UCONN

SCHOOL OF BUSINESS

UNDERGRADUATE STUDENT MANAGED FUND PORTFOLIO REPORT SPRING 2017

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LETTER TO THE UCONN FOUNDATION

To The UConn Foundation,

On behalf of the University of Connecticut Undergraduate Student Managed Fund Program, we would like to thank you for the opportunity to partner with you throughout the course of the past academic year. We are grateful for the opportunity to expand our investment knowledge while also learning about the activities of the UConn Foundation.

This experience would not have been possible without the guidance of the University of Connecticut faculty, the Investment Advisory Board, and the Foundation. We learned about the investment process, including identifying potential investments, researching the fundamental aspects of the company, and conducting valuations. We learned about the mechanisms involved in purchasing a stock, as well as the importance of Corporate Social Responsibility in regards to a company's practices. We had the opportunity to prepare analyst reports and present our work at the end of the fall and spring semesters.

We were exposed to new research tools such as the Bloomberg Terminals in the School of Business, as well as online tools like Value Line and Morningstar. We had the chance to meet with the Investment Advisory Board and MBA managers on a periodic basis in order to network and learn from their experiences. As we reach the conclusion of our time in the program, we acknowledge the friendships we've made and plan to stay connected throughout our careers.

The following report highlights our process, rationale, and our lessons learned from this year. The experience was invaluable, and we thank you so much for the opportunity to take part in the Student Managed Fund.

Sincerely,

University of Connecticut Undergraduate Student Managed Fund Class of 2017

Joseph Cotton
Thomas Delaney
Sean Elliott
Steven Gasparini
Taishi Kato
Jason Mraz
Sean Phelan
Romanna Romaniv
Tami Stawicki
Tommy Stodolski
Rob Tavernier
Taylor VanFleet

PORTFOLIO OVERVIEW

Investment Managers

Joseph Cotton	Thomas Delaney	Sean Elliott
Steven Gasparini	Taishi Kato	Jason Mraz
Sean Phelan	Roma Romaniv	Tami Stawicki
Tommy Stodolski	Rob Tavernier	Taylor VanFleet

Spring Officer Positions

Co-Lead Manager – Steven Gasparini
Co-Lead Manager – Rob Tavernier
Portfolio Manager – Sean Elliott
Treasurer/Secretary – Joseph Cotton
Web Manager – Taylor VanFleet

Undergraduate Supervisor - Christopher Wilkos
Fund Director - Chinmoy Ghosh

Investment Philosophy

The UConn Student Managed Fund applies the principles of value investing, made famous by Benjamin Graham and Warren Buffett, uses these principles to evaluate prospective 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 analysis and other valuation methods. 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. 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 (the difference between 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 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

We maintain 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 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 market taking a highly significant downturn, we hold a 20-25% 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

Investor enthusiasm has been a key story over the fourth quarter of 2016 and first quarter of 2017. All major US indices have hit record highs in 2017 and continue to climb, even in the face of geopolitical uncertainty, flat to moderate corporate earnings, marginal economic growth, and gradual Fed rate hikes. Since Election Day, the DJIA has risen over 11.7% to surpass the 20,000 threshold, driven by beliefs that Trumps pro-growth policies will encourage infrastructure spending, repatriate billions of dollars back to the US, and drive interest rates, GDP, and inflation higher. The flow of money in the stock market has been away from emerging markets, technology, telecom, and utilities and into the financial sector, healthcare, and US-focused equities.

The first quarter of 2017 began with a continuation of post-election growth patterns. However, the market seemed to hit an inflection point in early March as investors began to question whether the new administration would be able to follow through on many of their promises, especially with respect to deregulation in the financial sector and healthcare. After both the DJIA and S&P 500 peaked on March 1st the market began to experience steady declines.

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 and Professor Wilkos. 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 9 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 2%-7% of the total capital available to the fund.

The sectors and the corresponding analysts are listed below:
Basic Materials - Roma Romaniv, Tami Stawicki
Consumer Discretionary - Tom Delaney, Jason Mraz, Tami Stawicki
Consumer Staples - Tommy Stodolski, Taylor VanFleet, Steven Gasparini
Energy - Tommy Stodolski, Taishi Kato
Financials - Sean Phelan, Roma Romaniv, Taylor VanFleet
Healthcare - Rob Tavernier, Sean Elliott, Joe Cotton
Industrials - Tommy Stodolski, Steven Gasparini, Joe Cotton
Information Technology - Jason Mraz, Sean Elliott, Taishi Kato
Telecom - Rob Tavernier
Utilities - Sean Phelan, Tom Delaney

Equity Portfolio and Allocation

The Fund has 99.18% of the portfolio invested with 0.82% remaining in cash and no shares of SPY, the SPDR S&P 500 ETF. Looking forward, the Fund is well positioned for a 10 year investment horizon with a diverse allocation of domestic equities. The average position size is approximately $107k, or 5.22% of the portfolio, with our largest positions being Walt Disney (6.75% or ~$138k), United Technologies Corp (6.47% or ~133k), and United Parcel Service (6.43% or ~132k). In total, there are 19 positions.

Performance

The charts below depict the performance of the portfolio from September 27, 2016 to April 21, 2016.

Total Portfolio Unrealized Gains

					Portfolio						
Ticker	**Name**	**Dividend Yield**	**Date Purchased**	**Shares**	**Purchase Price**	**Price**	**Cost Basis**	**Market Value**	**% of Portfolio**	**Change**	**% Change**
SPY	SPDR S&P 500 ETF	2.22%	9/27/2016	-	$ 214.24	$ 234.59	$ -	$ -	0.00%	$ -	9.50%
WFC	Wells Fargo	2.53%	10/3/2016	1,219	$ 44.10	$ 53.00	$ 53,758	$ 64,607	3.14%	$ 10,849	20.18%
IBM	International Business Machines	3.08%	10/10/2016	700	$ 157.22	$ 160.38	$ 110,051	$ 112,266	5.46%	$ 2,215	2.01%
COF	Capital One	1.67%	10/12/2016	1,500	$ 72.27	$ 82.67	$ 108,402	$ 124,005	6.04%	$ 15,603	14.39%
DIS	Walt Disney	1.40%	10/17/2016	1,212	$ 90.96	$ 114.44	$ 110,239	$ 138,701	6.75%	$ 28,463	25.82%
VZ	Verizon Communications	4.62%	11/1/2016	2,282	$ 48.04	$ 47.25	$ 109,627	$ 107,825	5.25%	$ (1,803)	-1.64%
TSN	Tyson Foods	1.41%	11/8/2016	1,591	$ 70.36	$ 65.14	$ 111,938	$ 103,638	5.04%	$ (8,300)	-7.42%
EPD	Enterprise Products Partners	5.77%	11/8/2016	4,445	$ 24.77	$ 27.68	$ 110,085	$ 123,038	5.99%	$ 12,953	11.77%
UPS	United Parcel Service	3.10%	11/21/2016	966	$ 113.87	$ 105.77	$ 140,243	$ 132,107	6.43%	$ (8,136)	-5.80%
RPM	RPM International	2.21%	11/29/2016	1,036	$ 53.17	$ 51.91	$ 55,082	$ 53,779	2.62%	$ (1,303)	-2.37%
ROLL	RBC Bearings	0.00%	12/6/2016	1,185	$ 84.46	$ 95.00	$ 105,663	$ 112,575	5.48%	$ 6,912	6.54%
LH	LabCorp	0.00%	1/31/2017	825	$ 132.48	$ 143.29	$ 109,296	$ 118,214	5.75%	$ 8,918	8.16%
STAG	Stag Industrial Inc. REIT	5.37%	2/13/2017	4,570	$ 23.94	$ 26.49	$ 109,406	$ 121,059	5.89%	$ 11,654	10.65%
ULTA	ULTA Beauty Inc.	0.00%	2/16/2017	404	$ 271.49	$ 279.50	$ 109,681	$ 112,918	5.50%	$ 3,237	2.95%
TDG	TransDigm Group Inc	0.00%	2/27/2017	320	$ 250.10	$ 240.21	$ 80,031	$ 76,867	3.74%	$ (3,164)	-3.95%
UTX	United Technologies Corp	2.32%	2/28/2017	1,156	$ 112.96	$ 114.99	$ 130,577	$ 132,928	6.47%	$ 2,352	1.80%
ATVI	Activision Blizzard Inc	0.64%	2/28/2017	2,415	$ 45.87	$ 49.87	$ 110,768	$ 120,436	5.86%	$ 9,668	8.73%
CVS	CVS Health Corporation	2.54%	3/6/2017	1,360	$ 80.90	$ 79.28	$ 110,018	$ 107,821	5.25%	$ (2,197)	-2.00%
PBCT	People's United	3.80%	3/29/2017	3,660	$ 17.98	$ 17.59	$ 65,805	$ 64,379	3.13%	$ (1,425)	-2.17%
BUD	Anheuser-Busch InBev SA/NV	3.65%	4/5/2017	1,020	$ 110.47	$ 108.28	$ 112,679	$ 110,446	5.38%	$ (2,234)	-1.98%
CASH				16,867		$ 1.00		$ 16,867	0.82%		
						Total	**$1,953,348**	**$ 2,054,475.18**	**100.00%**	**$ 84,260.83**	**10.96%**

Equity Portfolio Unrealized Gains

Ticker	Name	Dividend Yield	Date Purchased	Shares	Purchase Price	Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
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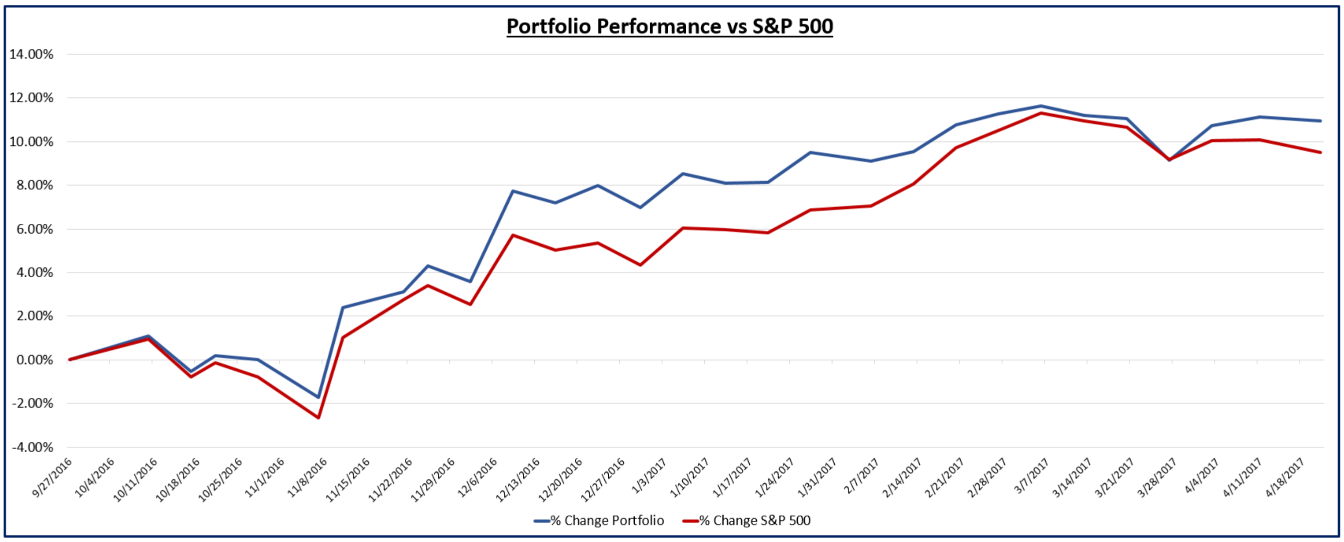
CASH				16,867		$ 1.00		$ 16,867	0.82%		
						Total	$1,953,348	$ 2,054,475	100.00%	$ 86,495	5.18%

Total Portfolio Performance vs. S&P 500



One of the most significant adverse impacts on our portfolio has been a position not in the portfolio, Apple (AAPL). Apple has grown tremendously and has a market capitalization of $745 billion. Because Apple is so large, the company now makes up 3.5% of the S&P 500. Additionally, Apple stock has been performing very well as it has appreciated 25% since October. Therefore, equity portfolios that do not hold Apple are at a disadvantage when using the S&P 500 as a benchmark.

Other adverse impacts include the delayed purchase of RPM International, the performance of Tyson Foods following disappointing earnings and a bird flu outbreak, and missed profit and revenue for UPS. For RPM, the Fund managers requested additional information upon the initial pitch regarding certain business segments as well as the model. This resulted in a delay between the initial pitch and the purchase date. During this period, the stock surged roughly 8.5%. This price appreciation would have resulted in additional capital gain for the Fund, however, in taking a long-term perspective, these short-term price increases do not affect overall performance greatly. Also, our thesis with Tyson has not changed in spite of the short term drop because we still feel their portfolio transformation will deliver value in the long-run as the company's fundamentals have yet to change. Lastly, an increase in e-commerce over the 2016 holiday season led to a poor Q4 performance for UPS. However, the implementation of ORION (On-Road Integrated Optimization and Navigation system) will help UPS compete with superior logistics.

