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PORTFOLIO OVERVIEW

**Investment Managers**

Jacquelyn Isola Zack Marcoux David Rifkin

Yijun Li Brittany Martens Christopher Strobel

Tom MacLean Michael Morabito Brian Wilczynski

Anthony Mancini

**Fall Officer Positions**

**Lead Manager -** David Rifkin

**Portfolio Manager -** Brian Wilczynski

**Treasurer/Secretary -** Michael Morabito

**Bloomberg Specialist/Web Manager -** Tom MacLean

**Undergraduate Supervisor -** Christopher Wilkos

**Fund Director -** Chinmoy Ghosh

**Investment Philosophy**

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

**Investment Strategy**

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

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

**Risk Management**

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

**Business Model Risk** – company’s business model is unsustainable or easily duplicated

**Balance Sheet Risk** – company has leverage well above industry average

**Management Risk** – company may have unreliable management

**Aggregation Risk** – a portfolio sharing common risks among its holdings

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

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

With multiple managers specializing in different sectors, we have been able to successfully diversify our portfolio holdings across multiple sectors to avoid significant aggregation risk. Thus, in the event of a single industry experiencing a downturn, the majority of the portfolio remains unaffected. We continue to monitor the portfolio and reevaluate our existing positions as needed. In the event of any single security or the market as whole taking a highly significant downturn, we hold a 25-30% stop-loss from the purchase price to cap potential losses. Our risk management focus is centered on long-term performance and capital preservation, so we are not overly concerned with short-term volatility in the market.

**Current Market Conditions**

Despite the growth enjoyed because of continuously increasing levels of consumer confidence since the financial crisis, the market still appears to be highly reactive and uncertain amid a looming Fed rate hike. Global growth concerns and stagnant monetary policy caused the S&P 500 to drop by about 6% in the third quarter. Since the decreases, the market has rallied strongly, although interest rates remain at record lows. In addition to these market circumstances, our nation’s GDP growth remains between 2-3%. Despite this environment, the Fund has invested in companies with strong fundamentals at prices that we believe are fair because they are being undervalued and have a margin of safety.

**Process**

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

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

In order to invest in a stock, it must get approval from at least 7 out of 10 managers. After the Fund decides to invest in a business, the group determines how much capital to allocate based on the risks and growth potential of the business and the certainty of the company’s future. Each company will be allocated approximately 3%-10% of the total capital available to the fund.

The sectors and the corresponding analysts are listed below:

**Basic Materials** - Thomas MacLean, Christopher Strobel

**Consumer Discretionary** - Jacquelyn Isola, Brittany Martens

**Consumer Staples** - Jacquelyn Isola, Yijun Li

**Energy** - Brittany Martens, David Rifkin

**Financials** - Yijun Li, Anthony Mancini, Brian Wilczynski

**Healthcare** - Zack Marcoux, Christopher Strobel

**Industrials** - Anthony Mancini, Brian Wilczynski

**Technology** - Thomas MacLean, Michael Morabito

**Telecom** - Michael Morabito, David Rifkin

**Equity Portfolio and Allocation**

The Fund has 47.5% of the portfolio invested with .3% of the portfolio remaining in cash and 52.2% remaining in the SPDR. Looking forward, the Fund is well positioned to invest the remaining portion of the portfolio into equities by mid semester. The average position size, excluding the SPDR S&P 500 ETF, is approximately 8%, with our largest positions in Boeing (10.6%/~$200k) and PNC Financial Services Group (9.9%/~$186k). In total there are 6 positions.

**Performance**

The charts below depict the performance of the portfolio from September 23, 2015 to November 24, 2015.

**Total Portfolio Unrealized Gains**



**Equity Portfolio Unrealized Gains**



**Total Portfolio Performance vs. S&P 500**



The most significant adverse impact on our portfolio has been the settlement period of our transactions, specifically those in which we sell the SPY ETF. For example, after liquidating shares of the ETF for the investment in Gilead, there was a six-day delay before buying the shares of Gilead. In that short period, the stock had risen by approximately 6.3%. This represents foregone appreciation that would have resulted in a profitable investment in Gilead rather than the current loss. We understand the purpose of the settlement period and realize that in taking a long-term perspective, these relatively small price increases would not affect performance greatly.

**Individual Stock Performance**

Over the past few months, we have seen strong returns in our investments in Financials, Industrials and Energy. Our largest gain, 8.71% since purchase, comes from Boeing due to a favorable earnings report and upwards guidance revisions. Our largest loss at the moment is UTC due to buying shares in the company just as it reached its peak after beating analysts’ estimates for the quarter. The company’s shares had increased by roughly 8% in the period between the earnings report and when we made our investment. However, these are short-term price fluctuations that due not impact our assessment of UTC as an undervalued company with strong long-term growth prospects.

