D’Artagnan Capital Fund

Williams College of Business
Xavier University
3800 Victory Parkway
Cincinnati, OH 45207-5162

Annual Report
April 1, 2010 – March 31, 2011

TABLE OF CONTENTS

DCF FUND MANAGERS

Joe Bauer

Joe Bauer is currently a junior Finance major with a Mathematics minor at Xavier University. He is currently the materials sector analyst. Originally from Rochester, NY, Joe prides himself on his loyalty, especially to Western New York Professional Sports teams, regardless of their levels of success. When he is not working on his finance coursework, Joe enjoys playing Ice Hockey. He is currently the treasurer of the Xavier Club Ice Hockey Team, and also serves as the team captain. In addition, he serves on the Xavier Club Sports Council Peer Judicial Review Board. During the summers, Joe works as a Camp Leader at the Town of Chili Recreation Summer Day Camp. He also just started volunteering at the Big Brothers / Big Sisters Association of Cincinnati.

Joe D'Agostino

Joe D'Agostino is a senior Finance Major/Economics Minor from Cleveland, Ohio. Joe is the Financial Sector Analyst. Upon graduation in May of 2011, Joe will begin working for the Federal Reserve Bank of Cleveland as an Assistant Bank Examiner or Financial Analyst. Currently at Xavier, Joe is employed both within the Athletic Department as a Business Intern and in the Applied Finance Department as a Bloomberg Specialist. Joe is also the president of the Xavier University Club Baseball team and member of the Financial Management Association. In his free time, Joe enjoys being involved in sports of all kinds and writing.

Griffin Jaques

Griffin Jaques will be graduating in May 2011 with degrees in Finance and Economics. He is originally from South Bend, IN and has grown up as a Notre Dame fan throughout his entire life. His interests include Notre Dame, Chicago teams, and Xavier basketball. He also enjoys playing sports and reading about financial and economic issues. His role on the Fund includes being the Consumer Staples analyst. He has worked for Janco Composites, Inc., a reinforced plastics manufacturer in South Bend, IN, and Abt SRBI, Inc., a research and consulting firm. Griffin is looking for a job as an equity analyst once he graduates from Xavier.

Michael Krzan

Michael Krzan is a Junior pursuing a degree in Finance and Accounting. As a member of the fund, Michael oversees the information technology sector. Originally from Columbus, he returned to his hometown over the summer to complete an internship within the Credit Risk Management arm of PNC Financial Services. Currently, Michael is the President of the Financial Management Association and an Analyst Intern with Merrill Lynch Wealth Management. His career interests are concentrated on either investment banking, specifically focusing on loan syndications, or value investing. Mike is scheduled to sit for the first level of the CFA in December. In his leisure time, Michael enjoys playing competitive sports. He is the captain of his Intramural Flag Football team and a member of the Xavier Boxing Club.

Nick Laborie

Nick is a senior Finance major from Cincinnati, Ohio. He currently is Treasurer of the Middle Eastern Culture Society and part of the Xavier Club Soccer team. An interesting fact about him is he is fluent in French, Arabic and English.

Ben Lawrence

Ben is a junior Finance major from Indianapolis, IN. Ben is the Industrials analyst for the Investment Fund. Aside from the Fund, Ben is also a member of Xavier's varsity Cross Country and Track and Field teams.

Greg Markgraf

Greg Markgraf is currently a Senior Finance and Marketing double major at Xavier University. He is the Consumer Discretionary Sector Analyst. Born and raised in Cincinnati, Greg is an ardent fan of Cincinnati sports, regardless of their success (or lack thereof). Outside of the fund, Greg is participating in the Kao Brands Marketing Challenging and is the Vice President of Pledge Education for Delta Sigma Pi, the campus' professional business fraternity. Greg also works part time at Northland Volkswagen, and upon graduation will be working for Dunnhumby as a Market Research Analyst.

Eric Nicolas

Eric Nicolas is a senior Finance Major and came to Xavier from the local Cincinnati area. He is the telecommunications and information technology sector analyst. Eric is perusing a career in finance and upon will be working as a financial representative with Northwestern Mutual in West Chester Ohio. When not in the classroom Eric Interns at Merrill Lynch under the wealth managers Mark Broderick, Brian DeGroft, and Cynthia Yozwiak. In addition, he also manages The Flying Pizza, a small family owned New York Pizzeria, located in the Mason area. Eric loves to travel and feels blessed to have had the opportunity study in Barcelona Spain, where he expanded his skills in the Spanish language and took classes on European business practices. Little know facts about Eric are that he is a proficient Saxophone player as well as a downhill long boarding enthusiast.

Patrick Polomsky

Patrick Polomsky is a senior Finance Major from Cleveland, Ohio also pursuing minors in Mathematics and Information Systems. Pat is currently the healthcare sector analyst. He has already passed the finance section of the Actuarial Exam, and upon graduation will be working Stout Risius Ross as a Financial Analyst. Patrick enjoys traveling and has studied the German language for 5 years. This past summer Patrick worked as an Actuarial Intern with Liberty Mutual where he worked on a number of different projects. Patrick has also worked for The Midland Company as a Customer Service Representative in their Claims Department. He currently works at Xavier's Learning Assistant Center tutoring fellow students in their Finance classes. Patrick is very thankful to have been given the opportunity to be a part of Xavier's Student Investment Fund this semester.

Daniel Powers

Dan is a senior Finance and Accounting double major, who is currently responsible for analyzing the Energy sector. Dan is from Hudson, OH and holds the position of Treasurer for the Financial Management Association. Come May, Dan will be working for Fifth Third Bank in the Commercial Associate Program.

Robert Sunleaf

Robert Sunleaf is a senior finance major originally from the Chicago area. He is responsible for the telecommunications as well as information technology sector. After graduation, Robert will be working for Texas Instruments in Dallas, TX. Outside of class, Robert partakes in an internship at Scottrade assisting two experienced stockbrokers. Robert is also a veteran resident assistant and works as a certified pharmacy technician at Walgreens. His extracurricular activities include acting as president of the Business Leaders for Tomorrow student organization. In his spare time, Robert enjoys traveling and has had the opportunity to spend several weeks in Europe but most enjoys his trips to the Caribbean.

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April 2011

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D'ARTAGNAN CAPITAL FUND NAME CHANGE PRESS RELEASE

SUMMARY

The members of the Xavier Student Equity Investment Fund, the finance faculty, the Board of Executive Advisors, and the Finance Subcommittee of the Board of Trustees have discussed and voted for a proposal to change the name of the Xavier Student Equity Investment Fund to "The D'Artagnan Capital Fund" which will be colloquially shortened to "DCF".

REASONS FOR CHANGE

Xavier's Student Equity Investment Fund (XSEIF) and Student Bond Investment Fund (XSBIF) are currently managed by undergraduate and MBA students respectively. Since the names are very similar yet managed by two completely different groups of students, the decision was made to enact a name change to further distinguish the two groups. During this process, the committee in charge of changing the name explored new options that both represented school pride and professionalism in relevance.

The aim of this change is to make the fund more identifiable not only by business students but to the students of the University on a larger scale. By embracing the mascot of the school as other funds do, the fund hopes to raise the profile of the fund. This is in-keeping with previous changes made to the operations of the fund, which last year revised the admission process into the fund. Doing away with the previous interview format, the current process simply involves a prerequisite class and is open to all majors upon successful completion of the course.

The D'Artagnan Capital Fund follows a bottom-up approach, meaning the security selection process involves a discounted cash flow model as the basis for investment theses. Not only does the name change incorporate school spirit but also speaks to the strategy which the fund embraces.

CONCLUSION

The fund firmly believes that this name change will result in even more enthusiasm around what we all aim to make one of the University's flagship programs. By embracing our heritage we also look forward to becoming an ever- integral point of pride for Xavier University.

D'ARTAGNAN CAPITAL FUND ANNUAL PERFORMANCE

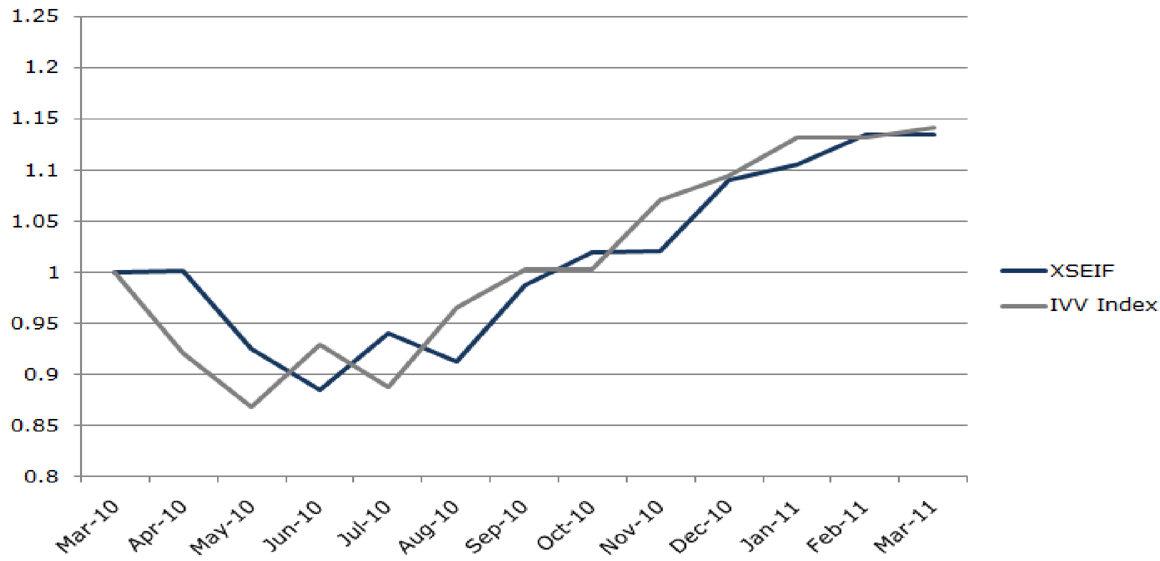
(3/31/2010 – 3/31/2011)

Statistics	DCF	S&P 500
Total Return	13.48% (gross) 12.97% (net)	15.65%
Sharpe Ratio	0.850	0.891
Treynor Ratio	14.784	15.365
Beta	0.885	
Alpha	-42bps	
M^2	-0.311%	

The above chart shows statistics for the D'Artagnan Capital Fund (DCF) given the time March 31st, 2010 – March 31st, 2011. The DCF returned a total return of 13.48% which is below the benchmark's return of 15.65%. Due to fees, the net return of the DCF over the year was 12.97% meaning we underperformed the benchmark. Given our exposure to total risk as measured by the Sharpe Ratio and M squared, we underperformed the benchmark. Given our exposure to market risk as measured by the Treynor Ratio and alpha, we also underperformed the benchmark. Our average beta during the year was 0.885 which made us less volatile to any market changes and decreased our overall exposure to market risk. Our beta as of March 31st, 2011 is 1.03.

Statistics	DCF	S&P500
Price/Earnings T12M	16.94	20.89
EV/EBITDA T12M	8.19	10.61
Dividend Yield	1.59%	1.92%
Expense Ratio	0.4637%	
Turnover	0.412	
Tracking Error	2.767	

DCF Investment Growth



The above chart shows the investment growth of the DCF (measured in blue) versus the IVV Index (measured in grey) which is a common ETF for the S&P 500 that we use as our benchmark. Both the market and our Fund saw initial losses during the summer months but rebounded with positive returns to finish off the year. The DCF was very closely in line with the benchmark and slightly underperformed during the year.

Best and Worst Performance

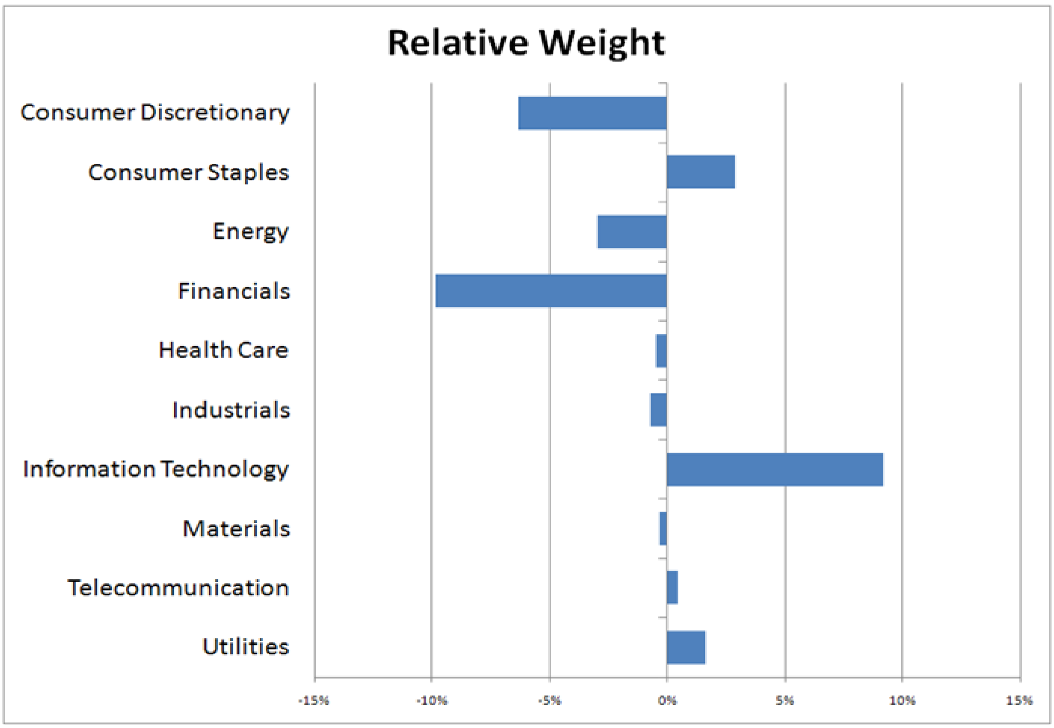
Best Performers	Return	Worst Performers	Return
1) Cognizant Tech	59.67%	1) Bank of America	-20.43%
2) Peabody Energy	58.41%	2) Teva Pharmaceutical	-19.3%
3) Salesforce.com	54.62%	3) Visa Inc.	-18.54%
4) Apple Inc.	48.3%	4) Gilead Sciences	-18.23%
5) Devon Energy	42.96%	5) Microsoft	-11.39%

The above table shows the best and worst performers during the year. Notice that three out of the five best performers are in the Information Technology sector (Cognizant Tech, Salesforce.com, and Apple Inc.). The other two are in the Energy sector. Two of the worst performers are in the Information Technology (Microsoft and Visa Inc.) while another two are in the Healthcare sector (Teva Pharmaceutical and Gilead Sciences). The worst performer during the year was Bank of America in the Financials sector.

TOP HOLDINGS AND SECTOR WEIGHTING

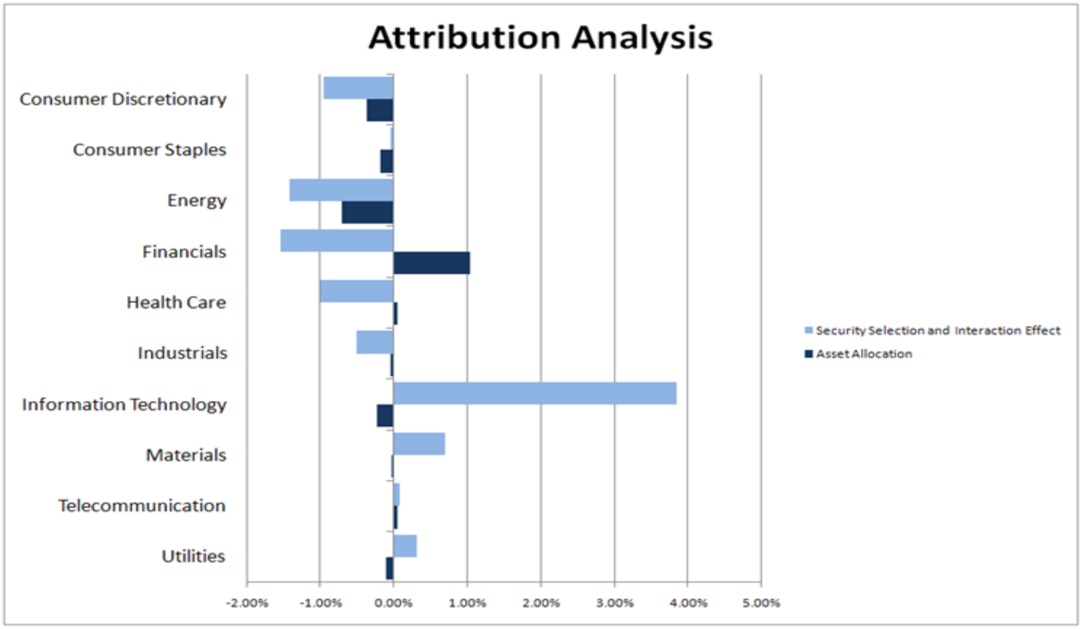
Top Holdings (3/31/2011)	% of Portfolio
1) Visa Inc.	4.91%
2) PNC Bank	4.84%
3) Cognizant Tech	4.78%
4) Apple Inc.	4.67%
5) General Motors	3.86%

The above table shows the top 5 holdings in the DCF. Notice that the top holding, Visa Inc., is still within the limit set forth by the Prospectus.



The above chart shows the relative weight of each sector in the DCF versus the sector's weight in the benchmark. We are significantly underweight in the Consumer Discretionary sector and Financials sector. On the other hand, we are significantly overweight in the Information Technology sector. The weighting of each sector is decided by that sector's analyst and is justified through the sector outlook that each analyst is required to prepare.

ATTRIBUTION ANALYSIS



The above chart shows the attribution analysis for each sector. Being an opportunities fund, we focus more of our attention to the Security Selection. The Security Selection for each sector is the lighter shade of blue while the Asset Allocation is the darker shade of blue. The combination of the two then gives us the Active Return for each sector. Looking at our security selection, the sectors where we seemed to do worst was Energy, Financials, and Health Care. On the other hand, we did an excellent job at choosing securities in the Information Technology sector. Even though there was a negative asset allocation for the Information Technology sector because the sector as a whole returned less than the S&P 500, we overweighted the sector because of the great opportunities that we found. In doing so, it was worth it because of our security selection.

Fund Strategy

By Mike Krzan

The strategy of the fund is outlined below to shed light on our stock selection process. Some of the elements described are based directly on the direction given to us from the 2010-2011 prospectus. Other elements are systems and processes that we have self-instituted to maximize the return for the Xavier Endowment and the educational experience for the students

Basic Requirements

As defined by the prospectus, the following guidelines will be met:

1. The Fund will be benchmarked against the S&P 500 index.

2. The proportion of a sector's allocation will be limited to a range equal to plus or minus 50% of the sector's allocation to the index.

3. Stocks in the portfolio can be selected outside the index (S&P 500) universe provided they meet the index features of market capitalization and marketability. The fund has decided that a company outside the S&P 500 must have an average daily volume equal to or above the bottom quartile of the market caps of the S&P 500 companies.

4. Preferred stock and ETFs can be included in the fund.

5. Cash position of the fund can be no more than 10%.

Valuation Techniques

Bottom Up
At our core, we are an opportunities fund that institutes a bottom-up approach. Therefore, we look primarily at specific company fundamentals rather than the direction of the economy as a whole.

Strategy
Each analyst can decide which valuation technique (value, growth, etc.) to apply to his or her sector. However, every analyst is required to include a discounted cash flow analysis and relative valuation analysis when presenting a recommendation to the fund in order to change portfolio weightings.

Approving Recommendations
When making a recommendation, each analyst must present quantitative and qualitative analysis in an investment thesis. Accompanying the thesis is an oral presentation describing the reasoning behind the recommendation. After the presentation, analysts vote to approve the recommendation. A two thirds majority is needed for approval. For sell decisions, the same procedure applies. Each investment thesis indicates the estimated intrinsic value of the stock. When the stock nears this intrinsic value price, the analyst will evaluate the stock to determine if it should remain in the portfolio. Again, a presentation and a two thirds majority vote from the other analysts are required to approve the recommendation.

Weighting

While analysts do consider some top down elements in individual stock reports, the majority of top down analysis is included in the analysts' sector reports. In these sector reports, each analyst will examine the near and long term prospects of their specific sector. Based on this analysis, the analyst will recommend either an overweight, neutral, or underweight recommendation and our funds will be allocated accordingly.

Leadership Roles

We have three leadership roles within the group. The analysts in these roles rotate each month. Therefore, each analyst has the opportunity to hold a leadership position sometime throughout the semester. The leadership roles are as follows:

Chief Investment Officer
The CIO facilitates biweekly meetings. He or she will ask for reports from the compliance officer and economist and define which analysts will present recommendations during the period. If there is a large pool of analysts that would like to present at one time, it is the responsibility of the CIO to find time outside of the scheduled hours for analysts to present. Also, the CIO instructs the Fund Professor on class buy/sell decisions for the portfolio after a recommendation is approved.

Economist
The Economist gives an economic update of current events in the market and relates how this information will affect the fund. The Economist will present an outlook of the economy before each class meeting.

Compliance Officer
The Compliance Officer ensures that the fund stays in compliance with the prospectus. He or she must ensure that any trades recommended by the fund allows the fund to stay within compliance.

Communication

The fund utilizes Blackboard to share all information. We have an area to report anything from stock reports and recent trades to meeting notes and the prospectus reports. This provides the analysts 24/7 access to any and all fund information.

Recent Changes

As discussed during the semiannual report, the fund has made two strategic decisions for the portfolio. First of all, the fund moved out of preferred stocks and into common stocks. The impact that this decision can be seen by comparing the beta over the reporting period of 0.885 to the current beta of 1.03. Moving out of the preferred stocks allowed the fund to t0 capture gains in a recovering market. The second strategic decision was to reduce the number of stocks in our portfolio. Since the semiannual report, we have reduced our holdings from 52 stocks to 46 stocks. By reducing our positions into our best ideas, we believe we will experience stronger results in the long term.

ECONOMIC OUTLOOK

By Griffin Jaques and Joe Bauer

Application of Economics to Fund Strategy

As a Large Cap Equity Fund, we constantly monitor current economic events that directly affect our fund and allow us to enhance our bottom-up valuation approach. Each class meeting is started with an economic summary report which is presented by that month's designated economist. This report can include anything from a Ben Bernanke speech, initial jobless claims numbers, or recent events in North Africa and the Middle East. We apply a bottom-up strategy and rely on individual stock selection based on company fundamentals and individual stock mispricing by the market. Due to this strategy we only use economics in tandem with our bottom-up strategy in order to provide an overarching outlook that can help to guide our decisions.

In our valuation of individual stocks, we provide qualitative analysis of the company that is backed by discounted cash flow models and relative valuation analysis. Economic conditions must be considered when doing analysis in all three of these different methods. The ability to correctly interpret macroeconomic conditions allows us to identify opportunities in our individual sector. In our qualitative analysis, we can then adjust our unique outlook on the company by our differentiated opinion on the economic factors that will affect it. When calculating the discounted cash flow models, we consider the economic outlook in applying the inputs of the DCF models, specifically the growth rates that we assume as well the interest rates. In our relative analysis, we look for companies with competitive advantages or disadvantages in how they are affected by macroeconomic factors, thus making them more or less attractive in comparison to their peers.

2010 In Review

1. The 4th quarter of 2010 marked the sixth straight quarter of recovery for the United States economy
2. Real GDP grew 2.8% during 2010
3. The stock market gained 13% through the year
4. Consumer sentiment (as tracked by the University of Michigan) remains well below pre-recession levels
5. During 2010, banks became somewhat more willing to lend to consumers
6. Multiple income support programs were implemented that influenced consumer spending such as: extended unemployment benefits, the Making Work Pay tax credit (which will be replaced in 2011 by other programs)
7. Housing prices proved to be volatile over the past year given the uncertain market conditions such as modest income growth, slower household formation, tighter mortgage underwriting standards, heightened uncertainty among potential homebuyers, and large "shadow inventory of foreclosed and other distressed properties on the market
8. The foreclosure rate of 2010 remained at a historically high level
9. Nonresidential investment grew at a 10% annual rate during 2010, however equipment and software grew 16% while investment in nonresidential structures decreased by 6%
10. Business investment may able to grow because corporate profits have rebounded to around pre-recession levels, and corporations are holding large amounts of cash
11. Real exports grew 9% during 2010 and real imports grew 11% during 2010
12. Unemployment remained high throughout the year

13. Price inflation (measured by consumer price index) dropped to 0.8% in 2010 compared to 1.8% during the two years before

2011: A Look Ahead

According to most estimates, U.S. GDP growth will be in the 3.5% range, with inflation maintaining a level of around 1%. However, the unemployment rate will most likely not improve by much throughout 2011. Further, it is expected, given current market conditions, that the Federal Reserve will keep rates close to zero and that these will remain there for the foreseeable future. A key aspect of the U.S. economy that will need attention is the budget deficit. As our political leaders move forward with plans to decrease the deficit and what measures they implement will be something to closely observe through the coming year and into the future.

International Exposure

While our fund has restricted ourselves to only owning stocks within the S&P 500 to stay within the prospectus's definition of market capitalization and marketability, we do feel we can benefit from exposure to international markets. Without buying foreign stocks, we can achieve this strategy by investing in companies who have assets and customers in foreign countries. We believe this exposure will ultimately benefit us, as the expectations of growth in foreign countries our greater than those of the U.S., thus giving a competitive advantage to companies in the S&P who have stake in foreign nations over those that do not.

As the world emerges from the global economic downturn, there will undoubtedly be shifts in the distribution of wealth across the planet. Recent growth in Brazil, Russia, India, and China has put the GDP of emerging economies on pace to catch that of the rest of the most advanced economies excluding the U.S. By 2015, the world's largest 32 countries are expected to have only 50% of the global GDP, as oppose to 70% in 1990. Specifically, the outlook seems most optimistic in China and Russia. The International Monetary Fund expects China's GDP to double by 2015, and also see Russia go from the 12th largest economy to the 6th, overtaking the U.K. This would put companies with investment in China and Russia at an even further advantage when compared to companies with foreign investment outside of these two countries.

In contrast to the extreme optimism of countries such as Russia and China, nations on the other side of the spectrum require just as much attention. In an increasingly integrated global economy, drastic economic downturns that we have seen in Greece and expect in Ireland have a contingent effect on the recovery of the world market and future growth. Even with the threats posed to companies who invest heavily in foreign countries, they are probably not to a degree that would completely negate the benefits of such exposure.

QE2

For the second round of QE2, the Fed decided to purchase $600 billion worth of treasury bonds to keep interest rates low and help spur lending and economic growth. There has been much debate as to what will happen when the program ends in June. What many people are wondering is how markets will react to the finish of the program. Many experts have argued that the Fed has artificially kept rates low, so ultimately we may see a spike in yields as Bill Gross believes to be the most likely outcome. If there is a spike in yields, that could be negative for the stock market. On the other side, some argue the market has priced in the effect of QE2 and stocks may be on the way towards more gains. Ultimately, we believe that there may be some negative effects on stocks as markets may react negatively. If this proves to be true, we could use it as an opportunity because stocks may become cheaper.

SECTOR REPORTS

CONSUMER DISCRETIONARY SECTOR REPORT

By Greg Markgraf

Sector Allocation Recommendation:	**Neutral/Underweight**
Current Sector Weight in Portfolio	**7.49%**
Current Sector Weight in Benchmark	**10.41%**
Benchmark Weight ± 50%	**5.20% - 15.61%**
Sector Stocks in Portfolio	**2**
Sector Stocks in Benchmark	**79**
Portfolio Sector Beta	**1.03**

SUMMARY

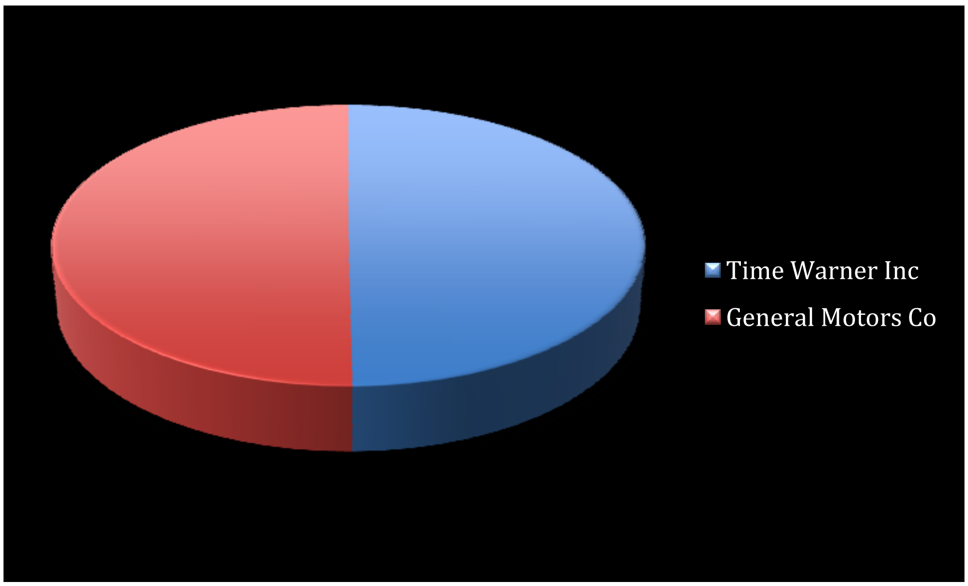
The Consumer Discretionary Sector encompasses those industries that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles & apparel and leisure equipment. The services segment includes hotels, restaurants and other leisure facilities, media production and services, and consumer retailing and services. The analyst's recommendation is a neutral or slightly underweight position for the following reasons:

1. Because of its cyclical nature, being heavily invested in the sector during an upswing is ideal. While the economy is still rebounding, the consumer discretionary sector seems to be fairly valued with much of the expected gains already priced into the sector's securities.
2. Falling unemployment will lead to increased retail sales.
3. Inflationary pressures on energy and food will hinder consumer spending.
4. Consumer confidence is moving sideways, not improving.

HOLDINGS

Overview

There are currently two securities in the sector representing 7.49% of the total portfolio. General Motors Company (GM) is 50.18% of the sector, and 3.76% of the total portfolio. Time Warner Inc. (TWX) is 49.82% of the sector and 3.73% of the total portfolio. With the sector just about equally weighted between the two securities, the sector strategy is true to the goals of an opportunity fund, which is to put money into the best ideas in the sector. Each of these securities were based on their standing within an industry that was identified as a place the fund wanted to have a stake. Below is the breakdown of the sector weightings.



Sector Holdings, 03/31/11

General Motors Company (GM)

General Motors Company is one of the oldest auto manufacturers in the world, having been organized in 1908. Once revered as the pinnical of American industry, the company has fallen from grace harder than any other. Recently experiencing bankruptcy, the company has emerged from government conservatorship with an IPO in November. The company consists of Chevrolet, Buick, GMC, and Cadillac in the United States. GM also has a financing arm and stakes in multiple financial services companies, including AmeriCredit Corp. and Ally Financial.

