Maize & Blue
Endowment Fund

Maize and Blue Fund Newsletter

1st Issue, Fall 2024

President's Address

Dear MBEF Community,

As the 2025 Winter semester commences, we are eager to look back on the previous Fall 2024 semester in an effort to further the progress of our fund in the future. I am also extremely pleased to announce our first-ever edition of the newsletter as we seek to connect current and aspiring investors, financiers, and businesspeople alike.

This year, we have continued to provide unparalleled educational opportunities for budding undergraduate investors. For individuals seeking to gain pre-professional experience in investing, the fund has offered a place to learn, grow, and tangibly see the effects of their work. Over the past few months, we have developed 13 pitches, heard from several very distinguished investors, and continued to generate new ideas for gaining more information and capturing alpha.

To our current members, we truly appreciate all of your hard work and dedication this year. Whether you just joined the fund or you have been involved for years, your effort does not go unnoticed. Furthermore, it has been amazing to see growth among students as their investing skills improve. With each pitch presented and question asked, members continue to develop their talents and we are proud to see this growth.

To our esteemed alumni, your continued support has been essential in shaping the fund into what it is today. We are incredibly proud of your achievements and invite you to stay connected, offer your expertise, and contribute to making this experience even better for future students.

It has been my pleasure to serve the Fund this semester along with a talented group of leadership members, faculty, and advisors. Thank you to everyone who helped make this a wonderful semester, and I look forward to continuing our trajectory in the coming months.

Best (and Go Blue!),
Valarie Sherr
MBEF President

Who We Are

The Maize and Blue Fund is Michigan's premier student-managed investment fund. The Fund provides students with a unique opportunity to manage a $750,000+ portion of the University of Michigan's endowment. By joining the Fund, students gain access to an expansive array of resources, advanced discussions, an alumni network, professional mentorship, and top-tier investing education comparable to true investment firms.

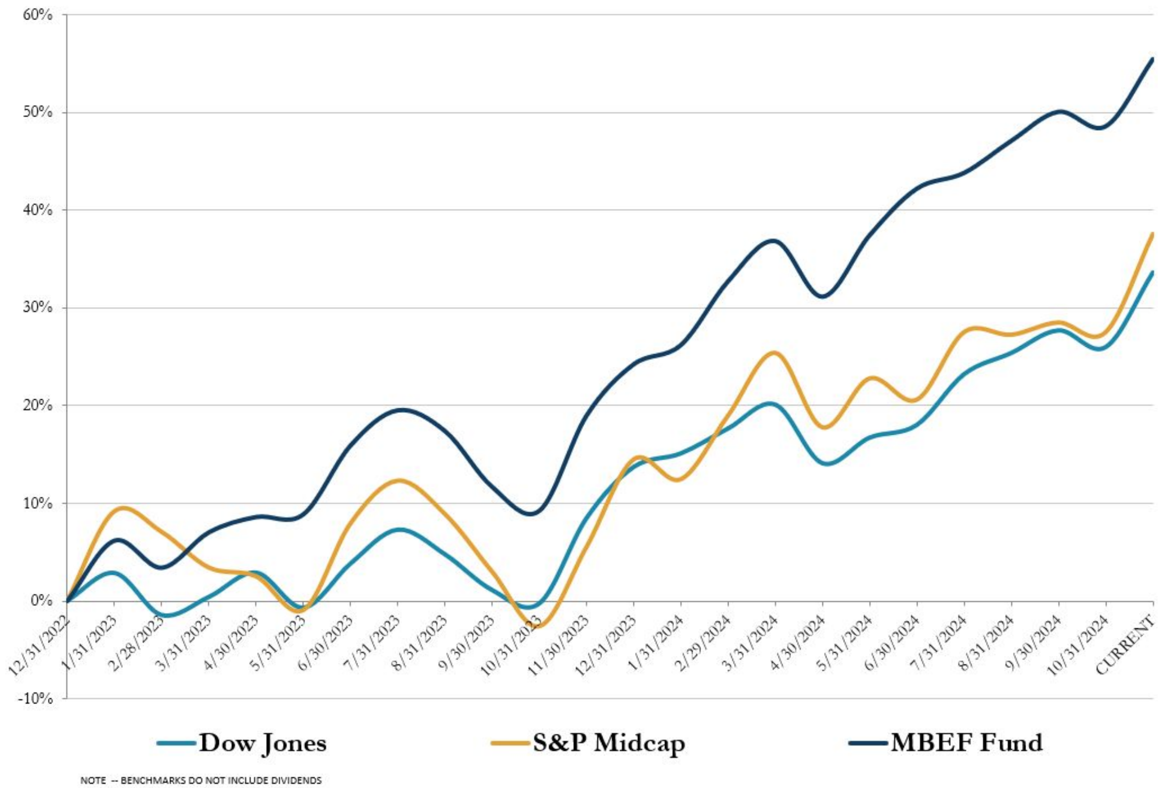
The Maize and Blue Fund provides members with the opportunity to meet professionals in the field of investing. Throughout the pitch process, members have the opportunity to get feedback on their investment ideas as they refine their pitches. Additionally, students can connect with investors first-hand during the fund's live speaker series. This semester, we invited Jordan Hymowitz (Managing Member at Philadelphia Financial), Saverio Console (PM at BlackRock), and Josh Kaufman (Cofounder of Brenner West Capital Partners) to speak with members. Next semester, we are pleased to invite several new speakers including Eric Sealove (Global Head of Equity Capital Markets at Squarepoint Capital), Harris Brown (PM at Armistice Capital), and Matt Sporer (Managing Director at Lakewood Capital Management).

