

UConn Graduate Student Managed Fund

2015 Spring Report



February 24th, 2015

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Dear UCONN Foundation,

First, thank you for both the opportunity to participate in the 2014-2015 Graduate Student Managed Fund and for taking the time to review our results. As we all know, participation in this program is an outstanding opportunity to gain an in depth knowledge of financial markets, collaborate as a cohesive team, and learn from financial professionals gracious enough to mentor the participants. All of which we have done. The SMF is a nationally recognized program that has the ability to set fund managers apart from their peers. Without your support and active participation this opportunity would not be possible. As fund managers, we would like to extend a collective thanks.

The security analysis we perform in the process of approving a stock pick truly requires robust experience and all facets of the MBA education we have received thus far. The SMF has taught us critical valuation techniques which require an in-depth understanding of financial statements analysis. However, taking it a step further, understanding a company and how they fit into the competitive landscape requires a holistic thought process that reaches far beyond only the financial discipline. Each manager must create a compelling case and convince the group that their thesis is strong enough to merit investment of real dollars. We drew from all of our courses, not just finance and accounting but also management, marketing, and operations.

We have been exposed to several tools to aid in valuing a stock. For most of us, the SMF was our first exposure to Bloomberg Terminals, Morning Star, Value Line, and several other sources of information. These sources are amazing tools for gathering information quickly and efficiently. Having the experience and expertise of navigating multiple sources, used in the real world, add to what will set us apart from our peers following the program completion.

While we understand that this is, at its core, a learning exercise, we also understand that the gravity of managing over \$1.85 million is not something to take lightly. Each and every manager takes great pride in the diligence with which they research, present, and recommend any security. We present you the information in this report with the upmost dignity and accountability for our decisions and actions.

Please enjoy the report. Our intent was to shed light on our thought process, team dynamics, and logic in making our decisions as well as reporting results. It is our hope that you find it interesting and compelling.

Sincerely,

Jeff Makray, Lead Manager
Doug Bova, Portfolio Manager
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EXECUTIVE SUMMARY

\$1,850,498	Beginning	\$1,955,354	Ending
5.67%	Growth	-0.59%	Alpha

Benchmark and Style:

- The S&P 500 is the fund's benchmark. Though this represents the largest US traded equities by market cap, we look at companies of a range of sizes, generally aiming for over \$2B, and increasingly considered liquidity and downside risk when approving a smaller cap.
- We assessed sectors as group for a consensus on favorability, however, focused on finding good value over target allocation.
- The fund may invest up to 20% of its dollars into fixed income, however, we did not make any investments into this asset class, our expectations are for raising interest rates over our full investment horizon.

Philosophy and Strategy:

- Our process started with a top-down approach, first looking at the macro-economy, then reviewing sectors. Managers were given sectors to focus on, however we're not strict and had notable crossover into other sectors. Also, inside each sector managers had full discretion to pick industries and companies driven by fundamental analysis and value investment principles.
- Fundamental analysis included seeking companies with a competitive advantage, a strong balance sheet, and an attractive valuation per our models.
- The group periodically discussed investment themes (i.e. decreasing oil prices, shifting demand, increasing consumer confidence) as to understand and be consistent with the drivers of the market.
- Periodic portfolio analysis colored team's future selections

Economic and Market View:

- At the beginning of the academic year our take on the economy was that the US was in a mid, maybe late, expansionary cycle, and that we expected the market to be up by the end of our time as managers and up in a 3-5 year horizon, therefore we favored cyclical over defensive stocks.
- Other significant macro factors include;
 - a stagnant European economy
 - Asia is growing but at a pace lower than recent years
 - US energy costs are low
 - US unemployment has dropped to acceptable levels
 - rates are low, but consumer and small business credit is still tight
 - inflation is a modest 1.7%



Process:

- We used DCF and/or DGM to determine intrinsic value and desired a margin of safety that allowed for returns above market if to be realized over a 3-5 year period.
- Each pitch is done with a PowerPoint presentation with an agreed upon standards for minimum topics covered.
- Having added two new members in the Spring to our original seven it took five and seven yes votes in the Fall and Spring respectively to achieve a 70%+ consensus to approve a stock.

Review and Outlook:

Status

- We have invested into 20 stocks for about \$1.3M, which accounts for 55% of the total funds. (Three additional stocks for \$220k were approved but the trades were not executed in time to be included in the results for this report.)
- \$100k was invested into 2 stocks, \$60k was invested into 16 stocks and 1 allotment of \$40k and \$20k each
- During this timeframe the market returns were 6.37%, the portfolio as a whole was 5.81%, a negative alpha of 56 bps.
- Returns on only invested dollars, excluding index and cash positions, results in slightly higher return of 5.92% for a negative alpha of 45 bps

Notes/Observations

- Volatility was greatest in our first month of investing; October.
- A conservative estimate of the amount of money we lost due to a cash drag is \$15,000. This was due to the nature of how we were trading. Each time we liquidated funds it took at least three days before those funds were available in cash. Liquidating and purchasing funds during market upswings means we lost gains on that money while it was sitting in “limbo.”

How to read this report

- The timeframe for analysis for this report is from 9/17/2014 to 2/19/2015, a solid 5 months.
- Analysis in this report is for the full portfolio, including index funds and cash, however, when noted invested dollars only is referenced too
- Sectors are defined by S&P classifications



INVESTMENT PHILOSOPHY AND STYLE

We consider the primary mandate to be value investors, to look for stocks that we believe the market is currently pricing too low - below their true intrinsic value. To determine value we apply discounted cash flow analysis and when appropriate the dividend growth model. We generally look for stocks trading at more than 15% below their intrinsic value.

Before searching individual securities for the portfolio we started with a top-down approach. We looked at the economy, assessed the current state and its trajectory. We looked at; GDP growth, unemployment rate, labor participation rate, interest rates, wage growth, consumer confidence, credit availability, among other indicators. Moving downward this gave us context on which sectors we believe would outperform the market and initially set target weights, but later relaxed desired targets to focus on finding value wherever it could be found. Each manager loosely focused on a sector but had discretion to choose the industries and stocks to pitch inside their emphasized sector(s).

Our focus was on mid and large cap stocks as we viewed them as safer and more liquid investments, and our selections demonstrate this with one exception of a company with a market cap below \$1 billion. We generally look for companies that have recurring revenue, consistent growth, a strong balance sheet, a long track record of profitability, and a compelling story of valuation and/or competitive advantage. Lastly, we have a triple bottom line approach in which on top of seeking a high return on our capital, we also give preference to companies that are good stewards towards people and the earth through assessment of their Corporate Social Responsibility.

The goal is to outperform the S&P 500 over five years. Therefore, as well as attractive valuations, we look for companies that benefit from sustainable macro tailwinds, and provide a product or service that would stay in demand and weather a minor downturn, change of tastes, and are unlikely to be heavily disrupted by technological changes. However, though we are largely being judged on the quality of our analysis, and thoughtfulness of our decisions only this academic year's portfolio performance will be scrutinized. With this in mind we have also considered and approved companies that would be closer to a growth play on the value to growth spectrum. In these few cases valuation may be more in line with market but we believe in their story and foresee a clear path to continued success, and have modest downside from qualitative perspective to stay with the generally more conservative nature described by the prospectus. These growth stocks are housed in the technology and healthcare sectors, which tend to be grounds for such opportunities.



STRATEGY

We were an actively managed fund, looking to select individual stocks to beat the broader market. However, we didn't day trade - looking to take advantage of market fluctuations gaming entry and exit points. Though willing to sell if value was fully realized ultimately we held all positions in full from purchase. We looked for companies with solid fundamentals that we believe have long term sustainable upside. Through this strategy our goal was to beat the S&P 500 (ticker: GSPC) - to generate positive alpha.

We started with \$1.85M and our initial goal was to invest in about 35 stocks – which would suggest an average investment of \$60k. Using this as a baseline we would increase or decrease the size of the investment mostly based on level of conviction partially on diversification. Ultimately making investments from \$20k to \$100k, with \$60k by far being the most common with 80% of our investments were this size.

We started off the year with a greater focus on allocation. We identified four of these areas as likely to be high performing; Consumer Discretionary, Healthcare, Industrials, and IT. However, looking to diversify our portfolio from a risk perspective and since we believed we could find undervalued stocks in any sector we were open minded towards investing in all sectors. Ultimately we invested in six, the named four and also Financials and Materials.

In search for stocks to add to the portfolio we look for companies that are growing, have strong free cash flow, are financially strong, in a growing market, and are differentiated in product or process compared to peers. Also, at initial screening by the manager strong considerations is given to metrics like profit margins, price to free cash flow, return on equity, and relative valuation. Furthermore, we wanted to avoid undue international exposure as the domestic economy is stronger. More specifically we we're okay with companies that were taking market share in foreign markets, but were wary of those established abroad that had more to lose. Ultimately we had 43% of our revenues coming international, slightly less than the S&P's 46%.

The Student Managed Fund is permitted to put up to 20% of the portfolio into fixed income. However, we did not invest in this asset class. Our expectations are that interest rates will rise during our 5 year horizon and that will hurt fixed income valuations. This did not play out during our tenure as student managers, as the US 10 year treasury dropped from 2.59% to 2.13%, a 17.8% drop, pushing up Barclays Capital Aggregate Bond Index during the same time from 108.68 to 110.55, a 1.7% increase.

“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” -Warren Buffet



INVESTMENT PROCESS

In the Fall we started with a top down approach first looking at the economy at large, then we took a closer look at individual sectors. With more and less favorable sectors in mind and their relative sizes as a make up of the S&P we then had managers focus on specific sectors. We originally had targeted allocations but then backed away from this in favor of allowing managers greater range to find the greatest value. Nonetheless we were cognizant if a stock being pitched would give us additional exposure to a space we were already invested in or lacked exposure. Furthermore, each manager did fundamental and valuation analysis to determine the stock as an investment candidate.

Macro Economic Analysis:

When we began by discussing the economy we wanted to have a consensus on what part of the business cycle the US was in as this would have heavy influence on our general investment thesis. We agreed we were in either the mid to late part of an expansionary cycle. Major factors that lead us to this conclusion include: timing of the last recession, GDP growth rate, declining unemployment, and increasing consumer confidence index. Given our timeframe we felt comfortable targeting our portfolio to be heavy on companies that benefit most from expansionary economies and to avoid defensive stocks.

