University of Connecticut Student Managed Fund

MBA Fall Report- 2012

Managers

Chris Taylor- Lead Manager
Anthony Martinez-Portfolio Manager
Huong Doan- Treasurer
Michael Dyer
Vivek Goel
Shuang Han
Nick Li
Tzu-Wen Lin
Anup Ratnakaran
Dawei Zheng

Dear Foundation Members and Investment Advisory Board Members,

On behalf of the MBA Student Managed Fund managers, we want to thank you for this invaluable opportunity. Participating in the management of this fund has given us hands on experience in developing investment processes, portfolio strategy, asset allocation, security analysis, and performance presentation. The skills that we have developed while part of the Student Managed Fund will help us throughout our professional careers and will be particularly critical when we are analyzing problems and developing solutions. The development and application of these skills are an instrumental component of our MBA education.

Analyzing a company and the investment merits of its securities is more than numbers and calculations; it is truly an art that requires us to apply a great deal of our MBA curriculum. To develop our asset allocation and our view of the economy we drew upon concepts we learned in Economics, as well as used theories and concepts from Strategy, Marketing, Accounting and Finance course work while analyzing industries and individual companies.

While the purpose of this program is first and foremost educational, we must also ensure that we are following the guidelines set for us by the Prospectus, keeping the goals and constraints of the Foundation in mind. To ensure we met these guidelines, we set in place a process for arriving at our decisions, had stimulating conversations regarding ideas and securities proposals to make sure the management team was fully committed to move forward.

In the following pages of this report, we set out to develop our portfolio strategy, tailoring the portfolio to reflect our unique view of the economy. While this portfolio is a domestic equity fund, we feel that in this day and age, the world economy is so interconnected you have to take a stance on the world economy and incorporate it into your domestic view. Therefore, our analyses and suggested investments are based on how the domestic equities selected fit into the global economy.

The focus of this report is to display how we developed our processes and procedures to ensure we are acting in the best interest of the foundation and purpose of the program. We will also discuss our views on the economy and individual sectors. Finally, we discuss the results of our views and portfolio allocation over our holding period, including security purchases, asset allocation, and portfolio performance to date.

We believe you will find this report both informative and interesting. We have enjoyed this opportunity and look forward to another semester of working with the foundation.

Sincerely,

Anthony Martinez, Portfolio Manager
Chris Taylor, Lead Manager
Huong Doan, Treasurer
Michael Dyer
Vivek Goel
Shuang Han
Nick Li
Tzu-Wen Lin
Anup Ratnakaran
Dawei Zheng

Table of Contents

Executive Summary

Portfolio Beta	Sharpe Ratio	Treynor Ratio	Jenson's Alpha
0.912	-0.007	0.000	0.001

Portfolio Value: $1,317,416.65
(as of 12/2/2012)

Portfolio Performance

Portfolio Start (9/7/2012)	$1,317,877.23	S&P Start	1,437.92
Portfolio Current (12/2/2012)	$1,317,416.65	S&P Current	1,416.18
Portfolio Performance	-0.03%	S&P Performance	-1.51%

Portfolio Allocation

% Invested in Equities	60.34%	$794,890.40
% Invested in SPY	37.91%	$499,482.96
Cash	1.75%	$23,043.29
# of Positions	22	

Investment Philosophy and Style:

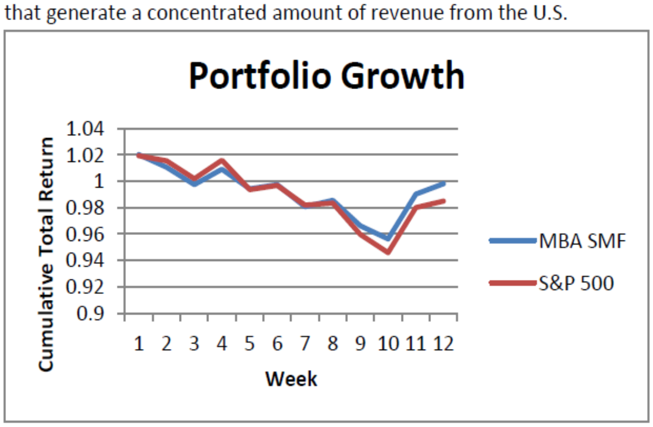
Our fund utilizes top-down macroeconomic analysis. A SMF Manager is assigned as a lead manager and a secondary manager in the 10 sectors representing the S&P 500. Sector managers research and analyze their sector in context with the current macroeconomic environment.

Investment Strategy:

We aim to generate alpha relative to our benchmark, the S&P 500. Following the prospectus, we plan to invest in domestic companies with market capitalizations of $2 billion or more. When fully invested, our fund will consist of 30 – 40 common stocks and no single holding will be greater than 5% of our entire portfolio. While the prospectus allows us to invest up to 20% of our portfolio in fixed income, due to historic lows in investment grade debt yields, we have chosen to invest solely in equities.

Investment Process:

Each manager is required to make a minimum of 2 stock pitches for their respective sectors each semester. All managers are required to be in attendance for stock pitches and a 70% or greater positive vote is required for the security to be added to the portfolio. When making selections macroeconomic concerns include the European debt crisis, slowing growth in China, the U.S. recovering from a recent recession, and the U.S. presidential election. Our fund's view is one of cautious optimism and a belief that the U.S. will see positive growth going forward and will not fall back into recession. Thus, our security selection has a bias on companies that generate a concentrated amount of revenue from the U.S.



Performance

Our fund's performance for the holding period was -0.03% compared to -1.51% for the S&P 500, resulting in an excess return of 1.47%. Our investment period was one of great volatility as the U.S. election unfolded, Europe slipped into its second recession since 2009, and a disappointing Q3 earnings season. Looking forward, we see headwinds with the U.S. fiscal cliff fast approaching. However, we believe a continued focus on our disciplined investment strategy will allow us to continue to outperform the S&P 500.

Holdings

Equity	Shares	% of Port	% Return
AAPL	50	2.2%	-8.48%
EBAY	500	2.0%	13.89%
FFIV	335	2.4%	1.64%
IBM	200	2.9%	0.59%
MA	80	3.0%	5.68%
USB	1000	2.4%	-6.52%
MET	1200	3.0%	0.89%
ESRX	725	3.0%	-16.03%
COV	650	2.9%	3.78%
CELG	500	3.0%	5.14%
SLB	625	3.4%	0.64%
INT	1150	3.4%	2.34%
DIS	870	3.3%	-2.89%
COH	550	2.4%	9.30%
SBUX	600	2.4%	2.06%
KO	1090	3.1%	2.55%
WMT	630	3.4%	0.45%
UNP	330	3.1%	-0.14%
UTX	500	3.0%	4.76%
RS	510	2.2%	4.58%
SO	675	2.2%	1.75%
VZ	485	1.6%	2.99%
SPY	3516	37.9%	-1.57%

Investment Philosophy and Style

The investment philosophy of our team is a hybrid of value and growth investing. We employ this strategy by determining the intrinsic value of individual securities, and then buying ones that are undervalued by at least 20%. Additionally, we decided to implement a top-down approach to building our portfolio because we wanted to take a big picture perspective and identify sector/industries which we thought would outperform and underperform. Our top-down, sector based approach assigns each manager to be responsible for two S&P 500 sectors (two managers per sector). The managers carefully assess the current economic climate including global trends, unemployment rates, election cycles, and interest rates and determine the impact on their individual sectors. We are focusing on mid-to-large-cap companies ($2 Billion +) with strong fundamentals in the current market environment. Using the S&P 500 as our benchmark, we look forward to beating the return of our benchmark by careful stock selection, periodic re-evaluation of sector allocation, and consistent monitoring of our portfolio and underlying economic changes. All investments must comply with the prospectus and meet the goals of the fund.

Our focus remains on long-term fundamentals and a 3-5 year time horizon. Nevertheless, after considering the factors such as election cycles and unemployment rates, we have tried to rebalance our portfolio to underweight sectors that are sensitive to fiscal and growing concerns such as Technologies, despite the fact of the high growth forecast. And based on a likely Obama win, we overweight the sectors that are likely to benefit from this outcome such as Healthcare.

After using top-down approach, managers have taken a moderate approach to investing, focusing on undervalued companies with proven track records while looking for strong long-term (3-5 year) growth potential. Each investment recommendation will require an affirmative vote from 70% of the management team to be implemented (7 out of 10 members).

Our goal is to outperform the S&P 500 over the 3-5 year term. However, we understand that our performance will be based on the short-term. Thus, we are picking stocks with both considerations of long/short term. We choose value as our pillar stocks of our portfolio. We then started to analyze growth stock opportunities after our first selections. We will most likely be looking at increasing growth selections going forward. Nonetheless, we are minimizing the risk of the portfolio by selecting stocks of companies with solid fundamentals, and weighting our portfolio towards the sectors with a stronger economic outlook. We focus on companies with consistent historical performance and a strong business model, as well as a positive economic projection for the overall industry. We also pick stocks with strong management by evaluating the Return on Equity, Operating Margin, and Net Profit Margin.

Strategy

Our fund's strategy is an actively managed portfolio strategy where we aim to generate alpha relative to our benchmark, the S&P 500. We plan to invest primarily in domestic companies with market capitalizations of $2 billion or more. When fully invested, our fund will normally consist of 30 – 40 common stocks and no single holding will be greater than 5% of our entire portfolio. The number of securities may change over time depending on MBA managers agreeing on acquiring new holdings and selling out of current holdings.

