Consumer Discretionary Sector Analysis

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
AZO	AutoZone, Inc.	105	$ 422.73	$371.78	$419.15	6.54%
GT	The Goodyear Tire & Rubber Co.	2595	$ 22.45	$16.14	$17.62	78.11%
M	Macy's Inc.	600	$43.27	$41.90	$44.45	4.54%
TWC	Time Warner Cable Inc.	315	$ 119.52	$95.63	$103.96	16.18%
WYNN	Wynn Resorts Ltd.	370	$ 158.01	$141.34	$149.15	26.25%

Sector Summary

The Consumer Discretionary sector within the S&P 500 from March 28th to September 30th returned 19.03% while being weighted within the S&P 500 at 11.91%. The Consumer Discretionary sector of the D'Artagnan Capital Fund is was at market weight in comparison to its benchmark of the S&P 500, 11.91% respectively on 9/30, and outperformed its benchmark within the S&P500 by 2.56%, returning 21.59%. The Consumer Discretionary sector within the D'Artagnan Capital Fund has outperformed its benchmark, the S&P 500, because of both asset allocation, overweight in comparison to the benchmark, as well as security selection, the equities held within the Consumer Discretionary sector. The top performer in the sector, which was also the top performing equity within the portfolio by double the next closest, was Goodyear Tire & Rubber Company. The Goodyear Tire & Rubber Company returned 78.03% over the six month period. The Consumer Discretionary sector also had another top performer of the portfolio coming in at number four was Wynn Resorts at a semiannual return of 28.07%. The worst performer within the sector was McDonald's which experienced a -1.56% return over the six months.

Sector Snapshot:

Recommendation: Overweight

- Sector Return: 22.69%
- Benchmark Return: 15.13%
- Sector Weight: 11.81%
- Benchmark Weight: 11.90%
- Sector Beta: 1.12
- Benchmark Beta: 1.03

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S&P 500 v. S&P Consumer Discretionary v. S&P Casino & Gaming

S&P 500 v. S&P Consumer Discretionary v. S&P Department Stores

S&P 500 v. S&P Consumer Discretionary v. S&P Tire & Rubber

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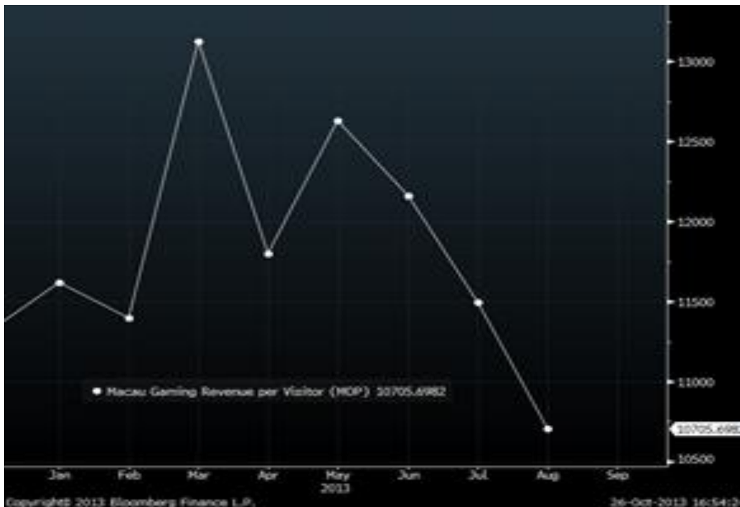
Industry Analysis

Casino and Gaming

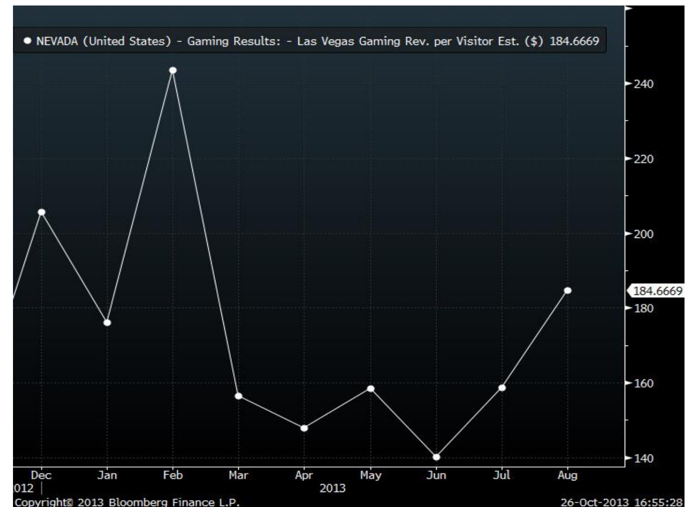
The casino and gaming subsector of the Consumer Discretionary sector has had some volatility but has had considerable growth over the semi-annual period. The subsector has grown 22.8% in six months, compared to that of the Consumer Discretionary sector index of 14.4% and the S&P 500 index with just 7.2% growth. This can be attributed to many factors, but the leading factor is the rise in revenue per visitor. Macau's revenues were slightly down in revenue per visitor; however it was not enough to see a drastic change in the industry.

The growth comes from Las Vegas; Las Vegas has had one of its best starts to a year since 2007 in regards to revenues per visitor increasing organic growth. Other indicators to that caused this growth were is that traffic has increased along with table game wages. Both of these indicators are what driver non-organic growth. In regards to further non-organic growth for casino and gaming is online gambling and Macau. Macau has been talked about as the place to be for a couple of years now, and with the recent data of Macau traffic along with table wages. For US casino and gaming Macau is the place to be, but one main factor exist in being there, the government. The Macau government demands "taxes", which is a nice way of saying bribes. If you can get into the Macau market, grow looks very promising for the non-organic side of the business if you are able to get in. The outlook for the sector continues to be Macau, online gambling, and the potential of a gambling scene in Massachusetts. This growth looks promising for the sector going forward with a promising outlook this subsector could grow even high than it did in the last six months.

Wynn resorts will prove substantial organic growth when it comes out with earnings for Q3 on October 24th. Looking forward, some concerns arise with continued regulator issues with this subsector. The outlook comes from the Macau barriers of entry, which will continue to be difficult to penetrate along with continuing issues surrounding the online gaming portion of the industry. However we remain bullish for the Casino & Gaming subsector; the above reasons are only a few of the many of the outlook of the Casino & Gaming subsector, which looks to continue its outperformance of the consumer discretionary sector and the S&P 500.



Macau Gaming Revenue per Visitor

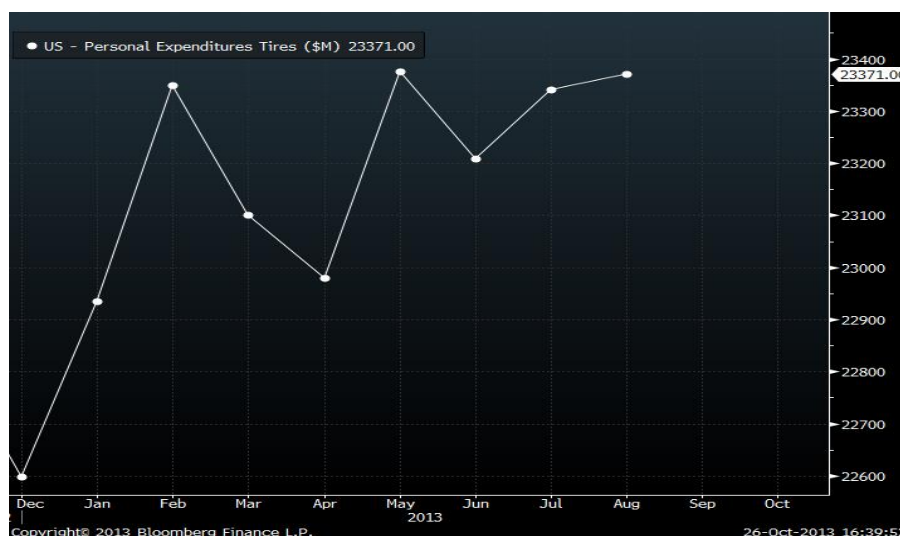


Las Vegas Gaming Revenue per Visitor

Tire & Rubber

The tire and rubber subsector of the Consumer Discretionary sector has had great growth over the semi-annual period. The subsector has grown 78.0% in six months, compared to that of the Consumer Discretionary sector index of 14.4% and the S&P 500 index with just 7.2% growth. This is due to the two factors, the increase in car sales as well as personal expenditures for tires. Personal expenditures on tires have increased by 700 million dollars since the beginning of 2013 leading to higher sales on the retail side of the business. The whole side sales of tires, has seen a large increase due to car sales being at record highs in the US, sales volumes on car sales globally has also increased since the beginning of the year leading to higher demand across all of the subsector. With these indicators, the tires and rubber sector is the top performing subsector over the last six months.

We remain extremely bullish on the outlook of the tire & rubber subsector. Our bullish outlook is a result of continued outperform of index due to future car sales domestically and globally, and personal expenditures on tires. Future car sales domestically and globally are creating explosive demand for tires from manufacturers. Also contributing to the bullish outlook is US personal expenditures on tires since the beginning of the year. This bullish outlook for the subsector can also be attributed to the subsector looking for its best performance since 2007. This outlook will be reflected when Goodyear Tires & Rubber comes out with its Q3 earnings report on October 29th.



U.S. Personal Expenditures Tires

Broadcasting & Cable TV

The broadcasting and cable television subsector of the Consumer Discretionary sector has had substantial growth over the semi-annual period, growing 14.4% with plenty of volatility, compared to that of the Consumer Discretionary sector index of 14.4% and the S&P 500 index with just 7.2% growth. This subsector has experienced plenty of skepticism due to all of the uncertainty that lies ahead with television providers. Television providers is where the uncertainty lies because of all of the new services coming out that provide network television, Apple, Google, and Amazon. New research has found that the days of packaging television stations are soon going to become a thing of the pat. For this industry to continue to prosper and grow, innovation of the network providers, Direct TV, Time Warner Cable, and must find new ways of providing the product to the customer. Recent news that came from the Time Warner Cable and CBS undisclosed contract leads the industry to believe that margins are getting squeezed from the network providers and that all the power lies within the mass media production companies, CBS, NBC, and FOX, example.

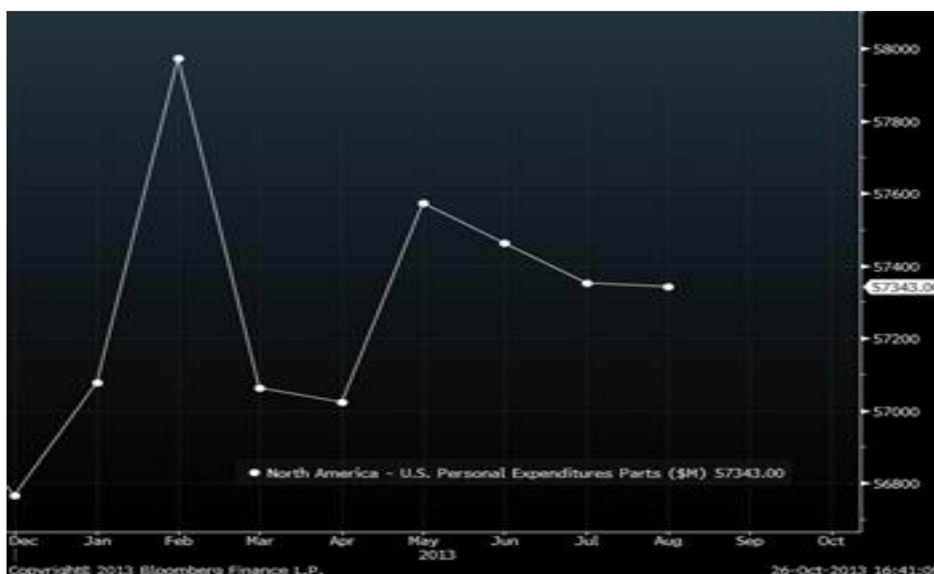
The outlook for this subsector in regards to the providers looks uncertain. A neutral outlook in our eyes continues due to such high uncertainty, this uncertainty lies within how the providers will innovate. No innovation will lead to a takeover by the new services of Apple, Google, and Amazon being able to provide a service that is less expensive with more options. Innovation or a change in how the service is provided could lead to growth. If the providers are able and willing to provide channels and networks at an a la carte style, then the outlook can be promising. Time Warner Cable's Q3 earnings are released on October 31st which will give indication of what margins will look like for the industry going forward due to the CBS and TWC deal that was finalized in the beginning of September.

Auto Parts Retailers

The auto parts retailer of the Consumer Discretionary sector has had great growth over the semi-annual period. The subsector has grown 15.0% in six months, compared to that of the Consumer Discretionary sector index of 14.4% and the S&P 500 index with just 7.2% growth. The graph below gives the trend on the US Personal Expenditures on Auto Parts YTD. This graph shows that there was not exponential growth in personal spending, which relates to why the subsector is not considerably outperforming the index. With a great beginning to the summer in personal expenditures on auto parts, the later part of the summer brought the subsector back down. However, auto parts retailers came in at or above estimates due to the unexpected spike in expenditures at the beginning of the summer.

The Auto Parts Retail industry already has very few competitors, but the competitors could be getting even smaller with Advanced Auto Parts looking to buy General Parts. This acquisition by Advance Auto Parts would knock AutoZone out as the largest auto parts retailer in the US. If the acquisition goes through for General Parts to be bought out by Advanced Auto Parts, AutoZone could see some effects from this through its margins. Margins could decrease due to even fewer competitors and all fighting to retain market share by lowering prices.

The outlook to the industry looks to be stable/neutral going forward. The big growth in the beginning of the summer was great but the expenditures on auto parts look to be leveling off and retaining normal month over month expenditures. AutoZone in Q3 came in as expected, along with its competitors, in revenue but beat on EPS by nine cents per share.



U.S. Personal Expenditures Parts

Department Stores

The department stores subsector of the Consumer Discretionary sector has had lack luster growth over the semi-annual period. The subsector has only grown by 2.0% in six months, compared to that of the Consumer Discretionary sector index of 14.4% and the S&P 500 index with 7.2% growth. This lack luster growth from Department stores can be accredited to some seasonality, but the majority of this has come from the continued uncertainty of JC Penney. The JC Penney uncertainty has plagued the subsector and the outlook out JC Penney and the subsector depends on the holiday season approaching. The upcoming holiday season from JC Penney is rumored to be the make it or break it time for them, a good holiday season with high traffic and high sales volume could lead to a JC Penney resurgence and create stability. If the holiday season does not bring growth and higher volume, then JC Penney could very easily go out of business which would be detrimental to the entire subsector.

The outlook for department store subsector is very unstable and has a cause for concern. The subsector really depends on a strong holiday season, if the holiday season is strong than we could see growth and some stability come to this subsector. However, a risk arises with a holiday season that is off, as above, creating uncertainty that needs to be further analyzed. Our strategy is to closely monitor retail sales as they come in along with JC Penney data as we approach the holiday season as well as see first result of the holiday season to make a decision on the industry as a whole, to potentially liquidate our position in Macy's.

Sector Outlook

The Consumer Discretionary sector outlook into the future is good. The outlook of the sector continues to improve; consumer spending along with consumer confidence within the next six months continues to look strong. With housing prices going up and car sales rising, the outlook on the very sensitive economic subsectors within the sector continue to look strong and continue to improve. With more individuals planning on buying a car in the next six months, a strong position in Ford and Goodyear Tire are very nice compliments to the sector outlook. A strong retail sales season will be a driving indicator of how the economy perceives the outlook of the overall broader economic outlook. With a strong holiday season sales, retail stocks could be a strong gain, but can be perceived as risky. With a global economy improvement people are spending more money on riskier such thing, ie gaming. Gambling continues to be a hot topic and what the next big thing will be, assumptions continue in Macau and internet gambling as the opportunities for growth, which is where Wynn continues to show an exceptional presence in both of the growing opportunities within the gaming industry. My recommendation going forward for the Consumer Discretionary sector is to continue to keep the sector at market weight in comparison to the benchmark. I recommend this market weight due to the positions the D'Artagnan Capital Fund holds within the subsectors of thee Consumer Discretionary sector as stated above. I believe the potential for growth in very stable subsectors as with the automobile industry provides exponential growth as it has shown in this semi-annual report. I think that in the long run volatility of a few subsectors, department stores and gamin, lead to greater risk in which the subsectors will continue to be monitored and revalued for the possibility of greater and less risky growth elsewhere.

Trades

McDonald's Corp. (MCD)

The D'Artagnan Capital Fund sold its holdings in McDonald's Corporation on September 27th, 2013. This was based in part on the slowing of the corporation's growth recently, as it began to join the rest of the IEO (informal eating out) segment of the economy in experiencing shortcomings. Additionally, uncertainty with the state of the national minimum wage is very relevant to a company like McDonald's which employs low-wage employees, and healthy eating trends combined with new mandatory nutrition fact publishing have made it difficult for companies like McDonald's Corporation to compete.

Ford Motor Company (F)

Ford Motor Company is an auto manufacturer and distributor of vehicles, parts, and accessories worldwide. 1,700 shares of Ford were purchased on October 22nd. The fund saw many growth opportunities for Ford and wanted to capitalize on the current market price seeing that it was undervalued. If Ford is able to capture a larger share of the market in Asia Pacific then they will see a dramatic spike in revenues. Ford has also been able to capture more of the European market share and with the launch of an upscale line they will be able to increase revenue yearly. In addition, Ford has 15 new models currently under testing that will help increase the value of this stock when they are released. Another positive sign is that Ford's Fusion is catching up to the Camry (which has been the leading selling car in the U.S. for 11 years) in total annual unit sales in the U.S. and if it continues on its current track will be the most bought care by 2014-2015. The fund felt as though Ford had several growth opportunities for the future and this will help create value for the fund's portfolio.

Holding Analysis

AutoZone, Inc. (NYSE: AZO)

Price at Sept. 30: **$422.73**

Percentage of Portfolio: **2.37%**

Percentage of Sector: **20.07%**

AutoZone, Inc. (NYSE:AZO) engages in retailing and distributing automotive replacement parts and accessories. Their next earnings date is December 4th. AZO's Quarter four earnings were released in September and sales beat estimates by .222%. They also beat EPS by .7645%. Their sales increased by 6.3% over the prior year. Net Income increased by 9.3% in the fiscal year 2013. During the fourth quarter AutoZone opened 69 stores in the U.S., 21 stores in Mexico, and two stores in Brazil. Under AZO's stock repurchase program, they repurchased 1.3 million shares of their common stock in the fourth quarter and a total of 3.5 million shares in the 2013 fiscal year. The auto parts subsector outperformed the entire sector in the past six months, which was helped by a spike in expenditures on auto parts in the beginning of the summer. With not much competition, AutoZone was able to capitalize on this increase in spending, which led to them beating sales estimates in the fourth quarter. Expenditures on auto parts are expected to level off but AutoZone continues to be a good performer for the fund and as the U.S. leader in retail and distribution of auto parts and accessories it will continue to create value for the portfolio.

The Goodyear Tire & Rubber Company (NYSE: GT)

Price at Sept. 30: $22.45

Percentage of Portfolio: 3.11%

Percentage of Sector: 26.34%

The Goodyear Tire & Rubber Company develops, (NYSE:GT) manufactures, distributes, and sells tires and related products and services worldwide. On July 30th GT released quarter two results and beat sales estimates by .184%. They also beat EPS by 58.66% at $.76. GT had their highest segment operating income for the second quarter, at $428 million, in the company's history. Their sales were down from $5.2 billion to $4.9 billion. They were able to benefit from a cheaper mix of raw materials, higher tire unit volumes, and higher product demand. In the past six months tire sales have gone up due to an increase in car sales. The tire and rubber subsector of the Consumer Discretionary sector has continued to outperform the entire sector due to this dramatic increase in demand. This has led to significant performance for GT since April. With car sales expected to continue to increase, GT will continue to be a strong holding for the fund.

Macy's, Inc. (NYSE: M)

Price at Sept. 30: $43.27

Percentage of Portfolio: 1.39%

Percentage of Sector: 11.74%

Macy's, Inc. (NYSE: M) is a retailer that sells apparel, cosmetics and other consumer goods in 45 of the 50 U.S. states, as well as Washington, D.C., Puerto Rico and Guam under the Macy's and Bloomingdale's brands. Macy's, Inc. is a member of the S&P 500 Retail Department Store Index along with Kohl's Corporation (NYSE: KSS), J.C. Penney Company, Inc. (NYSE:JCP), and Nordstrom Inc. (NYSE: JWN). On April 1st, 2013 Macy's stock was priced at $41.63 per share, giving the stock price a 3.42% appreciation over the period. The firm issued two $0.25 dividends over this period, increasing their quarterly dividend from the previous year's $0.20 per quarter. In the first quarter of Macy's fiscal year which ended on May 4th, the company announced earnings of $0.55 per share which marked an improvement over 2012's first quarter during which the firm earned $0.43 per share, making year over year revenue growth in the quarter 28%. For the quarter ending August 3rd Macy's posted earnings of $0.72 per share, also an increase from 2012 during which Macy's, Inc. earned $0.67 per share in the second quarter, or 7% growth over the last year's second quarter. Macy's, as well as the market, expected earnings of $0.78 per share in the second quarter earned which caused the firm to refine their projected annual earnings to $3.80-3.90 per share from their previously projected $3.90-3.95 per share.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	M US Equity	USD	3.42%	4.54%	-3.76%	9.11%
2.	S5COND Index	USD	14.29%	15.13%	6.82%	31.85%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Time Warner Cable Inc. (NYSE: TWC)

Price at Sept. 30: $111.60

Percentage of Portfolio: 1.88%

Percentage of Sector: 15.89%

Time Warner Cable Inc., (NYSE:TWC) together with its subsidiaries, offers video, high-speed data, and voice services to residential and business service customers over its broadband cable systems in the United States. TWC missed second quarter sales estimates by about twenty five million dollars, but beat their expected EPS by 2.486%. Quarter two results showed a 2.7% YOY revenue growth, while operating income grew 4.1% YOY for the second quarter. TWC's business revenue continues to grow with a 14% increase YOY. High-Speed data subscribers more than doubled YOY and TWC has been able to make their new home monitoring system IntelligentHome available to 80% of their customers which will help revenue growth in the years to come. With the percentage of households increasing from 81% to 84% from 2011 to 2013, TWC will continue to see an increase in broadband customers. They took a hit to their stock price in August when they failed to reach a deal with CBS. CBS wanted TWC to pay a higher fee to retransmit their signal. This hiatus caused TWC to stop providing CBS in major market areas, which caused them to lose thousands of customers. The new deal was reached in early September and although the numbers have not been disclosed the deal was estimated to increase TWC's payments from about $1 per subscriber to about $2 per subscriber. Cable companies will continue to suffer from the mass media companies like CBS who will continue to demand higher retransmission fees. With about 39.34% of TWC's revenue being generated from High Speed Data and Voice services, they will not be as affected as other cable companies by these retransmission deals. Also, with their ability to combat digital streaming content through different ventures such as their new app for XBOX, they will continue to create value for the fund.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	TWC US Equity	USD	16.18%	17.67%	9.36%	37.61%
2.	S5COND Index	USD	14.29%	15.13%	6.82%	31.85%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Wynn Resorts, Ltd. (NYSE: WYNN)

Price at Sept. 30: $155.16

Percentage of Portfolio: 3.07%

Percentage of Sector: 25.69%

Wynn Resorts, Ltd. (NYSE: WYNN) is involved in the development and operation of casino resorts. At the time of the annual report, Wynn's stock was priced at $125.16 per share, evidencing a growth in price per share over the period of 26.25%. Wynn Resorts, Ltd. has issued two dividends since the annual report, one on May 7th and the other on August 8th, with each dividend being $1.00 per share. In the first quarter of Wynn Resorts' fiscal year, the quarter ended March 31st, the company posted earnings of $2.00 per share, improving on 2012's first quarter earnings per share of $1.23, an improvement of 63%. Wynn was not as successful in the second quarter of 2013, as the company announced earnings per share of $1.28, which was down from $1.37 per share in 2012, losing 7% from 2012's second quarter. $1.28 was also significantly lower than analyst estimates of $1.51 per share. This shortfall is believed by Wynn Resorts to largely be a result of renovations of the company's Macau (China) resort that reduced room availability. The third quarter earnings are released on October 24th, and estimates are $1.65 per share compared to last year's earnings of $1.48 per share. The previously mentioned Macau resort is one of the best opportunities for growth Wynn which is trying to take advantage of the population growth and economic growth in Southeast Asia. Additionally, Wynn is planning to build a resort in Everett, Massachusetts just outside of Boston in an area where rival Caesars Entertainment Corp. recently pulled out of a project due to being recommended for gambling permit denial.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	WYNN US Equity	USD	26.25%	28.07%	19.76%	62.49%
2.	S5COND Index	USD	14.29%	15.13%	6.82%	31.85%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Consumer Staples Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
STZ	Constellation Brands	632	$57.40	$59.49	$76.03	20.49%
K	Kellogg's Co.	500	$58.73	$64.52	$67.01	-7.51%
KR	The Kroger Company	827	$42.92	$45.69	$53.77	22.73%
PG	Procter & Gamble Company	435	$80.91	$83.58	$87.40	-0.40%
WAG	Walgreens Co.	551	$58.79	$58.31	$66.36	14.19%
WFM	Whole Foods Market	685	$64.14	$56.65	$60.01	35.67

Sector Summary

The Consumer Staples sector includes industries of household and personal products, food packagers, tobacco products, soft drinks, distillers and vintners, grocery stores, and drug retailers. Typically, during economic downturns these companies yield a higher return as consumers only spend on what they need. However, during recent time our consumer staple sector has had a higher return and consistently been one of our better performing sectors. This can be attributed to good security selection; we have seen a lot of growth opportunities in the equities that we hold.

