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Letter from General Manager

Advisory Board and Faculty Members:

On behalf of my Student Manager class, I want to thank you for giving us the incredible opportunity of being a part of the Student Managed Investment Fund. I know that for many of us the Student Managed Investment Fund has been a long-term goal since our freshman year here. Throughout our four years, the University of Richmond has given so much to each of us and we have all extremely benefited from our Robins School of Business education. The Student Managed Investment Fund, however, gave us even more than what we could learn from a textbook or in a classroom. The Fund gave us the valuable opportunity to learn what it is like to manage a real portfolio and work with a team of analysts. We had the experience of negotiating with each other about portfolio allocations, having our stock pitches critiqued at meetings, and presenting in front of companies on our New York trip. I know that we will all remember the times we had working together and will continue to carry the lessons that we learned from being a part of the Fund into our future finance careers.

We officially took over the Fund on March 31, 2016 and began to analyze our holdings ahead of the summer months. We knew that we would not be able to trade throughout the summer due to regulatory reasons with our summer internships, so we turned to the outgoing managers for advice. The previous 2015-2016 managers had chosen to set no stop losses on their positions throughout the 2015 summer, but the outgoing Growth managers felt they suffered because of that decision. Therefore, our Growth Fund set stop losses for the 2016 summer hoping it would lead to better performance than the Growth Fund witnessed during the prior summer. However, they came back holding a large portion of cash due to the stocks that sold out on stop losses over the summer months and the cash caused a lag on their performance. On the other hand, the Value Fund chose to set stop losses on only a few of their positions over the course of the summer due to the longer time horizon of their value holdings. Overall, we learned the difficulty of being inactive traders and returned in September eager to reanalyze the portfolios.

In September, we flew as a group to New York to meet with alumni from the University of Richmond. We met with a total of ten firms over the course of two days and received valuable advice about the financial markets and investing. We were able to hear from a wide range of investment professionals and learn from their knowledge of portfolio allocation. The trip gave us the opportunity to ask for guidance on our portfolios ahead of the election and future Federal Reserve meetings. Additionally, the New York trip was an extremely inspiring experience for each of us to see the success of the University of Richmond alumni in the investing world. There is a truly special feeling knowing that we are part of an incredibly successful network of passionate individuals that have graduated from this University. We were able to return to campus eager to improve our performance as managers and now have a network of new alumni relationships that I know we will carry with us into our future careers.

We then had our Fall Advisory Board meeting in November ahead of the elections. The meeting was extremely beneficial and we received the advice to prepare our stock watch lists ahead of a Donald Trump or Hillary Clinton election. Both funds also held a large portion of cash during
our Fall Advisory Board meeting and have since reduced those positions to our goal of approximately 5%. Due to the Trump Victory, the Growth Fund purchased BHP Billiton and Kinder Morgan with hopes of further infrastructure spending. The Value Fund chose a different approach and allocated more of their cash into consumer names with the purchase of Dunkin Donuts and Kimberly Clark Corporation. Both Dunkin Donuts and Kimberly Clark led to significant profits for the Value fund with gains of 15.44% and 18.10%, respectively, since the election. The election was overall a learning opportunity and taught us the extensive preparation required by portfolio managers ahead of macroeconomic events.

In addition to managing the portfolio over the course of the last year, the Student Managed Investment Fund managers have also been active participants within the Robins School of Business. We are working on streamlining a relationship between the Junior Analyst class and the Fund managers, so that we can serve as mentors to younger students within the Robins School. We have also been meeting monthly with the Osher Investments Club, a senior citizens investments group that meets on campus. The organization really enjoys hearing about our portfolios and we have an open discussion with them about current market conditions. We have also been working on projects for the Fund to pass on to the new manager class. These include a portfolio optimization model, updated attribution models, and a new investment policy statement. We believe that these projects will lead to a more successful transition period as the new managers take on the funds.

As the 2016-2017 manager class, we would like to thank you all for allowing the Student Managed Investment Fund to be a part of our experience at the University of Richmond. Serving as the General Manager of this incredibly talented group of students has been a true honor and I know we are all extremely grateful to have had this opportunity. We believe we have selected a very strong group of new managers and wish them the best of luck as they take over the fund. Thank you all very much for making the Student Managed Investment Fund possible and for your guidance throughout the past year.

Sincerely,

Megan Troy

Megan Troy
General Manager
Mission Statement

“The University of Richmond’s Student Managed Investment Fund seeks to provide ambitious finance students with the opportunity to enhance their learning of financial markets and valuation techniques through real world portfolio management. The Student Managed Investment Fund seeks academically excellent and motivated students to create a dynamic group of individuals that collectively decide on investment ideas for the fund. The primary purpose of the fund is to deepen understanding of how investment decisions are made. Students utilize a process of idea inception, presentation, and execution of the final investment decision by the group to foster knowledge of investments. Secondary to the Student Managed Investment Fund’s primary objective, the fund seeks to maximize the return on its invested capital through various investment theses.”

-The Student Managed Investment Fund Managers
Overview and History

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

The selection process for managers is a rigorous process that encompasses an application, three formal interviews, and a written research report. All applicants must have a minimum of a 3.00 GPA and have earned at least a B in Investments. The existing managers make all selection decisions with oversight from the SMIF faculty advisors. Once selected, managers are encouraged to take additional courses in the “investment track” including Financial Management, Fixed Income & Derivatives, and Security Analysis & Portfolio Management.

Students manage the fund for a year - beginning and ending in April - and receive one unit of academic credit for their participation in the spring semester.

In the past, SMIF has varied in size from as little as 15 managers to as large as 19 managers. This year, there are 17 managers - 8 value and 8 growth managers, 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. 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 the funds’ success. All SMIF portfolios are completely equity based and are limited to American-traded stocks. The combined assets are controlled by
SMIF as a means to consolidate and synchronize this invaluable learning experience under one umbrella.

While participating in SMIF, managers act as security analysts and portfolio managers. Through numerous different information sources, research on both macro-events and company specifics is gathered as to determine a buy or sell verdict and the price targets. Practical investment knowledge garnered via a New York trip to Wall Street, internships, and a close working relationship with market professionals, enhance the overall educational experience for the SMIF managers.

The SMIF program maintains working relationships with alumni and other professionals in the financial services industry who act as mentors for the managers of the portfolio. Many of these alumni introduce managers to major Wall Street firms during the New York trip. In addition to working with alumni, managers work with faculty advisors from the finance department as well as with an Advisory Board, which consists of investment professionals from the local Richmond community.

Each year, SMIF continues to improve and plays a unique role in the finance curriculum. With a high caliber of academic standards, 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.
SMIF Advisory Board

Rob Allen
Capstone Financial Partners

Nancy Bagranoff
University of Richmond

Perry A. Corsello, CFA
Virginia Retirement System

Christopher Dion
Lowe, Brockenbrough & Co.

John Earl
University of Richmond

Steve Fisher
Virginia Asset Management

Cedric Fortemp
Matrix Capital Markets

Patrick Galleher
Boxwood Partners

Steve Goddard
The London Company

Chris Haberlin
Davenport & Co.

Roberta Keller
Alexis Advisors

Ashley Long
1607 Capital Partners

James Mallory
SunTrust Bank

Jeffrey McNeill
SunTrust Bank

Pat O’Hara
Agincourt Capital Management

Chris Pearson
Davenport & Co.

Matt Rosenthal
Aptimy

Doug Sandler
Riverfront Investment Group

Mark Schlegel, CFA
TFS Capital

John Sherman
Scott & Stringfellow

George Smith
Davenport & Co

Don Steinbrugge
Ramsey Asset Management

Jerry Stevens
University of Richmond

Cody Tafel
Thompson, Siegel & Walmsley

Dennis Tarrant
Davenport & Co

Dan Whitlock
Virginia Retirement Systems

Lonnie Whitlock
Lowe, Brockenbrough & Co.

Brad Young
Altius Associates
SMIF Managers 2016-2017

Faculty Advisors
Dr. John Earl
Dr. Jerry Stevens

General Manager
Megan Troy

Growth Fund
Christopher Hartman
  Rob Ibarguen
Stathi Kyriakides
  Matthew Leto
Rowland Mayor
Michael Walsh
  Sean Walsh
Wanli Zhang

Value Fund
Matthew Celona
  John Franceski
Han Kweon
Gregory Nodaros
  Callie Reis
Dodo Stavrev
Ellie Sullivan
Natalie Swanson
Investment Policy Statement

Investment Philosophy

- The market consistently produces stocks are that are incorrectly valued
- 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 its 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
- The Growth fund is benchmarked against SPDR S&P 500 Growth ETF; The Value fund is benchmarked against the SPDR S&P 500 Value ETF
- Managers may invest long-only in equities contained within the Russell 1000, and during the inactive trading period, the managers may utilize ETFs

Investment Process

1. Top-down sector research reveals potentially attractive areas
2. Depending upon fund, manager uses specific screens for underpriced securities within specific sector. Managers also utilize the attribution models to judge weights and portfolio deficiencies
3. Manager pitches investment thesis to his/her respective fund
4. Fund votes on investment thesis, and must receive a simple majority vote to acquire position.
5. Investment positions are continually monitored and attribution models are managed to track fund performance characteristics

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 constantly assessed by the fund as a whole
  - Investment objective is achieved
  - New information changes the risk/return profile of the investment
  - Stop loss is triggered
  - Potentially volatile investments are accompanied by a stop loss that is determined by the pitching manager. Typical stop losses are placed between 5% and 10% downside
**Investment Horizon**

Upon takeover of the fund, new managers reassess the current holdings and determine 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 2-4 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 of 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 each 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 target 5%, reaching a maximum of 8% except for summer time period
- Target 15-20 holdings per each side of the fund, with a maximum of 25 holdings
- Maximum holding of a stock is 12.50% 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 5% maximum goal. Positions should be evaluated for potential impact of market downturn and whether a stop loss should be set to guard position. Stop-loss should be loose enough to handle market volatility. As of 2016, managers are allowed to utilize ETFs during the inactive trading period.
Economic Overview & Analysis

**U.S. GDP Growth**

The U.S. economy has grown at an average annual rate of 2.1% since the 2009 financial crisis. In the last three months of 2016, growth averaged 1.9%, which marked the slowest growth since 2011. These low numbers are a reflection of the slow recovery from the financial crisis. Economists expect GDP to grow 2.3% both in 2017 and in 2018 as a fiscal stimulus kicks into gear; this number is up from about 1.5% over the past 12 months.

Furthermore, President Trump has optimistic plans and aims to get growth to 4%; these levels haven’t been achieved since the 1990’s. Trump's tax, infrastructure, and regulation reforms are all poised to lift productivity and boost growth. President Trump’s strategy begins by withdrawing from the Trans-Pacific Partnership and making sure that that new trade deals are in the interests of American workers. Trump is also planning on renegotiating the North American Free Trade Agreement. According to the World Bank, the proposed cut in corporate taxes would add 0.3% to GDP growth in 2017 and 0.8% in 2018. As a result, optimism behind Trump’s economic plans, the stock market has rallied to all-time highs due. Furthermore, consumer optimism reached a 15-year high in December.

It is important to note that the Fed does not want faster growth. Fed officials estimate that the economy is already growing near its maximum sustainable pace. Fed officials predicted that the economy would expand 2.1% this year, which is faster than the 1.8% sustainable pace. This culminated in unsustainable growth, which leads to higher inflation, which can cause the Fed to increase rates more quickly.

**Employment**

The unemployment rate has steadily been decreasing. In 2016, the United States averaged 190,000 jobs created per month. This month, job creation was expected to be 190,000 jobs, but actual results exceeded expectations and 235,000 jobs were added. This yielded a national unemployment rate of 4.7%, which is a major improvement from the 10% unemployment rate in 2009. President Trump has promised to create 25 million jobs over the next ten years. Though he has only been in office for a month, with the recent job report, he is on pace to fulfill his promise. This is likely due to the strengthening economy, including high consumer and business confidence and stocks being at record levels.

