



The Aggie Investment Club

**2023 Fall Semester
Newsletter**

January 15th, 2024



Foreword

On behalf of the AIC officer team, we would like to give a sincere thank you to all alumni, members, professors, industry professionals, and our advisor Misty Paige who made this semester possible. Thanks to your help, we continued to advance the mission of the Aggie Investment Club: *teaching students the foundational concepts of finance/investing and providing students with high-impact opportunities for career preparation and self-improvement*. To make this mission a reality, we raised \$50K for the AIC Equity Fund and launched the AIC First Year Development Program. While we look forward to continued iterations of these programs, we are excited about their initial success in their inaugural semester and believe they are a step in the right direction for the organization. As AIC continues to evolve, we are looking to place an even higher importance on active engagement with all internal and external stakeholders. Please feel free to reach out with any feedback, or critiques, for AIC! Thank you for your support.

Best regards,

AIC Officer Team



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Leadership



President
Logan Colhoun
Class of 2025



Vice President
David Rabalais
Class of 2026



Treasurer
Jared Gutierrez
Class of 2025



Marketing Director
William Hofmann
Class of 2026



SAW Director
Michael Blackburne
Class of 2023



Head of Outreach
Juan Jose Vivanco
Class of 2026



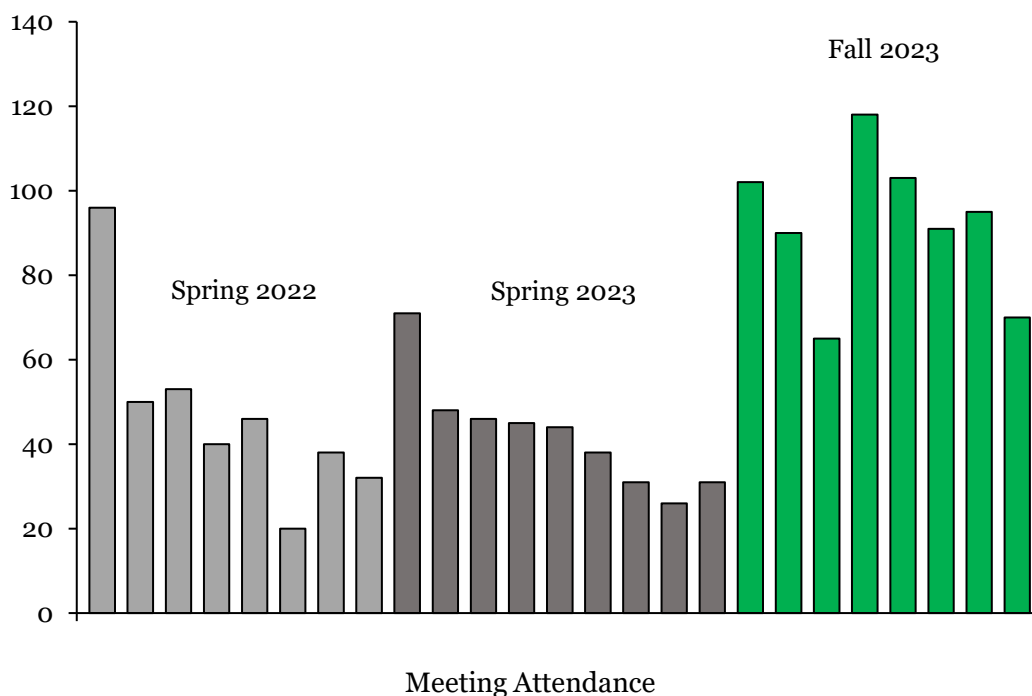
Head of HR
Ryan Shook
Class of 2026



Current State of the Organization

Heading into the fall semester, we realized AIC wasn't reaching its potential as A&M's only student investment club. In Spring 2023, we had members compete in investment club-sponsored stock pitch competitions around the state, and we were impressed by what we saw. We were particularly impressed with the member engagement, organizational knowledge, alumni/industry engagement, and industry placement. These experiences served as inspiration for our many changes throughout the Fall 2023 semester, including the creation of the **AIC Equity Fund** and **First Year Development Program**. These new programs will be expanded on in the following pages.

This semester AIC had a record 155 active members ranging from freshman to graduate students, representing six colleges across campus. Not only did AIC have more members, but member engagement improved sequentially, with lower member attrition throughout the semester.



Current State of the Organization (Cont.)