Industry Analysis

These growth opportunities can specifically be seen in our holdings of grocery stores. Currently the D'Artagnan Capital Fund holds Whole Foods Market and The Kroger Company. Whole Foods has plans to triple their number of stores in the coming years. As more and more people shift to healthier food options, we are expecting a lot of growth from Whole Foods. Also, Kroger recently announced the acquisition of Harris Teeter, which is a grocery chain based on the East Coast. Kroger is primarily a Midwest company so this will give them an entrance to a new market.

A recent addition to our sector was Walgreen's; the company has been stagnant historically but is seeing new growth. This can be attributed to their new 90-day prescription program where they have had new customers. With the introduction of the Affordable Care Act, we believe that Walgreens will be able to gain new customers who may not have been able to buy medicine in the past.

Sector Snapshot:

Recommendation: Underweight

- Sector Return: 9.35%
- Benchmark Return: -0.04%
- Sector Weight: 10.64%
- Benchmark Weight: 11.01%
- Sector Beta: 0.87
- Benchmark Beta: 0.76

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Sector Manager:
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Sector Analysts:
Jake Donovan
Jack Sullivan

Industry Analysis (Cont.)

As you can see from the chart of above, the consumer staples sector typically has returns correlated with the S&P 500. However, recently it should be noted that the consumer staples sector has had a higher return than our benchmark.

Our sector's current holdings are: Walgreens, Constellation Brands, Whole Foods Market, Kroger, and P&G. During this semester we have sold off our positions in Kellogg and Philip Morris. We liquidated Kellogg to underweight the sector and shift capital to higher growth sectors. Already being heavily invested in the grocery business, we felt that as our weakest performer our exposure needed to be focused in other areas of the sector. We decided to sell of our position in Philip Morris because of the uncertainty in the industry. Currently, tobacco sales are trending downwards and many countries are enforcing high taxes and bans on cigarettes as well as designated smoking only areas.

Food Retailers

Over the past six months, we have seen the retail food industry outperform the Staples sector by 5.18% on a total return analysis. We can attribute the outperformance to an increased commitment to healthier lifestyles on the part of consumers, and rising consumer confidence in the market. Retailers have moved out of underperforming markets, with intentions to improve profitability in core markets.

S&P 500 Food Retail v. S&P 500 Consumer Staples Sector

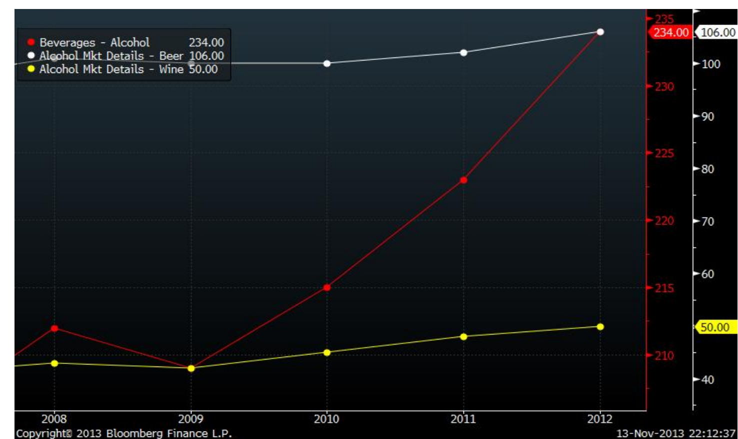
Throughout this economic recovery, we have seen a new trend emerging where consumers are starting to lead healthier lifestyles. The specialty grocery industry (WFM) and the increased commitment from traditional grocers (KR) towards natural and organic products have fueled growth. Mergers and acquisitions for food retail have hit highs since 1999, totaling $22.8 billion which suggests the industry is looking for scale in regards to purchasing and distribution. The M&A trend has increased as traditional grocers (KR) try to compete with non-traditional grocers, such as Wal-Mart. While grocery retail sales YTD in 2013 are recorded at $49.972 billion, grocery sales may slow as U.S. households begin to spend on durable goods.

S&P 500 Food Retail Industry

Beverages

As a whole the beverage industry has been steadily improving over the past couple of years. The D'Artagnan Capital Fund recently purchased Constellation Brands, which distributes alcoholic beverages primarily inside the United States and Europe. 57% of wine drinkers are considered core wine drinkers, which mean they drink wine on a fairly weekly or monthly basis; this is up from 34% in 1994. 45% of wine drinkers buy in the under $30 range, primarily from$10-$20.

Sale of domestic beer and been declining in recent past, however there has been an increase in the sale of craft and import beers. Constellation's newly acquired brands, such as Corona, are import beers. These brands have grown 7.8% in the past twelve months while Anheuser Busch Inbev only saw a growth of 2%.



Alcohol Beverage Sales v. Beer v. Wine

Beverages (Cont.)

When consumer spending spiked in June to its highest level since January 2008, alcohol sales increased within the US, while alcoholic beverage sales lag in Europe due to continued economic weakness. Due to this trend we took a position in Constellation Brands, a premium wine, beer and spirit company.

S&P 500 Beverage Industry

Household & Personal Care

Household Products has drastically underperformed the Consumer Staples sector over the past six months, returning -0.2% versus a total return of 15.13% for the sector. Exposure to developing markets has hurt many household product leaders due to a slowdown in currencies. Within the subsector, home and personal care have risen above the beauty segment, and led earnings into Q3.

Despite the underperformance, the subsector has seen in an increase in M&A and joint ventures. The desire to access faster growing markets and the need to secure new brands drives this subsector trend. Within our portfolio, this can be applicable to Walgreen's recent joint venture with Alliance Boots. Over the six months, there were 48 mergers and acquisitions totaling $7.06 billion. M&A's targeted emerging markets, specifically India and China, where household and personal care companies are looking to capture future growth and brand market share.

S&P 500 Household & Personal Care

S&P 500 Household v. S&P 500 Consumer Staples Sector

Home & Personal Care 2013 Deals

Industry Outlook

Our recommendation for the Consumer Staples Sector is to keep the weighting around market weight. This belief comes from the fact that there are a lot of growth opportunities in the staples sector and we feel that the D'Artagnan Capital Fund is well positioned to take advantage of them. Whole Foods, Kroger, Constellation Brands and Walgreen's are all expected to grow in revenue. In accordance with the D'Artagnan Capital Fund's strategy, it is best to be invested in the securities in order to maximize returns.

Food Retailers Outlook

We remain bullish on the food retail industry, which can be seen in our large position in Whole Foods Market and the Kroger Company. More and more consumers are focusing on healthy options and grocers are adapting their business model to cater to this new healthier lifestyle. Consumer Confidence continues to rise recently and there is a direct positive correlation between consumer confidence and U.S. at Home Food Spending. This could be an indication that shoppers are ready to spend more and return to premium products. However, there has been an increased in non-traditional grocery retailers taking market share from these supermarkets. It should be noted that grocers may face further pressure from retailers such as Wal-Mart and Costco to improve their selection of high-quality perishables and meats.

Beverages Outlook

There has been a shift in the beverage market in recent years and we expect this to continue. Recently we have seen a decrease in the market amongst carbonated beverage companies because the market is looking for healthier options to all of the sugar within carbonated beverages. However to combat this we have seen an increase in spending by these carbonated beverage companies to increase advertising, develop new healthier products, and expand to developing markets. Also, alcohol sales are seeing growth as consumer confidence is returning and spending is increasing. Going forward we believe that the future of this market will most likely rely on alcohol stocks to bring in growth. The fund will be looking closer at companies like this going forward as growth is anticipated.

Household & Personal Care Outlook

Private brands are increasing their presence in the household and personal care market. Many retailers are working directly with private manufacturers which allow retailers to buy products at cheaper prices than name brands and sell the private brands cheaper. In recent years, more consumers are counting pennies which have those particular people buying cheaper products. To combat this, household and personal care manufacturers are investing in their high end and low end products to hopefully each consumer. In addition, innovation by these companies is increasing as they are attempting to expand their products and draw in new consumers. Also, many companies are expanding into developing markets, and focusing innovation into these markets to develop products that consumers will want to purchase. We believe that there is still growth in this market and recommend staying invested in it.

Trades

On April 1, the D'Artagnan Capital Fund held five securities in the Consumer Staples Sector. Household and personal care leader, Procter & Gamble, true organic and natural grocer, Whole Foods Markets, breakfast and snack food giant, Kellogg's, retail food chain, Kroger and tobacco giant, Phillip Morris. We sold our position in Phillip Morris on September 10. On September 27 purchased Walgreens and Constellation Brands. As of September 30, the fund held Procter & Gamble, Kroger, Whole Foods Market, Kellogg's, Constellation Brands, and Walgreens.

Constellation Brands (STZ)

On September 27, we bought 632 shares of Constellation Brands at $57.99 a share. Analysts and management took a position in Constellation Brands due to the growing North American wine industry, a decision based upon the part of STZ management to sell off unprofitable ventures, and their joint venture with Crown Imports. Constellation has made strong efforts to improve their wine business, and coupled with consumer preference for import and craft beers leaves STZ in a strong position for growth.

Kellogg's Company (K)

Kellogg's was untouched during the six month period of April 1 to September 30. Since the end of the period, we have since sold our position in Kellogg's. While Kellogg's remains valuable, our analysts and managers cited better opportunities within the market as reason for liquidating our position.

Philip Morris International Inc. (PM)

On September 5, the D'Artagnan Capital Fund liquated its positions in Phillip Morris. Management decided to sell all 370 shares of Philip Morris because of weak demand overseas, especially in Russia due to cigarette bans in public places. In addition, Europe was raising their cigarette taxes, thus lowering the demand in the European markets. All of these factors led us to trade Philip Morris to buy a better opportunity in Constellation Brands.

Walgreens Co. (WAG)

On September 27, we bought 551 shares of Walgreen's at $54.53 a share. Analysts and management bought Walgreen's based upon growth opportunities that arose from contracts and partnerships with Express Scripts Holdings Company, Alliance Boots, and AmerisourceBergen. Since the security was purchased on September 27, the total return is non-material for the semi-annual report.

Holdings Analysis

Constellation Brands (STZ)

Price at Sept. 30: $57.40

Percentage of Portfolio: 1.94%

Percentage of Sector: 18.21%

Constellation Brands is one of the newest additions to our sector, they are the largest wine producer in the world as well as a beer distributor in the U.S. Recently, they acquired the rights to make and sell Grupo Modelo's beer in the United States. Anheuser Busch purchased Grupo Modelo and in accordance with anti-trust law suits STZ received the rights to the U.S. from a previous joint venture. Constellation Brands received ownership of a production facility and will be able to make and distribute all of their own beer and even opens the door for them to produce new brands.

This was a key addition to our portfolio because the craft and import beer business is currently showing positive indicators for growth. The beer sector shows that domestic beer sales are decreasing while craft and imports are rising, giving a slight growth to the beer market. Constellation Brands premier beer is Corona and has been increasing sales, taking advantage of these market trends.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	STZ US Equity	USD	20.49%	20.49%	12.18%	44.16%
2.	S5CONS Index	USD	-.06%	1.31%	-6.99%	2.59%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Kellogg Corporation (K)

Price at Sept. 30: $58.73

Percentage of Portfolio: 1.57%

Percentage of Sector: 14.74%

Kellogg was valued during September and it was recommended that the Fund hold its position in the company. The main reason for this is that we saw an opportunity that would provide long-term growth and value to the Fund. The company had been slow to regain revenue loss from the recession, which is where the main belief that the company could provide value came from. In addition, Kellogg had just acquired the Pringles brand from Procter and Gamble in quarter 2 of fiscal year 2012. It is believed that this would help fuel growth in the company and add value. Kellogg's snack segment is growing and management hopes that the segment will allow the company to reach more markets globally. Kellogg is also the largest cereal maker in the United States, where it accounts for 34% of market share. While sales in cereal were lagging during quarter 2, snack sales were able to provide growth, which covered the loss of the cereal sales.

During October, the company was valued again and presented to the Fund analysts and managers. It was decided that to liquidate our position in the company at this time because of better opportunities for growth in other companies. The Fund held Kellogg since inception. Recently, Kellogg has been lagging in its performance. This was taken into consideration when deciding whether or not to liquidate the position.

The Kroger Company (KR)

Price at Sept. 30: $40.34

Percentage of Portfolio: 2.05%

Percentage of Sector: 19.23%

Kroger is a major player in the grocery market and is one of the largest retailers in the US. The company sells both national and private brands. The company sells nearly 12,000 private label items which accounts for nearly 40% of revenue. Kroger has had increasing revenues, even during the recession of 2008. Even after the financial crisis, Kroger has maintained about 8% over the last six years. This can be attributed to the opening of Kroger gas stations, which allows for more revenue growth. These gas stations are located at about half of supermarkets. The company has started to open multi-department stores or "marketplaces." These stores sell more products than just groceries, which bring in consumers to shop in all one place. Kroger continues to be successful in cutting costs, while at the same time providing revenue growth.

Kroger reported strong 2nd quarter results that show that the company is able to compete with giant retailers such as Target and Wal-Mart. In quarter 2, revenue increase 4.6% year over year, which exceeded estimates. Earnings per share also rose 18% year over year. This was just above estimates. Kroger has continued to outperform competitors, which continues to make it a good company for the D'Artagnan Capital Fund to hold. Kroger has seen continued revenue growth over the past 39 quarters, while competitors have lower growth rates and margins. Kroger continues to grow by acquiring smaller companies and establishing new stores and fuel centers. In addition, long term Kroger CEO David Dillon is retiring and will be replaced with COO Rodney McMullen. This is will be effective January 1, 2014. With high positive historical returns and possibilities of future growth we continue to hold Kroger in the portfolio.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	KR US Equity	USD	21.73%	22.73%	14.43%	49.48%
2.	S5CONS Index	USD	-.06%	1.31%	-6.99%	2.59%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Procter and Gamble Company (PG)

Price at Sept. 30: **$75.59**

Percentage of Portfolio: **1.76%**

Percentage of Sector: **18.21%**

Procter and Gamble has a large advantage over the rest of its competitors. This is due to the vastness of the company, which allows it to see benefits in distribution of products, brand recognition, and scale with suppliers. P&G has proven to be an exceptional company that has the ability to adjust its operating strategy with economic conditions. P&G has many similar but diversified price products that focus on both high-end and low-end consumers. This is demonstrated as during the last recession the company only showed a loss of revenue in fiscal year 2009. The company continues to produce long-term value. In addition, P&G has seen an increase in sales in developing global markets, adding to the bottom line.

In May, P&G named former CEO and Chairman of the Board A.G. Lafley to lead the company again. Lafley will serve as President, CEO, and Chairman of the Board of Directors. This was done to combat below average revenue growth since the recession. Before 2008, the company was experiencing revenue growth of approximately 10% each year. Since 2008, the revenue growth average per year has been about 2.5%. The common consensus is that Mr. Lafley will once again implement new strategies to regain high growth rates for the company. With high optimism surrounding the company's future combined with P&G's robust market share, historical success and commitment to returning stockholder wealth, proves P&G is a solid buy (hold) going forward.

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	PG US Equity	USD	-1.91%	-.40%	-8.71%	-.78%
2.	S5CONS Index	USD	-.06%	1.31%	-6.99%	2.59%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Walgreen Co. (WAG)

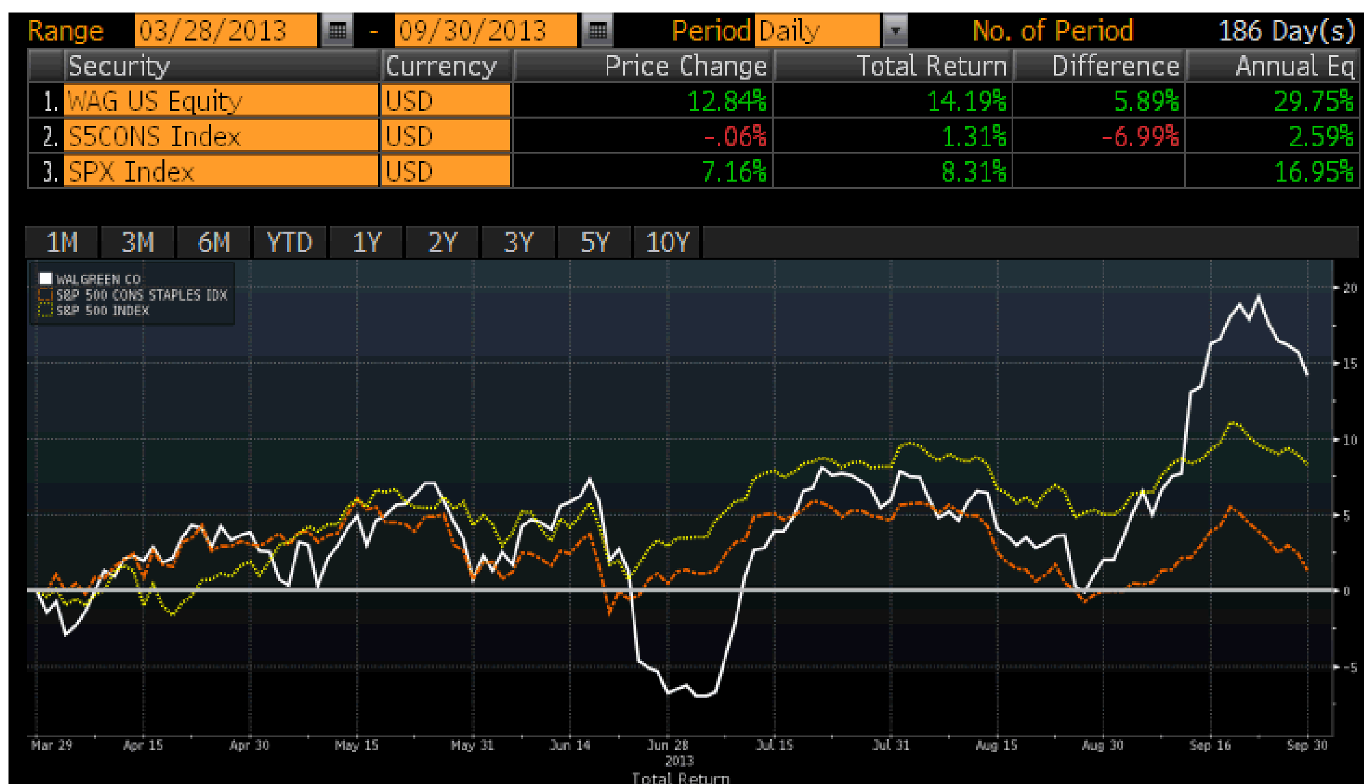
Price at Sept. 30: $53.80

Percentage of Portfolio: 1.58%

Percentage of Sector: 14.88%

Purchased on September 27th, Walgreen's looks to be a great addition to the portfolio. Already the largest drugstore in North America, Walgreens renewed and entered into contracts with Express Scripts Holdings Company, Alliance Boots, and AmerisourceBergen, which further strengthens their current position. While their contract renewal with Express Scripts does little to aid future growth, it will allow Walgreens to capture some of the revenue losses from FY 2012, a year where they did not have a contract with Express Scripts due to contract price disputes. The two contracts with Alliance Boots and AmerisourceBergen position Walgreens to become a *global* leader in the drugstore industry, with retail stores and distribution centers located all over the globe.

On October 1st, Walgreens announced record sales of $72.2 billion, despite missing sale estimates in Q4 by $0.01 billion. Diluted EPS increased to $2.56, up 5.7% from FY 2012. Walgreens growth in FY 2013 can be attributed to exceeding estimates in the joint synergy partnership with Alliance Boots, increase in prescription sales, and successful launches of new key initiatives. These initiatives include the launch of Smart90, Walgreens 90-day prescription drug program with Express Scripts, and successful distribution of branded pharmaceuticals to AmerisourceBergen.



Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	WAG US Equity	USD	12.84%	14.19%	5.89%	29.75%
2.	S5CONS Index	USD	-.06%	1.31%	-6.99%	2.59%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Whole Foods Market Inc. (WFM)

Price at Sept. 30: $58.50

Percentage of Portfolio: 1.75%

Percentage of Sector: 16.44%

Purchased in January, Whole Foods has been the best performing security within the sector, with a total return of 49.21% since March 28, 2013. WFM is a leading natural and organic food market, and the shift towards healthier lifestyles and eating preferences continues to push WFM forward. WFM is expanding rapidly to capture the demand for their products, and has plans to expand from its current 355 stores to 1,000 stores throughout the United States.

WFM is expanding into new markets with smaller populations around 75,000. The smaller markets allow WFM to better control costs due to lower real estate prices and smaller stores. With their expansion, WFM is also tailoring their business strategy to each market. In strongholds such as Chicago or Boston, WFM is training employees to better aid their customers; in new markets, WFM is adjusting their pricing and sale schemes to better reflect their clientele.

