University of Connecticut Student Managed Fund

MBA Spring Report- 2014

Managers

George Cerwinski, Lead Manager
Pornpong Lueang-A-Papong, Portfolio Manager
Robert Shedrawy, Treasurer/Secretary
Xin Wang, Technology Manager
Jonathan Coombes
Murali Kuchipudi
Yan Zhu

Dear Foundation Members and Investment Advisory Board Members,

On behalf of the MBA Student Managed Fund managers, we want to thank you for this valuable opportunity. Participating in the management of the SMF has afforded us the opportunity to gain invaluable real world experience in designing an investment process, executing portfolio strategy, determining optimal asset allocation, performing quantitative and qualitative security analysis, and finally presenting our investment performance. We have also had the opportunity to learn and utilize important industry tools such as Bloomberg and Morningstar for our analysis and portfolio strategy. There is no doubt that the skills that we developed while part of the Student Managed Fund will be of immense value as we go on to jobs in Financial Services or any other industry. The development and application of these skills are an instrumental component of our MBA education.

Analyzing a company and the investment quality of its securities is more than financial statements and ratios; it is an art that requires us to apply all aspects of our MBA education from Accounting to Marketing. To develop our economic outlook, sector allocations, and individual company analyses we drew on our diverse work experience, as well as our MBA coursework in Economics, Strategy, Marketing, Finance, and Accounting.

While the purpose of this program is first and foremost educational, we must also ensure that we uphold our fiduciary responsibility to the university by following the guidelines, goals, and constraints set forth in the Prospectus, and strive to earn a reasonable risk adjusted return relative to our benchmark, the S&P 500. To ensure we properly manage toward these guidelines, the team developed a formal process to arrive at our investment decisions. All proposals were accompanied by a detailed and thorough analysis, as well as, stimulating discussions ensuring all ideas were fully vetted before any action was taken.

In the subsequent report, we will share how we developed our portfolio strategy, tailoring our asset allocation to reflect the team’s unique view of the economy and business environment. While the prospectus positions the Student Managed Fund as domestic equity only, we acknowledge the fact that this is truly a global economy and, therefore, consider how our sector allocations and individual companies fit into the world economy.

The focus of this report is to demonstrate how we arrived at our strategy, process, and procedures to ensure we act in the best interests of the foundation and Student Managed Fund Program. We will also discuss our economic and sector views, as well as, the detailed results of our portfolio management efforts over our holding period, including security purchases, asset allocation, portfolio performance to date, and performance attribution analysis.

We believe you will find this report both informative and interesting. We have enjoyed this opportunity and look forward to managing the fund through the end of the semester.

Sincerely,

George Cerwinski, Lead Manager
Pornpong Lueang-A-Papong, Portfolio Manager
Robert Shedrawy, Treasurer/Secretary
Xin Wang, Technology Manager
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Executive Summary

Benchmark and Style

- The fund's benchmark is the S&P 500, accordingly the fund is structured as a Mid to Large cap value portfolio
- The fund's asset allocation is market cap weighted, however we actively over or under weight sectors relative to benchmark based our economic and sector analyses
- The fund's prospectus provides the flexibility to invest up to 20% of the fund in fixed income securities; our management team allocated 0% of the portfolio to fixed income due to rising interest rates

Philosophy and Strategy

- We follow a hybrid selection process beginning with top-down approach with our economic outlook and sector analysis and follow with a bottom-up approach to invest in securities that will outperform their sector on a risk adjusted basis, for the second semester we focused more of our strategy on using a bottom-up approach
- Fundamental analysis focused on business characteristics, financial health, growth, and valuation
- Purchase securities only at a price that provides at least a 15% discount from their intrinsic value calculated from discounted cash flow models
- Corporate Social Responsibility is highly valued and actively considered

Economic and Market View

- We began our investing process with the view that the domestic economy would continue on the overall positive trends as the market remained at record highs
- We also held the views that domestic political circumstances such as the Affordable Care Act and the Debt Ceiling crisis would cause periods of uncertainty
- Based on these macro views, we concluded that the market would remain positive yet volatile

Process

- Four of the managers are responsible for one S&P 500 market sector, while three managers are responsible for two sectors. Each manager has recommended two stocks from their respective sectors.
- All asset allocation and security recommendations vetted by entire management team and require 75% approval to pass

Review and Outlook:

- All fund managers have found their experience in the SMF as a worthwhile endeavor, gaining invaluable experience in the U.S. equities market as well as the securities market as a whole
- Our investment period has been volatile, yet posted continued gains and has witnessed a 16 day government shutdown over the Federal Debt Limit and the implementation of the Affordable Care Act
- The Euro-zone has lagged world trends and continues to rebound slower than expected. We have been cautious in selecting securities with broad European exposure
- The S&P500 has seen fantastic returns over our investment timeframe of 9.28%. Although we have underperformed the market to date, we remain confident that our process and methodology will result in generating a risk adjusted return greater than that of the benchmark over our 3-5 year investment horizon

Investment Philosophy and Style

The investment philosophy our team developed is primarily value investing. We use discounted cash flow analysis to determine the intrinsic value of individual securities and only purchase those that we believe are undervalued by at least 15%. In building our portfolio we went with a top-down / bottom up hybrid approach first focusing on the overall economy and then developing views on individual sectors, identifying those we think will outperform or underperform the overall market. To implement our hybrid approach each manager was assigned one or two S&P 500 sectors. Managers then spent time analyzing trends within that sector including interest rates, government regulation, business cycles, technological advancements, Supply/Demand, credit quality, and earnings potential. Sector reports were presented to the team and we discussed which sectors had the most favorable outlook. From there the focus shifted to a bottom-up approach as managers were free to explore investment opportunities within each sector.

We are focusing on Mid to Large cap companies with market caps greater than $5 Billion that have strong financial fundamentals, demonstrate consistent earnings, and are undervalued by the market. Managers will present their investment proposals at weekly meetings and must receive 75% approval from the team in order to execute a purchase order. At the request of the foundation we also consider the Corporate Social Responsibility of all potential investments which we asses using various tools in Bloomberg. We plan to beat our benchmark, the S&P 500, by adjusting our sector allocations to align with our outlooks, choosing only the best companies within our assigned sectors, and actively monitoring and reassessing our holdings and sector allocations to respond to any market or economic developments. All investments are fully vetted, comply with the prospectus, and meet the goals of the fund.

We have a long term investment time horizon of 3 – 5 years and are working to position our portfolio to outperform our benchmark over that timeline. Some long term trends we have identified are rising interest rates, improving job market, manufacturing re-shoring, a recovering housing market, and improving consumer confidence. We believe these trends will continue for the next couple of years and thus try to identify investments that compliment these beliefs.

Ultimately our goal is to outperform the S&P 500 over the stated investment horizon of 3 to5 years. However, we acknowledge that our performance will measured during the short academic year. Therefore, we try to pick stocks that have both short term and long term upside potential. While our approach is primarily value investing we encourage managers to also consider growth companies within their respective sectors. Small allocations to growth companies with solid fundamentals that fit into our investing framework may help us achieve success in the short run while maintaining our long term value based focus.

Strategy

Our fund's strategy is an actively managed portfolio strategy, with the aim of generating alpha in order to outperform our benchmark, the S&P 500. We plan to invest our $1.6 million in 25 to 30 common stocks of US companies, in 10 sectors. Each holding will be less than 5% of our total portfolio. The target number of securities is subject to change, with the agreement of MBA managers, depending on the situation of the macro economy, industries, and companies.

The 10 sectors we chose to invest in are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, IT, Material, Telecom and Utilities. Each manager was assigned 1 to 2 sectors, depending on sector size. Our decision to diversify our investments across the 10 sectors is designed to help us manage risk. After taking a broad range of macro and micro economic considerations into account, including recent events such as the passing of the Affordable Care Act, and the temporary government shutdown, each manager assigned a proposed weighting to his or her sector, based on risk/return prospects over the next 3-5 years. The defined weightings were "in-line", "overweight" or "underweight", compared to the S&P 500. We plan to reach our targeted sector weights by the time we have completed our investments.