Individual Stock Performance

Overall, we have seen strong returns in our portfolio. More specifically, we have seen extremely strong returns on our investments in Financials and Consumer Discretionary stocks. Two of our three largest gaining investments, Wells Fargo and Capital One, appreciated 20.18% and 14.39% since purchase respectively. The industry as a whole endured such large returns due to the increased possibility of an increase in the Federal Funds Rate. In addition, the result of the recent presidential election has led to the anticipation of lower regulation in the industry resulting in a tremendous rally in recent weeks. The largest gainer was Walt Disney at 24.46%. Disney's returns were driven by expansion of theme parks and successful movies. The return of Star Wars and the very successful opening of the Shanghai Disney Resort were positive drivers for the company and the stock. Our largest loss was Tyson Foods due to reporting revenue and earnings numbers slightly below analyst's expectation for Q4 2016. The projected 2017 earnings forecast were also short of expectations. Additionally, the CEO also announced his retirement at the end of the year. The combination lead to a drop in stock price however, we believe that our investment thesis has not been compromised and that Tyson remains a strong long-term investment.

ECONOMIC OUTLOOK

Upon selecting potential investment opportunities for the Undergraduate Student Managed Fund, our team analyzes the current state of the global economy by focusing on macro-economic factors that will impact our investments in both the short and long term. Some of these economic factors and trends include:

The US Economy

Although the U.S. economy has shown recent positive signs of stable growth, we consider our outlook to be mixed on the current and future prospects of the overall economy. In Q4 of 2016, the United States experienced seasonally adjusted Real GDP growth of 2.1% QoQ SAAR. This growth was driven by an increase in consumer spending at a 3.5% annualized rate in Q4, a result of the positive outlook of consumer sentiment reflected in the consumer confidence figure of 98 as of April. In addition, core PCE (which excludes food and energy prices) stands at a 1.8% YoY rate, approaching the Federal Reserve's official target of a 2% inflation rate. Other growth prospects are exemplified in the latest 4.5% unemployment rate figure (slightly below the consensus 5% natural rate of unemployment), as well as the decline in the latest initial jobless claims report of 234,000 (April 8).

Despite these figures implying a strengthening domestic economy, our team also factors in historic benchmarks for comparison. On a YoY annual basis, Real GDP has grown 1.6% in 2016, which is below the historic annual average of 3.2% from the post WWII period of 1948-2016. The slow rise in GDP was in part caused by declines in exports and federal government spending. Imports increased as of the latest jobs report, which offset other factions of growth in calculating GDP. We believe another possible reason for this sluggish GDP growth is due to companies engaging in "quarterly capitalism". Many firms are under pressure by analysts and shareholders to maintain and sustain rising profits and earnings each quarter. Thus, although many of these companies are holding large cash reserves that could be reinvested in research and development (especially during this low interest rate environment), many would prefer to take that money and return it to shareholders. Thus, business investment has been a laggard on recent GDP numbers.

In addition, the 4.5% unemployment rate is signaling a tightening labor market, as wage growth has continued to climb toward the target 3.5-4.0% over the past year. However, the current 4.47% wage growth rate is still below the historic average of 6.29% since 1960. We believe this disparity is due to a low labor force participation rate of 63% and explains the 8.9% U6 unemployment rate, which accounts for discouraged workers and those forced to settle for part-time over full-time positions.

In conclusion, while the Undergraduate SMF team recognizes the improvements made in the U.S. economy this year, we are still cognizant of the future progress that can occur before we deem the domestic economic outlook as unconditionally strong.

Economic Implications of the Trump Administration

The SMF team recognizes that the shift from a liberal to a conservative administration that began in 2017 will have significant economic implications on domestic and international economies.

In terms of domestic impact, the core of President-Elect Donald Trump's economic policies revolves around tax cuts. All individual taxpayers (regardless of income) should see a reduction in their tax rate based on his proposed three-tier tax bracket system. This should boost consumer spending within the United States, as individuals will have more disposable income. In addition, Trump's proposal to reduce the corporate tax rate from 35% to between 15% and 25% (if enacted) should encourage business investment and could lead to repatriation of company cash held overseas. These tax reductions would help spur GDP growth and lead to a creation of jobs in the private sector. Furthermore, the Trump administration has called for a $1 trillion infrastructure investment that would also lead to an increase in GDP growth, as well as job creation.

In terms of international ramifications, Trump has embodied an “America First” attitude when discussing trade policies. A protectionist trade policy is designed to promote and encourage domestic industries and protect them from pricing and cost pressures of international companies. However, like the uncertainty surrounding Brexit, many economists are skeptical of this pivot away from globalization. Globalization and free trade account for much of the United States’ economic growth and many fear trade wars could be enacted by disregarding trade agreements (like NAFTA and NATO) or by imposing tariffs on U.S. imports. Furthermore, Trump has discussed labeling China a “currency manipulator”, which could affect our relations with our largest debtholder going forward. However, in recent talks with President Xi Jinping, Trump has retreated from claims of labelling China a currency manipulator. After the first several months of the Trump administration, it is becoming clearer that his rhetoric on trade is much more moderate than the harsh tones used on the campaign trail. The administration has yet to launch any renegotiation efforts with NAFTA; nor has it imposed punitive tariffs on foreign countries or U.S. companies that move jobs overseas.

Therefore, although the SMF team is uncertain of the exact impact that an ongoing Trump administration will have on domestic and international economies, we will be closely monitoring policies that we feel will affect our investment holdings moving forward.

Federal Reserve and International Central Bank Monetary Policies

As of March 15, 2017, the federal funds rate stood at 75-100 bps. With labor markets beginning to tighten (as reflected in the 4.5% unemployment rate) and inflation steadily rising to the Federal Reserve’s 2% target (1.8% PCE), it seems likely that several rate increases may occur later this year (within the 25-50 bps range). We believe that, barring any unusual setbacks in the economy, the Federal Reserve will continue a gradual approach with respect to these rate hikes. The SMF team recognizes that higher interest rates are used as a contractionary monetary policy tool to prevent the economy from experiencing high levels of inflation. Therefore, as interest rates and risk-free rates (i.e. 10 year Treasury yields) rise, the team has adjusted our valuation assumptions accordingly with regards to WACC calculations and other rate-sensitive metrics.

Regarding monetary policy abroad, the European Central Bank (ECB) and Bank of England (BoE) have also held central bank interest rates at historic lows (currently 0 and 25 bps, respectively) following the Financial Crisis of 2008. The BoE lowered rates in August from 50 bps to 25 bps following the fallout of the Brexit vote and sharp decline of the British Pound. Meanwhile, central banks in Japan and Sweden have enacted negative interest rates to stimulate economic activity and inflation. The SMF team has acknowledged this unconventional methodology to stimulate economic activity abroad and will continue to follow developments regarding central bank monetary policy.

Global Economy

One factor that we often consider when evaluating potential investments is international exposure. Three major economies that we focus on are China, Japan, and the Eurozone.

In Q4, China’s Real GDP grew by 6.8% QoQ SAAR, surpassing the stagnant rate of the prior three quarters. However, China has continued to see a decline in Real GDP growth at 6.7% in 2016 compared to 6.9% in 2015, and as high as 15% before the Financial Crisis. This is the weakest full-year growth since 1990 but within the government's target range of 6.5% to 7.0%. The IMF expects growth to slow further in 2017, expected to end the year at 6.5%, as consumption and investment growth softened overall. Industrial production is expected to stay near 6%; it was as high as 18% before the financial crisis. The

Chinese economy observed healthy growth in Q4 2016 as private consumption remains strong and investment recovers. Property and real estate markets soared in Q3, but prices cooled off in Q4 as a result of anticipated stabilization efforts by the government. Downside risks include a correction in the housing market, and increased tensions between the United States and China. Both consumer confidence and business confidence indices are expected to fall over the next few years, providing additional indication that growth in China is slowing.

The Japanese economy has fought the strength of the yen and global headwinds in Q4, expanding 1.2% in Real GDP QoQ SAAR. Japan's exports and manufacturing have showed clear signs of recovery compared to a quarter ago, thanks to the improvement in the global economy, rebound in commodity prices, and depreciation of the yen. However, Japan’s economic recovery suffers from weak wage growth, which in turn is dampening private consumption. In Japan, Donald Trump’s presidency may negatively impact the country’s important external sector and further strengthen the yen if global uncertainty rises. Unemployment in Japan is at the lowest level in two decades, reaching 2.8% in February as it continues to decline from the 5.1% high during the 2008 recession. Prime Minister Shinzo Abe plans to persuade private companies to boost wages as well as utilizing an expansionary budget next year to jumpstart growth. However, growth is expected to remain sluggish with GDP YoY for 2016 achieving 1.6% growth, and 1.3%-1.6% expected by the BoJ for 2017.

We have also given thought to the European market. Although this market is struggling, it is projected to improve over the next few years. Unemployment, currently at 9.5%, is projected to improve to 7.7% by 2020, and youth unemployment is also expected to fall. The unemployment rate has continued to fall and consumption has been growing due to low interest rates and low inflation. A major European event that affected the US equity markets was the Brexit announcement on June 23, 2016. While this event led to an immediate decrease in US equities of about 5%, the market rallied back over the next week, and ultimately hit an all-time high two weeks after the announcement. We believe that this behavior was caused by uncertainty immediately after the announcement, followed by the realization that this event has no substantial change on US economic outlook. This event led to the Fed putting a rate increase on hold, which also helped the market rally. The Eurozone’s slow growth continued in Q3, seemingly unaffected by the Brexit vote in June. GDP growth was stable at 0.4% over the previous quarter in Q3. Strong domestic demand and weak external sector demand were the main drivers of the modest quarterly growth. Real YoY GDP growth is expected to fall a notch from 1.7% in 2016, to 1.6% in 2017, and 1.8% in 2018. These metrics show that the European economy is expected to slowly recover. The euro has also fallen to the lowest level seen in nearly one year with increased market volatility following the United States presidential election of Donald Trump this past November.

The most prominent and presently relevant geopolitical risk affecting the financial markets is the rise of populism. The economic squeeze of the middle class and domestic Islamic extremism have driven the populist politics of xenophobia, fear, and anger across Europe and the United States. This has the potential to weaken the existing political establishments and give power to those on the far left and far right. This will result in unpredictable foreign policies which avoid engagement abroad and focus efforts on domestic prosperity and problems. The upcoming French election has provided similar political risk, as its polarized candidates and divided national opinion is leaning toward the possibility of a “Frexit” from the EU. Additionally, recent U.S. attacks on Syria and the prospect of action against North Korea have provided for great uncertainty in the area. We will continue to monitor geopolitical spheres for future developments in these events, as they generated uncertainty in the domestic and international markets, as well as additional risk for our portfolio.

Oil and Commodities

Throughout 2016, oil prices swung between $35 and $53 per barrel, with prices more or less stabilizing around the $50 per barrel mark. Considering there is still oversupply in the market, many agencies and oil and gas companies are expecting this gap between supply and demand to close by mid-2017 due to an OPEC agreement on cutting production and healthy crude oil demand in the global market. In the long-term, it is important to note that we believe oil prices will be higher, but there is a new fundamental shift that has happened that will impede the global crude oil market from seeing record prices in the coming years. This shift is credited to American shale oil and gas producers who have pioneered a new business model that has affected OPEC producers' approach. Due to improved drilling and fracturing technology, these companies can quickly bring oil into the market in as few as six months, for smaller amounts of capital investment. These unconventional producers will act as a counterweight to OPEC production in the future, significantly reducing their leverage in the global oil market. With other countries such as China and Argentina now developing their own oil and gas resources and the United States lifting the crude export ban, the global crude oil market will be much more competitive in the coming years, allowing for more stable oil prices.

Since December 20, 2016, when gold bottomed out at around $1,129/oz, gold prices have risen 13.5% to $1,281/oz. The flight to this safe haven commodity has been accelerated by uncertainty surrounding foreign and geopolitical relationships, notably regarding areas within the Middle East and North Korea. Another part of the commodity market that has been interesting to monitor is industrial metals, which entails products such as steel and copper. Futures prices for these metals have continued to rise following the election of Donald Trump due to his plan on investing more in U.S. infrastructure, leading to the success of many industrial companies this past year.

SECTOR ANALYSIS

Sector Allocation

The manner in which we allocated our portfolio by sector stems from our team's investment philosophy. As previously mentioned, we based our investment decisions 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 within that area.

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

The following table highlights the sector breakdown of the overall portfolio, the sector breakdown of the invested portfolio, and the S&P sector weightings as of April 21, 2017:

Sector	% of Total Portfolio	% of Invested Portfolio	S&P 500 Sector Weight
Basic Materials	2.62%	2.64%	2.71%
Consumer Discretionary	12.25%	12.35%	10.96%
Consumer Staples	10.42%	10.51%	10.14%
Energy	5.99%	6.04%	7.16%
Financials	12.31%	12.42%	14.88%
Industrials	22.12%	22.30%	10.72%
Technology	11.33%	11.42%	19.35%
Telecommunications	5.25%	5.29%	4.32%
Healthcare	11.00%	11.09%	14.09%
Real Estate	5.89%	5.94%	2.32%
Utilities	0.00%	0.00%	3.36%
Cash	0.82%	0.00%	0.00%
Total	100.00%	100.0%	100.0%

Relative to the S&P 500, our investments are not evenly spread across all sectors. The portfolio is invested in all of the sectors but utilities. The portfolio is also heavily invested in Industrials and underinvested in technology when compared to the S&P 500 Sector Weight. The portfolio has four holdings in industrials (UPS, ROLL, TDG, and UTX) and only two holdings in Technology (IBM and ATVI). Real estate was recently separated from financials as of this year will be treated separately going forward. The portfolio has one holding in the real estate sector (STAG).