WFM will announce Q4 and FY 2013 earnings on November 4th, but management has expectations of 11% sales growth and diluted EPS of $1.45. In line with their expansion plans, WFM management has expectations of sales growth of 12-14% for FY 2014.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	WFM US Equity	USD	34.87%	35.67%	27.36%	81.97%
2.	S5CONS Index	USD	-.06%	1.31%	-6.99%	2.59%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Energy Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
XOM	Exxon Mobil Corp	390	$86.04	$91.65	$103.05	-3.19%
DVN	Devon Energy	660	$57.76	$66.17	$82.89	3.17%
HAL	Halliburton Co.	1240	$48.15	$46.15	$46.15	19.82%
MUR	Murphy Oil Corp	1040	$60.32	$86.00	$95.00	10.72%
TOT	Total SA	600	$57.92	$66.17	$82.89	24.29%

Sector Summary

From the beginning of the fiscal year on April 1 until September 30, the S&P energy sector as a whole has underperformed the broader market by 4.05%. During this time frame, the energy sector was far less volatile than the overall market. Though the sector was far less volatile than the market, performance differs depending on the sub-industry. The graph below shows the varied returns from drilling and exploration and production sub-industries, highlighting that performance differed significantly based on sub-industry.

This can also be seen in our holdings by looking at the differing returns of HAL with 20.59%, and XOM with (5.21%); these firms reside in the Oil & Gas Services and Integrated Oils sub-industries respectively.

The graph below illustrates the Brent crude oil price benchmark and its movement from early July to September 30. In dollars, the price appreciated 6.29%. However, in euros, the price only appreciated 2.64%. This devaluation of the dollar counteracts much of the price appreciation throughout the third quarter. If the dollar was stronger, companies would benefit largely from the appreciated prices – but the devaluation negates the positive results of rising Brent prices.

Sector Snapshot:

Recommendation: Overweight

- Sector Return: 13.09%
- Benchmark Return: 4.75%
- Sector Weight: 12.22%
- Benchmark Weight: 10.44%
- Sector Beta: 1.22
- Benchmark Beta: 1.15

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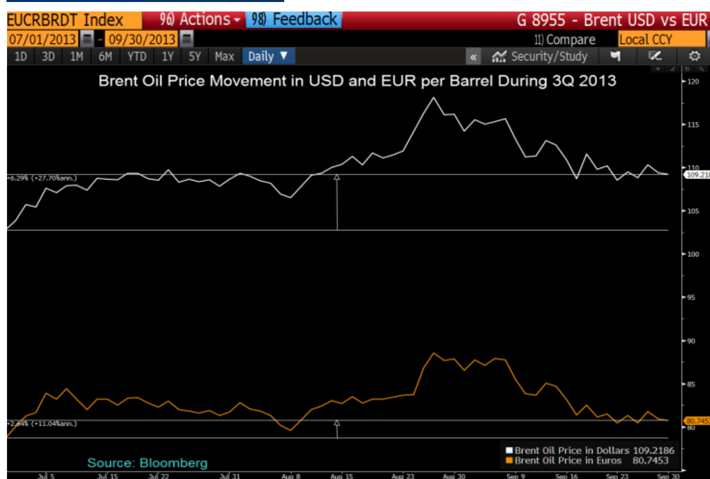
3 Oil & Gas Equipment Services
4 Industry Risks
5 Industry Outlook
6 Holdings Analysis

Sector Managers:
Ryan Thompson

Sector Analysts:
Misha Balkoweic
Matthew Shields

Industry Analysis



Brent Oil Price in Dollars v. Brent Oil Price in

Major Integrated Oil & Gas

Integrated oil and gas comprise the largest portion of the energy sector. These companies not only explore and produce oil and natural gas, but they also refine and market the products as well – generally leading to more stable cash flows and earnings. Because the barriers to entry are so high in the energy industry, integrated companies see a strategic benefit of doing everything under one roof. These companies will be divided into different segments, particularly upstream, midstream, and downstream. Upstream encompasses the exploration and production of oil and gas. Midstream involves logistical efforts such as transportation. Downstream includes the refining and marketing of the oil and gas products.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	S5IOIL Index	USD	.24%	1.69%	-6.61%	3.35%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

S&P 500 Integrated Oil v. S&P 500 Energy Sector v. S&P 500 Index

Upstream

This segment of the energy industry is often referred to as exploration and production (E&P). Companies in this segment participate by acquiring leasehold rights to acres of land where they can drill for oil and gas. If the land is found to hold quality oil and gas, the company will drill more wells and then sell the oil and gas obtained from the wells. Because the E&P companies derive most of their revenues from the sale of oil and gas, they are very dependent on the prices of oil and gas. The costs associated with upstream companies stem from lease operating expenses, labor, and maintenance and repairs to property and equipment.

Midstream

The midstream companies connect the producers to the end users. This segment involves gathering, transporting, processing, fractioning, and other similar activities. Revenues for companies in the midstream segment are driven by the activity of upstream companies. Therefore, demand for oil and gas, in addition to drilling activity, are prime indicators of the future activity for midstream firms. The strategic geographic positioning of infrastructure provides competitive advantages for firms located in highly sought-after areas where considerable wells are being drilled.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	S5OILP Index	USD	14.13%	14.97%	6.67%	31.50%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

S&P 500 Integrated Oil v. S&P 500 Energy Sector v. S&P 500 Index

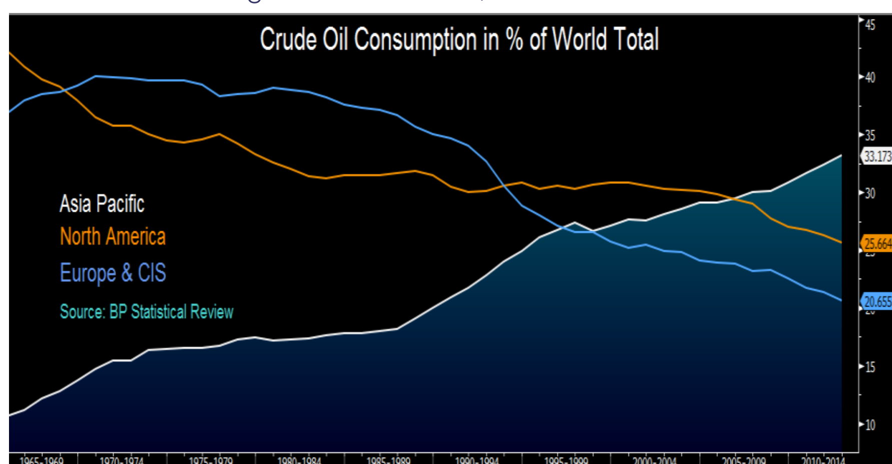
Downstream

Downstream companies are involved in refining crude oil into various energy sources, such as gasoline, natural gas liquids, and diesel. The E&P companies will sell the oil to the downstream companies, which will then sell the products at the consumer level. In integrated companies, the refining will often take place in the midstream segment and the downstream will encompass the marketing and distribution.

The U.S. Energy Information Administration (EIA) approximates growth in global oil demand of 0.54 million barrels per day. Global supply growth, largely driven by North America, is projected to outpace higher global demand in 2013 and 2014. According to IHS Global insight, West Texas Intermediate spot oil prices were forecasted to average $94.52 per barrel in 2013 and $89.57 in 2014; the price was $94.21 in 2012.

U.S. crude oil inventory counts are 1.2% higher YoY and 10.1% higher than the five-year average. This rise in inventory indicates that supply may be outpacing demand – something that will ultimately drive oil prices down and hurt in integrated oils and specifically upstream E&P companies.

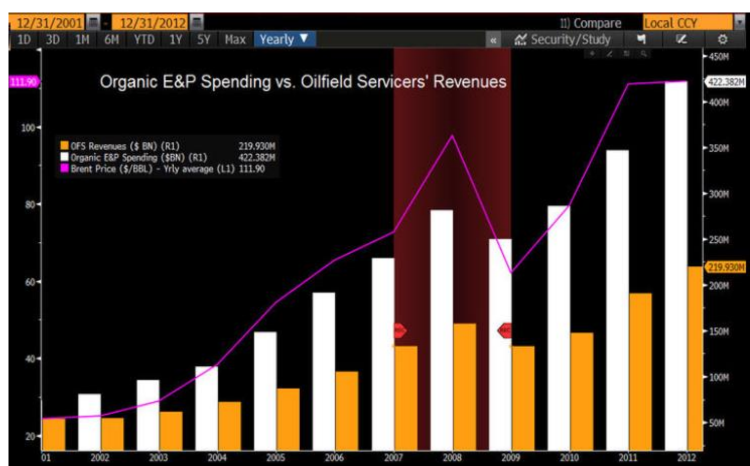
The following graph shows a recent trend pertaining to which regions of the world are consuming the most oil. Historically, Europe and North America have been the world's largest consumers of oil, but that pattern is changing. Asia Pacific is now the largest consumer of oil, and that fact will remain true for many years to come.



Crude Oil Consumption % of World Total

As India, China, and other Asia Pacific countries have growing middle classes and infrastructure needs, demand will continue to rise. Europe and North America are experiencing increased fuel efficiency and a growing awareness of environmental effects, prompting the citizens to try and explore other, cleaner sources of energy. The companies that capture the Asian market most effectively will have considerable competitive advantages moving forward

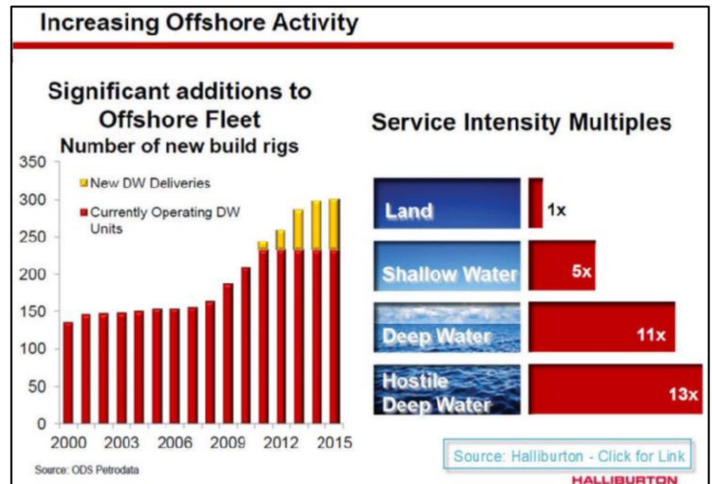
Oil & Gas Equipment Services



Organic E&P Spending v. Oilfield Servicers' Revenues

The oil and gas services industry provides E&P companies with infrastructure products and services that cover the entire duration of wells, from initial production to abandonment. There are different stages in the lifecycle of an oil and gas well, with each stage providing an opportunity for equipment and service companies to integrate their offerings. Consequently, demand for companies in this industry will remain high in the future. Evidence of this demand is seen in the following graph. The revenue stream of servicers are heavily, if not entirely, dependent on the spending of E&P companies. The following graph shows an increase in E&P spending, and the corresponding rise in revenues by servicers in the industry. In the last 10 years, the compounded growth rate in E&P spending was 16.2%, and the revenue of oilfield service firms increased 12.9%.

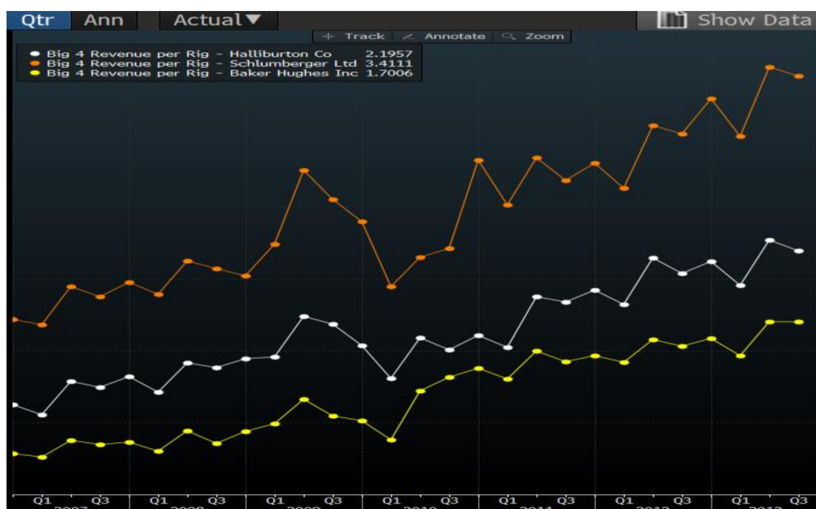
E&P companies are placing increasing emphasis on offshore and unconventional resources. As the exhibit below illustrates, these methods of tapping oil and gas require more exhaustive servicing, up to 11x more, so the E&P spending will continue the upward trend. However, bucking this trend is the onshore drilling environment, which is staying stagnant compared to 2012 based on CAPEX guidance.



S&P 500 Oil Exploration v. S&P 500 Energy Sector v. S&P 500 Index

Offshore Activity

This intensity can be seen benefiting the service companies and their revenue figures, as the following graph shows. The graph depicts the rising revenue per rig for the top three oilfield service companies. The fund owns HAL, which experienced the second largest revenue number of $2.2 million per active rig. As intensity continues to increase, the service companies continue with their bullish outlook.



Revenue per Rig: HAL v. SLB v. BHI

Lastly, the Obama administration is looking to mitigate the number of oil imports by 30% by 2020, and to accomplish this feat the U.S. Gulf has been identified as major place of interest. The administration proposed a lease plan 2012 that put all unleased acreage in the western and central Gulf for sale. The second lease sale was in March and focused on the central region, with 52 companies placing 407 bids for over 38 million acres. With that being said, U.S. Gulf new well permits are down 37% for the year, including a 23% drop in July compared to June.

Industry Risks

There are a large number of risks associated with conducting business in the energy industry. From a regulatory perspective, many countries, governing bodies, and municipalities have their own specific set of rules by which companies need to abide, and this often increases the cost of doing business. The regulations are ingrained in each stage of the production process. The energy industry is heavily tied to the global economy; as the economy does well, energy demand tends to increase. The U.S. economy is slowly improving, but not enough for the Federal Reserve to begin tapering. The energy industry should benefit from the continued asset purchases, but there is tremendous uncertainty around the detrimental effects of tapering on the industry. The European economy is gradually turning around, so the firms with European exposure will see an uptick in revenues. Energy companies are also heavily dependent on oil prices, which can rise and fall in the short term due to political concerns, military actions, weather patterns, and other factors.

Energy Outlook

Currently, the Energy sector is market weight. It is our recommendation to position the sector at market weight. The U.S. economy, which is a large driver in the energy sector, is seeing an effective rebound – though slower than expected. With the United States becoming energy independent, the fund is positioned well with firm's conducting a significant amount of business in North America. However, the fund also has exposure to foreign countries, particularly developing countries with a growing middle class that will result in increased demand for energy. However, oil prices have retreated from their recent highs in late summer and are now hovering below the $100 per barrel range. Oil companies can be fairly profitable provided the price does not drop below the $90 range. Political unrest could drive the price higher, but growing supply in the United States could outpace demand, driving down the price. Because of these factors, and the belief that other sectors are better equipped for outperformance, market weight is the recommendation moving forward for the energy sector.

It is advised that attention is paid to companies with higher exposure to Asian markets – as it has been noted that the Asian Pacific countries are now the largest consumers of oil. Another area of interest is the solar energy industry. Year to date, solar stocks have experienced explosive returns and should continue to see appreciation moving forward. There are not any solar stocks that fall within the energy sector while also meeting the fund's prospectus requirements for market capitalization and trading volume. If solar stocks start fulfilling the prospectus requirements, they should be given strong consideration for a valuation.

Trades

During the 6 months ended September 30, the fund added two positions to the energy sector, Devon Energy (DVN) and National Oilwell Varco (NOV). DVN is an E&P company and NOV is an equipment and services company. The fund over weighted the sector for this time period, and these acquisitions helped the sector reach this target weight. Moving forward, the fund is taking a hard look at potentially liquidating its position in Murphy Oil (MUR). MUR has performed well for the fund, and it would be beneficial to lock in the current gains. MUR recently spun-off its downstream subsidiary, Murphy USA, considerably altering the makeup of the company. See the Sector Holding Analysis section to find more details about current positions

Devon Energy Corp. (DVN)

Devon Energy's addition to the portfolio was driven by their high margins and strong positions in North American shales. The market had yet to recognize the full effect of their transformation into a company operating entirely in North America and their geographic competitive advantages.

Halliburton Co. (HAL)

Halliburton has also been an established holding of the D'Artagnan Capital Fund. Recent activity has been minimal, but over the summer months Halliburton offered the Fund to vote in a proxy addressing HAL share buyback program. Fund management decided there was more opportunity with HAL and voted against offering their shares back.

Murphy Oil Corp.

Murphy Oil Corp. has been one of our longest held securities in the D'Artagnan Capital Fund. Yet, in the last six months, MUR has been subject to some trading activity. On September 6, 2013, Murphy Oil Corp spun off their downstream subsidiary, Murphy USA

National Oilwell Varco

National Oilwell Varco was added to the portfolio after September 30 and is therefore omitted from the performance report. The fund established a position in NOV because of their proven track record with successful acquisitions and continued aggressive approach in that area. The company just spun-off its second largest segment, Distribution and Transmission, which has historically been the worst performing segment and most capital intensive segment.

Holdings Analysis

Exxon Mobil Corp (NYSE: XOM)

Price at Sept. 30: **$86.04**

Percentage of Portfolio: **1.79%**

Percentage of Sector: **14.66%**

Exxon Mobil is a fully vertically integrated oil and gas company based in Houston, Texas. XOM is involved in every step in the oil production process. They survey, explore, and purchase land, pull oil out of the ground, manufacture and develop the crude oil into different products, and then market and sell their products to consumers. XOM serves customers in over 200 countries, with over 70% of revenue coming from outside of the United States. The company's downstream segment accounts for about 80% of overall revenue. Over the next five years, XOM plans to invest roughly $38 billion per year, with 22 major projects surfacing in the next three years. The company's Q2 EPS of $1.55 missed the target of $1.80. Since acquisition, XOM has lost less than a percent of its share value, but is one of the strongest dividend-paying firms in the world. So, while the share price has not appreciated, its dividend yield helps compensate for the slight loss.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	XOM US Equity	USD	-4.52%	-3.19%	-11.49%	-6.16%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Devon Energy Co. (NYSE: DVN)

Price at Sept. 30: **$57.76**

Percentage of Portfolio: **2.04%**

Percentage of Sector: **16.66%**

Devon Energy is a recent addition to the energy sector portfolio. Looking at the firm's historical numbers, total revenue at June 30, 2013 had already reached 98% of 2012 total revenue. A YoY growth of revenue is expected to be 4.58%. Enterprise value had also increased by 24.5% from the end of 2012 to the end of the second quarter. These increases in revenue are largely the result of DVN's current expansion into successful shale plays in North America. With a solid focus on crude oil and natural gas liquids, margins and earnings have increased greatly relative to industry peers. Earnings per share results reflect DVN's success in moving into strictly North American shale plays. Their positions in the Barnett (biggest North American crude oil play), Permian, Eagle Ford, and Oklahoma shales have proven very successful. For the second quarter, they beat estimates by 27.42% with adjusted EPS of $1.21. The overall outlook for exploration and production companies is positive and DVN's growth versus its competitors makes it an attractive position.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	DVN US Equity	USD	2.38%	3.17%	-5.14%	6.32%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Halliburton Co (NYSE: HAL)

Price at Sept. 30: **$48.15**

Percentage of Portfolio: **3.19%**

Percentage of Sector: **26.09%**

Halliburton, based in Houston, Texas, manufactures and services oil and gas production machines, as well as provides services for the exploration, production and development of oil and gas fields. Since acquisition, HAL has been the energy sector's best performer, gaining 39%. For the past two years, and for the foreseeable future, HAL will continue to benefit from the fracking of shale-oil production. Past and future technology innovations have made HAL an industry leader in this specific type of oil production, but it is not their only area of expertise. The company offers a handful of products and services to over eighty countries worldwide, and has stable revenues (relative to the industry). HAL recently opened a corporate office in Dubai, UAE, in order to streamline worldwide operations and more effectively manage costs abroad. HAL posted $0.73 vs. $0.58 Q2 EPS.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	HAL US Equity	USD	19.15%	19.82%	11.51%	42.59%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Murphy Oil Corp (NYSE: MUR)

Price at Sept. 30: **$60.32**

Percentage of Portfolio: **3.35%**

Percentage of Sector: **27.41%**

Murphy Oil's performance in the second quarter was above expectations. Earnings estimates were $1.535 but the actual adjusted EPS came in 21.17% higher at $1.86. Though revenues are decreasing, this is to be expected over time as MUR is moving out of the high revenue but low margin Refining and Marketing segment. Marketing and Refining was responsible for 86% of revenue but only about 15% of income. Exploration and Production revenues have increased, as the firm is moving in this direction. There are some questions regarding the firm's ability to find effective oil shales in North America and analysts have expressed concern about the Kikeh in Malaysia being cost inefficient by 2017. However, the E&P sector has an overall positive outlook and MUR has certainly enjoyed sharing the sector's success. Moving forward, as the firm tries to sell off its downstream assets to be a completely independent E&P company (the US marketing and refining segment will be its own stand-alone public entity by end of 2013) but are unsuccessful, it may encounter credit issues if operating cash flows cannot fund its capital programs. In all, the outlook for the firm is still positive given macroeconomic factors.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	MUR US Equity	USD	9.68%	10.72%	2.41%	22.12%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Total SA (NYSE: TOT)

Price at Sept. 30: **$57.92**

Percentage of Portfolio: **1.86%**

Percentage of Sector: **15.18%**

Total SA ADR is a French-based company heavily integrated in the entire energy sector as it works with every stage of petroleum and in the manufacturing of chemicals. The performance of the stock has been spotty since its acquisition in 2009, never quite reaching its initial investment price. However, the current trend of the stock is moving up. In the second quarter, TOT did not meet earnings expectations on an adjusted basis by about -0.44%, or coming in at $1.187 EPS. However, sales did beat analysts' expectations by 5.57% for the second quarter coming in at $46.973 billion. Interestingly, as EPS expectations have declined, the price has increased. The company has recently been placing a larger focus on its revenues from its chemical manufacturing and upstream divisions. Downstream has been reduced by nearly 50% because of low margins. As a result, revenues have had a large increase from 2011-2012 of about 9.46%. Moving into 2013, analysts expect a YoY growth for revenue of about 2.16%. In terms of their future prospects, Total has been focusing its efforts in unique ways. It has diversified its E&P production by not only having a large position in North American shales, but also by exploring Africa and Eastern nations. If these plays turn out successful, the company could develop a significant advantage over competitors.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	TOT US Equity	USD	20.72%	24.29%	15.98%	53.22%
2.	S5ENRS Index	USD	3.57%	4.76%	-3.55%	9.55%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Financials Sector Analysis

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
AMT	American Tower Corp.	300	$ 74.13	$85.80	$93.39	-3.63%
C	Citigroup Inc.	1,250	$ 48.51	$52.31	$61.57	9.65%
DFS	Discover Financial Services	1,085	$ 50.54	$49.98	$59.70	12.71%
PNC	PNC Financial Services Group	660	$ 72.45	$70.41	$80.91	8.95%
WY	Weyerhaeuser Co.	1,250	$ 28.63	$33.92	$37.98	-8.76%

Sector Summary

Over the last 6 months, the Financials sector performed well, despite a high level of volatility. The Fed's quantitative easing measures have prompted a risk-on theme among investors, and Financials stocks have seen large inflows, due to the exposure they have to a broad based economic recovery. Despite the solid performance, some industries within the sector experienced increased volatility throughout the second and third quarters. After the Fed's summer long debate of whether or not to taper its bond buying program, interest rates rose, causing a sharp rise in mortgage rates. As a result, the housing market experienced a slowdown and the banks' mortgage revenues decreased significantly. Also related to the interest rate spikes were slowdowns in banks' trading revenues. Because of the rise in rates, less investors were trading bonds, and after the Fed announced that it would not taper in September, this headwind was amplified. Citigroup, for example, saw trading revenues decline 26%