The reasons for holding GM are as follows: the company has a firm footing in emerging economies, coming out of bankruptcy the company has a favorable capital structure compared to its peers, new and upcoming products are competitive in both technology and quality, and reduced line of brands allows it to focus on core brands. The two macro reasons for holding an auto company are the strength of international demand and rebounding demand domestically coming out the recession.

Below is a chart of GM compared to its most similar firms. Obvious strengths are high return on equity, combined with a low P/E and low EV/EBITA. The major weakness is the 14.5% decline the stock has experienced since January, however the holding period return is .35%. All prices are in native currency, however market cap is in US dollars.

Ticker	Name	Last Px	Ret YTD Pct	Mkt Cap	P/E	ROE LF	EV/EBITDA T12M
Average		9,652.94	(0.50)	$ 26,125.92	13.93	14.63	7.78
GM US Equity	GENERAL MOTORS CO	31.52	(14.49)	$ 49,194.62	5.23	19.85	3.79
7203 JP Equity	TOYOTA MOTOR CORP	3,340.00	3.73	$135,877.70	18.89	5.49	11.68
DAI GR Equity	DAIMLER AG-REGISTERED SHARES	52.21	2.92	$ 80,585.35	12.20	13.50	10.41
VOW GR Equity	VOLKSWAGEN AG	106.46	0.53	$ 73,120.43	7.09	16.82	6.37
7267 JP Equity	HONDA MOTOR CO LTD	2,969.00	(7.20)	$ 63,455.03	8.74	14.63	7.00
F US Equity	FORD MOTOR CO	15.33	(8.70)	$ 57,988.96	8.20		8.22
BMW GR Equity	BAYERISCHE MOTOREN WERKE AG	58.52	(0.56)	$ 53,973.77	11.92	14.98	6.16
005380 KS Equity	HYUNDAI MOTOR CO	205,000.00	18.16	$ 41,854.37	10.22	22.14	6.60
7201 JP Equity	NISSAN MOTOR CO LTD	714.00	(6.98)	$ 38,083.78	12.27	8.89	5.71
JCI US Equity	JOHNSON CONTROLS INC	40.30	5.90	$ 27,297.08	19.10	15.33	12.47
000270 KS Equity	KIA MOTORS CORPORATION	72,800.00	43.87	$ 26,883.89	10.80	32.58	8.49

Time Warner Inc. (TWX)

Time Warner Inc.'s core business is entertainment. The company is broken into three segements: Newtorks, Fimed Entertainment, and Publishing. Networks includes cable network stations, including TBS and HBO. Filmed Entertainment houses the company's movie brands, including Time Warner and Warner Brothers Studios. Finally, Publishing has multiple magazines, led by flagship publication Time magazine. Divested from AOL and Time Warner Cable in 2008, Time Warner is now more profitable and streamlined.

The reasons for holding Time Warner Inc. are as follows: The company has a very popular portfolio of brands, the company has strong management, and the company has thus far proved adept at delivering media content in a variety of formats. The macro reasons for holding a media company are: consistent consumption patterns for media and strong demand as customers consume across multiple formats.

Below is a chart of Time Warner Inc. compared to its most similar firms. Strengths are again the P/E ratio and ROE. The weakness would be that it has returned less than other comparable entertainment companies since the start of the year.

Ticker	Name	Last Px	Ret YTD	Mkt Cap	P/E	ROE LF	EV/EBITDA T12M
Average		$ 58.59	8.25	$ 29,983.21	17.38	2.72	8.93
TWX US Equity	TIME WARNER INC	$ 35.47	10.95	$ 38,762.79	14.36	7.77	8.06
GOOG US Equity	GOOGLE INC-CL A	$578.16	(2.66)	$186,304.60	21.98	20.68	13.14
DIS US Equity	WALT DISNEY CO/THE	$ 41.76	11.33	$ 79,305.12	18.32	11.95	10.12
CMCSA US Equity	COMCAST CORP-CLASS A	$ 24.68	13.31	$ 67,891.45	18.84	8.35	6.40
NWSA US Equity	NEWS CORP-CL A	$ 17.17	18.45	$ 46,005.33	13.21	12.09	8.90
DTV US Equity	DIRECTV-CLASS A	$ 46.48	16.40	$ 36,792.40	18.74		7.26
VIA/B US Equity	VIACOM INC-CLASS B	$ 47.36	19.97	$ 28,629.87	16.62		9.89
TWC US Equity	TIME WARNER CABLE	$ 72.85	11.08	$ 25,015.61	18.92	14.62	6.61
YHOO US Equity	YAHOO! INC	$ 16.77	0.84	$ 21,958.84	22.07	9.83	12.73
CBS US Equity	CBS CORP-CLASS B NON VOTING	$ 24.27	27.67	$ 16,469.98	21.86	7.69	9.00
DISCA US Equity	DISCOVERY COMMUNICATIONS-A	$ 40.07	(3.91)	$ 16,357.04	22.77	10.63	12.86

WATCH LIST

Ticker	Short Name	Market Cap	Price:D-1	P/E	Total Re	Revenue T12M	EPS T12M
HD US Equity	HOME DEPOT INC	$ 60,762,759,168	$ 37.46	18.36	7.57	$ 67,996,998,656	$ 2.02
NKE US Equity	NIKE INC -CL B	$ 37,030,711,296	$ 77.39	18.34	(9.09)	$ 20,172,899,840	$ 4.31
LOW US Equity	LOWE'S COS INC	$ 35,357,351,936	$ 26.82	18.63	7.41	$ 48,816,000,000	$ 1.42
SWK US Equity	STANLEY BLACK &	$ 12,492,069,888	$ 74.71	18.91	12.33	$ 8,409,600,128	$ 0.74
MHP US Equity	MCGRAW-HILL COS	$ 11,951,120,384	$ 38.97	14.38	7.73	$ 6,168,330,880	$ 2.68
BBY US Equity	BEST BUY CO INC	$ 11,707,629,568	$ 29.70	8.53	(13.39)	$ 50,272,000,000	$ 3.18
FO US Equity	FORTUNE BRANDS	$ 9,696,285,696	$ 63.20	22.49	5.22	$ 6,570,499,968	$ 3.20
MAT US Equity	MATTEL INC	$ 8,816,589,824	$ 25.37	13.94	0.68	$ 5,856,241,024	$ 1.89
HAS US Equity	HASBRO INC	$ 6,418,970,112	$ 46.84	17.81	(0.16)	$ 4,002,160,896	$ 2.87

The strategy of the sector through the end of the semester will be find value in household brand names. While the sector currently has an underweighting in keeping with the recommendation of this thesis, moving to a neutral position with the addition of another position is certainly possible. Because it doesn't appear any one area of the consumer discretionary has a significant advantage over , attention will be focused on finding mispriced securities in industries in which the portfolio does not have a current position.

SECTOR CHANGES

Throughout the year, the sector has undergone significant changes. At the beginning of the year, the sector held two positions, Tiffany's & Co. (TIF) and Kohl's Corp. (KSS) with a total holding percent of the portfolio of about 1.7%. Tiffany's & Co. and Kohl's Corp where soon divested. The first position added was Time Warner Inc., with 1500 shares purchased in October. In December, 2500 shares of Gamestop Inc. were purchased. Sold in March, the proceeds from the Gamestop sale were then invested in General Motors, buying 1700 shares.

SCREENING PROCESS

The screening process of this sector is to look for companies with the following requirements:

1. Key position in industry
2. History of maintaining competitive advantages over competitors and strong margins
3. Management in place that has a track record of success
4. Potentially undervalued based on a general DCF model

The strategy for screening is somewhat more top down than the rest of the fund due to the sheer number of companies in the sector. The analyst finds an industry that, based on macroeconomic factors, is well positioned to capitalize on market conditions, for example the factors listed above. From there, he looks at the companies in the best position to do that, typically the top 3-4 companies in the industry. He then performs a general DCF model based primarily on historical numbers. If the stock seems to be undervalued, then more in-depth analysis will follow including relative analysis and a more detailed, thoroughly investigated DCF.

Sector Analysis

Classification

Life Cycle Position

Most of the industries and companies within the sector tend to be in the mature phase of the industry life cycle. Industries such as hospitality, autos, and entertainment have been around for decades and have nearly saturated the domestic market, meaning the growth of these industries will be driven by growth in the overall economy in the United States and growth from overseas.

Business Cycle

The sector is highly cyclical due its discretionary nature. The companies in this sector by definition sell good or provide services whose purchase can be delayed or pulled forward depending on consumer optimism or lack thereof. During the high point of business cycles, these firms will enjoy maximum sales and profits. During the trough of the cycle, consumers will postpone purchases and the firms will experience excess capacity, reduced sales, and significantly lower profits.

External Factors

Technology

Technology has a significant impact on the sector, despite the classification as a major market. Many discretionary goods such as autos or media have experienced significant changes in recent years due to evolving technology. Media specifically is being consumed differently than 10 years ago. The option to view television series online with ads, purchase without ads, or stream in a mobile format is a microcosm for the evolution that is also occurring in music and movies. With a changing consumption pattern comes shifting demand, but with the current oligarchy in the media industry, the chances of a new player entering the industry is slim. The distribution industry, on the other hand, is ripe for entrances and shown by NetFlix and RedBox.

Government

The government's role in the sector is limited by the nature of the industry, e.g. there is little need for regulations involving blue jeans. One key place where the government plays a role, however, is in the auto industry. The United States has a tariff in place common called "The Chicken Tax" which taxes imported pickup trucks at 25%. Examples such as this exist across the world in other forms, but generally try to encourage the health of homegrown industries. These practices are especially prevalent in the auto industry, although also expand into other industries as well.

Social

The impact of social trends is especially pertinent to the sector since the decision to consume is voluntary. An example of the impact of social influence is the public relations disaster that ensued after worker conditions at a supplier of Nike were exposed to be unsuitable. A public backlash followed and Nike sales fell as competitors such as Adidas and Reebok picked up sales Nike lost.

Demographic

The major demographic factor that influences the sector is income, although all sectors consume good and services from the sector at some level. Wealthy consumers, however, are more likely to be able to afford to travel, and therefore spend on hospitality services than less fortunate consumers.

Foreign

The influence of factors outside the boarders of the United States on the sector is undeniable. The real emergence of a global middle class brings billions of new consumers to the table, all of whom have shown an aptitude to consume discretionally in some kind of patterns, even if they differ from those traditionally found in the United States and Europe. Consumers in China and India, for example, are more attune than ever to luxury goods and fashion, representing a huge potential market for companies like Tiffany's & Co. or Ralph Lauren, who are gaining exposure to a vast number of new potential markets.

Demand Analysis

End Users

The end users for the goods and services produced by the sector are the end consumer. All the goods here are ultimately marketed to people, rather than business to business.

Real and Nominal Growth

Growth tends to be directly tied to the growth of the overall economy, making its real growth tend to equal the broader economy, but nominal growth be less during a downturn and up during a peaking cycle.

Trends and Cyclical Variation around Trends

Because of the diverse nature of the sector, pinpointing single trends is difficult. Ultimately, however, the sector's trends are based on the movement of the overall all economy because of the sector's cyclical nature.

Supply Analysis

Degree of concentration

Because of the diverse nature of the sector, suppliers are globally based. This causes problems when global incidents such as the recent earthquake and ensuing tsunami in Japan occurred. American and Japanese car manufacturers' flow of supplies was disrupted. Almost any major event in an industrialized nation will have an impact on the flow of supplies.

Ease of entry

While some industries, such as cable companies, have high economic moats, most companies in the sector do not. For example, retail and apparel companies have almost no barriers to entry. Other industries in the sector, such as home appliances, is capital intensive although permeable, as shown by the entry of LG into the segment.

Profitability

Supply/Demand Analysis

The demand for the sector, as previously discussed, is highly elastic. While supply tries to mirror demand as in any sector, this is especially difficult here and the best firms during a downturn in the sector tend to be the ones able to adjust capacity effectively.

Cost Factors

Cost factors are based on commodity prices, interest rates, foreign exchange rates and labor costs. Any change in any of these costs will have a trickledown effect on the final cost of the product overall.

SWOT Analysis

Strengths

The primary strength of the sector is its cyclical strength. When the economy is good or rebounding, consumer discretionary will be the sector benefitting the most. As unemployment falls and consumer confidence rises, the companies in this sector will experience increased sales and profits as discretionary spending on goods ranging from televisions to blue jeans accelerates.

A second strength of the sector is the diversity of the industries within the sector. Because the sector is so broad, a disaster in one industry does not necessarily spell doom for the sector as a whole. For example, luxury goods such as jewelry may take a hit during a downturn, but media such as movies usually doesn't experience a very severe backlash. This allows an analyst to select specific industries based on his expectations going forward.

Weaknesses

A major weakness in the consumer discretionary sector is also its strength. Because of the highly cyclical nature of the sector, as the overall economy begins to experience a downturn the consumer discretionary sector will be disproportionately affected, since consumers will limit spending to necessities and delay the purchase of major goods or slow down the consumption of media, apparel, etc.

Another weakness many industries within the sector experience is a lack of economic moats. Since the companies in the sector by nature are left to the choice of the consumer, it is difficult for companies to develop barriers to entry the same way telecom or ultility companies can, for example. The exception to this weakness would be data service providers, including companies like Time Warner Cable and ComCast, who have extensive networks of cables that require large amount of capital and time to establish.

Opportunities

The rise of a middle class in developing nations represents the largest opportunity for the sector going forward. As a very large group of people gain the ability to consume all sorts of discretionary goods, demand around the world for the products and services represented in this sector will increase.

Another potential opportunity is capitalizing on social norms, including such trends as the green movement. Capitalizing on opportunities such as this one is crucial to the success of the sector as a whole.
Technology also poses a unique opportunity for the consumer discretionary sector. Although a mature market in many ways, the sector has industries that are still young and growing, based on the advent of new technology that allows for novel consumption of goods and services traditionally part of the consumer discretionary sector.

Threats

Threats to sector are really twofold. Again, any fears of a potential downturn will have an immediate negative impact on the values of the firms in the sector.

A second threat to the sector is any disruption in the flow of supplies from around the developed world. Because many of the products are comprised of parts sourced from around the world, any disruption of the supplies would have a negative impact on the specific industries most directly affected.

Consumer Staples Sector Report

By: Griffin Jaques,

Sector Allocation Recommendation:	**Underweight**
Current Sector Weight in Portfolio	**9.60%**
Current Sector Weight in Benchmark	**11.00%**
Benchmark Weight ± 50%	**5.50% - 16.51%**
Sector Stocks in Portfolio	**6**
Sector Stocks in Benchmark	**41**
Portfolio Sector Beta	**0.60**
Benchmark Sector Beta	**0.71**

Sector Summary

The consumer staples sector includes companies whose businesses are less sensitive to economic cycles. The companies within the sector include manufacturers and distributors of food, beverage and tobacco and produce of non-durable household goods and personal products. It also includes food and drug retailing companies as well as hypermarkets and consumer super centers.

The consumer staples sector has historically had a low correlation relative the market (around 0.64). This results from the make-up of the products within the sector. Due to these two facts, this sector is good to overweight in an economic downturn.

The products have a low price elasticity of demand, meaning a change in prices will have a small effect on the demand for goods. Given this, a change in price can move a consumer from one product to a substitute, thus pricing in the consumer staples sector plays an important role.

Other notes:

1. Given the defensive nature of the sector, these companies tend to generally depend less on strong growing economies.
2. Given the increase in consumer spending and consumer sentiment, 2011 could prove to be a better year as consumers move to more premium brands.
3. Consumption represents about 70% of the economy
4. Although continued economic growth will prove to be beneficial for this sector, top-line growth does not appear to be great given the mature nature of the firms within the sector.
5. If the U.S. dollar continues to gain strength against other currencies, a majority of these companies could experience negative operating results because companies will have to pay more to sell their exports.

6. Inflation in commodity prices, as well as volatility in prices, could also prove to be a significant cost to many firms. Although some of the costs could be passed onto consumers, it could be dangerous as the economy has yet to fully rebound.
7. When the economy is down, it proves to be difficult to pass on price increases to consumers, thus shrinking profit margins. However, given the recovery, profit margins may increase somewhat going forward.

SECTOR HOLDINGS ANALYSIS

The D'Artagnan Capital Fund currently holds 6 stocks in the consumer staples sector. These stocks are CVS Caremark Corporation, Diageo PLC, Kellogg Company, PepsiCo Inc., Procter and Gamble, and Wal-Mart. Compared to the S&P 500, our fund is currently underweighted in the sector.

CVS Caremark Corporation (CVS)

Price: $36.04
Shares: 300
Percentage of portfolio: 0.75%

View: CVS Caremark Corporation (CVS Caremark) is a pharmacy healthcare provider in the United States with approximately 7,000 stores operating in three business segments: Pharamcy Services, Retail Pharmacy, and Corporate.

Given that it has now been four years since the deal to acquire Caremark, many are wondering if the deal ultimately will prove to provide the synergies and economies of scale many expected. As of this time, many believe CVS has yet to realize all of the potential gains from the merger which proves to be troubling. I believe CVS to be a strong company that has yet to realize the gains from the merger with Caremark. With an implantation of a new cost savings initiative, that if successful could allow CVS Caremark to finally realize the gains from the merger in 2007.

Diageo PLC (DEO)

Price: $77.97
Shares: 200
Percentage of Portfolio: 1.08%

View: Diageo plc (Diageo) is engaged in the drinks business with a collection of international brands with eight of the world's top 20 brands. Given Diageo's strong portfolio of liquor and beer, the company continues to be the leader in its industry. However, in an economic downturn, Diageo's premium brands can turn out to be negative as people trend towards other, more affordable beverages.

Diageo has now put itself in a position to really improve its performance if the global economy can continue to grow given their exposure to emerging markets. As long as Diageo can maintain their sales volume, the company will continue to do well. The main cause of concern for Diageo is a lack of organic sales growth as the company now has to qcquire other companies to create sales growth in mature markets. If Diageo can successfully acquire some key companies, they should be able to maintain strong financial performance.

Kellogg Company (K)

Price: $54.71
Shares: 400
Percentage of Portfolio: 1.51%
View: Kellogg Company is engaged in the manufacture and marketing of ready-to-eat cereal and convenience foods with their main products being: cereals, cookies, crackers, and fruit-flavored snacks among many other. As of February 25, 2011, these products were, manufactured by the Company in 18 countries and marketed in more than 180 countries.

Given the strength of competition within Kellogg's industry, Kellogg has faced some pressure in its financial performance. However, investments in product innovation can prove to really benefit Kellogg in the near future even in the tough operating environment. Another important risk to note is increases in commodity costs as this causes Kellogg to increase prices they charge to consumers, thus decreasing their sales volume. The reason Kellogg is held by the fund is because I believe Kellogg will begin to fully realize its investment in product innovation, as well as its strong market position.

PepsiCo Inc (PEP)

Price: $66.04
Shares: 600
Percentage of Portfolio: 2.74%

View: PepsiCo, Inc. (PepsiCo) is a global food, snack and beverage company. The Company's brands include Quaker Oats, Tropicana, Gatorade, Lay's, Pepsi, Walkers, Gamesa and Sabritas and is organized into four business units: PepsiCo Americas Foods (PAF), PepsiCo Americas Beverages (PAB), PepsiCo Europe and PepsiCo Asia, Middle East and Africa (AMEA).. On February 3, 2011, the Company acquired approximately 77% of Wimm-Bill-Dann Foods OJSC (WBD). On February 26, 2010, the Company completed its acquisitions of The Pepsi Bottling Group, Inc. (PBG) and PepsiAmericas, Inc. (PAS).

Although Pepsi did not prove to have a strong of 2010 as many expected, it appears poised to have a strong 2011 given its wide economic moat derived from its economies of scale, dominance in the snack category and effective distribution network. Two huge advantages going forward for Pepsi are its Frito-Lay division and its direct store delivery system. The Frito-Lay division makes Pepsi the largest snack company in the world. Its distribution system proves to be a barrier of entry because of the difficulty and costs it would take to replicate by competitors. Further, Pepsi has proven time and time again they can go into new foreign markets and effectively change products as needed to gain market share.

Procter and Gamble (PG)

Price: $62.19
Shares: 500
Percentage of Portfolio: 2.15%

View: The Procter & Gamble Company (P&G) is focused on providing consumer packaged goods. The Company's products are sold in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores, drug stores and high-frequency stores, and neighborhood stores. The company operates through three business units: Beauty and Grooming, Health and Well-Being, and Household Care.

Given P&G's size, they gain advantages in terms of distribution, brand reach, and scale with suppliers. Throughout its history, P&G has proven to be an outstanding company that can change with the times and the markets it operates in. As P&G continues to expand manufacturing in countries where it does not have a presence, they will be able to reduce costs, while also being closer to major markets where strong growth is expected in the future. Also, P&G recently announced the sale of Pringles last week to Diamond Foods, further continuing there shedding of businesses that no longer fit well with their portfolio. P&G continues to be a leader in whichever market it operates in and with their ability to maintain this position and its proven ability to adapt as time passes, they are a strong company to hold.

Wal-Mart Stores, Inc. (WMT)

Price: $52.82
Shares: 375
Percentage of Portfolio: 1.37%

View: Wal-Mart Stores, Inc. (Wal-Mart) operates retail stores. Through three business segmanets: Wal-Mart U.S., International, and Sam's Club. The International segment consists of retail operations in 14 countries and Puerto Rico. During fiscal 2010, the segment generated 24.7% of the Company's net sales. The International segment includes different formats of retail stores and restaurants, including discount stores, supercenters and Sam's Clubs that operate outside the United States.

Wal-Mart is the dominant force in the U.S. retail market with its $400 billion plus in annual revenue. With their economies of scale, Wal-Mart proves to have tremendous market power which allows it to acquire and maintain favorable terms in every aspect of their business. As Wal-Mart looks to expand, they are moving to markets throughout the world and this is why Wal-Mart proves to be a tremendous investment because of their growth prospects throughout the world. If Wal-Mart can expand a business model that works to these markets, they will be a solid long-run position for the portfolio.

Consumer Staples Overview

Ticker	Company	Market Cap	Price:D-1	Revenue T12M	Total Return YTD	EPS T12M	P/E	EV/EBITDA T12M	EBIT Mrgn:Q	Beta:Y-1	Dvd Yld
WMT US Equity	**WAL-MART STORES**	**$ 184,405,098,496.00**	**$ 52.82**	**$ 421,886,001,152.00**	**(1.379)**	**4.510**	**12.914**	**6.911**	**6.063**	**0.599**	**2.764**
PG US Equity	**PROCTER & GAMBLE**	**$ 174,180,696,064.00**	**$ 62.19**	**$ 79,573,000,192.00**	**(2.614)**	**3.860**	**16.628**	**10.988**	**19.704**	**0.639**	**3.377**
KO US Equity	COCA-COLA CO/THE	$ 154,636,992,512.00	$ 67.40	$ 35,122,999,808.00	3.222	5.120	19.312	16.160	25.320	0.685	2.789
PM US Equity	PHILIP MORRIS IN	$ 120,102,297,600.00	$ 66.83	$ 27,208,000,512.00	15.334	3.920	17.005	11.209	41.337	0.783	3.833
PEP US Equity	**PEPSICO INC**	**$ 105,694,101,504.00**	**$ 66.04**	**$ 57,838,001,152.00**	**1.858**	**3.960**	**16.147**	**11.200**	**15.208**	**0.657**	**2.909**
KFT US Equity	KRAFT FOODS INC	$ 56,018,141,184.00	$ 32.03	$ 49,206,999,040.00	2.593	2.450	15.856	11.552	11.563	0.679	3.630
MO US Equity	ALTRIA GROUP INC	$ 55,479,459,840.00	$ 26.52	$ 16,892,000,512.00	9.351	1.870	13.885	9.999	37.083	0.690	5.732
CVS US Equity	**CVS CAREMARK COR**	**$ 49,308,991,488.00**	**$ 36.04**	**$ 96,412,999,680.00**	**4.028**	**2.510**	**13.969**	**7.594**	**6.394**	**0.927**	**1.387**
DEO US Equity	**Diageo PLC**	**$ 48,568,490,000.00**	**$ 77.97**	**$ 15,303,953,228.18**	**6.269**	**16.360**	**1.125**	**11.966**		**0.850**	**2.589**
CL US Equity	COLGATE-PALMOLIV	$ 40,304,828,416.00	$ 81.61	$ 15,564,000,000.00	2.224	4.460	17.290	11.135	22.616	0.623	2.843
WAG US Equity	WALGREEN CO	$ 37,845,090,304.00	$ 41.34	$ 69,914,999,808.00	6.549	2.380	16.340	7.954	5.325	0.940	1.693
COST US Equity	COSTCO WHOLESALE	$ 33,288,699,904.00	$ 76.20	$ 82,019,000,320.00	5.815	3.200	24.268	9.794	2.819	0.730	1.076
KMB US Equity	KIMBERLY-CLARK	$ 26,458,411,008.00	$ 65.43	$ 19,745,999,360.00	4.919	4.460	13.804	9.029	14.043	0.569	4.279
GIS US Equity	GENERAL MILLS IN	$ 23,301,789,696.00	$ 36.50	$ 14,816,300,032.00	4.160	2.620	14.571	9.415	18.222	0.619	3.068
ADM US Equity	ARCHER-DANIELS	$ 22,668,840,960.00	$ 35.57	$ 68,577,000,448.00	18.770	3.040	11.739	10.293	3.471	0.907	1.800
RAI US Equity	REYNOLDS AMERICA	$ 21,030,629,376.00	$ 36.07	$ 8,550,999,936.00	12.286	1.910	7.399	8.688	29.108	0.779	5.877
K US Equity	**KELLOGG CO**	**$ 19,974,520,832.00**	**$ 54.71**	**$ 12,397,000,192.00**	**7.923**	**3.320**	**16.629**	**10.676**	**16.052**	**0.616**	**2.961**
EL US Equity	ESTEE LAUDER	$ 18,846,140,416.00	$ 95.05	$ 8,283,799,936.00	17.782	3.130	28.121	14.512	12.574	1.035	0.790
SYY US Equity	SYSCO CORP	$ 16,543,089,664.00	$ 28.39	$ 38,429,697,024.00	(1.675)	1.940	14.864	8.055	5.099	0.746	3.662
HNZ US Equity	HJ HEINZ CO	$ 15,988,060,160.00	$ 49.68	$ 10,542,607,872.00	1.377	3.000	16.727	10.331	15.235	0.685	3.624
KR US Equity	KROGER CO	$ 15,038,000,128.00	$ 24.23	$ 82,186,399,744.00	8.867	1.750	13.689	5.817	2.678	0.659	1.734
LO US Equity	LORILLARD INC	$ 14,076,399,616.00	$ 96.71	$ 4,054,000,000.00	19.838	6.790	14.222	7.831	42.551	0.698	5.376
MJN US Equity	MEAD JOHNSON	$ 12,142,300,160.00	$ 59.35	$ 3,141,600,000.00	(4.214)	2.210	24.525	17.328	21.986	0.965	1.753
HSY US Equity	HERSHEY CO/THE	$ 12,073,339,904.00	$ 56.10	$ 5,671,009,024.00	19.795	2.290	22.174	10.936	17.568	0.583	2.459
AVP US Equity	AVON PRODUCTS	$ 12,037,990,400.00	$ 28.01	$ 11,002,100,224.00	(2.831)	1.410	15.390	10.640	10.198	0.928	3.285
SLE US Equity	SARA LEE CORP	$ 11,484,080,128.00	$ 18.45	$ 10,270,999,808.00	6.075	1.460	27.132	9.531	8.110	0.687	2.495
WFMI US Equity	WHOLE FOODS MKT	$ 10,962,360,320.00	$ 63.16	$ 9,370,290,816.00	25.305	1.610	38.512	14.159	5.158	1.088	0.633
CPB US Equity	CAMPBELL SOUP CO	$ 10,673,250,304.00	$ 33.33	$ 7,619,000,064.00	(3.254)	2.360	13.888	8.636	17.089	0.595	3.479
BF/B US Equity	BROWN-FORMAN -B	$ 9,837,498,368.00	$ 67.77	$ 2,537,700,032.00	(2.196)	3.280	20.599	12.796	29.487	0.814	1.888
CAG US Equity	CONAGRA FOODS	$ 9,743,875,072.00	$ 23.83	$ 12,195,900,160.00	6.597	1.490	14.185	7.999	9.588	0.729	3.862
CLX US Equity	CLOROX CO	$ 9,624,478,720.00	$ 69.94	$ 5,328,000,000.00	11.484	4.070	16.894	10.037	18.487	0.609	3.145
CCE US Equity	COCA-COLA ENTER	$ 9,056,743,424.00	$ 27.62	$ 14,327,000,192.00	10.841	1.820	14.092		8.837	0.991	1.738
TAP US Equity	MOLSON COORS-B	$ 8,773,711,872.00	$ 46.95	$ 3,254,400,000.00	(5.869)	3.810	13.453	15.130	13.201	0.765	2.386
SWY US Equity	SAFEWAY INC	$ 8,770,523,136.00	$ 23.82	$ 41,049,900,032.00	6.483	1.570	14.704	5.527	2.824	0.765	2.015
DPS US Equity	DR PEPPER SNAPPL	$ 8,544,637,952.00	$ 38.15	$ 5,636,000,000.00	9.232	2.210	16.165	8.270	18.187	0.738	2.621
SJM US Equity	JM SMUCKER CO	$ 8,470,636,032.00	$ 73.03	$ 4,707,654,976.00	12.019	4.240	15.310	8.216	18.961	0.644	2.409
HRL US Equity	HORMEL FOODS CRP	$ 7,370,242,048.00	$ 27.60	$ 7,414,830,208.00	8.229	1.625	16.727	8.677	9.298	0.617	1.848
TSN US Equity	TYSON FOODS-A	$ 6,737,730,048.00	$ 19.18	$ 29,409,999,872.00	11.618	2.500	7.611	3.640	6.015	0.848	0.835
MKC US Equity	MCCORMICK-N/V	$ 6,314,616,832.00	$ 47.62	$ 3,355,200,064.00	2.948	2.850	17.572	11.790	15.483	0.691	2.351
STZ US Equity	CONSTELLATION-A	$ 4,509,292,032.00	$ 21.52	$ 3,332,000,000.00	(2.844)	2.700	12.886	11.697	15.834	0.956	-
SVU US Equity	SUPERVALU INC	$ 1,952,039,040.00	$ 9.20	$ 38,079,000,576.00	(3.488)	(7.120)	7.077	4.873	2.445	1.082	3.804
DF US Equity	DEAN FOODS CO	$ 1,880,747,008.00	$ 10.27	$ 12,134,056,960.00	16.176	0.510	12.524	8.317	3.542	0.654	-
	Median	**$ 14,557,199,872.00**	**$ 44.15**	**$ 13,362,000,192.00**	**6.172**	**2.565**	**15.350**	**9.999**	**14.043**	**0.714**	**2.605**
	Average	**$ 33,471,536,321.86**	**$ 46.94**	**$ 34,365,683,794.14**	**6.413**	**2.931**	**16.123**	**9.983**	**14.733**	**0.758**	**2.637**
	Maximum	**$ 184,405,098,496.00**	**$ 96.71**	**$ 421,886,001,152.00**	**25.305**	**16.360**	**38.512**	**17.328**	**42.551**	**1.088**	**5.877**
	Minimum	**$ 1,880,747,008.00**	**$ 9.20**	**$ 2,537,700,032.00**	**(5.869)**	**(7.120)**	**1.125**	**3.640**	**2.445**	**0.569**	**-**
	Range	**$ 182,524,351,488.00**	**$ 87.51**	**$ 419,348,301,120.00**	**31.174**	**23.480**	**37.387**	**13.688**	**40.106**	**0.519**	**5.877**

SCREENING PROCESS

The screening process I have implemented within the Consumer Staples sector of the large cap equity universe has proven to be two-fold, and closely relates our goal in the DCF to maintain a strategy as an opportunities fund. One I deem more of a growth screening process that proves to be more qualitative as I look for companies that have strong prospects in international markets, especially emerging markets. The second process maintains more of a value approach as I screen companies through P/E and EV/EBITDA. Ultimately, both processes can prove to work hand in hand, and I believe there are two qualitative factors that prove to be important within my sector:

1. A strong management team
2. Competitive Advantage
    a. Economies of Scale
    b. Wide economic moat
    c. Cost leadership
    d. Other factors

Growth Screening Process

As my growth screening process proves to be more heavily weighted in qualitative factors, it requires a little more research and reading about companies that are exposing themselves to international markets. To accommodate my needs, I look at Bloomberg News about companies within the sector as well as other resources such as Morningstar, Google News and Google Finance, among others. As emerging markets continue to be a place where many companies, especially within this sector, are looking for growth opportunities, I find it important that a company is looking to take advantage of these expanded sales opportunities. Once I see that a company has strong growth opportunities in these markets, I will look at the management team and how they are creating competitive advantage for their company. Are they creating economies of scale? Can they prove to be the leaders in pricing for the industry? What other initiatives are they implementing to grow in emerging markets?

