

University of Richmond

Student Managed Investment Fund



2015 - 2016 Annual Report



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Letter from the General Manager

Advisory Board and Faculty Members:

On behalf of myself and my fellow Student Managers, I would like to thank you all for affording us this incredible opportunity. In many ways, the Student Managed Investment Fund is a microcosm for what the University of Richmond, and the Robins School of Business, stand for, which is providing students with the resources of a larger academic institution while maintaining the intimacy of a small liberal arts college. The Student Managed Investment Fund has allowed each and every one of us the opportunity to take what we have learned in the classroom and apply it to the real world, in what will be our last “trial run.” While it is easy to say that we realize the full value of this experience now, I truly believe we will continue to see the benefits of this process for our entire careers.

We gained control of the fund in April of 2015 and quickly began to analyze our holdings. For regulatory reasons, we could not touch the fund over the summer, so the managers had to prepare for the “off-season.” Both the Value and Growth Funds analyzed their respective benchmarks and reallocated their portfolios to create a mock ETF, expressing their views for the summer in their sector weightings. Neither Value nor Growth elected to put stop losses on their positions, as they felt the long-only nature of the fund did not require short term downside protection. Ultimately, this move favored the Value Fund more than the Growth Fund. Value successfully outperformed its benchmark, while Growth did not. Much of the underperformance on the Growth Fund can be attributed to China, and the concerns associated with the rate at which the country is growing. Many of the Growth holdings were linked in one way or another to China, or the commodities market, which proved very difficult.

In early September, we travelled to New York where we met with various Richmond Alumni. We were fortunate enough to meet with folks at a number of Investment Banks, Hedge Funds, Private Equity Firms, as well as a few Asset Managers. This trip was extremely rewarding as we were able to pick the brains of some experienced veterans, while also learning from well-established research and strategy teams. We returned to Richmond with the goal of outperforming our benchmark in mind. In order to achieve this goal, the Value Fund continued its course, while the Growth Fund reviewed its strategy. The Growth Fund elected to move out of many of their small-cap growth plays and decided to lower the beta of the portfolio. Ultimately, this move helped the Growth Fund to more closely mimic their benchmark and allowed the managers to make better sector related decisions.

During our tenure as SMIF Managers, the US equity markets have been shaky at best. When we took over the Fund in April of 2015, oil traded just above \$60. Over our time as Managers we saw oil trade down to \$35 and then back up to around \$40. Concerns over whether China was in fact growing at the rate folks expected came to a head during our time as Managers. The Federal Reserve raised rates for the first time in nearly ten years, with more tightening expected, the Fed's plans were halted due to macro-economic conditions. We managed the portfolio through the Greek Debt Crisis and the Puerto Rican Debt Crisis. At a time when most managers were pulling money out of the US Stock Market, we were managing a long-only US equity fund. Needless to say, these were trying and exciting times for the managers of the Student Managed Investment Fund. As of March 25th, the Value Fund has returned -3.99% since our taking over the Fund, compared to -3.88% which the benchmark returned. The Growth Fund achieved a -11.66% return since taking over the Fund, compared to the -2.31% return achieved by the benchmark.

This year, in addition to the active management of the portfolio, the Managers made strides to define processes and build structure into the Fund. These projects included the creation of an Investment Policy Statement, screening guidelines, as well as a portfolio management model which helps to track, screen, and manage the Value and Growth portfolios. The goal of these projects was to help facilitate the transition from one class of managers to the next. These processes will help make the lives of the new managers a little easier in the sense that they will have a smaller universe of stocks to work with and will have a more defined buy and sell procedure. We hope that these projects will serve as a foundation for future managers to build and expand on.

In closing, I would like to thank you all again for your time and effort in making the Student Managed Investment Fund possible. I can say without a doubt that this has been one of the most fulfilling academic experiences I have had at the University of Richmond. We, as Student Managers, are proud of what we accomplished and are excited that we were able to learn from our mistakes. Again, thank you all very much.

Regards,

Peter Donohue

Peter Donohue

General Manager

Overview & History

The Student Managed Investment Fund, also known as SMIF, provides valuable, real-time experiential learning in security analysis and portfolio management. Managers have the opportunity to apply topics and theories discussed in class to a real-world setting. SMIF is the capstone course to the investment studies track; a sequence of courses developed by the Finance department over the past decade. The Student Managed Investment Fund was created in 1993 by the Board of Trustees with a transfer of funds from the University's endowment.

Managers are chosen through a rigorous selection process that encompasses an application, multiple formal interviews, and a written research report. The existing Managers make all selection decisions with oversight from the SMIF faculty advisors. Once selected, Managers are encouraged to take courses in the "investment track" consisting of Financial Management, Fixed Income & Derivatives, Investments, and Security Analysis & Portfolio Management. Students manage the fund from April to April and receive one unit of academic credit for their participation in the spring semester. Growth and Value fund meetings are held at least once a week to evaluate the status of the fund and any other administrative duties that are pertinent to its success.

SMIF is completely equity based and is split into Growth and Value accounts. In the past, the fund has varied in size from as little as 15 managers to as high as 17 managers. This year, SMIF is comprised of 17 members (8 Value, 8 Growth, and one General Manager). The General Manager oversees the fund and acts as an intermediary between the fund, faculty advisors, and other members of the business school's administrative staff. The combined assets are controlled by SMIF as a means to consolidate and synchronize this invaluable learning experience under one umbrella.

Managers act as security analysts and portfolio managers. Through many different research sources, information is gathered in an attempt to lead to a buy or sell decision. Practical investment knowledge, through field trips, internships, and a close working relationship with market professionals, enhance the overall educational experience for the SMIF Managers. This generally includes at least one trip to visit alumni working on Wall Street.

SMIF maintains working relationships with alumni and other professionals in the financial services industry, acting as mentors for the managers of the portfolio. The managers work with faculty advisors from the finance department as well as with an Advisory Board consisting of investment professionals from the local Richmond community.

Each year, SMIF continues to improve and plays a unique role in the finance curriculum. Through high caliber students, determination, and professional conduct, the Student Managed Investment Fund will remain one of the most unique and prestigious programs offered at the University of Richmond.¹

¹ As denoted in Student Managed Investment Fund Chartering and Historic Documents

SMIF Advisory Board

Nancy Bagranoff
University of Richmond

Edin Cuskovic

Perry A. Corsello, CFA
Dominion Resources

Christopher Dion
Lowe, Brockenbough & Co.

John Earl
University of Richmond

Rick Elder
Dominion Resources

Steve Fisher
Virginia Asset Management

Cederic Fortemps
Matrix Capital Markets

Patrick Gallagher
Boxwood Partners

Steve Goddard
London Company

Chris Haberlin
Davenport & Co.

Roberta Keller
Brunson Advisors

Ashley Long
1607 Capital Partners

Jeffrey McNeill
SunTrust Bank

James Mallory
SunTrust Bank

Joe O'Brien
BB&T

Pat O'Hara
Agincourt Capital Management

Chris Pearson
Davenport & Co.

Matt Rosenthal
Thompson, Siegel & Walmsley

Doug Sandler
Riverfront Investment Group

John Sherman
Scott & Stringfellow

George Smith
Davenport & Co

Don Steinbrugge
Ramsey Asset Management

Jerry Stevens
University of Richmond

Cody Tafel
Thompson, Siegel & Walmsley

Dan Whitlock
Virginia Retirement Systems

Brad Young
Altius Associates

SMIF Managers 2015 - 2016

Faculty Advisors

Dr. John Earl
Dr. Jerry Stevens

General Manager

Peter Donohue

Growth Fund

Tom Fickinger (T)
Matt Brookman
Connor Cole
Peter Ghiorse
Divij Dugar
Jack Clark
Aaron Hamburger
Nate Cohen

Value Fund

Chris Ahn (T)
Mark Downey
Jill Cestaro
Kendall Stevenson
Greg Stern
Brian Gramolini
Bryce Yoo
Brad Rigoli

Investment Policy Statement

It is important to note that the investment policy statement was developed after trading had ceased. This policy statement is an attempt to provide the new manager class with a template that they can customize and tailor to their specific preferences.

Investment Philosophy

- The market consistently produces stocks that are incorrectly valued with regard to their fundamentals
- Both the Growth and Value Fund can implement fund-specific strategies to exploit these inefficiencies under the general policy of top-down, fundamental analysis
- The fund strives to be educational in purpose; while it is our duty to seek investments we deem to be the best use of the University endowment's capital, the goal is to gain greater understanding of the process behind portfolio management
- Growth fund is benchmarked against the SPYG ETF; Value fund is benchmarked against the SPYV ETF

Investment Process

1. Top-down sector research reveals potentially attractive areas
2. Depending on fund, manager utilizes specific screens for underpriced securities in a specific sector
3. Manager pitches investment thesis to his/her respective fund
4. Fund votes on investment thesis, must receive unanimous vote to acquire position
5. Investments are continually monitored

Investment Criteria

- Properly executed sector and fundamental analysis reveals upside potential that outweighs downside risks
- Managers should consider the sustainability of current fundamentals in the specific context of its sector and industry
- Stocks must be from the Russell 1000 index

Sell Discipline

- Positions are continually reassessed by the fund as a whole, and are sold if:
 - Investment thesis/objective (as specified by manager who pitched it) is achieved
 - New information changes risk/return profile of investment
 - Stop loss is triggered

- Potentially volatile investments are accompanied by a stop loss that is determined by pitching manager in the context of the individual investment
- Reassessment is required when holding has reached its targeted holding period
- Investments that are directly linked to commodity-based indices should be constantly monitored for performance against the specific index (i.e. Crude Oil) and should establish a selling point pegged against that benchmark
 - This is a case-specific scenario and should be developed within the investment thesis of the company

Investment Horizon

Upon takeover of the fund, new managers should reassess all holdings and examine if the investment thesis remains true. Managers must not compromise holding period to one-year in effort to prop up short-term performance for annual presentation to the board. Typical value horizons should range from 3-5 years, and while positions can be liquidated and reallocated if the thesis weakens, decisions should not be made based on the one-year time horizon of the managers on the fund. Typical growth horizons should range from 6 months - 2 years and should not be hindered by manager turnover.

Portfolio Allocation

- Attempt to diversify sector and individual weightings to manage risk
 - Each sector is over or underweighted compared to benchmark based on sector research
- Properly use and monitor the attribution model to ensure that the fund is properly allocated
- Cash balance should be no greater than 5% of the total value of the fund
- Target 12-25 holdings per each side of the fund, with maximum holding as 12.5% of the respective fund

Inactive Trading Period

By nature of the fund, managers are not allowed to trade during the summer period between spring and fall semester. During this period, cash balance may exceed the 5% barrier. All positions must be guarded by stop-loss triggers in case of market downturn during the inactive trading period. Stop-loss trigger should be loose enough to allow for market volatility.