The Fund focuses its efforts on identifying undervalued US equity securities for long-term investment by leveraging industry research, financial statement analysis and valuation analyses, including discounted cash flow modeling, comparable companies and precedent transactions. The S&P MidCap 400 Index is utilized as a performance benchmark, giving the Fund an inherent bias towards investment in public companies with a market capitalization between $2 and $10 billion. All members are responsible for sourcing and pitching public equity investment opportunities as well as monitoring ongoing investments. This provides students with an invaluable opportunity to develop action-based investing skills by assisting in managing a long equity portfolio.

This year, the fund has made some instrumental enhancements:

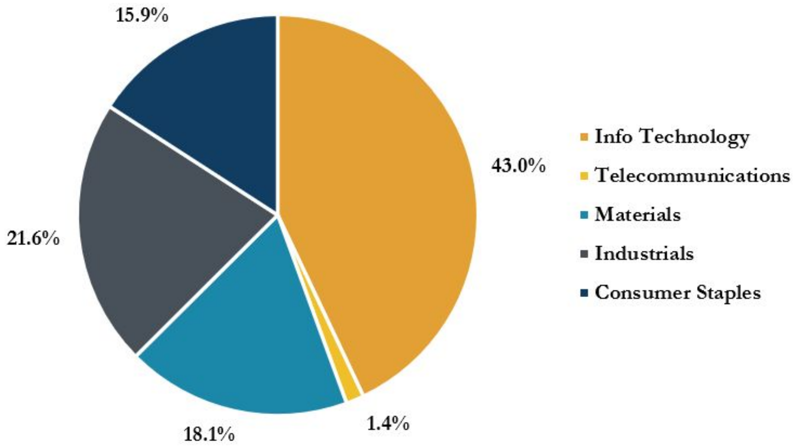
- A transition to a class format has significantly improved the caliber of pitches put forth during presentations, as students' grades depend on the quality of their investment ideas.
- Industry coverage groups were arranged to help diversify the scope of companies involved in the portfolio as well as expose members to a wide array of investment categories.
- Maize and Blue Connect was implemented to provide students with a unique opportunity to speak with accomplished professionals and gain advice while developing their pitches.
- New software licenses were secured for members to use in gathering a greater amount of data.

