TUFTS FINANCIAL GROUP

ANNUAL REPORT

2019

Contents

Letter from the President

As a senior entering my final semester of Tufts, and looking back at my experiences within Tufts Financial Group, I am incredibly grateful for the opportunities that the organization has provided and the friendships that I have gained along the way. As president, I wanted TFG to be an organization that not only taught students about finance, but became a platform for them to launch their careers. This year, the Executive Board continued along this mission.

Our Analyst Training Program (ATP), Sectors, and Alpha Fund have all provided students the opportunity to learn the fundamentals of the industry. ATP provides interactive lectures to teach students the foundation, which culminates into a final project, analyzing a company of their choice. Next, in Sectors, students take the knowledge that they have gained from the Analyst Training Program, and apply it by creating a stock pitch for our Alpha Fund. Finally, the Alpha Fund, composed of about 15 analysts, work together to invest over $225,000.

Tufts Financial Group would not be what it is today without its continued support from our alumni. Because of the gracious support of alumni, we have provided students countless opportunities to network, both off and on campus. Students on two separate occasions had the chance to visit a variety of firms in New York, such as Goldman Sachs, J.P. Morgan, BlackRock, and Citi. In Boston, David Chang of Wellington Management has hosted many groups of TFG students.

On campus, we have had many alumni come speak with students, including: Sue Decker (former President of Yahoo!), Robert Samuels (Executive Director of UBS's Wealth Management Chief Investment Office), Sal Galatioto (President and Co-Founder of Galatioto Sports Partners), Tiffani Lau (Associate in Technology, Media, and Communications), Andrew Brodsky (Analyst in Technology, Media, and Communications), Christian Koshgarian (Analyst in the Consumer group), Peter McCawley (Analyst at Arx Urban), Michael Ewald and John Wright (Managing Directors at Bain Capital), Kevin Ng (Multi Asset Portfolio Manager at Goldman Sachs), Nathalie Lubin (Executive Director at Morgan Stanley), Tina Surh (Senior Advisor and Chief Investment Officer at Gruss & Co.), and Abigail Ingalls (Vice President and Senior Research Analyst at Breckinridge Capital Advisors).

Once again, thank you to all of the alumni that have continued to support our organization. You have all made such a positive impact on countless students, and I truly appreciate all of your guidance. With that, I would like to announce our upcoming President starting this spring, Andrew Kraunelis. He has been a dedicated member since his freshman year, and we are all looking forward to seeing his leadership furthering the goals of the organization.

-Jillian Kleiner, President

Jillian Kleiner served as TFG's President for the Spring 2019 and Fall 2019 semesters. This past summer, she interned as an Investment Banking Summer Analyst at Guggenheim Partners, where she will be returning upon graduation. Jillian has previous interned at GTIS Partners, a real estate private equity firm, in the U.S. Acquisitions group.

Letter from the Portfolio Manager

Over the past four years, from January 1, 2016 to December 31, 2019, the Alpha Fund returned 42.3% (9.2% CAGR). Our benchmark, comprised 85% of the S&P 500 Total Return Index and 15% of the Bloomberg Barclays US Aggregate Bond Index, returned 67.7% (13.8% CAGR) over the same time period.

In FY2019, the Alpha Fund returned 27.8% compared to the 28.5% return of our benchmark. Although this still represents a mild underperformance, we are pleased with the improved performance versus previous years. In particular, our increased focus over the past two years on generating ideas in the small-cap opportunity set has produced some differentiated results. We remain committed to our investment process and are confident this approach will produce superior results over the long run.

Drew served as the 2019 portfolio manager. This past summer, he worked at Neuberger Berman as an investment analyst for The Rachlin Group. He will continue to work for Neuberger Berman full time.

Investment Strategy

Much has been written in the financial world over the past five years about the death of value investing. Executing a value-oriented strategy has certainly become more difficult, but we believe the death of value has been exaggerated. Beyond central bank involvement since the Global Financial Crisis in 2008, there are a few other things that have made value investing challenging. Before the rise of index funds, less informed retail investors were active participants in markets, whereas index funds have allowed them to become passive participants. As such, this cohort of less informed and less sophisticated investors do not compete with professional discretionary managers in the same way as before.

Additionally, as Bill Nygren of Oakmark has pointed out, intangible assets are now far more important drivers of business outcomes than tangible assets. This can distort GAAP earnings from the actual economics of the business. For example, CapEx is capitalized while R&D is expensed, therefore a company with high R&D spending will appear to have a higher P/E multiple than a company with comparably high CapEx spending. This phenomenon makes it more important than ever to understand asset mix and industry dynamics, and to examine Free Cash Flow in addition to GAAP Net Income. This also means that return on capital may be more persistent for companies with intangible assets that are particularly hard to replicate.