Attribution Analysis

The following table is an attribution analysis to determine the impact of the sector allocation vs. the impact of our individual holdings on the overall returns of the portfolio.

Attribution Analysis	% Average Weight	Contribution to Return (%)	Total Return (%)	Allocation Effect (%)	Selection Effect (%)
SMF	100.00	10.96	10.96	0.08	-0.01
Cash	5.48	0.00	0.00	-0.63	0.00
Consumer Discretionary	7.55	1.98	27.22	0.03	1.02
Consumer Staples	5.35	-0.59	-11.70	0.36	-1.09
Energy	4.78	0.91	13.61	-0.28	0.84
Financials	10.72	2.44	20.70	-0.16	-0.08
Funds (SPY)	39.18	3.82	10.39	-0.04	0.00
Health Care	2.13	0.45	6.18	1.18	0.04
Industrials	9.49	-0.33	-0.23	-0.61	-0.75
Information Technology	6.94	1.19	18.19	-0.41	0.33
Materials	1.89	-0.11	-4.48	-0.06	-0.31
Real Estate	1.75	0.87	10.77	0.45	0.47
Telecommunication Servic	4.75	0.33	4.76	0.09	-0.23
Utilities	0.00			0.16	0.00

The "Contribution to Return (%)" represents the impact in percentage points each sector had on the return of the portfolio. The investment in the SPY contributed 3.82% of the total 10.96% return of the portfolio. SPY had a heavy weight on the portfolio returns because we were not fully invested until April 5, 2017. Therefore, the portfolio gradually divested the SPY shares for the entire year leading to a large impact on total returns. Additionally, financials had such a strong contribution at 2.44% because the fund invested in WFC and COF within the first month of investing. These were two of the three earliest positions held and performed very well post Trump's election. The "Selection Effect (%)" represents the difference the individual holdings made. Overall, the portfolio had a selection effect of -0.01%. Therefore, our individual stock selections had very little impact on the portfolio. The Fund's gains derived from choosing the correct sectors and industries. The Fund's investments in consumer discretionary and energy significantly improved the portfolio's return with a 1.02% and 0.84% bps selection effect respectively. Therefore, investments in DIS and ULTA outperformed the consumer discretionary sector and EPD outperformed the energy sector. Unfortunately, consumer staples had a 1.09% selection effect. Thusly, the fund would have performed better if we had invested in a consumer staples index rather than investing in TSN and BUD.

Consumer Staples

The Consumer Staples sector includes items that consumers buy that tend to be viewed as necessities. These businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages, and tobacco as well as producers of non-durable household goods and personal products. Despite the volatility in the overall market, the consumer staples sector has been steady. However, due to some geopolitical uncertainty creating volatility in cyclical industries, staples investments have the ability stabilize investment portfolios.

There has been a shift in U.S. consumer appetites towards organic and natural foods. Pre-packed food manufacturers may see altered earnings growth because of this. Larger companies have acquired smaller companies to appear more natural and smaller in the eyes of the consumer. Also, the global economy has challenged the consumer staples sector, as many companies earn a major portion of their sales overseas, and declining currencies versus the dollar coupled with slowing economic growth has hindered sales.

Due to a large degree of tight profit margins, companies in this sector have been cutting costs while also adding more perceived value for consumers. Additionally, a reduction in energy prices over the last two years have also helped lower costs.

We recognize that the consumer staples industry has been considered over-valued over the past year, as investors have been attracted to these high-dividend paying stocks for yield in a low interest rate environment. However, companies in this sector that do not pay a dividend or that have a low dividend yield may still have room for growth, in terms of valuation.

As the U.S. economy grows, this dampens enthusiasm for staples due to decreasing demand. Also, there has been increased competition due to growth of emerging-market production at a lower cost. Lastly, as banks seek to ease their effort to stimulate the economy, there could be a push to less defensive sectors.

Current Holdings: TSN, BUD

Industrials

The Industrials sector contains a broad spectrum of companies that produce goods or provide services to both consumers and business for industrial use. The types of companies included in this sector include industrial conglomerates (United Technologies Corporation, General Electric), aerospace companies (Boeing), heavy machinery companies (Caterpillar), airliners (Southwest Airlines, American Airlines Group), shipping companies (FedEx, United Parcel Service), tool manufacturers (Stanley Black & Decker), fire and security companies (Tyco International PLC), defense companies (Lockheed Martin), etc. The industrial sector currently holds a weight of 10.04% (or about $3.64 trillion in market cap) of the S&P 500. This is a decrease of about 0.30% of the weight of the index from last year.

The industrials sector has performed well over the past year.. A dollar invested in a broad basket of U.S. industrial companies would have returned approximately $1.14 over the past year. Comparatively, a dollar investment in the U.S. equity market as a whole would have grown to approximately $1.12.

An important factor that will likely come into play in determining the performance of the industrial sector in the upcoming years will be global growth. Recent data has suggested to investors and to the market that China, the largest developing economy, may be slowing down. This slowing economy will likely reduce the demand for industrial products, with companies producing fewer products. However, Trump's $500B to $1T infrastructure spending plan and protectionist policies on domestic manufacturing industries will likely stimulate domestic industrial companies, such as Caterpillar, and Stanley Black & Decker. In addition, a proposed increase in the defense budget bodes well for companies like Boeing, UTC, Lockheed Martin, and GE. Thus, although global demand may be softening, favorable domestic policies may be enough to offset the disparity between industrial supply and demand abroad.

Current Holdings: UPS, ROLL, TDG, UTX

Consumer Discretionary

The Consumer Discretionary sector consists of companies that provide goods and services that are above needs to survive. A few types of companies that fall into this sector are consumer electronics companies (Best Buy), resort and gambling companies (Wynn Resorts), automobile manufacturers (General Motors), and clothing companies (Nike, Michael Kors). Year to date, the Consumer Discretionary sector has increased by 7.56%, leading the S&P 500 by 3.12%. This sector is relatively large with a market cap of $4.7 trillion and a market weight of 12.30% (Fidelity). Going forward, we believe there are some broad economic factors that bode well for this sector, as well as some that could pose a threat.

Currently, there are four factors that signal potential growth in this sector. First, is low gasoline prices. Low gas prices mean that consumers will be driving more and will be more willing to purchase larger, less efficient vehicles like SUVs that can command a higher price. Second, improving residential housing conditions is good because it means people are spending more to improve homes, which creates jobs and adds to economic growth. Third, the economy is in a low interest rate environment, meaning consumers have easy, cheap access to capital. This makes it easier to spend money on a house, a car, a condo, etc. Lastly, the economy is in a period of falling unemployment. With more people at work, more people have discretionary income to spend on goods.

There are also some factors that could be of concern for this sector. The Consumer Discretionary sector performs well when the economy is growing and performs poorly when the economy is not doing well. Given that the current economic cycle is more than six years into its recovery after the Great Recession of 2008, there is a potential risk that the broader economy could falter and hurt the consumer discretionary sector. There is also the prospect of rising interest rates over the foreseeable future. Higher rates could lead to less discretionary income and less growth for the sector.

Due to these reasons, the undergraduate SMF team believes the consumer discretionary sector has several attractive companies in which to invest. The final SMF portfolio has a consumer discretionary weighting of 12.36%. Our two holdings in this sector are Disney and Ulta Beauty, which appreciated in value 24.46% and 4.12% respectively since their purchase dates.
Current Holdings: DIS, ULTA

Energy

Following a tough year in 2015, oil prices continued to fall in the beginning of 2016, before hitting a near-term low of $26.05 per barrel in February. This was due to continued high production levels from the Organization of the Petroleum Exporting Countries (OPEC), specifically Saudi Arabia. Since then, oil has rallied over 100% and has settled in the low 50s. The resilience of U.S. oil producers and depressed prices have lead to talks about OPEC members reaching an agreement on production quotas at their semi-annual meeting at the end of November. At the meeting, OPEC members agreed to their first production cut in eight years. This led to oil prices reaching its highest levels in more than a year, hitting prices of $50 per barrel.

In the short term, there is uncertainty about the direction of oil prices as OPEC may not adhere to the agreed upon quotas, and because of higher stockpiles from U.S. producers and because of OPEC's production surge before the agreement came into effect in January of 2017. However, the SMF does believe that the price of oil will increase in the long term as the outlook for global consumption of petroleum products remains relatively strong, according to the International Energy Agency.

Natural gas and liquid natural gas are also opportunities for growth. Natural gas emits significantly less carbon dioxide compared to coal and oil. Many midstream energy companies have focused on the transportation and the expansion of terminals to export these natural gas products, offering substantial potential for growth. This growth in natural gas has led exchanges to provide a standard price used throughout the market, in the way that oil, for instance, has the Brent and West Texas Intermediate crude future contracts. Specially, The CME Group and Intercontinental Exchange are on the forefront to develop these derivatives.

These two views supported our position in Enterprise Products Partners. Enterprise is more of a volume and fee based business that has little exposure to oil commodity prices. Additionally, Enterprise will also benefit from the growth in natural gas and liquid natural gas.

Current Holdings: EPD

Financials

The Financials sector contains the category of stocks that provide financial services to customers, both commercial and retail. This includes banking, mortgage finance, consumer finance, specialized finance, investment funds, insurance companies and until September 1st, 2016, real estate. The team decided to encompass the 11th sector of Real Estate under Financials, therefore those who followed Financials would also be following real estate.

Financial service companies have seen both good and poor performance so far this year. In the beginning of 2016, there was poor performance due to selling with regard to potential loan defaults in the energy. From mid-February to May, however, the sector had steady performance until June when the British vote to leave the European Union. This decision had no precedent, so there seemed to be an overreaction in the market, as yields pushed lower and the United State's Federal Reserve did not raise rates. The financial sector was the worst year-to-date performer following the Brexit vote. However, the FOMC predicts two to three rate hikes in 2017, which would increase profitability for this sector overall. The sector has seen under 1% of total returns YTD, and 22.5% returns for the year 2016 (Financials Vanguard ETF).

Another positive factor for financial sector is the growing financial strength of financial institutions as some have increased dividend payments, enhanced share buyback programs, and paid back government loans, illustrating their growing health and stability. Many financial firms have much more robust capital levels today than they did pre-recession, yet trade at a relative discount, potentially creating attractive entry points for investments. In addition, consumer health has been on the rise, which bodes well for the economy as a whole, and financial services firm especially. They’ve reduced overall debt reducing the risk of default and giving them the opportunity to add to their debt to invest in the future.

The ultimate impact of Trump’s presidency on financials is still uncertain, but the market reaction in the sector has been undoubtedly positive. Investors forecast rising interest rates and GDP, which has driven many firms who create revenue from interest spreads higher. Additionally, Trump is likely to be anti-regulation, which could be another boon for some of the bigger banks with less restrictions on their activities. The yield curve has steepened since the election, which could be a positive for the sector as well with loans becoming more profitable.

Current Holdings: WFC, COF, PBCT

<u>Healthcare</u>

For this analysis, healthcare will be broken down between companies that provide healthcare services or healthcare equipment, and companies that are involved in biotechnology and pharmaceuticals.

Healthcare services have been the topic of intense political and legal discussion leading to high uncertainty, and thusly, high volatility in the industry. As of the past few years, there has been an industry trend to consolidate. There were two pending mergers, Aetna - Humana and Anthem - Cigna that were ultimately blocked by the Department of Justice. These mergers were very controversial as the healthcare industry would decrease from 5 large companies to only 3. Furthermore, there is great controversy regarding the future of the Affordable Care Act (ACA). President Donald Trump plans to replace the ACA, which also creates a large unknown for the future of healthcare. However, his efforts have been unsuccessful thus far. Despite the unpredictable future, healthcare companies look to benefit from an increased demand in healthcare products and services, as well as improved cost structures.

As for biotechnology and pharmaceutical companies, the cost of research and the pricing of drugs remain topics of discussion. The biotechnology industry has struggled to limit losses since the beginning of 2016. This is evident when observing the S&P 500 Biotechnology ETF, XBI. This sector ETF peaked in mid 2015 and has yet to recover demonstrating the poor performance of biotechnology companies. However, 2017 is off to a relatively strong start for biotech. Threats to drug pricing and profitability have diminished returns within this industry. Yet, this may make financially strong and cash-heavy companies such as Gilead and Biogen undervalued investments. Additionally, due to modest price increases, the pharmaceutical industry looks to have modest growth. Moody's has changed its industry outlook from positive (4%-5% growth) to stable (3%-4% growth). Lower pricing flexibility and a strong US dollar have contributed to decreased growth expectations. Increased regulation diminish profit margins as companies are unable to charge as high of prices for drugs. Also, because most pharmaceutical companies sell products globally, foreign currency translation exposure can be detrimental.

