



**WIS Investments**

---

## Monthly assessment



---

**WIS Investments, Lugano**

**Balbani Bruna Anna, Barbè Piermarco, Gianoli Katia, Lecchi Denis, Martinazzo Mirco, Nagic Nikola**

---



## In this report

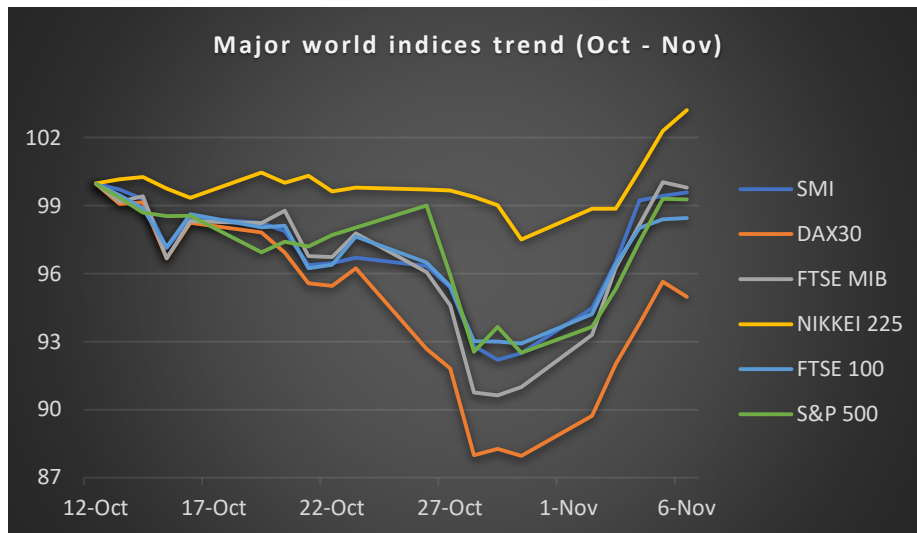
Markets outlook .....	3
Monthly performance .....	4
WIS vs benchmark .....	4
Stocks and sectors that influenced gains and losses.....	4
Portfolio rebalancing .....	6
Gordon model .....	6
Relative valuation .....	6
What to expect from short-term future.....	8



Note: this report refers to data collected until November 6, 2020.

## Markets outlook

According with the initial forecasting, the fear of a new lockdown and new restrictive measures have influenced the financial markets over the last month. Some of the main indices in the world dropped and, in particular, the performance of the SMI, DAX30, FTSE MIB, FTSE 100, NIKKEI 225 and S&P 500 has been quite volatile due to the uncertainty relative to the coronavirus crisis. The performances of these indices between October 12, 2020 and November 10, 2020 are reported in the next graph:



*Trend of major world indices from October 2020 to November 2020*

The less volatile index is the NIKKEI 225, which is also the only one with an increase in the period considered. All the other indices dropped at first but then recovered almost their initial value at the end. The index with the highest decrease is the German Dax 30 that lost 5% in the last month.

On November 3<sup>rd</sup>, 2020 the U.S. presidential elections took place and on November 7<sup>th</sup> the official results were released. After four years of Donald Trump's presidency, the U.S.A elected a new Republican president named Joe Biden. The financial markets tend to be very receptive during the partial presidential results and seemed to positively react to the Joe Biden's advantage over Trump.

The new presidency will for sure completely restructure the political and economic environment and will affect the future national and international development. Coherently, the biggest differences consist in a big range of reforms which will lead to a clean energy revolution, affordable healthcare system, rebuilding the middle-class population and substantial changes in tax policies.

