UCONN

SCHOOL OF BUSINESS

STUDENT MANAGED FUND

UNDERGRADUATE FALL 2014 REPORT

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AKANKSHA SINGH
STEPHEN VENTO

Dear Foundation and IAB Members:

On behalf of the 2014 Undergraduate Student Managed Fund (SMF) team, we would like to sincerely thank you for providing us with this unique and invaluable experience. The SMF Program (the Program) has provided us with the opportunity to bridge the gap between the academic and real-word setting. The fundamental theories and ideas that we learn in the classroom have come to life, as we actively see first-hand how these concepts are used and analyzed in real-life applications of investing and financial markets.

As the year progressed, we have learned a lot from both our professors. We would specifically like to thank Pat Terrion and Jeff Annello for spending the time to teach us and guide us through the investment process. While the focus of the investment fund is to learn about businesses and the investment process, they have taught us much more than that. As they have shared with us, knowledge is unlimited and they have inspired all of us to always have a thirst to learn more. We look forward to learning more in the coming semester and throughout our lives.

We would also like to thank those who have put this program together, including Laurel Grisamer, who we know works tirelessly to make everything work together, Dr. Ghosh for having the vision to get the program to where it is today, and Professor Rakotomovo for supporting us as we put all of the trades through.

We would also like to thank the IAB members as they have provided us with much needed support. As we were investing, and continue to research, we have learned both from your prior experiences and your vast knowledge about investing. We appreciate the time you take out of your busy lives to respond to emails and attend events.

Finally, we would like to thank the UConn Foundation for providing us with the capital to invest. We acknowledge that this program would not have been established without the trust and faith that you have put in us.

In all, we have had a great year thus far and are looking forward to continuing to learn and grow both as a team and as individuals.

Sincerely,

The 2014-2015 Undergraduate Student Managed Fund Team

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PORTFOLIO OVERVIEW

Investment Managers:

Cinzia Alfano	Michelle Filippi	Andrew Novitski
Louis Beck	Samuel Gudeon	Akanksha Singh
Ryan Conforti	Kelly McCourt	Alexander Thalassinos
Nicholas Chapman	Mitesh Mistry	Stephen Vento

For the Fall semester, the officers for the Undergraduate Student Managed Fund are:

Lead Manager: Alexander Thalassinos
Portfolio Manager: Kelly McCourt
Treasurer/Secretary: Mitesh Mistry
Bloomberg Specialist: Stephen Vento
Web Manager: Akanksha Singh

Undergraduate Supervisor: Patrick Terrion
Fund Director: Chinmoy Ghosh

Investment Philosophy

The UConn Student Managed Fund has espoused the principles of value investing made famous by Benjamin Graham and Warren Buffett and has used these principles to evaluate potential investments for the Fund. The Fund conducts both qualitative and quantitative research in order to find undervalued stocks, and then seeks to add them to the Fund. Qualitative research focuses on understanding the business, looking at actions of competitors, evaluating the company's management team, and assessing any risks that affect the company's business model. Quantitative research consists of analyzing a company's financial ratios and performance in order to value the company using a discounted cash flow method. The Fund also evaluates both domestic and foreign news when considering an investment in a company.

Investment Strategy

In order to evaluate the performance of the Student Managed Fund, the undergraduate team's portfolio will compare its returns to that of the S&P 500 Index. The value investing philosophy espoused by the team will be used to outperform the S&P 500. Each investment is analyzed for several key qualitative and quantitative metrics before a decision is made to pursue or decline a particular investment. These metrics include:

- Return on Invested Capital
- Competitive Advantages (such as patents and superior products)
- Strong Leadership
- Effective Business Models
- Shareholder Programs (dividends and share repurchases)
- Long-term Growth Prospects

- Growth in Earnings and Revenues
- Free Cash Flow Yield
- Balance Sheet
- Potential Risks
- Margin of Safety (as determined by the difference between the intrinsic value and current market price)

Risk Management

The undergraduate portfolio is composed of U.S. equities and cash. In addition to the above criteria, each manager must properly understand the risks of each security. The Fund considers the following risks are of the highest importance:

- **Business Model Risk** – company's business model is unsustainable or easily duplicated
- **Balance Sheet Risk** – company has leverage well above industry average
- **Management Risk** – company may have unreliable management
- **Aggregation Risk** – a portfolio sharing common risks among its holdings

The portfolio currently contains mostly large cap equities. This was not by design, but rather a secondary result of other investment criteria. We acknowledge the risks associated with only investing in large cap securities.

We are maintaining a high level of risk management by putting each selected stock through a rigorous screening and analysis process before committing to a purchase. This process includes analysis of the company's business model, competitive landscape, industry, and corporate social responsibility. Specifically, we take a long-term forward-looking approach to assess whether competitive advantages are sustainable, including the company's financial situation such as debt levels, intelligent allocation of capital, and ability to consistently generate cash for shareholders.

With multiple managers specializing in different sectors, we have been able to successfully diversify our portfolio holdings across multiple sectors to avoid significant aggregation risk. Thus, in the event of a single industry experiencing a downturn, the majority of the portfolio remains unaffected. We continue to monitor the portfolio and reevaluate our existing positions as needed. In the event of any single security or the market as whole taking a highly significant downturn, we hold a 20% stop-loss from the purchase price to cap potential losses. Our risk management focus is centered on long-term performance and capital preservation, so we are not overly concerned with short-term volatility in the market.

Current Market Conditions

The Dow Jones Index and S&P 500 are at all-time highs, while interest rates are at all-time lows. We believe the market was being artificially stimulated by Quantitative Easing which came to a finish in October 2014. This monetary policy has seemingly adjusted equity prices to fair value making it more difficult to discover undervalued investments. Along with an artificially stimulated market, our nation's GDP growth has stagnated within the 2-3% range. Despite this environment, the Fund has invested in companies with strong fundamentals at prices that we believe are fair because they are being undervalued and have a margin of safety.

Process

Each manager specializes in at least two sectors and works with at least one other manager within that sector. These teams then research their sector to determine which companies are trading significantly from their true intrinsic value.

The Fund then conducts weekly meetings for managers to pitch their stocks before the team, Professor Terrion and Jeff Annello. During the meetings, the Fund discusses the business model, growth opportunities and risks of investing in the business, and then decides whether or not the Fund needs more information or is willing to invest at that time.

In order to invest in a stock, it must get approval from at least 8 out of 12 managers. After the Fund decides to invest in a business, the group determines how much capital to allocate based on the risks and growth potential of the business and the certainty of the company's future. Each company will be allocated approximately 3%-10% of the total capital available to the fund.

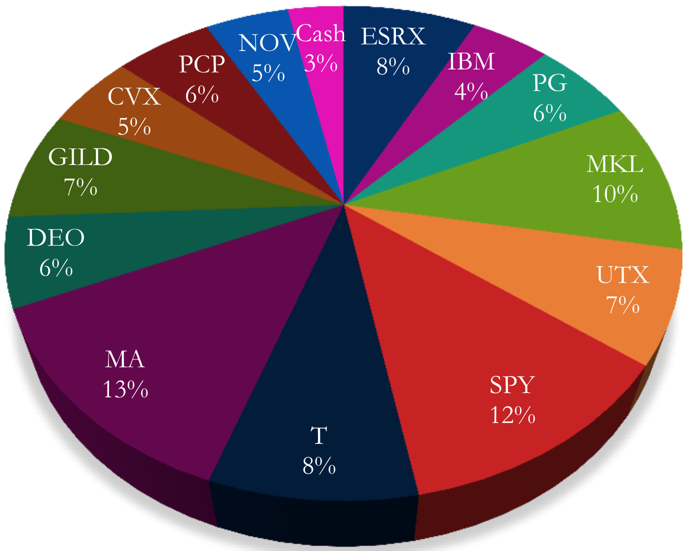
The sectors and the corresponding analysts are listed below:

