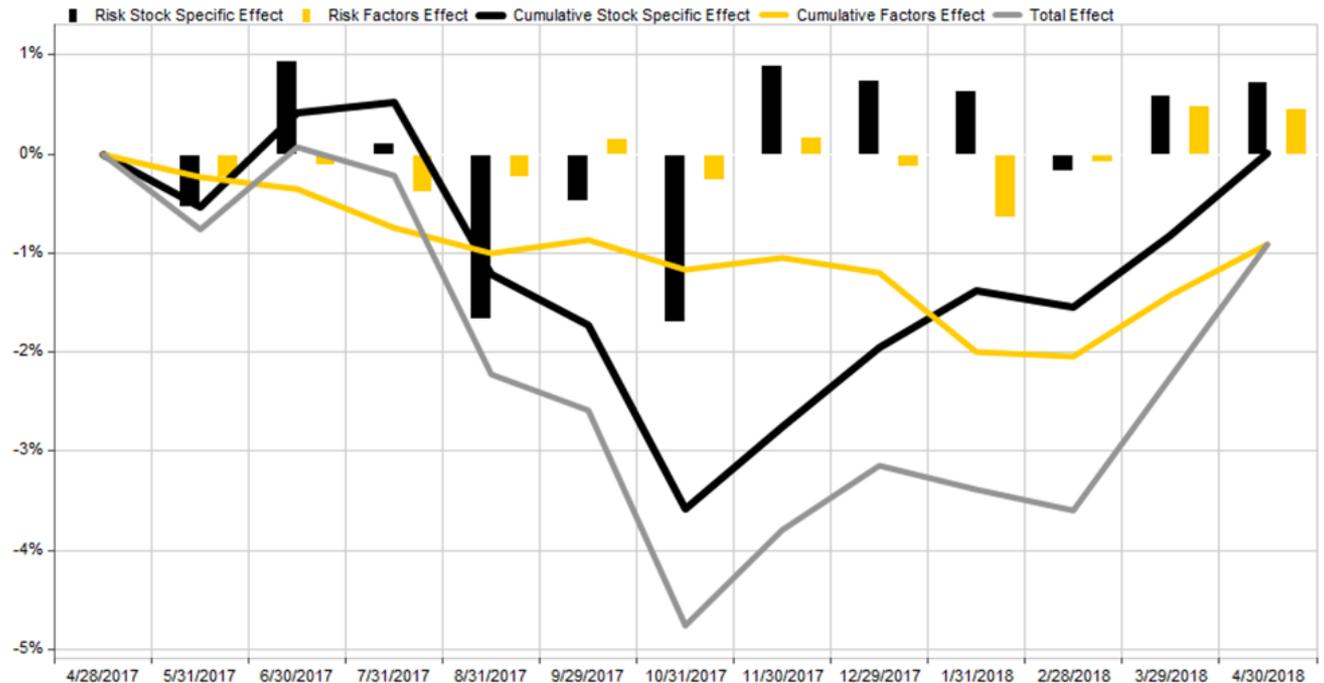
*Factset - Axioma, 4/28/17 - 4/30/2018*

- **Total Effect: -0.91%** vs. -3.15% (4/28/2017 – 12/29/2017)
  ⇨ Improvement of 71% since last reported

# AXIOMA RISK FACTOR EFFECT

**Factor Attribution Since Transition – Equity Market (Left) & Equity Size (Right)**
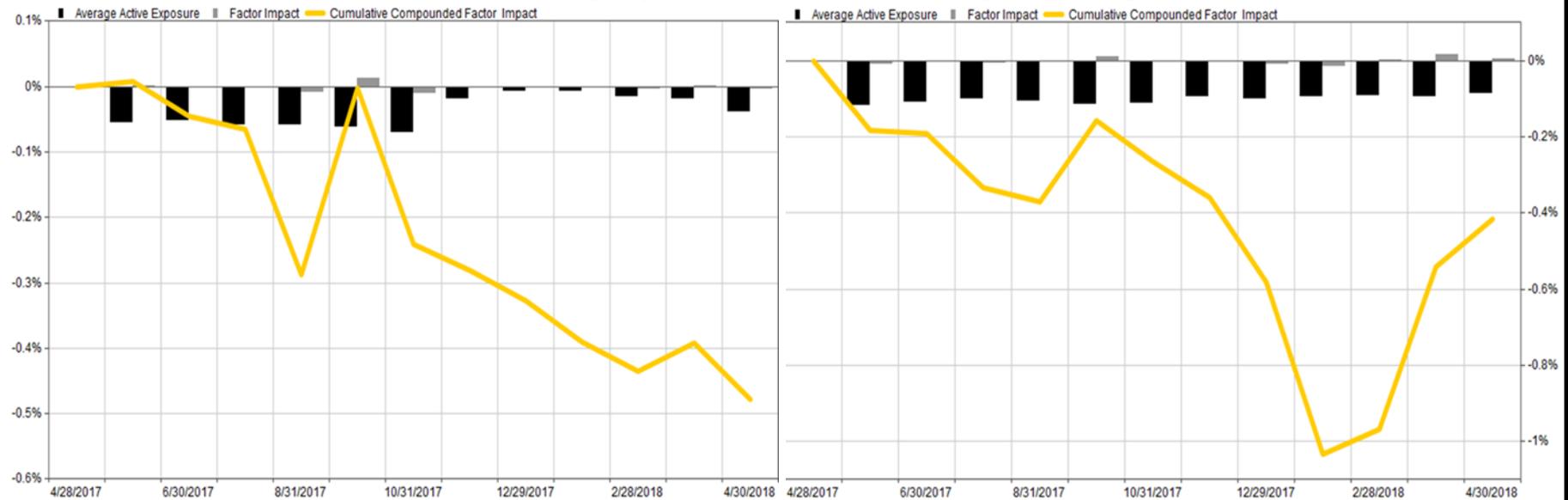


*Factset - Axioma, 4/28/17 - 4/30/2018*

➢ **Risk Factor: -0.92%** vs. -1.19% (4/28/17 - 12/29/17)

➡ Improvement of 23% since last reported

➢ In terms of factor based risk, Equity Market (-0.48%) & Equity Size (-0.42%) were the biggest detractors to performance

# AXIOMA STOCK SPECIFIC EFFECT

**Stock Attribution Since Transition – IT (Left) & Healthcare (Right)**



*Factset - Axioma, 4/28/17 - 4/30/2018*

- ➢ **Stock Specific: 0.01%** versus -1.96% (4/28/17 - 12/29/17)
  - ➡ Improvement of 101% since last reported
- ➢ In terms of stock specific risk, Information Technology (-1.04%) & Healthcare (-0.62%) were the biggest detractors to performance
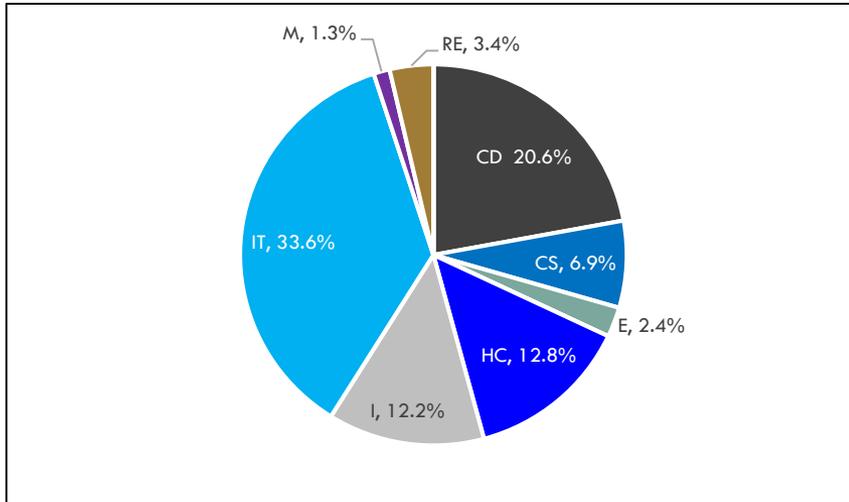
*FactSet, as of 4/30/2018*

➢ Hold position in: IT, CD, HC, I, CS, RE, E
➢ No positions in: TS, U or F

➢ Overweight five sectors
➢ Underweight six sectors
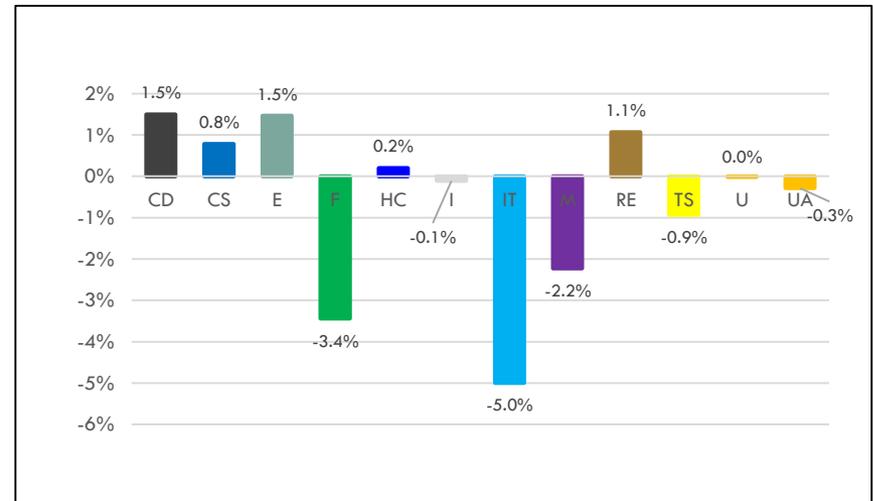


*FactSet, as of 4/30/2018*

# TOP 5 BOTTOM 5 SINCE LAST CLIENT MEETING

➢ AMZN was our biggest winner, while CMSA was our biggest loser
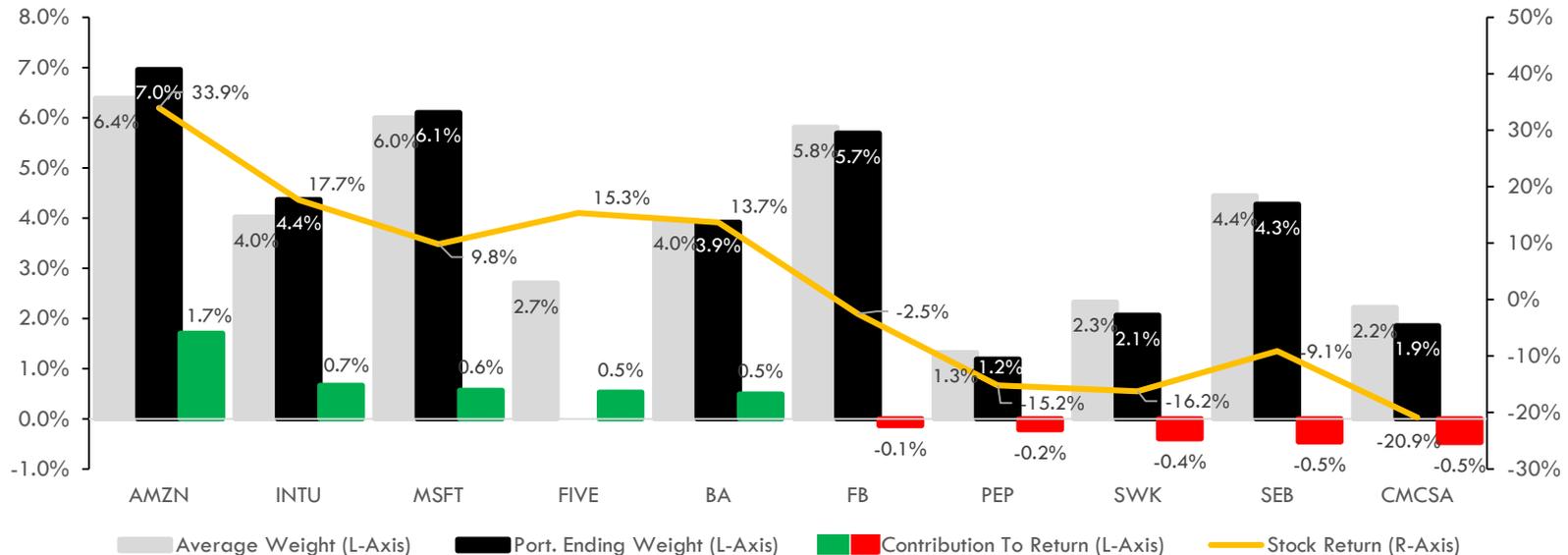


*FactSet, as of 1/1/2018 - 4/30/2018*

➢ Except for FIVE, our weights increased for all of our top five performers since last client meeting

➢ Our weightings decreased in all of our bottom five performers since our last client meeting

- The top 10 positions in our portfolio make up 51% of its weight vs 26% for Benchmark
  - Five Technology companies: AAPL, MSFT, FB, GOOG, INTU; two Consumer Discretionary: AMZN, HD; one Consumer Staple: SEB; one Industrial company: BA; one healthcare: HCA
  - We are overweight on all of our top 10 holdings
    - All have positive ROA, ROE, NET Margin and varying debt component (D/A)
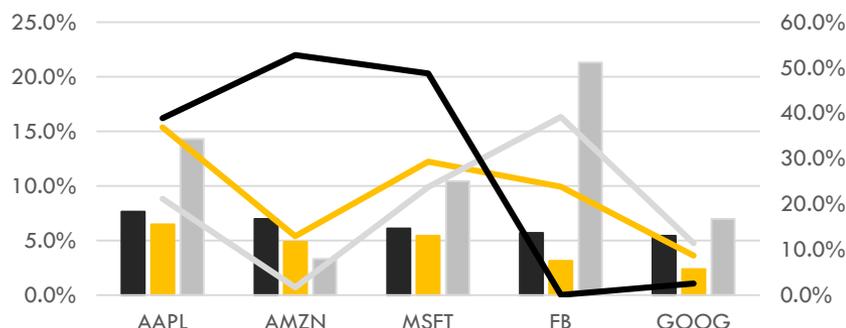


Legend: Portfolio Ending Weight (L); Bench Ending Weight (L); ROA (L); ROE (R); Net Margin (R); LT/Capital (R)

| First Half | Portfolio Ending Weight | Bench Ending Weight | Difference | ROA | ROE | Net Margin | LT/Capital |
|---|---|---|---|---|---|---|---|
| AAPL | 7.6% | 6.5% | 1.2% | 14.3% | 36.9% | 21.2% | 38.9% |
| AMZN | 7.0% | 4.9% | 2.1% | 3.3% | 12.9% | 1.7% | 52.8% |
| MSFT | 6.1% | 5.4% | 0.7% | 10.4% | 29.4% | 23.7% | 48.7% |
| FB | 5.7% | 3.1% | 2.5% | 21.3% | 23.8% | 39.2% | 0.0% |
| GOOG | 5.4% | 2.4% | 3.0% | 7.0% | 8.7% | 11.4% | 2.5% |
| Sum/**Avg** | 31.8% | 22.3% | 9.5% | **11.3%** | **22.3%** | **19.4%** | **28.6%** |

| Second Half | Portfolio Ending Weight | Bench Ending Weight | Difference | ROA | ROE | Net Margin | LT/Capital |
|---|---|---|---|---|---|---|---|
| INTU | 4.4% | 0.3% | 4.0% | 23.8% | 77.2% | 18.8% | 23.8% |
| SEB | 4.3% | 0.0% | 4.3% | 5.4% | 7.5% | 4.3% | 11.8% |
| BA | 3.9% | 1.4% | 2.5% | 9.2% | 1397.8% | 8.8% | 85.3% |
| HD | 3.3% | 1.7% | 1.6% | 21.3% | 298.3% | 8.6% | 85.2% |
| HCA | 2.9% | 0.0% | 2.9% | 9.4% | 6.3% | 5.1% | 125.2% |
| Sum/**Avg** | 18.8% | 3.5% | 15.3% | **13.8%** | **357.4%** | **9.1%** | **66.2%** |

*FactSet, as of 4/30/2018*

# PORTFOLIO EVOLUTION

**Primary allocation adjustments:**

➢ Trimmed exposure to Materials, Financials, Health Care and Telecommunication Services

➢ Underweight Financials, Health Care, Materials and Telecommunication Services

➢ Raised our weight in Information Tech

➢ Strategic movement of funds from underperformers to outperformers within mega cap

➢ Bought MSFT and EL which have contributed 0.10 and 0.12 overall to the portfolio, respectively since the last client meeting

| Sector | 4/28/2017 | | | 4/30/2018 | | | Total Portfolio Weight Change |
|---|---|---|---|---|---|---|---|
| | Portfolio Weight | Benchmark Weight | Difference | Porfolio Weight | Benchmark Weight | Difference | |
| Consumer Discretionary | 19.6 | 20.8 | -1.2 | 20.6 | 19.1 | 1.5 | 1.0 |
| Consumer Staples | 5.7 | 7.9 | -2.2 | 6.9 | 6.1 | 0.8 | 1.1 |
| Energy | 1.5 | 0.5 | 1.0 | 2.4 | 0.9 | 1.5 | 0.9 |
| Financials | 4.9 | 2.8 | 2.2 | 0.0 | 3.4 | -3.4 | -4.9 |
| Health Care | 15.7 | 16.3 | -0.7 | 12.8 | 12.6 | 0.2 | -2.9 |
| Industrials | 8.3 | 10.7 | -2.4 | 12.2 | 12.3 | -0.1 | 3.9 |
| Information Technology | 28.4 | 32.8 | -4.4 | 33.6 | 38.6 | -5.0 | 5.2 |
| Materials | 1.1 | 2.9 | -1.8 | 1.3 | 3.5 | -2.2 | 0.1 |
| Real Estate | 3.2 | 2.7 | 0.5 | 3.4 | 2.3 | 1.1 | 0.2 |
| Telecommunication Services | 1.8 | 1.0 | 0.8 | 0.0 | 0.9 | -0.9 | -1.8 |
| Utilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | 9.9 | 0.0 | 9.9 | 7.0 | 0.0 | 7.0 | -2.9 |

*FactSet, as of 4/30/2018*

# WHAT WE LEARNED?

- ☐ **Karissa: Be sure to write down why you think what you think. It will come in handy when something unexpected happens to a stock.**

- ☐ **Justin: Always remember to keep the big picture in mind when looking at individual stocks.**

- ☐ **Christian: Investing in stocks means owning the business: Understand your business, your competitors and most importantly, your customer.**

- ☐ **Dan: How we allocate to sectors is sometimes more important than the stocks we choose in those respective sectors. Also, an appropriate entry point is necessary when adding a position.**

- ☐ **Gurcharan: Investors tend to underreact & overreact. Be mindful of important news while blocking out added noise, & trust your fundamental research.**

# MILWAUKEE GROWTH FUND

## QUESTIONS?

Analyst: Justin Brant
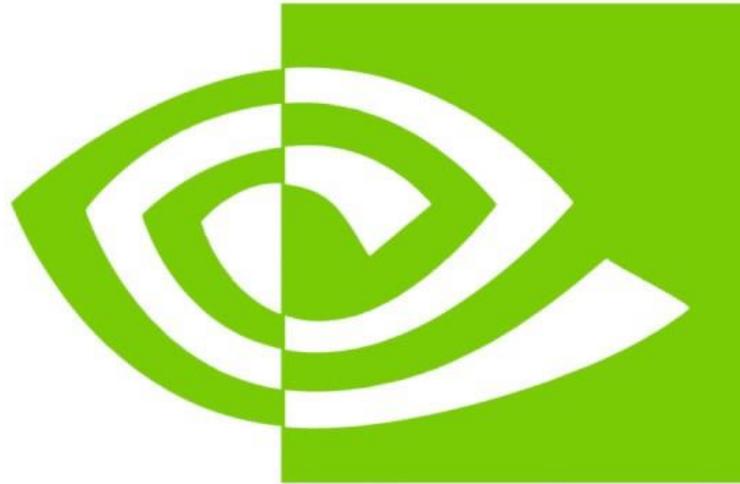
# NVIDIA Corp. (NVDA)

- Recommendation: Buy
- Price Target: $320.00
- Current Price: $248.00
- Upside: 29%

**Buy**
- Well positioned to push technological growth
- Strong cash balance as well as operating leverage substantially minimize risk

**Data Centers/AI Opportunities**
- NVDA network effect positive for data centers
- Highest GPU computing power against competitors

**Automotive Partnerships**
- Drive PX platform leader in autonomous driving
- Strong partnerships across the supply chain in automotive market

**Operating Leverage**
- Expanding margins
- Healthy R&D

**Valuation**
- Undervalued relative to competitors

**Risk**
- Slow automotive adoption
- High R&D variability
- Crypto Currency headwinds



NVIDIA Corporation (NVDA) — Source: FactSet Prices
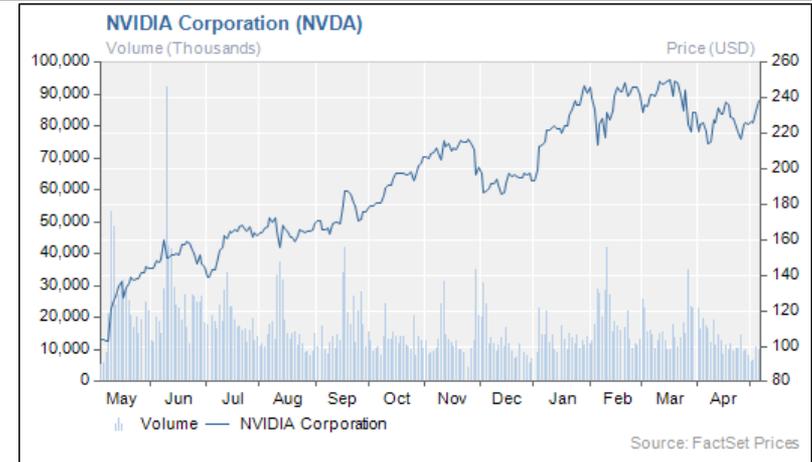
| Growth | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Sales (M) | $ 5,010 | $ 6,910 | $ 9,314 | $ 11,459 | $ 14,639 |
| Growth | 7.0% | 37.9% | 34.8% | 23.0% | 27.8% |
| EPS | $ 1.13 | $ 3.08 | $ 4.54 | $ 6.02 | $ 8.02 |
| Growth | -1.1% | 172.3% | 47.4% | 32.6% | 33.3% |
| **Ratio** | | | | | |
| P/E | 27.1 | 42.5 | 52.9 | 47.4 | |
| P/B | 3.7 | 12.0 | 19.8 | 15.0 | |
| ROE | 13.8% | 32.6% | 36.1% | 36.7% | 38.0% |
| Net Margin | 12.3% | 24.1% | 26.4% | 28.1% | 29.0% |
| FCFE/Share | $ 1.66 | $ 1.87 | $ 3.22 | $ 4.83 | $ 6.24 |
| Debt/Assets | 6.3% | 23.0% | 19.7% | 16.6% | 13.3% |
| EBIT/Interest | 186.8 | 66.7 | 51.8 | 67.8 | 89.1 |

# Business Overview

- Lead designer and manufacturer of computer graphics processors and chipsets

- Market Cap of $145.1 Billion

- 2018 Revenue by Segment

**Figure 1: NVDA Revenue by Segment**



OEM & IP 8%
Automotive 6%
Datacenter 20%
Professional Visualization 9%
Gaming 57%
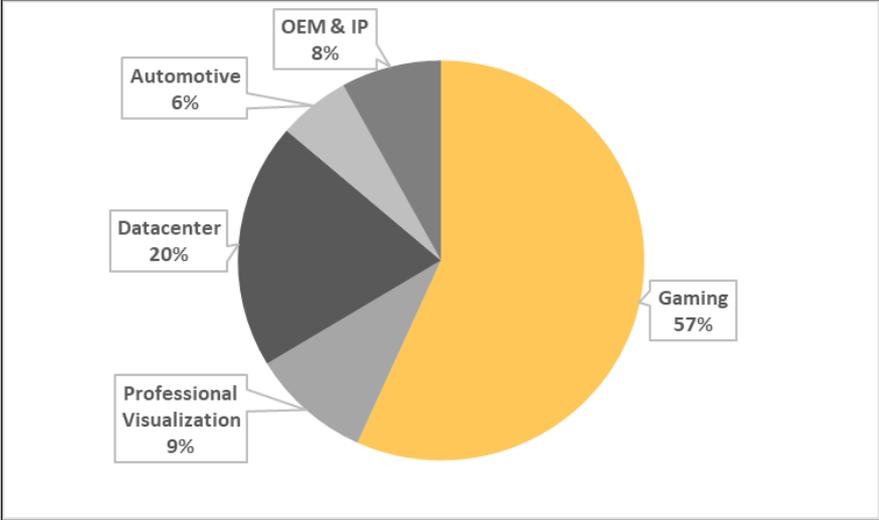
Source: Company 10K, IMCP

### Gaming
- Personal Gaming Computers
- E-Sports
- Crypto-Currency Mining

### Professional Visualization
- Medical Imaging
- Engineering
- Virtual Reality
- GE Healthcare

### Datacenter
- Deep Learning
- Artificial Intelligence
- Cloud Computing
- Amazon/Google/Microsoft

### Automotive
- Autonomous Driving
- Tesla/Toyota/Mercedes Benz/BMW

### OEM & IP
- PC's
- Mobile Phones
- Dell

# Driver 1: Data Center/ AI Demand

☐ **NVIDIA Tesla chips are heavily used in Data Center platforms.**

- ◻ AI and HPC is expected to impact the data center market.
- ◻ CUDA ecosystem advantage
- ◻ 87 of the top 500 supercomputers use NVDA chips
- ◻ NVIDIA's high relative computing power in the GPU space has created a strong competitive position



*Source: DLR, Cisco Visual Networking Index, CISCO Global Cloud Index*

**Figure 3: NVDA Revenue by Segment for 2014-2020E**



*Source: Company 10k, IMCP*

**Figure 4: NVDA Data Center Revenue**



*Source: NVIDIA*

Business | Driver 1 | Driver 2 | Driver 3 | Financials | Comps | Relative Valuation | DCF | Risks | Summary
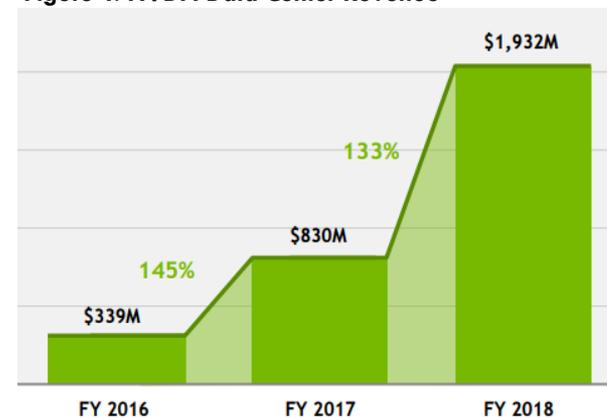
# Driver 2: Installing Autonomous Driver

☐ **NVIDIA's Drive Family is the leading chip platform in autonomous driving**

◘ All current Tesla cars include the Drive PX platform

◘ NVIDIA Drive partnerships with over 370 partners including Tesla, Audi, Mercedes Benz, BMW, Toyota, Volvo, TomTom, and Bosch

◘ Electric vehicle transition by multiple manufacturers will significantly increase the adoption of autonomous driving

◘ Norway, UK, and France have pledged to go all electric by 2040

**Figure 5: NVIDIA PX 2 powers image processing "Tesla Vision"**



**NVIDIA DRIVE PX 2**

12 CPU cores | Pascal GPU | 8 TFLOPS | 24 DL TOPS | 16nm FF | 250W | Liquid Cooled

*World's First AI Supercomputer for Self-Driving Cars*

*Source: Company 10K, IMCP*

**Figure 6: NVIDIA Drive Family**



*Source: Company Website*

Business | Driver 1 | **Driver 2** | Driver 3 | Financials | Comps | Relative Valuation | DCF | Risks | Summary

# Driver 3: Operating Leverage

- **Improving margins expanding growth**
  - Increasing efficiencies pushing gross margin expansion
  - Expanding gross margin as well as somewhat stable R&D leading to EPS growth
  - 2019 EPS impact of +$0.43
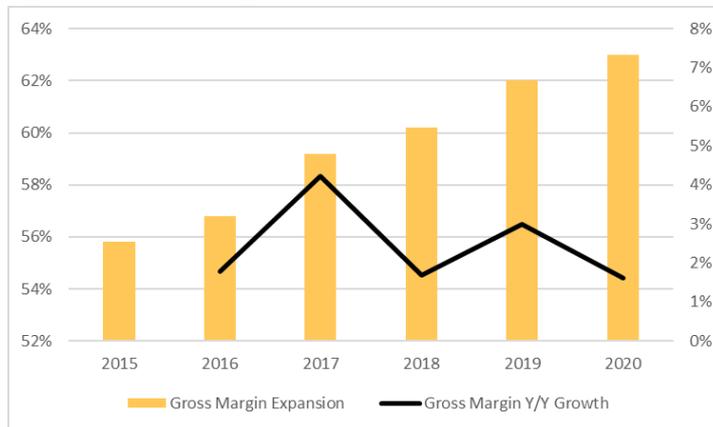
**Figure 8: Quantification of 2019 EPS Drivers**



*Source: Company 10K, IMCP*

**Figure 7: NVDA Margins**



*Source: Company 10K, IMCP*

Business → Driver 1 → Driver 2 → **Driver 3** → Financials → Comps → Relative Valuation → DCF → Risks → Summary
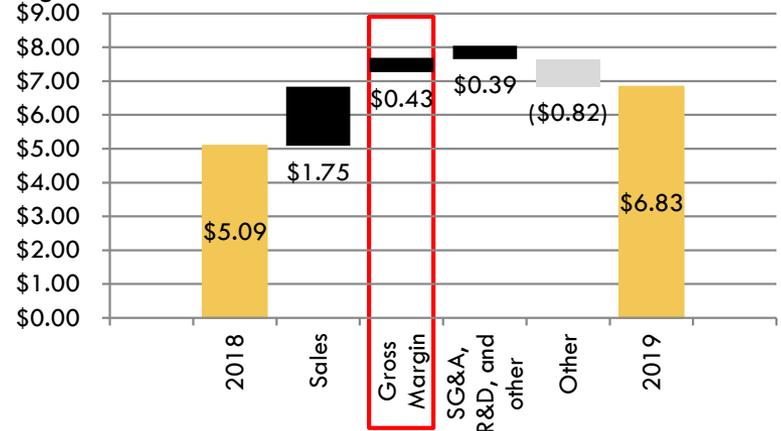
# Financials

- ☐ ROE, Margins, FCF to expand further

  - ◻ Continued decrease of debt with possibility to lever up

  - ◻ More cash to shareholders through dividends

  - ◻ Expect continued margin expansion

  - ◻ ROE projected to improve to 38.2% in 2020

**Figure 9: Selected Financials**

|  | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|---|---|
| FCFF per share | $ 1.06 | $ 1.67 | $ 1.91 | $ 3.53 | $ 5.42 | $ 7.96 |
| FCFE per share | $ 1.05 | $ 1.66 | $ 1.87 | $ 3.51 | $ 5.36 | $ 7.89 |
| Cash (M) | $ 497 | $ 596 | $ 1,766 | $ 4,002 | $ 5,704 | $ 9,586 |
| Total debt (M) | $ 1,887 | $ 1,876 | $ 3,056 | $ 2,632 | $ 2,632 | $ 3,617 |
| Y/Y change | 2.1% | -0.6% | 62.9% | -13.87% | -0.57% | 38.21% |
| Debt/assets | 38.6% | 19.0% | 33.0% | 31.5% | 28.7% | 25.8% |

*Source: Company 10K, IMCP*

**Figure 10: NVDA ROE Breakdown**

| 5-Stage DuPont | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|---|---|
| EBIT / Sales | 16.2% | 14.9% | 28.0% | 33.0% | 37.0% | 39.0% |
| Sales / Avg. Assets | 1.38 | 1.67 | 1.79 | 1.50 | 1.38 | 1.28 |
| EBT / EBIT | 99.5% | 99.5% | 98.5% | 99.6% | 99.2% | 99.3% |
| Net Income / EBT | 83.6% | 82.6% | 87.5% | 95.3% | 85.0% | 85.0% |
| ROA | 18.5% | 20.5% | 43.1% | 47.1% | 43.0% | 42.1% |
| Avg. Assets / Equity | 0.77 | 0.68 | 0.76 | 0.98 | 1.08 | 1.12 |
| ROE | 14.2% | 13.8% | 32.6% | 46.1% | 46.4% | 47.1% |

*Source: Company 10K, IMCP*

**Figure 11: Margins**

|  | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Gross margin | 55.5% | 56.1% | 58.8% | 59.9% | 62.0% | 63.0% |
| EBIT margin | 16.2% | 14.9% | 28.0% | 33.0% | 37.0% | 39.0% |
| Net margin | 13.5% | 12.3% | 24.1% | 31.4% | 31.2% | 32.9% |

*Source: Company 10K, IMCP*

Business ▶ Driver 1 ▶ Driver 2 ▶ Driver 3 ▶ Financials ▶ Comps ▶ Relative Valuation ▶ DCF ▶ Risks ▶ Summary

# Justified High Multiples

☐ Average industry multiples < NVDA's multiples

**Figure 12: Comp Sheet (TTM Multiples)**

| Ticker | Name | Current Price | Market Value | TTM ROE | P/B | TTM NPM | TTM P/S | EPS Growth 2018 | TTM P/E | ROIC | EV/ EBIT |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **NVDA** | NVIDIA CORP | $248.68 | $150,958 | 39.1% | 20.17 | 42.3% | 15.54 | 79.4% | 51.6 | 35.4% | 46.1 |
| **INTC** | INTEL CORP | $53.33 | $248,518 | 15.3% | 3.54 | 17.2% | 3.88 | 10.1% | 23.1 | 10.5% | 12.9 |
| **NXPI** | NXP SEMICONDUCTORS NV | $98.46 | $33,835 | 7.1% | 2.47 | 10.5% | 3.63 | 4.2% | 34.8 | 11.3% | 79.3 |
| **AMD** | ADVANCED MICRO DEVICES | $11.59 | $11,235 | 27.1% | 15.71 | 3.6% | 1.87 | 164.7% | 58.0 | 2.3% | 75.6 |
| **AMBA** | AMBARELLA INC | $49.83 | $1,668 | 3.8% | 3.46 | 6.2% | 5.65 | -29.5% | 90.6 | 4.0% | 53.6 |
| **MU** | MICRON TECHNOLOGY INC | $48.48 | $56,226 | 37.5% | 2.18 | 47.5% | 2.17 | 0.0% | 5.8 | 20.5% | 7.4 |
| **ON** | ON SEMICONDUCTOR CORP | $22.86 | $9,774 | 29.5% | 3.34 | 15.6% | 1.78 | 21.2% | 11.3 | 15.6% | 15.3 |
| | | | | | | | | | | | |
| | **Average** | | $73,173 | 22.8% | 7.27 | 20.4% | 4.93 | 35.7% | 39.3 | 14.2% | 41.5 |
| | Median | | $33,835 | 27.1% | 3.46 | 15.6% | 3.63 | 10.1% | 34.8 | 11.3% | 46.1 |

*Source: FactSet (3/28/2018)*

Business ➤ Driver 1 ➤ Driver 2 ➤ Driver 3 ➤ Financials ➤ Comps ➤ Relative Valuation ➤ DCF ➤ Risks ➤ Summary

# Relative Valuation

**Figure 13: TTM P/B to TTM ROE – NVDA v. Peers**



$$y = 50.381x - 2.8579$$
$$R^2 = 0.5805$$

Source: FactSet, IMCP

Business  Driver 1  Driver 2  Driver 3  Financials  Comps  Relative Valuation  DCF  Risks  Summary
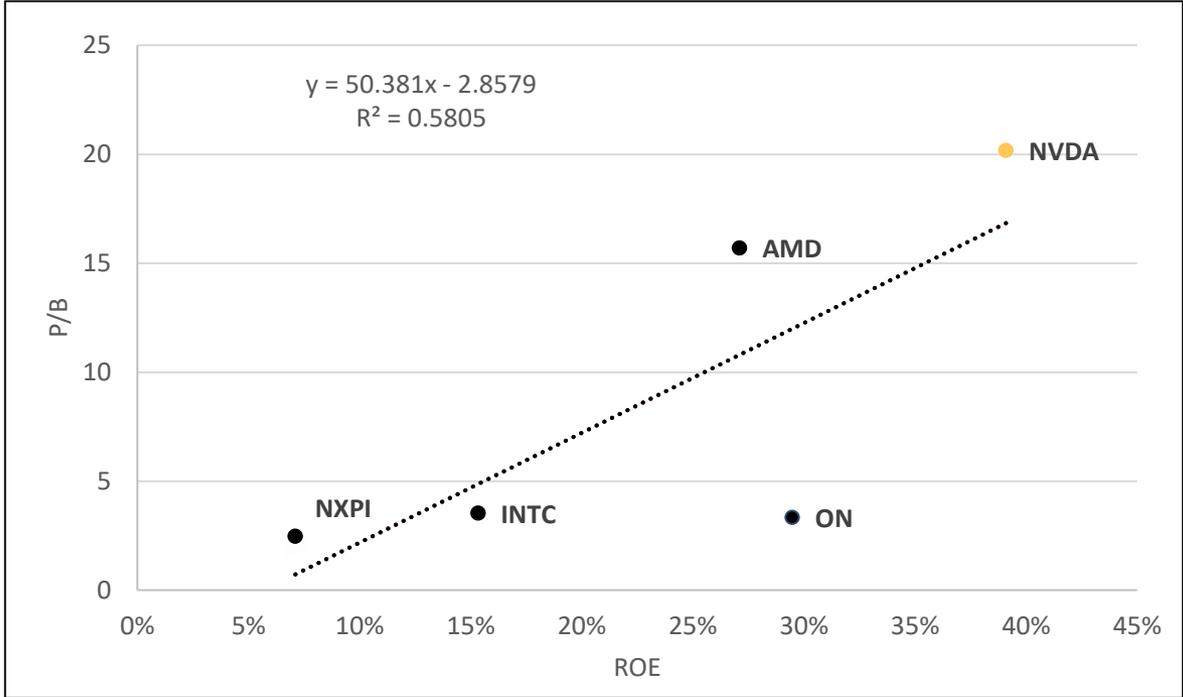
# DCF Valuation

- ☐ 3-Stage DCF
  - ☐ 2 year forecasted FCF
  - ☐ NOPAT flattening
  - ☐ Cost of Equity 13.8%
- ☐ Terminal P/B multiple of 9
  - ☐ Revision to mean
  - ☐ Slightly above industry average

| | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | First Stage | | Second Stage | | | | |
| Cash flows | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2024 |
| Sales | $13,036 | $17,167 | $19,742 | $21,717 | $23,454 | $25,096 | $26,350 |
| NOPAT | $4,100 | $5,691 | $6,341 | $6,752 | $7,050 | $7,285 | $7,378 |
| - Change in NWC | 490 | 269 | 265 | 203 | 179 | 169 | 129 |
| - Chg NFA | 384 | 718 | 463 | 355 | 312 | 295 | 226 |
| Total inv in op cap | 874 | 987 | 728 | 558 | 491 | 464 | 355 |
| Total net op cap | 3869 | 4856 | 5584 | 6143 | 6634 | 7098 | 7453 |
| FCFF | $3,225 | $4,704 | $5,613 | $6,193 | $6,559 | $6,821 | $7,023 |
| - Interest (1-tax rate) | 34 | 42 | 43 | 43 | 44 | 44 | 44 |
| FCFE w/o debt | $3,192 | $4,662 | $5,570 | $6,150 | $6,515 | $6,777 | $6,979 |
| / No Shares | 595.0 | 590.7 | 590.7 | 590.7 | 590.7 | 590.7 | 590.7 |
| FCFE | $5.36 | $7.89 | $9.43 | $10.41 | $11.03 | $11.47 | $11.82 |
| | | | | | | | |
| * Discount factor | 0.88 | 0.77 | 0.68 | 0.60 | 0.52 | 0.46 | 0.40 |
| Discounted FCFE | $4.71 | $6.09 | $6.40 | $6.21 | $5.78 | $5.28 | $4.78 |
| | Third Stage | | | | | | |
| Terminal value P/B | | | | | | | |
| Book value | $10,047 | $13,916 | $19,679 | $25,818 | $32,229 | $38,855 | $45,565 |
| Net income | $4,066 | $5,649 | $6,299 | $6,709 | $7,007 | $7,241 | $7,334 |
| Dividends | $390 | $480 | $535 | $570 | $595 | $615 | $623 |
| Shares | 595.0 | 590.7 | 590.7 | 590.7 | 590.7 | 590.7 | 590.7 |
| Price | | $300.00 | $334.51 | $356.29 | $372.12 | $384.58 | $389.49 |
| Net issuance | | -$1,300 | $0 | $0 | $0 | $0 | $0 |
| Terminal P/B | | | | | | | 9.00 |
| * Terminal BPS | | | | | | | $77.14 |
| Terminal value | | | | | | | $694.28 |
| * Discount factor | | | | | | | 0.40 |
| Discounted terminal value | | | | | | | $280.77 |

| Summary | | |
|---|---|---|
| First stage | $10.81 | Present value of first 2 year cash flow |
| Second stage | $28.44 | Present value of year 3-7 cash flow |
| Third stage | $280.77 | Present value of terminal value P/B |
| Value (P/B) | $320.02 | = value at beg of fiscal yr    2019 |

Business → Driver 1 → Driver 2 → Driver 3 → Financials → Comps → Relative Valuation → **DCF** → Risks → Summary

# DCF Assumptions

- ☐ **P/B Multiple above average**
  - ☐ NVDA's P/B has remained high
- ☐ **Cost of Equity**
  - ☐ 13.8% due to above average risk
- ☐ **Forecasted FCFF marginally improving**
  - ☐ Declining as a percent of sales