Once I have done the qualitative research, I support with a discounted cash flow model as well as relative valuation. Within the relative valuation aspect of my investment thesis, a company may still prove to be undervalued relative to its competitors given the specific multiples I use, mainly P/E and EV/EBITDA. Although the company may not prove to that undervalued given the multiples, this could be due to the fact that many of these companies prove to more efficient, stronger growth opportunities, and less risky than other comparable firms.

Value Screening Process

When implementing my value screening process, I look for companies that are in the bottom 40% of the Consumer Staples sector in both P/E and EV/EBITDA. After screening for these companies, I look to do some qualitative research in regards to management, competitive advantages, etc. Ultimately, I need to believe these companies are trading at lower multiples relative to their peers because they are undervalued, not because they prove to be run less effectively. After finding a company that matches these criteria, I will implement a discounted cash flow model and relative valuation to support my investment thesis.

Sector Analysis

Beverage

In this industry, there does not seem to be much increased demand and increases in costs should continue to harm the margins of the companies in the beverage market. However, there should be some volume increases in both the alcoholic and non-alcoholic markets. If non-alcoholic beverage companies are exposed to emerging markets, there should be some strong opportunities.

Household & Personal Care Products

The competitive environment for this industry should improve throughout 2011 as companies look to exploit some possible emerging opportunities. If the economy begins to show more signs of growth and consumer sentiment rises, companies like P&G may find themselves with an increased volume in premium brands which could contribute higher margins.

Packaged Food

With companies such as Kraft, Hershey, Kellogg, and H.J. Heinz, will perform well if they can control prices due to rising commodity costs. If firms can accomplish this and maintain volume and margins, then those companies will have a big year going forward, especially if consumer confidence rises and the unemployment rate falls as more people get back into the labor force.

Retailing – Broadlines and Department Stores

If consumers continue to remain value-oriented, some of these companies may not do as well as some would like. However, if consumers start to believe in the U.S. economy again, these retailers could make a push throughout the coming year. If this industry faces increased costs, margins could struggle to maintain historical levels.

Retailing – Food

This industry continues to be extremely competitive given the minimal barriers to entry and strong competition from dollar stores, warehouse clubs, etc. Where there is opportunity for this industry is if there is moderate inflation that can be passed onto the consumer.

Tobacco

Due to consolidation of the market, there are 3 major players in the U.S. market compared to four in the world. Although the tobacco industry struggled somewhat in the downturn, a continued upswing in the economy could provide some profit growth to the companies.

Sector Recommendation

My recommendation for the Consumer Staples sector is to continue to underweight given the continued, although not robust, growth the economy is experiencing. If there were to a double-dip recession, then I would look to change my sector weighting to overweight. However, there tends be a very small chance of a double-dip, thus I will continually look to keep the sector underweight for the foreseeable future.

ENERGY SECTOR REPORT

By Daniel Powers

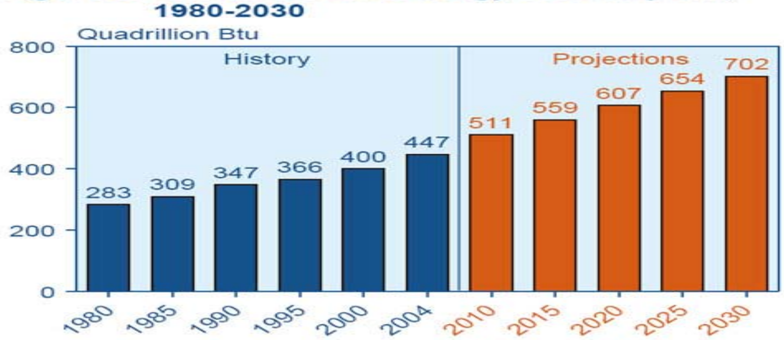
Sector Allocation Recommendation:	**Neutral**
Sector Weight in Portfolio as of 3.31.2011	**10.08%**
Sector Weight in Benchmark as of 3.31.2011	**12.99%**
Benchmark Weight ± 50%	**6.49% - 19.48%**
Sector Stocks in Portfolio	**6**
Sector Stocks in Benchmark	**41**
Portfolio Sector Beta	**1.27**
Benchmark Sector Beta	**1.11**

Summary

The Energy Sector's movement is closely related to the health of the global economy. When the world economies are expanding and growth is prevalent, energy is required to support that trend and companies are competing to meet this demand. When times become tough, the world consumes less and therefore companies will attempt to decrease production and limit costs. Basically, the energy sector is driven by the supply and demand of the world.

Population growth around the world and a large portion of lower class people advancing to a middle class way of life, energy will be demanded and supplied. Although there have been great strides in energy efficiency and creation of environmentally conscious practices, the world is becoming bigger and commanding a higher quality of life. This trend bodes well for energy companies in every sub sector. Below is a graph showing historical and projected world energy consumption from 1980 to 2030 provided by the U.S. Energy Information Administration.

Figure 8. World Marketed Energy Consumption, 1980-2030



Sources: **History:** Energy Information Administration (EIA), *International Energy Annual 2004* (May-July 2006), web site www.eia.doe.gov/iea. **Projections:** EIA, System for the Analysis of Global Energy Markets (2007).

XAVIER UNIVERSITY

Energy Stocks within S&P 500

Company Name	Ticker	Price	Market Cap	Avg. Volume	52 w high	52 w low	EPS	P/E TTM
Anadarko Petroleum Corp.	APC	$ 84.71	42.62B	4.20M	$ 85.50	$ 34.54	1.54	54.89
Apache Corporation	APA	$ 130.16	49.83B	4.90M	$ 132.50	$ 81.94	8.50	15.31
Baker Hughes Incorporate...	BHI	$ 71.57	31.08B	6.26M	$ 75.10	$ 35.62	2.01	35.68
Cabot Oil & Gas...	COG	$ 53.13	5.54B	1.49M	$ 55.11	$ 26.62	0.99	53.68
Cameron International...	CAM	$ 55.49	13.59B	3.22M	$ 63.16	$ 31.42	2.28	24.34
Chesapeake Energy Corp.	CHK	$ 34.02	22.37B	15.16M	$ 35.95	$ 19.62	2.34	14.51
Chevron Corporation	CVX	$ 109.66	220.14B	9.13M	$ 109.94	$ 66.83	9.48	11.57
ConocoPhillips	COP	$ 80.79	117.61B	9.95M	$ 81.80	$ 48.06	7.61	10.62
CONSOL Energy Inc.	CNX	$ 52.52	11.90B	3.90M	$ 56.32	$ 31.08	1.62	32.33
Denbury Resources Inc.	DNR	$ 24.54	9.84B	4.60M	$ 26.03	$ 14.02	0.76	32.30
Devon Energy Corporation	DVN	$ 91.40	39.03B	3.50M	$ 93.56	$ 58.58	5.24	17.44
Diamond Offshore...	DO	$ 78.49	10.91B	2.34M	$ 93.42	$ 54.70	6.87	11.42
El Paso Corporation	EP	$ 17.72	13.56B	11.24M	$ 18.77	$ 10.17	0.99	17.87
EOG Resources, Inc.	EOG	$ 114.66	30.75B	2.35M	$ 121.44	$ 85.42	0.64	179.83
Exxon Mobil Corporation	XOM	$ 85.95	426.19B	23.62M	$ 88.23	$ 55.94	6.22	13.81
FMC Technologies, Inc.	FTI	$ 48.01	11.54B	1.18M	$ 96.42	$ 23.08	1.53	31.33
Halliburton Company	HAL	$ 48.13	44.01B	15.42M	$ 50.74	$ 21.10	1.97	24.45
Helmerich & Payne, Inc.	HP	$ 68.94	7.33B	1.41M	$ 70.47	$ 32.34	3.03	22.74
Hess Corp.	HES	$ 84.24	28.59B	3.39M	$ 87.40	$ 48.70	6.49	12.98
Marathon Oil Corporation	MRO	$ 52.76	37.51B	9.47M	$ 54.19	$ 28.97	3.61	14.62
Massey Energy Company	MEE	$ 66.66	6.90B	5.70M	$ 71.19	$ 25.85	-1.59	N/A
Murphy Oil Corporation	MUR	$ 77.00	14.89B	2.52M	$ 77.83	$ 48.14	4.13	18.66
Nabors Industries Ltd.	NBR	$ 31.56	9.03B	5.60M	$ 32.00	$ 15.54	0.36	87.35
National-Oilwell Varco...	NOV	$ 79.63	33.66B	4.57M	$ 82.80	$ 32.18	3.97	20.04
Newfield Exploration Co.	NFX	$ 75.96	10.21B	1.99M	$ 77.93	$ 44.81	3.92	19.39
Noble Corporation	NE	$ 45.60	11.49B	5.64M	$ 46.72	$ 26.23	3.01	15.14
Noble Energy, Inc.	NBL	$ 96.95	17.09B	1.72M	$ 98.99	$ 56.23	4.04	23.99
Occidental Petroleum...	OXY	$ 103.72	84.31B	4.94M	$ 107.56	$ 72.13	5.61	18.50
Peabody Energy Corporati...	BTU	$ 68.11	18.43B	4.53M	$ 73.95	$ 34.89	2.86	23.84
Pioneer Natural...	PXD	$ 104.38	12.19B	1.41M	$ 106.07	$ 54.72	3.98	26.20
Range Resources Corp.	RRC	$ 57.33	9.21B	2.73M	$ 59.64	$ 32.25	-1.53	N/A
Rowan Companies, Inc.	RDC	$ 42.56	5.38B	2.88M	$ 44.83	$ 20.44	2.37	17.94
Schlumberger Limited.	SLB	$ 90.85	123.54B	8.80M	$ 95.64	$ 51.67	3.56	25.49
Southwestern Energy...	SWN	$ 40.55	14.11B	5.56M	$ 45.25	$ 30.61	1.73	23.45
Spectra Energy Corp.	SE	$ 27.16	17.63B	3.21M	$ 27.58	$ 18.57	1.61	16.92
Sunoco, Inc.	SUN	$ 44.56	5.39B	2.51M	$ 46.98	$ 26.93	2.12	21.00
Tesoro Corporation	TSO	$ 25.79	3.70B	7.05M	$ 28.74	$ 10.40	-0.23	N/A
Valero Energy Corporatio...	VLO	$ 28.19	16.06B	13.21M	$ 31.12	$ 15.49	1.63	17.33
Williams Companies, Inc.	WMB	$ 30.83	18.13B	9.40M	$ 31.89	$ 17.53	-1.88	N/A

*TOTAL S.A. AND TRANSOCEAN ARE PORTFOLIO HOLDINGS THAT ARE NOT A PART OF THE S&P 500.

Oil

An important factor of this sector is the market price of oil. The value of a barrel of oil has ranged from $40 to $150 over the past couple of years. This volatility has presented problems for big businesses that rely on this commodity to provide their service, for example airlines and delivery services, to the consumers who fill up at the pump every week. The market price is provided in two forums: the NYMEX WTI Crude Oil and ICE Brent Crude numbers. The NYMEX price is based on high quality oil produced from the Western Texas are. The ICE price is based on lower quality oil produced in the European area. In the past, WTI was the major oil benchmark used by the world but recently Brent has become the most popular. The reason for this change was due to the Brent's higher percentage of sulfur in the product. Since the rest of the world's oil supply is closer to this quality, people have switched to this benchmark. Over the past six months, both benchmarks have appreciated; WTI from $85 to$113 and Brent from $90 to $124.

Other than the rebounding of the economy, two major world events have pushed oil prices higher.

- The political disruption in North Africa and the Middle East is responsible for some of the advancement. This region provides about 40% of the world's oil supply. The uncertainty of who will control these reserves and the condition of the facilities currently residing there put upward pressure on oil.
- Another major world event was the earthquake followed by a massive tsunami off the coast of Japan affects the energy market. One of Japan's nuclear power plants was flooded and the nuclear cores began to melt down. Although nuclear provides relatively cheap and clean energy, the possibility of radiation and an unstable reactor raises concerns of using this type of energy. This incident may force politicians to rethink the installation of nuclear power plants. Without new plants, oil and other fossil fuels will be in high demand as well as a necessity for Japan to rebuild its nation.

Natural Gas

Natural Gas is another fossil fuel that the world depends heavily on. Unlike oil, natural gas has stayed relatively low since its peak of about $10 during 2008 and now rests at about $4. Demand for this energy source comes mainly from the following sectors: power generation, industrial, residential and commercial use. Future predictions show consumption to grow slightly over the next couple years. The power generation and industrial sectors are projected to have above average growth but this increase is offset by declines in residential and commercial sectors. From an analyst's perspective, this energy source is intriguing because of the movement to use it for transportation. With gas prices surpassing $4.00 a gallon and the political uncertainty in countries we depend on for oil, pressure has been placed on the government to solve the problem. For the year 2011, a Natural Gas Bill has been created to transition a portion of transportation to be fueled by CNG (compressed natural gas) or LNG (liquefied natural gas). This proposal would increase demand for natural gas by a large margin and make current explorers and producers attractive investments. It is important to see the progress of this bill through Congress.

Coal

Although it is considered a dirty energy source, it still provides about 45% to the electric generation market. The competitive advantage it holds over the previous stated sources is its price. Coal is easy to access and plentiful in the U.S. and around the world which allows for it to stay inexpensive. Recent political discussions, notably President Obama's energy independence speech, have focused on a transition to clean energy production. This puts pressure on coal as an energy option in the future. But in the end, the U.S. is only a small portion of the global market and as long as coal is less expensive as the alternatives the emerging countries as well as U.S. will consume it.

Alternative Energy Options

As stated in our prospectus, we can only invest in large cap stocks in the S&P 500 universe or similar in marketability and capitalization. Although alternative energy options have been a part of the daily news program, no stocks fit this description. Solar, Wind, Biomass, Geothermal and Hydropower will all be an essential piece of future energy. Certain large companies have interests in these new technologies which present the only opportunities currently to invest in. However, as an energy analyst it will be imperative to keep an eye on the development and success of the future technologies.

Oil Well Services and Equipment

To access most of the aforementioned energy sources, drills and other equipment are needed. Before we dive into this subsector, a major event occurred in April 2010 that captured the attention of the U.S. The BP oil spill lasted for three months and transformed the oil and gas drilling industry. This disaster demonstrated the safety issues that coincide with the process of deepwater drilling and other services of this industry. At this moment, BP's liability has not been determined. This uncertainty casts a shadow over the industry. In addition, talks of legislation have been brewing about increased regulations and safety requirements which would result in smaller margins and higher costs for the companies that reside in this sector. This on top of a government that would rather invest in renewable energies has put pressure on this subsector. Even with the short term difficulty, as supplies of fossil fuels start decline the importance of quality drilling services will remain and I recommend to still searching for value in this subsector.

PORTFOLIO HOLDINGS

Currently our portfolio is comprised of 6 stocks that equal a weight of 10.08% compared to a weight of 12.99% of the S&P 500. This results in an underweight position of the sector. The second is comprised of four specific subsectors; Oil & Gas Integrated, Oil & Gas Operation, Coal, Oil Well Services & Equipment. Our portfolio has positions related to each of these subsectors.

Ticker	Company Name	Subsector	# of Shares	Market Value
TOT	Total S.A.	Oil & Gas Integrated	600	36,582

Description

Total is truly an international fully integrated oil and gas company headquartered in Courbevoie, France. They provide both upstream (oil and gas exploration, development and production) and downstream (refining, marketing, trading and shipping) services for oil. In addition, they produce chemicals ranging from the most basic such as petrochemicals and fertilizers to specialty such as rubber, resins, adhesives, and electroplating. To finalize their portfolio, they control some coal mining operations and power generation plants and research and develop new renewable energy sources such as solar, biomass and nuclear.

Analysis: HOLD/SELL

As oil prices continue to climb, Total looks to be in a strong position to profit from this. Although this benefits the company, it is close to reaching its intrinsic value. Additionally, some of the company's assets are located in Libya. France is the second largest importer of Libyan crude receiving about 16% of imports according to International Energy Agency. This situation could negatively affect their company and shows the risks of having operations so many miles away from HQ. The reaching of its intrinsic value and stated risk has Total on the sell list.

Ticker	Company Name	Subsector	# of Shares	Market Value
CHK	Chesapeake Energy Corp	Oil & Gas Integrated	750	25,395

Description

Chesapeake Energy is the second largest natural gas producer in the U.S. The company is headquartered in Oklahoma City, Oklahoma. The company's main business is the discovery and developing of untapped natural gas and oil deposits onshore in the U.S. Currently they own positions in the top shale plays. Along with these great assets, they own operations that relate to transportation, drilling and compression of natural gas. On a further note, their CEO has been a leading voice in the political campaign to use natural gas for a transportation fuel.

Analysis: HOLD/BUY

Chesapeake has been knocked for its highly levered balance sheet and large amounts of spending. This behavior seems to be changing as they have incorporated a plan to reduce this debt. In the year 2011, two acquisitions from BHP Billiton and CNOOC Ltd of their properties have strengthened their balance sheet. Additionally, hedging strategies have been installed to lock in future pricing of their inventory to better prepare for the future and hedge against the volatility of prices. With the plan to reduce its debt and the optimistic outlook of the natural gas market, Chesapeake was currently undervalued relative to these changes.

Ticker	Company Name	Subsector	# of Shares	Market Value
XOM	Exxon Mobil Corp	Oil & Gas Integrated	300	25,326

Description

Exxon Mobil is the largest publicly traded company international oil and gas company headquartered in Irving, Texas. With assets all over the globe, they provide a full range of service from upstream (exploration, development and production) of oil and gas to downstream (refining, marketing, transportation and distribution). In addition, they are a global leader in the petrochemicals. To finalize their energy portfolio, they have interests in renewable energy sources such as solar and biomass and pride themselves on being the most innovative in their industry.

Analysis: BUY

Exxon Mobil has a diversified energy portfolio that will provide them a position in any energy of the future. In December 2009, they acquired XTO Energy, a large natural gas explorer and producer, for about $41 billion. This move received mixed singles from analysts because of the depressed prices in the natural gas market at the time. Although prices have not moved much from that time, Exxon's ability to grow their business and capitalize on different energy sources proves their worth as a company. The market did not like the timing of the acquisition and is shown by Exxon's performance. Going forward, this company is undervalued and DCF is in the process of increasing its position.

Ticker	Company Name	Subsector	# of Shares	Market Value
RIG	Transocean LTD	Oil Well Services and Equipment	250	19,488

Description

Transocean is the world's largest offshore drilling contractor headquartered in Switzerland with employees located in the Gulf of Mexico to the seas of Southeast Asia. They can provide services in shallow water and ultra-deepwater. They currently own 139 mobile offshore drilling units with 8 in the process of being built. Their core values are expressed by the word FIRST: Financial discipline, Integrity, Respect, Safety and Technological leadership.

Analysis: HOLD

Although BP received the majority of the bad news and the upcoming liability lawsuit, Transocean was working together on the rig with the oil spill. At this moment, Transocean has limited liability from this disaster and their business will not be affected by this. Industry analysts believe that government regulations will limit the amount of drilling and higher safety requirements will result in decreased margins. But as the world desires more and more energy, oil wells services and equipment will be a necessity. Also from my research, Transocean is a leader in providing safe, effective equipment. Even with the accident, this company understands how to be successful within their industry and when a company needs drilling equipment, they have the reputation to be present at each bid. As the world starts to search for new oil and gas deposits, Transocean will be able to benefit from this which will increase their stock price.

Ticker	Company Name	Subsector	# of Shares	Market Value
DVN	Devon Energy Corp	Oil & Gas Operations	200	18,408

Description

Devon Energy is a company that focuses on natural gas and oil exploration and production headquartered in Oklahoma City, Oklahoma. Their production mix stands at 66% natural gas and 34% oil. Just recently, they decided to sell off their international assets and focus on their North American onshore areas. To finalize their energy portfolio, they own natural gas pipelines and treatment facilities which puts them in position to be one of the largest processors in the United States.

Analysis: HOLD/BUY

This is another company with great assets in oil and natural gas. Since they just went through reorganization, the market is unable to understand what the future of the business looks like. This uncertainty creates an opportunity for the fund to increase its position in a company that understands where its industry is moving. As a low cost provider, this advantage will allow for success for the company and profits for its shareholders.

Ticker	Company Name	Subsector	# of Shares	Market Value
BTU	Peabody Energy Corp	Coal	250	18,308

Description

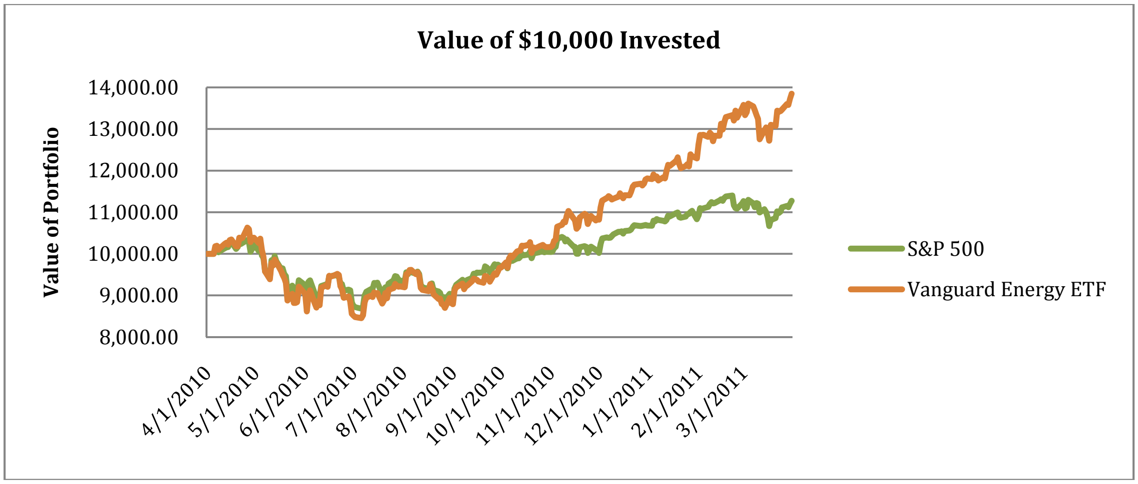
Peabody Energy is an international coal producer that is headquartered in St. Louis, Missouri. With locations around the world, they are able to serve customers on five continents. Other than operations, they focus on the marketing, trading and generation development of coal. One of the company's main goals is to create clean-coal that will result in a better quality of life for all their customers.

Analysis: HOLD

Peabody is in a great position to dominant the coal market for years to come. With operations around the world, the emerging markets preference of coal allows for them to profit. As long is coal is plentiful and cheap, they will be able to provide it to consumers around the world for power generation. Their focus on developing clean coal provides a method to fight the public opinion and scientific fact of coal as a dirty fuel source. This strategy bodes well for them in the future.

PERFORMANCE

As shown by the graph on the next page, the performance Vanguard Energy ETF and the S&P 500 through the period of 04/01/2010 to 03/31/2011 was compared. This ETF is an accurate representation of the performance of energy stocks relative to our benchmark. Both securities started at an even $10,000 at the beginning of the period. As time passed, similar performance was seen. Then around December 2010, energy broke out as oil surpassed about $90 a barrel and outperformed the market until today's current date.



Source: finance.yahoo.com

This graph proves that at the end of 2010 would have been an ideal time to fully invest in the energy sector to take advantage of the recent changes in commodity prices. More discussion of future investments will be located at the end of the report in the Recommendation section. As of April 01, 2010 the portfolio's energy positions had a market value of $102,714. As of April 10, 2011 the market value has risen to $122,589 (dividends included). This resulted in a return of 19.35%.

STOCK SCREENING

The D'Artagnan Capital Fund is determined to find undervalued companies that provide opportunities within our S&P 500 universe. Therefore the issue of screening various stocks to be able to pick a small sample of companies to value is obvious. The process is as follows:

1. Initially, a relative valuation analysis is developed for each of the current holdings. To save some time, a template of relevant information is already saved within my Bloomberg Account. This template consists of the following information that I believe to be important: Last Price, Market Capitalization, Beta, P/E T12M, EPS T12M, BEst: P/E: Year, BEst: EPS F12M, EV/EBITDA T12M, EBITDA T12M, BEst EV and BEst EBITDA F12M.
2. With this information, the 20 closest companies to the holding's market capitalization are analyzed. To see where the comparable firms lie within their industry, the average and median is calculated for each statistic.
3. Trailing PE is the first column analyzed. If a company is trading at a PE multiple 2 below the average and median, it is put that on the watch list.
4. Future PE is the second column analyzed. If a company's predicted EPS is higher than the trailing EPS and the PE is predicted to decline, it is put that on the watch list.
5. Trailing EV/EBITDA is the third column analyzed. If a company is trading about 2 below the average and median multiple, it is put that on the watch list.
6. The last column analyzed is created by dividing BEst EV over BEst EBITDA F12M. This creates a list of future EV/EBITDA multiples. If a company is trading 2 below the average and median multiple, it is put on the watch list.

7. Before performing the DCF approach, eliminate all companies that do not fit the prospectus's requirements of likeable to the S&P 500 in terms of marketability and capitalization.
8. Outside of this research, it is important to keep up to date on any energy stocks in the news and when each company release of earnings. It is also important to look at 1 month, 3 month and 6 month performance statistics. As an opportunities fund, checking for beaten down stocks is a great technique to start a position if the valuation model supports your decision.

RECENT CHANGES

Since April 1, 2010 the following changes have been made to the energy sector:

- 04/22/2010 – Purchased 200 shares of Devon Energy
- 09/23/2010 – Purchased 1200 shares of Consol Energy
- 12/10/2010 – Sold 1200 shares of Consol Energy
- 03/08/2011 – Purchased 750 shares of Chesapeake Energy

SECTOR RECOMMENDATION

The D'Artagnan Capital Fund should be neutral in the energy sector. Since energy has outperformed the market by a large margin over the last 4 months, it has become less attractive but still has value plays within the sector. Therefore to achieve this recommendation, a position should be started in one of the below companies.

WATCH LIST

Chevron Corporation: A large integrated oil and gas company with exploration, production and refining operations. With production of about 2.7 million barrels of oil a day, Chevron is positioned for success as oil continues to rise. Uncertainty in regards to an Ecuadorian court judgment could result in $10 billion pay out because of pollution in Ecuador. This legislation could negatively affect their stock price but could be seen as a great time to start a position. Although this settlement would take away some of the equity value, the underlying business will move forward.

BP Plc: A large integrated oil and gas company has been in the news for all the wrong reasons. As stated previously in this report, the oil spill in the Gulf Coast hurt BP's reputation. With a liability case working its way through the U.S. justice system, the unknown amount has analysts worried. The knowledge of what this number is and BP's ability to move past this disaster will allow for their stock price to reach its intrinsic value. Therefore it is a great time to start a position at this time.

In conclusion, the energy sector is an essential part of the S&P 500 and the D'Artagnan Capital Fund. Going forward, renewable energy sources will try to compete with the old, out of date fossil fuels. These trends provide a great opportunity for the energy analyst to invest in energy companies that offer value to the fund as well as understand the new growth opportunities that will be presented over time.

FINANCIALS SECTOR REPORT

Joe D'Agostino

Sector Allocation Recommendation:	**Neutral**
Current Sector Weight in Portfolio	**13.24%**
Current Sector Weight in Benchmark	**15.75%**
Benchmark Weight ± 50%	**7.88% - 23.63%**
Sector Stocks in Portfolio	**6**
Sector Stocks in Benchmark	**81**
Portfolio Sector Beta	**1.35**

SUMMARY

View

The financial industry has begun to see steady improvement as companies continue to climb out of the hole they had dug themselves in the Fall of 2008. As we saw from the market as a whole, 2010 was a year for recovery, and though growth for the year in the financial sector was good (S&P 500 Financial Index returned 10.83%), the sector underperformed the market as a whole, and still has some looming concerns to deal with. Growth prospects moving forward in 2011 look limited as markets should have gradual, but not rapid improvement. As banks and insurance companies continue to restructure their business models in accordance with new regulations and standards, the potential in the sector will be restricted to those companies that have adjusted ahead of competitors and saw limited effects from the financial crisis. The recommendation for this sector going forward is a neutral weighting, with an emphasis on identifying stocks with the least risk (i.e., toxic assets) on their balance sheets and valuable long-term growth potential.

The following report will examine the current state of the financial industry as a whole as well as in relation to our current portfolio, explain and justify my recommendation, and describe my approach for this sector going forward.

Financial Stocks Currently Held

Banks & Diversified Financials

Ticker	Company Name	Price	YTD % Return	Mkt Cap	Beta	Price/Book	Tier 1 Capital Ratio
PNC US Equity	PNC Financial Services Group Inc	$63.23	4.30%	$ 33,227,890.00	1.47	1.12	12.10%
KEY US Equity	KeyCorp	$ 8.87	0.33%	$ 8,436,158.00	1.42	0.93	15.16%
WFC US Equity	Wells Fargo & Co	$31.62	2.42%	$ 166,576,700.00	1.46	1.41	11.16%
USB US Equity	US Bancorp	$26.18	-2.47%	$ 50,316,540.00	1.25	1.82	10.50%

Insurance

Ticker	Company Name	Price	YTD % Return	Mkt Cap	Beta	Price/Book	Price/Earnings
AFL US Equity	Aflac Inc	$53.66	-4.41%	$ 25,231,320.00	1.59	2.28	9.69
CB US Equity	Chubb Corp	$62.12	4.85%	$ 18,338,860.00	0.85	1.19	9.81

The following is a short look at the companies that are currently held in the portfolio:

PNC: PNC Financial Services is a regional bank based in Pittsburgh, Pennsylvania that was able to emerge from the financial crisis in good condition, reporting net losses in only the 4th quarter of 2008. With their acquisition of Cleveland-based National City in October 2008 and the contraction of the banking industry as a whole, PNC has become one of the largest banks in the nation. They utilize a conservative portfolio with limited risk and low provisions, and excellent customer service to separate them from their competitors. One of the main reason we decided to invest in PNC was due to their good capital and liquidity standards and a belief that the Fed would approve a dividend increase. The Fed did in fact allow the company to increase its dividend in April 2011 from $.10/share to $.35/share. The Fund is invested in PNC due to the limited risk associated with its balance sheet.

