



UConn Student Managed Fund

Communication Services Sector SPDR Fund (NASDAQ: XLC)

FEBRUARY 16, 2022

Target Price: N/A
Current Price: \$69.80
Stop loss: N/A
52 Week High: \$86.36

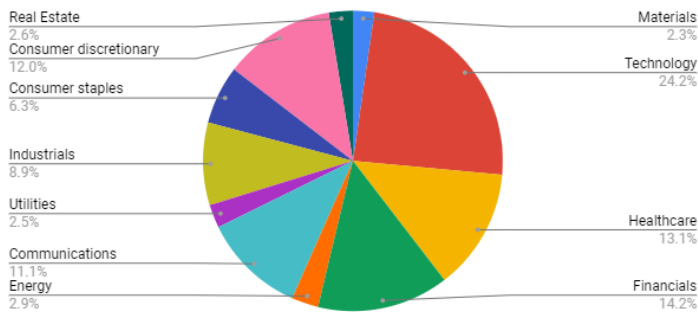
Beta: 1.01
Dividend Yield: 1.34%
Gross Expense Ratio: 0.10%
52 Week High: \$68.78

P/E Ratio (TTM): 18.46
SPY Correlation: 0.89
P/E Ratio to SPY: 0.72
Allocation: 8.10%

Sector Overview

Communication Services is a sector that consists of social media, media services, telecommunications, and consumer discretionary services companies. The sector is most heavily weighted towards the two major social media companies, Meta and Google. These two companies consist of 40% of the fund. The communications sector represents roughly 11% of the SPY, being its fifth largest sector.

SPY Weightings (State Street) 1/28/2022



Outlook

The communications sector faces both headwinds and tailwinds, social media and specifically advertising companies have to deal with the increased privacy concerns of the average consumer, as well as technology companies increasing privacy protections. Social media companies will have to work around this to successfully provide targeted ads. Old media companies and new media companies are currently embroiled in conflict over the huge and new streaming industry. Companies like Netflix are investing huge amounts of money into the development of original content, both to maintain current subscriber levels and to continue growth into the future. Telecommunications companies are managing the expectations of a potential explosion of infrastructure investment and 5G rollouts. Telecom's is set to benefit from this, as well as from increasing interest in private cellular networks. The sector has underperformed the SPY in recent months, being dragged down particularly by investor fears over the slowing growth of headline names like Netflix and Meta.



Investment Thesis

As investors we claim to purchase companies trading at a discount to intrinsic value, regardless of sector weightings. In the absence of attractive investment opportunities, and with a significant portion of our portfolio unallocated, our goal should be to minimize the risk of our portfolio whilst maximizing our returns. Currently, with such a large underexposure in comm services, we are making the implicit assumption that communication services will underperform our benchmark. We do not claim to pick sectors, as we do not have relevant industry models to guide our decision making. In the absence of industry projections, the safest option is to reduce our exposure risk, and allocate a portion of our portfolio to the communications sector..

Investment Risks

Risks of this investment relate to the headwinds facing the sector, losses however are mitigated due to the SPY's similar allocation in the sector. Since we will still be underexposed vs. the SPY, extremely high returns in the short term could reduce our outperformance. Sector risks are as follows:

- Heavily concentrated in FB and GOOG, movement of these stocks can heavily influence the performance of the sector.
- Antitrust legislation may significantly impact the ability of Google and Meta to make acquisitions to remain competitive.
- Consumer privacy concerns may drive further updates that limit the revenue potential of targeted ads.
- ROIC for streaming services may plunge downwards as competitive differentiation necessitates original content.