- **Basic Materials-** Nicolas Chapman, Louis Beck
- **Consumer Services**- Cinzia Alfano, Akanksha Singh, Andrew Novitski
- **Consumer Goods**- Michelle Filippi, Ryan Conforti, Andrew Novitski
- **Energy**- Kelly McCourt, Nicolas Chapman, Ryan Conforti
- **Financials**- Alexander Thalassinos, Stephen Vento, Louis Beck
- **Healthcare**- Michelle Filippi, Cinzia Alfano, Kelly McCourt
- **Industrials**- Akanksha Singh, Mitesh Mistry
- **Real Estate**- Alexander Thalassinos, Samuel Gudeon
- **Technology**- Stephen Vento, Samuel Gudeon, Mitesh Mistry

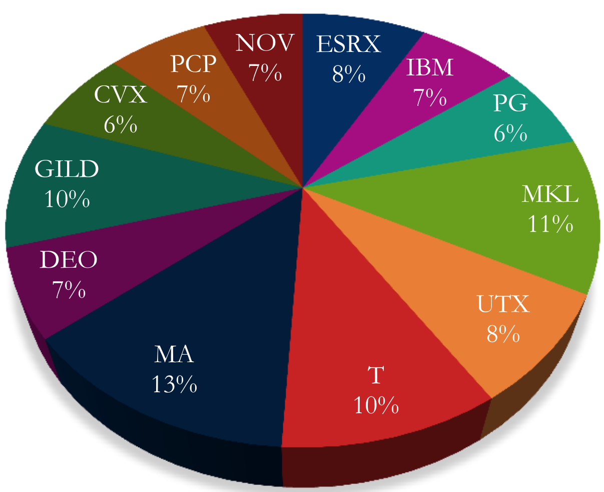
Equity Portfolio and Allocation

The Fund has 85% of the portfolio invested with 3% of the portfolio remaining in cash and 12% remaining in the SPDR. Looking forward, the Fund is well positioned to invest the remaining portion of the portfolio into equities by mid semester. The average position size is approximately 7%, with our largest positions in MasterCard (13%/~$200k) and Markel (~$175k). In total there are 12 positions.

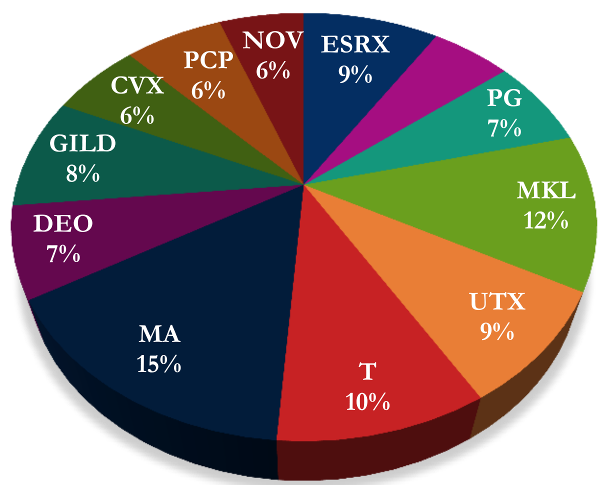
Total Portfolio Based on Current Market Prices (Equities, S&P ETF, Cash):



Equity Portfolio Based on Cost Basis:



Equity Portfolio Based on Current Market Prices:



Performance

The charts below depict the performance of the portfolio from September 17, 2014 to December 1, 2014.

Total Portfolio (Equities, S&P ETF, Cash):

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Name	Symbol	Last Price (S)	Shares	Cost Basis (S)	Market Value (S)	Gain (S)	Gain %
Express Scripts Holding Company	ESRX	83.82	1,716.00	123,721.88	143,835.12	20,113.24	16.26
International Business Machines Corp.	IBM	161.50	522.00	100,311.70	84,303.00	-16,008.70	-15.96
Procter & Gamble Co	PG	89.97	1,200.00	99,720.00	107,964.00	8,244.00	8.27
Markel Corporation	MKL	687.23	271.00	174,386.60	186,239.33	11,852.73	6.80
United Technologies Corporation	UTX	109.93	1,245.00	125,306.76	136,862.85	11,556.09	9.22
SPDR S&P500 ETF Trust	SPY	205.99	1,082.00	217,211.50	222,881.18	5,669.68	2.61
AT&T Inc.	T	34.94	4,440.00	152,425.20	155,133.60	2,708.40	1.78
Mastercard Inc	MA	87.87	2,778.00	199,716.94	244,102.86	44,385.92	22.22
Diageo plc (ADR)	DEO	123.22	885.00	100,082.66	109,049.70	8,967.03	8.96
Gilead Sciences, Inc.	GILD	100.32	1,334.00	147,585.63	133,826.88	-13,758.75	-9.32
Chevron Corporation	CVX	111.15	850.00	99,666.65	94,477.50	-5,189.15	-5.21
Precision Castparts Corp.	PCP	235.41	442.00	100,393.67	104,051.22	3,657.55	3.64
National-Oilw ell Varco, Inc.	NOV	66.27	1,360.00	100,008.88	90,127.20	-9,881.68	-9.88
Cash		60,689.29			60689.29		
Portfolio Value				1,850,498.34	1,873,543.73	23,045.39	1.25%

Equity Portfolio:

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Name	Symbol	Last Price ($)	Shares	Cost Basis ($)	Market Value ($)	Gain	Gain %
Express Scripts Holding Company	ESRX	83.82	1716.00	123,721.88	143,835.12	20,113.24	16.26
International Business Machines Corp.	IBM	161.50	522.00	100,311.70	84,303.00	-16,008.70	-15.96
Procter & Gamble Co	PG	89.97	1200.00	99,720.00	107,964.00	8,244.00	8.27
Markel Corporation	MKL	687.23	271.00	174,386.60	186,239.33	11,852.73	6.80
United Technologies Corporation	UTX	109.93	1245.00	125,306.76	136,862.85	11,556.09	9.22
AT&T Inc.	T	34.94	4440.00	152,425.20	155,133.60	2,708.40	1.78
Mastercard Inc	MA	87.87	2778.00	199,716.94	244,102.86	44,385.92	22.22
Diageo plc (ADR)	DEO	123.22	885.00	100,082.66	109,049.70	8,967.03	8.96
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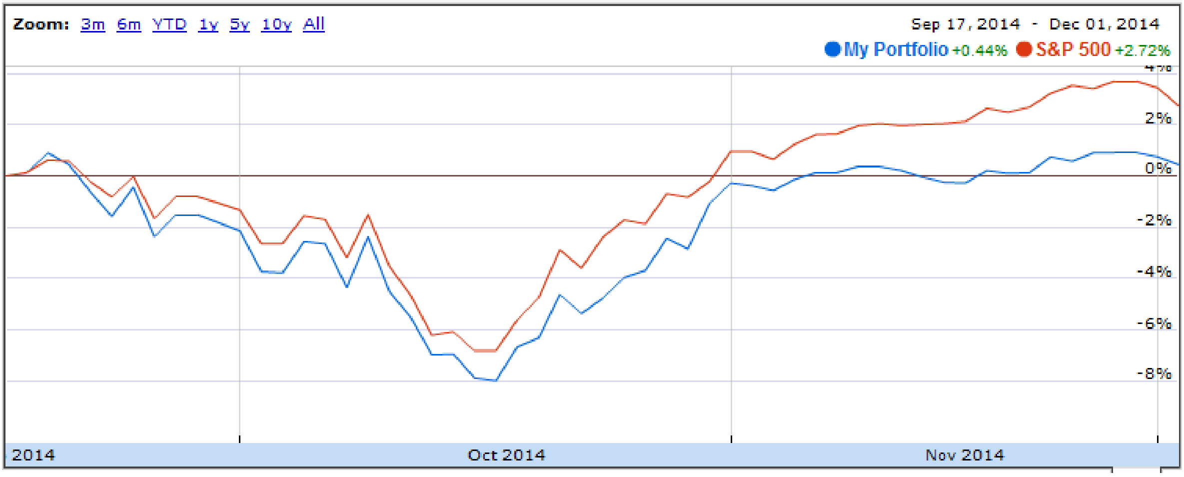
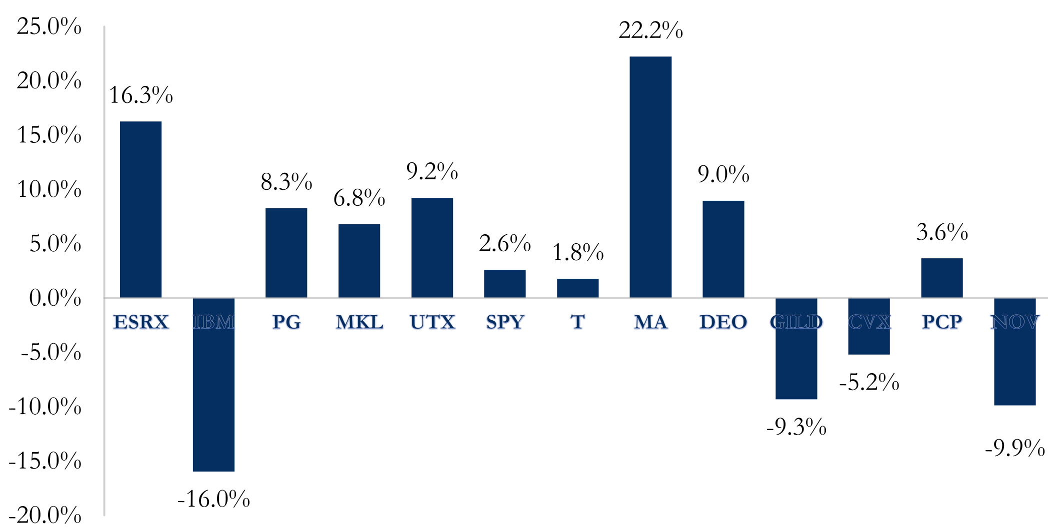
Precision Castparts Corp.	PCP	235.41	442.00	100,393.67	104,051.22	3,657.55	3.64
National-Oilw ell Varco, Inc.	NOV	66.27	1360.00	100,008.88	90,127.20	-9,881.68	-9.88
Portfolio Value				1,523,326.57	1,589,973.26	66,646.69	4.38%