Wage growth has also begun to increase, with a 2.8% increase in February compared to a year ago. In February, manufacturing added 28,000 jobs and Trump has promised to create better trade deals for the United States, which will only add to this number.

**Interest Rates**

During its most recent meeting on March 15, 2017, the Federal Open Market Committee (FOMC) voted to raise short-term interest rates by .25 points to a range of .75% and 1%. The stock market reacted positively to the interest rate hikes, with the Dow Jones Industrial Average up .5% after the announcement. In the news conference following the decision to raise interest
rates, Janet Yellen stated, “The simple message is the economy’s doing well.” Official forecasts predicted three .25 percentage point increases for 2017, speculating that the short-term rate will rise to 1.375% by the end of the year.

The FOMC cited the tightening labor market, strong economic expansion, and inflation reaching its 2% target as reasons for its decision to raise rates. Janet Yellen stated that the timeline for raising rates “likely will not be as slow as it was during the past couple of years,” indicating that the FOMC will follow through with additional interest rate increases this year. The policy committee voted 9-1 for the interest rate increase, indicating the overwhelming majority in favor of the decision.

The Federal Funds rate was cut in September 2007 after the financial crisis, and by 2008 it was around zero. The FOMC has only raised rates three times since, with the first rate rise in December 2015. A full year later, the Fed raised rates once more in December 2016. Strong employment data and inflation near its target along with record high stock markets and surging consumer confidence reports should promote interest rate increases in the future. Analysts predict that rates will increase to 2.125% by the end 2018, and 3% by the end of 2019.

Inflation

The current inflation rate for the United States is 2.7% for the 12 months ended February 2017; this represents the largest increase since March 2012. Previously, inflation had been so low for so long that it has been ignored as a risk factor. People were resigned to a world of low growth and low inflation. However, all this looks to change as a result of the change in administration. Since the summer of 2016, the headline rate of inflation (including food and energy) has continuously increased. In the three months, starting in August, it rose from 0.83% to 1.64%. This trend is expected to continue throughout the spring, with inflation peaking around 2.4% by the end of Q1 2017; a factor leading to this is the proposed aggressive spending by President Trump’s Administration. The combination of the Fed and Trump policies shows that the current inflationary trend shows no signs of slowing down.

Housing

With the FED seemingly beginning to raise interest rates at a more consistent level, the U.S. housing market stands to be directly influenced by the rate changes. As the overall federal funds rate starts to increase, it trickles down to broader lending rates in the country, making it more expensive for consumers to fund the purchase of homes. However, interest rates are still low relative to historical levels and we remain bullish on the U.S. housing market. According to economic forecast data from Bloomberg, housing starts are projected to increase from ~1.26 million by year-end 2017 to ~1.38 million by year-end 2019, with new home sales following a similar trend, projected to increase from 609,000 by year-end 2017 to 678,000 by year-end 2019. Furthermore, even if increasing interest rates pushes some potential homebuyers out of the market due to increased lending costs, we are confident that those consumers will move into the repair and remodeling market. Economic forecasts from Bloomberg predict building permits to increase from ~1.25 million by year-end 2017 to ~1.31 million by year-end 2019. With home prices rising and interest rates increasing, it will be more expensive and difficult for newer homebuyers to purchase homes, which should have a benefit on the repair and remodeling
segment that attract the consumer not looking to spend the money to purchase a brand new home. Overall, even with interest rates rising, we remain bullish on the broader U.S. housing market with new home starts and permits projected to grow over the next few years as rates remain lower relative to historical levels.

**Consumer Spending**

Consumer spending comprises over two-thirds of the American economy, making it a leading indicator of the overall health of the economy and a valuable measure for investors. According to the Commerce Department, consumer spending increased .2% in January 2017. This estimate missed Bloomberg’s January median consumer spending forecast of .3%, and was lower than the previous month. Spending was much stronger in December, growing .5%. Slow growth in January can be attributed to rising inflation that pushed product prices higher, but strong labor reports should support consumer spending in the coming year.

While consumer spending growth slowed in January, consumer sentiment has remained strong since Donald Trump’s presidential victory in November 2016. According to the Conference Board’s Consumer Confidence index, consumer confidence was recorded at its highest level in February since July 2001, reaching 114.8 compared to 111.6 in the previous month. Consumer expectations for the next six months also rose, increasing from 99.3 in January to 102.4 in February. Recorded expectations about jobs available and present conditions also increased, reflecting the positive view that Americans have about the economy. Another measure of consumer confidence, the University of Michigan Consumer Sentiment Index, reached a 12-year high in January, but decreased slightly in February to 95.7. Richard Curtin, the survey’s chief economist, commented on the reading saying, "To be sure, confidence remains quite favorable, with only five higher readings in the past decade." Republicans seem to have an extremely positive outlook for the future of the economy under Donald Trump’s presidency.

The Bureau of Economic Analysis announced in its most recent report that disposable income after adjustments for inflation decreased .2% compared to its .1% rise in December. The inflation adjusted measure for purchases of durable good decreased .8% in January after it increased 1.8% in December. US retail purchases rose .1% in February, which matched Bloomberg median estimates for the month. This was lower than the .6% increase in January, and only four out of the thirteen major retail categories had positive growth. Electronics and appliance store sales fell 2.8%, while clothing chains dropped .5% and general merchandise store sales fell .2%. Only internet-based purchases, furniture, personal-care products and building material sales increased in the month of February.

**Oil**

Over the past few months, oil prices have been pressured by the growing U.S. Crude supply. In late 2016, the Organization of the Petroleum Exporting Countries (OPEC) pledged to cut their output by 1.2 million barrels a day. Supply has been a main issue, as US producers are flooding the market, which is causing OPEC nations to reevaluate their pledge to cut production. Given the global and domestic forces impacting oil prices and the inability to gauge its direction, we do not have a convicted investment stance on it. Despite our limited exposure, if oil prices drop
dramatically similarly to 2014, it could have a negative impact on our portfolio, from financial service to technology stocks.

**Political Environment**

To some the “Leave” vote in the UK on June 23rd was a shock, coupled with the election of Donald J. Trump to the presidency later in the year the establishment has been shaken to its core. Around the developed world the narrative of globalization is being challenged. In the future, this swing to populist agendas threatens the notion of free trade and international governing organizations. Despite the defeat of Geert Wilders’ populist party in the Netherlands last week, the party has surged to become one of the largest political groups in the country. Marine Le Pen’s French populist party is poised to make significant gains in upcoming European elections, and Merkel came in third in polling in her home state. The European Union is certainly on shaky ground moving forward. All of this political action has been attributed to racism; however, at its core is the strife of millions dealing with automation, outsourcing and a changing workplace that has left the common folk of developed nations behind. This should be a major concern for any politician and anyone involved in financial markets moving forward.

**World Economy**

One of the largest factors that has been a factor in the global economy has been the price of oil, and more specifically actions taken by OPEC. With the recent production cut from OPEC temporarily increasing oil prices, the market then experienced a pullback in the price of oil as U.S. drillers that were forced out of the market at unprofitable low oil prices re-entered when the price initially increased, thus pushing more supply into the market. We remain bullish on the price of oil but continually monitor actions from OPEC and other U.S. drillers.

Furthermore, we have been consistently monitoring actions taken by President Trump with regards to foreign policy, especially as it relates to multinational corporations. More stringent trade regulations with foreign countries could have a severe adverse impact on American based companies doing business abroad. Lastly, the strength of the USD against other currencies is very important in the current global economic state, with uncertainty surrounding Brexit influencing the Pound and a continued low interest rate environment created by the ECB pushing the strength of the Euro lower. However, slightly more hawkish sentiment from Mario Draghi could point to interest rates in Europe increasing in 2018, which will help make the Euro stronger. Continued interest rate hikes by the FED in the U.S. should also help strengthen the USD.
Growth Fund Overview

Growth Fund Philosophy
The SMIF Growth Fund’s investment policy consists of three principles: market inefficiency, a top-down approach, and security relative attractiveness within the industry. We believe that by managing the growth portfolio actively, we can achieve above-market returns - that is, returns in excess of our benchmark S&P 500 Growth Index (NYSEARCA: SPYG). We believe that an optimal investment philosophy first establishes a broad economic outlook that helps us identify industries that have great growth potential and then follows with an analysis of individual securities within those industries, taking into consideration of the security’s relative overall attractiveness among its peers.

Growth Fund Strategy and Tactics
The Growth Fund’s investment strategies and tactics are rooted in the three principles of our investment philosophy as described above. Our Growth Fund managers employ a top-down investment strategy by first conducting thorough analysis on the domestic economy as well as researching global economic factors that may impact domestic industries and specific companies. Some of the economic factors we have been monitoring include: Brexit, U.S. Presidential election, FED’s interest rate hikes and other monetary policy, foreign monetary policy, oil prices, unemployment data, Chinese economy, and U.S. consumer spending.

Our managers identify industries with outstanding growth potential and search for individual securities within those industries that will maximize our risk adjusted returns. The Growth Fund also believes in the relative strength and attractiveness of individual securities within its respective industry. We compare companies in numerous aspects against their competitors and ultimately select the most attractive security overall to our portfolio.

Buy Decisions and Sell Discipline
We generally predict holding periods of 6 to 18 months for our Growth Fund securities. However, we will occasionally make trades that have a quicker turnaround based on specific events such as the 2016 Election. We set 12-month price targets that are used to help maintain sell discipline. At any given time, the Fund holds between 15 and 20 positions. When fully allocated, the managers typically must sell and replace securities; this may affect holding periods as new opportunities arise.

The growth fund evaluates and votes on around two stock pitches a week during the weekly meeting on Tuesday night. If a buy and/or sell decision is made in the portfolio, Growth Fund Manager Wanli Zhang enters the trades Wednesday morning. Voting takes occurs using a simple majority policy. If a situation arises between weekly meetings that requires immediate action, voting takes place in the SMIF Growth Group meeting using the application’s “Like” function. Once again this voting uses a simple majority, and trades are placed as soon as possible following the end of the voting period.
Growth Fund Performance

- As of March 17, 2017, AUM is $247,717.28, up 12.37% from the AUM received from previous managers on 03/31/2016. Our SPYG benchmark is up 13.45%, thus the relative performance against the benchmark is slightly underperforming by 1.08%.
- In order to rebalance the value and growth funds, $15,000 were transferred from Growth to Value and this has been accounted for in measuring fund performance.
- We have 19 holdings currently in our portfolio, with 6 inherited securities.
- Our sector weights are currently: Technology 40.57%, Industrials 16.23%, Consumer Discretionary 10.27%, Healthcare 8.85%, Materials 5.46%, Cash 5.3%, Consumer Staples 4.96%, Energy 4.90%, Financials 3.66%
- We are currently overweight Technology 6.29%, Industrials 4.85%, Materials 3.16% and Energy 2.41%
- We are currently underweight Healthcare 6.62%, Consumer Discretionary 6.60%, and Consumer Staples 2.42%
- Our best performers include: Criteo SA (ADR) +49.60%, Amazon +43.57%, and Applied Materials Inc. +29.91%
- Our worst performers include: Envision Healthcare Corporation -7.01%, Starbucks -6.57%, Spirit Airlines Inc. -5.41%

Portfolio Management

The SMIF Growth Fund is monitored and managed on a daily basis. Apart from the weekly meetings to change positions in our fund portfolio, the team encountered two major events since we took over the Fund: Brexit and U.S. Presidential Election.

Due to the short transition between the inheritance and the summer trading lock-up, the early days of this team’s management were spent evaluating the inherited holdings and establishing a stop-loss policy in the event of summer sell-offs. Fund management set tight stop-losses (between 5.0% and 10.0% of May 9th, 2016 prices). On June 23rd, the Brexit referendum selloff and near immediate recovery triggered a number of the stop-losses. Due to the inactive trading period, the managers were only able to watch as the fund experienced the full downside of Brexit and none of the recovery. The fund was significantly under allocated between June 24th and the middle of September as a result of Brexit.

