

Sustainable Equity Balanced Fund

Q3 2019 Performance Update

Executive Summary

From a performance perspective, Q3 for the Bellarmine University Investment Group (BUIG) provided a performance that fell short of our benchmark by a small percentage due to an increased fixed-income allocation. From an operational perspective, the group maintained a class of promising and hard-working members who continue to have an intellectual curiosity in investment management along with gaining six new, motivated members through fall recruitment. As a focus on recruiting and member-retention continues to be one of the fund's primary goals every year, the executive team considers this fact a grand success.

The Sustained Equity Balanced Fund (SEBF) saw an absolute return of -0.32%, which fell short of our benchmark return 75 basis points. While anticipating more volatility for Q3 than we had seen in Q2 due to the trade war between the United States and China, we missed some upside from market gains because of our increased fixed-income exposure corresponding to our anticipations. As trade talks between the United States and China became more optimistic and interest rate cut probabilities increased, we didn't capitalize on increasing our equity exposure to realize the gains with the market. We look to increase our equity allocation for the upcoming quarter, while also adhering to our investment philosophy and specified security target allocation.

One of the group's objectives this quarter was preparing a discounted cash flow model for each equity security that we hold. During the spring 2019 semester, we worked with River Road Asset Management developing a SEBF specific discounted cash flow model. After numerous tests and constant restructuring, we now have a DCF template for group members to use to further justify their arguments. Also, we worked with ARG Financial Group concerning Bloomberg Terminal utilization which really helped calculate Q3 performance data and coordinate research. In the upcoming quarter, we plan to continue working with ARG to better prepare us for our annual presentation panel held at the end of the spring semester.

As a closing note, the group will be continuing to focus on more "in-depth" company research rather than macro-trends. The executive team feels that this new process will lend itself to the educational objectives of the fund in allowing members a more similar experience to that of professional equity analysts. Furthermore, the group has partnered with the Economics and Finance Club in hosting educational events throughout the semester concerning the finance industry to promote our group and its value to prospective students. Events that were quite successful this quarter both in attendance and participation include an R programming language workshop and a professional speaker from the FED. As education continues to be a priority for BUIG, we feel that this partnership will decrease member turnover and promote our brand.



Zach Kuebbing, VP of Investor Relations



Mike Hennesy, VP of Operations



Brennan Bauer, President

Best Regards,



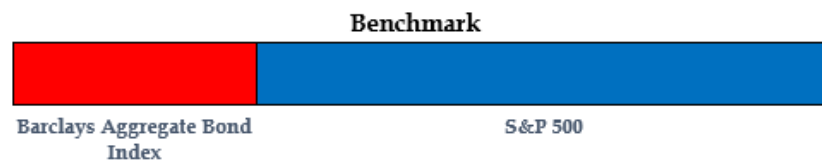
Fund History and Philosophy

BUIG began operation on December 18, 2014 after gaining the Bellarmine University Finance Committee's approval to invest \$90,000 of the University's endowment fund. A generous donation by Carl Hafele of \$10,000 completed the initial balance.

As a student managed fund, the Sustainable Equity Balanced Fund (SEBF) has two objectives. The first objective is to partake in educational opportunities to ensure that our members gain an enriched knowledge of the equities market, the fixed income market, portfolio management, and any other areas of interest that our members have. The second objective is to achieve superior returns above the benchmark in a risk-controlled fashion. The SEBF aims to hold positions that are trading at a discount to their fair market value, in a healthy financial position, and provide long-term sustainable qualities. SEBF targets an asset allocation of 25-30% fixed income, 65-70% equities, and 5-7% cash.



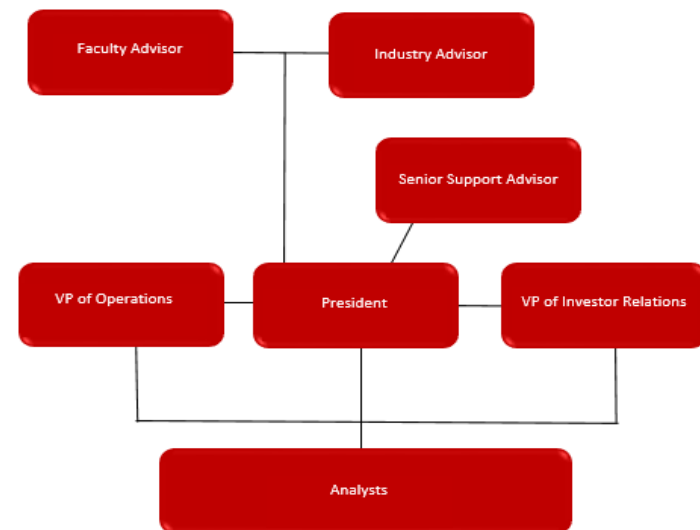
The benchmark for the SEBF is comprised of 65% of the S&P500 and 30% of the Barclay's Aggregate Bond Index to match the intended asset allocation.