Total Portfolio Performance vs. S&P 500:



The most significant adverse impact on our portfolio has been the timing of selling the SPY SPDRs. When receiving the fund, the market was overvalued. As we liquidated the SPDR, we sold many of the shares for less than the price we received them at. As such, when comparing our total portfolio to the S&P 500, the portfolio, including the S&P ETF, grew by only approximately 1.25% while the S&P 500 grew by 2.61%. However, when strictly looking at our stock picking, the stocks gained 4.38%, outpacing the S&P 500.

Individual Stock Performance:



Over the past few months, we have seen strong returns in our investments in Financials, Industrials and Healthcare. Our largest gain, 17.24% since purchase, comes from MasterCard due to a favorable earnings report. Our largest loss at the moment is IBM due to an uncertain short-term future and a poor earnings report on October 20 that sent the stock down over 7% after hours. We still believe IBM to be a profitable long-term investment. More generally, we do not believe all short-term results are indicative of the success or failure of a company. We believe that all of our holdings continue to be attractive investments and will produce greater results than the market as a whole in the long run.

Introduction

The United States has experienced sluggish growth over the last five years. This can be illustrated by United States GDP growth rates averaging 1–3% YoY. Major concerns facing the domestic economy include the completion of Quantitative Easing, slow recovery in the Eurozone, low wage growth, and slow economic growth in Asia. Today, economies are more global than ever so any disruptions overseas can slow down the United States' economy. In the low interest rate environment that was synthetically created by Quantitative Easing, the equity markets adjusted to fair prices, making it difficult to find undervalued investments. However, the Fund has found companies with strong fundamentals that we believe can thrive no matter the aforementioned economic concerns.

Completion of Quantitative Easing

Quantitative Easing was a major factor stimulating the economy because it allowed corporations to borrow at low interest rates. This program has come to a close in October 2014. Our opinion is that the Fed will continue to keep interest rates low until mid-2015. This low interest rate environment has helped the Dow Jones and S&P 500 at record level highs while the 10-year Treasury has seen record lows around 2.3% compared to the 50-year average of approximately 6.50%.

U.S. Economy

The U.S. economy has shown signs of recovery but there are still signs of weakness. The Unemployment Rate has decreased to 5.8%, down from the high of 10% during the recession. The Unemployment Rate is at the lowest level since 2008. The unemployment rate is an important measure, indicating the overall health of the economy. Despite this, there are flaws including the Labor Force Participation Rate, which has fallen by 3.2% since its peak in 2008. Additionally, the U6 serves as another measure of unemployment, taking into account part-time workers who are searching for full time employment and discouraged workers (people who have given up looking for work. The U6 has decreased from 13.7% to 11.5% in the past year, showing an improving U.S. economy. Wages have increased by 2% over the past year; however after taking inflation into account, the increase in real wages has been a paltry 0.3%. Despite, a stronger domestic economy, an anemic global economic growth could hurt the U.S. in the future given the interdependency of the financial ecosystem.

Slow Eurozone Recovery

The Eurozone is experiencing problems, ranging from unemployment to stagnant GDP growth. The unemployment rate for the 17 Eurozone countries is 11.5% and the percentage of youth (15 to 24 years old) who are jobless in the Eurozone is at a staggering 21.8%. Specifically, Greece and Spain have the highest unemployment rates at 27.2% and 24.5%, respectively. The overall Eurozone inflation rate has fallen to 0.3%, which is far off the European Central Bank's goal of 2%. Ireland has seen strong growth recently, but given that the two largest Eurozone economics France and Germany are struggling, the Eurozone still appears to be troubled. France has an unemployment rate of 10.2% and only grew 0.1% last quarter.

It is important to understand what is occurring internationally because most companies have a large global presence. Companies looking to expand must consider the economic state of the countries they wish to enter. Another complication that comes from the slow growing Europe is that the United States will not be able to raise interest rates or it would cripple Europe, illustrating the interdependency of the financial system.

Asia/Emerging Markets

Real GDP growth in China has declined from nearly 10% to 7.3% currently amid rising debt-loads and slower real estate growth. India has also seen its annual growth rate decrease by nearly a percent from the year before. In Brazil, there has been low private investment and is expected to grow by only 0.7% this year. The past two quarters, Japan has seen a contraction in GDP and Russia has seen reductions in growth the past three quarters and is only expected to grow by 0.3% this year because of falling commodity prices and economic sanctions. In summary, many of the Asian and emerging markets have seen slowing growth. Given growth problems in these regions, some companies which have hoped to capitalize on the rapid growth of these markets will be adversely affected.

Conclusion

In our opinion, we believe that while this is a difficult investing period, where many securities are either fairly or overvalued, there are some undervalued companies that exist within the market. We think that the economy is slowly recovering, but have reservations regarding the Federal Reserve ending quantitative easing, which could create negative ramifications. Also, given lower growth prospects in Europe and Asia, this may adversely affect the U.S. economy and performance of U.S. corporations. We believe our portfolio may have a negative short term impact if the economy takes a turn for the worst but will maintain long term profitability. We have faith and certainty in our security selection process.

SECTOR ANALYSIS

Sector Allocation

The manner in which our portfolio was allocated by sector stems from our team's investment philosophy. As previously mentioned, the focus of our investment decisions were based primarily on selecting companies that exhibited strong business models and that are trading at a discount relative to their intrinsic value. We did not limit our investment decisions by requiring a certain allocation of the portfolio into specific sectors. We believed that certain sectors (i.e. utilities) holistically contained companies that would not create as much value as other sectors, so we did not make it a requirement to allocate into that area.

While the Fund did not set any floor for sector allocation, the team is aware of sector allocation in order to minimize aggregate risk and diversify our portfolio..

The following table highlights the sector breakdown, sector performance, and S&P sector weightings of our portfolio as of December 1, 2014:

Sector	% of Total Portfolio	% of Invested Portfolio	S&P Sector Weightings	% Return
Consumer Goods	11%	13%	10%	9%
Consumer Services	0%	0%	12%	0%
Energy	9%	11%	14%	-5%
Financials	21%	25%	16%	15%
Basic Materials	0%	0%	4%	-10%
Healthcare	14%	16%	13%	2%
Industrials	12%	14%	11%	7%
Technology	12%	14%	21%	-5%
Total	79%	92%	100%	

Relative to the S&P 500, our not evenly spread across sectors. However, some of our sectors are similarly weighted to the S&P, like Energy and Consumer Goods, while others are not. Further, sectors like Financials and Healthcare are higher weighted because of our large positions in MasterCard and Express Scripts, respectively. We have not yet invested in the Consumer Services sector or Basic Materials. For the purposes of this comparison, Real Estate has been included in Financials, as the S&P is not going to break Real Estate into its own category until 2016. Though we have not invested in any Real Estate companies, we do have it as a separate category for the sector and the analysis is included in this report.