The fund returned to active management in August of 2016. The fall process was spent reevaluating positions, removing stop-losses, and using the near 40% cash on hand. While there are rules regarding maximum cash on hand, the summer no-trading policy and the Brexit selloff prevented the replacement of a number of securities that were sold June 23rd and 24th. By the election the fund was fully allocated using a top-down approach.

Entering the election, the Growth Fund’s analysis of the polls led the team to believe that the chances of a Trump victory were more probable than perceived in the broad market. Some on the team went as far to say that Trump was going to win due to the fact that poll was oversampled as well as other factors. This led the team to overweight basic materials, energy, and defense holdings prior to the election. As Trump won the election several of the holdings jumped to meet price targets and were sold. The team continues to manage using a top-down approach following the election.
Growth Attribution Model

The growth fund portfolio has slightly underperformed the benchmark since the 2016-2017 managers took over on March 31st, 2016. The fund returned 12.92% versus the benchmark return of 15.64% as of close on March 17th, 2017. This means the manager's active return was -2.72% over the period for the growth fund, this is broken down over the course of the year, the fund’s active return was a result of a -2.23% allocation return and a -0.48% selection return. These nominal returns for the fund are slightly skewed lower as a result of the $15,000 cash transfer from our fund to leave the funds with similar AUM going into the fall. Additionally, the financial models that maintain the attribution model do not account for dividends or interest payments. As a result, this will move the return slightly lower as payments are improperly accrued over the period.

Notably our average cash position was 17.86% over the life of the fund. This is a product of Brexit and the manager’s stop-loss policy over the No-Trading Period. Between May 25th and September 1st the fund returned 0.44% versus a benchmark 4.63%, a -4.20% active return. The fund returned to active trading on September 1st with a 31.53% cash position. This position as a result of Brexit and stop-loss policy is most likely to be the reason the fund underperformed the market over the year. Despite the efforts of the managers to fully allocate the fund as quickly as possible upon return, the average cash position of the fund was 17.86%. This caused a -3.13% active return for the fund, driving the otherwise alpha-positive performance negative over the year.

Once the managers were allowed to actively trade, the fund underperformed a mere -.45% without accounting for the ETF fees, and attribution model’s inability to accrue dividends. During part of this period the fund was still heavily under-invested as managers rushed to invest their Brexit cash position in 7 or 8 attractive stocks. Likely the true “active” performance of the fund was around even with the broader market once uncontrollable circumstances were remedied.

We believe the current portfolio allocation and 18 to 24 month holding period for the fund sets up the rising class of managers to have significant active return as the summer approaches. We would encourage a more liberal stop-loss policy to ensure that the fund does not return with returns skewed down by a 31.53% cash position over a near 2-month period. Having examined results of previous years, we are excited by the fund’s performance and hope that future growth managers can improve on our active results.
Growth Holdings

Apple Inc.
Ticker: AAPL
Current Price: $139.99
Purchase Price: $78.60
52-Week Range: $141.02/$89.47
Target Price: $150.00

Company Description:
Apple, Inc. engages in the design, manufacture, and marketing of mobile communication, media devices, personal computers, and portable digital music players. It operates through the following geographical segments: Americas, Europe, Greater China, Japan, and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment consists of European countries, as well as India, the Middle East, and Africa. The Greater China segment comprises of China, Hong Kong, and Taiwan. The Rest of Asia Pacific segment includes Australia and Asian countries not included in the reportable operating segments of the company. The company was founded by Steven Paul Jobs, Ronald Gerald Wayne, and Stephen G. Wozniak on April 1, 1976 and is headquartered in Cupertino, CA.

Top-Down Reasoning:
The reason why we screened Apple was because of how heavily weighted it was in the benchmark. Apple is a quality name that allows us to have exposure to technology and emerging markets.

Upside Catalysts:
• Improving iPhone demand, boosted by the 7 and 7 Plus, leasing programs as well as easier comparables
• There are more new products and services which have driven growth while also increasing the revenue mix
• Expanding to growing markets, especially places like India
• Expecting new battery and display performances for the next iPhone that is expected to come out in September.

Downside Risks:
• Weak global consumer spending and strong US dollar create headwinds
• Maturing markets, and Android competition in smartphones and tablets.
• Regulatory and legal risk as Apple gains profit share in mobile devices, particularly in China

Investment Thesis:
Apple has the world’s most valuable technology platform with over one billion active devices, and is best positioned to capture more of its users’ time in areas such as heath autos and home. We believe the company is well positioned for the immediate and near future.
Abbott Laboratories
Ticker: ABT
Current Price: $45.19
Purchase Price: $39.00
52-Week Range: $36.76-45.84
Target Price: $50.00

Company Description:
Abbott Laboratories manufactures and sells health care products worldwide. The company’s Established Pharmaceutical Products segment offers branded generic pharmaceuticals to treat a myriad of different ailments. The firm has many segments of which the following are the largest: Diagnostic products, branded generic pharmaceuticals, nutritional products, vascular products, and devices. The firm recently acquired St. Jude Medical to strengthen the devices segment. The firm was founded in 1888 and is headquartered in Abbott Park, Illinois.

Top-Down Reasoning:
The population is very clearly aging as can be shown by a multitude of statistics. Average life expectancy is rising amongst both males and females which is directly correlated with the advancements made in the healthcare industry. Furthermore, individuals typically spend more on healthcare as they become older. Thus, the fund decided that healthcare was a place for sustainable growth. Within the healthcare industry Abbott Labs is innovative and possess both the scope and scale to continue to innovate. The management team views long term sustainable growth through innovation as their business model. The firm also has very consistent and stable streams of revenue to fund the innovation. The firm also yields 2.35% which shows the commitment to shareholders from the management team.

Upside Catalysts:
- Successful research and development
- Success with the current pipeline and addition to the pipeline

Downside Risks:
- Increased regulation in the healthcare industry
- Expiration or loss of patent protection
- Unsuccessful Research

Investment Thesis:
We believe that Abbott Labs operates within a very attractive industry and is positioned for long-term sustainable growth with their current pipeline.
Alphabet Inc.
Ticker: GOOGL
Current Price: $872.37
Purchase Price: $686.00
52-Week Range: $663.28-$853.40
Target Price: $960.00

Company Description:
Alphabet Inc., incorporated on July 23, 2015, is a holding company. The Company's businesses include Google Inc. (Google) and its Internet products, such as Access, Calico, CapitalG, GV, Nest, Verily, Waymo and X. The Company's segments include Google and Other Bets. The Google segment includes its Internet products, such as Search, Ads, Commerce, Maps, YouTube, Google Cloud, Android, Chrome and Google Play, as well as its hardware initiatives. The Google segment is engaged in advertising, sales of digital content, applications and cloud offerings, and sales of hardware products.

Top-Down Reasoning:
The reason why we screened Google was because of how heavily weighted it was in the benchmark. Google is a quality name that allows us to have exposure to technology and emerging markets.

Upside Catalysts:
- Search advertising spend continues to gain share of global advertising budgets, including the US and UK where organic growth appears to be slowing.
- Mobile search advertising continues to take share of online budgets and drive forward Websites growth.
- Investments in video content driving longer-term monetization at YouTube.

Downside Risks:
- Over 90% of the company’s net advertising revenue comes from Search. Search continues to take share of global ad budgets, but growth in the US and UK markets has slowed.
- Improved disclosure of the business segments may not decrease the overall investment activity of the business.
- Deterioration in the advertising market, particularly as the majority of revenue is driven by advertising.

Investment Thesis:
We believe Google Websites growth is likely to surprise to the upside as we believe there are several underappreciated driven by: 1) The mobile search acceleration. 2) The desktop search acceleration seen in 2016. 3) The current Maps monetization that is currently going on.
Company Description:
Applied Materials, Inc. develops, manufactures, markets, and services semiconductor equipment and related spare parts for the worldwide semiconductor industry. The Company’s customers include semiconductor wafer and integrated circuit manufacturers, flat panel liquid crystal displays, modules, and other electronic devices manufacturers. Overall the Company makes machines that make computer chips, flat panel TVs, and solar energy devices. Applied Materials boasts an impressive global presence with a base of more than 30,000 tools and customer engineers stationed in nearly every chip-manufacturing facility across the globe. The Company operates in three segments: Semiconductor Systems, Applied Global Services, and Display.

Top-Down Reasoning:
Production in the semiconductor industry has become increasingly complex as collaboration between equipment providers and chipmakers is projected to rapidly increase in the coming years. Applied Materials competes in almost every key equipment segment while the majority of their competitors specialize in one core competency. As a result, all major chipmakers develop strong relationships with Applied Materials across the multitude of steps within the chip production process. In the manufacturing display industry, Applied Materials should benefit from the shift to phones with OLED displays and thus virtual reality as well. Mobile devices are the path to the mass adoption of virtual reality (Ex. Pokémon Go) and Apple is rumored to be moving to an OLED display for the iPhone 8. Smartphones with OLED displays have low friction and are thus on-ramp to VR for a lot of consumers.

Upside Catalysts:
- Expansive, unique product portfolio & large installed base to weather business cycles
- Scale & Scope
- Strong, expansive R&D budget

Downside Risks:
- Cyclical nature of the semiconductor industry & display market
- Potentially vulnerable to specialized competitors in down market

Investment Thesis:
Applied Materials is one of the growing leaders in the semiconductor segment, which rose 12% on steady demand from manufactures spurred by technology upgrades and capacity expansions in 2016. The stock itself has a lot of upside potential as demand and revenue increased across every major Applied Materials segment in 2016.
Amazon.com, Inc.
Ticker: AMZN
Current Price: $852.31
Purchase Price: $302.98
52-Week Range: $538.58-$860.86
Target Price: $941.63

Company Description:
Amazon.com, Inc. was founded in 1994 and is headquartered in Seattle, Washington. The company engages in the retail sale of consumer products and subscriptions in North America and internationally. It operates through its global online retail business and Amazon Web Services (AWS). The company sells merchandise and content purchased for resale from vendors, as well as those offered by third-party sellers. It also manufactures and sells electronic devices, including kindle e-readers, fire tablets, fire TVs, and echo. Further, it provides compute, storage, database, and other AWS services, as well as fulfillment, publishing, digital content subscriptions, advertising, and co-branded credit card agreements services. Additionally, the company offers Amazon Prime, an annual membership program, which provides free shipping of various items; access to unlimited streaming of movies and TV episodes; and other services. It serves consumers, sellers, developers, enterprises, and content creators.

Top-Down Reasoning:
The trend of going online, mobile and digital has been growing consistently and we believe it will continue to be the case in our society in years to come. Amazon.com, Inc. is the leader in its online retail business, both in the United States and around the world, and it shows no signs of slowing down in the near term. Regarding the cloud computing business, AWS has more capacity than Google, Microsoft and IBM combined, and it is becoming a big driving force of Amazon’s success. Although Amazon missed 2016 Q3 earnings target, it recovered quickly by beating the Q4 target by 16%. We believe Amazon is a fundamentally sound stock to hold with promising growth ahead.

Upside Catalysts:
- Continued growth of online retail market in the U.S. and abroad
- Development of Amazon Prime and its integration with Amazon’s products and offerings
- Continued capacity expansion of its cloud computing service

Downside Risks:
- Economic slowdown leads to less consumer spending
- Competition in cloud computing from IBM, Alibaba and Google

Investment Thesis:
Amazon.com, Inc. is the leader in both the online retail business and cloud computing service it operates in, and both segments have been seeing consistent growth. We believe the company will continue to grow and expand its business in the future.
AMERCO
Ticker: UHAL
Current Price: $372.68
52 Week Range: $307.80-$399.16
Target Price: $458.00

Company Description:
AMERCO is North America’s largest “do it yourself” moving storage operator. They are the holding company for numerous subsidiaries including U-Haul International, AMERCO Real Estate Company, Republic Western Insurance Company, and Oxford Life Insurance. AMERCO operates throughout three segments: Moving and Storage, Property and Casualty Insurance, and Life Insurance. Their primary business is Moving and Storage as they rent trucks, trailers, and storage facilities. Additionally, they offer a moving help service. AMERCO rents its vehicles through a network of 1,700 company operated retail stores and over 19,500 independent U-Haul dealers. As of March 31, 2016, AMERCO’s rental fleet consisted of approximately 139,000 trucks, 108,000 trailers and 38,000 towing devices.