Stock Screening Procedure

- Investment universe: SPYG and SPYV are the investible universes for the growth and value fund respectively, and the screen should be run on the stocks contained in these ETFs.
- Stocks should be in the screen for a period of 2 weeks to ensure that it is not a temporary issue. There will be a limit of 2 weeks within which an analyst has to propose a stock once it has fallen out of the screen
- 4 criteria: The precise screen inputs would differ by industry
 - Free cash flow yield: this factor will be used for determining the return you expect to make on your investment based on the free cash flow the company is expected to generate
 - Price to cash flow: This factor is used for determining how much you are paying for a company's cash flow. It will be used on a relative basis to identify if a stock is under or overvalued relative to its expected cash flow
 - Relative strength: This is a momentum factor to determine whether a stock is overbought or oversold in the market based on the magnitude of gains and losses
 - EPS growth: This is a factor to determine the growth rate of earnings and is used as a growth indicator, with consistent EPS growth being a positive factor
- Variation for value side
 - EV/EBITDA
 - Remove RSI criteria
 - Interest coverage ratio
- Variation for growth
 - PEG ratio
 - Analyst Consensus changes: This is used to determine if there is a trend in analyst opinion on a stock, that would indicate momentum in the performance of the stock
- Rank stocks in each category by relative performance in each factor
 - Assign ranks to each stock in each of the 4 categories based on their relative performance
- Top stocks in each industry to be analyzed by the managers
 - The output from the screen should be analyzed by the analyst on a sector basis, keeping in mind the weights that have been proposed for the different sectors
 - 3 questions that the analyst should answer when analyzing stocks
 - Why is it cheap?
 - What's changing?
 - Is it sustainable

Note: We are currently in the process of building a model that will be used for screening and ranking the stocks

Economic Overview & Analysis

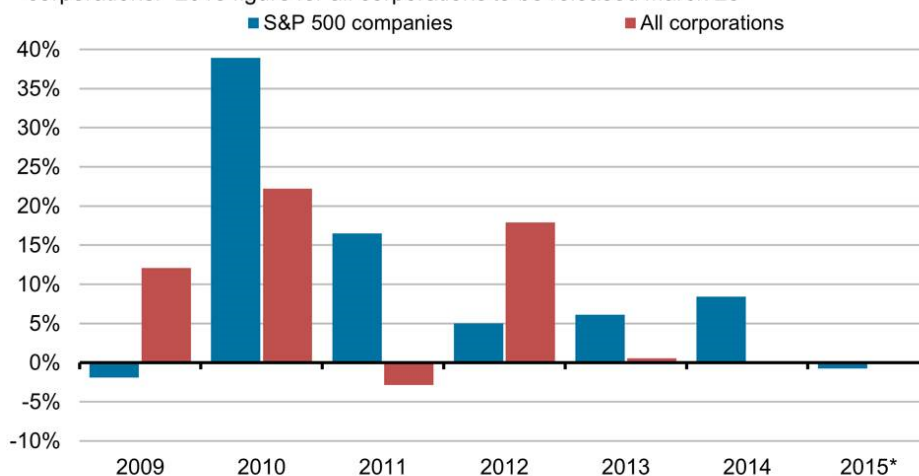
U.S. GDP Growth

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP is commonly used as an indicator of the economic health of a country, as well as a gauge of a country's standard of living. According to the U.S. Bureau of Economic Analysis, GDP increased at an annual rate of 1.0% in the fourth quarter of 2015. This increase reflected the positive contributions from personal consumption expenditures, residential fixed investment, and federal government spending. Furthermore, imports, which are subtracted in the calculation of GDP, decreased. When comparing real GDP growth in 2015 with growth in 2014, real GDP increased 2.4% in both years.

Going forward, corporate profits will be a key component to examine in determining the health of the economy. Profits for companies listed in the S&P 500 Index declined 0.8% in 2015 from 2014 and were down 1.8% in the fourth quarter compared with a year earlier. The lowest performing among the S&P firms were companies in the energy and materials sectors as both have suffered from a sharp fall in the price of crude oil and other raw materials. Healthcare and consumer focused sectors had the best profit growth among the S&P firms.

Fading Profits

Change in profits from the prior year for companies in the S&P 500 Index and for all corporations. *2015 figure for all corporations to be released March 25



Source: Estimize, Commerce Department | WSJ.com

Employment

Unemployment occurs when a person who is actively searching for employment is unable to find work, and is often used to measure the health of the economy. In February, the unemployment rate held at 4.9% and the economy added 242,000 jobs. A robust job market will reinforce job security and encourage Americans to spend, which will ultimately strengthen the U.S. economy. According to the U.S. Bureau of Labor Statistics, the unemployment rate was down by 0.6% this year. Job growth primarily occurred in fields such as healthcare and social assistance, retail trade, food services, and private educational services. On the other hand, mining employment continued to decline. The number of persons employed part time for economic reasons was unchanged in February at 6.0 million and has

shown little movement since November. Average hourly earnings for production and nonsupervisory employees remained unchanged from January to February, but it is trending upward with a growth of 2.4% within the last 12 months.

Interest Rates

In the December, the Federal Open Market Committee (FOMC) voted to raise the federal funds rate, the interest rate at which major private banks can exchange reserves at the central bank, by 25 basis points. The recent turmoil in Asian markets and commodity markets had created some uncertainty regarding fiscal policy. However, positive economic factors such as a strong performance in domestic labor markets and an improving consumer spending persuaded board members to slightly raise rates. The FOMC's move in December was the first increase in the federal funds rate since June of 2006. Low interest rates have contributed to the recovery of the residential housing and commercial property markets.

In the more recent meetings, the FOMC has decided to maintain a target fed funds rate at .25% to .50% while closely monitoring global economic and financial developments. The March FOMC meeting decision was primarily based on uncertainties regarding growth in the global marketplace. Policymakers project that economic growth will be weaker than expected and that inflation levels will remain low throughout 2016. Some investors and businesses fear that economies abroad are too fragile for domestic businesses to expand, as well as that the rise interest rates will cause domestic consumers and businesses to spend less. Despite these concerns, the FOMC will likely allow domestic market conditions to determine the pace of future federal funds rate hikes, and projections indicate further growth of about half a percentage point by the end of 2016.

China

After years of tremendous expansion, China's growth has fallen to its lowest levels since 2009 and investors believe the economic conditions could be worse due false reporting. The growth rate released by the government for 2015 was 6.9%. With growing debt and too much housing and factory capacity, economies are projecting a tougher year for China. Investor fears over slowing momentum in China as well as Beijing's handling of the economy has negatively affected the global stock markets. With unfavorable outlooks, Chinese officials have said the government is looking to increase deficit spending to generate growth. Data from Chain's statistics bureau showed that industrial output for December missed expectations with only 5.9% growth. Electric power and steel output fell for the first time in decades last year and coal production dropped for a second year in a row, which illustrates how a slowing economy and shift to consumer-led growth is hurting the industry. December retail sales growth was also weaker than expected at 11.1%.

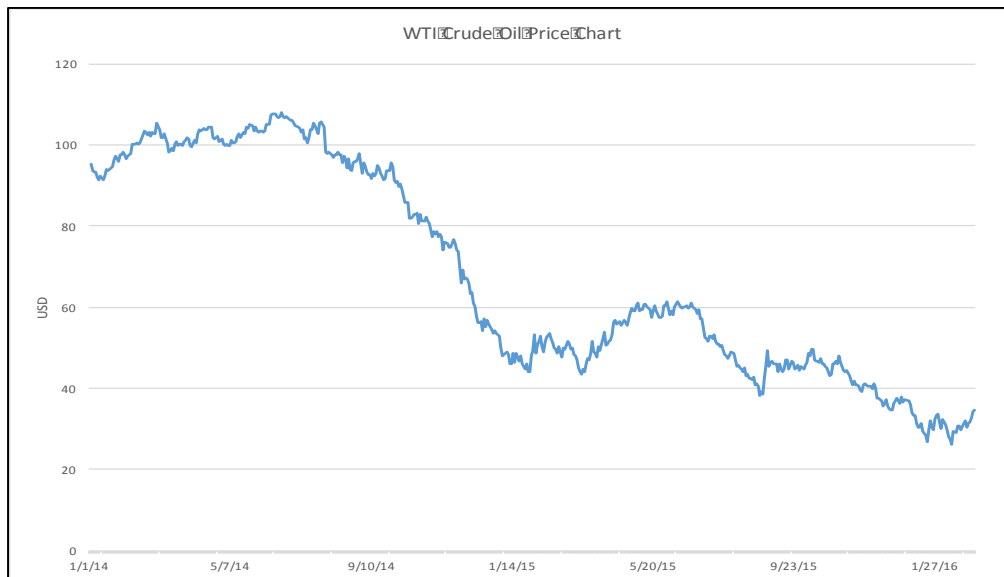
Housing

Housing was one of the few bright spots in the economy last year, and we expect continued improvement in 2016. The imbalance between demand for housing and the supply of both houses and apartments has supported rapid growth in both house prices and rents. The gap between demand and supply will not be closed any time soon, thus we project continued house price appreciation in 2016. Rent growth will begin to moderate in selected metros as new units come on the market; however, rent growth will remain above long-term averages this year. The National Association of Realtors' February release showed existing-home sales went from a seasonally adjusted annual rate of 5.45 million in December to 5.47 million in January, beating analyst expectations. January's figures also represent year-

over-year growth at 11 percent. Housing starts fell 3.8 percent in January according to the U.S. Department of Commerce. Some of this decline was weather-related. However, the Housing Market Index published by the National Association of Home Builders fell to its lowest reading since May 2015, indicating labor and property shortages are preventing builders from catching up to the demand for new homes. In summary, persistently low mortgage rates will facilitate house purchases and refinances, although refinance volume may tail off if the Fed resumes monetary tightening later this year.

Oil

The volatile movement of oil prices over the last two years, as shown below, has had a significant impact on global economies and the domestic equity market. While it has been a boon for companies who use oil as an input, the firms that extract it and related businesses have suffered. Supply has been a main issue, with US producers flooding the market and forcing OPEC nations to keep up production in order to supplant their domestic budgets. The issue of sanctions being lifted on Iran and their potential to further increase market supply is also a real possibility. Given the global and domestic forces impacting oil prices and the apparent inability of analysts to gauge its price direction, we do not have a convicted investment stance on it. We look for the commodity to stabilize before we take a positive or negative view. Since the new year, the correlation between WTI Crude and the S&P 500 has been .86, so clearly, the market is paying attention to the price of oil. Despite our limited exposure, oil's dramatic decline has impacted our portfolios, as everything from financials to tech stocks is moving on oil-based news.



Inflation

In 2015, price levels remained more or less constant, with an average Consumer Price Index increase of just 0.1%. This is well below the 1.50-3.00% range experienced from 2010-2014. Although the Federal Reserve has an inflation target of 2%, many analysts expect this trend to continue into 2016. This is mostly due to the strengthening dollar, caused by rising rates and global volatility, as well as low commodity prices, which have been huge influences on equity markets over the past year. We expect these inflation headwinds to remain impactful through 2016, especially with the Fed's tightening cycle underway. According to FRED, the expected US CPI inflation for 2016 is 1.54%, which represents a compromise between the Fed's expectations for a strong and growing economy and current secular

factors like \$30 oil. With this in mind, we see the Fed potentially delaying its tightening, with only one or two more incremental increases this year.

Consumer Spending

Consumer spending, which accounts for two-thirds of GDP, is a catalyst that drives the success of many of the industries and companies in which we invest. With virtually no inflation, modest wage growth, and historically low oil prices, the US consumer seems to be in a favorable position for 2016. At 82.6, the February Consumer Spending Forecast, which represents consumers' intended spending levels over the next 90 days in 20 retail categories, is up from last month (78.8) and last year (80.7). The Consumer Spending Forecast is up slightly year-over-year for both discretionary items (+4%) and staples (+1%). These solid forecasts reflect the strength of the US consumer and should be a boon for the overall economy. Another critical metric is the Confidence Index among small business owners. The confidence of this demographic, which propels employment gains and economic growth, was up a promising 8% in February. Overall, IHS forecasts a 3% increase in consumer spending for 2016, which should support our investments in the Consumer Staples and Discretionary sectors.

Growth Fund Overview

Growth Fund Philosophy

The Growth Fund's investment philosophy consists of three foundational principles: market inefficiency, the supremacy of a top-down approach, and security momentum. We believe that by actively managing our portfolio we can achieve above-market returns—that is, returns in excess of our benchmark, the S&P 500 Growth Index. We believe that an optimal investing strategy first establishes a broad economic outlook that identifies industries with exceptional growth potential and follows this with analysis and selection of individual securities within those favorable industries. Additionally, we believe that rising stock prices tend to rise further, while falling prices tend to keep falling.

Growth Fund Strategy and Tactics

The Growth Fund's investment strategies and tactics are rooted in the three foundational principles of our investment philosophy outlined above. Our managers employ a top-down investment strategy by first conducting thorough economic analysis of the domestic economy, as well as researching global economic factors that may impact domestic industries and firms. Some economic factors we have been monitoring this year have included: foreign and domestic monetary policy, unemployment numbers, oil prices, the Chinese economy, and U.S. consumer spending. We have also monitored industry factors, including: technological trends, demographics trends, lifestyle trends, industry regulation, industry life cycle, barriers to entry, substitute products or services, customer bargaining power, supplier bargaining power, and existing competition.

Once our managers have discerned industries with outstanding growth prospects, they search for the most advantageous stocks within those industries. The Growth Fund believes in the investing principle of momentum—that is, we believe that rising stock prices (“winners”) tend to rise further, while falling stock prices (“losers”) tend to continue falling. Within the industries that we have determined to be favorable, we screen for stocks with recent high returns. We then employ other techniques and strategies from both fundamental and technical analysis in our pursuit of excess return

Buy Decisions and Sell Discipline

We generally predict holding periods of 6 to 18 months as research has shown that this is approximately the period over which momentum generates excess return. However, we will occasionally make trades based on shorter-term market views. We endeavor to establish price targets and we continually reassess our positions based on new economic, industry, and company news. Thus, we make sell decisions when a stock has reached its price target and our re-evaluation has not changed our view, or when the stock has failed to reach its price target (or even declined) and our re-evaluation has changed our view.

