UConn Graduate Student Managed Fund

2014 Fall Report

December 1st, 2014

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INDEX

Dear Foundation and Investment Board Members,

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

The security analysis we perform in the process of approving a stock pick truly requires robust experience and all facets of the MBA education we have received thus far. The SMF has taught us critical valuation techniques which require an in depth understanding of financial documents and metrics. However, taking it a step further, understanding a company and how they fit into the competitive landscape requires a holistic thought process that reaches far beyond only the financial discipline. Each manager must create a compelling case and convince the group that their thesis is strong enough to merit investment in real dollars.

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

While we understand that this is, at its core, a learning exercise, we also understand that the gravity of managing $1.8 million is not something to take lightly. Each and every manager takes great pride in the diligence with which they research, present, and recommend any security. We present you the information in this report with the upmost dignity and accountability for our decisions and actions.

Please enjoy the information in this report. Our intent was to shed light on our thought process, team dynamics, and logic in making our decisions. It is our hope that you find it interesting and compelling. We look forward to monitoring and continuing our progress throughout winter break and next semester.

Sincerely,

Jeff Makray, Lead Manager
Doug Bova, Portfolio Manager
Dan Bu, Treasurer/Secretary
Yiyan Wang, Bloomberg Specialist
Lillian Gan, Technology Manager
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Regina Ma

EXECUTIVE SUMMARY

Benchmark and Style:

- The S&P 500 is the funds benchmark. Though this represents the largest US traded equities by market cap, we look at companies of a range of sizes, generally aiming for over $2B, and consider liquidity and downside risk when approving a small cap.
- Our target asset allocation is based on under and overweighting S&P sectors.
- The fund may invest up to 20% of its dollars into fixed income, however, none has been invested into fixed income to date as our expectations has been for interest rates to rise.

Philosophy and Strategy:

- Our process started with a top-down approach, first looking at the macro-economy, adding weight to favorable sectors, then gave managers the discretion to pick industries and companies driven by fundamental analysis and value investment principles.
- Fundamental analysis included seeking companies with a competitive advantage, a strong balance sheet, and an attractive valuation per our models.
- The group periodically discussed investment themes (i.e. decreasing oil prices, increasing consumer confidence) as to understand and be consistent with the drivers of the market.

Economic and Market View:

- Our take on the economy is that the US is in a mid, maybe late, expansionary cycle, and that we expect the market to be up by the end of our academic year and up in a 3-5 year horizon, therefore we favor cyclical over defensive stocks.
- Other significant macro factors include
    - a stagnant European economy
    - Asia is growing but at a pace lower than recent years
    - US energy costs are down from recent highs
    - US unemployment is dropping to acceptable levels
    - rates are low, but consumer and small business credit is still tight
    - inflation is a modest 1.7%

Process:

- Four managers are responsible for one S&P sector, one manager is responsible for two sectors, and two are responsible for three. There is some overlap in sectors, but the managers focus on different industries for those sectors.
- We used DCF and/or DGM to determine intrinsic value and desired a margin of safety that allowed for above market returns if to be realized over 3-5 year period.
- Each pitch is done with a PowerPoint presentation with an agreed upon standards for minimum topics covered.
- To reach the prospectus outlined 70% threshold to approve a stock for a position in the portfolio five of seven members must vote yes.
- Each manager has pitched at least twice, and will pitch at least 4 times by academic year end.

Review and Outlook:

Status

- We have invested into 13 stocks for over $700k, which accounts for 38% of the total funds.
- $60k was invested into 11 stocks and $40k and $20k into the other two respectively.
- During this timeframe the market returns were 2.39%, the portfolio as a whole was 1.93%, and the invested portion 4.76%. We attribute the negative portfolio alpha, despite solid returns from the invested portion, to execution lag – selling of index funds at volatile lows waiting for cash to clear to purchase an approved stock. We missed market rallies on three distinct occasions due to this.

Notes/Observations

- Our current allocation doesn't match our target allocation, but we intend to close this gap as we become more invested.
- October, when we began investing, was a volatile month

How to read this report

- The timeframe for analysis for this report is from 9/17/2014 to 11/18/2014.
- Analysis in this report is for the invested portion only unless otherwise noted

INVESTMENT PHILOSOPHY AND STYLE

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

Before searching individual securities for the portfolio we started with a top-down approach. We looked at the economy, assessed the current state and its trajectory. We looked at; GDP growth, unemployment rate, labor participation rate, interest rates, wage growth, consumer confidence, credit availability, among other indicators. Moving downward this gave us context on which sectors we believe would outperform the market and targeted to overweight them accordingly. Then, it was at the discretion of the managers to choose the industries and stocks to pitch inside their assigned sector(s).

Our initial intention was to focus on mid and large cap stocks as we viewed them as safer and more liquid investments, however, through our search for undervalued companies we have included small cap into our portfolio. We generally look for companies that have recurring revenue, consistent growth, a strong balance sheet, a long track record of profitability, and a compelling story of valuation and/or competitive advantage. Lastly, we have a triple bottom line approach in which on top of seeking a high return on our capital, we also give preference to companies that are good stewards towards people and the earth through assessment of their Corporate Social Responsibility.

The goal is to outperform the S&P 500 over five years. Therefore, as well as attractive valuations, we look for companies that benefit from sustainable macro tailwinds, and provide a product or service that would stay in demand and weather a minor downturn, change of tastes, and is unlikely to be heavily disrupted by technological changes. However, though we are largely being judged on the quality of our analysis, and thoughtfulness of our decisions the portfolio performance will only be looked at until the spring, so, we also look for short term upside. With this is in mind we have also considered and approved growth companies in which valuation may be more in line with market but we believe in their story and foresee a clear path to continued success. Our growth stocks are housed in the technology and healthcare sectors, which tend be grounds for such opportunities.

STRATEGY

We are an actively managed fund, looking to select individual stocks to beat the broader market. However, we are not day traders looking to take advantage of market fluctuations gaming entry and exit points. We are looking for companies with solid fundamentals that we believe have long term sustainable upside. Through this strategy our goal is to beat the S&P 500 (ticker: GSPC) - to generate positive alpha. We have started with $1.85M and our initial goal was to invest it into 30-40 stocks. The midpoint of 35 would averages 5 approved picks per manager for the year. If we put $60k into 35 stocks we would be fully invested. Therefore, we used $60k as a baseline and planned to increase or decrease the individual investment depending mostly on our conviction and in part allocation. However, no investments were larger than this, and two were notably smaller ($40k and $20k). We intend to revisit this strategy for the spring semester currently with a bias towards reducing the target range for total stocks and increasing the average initial investments.

Of the S&P classified sectors, we have identified eight of the ten we want to invest in; Consumer Discretionary, Consumer Staples, Energy, Financials, Healthcare, Industrials, Information Technology, and Materials. We identified four of these areas as likely to be high performing; Consumer Discretionary, Healthcare, Industrials, and IT. However, looking to diversify our portfolio from a risk perspective and since we feel we can find undervalued stocks in any sector we've invested beyond those four. Furthermore, we are open to investing in the remaining two sectors, Telecom and Utilities, however based on an opportunistic basis. This decision is based on both on their relative size, in total they make up 5% of the S&P, and that we view these as underperforming sectors.

