

The background of the page features a large, light blue watermark of the University of Connecticut seal. The seal is circular and contains a central oak leaf. The text "UNIVERSITY OF CONNECTICUT" is written around the inner edge of the seal, and the year "1881" is at the bottom.

# UConn Graduate Student Managed Fund

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Spring 2016 Report

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Dear UConn Foundation and Investment Board Members,

As our tenure as Fund Managers comes to an end, we would like to thank you for the opportunity to participate in the 2015-2016 Graduate Student Managed Fund. It has been a wonderful learning experience for each manager involved in the program and has allowed us to explore financial markets and build our portfolio under the guidance of Professor Ghosh and Professor Rakotomavo. We are thankful that each of you has volunteered your time in the classroom as well as at the SMF events to provide us with an experience that will set us apart from our peers and instill us with valuable knowledge necessary to succeed in our post-MBA careers.

SMF has provided us with a platform to do in depth analysis on various investment vehicles. Additionally, the program has exposed many of us to valuable tools such as Morningstar Direct, Value Line Investment Survey and Bloomberg for the very first time. The guidelines, goals and constraints set up in the prospectus helped us learn how to direct our investment philosophy and process in order to fulfill the needs of external constituencies. In order to ensure that the guidelines were followed, we built a process whereby each manager must be able to convince the group about their analysis and support the argument that their recommendation was a sound investment. With managers from different backgrounds and expertise levels, this led to a stimulating discussion that ensured all ideas were fully vetted before any action was taken.

Please enjoy the information in this report. Our intent was to shed light on our investment process as well as to report our results. Throughout the year, we were always conscious that we were managing over \$1.8 million for the Foundation's and treated that responsibility with gravity and diligence. We hope that you find it interesting and can use our experiences to help the continuing improvement the Student Managed Fund Program in the future.

Sincerely,

Alex Sadowski, Lead Manager  
Akhilesh Kumar, Portfolio Manager  
Akhil Sood  
Chris Norris  
Eddie Laclaustra  
Jason Harris  
Jifeng Hu  
Lingfan Sun  
Neel Munot  
Yun Xie

## **EXECUTIVE SUMMARY**

### **Benchmark and Style:**

- The S&P 500 is the fund's benchmark. Accordingly the fund is structured as a mid- to large-cap value portfolio. However we do consider small cap while keeping in mind their liquidity and downside risk.
- Although the fund is allowed to invest up to 20% of its value in fixed income, we made the decision not to invest in the asset class as we are in a period of historically low interest rates. It is our belief that the Fed will increase rates in the near future, which would lead to depreciation in a bond portfolio's value.

### **Philosophy and Strategy:**

- We consider our investment approach to be that of value investing. We sought investments in companies with solid and defensible business models, strong balance sheets, and current stock prices that were below their intrinsic value.
- We employed a bottom-up investment approach, relying on fundamental analysis of individual securities as opposed to emphasis on economic and market cycles.

### **Economic and Market View:**

- We believe that the U.S. economy and market is in a mid-expansive cycle.
- Some pertinent macroeconomic factors such as relative dollar strength to foreign currencies, probable interest rate hikes, over-supply effects on oil prices, slowdown of the Chinese economy and historically high U.S. employment rates played a role in our investment decisions.

### **Process:**

- Each of the ten managers was assigned an S&P sector to research in order to establish an overall view of the market.
- We used discounted cash flow and dividend growth model analyses in order to establish individual security's intrinsic value relative to their current market price.
- Each manager has pitched at least twice this semester, and will pitch at least four times before the end of this academic year.
- Each pitch is done with a thorough analysis presented to the other fund managers, coupled with a detailed one page report highlighting financials, relative valuations and riskiness of the companies.
- To reach the prospectus outlined 70% threshold approval, seven out of ten members must vote yes in order to invest in the recommended security.



## **INVESTMENT PHILOSOPHY AND STYLE**

We consider the primary mandate to be value investors, to look for stocks that we believe the market is currently pricing too low relative their intrinsic value. To determine each security's intrinsic value, we applied a discounted cash flow analysis and when appropriate the dividend growth model. Through these analysis we developed a target price and generally sought a potential return of 15% percent.

We employed a bottom-up approach when selecting individual securities for our portfolio, choosing to focus on companies with solid fundamentals. It is also important that each company we invest in displays strong corporate governance and an independent board in order to avoid principal agent problems. This being said, we did not entirely ignore macroeconomic factors when selecting securities and each individual manager was responsible for following trends within each of the ten S&P sectors.

Our focus was on mid- and large-cap stocks as we viewed them as safer and more liquid investments as well as being a requirement in our mandated prospectus. Additionally, we tend to focus on companies that are late in their business lifecycle (i.e., “value” companies) as opposed to early stage companies (i.e., “growth” companies). Oftentimes high growth companies are overvalued by the market, as indicated by high P/E multiples, and harder to analyze through fundamental analysis. We generally look for companies that have stable revenue, consistent growth, a strong balance sheet, long track record of profitability, strong management and a compelling story of value and/or competitive advantage. We also adhere to the UConn Foundation’s mandate that we invest in socially responsible companies, which we measure through available CSR scores through Bloomberg.

Our goal per the SMF mandate is to outperform the S&P 500 over five years; however, our performance is measured over the nine month academic calendar. As a group we are cognizant that our investment horizon is beyond this academic year, focusing primarily on the quality of our analysis and the stories of companies we choose to invest in to sustain quality earnings.

## **INVESTMENT STRATEGY**

We are an actively managed fund looking to select individual securities to beat the broader market. Our bottom-up investing approach focuses on fundamental analysis to identify solid investments regardless of sector or market cycles. We seek to take advantage of market irrationality and short-term market mispricing to purchase securities we believe are undervalued based on our estimates of their intrinsic value. Through this strategy, our goal was to beat the S&P 500 index—seeking to generate positive alpha.

At the start of the fall semester we had approximately \$1.86M in the S&P 500 ETF. Our goal was to invest in 40 securities over the course of the academic year, or approximately \$46k to \$50k per investment. In order to avoid having to liquidate holdings for new investments during the spring semester, we set a goal of investing in 20 securities per semester. As of March 17, we have invested in 31 securities and are approximately 100% invested.

The Student Managed Fund is permitted to put up to 20% of the portfolio into fixed income. We chose not to invest in this asset class due to historically low interest rates and the belief that the uncertainty concerning the Fed's policy. Opportunities may exist in the event that certain fixed income instruments see tightening yield spreads; however, such opportunities are difficult to identify and it is our belief that placing such bets would assume too much risk within the framework of our mandate.

## **RISK MANAGEMENT**

### **Unsystematic Risk:**

Unsystematic risk is the type of uncertainty that comes with the company or industry invested in and can be reduced through diversification. We instituted that each manager pitch at least one stock in the sector they initially researched, and also consider the correlation with other selected stocks as a reference factor when they are voting. As such, we avoided our portfolio being overweighted on historically high growing but riskier sectors such as Information Technology or Financials. To date, we have invested in all of 10 S&P 500 sectors, with highest weight of 23.46% in the Consumer Discretionary sector.

