UCONN

SCHOOL OF BUSINESS

STUDENT MANAGED FUND

2014-2015 UNDERGRADUATE SPRING REPORT

CINZIA ALFANO
LOUIS BECK
NICOLAS CHAPMAN
RYAN CONFORTI

MICHELLE FILIPPI
SAMUEL GUDEON
KELLY MCCOURT
MITESH MISTRY

ANDREW NOVITSKI
ALEXANDER THALASSINOS
AKANKSHA SINGH
STEPHEN VENTO

Dear Foundation and IAB Members:

On behalf of the 2014-2015 Undergraduate Student Managed Fund (SMF) team, we would like to sincerely thank you for providing us with this unique and invaluable experience. The SMF Program (the Program) has provided us with the opportunity to bridge the gap between the academic and real-word setting. The fundamental theories and ideas that we learn in the classroom have come to life, as we actively see first-hand how these concepts are used and analyzed in real-life applications of investing and financial markets.

As the year comes to a close, we would like to extend thanks to the many people who have guided us to where we are now. Firstly, we have learned a lot from both of our professors. We would specifically like to thank Pat Terrion and Jeff Annello for spending the time to teach us about investments and how to holistically look at a company. While the focus of the investment fund is to learn about businesses and the investment process, they have taught us much more than that. They have taught us to think critically about the world around us. As we finish the year, we are excited to carry these lessons with us into the future.

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

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

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

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

Sincerely,

The 2014-2015 Undergraduate Student Managed Fund

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PORTFOLIO OVERVIEW

Investment Managers:

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

The officers for the 2014-2015 Undergraduate Student Managed Fund are:

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

Undergraduate Supervisor: Patrick Terrion
Fund Director: Chinmoy Ghosh

Undergraduate Student Managed Fund
February 2014
Portfolio Snapshot

Portfolio Performance

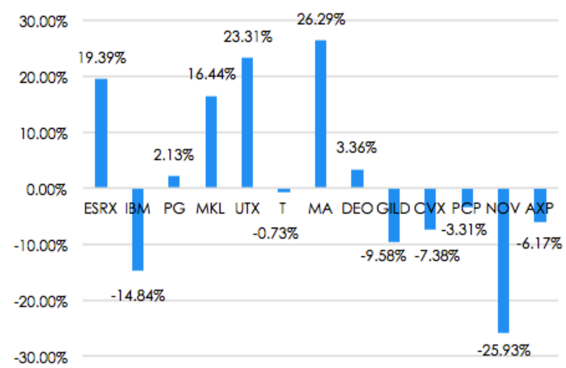
Beginning Portfolio Value	**$1,842,431.61**
Current Value (As of 2/20/2015)	**$1,867,509.69**
Portfolio Yield (As of 2/20/2015)	**1.36%**
Equity Yield (As of 2/20/2015)	**2.86%**
Benchmark Yield (As of 2/20/2015)	**5.71%**
Equity Difference	**-2.85%**
Portfolio Difference	**-4.35%**

Stock Chart

Sector Allocation

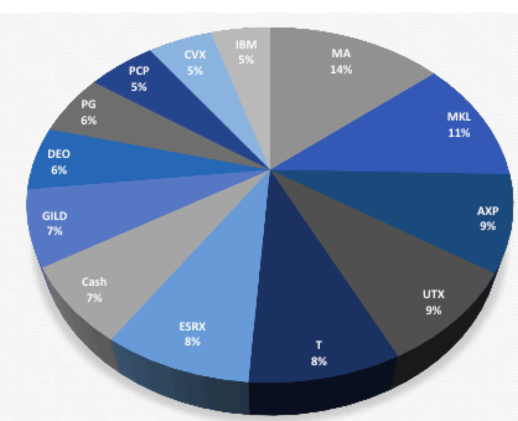
Sector	% of Total Portfolio	% of Invested Portfolio	S&P Sector Weighting	% Return
Consumer Goods	11%	12%	10%	3%
Consumer Services	0%	0%	12%	0%
Energy	9%	10%	12%	-32%
Financials	19%	21%	16%	-4%
Basic Materials	0%	0%	3%	0%
Healthcare	14%	16%	15%	5%
Industrials	13%	14%	10%	11%
Technology	26%	28%	22%	-2%
Total	93%	100%	100%	3%

Individual Performance



Holdings
(As of 2-20-15)

Name	Symbol	Market Value	Overall Return	% of Assets
Mastercard Inc.	MA	$ 252,214.62	26.29%	13.51%
Markel Corporation	MKL	$ 203,060.30	16.44%	10.87%
American Express Company	AXP	$ 156,466.80	-6.17%	8.38%
United Technologies Corporation	UTX	$ 154,516.95	23.31%	8.27%
AT&T Inc.	T	$ 151,315.20	-0.73%	8.10%
Express Scripts Holding Company	ESRX	$ 147,713.28	19.39%	7.91%
Cash	Cash	$ 125,224.60		6.71%
Gilead Sciences, Inc.	GILD	$ 122,824.17	-9.58%	6.58%
Diageo plc (ADR)	DEO	$ 103,447.65	3.36%	5.54%
Procter & Gamble Co.	PG	$ 101,844.00	2.13%	5.45%
Precision Castparts Corp.	PCP	$ 97,067.62	-3.31%	5.20%
Chevron Corporation	CVX	$ 92,310.00	-7.38%	4.94%
International Business Machines Corp.	IBM	$ 85,425.30	-14.84%	4.57%
National-Oilwell Varco, Inc.	NOV	$ 74,079.20	-25.93%	3.97%



Investment Philosophy

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

Investment Strategy

In order to evaluate the performance of the Student Managed Fund, the undergraduate team compares its returns to S&P 500 Index, with the goal of outperforming the S&P 500 Index. Each investment is thoroughly analyzed before a decision is made to pursue or decline a particular investment. These metrics include:

- Return on Invested Capital
- Competitive Advantages
- Strong Leadership
- Effective Business Models
- Shareholder Programs
- Long-term Growth Prospects
- Growth in Earnings and Revenues
- Free Cash Flow Yield
- Balance Sheet
- Potential Risks
- Margin of Safety (as determined by the difference between the intrinsic value and current market price)

Risk Management

The 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 amongst its holdings

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

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

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

In evaluating our exposure to risk, we analyzed our investments altogether and determined that our portfolio yielded a Sharpe ratio of 0.83 and a Beta of 0.89. Comparatively, the S&P 500 SPY ETF has a Sharpe ratio of 1.18 and a Beta of 1.00. The Sharpe ratio is a measure of risk and return. On a risk-adjusted basis, the S&P 500 ETF is expected to generate a higher return on a risk-adjusted basis based on this measurement. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. The market has a beta of 1.0 and individual stocks are ranked according to how much they deviate from the market. Given that our Beta is 0.89, our portfolio will be less volatile than the market.

Current Market Conditions

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

Process

Each manager specializes in at least two sectors and works with at least one other manager within that sector. These teams then research their sector to determine which companies are trading significantly below their intrinsic value. The Fund then conducts weekly meetings for managers to pitch their stocks before the team, Professor Terrion, and Jeff Annello. During the meetings, the Fund discusses the business model, growth opportunities and risks of investing in the business, and then decides whether or not the Fund needs more information or is willing to invest at that time.