While the Student Managed Fund prospectus does permit us to invest up to 20% of our portfolio in fixed income assets, we have chosen to invest solely in equities. The primary drivers for this decision are complexity of bond markets and incredibly low yields based on historical yields. There are literally thousands of fixed income investments in the market and analysis of these financial instruments would require countless hours of research and analysis. While we understand that such securities are a critical component to any diversified fund, yields on investment grade debt are at historical lows (see U.S. 10-year treasury yield graph below). As a result, many of the equities in our portfolio currently provide comparable yields with the potential for capital appreciation.

Below is the 10 year treasury yield trend:

Source: US Department of Treasury

Before selecting investments for our fund, SMF managers use an approach that begins with a thorough "top-down" macroeconomic analysis. Some examples of factors that are taken into consideration are interest rates, unemployment rates, global trends, regulatory environment, demographic trends, social trends, and currency trends. In addition, we are currently taking into account the fact that this year is an election year and many of our pre-election considerations had a bias towards Obama administration friendly stocks (healthcare and consumer staples). Now that Obama has won re-election, our portfolio is well positioned as we are overweight healthcare stocks and underweight energy (completely avoiding coal companies) and financials: two sectors with increased scrutiny and regulation under this administration.

After the top-down analysis has been completed, a SMF manager will be assigned as a lead manager and secondary manager for each of the 10 sectors represented in the S&P 500. Sector managers will research and analyze their sector in context with the current macroeconomic environment. Each manager will then pitch ideas for the weightings of their respective sectors based on risk/return prospects over the next 3-5 years. These weightings may be in line, overweight, or underweight compared with the S&P 500. Managers have flexibility to be significantly over/underweight (i.e. +/- 5%) vs. the S&P 500, which will help us generate alpha.

Once the "top-down" analysis has taken place, SMF managers will then perform a process called "bottom-up" security selection. This is where MBA managers look for individual companies that are expected to provide earnings growth potential, strong management, commitment to shareholder friendly activities (i.e. increasing dividends or share buybacks), strong balance sheets, and superior business models.

Another component of our strategy involves risk management. While first and foremost this consists of managing our systematic risk, we also make a concerted effort to avoid companies with material exposure to Europe, and other risky areas such as commercial banks with high levels of regulatory uncertainty. All stock selections will be accompanied by a 15-20% trailing stop-loss to limit individual downside risks for each of our securities.

Investment process

Our team used a hybrid approach to investing and the investment process included three major steps: macro-economic analysis, sector and industry analysis (top-down approach), as well as company and stock analysis (bottom up approach).

Macro-economic analysis

Our team started the analysis with understanding the macro-economic trends that will affect the overall economy and market condition over the next few years, with particular focus on how the Great Recession and subsequent recovery, European sovereign debt crisis, and slowing Chinese economic growth can affect the overall market confidence. The major factors we considered include:

- GDP growth rate
- Unemployment rate
- Interest rate
- Inflation rate
- Currency exchange rate
- Geopolitical event

Sector and industry analysis

Based on macro-economic analysis, we next analyzed sector and industry using S&P 500 index as a benchmark and identified the sectors that we believed would outperform the benchmark in the next few years. We utilized a variety of leading academic and professional resources, including S&P Net Advantage, Value Line, Morningstar, Thompson ONE Banker, Bloomberg, Yahoo Finance, and Google Finance. Our research was focused on the influence of following factors on sector and industry performance and trend, including:

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

These factors are useful tools to help us better understand the common performance predictors for all sectors as well as sector- or industry-specific issues, such as currency exchange rate for consumer staples and recent healthcare reform on healthcare industry. Our sector analyses are included in the appendix.

Company and stock analysis

The final step of our investment was picking the right security. Our analysis could be approximately divided into two highly correlated aspects and we performed rigorous quantitative as well as qualitative analysis on both aspects:

- Is it a good company?
- Is it a good stock?

For the company analysis part, we were interested in studying the company's business model, its market attractiveness (including consumer analysis and competitor analysis), and its product and service attractiveness which were mapped onto market analysis results, its management team and style. We understood in order to supplement an accurate quantitative analysis, it's extremely important to have detailed qualitative analysis to provide well-rounded support for valuation assumptions. We were particularly looking for companies with the following attributes:

- Strong and fit business model
- Steady revenue and earnings
- Diversified and balanced operations
- Great growth prospects

In addition to qualitative analysis, we performed quantitative analysis on company key performance metrics and ratios between comparable companies and against industry benchmarks. The analysis included but was not limit to the following factors,

- ROA, ROE
- P/E ratio, PEG ratio
- Operating margins, operating cash flow
- Debt/Equity

For the stock analysis part, we projected the company financial performance and calculated the stock target price using discounted cash flow modeling and market multiple valuation methods. We also performed qualitative analysis on upside potentials and downside risk factors that might affect the valuation results such as regulatory concerns. Based on the analysis we set up reasonable stop-loss criteria for chosen stocks.

After we completed this three-step top-down investment process, we were confident that the stocks we selected represented the best choices for our portfolio.

Valuation Methodology

Managers use the discounted cash flow (DCF) method to value stocks. DCF analysis uses future free cash flow (FCF) projections and discounts them to arrive at the present intrinsic value of the stock price.
Cost of equity: CAPM is employed to determine cost of equity. Beta taken from the Value Line investment survey or S&P Stock report is used with the current 10 year Treasury bond price as the risk free rate (ranging between 1.59% and 1.87% during Sept and November 2012)and a 5.9% geometric historical market risk premium.

Cost of debt: taken either from after-tax yield to maturities on 10 year corporate bonds or from the percentage of interest expense over long-term debt.

WACC: The cost of equity is then paired with the cost of debt. The market value of equity (shares outstanding X current stock price) and debt (current portion of LT debt + notes payable + LT debt) is used to calculate the weights.

DCF: The DCF is modeled from projecting FCF (NOPAT + Depreciation - CAPEX - Change in Working Capital) for a 5 year period. The assumptions for projections varied from manager to manager and from sector to sector.

Terminal Value: The perpetuity growth model, using FCF at the end of year 5, is used to calculate the Terminal Value. Terminal growth rates range from 1.5% - 3% depending on the sector. Present values of the TV are then added to the present value of the individual cash flows to conclude with a present value of the firm's Enterprise Value.

Equity Value per Share: The Enterprise Value is reduced by subtracting net debt and is then divided by current diluted shares outstanding to arrive at the intrinsic value per share.

Processes and Procedures

Channels of Communications

Emails are used to communicate SMF related issues, set up meetings, and send reports.

Meetings are the main channel of communication among managers. Managers will discuss strategies, operations, administrative issues, and stock pitches in weekly meetings.

MBA SMF meetings are scheduled for every Monday and Thursday from 3-5:30pm in room 317 of the GBLC. If there are more than one manager having conflict to attend a scheduled meeting, this meeting will be re-scheduled a day before or after to ensure that at least nine managers can attend the meeting.

The Lead manager will compile a meeting's agenda and send it out a day before the meeting. The meeting is conducted following said agenda as closely as possible. Other Managers are allowed and encouraged to add topics or items to the agenda they feel will be valuable to the group and the discussion.

All managers are expected to attend all meetings. If a manager has a conflict to attend any meeting, she/he is expected to inform the Lead manager in advance.

Meeting Minutes will be will be taken at each meeting, including meetings when Professor Ghosh is present. Minute responsibility is assigned to Secretary/Treasurer. Minutes will be e-mailed to all managers the day after. Meeting Minutes with Professor Ghosh will be send to Professor Ghosh the day after.

Stock Pitches

Stock pitches will occur every Monday meeting when managers are ready for their presentations. Pitches can also occur at Thursday meetings, if necessary. Pitching managers will email their final One Page Report and Valuation data to other managers a day prior to the meeting. Each manager is expected to pitch two individual stock purchase recommendations to the group by the end of November, 2012.

Each pitch will be about 10-15 minute presentation followed by a 10-15 minute Q&A session. The presentation content is at the discretion of the manager but should reflect her/his qualitative as well as quantitative analysis of the industry and targeted company. The voting process will be conducted when all the questions for the pitching manager are answered satisfactorily. All other managers presenting at the meeting will vote either in the affirmative or negative. No abstentions are allowed.

The voting process will be open and voting managers will raise their hand to indicate either a vote in favor of passing or opposed. The stock must receive a 70% affirmative vote in order to pass. If the stock passes the vote, the pitching manager will complete a Buy Order Trade Ticket, including any negative votes explained, and e-mail it to the Lead and Portfolio managers. The Lead and Portfolio Managers will review and subsequently send the order along with the One Page Report to Professor Ghosh as soon as possible.

If the stock does not pass, the pitching manager will have a week to answer questions and provide additional insight to convince group of the validity of the recommendation. On the other hand, she/he can make another stock recommendation. In this case, the stock pitch process will start over.

It is each manager's responsibility to monitor the performance of their stock recommendations. If stock price approaches the stop-loss order price trigger, the Manager should bring it up in discussion to the group if they want to stop it from executing. If stock price reaches limit order either above or below the Fair Value, the manager will present the findings to the group and a re-vote of maintaining the position or liquidating will be made.

