UCONN
SCHOOL OF BUSINESS

PORTFOLIO REPORT
UNDERGRADUATE STUDENT MANAGED FUND
SPRING 2018 - TEAM GILSON

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Portfolio Overview

Investment Managers

Alex Bariga	Dustin Fowler	Jack Leyland
Shawn McAuley	Anthony Mottolese	Michael Pehota
Jon Stryjek	Ana Walas	Bartosz Walas
Josh Weist		

Spring Officer Positions

Co-Lead Manager – Anthony Mottolese
Co-Lead Manager – Josh Weist
Portfolio Manager – Ana Walas
Treasurer/Secretary – Bartosz Walas
Web Manager – Jack Leyland

Undergraduate Supervisor - Paul Gilson
Fund Director - Chinmoy Ghosh

Investment Philosophy

Our undergraduate team is committed to a value investing philosophy. Our interpretation of this philosophy is rooted in the principles set forth by the creators of this investment approach, Benjamin Graham and David Dodd. We also draw inspiration from this philosophy's most famous practitioner, Warren Buffett, whose thinking processes have proved instrumental in our evaluations of investment opportunities for the fund. We analyze both qualitative and quantitative elements of each investment. Our quantitative research focuses on rigorous fundamental analysis of each firm's financial data, interpretation of macroeconomic, sectoral and industry data both domestically and abroad, market performance and finally valuation across a variety of standard methodologies. Meanwhile, our qualitative evaluations aim to uncover the drivers of long term value creation behind each business model, their position within the competitive landscape, potential catalysts for future growth and the nature and magnitude of the risks facing each firm.

Investment Strategy

Our investment strategy is one that aims to construct a portfolio comprised first and foremost of companies with strong and well defined competitive advantages. We believe that diversified exposure exclusively to well run, responsibly capitalized companies possessing established business models at an advantage relative to competition and mispriced by the market relative to their intrinsic value will lead to consistent outperformance of the S&P 500 in the long run. As such, we evaluate potential investments assuming a 10 year holding period. Among the many factors on which our strategy focuses, we would like to highlight our focus on dividend yield. In our estimation, in a market where valuations are historically rich, and the period of rapid appreciation following the results of the 2016 presidential election largely behind us, we believe a strong dividend yield to be a good source of investment income to complement capital appreciation. In addition, we believe the consistent source of cash flow it represents is consistent with our mandate as a fund that operates under the umbrella of a university foundation. The figure below outlines the complete list of quantitative and qualitative factors upon which our strategy is founded.

Quantitative	Qualitative
● Return on Invested Capital ● Free Cash Flow Yield ● Dividend Yield & Safety ● Margin of Safety ● Debt to Cash Ratio ● Debt to EBITDA Ratio ● Relative Price/Earnings ● Plowback Ratio	● Barriers to Entry ● Growth Catalysts ● Risk ● Innovation ● Brand Strength ● Market Share ● Quality of Management ● Competitor Activity

Risk Management

In accordance with Warren Buffett famous first rule of investing: "Never lose money," risk management is a critical element of our investment approach. As is outlined in our mandate, we aim to minimize the following main risk factors:

Business Model Risk - Unsustainable or easily duplicated business models
Balance Sheet Risk - Inappropriate or irresponsible leverage
Management Risk - Unreliable management with poor track records or history of scandals
Aggregation Risk - A portfolio sharing too many common risks among holdings
Valuation Risk - Companies with inflated prices relative to reasonable estimations of business value
Obsolescence Risk - Businesses with products that risk becoming obsolete.

At this time, we do not have more than 18% exposure to any single sector. We currently have approximately 17.4% exposure to the technology sector, which is lower than its weighting in the S&P 500 index. Our manager sector assignments lead to effective diversification as no more than two pitches for one sector are made each semester. Our diversification strategy has thus far been effective in mitigating aggregation risk.

Throughout our rigorous stock selection process, the above risk factors are actively addressed by our managers. Unless each is addressed during the pitching process, and meaningful mitigants are presented, the proposed investment will not be allowed to be voted on. Our team votes for a stop loss on each position, based on its volatility. Our minimum stop loss order allowed is 15% for the non-volatile stocks, and our maximum is 20% for the most volatile stocks.

Process

Our process begins with our sector teams, where each manager specializes in two to three sectors. Within each sector, we seek to identify those firms that we believe fit the criteria of our previously outlined investment strategy.. Upon finding a suitable investment idea, a team of two managers from that sector will conduct their rigorous analysis process and present the result to the team at our weekly meeting, after which we will engage in a lengthy discussion and Q&A session with the presenting managers to thoroughly address any concerns and decide whether the idea fits within our strategy.

In order to invest in a stock, it must receive 7 or more votes during the team's voting process. In the event that a stock does not pass the vote, a subsequent vote will be made to determine whether the company should be considered in the future following an additional research period if such a vote is motioned for by a manager. Once an investment decision is reached, the level of capital allocation is decided following a consideration of the investment's perceived safety, risk, margin of safety and the level of consensus on the investment decision from the team. Our allocation range from 4% to 7%, the higher percentage allocation going towards those positions we deem to carry less risk and offer more significant upside.

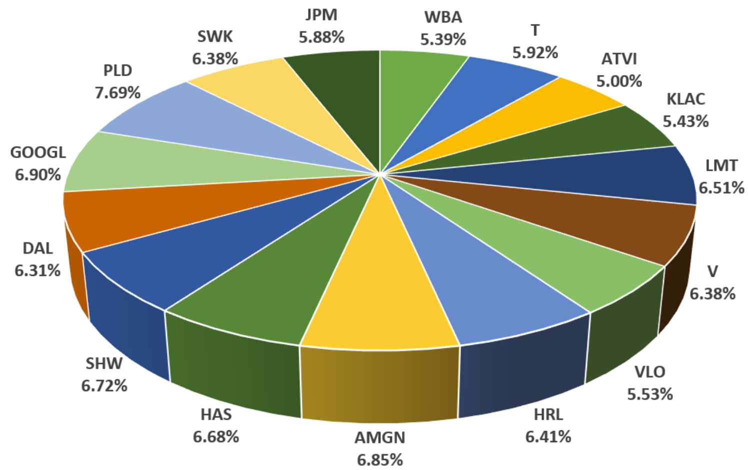
This year, our team has decided to employ a novel purchasing strategy compared to previous years using a mix of market orders and limit orders. We will purchase a stock using a market order only if we do not have any concerns regarding the short term volatility of the stock price during the period we were conducting our research, and view the current market price as the ideal point of entry for the investment. In instances where we identify a short term run up in the price of a stock we have decided to invest in that appears to be reactionary to a piece of news regarding the name, we will decide on an entry price that we believe better fits our investment thesis, and place a limit order at that price in the market. From a value investing perspective, the cost basis of an investment is critical. A stock may be a buy at one price, but not at another. Therefore we believe this approach allows us to be more disciplined in our purchasing to ensure we always enter our positions at the best possible cost basis. We evaluate our outstanding limit orders on a weekly basis, and should the limit price not be reached after a three week period we will reevaluate our analysis of the market price and determine whether conditions have changed enough to warrant investing with a market order, or to move on from the stock.

Our sector coverage team are the following:

Basic Materials - Joshua Weist, Bartosz Walas, Anthony Mottolese
Consumer Discretionary - Alex Barriga, Bartosz Walas
Consumer Staples - Jack Leyland, Bartosz Walas
Energy - Anthony Mottolese, Michael Pehota, Ana Walas
Financials - Jack Leyland, Michael Pehota
Healthcare - Jack Leyland, Dustin Fowler
Industrials - Shawn McAuley, Jonathan Stryjek
Technology - Dustin Fowler, Ana Walas, Joshua Weist
Telecommunications - Joshua Weist, Alex Barriga
Real Estate - Anthony Mottolese, Jonathan Stryjek
Utilities - Shawn McAuley, Ana Walas

Equity Portfolio & Allocation

The Team Gilson Fund has 99.99% of the portfolio invested in equities with the remaining 0.01% in cash. The average positiotion size is 6.25% ($66k), and the portfolio is well diversified across all sectors in the S&P 500, except utilities. The largest position is Prologis, Inc., (7.69%), a REIT. The smallest position is Activision Blizzard (5.00%).