Sector Snapshot:

Recommendation: Overweight

Sector Return: 6.77%

Benchmark Return: 11.98%

Sector Weight: 11.87%

Benchmark Weight: 16.04%

Sector Beta: 0.85

Benchmark Beta: 1.23

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9. Holdings Analysis

Managers:
Larry Chapman
Greg Hagerty

Analysts:
Joe Rader
Ken Walter

S&P 500 v. S&P Financials v. Property & Casualty Insurers

S&P 500 v. S&P Financials v. U.S. Real Estate Investment Trusts

S&P 500 v. S&P Financials v. Global Money Center Banks

S&P 500 v. S&P Financials v. S&P Regional Banks

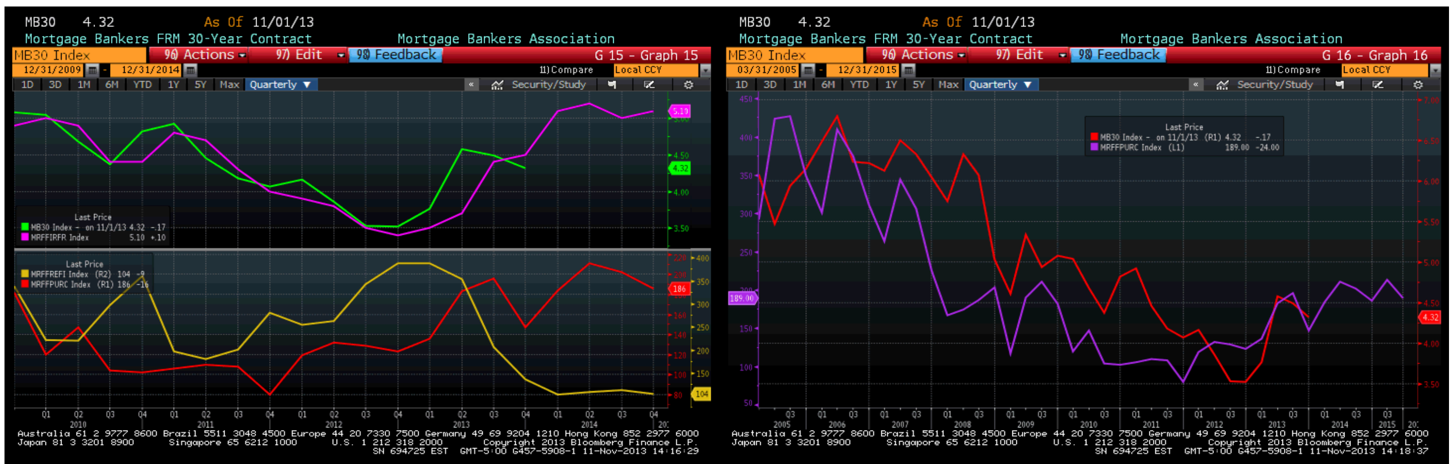
S&P 500 v. S&P Financials v. Global Timber & Forestry

Industry Analysis

Major Diversified Financial Services

Stabilized by the unprecedented quantitative easing of the Federal Reserve, since the financial crisis, global money center banks (MCBs) have generated record profits and have been a market leader. Since late-May, when the Fed rumored a tapering of its $85 billion a month bond buying program, interest rates have risen sharply, from about 1.90% to 2.55% (US 10 Year Yield). Despite the velocity at which rates rose, and the subsequent slowdown in mortgage origination and refinancing, rising interest rates will provide a boost to banks' bottom lines. A steepening yield curve benefits banks, due to the way their loan portfolios are leveraged. Banks take in deposits, which pay interest to depositors at a low, short-term rate, and then lend those deposits at a higher, long-term rate (mortgage, auto and commercial loans). A sharper rise in long-term versus short-term rates creates expansion for banks' net interest margins (NIM). In the most recent quarter, however, most banks reported that they have yet to see the impact of rising rates on NIMs. This was largely expected, and provides a strong outlook for growth for MCBs.

As a result of the sharp rate increases since May, the Fed has assured markets that short-term rates would remain near zero until 2015. Rising long-term rates coupled with near zero short-term rates creates a tailwind for banks, as long as rates do not rise too fast. Rates rising faster than the recovery of the economy will actually slow lending, which can be seen in the recent slowdown of mortgage originations and refinancing activity as a result of a sharp increase in mortgage rates. Government support and historically low mortgage rates have helped spur the recovery in the housing market over the past couple years, especially home refinances. Due to rising mortgage rates, since bottoming in late 2012, the Mortgage Bankers Association (MBA) expects this to recede short-term. The MBA does, however, expect an improving purchase market as home prices continue to increase. While a 4.50-5% mortgage rate is high compared to where rates have been, it is still quite low when considering historic rates, and will not have a lasting effect on the housing market.



Shedding toxic assets has also been a common theme of MCBs to improve profitability. In the case of Citigroup, Citi Holdings now represents merely 6% of total assets, down significantly from the prior year, with revenues from these assets up 28%. As the economy starts to recover and the housing market rebounds, MCBs also benefit from improvements in these toxic assets. Rather than let these assets be sold off to investors on unfavorable terms, banks are inclined to let many of these mortgages run their course and salvage value.

With the economic recovery gaining traction in the U.S. and the recessionary worries beginning to turn in Europe, it seems that the biggest headwind facing MCBs will be the changing regulatory environment. The main issue to watch will be their progress in complying with the Basel III capital requirements, as well as the additional measures the Federal Reserve and FDIC have put in place. The additional American rules would require U.S. Covered Bank Holding Companies (BHCs) and their Insured Depository Institution (IDI) subsidiaries to maintain a Basel III supplementary leverage ratio of at least 6% to be considered well-capitalized. The American add-on also requires Covered BHCs to maintain a leverage buffer that would function in a similar way to the capital conservation buffer in the U.S. Basel III final rule.

A Covered BHC that does not maintain a Basel III supplementary leverage ratio of greater than 5%, a buffer of more than 2% on top of the 3% Basel III minimum, would be subject to increasingly stringent restrictions on its ability to return capital to shareholders (buybacks and dividends) and pay out bonuses to employees. The proposed effective date of these additional requirements is January 1, 2018. These regulatory changes will undoubtedly affect the profitability of MCBs going forward..

Regional Banks

Regional banks, like MCBs, stand to benefit immensely from a continuing economic recovery. For a number of reasons, they are also more attractive to invest in than their larger counterparts. First, regional banks do not face the same types of macroeconomic exposure that MCBs do. Their growth is almost exclusively tied to domestic growth in the U.S., which has been one of the brightest spots in the global economy as of late. As a result of their concentrated, consumer and corporate lending-centric exposure and lack of risky revenue streams tied to areas such as capital markets, rising interest rates and a steepening yield curve position regional banks better for long-term growth. Regional banks' margins thrive more on higher interest rates. Rising long-term rates are driving a steeper yield curve, which should be positive for U.S. regional bank net interest margins.

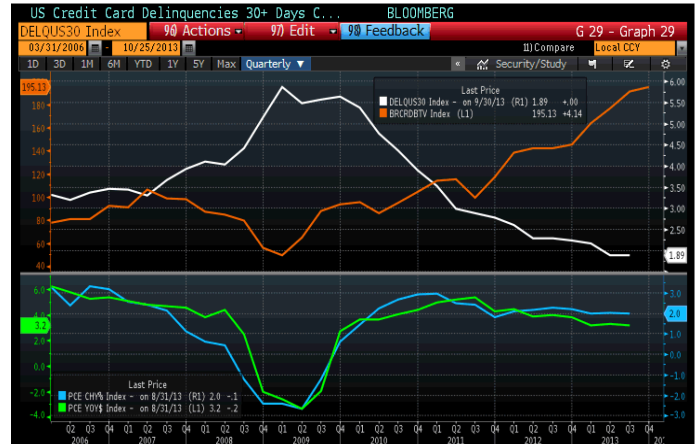
Another benefit stemming from their lack of exposure to high risk businesses and not having a major global footprint is reduced future regulatory costs. The American add-on to the Basel III standards only apply to banks with greater than $700 billion in total consolidated assets or more than $10 trillion in assets under custody, which no regional bank even comes close to meeting. As a result, regional banks do not have to undertake dilutive practices like debt or equity issues to reach the minimum capital requirements. Community banks will also have a significant transition period to meet the new requirements. The phase-in period for smaller, less complex banking organizations will not begin until January 2015. The phase-in period for larger institutions begins in January 2014.

Credit & Debit Services

We remain bullish on the Credit & Debit Card Services sub-industry as the U.S. continues to recover from The Great Recession. Personal consumption makes up roughly 70% of GDP in the U.S. and we believe the improving economic environment will lead to further consumer spending growth, since hitting record lows in 2008-09. Better consumer spending supports higher payment volumes for payment companies, driving valuations. According to Nielson, the share of purchases paid for by cards is projected to grow to 63% of U.S. volume by 2016, up from 51% in 2011 and 42% in 2006, along with cash sales continuing to trend downward. Also, the fast growing electronic payment method is a benefit to payment companies, especially as this method continues to expand on mobile platforms.

As U.S. initial jobless claims continue to fall, due to an improving economy, credit card delinquencies will continue to decline. In the chart below, the correlation between falling jobless claims and delinquencies, both 30 and 90 day, is clear. As a result, credit costs decline, which improves the earnings growth of payment companies as spending increases. Net charge-offs has also continued to decline, after peaking in 2009, which furthers our bullish outlook. In terms of our position in Discover Financial Services, they have a large amount of exposure to middle-class consumers. They also rely on lending to consumers for over 60% of revenue, something which differentiates Discover from other card services companies. As net charge-offs continue to decline, Discover continues to release loan loss reserves, which points to the continued strengthening of the American consumer. This trend also improves the quality of Discover's loan portfolio, which coincides with their traditionally conservative lending practices. However, taking a conservative approach has not hampered the growth of their loan portfolio, which has grown by about 6% YOY.

U.S. Consumer Spending (White) v. Bloomberg Payment Companies Index



Jobless Claims (Green) v. Credit Card Delinquencies 30D (Orange) & 90D (Blue)

U.S. Consumer Spending Growth % - Nominal (Green) v. Real (Yellow)

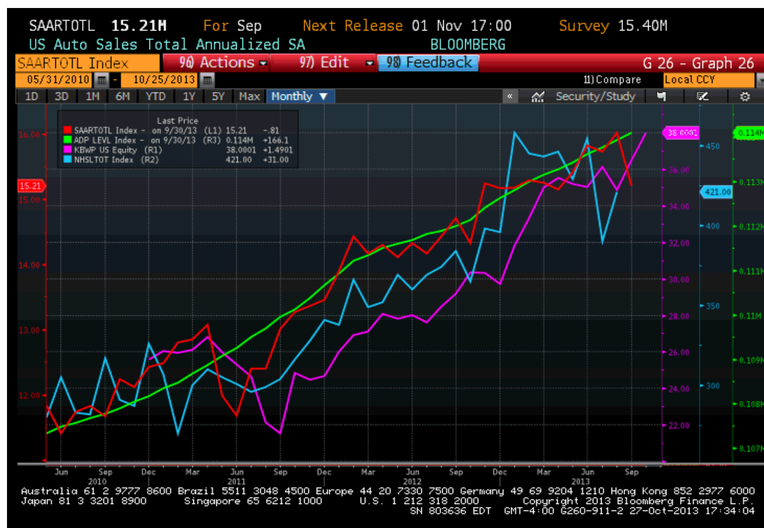
Emerging markets is an area of interest for payment companies. EM's provide payment companies with exposure to large populations without bank accounts. Also, growing GDP per capita should increasingly support long-term payments growth. Nielson estimates a 12% CAGR for global payment card purchase volumes through 2016, including a 19% growth rate for Middle East and African countries, 16% for the Asia region and 10% for Latin America, compared with 9% growth in the U.S. and Europe, and 6% for Canada.

While the regulatory action against credit card providers is unclear, as the final Dodd-Frank Rules relating to these types of financial service firms, there is not likely to be any significant effects on Discover, MasterCard, etc. Much of the regulatory change surrounds the systemically important financial institutions (SIFIs), but changes to credit services regulation needs to be closely monitored, especially as many of these companies continue to generate above average returns and some expand their business further into consumer lending.

Property & Casualty Insurers

Over the last couple years, the economic recovery has been erratic, but seems to be gaining traction as we near the end of 2013. Private sector job gains, surging auto sales and a recovering housing market create an enormous amount of new insurable exposures for property and casualty insurers. As a result, insurers have seen improvements in insurance pricing. Greater national demand for autos and homes will help boost premium volume. U.S. auto sales jumped 8.10% through September, while new home sales rose 7.90% in August, capping the weakest two months of the year. The rebound in new home sales was positive given the fallout from mortgage rates rising to a two year high over the summer. The charts below illustrate the upward trends of employment, auto and home sales, as well as the Property & Casualty Insurance index's performance (purple) given those trends.

U.S. Auto Sales (Red) v. New Home Sales (Blue) v. Private Sector Job Gains (Green) v. P&C Insurance Index (Purple)



Most property and casualty insurers exceeded second quarter consensus earnings estimates, and said prices continued to rise, though competition was increasing. Written premiums for Travelers declined YoY for the first time since the 4th quarter of 2009, as personal lines faced the most pressure. Chubb reported an 8% increase in commercial lines pricing in the 2nd quarter, noting that market conditions were at least as strong as in the 1st quarter. Renewal price gains in professional liability were 9%, two points higher than in 2012, and the company said there were no significant changes in market conditions in July. Chubb said its views may be different than those of others within the industry, because it serves the middle market and is not subject to competition for very large property accounts.

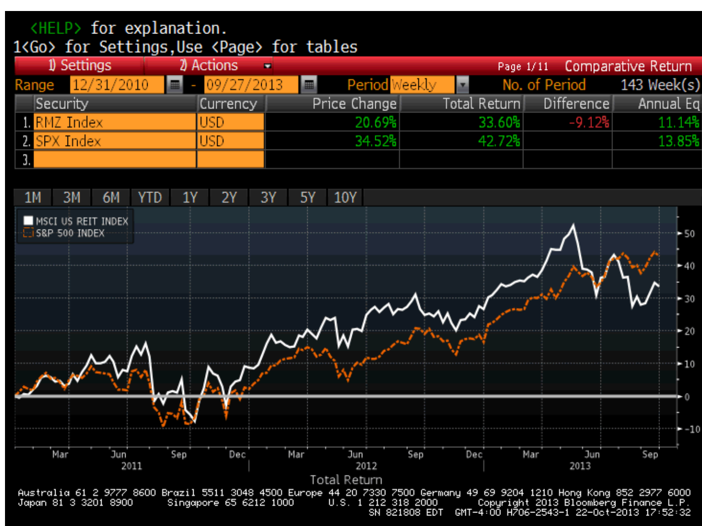
In addition to the rising level of competition facing the industry, there is also the heightened threat of severe weather, although improvements in awareness of risks relating to catastrophic events have improved. With the 2013 Atlantic hurricane season underway, weather forecasters at Colorado State University have revised forecasts slightly lower due to cooling of sea surface temperatures in the eastern subtropical and tropical Atlantic. Despite this, forecasters continue to anticipate an above-average hurricane season for the remainder of 2013. They estimated that the remainder of 2013 will have about eight hurricanes, 14 named storms (avg. is 10.5), 75 named storm days (avg. is 58), 35 hurricane days (avg. is 21.3), three major (Category 3,4, or 5) hurricanes (avg. is 2.0) and seven major hurricane days (avg. is 3.9). Kinetic Analysis Corp. said there is a 25% chance U.S. hurricanes will inflict total damage of $25 billion or higher during the 2013 Atlantic Storm season.

As regulation is set to change the future of the Financials sector, the insurance industry avoided a major hurdle when the Federal Reserve Board decided to delay applying Basel III capital standards to insurance companies. The Fed also said in the new regulation that insurers will be exempt from capital standards imposed on large banks, and do not have to use GAAP accounting rules to prove they are exempt, but will be allowed to estimate. For now, insurance companies are safe from the effects of financial regulatory reform, but the Fed has said it will draft separate capital requirements for insurance savings and loan holding companies to comply with by 2015.

Another potential headwind to the insurance industry's growth potential is the fragile state of the global economic recovery, and the possibility of events in Washington and outside the U.S. slowing the recovery. Despite improving economic indicators coming out of Europe, the future of the Greek and Spanish economies is an ongoing concern, albeit improving. Furthermore, growth rates in China and other developing economies continue to slow, which could continue to drive a sluggish US recovery. Due to the state of the global economy, the Fund believes the most compelling opportunities lie in firms with a high level of domestic revenue concentration and exposure to developed European economies. American International Group (AIG), the Financials sector's only insurance holding, aligns well with this strategy, having 75% revenue exposure to the U.S.

Real Estate Investment Trusts (REITs)

For most of the past few years, REITs have outperformed the broader index, but the imminent rise in interest rates, as the Fed begins to scale back its bond buying program, will negatively affect the industry. Due to the high-yield nature of REITs and their capital structure, changes in interest rates need to be closely monitored, as they exhibit a good amount of interest rate sensitivity. With the U.S. recovery beginning to pick up speed, a Fed taper and subsequent rise in interest rates is inevitable. The likely trend can be seen in the chart below, which shows a sharp reversal in performance, from the May high, between the MSCI REIT Index and the S&P 500. This reversal was due to speculation of a Fed taper, without any action on the Fed's part in actually scaling back its bond buying program. Surprising many, the Fed announced in mid-September that it would not taper its bond buying program, and fiscal issues in Washington will likely push the taper out a couple months. Since these developments, interest rates have come back down and REITs have rallied. However, it is not recommended that new capital be committed to this trade, due to the inevitability of the Fed tapering and rising interest rates in the near term.



Fed taper-talk, which began on May 22nd, has had a clear impact on bonds, the U.S. REIT Index (white/purple) and the Fund's two REIT holdings, American Tower Corp. (Green) and Weyerhaeuser Co. (Blue). Again, while REITs have rallied since the September Fed meeting, this is not a trade that is advised. The Fund expects a similar trend to develop when the Fed taper talk picks back up towards the end of 2013 and early 2014. As mentioned earlier, the capital structure of REITs makes them susceptible to downward pricing pressure when interest rates rise. REITs rely on leverage to acquire property and make enhancements to the existing property in their portfolio. This leverage can come in the form of notes, bond issues or lines of credit obtained from a bank. Interest obligations accompany this leverage, with rising interest rates increasing the cost of borrowing, which impacts their bottom-line. Rising rates will likely also slow down the pace of property acquisitions, which are the primary sources of revenue growth, since these acquisitions are largely funded by debt issuance. As a result, any REIT exposure in the Fund should have shorter property lease duration. Short term property leases allow the company to adjust lease rental prices more frequently, giving them greater flexibility during periods of rising interest rates. This allows the company to adjust prices to reflect the changes in borrowing costs.

Sector Outlook

Despite the volatility experienced by the Financials sector, throughout the summer and what we expect will continue, the Fund remains bullish on the sector. Currently, the sector remains about 5% under our target weight, as we have trimmed some positions to allocate funds towards Financials stocks that are not banks. The top performers within the sector are investment brokerage providers, life insurance providers and diversified financial service providers. We expect this to continue, as the large banks and investment banks continue to operate in an environment of minimal growth and increasing regulations.

Valuations for the sector continue to remain attractive. Many stocks still trade well below their book value, and the Fund continues to search for stocks trading below book value, but having above average returns on equity. REIT valuations are among the highest in the sector, but we do not view this as an industry worth pursuing. While the delayed Fed taper did create a tailwind for REITs, the Fund does not view this as a trade worth pursuing. It is merely a short term recovery of what was lost throughout the summer, and we view it solely as a short term trade, as the Fed taper and subsequent rise in rates is a matter of when and not if.

Given all of this, balance sheets continue to improve and cost cutting efforts are in full swing. Housing also continues to improve, despite the recent slowdown in mortgage origination and refinancing. Over the long term, the rise in rates should help improve net interest margins. Despite all of the improvements going on within the sector, the Fund remains hesitant to overweight the sector due to the current regulatory environment. Because of this, the Fund is working to identify stocks which are shielded from the regulatory changes and those that trade at attractive valuation levels.

Trades

American Tower Corp. (AMT)

As was mentioned above, REITs performed poorly over the summer months as interest rates rose. Interest rates have a negative impact on the industry, both in terms of business operations and investor sentiment. As a result, the Fund reevaluated its two REIT holdings, American Tower and Weyerhaeuser, to determine which loan portfolio had the longest duration, or would be the most impacted by a further rise in interest rates. Ultimately, AMT was liquidated for this reason. Also, WY presents the opportunity for exposure to the housing rebound, both with its homebuilding unit and wood products segment which provides materials used to build houses.

Chubb Corp. (CB)

After returning to school in late-August and revaluing Chubb, the Fund determined that the stock was trading above fair value and needed to reallocate the funds to a stock with more upside. On September 19, the Fund liquidated its position in CB, realizing a gain of 71.05%, since purchasing the shares in 2009. CB trades at 12.52x forward earnings, compared with 11.36x for the P&C Insurance ETF. This, along with performance measures stacked up against its peers that did not warrant such an above average P/E multiple, led the Fund to believe that CB had returned to fair value in the market. Additionally, many Financials stocks still trade at a large discount to their book value, as they continue to recover from the financial crisis. Due to CB's valuation, the Fund elected to pursue growth elsewhere in areas where there was more upside on a relative basis.

American International Group (AIG)

In an attempt to maintain diversification within the Financials sector, the Fund purchased AIG to replace the liquidation of Chubb Corp. Versus its peers; AIG is undervalued, especially on a price to book basis. Still in the midst of recovering from the financial crisis, AIG trades at a 21% discount to its book value, despite significant operational improvements, restructuring efforts and decreasing risk. The P&C Insurance ETF trades at a book value of 1.24. The Fund believed in the turnaround occurring at AIG was still in its infancy, and thought the current price was a compelling entry point, even after rising 40% YTD.