In addition to our General Meetings and other new programs, this semester included a trip to Houston, where members had the opportunity to meet with industry professionals in investment banking, private equity, venture capital, and public market investing. We are extremely grateful to everyone who helped make this trip possible, including (but most definitely not limited to):

- Ryan Kerch & Logan Chesney @ Houlihan Lokey
- James Pappas & Matthew Powalski @ JCP Investment Management
- Scott Grass & Deric Jech @ Main Street Capital
- Alex Gras @ Mercury Fund



At our General Meetings, we hosted several speakers throughout the semester. We would like to extend our sincere gratitude to those who were able to make a trip out to College Station to speak to our members:

- Eric Micek @ Barrow Hanley Global Investors
- Kristen Eschbach @ The Terry Foundation
- John Claybrook @ Bronco Ventures
- Patrick Curtis @ Wall Street Oasis



Looking forward to the spring semester, we are excited to further the AIC mission by continuously improving the education and experience provided to AIC members. If you are a former student/industry professional and would like to come speak to the organization or host us at your office, please send us an email at tamuaic@gmail.com.

First Year Development Program (FYDP)

As we planned on launching a portfolio with real capital, we decided to perform an honest assessment of our organization's capabilities to make intelligent investment decisions. We discovered that many of us lacked knowledge across many key areas including valuation, competitive strategy, accounting, etc. With these pieces missing, we realized it would be impossible for members to generate investment ideas with real conviction. Our solution? The First Year Development Program. We created a semester-long program that would allow first-year AIC students to go from square one of finance to be able to intelligently pitch a stock. The curriculum included:

1. Intro to Finance
2. Investment Analysis
3. How Businesses Work & Accounting
4. Financial Metrics & Ratios
5. Valuation Pt 1.
6. Valuation Part 2.
7. Investment Strategies & Stock Pitches

If you are interested, you can view presentations from the program [here](#). When we asked for feedback on the program, we got answers ranging from "I got a lot out of FYDP and I don't have any suggestions!" to "Learning valuation was super rushed and I got lost and wasn't able to keep up". We look forward to improving on this program in future semesters.

Overall, we believe FYDP provides members with a valuable crash course in investing which will give members a baseline knowledge that they can continue to expand on by themselves. Not only does this help AIC achieve its core mission, but hopefully it allows us to generate **ALPHA** in the AIC Equity Fund!



Launching the AIC Equity Fund

The Aggie Investment Club was founded in 2000, and 23 years later, we are excited to have launched the first-ever AIC Equity Fund. We believe this is a pivotal addition to AIC's programs, as investing real capital is the best way to learn how to invest. With lots of help from Professor Brent Adams, we created a \$50K long-only fund that focuses primarily on domestic equities.

The Equity Fund is composed of 5 sector groups (TMT, consumer, energy & materials, healthcare & industrials, financials & real estate) and an investment committee which is composed of the 5 sector heads. The inaugural sector heads in the order of the listed sectors are [Logan Colhoun](#), [Linus Guo](#), [Will Hofmann](#), [Rick Zhang](#), and [Michael Blackburne](#). The CIO was Logan Colhoun.

The fund consists of 35 members who were selected through a rigorous interview process. Analysts work within each sector group to generate ideas and pitch at least once per semester.

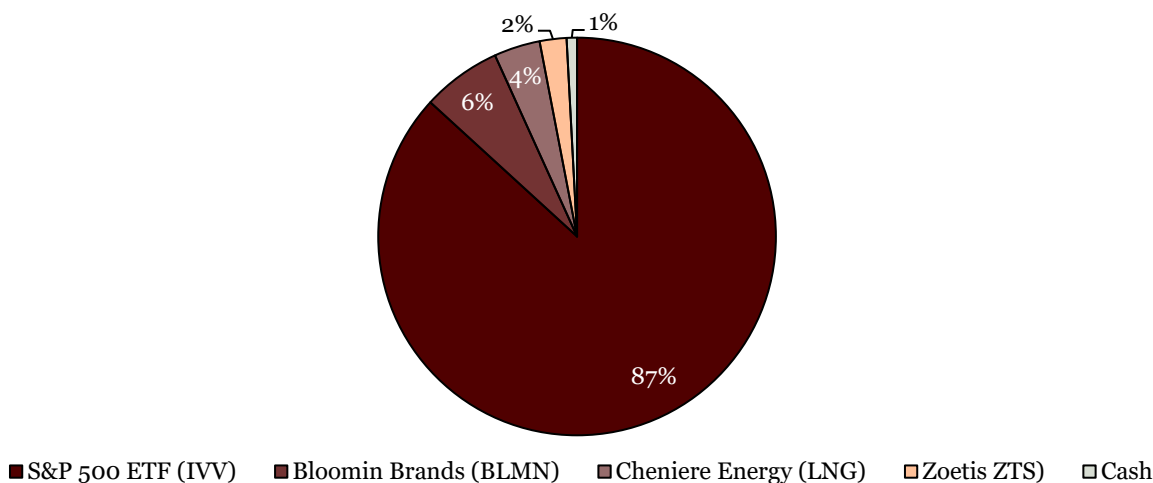
Fund meetings are held every Friday in the Reliant Trading Center where members work together on pitches or listen to ongoing pitches. Once an idea is pitched, the decision to purchase the proposed company is up to the majority decision of the clubs' members. If approved, the security's allocation is determined by the board and can be vetoed by the CIO.