Top-Down Reasoning:
AMERCO’s Moving and Storage businesses are influenced by “Four D’s”: divorce rates, dislocation, death, and downsizing. Currently 40-50% of marriages end in divorce in the United States, positively affecting the industry. In addition, baby boomers make up one third of the US population, and are currently between the ages of 50 to 69. The average life expectancy is 78 years old. There is thus a forecasted increase in number of deaths per year, also positively affecting the Moving and Storage Industry. Customers also have sentimental attachment to their belongings, and would prefer to keep and store their belongings than discard them. The company is also experiencing growth in their insurance businesses.

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 capital expenditure and reinvestment of cash flows

Downside Risks:
- Increased Competition
- Potential to not reach targeted occupancy rates

Investment Thesis:
We believe that AMERCO will experience significant growth in coming years due to our population’s increasing need for storage, moving, and insurance services. Increasing divorce rates, baby boomer deaths, and families downsizing within the marketplace should all lead AMERCO to higher profits.
Alibaba Group Holding Ltd.
Ticker: BABA
Current Price: $105.61
Purchase Price: $92.21
52-Week Range: $73.30-$109.87
Target Price: $126.81

Company Description:
Alibaba Group Holding Limited, through its subsidiaries, operates as an online and mobile commerce company in the People's Republic of China and internationally. It operates online shopping destinations and platforms such as Taobao Marketplace, Tmall, Alibaba.com, and AliExpress. In addition, it offers cloud computing services, including elastic computing, database, storage and content delivery network, large scale computing, security, and management and application services through its Alibaba Cloud Computing platform; Web hosting and domain name registration services; payment and escrow services; and develops and operates mobile Web browsers. The company provides its solutions primarily for businesses. Alibaba Group Holding Limited was founded in 1999 by Jack Ma and partners and is based in Hangzhou, the People's Republic of China.

Top-Down Reasoning:
We like Alibaba because we think the currently undergoing Chinese economic shift into a consumer-based economy from an industrial-based economy will succeed eventually. In addition, with China’s huge overall population, growing middle-class, and Alibaba’s dominance in the Chinese market, we think the consumer base will power Alibaba in its future growth and into an even bigger giant worldwide, just like Amazon of the United States.

Upside Catalysts:
- Unique online retail business model - simply create a platform, but don't hold any inventory
- Alibaba has a diverse business coverage other than retail and cloud service, including online payment platform AliPay and ownership of soccer clubs
- Little turnover in management - founder Jack Ma is still very involved in its daily business

Downside Risks:
- China’s transition to a consumer-based economy will inevitably endure some pain along the way, thus affecting Alibaba’s short-term growth prospect
- Strong competition in its global expansion of its core business

Investment Thesis:
Alibaba Group Holding Ltd., is a dominant force in its core business of online retail and cloud service in China. With the growing middle class population in China and our belief in the eventual success of China’s economic transition, we see Alibaba as a good investment opportunity.
Citigroup Inc.
Ticker: C
Current Price: $60.37
52 Week Range: $38.31-$62.53
Target Price: $73.00

Company Description:
Citigroup Incorporated is a financial services holding company. Their business provides consumers, corporation, governments, and institution with a range of financial products and services. These products and services include consumer banking and credit, corporate investment banking, securities brokerage, trade and securities services and wealth management. As of the year-end 2016, Citigroup services consumers in 97 countries and offered services in over 160 countries and jurisdictions. Global Consumer Banking (GCB) provides traditional banking services to retail banking, including commercial banking. GCB focuses on markets in the US, Mexico, and Asia with 2,649 branches in 19 countries. Institutional Clients Groups (ICG) provides corporate, institutional, public sector and high-net-worth clients with a range of wholesale banking products and services, including fixed income research, corporate lending, investment banking, and advisory services, private banking, cash management, trade finance and securities services.

Top-Down Reasoning:
The increase in interest rates and election of President Donald Trump had a significant impact on our stock selection. Additionally, the market expects interest rates to increase three times this year. While we are uncertain on how many times the Federal Reserve will raise rates, Citigroup’s global presence helps mitigate exposure to volatility in concentrated markets.

Upside Catalysts:
- Additional increases in interest rates
- President Trump push against regulation throughout the financial services industry
- Expansion into new markets (Mexico)

Downside Risks:
- Interest rate hikes are less than anticipated
- Trump deregulation proposals blocked by Congress
- Volatility in global markets

Investment Thesis:
Due to the current macroeconomic conditions, we believe that Citigroup has the potential to offer promising growth within the coming years in the Financial sector. Citigroup is well positioned to benefit from future Federal Reserve interest rate hikes and a movement towards deregulation by a Trump presidency.
Company Description:
Criteo is a global advertising technology company that focuses on the retargeting of display and search forms of digital advertisements. Criteo is well known as a major player in digital advertising exchanges around the world. The firm is considered a pioneer in the industry, gaining that title for its dynamic advertising solutions. Criteo S.A. is a French company currently listed on the NASDAQ exchange. The company is headquartered in Paris, France and was founded in 2005.

Top-Down Reasoning:
Technology is the driver of what is now considered the digital age. The pace of innovation and level of disruption associated with these innovations has become staggering. The growth in technology in the US indicates the growth in the industry, which now accounts for 12% of total employment in the US. In addition, the BLS notes that this 12% of employment accounts for 23% of total output. Furthermore, digital advertising spend in the US has grown roughly 20% year over year from 2012 to 2015 and is expected to reach $72.09B in 2016 (Statista). Thus Criteo operates in a very lucrative industry that is poised to grow at, conservatively, at a very fast rate. No other firm is solely reliant on retargeting that is investible.

Upside Catalysts:
- **Seasonality (Predictability)** - The firm is very aware that most of the retail, travel and classifieds industry business is concentrated into the fourth quarter.
- Predictive Search
- Consistent earning outperformance

Downside Risks:
- Recent Growth does not predict Future Growth
- Changes in Web Browsers or Regulators
- Larger Internet/Technology Companies

Investment Thesis:
Criteo is a rapidly growing business in an industry that is relatively new to digital advertising. The company has a very clean balance sheet and is poised for continued growth with new products such as predictive search and the penetration of Asia.
Envision Healthcare Corporation
Ticker: EVHC
Current Price: $63.90
Purchase Price: $68.72
52-Week Range: $53.72 - $83.27
Target Price: $79.81

Company Description:
Envision Healthcare Corporation, through its subsidiaries, provides various healthcare services in the United States. Following the completion of the merger with former rival AMSURG, the company operates through three reportable segments: Physician Services, Medical Transportation, and Ambulatory Services. They have continued to expand their offerings in various types of markets throughout the country allowing them to contract with health systems and communities including pre-hospital healthcare transportation services, acute care services, and coordinated discharge planning with hospitalists, medical transportation, post-acute provider networks, and more.

Top-Down Reasoning:
According to the U.S. Department of Health and Human Services, in 2015, 14.5% of the U.S. population was 65 and above. That age is expected to reach 21.7% by 2040. Aging is becoming more of a substantial macroeconomic reality for the country as technology and accessibility improves while Americans need more access to medicine and care. Additionally, as a result of concerns over sector valuation amid regulatory scrutiny, certain biotech and health care stocks have continued to struggle in recent years. The broad health-care S&P 500 stock index has fallen by nearly 6.3% since last August. However, it is up more than 3% since the election of President Donald Trump. There are signs of potential growth and profitability for health care stocks going forward with Trump's plans to make it easier for pharmaceutical companies to win regulatory approval over their products, as well as to make American health care more competitive.

Upside Catalysts:
- Aging population & improving technology in drug innovation and development
- Trump & ease of regulations increasing profitability
- Considerable investments to expand service offerings, size, and scope in 2016

Downside Risks:
- Integration failure with aggressive 2016 acquisition diversification strategy
- Competition & Pricing

Investment Thesis:
Due to factors such as an aging population, less government regulation, and the advancement of Envisions size and scope in the healthcare industry, we believe it is a great healthcare stock with substantial upside potential.
Facebook Inc.
Ticker: FB
Current Price: $139.84
Purchase Price: $94.95
52-Week Range: $106.31 - $140.34
Target Price: $159.82

Company Description:
Facebook Inc, incorporated on July 29, 2004, is a social media company. The company builds engaging products that enable 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 WhatApp. As of the fourth quarter of 2016 Facebook has 1.23 billion 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

Upside Catalysts:
- Benefitting from “internet of things,” which is a trend that has led to increased connectivity between electronic devices
- There are currently more connected devices on the planet than humans
- The internet of things is projected to $4 trillion in revenue through 2020

Downside Risks:
- Loss of users or failure to retain user 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 competition

Investment Thesis:
With its growing user base of 1.5 billion monthly users and extremely strong financial performance, Facebook is poised to thrive in the foreseeable future. Industry trends such as the internets 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 from emerging industries such as virtual reality through its subsidiary Oculus.
Company Description:
Kinder Morgan is an energy infrastructure company that operates throughout North America. The company specializes in owning and controlling oil and gas pipelines and terminals. Kinder Morgan is made up of the following segments: Natural Gas Pipelines, CO2, Terminals, Product Pipelines, and their Kinder Morgan Canada business. They are known for being the largest natural gas network company with approximately 70,000 miles of natural gas pipelines. Kinder Morgan is also one of the largest transporters of petroleum products and carbon dioxide. Finally, they also specialize in owning and operating liquid and bulk terminals, which store refined petroleum products, chemicals, and bulk products such as coal and fertilizer.

Top-Down Reasoning:
Infrastructure spending is predicted to be a main goal of the Trump presidency. As a top leader within the energy infrastructure space, Kinder Morgan is in an excellent position to gain from U.S. infrastructure growth. In addition to infrastructure expansion, oil price recovery is a main catalyst for the energy company. Tax and regulatory reform are also predicted to boost the profits of a U.S. corporation, such as KMI.

Upside Catalysts:
- Growth in energy prices and infrastructure spending
- Successful expansion of their Trans Mountain Pipeline
- Finding a partner for 50% of the Trans Mountain expansion capital to cut costs

Downside Risks:
- Recently increased cost estimates for their Trans Mountain Pipeline
- Regulation increases from Canadian or U.S. governments
- Possible dividend cut or lack of further increase due to Trans Mountain expenses

Investment Thesis:
As an industry leader in energy infrastructure, we believe that Kinder Morgan is in a promising position to benefit from infrastructure growth in a Trump presidency, U.S. GDP growth, and further oil price recovery. The Trans Mountain Pipeline expansion also serves as a promising catalyst for the company, especially if they find a JV partner. We believe that KMI is currently at an attractive valuation with promising growth ahead in our current political and macroeconomic environment.
Molson Coors Brewing Co
Ticker: TAP
Current Price: $98.38
Purchase Price: $98.59
52-Week Range: $89.40 - $112.19
Target Price: $114.00

Company Description:
Molson Coors Brewing Company is a producer of beer and other beverage products sold internationally. Molson Coors was founded in 1873 and is headquartered in Denver, CO. Molson Coors is the world’s third largest beer maker, with breweries located in Canada, the United States, and Europe. Some of the company’s top brands include: Coors, Miller, Blue Moon, Keystone, and Jacob Leinenkugel Brewing Company brands.

Top-Down Reasoning:
Employment and wage growth are both increasing. This enables households to regain the ability to add debt, which creates an increase in overall consumer spending. The beverage industry will directly benefit from this uptick in consumer spending, thus adding to its sales growth.