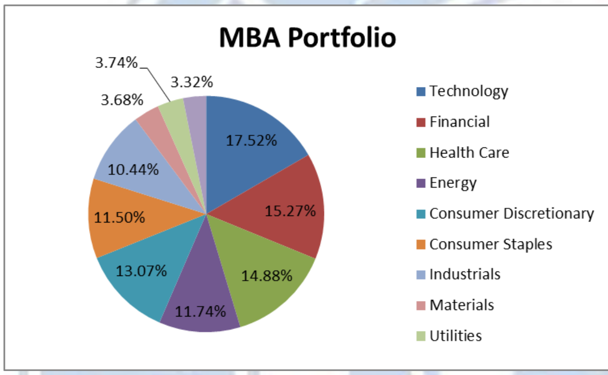
Portfolio Analysis

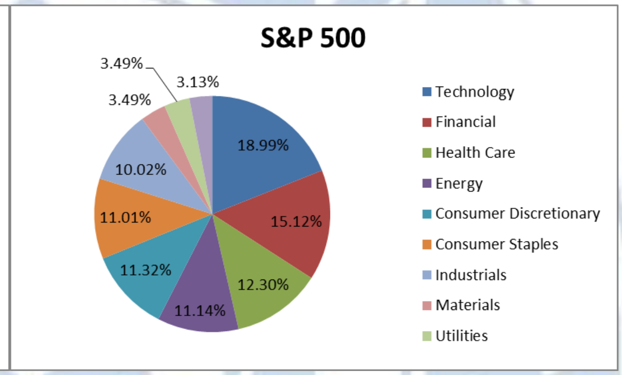
Benchmark and Portfolio Asset Allocation

As stated in in the prospectus, our performance is tracked relative to the S&P 500. After extensive sector analysis, we determined that it would be best to overweight two sectors, Healthcare to 15.25% from 12.3% and Consumer Discretionary to 13.1% from 11.32%. Additionally, we chose to underweight the Technology sector to 15.26% from 18.99% and the financial sector to 14.16% from 15.12%. This was determined based on the negative outlook in those respective sectors. For example, we viewed global economic slowdown as a primary factor for the negative outlook in the technology sector as corporations can easily delay the purchase/upgrading of technology during poor economic conditions. We took over the portfolio at the beginning of the semester when it was fully invested in the S&P 500 SPDR ETF.

Our target and actual allocations relative to the benchmark are shown below. Our portfolio has deviated slightly from our target allocations due to our position in the SPY ETF and the differences in performance of the securities relative to the benchmark. As we further liquidate our position in the S&P 500 ETF we will converge on our target weights.

Sector	MBA Target	S&P 500 (Nov)	S&P 500 (Sept)	S&P Change
Technology	15.26%	18.99%	20.19%	-1.20%
Financial	14.16%	15.12%	14.64%	0.48%
Health Care	15.25%	12.30%	11.80%	0.50%
Energy	11.18%	11.14%	11.29%	-0.16%
Consumer Discretionary	13.10%	11.32%	11.06%	0.25%
Consumer Staples	10.89%	11.01%	10.89%	0.12%
Industrials	9.87%	10.02%	10.01%	0.01%
Materials	3.51%	3.49%	3.50%	-0.01%
Utilities	3.59%	3.49%	3.38%	0.11%
Telecom	3.18%	3.13%	3.23%	-0.10%





Holding Period Performance Review

Our team assumed management responsibility for the fund following the close of trading on September 7, 2012. At this time the fund was fully invested into the S&P 500 ETF.

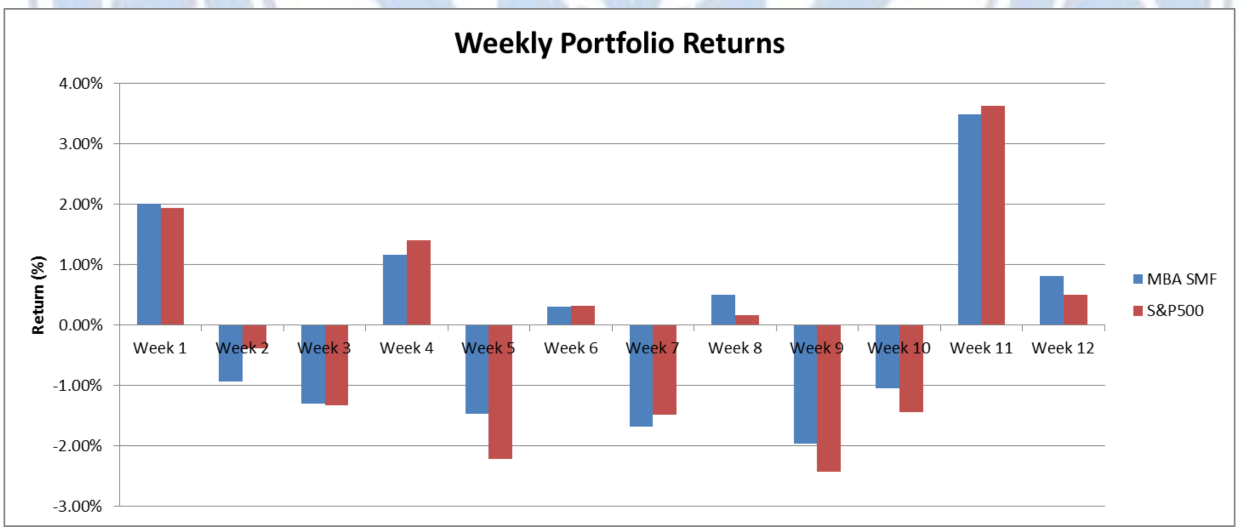
Our fund's performance for our holding period was -0.03% compared to -1.51% for the S&P 500 (as of November 23, 2012), resulting in an excess return of 1%. The portfolios Sharpe Ratio, which measures risk adjusted return per unit of total risk, was -0.007 compared to -0.056 for the index. This difference suggests that our portfolio experienced greater returns over the risk free rate compared to the benchmark. The portfolio had a beta during this period of 0.918. The Treynor Ratio, which measures risk adjusted return per unit of systematic risk, was 0.00 compared to -0.001 for the benchmark, suggesting our portfolio was equally as efficient in managing market risk as the S&P 500. Additional performance information is shown in this section of this report.

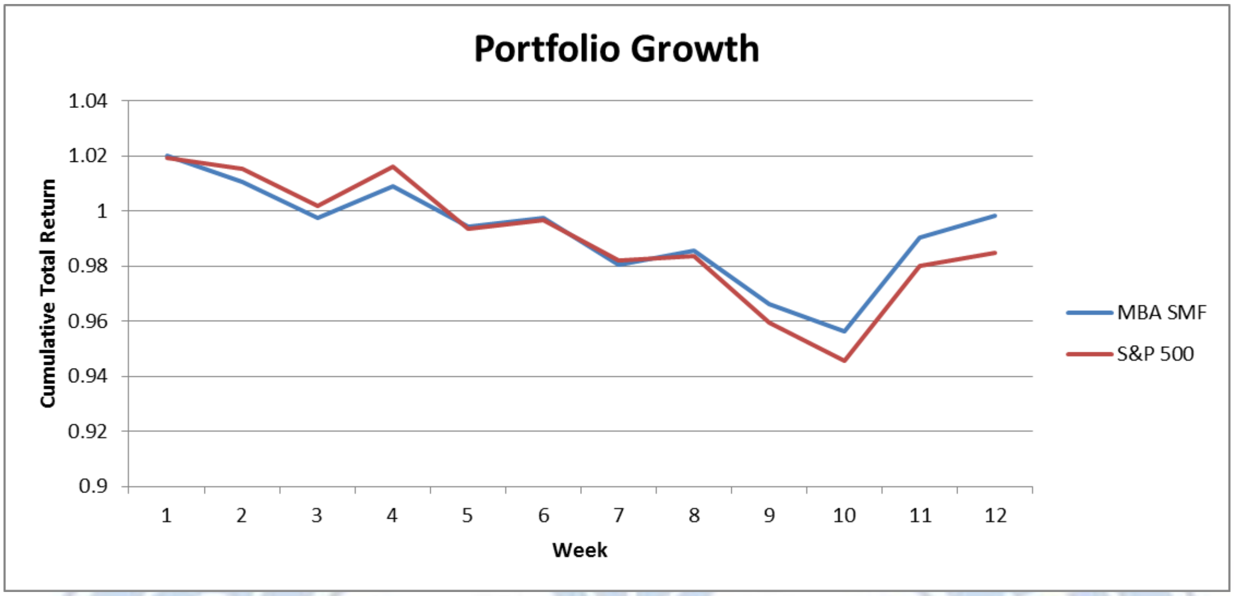
During our evaluation period we experienced some difficulty in executing our recommended securities. Firstly, we were restricted by our brokerage from reinvesting the proceeds from the sale of securities until cash was settled in the account. In some instances this resulted in the purchase of a recommended stock at a price higher than anticipated. Additionally, since we are not approved to implement trades directly we experienced additional time lag in the process.

While we believe our performance could have been better, considering the immense amount of volatility and a subpar earnings season during which we began implementing our investment philosophy, strategy and process, we believe our portfolio performed well. Our performance was generated over a very short and difficult time frame, outperforming the S&P 500 benchmark by 148 basis points. We are confident that over a longer evaluation period, our methodology will continue produce positive risk adjusted returns relative to our benchmark.

Over the short time horizon that we have been investing we have seen a great deal of volatility. This has led to poor short term performance of some of our holdings which we do not feel will be long lived. For example, Express Scripts, our first holding in the health care sector, third quarter revenue and earnings was in line with analysts' consensus estimates, however, ESRX subsequently underperformed. We feel like this was due to ESRX management stating current analyst estimates are "too aggressive given the current economic environment." In the near term the overall economy will have an impact on growth, but in the long run Express Scripts will be able to outperform in this environment. Historically, ESRX has proven its ability to perform due to strong revenue growth and a customer retention ratio of 94%. Additionally, with Obama remaining in office we will see the Patient Protection and Affordable Care Act take effect, opening ESRX to 30 million more potential customers.