**Figure 14: Historical P/B**
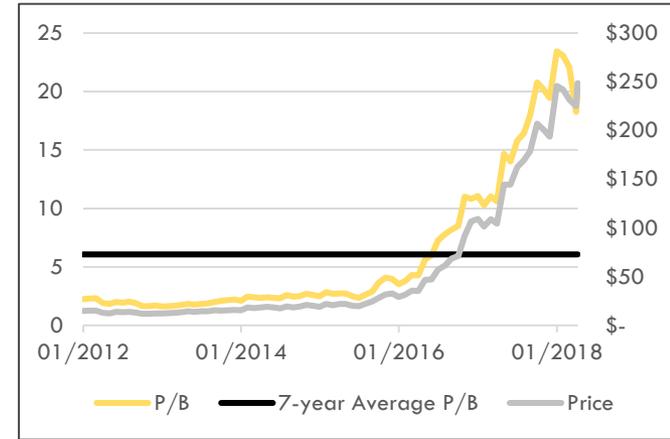


Source: Company 10K, IMCP

**Figure 15: Historical FCFF and Forecasted FCFF**
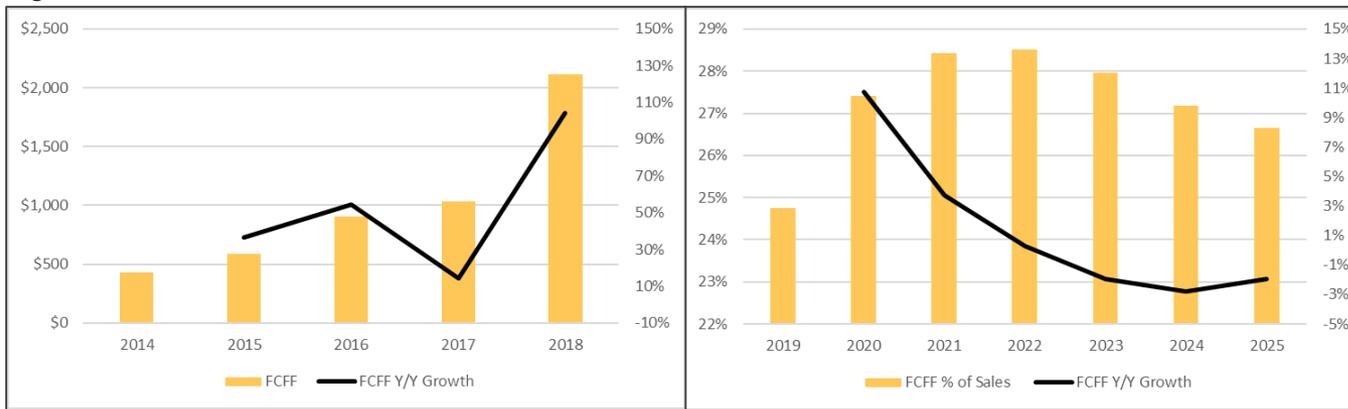


Source: Company 10K, IMCP

**Figure 16: DCF Assumptions**

| Cost of equity | |
|---|---|
| Market return | 10.0% |
| - Risk free rate | 2.95% |
| = Market risk premium | 7.1% |
| * Beta | 1.54 |
| = Stock risk premium | 10.9% |
| r = $r_f$+ stock RP | **13.8%** |
| **Terminal year P/B** | |
| **2017** | **9.00** |

Source: IMCP

| Business | Driver 1 | Driver 2 | Driver 3 | Financials | Comps | Relative Valuation | DCF | Risks | Summary |
|---|---|---|---|---|---|---|---|---|---|

# Risks

☐ Competitive Marketplace

☐ Automotive Integration and Data Center Weakness

☐ Research and Development dependent

☐ Cryptocurrency Headwinds

☐ Economic downturn could harm sales

Business  Driver 1  Driver 2  Driver 3  Financials  Comps  Relative Valuation  DCF  Risks  Summary

# Summary

- ☐ Industry leader in automotive chips

- ☐ Expanding position in data centers and AI

- ☐ Improving balance sheet leading to strong margins

- ☐ NVDA undervalued on an absolute and relative basis

- ☐ Buy rating with price target of $320

Business → Driver 1 → Driver 2 → Driver 3 → Financials → Comps → Relative Valuation → DCF → Risks → Summary

# MILWAUKEE GROWTH FUND

## QUESTIONS?

# APPENDIX 1: PORTFOLIO HOLDINGS

| Ticker | | Ending Market Value | 52-Week Low | 52-Week High | Price | Current Price as % of 52-Week High | Port. Shares | Port. Weight | Bench. Weight | Difference |
|---|---|---|---|---|---|---|---|---|---|---|
| CASH_USD | U.S. Dollar | $39,390.44 | | | $1.00 | | 39,390 | 7.00 | 0.00 | 7.00 |
| CCL.U | Carnival Corporation | $6,306.00 | $59.68 | $72.70 | $63.06 | 87% | 100 | 1.12 | 0.00 | 1.12 |
| DRI | Darden Restaurants, Inc. | $9,286.00 | $76.27 | $100.11 | $92.86 | 93% | 100 | 1.65 | 0.09 | 1.56 |
| AMZN | Amazon.com, Inc. | $39,153.25 | $927.00 | $1,638.10 | $1,566.13 | 96% | 25 | 6.96 | 4.87 | 2.09 |
| EXPE | Expedia Group, Inc. | $13,471.38 | $98.52 | $161.00 | $115.14 | 72% | 117 | 2.39 | 0.11 | 2.29 |
| NFLX | Netflix, Inc. | $7,186.58 | $144.25 | $338.82 | $312.46 | 92% | 23 | 1.28 | 0.99 | 0.29 |
| CMCSA | Comcast Corporation Class A | $10,421.48 | $30.55 | $44.00 | $31.39 | 71% | 332 | 1.85 | 1.04 | 0.81 |
| HD | Home Depot, Inc. | $18,480.00 | $144.25 | $207.60 | $184.80 | 89% | 100 | 3.29 | 1.68 | 1.60 |
| NKE | NIKE, Inc. Class B | $11,352.74 | $50.35 | $70.25 | $68.39 | 97% | 166 | 2.02 | 0.69 | 1.33 |
| | **Total Consumer Discretionary** | **$115,657.43** | | | | | **963** | **20.56** | **9.47** | **11.09** |
| PEP | PepsiCo, Inc. | $6,662.04 | $96.70 | $122.51 | $100.94 | 82% | 66 | 1.18 | 0.97 | 0.22 |
| SEB | Seaboard Corporation | $24,042.30 | $3,247.00 | $4,690.00 | $4,007.05 | 85% | 6 | 4.27 | 0.00 | 4.27 |
| EL | Estee Lauder Companies Inc. Class A | $7,848.77 | $90.81 | $153.88 | $148.09 | 96% | 53 | 1.40 | 0.25 | 1.15 |
| | **Total Consumer Staples** | **$38,553.11** | | | | | **125** | **6.85** | **1.22** | **5.64** |
| SRCI | SRC Energy Inc | $7,860.48 | $6.19 | $11.49 | $11.04 | 96% | 712 | 1.40 | 0.00 | 1.40 |
| VLO | Valero Energy Corporation | $5,435.57 | $60.69 | $113.92 | $110.93 | 97% | 49 | 0.97 | 0.00 | 0.97 |
| | **Total Energy** | **$13,296.05** | | | | | **761** | **2.36** | **0.00** | **2.36** |
| CELG | Celgene Corporation | $3,396.90 | $84.25 | $147.17 | $87.10 | 59% | 39 | 0.60 | 0.50 | 0.10 |
| BDX | Becton, Dickinson and Company | $11,361.63 | $177.64 | $248.39 | $231.87 | 93% | 49 | 2.02 | 0.47 | 1.55 |
| EW | Edwards Lifesciences Corporation | $14,519.04 | $100.20 | $143.22 | $127.36 | 89% | 114 | 2.58 | 0.21 | 2.38 |
| MDT | Medtronic plc | $9,855.99 | $76.41 | $89.72 | $80.13 | 89% | 123 | 1.75 | 0.06 | 1.69 |
| CVS | CVS Health Corporation | $8,379.60 | $60.14 | $84.00 | $69.83 | 83% | 120 | 1.49 | 0.00 | 1.49 |
| HCA | HCA Healthcare Inc | $16,563.02 | $71.18 | $106.84 | $95.74 | 90% | 173 | 2.94 | 0.01 | 2.93 |
| ILMN | Illumina, Inc. | $7,950.69 | $167.98 | $256.64 | $240.93 | 94% | 33 | 1.41 | 0.27 | 1.14 |
| | **Total Health Care** | **$72,026.87** | | | | | **651** | **12.80** | **1.53** | **11.28** |
| BA | Boeing Company | $22,014.96 | $175.47 | $371.60 | $333.56 | 90% | 66 | 3.91 | 1.43 | 2.48 |
| LMT | Lockheed Martin Corporation | $5,133.44 | $266.01 | $363.00 | $320.84 | 88% | 16 | 0.91 | 0.55 | 0.36 |
| FDX | FedEx Corporation | $12,854.40 | $186.00 | $274.66 | $247.20 | 90% | 52 | 2.29 | 0.47 | 1.81 |
| DAL | Delta Air Lines, Inc. | $8,668.52 | $44.59 | $60.79 | $52.22 | 86% | 166 | 1.54 | 0.00 | 1.54 |
| MIDD | Middleby Corporation | $8,305.44 | $107.53 | $141.34 | $125.84 | 89% | 66 | 1.48 | 0.05 | 1.42 |
| SWK | Stanley Black & Decker, Inc. | $11,610.38 | $133.25 | $176.62 | $141.59 | 80% | 82 | 2.06 | 0.02 | 2.05 |
| | **Total Industrials** | **$68,587.14** | | | | | **448** | **12.19** | **2.53** | **9.66** |
| GOOG | Alphabet Inc. Class C | $30,519.90 | $894.79 | $1,186.89 | $1,017.33 | 86% | 30 | 5.43 | 2.38 | 3.05 |
| FB | Facebook, Inc. Class A | $31,992.00 | $144.42 | $195.32 | $172.00 | 88% | 186 | 5.69 | 3.14 | 2.55 |
| V | Visa Inc. Class A | $13,449.28 | $91.36 | $128.36 | $126.88 | 99% | 106 | 2.39 | 1.78 | 0.61 |
| ATVI | Activision Blizzard, Inc. | $11,014.10 | $53.08 | $79.63 | $66.35 | 83% | 166 | 1.96 | 0.38 | 1.58 |
| INTU | Intuit Inc. | $24,577.07 | $124.22 | $190.49 | $184.79 | 97% | 133 | 4.37 | 0.35 | 4.02 |
| MSFT | Microsoft Corporation | $34,321.84 | $67.14 | $97.90 | $93.52 | 96% | 367 | 6.10 | 5.42 | 0.68 |
| AAPL | Apple Inc. | $42,967.60 | $142.20 | $184.25 | $165.26 | 90% | 260 | 7.64 | 6.48 | 1.16 |
| | **Total Information Technology** | **$188,841.79** | | | | | **1248** | **33.57** | **19.93** | **13.64** |
| CCF | Chase Corporation | $7,056.00 | $83.35 | $129.55 | $112.00 | 86% | 63 | 1.25 | 0.00 | 1.25 |
| | **Total Materials** | **$7,056.00** | | | | | **63** | **1.25** | **0.00** | **1.25** |
| FCPT | Four Corners Property Trust, Inc. | $1,042.36 | $21.28 | $26.96 | $22.66 | 84% | 46 | 0.19 | 0.00 | 0.19 |
| PSA | Public Storage | $6,658.74 | $180.48 | $219.93 | $201.78 | 92% | 33 | 1.18 | 0.23 | 0.95 |
| SBAC | SBA Communications Corp. Class A | $6,248.97 | $126.82 | $177.67 | $160.23 | 90% | 39 | 1.11 | 0.14 | 0.97 |
| SPG | Simon Property Group, Inc. | $5,159.22 | $145.78 | $173.02 | $156.34 | 90% | 33 | 0.92 | 0.34 | 0.58 |
| | **Total Real Estate** | **$19,109.29** | | | | | **151** | **3.40** | **0.71** | **2.68** |
| **Total AUM** | | **$562,518.12** | | | | | **4,410** | **100.0** | **35.4** | **64.6** |

## Three-factor, industry relative screening process:

**Factor 1: Growth**

**Factor 2: Quality Fundamentals**

**Factor 3: Moat**

**3 year sales CAGR > 20%**
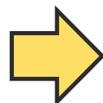
| Factor 2 |
|---|
| Low P/E |
| Low P/B |
| High ROE |
| Low Debt/Assets |
| High Net Margin |

| Factor 3 |
|---|
| Network effect |
| Intangible assets |
| Cost advantage |
| Switching costs |
| Efficient scale |
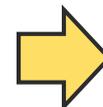
# APPENDIX 3: MONITORING PROCESS

## Daily

Sector Analysts:
➢ Stay up to date on company, industry, macro news
➢ Communicate updates to team members

## Weekly

➢ All team members meet twice weekly
➢ View portfolio performance

## Quarterly

➢ Listen to earnings calls and read through transcripts
➢ Update models based on quarterly earnings reports and revisit target prices

**PITCHING/POSITIONING**: Any analyst can suggest to pitch, sell, add or trim
**VOTING**: Simple 3/5 majority vote required for all processes

| Event | Trigger | Action |
|---|---|---|
| **Analyst price target reached** | • Analyst updates investment thesis | • Analyst thesis presented at weekly meeting <br> • 3/5 vote on analysts thesis – hold, sell, trim |
| **Security declines 10% relative to industry** | • Analyst updates investment thesis <br> • Team meeting within two day period | • Analyst thesis presented at meeting <br> • 3/5 vote on analysts thesis – hold or sell |
| **Industry declines 10% relative to sector** | • Analyst updates industry outlook/weighting <br> • Team meeting within 2 day period | • Analyst thesis presented at meeting <br> • 3/5 vote on analysts thesis – hold or sell |
| **Quarterly Earnings** | • Team meeting | • Discussion |

# APPENDIX 5: PORTFOLIO CONSTRUCTION

| 30-50 Total Securities | |
|---|---|
| ➢ >$500m market cap<br>➢ Maintain mega cap exposure close to benchmark – enhanced indexing | ➢ Maximum position in an individual security is 10% of portfolio<br>➢ Maximum over/underweight in individual sector is $^+/-10\%$ |

# APPENDIX 6: RISK STATISTICS SINCE INCEPTION

## Since Inception (10/18/10)

**Multi-Statistic Chart**
10/18/2010 to 04/30/2018



Growth Benchmark ■ GROWTH

**Multi-Statistic Chart**
10/18/2010 to 04/30/2018



Growth Benchmark ■ GROWTH
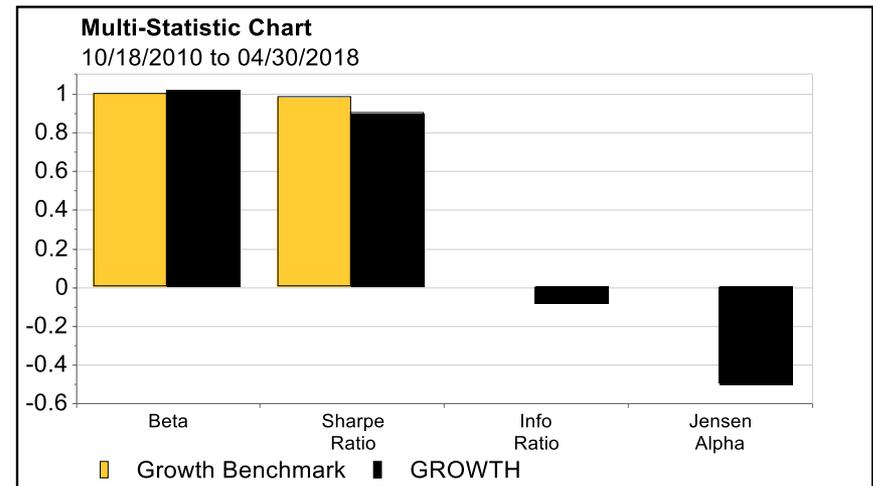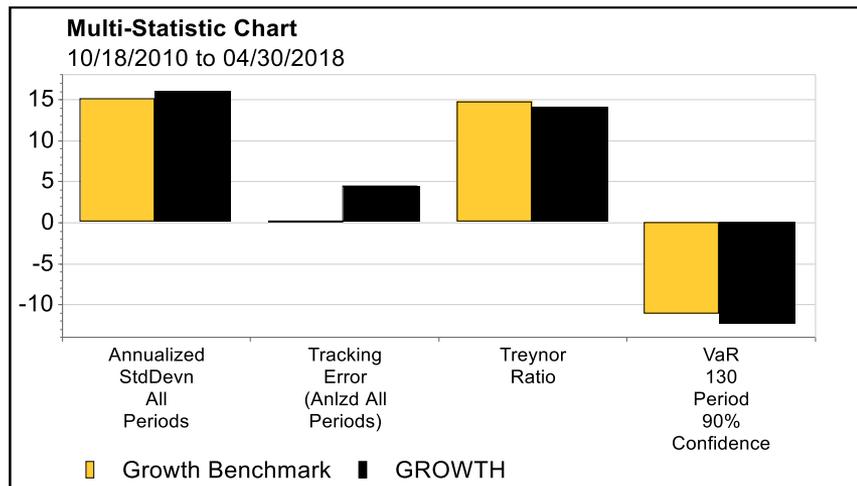
| Statistics | Benchmark | Portfolio |
|---|---|---|
| **Annualized StdDevn** | 14.96 | 15.85 |
| **Tracking Error** | - | 4.30 |
| **Treynor Ratio** | 14.63 | 13.95 |
| **VaR** | -11.26 | -12.33 |

| Statistics | Benchmark | Portfolio |
|---|---|---|
| **Beta** | 1.00 | 1.02 |
| **Sharpe Ratio** | 0.98 | 0.90 |
| **Info Ratio** | - | -0.09 |
| **Jensen Alpha** | - | -0.50 |

➢ Since inception the portfolio has had a high tracking error, leading to higher volatility. This portfolio has been inconsistent in outperforming the benchmark leading to poor risk-adjusted metrics.

## Since Transition (4/30/17)



**Multi-Statistic Chart**
05/01/2017 to 04/30/2018

Growth Benchmark   GROWTH
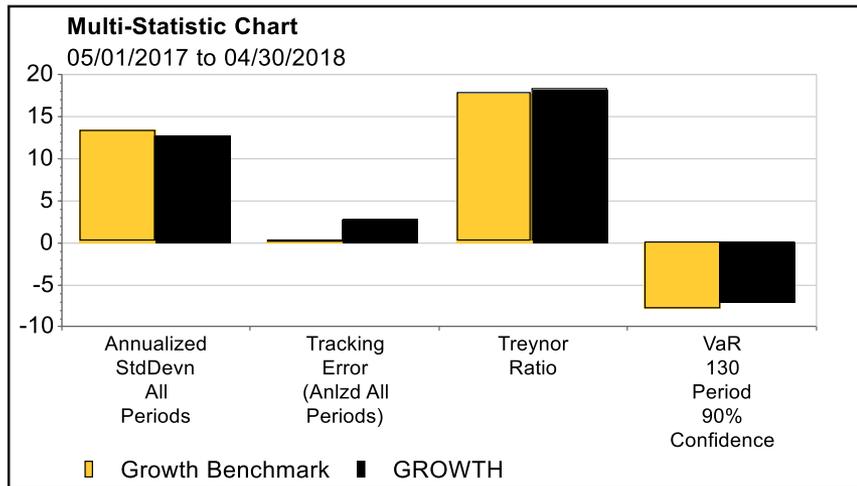
*FactSet, as of 4/30/2018*

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Annualized StdDevn | 13.34 | 12.60 |
| Tracking Error | - | 2.73 |
| Treynor Ratio | 17.73 | 18.19 |
| VaR | -7.93 | -7.34 |



**Multi-Statistic Chart**
05/01/2017 to 04/30/2018

Growth Benchmark   GROWTH
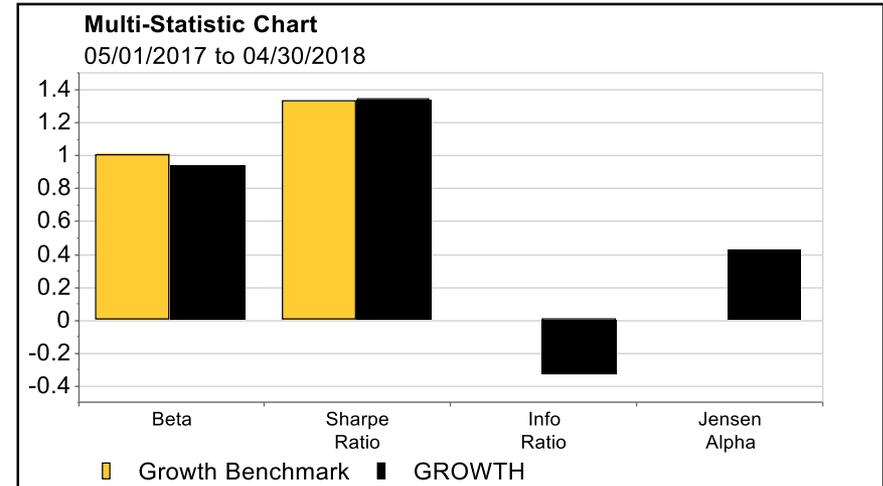
*FactSet, as of 4/30/2018*

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Beta | 1.00 | 0.92 |
| Sharpe Ratio | 1.33 | 1.34 |
| Info Ratio | - | -0.33 |
| Jensen Alpha | - | 0.42 |

➤ Since transition our information ratio shows that the growth portfolio has been very inconsistent in producing returns in excess of the benchmark. Risk-adjusted ratio have improved since date of transition.
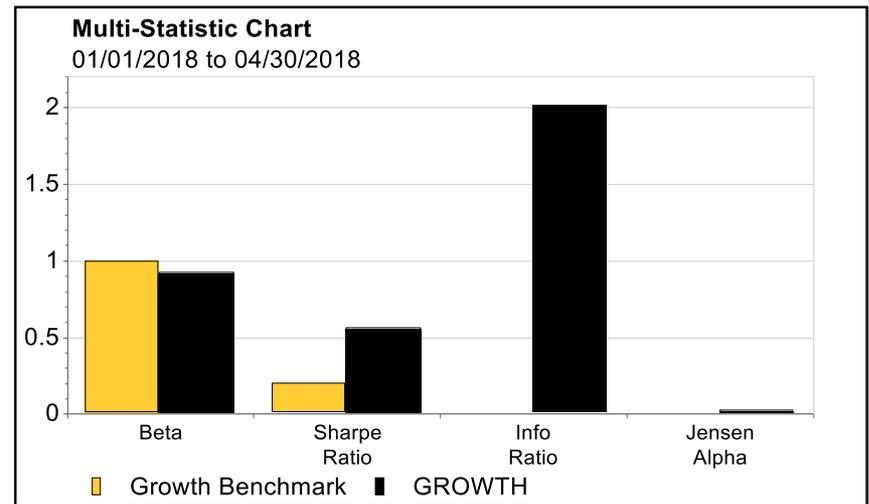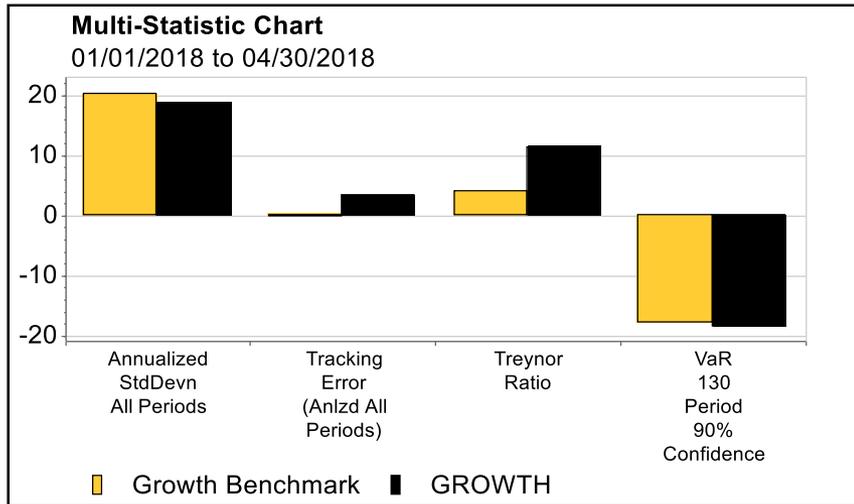
## Since 1/1/2018

**Multi-Statistic Chart**
01/01/2018 to 04/30/2018



Annualized StdDevn All Periods — Tracking Error (Anlzd All Periods) — Treynor Ratio — VaR 130 Period 90% Confidence

■ Growth Benchmark ■ GROWTH

*FactSet, as of 4/30/2018*

**Multi-Statistic Chart**
01/01/2018 to 04/30/2018



Beta — Sharpe Ratio — Info Ratio — Jensen Alpha

■ Growth Benchmark ■ GROWTH

*FactSet, as of 4/30/2018*

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Annualized StdDevn | 20.12 | 18.71 |
| Tracking Error | - | 3.21 |
| Treynor Ratio | 3.98 | 11.32 |
| VaR | -17.91 | -18.68 |

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Beta | 1.00 | 0.92 |
| Sharpe Ratio | 0.20 | 0.56 |
| Info Ratio | - | 2.01 |
| Jensen Alpha | - | 0.02 |

➢ Performance has improved since the first client meeting. The portfolio is taking on less volatility as indicated by the beta, and the risk-adjusted performance is superior to the benchmark.

➤ **Upside/Downside Capture**

**Downside Capture % vs. Upside Capture %**
10/18/2010 to 04/30/2018



Growth Benchmark ● GROWTH

*FactSet, as of 4/30/2018*

**Downside Capture % vs. Upside Capture %**
05/01/2017 to 04/30/2018



Growth Benchmark ● GROWTH
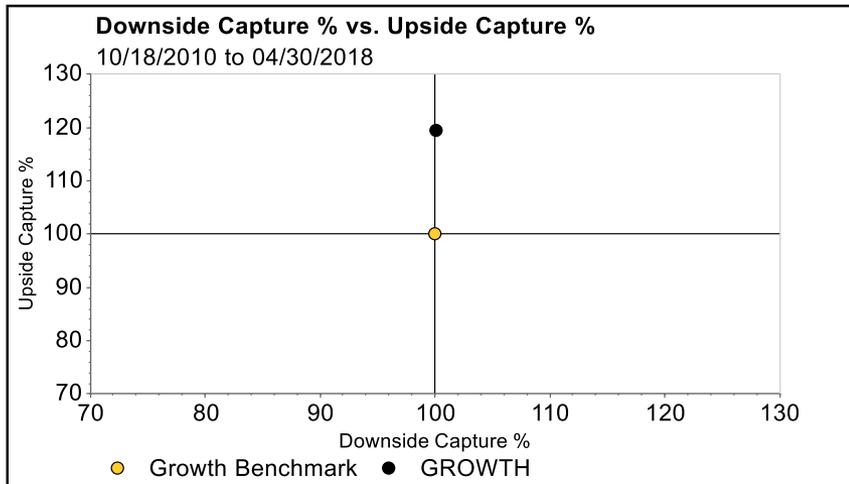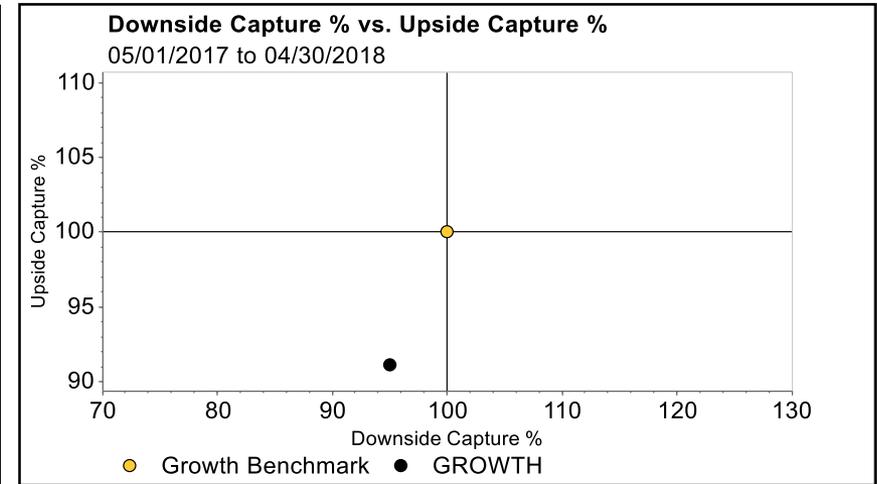
*FactSet, as of 4/30/2018*

## Since Inception (10/18/10)

Since inception the growth portfolio has an upside capture ratio of 119.47% and a downside capture ratio of 100.06%

## Since Transition (5/1/17)

Since transition the growth portfolio has an upside capture ratio of 91.10% and a downside capture ratio of 95.00%

➢ **Upside/Downside Capture**

## Since the beginning of the 2018
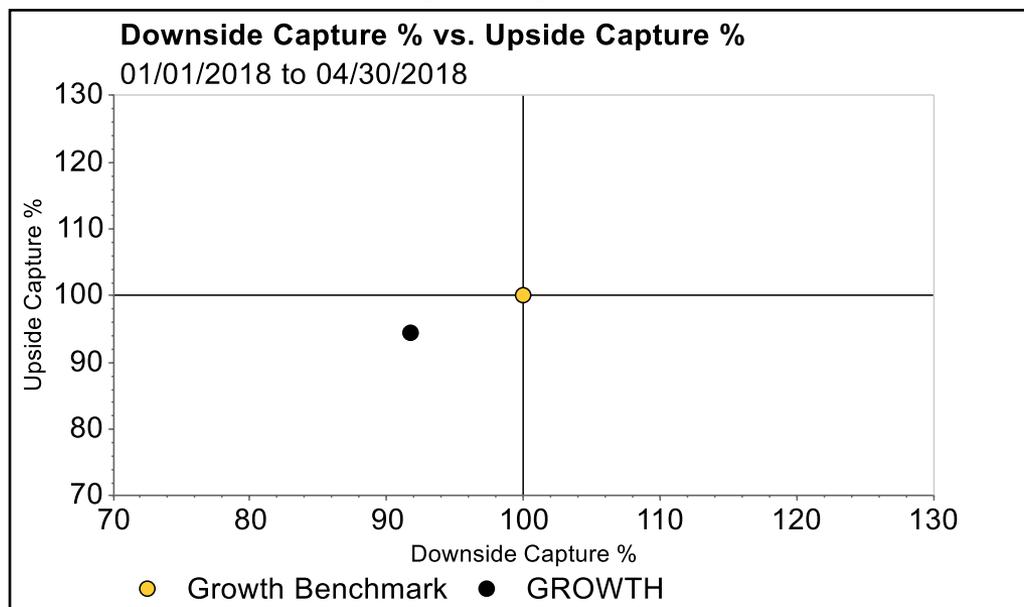
**Downside Capture % vs. Upside Capture %**
01/01/2018 to 04/30/2018



○ Growth Benchmark  ● GROWTH

*FactSet, as of 4/30/2018*

Since inception the growth portfolio has an upside capture ratio of 94.49% and a downside capture ratio of 91.80%

Since inception of the Morgan Stanley account, the growth portfolio has taken on less volatility and still outperformed the benchmark in the risk-adjusted metrics below. Also, the portfolio, as indicated by the Jensen alpha, is contributing enough returns to compensate for risk.

| Statistics | Benchmark | Portfolio |
| --- | --- | --- |
| Annualized StdDevn | 11.78 | 11.48 |
| Tracking Error | - | 2.88 |
| Treynor Ratio | 22.48 | 26.94 |
| VaR | -7.21 | -6.60 |

| Statistics | Benchmark | Portfolio |
| --- | --- | --- |
| Beta | 1.00 | 0.94 |
| Sharpe Ratio | 1.91 | 2.22 |
| Info Ratio | - | 1.03 |
| Jensen Alpha | - | 3.56 |

**Multi-Statistic Chart**
11/01/2016 to 04/30/2018



Growth Benchmark    Growth-BairdFund

**Multi-Statistic Chart**
11/01/2016 to 04/30/2018
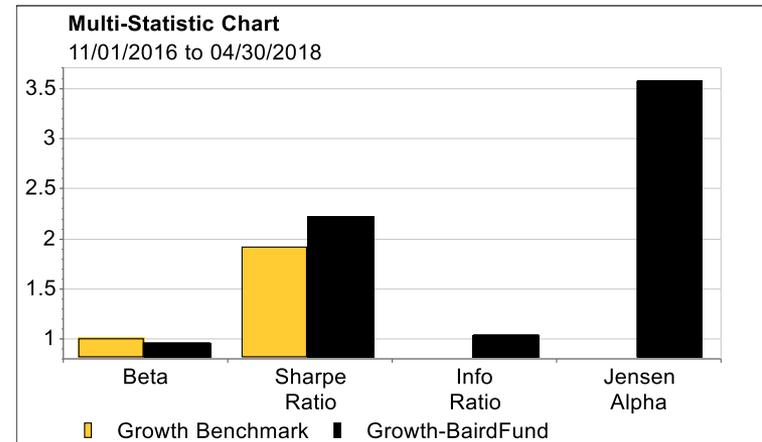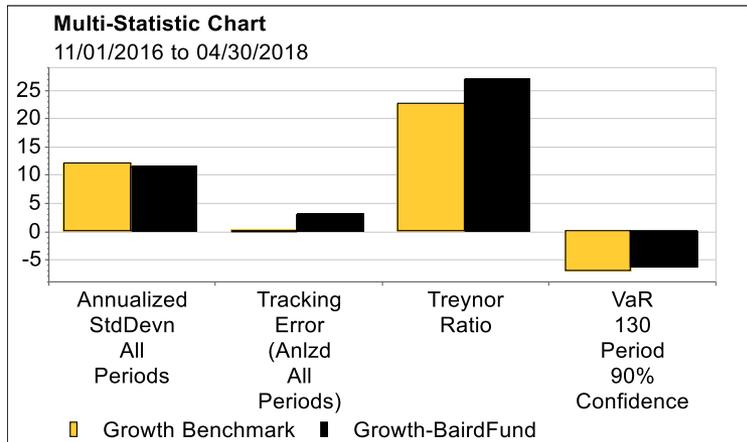


Growth Benchmark    Growth-BairdFund

Since transition of the Morgan Stanley account, the growth portfolio has performed somewhat in line with the benchmark. Beta and standard deviation are similar, while the sharpe and treynor ratios are different positively for the Baird account.

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Annualized StdDevn | 13.34 | 12.76 |
| Tracking Error | - | 2.75 |
| Treynor Ratio | 17.73 | 19.13 |
| VaR | -7.93 | -7.89 |

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Beta | 1.00 | 0.93 |
| Sharpe Ratio | 1.33 | 1.40 |
| Info Ratio | - | 0.05 |
| Jensen Alpha | - | 1.23 |

**Multi-Statistic Chart**
05/01/2017 to 04/30/2018

Growth Benchmark — Growth-BairdFund

**Multi-Statistic Chart**
05/01/2017 to 04/30/2018
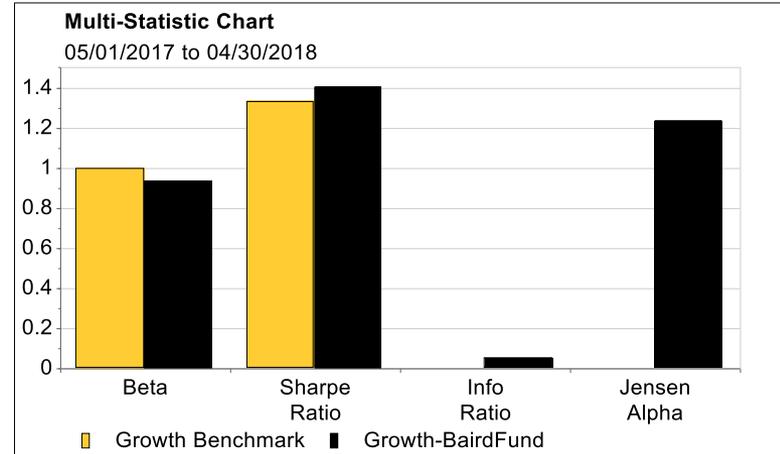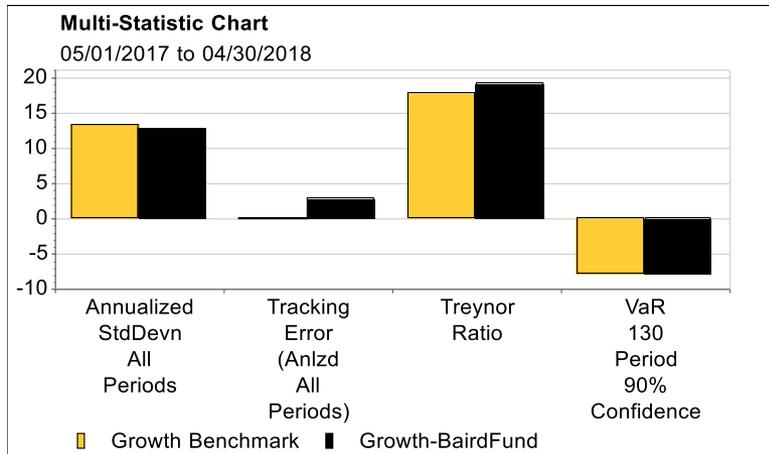
Growth Benchmark — Growth-BairdFund

Since the second meeting, the Morgan Stanley growth portfolio account is outperforming the benchmark risk-adjusted metrics. The portfolio has generated higher returns per unit of risk (Treynor Ratio) and has generated high enough returns to offset the risks it's taking (Jensen Alpha).

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Annualized StdDevn | 18.78 | 18.74 |
| Tracking Error | - | 2.82 |
| Treynor Ratio | 7.00 | 10.57 |
| VaR | -18.68 | -18.68 |

| Statistics | Benchmark | Portfolio |
|---|---|---|
| Beta | 1.00 | 0.99 |
| Sharpe Ratio | 0.37 | 0.56 |
| Info Ratio | - | 1.22 |
| Jensen Alpha | - | 0.01 |

**Multi-Statistic Chart**
01/01/2018 to 04/30/2018



**Multi-Statistic Chart**
01/01/2018 to 04/30/2018
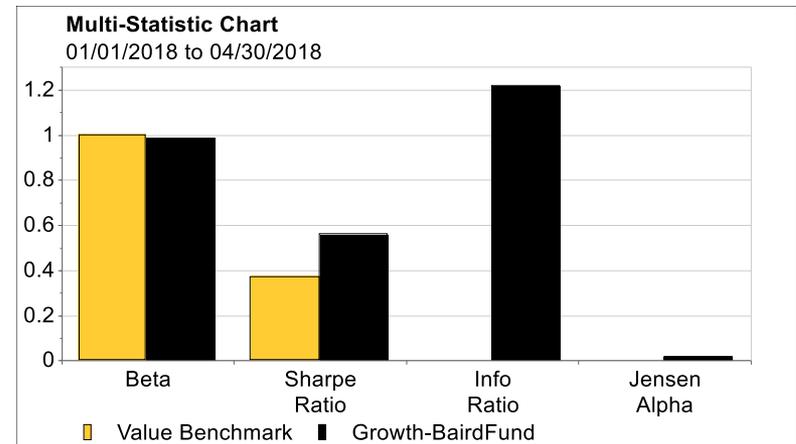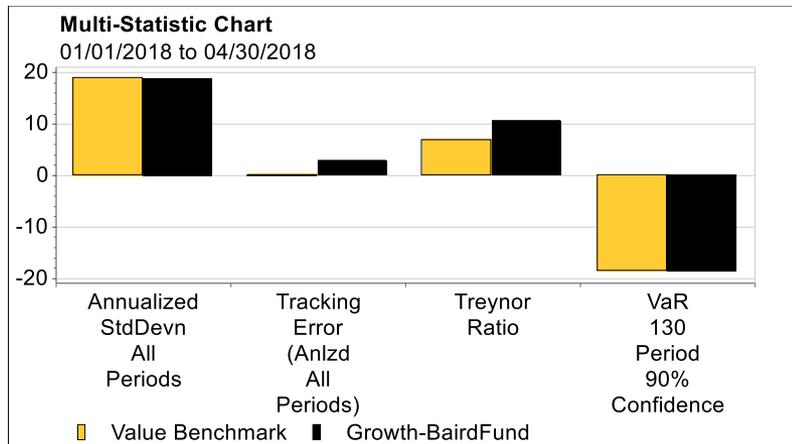
➢ Since inception (11/01/2016), the growth portfolio has an upside capture ratio of 98.82% and a downside capture ratio of 96.26%

➢ Since transition (05/01/2017), the growth portfolio has an upside capture ratio of 95.78% and a downside capture ratio of 93.78%

➢ Since our last meeting (01/01/2018), the growth portfolio has an upside capture ratio of 94.49% and a downside capture ratio of 91.80%



**Downside Capture % vs. Upside Capture %**
11/01/2016 to 04/30/2018
Upside Capture %
Downside Capture %
○ Growth Benchmark
● Growth-BairdFund

**Downside Capture % vs. Upside Capture %**
05/01/2017 to 04/30/2018
Upside Capture %
Downside Capture %
○ Growth Benchmark
● Growth-BairdFund

**Downside Capture % vs. Upside Capture %**
01/01/2018 to 04/30/2018
Upside Capture %
Downside Capture %
○ Growth Benchmark  ● Growth-BairdFund
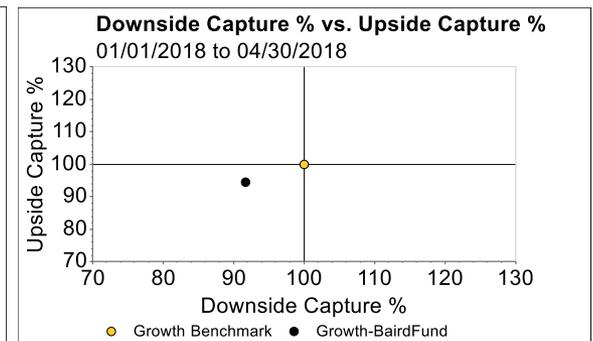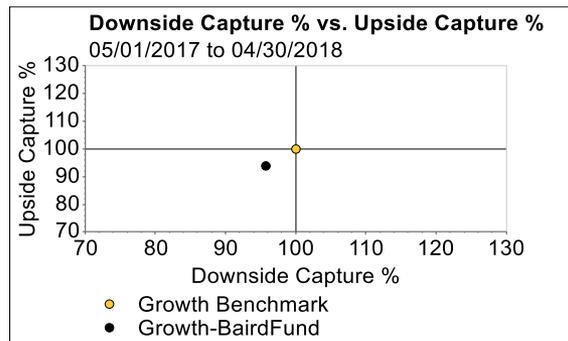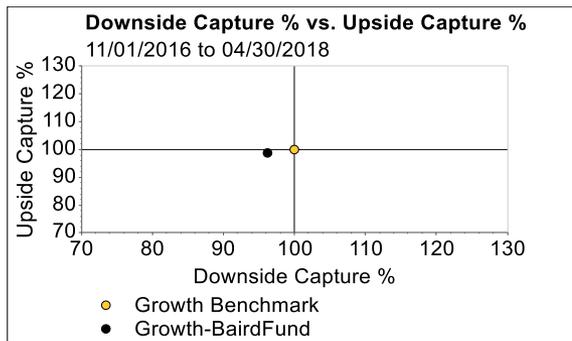
# APPENDIX 15: SECTOR ATTRIBUTION SINCE INCEPTION

| Sector | Allocation Effect | Selection Effect | Interaction Effect | Total Effect |
|---|---|---|---|---|
| Consumer Discretionary | 1.00 | 1.95 | 1.62 | 4.57 |
| Consumer Staples | 0.23 | 2.26 | 0.76 | 3.25 |
| Energy | 0.28 | 3.35 | 0.77 | 4.41 |
| Financials | 0.66 | -1.14 | 1.93 | 1.45 |
| Health Care | 0.41 | -10.96 | 0.20 | -10.36 |
| Industrials | -1.05 | 2.04 | -1.50 | -0.51 |
| Information Technology | -1.37 | -0.38 | 0.48 | -1.27 |
| Materials | -0.05 | 6.38 | -0.71 | 5.61 |
| Real Estate | -0.78 | -0.32 | -0.93 | -2.03 |
| Telecommunication Services | -0.65 | -0.43 | -0.58 | -1.66 |
| Utilities | -0.27 | -0.31 | -0.32 | -0.90 |
| [Cash] | -5.58 | -0.31 | -0.31 | -6.20 |
| [Unassigned] | -1.12 | -2.65 | 1.10 | -2.67 |
| Total | -8.29 | -0.53 | 2.51 | -6.31 |

*Factset,10/18/2010 - 4/30/2018*

# Panther Value Fund

## Objective and Benchmark

The Panther Value Fund's investment objective is to outperform the Russell 2000 value index through superior stock selection. From an educational standpoint, we seek to refine our research and analytical abilities through active portfolio management. As a result, we intend to transition the portfolio by increasing our active share to over 60% throughout our tenure. To achieve our goal, we plan to replace our benchmark ETF, ending with 30-40 quality stocks in the portfolio.