ECONOMIC OUTLOOK

When considering potential investments for the Student Managed Fund, our group pays close attention to the Macro-Economic factors that will influence the performance of a given investment both in the short and long term. The major economic themes that we consider are:

**The US Economy**

Our outlook of the domestic economy is mixed. Year-over-Year Growth in Real GDP has been relatively stable since the Financial Crisis, and appears moderate at about 2%, along with stable Year-over-Year Growth in Industrial Production, currently at .3%. In addition, the unemployment rate has improved significantly and now stands at 5.00%, and weekly jobless claims have steadily declined, now standing at 271,000. From a fiscal standpoint, the Government Budget Balance as a percentage of GDP has improved steadily as well; now standing at -2.40%. Consumer Confidence, as measured by the University of Michigan Consumer Confidence Index, seems to have improved to pre-crisis levels; signaling that the American Consumer is confident in the state of the overall economy.

While these numbers appear solid on the surface, given the recent years of near-zero short term interest rates, these numbers likely should be better. Despite the policies implemented by the Federal Reserve, inflation has remained below the Federal Reserve’s target; with the CPI ex-Food and Energy now at 1.90% YoY, and wages have been stagnant at around 2.20% YoY compared to around 3.00% before the crisis. While the unemployment rate has improved, Labor Force Participation remains relatively low at 62.4%; well below pre-crisis levels of around 66%. This signals that workers are still reluctant to re-enter the labor force due to lack of confidence that they will be able to find work. In the housing market, we see a slight recovery, but there is still a lot of improvement to be made. New Home Sales seem to have improved since the Housing Market Crash, now at 468,000/year, but they remain drastically below pre-crash levels of around 1,000,000/year. Similarly, Building Permits for new Homes have improved- now at 1,150,000/year, but still remain below pre-2007 levels of about 1,500,000/year. Mortgage Delinquencies as a percentage of total home loans come in at around 5.00% which is around pre-crisis levels; signaling that heightened lending requirements implemented after the Financial Crisis seem to be improving the stability of the market.

So while the SMF sees that the US Economy has made improvements over recent years since the Financial Crisis, we recognize that there are still significant improvements to be made before the US Economy reaches full strength.

**Economic Growth in China**

One of the most important economic factors that the SMF considers when evaluating a company is its exposure to the second largest economy in the world: China. China has seen a significant decline in YoY Growth in output, with Real GDP Growth now at 6.90%, compared to around 10% in recent years and as high as 15% below the Financial Crisis. Industrial Production has decelerated drastically; now growing at 5.60% YoY compared to over 18% in 2010 as well as before 2008. Exports have shrunk significantly as well; now at -6.90% YoY compared to around 10% in 2012 and over 20% before the Financial Crisis. The Real Estate Market has been hurt as well, with Bloomberg’s Real Estate Climate Index at 93.00, which is actually below the levels seen during the Financial Crisis and far lower than the peak of 106.0 it reached in 2010. Prices (as measured by the CPI) have grown at around 1.30%, which is similar to levels seen before 2008. All things considered, China is one of the most important economies for the Student Managed Fund when making investment decisions, and its current struggles are certainly a factor that we examine closely throughout the year.

**Oil and Commodities**

Over the past year, commodities markets have shown a significant decline in the prices of energy such as Crude Oil and precious metals such as Gold, Copper, and Platinum. One of the most publicized and important commodities that has declined over the last year has been Crude Oil, with oil futures now standing at around 40.25 per barrel. This reflects significant increases in production of both OPEC and Non-OPEC countries as well as declining demand due to the economic slowdown in China. The price of oil is crucial to the SMF both directly due to our position in Chevron Corporation, and the demand-related signals that oil prices give regarding demand and industrial production.

Additionally, we have seen prices of Gold, Copper and Platinum decline drastically, perhaps due to declines in Industrial production in China and global economic slowdown, in addition to a relatively strong dollar which likely will persist following a potential Federal Reserve interest rate hike in the near future. The ripple effect of the widespread decline in oil prices will likely have repercussions on Emerging Markets that rely on commodity exports for growth such as Brazil, Australia, and Chile. Our group pays very close attention to the signals given by commodities markets, both in regards to the direct impacts of prospective companies in the commodities space and the implications about global demand/growth.