Holding Analysis

American International Group (AIG)

Price at Sept. 30: **$48.63**

Percentage of Portfolio: **N/A**

Percentage of Sector: **N/A**

The fund recently added its position in American International Group. The stock has performed well in 2013, and especially so in the second and third quarters, and is on pace to outperform the S&P Financials Sector and the broader S&P 500 Index. Optimism for further price appreciation and continued profitability remains high, due to AIG's current optimization of their capital structure, in which it has retired over $5.5 billion in debt this year and approved a share buyback program authorized up to $1 billion. This in turn, should lead to a lower cost of capital for the company, as well as increased shareholder wealth over time. It is also assuring that AIG's EPS has been relatively stable and positive over the past two years, and this has led the board to approve a $0.10 divided per share in the third quarter. This is a positive sign supporting the financial strength of AIG which hasn't paid dividends since Q3 of 2008 at the height of the financial crisis. In terms of AIG's core business, it benefitted from catastrophe losses stemming from Hurricane Sandy being lower than expected. Rate increases are also helping to drive better profitability. Various other segments have stepped up their performance as well. AIG's Life & Retirement has performed well, as variable annuity sales remained a core driver. Asset Management services have also picked up, as higher customer inflows are driving increased fee income.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	AIG US Equity	USD	25.27%	25.52%	17.22%	56.22%
2.	S5FINL Index	USD	9.36%	10.33%	2.02%	21.28%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Citigroup, Inc. (C)

Price at Sept. 30: **$48.51**

Percentage of Portfolio: **2.60%**

Percentage of Sector: **23.26%**

Citigroup Inc. performed well in the second quarter, with only a slight decrease in total revenue yoy, although it increased net income nearly 10%, as expenses and efficiency continued to improve. Third quarter performance was rather disappointing, as nearly all revenue segments decreased over the period. Citi's global presence did, to a degree, mitigate some of the poor performance of its North American earnings due to a challenging U.S. economic environment. International Consumer Banking held up well, with investment sales up 20% and card purchase sales up 7%. Mortgage banking and fixed income trading revenues were the hardest hit, down 12% and 26%, respectively, as a result of rising interest rates and the Fed deciding not to taper. Despite much of this being expected, as it was reported by the company throughout the summer months, interest rates and their effects on Citi's lines of business need to be monitored closely. A continued positive trend, however, has been the improvement of Citi Holdings. Revenues continued to increase, up 28%, and the percentage of total assets continues to decrease, down 29%. Citi Holdings now represent just 6% of total assets.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	C US Equity	USD	9.65%	9.70%	1.39%	19.91%
2.	S5FINL Index	USD	9.36%	10.33%	2.02%	21.28%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Discover Financial Services (DFS)

Price at Sept. 30: $50.54

Percentage of Portfolio: 2.93%

Percentage of Sector: 26.19%

Discover Financial Services grew both first and second quarter revenues more than 2.5%. During the period, U.S. Consumer Credit Spending month-over-month rose nearly 80% in May to the year's high of $19.6 billion, and U.S Personal Income had increased in both quarters as well. DFS continues to record year-over-year top- and bottom-line growth. The company has taken advantage of improved loan growth and continued to fund stock repurchases. To date, DFS, in 2013, has seen a jump in card receivables and an increase in personal, private, and student loans. Also, better results out of its Direct Banking unit have been a boost to profits. The combination of improved consumer credit metrics, increasing loan demand, and continued cost efficiency improvements support future revenue and earnings growth.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	DFS US Equity	USD	12.71%	13.65%	5.34%	28.54%
2.	S5FINL Index	USD	9.36%	10.33%	2.02%	21.28%
3.	SPX Index	USD	7.16%	8.31%		16.95%

PNC Financial Services Group, Inc. (PNC)

Price at Sept. 30: **$72.45**

Percentage of Portfolio: **2.55%**

Percentage of Sector: **22.84%**

The turbulent economic environment has been a challenge for the regional banking market; however, PNC's stock price has performed very well over the period, outpacing the KRE S&P Regional Banking Index since March. Rising interest rates slowed mortgage origination and refinancing activity, negatively impacting their mortgage banking business. The Asset Management business does seem to be picking up, however, as it continues to capture more and more customers' investments recently. Brokerage fees also continue to increase. PNC also continues to expand into the Southeast and Midwest markets, which should provide growth opportunities down the road. Loan loss provisions continue to wind down, which will continue to bolster the bottom line. Long term, growth prospects look attractive, as a continued economic recovery will drive consumers' appetite for loans.

Weyerhaeuser Co. (WY)

Price at Sept. 30: **$28.63**

Percentage of Portfolio: **1.91%**

Percentage of Sector: **17.09%**

Despite Weyerhaeuser Co.'s poor stock performance, the company had a strong second quarter. Revenues increased nearly 10% in the second quarter and net income grew by 36%. Nearly every segment saw an increase in revenue. Growth was primarily driven by increases in the Wood Products revenue segment, which grew by 11%, as well as the Real Estate segment, which increased by 36%. During the period, expenses remained relatively constant, leveraging the high net income growth of 36% over and above first quarter results. The National Association of Home Builders Market Index had steadily increased over the first two quarters of 2013, before taking a downward turn recently in the third quarter, after interest rate spikes. The U.S. housing market, although slowing recently, continues to provide growth opportunities for WY, as well as increased export activity to Asia. WY also recently finalized the acquisition of Longview Timber, providing an additional 645,000 acres of timberlands. WY is, however, approaching a normal seasonal decline, and should see a dip in operating profits because of this, as well as the recent correction in wood commodities. WY's Real Estate unit is positioned to report stronger numbers on the backs of improved single-family home demand, despite margin pressures on those homes. It will also be interesting to see how WY has progressed in its talks to sell the Real Estate/homebuilding unit (WRECO). Management has been actively talking to potential buyers for the last few months, and a deal seems to be close. The company is attempting to focus on the highly productive timberlands and wood products business. The sale of WRECO, which is expected to generate $2.5-$4 billion, will fund a stock buyback of up to 17% of outstanding stock, a 70% pay down of its debt, a special $5-$7 per share dividend, or most likely a combination of all three. As this is a REIT, the impact of interest rates on WY needs to be closely monitored.

Management is optimistic going forward, however, as they've just recently closed on the acquisition of 645,000 acres of high value timberlands, from Longview Timber LLC.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	WY US Equity	USD	-8.76%	-7.45%	-15.76%	-14.10%
2.	S5FINL Index	USD	9.36%	10.33%	2.02%	21.28%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Health Care Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
CFN	CareFusion Corp.	1390	$36.90	$40.32	$46.34	5.46%
ESRX	Express Scripts Corp.	525	$61.80	$67.00	$74.00	7.25%
JNJ	Johnson & Johnson Co.	400	$86.69	$85.60	$95.59	7.93%
MCK	McKesson Corp.	540	$128.30	$122.00	$131.98	9.29%

Sector Summary

From March 28, 2013 to September 30, 2013 the health care sector has consistently outperformed the S&P 500. However, many have been skeptical about this recent success. These skeptics believe that the market will soon correct itself, in regards to bringing the health care sector back to reality. The rationale behind this is regulatory pressure, market share threats, and increasing expenses. In 2012, the Food and Drug Administration (FDA) approved 39 new medicines, which a number like this has not been seen in 16 years. However, many believe that the FDA is starting to become more restrictive on drug approvals than they were in 2012. Furthermore, bearish proponents see the threat of market share for large pharmaceuticals as a major problem. This is due to the recent rise of generic replacements. Such replacements have occurred abroad and are expected to be observed in the US, on a major scale, in the near term future.

The threat of increasing expenses would mainly be felt through the implementation of the Affordable Care Act (ACA). Companies, especially medical device companies, are subject to higher tax rates through this law. Furthermore, companies within the sector are very wary of operating profit margins. With costs continually increasing from the ever changing technological advances, health care sector companies need to be aware of additional expenses. The surge in technology costs and the threat of the ACA increasing tax rates are both expenses of which companies must be aware. However, there are many out there that oppose the skeptics. They believe that the health care sector will continue to outperform the S&P 500.

Sector Snapshot:

Recommendation: Underweight

- Sector Return: 14.75%
- Benchmark Return: 9.01%
- Sector Weight: 10.02%
- Benchmark Weight: 12.55%
- Sector Beta: 0.83
- Benchmark Beta: 0.87

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Sector Managers:
Christopher Harris

Sector Analysts:
Jake Forrester
Darnell Miller

Sector Summary (Cont.)

The rationale behind this continued success is the increase in the aging population, the pharmaceutical and biotechnological alliance, and a predicted mainstay of FDA drug approval. In 2013, the portion of the US population that will be 65 or older is predicted to grow 3.6%. This number is 2.6% more than the actual growth of the total population. This growth is estimated to continue for another 27 years until 2030. This aforementioned growth is expected to increase the demand for many, if not all, of the firms within the sector. If this holds true, the sector will ultimately reap the benefits from this aging population. As previously mentioned, firms are about to lose market share due to the increase in generics. With many popular drugs losing protection, pharmaceutical firms are guarding themselves through increasing licensing, acquisitions, and tactical partnerships with biotech companies. This protection will help compensate for lost revenues, which is good for both the pharmaceuticals and the biotechs with whom they are partnering. Lastly, many believe the health care sector will continue its success versus the S&P 500 because of the FDA's recent leniency in drug approvals. As previously stated, the drastic number of new medicines approved in 2012 has not been seen in over 16 years. Bullish proponents believe that the FDA's leniency will continue in the years to come, due to the FDA's Breakthrough Therapy label. Essentially, this allows the FDA to rush and update approval for new drugs.

Our recommendation for this semester was to overweight the health care sector because of the opportunity growth within each sub-sector, especially biotechnology. It was during the first half of the month that biotech companies were soaring. The fund wanted to take advantage of these boom in the industry and position ourselves in a biotech company. With the outlook of the health care industry looking positive it is recommended to overweight the health care sector. The fund's health care sector has been outperforming the S&P 500 and the health care index and overweighting the sector is only going to magnify the gains and returns.

Industry Analysis

Medical Equipment & Devices

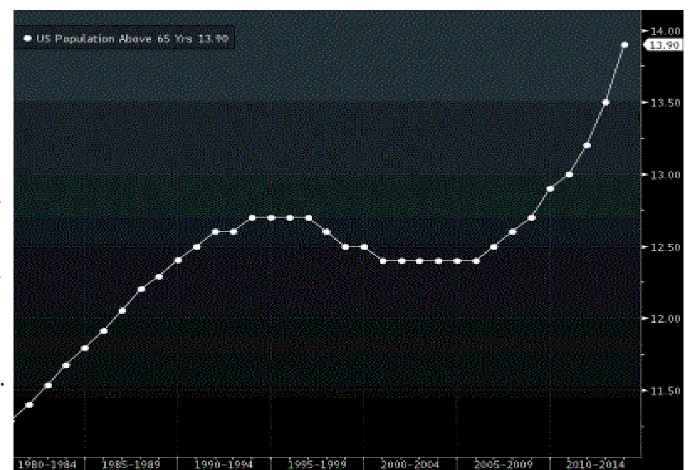
The health care industry did well over the past six months despite uncertainty around the Patient Protection and Affordable Care Act. From April to September the U.S. Medical Devices ETF (IHI) and the SPDR S&P Health Care Equipment ETF (XHE) both rose 11.57% and 11.85% respectively, communicating a bullish market for medical equipment and devices. Revenues from medical devices, as a whole, have been driven during this period by a worldwide increase in hip, knee, and arthroscopy devices. Hip sales were up 6% during the period, knee revenue growth was the highest since Q4 of 2009 at 4.2%, and arthroscopy revenues grew half a percent.

Moving forward, the fund does not plan to see any major consequences of the looming 2.3% medical device manufacturing excise tax from the Patient Protection and Affordable Care Act. Companies will on average only have to generate an additional 1% of revenue to offset this tax. In the coming years, we should continue to see growth in the medical devices subsector due to increased access to health care brought by the Affordable Care Act as well as the aging of baby boomers. The portion of the U.S. population 65 years and older is expected to grow 3.4% by the end of this year. Additionally, as immigration reform legislation progresses, there should be an increase in the overall U.S. population. This larger patient pool is forecasted to boost overall procedural volumes through 2030.

The market should expect to see implantable cardioverter defibrillator (ICD) and pacemaker revenue grow through this year. This will be a result of faster procedure growth and an improvement in European economic growth along, with expirations of Japanese price cuts. Additionally, the first MRI- safe pacemakers were developed in Japan along with new ICDs that reduce the risk of complications. Other growth in heart ware will be the result of ventricular assist devices that have expanded the treatable patient population and drive implant growth.

There should be a continued increase in revenues, but at slower rates than seen in the past. This is because over time, increased competition in the industry will result in higher quality products that will result in fewer follow-up procedures for patients. Further down the timeline, we additional growth should emerge as the global economy emerges and patients in developing countries gain access to health care.

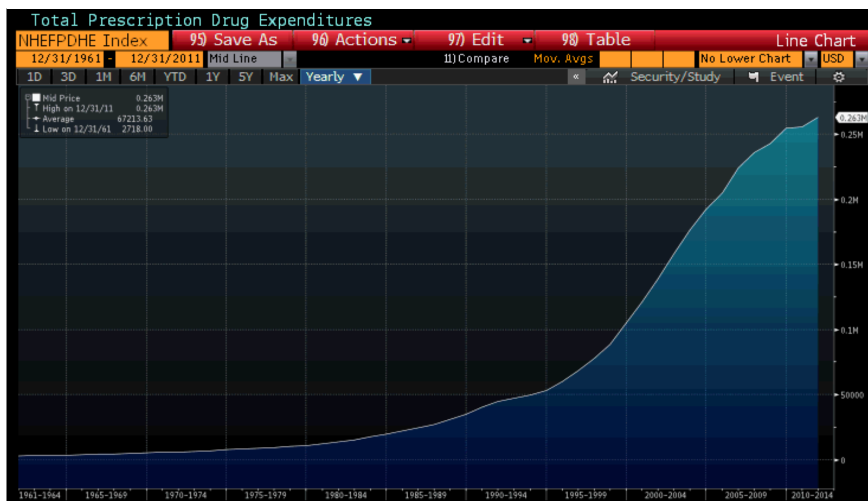
U.S. Population over 65 Yrs.



Pharmaceuticals

During our April to September period, we saw the pharmaceuticals space experience positive growth. The U.S. SPDR S&P Pharmaceuticals ETF (XPH) grew 26.19 % while iShares U.S. Pharmaceuticals ETF grew 11.39%. Domestically, these growth improvements are a result of the rise in drug prices, increase in FDA approval, and an overall increased enthusiasm around drug development. This is evident as 2013 has brought on 22 IPO deals totaling $1.8B, bringing in an average of 49% return, just under the broader biotech average of 50%. There have been over 90 drug approvals by the FDA this year alone—more approvals than ever before. We have also seen $17B worth of M&A activity in the subsector this year with companies like Amgen and Actavis benefiting greatly. Along with this there is a trend of companies honing in their efforts to gain additional revenues. Companies like Mark & Co. and Eli Lilly have done so by focusing on generics. They are of Japan's highest suppliers as the country seeks to increase its generic drug use after the Japanese failed to reach their adoption goals. Lastly, there is a trend of companies focusing on specialized drugs or orphan drugs as there is a lack of development in those spaces.

Total Prescription Drug Expenditures



Moving forward, competition from generic drugs will remain as patents continue to expire for brand name drugs. This is evident as there are currently 144 brand name drugs that are set to lose patent protection by 2021. A large number of drug approvals should occur, as there are at least 230 drugs in Phase III in the U.S. Increased approvals abroad should also be expected as Europe tends to loosen their approval process. Along with these approvals, licensing deals should increase between drug developers and large scale manufacturers who are more capable than some smaller biotech firms.

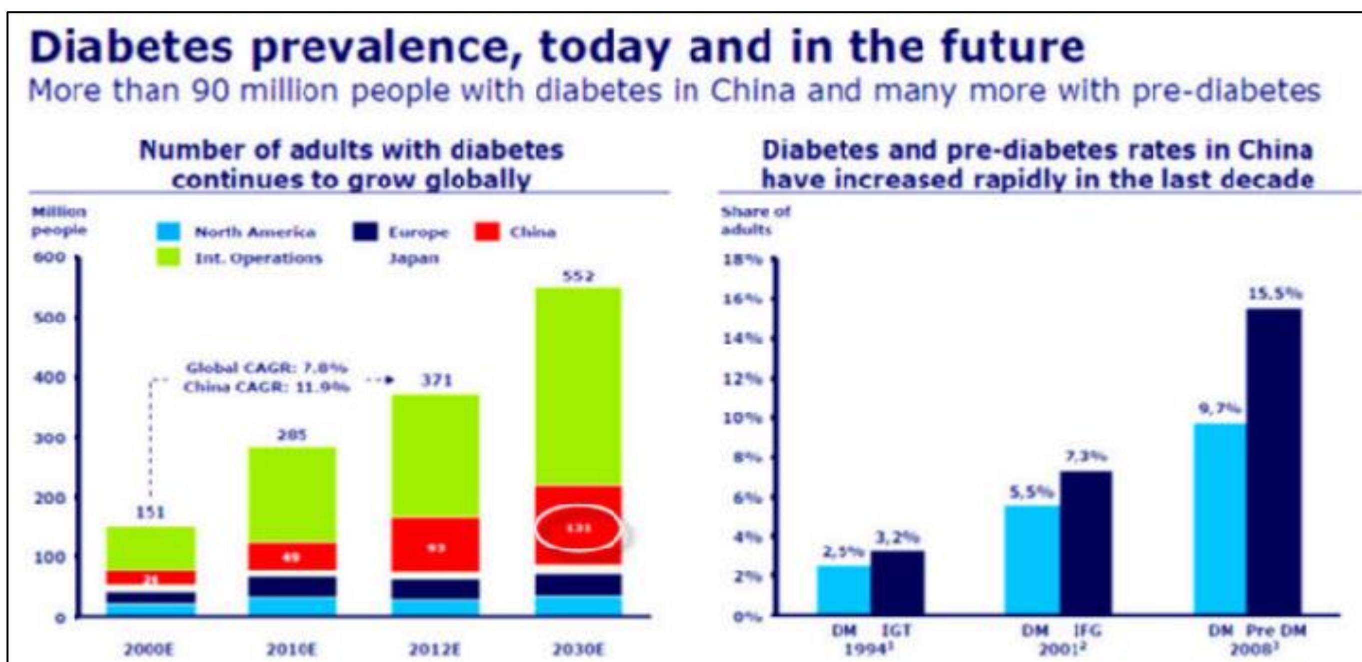
An area that is expected to make large improvements moving forward is cancer drugs. Bristol-Myers Squibb, Roche, and Merck & Co. are leaders in developing drugs that allow the body to naturally target and kill cancer cells. Given that these new drugs enter the approval process down the road, it could mean the emergence of new types of drugs that no longer act as treatments, but as enablers. Increased demand due to population growth, as mentioned above, as well as continuous increases in drug prices will maintain the positive outlook for pharmaceuticals in the future.

Industry Outlook

In 2013, the health care industry was one of the best performing sectors in the S&P 500. As we head towards 2014, this trend is expected to continue. Over the course of the year, many health care companies have been merging and acquiring smaller health care companies to improve their business. All these recent acquisitions have boosted the industry in a time of uncertain pertaining to the Affordable Care Act and the new Health care reform. With the number of companies acquiring other health care companies and expanding their business into global markets, the health care sector is expected to continuing growing and outperforming the S&P 500. The number of licensing deals that have taken place over the last couple of years is very promising and there are no signs of it slowing down.

New Licensing Deals

A rising issue that has been coming up in the health care industry is the increase of people with diabetes. There is a rising demand for treatment of diabetics, especially in China. There has been steady growth YoY of new people developing diabetes



However, with all of the optimism about the future of the health care industry there are some that think that with rising bond rates could affect the industry. If bond rates continue to rise this could affect the acquisitions of other health care companies. Thus making it hard for companies to grow and expand. Even with this issue, there is overwhelming upside for the health care industry; therefore, the bullish trends far outweigh the potential impact of this hurdle. The increase in drug sales in 2012, and the rising population and global demand for health care products, the future looks very bright.

Trades

Amgen Inc. (AMGN)

On October 10, 2013, 235 shares of Amgen Inc. were purchased. Amgen was acquired because of the growth potential and the fact that the Biotechnology industry was booming. Biotech firms have been the top performers of the year thus far and a lot of growth opportunities existed in this industry. The recommended weight is overweight for our sector weighting, and this addition has put us to neutral weight – closer to the recommended weight. With the ongoing success of Biotech

CareFusion Corporation (CFN)

On April 30, 2013, 370 additional shares of CareFusion Corp. were purchased at $33.45. CareFusion's strategy to growth through M&A as well as initiating its $750 million share repurchasing program indicates more positive things to come for this medical devices company.

Holdings Analysis

Amgen Inc. (NASDAQ: AMGN)

Price at Sept. 30: $11.92

Percentage of Portfolio: NA

Percentage of Sector: NA

Amgen is currently the world's largest biotechnology company. Three hundred and forty shares of Amgen's stock were acquired by the fund on October 10, 2013. The price per share of the acquisition was $109.40. The rationale behind this acquisition was the belief that Amgen, even as the world's largest biotechnology company, has a lot of upward potential going forward. This potential is seen through Amgen's most recent earnings report. On October 22, 2013 Amgen released its third quarter earnings, in which, the firm outperformed estimates by 12.21%. Furthermore, Amgen's potential is notable through their Earnings Growth in 2013. Currently, Amgen's Earnings Growth, a measure of year on year EPS, is 8.82% greater than the industry (biomedical) benchmark. Amgen's future growth outlook was a main driver in our purchase. The company has recently purchased Onyx, a global biopharmaceutical company. This purchase will help drive Amgen's value by bringing over Onyx's staple drug, Kyprolis. This acquisition marks Amgen's fifteenth acquisition in the last nineteen years. These said acquisitions and the company's growth potential, show signs that Amgen is a dominate force in their ability to create and/or buy market share.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	AMGN US Equity	USD	9.18%	10.14%	1.84%	20.87%
2.	S5HLTH Index	USD	9.86%	10.91%	2.61%	22.54%
3.	SPX Index	USD	7.16%	8.31%		16.95%

CareFusion Corp (NYSE: CFN)

Price at Sept. 30: $36.90

Percentage of Portfolio: 2.74%

Percentage of Sector: 27.33%

CareFusion has been one of the top performers in the health care sector returning more than 30% YTD. The fund has seen steady gains since acquiring shares on 3/21/2013, gaining 13.60% since acquisition. We believe that there is a lot more value in CareFusion and set our price range from $40.32-$46.34. CareFusion has planned to spend $2 billion over the next couple of years. This is a strategy to grow as a company through acquisitions and mergers to help acquire more market share within the industry. CareFusion has also announced a $750 million share repurchase program for 2014. In the future, the fund projects a moderate growth rate ranging from 3-5% YOY revenue growth. These growth rates are justifiable because CareFusion has recently entered into new contracts with more than 100 hospitals and health care services providers for their Pyxis ES platform technology. They plan to broaden their markets as they do not have a lot of presences in global markets with about 80% of their revenues coming from the United States. This is seen as a great opportunity for growth and an opportunity to expand as a company. With these avenues for growth, the fund plans to hold CareFusion in the portfolio until it reaches the intrinsic values.

Express Scripts Holdings Company (NASDAQ: ESRX)

Price at Sept. 30: **$61.80**

Percentage of Portfolio: **1.73%**

Percentage of Sector: **17.29%**

Express Scripts Holding Company is the nation's largest full-service pharmacy benefit management company ("PBM"). Currently 525 shares of Express Scripts' stock are held within the portfolio. Express Scripts was purchased on February 17, 2009 at $46.71 per share. The rationale behind holding the company was a mixture between the company's stability and future growth. Express Script's last four earnings report have been extremely stable. There have been no real surprises in regards to their earnings as they have stayed within 1.02% of estimates in their last four releases. Furthermore, Express Scripts recently acquired Medco Health Solutions. This acquisition shows that the company is cultivating a forward looking approach in their upcoming ventures. Also, Express Scripts has shown a great amount of resiliency in regards to holding on to large scale customers. In 2011, Walgreens, a major customer, did not renew their contract with Express Scripts. However, the two sides we able to come to a multiyear agreement on July 19, 2012. Express Script's retention of their value drives, stability, and growth prospects were all major factors in keeping the company within the portfolio.