In the first semester, our philosophy was a hybrid investment philosophy. While focusing on an assigned sector, each manager looks for companies with mid to large capital ($5 billion) and selects companies that have good prospects for future business development, earnings strength and potential, and competitive strength in today's economic environment. Meanwhile, the financial performances of these companies over the last five years were carefully considered, including historical revenue, profit margin, net income, free cash flow, dividend, and market value. After carefully comparing these measurements, we chose companies that have outstanding financial performance over the past five years, as well as competitive business strategies and profit potential.

After spring break, taking into account the macroeconomic situation, the amount of cash we hold and the expected return we want to pursue, we adjusted our investment philosophy towards a bottom-up strategy. We became more concerned on the individual company's performance rather than sector or industry allocation. Furthermore, unlike last semester, we looked at small capital and mid to larger capital at the same time. In other words, as long as the company has healthy financial performance, competitive business models, strong earning ability or any other attractive business strategy, we would like to pay less attention to the sector allocation that supposed to be consistent with our benchmark S&P 500, and focus more on individual stocks.

In order to further control our investment risk, we tried to manage our systematic risk by avoiding companies that are heavily weighted in the European market, due to current uncertainty in many European economies. Secondly, we managed timing risk by deciding to adjust investment weights over 4 rounds to account for potential changes in the economic environment during our investment period. Finally, we decided to further manage risk by placing an emphasis on mid to large cap companies, rather than small cap companies.

Although the Student Managed Fund prospectus permits us to invest up to 20% of our portfolio in fixed income assets, we decided to invest 100% of our fund in securities. Firstly, the rising interest rate makes us concerned about future prices in this asset class. The investment might face losses if the interest rate continues to grow. Moreover, compared to performing thousands of analyses on thousands of fixed income assets, we prefer to use our hybrid strategy to choose the best stocks in the best industries for our portfolio, which could provide comparable yield.

Investment process

Our approach to investing is a hybrid of both a top-down and bottom-up perspective. We began as a group by analyzing the state of the macro-economy, before delving down into sector and industry analyses. Based on our consensus opinion of each sector and industry, we began to select individual stocks for detailed analysis and valuation. During the individual stock analysis stage, however, we allowed for some flexibility for each manager to uncover undervalued stocks using a bottom-up approach. The three main stages of our approach are explained below.

Macro-Economic Analysis
We began our investment process by researching and discussing the macro-economic trends that are likely to have a strong impact on overall market conditions over our proposed five-year holding period. Based on each manager's findings and subsequent debate, we aligned our opinions and expectations to the extent that we were able to form a base-line perspective from which to conduct sector and industry analyses. The main factors we considered include the following:

- GDP growth rate
- Unemployment rate / labor participation rate
- Interest rates
- Geopolitical events

Sector and Industry Analysis
We proceeded by analyzing the characteristics of each sector of the S&P 500, and the industries, in terms of trends and future expectations. We were thus able to identify which sectors we believed would outperform the S&P 500 benchmark over the holding period. This formed the basis of our portfolio analysis and created a strong framework from which we could approach our valuation of individual stocks. We used a variety of professional resources to carry out our analysis. These included Bloomberg, Morningstar Direct, S&P Net Advantage, Value Line, Thomson ONE banker, and Yahoo Finance. While the most pertinent factors varied by sector and industry, some the common areas of consideration included the following:

- Corporate earnings and reports
- Consumer confidence
- Credit availability
- Government regulation

Individual Stock Analysis
Managers were assigned to each sector of the S&P 500 in order to perform a more detailed analysis of the individual stocks within. The top-down approach we had so far taken enabled each manager to focus his or her search on a group of select industries, within the sector, that the group had collectively identified as preferable. However, managers were not bound to a single "best" industry within each sector from which to select a stock for investment. In fact, we decided that each manager would be granted the freedom to select and pitch a stock from any industry within his or her designated sector. Managers used the group's selected industries as a starting point from which to begin to analyze individual securities. From here, managers could explore all companies in their sector as they learned more. The flexibility of this approach was designed to allow managers to cast a wider net in the search for alpha, and thus incorporate some of the benefits of a bottom-up process.

Individual stocks were analyzed from both qualitative and quantitative perspectives. Each manager looked closely at each company's business model, the products and services offered, and management style. While each company was viewed in terms of its unique strengths and weaknesses, our search placed an emphasis on companies with the following attributes:

- Strong and sustainable business model
- Well-balanced/diversified business units
- Strong and predictable earnings
- Estimated intrinsic value higher than market value
- Growth potential
- Ethical approach to business

While any perspective on the ethics of a company is inherently subjective, we chose to use the quantitative, third-party measures of ethical business practices provided by Bloomberg CSR scores as a standard of comparison. While all CSR scores were taken into account, we identified the following Bloomberg CSR scores as the most pertinent and important to us as a group:

- Human Rights
- Business Ethics Policy
- ESG Disclosure
- Equal Opportunity
- Emission Reduction
- Environmental Disclosure Score

In terms of more quantitative analysis, we looked closely at performance metrics and ratios between industry competitors and against standard benchmarks. Some of the more important metrics included the following:

- ROA and ROE
- P/E and PEG ratios
- Operating margins
- Leverage ratios

Once these basic qualitative and quantitative considerations were evaluated, the stronger companies were chosen for a rigorous examination of financial performance and future earnings potential. We calculated a Fair Value for each stock using the Discounted Cash Flow (DCF) method. We also performed sensitivity analysis and identified the crucial factors that could affect the accuracy of our valuations in terms of both risks and potential upside.

Valuation Methodology

We used the Discounted Cash Flow (DCF) method to value non-financial company stocks and the Excess Return Valuation (ERV) method to value financial company stocks. We used historical trends and growth rates to develop projected income and cash flow statements which we used to predict future free cash flows. These Free cash Flows were then discounted in order to arrive at an intrinsic value for the security.

- **WACC:** We used the Weighted Average Cost of Capital (WACC) as the discount rate for each stock. The CAPM formula was used to determine the cost of equity. Beta, taken from Bloomberg, was used along with the current 10-year US Treasury bond yield as the risk free rate, and a 5.9% geometric historical market risk premium. This was combined with a cost of debt that represents either interest expense as a percentage of long-term debt or a Bloomberg estimate.

- **DCF:** Discounted Cash Flow model is used to evaluate the present value of the stocks. For non-financial companies, Free Cash Flow is calculated through (NOPAT+ Depreciation- Change in net working capital – Net Capital investment) for a five years period. For financial companies, Excess Return is calculated by comparing Return on Equity to Cost of Equity. The assumptions for our Free Cash Flow projections varied stock-by-stock and manager-by manager. These assumptions were scrutinized by the group during each stock pitch, made prior to a final investment decision.

- **Terminal Value:** Projections were made to a point in time where the manager felt that growth could be seen as stable enough to apply a terminal growth rate for future years into perpetuity. The used terminal growth rates for non-financial companies were in the range of 1% to 4% varied by different industries. The resulting Terminal Value was added to the present value of the preceding years' free cash flows to arrive at the final intrinsic value.

- **Equity Value per Share:** After subtracting net debt from the enterprise value and continue to divide the result by current diluted shares outstanding, the managers eventually get the intrinsic value per share for stock.

- **Total Return Estimates:** We assessed the return capability for stocks by calculating Compound Annual Growth Rate based on estimated intrinsic value and dividends per share for individual stocks for 3- years periods and 5-years periods respectively.

Processes and Procedures

Training and Development

The team received training from various resources which helped in designing better strategies for the fund. In the initial meetings Dr. Rakotomavo and Dr. Ghosh gave advice on stock selection framework, DCF, sector allocations and availability of resources such as Bloomberg, Morningstar etc… Dr. Rakotomavo gave a stock analysis demo on Bloomberg which the team found very useful. Everyone was able to see the immense information and data that Bloomberg has. On top of that the team also received training from a Bloomberg representative who showed shortcuts and important resources to save time during analysis. The team was also given access and training to Morningstar which gave additional helpful resources. Also certain important features of various resources were highlighted. For example the team found the industry report from S&P Net advantage very insightful and helpful. Overall the training and guidance, especially the Bloomberg access gave the team all the key resources that a professional stock analyst would have.

Channels of Communications

The team regularly met every Wednesday between 12:00 pm to 3:00 pm in GBLC room 304 during which all the key brainstorming, training, stock pitches and administrative tasks took place. All the important documents like analyst reports, trade tickets etc. were stored in a common shared location so that all the necessary people have access. All managers are expected to attend all meetings and inform the team in case there is any conflict. Usually at the end of every meeting, the team finalized on the agenda and action items for the next meeting. The team also regularly monitored the time line for various tasks so that the necessary deadlines are met in a timely fashion. Meeting Minutes are taken during the meetings and uploaded into the common shared location.