Current Holdings: LH, CVS

Materials

The materials sector makes up about 2.9% of the S&P 500 with 27 constituents. The sector has seen a 3.9% of total returns YTD, and 19.0% returns for the year 2016 (Materials Vanguard ETF). Materials is sensitive to changes in the business cycle and depends on a strong economy. It is also sensitive to the price of raw materials and so is largely driven by supply and demand fluctuations. Due to the high number of exports in the industry, a continued strengthening of the US dollar could hurt companies' profitability.

The materials sector is comprised of five major industries: chemicals, construction materials, containers and packaging, metals and mining, and paper and forest products. Chemicals include agricultural, basic and diversified, and specialty which are all widely used for manufacturing. Construction materials is highly cyclical and fragmented with companies dominating in specific niche areas. Containers and packaging serve food and beverage, household products, and pharmaceutical with dispensing and protection of products. Metals and mining companies supply commodities used in many of the other sectors. Companies that perform well tend to have substantial mine reserves, an extent of projects, and steady production. Paper and forest products operate in lumber and building supply, paper, and timberland markets where electricity and transportation tend to be the biggest expenses.

There has been a strong trend of mergers and acquisitions in the chemicals materials sector. As the regulatory environment becomes tougher, smaller deals take precedent. However, this trend in deals leads some to think that a drop in ROIC is to follow based on previous historical patterns. Other trends in the industry include growth in the specialty chemicals space even in weak economies. Another recent economic impact will be the results of the elections. Trump's $500 million infrastructure plan will require use of chemicals including coatings and sealants. This could provide another boost for the industry, especially the construction materials sector, which has seen an increase from the election and strong housing market outlook.

Current Holdings: RPM

Information Technology

The Information Technology (Tech) sector includes companies that make hardware and software, as well as companies that provide services in data analytics, technology implementation, and technology process improvement. Companies in this sector include Microsoft, Apple, Google, and IBM. So far this year, the tech sector has had an above average performance in comparison to the S&P 500, outperforming by 6.45%. Year to date, Tech has a 10.89% return which is the best of the 10 sectors. Presently, tech has a market cap of $6.94 trillion and a market weight of 22.05%. Over the past 20 years, tech has experienced more growth than any other sector. Moving forward, there are factors that support additional growth, as well as factors that could derail growth.

Specifically, there are two areas of tech that are expected to perform well in the foreseeable future. The first area is consumer facing technology companies that focus on social, mobile, and e-commerce applications. Companies like Facebook have been very successful in this space and are poised to continue growing. The second area is companies that can provide cost savings or revenue enhancement to other companies. These are companies that offer cloud solutions such as Amazon and Microsoft, as well as companies like IBM that are investing heavily in analytics.

There are two factors that could negatively impact tech. The first is a downturn in the global economy. The tech sector is increasingly global, and if a large economy such as China's falters, it could hurt the whole industry. The second factor is the potential of increasing interest rates over the next year. Increased rates mean increased costs of raising capital, which could make it more difficult for companies to invest in growth opportunities.

Currently, the tech sector makes up 11.59% of the Undergraduate SMF portfolio and consists of two holdings, IBM and Activision Blizzard. We believe IBM is poised to gain a foothold in both cloud computing and analytics and is well positioned for growth over the foreseeable future. Moving forward, we will continue to look at the tech sector for undervalued companies. We believe ATVI is undervalued due to the company's continual innovation and push into the mobile videogame segment. Also, we believe ATVI will benefit from overall growth in the videogame market.

Current Holdings: IBM, ATVI

Telecommunications

The telecommunications sector is the smallest sector of the S&P 500, with only 5 companies included in the index. This sector has not performed well relative to the S&P 500 over the past year, with a return of approximately 1.08% (versus 11.79% for the S&P as a whole). This sector is made up of companies that provide communications services primarily through a fixed-line, cellular, wireless, high bandwidth and/or fiber optic cable network. They major divide in this sector is between wireless and wireline services, however, the major wireless providers (AT&T and Verizon) both offer wireline services in addition to their primary wireless businesses. We project higher growth in the wireless segment as consumer preferences change and people continue "cutting cable."

Current Holdings: VZ

Real Estate

As of September 1st, 2016, real estate became the 11th sector of the S&P. The real estate sector includes real estate development and operation, real estate-related services and equity real estate investment trusts or REITs.

The current interest rate environment has implications on this sector as a whole. Due to the dividends paid by equity REITs, these stocks are the most attractive. Rates are expected to increase, and this may lead to a shift away from real estate, especially as supply of real estate is rising faster than demand. In addition, REITs have been able to borrow at low rates to increase their holdings, but as rates increase, financing will become more expensive. However, the number of apartments that have been built could bring in rental income gains which would add profitability for real estate companies. As the U.S. economy continues to improve, rental rates may increase for apartments, retail and office buildings, adding to earnings for the real estate area. One subsector that may not perform as well is mall-related REITs. These REITs could see pressure as consumers shift away from larger department stores and major retailers.

Current Holdings: STAG

INDIVIDUAL POSITIONS

Wells Fargo (NYSE: WFC)
On October 3, 2016, we purchased 2,437 shares of Wells Fargo & Co at $44.10/share.

Wells Fargo & Co is a diversified, community-based financial services company with $1.9 trillion in assets. WFC operates in three main business segments: Community Banking, Wholesale Banking, and Wealth and Investment Management. Community Banking, responsible for half of the company's revenue, offers retail and small business banking services as well as consumer lending. Wholesale Banking provides financial solutions to businesses across the United States. The majority of revenue in this business segment comes from commercial banking services. Wealth and Investment Management offers financial advisory, wealth management, brokerage, retirement, trust, and reinsurance services.

We feel as though Wells Fargo has sustainable competitive advantages across each business line that position the bank as one of the most attractive investments within the financial services sector over the long term. From a purely price attractiveness standpoint, Wells Fargo has been down with all of the financial sector since the Great Recession despite being much more well capitalized now than they were pre-2007. We believed that Wells Fargo was a strong investment because they are incredibly well positioned to capitalize on a normalization in interest rates, their financial health is much stronger than their peers, and because they have begun to focus on growing smaller parts of their business by leveraging the relationships and cash flows from more entrenched lines to build their brand in these key areas.

Wells Fargo's key distinction among all US based banks is simply their scale, which provides serious cost advantages that have and will prove to be critically important given the cost of regulation. WFC has a presence in one out of every 3 houses in the US and has more retail deposits than any other bank in the country. This is a significant advantage that has contributed to the financial success of the bank because deposits are one of the safer and more reliable revenue sources in the financial services industry; the deposit rate in the US has grown for 66 consecutive years at a rate double US GDP. As a result, WFC has an expansive and low cost funding source, and the interest rate spread on the deposits they take in versus what they lend out is poised to increase top-line revenue by 2-5% based on the severity of imminent interest rate hikes. Additionally, WFC has a dividend yield of 3.3%, much greater than a comparable average of 2.54%.

Expanding upon WFC's financial strength, the bank's 12.2% ROE easily outpaces the industry average of 8.7%, and their 57.3% efficiency ratio documents a very strong earnings potential. WFC's 39% profit margin (check trends) is set to rise as the firm expands their investment banking and treasury businesses. The expansion of these lines, among several other initiatives, will be another key catalyst for the bank; overall growth will remain stable if these lines underperform due to the high-switching costs for customers in their industry leading community banking division, but increasing their market share in smaller, but high profit-margin lines will diversify the company and boost earnings.

WFC is not without risks, and they faced a major scandal prior to our purchase of the stock. About a week to two weeks prior to our purchase, news surfaced that WFC had illegally opened millions of fake customer accounts in attempts for sales staff to reach very aggressive quotas. In evaluating this scandal, we thought about several different scenarios. To start off, the $185M fine was simply a drop in the bucket for WFC, and ultimately the fake accounts contributed an incredibly small fraction of total revenue. Financially, the scandal was not a concern; where the issues would arise is from consumer confidence in the bank, and any negative impact the scandal would have on customer retention and creation. As part of our pitch, we asserted that if strong action were taken to reconcile with those customers defrauded and management was held responsible, the market would react positively and the scandal would slowly fade away. After we purchased WFC, CEO John Stumpf resigned amid investor backlash that he was either ignorant or inactive about the scandal, and the company removed unrealistic sales goals while retaining their cross-selling culture.

Other major risks for WFC lie in the viability of the American economy. The stock jumped significantly following the election of Donald Trump because of his pro-growth policy initiatives that should induce higher interest rates, and because of his anti-regulation stances. However, the realization of growth is still uncertain, as are many other consequences of his presidency since there is little clarity on his exact approach. An economic downturn will significantly hamper WFC ability to grow, and could hit their earnings hard if loan losses mount.

On December 20th, 2016 the team decided to sell half of our position in WFC at a price of $56.23 per share, realizing a 27.5% gain. By December 15th, the stock had reached a price of $55.19 surpassing our initial fair value estimate of $54.09 per share. We adjusted our models to reflect certain economic changes that manifested since our initial purchase, which included: increasing the weighted-average cost of capital (WACC) to reflect higher interests rates immediately, decreasing the future tax rate beginning in 2018 due to the Trump Administration's tax reform objectives, increasing long-term growth rate due to the Trump Administration's pro-business agenda, and updating the P/E and P/B multiples of our comparable company analysis. However, even with these adjustments our model estimated a fair value of only $54.28. This was still below the current stock price at the time so we recommended selling 1,218 shares (half) of WFC. We decided to hold half of the position because of the possible deregulation and the benefit to WFC if interest rates continued to rise.

As of April 21st, 2017, we have an unrealized gain of 20.18% on our remaining position in WFC and a realized gain of 27.5% from our sale on December 20th.

International Business Machines Corp. (NYSE: IBM)

On October 13, 2016, we purchased 700 shares of International Business Machines Corp. (IBM) at a price of $157.22/share. The size of the initial investment was $110,051.13.

IBM provides information technology (IT) products, solutions, and services globally. IBM has 4 business segments: Global Services (GS), Software Capabilities Systems Hardware, and Global Financing. Furthermore, Global Services can be broken down between Global Technology Services (GTS) and Global Business Services (GBS). GTS provides IT infrastructure services such as cloud computing, analytics, mobile, security, and social. GBS delivers predictable business outcomes through consulting in strategy, application, and software. The breakdown based on percent of revenue in 2015 is ($81.7 billion total): GS: 44%, Software: 43%, Hardware: 12%, Global Financing: 2%

IBM provides products and services directly and through third party distributors.
As of recently, IBM has suffered due to the corporation's transition from a hardware services company into a software services and solutions provider. This transition has led to recent trends in declining revenue. However, throughout the transition process, IBM has maintained profitability with an EPS of 13.50 or more since 2012. IBM's transformation will be powered by development and growth in Cognitive Solutions and IBM's Cloud Platform. IBM is an industry leader in Data and Analytics with products such as Watson, a supercomputer that combines artificial intelligence and analytical software to provide solutions as a question answering machine. Additionally, IBM is a global leader in Hybrid Cloud, which will drive their efforts to compete with Amazon Web Services in the cloud industry.

Within the Global Services industry, cloud computing remains to be the driving force behind IT services. Despite only capturing 7% of the cloud market share (while the industry leader, Amazon, has 31%), IBM is the industry leader in hybrid cloud. Hybrid cloud is a combination of using the public and private cloud. Due to better security and more architectural flexibility, IT services are trending towards hybrid cloud. Furthermore, software is expected to grow due to cloud, mobile, and analytics. The $65 billion cloud software market is projected to continuously grow at 16% per year through 2020. As a leader in hybrid cloud, IBM is heavily exposed to this growth area. Also, the transition to the cloud and the digitization of data is expected to drive demand for analytics and artificial intelligence like IBM's Watson.

Within IT services, IBM's main competitors are Accenture, Hewlett Packard (HP), and Wipro Technologies. In the infrastructure software industry, IBM's biggest competitors are Microsoft, Oracle, and Amazon. Although IBM is transitioning away from hardware, IBM mainly competes against Oracle, Dell, and HP. And lastly, IBM competes with numerous small players in the global financing industry.

In order to compete with other industry leaders like Microsoft, HP, and Amazon, IBM has transitioned into more profitable, faster growth areas. It calls these growth areas its 'Strategic Imperatives'. These Strategic Imperatives consist of the Cloud, Analytics, Mobile, Social, and Security. As companies advance technologically, they will invest more into technologies such as hybrid cloud and cognitive solutions. It's estimated that hybrid cloud market alone will grow to be a $400B industry and that analytics will grow to become a $2T industry. As the industry leader in both of these segments, IBM is primed for success. Furthermore, IBM is in a strong, stable position due to its stable leadership team, its stable owners (largest investor is Berkshire Hathaway), and its commitment to investing in growth.

IBM faces inherent risks in transitioning its business model. As the company transitions from a hardware services company to a software and solutions provider, IBM must remain innovative to overcome increased competition in cloud, analytics, and IT services. Additionally, there is cybersecurity risk when using cloud computing. IBM will mitigate this risk with the use of hybrid cloud and security intelligence and analytics to detect vulnerabilities. IBM can utilize Watson to find where IBM and its customers are most susceptible to cyber attacks. Lastly, due to the rapid growth in cloud, artificial intelligence, and data and analytics, there is increased competition. IBM will be able to overcome increased competition through utilizing previous relationships with current clients and utilizing economies of scale.