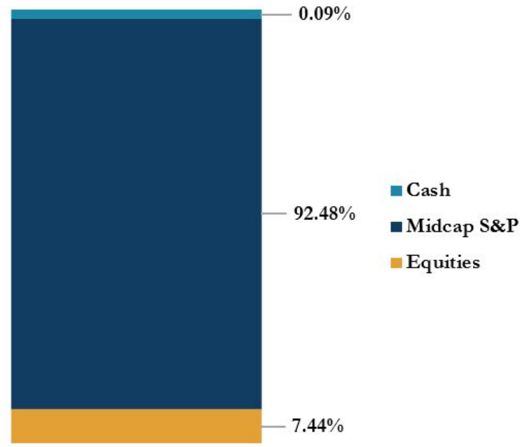
Fund Performance



This past semester, students pitched 13 stocks across 11 industries. Today, our portfolio is composed of 10 names including the holdings listed below. Our fund has returned 11.2% since 2014, 15.2% since 2019, and 11.1% since 2021. Our benchmark, the S&P Midcap Index, has returned 8.7%, 12.4%, and 9.8% respectively.

Company	Ticker	Purchase Price	Current Price	% Return
CCC Intelligent Solutions Holdings Inc	CCCS	$10.97	$11.55	5.3%
Frontier Communications Parent, Inc.	FYBR	$21.70	$35.06	61.6%
Atlas Energy Solutions, Inc	AESI	$22.74	$22.98	1.1%
Arcosa, Inc.	ACA	$102.03	$98.53	-3.4%
Lancaster Colony Corporation	LANC	$195.47	$173.49	-11.2%
Photronics, Inc.	PLAB	$26.98	$24.12	-10.6%
Midcap SPDR	MDY	$465.14	$575.11	23.6%
Total				**21.05%**





Stocks voted into the Fund this semester include CCC Intelligent Solutions Holdings (ticker: CCCS), Atlas Energy Solution (ticker: AESI), and Arcosa Incorporated (ticker: ACA). The beta of our portfolio is 1.01 and we had a sharpe ratio of 0.76 over a one year period.

Investment Highlight: CCCS

This semester, we invested in CCC Intelligent Solutions (ticker: CCCS) for its exceptional business quality and attractive valuation at 17x adjusted EBITDA. The company provides mission-critical software to the automotive claims and repair segments of the P&C insurance industry, connecting top insurers, tens of thousands of repair shops, and major OEMs in a single ecosystem. With more than $100B in annual claims processed through its platform, CCCS has built a proprietary data trove over four decades that no competitor can realistically replicate. This entrenched network effect, combined with exceptionally high customer retention (99% gross dollar retention and multi-year contracts), makes CCCS a recurring revenue machine poised for steady, long-term growth.

We believe that this opportunity exists because of CCCS' SPAC heritage, large private equity overhang, and limited sell-side coverage. The business trades at a meaningful discount to its high-quality vertical software peers who trade at adjusted EBITDA multiples in the mid twenties. Looking out a few years, modest top-line growth in the high single-digits (and potentially low double-digits), margin expansion, and deleveraging should drive free cash flow growth into the low teens. We see incremental revenue opportunities from AI-driven product launches, pricing leverage, and deeper penetration into casualty claims. As the company's earnings accelerate, private equity sells down through secondary offerings; we expect the company's multiple to rationalize and see a path to an L/MDD IRR over the next three years.

BBA To Watch

Sajiv Shah went to a small high school outside of Chicago, which enabled him to try a bit of everything - he played four years of football, but was also the captain of the math team. Coming to Michigan, he has searched for a similarly interdisciplinary experience across his academics, extracurriculars, and professional experiences. He has supplemented his Business major with a minor in Math, the sustainability-focused Erb Fellowship, and a semester abroad at the London School of Economics. On campus, he helps lead the Maize and Blue Endowment Fund, is involved with the Michigan Investment Group, writes for satire newspaper The Every Three Weekly, and assists with research on the gig economy. Professionally, he is interested in finance because he sees it as a way to continue being interdisciplinary, employing both quantitative and communication skills.

