



THE OWL FUND

Market Fundamentals

Presented By:

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Agenda

- Overview of the Markets
- Identifying Market Participants
- Asset Classes: Debt, Equity, and Alternatives
- Investment Strategies
- Major Indices and Exchanges
- Discussion Questions

What is a “Market?”

- Where those who require capital (Issuers) transact with those who can provide capital (Investors)
- Two Major markets: Equity Markets, and Debt Markets
- Investors can invest via various debt and equity products, often called “securities”
- Investors are compensated in 2 ways.
 - Appreciation of the underlying asset (Capital Gains)
 - Cash Flows in the form of interest (Debt) or dividends (Equity)
- The Markets can be further categorized by geography, asset class, or economic sector.

Market Participants



Issuers

- **Governments:** Issue debt to support federal budget and infrastructure investments
- **Companies:** Issue debt and equity to finance investments, growth, and acquisitions

Investors

- **Institutional:** Asset management firms, pension funds, endowments, and insurance companies
- **Corporations:** Companies can invest their excess cash, usually in highly liquid assets.
- **Retail:** Everyday individuals who trade directly through various brokerage platforms usually in small quantities.

Asset Classes - Equity



What is Equity?

- Stock issued by corporations
- Each “share” of stock represents ownership in the company
- Shares give holders voting rights, and a claim on the earnings of the company.
- Value is derived from cash flows through dividends, and capital gains based on projected future earnings

Classes of Equity

- Common Stock
- Classes of Stock (Class A, Class B, etc..) often with differing voting rights
- Preferred Stock
 - More senior than common stock, constant dividend, no voting rights, often treated like debt in corporate finance
- Equity – linked securities
 - Convertibles
- **The Owl Fund is a pure equities fund, investing primarily in the common stock of S&P 500 Companies**

Asset Classes - Debt



What is Debt?

- Issued by corporations, governments, and others
- Debt is an obligation of the borrower to repay the lender
- **Maturity Date:** The date principle is due
- **Coupon Rate:** The mandatory regular interest payments a borrower must pay to the lender
- **Yield to Maturity:** Rate of return on debt if held until maturity

Types of Debt

- Publicly Traded Debt Instruments: Government and Corporate Bonds
 - Usually Fixed Interest Rate
- Bills (Short Term), Notes (Medium Term), and Bonds (Long Term)
- Bank Loans (Investment Grade Debt)
 - Floating Interest Rate, Amortized Principle Repayment, Maintenance Covenants
- High Yield Debt
 - Fixed Interest Rate, Bullet Interest Payment, Incurrence Covenants

Asset Classes - Alternatives



What Are Alternative Asset Classes?

- Hedge Funds:
 - Employ varying strategies, usually focusing on absolute returns
 - Use of derivatives such as options and swaps to hedge trades or make speculative investments
- Private Equity:
 - Funds that invest directly in the equity of private companies
 - Investments usually have a 3-5 year duration
 - Focuses on Internal Rate of Return (IRR)
- Real Estate:
 - Real Estate Investment Trusts (REIT's)
 - Local Markets, highly cyclical

Investment Strategies



A Fund's Mandate Answers These Questions:

- What is the Purpose of the fund?
- What is the fund's Goal?
- What are the risk parameters?
- Investment Policy Statement

General Strategies

- **Value:** Investing in mature companies that are believed to be trading below fair value
- **Growth:** Investing in younger/smaller companies with a high growth trajectory
- **Macro:** Investing based on global economic and geo-political trends
- **Fundamental:** Investing based on the financial and operational strength of a specific company

At the Owl Fund...

- We focus on **Value** investing with a **Fundamental** approach to analysis
- We seek to **Diversify** across industries and sub-industries to minimize idiosyncratic risk

Major Indices and Exchanges

What are “Exchanges”?

- “Marketplaces” where securities are traded
 - US: NASDAQ, New York Stock Exchange (NYSE)
 - ASIA: Tokyo Stock Exchange, Shanghai Stock Exchange
 - Europe: London Stock Exchange, SIX Swiss Exchange

What are “Indices?”