Because IBM is a financially strong and well diversified business with growth potential, it is a good investment opportunity in the Information Technology sector.

As of April 21st, 2017, we have an unrealized gain of 2.01% on IBM.

<u>Capital One (NYSE: COF)</u>
On October 12, 2016 we bought 1,500 shares of Capital One at $72.27 for a total value of $108,401.55.

Capital One (COF) is a domestic and international diversified bank. They have bank locations in Connecticut, Louisiana, New Jersey, New York and Texas, and offer a broad array of financial products and services to customers, small businesses and commercial clients. COF operates through two main subsidiaries, Capital One Bank (USA), National Association ("COBNA") which offers credit and debit card products, other lending products and deposit products; and Capital One, National Association ("CONA"), which offers a spectrum of banking products and financial services to both consumers and businesses of various sizes. It is the eighth largest bank in the United States based on assets and the number four credit card issuer based on loan balances. The three main segments of Capital One are their credit card business, their consumer banking and their commercial banking businesses. The credit card business is their legacy business that began with the inception of the company in 1994. COF distributes credit cards to individuals, small businesses and corporates. This is the largest segment in terms of revenue and income. Their consumer banking segment offers a variety of mass-market and customized financial products for individuals, families and communities. Their commercial banking segment offers loans for corporations.

Capital One will deliver long run value due to its growing diversification in business, experience in managing quality of deposits and loans, and their competitive advantage in key areas such as online banking and their credit card business. The company has been able to withstand financial volatility (as seen during the financial crisis) and has taken on successful organic and inorganic growth opportunities through its lifetime. It was undervalued at the time of purchase and had significant upside potential.

Capital One Corporation has several strong competitive advantages. First, Capital One has a prominent international credit card business in the UK and Canada. Direct competitors Wells Fargo, U.S. Bank and PNC Bank don't have a strong international card presence. Also, Capital One, since its acquisition of ING Direct in 2012, has been the pioneer in online banking and mobile banking. Capital One 360 was the first U.S. issuer app from contactless payments on Android. 360 and the Capital One wallet are two of the highest rated apps in financial services. Additionally, their cards with rewards are well-known and continuing to expand. Quicksilver and Venture cards are growing at a faster pace than competitors American Express and Discover Financial Services while also managing their overall costs well. Their credit card balances are up 12% in Q2 Year over Year.

In the most recent news Capital One has released its third quarter earnings of $2.03 per share, beating estimates consensus. Future growth and innovation is expected in the growing Capital One Wallet application that has recently been developed in partnership with Andriod. COF maintain a positive outlook on growth in the U.S. and internationally as as future macroeconomic outlooks tend to favor the financial industry.

The largest risk COF faces is interest rate risk. Capital One is well-positioned for a rate increase, as they are not as rate-sensitive as a typical bank due to their higher net-margin and greater proportion of high-yield assets. Credit losses are also a risk but Capital One has proven itself to be a prudent underwriter of risk. Although the credit card business caters to low-prime and high-quality subprime borrowers, it did not have a loss during the financial crisis and all money borrowed from the government was returned the following year. Through time COF has successfully balanced the provisions for write offs and fluctuations of subprime loans in its operations. There are also several technology risks that COF faces. As a prominent player in the online and mobile banking space, there is a risk of credit information being stolen through a security breach. There has not been an incident in the past however and Capital One has invested in cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and a vulnerability management program.

As of April 21st, 2017, we have an unrealized gain of 14.39% on Capital One.

Disney (NYSE: DIS)
On October 17, 2016, we purchased 1,212 shares of Disney at $90.96 per share for a total investment of $110,239.

The Walt Disney Company is a diversified global entertainment business with operations in four major segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products & Interactive. Media Networks is Disney's largest segment which is made up of the company's cable and broadcast television networks which include ESPN, the Disney Channels, and Freeform(formerly ABC Family). The segment generates revenues from affiliate and provider fees. The Parks and Resorts segment consists of the domestic and international theme parks and resorts the company owns or has effective ownership in. The resorts generate the majority of revenue from the sale of admission and the food and retail purchases made within the parks. The Studio Entertainment segment produces live-action and animated films, direct-to-video content, musical recordings, and live theater performances. Disney distributes this media under the Walt Disney Pictures, Pixar, Marvel, Lucasfilm, and Touchstone banners with revenues stemming from the distribution of the content. The Consumer Products & Interactive Media segment designs and develops a wide array of products based on its extensive intellectual property which produce revenue through licensing, publishing, and the company's retail stores. The interactive segment develops console, mobile, and virtual games sold globally and licenses content to publishers for mobile devices.

The Walt Disney Company has been a leader in the media entertainment industry throughout its history with its strong brand recognition and consumer loyalty. The company will continue to provide long run value due to its unique media network content, domination in its world-renowned parks and resorts, and its consistent ability to monetize on its intellectual property. The company has seen consistent and strong growth since inception and is continuing to innovate across all segments. Disney's minority stake in BAMTech and other OTT streaming services will help the company expand distribution and remain an industry leader. International investment in Europe and Asia for the parks and resorts business will benefit the company through exposure to additional high growth economies.

Disney competes with many different media conglomerates across its various business lines. The company's largest competitors are Comcast, Time Warner, 21st Century Fox, CBS Corp., and Discovery Communications. Disney has proven to be the market leader in the media industry, with the largest market share by revenue of all competitors. This past year, Disney reported $52.465B in revenue which is equivalent to 31.82% of the total revenue generated by its ten closest competitors combined.

Disney is an innovator and leader in its primary business segments. ESPN, ABC, and the Disney Channels offer unique content that cannot be licensed or distributed by other media networks. The strength and exclusive nature of this content allows Disney to generate profit above their competitors through advertising and affiliate fees. The company also ties many of its business units together where consumers are able to engage with the same characters through television, film, consumer products, parks, and video games. Disney's brand recognition is one of its strongest assets and continues to be a household name across the globe.

The primary concern for Disney has been its loss of subscribership for its ESPN networks with consumers no longer wanting to pay high cable fees and switching to streaming services. However, Disney has made strategic investments and partnerships with BAMTech, AT&T/DirecTV, Hulu, PlayStation Vue, and Sling TV which are actively addressing these concerns and moving the company toward streaming distribution. Other risks include decline in economic conditions, maintenance of intellectual property rights, and increased competition. As the top global content licensor with incredible control over its unique and innovative intellectual property, this risk is not a concern and barriers to entry remain high in all segments.

Fiscal 2016 also included two of the most important developments in recent years, the return of Star Wars and the very successful opening of the Shanghai Disney Resort. These strategic developments will drive long-term growth for Disney going forward. Star Wars: The Force Awakens is the third highest grossing movie of all time, and the Lucasfilm acquisition is relatively recent (2012). In addition, production for Star Wars Episode VIII: The Last Jedi, a Han Solo film, and Episode IX are all already underway. Shanghai Disneyland has already seen eight million visitors in the first ten months of operations. The park is already a national tourist destination, with more than half of visitors coming from outside of Shanghai. Millions of people across China are developing an awareness and fondness for the Disney brand, which will help drive growth in this huge market over the long term. Revenues for the year increased 6% to a record $55.6 billion, net income for the year increased 12% to a record $9.4 billion, and EPS for the year increased 17% to a record $5.73.

As of April 21st, 2017, we have an unrealized gain of 25.82% on DIS.

Verizon (NYSE: VZ)
On November 1, 2016 we purchased 2,282 shares of Verizon at $48.04 a share for a total investment of $109,627.28.

Verizon is a broadband telecommunications company and the largest wireless communications service provider in the United States. Verizon has two main business segments: Wireless (responsible for 70% of revenue) and Wireline (responsible for 30% of revenue). Wireless provides Wi-Fi, 3G, and 4G data networks to consumers. Wireline provides broadband internet, landline services, and Verizon Fios TV. Verizon is also expanding into the online advertising sector with the purchase of AOL and pending acquisition of Yahoo. The CEO of Verizon is Lowell McAdam.

Verizon is a leader in the wireless service industry and is poised to be an emerging player in the digital media and advertising space. Verizon has a high free cash flow yield and a strong dividend which has grown consistently for the past decade, making it both a safe income oriented investment and an undervalued company with high upside potential.

The wireless service industry is projected to grow at a rate of 3% per year with global 5G network growth projected to reach $247 billion by 2025. The onset of new technology requiring wireless data and mobile connectivity will cause telecommunications companies to increase their bandwidth speed and reliability of their data networks. Telecom companies are also heavily involved in the acquisition of digital media providers such as Verizon purchasing AOL and AT&T announcing the acquisition of Time Warner. These companies are looking to expand away from the wireline service and more towards the online advertising revenue.

Verizon has a number of competitive advantages compared to other telecom companies. They have the largest market share in the telecom industry with over 31%. Additionally, Verizon has the highest customer loyalty rating in the industry at 99.4% which ensures customers are not switching from the company when they get a new wireless contract. Verizon is also the first telecom company to drastically expand into the online advertisement market which has created a variety of new growth opportunities to increase revenue. They also have a strong dividend yield of 4.6% which is higher than many of their competitors

There are several risks that were analyzed before investing in Verizon. Some analysts believe that Verizon is overvalued in the market due to its high dividend yield and project that the company's share price will eventually fall. Additionally, increasing data coverage in the telecom industry is also especially challenging as it requires a large amount of infrastructure and capital to expand into new locations. The wireline industry consisting of landlines and broadband internet is currently profitable but will eventually decline and be replaced by a pure wireless network. Finally, Verizon is expanding to the online advertising world where it will face new competitors and business strategies that it has never previously competed with.

As of April 21st, 2017 the SMF has a unrealized loss of 1.64% on the Verizon investment.

Tyson (NYSE: TSN)
On November 8, 2016, we purchased 1,591 shares of Tyson Foods, Inc. at a price of $70.36 per share. The total size of the initial investment was $111,937.99.

Tyson Foods, Inc., together with its subsidiaries, operates as a food company worldwide. It was founded in 1935 and is headquartered in Springdale, Arkansas. It operates through four segments: Chicken, Beef, Port, and Prepared Foods. They sell their products to domestic food retailers, foodservice distributors, restaurant operators, hotel chains and non-commercial establishments such as schools, healthcare facilities, and the military. Tyson also markets their products to international export markets. Tyson Foods, Inc. offers its products primarily under the Tyson, Jimmy Dean, Hillshire Farm, Sara Lee, Ball Park, Wright, Aidells, and State Fair brands.

Tyson Foods Inc. was a strong buy recommendation due to TSN's portfolio transformation focusing on increasing margins while minimizing volatility, positioning TSN at the top of key growing segments with room to continue to capture market share due to their strong financials. After acquiring Hillshire Brands in 2014, the company has now positioned themselves as the #1 of #2 brand in 13 different categories, with still the opportunity to grow within the segment to increase their brand penetration within households. In addition, Tyson historically has been seen as a commoditized meat producer, which has led to low operating margins when the food industry generally attracts high margins. Tyson's portfolio transformation is centered on expanding their commitment to higher margin business lines, so they are in a strong position to see constant margin growth. The company also has a mixture of share repurchasing programs and synergies from their Hillshire acquisition that has been good for EPS growth. Lastly, despite acquiring The Hillshire Brands for $7.7B in 2014, the company has already managed to position itself to make future acquisitions through rapid deleveraging.

We took account of risks specific to Tyson and the industry as a whole. The recent price-fixing class action lawsuit could lead Tyson to incur high litigation costs or fines if any wrongdoing is actually found. Our belief is that the allegations are unfounded and don't reflect collusion among market participants, but rather shows companies acting in their best interests given changes in the demand for chicken. Another key risk lies in the price fluctuations of different commodities, including corn, chicken, and cattle. While Tyson has adjusted their product mix to minimize volatility, they still are dependent on the supply/demand of many commodities and cannot fully hedge their risks. One of Tyson's main goals currently is to sustainably increase their operating margins across all 4 segments; prolonged depressions or rises in commodity prices could squeeze margins. Another risk lies in unexpected shifts in consumer tastes as many Americans are becoming more and more health conscious. Tyson will need to continuously innovate to match their products with consumer demands.

On November 21st, shares of Tyson Foods tumbled by almost 15% after the company reported fiscal fourth-quarter profit and sales that missed expectations and provided a downbeat outlook. The revenue miss was a result of less-than-expected beef, pork and prepared food sales which offset the good performance of better than expected chicken sales. In addition, the Chief Executive Officer Donnie Smith will step down at the end of 2016. Despite the revenue miss and adjusted outlook, we still believe that Tyson is positioned well in the consumer staples market and have said they plan to increase capital spending to increase production and improve worker safety, animal welfare, food safety and its supply chain. Despite the weak results outgoing Smith explained that the company still had success for the fiscal year and it was their fourth year of record results in a row. Also, Smith's replacement, Tom Hayes, has been chosen to succeed Smith and has been with the company since their acquisition of Hillshire Brands. He transitions to CEO from his current role as President, and has previously held positions as Chief Commercial Officer overseeing all

North American Sales, as well as Chief Supply Chain officer for The Hillshire Brand Company. He is a 29-year veteran of the consumer products industry and is more than fit to continue Tyson's growth.

