Institute of Advanced Investment Management

THE UNIVERSITY OF UTAH

Buybacks Systematic Pitch

Cash Flow Crew

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Executive Summary

	Strategy	Invest in companies repurchasing shares with positive free cash flow, aligning capital discipline with shareholder value creation.
	Performance	Over the last 10 years, this strategy has kept up with the S&P 500, with a total return of 306.50% compared to the S&P at 314.73%. But still created a Jensen Alpha of 0.45, due to the strategy having a slightly higher risk-adjusted return.
	Recommendation	Cash Flow Crew is recommending investing in 15 stocks, $2,000 each, investing a total of $30,000 in this strategy.

Strategy Rational

Article Title: *The Rise of Buyback.pdf
Stock_Repurchases_and_Long-Term_Investor_Returns_A (1).pdf

Key Takeaways:

- Buybacks supported by strong governance and strong performance leads to value.

- Buyback-focused indices have outperformed the S&P 500 in the past with lower variability

Table 3. Risk and Return Characteristics of PKW and S&P 500 for Different Holding Periods

Holding period	PKW Annual Return (%) (Standard deviation)	PKW Coefficient of Variation	S&P 500 Annual Return (%) (Standard deviation)	S&P 500 Coefficient of Variation
18 years (2007-2024)	10.05 (15.92)	1.58	7.58 (17.52)	2.31
10 years (2015-2024)	10.48 (15.92)	1.52	9.70 (15.85)	1.63
5 years (2020-2024)	12.17 (15.66)	1.29	9.79 (19.35)	1.98

Strategy Design

Description

- ***Simple Explanation*** – Our strategy is to invest in companies with positive free cash flows, and they use at least 4% of their free cash flows to buy back shares.

Origin

- ***How You Identified*** - Our strategy originated from two articles, "The Rise of Buybacks" and Stock Repurchases and Long-Term Investor Returns." These two articles claim that companies that have positive cash flows and use their free cash flows to buy back shares of their stock align their interest to the shareholders and as a result outperform companies that don't.

Goal

- ***State Hypothesis*** – Companies that have positive free cash flow that use their free cash flow to buy back shares of their company outperform companies that don't.

Parameters

- ***Establish Backtesting Rules*** – Buyback yield greater than or equal to 4%, Current free cash flow yield >0, Top 50 rank (3-month average volume), Top 30 (current free cash flow yield) Top 15 (repayment ratio).