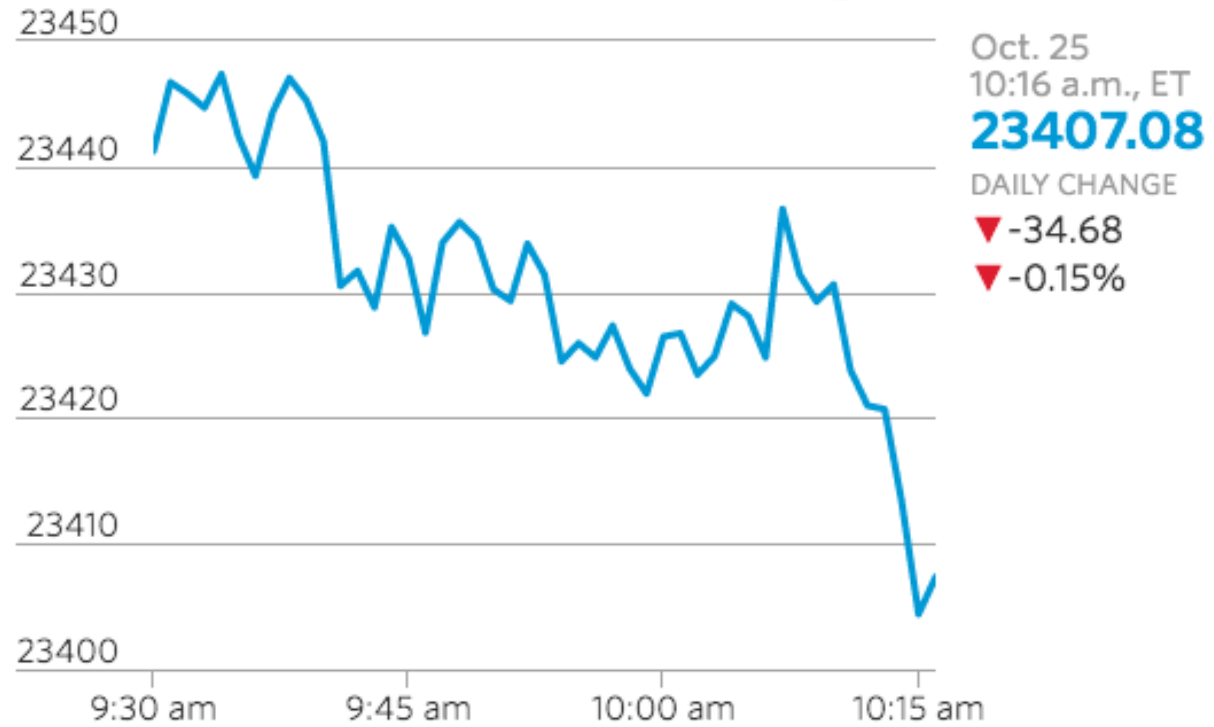
- Basket of Stocks that generally represents the performance of certain financial markets
 - US: S&P500, DJIA
 - Europe: FTSE
 - Asian: Nikkei 225, SSEC
- Typically, when the general public refers to the U.S Markets are Up or Down, they are referring to the S&P 500 or Dow Jones

Discussion Questions

Where the Market is Today

What may have caused today's drop?