As of April 21st, 2017, we have an unrealized loss of 7.42% on Tyson.

Enterprise Products Partners (NYSE: EPD)
On November 8, 2016, we purchased 4,445 shares of Enterprise Products Partners, L.P. at a price of $24.77 per share. The total size of the initial investment was $110,084.87.

Enterprise Products Partners provides midstream energy and processing services to producers and consumers of natural gas, natural gas liquids (NGLs), crude oil and petrochemicals. Operating through four main business segments, Enterprise generates revenue through its Natural Gas, Natural Gas Liquids and Crude Oil Pipelines and Services, as well as its Petrochemical and Refined Products Services segment. These segments include hydrocarbon treating, processing, transportation, storage and terminal servicing. Spanning across the United States, but mostly located near the Gulf of Mexico, Enterprise's assets include 49,000 miles of pipelines, as well as 250 million barrels of storage capacity for NGLs, crude oil and petrochemicals. Additionally, the company has about 14 billion cubic feet of natural gas storage capacity.

In regards to Enterprise's financial information, the company has been largely affected by the crash in energy prices, causing its revenues to decrease significantly when compared to years with higher energy prices. This is largely because Enterprise is dependent on oil and gas exploration companies in generating products that can be used through Enterprise's assets. These assets, specifically, pipelines and storage are primarily long-term fee-based contracts, in which prices are regulated by the Federal Energy Regulatory Commission, or by other state agencies if the pipeline is intrastate. Although revenues have decreased recently, Enterprise's gross and operating margins have increased in the past 5 years due to these fee-based contracts and cost cutting measures. This is one of the reasons cash distribution to unitholders has increased for the past 49 quarters.

An important growth project that Enterprise is investing in currently and is scheduled for operation in mid-2018 is its Midland-to-Sealy Pipeline. This pipeline will extend 416 miles across Texas and will have a capacity of about 300 thousand barrels per day. With robust demand from oil and gas exploration companies, Enterprise already has about 60% of initial capacity contracted with companies in the Permian basin, connecting them to Enterprise's storage facilities, export terminal or every refinery in the Houston and Beaumont region. Considering the Permian region is one of the most productive and profitable oil fields that can withstand oil prices at a low of $30 per barrel, we believe the Midland-to-Sealy Pipeline will bring distributable cash flow to investors in the long run.

Operating in an industry that requires large amounts of capital expenditure on projects and regulatory compliance, Enterprise has large barriers of entry against future competitors. When analyzing their pipeline map, the company faces little competition and essentially operates a monopoly in some areas of the United States due to the aforementioned two factors. In addition to these factors, Enterprise's key NGL assets and scale allow it an advantage that other companies find hard to compete with, since Enterprise has developed such long-term relationships with customers. While the company has key advantages operationally, it also has competitive advantages financially because of its high credit rating (Baa1) and because it does not have any incentive distribution rights (IDRs). Its credit rating allows easier access to the debt markets, which midstream companies are dependent on for future growth. In regards to incentive distribution rights, the general partners of the company are incentivized just like the limited partners, through cash distributions. With no IDRs, Enterprise can generate more distributable cash flow that can either be paid to unitholders or kept for future funding on projects.

A major risk that Enterprise faces going forward is the production and demand for crude oil, natural gas and NGLs. Decreases in the production of these hydrocarbons from U.S. exploration and production companies will cause Enterprise to lose future sales, affecting its distributable cash flow. Additionally, increased global demand for nonrenewable energy will affect hydrocarbon production, impacting Enterprise's business. The company can also be impacted in the future by regulation and different third-party organizations on future projects, as seen recently with Energy Transfer Partners and its planned Dakota Access Pipeline.

As of April 21st, 2017, we have an unrealized gain of 11.77% on EPD.

United Parcel Service (NYSE: UPS)
On November 21, 2016 we purchased 966 shares of UPS at $113.87 a share for a total investment of $109,994.46. We then upsized our position on February 28, 2017 with an investment of 283 additional shares at $106.89 a share, an additional investment of $30,248.21.

United Parcel Service (UPS) is the largest package delivery company in the world which delivers more than 15 million packages daily to 8 million customers in over 220 countries worldwide. The company is broken up into three segments U.S. Domestic Package Services (63% revenue), International Package Services (20% revenue), and Supply Chain and Freight Solutions (17% revenue). UPS had a total revenue of $60.9 billion in 2016. The CEO of UPS is David Abney.

UPS was pitched to the SMF on the basis of the courier industry growth trends as a whole as well as UPS's specific growth opportunities within the industry. The courier industry is highly correlated to the e-commerce industry due to the advancement of online shopping. From 2015-2016, domestic online shopping increased by 15.6% from $341 billion to $395 billion. The growth in the domestic e-commerce industry is projected to continue to grow at an average annual rate of 15% to a market of $600 billion by 2020. Global e-commerce sales are poised to grow 112% over the next four years, a $4 trillion market by 2020 . UPS has recognized the growth in this industry and announced the purchase of 14 Boeing 747-8 jumbo freighters in Q3 of 2016 to supplement its existing capacity for overseas delivery.

In addition to UPS as the best positioned company in the industry to succeed from significant growth in the ecommerce industry, their full rollout of their ORION system in 2017 will increase UPS's profit margins by reducing operating costs and expenses. UPS has the largest market share in the courier industry at 57% and is also the leading deliver in freight and ground shipping in the world. UPS's ORION (On-Road Integrated Optimization and Navigation) system is a supercomputer designed to calculate the most efficient routes for every UPS driver across North America. The software is expected to save the company $300-400 million a year once fully implemented in 2017. This system will boost the company's profit margins and can be used as a logistics problem- solver across many of its other business segments.

UPS also acquired Marken Logistics, the leader in the direct to patient biological sample shipment space. Global growth in biopharma sales is projected to grow 41% by 2020 and UPS has expanded its health-care dedicated facilities to over 100 locations around the world, all certified by the FDA. UPS can leverage its logistics expertise to efficiently route sensitive materials and specimens in and out of complex geographies

There are several risks faced by UPS that were taken into account by the SMF when making this investment. Amazon is in the infant stages of developing its own delivery infrastructure. However, even though Amazon is considered UPS's largest account, it only accounted for 1.7% ($1.0B) of UPS's 2015 revenues. Furthermore, an Amazon chief executive stated that Amazon's own delivery efforts are needed to supplement, rather than replace the capacity provided by UPS.

UPS is also exposed to the commodity price risk of oil due to their reliance on powering their ground and aircraft fleet. However, UPS uses a combination of options, forwards, and futures to hedge this risk and has consistently delivered during high oil price environments. In 2007, when WTI traded at $120 a barrel, UPS's profit margin was at a historical high of 8.8% compared to 2015's profit margin of 8.4% (with oil trading at an average price of $49) a barrel. Thus, their hedging strategy has proved effective to mitigate risk exposure concerning fluctuations in oil prices.

As of April 21st, 2017, we have an unrealized loss of 5.80% on UPS.

RPM (NYSE: RPM)

On November 28, 2016 we purchased 1,036 shares of RPM at $53.17 share for a total investment of $55,082.

RPM International Inc. (RPM) is a holding company with a variety of subsidiaries that manufacture coatings, sealants, building materials, and other related chemicals. These chemicals are supplied to both industrial and consumer clients for maintenance, repair, and redecoration uses. RPM operates worldwide with over 120 manufacturing facilities in 24 countries and sells products in over 170 countries and territories. The company operates under three sectors – industrial, specialty, and consumer. The industrial segment makes up 51% of net sales and includes products such as flooring, passive fire protection, and corrosion control. Products are sold directly to contractors, distributors, and end-users throughout North America and make up a majority of international sales. The industrial segment operates under a large number of brand names including Tremco, Stonhard, and Illbruck. The specialty segment makes up 15% of net sales with products such as industrial cleaners, restoration services equipment, colorants, exterior finishes, and edible coatings which are sold directly to contractors, distributors, and end-users. The leading brands such as Legend, Tru-Core, Dryvit, and DayGlo are primarily sold in North America. The consumer segment manufactures and sells professional and do-it-yourself products to mass merchandisers and home improvement stores. Products include rust-preventative, special purpose decorative paints, caulks, nail enamels, cement and woodcare coatings which are distributed primarily in North America. Brands include Rust-Oleum, DAP, Zinsser, and NeverWet. The company began in 1947 and has been run by the Sullivan family since inception.

RPM International is a diversified specialty materials holding company that has grown from a family owned business. It will deliver long term value with its strong acquisition and organic growth strategy, its superior dividend history, and its strategic diversified business model. It is a company that is positioned for growth and further international as well as products expansion. The company has delivered 40 years of consecutive dividend growth, and is operated by expert management.

RPM International competes with a variety of specialty chemical companies across the sectors. The company's main competitors in its peer group are PPG Industries, The Sherwin-Williams Company, Ferro Corporation, and GCP Applied Technologies. RPM is the most diversified company in terms of products, customer segments, and geographical reach.

RPM International has three main competitive advantages. First, RPM has a successful proven growth strategy. The company has completed over 150 acquisitions. Target growth is set at 3% organic and overall 8%-10% growth for the next five years. The company has extensive experience with synergist acquisitions that grow market share and revenue. Furthermore, RPM has a strong dividend history. The company has increased its cash dividend for 43 consecutive years, and has an expected cash and cash equivalents availability of $195M. Lastly, RPM operates a diversified yet centralized model. While subsidiaries and targets in acquisitions maintain control, an integrated system with subsidiaries contributes to significant synergies. In addition, RPM continues to diversify its geographic and product base.

There are several major risks that RPM faces. Global market and economic conditions will continue to be a major risk. The company is also subject to external fluctuations in supply and prices of raw materials. Further risks include significant amounts of indebtedness and conflict mineral risk (mitigated through reporting). The two major risks that have recently been resolved but pose future issues are health and safety risks as exemplified by the SPHC Asbestos claims, and the recent SEC investigation in accounting reporting.

As of April 21st, 2017, we have an unrealized loss of 2.37% on RPM.

<u>RBC Bearings (NASDAQ: ROLL)</u>
On December 6, 2016 we purchased 665 shares of ROLL at $84.46 a share for an investment of $56,165.90. We then upsized our position on February 10, 2017 with an investment of 530 additional shares at $94.99 a share, an additional investment of $50,344.17. Our total investment was 1,185 shares of ROLL for an investment value of $105,663.

RBC Bearings is an international manufacturer and marketer of highly engineered precision bearings and products, which are essential to the manufacture and operation of most machines, aircraft, and mechanical systems. Their four operating segments are Plain Bearings, Roller Bearings, Ball Bearings, and Engineered products, largely serving the aerospace and industrial markets. These products serve to reduce wear on moving parts, facilitate proper power transmission, and reduce damage and energy loss caused by friction or pressure. The aerospace market composes 2/3 of RBC's overall business in net sales. This market includes commercial, private, and military aircraft. It also includes aircraft engines, guided weaponry, vision, and optical systems. RBC is a primary supplier to military contractors for airplanes, helicopters, missile systems, engines and satellites. The industrial market composes the other 1/3 of RBC's overall business in net sales. This market includes construction and mining, oil and natural resource extraction, heavy truck, marine, rail and train, packaging, semiconductor machinery, and the general industrial markets.

RBC's strengths lie in their unique product mix, large number of special government approvals and patents, long standing customer contracts, dependency of consumers on RBC's products, high industry barriers to entry, and projected growth in defense and infrastructure spending. RBC primarily focusses on highly technical and regulated bearing products as well as engineered products. These products require complex design, testing, and manufacturing capabilities that RBC has efficiently developed. RBC's unique expertise and inimitable market positioning has gained them leading positions in many of the product markets in which they compete. The OEM industry has high barriers to entry due to the exclusive customer contracts that are required to serve their sophisticated and demanding consumer base. Aerospace bearing products are designed and certified during the original development of the aircraft being served, which often makes RBC the primary bearing supplier for the life of the aircraft.

RBC's competitors include SKF, New Hampshire Ball Bearings, Rexnord, PCC, Arkwin, and Timken. They also compete with other high end industrial suppliers and OEMs across each of their product lines. RBC's competitive advantages are product qualifications, product line breadth, service, quality, and pricing. Although some competitors have greater financial, marketing, and personnel resources than RBC, they are well positioned to compete in each of the markets in which they operate.

RBC's competitive advantages are product qualifications, product line breadth, service, quality, and pricing. In regard to product qualifications, they have received patents and approvals from the OEM, the U.S. Department of Defense, and the Federal Aviation Administration. Credentials have been achieved for over 71,000 items and in many cases, they are the exclusive producer of a product on the market. In regard to product line breadth, RBC helps customers achieve numerous design objectives and aftermarket requirements, striving to be the consumer's "one stop" supplier. In regard to service, RBC products are essential to the construction or operation of machinery. Inventory is maintained for immediate sale or service of popular items, and the company has made several strategic acquisitions to fulfill all of product and service requirements of their consumers. RBC is priced competitively and maximize operating efficiencies to reduce costs. They have also have exhibited financial flexibility through past elimination of unprofitable product lines in order to maximize profit margins.