Upside Catalysts:
- Global beer market is expanding at 6% CAGR; dollar sales are up 25% from 2010
- Expanding globally, especially in China (Asia Pacific beer market: 7.28% CAGR)
- Molson Coors’ biggest catalyst for growth stems from its aforementioned acquisition of the final 58% MillerCoors
- Acquisitions of other beer producers to grow global brand

Downside Risks:
- Worldwide consumer taste shift towards craft beers
- Microbreweries are increasing more rapidly than microbreweries
- Competition has become more intense (competitors have ramped up M&A activity)

Investment Thesis:
Molson Coors has potential growth due to its recent acquisitions and efforts to grow its global brand. From a financial perspective, Molson Coors is either in line with, or beating its competitors and industry average in terms of PEG ratio, P/E ratio, and revenue. Furthermore, its ability to pay off debt plays into the company’s ability to grow in the long term. Another thing to note is the Border Adjustment Tax, or BAT, which is a GOP supported tax reform intended to aid U.S. exporters through an import only, value-added tax. Molson Coors Brewing Company has strategically built breweries within each region it distributes in, which allows the company to not be affected by this tax.
Monsanto Company
Ticker: MON
Current Price: $112.76
Purchase Price: $94.04
52-Week Range: $84.79 - $116.04
Target Price: $120.00

Company Description:
Monsanto Company is the face of the modern farm and movement towards scientific agriculture. It offers herbicides, genetically modified seeds, and other agricultural productivity tools to farmers. Most of the firm’s technologies are under patent protection and have built-in kill-functions that make the seeds unable to be replicated. The company was founded in 2000 and headquartered in St. Louis, Missouri.

Top-Down Reasoning:
Climates around the world are changing rapidly as global populations in less developed nations continue to grow rapidly. Despite the US’s current obsession with organic food, the world will require scientific agriculture to meet the demands of a growing population. Monsanto is the face of GMOs and scientific agriculture, and will lead the way as agriculture changes.

Upside Catalysts:
- The merger with Bayer at a price of $128 and multiple options for regulatory approvals provide significant news points that will provide changes in the merger’s probability
- Regulatory changes could make the market for GMOs much larger, as right wing politicians continue to string together victories, regulation should become more lax
- Monsanto spends heavily on R&D and other measures to ensure patent protection and keep high margins on ever more complex products

Downside Risks:
- Should the merger with Bayer get rejected by US, EU, or German anti-trust authorities, the stock’s downside would be high, it would fall to pre-merger levels in the high $90s
- A number of nations around the world have banned GMOs and required disclosure on the product. Any regulatory changes will significantly affect the price of the stock
- The agriculture industry changes rapidly, while Monsanto does have patent protection, the quick changes in the industry could render the patents useless very quickly

Investment Thesis:
As global populations continue to grow and climates become less predictable, the market for scientific agricultural products should continue to expand with Monsanto at the head. With a string of right-wing victories in the developed world, the prospects of the $128 a share takeover much more likely.
Mueller Water Products, Inc.
Ticker: MWA
Current Price: $12.08
Purchase Price: $12.26
52-Week Range: $9.08 - $14.20
Target Price: $15.45

Company Description:
Mueller Water Products Inc. manufactures water infrastructure materials. It’s one of the nation’s largest fire hydrant manufacture and is an industry leader in pipe and valve fittings in the North American market. The firm has been growing rapidly since its incorporation in 2005. While analysts see -2.55% top-line growth this year, 2018 and 2019 are forecast to have 20.90% and 22.94% growth respectively and a long-term growth rate of 12.50%.

Top-Down Reasoning:
The American people became aware of their deteriorating water infrastructure in April 2014 when the Flint Water Crisis began. As we approach the 3-year anniversary of the event the crisis and lack of action should reenter the news cycle and cause water infrastructure to become a core issue in the $1t spending proposal. The industry has come down from its highs after the election, allowing an attractive entry point for the fund.

Upside Catalysts:
- With the Flint Water Crisis approaching, a Trump tweet on water infrastructure could drive this sub-industry substantially higher
- Revenue growth from the implementation of Trump’s $1t spending plan would drive the stock significantly higher

Downside Risks:
- Uncertainty surrounding the Trump spending proposal makes forecasting revenue growth in the industry incredibly difficult, any delay in implementation pushes the company’s growth farther into the future
- The company has substantial operations outside of the US, and manufactures much of its piping elsewhere, this places it in harm's way should the US dollar rise substantially

Investment Thesis:
With Trump’s supposed $1T spending policy and the Flint water 3-year anniversary coming in April, this water systems distribution, measurement and monitoring manufacturer has some key opportunities to have serious price jumps. The company has fallen back to its pre-Trump valuation despite no change in its fundamental outlook. We see the spending plan as bullish for this entire sub-industry.
Qorvo
Ticker: QRVO
Current Price: $67.42
Purchase Price: $55.80
52-Week Range: $43.79-$68.66
Target Price: $70.00

Company Description:
Qorvo is a leading designer, producer, and manufacturer of radio frequency (RF) chips that provide wireless and broadband connection. The company was created through the merger of TriQuint Semiconductor and RF Micro Devices in 2015. The two biggest segments of Qorvo’s business are mobile products and infrastructure and defense products. Their mobile products are used within smartphones, tablets, notebook computers, and fitness wearables. As these devices continue to require more wireless connectivity, the RF chip segment will continue to grow. The infrastructure and defense products are used for wireless connectivity between radio towers, aerospace, commercial, and automotive markets.

Top-Down Reasoning:
Data usage in our world economy is vastly growing. The new trend is towards the Internet of Things, where everyday objects are able to send and receive data. Technology companies are now beginning to invest in driverless cars, newer devices, and smart homes. To take advantage of the Internet of Things trend, we analyzed companies that provide data connectivity. Within the RF chipmaker market, Qorvo’s two main competitors are Skyworks Solutions and Broadcom. We believe that Qorvo is the most attractive because the company offers a range of middle-tier products for a lower price than its competitors. Qorvo is in the best position to benefit from companies focused on cost savings and from technology growth in emerging markets.

Upside Catalysts:
- Transition to 3G/4G phones in emerging markets
- Growth in infrastructure and defense demand in the Trump presidency
- Acquisition of Greenpeak Technologies, which manufactures products for Smart Homes

Downside Risks:
- Delays in the smartphone production by two of their Chinese customers
- Declines in Apple iPhone purchases as consumers wait longer to upgrade to new iPhones
- Competition from Broadcom and Skyworks Solutions, who often provide better quality

Investment Thesis:
As a market leader in the radio frequency market, we believe Qorvo will continue to benefit from the increasing need for wireless connectivity. Qorvo will see increased demand in Internet of Things devices and Infrastructure and Defense products.
Raytheon Co
Ticker: RTN
Current Price: $156.97
Purchase Price: $140.02
52-Week Range: $120.24 - $156.97
Target Price: $172.00

Company Description:
Raytheon Company is a global technology company that was founded in 1922 and is headquartered in Waltham, Massachusetts. Raytheon operates through five segments: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint. Raytheon has operations throughout the United States and serves customers globally.

Top-Down Reasoning:
Raytheon's business is contingent, to a great extent, on the federal defense budget. The current administration under a Republican-led U.S. government is likely to increase defense spending especially in the Air Force and Navy sectors. Furthermore, the proposed reduction in taxes will also augment growth for Raytheon as they will be able to allocate more funds in expanding business operations globally and expand market share.

Upside Catalysts:
- Growth in infrastructure and defense demand in the Trump presidency
- Raytheon will form joint venture with Rheinmetall AG to supply missiles globally
- Demand for Integrated Defense Systems (IDS) and Missile Systems (MS) has been on an increasing trend over the past few years because of the rise of missile threats
- The U.S. government is now asking NATO members increase contributions and spend a minimum of 2% of their GDP on military spending
- NATO nations are not only increasing defense spending on air and water military hardware but also upgrading obsolete software to sophisticated missile detection systems

Downside Risks:
- Q4 2016 missed profit margin estimates due to backlogs and the impending block of arms deal with Middle Eastern countries. Future backlogs and profit margin misses could be risk to downside.

Investment Thesis:
The current environment shows a positive outlook for Raytheon. In fact, Raytheon is trading at its 52-week high, which is due to the change in administration putting more emphasis on military spending. This upward trend shows no sign of slowing down anytime soon, and we see a large upside for Raytheon.
Spirit Airlines Incorporated
Ticker: SAVE
Current Price: $50.83
Purchase Price: $53.82
52-Week Range: $37.17 - $60.40
Target Price: $64.50

Company Description:
Spirit Airlines Incorporated is one of the US’s fastest growing budget airlines. Operating 420 daily flights to 59 destinations, Spirit has expanded rapidly in its flight offerings. Due to the firm's size, it is extremely flexible and able to quickly adapt to supply and demand discrepancies in the US airline space. The firm’s fleet consists of Airbus airplanes: 29 A319s, 50 A320s, and 16 A321s. The firm is projected to have EPS growth of 18.00% in 2018 and a 5-Year CAGR of 7.90%. The firm’s flight options have recently expanded from strictly domestic to North American flight options in the Caribbean and Central America.

Top-Down Reasoning:
Upon examining the attribution model for the growth fund, the management team discovered that the fund was heavily over-exposed to oil. With the combination of oil production by a Basic Materials holding and the funds traditional energy exposure, the fund was over-allocated to the price of oil. Airlines add an easy natural hedge to the position and one of the only options to a long-only equity fund to hedge exposure without selling portions of other positions.

Upside Catalysts:
- Lack of fuel hedging gives Spirit Airlines significant upside should the price of oil fall beyond where it stands today. Should OPEC reach a new deal, or actually enforce their current deal, this would provide upside for oil.
- Spirit has a track record of beating earnings. Further earnings beats and great guidance could send the stock significantly higher.
- From an M&A perspective, Spirit’s rapid growth and portfolio of assets could make it an attractive target at current valuations for a larger, slower growth airline.

Downside Risks:
- Should the US enter recession, the airline as a whole will suffer as people begin to travel less. This risk is mitigated as remaining customers will begin to choose budget airlines
- Should the US economy expand rapidly under the Trump administration, the people who utilize budget airlines like Spirit may go to higher end airlines.
- Lack of fuel hedging is an upside if the price of oil falls, however it presents significant downside if the price of oil rises

Investment Thesis:
Spirit Airlines offers the Growth Fund a natural hedge to oil and gas overexposure in the fund while offering significant upside due to the firm’s rapid growth in earnings and flight offerings over the next decade. The 12-Month price target on the stock is $64.50 based on a weighted average of analyst price targets, a DCF model, and P/E normalization.
Starbucks Corporation
Ticker: SBUX
Current Price: $55.78
Purchase Price: $58.02
52-Week Range: $50.84-$61.64
Target Price: $64.00

Company Description:
Starbucks was founded in 1971 and operates as a worldwide roaster, marketer, and retailer of specialty coffee. The company operates in the Americas, China/Asia Pacific, Europe, the Middle East, and Africa. In addition to offering coffee and tea products at their locations, Starbucks also offers fresh food and snacks. The company also sells beverage making equipment and accessories. The company’s brand names include: Starbucks, Teavana, Tazo, Seattles Best Coffee, Evolution Fresh, La Boulange, Ethos, Frappucino, and Starbucks Refreshers.

Top-Down Reasoning:
Starbucks gives the Growth Fund exposure to the consumer discretionary space with a product that many consumers see as a necessary staple to their daily life. Starbucks has revolutionized the coffee business by creating a brand that is known worldwide for their coffee products. Starbucks has an extremely strong loyalty program with devout customers who only buy their daily coffee from the company. Starbucks is also one of the few companies that has successfully transitioned into the digital marketing space with their mobile application that allows for faster ordering, quick pick-up, and redemption of Starbucks loyalty points.