In search for stocks to add to the portfolio we look for companies that are growing, have strong free cash flow, are financially strong, in a growing market, and are differentiated in product or process compared to peers. Also, at initial screening by the manager strong considerations is given to metrics like profit margins, price to free cash flow, return on equity, and relative valuation. Furthermore, we wanted to avoid European and other international exposure as the domestic economy is stronger, however, recent analysis of the portfolio shows 46% of revenues are derived outside the US. We are looking to lower that for our final portfolio.

The Student Managed Fund is permitted to put up to 20% of the portfolio into fixed income. However, we have not yet and do not plan to invest into this asset class as our expectations is that interest rates will rise in the coming years.

INVESTMENT PROCESS

We did a top down approach first looking the economy at large, then we took a closer look at individual sectors. With this we developed a target weighting for each sector and from this point managers had full discretion on which industries and stocks to choose inside of their sector. However, we were cognizant if a stock being pitched would give us additional exposure to a space we were already invested in. Furthermore, each manager did fundamental and valuation analysis to determine the stock as an investment candidate.

Macro Economic Analysis:

> When we began by discussing the economy we wanted to have a consensus on what part of the business cycle the US is in as this would have heavy influence on our general investment thesis. We agreed we were in an expansionary cycle, though unsure if mid to late. However, given our timeframe felt comfortable targeting our portfolio to be heavy on companies that most greatly benefit from expansionary economies and to avoid defensive stocks. Major factors that lead us to this conclusion include; GDP growth rate, declining unemployment, and increasing consumer confidence index.
>
> Other significant factors that have played into our decision making include low interest rates, a slow growth Europe, increasing consumer confidence, modest inflation, and decreasing energy costs.

Sector and Industry Analysis:

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

Individual Stock Analysis:

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

VALUATION METHODOLOGY

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

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

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

Looking forward we anticipate incorporating additional valuation techniques we've recently become familiar with including using multiples, and abnormal growth methods. Also, some managers look to challenge themselves with more detailed financial statement forecasting for use in the DCF.

PROCESS AND PROCEDURES

Training and Development:

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

Channels of Communication:

The team met weekly on Tuesday afternoons from 1:00 to 5:00PM for pitches, shared insights, administrative tasks, and agenda setting. We use a shared Google Drive to store all relevant SMF documents, including; pitch PowerPoints, valuation work, sector analysis, portfolio analysis, among others.

Stock Pitches:

The expectation for the group was for every manager to do two stock pitches before the writing of this report, which we largely accomplished. For most of the semester we did not have guidelines for pitches, but aimed to have them be under an hour from start to final vote. For better time management we have agreed to 20 minutes presenting, 15 minutes Q&A, and 5 minutes to vote - which worked well for our last round of pitches. More importantly, we had an agreed upon standard for the pitches. Every pitch had a minimum set of information, including; segment breakdown, ratios, relative valuation, industry synopsis, investment thesis, concerns, intrinsic value, among other vitals.

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

PORTFOLIO ANALYSIS

Current Positions:

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

Below is a snapshot of our current portfolio. Please note that all portfolio analysis is based on the position on November 18, 2014 at the end of the trading day.

Sector/Sub-Industry	Company Name (Ticker)	Date Purchased	Shares Held	Purchase Price (per share)	Current Price (per share)	Dividend Yield	Current Position Value	Yield	Portfolio Weight
Health Care							**$193,756**		**26.31%**
Biotechnology	Amgen (AMGN)	10/7/2014	429	$137.30	$162.24	1.50%	$69,601	18.17%	9.45%
Health Care Distributors	McKesson (MCK)	10/20/2014	300	$192.91	$207.99	0.47%	$62,397	7.81%	8.47%
Life Sciences Tools & Services	Parexel (PRXL)	11/04/2014	1,105	$55.10	$55.89	-----	$61,758	1.44%	8.39%
Financials							**$60,480**		**8.21%**
Life & Health Insurance	Prudential (PRU)	10/20/2014	720	$80.84	$84.00	2.76%	$60,480	3.91%	8.21%
Materials							**$58,802**		**7.98%**
Industrial Gases	Praxair (PX)	10/28/2014	460	$126.20	$127.83	2.03%	$58,802	1.29%	7.98%
Consumer Discretionary							**$178,215**		**24.20%**
Movies and Entertainment	Disney (DIS)	10/7/2014	675	$87.92	$90.28	0.96%	$60,939	2.69%	8.27%
Education Services	TAL Education (XRS)	11/30/2014	1,225	$31.18	$32.00	-----	$39,200	2.64%	5.32%
Education Services	Tarena (TEDU)	11/10/2014	1,400	$13.88	$13.10	-----	$18,340	-5.62%	2.49%
Auto Parts & Equipment	Magna (MGA)	11/17/2014	570	$104.10	$104.80	1.46%	$59,736	0.68%	8.11%
Industrials							**$62,691**		**8.51%**
Electrical Components & Equipment	Eaton (ETN)	10/20/2014	930	$60.80	$64.41	2.93%	$62,691	10.87%	8.51%

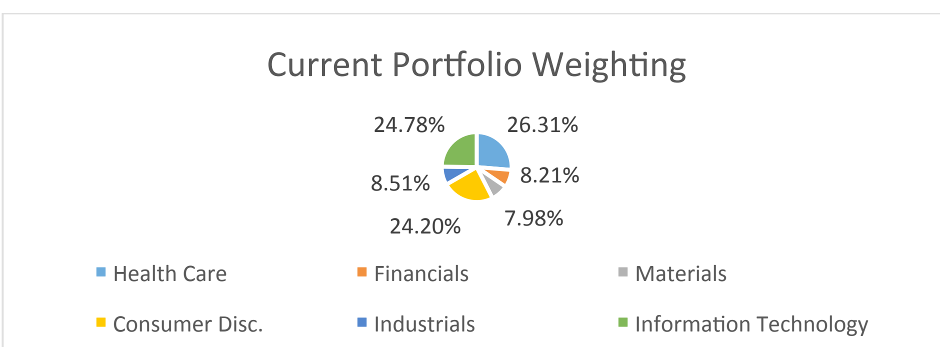
Sector/Sub-Industry	Company Name (Ticker)	Date Purchased	Shares Held	Purchase Price (per share)	Current Price (per share)	Dividend Yield	Current Position Value	Yield	Portfolio Weight
<u>Information Technology</u>							**$182,534**		**24.78%**
IT Consulting & Other Services	Gartner (IT)	10/28/2014	750	$77.88	$85.85	-----	$64,388	10.23%	8.74%
Data Processing & Outsourced Services	DST Systems (DST)	11/03/2014	600	$97.52	$99.43	1.22%	$59,658	1.96%	8.10%
Systems Software	Microsoft (MSFT)	11/17/2014	1200	$49.45	$48.74	2.57%	$58,488	-1.43%	7.94%

	Portfolio	SPY (Benchmark)	+/-
Dividend Yield	1.27	1.90	-0.06
Price to Earnings	20.34	18.11	2.23
Price to Cash Flow	9.86	11.52	-1.66
Price to Book	3.38	2.78	0.60
Total Debt to Common Equity	70.45	112.64	-42.18
Current Ratio	1.43	1.41	0.02

Sector Weighting:

Our goal is to establish 30 to 35 positions representing all sectors. It can be noted that not every sector is represented in the current portfolio. Our initial analysis and action was focused around sectors with positive outlooks that have higher target weightings. The top three sectors by target weight are Information Technology, Consumer Discretionary, and Health Care.