In order to invest in a stock, it must get approval from at least 8 out of 12 managers. After the Fund decides to invest in a business, the group determines how much capital to allocate based on the risks and growth potential of the business and the confidence of the company’s future. Each company will be allocated approximately 5%-15% of the total capital available to the fund.

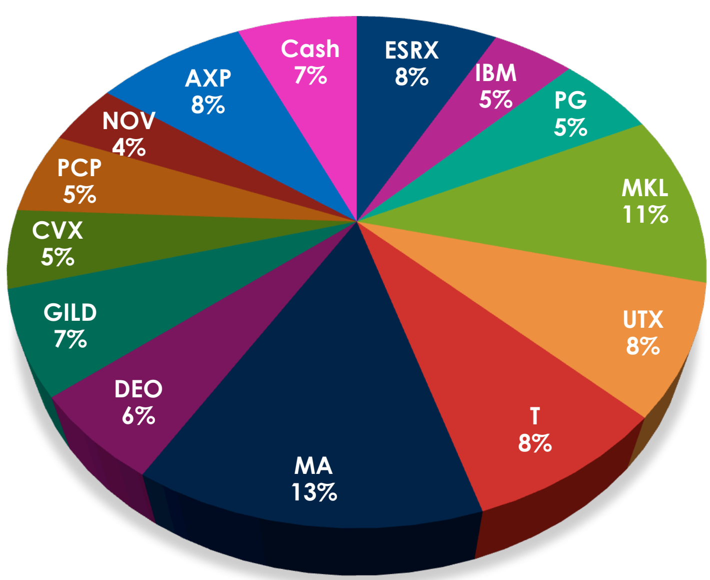
The sectors and the corresponding analysts are listed below:

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

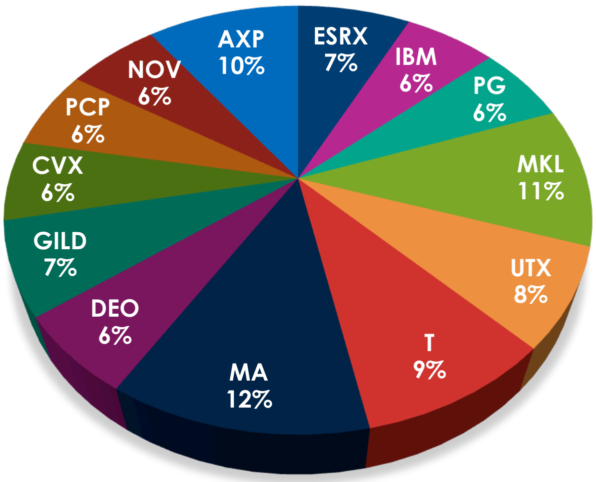
Equity Portfolio and Allocation

The Fund has 93% of the portfolio invested with 7% of the portfolio remaining in cash, as of February 20, 2015. There is no longer any portion of the funds allocated to the SPDR, which is where the funds were allocated when we received the fund. The funds currently held as cash will be allocated to AXP, NOV and IBM on February 23 when the funds settle. Not including these planned investments, the average equity position size is currently 7.18%, with our largest positions in MasterCard (13.51% of portfolio at market value) and Markel (10.87% of portfolio at market value). In total there are 13 positions. The following charts are based on data available to us on February 20, 2015.

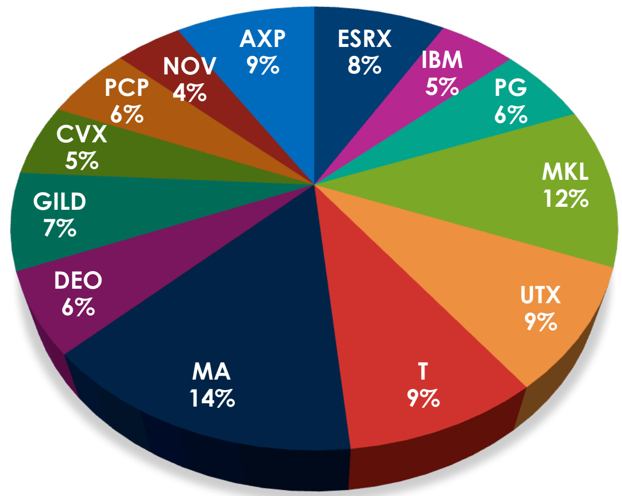
Total Portfolio Based on Current Market Prices (Equities and Cash):



Equity Portfolio Based on Cost Basis:



Equity Portfolio Based on Current Market Prices:



Performance

The charts below depict the performance of the portfolio from September 17, 2014 to February 20, 2015.

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

Name	Initial Purchase Date	Symbol	Last price	Shares	Cost basis	Mkt value	Gain	Overall Return
Express Scripts Holding Company	9/23/14	ESRX	86.08	**1,716.00**	123,721.88	147,713.28	23,991.40	**19.39**
International Business Machines Corp.	9/24/14	IBM	163.65	**522.00**	100,311.70	85,425.30	(14,886.40)	**-14.84**
Procter & Gamble Co	10/2/14	PG	84.87	**1,200.00**	99,720.00	101,844.00	2,124.00	**2.13**
Markel Corporation	10/8/14	MKL	749.30	**271.00**	174,386.60	203,060.30	28,673.70	**16.44**
United Technologies Corporation	10/13/14	UTX	124.11	**1,245.00**	125,306.76	154,516.95	29,210.19	**23.31**
SPDR S&P 500 ETF Trust	9/17/14	SPY	211.28	**-**	-	-	-	**-2.26**
AT&T Inc.	10/27/14	T	34.08	**4,440.00**	152,425.20	151,315.20	(1,110.00)	**-0.73**
Mastercard Inc	10/20/14	MA	90.79	**2,778.00**	199,716.94	252,214.62	52,497.68	**26.29**
Diageo plc (ADR)	10/20/14	DEO	116.89	**885.00**	100,082.66	103,447.65	3,364.99	**3.36**
Gilead Sciences, Inc.	10/30/14	GILD	102.61	**1,197.00**	116,463.15	122,824.17	6,361.02	**-9.58**
Chevron Corporation	11/13/14	CVX	108.60	**850.00**	99,666.65	92,310.00	(7,356.65)	**-7.38**
Precision Castparts Corp.	11/13/14	PCP	219.61	**442.00**	100,393.67	97,067.62	(3,326.05)	**-3.31**
National-Oilwell Varco, Inc.	11/12/14	NOV	54.47	**1,360.00**	100,008.88	74,079.20	(25,929.68)	**-25.93**
American Express Company	2/23/15	AXP	79.83	**1,960.00**	166,754.14	156,466.80	(10,287.34)	**-6.17**
Cash			125,224.60			125,224.60		
Total Portfolio					**1,842,431.61**	**1,867,509.69**		**1.36%**

Equity Portfolio:

Name	Initial Purchase Date	Symbol	Last price	Shares	Cost basis	Mkt value	Gain	Overall Return
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Gilead Sciences, Inc.	10/30/14	GILD	102.61	**1,334.00**	147,585.63	115,924.70	(31,660.93)	
Chevron Corporation	11/13/14	CVX	108.60	**850.00**	99,666.65	92,310.00	(7,356.65)	**-7.38**
Precision Castparts Corp.	11/13/14	PCP	219.61	**442.00**	100,393.67	97,067.62	(3,326.05)	**-3.31**
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American Express Company	2/23/15	AXP	79.83	**1,960.00**	166,754.14	156,466.80	(10,287.34)	**-6.17**
Total Portfolio					**1,806,543.86**	**1,858,209.79**		**2.86%**