Backtesting Parameters

Screening Criteria

| Parameter	Description	Stock Universe
Index	S&P 500	504 stocks
Buyback Activity	Changes in Shares Outstanding <=-0.04	105 Stocks
Free Cash Flow	Current Free Cash Flow Yield > 0	85 stocks
Trading Volume	Highest 3 Month Average	Top 50 stocks
Free Cash Flow Rank	Higher is better	Top 30 stocks
LF Repayment Ratio	Reinvestment of Free Cash Flow to Long Term Debt	Top 15 stocks
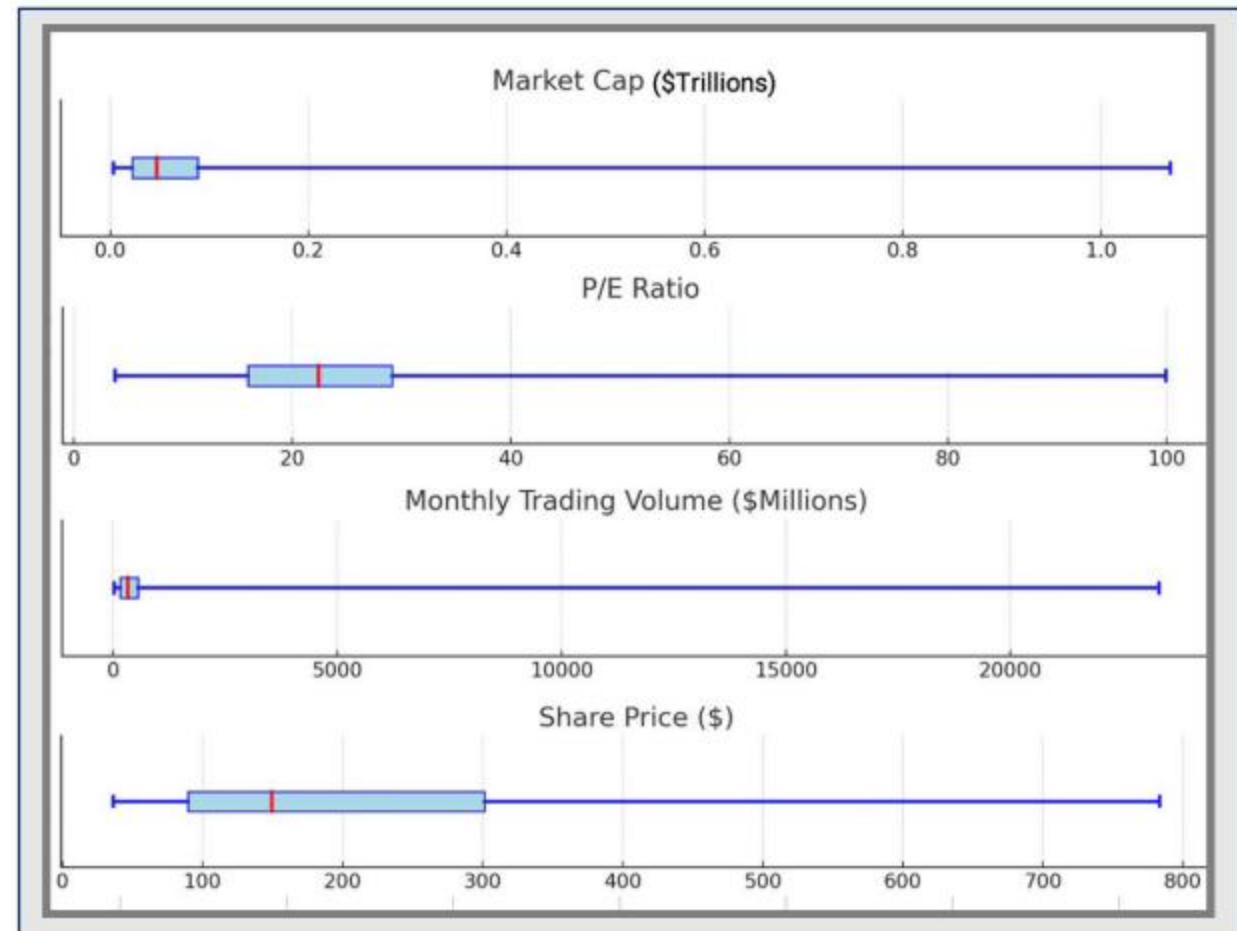
Backtesting Results – Stock Characteristics

| 10-Year Analysis	Market Cap	P/E Ratio	Trade Vol (Mo.)	PPS
Mean	67,674	24.4	483.9	209.63
Min	3,140	3.8	19.3	36.28
25%	22,125	15.9	147.4	89.66
Median	46,755	22.4	323.9	149.62
75%	88,135	29.1	551.1	301.36
Max	1,070,000	99.8	23,311.1	783.26
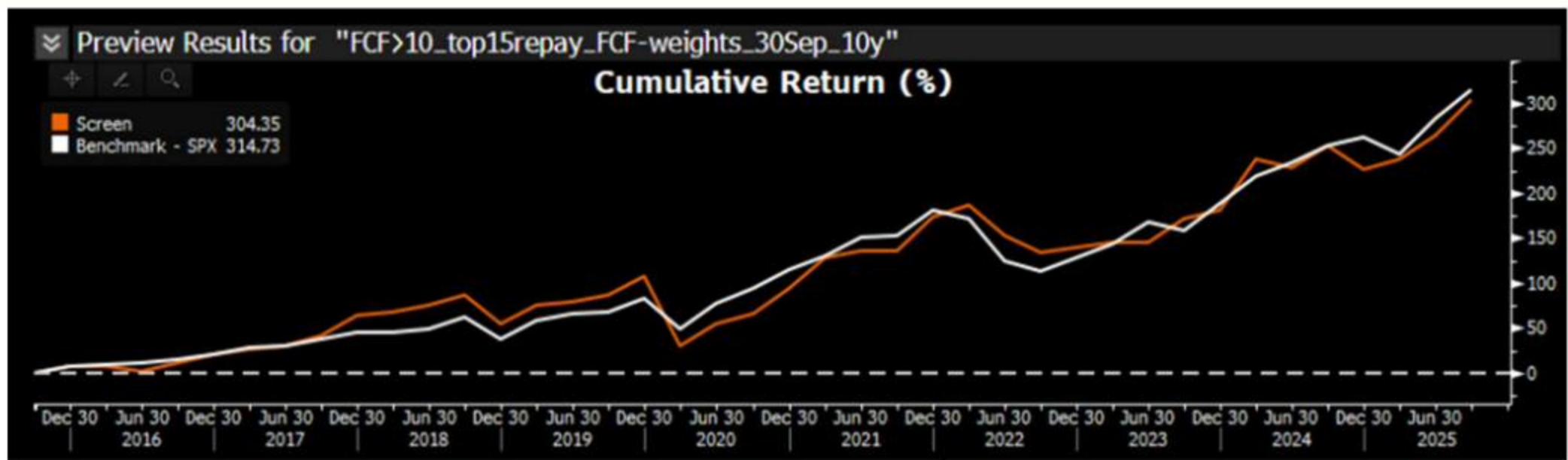
*Mkt Cap – $ in millions
*Trading volume - $ in millions

The strategy mainly invests in mid- to large-cap stocks with moderate valuations and high liquidity.