Stock Pitches

Each Manager is expected to pitch four individual stock purchase recommendations to the group by the end of February, 2014. The manager who pitches the stock is expected to present a one page report. A sample One Page Report is included in this report.

The pitch process will consist of a 10-15 minute presentation followed by a 10-15 minute Q&A session. All managers present at the meeting (with the exception of the pitching manager) will vote whether to buy the stock. The voting process is open and voting managers will raise their hand to indicate a buy. The stock must receive a 75% buy votes from the managers in order to buy that stock. If the stock is a buy, the pitching manager will complete a Buy Order Trade Ticket, including any negative votes explained, and put it in the SMF drop box. The Secretary will review and subsequently send the order along with the One Page Report to faculty for execution as soon as possible.

If the stock is voted down, the pitching manager will have a brief period to answer questions and provide additional insight to convince group of the validity of the recommendation. One re-vote by the entire group will be allowed. If the stock is voted down again, the pitching manager will have until the next pitch day to make another recommendation.

It is each manager's responsibility to monitor the performance of their stock recommendations. A stop loss trade ticket is also submitted for each stock that is bought. The stop loss price is 15% less that the price at which the stock is bought.

Portfolio Analysis

Benchmark and Portfolio Asset Allocation

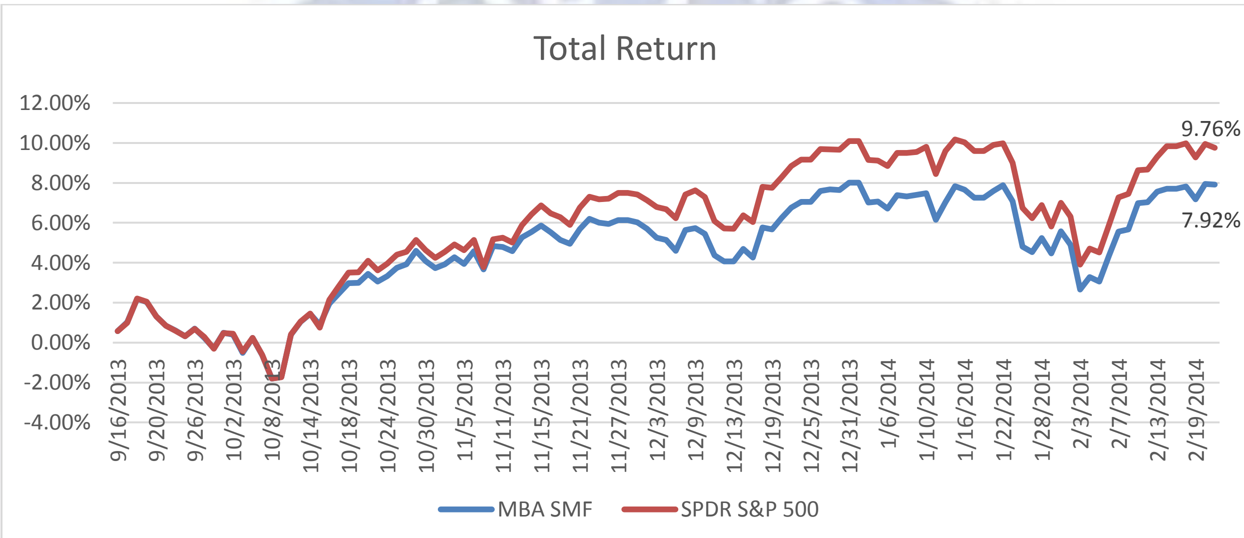
As stated in the prospectus, our performance is tracked relative to the S&P 500. After employing both bottom-up and top-down analyses, our portfolio is overweight Healthcare sector (20.66% vs. 13.3%), and underweight Industrial sector (5.47% vs. 10.83%), Material sector (1.28% vs. 3.46%), and Consumer Discretionary sector (9.82% vs. 12.52%). Other sector weights are in-line with S&P 500 index. The overweight of healthcare sector is a result of our positive outlook on the companies. We purchased UnitedHealth Group (UNH) in October and Amgen (AMGN) in November 2013, and they generated returns of 8.01% and 5.98% respectively. In February 2014, we decided to add Covidien (COV), Aetna (AET), and Johnson & Johnson (JNJ) into our portfolio. Additionally, we chose to underweight the utilities and materials sectors. This was determined based on the negative outlook in those respective sectors. For the Consumer Discretionary sector, our portfolio was in line with the S&P 500 index until the stop loss of Ford Motor was executed on December 18. As of February 20, 2014, we invested almost 100% of initial fund received on September 13, 2013.

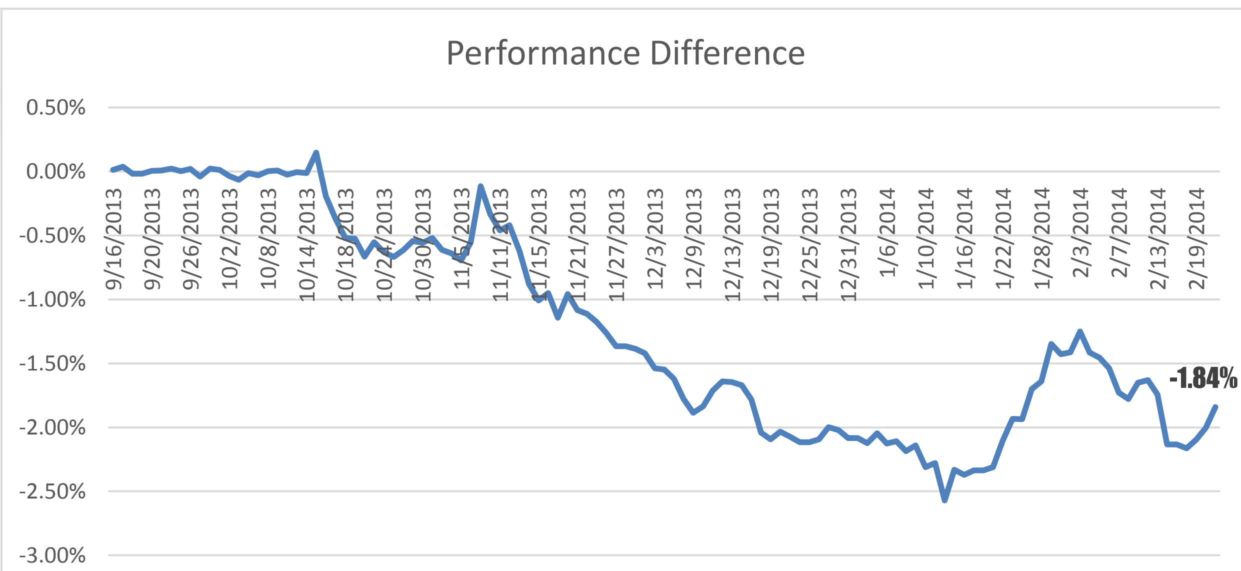
	#	MBA Target	S&P 500 (Feb)	S&P 500 (Nov)	S&P Change
Technology	**4**	17.13%	17.61%	12.40%	5.21%
Financials	**4**	17.18%	16.34%	10.20%	6.14%
Health Care	**5**	20.66%	13.30%	10.50%	2.80%
Energy	**3**	11.88%	10.42%	16.10%	-5.68%
Consumer Discretionary	**2**	9.82%	12.52%	13.00%	-0.48%
Consumer Staples	**3**	11.04%	10.11%	10.90%	-0.79%
Industrial	**2**	5.47%	10.83%	17.90%	-7.07%
Material	**1**	1.28%	3.46%	3.50%	-0.04%
Utilities	**1**	3.21%	3.02%	2.40%	0.62%
Telecom	**1**	2.27%	2.39%	3.10%	-0.71%
Total	**26**	99.95%	100.00%	100.00%	
Cash		0.05%			