### **Systematic Risk:**

Systematic risk is the measure of stock volatility which cannot be diminished or reduced through diversification. Our methodology to control the systematic risk is to invest in the company of which the business model is understandable, historical performance is sustainable and beta level is acceptable. We tended to avoid the company which is too focused by the entire market, because usually the market will react very strongly to such firm's performance. For example, Amazon's share price has risen more than two times this year and its PE ratio has reached over 900. Although all of us agreed that Amazon will continually grow in a dramatic manner, 8 out of 10 managers voted no for this company because its volatility and risk it would add to our portfolio.

## **INVESTMENT PROCESS**

### **Training and Development:**

Before we began with our stock pitches, Professors Ghosh and Rakotomavo organized a variety of workshops and open discussions concerning the methodology of pitching stocks and tools that can be leveraged – such as Bloomberg, Value Line Investment Survey, S&P NetAdvantage and Morningstar Direct. FNCE 5408 (Valuation of Financial Assets) is a mandatory class for all graduate SMF managers, taught by Professor Ghosh and supplemented by Professor Rakotomavo and IAB member Chris Wilkos.

### **Channels of Communication:**

The team regularly held weekly meetings in conference room 404 in the GBLC—either two times a week for two hours on Tuesday and Thursday or one time a week on Thursdays. The purpose of these meetings was to pitch individual stocks, vote on stocks that were pitched, insight sharing, task allocation and agenda setting. Professors Ghosh and Rakotomavo regularly attended these meetings to share their insight and help establish an investment process.

### **Stock Pitching:**

Each manager was assigned one sector, and has to pitch at least four stocks during this academic year. We focus on the fundamental analysis and use DCF model or dividend growth model to do the valuation. Each stock pitching round was broken into three sections: 1) The portfolio manager who is going to present his or her stock recommendation must send a one page stock pitch report to everyone 24 hours before presentation; 2) During the meeting, stock manager must conduct presentation includes but not limited to key statistics, company profile, industry overlook, investment theory, investment risk, investor conference call transcript takeaways, relative valuation, financial performance analysis and valuation; 3) Following the presentation, a Q&A session took place which usually lasted for 5 to 20 minutes.

### **Voting:**

Voting was conducted one week after the presentation to make sure each manager has sufficient time to understand and do the research. To approve a stock for the portfolio we agreed upon 70% approval level, which means 7 out of 10 portfolio managers has to vote 'yes' in order for the stock to be selected.

### **Tracking:**

Each manager should always keep eyes on his/her assigned sector and recommended stocks, in order to make some suggestion for adjustment when necessary.

## **SECTOR ALLOCATION**

Currently with 31 positions, our portfolio covers all the 10 sectors. Our top three sectors by weight are Consumer Discretionary, Consumer Staples and Healthcare, while our bottom three sectors by weight are Telecommunication Services, Energy and Materials.

Each manager was assigned a sector and he/she presented sector analysis and outlook for his/her assigned sector. However, our stock pitches had no sector constraints, managers choose the stocks based on their analyses on the companies and outlook of the sectors. We allocated highest weight to Consumer Discretionary sector partially because most of managers are more familiar with companies under this sector, and these companies has simpler business model compared to companies of other sectors. In addition, the stocks of this sector are usually less volatile. On the other hand, we allocated lowest weight to energy sector because this sector is riskier and the stocks have higher volatility. In



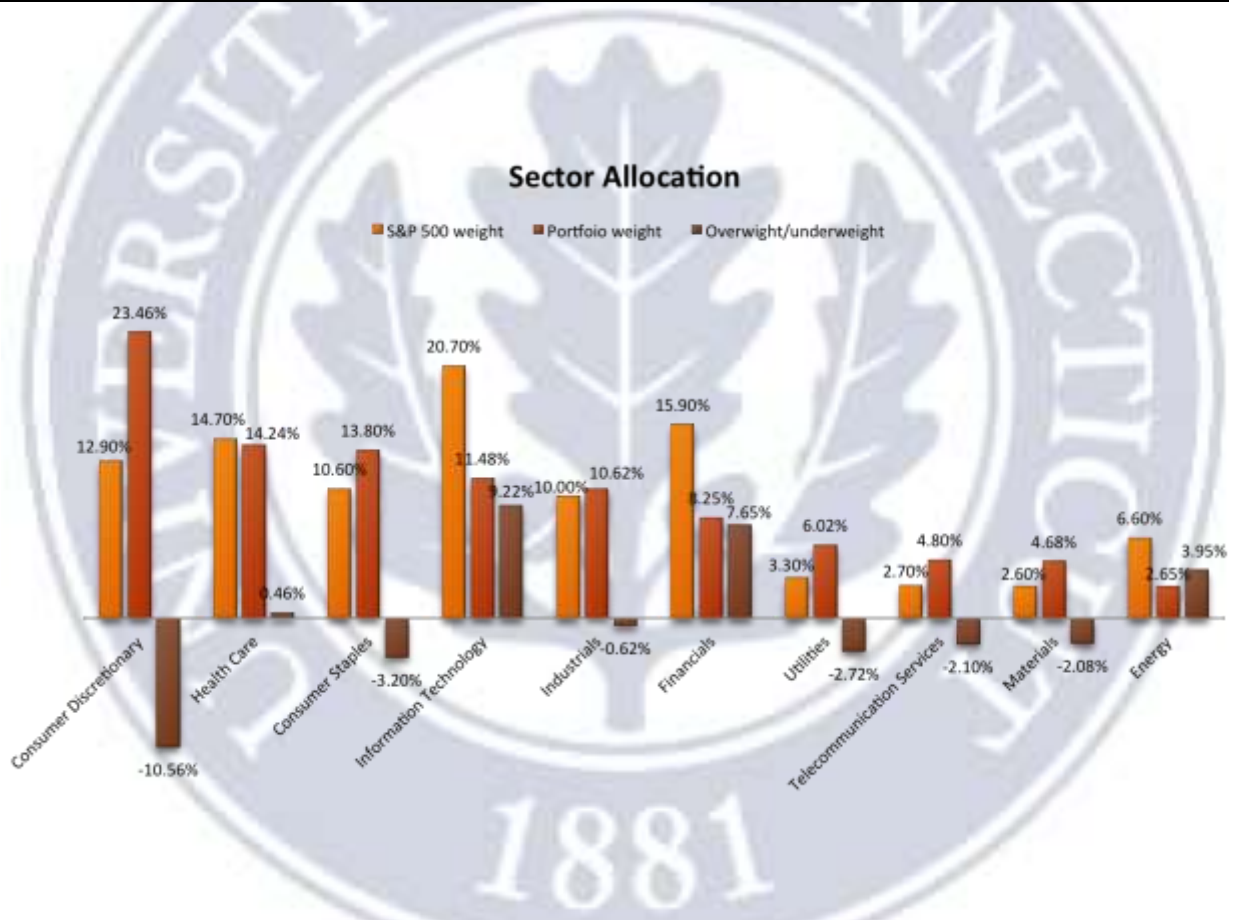
general, based on our research and analysis, we allocated more money to sectors that outperformed the S&P 500 in the past 6 month, and allocated less money to sectors that underperformed the S&P 500 in the past 6 months.