RBC's main risk factors are competition, loss of customers, cyclical nature of the business, potential changes in government spending, fluctuating commodity prices, and any stunting of inorganic growth potential. To mitigate cyclicality, RBC enters into sole-source relationships and long-term purchase agreements, as well as diversifying across multiple market segments in the aerospace and industrial segments. Commodity risk is often mitigated by passing cost increases to consumer, by expanding vendor networks, and adjusting purchasing patterns accordingly. The effects of these risks have been largely muted of the long term and overcome by the RBC's unique business model and strengths.

As of April 21st, 2017, we have an unrealized gain of 6.54% on ROLL.

Laboratory Corporation of America Holdings (NYSE: LH)

On January 31, 2017, we purchased 825 shares of LH at $132.48 a share for a total investment of $109,296.00.

Laboratory Corporation of America (LabCorp) is the world's leading healthcare diagnostics company. LabCorp provides comprehensive clinical laboratory services and end-to-end drug development support. LabCorp operates in two distinct segments: LabCorp Diagnostics (LCD) and Covance Drug Development (CDD). LCD assists clients in diagnosis, monitoring, and treatment of diseases and medical conditions through testing in their independent clinical laboratories. LCD offers over 4700 tests within their 39 primary laboratories and 1700 patient service centers. LCD tests on average 500,000 patient specimens daily. CDD provides drug development solutions as a contract research organization (CRO). Clients, mostly pharmaceutical companies, contract LabCorp's CDD department services to conduct preclinical research through stages of clinical development and into commercialization. LabCorp reported $8.68 billion of revenue during the 2015 fiscal year. The breakdown based on percent of revenue in 2015 was 73% LCD and 27% CDD.

LabCorp enjoys a number of competitive advantages. They are constantly developing new, technologically advanced tests with a focus on applying molecular diagnostics to different testing areas. They are improving the user experience with the LabCorp Beacon platform, and they are using population health analytics programs to supply intelligence tools to hospitals, physician practices, and ACOs. After the Covance acquisition, LabCorp is vertically integrated, and positioned to help pharmaceutical companies develop drugs from inception all the way to market. Finally, their global presence allows them to assist with global clinical trials.

LabCorp also has a number of risks. LabCorp faces operational risks including cybersecurity risk and disruption of third party services used for transportation of samples. LabCorp could also potentially be impacted by changes in government healthcare policy. The current political climate is unpredictable, and although it appears likely that the ACA will be repealed, there is no indication of how the replacement will affect LabCorp.

As of April 21st, 2017, we have an unrealized gain of 8.16% on LH.

STAG Industrial Inc. (NYSE: STAG)
On February 13, 2017 we purchased 4,570 shares of STAG at $23.94 a share for a total investment of $109,406.00.

STAG is a REIT that invests in and operates industrial single-tenant properties in the United States. 87% of all properties owned by STAG are either warehouses or distribution properties, and the average asset price of each property is between $5-15 million. Additionally, a common characteristic among STAG properties is that a majority are in secondary markets (high exposure to the mid-west) where the average rentable space is between 25-200M net rentable square footage. In terms of industry exposure, STAG's tenants are diversified across industries, with the greatest exposure to automotive, air freight, and industrial equipment.

Our investment thesis was based on STAG's potential future market opportunities that are under tapped, disciplined management and financial philosophy, and its aggressive growth strategy. STAG is positioned for growth, with market penetration of only 1% of its target asset classes in a very fragmented market. The management team has led a disciplined system of maintaining strong balance sheets and returning value to shareholders. Lastly STAG is only in the beginning of its growth stage with launching an IPO in 2011 and now having over $1.9B in the acquisition pipeline. Its current price is undervalued and has upside potential. STAG also holds several key competitive advantages. Firstly, they maintain a very attractive dividend yield around 6% that is paid out monthly. A large portion of REIT's value lies in their dividend yield as over 90% of FFO needs to be paid out as a dividend, and STAG's yield beats out many competitors. A second competitive advantage for STAG is their portfolio diversification. Given the inherent riskiness of leasing to individual tenants, STAGs superior diversification strategy across industries, tenants, and geographies makes for a risk-averse investment thesis. Finally, STAG has strong financials and significant liquidity to fund future growth, with nearly $500M of immediate liquidity available and a conservative capital structure comprised of only 33% debt. STAG's financial strength allows for flexibility in volatile economic conditions

STAG Industrial competes with a specified group in the REIT sector. The industrial sector, which finances and manages industrial warehouses and other industrials light manufacturing buildings, can be broken down into primary and secondary markets. STAG primarily competes in the secondary market. STAG's main competitors include: Prologis Inc., Duke Realty Corp., DCT Industrial Trust, First Industrial Realty, Eastgroup Properties, Rexford Industrial Realty, and Terreno Realty. These competitors were also used in the comparables value analysis.

The primary risk STAG faces is an economic downturn. The secondary markets are generally a leading indicator of economic pressures, meaning STAG could struggle if tenant defaults rise as demand is not as high in their target markets. Additionally, 60% of STAG's outstanding leases expire within the next 5 years, meaning that the short-term will truly be a test for management's competency. Management has stated that the supply-demand balance of their markets is currently fully stable, so they do not anticipate any issues in renewing leases. Finally, STAG pays out 99.8% of their FFO as dividends. This was an intentional strategy to garner interest among equity owners by issuing a high monthly dividend, and management will seek to lower this payout as cash flows increase.

As of April 21st, 2017, we have an unrealized gain of 10.65% on STAG.

Ulta Beauty Inc. (NASDAQ: ULTA)
On February 16, 2017, we purchased 404 shares of ULTA at a price of $271.49 for a total investment of $109,681.31.

Ulta Beauty is the largest beauty retailer in the United States and operates under three reportable segments: retail stores, salon services, and e-commerce. They offer an “All Things Beauty, All in One Place” experience to customers with over 20,000 products from over 500 brands that cover prestige, mass market, and salon segments. Stores are large, generally 10,000 square feet, all of which have a full service salon, self-service product displays, and non-commissioned sales associates.

The beauty products and salon services industry represents approximately $127 billion in sales. Currently this is a highly fragmented market with more than 70,000 places in the U.S. to buy beauty products. The retail industry as a whole is ready for growth, with disposable personal income increasing 3.4% in the past year and the economy adding an average of 181,000 jobs per month in 2016 (Deloitte). There is also much room for growth in online retail. Kiplinger recorded online retail sales growth of 14% during the holiday season of 2016 and is projecting similar growth for 2017. Additionally, customer relationship management and digital marketing tools are becoming increasingly prevalent.

Ulta Beauty will deliver long-run value due to its competitive strengths and its consistent ability to have high growth while only holding a current 4% share of the beauty market. The company offers a differentiated merchandising strategy with a broad appeal for customers looking at any price point. It provides a unique guest experience with a full service salon and self-service displays in every store. Ulta has a loyal and active customer base with a comprehensive rewards program. Strong vendor partnerships allow the company to offer a wide range of products including products exclusive to its stores. Lastly, the experienced management team at Ulta sets the company up for success in keeping up with industry changes.

Ulta Beauty competes with department stores, specialty stores, drug stores, mass merchandisers and online businesses of national retailers and pure-ecommerce businesses. Its competitors include Sephora, Macy’s, Amazon, Estee Lauder, L’Oreal, Coty, and Procter & Gamble. No one competitor sells as many different types of products or offers the same services as Ulta - putting the company in a strong position to capture consumers looking for a one-stop shopping experience.

Ulta’s main competitive advantages are its customer experience, market penetration, and product offerings. Ulta is the only company in the market that offers non-commission based beauty consultants to help guests choose beauty products ranging from mass market to prestige products. Additionally, Ulta has full-service salons in each of its stores. This allows guests to experiment with a new look and purchase all the products necessary to recreate that look in one place. Ulta also benefits from having nearly 1,000 stores across the U.S. and increasingly strong base of ULTAMATE Rewards members. The convenience of its stores and benefits of its rewards program allows Ulta to best target beauty enthusiasts. Lastly, Ulta is unique in that it offers more than 20,000 products ranging from Maybelline to Dior including products exclusive to its stores.

Ulta Beauty faces risks that exist in the beauty industry. Selling discretionary products and services, Ulta needs a good economy to continue its high growth. There are also few barriers to entry for beauty products and salon services making the market highly competitive. Ulta also must effectively gauge beauty trends in order to have its stores stocked with the appropriate products in the right quantities. As well, social media reputation is very important for this industry. Negative commentary regarding Ulta or its products could adversely affect growth.

As of April 21st, 2017, we have an unrealized gain of 2.95% on ULTA.

TransDigm Group, Inc. (NYSE: TDG)
On February 27, 2017, we purchased 320 shares of TDG at $205.10 a share for a total investment of $65,632.00.

TransDigm Group, Inc. develops, distributes, and manufactures commercial and military aerospace components such as mechanical actuators and ignition systems. The company operates using three segments; Power and Control, Airframe and Non-Aviation, with a sales breakdown of 51.1%, 45.7% and 3.2%, respectively. The products this company produces are highly engineered and unique, requiring strict regulatory approval on most of these products. Since these approvals act as barriers to entry, the company derived 80% of sales, based on 2016, from products in which TransDigm is the sole source provider. TransDigm clients include Boeing, Airbus, and government arms such as the United States Department of Defense.

Our investment thesis is based on the high barriers of entry the company experiences due to the regulatory certification agencies such as the Federal Aviation Administration require on products. Additionally, the we see the company's acquisition strategy as a factor that will create value in the future. TransDigm's management focuses on acquiring businesses that improve cost efficiencies among the three business segments, but also look for companies who have patent licenses, which will allow the company to enjoy steady streams of cash flow in the future. Furthermore, these acquisitions are focused on products that allow for sales in the aftermarket, which increases the margins for TransDigm.

The largest risk the company is facing is the accusation by Citron Research that TransDigm is the "Valeant of the Aerospace Industry" due to claims of price gouging. The day the report was published (1/20/17), the stock plunged 12%, but rebounded 13 trading days later. Alternatively, analysts covering TransDigm have called the report as non-factual and over-speculative, reiterating buy ratings they have had on the company. Then, on 3/21/17, United States Representative Ro Khanna from California's 17th congressional district requested an investigation into the company. While the company has not issued a formal statement regarding the investigation, its stock price has dropped to $210.04, but has rebounded to $233.76 as of 4/17/17.

As of April 21st, 2017, we have an unrealized loss of 3.95% on TDG.

United Technologies Corporation (NYSE: UTX)
On February 28, 2017 we purchased 1,156 shares of UTX at $112.96 a share for a total investment of $130,577.00.

UTC is an American industrial conglomerate split into four distinct business units with a variety of different commercial and military products. UTC's four business units, OTIS Elevator Company, Pratt and Whitney, UTC Aerospace Systems, and UTC Climate Controls & Security compete in diverse industries and offer products such as aircraft engines, aerospace systems, HVAC, and fire and security systems to both government and private customers.

UTC's business units compete in several different industries. The airline industry is predicted to grow 5.0% annually over the next 20 years due to an expanding global economy and market liberalization in Asia. Developing countries are also witnessing growth in their middle class economic segments, which has led to an increase in air travel. This demographic change has created additional demand for aircraft components and aftermarket services. Urbanization trends in emerging markets also provides for strong growth opportunities in the elevator and HVAC industries, which anticipate 5.0% and 3.0% growth over the next several years. Increased military spending in the United States and around the world has also resulted in impressive growth projections for all four UTC business units over the next several years.

UTC will provide long run value due to its diversified business units and product offerings. Additionally, UTC's pursuit of growth opportunities in emerging markets such as Asia and Europe will allow the company to continue to innovate new technologies and increase profits. UTC has a long history of success in its industry and with an increase of government contacts and US military spending, it is primed to be a strong investment for years to come.

UTC's four business units each compete in different industries with different competitors. In the elevator/escalator industry, OTIS competes with Kone, ThyssenKrupp, and Schindler. OTIS' profit margins are roughly double those of their competitors. Pratt and Whitney competes with CFM International, GE, and Rolls-Royce, commanding 25% of the world's passenger fleet and is the fastest growing jet engine manufacturer in the industry. The Climate, Controls, and Security unit competes with Daikin and Johnson Controls, and is the largest HVAC manufacturer and distributor for businesses and homeowners. This fragmented industry provides consolidation opportunities for UTC. UTAS competes with Honeywell and Parker Hannifin, with a controlling interest in aftermarket sales.

Three of UTC's business units, United Technologies Aerospace Systems, Otis Elevator Company, and Climate Controls & Security have the highest market share in their respective industries while Pratt & Whitney is among the fastest growing aero engine manufacturers. This provides competitive advantages considering the high entry barriers and switching costs in their industries. UTC separates itself from competitors through its commitment to high-quality technological innovation, benefiting both customers and the business. Their diverse business units and product offerings allow the company to access growth opportunities unavailable to their competition both in the United States and around the world. UTC also has a variety of governmental, military and commercial contracts that provide them exclusive rights innovate and implement a vast number of industrial projects over the next several years, including the F-35 Fighter Jet for the US Department of Defense.