Consumer Goods

The consumer goods sector is an important sector to the market, encompassing businesses that are less sensitive to economic conditions than many of the other market sectors. The largest areas of the sector include manufacturers and distributors of food and beverages, tobacco producers, personal products, and non-durable home goods. The consumer goods sector has many large-cap companies such as Coca-Cola and Proctor & Gamble.

Consumer goods are products or services that cannot be eliminated if economic outlook faces a downturn. Items such as food and beverages will still be purchased regardless of economic conditions. For this reason, companies in this sector tend to continue to perform well during an economic downturn. When the economy slows, investors tend to flock to companies with proven and steady cash flow and financial results, such as consumer goods companies. Over the years, these companies have consistently shown growth and results. Consumer goods are valued as a long-term outlook investment strategy that will remain profitable throughout multiple business cycles.

So far, the consumer goods industry has slightly outperformed the S&P 500. The consumer goods sector has increased by 14.76% YTD as opposed to 13.03% YTD from the S&P 500. Despite having some protection from economic downturns, consumer goods require constant innovation updating to follow consumer trends in order to remain viable amidst stiff competition. The consumer goods industry is trying to expand into emerging markets, particularly with the rise of the middle class in Asia. Companies are continuously updating products to fit with changing consumer demands. There is an increase in online shopping with the evolution of technology, so consumer goods companies need to understand how to best market their products given this change in lifestyle.

Current Holdings: PG, DEO

Consumer Services

The consumer services sector is a large sector that encompasses a range of industries, including retailers, media agencies, restaurants and bars, publishing, hotels, travel and tourism, airlines, and gambling. The consumer services sector includes many large-cap companies, such as Wal-Mart, McDonald's, CVS Health, Home Depot, and Disney.

A significant portion of this sector is comprised of consumer discretionary services (those that consumers want but don't necessarily need), so it tends to be more sensitive to economic conditions and is more cyclical in nature. As the economy improves and unemployment decreases, consumer confidence continues to increase, with the Consumer Confidence Index up to 94.5 in October from 89.0 in September. As consumers feel more confident about future earnings, they tend to increase spending in many of the industries within the consumer services sector. However, today's consumers are increasingly value-conscious and more careful about their spending. In response, many retailers are relying on promotional pricing to attract customers and increase sales.

Technology is becoming increasingly important in this particular sector, as it comes to impact all aspects of business. While technological improvements have led to increased innovation, they have also increased competition within each industry. While businesses tended to focus on increasing efficiencies and reducing waste in the past, today's competition goes beyond simply reducing costs. With social media, companies are focused on integrating marketing across platforms and ensuring a consistent and appropriate message. Information gathering and data mining have also become critical within this sector, as companies seek to better serve customers and anticipate consumer trends, rather than simply react to them. Security has also become an important factor. With companies like Home Depot and Target experiencing serious data breaches in recent years, consumers are becoming more aware of the need for company trust when it comes to protecting their personal information.

Compounding the uncertainty generated by these factors is the nature of consumer loyalty and retention in this particular sector. As competition increases within the various consumer services industries, it becomes more difficult for companies to differentiate themselves. Additionally, unlike business-to-business services, which benefit from their ability to embed their services into a large enterprise network and generate high levels of "stickiness" and client retention, consumer services businesses often find it difficult to create ecosystems which consumers can't easily and readily leave. As a result, it is difficult to identify businesses in this industry which have a lasting competitive advantage, and those that do prove to be good long-term businesses often come at a high price.

However, there will always be times when good businesses come at discounted prices, so we continue to watch this sector for buy opportunities.

The consumer services sector has underperformed the S&P 500 this year, with the Dow Jones U.S. Consumer Services Index returning 7.62% YTD and the S&P 500 returning 13.03% YTD.

Current Holdings: None

Energy

The past few months have been rough on the energy sector, as oil and natural gas prices have been very volatile. This has caused for many energy companies to underperform, resulting in only a .22% return on the S&P 500 Energy Index so far this year. With that being said, The Fund feels as if there are deals to be had in the energy sector, as we believe that oil and natural gas prices will rise in the near future. The industry as a whole is experiencing substantial growth, particularly in the fields of shale and liquefied natural gas. Many consumers are also turning towards renewable sources of energy, such as wind and solar.

In recent years, energy companies have been pursuing global expansion. This is can be seen in Australia, where numerous companies have invested in LNG operations such as the Gorgon Project. It is believed that liquefied natural gas is the wave of the future, as it is a cleaner energy source than other fossil fuels such as coal. In addition to this, LNG is easy to transport, as one cubic meter of LNG is equivalent to 600 m3 of Natural Gas. Some energy companies are even estimating that global LNG demand could nearly double by 2025.

Although the energy sector has struggled as of late, the belief in the Fund is that the sector will bounce back in 2015. We expect for oil and natural gas prices to rise once again, with oil prices likely bouncing back first. The price and demand for natural gas should also rise, particularly when many of the capital extensive LNG projects come to fruition in the later stages of 2015. Overall, the energy sector has been quite volatile, but there is a great deal of room for potential growth.

Current Position: CVX, NOV

Real Estate

Six years have passed since the housing bubble that resulted in the worst economic downturn since the Great Depression. The Real Estate market has recovered slowly over the past few years and doesn't seem to be slowing down. The monetary policy of the Federal Reserve has kept short-term interest rates at all-time lows allowing for individuals to refinance and take on loans at low rates. Real estate is a cyclical industry that is highly affected by the condition of the economy.

We predict that the housing market will continue its strong performance going into 2015. We also believe that interest rates will continue to be low with Europe struggling, which will provide a great environment for individuals to buy homes. Since real estate values are on the way up, supply will also be increasing in 2015.

Current Holdings: None

Financials

The financial sector contains companies that provide financial services to both retail and commercial customers. The financial sector includes banks, insurance companies, credit card companies, and investment funds. The S&P 500 index contains 16.4% financial companies.

The financial sector has struggled in recent years, as the Financial Crisis of 2008 caused the majority of the sector to take major losses. Even though the economy has recovered, the financial sector is still in the process of recovering. Since 2008, regulation within the financial sector has significantly increased. With the implementation of Dodd-Frank and Basel III, banks will likely suffer reduced revenues and profits over time due to capital requirements.

The insurance industry, an important subsector of the financial sector, is currently experiencing a soft market, though the outlook is positive. The combined ratio, a measure of insurance profitability, lowered from 100.7 down to 97.6 and net income increased by 60%, which shows a clear increase in profitability. The environment remains relatively competitive in terms of pricing, so the outlook remains relatively stable for insurance.

Despite these recent struggles, the financial sector has performed on par with the rest of the market. The S&P Financials Index (SPF) has a year to date return of 10.13% while the overall S&P 500 has returned 10.71% year to date. The Federal Reserve recently ended their Quantitative Easing program, which shows a newfound faith in the banking system and the economy as a whole. Historically low interest rates are providing an environment that fosters growth in our economy, but with the recent threat of rising rates, the financial sector is already beginning to experience lower profitability.

Given that Quantitative Easing was concluded at the end of October 2014, the consequences of its completion have yet to be seen. Moving forward, the biggest question will be the future interest rates given sluggish economic performance in Europe. Increasing interest rates in the United States may not be possible considering the economic outlook in Europe, which could hinder domestic growth as well.

Current Holdings: MA, MKL

Basic Materials

The basic materials sector is strongly correlated to macroeconomic trends, and thus company performance is mainly driven by the cycles of the economy. This is because the main output for companies within industry tends to be commodities. This means that the revenues companies earn will be a result of price fluctuations in the commodity markets. This in effect makes cash flows into the future difficult to predict, as predictions would require assumptions of what future commodity prices will be.