Other significant factors that have played into our decision making include low interest rates, a slow-growth Europe, increasing consumer confidence, modest inflation, and decreasing energy costs.

Sector and Industry Analysis:

After discussing the state and predicted trajectory of the economy we as a group then took a closer at the ten S&P sectors. We wanted to identify the sectors that would most benefit or lag the market due to the economic factors previously discussed and other indicators that were unique to specific sectors. For example, for the industrial sector the purchasing manager index (PMI) was above the threshold that indicated expansion. Deep dives on specific industries were a part of the individual managers process while researching potential investments. Value Line Investment Survey, S&P Net Advantage, Bloomberg Industries, and Morningstar were all useful sources. Additionally, an industry overview is a part of every stock pitch to the group.

Individual Stock Analysis:

Initial screening generally consists of reviewing ratios, returns, relative valuation, analyst opinions, and the student manager's insight into the company and its competitors. Moving forward the student manager would look for a better understanding by reviewing the 10k, the most recent 10Q, listening to the most recent earnings call and other company presentations, looking through company headlines for telling articles, and reading sell-side analyst reports.

SEARCH. ANALYZE. PITCH. MONITOR. DEFEND.



VALUATION METHODOLOGY

To estimate the intrinsic value of stock we primarily used two different techniques; discounted cash flows (DCF) and dividend growth model (DGM). However, each method have growth assumptions that require careful consideration:

The near term growth rate used to forecast either sales, free cash flow, and/or dividends was determined by using historical growth rates and Value Line's predicted growth rates as a range. For sales or FCF the manager used their judgment to go lower or higher in the range with additional consideration of the most recent performance, trends of the industry the stock is in, which geographies it derives its revenues, etc.

The long term growth rate used in determining a terminal value used the historical GDP growth rate as a base then adjusted up or down depending on the maturity of the industry.

MSFT											
	0	1	2	3	4	5	6	7	8	9	10
Assumptions	PRESENT										
1. Sales growth rate	11.50%	12.00%	10.00%	8.00%	8.00%	8.00%	5.00%	5.00%	5.00%	5.00%	3.50%
2. Operating expenses	0.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
3. Tax rate	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%
4. Interest expense	2.00%	2.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
5. Working capital % (CA-CL)/Sales	79.03%	60.00%	60.00%	60.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
6. Depreciation expense of FA	1.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
7. Cost to revenue	30.00%	30.00%	30.00%	30.00%	30.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%
Income Statement	year 2013	year 2014	year 2015	year 2016	year 2017	year 2018	year 2019	year 2020	year 2021	year 2022	year 2023
Revenue	86,833.00	97,252.96	106,978.26	115,536.52	124,779.44	134,761.79	141,499.88	148,574.88	156,003.62	163,803.80	169,536.93
Cost of Good Sold	26,934.00	29,175.89	32,093.48	34,660.95	37,433.83	53,904.72	56,599.95	59,429.95	62,401.45	65,521.52	67,814.77
Operating expenses	32,140.00	9,725.30	10,697.83	11,553.65	12,477.94	13,476.18	14,149.99	14,857.49	15,600.36	16,380.38	16,953.69
Depreciation expense	0.00	1,701.93	1,872.12	2,021.89	2,183.64	2,358.33	2,476.25	2,600.06	2,730.06	2,866.57	2,966.90
Operating margin (EBIT)	27,759.00	56,649.85	62,314.83	67,300.02	72,684.02	65,022.57	68,273.69	71,687.38	75,271.75	79,035.33	81,801.57
Interest expense	0.00	540.94	691.14	853.35	1,028.54	913.31	1,062.31	1,218.76	1,383.03	1,555.52	1,734.04
EBT	27,759.00	29,175.89	32,093.48	34,660.95	37,433.83	40,428.54	42,449.96	44,572.46	46,801.09	49,141.14	50,861.08
Tax expense	5,746.00	6,418.70	7,060.56	7,625.41	8,235.44	8,894.28	9,338.99	9,805.94	10,296.24	10,811.05	11,189.44
Net income	22,013.00	22,757.19	25,032.91	27,035.54	29,198.39	31,534.26	33,110.97	34,766.52	36,504.85	38,330.09	39,671.64
Return on equity	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29
EBT	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Balance Sheet											
Current asset	114,246.00										
Current liabilities	-45,625.00										
Working capital	68,621.00	58,351.78	64,186.95	69,321.91	62,389.72	67,380.90	70,749.94	74,287.44	78,001.81	81,901.90	84,768.47

*Graphic for display purposes



PROCESS AND PROCEDURES

Training and Development:

Our advisors Professor Ghosh and Professor Rakotomavo regularly gave us insight into portfolio management and how an equity analyst thinks. We were provided workshops on useful topics including valuation techniques, Bloomberg, Value Line, and Morningstar. Between having access to these resources, knowing how to use them, and taking advantage of the rich features we were able to efficiently analyze potential stock picks from a qualitative and quantitative point of view.

Channels of Communication:

The team met weekly in the afternoons usually for 4-5 hours for pitches, portfolio updates, major economic developments, shared insights, agenda setting, planning, and administrative tasks. We use a shared Google Drive to store all relevant SMF documents, including; pitch PowerPoints, valuation work, sector analysis, portfolio analysis, among others.

Stock Pitches:

The expectation for the group was for every manager to do at least four stock pitches – which we largely accomplished. For most of the first semester we did not have guidelines for pitches, but aimed to have them be under an hour from start to final vote. For better time management we later agreed to 20 minutes presenting, 15 minutes Q&A, and 5 minutes to vote as a rule of thumb – though could easily go over when a manager was introducing an unfamiliar industry. More importantly, we had an agreed upon standard for the pitches. Every pitch had a minimum set of information, including; segment breakdown, ratios, relative valuation, industry synopsis, investment thesis, concerns, intrinsic value, major assumptions in valuation, among other vitals.

To approve a stock for a portfolio we need 70% approval from the group, which was five out of seven managers voting in the positive for the first semester, and then seven out of nine for the second. Once in the portfolio the manager is responsible for monitoring the stock, including any significant changes to fundamentals, events, or if the price near its stop loss or upside review.



SMF WELCOMES FRM STUDENTS

Two FRM students joined the team starting in the Spring semester and they brought a unique perspective to stock selection. On top of traditional fundamental analysis they incorporated risk management concepts into the selection process from both a stand alone investment and portfolio point of view.

During selection attention was given to the internal risk control structure, such as their risk management philosophy, risk appetite and internal operation regulation, of the company since a solid risk control system could stabilize the stock price in a market downturn. Also analyzed was how the newly added stock would help to further diversify away unsystematic risk in the portfolio.

Stress tests could be performed to understand how a stock would react to an negative event. Furthermore, a scenario analysis allows a comparison of a potential loss to our portfolio compared to the benchmark. Lastly, VaR, or Value at Risk, would illustrate the loss probability and loss limits of the portfolio.

Scenario	Worst Security	Worst Sector	P&L (P)	P&L % (P)	Portfolio Value
oil price drop - May 2010	LUV	Industrials	-15,369	-11.91	113,638
Equity Markets Rebound in 2009	IT	Info. Tech.	70,997	24.74	357,947
Equities down 10%	MGA	Industrials	-16,983	-13.16	112,024
Lehman Default - 2008	MGA	Materials	-16,114	-27.09	43,369
EUR up 10% vs. USD	AMGN	Health Care	2,502	0.79	320,073
Greece Financial Crisis in 2010	TEDU	Industrials	-18,903	-14.65	110,104
Equities up 10%	IT	Health Care	25,041	7.89	342,613
Libya Oil Shock - Feb 2011	LUV	Industrials	-5,908	-4.58	123,098
EUR down 10% vs. USD	MGA	Materials	-2,171	-3.65	57,312
Japan Earthquake in Mar 2011	DIS	Financials	-3,203	-2.66	117,283
Russian Financial Crisis - 2008	TEDU	Materials	-16,597	-27.90	42,886

*Invested dollars only, 18 stock portfolio

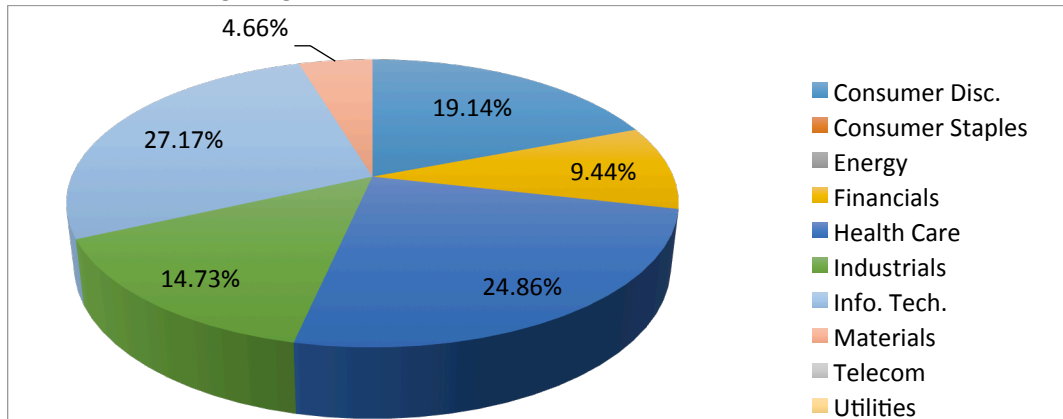
Scenario	Best Security	Best Sector	P&L (P)	P&L % (P)	Portfolio Value
oil price drop - May 2010	DST	Materials	-3,324	-5.59	56,159
Equity Markets Rebound in 2009	PRU	Financials	109,789	91.12	230,275
Equities down 10%	IT	Materials	-6,193	-10.41	53,289
Lehman Default - 2008	COF	Financials	-7,648	-6.35	112,838
EUR up 10% vs. USD	MGA	Consumer Disc.	8,346	3.42	252,452
Greece Financial Crisis in 2010	PX	Materials	-3,657	-6.15	55,826
Equities up 10%	MGA	Information Technology	25,905	9.03	312,854
Libya Oil Shock - Feb 2011	PX	Materials	-294	-0.49	59,189
EUR down 10% vs. USD	AMGN	Materials	-2,171	-3.65	57,312
Japan Earthquake in Mar 2011	TEDU	Materials	-687	-1.15	58,796
Russian Financial Crisis - 2008	PRU	Financials	-11,075	-9.19	109,410