During his freshman summer, Sajiv interned for Congressman Raja Krishnamoorthi who was leading a movement to stop the $31bn CP-KCS railroad merger. This experience showed him the transformative potential of M&A, inspiring him to pursue a role in investment banking. His sophomore summer, he worked in capital raising for Investcorp, which exposed him to investment philosophies across alternative asset classes. His junior summer, he worked in investment banking within Goldman Sachs's Consumer Retail Group.

After graduation, he is excited to return to Goldman Sachs. Longer term, he is interested in activist investing as a way to bring a private markets approach to the public markets and in revisiting government / politics as a way to give back to his community.

Insights From A Professor

Professor Nejat Seyhun is a Jerome B and Eileen M York Professor of Business Administration and Finance at Ross. Professor Seyhun's research activity focuses on backdating of executive options, risk-return trade-off in asset prices, intra-day impact of insider trading, long-run performance of IPOs, managerial overconfidence, Chinese walls and conflicts of interest in securities firms, option pricing, and conflict between information efficiency and rewards to information gathering. Professor Seyhun is a leading expert on trading by corporate insiders, a topic he has been researching since the 1980s and about which he published the book *Investment Intelligence from Insider Trading*.

We asked Professor Seyhun about his research and how investors can (try to) use academic research to generate investment ideas. Below, please find an edited transcript of our conversation.

A Conversation With Professor Nejat Seyhun

Should investors be using academic research in their work?

Most investors should not use most academic research – they should buy and hold. It is difficult to interpret financial events, so if you are not a specialist, you will have a hard time using research to beat market averages. For those with a finance background, research could be useful but you need expertise, time, money, and the right risk tolerance. I would note that anything can look good on paper, but you will still face a set of challenges with implementation.

Is it reasonable that after publishing on some source of abnormal returns the abnormality will disappear as investors act on it? If so, does your corporate-insider-based econometric model still have predictive capacity?

That is absolutely true – if a theory works in practice, people will jump all over it and only stop when they stop making money. However, the insider trading abnormality is a long-standing finding going back to the 50s and 60s, and it still sometimes works. The trouble is that even when it works, you cannot bet a lot of money on it – the finding has a high t-stat but low r-squared, meaning you are still subject to a lot of risk.

What sorts of challenges might investors face when trying to implement a strategy based on your insider trading research?

From a stock-picking perspective, you need a lot of transactions to have reasonable confidence that the strategy will beat the market. For someone doing 10 transactions a year, the returns are almost random, but for someone doing 200 transactions, you can expect to beat the market. So, it is difficult for an individual trader to get to the necessary scale, but I do have professional money managers reach out at least once a year about implementing the strategies from my papers. Another trouble is that insider trading is especially informative in small firms, but in small firms you cannot accumulate a large position and it is costlier to trade.

So then, if individual, fundamental investors want to inform their work with academic research, what's the most valuable way to do so?

Insider trading, as with other anomalies, can be a very useful screen. A good approach would be to use levels of insider trading as part of your screen and then make sure you have a further investment thesis beyond that. For active investors, you should use insider trading as one more input for decision-making, but I would not make your whole decision based on it because there is a lot of noise. So if your own model says buy but you see insiders selling, I would stop in my tracks and reevaluate, and vice versa.

Are there any missteps you see investors making when attempting to trade based on insider trading?

My book covers a number of strategies that actually work, but one thing I would highlight is that people pay too much attention to share volume, which is not that important of a predictor. The big share volume comes from institutional investors who are often the least informed. A company's largest shareholders are legally considered insiders, but a good investor should go into the SEC filings to see which trades are done by informed insiders (officers and directors) and exclude those by uninformed insiders.

