

10<sup>TH</sup> ANNUAL



*SecureFutures*

INVESTMENT CONFERENCE



# Emerging Manager Panel



**Michael Underhill**

Founder & Chief Investment Officer  
Capital Innovations



**Larissa Herczeg**

Managing Partner  
Oak Street Real Estate Capital



**Scott Kimball**

Portfolio Manager  
BMO Global Asset Management

# Michael Underhill's Idea

## Question: What are global real assets?



### Energy

- Oil, Gas, Coal
- Utilities
- Alternative Energy



### Metals & Mining

- Steel
- Base Metals
- Precious Metals



### Agribusiness

- Seed / Fertilizer
- Consumer Foods
- Farming Products



### Infrastructure

- Transport
- Water
- Communication



### Timber & Forestry

- Forest Land
- Paper
- Engineered Wood



### Real Estate

- Commercial
- Residential
- Natural Resources

Real assets serve essential human needs

**Real** in an investing contexts means “inflation-adjusted”

“Real asset” funds are designed to invest in financial assets backed by real assets and/or provide inflation-adjusted returns

## Equity investments in real asset companies may provide:

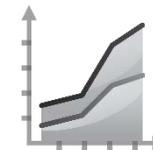
Consistent Cash Flows



Attractive Dividends

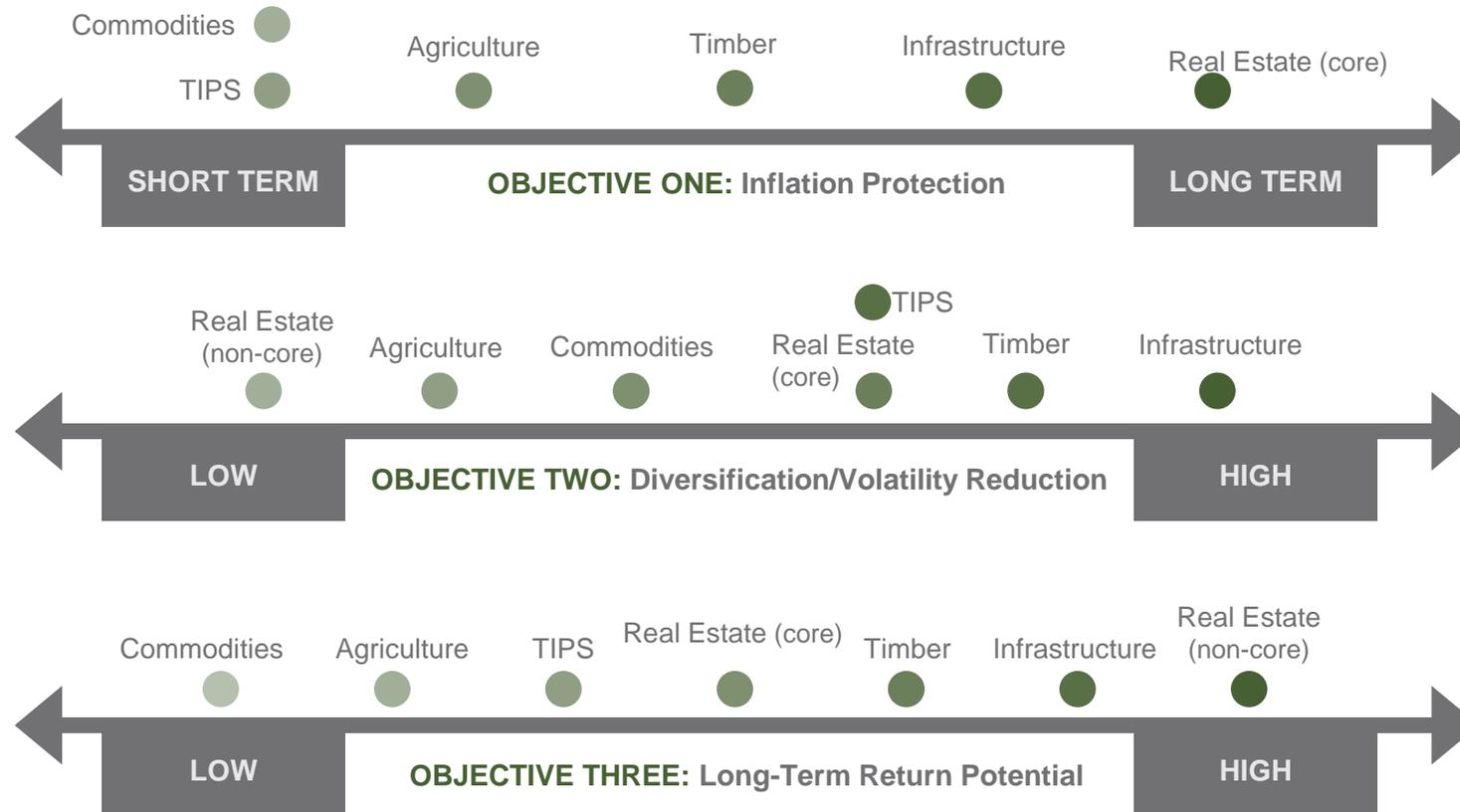


Capital Appreciation



# Objectives

Balanced exposure to real assets may provide risk-return advantages over multiple time periods and market conditions.



Shaded areas represent how a portfolio allocation may be divided between individual strategies across various asset classes.

## **BP: Adjusted Course in Early Response to Industry Catalysts**

- BP is on the cusp of delivering one of the industry's strongest pipelines of new oil & gas projects.
- We expect 5%+ per annum growth in cash flow over the next five years from Top Projects alone and material release of unproductive capital.
- BP has also been able to upgrade its portfolio of future projects over the past five years, both organically and inorganically, with more long-life assets that sit lower on the cost curve.
- We estimate that BP's portfolio of new projects is more profitable today at US\$60/bl Brent than it was in 2014 at US\$100/bl, and is now amongst the best in the industry.
- BP trades on 12.5x 2018E P/E, a 27% discount to its 20-year history and on 6.2x EV/DACF, a 29% discount to its 20-year history.
- Key risks to our view and price target involve lower hydrocarbon prices and/or refining margins than expected.
- Assuming dividends are fully paid in cash, we believe BP will be able to cover almost half of its dividends with organic cash flow generation from its downstream business in 2018.