## Investment Philosophy

We seek to maintain a sector neutral portfolio that identifies small-cap stocks that are quality companies, reasonably priced, and have recognized catalysts.

## Investment Process

Our investment strategy is rooted in a bottom-up approach to stock selection. Our niche is in small-cap equities with market capitalizations under $5 billion. We screen within this universe in search of improving stocks that are a good value and timely to own. Momentum, in terms of price and earnings revisions, is crucial to the execution of our strategy, allowing us to avoid value traps.

### How do our analysts locate potential stocks to invest in?

Broadly speaking, our fund deploys a strict screening process that eventually leads to a full analysis and valuation of attractive stocks. We value each stock on a DCF, relative (against peers), and historical basis.

Even though our approach may force us to pay a premium for quality value stocks, we still incorporate the idea of margin of safety. We prefer to add stocks into our fund at a significant discount to intrinsic value which effectively reduces our downside risk.

Figure 2: Margin of Safety

| Discount to Intrinsic Value | Course of Action |
|---|---|
| >30% | Strong Buy |
| 21-30% | Buy |
| 15-20% | Considered |
| 0-14% | Not approved for purchase |

### Our bottom-up approach starts with a quantitative screening.

Our analysts screen all domestic publically traded stocks with market capitalizations under $5 billion. From this list we begin screening companies for quality. Our company considers the following characteristics indicative of quality:

· Relative leverage metrics; lower is preferred
· Relative P/B, P/S, ROA and quality of ROA (DuPont Analysis)(Rel. Charts)
· CF/P- Higher is preferred but cross-examined with other quality metrics

### All stocks that pass our quantitative screening are then evaluated on a qualitative basis.

We do not invest in companies and business models that we cannot understand. We prefer defensible and proven business models that are easily understood and executed. Being able to understand how companies are operating allows us to better identity moats (competitive advantages) and industry trends (catalysts/drivers). As a result, our analysis is strengthened; it is easier for us to differentiate our findings from consensus.

Finally, we gauge the management teams of each company for the portfolio. Due to the size of the companies we hold, we believe strong management teams are necessary to drive returns. We prefer to invest in companies with management that have skin in the game and have goals closely aligned with ours. When evaluating management, we specifically zero in on the following:

· Insider holding- We prefer strong insider holding
· Insider Buying- Are insiders buying?
· Executive compensation- We prefer lower salaries.
· Has management effectively allocated investor capital (historically)?
· How independent is the board?

## Assets Under Management — $547,468





Difference vs Benchmark
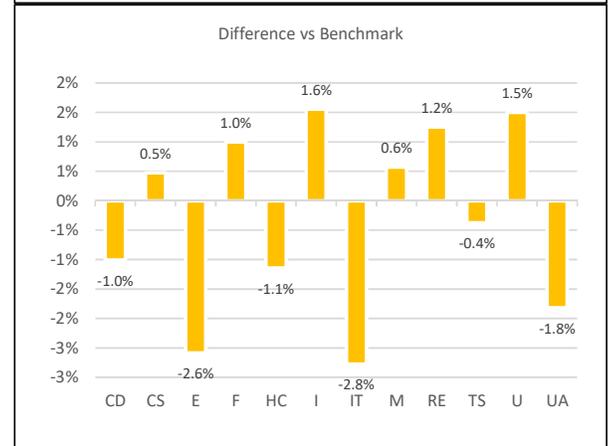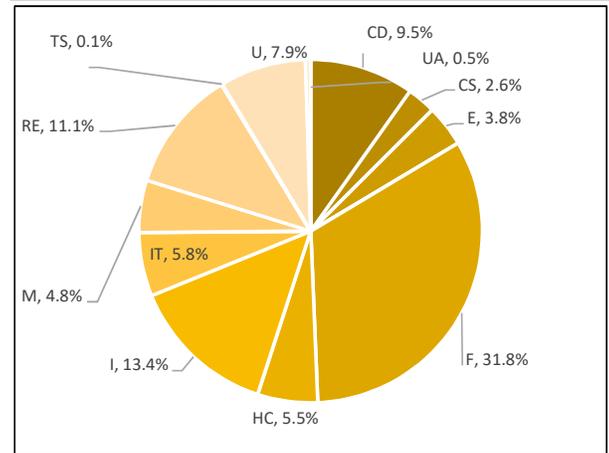
| Factor | Portfolio | Benchmark |
|---|---|---|
| Mkt Cap (Wgt Med, in Bil) | $1,673.0 | $1,849.1 |
| Yield | 2.03% | 1.89% |
| FY1 P/E (Wgt Harm) | 15.6 | 15.5 |
| P/CF (Wgt Harm) | 8.6 | 8.5 |
| P/B (Wgt Harm) | 1.7 | 1.5 |
| P/S (Wgt Harm) | 1.2 | 1.0 |
| Hist 3 yr Sales Growth | 17.2% | 7.3% |
| Hist 3 yr EPS Growth | 11.5% | 5.8% |
| Est. 3-5 yr EPS Growth | 19.0% | 12.8% |
| Net Margin | 9.2% | 9.2% |
| ROE | 7.3% | 4.6% |
| ROA | 3.5% | 1.8% |
| LT D/Capital | 34.0% | 32.8% |

| Top 10 Holdings | Port Wgt | Bench Wgt |
|---|---|---|
| Vanguard Russell 2000 Value ETF | 18.1% | 0.0% |
| PowerShares KBW Regional Banking Portfo | 11.0% | 0.0% |
| Union Bankshares Corporation | 5.5% | 0.2% |
| Virtu Financial, Inc. Class A | 4.9% | 0.0% |
| MGM Growth Properties LLC Class A | 4.9% | 0.0% |
| Control4 Corporation | 4.8% | 0.0% |
| Legg Mason, Inc. | 4.6% | 0.0% |
| Builders FirstSource, Inc. | 4.5% | 0.0% |
| Farmland Partners, Inc. | 4.4% | 0.0% |
| PowerShares S&P SmallCap Health Care Po | 4.3% | 0.0% |
| Total | 66.9% | 0.2% |

| Statistic | Since Transition Portfolio | Benchmark |
|---|---|---|
| Tracking Error | 7.08 | 0.00 |
| Beta | 0.75 | 1.00 |
| Active Share | 74% | 0.0% |

## Security Selection – Buy and Sell Process

**All analysts** responsible for general coverage.

**Purchase** with 4/6 vote, and all members must participate in discussion. Max initial position of 5%.

**Sale** if (1) Weight of individual stock exceeds 7% of total portfolio, (2) If relative or intrinisc value is reached. Meetings will be initiated a sale will likely follow when (1) a stock experiences a price drop of 10% or more relative to peers, or (2) the stock has a negative suprise.

**# Positions** 20-35 ax Cash 10%

### Asset Allocation Chart
10/18/2010 to 04/30/2018 — Russell 6 Style Indices
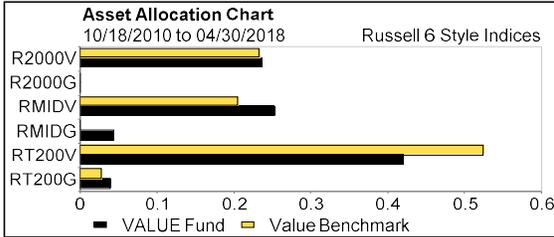


| Period Return | Portfolio | Benchmark | Difference |
|---|---|---|---|
| 10/18/2010 to 5/04/2018 | 158.6% | 146% | 12.25% |
| 4/28/2017 to 5/04/2018 | 10.5% | 8.0% | 2.4% |
| One Year | 11.8% | 9.1% | 2.7% |
| Six Months | 8.8% | 2.9% | 5.9% |
| Year to Date | 2.9% | 0.4% | 2.4% |
| One Quarter | 3.4% | 0.9% | 2.5% |
| One Month | 1.1% | 2.8% | -1.7% |

## Performance

The fund has outperformed its benchmark return since inception and has outperformed by 2.4% since 4/30/2017

## Positions

Our top 5 positions make up 57.6% of the fund. 18% of our portfolio is the Russell 2000 Value ETF. We plan to continue to pull back our ETF exposure as we identify new names for the fund. Our largest sector overweight, after distributing the ETF to sectors, is industrials (1.6% overweight) and our largest underweight is IT (2.8% underweight).

## Characteristics

The portfolio has slightly higher multiples than the benchmark, but significantly better fundamentals (growth, margins, ROA, ROE, Net Margin, P/CF etc.)

## Attribution and Contribution

| Date | Allocation | Selection | raction | Total |
|---|---|---|---|---|
| 10/18/2010 to 5/04/2018 | -6.7% | 17.4% | 1.8% | 12.5% |
| 4/28/2017 to 5/04/2018 | 0.4% | 2.0% | -0.1% | 2.3% |
| One Year | 0.3% | 2.3% | -0.1% | 2.6% |
| Six Months | 0.5% | 4.8% | 0.6% | 5.9% |
| Year to Date | 0.7% | 1.5% | 0.3% | 2.6% |
| One Quarter | 0.1% | 2.3% | 0.2% | 2.6% |
| One Month | -0.3% | -0.9% | -0.4% | -1.6% |

Over the year, selection has driven our outperformance even though allocation has modestly increased. Since inception, selection has been the source of all of the outperformance. Our largest contributors added 2.0% since transition, while our bottom performers took away 0.1%

| Since Transition | Avg Wgt | Return | Contrib |
|---|---|---|---|
| Total | | | 10.5% |
| 5 Highest | 57.6% | 23.3% | 13.1% |
| Virtu Financial, Inc. Class A | 5.0% | 132.6% | 6.0% |
| Vanguard Russell 2000 Value ET | 35.0% | 8.0% | 3.1% |
| Oppenheimer Holdings Inc. Clas | 2.5% | 61.9% | 1.8% |
| Builders FirstSource, Inc. | 5.4% | 16.0% | 1.1% |
| PowerShares KBW Regional Ban | 9.7% | 10.8% | 1.1% |
| 5 Lowest | 4.9% | -53.9% | -4.7% |
| Dean Foods Company | 1.4% | -46.5% | -1.9% |
| MicroStrategy Incorporated Clas | 1.8% | -25.9% | -1.3% |
| Sanderson Farms, Inc. | 0.9% | -30.7% | -0.8% |
| Oshkosh Corp | 0.5% | -8.7% | -0.4% |
| Farmland Partners, Inc. | 0.3% | -7.4% | -0.4% |

## Risk and Risk Adjusted Performance

### Multi-Statistic Chart
05/01/2017 to 04/30/2018



### Multi-Statistic Chart
05/01/2017 to 04/30/2018



### Downside Capture % vs. Upside Capture %
05/01/2017 to 04/30/2018



## Portfolio Strategy and Evolution

| Benchmark Weighting | Stocks Needed |
|---|---|
| **Financial Services (41%)** | **9** |
| Banks | 4 |
| Other | 2 |
| Real Estate Investment Trusts | 3 |
| **Consumer Discretionary (11%)** | **3** |
| Consumer Products | 1 |
| Leisure | 1 |
| Retail | 1 |
| **Producer Durables (12%)** | **3** |

| Benchmark Weighting | Stocks Needed |
|---|---|
| **Technology (8%)** | **2** |
| Electronics | 1 |
| Information Tech | 1 |
| **Health Care (7%)** | **2** |
| **Utilities (6%)** | **2** |
| **Materials/Processing (6%)** | **2** |
| **Energy (6%)** | **2** |
| **Consumer Staples (2%)** | **2** |

# PANTHER VALUE FUND

## CLIENT MEETING PRESENTATION

May 11th, 2018

# Fund Management

## Value Team Members

Alyssa Goodrich, BBA – Finance
Hogan Financial Management
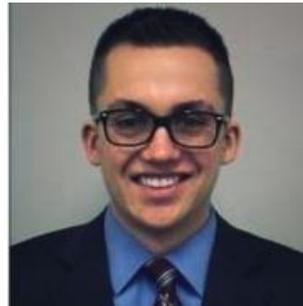
Kody Babler, BBA – Finance
Manning & Napier

Carl Schemm, MS – Finance
Longbow Research
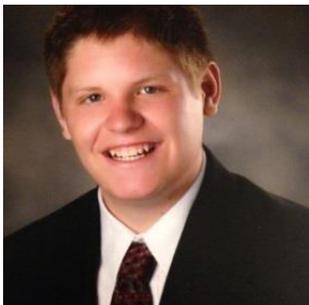
Peter Wycklendt, BBA – Finance/Accounting
Baird

Mitch Rzentkowski, MS – Tax
Lubar & Co.

Andy Stott, MS – Finance
Dana Investments

# Table of Contents

# Objectives

| Primary Objective | • Outperform through superior stock selection | Russell 2000 Value Index |
| Secondary Objective | • Transition from passive to active management | Replacing benchmark ETF with individual stocks |
| How | • Bottom up stock selection | Fundamental Analysis |
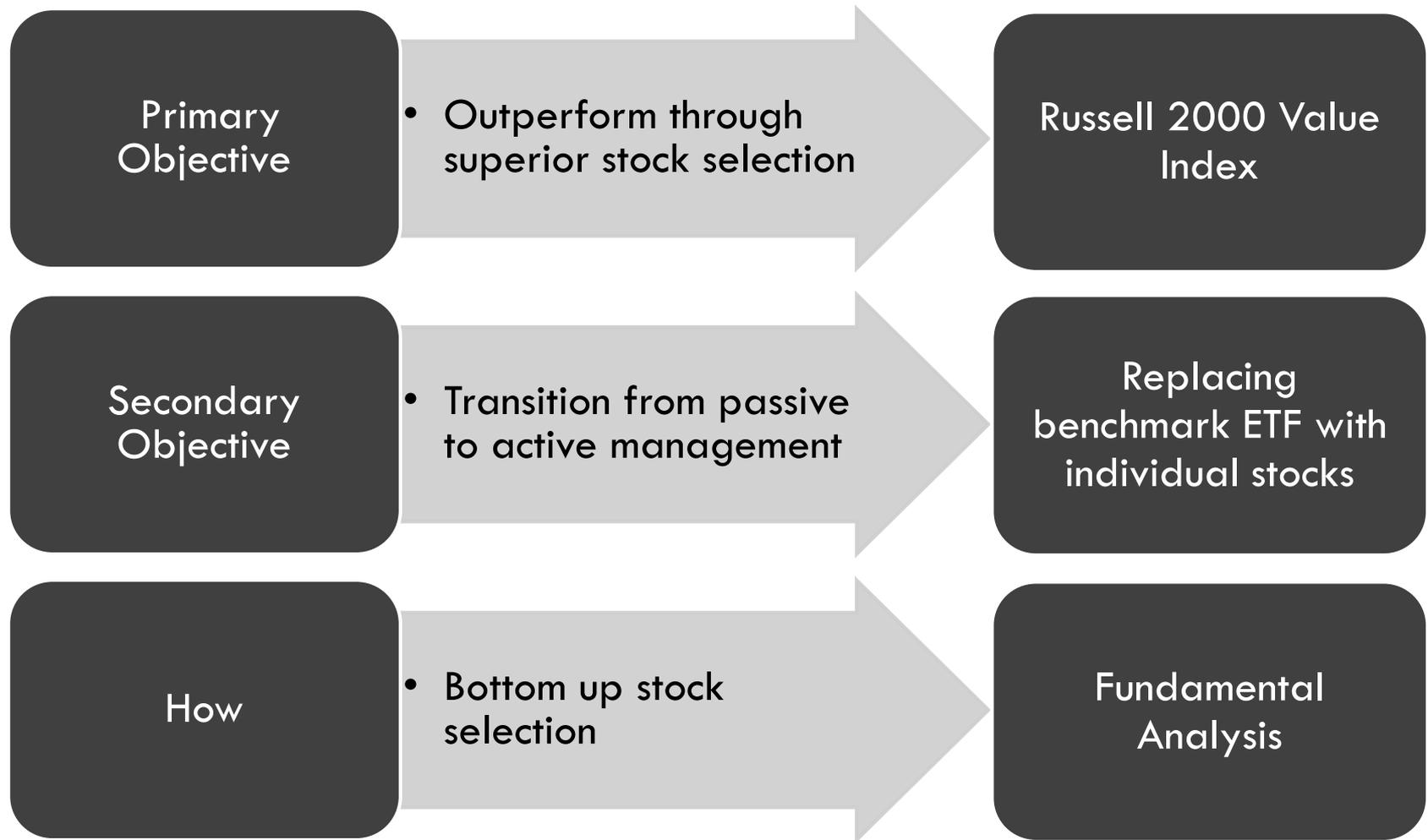
# Value Investment Philosophy
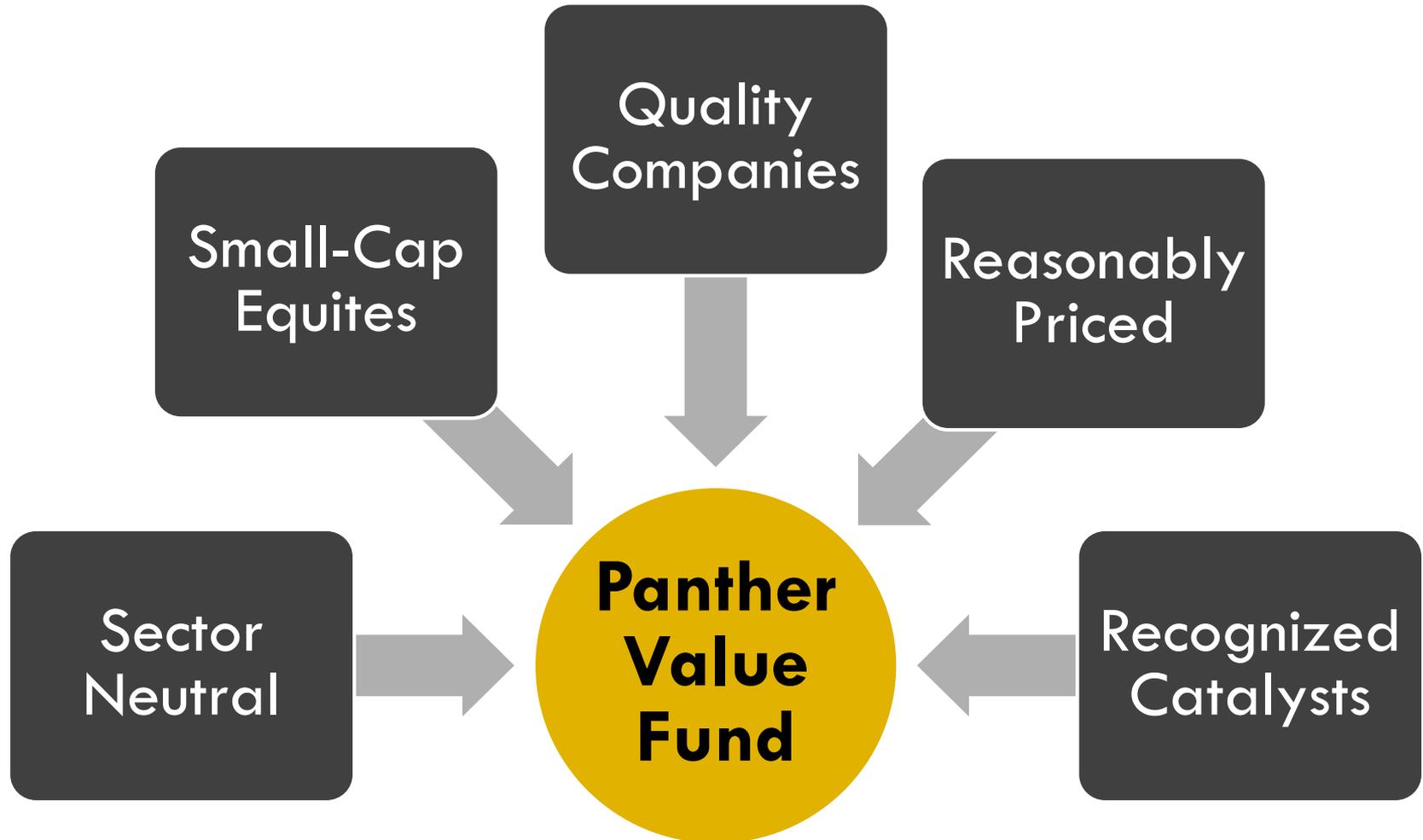
# Performance Since Inception

**Cumulative Return Chart**
10/18/2010 to 04/30/2018



— Value Team  — Value Benchmark
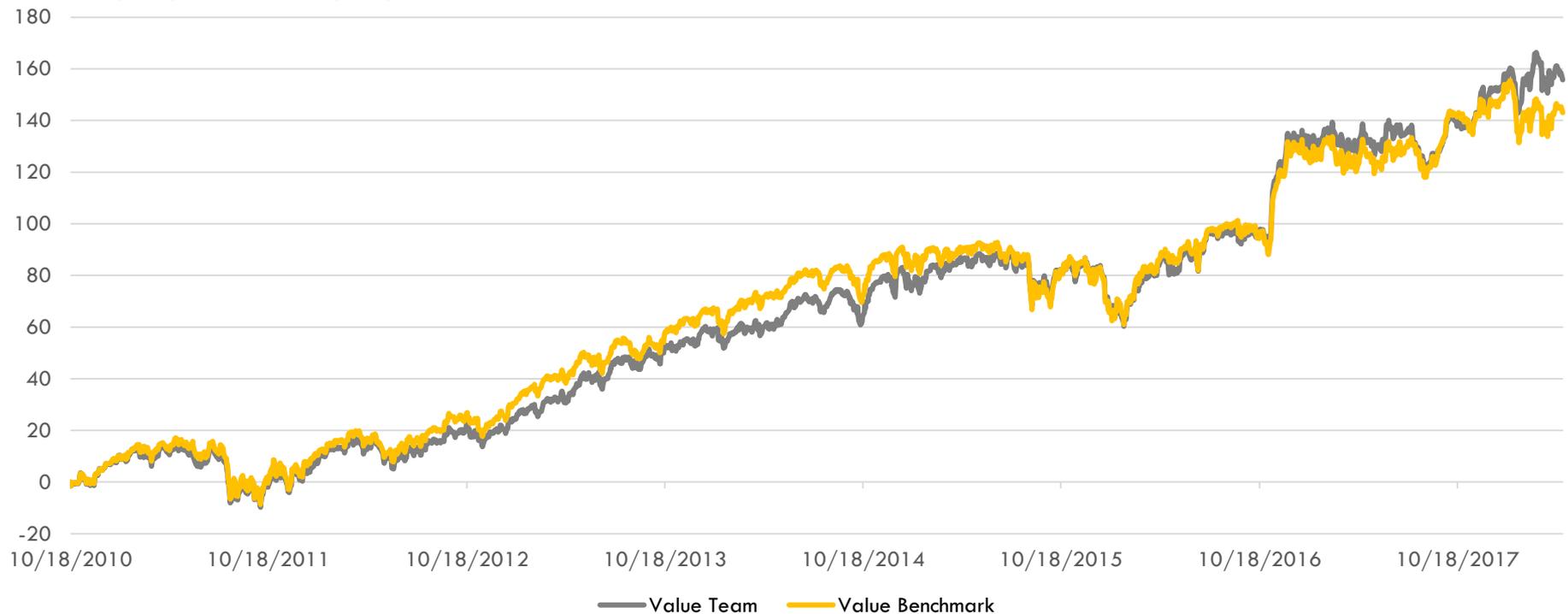
❑ Since inception, the fund has returned 155.71%*, compared to the benchmark's 143.01% return

*Returns are provided by FactSet, which differs from actual. This is due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet, and while not exact, they provide a good overall representation of performance attribution and risk.*

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# Performance Since Transition

**Cumulative Return Chart
5/1/17 to 4/30/2018**
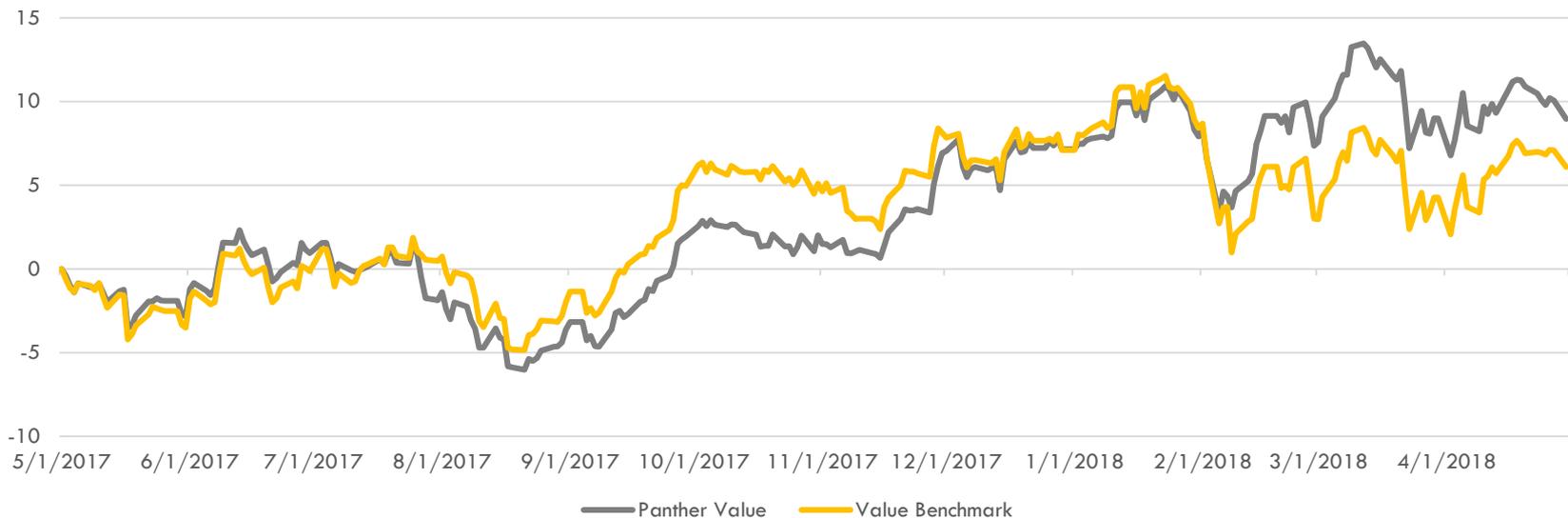


☐ Since transition, the fund has returned 9.20%*, compared to the benchmark's 6.53% return

*Returns are provided by FactSet, which differs from actual due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet, and while not exact, they provide a good overall representation of performance attribution and risk.*

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# Performance Since Last Meeting (12/29)

**Cumulative Return Chart**
**12/29/2017- 4/30/2018**
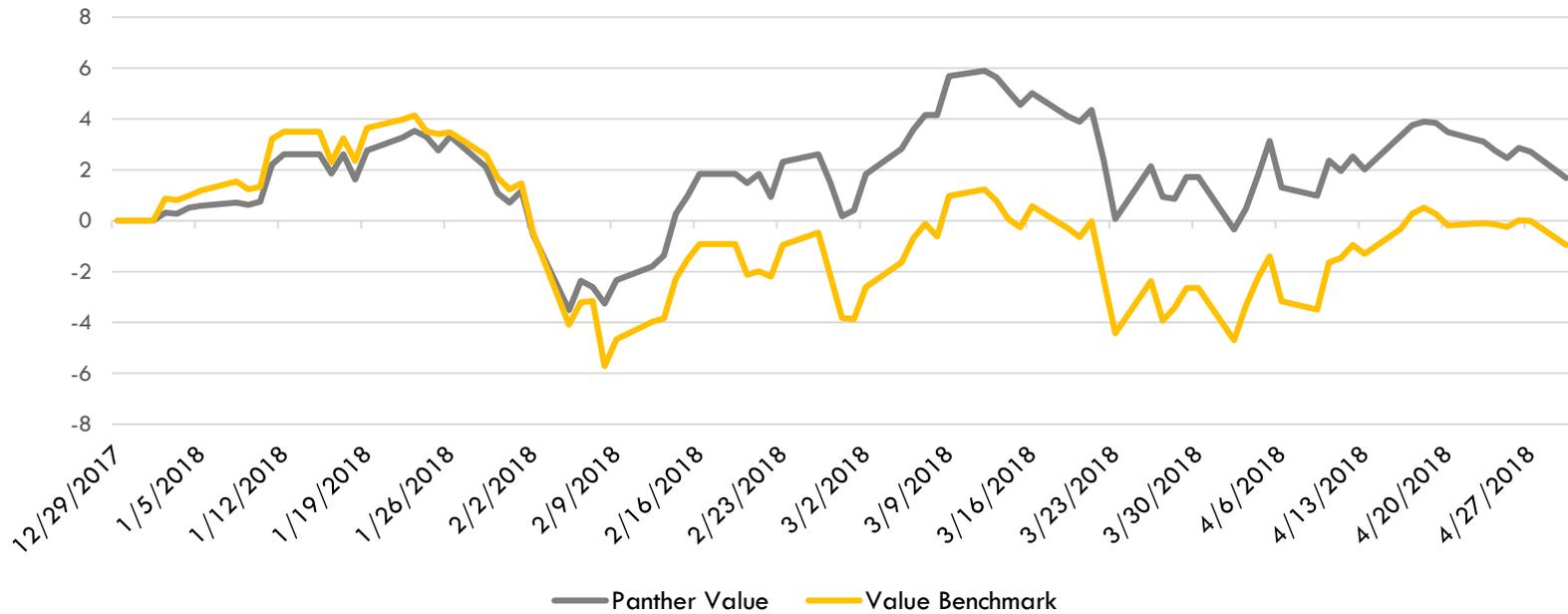


❑ Since last meeting, the fund has returned 1.69%*, compared to the benchmark's -0.95% return

*Returns are provided by FactSet, which differs from actual due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet, and while not exact, they provide a good overall representation of performance attribution and risk.*

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# Performance: Continuing to Improve

**Multi-Horizon Chart: Annualized Return**
10/19/2010 to 04/30/2018
Universe: Lipper US:Multi-Cap Value
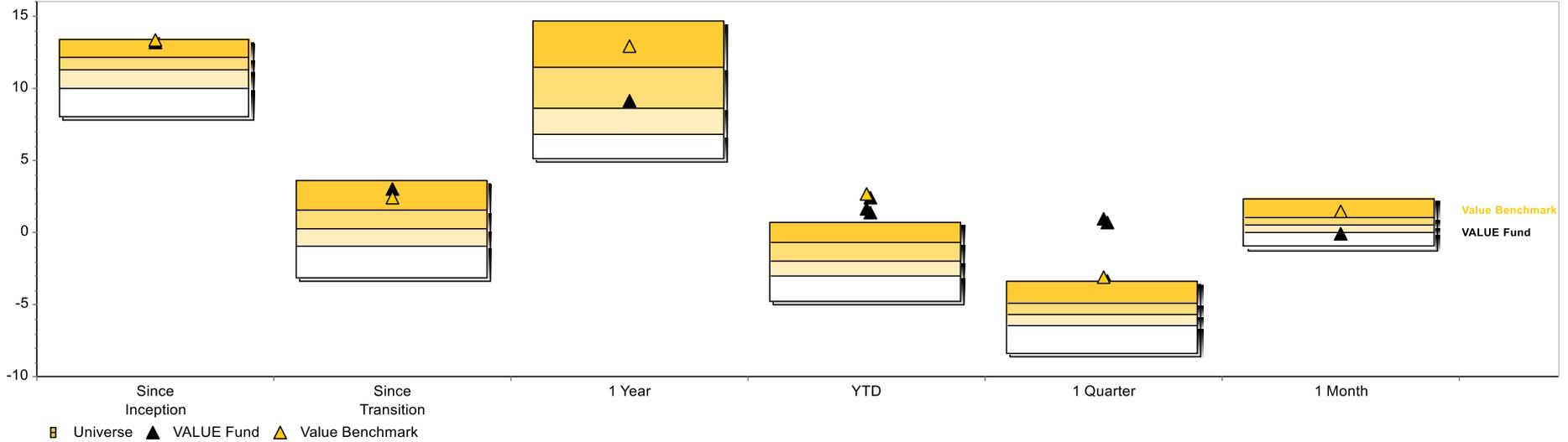
❑ 1,270 basis point outperformance since inception
❑ Outperformed benchmark by 267 basis points since transition
❑ Outperformed by 264 basis points since last meeting (12/29/17)

# Goal: Sustain Upside/Downside Trend

**Multi-Statistic Chart**
10/18/2010 to 04/30/2018

Upside Capture % | Downside Capture % | Best Return | Worst Return
Value Benchmark | VALUE Fund

**Multi-Statistic Chart**
05/01/2017 to 04/30/2018

Upside Capture % | Downside Capture % | Best Return | Worst Return
Value Benchmark | VALUE Fund
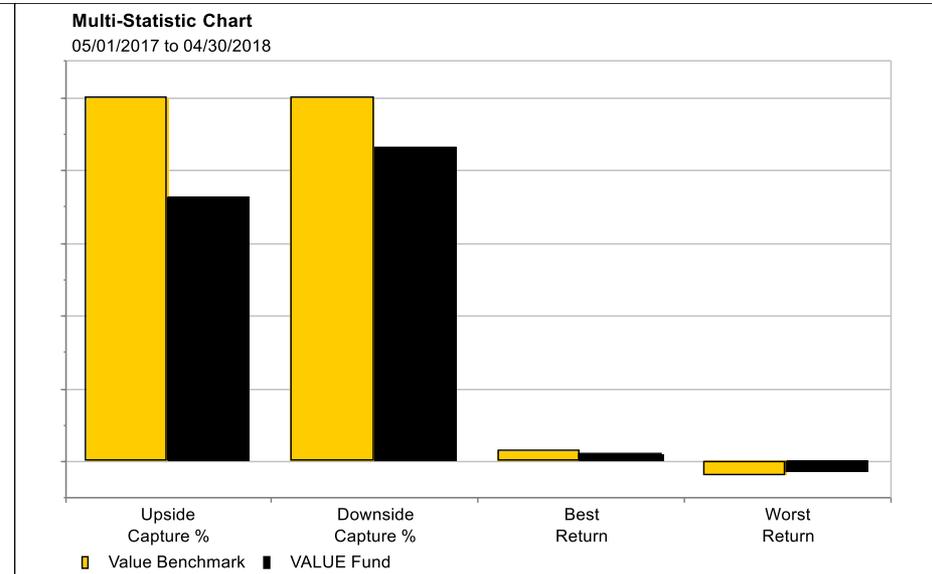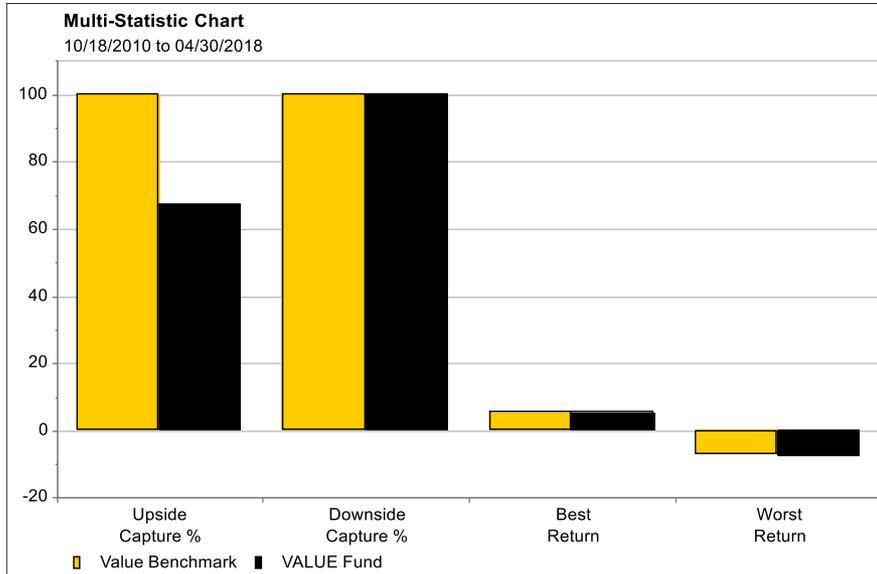
❑ From inception through transition, the fund captured 69.80% of benchmark upside, while capturing 99.90% of benchmark's downside

❑ Since transition, the fund has captured 75.96% of benchmark upside, while capturing 86.72% of the benchmark's downside

# Risk Measures Have Continued to Improve

**Multi-Statistic Chart**
10/19/2010 to 05/03/2018                                                                                          Universe: Lipper US:Multi-Cap Value

Anlzd Return | Anlzd StdDev | Beta | Sharpe Ratio | Treynor Ratio | Info Ratio | Jensen Alpha | VaR 1 Period 90% Confidence | VaR 130 Period 90% Confidence | Drawdown Ratio

Universe    △ Value Benchmark    ▲ VALUE Fund
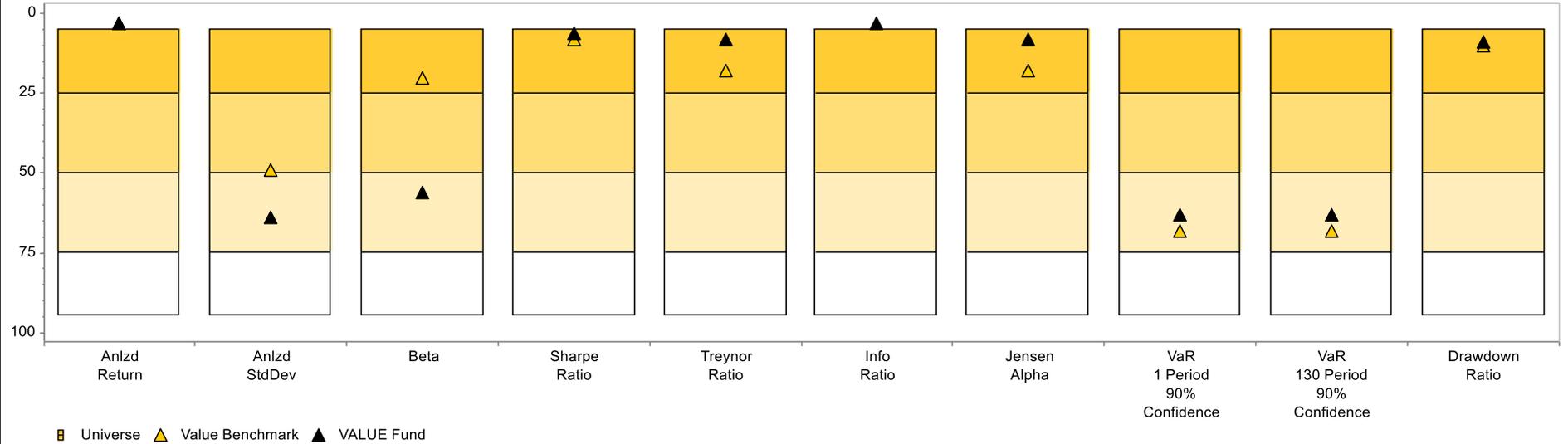
# Security Performance

**Top 5 Performers**

| Company | Total Return | Contribution |
|---|---|---|
| Virtu Financial, Inc. Class A | 145.62 | 6.17 |
| Vanguard Russell 2000 Value ETF | 6.81 | 2.88 |
| Oppenheimer Holdings Inc. Class A | 61.86 | 1.77 |
| Builders FirstSource, Inc. | 15.98 | 1.12 |
| PowerShares KBW Regional Banking | 9.49 | 0.93 |

**Bottom 5 Performers**

| Company | Total Return | Contribution |
|---|---|---|
| Dean Foods Company | -46.52 | -1.83 |
| MicroStrategy Incorporated | -25.87 | -1.27 |
| Sanderson Farms, Inc. | -30.78 | -0.82 |
| Control4 Corporation | -16.87 | -0.72 |
| Oshkosh Corp | -9.33 | -0.38 |

- ❑ VIRT continued to be helped by strong economy and higher volatility

- ❑ DF unable to sell in Canadian markets (SOLD)
- ❑ MSTR sales decline in licenses (SOLD)

# Sector Attribution (4/28/17 - 4/30/18)

- ❑ Best Investment Decisions
  - ❑ Industrials
  - ❑ Financials
- ❑ Worst Management Decisions
  - ❑ Consumer Staples
  - ❑ Information Technology

| Sector | Fund Weight | Allocation Effect | Interaction Effect | Selection Effect | Total Effect |
|---|---|---|---|---|---|
| Consumer Discretionary | 9.63% | 0.01 | 0.01 | -0.07 | -0.06 |
| Consumer Staples | 2.62% | -0.01 | 0.00 | 0.03 | 0.02 |
| Energy | 3.76% | 0.02 | -0.03 | 0.07 | 0.07 |
| Financials | 31.95% | 0.00 | 0.00 | -0.03 | -0.04 |
| Health Care | 5.45% | 0.01 | 0.01 | 0.05 | 0.05 |
| Industrials | 13.26% | -0.01 | 0.02 | 0.20 | 0.22 |
| Information Technology | 5.80% | 0.00 | 0.03 | -0.08 | -0.06 |
| Materials | 4.70% | -0.01 | 0.00 | 0.03 | 0.02 |
| Real Estate | 11.16% | 0.05 | -0.05 | -0.31 | -0.31 |
| Telecommunication Services | 0.08% | 0.00 | 0.00 | 0.00 | 0.00 |
| Utilities | 7.79% | 0.03 | 0.02 | -0.08 | -0.07 |
| [Cash] | 3.32% | 0.03 | 0.00 | 0.00 | 0.03 |
| Total | 100% | 0.12 | -0.07 | -0.18 | -0.13 |