KEY: KeyCorp is a large bank holding company located in Cleveland, Ohio. Though troubled from the financial crisis due to subprime mortgage and commercial real estate exposure in Arizona and Florida, Key has rebounded well to post three straight quarters of positive earnings after eight consecutive periods of losses. Key has one of the highest tier 1 capital ratio measures of their competitors and with their recent repayment of TARP funding in March, the company should be set to raise its dividend in the near future. The decision to purchase KeyCorp was due to their ability to rebound over the last year from the effects of the crisis, as well as the position they have put themselves in for a possible acquisition.

WFC: Based in San Francisco, California, Wells Fargo is the 2nd largest bank holding company in the country behind JPMorgan Chase. Wells Fargo was able to weather the crisis in a sound manner, counteracting marginal increases in provision expenses by limiting declines in loans made from 2008-2010. With the purchase of Wachovia in October 2008, the company doubled in size but continued to stress its core strategy of credit quality and risk management. Because Wells Fargo has one of the strongest customer services models of its competitors, they have been able to maintain deposit growth as well while the industry shrank. Wells Fargo remains in the portfolio so that fund has some exposure to the diversified financial market rather than putting all eggs into one basket with regional banks.

USB: USBank is one of the largest regional banks in the nation, headquartered in Minneapolis, Minnesota. Of the plethora of struggling regional banks over the last three years, USBank took a limited hit due to strong fundamentals, risk management, and credit policies. With these core philosophies, the company has been able to expand its businesses across the country, stretching into 25 states while limiting their exposure to subpar loans. They have excellent credit quality measures as seen by their provisions/ total loans ratio (.46% in 4Q2010) and loan loss reserves/non-performing assets ratio (115.56% in 4Q2010). USBank is one of the safest bets in the regional banking sector, and is a large reason why the fund has chosen to remain invested in them.

CB: Chubb Corporation is a property and casualty insurance company. Chubb has been dedicated over the past decade to continue in improving upon its underwriting capabilities through the staffing of human capital with high expertise and through the continuing evolution of technology to create sophisticated analytics that create faster, more enhanced solutions based on consumer needs. The company has gained a strong reputation in the insurance industry for executive coverage as well as writing large amounts of their business for high net worth individuals. Because of its conservative underwriting criteria and portfolio, Chubb has been able to separate itself from competition, and put itself in a stable position in recessionary periods and times of slow economic growth. The company has made a commitment to not chase the market and to write policies that do not compromise their profitability goals. Because of their niche philosophy and steady dividend growth, the fund chose to add to our position in Chubb in October.

AFL: Aflac, Inc. is a supplemental insurance company that is headquartered in Columbus, Georgia. The company has a large product mix that not only spans the whole of the United States, but also carries into Japan, where about 75% of their revenue stream is created. Over the past few weeks, there had been concern surrounding Aflac due to the natural disaster that had occurred in Japan and due to the company's exposure to that market. There seemed to have a been a market over-reaction, assuming that Aflac would incur significant losses due to the earthquake and tsunami. In actuality, the losses to Aflac were minimal considering that their business is not property and casualty insurance, the segment of the industry that was hit hardest by the catastrophe. So, despite what the market had assumed, the company's value is still significantly high and has potential for long-term growth. As one of the largest and most well-known insurance companies in the market, Alfac remains in the portfolio as a company with good value and long-term growth potential with potential increases in market share.

Watch List

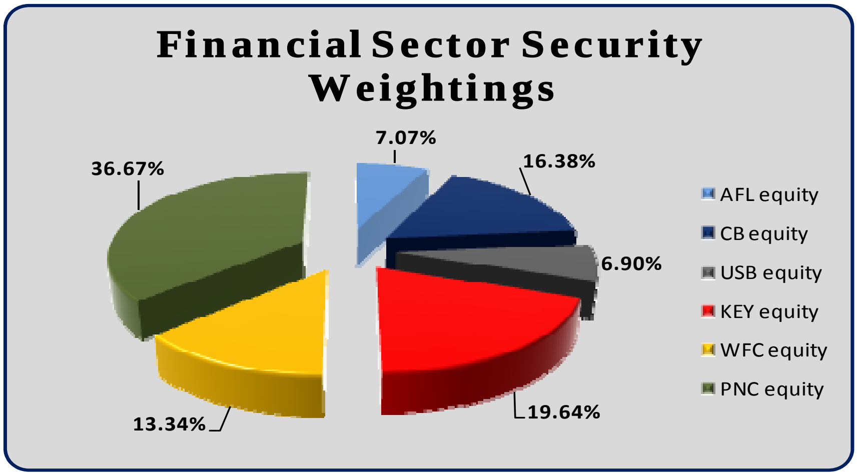
Ticker	Company Name	Price	YTD % Return	Mkt Cap	Beta	Price/Book	Tier 1 Capital Ratio
RF US Equity	Regions Financial Corp	$ 7.27	4.00%	$ 9,143,869.00	1.74	0.68	12.40%
JPM US Equity	JPMorgan Chase & Co	$46.84	11.14%	$ 186,587,600.00	1.29	1.09	12.10%
C US Equity	Citigroup Inc	$ 4.56	-3.59%	$ 132,495,500.00	1.45	0.81	12.91%

Here is a brief analysis of the companies that have been on my watch list recently:

RF: Regions Financial is a regional bank located in Birmingham, Alabama, with branches and subsidiaries stretching across 16 states in the South and Midwest. The lure of Regions lies in their tier 1 capital ratio, high reserves with limited provisions, and their low price/book ratio compared to its competitors. More qualitative data is necessary to purchase Regions to make sure that their risk management standards are as good or better than the companies currently held in the portfolio.

C: Citigroup is a top 5 bank holding company in the United States that has rebounding nicely since its fall from the top of the industry in 2008 (lost almost 92% of its market cap during the crisis). With of tier 1 capital ratio of 13% and good performance measures based on the Federal Reserve's most recent rounds of stress tests, Citigroup re-declared a $.01 dividend after discontinuing their dividend in February of 2009.

JPM: JPMorgan Chase, similarly to Citigroup, is one of the largest banking companies that though hit by the crisis, was able to weather the storm and is now the largest bank holding company in the country. They managed to post positive earnings every quarter throughout the crisis and have seen provision expenses drop over 50% since 4th quarter 2009. With a good grade based on the Fed's stress tests, the company raised its dividend in March 2011 from $.05/share to $.25/share. Because of a recent drop in their stock price, JPM is a stock that the fund is ready to purchase in the coming week.



Above are the six financial securities that are currently held in the portfolio as well as descriptions of each and their percentage weights in the sector. Two of these securities are what can be considered diversified financial institutions while two are regional banks, and the remaining two are insurance companies. The last table shows companies that are currently on my watch list and are being analyzed further to determine if they will be valuable investments.

Screening Criteria

For financial companies, the screening process is altered compared to the rest of the overall portfolio. Consistent with our prospectus, and what the fund managers have agreed upon, the process begins with identifying stocks that are either within the Standard & Poor's 500 Index, or have equal characteristics and marketability. It has been equated that the term "equal characteristics and marketability" means securities whose market cap and trading volume are above the bottom quartile of those stock within the S&P 500.

For the financial industry, there are two processes that are utilized; one in screening banks and diversified financials, and another, though very similar, in screening insurance companies.

For banks and diversified financials, the fund uses our initial trading volume and market cap requirements to identify the limited number of banks to choose from. From there, two major statistics to identify high-valued stocks are used. These two statistics are the company's price to book ratio, and their tier 1 capital ratio.

The first screen is identifying companies whose price to book values are at or below the average as compared to their individual peer groups. This measurement is used rather than the typical price to earnings standard due to the nature of bank business. Because the vast majority of bank's assets are loans, and because those assets are marked to market, this ratio does well in identifying value in a bank. The lower values signify companies that could potentially by undervalued by the market.

Last, a screen for companies with relatively high tier one capital ratios is implemented. This ratio is a measurement of a bank's liquidity and capital adequacy. Companies with higher tier one capital ratios are more likely to be able to sustain future losses and have properly accounted for the risk they have on their books.

The following is a list of securities within the banking and diversified financial sector and the measures used to evaluate them. In green are the securities currently held in the portfolio.

Ticker	Company Name	ROE	Price/Book	Tier 1 Capital Ratio	Market Cap
BEN US Equity	FRANKLIN RES INC	18.83%	3.42	63.00%	$ 27,793,930,240.00
BLK US Equity	BLACKROCK INC	8.18%	0.99	55.10%	$ 37,606,141,952.00
SCHW US Equity	SCHWAB (CHARLES)	8.04%	3.54	23.70%	$ 22,122,809,344.00
STT US Equity	STATE ST CORP	9.64%	1.30	20.50%	$ 23,123,269,632.00
MS US Equity	MORGAN STANLEY	9.02%	0.87	16.10%	$ 42,118,459,392.00
GS US Equity	GOLDMAN SACHS GP	11.50%	1.25	16.00%	$ 90,117,726,208.00
KEY US Equity	KEYCORP	4.78%	0.93	15.16%	$ 8,436,157,952.00
ZION US Equity	ZIONS BANCORP	-9.47%	0.96	14.78%	$ 4,432,673,792.00
FHN US Equity	FIRST HORIZON NA	0.23%	1.27	13.99%	$ 3,017,756,928.00
FITB US Equity	FIFTH THIRD BANC	4.96%	1.05	13.94%	$ 12,572,499,968.00
STI US Equity	SUNTRUST BANKS	-0.47%	0.82	13.67%	$ 15,884,720,128.00
NTRS US Equity	NORTHERN TRUST	10.19%	1.85	13.60%	$ 12,618,250,240.00
BK US Equity	BANK NY MELLON	8.13%	1.16	13.40%	$ 37,528,080,384.00
C US Equity	CITIGROUP INC	6.71%	0.81	12.91%	$ 132,495,499,264.00
RF US Equity	REGIONS FINANCIA	-5.23%	0.68	12.40%	$ 9,143,869,440.00
JPM US Equity	JPMORGAN CHASE	10.28%	1.09	12.10%	$ 186,587,594,752.00
PNC US Equity	PNC FINANCIAL SE	12.67%	1.12	12.10%	$ 33,227,890,688.00
BBT US Equity	BB&T CORP	5.00%	1.15	11.80%	$ 18,950,479,872.00
COF US Equity	CAPITAL ONE FINA	10.33%	0.89	11.63%	$ 23,621,969,920.00
HBAN US Equity	HUNTINGTON BANC	3.39%	1.26	11.55%	$ 5,810,270,208.00
PBCT US Equity	PEOPLE'S UNITED	1.66%	0.86	11.40%	$ 4,670,691,840.00
BAC US Equity	BANK OF AMERICA	-1.77%	0.64	11.24%	$ 136,433,197,056.00
WFC US Equity	WELLS FARGO & CO	10.53%	1.41	11.16%	$ 166,576,701,440.00
MI US Equity	MARSHALL &ILSLEY	-10.65%	0.67	11.14%	$ 4,262,159,872.00
AXP US Equity	AMERICAN EXPRESS	26.49%	3.41	11.10%	$ 55,647,490,048.00
USB US Equity	US BANCORP	12.40%	1.82	10.50%	$ 50,316,541,952.00
CMA US Equity	COMERICA INC	2.89%	1.15	10.13%	$ 6,687,101,952.00
MTB US Equity	M&T BANK CORP	9.51%	1.38	9.47%	$ 10,542,199,808.00
HCBK US Equity	HUDSON CITY BNCP	9.90%	0.94	7.95%	$ 5,198,709,248.00
ETFC US Equity	E*TRADE FINANCIA	-0.73%	0.87	7.30%	$ 3,974,268,928.00

Industry Analysis

Banking Industry

Though the banking climate has taken leaps and bounds since it plummeted in October 2008 due to the bursting of the housing bubble, the tremendous rise of subprime mortgage foreclosures, and banks' exposure to those securitized mortgage, there is clearly a large amount of uncertainty that remains in the industry. However, the uncertainty that seems to be pervading over the next year stems not from the risk nature of toxic assets remaining on banks' balance sheets, but from the uncertain regulations from Washington that will no doubt shape how the financial services industry functions in the future.

This uncertainty has sprouted from the signing of the Dodd-Frank act into law in July 2010. The bill is so long and intricate that it remains to be seen how the regulations that are set forth within the bill can be implemented on a day-to-day basis on Wall Street. And we could see, as is often seen in the political arena, that the bill could go through several phases of refinement and change as politicians continue to argue over its content and policies. The bill, however, will assuredly do one thing: it will lead to more restrictive standards on Wall Street that aim at preventing the another catastrophic meltdown of the industry as we saw in 2008 by credit quality and risk standards that companies will be required to face by law. It also will lead to increased compliance costs, as the banks will be forced to keep up with their regulatory bodies which now included the FDIC in addition to the Fed and Comptroller.

As the Basel III accords were put into place along with the Dodd-Frank Act, banking companies will now have to once again adjust their businesses in order to continually improve capital and liquidity standards in compliance with these regulations. The bulk of this bolstering of capital will come from tier 1 capital (primarily common stock and retained earnings). One of the new standards set forth by the accord will be the phasing out of mortgage servicing rights from tier 1 capital, which may in turn cause some banks to shy away from the business in general. Also, as we have seen over the last few years, the need to increase capital measures could lead to the shrinking of banks' balance sheets which will subsequently lead to small credit markets.

Though there have been signs of improvement, the overall growth of the sector over the year seem limited. As the real estate market continues to be depressed, and real estate composes about 60% of the total bank portfolios, the failure for that market to turn can hinder growth. In some cases in the industry, revenue and loans have decreased moderately over the last few quarters, as analysts have found that the commercial real estate and residential real estate lines remain weak. The major concern that seems to plague the market is the growing worry of shrinking credit availability, specifically within the real estate market, which also can limit growth over the next year if trends continue.

On a more micro level, with the current round of Federal Reserve stress tests that have taken place over the last few months, the need for adequate capital has never come at a higher cost as the federal regulators debate the future of companies' dividends based on those standards. We have already seen in banks such as Citigroup, JPMorgan Chase and PNC an allowance to raise dividends due to good performance, and these companies have poised themselves ahead of competitors in that regard. Other areas of growth for this industry will lie in companies that find a means of differentiating themselves from their competitors. After the crisis, we saw the push of banks to find the most ideal credit risks and safe markets in which to grow their revenues, but because that market is quickly becoming saturated, those banks that find ways to innovate their business in accordance with new regulations, will separate themselves from the pack.

Our Portfolio

Currently, our portfolio has a mix of both diversified financial companies as well as regional banks. The high beta that is seen in this sector is attributed to the general nature of industry and the high returns that investors require based on the still high levels of risk associated with banks. The beta, as compared to its value six months ago, is higher due to our investments in regional banks, KeyCorp and PNC Financial Services. Typically, small regional banks carry more risk as their markets are smaller and they are not as capable of diversifying that risk as compared to larger, diversified financial companies.

However, I believe that we have chosen stocks in this sector that have taken significant strides in improving the quality of their balance sheets and implementing effective risk management systems. KeyCorp specifically, which has seen drastic improvements in their loan qualities over the last four months as compared to many of their competitors, has seen a 12% increase since we bought the stock back in December. Also, as the company just recently paid back its TARP funding, a dividend increase is likely that could easily lead to a run up in the stock's value. PNC, similarly, was chosen as a stock supported by solid fundamentals and growth potential. Its impressive credit quality and capital standards allowed them the opportunity to increase their dividends into the future, where we anticipate dividends paid in 2011 to be almost 190% higher than in 2009 and 2010.

As stated earlier, the new government regulation and reformation of the financial industry will play a significant role in the companies within our portfolio, but the fund feels as if those companies that have been chosen to invest in are innovative ones that will be able to quickly adapt to the changing climate and take advantage of the opportunities it will afford them.

Going forward, the fund obviously wants to target companies with significant capital standards as those measures are most important to industry growth in the near future. It seems that regional banks have been put in the best position to do so due to the already smaller nature of their balance sheets, whereas larger diversified financial companies may have to shrink their businesses in order to meet requirements.

Insurance Industry

The insurance industry over the last three to four years has remained fairly strong, even through the financial crisis. However, the industry is facing a period of relatively slow growth due to the current soft underwriting cycle it finds itself in. Because of low levels of catastrophe activity and declining risk exposure, losses were moderate and stabilized through the recession.

But the industry has remained in a soft market since the financial crisis in 2008, after billions in property and casualty insurable risks disappeared. This soft market has led to flat and declining rates that companies now have been considering the normal environment. With the crisis, there was also the loss to life and annuity carriers that saw declines in business as consumer disposable income shrunk in part due to job losses, rising debt, and declining home values.

There still remain challenges with this market going forward, including the impact regulatory changes may have as well as continued pricing pressures in a slow economy and the need to improve risk management strategies. The weak economy has put strains on prices as premiums on the commercial side fall and depress sales. Though the industry was able to take advantage of a quiet year in terms of catastrophes in 2009, the slowly moving economy is causing reduced insured exposures.

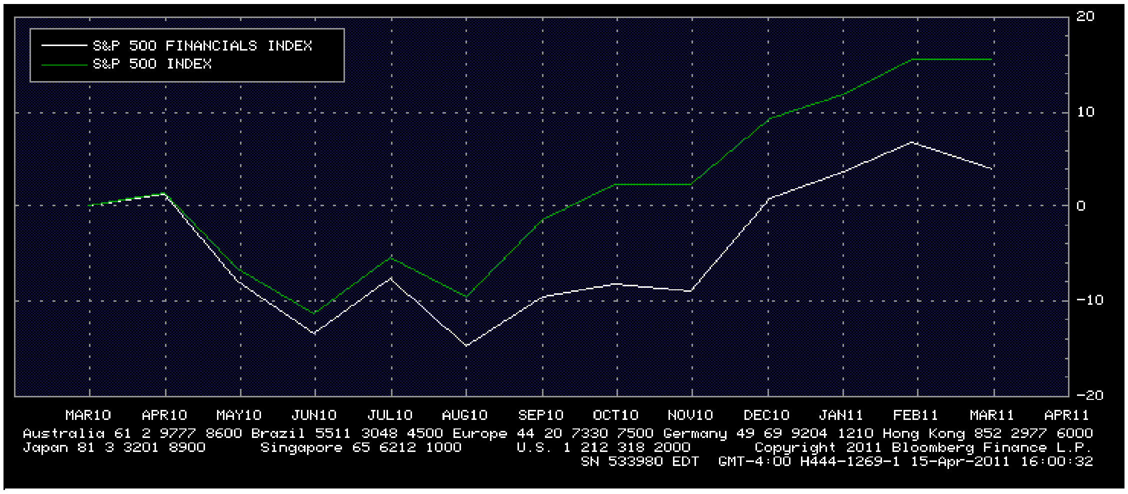
With the current devastation in Japan, property and casualty insurance companies are sure to significant catastrophic losses that will set them back as the economy continues to recover. Those companies with significant exposure in the Japanese market are obviously the ones that will be impacted the greatest.

Though a large majority of regulation pertains to the banking industry and complex financial companies, there will still be some improved regulation on insurance companies. These regulatory changes include taxation on insurers and their products as federal and local governments seek further sources of revenue. The ever-changing healthcare industry could also impact insurance companies as new regulation continues to be pushed through Congress.

Our Portfolio

The insurance companies currently held in our portfolio are what can be considered slow growth companies. Chubb Corporation has a very niche market segment, catering to high individuals and limiting their risk exposure. The industry, as stated earlier, is currently experiencing a soft-market, identified by low premiums, shrinking revenues and increased competition. Trends have shown that the end of this current soft market is not very much in sight, and now considering events that have happened in Haiti and more recently in Japan, the insurance industry will be facing setbacks and property and casualty costs that continue to grow rapidly. The portfolio, however, will be in a very strong position when the market starts to harden based on the stocks that the fund has invested in, specifically in Chubb Corporation, whose overall strategy heavily distinguishes them from their competitors.

S&P 500 Financials Index Price Graph 03/31/2010-03/31/2011



Relative Valuation

Banks and Diversified Financials

Ticker	Name	Price	Market Cap	ROE	Beta	Tier 1 Capital Ratio	P/B
Average	Average	$ 59.03	$ 39,085.61	1.23%	1.26	12.83%	1.08
KEY US Equity	KEYCORP	$ 8.87	$ 8,436.16	4.78%	1.42	15.16%	0.93
JPM US Equity	JPMORGAN CHASE & CO	$ 46.84	$ 186,587.60	10.28%	1.21	12.10%	1.09
WFC US Equity	WELLS FARGO & CO	$ 31.62	$ 166,576.70	10.53%	1.35	11.16%	1.41
BAC US Equity	BANK OF AMERICA CORP	$ 13.48	$ 136,433.20	-1.77%	1.38	11.24%	0.64
C US Equity	CITIGROUP INC	$ 4.56	$ 132,495.50	6.71%	1.26	12.91%	0.81
GS US Equity	GOLDMAN SACHS GROUP INC	$ 160.96	$ 90,117.73	11.50%	0.94	16.00%	1.25
USB US Equity	US BANCORP	$ 26.18	$ 50,316.54	12.40%	1.19	10.50%	1.82
MS US Equity	MORGAN STANLEY	$ 27.25	$ 42,118.46	9.02%	1.20	16.10%	0.87
BK US Equity	BANK OF NEW YORK MELLON CORP	$ 30.22	$ 37,528.08	8.13%	1.10	13.40%	1.16
PNC US Equity	PNC FINANCIAL SERVICES GROUP	$ 63.23	$ 33,227.89	12.67%	1.24	12.10%	1.12
STT US Equity	STATE STREET CORP	$ 46.06	$ 23,123.27	9.64%	1.25	20.50%	1.30
BBT US Equity	BB&T CORP	$ 27.23	$ 18,950.48	5.00%	1.16	11.80%	1.15
STI US Equity	SUNTRUST BANKS INC	$ 29.65	$ 15,884.72	-0.47%	1.50	13.67%	0.82
NTRS US Equity	NORTHERN TRUST CORP	$ 52.12	$ 12,618.25	10.19%	1.07	13.60%	1.85
FITB US Equity	FIFTH THIRD BANCORP	$ 13.70	$ 12,572.50	4.96%	1.55	13.94%	1.05
MTB US Equity	M & T BANK CORP	$ 87.70	$ 10,542.20	9.51%	1.13	9.47%	1.38
RF US Equity	REGIONS FINANCIAL CORP	$ 7.27	$ 9,143.87	-5.23%	1.53	12.40%	0.68
CMA US Equity	COMERICA INC	$ 37.83	$ 6,687.10	2.89%	1.22	10.13%	1.15
HBAN US Equity	HUNTINGTON BANCSHARES INC	$ 6.73	$ 5,810.27	3.39%	1.47	11.55%	1.26
ZION US Equity	ZIONS BANCORPORATION	$ 24.22	$ 4,432.67	-9.47%	1.45	14.78%	0.96
MI US Equity	MARSHALL & ILSLEY CORP	$ 8.04	$ 4,262.16	-10.65%	1.56	11.14%	0.67
FHN US Equity	FIRST HORIZON NATIONAL CORP	$ 11.46	$ 3,017.76	0.23%	1.15	13.99%	1.27
TCB US Equity	TCF FINANCIAL CORP	$ 15.43	$ 2,422.75	11.07%	1.14	10.59%	1.49
SNV US Equity	SYNOVUS FINANCIAL CORP	$ 2.69	$ 2,112.39	-42.59%	1.44	12.79%	1.03
FBC US Equity	FLAGSTAR BANCORP INC	$ 1.45	$ 802.75	-42.40%	1.67	9.61%	0.64
CFIN US Equity	CITIZENS FINANCIAL CORP-A/KY	$ 750.00	$ 4.76	1.74%	0.29		0.41

From this relative analysis we can get an understanding of the four banking companies in the current financial portfolio as they compare to their peers within the S&P 500. These companies, indicated in green, show how the beta of the portfolio is higher than the sector's average beta. You can also see that the price to book ratios of the companies we own tend to be higher than the average, but going forward, the companies on our watch list, those indicated in yellow, have P/B ratios either close or significantly under the average.

Insurance

Ticker	Short Name	Price/Book	Beta	Mkt Cap	Price	Price/Earnings	YTD % Return	TTM Revenue	TTM EPS
Average		1.084	1.242	$ 14,615,290,572.80	$37.35	10.863	16.2157073	$ 16,462,182,848.00	$ 3.74
PFG US Equity	PRINCIPAL FINL	0.991	1.746	$ 9,264,613,376.00	$28.92	10.632	20.299496	$ 9,018,499,840.00	$ 1.90
LNC US Equity	LINCOLN NATL CRP	0.571	1.597	$ 7,738,461,184.00	$24.43	7.756	-1.661859	$ 10,147,399,936.00	$ 2.29
HIG US Equity	HARTFORD FINL SV	0.555	1.567	$ 11,300,240,384.00	$25.42	7.521	10.00544	$ 22,768,000,000.00	$ 2.40
MET US Equity	METLIFE INC	0.829	1.456	$ 39,932,370,944.00	$40.53	9.814	16.668758	$ 52,220,999,680.00	$ 3.50
UNM US Equity	UNUM GROUP	0.774	1.430	$ 6,894,714,880.00	$21.74	8.052	13.100009	$ 10,096,700,160.00	$ 2.60
GNW US Equity	GENWORTH FINANCI	0.385	1.415	$ 5,777,228,800.00	$11.80	16.389	3.964756	$ 9,958,999,808.00	$ 0.70
ALL US Equity	ALLSTATE CORP	0.845	1.384	$ 16,296,210,432.00	$30.28	8.854	2.853628	$ 31,370,999,808.00	$ 2.13
PRU US Equity	PRUDENTL FINL	0.764	1.314	$ 25,633,630,208.00	$54.89	8.393	10.309488	$ 38,963,000,320.00	$ 9.23
AIZ US Equity	ASSURANT INC	0.796	1.310	$ 4,277,072,896.00	$40.14	7.980	38.087662	$ 8,604,262,912.00	$ 4.23
CINF US Equity	CINCINNATI FIN	0.975	1.221	$ 4,878,825,984.00	$29.98	19.724	19.095392	$ 3,968,999,936.00	$ 3.04
ACE US Equity	ACE LTD	0.895	1.209	$ 20,444,850,176.00	$60.24	7.793	21.670588	$ 15,872,999,936.00	$ 9.02
TMK US Equity	TORCHMARK CORP	1.102	1.167	$ 4,695,172,096.00	$58.65	9.399	35.085339	$ 3,386,840,960.00	$ 5.79
XL US Equity	XL GROUP PLC	0.681	1.153	$ 7,161,709,056.00	$20.94	8.725	16.079153	$ 6,200,553,984.00	$ 1.04
PGR US Equity	PROGRESSIVE CORP	2.121	1.138	$ 14,235,490,304.00	$21.46	13.845	20.429049	$ 15,004,400,128.00	$ 1.63
MMC US Equity	MARSH & MCLENNAN	2.129	1.011	$ 13,667,779,584.00	$25.15	15.818	17.945707	$ 10,657,000,192.00	$ 1.26
AFL US Equity	AFLAC INC	2.390	1.009	$ 26,621,560,832.00	$56.49	10.481	24.338739	$ 20,035,999,744.00	$ 4.61
AON US Equity	AON CORP	1.938	1.005	$ 13,268,870,144.00	$41.44	13.156	9.720048	$ 7,675,999,872.00	$ 2.43
TRV US Equity	TRAVELERS COS IN	0.957	0.988	$ 25,972,709,376.00	$56.58	8.651	15.84149	$ 25,235,999,744.00	$ 7.16
L US Equity	LOEWS CORP	0.867	0.908	$ 16,344,760,320.00	$39.27	14.438	8.615126	$ 14,722,000,128.00	$ 2.90
CB US Equity	CHUBB CORP	1.120	0.817	$ 17,899,540,480.00	$58.70	9.832	21.866137	$ 13,333,999,872.00	$ 6.84

This relative valuation table shows the S&P 500 Insurance peer group with some key financial information. Currently, our portfolio is invested Aflac, Inc. (AFL) and Chubb Corporation (CB). These two companies have had tremendous growth in 2010 as a result of the recovering economy and their strong competitive advantages in the market. Aflac, widely known through its successful marketing campaigns and large international business in Japan, is a high value company with steady growth potential. Chubb Corporation, through its niche marketing as mentioned earlier, continues to establish itself as a major player within this industry as earnings and dividends continue to climb. Highlighted in green are the companies that I currently have on my watch list and will be analyzing further.

Changes to the Sector

Several changes have been made to the financial sector since the current group took over the portfolio in late August, 2010. The first trade that was made in the sector came in early October when the fund approved to increase its position in Chubb Corp.

Next, the fund chose to dilute its positions in both Shinhan Financial (SHG), a large foreign bank located in South Korea, as well as an S&P 500 Financials index, IXG. The first decision to sell SHG came because of analysis of the prospectus. It was the fund's mentality that based on the screening process that had been decided, Shinhan failed to meet characteristics of an S&P 500 stock in terms of both trading volume and marketability. The decision to sell the exchange traded fund IXG was due to the overall strategy of the fund. Because of the fund's opportunities approach and the objective of the fund in general, it was decided that by indexing, the fund would be working against its goal of beating the benchmark.

In the winter, a series of trades were made that positioned the portfolio to where it is currently. The first move came with the purchase of 4200 shares of KeyCorp. This decision was made as the fund's philosophy on the financial sector changed from investing in diversified financial companies to regional banks. The decision to invest in 1100 shares of PNC was again in agreement with that strategy as well. The fund then diluted its position in Bank of America (BAC) because of still toxic nature of the company's balance sheet as well as the belief that the Fed would not approve a dividend increase based on their capital and liquidity measures.

Going Forward

As was briefly mentioned at the beginning of this report, my recommendation going forward for our fund concerning the strategy with financials is to keep a neutral weight in the sector. Because of the limited growth opportunities and because of the remaining uncertainty surrounding the future condition of the banking industry and the effects of financial reform, it is best that the fund maintains a modest weighting in the sector.

Having considered this, my strategy for the fund going forward was to change the overall composition of the financial portfolio. Due to the general nature of the industry in our current state and time, I believed it was best to limit risk within our portfolio, specifically within the banking industry. The sector had been previously weighted heavily in diversified financials, specifically in Bank of America, and my goal was eliminate the risk it had created in the sector. I feel I have stayed true to my strategy in identifying companies with limited risks in the future and are supported by solid fundamentals.