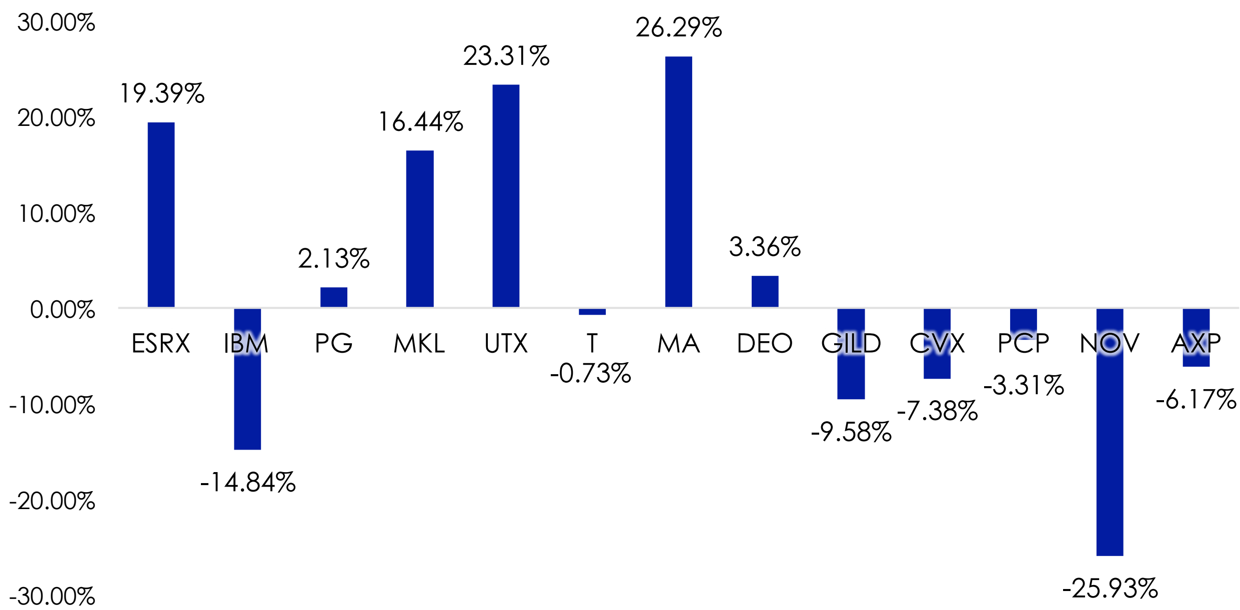
Total Portfolio Performance vs. S&P 500:

Ratio Indicators of Performance:

Indicator	Portfolio	Benchmark	+/-
Weight	100.00%	100.00%	0.00%
Dividend Yield	1.66%	1.95%	-0.29%
Price to Earnings Ratio (P/E)	17.18%	18.48%	-1.31%
Price to Cash Flow Ratio (P/CF)	12.12%	11.66%	0.47%
Price to Book Ratio (P/B)	2.90%	2.87%	0.02%
Total Debt to Common Equity	67.09%	113.63%	-46.54%
Current Ratio	1.30%	1.41%	-0.11%

There have been two significant adverse affects on our portfolio. The first adverse impact on our portfolio has been the timing of selling the SPDRs. As we liquidated the SPDR, we sold many of the shares for less than the price we received them at. Furthermore, the timing of our stock purchases has also caused losses. The decline in the price of oil has negatively impacted National Oilwell Varco, a company that sells the rigs for drilling oil. Furthermore, a short-term drop in the price of Gilead Sciences after the market reacted to a loss in competitive positioning caused our stop loss orders to be triggered, despite the fact that we still believe in the long-term future of the company. Since the sale of our shares, we have repurchased the stock, but again, missed the timing due to external causes. Regarding the ratios provided, while our investments have a lower dividend yield than the S&P 500 ETF, our P/E ratio is lower, indicating that we are investing in companies that are trading that are producing higher earnings in relation to their price. Price-to-cash flow, price-to-book, and current ratio are very similar to the S&P 500 ETF ratios. Total debt-common equity is significantly lower than the S&P 500 ETF ratio, meaning that we are investing in companies that have lower leverage. This is in line with our investment philosophy where we seek to find companies that can produce significant cash flow without leverage.

Individual Stock Performance:



Over the past few months, we have seen strong returns in our investments in Financials, Industrials, Healthcare, and Technology. Our largest gain, 26.29% since purchase, comes from MasterCard due to a favorable earnings report. Our largest loss at the moment is National Oilwell Varco due to the recent decline in oil prices, which adversely affects the company. IBM, our other under-performing stock has seen a decline from an uncertain short-term future and a poor earnings report on October 20th that sent the stock down over 7% after hours. We still believe IBM and National Oilwell Varco to be profitable long-term investments. More generally, we do not believe all short-term results are indicative of the success or failure of a company. We have continued to monitor our portfolio and have added more capital to Gilead, IBM, National Oilwell Varco, and American Express. Due to the decline in price, have been given the opportunity to invest with a greater margin of safety. Details regarding each of our individual investments are further explained in the "Individual Investments" section of our report.

ECONOMIC OUTLOOK

Introduction

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

Completion of Quantitative Easing

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

U.S. Economy

The U.S. economy has shown signs of recovery, but there are still signs of weakness. The unemployment rate has decreased to 5.7% in January, down from the high of 10% during the recession. The unemployment rate is an important measure, indicating the overall health of the economy. Despite this, there are flaws including the labor force participation rate, which has fallen by 3.2% since its peak in 2008. However, in the last 10 months, the participation rate has been steady and currently stands at 62.9% and so part of the fall in unemployment rate has been due to the decrease in number of workers looking for jobs. Additionally, the U6 serves as another measure of unemployment, taking into account part-time workers who are searching for full time employment and discouraged workers. The U6 has decreased from 13.7% to 11.3% currently, showing a steadily improving U.S. economy. In December, real wages grew by 0.2% as a result of lower wages being offset by a fall in inflation as measured by the CPI due to the decrease in oil prices. Despite a stronger domestic economy, an anemic global economic growth could hurt the United States in the future given the interdependency of the financial ecosystem.

Slow Eurozone Recovery

The Eurozone is experiencing problems, ranging from unemployment to stagnant GDP growth. The unemployment rate for the 17 Eurozone countries is 11.4% and the percentage of youth (15 to 24 years old) who are jobless in the EU is at a staggering 21.4%. In Greece, the unemployment rate increased to 27.7% in January. The overall Eurozone inflation rate has fallen by 0.6% in January year over year because of a slow recovery and low gas prices. This fall is far off the European Central Bank's goal of raising inflation by 2% each year. The ECB has planned to start a bond-buying program of $68 billion a month starting in March 2015 and last until September

2016. This will provide liquidity to banks and may result in increased lending and a rise in economic activity. Ireland has grown 4.3% last year, but given that the two largest Euro-zone economies, France and Germany, are struggling, the Eurozone still appears to be troubled. France has an unemployment rate of 10.3% and only grew 0.4% last year. Germany only grew 1.5% last year.