We will continue to search for undervalued companies in non-represented or underrepresented sectors as we move forward. As team members continue to concentrate on their "assigned" sectors and get suggested positions approved they will be able to switch their focus to underperforming sectors.



Sector	Current Portfolio Weighting	Target Portfolio Weighting	S&P 500 Weighting
Consumer Disc.	24%	Overweight	12%
Consumer Staples	0%	Market	9%
Energy	0%	Underweight	10%
Financials	8%	Underweight	16%
Health Care	26%	Overweight	13%
Industrials	9%	Overweight	10%
Information Technology	25%	Overweight	19%
Materials	8%	Market	4%
Telecom	0%	Underweight	2%
Utilities	0%	Underweight	3%

Portfolio Beta:

The current portfolio's beta is just over 1, at 1.014. Tanera has the highest beta at 1.81 (note, this is trailing 6 months due to a recent IPO) and Tal Education has the lowest beta at 0.70. A beta of 1.014 indicates that the portfolio as a whole has a slightly higher risk that the market.

	Beta	Weighted Beta
Amgen (AMGN)	0.80	0.08
Disney (DIS)	1.05	0.09
Eaton (ETN)	1.30	0.11
McKesson (MCK)	1.05	0.09
Prudential (PRU)	1.35	0.11
Gartner (IT)	0.90	0.08
Praxair (PX)	0.92	0.07
DST Systems (DST)	0.95	0.08
TAL Education (XRS)	0.70	0.04
Parexel (PRXL)	0.94	0.08
Tarena (TEDU)	1.81	0.05
Magna (MGA)	1.14	0.09
Microsoft (MSFT)	0.73	0.06
Portfolio Beta		1.014

Allocation and Selection Effect:

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

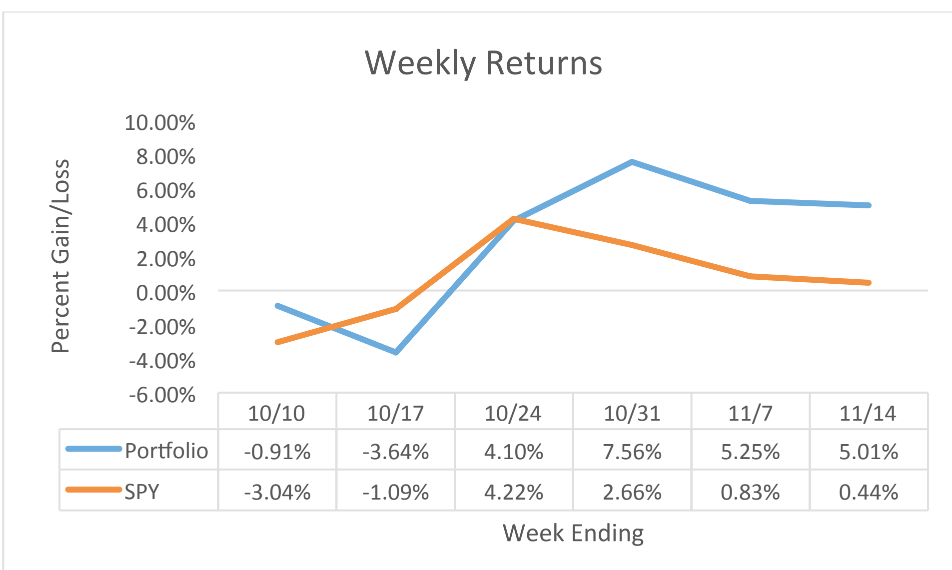
Several different scenarios played out in our portfolio. For sectors such as IT and Health Care, we got positive scores for both overweighting those sectors in the portfolio and for the stocks we picked within them. There were also a few that had mixed results. Consumer Discretionary, Materials, and Financials fit these categories. Finally, by not investing in the Energy or Telecom sectors at all, the allocation effect was positive, suggesting that our predictions were right that the sectors would underperform.

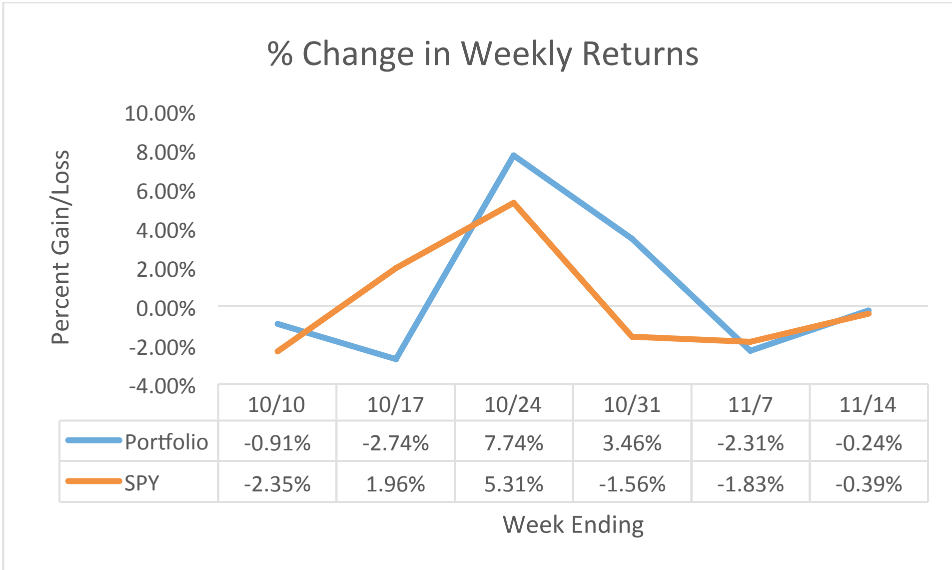
	Total Attribution	Allocation Effect	Selection Effect
Consumer Discretionary	-0.35	0.08	-0.43
Consumer Staples	-0.05	-0.05	0.00
Energy	0.73	0.73	0.00
Financials	-0.07	0.08	-0.15
Health Care	3.08	0.45	2.63
Industrials	0.25	-0.13	0.38
Information Technology	0.32	0.01	0.30
Materials	-0.25	0.07	-0.32
Telecom	0.07	0.07	0.00
Utilities	-0.04	-0.04	0.00

Performance:

Purchase Date	Equity	Purchase Price ($)	11/18/2014 Price ($)	Gain/Loss	SPY Gain/Loss*	+/- Compared to Benchmark
10/7/2014	AMGN	137.30	162.24	18.17%	6.36%	11.81%
	DIS	87.92	90.28	2.69%		-3.67%
10/20/2014	ETN	60.80	67.41	10.87%	8.01%	2.86%
	MCK	192.91	207.99	7.81%		-0.20%
	PRU	80.84	84.00	3.91%		-4.1%
10/28/2014	IT	77.88	85.85	10.23%	3.60%	6.63%
	PX	126.20	127.83	1.29%		-2.31%
11/3/2014	DST	97.52	99.43	1.96%	1.87%	0.09%
	XRS	31.18	32.00	2.64%		0.77%
11/4/2014	PRXL	55.10	55.89	1.44%	2.23%	-0.79%
11/10/2014	TEDU	13.88	13.10	-5.62%	0.77%	-6.39%
11/17/2014	MGA	104.10	104.80	0.68%	0.58%	0.10%
	MSFT	49.45	48.74	-1.43%		-2.01%

*Note: This represents the SPY gain/loss ending on 11/18/2014 and starting on the purchase date of the respective equity.





