



# CO Capital

Managed Growth & Income Fund

## Annual Report

May 1<sup>st</sup>, 2020

**CAL POLY POMONA**

**FRL 4331 | SEMINAR IN PORTFOLIO MANAGEMENT**

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# Manager's Letter - MGIF

**For the 60-day reporting period ending May 1, 2020**

Days after the fund's inception on February 07, the U.S. equity market hit its peak on February 19, 2020 with the closing of the S&P 500 at 30.81% up for the period starting at the beginning of 2019. At the time, we allocated all the fund's assets into 10 of the 11 GIC sectors with individual holdings in large capitalization securities that had higher than average forward P/E and paid dividends. As more developments came to light out of mainland China and the number of cases rose, the World Health Organization and other governing bodies categorized COVID-19 as a pandemic on March 11th. Global uncertainty was at an all time high and global market's historic gains from the previous year were erased. Risk management efforts embedded into the fund mitigate the full effect of market panic sell-off.

The effects of the global health crisis were systematic, affecting many sectors of the market; however, certain industries, such as airlines and travel, were hit the hardest. For example, The Boeing Company (NYSE: BA) fell 72% while the S&P 500 index fell 28.13% from the period starting February 19 to March 23. Exxonmobil experienced a similar effect regarding the oil disputes between Russia and OPEC. The fund saw an attractive opportunity in the heavily discounted airplane manufacturer, who had a forward P/E of 41.67 and NYSE:XOM, and entered a 5% position in both for a total of 10% allocation of the total portfolio. This position resulted in a 42.36% (\$358,131) return on investment. In addition, the fund made a tactical decision to invest in sector ETFs for the Utilities and Consumer Staples sectors that met the criteria for the fund. These allocations in XLP and XLU yield returns of 13.90% and 19.95% respectively. As the world outside the US began flattening the pandemic curve of infections, domestically, the US passed the largest stimulus bill of \$3 trillion dollars, the Cares Acts. The fund's tactical decision to overweight Information technology and Healthcare were positively affected by the bill.

As many state governments begin to ease stay-at-home orders based on their respective situation, the fund's sector allocation and current holdings are well positioned to weather adverse turns in the market. Lastly, the fund thanks you for trusting your assets with our expertise.

## S&P 500 Index: COVID-19 Effect

Period from 01/01/2019 to 05/01/2020



## Unsustainable Oil Prices; OPEC Turmoil

WTI Crude vs 30-day RMA



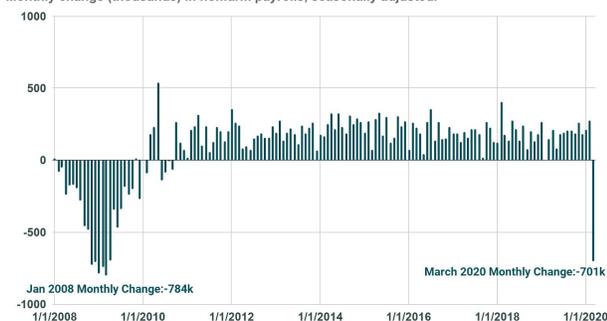
## Attractive Opportunity: Boeing Company vs S&P 500

Period starting 02/19/2020 to 03/23/2020



## US Labor Market

Monthly change (thousands) in nonfarm payrolls, seasonally adjusted.



# Portfolio Activities

## Investment Objective

The Fund's investment objective is to seek capital appreciation with income at an expected real return of 2.13%, and the fund also seeks to minimize volatility in our portfolio at below a 3.06% daily standard deviation.

## Investment Strategy

Through active management, the fund will focus on investing in primarily large-cap growth stocks that may pay dividends. We invest in a diversified portfolio of risky securities where we may hold both long and short positions. Our long positions are mainly focused around stocks that pay dividends with high forward P/E. We also strategically buy/short exchange-listed options and equities averaging under 5 weeks in duration to reduce our portfolio volatility and generate additional income to securities that do not pay dividends.