Backtesting Results – Performance

Preview Results for "FCF>10_top15repay_FCF-weights_30Sep_10y"

Cumulative Return (%)

Screen 304.35
Benchmark - SPX 314.73

Period	Mean Return	Jensen's α*	β*	σ*	Max DD*	Sharpe*
1yr	15.83	*	0.86	21.75%	*	0.61
1yr SPX	16.9%	*	1	13.33%	-18.9%	0.90
10yr	17.73	*	1.02	22.56%	*	0.49
10yr SPX	12.51%	*	1	18.22%	-33.93%	0.7

Backtesting Results – Performance

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg
STRAT	-6.01%	10.81%	28.98%	-7.07%	18.39%	56.89%	21.16%	-14.62%	13.55%	-2.95%	14.84%
SPX	-0.69%	11.24%	18.42%	-7.01%	28.71%	15.29%	28.79%	-19.95%	24.73%	24.01%	12.35%

Effect on the Portfolio

NEW Strategy
Sector Breakdown
(optional)

+

EXISTING
Sector Breakdown

=

ADJUSTED
Sector Breakdown
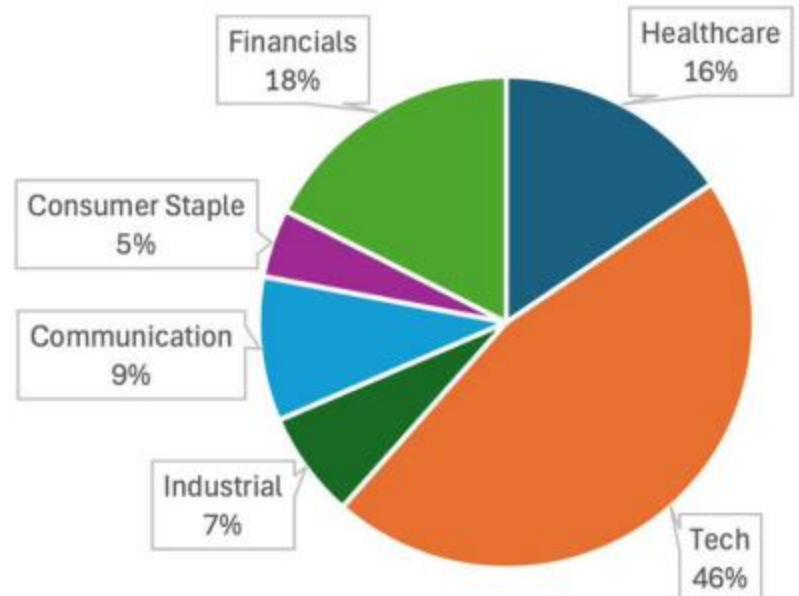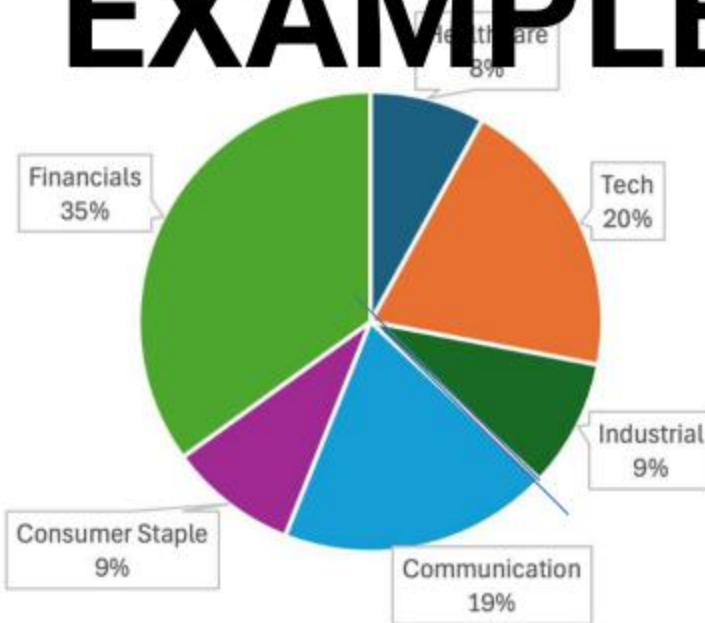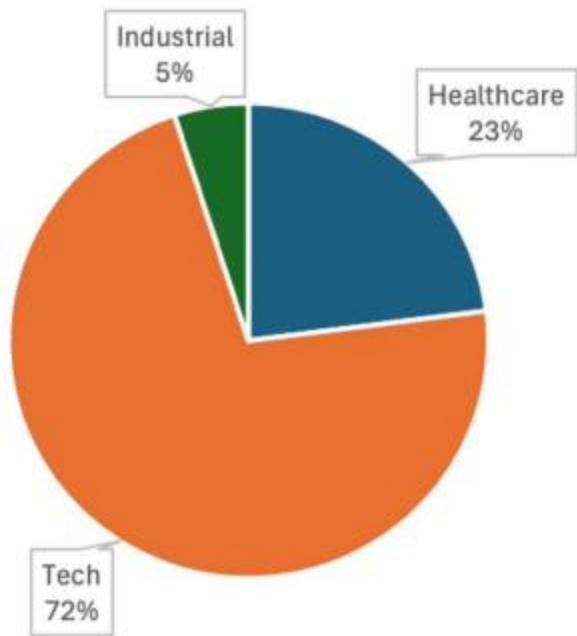
Portfolio	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing						
Adjusted						