Performance Summary		
	MBA SMF	S&P 500
Mean Weekly Return	-0.013%	-0.116%
Geometric Weekly Return	-0.027%	-0.125%
Standard Deviation	1.926%	2.069%
Sharpe Ratio	-0.007	-0.056
Beta	0.918	1.000
Treynor Ratio	0.000	-0.001
Jensons Alpha	0.001	
Information Ratio	3.425	




Portfolio Growth
1.04
1.02
1
0.98
0.96
0.94
0.92
0.9
Cumulative Total Return
1
2
3
4
5
6
7
8
9
10
11
12
Week
MBA SMF
S&P 500

Portfolio Snapshot as of 11/30/2012

Sector	Security	Symbol	Price	Shares	Position Total	Weight	Div Yield	Cost/Share	Cost Basis	Purchase Date	Gain/Loss
Technology	Apple, Inc.	AAPL	585.28	50	29,264.00	2.22%	1.89%	639.49	31,974.45	10/10/2012	-8.48%
	eBay	EBAY	52.82	500	26,410.00	2.00%	-	46.38	23,188.95	10/10/2012	13.89%
	F-5 Networks	FFIV	93.68	335	31,382.80	2.38%	-	92.16	30,875.20	10/24/2012	1.64%
	International Business Machines	IBM	190.07	200	38,014.00	2.89%	1.79%	188.95	37,790.95	11/14/2012	0.59%
Sector Total					125,070.80	9.49%					
Financial	MasterCard	MA	488.68	80	39,094.40	2.97%	0.25%	462.42	36,993.30	10/10/2012	5.68%
	US Bancorp	USB	32.26	1000	32,260.00	2.45%	2.44%	34.51	34,508.95	10/10/2012	-6.52%
	Metlife	MET	33.19	1200	39,828.00	3.02%	2.26%	32.89	39,476.95	11/26.2012	0.89%
Sector Total					111,182.40	8.44%					
Health Care	Express Scripts Holdings	ESRX	53.85	725	39,041.25	2.96%		64.13	46,495.95	10/16/2012	-16.03%
	Covidien	COV	58.11	650	37,771.50	2.87%	1.84%	55.99	36,395.95	11/15/2012	3.78%
	Celgene Corporation	CELG	78.59	500	39,295.00	2.98%		74.75	37,373.95	11/15/2012	5.14%
Sector Total					116,107.75	8.81%					
Energy	Schlumberger Limited.	SLB	71.62	625	44,762.50	3.40%	1.57%	71.16	44,477.70	10/10/2012	0.64%
	World Fuel Services	INT	38.95	1150	44,792.50	3.40%	0.40%	38.05	43,766.45	11/19/2012	2.34%
Sector Total					89,555.00	6.80%					
Consumer Discretionary	The Walt Disney Company	DIS	49.66	870	43,204.20	3.28%	1.23%	51.14	44,492.05	10/10/2012	-2.89%
	Coach, Inc.	COH	57.84	550	31,812.00	2.41%	2.05%	52.92	29,103.95	11/15/2012	9.30%
	Starbucks	SBUX	51.87	600	31,122.00	2.36%	1.65%	50.81	30,493.75	11/27/2012	2.06%
Sector Total					106,138.20	8.06%					
Consumer Staples	The Coca-Cola Company	KO	37.92	1090	41,332.80	3.14%	2.73%	36.98	40,306.25	10/24/2012	2.55%
	Wal-Mart Stores, Inc.	WMT	72.02	630	45,372.60	3.44%	2.31%	71.69	45,167.35	11/14/2012	0.45%
Sector Total					86,705.40	6.58%					
Industrials	Union Pacific Corporation	UNP	122.78	330	40,517.40	3.08%	2.29%	122.95	40,572.55	10/16/2012	-0.14%
	United Technologies Corporation	UTX	80.11	500	40,055.00	3.04%	2.76%	76.47	38,233.95	11/14/2012	4.76%
Sector Total					80,572.40	6.12%					
Materials	Reliance Steel & Aluminum	RS	56.40	510	28,764.00	2.18%	1.78%	53.93	27,503.60	10/25/2012	4.58%
Sector Total					28,764.00	2.18%					
Utilities	Southern Company	SO	43.55	675	29,396.25	2.23%	4.59%	42.80	28,891.53	11/27/2012	1.75%
Sector Totals					29,396.25	2.23%					
Telecomunication Services	Verizon Communications	VZ	44.12	485	21,398.20	1.62%	4.80%	42.84	20,776.65	11/14/2012	2.99%
Sector Totals					21,398.20	1.62%					
Other	SPDR S&P 500 ETF Trust	SPY	142.06	3516	499,482.96	37.91%	2.05%	144.33	507,464.28	9/7/2012	-1.57%
Sector Totals					499,482.96	37.91%					
Total Equity Value					1,294,373.36	98.25%					
Total Cash					23,043.29	1.75%					
Total Account Value					1,317,416.65				1,317,877.23		-0.03%
S&P 500					1,416.18				1,437.92		-1.51%

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 metrics:

- **Sharpe Ratio** – Measures the portfolio's risk-adjusted performance, and is defined as the excess return of the portfolio over the standard deviation of the portfolio
- **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.

We purchase stocks that have a current market price which is 20% 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 20% 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.

Recap of our first three months

The presidential elections in November were our immediate reference point when we initiated SMF early this fall. We all recognized that the results of the election would have significant bearing on the various sectors, particularly Healthcare, Energy and Finance. We wanted to take a cautiously optimistic position in these sectors and looked at stocks with Beta very close to 1. Depending on which way the election results took us we wanted to be overweight in the sectors that resonated with the policies of the new president.

A large number of companies missed their revenue estimates but still beat their EPS estimates in Q3. In the S&P 500 sector Healthcare and Consumer Staples had the highest percentage of companies reporting earnings above estimates.

The continuing weakness in Europe also contributed to the lower revenue and earnings. The third quarter also showed contraction in the Euro zone despite Germany and France growing modestly. The other major economies in the region like Netherlands, Spain, Italy and Austria shrank. The successive contractions in Q2 and Q3 have now put Europe in its second recession since 2009. Most economists are of the view that both Germany and France will contract in Q4 and believe that the Europe will be stagnant throughout 2013. The European Central bank has stepped in and promised to buy euro zone government bonds to bail out any of its members if needed has diminished the threat of the European Union break up.

Our analysis of the markets and the sentiments expressed by analyst suggested that the market had factored in the fiscal cliff that was looming at the end of the year. The volatility displayed by the market since the elections suggest otherwise. Some of our holdings has seen significant decline in their value despite the fact that the fundamental business model of these companies have not changed.

Looking Ahead

All ten fund managers came to the program with strong background and diverse expertise, but most of us had little previous investment experience. With a semester's worth of learning and progressing, we all have noticed that we have a much better understanding in stock valuation and management of a portfolio than when we started in September. Our learning curve has improved steeply both through individual research and group discussion.

During the winter break, we will keep monitoring our positions, continually assessing our risk exposure and re-evaluating our current portfolio.

It has been a tremendous learning experience so far and we really appreciate for all people involved in providing us with this learning opportunity.

Going into spring semester, we will emphasize our focus on finding the companies with the following attributes unless the fundamentals change:

- Strong and fit business model
- Steady revenue and earnings
- Diversified and balanced operations

- Great growth prospects

We want to ensure companies we invest in have a good business model to begin with. Revenue growth perspective is more valuable than margin improving. However, committed management teams are necessary. Since there is a high volatility in the current market, companies with a balanced portfolio and sound predictable earnings are preferable.

Some of the fundamentals we are closely monitoring:
- Specific events such as Presidential Election and Fiscal Cliff
- Regulation changes that might affect specific sector
- General economy both domestic and international
- Technology change
- Trend in each sector

Since Obama administration was reelected, we decided to overweight healthcare sector and underweight financial sector. We are cautious on the impact of Fiscal Cliff and continuously monitor its progress and effect in the market. Under the reelected administration, clean alternative energy development is encouraged. Hence, we are more optimistic in clean energy and less optimistic in coal. More stringent regulations are expected in the financial sector, such as Dodd-Frank Wall Street Reform and Basel III. Due to expected higher tax and less government spending, companies may further delay or reduce its R&D and infrastructure improvement.

Best & Worst Performing Holdings

eBay Inc. (ebay)

Sector: Technology	**Current Price:** $52.68	**Intrinsic Value:** $67.93
Industry: Internet Retail	**Purchase Price:** $46.36	**Market Cap at Intrinsic Value:** $87.9B
Market Cap: $68.2B	**52 Week Range:** $29.08-$53.15	**Unrealized Gain/Loss:** 12.86%

Business Summary: eBay Inc. provides online platforms, services, and tools to help individuals and merchants in online and mobile commerce and payments in the United States and internationally. They enable commerce through three reportable segments: Marketplaces, Payments, and GSI. Its Marketplace segment operates ecommerce platform eBay.com and other vertical shopping sites like StubHub. The company's Payments segment offers payment and settlement services for consumers and merchants on and off eBay Websites and other merchant websites. Its GSI segment offers an ecommerce services suite for enterprise clients that operate in general merchandise categories. As of December 31, 2011, they had more than 100 million active users, millions of merchants using one or more of their platforms, and a developer community with more than 800,000 members.

Investment Thesis: The internet software and services industry continues to grow at a rapid rate. With more and more corporations focused on improving their IT capabilities and bolstering their presence on the Internet, this group should continue to achieve record revenue and profits over the next several years and gain market share against more conventional competition. EBay's new business model should allow it to take advantage of this growth industry.