While we share portfolio updates in our semester newsletter, we also have our portfolio on our website which can be viewed [here](#). In addition, our research for all ideas pitched in the fund can be viewed [here](#), as well as our decision to buy or pass.

Portfolio & Market Commentary

We officially launched the portfolio on November 8th, 2023, with the purchase of the S&P 500 index and T-Bills. Rather than haphazardly throw our newly raised capital at a bunch of different names for the sake of being fully invested, we decided to slowly invest in high-conviction names throughout the year. Since then, we have decided to invest in 5 different businesses: Bloomin’ Brands, Zoetis, Cheniere Energy, Sylogist, and Rusoro Mining. Unfortunately, we have struggled to acquire the appropriate permissions to invest in foreign exchanges and OTC “pink sheets”, ruling out Sylogist and Rusoro Mining. We will continue to work with the school to get the proper permissions and become fully invested in a timely manner.

From November 8th to January 5th the fund generated returns of ~7.3% against the S&P 500 which generated ~7.2% returns. 87% of the fund is still invested in the S&P 500 (as seen below), explaining our benchmark hugging returns.



Market Commentary

Heading into 2024, we saw a 100-bps retreat in the 10-year treasury yield as the market bets on a peak in interest rates. The Fed has not touched the federal funds rate since July, CPI has come down to 3.1% with the help of energy, but the unemployment rate sits at 3.7%. Strong employment has been driven by leisure and hospitality, education and health services, construction, and government. We believe this labor strength could be largely due to relentless expansionary fiscal policy which has provided employment in the

aforementioned sectors. As the government becomes a larger part of the economy through increased deficit spending, we will be paying extra attention to budget discussions and the 2024 presidential election.

With this setup, many are betting on a soft landing, with the S&P 500 rallying ~15% since early November. The market has continued to be narrow with the “Magnificent 7” leading the way. However, we have seen some recent downgrades for Apple due to worries regarding iPhone sales, which may be a canary in the coal mine for future woes to come.

Moving forward, we will continue to search for high-quality, undervalued businesses with a clear catalyst for value realization. We do not believe we can consistently predict the macroeconomic future with any certainty (or we would be rich and no longer at A&M) and will look for opportunities that are attractive regardless of near-term macroeconomics. Below are a few of our favorite ideas from the Fall 2023 semester.

Rusoro Mining (OTCMKTS: [RMLFF](#))



Rusoro Mining is a bankrupt gold mining company that operated in Venezuela at the time of nationalization. The whole investment relies on one single premise, the liquidation of Citgo Petroleum to satisfy >\$20B of creditor claims against the state of Venezuela. According to the Delaware court documents, that auction date is planned for June 6th 2024. Realistically, we believe Citgo will be sold between \$9B - \$12B, but if the sale is greater than \$7.5B, Rusoro’s claims against Venezuela of \$1.5B should be satisfied in full.

Despite multiple other publicly traded companies on the creditor list, some above Rusoro in terms of creditor priority, we believe Rusoro offers the most asymmetric risk-return ratio. Currently, as of writing, the market capitalization of the company is \$270M. After deducting various liabilities, management fees, and contingencies, we reach a value of \$1B ~ \$1.1B belonging to shareholders. That would entitle an upside of 4x compared to its current market price. The downside risk, however, is an 80% - 90% decrease from its current price if the auction does not go through. Therefore, I believe the maximum allocation for our portfolio should be 3.5%, though if the price decreases, we can increase that number.

On a side note, another method of gaining exposure is through buying the 2020 defaulted PDVSA bonds as those are backed by a 50.1% stake in the company as collateral. However, that case is currently in court, and the uncertainties of the court's decision and its return of only ~2x from its current price make it quite an uncomfortable investment compared to Rusoro.

- Rick Zhang, Materials & Healthcare Sector Head

Bloomin' Brands (NASDAQ: [BLMN](#))



Bloomin Brands is a restaurant holding company that both owns and operates multiple casual dining outlets such as: Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill and Flemmings Prime Steakhouse and Wine Bar. Bloomin Brands currently operates in 49 states as well as numerous countries such as South Korea and Brazil. Bloomin's main restaurant chain, Outback Steakhouse has over 1000 locations and is spread across the US, Brazil, and South Korea.