Performance

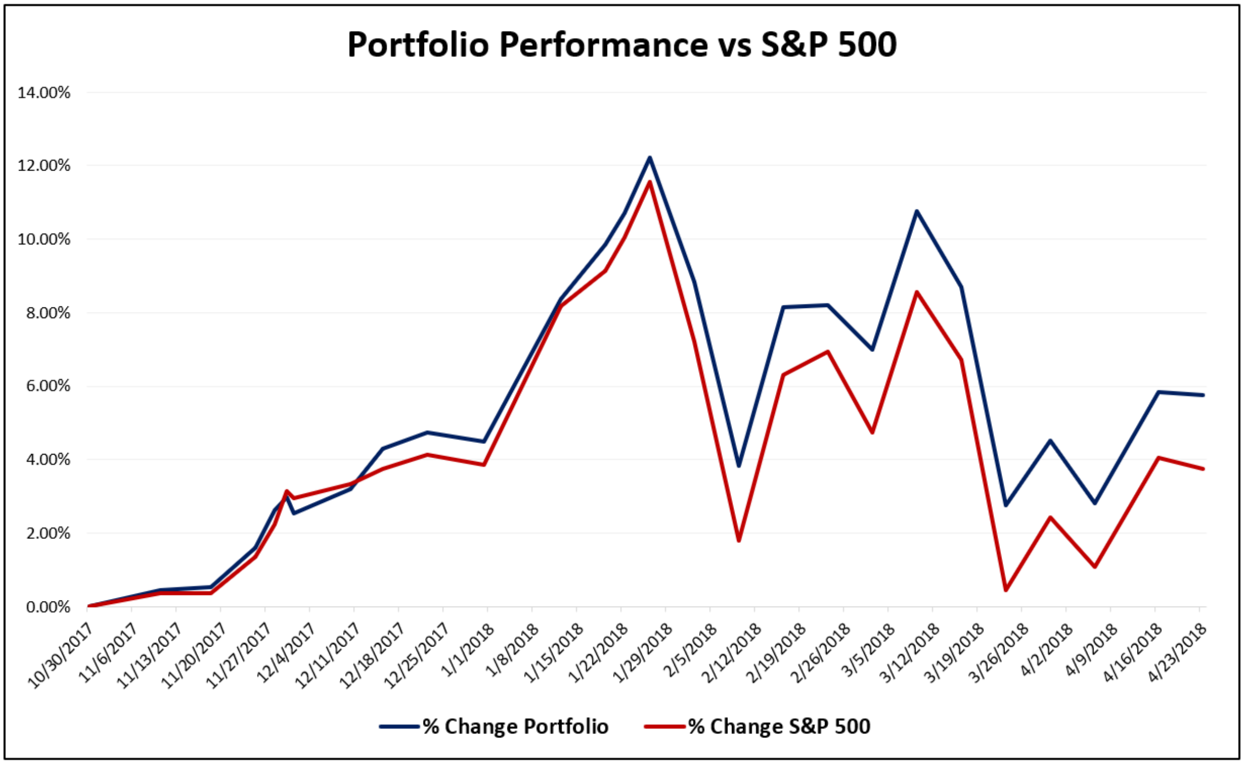
The charts below show the performance of the portfolio from October 30th, 2017 to April 23rd, 2018.

Total Portfolio Unrealized Gains/Losses

Portfolio										
Ticker	Name	Sector	Dividend Yield	Shares	Current Price	Cost Basis	Market Value	% of Portfolio	Change	% Change
WBA	Walgreens Boots Alliance	Consumer Staples	2.22%	883	$ 64.60	$ 55,512	$ 57,043	5.39%	$ 1,531	2.76%
T	AT&T	Telecommunications	5.30%	1,795	$ 34.89	$ 60,074	$ 62,628	5.92%	$ 2,553	4.25%
ATVI	Activision Blizzard	Technology	0.43%	799	$ 66.23	$ 50,641	$ 52,918	5.00%	$ 2,277	4.50%
KLAC	KLA-Tencor Corporation	Technology	2.15%	569	$ 101.00	$ 60,803	$ 57,470	5.43%	$ (3,333)	-5.48%
LMT	Lockheed Martin	Industrials	2.07%	192	$ 358.60	$ 60,341	$ 68,894	6.51%	$ 8,553	14.17%
V	Visa Inc.	Financials	0.60%	542	$ 124.46	$ 60,072	$ 67,450	6.38%	$ 7,378	12.28%
VLO	Valero Energy Corp.	Energy	3.11%	535	$ 109.26	$ 44,654	$ 58,454	5.53%	$ 13,800	30.90%
HRL	Hormel Foods Corporation	Consumer Staples	2.03%	1,895	$ 35.77	$ 65,563	$ 67,784	6.41%	$ 2,221	3.39%
AMGN	Amgen Inc.	Technology	2.60%	415	$ 174.66	$ 78,922	$ 72,466	6.85%	$ (6,456)	-8.18%
HAS	Hasbro, Inc.	Consumer Discretionary	2.31%	820	$ 86.12	$ 77,711	$ 70,618	6.68%	$ (7,093)	-9.13%
SHW	Sherwin-Williams Co.	Basic Materials	0.85%	183	$ 387.71	$ 74,936	$ 71,096	6.72%	$ (3,840)	-5.12%
DAL	Delta Air Lines, Inc.	Consumer Discretionary	1.91%	1,222	$ 54.61	$ 65,441	$ 66,709	6.31%	$ 1,268	1.94%
GOOGL	Alphabet Inc. Class A	Technology	0.00%	68	$ 1,073.81	$ 75,973	$ 73,019	6.90%	$ (2,954)	-3.89%
PLD	Prologis, Inc.	REITS	3.12%	1,254	$ 64.88	$ 76,974	$ 81,336	7.69%	$ 4,361	5.67%
SWK	Stanley Black & Decker, Inc.	Industrials	1.61%	474	$ 142.46	$ 72,041	$ 67,526	6.38%	$ (4,515)	-6.27%
JPM	JPMorgan Chase & Co.	Financials	1.94%	561	$ 110.93	$ 60,887	$ 62,232	5.88%	$ 1,344	2.21%
CASH							$ 56	0.01%		
					Total	$ 1,040,547	$ 1,057,698	100.00%	$ 17,095	5.77%

Data as of 4/23/2018

Total Portfolio Performance vs. S&P 500



Economic Outlook

The U.S. Economy

The U.S. economy is very healthy according to several key economic indicators and we are experiencing the strongest point in recent history. The last two quarters have been the fastest growing consecutive quarter growth in real GDP since 2014. Real GDP increased at an annual rate of 3.3% in Q3 2017 and in the second quarter real GDP grew at 3.1%. In addition, to the acceleration of GDP growth, the U.S. is right in line with the Federal Reserve's target of 2.0% inflation as measured by core PCE. The economy has also recovered from the recent hurricane disasters in the southern U.S. and has reached 4.1% unemployment rate, the lowest in the last 17 years. The labor market is tightening quicker than officials thought as the last two jobless rates have been below the expected level of 4.3%. This is a contributor in consumer confidence index reaching 129.5 in November, its highest level since early 2000. All of these figures support that we are currently in an prosperous time.

The positive outlook on the economy has been partly responsible for the record high stock market indices. It is important to note that although the signs are healthy, this could lead to overconfidence and irrational exuberance, which may create a bubble. The Federal Reserve will be trying to mitigate another recession and is expected to raise interest rates in December and several times in 2018. The SMF team is aware of the problems that arise with overconfidence and is focused on remaining disciplined in our investment decisions.

Major Legislative Initiatives

The most important proposed legislative change in recent months is tax reform. The Republican administration aims to use tax reform to increase consumer spending and make American corporations more competitive globally. Currently, the bill has been approved in the House and was recently approved in the Senate Budget Committee by a narrow 12-11 vote. A number of changes to the original bill were proposed in each chamber of Congress, so it is difficult to predict what the final bill will look like if it is passed. Broadly, the Republican party is looking to reduce the corporate tax rate to approximately 20%, which would be hugely beneficial to our primarily U.S. based portfolio companies. They are also trying to reduce the individual tax brackets, but the levels and scope of these changes are being widely debated in Congress. A consumer tax break would also be beneficial for our portfolio companies, especially in the short-run.

In a rare show of bipartisan cooperation, the Senate Banking Committee is proposing changes to the Dodd-Frank Act. Specifically, the proposed changes would increase the threshold at which companies are considered 'Systematically Important Financial Institutions' (SIFIs). The current threshold is $50 billion in assets for banks and insurance companies and would be increased to $250 billion in assets. The goal of this bipartisan action is to reduce stringent regulatory requirements on community banks. The Senate Banking Committee hopes these changes will allow small banks to increase lending to small businesses and allow consumers greater access to mortgages. Although these changes would not directly affect any companies in our portfolio, they are expected to benefit the economy as a whole.

Regulatory Initiatives

The Consumer Financial Protection Bureau (CFPB) was in turmoil recently when the outgoing director appointed an agency official to take over as interim director. Conversely, President Trump named Mick Mulvaney to be the interim leader of the agency. The conflict over who would lead the agency lasted several days until a federal judge ruled that President Trump held the right to appoint Mulvaney until he chooses a formal replacement to be approved by the Senate. The CFPB is charged with regulating banks to make them fairer and increase consumer access to the financial markets. The agency primarily enforces consumer financial laws. The change is not expected to have much impact despite the outcome because the Trump administration and Republican Congress have actively blocked the agency's rulings and reduced its power since January.

The Global Economy

Global growth projections for 2018 are expected to reach 3.1% according to WorldBank. 2017 experiences a stronger than expected year which will lead to increased manufacturing and trade as well as financial security around the globe. As commodity prices continue to rise, commodity-exporting countries will begin to benefit, which has already started to take effect in 2017. Advanced economies are expected to continue growing at around 2.2% while emerging markets should begin to recover at 4.5% in 2018 according to WorldBank.