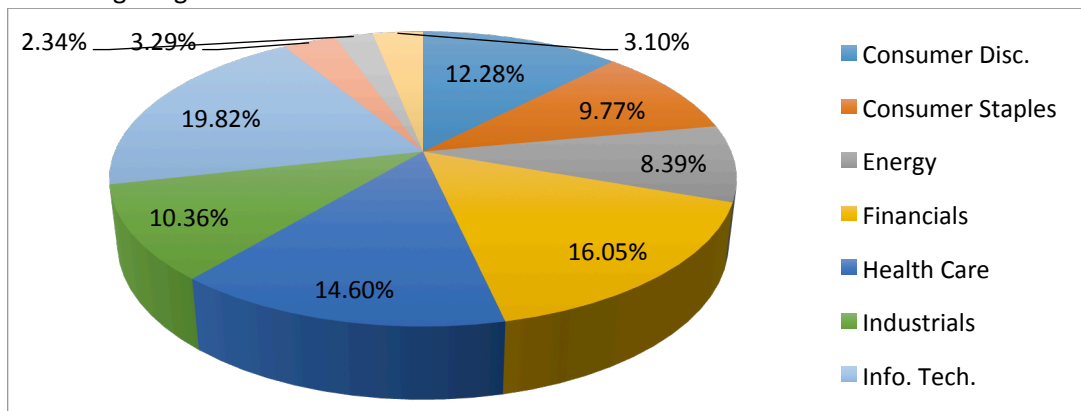
PORTFOLIO ANALYSIS

Below is a breakdown of our portfolio weighting. Our initial analysis and action was focused around sectors with positive outlooks that have higher target weightings. The top three sectors by target weight are Information Technology, Consumer Discretionary, and Health Care. Sectors not represented include; Consumer Staples, Energy, Telecom, Utilities. We predominately in large cap with 15 invests, followed by mid-caps with 4, and just one small cap that was under 2 billion.

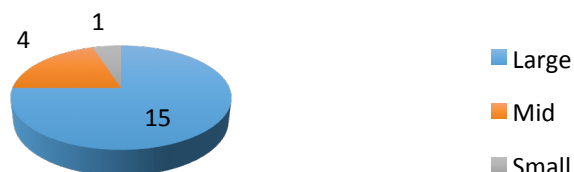
SMF Portfolio Sector Weighting



S&P Sector Weighting



Breakdown by Market Cap



Current Positions:

As fund managers, the benchmark that we are being measured against is the S&P 500 (Ticker: GSPC). By shaping a well diversified portfolio focused on a mix of growth and value stocks we intend to maximize our returns.

Below is a snapshot of our current portfolio. Please note that all portfolio analysis is based on the position on February 20, 2015 at the end of the trading day.

Sector/Sub-Industry	Company Name (Ticker)	Date Purchased	Shares Held	Purchase Price (per share)	Current Price (per share)	Dividend Yield	Current Position Value	Yield	Portfolio Weight
Health Care							\$110,822		24.86%
Biotechnology	Amgen (AMGN)	10/7/2014	429	\$137.30	\$157.55	2.00%	\$67,588	14.75%	5.30%
Health Care Distributors	McKesson (MCK)	10/20/2014	300	\$192.91	\$228.86	0.42%	\$68,658	18.63%	5.38%
Life Sciences Tools & Services	Parexel (PRXL)	11/4/2014	1,105	\$55.10	\$63.44	-----	\$70,101	15.14%	5.49%
Managed Health Care	Cigna (CI)	2/5/2015	936	\$112.48	\$118.40	0.03%	\$110,822	5.26%	8.69%
Financials							\$120,392		9.44%
Life & Health Insurance	Prudential (PRU)	10/20/2014	720	\$80.84	\$80.75	2.87%	\$58,136	-0.11%	4.56%
Consumer Finance	Capital One Financial Corp. (COF)	2/11/2015	775	\$77.03	\$80.33	1.49%	\$62,256	4.28%	4.88%
Materials							\$59,418		4.66%
Industrial Gases	Praxair (PX)	10/28/2014	460	\$126.20	\$129.17	2.21%	\$59,418	2.35%	4.66%
Consumer Discretionary							\$244,232		19.14%
Movies and Entertainment	Disney (DIS)	10/7/2014	675	\$87.92	\$104.57	1.10%	\$70,585	18.94%	5.53%
Education Services	TAL Education (XRS)	11/30/2014	1,225	\$31.18	\$30.06	-----	\$36,824	-3.59%	2.89%
Education Services	Tarena (TEDU)	11/10/2014	1,400	\$13.88	\$11.28	-----	\$15,792	-18.73%	1.24%
Auto Parts & Equipment	Magna (MGA)	11/17/2014	570	\$104.10	\$104.10	1.46%	\$59,337	0.00%	4.65%
Home Improvement Retail	Home Depot (HD)	2/10/2015	550	\$109.21	\$112.17	1.67%	\$61,695	2.71%	4.84%



Sector/Sub-Industry	Company Name (Ticker)	Date Purchased	Shares Held	Purchase Price (per share)	Current Price (per share)	Dividend Yield	Current Position Value	Yield	Portfolio Weight
Industrials							\$187,983		14.73%
Electrical Components & Equipment	Eaton (ETN)	10/20/2014	930	\$60.80	\$72.49	2.70%	\$67,416	19.23%	5.28%
Airlines	Southwest Airlines Co (LUV)	2/10/2015	1,375	\$43.77	\$44.70	0.54%	\$61,462	2.12%	4.82%
Electrical Components & Equipment	Rockwell Automation (ROK)	2/18/2015	500	\$118.26	\$118.21	2.20%	\$59,105	-0.04%	4.63%
Information Technology							\$346,630		27.17%
IT Consulting & Other Services	Gartner (IT)	10/28/2014	750	\$77.88	\$84.59	-----	\$63,443	8.62%	4.97%
Data Processing & Outsourced Services	DST Systems (DST)	11/03/2014	600	\$97.52	\$109.23	1.10%	\$65,538	12.01%	5.14%
Systems Software	Microsoft (MSFT)	11/17/2014	1,200	\$49.45	\$43.84	2.83%	\$52,602	-11.35%	4.12%
Technology, Hardware, Storage, and Peripherals	Apple Inc. (AAPL)	2/11/2015	815	\$123.82	\$129.39	1.45%	\$105,449	4.50%	8.27%
Semiconductors	Texas Instruments Inc. (TXN)	2/18/2015	1,020	\$57.90	\$58.43	2.32%	\$59,599	0.92%	4.67%



Characteristics:

	Portfolio	SPY (Benchmark)	+/-
Dividend Yield	1.46	1.95	-0.48
Price to Earnings	17.93	18.51	-0.59
Price to Cash Flow	11.64	11.69	-0.05
Price to Book	3.38	2.87	0.51
Total Debt to Common Equity	69.46	113.44	-43.97
Current Ratio	0.91	1.42	0.51

In aggregate our portfolio had a lower dividend yield than the benchmark. Price to earnings, slightly lower, which is consistent with a value portfolio. Price to book is higher than the benchmark, which is inconsistent with a value portfolio. Possibly we could have used this more often during relative value analysis. Total debt to common equity is notably lower than the benchmark – a sign we tended towards strong balance sheets.

Portfolio Beta:

Company	Beta	Company	Beta
Amgen (AMGN)	0.56	Magna (MGA)	1.22
Disney (DIS)	1.17	Microsoft (MSFT)	1.01
Eaton (ETN)	1.72	Cigna (CI)	0.55
McKesson (MCK)	0.68	Home Depot (HD)	1.03
Prudential (PRU)	1.65	Southwest (LUV)	0.98
Gartner (IT)	0.66	Apple (AAPL)	0.86
Praxair (PX)	0.81	Capital One (COF)	1.25
DST Systems (DST)	1.12	Rockwell (ROK)	1.46
TAL Education (XRS)	0.78	Texas Instruments (TXN)	1.2
Parexel (PRXL)	1.13	Portfolio Beta (Weighted):	1.03
Tarena (TEDU)	1.81		

The current portfolio's beta is just over 1, at 1.03. Tarena has the highest beta at 1.81 (note, this is trailing 6 months due to a recent IPO) and Cigna has the lowest beta at 0.55. A beta of 1.03 indicates that the portfolio as a whole has a slightly higher risk than the market.



Allocation and Selection Effect:

Allocation effect measures our current weighting by each sector compared to the SPDR S&P ETF. In other words, if we overweight a sector and it performs well, the allocation effect for that sector is positive, and vice versa. Selection effect measures the performance of the stocks that were selected within a specific sector. So if the stocks in that sector outperformed the benchmark the selection effect will be positive, and vice versa. Total attribution is the sum of the allocation and selection effects.

Several different scenarios played out in our portfolio. For sectors such as Health Care and materials, we got positive total scores. This was due to our selection within those sectors. Finally, by not investing in the Energy or Telecom sectors at all, the allocation effect was positive, suggesting that our predictions were right that the sectors underperformed.