Performance:

- Our analysis using discounted FCF over 5 years suggested that the stock had an intrinsic value of $67.93
- We purchased the stock at $46.38 on October 10th and a positive Q3 earnings announcement propelled the stock over $50 per share
- The primary drivers for the increase in stock price were:
  - Strong results in its PayPal business unit due to strong mobile and ecommerce trends
  - Accelerating growth in its legacy marketplace business
- We believe that the economic climate in the country is not having an impact on eBay's business since it is strongly tied to long term secular trends in online commerce
- EBay continues to expand merchant coverage in its Payments division, adding Abercrombie & Fitch, American Eagle Outfitters, JC Penney, Ford, Home Depot, Advanced Auto Parts and 10 others to its offline payment system
- Cyber Monday sales increased 65% year over year
- Acquisitions of PayPal, GSI, and Bill Me Later have broadened EBay's product offerings and revenue streams
- EBay just signed a deal with Discover, giving it's PayPal division access to serve more than 7 million merchants

Our Plan for EBAY:

- We continue to believe eBay is undervalued as a whole. The forward P/E ratio is ~ 18 while 50% of its business (PayPal) is growing by almost 30% year over year. Meanwhile, eBay's online marketplace business is growing at 15% year-over-year
- We believe that December will provide us good opportunities as the holiday season should provide strong ecommerce growth
- We will continue to monitor eBay as its stock price approaches our calculated intrinsic value

Express Scripts Holding Company (ESRX)

Sector: Healthcare	**Current Price:** $54.31	**Intrinsic Value:** $113.42
Industry: Health Services	**Purchase Price:** $64.13	**Market Cap at Intrinsic Value:** $51.4B
Market Cap: $44.0B	**52 Week Range:** $43.02-$66.06	**Unrealized Gain/Loss:** -16.81%

Business Summary: Express Scripts is a full service pharmacy benefit management and specialty managed care company serving clients throughout North America. The company's customers include managed care organizations, insurance carriers, third party administrators, employers and union sponsored benefit plans. The acquisition of Medco Health Solutions and the continuing integration of operations is beginning to show results; ESRX's topline grew 133% year on year and adjusted EPS grew 29%.

Investment Thesis: The acquisition of Medco has made ESRX the largest PBM in the US with a market share of approximately 40%. We believe that ESRX will be able to use its economies of scale to pressure suppliers to lower administrative costs and deliver value to its clients and shareholders. Its scale will enable ESRX to extract better rebates from branded drugs and lower prices from generic drug makers. The increasing demand for drugs from the newly insured and the baby boomers will provide an opportunity for organic growth.

Performance:

- Our analysis using discounted FCF over 5 years suggested that the stock had an intrinsic value of $113.42
- We purchased the stock at $64.13 on 16th October and following the announcement of Q3 results on November 05th the stock tumbled to $55.00, even though the Q3 results outperformed analyst expectations
- The reasoning for the fall in stock prices was attributed to two main reasons:
    - Management felt that analyst estimates for 2013 were aggressive as it felt the general economic conditions in the country weren't encouraging
    - ESRX losing the United Health contract in 2013
- We believe that the economic climate in the country would not see any drastic changes unless a major catastrophic event like the Fiscal cliff happens. If anything, we believe indications are that things will improve.
- ESRX continues to retain 94% of its customers and the United Health contract was a known issue for some time and we believe was factored into the pricing
- The continuing integration of Medco operations will improve gross margins as all of its customers are moved to the new and improved IT system
- Continuing expiry of patents for branded drugs will increase usage of generics which give ESRX higher margins
- Addition of approximately 30 million to the insured population starting 2014 will drive up use of drugs and create opportunities for ESRX to tap into this market

Our Plan for ESRX:

- We continue to believe in the business model of ESRX and have not seen any fundamental changes in how ESRX operates
- We believe that December will provide us good opportunities to buy as there would be increased selling in the market overall to take advantage of tax breaks before end of the year and to avoid any additional taxes resulting from a deal on breaking the fiscal cliff gridlock
- We believe current price give us an opportunity to buy and lower our cost of acquisition. In the near term we want to see how the Fiscal Cliff is solved and based on the direction that it takes would add to our holding.

F-5 Networks Case Study

F-5 Networks (FFIV) has been one of our most interesting holdings this period. For this holding we had two purchase orders sent in. One before the earnings call and one shortly after the earnings call. During the analysis prior to the earnings call we learned that FFIV is far and away the industry leader for the products they have, Application Delivery Controllers. These devices sit in front of a company's servers and manage the traffic coming into and out of the server. With the exponential growth in network consumption these controllers are vital to the operations of businesses. What makes FFIV products stand out amongst their competitors is that the operating system for the controller is fully customizable to the needs of the business. This allows the company to program the controller to fit their needs and reprogram it as they see fit. This functionality makes this product difficult to replace.

Our initial purchase of this stock was prior to their fourth quarter earnings call. Our initial feeling was since management lowered their guidance towards the end of August; the shares were beaten down significantly and were at a level to provide an acceptable return. It turned out that even with the lowered guidance FFIV still missed on their bottom line by $0.06. When we initially invested we did not have sufficient funds allocated to the technology sector to put in a full position. Because we did not feel it would be appropriate to wait and possibly miss out on a positive earnings call we decided it would be best to invest part of the position at that time and the remainder when we liquidated our SPY position for further investments. Because FFIV missed earnings and subsequently lost value, having funds available to reinvest in FFIV allowed us the ability to dollar cost average our position. We felt the fundamentals of FFIV had not changed, and because of its dominant position in its market the stock is even more attractive than before. This has benefited the portfolio as FFIV has rebounded.

FFIV was initially identified while doing research on the various subsectors within the technology sector. FFIV was mentioned in the same breath as companies such as Cisco and Juniper Networks. After looking through some research, we ran a stock screener to see if FFIV fell within our investment constraints. Some of the criteria used were: Market Cap>$2 Billion, 5 Year Growth Rate>15%, Operating Margin>50% and a P/E Ratio<30. From this list of stocks we compared FFIV with its closest peers, and decided that FFIV deserved further scrutiny. From this point we looked at its business model, and the opportunities and threats that would affect its business.

F5 Networks provides products and services to help companies manage their internet protocol traffic and file storage infrastructure efficiently and securely. Their application delivery networking products improve the performance, availability and security of application on internet based networks. F5's storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. The company also offers a broad range of services, including consulting, training, maintenance and other technical supports services. FFIV boasts an extremely high gross margin (80%) as well as operating margin (35%) and has been able to maintain its margin at that level for quite some time over the last few years, while being able to continually grow their business and product portfolio.

Given FFIV's dominance in the ADC market, FFIV has the ability to continue to develop its products, which will provide their consumers with new technologies to enhance their network traffic management. With over $500 million in cash on its balance sheet, FFIV has the flexibility to develop complementary technologies in house or through acquisitions of up and coming companies. For instance, in February, FFIV acquired a company called Traffix which offers a service that complements their current product/service offerings. Currently, Traffix has been fully integrated into their business and we can expect it to provide material benefits to F-5's revenue and earnings during the next fiscal year.

FFIV faces stiff competition within the ADC market, while their product is far more superior than those of their competitors, if a competitor decides to invest a sizable sum to upgrade their technology to make it comparable, it will be possible to do so. This makes it of utmost importance for FFIV to remain ahead of the technological curve. One of their biggest threats comes from Cisco Systems. They provide their own ADC, albeit not on the same level as FFIV's, Cisco has a huge portfolio of product offerings and can simply bundle their ADC with the complementary products they offer. This would eat into FFIV's market share and ultimately hurt their bottom line. FFIV is also highly susceptible to economic conditions; corporate budgets fluctuate with the economy, and technology spending is frequently effected much more than other corporate functions. Therefore, FFIV is at the mercy of what its corporate consumers set aside in its budget for technological upgrades.

The valuation for this security began by looking over historical financial information to get a better idea of the areas the company was looking to improve. The area that stuck out the most was the margins. FFIV sells very high margin products. Looking at historical financials you find that the management has paid particular attention to gross, operating and net margins. These margins have been growing at a steady rate. The first decision was to assume whether these margins will continue to grow, stay the same, or decrease in the future. Our assumption with regard to this issue was that the margins will remain relatively stable over the next five years, with the possibility for slight contracting in margins. To arrive at a conservative estimate we determine that margins will contract slightly by our terminal year. The next driver effecting our valuation was the revenue growth rate. Over the past 5 years FFIV's revenue has been growing at a rate of 25.5%. However, we felt that it would be inappropriate to assume that will remain consistent for the next 5 year. Because we are less optimistic in the short run, we decided on a growth rate less than the previous 5 years. On the following pages we will show you our one page stock recommendation for FFIV and the discounted cash flow analysis that resulted in the intrinsic value of the stock.

F 5 Networks (NDQ: FFIV)
Sector: Information Technology
Industry: Com. Equipment

Intrinsic Value: $ 120.86
Current Price: $ 81.78
Buy: $ 102.73
Sell: $ 145.04

TTM P/E: 23.7
Forward P/E: 18.4
FV Imp. P/E: 14.9
Beta: 1.38

Market Cap: $ 7.57 Billion
Dividend Yield: 0%
VL 3-5 Yr Price: $160-$245
52 Wk Range: $88.30-$139.46

Industry Trends:

Trends in the Communication Equipment industry is leaning towards virtualization and data center transmission. In the long term the growth of tablets and smartphones will aid in continuing the rapid growth in the consumption of network capacity. Corporations are being very conservative with their spending due to uncertain economic conditions and aggressive network upgrades in 2010. The industry is undergoing a technology shift towards convergence, where customers demand multiple products in one spot. Additionally, with cloud computing gaining greater acceptance, communication equipment companies can see increased demand in products that will help support the capacity.

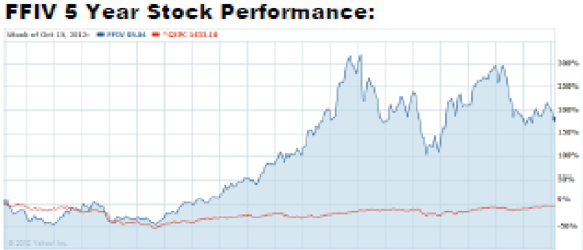
Business Summary:

F5 Networks provides products and services to help companies manage their internet protocol traffic and file storage infrastructure efficiently and securely. Their application delivery networking products improve the performance, availability and security of application on internet based networks. F5's storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. The company also offers a broad range of services, including consulting, training, maintenance and other technical supports services.