In February of 2016, the Group received permission to invest in alternative positions up to 10% of the Fund's assets.

Organizational Structure

BUIG has a pyramidal organizational structure comprised of our advisors, the executives, the senior support advisor, and analysts. The advisors support and moderate BUIG operations and gives the Group access to the network of Louisville financial professionals. The executive board, which consists of the President, the VP of Investment Operations, and the VP of Investment Relations, votes, executes trades on analyst proposals, and ensures the administrative duties of BUIG are complete. The senior support advisor is occupied by the former president and provides insights and advice to the executive team and analysts. Each analyst oversees their holding after it has been approved by the executive team and maintains a watch-list of potential positions to enter. Furthermore, they conduct security specific research on our current positions and provide weekly updates to the Group.



Investment Process

The SEBF utilizes a bottom-up approach when selecting portfolio positions. We first analyze securities with fundamental analysis techniques, and evaluate their long-term potential and risk level. Next, we analyze those securities by how they are affected by global economic statistics, trends, and events. When selecting equity positions, we aim to discover companies that have strong business models and products that are well suited for the future and are not susceptible to changing trends or could quickly become obsolete. We use a bar bell approach with the fixed income allocation in order to reduce the overall risk of our fixed income positions. When appropriate we will hedge our fixed income position by purchasing either more short-term bonds or long-term bonds. After purchasing a security, we monitor the position for several indicators that prompt us to sell or purchase more shares; however, we have no hard-set rules that would require the sale of a position unless the analyst covering the position is graduating. We are aiming for a turnover ratio of 50% annually, which we believe is low enough to ensure a long-term orientation and high enough to provide BUIG's members with transaction experience. Given that each analyst has their own security to focus on, we fill the rest of the corresponding sector's weight with that sector's ETF to meet the quarterly sector weights of the S&P 500. This allows the group to observe which securities outperform or underperform their respective sectors.

Security Analysis

Equity Research:

- [YCharts](#) & Morningstar
- Discount to Historical Valuation
- Financial Strength
- Shareholder Oriented
- Analyst Recommendations
- Equity Market Cap > \$3B

Fixed Income:

- Average Credit Quality = A
- Managed Duration
- Low Expense

Macro-Market Analysis & Idea

Macro-level Research:

- Bottom-Up Analysis:
- Political Trends and Policy Conducive to Economic Growth
- Global and Regional Economic Trends

Portfolio Construction

Portfolio Characteristics:

- Match Quarterly S&P 500 Sector Weights with chosen securities and corresponding sector ETFs
- Fund Total Assets > \$1B
- 85%-100% Exposure
- Equity Exposure: 2%-6%
- Alternative Security Exposure < 10%

Buy/Sell Discipline

Buy/Sell Indicators:

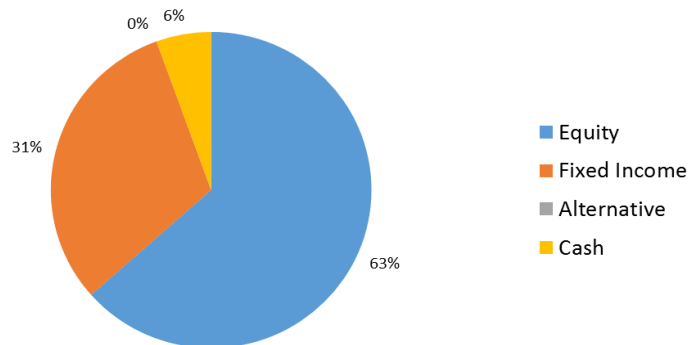
- Relative Performance Trends
- Historical Valuation
- Insider Sales
- Analyst Recommendations