Sector	S&P 500 Sector Weights	Current Portfolio Weights	Over/Underweight
Consumer Discretionary	12.90%	23.46%	-10.56%
Consumer Staples	10.60%	13.80%	-3.20%
Financials	15.90%	8.25%	7.65%
Industrials	10.00%	10.62%	-0.62%
Health Care	14.70%	14.24%	0.46%
Utilities	3.30%	6.02%	-2.72%
Information Technology	20.70%	11.48%	9.22%
Telecommunication Services	2.70%	4.80%	-2.10%
Energy	6.60%	2.65%	3.95%
Materials	2.60%	4.68%	-2.08%

Sector	Over/Under Weight	% Profit	Sector 6M Return	S&P 500 6M Return	Sector Return Vs. SP 500
Utilities	Over	17.35%	14.58%	4.3%	Outperform
Telecommunication Services	Over	10.07%	9.67%	4.3%	Outperform
Consumer Discretionary	Over	9.16%	2.64%	4.3%	Underperform
Materials	Over	8.52%	8.59%	4.3%	Outperform
Consumer Staples	Over	7.65%	10.81%	4.3%	Outperform



<b>Financials</b>	Under	6.92%	0.00%	4.3%	Underperform
<b>Industrials</b>	Over	4.56%	9.49%	4.3%	Outperform
<b>Health Care</b>	Under	2.75%	-8.52%	4.3%	Underperform
<b>Information Technology</b>	Under	2.61%	3.63%	4.3%	Underperform
<b>Energy</b>	Under	2.37%	-0.3%	4.3%	Underperform



**TOTAL PORTFOLIO AND ALLOCATION**

As fund managers, the benchmark that we are being measured against is the SPDR S&P 500 ETF (Ticker: SPY). By shaping a well-diversified portfolio focused on a mix of growth and value stocks we intend to maximize our returns. Below is a snapshot of our portfolio. Please note that all portfolio analysis is based on the position on March 17, 2016 at the end of the trading day.

Industry	Company	Buy Date	No of share	Current Price	Weight	Current Value
<b>Consumer Discretionary</b>					<b>23.5%</b>	<b>461,525</b>
Media	Walt Disney	5-Feb-16	525	99.60	2.7%	52,290
Leisure Products	Polaris	5-Feb-16	965	98.56	4.8%	95,110
Household Durables	D.R. Horton, Inc.	12-Feb-16	3350	30.12	5.1%	100,902
Hotels, Rests & Leisure	Starbucks	19-Feb-16	870	59.55	2.6%	51,809
Specialty Retail	TJX Companies	19-Feb-16	700	77.22	2.7%	54,054
Automobiles	Ford	25-Feb-16	4150	13.47	2.8%	55,901
Textt, Appa & Luxury Gds	Carters Inc	2-Mar-16	500	102.92	2.6%	51,460
<b>Consumer Staples</b>					<b>13.8%</b>	<b>271,533</b>
Food & Staples Retailing	CVS Helath	17-Nov-15	535	101.11	2.7%	54,094
Tobacco	Reynolds American	19-Nov-15	1100	50.68	2.8%	55,748
Food Products	General Milss	5-Feb-16	900	61.78	2.8%	55,602
Beverages	Pepsi	5-Feb-16	515	101.87	2.7%	52,463
Beverages	Constellation Brands	12-Feb-16	365	146.92	2.7%	53,626
<b>Energy</b>					<b>2.6%</b>	<b>52,058</b>
Oil, Gas & Cons Fuels	Magellan Midstream	2-Mar-16	750	69.41	2.6%	52,058
<b>Financials</b>					<b>8.3%</b>	<b>162,304</b>
REIT	AvalonBay Communit.	19-Nov-15	285	188.95	2.7%	53,851
REIT	Boston Properties Inc	25-Feb-16	440	127.00	2.8%	55,880
Capital Markets	Charles Schwab	2-Mar-16	1900	27.67	2.7%	52,573
<b>Health Care</b>					<b>14.2%</b>	<b>280,074</b>
Health Care Equ & Sup	Medtronic	11-Nov-15	650	75.50	2.5%	49,075
Health Care Equi & Suppl	Abbott Laboratories	12-Feb-16	2270	40.29	4.6%	91,458
Pharmaceuticals	Johnson & Johnson	12-Feb-16	825	106.74	4.5%	88,061
Biotechnology	Gilead Science	19-Feb-16	575	89.53	2.6%	51,480
<b>Industrials</b>					<b>10.6%</b>	<b>208,973</b>
Aerospace & Defense	UTX	29-Oct-15	500	98.83	2.5%	49,415
Air Freight & Logistics	UPS	6-Nov-15	480	103.75	2.5%	49,800
Airlines	Delta Airlines	5-Feb-16	1150	48.62	2.8%	55,913
Aerospace & Defense	Honeywell	12-Feb-16	485	111.02	2.7%	53,845
<b>Information Technology</b>					<b>11.5%</b>	<b>225,935</b>
Tech Hard, Periph	Apple Inc	18-Nov-15	440	105.80	2.4%	46,552
Software	Microsoft	5-Feb-16	1625	54.66	4.5%	88,823
Semiconductor	Texas Instruments	12-Feb-16	1600	56.60	4.6%	90,560
<b>Materials</b>					<b>4.7%</b>	<b>91,987</b>
Construction Materials	Martin Marietta	19-Feb-16	590	155.91	4.7%	91,987
<b>Telecommunication Services</b>					<b>4.8%</b>	<b>94,475</b>
Diversified						
Telecommunication Services	AT&T	19-Nov-15	2415	39.12	4.8%	94,475
<b>Utilities</b>					<b>6.0%</b>	<b>118,353</b>
Electric Utilities	ITC Holding	19-Nov-15	1,550.0	42.50	3.3%	65,875
Water Utilities	AWK	19-Feb-16	750	69.97	2.7%	52,478
<b>Total</b>					<b>100.0%</b>	<b>1,967,214</b>

Below are the key ratios for the portfolio compared to S&P 500. As evident from below table most of the ratio for SMF portfolio is very close to S&P 500. Our dividend yield is 2.27% compared to 1.91% for S&P 500, further Beta for our portfolio is 0.81, compared to 1 for S&P 500.

	SMF Portfolio	S&P 500	Difference
Dividend Yield	2.27%	1.91%	0.36%
Price to Earning	18.03	18.57	-0.54
Price to Cash flow	12.00	10.85	1.15
EV/Sales	103.06	109.57	-6.51
EV/EBITDA	10.71	13.00	-2.29
Profit Margin	11.11%	8.03%	3.08%
Return on Assets	6.43%	2.57%	3.86%
Beta	0.81	1.00	-0.19

## **PERFORMANCE**

Below table gives the individual return of each stock on standalone basis and also as compared to S&P 500. As on March 17, the worst performing stock in our portfolio was Apple Inc. ( unrealized loss of - 8.99%) and best performing stock in our portfolio was ITC Holding ( unrealized gain of 25.31%).