Portfolio Snapshot (Including SPDR Funds):

Current Invested Stocks	$736,748
SPDR S&P 500 ETF	$1,145,309
Cash Balance	$4,393
Total	**$1,886,181**
Initial Value	$1,850,498
Total Return	**1.93%**

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

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

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

	Invested Portfolio	SPDR S&P 500 ETF
Return (9/17/2014 – 11/18/2014)	4.76%	2.39%
Mean Weekly Return (10/10/2014 – 11/18/2014)	2.90%	0.67%
Internal Rate of Return	2.31%	-----
Standard Deviation	14.51	14.10
Beta	1.014	1.00
Sharpe Ratio	1.16	0.98
Treynor Ratio	0.16	-----
Jensen's Alpha	2.69	-----

Conclusion:

The invested portfolio has outperformed the S&P 500 up to this point. While the portfolio experiences slightly greater risk than the benchmark (beta of 1.014 compared to 1.00), the Sharpe ratio indicates that the returns were not solely due to this point. In other words, while our investments are slightly more risky than the market, the returns experienced are greater than what can be attributed to that risk. It is essential that we continue to make smart investments as we build out the portfolio and achieve the target weights.

INVESTMENT SUMMARIES

Amgen (AMGN) – *Refer to 'Best Performer' below*

Disney (DIS) is a global entertainment company that creates movies, broadcasts with properties that includes ABC and ESPN, and has resorts and theme parks. They just had a great year in film and this continues to show benefits through licensing, merchandise sales, increased visitation to parks and cruises. Disney parks will also benefit as travel costs decline, consumer confidence rises, and disposable income rises as many take vacations they have previously put on hold. The next few years look bright as the CEO Bob Iger lengthened his contract, a full pipeline of quality movies for the next few years in part from an acquisition of Marvel and Lucasfilms, and with ESPN's broadcasting rights for the NFL and the new NCAA football playoffs.

DST Systems Inc. (DST) is the market leader in outsourcing of mutual fund record keeping and accounting services with over a 50% national market share. It grew into the largest third-party provider of U.S. mutual fund recordkeeping and the largest third-party transfer agent in the United Kingdom. DST sees a lot of opportunities to grow in its all business areas, mainly due to an aging population, the growth of ETFs and Alternative Asset Classes as well as demand for the top tier data security that DST supplies. Its healthcare services segment is seeing a double-digit growth in operating revenues as demand expands for healthcare solutions and services.

Eaton (ETN) is a diversified company makes electrical systems and components for power management, truck transmissions and fluid power systems, and provides services for industrial, mobile and aircraft equipment. It's among the four largest global electrical companies, with the scale and scope to compete globally. Its hydraulics business is among the three largest globally and services a wide range of mobile and industrial customers. Its aerospace business has breadth across many markets and platforms and has the leadership position in core products. Its vehicle business is a leader in fuel economy and emission reduction and will outgrow its peers because the regulations create large opportunities for its innovative products. Eaton's business is balanced to sustain through the economic cycle which reduced its earnings volatility by 40 percent. Eaton has a long track record of increasing dividends, strong cash flow, and a stronger balance sheet. It ranked a global leader by CDP (Carbon Disclosure Project) and received a score of 100—No. 1 among all global industrial companies.

Gartner (IT) is a global leader in IT research. They employ ~1000 world class technology analysts to write objective expert reports on software, hardware, and technology trends that are of concern to chief information officers and other technology buyers. Gartner is growing rapidly with their sales force as their bottleneck as there is great demand for their product. They are financially strong and have negative working capital as they are paid upfront for subscriptions. Technology is ubiquitous and is only becoming more important to being competitive as we move further into the 21st century. Also, they have a consulting and a events segment that compliment their research through additional revenue and enforcing their best in class reputation.

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

Microsoft Corp. i(MSFT) s the largest independent maker of software. It develops and sells software products for a wide range of computing environments in consumer and enterprise markets. Hardware products include Nokia mobile phones, the Xbox video game console, and Surface tablet. Revenue and earnings for the past months has been performing well, reflecting better performances than expected from the Computer and Gaming, and Phone Hardware businesses in the Devices and Consumer segment. Its acquisition of Nokia will be a strong impetus to strengthen their leading position in the cloud computing area. Besides, their revenue from surface related products grows very fast which means they diversify their products and services deeply and successfully.

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

Parexel (PRXL) is a Contract Research Organization (CRO) which provides a wide range of services to biotech and pharmaceutical companies. Their expertise includes clinical research, medical communications, consulting, and commercialization of drugs. The pharmaceutical and biotech industries have seen an increasing percentage of outsourcing of these services. Parexel is a leader in this space with a large backlog of work ($4.9B). Amid a steady stream of revenues, they are in the midst of an overhaul to reduce costs, improve efficiencies, and increase margins. Parexel is a true global company. The Asia Pacific region, where it is an industry leader, is projected to account for 30% of R&D spending. Also, Parexel is a leader in biosimiliars which is an emerging and attractive drug market. Finally, a fragmented market creates a landscape which fosters growth through both organic means and M&As.

Praxair (PX) produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings. PX is the lead producer in America with a diversified supply chain. The company has a unique technology advantage and low production costs, it brings efficiency and environmental benefits to a wide variety of industries, including aerospace, chemicals, food and beverage, electronics, energy, healthcare, manufacturing, metals and many others . PX just increased their pricing by 10% on Nov 1st, given the stable domestic and international demand, we think PX will remain positive for the mid and long term.

Prudential Financial Inc. (PRU) is an industry leader in the life insurance space. It has benefited from stronger earnings and margins over the last couple of years. It can profit from further premium growth under the trend of the aging population and the changing retirement system in the US. It is expected to be the beneficiary of the solidifying economic recovery and a rising interest rate environment.

Tal Education Group (XRS) has developed a leading position in the market since it started due to its well-known brand and excellent reputation in teaching ability. The company has achieved average growth of net income through strong demand for its service, around 70% customer retention rate, word- of –mouth referrals of consumers and cost control ability. The company also commits itself to build up its long-term distinctive competitiveness through building a strong team to write its core teaching materials, training teachers to improve teaching ability, developing online course and online education platform.