**Recent Price: \$45.71**

**Target Price: \$54.00**

**Upside: 24%**

**Yield: 5.5%**

# Larissa Herczeg's Idea

# *Seeding Start-Up Real Estate Groups*

*Confidential*

*April 2018*



OAK STREET  
REAL ESTATE CAPITAL

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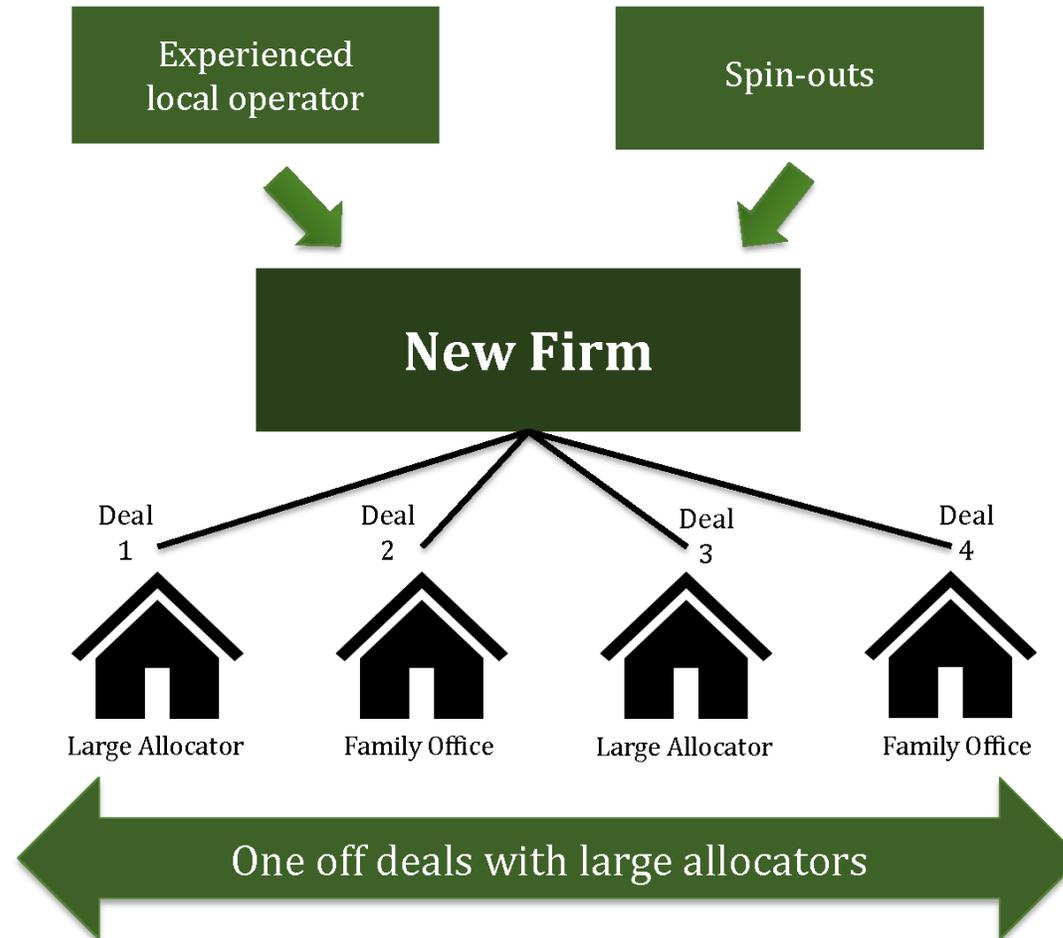
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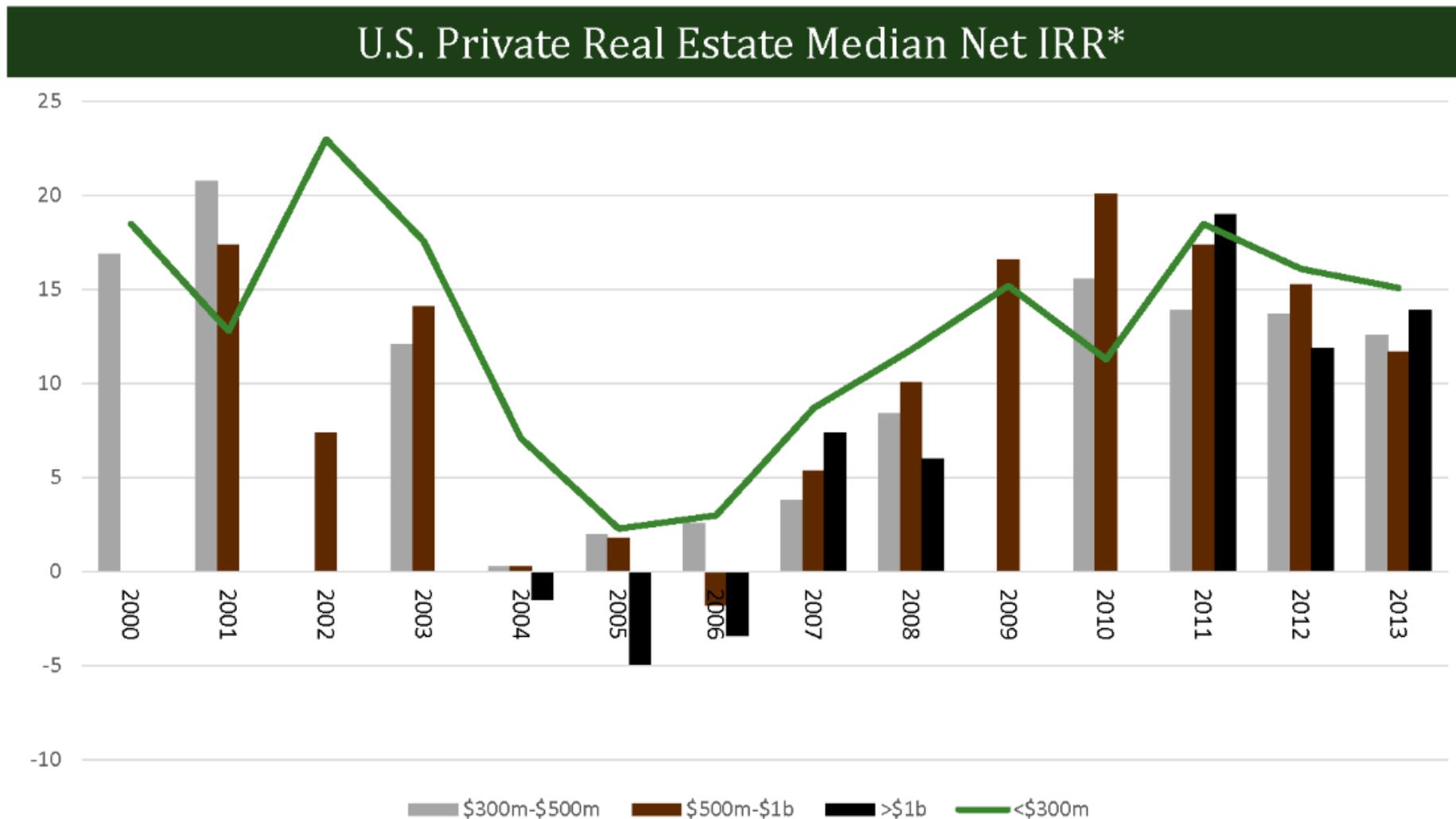
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# How New Firms Get Deals Done