	Total Attribution	Allocation Effect	Selection Effect
Cash	0.01	0.01	0
Consumer Discretionary	-0.77	-0.02	-0.75
Consumer Staples	-0.37	-0.37	0
Energy	1.95	1.95	0
Financials	-0.02	0.16	-0.17
Funds	-1.02	-1.02	0
Health Care	0.11	-0.45	0.56
Industrials	0.1	-0.03	0.13
Information Technology	-0.58	-0.16	-0.43
Materials	-0.03	0.15	-0.18
Telecom	0.13	0.13	0
Utilities	-0.07	-0.07	0
Totals	-0.56	0.28	-0.84

* Negative alpha of 56 bps versus previously reported 59 bps because attribution is based on 2/19/15 versus 2/20/15 per Bloomberg functionality



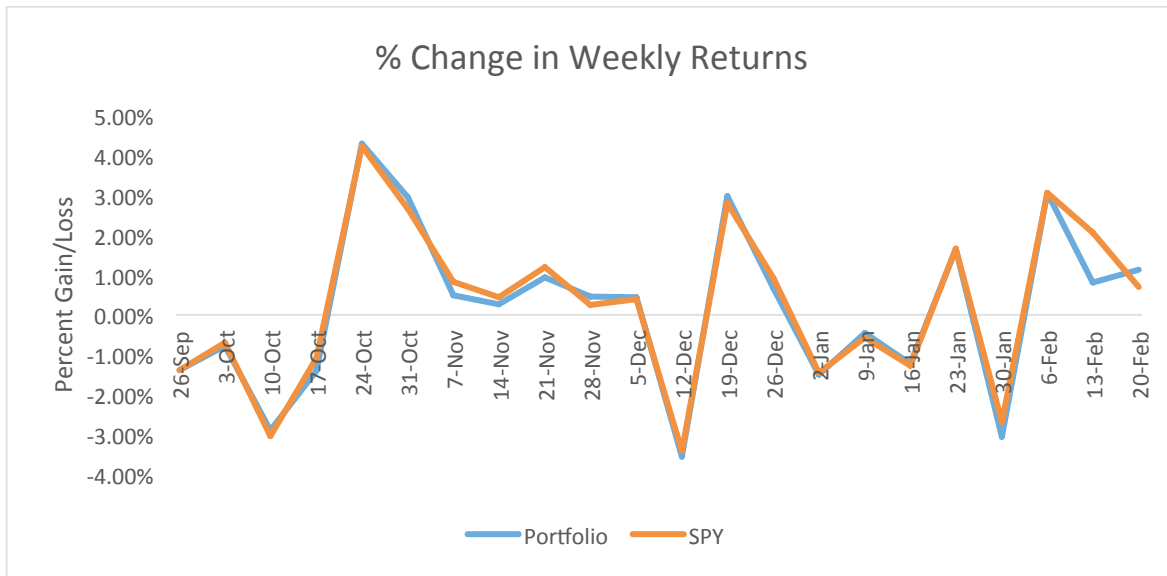
Performance:

3 of our stocks had positive alpha, and 7 negative alpha based on their individual benchmarks. Though 65% beat the market the magnitude of the losses overtook the gains.

Purchase Date	Equity	Purchase Price (\$)	2/20/2014 Price (\$)	Gain/Loss	SPY Gain/Loss*	+/- Compared to Benchmark
10/7/2014	AMGN	137.30	157.55	14.75%	7.93%	6.82%
	DIS	87.92	104.57	18.94%		11.01%
10/20/2014	ETN	60.80	72.49	19.23%	10.92%	8.31%
	MCK	192.91	228.86	18.63%		7.72%
	PRU	80.84	80.75	-0.11%		-11.03%
10/28/2014	IT	77.88	84.59	8.62%	6.46%	2.15%
	PX	126.20	129.17	2.35%		-4.11%
11/3/2014	DST	97.52	109.23	12.01%	4.34%	7.67%
	XRS	31.18	30.06	-3.59%		-7.93%
11/4/2014	PRXL	55.10	63.44	15.14%	4.78%	10.36%
11/10/2014	TEDU	13.88	11.28	-18.73%	3.53%	-22.26%
11/17/2014	MGA	104.10	104.10	0.00%	3.26%	-3.25%
	MSFT	49.45	43.84	-11.35%		-14.61%
2/5/2015	CI	112.48	118.40	5.26%	2.39%	2.86%
2/10/2015	HD	109.21	112.17	2.71%	1.99%	0.72%
	LUV	43.77	44.70	2.12%		0.13%
2/11/2015	AAPL	123.82	129.39	4.50%	1.83%	2.67%
	COF	77.03	80.33	4.28%		2.45%
2/18/2015	ROK	118.26	118.21	-0.04%	0.49%	-0.53%
	TXN	57.90	58.43	0.92%		0.43%

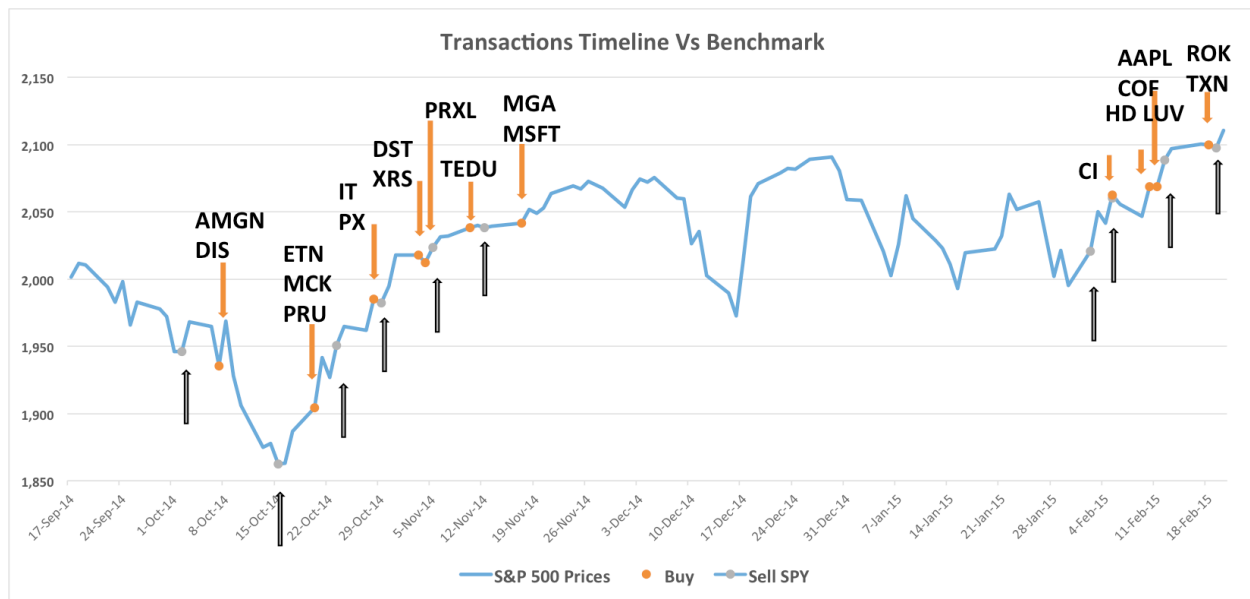
*Note: This represents the SPY gain/loss ending on 2/20/2015 and starting on the purchase date of the respective equity.





Cash Drag:

The graph below visually represents the gains missed out on as a result of our trading process. There is a lag of 3 – 5 days from when funds are liquidated out of the S&P SPDR to when cash is available to purchase equities. In both of our major buying periods the market's value was increasing. During the time cash was sitting in "limbo" it was missing out on the gains it would have otherwise been the beneficiary of. In hindsight it is easy to determine the most optimal trading schedule. However, incremental liquidation was a favorable decision in that more funds did not miss out on any gains. A conservative estimate of the amount of gains that were missed on is \$15,000. This would have significantly changed our portfolios performance.



Portfolio Snapshot (Including SPDR Funds):

Current Invested Stocks	\$1,275,826
SPDR S&P 500 ETF	\$444,000
Cash Balance	\$235,528
Total	\$1,955,354
Initial Value	\$1,850,498
Total Return	5.67%

Sharpe Ratio – this is a measure of whether or not the returns of a portfolio were due to an excessive amount of risk or smart investing. A positive Sharpe ratio indicates greater risk adjusted returns, while a negative ratio indicates that a less risky investment would perform better.

Treynor Ratio – again, this measures the returns of a portfolio compared to risk. It is similar to the Sharpe ratio. The difference is that the Sharpe ratio uses expected returns and the standard deviation of the portfolio while the Treynor ratio uses beta to evaluate risk.

Jensen's Alpha – this measure of risk adjusted returns uses different variables to determine whether or not a portfolio is achieving appropriate returns for its level of risk.

	Portfolio	SPDR S&P 500 ETF
Return (with cash, index, and dividends) (9/17/2014 – 2/22/2015)	5.92%	6.26%
Return (invested funds only, no dividends) (9/17/2014 – 2/22/2015)	5.67%	5.22%
Mean Weekly Return (9/17/2014 – 2/22/2015)	0.17%	0.25%
Standard Deviation	0.0207	0.0204
Beta	1.031	1.00
Sharpe Ratio	2.01	1.73
Treynor Ratio	0.31	-----
Jensen's Alpha	7.72	-----



Analysis Conclusion:

Disappointingly, the portfolio modestly underperformed the market. However, some of this can be attributed to cash drag, as we were somewhat unlucky with timing of index fund liquidations. We only liquidated index fund when the cash was specifically earmarked for an approved investment. This was the best way to keep our average cash balance down. However, particularly in the relatively volatile early months, we missed rallies as our cash taking the standard three days to clear for use. This effect is clear when looking at just the invested dollars only, as this rate of return beat the S&P.

Furthermore, we could have taken an approach to invest in riskier, higher beta stocks to beat the market on a non-risk adjusted basis just to trumpet alpha. However, our risk level was very close to the market as demonstrated by our weighted average beta and Sharpe ratio.



INVESTMENT SUMMARIES

Amgen (AMGN) Amgen is the largest “pure play,” independent biotech company. Through organic growth and acquisition, it has built a strong drug portfolio and pipeline which are projected to produce revenues for the next decade. This is aided by patent protection and the complex nature of biologics. Amgen is also leading the industry in developing biosimilar R&D and manufacturing capabilities. Three main factors led the group to view this as a strong buy: a robust pipeline, a leader in the biosimilar market, and increased efficiencies and expertise through acquisition. In the short term, Amgen is going through a restructuring process following the 2014 acquisitions of Onyx Pharmaceuticals. The restructuring has already shown a positive impact on earnings and revenue and is expected to improve Amgen’s expertise concerning cancer related drugs. Looking forward, the company has a robust pipeline projected out for the next 5 to 10 years. Finally, they are an industry leader in creating a biosimilar (generic biologics) development and production segment.