Performance Overview

- Over the past year, our fund has had a return of -11.66%, while our benchmark, the SPDR S&P 500 Growth Index, returned -2.31%. Our fund trailed the benchmark by -9.34%.
- Our sector weights are currently: Technology 32.85%, Consumer Discretionary 19%, Healthcare 14.84%, Financials 11.31%, Consumer Staples 8.61%, Industrials 4.55%, and Cash 8.83%.

- We are currently overweight Technology by 0.55%, Financials 2.34%, and Consumer Discretionary 1.77%.
- We are currently underweight Healthcare by 3.22%, Industrials 3.47%, and Consumer Staples 0.97%.
- We currently have zero exposure to the Energy, Utilities, or Telecom sectors.
- Our best performing positions are: Amazon +85.4%, Apple +41.94%, Facebook +20.3%, Henry Schein +18.38%, and Alphabet (Google) +13%.
- Some of our worst performing positions were Lululemon, GoPro, Apache, and Banco Santander.
- The beta of our portfolio is 0.956.

Growth Fund Attribution Model

The growth side of the fund had a challenging year given the multiple market sell offs and the flight to safer equities that occurred during the management period. A tough end to the summer placed the portfolio well behind its S&P500 Growth benchmark. While the gap did not significantly widen after this initial divergence, it did not decrease in size either. We began our attribution model tracking after a significant overhaul in our holdings to align our investments with our altered, more conservative market outlook. Since this tracking began in January, the portfolio's active return has been -0.31%, which was also our deviation from the benchmark. This can be explained by the net 0.32% gain from allocation decisions, and the -0.63% loss generated by security selections. Overall, growth had losses of 11.66% compared to the benchmarks -2.31%.

Breaking down allocation further, the two bright spots were information technology and healthcare. They contributed 0.32% and 0.12%, respectively. Our other sector allocations did not move our performance as much, only posting very mild gains or losses. Though our allocation in information technology was positive, it was the worst performing sector in terms of selection. Technology selection caused -0.87% of underperformance, followed by consumer discretionary at -0.33%. Our industrials exposure from FedEx was the strongest part of our selection, lessening our losses by 0.55%.

Despite a difficult year for the growth fund, we are hopeful that the portfolio is well-positioned for the future. Over the course of our management period we adjusted our holdings in response to significant issues facing the market such as volatility and China exposure. The portfolio's beta is now less than one, and our equity holdings have been realigned in favor of firms focusing on U.S. growth. We are still overweight information technology compared to our benchmark, believing it to be the strongest sector for growth in the market. In lieu of more experimental and untested names that were included in the portfolio in the past, we have chosen a number of high quality firms that dually provide stability and the growth numbers we are looking for. We hope that these alterations will provide the next class of managers a strong base from which they can generate outperformance.

Growth Holdings

Zendesk, Inc.

Ticker: ZEN

Current Price: \$19.64

HPR: -7.96%

52 Week Range: \$14.39 – \$27.54

Price Target: \$30.00

Company Description:

Zendesk, Inc., a software development company, provides a Software as a Service customer service platform for organizations. It provides a single customer service interface to organizations to manage all of their one-on-one customer interactions, track and predict common questions, and provide a seamless path to answers. The company's platform also enables organizations to gather customer data and engage with customers based on the insights the data provides, and it offers tools for organizations to understand their customers and track the efficiency and effectiveness of their customer service. Zendesk also provides live chat software that enables the organizations to communicate in real-time with their customers through online chat, and analytics software, which enable organizations to analyze and visualize data from a diverse set of applications. The company operates in 150 countries and territories, and provides service through its customer service platform in approximately 40 languages. Zendesk was founded in 2007 and is headquartered in San Francisco, California.

Investment Thesis:

The global software as a service (SaaS) market is progressing at a CAGR of 27.9% between 2015 and 2022. The market was valued at \$23.88 bn in 2014 and is expected to reach \$164.29 bn by the end of 2022. As a CRM provider, Zendesk is positioned well to benefit from the growth in this industry as more and more companies convert their sales platforms to the cloud. As is, the Company is doing well to win the business of larger and more significant clients. The percentage of contracts bringing in more than \$50,000 annually has increased from 23% in 2014 to 27% in 2015, and of the 122 "unicorn" startups with billion dollar valuations, forty-four are Zendesk clients. With 60% year over year sales growth, operating margin expansion, timely acquisitions, and the goal of becoming a billion-dollar revenue company by 2020, Zendesk is one of our purest growth investments. A key risk to our investment thesis is that Zendesk is a unicorn startup with unicorn startup clients. When stretched valuations in the Technology sector contracted in early February, Zendesk shares fell nearly 30%.

Catalysts:

- The Company's new Satisfaction Prediction tools are currently in beta stage. This service would be a key differentiator for Zendesk that could help the Company reach additional pricing tiers.
- In October, Zendesk acquired We Are Cloud SAS, the makers of BIME Analytics, a modern business analytics platform that includes real-time connectors to dozens of data sources and tools for building and sharing advanced visualizations. BIME Analytics will become the foundation of Zendesk's customer data analytics platform and should unlock significant value for the Company going forward

Wells Fargo

Ticker: WFC

Current Price: \$49.93

52-week range: \$44.50 - \$58.77

Target Price: \$66.52

Company Description:

Wells Fargo is a financial services company whose operations focus on investment banking, insurance, investments, mortgages, leasing, credit cards, and consumer finance. The company has a geographic location and primarily through stores and online banking. WFC's business segments are broken down by Community Banking, Wholesale Banking, and Wealth, Brokerage, and Retirement.

Top –down reasoning:

- As interest rates rise, this will help bank stocks as it will increase their spread, especially larger players such as Wells Fargo.

Upside Catalysts:

- Core loan portfolio growth
- Increase in loan spreads due to higher interest rates
- Growth in investment banking division

Downside Risks:

- Interest rates do not rise as expected
- Downturn in the economy
- Regulation issues

Investment Thesis:

Compared to some of the other large banks, WFC is much more stable as it was able to weather the storm of the financial crisis and has no issue following the FED's capital requirements or passing stress tests. This favorable position is due to WFC managing risk effectively and also its diversified business and geographic mix that stabilizes earnings. These cross-selling opportunities make the business less risky than competitors and we believe that this will continue to allow WFC to generate solid returns, leading to further dividend increases. The company continues to return capital through both dividends and stock buybacks.

Growth in core loan activity continues to be a primary driver for Wells Fargo. Core deposits have also grown and are expected to experience further growth as the economy continues to recover.

WFC has undergone several acquisitions over the past few years and continues to see benefits from the Wachovia purchase. Investment banking continues to be a major driver of growth and should continue to increase moving forward as the company gains market share in this segment. The amount of capital in their portfolio gives WFC a competitive advantage as they will be able to make loans other banks can't afford or are restricted by the FED due to capital requirements. Overall, growth in investment banking, as well as wealth management, is a major driver.

SVB Financial Group

Ticker: SIVB

Current Price: \$99.85

HPR: -16.77%

52 Week Range: \$77.87 – \$152.99

Price Target: \$120.00

Company Description:

SVB Financial Group is a diversified financial services holding company. The firm offers a range of financial products and services through its three segments: Global Commercial Bank, SVB Private Bank, and SVB Capital. SVB Financial primarily serves clients in the technology, life sciences, private equity, and premium wine industries, and operates mostly in California. The Global Commercial Bank segment consists of the operations of its commercial bank, and divisions such as SVB Specialty Lending, SVB Analytics, and Debt Fund Investments. The bank provides solutions to the financial needs of commercial clients through credit, global treasury management, foreign exchange, global trade finance, term loans, equipment loans, asset-based loans, revolving lines of credit, accounts-receivable-based lines of credit, capital call lines of credit, and credit cards. SVB Private Banking clients are primarily private equity and VC professionals and the companies they support. The division offers a suite of private banking services, including mortgages, home equity lines of credit, restricted stock purchase loans, capital call lines of credit, and other secured and unsecured lending. SVB Capital is the venture capital investment arm of SVB Financial Group, which focuses primarily on funds management.

Investment Thesis:

The growth managers have been bullish on the financial sector since taking over the fund. The factors supporting this view include growing financial strength among banks, loosening lending standards, improved consumer finances, the aging world population, and the then-impending decision from the Federal Reserve to begin raising short term interest rates. Specific to SVB, of the universe of US banks, Silicon Valley stands to benefit most from an increase in interest rates. In fact, a 100 basis point increase in rates will result in an increase in Net Interest Income of 11% for SIVB. This is largely due to the high percentage of variable rate loans (84% versus 40% industry average) in the company's portfolio. Additionally, SVB's loan growth has averaged 20%, versus roughly 5% for the banking industry overall since 2005. This rate is a key contributor to the market's willingness to assign a premium multiple to the stock. Because 75% of SVB's commercial lending portfolio is in high-growth industries like venture capital, technology, life sciences, and fintech, we anticipate continued high levels of loan growth as the broader economy continues to expand.

Catalysts:

- Rising rates will be a tailwind for banks across the whole market capitalization spectrum. Silicon Valley's stock trades closely with the market implied likelihood of rate hikes.
- SVB has outlined several initiatives to stimulate fee growth, including a strategic relationship with Coupa, a fast-growing spend management SaaS startup.
- SVB currently has approximately \$42 billion in assets on its balance sheet. At \$50 billion, banks become classified as Systemically Important Financial Institutions, which entails increased regulation and corresponding compliance and legal fees. These costs could prove materially harmful to the Company's bottom line.

Dr. Pepper Snapple Group Inc.

Symbol: DPS

Current Price: \$90.35

52 Week Range: \$72.00 - \$95.87

Price Target: \$93.68

Company Description:

Dr. Pepper Snapple Group is one of the leading beverage companies with a portfolio of more than 50 brands of carbonated soft drinks (CSDs), non-carbonated beverage (NCBs), ready-to-drink juices, teas, mixers, waters, and other premium beverages. The company has 6 out of the top 10 non-cola soft drink, and 13 of their 14 leading brands are No. 1 or No. 2 in their flavor categories. Some of the named included in the brand portfolio include: 7UP, A&W, Canada Dry, Hawaiian Punch, Dr. Pepper and Schweppes. The company operates in three business segments: Beverage Concentrates, Packaged Beverages, and Latin American Beverages. It serves bottlers, distributors, and retailers through a broad and flexible route to market that includes a combination of direct store delivery and warehouse delivery. Dr. Pepper Snapple's delivery capabilities are supported by 21 manufacturing centers, 115 distributions centers, and 19,000 employees. Its bottling and distribution network has given the company control of nearly half of its overall volume, while the remainder is driven through third-party/ licensed bottlers and distributors which include Coca-Cola, Pepsi, and a number of independent bottlers, brokers, and distributors. The business model allows Dr. Pepper Snapple to manage their entire value chain from innovation to the store shelf.

Top- Down Reasoning:

The outlook on the consumer staples sector continues to be positive as long-term trends in increased global consumption, depressed commodity prices, and innovation support continued growth in sales. Currently, the consumer staples sector is outperforming the S&P 500 index by 3.88%. While the beverage industry is not historically known for high growth within the consumer staple sector, Dr. Pepper Snapple's current strategy allows the company to position itself in higher growth segments and capitalize on rapidly changing trends within the industry.

Upside Catalysts

- Focus on expansion of non-carbonated product portfolio to offset a shift in consumer preferences
- With current operations located primarily in the Americas, there is a significant opportunity for high growth and rapid expansion into emerging markets
- Strong brand strength and value chain management allow for increased market flexibility

Downside Risk

- Increased sugar taxes and FDA regulations pose a threat to margins
- Rapidly changing consumer preferences driven by health and fitness trends
- Slowing sales growth may trigger price wars as companies try to sustain historical sales growth rates by undercutting competitors

Starbucks Corp.

Symbol: SBUX

Current Price: \$59.70

52 Week Range: \$42.05- \$64.00

Price Target: \$68.15

Company Description:

Starbucks Corporation, headquartered in Seattle, Washington, operates as a roaster, marketer, and retailer of specialty coffee. The company operates in four main geographic segments: Americas, Middle East, Europe, and Africa. Its stores offer coffee and tea beverages, packaged roasted whole bean and ground coffees, single-serve and ready-to-drink coffee and tea products, juices and bottled water. In addition to beverages, Starbucks also provides fresh food, baked goods, and snacks with offering that include pastries, breakfast sandwiches, and other lunch items. In addition, it licenses its trademark products and good through licensed stores and grocery food stores. The company offers its products under various names including: Starbucks, Teavana, Tazo, Seattle's Best Coffee, Evolution Fresh, La Boulange, Ethos, etc. As of September 27, 2015, Starbucks operated 23,043 stores worldwide.