Buy Date	Company	Cost/sh	Market/sh	Gain/Loss %	S&P 500 Price	Gain/Loss %	+/- Compared to Benchmark
10/29/2015	UTX	99.24	98.84	-0.40%	2,089.41	-2.36%	1.96%
11/6/2015	UPS	103.95	103.75	-0.19%	2,099.20	-2.83%	2.64%
11/11/2015	Medtronic	76.40	75.50	-1.18%	2,075.00	-1.67%	0.49%
11/17/2015	CVS Helath	94.67	101.11	6.58%	2,050.44	-0.48%	7.06%
11/18/2015	Apple Inc	115.75	105.80	-8.99%	2,083.58	-2.08%	-6.90%
11/19/2015	AvalonBay Communit.	177.95	188.95	6.00%	2,081.24	-1.97%	7.97%
11/19/2015	Reynolds American	46.25	50.68	9.15%	2,081.24	-1.97%	11.12%
11/19/2015	AT&T	33.76	39.12	14.74%	2,081.24	-1.97%	16.71%
11/19/2015	ITC Holding	32.98	42.48	25.31%	2,081.24	-1.97%	27.29%
2/5/2016	Pepsi	97.15	101.87	4.74%	1,880.05	8.19%	-3.45%
2/5/2016	Disney	93.80	99.60	6.00%	1,880.05	8.19%	-2.19%
2/5/2016	Microsoft	50.72	54.66	7.48%	1,880.05	8.19%	-0.71%
2/5/2016	General Mills	55.19	61.78	11.28%	1,880.05	8.19%	3.09%
2/5/2016	Delta Airlines	43.16	48.62	11.91%	1,880.05	8.19%	3.72%
2/5/2016	Polaris	82.98	98.56	17.21%	1,880.05	8.19%	9.01%
2/12/2016	Johnson & Johnson	102.70	106.74	3.86%	1,864.78	9.01%	-5.15%
2/12/2016	Constellation Brands	139.73	146.84	4.96%	1,864.78	9.01%	-4.05%
2/12/2016	Honeywell	104.57	111.02	5.99%	1,864.78	9.01%	-3.02%
2/12/2016	Abbott Laboratories	37.13	40.29	8.17%	1,864.78	9.01%	-0.84%
2/12/2016	Texas Instruments	51.69	56.60	9.07%	1,864.78	9.01%	0.06%
2/12/2016	D.R. Horton, Inc.	24.45	30.12	20.86%	1,864.78	9.01%	11.85%
2/18/2016	Gilead Science	87.73	89.53	2.03%	1,917.83	6.20%	-4.18%
2/18/2016	Starbucks Corp	57.55	59.55	3.42%	1,917.83	6.20%	-2.79%
2/18/2016	American Water Works	66.32	69.97	5.36%	1,917.83	6.20%	-0.85%
2/18/2016	TJX Companies Inc.	71.49	77.22	7.71%	1,917.83	6.20%	1.51%
2/18/2016	Boston Properties REIT	114.56	127.00	10.31%	1,917.83	6.20%	4.10%
2/18/2016	Ford Motor Company	12.10	13.47	10.73%	1,917.83	6.20%	4.52%
2/18/2016	Martin Marietta	136.03	155.91	13.64%	1,917.83	6.20%	7.44%
2/25/2016	Carters Inc.	101.99	102.92	0.91%	1,951.70	4.45%	-3.55%
2/25/2016	Magellen Midstream P LP	67.80	69.41	2.35%	1,951.70	4.45%	-2.11%
2/25/2016	Charles Schwab Corp	26.67	27.67	3.67%	1,951.70	4.45%	-0.78%
3/10/2016	Johnson & Johnson	107.50	106.74	-0.71%	1,989.57	2.53%	-3.24%
3/10/2016	Martin Marietta	155.65	155.91	0.17%	1,989.57	2.53%	-2.37%
3/10/2016	Polaris	97.57	98.56	1.01%	1,989.57	2.53%	-1.52%
3/10/2016	Texas Instruments	56.00	56.60	1.07%	1,989.57	2.53%	-1.47%
3/10/2016	AT&T	38.46	39.12	1.70%	1,989.57	2.53%	-0.83%
3/10/2016	Abbott Laboratories	39.25	40.29	2.62%	1,989.57	2.53%	0.08%
3/10/2016	Microsoft	52.86	54.66	3.35%	1,989.57	2.53%	0.82%
3/10/2016	D.R. Horton, Inc.	28.40	30.12	5.88%	1,989.57	2.53%	3.35%

Below is the performance summary of our total portfolio. As evident from the table SMF portfolio has given superior returns compared to S&P 500. Further for SMF portfolio, Risk / Return ratios as Sharpe Ratio, Jensen's Alpha and Information Ratio are in a very respectable range.



Portfolio Statistics	SMF Invested Portfolio	S&P 500
<b>› Return</b>		
Total Return	5.97%	4.04%
Mean Excess Return (Annualized)	1.93%	
<b>› Risk</b>		
Standard Deviation (Annualized)	16.19	17.70
Downside Risk (Annualized)	11.40	12.54
<b>› Risk/Return</b>		
Sharpe Ratio	0.038	-0.068
Jensen's Alpha	1.67	
Information Ratio	0.348	

**Total Portfolio Snapshot:**

	Sep 22, 2015	December 1, 2015
ETF	\$1,860,328.77	-
Equity	-	\$1,967,214
Cash	\$327	\$4,501
<b>Total</b>	<b>\$1,860,655.77</b>	<b>\$1,971,715</b>
<b>Return</b>	<b>5.97%</b>	

Our first investment was made on October 29, 2015. From the first investment till March 17, 2016, we are fully invested and invested in all the 10 S&P 500 sectors. With beta of 0.81 and P/E ratio of 18.03 compared to S&P 500 P/E ratio of 18.57, our total portfolio has returned 5.97% compared to 4.04% for S&P 500. The total portfolio has outperformed the S&P 500 by 1.93%.