## Allocation

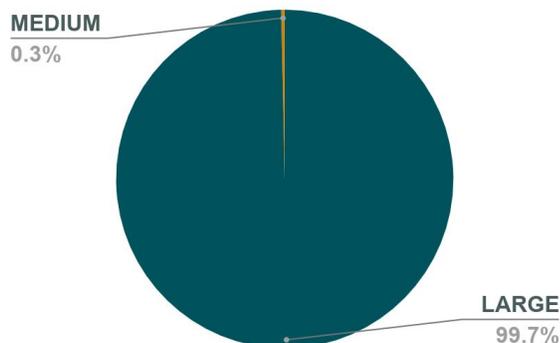
### Asset Allocation

As of May 1, 2020, the fund is allocated in 89.5% equities and 10.5% in cash. The fund uses a growth equity screener to only include companies with a market cap greater than \$10 billion, 1-year EPS growth greater than 5%, Forward P/E greater than 12x, Revenue growth greater than 5%, Dividend growth greater 1%, and Pre-Tax ROA 5-year average greater than 2.0%. The fund also holds at most 20% in cash in order to maintain liquidity for potential investment opportunities.

### Sector Allocation

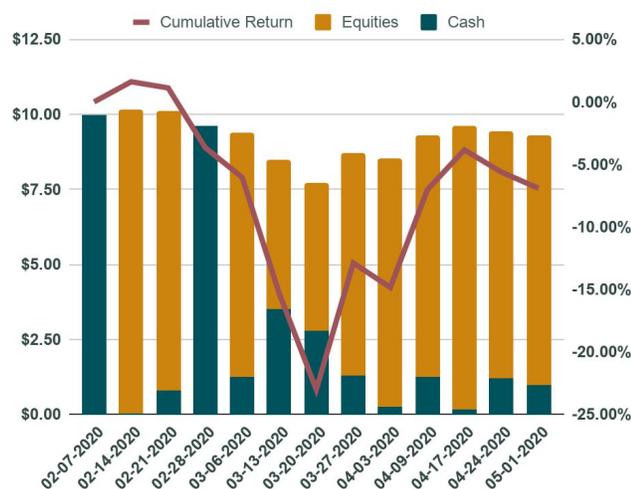
Our sector allocation strategy is based on Fidelity Investments' research regarding sector performance in each business cycle. The fund believes there are attractive opportunities in the short term. The fund is currently overweight in sectors the fund believes will outperform in this new economic environment and recent market events, such as Information Technology, Consumer Staples, Utilities, and Energy. The fund made a tactical decision to invest in Energy and Materials. The fund believes that sectors such as Energy provide great opportunities in industries outside of oil. The fund's sector allocations compared to the Russell 3000 index ETF are shown in Figure S1.

## MARKET CAPITALIZATION OF PORTFOLIO



## Asset Allocation

as of 05/01/2020



## SECTOR ALLOCATIONS as of 05/01/2020

Sector	Portfolio Weight	\$USD Amount
Communication Services	0%	\$0
Consumer Discretionary	3.84%	\$357,300
Consumer Staples	9.56%	\$893,110
Energy	10.17%	\$947,317
Financials	3.99%	\$371,362
Health Care	12.13%	\$1,128,912
Industrials	0%	\$0
Information Technology	25.59%	\$2,382,884
Materials	6.20%	\$577,148
Real Estate	10.17%	\$946,582
Utilities	7.80%	\$726,440
Cash	10.55%	\$979,490

## Risk Management

To mitigate risk we have a maximum allocation of 10% per equity to limit exposure to any one stock. We will also be limiting our sector allocation to a maximum of 35%. Through our tactical allocation of overweighting and underweighting certain sectors relative to the overall market index, we provide a different exposure to sector specific risk. After careful assessment of current market conditions, with our new investment strategy, the fund aims to reduce portfolio volatility by entering short positions to industries and individual securities that will ease any sudden downturn in the market. To provide income and some downside protection, a maximum of 15% of the portfolio may be used to enter covered call strategies for securities that do not pay dividends. We also exercise trailing stop-loss orders set to 15% of the purchase price. A trailing stop-loss order helps to both reduce risk by limiting the amount that can be lost and increase returns by essentially locking in profits on trades.

## Performance Statistics

For the previous 2-week period ending on May 1, 2020, the fund outperformed the two benchmarks as shown in Figure P1. The fund outperformed MAI Managed Volatility Institutional Fund (MAIPX) by 2.44% and the Russell 1000 Index by 8.54%. MAIPX is an actively managed institutional fund that holds both short and long positions. We are using the Russell 1000 index as a second benchmark to gauge our performance against a passive strategy.

For the 60-day period, the fund had higher average daily and weekly returns than both the benchmarks. However, on a weekly basis, the fund had higher standard deviation of returns than the actively managed benchmark. The fund experienced lower volatility of returns compared to the passive benchmark.