**The Eurozone Economy**

The economies of the Eurozone have struggled in recent months. The unemployment rate across the Euro area is currently 11.0%, ranging from 4.5% in Germany to as high as 25.5% in Greece. Youth unemployment in particular is a major issue in the region, with the unemployment rate among young adults currently standing at 22.3%. Despite Quantitative easing by the ECB, inflation currently stands at .1%, which is well below the target of 2.0%. Economic Growth in the region as a whole has been underwhelming; currently standing at 1.3% YoY, and Exports have declined to 40.1% percent of GDP across the EU. Similar to China/Emerging Markets, the Eurozone economy is crucial to the SMF’s consideration of investment opportunities due to the significant exposure most of our perspective investments in the region. It is a topic that we follow closely throughout the year.

**The Federal Reserve Rate Hike**

One of the central news topics over the past weeks and months has been the potential Federal Reserve’s Interest Rates hike. In considering the prospects and impacts of an increase in the Federal Funds Rate, it is important to consider the Fed’s two main policy goals: stable prices and full employment. In regards to prices, as mentioned earlier the level of inflation simply has not been able to reach the Federal Reserve’s target of 2.0%. Despite nearly eight years of near-zero short-term interest rates, prices simply have not grown as quickly as the Fed would have liked. Quantitative Easing by the Federal Reserve has significantly lowered Treasury Rates, with the 3-month Treasury Rate now at .30% and the 10 Year Treasury Rate currently at 2.24%, compared to it 50 year average of about 6.40%. This has allowed business to borrow at very low interest rates, contributing to a significant recovery in equity markets since 2008.On the employment side, we have again seen tightening of the labor market with a declining unemployment rate and improving level of initial jobless claims. However, wage growth has been slow and the labor force participation rate has been stagnant since 2008.

All things considered, we feel as though it is likely that the Federal Reserve will raise interest rates in the near term; likely with a gradual path of rates hikes over time. We feel as though the initial increase in rates will mean very little directly, however it will signal a renormalization of monetary policy by the Federal Reserve going forward.

SECTOR ANALYSIS

**Sector Allocation**

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

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

The following table highlights the sector breakdown, sector performance, and S&P sector weightings of our portfolio as of November 24, 2015:



Relative to the S&P 500, our investments are not evenly spread across sectors. This is because we are only about 47.5% invested. We have not yet invested in the Basic Materials, Consumer Goods, Consumer Staples, Telecommunications, or Utilities sectors. Until we invest more of the total portfolio, our sector weights will differ greatly with those of the S&P 500. 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.

**Consumer Staples**

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

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

So far, the consumer goods industry has slightly outperformed the S&P 500. The consumer goods sector has increased by 4.65% YTD as opposed to 3.48% YTD from the S&P 500. Despite having some protection from economic downturns, consumer goods require constant innovation updating to follow consumer trends in order to remain viable amidst stiff competition. The consumer goods industry is trying to expand into emerging markets, particularly with the rise of the middle class in Asia. Companies are continuously updating products to fit with changing consumer demands. There is an increase in online shopping with the evolution of technology, so consumer goods companies need to understand how to best market their products given this change in lifestyle.

**No Current Holdings**

**Consumer Discretionary**

We have found consumer discretionary to be a difficult area to invest in. After looking into several stocks, we ruled out Home Depot, Nordstrom, Disney, and Chipotle due to fair valuations. The fund has also decided to stay away from the automotive industry, as this is unpredictable and often volatile.

The Fund has also wrestled with the idea that by definition discretionary stocks are sensitive to a downturn in the economy. Overall, we do believe that there is some opportunity in this sector. We expect an increase in housing and therefore have been looking into names that will benefit from this increase. This will be something we consider in future decisions and investigation.

**No Current Holdings**

**Energy**

Since the start of the year, 2015 has been tough on oil. In January oil prices hovered around $55 per barrel, a price many analysts saw as a bottom. However, prices have since moved as year high as $65 to a current low of $41. The volatility in the oil market has been caused by the intense increase of supply coming out of the United States and the determination of OPEC to maintain production, In addition, unrest across the Middle East region, the lifting of Iranian sanctions, and the economic downturn in China have also contributed to the movements in oil.

In the short term we do not expect oil prices to rise. The market is so correlated with supply and demand, that the price will not likely fall until supply also falls or demand increases. This may take some time. However, the SMF does believe that an increase in oil prices will be seen in the long term.

Another opportunity for growth that we see is in natural gas. This is a cleaner and more abundant resource. In addition with the implementation of liquid natural gas, this has a great potential for growth globally.

These two views are what supported our position in Chevron, as it will greatly benefit from the growth in natural gas and an increase in oil price.

**Current Holdings:** CVX

**Financials**

The Financials sector contains a vast array of financial services companies, such as commercial and investment banks (J.P. Morgan Chase), asset management firms (BlackRock), credit card companies (MasterCard), brokerage firms, stock exchanges (Intercontinental Exchange), credit rating agencies (Moody’s Investor Service), insurance companies (MetLife), etc. The Financials sector currently holds a 16.57% weight in the S&P 500 index, or a market capitalization of about $3.06 trillion. This is an increase of about 0.17% since the previous undergraduate report.