Johnson & Johnson (NYSE: JNJ)

Price at Sept. 30: $86.69

Percentage of Portfolio: 1.85%

Percentage of Sector: 18.47%

Johnson & Johnson, a worldwide leader in pharmaceutical manufacturing, medical device manufacturing and distribution, and consumer products, has slowly but surely appreciated within our portfolio. From April to September they grew from $81.93 to $86.69 after peaking at $94.39 in early August. After valuation, JNJ was given a price ranging from $91.24-$107.44. The stock was found to be mispriced due to the market's lack of focus on their long term growth potential. With the steady improvement of the health care sector, the fund will continue to see growth and Johnson & Johnson will reap benefits from this growth. They are geographically diversified, planning to further increase their presence in BRICK nations, with no patents set to expire soon. The fund expects revenues to grow at a rate between 6-7% over the next twelve months as their acquisition of Synthes is projected to expand their medical device manufacturing abilities. It should also be noted that Simponi and Stelara, their two bestselling arthritis drugs should continue to see marginal increases due to increased market share, price, and demand as they continue expansion. Increasing COGS and the Affordable Health care Act are pending risks for JNJ. The hope is for JNJ to be more efficient, reducing cost of sales over time. The Affordable Health care Act will impose 2.3% excise tax on total revenues of medical device manufacturers even if they do not make profit. This tax will have an initial significant impact on JNJ's earnings. This is not anticipated to be a major long term issue given JNJ's size along with the slow emergence of the global economy. As developing countries continue their development, and as drug prices continue to rise, JNJ's price should rise due to increased demand.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	JNJ US Equity	USD	6.33%	7.93%	-.37%	16.16%
2.	S5HLTH Index	USD	9.86%	10.91%	2.61%	22.54%
3.	SPX Index	USD	7.16%	8.31%		16.95%

McKesson Corporation (NYSE: MCK)

Price at Sept. 30: **$128.30**

Percentage of Portfolio: **3.70%**

Percentage of Sector: **36.91%**

McKesson Corporation, a North American pharmaceutical and medical device distributor, has continued to perform very well for the portfolio. The stock price has grown from its April 1st price of $107.93 to $128.30 at the end of September. The price range is $120.88-$136.82 for the stock. It is believed that McKesson will continue to generate alpha for our portfolio as, it is expected to see a continued inflow of positive news around the firm. They have had considerable success with their PSS World Medical acquisition which should support $125B in revenues as well as increase their EBIT margin to at least 2%. As MCK continues to drive their business plan forward, scaling sustainable acquisitions, continued growth should be reflected in their stock price. The major risks confronting McKesson's business are their customer base along with the implementation of the Affordable Health care Act. Their ten largest suppliers generated 43% of their total purchases and 51% of their total revenues. A loss of one of these relationships would result in a significant loss in revenue. The Affordable Health care Act is a nebulous piece of legislation with a plethora of opinions around how its implementation will impact the market.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	MCK US Equity	USD	18.84%	19.29%	10.98%	41.36%
2.	S5HLTH Index	USD	9.86%	10.91%	2.61%	22.54%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Industrials Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
BA	Boeing Co.	555	$117.50	$119.28	$155.05	38.20%
CAT	Caterpillar Inc.	475	$83.40	$84.02	$101.32	-2.81%
CMI	Cummins Inc.	295	$132.87	$117.50	$125.50	15.80%
FDX	FedEx Corp.	265	$114.11	$114.63	$146.66	16.54%
GE	General Electric Co.	1660	$23.89	$20.25	$25.60	4.98%

Sector Summary

The Industrials sector has performed as we anticipated. The sector experienced minimal turnover during this period. We sold Joy Global Inc. and 3M Company and purchased Fed Ex Corporation. On an annualized basis, the industrials sector returned 24.83% vs. an S&P 500 Index return of 16.95%. Period estimates for the annualized return of our holdings in the sector are approximately 32%. Much of the outperformance in the sector was attributed to our position in Boeing. The annualized return for this holding during the period was 85.13% and with 30% of our sector weight allocated to this stock, there is little doubt where the outperformance came from. The largest detractor from performance was our position in Joy Global. Joy's fundamentals changed and once the Fund identified the changes, we liquidated this position.

Sector Snapshot:

Recommendation: Overweight

Sector Return: 15.00%

Benchmark Return: 10.48%

Sector Weight: 22.28%

Benchmark Weight: 18.24%

Sector Beta: 1.06

Benchmark Beta: 1.02

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   Transportation & Logistics
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   Trades

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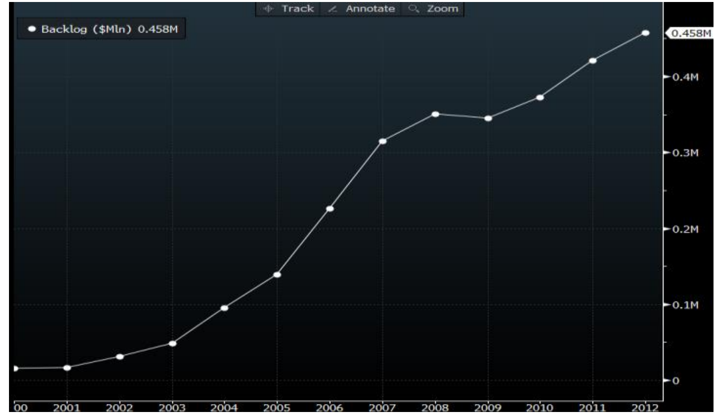
Paul Neumann

Analysts:
Rebecca Gallagher
Jess Hunter
Robert Pinkalla

Industry Analysis

Aerospace & Defense

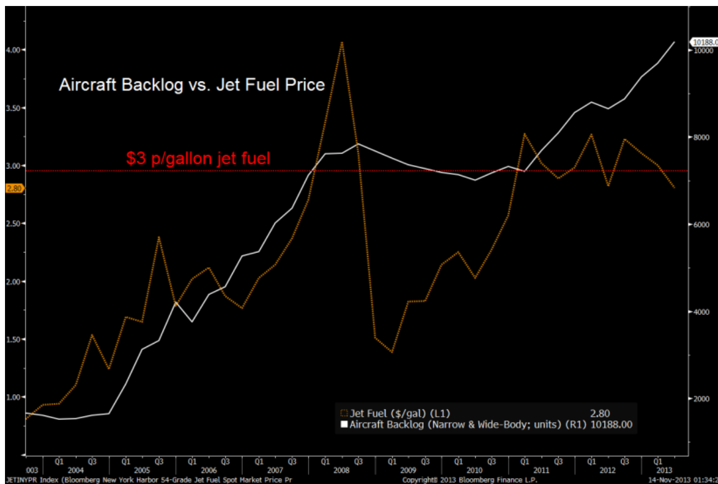
Aerospace & Defense v. Industrials v. S&P 500



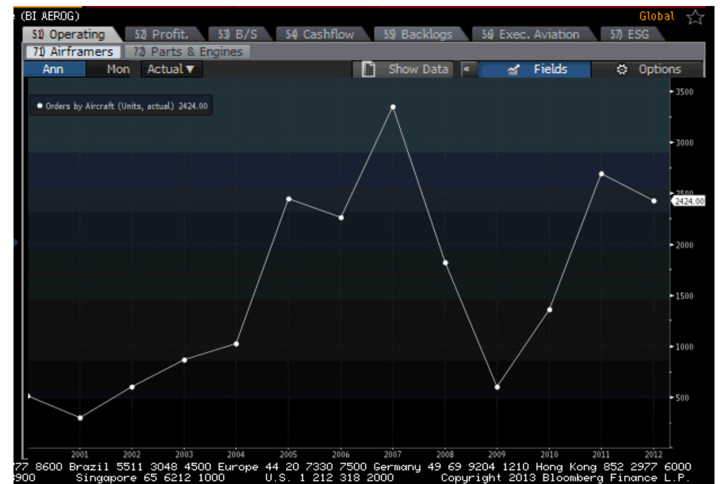
Defense Backlog per Year

Over the last six months, the aerospace and defense industry has significantly outperformed both the S&P 500 Index and the Industrials Index. This is mainly due to the increase in orders and large backlogs across the industry.

Moving forward, the A&D sub sector will take a hit on the government revenue side due to the cuts in national defense spending due to debt ceiling issues. Commercially, the slowing growth of both China and India will lessen demand for aircraft and will likely cause a reduction in backlogs from those countries.



Aircraft Backlog v. Jet Fuel Price



Total Aircraft Orders per Year

Though there are negative trends for the sub sector, we are still convinced this is a profitable area to invest in due to the steady revenue growth ensured by the large defense backlogs mentioned above. Additionally, high fuel costs drive demand for more efficient aircraft, driving sales. Boeing advertises a fuel savings of 13% with its new 737 Max and a 20% savings with its 787 compared to similarly sized planes. Lastly, aircraft manufacturers are seeing an improvement in profitability as projects move along the pipeline and uncertainties are minimized.

Construction & Mining Machinery

London Metals Exchange Index for the Major Metals

The construction and mining industry has been sluggish in 2013. The construction industry has been dependent on the growth of developing countries such as China, whose economy has been slow and so has their construction needs. The mining industry has also struggled with a decrease in metal commodity prices, down 12% YTD as of June. This hampers the purchasing of new mining equipment, mainly affecting our holding of Caterpillar (CAT).

The mining industry has also seen a across the board cuts to capital expenditure budgets due to weak metals prices. The top four mining companies expect to further reduce spending by 10%. These cuts have caused companies to delay equipment purchases.

Looking forward, we will continue to see cuts to capital expenditures and delayed equipment purchases. 2014 guidance shows a 15.5% decline in capital expenditures. This will lead to low revenues for mining equipment manufacturers.

However, we will see positive growth in revenues from rental companies due to future fleet expansion. There has been high demand for equipment rental in the U.S. As companies delay purchasing, rental revenues will increase even more.

We also forecast a rebound in emerging market economies in the future. A recover in these countries, especially China, will drive revenues as infrastructure development increases as the economies expand. We are currently seeing strong equipment demand from Brazil as they prepare for the 2014 World Cup and the 2016 Olympics.

Rental Capital Spending (2005-2012)

Mining Capex Consensus Estimates							
(in USD)	2012	2013E	%	2014E	%	2015E	%
Top 10	83,085	69,004	(16.9%)	62,674	(9.2%)	55,088	(12.1%)
BHP	22,899	15,270	(33.3%)	13,196	(13.6%)	13,226	0.2%
Rio Tinto	17,458	13,247	(24.1%)	11,017	(16.8%)	8,647	(21.5%)
Vale	16,442	14,983	(8.9%)	14,115	(5.8%)	12,501	(11.4%)
Barrick	6,369	5,025	(21.1%)	3,194	(36.4%)	2,789	(12.7%)
Anglo American	5,607	6,423	14.6%	6,581	2.5%	4,586	(30.3%)
Freeport	3,494	5,496	57.3%	6,598	20.1%	6,480	(1.8%)
Newmont	3,210	2,312	(28.0%)	2,316	0.2%	2,226	3.9%)

Source: Company data, Bloomberg

Agricultural Machinery

Global Corn & Soybean Consumption (Metric Tons) & Global Corn Consumption (YoY%)

The agricultural machinery industry has underperformed the industrials sector as a whole. However, there have been signs in 2013 that the agricultural machinery industry may be on the rise again. The YoY% of corn consumption globally has spiked, and the consumption of both corn and soybean by volume has been on the rise. Additionally, global grain consumption is setting record highs. The higher consumption of these commodities necessitates higher production. High production of these commodities in turn leads increased equipment purchases.

North America and Brazil farm tractor sales have been on the rise, which presents an opportunity for revenue growth. These factors should assist in better earnings in the future for CMI.

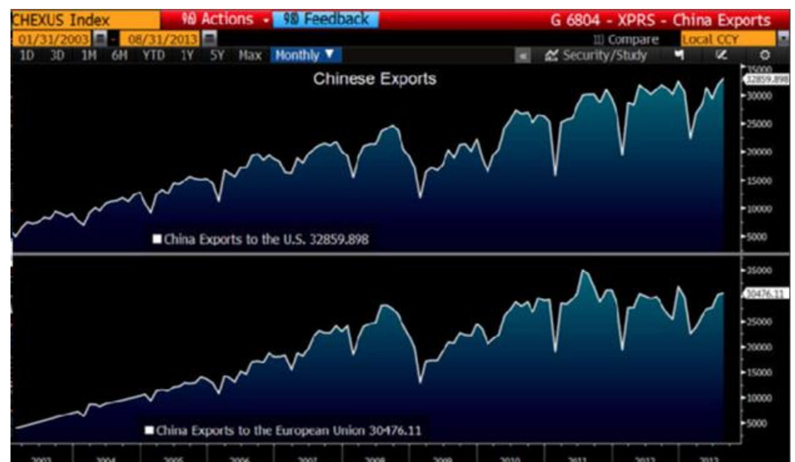
Looking forward, we will continue to see high consumption of grain, corn and soybeans as income growth in developing countries allows for improved diets and higher consumption. This high demand will drive agriculture equipment sales.

North America (White) v. Brazil (Orange) Farm Tractor Sales (YoY%)

Transportation & Logistics

Freight and package transportation has not performed as well as the industrials sector in general. Yet, there is the continuous growth of exports from China to the U.S. and European Union. China's cheap labor and currency makes it an attractive global manufacturer, and a high demand for its exports requires more freight transportation. There has been a sharp increase in demand for air cargo since early Spring 2013, which has continually risen throughout the summer months. This greater demand in freight and package transportation has led to higher earnings. This is reflected in the performance of our holding of FedEx.

With an increase in e-commerce over the years, the holiday season should see a continuation of high revenues for the industry. We also expected to see higher margins as courier companies bundle and cross-sell their services and higher revenues as companies increase pricing.



Chinese Exports to U.S. v. Chinese Exports to European Union

Industry Outlook

Currently, the fund is overweight in the industrials sector. The position weight in the fund totals 11.65% versus an index weight of 10.45%. The Fund's summer analysis indicated changing economic fundamentals and we made the decision to overweight the sector in August. We remain convicted in our overweight recommendation and anticipate our security selection to continue to drive return during the second half of our fiscal year. The industrials sector continues to be an attractive sector for the Fund to invest. This sector's performance is going to be highly correlated with economic expansion and Fund economists forecast expansion to be slow and steady through fiscal year end. The economy may experience some turbulence toward the end of the fiscal year as the Fed pares back bond purchases. However, it will be quite some time before the end of the Fed's highly accommodative monetary policy. Should the Fed pare back bond purchases prior to fiscal year end, our economists forecast interest rate sensitive sectors to experience the greatest magnitudes of volatility. This fact further supports the Fund's notions that the industrial sector provides ample opportunity for the fund to generate return.

Trades

The Industrials sector experienced moderate turnover during the period, selling two positions and buying one. With the selloff of Joy Global and a couple of other securities, the D'Artagnan Capital Fund was able to allocate funds to purchase shares of Google (GOOG), Cisco (CSCO), and Cummins (CMI).

Recently, fund managers identified an opportunity in the transportation sector and upon extensive due diligence, initiated a position in FedEx Corporation. Since initiating the position, FedEx's total return is +10%. In addition to our recent addition to the portfolio, we have other holdings sitting on the bench. Sector managers and analysts are diligently monitoring this equity and when the opportunity arises, the Fund plans to initiate other positions. The Fund remains convicted in the positions in the portfolio and foresees little turnover in this sector through fiscal year end.

3M Company (MMM)

3M Company was liquidated after the semi-annual period on October 15, 2013. The Fund sold all of the 190 shares priced at $120.88 per share, giving the Fund a gain of 37.69% or $22,957.30. Management decided that the Industrials Sector of the D'Artagnan Capital Fund

FedEx Corporation (FDX)

With the sale of 3M, the Fund took a position in FedEx has proved to be a good investment. FedEx was attractive for a few reasons. Management at the courier company decided to decrease the amount of shipments across the Pacific Ocean due to high costs. The company also updated their air fleet to more fuel efficient jets. In addition, they acquired SupaSwift in Africa to gain exposure to emerging markets. Also, FedEx Corp. gives the Fund a strategic position on the improving U.S. and global economies. As the U.S. begins to expand, companies will improve output and look to ship their products at a higher rate, thus creating a demand for the leading air courier in the world.

Joy Global (JOY)

On September 5th, the Fund made the decision, due to changes in the fundamentals of the firm, to sell our position in Joy Global as we found opportunities in other sectors, namely information technology. During the period, Joy's annualized return was -30%. Since reallocating the assets, Google's annualized return is 185%.

Holding Analysis

Boeing Company (NYSE: BA)

Price at Sept. 30: $117.50

Percentage of Portfolio: 3.48%

Percentage of Sector: 30.08%

Boeing, the sector's largest holding, generated a return of 37.83% over the 6 month period. EPS was up 13& and 16% for Q2 and Q3 respectively. Revenue was also up due to overall higher deliveries on the 787 and 737 programs. Additionally, core EPS guidance for 2013 rose to $6.65. The July introduction of Boeing's 787-9 and 787-10 jetliners has spiked sales, as revenue increased 11% compared to the same quarter last year. The company's backlog grew to a record $415 billion that will sustain operations, with backlog of narrow-body aircraft being 7 years of production and wide-body aircraft being 3 years. The company also raised its 20-year forecast of global aircraft demand up to 35,280 new airplanes. Provided, that the fundamentals of the company don't change, Boeing should have no problem capturing a large share of this market. With the company's outlook bright, Boeing will remain one of the sector's strongest performers.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	BA US Equity	USD	36.87%	38.20%	29.89%	88.68%
2.	S5INDU Index	USD	10.72%	11.96%	3.66%	24.83%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Caterpillar Inc. (NYSE: CAT)

Price at Sept. 30: $83.40

Percentage of Portfolio: 2.67%

Percentage of Sector: 23.08%

Caterpillar's stock price has dropped 8% since its acquisition in the spring. The decrease in stock price over the 6 month period was due to poor earnings results. A large factor in the poor earnings is the larger than expected $1 billion dollar inventory reduction of dealer machines. Additionally, mining equipment, the company's most profitable segment, has taken a hit because its customer base is losing purchasing power as metal prices continue to fall and overall mining activity decreases. Guidance has pointed to 2014 sales being flat compared to 2013, with a ±5% range. However, Caterpillar has taken actions to aggressively reduce costs and increase efficiency. Caterpillar also realized that its stock was undervalued and repurchased $1 billion of Caterpillar stock in April and another $1 billion in August.

Cummins Inc. (CMI)

Price at Sept. 30: $132.87

Percentage of Portfolio: 2.09%

Percentage of Sector: 18.08%

Cummins stock has provided a solid increase in price, rising 17.89% in the last 6 months. The diesel and natural gas engine manufacturer has seen steady revenue growth and an increase in sales volume of 2% over the previous year's 2nd quarter. Developing countries, such as China, have driven international sales as the countries build up their infrastructure, requiring the use of machinery. More recently, the heavy duty natural gas ISX 12G engine, jointly developed between Cummins and Westport Innovations, has generated a great response since its launch in April, with shipments having steadily increased since its launch. Market share in North America, the company's stronghold, has increased 8% in the heavy duty segment. Cummins has proven to be a solid performer and we expect more growth in the company's future.

FedEx Corporation (NYSE: FDX)

Price at Sept. 30: **$114.11**

Percentage of Portfolio: **NA**

Percentage of Sector: **NA**

FedEx' stock continues to rise with a 16.70% gain over the last 6 months. The courier and logistics giant reported a solid 1st quarter in September (FY ends May 31st), with revenues rising 2% YOY. Heading into the holiday season, the company expects a heavy increase in deliveries compared to previous years. Furthermore, future growth is likely to occur, as new distribution centers and freight facilities are scheduled to open in the U.S., Dublin, Bangkok, and Brazil. The company has taken steps to update its fleet with new aircraft while simultaneously depreciating older planes at a faster rate, leading to a decrease of costs and increase of margins. FedEx's current standing makes it a solid holding in our portfolio as we can expect the stock to produce solid returns well into the future.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	FDX US Equity	USD	16.20%	16.54%	8.23%	35.03%
2.	S5INDU Index	USD	10.72%	11.96%	3.66%	24.83%
3.	SPX Index	USD	7.16%	8.31%		16.95%

General Electric Co. (GE)

Price at Sept. 30: **$23.89**

Percentage of Portfolio: **2.12%**

Percentage of Sector: **18.29%**

General Electric has gained 3.50% for the 6 month period. The company looks to keep this trend going, as EPS is projected in the $1.65 range for 2013, an 8 % YOY rise. Its Capital Service segment continues to struggle, with 3Q revenue down 5%; however, GE plans to trim this segment and reinvest in higher margin segments. Backlog orders have increased 12.8% YOY and GE recently reported a $1 billion cost cut in the first nine months of 2014 by reducing manufacturing facilities and making more products in fewer locations. As an industrial conglomerate, we are expecting consistent cost cuts and increased margins as GE will continue to rationalize its operations and services. Currently, GE sits near its 5 year high and will offer solid returns moving forward.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	GE US Equity	USD	3.33%	4.98%	-3.32%	10.02%
2.	S5INDU Index	USD	10.72%	11.96%	3.66%	24.83%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Information Technology Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
AAPL	Apple Inc.	135	$476.75	$605.00	$680.00	11.15%
CSCO	Cisco Systems Inc.	2230	$23.41	$27.25	$30.82	12.38%
CTSH	Cognizant Technology Solutions	750	$82.12	$83.49	$88.98	7.01%
FLIR	Flir Systems	1095	$31.40	$39.22	$42.03	-1.91%
GOOG	Google Inc.	68	$875.91	$862.76	$928.03	9.33%
MA	MasterCard Inc.	150	$723.83	$56.65	$60.01	35.56%
ORCL	Oracle Corporation	1330	$33.17	$38.58	$42.30	2.30%

Sector Summary

Over the 6 month period the DCF Information Technology Sector has experienced a return of 15.00% compared to an 8.48% return of the IT benchmark (S5INFT), which is an outperformance of 6.52%. We have been able to invest in the correct securities in order to outperform our sector S&P 500 index. The IT sector contributed a return of 2.82% to the overall DCF portfolio return.

Sector Weighting

In the S&P 500, the overall sector weighting of the Information Technology sector is 18.20%. The DCF continues to maintain an overweight IT sector position by 3.94%, making our sector weight 22.14%. The Fund believes there are better opportunities in this sector and have less exposure to macroeconomic risks. 22.65% of the overall portfolio return is attributed to the Information Technology sector. Since the IT companies, on average, have less debt than other industries, the Fund feels comfortable overweighting this less interest rate sensitive sector. The potential for greater return is high in IT as there are many momentum stocks which we have seen with in Cognizant's 360% return since acquisition.

Sector Snapshot:

Recommendation: **Overweight**

- Sector Return:
- Benchmark Return: 22.14%
- Sector Weight:
- Benchmark Weight:
- Sector Beta:
- Benchmark Beta: 0.75

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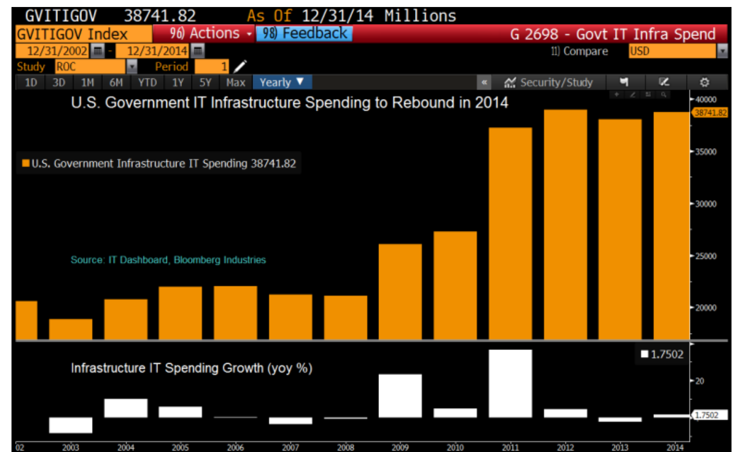
Sector Managers:
Mark Gore
Ron Leibau

Sector Analysts:
Patrick Brennan
Paul Heintzman
Jake Lackner
Rob Kelly

Industry Analysis

IT Spending

Looking forward, IT services spending are expected to grow 7.7% in 2013, up from $1.3 billion in 2012. IT hardware spending on public and private clouds is expected to increase at a 13% CAGR in 2012-2017, according to IDC. Spending on IT is going to continue to increase in the years to come as the world becomes more technologically advanced. With companies becoming more digitally engaged there will be demand for advanced hardware and technological systems. The IT market in India happens to be one of the largest and most rapidly growing among emerging economies. IT spending in India is expected to be $71.3 billion in 2014, a 5.9% increase from 2013 forecasts. Some factors attributing to India's growth are an increase in disposable income and consumer awareness. With India being an underpenetrated market, there is definitely growth for IT spending.