Apple (AAPL) retains its significant competitive advantage in product design, marketing ability and customer loyalty. Its Macs, iPhones and iPads all run the same core software and content platforms, which enables the company to generate R&D and marketing leverage that is unmatched in the technology industry. In FY2014 and Q1 FY 2015, Apple achieved impressive sales growth mainly due to the new products of Iphone 6 and Iphone6+. Iphone momentum should build as the company’s competitive position strengthens relative to Samsung and other key vendors, and as more distribution deals are reached with wireless carriers in emerging markets. Besides, new products and services, from “Apple Watch” to “Apple Pay”, will likely contribute to results in fiscal 2015 and beyond. These new products could enable Apple to benefit greatly from two major trends in the technology sector: the internet of everything, and wearable devices. Also there is heightened emphasis on high-margined services as low-cost electronics firms, like China’s Xiaomi compete with products on the low-end. For these reasons we project accelerated earnings growth in fiscal 2015.

Capital One Financial Corporation (COF) is the sixth largest depository institution and a leading direct bank in the U.S. The company operates as the bank holding company for Capital One Bank (USA), National Association (COBNA) and Capital One, National Association (CONA). The company provides various financial products and services, such as deposits, loans, commercial and residential real estate investment, credit and debit card products, treasury management services, and more. The company serves consumers, small businesses and commercial clients online and at branches in the United States, United Kingdom and Canada. The fundamental outlook for the consumer finance sub-industry is positive, and we believe Capital One is positioned well to capture the rewards of an improving economic environment, better card credit quality, growing consumer spending and payment helped by domestic and international market opportunities. Capital One continues to build on its financial momentum and the company has been investing significantly in its digital platform to transform and improve the customer banking experience.

Cigna (CI) is a global managed care organization that provides medical, dental, vision, disability, and life insurance to its customers. The company is split up into three segments, global health care, global supplemental benefits, and group disability and life insurance. The health care segment of the business is by far the largest, accounting for approximately 78% of the company’s revenue. Cigna, along with all



managed care organizations are in a position to benefit from the Affordable Care Act making health care accessible to and required by the American population. Also, health care is changing from a fee for service model to a value based system, which will be beneficial to insurer's profits. Cigna is one of the only major insurance providers currently selling their policies at a premium.

Disney (DIS) - *Refer to 'Best Performer' below*

DST Systems Inc. (DST) is the market leader in outsourcing of mutual fund record keeping and accounting services with over a 50% national market share. It grew into the largest third-party provider of U.S. mutual fund recordkeeping and the largest third-party transfer agent in the United Kingdom through growth of ETFs and Alternative Asset Classes as well as demand for the top tier data security. Furthermore, they also have a healthcare services segment which is seeing a double-digit growth in operating revenues as demand expands for industry solutions and services.

Eastman Chemical (EMN) is a global specialty chemical company that produces a broad range of products found in items people use every day. With a portfolio of specialty businesses, Eastman works with customers to deliver innovative products and solutions while maintaining a commitment to safety and sustainability. Its market-driven approaches take advantage of world-class technology platforms and leading positions in attractive end-markets such as transportation, building and construction and consumables. Eastman has been very active with acquisitions as it looks to further branch out across a broad range of businesses which include: food, feed, agriculture, personal care, oil and gas, and coatings. Eastman's diversified chemical portfolio, along with its integrated and diverse downstream businesses remains its strength.

Eaton (ETN) is a diversified company that makes electrical systems and components for power management, truck transmissions and fluid power systems, and provides services for industrial, mobile and aircraft equipment. It's among the four largest global electrical companies, with the scale and scope to compete globally. Its hydraulics business is among the three largest globally and services a wide range of mobile and industrial customers. Its aerospace business has breadth across many markets and platforms and has the leadership position in core products. Its vehicle business is a leader in fuel economy and emission reduction and will outgrow its peers because the regulations create large opportunities for its innovative products. Serving different end-markets helps earnings consistency through the economic cycle. Eaton has strong cash flow, a strong balance sheet, and a long track record of increasing dividends. They also practice good CSR as they ranked No. 1 globally amongst industrial companies by the Carbon Disclosure Project.

FedEx (FDX) offers postal delivery, express mail, freight forwarding and third party logistics services in 220+ countries and regions. The company utilizes advanced information technology to provide customers access to its full range of services from postal service, shipment tracking, customer service, invoice information and after sell service, which extends the FedEx brand as it benefits from its network effect. The company continues to operate independent express and both ground and freight networks. The firm also emphasizes having individual business corporate units to gain competitiveness. Recent acquisitions GENCO and Bongo, should produce cost synergies and more exposure to cross-border e-commerce. The courier services sub-industry has forecasted growth, expected to outpace GDP growth due to stronger consumer spending, a 10% annual growth of e-commerce, and growth opportunities in emerging markets and pharmaceutical sectors. FedEx should continue gain earnings momentum in the coming quarters.



Gartner (IT) is a global leader in IT research. They employ ~1000 world class technology analysts to write objective expert reports on software, hardware, and technology trends that are of concern to chief information officers and other technology buyers. Gartner is growing so fast its constrained by how fast they can build their salesforce. They are financially strong and have negative working capital as they are paid upfront for subscriptions. Technology is ubiquitous and is only becoming more important to being competitive as we move further into the 21st century. Also, they have a consulting and a events segment that compliments their research and enforces their best in class reputation.

Home Depot (HD) is a home improvement retailer that sells a wide assortment of building materials, home improvement, lawn and garden products, and provides related services. It has maintained a consistent strategic framework comprised of three key initiatives: Customer Service; Product Authority; and Disciplined Capital Allocation, Productivity and Efficiency. By introducing innovative new products, creating an emotional connection with its customer, and providing a seamless shopping experience across multiple channels, Home Depot has gained a strong market position. HD's retail sales growth are driven by both new retail store openings and a 4.6% increase in same store sale. In addition its operating margins widened by continued tight expense control, supply chain benefits from the recent investment in rapid deployment centers, and an improving product mix.

Magna (MGA) is the fourth largest global automotive supplier, designs, develops, and manufactures technologically advanced automotive systems, assemblies, modules, and components, and engineers and assembles complete vehicles. It continuously delivers the best value built on innovative products, processes, and world-class manufacturing. The company sells its products primarily to original equipment manufacturers. MGA is currently the best positioned automotive supplier listed on the US stock exchanges. From a strategy perspective MGA has a clear advantage on in depth cooperation with OEMs by assembling complete vehicles for them.

McKesson (MCK) has three major business segments. The largest segment and core of its business is as a distributor of prescription drugs, medical supplies, and health and beauty products. There is also a segment which develops and implements software to leverage healthcare data. Finally, it offers analytical software to track and predict demand for its products for its customers. McKesson's large footprints in drugs, medical supplies and information technology provide important cross-selling opportunities, while its leading positions in drug and medical products distribution and pharmacy systems reinforce cost-competitiveness. MCK's acquisition of a 76% interest in Celesio in February 2014 will allow the realization of scale and sourcing benefits, by the end of calendar 2014. These factors combined with positive economic indicators and projections make MCK an attractive investment.

Microsoft Corp. (MSFT) is the largest independent maker of software. It develops and sells software products for a wide range of computing environments in consumer and enterprise markets. Hardware products include Nokia mobile phones, the Xbox video game console, and Surface tablet. Revenue and earnings in recent months has been performing well, reflecting better performances than expected from the Computer and Gaming, and Phone Hardware businesses in the Devices and Consumer segment. Its acquisition of Nokia will be a strengthen their leading position in the cloud computing area. Finally, their surface sales have been growing which allows for greater integration of existing products.

Parexel (PRXL) is a Contract Research Organization (CRO) which provides a wide range of services to biotech and pharmaceutical companies. Their expertise includes clinical research, medical communications, consulting, and commercialization of drugs. The pharmaceutical and biotech industries have seen an increasing percentage of outsourcing of these services. Parexel is a leader in



this space with a large backlog of work (\$4.9B). Amid a steady stream of revenues, they are in the midst of an overhaul to reduce costs, improve efficiencies, and increase margins. Parexel is a true global company. The Asia Pacific region, where it is an industry leader, is projected to account for 30% of R&D spending. Also, Parexel is a leader in biosimilars which is an emerging and attractive drug market. Finally, a fragmented market creates a landscape which fosters growth through both organic means and M&As.

Praxair (PX) produces, sells and distributes atmospheric, process and specialty gases, along with high-performance surface coatings. PX is the leading gas producer in America with a highly diversified supply chain. They service a wide variety of industries, including aerospace, chemicals, food and beverage, electronics, energy, healthcare, manufacturing, metals and many others. The company sees efficiencies of scale in production and through its utilization of technology and information. PX just increased their pricing by 10% on Nov 1st. Given the stable domestic and international demand, we think PX will remain positive for the mid and long term.

Prudential Financial Inc. (PRU) is an industry leader in the life insurance industry. Its stock price in recent years has positively benefited from strong earnings and margins growth. Projected premium growth is expected as a result of the aging population and the changing retirement system in the US. This coincides with the benefits of a solidifying economic recovery and a rising interest rate environment.

Rockwell Automation, Inc. (ROK) is a global provider of industrial automation power, control, and information solutions. While they compete with giants like General Electric, Siemens, and Honeywell, Rockwell is the largest pure play automation and controls company. This focus has allowed it to out-innovate its bigger, more diversified competitors, driving value for its customers, employees, shareholders, and the environment. Rockwell's market position is insulated due to the high switching costs associated with customers moving to the competition. Additionally, the firm's understanding and concentration in specialized industries further differentiates Rockwell. Finally, Rockwell's open source architecture is distinct in the industry and allows an ease of integration with competitors systems.

Southwest Airline (LUV) is a major U.S. airline and the world's largest low-cost carrier, headquartered in Dallas, Texas. It specializes in low-fare, point-to-point, short-haul, high-frequency service. The airline has nearly 46,000 employees and operates more than 3,400 flights per day. Most of its flights are domestic. Southwest Airlines has scheduled service to 93 destinations in 41 states, Puerto Rico and abroad. In 2014, its operating revenues increased rapidly with the operating cost declining thanks to the drop in oil prices. The company expects a 6% growth in passenger revenues and unit costs to decline from 1% to 2% in 2015, driven largely by capacity growth and ongoing fleet modernization initiatives, respectively. There has been a wind of change in the airline industry in recent years as managers no longer push growth at all costs while spreading themselves thin. Rather they place greater emphasis on utilization and margins. Southwest's strong cash flow, reasonable debt level and high operating margin will keep the airline on its growth trajectory.