Upside Catalysts:
- Increased investment in technology to enhance the customer experience
- Expansion into international markets
- Movement towards healthier food product offering, such as gluten-free breakfast sandwiches and egg bites.
- Growth in their cold beverage business should continue to pick up throughout the summer months

Downside Risks:
- Economic downturn could lead consumers to choose cheaper coffee locations
- Growing popularity of local roasteries and cafes over “chain” coffee locations, such as Starbucks

Investment Thesis:
Due to their investments in technology, strong customer loyalty, and product expansion plans, we believe that Starbucks is well-positioned to continue growing profits. Their expansion into international markets should also drive growth in the coming years.
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 Value 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 31, 2016, the value fund has returned 12.96% while our benchmark, the SPDR S&P 500 Value Index, is up 16.97%. Our portfolio currently trails the benchmark by -4.01%.
- Our portfolio sector weightings are as follows: Financials 21.76%, Health Care 17.95%, Consumer Staples 12.81%, Information Technology 10.57%, Energy 10.39%, Consumer Discretionary 9.44%, Utilities 8.37%, Cash 4.90%, Industrials 3.82%, Telecommunication Services 0.00%, Materials 0.00%, Real Estate 0.00%
- Our top performing holdings have been BAC, JPM, HAL, GWB, and WFC.
- Our worst performing holdings have been FE, NKE, CVS, and STZ.
- We are currently overweight in the following sectors: Health Care 5.70%, Cash 4.90%, Information Technology 3.47%, Consumer Discretionary 2.58%, Utilities 2.55%, and Consumer Staples 1.13%.
- We are currently underweight in the following sectors: Financials -5.41%, Industrials -4.71%, Telecommunication Services -3.99%, Materials -3.39%, Real Estate -1.75%, and Energy -0.71%.

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. 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 ‘17 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 a company’s annual report and financial statements. In complement to our understanding of the industry and market conditions, we normalize a company’s P/E, P/B, P/S, and P/CF against the S&P 500 over the last 7 years to obtain an implied share price that helps us determine if the company is over or undervalued compared to the market. We then compare a company’s P/E, P/B, P/S, and P/CF to its closest competitors and obtain a second implied share price to help us determine if the company is over or undervalued compared to its industry. Using these two numbers in conjunction with the 12-month price target of analysts, we are able to arrive at our 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.
**Portfolio Management**

We have 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 Attribution Model**

The value portfolio has been performing slightly below the benchmark since the portfolio was placed under our management in the spring of 2016. However, through the past three months, the portfolio has appreciated significantly and closed the gap even smaller. The value portfolio has overall return of 12.96% (Fri 3/17). The benchmark appreciated 16.97% (Fri 3.17) over the same period, resulting -4.01% performance to the benchmark SPYV. The Value portfolio's current deviation of active return from the benchmark is -6.67% according to the attribution model. This -6.67% active return can be attributed to -4.40% of allocation effect and -2.27% of selection effect. We identified this active return from the attribution model can be misleading, since we received $15,000 cash from the growth fund over the summer vacation, and the value fund managers did not get to deploy the capital according to the investment thesis.

Our stock selection within the industrial sector has proven to be the most detrimental component of our performance, followed by our decision of holding cash over 2016 Q3. The majority of our positive returns can be attributed to our stock selection within the financial, energy, and information technology sectors.

During the time the portfolio was under our management, our allocation decision has been a large contributor in explaining our portfolio’s performance, but events like Delta’s computer system failure and Wells Fargo’s internal control scandal enlarged the selection effect to be significant. On top of that, volatile market condition of presidential election made it more difficult to timely control the allocation of capital and selection of equities.

The investment thesis underlying our current industry weights properly reflect our current outlook going forward. Our portfolio’s performance and attribution result signal that over allocation of cash and stock selection in the industrial sector is causes for alarm, but upon reevaluating our holdings, we have made proper changes to reflect above signals. As a typical value investment horizon is 2-4 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

**Amgen, Inc.**
Ticker: AMGN
Current Price: $168.61
Purchase Price: $147.96
52-Week Range: $133.64 - $181.93
Target Price: >$190

**Company Description:**
Amgen is an independent biotechnology medicines company that discovers, develops, manufactures and markets medicines for grievous illnesses. The company focuses solely on human therapeutics and concentrates on innovating novel medicines based on advances in cellular and molecular biology.

**Top-Down Reasoning:**
In order to give the Value Fund more healthcare expose, we screened for healthcare names that were currently undervalued and offered promising upside potential. Amgen offers both exposure to healthcare and the growing field of biotech. The company’s promising pipeline should lead them to higher profits in the coming years.

**Upside Catalysts:**
- Increased R&D YoY in last 4 years
- Plenty of drugs in the pipeline currently in Phase II and Phase III of FDA approval including Erenumab (migraine), Romosozumab (osteoporosis), Repatha (clogged arteries), Kyprolis (cancer)
- Undervalued relatively to the S&P 500 historically and to its competitors in the Biotech & Large Pharma industry on P/E, P/CF and EV/EBITDA
- Intrinsic valuation with conservative assumptions including adjusting a lower EBITDA margin, higher WACC and 2% terminal growth - 20% upside on EBITDA terminal multiple and 19% on Perpetuity Growth method
- Potential win in Regeneron v. Amgen court case
- EU approval for Humira biosimilar

**Downside Risks:**
- Potential regulation from new administration (Amgen CEO met with Trump in Jan 17)
- Potential sanctions resulting from Regeneron Amgen case
- Failure of Phase II & Phase III drugs in the pipeline

**Investment Thesis:**
Undervalued biotech leader in the large pharma industry that also seems to be undervalued intrinsically. As a biotech stock, it will probably be volatile, but should have significant upside especially after it suffered significantly during the potential Clinton win jitters pre-election.
Bank of America Corp
Ticker: BAC
Current Price: $24.86
Purchase Price: $15.65
52-Week Range: $12.05 - $25.80
Target Price: $29.00

Company Description:
Bank of America Corporation, through its subsidiaries, provides banking and financial products and services for individual consumers, small and middle-market businesses, institutional investors, large corporations, and governments worldwide. It operates through four segments Consumer Banking, Global Wealth & Investment Management, Global Banking, and Global Markets.

Top-Down Reasoning:
A gradual increase of the interest rate (Fed target rate) will allow for companies in the sector to attain larger spread to maximize profit. The increase in interest rate also signals the market with the economic confidence for the future. Increasing foreign direct investment will afloat the US equity prices while increasing transactions and M&A activities in US capital markets. $322B flow into US capital market in just three-quarters of 2016. Trump’s pro-US economy policies resulted in US dollar appreciation. Strengthening US macroeconomic statistics such as 4.7% US unemployment rate in February 2017, 2.5% inflation rate from CPI, and increasing consumer confidence index are justifying 16% growth of S&P 500 during the past year. Trump administration’s deregulation of the banking industry will provide more opportunities for the banking industry. Also, the corporate tax cut will improve the profitability of the companies and stimulate US capital market activities.

Upside Catalysts:
- Commercial loan portfolio growth
- Higher interest rates increase spread
- Continuous cost saving activities improving bottom line

Downside Risks:
- Uncertainty of Trump administration policies
- Downturn in the economy

Investment Thesis:
We understand banking industry experienced phenomenal growth in the last three months. However, based on the top-down analysis, we still believe BAC has more room to grow through improving the profitability of the general banking industry.
Cognizant Technology Solutions
Ticker: CTSH
Current Price: $58.56
Purchase Price: $52.23
52-Week Range: $45.44 - $63.23
Target Price: $62.63

Company Description:
A multinational IT services firm, headquartered in the U.S., Cognizant Technology Solutions Corp provides digital consulting and operations services to its customers. Its main segments include Financial Services, Healthcare, Manufacturing, Retail and other. Cognizant helps to guide companies in their digital initiatives. Some of its main offerings include integrating systems, building data warehouses, outsourcing R&D and customer relationship management. Cognizant’s footprint spans across the globe and was named the fourth most admired IT services company by Fortune Magazine (2015). Its main competitors include Infosys, Wipro and Tata.

Top-Down Reasoning:
The demand for being digital is here. For a company like Cognizant, one with experts in this very process and focused on providing exceptional customer service, the window is open for it to benefit from this demand. Another top down consideration is the globalized nature of IT, which is continuing to increase. There are a large amount of underpenetrated markets that now have the ability to become digital and need the assistance to get there.

Upside Catalysts:
- Increasingly digital world
- Continued upside in Financial Services and Healthcare
- Global diversification to emerging markets

Downside Risks:
- Cyber security attacks
- Strict industry regulation
- Highly competitive market, with companies quickly becoming irrelevant

Investment Thesis:
With Cognizant’s recent changes, due to activist investors, it has already started to recover from underperformance as a result of its low margins and inefficient capital allocation. Most notably, Cognizant just announced a share repurchase of $1.50 billion shows further steps to improve previous underperformance. Finally, its focus over the next 5 years on underpenetrated geographies, R&D and cloud technologies will continue to help Cognizant’s steady growth.
**Constellation Brands**  
Ticker: STZ  
Current Price: $161.75  
Purchase Price: $159.18  
52-Week Range: $142.40-$173.55  
Target Price: $190.00

**Company Description:**  
Constellation Brands is a leading producer and importer of wine, beer and spirits. The company operates in the United States, Canada, Mexico, New Zealand, and Italy. Constellation Brands owns more than 100 brands of wine, beer and spirits. Their wine brands include Robert Mondavi, Clos du Bois, Franciscan Estates, Blackstone, and Arbor Mist. Popular beer brands include Corona, Modelo Especial, and Pacífico. They are currently ranked as a top three beer company within the U.S. Their spirit offerings include Black Velvet Canadian Whiskey, Svedka Vodka, and Paul Masson Brandy.

**Top-Down Reasoning:**  
Within the consumer staples sector, wine, beer, & spirits companies offer products with low price-elasticity and steadily growing demand. A recent trend within the beer space has been towards craft and import beers. Constellation Brands specifically is known for having a strong portfolio of craft brands, especially since their recent purchase of Ballast Point. In addition, they own the number one import beer, Corona. Their portfolio of Mexican beer and wine also benefits from the fast-growing Hispanic population within the United States. The company also diversifies themselves with a variety of wine and spirits brands. These favorable trends should lead the alcoholic beverage leader to further growth in the coming years.

**Upside Catalysts:**  
- Growth in popularity for craft and import beers  
- Boost from recent acquisitions of Ballast Point, Prisoner Wine, and Meiomi Wine  
- Recent sale of their Canadian wine business will allow them to focus on higher margin product lines

**Downside Risks:**  
- Potential headwinds from a Trump border adjustment tax  
- Cost of building new mega-brewery in Mexicali, Mexico  
- Further Mexican border control policies by Trump

**Investment Thesis:**  
As an industry leader in the alcoholic beverage industry, we believe Constellation Brands has promising growth potential within the consumer staples sector. We believe the company will benefit from favorable demographic trends towards craft beer and maintain growth with their diversified portfolio of brands.
**CVS Health Corporation**  
Ticker: CVS  
Current Price: $78.88  
Purchase Price: $77.73  
52-Week Range: $69.30-$106.67  
Target Price: $88.74

**Company Description:**  
CVS Health Corporation is an integrated pharmacy health care provider. The Company's offerings include pharmacy benefit management services, mail order, retail and specialty pharmacy, disease management programs, and retail clinics. The Company operates drugstores throughout the U.S., the District of Columbia, and Puerto Rico. CVS is the second-largest chain of retail pharmacies, and the second-largest pharmacy benefit manager (PBM), with an estimated 89 million lives under its umbrella this year.

**Top-Down Reasoning:**  
An increased demand from aging baby boomers and expanded health care coverage following the implementation of the Affordable Care Act in 2014 are positive catalysts for the drug retail industry. Margins are expected to benefit from increased generic drug purchasing power and improved sales leverage. The number of people 65 or older is expected to grow 18% in just the next five years—and 38% through 2025. This demographic utilizes more than double the number of prescriptions of the under-65 population, creating a long-term tailwind for the industry. Increased utilization, combined with growth in specialty medications, is expected to fuel a 6% rise in prescription expenditures annually over the next decade. While we do not expect any near-term adverse impacts from potential changes in health care legislation in 2017, longer-term demand would be restricted if people lose coverage.