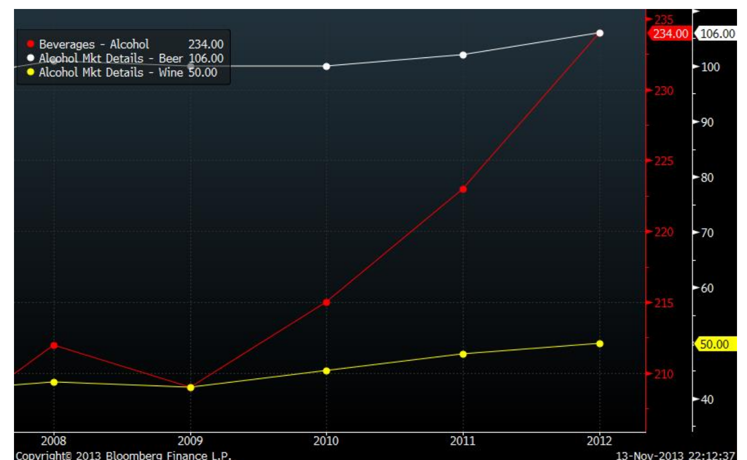


Hardware

Hardware will continue to evolve and change as innovation continues and more markets advance technologically. All of the innovation is leading to some major shifts in the industry away from traditional ways of communicating and computing to newer innovative devices. Major companies such as Microsoft, Apple, and Samsung are now very focused on mobile computing devices that have the same processing power and reliability of stationed devices like PCs and desktops. Hardware growth will be coming from predominantly from developing markets but the profitability will not be the equivalent of the developed markets. This is best illustrated through the growing distinction between smartphones in developing and developed markets. In the developing markets, prices are lower on all devices and margins are lower as compared to the developed markets. Look for margins of communication equipment companies to begin falling as sales continue to grow.

Software

The entire software industry is moving toward a more flexible type of platform. That does not make a company pay for a whole service but more of a pay-per-usage. This is because the increased competitiveness with Cloud technologies. Software will continue to grow in some industries such as application development. With the increased use of mobile computing technologies application software developers are continuing to grow and evolve into this lucrative industry. Companies in addition to this are figuring ways to more successfully integrate all wired and wireless devices seamlessly.



IT Services

The most significant factor in IT services is Cloud computing. These tend to be higher margin for companies although overall revenues will decline. Cloud services are continually being implemented by businesses and there are many companies in the industry that offer these types of services. These companies such as Oracle are offering all of their wells know software applications through the actual Cloud. This trend will become more attractive for their clients' money, by circumventing the necessity of a large on site server. There will continue to be an emphasis on outsourcing IT overseas as the world workforce continues to be developed look for India to provide this increase.

With an uncertain economy, spending on new software has seen mixed results. There has been a high demand for cloud computing services as of late. Cloud-based application is going to be a key driver of future growth within the industry. Companies such as IBM and Microsoft have reported fairly strong revenues from their cloud services. According to Cisco, cloud-based data centers are growing at a rate of 35%.

Trades

FLIR Systems (FLIR)

FLIR Systems was originally bought for the Industrials Sector. Management later found out that Merrill Lynch as well as other sources classified FLIR as an Information Technology company. FLIR was seen as a great investment due to their long-term government contracts and their new innovations in thermal scanning and optics technology.

Microsoft Corporation (MSFT)

On April 29th, 2100 shares of Microsoft were sold and $40k of the proceeds were invested in Cisco because we saw greater opportunity in Cisco Systems . The remaining $16k remained in cash to prepare for the summer.

Holdings Analysis

Apple Inc. (NASDAQ: AAPL)

Price at Sept. 30: $476.75

Percentage of Portfolio: 3.44%

Percentage of Sector: 15.43%

Apple didn't perform very well in the second quarter; the stock price plummeted from $700 to below $400 at the beginning of April. While Apple sold 85 million iPhones and 42 million iPads in the first half of their fiscal year, Apple's growth began to slow. Apple's products are very cyclical: they release iPhones, iPads and Macs around the same time every year and their first half sales are significantly stronger than their second half sales. The third quarter was a better performance than the second quarter and their third quarter year-over-year growth was impressive. Sales of iPhones grew 20% year-over-year, 31.2 million compared to 26 million units. As for iPads, unit sales decreased by 3% compared to the previous quarter. Lastly, Mac sales decreased 7% compared to the previous quarter, which was better than expected. In addition, Apple increased their dividend 15% in April and authorized up to $150 billion in share repurchases. Apple was one of the first stocks the Fund purchased in November 2009 and has been one of our best performers.

Apple's stock price varies drastically just on news. In August, activist investor Carl Ichan tweeted that he was going to take a $1.5 billion stake in Apple and that moved the stock price up 5%. There is a lot of pressure on Apple to sell a cheaper Smartphone on an unsubsidized basis in order to enter emerging markets and gain domestic market share, but we don't believe that will happen. Yes, Apple did release the iPhone 5c, which is $100 cheaper in domestic markets, but it is still upwards of $500 in other countries. Apple is a luxury brand first, technology brand second. They produce high-end products that are trendy and have a status symbol associated with their product. Apple provided guidance for their October earnings release that stated an increase in tablet and phone sales while a flat to decrease in Mac sales, consistent with global trends. Mix a loyal consumer base and a well-established capital return program in addition to the potential to release strong earnings in October, we are confident that there is substantial upside in the stock.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	AAPL US Equity	USD	7.70%	9.14%	.83%	18.72%
2.	S5INFT Index	USD	7.43%	8.41%	.11%	17.17%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Cisco Systems Inc. (NASDAQ: CSCO)

Price at Sept. 30: **$23.43**

Percentage of Portfolio: **2.79%**

Percentage of Sector: **12.52%**

Blue chip, communications equipment giant Cisco Systems announced third quarter earnings in May that not only beat expectations, but also provided guidance that beat expectations in a challenging environment. Cisco faced strong headwinds through the economic downturn as a result of corporations and governments scaling back their information technology infrastructure budget. Cisco saw double digit growth in their commercial business, U.S. enterprise, U.S. service provider and 5% increase in public sector orders. The small release of a lot of pent-up demand sent Cisco's share price to post-recessionary highs. Cisco continued to perform very well in the fourth quarter, expanding business segments such as cloud architecture and data centers. Cisco drove top line growth by 6% and the bottom line increased by 11% in addition to returning $2.1 billion to shareholders. Execution by Cisco's strong management team drove revenues and earnings higher for the seventh consecutive quarter without compromising gross margins. However, management cited challenges with the slow, ongoing recovery. Cisco has met guidance and expectations for each of the last 4 quarters but their guidance tends to push the stock lower. As a result of this concern, shares of Cisco dropped. We believe the demand for Cisco's products is still in the market and the economic recovery puts Cisco in a very good position.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	CSCO US Equity	USD	12.14%	13.83%	5.53%	28.95%
2.	S5INFT Index	USD	7.43%	8.41%	.11%	17.17%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Cognizant Technology Solutions Group (NASDAQ:CTSH)

Price at Sept. 30: $82.12

Percentage of Portfolio: 3.29%

Percentage of Sector: 14.76%

Cognizant provides information technology, consulting, and business process outsourcing services around the globe. Cognizant performed well during the second quarter, increasing revenues 18% compared to the previous year as well as increase earnings by 13%. Cognizant has four main industries in which it caters to; financial services, healthcare, manufacturing, retail and logistics, and other, which consists of communications, information, media entertainment, and high technology. Cognizant mitigates some of their risk to the firm by having such diverse verticals. If one industry is not doing well, they still have upside in one of their other areas of expertise. Their portfolio of industries is always expanding, developing something for everyone. Cognizant is trying to strengthen its global consulting presence in Europe through acquisitions. Cognizant is expecting to see an additional $40 million in annual revenue from some recent acquisitions. With Cognizant's implementation of SMAC (social mobile analytics cloud) we see a slight increase in growth over the next few years. SMAC has projected revenues between $70 billion and $200 billion over the next three years. SMAC will allow companies to enable the creation software platforms that address a multitude of issues, including sales, customer service, designing of new products and to the management process. It will help companies to transform their business models to be more efficient and effective. Cognizant is a solid company to hold on to with a very strong balance sheet of $2.9 billion in cash and short-term investments and no debt. Cognizant has returned 360% since we purchased it in 2009. It has proven to be a top performer in our portfolio and we will continue to hold on to it entering fiscal year 2014.

FLIR Systems Inc. (NASDAQ:FLIR)

Price at Sept. 30: $31.40

Percentage of Portfolio: 1.84%

Percentage of Sector: 8.24%

FLIR Systems Inc. designs, manufacturers and markets cameras, sensors, detectors and imaging systems. FLIR has acquired multiple companies in the last 6 months and will continue to make acquisitions to increase product offerings. A share repurchase program has been implemented and margins have been increasing. FLIR also plans to leverage its assets to fund future acquisitions. FLIR did not meet expectations for Q3 earnings due to the sequester impacting their government contracts. Going forward, management stated a plan to consolidate operations by closing six plants. We maintain a BUY rating on FLIR due to their diversified portfolio allowing the company as a whole to mitigate the risk of government contracts.

Google Inc. (NASDAQ:GOOG)

Price at Sept. 30: **$875.91**

Percentage of Portfolio: **3.18%**

Percentage of Sector: **14.28%**

Google is a global technology company specializing in internet services and products. Their revenue is 87% advertising and 8.24% Motorola revenue. Google also owns the Android OS, which is a market leader for smartphone operating systems. 53% of its revenue is from outside of the United States. Google has seen large growth in revenue abroad. Google has seen 8 straight quarters of their revenue per ad click decreasing, however they have seen continued growth in number of paid clicks. This has led to the continuation of their large revenue growth. Google's revenue increased 19% in the second quarter compared to the previous quarter largely due to increased number of mobile devices on the market. Motorola revenues rose 18% but remained the same fraction of total revenues. Google is also launching many new exciting products, including Google Glass and Google TV. We believe that there is still opportunity for growth. The continued fall of the revenue per click is troublesome, but the large number of clicks growth has more than covered the loss. As long as this trend continues, Google should remain a company with large growth.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	GOOG US Equity	USD	10.29%	10.29%	1.98%	21.19%
2.	S5INFT Index	USD	7.43%	8.41%	.11%	17.17%
3.	SPX Index	USD	7.16%	8.31%		16.95%

MasterCard Inc. (NYSE:MA)

Price at Sept. 30: $672.78

Percentage of Portfolio: 5.39%

Percentage of Sector: 24.19%

MasterCard has seen phenomenal stock growth in the past few years. Its two revenue drivers are the volume of payments made on MasterCard's cards and the amount of cards in circulation. Currently, there are 1.9 million MasterCard cards in circulation, which is an 8% growth YoY and payment transactions through MasterCard have increased 13% YoY, which amounts to a little over $1 trillion in spending. Visa and MasterCard have reported global payment increases of 7% and 11% respectively, which suggests that there has been a global shift towards plastic payments. MasterCard is also well equipped to deal with this global shift as well as the shift towards all electronic payments. MasterCard provides a mobile money infrastructure that allows customers to pay from any mobile phone, and the company also offers chip and contactless solutions allowing customers and merchants to replace their traditional magnetic-stripe based cards with new chip-enabled products that promote security and fraud protection. Overall, MasterCard is still poised for growth and will continue to be a great investment for the portfolio.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	MA US Equity	USD	24.33%	24.59%	16.29%	53.96%
2.	S5INFT Index	USD	7.43%	8.41%	.11%	17.17%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Oracle Corporation (NYSE:ORCL)

Price at Sept. 30: $33.17

Percentage of Portfolio: 2.36%

Percentage of Sector: 10.57%

Due to analyst research, Oracle still remains significantly undervalued since the DCF's purchase of the equity in the spring semester. The outlook for Oracle remains bright and we believe they will achieve their true intrinsic value. The main drivers behind the market mispricing of Oracle are the underestimation of the growth in revenues and margins. Oracle will grow revenues much faster than the market predicts because their hiring of over 500 new sales associates and consultants. This will prove to be a successful initiative for Oracle in the years to come. Oracle's margins have been increasing in the past few years, and we predict this will continue. There is a transfer from onsite facilities for a client's database, to a cloud solution. The cloud solutions have helped increase margins for Oracle and with this continuing trend we are confident that this will continue.

Last earnings report in September showed glimpses of what is to come for Oracle. Oracle beat earnings which initially sparked a run up in price. But then came back down because of missed revenues. This tells our analysts that they have been increasing their margins as predicted, but the hiring of the 500 sales consultants has yet to have a material impact.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	ORCL US Equity	USD	2.60%	2.99%	-5.31%	5.96%
2.	S5INFT Index	USD	7.43%	8.41%	.11%	17.17%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Materials Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
CLF	Cliffs Natural Resources	1550	$20.50	$49.31	$68.33	12.41%
EMN	Eastman Chemical Co.	425	$77.90	$83.00	$90.00	9.29%

Sector Summary

The Materials Sector of the D'Artagnan Capital Fund returned 9.76% for the six months ended September 30, 2013, compared to the S&P 500 Basic Materials Sector Index which returned 8.31%. Our current holdings of Eastman Chemical and Cliffs Natural Resources have performed well over the last six months, returning 12.41% and 9.29% respectively, on a non-risk adjusted basis. This report will mainly focus on these two industries, while giving an outlook of the entire sector.

Industry Analysis

The Materials Sector as a whole has been steadily improving over the past six months. Starting out the fiscal year as one of the worst performing sectors of the S&P 500, the Materials Sector has appreciated 8.31% since April 1, 2013. Despite the recent outperformance, there have been several economic headwinds that have slowed the recent run up in materials sector. First, the uncertainty around the Federal Reserve tapering its bond buy-back program caused a spike in interest rates towards mid-June as illustrated in the graph above. This hurt materials companies as they are typically highly levered firms causing them to be susceptible to interest rate risk on their outstanding bond issuances. In addition, poor manufacturing data out of China and the U.S. towards the beginning of the fiscal year did not support a high growth environment. Yet after the issues in Washington D.C. settled toward the end of the summer months, positive manufacturing and other economic data improved greatly and contributed to the materials sector recent run up since the end of August.

Sector Snapshot:

Recommendation: Market weight

- Sector Return: 9.76%
- Benchmark Return: 6.87%
- Sector Weight: 3.47%
- Benchmark Weight: 3.51%
- Sector Beta: 1.37
- Benchmark Beta: 1.10

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5. Commodities Forecast
   Trades
6. Holdings Analysis

Sector Managers:
Nick Kobunski
Paul Neumann

Sector Analysts:
Becky Gallagher
Jess Hunter
Robert Pinkalla

Industry Analysis (Cont.)

The materials sector is primarily weighted in chemicals and metals and mining companies. Due to their large weightings, these industries have a significant effect on the overall performance of the sector. In the past 6 months, the S&P 500 Chemicals Industry has returned 12.65% versus a lagging metals and mining sector, returning -4.23%. Chemicals ranging from commodities to specialties have been benefiting from an increased use of natural gas due to its high supply and low prices. Fertilizers and agriculture chemicals offered positive results but were lower due to the cyclicality of their industry. Metals and mining companies experienced volatile commodities prices and difficulty making profit while reducing costs. Overall, each industry is showing significant upside

Chemicals Industry

The Chemicals Industry as a whole has outperformed the materials sector in the last 6 months. Western Europe has continued to perform relatively poorly due to the debt crisis and economic contraction. The US has been a major bright spot for diversified chemicals and specialty chemicals. The rise in shale gas production has led to an abundant supply of cheap natural gas. This has improved margins for companies U.S. operations as natural gas is a significant feedstock for chemical production. Companies are investing significant amounts in projects in the shale gas regions of the US. Another major trend in the US has been the success of agricultural chemicals, mainly seed genetics and chemicals for crop protection. US manufacturing PMI, a good leading indicator, is positive as it has steadily improved over the last months. The chemical industry is said to touch 96% of manufactured goods, meaning chemicals are highly correlated to manufacturing. Another positive has been auto sales in the US, which are projected to be around 15.4 million for 2013. This especially helps paint manufacturers in the specialty chemicals segment. Furthermore, China manufacturing PMI continues to expand, but ever so slightly. This growth has been driven by large petrochemical facilities in the area.

Metals & Mining Industry

The beginning of 2013 cast an unfavorable shadow over the Metals & Mining Industry. China's stock piles of natural resources and industrial metals moving into 2013 would prove to be a challenge for metals and mining firms. This oversupply would thus decrease demand for these types of commodities and thus cut profit margins across the industry. Yet despite these factors, the metals and mining industry has shown some signs of improvement. Iron ore prices started out the year with an average price of $137.40 per tonne and continued to decline to $124.7 per tonne in May and then $114.5 in June.

Metals & Mining Industry (Cont.)

Since the end of June, iron ore prices have been trending upward and continue to show promise in the future as Chinese steel mills increased production. Hitting a six month high in early August at $142 per tonne, the price has slightly slid and currently sits at $131.40 per tonne. With higher iron ore pricing as of late, iron ore producers like Cliffs Natural Resources, have been able to increase profit margins and operating margins. Steel pricing has also taken a recent spike. Bottoming out at a six month low on May 24, at $560 per ton, steel prices have soared over the summer months due to increased Chinese demand and production. On the other hand, metals like aluminum have been trending downward. Spiking in early June at above $1950 per ton, the price of aluminum as since declined, rebounding in early August to levels just below $1950 per ton. Since then, the price of aluminum sits at $1845 as September 30, 2013.

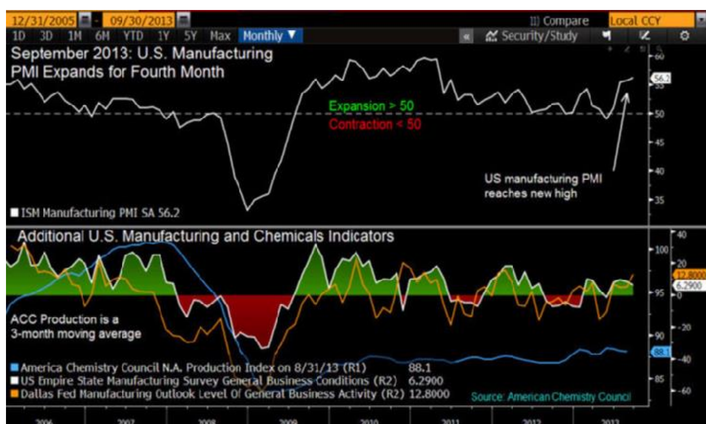
Industry Outlook

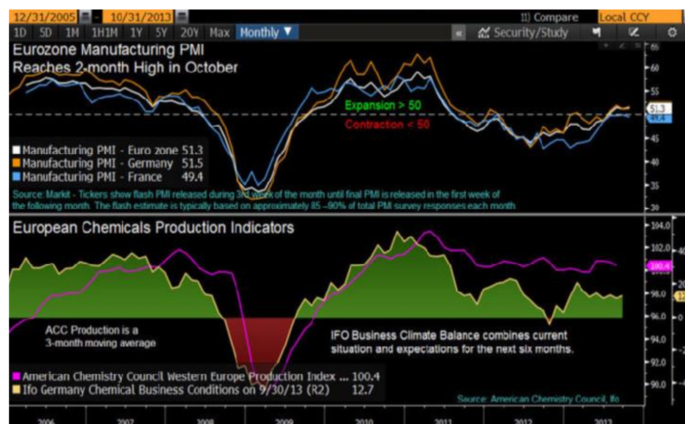
There is a bright future ahead for the materials sector. Several positive factors will be crucial to its long-term outperformance of the market. Emerging markets are key for materials companies to grow. The demand for more natural resources will increase over time as the importance of building a supportive infrastructure in those emerging markets will be crucial to their success long-term. Global austerity measures have been on the decline over the past six months. Global central banks are beginning to follow in the footsteps of the Federal Reserve and encourage growth within their borders. Governments, like Greece, who are severely in debt, have begun to cut back on the austerity plans for the first time in years. The improving global economy is offering a support structure for steady growth and looks to play in favor of the materials companies in need of a boost. On the other hand, there are some concerns that could provide some negative headwinds. Chinese demand could weaken in the long-term as they look to produce materials more domestically. Lastly, a strengthening U.S. dollar could hurt performance throughout the sector as its profitability decreases overseas.

Chemicals Outlook

The horizon for the Chemicals Industry looks promising. With a booming housing and automobiles market, chemicals companies will see increased demand from their products. According to Zacks.com, the American Chemistry Council forecast chemical output for 2013 and 2014 at 1.9% and 2.3% respectively. In addition the shale gas boom has lifted the weight pressing down on margins. These facts combined will allow for more capital spending driving growth within the industry. The ACC also predicts capital spending to reach $64.5 million by 2017. This will also be coupled with growing emerging markets. All of these factors will help contribute to the chemicals industry outperformance in the years to come. The Fund is appropriately positioned at the moment, but for the time being will look to evaluate more firms within this growing industry.

Furthermore, looking across developed markets, we can see an increase in Manufacturing PMI's across the board. U.S. Manufacturing has reached a new high in late September of 2013. Other Manufacturing PMI's have followed suit. China has recently been trending upward for the last three months. Chemicals companies will benefit immensely from an improving Chinese market. Also, a good sign moving forward is that the Eurozone Manufacturing PMI has finally crossed into expansion for the first time in years. Europe should help the chemicals industry moving forward.





Metals & Mining Outlook

The Metals & Mining industry has been the biggest laggard in the Materials Sector the past 6 months. Falling iron ore prices and the potential beginning of the Fed tapering program provides investors with plenty of uncertainty to think about. Yet, despite the current headwinds, there are several favorable economic indicators that suggest a turn around in the long term. Iron Ore prices have reached a 6 month high as of August 13, 2013, and have maintained a level slightly lower since then. These higher prices coupled with increased industrialization efforts in China and India will help bolster demand and translate into higher returns for this industry. In addition, the future of the steel industry looks promising. Weak demand from Europe and China as well as increased steel inventories has caused steel companies to scale back capacity at the beginning of the fiscal year. Yet, as of late there are positive economic factors that offer some potential. According to Zacks, the World Steel Association projects steel usage to increase to 2.9% for the end of 2013. Surging automobiles and housing markets will provide extra demand and the cost cutting initiatives and restructuring some companies have forgone will provide long-term growth within the industry.