Tal Education Group (XRS) has developed a leading position in the market since its beginning due to its excellent brand reputation and teaching ability. The company has achieved average growth of net income through strong demand for its service, high customer retention rate, word of mouth referrals, and cost control measures. The company also commits itself to maintaining long-term competitiveness through building a strong team to write its core teaching materials, training teachers to improve teaching ability, and developing online courses and online education platforms.



Tarena International (TEDU) - *Refer to 'Worst Performer' below*

Texas Instruments Incorporated (TXN) is a global manufacturer of semiconductors and electronic products. The company is the leading supplier of digital signal processors and analog devices. It also markets electrical controls, educational and productivity solutions, and metallurgical materials. Texas Instruments benefits through proprietary and innovative analog designs which provide relatively large profit margins. Additionally, TI is well diversified as they serve many industries and many customers within those industries. Texas Instruments also foresees healthy growth in embedded chips as the nascent Internet of Things trend takes off. Also, Texas Instrument's sound balance sheet and strong free cash flow will allow them to fully take advantage of the coming growth opportunities.

WPP plc (WPP) is one of the world's largest communication services groups. There are more than 155 companies within the group, each a distinctive brand in its own right. Almost 175,000 people work for WPP companies in over 3,000 offices in 110 countries. Through global and local subsidiaries, WPP offers a comprehensive array of advertising and marketing services clustered around four areas of expertise: Advertising, Media, and Investment Management activities; Information, Insight and Consulting services; Public Relations and Public Affairs; Branding and Identity, Healthcare and Specialist Communications. WPP is actively positioning itself in faster-growing functional and geographical areas, both organically and through acquisitions. Its revenues are increasing by more than 6% organically, and the operating margins have increased to 15.8% in 2013. In addition, the weakening of the pound to the dollar will translate into great profits.



BEST PERFORMING HOLDING

The Walt Disney Company (DIS)

Sector: Consumer Disc.	Price (2/20/2015): \$104.57	Intrinsic Value: \$119.00
Industry: Media/Enter.	Purchase Price: \$87.92	Cap at Intrinsic Value: \$140.76B
Market Cap: \$123.17B	52 Week Range: \$76.31 – \$104.64	Unrealized Gain: 18.96%

Business Summary:

Disney is a worldwide entertainment company which consists of Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products, and an Interactive segment. Media networks include ABC, A&E (JV), ESPN, and the Disney Channel. Studio Entertainment includes Pixar, Marvel, and LucasFilms. Consumer products include merchandise, publishing, and retail. Interactive includes web properties.

Investment Thesis:

As the economic expansion continues main street is feeling the benefits with higher employment rates, disposable income, median income, and consumer confidence. These macro factors are tailwinds for DIS. The great recession coined 'staycations', but families want to travel again. Also, the way their segments work together is unique to all but Comcast, by creating synergies between broadcast, theme parks, and movie studies. At the time of purchase there was a margin of safety of 23%-25% based on DGM and DCF respectively.

Performance:

Disney was in the first round of stock pitches. It was purchased October 7th at a price of \$87.92. At the end of the day on February 20th, the stock was priced at \$104.57. This is a capital gain of 18.96%, and a total return of 20.25% with dividends. Even benchmarking it against the SPY on the day of purchase this stock had the greatest individual alpha in the portfolio – 11%.

- Reporting good earnings driven by; Frozen beating expectations, record attendance at domestic parks, and double digit affiliate growth in media networks
- Increased dividend by 33.7%

Plan for Disney:

We continue to hold all of our shares in Disney. It yet has to realize its full intrinsic value, and it was purchased with a 5 year time horizon. That being said, having realized much of the value, with a longer actively managed horizon serious consideration would be given to a partial sale to lock in profits and look for companies selling at a deep discount. Disney is solid blue chip, however, the bump from the hit animated franchise will likely fade, and has made recent headlines for a park being ground zero for a growing national measles outbreak.



WORST PERFORMING HOLDING

Tarena International, LLC (TEDU)

Sector: Consumer Disc.	Price (2/20/2015): \$11.28	Intrinsic Value: \$77.6
Industry: Education	Purchase Price: \$13.88	Cap at Intrinsic Value: \$3.92B
Market Cap: \$561.8M	52 Week Range: \$6.54 – 15.85	Unrealized Gain: -18.73%

Business Summary:

Tarena International LLC is a leading provider of professional education services in China which provides 9 IT courses and 2 non-IT courses to college students. The programs improve their qualified skills to meet the demand of employers. Tarena has established itself as a highly respected brand known for high teaching quality and excellent student placement track record.

Investment Thesis:

Tarena has developed a leading position in the market since it's founding, due to its high teaching quality and excellent reputation for job placement. The company services are in strong demand driven by China's desire for qualified IT pros. The company differentiates itself by its unique teaching philosophy. Also future growth is anticipated through expanding course offerings to non-IT subjects, and deepening cooperation with universities and employers. The DCF showed Tarena to be highly undervalued.

Performance:

The stock was purchased at \$13.88 on November 10, shortly after Q3 earnings. However, the stock quickly fell to the low \$11's. Analysts had concerns about narrowing gross margins driven by quick expansion. We continue to hold the stock as we believe the market still undervalues the stock.

Plan for Tarena:

Given our 3 – 5 year investment horizon, there is still a lot of runway for this stock to rebound. We continue to believe Tarena is undervalued. Rapid revenue growth, and a great market potential point to a brighter future. However, we have a stop loss order at 25% of our purchase price. If the fundamentals changed we would have been comfortable with selling Tarena looking for greater value elsewhere.



SECTOR OUTLOOKS

Sector: Consumer Discretionary

Manager: Xiaoying Gan

Facts & Figures:

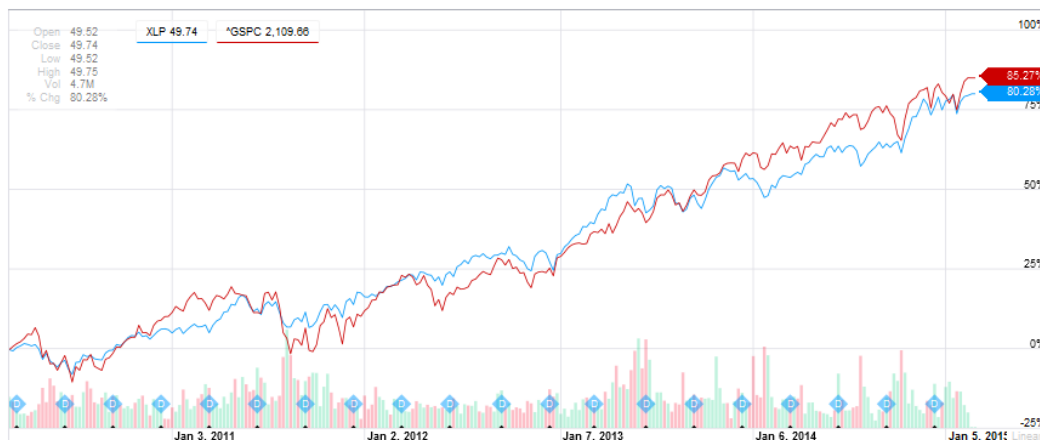
S&P Weighting:	12.28%	P/E (TTM):	20.38
ROE (TTM):	21.67%	YTD Performance:	-0.97%
		Dividend Yield:	1.47%

Intro Description: The consumer discretionary sector includes media, automotive, retail/restaurants, household durable goods, textiles/apparel and hotels/leisure. These companies manufacture products and provide services to consumers that are non-essential, so the sector generally performs well during boom times. When the Consumer Confidence Index and per capita disposable income increase so does demand for these goods and service.

Trends:

1. Expected disposable income growth and a rise in the number of high income households will increase demand for premium products and services.
2. Although labor participation have been stagnant the unemployment rate in the United States continues to decrease and is at a six year low of 5.6% as of December 2014. Returning to work and regaining a steady income will make individuals more positive about future prospects and more likely to spend.
3. The Consumer Confidence Index is expected to rise at an annualized rate of 4.9% which reflects a strong economic recovery
4. Falling energy and raw material prices will help consumer discretionary companies reduce costs and increase margin.
5. Emerging economies, such as China, will continue to be a target market for industry players.

Portfolio Strategy: Consumer discretionary sector is very attractive and we have overweighed this sector. Falling unemployment, low energy prices, and a recovering housing market are all positive signs for consumer confidence and will likely drive growth in this sector.



Sector: Consumer Staples
Manager: Regina (Xuequan) Ma

Facts & Figures:

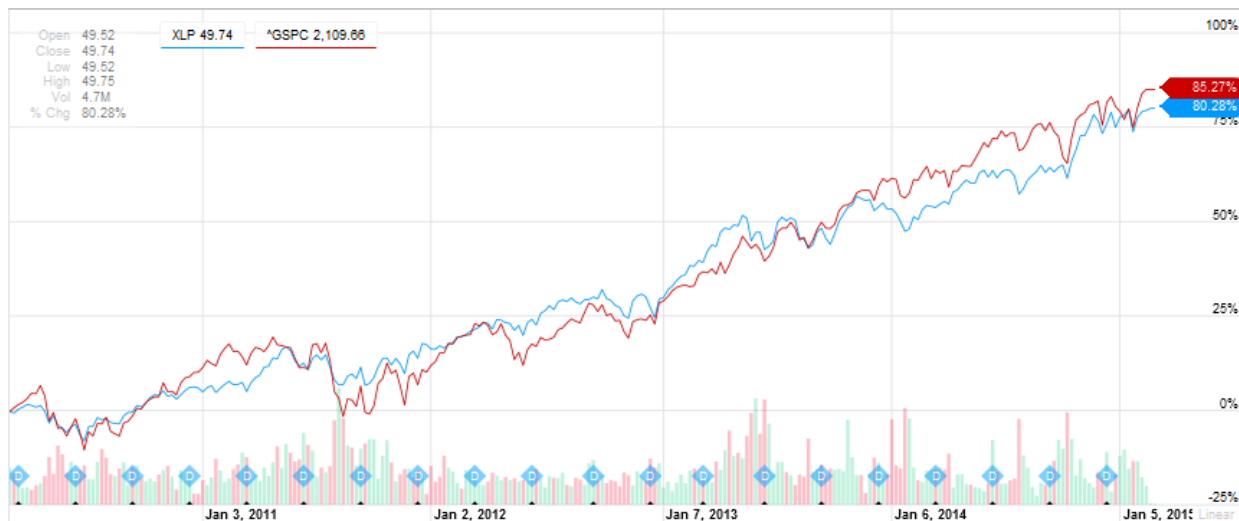
S&P Weighting:	9.77%	P/E (TTM):	22.29
ROE (TTM):	23.64%	YTD Performance:	-0.97%
		Dividend Yield:	2.78%

Intro Description: The Consumer Staples Sector comprises companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco and producers of non-durable household goods and personal products. It also includes food & drug retailing companies as well as hypermarkets and consumer super centers.