The performance of the Financials sector has been poor this year. If an investor put a dollar in a broad basket of financial companies, this investor would have lost money, year to date. This investment would have declined from $1 to approximately $0.994. An investment in a broad basket of information technology companies, on the other hand, would have grown from $1 to $1.07 during the same period. Comparing the Financials sector to the market as a whole, a dollar investment in the entire S&P 500 index would have grown to approximately $1.022. Thus, the Financials sector has been underperforming the market thus far this year.

The Financials sector has endured a series of global events this year that has affected performance. Currency fluctuations (such as the devaluation of the Chinese yuan, the strengthening of the U.S. dollar versus many major currencies, and the Greek Sovereign Debt Crisis’ effect on the euro) likely has had an impact on banks currency operations; Low interest rates have held down the returns on many fixed income assets held by banks, asset management firms, and insurance companies. Capital requirements have become stricter due to Basel III, reducing returns for banks; and quantitative easing programs by the European Central Bank have made European interest rates decline as well. For many financial companies, these developments were unavoidable, and thus these financial companies were forced to bear with them.

Going forward, one of the biggest developments that will affect the Financials sector is the Federal Reserve’s rate hike. Throughout the year, the market has speculated on many different dates for the rate hike, such as in the month of June or September. Recent Federal Reserve statements and general market opinion suggests that the rate hike will occur in December, barring no bad economic data. We believe that this will have a positive effect on our holdings of financial companies (as PNC will be able to earn a higher return on its loans).

**Current Holdings:** PNC

**Healthcare**

The healthcare industry has experienced significant changes over the past year regarding increasing political tension. However, there is a tremendous amount of innovation and discovery to be seen in biotechnology and health care. Also, as emerging nations begin to develop a larger middle class, it will lead to expanding markets as well as support long term growth of these companies.

In the recent past, there has been increasing concern regarding the uncertainty of the U.S. health care reform as well as drug pricing and reimbursement pressure. Changes to the Affordable Care Act will have an impact on the long-term potential of the healthcare industry for the future. Also, as biotech firms continue to introduce highly priced medications, public scrutiny regarding their high margins will remain prominent. However, this public scrutiny does not seem to have gained any relevance but has made many headlines and caused short-term volatility in stock prices. There have also been many mergers and acquisitions in the past year that have yet to show their impact on the industry. Generic drug manufacturers have also began to cause a threat to high margin companies by undercutting prices for similar medications.

Despite uncertainty regarding the U.S. health care reform, biotech drug innovation has remained strong. Many companies have displayed promising pipelines of potential new drugs. The promising pipelines of many biotech companies should be a strong candidate for investment. As these new drugs come to the market, new consumers around the world will be gaining access to these modern medicines. The growing middle class of emerging markets will lead to an increase in market share by newly developed nations.

**Current Holdings:** GILD

**Industrials**

The Industrials sector contains a board spectrum of companies that produce goods or provide services to both consumers and business for mainly industrial use. The types of companies included in this sector include industrial conglomerates (United Technologies Corporation, General Electric), aerospace companies (Boeing), heavy machinery companies (Caterpillar), airliners (Southwest Airlines, American Airlines Group), shipping companies (FedEx, United Parcel Service), tool manufacturers (Stanley Black & Decker), fire and security companies (Tyco International PLC), defense companies (Lockheed Martin), etc. The industrial sector currently holds a weight of 10.11% (or about $1.91 trillion in market cap) of the S&P 500. This is a decrease of about 0.31% of the weight of the index from last year.

The industrials sector has not been performing well this year. A dollar invested in a broad basket of U.S. industrial companies would have declined to approximately $.0975, year to date. An investment in the U.S. equity market as a whole, however, would have grown to approximately $1.022.

The biggest factor that will likely come into play in determining the performance of industrials in the upcoming years will be global growth. Recent data has suggested to investors and to the market that China, the largest developing economy, may be slowing down. This slowing economy will likely reduce the demand for industrial products, since companies will be producing fewer products, the government will be spending less on the creation of infrastructure and buildings, consumers will spend less on tools, etc.

**Current Holdings:** UTX, BA

**Technology**

This year the Technology sector is performing better than the other sectors. It has continued to recover following the recession in 2008. According to data provided by Finviz, the Technology sector is up 7.3% YTD, which is outperforming every sector. Activision Blizzard, Inc. (ATVI), NVIDIA Corporation (NVDA), Alphabet Inc. (GOOG), and Facebook, Inc. (FB) all have generated returns above 35% this year and are the top performers in this sector.