Source: SMF Portfolio, S&P Dow Jones Indices

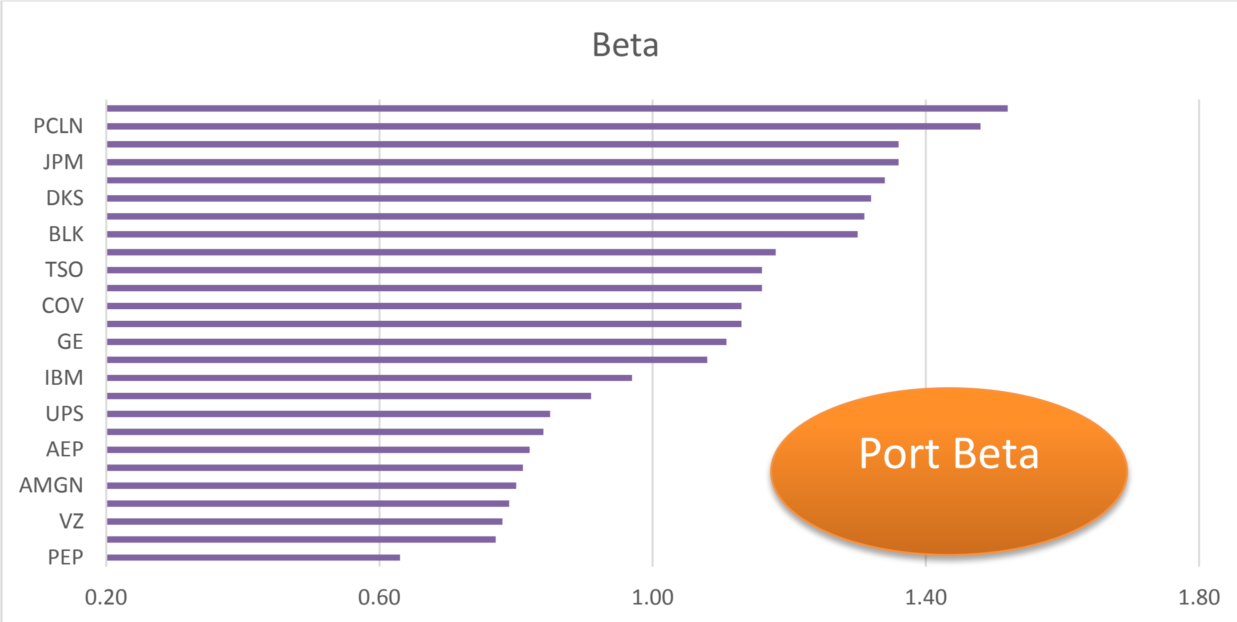
Holding Period Performance Review

From September 13, 2013 through February 21, 2013 the MBA Student Managed Fund portfolio returned 7.92%, including cash dividend, while the S&P 500 returned 9.76%. Thus, our portfolio performance is behind S&P 500 by 184 basis points. One major reason of the performance difference is that we liquidated the SPY ETF into cash on October 14 and executed our first trade on October 24, 2013. During that ten days period, S&P 500 index increased by 2.5%, from 1710 to 1752.07, while our portfolio held about 40% in cash. Another reason is our position in Ford, which the 15% stop loss order was executed on Dec 18, 2013.





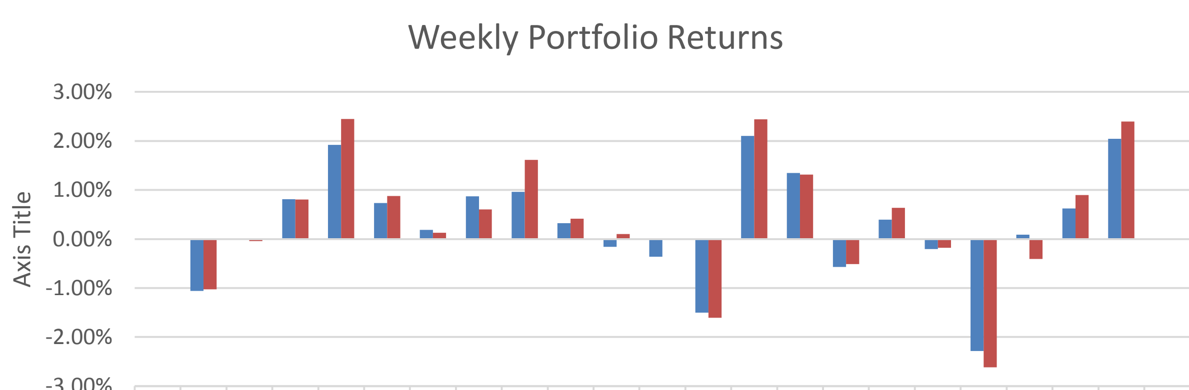
Our first few weeks of the Fall semester were dedicated to performing research of our respective sectors in order to determine how we were going to allocate the assets in our portfolio. Our goal was to create a well-diversified portfolio, while seeking excess return through allocation and selection. As of February 20, 2014, our portfolio contains 26 stocks from all sectors, with Beta ranging from 0.63 to 1.52. The overall Beta of our portfolio is 1.08.



Source: Bloomberg, Team Calculation.

The portfolio's Jensen's Alpha of -0.0365% shows that the portfolio underperformed relative to the market and its risk exposure. The Sharpe ratio of 0.26 is slightly below the market of 0.3. This indicates that we were not able to achieve a better return per unit of risk than the market, but were roughly in line with the market when we adjusted the return to account for total risk. Our Treynor ratio, in addition, was slightly below the market, indicating we earned a return per unit of systematic risk slightly below the market.

During the 23-week holding period from September 13, 2013 we have witnessed some uncertainty, partly due to the concern about the government shutdown in October and FED's tapering. Compared to the S&P 500 index, our portfolio outperformed for eight weeks and underperformed for 14 weeks.



	9/24/13	9/27/13	04/10/13	11/10/13	10/18/13	10/25/13	01/11/13	08/11/13	11/15/13	11/22/13	11/29/13	06/12/13	12/13/13	12/20/13	12/27/13	03/01/14	10/01/14	1/17/14	1/24/14	1/31/14	07/02/14	2/14/14	2/18/14
MBA SMF	0.00%	-1.06	-0.01	0.81%	1.92%	0.73%	0.18%	0.87%	0.96%	0.32%	-0.16	-0.36	-1.50	2.10%	1.35%	-0.57	0.40%	-0.21	-2.28	0.09%	0.62%	2.04%	0.00%
S&P 500	0.00%	-1.02	-0.04	0.81%	2.44%	0.88%	0.13%	0.60%	1.61%	0.41%	0.10%	0.01%	-1.61	2.44%	1.31%	-0.51	0.63%	-0.18	-2.62	-0.41	0.90%	2.39%	0.00%

MBA Student Managed Fund Portfolio vs. S&P 500

	MBA SMF	S&P 500
Total Return	7.92%	9.76%
Mean Weekly Return	0.30%	0.39%
Geometric Weekly Return	0.29%	0.39%
Standard Deviation	1.12%	1.28%
Sharpe Ratio	0.26	0.30
Beta	1.08	1.00
Treynor Ratio	0.0027	0.0039
Jensons Alpha	-0.0365%	

Sharpe Ratio: Our Sharpe Ratio underperformed the benchmark by 0.04. This implies that our portfolio generated less return than the market when adjusted for total risks.

Treynor Ratio: The portfolio's Treynor ratio performed slightly below the benchmark. This implies that when adjusting for systematic risk, our portfolio performed slightly below the benchmark.

Jensons Alpha: Our Portfolio analysis showed an alpha of -0.0365%. Showing us that the portfolio underperformed compared to what is expected.

Performance Attribution Analysis

Throughout the course of our holding period we found many bright spots as well as low spots. Some sectors provided our portfolio with a high active return while other sectors provided a low active return, which ultimately lead to our underperformance relative to the benchmark. Each sector will be discussed in detail.