UTC faces several risks to investors including its reliance on governmental military spending and as well as economic growth in China and other Asian countries. Additionally, UTC's expansive international business opportunities create risks when the strength of the American dollar changes against the Euro or other Asian currencies. UTC also has a high level of debt for an industrial company of its size and has faced criticism over some of its products via tweets from US President Donald Trump. Finally, UTC recently rejected a $90 billion offer from Honeywell to purchase the company, however Honeywell is still interested in acquiring UTC and may make a more substantial offer in the future.

As of April 21st, 2017, we have an unrealized gain of 1.80% on UTX.

Activision Blizzard, Inc. (NASDAQ: ATVI)

On February 28, 2017, we purchased 2,415 shares of ATVI at $45.87 a share for a total investment of $116,934.00

Activision Blizzard, Inc., is a worldwide leader in the development and publishing of online, personal computer (PC), video game console, mobile, and tablet games. The company operates mainly through its Activision Publishing, Blizzard Entertainment, and the recently acquired King Digital Entertainment segments. Activision develops and publishes interactive software products with a focus on video game consoles. Blizzard Entertainment publishes online subscription-based, online multiplayer role-playing games that focus mostly on the PC. Lastly, King Digital Entertainment produces mobile games for iOS and Android. The company has many prestigious game franchises between these business segments such as *Call of Duty, Destiny, Overwatch, Diablo, World of Warcraft, and Candy Crush*.

The company will have continued success due to its dominant franchise names, brand leadership, and its ability to successfully create popular content. Activision Blizzard's portfolio holds some of the strongest franchises in the video game industry. The company has two different business models that it uses with its Activision Publishing and Blizzard Entertainment segments. Activision Publishing focuses on developing sequels, expansion, and special edition to its highly successful assets such as *Call of Duty, Skylanders*, and *Destiny.* This strategy results in a very stable source of revenue as these games continue to sell extremely well to their loyal fan base. Blizzard Entertainment on the other hand, is driven using a massively multiplayer online (MMO) game strategy. With an MMO model, players pay a monthly fee for access to the game. This allows for players to pay and play for much longer periods of time than traditional single-release games. The constant stream of new content and the social aspect of playing these games has gained massive popularity among video game enthusiasts.

Through technological advancements in programming and data management, downloading and playing video games digitally has now become possible. This is similar to the way downloading and storing music digitally became possible in the early 2000's. Consumers are no longer required to buy physical copies of games and this convenience has made this distribution channel increasingly popular. With expectations that digital distribution will become the industry norm for consumers, Activision Blizzard stands to benefit substantially for two reasons. Firstly, the company can save on costs for manufacturing and distributing physical copies of the video game, which will increase gross margins. Secondly, digital distribution also means that developers can continue working on products past official release dates. This allows Activision to have a permanent connection with consumers by developing certain add-on, releasing patches to fix any bugs, and selling additional downloadable content (DLC).

Risks that the company faces include Activision Blizzard's dependence on a small number of franchises and the need to constantly deliver high-quality content. *Call of Duty, World of Warcraft, Skylanders,* and *Destiny* have accounted for approximately 71% of net revenues in recent years. However, Activision Blizzard has actively sought to mitigate this risk. They have recently expanded into the mobile video game market with their acquisition of King Digital Entertainment. This provides a reliable source of revenue from an established *Candy Crush* series. In 2016, King contributed greatly, making up 25% of Activision's net revenues. Additionally, the development of the game *Overwatch* generated over $1 billion in revenues in 2016. The success of *Overwatch,* coupled with the acquisition of King has resulted in a total of seven $1 billion and growing franchises across their portfolio of IP.

In the video game industry, it is difficult to predict how well new content will be received. Therefore, new developments can result in less than expected sales for Activision Blizzard. The company released *Call of Duty: Infinity Warfare* in 2016, which featured a more futuristic theme than previous games. Even though the company was able to sell the game, it was not well received by fans. However, the company is receptive to the gaming community and has announced that the 2017 iteration of the game will go back to the franchise's "roots".

As of April 21st, 2017, we had an unrealized gain of 8.73% on ATVI.

<u>CVS Health Corporation (NYSE: CVS)</u>
On March 6, 2017 we purchased 1,360 shares of CVS at $80.90 a share for a total investment of $110,018.29.

CVS Health Corporation is an integrated pharmacy health care provider. The Company's offerings include pharmacy benefit management services, mail order, retail and specialty pharmacy, disease management programs and retail clinics. The company operates Drugstores through the United States and Puerto Rico. The company has three reportable segments. These are the Pharmacy Services segment, the Retail/LTC Segment and the Corporate segment. Revenue is only recorded in the Pharmacy Services and Retail Segments. The pharmacy services segment offers pharmacy benefit management solutions to clients, which consist of employers, insurance companies, unions, etc. They operate a SilverScript subsidiary which is a drug beneficiary for the Medicare Part D Program. In 2016, this segment filled and managed 1.2 billion prescriptions. This business seeks to use innovative tools and quality client service to improve clinical outcomes for health benefit plan members, while assisting their members to better manage costs. PBM services include Maintenance Choice, Pharmacy Advisor, Specialty Connect, Extra Care Health Card program, and MinuteClinic. The Retail/LTC segment dispenses prescriptions and provides services. This segment accounts for two-thirds of the company's revenue. There are 9,709 retail locations, of which 7,890 include a pharmacy, 1,674 are CVS pharmacies within Target stores. In 2015, CVS acquired Omnicare which encompasses their LTC, or Long Term Care programs

There are some risks that CVS faces. The first is changes in U.S. policy, laws and regulations. Repeal of the Affordable Care act could impact customers however, the company has stated they are ready to pivot to address any policy changes and continue to bring solutions and reduce healthcare costs. Also, the company makes a higher margin on generic drugs compared to brand name. There have been less new generic drugs in recent years. Lastly, it has been speculated that PBMs are causing drug prices to rise, however we find this to be erroneous considering CVS Caremark helped reduce client costs from 11.8% to 3.3% YTD through September, 2016.

As of April 21st, 2017, we had an unrealized loss of 2.00% on CVS.

<u>People's United Financial (NYSE: PBCT)</u>

On March 29, 2017 we purchased 3,660 shares of PBCT at $17.98 a share for a total investment of $65,804.87.

People's United Financial Inc. is the bank holding company for People's United Bank. It is headquartered in Bridgeport, Connecticut and ha about $40.7 billion in assets as of 3Q 2016. The Company operates under three main segments: commercial banking, retail banking and wealth management services, that are compiled into two reporting segments commercial and retail banking. These are provided to individuals, corporations, or municipal customers. The 396 branches are located within New England and south-eastern New York, of which 150 are full-service Stop & Shop branches.

The commercial banking segment offers real estate lending, commercial and industrial lending, and commercial deposits. Included is institutional trust services, corporate trust, insurance services provided through People's United Insurance Agency ("PUIA") and private banking. Commercial banking accounted for 73% of the total loan portfolio, with $21.2 billion which is divided amongst Commercial Real Estate, Commercial and Industrial, and Equipment Financing, with $10 billion, $8.2 billion, and $3.0 billion respectively.

The retail banking segment is its principal business, offering consumer lending and consumer deposit activities Consumer lending includes residential mortgage and home equity lending and retail banking consists of brokerage, financial advisory services, investment management services and life insurance provided by People's Securities, Inc. ("PSI") and non-institutional trust services. Retail Banking, as of Q3 2016, accounted for 28% of the total loan portfolio, with $8.2 billion. Residential Mortgage and Consumer make up Retail Loans and are $6.0 billion and $2.2 billion, respectively.

Wealth Management services are allocated between the retail and commercial banking segments. The treasury area monitors the company's security portfolio and its borrowings.

People's United Financial, Inc. was a strong buy due to its positive industry outlook, strong market share and geographic exposure and its high dividend. The company is set to profit with changing regulation and stronger economic conditions. Increases in interest rates will lead to higher profitability and despite the $50 billion asset threshold risk, we believe People's is a profitable company now and into the future.

As PBCT nears the $50 billion asset threshold, they will be subject to increased regulation and compliance costs. The company has stated they will not cross this until they feel ready, so they may self-impose their own growth as a result. Their margins and capitalization have been decreasing as of late, and with requirements set to increase under Basel III in 2019, PBCT may be under pressure. Moody's also downgraded PBCT citing these factors.

As of April 21st, 2017, we had an unrealized loss of 2.17% on PBCT.

Anheuser-Busch InBev SA/NV (NYSE: BUD)

On April 5, 2017, we purchased 1020 shares of BUD at $110.47 a share for a total investment of $112,679.40.

Anheuser-Busch InBev (AB InBev) is a multinational beverage and brewing company based in Leuven, Belgium. It is a publicly traded company on EuroNext (ABI), with American Depositary Receipts in the New York Stock Exchange (BUD). AB InBev is a descendant of multiple acquisitions and mergers, with history dating back to 1366. Each merger and acquisition has added value and contributed to the growth and success of AB InBev. The latest acquisition was of multinational brewing and beverage company SABMiller. In October 2015, Anheuser-Busch announced a successful all cash bid of $107B to buy SABMiller, and the acquisition was completed on October 10th, 2016. Revenues are expected to grow by 20% in 2017, and the acquisition is expected to deliver synergies of up to $2.8B over the next 3-4 years.

AB InBev produces, markets, distributes and sells over 500 beer and malt beverage brands as well as soft drinks. These brands include Budweiser, Corona, Stella Artois, Beck's Leffe, Hoegaarden, Castle Lager, Castle Lite, and Redd's. AB InBev's beverage brands are sold in more than 150 countries around the world. Budweiser was named the #1 most valuable beer brand in the world. AB InBev is the world's largest brewer by volume and one of the world's top five consumer products companies by revenue.

AB InBev follows a Focus Brands strategy in which the majority of their resources are devoted to the brands which they believe have the greatest long-term growth potential. This strategy has led to a brand portfolio with 18 "billion dollar brands" by revenue as well as seven of the 10 most valuable beer brands in the world. AB InBev has a disciplined approach to cost management and efficiency, with a focus on reducing expenses and increasing their industry leading margins. AB InBev supports their business strategies with their Dream-People-Culture platform, which is driven by a passion for attracting, developing, and retaining the best people and creating a culture based on ownership, meritocracy, and informality.

AB InBev competes with other global brewers such as Molson Coors, as well as local brewers and other beverage companies such as Diageo, Coca-Cola Company and PepsiCo Inc. Ab InBev's major advantages are size and positioning in key emerging markets around the globe. Additionally, their high margins allow them to remain consistently profitable. Finally, their strategic merger with SABMiller will deliver synergies that further increase revenue and profitability.

One major risk for AB InBev is currency risk stemming from nearly 75% of their revenue coming from outside of North America. Additionally, consumers in emerging markets may not be able to continue to afford the premium offerings from AB InBev (Stella Artois, Corona). Finally, changing consumer preferences and beer alternatives such as health oriented drinks may challenge AB InBev moving forward.

As of April 21^{st}, 2017, we have an unrealized loss of 1.98% on BUD.

LESSONS LEARNED

The Student Managed Fund program is one of the premier experiences at UConn, regardless of major. While we have significantly improved our knowledge of investments and corporate strategy, the real benefit of the program has been learning how to think and break down situations. The SMF has given each manager a framework to understand how companies fit into complex landscapes, and even if our future careers stray from finance, being able to dissect a puzzle and comprehend how one piece fits in with another and how that fits in with the complete picture is invaluable.

From a technical standpoint, our investment work has taught us that value can take many different forms. Throughout the year, we've seen value created through societal contributions, brand loyalty, competitive advantages, sustainability, financial engineering, and through a wide variety of other lenses. While we have learned how to point to a situation and label it as a value-adder or value-destroyer, the process of quantifying the impact of that value is not as straightforward.

In our attempts to quantify the intrinsic value of companies, we have performed several different valuation methods that will certainly be applicable for many of us moving forward. Notably, we have utilized discounted cash flow, dividend discount, and company comparable analyses to uncover the intrinsic value in each company. A share of a company is only worth what a buyer is willing to pay for it and what a seller is willing to sell it for; therefore, a company could be the best company based on fundamentals, but if the stock price is too expensive, it would not pass our final investment hurdle. Rather, the market has already priced in the company's value creation potential, leaving no margin of safety.

The concept of investing with a margin of safety is another critical lesson learned this year. There are only a handful of ways portfolio managers can mitigate risk: diversification, hedging, due diligence, and investing at a discount. While the first three strategies can never be accomplished with exact precision, buying an equity at a discount provides a cushion in case things go wrong. That notion of having a capacity for error is important because (as we will learn throughout our investing careers) we may be wrong as often as we are right. However, it is the magnitude of those extremes that will ultimately determine our success, so limiting downside through a margin of safety is one of the most prudent strategies we can follow as investors.

Outside of now having a stronger grasp of financial jargon and being able to somewhat comb through the annual reports of companies, the SMF has taught us countless real-life skills. Disciplined research, tireless preparation, attention to detail, and an inherent skepticism are traits stressed in the fund, and set up each manager to step into their full time careers and contribute in both team and individual settings right away. The SMF has been brought up in nearly all interviews we have completed, and will be looked back upon as one of the pivotal moments of our undergraduate career.