# AXIOMA Factor Exposure

| Risk Factor Names | Factor Volatility (%) | Active Exposure | Factor MCAR | Standard Deviation | | Contribution to Variance | |
|---|---|---|---|---|---|---|---|
| | | | | Standard Deviation | % of Variance | Contribution to Variance | % of Variance |
| Total | | | | 1.90 | 18.37 | 3.60 | 18.37 |
| Commodity | 9.61 | 0.07 | -0.01 | 0.64 | 2.09 | -0.17 | -0.86 |
| Confidence | 5.19 | 0.02 | -0.01 | 0.11 | 0.06 | -0.06 | -0.30 |
| Consumer Discretionary | 4.91 | -0.05 | 0.00 | 0.27 | 0.36 | 0.01 | 0.03 |
| Consumer Staples | 7.48 | 0.01 | 0.01 | 0.08 | 0.04 | 0.06 | 0.31 |
| Credit Spread | 0.16 | -0.54 | 0.00 | 0.09 | 0.04 | -0.02 | -0.08 |
| Economic Growth | 3.08 | -0.35 | 0.00 | 1.07 | 5.89 | 0.16 | 0.83 |
| Energy | 16.50 | -0.03 | -0.01 | 0.42 | 0.91 | 0.10 | 0.51 |
| Equity Market | 18.00 | -0.10 | -0.03 | 1.80 | 16.58 | 1.18 | 6.05 |
| Equity Size | 5.67 | 0.22 | 0.01 | 1.23 | 7.68 | 1.03 | 5.28 |
| Equity Value | 1.30 | -0.08 | 0.00 | 0.11 | 0.06 | 0.05 | 0.25 |
| Financials | 5.11 | -0.03 | 0.00 | 0.17 | 0.15 | 0.02 | 0.09 |
| FX Basket | 3.49 | -0.04 | 0.00 | 0.15 | 0.12 | -0.06 | -0.30 |
| Gold | 11.57 | 0.09 | 0.02 | 1.05 | 5.65 | 1.00 | 5.10 |
| Health Care | 6.18 | -0.03 | 0.01 | 0.19 | 0.19 | -0.09 | -0.44 |
| Industrials | 5.69 | 0.01 | 0.00 | 0.04 | 0.01 | -0.01 | -0.06 |
| Inflation | 4.95 | 0.01 | -0.01 | 0.05 | 0.01 | -0.03 | -0.16 |
| Information Technology | 7.18 | 0.00 | 0.01 | 0.01 | 0.00 | 0.01 | 0.03 |
| Materials | 5.93 | 0.01 | 0.00 | 0.06 | 0.02 | 0.01 | 0.04 |
| Oil | 22.45 | -0.01 | -0.02 | 0.18 | 0.16 | 0.08 | 0.40 |
| Telecommunication Services | 10.88 | 0.00 | 0.00 | 0.05 | 0.01 | 0.00 | 0.00 |
| Term Spread | 0.57 | -0.41 | 0.00 | 0.23 | 0.28 | 0.20 | 1.02 |
| Utilities | 11.38 | 0.01 | 0.02 | 0.15 | 0.11 | 0.12 | 0.63 |

# AXIOMA Factor Exposure

| Risk Factor Names | Portfolio Exposure | Benchmark Exposure | Active Exposure | Avg. Active Esposure | Factor Return | Compounded Factor Impact |
|---|---|---|---|---|---|---|
| Commodity | 0.03 | 0.00 | 0.03 | 0.03 | 0.03 | 0.15 |
| Confidence | 0.15 | 0.08 | 0.07 | 0.07 | 0.00 | 0.25 |
| Consumer Discretionary | 0.02 | 0.05 | -0.03 | -0.04 | 0.00 | 0.01 |
| Consumer Staples | 0.04 | 0.02 | 0.02 | 0.01 | -0.02 | -0.08 |
| Credit Spread | -0.10 | 0.16 | -0.26 | -0.57 | 0.00 | 0.02 |
| Economic Growth | 4.23 | 4.52 | -0.29 | -0.24 | -0.01 | 0.65 |
| Energy | 0.02 | 0.03 | -0.01 | -0.01 | 0.04 | -0.27 |
| Equity Market | 1.07 | 1.15 | -0.09 | -0.06 | 0.09 | -1.23 |
| Equity Size | -0.84 | -1.00 | 0.16 | 0.15 | 0.01 | 0.05 |
| Equity Value | 0.89 | 0.99 | -0.10 | -0.05 | 0.00 | 0.03 |
| Financials | 0.36 | 0.41 | -0.05 | -0.03 | 0.00 | 0.05 |
| FX Basket | 0.00 | 0.05 | -0.05 | -0.04 | 0.02 | -0.19 |
| Gold | 0.03 | -0.02 | 0.05 | 0.05 | -0.01 | -0.24 |
| Health Care | 0.02 | 0.03 | -0.01 | -0.02 | 0.01 | 0.03 |
| Industrials | 0.06 | 0.08 | -0.02 | -0.01 | 0.00 | -0.03 |
| Inflation | 0.19 | 0.10 | 0.08 | 0.05 | 0.01 | -0.14 |
| Information Technology | 0.06 | 0.07 | -0.02 | -0.02 | 0.02 | -0.05 |
| Materials | 0.06 | 0.05 | 0.01 | 0.01 | -0.01 | 0.00 |
| Oil | 0.01 | 0.01 | 0.00 | 0.00 | 0.11 | -0.07 |
| Telecommunication Services | 0.00 | 0.01 | 0.00 | 0.00 | -0.05 | 0.05 |
| Term Spread | 0.65 | 0.64 | 0.01 | -0.04 | 0.00 | 0.15 |
| Utilities | 0.01 | 0.03 | -0.02 | -0.01 | -0.01 | 0.03 |

# AXIOMA Factor Analysis

| Risk | 4/28/2017 | 4/30/2018 |
|---|---|---|
| Total Risk | 14.30 | 14.30 |
| Benchmark Risk | 14.94 | 15.19 |
| Predicted Beta | 0.93 | 0.90 |
| Total Return at Risk (%) (5%) | 23.53 | 23.51 |
| Total Value at Risk ($) (5%) | 152,945 | 128,715 |
| Coefficient of Determination | 0.95 | 0.92 |
| **Active Risk** | | |
| Active Risk | 3.49 | 4.42 |
| Active Factor Risk | 1.29 | 1.90 |
| Active Specific Risk | 3.25 | 4.00 |
| Active Return at Risk (%) (5%) | 5.75 | 7.28 |
| Active Value at Risk ($) (5%) | 37,358 | 39,838 |
| **Portfolio Details** | | |
| # of Securities | 15 | 19 |
| Port. Ending Market Value | 650,068 | 547,385 |

- ❑ Risk rising from factor exposure and stock specific exposures have increased
- ❑ Fund returns vary +/- 4.00 standard deviations % from benchmark return, one standard deviation of time

# Sector Allocation as of 12/31/2017

**Sector Under/Overweight (%) Last Meeting**
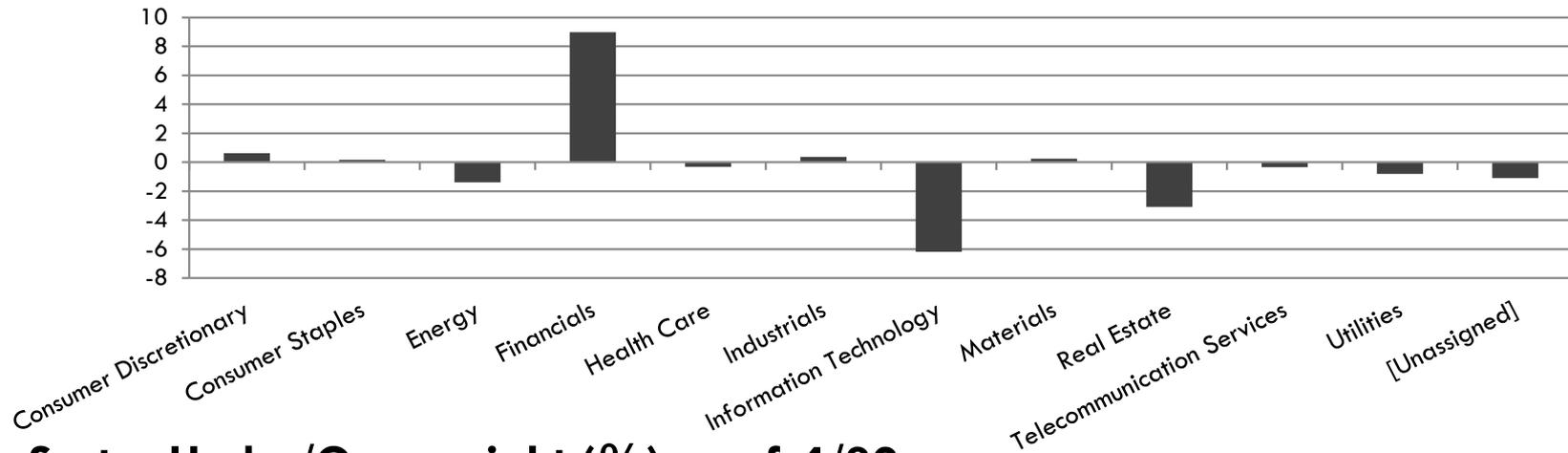


**Sector Under/Overweight (%) as of 4/30**
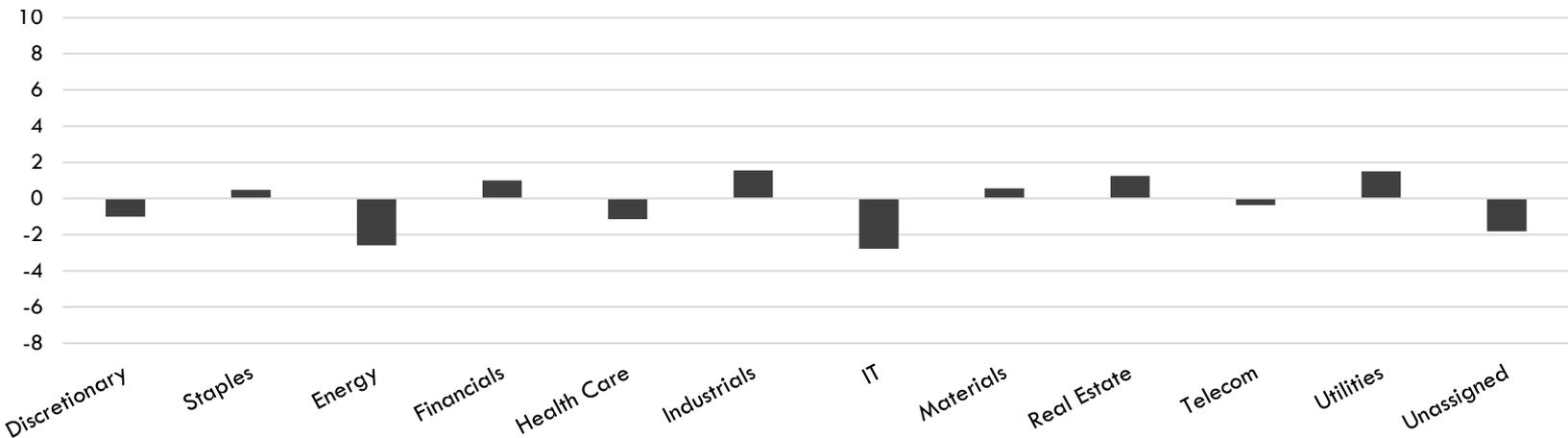
# Security Holdings as of 04/30/2018

**All Securities**

| Security | Weight |
|---|---|
| Builders FirstSource, Inc. | 4.45% |
| Carriage Services Inc. | 4.32% |
| Coeur Mining, Inc. | 3.95% |
| Control4 | 4.29% |
| Farmland Partners Inc. | 4.53% |
| Greenbrier Companies, Inc. | 2.97% |
| Keane Group, Inc. | 2.64% |
| LaZBoy Mason, Inc. | 3.43% |
| Legg Mason, Inc. | 4.77% |
| MGM Growth Properties LLC | 4.91% |
| Oshkosh Corp | 3.74% |
| PNM Resources, Inc. | 3.33% |
| PowerShares KBW Regiona | 11.10% |
| PowerShares S&P SmallCap Health Care | 4.30% |
| Sanderson Farms, Inc. | 2.23% |
| Southwest Gas Holdings, Inc. | 3.34% |
| Vanguard Russell 2000 Value ETF | 18.05% |
| Virtu Financial, Inc. Class A | 5.22% |
| Union Bankshares Corp. | 5.40% |

**Sold**

- OPY
- VTWV (part)

**Evaluate**

- CSV
- LM
- SAFM
- VIRTU

**Bought**

- CTRL
- SWX
- OSK
- FPI

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Cash Holdings: 3.35%

# Sell Discipline

**Trim or Exit**

- Position >7% of the portfolio
- Relative/Intrinsic value is reached

**Review/Meeting**

- Relative price drop to peers in excess of 10%
- Stock experiences negative surprise

Sell decisions require majority agreement (4/6) to exit a position.

# Sell Grenades

| Company | Date Sold | Return since sale | VTWV Return | Difference |
|---|---|---|---|---|
| MSTR | 10/26/2017 | -9.58% | 0.77% | -10.35% |
| DF | 11/28/2017 | -15.80% | -1.14% | -14.66% |
| VIVO | 1/19/2018 | -2.84% | -4.23% | 1.39% |
| OPY | 1/31/2018 | -1.95% | -2.22% | 0.27% |

*Source: FactSet*

**21** **Holdings Update**

# Control4 Corporation - CTRL

- ❑ Leader in smart home industry
- ❑ Substantial market progression left
- ❑ Beat top and bottom line guidance for Q1 of 2018 (+13%)
  - ❑ Earnings: 50% surprise
- ❑ Superior margins relative to peers
- ❑ Strong cash flow generation with negative net debt
- ❑ High level of operating leverage
- ❑ Negative net debt
- ❑ P/E 40.4x
- ❑ 3 Yr Sales CAGR: 18%

# Southwestern Gas Holdings - SWX

- ❏ Diversified gas utility
    - ❏ Gas operations
    - ❏ Construction services
- ❏ Operates in high population growth states
- ❏ Beneficiary of tax cuts
- ❏ Utility gas line construction business growth
- ❏ P/E 17.0x
- ❏ 3 Yr Sales CAGR: 6.3%

# Oshkosh Corporation - OSK

- ❑ Produces access equipment, armored vehicles, and other heavy weight vehicles
- ❑ Beat Q2 2018 (Calendar Q1) earnings – 42% surprise
- ❑ Access Equipment sales still growing
- ❑ Quality company with strong balance sheet and catalysts
- ❑ Investors are over pricing in the China tariffs
- ❑ P/E 14.7x
- ❑ 3 Yr Sales CAGR: 0.1%

# Farmland Partners, Inc. - FPI

- ❑ REIT that invests in specialty and row crop farmland
  - ❑ Row crops: 75%, specialty crops: 25%
  - ❑ Own: fields, irrigation, drainage, & grain storage
- ❑ Insider buying
- ❑ Farmland has appreciated in value
- ❑ Analysis shows upside in FPI land value
- ❑ 3 Yr Sales CAGR: 122.1%
- ❑ FFO set to appreciate
  - ❑ Price/FFO 11.5x



Figure 1: Annual FPI FFO Per Share
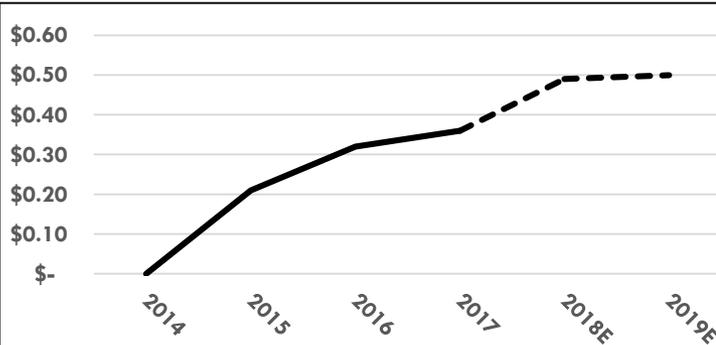
Source: FactSet

# Attractive Characteristics

- ❏ Portfolio vs. the benchmark
  - ❏ Smaller market capitalization
  - ❏ Valuation metrics
    - ▪ Higher P/E
    - ▪ Similar P/CF
    - ▪ Higher P/B
    - ▪ Lower P/S
  - ❏ Profitability
    - ▪ Higher ROE
    - ▪ Higher ROA
    - ▪ Higher margins
  - ❏ Growth
    - ▪ Higher 3 Yr. Sales CAGR
    - ▪ Higher 3 Yr. EPS CAGR

| Characteristics | Panther Value Fund (04-30-2018) | Panther Value Fund (4-30-2017) | Value Benchmark (04-30-2018) |
|---|---|---|---|
| Market Cap. | $780 | $780 | $1,809 |
| Number of Securities | 19 | 15 | 1,392 |
| Dividend Yield | 2.03% | 1.73% | 1.89% |
| Price/Earnings | 20.9X | 16.4X | 17.2X |
| P/E using FY1 Est | 15.6X | 18.3X | 15.5X |
| P/E using FY2 Est | 14.2X | 14.1X | 13.9X |
| Price/Cash Flow | 8.6X | 6.0X | 8.6X |
| Price/Book | 1.7X | 1.8X | 1.5X |
| Price/Sales | 1.2X | 0.6X | 1.0X |
| Hist 3Yr Sales Growth | 17.2% | 9.8% | 7.3% |
| Hist 3Yr EPS Growth | 11.4% | 27.6% | 5.3% |
| Est 3-5 Yr EPS Growth | 19.0% | 15.1% | 12.8% |
| ROA | 3.5% | 4.4% | 1.8% |
| ROE | 7.3% | 21.3% | 4.6% |
| Operating Margin | 16.5% | 11.8% | 14.8% |
| Net Margin | 9.2% | 7.2% | 9.2% |
| LT Debt/Capital | 34.0% | 40.3% | 32.7% |

Client Meeting

# Transocean Ltd. (RIG)

- ☐ Recommendation: BUY
- ☐ Current Price: $12.08
- ☐ Price Target: $14.00

**BUY**
- We are underweight in energy
- Diversification within Energy

**DRIVERS**
- Oil prices have rebounded
- Rig counts are recovering
- Day rates are increasing
- Strong backlog

**VALUATION**
- P/CFO multiple has declined on absolute and relative basis
- DCF yields upside

**RISKS**
- Oil prices
- Customer concentrations
- Political risk (OPEC)

Source: FactSet Prices
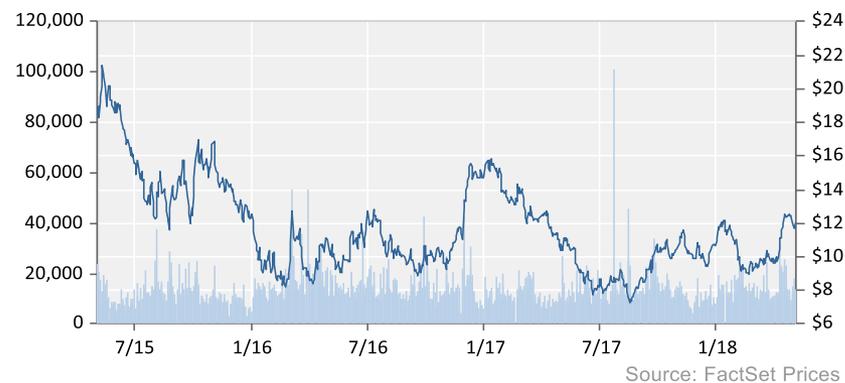
| Growth | 2015 | 2016 | 2017 |
|---|---|---|---|
| Sales (M) | $7,386 | $4,161 | $2,973 |
| *Growth* | *-19.5%* | *-43.7%* | *-28.6%* |
| EPS | $4.19 | $1.92 | ($5.22) |

| Ratio | 2015 | 2016 | 2017 |
|---|---|---|---|
| OM | 33.7% | 28.6% | 20.1% |
| NM | 10.6% | 18.4% | -105.2% |
| FCF/S | 19.6% | 13.6% | 21.8% |
| EQ/AS | 0.56 | 0.59 | 0.57 |
| P/CFO | 1.6 | 3.0 | 3.67 |
| P/FCF | 3.2 | 10.7 | 4.8 |

# Largest Offshore Contract Driller

**Transocean ("RIG")** – global offshore drilling.
- Mobile Offshore Drilling Units (47 Total)
  - Ultra-Deepwater Floaters (27)
  - Harsh Environment Floaters (12)
  - Deepwater Floaters (2)
  - Midwater Floaters (6)
  - High – Specification Jackups (2)
- 2017 Customer Percent of Rev.
  - Chevron                    (29%)
  - Royal Dutch Shell       (17%)
  - Petroboss Inc.             (14%)

Pie chart 1:
- Ultra-Deepwater 64%
- Harsh Environment 15%
- Other 8%
- High-Spec Jackups 6%
- Deepwater 5%
- Midwater 2%

Pie chart 2:
- U.S. 51%
- Other 28%
- Brazil 11%
- U.K. 10%

Source: FactSet

# Geographic Exposure

**FLOATER OPPORTUNITIES – NEXT 18 MONTHS**

U.K. / Norwegian North Sea – Two Most Active Markets Today

<6 months
6-12 months
1-3 years
>3 years
# Number of programs

Indep. IOCs NOCs

31 rig years to be awarded

Source data © 2018 IHS. All rights reserved. No IHS data/deliverables may be reproduced, reused, or otherwise distributed in any form without IHS' prior written consent. January 2018; and Transocean

*Source: Transocean Investor Slides, p27*

# Strongest Backlog

❑ Backlog by Major Customer
    ❑ Royal Dutch Shell              (52%)
    ❑ Stat Oil ASA                   (31%)
        ▪ Norway, Harsh-Environment
        ▪ From Songa Transaction
    ❑ Chevron                      (10%)

| Contract backlog | Feb-18 |
|---|---|
| Ultra-deepwater floaters | 8,367 |
| Harsh env. floaters | 4,269 |
| Deepwater floaters | 105 |
| Midwater floaters | 60 |
| High-spec. jackups | 38 |
| Total | 12,839 |



Backlog By Drilling Type ($MM)



Backlog ($B) >3x Nearest Competitor
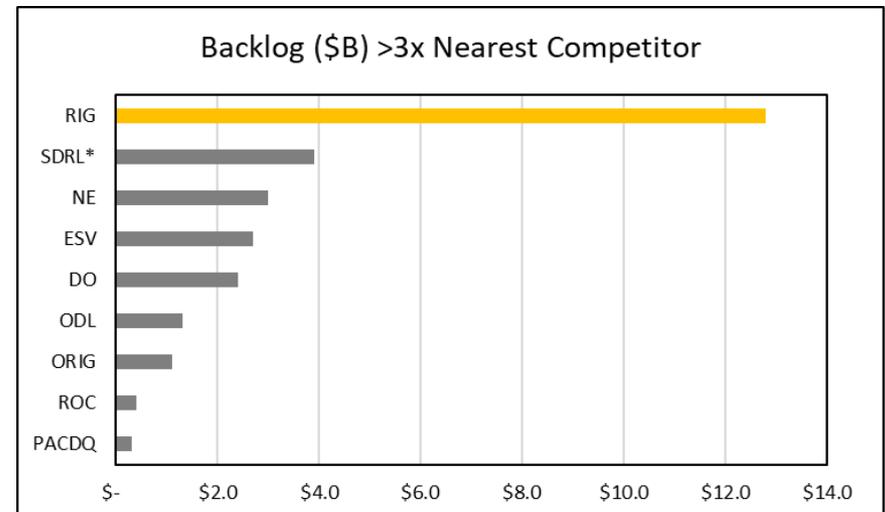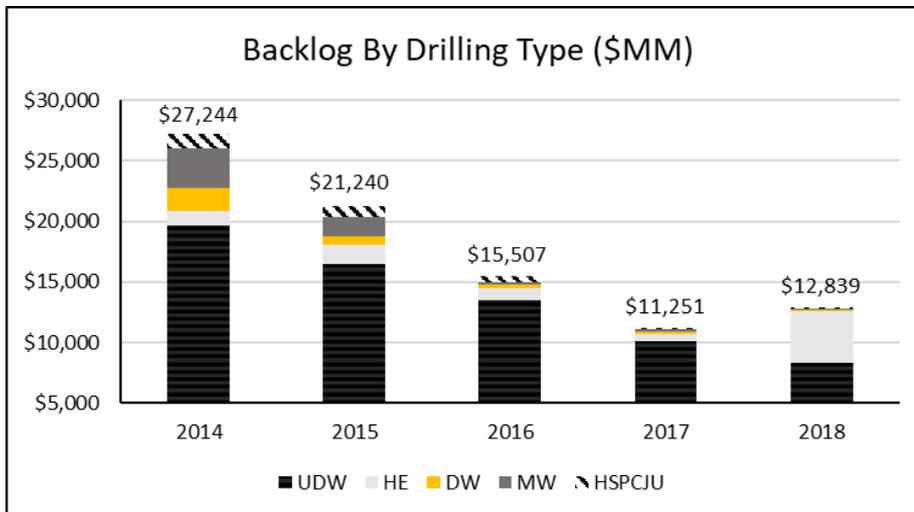
# Rig Efficiently Converts Backlog

- ❑ Backlog concentrated in Ultra Deepwater/Harsh Environments

- ❑ IG customers provide operational assurance

- ❑ 97% Revenue efficiency

- ❑ Big data efficiency apps track crew performance, rig condition
  - ❑ Increase uptime, decrease travel time
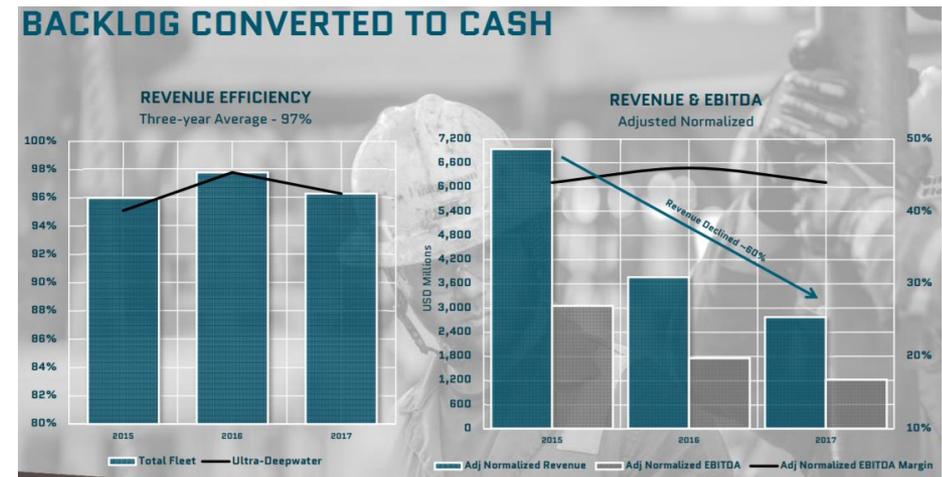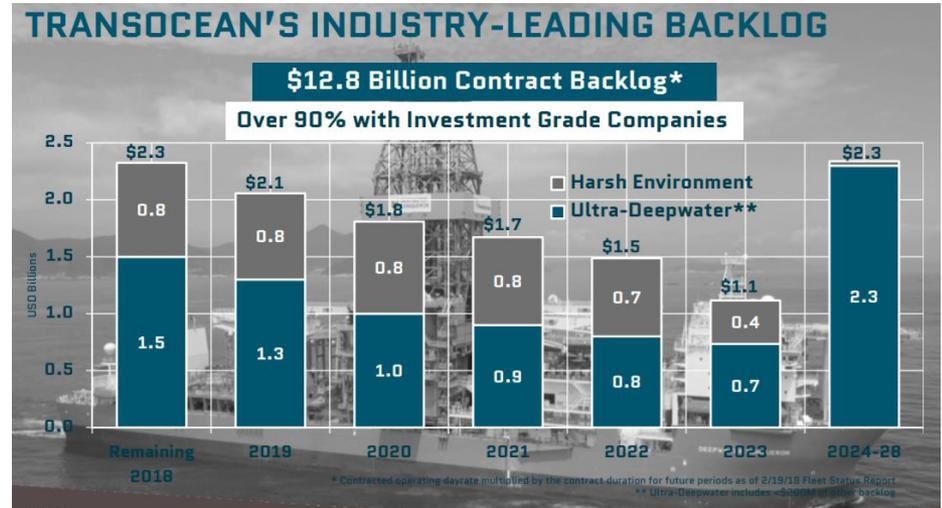
# Brent Price & Rig Count Rebound

- ❑ We expect Ultra-Deepwater Floater utilization rates to recover in 2019
- ❑ Oil majors (RIG customers) have positive outlook on oil prices
    - ❑ Royal Dutch Shell is forecasting 15-35% Cap-Ex increase
    - ❑ Forward curves suggest stable prices



- Baker-Hughes Rotary Rig Count, Oil - United States (Right)
- (INDEX) Transocean Ltd. - Price (Left)
- (INDEX) Crude Oil Brent ($/bbl) - Price (Left)



Brent/WTI Forward Curves

Brent (5/7/2018)   WTI (5/7/2018)



Utilization Rates By Type

- Ultra-Deepwater Floaters
- Harsh Environment Floaters
- Deepwater Floaters
- Midwater Floaters
- High-Specification Jackups
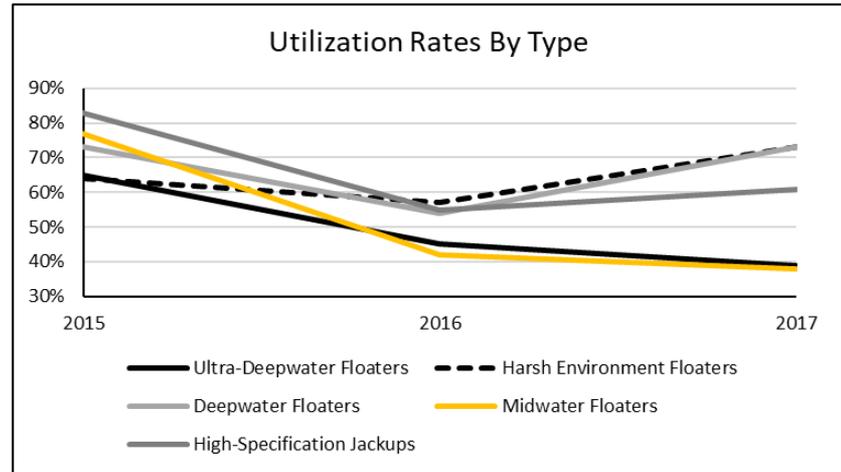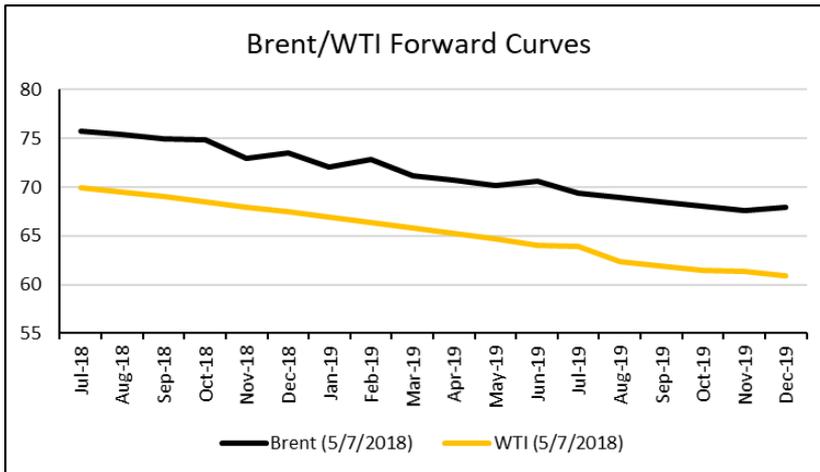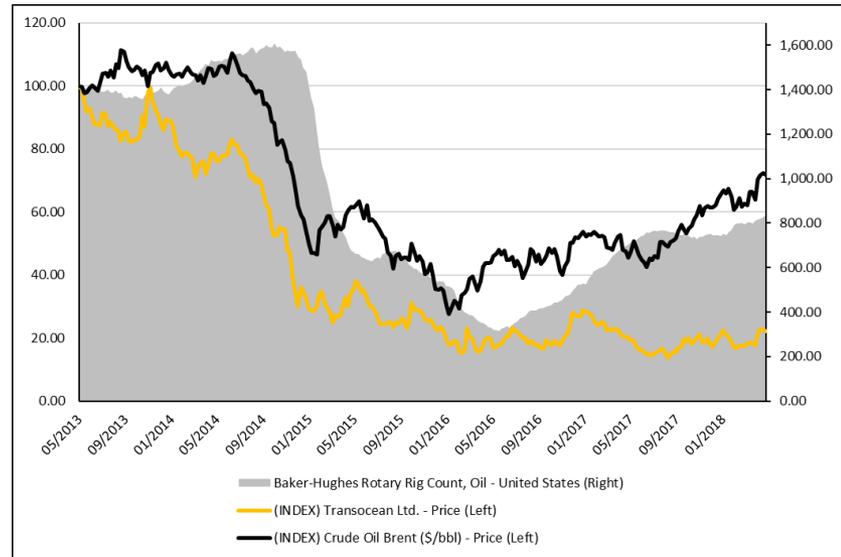
# Break-Even Data/Budget Season

## Breakeven Oil Price for Select GOM Assets (Approval Year 2012-2020)

Legend:
- Anadarko
- BHP
- BP
- Chevron
- Cobalt
- Deep Gulf
- Eni
- ExxonMobil
- Hess
- LLOG
- Murphy
- Shell
- Stone

(Bar chart of breakeven oil prices, $0–$90, with red horizontal line at $50, for assets: Shenandoah, Phobos, Constellation, Heidelberg, Caesar/Tonga, Shenzi North, Mad Dog Phase 2, Tahiti, Anchor, Jack Phase 2, North Platte, South Santa Cruz, Barataria, Hummer, Hadrian North, Knotty Head, Pony (KH North), Buckskin, Thunder Bird, Rydberg, Coulomb, Appomattox, Vito, Vicksburg A, Gettysburg West, Kaikias, Power Nap, Stones, Tailldancer)

□ Budget Season for Oil Majors Late 2018

□ Brent> $70 then would be boost to Major's Cap-Ex plans

□ Many Majors OFSD BE: $40s, HE B/E: $30s

Source: Transocean Investor Slides, Morgan Stanley Research, April 2017, Rystad Energy, April 2017

# Day rates improving in harsh waters

| Average Day Rate | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| **Ultra-Deepwater Floaters** | $ 513,900 | $ 492,100 | $ 472,400 |
| **Harsh Environment Floaters** | $ 542,600 | $ 329,100 | $ 235,900 |
| **Deepwater Floaters** | $ 354,400 | $ 253,900 | $ 195,200 |
| **Midwater Floaters** | $ 349,200 | $ 274,100 | $  95,600 |
| **High-Specification Jackups** | $ 172,900 | $ 143,800 | $ 143,900 |
| **Total Fleet average Day Rate** | $ 400,500 | $ 353,500 | $ 321,300 |

- ❑ Incremental day rates:
  - ❑ Harsh Env. ~$300,000/d
  - ❑ Ultra-Deepwater rates are lower as legacy contracts roll off
- ❑ Pricing Model change:
  - ❑ Performance Metric Bonuses
    - ▪ Adds ~15-20% to day rate
    - ▪ Adds Up to 30% in Harsh Environment
  - ❑ Aligns RIG with customer motivations

# Reducing Debt
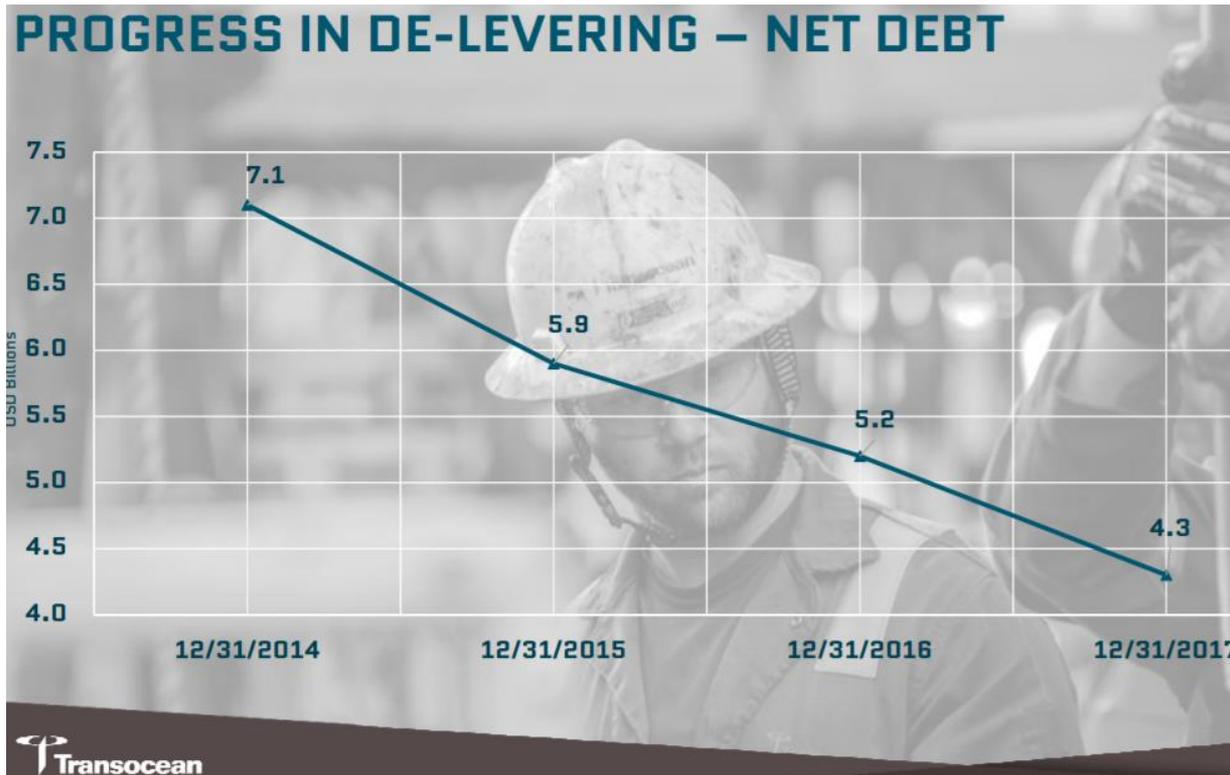
Source: Company Presentation

# RIG Superior Relative to Comps

❏ Superior Operating Margins

❏ Negative Net Margin – Scrapped three rigs in 2017 (took large book loss)

| TICKER | NAME | MKT CAP | ENT VAL | EQ/ASSET | OM (%) | NM (%) | P/B | P/FCF | P/OCF |
|--------|------|---------|---------|----------|--------|--------|-----|-------|-------|
| **RIG** | **Transocean Ltd.** | **5,577.5** | **8,198.9** | **0.5** | **14.9** | **-120.1** | **0.3** | **8.3** | **5.2** |
| DO | Diamond Offshore Drilling, Inc. | 2,532.8 | 4,147.9 | 0.6 | 12.8 | 1.0 | 0.7 | 7.5 | 5.3 |
| DRQ | Dril-Quip, Inc. | 1,632.5 | 1,293.5 | 0.9 | 0.8 | -24.8 | 1.4 | 21.7 | 15.1 |
| ESV | Ensco plc Class A | 2,539.6 | 5,828.3 | 0.6 | -2.3 | -23.5 | 0.3 | -7.7 | 13.1 |
| HP | Helmerich & Payne, Inc. | 7,609.8 | 5,548.5 | 0.7 | -2.8 | 20.7 | 1.4 | -770.1 | 18.9 |
| MDR | McDermott International, Inc. | 1,904.1 | 2,036.4 | 0.6 | 11.8 | 6.2 | 1.1 | 37.9 | 15.3 |
| NE | Noble Corporation plc | 1,145.0 | 5,163.6 | 0.5 | -12.3 | -31.7 | 0.2 | 5.3 | 3.1 |
| | **AVERAGE** | **3,277.3** | **4,602.4** | **0.6** | **3.3** | **(24.6)** | **0.8** | **16.1** | **10.9** |
| | **MEDIAN** | **2,532.8** | **5,163.6** | **0.6** | **0.8** | **(23.5)** | **0.7** | **8.3** | **13.1** |