The Technology sector is broken up into seven different industries: Communications Equipment, Electronic Equipment, Instruments & Components, Internet Software & Services, IT Services, Semiconductors & Semiconductor Equipment, Software, and Technology Hardware, Storage & Peripherals. The Technology sector has a market capitalization of $5.94 trillion. The largest industry by market capitalization is Software ($1.34 trillion), which has been the best performing segment, up 11.04% for this year. On the other hand, the worst performing industry has been Telecommunications Services, which has lost 13.37% this year.

We view this sector as one of the most competitive sectors in the market. However, we believe some companies in the sector have developed strong competitive advantages, presenting attractive long-term investments. In the Technology sector, both growth rates and failure rates can be very high. Despite some uncertainty as to how the industry will evolve over the next ten years, we have identified companies within this sector that are positioned to capitalize on emerging trends and continue to reward shareholders in the future.

**Current Holdings:** IBM

INDIVIDUAL POSITIONS

**The Boeing Company (NYSE: BA)**

On October 7 2015, we purchased 1343 shares of The Boeing Company at $136.734/share

The Boeing Company develops, manufactures, markets commercial aircraft. Boeing also researches, develops, and produces information, space, and defense systems. Management is CEO Dennis A Muilenburg and CFO Greg Smith, both of whom have been at the company for over 20 years. Boeing makes money by designing, assembling, and selling commercial jetliners to customers such as Southwest Airlines, American Airlines, Delta Airlines, etc. They also manufacture defense systems, satellites and information systems to sell to the US Military. Finally, they provide financing/leasing for clients in the airline industry through Boeing Capital Corporation. Boeings major competitors are Airbus, Lockheed Martin, General Dynamics, and GE.

We feel as though Boeing has a number of competitive advantages that all contribute to it being a viable investment over a long term time horizon. First, they have very strong relationships with their suppliers and competitors. For example, they have partnered with Lockheed Martin in the United Space Alliance and with Northrop Grumman in various joint missile programs. Also, they work closely with international suppliers such as Kawasaki and Mitsubishi to help them gain exposure to foreign markets.

From a product specification standpoint, in evaluating Boeing we compared one of its major intercontinental Jumbo Jets to a comparable jet made by Boeing’s primary competitor; Airbus. We found that although Airbus’ “Airbus A380” had a higher capacity in terms of seats/plane, Boeing’s 747-81, the 747-81 had better thrust/weight, range, total cost and fuel efficiency. These kind of fundamental advantages highlight why Boeing has achieved and maintained such as strong market share; it consistently produces high quality products for its customers. Boeing is also a primary supplier to the US Military and Air Force, benefiting from sustained military spending by the US government.

Company Financials obtained from Bloomberg show that over the past 4-5 years, Boeing h as shown strong growth in returns, stable margins over time, very strong Free Cash Flow Growth, solid liquidity, stable growth in Net Income and EPS, as well as very strong growth in their dividend per share. On June 30 of the year, the company announced that they will be purchasing $7.5 Billion of common stock. When compared to its industry competitors, Boeing has above average sales growth and the best Cash from Operations over the past 12 Months, and a superior Free Cash Flow Yield among its industry.

Finally in regards to the risks that Boeing faces, we feel as though uncertainty regarding the Export-Import Bank is something that needs to be closely followed. The lending authority of the Export-Import Bank was allowed to expire on June 30. The Export Import Bank is responsible for ensuring and financing purchases of US Goods by foreign buyers, so this makes it much harder for Boeing to sell to less-credit-worthy buyers in emerging markets, placing increased credit risk upon Boeing Capital Corporation.

Another risk that Boeing faces is the cyclicality of the airline industry. As we mention in our economic outlook, the US economy appears to be solid, but not particularly strong. Any kind of weakening or downturn in the US Economy could have a negative impact on the domestic airline industry, which is where Boeing focuses most of its business.

To date, we have an unrealized gain of 8.71% on Boeing.

**International Business Machines Corp. (NYSE: IBM)**

On October 21, 2015, we purchased 695 shares of International Business Machines Corp. (IBM) at a price of $140.18/share. The size of the initial investment was $97,427.81.

IBM is a diversified technology company focused on providing enterprises with individualized information technology solutions. It has four operating segments: Global Services, Software, Systems & Technology, and Global Financing. In the past three years, IBM has significantly divested its hardware capabilities and heavily invested in services and software. In 2015, it is primarily a services and software company; those two capabilities account for nearly 85% of revenue. Moving forward, management is focused on growing four “strategic imperatives”: cloud computing, cognitive computing, enterprise mobile solutions, and digital security.