Portfolio Snapshot

Ticker	Name	MV	Unrealized Gain / Loss	Unrealized Gain / Loss %	Asset	Sector	Weight as % of Portfolio
ADBE	Adobe Inc	\$4,440.64	\$2,870.62	182.84%	Equity	Technology	3.69%
AGG	iShares Core US Aggregate Bond ETF	\$12,105.98	\$159.71	1.34%	Fixed Income	Bond	10.06%
BA	Boeing Co	\$3,062.88	\$47.04	1.56%	Equity	Industrials	2.54%
COLM	Columbia Sportswear Co	\$3,380.65	(\$268.45)	-7.36%	Equity	Consumer Discretionary	2.81%
DIS	Walt Disney Co	\$3,119.04	\$691.93	28.51%	Equity	Communications	2.59%
EA	Electronic Arts Inc	\$2,487.42	(\$936.26)	-27.35%	Equity	Technology	2.07%
FDN	First Trust Dow Jones Internet Index Fund	\$4,411.44	(\$30.69)	-0.69%	Equity	Communications	3.66%
FXD	First Trust Consumer Discretionary AlphaDEX Fund	\$1,288.36	\$16.43	1.29%	Equity	Consumer Discretionary	1.07%
FXG	First Trust Consumer Staples AlphaDEX Fund	\$2,445.96	\$178.50	7.87%	Equity	Consumer Staples	2.03%
FXH	First Trust Health Care AlphaDEX Fund	\$7,998.42	(\$128.62)	-1.58%	Equity	Health Care	6.64%
FXL	First Trust Technology AlphaDEX Fund	\$9,490.32	\$426.30	4.70%	Equity	Technology	7.88%
FXN	First Trust Energy AlphaDEX Fund	\$3,602.55	(\$908.85)	-20.15%	Equity	Energy	2.99%
FXO	First Trust Financials AlphaDEX Fund	\$794.00	\$38.00	5.03%	Equity	Financials	0.66%
FXR	First Trust Industrials/Producer Drbls AlphaDEX Fd	\$249.01	\$16.03	6.88%	Equity	Industrials	0.21%
FXU	First Trust Utilities AlphaDEX Fund	\$2,959.00	\$197.00	7.13%	Equity	Utilities	2.46%
FXZ	First Trust Materials AlphaDEX Fund	\$2,104.44	(\$16.53)	-0.78%	Equity	Materials	1.75%
HON	Honeywell International Inc	\$4,369.04	\$1,765.13	67.79%	Equity	Industrials	3.63%
JNJ	Johnson & Johnson	\$2,829.20	(\$181.06)	-6.01%	Equity	Health Care	2.35%
JPM	JPMorgan Chase & Co	\$2,943.00	\$308.25	11.70%	Equity	Financials	2.44%
PRI	Primerica Inc	\$2,547.40	\$13.00	0.51%	Equity	Financials	2.12%
SBUX	Starbucks Corp	\$3,534.80	\$548.80	18.38%	Equity	Consumer Discretionary	2.94%
V	Visa Inc	\$4,524.00	\$2,313.41	104.65%	Equity	Financials	3.76%
VCLT	Vanguard Long-Term Corporate Bond Idx Fund;ETF	\$9,181.90	\$918.71	11.12%	Fixed Income	Bond	7.63%
VCSH	Vanguard Short-Term Corporate Bond Idx Fd;ETF	\$16,043.94	\$635.58	4.12%	Fixed Income	Bond	13.33%
WMT	Walmart Inc	\$3,790.40	\$818.92	27.56%	Equity	Consumer Staples	3.15%
	Cash	\$6,672.53					5.54%

Asset Allocation



Sector Weights

Sector	Sector Target	S&P500 Weight	Target Allocation	Actual Allocation
Communications	EW	10.2%	10.2%	9.9%
Consumer Discretionary	EW	10.2%	10.2%	10.7%
Energy	EW	5.0%	5.0%	4.7%
Financials	EW	13.1%	13.1%	14.2%
Healthcare	EW	14.2%	14.2%	14.2%
Industrials	EW	9.4%	9.4%	10.1%
Materials	EW	2.8%	2.8%	2.8%
Real Estate	NA	3.1%	NA	NA
Staples	EW	7.3%	7.3%	8.2%
Technology	EW	21.5%	21.5%	21.5%
Utilities	EW	3.3%	3.3%	3.9%



Performance

The Sustained Equity Balanced Fund (SEBF) saw an absolute return of -0.32%, which fell short of our benchmark return 75 basis points. Performance was driven by the strong returns from companies such as Boeing, Primerica, and Starbucks, outperforming their sector ETF by 6%, 5.3%, and 7.23%, respectively. On the other hand, performance was hampered by the returns of stocks like Adobe, Johnson & Johnson, and Honeywell, underperforming their sector ETF by -4.24%, -1.98%, and -1.77%, respectively.