Investment Thesis:

During the last five years F5 has been able to increase its market share in the growing application delivery controller (ADC) market. The company has been able to double its market share in this industry at the expense of a much larger rival (Cisco). They also have an industry leading gross margin of approximately 80% and a proprietary operating system that allows customers to customize it to their specifications and therefore invest more into the system. F5 also benefits from its technological advantage over its competitors as its consumers become reliant on their hardware.

FFIV 5 Year Stock Performance:



Comparable Firms:

Direct Competitor Comparison	F5 Networks	Cisco	Citrix	Juniper	Industry
Market Cap:	7.57B	95.43B	12.00B	9.37B	175.11M
Employees:	2,903	66,639	6,936	9,129	412
Qtrly Rev Growth (yoy):	0.21	0.04	0.16	-0.04	0.25
Revenue (ttm):	1.33B	46.06B	2.39B	4.33B	97.32M
Gross Margin (ttm):	0.83	0.61	0.89	0.63	0.71
EBITDA (ttm):	443.96M	12.70B	593.43M	617.67M	5.25M
Operating Margin (ttm):	0.31	0.23	0.17	0.1	0.02
Net Income (ttm):	275.08M	8.04B	361.15M	253.82M	N/A
EPS (ttm):	3.43	1.49	1.91	0.48	N/A
P/E (ttm):	28	12	34	37	21.49
PEG (5 yr expected):	1.3	1.22	1.35	1.7	1.25
P/S (ttm):	5.77	2.14	5.08	2.21	3.00

Sources: Value Line Investment Survey, S&P Net Advantage, Thompson One Banker, Morningstar, F 5 Networks Inc. SEC Filings, JP Morgan Research, Yahoo! Finance

Pros:

- F5 allows vendors such as Oracle to program specific tasks for its product, which opens up a significant sales channel of enterprise software partners.
- F5's main product (ADC's) is considered top of the line and will unlikely see this status deteriorate.
- The company holds 48.2% market share for ADC's
- A fully customizable operating system allows users to create its own rules to fit their business needs, making the product difficult to replace.
- February 2012 acquisition of Traffix adds complementary offerings to FFIV's current portfolio of products/offerings.
- Strong balance sheet with no debt and over $1 billion in cash available to further develop its products and acquire companies to widen its offerings.
- FFIV will continue to benefit from growth in mobile data from tablet and smartphone usage.

Risk Factors:

- F5 competes with Cisco, who has considerable financial leverage and can take market share from F5 by bundling its own products.
- Significant changes in the competitive environment, for example the entry of new competition or the substantial discounting of products and services.
- The ability to develop, introduce and gain market acceptance of new products, technologies and services,
- Reductions in customers' budgets for IT purchases or delays in these purchases.
- The ability of contract manufacturers to provide critical component parts, hardware platforms and other products in a timely manner.
- Fluctuations in demand for their products due to changing market conditions.

Total Return Estimates:

3 Year FV Reversion:	**7.98%**
5 Year FV Reversion:	**4.71%**

Key Valuation Assumptions:

Est. Revenue Growth	13.4%
WACC	9.76%
Expected inflation	2%
Terminal Growth Rate	3%
10 yr. Risk Free Rate	1.8%
Equity Risk Premium	5.90%
Tax Rate	34%

Key Financial Data:

Est. 2013 EPS	$5.17
Est. 2014 EPS	$5.95
3-5 Yr. Est. EPS Growth	10%
ROE	22.5%
ROA	16%
Price/Book	5.9
Price/Cash Flow	16.4
Credit Rating	N/A
Debt/Equity	0%
Debt/Capital	0%
Current Ratio	2.1
Quick Ratio	1.9

Prepared By:
Anthony Martinez on October 21, 2012

Student Managed Fund

FFIV Discounted Cash Flow Analysis						
	Current			Projection Period		
	2012	2013	2014	2015	2016	2017
Revenue	1377.24	1603.80	1972.67	2367.20	2722.28	3048.96
EBITDA	444.26	641.52	789.07	958.72	1088.91	1204.34
Depreciation	41.42	48.23	79.10	94.92	95.51	106.98
EBIT	402.84	593.29	709.97	863.80	993.40	1097.36
Tax	140.99	224.53	276.17	335.55	381.12	421.52
EBIT (1-t)	303.26	416.99	512.89	623.17	707.79	782.82
Plus: Depreciation	41.42	48.23	79.10	94.92	95.51	106.98
Less: Δ Net Working Capital	67.45	73.16	83.33	94.47	106.49	119.28
Less: Capital Expenditures	41.42	48.23	79.10	94.92	95.51	106.98
Free Cash Flow to the Firm	235.81	343.82	429.56	528.70	601.30	663.54
Terminal Value						11443.53
Discounted Cash Flow		312.69	355.29	397.69	411.34	7532.33
Implied EV/EBITDA Multiple	20.28					
Enterprise Value	9009.34					
Plus: Cash	542.55					
Less: Long Term Debt	0.00					
Equity Value	9551.89					
Implied Equity Value/EBITDA Multiple	21.50					
Shares Outstanding	79.03					
Equity Value Per Share	120.86					

Assumption Summary	
Current Price	$ 83.00
2013 Est. EPS	$ 4.90
2014 Est. EPS	$ 5.86
Revenue Growth	14%
Tax Rate	34%
WACC	9.96%
Terminal Growth Rate	3.0%

Sector Outlooks

Sector: Technology

Portfolio Weighting: 15.26%

Managers: Michael Dyer, Anthony Martinez

Facts and Figures

Market Cap:	2.31T (S&P 500)	**P/E TTM:**	18.8x
S&P Weighting:	19.08%	**YTD Performance:**	7.68%
ROE TTM:	13.95%	**Dividend Yield:**	3.39%

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. **Growth in Mobile applications**: 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: smartphone manufacturers, mobile payment processing, internet services, mobile chip makers, and internet gaming, to name a few.
2. **Tablets vs. PC**: Tablet growth is projected to continue (24% projected CAGR through 2016), while PC sales are expected to be flat or down slightly. This has completely changed the game for “old school” PC makers and semiconductor companies. Dell, Hewlett-Packard, and Intel are just a few of the companies feeling the pain from this trend. On the other hand, companies like Apple, Qualcomm, and Samsung are benefitting tremendously. Tablets are also gaining popularity in the work place. Companies and IT organizations are having to reassess security models to accommodate user choice
3. **Big Data**: 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. “Big Data” will force companies to address and interpret the variety of information being generation. It will also increase the need for data storage.
4. **Cloud Computing**: Cloud computing is a broad technology trend that continues to evolve and change rapidly. 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**: 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: The global economic slowdown has had a strong effect on the technology industry. We have seen the results of this slowdown in the weak earnings season. Because of the economic outlook we have decided to underweight this sector with respect to the S&P weighting. We believe there are still opportunities to be had within this sector, and will help us to outperform our benchmark.

Sector: Financials

Portfolio Weight: 14.16%

Managers: Vivek Goel, Tzu-Wen (Albert) Lin

Facts and Figures

Market Cap:	1.8T (S&P 500)	**P/E TTM:**	11.41 x
S&P Weighting:	15.12%	**YTD Performance:**	16.11%
ROE TTM:	6.74 %	**Dividend Yield:**	3.38%

Intro Description: Financials sector covers 4 industry groups (Banks, Diversified Financials, Insurance and Real estate), 8 industries and 26 sub-industries. Most of the industries in this sector are sensitive to the economic cycle.

Trends:

1. **Uncertain macro-economic situations:** The sector is very sensitive to macro-economic situations. Although economic situation have improved after the financial crisis in 2008. Fiscal Cliff and European Debt crisis are still big concerns for the sector.
2. **Low interest rates environment persist:** Tighter interest margin would pose significant challenges to some industries' earnings power.
3. **Ongoing regulatory uncertainties:**
    a. **Dodd-Frank Wall Street Reform and Consumer Protection Act.** This act affects almost every aspect of the financial sector. It contains such provisions as prohibiting proprietary trading, putting restrictions on ownership of hedge funds and private equity funds, and the establishment of the Financial Stability Oversight Council (FSOC).
    b. **Basel III.** The new Basel III capital standard is the most important change to the banks. This new standards may result in a much more rigorous approach to the evaluation of bank capital levels and the components of bank capital.

Portfolio Strategy: The sector stock performance reflects concerns over slow economic recovery. Most of the companies in the sector are still facing substantial uncertainties and penitential risks. In view of these facts, we have a neutral fundamental outlook and have slightly underweighted the financial sector to 14.16% in our portfolio. Our target is companies which have relatively lower risk exposure, a good credit quality, good financial health, and high profitability even the economy stay in the current situation. Our goal is outperforming S&P 500 Financial Sector Index (SNP: ^SPSY).

Sector: Healthcare

Portfolio Weighting: 15.25%

Managers: Anup Ratnakaran, Nanxin (Nick) Li

Facts and Figures

Market Cap:	1.51 T (S&P 500)	**P/E TTM:**	22.17x
S&P Weighting:	12.28%	**YTD Performance:**	11.5%
ROE TTM:	15.84%	**Dividend Yield:**	3.38%

Intro Description: The Healthcare sector consists of 10 sub-sectors with Pharmaceuticals being the biggest sector and it contributes about 52% weightage on the SP 500 Healthcare sector. The other major sectors include Hospitals, Medical devices, Medical supplies, Medical Laboratories and Medical practitioners.