An important part of value investing is identifying where we may have an edge. We therefore have made a concerted effort to focus on small-cap equities and companies in niche industries. We find that such companies are under-followed by sell-side analysts and carry greater career risk for buy-side analysts, and thus these sub-markets are less efficient. Our positions in The Joint Corp (JYNT) and MKS Instruments (MKSI) reflect this approach, and were some of our best performing equities in FY2019.

Our investment strategy consists of three pillars. We look for companies that have 1) underpenetrated or growing end markets, 2) sustainable competitive advantages, and 3) inexpensive valuations. Underpenetrated or fast growing end markets allow companies to grow revenue organically. More importantly, sustainable competitive advantages allows companies to earn excess returns on capital over time. Evaluating return on capital using industry-specific metrics is vital to determine whether or not a business is worth owning. We have continuously focused on understanding the competitive dynamics of the industries our companies operate in. For companies that fulfill the first two pillars of our strategy but are not priced cheaply enough for us to own, we will place it on our "wish list" and wait for a more favorable price.

Governance and Culture

This past year, the Alpha Fund was run by 15 students coming from all class years and diverse backgrounds. Each analyst covers 1-3 stocks in our portfolio, which entails understanding the economics of the businesses, reading annual and quarterly filings, and monitoring relevant news.

While in previous years we looked at one new potential investment each week, this year we have looked at 3-5 new potential investments every three weeks. With this approach, we spend more time researching each idea, and therefore can develop a deeper understanding of the competitive dynamics and the downside scenario.

Our main focus is to build a team culture that fosters curiosity, intellectual honesty, and passionate research. The ability to admit when we do not know something is incredibly important to becoming a better investment team. Ultimately, we want the Alpha Fund to be an opportunity for us to become progressively better investors.

I am confident that there is no one better to further our culture and investment goals than Craig Uyeno, who will be our new Portfolio Manager of the Alpha Fund starting in Spring 2020. Craig's passion for investing and team-oriented mindset will be an immense value-add for the group.

Thank you so much to all our donors, mentors, faculty, and the Tufts Financial Network for your incredible support. We are grateful for all your help and guidance.

If you have any questions, feedback, or would like to get involved with our group, please let us know at tuftsalphafund@gmail.com. We're looking forward to another great semester!

-Drew Stern, Portfolio Manager

STOCK SPOTLIGHT

ChangYou (CYOU)

Craig Uyeno, April 2019

The Fund entered a long position in ChangYou (CYOU), a Chinese video game manufacturer, equivalent to 1.3% of the portfolio in 2Q19. It has been a top performer in 2019, returning 27% to date, after dividend reinvestment. CYOU generates 80% of its revenue through video game sales and add-ons, with 50% of video game revenue coming from their crown jewel, Tian Long Ba Bu (TLBB). We entered the position when CYOU was trading at 6.8x P/E and 1.4x P/B, roughly a 60%+ discount to its peers' multiples. After marking CYOU's real estate assets to market value, CYOU trades closer to 1.1x P/B. In our view, the market was overly bearish on CYOU due to a poor growth outlook, slowing revenue from TLBB, and risk of a failed buyout. CYOU is still a strong cash flow generator, booking a stable ~$200M in operating cash flow over the last four years. Remarkably, the company only has a $200M market capitalization. This has led to limited sell-side coverage, and a large dislocation between market expectations and reality.

We entered the position with an 8:1 risk reward ratio, with a 63% upside, protected by the strong balance sheet on the downside. Price appreciation could be delivered through two main catalysts:

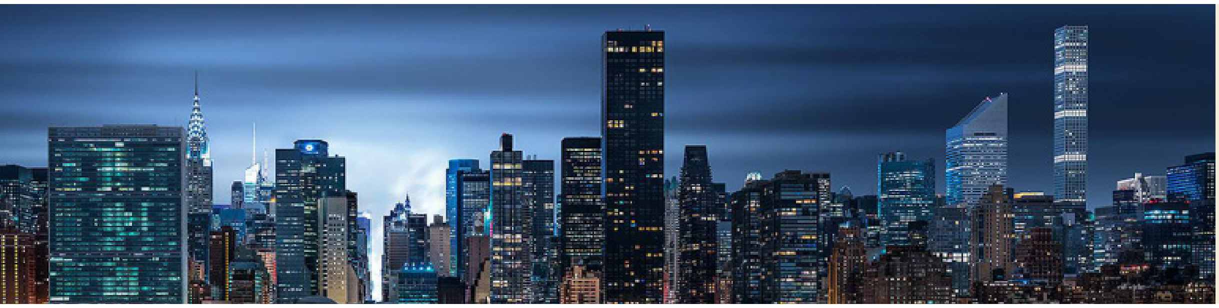
1. CYOU is set to release three new games in 2020, which have spent multiple years in the development pipeline. The market is pricing a 5% decrease in sales next year. This factors in limited success of the new games, which is highlighted by the launch of TLBB mobile. CYOU has reported a stable 5 million active users across its games and a 14% increase in PC paying accounts. CYOU also partnered with Tencent to help distribute its new titles this year, which could provide another channel to exceed revenue expectations. A 45% operating margin produces strong sales flow-through to EPS and potential for CYOU to trade closer in line with its peers. Our base case assumes no revenue growth over the next two years and no improvement to its P/E multiple. This implies 28% upside from the current trading price.