## Attribution Analysis:

Attribution Detail (All Securities, Including Buckets)														
	% Average Weight			Contribution to Return (%)			Total Return (%)			Alpha (%)	Allocation Effect (%)	Selection Effect (%)	Currency Effect (%)	
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-					
	100.00	100.00	0.00	-0.37	-1.42	1.04	-0.37	-1.42	1.04	1.04	4.39	-3.35	0.00	
<b>Consumer Discretionary</b>	23.79	12.88	10.91	-2.31	-0.34	-1.97	-15.46	-2.56	-12.90	-2.23	0.41	-2.64	0.00	
WALT DISNEY CO/THE	6.52	0.91	5.62	-0.90	-0.13	-0.77	-14.13	-12.87	-1.26	-0.48		-0.48	0.00	
TOLL BROTHERS INC	5.12		5.12	-1.13		-1.13	-18.25		-18.25	-0.45		-0.45	0.00	
POLARIS INDUSTRIES INC	5.05		5.05	-1.18		-1.18	-9.08		-9.08	-1.52		-1.52	0.00	
CARMAX INC	3.33	0.06	3.27	-1.28	-0.01	-1.27	-17.99	-15.58	-2.41	-0.63		-0.63	0.00	
DR HORTON INC	1.72	0.05	1.67	1.55	0.00	1.55	24.41	3.80	20.62	0.60		0.60	0.00	
TJX COMPANIES INC	0.63	0.27	0.36	0.26	0.02	0.24	7.86	6.30	1.57	0.03		0.03	0.00	
STARBUCKS CORP	0.61	0.50	0.11	0.09	-0.02	0.11	3.26	-4.09	7.35	-0.12		-0.12	0.00	
FORD MOTOR CO	0.49	0.29	0.19	0.29	-0.02	0.31	8.72	-5.47	14.18	0.18		0.18	0.00	
CARTER'S INC	0.31		0.31	-0.02		-0.02	0.09		0.09	-0.08		-0.08	0.00	
<b>Industrials</b>	15.81	10.05	5.77	0.95	0.30	0.65	2.08	2.94	-0.86	0.56	0.51	0.05	0.00	
UNITED TECHNOLOGIES CORP	7.57	0.43	7.14	-0.09	0.00	-0.10	1.16	1.16	0.00	-0.23		-0.23	0.00	
UNITED PARCEL SERVICE-CL B	6.15	0.39	5.76	0.01	0.01	0.00	0.32	1.79	-1.47	0.06		0.06	0.00	
DELTA AIR LINES INC	1.27	0.22	1.05	0.74	-0.01	0.75	16.10	-3.16	19.26	0.40		0.40	0.00	
HONEYWELL INTERNATIONAL INC	0.82	0.45	0.37	0.28	0.04	0.24	7.90	9.10	-1.20	-0.17		-0.17	0.00	
<b>Consumer Staples</b>	14.65	10.16	4.49	1.95	0.59	1.36	8.68	5.63	3.06	0.77	0.65	0.12	0.00	
CVS HEALTH CORP	5.75	0.61	5.14	0.32	-0.01	0.33	8.29	-2.15	10.44	-0.27		-0.27	0.00	
REYNOLDS AMERICAN INC	5.58	0.22	5.36	0.68	0.01	0.67	10.79	5.26	5.52	0.19		0.19	0.00	
GENERAL MILLS INC	1.26	0.20	1.07	0.52	0.01	0.50	11.58	7.04	4.54	0.23		0.23	0.00	
PEPSICO INC	1.23	0.83	0.40	0.23	0.01	0.22	5.42	0.51	4.92	0.01		0.01	0.00	
CONSTELLATION BRANDS INC-A	0.82	0.14	0.68	0.21	0.01	0.19	6.38	9.18	-2.80	0.01		0.01	0.00	
<b>Health Care</b>	12.27	14.78	-2.51	-0.50	-1.10	0.60	-5.46	-7.17	1.71	0.49	0.32	0.17	0.00	
MEDTRONIC PLC	6.05	0.61	5.44	0.03	0.02	0.02	-0.25	2.86	-3.11	0.55		0.55	0.00	
GILEAD SCIENCES INC	4.40	0.80	3.60	-1.11	-0.15	-0.96	-13.65	-17.28	3.63	-0.63		-0.63	0.00	
ABBOTT LABORATORIES	0.92	0.36	0.56	0.34	-0.04	0.38	8.51	-10.37	18.88	0.22		0.22	0.00	
JOHNSON & JOHNSON	0.90	1.62	-0.71	0.24	0.11	0.13	5.59	6.83	-1.24	-0.05		-0.05	0.00	
<b>Financials</b>	8.95	16.10	-7.15	-1.45	-1.18	-0.27	-4.27	-6.73	2.46	0.27	0.12	0.15	0.00	
AVALONBAY COMMUNITIES INC	5.37	0.14	5.24	-0.30	0.01	-0.31	5.67	6.90	-1.23	0.60		0.60	0.00	
CAPITAL ONE FINANCIAL CORP	2.80	0.22	2.58	-1.52	-0.03	-1.49	-22.39	-12.33	-10.06	-0.55		-0.55	0.00	
BOSTON PROPERTIES INC	0.46	0.11	0.36	0.28	0.00	0.27	10.26	4.95	5.31	0.05		0.05	0.00	
SCHWAB (CHARLES) CORP	0.31	0.20	0.12	0.10	-0.02	0.12	3.48	-10.34	13.81	0.05		0.05	0.00	
<b>Information Technology</b>	7.16	20.60	-13.44	-0.19	-0.37	0.18	-10.62	-1.72	-8.90	-0.50	0.18	-0.68	0.00	
APPLE INC	5.02	3.39	1.63	-0.99	-0.43	-0.56	-9.31	-11.37	2.06	-0.50		-0.50	0.00	
MICROSOFT CORP	1.24	2.42	-1.18	0.39	0.09	0.31	9.74	3.86	5.88	-0.03		-0.03	0.00	
TEXAS INSTRUMENTS INC	0.90	0.32	0.58	0.41	0.00	0.40	10.68	0.80	9.88	-0.06		-0.06	0.00	
<b>Utilities</b>	7.06	3.11	3.96	1.86	0.45	1.42	30.62	14.60	16.02	1.61	1.22	0.39	0.00	
ITC HOLDINGS CORP	6.46		6.46	1.66		1.66	29.88		29.88	0.39		0.39	0.00	
AMERICAN WATER WORKS CO INC	0.61	0.01	0.60	0.20	0.00	0.20	6.39	3.09	3.29	0.00		0.00	0.00	
<b>Telecommunication Services</b>	5.70	2.54	3.16	1.34	0.42	0.92	17.86	16.94	0.92	1.22	1.34	-0.12	0.00	
AT&T INC	5.70	1.23	4.47	1.34	0.22	1.12	17.86	18.25	-0.39	-0.06		-0.06	0.00	
<b>Materials</b>	2.92	2.78	0.15	-0.83	0.04	-0.88	-9.75	1.39	-11.14	-0.73	-0.27	-0.46	0.00	
MARTIN MARIETTA MATERIALS	2.92	0.05	2.87	-0.83	0.00	-0.84	-9.75	3.33	-13.08	-0.45		-0.45	0.00	
<b>Energy</b>	2.42	6.67	-4.26	-1.18	-0.23	-0.95	-18.50	-3.81	-14.69	-0.63	-0.28	-0.34	0.00	
MARATHON PETROLEUM CORP	2.10	0.14	1.96	-1.16	-0.04	-1.12	-18.25	-25.60	7.34	-0.14		-0.14	0.00	
MAGELLAN MIDSTREAM PARTNERS	0.32		0.32	-0.03		-0.03	-0.30		-0.30	-0.20		-0.20	0.00	
<b>Stocks</b>	0.00	0.00	0.00		0.00	0.00		-0.69	0.69	0.00	0.00	0.00	0.00	
<b>Cash</b>	-0.74	0.34	-1.08	0.00	0.00	0.00	0.00	0.00	0.00	0.20	0.20	0.00	0.00	
US DOLLAR	-0.74	0.34	-1.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	

## ECONOMIC OUTLOOK

Global growth is forecasted at 3.3 percent in 2015 and 3.8 percent in 2016, with uneven prospects across the main countries and regions. Growth in emerging market economies is softening, reflecting an adjustment to diminished medium-term growth expectations and lower revenues from commodity exports, as well as country-specific factors. The outlook for advanced economies is showing signs of improvement, owing to the boost to disposable incomes from lower oil prices, continued support from accommodative monetary policy stances, and more moderate fiscal adjustment. The distribution of risks to near-term global growth has become more balanced. The decline in oil prices could boost

activity more than expected. Geopolitical tensions continue to pose threats, and risks of disruptive shifts in asset prices remain relevant. In some advanced economies, protracted low inflation or deflation also pose risks to activity.