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

BEST PERFORMING HOLDING

Amgen, Inc. (AMGN)

Sector: Health Care	Price (11/18/2014): $162.24	Intrinsic Value: $185.10
Industry: Biotech	Purchase Price: $137.30	Market Cap at Intrinsic Value: $140.76B
Market Cap: $123.17B	52 Week Range: $108.20 - $162.24	Unrealized Gain: 18.17%

Business Summary:

Amgen is the largest "pure play," independent biotech company. In 2013 97% of its sales came from Aranesp and EPOGEN (both treat anemia) and Nuelasta and Neupogen (both fight infection in chemotherapy patients). Through organic growth and acquisition, it has built a strong drug portfolio and pipeline which are projected to produce revenues for the next decade. This is aided by patent protection and the complex nature of biologics. Amgen is also leading the industry in developing biosimiliar R&D and manufacturing capabilities.

Investment Thesis:

Three main factors led the group to view this as a strong buy: a robust pipeline, a leader in the biosimiliar market, and increased efficiencies and expertise through acquisition. In the short term, Amgen is going through a restructuring process following the 2014 acquisitions of Onyx Pharmaceuticals. The restructuring has already shown a positive impact on earnings and revenue and is expected to improve Amgen's expertise concerning cancer related drugs. Looking forward, the company has a robust pipeline projected out for the next 5 to 10 years. Finally, they are an industry leader in developing a biosimiliar (generic biologics) development and production segment.

Performance:

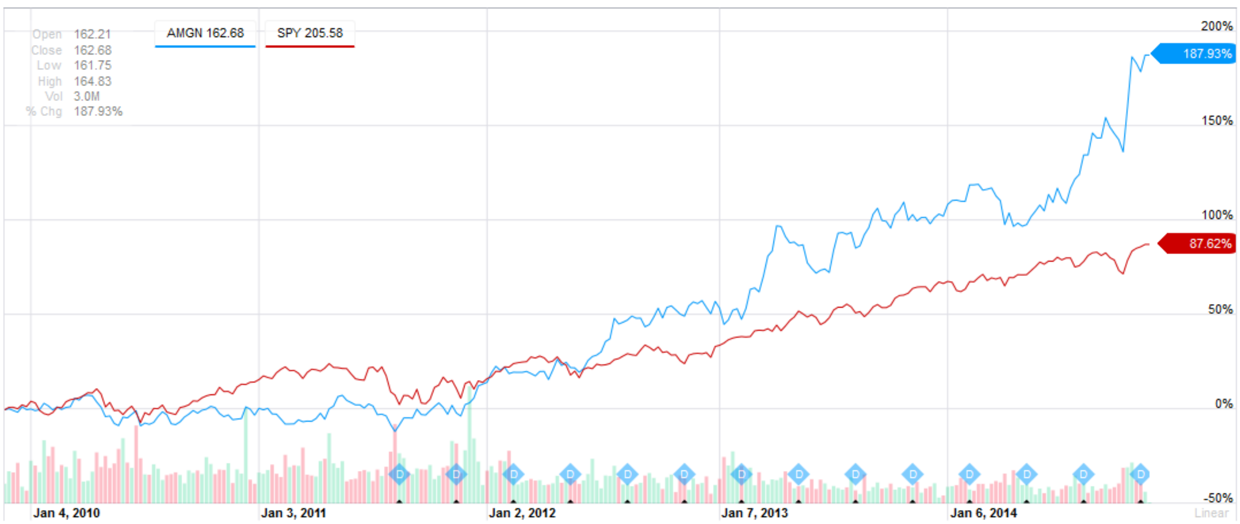
Amgen was the first stock pitched and approved by the group. It was purchased on October 7th at a price of $137.30. As of the end of day on November 18th, the stock was trading at $162.24. This is a gain of 18.17%. The reasons for this increase in price are:

- Daniel Loeb, one of the most closely followed investors in the country, suggested in an open letter to Amgen on October 21st that the company should split into two separate businesses. The market reacted favorably, in that the stock price rose, following these comments. The day the letter was released, the stock price jumped 4.8%. While the merits of "activist investing" are up for debate, the timeliness of these comments improved the portfolio's position.
- Amgen showed a strong earnings and growth in their third quarter results:
    - Revenues grew by 6% and international sales by 14% as a result of a "strong performance" across the entire drug portfolio.

- The adjusted EPS grew by 19%. This came both from higher revenues and increased margins of certain drugs.
- Restructuring following the acquisition of Onyx is complete and sales of the blockbuster drug acquired through the deal, Kyprolis, rose 21% from the second quarter.

Plan for Amgen:

Amgen's stock price has yet to realize the calculated intrinsic value. While the gains thus far have been substantial, we continue to believe that the price will rise. As with all stocks held in the portfolio, this investment was made based on a 5 year investment horizon. The investment thesis is based on long term trends and projections. Amgen's current product mix, drug pipeline, and continuous innovation suggest that these growth trends will continue.



WORST PERFORMING HOLDING

Tarena International, LLC (TEDU)

Sector: Consumer Disc.	Price (11/18/2014): $13.13	Intrinsic Value: $77.6
Industry: Education	Purchase Price: $13.88	Cap at Intrinsic Value: $3.92B
Market Cap: $638.8M	52 Week Range: $6.54 – 15.85	Unrealized Gain: -5.4%

Business Summary:

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

Investment Thesis:

> Tarena International LLC has developed a leading position in the market since its founding, due to its high teaching quality and excellent reputation in improving employment. The company has achieved above average growth of net income through strong demand for its service and scalable teaching. The company also commits itself to build up its long-term distinctive competitiveness through constant growth of its advanced "Tarena teaching system," expanding course offerings to non-IT industries and the deepening of cooperation with universities and employers. We project continuous, rapid growth based on strong demand from the IT industry for qualified skilled professionals.

Performance:

- Our analysis using discounted FCF over 5 years suggested that the stock had an intrinsic value of $77.30.
- We purchased the stock at $13.88 on November 10, the day after it announced Q3 earnings.
- While Tarena had a great quarter and beat expectations, the stock has fallen to around $13.00.
- The primary drivers for the decrease in stock price may be attributed to concern about the possible decline in gross margins in the fourth quarter due to the quick expansion of its learning centers.
- We strongly believe in that Tarena's business model and financial position will help it achieve our estimated growth.
- The expansion of its learning centers will greatly improve its profitability in the future.
- We expect that the fourth quarter earnings and revenues to beat analyst expectations and pull the stock out of the red.

Plan for Tarena:

- Given our 3 – 5 year investment horizon, it is difficult to identify a "worst performing investment" after only one week of trading.
- We continue to believe Tarena is undervalued as a whole. Low valuation, strong financial condition, rapid revenue growth, and a great market potential point to a higher share price for Tarena.
- We have a stop loss order at 25% of our purchase price and will continue to monitor Tarena as its stock price approaches our calculated intrinsic value.