Top- Down Reasoning:

Improving consumer sentiment, near full-employment, upward pressure on wage growth, and persistently low gasoline prices will continue to be major factors driving the consumer discretionary sector through 2016. Within the consumer discretionary sector, we believe that the restaurant industry is best position for above average growth. One of the primary drivers of growth in this industry is the application of technology to help offset profit-margin erosion from rising labor and food costs and unlock potential revenue opportunities. By leveraging technology, restaurants can improve customer experience and increase customer loyalty, while simultaneously streamlining operations. Coffee and fast-food chains are investing in mobile order and payment capabilities with integrated loyalty programs to drive repeat visitors and increase order accuracy.

Upside Catalysts

- Increasing same-store sales growth in the CAP markets
- Expansion of brick and mortar stores and products sold under Teavana brand
- Improved store efficiency through the adoption of mobile applications and creation of a "digital ecosystem"

Downside Risk

- Potential competition increase in Chinese markets; specifically YUM! Brands
- A persistently strong dollar and rising food commodity prices is a source of potential margin pressure
- Social pressure from consumers and state government to pay livings wages

AMERCO

Symbol: UHAL

Current Price: \$347.61

52 Week Range: \$305.66 - \$436.89

Price Target: \$468.00

Company Description:

AMERCO, North America's largest "do-it-yourself" moving storage operator, is the holding company for a number of subsidiaries including, U-Haul International, AMERCO Real Estate Company, Republic Western Insurance Company, and Oxford Life Insurance Company. AMERCO, through its subsidiaries operates in three business segments; Moving and Storage, Property and Casualty Insurance, and Life Insurance. The company's primary business segment, Moving and Storage, rents trucks, trailers, portable moving and storage units, and self-storage spaces primarily to the household movers. This segment also provides uhaul.com, an online marketplace that connects consumers to independent Moving Help service providers and independent self-storage affiliates; auto transport options to transport vehicles; specialty boxes for sensitive equipment, as well as tapes, security locks and packing supplies. AMERCO rents its trucks and trailers, as well as offers self-storage rooms through a network of approximately 1,600 company operated retail moving stores and 18,200 independent U-HAUL dealers. As of March 31, 2015m this segment had a rental fleet of approximately 135,000 trucks, 107,000 trailers, and 38,000 towing devices. In addition, it operates approximately 1,280 self-storage locations with approximately 491,000 rentable rooms comprising 44.2 million square feet of rentable storage space.

Top- Down Reasoning:

AMERCO's Moving and Storage businesses are influenced by the "Four D's": divorce rates, dislocation, death, and downsizingⁱ. Currently 40-50% of marriages end in a divorce in the US, positively impacting the industry. In addition, baby boomers make up one third of the US population, and are currently between the ages of 50 and 69. Baby boomers are approaching the age of 78, which is the average life expectancy in the US. Thus there is a forecasted increase in the number of deaths per year, also positively influencing the Moving and Storage industry. Consumers also have a sentimental attachment to their belongings, and would rather store their belongings than discard them. More importantly, three out of four consumers prefer self-storage as opposed to other services or disposing of their goods. These trends present a significant opportunity to expand in the Moving and Storage industry.

Upside Catalysts

- Cost reduction and improved efficiency in the U-Box Segment
- Expansion of self-storage real estate through builds and conversions
- Gradual reduction of truck cap ex and reinvestment of cash flows into higher growth segments

Downside Risk

- Potential to not reach targeted occupancy rates in newly built or converted storage units
- Increased competition in the moving and storage business

Facebook

Ticker: FB

Current Price: \$113.05

52-week range: \$72.00 - \$117.59

Target Price: \$134.73

Company Description:

Facebook, Inc., incorporated on July 29, 2004, is a social networking company. The Company builds engaging products that enables people to connect and share through mobile devices and personal computers. The Company offers various services focused on people, marketers and developers. It offers online and mobile-based platform for people to share their opinions, ideas, photos and videos, and to engage in other activities. The Company's products include Facebook, Instagram, Messenger and WhatsApp. As of December 31, 2014, the Company had 890 million daily active users (DAUs). The Company's subsidiaries include Andale, Inc., Facebook Operations, LLC, Oculus VR, LLC and Parse, LLC, in Delaware; Edge Network Services Limited, Facebook Ireland Holdings Limited and Facebook Ireland Limited, in Ireland, and Pinnacle Sweden AB, in Sweden.

Top –down reasoning:

Online advertising is expected to grow rapidly for the foreseeable future, giving Facebook a huge market to monetize. Facebook's monetization rates on its ads remain relatively low, leaving a huge upside that will boost revenue and earnings.

We believe Facebook is well-positioned to benefit from the "internet of things," a trend that has led to increased connectivity between electronic devices. There are currently more connected devices on the planet than there are humans, and through its various apps and services, Facebook can take advantage of them all. The internet of things is projected to create \$4 trillion in revenue opportunities through 2020, and we believe Facebook will be able to take advantage of these opportunities. Furthermore, emerging technologies such as virtual reality are expected to grow rapidly in the coming years. Facebook owns Oculus, the industry leader in virtual reality, and will thus be able to benefit from this trend as well.

Downside Risks:

- Loss of users or failure to retain users could strain revenue
- Loss of advertising clients or decrease in online advertising spending could decrease revenue
- Online and mobile advertising is an extremely competitive industry and Facebook must continuously protect its market share from competitors

Investment Thesis:

With its growing user base of 1.4 billion monthly users and extremely strong financial performance, Facebook is poised to thrive in the foreseeable future. Industry trends such as the internet of things and the transition to online marketing serve as significant tailwinds for the company, which we believe is one of the best-positioned firms to capture them. Furthermore, Facebook has the potential to benefit from emerging industries such as virtual reality through its subsidiary Oculus.

Quintiles Transnational Holdings Inc

Ticker: Q

Current Price: \$64.23

52-week range: \$55.01 - \$80.45

Target Price: \$77.66

Company Description:

Quintiles Transnational Holdings Inc., incorporated on November 19, 2009, is a biopharmaceutical services company. The Company is a provider of biopharmaceutical development services and commercial outsourcing services. The Company is engaged in the development and commercialization of pharmaceutical therapies. The Company offers therapeutic, scientific and analytics services to its biopharmaceutical and other healthcare customers. The Company offers its services through two segments: Product Development and Integrated Healthcare Services. The Company's Product Development segment is a contract research organization (CRO) and is focused on Phase II-IV clinical trials and associated laboratory and analytical activities. The Company's Integrated Healthcare Services segment includes commercial pharmaceutical sales and service organizations. It provides services, including commercial services, such as contract pharmaceutical sales forces and healthcare business services for the healthcare sector, such as phase research, market access and consulting, health information analytics and technology consulting, and other healthcare solutions.

Top –down reasoning:

Contract research organizations are expected to benefit from strong tailwinds in the foreseeable future. Strong biotech financing, improved drug approval results, and a steady regulatory environment will help boost R&D. As the “blue chip” contract research organization, Quintiles is the natural choice in the industry.

Downside Risks:

- Early contract termination, backlog volatility, biotech financing volatility
- Stagnant R&D growth
- Weaker than expected margins
- Increased competition

Investment Thesis:

Quintiles leadership position allows it to benefit from both scale advantages and expertise advantages as it works on more trials than any competitor. Quintiles has over 1000 PhDs and is way ahead of other smaller CROs in terms of delivering value to its clients and global reach. The ongoing shift to outsourced research and development provides the CRO industry with steady growth regardless of growth in global research and development spending. Quintiles has less exposure than most of its peers in the unpredictable and highly competitive early-stage development industry.

Palo Alto Networks

Ticker: PANW

Current Price: \$155.73

52-week range: \$111.09 - \$200.55

Target Price: \$193.14

Company Description:

Palo Alto Networks, Inc. is a cybersecurity company that operates three segments. Its “Next-Generation Firewall” business provides a platform through its hardware and software network that protects against cyber threats and offers user visibility and control. The company’s “Advanced Endpoint Protection” offers cybersecurity specifically relating to software vulnerabilities that arise on fixed and virtual endpoints and servers. The “Threat Intelligence Cloud” segment offers fundamental intelligence capabilities, security for software service applications, and automatic security measures to keep ahead of cyber-attacks. The company sells its security platform through a “direct touch, channel fulfilled sales model.” The network-based elements of its platform are available through an array of subscription services in the form of physical or virtual appliances. The cyber-attack prevention appliance is sold through subscription services, and can be applied to either public or private cloud systems.

Top –down reasoning:

We are bullish on the Information Technology Sector in the foreseeable future. Looking forward, we predict a 14.4% growth in earnings per share throughout the industry in 2016. Despite this recent strength, the Information Technology sector is currently trading in line with the S&P 500 P/E and EV/EBITDA multiples, compared to their respective 10-year historical premiums of 10%. Furthermore, we expect the “Internet of Things” to be a major driver of the industry, as it begins to take on an increasingly large role in many different parts of the economy. The Internet of Things is the web of connections created between electronics that allows them to gather and share data. There are currently more connected devices on the planet than there are humans, and projections estimate there will be as many as 50 billion connected devices by 2020. As the Internet of Things follows its explosive growth trajectory, so too does the potential revenue opportunities. Our research indicates that the Internet of Things represents a \$4 trillion dollar revenue opportunity through 2020. As disruptive technology continues to emerge, this number may very well increase. We expect the Internet of Things to provide tailwinds for the Information Technology sector in the foreseeable future, as they are by and large the best-poised to benefit from its growth.

Investment Thesis:

Palo Alto Networks, Inc. has been called the “premiere” cyber security stock, and has returned 50.16% over the past year. Though the company trails major competitors in market share, the company is growing its user base and revenue at a considerable pace. According to our analyst estimates, we believe the company will be able to triple its market share by 2024. The company has a great history of innovation: it was the pioneer of the “next-generation” firewall, a security system that integrates traditional firewall security with other network device functionalities. Palo Alto’s solid financial performance puts the company in an excellent position to capitalize on the booming cyber security industry, which is expected to grow at a compound annual growth rate of 9.8% to \$170.21 billion by 2020, driven by increasing government regulation of online data, as well as the emergence of increasingly threatening cyber threats. We believe Palo Alto’s rapid growth, strong financial positioning, market-leading innovation, and position in the exploding cybersecurity industry makes it a very attractive investment.

The Walt Disney Company

Ticker: DIS

Current Price: \$97.22

52-week range: \$86.25-\$122.08

Target Price: \$130

Company Description:

The Walt Disney Company, together with its subsidiaries, operates as an entertainment company worldwide. The company operates broadcast and cable television networks, domestic television stations, and radio networks and stations; and is involved in the television production and television distribution operations. The company owns eight domestic television stations. It also owns and operates the Walt Disney World Resort in Florida that includes theme parks; hotels; vacation club properties; a retail, dining, and entertainment complex; a sports complex; conference centers; campgrounds; golf courses; water parks; and other recreational facilities. Further, it produces and acquires live-action and animated motion pictures, licenses trade names, characters, and visual and literary properties to retailers and publishers; publishes entertainment and educational books, magazines, and comic books. Additionally, the company is involved in the sale of merchandise through its retail stores, Internet shopping sites, and wholesale business.

Top –down reasoning:

Lower oil prices, should increase per capital disposable income which will boost spending on discretionary items such as movies and travel, which will benefit Disney's theme parks and its movie studios. Total advertising expenditure is expected to increase in 2016, this is good for movie production and cable networks as more companies advertise their products, boosting revenue.

Downside Risks:

- The strong dollar will prove to be a drag on foreign visitors to Disney parks, due to the increased cost of international travel arising from the strength of the dollar.
- ESPN has suffered from a decline in viewership, at the same time it has increased sports commitments which are valued at \$ 53 billion. It will have to balance these rising costs against its falling subscriber base.
- ESPN experienced a decline in operating income due to subscriber losses and high programming costs despite a 25% surge in ad revenue.

Investment Thesis:

The world-class Disney brand is sought after by children and trusted by parents. Over the past decade, Disney has demonstrated its ability to monetize its characters and franchises across multiple platforms-- movies, home video, merchandising, theme parks, and even musicals. The stable of animated franchises will continue to grow as more popular movies get released by the animated studio and Pixar. Disney's theme parks and resorts are almost impossible to replicate, especially considering the tie-ins with its other business lines. Looking at the media networks segment, ESPN has exclusive rights within the NFL and college football, the premier sports programming rights in the US. ESPN has dual income stream from both subscription fees which are 4 times higher than competitors as well as ad revenue.