The fund's outperformance was driven by our sector allocation, which is overweight in Information Technology and Healthcare. The ETF allocation in Consumer Staple has a broad diversification in the entire industry. The Information Technology allocation in the fund had a profit of \$70,959.60. This return is driven by recent earnings calls from our top tech holdings. Apple and Microsoft have benefited from the surge in demand and users to their platforms and products as a result of shelter-at-home orders. The fund's Consumer Staples ETF realized a profit of approximately \$69,795. Finally, the fund's allocation and security selection in Healthcare securities are closely tied to developments regarding COVID-19 such as Johnson & Johnson (JNJ) and UnitedHealth Group Inc.

### Fund Performance vs Benchmarks



### Daily Performance Statistics

Period	MGIF	MAIPX	RUI
Average Returns	-0.09%	-0.12%	-0.21%
Standard Deviations	2.80%	3.18%	4.04%

### Weekly Performance Statistics

Period	MGIF	MAIPX	RUI
Average Returns	-0.39%	-0.65%	-1.28%
Standard Deviations	6.66%	5.88%	8.98%

# Dashboard

## Fund Summary

Fund Inception Date	02/07/2020
NAV at Inception	\$10,000,000.00
NAV as of 5/1/2020	\$9,308,881.72
Daily Change NAV as of 5/1/2020	-2.34%
NAV Total Return as of 5/1/2020	-6.91%
Target Return*	3.00%
Standard Deviation of NAV Daily Returns	2.80%
Sharpe Ratio	-0.03
Downside Deviation	0.25%
Upside Deviation	1.57%
Sortino Ratio (Annualized)	-5.32

Category	Large Growth Income
Beta (vs S&P500)	1.282
Downside Beta	1.216
Upside Beta	0.915
Tracking Error	1.52%
Dividend Yield (since Inc.)	0.45%
<b>Weighted Averages</b>	updated EOD
Market Capitalization (\$billions)	\$262.32
Fwd P/E	21.80
ROA	14.27%
Exp. Dividend	2.24%

## Performance

### Average Returns & Standard Deviations

	Daily	Weekly	Daily	Weekly
Managed Growth and Income Fund	-0.09%	-0.39%	2.80%	6.66%
<b>Benchmarks</b>				
MAI Managed Volatility Fund Institutional Class	-0.12%	-0.65%	3.18%	5.88%
Russell 1000 Index	-0.21%	-1.34%	4.04%	8.98%

### Cumulative Returns

	1-Week	2-Week	1-Month	Inception
Managed Growth and Income Fund	-1.37%	-3.19%	7.54%	-6.91%
<b>Benchmarks</b>				
MAI Managed Volatility Fund Institutional Class	-0.09%	-0.09%	8.46%	-9.35%
Russell 1000 Index	-0.04%	-1.28%	12.64%	-15.43%

## Portfolio Characteristics

### Top Period Gainers

Description	Ticker	Sector	Profit/Loss (\$USD)	Profit/Loss (%)
Consumer Staples Select Sect. SPDR	XLP	Consumer Staples	\$69,795.00	8.48%
Johnson & Johnson	JNJ	Health Care	\$56,615.00	12.24%
Apple Inc.	AAPL	Information Technology	\$56,416.32	7.68%
Microsoft Corporation	MSFT	Information Technology	\$25,557.98	3.48%
Newmont Corporation	NEM	Materials	\$24,568.27	4.45%

### Top Period Losers

Description	Ticker	Sector	Profit/Loss (\$USD)	Profit/Loss (%)
Progressive Corp	PGR	Financials	-\$14,488.98	-7.73%
Utilities SPDR	XLU	Utilities	-\$13,910.00	-1.88%
Booz Allen Hamilton Holding Corporation	BAH	Information Technology	-\$10,906.20	-3.32%
Bristol-Myers Squibb Co	BMJ	Health Care	-\$9,046.15	-3.81%
Texas Pacific Land Trust	TPL	Energy	-\$8,700.00	-1.41%