Sep 13, 2013 – Feb 21, 2014

	Avg % Wgt			Tot Rtn			Tot Attr	Alloc	Selec
	Port	Bench	+/-	Port	Bench	+/-			
MBA SMF 2014	100.00	100.00	0.00	7.92	9.76	-1.84	-1.84	-1.95	0.11
Cash	7.53	0.38	0	0	0	-1.53	-1.53	0	0.00
Consumer Discretionary	1.38	12.39	-11.01	9.08	-20.09	-0.41	0.12	-0.53	-0.67
Consumer Staples	4.75	9.9	3.89	3.2	0.69	0.5	0.21	0.29	0.2
Energy	2.72	10.34	6.8	4.52	2.28	0.62	0.41	0.21	0.17
Financials	5.39	16.16	12.03	7.26	4.77	0.66	0.21	0.44	0.38
Funds	62.7	0	9.2		9.2	-0.07	-0.07	0	0
Health Care	4.96	13.13	12.21	15.87	-3.66	-0.41	-0.29	-0.11	-0.11
Industrials	3.75	10.76	-4.71	12.2	-16.92	-0.83	-0.27	-0.56	-0.51
Information Technology	2.9	18.07	6.56	14.53	-7.98	-0.71	-0.73	0.02	-0.01
Materials	0.7	3.47	31.42	11.01	20.41	0.26	-0.03	0.29	0.3
Stocks	0	0.08		4.08	-4.08	0.01	0.01	0	0
Telecommunication Services	1.39	2.34	-5.86	-0.04	-5.81	0.01	0.01	0	-0.03
Utilities	1.84	2.96	5.73	10.65	-4.91	0.06	0	0.06	0.07

Cash: During our investment period we were into and out of cash positions while allocating our funds. Frequently, after liquidating a portion of our SPY position the index increased, sometimes drastically. Because we were in a cash position waiting for the trade to settle we missed potential gains. This provided us an active return of -1.53% due to gains missed from holding cash during bullish days.

Consumer Discretionary: We are bullish on the consumer discretionary sector, but decided to manage toward a market weight given the inherent risks with a cyclical sector and uncertain economic conditions over our holding period. Our performance attribution shows a significant underweight position due to the fact that Ford was stopped out over winter break and the market timing of our final round of trades. Also, Ebay is considered by Bloomberg as a technology company while we classified it as consumer discretionary. Our returns over the period were (-11.01%) compared to the benchmark 9.08% due to the Ford loss.

Consumer Staples: Because this sector is stable and defensive, we decided to weight this sector as benchmark. Since we increasingly invested the equity, daily average weight shows a lower weight than benchmark. This sector provides a 3.20% return of S&P 500 while we gain 3.89%, which is 0.69% outperforming than the market. Because of our timing and weight decision, we have a positive active return of 0.21% due to allocation. We also have a positive active return of 0.29% due to our stock selection decisions. The total active return in the consumer staples sector shows a positive contribution of 0.5%.

Energy: Compared to 2012 and early 2013, the Energy sector has struggled over our investment timeframe as the price of oil has stabilized and drilling operations have become much more costly. Due to this we have decided to slightly underweight the sector. This sector provided an S&P500 return of 4.52% vs our portfolio return of 6.80%, which is an over perform of 2.28%. The total active return in the Energy sector shows a positive contribution of 0.62%. Allocation accounted for 0.41% of our total active return, while stock selection accounted for the remaining 0.21%

Financials: The financial sector was the best performing sector in term of total active return over our holding period yielding 12.03% return compared to the benchmark of 7.26%. In addition, the time weighted return for our financial sector portfolio was also the highest of 5.39% (excluding Cash and SPY ETF). This sector provided us with the highest total active return of all sectors at 0.66%. The active return is a combination of allocation effect 0.21% and selection effect of 0.44%.

Healthcare: Considering the improved employment and impact of Affordable Care Act, We keep the positive attitude on Healthcare sector and expect more return from this sector. Hence, we decide to continue to overweight healthcare sector as we planned at the end of last semester. At the same time, taking into account of bottom-up strategy for this semester, when we found that several companies did or are doing outstanding performance recently, we don't hesitate to invest more on them even make our weight of healthcare in portfolio to be 20.6% which is 7.36% more than S&P 500 who only owns 13.3% in Healthcare sector. Currently, we achieve 12.21% of total return from Healthcare sector, the number is 3.66% lower than our benchmark. Although the active return is negative 0.41% due to negative 0.29% return from allocation and negative 0.11% return from selection, we still keep positive position on long- term return for this sector.

Industrials: Despite many positive analyst reports, we are cautious on this sector due to soft demand for manufactured products from US manufacturers, and the risk associated with an uncertain Chinese economy. We have therefore underweighted it compared to the benchmark. While this sector provided an overall 12.20% increase in the S&P 500, our industrials stocks have so far experienced an unrealized loss of -4.71%, representing an underperformance of -16.92%. Factoring in timing and our weighting decision, we have an active return of -0.83%.

Information Technology: Due to the strong growth in cloud and smart phone we decided to overweight this sector than the bench mark. Since most of our buys in the technology stocks are very recent, the daily weight shows a lower weight than the benchmark. This sector provides a 15.87% return of S&P 500 while we gain 6.56%, which is -8.16% underperforming than the market. Because of our timing and weight decision, we have a negative active return of -0.73% due to allocation. We also have a negative active return of 0.02% due to stock selection. In the long term we expect our technology picks to outperform the market. Total return underperformed the market by 7.98% and the active return underperformed by 0.71%.

Materials: Over the past three years the materials sector has lagged the S&P 500 by 5.8% as the worldwide recovery has been slow to materialize. Due to this we have decided underweight the sector as returns remain volatile. The total return of our portfolio materials sector has been 31.42% compared to the S&P sector return of 11.01%, which is an over performance of 20.41% Our total active return of the materials sector has been 0.26%. Our timing and weighting decision led to a negative active return of 0.03%. We had a positive active return of 0.29% due to our stock selection decisions.

Telecommunication Services: We decided to invest in this sector due to the attractive dividend yields and stability. But we decided to underweight as this sector tend to underperform in a growing economy. This sector provides a -0.04% return of S&P 500 while our performance is -5.86% , which is -5.81% underperforming than the market. Because of our timing and weight decision, we have a positive active return of 0.01% due to allocation. We have a negative active return of -0.01% due to stock selection.

Utilities: We chose to underweight utilities for our portfolio because rising interest rates typically put pressure on the sector and a bullish market meant there are better value / growth plays outside of the defensive utilities space. Our utilities trade made money but underperformed the benchmark (5.73% vs. 10.65%.) This is due in part to market timing as we were measured against our benchmark since the beginning of October but did not invest in the utilities sector until late November.

Performance Analysis

The UConn foundation has a long-term investment mandate for the SMF program. The performance of our portfolio is measured in comparison to the S&P 500 Index for equity securities. Our objective is to exceed the risk adjusted return of the S&P 500. We measure this using the following composite metrics:

- **Sharpe Ratio** – Measures the portfolio's risk-adjusted performance, and this measure evaluates us, the portfolio managers, on the basis of both rate of return performance and diversification
- **Treynor Ratio** – Measures the portfolio's the reward to volatility and it is measured as the excess return of the portfolio over the Beta of the portfolio
- **Alpha** – Measures the difference between the portfolio's actual return and its expected return given the portfolio beta. A positive alpha indicates that the portfolio has performed better than the expected returns as predicted by the portfolio beta
- **Performance Attribution Analysis** – We have also done a detailed attribution analysis to distinguish between superior stock selection (Selection Effect) related performance and market timing skills (Allocation Effect) by allocating investment funds to different industry sectors

We purchase stocks that have a current market price which is 15% lower than its intrinsic value based on our valuations. We also set stop losses for all of our stocks that we purchase. The consensus in the group was to set the Stop Loss at 15% of the purchase price of the stock. We measure returns of our portfolio on a weekly basis. Individual sector managers also monitor performance of their sector holdings and provide updates in the team meetings every Monday and Thursday.