Trends:

1. Consumer staple industry is a crowded and competitive market. Most consumer staples companies are divesting low-margin brands, improving supply chains and implementing cost-reduction initiatives in order to boost profits.
2. Middle-class consumers struggled to cope with higher payroll taxes.
3. The stronger dollar reduces the value of outside U.S. sales and in turn limits growth.
4. The companies are shifting focus to make healthier and nutritious products in view of increasing health consciousness, rising obesity concerns and growing regulatory pressures.

Portfolio Strategy: Based on negative trend and predictions relative to other sectors, we currently hold no position in the sector.



Sector: Energy
Manager: Ming Dai

Facts & Figures:

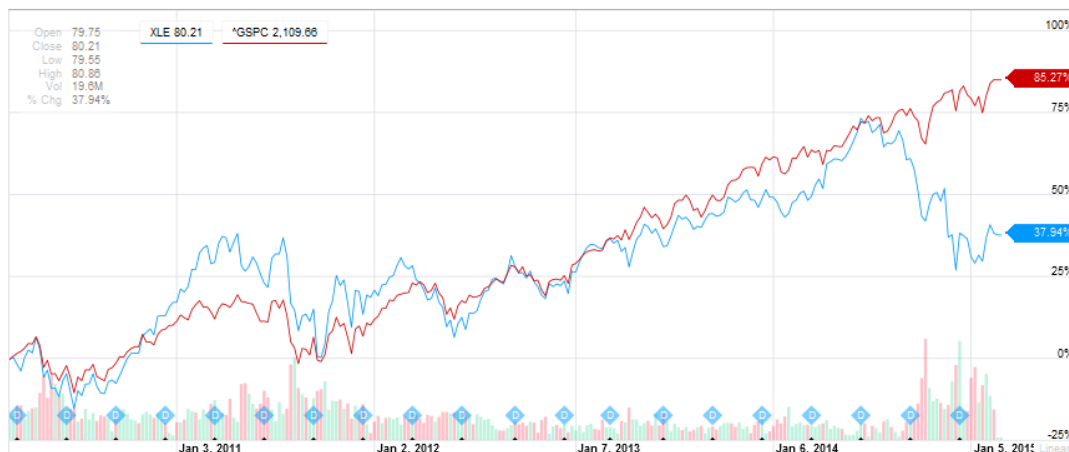
S&P Weighting:	8.39%	P/E (TTM):	23
ROE (TTM):	13.61%	YTD Performance:	-4.56%
		Dividend Yield:	2.46%

Intro Description: The Energy sector consists of businesses that produce or supply energy, including companies involved in the exploration and development of oil or gas reserves, oil and gas drilling, or integrated power firms. The price of energy responds to, but lags, changes in U.S. macroeconomic conditions. Furthermore, world crude and petroleum oil prices are normally fairly volatile due to a wide variety of market and politically related supply & demand factors. Energy companies require heavy investments in capital expenditures and suffer from volatile prices for their products.

Trends:

1. EIA expects oil prices to be relatively flat in the first half of 2015. The current values of futures and options contracts suggest continuing high uncertainty in the price outlook.
2. The U.S. shale boom brought the country closer to energy self-sufficiency than at any time since the 1980s. But it will be challenged in 2015 as never before.
3. There is an increasingly complex regulatory environment in both the U.S. and abroad that companies need to navigate. This creates both hurdles for companies but also opportunities to gain advantages through technology and expertise.
4. In North America, increasing investment in the development of previously difficult to procure and/or uneconomical energy sources, such as shale gas and oil sands, is set to create a shift in areas of major production and will require major investment in new pipeline projects to link the new energy sources with existing pipeline networks and new markets.

Portfolio Strategy: Energy prices collapse in Q4 2014 and remain very weak this quarter. The Energy Select SPDR ETF (XLE) has also fallen 25% from peak to trough since last June. But its constituents haven't performed uniformly. The midstream segment (involves the transportation of oil and natural gas) of the energy sector is much less exposed to spot commodity prices. We should keep an eye on this sub-sector.



Sector: Financials

Manager: Dan Bu, Ming Dai

Facts & Figures:

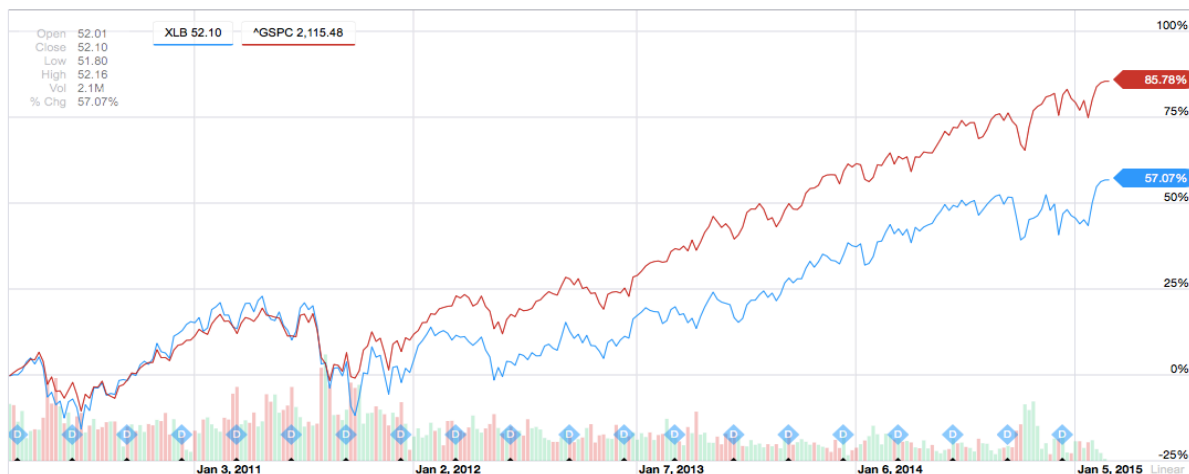
S&P Weighting:	16.05%	P/E (TTM):	15.13
ROE (TTM):	8.67%	YTD Performance:	-.93%
		Dividend Yield:	1.77%

Intro Description: The Financial sector started to lag S&P 500 index in 2007 and remain underperformed or trail the index since then. This sector increased astonishingly by 13.25% in the first two months, compared to S&P 500 of 2.5%. Lower interest rates environment in the past five years supported economy fundamentals and the financial sector also benefits from additional investments.

Trends

1. Deal volume and activities started to increase in 2014 after years of stagnating, market shows consolidation opportunities for firms and funds. Fixed income may attract more investors.
2. Bank net interest margin improvement faces challenge from flattening yield curve. Both global and regional banks face legal risks or tougher capital rules. Uncertainty of foreign exchange and interest rates put more pressure on bank performance.
3. Real Estate are expect continue recovery and more construction. REITs sectors have gain strongly in 2014 and show volatility due to uncertainty from interest rates and economy performance estimation.
4. Credit Card services are on demand, however, mobile payments increase the completion and virtual currency seeks to disrupt payment.
5. As low interest rates and a slowing global economy crimp earnings growth, 2015 will likely be a volatile year for Life Insurance Industry the group. If the Federal Reserve is expected to begin raising rates this year, insurers will benefit.

Portfolio Strategy: Financial sector is often very attractive but we tend to be conservative given current uncertain economy and the regulation the industrials face. Increasing loan activities and investments endorsed firms' earnings in this sector. We would like to explore banks and financial services companies in this sector.



Sector: Health Care
Manager: Doug Bova

Facts & Figures:

S&P Weighting:	14.60%	P/E (TTM):	20.00
ROE (TTM):	17.49%	YTD Performance:	1.30%
		Dividend Yield:	1.28%

Intro Description: The health care sector encompasses all companies related to providing care and the devices, places, and technology required to do so. According to Standard and Poors, there are ten industries within the sector. They are biotechnology, distributors, equipment, facilities, services, supplies, technology, life sciences tools and services, managed health care, and pharmaceuticals. The sector as a whole has had very favorable returns compared to the S&P in recent years and that trend is expected to continue.

Trends:

1. The expansion of healthcare access in the United States is resulting in health care expenditure growth, particularly in prescription drug sales.
2. The U.S. population age 65 years and older is growing at a rate 2% greater than the rest of the population. This demographic of Americans require a disproportionate share of medical services across the entire sector.
3. There is an increasingly complex regulatory environment in both the U.S. and abroad that companies need to navigate. This creates both hurdles for companies but also opportunities to gain advantages through technology and expertise.
4. Developing nations are rapidly improving their health care systems, accounting for larger proportions of global health care expenditures, particularly in R&D.

Portfolio Strategy: Based on positive trends and predictions relative to other sectors, health care has the second largest sector weighting in the portfolio. We currently hold four positions in the sector (Amgen, McKesson, Parexel, and Cigna) which make up 24.86% of invested funds. These four positions are in the biotechnology, health care distributors, life sciences tools and services industries, and managed health care, respectively, which each have positive outlooks within the sector. This sector saw the highest selection ratings in the portfolio. However, the attribution effect is negative, which suggests that more money should have been allocated to the sector.



Sector: Industrials
Manager: Jeff Makray

Facts and Figures

S&P Weighting:	10.89%	P/E TTM:	18.82
ROE TTM:	18.25%	YTD Performance:	1.96%
		Dividend Yield:	2.02%

Intro Description: This sector is divided into 20 industries by S&P classifications but can be more broadly divided into 6 areas; aerospace/defense, industrial diversified, machinery, electrical, transport equipment, and transport & logistics. It makes up ~11% of the S&P 500. The industrials index generally moves with the broader market, indicators for this sector can also be used to gauge overall health of the economy.