Until now, IBM has been negatively affected by the cloud-computing trend due to its focus on traditional hardware solutions. However, it is at the end of its transition out of traditional hardware and into higher margin software and services businesses, and it is set to grow revenue and free cash flow over the next 10 years. Despite current struggles, IBM is the market leader in the IT Services industry with an 8% market share – the industry is projected to grow to $450B by 2021. With its strategic imperatives growing at nearly 30% per year, it is positioned to gain a large portion of industry growth moving forward. From a valuation perspective, at a price of $141.66, IBM has a fantastic 9.9% free cash flow yield and 3.7% dividend yield. With our growth projections for the next 10 years, IBM is an outstanding investment opportunity at this price.

IBM’s major competitors are Microsoft, Oracle, Amazon, HP, Cisco, and Accenture. The company has several competitive advantages that will drive long-term revenue growth. One of its main competitive advantages its ability to scale hybrid cloud offerings using IT expertise and infrastructure capabilities. Second, IBM has advanced data analytics capabilities using the first commercially viable artificial intelligence engine: Watson. In addition, data security is an issue of analytics, allowing IBM to use its expertise to capitalize on the growth of this industry. IBM has a strong diversity of complementary offerings making it a compelling option over competitors for companies looking for a single package to augment and improve IT infrastructure and capabilities. As a result, we believe that IBM is currently the best investment in the technology sector.

As of November 13th, we have an unrealized loss of 1.13% on IBM.

**Gilead Sciences, Inc. (NYSE: GILD)**

On October 28, 2015, we purchased 1,099 shares of Gilead at an average price of $107.7853. The total size of the initial investment was $118,456.04.

Gilead is a biotechnology company that develops and produces pharmaceuticals for a variety of medical afflictions. Most of their business focuses on the treatment and cure of Hepatitis C and the treatment of HIV/AIDS.  Their drugs are sold all over the world and they are continuously adding to their drug pipeline, focusing on creating simpler drugs for conditions with little treatment available.  In addition to HIV and HCV, they have recently been branching into Oncology, Inflammation, and Cardiovascular segments. Gilead was founded in 1987, led by CEO John Martin since 1996.

Gilead is currently the global leader in Hepatitis C treatment due to the success of drugs Sovaldi and Harvoni. Sovaldi, a combined-treatment regimen coupled with Johnson and Johnson’s drug Olysio, was the first ever cure for Hepatitis C.  Gilead followed Sovaldi with Harvoni, a single treatment cure for Hepatitis C.  Both drugs have been proven to be over 97% effective, with minimal side effects. While Gilead was the first to cure Hepatitis C, they compete with AbbVie’s Viekira Pak, and they are expected to receive further pressure upon the approval of Merck’s C-Edge and ION (expected January 2016).  However, Abbvie’s Viekira Pak requires multiple pills and has recently been warned by the FDA for the risk of serious liver injury.  In anticipation of further competition, Gilead has been continually developing their drugs to be cleared for additional genotypes of the disease, as well as pushing for approval in foreign markets.  In July of 2015, Gilead received approval for Harvoni in Japan, a country that has one of the highest rates of liver cancer as a result of Hepatitis C

Regardless of competitive pressures, over 150 million people worldwide suffer from Hepatitis C.  Seeing that Sovaldi and Harvoni are sold for $84,000 and $94,000 respectively, while costing Gilead only approximately $130, Gilead will have much room remain profitable despite threats from pricing regulation and competition. Assuming that prices could drop as low as $5,000 on a global scale, this would value the Hepatitis C market at $750B, of which Gilead remains the market leader due to the superior quality and effectiveness of their products.

Outside of Hepatitis C, Gilead has a favorable drug pipeline with 11 drugs that are currently in phase 3 of approval, with the single-tablet HIV treatment Genvoya receiving full FDA approval earlier this November.  Other drugs in the pipeline consist of: additional HIV treatments, Hepatitis C treatments for other genotypes, Hepatitis B treatments, drugs for pancreatic and gastric cancer, and drugs for the inflammation and cardiovascular segments.  Gilead also acquired Copenhagen-based EpiTherapeutics in May, 2015 for $65 million.  This acquisition should add to Gilead’s Oncology pipeline with the use of epigenetic research, supporting the company’s initiative to explore chemotherapy-free cancer treatments.

Although Gilead made an acquisition this past year, the pharmaceutical industry in general has seen major changes due to massive acquisitions. M&A activity has been a common sight in the pharmaceutical industry since the 90’s, but Pfizer’s recent $160 Billion merger with Allergan is of a much larger scale. Aside from the changing landscape due to M&A activity, political pricing pressures are increasing, hinting at regulation in the near future. In total, industry dynamics such as M&A activity and pricing regulation are two major risks that Gilead is facing.