Current Holdings

Name	Symbol	Shares	Cost basis	Mkt value	Weight	Gain	Gain %	Overall Return	Beta
SPDR S&P 500 ETF Trust	SPY	-	-	-		-	0	3.75	
Alcoa Inc	AA	1,858	16,824	21,887	1%	5,063	30.1	30.1	1.31
American Electric Power Company Inc	AEP	1,088	52,461	54,770	3%	2,308	4.4	4.4	0.82
Aetna Inc	AET	1,110	77,010	77,578	5%	568	0.74	0.74	0.77
Altera Corporation	ALTR	1,750	56,919	62,388	4%	5,469	9.61	9.61	1.36
Amgen, Inc.	AMGN	460	53,599	56,805	3%	3,206	5.98	5.98	0.8
BlackRock, Inc.	BLK	278	84,668	83,545	5%	- 1,123	-1.33	-1.33	1.3
Covidien plc	COV	1,185	84,271	84,467	5%	196	0.23	0.23	1.13
CVS Caremark Corporation	CVS	870	57,081	62,040	4%	4,959	8.69	8.69	0.81
Dicks Sporting Goods Inc	DKS	1,633	84,038	84,067	5%	29	0.03	0.03	1.32
eBay Inc	EBAY	1,322	72,913	72,657	4%	- 256	-0.35	-0.35	0.91
Estee Lauder Companies Inc	EL	1,080	72,993	73,289	4%	296	0.4	0.4	1.08
General Electric Company	GE	2,150	57,134	54,008	3%	- 3,126	-5.47	-5.47	1.108
Halliburton Company	HAL	1,116	56,758	61,804	4%	5,047	8.89	8.89	1.52
International Business Machines Corp.	IBM	400	73,378	73,704	4%	326	0.44	0.44	0.97
Johnson & Johnson	JNJ	785	72,046	72,518	4%	472	0.66	0.66	0.79
JPMorgan Chase & Co.	JPM	990	52,301	57,004	3%	4,703	8.99	8.99	1.36
KLA-Tencor Corporation	KLAC	1,291	83,180	83,463	5%	283	0.34	0.34	1.34
MSCI Inc	MSCI	1,717	75,190	77,231	5%	2,041	2.71	2.71	1.13
Priceline.com Inc	PCLN	65	83,660	83,395	5%	- 265	-0.32	-0.32	1.48
PepsiCo, Inc.	PEP	680	56,694	53,047	3%	- 3,647	-6.43	-6.43	0.63
Schlumberger Limited.	SLB	723	65,375	65,815	4%	439	0.67	0.67	1.18
Tesoro Corporation	TSO	1,492	75,907	75,077	4%	- 830	-1.09	-1.09	1.16
UnitedHealth Group Inc.	UNH	830	56,466	60,988	4%	4,523	8.01	8.01	0.84
United Parcel Service, Inc.	UPS	410	41,263	39,225	2%	- 2,038	-4.94	-4.94	0.85
Verizon Communications Inc.	VZ	806	40,591	38,785	2%	- 1,806	-4.45	-4.45	0.78
Wells Fargo & Co	WFC	1,650	71,883	75,290	4%	3,407	4.74	4.74	1.16
Cash				-	100%				
		Total Port Value		1,704,845					1.08

Recap & Looking Ahead

Recap

All seven fund managers came to the program with strong backgrounds and diverse expertise, but most of us had little previous investment experience. Through our experiential learning in the SMF program, we all have a much better understanding in stock valuation and management of a portfolio than when we started in September. Our learning curve has been steep, both through individual research and group discussion.

In the US equity market, we faced the uncertainties of enactment of the Affordable Care Act and Federal debt limit crisis in October. We all recognized that the results of these political actions would have significant bearing on the various sectors, particularly Healthcare and Finance. We wanted to take a cautiously optimistic position in these sectors and adjust our weighting in relation to the benchmark, depending on the results of these events. Overall, the market conditions have remained positive but volatile. Market volatility and continued marginal consumer confidence has negatively affected some sectors in the market.

The Eurozone has lagged behind world trends and continues to rebound slower than expected. While Europe has seen marginal improvements in trade surpluses and has even lower interest rates, the crisis is still ongoing as unemployment levels are expected to remain above 12% through 2014. The continent has escaped its recession but has struggled to gain momentum since. Overall, our outlook on European and Emerging markets remains pessimistic.

Our strategy is to start our individual stock pitch with a “top-down” approach and reduce exposure to underperforming sectors, such as Materials, Telecommunication, and Utilities sector, and then increasingly change to a “bottom-up” approach, which is better for managers to find superior stocks. We want to ensure companies we invest in have a good business model to begin with. We highly focus on revenue growth, margin improvement, and a committed management team. Since there is a high volatility in the current market, companies with a balanced portfolio and sound predictable earnings are preferable.

Only one of our holdings has seen significant value decline. F was shorted when it reached the stop loss point. We set 15% as stop loss point since we only consider investing the stock that has more than 15% estimated capital gain. We bought F at $18 per share and stopped loss at $15.30 per share. As of the reporting date, the current price is $15.18 per share that is still lower than our selling price, which suggests we made a right decision to exercise the stop loss. Although our total portfolio underperformed the market so far, we still strongly believe in the business models, financial positions, and growth prospects of invested companies, and we expect our portfolio a great potential to appreciate in given 3-5 year time horizon. Moreover, it has been a precious learning experience to evaluate portfolio’s performance by using risk-adjusted ratios and performance attribution analysis to understand the deeper reasons behind the underperformance.

Looking Ahead

The continued earnings growth on flat revenues has fed fears of a bubble in some areas of the market. Retail investors continuing to enter the market based on record performances has pushed the pricing on some equities quite high past their fundamentals. Some analysts and activist investors have warned of potential sell offs in the near future.

Some long term trends we have identified are rising interest rates, improving unemployment, manufacturing re-shoring, a recovering housing market, and improving consumer confidence. We believe these trends will continue for the next couple of years and thus try to identify investments that compliment these beliefs.

During the rest of the spring semester, we will continue to monitor our positions, continually assessing our risk exposure and re -evaluating our current portfolio. We would adjust stop loss orders to prevent potential large losses if significant changes happen.

Some of the fundamentals we are closely monitoring:

- Regulation changes that might affect specific sectors
- General economy both domestic and international
- Technology change
- Trends in each sector

Best & Worst Performing Holdings

Best Performing: Alcoa (AA)

Sector: Materials	**Price@2/20/2014:** $11.75	**Intrinsic Value:** $16.27
Industry: Mining/Aluminum	**Purchase Price:** $9.05	**Market Cap at Intrinsic Value:** $17.43B
Market Cap: $12.61 B	**52 Week Range:** $7.63 - 12.32	**Unrealized Gain/Loss:** 29.83%

Business Summary: Alcoa Inc. produces and manages primary aluminum, fabricated aluminum, and alumina combined and participates in mining, refining, smelting, fabricating, and recycling. Its products are used in aircraft, automobiles, packaging & defense, among others.

Investment Thesis: While aluminum spot prices are depressed, they have improved, but remain volatile. Historically Alcoa has operated in the middle of the cost curve in both their upstream (Alumina and Primary Metals) and downstream (Global Rolled Products and Engineered Products and Services) segments, however a current joint venture in Saudi Arabia is posed to be lowest cost fully integrated Aluminum production facility in the world. Alcoa's strengths in downstream production insulates the business from volatile futures prices.

Performance:

• Our analysis using discounted FCF over 5 years suggested that the stock had an intrinsic value of $16.27

• We purchased the stock at $9.05 on November 17th After poor earnings, the stock wound up running amidst a JP Morgan upgrade, which cited a hopeful upswing in aluminum prices as a catalyst.

• The primary drivers for the increase in stock price were

- Upgrade from JP Morgan, among others, to overweight/over-perform citing a predicted upswing in aluminum prices
- Cost cutting initiatives and closing smelting facilities that have been a burden, expecting increased production regardless, and are expecting a bounce in global aluminum prices in the coming year
- As worldwide economic improvement continues, demand for Aluminum has been increasing, most notably was domestic auto producer Ford announcing the extensive use of Aluminum in their new line of F-150s

Our Plan for Alcoa:

- We continue to believe AA is undervalued as a whole.
- AA is nearing its upside review price, at which time we will reevaluate the stock given current market conditions.

Worst Performing: Ford Motor Co. (F)

Sector: Consumer Discretionary
Industry: Auto Makers
Market Cap: $68.3B

Price@2/20/2014: $15.27
Purchase Price: $18.00
52 Week Range: $12.10–$18.02

Intrinsic Value: $26.89
Market Cap at Intrinsic Value: $102.6B
Realized Loss (15.0%)

Business Summary: Ford Motor Company competes in the global automotive industry and is the second largest auto maker in the US. Ford operates in two sectors: Automotive and Financial Services. The Company manufactures or distributes automobiles across six continents. Its automotive brands include Ford and Lincoln. The Company's automotive sector includes Ford North America, Ford South America, Ford Europe, and Ford Asia Pacific Africa regions.

