Arizona State University

MBA SIMFUND

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Meet The Team

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SCOPE

$1,589,000	6 MONTH	RUSSELL 3,000	PROFITABILITY & P/B	MONTHLY
SEED VALUE	INVESTMENT HORIZON	STARTING UNIVERSE	MAIN METRICS RELIED ON	REBALANCING TARGET TIMELINE

INVESTMENT THESIS

PROFITABILTY & P/B:

The combination filters for firms that demonstrate operational excellence and trade at reasonable, sustainable valuations, improving the probability of resilient returns across cycles.

FOCUS ON QUALITY WITHOUT OVERPAYING

Targeting companies with high profitability ensures the portfolio tilts toward firms with; strong competitive advantages, pricing power and durable cash -generation - key drivers of long -term excess returns.

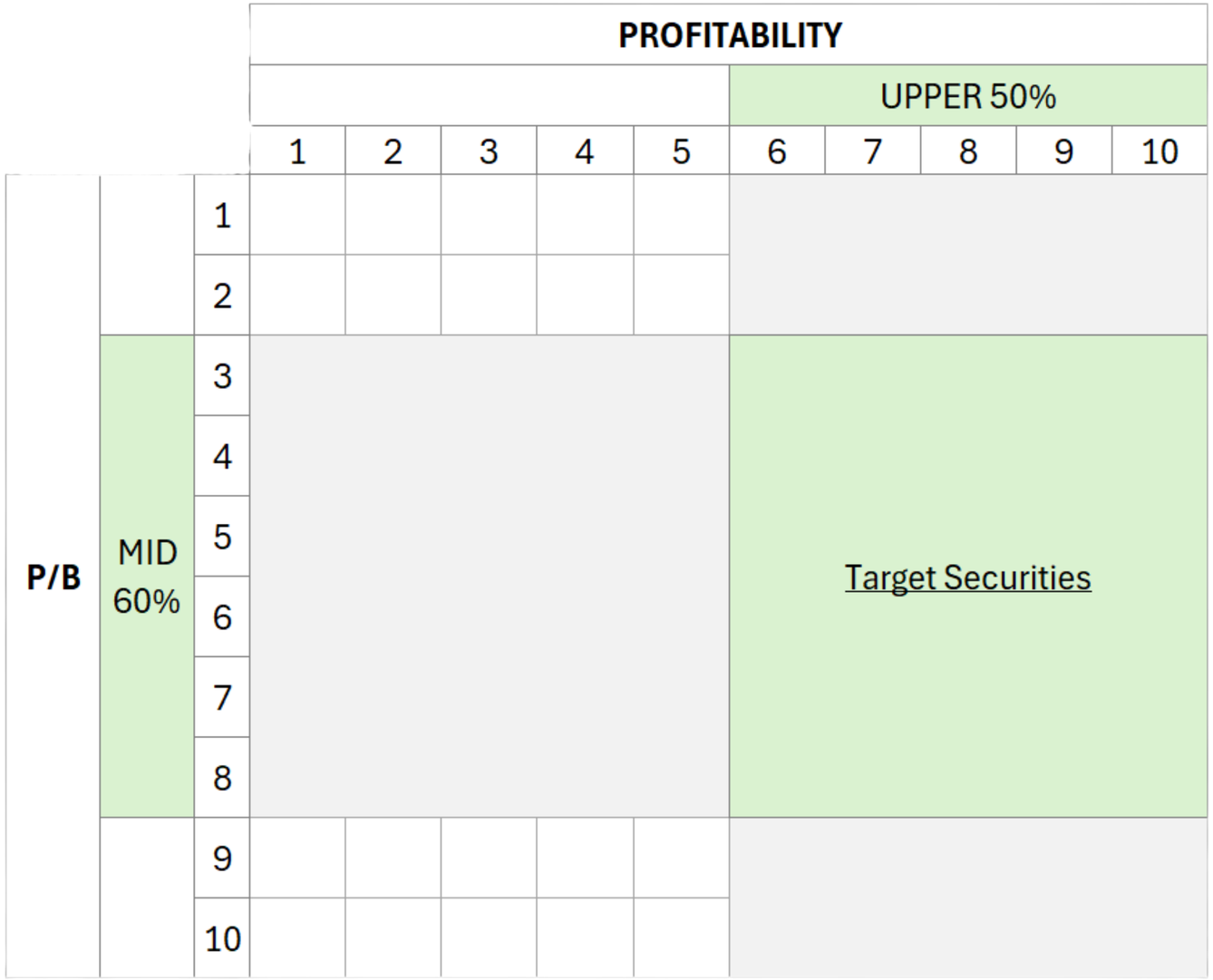
AVOIDING THE TAILS OF VALUATION

By excluding the lowest and highest 20% of price -to-book ratios, the strategy avoids deep -value “traps” with structural issues and highly speculative stocks that may be overpriced.

SECURITY SELECTION

Profiling for securities with:

- **High profitability**
  - Screening out: lower 50th percentile.
- **Mid range price to book**
  - Screening out: lowest 20th percentile
    AND
    highest 20th percentile.



PROCESS

RUSSEL 3000

Remove sectors:

- Utilities
- Real estate.

Remove market cap:

- Less than $500 million.

BENCHMARK

2,343

SCREEN ENTIRE POPULATION

Filter out:

- Negative profitability
- Negative book equity

1,925

SECTOR EVALUATION

Profitability:

+ Using CFO / BE ratio select highest 50%

+ Using P/B ratio screen out the “cheapest” 20% of securities (Lowest P/B ratios within Sector)

770

SECTOR RANKING

Rank Each security within sector based on combined profitability and valuation score

- Highest profitability receives 1
- Lowest P/B receives 1

Calculate combined rank (average of two rankings)

770

CONTINUED...