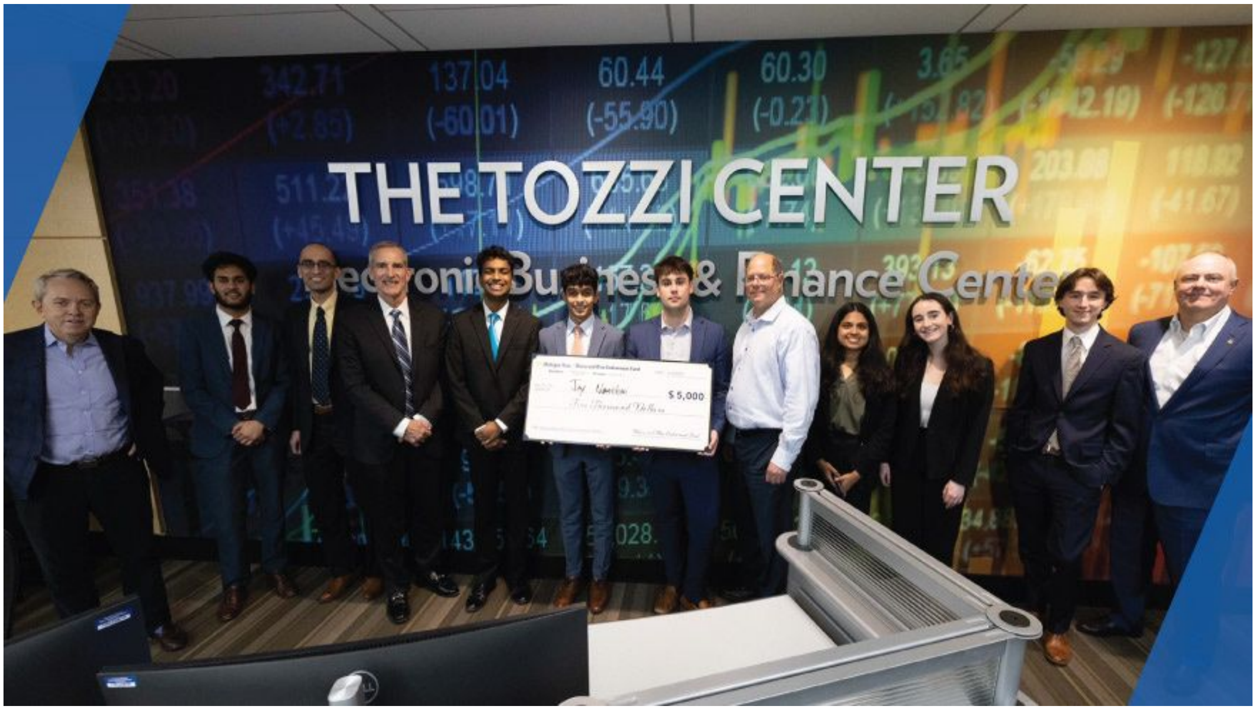
You maintain a corporate-insider-based econometric model that makes predictions on the S&P. What does it predict right now?

Aggregate trading right now is very pessimistic – it is the most pessimistic it has been in 10 years, with selling in record numbers. While selling into strength is sometimes not a pessimistic indicator, we see right now that when looking at individual weeks and months, people are selling regardless of the market's performance. This persistent selling is a very pessimistic sign.

Finally, what are some other topics you have researched that could be good screens for investors?

Anomalies are items that in the past have established a good forecasting ability, even though they are not related to a stock's risk. I have recently written a paper, *Expensive Anomalies*, that shows you can improve the predictive ability of various anomalies by looking at whether they are cheap or expensive. I find that cheap anomalies, on a book-to-market basis, outperform, as do anomalies focused on both value and momentum.

Maize and Blue Stock Pitch Competition



Jordan Hymowitz (LSA '90), Corey Tobin (BBA '95) and Professor Nezafat founded the Maize and Blue Stock Pitch Competition in 2023.

This year, we are hosting our 3rd annual stock pitch competition on February 7th, open to all BBA and MBA students. The competition's goal is to provide a forum for students to showcase their stock-pitch skills to a panel of investors, with opportunities to gain mentorship, network with firms, and win prizes. Last year, competitors had the opportunity to attend dinner and a Michigan vs. Michigan State hockey game with investors from BlackRock, Thrivent, William Blair & Co., and Philadelphia Financial Management. Additionally, sophomore BBA student Jayant Namdhari claimed the most recent prize, taking home a $5,000 check. For more information about last year's competition, please visit the page linked here.