Investment Thesis: As the only major US automaker that didn't declare bankruptcy or accept a government bailout during the great recession Ford has an excellent opportunity to recapture Market share and reclaim dominance amongst the automakers. The success of the "One Ford Plan" has allowed F to fix its balance sheet, sell unprofitable brands, renegotiate retiree benefits plans, and improve the quality of their vehicles. Ford expects to reduce its platforms from 27 to 9 which could save the company billions and allow them to respond more quickly to demand shifts. Ford resumed its dividend in 2012 and doubled it in 2013, August sales were the strongest since 2006 growing at 12.4%, and Q2 $2.3BN profit in North America was the best in company history. Ford's competitive positions, cost reduction measures, and financial performance make it a strong buy.

Performance:

- Our analysis using discounted FCF over 5 years suggested that the stock had an intrinsic value of $26.89
- We purchased Ford at $18.00 on October 24th at a 52 week high, the day they announced Q3 earnings
- While Ford had a great quarter and beat expectations the stock has fallen to ~$17.00 and was stuck in a range for a few weeks

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Our Plan for Ford:

Although we strongly believe in Ford's business model, financial position, and growth we chose to allow the stop loss to execute. We as a team wanted to limit the loss of any individual security to 15% and we believe that given the current bull market we can find other securities that offer both long and short term and upside potential.

Sector Outlooks

Sector: Consumer Discretionary
Manager: George Cerwinski

Facts and Figures

S&P Weighting:	12.3%	**P/E TTM:**	18x
		YTD Performance:	-3.29%
		Dividend Yield:	1.37%

Intro Description: The Consumer discretionary sector consists of businesses that sell nonessential goods and services. These companies are most sensitive to the economic cycle and tend to outperform during boom times. There are two types of companies in the sector, manufacturing companies that produce actual goods and service companies. Its manufacturing segment includes automotive, household durable goods, textiles & apparel and leisure equipment. The services segment includes hotels, restaurants and other leisure facilities, media production and services, and consumer retailing and services.

Trends

1. Inventories remain quite lean providing retailers with some pricing power as economic activity picks up and consumers regain confidence
2. The Federal Reserve continues to be quite accommodative, which could help to support the consumer, although the potential for reduced asset purchases has increased market volatility.
3. The job market, although still somewhat sluggish, appears to be improving at a steady rate which should help bolster consumer confidence
4. Falling energy prices, lower debt levels, an improving housing market, and strong auto sales all bode well for a strong consumer sector

Portfolio Strategy: We find consumer discretionary space to be attractive sector, however, it carries a lot of risk as it is very tied to business cycles, consumer confidence, and GDP. Thus we plan to underweight this sector.

Sector: Consumer Staples

Manager: Xin (Keira) Wang

Facts and Figures

S&P Weighting:	10.11%	**P/E TTM:**	17.81x
ROE TTM:	24.5%	**YTD Performance:**	-3.97%
		Dividend Yield:	2.73%

Intro Description: Consumer Staples are essential products such as food, beverages, tobacco and household items. All the products are satisfied the customers' basic needs, people are unable or unwilling to cut out of their budgets of consumer staples regardless of their financial situation. The continuous and constant demand for these products irrespective of the economic cycle gives the sector a defensive posture. Although this is positive during tough economic times, it can also be negative during improving economic conditions since consumers don't typically expand their spending on such items as the economy improves.

Trend:

1. Economic Growth: U.S. and worldwide economy are recovering now, and many central banks continue to firmly make effort to stimulate the economy. As Consumer Staples has the defensive posture during the economic downturn, it could impair the defensive advantage as the economy improves.
2. High Unemployment: Although consumer staple companies are much less exposed to changes in income, they are still impacted when consumer confidence drops or income growth declines. As U.S. unemployment stays relatively high in 2014, consumers still prefer cheaper brands, which will limit the growth of branded companies and hurt the profitability of the sector.
3. Expansion in Emerging Markets: Rising demand for the consumer staples products in emerging markets offers the huge opportunities for the companies. But more exposure in emerging markets could increase the risks of foreign exchange rates.
4. Cost Reduction: In order to surge the profitability, more and more companies are dropping the low-margin products categories, launching cost-saving and restructuring programs to improve the operation efficiency.

Portfolio Strategy: Since Consumer Staples sector is stable and defensive, the team decided to weigh the sector as S&P weighting. The strategy of this sector is choosing steady growing companies with high financial strength, low beta, stable cash flow, large market capitalization and strong dividend yield.

Sector: Energy
Manager: Robert Shedrawy

Facts and Figures

S&P Weighting:	12.3%	**P/E TTM:**	23.74
ROE TTM:	11.54%	**YTD Performance:**	-2.93%
		Dividend Yield:	1.83%

Intro Description: The Energy sector consists of businesses that produce or supply energy. This sector includes companies involved in the exploration and development of oil or gas reserves, oil and gas drilling, or integrated power firms. Performance in the sector is largely driven by the supply and demand for worldwide energy. Energy producers will do very well during times of high oil and gas prices, but will earn less when the value of energy drops. Furthermore, this sector is sensitive to political events, which historically have driven changes in the price of oil.

Trends

1. Global uncertainties could threaten some supplies, although we don't believe the recent Middle Eastern unrest will result in a disruption.
2. Developing nations will likely need more energy as they improve their infrastructures and modernize their economies.
3. Supplies could increase dramatically with a renewed commitment to exploration and technological improvements. We've already seen new discoveries and existing fields produce more oil than originally projected.
4. Conservation efforts and new technology could impact the growth in demand for energy products

Portfolio Strategy: We find energy space to be an attractive sector despite current decreases in oil prices. We will weigh the sector in accordance to oil price fluctuations. We believe that continued exploration efforts bode well for some industries in this sector. We plan to explore firms in the pipeline and services sectors in the upcoming semester.

Sector: Financials
Manager: Omo (Pornpong) Lueang-A-Papong

<u>**Facts and Figures**</u>

S&P Weighting:	16.34%	**P/E TTM:**	12x
ROE TTM:	8.40%	**YTD Performance:**	-3.66%%
		Dividend Yield:	1.52%

Intro Description: The Financial sector consists of businesses that provide financial services to commercial and retail customers. Financial services perform best in low interest rate environments. A large portion of this sector generates revenue from mortgages and loans, which gain value as interest rates drop. Furthermore, when the business cycle is in an upswing, the financial sector would benefit from additional investments. Improved economic conditions usually lead to more capital projects and increased personal investing. New projects require financing, which usually leads to a larger number of loans.

Trends

1. Recent delinquent loan estimates have decreased among credit card companies, indicating improving balance sheets.
2. Businesses could increase borrowing, as they take advantage of low rates and look to spend on projects they've been postponing in light of economic and fiscal uncertainty.
3. Rising interest rates could dampen demand for mortgages, which could impact profits in certain areas of the financial sector.
4. Government intervention, such as new limits on certain fees that can be charged, has already started to affect the financial industry and could hold back performance for the foreseeable future.

Portfolio Strategy: We find financial sector to be a very attractive and plan to at least market weight this sector as we further develop our portfolio next semester. Improving unemployment, increasing borrowing, and a decreasing delinquent loans are all positive signs for financial institutions and will likely drive growth in this sector. We plan to explore firms in the insurance industry and real estate industry next semester.

Sector: Health Care
Manager: Yan Zhu

Facts and Figures

S&P Weighting:	13.30%	**P/E TTM:**	18.33x
ROE TTM:	18.39%	**YTD Performance:**	32.97%
		Dividend Yield:	1.7%

Intro Description: Health care stocks are stocks relating to medical and healthcare goods or services. The healthcare sector includes pharmaceuticals, hospital management firms, health maintenance organizations (HMOs), biotechnology and a variety of medical products. The sector's five-year growth now stands at 13%. Stocks in the healthcare sector are often considered to be defensive because the products and services are essential. Even during economic downturns, people will still require medical aid and medicine to overcome illness. Having a consistent demand for goods and services makes this sector less sensitive to business cycle fluctuations.

Trends:

1. Sector is health with demand returning, better growth and emerging market.
2. Opportunities and Long Term profits in managed-care industry due to Affordable Care Act.
3. Big Pharmaceutical firms will probably continue to rummage biotechnology.
4. The increasing number of the aging population and the baby boomers stimulate the demand of health care services and related products.
5. Health-care spending improves in developed world, but at a slow pace; European demand situation remains bleak, economic recovery is very slow; Pharmaceutical and device companies are expanding business to emerging market, in some cases emerging markets contribute nearly a quarter of their total sales.