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

Asia/Emerging Markets

Real GDP growth in China has declined from nearly 10% to 7.3% currently amid rising debt-loads and slower real estate growth. India has seen an increase in its growth rate, which is currently at 5.4%, but this is far less than the double-digit growth several years ago. Both India and China have seen a fall in inflation due to the decrease in the price of oil. In Brazil, there has been low private investment and the country is expected to grow by only 0.3% this year. In 2014, Japan saw a paltry increase in GDP of 0.4% and Russia grew only 0.3% this year because of falling commodity prices and economic sanctions. In summary, many of the Asian and emerging markets have seen slowing growth. Given growth problems in these regions, some companies, which hope to capitalize on the rapid growth of these markets, will be adversely affected.

Oil

The price of oil has fallen sharply in the last month due to decreased demand in China and increased supply from shale production in Western U.S. and Canada. OPEC has decided to continue to produce the same amount, despite the surplus, and this has led to the fall in oil prices. Oil is mainly used for transportation purposes in the form of gas, and this has led to decreases in transportation costs, which has led to decreased food prices around the world as well as lower inflation.

Conclusion

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

SECTOR ANALYSIS

Sector Allocation

The manner in which our portfolio was allocated by sector stems from our team's investment philosophy. As previously mentioned, the focus of our investment decisions were based primarily on selecting companies that exhibits strong business models and 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 believe that certain sectors (i.e. utilities) holistically contain companies that would not create as much value as other sectors, so we did not make it a requirement to allocate into that area.

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

The following table highlights the sector breakdown and S&P 500 sector weightings of our portfolio as of February 20, 2015:

Sector	% of Invested Portfolio	S&P 500 Sector Breakdown
Consumer Goods	11%	10%
Consumer Services	0%	12%
Energy	11%	14%
Financials	21%	16%
Basic Materials	0%	3%
Healthcare	14%	13%
Industrials	13%	11%
Technology	29%	21%
Total	100%	100%

Relative to the S&P 500, our portfolio is not evenly spread across sectors. However, some of our sectors are similarly weighted to the S&P, like Healthcare and Consumer Goods, while others are not. Further, sectors like Technology and Financials are higher weighted because of our large positions in MasterCard and American Express, respectively. We have not invested in the Consumer Services or Basic Materials sectors. This was not intentional, but rather a consequence of our bottom-up approach. We researched companies that we believed were attractive investments, which were in other sectors, rather than analyzing an overall sector's performance. For the purposes of this comparison, Real Estate has been included in Financials, as the S&P is not going to break Real Estate into its own category until 2016. Though we have not invested in any Real Estate companies, we do have it as a separate category for the sector and the analysis is included in this report.

Consumer Goods

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

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

The Consumer Goods industry has slightly underperformed the S&P 500 over the past year, which could be due to a strong U.S. dollar compared to foreign currencies. Despite having some protection from economic downturns, consumer goods require constant innovation to follow consumer trends in order to remain viable amidst stiff competition. The Consumer Goods industry is trying to expand into emerging markets, particularly with the rise of the middle class in Asia. Companies are continuously updating products to fit with changing consumer demands. There is an increase in online shopping with the evolution of technology, so consumer goods companies need to understand how to best market their products given this change in lifestyle.

Current Holdings: PG, DEO

Consumer Services

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

A significant portion of this sector is comprised of consumer discretionary services (those that consumers want, but don't necessarily need), so it tends to be more sensitive to economic conditions and is more cyclical in nature. As the economy improves and unemployment drops to 5.7% in January 2015, consumer confidence continues to increase, with the Consumer Confidence Index rising sharply in January to 102.9 from 93.1. As consumers feel more confident about future earnings, they tend to increase spending in many of the industries within the Consumer Services sector. However, today's consumers are increasingly value-conscious and more careful about their spending. In response, many retailers are relying on promotional pricing to attract customers and increase sales.

Technology is becoming increasingly important in this particular sector, as it comes to impact all aspects of business. While technological improvements have led to increased innovation, they have also increased competition within each industry. While businesses tended to focus on increasing efficiencies and reducing waste in the past, today's competition goes beyond simply reducing costs. With social media, companies are focused on integrating marketing across platforms and ensuring a consistent and appropriate message. Information gathering and data mining have also become critical within this sector, as companies seek to better serve customers and anticipate consumer trends, rather than simply react to them. Security has also become an important factor. According to Deloitte's 2014 holiday survey, 20% of consumers said they would not shop at a retailer that has experienced a data breach. With companies like Home Depot and Target experiencing serious security breaches in recent years, consumers are becoming more aware of the need for company trust when it comes to protecting their personal information.

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

Current Holdings: None

Energy

The past few months have been rough on the energy sector, as oil and natural gas prices have been very volatile. This has caused many energy companies to underperform, resulting in a 7.12% loss on the S&P 500 Energy Index over the past year. With that being said, The Fund feels as if there are deals to be had in the Energy sector, as we believe that oil and natural gas prices will rise in the future. The industry as a whole is experiencing substantial growth, particularly in the fields of shale and liquefied natural gas. Many consumers are also turning towards renewable sources of energy, such as wind and solar.

In recent years, energy companies have been pursuing global expansion. This can be seen in Australia, where numerous companies have invested in LNG operations such as the Gorgon Project. It is believed that liquefied natural gas is the wave of the future, as it is a cleaner energy source than other fossil fuels such as coal. In addition to this, LNG is easy to transport, as one cubic meter of LNG is equivalent to 600 m^3 of Natural Gas. Some energy companies are even estimating that global LNG demand could nearly double by 2025.

Although the energy sector has struggled as of late, the Fund believes that the sector will bounce back. Oil prices are at near-record lows, and our belief is that prices will rise once again. Because of this, we recently increased our position in NOV, as we feel as if the company is currently trading at a substantial discount. The price and demand for natural gas should also rise, particularly when many of the capital extensive LNG projects come to fruition in the later stages of 2015. Overall, the energy sector has been quite volatile, but there is a great deal of room for potential growth.

Current Holdings: CVX, NOV

Real Estate

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

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

Current Holdings: None

<u>Financials</u>

The Financial sector contains companies that provide financial services to both retail and commercial customers. The Financial sector includes banks, insurance companies, credit card companies, and investment funds. The S&P 500 index contains 16% of financial companies.

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

The Insurance industry, an important subsector of the Financial sector, is currently experiencing a soft market, though the outlook is positive. The combined ratio, a measure of insurance profitability, has increased slightly through the third quarter of 2014 up to 98.8% from 97.6%, which means companies have been making less on written premiums. The environment remains competitive in terms of pricing, so the outlook remains relatively stable for insurance.

Despite these recent struggles, the Financial sector has performed on par with the rest of the market. The S&P Financials Index (SPF) has a one-year return of 16.17%, while the overall S&P 500 has returned 17.08%. The Federal Reserve ended their Quantitative Easing program, which showed a newfound faith in the banking system and the economy as a whole. Historically low interest rates are providing an environment that fosters growth in our economy, but are hurting the Financial sector because it is hurting the net interest margins of the major lenders.