Figure ?: Comps

Source: FactSet

# Trades at Discount Relative on P/OCF

Figure ?: RIG Risks



**P/OCF (RIG vs. Comps)**

Legend: COMPS P/OCF (R) — RIG P/OCF (L) — Difference
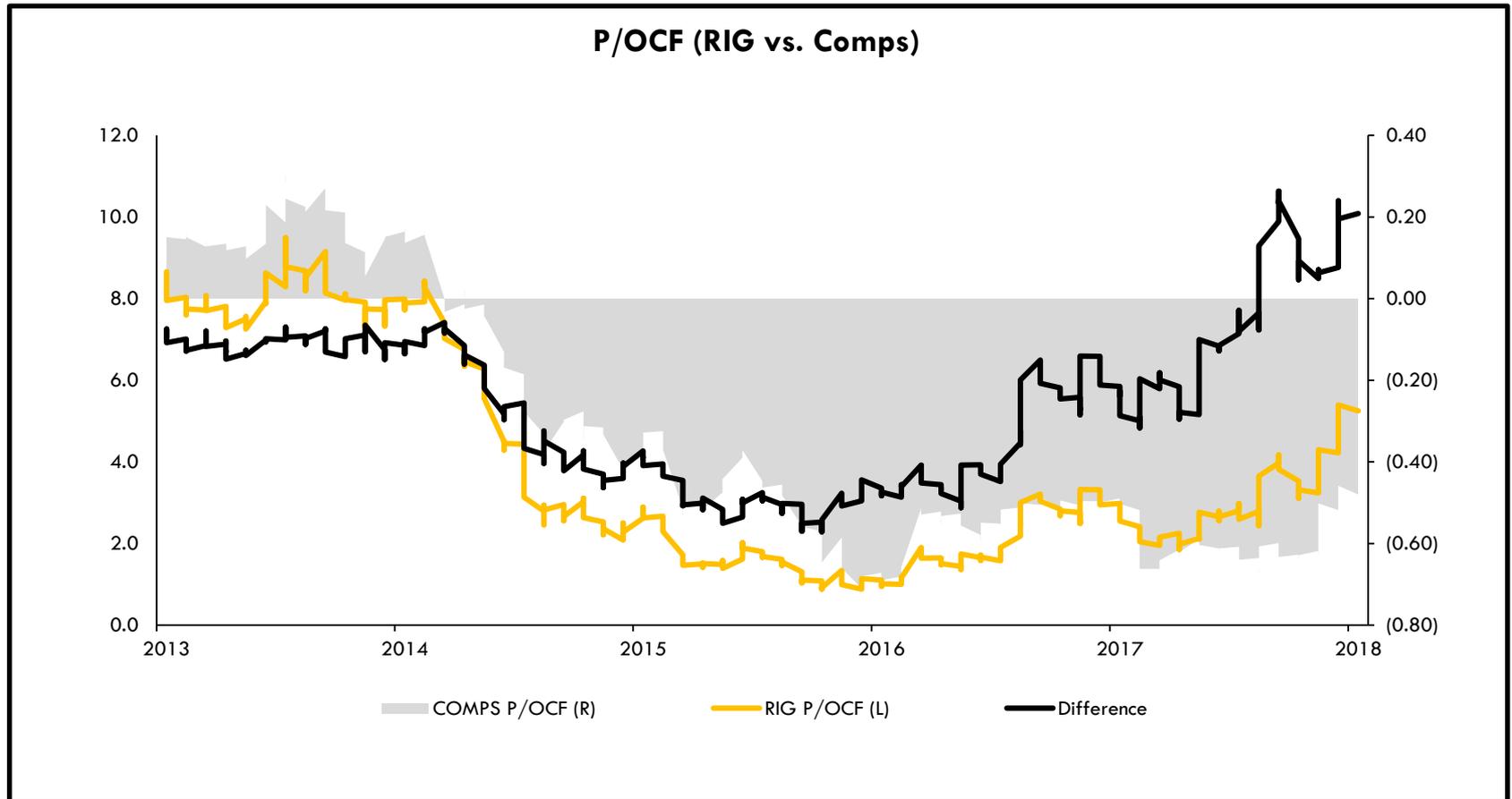
Source: FactSet

# Price Target: $14, Upside: 15%

Discount Rate: 12%
Terminal Growth Rate: -2%

| | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|
| **RIGS** | 56 | 47 | 49 | 49 | 49 | 51 | 51 | 51 |
| **Utilization** | 48% | 48% | 59% | 60% | 65% | 64% | 63% | 60% |
| **RIGS USED** | 27 | 23 | 29 | 29 | 32 | 33 | 32 | 31 |
| **CFO/RIG** | 37.9 | 13.8 | 13.8 | 13.8 | 13.8 | 13.8 | 13.8 | 13.0 |
| | | | | | | | | |
| **CFO** | 1,911 | 1,144 | 1,267 | 1,274 | 1,308 | 1,354 | 1,347 | 1,301 |
| **Growth** | -44.5% | -40.1% | 10.8% | 0.5% | 2.7% | 3.5% | -0.5% | -3.5% |
| **DEP/RIG** | 15.95 | 17.70 | 17.70 | 17.70 | 17.70 | 17.70 | 17.70 | 17.70 |
| **CFO** | 1018 | 312 | 400 | 407 | 440 | 451 | 444 | 398 |
| | | | | | | | | |
| **CAPEX** | 1,344 | 497 | 250 | 300 | 400 | 400 | 400 | 550 |
| **Growth** | -33% | -63% | -50% | 20% | 33% | 0% | 0% | 38% |
| | | | | | | | | |
| **FCF** | 567 | 647 | 1,017 | 974 | 908 | 954 | 947 | 751 |

# Risks

Figure ?: RIG Risks
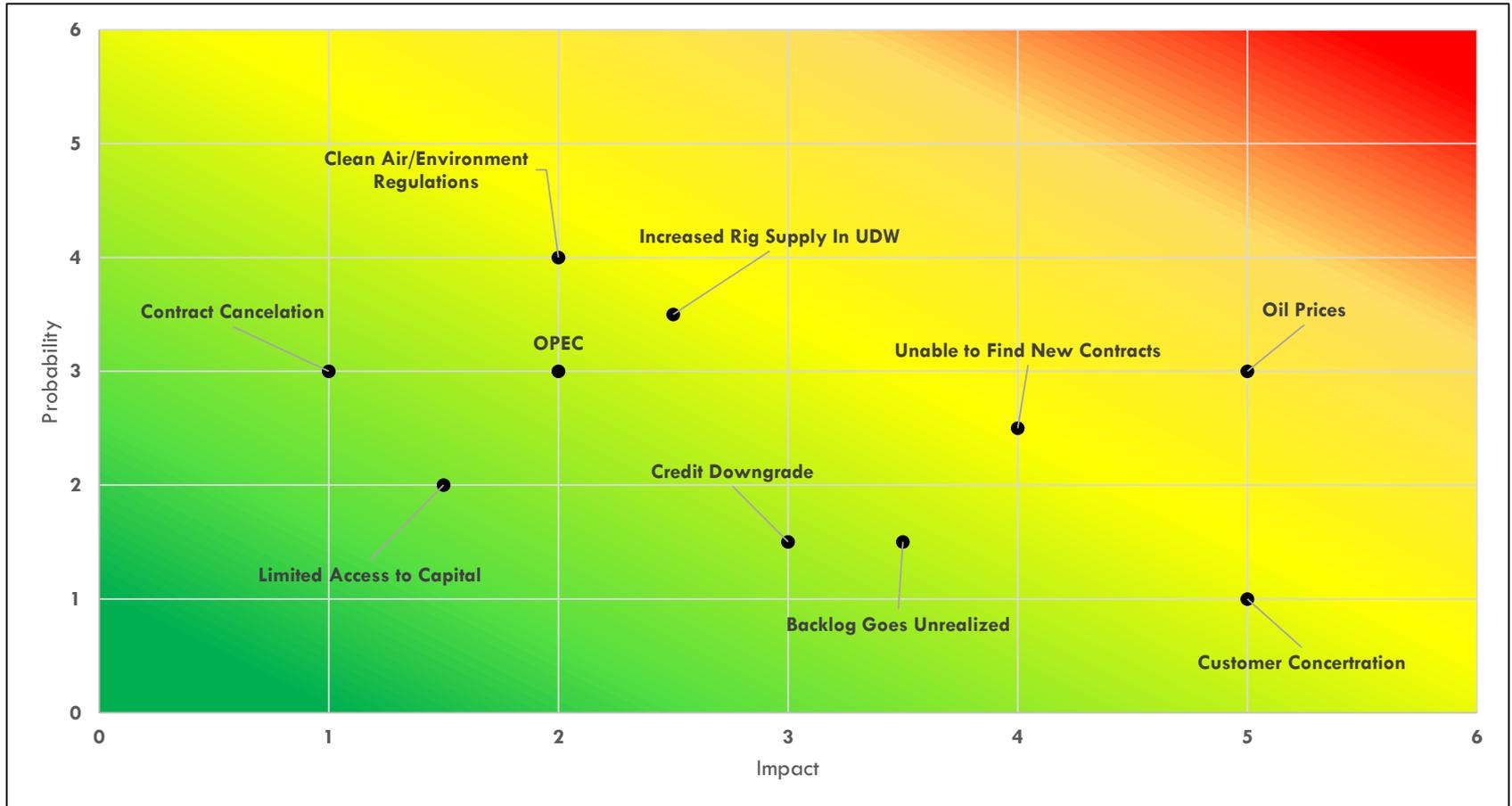
# Spill RIG Into Your Portfolio

- ❑ Oil prices have rebounded
- ❑ Rig counts are recovering
- ❑ Day rates are increasing
- ❑ Strong backlog

- ❑ Buy with a price target $14

# APPENDIX

# Individual Fund Performance

Baird Fund (Morgan Stanley account) performance since inception 11/1/2016-04/30/2018

No significant differences in holdings with Merrill accounts (IMCP and UWM Foundation)



**Performance Over Time - 362022747 vs. Value Benchmark**

11/01/2016 - 4/30/2018

Total

Benchmark Total Return — Portfolio Total Return

©FactSet Research Systems
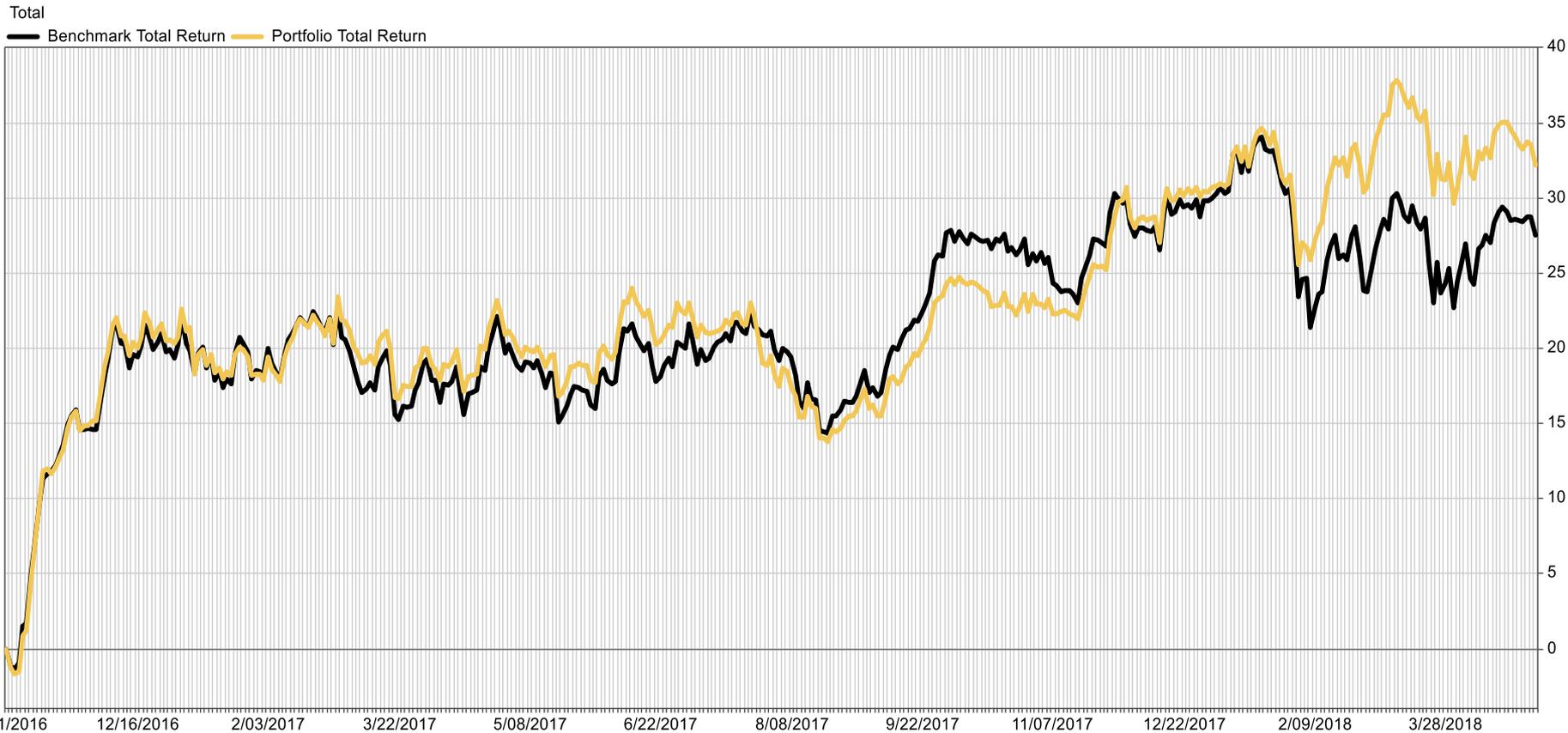
# Investment Process- Broad Overview
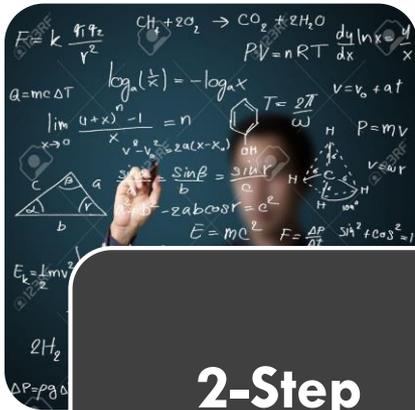
**2-Step Quantitative Screen**

**Fundamental Analysis**

**Stock Pitch and Buying Decision**

# Value Investment Philosophy

| | Contrarian (Heartland Funds) | Quality Value (Harris Associates) | Blend | GARP (Nicolaus Co.) | Momentum (American Century) |
|---|---|---|---|---|---|
| **Large** | | | | | |
| **Mid** | | | | | |
| **Small** | | Panther Value Fund | | | |

# Investment Process- Quant Model

**P1: Quality Companies**

Metrics have to be better than industry averages.

GM

ROA

Leverage

OP CF Yield
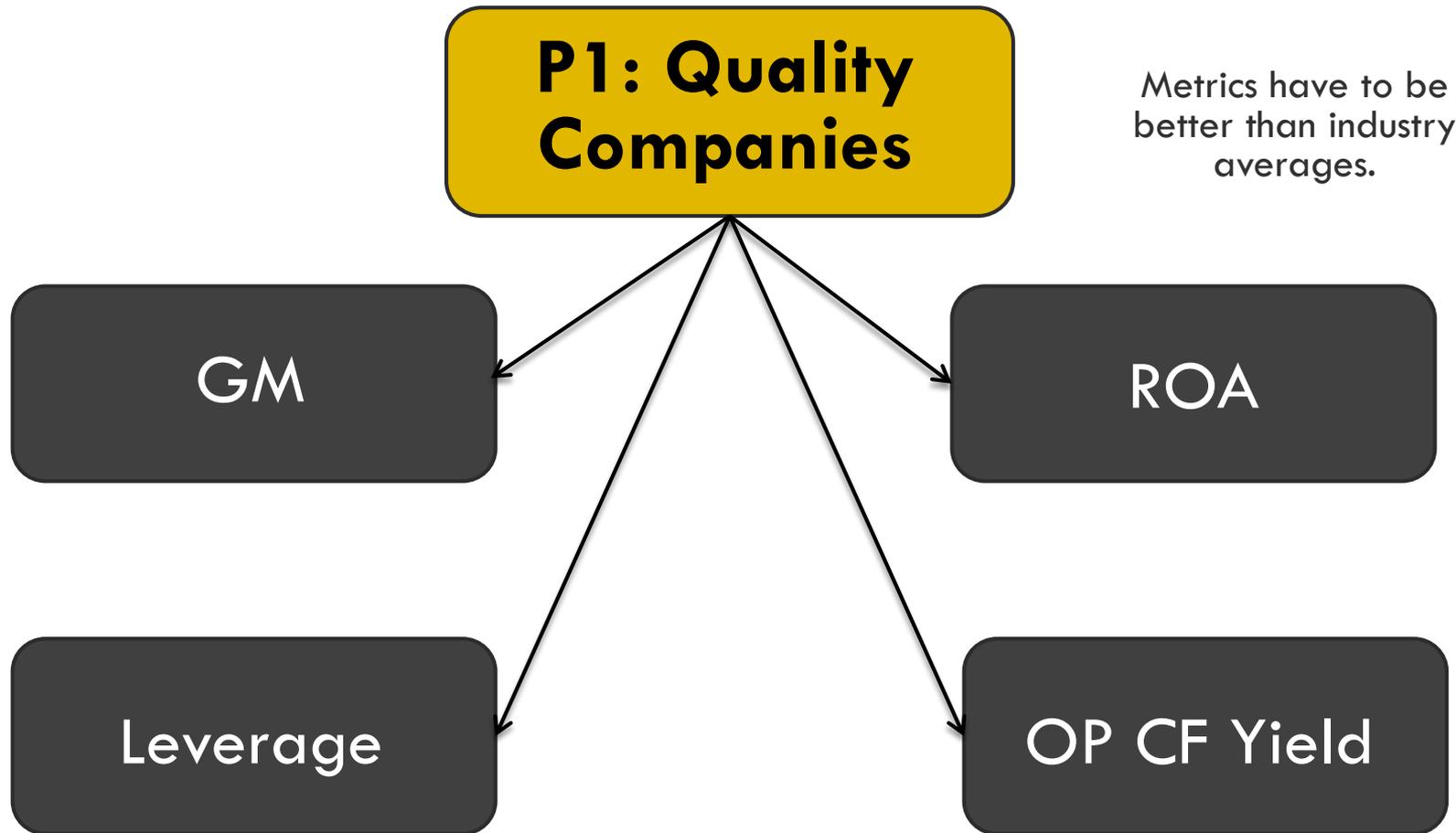
# Style Evidence- Gross Margin

**Gross Margins**
- Cleanest accounting measure of true economic profitability.
- Powerful predictor of future growth in gross profitability, earnings, FCF.

**Value & Profitability strategies**
- Negatively correlated.
- Adding a profitability strategy reduces volatility.

**Strategies based on GM**
- Generate Value like average excess returns.
- Even though it is considered a growth strategy it provides an excellent hedge for value.

| Panel A: Portfolio average excess returns and time series regression results | | | | | |
|---|---|---|---|---|---|
| | Gross profits-to-asset quintiles | | | | |
| | Low | 2 | 3 | 4 | High |
| **Size quintiles** | | | | | |
| Small | 0.40 | 0.64 | 0.78 | 0.89 | 1.07 |
| 2 | 0.37 | 0.71 | 0.71 | 0.73 | 0.90 |
| 3 | 0.40 | 0.73 | 0.74 | 0.68 | 0.81 |
| 4 | 0.45 | 0.62 | 0.59 | 0.65 | 0.84 |
| Big | 0.30 | 0.37 | 0.49 | 0.36 | 0.55 |

*The other side of value: The gross profitability premium* – Robert Novy-Marx, Journal of Financial Economics.
*Vol. 108, Issue 1, April 2013, Pg. 1-28*

# Investment Process- Quant Model

**P2: Quality Stocks**

Stocks have to pass 4/5 of these factors.
*Always has to meet EPS expectations.

Market Price lower ½ of 2 yr. rage

Positive Price Momentum

Market price greater than 18-mo. low

Valuation P/B, P/S

Consensus EPS Growth
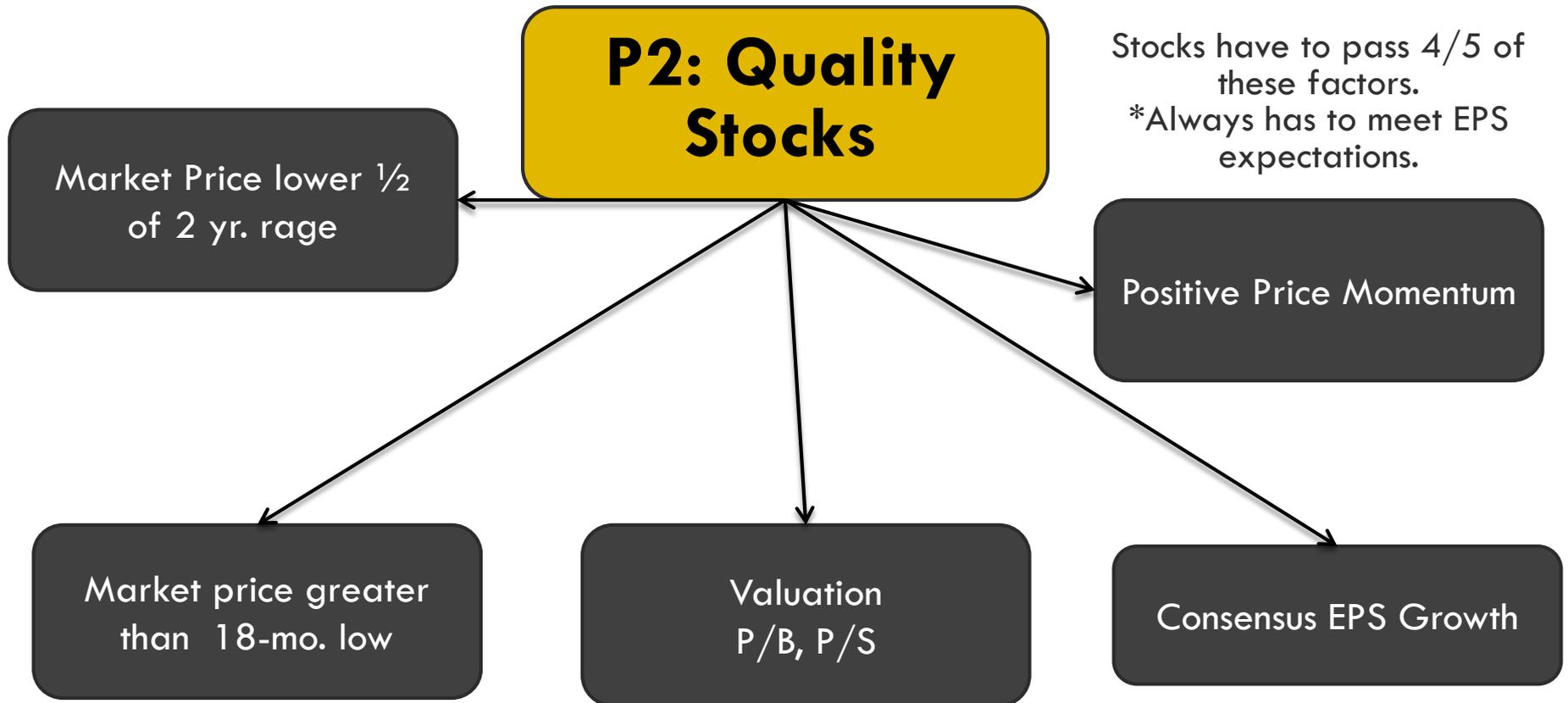
# Style Evidence- Momentum
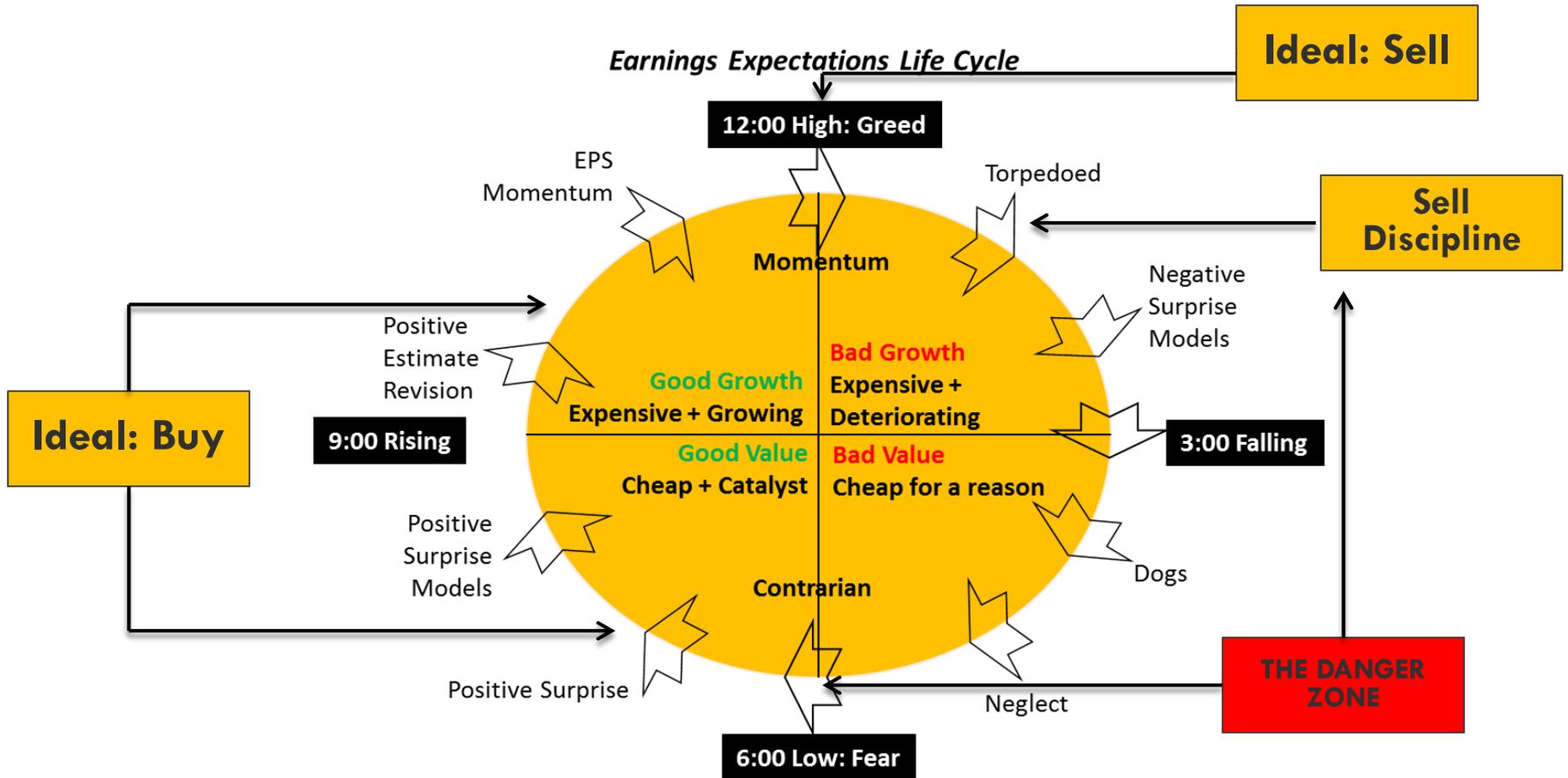
Source: Merrill Lynch Quantitative Analysis

# Investment Process- Fundamental
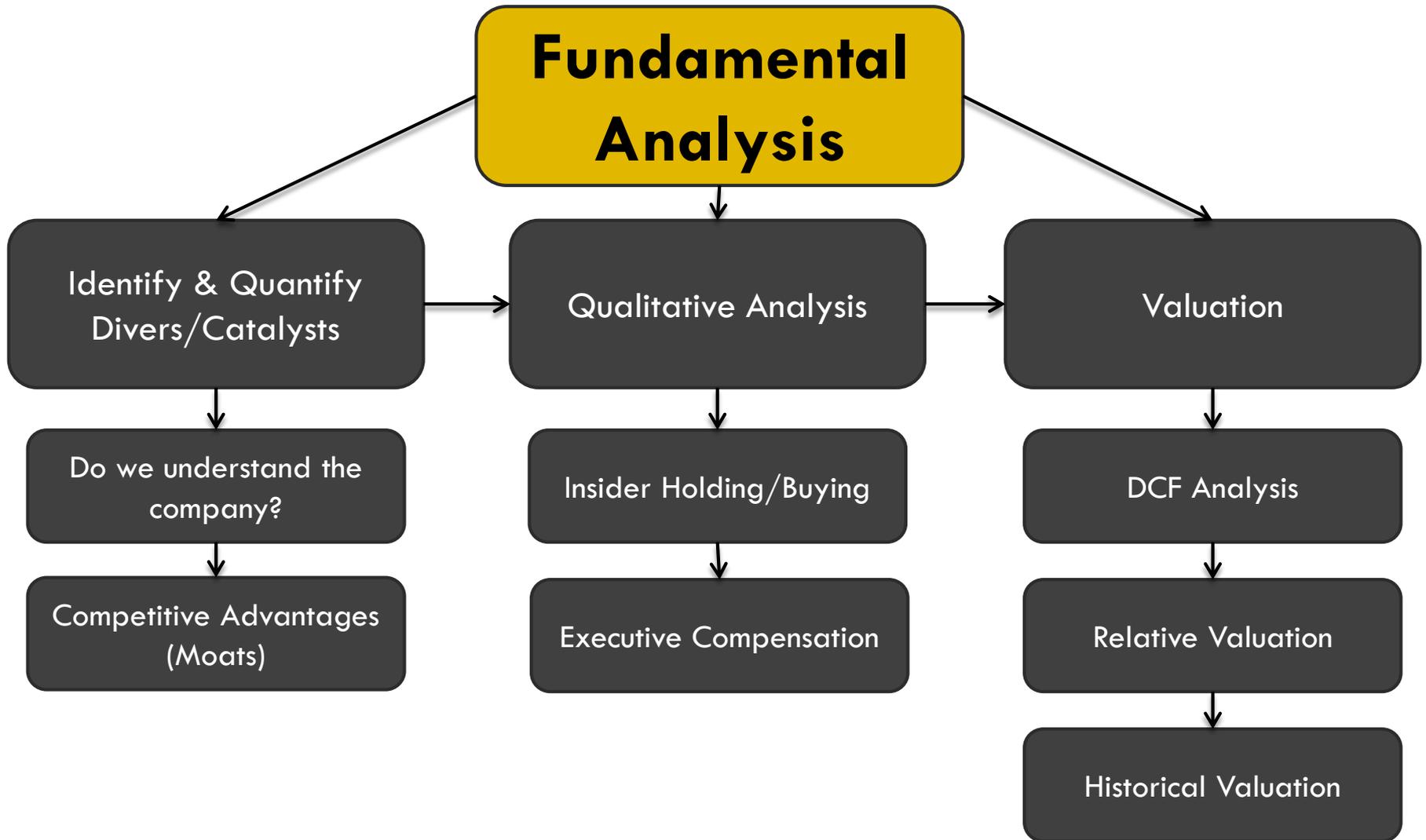
# Investment Process-Decision

Stock Pitch → 4/6 vote approval → Added to the portfolio
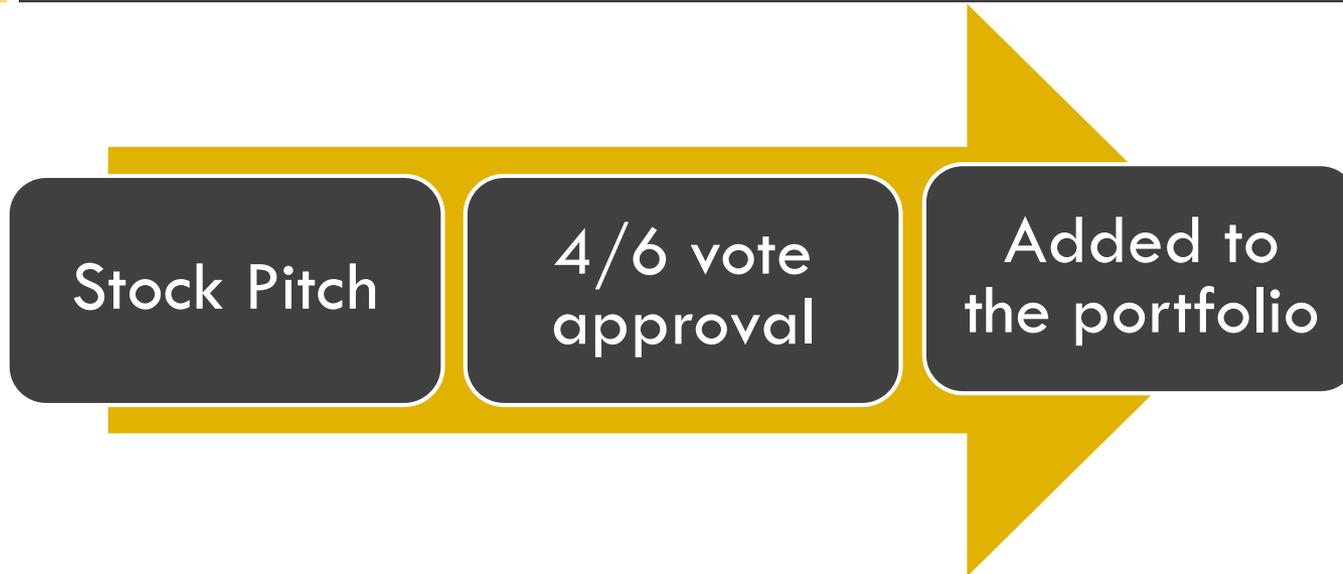
To reduce downside risk, we prefer that stocks considered for the portfolio are bought with a margin of safety.

| Discount to Intrinsic Value | Course of Action |
|---|---|
| >25% | Strong Buy |
| 16-25% | Buy |
| 11-15% | Research |
| 0-10% | Not approved for purchase |

University of Wisconsin-Milwaukee | Investment Management Certificate Program

# Risk Control

- ❑ Definition of Risk
  - ❑ Not understanding the business model
  - ❑ Concentrated portfolio
  - ❑ Relative underperformance
- ❑ Mitigation
  - ❑ Margin of safety
  - ❑ Sector neutral
  - ❑ Quantitative and qualitative analyses
  - ❑ Higher quality companies tend to be less risky
    - ▪ Strong balance sheet
    - ▪ Strong cash flows
    - ▪ Strong margins/returns

# UNIVERSITY OF WISCONSIN – MILWAUKEE

MAY 11, 2018 IMCP CLIENT MEETING

REVIEW OF:
TOTAL FUND
GLOBAL MACRO FUND

Investment Management Certificate Program

# Outline

2

# Student Responsibilities

## Global Macro

Brian Lee

Jacob Hornak

Kimberly Geary

Philip Godager

## Panther Value

Andrew Stott

Peter Wycklendt

Alyssa Goodrich

Mitch Rzentkowski

Carl Schemm

Kody Babler

## Milwaukee Growth

Christian Pacheco

Karissa Zanoni

Gurcharan Singh

Justin Brant

Daniel Macek

# Total Fund Objectives

❑ Provide a real-world investment education experience

❑ Grow assets at a 4 - 5% real rate of return

❑ Permit withdrawals from the IMCP-specific portfolio and the Baird Fund for various needs

❑ The Baird Fund supported the IMCP trip to NYC and London in March

❑ Effectively manage risk

# Total Fund Performance-IMCP Fund

| Portfolio | Ending Value | Since Inception 10/18/10 | | | Five Year 04/30/13 – 04/30/18 | | | Three Year 04/30/15 – 04/30/18 | | | Since Transition 04/30/17 – 04/30/18 | | | Since Last Meeting 12/31/17 – 04/30/18 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Absolute Return (%) | Benchmark Return (%) | % + Benchmark | Absolute Return (%) | Benchmark Return (%) | % + Benchmark | Absolute Return (%) | Benchmark Return (%) | % + Benchmark | Absolute Return (%) | Benchmark Return (%) | % + Benchmark | Absolute Return (%) | Benchmark Return (%) | % + Benchmark |
| Growth | $554,241.23 | 178.11% | 185.41% | -7.30% | 90.99% | 101.39% | -10.40% | 45.69% | 43.20% | 2.49% | 17.55% | 18.67% | -1.12% | 3.79% | 3.90% | -0.11% |
| Value | $547,385.32 | 155.71% | 143.01% | 12.70% | 89.30% | 69.58% | 19.71% | 39.29% | 28.85% | 10.44% | 9.20% | 6.53% | 2.67% | 1.69% | -0.95% | 2.64% |
| Global | $702,557.45 | 31.38% | 40.20% | -8.82% | 13.91% | 22.50% | -8.82% | 10.29% | 13.64% | -3.35% | 7.35% | 9.20% | -1.85% | -1.08% | -0.84% | -0.24% |
| Total Portfolio | $ 1,804,184.00 | 114.49% | 111.36% | 3.13% | 61.80% | 58.37% | 3.43% | 31.58% | 27.39% | 4.19% | 10.88% | 11.49% | -0.61% | 1.22% | 0.04% | 1.18% |

- Growth and Value portfolios have been actively managed since inception
- Global portfolio was indexed from 10/18/10 to 9/28/2012 and actively managed going forward
- **Outperformance: 3.13%**

* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

| Asset Class | Benchmark Index |
|---|---|
| Growth US Equity (30%) | Russell 1000 Growth Index |
| Value US Equity (30%) | Russell 2000 Value Index |
| Domestic Fixed Income / International Equity (40%) | 50% Russell Global Ex US Equity 50% Bloomberg Barclays US AGG |

# Total Fund Allocation

IMCP Allocation as of 04/30/18
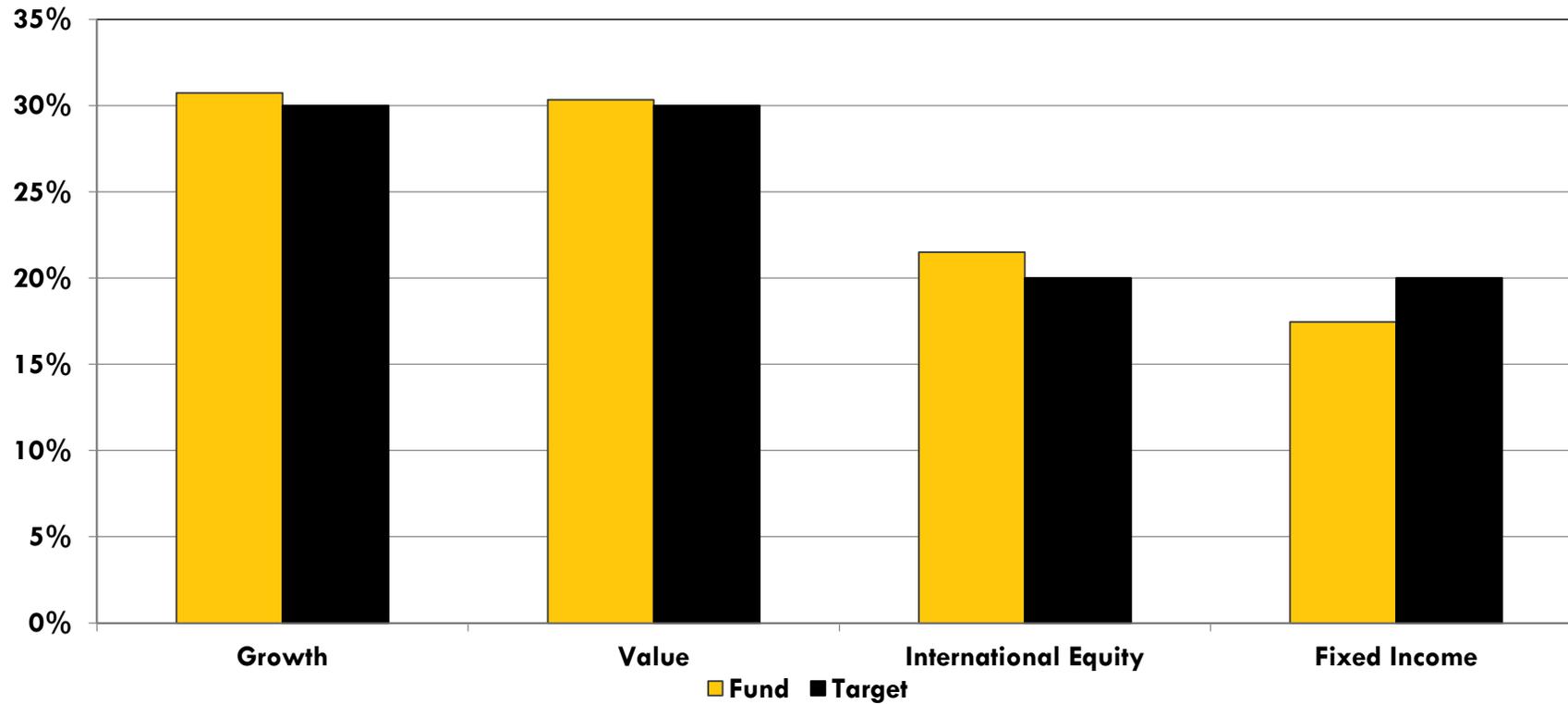
# Total Fund Allocation

