



USC Marshall

School of Business

Center for Investment Studies

Undergraduate Student Investment Fund

Annual Report 2014

Annual Commentary

The 2014 USIF class inherited a strong portfolio in a bullish broader market. The class believed that the market recovery was built on a strong foundation and maintained a cautiously optimistic outlook. The managers kept in mind macroeconomic factors such as the potential tapering of the FED's stimulus program (QE III) coupled with political uncertainty regarding the fiscal budget and slowing growth in China and other emerging markets. Looking back over the fund's year, we saw gradual tapering of QE III, a temporary government shutdown in October, and the Ukraine-Russia crisis. Despite these developments, the equity markets continued their bullish trend with continued recovery in real-estate markets and a reduction in unemployment rates.

The USIF class worked to identify attractive long-term investment opportunities within the S&P 500. This task was progressively more challenging, with the index crossing its historic high of 1,570 and having an elevated P/E of 17.89. The 2014 USIF portfolio returned 24.28% for the year compared to the S&P 500's 21.86% return. We are very proud to have outperformed the benchmark by 2.42% and raised our AUM to over \$900,000. The portfolio, as per our mandate, is two-thirds actively managed and one-third passively managed. The actively managed portfolio garnered returns of 27.63%. The active portion of the portfolio was developed through several rounds of stock pitches and two rounds of rebalancing. The passive portion of the portfolio returned 17.55% and is comprised of ETFs recommended by the completion fund committee. We used the Fama-French Three Factor Model to pick ETFs that help balance the portfolio risk-profile. A combination of risk management and extensively researched stock picking allowed the fund to outperform our benchmark on a risk-adjusted basis. The USIF Portfolio Sharpe Ratio of 2.02 compares favorably to the S&P 500 Sharpe Ratio of 1.82.

During one of our first fall first class sessions, we proposed to underweight the Telecommunication Services, Utilities, Industrials, and Consumer Staples sectors, citing multiples in these sectors, which were well above historical averages. We agreed to overweight Health Care and Information Technology, which we believed would lead the economic recovery. Information Technology, Financials (neutral), and Health Care were the sectors with the greatest positive contributions to our portfolio.

The companies with the greatest positive contribution to our portfolio's return were Chipotle, St. Jude Medical, and Wells Fargo. The weakest performers during our holding period were Mattel, International Business Machines, and Verizon Communications. Throughout the year, the class has actively monitored and assessed the companies by selling stocks that have achieved their price targets and replacing them with stocks the class believed would generate better returns.

As a class, our objective was to leave the incoming fund managers with a robust portfolio that we perceived would maintain a significant upside potential. We believe the current portfolio will assist the incoming fund managers in navigating through the uncertain economic environment. As the markets continue to achieve higher valuations, we recommend the class of 2015 proceed with a high degree of prudence.

Thank you,
USIF Class of 2014

Financial Highlights

USIF Fund Performance Summary

USIF Fund	% Change Since 3/31/13
USIF Active Portfolio (Current Holdings)	27.63%
USIF Total Portfolio	24.28%
S&P 500 Total Return Index (Benchmark)	21.86%

Fund Assets Summary

Date	Market Value of Assets
3/31/2013	\$726,226.78
6/30/2013	\$756,197.40
9/30/2013	\$785,628.46
12/31/2013	\$870,720.35
3/31/2014	\$902,584.54

Top Five Equity Holdings

Stock	Ticker	Market Value	% of Total Portfolio
Deere & Co.	DE	\$29,510.00	4.77%
JPMorgan Chase & Co.	JPM	\$29,080.09	4.70%
Wells Fargo	WFC	\$28,898.94	4.67%
Quanta Services	PWR	\$28,339.20	4.58%
Chipotle Mexican Grill, Inc.	CMG	\$26,698.35	4.31%

Sector Performance Summary

Sector	Portfolio Contribution	% of Total Portfolio
Consumer Discretionary	3.08%	12.51%
Consumer Staples	0.51%	9.54%
Energy	2.53%	10.10%
Financials	3.96%	15.70%
Health Care	4.27%	14.74%
Industrials	1.11%	9.34%
Information Technology	4.99%	19.52%
Materials	0.23%	3.27%
Telecommunication Services	0.20%	2.16%
Utilities	0.15%	2.46%