Though I had emphasized a move from diversified financials into regional banks, I did not completely shy away from the diversified market. As can be seen from my watch list, two companies that I think could have potential and that I am monitoring are Citigroup and JPMorgan Chase, two companies considered diversified financial firms. I think the strategy going forward in the banking industry should be to find stocks that are poised for dividend increases in the near term, and that have taken strides ahead of their competitors in adjusting to the regulatory climate that they now face.

The strategy going forward regarding the insurance portion of the financial portfolio will remain the same. The insurance outlook, as was discussed, seems limited as the soft market trends continue. My focus will be to identify companies that have large market share and stand to gain the most from a transitioning period away from a soft market in the long-term.

An area that I am choosing not to invest in is the real estate industry. Due to the risky nature of that industry in our current economic climate, and with a focus on reducing overall risk in the financial portfolio, I believe it is in the best interest of the fund to stay clear of these companies.

As far as total number of securities held in the sector, I believe that a range of three to six stocks is ideal and allows for successful diversification.

Conclusion

The financial industry continues to be a difficult sector to address and value, but based on the information and analysis given above, I believe the decision to keep a neutral weighting in the industry is a prudent one. As we continue our management of the fund, I will continue to monitor this market and make any necessary adjustments to our strategy going forward.

HEALTHCARE SECTOR REPORT

By Patrick Polomsky

Sector Allocation Recommendation:	**Underweight**
Current Sector Weight in Portfolio	**9.59%**
Current Sector Weight in Benchmark	**10.67%**
Benchmark Weight ± 50%	**5.34% - 16.0%**
Sector Stocks in Portfolio	**6**
Sector Stocks in Benchmark	**46**
Portfolio Sector Weighted Average Beta	**0.72**
Benchmark Sector Weighted Average Beta	**0.81**

SECTOR SUMMARY

Below is a discussion on how stocks in the healthcare sector are screened as well as a discussion talking more in depth about the sector in seeing its strengths and weaknesses, where opportunities exist, and how it will be managed in the future. First I would recommend the healthcare sector be underweighted in sector allocation for the portfolio. As the economy continues its recovery and as the Healthcare Reform's impact remains uncertain, underweighting the healthcare sector is the best move. As the economy continues its upturn, investing in riskier stocks and raising our sector's overall beta will prove to be beneficial. Being that the healthcare sector has an overall beta less than 1 (around 0.81), overweighting the sector would not be our best interest. As of March 31st, we currently own 6 securities in the healthcare sector. Those securities are presented below with a few relative valuation measures to help show each company's efficiency, risk, and expected growth.

Stocks in Portfolio

Company Name	Ticker	Quantity	Price (4/8)	Market Cap	Beta	Current P/E	EPS 1 yr growth	EBITDA Mrgn	Return YTD	Div. yield	% Sector	% Portfolio
Johnson & Johnson	JNJ Equity	400	$ 59.46	$ 162,635,792,384	0.65	12.49	2.12%	31.61	-2.99%	3.63%	17.33%	1.66%
Abbott Laboratories	ABT Equity	500	$ 50.49	$ 78,137,409,536	0.66	12.02	56.93%	26.68	6.36%	3.80%	18.39%	1.76%
Express Script	ESRX Equity	400	$ 56.15	$ 29,663,150,080	0.87	24.15	54.32%	5.15	3.89%	0.00%	16.36%	1.57%
Medtronic Inc.	MDT Equity	325	$ 39.67	$ 42,422,181,888	0.88	12.02	20.32%	36.58	8.23%	2.27%	9.39%	0.90%
Stryker Corp	SYK Equity	400	$ 59.71	$ 23,361,310,720	0.96	17.93	18.83%	31.22	11.52%	1.21%	17.40%	1.67%
Teva Pharmaceuticals	TEVA Equity	575	$ 50.46	$ 47,420,000,000	0.67	13.68	62.09%	32.73	-2.80%	1.53%	21.14%	2.03%
Median				$ 44,921,090,944	0.77	13.09	37.32%	31.41	5.12%	1.90%	17.37%	1.67%
Total											100%	9.59%

Highest Potential Prospects										
Company Name	Ticker	Price (4/8)	Market Cap	Beta	Current P/E	Projected EPS	EPS 1 yr growth	EBITDA Mrgn	Return YTD	Dividend yield
COVENTRY HEALTH	CVH Equity	$ 31.78	$ 4,759,858,176	1.07	8.47	2.91	39.53%	9.91%	20.38%	0.00%
CIGNA CORP	CI Equity	$ 43.13	$ 11,698,339,840	1.00	8.86	4.85	3.79%	0.00%	17.76%	0.09%
WELLPOINT INC	WLP Equity	$ 68.95	$ 25,891,500,032	0.91	10.31	6.80	-29.42%	9.17%	21.71%	1.45%
PFIZER INC	PFE Equity	$ 20.46	$ 163,582,197,760	0.85	9.01	2.25	-16.26%	45.32%	18.08%	3.91%
UNITEDHEALTH GRP	UNH Equity	$ 44.38	$ 48,538,169,344	0.84	10.82	3.91	26.61%	9.48%	23.25%	1.13%
Median			$ 25,891,500,032	0.91	9.01	3.91	3.79%	9.48%	20.38%	1.13%

Other Companies in Sector									
Company Name	Ticker	Price (4/8)	Market Cap	Beta	Current P/E	Projected EPS	EBITDA Mrgn	EV/EBITD A T12M	Return YTD
TENET HEALTHCARE	THC Equity	$ 7.55	$ 3,668,896,000	1.24	21.57	0.38	11.41%	7.35	12.86%
INTUITIVE SURGIC	ISRG Equity	$ 367.67	$ 14,419,840,000	1.18	38.82	11.53	42.16%	22.68	42.65%
BOSTON SCIENTIFC	BSX Equity	$ 7.35	$ 11,196,760,064	1.07	18.38	0.35	23.14%	9.09	-2.91%
WATERS CORP	WAT Equity	$ 87.65	$ 8,004,648,960	1.07	21.75	4.81	31.19%	15.27	12.79%
LIFE TECHNOLOGIE	LIFE Equity	$ 52.73	$ 9,491,516,416	1.02	24.30	4.00	31.42%	10.41	-4.99%
DENTSPLY INTL	XRAY Equity	$ 36.49	$ 5,186,883,072	1.01	19.41	2.08	20.60%	11.65	6.94%
THERMO FISHER	TMO Equity	$ 55.81	$ 21,799,780,352	0.99	20.98	4.19	19.42%	10.98	0.81%
AETNA INC	AET Equity	$ 36.75	$ 14,130,379,776	0.97	10.04	3.87	10.04%	4.21	20.45%
VARIAN MEDICAL S	VAR Equity	$ 68.77	$ 8,255,690,240	0.94	21.90	3.70	25.08%	12.61	-0.74%
CELGENE CORP	CELG Equity	$ 55.92	$ 25,997,150,208	0.94	25.53	3.58	40.22%	16.93	-5.44%
PATTERSON COS	PDCO Equity	$ 33.01	$ 4,056,146,944	0.94	17.47	2.05	12.38%	10.12	8.51%
ALLERGAN INC	AGN Equity	$ 74.77	$ 22,861,230,080	0.91	934.63	3.76	30.47%	14.91	8.96%
GILEAD SCIENCES	GILD Equity	$ 41.25	$ 32,804,669,440	0.91	11.99	4.18	53.76%	7.91	13.82%
CEPHALON INC	CEPH Equity	$ 76.70	$ 5,808,508,928	0.90	10.71	7.70	37.04%	5.50	24.27%
ZIMMER HLDGS	ZMH Equity	$ 59.91	$ 11,510,230,016	0.89	13.74	4.83	37.22%	7.46	11.61%
HUMANA INC	HUM Equity	$ 70.13	$ 11,825,380,352	0.89	9.93	6.37	6.69%	2.37	28.11%
MYLAN INC	MYL Equity	$ 23.44	$ 10,244,620,288	0.87	20.56	2.07	23.33%	11.80	10.93%
COVIDIEN PLC	COV Equity	$ 52.42	$ 25,887,520,768	0.87	14.81	3.98	25.56%	10.67	15.73%
ST JUDE MEDICAL	STJ Equity	$ 52.26	$ 17,011,789,824	0.85	17.36	3.39	30.55%	12.06	22.74%
AMGEN INC	AMGN Equity	$ 53.90	$ 50,291,548,160	0.83	11.28	5.29	44.38%	6.92	-1.82%
FOREST LABS INC	FRX Equity	$ 32.85	$ 9,398,122,496	0.83	7.53	4.08	24.31%	5.42	2.72%
BIOGEN IDEC INC	BIIB Equity	$ 73.29	$ 17,656,430,592	0.81	16.04	5.88	43.43%	8.64	9.31%
HOSPIRA INC	HSP Equity	$ 55.74	$ 9,288,861,696	0.81	19.02	4.11	20.03%	13.29	0.09%
QUEST DIAGNOSTIC	DGX Equity	$ 57.99	$ 9,925,817,344	0.80	14.28	4.56	21.03%	8.06	7.83%
CAREFUSION CORP	CFN Equity	$ 27.84	$ 6,210,532,864	0.79	22.45	1.82	17.24%	9.09	8.33%
MERCK & CO	MRK Equity	$ 33.67	$ 103,807,303,680	0.79	9.85	3.74	35.93%	6.77	-5.49%
MEDCO HEALTH SOL	MHS Equity	$ 55.82	$ 22,576,769,024	0.78	17.61	4.31	4.51%	8.98	-8.90%
BECTON DICKINSON	BDX Equity	$ 80.76	$ 17,857,230,848	0.77	15.65	5.82	29.50%	8.35	-3.96%
BAXTER INTL INC	BAX Equity	$ 53.73	$ 31,132,559,360	0.75	18.66	4.32	22.18%	11.61	6.76%
CR BARD INC	BCR Equity	$ 99.88	$ 8,635,117,568	0.74	17.74	6.58	31.61%	10.43	9.05%
DAVITA INC	DVA Equity	$ 86.67	$ 8,320,320,000	0.74	19.79	4.98	18.96%	9.97	24.72%
WATSON PHARM	WPI Equity	$ 57.51	$ 7,236,333,056	0.73	19.04	4.41	17.33%	12.88	11.35%
LABORATORY CP	LH Equity	$ 92.82	$ 9,299,197,952	0.72	16.66	6.49	24.09%	9.36	5.57%
EDWARDS LIFE	EW Equity	$ 83.06	$ 9,539,502,080	0.70	44.18	2.16	23.55%	26.95	2.75%
ELI LILLY & CO	LLY Equity	$ 35.69	$ 41,317,048,320	0.65	7.40	4.09	35.10%	5.12	3.30%
BRISTOL-MYER SQB	BMY Equity	$ 27.51	$ 46,833,778,688	0.64	12.56	2.15	34.50%	6.68	6.52%
Median			$ 11,353,495,040	0.86	17.67	4.10	24.70%	9.66	0.08%

SCREENING

Considering that the Fund strategy implies using a bottom-up approach, having an effective screening process is very important. Knowing that the healthcare sector has 46 securities in the S&P 500, screening the securities beforehand has proven to be very helpful. First thing to look at is to make sure the security is within the S&P 500. If it is not (such as TEVA being an ADR), it needs to verified that it can be comparable to a stock trading in the S&P 500 based on criteria set in class in regards to marketability and market capitalization. Next is to go through and screen the stocks by pulling only those that make up the bottom 40th percentile of the Price to Earnings ratio. Looking more at value companies over growth will prove to be very beneficial in moving forward as healthcare reform continues. Next, I screen those companies for having the highest expected future earnings. I then separate the remaining securities into whether or not they are a pharmaceutical company or healthcare equipment provider. Looking at the mispricing opportunity and growth potential is going to be vital as many analysts project a lot of consolidation to be happening as healthcare is striving to become more affordable. Upon looking at the drug manufacturing companies, I differentiate between those companies that are involved in branding versus generic manufacturing. Branded companies experience patent protection for their own products and there are fairly high barriers to entry in gaining approval for their medications by federal agencies. Generic drug manufacturers have slightly less barriers to entry; however, they do not invest as much capital into research and development and will probably be in the best situation to grow with a global movement toward inexpensive healthcare.

OVERALL ANALYSIS OF SECTOR

With a lot of change in the healthcare industry both domestic and foreign, it is hard to understand where companies will find themselves in the near future and long-term. Operating in the healthcare sector does have its advantages. First, there are fairly large barriers to entry. For those companies that manufacture branded or generic medications, their product must pass multiple federal regulations. Before manufacturing any kind of drug, companies need to go through numerous inspections. Another advantage for those companies that operate in producing branded drugs is having patent protection. Therefore investing large amount of money into research and development often is worth it when they are guaranteed no possibility of infringement on their own innovative product. Large healthcare companies also have the advantage in accessing the latest medical research in offering a wide range of services and in negotiating contracts with health insurers. There is and probably will continue to be a lot of consolidation of healthcare companies through mergers and acquisitions. Small companies can compete successfully by providing specialized healthcare services to a limited geographical area.

HEALTHCARE REFORM BILL

A very common topic of discussion is the new Healthcare Reform Bill that was signed by President Obama in the early part of 2010. With the passage of the Patient Protection and Affordable Care Act (PPACA) we are beginning to enter a period of unparalleled change and uncertainty. Changes outlined within PPACA will have significant impact on revenue cycle processes. Organizations who will weather this unprecedented change will strive to make what currently works “work better” as tools, processes and methodologies are developed to adapt to the changes in the healthcare environment when the PPACA is implemented. Although one could give a whole report on the new reform, I’m going to try and just give the highlights and explain its impact for healthcare companies. The law is trying to expand coverage to nearly 32 million Americans who are currently uninsured. The new law is hoping to offer subsidies for insurance to families who make between 1-4 times the Federal Poverty Level. The Act will not be implemented all at once. Some reform is currently being implemented such as an effort to reduce costs and increase the opportunity to appeal coverage decisions. As more changes are made, it will be vital to evaluate and analyze how it will affect our securities. Now, most of the changes being made are affecting hospitals and insurance providers.

The Act's provisions are intending to be funded by a number of taxes and offsets. Total amount brought in is expected to be around 409.2 billion over the next 10 years. It will come in part from an annual fee from branded manufacturers and part from an excise tax on medical devices among many other things. With healthcare being such a huge part of the United States and global GDP, any big changes would worry any investor. It leaves a lot of uncertainty to where healthcare will be ten years or even one year into the future. One thing for certain is that there is a general desire for reduced healthcare costs and extending healthcare coverage to more people. These desires are not only being pursued by the United States, but healthcare reform is commonly being seen as a part of the global agenda. With an increase in globalization through production and markets, there are many new emerging markets. There is a strong correlation between emerging markets and healthcare demands. Not only is healthcare currently a big part of the global markets, it will continue to grow in emerging areas. With the global agenda being an increase in healthcare coverage at a low cost, all companies within the S&P 500 are going to have to conform their company's strategy and policies to that if they hope to be successful.

There is a lot of uncertainty especially in the US market. Healthcare reform is meeting a lot of resistance. Recently, the whole healthcare reform process has been ruled unconstitutional by several state justices. They rule that the federal government cannot force any private citizen to buy or have healthcare coverage. They argue that Congress is exceeding their authority by requiring all Americans to have health insurance. They are arguing that "Obamacare" is an unprecedented and unconstitutional infringement on the liberty of the American people. With this constant battle going back and forth in Congress, the path of healthcare in the future is even more distorted. With companies being unsure of the impact of reform, it will be tough for them to adjust accordingly. Many of the big pharmaceutical companies are consolidating and using their large amounts of cash to buy smaller specialized firms and generic manufacturers.

Our portfolio consists of mostly companies that manufacture and distribute branded and generic medications. Both types of companies, generic and brand manufacturers, will see advantages moving further. Branded manufactures still hold patents and will continue to see a constant sales growth. As healthcare is being made accessible to all, medications and drugs are going to have to become cheaper and that is where companies that produce generic forms are going to be more successful. Picking those companies that show the greatest strength in moving forward through their current operations, management, niche in the market, and growth opportunities is going to very important for anyone managing the healthcare sector.

SECTOR SLOWDOWNS AND OPPORTUNITIES

There are a couple other things to note about the healthcare sector. With a strong shift from private insurers to government programs, Medicaid enrollment reached 15.7% which is nearly double the level it saw ten years ago. Healthcare companies saw a recent increase in the slowdown of volume due to the economic recession. With premiums for commercial insurance increasing drastically, individuals are taking plans with higher deductibles and copays and lessening their amount of visits to the doctor.

Healthcare is one of the worst-performing sectors during the fiscal year because of these slowdowns. With a lot of mergers and acquisitions being seen, there is going to be a lot more consolidating. The healthcare sector however appears to be on the rebound. If the economy continues to show signs of improvement, the uninsured trend is likely to reverse. This will likely increase the volume of visits and boost healthcare companies' sales as well.

From an investing perspective, it is anticipated that there will be a rally among healthcare stocks as cheap valuations appeared to be the product of investors' anticipation of heightened regulation and scrutiny in business operations. Unfortunately however, any potential increase in stock price has been on hold due to the slow moving and troubling economy. Although growth in 2010 for healthcare companies has been pretty disappointing, I do not believe this will continue into 2011. With an expected increase in GDP, that would be a good sign for healthcare companies because of its big stake in it. This past year, there was around $1.7 trillion in annual US healthcare spending which is around 15% of total GDP. The fundamentals in this sector are still very strong and with the population getting older, healthcare will be a big part in the future. So far, the sector as a whole has returned a positive 2.2% YTD. After the initial hit during the summer months, the healthcare sector as a whole has shown recovery and has finally been able to offer positive returns to its investors. Looking forward though, it will be very difficult to pick those stocks that perform above the benchmark.

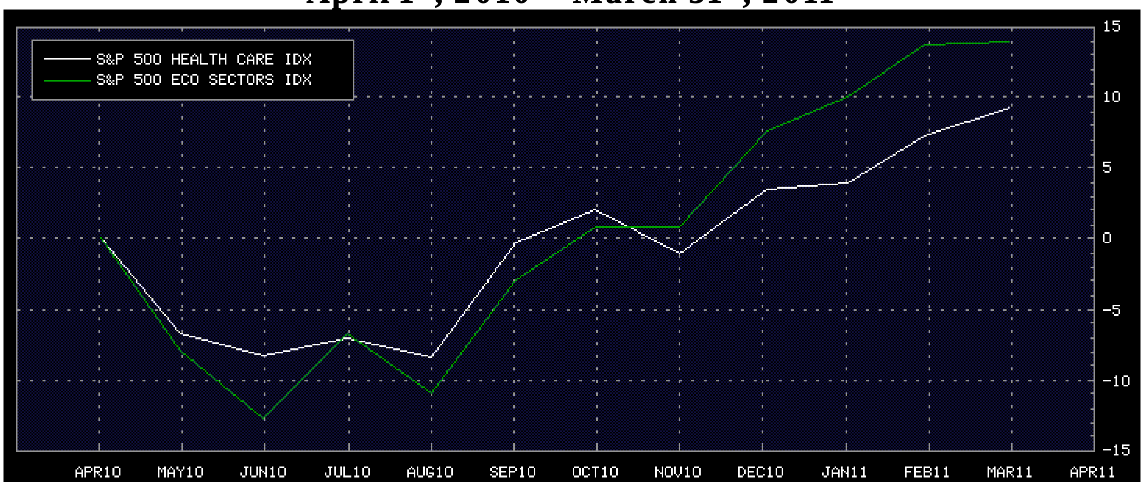
HEALTHCARE IN THE S&P 500

The healthcare sector in the S&P 500 includes companies that can for the most part be split into two main industry groups. The first includes those companies who manufacture healthcare equipment and either supply or provide health related services like the distribution of healthcare products or operating healthcare facilities and organizations. The second group encompasses those companies that are primarily involved in research and development, production and marketing of pharmaceuticals and biotechnology products. The reason I say "for the most part" is because there is a third group that makes up a relatively small number of companies in the S&P 500. Those companies are the ones that offer managed healthcare benefits through insurance and other services. Such companies are UnitedHealth, Wellpoint, and Aetna. Each segment is different in its own way and the reform of the healthcare system is going to have an impact on each one. Below is a summary table showing the comparison of the healthcare sector to the whole S&P 500 index.

	Market Cap	P/E	P/B	P/FCF	EPS T12M	Projected EPS % Change (average)	Beta	EBITDA Margin	EV/EBITDA	Total Return YTD (Average)	ROE
Healthcare	14,275,109,888	17.01	2.85	15.23	3.01	-1.53%	0.87	25.08%	9.09	9.42%	18.36%
S&P 500	11,944,420,352	17.51	2.60	16.30	2.35	8.15%	1.06	22.14%	9.62	7.54%	14.55%

The above ratios take the median values (except where noted) for both Healthcare and the S&P 500. The ratios do seem to be in line with our analysis because most of the healthcare companies in the S&P 500 are value companies, accounting for the slightly lower Price to Earnings ratio. I found it to be very interesting that the expected forward change in Earnings per share for Healthcare is a negative 1.53% while in the S&P 500 it is a positive 8.15%. This pessimism towards Healthcare as a whole is interesting and shows other analysts' uncertainty in the sector's outlook moving forward. Another important measure is the beta comparison. With the beta for healthcare being lower than the S&P 500, it would have made sense during an economic downturn to invest in lower beta stocks. With a beta less than one, those companies see returns compared to the market on a lower sloped line. That means that when the market is doing really well, the sector may not be performing quite as well, but when the market is doing really poorly, the sector is not taking as great as a hit. That is reflected in the graph below comparing the S&P to its healthcare stocks. It because of the fact that healthcare's beta is less than the market's as well as its negative projected earnings that I recommend the sector remain underweight. Trying to find those companies with strong EBITDA margins and strong P/E ratios are going to be the ones to invest in. As the economy and GDP are starting to bounce back, increasing the beta of the healthcare sector is one of the things I am currently looking into to gain our portfolio more exposure to market risk which is good during an economic upturn.

Comparable Returns
S&P 500 Healthcare vs. S&P 500
April 1st, 2010 – March 31st, 2011



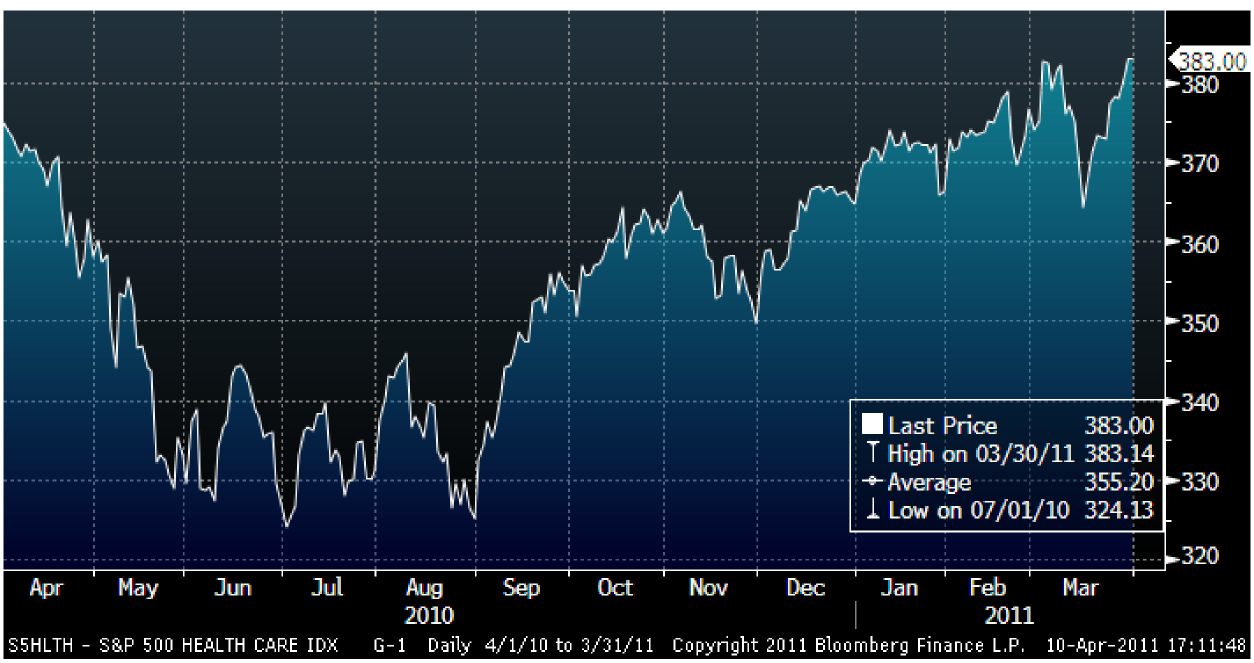
PHARMACEUTICAL COMPANIES LOOKING FORWARD

With healthcare reform and the desire to move towards generic drugs, there will be changes in the future especially for those pharmaceutical companies participating in branding and patenting through their own products. Although research and development will always remain a major expense because new medications and cures are always being sought after, there is expected to be wave of acquisitions to continue into 2011 and the near future. With big pharmaceutical companies looking to replace the revenue that will be lost to generic competition during the next few years, biotech firms with patents now in force are likely to find themselves as acquisition targets. Some potential names being thrown out there as targets are Vertex (VRTX) and Human Genome Sciences (HGSI).

Medical Equipment and Health Benefits Companies Looking Forward

Hospitals are going to always need medical equipment. Patients that have chronic diseases are also going to find the need. Even with it being a relatively necessary item, any kind of healthcare reform is going to bring the costs down. Companies need to have a focus both in designing new products and equipment while trying to keep their expenses and costs low. Along with medical equipment providers, health benefits companies are going to see some changes as well. Most health benefits companies do not have very high efficiency margins and do not have very high revenue growth rates. Most of their value comes from their customer loyalty. These companies were expected to see the result of the healthcare reform before any of the other segments. United Health (UNH) is one of the world's leading health benefits company and was also one of the best performers in the Healthcare sector during the last year. Other companies such as Wellpoint and Aetna also were showing very good returns. A lot of this can be attributed to the market's overreaction to how much the reform was going to affect their cash flows. With these companies providing health insurance to many commercial businesses across the world, they have strong customer loyalty with a limited number of growth in the future. The market seems to have overreacted to the value of these companies and so understanding how healthcare reform will affect them is going to be vital. Any affect that is caused by the healthcare reform is likely to affect the health benefits companies first (before the pharmaceuticals and medical equipment providers).

S&P 500 Healthcare Index
April 1st, 2010 – March 31st, 2011



OUR PORTFOLIO AND HEALTHCARE

Currently the Fund (as of March 31st) is invested in 6 healthcare securities. Those securities are listed at the beginning of this report with some statistics about each. The healthcare sector is comfortably within the required guidelines set forth by the prospectus. Currently 9.59% of our portfolio is given to the healthcare sector. The guidelines that the sector must be within are 5.34% and 16.0%. Being comfortably within the guidelines, it will allow a possible restructuring of the sector without going out of compliance.

The Fund's Price to Earnings Ratio for the securities we own is slightly less than the average for all healthcare stocks (13.09 which is a decrease from our previous average of 14.71). It is very tough to find the big "gems" in the healthcare sector that show growth of 50-60%. Most of those companies that do show such growth are often fairly small companies that are very risky for the Fund. While some of those companies do very well, some other similar ones have very poor performances. While being an opportunities fund, it is important to continue to look for strong opportunities in the healthcare sector that will bring positive returns. The Fund's EBITDA Margin however of 31.41% on average is far greater than the average healthcare margin of 25.08%. This shows that we are selecting those companies operating with more efficiency and/or patent protection. Healthcare in the Fund has a beta of 0.72 and is less than the sector's average of 0.81, which is something to reevaluate in the future and consider increasing.

OUR COMPANIES IN MORE DETAIL

Johnson & Johnson
Recommendation: HOLD/SELL
Healthcare segment: Pharmaceuticals

Among the companies that we own, JNJ is probably one of the most known by everyday consumers. JNJ and its subsidiaries are engaged in the research and development, manufacture and sale of a range of products in the health care field. It has more than 250 operating companies conducting business worldwide. The Company's operating companies are organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. They have the second highest market cap in the healthcare sector (behind Pfizer) and is considered to be one of the more stable healthcare companies because of their diversification through their subsidiaries and not being specialized in just one area.

A highlight about JNJ is that they have a fairly low beta of 0.65. If one of my strategies going further is to increase the overall exposure to market risk, JNJ is going to be one of the companies I would consider getting rid of. Also, there is not really much growth potential for JNJ because of them being known as a more stable company. However with a lot of reform going on, it may make sense to get rid of some uncertainty by holding JNJ. However we have described ourselves as being an opportunities fund and there may be more, better opportunities elsewhere. One nice thing about JNJ is they have a pretty high dividend yield for the healthcare sector of 3.63%. Near the end of 2010, JNJ has also experienced some recent litigation issues and product recalls that have continued to be negative for an investor.

One must see that JNJ is the world leader in the healthcare industry and that things are most likely to get better. Most analysts believe that in the long-run JNJ will prove to be a good company to have, however I'll need to decide how long we can wait.

Teva Pharmaceuticals

Recommendation: HOLD
Healthcare segment: Pharmaceuticals

Teva Pharmaceuticals (along with ABT and JNJ) is one of the three pharmaceutical companies that we own. Teva has had some very rough times recently; however, I am very optimistic for growth in Teva. Teva is based out of Israel and is a global pharmaceutical and drug company. It develops, produces and markets generic drugs in all treatment categories. The Company has a pharmaceutical business, whose principal products include Copaxone and Azilect. Teva's active pharmaceutical ingredient (API) business provides vertical integration to Teva's own pharmaceutical production. Teva manufactures and sells generic pharmaceutical products in a range of dosage forms, including tablets, capsules, ointments, creams, liquids, injectables and inhalants.

As the world is trying to make healthcare more affordable, generic manufacturers are going to be key in providing them with low-cost, effective products. Since Teva is a leading generic manufacturer, I think they will be a strong player moving further. As patents start to expire, I believe Teva will be there able to manufacturer the drug generically and sell it across the globe at a lower price. I see a lot of growth in Teva even though they already operate in over 60 countries.

Although I see Teva to be a strong player in the future of healthcare, it is tough to know when that will be. There is a lot of uncertainty of when exactly countries are going to really start pushing for lower cost healthcare coverage. Waiting three years for that initiative may prevent us from gaining any true gains on a company like Teva. All in all, I think they are a strong company and still undervalued to an investor.

Stryker Corporation

Recommendation: SELL/HOLD
Healthcare segment: Healthcare equipment

Stryker Corporation is a medical technology company. The Company provides orthopedic implants, as well as medical and surgical equipment. It has two segments: Orthopedic Implants and MedSurg Equipment. Its products include implants used in joint replacement, trauma and spinal surgeries; surgical equipment and surgical navigation systems; endoscopic and communications systems; patient handling and emergency medical equipment, as well as other medical device products used in a variety of medical specialties. The company had very strong fourth quarter results in 2010 and has had very strong reaction to recent acquisitions in Accent and the neurovascular division from Boston Scientific. They also have a strong balance sheet of nearly 4.5 billion in cash.