During the global financial crisis and in the years that followed, the principal global shocks - the 2009 subprime and Lehman Brothers crisis and the 2011-12 euro area crisis — had similar effects on all regions, albeit to varying degrees. But the forces that are now shaping the global outlook —most notably declining oil and commodity prices—are more redistributive in nature, benefiting some regions and countries while hurting others. Growth divergences among the major economies, and the resulting interest rate and currency adjustments, are also having varying effects across regions. These forces are shaping up the outlook for the future:

- Recent sharp declines in oil (and to a lesser extent, commodity) prices, although a net positive for the global economy and for oil importing regions, are weighing on the commodity exporting countries of Latin America, the Middle East, North Africa and sub Saharan Africa.
- The diverging trajectories of the major economies— robust growth in the United States, the weaker recoveries progressing in the euro area and Japan, and slowing growth in China—also have varying implications across regions and countries, boosting those with strong trade links with the United States, but hurting those more tightly linked with the other major economies.
- The strengthening of the U.S. dollar and the weakening of the euro and yen are also having a redistributive effect. Most obviously, they are a welcome boost to the tepid recoveries in the euro area and Japan and are a headwind to the U.S. recovery. But they are also generating tensions between financial stability and competitiveness in regions and countries that have seen rising dollar denominated indebtedness in recent years.

Domestically for the United States growth remains positive. The preponderance of economic data support the case that the U.S. economy is in the middle of what could turn out to be the longest expansion on record. The three longest expansions to date have all occurred since 1960. They lasted between eight to ten years, longer than any prior U.S. expansion. It is not a coincidence that expansions have been longer during the recent years and recessions less frequent and much shorter. Monetary and fiscal policies have been used more actively to influence economic growth since World War II and it's worked. The last recession ended in June 2009. Almost six and a half years later, the usual measures of the cyclical timing clock are clustered around the mid-cycle position. The index of leading indicators points to continued moderate growth going into 2016. Growth is slower over the past year following a sharp acceleration in 2013 and 2014. The deceleration this year mainly reflects the drag from lower oil prices on the energy patch and the strong dollar on exports. Together, these effects have been disproportionately harmful to the manufacturing sector, where factory production growth has slowed from about a 4% pace when energy was booming to just about a 2% pace over the last year. Export growth has shown a comparable deceleration over the same time frame. Leading indicators suggest an upturn for 2016 rather than more downside because the positive impact from these factors is building steam while the drag effects dissipate.



Over time the yield curve spread (difference between the ten-year Treasury note yield and the overnight federal funds rate set by the Fed) has generally been considered the single most important indicator for predicting recessions and tracking the level of monetary policy accommodation. The yield curve spread is currently over 200 basis points. That is an extremely accommodative and implies monetary policy is still in an early expansion phase position. Mid-cycle positioning for the yield curve is in the 100 to 150 basis point range. This is an important reason for expecting several more years of expansion. Every recession in the past 50 years has been preceded by an inverted yield curve after the Federal Reserve raised the short-term rate above the ten-year yield. Monetary policy is one of the main drivers of the business cycle and currently it is on cruise control. A few rate hikes over the next year are unlikely to put the brakes on. In fact, the last thing the Fed wants is to put the brakes on. That is because the Fed generally stays accommodative to support the economy until inflation becomes a problem. One reason this is such a long expansion is the low level of inflation, the lowest in over a half century. In fact, the Fed is in the unusual position of wanting more inflation which will power wage growth as well.

When the Fed is accommodative, the use of leverage or debt becomes more prevalent. In fact, one reason expansions turn into recessions is the excessive use of debt to keep growth going. But currently leverage in the private sector is still normal. While credit growth has normalized, households are in good shape to borrow. Financial obligations ratio for the household sector compiled by the Fed looks at all recurring payments to service debt obligations plus other regular payments like rents. It reached an all-time high just ahead of the financial crisis and has plummeted to levels last seen about 35 years ago. Consumers have a lot of room to expand as wage gains, job growth, low unemployment and easing credit conditions support big-ticket purchases. Consumption accounts for about 70% of U.S. GDP. Low oil prices and a strong dollar are major tailwinds for consumers to continue spending. The housing cycle in terms of new housing units authorized is showing signs of early expansion because it has still not recovered from the 2008 financial crisis. Its mid-cycle peak is years away. Millennials are just starting to buy houses and move into apartments on a grander scale. Consumer confidence is also high suggesting general consensus of improved economic conditions.

Therefore, the U.S. economy is particularly believed to be in its mid-cycle phase and equities are expected to outperform, albeit at a slower pace and with slightly more volatility than in recent years. We looked at each sector specifically to further judge the economic impact and have a more detailed understanding.



## **SECTOR ANALYSIS**

### **Consumer Discretionary:**

The Consumer Discretionary makes up 12.97% of the S&P 500. The major industry groups in this sector are Automobiles, Media, Textiles, Apparel & Luxury Goods, Internet & Catalog Retail and Hotels, Restaurants & Leisure.

**Automobile:** Fundamental outlook for the automobile manufacturer's sub-industry for the next 12 months is positive. In 2015 and 2016, U.S. automotive demand trending higher year-over-year, following a record number of vehicle recalls in 2014. Global demand is expected to rise in both years. Europe has pressured General Motors and Ford in the troubled region, but the companies have shown progress, and expected to see higher industry sales volume there after years of declines. Russia and parts of South America still look likely to be challenged areas, with declines, and the strong dollar is hurting profit and sales translation.

**Media & entertainment:** Fundamental outlook for media and entertainment sub-industry is neutral, against a backdrop of a gradual improvement in consumer discretionary spending. While traditional formats (DVDs, CDs) and distribution channels have likely reached saturation, continued evolution of newer channels for digital delivery of content to consumers -- including online/mobile streaming, electronic sell-through (EST) and video on demand (VOD), as well as a proliferation of streaming video outlets. DVD sell-through market buffeted by secular headwinds (versus gains in Blu-ray), with rentals pressured by a demise of several brick-and-mortar stores.