Baird Fund Allocation as of 04/30/18

# Performance <small>Since Inception (10/18/10)</small>

**IMCP Combined Fund**

Legend: Relative Performance — Benchmark Total Return — Portfolio Total Return
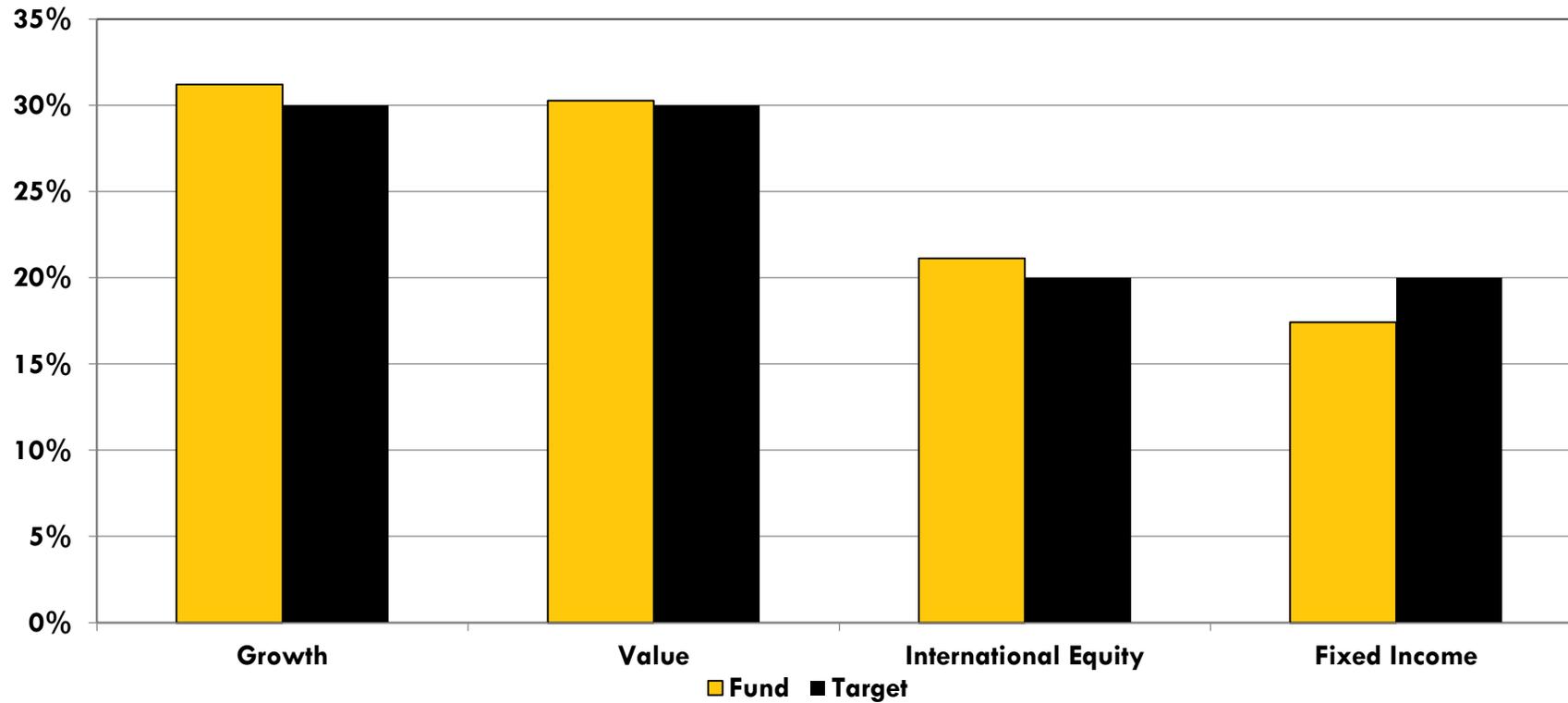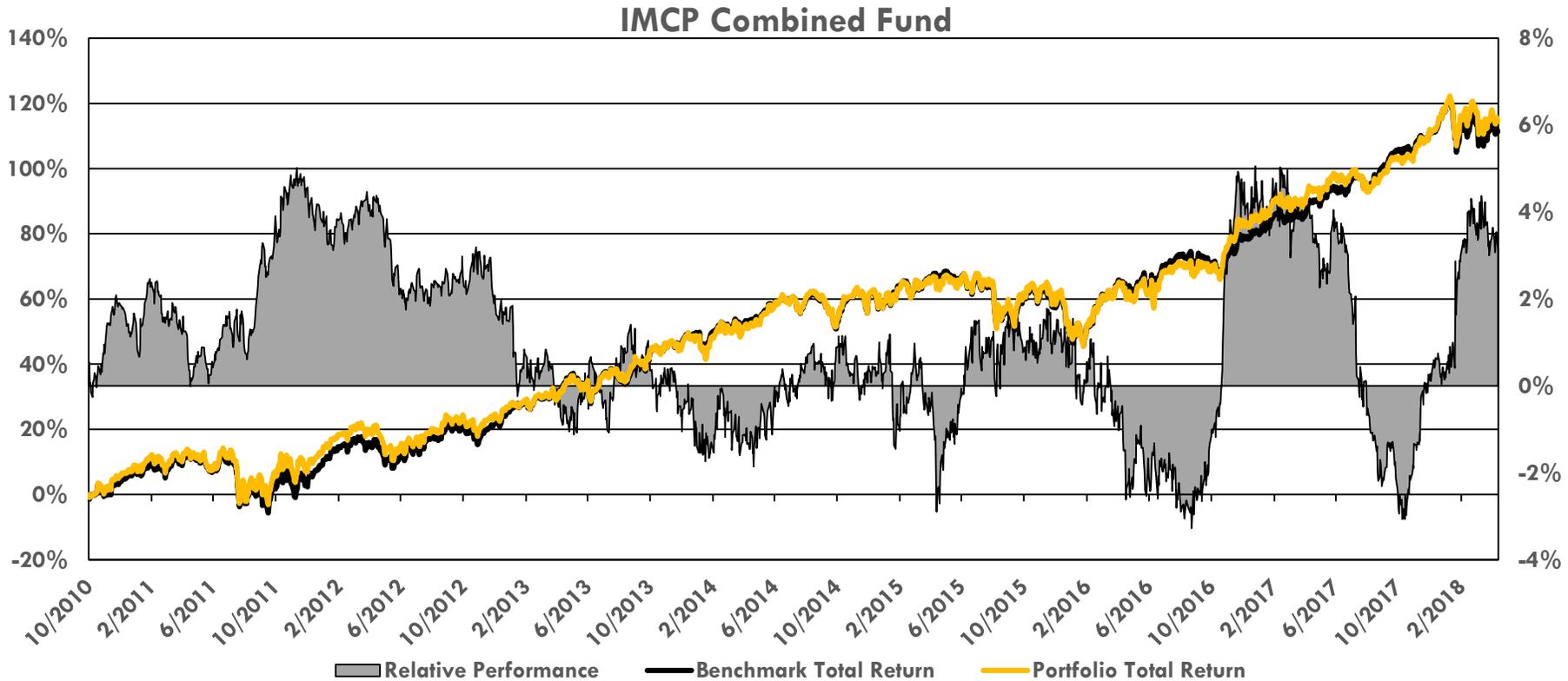
| | |
|---|---|
| **Portfolio Return** | **114.49%** |
| **Benchmark Return** | **111.36%** |
| **Relative Performance** | **3.13%** |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Performance Since Transition (04/30/17)



**IMCP Combined Fund**
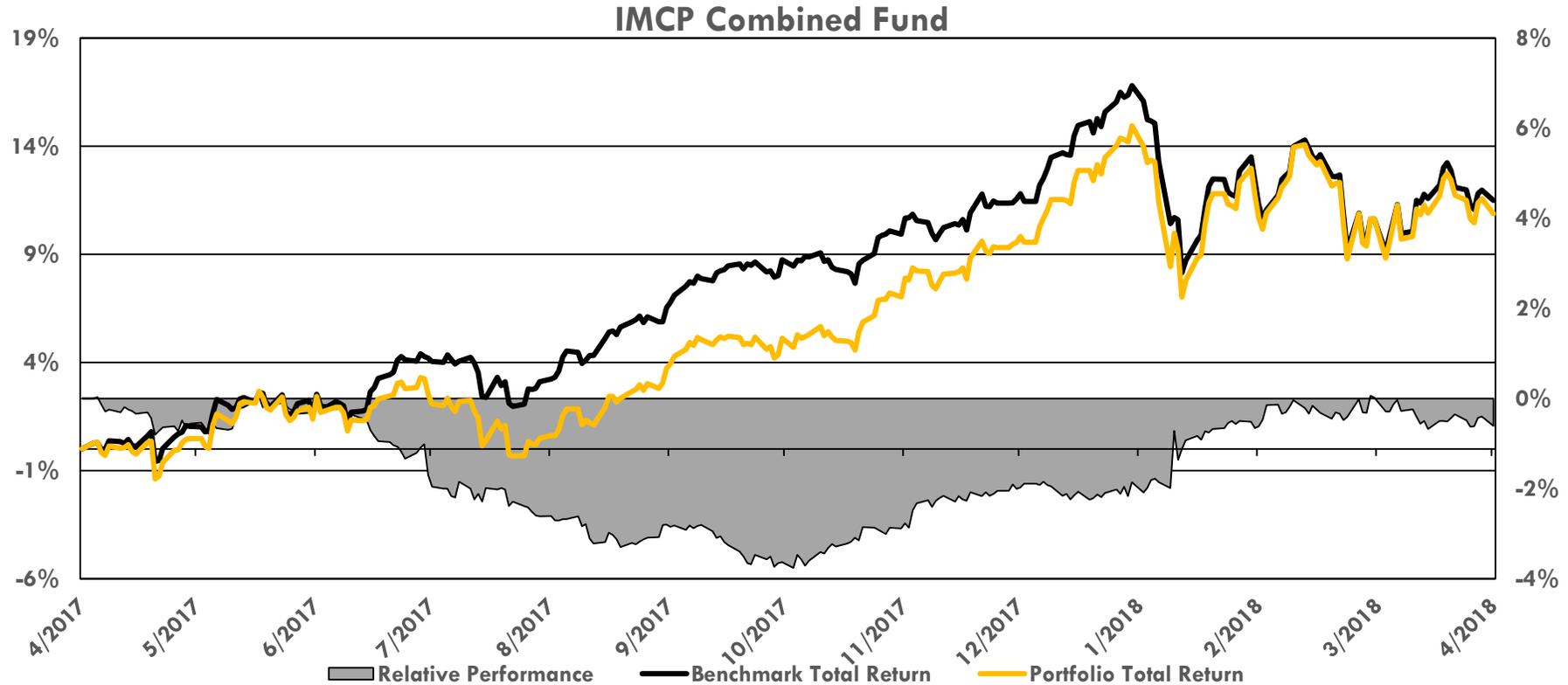
| | |
|---|---|
| **Portfolio Return** | **10.88%** |
| **Benchmark Return** | **11.49%** |
| **Relative Performance** | **-0.61%** |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Performance Since 2<sup>nd</sup> Client Meeting (12/31/17)



**IMCP Combined Fund**

Legend: Relative Performance (gray) — Benchmark Total Return (black) — Portfolio Total Return (yellow)
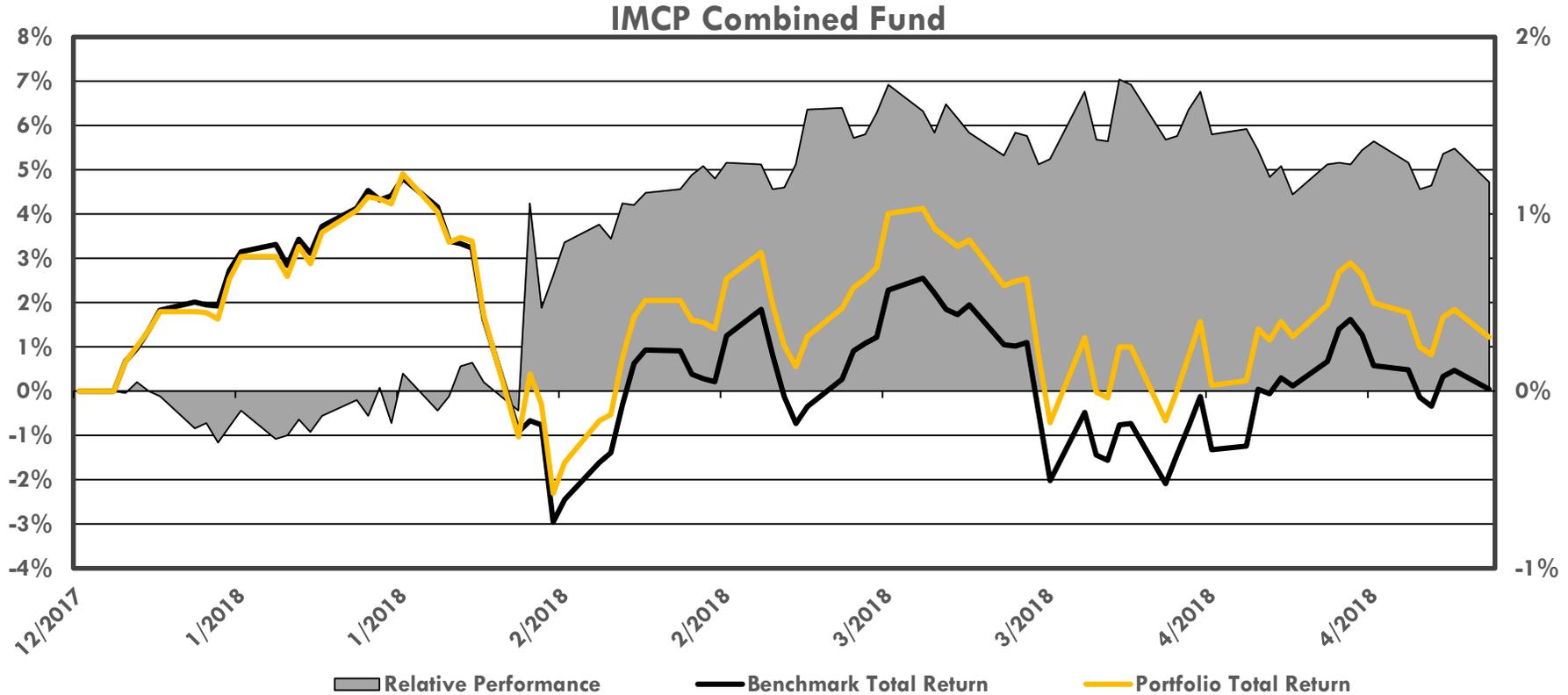
| | |
|---|---|
| **Portfolio Return** | **1.22%** |
| **Benchmark Return** | **0.04%** |
| **Relative Performance** | **1.18%** |

* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# IMCP Combined Fund Risk Since Inception (10/18/10)

❑ Higher return with higher risk relative to benchmark



**Annualized Standard Deviation vs. Annualized Return**
10/18/2010 to 04/30/2018

○ BENCHMARK Combined Funds  ● IMCPCOMBINED Fund
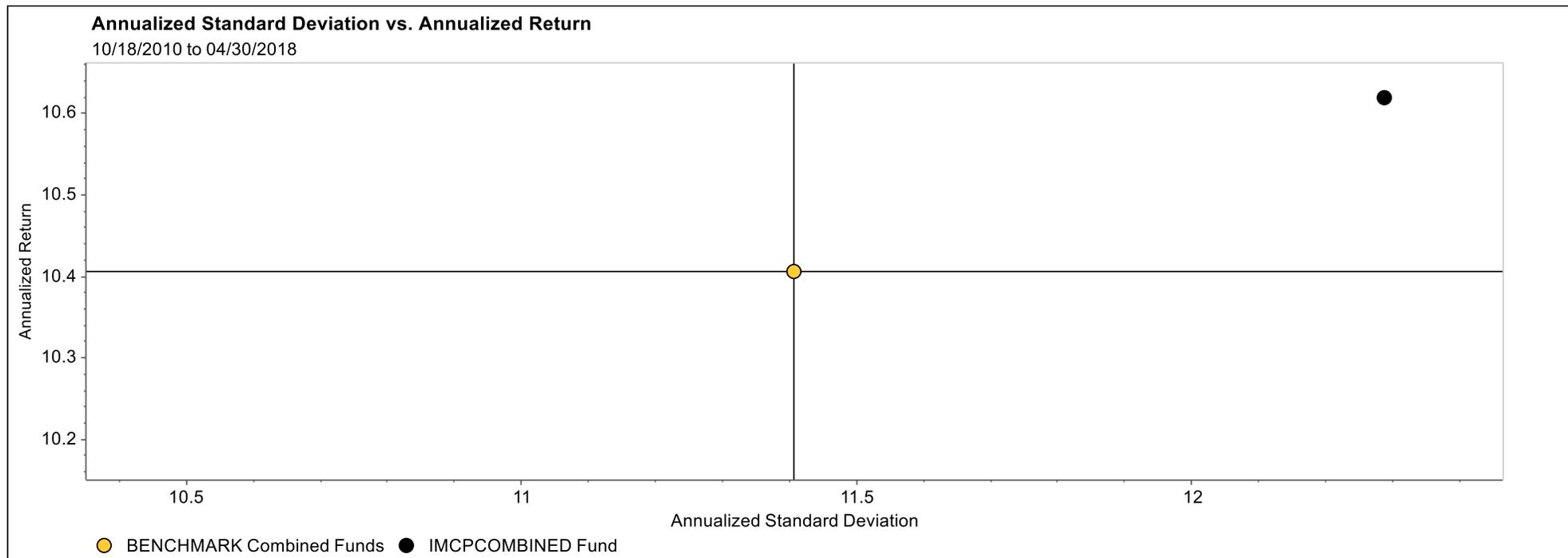
| Since Inception | Fund | Benchmark |
|---|---|---|
| Annualized Return | 10.63 | 10.41 |
| Annualized Std. Dev. | 12.28 | 11.40 |
| Beta | 1.05 | 1.00 |
| Sharpe Ratio | 0.85 | 0.89 |
| Upside Capture | 142.53 | 100 |
| Downside Capture | 100.37 | 100 |

# IMCP Combined Fund Risk Since Transition (04/30/17)

❑ Lower return with higher risk relative to benchmark

**Annualized Standard Deviation vs. Annualized Return**
05/01/2017 to 04/30/2018



⭕ BENCHMARK Combined Funds    ⚫ IMCPCOMBINED Fund
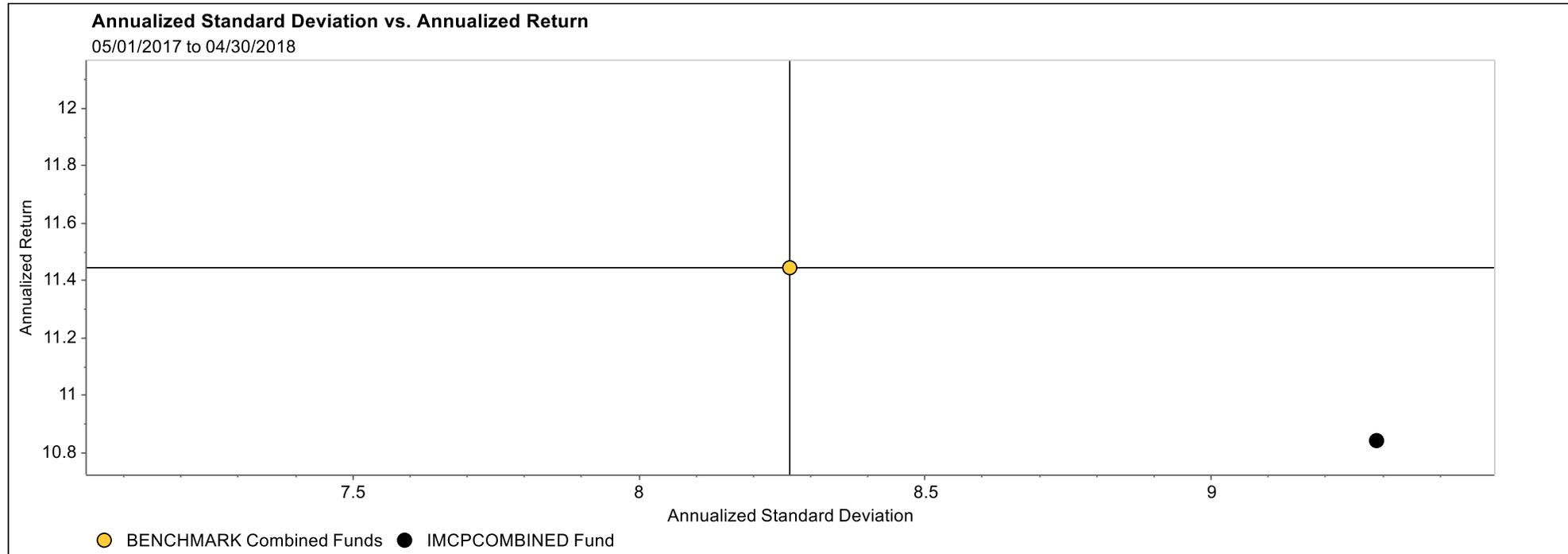
| Since Transition | Fund | Benchmark |
|---|---|---|
| Annualized Return | 10.84 | 11.44 |
| Annualized Std. Dev. | 9.29 | 8.26 |
| Beta | 1.08 | 1.00 |
| Sharpe Ratio | 1.04 | 1.25 |
| Upside Capture | 110.38 | 100 |
| Downside Capture | 108.91 | 100 |

# IMCP Combined Fund Risk <span>Since 2nd Meeting (12/31/17)</span>

❑ Higher return with higher risk relative to benchmark

**Annualized Standard Deviation vs. Annualized Return**
01/01/2018 to 04/30/2018



○ BENCHMARK Combined Funds   ● IMCPCOMBINED Fund
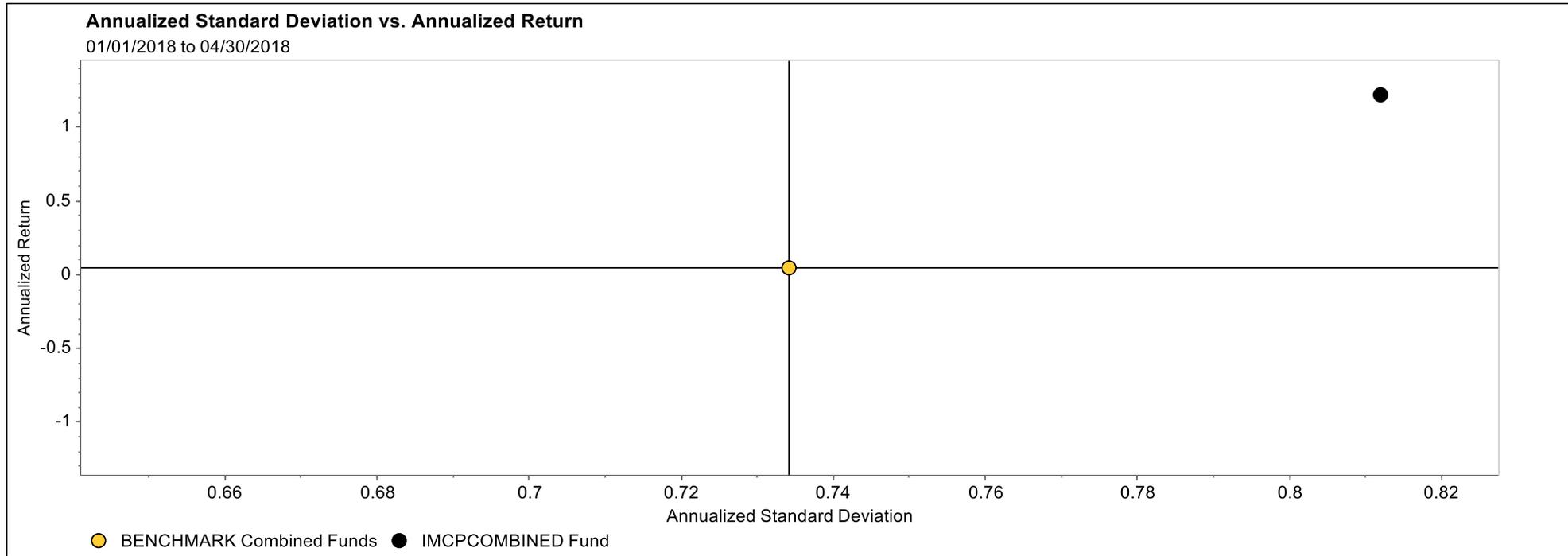
| Since 2nd Meeting | Fund | Benchmark |
|---|---|---|
| Annualized Return | 1.22 | .04 |
| Annualized Std. Dev. | 0.81 | 0.73 |
| Beta | 1.08 | 1.00 |
| Sharpe Ratio | 0.17 | -0.11 |
| Upside Capture | 114.91 | 100 |
| Downside Capture | 107.15 | 100 |

# Proposed IPS Changes

- Vote to neutralize funds
  - Must take place no later than one week after final client meeting
  - Global Macro has already neutralized

- Russell Global Ex US is being decommissioned
- What we want in a benchmark:
  - Global diversification including developed and emerging
  - Tracked by a low cost, highly liquid ETF
  - FactSet look-through access

- FTSE All-World ex US Index
  - Vanguard VEU ETF
  - iShares ACWX ETF

# GLOBAL MACRO FUND

May 11, 2018 Client Meeting

# Global Fund Management

### Brian lee
- M.S. Financial Analysis
- Bachelor of Business Administration-Finance
- Research Intern at Riverwater Partners LLC
- Fixed Income & Canada

### Jacob Hornak
- Bachelor of Business Administration-Finance
- Associate at McCarthy Grittinger Financial Group, LLC
- Eurozone

### Kimberly Geary
- Bachelor of Business Administration-Finance
- Financial Analyst Intern at R.W. Baird
- Asia & Australia

### Philip Godager
- Equity Research Analyst Intern at Alpha Investment Consulting Group, LLC.
- Bachelor of Business Administration-Finance
- South America & Africa

# Philosophy

…global tactical asset allocation in domestic
fixed income and international equity securities,
based on short term economic trends, will
generate alpha and diversify the combined
IMCP fund.

# Portfolio & Benchmark Composition

❑ Over-weight international equities and under-weight fixed-income securities

**Global Macro Benchmark**

**IMCP Global Macro Portfolio Composition**

50% 50%

1.2%

44.4% 54.3%

■ Russell Global Ex US Equity
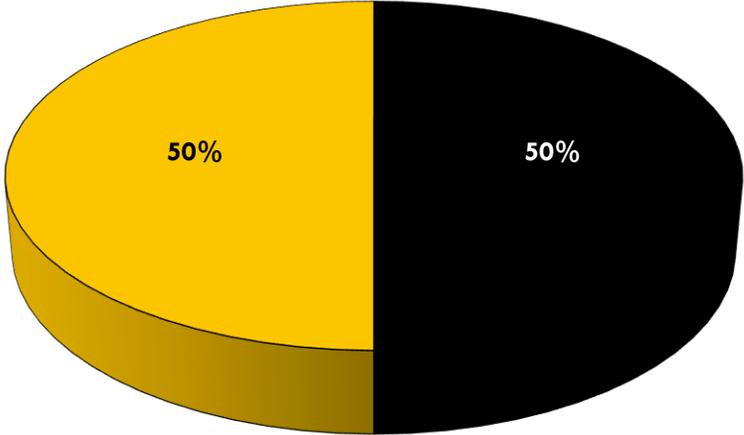
■ Equity

■ Fixed Income

□ Bloomberg Barclays U.S. Aggregate Fixed Income Index ETF
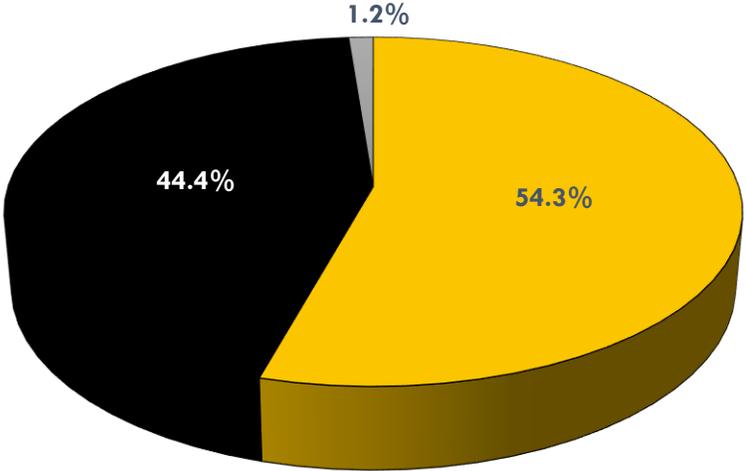
■ Cash

# Performance  Since Inception (10/18/10 - 04/30/18)
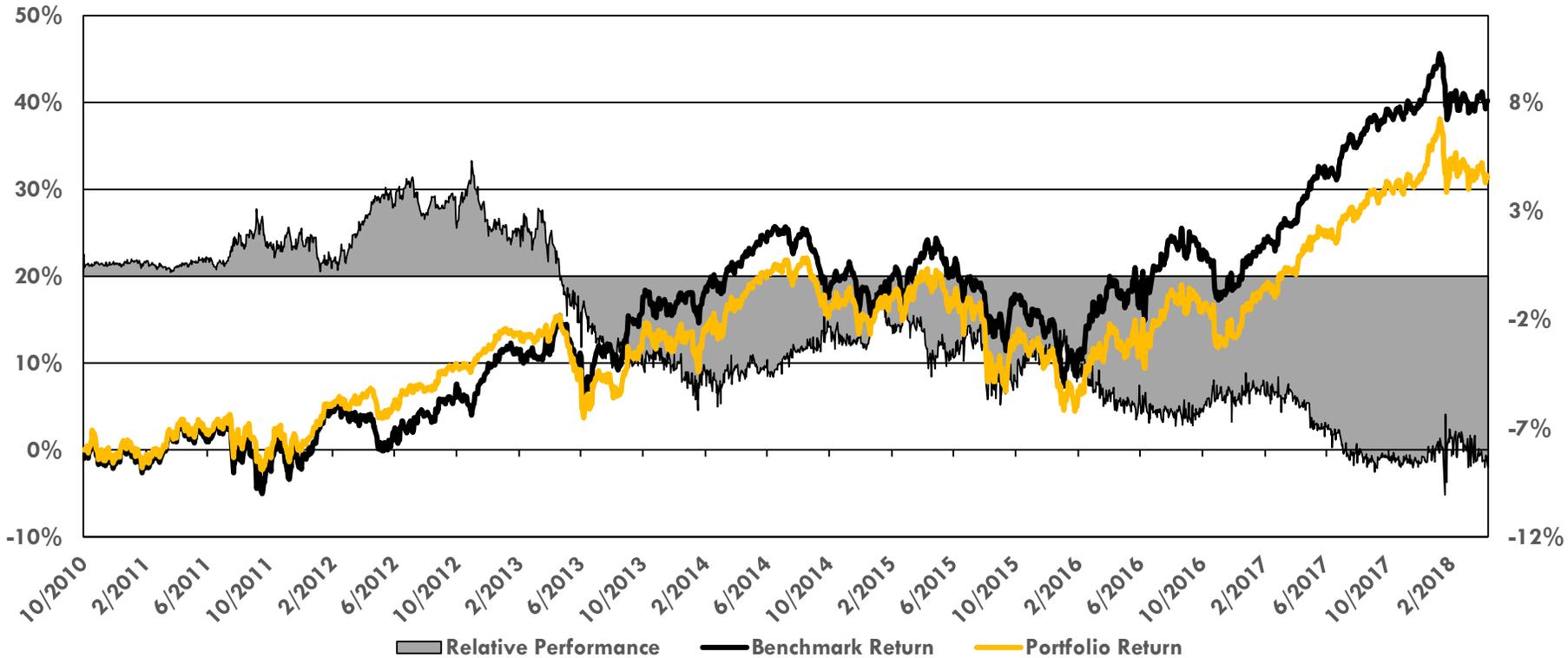
| Portfolio Return | 31.38% |
| Benchmark Return | 40.20% |
| Relative Performance | -8.82% |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Performance Since Transition (04/30/17 - 04/30/18)
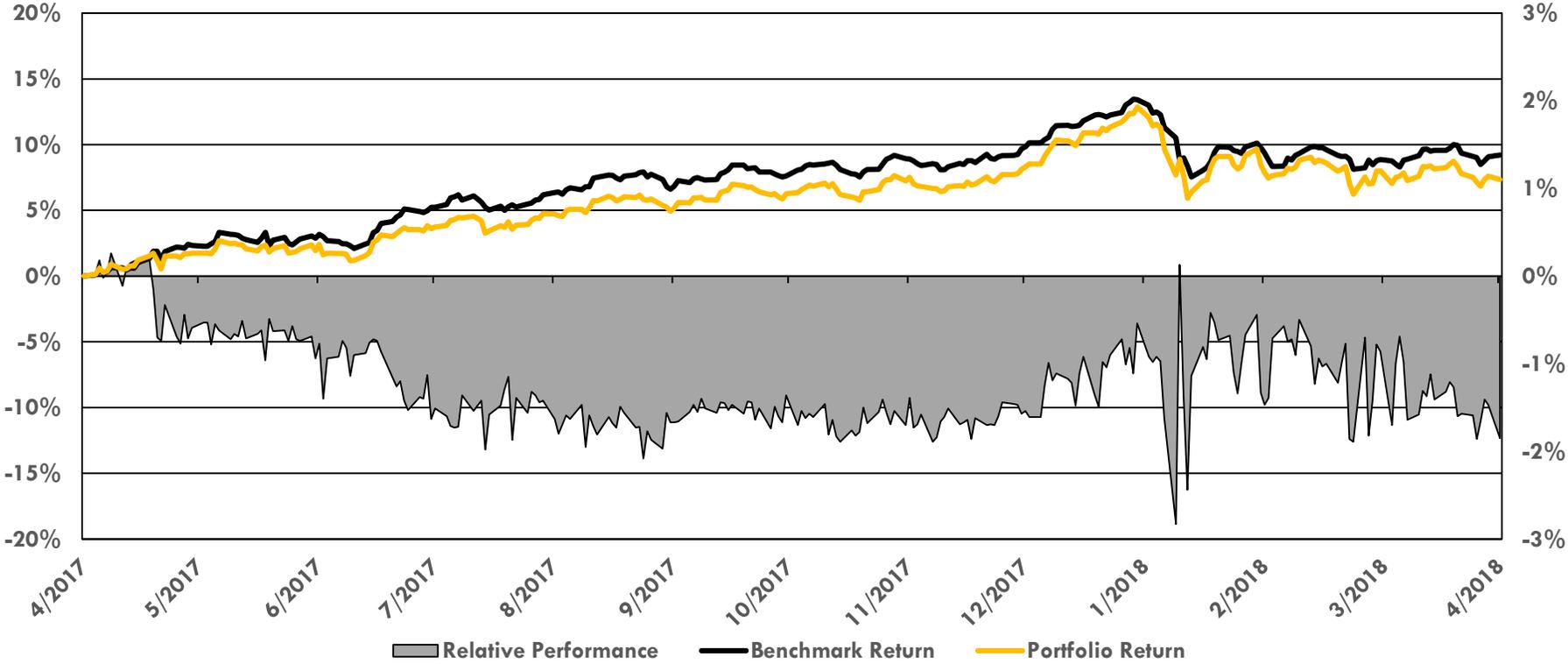


| | |
|---|---|
| **Portfolio Return** | **7.35%** |
| **Benchmark Return** | **9.20%** |
| **Relative Performance** | **-1.85%** |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Performance <small>Since 2nd Client Meeting (12/31/17 - 4/30/18)</small>
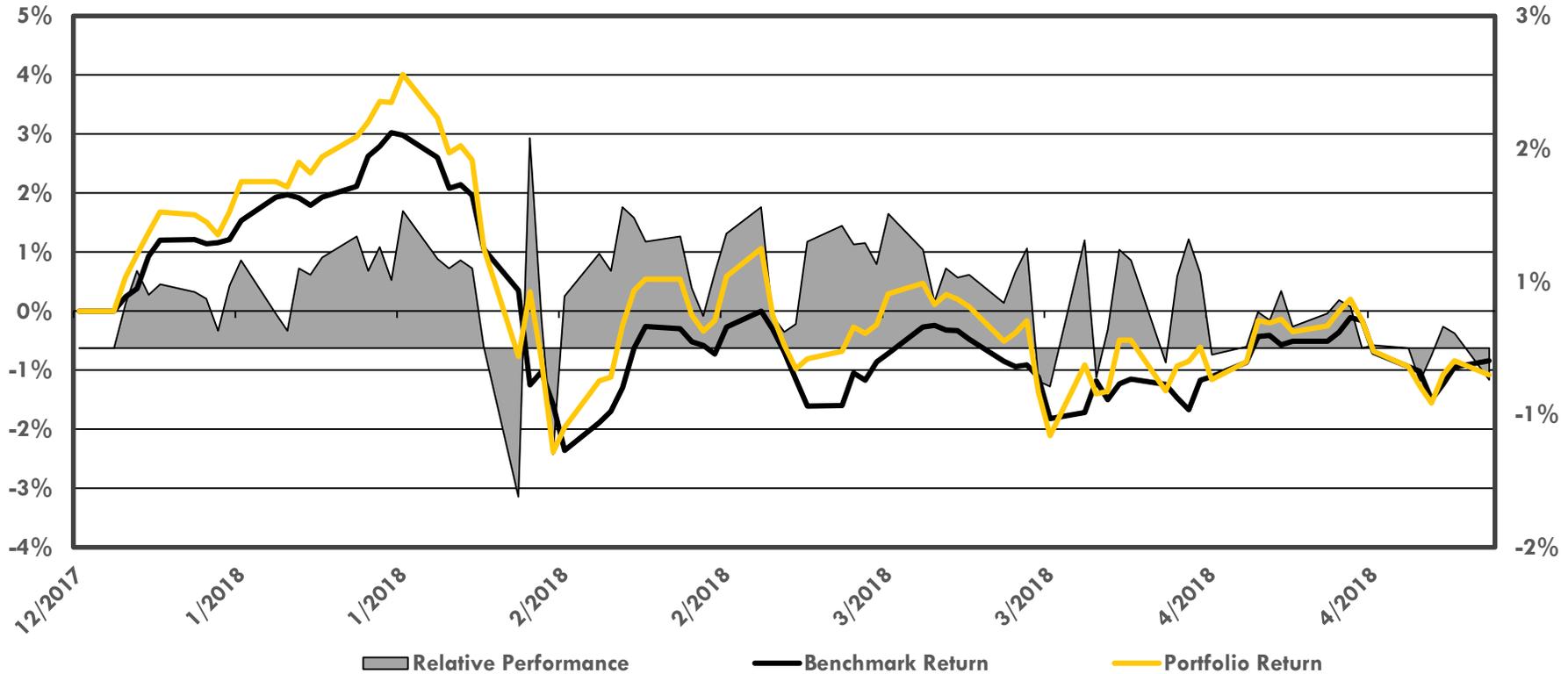
| Portfolio Return | **-1.08%** |
|---|---|
| Benchmark Return | **-0.84%** |
| Relative Performance | **-0.24%** |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Global Macro Fund Performance

| | Portfolio Return | Benchmark Return | Relative Return |
|---|---|---|---|
| Since 2nd Client Meeting | -1.08% | -.084% | -0.24% |
| Since Transition | 7.35% | 9.20% | -1.85 |
| Since Inception | 31.38% | 40.20% | -8.82% |

❑ Global portfolio was indexed from 10/18/10 to 9/28/2012 and actively managed going forward

❑ Since inception underperforming -8.77%

❑ Since 1st client meeting outperforming 0.09%

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Global Macro Fund Risk (Since Inception 10/18/10 - 04/30/18)

- ❑ Lower return with higher risk relative to benchmark

**Annualized Standard Deviation vs. Annualized Return**
10/18/2017 to 04/30/2018
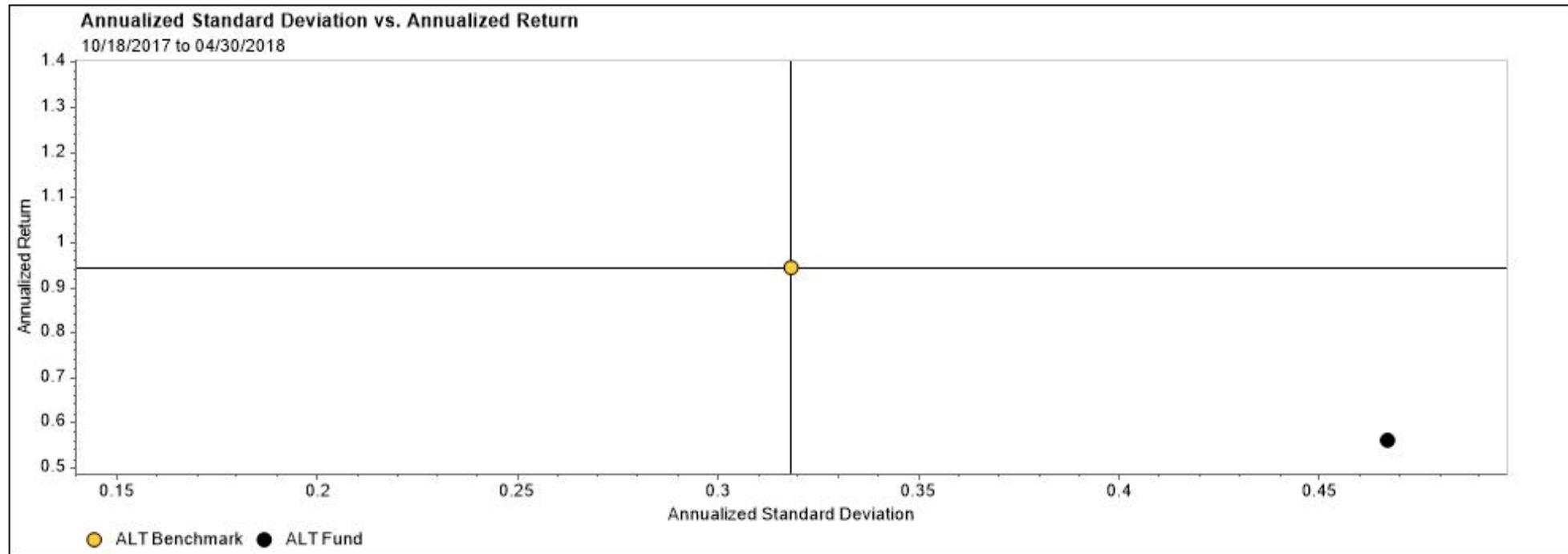


| Since Inception | Fund | Benchmark |
|---|---|---|
| Beta | 0.80 | 1.00 |
| Sharpe Ratio | 0.44 | 0.58 |
| Tracking Error | 5.14 | 0.00 |
| VaR 130 day 90% | -0.54 | -0.51 |
| Annualized Std. Dev. | 7.69 | 7.39 |

# Global Macro Fund Risk (Since Transition 04/30/17 - 04/30/18)

❑ Lower return with higher risk relative to benchmark



**Annualized Standard Deviation vs. Annualized Return**
05/01/2017 to 04/30/2018

○ ALT Benchmark  ● ALT Fund
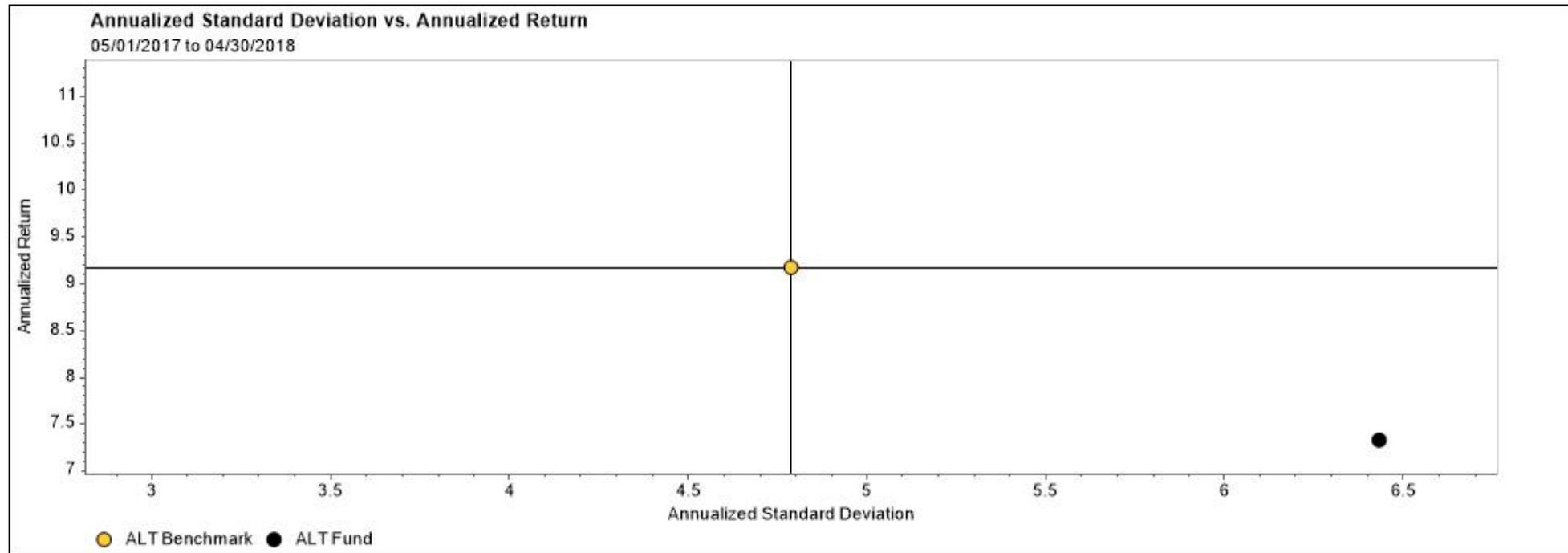
| Since Transition | Fund | Benchmark |
|---|---|---|
| Beta | 0.75 | 1.00 |
| Sharpe Ratio | 0.89 | 1.57 |
| Tracking Error | 5.46 | 0.00 |
| VaR 130 day 90% | -0.41 | -0.31 |
| Annualized Std. Dev. | 6.42 | 4.78 |