Trends:

1. **Healthcare Reforms**: The Patient Protection and Affordable Care Act (PPACA) require most citizens and legal residents of the USA to have minimum essential health insurance coverage. The law also requires most employers, excluding certain small businesses, to provide coverage for their employees and penalties if they fail to do so. It also expands Medicaid eligibility and provides funding for states to set-up health exchanges to provide affordable health insurance. It prevents insurance companies from denying coverage or dropping coverage and allows dependent children to remain on their parents insurance until they are 26.
   a. **PPACA** will add approximately 32 million to the insured pool by 2019. This is good news for most of the stakeholders in the healthcare industry.
   b. Hospitals serving Medicare patients will see a decline in revenue due to cuts in reimbursement rates for Medicare. However, some of this decline will be made up by the increased number of insured who would need services.
   c. Device manufacturers and Pharmaceutical companies will have to pay increased excise taxes and fees as a result of PPACA
2. **Hospitals:** Hospital spending consumes more of the nation's healthcare budget than any other category. Hospital spending growth had slowed down in 2009 and 2010; however it is expected to grow by 6% per year from 2015-2020. Rising cost of private practice and stagnant reimbursement rates have forced doctors to work for hospitals or large physician groups. The doctor employment in hospitals helps in clinical integration and continuum of care for patients. New models of patient care like ACO and PCMH will increase the clout of hospitals to negotiate better rates with health insurance companies.
3. **Patent Cliff for branded drugs**: The pharmaceutical industry is experiencing an unprecedented patent cliff of branded drugs. It is estimated between 2012 and 2013 a total of over $30B branded drug sales are at risk to generic drug competition. In addition, as part of PPACA, in Feb 2012 FDA has started to work with manufacturers for bio-similar drugs to establish a roadmap for appropriate approval pathway in US, this will fundamentally change the market dynamics of biologic drugs that are lifeblood for biotechnology companies.
4. **M & A in the Pharmacy Benefits Management industry**: Pharmacy Benefit Managers are consolidating; the year witnessed a lot of M&A activity in this area, resulting in companies with major market share. This gives them the power to negotiate better prices and rebates from pharmaceutical companies. The consolidation also helps PBMs reduce overheads and improve operational efficiencies.
5. **Favorable Global Trends**: Demographic trends both in US and across the world point towards an aging population, more active seniors and growing middle class in emerging economies which need an increased use of healthcare services. This translates into increased use of drugs and medical devices and supplies.

Portfolio Strategy: The continued economic weakness in Europe and high unemployment rates in the US has had its effect on the Healthcare sector. However the healthcare sector has outperformed the SP 500 during the time. We believe that the healthcare reforms will have net positives for this sector and in the 3-5 year time period healthcare sector will outperform the SP 500.

Sector: Energy
Portfolio Weighting: 11.18%
Manager: Dawei Zheng, Chris Taylor

Facts and Figures

Market Cap:	1.35T (S&P 500)	**P/E TTM:**	14.55
S&P Weighting:	11.12%	**YTD Performance:**	-1.7%
ROE TTM:	24.46%	**Dividend Yield:**	2.09%

Intro Description: The energy sector consists of seven main subsectors: coal & consumable fuels, integrated oil & gas, O&G drilling, O&G Equipment & Services, O&G Exploration & Production, O&G Refining & Marketing, and O&G Storage & Transportation. Energy sector performance is closely related to the price of oil which has been volatile for reasons described below.

Trends:

1. **Global Economy:** In 2012, there are significant pressures on global economic growth. These threats include sluggish growth in the U.S. economy, debt crisis in the EU, and slowdown in growth in key emerging markets such as China and India. In July 2012, the U.S. Energy Information Administration (EIA), a statistical agency of the U.S. Department of Energy, reduced its global economic growth forecast to 2.9% for 2012 and 2013. In August 2012, the EIA further reduced the forecast for 2012 to 2.8%. Further economic indicators show that the U.S. real gross domestic product (GDP) growth slowed to 1.5% in the second quarter of 2012 after increasing 2.0% in the first quarter. Finally as of August 2012, Standard & Poor's Economics forecasted U.S. GDP to grow by 2.1% for the full year. Economic growth is significantly correlated to the demand for oil which has a direct impact on the performance of energy companies.
2. **Improved supply:** Over the past decade, oil and gas producers have shifted their focus toward development of unconventional resources as a new avenue for growth. North America, with its abundance of undeveloped shale and tight gas reserves, has been at the forefront of this developing trend. Over the last several years, the development of shale natural gas properties, mainly by North American exploration and production (E&P) companies, has become a global game-changer and led to an oversupplied natural gas market. The merger and acquisition (M&A) market for shale gas remains very active, as NOCs, IOCs, and E&Ps all look for future reserve and production growth prospects. Producers have known about shale gas and its potential for decades, but new technologies (e.g., horizontal drilling and hydraulic fracturing) and a spike in gas prices earlier in the decade made drilling economically viable.
3. **Geopolitical:** Geopolitical tensions in the Middle East/North Africa such as the friction in Iraq and Iran, supply disruptions in Libya, and the effects of civil war in Egypt continue to affect the crude oil market. While the sanctions on Iran (which exports nearly 2.2 million b/d of crude) are expected to disrupt supply, Saudi Arabia is trying to negate the impact by increasing its own output. The Organization of the Petroleum Exporting Countries (OPEC), which accounts for 40% of the world oil supply, agreed to keep its production ceiling unchanged at 30 million b/d in a meeting held in June 2012. For the non-OPEC countries, the EIA expects supply to rise by 0.6 million b/d in 2012, and by a further 1.3 million b/d in 2013.

Portfolio Strategy: Due to the volatility in the energy sector for 2012, we use market weight in this sector to be in line with S&P 500. Although we do feel there are many opportunities in the energy industry, the recent economy uncertainty and significant emphasis on environment protection make us believe those opportunities will only be fruiting in a few years' time. For the type of energy source, we are more optimistic on the oil and liquid gas, while less optimistic on dry gas and coal. With the reelection of the Obama administration, we believe alternative energy resources will continue to grow and focus on energy companies with high technology, thus the environment impact of those drilling companies will be minimized. We continue to expect strong global crude oil prices to drive upstream spending and an active merger and acquisition (M&A) environment throughout many areas of the world.

Sector: Consumer Discretionary
Portfolio Weighting: 13.1%
Manager: Tzu-Wen (Albert) Lin, Shuang Han

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

Market Cap:	1.37T (S&P 500)	**P/E TTM:**	17.20x
S&P Weighting:	11.28%	**YTD Performance:**	15.03%
ROE TTM:	23%	**Dividend Yield:**	1.47%

Intro Description: With industries such as retailing, automobiles & components, consumer durables & apparel, consumer services, and media, the consumer discretionary sector comprises a wide array of companies that offer products and services that consumers want more than they need. Because consumers can purchase these items at their discretion, the sector generally performing best during economic recoveries when both wage and investment income are rising. Yet some discretionary categories perform better than others during different stages of the economic cycle, depending on whether they are considered more defensive or interest-rate sensitive.

Trends:

1. **Continued international expansion:** The macro-economic environment in the U.S. has remained slowly recovered for quite some time now. Therefore, many consumer companies are expanding focus to emerging markets as developed markets are witnessing volume declines due to market saturation. Albeit China's recent economic slowdown, the Chinese market is still a key driver because its positive demographic and income trends for the foreseeable future.
2. **Continued offshore souring:** In the ongoing push to cut expenses, US manufacturers increasingly have moved their production facilities to lower-cost regions outside the United States. Due to gradually rising labor cost in Asia countries, such as China, a shift to new souring country can be expected in the long run.
3. **Continued virtual world expansion:** Online sales are increasing faster than traditional retail sales. Significant growth still lies ahead as sellers in all categories develop ways to increase their customer reach. Sales over the Internet should continue to rise, though growth is expected to decelerate from previous years. An additional driver of Internet sales has been the recent emergence of mobile commerce (or m-commerce) as a shopping tool for consumers. However, increased m-commerce usage suggests that retailers will increasingly be forced to compete on price and eroding retailer margins. In addition, as broadband connectivity becomes ubiquitous in the US, consumers increasingly are able to access content through a growing array of "smart" TVs, mobile phones, and tablets. This factor also booster internet sales.

Portfolio Strategy: Since the economy has shown signs of recovery, looking at the lower unemployment rate and higher consumer spending, we decided to overweigh this sector. Our strategy is to look for companies that show high growth potentials in both domestic and international market. We chose the companies that can provide strong management decisions and marketing plans, and also paying high dividend with strong financials to secure our selections during the recent economy recovering process.

Sector: Consumer Staples
Portfolio Weighting: 10.89%
Manager: Nanxin (Nick) Li, Shuang Han

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

Market Cap:	1.33T (S&P 500)	**P/E TTM:**	16.47x
S&P Weighting:	10.99%	**YTD Performance:**	5.02%
ROE TTM:	25%	**Dividend Yield:**	2.96%

Intro Description: Consumer Staples are typically mature, slow growth, dividend-paying companies, so by nature they tend to be less volatile than other sectors. The industries that make up consumer staples are tobacco, food products, beverages, and food & staples retailing. The essential nature of these products for day-to-day life creates stable consumer demand regardless of the business cycle providing reliable and predictable earnings.