Our investment philosophy is to use a long-term focus when prospecting for quality investments. In order to uphold this investment style we are required to analyze companies based on the criteria laid out in our investment strategy section. Specifically, we look for sustainable business models, consistent free cash flow, long term growth prospects, and minimal downside risk. Company differentiation is difficult in the basic materials sector; operational efficiencies are one of the few ways competitive advantage can be achieved. However, more often than not, end

performance will be a result of commodity movements. This makes it incredibly difficult to analyze the required criteria. Additionally, this sector carries weak long-term growth prospects for individual companies and significant downside risk in the form of downward fluctuations of commodity prices.
For the reasons discussed above, the Fund has decided against investing in the basic materials sector. However, this decision is subject to change if we find a company that meets our investing criteria.

Current Holdings: None

Healthcare

The healthcare sector is experiencing unprecedented changes given the political environment of the United States. The Affordable Care Act (ACA) will start coming into effect within the year and will create public and private exchanges, increase the number of insureds, and increase consumer more choice in healthcare. Currently, there are $27 million Americans that are still uninsured and will have to sign up as ACA comes into effect, providing more growth for many of the healthcare industry's sectors.

The healthcare industry is promising to investors given the high growth, the changes in policies, and the high barriers to entry that exist within the industry. Healthcare spending made up approximately 18% of GDP spending in 2013, and is estimated to be $4 Trillion by 2020, or 20% of total GDP. Further, Medicare constitutes up to 20%-25% of state budgets and the number of people aging into Medicare is expected to grow at 8.5% compounded annually. Not only is this sector experiencing high growth, but it also has many barriers to entry that exist given government regulation and the overall healthcare ecosystem. It would be extremely difficult to penetrate an industry like Pharmacy Benefit Management or Pharmaceuticals given the deep networks that they have embedded within their business models, as well as the high capital required to enter the business.

Some risks in the healthcare industry include the uncertainty around The Affordable Care Act, as well as the increased market penetration of generic brands. While we feel that the reform will create immense opportunity for our investments, there is undoubtedly some risk around the uncertainty of how the policy will play out. Further, increased generic penetration may negatively impact pharmacy businesses across the board, as it becomes increasingly more challenging to sell specialized brands given the generic alternative. However, we feel that these changes will not materially impact our positions but rather increase their growth.

Current Holdings: ESRX, GILD

Industrials

Industrials is a diverse sector that relates to producing goods used in construction and manufacturing. Performance in the industrial goods sector is largely driven by supply and demand for construction and demand for manufactured goods. The sector follows the business cycle which makes it dependent on the state of the economy. Industrial based companies will outperform during economic expansion, but will underperform during bad economic conditions. Industrials YTD has gained 9%. The outlook for the industrials sector is dependent on future economic outlook, which is currently positive but not entirely certain.

Global expansion and development in the BRIC countries has increased demand for industrial based companies. This growth is likely going to have a positive effect on the industrial sector and will have a positive outlook in the future. In the United States, the sector benefits from the continuation of housing and auto demand during economic recovery. The long term low interest rate horizon makes homes and automobiles cheaper for consumers, therefore housing and auto demand during economic recovery will continue to help the industrials sector in the U.S. However, the increase in this demand is expected to be slower in the future than it has been in the recent past. Global expansion and all time low borrowing costs gives this sector large opportunities for growth.

Current Holdings: UTX, PCP

Technology

This year the Technology sector is performing better than the majority of the other sectors. It has continued to recover following the recession in 2008. According to data provided by Morningstar, the Technology sector is up 23.09% this year, which is outperforming every sector, besides Healthcare. Avago Technologies Ltd. (AVGO), Electronic Arts (EA), NXP Semiconductors (NXPI), Micron Technologies (MU), Broadcom (BRCM), and Apple (APPL) all have generated returns above 60% this year and are the top performers in this sector.

The Technology sector is broken up into seven different industries: Electronic Office Equipment, Internet, Software, Telecommunication Services, Semiconductors, Computer Services, and Computer Hardware. The Technology sector contains .approximately 4,820 companies and has a market capitalization of $7.57 trillion. The largest industry by market capitalization is Semiconductors, which has been the best performing segment, up 26.8% for this year. On the other hand, the worst performing industry has been Telecommunications Services, which has only gained 3.33% this year.

We view this sector as one of the most competitive sectors in the market. However, we believe some companies in the sector have developed strong competitive advantages that make them safe long-term investments. In this sector, new companies can grow extremely fast while other companies can fail very quickly. Despite some uncertainty as to how the industry will evolve over the next ten years, we have identified companies within this sector that are positioned to capitalize on emerging trends and continue to reward shareholders in the future.

Current Holdings: IBM, T

INDIVIDUAL POSITIONS

The fund currently consists of 12 individual equities:

1. Express Scripts Holding Company (ESRX)
2. International Business Machines Corp. (IBM)
3. Procter & Gamble Co. (PG)
4. Markel (MKL)
5. United Technologies Corporation (UTX)
6. AT&T Inc. (T)
7. MasterCard (MA)
8. Diageo plc (DEO)
9. Gilead Sciences (GILD)
10. National-Oilwell Varco, Inc. (NOV)
11. Chevron Corporation (CVX)
12. Precision Castparts Corp. (PCP)

The rational for each investment and more information about each position is detailed below:

Express Scripts Holding Company (NYSE: ESRX)

We purchased 1,716 shares on September 23rd at an average price of $76.0965 per share.

Express Scripts is a Pharmacy Benefit Manager (PBM) Company that provides integrated services like network pharmacy claims processing, home delivery pharmacy services, specialty pharmacy benefit management, drug utilization reviews, formulary management, and others. The majority of its revenue comes from its network services and mail-order businesses, which are 62% and 38% of its revenues, respectively. Part of what has contributed to its increase in size has been the Medco acquisition, which occurred in 2012 and increased Express Scripts' Medicare presence, warehouse capacity, and claim volume. Until now, the company's focus has been on increasing volumes but is seeing it shift towards operational efficiency. Going forward, the company is extremely well positioned to continue to grow as The Affordable Care Act comes into effect and as it continues on fully integrating Medco's business.

Express Scripts produced approximately $4.8 billion in free cash flow in 2013, resulting in a free cash flow yield of 8.5%. It is not capital intensive and is growing tremendously at 10% per year given the ever-growing elderly population and healthcare policy changes. As far as scale goes, Express Scripts has a significant share of the market, with over 90 million members in its network, 68,000 retail pharmacies, and several mail-order warehouses around the country. It currently holds 40% of PBM market share and 52.3% home delivery market share, making it a dominant player in the PBM industry.

Competition in the PBM industry has been changing, with some major competitors being CVS Caremark, Catamaran, and UnitedHealth's Optum Rx. Most of our competitors have differentiated business models, where instead of being independent like Express Scripts, Pharmacy Benefit Managers have been brought "in-house" by either retail pharmacies or healthcare companies. An example of such is CVS Caremark and UnitedHealth, which are the 2nd and 3rd biggest competitors in the PBM field. While they have been trying to differentiate themselves on price and service, we do not feel as though this will materially impact Express Scripts, as we hold a significant amount of negotiating power, mail-order networks, and powerful partnerships. Going forward, the company is in excellent shape to continue growing, maintain its profitability, and continue to affect the healthcare industry in a positive way

As of December 1th, we have an unrealized gain of 16.26% on Express Scripts.

International Business Machines Corporation (NYSE: IBM)

On September 24th, 2014, the Fund purchased 522 shares of IBM for $192.17 per share.

IBM is a global leader in the IT Services industry, providing computer solutions through the use of its advanced information technology systems and services. The company operates within its five business segments: Global Technology Services (GTS), Global Business Services (GBS), Software, Systems and Technology (STG), and Global Financing. IBM's GTS business segment represents a 39% majority share of the company's revenue, which includes areas of outsourcing, integrated technology services, and maintenance. The company's GBS business line follows behind with an 18% share of IBM's total revenue, with this segment focusing on consulting and systems integration.