Performance			
	Q3	Year to Date	Since Inception
	7/1/2019 - 9/30/2019	1/2/2019 - 9/30/2019	12/18/14 - 9/30/2019
Sustainable Equity Balanced Fund	-0.32%	12.39%	20.16%
65% S&P500 / 30% Barclay Agg Benchmark Blend	0.43%	13.67%	29.50%
Overperformance / (Underperformance)	-0.75%	-1.28%	-9.34%

Disney was an interesting case as the stock fell 6.10% this quarter, after gaining nearly 26% in the last quarter. This performance could be attributed to several factors. One of those factors being the reality of the investment needed to bring their streaming platform, Disney+, to market. The poor box office performance of the few movies that were released in this quarter. Poor performance of the sector overall, falling 6.38%. As well as low expected earnings for the third quarter. Even with this negative performance Disney did outperform the sector ETF by 29 basis points.

Starbucks had a very good third quarter. Having a positive return of 5.87%, when the sector fell 1.36%. Consistent revenue streams and consistently meeting or beating earnings estimates keeping investor confidence high when the rest of the consumer discretionary sector waivers. The group will be selling the Starbucks as the analyst covering the stock has switched schools. Starbucks has been a momentum stock for the last few years and we will be looking to sell to realize some gains while Starbucks is on the upside.

Johnson & Johnson has faced multiple controversies in Q3 including claims that their baby powder caused cancer and they helped cause the opioid epidemic. In response, the company has already been forced to pay fines up to hundreds of millions of dollars. These controversies and lawsuits have led to a modest increase of 1% in their stock price year to date, significantly underperforming the market.

Holding Performance Breakdown			
	Holding Performance	Sector ETF Performance	O/U
ADBE	-6.24%	-2.00%	-4.24%
BA	5.17%	-0.83%	6.00%
COLM	-3.02%	-1.36%	-1.66%
DIS	-6.10%	-6.38%	0.29%
EA	-3.40%	-2.00%	-1.40%
HON	-2.60%	-0.83%	-1.77%
JNJ	-6.41%	-4.43%	-1.98%
JPM	6.01%	1.08%	4.93%
PRI	6.38%	1.08%	5.30%
SBUX	5.87%	-1.36%	7.23%
V	-0.75%	1.08%	-1.83%
WMT	7.94%	6.24%	1.70%

Adobe Inc. has performed strongly in 2019, with growth slightly slowing in the third quarter due to lowered Q4 guidance and a shaky release of Photoshop for the iPad. As of Q3, Boeing continues to work on the safe return of the Boeing 747 MAX aircraft. The stock has rebounded since its fall earlier this year, yet is still volatile.

Performance

Turnover Ratio	
Quarterly Target	30%
Q3 Annualized	33%
2019	65%

Fee and Dividend Analysis		
	Fees	Dividends
Q3	\$ 771	\$ 535
YTD	\$ 6,484	\$ 1,299
2019 Total	5.37%	1.08%

Credit Breakdown			
AAA	AA	A	BBB
24.82%	7.82%	30.11%	37.24%

Q3 Transactions					
Date	Ticker	Action	Shares	Price	Realized G/(L)
7/8/2019	FXD	Sale	27	\$ 43.21	5.70%
7/8/2019	FXH	Sale	16	\$ 77.94	3.68%
7/8/2019	FXN	Purchase	15	\$ 11.17	-
7/8/2019	FXG	Sale	8	\$ 46.68	4.99%
7/8/2019	FDN	Sale	9	\$ 146.95	9.16%
7/8/2019	V	Sale	6	\$ 176.10	119.16%
7/8/2019	FXL	Purchase	42	\$ 67.77	-
7/8/2019	VCLT	Purchase	45	\$ 96.94	-
7/8/2019	VCSH	Purchase	27	\$ 80.42	-
7/8/2019	HON	Sale	4	\$ 175.65	77.87%
7/8/2019	CRM	Sale	29	\$ 152.99	74.12%

Risk Metrics										
Standard Deviation	Beta	Alpha	Correlation	R-Squared	Upside	Downside	Information Ratio	Sharpe	Treynor	Sortino
8.08%	1.02	2.84	0.97	0.94	115.58	92.33	1.40	1.11	8.81	1.50

*All risk metrics calculated assuming that all positions owned at 09/30/19 had been owned since inception