The reason that I have Stryker as a sell/hold is because after a recent valuation I did for SYK, I had them at the intrinsic value that I had calculated for them. I do not think we should sell them because they are bad company, but I rather believe they have reached their intrinsic value and I think we could better allocate our funds to a perhaps better investment. I would still however like to revisit my valuation in model in light of their recent acquisitions and growth potential in sales.

Express Scripts

Recommendation: HOLD
Healthcare segment: Healthcare services

Express Scripts, Inc. is a pharmacy benefit management (PBM) operating in North America, offering a range of services to its clients, which include health maintenance organizations (HMOs), health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans and Government health programs. The Company has organized its operations into two business segments based on products and services offered: PBM and Emerging Markets (EM). The Company's revenues are generated from the delivery of prescription drugs through its contracted network of retail pharmacies, home delivery and specialty pharmacy services and EM services.

ESRX is a great company that has done very well for us in recent months. However their P/E has risen to nearly 24 which is far above the average. With the idea of healthcare reform, there was a lot of negativity to most healthcare companies' future. ESRX however operates in a business where its customers constantly rely on them. Having that stability has helped ESRX and is thus why we hold them. They also however currently do not pay dividends. ESRX however did very well in the environment they operated in. They were able to keep their margins and profits up. They also have a strong balance sheet with an ample amount of liquidity to either buy back shares or perhaps invest in another company. ESRX is a strong company to have; however, I just need to make sure there is still opportunity in them from where the market currently has them priced.

Medtronic

Recommendation: SELL/BUY
Healthcare segment: Healthcare equipment

Medtronic is a medical technology company. The Company is engaged in research, design, manufacture and sale of products to alleviate pain, restore health and extend life. It manufactures and sells device-based medical therapies. It operates in seven segments: Cardiac Rhythm Disease Management, Spinal, CardioVascular, Neuromodulation, Diabetes, Surgical Technologies and Physio-Control. Its primary customers include hospitals, clinics, third party healthcare providers, distributors and other institutions, including governmental healthcare programs and group purchasing organizations.

I understand that my buy/sell recommendation may be a weird one. The fact is that MDT currently makes up a very small percentage of our portfolio. I need to decide soon whether or not I think they are a company that we should be invested in. If not, then we should sell them and invest elsewhere. If so, then I need to increase our position so that they can have a strong contribution to our portfolio's return. Medtronic has a very strong customer base and has significant growth opportunities into foreign and emerging markets. Medtronic has a lot of competition and I think the market doesn't see a lot of growth for Medtronic going further. I think that Medtronic has a strong hold in their market share and has the capabilities to further expand their operations. Many analysts tied MDT's success to the improvement of the economy and if an economic upturn is expected within the next few years, MDT may be a good company to stay invested in.

Abbott Laboratories
Recommendation: HOLD/BUY
Healthcare segment: Pharmaceuticals

Abbott Laboratories is engaged in discovery, development, manufacture, and sale of diversified line of healthcare products. It has four segments: Pharmaceutical Products, which include a line of adult and pediatric pharmaceuticals manufactured, marketed, and sold directly to wholesalers and healthcare facilities; Diagnostic Products, which include a line of diagnostic systems and tests manufactured, marketed, and sold to hospitals and commercial laboratories; Nutritional Products, which include a line of pediatric and adult nutritional products, and Vascular Products, which include a line of coronary, endovascular, and vessel closure devices for the treatment of vascular disease.

What I like most about ABT is that they offer a diversified line of products to where their customer base is not too consolidated. They have made numerous acquisitions in recent months that I believe will position them well going into the future. I think that with a lot of recent acquisitions, the market has overreacted in their stock price. I believe that ABT has a strong balance sheet and is able to use the acquisitions to develop strong long term growth. ABT has also shown a very consistent, increasing dividend yield which is uncommon to the healthcare sector. I believe that the recent drop in their price is an overreaction by the market because of all their acquisitions. Now would be a good time for any investor to look further into ABT.

CHANGES MADE TO HEALTHCARE SECTOR DURING YEAR (4/1/2010 – 3/31/2011)

At the very beginning of the year is when the idea of "Obamacare" and healthcare reform first entered and got approval in Congress. After the idea of universal healthcare, there was a lot of uncertainty to the future of healthcare. How would companies be able to offer affordable healthcare to all as well as keep research and development a high priority? With this uncertainty and sudden lack of confidence, the healthcare sector took an initial hit. The healthcare index over the summer fell nearly 14%. As investors started to gain more confidence in the sector and see an overreaction in the market, prices began to rebound and the healthcare sector returned a positive 2.2% over the year.

After the Fund's healthcare securities took initial hits to their prices, each stock was valued and it was found that for each, the market had overreacted to the effect of reform. It was decided to allow for those securities to rebound back after opportunities were still seen in them. Gilead Sciences however was sold because of the lack of growth potential. They had a lot of consolidation in their customers and are facing a lot of pressures from prices as well as competition. After selling GILD, we also sold Roche Holding (RHHBY) because they did not fit the guidelines set forth in the prospectus. Being that RHHBY is an ADR and that they did not fit the requirements for minimum marketability, it was decided to sell our position in them. ABT has done a lot of acquisitions in recent years and has done a lot to ensure their success in the future. They operate in a few different segments and have considerable market share in each one. They have great long-term potential for growth and because of that, we increased our position in ABT during the year.

Since now some of the securities have rebounded and recovered to where they were about a year ago, it will be important to value each one of them again to see if any assumptions or forecasts have changed from before. If there are still opportunities, we will continue to hold that position or even consider increasing our position. If the stock has reached its intrinsic value, having a good sell discipline will be important.

FUTURE PLANS

According to the IMS Health report, pharmaceutical sales' growth worldwide is going to remain slow due to the expiring patents and macroeconomic conditions. Analysts are expecting pharmerging markets to grow at a 14-17% pace through 2014, while developed markets are only expected to grow at about 5%. These pharmerging markets are those emerging pharmaceutical markets that do not consist of the United States, Canada, and most of Western Europe. Major pharmerging markets exist in China, Brazil, India, and Russia.

There is a lot to be done in the future with the healthcare sector. The first thing one would notice is that we currently own 6 securities in the healthcare sector where the median weight of the portfolio for each security is 1.67%. I'm hoping to try and limit our number of positions down so that each security holds around a 1.5-2% holding in our portfolio. The trouble with trying to do both that and keep the healthcare sector underweight is trying to offer enough diversification to cover the three main segments in the S&P 500 (pharmaceuticals, healthcare equipment providers, health benefits companies).

The second thing is to try and raise the overall beta for the sector. With an expected increase in GDP and return of the economy, investing in perhaps more risky securities may be worthwhile to us. As seen before, when we have a lower beta and the economy is doing well, the healthcare sector is underperforming. Being able to take advantage of the possible return of the economy is something I will need to evaluate.

It is very hard to pick those companies that are going to be the "gems" in the healthcare sector. With a lot of uncertainty it is hard to key in on those companies that are going to be the most profitable. Because of that uncertainty, relying on a strong screening process is going to be important in finding any mispricings. There are a couple of companies that we currently do not own that I am very interested in. Wellpoint Inc. is the leading health benefits company in the United States. They offer a spectrum of managed care plans, which include preferred provider organizations (PPOs), health maintenance organizations (HMOs), point-of-service plans (POS) plans, traditional indemnity plans and other hybrid plans, including consumer-driven health plans (CDHPs), and hospital only and limited benefit products. They would help us gain exposure to the health benefits company. A leading competitor is UnitedHealth which is a global health benefits company. UnitedHealth Group Inc. manages health systems globally. They serve the health needs of older Americans and provide specialized care services. As the population grows older, it will be interesting to see in which direction UnitedHealth Group goes. Another company I am looking more into is St. Jude Medical. They manufacture healthcare products relating to the cardiovascular system. They operate in four main segments and distribute their products in the United States, Europe, Japan, and Asia Pacific.

There is a lot of uncertainty in the healthcare sector with healthcare reform being imminent. As countries all over the world are trying to make healthcare more affordable, companies are going to have to make changes. It will be very important to continue to look for underpriced opportunities not reflected yet by the market and keep an eye on the circumstances of our current holdings. Understanding which of those companies are in the best position for the future is going to be the task at hand for managing this sector.

INDUSTRIALS SECTOR REPORT

By Ben Lawrence

Sector Allocation Recommendation:	**Overweight**
Sector Weight in Portfolio as of 3.31.2011	**11.79%**
Sector Weight in Benchmark as of 3.31.2011	**10.81%**
Benchmark Weight ± 50%	**5.40 – 16.21%**
Sector Stocks in Portfolio	**5**
Sector Stocks in Benchmark	**59**
Portfolio Sector Beta	**0.68**
Benchmark Sector Beta	**1.09**

SUMMARY

HOLDINGS

As of April 10, 2011, the fund owned five industrials stocks (CSX, GE, FDX, ITW, JEC,) whose holdings represented 11.79% of the fund's market capitalization.

DCF INDUSTRIALS HOLDINGS as of APRIL 10, 2011

Company Name	Market Capitalization	Total Revenue (LTM)	EBITDA (LTM)	EBITDA Margin % (LTM)	ROE	EV/EBITDA (FTM)	P/E (FTM)	Dividend Yield (%)	1 Year Beta
GENERAL ELECTRIC	$214,387,294,208	$150,162,993,152	$25,199,999,488	16.2	9.6	25.1	-	2.5	1.4
FEDEX CORP	$28,775,380,992	$38,179,999,744	$4,254,000,064	11.4	9.0	4.5	12.7	0.7	1.2
CSX CORP	$28,489,170,944	$10,636,000,000	$4,020,000,064	37.8	17.9	8.4	13.1	1.5	0.9
ILLINOIS TOOL WO	$27,079,129,088	$15,870,375,936	$2,905,961,984	18.3	16.8	12.0	12.4	2.4	0.9
JACOBS ENGIN GRP	$6,393,744,896	$9,793,907,456	$476,170,000	4.9	8.5	6.2	16.9	0.0	1.4
SPX Average	$ 23,178,894,770	$ 17,243,604,763	$ 2,680,129,089	17.4	19.5	10.3	14.9	1.8	1.0
Industrials Average	$61,024,944,026	$44,928,655,258	$7,371,226,320	17.7	12.4	11.2	13.8	1.4	1.1

RELATIVE ANALYSIS

The following list represents the 59 Companies in the Industrials Sector of the S&P 500 (less those in which we hold), sorted by market capitalization.

Company Name	Market Capitalization	Total Revenue (LTM)	EBITDA (LTM)	EBITDA Margin % (LTM)	ROE	EV/EBITDA (FTM)	P/E (FTM)	Dividend Yield (%)	1 Year Beta
UNITED TECH CORP	$78,126,481,408	$54,371,999,744	$8,620,999,936	15.7	21.1	9.3	13.9	2.2	1.1
UNITED PARCEL-B	$72,252,407,808	$49,544,999,936	$7,665,999,872	15.5	44.7	11.6	15.2	2.6	0.9
CATERPILLAR INC	$70,155,509,760	$42,588,000,256	$6,259,000,064	14.7	27.6	21.6	13.3	1.9	1.2
3M CO	$66,354,548,736	$27,023,000,064	$7,038,000,000	26.4	28.7	8.9	13.6	2.4	1.2
BOEING CO/THE	$54,095,630,336	$64,305,999,872	$6,692,000,000	10.4	135.1	10.9	13.7	2.6	1.1
UNION PAC CORP	$46,969,200,640	$16,964,999,936	$6,468,000,000	38.1	16.1	8.4	12.5	1.4	1.0
HONEYWELL INTL	$45,714,329,600	$33,370,000,384	$3,824,000,000	12.3	17.6	12.3	13.3	2.3	1.0
EMERSON ELEC CO	$43,550,048,256	$22,160,999,936	$4,497,000,000	20.6	23.4	8.6	-	2.4	1.1
DEERE & CO	$40,390,471,680	$26,836,400,128	$3,993,699,968	14.2	37.0	19.4	-	1.3	1.0
DANAHER CORP	$33,980,801,024	$13,202,601,728	$2,648,652,928	19.2	14.2	14.2	17.5	0.2	1.1
LOCKHEED MARTIN	$28,136,599,552	$46,247,999,488	$4,940,999,936	11.3	74.7	5.9	9.3	3.8	0.9
GENERAL DYNAMICS	$27,818,930,176	$32,465,999,872	$4,513,999,936	13.9	20.4	6.6	10.2	2.4	0.9
NORFOLK SOUTHERN	$25,363,480,576	$9,516,000,256	$3,502,000,000	36.8	14.2	9.1	12.7	2.2	1.0
TYCO INTL LTD	$22,337,460,224	$17,314,999,808	$3,014,000,000	17.0	10.9	7.1	-	1.6	1.1
CUMMINS INC	$21,431,629,824	$13,226,000,128	$1,579,000,000	11.9	24.6	10.0	12.6	0.8	0.9
PRECISION CASTPT	$20,979,730,432	$5,986,000,000	$1,625,000,000	28.8	15.7	5.0	16.0	0.1	1.2
PACCAR INC	$18,734,200,832	$10,292,900,352	$1,271,700,000	12.4	8.7	16.9	14.0	1.2	1.4
RAYTHEON CO	$18,268,860,416	$25,183,000,576	$3,027,000,000	12.0	18.8	5.6	9.1	3.2	0.9
EATON CORP	$18,263,920,640	$13,715,000,064	$1,722,000,000	12.6	13.1	13.1	11.8	2.1	1.2
NORTHROP GRUMMAN	$18,172,110,848	$34,757,000,192	$3,808,000,000	11.0	15.6	5.6	8.4	2.8	0.9
WASTE MANAGEMENT	$18,030,499,840	$12,515,000,320	$3,230,000,000	25.8	15.2	7.7	15.4	3.4	0.7
INGERSOLL-RAND	$15,813,140,480	$14,098,799,872	$1,675,300,000	12.0	8.5	11.4	12.3	0.6	1.0
PARKER HANNIFIN	$15,428,970,496	$11,097,229,824	$1,585,192,000	12.3	17.7	7.2	-	1.2	0.8
ROCKWELL AUTOMAT	$13,149,939,712	$5,155,299,840	$823,200,000	15.2	36.4	13.3	-	2.3	1.3
FLUOR CORP	$12,482,259,968	$20,849,264,128	$739,518,000	3.5	10.5	4.5	18.9	0.8	1.6
DOVER CORP	$12,142,220,288	$7,132,648,064	$1,303,342,016	18.3	16.3	10.3	13.5	1.8	1.1
CH ROBINSON	$12,105,719,808	$9,274,305,152	$652,228,976	7.0	33.9	15.4	23.7	1.3	0.8
REPUBLIC SVCS	$11,487,250,432	$8,106,599,936	$2,403,299,968	29.6	6.6	7.4	14.0	2.6	1.0
ITT CORP	$10,801,559,552	$11,053,000,192	$1,640,000,000	14.9	19.0	6.3	11.9	1.9	1.0
EXPEDITORS INTL	$10,695,050,240	$5,967,573,120	$584,130,000	9.8	20.9	15.1	24.4	1.1	1.0
GOODRICH CORP	$10,650,130,432	$6,966,900,096	$1,278,400,000	18.3	18.5	7.8	13.8	1.2	0.9
JOY GLOBAL INC	$10,365,519,872	$3,664,646,016	$795,078,016	21.5	40.8	6.9	14.2	0.8	1.4
WW GRAINGER INC	$9,942,504,448	$7,182,157,952	$1,010,153,008	14.1	23.4	8.8	16.0	1.5	0.9
FASTENAL CO	$9,926,509,568	$2,269,471,008	$470,479,000	20.7	21.5	17.7	25.0	2.1	1.1
ROCKWELL COLLINS	$9,847,354,368	$4,748,000,000	$1,000,000,000	20.5	41.4	8.2	13.4	1.6	1.0
SOUTHWEST AIR	$8,731,541,504	$12,104,000,000	$1,617,000,000	13.4	7.9	10.7	13.7	0.1	0.8
L-3 COMM HLDGS	$8,620,304,384	$15,680,000,256	$1,981,000,000	12.6	14.3	7.1	9.0	2.3	0.9
ROPER INDS	$8,145,562,112	$2,386,111,968	$637,314,992	26.7	12.5	11.8	19.0	0.5	1.0
STERICYCLE INC	$7,660,013,056	$1,439,388,000	$444,552,000	30.9	21.9	15.5	27.8	0.0	1.0
FLOWSERVE CORP	$7,522,921,984	$4,032,036,032	$665,996,992	16.5	19.9	7.2	13.9	1.0	1.2
TEXTRON INC	$7,499,679,744	$10,524,999,936	$1,087,000,000	10.3	3.0	11.4	-	0.3	1.5
PALL CORP	$6,819,741,184	$2,545,300,992	$549,078,000	20.2	21.4	9.1	17.3	1.2	1.1
IRON MOUNTAIN	$6,678,311,936	$3,127,548,992	$950,835,008	30.4	-2.6	8.5	21.8	1.7	0.3
PITNEY BOWES INC	$5,127,237,120	$5,425,253,888	$1,199,483,968	20.9	-	9.8	12.0	6.0	0.9
MASCO CORP	$4,802,294,784	$7,592,000,000	$501,000,000	6.6	-52.0	13.3	23.8	2.4	1.0
QUANTA SERVICES	$4,765,488,128	$3,931,218,048	$402,258,008	10.2	4.7	9.6	17.8	0.0	1.4
EQUIFAX INC	$4,686,260,224	$1,877,800,000	$601,200,000	32.1	16.2	9.2	13.8	0.8	1.0
AVERY DENNISON	$4,494,090,240	$6,512,700,032	$703,200,000	10.8	21.1	9.1	11.6	1.9	1.0
ROBERT HALF INTL	$4,443,154,944	$3,175,092,928	$170,548,000	5.4	7.6	27.6	18.9	1.7	1.1
CINTAS CORP	$4,386,707,968	$3,707,746,048	$560,455,008	15.9	9.4	6.1	14.4	1.7	0.9
RR DONNELLEY & S	$4,021,126,912	$10,018,900,224	$1,252,600,000	12.5	10.2	5.7	-	6.0	0.9
DUN & BRADSTREET	$4,013,018,880	$1,676,600,000	$487,300,000	29.3	-	9.3	11.7	1.7	0.9
SNAP-ON INC	$3,500,594,944	$2,681,500,032	$404,100,000	15.1	13.9	8.7	12.8	2.2	1.0
RYDER SYSTEM INC	$2,547,038,976	$5,136,409,088	$1,155,189,024	22.5	8.3	3.8	14.1	2.0	1.0
AVERAGE	$19,674,630,950	$14,680,174,161	$2,245,768,234	17.4	20.2	10.2	15.0	1.8	1.0

Screening and Strategy

The screening and selection strategy for prospect companies within the industrials sector begins with the prospectus. As a fund, all managers and analysts must invest in companies that are either (a) within the Standard & Poor's 500 universe, or (b) have 'similar' trading volume and market capitalization characteristics. To quantify the later of these requirements, in order for a stock to be considered 'similar' it must be at or above the lower quartile of the Standard & Poor's 500 index in terms of the previously stated characteristics.

After identifying companies which align with the fund's prospectus, the next process is to screen the resulting companies based off a low Price to Earnings (P/E) ratio and a High Return on Equity (ROE) ratio. A low P/E target relative to a particular industry shows that a company may be possibly undervalued, given that earnings inflate the earnings per share (EPS) and thus lower the ratio (all other variable remaining constant). Though a good starting point, there's not too much emphasis placed on this portion of the screening process, as a low P/E does not necessarily justify that a stock is undervalued (could have low to no earnings growth or also could be in financial distress)

Return on Equity (ROE) is a good indicator of a company's future growth potential. A relatively high ROE, compared to similar companies or a particular industry, indicates that management is effective in using investor's capital to generate increased revenues. As with the P/E ratio, ROE is only used as a starting point in the screening process, as it can be manipulated by write-offs, stock buy-backs, and higher debt leveraging.

After using the P/E and ROE ratios to paint a picture of potential company's which may be undervalued and have positive growth outlooks, a discounted cash flow (DCF) and relative valuation is performed on the prospect companies to see whether they are truly undervalued in the market. This, combined with much qualitative analysis, is then implemented in either recommending a sell/buy/hold position to the other fund analysts and managers.

Potential Prospects

Based off the screening strategy noted above, alongside some preliminary qualitative analysis, the following represent prospects with the highest potential for this sector, sorted by preference of purchase.

Company Name	Market Capitalization	Total Revenue (LTM)	EBITDA (LTM)	EBITDA Margin % (LTM)	ROE	EV/EBITDA (FTM)	P/E (FTM)	Dividend Yield (%)	1 Year Beta
EATON CORP	$ 18,263,920,640	$ 13,715,000,064	$ 1,722,000,000	12.6	13.1	13.1	11.8	2.1	1.2
3M CO	$ 66,354,548,736	$ 27,023,000,064	$ 7,038,000,000	26.4	28.7	13.6	13.6	2.4	1.2

Eaton Corporation (NYSE:ETN):

Eaton provides power management solutions to industrial customers. The firm sells to both original equipment manufacturers and aftermarket consumers. More than 50% of its sales come from outside of the U.S. This gives the company the ability to capitalize on emerging markets, such as the growing auto market in China.

3M Company (NYSE:MMM):

3M is a diversified manufacturer with a global presence in over 60 countries. Its core business segments include: industrial and transportation, display and graphics, health care, consumer and office, electro and communications, and safety, security and protection. Recently 3M has had much acquisition activity, taking in companies like Cogent, Winterhur Technologies, Arizant, and Nida-Core.

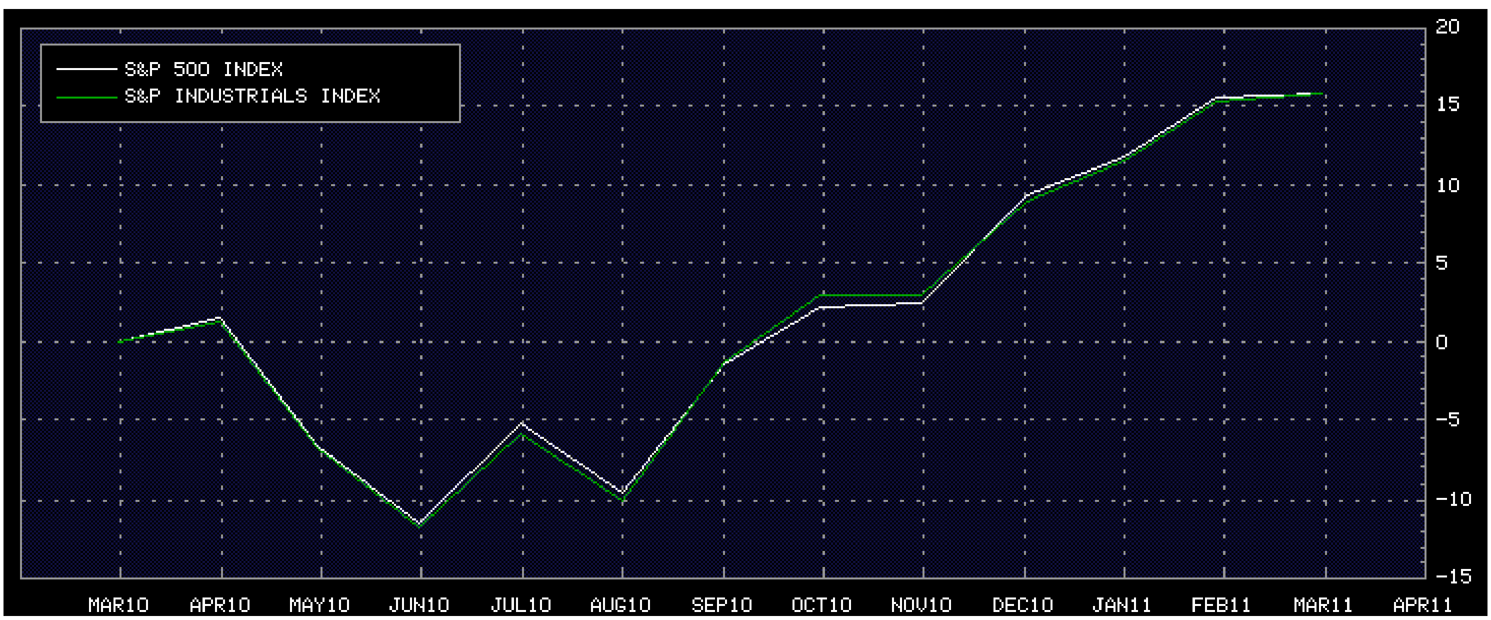
FORWARD STRATEGY FOR INDUSTRIALS

Currently, the industrials sector holds 5 companies within the fund. Going forward, it would be ideal to decrease this number to only 3 or 4 companies in order to capture a greater weight for our best stocks. This strategy better aligns with our funds emphasis on opportunity selection, as it allows for us to better capture the returns of our best potential stocks – leading to the best overall long-term returns.

DESCRIPTION OF THE INDUSTRIALS SECTOR

The Industrials sector is very broad and includes companies whose businesses are dominated by one of the following activities: the manufacture and distribution of capital goods (aerospace & defense, construction, engineering & building products, electrical equipment, industrial machinery;) the provision of professional and commercial services and supplies (printing, employment, environmental and office services;) and the provision of transportation services (airlines, couriers, marine, road & rail and transportation infrastructure.)

Comparative Returns
S&P 500 vs. S&P 500 Industrials
March 31, 2010 – September 31, 2011



Source: Bloomberg

Since March 31, 2010, both the S&P 500 and the Industrials Sector have seen consistent growth in returns (after some volatility between March and August of 2010). The sector as whole has been volatile in performance against the index, though in the past month it did outperform. While the sector's performance may slow in the coming year, there are reasons to believe it will continue to outperform in the long term. See the Strengths and Weaknesses discussion below.

Strengths and Weaknesses

STRENGTHS

Several key factors play into the strengths of the Industrials sector. Within an economy coming back from a period of recession, consumer discretionary spending alongside business spending is up. While many economists theorize that bottom line growth may not be as lofty as the gains many companies experienced in 2010, there will still be a period of growth for the next coming years. What this means for companies in the industrial sector is that businesses are ready to purchase necessary equipment which they may have furloughed. This means more business opportunities for companies that manufacture products such as engines, turbines, heavy industrial equipment, agricultural machinery, trucks, tractors, and other highly priced commodities.

Last year, Obama proposed a $500 billion dollar infrastructure bill which would focus on highways and a mass transit system with emphasis on the railroad industry, among other things. Being delayed for debate last year to health care reform, this proposal will surely be discussed in the coming months as congress begins to tackle the issue of the nations rising deficit.

Emerging markets, such as Brazil, Russia, India, and China, are primed to spend in the coming years. According to a research report by Merrill Lynch Global Research, emerging markets are expected to spend roughly $6.3 trillion on infrastructure projects over the next three years. China alone is expected to spend roughly $23 Billion on 23 new, major infrastructure projects, some of which began last year. This amount of spending will have obvious impacts on conglomerate companies within the industrials sector who specialize in building roads, transit power, and other various infrastructure needs.

With the recent earthquake and tsunami disasters in Japan, an opportunity is presented for industrial companies in the efforts for relief to the nation. Preliminary estimates show that the total damage to infrastructure, businesses, and houses is around 25 trillion yen or $309 billion. Rebuilding thus could directly benefit companies in the construction side of the industry – benefiting their bottom line profits.

WEAKNESSES

One of the biggest issues facing the industrial sector today is Congress's new focus on the national deficit. Avoiding the recent shutdown, Congress now is looking into which federally funded programs will be cut in order to reduce government spending in the coming years. One of the programs being held under the microscope is the Defense Department's spending. While proposals now have the Pentagon receiving $513 billion in 2011 – up from $508 billion in 2010 – for defense spending, this number is still considerably lower than what both the GOP and President wanted. If funding is continuously cut throughout the deficit negotiations, it could have an adverse impact on companies within the industrials sector which focus on defense and aerospace.

Aerospace companies within the industrials sector may also be exposed to other types of risk with the recent budget cuts. In 2010, President Obama cut the space shuttle program and canceled plans for a new spacecraft that would have returned humans to the moon. The emphasis is for NASA to turn space flights and the International Space Station over to private contractors, while focusing their remaining funding on research and development. While this may mean potential future contracts for privatized companies, it also means a loss of already established contracts to companies whom do business with NASA (L-3, Lockheed Martin, Raytheon, etc.).

Another issue facing the industrials sector is the rising costs of energy. Energy consumption is used within the industrials sector for a variety of means, including processing and assembly, space conditioning, and lighting. The industrial sector alone uses more energy than any other end-use sector, consuming about one-half of the world's total delivered energy – according to a recent report by the U.S. Energy Information Administration. This could pass increased costs to the end users, either negatively affecting industrial company's bottom line profits or decreasing their operating profit margins.

CHANGES WITHIN SECTOR FROM 3.31.2010 TO 3.31.2011

During the past year, the industrials sector has seen a significant amount of changes within the fund. Holdings in both Alliant and Emerson were sold off, as both reached their intrinsic values derived from the quantitative analysis (DCF and relative). Major buys within the sector include:

- 11/02/2010 – Illinois Tool Works(ITW) – 375 shares at $45.95/share
- 12/10/2010 – CSX Corporation (CSX) – 1000 shares at $45.95/share
- 03/22/2011 – General Electric (GE) – 1450 shares at $19.29/share

Though the fund initially purchased 1000 shares in CSX, we decreased our holdings to 550 shares in March of 2011 in order to transfer more funds into General Electric.

SUMMARY OF CURRENT HOLDINGS

General Electric Company (NYSE:GE)

Close Price (4.10.2011): $20.19
Total Shares Owned: 1450
Recommendation: Buy

General Electric (GE) is one of the largest companies in America which is divided into 5 different business segments, including Energy Infrastructure, Technology Infrastructure, NBC Universal, GE Capital and Home & Business Solutions. Incorporated in 1892, GE is headquartered in Fairfield, Connecticut. While U.S. operations account for a large portion of revenues, GE's has a significant global presence – having operations in over 100 foreign countries.

While being impacted by the recent economic recession – with revenues dropping 23.5% over the past few years – and with most analyst forecasting around a 5% loss for the coming fiscal year, GE shows promise in the future as a long-term buy. Currently undervalued, especially with the current Japan crisis having an adverse affect on stock price, GE should build revenues by nearly 15% (given a 5% decrease in 2011) over the coming 5 year – restoring them to historical high's. Much of this growth can be attributed to GE's sell-off of their unprofitable Security business segment (to United Technologies) and with their recent acquisitions of Dresser Inc. (Energy) and Wellstream PLC (Oil & Gas).

Due to these factors, as well as future federal funding in infrastructure and a general consensus that the market is on the rebound from the recession, I believe GE would be a worthwhile investment to add to our portfolio.