Commodities Forecasts

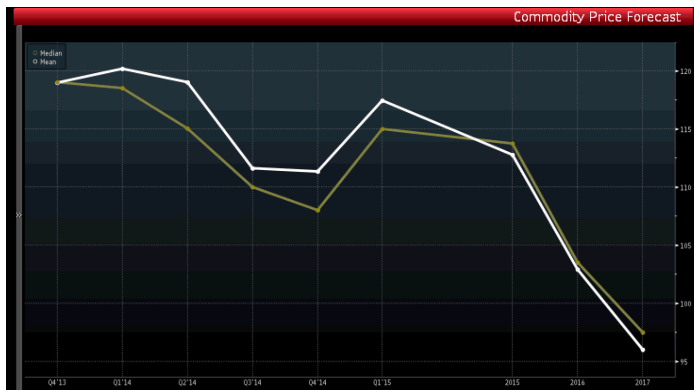


Figure 1.1 Iron Ore Forecast

Figure 1.2 Steel Forecast

Figure 1.3 Aluminum Forecast

Figure 1.4 Gold Forecast

Trades

On April 1, 2013, the D'Artagnan Capital Fund held three securities in the Materials Sector: aluminum giant, Alcoa, Inc., international iron ore producer Cliffs Natural Resources, and chemicals manufacturer, Eastman Chemical. Since that time the Fund has liquidated its position in Alcoa, Inc. and as of September 30, 2013, only holds onto Cliffs Natural Resources and Eastman Chemical.

Alcoa Inc. (AA)

On April 18, 2013, Alcoa, Inc. shares we completely liquated from the D'Artagnan Capital Funds holdings. Selling 2,300 shares of the aluminum giant at $8.05 per share, D'Artagnan Capital Fund management decided that the position in Alcoa was not value adding for our portfolio. There was too much uncertainty in the steel industry and there were better opportunities in the market to capitalize on. The long-term gains were not being recognized as this security was initially bought at $12.74 a share resulting in a price depreciation of -36.77% when it was sold.

Cliffs Natural Resources Inc. (CLF)

On April 15, 2013, management decided to purchase an extra lot of 500 shares of Cliffs Natural Resources increasing the D'Artagnan Capital Funds total owner ship or 1550 shares of Cliffs Natural Resources totaling in a value of 30,000. Cliffs Natural Resources provides an excellent opportunity for growth in an undervalued industry overall. Management acted on the opportunity to purchase Cliffs' shares at a lower price than when the initial purchase took place in December 2012, lower our cost basis to $26.40 per share.

Holdings Analysis

Cliffs Natural Resources Inc. (NYSE: CLF)

Price at Sept. 30: **$20.50**

Percentage of Portfolio: **1.70%**

Percentage of Sector: **48.97%**

Cliffs recent activity has remained flat, although operating margins and profit have increased according the most recent earnings report; cost cutting and higher ore prices contributed to the increase in profit. Since the acquisition of Cliffs, the price has dropped on 14.91% on lower sales and lower demand, particularly in the US. Despite lower US activity, Cliffs expects steelmaking in China to remain strong, as its growing infrastructure should bolster sales. As volatility of iron and coal commodities greatly affects the price of the stock, continued increase in the price of these two commodities will only help the company. Recently, the company hired Gary Halverson to replace retiring CEO, Joseph Carrabba, to the same position, while the shift in management could spark a change in long term strategy. In general, the short term outlook for Cliffs will be volatile; however, the growing infrastructure in developing markets and their Bloom Lake Mine project scheduled to pick up again with the increase in iron ore prices makes Cliffs a solid long term opportunity.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	CLF US Equity	USD	7.84%	9.29%	.98%	19.04%
2.	S5MATR Index	USD	7.06%	8.31%	.01%	16.96%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Eastman Chemical Company (NYSE: EMN)

Price at Sept. 30: $77.90

Percentage of Portfolio: 1.77%

Percentage of Sector: 51.03%

The recent release of Eastman Chemical's third quarter earnings shows that the company is stable heading forward. Since its acquisition, the stock has risen 53.36%, while earnings have steadily increased in YOY comparisons. Sales revenue for the third quarter grew 3% compared to the previous year's third quarter, mostly from higher sales in its additives and advanced-materials products. CEO, James Rogers', indicated that the company still expects challenges in its adhesives and plasticizers business, while raw material and energy costs will likely rise. In addition, the company has adjusted their 2013 EPS to between $6.30 and 6.40, about a 17% increase over 2012. Overall, the company's fundamentals remain strong as management has been committed to paying off debt associated with its acquisition of Solutia and sales outlooks look to increase despite economic uncertainty.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	EMN US Equity	USD	11.49%	12.41%	4.10%	25.80%
2.	S5MATR Index	USD	7.06%	8.31%	.01%	16.96%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Telecom Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
VZ	Verizon Communications	540	$46.68	$53.06	$55.87	-3.08%

Sector Summary

Over the past six months, we have maintained an underweight position in the telecom sector, which contributed to an outperformance of our benchmark. We maintain an underweight position in the Telecom Sector due to the interest rate sensitivity of the sector and the looming rising rate environment.

Industry Analysis

The last six months has been full of change in the telecom sector. Verizon, Sprint AT&T and T-Mobile have announced new upgrade plans. Mergers, acquisitions and partnerships have been rampant with AT&T selling/leasing almost 10,000 towers for $4.85 billion and America Mobile planning to partner with AT&T to enter into the European market. Verizon also executed a $130 Billion deal to buy out Vodaphone's portion of VZ. Companies have also been driving up the prices in spectrum auctions, fighting for the finite resource of telecom. Overall, the sector has been very competitive with plan matching, M&As and spectrum auctions.

The telecom sector's main source of growth is coming from the increased cost of data plans and overall increase in cell phone subscribers from developing markets. All telecom companies across the S&P 500 rely on bundling service contracts to grow revenue and to increase overall retention rates among customers and clients.

Telecom is considered to be an interest rate sensitive industry because most telecom companies have highly levered capital structures. With quantitative easing taking place, telecom companies have been able to borrow at lower rates, but the rates will rise soon.

Sector Snapshot:

Recommendation: Underweight

- Sector Return: -3.25%
- Benchmark Return: -4.73%
- Sector Weight: 1.35%
- Benchmark Weight: 2.66%
- Sector Beta: 0.79
- Benchmark Beta: 0.76

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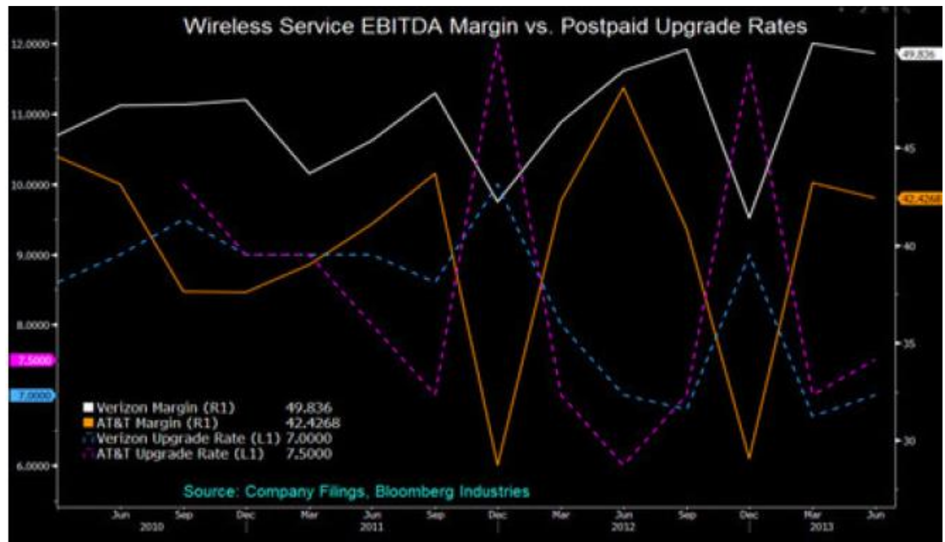
Sector Managers:
Mark Gore
Ron Liebau

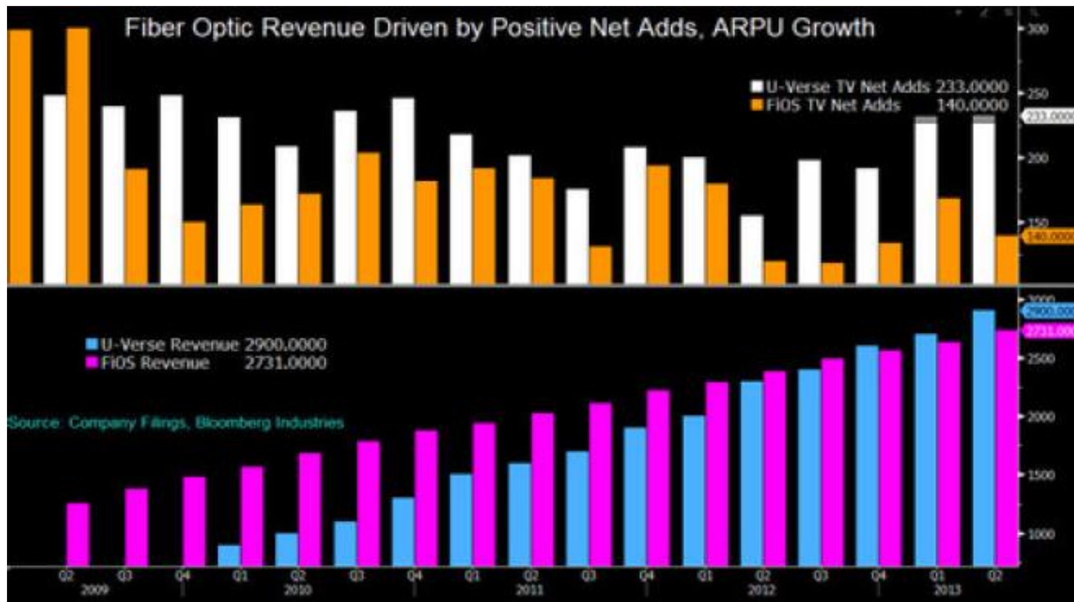
Sector Analysts:
Patrick Brennan
Paul Heintzman
Robert Kelly

Sector Outlook

Many telecom companies are not just cellular, traditional phone, and internet providers, but now moving into Fiber Optics, cloud computing, and cable. However, the goal will remain the same, to bundle all of these products and services under one affordable price. Investments into 4G networks will remain a big trend for many of these companies who offer cellular plans. While retention rates have been falling considerably in traditional voice services, companies across the entire industry have been suffering the loss of these revenues. Many telecom companies are looking other places for these revenues, including telematics and cloud computing.



There has been growth in other areas of telecommunications, such as Fiber Optic lines. This is because of the increased bandwidth they provide and the speed relative to traditional lines. With the increase in streaming audio and video through companies like Netflix and Pandora, speed and signal quality are essential.



Another important future trend is the increasing adoption of Fiber Optics. Fiber Optics will be key revenue drives for AT&T and Verizon as more customers upgrade from DSL.

Lastly, when quantitative easing slows and rates begin to rise, the telecom sector will take a hit. As mentioned previously, we will continue an underweight in telecom as we get closer to the change in Fed policy (after Bernanke retires at the earliest- January 31st, 2014) and rising rates.

Trades

Verizon Communications Inc. (VZ)

On June 7th, our Verizon position was trimmed by $11.6k to limit our exposure to interest rate sensitive equities due to the unexpected rapid rising interest rates in May. No other trades were executed for the Telecommunications Sector.

Holdings Analysis

Verizon Communications Inc. (NYSE:VZ)

Price at Sept. 30: $46.68

Percentage of Portfolio: 1.35%

Percentage of Sector: 100.00%

Verizon has acted as a steady growth company and the most stable amongst the telecommunications companies. VZ has the lowest wireless churn rate in the industry, which is the percentage of customers they lose a year. VZ also has the largest 4G LTE network in the United States. This makes their subscription revenue, one of the largest segments of their business, look very promising for years to come. VZ is moving into more business solutions ventures. They are making a stronger move into M2M telematics, as well as cloud computing which will spark growth. The margins for VZ should increase in the future since 4G LTE networks are cheaper to maintain than older 3G networks. The shift to 4G networks should allow for an increase in margins in years to come for VZ.

Verizon in October beat earnings and revenues. This spurred a run up in the stock price. VZ has beaten their guidance all three quarters this year. We expect this trend to continue, and for VZ to finish Q4 solidly with the holiday season looming.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	VZ US Equity	USD	-5.04%	-3.08%	-11.39%	-5.96%
2.	S5TELS Index	USD	-5.52%	-3.44%	-11.75%	-6.64%
3.	SPX Index	USD	7.16%	8.31%		16.95%

Utilities Sector Report

Fiscal Year 2013, Semi-Annual Performance (April 1 – September 30, 2013)

Ticker	Company Name	Quantity Held	Price	Low Intrinsic	High Intrinsic	FY Return
NRG	NRG Energy	1345	$27.33	$30.44	$33.26	4.07%

Sector Summary

Utilities has seen a 3.13% increase during the period. This is a considerable underperformance of the overall market, so the recommendation is to keep this sector underweight to allow for other sectors to find higher growth opportunities. There is little volatility, and growth with the companies in this sector. Most of the companies are focused in producing and delivering electronic power. Companies are being forced to adapt to regulatory changes as well as price volatility on a seasonal basis.

Currently, NRG Energy is the only stock we hold in the Utilities Sector, which has been one of the best performing utility stocks. We originally acquired it in March of 2012.

Industry Analysis

The graph below indicates the activity of the 10-Year U.S. Treasury during the semi-annual period. The colored lines illustrate the 50, 100, and 200 day moving averages, whereas the white line indicates the price. As depicted, the treasury saw a significant rise in yields throughout the summer. Utilities stocks are very sensitive to changes in the yield because of their status as a defensive sector with large dividend yields. As the treasury rises, investors can find similar yields to these securities but with much less risk. This is a primary explanation for the sector's underperformance, and a justification for the recommendation of underweight. As the low interest rate environment evaporates and yields begin to climb, stocks residing in the utilities sector will be adversely affected and experience downward pressure on their stock price.

Sector Snapshot:

Recommendation: Underweight

- Sector Return -0.14%
- Benchmark Return: -2.32%
- Sector Weight: 1.96%
- Benchmark Weight: 3.14%
- Sector Beta: 1.03
- Benchmark Beta: 0.70

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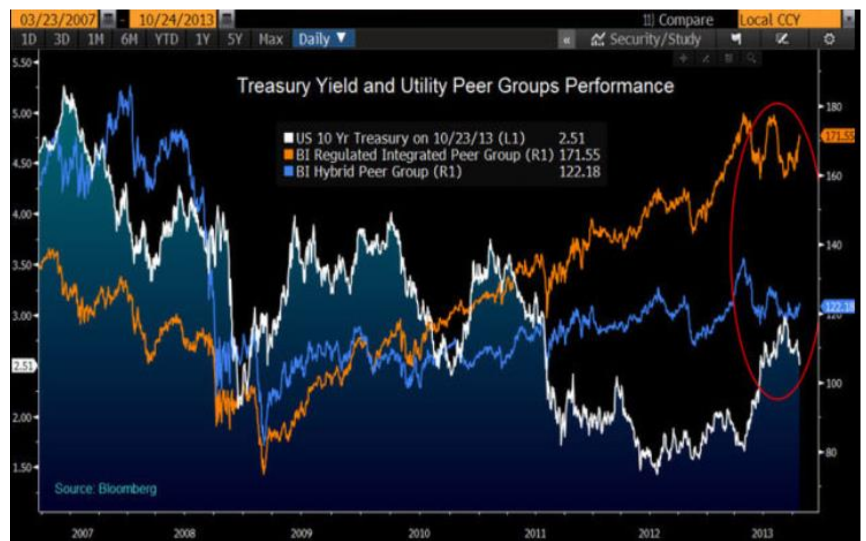
Sector Manager:
Dan McCarthy

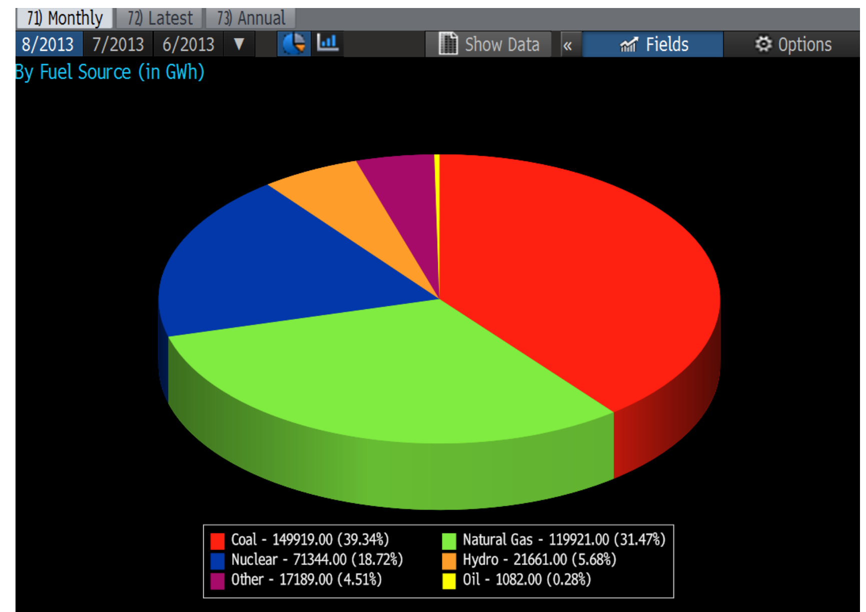
Sector Analyst:
Alex Albers

The graph to the right shows not only the U.S. 10 Year Treasury, but also the utilities companies. The graph highlights the inverse relationship between the treasury yield and utilities stocks. As the white line, representing the treasury yield, decreases following the 2009 financial crisis, the utilities peer groups – specifically the regulated peer group – sees tremendous price appreciation. While the graph above shows the short-term movement of the treasury yield during the prior six months, the graph below shows a longer time period which vividly portrays the inverse relationship.

As mentioned earlier, the utilities industry is becoming more and more regulated, whether it be grounded in competitive pricing or environmental concerns. Regardless, the cost of doing business in compliance with these regulations hurts the bottom line of these companies. There is a growing need to increase capital expenditures for not only investing in new environmental technologies, but also replacing older infrastructure. This increase in capital expenditures, as well as attempts by regulators to cap rates during difficult times, hurts the cash flow of companies.



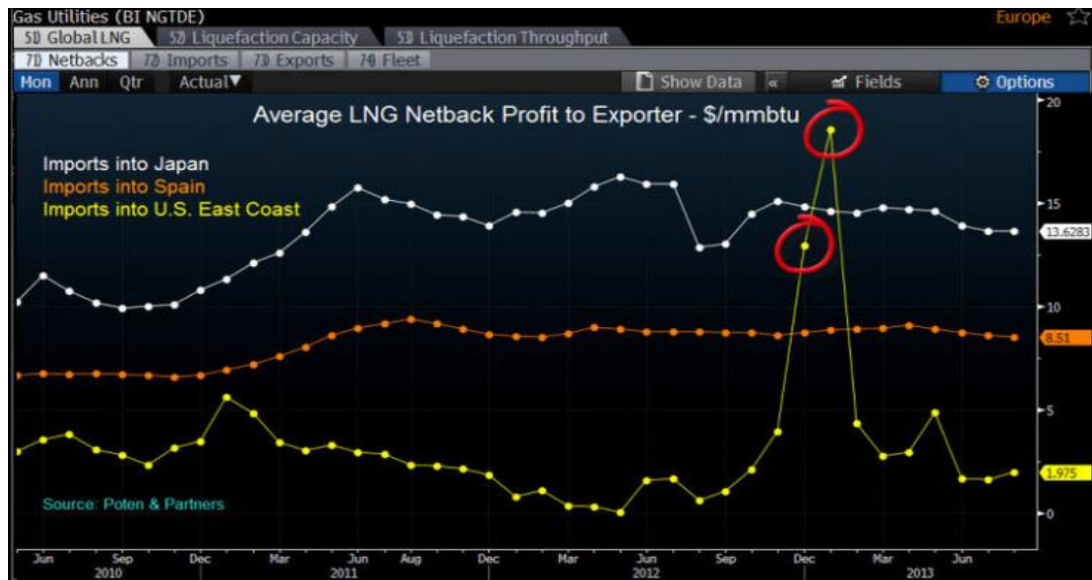
The chart to the right represents the mix of U.S. power generation sources for the month of August. Coal (red) leads with just under 40% of the mix, followed by natural gas (green) with over 31% of the mix. Though the government has been trying to phase out coal through levying taxes, coal still leads the mix. Natural gas prices have been improving, which resulted in an increase in demand and competition for coal. A keen eye should be kept on the purple portion noted as "Other," because this would be the category under which solar and wind power generation fall. As declared earlier, there has been a recent boom in those two forms of power generation, so it would be very impactful if this purple portion commanded a larger portion of the mix in the upcoming months.



Industry Outlook

One subsector to examine for opportunities would be in the gas storage space. As explained earlier, there is higher demand for sources of renewable energy and adaptable power generation. With this increased demand for power generation comes a subsequent demand for gas storage. As alluded to in the energy sector outlook, solar energy is a booming industry with many interesting opportunities. The growth of solar and wind energy sources bolsters this demand for gas storage. If the solar industry becomes too overvalued by the market, looking at the storage components for the solar gas would be a beneficial play.

A new development within the industry that warrants a close eye is the activity of contracts. The chart below shows recent activity involving contracts.



The spike in the yellow line, representing the imports into the U.S. East Coast from European gas suppliers, is a point of interest. Gas suppliers are beginning to obtain more long-term liquid natural gas contracts without destination clauses. This means that the gas suppliers are free to market their supplies to any location in the world – no geographical restrictions involved. To maximize profit, these companies will seek the location in which the highest price is present. For the end of 2012 and beginning of 2013, this location was the East Coast of the United States. As suppliers begin to obtain more of these contracts that allow them to sell their products anywhere, their margins should increase significantly – giving them a competitive advantage over companies not involved in liquid natural gas supplies.

The contracts play another role in the global supplier market, because European companies are competing heavily with companies in the United States for the business in the U.S. Firms operating in low-cost shales are able to offer their products for a lower price, so the European suppliers face a large challenge in fighting for these contracts against companies that are offering lower prices on a more frequent basis.

Trades

NRG Energy Inc. (NRG)

Additional shares of NRG Energy were purchased on August 12, 2013. 615 shares of the power generation company were added because of a miscommunication between our broker and the managers of the D'Artagnan Capital Fund. On June 6, 300 shares of NRG were sold instead of bought. In hindsight, this accident proved to be more of a help than harm. We sold the 300 shares for $27.18 and then bought at $25.96 in August. NRG Energy continues to perform well for the D'Artagnan Capital Fund and proves to hold plenty of value in this highly regulated sector.

Holdings Analysis

NRG Energy (NRG)

Current Price: $27.33

Shares: 1,345

Percentage of Portfolio: 1.97%

Percentage of Sector: 100%

NRG Energy has been a strong performer for us. It has returned over 60% since acquisition. Its price on April 1 was $26.50 and is currently $27.33. NRG's second quarter (6/30/13) sales were stronger than previous months, but they lowered their forward guidance for 2013, specifically their EBITDA projections. The stock currently has a dividend yield of 1.7%.NRG Energy has agreed to buy Edison Mission Energy for $2.64 billion and is expected to happen during the first quarter of 2014. This deal will be financed through cash on hand and issuing corporate debt. As of 6/30/2013, NRG had a cash balance of $1.64 billion which has allowed it to complete multiple acquisitions this year. NRG also completed two solar projects, and acquired another one – highlighting an emphasis on solar moving forward.

Range 03/28/2013 - 09/30/2013 Period Daily No. of Period 186 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	NRG US Equity	USD	3.17%	4.07%	-4.23%	8.15%
2.	S5UTIL Index	USD	-4.46%	-2.55%	-10.86%	-4.95%
3.	SPX Index	USD	7.16%	8.31%		16.95%