Industry Trend:

1. **Weak recovery:** Overall U.S. and world economy is recovering from the worst economic downturn of more than a decade; however the pace is slow and economic health remains fragile. The general instability of economic situation directly impacts the buying power and willingness of customers and thus the consumer staples market.
2. **High unemployment:** In line with feeble economic recovery, the unemployment in U.S. and most parts of Europe remain high. The recent dip in unemployment rate is in part explained by the increase proportion of people who give up on finding jobs. Such trend will drag the overall market and dampen the consumer confidence in purchasing. Staples are generally less affected compared to other sectors like customer discretionary; however the negative impact is solid and fundamental.
3. **Rising cost:** In developed markets, a large proportion of staples come from imports from the developing countries such as India and China. With rising costs in terms of both raw material cost and more evidently labor cost, the consumer staples industry is having a hard time trying to maintain their already razor-thin profit margin, which may inevitably result in rising price and further dampening demand.
4. **Tightened regulation:** A major component of consumer staples industry, food, beverage, and tobacco subsector is under heavy regulation from government agencies. The recent focus on health awareness and tightened regulatory measures will present downward pressure on the top line of many tobacco and beverage companies.

Portfolio Strategy:

Considering the stable characteristic of the Consumer Staples sector, the team decided to weight sector as per S&P weighting. The strategy for Consumer Staples sector is to choose steady growth big cap companies that are stable growers with an above average dividend yield and low beta, and companies that can control input costs by use of hedging or buying out suppliers.

Sector: Industrial
Portfolio Weighting: 9.87%
Manager: Dawei Zheng, Vivek Goel

Facts and Figures

Market Cap:	1.21T (S&P 500)	**P/E TTM:**	25.90
S&P Weighting:	10.02%	**YTD Performance:**	5.04%
ROE TTM:	7.34%	**Dividend Yield:**	1.44%

Intro Description: There are many industries included in this sector, and the highest weighting for this sector includes Aerospace& Defense, Industrial Conglomerates, Transportation and Machinery. Due to the wide span of this sector, there are many stable and mature companies with good dividend yield as well as some cyclical companies that are sensitive to the economy growth rate. There are also many diversified companies with significant international presence, so consideration has to be taken from a global perspective. The impact of the foreign currency exchange rates should also be considered.

Trends:

1. **Global Economy:** In 2012, there is sluggish growth in the US economy, the debt crisis in the EU, and the slowdown in growth in key emerging markets such as China and India are all exerting pressure on global economic growth.
2. **Government policies:** We believe the defense spending will decrease significantly over the next several years with all troops now fully withdrawn from Iraq, a drawdown underway in Afghanistan, and strong political pressure to cut the base US defense budget.
3. **Cost Control:** Since the emerging markets growth is slowing down and the U.S. market maturing, many companies expect slow growth in revenue. In order to improve the bottom line, these companies paying more attention on operational efficiencies.
4. **Environment friendly:** We are witnessing a trend towards environment protection and sustainable development. Many companies have taken initiative to make their process and products environment friendly and have marketed these initiatives to paint a green image.
5. **Aerospace:** We are optimistic on the demand for commercial aircraft. There is continued robust demand from emerging markets such as Asia, the Middle East, Eastern Europe, and Latin America (despite slowdown and airline bankruptcies, Kingfisher Airlines, one of India's premier airline is on verge of bankruptcy). Many airlines in these regions have remained profitable, and fleet sizes must rise to accommodate increased demand for business and personal travel. In addition, there is need among airlines to replace aging and less fuel-efficient planes to address rising fuel prices.
6. **Commodities:** Over the past decade, oil and gas producers have shifted their focus toward development of unconventional resources as a new avenue for growth. Many companies in the industrial sector will benefit from the increased supply of energy resources.
7. **Housing market:** Following the great recession Housing market was in turmoil and new construction was almost nonexistent. We see some recovery recently in this market. The trend will help transportation and construction companies in the industrial sector.

Portfolio Strategy: Due to the slow recovering of the global economy, we use market weight in this sector to be in line with S&P 500. Although we do feel there are many opportunities in the industrial sector. Due to uncertainty in economy and decision-making, a lot of companies have been sitting on sidelines. We believe that the low interest environment and huge cash piles will increase infrastructure investments. President Obama has often emphasized on bringing manufacturing back to US and creating Jobs in US. We think this will benefit industrial sector in long run. Cheap natural gas (Shale gas) will also play important part. We are investing in companies with good management and proven revenue stream, and companies whose management has shown active leadership in difficult times by focusing on operation efficiencies to improve bottom line.

Sector: Materials
Portfolio Weighting: 3.51%
Managers: Chris Taylor

Facts and Figures

Market Cap:	424.6 B (S&P 500)	**P/E TTM:**	15.55
S&P Weighting:	3.49%	**YTD Performance:**	3.87%
ROE TTM:	20.8%	**Dividend Yield:**	2.94%

Intro Description: The materials sector is a smaller sector in the S&P 500. The sector is broken into 12 sub-sectors including diversified chemicals, diversified metals & mining, fertilizers & agricultural chemicals, gold, industrial gases, paper products, and steel.

Trends:

1. **U.S. Petrochemical Industry Advantage**: Decline in U.S. natural gas prices relative to global crude oil prices has improved the feedstock cost competitiveness of the U.S. petrochemical industry versus other global regions. This gives a particular advantage for U.S. based diversified chemical companies.
2. **Growth in U.S. Housing Starts**: S&P Capital IQ predicts housing starts will increase to 1.05 million in 2013 compared to 777,000 in 2012. This figure projects well for aluminum, copper and other base metal companies with a U.S. centric revenue stream.
3. **Rising Populations in Developing Countries**: Growth has been seen in global nutrient use in developing countries in Asia and Latin America, as these geographical regions need to feed larger populations. Combining larger populations with higher income levels results in a higher global demand for grains. In addition, to greater demand for grains, hot and dry weather throughout the 2012 summer has put significant pressure on inventories. These conditions bode well for the fertilizer sub-sector, especially when combining the lower production costs as natural gas is a significant component in production.
4. **Gold**: Many economic indicators point to a continued rise in gold prices. Frist, the Federal Reserve has committed to keeping short-term interest rates at near zero through 2015. Second, global mine production has remained stagnant over the past decade. Third, volatility in major world currencies will boost demand for gold as a monetary reserve asset and thus may rise against all currencies.

Portfolio Strategy: The performance in the materials sector will be strongly correlated to the global economic landscape. A U.S. recovery, especially in the housing market, will provide many opportunities in the metals companies. With uncertainties in the E.U. and slowing growth in China, and low natural gas prices in the U.S. we believe that U.S. revenue based companies to provide the most significant opportunity for return. We also see significant opportunity in Gold, especially as the price has rebounded in the 4th quarter of the year.

Sector: Utilities
Portfolio Weighting: 3.59%
Manager: Huong Doan

Facts and Figures

Market Cap:	420b (S&P 500)	**P/E TTM:**	15.6x
S&P Weighting:	3.49%	**YTD Performance:**	-5.46%
ROE TTM:	7.1%	**Dividend Yield:**	3.9%

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. In 2011, investor-owned utilities accounted for approximately three-fourths of the industry's sales in terms of volume and revenues.

Trends:

1. **Outlook varies by customer sector:** It is expected that long-term growth in investor-owned electric utility sales to industrial customers will be much more modest than the growth for the residential and commercial sectors because large industrial firms can buy power from alternative energy providers.
2. **Federal stimulus package supported renewable energy projects:** In October 2009, President Obama announced that the stimulus package would provide $3.4 billion in grants for so-called smart grid projects that would move the nation to a far more efficient and reliable electric system.
3. **Electricity legislation enacted:** the Federal Power Act of 1935 is amended to establish a self-regulating, electric reliability organization (ERO) under the jurisdiction of the Federal Energy Regulatory Commission (FERC) to ensure the reliability of the bulk power system.
4. **M&A & Regulatory Rate Policy:** A lot of big merger and acquisitions in Electric Utilities (completed or pending) trying to form bigger monopoly in each territory. For most regulated Utilities, a more accommodative regulatory environment will be expected especially in South East US territories.
5. **Rate structures:** Critics have argued that traditional utility regulation—in which rates are based on the cost of service, plus a risk component—does not give utilities an incentive to become efficient. Hence, many states are examining the need to reform the cost-based framework.

Portfolio Strategy: The strategy for Utilities sector is to choose a steady growth big cap company with focusing on clean/renewable energy development and business territories within favored regulatory environment and high dividend yield. Our overall strategy is to seek safe stocks in this sector with less volatile, steady earnings growth and high dividend yield.

Sector: Telecommunications Services
Portfolio Weighting: 3.18%
Manager: Huong Doan

Facts and Figures

Market Cap:	383b (S&P 500)	**P/E TTM:**	14.7
S&P Weighting:	3.13%	**YTD Performance:**	10.92%
ROE TTM:	14.1%	**Dividend Yield:**	5.3%

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. **Tiered data is becoming the norm:** Though unlimited voice, text, and data plans are commonplace, carriers have been pulling back on the data portion by either offering tiered data or capping the amount of high-speed data a user can access.
2. **Wireless calling plans still target market segments:** Prepaid plans are effective for lower income groups and the youth market. Family plans are affordable and help drive subscriber growth.
3. **Next-generation technologies allow faster mobile internet access:** the investments in next-generation technologies support the growth of mobile data services. While the development of 4G wireless platforms will continue to accelerate in 2012, carriers will continue to rely on their 3G network for the majority of their traffic until they optimize their network capacity.
4. **Increasing demand for 4G handsets:** while 4G handsets are still in the early stages of the technology shift, 4G smartphone demand has accelerated substantially and will continue to do so as vendors introduce a wider selection of handsets.
5. **Capacity needs:** the popularity of smartphones and the associated increase in data usage have strained the capacity on some carriers' wireless networks and, as a result, telecoms are looking for ways to shore up their networks.
6. **Broadband:** the key to growth in wire-line segment. While the growth rate of new broadband subscribers has slowed due to high penetration rates, there is still room to grow as service is deployed to new markets. The number of broadband households is expected to expand to 87.3 million by 2015, up from 74.3 million in 2010.

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.