Despite these risks, we believe Gilead is in an excellent position to perform throughout a ten-year time horizon.  They have a strong and diverse drug pipeline, they are currently dominant players in both HCV and HIV, and they have demonstrated financial strength with margins that can absorb impending price restrictions.

As of November 13th, we have an unrealized loss of 1.16% on Gilead.

**United Technologies (NYSE: UTX)**

On November 3 2015, we purchased 1322 shares of United Technologies at $99.38/share.

United Technologies and its subsidiaries make plane engines, elevators, escalators, HVAC equipment, helicopters, and fire/safety equipment. Management is headed by CEO Gregory J Hayes and Akhil Johri. United Technologies has several lines of business including Otis, Carrier, UTC Fire and Safety, Pratt and Whitney, and Hamilton Sundstrand.

United Technologies operated through five main business lines. Otis is the world’s biggest elevator and escalator producer and service company. Carrier is the world’s biggest producer/distributor of heating, ventilating and air conditioner systems while UTC Fire and Safety makes fire detection systems and electronic security systems for business and homeowners. Pratt and Whitney is one of the world’s biggest manufacturers of commercial and military aircraft engines- servicing Airbus, Boeing, as well as the US Military. Finally, Hamilton Sundstrand produces aerospace products such as power generators and life-support systems.

One of UTC’s major competitive advantages is the quality of their products. They are currently unveiling a new Geared Turbo Fan Engine, which is said to be 10-15% more fuel-efficient and 50% quieter than any single aisle aircraft that is currently on the market. This engine is going to be used by airliners such as Airbus, Mitsubishi, Embraer, and Bombardier.

United Technologies also has a strong market share in stable markets such as the elevator market. Otis has maintained a very strong market share and brand in the elevator/escalator market. They are a market leader in China, with is the biggest and fastest growing elevator/escalator market in the world. As the economies in emerging markets recover in the future, Otis will be able to capture significant market share in those countries as well. Further, given that UTC has such a diverse product line, it is able to take advantage of cross-selling opportunities that exist among Otis and UTC Fire and Safety. For example, if a builder is hoping to install elevators in a new office building, UTC can offer to produce/ service the elevator through Otis and also install the building’s security and fire detection systems.

United Technologies also stands to benefit from an expanding airline market. Airline traffic is expected to grow by about 5% per year over the course of the next 20 years the global economy expands, according to forecasts by Boeing. This increase in traffic will help airline companies make higher profits and invest in new airlines/airplane engines. In addition, UTC says that they expect there to be about 35,000 commercial airplane orders over the next 20 years, which would be an increase from the 19,000 order over the past 20 years. This rapid growth in the airline market will benefit Pratt and Whitney significantly over time.

In regards to UTC’s financial information, over the past 4 years, United Technologies has shown solid growth in revenue, operating income, EPS, Cash from Operations, and Free Cash Flow Growth. In addition, they have shown improving margins and a growing dividend, and they recently announced that they will be conducting $10 Billion worth of stock buybacks by the end of the year. This buyback will be funded primarily by the sale of Sikorsky, which was sold to Lockheed Martin for $9 Billion cash.

Finally, the major risk that UTC faces going forward is the Chinese economy. A major component of UTC’s value proposition going forward is expansion into the Chinese market, especially for Otis. The economic slowdown in China provides uncertainty in that regard. Further, the devaluation of the Yuan versus the US dollar makes it harder for UTC to sell products to China. Generally speaking, the strengthening of the USD will hurt UTC’s ability to expand in emerging markets in the short term.

To date we have an unrealized loss of 2.03% on United Technologies.

**PNC Financial Services (NYSE: PNC)**

On November 16th, 2015 we purchased 1,950 shares of PNC for $92.30/share with a 25% stop loss order.

PNC Financial Services Group, Inc. is a diversified financial services company. It is the 6th largest U.S. bank by total assets. The Company provides regional banking, corporate & institutional banking, residential mortgage banking and asset management services nationally and in the Company’s primary regional markets. Its 20% ownership stake in BlackRock, the world’s largest publicly traded asset management firm, provides diversification to PNC’s portfolio of services and makes it unique from its competitors.

We feel as though PNC is a viable long-term investment due to its consistent operating history in its five segments and growing long-term projects, including acquisitions of National City and RBC Bank (USA), expansion in southeast, and its environmentally friendly business practices. As the Fed is close to raising interest rates, we expect a greater increase in PNC’s profitability and we have several reasons. First, increases in the federal funds rate will increase the yield on cash holdings of PNC and directly contribute to earnings. Second, along with an increase in interest rate and a strong economic growth, consumer and business demands for loans spike, which also augments earnings. Third, because of the greater spread federal funds rate and the rate the bank charges its customers, PNC is likely to start offering higher returns on safe investments.