The global economy is expected to be at or near full capacity in 2018, as interest rates continue to rise and consumer sentiment remains positive. Aging of the labor force is a major concern for global growth and we may experience lower than expected GDP output over the next decade. Tightening of global financial conditions is also a major concern and will lead to a plateau in global growth and consumer spending.

We have experienced an equity market that has continued to rise over the last two semesters with many share prices at their 52 week highs. The market will most likely experience a major correction within the next few years and we will continue to invest with caution. Overall, strong global growth is beneficial to the Student Managed Fund and our investment philosophy. Fund managers will continue to monitor global factors that could impact the performance of our portfolio.

Central Bank Policy

New Federal Reserve Chairman Jerome Powell has lived up to expectations as the "continuity pick" for the Chairman position through the FOMC meeting of his time at the post. He has signaled intentions to continue with gradual hikes in the federal funds rate through the next two years in addition to the winding down of the Reserve's balance sheet. Of note, however, is his assertion that he will not attempt to guess the limits of the labor market or the boosting effect of the republican tax bill. Rather, he will know how the market is changing as he sees it unfold. This marks a shift from three decades of his predecessors' reliance on complex theories and modelling to guide monetary policy decisions.

The March meeting resulted in a hike in the federal funds rate from 1.5% to 1.75%. Up to three additional are expected through 2018. We place emphasis on considering how such a monetary environment will impact both our current holdings and future investments. There is considerable uncertainty regarding the effect that the winding down of the Federal Reserve's bond purchasing program, dubbed "Quantitative Tightening," will have on fixed income markets that some believe have been propped up by artificial levels of liquidity as a result of the Fed's program. As such, this is a situation on which to keep a close eye through 2018.

Oil

In the first quarter of 2018, U.S. West Texas Intermediate ranged from approximately $58 to $66 per barrel. Since then, WTI has continued to rise and is trading at around $68 per barrel as of April 26. Throughout the same time period, Brent prices have exhibited the same trends, but at higher price points. The Brent-WTI spread has been narrow throughout the beginning of the year but has since been widening. Although OPEC has increased its oil demand forecast for 2018, rising U.S. oil production may not drive commodity prices as OPEC expects. We believe crude prices will continue increasing throughout 2018, though with continually increasing U.S. output, questions remain on whether the OPEC cuts will actually translate into meaningful price increases.

Sector Analysis

Sector Allocation

The manner in which we allocated our portfolio by sector stems from our team's investment strategy. 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, such as utilities contained companies that would not create as much value as other sectors and therefore we did not invest in it as there is not 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 April 23rd, 2018:

Sector	% of Total Portfolio	S&P 500 Sector Weight	Relative Weight
Basic Materials	6.72%	3.07%	3.65%
Consumer Discretionary	12.98%	11.80%	1.18%
Consumer Staples	11.80%	8.05%	3.75%
Energy	5.53%	5.90%	-0.37%
Financials	12.26%	14.90%	-2.64%
Industrials	12.90%	10.20%	2.70%
Technology	17.39%	23.72%	-6.33%
Telecommunications	5.92%	1.93%	3.99%
Healthcare	6.80%	14.33%	-7.53%
REITS	7.69%	2.92%	4.77%
Utilities	0.00%	3.16%	-3.16%
Cash	0.01%	0.00%	0.01%
Total	100.0%	100.0%	

Financials:

The Financial sector consists of firms that provide retail and commercial financial services to customers. It includes companies that are engaged in activities such as banking, insurance, investing, lending, financial advisory, and securities trading. The Financial industry makes up about 15% of the S&P 500, or a market cap of roughly $3.4 trillion.

The Financial sector has outperformed the S&P 500 over the last year, rising 14.7% compared to S&P 500's return of 10%. We believe that the Financial sector has demonstrated consistent performance throughout the year and is positioned to continue to do well considering a favorable outlook on impending market factors including rising interest rates.

Rate hikes by the Federal Reserve, which supports loan demand and healthy corporate balance sheets, have assisted the sector and is expected to continue. The federal funds rate is currently at 1.75% and is expected to increase to 2% by year-end, and is expected to reach 3% by 2020. Recent changes in yields has created some volatility in the sector, but robust economic data such as low unemployment, at 4.1%, steady growth in real GDP, at 2.9%, and historically high consumer confidence levels, at 128.7.

Current Holdings: V, JPM

Industrials

The industrial sector seems to be well positioned for the next few years. One of the main themes is the increase in the United States defense budget. Expectations are for the defense budget to grow, especially under a Republican controlled Congress. Trump is looking to unravel budget cuts that have been impacting the defense budget in previous years, therefore increasing the current budget. Many top government officials, including Trump and Arizona Senator John McCain, have publicly criticized the aging military infrastructure, including ships, vehicles, and aircraft. They are pushing for an updated, modernized military. The Department of Defense has awarded some contracts already, such as the F-35 Fighter Jet with Lockheed Martin, for a planned order of 2,443 jets worth billions of dollars. As one of, if not, the premier fifth-generation fighter jet, the F-35 program continues to grow internationally, with foreign militaries ordering numerous aircrafts. The Department of Defense has also ordered 257 Black Hawk helicopters from Sikorsky through 2022, for an overall cost of $3.8 Billion.

International defense budgets are increasing as well, especially with an increase in geopolitical tensions. North Korea missile launches continue to keep many nations on edge. This past summer, the European Union established the European Defense Fund. This fund aims to help countries cooperate and spend money efficiently through joint development of technology and defense equipment and through collaboration with each other. NATO is also expected to increase defense spending, with Trump pressuring NATO and member countries to step up their spending. We have seen some countries increase defense spending with others indicating they will do the same as well, all good signs for Industrials as a whole.

Another key aspect is the increase in infrastructure investments, both in the United States and abroad. In 2015, Congress passed a bill that increased infrastructure spending by $9 billion per year. In the United States, infrastructure age is also at an all time high. This is also something President Trump has mentioned as problematic. Though these projects are long-term, they are necessities and must be completed. Despite the potential for the lack of significant increases, the budget would most-likely remain the same, if not increased because infrastructure is a vital to the United States. Globally, infrastructure in China has grown steadily during the past years. Companies involved internationally could experience a boost from the continued growth of investment in Chinese infrastructure.

One major thing to watch here is how Trump handles his trade negotiations with China. The past few months have seen tensions flare with each side setting tariffs. While meetings are continually being held, many believe that if Trump does not walk this line carefully, a potential trade war could occur. If this were to happen, this would have negative impacts on the US economy, and the Industrials sector as well.

Within the industrial sector, one major competitive advantage lies in the “industrial internet of things.” Ranging from autonomous cars to smart thermostats in homes and office buildings, companies leading in this area will have the edge. The “internet of things” also includes telematics, which uses real-time data to help make a process, such as farming, more efficient. While this concept is relatively new, their remains untapped potential for companies going forward. Those who research and execute the “internet of things” are sure to position themselves well.

Current Holdings: LMT, SWK

Energy

Two major factors behind the current climb in oil prices have been OPEC’s 2017 decision to extend production cuts into the end of 2018, as well as the synchronized global economic growth we are seeing. Currently, oil is nearing $70 per barrel, up more than 60% since summer of 2017, and we believe oil prices will continue increasing in the short term.

Such growth in oil price has boosted the stock prices of energy companies such as Valero Energy, which is up more than 30% since we purchased it in November, 2017. However, the continuation of such accelerated growth could have a negative impact on economic activity as petroleum product companies might start passing on the higher costs to consumers.

We expect U.S. oil and natural gas exports to continue increasing as economic activity and energy demand continue improving globally. In addition, oil prices are even higher abroad, giving exporters of crude and petroleum products a spread advantage.

The energy sector has been one of the best-performing sector so far Q1 2018. Over the past five years in the U.S., strong crude and natural gas production has caused energy production to increase steadily. Looking ahead, within the next decade, we expect continued increase in energy demand as the U.S. and global economy improve.

Current Holding: VLO

Consumer Discretionary

The status of the U.S. consumer, an important indicator for the Consumer Discretionary sector, has a solid base and looks to be improving as we move further into 2018. Average hourly earnings have risen 2.7% in the past year according to the Bureau of Labor Statistics. As the labor market continues to improve, so does consumer spending. Even the retail space, one that is plagued by many disruptors, has seen a reasonable 4.5% year over year gain last month (March, 2018). With continued low interest rates and only moderate hikes down the road, consumer borrowing and spending continue to be positively supported; the Conference Board's Consumer Confidence Index rose to 128.7 this month (April, 2018), which is an almost 17-year high.

Nonetheless, between the end of 2017 and beginning of 2018 consumer spending on durable goods such as household equipment and automobiles has declined as a percentage of total personal consumption expenditures. This has been replaced by an increase in spending on experience-based goods such as accommodations, recreation, and travel. Shopping is also being done online at an increasing rate, with physical retailers having to go omnichannel just to survive. Ones that cannot successfully do so have been in trouble; with one of the more prominent examples being Toys R Us, which liquidated all of its US operations after bankruptcy.