Although, IBM has faced a hard time growing its revenue recently, the company has recognized this difficulty and adopted a concrete set of strategies that will enable IBM to capitalize on new industry trends. The company's strategic imperatives include remixing to higher-value assets, managing for the long-term, and returning significant value to shareholders. In regards to higher-value assets, IBM is focusing on its industry shift with what it calls, "CAMSS" – Cloud, Analytics, Mobile, and Security Services. With this, IBM is divesting some of its outdated, less profitable businesses, and acquiring smaller companies to fill the gap in its portfolio of assets. Recently, IBM sold off its x86-based server business to Lenovo and semiconductor manufacturing line to Global Foundries. These selloffs free up capital, allowing the company to invest in higher-value assets such as the purchase of the cloud computing infrastructure company, SoftLayer Technologies, and Xtify, an in-app mobile messaging and push notification platform. These acquisitions show IBM's response to the industry change towards cloud and platform services. While the company may take a hit in the short-term, it is positioning for the tremendous growth opportunity in the near future.

Additionally, IBM continues to follow its policy of rewarding shareholders through share buybacks and increasing dividend payouts. The company has averaged $13 billion in free cash flow over the past 13 years, which it has used along with the issuance of new debt, to finance its share repurchase program. While some may view these transactions as a means to manipulate the company's stock price, over 90% of S&P 500 companies have capitalized on the all-time low interest rates to issue debt and reward shareholders. Furthermore, IBM is also taking steps to grow organically by investing in higher-value assets and in areas of R&D for cutting-edge technology, such as its cognitive computing system, Watson.

The IT Services industry remains very competitive. The current themes dominating this segment of the market include cloud computing, big data, analytics, social, mobile, and security – all of which IBM is positioned to exploit. The desire for engagement and integration across social and mobile platforms, along with business analytics in the cloud infrastructure look to drive future growth within this industry, especially in the emerging markets. This shows the industry has huge upside potential and a large demand for IBM to satisfy. In terms of the company's competitors, IBM's challenges are primarily with Microsoft, Google, Oracle and SAP in the cloud computing space, and Accenture in terms of IT consulting. However, what really differentiates IBM from its competitors and provides the company with a competitive advantage is its already existing client relationships with large corporations. IBM's technology and services are already integrated within these companies, leaving IBM ready to take advantage of the IT Enterprise side of cloud computing by offering dynamic platforms that can be tailored to suit its client's business and data analytical needs.

As of December 1th, 2014, we have an unrealized loss of 15.96% on IBM.

The Procter & Gamble Company (NYSE: PG)

We purchased 1200 shares of Procter & Gamble Company at an average price of $83.10 per share on October 2, 2014.

The Procter & Gamble Company manufactures and markets consumer products. They are divided into four main sectors: beauty, hair and personal care; baby, feminine and family care; fabric and home care; and health and grooming. Their products are sold in grocery stores, discount stores, mass merchandisers, drug stores, membership club stores, and neighborhood stores worldwide. Fabric and home care is P&G's largest sector, making up 32% of annual sales.

Procter & Gamble has a vast portfolio of brands. They have 23 brands with annual sales that exceed $1 billion. In addition to these top performing brands, there are 14 brands with $0.5 to $1 billion in sales, and 30-40 brands with $100 to $500 million in sales. The company plans to eliminate approximately 100 of their underperforming products and lines. By doing this, P&G will be able to keep their efforts focused on a core 70-80 of their most profitable brands and not waste time on brands that are not financially beneficial to the company as a whole. These remaining core brands represent 90% of their revenues and 95% of profits. The 100 underperforming brands have had lower profits by 16% over the past three years, so it makes the most sense for P&G to eliminate them to become more efficient. By restructuring the product lines, P&G is expected to reduce costs significantly and can focus on expanding their top lines.

Along with their product portfolio restructuring, there is a new plan currently in place to create a more cost efficient distribution chain. The plan started in 2012 and is expected to be completed by the end of 2016. P&G is creating warehouses and distribution centers at more central locations to reduce costs in their supply and distribution chain. This plan is eliminating jobs to reduce costs by an estimated $10 billion. This will allow them to get their products to consumers more quickly and at a lower cost to the company.

Procter & Gamble has a long history of success spanning all the way back to 1837. They have consistently increased their dividend for the past 58 consecutive years to their shareholders. The current dividend payout is approximately 2.5% and is projected to continue rising. In addition to this, P&G also has a history of share repurchases. Currently, P&G is expected to buy back between $5 and $7 billion worth of shares in 2015 which will also drive up the stock price. We expect the company to have significantly higher returns in the next few years by focusing on their most profitable brands and reducing costs.

As of December 1th, we have an unrealized gain of 8.27% on Procter and Gamble.

Markel Corporation (NYSE: MKL)

On October 8, 2014, we purchased 271 shares of Markel Corporation at a price of $643.49 per share.

Markel Corporation operates in three sectors: insurance, investment and private equity, which is represented through a wholly owned subsidiary, Markel Ventures. Markel Corporation offers insurance in a variety of niche markets through excess and surplus lines and specialty insurance and has recently expanded into global reinsurance through a recent acquisition of Alterra Capital Management. The insurance sector of Markel Corporation offers a decent operating profit and allows the company a three to four year period in which Markel invests insurance reserves and unearned premiums in short-term investment-grade bonds. Markel also invests a large portion of its shareholder equity in equities compared to the rest of the property and casualty insurance industry.

Markel Corporation is one of the few insurance companies who have consistently underwritten profitability in the past, and not only does this offer another source of income, but it allows them to invest more capital without having any cost on that capital. Their market position as a niche insurance underwriter allows them to make consistent profits due to the difficulty in underwriting certain risks. Other companies have a hard time justifying the exploration of niche insurance markets because of their lack of experience in the field. This lack of competition is a large competitive advantage for Markel, as they have more flexibility in pricing the insurance. Another competitive advantage is a result of Markel's long-term approach that allows more investment in equities. Because of this strategy, the company has realized an above-average annualized return on its investments compared to other insurance companies. The Chief Investment Officer, Tom Gayner, has had great success in the past and has returned an average of 2% above the market on equities.

Markel Corporation has shown the ability to consistently grow in the past, as they have a 16% compound annual growth rate over the last 20 years. They are also exploring new strategies to grow, including Markel Ventures, which has grown revenues 40% year-over-year. While still small, Markel Ventures has plenty of room to grow and make an impact on Markel's bottom line.

Given that Markel Corporation invests more heavily in equities than other firms, it has greater exposure to fluctuations in the market. Another important part of our investment philosophy is the current return offered on bonds. Given that Markel Corporation keeps over $10 billion in short-term bonds, much of their capital is tied in to these returns. When bond yields return to more normal levels in the long term, Markel will experience even greater growth in its book value.

As of December 1th, we have an unrealized gain of 6.80% on Markel Corporation.

United Technologies Corporation (NYSE: UTX)

On October 13, 2014, we purchased 1,245 shares of United Technologies at a price of $100.648, which was close to its 52 week low of $97.30.

In addition to believing that UTX stock was undervalued, we expected the company to grow at a rate of about 6% and we had several other reasons for investing in United Technologies: it has a firm business model, has consistently delivered stable and desirable results, and each of its businesses serves a unique market segment with plenty of room for growth.

Much of UTC's growth comes from its expansion into emerging markets, which is what contributed to the company's double digit earnings growth last year. Two of the biggest international areas of growth are India and China. Otis is currently working on the Hyderabad Metro Rail Project in India, the largest elevator and escalator contract ever made in the country, and on the Goldin Finance Tower in China, which will feature the longest elevator in the world. Also, UTC Climate, Controls, and Security provides security and HVAC equipment at the Hong Kong Airport, a major hub for international travel.

The United States government is one of UTC's primary customers. Pratt & Whitney and UTC Aerospace Systems work together with Boeing to supply fully-equipped aircraft for commercial purposes and to many sections of the military, such as the U.S. Air Force and the Marines. The contracts for these aircraft are supposed to last until 2027, meaning long-term profitability for the firm. The U.S. Department of Defense is also Sikorsky's biggest customer (UTC's helicopter business), representing over $20 million in profit. Commercial demand for Sikorsky helicopters is also extremely high due to increasing demand for offshore transportation in the oil and gas industry, causing a backlog of nearly $3 million this year for the first time ever.