# Portfolio Characteristics

## Cumulative Returns

2/7/2020

Date	MGIF	MAIPX	RUI	Average Difference
02-07-2020	0.00%	0.00%	0.00%	0.00%
02-10-2020	0.02%	0.08%	0.73%	-0.39%
02-11-2020	0.02%	0.16%	0.95%	-0.53%
02-12-2020	0.06%	0.33%	1.60%	-0.91%
02-13-2020	0.88%	0.24%	1.49%	0.01%
02-14-2020	1.61%	0.33%	1.69%	0.60%
02-18-2020	1.71%	0.24%	1.44%	0.86%
02-19-2020	2.18%	0.33%	1.93%	1.05%
02-20-2020	1.68%	0.33%	1.61%	0.72%
02-21-2020	1.12%	-0.08%	0.53%	0.89%
02-24-2020	-1.72%	-1.46%	-2.81%	0.41%
02-25-2020	-2.76%	-2.85%	-5.78%	1.56%
02-26-2020	-3.00%	-3.01%	-6.25%	1.63%
02-27-2020	-3.31%	-5.93%	-10.36%	4.83%
02-28-2020	-3.65%	-6.42%	-11.11%	5.12%
03-02-2020	-3.65%	-3.58%	-7.15%	1.72%
03-03-2020	-5.87%	-5.37%	-9.69%	1.66%
03-04-2020	-2.38%	-2.85%	-5.97%	2.03%
03-05-2020	-5.00%	-5.04%	-9.15%	2.09%
03-06-2020	-6.05%	-6.02%	-10.75%	2.33%
03-09-2020	-11.62%	-11.63%	-17.66%	3.02%
03-10-2020	-9.72%	-8.29%	-13.66%	1.26%
03-11-2020	-11.34%	-11.71%	-17.97%	3.51%
03-12-2020	-16.88%	-19.27%	-25.82%	5.67%
03-13-2020	-15.33%	-12.44%	-19.11%	0.45%
03-16-2020	-20.20%	-21.22%	-28.98%	4.90%
03-17-2020	-18.23%	-17.97%	-24.91%	3.21%
03-18-2020	-18.34%	-20.98%	-29.09%	6.69%
03-19-2020	-19.01%	-20.81%	-28.47%	5.63%
03-20-2020	-23.01%	-23.50%	-31.48%	4.47%
03-23-2020	-24.01%	-25.45%	-33.44%	5.43%
03-24-2020	-17.37%	-19.27%	-27.14%	5.83%
03-25-2020	-15.03%	-18.54%	-26.14%	7.30%
03-26-2020	-9.87%	-14.31%	-21.58%	8.08%
03-27-2020	-12.89%	-16.83%	-24.19%	7.62%
03-30-2020	-10.57%	-14.38%	-21.77%	7.52%
03-31-2020	-12.09%	-15.37%	-23.00%	7.09%
04-01-2020	-15.84%	-18.37%	-26.47%	6.59%
04-02-2020	-13.44%	-16.42%	-24.92%	7.23%
04-03-2020	-14.85%	-17.32%	-26.13%	6.88%
04-06-2020	-9.97%	-13.17%	-20.88%	7.05%
04-07-2020	-10.70%	-13.50%	-20.92%	6.51%
04-08-2020	-8.17%	-11.63%	-18.14%	6.71%
04-09-2020	-7.03%	-10.98%	-16.83%	6.88%
04-13-2020	-7.75%	-11.14%	-17.72%	6.68%
04-14-2020	-4.51%	-9.67%	-15.21%	7.93%
04-15-2020	-6.47%	-10.65%	-17.10%	7.40%
04-16-2020	-5.58%	-10.41%	-16.66%	7.95%
04-17-2020	-3.84%	-9.27%	-14.34%	7.96%
04-20-2020	-5.73%	-10.00%	-15.82%	7.18%
04-21-2020	-7.78%	-11.38%	-18.42%	7.12%
04-22-2020	-6.47%	-10.16%	-16.56%	6.89%
04-23-2020	-6.47%	-10.16%	-16.57%	6.89%
04-24-2020	-5.62%	-9.27%	-15.40%	6.72%
04-27-2020	-5.11%	-8.62%	-14.00%	6.20%
04-28-2020	-5.42%	-8.94%	-14.40%	6.25%
04-29-2020	-3.86%	-8.21%	-12.02%	6.26%
04-30-2020	-4.68%	-8.37%	-12.93%	5.97%
05-01-2020	-6.91%	-9.35%	-15.43%	5.48%