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

Current Holdings: MKL, AXP

<u>Basic Materials</u>

The Basic Materials sector is strongly correlated to macroeconomic trends, and thus company performance is highly susceptible to swings in the market. This is because the outputs of this sector are commodities, from coal to chemicals to metal. Therefore, revenues fluctuate depending on the movements of these commodity prices. This in effect makes cash flows into the future difficult to predict.

Our investment philosophy is to use a long-term focus when prospecting for quality investments. In order to uphold this investment style we are required to analyze companies based on the criteria laid out in our investment strategy section. Specifically, we look for sustainable business models, consistent free cash flow, long-term growth prospects, and minimal downside risk. Company differentiation is difficult in the basic materials sector; operational efficiencies and patent production are one of the few ways competitive advantage can be achieved. However, more often than not, end performance will be a result of commodity movements. This makes it incredibly difficult to analyze the required criteria. Additionally, this sector carries weak long-term growth prospects for individual companies and significant downside risk in the form of downward fluctuations of commodity prices.

Current Holdings: None

Healthcare

The Healthcare sector is experiencing unprecedented changes given the political environment of the United States. The Affordable Care Act (ACA) has been coming into effect, with the enrollment date for non-insureds to sign up for The ACA just closing on February 15, 2015. Over 11 million people have signed up for insurance, and a third of those people are under 35. This is a positive sign for the Healthcare industry, as the overall market size will increase and thus provide growth for many companies in this industry.

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

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

Current Holdings: ESRX, GILD

Industrials

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

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

Current Holdings: UTX, PCP

Technology

For the year 2014, the Technology sector performed better than the majority of the other sectors. It has continued to recover following the recession in 2008. According to data provided by Morningstar, the Technology sector returned around 20% for 2014, which outperformed every sector, besides Healthcare. Avago Technologies Ltd. (AVGO), Electronic Arts (EA), NXP Semiconductors (NXPI), Sony Corp. (SNE), Broadcom (BRCM), and Apple (APPL) lead the sector as the top performers.

The Technology sector is broken up into seven different industries: Electronic Office Equipment, Internet, Software, Telecommunication Services, Semiconductors, Computer Services, and Computer Hardware. The Technology sector contains approximately 4,820 companies and has a market capitalization of approximately $7.60 trillion. The largest industry by market capitalization is Semiconductors, which has been the best performing segment, up around 27% for 2014. On the other hand, the worst performing industry has been the Telecommunications Services, which only gained 3.50% for 2014.

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

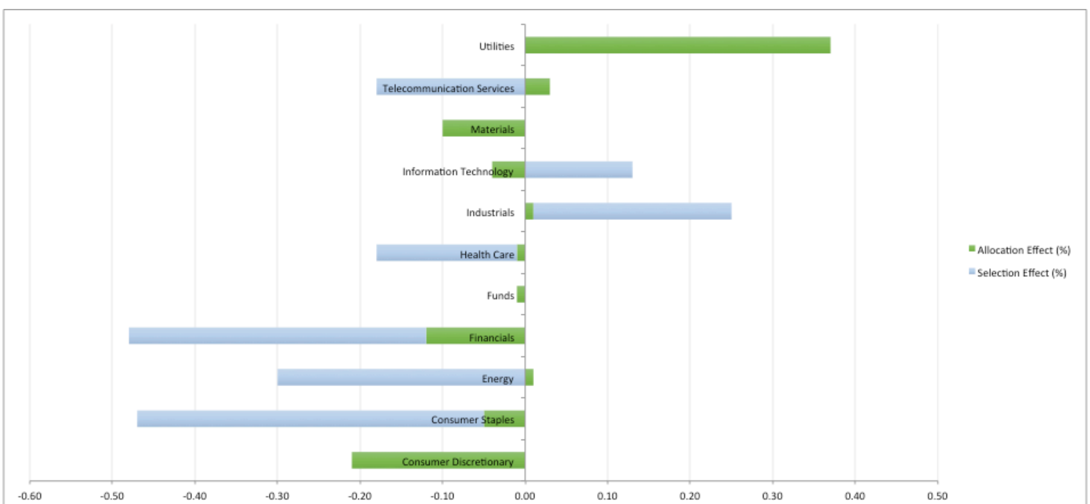
Current Holdings: IBM, MA, T

ATTRIBUTION ANALYSIS

Attribution analysis looks to categorize the factors that create the performance of a portfolio. It compares the portfolio to the benchmark, and then divides up excess return based on characteristics of Allocation Effect and Selection Effect. Our analysis of the portfolio was from September 17, 2014 to February 20, 2015. Below is a summary of our portfolio per sector, as compared to the S&P 500 ETF, including both a written and graphical representation.

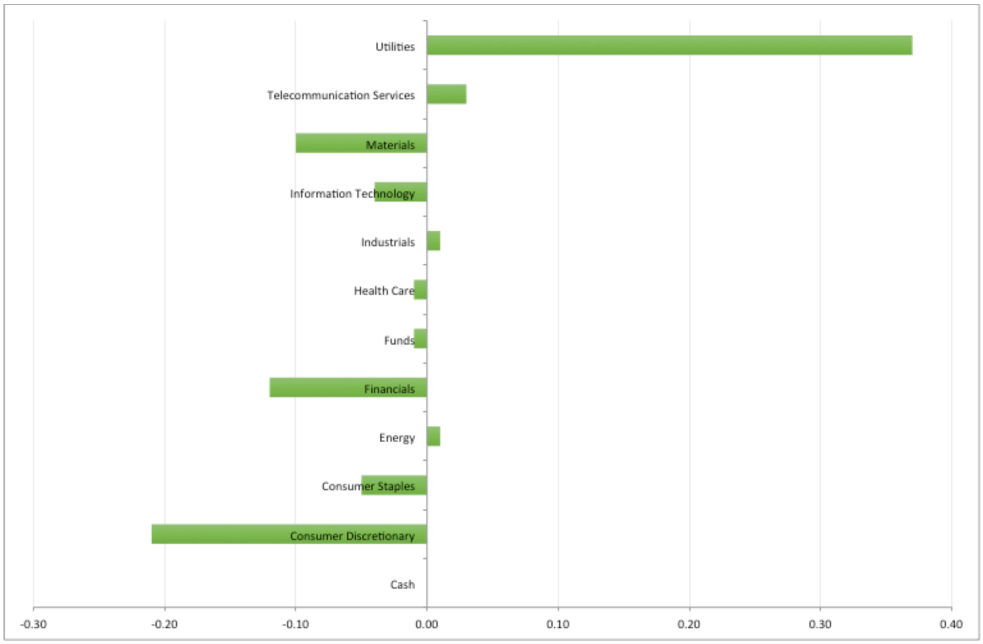
	% Average Weight			Contribution to Return (%)			Total Return (%)			Total Attribution (Alpha) (%)	Allocation Effect (%)	Selection Effect (%)
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-			
Total Portfolio	100.00	100.00	0.00	4.16	5.34	-1.18	4.16	5.34	-1.18	-1.18	-0.12	-1.05
Cash	0.00	0.08	-0.08		0.00	0.00		0.00	0.00	0.00	0.00	0.00
Consumer Discretionary	0.00	12.25	-12.25		0.85	-0.85		7.06	-7.06	-0.21	-0.21	0.00
Consumer Staples	11.72	9.83	1.88	-0.05	0.31	-0.36	-0.35	3.07	-3.42	-0.47	-0.05	-0.42
Energy	9.46	8.44	1.02	0.32	0.54	-0.22	3.47	6.44	-2.97	-0.28	0.01	-0.30
Financials	15.58	16.11	-0.54	0.27	0.88	-0.61	3.02	5.51	-2.48	-0.49	-0.12	-0.36
Funds	7.67	0.00	7.67	0.50		0.50	5.35		5.35	-0.01	-0.01	0.00
Health Care	15.06	14.61	0.44	0.31	0.46	-0.15	2.16	3.09	-0.93	-0.18	-0.01	-0.17
Industrials	13.62	10.33	3.29	0.99	0.58	0.41	7.43	5.66	1.77	0.24	0.01	0.24
Information Technology	18.19	19.58	-1.38	1.50	1.49	0.01	8.46	7.71	0.75	0.09	-0.04	0.13
Materials	0.00	3.25	-3.25		0.27	-0.27		8.62	-8.62	-0.10	-0.10	0.00
Telecommunication Services	8.71	2.35	6.36	0.31	0.13	0.18	3.55	5.49	-1.94	-0.15	0.03	-0.18
Utilities	0.00	3.17	-3.17		-0.19	0.19		-5.49	5.49	0.37	0.37	0.00