All of UTC's segments clearly benefit from worldwide trends such as globalization and emerging markets. Additionally, the company is growing through making wise acquisitions. Last year, UTC acquired Goodrich, which was a smart investment because it exceeded expectations for returns and helped create synergies across the firm's aerospace businesses. Also, UTC satisfies investors with a regular, dependable dividend and share repurchases. Since 2007, $12 billion worth of shares have been bought back, $1.2 billion of which were in 2013. The share repurchase program is expected to continue in the future, adding to the value of including UTC in our portfolio.

As of December 1th, we have an unrealized gain of 9.22% on United Technologies.

AT&T Inc. (NYSE: T)

We purchased 4,440 shares of AT&T at an average price of $34.33 per share on October 28th.

AT&T Inc. is a communications holding company. The Company provides local and long-distance phone service, wireless and data communications, Internet access and messaging, IP-based and satellite television, security services, telecommunications equipment, and directory advertising and publishing. AT&T's two major segments are wireless and wireline. The wireless segment accounts for 54% of revenue ant the wireline segment accounts for 46% of revenue.

AT&T has a long history of being a leading provider in the telecommunication industry. AT&T has a large and growing customer base with low churn rates. The company provides a high dividend yield, which mitigates any slow-downs in growth for the industry.

AT&T has been looking for growth through acquisition recently. AT&T and DirecTV have agreed to a merger that should be approved, which will create the largest pay TV subscriber base. The merger will help growth for AT&T because their bigger scale and bargaining power will give it the resources to invest in new capabilities that would make it a top provider for the rapidly growing streaming video market. Additionally the merger with DirecTV will allow AT&T to bundle its products with DirecTV's to provide better pricing and reach new customers, particularly in Latin America where DirecTV has 18 million subscribers.

AT&T has developed a strong focus on returning value to shareholders. The Company has rewarded shareholders with a high dividend yield, which has increased for the 30th consecutive year. The current dividend yield for AT&T shareholders is 5.22%. AT&T is well positioned for long-term success because of their high growth potential, a concern for shareholders, and a conservative business model.

As of December 1th, we have an unrealized gain of 2.61% on AT&T.

<u>MasterCard Incorporation (NYSE: MA)</u>

On October 17th, 2014 we purchased 2,778 shares of MasterCard for $71.89 per share. The stock price was near its 52 weeks low of $68.68 when we purchased it.

In addition to the fact that we believed that the market was undervaluing the company and it was growing at 10% per year, we purchased MasterCard because of its business model. The business is inflation protected because revenue is based on percentage of volume of transactions. MasterCard is also one of the few companies in the global payment industry, which has high barriers to entry. The other major players in the global payment industry are Visa, American Express, and Discover. American Express and Discover operate under a different business model having a closed loop model compared to MasterCard and Visa, which has an open loop model. We believe the open loop model is a better business model because they allow banks to build the merchant and cardholder network. Having an open loop business model also allows MasterCard to not have interest rate risk.

MasterCard has focused in growing its cross border transactions, which are more profitable and have done significantly better at executing this plan than Visa. Global cross-border growth came in at 17% globally in the 3rd quarter, which was significantly better than Visa. This number will only increase with China opening up its $1 trillion dollar domestic bankcard market to foreign companies. Going forward, revenues will increase at least 12% a year and EBITDA margins will increase to at least 70%. This is due to the growth opportunities provided by 85% of world transactions still being made through cash and check. A growing middle class around the world will turn to less cash transactions in the future as well as new technology like Apple Pay, which decreases the need to carry anything other than your smartphone. MasterCard is also in a non-capital-intensive business that produces cash and has no need to carry debt, resulting in high returns on total capital.

As of December 1th, we have an unrealized gain of 22.22% on MasterCard.

<u>Diageo PLC (NYSE: DEO)</u>

On October 20, 2014, we purchased 885 shares of Diageo for $113.09 per share.

Diageo is a producer, marketer, distributor and seller of alcohol. Its portfolio of brands covers a range of types, including whiskey, vodka, rum, liqueur, tequila, gin, beer, and local spirits. It produces roughly 6.5 billion liters from over 100 sites in 30 countries. Its marketing and distribution vary by country and depend on government policy. In general, it markets to have relevant brands at every price tier of every category. Distribution and selling in the U.S. is subject to the 3-tiered system which separates suppliers, distributors and retailers. Outside the United States, Diageo either owns and controls the route to market or uses joint ventures, associations and third-party distributors.

Diageo is the top spirits company by global retail sales, with a large collection of #1 brands, including Johnnie Walker, Smirnoff, Captain Morgan, and Bailey's. The breadth of its portfolio allows Diageo to capture 27% of global volume share of premium spirits. Its recent investments in a number of local distilleries, such as Ypióca, USL, and Serengeti Breweries, have provided a foothold in key emerging markets. By developing and growing these local brands, Diageo hopes to eventually move middle-class buyers up to its more premium, global brands. While this strategy offers tremendous growth opportunity over the long-run, external factors such as government policy, economic performance, and currency fluctuations will likely make Diageo a steady performer rather than a runaway success.

While government taxes, tariffs, and regulations can have a material impact on Diageo's ability to do business, there are several reasons why we feel the regulatory environment of this industry does not threaten the health of the business and, as a barrier to entry, provides the company a competitive advantage. First, taxes and tariffs on alcohol provide governments significant revenues, so it is in the governments' interests to protect this revenue stream. Second, the industry's rule and regulations are complicated, and vary significantly among countries. As the global market leader, Diageo is best positioned to not only navigate these complicated rules and regulations, but to use these laws to protect the business and optimize profits. With regards to societal perceptions of alcohol, Diageo has taken great efforts to involve itself in the public discussion about responsible use and in setting standards for marketing and advertising. While this is itself a socially responsible policy to pursue, it is also to the benefit of the business, as it allows Diageo to have a role in shaping the discussion and mitigating anti-alcohol thoughts and policies which are not based on scientific evidence and reasoning.

As the global market leader, Diageo is also privy to a significant amount of information about the various markets for its products. As it markets, sells, and distributes its products, it collects information about consumer tastes, preferences, and price sensitivities. It analyzes the performance of each product in each particular market, and then determines how it needs to adjust its offerings to optimize profits, whether this is through product innovation, price modification, or the introduction of new brands or alcohol types. Diageo's management looks not at the performance of a product or market alone, but at the performance of each product in each particular market.

As of December 1th, we have an unrealized gain of 8.96% on Diageo.

<u>Gilead Sciences, Inc.</u>

On October 30, 2014, we purchased 438 shares of Gilead at an average price of $113.2345 per share. On October 31, 2014, we purchased 655 shares of Gilead $112.109 per share. On November 19, 2014, we purchased 241 shares of Gilead $101.894 per share.

Gilead Sciences, Inc. is a biopharmaceutical company that creates medicines to treat various diseases and conditions. The main segments they are in are HIV/AIDS, liver diseases, cancer and inflammation, and serious respiratory and cardiovascular conditions. Gilead has been a growing biopharmaceutical since 1987 with CEO John Martin since 1996. Gilead focuses on creating simpler drugs for conditions that do not yet have a lot of options available as treatments.

Most recently, Gilead has hit the market Solvadi and Harvoni, which are therapies with over a 90% cure rate for Hepatitis C. Gilead first introduced Solvaldi, which must be supplemented with another medication, such as Johnson & Johnson's Olysio, to boost cure rates. Soon after, Harvoni was introduced, eliminating the need to use a competitor's drug. Harvoni reduced the side effects created from the two treatment regimen, while also providing a single pill solution.

With approximately 3.2 million Americans suffering from Hepatitis C and 150 million worldwide, we estimate a $750 billion global market based on the assumption that the price will be driven down to a world average of $5,000/full treatment. At the current moment, Solvaldi and Harvoni are sold for $84,000 and $94,000 respectively, while costing Gilead only approximately $130, providing Gilead with very strong margins.

Though Gilead has benefited greatly from being the first to market, and can therefore justify such high prices, there will be pricing pressure in the near future. Pricing pressures will be created from competitor's products, including AbbVie's 3 pill treatment which is expected to be introduced in the first quarter of 2015. Though there are harsher side effects and it requires three pills instead of one, AbbVie's treatment is expected to cost the patient much less. Additionally, pricing pressures will result from the inability for public programs, such as Medicaid, to cover such high prices. Even with such threats, if Gilead maintains even one-third of the estimated $750 billion global market, it will capture enough to maintain a significant player in the space.