MIRROR RUSSEL SECTOR WEIGHTS

Select top securities via combined ranking and refine sector lists to mirror Russell market cap & count weights. E.g.
Energy in Russell = 5%
Energy in MBAF = 5%

114

MANUAL EVALUATION

Screen for obvious volatility: Run news check for final exclusions; lawsuits, impending litigation etc

66

EQUAL WEIGHTING WITHIN SECTOR

Allocate capital equally amongst number of securities selected within sector to reach target sector weight. Manually adjust to adhere to charter for things such as maximum small-cap weights

66

PORTFOLIO WEIGHTS

	How much capital to allocate per sector:		How many securities to select per sector:	Equal weight per security:	
Sector	Russell sector weight (Market Cap)	Capital Invested (per sector)	Russell setor weight (Count)	# Securities (in each sector)	Capital per security
Communication Services	14.40%	$228,816	4.40%	5	$45,763
Consumer Discretionary	11.00%	$174,790	11.35%	9	$19,421
Consumer Staples	5.00%	$79,450	4.14%	4	$19,863
Energy	3.00%	$47,670	4.95%	4	$11,918
Financials	14.00%	$222,460	17.80%	10	$22,246
Health Care	9.50%	$150,955	15.62%	9	$16,773
Industrials	9.20%	$146,188	15.54%	9	$16,243
Information Technology	30.50%	$484,645	12.72%	12	$40,387
Materials	2.75%	$43,698	4.69%	4	$10,924
Cash	0.65%	$10,329	0.00%	0	
Grand Total	**100%**	**$1,589,000**	**100%**	**66**	
Total Portfolio	**$ 1,589,000.0**				

BENCHMARK

OUR BENCHMARK IS THE FILTERED RUSSELL 3000 INDEX, COMPRISING 2,343 SECURITIES.

Overall Portfolio Metrics compared to the Russell 3,000. Mean Profitability is measured based on Trailing 12mo CFO / Book Value. By filtering out the lowest 50% of profitability securities we are able to achieve a much higher mean profitability score and at the same time reducing our mean P/B.

Stage	Mean profitability	Mean P/B	# Securities
Filtered Russell 3000	0.12	4.15	2,343
Final Portfolio	0.64	4.07	66

CONSIDERATIONS

01.

DATA QUALITY & AVAILABILITY

Bloomberg data inconsistencies for financials sector required separate screening and we did our own ratio’s for P/B and operational profit

02.

SECTOR BIAS

Since our portfolio mirrors the Russell weights, we do not have any sector bias which the strategy may have recommended if not holding sector weights constant

03.

VOLATILITY MANAGEMENT

A chunk of Small -cap securities within our universe had smaller market cap’s than $1bn, necessitating manual reviews to reduce their proportion

OTHER CONSIDERATIONS

01.

FILTER ORDER MATTERS

By Starting our filter process based on Profitability First, we screened out potential stocks that have a lower Book Value before comparing the two variables simultaneuosly

02.

RANKING BY SECTOR

Ranking by Sector provided us with the best combines scores within Sector, we selected some securities that may have been filtered out if we looked at all securities at the same time

03.

SECTOR VS TOTAL RANKINGS

Some of the Securities that we selected when compared to the overall rankings would have been filtered out due to them not being in the top 50% profitability or being in the lowest 20% valuation OVERALL but they were not screened out within sector filter

SECURITY RANK COMPARISONS

- **Total unfiltered rank:**
  Ranks securities by Profitability and Valuation without removing any securities.

- **Filtered Rank:**
  Ranks securities after we screen out the 50% least profitable and 20% “Cheapest” securities. “Filtered” means the security is either the 20% cheapest or in the bottom 50% of profitability within the total population of securities.

Ticker	Sector Rank	Total Unfiltered Rank	Filtered Rank After Screening for Profitability and Valuation
NXST US Equity	2	177	23
TIGO US Equity	3	166	28
NCLH US Equity	2	302	52
ACI US Equity	1	212	31
KR US Equity	3	419	91
PPC US Equity	3	253	67
NOG US Equity	1	8	filtered
MTDR US Equity	2	14	filtered
QCRH US Equity	2	43	filtered
LOB US Equity	3	41	filtered
GLUE US Equity	2	279	56
COLL US Equity	3	367	67
TPC US Equity	1	171	21
CF US Equity	3	157	filtered
KD US Equity	1	391	80
PRGS US Equity	3	508	154
RPD US Equity	2	534	116

PORTFOLIO MAINTENANCE

CHANGES IN PROFITABILITY OR BOOK VALUE

Measures are reported quarterly so need to re -pull from Bloomberg.
Most recent Quarter can effect the trailing 12 -month if profitability
has significantly changed

MONITOR P/B AS MARKET VALUES CHANGE

- As stock prices increase, implied P/B also increases which we want to monitor to decide if we want to sell
- As stock prices decrease, P/B decreases and some securities we did not select may become more attractive

OTHER CONSIDERATIONS

Monitor non -quantitative data such as pending litigation, changes in leadership, or other news that would be adverse to stocks in our portfolio. Each Analyst has a dedicated sector to monitor.

FUND OVERVIEW

# SECURITIES	SEED VALUE 11/20	CURRENT VALUE 12/02	UNREALIZED GAIN	RUSSELL GAIN
66	$1,589,000	$1,719,724	$130,724 +8.23%	4.66%