Portfolio Strategy: Considering the improved employment and impact of Affordable Care Act, We keep the positive attitude on Healthcare sector and expect more return from this sector. Hence, we decide to continue to overweight healthcare sector as we planned at the end of last semester. At the same time, taking into account of bottom-up strategy for this semester, when we found that several companies did or are doing outstanding performance recently, we don't hesitate to invest more. We looked at big pharmaceutical companies, Biotechnology industry and medical device industry and choose best performed stock for our portfolio and make the investment of Healthcare sector diversified.

Sector: Industrials
Manager: Jonathan Coombes

Facts and Figures

S&P Weighting:	10.87%	**P/E TTM:**	17.78x
ROE TTM:	17.54%	**YTD Performance:**	-4.05%
		Dividend Yield:	1.10%

Intro Description: The three main areas within the sector are Capital Goods, Commercial and Professional Services, and Transportation. The Industrials sector makes up 10.63% of the S&P 500, and historically moves very closely in-line with the S&P 500 index as a whole. Two of the most important drivers of performance for industrials are building construction (residential, commercial, and industrial real estate), and demand for manufactured products.

Trends:

1. While lending standards remain relatively tight, they are gradually loosening. Increased credit availability should help to increase capital expenditure and drive sector growth.
2. Recent fiscal austerity in many key countries has had a negative impact on economic activity and demand for industrial goods. Increasingly, however, countries are considering undoing some of these policies.
3. Corporate balance sheets are carrying high levels of cash compared to historical levels. Available cash may be used for investment in equipment to drive growth.
4. Demand for manufactured products has been tepid recently, based on production and orders from US manufacturers.

Portfolio Strategy: We believe that industrials is currently an attractive area for investment with potential for growth. However, tepid demand in manufacturing, an uncertain Chinese economy, and ongoing fiscal austerity represent threats that are particularly significant to this sector. We plan to underweight this sector due to these perceived risks. Nevertheless, we will continue to pay close attention to trends, such as increasing potential for capital expenditure by firms on the supply side, and potential for improving economic conditions and reduced fiscal austerity on the demand side. Inventories in the manufacturing area are relatively low overall, which makes it possible that production will be expanded to meet demand.

Sector: Technology
Manager: Murali Kuchipudi

Facts and Figures

S&P Weighting:	17.88%	**P/E TTM:**	16.00x
ROE TTM:	20.78%	**YTD Performance:**	-2.57%
		Dividend Yield:	1.75%

Intro Description: Technology sector consists of the following sub-sectors: software and services, hardware and equipment, and semiconductors and semiconductor equipment manufacturers. Software and services is broken down further into Internet Software, IT Services, and Software. Hardware and equipment is broken down into Communications Equipment, Computers, Electronic Equipment, and Office Equipment. Semiconductors are a standalone sub-group.

Trends:

1. According to the IDC, smartphones are projected to grow at 27% CAGR through 2015. Additionally, mobile data traffic is projected to grow 18-fold between 2011 and 2016. Many areas of IT are and will be benefiting from this explosive growth in smartphones and other mobile devices including:
2. The amount of data companies generate is growing at an exponential rate as most companies' business processes have become computerized. Additionally, the growth of the internet and e-commerce has increased the need to record data. The IDC projects the amount of data storage capacity shipped to grow 48.1% through 2015.
3. Cloud computing is a broad technology trend that continues to evolve and change rapidly.
4. Over the next few years, enterprise cloud strategies will be impacted by hybrid cloud computing, cloud brokerage, expanded delivery models, cloud-centric design and formalized cloud decision models. Cloud computing is also expected to increase the need for data storage.
5. Next generation analytics will expand beyond measuring and describing the past to predict what is likely to happen. Moreover, advanced analytics will increasingly be used as input into tactical and strategic decisions. These types of decisions typically require collaboration among key stakeholders and decision makers. Embedding social and collaboration capabilities in advanced analytic applications will capture best practices. Companies offering analytical software and services will benefit.

Portfolio Strategy: We wanted to invest in companies that have strong exposure to Smart phone and cloud supply chain. Inventory upgrades haven't started in full place. So we want to market weight this sector.

Sector: Basic Materials
Manager: Robert Shedrawy

Facts and Figures

S&P Weighting:	3.51%	**P/E TTM:**	16
ROE TTM:	23.74%	**YTD Performance:**	-4.72%
		Dividend Yield:	2.18

Intro Description: Accounts for companies involved with the discovery, development and processing of raw materials. The basic materials sector includes the mining and refining of metals, chemical producers and forestry products. The basic materials sector is sensitive to changes in the business cycle. Because the sector supplies materials for construction, it depends on a strong economy. This sector is also sensitive to supply and demand fluctuations because the price of raw materials, such as gold or other metals, is largely demand driven.

Trends:

1. Global central banks are now largely in easing mode, which should help to support economic activity and the materials sector.
2. Chinese demand for processed commodities might be slowing as technological advances and a build-out of production facilities allow the country to produce more of its own materials. China recently transitioned from a net importer to a net exporter of steel.
3. Wage costs are rising in the materials sector as we've seen skilled labor shortages in certain segments of the market.

Portfolio Strategy: As low commodities prices and excess supply continue along with a slow recovery in construction will likely put pressure on the sector. We have determined to underweight this sector based on struggling financials throughout and will likely not increase our position in this sector barring any macroeconomic improvements.

Sector: Telecommunications Services
Manager: Murali Kuchipudi

Facts and Figures

S&P Weighting:	2.20%	**P/E TTM:**	18.00x
ROE TTM:	3.38%	**YTD Performance:**	-2.8%
		Dividend Yield:	4.00%

Intro Description: The Telecommunications Services sector contains companies that provide communications services primarily through a fixed-line, cellular, wireless, high bandwidth and/or fiber optic cable network. The sector is divided into two sub-industry indices, Wireless Telecommunication and Wire-line Telecommunication. Wireless Telecommunications accounts for over 90% of the sector and consists of all Wireless providers, including prepaid and postpaid.

Trends:

1. The Wireless Telecommunications Carriers industry is well positioned for future growth. Over the five years to 2018, the number of wireless subscribers is expected to continue increasing. As a result, revenue is projected to grow at an average annual rate of 6.6% over the next five years.
2. When interest rates start to rise, the telecom sector could suffer.
3. In contrast to the technology sector, companies in the telecom sector have a lot of debt on their balance sheets, so we continue to view the group with caution as interest rates continue to rise.
4. Wireless demand appears to be increasing as more communication and media devices move to the wireless arena, although some of that movement is likely to take away from fixed-line revenue.
5. Net profit margins are declining for the telecom sector as competition squeezes margins.
6. Capital expenditures in the telecom space are rising as companies look to improve and expand their networks, which could be a burden on profitability in the near future.

Portfolio Strategy: The strategy for this fund is to invest in low beta, high dividend yielding, large market capitalization value stocks to anchor the portfolio. These safe, income generating companies will be well diversified, both in services and geography, and will have the necessary network infrastructure to adapt to new technologies in the industry. We decided to underweight this sector as this sector tend to underperform the market in a growing economy.

Sector: Utilities

Manager: George Cerwinski

Facts and Figures

S&P Weighting:	3.1%	**P/E TTM:**	15.96x
		YTD Performance:	2.98%
		Dividend Yield:	3.75%

Intro Description: The Utilities Sector includes five industries: Diversified Utilities, Electric Utilities, Foreign Utilities, Gas Utilities, and Water Utilities. The US electric power industry, market cap of which is 31% of the Utilities Sector's, comprises investor-owned, cooperative, municipal, state, and federal utilities.

Trends:

1. Rising interest rates and an improving economy will cause investors to shy away from the safe haven utilities sector and look for higher yields and more risk elsewhere in the markets
2. Aging infrastructure and environmental concerns over the use of coal and nuclear power are driving capital investment among utilities. Many firms are shifting toward natural gas fired plants to take advantage of low prices and the supply glut
3. Low ROEs are expected to continue as firms work to update infrastructure and improve environmental impact, these capital expenditures will likely impact growth going forward

Portfolio Strategy: We chose to underweight utilities as rising interest rates and high capital expenditures will likely put pressure on the sector. However, we still find the yields attractive and thus chose a company with solid financial strength that has demonstrated consistent earnings and dividend growth.