We feel as though PNC’s main competitive advantage is that it survived and thrived, and fared better than other banks during the mortgage crisis. It was able to acquire companies that fed its expansion. Compared to money center banks, such as Wells Fargo & Company, JPMorgan Chase & Co. and Bank of America Corporation, PNC has low exposure to high yield market and derivative. Also, when new Monetary policy actions and statements of the Federal Reserve is announced, it be able to pick it up and coordinate its portfolio quicker due to its simplicity of business model. When it is compared to other regional banks, in US Bancorp, BB&T Corp and SunTrust Banks Inc. PNC is well diversified due to its investments in BlackRock and Visa and has a relatively low P/B ratio of 1.13 and Debt ratio. In addition, its mortgage-banking model is differentiated in that it's focused exclusively on higher-margin retail originations, not third-party production channels. This enables its above-average margins per mortgage sold, or gain-on-sale margin.

As of November 26th, 2015, we have an unrealized gain of 3.4% on PNC.

**Chevron Corporation (NYSE: CVX)**

On November 23, 2015, we purchased 1,798 shares of Chevron Corporation at a price of $89.41/share. The total size of the initial investment was $160,755.58.

Chevron Corporation is a vertically integrated energy company. The company is heavily involved in each part of the oil and natural gas industry, including exploration and production, transportation, and refining. It is separated into three segments: Upstream, Downstream, and Alternative Energy. Chevron’s Upstream segment builds and operates oil and natural gas production facilities worldwide. Its Downstream segment takes the raw materials and refines it into usable energy, chemicals, and products for commercial use. Finally, the Alternative Energy segment is focused on developing and building renewable energy assets.

Chevron is positioned to maintain profitability and free cash flow at any oil price due to its vertically integrated business model and valuable asset base. The company’s upstream segment is highly sensitive to oil prices, but its downstream operations serve as a natural hedge to oil price declines due to higher margins. In addition, Chevron has the ability shift to higher value by selling less valuable assets and strategically investing in more valuable assets. It is also becoming more cost efficient and lowering capital expenditures to adjust to the price of oil. Management has continually stressed that maintaining and growing its dividend is its top priority regardless of oil prices. That being said, due to bankruptcy of smaller oil companies and decreasing capital expenditures of larger companies, it is unlikely for oil to stay at $40/barrel for long. If oil prices rise in the near future, Chevron’s profitability (and stock price) will thrive.

Chevron’s major competitors include ExxonMobil, British Petroleum, Royal Dutch Shell, and a variety of smaller, independent energy companies. During oil crashes, integrated oil companies are much better positioned for success. ExxonMobil and Chevron are the only large, integrated domestic oil companies. In comparison to ExxonMobil, Chevron is set to grow faster with a rebound in the price of energy due to its development of its Wheatstone and Gorgon natural gas facilities. In addition, Chevron is more focused on returning value to shareholders with a dividend yield of 4.75% vs. 3.64% for ExxonMobil.

Risks to Chevron’s profitability include a further decrease in oil prices, energy regulation, failure to adapt to alternative energy sources, and unexpected delays to new projects.

As of November 26th, 2015, we have an unrealized gain of 2.17% on Chevron.

LESSONS LEARNED

**Lessons Learned**

The Student Managed Fund Program has been an invaluable experience. Not only have we learned a great deal about investing, but also we have developed skills that will help us succeed in the professional world.

Our investing knowledge has grown exponentially during the past few months. First, we have learned that *value* is the most important aspect of portfolio strategy. Even the best company in the world is not a good investment at an unreasonable price. Although finding value sounds easy, it is a difficult and time-consuming task, and requires depth of analysis far beyond what the average investor uses.

Next, we have learned that skill in investing requires a long-term time horizon; market timing and short-term investing are simply luck. At the beginning of the semester, we had an internal struggle regarding the time horizon of our investments. We had to remind ourselves that although our positions are being liquidated in May, the SMF program is about the process. Investing with a 10-year time horizon requires patience and discipline -- Investing is as much a game of emotion as it is intelligence.

Lastly, we have learned skills that will help us succeed in the real world. We have learned that preparation is crucial for any presentation, and being asked tough questions are inevitable. The only way to be able to answer tough questions is to know nearly everything about the topic you are presenting on. Additionally, we have become masters of Bloomberg, Excel, PowerPoint, and ValueLine. To say the least, our future employers will thank the SMF program for all we have learned.