<u>Total Attribution by Sector:</u>



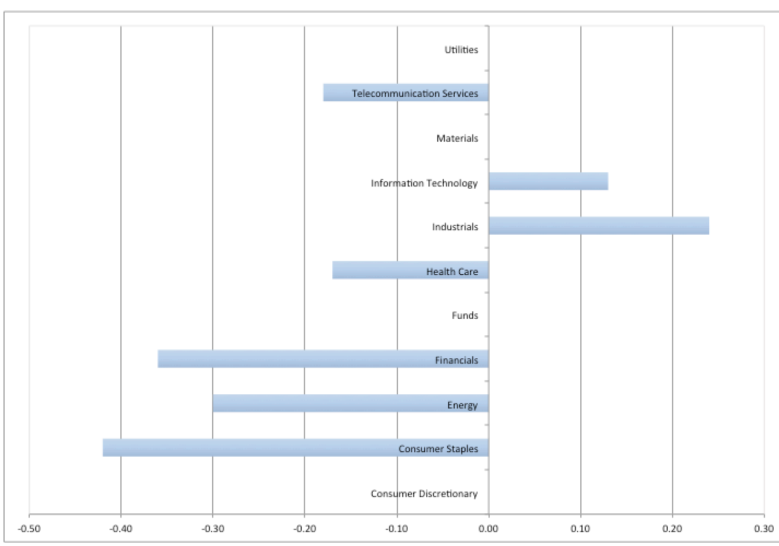
In several cases, it appears that we have selected the correct industry, but did not select the right stock and vice versa. In the Energy and Telecommunication sectors, it appears that we selected the correct industry, but did not select the correct security within the sector. On the other hand, there were other sectors such as Information Technology, which in comparison to other sectors did not perform as well, but within the sector, we selected one of the highest returning stocks, MasterCard.

Allocation Effect:



The Allocation Effect is a measure of a manager's decision to over or underweight a sector. This weight difference is compared to that sector's performance within the benchmark over a period. Our total Allocation Effect was -0.12%. One of the leading causes for this was the Consumer Discretionary sector. We did not invest in this sector, so our average weight is significantly below the benchmark's average. This sector did particularly well since September, and consequentially, our Allocation Effect results were impacted by this. On the other hand, we also benefited greatly from not investing in the Utility sector, indicating that our allocation into other sectors besides Utilities was a good decision.

Selection Effect:



Selection Effect measures an active manager's ability to choose individual securities in each segment. A positive measure demonstrates that a manager correctly identified a security that will outperform the rest of its sector. Our Selection Effect was -1.05%. Our largest positive Selection Effect was generated from the Industrials sector. In this, our investment in United Technologies was a key selection within the sector. United Technologies stood out to us because of its business model, where it provides service and maintenance to its customers long after the product is delivered.

The most significant adverse affect on our portfolio is from the Consumer Staples sector, where we selected both Diageo and Procter and Gamble. Both of these had positive returns. Looking further, stocks that had higher returns in this area include Estee Lauder, JM Smucker, Avon, and Hormel Food, all which have returned over 10% in the past year. Furthermore, there were very few companies in this sector that had negative returns. Those with negative returns only included Kellogg, Kraft, Wal-Mart, Molson Coors Brewing, Conagra Foods, and Keurig.

INDIVIDUAL POSITIONS

The Fund currently consists of 13 individual equities:

1. Express Scripts Holding Company
2. International Business Machines Corp.
3. The Procter & Gamble Company
4. Markel Corporation
5. United Technologies Corporation
6. AT&T Inc.
7. MasterCard Inc.
8. Diageo PLC
9. Gilead Sciences Inc.
10. National Oilwell Varco Inc.
11. Chevron Corporation
12. Precision Castparts Corporation
13. American Express Company

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

Express Scripts Holding Company (NYSE: ESRX)

We purchased 1,716 shares on September 23, 2014 at an average price of $76.09 per share.

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

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

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

As of February 20, 2015 we have an unrealized gain of 19.39% on Express Scripts.

International Business Machines Corp. (NYSE: IBM)

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

IBM is a global leader in the IT Services industry, providing computer solutions through the use of its advanced information technology systems and services. The company operates within its five business segments: Global Technology Services (GTS), Global Business Services (GBS), Software, Systems and Technology (STG), and Global Financing. IBM's GTS business segment represents a 40% majority share of the company's revenue, which includes areas of outsourcing, integrated technology services, and maintenance. The company's GBS business line follows behind with a 19% share of IBM's total revenue, with this segment focusing on consulting and systems integration.

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

Additionally, IBM continues to follow its policy of rewarding shareholders through share buybacks and increasing dividend payouts. The company has averaged $13 billion in free cash flow over the past 13 years, which it has used along with the issuance of new debt, to finance its share repurchase program. While some may view these transactions as a means to manipulate the company's stock price, over 90% of S&P 500 companies have capitalized on the all-time low interest rates to issue debt and reward shareholders. Furthermore, IBM is also taking steps to grow organically by investing in higher-value assets and in areas of R&D for cutting-edge technology, such as its cognitive computing system, Watson. Lastly, IBM has begun to establish strategic partnerships with major corporations such as Apple, Twitter, SAP, and Tencent, in order to become the go-to platform for enterprise. So far, IBM's Apple partnership has seen success as they have released the first wave of IBM MobileFirst for iOS solutions gearing towards business apps and supporting cloud services. This has effectively allowed IBM's big data and analytics abilities to prosper on the iPhone and iPad devices in enterprise. As mentioned in October, SAP selected IBM to be their global cloud provider for their enterprise cloud solution, which proved to be a key differentiator for SAP as IBM is able to integrate public and private workloads within its hybrid cloud system.

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

As of February 20, 2015, we have an unrealized loss of 14.84% on IBM.

The Procter & Gamble Company (NYSE: PG)

We purchased 1,200 shares of Procter & Gamble Company at an average price of $83.10 per share on October 2, 2014.