Start-up groups typically raise initial capital on a deal-by-deal basis and give up discretion to their capital partners



**Despite smaller and early stage managers have out-performed larger, established managers by an average of 250 bps, in 2017, of the 125+ funds holding final closes, 17 accounted for almost 50% of the capital**



# Airport Properties of America Fund I, LP (“APA”)



Fund Size	\$50 million target
Asset Class	Airport/Travel Retail
Geography	Diversified U.S.
Status	Approved/Closed

## Fund Overview

- APA will focus on airport retail investments directly and through strategic joint ventures
- APA will target a mix of regional and national credit tenants across the top 50 US airports
- Focus on destination markets with planned footprint expansion or redevelopment initiatives

## Why We Like it

- Long-term interest in a scalable business model, with numerous competitive advantages
- Captive audience with significant market expansion expected
- Oak Street will receive 15% revenue share in HHRE





# Scott Kimball's Idea

## Assessing Credit Risk

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### **Comparing multiple bonds– Making sense of reported financial information?**

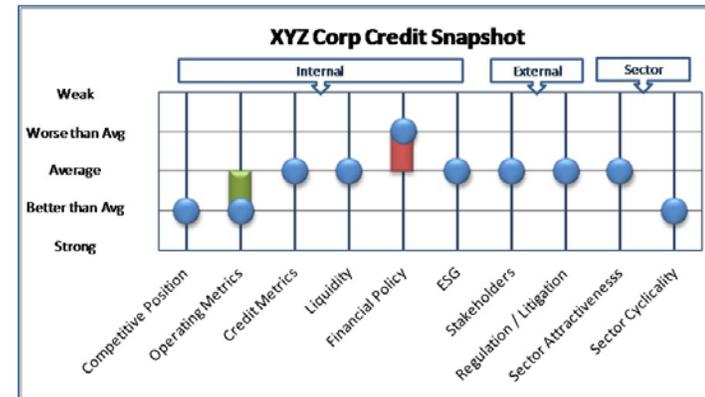
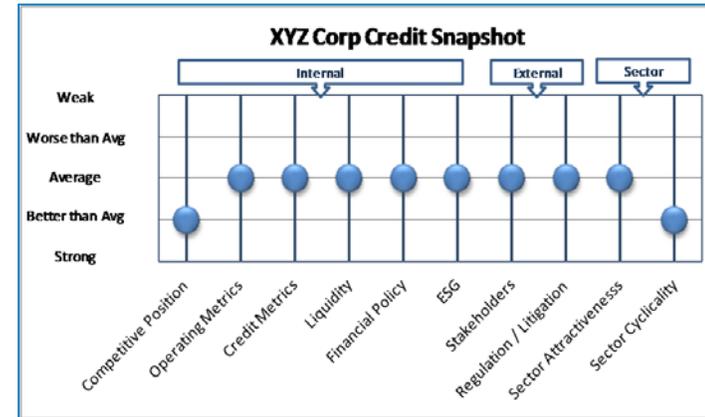
- **Credit Ratings– Moody's, Standard and Poor's, and Fitch**
- **Common Metrics**
  - **Leverage: How much debt is your income supporting?**
    - Gross: Debt/EBITDA
    - Net: (Debt-Cash)/EBITDA
  
  - **Interest Coverage: How many times over is interest expense covered?**
    - Gross: Cash Flow from Operations/Interest
    - Net: (EBITDA-Capex)/Interest

# Analyzing and Comparing Credit Risk

**Goal:** Capture relative credit risk through deep dive fundamental analysis

- Current evaluation of internal and external drivers
  - Sector attractiveness and cyclicity
  - Internal drivers of credit risk, driven by business model, market conditions and management
  - External factors that may influence an issuer's ability to meet its financial obligations
- Forward looking, emphasizing credit risk over the next 12-18 months
- **Outcome:** Stacking of credits within and across sectors in terms of creditworthiness