SECTOR OUTLOOKS

Sector: Consumer Discretionary
Manager: Xiaoying Gan

Facts & Figures:

S&P Weighting:	11.9%	**P/E (TTM):**	20.38
ROE (TTM):	21.67%	**YTD Performance:**	1.74%
		Dividend Yield:	1.47%

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

Trends:

1. Expected disposable income growth and a rise in the number of high income households will increase demand for premium products and services.
2. Although labor participation have been stagnant the unemployment rate in the United States continues to decrease and is at a six year low of 5.8% as of October 2014. Returning to work and regaining a steady income will make individuals more positive about future prospects and more likely to spend.
3. The Consumer Confidence Index is expected to rise at an annualized rate of 4.9% which reflects a strong economic recovery
4. Falling energy and raw material prices will help consumer discretionary companies reduce costs and increase margin.
5. Emerging economies, such as China, will continue to be a target market for industry players.

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

Sector: Consumer Staple
Manager: Regina Ma

Facts & Figures:

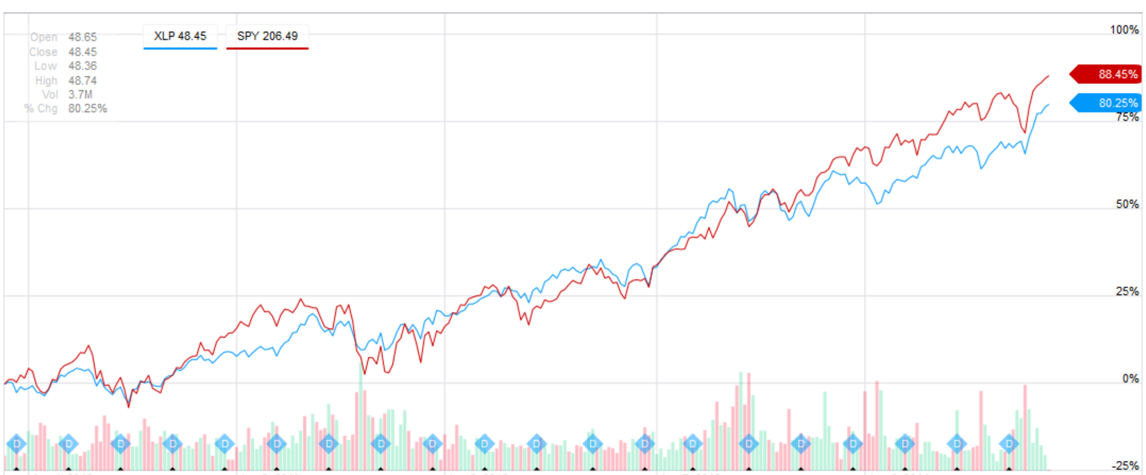
S&P Weighting:	9.49%	**P/E (TTM):**	21.46
ROE (TTM):	22.19%	**YTD Performance:**	11.76%
		Dividend Yield:	2.85%

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

Trends:

1. The consumer staple industry is a crowded and competitive market. Most consumer staples companies are divesting low-margin brands, improving supply chains and implementing cost-reduction initiatives in order to boost profits.
2. The stronger dollar reduces the value of international sales
3. The companies are shifting focus to develop more healthy and nutritious products in view of increasing health consciousness, rising obesity concerns and growing regulatory pressures.

Portfolio Strategy: Based on negative trends and predictions relative to other sectors, we are underweight in this sector, and currently hold no positions here. However, as almost 10% of the S&P we intend to invest in this space and continue to search for undervalued stocks.



Sector: Energy
Manager: Ming Dai

Facts & Figures:

S&P Weighting:	8.67%	**P/E (TTM):**	15
ROE (TTM):	18%	**YTD Performance:**	0.22%
		Dividend Yield:	2.03%

Intro Description: The Energy sector consists of businesses that produce or supply energy, including companies involved in the exploration and development of oil or gas reserves, oil and gas drilling, or integrated power firms. The price of energy responds to, but lags, changes in U.S. macroeconomic conditions. Furthermore, world crude and petroleum oil prices are normally fairly volatile due to a wide variety of market and politically related supply & demand factors. Energy producers do very well during times of high oil and gas prices.

Trends:

1. Falling factory output in China and the onset of recession in Europe means that a continued fall in the demand for crude oil is inevitable. The recent return to production of Algeria, Libya, Iraq and Iran means that the world is already oversupplied with crude oil.
2. The rise of production by hydraulic fracturing in the USA means that America is increasingly self-sufficient in oil.
3. There is an increasingly complex regulatory environment in both the U.S. and abroad that companies need to navigate. This creates both hurdles for companies but also opportunities to gain advantages through technology and expertise.
4. In North America, increasing investment in the development of previously difficult to procure and/or uneconomical energy sources, such as shale gas and oil sands, is set to create a shift in areas of major production and will require major investment in new pipeline projects to link the new energy sources with existing pipeline networks and new markets.

Portfolio Strategy: World crude oil prices have declined by over 20% since June 2014. While this level of price volatility is not without historic precedent, prices are projected to possibly decline to much lower levels by year end. The decline in oil prices, however, can pose economic and other risks to many petroleum oil and alternative fuels suppliers. We plan to explore firms in the pipeline sub-sector in the upcoming semester.

Sector: Financials
Manager: Dan Bu, Ming Dai

Facts & Figures:

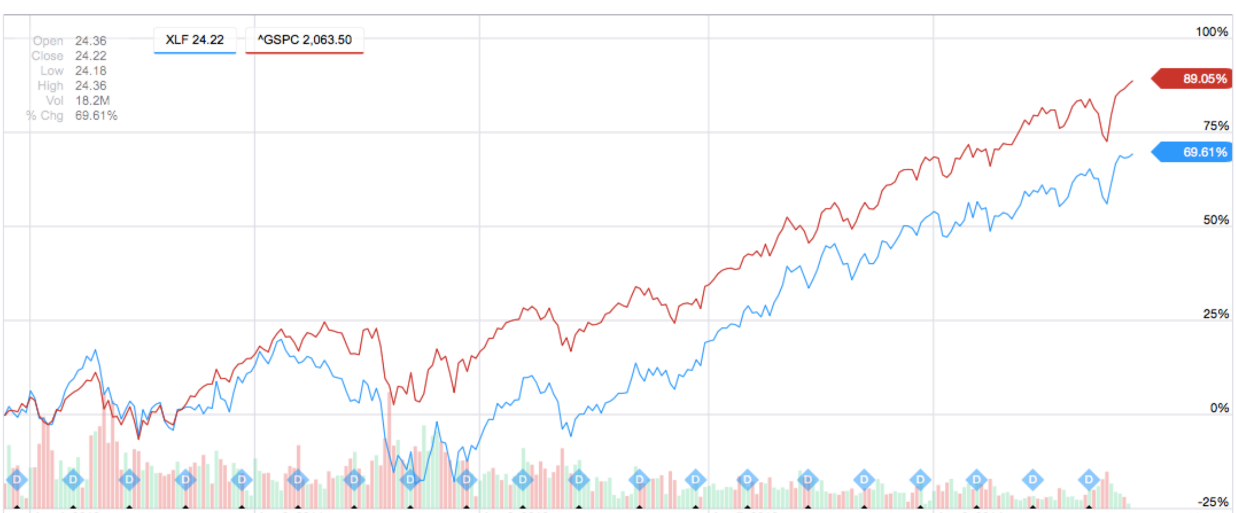
S&P Weighting:	16.53%	**P/E (TTM):**	13.81
ROE (TTM):	8.82%	**YTD Performance:**	10.83%
		Dividend Yield:	1.71%

Intro Description: The financial sector has lagged the S&P since 2007. Low interest rates for the past five years were used to stimulate lending and therefore economic activity.