**Textiles & Apparel:** Fundamental outlook for the Textiles & Apparel: sub-industry is positive. Companies with strong brands to leverage quality, newness and innovation in their product offerings to further stimulate consumer demand in 2015. Also geographic diversification to benefit global Textiles & Apparel companies. With consumer spending gradually improving amid lower gasoline prices, consumers seeking out value when making discretionary purchases, and stretching their budgets when the merchandise is right. As such, Textiles & Apparel brands and retailers offering fashion newness and technical innovation in their products as having the best chance of capturing sales and gaining market shares.

**Internet & Catalog Retail:** Fundamental outlook for the Internet retail sub-industry for the next 12 months is positive. While the collection of state taxes from online retailers and increased marketing expenses pose some concerns, shipping costs is expected benefit from lower gasoline prices, and favorable growth prospects as consumers increasingly enjoy the convenience and value that online retail provides. Forrester Research projects that US e-commerce sales will increase from a projected \$262 billion in 2013 to \$370 billion in 2017, a compound annual growth rate (CAGR) of 9.0%. Significant growth in this category has been, and will continue to be, driven by several factors. From a macroeconomic viewpoint, global outlook for consumer spending on such discretionary items as entertainment subscriptions or online travel-related bookings for hotels and air tickets should remain relatively strong in the foreseeable future.

Hotels, Restaurants: Fundamental outlook for the restaurants & hotels sub-industry is positive. Sector is projected to have low single digit same-store sales growth in 2015. Consumers have been cautious, and have been trading down or dining out less often, in particular during the weekdays. So it is projected that casual dining restaurants will have slower traffic, while fast food and fast-casual dining restaurants will be less affected. Full-service restaurant segment will have same-store sales growth of lower single-digits for the year.

**Current Positions: PII, DIS, TOL, DHI, F, TJX, SBUX, CRI**

#### **Information Technology:**

The IT services industry is a component of the information technology sector, which comprised 20.2% of the S&P 500 and 19.8% of the S&P 1500, as of September 11, 2015. From a stock price perspective, the 18.2% increase in 2014 for the information technology sector outperformed the 11.4% rise in the S&P 500. From a profit perspective (as of September 14, 2015), the information technology sector is anticipated to generate 3.3% profit growth in 2015 and 10.6% in 2016; both estimates exceed those for the broader market. The IT Services Industry ought to outperform the broader market averages over the coming six to 12 months. Over the 10-year period ended 2014, the sector's 11.7% CAGR exceeded the S&P 500 growth of 5.0%. Over the 10-year period, information technology was the leading sector, followed by health care (8.9%) and consumer discretionary (8.7%).

**Current Position: AAPL, MSFT, TXN**

#### **Health Care:**

Health care sector has been performing strong for past few years as compared to S&P 500. Sector's year to date return is 5.64%, higher than that of S&P 500 which is 3.23%, while for last 3 years and last 5 years, sector's return is 23.12% and 20.25% respectively, as compared to 16.41% and 14.44% for S&P 500. The fundamental outlook for the health care equipment sub-industry for the next 12 months is neutral. 2015 revenues is expected to rise in constant currency at a mid- to upper single digit pace, aided by new products, expansion into emerging markets, and, in some cases, acquisitions. Longer-term fundamentals is positive, because of including increasing global demand for quality health care, aging populations and rising R&D outlays, leading to a steady flow of new diagnostic and therapeutic products.

Besides, led by the pharmaceuticals industry, the health care sector has been a consistent place for investors to look for dividends. The sector's 39% payout ratio at the end of the first quarter of 2015 provides ample opportunities for health care companies to continue to make payments and, indeed, raise them.

**Current Positions: GILD, MDT, JNJ, ABT**

## **Energy:**

The energy sector makes up 7.9% of the S&P 500 and 7.5% of the S&P 1500, as of June 2015. There are two main industry groups in this sector: energy equipment & services (19%) and oil, gas & consumable fuels (81%), and in general, the broader outlook for this sector is negative. The crude oil prices experienced a sudden and dramatic decline, which began in late 2014, and recently it briefly fell below \$40 per barrel. Most analysts believe that the crude oil market will continue to be lower for longer. Aside from crude oil, the pricing outlook for both natural gas and natural gas liquids (NGLs) also likely remain weak. But demand for natural gas appears to be rising, as is demand for the key hydrocarbons that are embedded in the NGL stream (such as ethane and propane). The revenue stream depends on the willingness of its upstream customers to continue to spend on oil and gas projects. And in the international aspect, the expectation is positive. But within the North America, analysts predict a great likelihood of cuts. In addition, since valuations have decreased for many individual companies, we expect further industry consolidation to continue.

## **Current Position: MMP**

## **Industrial:**

Industrials sector has always been performing either at par or under the S&P 500. From a stock-price perspective in 2014, the 7.5% increase for the industrials sector underperformed the 11.4% increase in the S&P 500. One year % change in the industrials sector has been a negative 3.1% compared to a positive approximately 1.00% for the S&P 500. There are three main industry groups in this sector: capital goods (i.e., aerospace & defense, building products, industrial machinery), commercial & professional services (i.e., commercial printing, data processing services, office services & supplies), and transportation (i.e., airlines, air freight & logistics, trucking, railroads). The NI margin and EPS growth have boosted strong numbers for this sector in recent times, however, these numbers are still below the S&P's performance. From the valuation perspective, the sector's forward PE is expected to drop to 16.1x compared to the S&P 1500's forward PE of 18.0x – valuing this sector at a discount. Factors affecting this sector include instability in global economies and economic growth in the US, growth in e-commerce and military spending, demand for commercial aerospace and oil prices.

## **Current Positions: UTX, UPS, DAL, HON**

## **Utilities:**

This sector contains providers of electricity, natural gas, water, and other utilities services. The sector makes up nearly 3% of the market with a value of \$1.03 Trillion. The sector includes 5 industries: 1) Electric utilities (53.6%); 2) Multi-utilities (35.5%); 3) Gas utilities (7.0%); 4) Independent power &



renewable electricity producers (3.0%); 5) Water utilities (1.0%). The steady growth in residential demand has proven that the Utilities sector can be recession resistant. Being less volatile than the market, the sector outperformed the S&P 1500 from 2007-2009, and underperformed from 2010-2013. The steady cash flows and high dividends give investor the incentive to buy this sector. On August 3, 2015, the EPA released the Clean Power Plan. The plan calls for a 30% reduction of carbon emissions from the American power plants by the year 2030. In the long run, utilities will benefit from the CPP as long as they invest in new power plants. Investments and the purchase of emission credits will increase their rate base or their recoverable expense. As base rates rise, so will earnings per share.

However, these businesses are heavily infrastructure dependent and often take on large amounts of debt to expand and maintain their capital intensive systems. In those cases, companies in this sector are extremely sensitive to the movement of interest rates. All recent communications from the Fed seem to indicate an increase of rates is imminent before the end of the year, thus ending the near decade long vacation from more expensive debt. This has many investors moving out of the sector. Utilities are often seen as defensive securities, whose high dividend payouts make them attractive in a down economy. An improving economy will cause investors to put their money in higher growth stocks than the utilities sector can offer. Though utilities are largely tied to the housing sector, which has rebounded nicely since 2008, anticipate this sector to underperform the market should the Fed raise rates and economic growth accelerate.