## Corporate Profile:

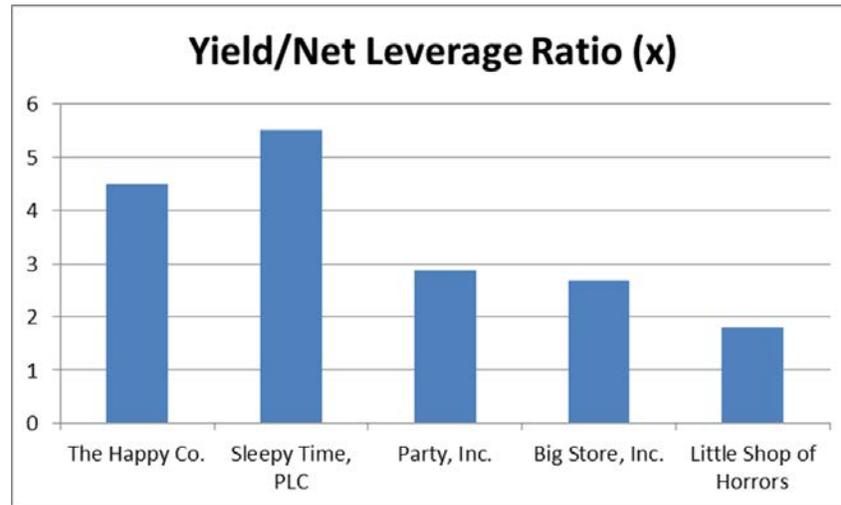


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# Bond Selection

Company	Credit Ratings		Leverage (x)		Interest Coverage (x)		Market Info	
	Moody's	S&P	Gross	Net	Gross	Net	Yield (%)	Spread (%)
The Happy Co.	A3	A	2	1	4	3	4.5	2
Sleepy Time, PLC	Baa1	BBB+	3	1	5	2	5.5	3
Party, Inc.	Baa3	BBB-	4	2	3	1	5.75	3.25
Big Store, Inc.	Baa2	BBB+	5	2	5	1	5.35	2.85
Little Shop of Horrors	B1	CCC+	6	5	1	-2	9	6.5

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# Alumni Panel



**Ignatius Smetek**

President & CIO  
Arcataur Capital Management



**John Thompson**

Founder, Chairman & CEO  
Vilas Capital Management



**Rick Lane**

Founder  
Broadview Advisors

# Ignatius Smetek's Idea

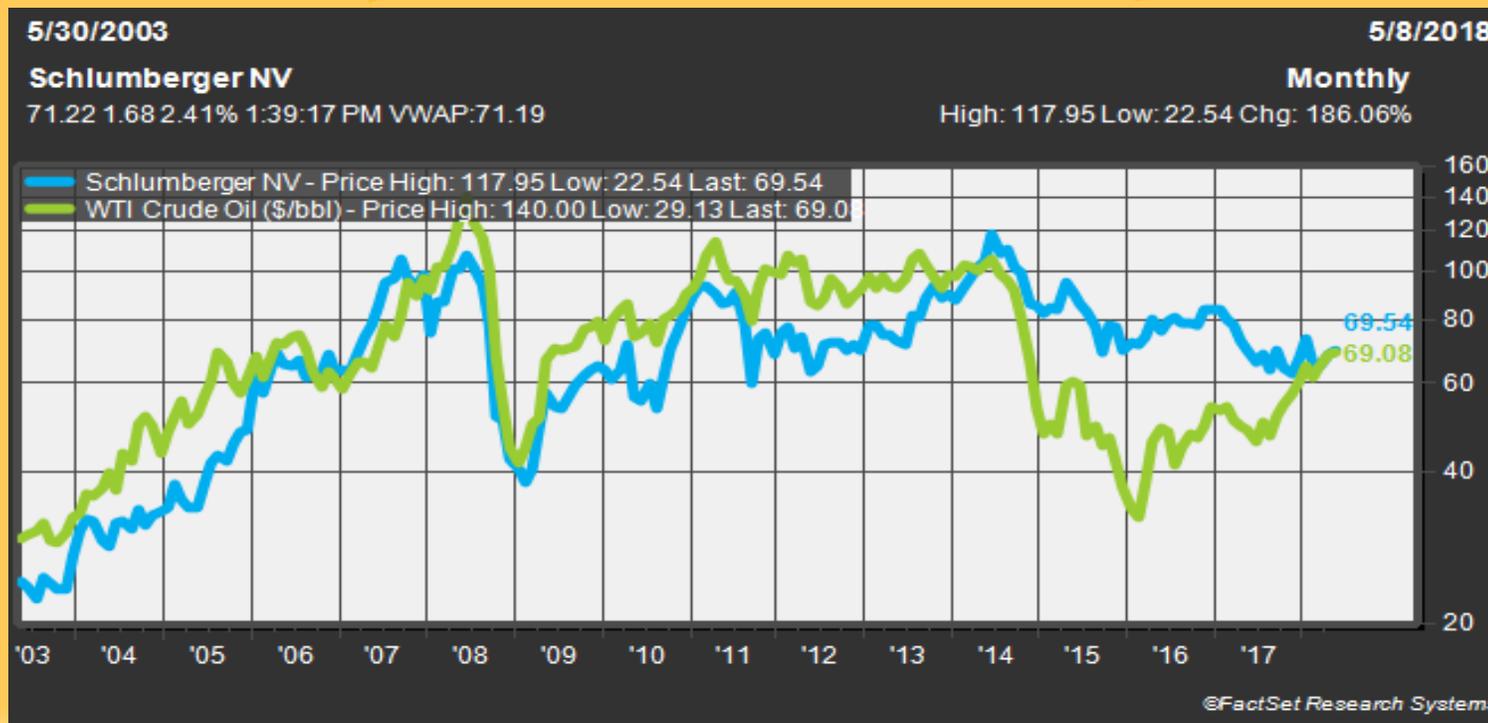
## Schlumberger NV (SLB)