For any students interested in the competition this year, we highly encourage you to participate:

Education

This is an opportunity for students to work closely with professional investors to develop their stock picking skills, as well as receive direct feedback on investment ideas.

Network

Participants will have the chance to interact with judges and mentors while working through the ideas, at the networking dinner, and during the pitch competition.

Prizes

$5,000 in prize money will be granted to the participant with the best investment thesis. The second and third placed participants will respectively receive $2,000 and $1,000.

2025 Pitch Competition Key Dates:

Friday, January 24th: Submission deadline for pitch presentations and resumés
Saturday, January 26th: Final eight candidates selected by Professor Nezafat
Wednesday, February 5th: Deadline for final pitch submissions distributed to judges
Thursday, February 6th: Networking reception and dinner
Friday, February 7th: Final Pitch Competition live in Tozzi

Pitch Competition Sponsors:

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Alumni Commitment to Empowering Students

Jordan Hymowitz

Founder and Portfolio Manager at Philadelphia Financial Management

We are excited to feature an interview with Jordan Hymowitz, a proud Michigan alumni and founder of Philadelphia Financial, a hedge fund focusing on financial services with $500m of assets under management. Jordan's journey from selling cars post-graduation to creating a thriving hedge fund is truly inspiring and motivational.

Jordan Hymowitz's career in finance began serendipitously during the recession when jobs were scarce. Initially aspiring to be a political science history major, he found himself in the financial sector somewhat by chance, after picking stocks as a hobby. During college, he secured a job as a secretary at Montgomery Securities. In exchange for his dedication, he was offered night courses and insights into the world of finance, which led him to positions in auto finance and later, major roles at Robertson and Stevens.

Driven by a desire for autonomy and recognition for his efforts, Jordan eventually made a few pivotal career decisions. After contributing significantly to profits at two different hedge funds, he sought to continue his work independently. In 2004, with $17 million from friends, family, and colleagues, he launched his fund in San Francisco. Jordan's fund quickly saw rapid growth, reaching $100 million in just six months and $300 million within two years without a single down month for three years.

Despite formidable challenges, such as the 2020 market dip and institutional investor hurdles, Jordan's fund not only survived but thrived. Philadelphia Financial has impressively demonstrated 60-70% growth in the past three years. Jordan attributes his success in part to his close-knit team and their shared dedication, as many have been with the firm for over a decade.

When asked why he decided to start his own fund, Jordan emphasized the importance of choosing the right partners – individuals you enjoy working with, not necessarily the smartest in the room. He stressed the value of work-life balance and culture over merely financial incentives.

Jordan champions a work environment that is both productive and enjoyable. Weekly meetings imbued with humor, regular team-building events, and a flat structure where everyone is rewarded for the firm's performance contribute to this unique culture. He advocates for a candid, radically honest atmosphere where everyone feels free to express themselves without fear of offending others.

Additionally, Jordan advocates considering less competitive areas of the market, where fewer people are vying for the same positions, as a career strategy. He underscores the importance of in-depth training programs at long-only shops like T. Rowe Price and Wellington Capital, which he believes offer more substantial learning opportunities than shorter-term-focused pod models.

Jordan has been a great help to us at the Maize and Blue Fund for several years. Three years ago, he helped start the Maize and Blue Stock Pitch competition alongside Corey Tobin and Professor Nezafat, and he remains involved today as a mentor and judge. Jordan also regularly speaks with members during class sessions. This past semester, Jordan spoke with the fund about investing in financial institutions, sparking discourse amongst students well after the session was over.

PHILADELPHIA FINANCIAL MANAGEMENT

Please feel free to reach out to any of us with questions

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If you are interested in financially supporting the educational activities of the students in the fund, speaking at the fund, or mentoring our students please do not hesitate to reach out to Professor Nezafat at nezafat@umich.edu. Your contributions and insights are invaluable to our mission.