As with the previous year, the consumer discretionary space is one full of disruptors, but continues to be supported in areas due to the general global economic growth.

Current Holdings: HAS, DAL

Consumer Staples

The Consumer Staples sector is often times seen as a refuge for investors during times of great volatility or economic turmoil. Economic conditions have been overall positive however, with an almost unprecedented synchronized global economic growth. Nonetheless, there is much that companies within the sector have been doing to create value; primarily employing very aggressive cost-cutting strategies (particularly in retail). This has created more perceived value for consumers, driving increased sales. The sector has also been heavily investing in mergers and acquisitions in order to subdue strong and rapid competition, which could produce value in the form of economies of scale and positive synergies.

It is also notable that consumer tastes and preferences have been shifting in recent years, particularly in the food category. There is a great movement towards organic and whole foods, as well as a particular affinity for healthy proteins. Companies such as Hormel have been using acquisitions to drive sales by targeting such health-centric consumers. The same has been occurring for artisan foods as well as snack foods, indicating a shift in lifestyle towards an on-the-go mentality (primarily amongst millennials).

All in all, this sector continues to be a safe haven for investors wary of volatility as well as an evolving ecosystem reacting to changing consumer preferences.

Current Holdings: WBA, HRL

Technology

The technology space is constantly changing and technologies including robotics, virtual and augmented reality (VR and AR), 3D printing, and artificial intelligence (AI) are opening up significant areas of opportunity. Machine learning, digitization, and blockchain technology will all play an important factor when assessing the capabilities of potential investments. The biggest growth drivers in the industry are consumer demand for innovative personal technology, cybersecurity concerns, and economic rebound in the U.S.

The semiconductor sub-sector has performed especially well YTD with the PHLX rising 41.93% in 2017. Some of the trends bolstering growth in the semiconductor sub-sector and the information technology sector as a whole are cloud computing, big data, SaaS, IoT, autonomous vehicles and artificial intelligence. There are two factors that could negatively impact tech. The first is a downturn in the global economy. The tech sector is increasingly global, and if a large economy such as China falters, it could hurt the whole industry. The second factor is the potential of increasing interest rates this year. Increased rates mean increased costs of raising capital, which could make it more difficult for companies to invest in growth opportunities.

In order to maintain the competitive pace of innovation, companies find themselves engaged in a global war for talent. The rise of the "gig economy" is making more flexible, project-based arrangements an acceptable alternative to company based employment. Well established players will want to be aware of competitive threats and how new companies might disrupt their business models and at the same time considering how they can beat them to the punch by disrupting themselves first. The regulatory environment is likely to become more complex, and organizations will need the tools and resources to address new and existing rules, especially as they expand internationally.

Current Holdings: KLAC, ATVI

Telecommunications

The telecommunications sector (telecom) is relatively small compared to the rest of the market. So far this year, the telecom sector is down approximately 11.8% whereas the S&P 500 is up 18.3% as a whole. The telecom sector is comprised of companies that provide fixed-line, cellular, wireless, high bandwidth and fiber optic cable network services.

This sector is experiencing a number of changes to both the technological and regulatory landscape. The most significant technological change is the development of the 5G network. Telecom companies around the world are currently building the necessary infrastructure, and they are expected to introduce the network in limited markets within the next two years. The major telecom carriers must first test their new technology and its capacity, and clear numerous regulatory hurdles. The sector is also seeing tailwinds from a number of developments in consumer electronics. As the number of devices connected to telecom data networks grows, the major carriers expect to increase the amount of service they provide. The new devices that need to be connected include tablets, "wearables" such as smartwatches, autonomous cars, and a number of smart home devices.

In addition to 5G network regulation, the telecom sector is currently on edge over the possible repeal of the 2015 net neutrality regulation. This regulation classified broadband internet providers as common carriers (akin to utility providers) in order to ensure equal access to high-speed internet regardless of user or content. Although the issue remains highly politicized, there are merits to each argument in favor of retaining or removing the regulation. Our opinion is that AT&T stands to benefit from the removal of the regulation due to their ability to throttle certain broadband speeds, however strong consumer sentiment may encourage large telecom carriers to self-regulate to some extent.

Current Holding: T

REITS

In recent years, especially in 2017, stocks in the REIT sector have underperformed the broader market. However, during this time the industrial REIT industry has seen rising rents and lowering vacancy rates, which is expected to continue. The industry is expected to grow at ~2.6% per year into 2022, as the real estate market improves and corporate profits improve. The industrial REIT market is cyclical, but the e-commerce secular trend is expected to ease the contraction phase of such cycle at least within the next decade.

Current Holding: PLD

Individual Holdings

Walgreens Boots Alliance (NASDAQ: WBA)

On October 31st of the year we purchased 736 shares of Walgreens Boots Alliance (NASDAQ: WBA) at a share price of $66.23. On January 31st, we purchased an additional 145 share at a price of $75.78. Walgreens Boots Alliance (Walgreens) is a global pharmacy-led, health and wellbeing enterprise. They are the largest retail pharmacy, health and daily living destination across the United States and Europe. The WBA portfolio is made up of Walgreens, Boots, Alliance Healthcare, Duane Reade, and additional health and beauty brands. Walgreens brand stores occupy the largest market share in the US retail pharmacy space, while Boots stores occupy a similar position in the UK. In additional to these dominant retail pharmacy chains, WBA maintains a strong presence in the global pharmaceutical wholesale business through the Alliance Healthcare brand, which also offers a wide array of services to a vast network of independent European pharmacies.

Walgreens operates in two main industries, the retail and healthcare spaces. The retail space has been crushed because of fears that Amazon continually taking revenues away from brick and mortar sales. Walgreens has not been immune to such fears as Amazon has threatened to enter the pharmaceutical space. The pharmaceutical industry has marked by cost pressures on drugs and consolidation. Walgreens' stock has been hit by all of these pressures, but has a strategy in place to counter such setbacks.

Walgreens faces a number of risks, including but not limited to: Amazon entering the pharmacy space, widespread changes in pharmacy reimbursement practices, changes made to Medicare and Medicaid programs, increased pricing pressure on pharmaceutical products. We believe WBA is positioned well to mitigate these risks in the long term and do not see any of the potential threats from major legislative changes to healthcare policy materializing. In addition, we do not see any significant balance sheet risk or valuation risk as we will be able to purchase the shares during what we believe to be a downturn driven by a market overreaction to the Amazon threat

We believed WBA presented a strong buying opportunity for several notable reasons. First, we believed the market was overreacting to the news that Amazon could potentially enter the pharmaceutical space. After thorough diligence, we determined that Amazon's entry into the space would not impact Walgreens as greatly as the market was predicting. Also, the company's new cash-only deal to acquire 1,932 Rite Aid stores will put them ahead in terms of store count in the US by a wide margin, with the added benefit of not having to take on Rite Aid's debt load as would have been the case in the initially rejected deal structure.

In addition, Walgreens' business model puts it in the unique position of being the only global pharmacy-led business of its type. We believe this global presence will allow it to effectively weather any major industry headwinds, and opens up a wider array of growth opportunities compared to its competitors. This belief is strengthened by favorable demographic trends in the geographies in which they operate and significant hidden assets in the form of their large minority stake in major supplier AmerisourceBergen. The company is led by a management team that has proven able to act decisively in adjusting to industry trends evidenced by their increasing focus on specialty pharmacy products, as well as cost management, where they have successfully implemented a cost transformation program ahead of schedule, resulting in a 2.7% improvement in gross margin since 2014.

WBA has returned a cumulative 2.76%.

Hasbro, Inc. (NASDAQ: HAS)

On January 31st, we purchased 820 shares of HAS at a share price of $94.77.

Hasbro, Inc. is an American play and entertainment company. It is the third largest toy maker in the world and produced revenues of approximately $5 billion in 2016. Hasbro's operating segments are currently U.S. & Canada, International, Entertainment & Licensing, and Global Operations. In its pursuit for realignment, Hasbro will be changing these segments to Franchise & Partner Brands, Hasbro Gaming Brands, and Emerging Brands. This is a part of its strategy to move away from manufacturing and towards licensing and entertainment. Hasbro has presence in Europe, Asia Pacific, and Latin and South America.

There are three primary industries that Hasbro operates in: toy & game, digital gaming, and visual media. The toy & game industry is an interesting and active one right now due to Toys R Us' bankruptcy and growing ecommerce – particularly in the form of Amazon. We believe Hasbro's alignment with Walmart and Target will mitigate this otherwise harmful development. There is also a growing trend in digital gaming (particularly mobile gaming) and visual media consumption. Hasbro has been making acquisition and partnerships within both industries by acquiring companies such as Backflip Studios and Boulder Media. With mobile games like Dragonvale and digital shows such as My Little Pony: Friendship is Magic, Hasbro is well positioned in these industries.