### Competitive strengths for SLB:

1. *World leading oil field services*
  2. *Superior Management*
  3. *Solid Financial condition*
  4. *Investment in Technology (R&D)*
  5. *Service quality*
  6. *Scale advantage in deploying new capacity*
- Management outlook is for increased oil demand
    - *Healthy macro economic conditions globally*
    - *Increased growth in N. America shale production*
    - *Significant drawdowns of inventories*
    - *Production cuts by OPEC and Russia*

- Rising service demand & international pricing fuels improved earnings and cash flow from Production, Drilling & Reservoir segments
- Increasing international production and activity
  - *Middle East, Russia & favorable trends in Asia, West Africa and Latin America*
  - *N. American has been up, future headwinds?*
  - *Non-deep water international drilling improving*
- Q1/Q2 2018 expected to be trough quarters
- EBIT margins rise to 50 to 60% next 12-18 months
- Healthy balance sheet and strong FCF generation
  - *FCF \$3.4bn; FCF yield ~3.8%*
  - *16.4x EV/EBITDA currently on trough fundamentals*

- SLB currently offers a unique opportunity:
  - Improving earnings, cash flow, and operating fundamentals*
  - Attractive valuations, favorable technical profile & capital appreciation*
- Stock price lagging oil price rise
- Purchasing below \$70 provides a high quality investment levered to global growth with 25% upside vs 5-10% downside potential assuming positive global growth & favorable energy markets