Bloomin Brands started trading back in September 2012, and it was a premium operator with leading margins and growth prospects. Fast-forward to the current day, the Outback brand is facing significant challenges: slowing foot traffic, slowing topline growth, and lowering customer sentiment of the Outback Brand. Through all these challenges, Bloomin has been able to maintain an above-average free cash flow yield and leverage its growing market in Brazil to maintain shareholder value.

All these factors led Bloomin Brands to fall onto Starboard Value's radar in August 2023. Starboard Value is a leading activist shareholder, which has led multiple successful turnarounds of public companies. Starboard has experience in the restaurant industry through its leading role in the turnaround of Olive Garden owner Darden (DRI) and Papa John's Pizza (PZZA) after its founder stepped down. Both activist campaigns led to significant shareholder returns of 67% and 100%+ respectively.

Currently, BLMN trades at a 5x multiple of EV/EBITDA as compared to peers Texas Roadhouse (TXRH) and Darden (DRI) with trade at 10.3x and 9.5x respectively. BLMN's

free cash flow yield is 16.2% currently compared to peer DRI which has a yield of 6.5%. BLMN has EBITDA margins of 11.9% as compared to 15.3% of DRI.

BLMN should invest more into Outback Brazil which has seen outsized growth in recent years due to the growing popularity of the US-based Steakhouse chain. Management has set a target of doubling the store count by 2028. Starboard would also like management to focus on Carrabba's Italian Restaurant which has the company's leading growth trends and margins in the US. Currently, Carrabba's is the second largest chain in the US but trails Olive Garden by a wide margin. Carrabba's has also experienced significant margin growth due to an increase in its delivery and catering business. Carrabba's is also a ghost kitchen for Bloomin's growing number of delivery-only food offerings. Starboard's final goal for the company is for EBITDA margins to reach peer levels by controlling spending and increasing ROI by opening new stores in growing markets and brands.

Bloomin Brands is just getting started on its turnaround and will need time to enact all the changes that management and Starboard have set for the company. We believe that a turnaround in the Outback Steakhouse Brand is possible by investing in both Bloomin's Brazil operations and Carrabba's. In doing so, Bloomin Brands can significantly outperform the market in FY 2024.

-Linus Guo, Consumer Sector Head

Sylogist (TSE: [SYZ](#))



Sylogist is a Canadian public sector software business with offerings for local/municipal governments, nonprofits, and public school districts. Public sector software is very sticky as these businesses generally have very low churn with predictable recurring revenue from mission-critical software that can't be easily replaced.

Before a board-led strategic review in 2020, Sylogist was a mess. They were not investing in the business, they were losing customers, and management was paying ~15% of FCF out to themselves. Nothing short of a dumpster fire! However, in Q4 2020, industry veteran Bill Wood took over as CEO and has executed what we believe to be a successful turnaround. Mr. Wood decided to cut the dividend and heavily reinvest back in the

business, something that had never been done before. They now have 3 new 100% SaaS offerings for each vertical they serve, moving away from their old legacy solutions.

As a result of the reinvestment, EBITDA margins have shrunk from previous highs, but we believe they are at their trough of ~25%. Even with the lower margin profile right now, LTM ROICs are at ~19%, far above their cost of capital. As a result of these investments, Sylogist has gone from negative high single-digit growth to three consecutive quarters of double-digit organic revenue growth. As Sylogist continues to land new clients with their new software offerings, we see a future of ~15%+ organic revenue growth with expanding margins.

Nonetheless, we have not seen a multiple re-rating since these improvements, with Sylogist trading ~9x NTM EBITDA. Public sector software peers trade in the range of 14x – 35x, leaving Sylogist room for significant multiple expansion. Additionally, if the market does not recognize the value soon, we believe Sylogist would make for a good acquisition target for someone like Tyler Tech, Constellation Software, or a private equity player. Management agrees with this view and has been buying back shares since they cut the dividend.

-Logan Colhoun, TMT Sector Head

Looking Ahead

As we embark upon a new semester, we're excited to build upon our momentum from Fall 2023. Our biggest priority is to ensure we continue to bring together the brightest and most driven students at Texas A&M and provide them with the highest quality opportunities on campus.

Below is a list of our Spring 2024 goals:

- Create new leadership opportunities to have more members fully engaged with the organization.
- Become fully invested in the AIC Equity Fund.
 - Generate ALPHA!
- Increase diversity, particularly within leadership roles.
- Actively engage former students to help guide the organization.
- Travel to Austin and Dallas to allow members to meet more professionals across the state.
- More fun and more socials!

Once again, we're extremely grateful for all the support we've received from faculty, professors, former students, industry professionals, and even students outside of A&M. We hope everyone is having a great start to 2024 and look forward to sending out another newsletter at the end of the spring semester. **Thanks and Gig 'Em!**