Trends:

1. Purchasing Manager Index (PMI) is at 52.8 and relatively flat. Above 50 is indicative of expansion.
2. Industrial capacity utilization remains on a mild upward trend currently about 80%
3. Industrial production is growing at over 4% a year for the past year.
4. Oil has traded mainly between \$45-55/barrel in recent months.
5. Factory orders grew at .6% YOY, slower than previous quarters.
6. Aircraft backlog is at record highs.
7. World military spending is near record highs but flat in recent years.

Portfolio Strategy:

We were favorable on industrials as we thought the sector would continue to benefit from macro tailwinds. Decreasing input costs of diesel and steel will benefit the supply side, and increased capital expenditure will drive the demand side. As industrials are highly correlated with the overall market good selection is imperative for alpha.



Sector: Materials
Manager: Dan Bu

Facts and Figures

S&P Weighting:	3.99%	P/E TTM:	18.62
ROE TTM:	14.42%	YTD Performance:	6.71%
		Dividend Yield:	2.12%

Intro Description: Materials sector includes four subsectors and majority of them are heavily impacted by global market. Materials sector performance is expected to be lagged by weaker global economy, especially in Emerging Market and Eurozone, accelerating currency headwinds, volatile oil prices and overcapacity in majority of the subsectors, stable demand remains in a group of small subsectors. Increasing interest rates are generally negative to companies' finance and operation, but certain products could still benefit from increased price.

Trends

1. Significant foreign exchange will probably influence earnings in chemicals industry as many of the companies get more than half of sales outside US.
2. Construction materials are expected benefit from stronger domestic economy, and globally mergers and acquisitions in this sub sector are active in 2015. The US and India optimize growth by backing infrastructure projects.
3. Weaker demand and global overcapacity hurt company profits. Plummeting iron ore prices force manufacturers cut production.

Portfolio Strategy: Materials sector has been underperforming since the recession until early of this year, it has gain YTD 6.71% compared to S&P500 of 2.5%. We think this sector faces pressure from oversupply, decreased demand, stronger dollar, lower price and increasing interest rates. We tend to remain the same weight as it is in the index or underweight.



Sector: Technology
Manager: Yiyang Wang

Facts & Figures:

S&P Weighting:	19.82%	P/E (TTM):	23.31
ROE (TTM):	20.88%	YTD Performance:	-3.15%
		Dividend Yield:	1.82%

Intro Description: The Information Technology (IT) sector covers the following general areas: Technology Software & Services, this includes companies that primarily develop software used in various areas such as the Internet, applications, and systems, companies that provide IT consulting and services, as well as data processing and outsourced services, Technology Hardware & Equipment, including manufacturers and distributors of communications equipment, computers & peripherals, and finally, Semiconductors & Semiconductor Equipment Manufacturers. Technology sector continues to appear strong on fundamental factors, including earnings growth and free cash flow.

Trends

1. Cloud computing is a term that encompasses various types of companies, including Software as a Service (SaaS), which in my view currently offers the greatest investable opportunities. At present, cloud computing represents a small percentage of the total global workload. As costs and barriers to using the technology fall, and as more companies grow comfortable with the level of security, the percentage of work done via the cloud should increase significantly.
2. I expect hardware to continue to decline as a percentage of total corporate spending, while software spending likely will increase. This trend already is happening across both consumer and enterprise segments, with a corresponding impact on those companies' share of IT sector market capitalization.
3. Security threat detection and mitigation will remain a spending priority and will receive the least amount of scrutiny within corporate IT budgets.
4. Big data analytics and the Internet of Things (IoT) will continue to be major destinations for investment and innovation.

Portfolio Strategy: The Technology sector is the largest but we remain conservative given current uncertainties in the sector. An increasing number of companies will focus on being a service-based provider instead of the solid software provider. Also, internet applications are a new trend for daily life. Based on these trends we are focusing on the companies with innovative technologies, strong market positions as well as impressive R&D capabilities in this sector. (Source: Yahoo Finance/ Fidelity/GE)



Sector: Telecommunications Services
Manager: Ming Dai

Facts & Figures:

S&P Weighting:	2.32%	P/E (TTM):	18
ROE (TTM):	17.62%	YTD Performance:	-2.89%
		Dividend Yield:	2.71%

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. The Telecommunications Services industry is characterized by intense competition, with the larger carriers enjoying economies of scale that provide competitive advantages.

Trends:

1. The U.S. telecom industry is likely to witness more mergers and acquisitions going forward. Recent industry consolidation may increase pressure on smaller telecoms that may struggle to compete with larger peers. Also, consolidation among telecom carriers has reduced wholesale revenue opportunities across the industry.
2. Telecom companies across the board are witnessing a declining trend in their traditional wireline businesses. The total number of landlines or access lines has been in decline for many years because of competition from wireless and cable companies, and lower consumer spending.
3. Broadband has become a focus for telecom carriers in the telecommunications industry. While the growth rate of broadband has slowed due to high penetration rates, there is still room to grow as service is deployed to new markets.
4. Digitization require significant investments in new networking technologies as telecom companies continue to deploy 4G networks and develop new 5G systems. Despite their best modernization attempts, they will likely face a gap between the cost to deploy, maintain, and upgrade the networks needed for the growth in traffic, and the revenues they can generate from that traffic.

Portfolio Strategy: The telecom industry is constantly changing and evolving as the industry responds to technological innovation, regulatory changes, intensifying competition and merger and acquisition activity. VOX has steadily underperformed the overall market over the past two years or so. The commercial and financial pressures on the telecoms industry are great. So, we should continue to watch this industry's tendency to change.



Sector: Utilities

Manager: Regina (Xuequan) Ma

Facts & Figures:

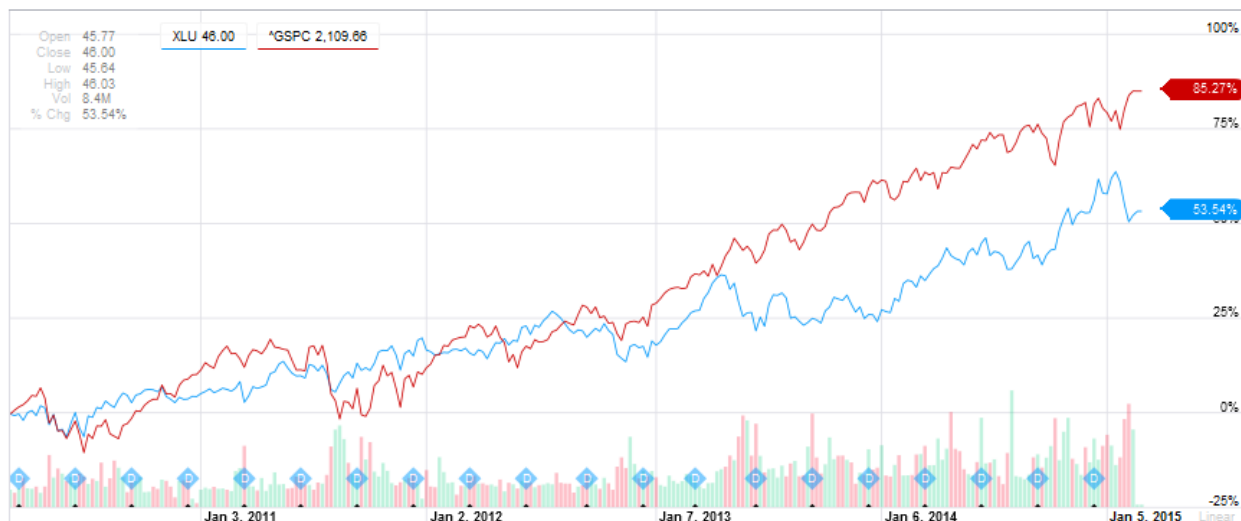
S&P Weighting:	2.99%	P/E (TTM):	25.24
ROE (TTM):	8.30%	YTD Performance:	2.33%
		Dividend Yield:	4.06%

Intro Description: The utility sector encompasses those companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power. There are five industries: electric utilities, gas utilities, water utilities renewable utilities and multi-utilities.

Trends:

1. Over the long term, advances in technology and a growing demand for customer choice (primarily from large industrial and commercial customers), as well as more prudent regulatory oversight, will gradually lead to a more competitive market.
2. There have been significant developments in the area of mergers and acquisitions (M&A) over the past few years. But this consolidation will not fundamentally change the competitiveness of this market.
3. Innovative utilities are exploring ways to thrive in a distributed-generation world (power generation at the point of consumption) which will decrease demand for electricity but increase demand for gas.
4. International issues surrounding global warming and fuel supply will continue to lead to uncertainty in power generation and environmental regulation.
5. Electric utilities are switching from coal to gas and renewable power. They are forced to upgrade or replace critical or aging distribution infrastructure.

Portfolio Strategy: Based on negative trends and predictions relative to other sectors, we currently hold no position in this sector.



CONCLUSION

As we now get to reflect on the year there were a lot of lessons learned as investors. For starters, how many different angles one could judge the merits of a potential investment. Needing to openly defend pitch helps one think more objectively as they need to anticipate others concerns. Also, there is a sense of humility. When a manager's stock is down they feel accountable. However, it motivates them to vet the next stock that much more thoroughly.

Though we often think about beating the market in the end, this has clearly been more of journey than a destination. Something Buffet will admit to doing better than others is to act rationally. It sounds so obvious. Don't buy high and sell low. However, it's easy to fall into behavioral traps. Or simply into the animal spirits of fear and greed. But this year, which emphasized a steady hand by going long and searching for value will help bring out the rational person in each of us in the future.

Beyond finance, holding the wheel for this fund was a good exercise in teamwork and self-management, and has led to much personal growth. Simply being trusted with this size fund garners attention from prospective employees in and out of investments. We all feel lucky and are grateful for the opportunity and hope the Foundation feels we were deserving of it and made the most of it, and have in a small way helped to build the program so next year's class will be proud to pick up the reigns.

Sincerely,

SMF Class of 2015