The investment thesis is split amongst six points. One: Hasbro is well positioned in an industry with a strong outlook. The toy and game industry is poised for consistent growth and the digital gaming and entertainment space is rapidly expanding. Two: Hasbro has strong brand storytelling that it franchises to successfully capitalize on such brands. Three: Hasbro has an industry leading entertainment and play brand portfolio that reaches a broad range of users. Four: Hasbro has an effective multiplatform brand strategy as outlined by its "Share of Life." Five: Hasbro has strong financial performance that allows it to reinvest in the company and shareholders (and make successful acquisitions). Six: Hasbro is currently undervalued due to noise from the Toys R Us bankruptcy and "The Amazon Effect."

In the US, the traditional toy and game industry is moderately fragmented as the ownership of popular toy brands remains spread out despite the strong portfolios of the major industry players. According to the most recent Mintel data, Mattel Inc., Hasbro Inc., and LEGO Group control 31.4% of the market, while other important players Jakks Pacific Inc. and Namco Bandai Holdings sit at 2% and 1.1% respectively. In major European Markets such as the UK, France, and Spain, Hasbro ranks second in market share while also maintaining a top four position in Germany and Italy. Hasbro's major competitor in visual media among multifaceted entertainment companies is Mattel Playground Productions. This in-house film studio drives brand awareness and growth for Mattel by producing original content based on Mattel's brands; with the particular distinction of featuring live action productions such as *Max Steel*. Additionally, Mattel Playground Productions only produces Mattel specific content. Hasbro's Boulder, on the other hand, produces works independent of Hasbro's brands such as *Foster's Home for Imaginary Friends* and *The Amazing World of Gumball*; helping the company diversify its visual media entertainment and providing it with a subsidiary already relevant in modern media
Hasbro, competitive advantage lies in the strength of their entertainment brand portfolio. The portfolio is built around their multiplatform content strategy that places each brand at the center of everything the company does. They leverage the power of the brands by creating entertainment products across traditional toy, digital gaming and visual media platforms in way that allows sales on one platform to help drive the sales of another. Hasbro was the first toy company to implement such a strategy, while others are just starting to try a similar approach. They have a strong ability to create and acquire new brands from which to build new stories and products. In addition, Hasbro relationship with Disney and Marvel give it exclusive access to profit from the toys based on the feature films associated with those brands, which is one of the biggest current drivers of traditional toy sales.

*Retail Customer Concentration: High Impact/Medium Probability***:** Hasbro sells the majority of its products to a small customer base.

Manufacturing Over-reliance in China: Medium Impact/Medium Probability:
The company's reliance on third-party manufacturers in China exposes it to a number of macroeconomic risks, such as the potential deterioration of the trading relationship between China and the US and rising labor costs

Licensor Concentration: High Impact/Low Probability:
A major portion of Hasbro's revenues from its Partnership Brands are derived from Disney's licensed products. Disney owns five of Hasbro's nine Partner Brands, which represents over 50% of Hasbro's Partner Brands portfolio.

The team has a loss of 9.13% on HAS.

<u>KLA-Tencor (NASDAQ: KLAC)</u>
On October 31st, we purchased 368 shares of KLAC at $109.45 per share for a total investment of $40,279.40. On November 15th, we purchased an additional 95 shares at $102.09 per share, increasing our total investment to $49,978.15, or 5% of our portfolio. Finally, the team purchased 103 more shares at a price $101.86 on December 12, 2018. The additional purchases was due to the fact that we believe KLAC has strong fundamentals, and the decrease in stock price after our initial investment presented an opportunity to reduce our dollar cost average on the position.

KLA-Tencor (KLA) designs, manufactures, and distributes semiconductor process control and yield management equipment. KLA's products lead the industry in performance, and allow users to correct defects through in-line feedback. These products are critical in the semiconductor manufacturing process because they help improve yields through defect identification, determine manufacturing process problems, and facilitate corrective actions.

KLA-Tencor focuses on two major steps in the semiconductor manufacturing process: wafer inspection and metrology. The first step in the manufacturing process is to evaluate a number of characteristics of the incoming silicon wafer, which KLA excels at. The next step where KLA-Tencor provides solutions is metrology and process control for the steps following lithography.

One of the keys to KLA's success is their intense investment in R&D. This is a competitive advantage that allows the company to provide leading technologies and sophisticated products, making it an industry leader. This advantage translates to the bottom line, where KLAC's gross and profit margins are 15-20% and 5-10% higher than their competition, respectively. Furthermore, the industry has high barriers to entry, helping to shield the company from new entrants.

Electronic products ultimately purchased by consumers are the major demand driver for semiconductors. The development of innovative technologies such as artificial intelligence, virtual reality, autonomous vehicles, and internet of things will maintain growth in the semiconductor industry, and ultimately in the process control market, where KLA-Tencor is a market leader. As faster, smarter, and smaller electronic devices continue being developed in the coming years, the need for inspection and metrology will continue increasing, which will favor KLA-Tencor.

Another major driver for KLA-Tencor is its business in China, which is quickly growing. China is the largest consumer of integrated circuits (ICs) in the world and is pushing to create its own semiconductor industry. This would increase demand for semiconductor process control and yield management tools, which in turn would benefit providers such as KLA-Tencor.

KLAC has a weighted return of -5.48%.

AT&T Inc. (NYSE: T)
AT&T Inc. is a leading telecommunications company in the United States. AT&T is wireless service and entertainment provider. It is split into four business segments: Business Solutions, Entertainment Group, Consumer Mobility and International. The Business Solutions segment supports business customers through wireless services, legacy voice and data services and fixed strategic services, including ethernet, dedicated Internet and VPN. The Entertainment Group provides video entertainment through DirecTV and AT&T U-Verse, as well as high-speed Internet. The Consumer Mobility arm serves retail customers and includes tablet and handset sales. Consumers can prepay for their service or buy a contract. The International division covers all of the business that AT&T does outside of the U.S. Major geographic markets include Argentina, Mexico, Peru and more.

AT&T's growth in the coming years will come from the development of the internet of things (IoT), and their ability to capitalize on the changing cable industry. The IoT offers an incredible source of growth for AT&T, because the consumer market is so highly saturated. The IoT will be an important growth vehicle because the traffic on it will be exponentially higher than the consumer mobile network, and the contracts with customers will provide great revenue visibility. Content distribution will also be an important growth vehicle for AT&T. The cable industry is slimming down in favor of content creators and service providers. If AT&T can successfully acquire Time Warner, it will be important for them to quickly integrate the services that each of their three business lines offer in order to attract new customers.

The biggest risks that AT&T faces are tough competitive pressure, and rapidly changing technology. The competition in the industry has the capacity to cause consolidation among competitors, or significantly shift the market structure in favor of a profound disruptor. Additionally, the company's main service faces commoditization risk as networks become increasingly similar. AT&T must also manage the risk of missing out on a new and disruptive technology. Such a development could leave AT&T as the industry laggard if their response is poorly timed or if the new technology made their expensive acquisitions obsolete.

We currently have an unrealized gain of 4.25% on T.

Activision Blizzard (NASDAQ: ATVI)

On November 6th, our fund purchased 645 shares at $62.06 per share for a total investment of $40,028.70. Activision Blizzard, Inc. is an American video game developer. It encompasses five primary operations: Activision Publishing, Blizzard Entertainment, King Digital Entertainment plc, Activision Blizzard Studios, and Major League Gaming. The Activision branch produces franchises such as Call of Duty and Destiny; focusing primarily on console gaming. Blizzard Entertainment produces franchises such as World of Warcraft and Overwatch; focusing primarily on online PC games with an emphasis on subscription-based and microtransaction business models. King Digital Entertainment produces mobile (phone-based) games, emphasizing a freemium (or free with microtransactions) business model. Activision Blizzard Studios is a television and film studio that produces original content based on Activision Blizzard's existing franchises, allowing it to strengthen those franchises. Finally MLG is an online eSports broadcasting network.

The company sells its products via retail and digital channels; more prominently with the later via services such as the self-created service BattleNet and externally-created services such as Steam, PSN (PlayStation Store), and XBox Live.

Activision Blizzard is made up of five primary operations: Activision Publishing, Blizzard Entertainment, King Digital Entertainment plc, Activision Blizzard Studios, and Major League Gaming. Activision produces franchises such as Call of Duty and Destiny, focusing primarily on console gaming. Blizzard produces franchises such as World of Warcraft and Overwatch, focusing primarily on online PC games with an emphasis on subscription-based and microtransaction business models. King produces mobile games, emphasizing a freemium (or free with microtransactions) business model. Activision Blizzard Studios is a television and film studios that produces original content based on Activision Blizzard's existing franchises. Finally, MLG is an online eSports broadcasting network. The company sells their products via retail and digital channels, more prominently in the latter. Part of what makes the company such an attractive investment is their multifaceted entertainment channels that are built on established and emerging brands. Established brands have supported Activision Blizzard's consistent and growing revenue streams over the past few years, and this along with the potential success of their emerging brands positions the company to being a top leader in the industry.