Looking more broadly at the pharmaceutical industry, Since the Mid-90s, the industry has seen consolidation, with mergers involving large and medium sized firms. The typical pharmaceutical structure of investing heavily in research and development internally and pushing forward expected blockbusters has shifted to acquiring companies with solid pipelines. This is exactly how Gilead added Solvaldi to its pipeline: by acquiring Pharmasset, Inc. for $11 billion in November, 2011. Most recently, Gilead has acquired YM Biosciences in 2013, which brings Gilead CYT387, a drug developed to combat Myelofibrosis, a rare bone marrow cancer, acquired to help Gilead further diversify its portfolio.

In general, the Pharmaceutical industry in the United States market remains very lucrative due to the uncontrolled pricing structure, rapid approval processes, and public and private reimbursement policies. In particular, the restructuring of the United States FDA has allowed companies to quickly bring new products to market, with an average of approximately 2-3 years.

As of December 1th, we have an unrealized loss of 9.32% on Gilead.

National Oilwell Varco Inc.

We purchased 1,360 shares on November 12, 2014 at about $73.53 per share.

National Oilwell Varco is a global provider of equipment and services used in oil and gas drilling. They also provide supply chain integration services and inspection services for a variety of rig types. The company has two main sources of revenue, rig technology and petroleum services and supplies. The company recently completed a spinoff of its distribution segment. This spinoff helps to streamline National Oilwell and will increase the company's operational flexibility to focus on their products, services and customers.

National Oilwell Varco has a long-term competitive advantage in the oil and gas services industry. The company is currently the main supplier for numerous drilling projects using a variety of methods. This allows for maintenance on the rigs, which leads to a steady stream of revenue, thus creating a stable cash flow. Due to the current conditions in the oil and gas market, oil and gas stocks have taken a hit. This has given the opportunity to purchase National Oilwell at a discount from its true value.

National Oilwell Varco operates in a relatively fragmented industry, so most competitors are small. Two competitors that operate at a similar size to National Oilwell are Schlumberger Ltd (SLB) and Halliburton (HAL), but both companies actively manage the rigs themselves which increases exposure to individual projects.

Other attributes that make NOV an attractive company are its low level of debt (indeed, the company has more cash than debt on its balance sheet). The company has been increasing its dividend since it first issued one in 2009, and the board authorized a $3 billion share repurchase which will occur over the next three years.

We calculated an intrinsic value of approximately $87.

As of December 1th, we have an unrealized loss of 9.88% on National Oilwell Varco.

Chevron Corporation (NYSE: CVX)

On November 13, 2014 we purchased 850 shares of Chevron Corporation at approximately $117.25/share.

Chevron is the second largest United States energy company. They are a fully integrated unit, consisting of two business segments: Upstream and Downstream. The Upstream portion of the company accounts for the exploration and production segment of Chevron. This segment accounts for 90% of the company's expenditures. The Downstream portion accounts for the other 10% of expenditures. This segment consists of oil refining and the manufacturing of commodity petrochemicals. Chevron has a network of 15 refineries, which are capable of processing nearly 2 million barrels of crude oil per day.

Due to the fact that Chevron is an integrated energy company, they are essentially internally hedged. When oil and natural gas prices are high, Chevron is able to generate a profit through their Upstream segment. But when prices fall, the Downstream segment allows for Chevron to still turn a profit through the refining portion of the company.

Beyond its current operations, Chevron is doing a great job of setting itself up for future growth. For starters, Chevron already has 11.2 billion barrels in proven reserves. This is the equivalent of 4,000+ days of production at their current rate of 2.597 million barrels per day. Chevron is also setting up for future growth by being involved in numerous deepwater, liquefied natural gas, and shale projects. The largest of these is the Gorgon Project in Australia. Chevron is a 47.3% owner in this $54 billion LNG project, which will be completed in 2015. Once completed, this project will produce 15.6M metric tons/year in LNG. With LNG demand expected to nearly double by 2025, this project is expected to be extremely profitable for Chevron.

The energy industry as a whole has taken a hit as of late due to a decrease in oil and natural gas prices. Even with this decrease in prices, Chevron has continued to expand, realizing a $600M increase in Q3 YOY earnings. They have also continued to increase their dividend, as they recently raised it to 3.6%.

As of December 1th, we have an unrealized loss of 6.21% on Chevron.

Precision Castparts Corporation (NYSE: PCP)

We purchased 442 shares of Precision Castparts Corporation on November 13, 2014 at an average share price of $227.14

Precision Castparts Corporation is a company that produces metal components for industrial use, especially in aerospace and power generation which makes up 68% and 18% of the company's sales respectively. The company also sells its products to automotive, farming, and medical purposes. PCP has most of its factories in the U.S., in which 81% of its business is made. This company focuses on making metal products using aluminum, titanium, cobalt, and nickel and mixing these together to create alloys. In order to make metal products, PCP uses different production methods such as investment casting in which wax and ceramic molds are used to create metal components. This area of the business produces large and complex products that cannot be made through the use of machines. The other method that PCP uses to create components is through forging in which metals are heated first and then shaped.

PCP specializes in making aerospace and power generation products for large customers such as General Electric, Pratt & Whitney, Boeing, Airbus, and Rolls-Royce. PCP has had a long-term relationship with these customers of over several decades and continues to play an important role with these customers. PCP has created several innovations in the aerospace and gas turbine engines as it has incorporated titanium alloys into the hottest parts of the engine in order to increase fuel efficiency by decreasing engine weight and retaining strength and durability.

PCP has grown in the past by acquiring companies and has focused on companies that vertically integrate the manufacturing process and on companies that provide engine parts to PCP's key customers. PCP is continuing this strategy in the future and because of this, has seen and will see an increase in the revenue it receives from providing engine parts. PCP is also focusing on expanding abroad in order to take advantage of cheaper labor costs in other countries.

PCP's competitive advantage lies in its long-term relationships with key customers that make up most of its business as well as its technological innovations that greatly benefit these customers. Also, the investment casting manufacturing process is complex, which makes it difficult for competitors to enter into this market.

The management team of PCP has enacted a share repurchase plan in which $1.5 billion of PCP stock will be repurchased over the next several years. So far, $580 million of this plan has already been spent.

As of December 1th, we have an unrealized a gain of 3.64% on Precision Castparts.

LESSONS LEARNED

Thus far, we have learned that preparation is key. As a group, we have been very proactive about researching companies in our respective industries. We are a very motivated group of students, each pulling our own weight and not falling behind schedule. Each week, we had multiple pitches that were well prepared for ahead of time. Because of the amount of preparation each group did in advance, we were able to fully understand the business model of every company we invested in. Without proper preparation in advance, we would not have been able to ask the right questions to come to a conclusion as to whether or not it was a wise investment for our fund.

We also have learned to take certainty as a major factor into determining our investment strategy. In order to agree on an amount to invest, we analyzed how certain we were about the future success of a business. It would not make sense for us to invest a larger portion of the portfolio into a stock that we were not as certain about compared to our other investments. Once we agreed on how certain we were about a company's future, we were able to reach a reasonable conclusion on how much we should allocate to each company.
We have learned that a stock is more than a piece of paper, but rather a piece of the business. As such, when investing in a company, one must evaluate the company itself. Additionally, the market does not provide any information about the business, but is only there to serve, specifically when it is being moody.

We have not only learned about businesses but have also learned general life lessons that we will be able to carry forward regardless of what we do in life. Specifically, we have learned that our biggest advocate is ourselves. If we want to achieve something, we need to go after ourselves. The fund has taught us that the biggest threat is also often the biggest opportunity. As such, we need to continually adapt to our environment as the world continues to change around us. Businesses are the same way. Those that are not continuously adapting to the future are the ones that will be left behind.

We have also learned about interdependency. We are a team and have learned that we have the best results when we act as a team. We ask each other questions both so that we further our own understanding, but also to question others so that they can become aware of viewpoints they may have been previously blind to. Additionally, we must also recognize that while we are a team, we do not have to all have the same opinion. It is the difference of opinions that bring about good conversations about businesses and how each person looks at the potential threats and opportunities.