**Upside Catalysts:**  
- CVS, currently with a tax rate of 39.53%, would drastically benefit from tax reform  
- Purchase of Omnicare, with its complementary specialty pharmacy platform.  
- Acquisition of $1.9 billion for 1,672 pharmacies located within Target stores.

**Downside Risks:**  
- A repeal of the Affordable Care Act could leave 24 million Americans without coverage.  
- Labor market deteriorates and consumer disposable income declines.

**Investment Thesis:**  
As the second-largest chain of retail pharmacies, CVS is well-positioned to benefit from an aging population in the United States. As the acquisitions of Omnicare and Target’s pharmacy business synergize, the Company will be able to provide more services to a growing number of customers. We expect the company’s strong management to confront any potentially adverse effects of health care reform under the new administration.
Company Description:
Danaher Corporation (Danaher) designs, manufactures and markets professional, medical, industrial and commercial products and services. The Company operates through four segments: Life Sciences, which offers a range of research tools that scientists use to study the basic building blocks of life, including genes, proteins, metabolites and cells, in order to understand the causes of disease, identify new therapies and test new drugs and vaccines; Diagnostics, which offers analytical instruments, reagents, consumables, software and services; Dental, which provides products that are used to diagnose, treat and prevent disease and ailments of the teeth, gums and supporting bone, and Environmental & Applied Solutions, which consists of various lines of business, including water quality and product identification. As of December 31, 2016, Danaher's research and development, manufacturing, sales, distribution, service and administrative facilities were located in over 60 countries.

Top-Down Reasoning:
Hospital and infrastructure equipment will always be crucial to everyday life. Danaher is an industry leader in these fields and as the population ages, their products will become more and more necessary to older populations needing more screening and diagnostic tools.

Upside Catalysts:
- Strong R&D
- Diversity of businesses
- Strong growth at Diagnostics and Life Sciences segments

Downside Risks:
- Execution of past acquisitions
- Higher expectations of this stock compared to this group are already priced in

Investment Thesis:
We believe that Danaher has strong management and is in a good spot for M&A. We also believe that they have a good portfolio of companies and assets that allow it to participate in economic growth while being able to withstand a market correction or lower quarter. Additionally, their strong R&D will allow for strong organic growth.
Dunkin Brands Group Inc.
Ticker: DNKN
Current Price: $56.53
Purchase Price: $48.97
52-Week Range: $41.29 - $56.77
Target Price: $57.00

Company Description:
Incorporated on November 22, 2005, Dunkin’ Brands Group, Inc. is a franchisor of quick service restaurants (QSRs) serving coffee, baked goods, and ice cream. The company franchises its brick-and-mortar stores as Dunkin’ Donuts or Baskin-Robbins. The Company operates through four segments: Dunkin’ Donuts-U.S., Dunkin’ Donuts International, Baskin-Robbins-U.S., and Baskin-Robbins International. As of December 31, 2016, the Company had 12,258 Dunkin’ Donuts points of distribution, of which 8,828 were in the United States and 3,430 were international, and 7,822 Baskin-Robbins points of distribution, of which 5,284 were international and 2,538 were in the United States.

Top-Down Reasoning:
Dunkin’ Brands Group provides interesting access into the consumer discretionary market while removing some of the risk. By using the franchising model, Dunkin’ Brands is able to control how franchisees operate their shops, while also collecting a monthly rent despite the profits of each individual store. This means that Dunkin’ is sheltered from fluctuations of individual store profits. Dunkin’ Brands has also been able to aggressively expand its businesses globally without the cost of new construction or operating expenses.

Upside Catalysts:
- Dunkin’ is working to upgrade and enhance aging products by adding new menu items
- Strong economy and forecasts for increased consumer spending opens doors for new shops to be franchised
- Dunkin’ Donuts has a major growth opportunity within the United States, currently only in 32 states thus far

Downside Risks:
- Highly leveraged, a substantial risk is the interest paid on debt
- Dunkin’ Brands’ interest coverage ratio is a minuscule 3.42x (industry average is 23.31x) so it is only generating enough earnings to cover its interest expense three times over.

Investment Thesis:
Dunkin’ Brands Group Inc. has the potential to become a global brand, and will likely continue with its trend of increased earnings for the long-term. The combination of experienced management and expansion opportunities overseas make DNKN a very attractive investment for the long term. With declining coffee prices, DNKN will become increasingly profitable over the next few quarters.
**FirstEnergy Corp**
Ticker: FE
Current Price: $31.36
Purchase Price: $33.51
52-Week Range: $29.33-$36.60
Target Price: $34.00

**Company Description:**
FirstEnergy Corp. is a holding company. The Company is engaged in holding, directly or indirectly, all of the outstanding equity of its principal subsidiaries. Its segments include Regulated Distribution, Regulated Transmission, Competitive Energy Services (CES) and Corporate/Other. As of December 31, 2016, the Regulated Distribution segment distributed electricity through the Company's 10 utility operating companies, serving approximately six million customers, and purchased power for its provider of last resort (POLR), standard offer service (SOS), standard offer service (SSO) and default service requirements in Ohio, Pennsylvania, New Jersey and Maryland. The Regulated Transmission segment transmits electricity through transmission facilities owned and operated by American Transmission Systems, Incorporated (ATSI) and Trans-Allegheny Interstate Line Company (TrAIL). The CES segment primarily supplies electricity to end use customers through retail and wholesale arrangements.

**Top-Down Reasoning:**
FirstEnergy Corp. gives the value fund exposure to the utilities sector. Utilities have the potential to run under Trump due to less regulation. We believe that FirstEnergy is well positioned to take advantage of growth in the utilities space.

**Upside Catalysts:**
- Strong dividend
- Has not participated in the rally as much as other companies

**Downside Risks:**
- Drop in the price of natural gas
- Increased fracking regulations would hurt the companies cash flows
- Project execution risk

**Investment Thesis:**
We believe that FirstEnergy is undervalued in comparison to peers and they have relatively lower risk compared to many peers. They focus on regulated transmission and less on generation, allowing them to have steady and growing cash flows year over year. We also like the significant dividend that First Energy provides.
Great Western Bancorp Inc.
Ticker: GWB
Current Price: $45.39
Purchase Price: $32.05
52-Week Range: $26.43 - $45.13
Target Price: $48

Company Description:
Great Western Bancorp is the bank holding company for Great Western Bank, a regional bank with over 170 branches in attractive markets across nine states: South Dakota, Iowa, Nebraska, Colorado, Arizona, Kansas, Missouri, North Dakota and Minnesota.

Top-Down Reasoning:
Great Western Bank Corp. gives the Value Fund Exposure to a smaller financial company that is well positioned to benefit from upcoming interest rate hikes.

Upside Catalysts:
- “Clean” pre-Dodd-Frank traditional bank with great ROTE higher than peers. Non-SiFi bank, not subject to harsh capital regulations
- Majority of exposure to South Dakota, Nebraska, Iowa (85% of portfolio)
- Specializes in agricultural loans, which means it is in a way backed by the US government
- Operates in a mostly short-loan environment
- Should benefit from FED rate hike giving the loan portfolio more margin room
- Operates in a mostly short-loan environment
- Organic loan growth very strong last quarter at 10% (annualized)
- GWB has a level of tangible common equity that is about in the middle of the pack (around 8.3% TCE ratio), this elevated ROTE is not accomplished via excess leverage but rather is delivered to shareholders as a result of GWB being among the more efficient banks in the industry

Downside Risks:
- Potential impact from agricultural slowdown – bank has a natural hedge because if there is a hit on “grains”, it lowers input costs for “protein farmers”
- Efficiency slippage
- Very aggressive M&A strategy with management stating that acquisitions rank high among its capital priorities to the extent where GWB may pay a significant premium for a transaction that could cause significant TBV dilution

Investment Thesis:
Lower volatility US-only traditional bank with good management that is positioned well for rate-hike increase benefits but could also sustain organic growth in a lower-rate environment
Haliburton
Ticker: HAL
Current Price: $50.78
Purchase Price: $49.49
52-Week Range: $33.26-$58.78
Target Price: $62.00

Company Description:
Halliburton Company is an American multinational corporation, and one of the world’s largest oilfield services companies. 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 across two divisions: Drilling and Evaluation, and Completion and Production.

Top-Down Reasoning:
When the global oil market became drastically oversupplied by increased outputs from OPEC members, as well as the United States becoming nearly self-sufficient in oil production, it provided an opportunity to enter the oilfield services space at lower prices. The recent oil production cut reached by OPEC helped boost the price of oil, which had a direct positive correlation on the oilfield services industry. Even though the OPEC production cut has led to more U.S. drillers to re-enter the space and has pushed oil prices lower, ultimately oil prices should rebound as the OPEC cut continues.

Upside Catalysts:
• Maintained equipment and technology during oil oversupply and lower prices
• Well positioned for a recovery in North American market
• Strengthened positioning in the Middle East

Downside Risks:
• Lower oil prices could cause less expansion with HAL equipment and technology
• Exposure to U.S. land market

Investment Thesis:
Even though the price of oil has fallen since the OPEC production cut, we believe the price of oil will rebound as U.S. producers are pushed out of the market again and HAL will be able to capitalize on new equipment and technology expansion by drillers.
Company Description:
HCA Holdings Inc. is the largest for-profit hospital operator based in the United States. It currently owns and operates 171 general acute care hospitals and operates 118 outpatient health care facilities as well as other patient care delivery settings and clinics located in 20 states and the United Kingdom.

Top-Down Reasoning:
The hospital industry is positioned to profit from the demographic of 65-and-older Americans, predicted to be the fastest growing population over the next decade. HCA has its highest concentration of hospitals in Florida, which gives it an advantage over its competitors allowing it to capitalize on this aging population that drive hospital admissions and increase revenue. In addition, HCA has large market share in the Sun Belt, allowing access to urban markets. A strengthening economy and strong labor reports are positive indicators for the industry, since more individuals will be employed and either receive insurance coverage from employers or be able to afford private health insurance. Overall, hospital stocks have experienced volatility in the past year from uncertainty over healthcare reform with Donald Trump’s election victory. Some argue that the repeal of the Affordable Care Act would leave many Americans without health insurance and increase bad debt.

Upside Catalysts:
- The strengthening labor market could reduce uninsured patients and reduce bad debts
- The aging population should increase patient volume and increase HCA’s revenue per admission
- Large market share to protect pricing power through contracts with suppliers

Downside Risks:
- Government decisions to repeal the Affordable Care Act could leave 14 million Americans without health insurance which would increase bad debt
- Loss of revenue if Medicare and Medicaid are repealed, which comprise 25% of HCA’s revenue

Investment Thesis: HCA is well positioned to take advantage of an aging population, given its geographic footprint with high exposure to Florida and Texas which comprise about 47% of its consolidated revenues. As a leading hospital operating company with strong year over year admissions and solid revenue growth, we believe HCA will withstand volatility from healthcare reform in the coming year.
Intel Corporation
Ticker: INTC
Current Price: $35.27
Purchase Price: $33.53
52-Week Range: $29.50 - $38.45
Target Price: $40.01

Company Description:
Founded in 1968, by Gordon Moore and Robert Noyce, Intel has grown to be the world’s largest semiconductor chipmaker. Its products create the basis for the technology of today and the future. Intel’s scale is global, with offices and employees in 6 continents. Overall, Intel covers many product lines, customers and segments, all within the technology industry and more specifically, Intel’s core business lays in the semiconductor industry. Its main competitors include Samsung, Advanced Micro Devices, Texas Instruments and Qualcomm.