FedEx

Ticker: FDX

Current Price: \$162.65

52-week range: \$119.71-\$185.19

Target Price: \$185.30

Company Description:

FedEx is the second largest global integrated logistics provider. It generated \$47.5 billion in revenue in fiscal 15, delivering more than 11 million packages a day. It provides transportation, e-commerce and business services through companies operating independently and managed under the FedEx brand. FedEx is also a member of the Fortune 500 and a part of the Dow Jones Industrial Average. The company's FedEx Express segment provides various shipping services for the delivery of packages and freight; international trade services. Its FedEx Ground segment provides business and residential money-back guaranteed ground package delivery services; and consolidates and delivers high volumes of low-weight and less time-sensitive business-to-consumer packages.

Top –down reasoning:

Consumer spending is expected to rise in 2016, which is a major driver for industry revenue. Lower oil prices, and a stronger job market will stimulate spending which will lead to an increase in demand for delivery services. The rise of e-commerce around the world will also boost revenue for the industry as more consumers buy goods online leading to an increased demand for FedEx's ground segment in particular. Lower oil prices will reduce the cost of operations which will help boost the bottom line.

Downside Risks:

- Slowdown in global growth will may hit revenues as demand for its services stems from expanding growth and international trade which has seen a slowdown in the last few years
- FedEx has greater exposure to emerging markets than UPS which could hurt financial performance if growth does not materialize or if political conditions become unstable
- Tailwinds from the strong US dollar will impact the bottom line as significant overseas operations will be bringing in less revenue in dollar terms

Investment Thesis:

FedEx has improved its competitive advantage by building the capacity to handle additional modes of shipping. After purchasing assets in ground delivery and less-than-truckload freight (both domestic U.S. operations) and building out its asset-light air and ocean forwarding network, FedEx can now handle most shipping modes. Fulfilling more of its customers' needs makes FedEx more difficult to displace and a bigger, stickier part of clients' operations. On Jan. 8, the European Commission announced it unconditionally approved FedEx's bid for the fourth-largest parcel carrier, TNT Express. This gives the company the opportunity to build an attractive ground operation in Europe, where online fulfillment has room to grow. FedEx has started offering streamlined courier services that suit the requirement of online retailers. FedEx SmartPost service, a low-cost residential parcel service that is suitable for light packages is driving the company's ground segment revenue up, and will be major asset for the company.

Walgreens Boots Alliance

Ticker: WBA

Current Price: 82.34

52-week range: 71.50-93.30

Target Price: 94.00

Company Description:

Walgreens Boots Alliance is the world's largest pharmaceutical chain and pharmaceutical wholesale organization. The firm is the product of a two-part acquisition of the globally positioned Boots Alliance brand by the U.S. - based Walgreens. WBA operates in three segments: Retail Pharmacy U.S., Retail Pharmacy International, and Pharmaceutical Wholesale. The domestic segment is made of Walgreens and Duane Reade Stores, with over 8,200 locations across America and its territories. International Retail Pharmacy is comprised of around 4,550 stores throughout the U.K., Mexico, Chile, Thailand, and Europe. Pharmaceutical operated under the Alliance Healthcare name, and has over 300 Distribution centers across Europe.

Top –down reasoning:

The pharmaceutical retail space is undergoing a wave of consolidation that presents strong inorganic growth opportunities for the companies involved. Additionally, businesses exposed to the healthcare sector will benefit from increased revenues as a result of the aging baby boomer population.

Upside Catalysts:

- A joint venture with Amerisource Bergan has improved inventory management and drug sourcing, and looks to continue increasing operational efficiency.
- Merger with Boots Alliance has leads to cost and sourcing synergies that have outpaced analyst and management expectations. Leveraging of Boots' well-respected private label brands can also improve front-end retail sales at Walgreens stores.
- Increasing market share in growth area of specialty pharma could meaningfully drive profits higher
- Merger with Rite Aid could increase U.S. market share further versus CVS

Downside Risks:

- Merger synergy targets with Boots Alliance and Rite Aid could falter and hurt the stock price
- Increased international exposure leaves firm exposed to currency risk
- Margin pressure from Medicare Part D reimbursements

Investment Thesis:

Walgreens Boots Alliance is a company that benefits from a strong and respected name while also displaying the properties of a growth stock. It has many organic and inorganic growth opportunities at its disposal, and these will only be amplified by its focus on increasing operational efficiency.

Amazon.com Inc.

Ticker: AMZN

Current Price: 569.63

52-week range: 366.57-696.44

Target Price: 740.00

Company Description:

Amazon.com, Inc. operates as a global online retailer and web services company. The company serves consumers through retail websites which primarily include merchandise and content purchased for resale from vendors and those offered by third-party sellers. In addition, the company serves developers and enterprises through Amazon Web Services. It provides servers, storage, databases, analytics, applications, and deployment services to start-ups, businesses, government agencies, and academic institutions. Further, it manufactures and sells proprietary electronics including Kindle e-readers, Fire tablets, Fire TV devices, and Amazon Echo. The firm also offers Amazon Prime, an annual membership program, which provides free two-day shipping of various items, access to instant streaming of movies, music, and other services; and co-branded credit card agreements. Amazon.com, Inc. was founded in 1994 and is headquartered in Seattle, Washington.

Top-down reasoning:

Amazon is well positioned to capitalize on a number of secular changes across society. The continued shift towards online retail and Amazon's strong position within the sector bodes well for it looking forward. The trend of cord cutting in favor of online subscriptions is another positive, as the business offers a vast library of third party and proprietary content. Its Web Services are another bright spot, offering pro-cyclical returns in an area that will continue to grow as businesses and services move online.

Upside Catalysts:

- Amazon is challenging traditional retailers with the ease of its Prime service. More consumers shopped online than in stores last Black Friday, a sign that ecommerce, led by Amazon, is disrupting brick and mortar establishments.
- Web Services has been increasing in size and profitability. It diversifies the business away from the cyclically risky retail segment.
- Overall firm profitability has been increasing faster than Wall Street projections, and it has been continually rewarded for these operational improvements.

Downside Risks:

- A tepid economic environment marred by uncertainty could harm consumer confidence and Amazon online retail sales.
- Just as unexpected increases in profitability have driven the stock higher, margin compression could undo the positive sentiment that has been built up.

Investment Thesis:

Amazon seems to have taken the torch from Apple as the premier name in the growth market. It is at the forefront of secular trends and is increasingly diversifying while becoming more profitable. It is an anchor in the portfolio, and we believe in its future prospects.

Alphabet Inc.

Ticker: GOOGL

Current Price: \$754.84

52-week range: 529.00 – 810.35

Target Price: \$910.50

Company Description:

Alphabet is an American multinational tech conglomerate that is the parent to Google as well as several former Google subsidiaries including Google X, Google Fiber, GV, and Jigsaw. Primarily, the company offers internet related services including online advertising, search, cloud computing, and software. Google was founded in 1998 and is headquartered in Menlo Park, California.

Top –down reasoning:

Google operates in a number of areas that are likely to see extreme and long-term growth. Generally speaking, as more people across the world use the internet, more of them will be using Google’s search services, as well as others such as Youtube. More specifically, as internet use continues to migrate from desktop to mobile, Alphabet will benefit as its Android operating system is the most widely used in the world. On top of these trends, Google is heavily invested in virtual reality, cloud computing, augmented reality, self-driving cars, and other areas expected to experience rapid growth in the future.

Upside Catalysts:

- Youtube Red (monetization of Youtube)
- Merging of Chrome and Android for improved mobile use
- Increasing internet use world-wide

Downside Risks:

- Increasing competition from Facebook, Apple, Amazon, Hulu, and others
- Failure of investments in emerging technologies

Investment Thesis:

Google not only has a prolific history of growth and innovation but seems poised to lead its competitors moving forward as well given its many investments in growing technologies and leadership status as a search engine, mobile phone operating system, and otherwise. Furthermore, unlike many companies in the sector, Google has limited exposure to China and is not highly correlated to the overall health of the economy. In other words, the use of Google’s internet services would not likely drop off in the case of a weaker US economic environment. Therefore, Google offers the possibility of exceptional returns with limited downside.

Salesforce.com Inc.

Ticker: CRM

Current Price: \$72.44

52-week range: 52.60 - 82.90

Target Price: \$88.09

Company Description:

Salesforce.com is an American cloud computing company that provides clients with customer relationship management software for sales, service, marketing, community, and analytics. Furthermore, Salesforce offers solutions for building and running business applications and connecting to the Internet of Things. The company was founded in 1999 and is headquarter in San Francisco, California.

Top –down reasoning:

Salesforce is a part of the rapidly growing cloud computing industry, which is expanding as companies increasingly look to use software and data storage on an on-demand basis. Salesforce focuses on small, medium, and large clients, and is among the fastest growing names in the cloud computing space, growing revenues over 25% year-over-year last quarter. Also, unlike many in the tech space, Salesforce has limited exposure to China, sourcing only 13% of revenues from the Asia Pacific.

Upside Catalysts:

- Favorable valuation/analyst estimates
- Is expanding its product offerings
- Leader in the cloud computing space
- Limited China exposure

Downside Risks:

- Overvaluation (no earnings)
- High levels of competition (Workday, Netsuite, Oracle, etc.)

Investment Thesis:

Salesforce.com has a favorable valuation, is expanding both in number of clients and number of products offered, is a large part of a rapidly growing industry, and has limited exposure to slowing growth in China.

Under Armour, Inc.

Ticker: UA

Current Price: \$82.16

52-week range: 63.23 – 105.89

Target Price: 100.59

Company Description:

Under Armour is an American company that develops, markets, and distributes sports and fitness apparel, shoes, and accessories for men, women, and children. The company's products consist largely of synthetic microfibers. The company was founded in 1996 and is headquartered in Baltimore, Maryland.

Top –down reasoning:

With low oil prices, lowering unemployment, and signs of wage increases, Under Armour looks poised to benefit from several broad economic trends. Furthermore, while the company controls only a roughly 5% market share, it has shown rapid growth at roughly 20% every quarter for the several years. Partnerships with Universities as well as deals with star athletes such as Stephen Curry and Jordan Spieth may also drive future growth.

Upside Catalysts:

- Deals with star athletes like Tom Brady, Stephen Curry, Jordan Spieth, and Bryce Harper
- Continued top line growth around 20%
- Investments in wearable fitness technology

Downside Risks:

- Slowing of US economy
- Increased oil prices
- Poor performance of sponsored athletes

Investment Thesis:

Under Armour is not only likely to benefit from a steadily improving US economy and a strengthening consumer moving forward, but has already shown a consistent trend of rapid top line growth which seems likely to continue. The stock remains around 20% below its high in September 2015, meaning it was likely overvalued in the past and may now have room to run. Investments in technology along with key strategic partnerships are likely to drive future growth.

Value Fund Overview

Value Fund Philosophy

The Value Fund's philosophy is based on the belief that market inefficiencies exist, and attempt to take advantage of these inefficiencies by identifying stock prices that we determine as undervalued. We follow a top-down macroeconomic analytical approach to find undervalued stocks in industries that have trailed their respective benchmarks. We determine which industries to consider based on strong macro fundamentals and bright prospects for future performance. Within these industries we then seek to invest in companies that are undervalued by 5% to 15% when compared to direct competitors and industry averages. We then take into consideration the undervalued companies that have also demonstrated strong sales and earnings growth to ensure the companies we have chosen are not just undervalued, but also good companies with strong financials.

Value Fund Strategy and Tactics

We begin our investment selection using a top-down approach. We develop in-depth analysis of broad macroeconomic factors and trends through an examination of relevant data, including current interest rates, monetary policy, unemployment, consumer spending levels, oil prices, and the political environment, all in an attempt to narrow our analysis to individual sectors. After determining which industries we want to overweight and underweight in our portfolio, each manager uses industry specific valuation methods to find companies with a stock that they believe to be undervalued. When selecting a "value" stock, a manager attempts to value the company independently of its current market price. This is done by evaluating some of the following metrics: P/B, P/E, P/S, or whatever metric is most appropriate to value a company within the industry they are analyzing. These metrics are then compared to industry averages, as well as direct competitors to determine whether the stock is currently being priced at a seemingly "unfair" discount. Value investing typically works within a two-to-five year time frame, therefore we seek to find stocks with catalysts that fit that invest horizon, despite only having control of the fund for twelve months.