Activision Blizzard has seen consistently positive revenue growth in the past five years. In contrast, its income has been steadying and even falling in the most recent year. This income plateau is attributed to the company's various acquisitions and investments in expanding gaming markets, film/studio development, and eSports (particularly with the Overwatch League). In the past few years, revenues have been driven by various factors such as the acquisition of King Digital Entertainment in 2015/2016 (10% organic growth) and the release of the popular Overwatch in 2016. This has helped it recover from stagnant growth caused by the weakness in sales of Call of Duty in 2015 (a weakness that has since been remedied with the successful reception and sales of the newest Call of Duty: WWII). We expect both sales and income to increase in the future as a result of the company's growth initiatives as well as the continuing shift of games to digital channels (which are significantly less expensive to physical distribution).

Activision Blizzard's fundamentals and investments will drive its continued growth and position itself as a leader in the global market. Its multifaceted, emerging brands keep Activision Blizzard as a leader in all entertainment platforms as the industry expands. Opportunities such as mobile and eSports gaming are areas that their acquisitions and strong franchises can break into, as well as promote and foster growth in these sub sectors of gaming.

We currently have an unrealized gain of 4.50% on ATVI.

Visa (NYSE: V)

On 11/15/2017, we bought 541 shares of Visa at $110.83. Visa operates as a global financial payments technology network and manages financial services. Visa offers global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities. It operates a processing network that enables authorization, clearing, and settlement of payment transactions. Visa offers fraud protection for account holders and assured payments for merchants. It offers innovating new technological products to add more value to its clients and network.

Visa operates in the technological payments industry dominated by the duopoly of MasterCard and Visa. Visa is a superior company, operating at more than 10% better margins, having double the amount of volume, transactions, and cards than MasterCard. Furthermore, Visa operates in an open loop network, which moves the credit risk to the issuers, compared to Discover and American Express, which bear this type of risk.

We believe that Visa's major competitive advantages are its strength of its brand, global expanding presence, its scale, its dominant market positioning, and experienced management team. Additionally, global volume is expected to grow 10.9% through 2020, which will aid Visa's revenue growth. Visa has superior market shares in most major markets. As mentioned earlier, Visa has 66% margins, more than 10% better than the next major competitor. Furthermore, Visa has strong focus on innovation, which has resulted in it continually leading the industry in technological developments. Lastly, Visa has no exposure to loan default or interest rate risk, decreasing the company's overall exposure to risk.

Visa faces numerous risks. The most pressing risk facing the company is securitizing data. Visa collects very sensitive personal and corporate data, which can be subject to hacks, but Visa is at the forefront of data security. Another important risk is potential changes in regulatory policy, but we do not see impactful regulatory changes coming in the next years. One potential risk is disrupting companies affecting Visa, but Visa has strong positioning in the industry and is able to adapt to these changes. Additionally, most potential disruptors are a great distance from being able to drastically affect Visa.

Currently, we have an unrealized gain of 12.28% on Visa.

Alphabet (NASDAQ: GOOGL):

On 2/28/2018 we purchased 68 shares of Alphabet class A at a price of $1,117.24. Alphabet is a collection of companies, the largest of which is Google. Alphabet contains several other companies that are unrelated to each other. Alphabet believes this allows them more management of scale, as they are able to independently run companies that are not very much related. Google is the number one search engine by far, where they generate most of their revenue through advertisements.

Alphabet operates as an Internet information company, which is intensely competitive driven by innovation. Google great EBITDA margins and has the largest market share, 87% in its primary business, Search Engines. Furthermore, the company is growing many small parts of the company that operate in speculative technology space in an effort to spur drastic technologic change. Lastly, the industry Alphabet is in has high barriers to entry, which is why the company has few significant competitors to guard their market against.

Alphabet faces numerous risks. In 2017, approximately 86% of its income was generated from advertisements; therefore reduced spending on advertisements or the loss of a partner could have a negative impact on Alphabet. Because technology is very dynamic and ever changing, it is key to continue to innovate and create products that users want to use. If Alphabet fails to do so, its competitors could take away significant market share. There are regulatory and privacy concerns as cyber security becomes an increasing threat to the industry as a whole. Alphabet also faces manufacturing and supply chain risks for some of their products, and Google faces web span and content farm issues as it continues to screen its search results to make sure only those relevant results are returned.

Currently, we have a 3.48% unrealized loss on GOOGL.

Prologis, Inc. (PLD)

Prologis, Inc. (PLD), headquartered in San Francisco, is the 6th largest REIT in terms of assets under management, and the largest industrial REIT. PLD was purchased on 3/28/18 at a price of $61.00. A leader in logistics real estate, Prologis owns and manages warehouses and distribution facilities in the US., Europe, and Asia. Prologis is divided into two operating segments: Real Estate Operations (90% of revenues), and Strategic Capital (10% of revenues). The assets managed include properties entirely owned by the company itself and properties owned by its co-investment ventures. Prologis has $79 Bil in assets under management, which includes over 3,200 buildings, or about 684M square feet in 19 countries.

Relative to its major competitors, Prologis has the largest global presence as well as the largest portfolio of quality facilities in the best locations to capitalize on the growing demand of online retailers. This competitive advantage is accompanied by Prologis' solid tenant list, as well as its own research arm (Prologis Research), which has and will continue allowing management to react proactively to new trends and changes in the market.

Prologis faces several risks in the current market. Rising interest rates could make investors shift to other types of investments with higher yields, such as bonds. And in general, when interest rates are high, REITs tend to underperform. However, this risk could be mitigated by the favorable ecommerce secular trend, which especially favors industrial REITs such as Prologis. The increasing demand from online retailers for quality real estate could to some extent shield Prologis from any negative impact to profitability caused by high interest rates.

The team currently has an unrealized gain of 4.68% on PLD.

Lockheed Martin (NYSE: LMT)

On 11/8/17, we purchased 159 shares of Lockheed Martin (Lockheed) at a price of $313.92 a share. Lockheed Martin is a global security and aerospace company, principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. Lockheed Martin is the largest defense contractor for the United States of America, and plays an essential part in its national defense. Its four main business segments include aeronautics, missiles and fire control, rotary and mission systems, and space systems. Lockheed's largest source of revenue is from its F-35 program, which is the world's leading fifth generation multi-role stealth fighter jet.

The aerospace and defense segment within the industrials sector has outperformed the S&P 500 year-to-date because of favorable trends and catalysts. The largest trend in the industry has been increased government defense spending both domestically and abroad. Lockheed's largest customer is the Department of Defense who just increased their budget this year by 10% which has helped the entire industry. Also, international governments are being pressured to increase their defense spending. Trump has been critical of NATO, pressuring many other nation members to pay their fair share in increasing their defense spending. Some nations have answered Trump's call, while others have said they will follow suit. The industry has been very stable as there are few factors that could negatively affect the industry along with government spending increases both domestically and abroad.

Lockheed's competitive advantage stems from its wide array of products within their portfolio. Recently acquired Sikorsky helicopters adds to their already strong performance in the defense sector. Lockheed has recently locked down a major $3.8 Billion contract with the Department of Defense for Black Hawk helicopters through the year 2022. The F-35 program is the elite fifth generation fighter jet and is the leading defense program in the world today. This program comprises of nine partner countries, all which contribute to the development of the F-35 fighter jet. Their strong brand results in increasing global partnerships, with more countries showing interest in Lockheed's aircraft, as well as their state-of- the-art missile defense systems THAAD and PAC-3. Lockheed continues to push the boundaries of what is possible, with research and development on fiber lasers as well as robotic submarines. Lockheed recently won a $43.2 million contract from the US Navy to develop a robotic, unmanned submarine. This significance of this is that it will be the first of its kind, and will be able to carry out strategic missions without putting sailors at risk. Because of their forty-plus years of experience with lasers, Lockheed won a $26.3 million contract from the US Air Force to develop a compact airborne high-energy laser. Lockheed will design, develop, and produce a high power laser, with the challenge of making it small enough to fit on an aircraft, such as the F-35.

The company faces numerous risks, including but not limited to: political, international, environmental, as well as competition and cyber security threats. President Trump has criticized the F-35 program for cost overruns and delays. A delayed government budget could also have adverse effects on Lockheed. International sales are heavily regulated, and issues can arise from political and economic factors. Trump recent trade talks with countries like China could affect Lockheed, as certain actions could have results that cross borders and impact places where Lockheed operates. Lockheed deals with numerous environmental regulations and laws, which can result in additional costs and are rapidly changing. In terms of competition, Boeing is and has been trying to rival Lockheed with their own version of the F-35 fighter jet. In addition, due to the nature of their business, Lockheed Martin is the target of numerous cyber security threats. A significant breach could not only have a negative impact on the company, but on the United States as well. Lockheed Martin presented a strong buying opportunity because of the company's wide economic moat, industry leading relationship with the Department of Defense, increased defense spending both domestically and abroad, and the mitigated risks the company faces. On top of this, we believed based on our valuation the intrinsic value of the stock was well above the value of the stock at the time. Lockheed not only fits but defines the type of companies we are looking to buy outlined in the Student Managed Fund prospectus. Favorable industry trends, specifically in the segments that Lockheed Martin operates in, will continue to boost revenues and the stock higher than what the market is predicting. To date, no changes have been made in our investment thesis for Lockheed and we will continue to monitor the stock closely. We currently have an unrealized gain of 14.17% on LMT.