Dow Jones Industrial Average



Source: WSI Market Data Group

Discussion Questions

Where the Market is Today

One possible explanation:
lower expected earnings

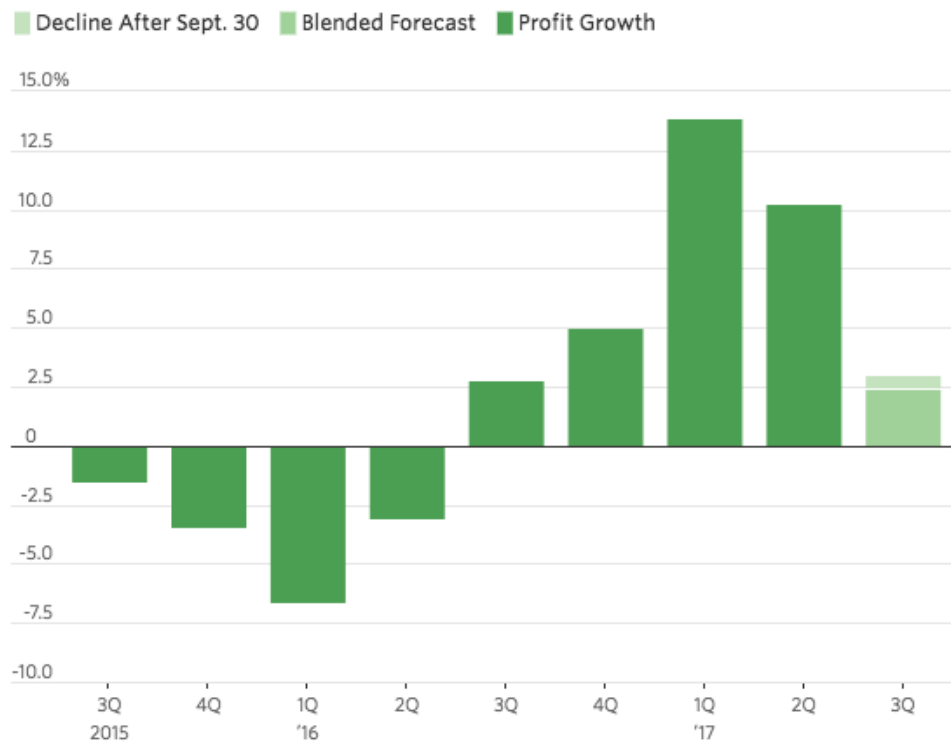
What effect would a rise in
interest rates have on the
markets?

Hurricanes?

Tax reform?

Making Money the Old Fashioned Way

Earnings among S&P 500 companies are expected to grow at their slowest pace in more than a year.



Source: FactSet

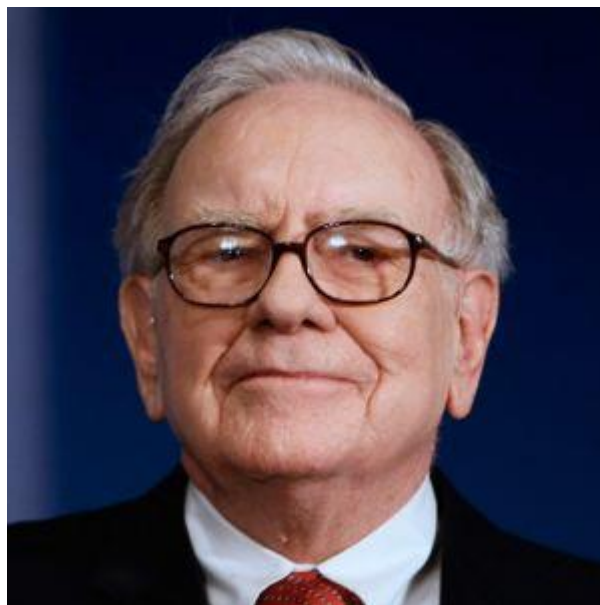
Assignment

- Find 2 publicly traded companies on the Major U.S Exchanges: NYSE or the NASDAQ
- At least 1 of the 2 companies must be in the S&P500
- Provide a summary of the 2 companies, identify whether they are Growth or Value companies, and provide reasons to support your opinion.
- Our directions on formatting and content are vague on purpose, it is up to you how detailed your work is and how neat your work looks.
 - Keep in mind that your assignments WILL be assessed as a part of your Fox Fund applications.
- Email assignment as a **Word document** to inquiry@theowlfund.com

Questions?



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Price is what you pay. Value is what you get.