Buy Decisions and Sell Discipline

Once a manager has selected an investment opportunity based on the strategies outlined in the "Strategy and Tactics" section, the manager continues extensive research into the company and the stock. Eventually, the manager will create a formal pitch that will be presented to the Valued Fund as a whole. The manager pitching the investment will provide his or her rationale behind the investment, as well as a target price. If the rest of the managers decide to invest in the stock, it becomes each managers' responsibility to closely monitor that stocks performance. Our ultimate goal is to hold the stock until it reaches its target price, but unexpected circumstances may arise that lead the managers to liquidate the position early and reinvest into a stock that they believe has more risk-adjusted upside potential. At each meeting, the managers discuss current trends in the markets as well as any current events that could have an impact on their holdings. This allows for a perpetually solid understanding of the holdings in the Value portfolio, as well as any headwinds that may arise.

Value Fund Performance

- Since March 1, 2015, the value fund has returned -3.99% while our benchmark, the SPDR S&P 500 Value Index, is down -3.88%. Our portfolio currently trails the benchmark by -.68%.
- Our portfolio sector weightings are as follows: Financials 19.58%, Health Care 16.37%, Consumer Discretionary 12.02%, Consumer Staples 11.95%, Energy 10.51%, Industrials 8.39%, Information Technology 8.31%, Telecommunication Services 5.56%, Utilities 4.27%, Cash 3.05%
- Our top performing holdings have been JNJ, PEP, VLO, and EXC
- Our worst performing holdings have been PRU, HAL, and WFC
- We are currently overweight in the following sectors: Health Care 4.47%, Information Technology 4.46%, Consumer Discretionary 1.83%, Consumer Staples 1.16%, Cash 1.14%, Industrials 0.43%, and Telecommunication Services 0.22%
- We are currently underweight in the following sectors: Energy -0.93%, Materials -3.55%, Materials -3.55%, Utilities -4.01%, and Financials -4.77%

Value Fund Valuation Technique

Valuation Technique

As a top-down fund, our portfolio strategy begins with an analysis of the macro economy, its primary industries and their subindustries. By identifying the promising industries according to our economic outlook, we analyze the dynamics underlying each industry to find the subindustries in which we would like to participate. We then follow a systematic screening process to develop a manageable universe in each primary and secondary industry sector to focus our analysis, periodically updating the screens to observe changes in the competitive environment. Using comparable ratios, we monitor the universe and deduce the stocks that appear to be undervalued in their respective industries, which would then be grounds for further analysis.

SMIF '16 Value's preferred valuation methodology is Price-to-Earnings comparable analysis when conditions allow. Using the previously mentioned method as an example, our equity research begins with a thorough analysis of the company's annual report and financial statements. In complement to our understanding of the industry and market conditions, we model the company's revenues over a detailed 2 year period. We then break down the company's earnings structure and create a pro forma for a corresponding number of years to arrive at an estimate of future earnings. By applying a target multiple to these estimates, we are able to arrive at a price target for a company.

Although we participate in all the primary GICS industries to afford our portfolio satisfactory diversification, our top-down analysis seeks to find the subindustries likely to outperform. By also focusing on underpriced stocks within those subindustries, we are able to find opportunities with strong potential for multiple expansion. The potential for multiple expansion is diligently analyzed by examining the growth potential underlying both the industry and the company's earnings. Doing so, we establish forecasts for the price multiples we employ to derive price targets. Finally, by weighting a multiple-scenario analysis by their probabilities, we obtain an expectation of the price and time horizon in which the stock is likely to converge to its intrinsic value. If we then calculate the internal rate of return and compare it to the expected return on equity, we are able to deduce if alpha can be generated.

Comparable analysis is one of many valuation techniques that can be employed, and SMIF '16 Value has applied a versatile arsenal of valuation methodologies as each individual situation deemed appropriate.

Portfolio Management

With a list of stock recommendations covered by our managers across all the industry sectors, when a position in our portfolio is capitalized or the portfolio is rebalanced, each potential stock we are looking to add is run against the existing holdings in the portfolio to maximize the risk-adjusted return of the overall portfolio, while maintaining our target weights across the industry sectors. Further details on our portfolio management process can be found in the attribution modeling section.

Value Fund Attribution Model

The value portfolio has consistently performed above the benchmark since the portfolio was placed under our management in the spring of 2015, but has recently dipped below the benchmark following the end of the first quarter, currently yielding an active return of -0.61%. Although the value portfolio's current deviation from the benchmark is rather miniscule, +0.07% can be attributed to our allocation decision, and -0.68% can be explained by our stock selection. Our stock selection within the consumer discretionary sector has proven to be the most detrimental component of our performance, followed by our stock selection in the industrials sector. The majority of our positive returns can be attributed to our stock selection within the healthcare and technology sectors. The systematic deterioration of the market in the last year has put the current value of our portfolio -3.99% into the negative compared to the -3.88% of the benchmark.

During the time the portfolio was under our management, our allocation decision has been a large contributor in explaining the performance of our portfolio, but at this point in time, the net effect of our allocation decisions appears to have been insignificant. Volatile market conditions both domestically and abroad have materially affected both our allocation and selection decisions in the last year, and has called for constant reevaluation of both.

The investment thesis underlying our current industry weights properly reflect our current outlook going forward, and our portfolio's performance is not a material cause for alarm in this regard. Our portfolio's performance does signal that our stock selection in the consumer discretionary sector is a cause for alarm, but upon reevaluating our holdings, we have concluded that the investment thesis underlying each holding still holds. As a typical value investment horizon is 3-5 years, the relatively new holdings that make up the sector of our portfolio have not had the ample amount of time they require to converge to their intrinsic values. We are confident that under the consistent management of the next class, the portfolio's performance will prove to correct itself in the intermediate- to long-term.

Value Holdings

Valero Energy Corporation

Ticker: VLO

Current Price: \$65.01

52-week range: 73.88-51.68

Target Price: \$76.94

Company Description:

Based in San Antonio, Texas, Valero Energy Corporation is an independent petroleum refining and marketing company that owns and operates 16 refineries in the U.S., Canada, and Aruba. The company produces conventional gasolines distillates, jet fuel, asphalt, petrochemicals, lubricants, and other refined products as well as diesel fuel, low-sulfur and ultra-low-sulfur diesel fuel, and oxygenates.

Top –down reasoning:

Valero Energy is well positioned to benefit from a favorable macro environment. Although oil prices have slowly began to pick up, there is still a surplus of oil and continued overproduction. The sub-sector that could benefit the most from the low oil prices and overproduction is the refinery sector. Due to the combination of a rapid decline in oil prices and an increase in gasoline demand, these services are highly demanded and therefore very profitable. Valero being the largest Gulf Coast refiner, benefits from increasing supply in the region with lower input costs. On the demand side, Valero will likely gain from higher global gasoline demand, and has the available capacity to boost exports if they desired. As we have seen, this higher demand leads to higher crack spreads, ultimately benefiting Valero's stock price. Also, the U.S. lifting a 40 year old export ban expands the company's available market. Valero has two main competitive advantages, they have the highest capacity of all refiners and they have very strong balance sheet. This high capacity allows Valero to have the lowest cost per barrel at \$3.80 compared to the industry median of \$5.20.

Upside Catalysts:

- Plans to build a new Diamond Pipeline which would provide a cheaper source of crude oil
- Increased dividends by 20%
- Increasing Brent/WTI spread

Downside Risks:

- Futures strip not great, but also not the best indicator (but either way, inventories need to hurry up and decline)
- Product export demand weakening

Investment Thesis:

VLO is the purest way to play the Gulf Coast crude growth and a safe way to gain exposure to the energy sector. Valero also has a top-tier FCF yield and balance sheet, and improving discipline around return of capital to shareholders, which should continue to drive investor interest.

Ford Motor Company

Ticker: F

Current Price: \$13.59

52-week range: \$10.22 - \$16.39

Target Price: \$22.70

Company Description:

Ford Motor Company is an American company that was established on July 9, 1919 as an automobile manufacturing and distributing business. Ford now operates in two sectors both automotive and financial services employs nearly 164,000 workers worldwide. The automotive sector has a global reach divided in to North America, South America, Europe, Middle East and Africa, and Asia Pacific segments. Each region contains its own branch of automobile, service parts and accessory sales for their respective vehicles. The financial services sector consist of two branches, the Ford Motor Credit Company and Other Financial Service, being an umbrella for multiple smaller businesses such as holding companies and real estate.

Top –down reasoning:

Improved economic conditions in the United States have been favorable for the auto industry and we believe that the current sales growth in the industry will remain in the near term. The current low oil price environment is favorable not only for Ford, but for the industry as a whole. Production in the industry was up 9% in 2015, 7% in 2016, and is expected to remain relatively flat throughout 2017. Ford specifically has benefited by the improved market conditions, with February sales up 20.4% year over year.

Upside Catalysts:

- Transition from twelve production platforms to nine (five global and four regional) will allow Ford to switch production more quickly to meet changing demand and drastically cut costs
- Increasingly reception to fuel efficient models such as the Fiesta, Focus, and Fusion
- Increased profitability through luxury group, through growing Lincoln line. Lincoln

Downside Risks:

- The company operates in a very cyclical industry that is coming out from one of its worst-ever downturns
- Potential disruption on the horizon as vehicles become more high tech and autonomous

Investment Thesis:

Our analysis of Ford has the fair value price of the stock to be \$22.70. A combination of improved operational efficiencies and vastly improved sales numbers on a year over year basis lead us to believe that Ford is currently undervalued.

PepsiCo, Inc.

Ticker: PEP

Current Price: \$100.77

52-week range: \$76.48 - \$103.44

Target Price: \$106.20

Company Description:

PepsiCo, Inc. is a global food and beverage company that sells its products through licensed bottlers, independent distributors, and retailers. Its worldwide operations span more than 200 countries. Pepsi operates in a quasi-oligopolistic market with its main competitor, Coca-Cola (KO). It has very strong branding, including Pepsi, Gatorade, Tropicana, Aquafina, Frito-Lay, and Quaker foods. The 22 brands earn annual sales of more than \$1 billion.

Top –down reasoning:

Although our outlook on the macroeconomic environment on a global scale is relatively negative, we believe that PEP will be able to overcome these headwinds. PEP management continues to address these macro headwinds through the implementation of a set of five strategic priorities. These five “C’s”, as management refers to them as, are, Commercial Agenda, Cost, Capital Spending, Capabilities and Culture. We believe that the new PEP strategy will allow them to support continued shareholder returns, despite the economic headwinds

Upside Catalysts:

- Strong fleet of brands including Pepsi, Gatorade, Tropicana, Lays, Doritos and Quaker
- Management is committed to returning cash to shareholders while balance ongoing investments in R&D and A&M
- Despite general economic headwinds in foreign markets, PEP has continued to display organic revenue growth and improved gross margins

Downside Risks:

- Heavy reliance on foreign markets
- Health concerns surrounding soda continue to grow, threatening the performance of the company’s main brand, Pepsi

Investment Thesis:

Our belief is that the fair value of PEP is \$106.20. Improved performance amongst the company’s underperforming beverage brands, strong management commitment to return cash to shareholders and continued investment in R&D should propel the company moving forward.

HCA Holdings Inc.

Ticker: HCA

Current Price: \$77.53

52-week range: 95.49-43.91

Target Price: \$87.00

Company Description:

HCA Holdings Inc. is US based hospital operating company. The Company operates acute care hospitals, outpatient facilities, clinics and other patient care delivery settings. HCA operates hospitals in the United States and the United Kingdom.

Top –down reasoning:

The hospital industry has been in a state of flux for a couple of years now after a large run from 2013 through mid-2015 on the coattails of the ObamaCare thesis. But the sector as a whole has slumped since last fall as the presidential election has clouded growth. After the hospital sector sold off, the lower valuation and reduced sediment presents us with a better risk-reward landscape. The industry as a whole should see improved reform benefits and HCA is well positioned to take advantage of these improvements due to their extensive geographic footprint. Medicaid expansion politics should gain more discussion in the near term due to the upcoming election as the twenty states that have not expanded Medicaid are going to become topic of conversation and could help drive greater speculation on more states expanding as the year progresses. The largest opportunities for expansion remain in Florida, Texas and Tennessee. Florida citizens recently got an initiative on the 2016 ballot that would expand Medicaid. The company has the highest exposure to the aging Medicare population, which may boost revenue and Ebitda over time as more patients get orthopedic and cardiac procedures.

Upside Catalysts:

- Expansion of Medicaid
- Aging population should drive HCA's revenue per admission
- Margin improvement over the long-term will slowly expand as they increase utilization and improve labor cost issues
- Large market share to protect pricing power

Downside Risks:

- Half of HCA's bad debt comes from Texas and Florida

Investment Thesis:

As the hospital industry continues to see improved reform benefits, we think HCA is well positioned, given their geographic footprint, to take advantage of this opportunity. This coupled with HCA's high exposure to the aging Medicare population should boost the company's top and bottom line growth.