Top-Down Reasoning:
The semiconductor industry is in a unique place as technology becomes an integral piece of everyday life and business. As the economy continues to grow, the industry can achieve organic and inorganic growth. As our world becomes connected through technology, semiconductors will play a huge role in this being possible. One of the biggest technological trends going forward will be the Internet of Things. The Internet of Things surrounds the use of sensors embedded in objects and are linked through wired and wireless networks, a large window of opportunity for semiconductor chips. Another opportunity is the increase in production and demand of electronics in Asia-Pacific region. This changing demographic will have a benefit on the semiconductor industry, as the demand for their products will increase.

Upside Catalysts:
• Growth in cloud computing and Big Data
• Innovation as foundation of business model
• Introduction of self-driving cars into market

Downside Risks:
• Cyclicality of semiconductor industry
• Continued downward trend of PC market
• Increased international regulation putting strains on flexibility of business

Investment Thesis:
Intel has established itself as an industry leader and innovator, setting the foundation for continued growth. Intel has entry into autonomous cars, smart homes and drones and continues to look for faster and smarter chips with its commitment to research and development.
JPMorgan Chase & Co.
Ticker: JPM
Current Price: $90.68
Purchase Price: $63.57
52-Week Range: $57.05 - $93.98
Target Price: $98.00

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 gradual increase of the interest rate (Fed target rate) will allow for companies in the sector to attain larger spread to maximize profit. The increase in interest rate also signals the market with the economic confidence for the future. Increasing foreign direct investment will afloat the US equity prices while increasing transactions and M&A activities in US capital markets. $322B flow into US capital market in just three-quarters of 2016. Trump’s pro-US economy policies resulted in US dollar appreciation. Strengthening US macroeconomic statistics such as 4.7% US unemployment rate in February 2017, 2.5% inflation rate from CPI, and increasing consumer confidence index are justifying 16% growth of S&P 500 during the past year. Trump administration’s deregulation of the banking industry will provide more opportunities for the banking industry. Also, the corporate tax cut will improve the profitability of the companies and stimulate US capital market activities.

Upside Catalysts:
- Improving credit card service line’s profitability
- Higher interest rates increase spread
- Continuous cost saving activities improving bottom line

Downside Risks:
- Uncertainty of Trump administration policies
- Downturn in the economy

Investment Thesis:
JPMorgan is the leader of the banking industry. JPM also prove its efficient management by successfully saving 3% of costs every year. We believe based on the above macroeconomic environment, JPM can continuously improve the profitability of the business as going forward.
Kimberly Clark Corp  
Ticker: KMB  
Current Price: $133.26  
Purchase Price: $112.84  
52-Week Range: $111.30-$138.87  
Target Price: $135.00

Company Description:  
Kimberly-Clark Corporation is a global health and hygiene company that manufactures and provides consumer products. The Company’s products include diapers, tissues, paper towels, incontinence care products, surgical gown, and disposable facemasks. Kimberly-Clark’s products are sold in countries around the world, with 50% of its sales in North America.

Top-Down Reasoning:  
Consumer confidence continues to trend higher thanks to, in part, modest improvement in the employment market. We expect wage growth to improve slowly, although remaining at low levels. The household products sub-industry remains very competitive, given maturity in developed countries, and with numerous companies vying to capture market share in developing markets. However, economic growth and changing lifestyles in developing international markets will likely provide secular growth opportunities. We expect emerging markets to see rising demand for packaged products that consumers could previously not afford.

Upside Catalysts:  
- Long-term favorable demand trends include greater attention for hygiene, a recent pick-up in birth rates among improving economic growth and an aging population, boosting demand for adult care diapers.
- The predictable demand for these kind of products, as well as stable and high margins
- Long term the company can improve revenue/earnings growth through cost controls, product development, acquisitions and focusing on emerging markets.

Downside Risks:  
- Stronger dollar
- Price competition in China
- Subdued consumer spending in Brazil

Investment Thesis:  
Kimberly-Clark’s long-term sales growth is likely to be helped by expansion in non-traditional categories and the company's focus on emerging markets, as well as innovation that will allow it to raise effective prices. A greater attention for hygiene and an aging population will maintain the consistent demand for Kimberly-Clark’s products, making it a safe position in the portfolio especially in times of economic or market uncertainty.
Masco Corp  
Ticker: MAS  
Current Price: $34.66  
Purchase Price: $33.65  
52-Week Range: $29.11-$37.38  
Target Price: $40.50

Company Description:
Masco Corporation designs, manufactures, and distributes branded home improvement and building products globally. The company operates under four reportable segments: Plumbing Products, Decorative Architectural Products, Cabinetry Products, and Windows and Other Specialty Products. The company’s portfolio of branded products include: BEHR® paints, DELTA® faucets and bath fixtures, KRAFTMAID® cabinets, and MILGARD® windows and doors. The company is headquartered in Michigan and employs approximately 26,000 people.

Top-Down Reasoning:
Even though interest rates have started to gradually increase, they are still low relative to historic levels, encouraging a bullish sentiment toward the housing industry. However, if the increase in interest rates does push potential new home construction buyers out of that market, there is a strong chance that those consumers will be pushed into the repair and remodeling segment of the market. Furthermore, as homeowners are beginning to treat houses as investments, it will further benefit the repair and remodeling segment of the industry. Masco has exposure to both the new home construction and repair and remodeling segments of the housing space, and stands to benefit from overall bullish sentiment in the industry.

Upside Catalysts:
- Continued push towards houses as investments to boost repair and remodeling
- Strong brand recognition
- Expansion within the broader home construction market

Downside Risks:
- Increasing interest rates push too many consumers out of the market
- Continuation of trend toward multifamily housing
- Poor execution in recovering cabinet segment

Investment Thesis:
With a strong portfolio of branded home improvement and building products, MAS should continue to improve in-line with the broader housing market. With the majority of the company’s revenue coming from the repair and remodeling market, MAS stands to benefit from an interest rate hike, which could push customers out of the new home construction market and into the repair and remodeling market.
NextEra Energy Inc.
Ticker: NEE
Current Price: $130.23
Purchase Price: $118.50
52-Week Range: $110.49-$131.98
Target Price: $135

Company Description:
NextEra Energy, Inc. (NEE) is a holding company. The Company is an electric power companies in North America and, through its subsidiary NextEra Energy Resources, LLC (NEER) and its affiliated entities, is the generator of renewable energy from the wind and sun. NEE also owns and/or operates generation, transmission and distribution facilities to support its services to retail and wholesale customers, and has investments in gas infrastructure assets. Its segments include FPL and NEER. Florida Power & Light Company (FPL) is a rate-regulated electric utility engaged primarily in the generation, transmission, distribution and sale of electric energy in Florida. NEER is a diversified clean energy company with a business strategy that emphasizes the development, acquisition and operation of long-term contracted assets with a focus on renewable projects. NEER owns, develops, constructs, manages and operates electric generation facilities in wholesale energy markets.

Top-Down Reasoning:
Renewable energy is a growing trend within the United States and worldwide. NextEra Energy, Inc. gives the value fund exposure to renewable energy and also adds to our exposure of utilities.

Upside Catalysts:
- Wind and solar business is industry leading
- Well Managed company
- Strong dividend
- Trades at a premium to other utilities due to superior reputation

Downside Risks:
- Risk of Florida not expanding as quickly as possible
- Major outages due to hurricanes or other environmental factors
- Unfavorable natural gas prices

Investment Thesis:
We believe that NextEra is well positioned in the renewable field and is an industry leader in the Utility sector. They are able to consistently hit earnings and not have blips in the radar like many other energy companies. We think Florida Power and Light is a strong state utility and will continue to grow as Florida continues to grow at a pace faster than the rest of the country.
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.

Top–Down Reasoning:
U.S. consumers have begun to utilize the surge in disposable income due to low energy prices. Throughout 2017, record levels of liquidity, improved buying power of the dollar, and additional energy savings are projected to drive promising consumer activity. 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 complemented with the new trend of athleisure (wearing athletic clothing in a setting other than working out), which is also projected to boost revenues.

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 Under Armour and Adidas experiencing high growth.
- Significantly exposed to FX fluctuations, which could be an issue with the strengthening dollar.

Investment Thesis:
NIKE is well position in the consumer discretionary marketspace to take advantage of trends such as the increase in disposable income, a U.S. 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.
Valero Energy Corporation
Ticker: VLO
Current Price: $68.90
Purchase Price: $56.21
52-Week Range: $46.88-$71.40
Target Price: $70.00

Company Description:
Based in San Antonio, Texas, Valero Energy Corporation is an independent petroleum refining and ethanol producing company that owns and operates 15 refineries in the U.S., Canada, and UK. The company had a combined throughput capacity of approximately 3.1 million barrels per day as of December 31, 2016. The company produces conventional gasoline's 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. The company also owns and operates 11 ethanol plants in the U.S. with a combined production capacity of approximately 1.4 billion gallons per year.

Top-Down Reasoning:
With Valero’s refining segment accounting for the majority of the firm’s revenue, the price of oil, from a macroeconomic perspective, will have the greatest impact on the firm. The drastic oversupply of oil in the global market that was created by large OPEC member outputs and the U.S. becoming nearly self-sufficient in product, pushed the cost of oil significantly lower. This directly benefitted oil refiners, such as Valero, as the firm’s input costs are lowered. Even though the recent OPEC production cut pushed oil prices higher temporarily, there are now more U.S. drillers re-entering the market pushing oil prices lower again. With Valero being the largest independent U.S. refiner, the company should continue to benefit if oil prices remain low.

Upside Catalysts:
- Low oil prices in the market allow Valero to decrease input costs and improve margins
- Large refining capacity in the Gulf Coast to help support margins
- Acquired 100% ownership in Parkway Pipeline to help optimize U.S. oil transportation

Downside Risks:
- Increasing oil prices will increase input costs and cut into margins
- Lower demand for exports
- Potential oversupply of refined product in the broader market

Investment Thesis:
VLO is a leading independent oil refiner, with a great FCF yield, and will be able to leverage its scale to counteract the negative impact of potentially higher oil prices, which increase VLO's input cost for refining, while maintaining throughput levels.
Wells Fargo & Co
Ticker: WFC
Current Price: $58.67
Purchase Price: $56.35
52-Week Range: $43.55 - $59.99
Target Price: $60.50

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 management services.

Top-Down Reasoning:
A gradual increase of the interest rate (Fed target rate) will allow for companies in the sector to attain larger spread to maximize profit. The increase in interest rate also signals the market with the economic confidence for the future. Increasing foreign direct investment will afloat the US equity prices while increasing transactions and M&A activities in US capital markets. $322B flow into US capital market in just three-quarters of 2016. Trump’s pro-US economy policies resulted in US dollar appreciation. Strengthening US macroeconomic statistics such as 4.7% US unemployment rate in February 2017, 2.5% inflation rate from CPI, and increasing consumer confidence index are justifying 16% growth of S&P 500 during the past year. Trump administration’s deregulation of the banking industry will provide more opportunities for the banking industry. Also, the corporate tax cut will improve the profitability of the companies and stimulate US capital market activities.

Upside Catalysts:
- Internal control stabilizes from the fake account scandal
- Interest rate increase for the larger spread
- Largest commercial loan holder of the industry

Downside Risks:
- Uncertainty of Trump administration policies
- Downturn in the economy

Investment Thesis:
Wells Fargo has a strong fundamental business model of commercial loans. Because of the past year’s scandal, WFC did not experience a full appreciation of past three months. Based on the top-down analysis, we identified that WFC can appreciate further going forward.
SMIF Managers 2017-2018

**General Manager**
João Galbier

**New Managers**
Nelson Baetjer  
Benjamin Barad  
Doug Butman  
Ryan Byrnes  
Alec Cover  
Connor Flanagan  
Anthony Feraino  
Tyler Grosse  
Raymond Kanyo  
Oliver Merison  
Kieran O’Connor  
Luke Perda  
Haley Preschutti  
Kylie Regan  
Elizabeth Sullivan  
Cade Von Gal