Amgen (NASDAQ: AMGN)

We purchased 408 shares of Amgen (AMGN) on 1/24/18 at a purchase price of $190.33 per share. Amgen is committed to unlocking the potential of biology for patients suffering from serious illnesses by discovering, developing, manufacturing and delivering innovative human therapeutics. Their medicines usually address diseases for which there are limited treatment options. Amgen's "biology first" approach explores complex molecular pathways of disease before determining what type of medicine is most likely to deliver optimal effectiveness and safety. For Amgen, quality control and a reliable supply of medicines is just as important as research and development. Amgen operates within one business segment: human therapeutics. Within that, they focus on six areas: oncology/hematology, cardiovascular disease, inflammation, bone health, nephrology, and neuroscience.

Amgen operates in the biotech industry, which is intensely competitive driven by R&D innovation. 2017 saw a significant increase in NME (new molecular entities) and BLA (Biologic License Applications) drug approvals from the previous year. With more drugs entering the market, an increase in sales are expected to take place. Biosimilars have been approved in Europe since 2006 yet were not approved in the United States until 2015. Significant growth within biosimilars is now expected to occur both domestically and abroad, as many firms seek to continue to develop these drugs.

The United States tax overhaul has the potential to repatriate over $150 billion in the biotech industry, and analysts predict this will lead to stock buybacks and continued growth through M&A, which will drive growth and earnings. Stable, healthy growth from recent drugs will continue for the next few years. Orphan drugs, drugs for diseases in which less than 200,000 Americans are affected, are forecasted to grow at 11.1% for the next five years. The Trump Administration seems to be easing its tone on the industry as a whole. President Trump has mentioned the possibility of shortening trial times as well as speeding up the FDA approval process, all incentives for firms to develop even more drugs.

We believe Amgen is an attractive buy for our portfolio because it is the world's largest independent biotech firm and is positioned well against entrants. Long-term patents for drugs protect against competition, and Amgen's ability to develop innovative products should substantially grow revenues. Amgen has solid operating margins and cash flows, due in part because of their increasing presence in tapping emerging markets with aging populations. Lastly, Amgen is an industry leader in next-generation biomanufacturing, where they produce more efficient facilities at half the cost and in a quarter of the time as it takes to construct a normal facility. These new, next-generation biomanufacturing facilities allow for the same output as traditional facilities all while using 80% less space.

Amgen's major competitive advantages are its strength of its existing products and developing products lines, its global expanding presence, its long-lasting patents, and its dominant market positioning. As mentioned, Amgen is an industry leader in next-generation biomanufacturing, which will result in more capital being allocated to drug development. Lastly, Amgen has several recently FDA approved drugs that are expected to have double-digit growth this year that will bolster the company's already strong cash flows.

Amgen faces numerous risks. The most substantial risk is potential changes in government regulation. The biotech industry is highly regulated, which can result in certain products not making it to commercialization because of insufficient data from trials. Additionally, any potential changes in healthcare or tax law can greatly impact the business. Amgen also relies on third parties for materials, reimbursements, and drug companion products, which could affect the business if dramatically altered. Lastly, Amgen is very dependent on its ability to develop new innovative products; if it is unable to do so then Amgen could incur large expenses.

To date, we currently have an unrealized loss of -8.18%. We still feel confident in out thesis, which is why we have held onto it. A few days after buying, JP Morgan, Amazon, and Berkshire Hathaway came together and announced a joint-employee healthcare proposal, which saw a decrease in Amgen's stock price. Just as the scare of that went away, Amgen's stock price rose, just to be swamped by the market with the decline in mid March.

Valero Energy, Corp. (NYSE: VLO)

Valero Energy is an independent petroleum refining and ethanol producing company based in San Antonio, TX. VLO operates in the US, Canada, U.K., and Ireland. The company owns and operates 15 petroleum refineries and 11 ethanol plants. Refining and ethanol contribute 95% and 5% of total revenues, respectively. The company's major products are transportation fuels, of which gasoline and diesel contribute the most to its revenues. Valero is a majority-owner of Valero Energy Partners LP (VLP), a midstream master limited partnership, which serves as Valero's primary vehicle to expand the transportation and logistics assets supporting its business.

Valero Energy has a major competitive advantage in the refining space due to its ability to process 86 different varieties of crude allowing for increased margins and lower costs. This makes Valero the industry leader in input flexibility. Valero Energy strategically positioned its refineries in Texas where the majority of North American crude oil supplies exist. This allows for transportation costs to be reduced significantly. As a U.S. company, Valero is able to purchase WTI crude instead of the international benchmark of Brent, allowing for lower input costs per barrel of throughput compared to its international competitors.

During the past five years, energy companies have experienced declining profitability due to the high volatility of input costs. In the next five years to 2022, petroleum production, consumption and fuel prices are expected to increase in the U.S. These factors will allow the industry to recover, as industry-wide revenues is projected to increase at an annualized rate of approximately 1.5%. At a global scale, demand for petroleum products will be sustained as economies are improving simultaneously.

The petroleum refining industry contains high competition, high barriers to entry, and high regulation level. The four largest companies account for 56% of industry revenue in 2017, and Valero controls the second largest market share, of approximately 13%. Large companies dominate the market due to the high capital costs required to maintain refining plants. Valero's major competitors are Marathon Petroleum Corporation, Phillips 66, Andeavor, and Devon. Price is the main basis of competition in the industry, and Valero is able to provide competitive prices due to its leadership in input flexibility.

Valero Energy Corporation faces a number of risks such as political, foreign exchange, regulatory environment, crude oil spread and macroeconomic risks. Although electric vehicles are becoming available and the push for renewable energy is active, hybrid and electric automobiles remain to be a minor component of the transportation sector. Therefore, demand for gasoline is not forecast to significantly decline within our investment timeline of 5-10 years. Spread divergence between WTI and Brent could also have a negative impact on both margins and as a competitive position perspective for Valero Energy.

Currently, we have an unrealized gain of 30.90% on Valero Energy.

Hormel Foods, Corp. (NYSE: HRL)

Hormel Foods Corporation is an international manufacturer and marketer of consumer-branded meat and food products. It is divided into five primary segments: grocery products, refrigerated foods, Jennie-O Turkey, specialty foods, and international/other. Among these segments Hormel owns a diverse set of brands spanning different categories and food types; with the consistent factor being value-added protein brands. Hormel sells its products to retail, food-service, and wholesale operations.

Guided by its four pillars - global, multicultural, nutritious, and on the go - Hormel makes ongoing strategic acquisitions that broaden its product mix and international presence as well as strengthen its position in the competitive industry of food production. Such investments are supported by strong free cash flows and balance sheet. Its financial strength also allows it to maintain its title as a dividend-aristocrat and provide great shareholder value. Furthermore, Hormel has had a tough year due to the oversupply of turkey, acquisition of Whole Foods by Amazon, and the underperformance of the industry as a whole. Due to the one-off nature of these factors and Hormel's financial strength as well as strategic positioning, we see this as a great discount and buying opportunity.

As consumer trends shift into increased protein consumption, most players in the industry are competing in terms of healthy and organic offerings. In order to outperform the competition, large food companies such as Hormel Foods, are making acquisitions of smaller companies with healthy brands in order to appeal to faster growing demands. The major competitors we identified for Hormel Foods are Tyson Foods, Campbell's, and General Mills. Tyson Foods has strong market share in beef, chicken, and pork; however, its hard to differentiate product lines limit pricing power. Campbell's recently disclosed its inability to secure promotional shelf space during the peak of soup season at a major U.S. retailer. The company is also trying to improve the health profile of its offerings, with added costs likely keep margins from increasing. General Mills we saw as too dependent on Walmart (20% of sales), and the company's yogurt lines have been losing share to more on demand Greek yogurt brands. In quantitative terms, we noticed Hormel's outstanding historical return on assets (2011-2016 annual data) compared to such competitors.
Even though Hormel Foods has expanded its lines of products into other non-meat proteins outside of poultry and pork, the company's sensitivity to raw material supply and price fluctuations have not been entirely eliminated. For instance, the oversupply of turkey in 2016 negatively affected the company's top line results. Also, livestock disease could make customers averse to some of the company's core products. Another risk we see for Hormel is possible struggle to increase sales due to increasing center-of-store competition, as the company expands its offerings into shelf-stable products found in the center of stores, such as peanut butter and sports nutrition.

Currently, we have an unrealized gain of 3.39% on Hormel Foods.