Prudential Financial, Inc.

NYSE: PRU

Current Price: \$69.92 (03/24/2016)

52-week range: (\$57.19 - \$92.60)

Target Price: \$104.96

Company Description:

Prudential Financial, Inc. offers a variety of insurance, investment management, and other financial products to individual and institutional clients both domestically and internationally. Its core business is comprised of life insurance, annuities, retirement-related services, mutual funds, and investment management. The company is broken out into two segments, US Retirement Solutions and Investment Management and US Individual Life and Group Insurance. The former focuses on Individual Annuities, Retirement, and Asset Management segments, while the latter consists of Individual Life and Group Insurance segments. The Individual Insurance and Investments Division distributes its core products to markets in Japan, Korea, and other foreign countries.

Top –down reasoning:

The macro environment favors the financial sector in an interest rate rising environment, historically outperforming peer sectors. Additionally, the aging of the US population coupled with growth in household income and wealth accumulation has set a favorable stage for the life insurance and annuities industry as a whole. International revenue growth and a pick-up in US retirement and savings should benefit Prudential exceptionally, as the firm is well positioned as a recognizable brand with scale and distribution capabilities to garner a large share of the growing retirement market in the US. Its. As the general population of retirement age (65+) as a portion of the greater US population is forecasted to increase from 16.3% in 2020 to 19.6% in 2030, the overall aging should cause a trending change from income-protection to retirement-oriented financial products, a positive factor for life insurers as increased longevity in product line lends to increase profitability. Additionally, an improvement in the labor market should benefit demand for insurance and retirement products.

Downside Risks:

- The life insurance and annuities space is subject to the unpredictability of regulation
- Depreciation of the JPY can provide headwinds to Prudential's Japanese business segments, which make up a decent portion of revenue generation
- The industry is highly sensitive to interest rate changes, which is at the Fed's discretion
- Flattening of the yield curve could diminish spread returns and harm the firm's profitability

Investment Thesis:

Overall, Prudential is a well-positioned international player in the life insurance and annuities space, and will benefit from a variety of macroeconomic and demographic factors moving forward. Since suffering from exposure to equity-linked products during the 2008 recession, the company has refocused and committed to both organic and inorganic growth opportunities in the US and in Asia. Despite its risk factors, we believe that Prudential is scaled and positioned strategically to mitigate these risk factors moving forward and gain incremental market share from its competitors in an environment that lends to sector and industry growth.

Johnson & Johnson

Ticker: JNJ

Current Price: \$108.13 (As of 3/24)

52-week range: \$81.79- \$108.82

Target Price: \$120

Company Description:

Founded in 1886, Johnson and Johnson is one of the largest and most diversified health care firms in the world, employing roughly 128,000 people worldwide. Johnson and Johnson has 139 manufacturing facilities, 11 of which are for pharmaceuticals specifically. JNJ is an American multinational company, with international sales accounting for about half of 2014 revenues (45% Revenue was from the US, 25% from Europe, and 30% from the rest of the world). Headquartered in New Brunswick, NJ, Johnson and Johnson has three core segments, those three being consumer products, pharmaceuticals, and medical devices & diagnostics. The revenue generated from each is 43.5% from pharmaceuticals, 37% from medical devices and diagnostics, and 19.5% from consumer products (think skin care brands like Neutrogena, dental hygiene brands like Listerine, etc).

Top –down reasoning:

- Federal funding for Medicare and Medicaid is expected to rise at an annualized rate of 5.3% from 2015-2020. With an aging population, more people are qualified for subsidized healthcare and will have greater access to the products and services JNJ offers.
- The consistent aging population of the United States is another factor positively benefitting Johnson & Johnson. With age comes a growing dependence on medical assistance, thus a greater demand for JNJ's product offerings.
- With a stable economy since the 2008 recession, increase money has been dedicated to R&D from pharmaceutical firms. The forecasted growth in R&D spending is expected to hover around 3% from 2015-2020. Furthermore, total numbers are expected to be \$315.4 billion for 2020 compared to \$272.0 billion in 2015.

Downside Risks:

- A risk that any pharmaceutical company faces is patent expiration. For JNJ they are expected to see 7 major drugs lose patents within the next few years.
- An additional risk that Johnson and Johnson faces is disappointments within their pipeline. If the drugs do not get approved, or are a disappointment once they are approved, it could hurt profitability.
- Johnson and Johnson may experience pricing pressure from the government that could impact their profit on key pharmaceutical offerings.

Investment Thesis:

Based on the current macro market trends and the solid financials, JNJ represented a strong addition to the value side of the fund. The low volatility in JNJ's stock is demonstrative of solid future growth that is expected to continue in the upcoming years. JNJ's substantial market share, continuous R&D spending, the drugs in their pipeline, and their financials are all indicative not only of a well-performing stock but an undervalued one as well.

Exelon Corporation

Ticker: EXC

Current Price: \$35.32 (As of 3/24)

52-week range: \$25.09- \$35.50

Target Price: \$38.00

Company Description:

Founded in 1887 and head-quartered in Chicago Illinois, Exelon Corporation is a utility-services holding company that both generates and delivers energy throughout the United States. Exelon owns electric generating facilities (nuclear, fossil, wind, solar and hydroelectric), sells renewable energy products and services in addition to natural gas and electricity, and engages in natural gas and oil exploration and production activities. The company serves distribution utilities, municipalities, and financial institutions as well as commercial, industrial, governments, and residential customers.

Top –down reasoning:

- Electric power consumption is something that is positively correlated to the demand driven by households, manufacturers, and industrial producers. As the economy has continued to gain steam, the compounded growth from 2016-2020 is expected to remain around .9%, an increase from a compounded 0% growth from 2011-2016. This growth in electric power consumption consequently increases the demand for coal and natural power plants as well.
- The price of electric power is expected to have a compounded annual growth of 2.5% from now until 2021. Furthermore, demand from developing countries is expected to rise, resulting in stable price levels for energy and thus electricity. With a new wave of homes built in the US, demand for electric power will be bolstered.
- The price of steaming coal, which is used for its heating value, is expected to rise at the gradual rate of only 2% in the years to 2020. Although coal-based energy production is still a dominant means of power production, natural gas and renewable energy sources have begun to increase in popularity. However, renewable energy will only take up a small portion of the energy pie due to government budget deficits that do not allow for excess funding for renewable energy.

Downside Risks:

- If manufacturers in the United States decide to move abroad to reduce labor costs, it could put pressure on Exelon to lower prices in order to remain competitive.
- As consumers become increasingly concerned with being environmentally conscious, we will begin to see households using smart devices & appliances to lower energy usage. This could hurt Exelon's core operating segment.
- Unpredictable long-term weather patterns have the potential to hurt the prices of natural gas, a segment that is gaining momentum as consumers are shifting away from coal as a source of energy production.

Investment Thesis:

Exelon is a diversified energy provider with a healthy dividend of 3.6%. It is the largest nuclear plant owner in the United States. Its merger with Pepco holdings should provide Exelon with a more diversified earnings mix. These inherent strengths make Exelon increasingly immune to volatile energy prices, and sets the foundation for outsized earnings growth and robust share price valuation.

JPMorgan Chase & Co.

NYSE: JPM

Current Price: \$59.21 (03/24/2016)

52-week range: (\$50.07 - \$70.61)

Target Price: \$67.32

Company Description:

JPMorgan Chase & Co. is a global financial services company that operates through Consumer and Community Banking, Corporate and Investment Banking, Commercial Banking, and Asset Management segments. As one of the world's leading investment banks, it serves clients consisting of corporations, financial institutions, governments, and institutional investors globally.

Top-down reasoning:

A stable low-interest rate environment will allow for companies in the sector to attain cheap capital and lend at higher rates, profiting on the spread of the two and benefitting from loan growth. While regulatory concerns are significant to downside potential of companies in the sector, as well as the effect of rising interest rates on mortgage volume, we are confident in the sector to perform as it has in similar rate raising environments, benefitting from a strengthening domestic economy. Many factors support industry growth for investment banks, such as growing investor confidence, anticipated interest rate volatility, and rising corporate profits. During the past five years, fixed income, commodities, and currencies (FICC) trading revenues have suffered from stable low interest rate environments, as yield-seeking investors have little incentive to buy low return bonds. Looking forward five years, however, there are key external growth drivers for the industry, resulting in top line revenue growth forecasts [by IBISWorld] of 4.7% CAGR to \$180.7 billion by 2020. Further interest rate hikes should be seen as the Federal Reserve sending a vow of confidence in the economy, labor markets, and inflation, which should spark a decline in investor uncertainty, making for a more favorable environment for IPO, M&A, and trading activity. JPM is well positioned as an investment bank with global reach and a diversified product range that provides protection against a potential downturn.

Downside Risks:

- Increased capital requirements and restrictions on trading have challenged banks in the industry to find other sources of revenue in effort to maintain topline growth and ROE numbers as large sums of cash must sit on the balance sheet
- Lower mortgage banking revenues
- Equity and FICC trading headwinds
- Global growth slowdown

Investment Thesis:

Given our top-down investment strategy, we believe that financial services and more specifically global investment banking are sources of value in the market right now, as the sector typically outperforms its peers in rate-raising environments and increased investor sentiment bodes well for the banking industry. We believe that JPM, with a strong balance sheet and an ability to deploy excess capital (as it just announced it will), has the ability to mitigate risks and perform under weaker economic conditions.

NIKE, Inc.
Ticker: NKE
Current Price: \$62.24
52-week range: \$49.49 – 67.17
Target Price: \$72.27

Company Description:

NIKE, Inc. designs, develops, markets, and sells athletic footwear, apparel, equipment, and accessory products for men, women, and children in over 160 countries. NIKE focuses its brand product offerings in eight key categories: Running, Basketball, Football, Soccer, Training, Action Sports, Sportswear, and Golf. NIKE places considerable emphasis on high-quality construction and innovation, which enables the firm to be a clear industry leader. The Company sells its products worldwide to retail stores, through its own retail outlets, subsidiaries, and distributors. NIKE is headquartered in Beaverton, Oregon, and currently employs over 62,600 people worldwide. The stock is a component of both the Dow Jones Industrial Average and the S&P 500.

Top – down reasoning:

US consumers have begun to utilize the surge in disposable income due to low energy prices. Throughout 2016, record levels of liquidity, improved buying power of the dollar, and additional energy savings are projected to drive promising consumer activity. Furthermore, the moderate improvement anticipated in labor productivity should lead to comparable wage gains. As a result, low-to-middle income discretionary spending should begin to accelerate proportionally with high-end discretionary, benefiting companies such as NIKE. Furthermore, with the emergence of a health-conscious America, more people have been purchasing athletic wear to support their new lifestyle. This is being complimented with the new trend of athleisure (wearing athletic clothing in a leisure setting), which is also projected to boost revenues throughout the year.

Upside Catalysts:

- Increase in disposable income and consumer confidence
- Expansion of the women's apparel business
- Excellent brand recognition with innovative products

Downside Risks:

- Highly competitive market with companies like Under Armour experiencing high growth
- Significantly exposed to FX fluctuations, which could be an issue with the strengthening dollar

Investment Thesis:

Firstly, NIKE is well positioned in the consumer discretionary marketplace to take advantage of trends such as the increase in disposable income, a US population increasingly focused on health, and the emergence of athleisure wear. The company is currently in the process of growing its women's business, which is expected to grow 20% YoY. Furthermore, with e-commerce becoming a popular form of shopping, NIKE has begun enhancing their online experience and expect the trend of strong growth in that business to continue. Lastly, by using a number of different valuation methods, we have determined that the price of NIKE is currently undervalued with a 16% upside potential.

Halliburton Company

Ticker: HAL

Current Price: \$35.03

52-week range: \$28.48 - \$49.20

Target Price: 44.00

Company Description:

Halliburton Company is an American multinational corporation, and one of the world's largest oil field services companies. The firm, which has operations in more than 80 different countries, owns hundreds of subsidiaries, affiliates, branches, and brands, and employs more than 80,000 people. The company offers services, products, and integrated solutions to customers in the exploration, development, and production of oil and natural gas. The company serves the oil and gas industry throughout the lifecycle of the reservoir – from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field. The firm's wide range of products and services can be broken down into 13 separate products service lines (PSLs) operating across two divisions: Drilling and Evaluation, and Completion and Production.