Effect on the Portfolio

EXAMPLE

Portfolio	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing						
Adjusted						

Risks

While investing in companies with strong free cash flow and active buybacks supports capital discipline and shareholder returns, risks remain. Using excess cash for repurchases rather than new projects can signal limited growth opportunities and weaken long-term value creation. As the company is choosing to buy back shares rather than investing in projects with a positive NPV.

Risk Category	Specific Risks	Mitigations
Model & Research	Buyback effectiveness may weaken if market sentiment shifts or if firms use repurchases to mask slowing growth, or don't see value projects.	focused criteria (buybacks + positive FCF); periodically re-evaluate factors to ensure continued relevance.
Data & Assumptions	Inaccurate or outdated free cash flow data; announced buybacks not executed; accounting distortions inflating cash flow.	Use verified, point-in-time data; cross-check company filings; perform data quality reviews.
Portfolio	Sector concentration in industries favoring buybacks; underperformance during growth-driven markets; turnover and transaction costs.	Diversify across sectors; set exposure caps; monitor and rebalance periodically.

Critics Arguments

Buybacks are not inherently "good" or "bad" by themselves. They are significant value creating opportunities.

Concerns	Specific Risks	Possible Reason
Short-Termism	Management could pass up on high NPV and value-creating opportunities linked to their value proposition.	Lack of confidence in organizational structure
Poor Timing	Stock shares could be overvalued.	Boosting financial metrics/catering to short-term pressure
Market Manipulation	Possibility that buybacks are to artificially boost EPS without improving fundamentals.	Agency issues

Summary & Recommendation

Strategy Merits

- **Performance**

  Over the last 10 years, our strategy has performed similar to the S&P 500 but with a better risk-adjusted return, producing a positive Jenson's Alpha

- **Risk**

  Share buybacks could be a single the company doesn't have any positive NPV projects.

- **Effects on Portfolio**

  Sector concentration in industries favoring buybacks; underperformance during growth-driven markets

Action Plan

- **Recommendation**: **Yes**

  Cash Flow Crew is recommending investing in 15 stocks, $2,000 each, investing a total of $30,000 in this strategy.

Appendix

Bloomberg Log *Hidden for presentation*

- Append an audit log from Bloomberg showing every screening/backtest run (screenshots in a Word doc or hidden appendix slides

- Purpose: Ensure teams start from literature + thesis, not brute-force tuning; screening criteria should be revised only a few times, beyond that is overfitting and results aren't meaningful.

Model Name	Ticker	Status	Subd	Screen	Last Access/Ran ↓	Frequency	Actions
1) 10Y.v1		Completed	■	Big4	10/26/2025	Quarterly	
2) 3YMCBS.v1		Completed	■	MidCapTestBS	10/23/2025	Quarterly	
3) 5Y.v1		Completed	■	Big4	10/23/2025	Quarterly	
4) 3Y.v1		Completed	■	Big4	10/23/2025	Quarterly	
5) Big4 Test.v2		Completed	■	Big4	10/23/2025	Quarterly	

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Rebalancing Schedule *Hidden for presentation*

A written schedule for strategy rebalancing, if different than quarterly.

- Investment teams monitor their strategies
- If they identify a buy or sell they are responsible for notifying treasury, as with any other investment