# John Thompson's Idea

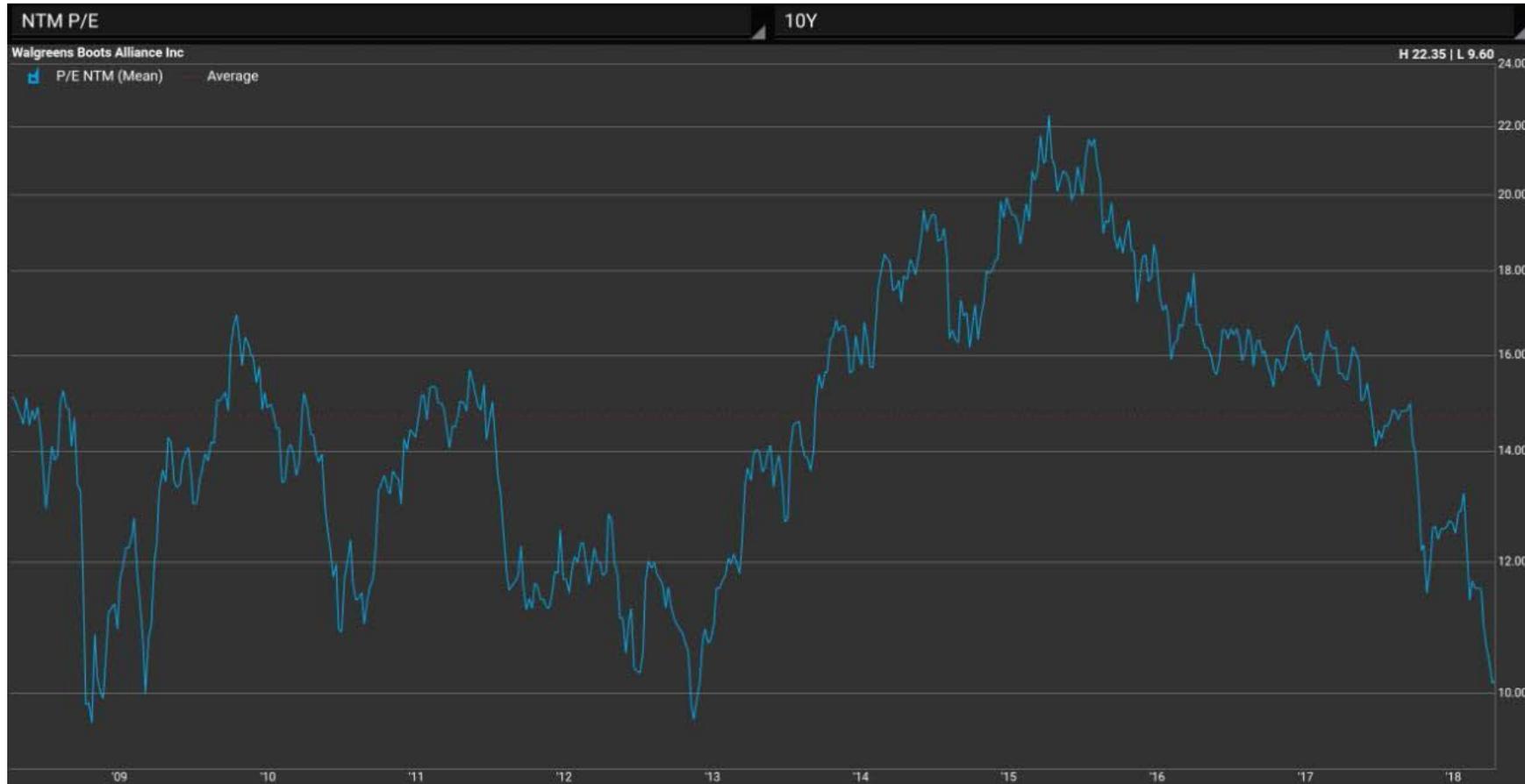
## Overview

- Largest drug store chain in the US and Europe, 21% market share, up 100 bps
- Expanding in China via purchase of a 40% stake in Sinopharm Holding Guoda Drugstores
- Grew EPS 27% last quarter, 2.5% dividend
- Continued, long-term growth from:
  - Hundreds of new drugs for unmet needs coming over the next 10 years
  - Move to generics helps profits
  - As population ages, more drugs are consumed

## Fears

- Amazon will enter and displace drug stores
- Berkshire Hathaway, JP Morgan and Amazon alliance will create competition or reduce profits
- Walgreens is too independent, missing out on transformational M&A
- Front end sales declining
- Margins declining

Walgreens is ~10 times forward earnings estimates, 50% rise needed to get to average



**Walgreens will thrive:**

- Amazon cannot fulfill instantly - 24/7 availability for Walgreens
- Network effect for mobile population
- One repository for all prescriptions to help prevent drug interactions
- Regulatory burden for control of drugs, cannot store drugs next to books and TV's
  - Would require a new distribution system for Amazon
- Personal access to pharmacists, who must sign off on the prescription
- Billing/Co-Pay system creates small or zero incentive to shop for price
- Walgreens will deliver if preferred

# Rick Lane's Idea

# MGIC

## A Tale of Two Books of Business

### SOLID MANAGEMENT TEAM

- Veteran Organization
- Strong Leadership

### PREDICTABLE REVENUE STREAM

- Monthly Premiums
- Pent Up Demand

### ATTRACTIVE VALUATION

- 1.1X Tangible Book Value
- 7X Earnings
- 14% Return on Equity
- 10-12% Earnings Growth

### STRONG BALANCE SHEET

- 9X Risk to Capital
- 22% Debt to Capital
- Capacity for Significant Share Buyback