Trends:

1. Banks are in an environment of heighten regulation and scrutiny since the credit bubble burst and passing of Dodd Frank
2. Banks are again growing, have stronger balance sheets, and loan growth is solid.
3. The Fed is scheduled to end their bond buying program as the economy improves, also economist consensus is we'll see our first rate hike in 2015 – which will benefit insurance companies but hurt real estate.
4. Investment banking advisory services are forecasted to be at record levels after relatively flat growth since the crisis.

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



Sector: Health Care
Manager: Doug Bova

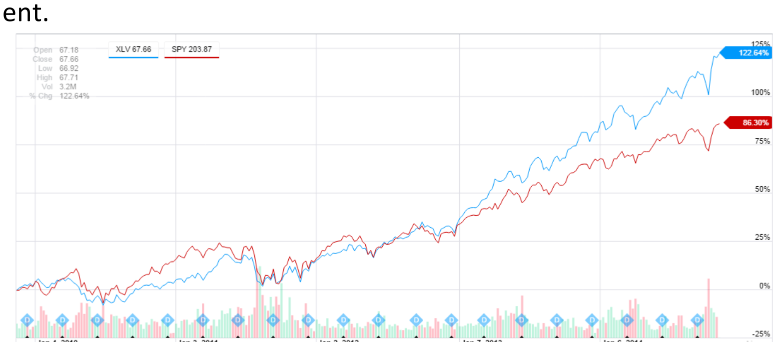
<u>Facts & Figures:</u>

S&P Weighting:	13.19%	**P/E (TTM):**	22.04
ROE (TTM):	16.76	**YTD Performance:**	20.77%
		Dividend Yield:	1.47%

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

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

Portfolio Strategy: Based on positive trends and predictions relative to other sectors, we plan to overweight the health care sector in our portfolio. We currently hold three positions in the sector (Amgen, McKesson, and Parexel) which make up 26.31% of invested funds. These three positions are in the biotechnology, health care distributors, and live sciences tools and services industries, respectively, which each have positive outlooks within the sector. Our goal is to invest in at least three to four additional positions for approximately $200,000 dollars. These positions will be further diversified within the sector in industries with positive outlooks, such as pharmaceuticals, health care facilities, and health care equipment.



Sector: Industrials
Manager: Jeff Makray

Facts & Figures:

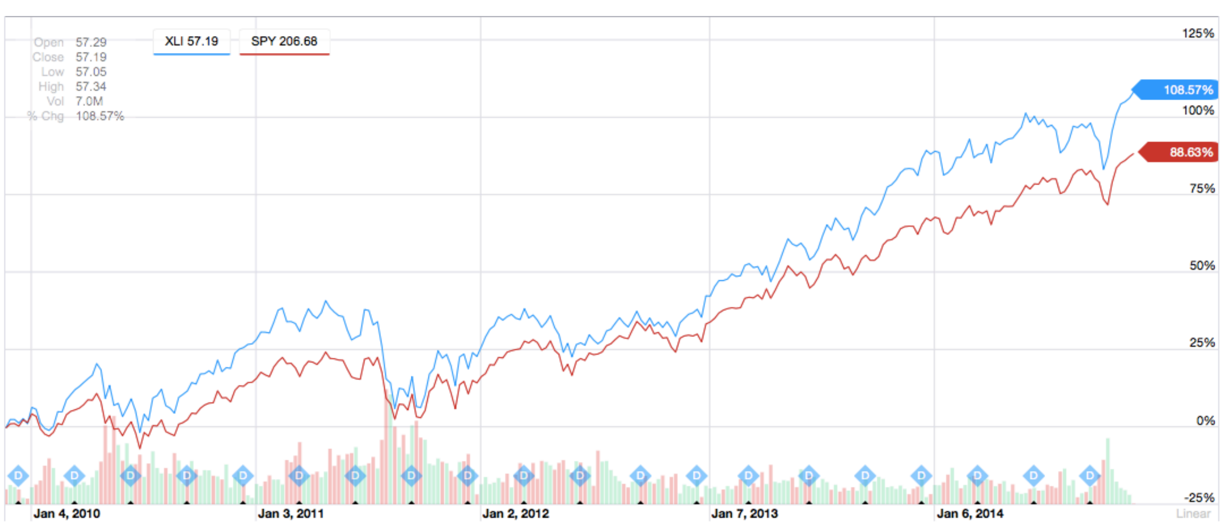
S&P Weighting:	11.04%	**P/E (TTM):**	18.79
ROE (TTM):	19.31	**YTD Performance:**	7.23%
		Dividend Yield:	1.98%

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

Trends:

1. Purchasing Manager Index (PMI) is at 56.6, and has been above 50 the past year, the critical threshold that indicates expansion.
2. Industrial capacity utilization is 79%, climbing at a rate of ~1/3 point a quarter for the last 1.5 years.
3. Dropping commodity prices; diesel is $3.65/gallon at the pump, and steel prices have been declining.
4. Housing starts are at 1M/year, up from recent years but currently flat and about half of the peak during the real estate bubble
5. Aircraft backlog is at record highs.
6. World military spending is at record highs but flat in recent years.

Portfolio Strategy: We are overweight on industrials as we think this sector will continue to benefit from macro tailwinds. Decreasing input costs of crude and steel will benefit the supply side, and increased capital expenditure will drive the demand side.



Sector: Materials
Manager: Dan Bu

Facts & Figures:

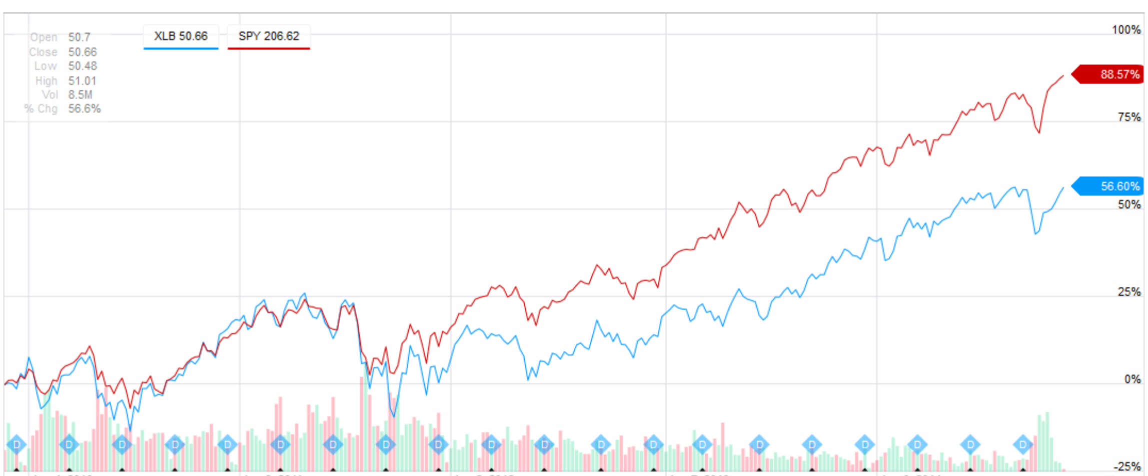
S&P Weighting:	3.50%	**P/E (TTM):**	18.05
ROE (TTM):	14.85%	**YTD Performance:**	5.12%
		Dividend Yield:	2.08%