# Global Macro Fund Risk (Since 2nd Client meeting 12/31/17- 4/30/18)

❑ Higher return with higher risk relative to benchmark



**Annualized Standard Deviation vs. Annualized Return**
01/01/2018 to 04/30/2018
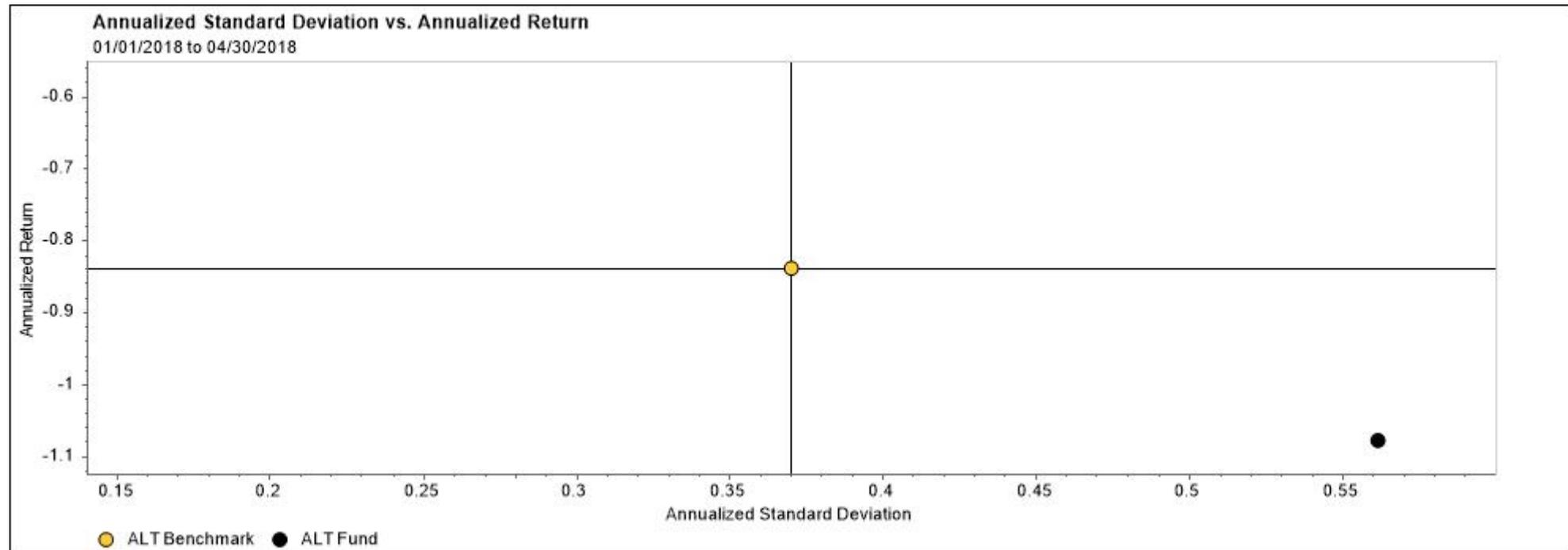
| Since 2nd Meeting | Fund | Benchmark |
|---|---|---|
| Beta | 0.66 | 1.00 |
| Sharpe Ratio | -0.62 | -0.80 |
| Tracking Error | 8.29 | 0.00 |
| VaR 130 day 90% | -0.61 | -0.48 |
| Annualized Std. Dev. | 8.96 | 5.92 |

# Top and Bottom Performers <small>(Since 2nd Client Meeting 12/31/17 - 04/30/18)</small>

| 5 Highest Since Second Client Meeting | | | | |
|---|---|---|---|---|
| Ticker | Security | Average Weight | Total Return | Contribution To Return |
| EZU | iShares MSCI Eurozone ETF | 4.32% | 2.19% | 0.09% |
| EWZ | iShares MSCI Brazil ETF | 1.91% | 4.57% | 0.07% |
| IXUS | iShares Core MSCI Total International Stock ETF | 20.97% | 0.38% | 0.07% |
| EWJ | iShares MSCI Japan ETF | 2.63% | 1.18% | 0.03% |
| VSS | Vanguard FTSE All-World ex-US Small-Cap ETF | 5.30% | 0.35% | 0.02% |

| 5 Lowest Since Second Client Meeting | | | | |
|---|---|---|---|---|
| Ticker | Security | Average Weight | Total Return | Contribution To Return |
| AGG | iShares Core U.S. Aggregate Bond ETF | 31.75% | -2.39% | -0.74% |
| SCHZ | Schwab U.S. Aggregate Bond ETF | 9.33% | -2.22% | -0.20% |
| LQD | iShares iBoxx $ Investment Grade Corporate Bond ETF | 3.02% | -4.42% | -0.13% |
| ESGE | iShares MSCI EM ESG Optimized ETF | 8.28% | -0.78% | -0.08% |
| EWU | iShares MSCI United Kingdom ETF | 0.74% | -3.21% | -0.05% |

- Highest Performer – iShares MSCI Eurozone ETF

- Lowest Performer – iShares Core U.S. Aggregate Bond ETF

# Fund Holdings and Asset Allocation (04/30/18)

❑ Global Macro Fund's largest positions are core US aggregate bond ETF and core international equity ETF

| Ticker | Name | % of Portfolio |
|---|---|---|
| | **Equity** | |
| IXUS | iShares Core MSCI Total International Stock ETF | 21.84% |
| ESGE | iShares MSCI EM ESG Optimized ETF | 8.04% |
| VSS | Vanguard FTSE All-World ex-US Small-Cap ETF | 5.04% |
| EZU | iShares MSCI Eurozone ETF | 4.87% |
| EEMS | iShares MSCI Emerging Markets Small Cap ETF | 4.04% |
| EWJ | iShares MSCI Japan ETF | 2.64% |
| EWZ | iShares MSCI Brazil ETF | 1.85% |
| EWG | iShares MSCI Germany ETF | 1.69% |
| EWH | iShares MSCI Hong Kong ETF | 1.32% |
| INDA | iShares MSCI India ETF | 1.26% |
| EIS | iShares MSCI Israel ETF | 0.96% |
| MCHI | iShares MSCI China ETF | 0.80% |
| | **Fixed Income** | |
| AGG | iShares Core U.S. Aggregate Bond ETF | 31.99% |
| SCHZ | Schwab U.S. Aggregate Bond ETF | 9.44% |
| LQD | iShares iBoxx $ Investment Grade Corporate Bond ETF | 3.00% |

# Portfolio Evolution (Since 2nd Client Meeting 12/31/17 - 04/30/18)

## Buy

**EIS**
- Israel ETF

**IXUS**
- World Ex US ETF

**EZU**
- Eurozone ETF

## Hold

**ESGE**
- Emerging ESG ETF

**VSS**
- Small-Cap ETF

**EEMS**
- EM Small-Cap ETF

## Hold

**EWJ**
- Japan ETF

**EWZ**
- Brazil ETF

**EWG**
- Germany ETF

## Hold

**EWH**
- Hong Kong ETF

**INDA**
- India ETF

**MCHI**
- China ETF

## Hold

**AGG**
- Aggregate bond ETF

**SCHZ**
- Aggregate Bond ETF

**LQD**
- IG Corp. Bond ETF

## Sold

**EWL**
- Switzerland ETF

**EWU**
- United Kingdom ETF
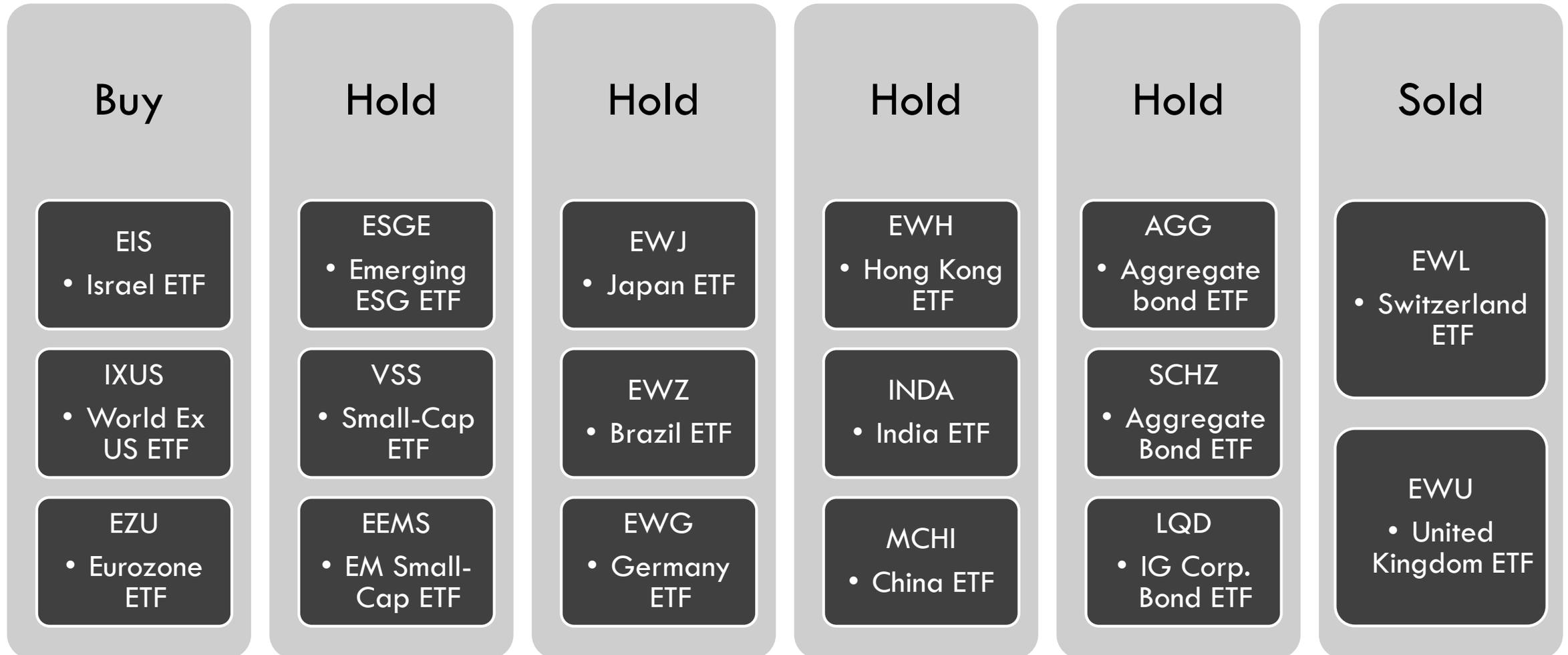
# Asset Class Attribution (12/31/17 - 04/30/18)

**■ Total Currency Effect  ■ Total Effect  □ Weight Differential**
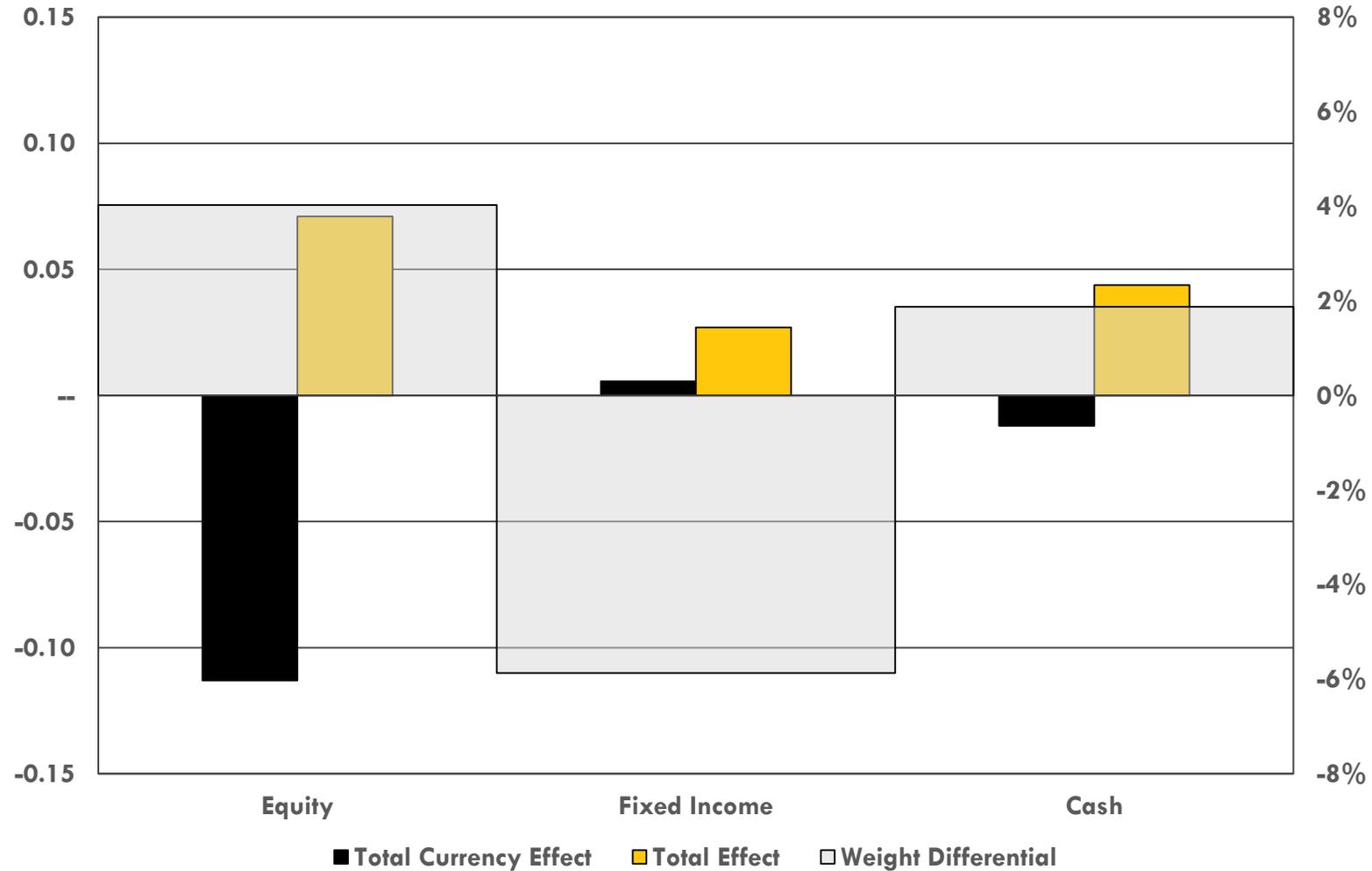
# Equity Region Allocation (04/30/18)

❑ Underweight North American equities and overweight Middle East and South America
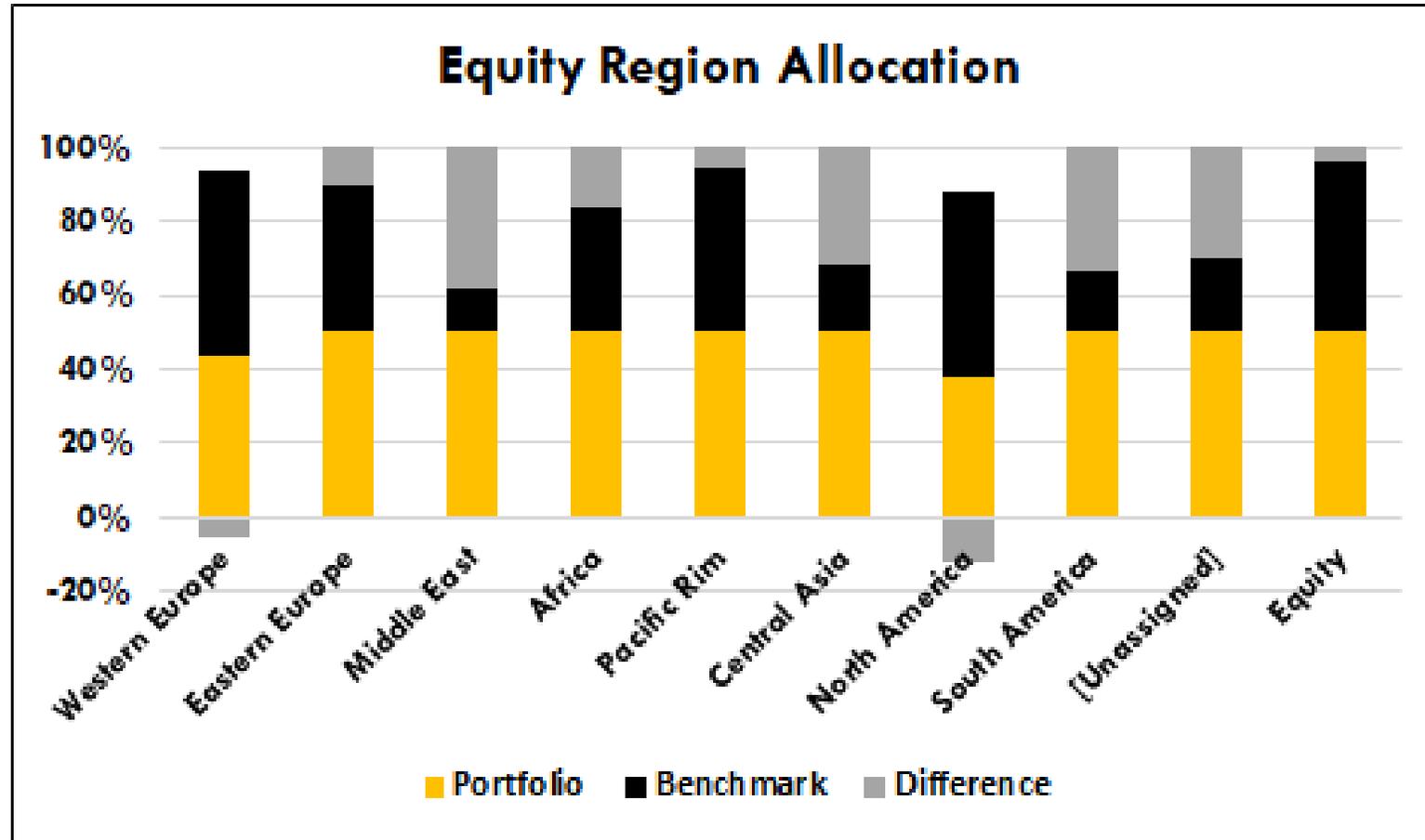
# Equity Sector Allocation (04/30/18)

❑ Sectors are close to neutral since we own country instead of sector ETFs
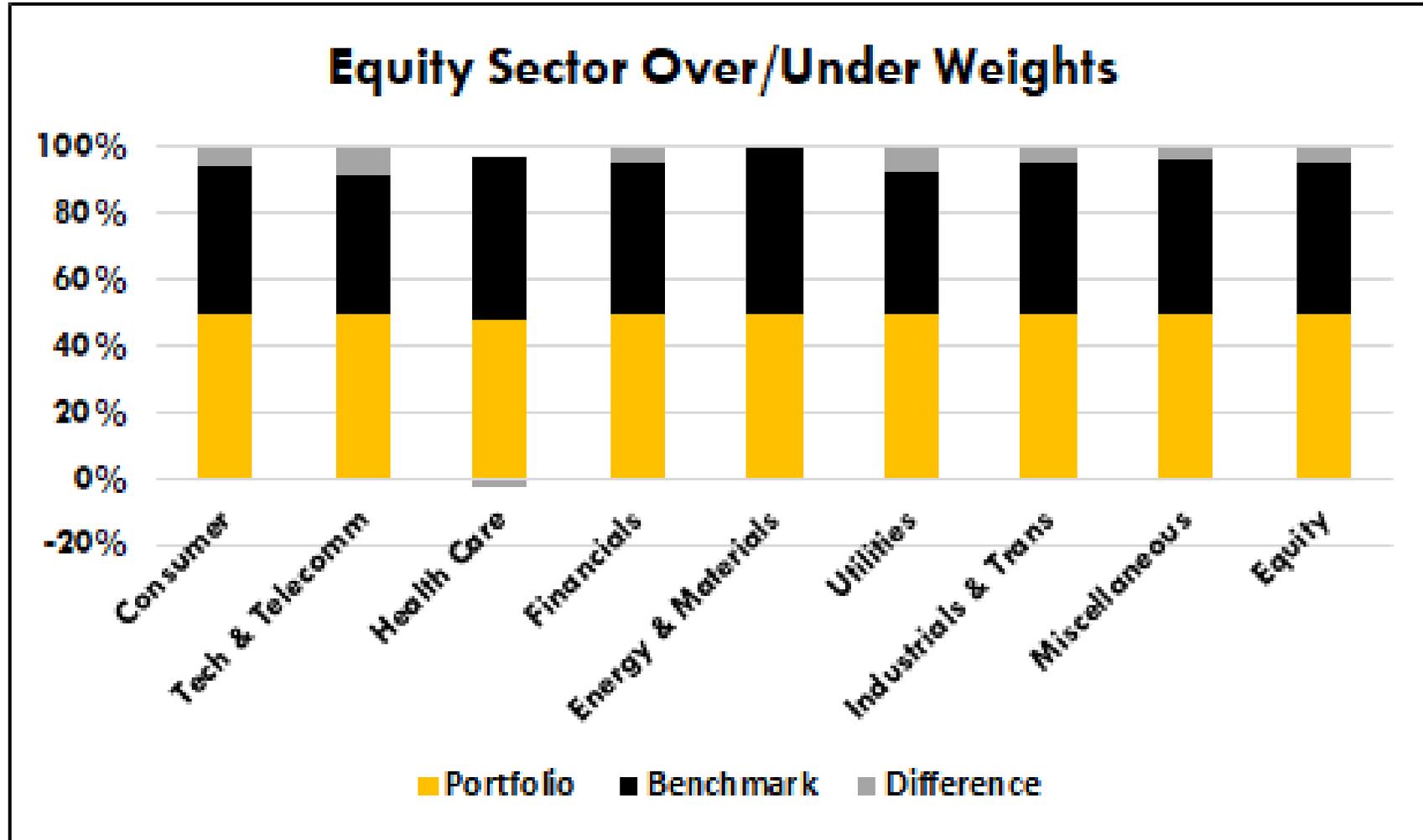
# Fixed Income Characteristics (04/30/18)

❑ Fixed-income portfolio was switched to strictly domestic fixed income since the last client meeting.

    ❑ Characteristics are close to neutral except overweight duration and average life

| Characteristics | Portfolio | Benchmark |
|---|---|---|
| Current Yield | 3.16% | 3.12% |
| Years To Maturity | 13.15 | 13.28 |
| Average Life | 8.69 | 8.49 |
| Moody's Credit Rating | A1 | A1 |
| Duration | 6.15 | 6.03 |
| Convexity | 0.43 | 0.37 |
| Yield To Maturity | 3.33 | 3.29 |
| Yield To Worst | 3.33 | 3.28 |

# Fixed Income Sector Allocation (04/30/18)

❑ Overweight ABS and Corporate while underweight CMBS, Mortgage and government

# PITCH

January 25th, 2018 Client Meeting

# Investment Process

**International Equity**

**Step 1: Screen for Valuation**

| P/E | P/B | P/S | P/CF | EV/EBITDA | EV/S |

**Step 2: Economic Analysis**

| GDP | CPI | BOP | ISM | Population | Gov't | ESG |

**Step 3: Compare Vehicles**

| Expense | Liquidity | Holdings | Tracking |

# Mexico Screens Cheap
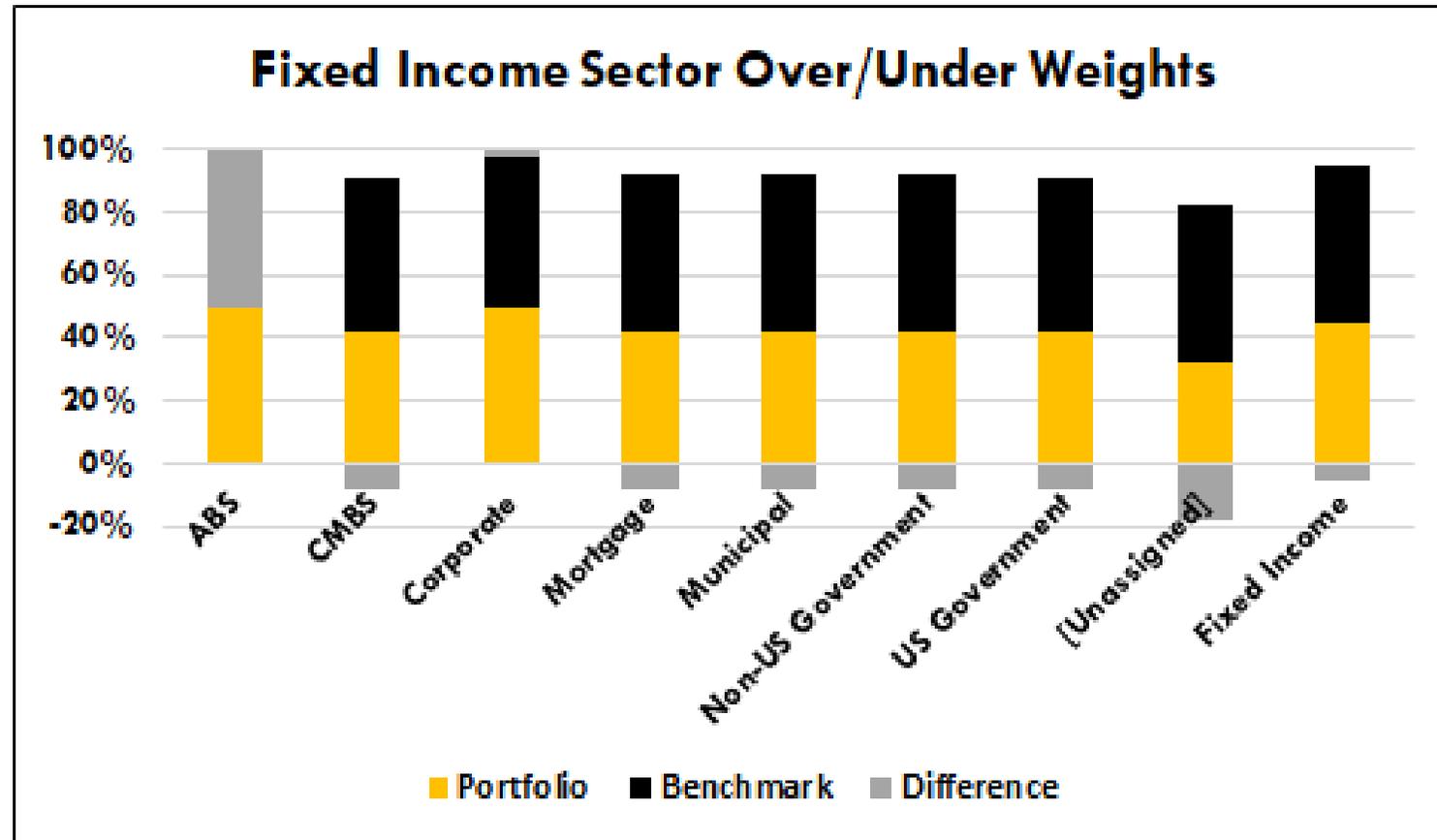
| Manual (Yes/No) | **No** |
|---|---|
| Benchmark | World x US |
| Average (# Years) | 10 |
| StDev Threshold | 1.5 |
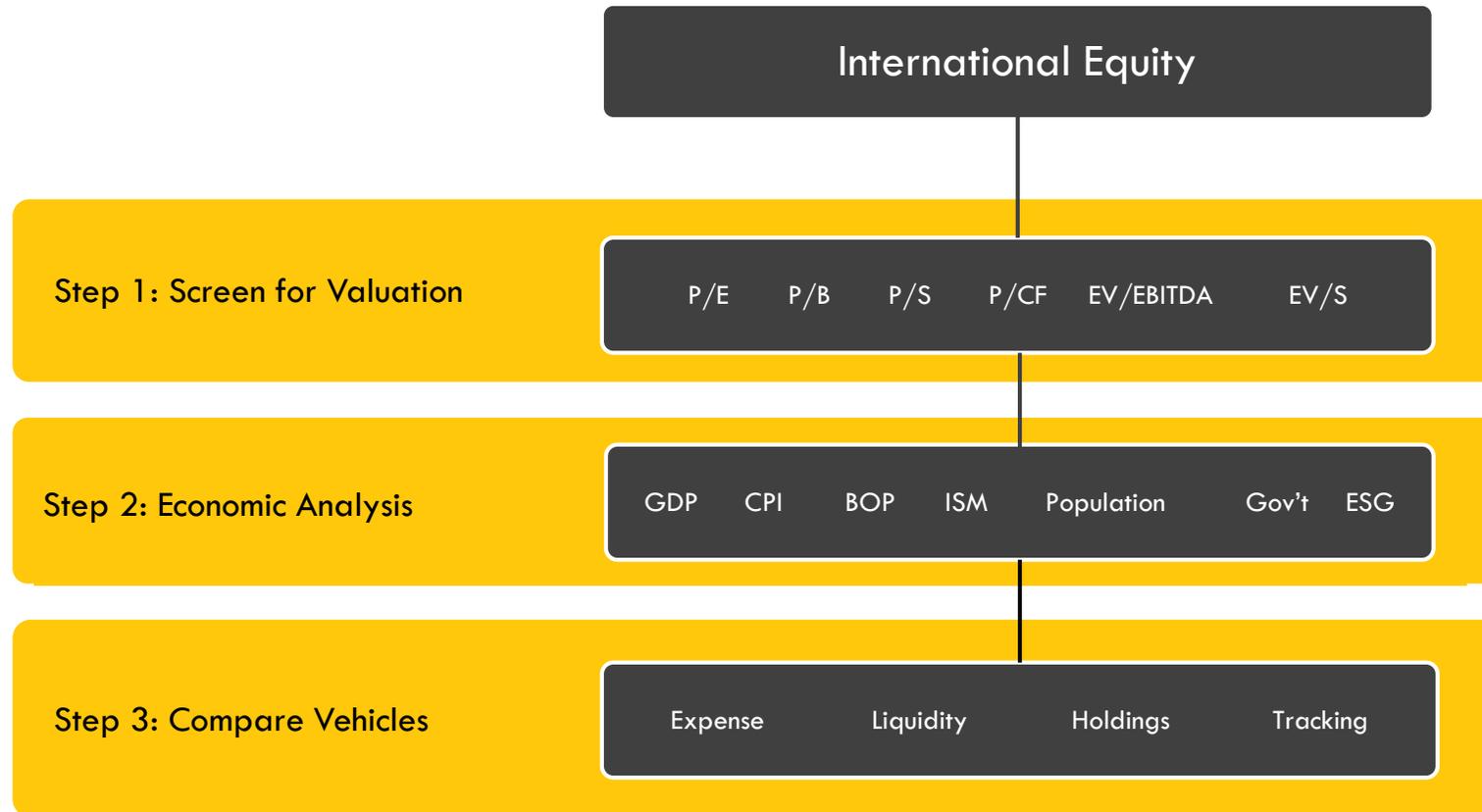
**<<< Set Reference Series, Trailing Period, & Deviations from the Mean**

| | EPS | | Book | | Sales | | CashFlow | | EVEBITDA | | EVSales | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 10 Yr Avg | 1.5 StDev | 10 Yr Avg | 1.5 StDev | 10 Yr Avg | 1.5 StDev | 10 Yr Avg | 1.5 StDev | 10 Yr Avg | 1.5 StDev | 10 Yr Avg | 1.5 StDev |
| | **Buy** | **Sell** | **Buy** | **Sell** | **Buy** | **Sell** | **Buy** | **Sell** | **Buy** | **Sell** | **Buy** | **Sell** |
| 1 | Luxembourg | Argentina Merval | Oman | Egypt | Oman | Luxembourg | Poland | Argentina | Turkey | Norway OSE OBX TR | S&P/BMV IPC | Luxembourg |
| 2 | Israel | Brazil Bovespa Index | Israel | Austrian Traded Index (ATX) | S&P/BMV IPC | Austrian Traded Index (ATX) | Kuwait | Austrian Traded Index (ATX) | | Singapore | Mexico | Norway OSE OBX TR |
| 3 | | Norway Oslo All-Share TR | Switzerland | S&P 500 | Mexico | Norway OSE OBX TR | Target Corporation | Czech Republic PX | | Norway | Indonesia | Thailand SET |
| 4 | | Norway | Middle East & Africa | Austria | Israel | Norway Oslo All-Share TR | Israel | Far East | | Norway Oslo All-Share TR | Israel | Thailand |
| 5 | | Switzerland SMI | South Africa | Netherlands AEX | Canada | Norway | Middle East & North Africa | Asia | | S&P 500 | United Kingdom | Netherlands AEX |
| 6 | | Norway OSE OBX TR | Europe x Eurozone | Italy | Middle East & Africa | Netherlands | S&P/BMV IPC | Asia Pacific | | Russell 1000 | Europe x Eurozone | S&P 500 |
| 7 | | India | | France | United Kingdom | Euronext 100 | | | | Russell 3000 | | Russell 1000 |
| 8 | | Brazil | | United States | Europe x Eurozone | | | | | United States | | Norway |
| 9 | | India S&P BSE 100 | | France CAC 40 | | | | | | France SBF 120 | | Norway Oslo All-Share TR |
| 10 | | S&P 500 | | France SBF 120 | | | | | | North America | | Euronext 100 |

# Relative Valuations: Below 10yr Average

## P/E: Mexico v. Latin America



Legend: Current Ratio | 10yr Avg | Hist. Avg

## P/B: Mexico v. Latin America



Legend: Current Ratio | 10yr Avg | Hist. Avg

## P/S: Mexico v. Latin America



Legend: Current Ratio | 10yr Avg | Hist. Avg
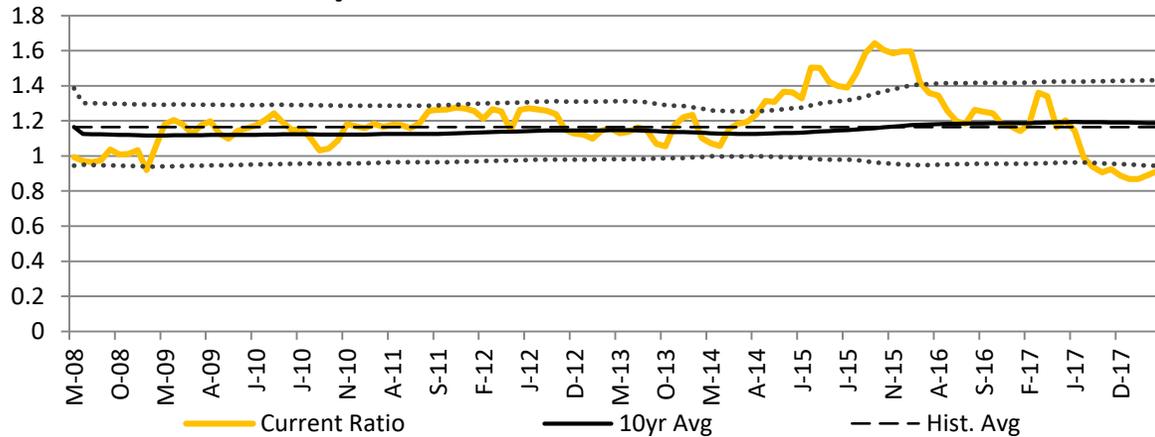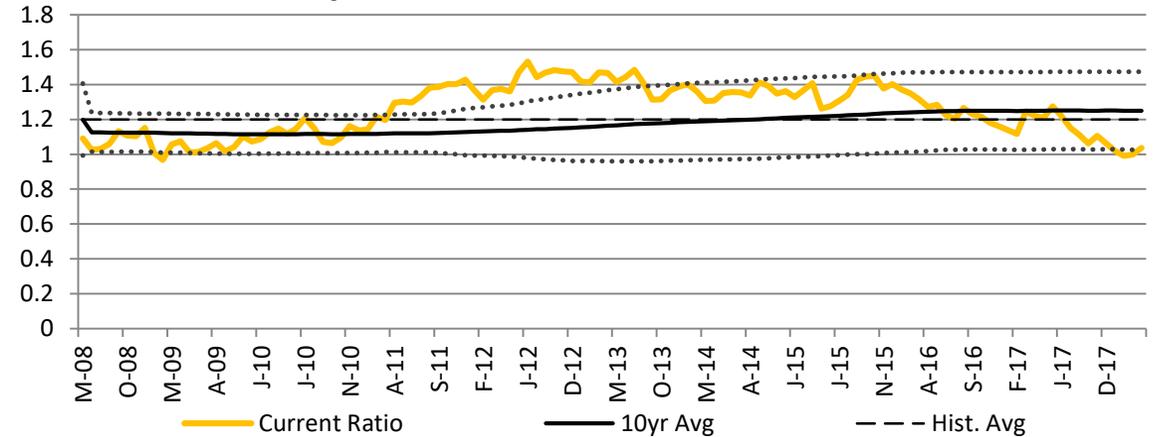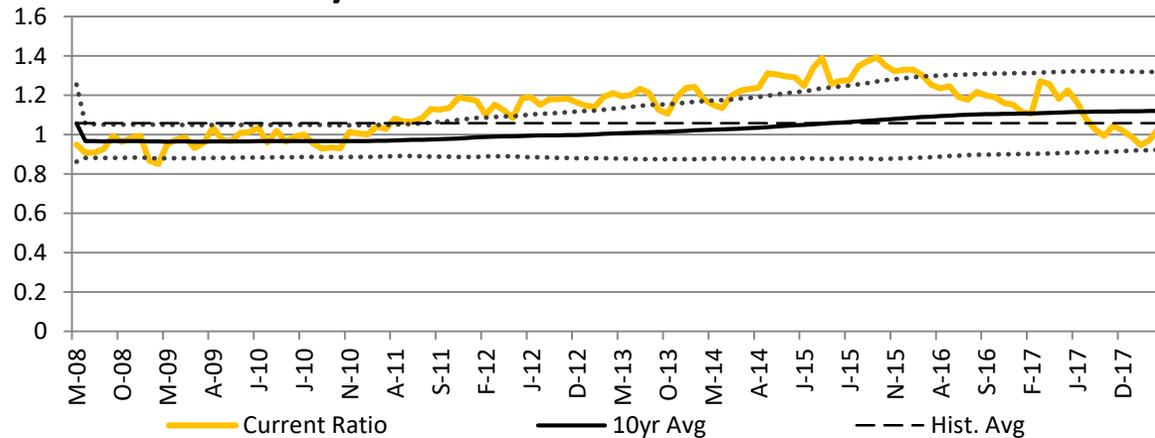
## EV/EBITDA: Mexico v. Latin America



Legend: Current Ratio | 10yr Avg | Hist. Avg

Source: Factset
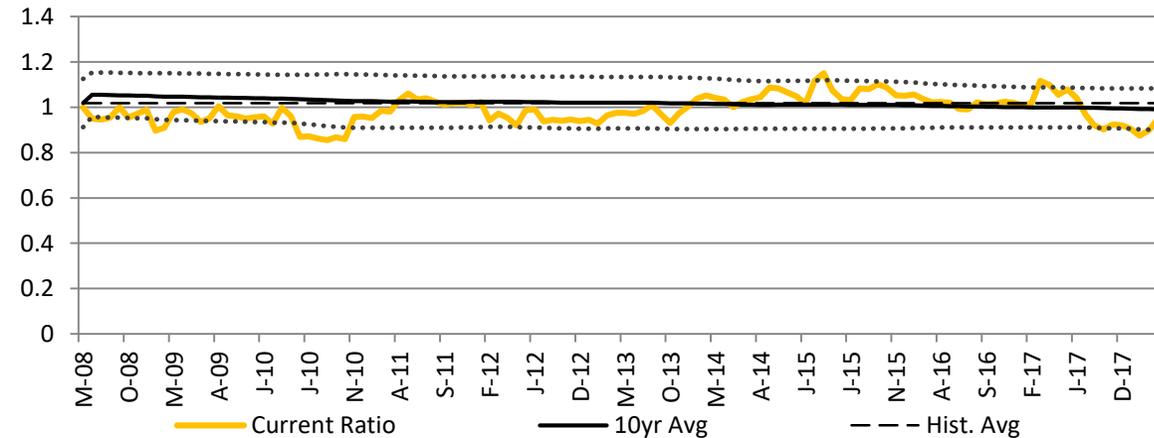
# Background: Mexico

Population: 127.5M, 2016; est. 133.9M, 2023 (IMF, 2017)

Stock Market: $355.7B (World Bank, 2017)

GDP: $1,149.2B (IMF, 2017 est.)
- 59.0% Services
- 37.4% Industry
- 3.6% Agriculture

Source: IMF

**Population by Age Group**

Legend: 0-19 | 19-39 | 40-64 | 65+ | 5yr Growth (%) - rhs

**GDP Forecast**

Legend: GDP ($B) | Unemployment (%) - rhs | Inflation, CPI (%) - rhs

5.5% CAGR
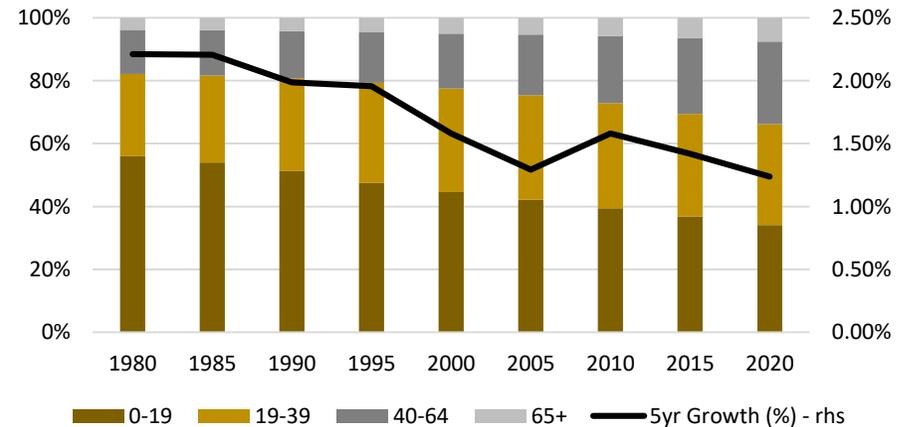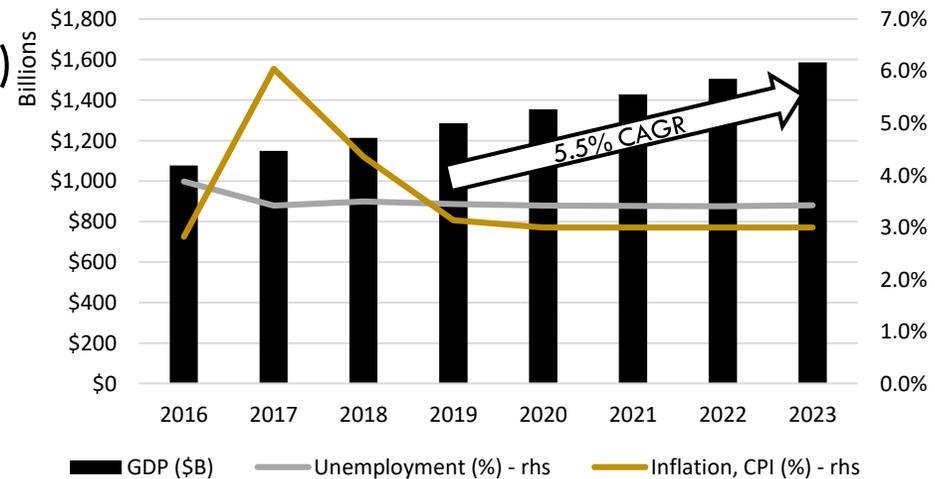
# 13ᵗʰ Largest Exporter (5yr: -1.8%)

**Exports ($440B)**



- China 1%
- Germany 1%
- Canada 3%
- Other 13%
- USA 82%
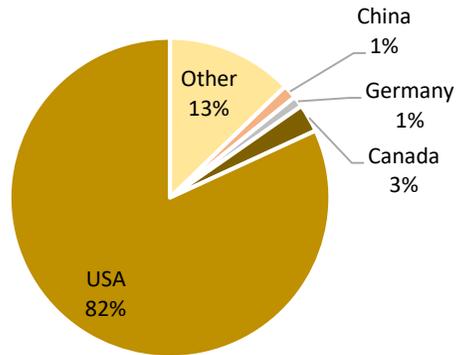
## Top Exports

- ❑ Cars ($37.0B)
- ❑ Vehicle Parts ($29.9B)
- ❑ Delivery Trucks ($24.7B)
- ❑ Computers ($23.4B)
- ❑ Telephones ($19.3B)



TOTAL: $440B

| | |
|---|---|
| **Machines** 37% | **Transportation** 24% |

**Mineral Products** 5.6%
**Instruments** 5.1%
Vegetable... 4.0%
**Metals** 3.9%
**Miscellaneous** 3.5%
**Foodstuffs** 3.0%
Plastics and Rubbers 2.8%
**Precious Metals** 2.1%
**Textiles** 1.7%
Chemical Products 2.6%
Stone and Glass 0.94%
Paper... 0.66%
Unspecified 2.1%
Animal Products 0.85%
Animal...