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

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

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

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

In the most recent quarter, P&G missed earnings by about $1.4 billion and is crediting it to current exchange rates. The U.S. Dollar is much stronger in comparison to foreign currencies, and this is hurting P&G's international profit. To offset this issue, Procter and Gamble is planning on raising prices in countries that have depreciated currencies. P&G is also trying to localize manufacturing to lessen exchange rate risks and reduce costs.

As of February 20, 2015 we have an unrealized gain of 2.13% on Procter and Gamble.

Markel Corporation (NYSE: MKL)

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

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

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

Markel Corporation has shown the ability to consistently grow in the past, as they have a 16% compound annual growth rate over the last 20 years. They are also exploring new strategies to grow, including Markel Ventures, which has grown revenues 22% year-over-year. While still small, Markel Ventures has plenty of room to grow and make an impact on Markel's bottom line.

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

As of February 20, 2015 we have an unrealized gain of 16.44% on Markel Corporation.

United Technologies Corporation (NYSE: UTX)

On October 13, 2014, we purchased 1,245 shares of United Technologies at a price of $100.65, which was close to its 52-week low of $97.30.

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

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

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

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

As of February 20, 2015, we have an unrealized gain of 23.21% on United Technologies.

AT&T Inc. (NYSE: T)

On October 28, 2014, we purchased 4,440 shares of AT&T at an average price of $34.33 per share.

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

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

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

AT&T has developed a strong focus on returning value to shareholders. The Company has rewarded shareholders with a high dividend yield, which has increased for the 30th consecutive year. The current dividend yield for AT&T shareholders is 5.51%. AT&T is well positioned for long-term success because of their high growth potential, a concern for shareholders, and a conservative business model.

As of February 20, 2015, we have an unrealized loss of 0.73% on AT&T.

<u>MasterCard Inc. (NYSE: MA)</u>

On October 17, 2014 we purchased 2,778 shares of MasterCard for $71.89 per share, which was close to its 52-week low of $68.68.

In addition to the fact that we believed that the market was undervaluing the company and it was growing at 10% per year, we purchased MasterCard because of its business model. The business is inflation protected because revenue is based on percentage of volume of transactions. MasterCard is also one of the few companies in the global payment industry, which has high barriers to entry. The other major players in the global payment industry are Visa, American Express, and Discover. American Express and Discover operate under a different business model having a closed loop model compared to MasterCard and Visa, which has an open loop model. We believe the open loop model allows banks to build merchant and cardholder networks. Having an open loop business model also allows MasterCard to eliminate interest rate risk.

MasterCard has focused on growing its cross border transactions, which are more profitable and have done significantly better at executing this plan than Visa. Global cross-border growth came in at 19% globally in the 4th quarter, which was significantly better than Visa. This number will only increase with China opening up its $1 trillion dollar domestic bankcard market to foreign companies. For the 4th quarter its net income went up to $0.69 per share from $0.52 per share a year earlier and beat the analyst's estimate of $0.67 per share. Going forward, we expect revenues will increase at least 12% a year and EBITDA margins will increase to at least 70%. This is due to the growth opportunities provided by 85% of world transactions still being made through cash and check. A growing middle class around the world will turn to less cash transactions in the future as well as new technology like Apple Pay, which decreases the need to carry anything other than your smartphone. MasterCard is also in a non-capital-intensive business that produces cash and has no need to carry debt, resulting in high returns on total capital.

As of February 20, 2015, MasterCard we have an unrealized gain of 26.29%.

Diageo PLC (NYSE: DEO)

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

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

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

Recently, Diageo has experienced certain economic headwinds, which have resulted in flat growth in revenue and a reduction in earnings. This is largely due to slowing demand in the United States and weak growth in Europe, as well as issues in China concerning its anti-extravagance policies and the negative impact of currency exchange in Russia and Venezuela. There are also concerns that certain product categories are experiencing pricing pressures, such as vodka and rum. Still, the company has been focusing on increasing cash flow through reduced costs and increased efficiencies in the areas of information technology, supply chain and logistics. Recently, the company hired Marco Preda of Ralph Lauren to oversee its e-commerce, and find ways to generate growth through sales online. In the short term, we expect to see moderate gains for Diageo, and reiterate our belief that positive, long-term growth in the global middle and luxury class makes the company a solid long-term investment.

As of February 20, 2015, we have an unrealized gain of 3.36% on Diageo.

Gilead Sciences, Inc. (NASDAQ: GILD)

On October 30, 2014, we purchased 438 shares of Gilead at an average price of $113.23 per share. On October 31, 2014, we purchased 655 shares of Gilead at $112.11 per share. On November 19, 2014, we purchased 241 shares of Gilead at $101.89 per share. On December 23, 2014, our stop loss order was triggered at a price of $86.90, selling all 1,334 shares. On January 2, 2015 we purchased 633 shares of Gilead at an average price of $96.51. On January 5, 2015 we purchased 564 shares of Gilead at an average price of $98.17.

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

In December 2013, the FDA approved the immediate release of Sovaldi, followed by the approval of Harvoni in October 2014. The therapies boast a 90% cure rate for Hepatitis C. Sovaldi, Gilead's initial offering, must be supplemented with another medication, such as Johnson & Johnson's Olysio, but the requirement to take a supplemental treatment was eliminated with the introduction of Harvoni. Additionally, Harvoni reduced the side effects created from the two-treatment regimen, while also providing a single pill solution.

With approximately 3.2 million Americans suffering from Hepatitis C and 150 million worldwide, we estimate a $750 billion global market based on the assumption that the price will eventually come to be $5,000 per full course of treatment.

Though Gilead has benefited greatly from being the first to market, and therefore justified its initial sticker price ($84,000 for Sovaldi and $94,000 for Harvoni), the introduction of AbbVie's Viekira Pak causes pricing pressures, which we anticipated when we initially bought the stock. AbbVie initially offered the drug at a wholesale price of $83,320, which is not significantly less than Gilead's pricing of $84,000 for Sovaldi. However, they offered a discount with Express Scripts in order to secure a place on Express Script's National Preferred Formulary, which also prompted Express Scripts to drop Gilead's treatments from the list. While the specific price in the agreement between Express Scripts and AbbVie is not disclosed, they have mentioned that it is priced similarly to what it is priced in Western Europe (average $55,000). This deal provoked Gilead to create a deal with CVS Caremark, another pharmacy benefit manager, to cover Gilead's Hepatitis C treatment exclusively. Despite the pricing pressure, we believe that if if Gilead maintains even one-third of the estimated $750 billion global market, it will capture enough to continue to be a significant player in the Hepatitis C market. Furthermore, it is estimated that the cost to produce Sovaldi and Harvoni is $130 for the 12-week treatment, allowing room for further negotiations in price if needed and strong margins. Another aspect of Gilead's treatments that continue to attract us to the company is that Harvoni is a superior drug, offering a single-pill per day and limited side effects. On the other hand, AbbVie's Viekira Pak is a 3 pill treatment and must still be taken with ribavirin, which was a supplemental treatment initially required by Sovaldi, but eliminated with the introduction of Harvoni.

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

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

As of February 20, 2015 we have a realized loss of 21% and an unrealized gain of 7.47%.