**Current Position: ITC, AWK**

#### **Materials:**

The materials sector makes up 3.1% of the S&P 500. Its sub-sectors are chemicals (69%), metals and mining (14%), containers and packaging (9%), paper and forest products (4.8%), and construction materials (3.3%). From 2014, the 4.7% price appreciation of the materials sector lagged the 11.4% rise in the S&P 500. Revenue growth is expected to be flat in 2015 with 1-2% growth in 2016. EBITDA margin expansion is expected to be in line with the S&P 500 with net income margins continuing to lag the index. 5 and 10 year earning growths have also lagged the S&P 500. Since the third quarter of 2014, the sector was valued above its historical forward P/E ratio, though the sector is valued in line with the overall market.

The materials sector has been down in large part due to sustained low commodity prices. Additionally, the sector has been hampered by slower growth in developing economies (particularly China) which typically have greater demand for basic materials. As many material companies have globalized, a stronger dollar could hurt results for companies exporting processed materials from the US. A positive economic outlook in the US creates opportunities for some sub-sectors. Improving US consumer



confidence and spending will drive growth in e-commerce packaging. A continuing strengthening of the housing market will boost construction material producers who are focused primarily in the US.

#### **Current Position: MLM**

#### **Consumer Staples:**

The consumer staples sector made up 9.7% of the S&P 500 and 9.1% of the S&P 1500, as of mid-August. The sector is comprised of 12 sub-industries. The three main industry groups that these sub-industries fall into are food & staples retailing, food, beverage & tobacco, and household & personal products. Year to date, as of Nov.30, 2015, the consumer staples sector had a positive return of 1.23%, greater than the S&P 500 index's return of 1.04%. From the balance sheet analysis, ROE of this sector continues to be maintained well above that of the broad S&P 1500 index at 11.1% as of the first quarter of 2015, mainly due to higher asset turnover performance within the sector. Consumer staples companies had showed improving interest coverage, implying that the sector had a better fiscal stability. Looking into P/E ratio, the sector is valued at a premium compared with the S&P 500, at its 15.8x average since 2009. Overall, the consumer staples sector appears to be strong.

Several factors are benefiting this sector. US GDP growth is forecasted to be 2.4% for 2015, greater than that of 2.2% in 2014. The recovery of the economic will likely generate more demand of products in this sector. In addition, the drop in oil prices will result in more consumers' disposable income and pushes consumers to be more apt to purchase full price items, rather than searching for discounts. Consumer staples retailers have aggressively cut costs and are attempting to create more perceived value for consumers, which could support sales. And an improving environment may also allow consumer staples companies to firm up current pricing or raise prices. On the other hand, the risk factors should not be overlooked. The growth of low-cost, emerging-market production continues to accelerate the competition. This could shrink pricing power in the sector by reducing margins and earnings. Many central banks are now firmly in easing mode in an effort to stimulate the economy, which could hurt the more defensive sectors, such as consumer staples.

#### **Current Position: CVS, RAI, GIS, STZ, PEP**

#### **Financials:**

The financial sector represents 16.5% of our benchmark index, the S&P 500. Year to date, as of 11/30/15, the sector had a slightly negative return of -0.61% while the index gained 1.52%. There are 21 sub-industries included in the sector with diversified banks making up the largest portion in terms of market value at 30%. Moving forward the sector is expected to grow much more in line with the market, lending to a market weight recommendation. With a forward P/E of 16.0x the sector is trading at a premium vs. its average since 2009 of 15.1x. However, this is still a discount over the index as a whole. A positive indicator for the sector is the improving consumer spending and confidence, in

particular boosting the consumer financials sub sector. While consumer confidence has been on a downward trend in recent months, according to OECD data, consumer spending is still expected to go up over our investment horizon. Also the largely expected interest rate increases will be a net positive for the sector, as the highest weighted industries like insurance will be able to earn higher spreads.

**Current Position: AVB, BXP, SCHW**

### **Telecommunications:**

As of June 12, 2015, the telecommunication services sector makes up 2.2% of the S&P 500 and 2.0% of the S&P 1500. This sector is broken into three sub-industries: Integrated Telecommunications Services (94.1%), Alternative Carriers (5.1%) and Wireless Telecom Providers (0.9%)

In 2014, the telecommunications sector saw a 1.5% price-depreciation, lagging behind the 11.4% rise in the S&P 500 index. For 2015, this sector is once again underperforming the S&P 500, which has seen a 1.5% price-appreciation year-to-date, with a 3.7% price-depreciation. The telecommunications sector is both highly capital intensive and regulated. Capital intensity is expected to moderate in 2016, after steep increases over the past five years, and will likely be between 14% to 16% by the end of 2016. However, this sector will likely remain the most levered sector within the S&P 500. The telecommunications sector is also subject to increased regulation from the FCC. In December 2014, the FCC increased rural broadband speeds under CAF. The FCC now requires companies receiving Connect America funding for fixed broadband to serve consumers with speeds of at least 10 Mbps for downloads and 1 Mbps for uploads. That is an increase reflecting marketplace and technological changes that have occurred since the FCC set its previous requirement of 4 Mbps/1 Mbps speeds in 2011. A key premise of FCC rules is that Internet service providers (ISPs), such as AT&T, Verizon, and Comcast, must treat all Internet traffic equally and cannot prioritize the traffic of certain preferred customers. Simply stated, Internet providers cannot play favorites—giving certain customers faster connectivity (presumably for a fee), while slowing the traffic of those that refuse to pay fees. This prevents the ISPs from controlling the Internet by blocking out competitors and by demanding fees to provide fast access to certain websites or applications.

Since 2012, P/E multiples have fallen, reflecting the greater uncertainty and challenges within the telecommunication services sector. When looking at a relatively low or no growth industry earnings growth trajectory in the coming years, P/E multiples appear to be in a range between 12x and 14x on a forward 12-month basis.

**Current Position: T**

## **STOP-LOTTED POSITIONS**

Previously we have reported the performance of all of our individuals holdings and the portfolio in general. On the SMF website, all of our the pitch documents are available for all of our stock purchases which included our investment theses. In this section, we would like to discuss several of our holdings in more detail, specifically the stocks that we hit the stop-loss on. Between December 22 and January 25, eight of our holdings hit their stop loss: Polaris Industries, Marathon Petroleum, Martin Marietta Materials, CarMax, Toll Brothers, Gilead Sciences, Capital One Financial, and Walt Disney. After selling out of the positions, each stock was re-analyzed by the manager who had originally pitched it. In half of the cases, it was determined that our long-term investment thesis had not changed and that there was evidence that the short-term price corrections had ended. In these cases (Polaris Industries, Martin Marietta Materials, Gilead, and Walt Disney) the stocks were repurchased. In the other cases, we lacked confidence in the near term price movements due to overall market volatility and also felt that the overall market correction had created more attractive opportunities elsewhere.