Source: MIT
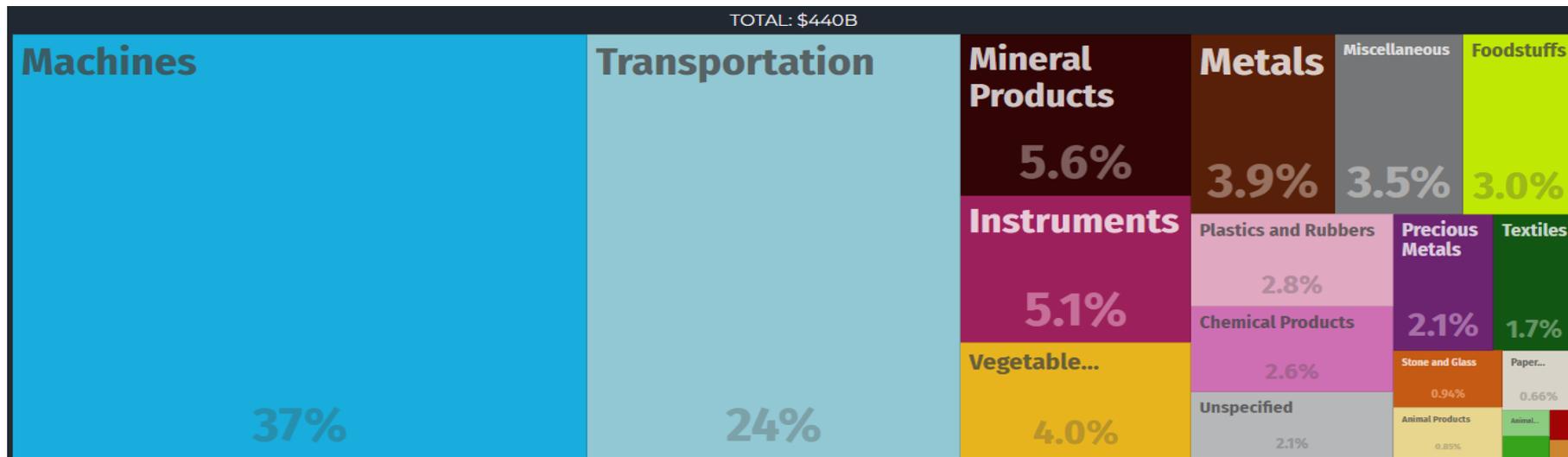
# 12th Largest Importer (5yr: -2.2%)

**Imports ($453B)**

Pie chart segments:
- USA 48%
- China 18%
- Other 16%
- Japan 5%
- Korea 4%
- Malaysia 2%
- Germany 4%
- Canada 3%
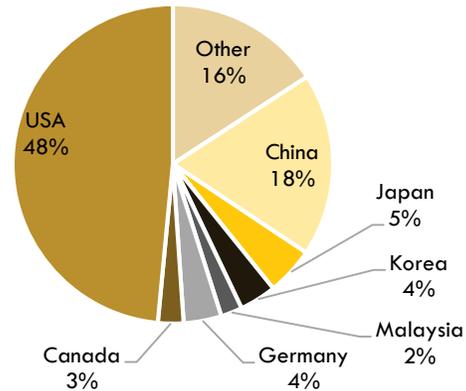
## Top Imports

- Vehicle Parts ($25.8B)
- Integrated Circuits ($18.4B)
- Refined Petroleum ($17.1B)
- Office Machine Parts ($16.3B)

TOTAL: $453B

- Machines — 41%
- Transportation — 10%
- Metals — 7.5%
- Plastics and... — 6.5%
- Chemical Products — 6.3%
- Mineral Products — 5.9%
- Instruments — 4.0%
- Unspecified — 3.7%
- Textiles — 2.9%
- Vegetable Products — 2.3%
- Paper Goods — 1.6%
- Animal Products — 1.5%
- Miscellaneous — 1.7%
- Foodstuffs — 1.7%
- Stone and... — 0.73%
- Wood Products — 0.39%
- Animal Hides
- Footwear and...

Source: MIT
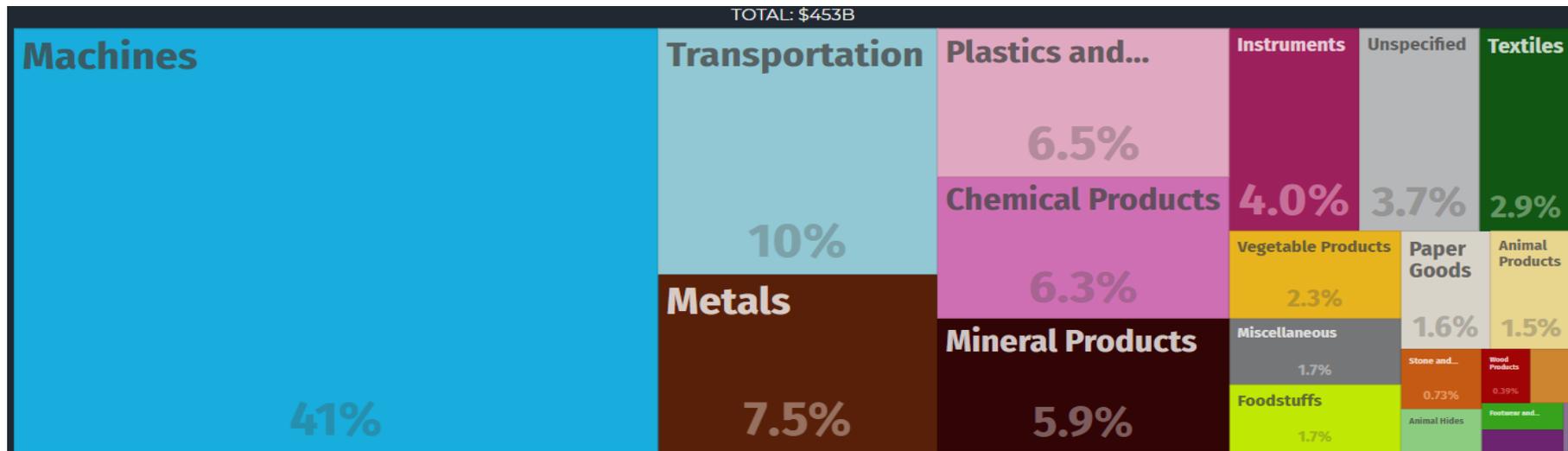
# Economic Analysis: OECD CLI

## Mexico - CLI



Legend: Recovery | Slowdown | Expansion | Downturn | GDP (y/y%) - rhs

## OECD - CLI



Legend: Recovery | Slowdown | Expansion | Downturn | GDP (y/y%) - rhs
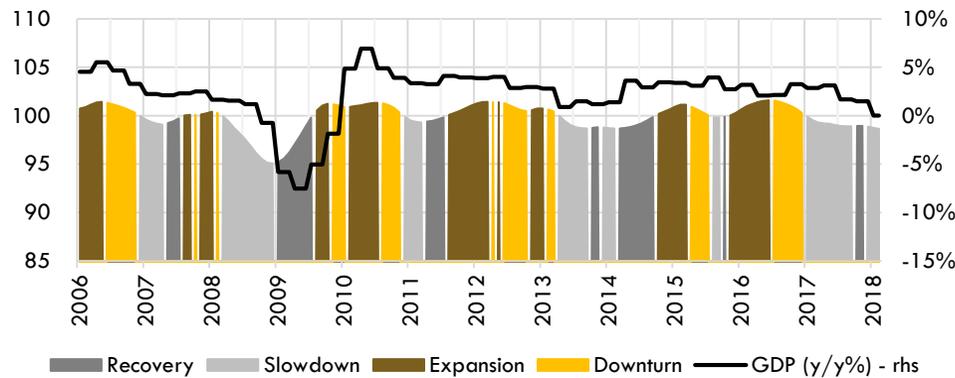
### Mexico OECD Composite Leading Indicators:
- Mfg Employees (%)                    INEGI
- Mfg Employment  (% bal)              Bank of Mexico
- Mfg Finished Goods (% bal)           Bank of Mexico
- Mfg Production (% bal)               Bank of Mexico
- 10yr Yield Premium (U.S.)            US Treasury
- CPP Rate (%)                         Bank of Mexico
- Real Eff. Exch. Rates – CPI          OECD
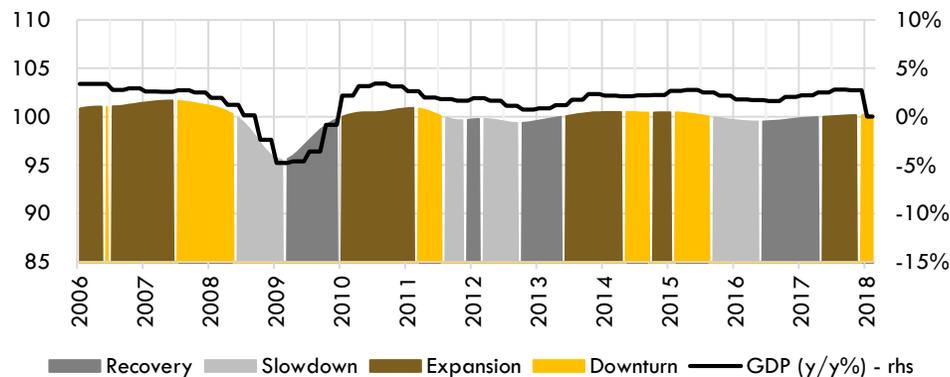
### Other Economic Data Considered:
- Business & Consumer Confidence
- Central Bank Policies
- PMI
- CPI

Source: OECD

# Economic Analysis
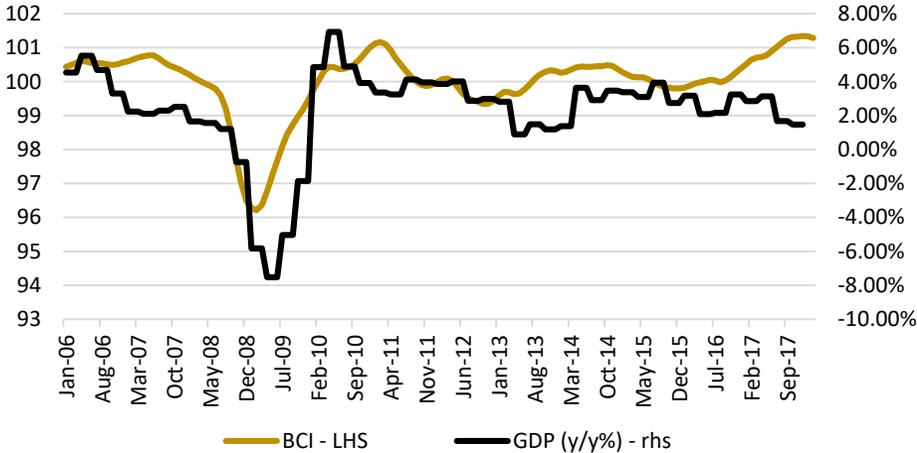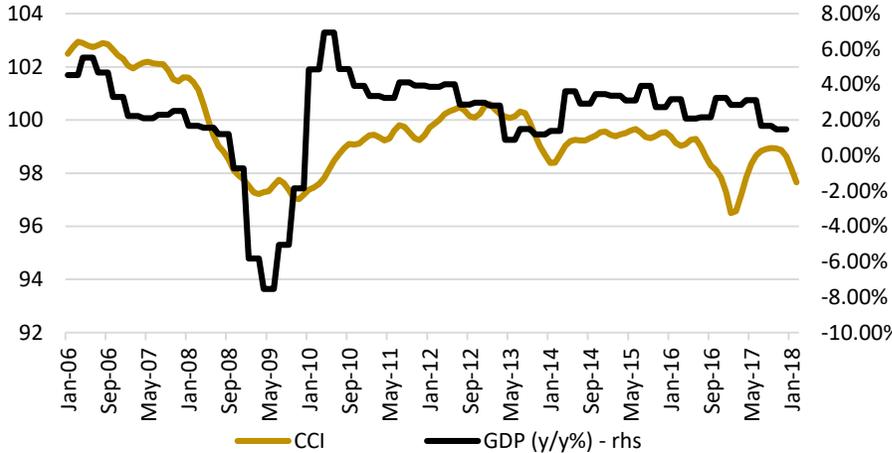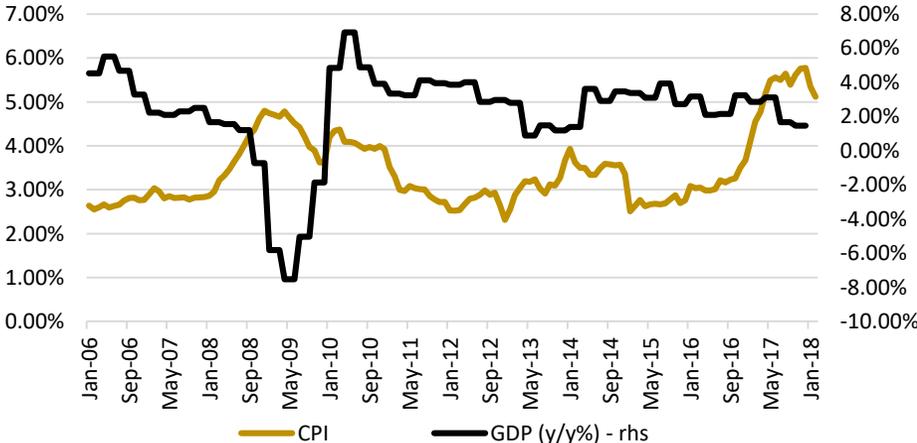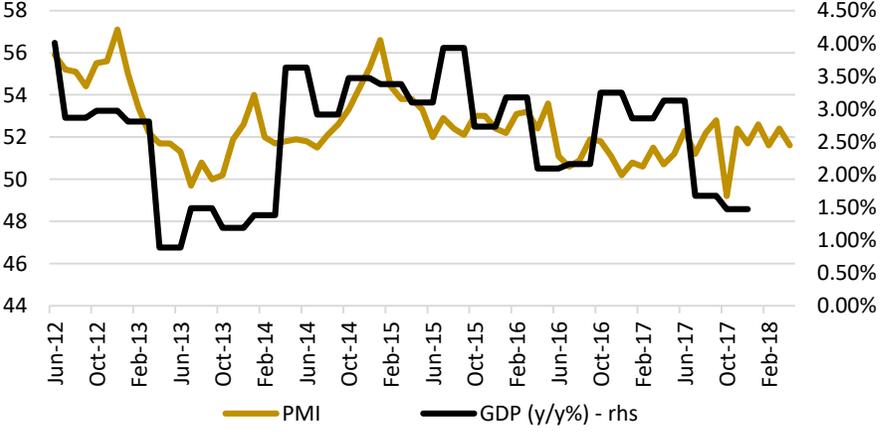
Source: OECD, St. Louis FRED

# Currency Trends

**MXN Peso vs. USD**
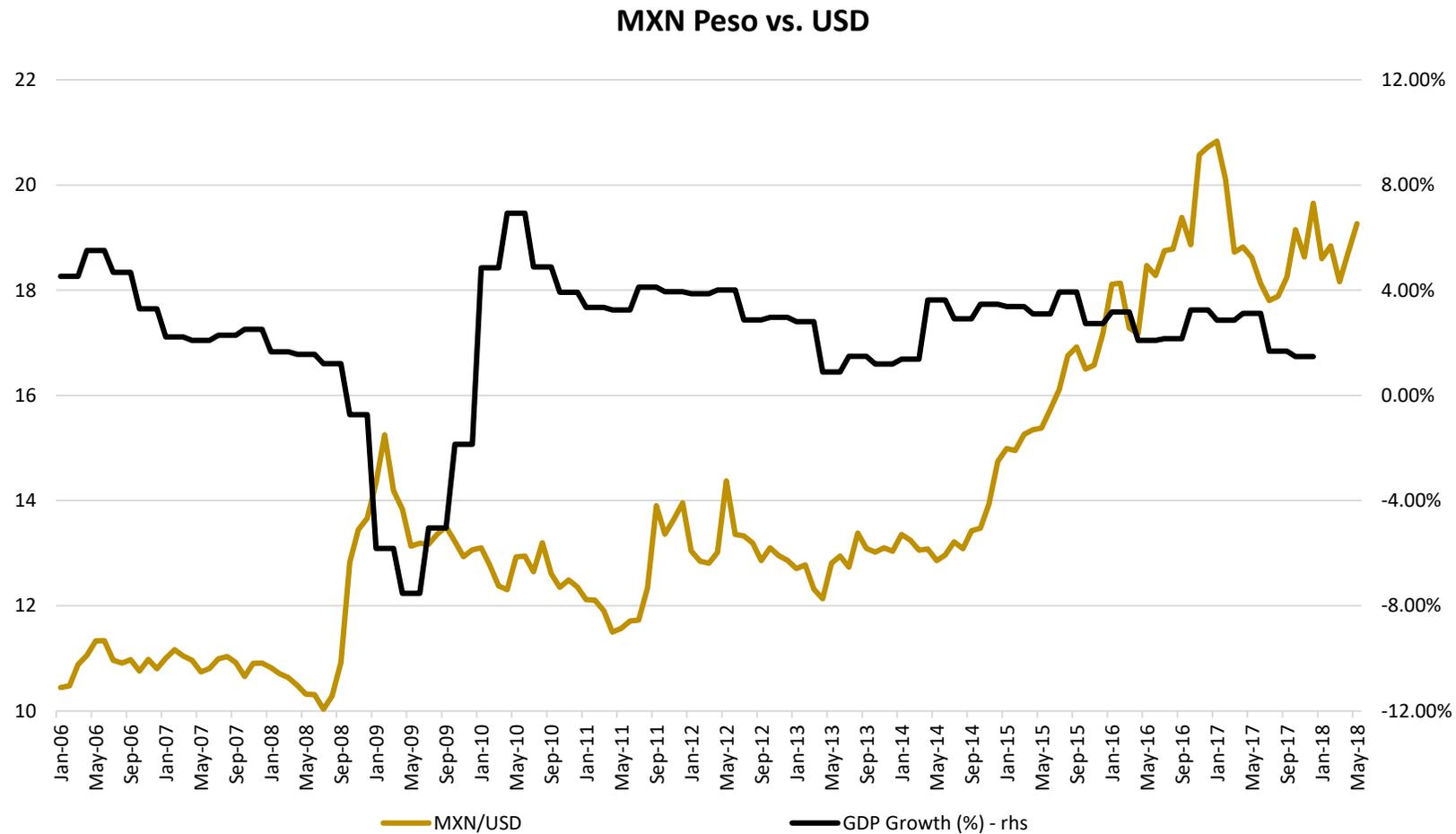
Source: St. Louis FRED, Bank of Israel

# Risks

- NAFTA
  - Automotive rules biggest contention
  - Presidential frontrunner wants hand in deal
- Presidential election:
  - July 1, 2018
- Corruption a concern (lower is better):
  - Rank 103/138 Irregular Payments and Bribery*
  - Rank 135/180 Corruption Perception Index**

Source: Wikipedia

*http://www3.weforum.org/docs/GCR2016-17/05FullReport/TheGlobalCompetitivenessReport2016-17_FINAL.pdf
**https://www.transparency.org/news/feature/corruption_perceptions_index_17

# Vehicle Selection: Overview

## Vehicle selection

- Identify optimal ETF providing exposure to the investment opportunity
- Assess instrument's ability to track index
- Consider diversification of underlying assets
- Avoid investment if available ETFs have unacceptably high fees or low liquidity

| Liquidity | Fees | Price/NAV | Diversification | Hedging |

# Vehicle Choice: MSCI Mexico ETF (EWW)

## Sector Weights
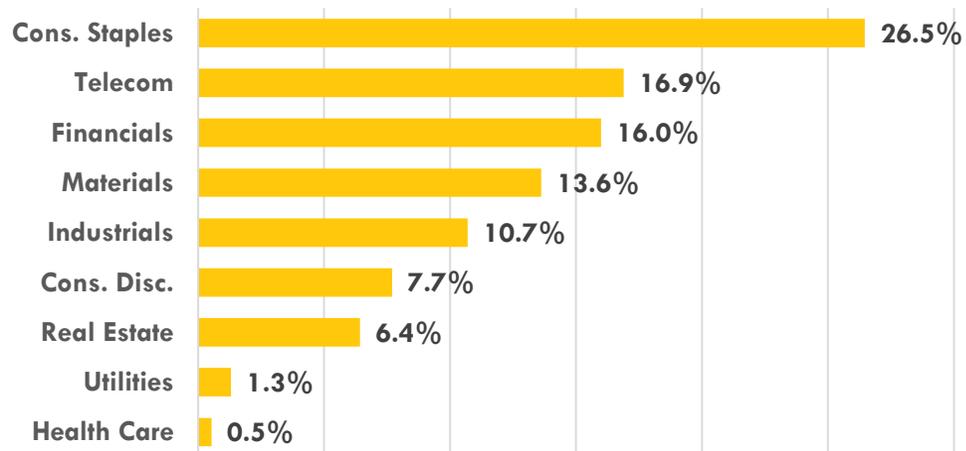
| Sector | Weight |
|---|---|
| Cons. Staples | 26.5% |
| Telecom | 16.9% |
| Financials | 16.0% |
| Materials | 13.6% |
| Industrials | 10.7% |
| Cons. Disc. | 7.7% |
| Real Estate | 6.4% |
| Utilities | 1.3% |
| Health Care | 0.5% |

| Top 10 Holdings | | | |
|---|---|---|---|
| Ticker | Company | Sector | Weight |
| AMXL | AMERICA MOVIL L | Telecommunications | 15.9% |
| FEMSAUBD | FOMENTO ECONOMICO MEXICANO | Consumer Staples | 9.0% |
| GFNORTEO | GPO FINANCE BANORTE | Financials | 7.3% |
| WALMEX* | WALMART DE MEXICO V | Consumer Staples | 6.9% |
| GMEXICOB | GRUPO MEXICO B | Materials | 5.2% |
| TLEVISACPO | GRUPO TELEVISA | Consumer Discretionary | 4.5% |
| CEMEXCPO | CEMEX CPO | Materials | 4.0% |
| FUNO11 | FIBRA UNO ADMINISTRACION REIT SA | Real Estate | 2.7% |
| GFINBURO | GRUPO FINANCIERO INBURSA SRIES O O | Financials | 2.3% |
| BIMBOA | GRUPO BIMBO A | Consumer Staples | 2.2% |

Source: iShares

- Low Expense Ratio (49 bps)
- High liquidity (Avg. Volume 3.5 Million Shares)
- Trading at a 0.50% discount to NAV
- Long Track Record (22+ years)
- Pure Mexico exposure all Mexican companies
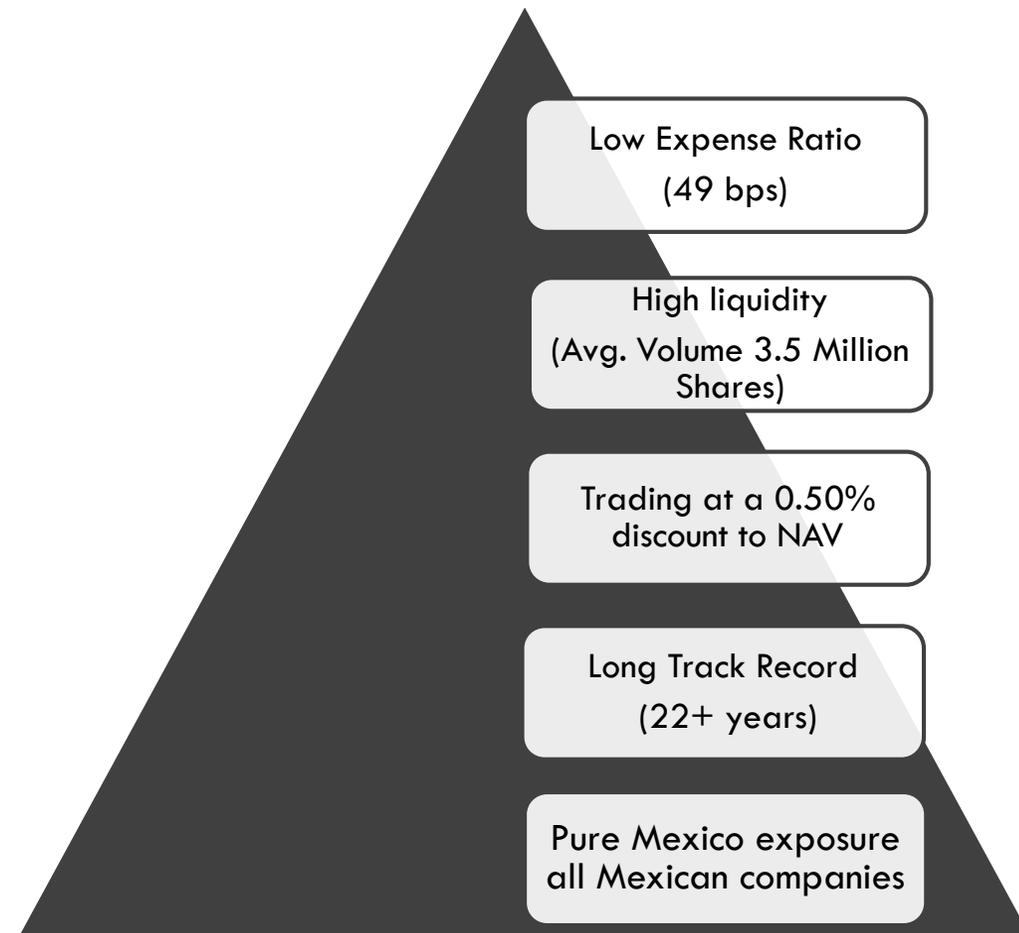
# Don't take a siesta on Mexico

☐ Economic outlook mixed

- ◘ OECD CLI moving from "Expansion" to "Downturn"
- ◘ NAFTA negotiations & Presidential election could "make or break" this ETF

☐ Corruption always a concern but Mexico has been improving

☐ Potential future concerns with Trump and US

☐ "Wait and see" approach

https://twitter.com/miguelalemanm/status/481134417859977217

# APPENDIX

May 11, 2018 Client Meeting

# Exposure is Key; Alpha is Secondary

- ❑ Core – Satellite Investing Approach
  - ▪ Core ETFs provide exposure to benchmark
  - ▪ Relative outperformance through tactical asset allocation to favorably positioned fixed income and country equity through ETFs

- ❑ Target Allocations:
  - ▪ 40-70% of the equity allocation to benchmark ETF
  - ▪ 40%-70% allocation to core ETF for fixed income allocation
  - ▪ +/- 10% Country/Sector allocation

# Investment Process Overview

International Equity

Domestic Fixed Income

**Step 1: Qualitative & Quantitative Screening**

Equity Valuation

Economic Factors

Fixed Income Valuation

**Step 2: Fundamental Analysis Implementation Guidelines**

Fundamentals and Limitations

**Step 3: Compare Vehicles**

Vehicle Selection

# Investment Process Overview

**International Equity**

**Step 1: Screen for Valuation**

| P/E | P/B | P/S | P/CF | EV/EBITDA | EV/S |

**Step 2: Economic Analysis**

| GDP | CPI | BOP | ISM | Population | Gov't | ESG |

**Step 3: Compare Vehicles**

| Expense | Liquidity | Holdings | Tracking |

# Identify Opportunities

❏ Identify attractive countries/sectors based on:

- Economic factors
  - Growth indicates whether a country is expanding or contracting
  - Acceleration indicates where a country is in its expansion or contraction phase
- Valuation
  - Valuation indicates what the market expects and has already priced in
- Portfolio Risk
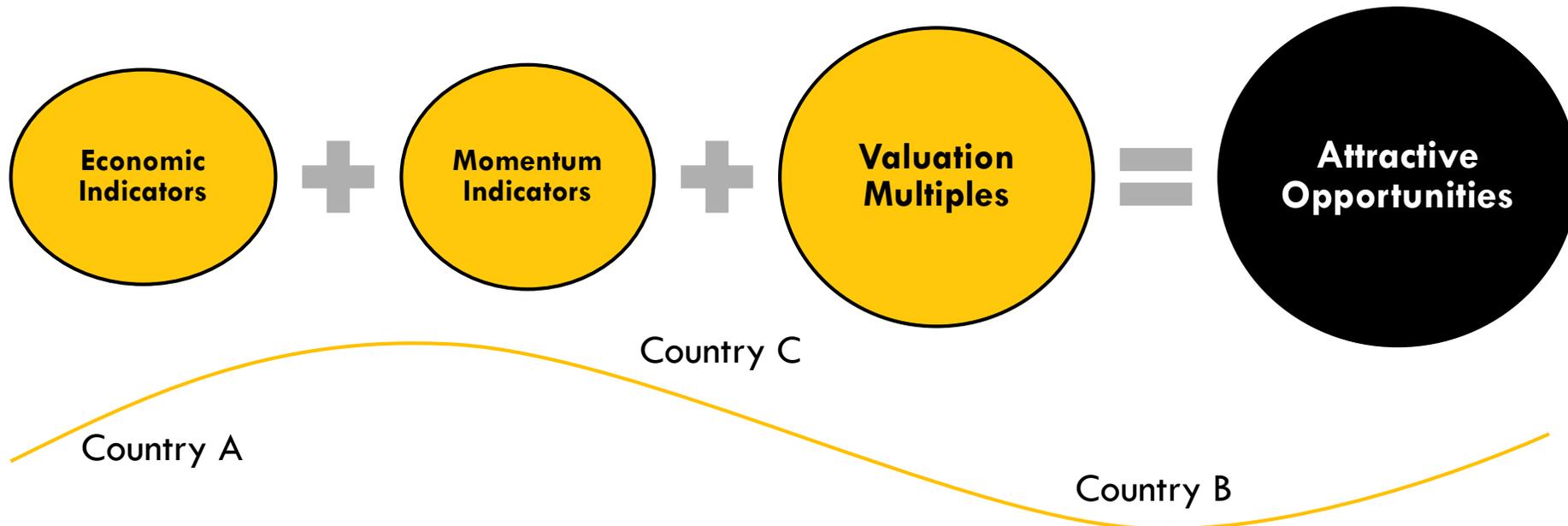
# Asset Type and Weight

| Ticker | Name | % of Portfolio |
|---|---|---|
| **Equity** | | |
| IXUS | iShares Core MSCI Total International Stock ETF | 19.78% |
| ESGE | iShares MSCI EM ESG Optimized ETF | 7.98% |
| VSS | Vanguard FTSE All-World ex-US Small-Cap ETF | 4.96% |
| EEMS | iShares MSCI Emerging Markets Small Cap ETF | 3.99% |
| EZU | iShares MSCI Eurozone ETF | 3.71% |
| EWJ | iShares MSCI Japan ETF | 2.57% |
| EWZ | iShares MSCI Brazil ETF | 1.75% |
| EWG | iShares MSCI Germany ETF | 1.70% |
| EWU | iShares MSCI United Kingdom ETF | 1.51% |
| EWH | iShares MSCI Hong Kong ETF | 1.30% |
| INDA | iShares MSCI India ETF | 1.27% |
| EWL | iShares MSCI Switzerland Capped ETF | 1.17% |
| MCHI | iShares MSCI China ETF | 0.79% |
| **Fixed Income** | | |
| AGG | iShares Core U.S. Aggregate Bond ETF | 32.32% |
| LQD | iShares iBoxx $ Investment Grade Corporate Bond ETF | 3.13% |
| SCHZ | Schwab US Aggregate Bond ETF | 9.45% |

# Performance
Since Inception of the Baird Fund (11/01/16)

**Baird Combined Fund**

Relative Returns — Benchmark Return — Portfolio Return
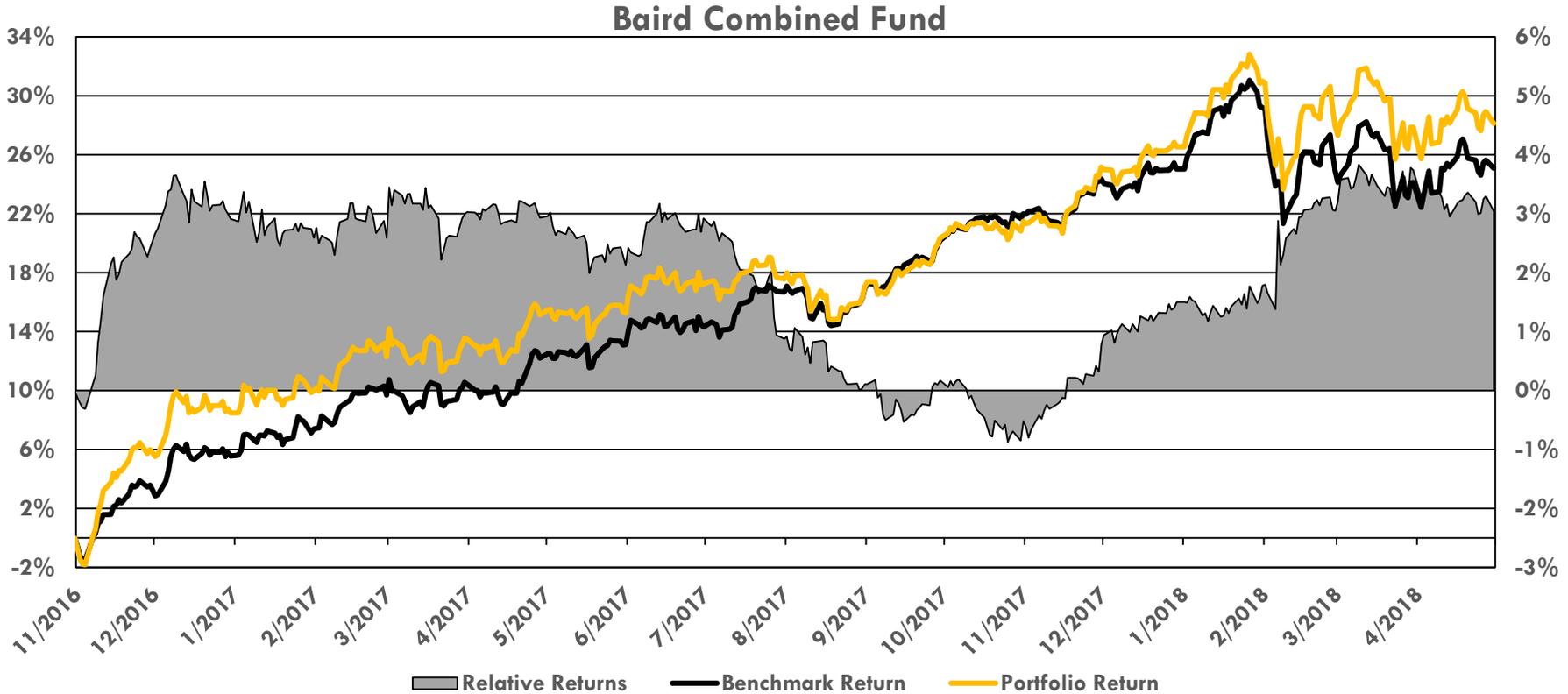
| | |
|---|---|
| **Portfolio Return** | **28.13%** |
| **Benchmark Return** | **25.09%** |
| **Relative Performance** | **3.04%** |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Performance Since Inception of the Baird Fund (11/01/16)



**IMCP Combined Fund**

Legend: Relative Return — Benchmark Return — Portfolio Return
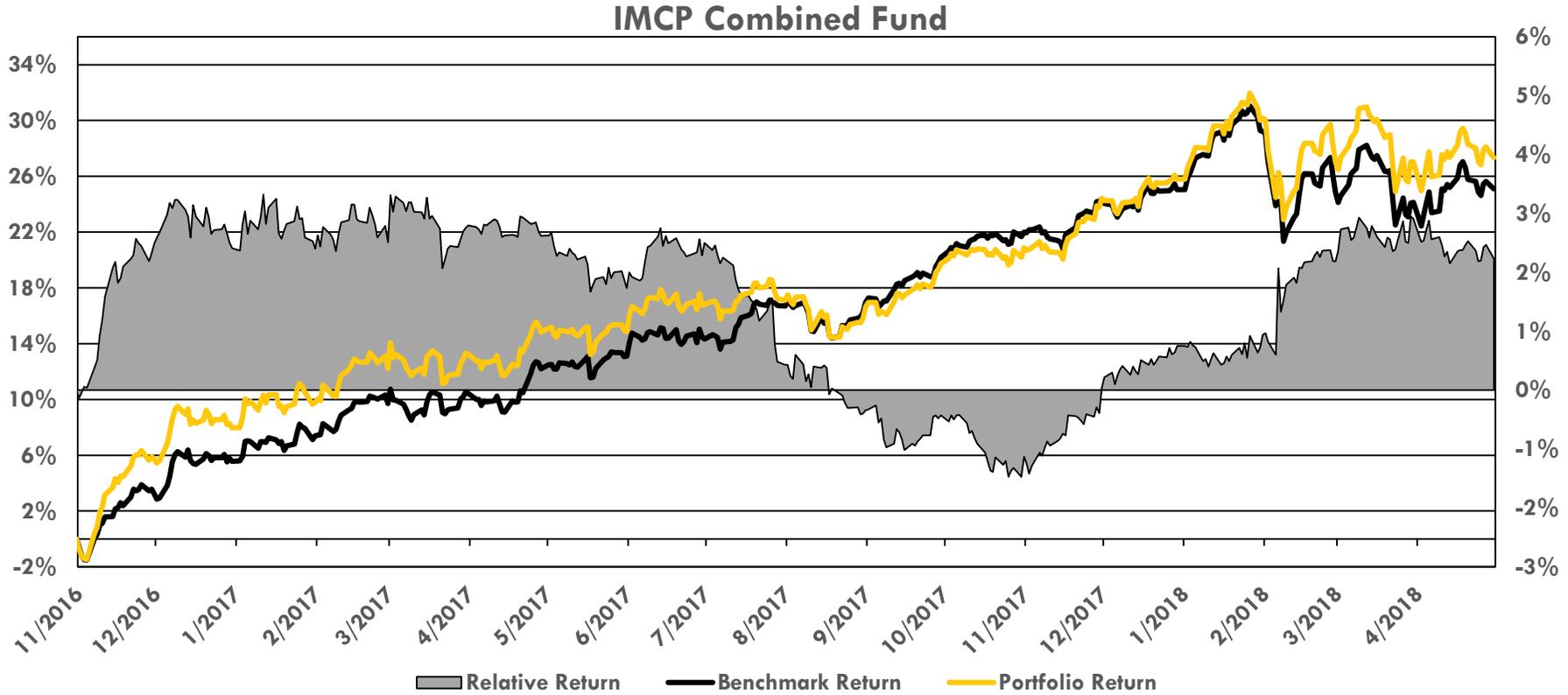
| | |
|---|---|
| **Portfolio Return** | **27.32%** |
| **Benchmark Return** | **25.09%** |
| **Relative Performance** | **2.23%** |

\* Portfolio returns differ from actual returns due to transaction fees and intraday pricing not taken into account by FactSet. Performance attribution and risk figures are also computed using FactSet and, while not exact, provide a good overall representation of performance attribution and risk.

# Portfolio Differences <small>Since Inception of the Baird Fund (11/01/16)</small>

□ **Baird**

| | |
|---|---|
| Portfolio Return | 28.13% |
| Benchmark Return | 25.09% |
| Relative Performance | 3.04% |

□ **Merrill**

| | |
|---|---|
| Portfolio Return | 27.32% |
| Benchmark Return | 25.09% |
| Relative Performance | 2.23% |

□ **Difference: 0.81%**