National Oilwell Varco Inc. (NYSE: NOV)

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

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

National Oilwell Varco has a long-term competitive advantage in the oil and gas services industry. The company is currently the market leader as a supplier of oil extraction products. The rig technologies segment sells the rig for whatever drilling method that will be used, from fracking to deep-water. After the initial sale, NOV performs periodic maintenance on the rigs, which leads to annuity-like revenue streams. Due to the current conditions in the oil and gas market, stocks in this sector have taken a hit. This has given the opportunity to purchase National Oilwell Varco at a discount from its intrinsic value (we calculated intrinsic value to be about $87 per share).

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

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

The 2014 earnings report reflected a lot of uncertainty of the short-term future on behalf of the new CEO, Clay Williams. The company expects their $12 billion backlog to carry them through the first half of 2015, as preexisting service contracts come to fruition. However, some project managers have requested delays of their products and services until oil prices rebound. This has caused trepidation for investors, and consequently has pushed the stock price downwards. We believe that oil price volatility is one of the risks in investing in the energy sector in general. Although this trough in oil prices will probably pinch revenues in the short-term, we do not think it impacts the fundamental business model and earnings ability of the company (at least when prices stabilize). 2009 was a more precipitous decline for oil prices, and their revenues only fell by 4% before growing again in 2010. Given our valuation models, we found that the current stock price represents a 30% projected decrease in revenues for the next two years, which we think is highly unlikely.

As of February 20, 2015, we have an unrealized loss of 25.93% on National Oilwell Varco.

Chevron Corporation (NYSE: CVX)

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

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

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

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

The energy industry as a whole has taken a hit as of late due to a decrease in oil and natural gas prices. This decrease in commodity prices has hurt Chevron, as their 2014 earnings were about $4 billion less than their 2013 earnings. However, Chevron feels as if this is only a temporary issue, and has continued to fund their major projects. In addition to this, Chevron also increased their dividend for the 27th consecutive year, showing that they are still very committed to their shareholders.

As of February 20, 2015, we have an unrealized loss of 7.38% on Chevron.

Precision Castparts Corporation (NYSE: PCP)

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

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

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

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

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

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

Last quarter, PCP saw an increase of 6% in its aircraft business year over year and a 7% increase in its industrial gas turbine business because customer's used more PCP parts in their engine upgrade programs than before as well as higher demand for spare parts. These factors led the company to higher income and sales growth compared to last year's performance. Due to the fall in the price of oil, PCP has seen a decline in demand from oil and gas for forged parts and the company has also had delays in its upgrade of a major forging plant, which has now been finished.

As of February 20, 2015, we have an unrealized loss of 3.31% on Precision Castparts.

American Express Company (NYSE: AXP)

We purchased 760 shares of American Express on February 6, 2015 at a share price of $85.67, 1,000 shares on February 10 at a share price of $86.00, and 200 shares on February 18, 2015 at an average share price of $79.22.

American Express Company is a global payment and travel company. The company's principal products and services are charge and credit payment cards and travel-related services. AmEx operates through four segments: U.S. Card Services, International Card Services, Global Commercial Services, and Global Network and Merchant Services. American Express operates a Closed-Loop network where they act as the issuer and acquirer of their credit cards. AmEx's Closed-Loop network gives them access to the purchasing information of their customers, allowing them to provide customized offerings to attract and retain consumer and merchant accounts. The company's Closed-Loop network also allows them to charge large discount fees to merchants that accept their cards. These fees are charged as a percentage of the charge amount processed for the merchant, and account for 65% of AmEx's revenues. Thus they maintain a Spend-Centric Model where they are dependent on the total amount spent by the customer, rather than the volume of transactions processed.

American Express is well positioned in the major global payment sector. Their competitive advantage is their Closed-Loop and Spend-Centric Models that work to attract and retain affluent customer accounts, which limits the company's credit risk. Their access to customer purchase information will allow them to succeed in the future even if there is a disruption in the global payments industry

American Express is ingrained in the financial services industry because it is too important in the financial services ecosystem regarding the securitization of credit. AmEx offers financial institutions long windows on the payment of their charge cards because they securitize all their credit card loans. American Express evenly distributes the securitization of their credit to all the financial institutions that use their cards, creating billions of dollars for the financial services industry.

In general, the global payment sector remains very lucrative because of the eventual shift from cash to credit payments. American Express's strong customer satisfaction and competitive advantages have them positioned for long-term success.

As of February 20, 2015, we have an unrealized loss of 6.17%.

LESSONS LEARNED

Over the course of this academic year, the SMF Program has not only taught us the art and science of portfolio management, but also critical life lessons, including how to think differently, be open-minded, work within a dynamic team environment, and the importance of failure. We've learned that failure is a natural and necessary component in the formula for success and growth. Even some of the most successful people have faced a great deal of setbacks in their life. Basketball legend, Michael Jordan, said, "I've missed more than 9,000 shots in my career. I've lost almost 300 games. 26 times, I've been trusted to take the game winning shot and missed. I've failed over and over and over again in my life. And that is why I succeed."

One of the very first classroom lessons we learned was in regards to how investors are similar to lemmings. A lemming is a rodent that often suffers death by drowning when a herd of lemmings go off a cliff together. Many investors follow the crowd when entering an investment. We have learned that as investors, we should not only seek to form our own opinions, but also to look for the opportunities that exist when an event like this occurs. We found these opportunities presented to us both with IBM and American Express. Though many investors reacted to negative news by selling their shares, driving down the price, we did our own research and believed them to be sound investments long-term and the reduced price gave us a higher margin of safety. Investors that follow other investors are easily swayed, but we believe in each and every investment we have invested in and have further solidified our opinions by continuing to purchase more of the stock, even when other investors have the opposite opinions.

We have also learned about preparation. In order to defend our opinions, we did significant research into each of our stocks before presenting them to the other student fund managers. From the get-go, we have been very proactive about researching companies in our respective industries. We were able to allocate the funds to individual equities because we were very proactive about finding companies that fit our investment criteria. Furthermore, the preparations we have put into our pitches have made us more confident about our decisions because we feel that we have thoroughly researched each company before making any investment.

In addition to being confident in ourselves, we also evaluate our confidence in the companies we invest in. In order to agree on an amount to invest, we analyzed how certain we were about the future success of a business. It would not make sense for us to invest a larger portion of the portfolio into a stock that we were not as confident about compared to our other investments. Once we agreed on how confident we were about a company's future, we were able to reach a reasonable conclusion on how much we should allocate to each company.

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

Finally, we must address our failures, which is an important part of the learning process. Our failures have come in many shapes and sizes. During the first few pitches, we did not look at the company the right way. We quickly learned that a company is not just numbers and that in order to make an investment in a company, we need to understand the business model and how the company operates and makes money. Further, we have learned that despite the amount of research we do, there are some aspects of the market that we will not always be able to accurately predict. We experienced this with oil. Though we still believe that in the long-term, oil will be over $100 per barrel, we did not expect oil to be so volatile in the meantime. We have turned this short-term loss into an opportunity to purchase more shares while the stock is undervalued.

We are very thankful to have the opportunities to learn with the support and guidance from our teachers, faculty, advisory board members, and the UConn Foundation. We have learned much more than just these highlighted lessons and look forward to taking these lessons with us as we continue to learn from the world, businesses, and people around us.