Craig Uyeno ('21) succeeds Drew Stern as the Alpha Fund Portfolio Manager. He joined the Alpha Fund as an analyst in Fall 2018. He has completed internships in Fx Sales, Investment Banking, and Private Equity. Craig will be working at Point72 Asset Management on a long/short equity team for his upcoming Junior Summer.

2. CYOU is 68% owned by its parent company, Sohu.com (SOHU). SOHU offered to buyout outstanding interest in CYOU at $10/share in 3Q19. The acquisition did not close and the Fund is betting SOHU will increase the acquisition price in 1Q20. SOHU is motivated to close the deal before 2Q20 when CYOU is planning to release TLBB mobile as SOHU will want to capture the value generated from the mobile launch in its entirety. SOHU reported negative operating cash flow last year and has struggled to expand beyond their core advertising offerings. SOHU was reliant on CYOU's contribution to make FY19 guidance and CYOU seems to be one of the few bright spots for the company. A $9.40 per share special dividend was issued at the end of 2Q19, which suggested CYOU was returning cash to SOHU to fund the acquisition. Charles Zhang is the chairman of the board for both SOHU and CYOU and is personally motivated to see the deal close. The rest of the CYOU board demanded a higher acquisition price and the market is betting SOHU will return with an improved offer as CYOU trades above the former $10 per share offer price.

With the stable free cash flow generation of the company, downside protection from the market value of tangible assets, and strong likelihood for a buyout premium from SOHU, the Fund is holding our position in CYOU given the skewed risk/reward profile. CYOU has retained its value proposition to customers despite the market's bet on worsening operating performance. Should news break that reveals disinterest by either party to complete the deal or disappointment from new game launches in 2Q20, the Fund will re-evaluate the position, as the driving catalyst will have broken down. Likewise, if the TLBB mobile launch in 2Q20 disappoints, we will re-evaluate our position to determine the revised upside potential of an acquisition.

STOCK PERFORMANCE



Annual & Quarterly Perfomance

YEARS	ALPHA FUND	BENCH-MARK	S&P 500 TR	LBUSTRUU
2016	0.08%	10.60%	12.00%	2.60%
2017	10.00%	16.19%	17.60%	3.60%
2018	1.08%	-3.57%	-4.38%	0.01%
2019	27.80%	28.47%	32.14%	8.72%

QUARTERS	ALPHA FUND	BENCH-MARK	S&P 500	LBUSTRUU
2016 Q1	-1.62%	1.65%	6.07%	3.03%
2016 Q2	-2.09%	2.42%	2.46%	2.21%
2016 Q3	2.05%	3.29%	3.85%	0.11%
2016 Q4	1.81%	3.86%	3.82%	-2.64%
2017 Q1	2.34%	5.27%	6.07%	0.82%
2017 Q2	2.48%	2.84%	3.09%	1.45%
2017 Q3	2.40%	3.93%	4.48%	0.85%
2017 Q4	2.42%	5.69%	6.64%	0.39%
2018 Q1	0.56%	-2.19%	-2.29%	-1.80%
2018 Q2	2.54%	4.33%	5.06%	0.18%
2018 Q3	4.20%	6.52%	7.71%	-0.08%
2018 Q4	-5.92%	-11.29%	13.52%	1.73%
2019 Q1	14.45%	15.86%	18.25%	2.94%
2019 Q2	4.86%	1.94%	1.69%	3.08%
2019 Q3	1.51%	2.41%	2.43%	2.27%
2019 Q4	4.90%	6.21%	7.29%	0.18%

Largest Positions

POSITIONS	% OF NET ASSETS
Fidelity Government Cash Reserves	17.62%
iShares Core S&P 500 ETF	9.85%
Visa Inc.	7.35%
Starbucks Corp.	5.79%
Magna International Inc.	4.70%
Disney Walt Co.	4.62%
American Tower Corp	4.52%
iShares Core US Aggregate Bond ETF	4.19%
Joint Corporation	4.08%
Johnson & Johnson	3.19%
TOTAL	**65.92%**

Industry Breakdown

SECTOR	% OF NET ASSETS
Technology, Media, & Telecommunications	22.34%
Financials	13.45%
Consumer Cyclicals	10.49%
Healthcare	5.27%
Consumer Staples	5.11%
Energy	4.91%
Real Estate	4.52%
Basic Materials	1.67%
Industrials	0.00%
Cash	17.62%
iShares Core S&P 500 ETF	9.85%
Fixed Income	4.77%
TOTAL	**100.00%**

TUFTS FINANCIAL GROUP

ANNUAL REPORT 2019