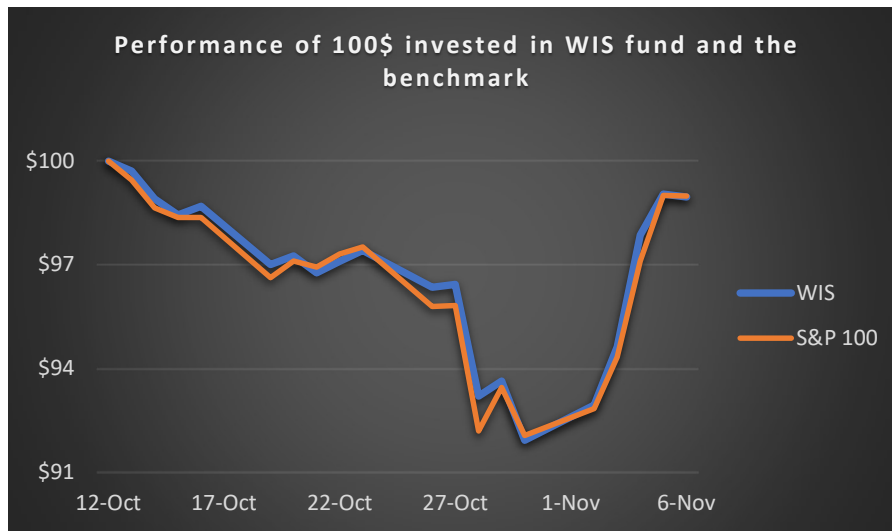


## Monthly performance

### WIS vs benchmark

The performance of the WIS investments fund over the last month has been fluctuating. As explained in the previous section, the markets all around the world have been volatile and the WIS fund, which invests exclusively in securities listed in the S&P 100, is not an exception.

The dollar growth of WIS fund and S&P 100 are illustrated in the following graph:



*Cumulative performance of WIS fund's portfolio and S&P 100 (benchmark)*

All in all, the WIS fund has slightly overperformed its benchmark during this period, meaning that the strategy adopted is valid. However, WIS' portfolio has been affected by the uncertain conditions in the market and the performance for the first period is slightly negative.

### Stocks and sectors that influenced gains and losses

Most of the stocks in the fund's portfolio had a negative return over the period. Nevertheless, since the portfolio is well diversified, the final return has not been strongly negative. The returns of each securities contained in WIS' portfolio and their contribution to the overall performance are illustrated in the next table:

Security	Return	Contribution
Apple Inc.	-4.59%	-0.344%
Amazon.com Inc.	-3.82%	-0.382%
Costco Wholesale Corporation	+2.64%	+0.263%
Danaher Corporation	+8.73%	+0.873%
The Home Depot, Inc.	-0.93%	-0.093%
Eli Lilly and Company	-7.61%	-0.418%
Lockheed Martin Corporation	-7.11%	-0.711%
Lowe's Companies, Inc.	-2.10%	-0.001%
Mastercard Incorporated	-10.91%	-0.373%
Microsoft Corporation	+1.05%	+0.074%
NextEra Energy, Inc.	-0.91%	-0.091%
NIKE Inc.	-0.43%	-0.018%
Target Corporation	-1.87%	-0.012%
UnitedHealth Group Incorporated	+5.30%	+0.0368
Visa Inc.	-3.84%	-0.181%



The stock with the lowest return over the period is Mastercard Inc. with a drop in the value of -10.91%. However, the highest negative contribution to the overall performance of the portfolio comes from Lockheed Martin Corporation (LMT), which decreased by 7.11% and contributed for -0.711%.

On the other hand, the best performing stock in the period was Danaher Corporation (DHR), which went up 8.73%. DHR was also the security that influenced mostly in positive the performance of the fund with a contribution of +0.873%.

As for the sectors, their returns and contribution to the overall performance are shown in the following table:

Sector	Return	Contribution
Consumer Cyclical	-7.29%	-0.495%
Consumer Defensive	0.77%	+0.251%
Financial Services	-14.75%	-0.554%
Healthcare	+6.43%	+0.823%
Industrials	-7.11%	-0.711%
Technology	-3.54%	-0.270%
Utilities	-0.91%	-0.091%

In this case the worst relative performance comes from the Financial Services sector, which is strongly influenced by the heavy negative return of Mastercard. In spite of this, the Industrials sector is the one that mostly contributed in negative to the portfolio return with a -0.711%. This is due to the fact that the aforementioned sector contains only one security (LMT) with a weight of 10%.

Instead, the Healthcare sector is the one that performed better and contributed mostly in positive to the portfolio return. The managers of WIS fund strongly believe that this is a worth attention sector due to the recent situation and believe that it will continue to increase in value.



## Portfolio rebalancing

In order to achieve the goals of the fund, the portfolio needs to be periodically analyzed and rebalanced. In this case, to decide how to rebalance the weights of the securities in the portfolio, a basic fundamental analysis has been applied. Specifically, a relative valuation has been performed.