CSX Corporation (NYSE:CSX)

Close Price (4.10.2011): $76.92
Total Shares Owned: 550
Recommendation: Hold

CSX Corporation, together with its subsidiaries, provides rail-based transportation services in North America. The company offers traditional rail service, and the transport of intermodal containers and trailers. It provides integrated intermodal transportation services linking customers to railroads, through trucks and terminals. The company also engages in the real estate sale, leasing, acquisition, and management and development activities. As of December 25, 2009, it operated approximately 21,000 route mile rail network and 216,000 freight car fleet in 23 states east of the Mississippi River, the District of Columbia, and the Canadian provinces of Ontario and Quebec.

Total revenues for CSX topped at $11.26 million in 2010, up nearly 20% over the previous year. This, coupled with the fact that efficiency has increased with the operating ratio dropping 3.8% from the previous year, means overall more income to CSX. While management has done an effective job, the heavy investment in infrastructure (discussed earlier) should help to drive both volume and efficiency. Given these conditions, CSX has good prospects going into the future as a long-term buy.

FedEx Corporation (NYSE:FDX)

Close Price (9.30.2010): $91.16
Total Shares Owned: 450
Recommendation: Hold

FedEx is the world's largest express-delivery company and earns more than 60% of its revenue from its express division. The firm's 2 other segments, ground and freight, allow FedEx to exploit its competitive advantage in parcel delivery as it can handle most types of shipping. The strength of the space's barrier to entry allows for few competitors, including the withdrawal of DHL, allowing FedEx the opportunity to be a greater part of their clients' operations. Additionally, FedEx Office provides document production technology, internet access, Web-based printing, and shipping services to customers from brick-and-mortar stores.

Operating income almost tripled from 2009's $747mm to an impressive $1,998mm in 2010 and the operating margin increased from 2.1% to 5.75%. Next year, FedEx is planning on combining two of its freight segments and projects the new structure will require 100 fewer facilities and 1,700 fewer employees. More than likely, this move will serve to increase efficiency and lower costs in the long run but I don't believe it will provide any short-term gains

Illinois Tool Works, Inc. (NYSE: ITW)

Close Price (9.30.2010): $54.33
Total Shares Owned: 750
Recommendation: Hold

Illinois Tool Works, Inc. is an incredibly diversified industrial operator, serving end market users from automotive (10 percent of revenues) to food service (15 percent of revenues.) For almost 30 years, the company has operated under the principle that 80 percent of its business comes from 20 percent of its customers. This principle is applied to every aspect of the firm's dealings and allows it to manage its most profitable customers and segments much more efficiently than the typical "big business." The 80/20 rule dictates that ITW remains small at the business-unit level, keeping close to its customers. The belief is that any benefits that come from being a large firm (economies of scale, proportion of costs, etc.) is lost in bureaucracy and poor decisions that come from being too far away from where the real action is. As such, corporate tends to stay out of the way and allow operating units the freedom and power to make key decisions at the business-unit level.

With roughly 840 operating units spanning 57 countries, Illinois Tool Works reported $11.7 billion in revenues, led by the power systems and electronics segment, through September 30, 2010. This number represents a 14 percent increase in sales over the same ending period in 2009. Additionally, operating margins were up 600 basis points to 15.2 percent as of September 30, 2010. ITW's Price/Earnings ratio of 15x was below the industry average of 18x and, on average, ITW has traded near 25x over the past 15 years.

Jacobs Engineering Group, Inc. (NYSE: JEC)
Close Price (9.30.2010): $50.59
Total Shares Owned: 350
Recommendation: Hold

Jacobs Engineering is a major engineering and construction company. The firm provides a broad range of technical, professional, and construction services to a large number of industrial, commercial, and governmental clients around the world. Most of the firm's $11 billion in revenue comes from the oil and gas industry, the chemical industry, and various governmental agencies. With over 160 offices in 20 countries across the globe, Jacobs' international presence is far-reaching. However, the company prides itself on sustaining a single culture by adhering to its three core values: being a relationship-based company, growth is an imperative, people are their greatest asset.

For the nine months ending July 2, 2010, revenues were down 15 percent from the same time period in 2009. Operating profits were down almost 44 percent for the same time period. The firm has a 21.6 P/E (LTM) which is higher than both the industry average (19.3) and the S&P 500 average (15.4). Coupled with the firm's lowered revenue, this high P/E is something to keep an eye on as we move forward. As other value opportunities come to light, this stock should be reevaluated more closely or placed on our sell list.

CONCLUSION AND RECOMMENDATION

Though the industrials sector has been relatively performing in-line with the S&P 500 index, I believe that it will outperform the index as whole for the near future. Increased spending in infrastructure, as well as the continued growth of the BRIC countries abroad, will increase revenues for companies with operations both domestically and abroad. While I believe that growth will not be as booming as the past 2 quarters, I remain optimistic that growth will continue at a more gradual pace for the rest of 2011.

INFORMATION TECHNOLOGY SECTOR REPORT

By Mike Krzan, Eric Nicolas, Bob Sunleaf

Sector Allocation Recommendation:	**Overweight**
Sector Weight in Portfolio as of 3.31.2011	**25.1%**
Sector Weight in Benchmark as of 3.31.2011	**18.5%**
Benchmark Weight ± 50%	**9.2% - 27.8%**
Sector Stocks in Portfolio	**7**
Sector Stocks in Benchmark	**75**
Portfolio Sector Beta	**0.98**
Benchmark Sector Beta	**1.01**

SUMMARY

Holdings

As of March 31st, 2011 the fund owned the following information technology stocks:

XSEIF INFORMATION TECHNOLOGY HOLDINGS

Name	Percentage of Total Portfolio	Percentage of IT Stocks in Portfolio	Market Cap	Beta	Total Return 3/2010-3/2011
APPLE INC	4.87%	19.39%	$308,683,407,360	1.01	39.6%
COGNIZANT TECH	4.84%	19.25%	$ 24,416,280,576	1.15	57.7%
VISA INC	4.81%	19.15%	$ 54,657,409,024	0.94	-15.5%
MICROSOFT CORP	3.73%	14.83%	$219,050,098,688	0.92	-10.9%
GOOGLE INC	2.46%	9.80%	$186,304,593,920	1.03	1.9%
QUALCOMM INC	2.30%	9.15%	$ 88,154,103,808	0.92	28.7%
INTEL CORP	2.12%	8.42%	$109,869,801,472	1.00	-7.5%

RELATIVE ANALYSIS

The following list represents the 75 Companies in the Information Technology Sector of the S&P 500, sorted by market capitalization. Current holdings are shaded.

Name	Market Cap	Beta	Total Return 3/2010-3/2011	EBITDA Margin	P/E	P/CF	EPS T12M
ADOBE SYS INC	$ 17,236,469,760	1.07	-2.3%	34.4%	20.7	13.6	1.72
ADV MICRO DEVICE	$ 5,803,894,784	1.44	-10.1%	14.3%	26.5		0.65
AKAMAI TECHNOLOGY	$ 7,001,793,024	1.10	14.6%	38.8%	41.5	20.7	0.97
ALTERA CORP	$ 13,697,540,096	1.17	73.8%	45.5%	17.2	12.8	2.53
AMPHENOL CORP	$ 9,116,525,568	1.20	23.0%	22.6%	19.5	21.6	2.86
ANALOG DEVICES	$ 11,702,779,904	1.12	38.4%	37.6%	14.9	10.1	2.72
APPLE INC	$308,683,407,360	1.01	39.6%	29.8%	18.7	14.3	18.20
APPLIED MATERIAL	$ 20,200,130,560	1.13	17.3%	20.3%	13.9	9.6	1.02
AUTODESK INC	$ 9,730,229,248	1.35	37.6%	19.9%	45.5	17.1	0.93
AUTOMATIC DATA	$ 26,037,049,344	0.89	23.4%	23.9%	21.7	12.0	2.42
BMC SOFTWARE INC	$ 9,093,595,136	1.02	28.8%	35.8%	23.6	11.0	2.50
BROADCOM CORP	$ 21,494,130,688	1.25	19.4%	18.9%	19.3	16.4	2.12
CA INC	$ 12,266,770,432	1.06	6.0%	36.8%	16.8	8.9	1.44
CISCO SYSTEMS	$ 97,569,112,064	1.04	-32.6%	28.0%	13.3	13.0	1.33
CITRIX SYSTEMS	$ 13,774,990,336	1.08	56.1%	24.5%	49.6	20.6	1.48
COGNIZANT TECH	$ 24,416,280,576	1.15	57.7%	21.2%	33.9	28.8	2.44
COMPUTER SCIENCE	$ 7,684,719,104	1.06	-6.3%	14.9%	9.4	5.0	5.38
COMPUWARE CORP	$ 2,439,174,912	1.15	31.2%	20.6%	25.9	8.6	0.51
CORNING INC	$ 30,658,260,992	1.19	-0.1%	34.3%	9.5	7.8	2.28
DELL INC	$ 27,781,339,136	1.07	-7.6%	7.2%	10.3	6.4	1.35
EBAY INC	$ 40,406,278,144	1.02	17.7%	31.0%	22.5	13.2	1.38
ELECTRONIC ARTS	$ 6,639,520,768	1.06	3.491402	-9.6%		39.9	-1.20
EMC CORP/MASS	$ 54,052,360,192	1.04	42.0%	23.1%	27.4	10.4	0.92
F5 NETWORKS	$ 7,685,543,936	1.27	48.9%	28.8%	43.5	26.4	2.22
FIDELITY NATIONA	$ 9,929,676,800	0.77	35.9%	29.9%	21.3	8.8	1.19
FIRST SOLAR INC	$ 12,654,059,520	1.17	16.7%	35.3%	18.8	15.7	7.82
FISERV INC	$ 9,109,367,808	0.95	21.7%	32.6%	18.1	8.7	3.29
FLIR SYSTEMS	$ 5,373,532,160	1.03	17.1%	30.5%	21.6	18.2	1.59
GOOGLE INC	$186,304,593,920	1.03	1.9%	40.2%	22.0	17.1	26.68
HARRIS CORP	$ 6,499,041,792	1.16	7.1%	20.7%	10.1	6.6	4.91
HEWLETT-PACKARD	$ 88,072,003,584	0.95	-23.5%	14.1%	9.4	8.2	4.02
IBM	$200,064,892,928	0.86	31.0%	23.0%	14.2	9.5	11.75
INTEL CORP	$109,869,801,472	1.00	-7.5%	46.4%	9.9	6.9	2.06
INTUIT INC	$ 16,079,139,840	0.99	54.0%	32.4%	32.0	12.6	1.70
JABIL CIRCUIT	$ 4,324,376,064	1.56	20.5%	4.8%	13.4	5.1	1.27
JDS UNIPHASE	$ 4,408,885,760	1.58	46.4%	7.6%	386.0	17.8	0.07
JUNIPER NETWORKS	$ 20,498,210,816	1.17	22.5%	23.0%	36.2	23.7	1.18
KLA-TENCOR CORP	$ 7,307,566,080	1.31	44.1%	22.1%	13.6	10.6	3.03
LEXMARK INTL	$ 2,897,853,952	1.20	2.6%	15.4%	7.6	5.3	4.32
LINEAR TECH CORP	$ 7,572,537,856	1.10	20.3%	52.0%	14.9	13.4	2.20
LSI CORP	$ 4,084,315,904	1.31	7.6%	14.1%	39.0	10.4	0.06
MASTERCARD INC-A	$ 34,354,700,288	0.97	2.7%	52.4%	18.7	17.3	14.10
MEMC ELEC MAT	$ 2,834,477,056	1.35	-21.3%	8.0%	38.5	7.4	0.15
MICROCHIP TECH	$ 7,152,527,872	1.06	39.4%	35.5%	18.5	11.4	1.98
MICRON TECH	$ 11,039,989,760	1.61	4.6%	42.3%	10.7	2.0	1.64
MICROSOFT CORP	$219,050,098,688	0.92	-10.9%	42.9%	11.1	8.4	2.39
MOLEX INC	$ 4,022,210,048	1.27	19.8%	17.3%	15.6	12.7	1.25
MONSTER WORLDWIDE	$ 2,227,773,952	1.60	8.222645	2.7%		30.6	-0.27
MOTOROLA MOBILITY	$ 7,077,520,896			2.7%		14.1	
MOTOROLA SOLUTIO	$ 14,768,109,568	1.00	44.1%	7.1%	22.6	10.8	1.92
NATL SEMICONDUCTOR	$ 5,837,735,936	1.10	69.4%	31.0%	17.5	8.2	1.30
NETAPP INC	$ 17,212,729,344	1.25	34.3%	15.7%	29.6	12.1	1.75
NOVELL INC	$ 2,128,910,976	0.74	2.9%	14.5%	5.8	27.5	0.96
NOVELLUS SYS	$ 3,144,593,920	1.22	40.0%	25.3%	11.5	8.9	2.84
NVIDIA CORP	$ 10,379,070,464	1.31	4.0%	10.9%	27.4	20.2	0.43
ORACLE CORP	$169,729,703,936	0.99	30.8%	45.3%	20.5	13.0	1.53
PAYCHEX INC	$ 11,564,720,128	0.93	7.9%	40.5%	22.7	16.9	1.41
QUALCOMM INC	$ 88,154,103,808	0.92	28.7%	37.3%	22.2	18.0	2.20
RED HAT INC	$ 8,721,851,392	1.15	48.3%	21.3%	86.9	27.0	0.57
SAIC INC	$ 6,169,828,864	0.71	0.3%	9.6%	11.3	8.4	1.64
SALESFORCE.COM	$ 17,693,009,920	1.21	72.7%	15.3%	328.4	38.3	0.49
SANDISK CORP	$ 11,070,480,384	1.47	31.3%	35.0%	8.6	8.0	5.57
SYMANTEC CORP	$ 13,898,770,432	1.03	9.2%	29.9%	20.7	8.0	0.77
TELLABS INC	$ 1,882,432,000	1.14	-33.5%	15.9%	13.0	8.9	0.41
TERADATA CORP	$ 8,473,121,792	1.05	77.3%	24.5%	28.4	16.7	1.80
TERADYNE INC	$ 3,326,971,904	1.52	60.8%	32.1%	10.4	4.5	2.10
TEXAS INSTRUMENT	$ 41,221,050,368	1.02	44.8%	38.1%	13.7	10.2	2.66
TOTAL SYS SERVS	$ 3,556,801,024	1.03	16.3%	27.5%	18.4	7.7	0.98
VERISIGN INC	$ 6,318,810,112	0.89	49.0%	46.5%	63.9	27.0	4.76

SECTOR OUTLOOK

Overall, the information technology sector as a whole is undervalued and offers a substantial risk to reward opportunities, due to its 1) substantial cash balance 2) historically low price to earnings multiple 3) strong global leverage and 4) expanding avenues of business due to the evolution of "the cloud".

Substantial Cash Balances in the Information Technology Sector

On average companies in the IT sector have a net cash balance equal to 8% of their total market cap and generate annual free cash flow of 7%. Historically the tech sector has needed extra liquidity in order to keep up with the pace of the rapid evolution of technological advancements. This has raised concern amongst investors in considering if the mature companies of the sector have reached growth rates that are to complacent and slow moving. However, these high amounts of liquidity throughout the sector has allowed for companies to be extremely resistant to downturns in the recent economy. We are extremely excited about the large cash balance being coupled with the expectations of an expansionary market because now the once recession resistant mature companies in the sector will have the options of proceeding into M&A in a move to expand in innovation outlets, or increase or institute dividends and make share repurchases. One example of how the IT sector is capitalizing on these funds can be seen in the recent acquisition of National Semiconductor by Texas Instruments for $6.5 billion dollars. TI has a reputation for being a fiscally conservative company which is allowing them an opportunity to capitalize on their zero debt and large cash reserves as they prepare to supply a recovering recession's growing demand.

The Information Technology Sector is Undervalued.

The technology sector as a whole is trading at an average of 40% below its historical Price to Earnings this is in addition to being well under its historical 25% premium to the market. All of this is despite the fact that IT was the only cyclical sector to be able to increase earnings during the recent recession. We feel that this allows for a stereotypical growth sector to be evaluated and purchased at value prices.

Information Technology is Best Suited to Capitalize on Global Growth.

The technology sector has roughly 60% of its total revenues coming in from overseas operations. This is the most out of any sector and almost double the foreign exposure of the S&P 500. This heightened exposure in addition to the substantial cash balance is one of the major reasons that the tech sector was able to maintain positive growth throughout the recession. The sector was able to take advantage of rapidly emerging markets and correctly expose themselves to expansions in already matured foreign markets. One criticism is that the over exposure of the sector may be seen as a heavy risk due to the uncertainty of foreign affairs. However the overall forecast amongst economists is that foreign economies will grow almost two-thirds faster than the US economy in 2011. This will be lead by strong emerging markets growth. If this proves to be true the overexposure will help to support the IT sector in creating a strong edge over the other sectors.

Source: Bank of America Merrill Lynch *Time for an Extra Tech Boost, Sticking with Strength*

The Year of The Cloud

In the ever expanding and rapidly changing Information Technology sector, one innovation that is predicted to be a leading player in both small and large companies is the idea of the cloud. The cloud or cloud computing is the ability for users to access programs and services through a web browser without the need to install it on their personal computer. The new innovation of the cloud will affect all aspects of the IT sector due to the need for new products in the software, hardware, networking and internet subsectors. It is estimated that in total this opportunity will lead to over $113 billion in new revenue most specifically identified in the cloud segments of: applications as a service ($48 billion), platforms as a service ($26 billion), and infrastructure as a service ($39 billion). Over the past three years, 2008-2010, many major companies such as Google, Amazon and Microsoft have been developing their cloud platforms. However, because of the recession these companies needed to internalize earnings and thus they had a lack of cash to unleash a full-fledged roll out of their cloud products. Also contributing to this problem was the lack of M&A as well as an inadequate infrastructure. Of those that have unveiled their cloud products (Salesforce.com and Rackspace) a substantial increase in revenue has followed (27% and 24% respectively). Now that there are positive forecasts to the future of the economy the major companies are planning to use their excess cash reserves to finish production and roll out their cloud devices. The mature companies who are able to beat the others to market, as well as have plays in all three subsectors, will have a strong upper hand in gaining revenue before the market becomes saturated in the late year. At this moment we feel that the companies that are best posed to do this are Microsoft and Google. However as we continue to monitor who these initial strong players are in the cloud market place, it is important to note who the key players are in the three subsectors of the cloud.

Applications

The application subsector of the cloud deals with the on demand subscription based service in which software is hosted by vendors and accessed by customers through the internet. It is important to note the difference between traditional application and cloud application software. In dealing with the cloud the software or SaaS is never truly purchased or physically held by the consumer. It is subscribed to and accessed by the consumer. Key players in the application subsector are Salesfore.com, Intuit, Adobe, Facebook, McAfee, Google Apps, and Microsoft (Office Live).

Platform

The platform subsector was derived by necessity due to the explosive application subsector. Cloud platforms give developers the opportunity to expand their range of applications through the ability to provide third party partners and customers the forum to create for themselves. A good example can be seen in the Apple and Android platforms in which there is an entire community of developers that have helped to produce over 300,000 and 100,000 applications respectively. Key players in the platform subsector are Salesforce.com (Force.com), Google (App Engine), Microsoft (Windows Live), Intuit (IPP), and Adobe (AIR).

Infrastructure

The infrastructure subsector of the cloud is where vendors are able to provide the physical capacity for cloud computing. This can include hosting and/or developing storage. Leaders in this subsector will be the ones who can provide the users with a whole host of applications and not burden them with infrastructure and software. As this is the largest and most intensive portion of the cloud the companies who will be able to provide this service are going to be the largest market players such as Google, Microsoft (Azure), Amazon (EC2, S3), and IBM (Blue Cloud).

Source: Bank of America Merrill Lynch *2011 The Year Ahead-It's The Year of the Cloud*

In looking towards the future of the Information Technology sector it is going to be important to keep in mind the factors of the international economy (especially emerging markets), which companies take full advantage of their substantial cash positions, and monitor those best suited to capitalize on the cloud. We believe that due to the innovation of the cloud affecting every corner of the IT sector this will be the story to watch for and that IT should highly consider its effect on future investments.

Recent Changes and Future Plans

Since the semi-annual report, the IT sector analysts have spent a vast majority of their time reevaluating the current holdings of the portfolio. IT makes up the largest portion of the portfolio with a 25% weighting and 4 stocks that individually have a 3.5% weighting. Considering the size of this sector, the analysts allocate a large portion of their time on evaluating current holdings at a deeper level. Fortunately, after valuing the IT stocks in the portfolio, most were given a BUY or HOLD rating. Most trades in this sector over the past 6 months have been to rebalance the portfolio rather than replace stocks. The following trades were made since the semi-annual report:

1. Rebalance share in Apple: To lock in gains realized over the past year and reduce the company risk associated with a 7.5% weighting in one stock, the fund reduced the weighting in Apple to 4.5%.
2. Rebalance share in Visa: Based off of a positive valuation, the fund found Visa undervalued and decided to double its position to capture future gains.
3. Rebalance share in Qualcomm: The fund increased its position in Qualcomm after valuing the company and finding it to be undervalued.
4. Liquidate share of Activision Blizzard: One of two stocks that was found to be overvalued. The funds from the sale were used to rebalance Visa and Qualcomm.
5. Liquidate share of Salesforce: After being a top performer over the last year, this company was found to be overvalued and liquidated by the fund.

With an investment thesis, DCF model, and relative valuation created for all current holdings, the IT sector analysts are set to complete more intensive research regarding the outlook of the IT subsectors. The IT subsectors are as follows:

1. Semiconductors and Semiconductor Equipment (2.46% of S&P)
   Manufacturers of semiconductors, semiconductor equipment, and related products
2. Technology Hardware and Equipment (6.90% of S&P)
   Distributors of technology hardware and equipment. Includes distributors of communications equipment, computers & peripherals, semiconductors, and electronic equipment and components
3. Software and Services (8.63% of S&P)
   Companies developing and marketing internet software and/or providing internet services including online databases and interactive services, web address registration services, database construction and internet design services. Excludes companies classified in the Internet Retail GICS Sub-Industry

By conducting more analysis of the outlook of each subsector, the IT sector analysts will have a better ability to make growth rate and EBIT margin assumptions within the DCF models used to value individual stocks. For example, a semiconductor company and a software company could be undervalued by the same percentage based on intrinsic values from an initial DCF model. However, if the IT analysts believe that the software subsector has more growth potential, primarily based on the minimal capital investment needed for operations, the software company would receive the BUY recommendation. Overall, the fund has recognized the great variety of companies in the IT sector. Because this sector makes up such a large portion of the portfolio, the fund believes it is necessary to make an allocation recommendation based off of subsector outlooks. Based on initial analysis, the fund sees opportunities in the following areas:

Software

Last year the software industry saw an underinvestment by software companies. To make up for last year, many software companies have increased their Sales and Marketing spending by an estimated 20% year over year. These sales and marketing investments are estimated to take 6 to 12 months to take full effect.

Most likely in preparation for cloud implementation, several software companies have introduced subscription pricing for their products. Adobe has done just this with the release of *Creative Suite 5.5*. The benefits to this model are constant revenue streams as well as a way for customers to constantly update their product to the newest available. Long term this will help companies easily spread market share as only their best products are being used.
Security software is one product line that is seeing strong demand. Recent security breaches at companies such as Epsilon Marketing is further pressuring an emphasis on security. The implementation of cloud computing will also pressure an increase in network security as more and more data is pushed through the internet.

Lastly, cloud computing will have a huge impact on the software industry. As more and more consumers are interested in the cloud platform, software companies will need to revamp their software to run efficiently and effectively on the cloud platform. This will most likely lead to a situation where software items such as Microsoft Word can be purchased and installed on a computer or you can purchase a subscription to Word that will be implemented on the cloud. One thing that is for sure is that it will be an exciting year for software as the industry shifts from their traditional purchase and install to software subscriptions, cloud computing, and tablet or smart phone platforms.

Semiconductors

The outlook for semiconductors is positive for the next 12 months. Orders will remain strong for the foreseeable future as large customers have plans to increase spending by 73% this year. Analysts project modest 14% growth in 2011 compared to industry sales more than doubling in 2010. Semiconductor revenue is expected to rise in the coming quarters, reflecting the emergence of new products as well as improving demand for devices such as computers and handsets. The biggest growth catalyst for the industry in the near term is an increase in foundry, logic and flash memory spending. Based on our positive outlook for the industry over the next several quarters, our earnings outlook, and current multiples, the shares of most semiconductor equipment manufacturers are attractively valued. The S&P Semiconductor Equipment Index increased 8.7% year to date through March 18, versus a rise of 1.9% for the S&P 1500. In 2010, this index gained 9.9%, versus a 14.2% rise for the 1500. Therefore, the fund recommends an overweight rating to the semiconductors subsector.

Hardware

As IT demand increases, software improves, and infrastructure is expanded the area of hardware must keep up. New servers are required to run the advanced software being implemented in the areas of business intelligence and energy efficiency. However, hardware for personal computers and notebooks will continue to see a downtrend as the markets become more interested in the power of smart phones and tablets. The second half of 2010 saw a growth rate of 5% in the notebook market compared to a growth rate of 40% in the beginning of 2010. This demonstrates a fundamental shift to newer technologies.

The idea of convergence between a PC and a mobile phone has been the topic of discussion for many years. With the invention of the iPhone and iPad people were able to see how this convergence could start to play out. Now, as cloud computing begins to really ramp up, the convergence between the PC and a mobile phone is a reality. In relation to hardware, this will mean that people need less sophisticated hardware on the user end, but more sophisticated hardware server side.

Unlike software, hardware requires larger capital investment and is thus seen as more risky. If companies decide to invest in the hardware expansion there is a risk that it will not sell, or that sales will not meet estimates. This could pose a substantial financial setback to a company who invested the capital. Software is much easier to scale up or down in production to meet demand and thus poses less risk in a risky sales environment. Because of this fact and the downtrend in the historically strong PC and notebook environment, hardware receives an underweight recommendation.

MATERIALS SECTOR REPORT

By Joe Bauer

Sector Allocation Recommendation:	**Overweight**
Current Sector Weight in Portfolio	**5.31%**
Current Sector Weight in Benchmark	**3.65%**
Benchmark Weight ± 50%	**1.82% - 5.47%**
Sector Stocks in Portfolio	**3**
Sector Stocks in Benchmark	**30**
Portfolio Sector Beta	**1.26**
Benchmark Sector Beta	**1.30**

SECTOR SUMMARY

With high sensitivity to changes in the business cycle and close expected correlation with the economic recovery, the materials sector is poised to outperform the other market sectors, assuming that the recovery from the Great Recession continues and that a double dip recession is avoided.

However, it is the position of our fund that while a double dip recession will be avoided, the recovery and growth over the next few years will be somewhat sideways, and not a heroic short term emergence where huge gains could be captured in the materials sector. The strategy of overweighting the materials sector with high beta companies must be avoided, and there must be an in depth analysis of how each security relates and correlates to this economic recovery. The companies in the materials industry are involved with the discovery, development and processing of raw materials. So, the sector is sensitive to the price of these raw materials, and the supply and demand of each of them, such as gold, silver, aluminum and other metals that have prices that are mainly driven by demand. This demand will be primarily driven by the cyclical auto and construction industries. Aside from the demand of these two industries, the most important market condition factors for the materials sector are new manufacturing technology, consolidation, and foreign competition and imports.

SECTOR HOLDINGS ANALYSIS

The D'Artagnan Capital Fund currently holds 3 stocks in the material sector. These stocks are Alcoa Inc., Praxair Inc., and Sigma-Aldrich Corporation. Compared to the S&P 500, our fund is currently overweighted in the materials sector, and is fairly close to the upper limit of what we are permitted to allocate to the sector, sitting less than .20% shy of being out of compliance with our prospectus guidelines. Below is a brief summary of each of our holdings.

Alcoa Inc

Current Price: $17.92 Shares Held: 2300 Percentage of Portfolio: 2.88%
RECOMMENDATION: Hold/Buy

Alcoa is one of the world's largest producers of aluminum, and has a much diversified customer clientele. They're presence in emerging markets is particularly attractive given that their profits are so closely tied to the cyclical construction phases of the regions that their customers occupy.

The increased demand for Alcoa's products is likely to keep momentum into the next year, as the slow global recovery should support the rise in aluminum prices. There is substantial risk in the company, given its extreme sensitivity to aluminum prices. However, aluminum appears poised to do well if not at least remain constant given that it is strong, lightweight, and environmentally beneficial. It also stands to benefit from the emerging middle classes in China, Brazil, and India.

A favorable outlook for this company's commodity, combined with their volatility appearing to have much more upside potential than the slight risk of a drop off makes Alcoa a good holding for our fund, and a potential prospect to extend allocation to.

Praxair Inc

Current Price: $102.29 Shares Held: 150 Percentage of Portfolio: 1.07%
RECOMMENDATION: Sell

While their short term outlook appears favorable, Praxair has probably appreciated beyond its intrinsic value. The benefit that this industrial gas company should receive in 2011 from the rebounding electronics, manufacturing, and energy sectors might be looked at over optimistically by the market.

With over half of their top line coming from North America, and a significant portion of their international exposure being in Europe, they might not stand to capture the gains of emerging markets as much as some of the other companies in this sector. While the market appears to view Praxair as a fairly less risky company than its peers, the large amount of debt that makes up there capital structure should probably push them at least toward the median, and isn't mitigated by the large amount of cash they keep on hand.

Sigma-Aldrich Corporation

Current Price: $64.89 Shares Held: 300 Percentage of Portfolio: 1.36%
RECOMMENDATION: Hold/Buy

Coming off of their highest ever sales report in the last quarter, the company has either established itself as a big player in the materials and chemicals industry, or has simply seen some short term above average gains during the recovery of manufacturing and innovation.

Given the nature of their customers, Sigma-Aldrich appears poised to remain at their high level of revenues for the foreseeable future. With clientele such as universities, hospitals, health facilities, and government agencies, they should be able to continue on at their company best sales records of the past period.

The chemicals, biochemicals, and equipment sold by this company are used in scientific research, such as pharmaceutical development and the diagnosis of disease. These two government funded markets are unlikely to be at risk if there is a severe cut of even drop-off in government spending over the next several years.

SCREENING PROCESS

Below is the screening process I utilize when analyzing our holdings, potential companies I am analyzing, and the entire GICS Materials sector as a whole. GICS stands for Global Industrial Classification Standards, and there are currently 30 companies within this category in the materials industry.

My screening process is closely related to my Relative Valuation Analysis. There are six pieces of data that I collect when running my screening process. First is the Market Capitalization of the company, which simply gauges the size of the firm in terms of the market value of its equity in comparison to its peers. Next are the market ratios of Price to Earnings and Enterprise Value to Earnings before interest, taxes, depreciation and amortization. I look at these to see how the market perceives the price and value of the firm in comparison to the other companies. These two ratios are driven by three main factors, and the final three data points I analyze are how I operationalize these three drivers.

- The first driver is risk, which I analyze with the beta of the company. This beta is calculated by taking weekly data over the past two years and seeing the price's correlation with the market, and then moving that beta closer to one under the assumption that all companies will approach correlation to the market over time. All else equal, the lower the risk, the higher the ratios.