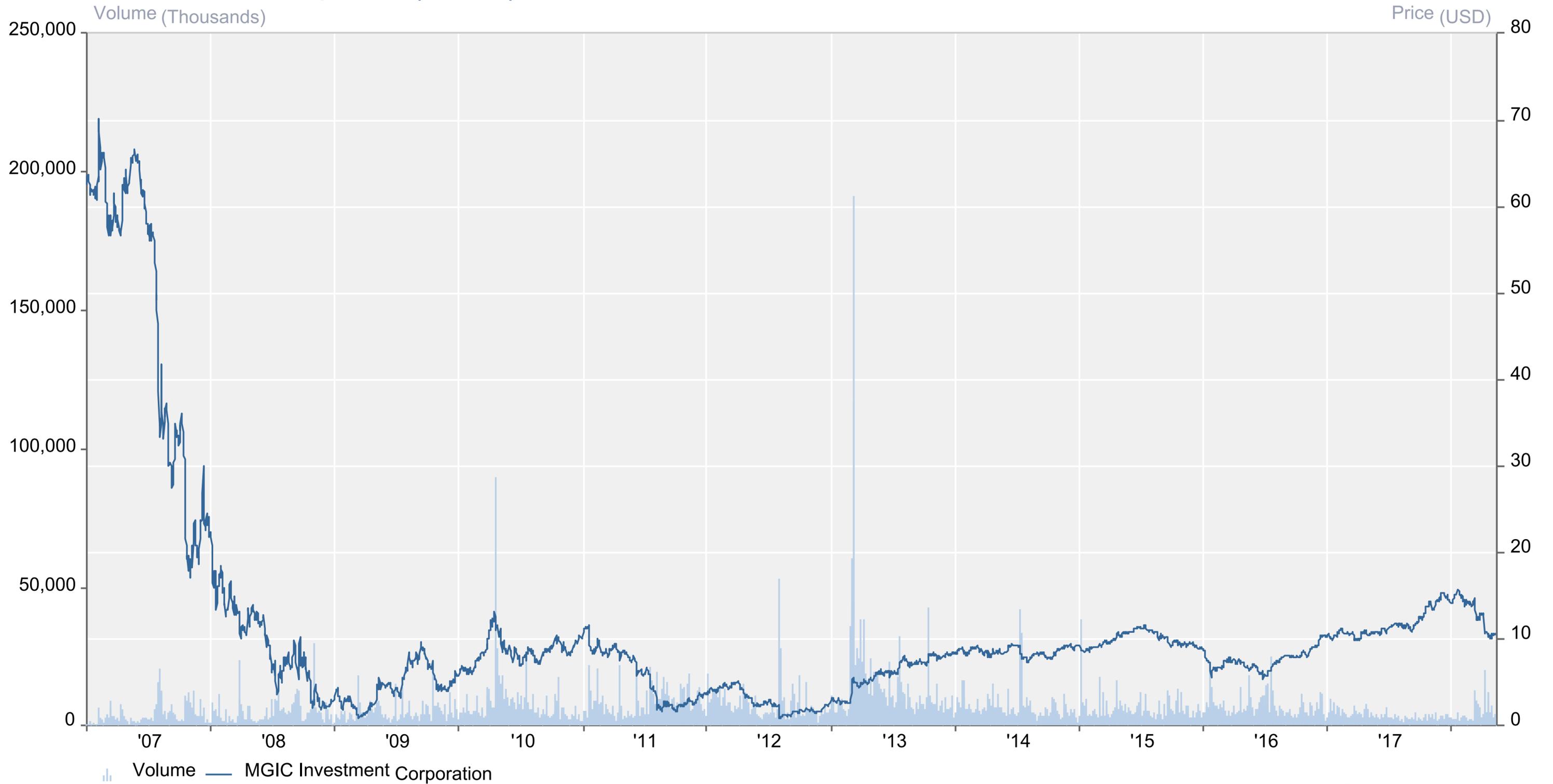
### OUTSTANDING CREDIT QUALITY

- Mid-700s Average FICO Score
- Over Reserved Old Book (Broadview Opinion)
- Pristine New Book

**BROADVIEW**

A D V I S O R S

# MGIC Investment Corporation (MTG-US)



	2017 (actual)	2018 (estimate)	2019 (estimate)	2020 (estimate)
Earnings per Share	\$1.36	\$1.55	\$1.70	\$1.85
Price/Earnings	8x	7x	6x	6x
Tangible Book Value	\$9.00	\$9.75	\$11.45	\$13.20
Price/Tangible Book Value	1.2x	1.1x	0.9x	0.8x

Shares Outstanding: 375 Million

Market Capitalization: \$4 Billion

## RISKS

- GSE Reform
- Onerous Capital Standards
- Alternative Forms of Mortgage Insurance
- Severe Housing Downturn

# BROADVIEW

A D V I S O R S

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# David Herro

Partner, Deputy Chairman, Portfolio Manager & CIO  
Harris Associates

# David Herro's Ideas:

Lafarge  
Daimler Benz



Thank you!

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