### Gordon model

One of the most important models to find the intrinsic value of securities is the Gordon Growth Model and understand if a determined stock is under or overvalued. The formula is:

$$\text{Intrinsic value} = \frac{D_0 * (1 + g)}{k - g}, \text{ where:}$$

$D_0$  = dividend

$k$  = equity cost of capital

$g$  = anticipated growth of dividends

The biggest issue with this model is that if the cost of equity capital is smaller than the anticipated growth of dividend, it becomes worthless. Additionally, dividends are a fundamental variable for computing the intrinsic value and if a company doesn't pay them, the intrinsic value is equal to zero. Applied to the securities embedded in WIS' portfolio, this model turned out to be a complete failure.

Below, an example of intrinsic valuation of a company contained in the portfolio of WIS that gives an unrealistic result:

United Health	
Current share price, $P_0$	\$ 354.56
Current dividend, $D_0$	4.83
Anticipated dividend growth rate	12.330%
Beta	0.790
Risk free	0.773%
Risk premium on the market	8.033%
Cost of equity capital ( $k$ )	7.12%
<b>Intrinsic Value</b>	<b>\$ -104.12</b>

For these reasons, the Gordon Growth Model is not applicable to most of the securities of WIS' portfolio and the managers decided to apply a relative valuation model.

### Relative valuation

Relative valuation models use multiples (P/E, ...) to find the value of a company compared to their competitors.

The multiples used by the managers of WIS fund are:

- Adjusted earnings per share (EPS) for Q4-2021;
- Forward P/E of the competitors;
- Historical premium relative to comparables.

The results of this analysis explained whether the companies in the portfolio of the fund are currently under or overvalued relative to their peers. Note that the relative valuation was applied to change the weights of the securities within each sector, meaning that the components of the portfolio have not been changed, only their weights. The components have not been changed because the managers of the fund rely on the strategy adopted for picking the stocks and think that this strategy will give the expected results.



After being rebalanced, the WIS' portfolio is composed as follows:

Security	Weight	Change
Apple Inc.	7.50%	0%
Amazon.com Inc.	1%	-9%
Costco Wholesale Corporation	10%	+0.02%
Danaher Corporation	10%	0%
The Home Depot, Inc.	10%	0%
Eli Lilly and Company	8%	+2.5%
Lockheed Martin Corporation	10%	0%
Lowe's Companies, Inc.	8%	+7.94%
Mastercard Incorporated	2%	-1.42%
Microsoft Corporation	7.15%	+0.07%
NextEra Energy, Inc.	10%	0%
NIKE Inc.	2%	-2.18%
Target Corporation	0.63%	0%
UnitedHealth Group Incorporated	9%	+2.06%
Visa Inc.	4.70%	0%

The portfolio has been changed for a total of about 25%. On the one hand, Lowe's Companies is the security that gained the more weight because is the one that emerged to be the most undervalued compared to its competitors. On the other hand, the weight of Amazon in the portfolio has been drastically decreased. Not only it came out to be overvalued, but also performed poorly in the last period. All the other changes are only small adjustments that the managers think will improve the performance of the portfolio in the short run.

From a sector point of view, the portfolio composition has not changed significantly. The two main differences are the decrease of the Consumer Cyclical sector and the increase of the weight of the Healthcare sector.

Sector	First round weights	Second round weights
Consumer Cyclical	23.95%	21.00%
Consumer Defensive	10.83%	10.63%
Financial Services	7.56%	6.70%
Healthcare	23.91%	27.00%
Industrials	9.78%	10.00%
Technology	14.15%	14.65%
Utilities	9.81%	10.00%



## What to expect from short-term future

A month after the initial investment, the WIS investments fund faced volatile markets but at the end of the first period (as of November 6, 2020) the value of the assets under management remained relatively stable. These results are in compliance with WIS' expectations and for the near future, since the investment horizon is limited to the end of the year, the board of directors anticipate that the positive effects of the presidential elections and the uncertainty (due to the coronavirus crisis) will benefit the portfolio of the fund.

The portfolio of the fund will remain fixed through the next two weeks, after which an analysis will be carried out in order to evaluate a new possible strategy. In particular, depending on the performance over the next period, a defensive strategy may be applied or even taking in consideration to add to the portfolio ETFs shorting determined sectors or indices.