Top-down reasoning:

Slow global growth has led to an oil rout that has forced downward pressure on oil prices since June 2014. For months the prices of WTI and Brent crude have experienced a significant downward trend, and are now nearly 40% of their original value. With shale oil also flooding the market, which has only increased the oversupply even further, the industry outlook has been relatively bearish in the near term. That said, the global economy works in business cycles. Growth in China should ultimately begin to balance at its previous levels and other developing countries should be able to move away from periods of stagflation. Furthermore, many of the energy companies that were able to function in the low interest rate environment will begin to phase out as they are unable to meet break-even levels. These two fundamentals should not only increase the demand for oil, but should cause the supply to decrease as well, ultimately driving the price of oil upward.

Upside Catalysts:

- Oil is at historical lows with extreme upside potential over the next year or two
- Halliburton is in the process with merging with competitor Baker Hughes
- Halliburton provides technology, integrated project managements, and information solutions which has helped manage the industry downturn better than competitors

Downside Risks:

- Oil prices could go lower, which would send Halliburton tumbling further
- Execution risk with Baker Hughes deal

Investment Thesis:

Despite the poor performance of the energy industry as a whole, Halliburton has managed to outperform almost all of the sector ETFs and Indices, showing its strength relative to the rest of the industry. Furthermore, once the Baker Hughes deal is complete, Halliburton's management team, which is well respected for its operational efficiency, should be able to move the company past Schlumberger. This enhanced market positioning should cause the multiples between the two companies to converge, resulting in a strong price increase for Halliburton as synergies are realized.

Verizon Communications Inc.

Ticker: VZ

Current Price: \$53.56

52-week range: \$33.06 – \$53.85

Target Price: \$57.42

Company Description:

Verizon Communications was founded in 1983 and has grown into one of the largest communication technology companies in the world that hires over 177,000 employees and operates in over 150 countries. It is currently headquartered in New York, New York. The company designs, builds, and operates global networks, information systems, and mobile technologies. They provide this broadband, wireless, and wireline communications services to numerous consumer, business, government and wholesale customers through their two business segments, Wireless (~ 70% revenues) and Wireline (~ 30% revenues).

Top –down reasoning:

As the global economy continues to strengthen, the telecommunications sector will flourish as the epicenter for growth and innovation for almost all industries. On top of that, the sector is poised to benefit from the global demand of smartphone technology. The growth of the telecommunications industry is driven by shifts in technology, industry structure and demographics. Within this industry, Verizon has emerged as a clear leader. Verizon has proven to its shareholders that they are the leading innovators of their industry and will continue to foster this growth moving forward

Upside Catalysts:

- Completed merger with AOL Inc. which will be utilized to help Verizon tap into the growing market segments of digital content and advertising
- Market leader in offering differentiated products allows Verizon to drive revenue from various operations
- Strong brand and network reliability allows to company to retain and strong customer base to further drive revenues

Downside Risks:

- Future regulation from local, state, and/or national (FCC) regulators could restrain the company's operations
- Compete in a saturated and competitive market that could lead to price wars between corporations which would result in margin strains
- Potential for external factors to have adverse effects on operations (i.e. natural disasters, cyber-attacks, terrorism, etc.)

Investment Thesis:

As the market leader throughout the industry, Verizon Communications Inc. has positioned itself well to benefit from the growing global telecommunications market. Its completed merger with AOL Inc. will help the company embrace the digital content and advertising segments of the market as they continues to offer their customers a wide portfolio of products to maintain their primer position against their competitors.

Delta Air Lines Inc.

Ticker: DAL

Current Price: \$47.84

52-week range: \$34.61 – \$52.77

Target Price: \$56.27

Company Description:

Delta Air Lines Inc. started in 1924 and has since grown to become one of the largest passenger airlines in the world. It serves 327 destinations globally, including 57 different countries. They employ close to 80,000 employees that operate a fleet of over 800 aircrafts, which service over 168 million passengers a year. The company is headquartered in Atlanta (1,000 daily departures with 220 different destinations) with other main hubs located in Cincinnati, New York (JFK) and Salt Lake City. Even though it is a global company and operates internationally, it is strongly situated domestically with over 65% of revenue coming from North America.

Top –down reasoning:

Improving global economic conditions have set up the airlines industry for strong growth in the coming year. As oil continues to hover around historic lows, resulting in the shrinkage of the airlines' biggest operating expense, the industry will continue to realize growth in its profit margins. On top of lower expenses, the industry as a whole is experiencing movements towards consolidation and capacity discipline in order to further drive margin growth. More specifically, Delta's management has proven the company can sustain its competitive position while adapting to these various economic trends within the airline industry (revenues have increased about 20% while consolidating departures 20% over the past decade). As the airline industry continues to improve, Delta is well positioned to emerge as one of the stronger airline stocks in a year where airlines should see very favorable gains.

Downside Risks:

- Geopolitical threats that could curtail global airline travel demand (i.e. terrorism, airborne diseases, etc.)
- Volatile oil markets could increase operational expenses
- Highly competitive and saturated market building pressure on PRASM margins

Investment Thesis:

The macroeconomic trends currently driving the airline industry sets up Delta to experience a strong fiscal year. As the company continues to grow its margins by realizing strong revenue growth and decreasing operating expenses, management will continue to return value back to its shareholders. Along with this, Delta's strong brand and efficient operational reliability (first among major U.S. carries) will continue to provide a foundation the company needs to continue to effectively compete against its peers.

Intel Corp.
Ticker: INTC
Current Price: \$32.01
52-Week Range: \$24.87 - \$35.59
Target Price: \$35.83

Company Description:

Intel Corp. is a global leading manufacturer of advanced integrated digital technology platforms, such as microprocessors, chipsets, motherboards, server products, network and communication, wireless solutions, and data centers. Microprocessors represent the largest segment of Intel's products, accounting for most the company's revenue. The company's clients are primarily original equipment manufacturers, original design manufacturers, and industrial and communications equipment manufactures in the computing and communications industries. Intel was founded by Robert Norton Noyce and Gordon Earle Moore in 1968 and is headquartered in Santa Clara, CA.

Top-down Reasoning:

Semiconductors are a core component of electronics and vital inputs of products ranging from devices and systems to solutions and services. Growth in global Internet usage has increase demand for Internet devices, which has resulted in the increased demand for semiconductors as well as a positive impact on Intel. Emerging markets represent a large market opportunity, as increased integration will stimulate the demand for technological products and services. Global per capita income continues to rise, and as a result the industry is expected to see an increase in revenue within the next five years.

Upside Catalysts:

- Moving quickly into emerging mobile technology
- Strength in data centers is supported by its dominate share of the server market
- Strategic acquisitions of companies specializing in specific technologies
- Strong innovation will help in the development of Intel's augmented-reality project

Downside Risks:

- PC segment is likely to see further declines in 2016
- Demand is being offset by international competition and a stronger USD

Investment Thesis:

Intel Corp. is positioned well for steady long-term growth. The company is approaching the point where its gains in servers can offset its declines in personal computers, beyond which it can return to growth. Innovation continues to be a strong characteristic of the company as it adapts to emerging technologies.

Build-A-Bear Workshop Inc.

Ticker: BBW

Current Price: \$12.99

52-week range: \$10 - \$22

Target Price: \$16.50

Company Description:

Build-A-Bear Workshop Inc. is a specialty retailer of plush animals and related products, the only one of its kind to serve the mass customer segment. Its merchandise comprises of approximately 30 styles of stuffed animals and an endless combinatory selection of clothing, shoes, and accessories for the stuffed animals. BBW started the fiscal year with 329 owned stores and 77 franchised stores across the world. BBW has strategic relationships with Disney, DreamWorks Animation and Hasbro. BBW's products are more than just plush toys, but dreams and fantasies that no other company currently offers.

Top –down reasoning:

Our outlook on the macro-economy is not too optimistic moving forward, which does not fare well for the consumer discretionary industry. We estimate consumer spending to grow in line with the ~2.5% growth of overall 2016 real GDP growth, and this lackluster spending have an adverse effect on specialty retailers like Build-A-Bear Workshop.

Upside Catalysts:

- New CEO with a shift in business model toward “building” rather than “fixing,” through continuous improvement
- Strategic expansion of franchises in Europe and Australia will reorient the company toward quality, high margin, and sustainable cash flows
- Major brand refresh including a new store design and updated website leading up to the company's 20th birthday in 2017

Downside Risks:

- BBW's products are premium goods, and the economic headwinds could potentially prove to be detrimental to top-line growth
- Consumer interests change rapidly and the success of BBW's limited products selection could occasionally misaligned

Investment Thesis:

Our analysis of Build-A-Bear Workshop Inc. concludes with a fair valuation of \$16.50 at 14.5x 2017 estimated earnings. Although BBW does not benefit from significant economic tailwinds, we believe that the stock is currently selling at a significant discount to what our interpretation of the company's fundamentals suggest.

MasterCard Inc.

Ticker: MA

Current Price: \$91.91

52-week range: 74 - 102

Target Price: \$95

Company Description:

MasterCard Incorporated is a leading global payment solutions company, and provides a variety of services in support of credit, debit, and related payment programs. 1.418 billion MasterCard-branded cards were issued at the end of 2014, and cardholders spent \$3.281 trillion over the course of 2014, 35% originating in the U.S. and 65% internationally. 69% of the volume was spent on credit, and 31% represented debit and prepaid purchases. MA follows a three-tiered business model as a franchisor, processor, and adviser. MA seeks to grow by further penetrating its existing customer base, enhancing its merchant relationships, maintaining its unsurpassed acceptance, and continuing to invest in its brands.

Top –down reasoning:

Our outlook on the macro-economy is not too optimistic moving forward, which does not illustrate favorable tailwinds for the consumer discretionary industry. Our outlook on the data processing and outsourced services sub-industry is to market perform.

Upside Catalysts:

- U.S. credit and debit purchase volume and processed transactions have exceeded expectations
- MA has been witnessing stability or improvement in all of its key volume and transaction metrics
- High 2016 growth potential due to investments in China and digital security

Downside Risks:

- Global revenue exposure can pose concerns as instability in foreign markets allude to consumption deterioration and unfavorable currency translation
- A shift away from credit cards by consumers would be a systematic concern for top-line growth

Investment Thesis:

Our analysis of MasterCard Inc. concludes with a fair valuation of \$95.00 at 23.1x 2017E earnings. Our primary valuation of MasterCard is based on a long-term discount cash flow model, in which we assume MasterCard will return a significant portion of its earnings to shareholders in the form of dividends and share buybacks. MasterCard has successfully gravitated to its long-run intrinsic value under our possession, and we will be looking to gradually unload our position over the coming months.

Wells Fargo

Ticker: WFC

Current Price: \$48.90

52-week range: \$44.50 – \$58.76

Target Price: \$56.44

Company Description:

Wells Fargo was founded back in 1852 and is currently headquartered in San Francisco, California. It has now grown into one of the largest banks in terms of asset size. At the end of 2015, Wells Fargo reported a growth of 6% in its balance sheet to bring it to roughly \$1.8 trillion. The company also posted diluted earnings per share of \$4.12 in 2015, to continue its year-over-year growth. The bank has also experienced strong deposit growth at a 5% compounded rate over the past five years.

Top –down reasoning:

Financial services have undergone strong regulatory changes since the 2008 recession (Dodd Frank, Volcker Rule, etc.) that have resulted in changes in the corporate strategy of the whole industry. However, the current economic trends of growing investor confidence and anticipated interest rate volatility are poised to drive growth amongst well-positioned firms within the financial services sector. More specifically, Wells Fargo has strategically positioned itself to realize significant gains against its peers as the sector continues to grow in the near future. This is evident through the firm's strong growth in the balance sheet, EPS and deposits.

Upside Catalysts:

- Potential interest rate volatility through rate hikes
- Strong commitment to shareholders (\$12.6 billion in dividends and share repurchases)
- Continue strengthening of the economy that will lead to stronger commercial and consumer sentiment

Downside Risks:

- Low oil prices could skyrocket default rates amongst energy loans
- Potential for future federal oversight regulations and fines
- Negative trends in broad economic data

Investment Thesis:

Wells Fargo's ability to effectively meet regulators' capital requirements and still continue to grow its balance sheet and margins demonstrates its strong foothold within the financial services sector. As the current economic trends continue to boost the industry, Wells Fargo should continue to realize its value and grow faster than many of their financial competitors.

SMIF Managers 2016 – 2017

General Manager

Megan Troy

Growth Fund

Rob Ibarguen
Matt Leto
Stathi Kyriakides
Mike Walsh
Rowland Mayor
Chris Hartman
Sean Walsh
Wanli Zhang

Value Fund

Greg Nodaros
Dodo Stavrev
Han Kwoen
Matt Celona
Callie Reis
John Franceski
Ellie Sullivan
Pep Ruckpanich