Sherwin Williams (SHW)

The Sherwin-Williams Company is an American company focused on the development, manufacturing, distribution and sale of paints, coatings and related products to professional, industrial, commercial and retail customers across the world. The company has restructured its four main segments into three after the acquisition of Valspar. The Americas Group, which combines the company's former Paint Stores Group and Latin America Coatings Group operates the Sherwin-Williams retail outlets in U.S., Canada, the Caribbean and Latin America. The Consumer Brands Group combines the portfolio of branded and private-label products that Valspar and Sherwin-Williams sell through other retailers. The Performance Coatings

Group manufactures and sells OEM product finishes, coatings, and automotive finishes. Sherwin-Williams operates over 4,800 retail outlets worldwide.

Sherwin Williams's primary competitive advantages are its store presence in the United States and its tightly controlled distribution system. They have a US paint store count in excess of 4,200 stores, dwarfing its closest competitor, making it the most accessible paint store brand in the country and a favorite among professional contractors. The company's tight control of the supply chain and distribution allow it to effectively manage costs and responsively adjust prices to protect against raw material price fluctuation. Their main competitors are PPG Industries, AkzoNobel and Nippon Paint.

<u>Delta Air Lines, Inc. (NYSE: DAL)</u>

Delta Air Lines is the world's largest airline. They provide scheduled air transportation for passengers and cargo domestically, internationally, sometimes through joint ventures. Delta operates in two segments: primarily through its airline services, but also has operations in refinery. The company buys and maintains aircraft to transport people all over the world. It sells airfares to all types of consumers but its profits are driven through contracts with corporations for company travel. The company was founded in 1924 and is headquartered in Atlanta, Georgia.

Delta operates in the airline industry. Global air traffic increased 8% last year due to strong economic conditions which indicates a very strong market. The airline industry has undergone significant changes in the past two decades marked by consolidation which has returned the industry to strong profitability. Currently, major domestic airlines have engaged in pricing wars as excess capacity has increased, meaning the airlines have needed to cut prices in order to fill the extra seats they have available. This, along with a brief surge in fuel prices in the last quarter, has decreased operating margins in the industry. The industry looks to increase margins in 2018 as airlines look to cut non-fuel related expenses and take advantage of strong global demand.

Our investment thesis is based on Delta's key competitive advantages which will allow them to outcompete their competitors. Even with stronger market positioning and better financial health, Delta is undervalued compared to its competitors. Some examples of Delta's competitive advantage include: industry: industry-leading regional monopolies, innovative segmentation, and up gauging. The company's management has positioned the company well and has announced initiatives to increase free cash flow into the foreseeable future. Delta plans to return 70% of future cash flows to shareholders which drives our financial valuation.

Delta Airlines is the world's largest airline by passenger volume and the industry leader for passenger air transportation. Although Southwest Airlines is the largest domestic competitor, they cannot compete with Delta on an international level. American Airlines and United Continental both compete with Delta domestically and internationally, however, they have a much smaller market capitalization and smaller passenger volume per year. FedEx and UPS can also be classified under the Delta competitor list due to the revenue stream produced from cargo air transportation. Due to the fact that such an insignificant portion of Delta's revenue is generated through cargo transportation, we do not see these competitors as a major threat for the passenger air transportation industry.

Delta's competitive advantages lie in the ability to consistently maintain higher margins than its competitors. Delta owns the Monroe Refinery, giving them a cost advantage of approximately 5 cents per gallon on jet fuel. They also focus heavily on attracting the corporate traveler segment, which again provides higher margins and is less prone to price fluctuations. Delta's industry leading customer service helps to maintain and grow their customer base in the United States and internationally while their partnership with American Express helps to instill high value for corporate and retail clients. It is important to note that Atlanta airport, the world's largest hub, is dominated by Delta Airlines. This hub is incredibly efficient and within a 2 hour drive for 80% of the United States population. Furthermore, Delta purchases many of its airplanes used, while its main competitors purchase most new, giving Delta the flexibility to convert fixed costs into variable costs due to the lower purchase price of these aircrafts. Lower fixed costs and higher variable costs enable Delta to quickly and efficiently scale up or down to meet demand; this is a major advantage in times of low passenger volume.

Currently, we have an unrealized gain of 1.94% on DAL.

JPMorgan Chase & Co. (JPM)

J.P. Morgan Chase & Co. (JPM) provides global financial services and retail banking and is based in New York, New York. JPMorgan is the largest bank holding company in the U.S. and the sixth largest in the world with $2.5 trillion in assets. Operations are divided into four major segments including Consumer & Community Banking, Corporate & Investment Bank, Commercial Banking and Asset & Wealth Management. Approximately half of the money JPM makes is through interest income while Consumer & Community banking make up 45% of revenue. Services include but are not limited to investment banking, treasury and security services, asset management, private banking, card member services, commercial banking and home finance.

JPMorgan is approximately in line with competitors in terms of its Common Equity Tier 1 (CET1) ratio of 12.1%. The Company also competes favorably in terms of ATM coverage with approximately 19,000 ATMs in the United States, beating major competitors Bank of America and Wells Fargo. JPMorgan also retains #1 position on the top of the CIB league table, above Goldman Sachs and Morgan Stanley.

Stanley Black & Decker, Inc. (NYSE: SWK)

Stanley Black & Decker is an American manufacturer of industrial tools & household hardware and provider of security products. They are recognized for having all the tools of the trade as the largest leading US toolmaker; the company markets hand tools, mechanics' tools, power tools, pneumatic tools, and hydraulic tools. Besides the Stanley and Black & Decker brands, it sells such brands as Bostitch, Mac Tools, and DEWALT. Stanley Black & Decker peddles its products through home centers and mass-merchant distributors, as well as through third-party distributors and a direct sales force.

Stanley Black & Decker is poised to post record earnings in both 2017 and 2018, as bottom line reaped the rewards of both their impressive top-line growth and an improving operating margin. This coupled with their “Stanley Fulfillment System 2.0” positions them to expect top-line growth to reach $22B by 2022. Strong organic growth and over 7% acquisition related revenue growth has assisted in driving the company to beat earning expectations in all four quarters of 2017.

Our revenue growth analysis for SWK is based on 2017’s top line sales growth of 11.7%, and we have outlined a 5.9% growth rate in 2018 which gradually falls to 1.7% rate by 2022. The assumptions to this revenue growth include the tools & storage segment to maintain their growth, organically resulting from their FLEXVOLT innovation, and through acquisitions with the purpose of diversifying their strong brand portfolio. The industrial segment will continue to improve from its 2016 sales as pipeline related tools, fastening, and infrastructure demand continues to recover. Security saw a 12% decrease sales in 2017, however Stanley Black & Decker still outperformed in regards to revenue growth. Security is projected to see 2% organic growth in North America and to maintain current sales in Europe.

The industry has outperformed the S&P 500 in 2017 and now at the beginning of 2018, many of the strongest players in the market are trading at discount because of trade war ideas, tariffs on basic materials, and other macroeconomic implications which caused the industry to lag these first three months. We see opportunity at this time because the fundamentals of Stanley Black & Deckers' business operations are not compromised from these short term trends that have lowered its stock price.

Currently, we have an unrealized loss of 6.27% on SWK.

LESSONS LEARNED

The opportunity to be a part of the University's premier undergraduate accelerator program for business majors is not one that we take lightly. Every member of the team began the semester with intent of taking full advantage of everything it has to offer, and as such, this semester has been an incredible learning experience for all of us. Following the expansion of the SMF program this year, we were presented with the unique opportunity to build an investment strategy and process from the ground up, an experience that proved to be extremely rewarding. We have certainly come to a greater understanding of the amount of discipline required to successfully run an investment fund.

Through our rigorous stock pitching process and classroom case studies and discussions, we have developed a framework with which to view companies from a value creation perspective. We have learned to identify competitive advantages and strong business models, view companies within the greater competitive landscape, assess quality of management, sustainability, brand power, and identify both value creating and value destroying catalysts for the companies we analyze. In addition, we have learned the importance of investing with a margin of safety to the success of value based strategy. Though we may be diligent in our risk management practices, investing only in companies trading at a discount to their intrinsic value adds another important layer of security to our portfolio.

From a technical standpoint, we have effectively used financial data to complement our qualitative assessment of the quality of a business. Our ability to successful sift through and identify important pieces of information on a company's 10-K form improves with every stock we pitch. We have learned the importance of certain financial ratios in quantifying the type of value that our strategy demands from our investments. Additionally, we have employed a variety of valuation methodologies, including discounted cash flow analysis, comparable companies analysis, dividend discount analysis and a novel way of looking at company value from a yield perspective using a firm's plowback ratio taught to us by the program's founder, Pat Terrion. Despite the efficacy of the these methods, we have learned of the importance of being comfortable with the uncertainty that permeates the security analysis process. There are no right answers, and despite the rigor of our analyses, the markets may not reflect our judgments.

In conclusion, we have learned what to look for, how to look at it, and how to behave as managers of an investment fund. In essence, we have and are continuing to learn *how to think* in an investment context, though the applications of learning good thinking extend far beyond the investment field. Perhaps most importantly, we have learned discipline, and how to maintain it in the face of market developments that can lead to irrational, emotionally driven decision making. This skill may well be the most important skill of all for an investment manager. It would not be an exaggeration to say that being a part of this program has been one of the most pivotal experiences in our undergraduate careers.