**Average Outperformance: 4.48%**

## Holding Details

Description	FWD P/E	Market Capitalization	ROA	Dividend Yield
Microsoft Corporation	28.51	\$1,323,841,176,342	11.32%	1.14%
Apple Inc.	21.08	\$1,249,934,953,759	16.10%	1.12%
Johnson & Johnson	18.16	\$390,684,074,861	10.51%	2.69%
UnitedHealth Group Inc	16.77	\$269,552,180,512	7.50%	1.48%
Bristol-Myers Squibb Co	9.18	\$136,336,016,582	8.56%	2.96%
IBM Common Stock	10.48	\$108,207,400,478	9.29%	5.19%
Newmont Corporation	27.81	\$49,266,954,881	2.43%	1.68%
Progressive Corp	12.69	\$44,588,154,178	5.54%	0.52%
Alexandria Real Estate Equities Inc	58.55	\$19,054,183,743	1.86%	2.62%
Realty Income Corp	29.09	\$17,784,582,734	2.49%	5.09%
MarketAxess Holdings Inc.	63.07	\$16,981,133,593	26.08%	0.53%
Consumer Staples Select Sect. SPDR	23.12	\$14,244,914,089	13.17%	2.76%
Domino's Pizza, Inc.	31.81	\$13,976,860,922	34.08%	0.86%
Leidos Holdings Inc	17.13	\$13,885,412,532	5.43%	1.38%
ONEOK, Inc.	8.93	\$11,564,564,595	5.05%	12.50%
Utilities SPDR	17.89	\$11,501,450,927	9.89%	3.41%
Concho Resources Inc	65.15	\$11,159,188,019	0.89%	1.41%
Booz Allen Hamilton Holding Corporation	21.15	\$10,158,540,097	9.06%	1.69%
Medical Properties Trust, Inc.	14.93	\$8,739,264,209	5.26%	6.30%
Texas Pacific Land Trust	24.53	\$3,942,064,635	86.12%	1.76%

Description	Weight %	Market Value	P/L %	P/L (\$USD)
Consumer Staples Select Sect. SPDR	9.59%	\$893,110.00	8.48%	\$69,795.00
Johnson & Johnson	5.57%	\$519,015.00	12.24%	\$56,615.00
Apple Inc.	8.49%	\$790,895.52	7.68%	\$56,416.32
Microsoft Corporation	8.16%	\$760,077.78	3.48%	\$25,557.98
Newmont Corporation	6.20%	\$577,148.37	4.45%	\$24,568.27
Realty Income Corp	6.12%	\$569,690.00	2.45%	\$13,640.00
MarketAxess Holdings Inc.	2.13%	\$198,357.39	5.88%	\$11,016.18
UnitedHealth Group Inc	4.10%	\$381,812.42	1.51%	\$5,690.08
ONEOK, Inc.	2.10%	\$195,580.00	1.71%	\$3,290.00
IBM Common Stock	1.51%	\$140,150.50	0.80%	\$1,115.50
Concho Resources Inc	1.52%	\$141,825.00	0.67%	\$950.00
Alexandria Real Estate Equities Inc	2.03%	\$188,737.50	0.41%	\$775.00
Domino's Pizza, Inc.	3.84%	\$357,300.00	0.21%	\$760.00
Leidos Holdings Inc	4.02%	\$374,429.25	-0.33%	-\$1,224.00
Medical Properties Trust, Inc.	2.02%	\$188,154.29	-1.88%	-\$3,611.84
Texas Pacific Land Trust	6.55%	\$609,912.00	-1.41%	-\$8,700.00
Bristol-Myers Squibb Co	2.45%	\$228,084.10	-3.81%	-\$9,046.15
Booz Allen Hamilton Holding Corporation	3.41%	\$317,331.00	-3.32%	-\$10,906.20
Utilities SPDR	7.80%	\$726,440.00	-1.88%	-\$13,910.00
Progressive Corp	1.86%	\$173,005	-7.73%	-\$14,488.98

# Personal Lessons

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## Omar Pelcastre

I will break down the lessons I have learned from this exercise in two parts, reporting and management (actual management of the portfolio). These two sections offered different perspectives of the overall portfolio management field. If a manager is outperforming, the investor requires explanation of those returns that is why I believe both sections are equally important.

### Reporting

The performance metrics learned throughout the course such as up-side beta and down-side beta can show the manager how much the fund is sensitive to upturns or down turns in the market. The overall styling and writing of the report allows the manager to audit their decisions for the next managing period. It allows the manager to see if they have deviated from their investment objective or strategy.

### Managing

Overall, there is a lot of work that needs to be done to adequately and successfully run a portfolio of all equities. I personally felt that exercise was a part time job or an internship. I also learned that economic analysis is also very important to guide what industries and sectors a fund manager should be investing in. It is also very important to have the correct benchmarks to gauge performance correctly. A value fund cannot measure its performance against the S&P 500. Each fund should have its respective benchmark to which performance is measured against.



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