Intro Description: The Materials sector includes five subsectors and the majority of them are heavily impacted by the global market. The sector's performance is expected to lag due to a weakening global economy, especially in emerging markets and Europe, and an overcapacity in the majority of subsectors – leading to lower prices on materials. However, stable demand remains in a group of small subsectors.

Trends:

1. Metal & Mining companies are mostly suffering due to the pressures on steal, iron ore, coal and metal prices. Also, the increasing production levels eventually negatively impacts the price.
2. Chemicals companies are expected to benefit from rising production and cost controls, as well as the demand from Asia market.
3. Besides expanding production levels, the higher paper prices are projected to amid the Paper and Forest subsector.

Portfolio Strategy: The Materials sector has been underperforming since the recession and the yield in 2014 is 50+ basis points less than S&P 500. We think this sector faces pressure from oversupply, decreased demand, and lower price. However, we will continue to look for a position which will align with our strategy and complement our portfolio.



Sector: Technology
Manager: Yiyan Wang

<u>Facts & Figures:</u>

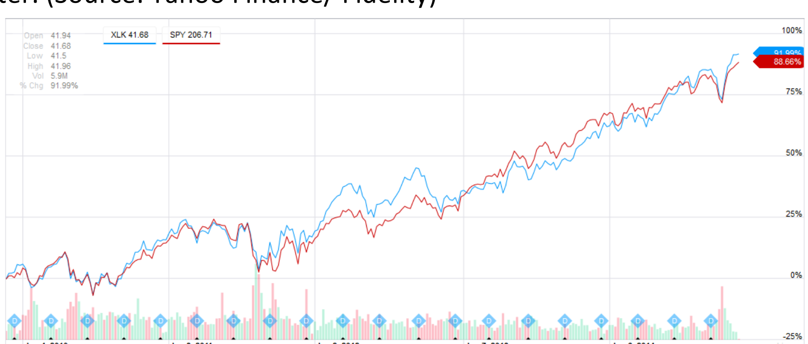
S&P Weighting:	19.19%	**P/E (TTM):**	25.98
ROE (TTM):	14.28%	**YTD Performance:**	15.59%
		Dividend Yield:	2.82%

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

Trends

1. The move to cloud architecture, cloud computing, and hosted services is front and center. Indeed, most software vendors should continue benefiting from the corporate interest, as solutions are needed to leverage storage, applications, security, and processing power via cloud services.
2. There have been several important developments in the Internet Industry in recent months. eBay has announced plans to spin off PayPal into a separate publicly traded company. This move will allow both PayPal and the Marketplaces business to optimize its capital structure and pursue different growth strategies. Meanwhile, Amazon.com has agreed to acquire Twitch for $970 million. Elsewhere, The Priceline Group and Ctrip.com have expanded an existing commercial agreement.
3. Advances in sensors, display technologies, and devices are enabling companies to monitor people, entities, behaviors, events, and objects.
4. Mobile is the center of the consumer's universe. To meet consumers in their mobile worlds, companies are providing compelling, customer-centered products and services.

Portfolio Strategy: The Technology sector is the largest but we remain conservative given current uncertainties in the sector. An increasing number of companies will focus on being a service-based provider instead of the solid software provider. Also, internet applications are a new trend for daily life. Based on these trends we will continue to search out companies with innovative technologies in this sector next semester. (Source: Yahoo Finance/ Fidelity)



Sector: Telecommunications Services
Manager: Ming Dai

Facts & Figures:

S&P Weighting:	2.17%	**P/E (TTM):**	18
ROE (TTM):	2.68%	**YTD Performance:**	6.53%
		Dividend Yield:	3.64%

Intro Description: The Telecommunications Services sector contains companies that provide communications services primarily through a fixed-line, cellular, wireless, high bandwidth and/or fiber optic cable network. The sector is divided into two sub-industry indices, Wireless Telecommunication and Wire-line Telecommunication. The Telecommunications Services industry is characterized by intense competition, with the larger carriers enjoying economies of scale that provide competitive advantages.

Trends:

1. Falling Mergers and acquisitions are a key theme in the North American telecom industry. Recent industry consolidation may increase pressure on smaller telecoms that may struggle to compete with larger peers. Also, consolidation among telecom carriers has reduced wholesale revenue opportunities across the industry.
2. Telecom companies across the board are witnessing a declining trend in their traditional wireline businesses. The total number of landlines or access lines has been in decline for many years because of competition from wireless and cable companies, and lower consumer spending.
3. Broadband has become a focus for telecom carriers in the telecommunications industry. While the growth rate of broadband has slowed due to high penetration rates, there is still room to grow as service is deployed to new markets.
4. While postpaid subscriber growth has slowed as the wireless penetration rate breached 100%, overall growth will continue due in part to connected devices such as e-readers and gaming devices, as well as additional data plans for wireless devices. For the larger carriers, wireless customer growth continues to be driven by new versions of smartphones.
5. Because telecom companies are highly capital-intensive, interest rates are an important factor, as they affect the cost of capital. When interest rates start to rise, the telecom sector could suffer.

Portfolio Strategy: The telecom industry is constantly changing and evolving as the industry responds to technological innovation, regulatory changes, intensifying competition and merger and acquisition activity. In the three months since June, stock prices in the Telecommunications Services Industry have been basically flat, with losers outnumbering gainers fourteen to five. The commercial and financial pressures on the telecoms industry are great. So, we should continue to keep an eye on this industry's tendency to change and make a timely wise investment decision.

Sector: Utility
Manager: Regina (Xuequan) Ma

Facts & Figures:

S&P Weighting:	3.2%	**P/E (TTM)**:	20.5
ROE (TTM) :	8.06%	**YTD Performance**:	2.92%
		Dividend Yield:	4.04%

Intro Description: The utility sector is comprised of companies with a primary focus on electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power. There are five industries within this sector: electric utilities, gas utilities, water utilities, renewable utilities and multi-utilities.

Trends:

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

Portfolio Strategy: Based on negative trends and predictions relative to other sectors, we currently hold no position in this sector. Based on target ratings we plan to hold some positions in this sector. It will be critical to find a company that has a strong fit and ability to adapt in this changing market landscape.