- The second driver is growth, which I analyze with a growth percentage over the next three years. This percentage is calculated by taking the Bloomberg analysts' best estimate of EPS in 3 years, divided by the current EPS of the company. However, if there is considerable noise in the current EPS, I will use the EPS estimate of next year and analyze a 2 year growth percentage between one forward year and the third forward year. This gives me insight into how the market perceives this company's growth potential in the short term. All else equal, the high the growth, the higher the ratios.

- The third driver is efficiency, which I analyze with the trailing 12 months earnings before interest and taxes margin. While there are many ways to operationalize efficiency, I feel that the EBIT margin shows the company's and its management's ability to turn revenue into shareholder value. While I do not place as much weight on the company's EBIT margin in comparison to its peers, I still feel that the margin gives me insight into the efficiency of the company and the capabilities of its management. All else equal, the higher the efficiency, the higher the ratios.

Relative Analysis of S&P 500 Materials Sector							
Ticker	Short Name	Market Cap	P/E	EV/EBITDA T12M	Beta	Estimate 3 yr EPS growth	EBIT Mrgn T12M
CURRENT HOLDINGS							
PX EQUITY	Praxair Inc	$ 31,025.47	21.580	11.933	0.849	129.6%	21.42%
AA EQUITY	Alcoa Inc	$ 19,043.39	33.811	11.163	1.563	128.1%	5.97%
SIAL EQUITY	Sigma-Aldrich Corp	$ 7,895.17	19.642	11.652	0.954	117.7%	25.63%
HIGHEST POTENTIAL PROSPECTS							
MON EQUITY	Monsanto Co	$ 35,492.52	25.767	12.980	0.940	137.6%	18.39%
FMC EQUITY	FMC Corp	$ 6,092.02	17.607	9.746	1.047	132.1%	17.53%
IP EQUITY	International Paper Co	$ 13,073.94	15.333	6.083	1.515	123.7%	7.22%
OTHER COMPANIES IN SECTOR							
FCX EQUITY	Freeport-McMoRan Copper & Gold Inc	$ 54,168.09	9.128	5.614	1.810	97.4%	47.77%
DD EQUITY	EI du Pont de Nemours & Co	$ 51,058.52	16.737	12.498	1.191	121.0%	9.65%
DOW EQUITY	Dow Chemical Co/The	$ 45,193.44	19.455	10.988	1.740	161.5%	5.81%
NEM EQUITY	Newmont Mining Corp	$ 28,215.88	12.717	6.161	0.991	110.9%	43.74%
APD EQUITY	Air Products & Chemicals Inc	$ 19,774.77	17.492	9.837	1.006	119.0%	16.38%
PPG EQUITY	PPG Industries Inc	$ 15,310.56	18.405	9.580	1.165	117.6%	10.18%
NUE EQUITY	Nucor Corp	$ 14,670.67	105.500	16.133	1.255	163.5%	2.85%
CLF EQUITY	Cliffs Natural Resources Inc	$ 13,387.98	14.284	8.537	2.264	86.9%	26.88%
ECL EQUITY	Ecolab Inc	$ 11,986.88	23.312	10.836	0.754	130.5%	13.37%
CF EQUITY	CF Industries Holdings Inc	$ 9,877.62	15.497	8.774	0.832	70.8%	22.87%
SHW EQUITY	Sherwin-Williams Co/The	$ 9,113.46	19.140	11.159	0.804	126.7%	9.63%
X EQUITY	United States Steel Corp	$ 7,590.46		21.340	1.991	174.1%	-0.88%
EMN EQUITY	Eastman Chemical Co	$ 7,074.11	13.965	6.865	1.402	119.6%	15.25%
ATI EQUITY	Allegheny Technologies Inc	$ 6,277.61	69.130	21.405	1.671	171.8%	4.58%
BLL EQUITY	Ball Corp	$ 6,092.84	15.291	8.750	0.758	121.7%	9.88%
VMC EQUITY	Vulcan Materials Co	$ 5,807.58		24.345	1.350	-173.6%	-1.32%
ARG EQUITY	Airgas Inc	$ 5,638.90	21.129	10.618	0.731	134.1%	10.34%
MWV EQUITY	MeadWestvaco Corp	$ 5,381.10	21.007	7.700	1.232	115.2%	8.64%
IFF EQUITY	International Flavors & Fragrances Inc	$ 5,086.63	18.807	11.629	1.004	115.6%	16.26%
OI EQUITY	Owens-Illinois Inc	$ 4,824.70	10.755	5.734	1.346	129.6%	12.00%
SEE EQUITY	Sealed Air Corp	$ 4,172.21	16.576	7.060	1.102	123.0%	12.08%
BMS EQUITY	Bemis Co Inc	$ 3,469.27	15.288	7.679	0.971	125.6%	8.27%
TIE EQUITY	Titanium Metals Corp	$ 3,315.21	40.889	17.590	1.784	195.7%	14.09%
AKS EQUITY	AK Steel Holding Corp	$ 1,739.76		27.133	1.994	201.1%	-2.24%

	Market Cap	P/E	EV/EBITDA	Beta	Estimate 3 yr EPS growth	EBIT Mrgn T12M

Materials

	Market Cap	P/E	EV/EBITDA	Beta	Estimate 3 yr EPS growth	EBIT Mrgn T12M
Average	$ 15,061.69	24.009	11.717	1.267	120.9%	13.74%
Median	$ 8,504.32	18.405	10.727	1.178	124.7%	11.17%
High	$ 54,168.09	105.500	27.133	2.264	201.1%	47.77%
Low	$ 1,739.76	9.128	5.614	0.731	-173.6%	-2.24%

S&P 500

	Market Cap	P/E	EV/EBITDA	Beta	Estimate 3 yr EPS growth	EBIT Mrgn T12M
Average	$ 24,773.18	25.166	11.204	1.106	138.4%	16.70%
Median	$ 11,877.97	17.492	9.600	1.036	127.4%	15.54%
High	$426,191.50	934.625	75.903	2.536	3950.8%	57.59%
Low	$ 1,682.96	4.836	2.365	0.435	-1304.6%	-27.23%

Holdings Comparison

	Market Cap	P/E	EV/EBITDA	Beta	Estimate 3 yr EPS growth	EBIT Mrgn T12M
SP 500 Median	$ 11,877.97	17.492	9.600	1.036	127.4%	15.54%
Materials (GICS) Median	$ 8,504.32	18.405	10.727	1.178	124.7%	11.17%
Praxair Inc	$ 31,025.47	21.580	11.933	0.849	129.6%	21.42%
Alcoa Inc	$ 19,043.39	33.811	11.163	1.563	128.1%	5.97%
Sigma-Aldrich Corp	$ 7,895.17	19.642	11.652	0.954	117.7%	25.63%

An analysis of our holdings through the specified screening process shows that both the PE ratios and the EV/EBITDA ratios are higher for all three of our holdings than for the Materials GICS sector as a whole.

For Praxair, this appears to be justified by the low risk, and above average measures in growth and efficiency. For Alcoa, the only justifying driver for the larger ratios appears to be their above average growth prospect, since they appear to be underperforming the industry in terms of efficiency and risk. For Sigma-Aldrich, they appear to be outperforming in terms of low risk and high efficiency, but lagging behind in their three year growth potential.

This analysis is only a screening process, and is simply used to gauge some fundamentals of the company, as well as how they currently fit into their sector and among their peers. Qualitative analysis, demonstrated above, would be factored into these inputs, moving them up and down, and then re analyzed with the in depth qualitative analysis factored in.

For example, while Praxair appears to be the only company that has thoroughly justified ratios at this point, and therefore a justified value, they actually appear to have the least potential regarding the qualitative analysis done above.

SECTOR ANALYSIS

As the sector recovers in correlation with the economy as whole, as well as the global economies that these companies are present in, the increased margins that came about during the downturn should allow for magnified profits, at least over the next few years. Therefore, I believe this trend will benefit the sector only in the very near term, as the supply and demand of materials will level out over time, and that competitive advantage of the industry will cease to exist.

As seen in the graph below, this short term recovery has been priced into the stocks in this sector as the S&P 500 Materials Index has made a considerable rebound between July and the end of March of this year. However, much of this can be attributed to the equity markets as a whole, and not necessarily to the competitive edge of this sector in particular.

<u>S&P 500 Materials Index</u>

Comparative Returns against the S&P 500 Index

Graph from April 1, 2010 through March 31, 2011

While the sector as a whole may have passed the optimal time frame for investment, there are undoubtedly individual companies that are still poised to grow and have considerable upside potential. While these companies exist, there are also many individual companies that will be poised to fall assuming that all raw materials are not going to see price soars in the near future. So, the two main factors that must be considered in this industry are the raw materials that the specific companies are operating with, as well as the makeup of their clientele, which are also the different regions they are exposed to.

An individual metal that appears to have high upside is aluminum. In addition to the recovery and expansion of the construction and automotive industries, the metal has characteristics that appear to be beneficial in developing and innovative technologies. The low weight and strength of aluminum make it appealing to developing technologies, such as the future prospect of introducing prototypes of high speed rails. With a societal shift against environmentally damaging initiatives, the environmentally beneficial nature of aluminum positions it above other metals in that respect.

In contrast, the recent upswing of gold may have more than run its course. Historically, gold has benefitted from expectations of inflation, a fundamental of the metal that explains a lot of its recent upward movement. However, the high expectations of inflation in the US are probably

not going to be fulfilled, as the current administration in the Federal Reserve will be making all efforts to mitigate near and long term inflation as long as they hold their positions.
Regarding markets, international exposure does appear to have an edge over domestic for the time being. However, careful consideration must be taken as to how much a company will stand to gain from its presence in each market. For example, exposure to China and the Middle East should heavily out benefit a presence in Europe and the struggling economies in that part of the world. Also, while Brazil and Russia have typically been looked at optimistically as strong emerging markets, the nature of company's presences there must be considered. With less than ideal government structures in those countries, companies could stand to take large extraordinary losses from unexpected tax law as well as constantly changing legislative policies on the presence of foreign companies.

CHANGES MADE TO THE SECTOR

Over the period of April 1, 2010 to March 31, 2011, the following changes have been made to our position in the materials sector.
At the beginning of this annual period, our materials sector was made up of two holdings. These were Praxair Inc. and Sigma-Aldrich Corporation. In Praxair we held 150 shares at $83.82 per share, and in Sigma-Aldrich we held 300 shares at $54.58 per share. This made the materials sector 2.41% of our total portfolio on April 1, 2010. At that time, the materials sector of the S&P 500 had a weight of 4.94%, which gave us an underweight position.
Over the year period, our position moved from underweight relative to the benchmark to overweight.

On, October 27th, we added 2300 shares of Alcoa to our portfolio. These were bought at $12.74 per share (1100 were bought at $12.73).
This purchase, along with the outperformance of our holdings in Praxair and Sigma-Aldrich over the benchmark sector, moved our portfolio into an overweight position relative to the benchmark.

In January 2011, a BUY recommendation was approved by the fund for International Paper. However, at that time we were at such an overweight position in materials, we could not make a purchase without going out of compliance. After examining the potential of the current holdings with that of International Paper, it was decided to leave the makeup of the materials sector as it had been, since the outperformance of the current holdings seemed more probable to continue than any big gains in a new International Paper position.
As of March 31, 2011, our weight in materials was 5.31% of our total portfolio, as compared to the benchmarks weight at that time of 3.65%. With a benchmark weight of 3.65%, our compliance allows us to have at most 5.47% invested in the sector. Therefore, we remain overweight in the materials sector, and fairly close to the upper limit of our compliance.

SECTOR RECOMMENDATION

The recommendation for an overweighted sector allocation is based on individual analysis of our current holdings, in combination with the prospects of the sector as a whole. While there are considerable opportunities in the materials sector in regards to the raw materials and markets, these are almost completely mitigated by the threats in those same areas. Therefore, regarding the sector as a whole, it is probably poised to perform on par with the entire S&P 500. However, given that we are currently overweighted in what are considerably strong companies that are still poised to experience price gains, an overweight allocation is an appropriate position to benefit our portfolio, using our opportunities approach.
Alcoa's advantage over its peers stems from its presence in aluminum, which increased with its acquisition of Alcan in 2007 to make it the world's largest aluminum producer. They should stand to benefit the most from the emergence of China and its middle class, as aluminum will be in high demand from the increased construction and housing. In addition, Sigma-Aldrich seems to be proving more and more that it is a solid company that consistently meets and beats its earnings expectations, and the nature of its customers make it considerably less risky than its peers.

Going forward, the fund will position itself optimally by continuing to implement our strategy of lowering our holdings and increasing our positions in what we feel are our best prospects. Regarding materials, this strategy will be best implemented by taking away the allocation to Praxair, and reallocating at least most of those resources to increase our positions in Alcoa and Sigma-Aldrich, for the reasons described above. While fundamental analysis of cash flows would still need to be done, Praxair appears to be somewhat even in terms of its opportunities and threats, and with its past tendencies of acquisitions, along with no expectations of that trend changing, could be exposed to more risk of a price drop at the announcement of its next take over.

While our current position in the materials industry is considerably close to the upper limit, it is my recommendation to keep an overweight position by implementing the strategies described above. The reasons I have given above prove that there is considerable upside to an overweight allocation in the sector and specifically our holdings in it, and therefore justify the recommendation at this time.

TELECOMMUNICATION SECTOR REPORT

By Eric Nicolas and Bob Sunleaf

Sector Allocation Recommendation:	**Overweight**
Current Sector Weight in Portfolio	**3.9%**
Current Sector Weight in Benchmark	**3.07**
Benchmark Weight ± 50%	**1.53% - 4.60%**
Sector Stocks in Portfolio	**3**
Sector Stocks in Benchmark	**8**
Portfolio Sector Beta	**.68**
Benchmark Sector Beta	**.64**

Summary

Below we will discuss an overall strategy and implementation plan that was used in screening and choosing securities to analyze in the telecommunication sector. In addition we will discuss an overall economic look of the telecommunication sector and identify key components in our SWOT analysis. Finally, we will conclude with the approach the fund should take moving forward in regards to the telecommunication sector.

Holdings in Telecommunication

Telecommunications Sector

Company	Revenue Growth	EBIT Margin	BETA	P/E	Price to Book	Market Cap
WINDSTREAM CORP	23.87	30.05	0.90	16.26	7.70	6,466,573,000
VERIZON COMMUNIC	(1.15)	13.74	0.53	16.90	2.77	107,042,500,000
SPRINT NEXTEL CO	0.94	(1.42)	0.88	-	0.99	14,551,780,000
QWEST COMMUNICAT	(4.72)	17.06	0.87	19.51	-	12,065,420,000
METROPCS COMMUNI	16.92	16.71	0.91	24.68	2.29	5,884,332,000
FRONTIER COMMUNI	79.31	23.94	0.75	16.47	1.54	8,019,788,000
CENTURYLINK INC	41.56	29.25	0.69	11.77	1.27	23,998,340,000
AT&T INC	1.44	15.75	0.64	14.12	1.62	181,185,400,000
AMERICAN TOWER-A	15.15	39.51	0.79	54.98	5.76	20,101,430,000
Sector Statistics						
Average	19.26	20.51	0.77	21.84	2.99	42,146,173,667
Median	15.15	17.06	0.79	16.68	1.96	14,551,780,000
Largest	79.31	39.51	0.91	54.98	7.70	181,185,400,000
Smallest	(4.72)	(1.42)	0.53	11.77	0.99	5,884,332,000
Holdings Statistics						
Average	37.30	19.04	0.72	33.38	4.34	93,534,866,000
Median	37.30	19.04	0.72	33.38	4.34	93,534,866,000
Largest	79.31	39.51	0.91	54.98	7.70	181,185,400,000
Smallest	(4.72)	(1.42)	0.53	11.77	0.99	5,884,332,000

*Highlighted indicates current holding

Screening

Due to the unique small size of the Telecommunications sector we were able to take an opportunistic view on our securities. We looked for the companies that had the largest footprint in the benchmark as well as a position in the fund and analyzed those securities first. After sorting out the companies with the largest market capitalization, we valued the rest of the sector securities based on their potential added value to the portfolio. We have also implemented a relative approach to the screening of securities to complement our discounted cash flow model. Upon completing valuation of the sector securities we will move into a screening strategy that will occur on a regular basis. This screening strategy will monitor the EBIT margins, revenue growth, and beta. Through this screening process we will be able to detect new opportunities that meet our high efficiency, high growth, low risk strategy.

Past and Future Sector Trends

The telecommunication sector has seen a correlation with its growth and returns to those of the macroeconomic climate. As the economy started its down-turn in 2008 the telecommunication witnessed a comparable drop. This drop was caused by a significant portion of the revenue in the sector coming from discretionary luxuries such as SMS (text services) and data. SMS accounted for 30% of sector revenue and data accounted for 20%. As macro economic conditions change consumers are more willing to increase or decrease these services within their contracts leading to market correlated rises and falls within the industry.

S&P 500 vs. Telecom Index

The above graph shows that over the past year, the telecommunication sector has massively outperformed the market. The S&P 500 Telecommunication index has outperformed the S&P

500 index by 8.4%. The outperformance can be attributed to strong economic trends, depressed valuations and wireless data growth.

A bright spot for the future of telecommunications is the promise of positive growth within the economy. United States gross domestic product (GDP) has witnessed five quarters of positive growth rates, and a steady decrease of the unemployment rate from its high of 10.6% on January 2010 to 8.8% in March 2011. The turnaround in the economy is aligning well with future changes in the telecommunication sector. The major players in the industry (AT&T, Verizon, and Sprint) are all making the move towards a 4g network. Sprint has already released their 4g network through WiMax.

In addition to strong growth, we also saw the acquisition of T-Mobile by AT&T. This will provide a huge boost for AT&T down the road as they benefit from T-Mobil's already existent 4G network, strong customer base, as well as a decrease in competition in the highly competitive data and wireless arena.

In summary, addition of new wireless and data adds driven by 4g as well as continual growth of smart phones and e-readers/tablets will increase the ARPU (average revenue per user) for providers of companies across the sector. In the end tower companies will see the most benefit as the explosion of data networks will bring a demand for infrastructure in future quarters.

Strengths and Opportunities

Strength in the telecommunication sector falls in the forward looking promise of an economic turn-around. The market on data subscribers is largely unsaturated at 20%. As the economy continues to grow and consumers have more disposable income, providers are beginning to provide the exciting capabilities of 4g which has begun to and will continue to attract consumers to add data plans to contracts. In addition it is expected that current data users, accounting for approximately 20% of users, will upgrade their plans thus increasing revenue. While we believe that the portfolio will be able to take advantage of these gains in data through overweighting the sector in the dominant companies such as AT&T and Verizon.

Another opportunity in the telecommunication sector is in companies such as American Towers, Crown Castle, and SBA Communications, which provides the infrastructure to the network companies. As network providers continue their 4g network three year roll out, they will inevitably need an increase in working capital expenditures as the need for network infrastructure such as towers increases. The portfolio can take advantage of this opportunity through continual investing in a mispriced tower company poised to benefit from the need for infrastructure to control the ever-growing network traffic that 4g will provide. Another opportunity in the infrastructure subsection of telecommunications is the capitalization of emerging markets. Currently there is a growing demand for communication in underdeveloped markets; however there is a lack of needed infrastructure in these markets to keep pace with the demand. There are roughly 19,800 tower sites in the United States. In comparison there are 2,600 sites in Mexico and 1,600 sites in Brazil. The company who is able to fully infiltrate the emerging markets first will gain a substantial opportunity in capturing market share and see overall greater growth in comparison to its competitors.

Weakness and Threats

While there is a lot of positive momentum in the telecommunications sector, there are several downside risks that must be taken into consideration. As it pertains to service providers, continued economic pressures could accelerate line losses and result in few subscribers or lower revenue per user (RPU). Another consideration is the ability of the big providers such as AT&T and Verizon to refinance their debt on favorable terms. Both companies have relied heavily on debt to finance their massive network upgrades and expansion. AT&T has also taken on a $20 billion unsecured loan from JP Morgan Chase to finance their $39 billion dollar acquisition of T-Mobile. There is also a risk of significant adverse regulatory changes that could impact revenues. For example, if there is regulation passed that restricts the amount a company can charge for early termination there could be lost fee revenue as well as a loss in revenue due to phone subsidies not being as effective. There is also a risk that AT&T's acquisition of T-Mobile could get rejected by the government in an anti-trust suit.

We also anticipated the threat to equipment and hardware providers in telecommunication when wireless providers consolidate. As demonstrated by AT&T and T-Mobile, as companies consolidate the overall assets of the parent company will expand and t here can be less demand for tower space and equipment. However, because of the push for 4G and high data volume networks, we believe the demand for AMT is still as strong despite the AT&T acquisition. The only difference is that AMT now has the assets such as property, leased land, and infrastructure to build out their network for AT&T. If further consolidating were to occur however, there could be lost opportunity for AMT. Equipment providers are also at risk of the economy because lower revenue at the service providers will lead to less capital expenditures and thus lower demand and revenue for equipment outside of the 4G upgrade. Lastly, companies such as American Towers need to be cautious of government regulation and the licensing agreements the government is able to strike for wireless spectrum space.

Changes to Telecommunication Sector
(April 1, 2010 – March 31, 2011)

Sector Weight in Portfolio (April 1, 2010):	0.56%
Sector Weight in Portfolio (March 31, 2011):	3.9%

Upon reviewing the portfolio on August 23, 2010 we found the telecommunications sector to be underweighted and out of compliance according to the guidelines established by the 2010-11 XSIF managers in conjunction with the XSIF prospectus. In response we purchased 200 shares of Verizon and 450 shares of AT&T. We decided based upon relative and DCF valuations that both stocks were currently holds with future expectations of capturing positive growth, providing a positive response to 4g and new hardware technology, i.e. the iPhone. Both stocks are market leaders in the industry with the largest market capitalization and are in an equally strong position to take advantage of future opportunities of an addition of a 4g network, improved smart phones, and e-reader/tablets. These opportunities will increase the ARPU (average revenue per user) for the respective companies, drive growth, and bring positive future earnings. Since these purchases, we have also benefited from AT&T's acquisition of T-Mobile. We believe this will increase margins and help earnings long term as AT&T absorbs T-Mobile's 4G assets and customer base. This will also provide AT&T an advantage in rolling out 4G on a large scale. The increase in assets from T-Mobile will also help AT&T as they strive to meet the large data demands of its increasing high data users. We believe that having a network that can handle data without slowing down, exorbitant pricing or unreliability will be a major advantage moving forward. We also sold our 24 share position in Frontier Communication with a market value of around $150.

In regards to telecommunication equipment, we purchased 500 shares of American Towers at a market value of $26,000 on December 7, 2010. This created a 1.8% stake of AMT in our portfolio as of the purchase date. We believe that AMT will play an important role in the transition to 4G for all carriers and will further benefit as consumers demand a more data intensive network.

In choosing to buy 200 shares of Verizon, 450 shares of AT&T, and 500 shares of American Towers, we raised the telecommunication sector weight into the range of compliance while overrating the sector compared to the benchmark.

Future Plans

As the telecommunication sector moves forward, there are short term changes that we feel need to be made. The first change that needs to be made is a rebalancing of current holdings. In reviewing Verizon wireless we feel that the market has realized the under pricing and investors have pushed the price up to its upper limit of intrinsic value. The initial assumptions of competitive advantage, strong 4g rollout plan, and acquisition of the iPhone have all come and passed an as a result a 18.75% increase in the stock price has been realized. We plan to sell off our position in Verizon in order to capture these gains and in turn increase the position in American Towers. American Towers continues to prove itself to be a strong and well managed company. In addition they are the subsector leaders in perusing the opportunity of moving into the unsaturated emerging markets. With the recent fall in price due to the markets overreaction to the possible AT&T/T-Mobile acquisition we feel that the already undervalued company became even more undervalued. Furthermore, in placing a larger percentage of the portfolio in American Towers we stay true to our bottom-up opportunities approach as discussed in the screening sector of this report. It will be important in the future to continually watch the AT&T acquisition in order to continually value its effect on our valuation, as well as continue to screen the other 6 possible equities to make sure not to miss any other opportunities from a smaller company due to our being blinded by AT&T/Verizon headlines.

UTILITIES SECTOR REPORT

By Nicolas Laborie

Sector Allocation Recommendation:	**Underweight**
Current Sector Weight in Portfolio	**2.92%**
Benchmark Weight ± 50%	**1.46% - 4.3%**
Sector Stocks in Portfolio	**2**
Sector Stocks in Benchmark	**33**
Portfolio Sector Beta	**0.66**
Benchmark Sector Beta	**0.78**

SECTOR SUMMARY

With only modest improvement expected in the housing and power markets, look for utility stocks to realize only a modest advance in 2011. Along with the slowly recovering housing and power markets, political turmoil has greatly affected growth opportunities in utilities companies; with the government implementing new policies and regulations on nuclear energy, costs have risen and projects have halted. Although utilities companies offer high dividend yields and are less risky than the overall market, the D'Artagnan Capital Fund should allocate more money to other sectors. With the opportunistic investment strategy that DCF has implemented, utilities companies do not offer the growth and opportunity that is looked for in the fund strategy.

The D'Artagnan Capital Fund currently holds 2 stocks in the Utilities industry: PG&E Corporation (PCG), Progress Energy (PGN). In comparison to the S&P 500, DCF is currently underweight in the sector.

Our current two stock holdings fall into the upper-tier of the S&P 500 Utilities sector market capitalization size and also have lower betas than the overall sector. This shows that DCF currently holds positions in less risky securities in an already relatively defensive industry.
In the following report, there will be a discussion of screening process for security selection using relative analysis, the advantages and disadvantages of investing in the utilities sector, and the reasoning behind the recommendation of an underweight allocation in this sector.

Current Holdings as of April 10, 2011

Progress Energy (NYSE: PGN)
Shares owned: 300
Close Price (4/15/2011): 46.43
Recommendation: HOLD

Progress Energy, headquartered in Raleigh, N.C., is a Fortune 500 energy company with more than 22,000 megawatts of generation capacity and approximately $10 billion in annual revenues. Progress Energy includes two major electric utilities that serve about 3.1 million customers in the Carolinas and Florida.

The company is pursuing a balanced strategy for a secure energy future, which includes aggressive energy-efficiency programs, investments in renewable energy technologies and a state-of-the-art electricity system. Although growth within the utilities sectors is very limited, Progress Energy has taken the necessary steps to expand in emerging markets. Because of forward-looking management and growth strategy, Progress Energy has proven to be an undervalued security that demonstrates vast growth potential.

PG&E Corporation (NYSE: PCG)
Shares owned: 625
Close Price (4/15/2011): 44.84
Recommendation: Reduce position, hold remaining

PG&E Corporation is a holding company that holds interests in energy based businesses. The company's holdings include a public utility operating in northern and central California that provides electricity and natural gas distribution; electricity generation, procurement, and transmission; and natural gas procurement, transportation, and storage.

PG&E Corporation has recently announced that it received approval of its revenue needs in the 2011-2015 Gas Transmission and Storage Rate Case from the California Public Utilities Commission. This is an extremely important step for PG&E as it preserves the long-term safety and reliability of natural gas service for customers at reasonable rates. With interest in nuclear energy, PG&E Corporation is a company that has long-term stability potential and has proven to be undervalued as well.

RELATIVE ANALYSIS

The following list represents the 33 companies in the Utilities Sector of the S&P 500 sorted by market capitalization in descending order; current holdings are shaded.

Company Name	Market Cap	P/E	EV/EBITDA T12M	EBITDA Mrgn:CY	Dvd Yld	Proj 3-Yr Div Growth	Beta:Y-1
SOUTHERN CO	$ 32,471,609,344.00	16.27	9.44	32.27	4.74	3.88	0.63
EXELON CORP	$ 26,765,729,792.00	9.96	4.79	41.13	5.19	0.00	0.75
DOMINION RES/VA	$ 25,976,150,016.00	13.42	9.76	29.55	4.40	5.34	0.80
DUKE ENERGY CORP	$ 24,469,549,056.00	12.96	7.36	35.23	5.32	3.79	0.68
NEXTERA ENERGY	$ 23,573,329,920.00	13.02	8.27	34.83	3.93	6.70	0.74
PG&E CORP	$ 17,728,600,064.00	13.08	6.97	32.22	4.07	5.22	0.71
AMERICAN ELECTRI	$ 16,987,769,856.00	11.65	7.76	30.80	5.21	3.65	0.77
PUB SERV ENTERP	$ 15,798,559,744.00	9.49	6.02	34.32	4.39	1.20	0.80
FIRSTENERGY CORP	$ 15,528,049,664.00	10.26	7.83	28.68	5.93	0.00	0.72
CONS EDISON INC	$ 14,875,199,488.00	14.88	8.59	22.21	4.72	0.83	0.67
PROGRESS ENERGY	$ 13,558,670,336.00	15.08	8.19	30.79	5.37	0.60	0.68
SEMPRA ENERGY	$ 12,857,419,776.00	13.60	9.07	26.59	3.59	9.90	0.80
PPL CORPORATION	$ 12,531,229,696.00	8.06	9.37	31.05	5.41	1.06	0.69
EDISON INTL	$ 12,142,980,096.00	10.71	6.64	29.40	3.43	2.18	0.80
ENTERGY CORP	$ 11,870,210,048.00	9.39	5.78	34.20	5.01	2.16	0.78
XCEL ENERGY INC	$ 11,531,379,712.00	14.75	8.21	25.19	4.23	3.51	0.75
AES CORP	$ 10,452,240,384.00	12.63	6.29	28.53	0.00		1.32
DTE ENERGY CO	$ 8,338,311,168.00	13.67	6.64	28.99	4.55	2.21	0.79
CENTERPOINT ENER	$ 7,434,869,248.00	16.20	7.74	24.05	4.51	2.19	0.88
WISCONSIN ENERGY	$ 7,031,221,760.00	15.63	13.00	22.12	3.46	15.21	0.79
ONEOK INC	$ 7,004,534,784.00	21.96	10.65	9.60	3.18	14.87	1.07
AMEREN CORP	$ 6,848,314,880.00	10.39	6.06	30.66	5.41	0.00	0.83
CONSTELLAT ENER	$ 6,613,056,000.00	10.88	6.52	10.33	2.90	3.03	1.00
NORTHEAST UTILS	$ 6,094,695,936.00	15.55	7.88	29.18	3.19	7.11	0.79
NRG ENERGY	$ 5,326,986,752.00	14.44	6.10	24.38	0.00		0.91
NISOURCE INC	$ 5,301,018,112.00	15.82	8.41	23.43	4.85	2.82	0.88
SCANA CORP	$ 5,015,282,176.00	13.16	8.62	24.89	4.94	2.47	0.80
CMS ENERGY CORP	$ 4,856,228,864.00	13.96	7.78	24.07	4.36	10.25	0.80
PINNACLE WEST	$ 4,679,742,976.00	14.83	7.01	36.67	4.88	4.55	0.78
PEPCO HOLDINGS	$ 4,176,325,888.00	14.61	8.29	14.87	5.82	0.00	0.77
TECO ENERGY INC	$ 4,076,624,896.00	14.82	7.71	26.90	4.33	6.84	0.94
INTEGRYS ENERGY	$ 3,933,157,120.00	18.27	8.49	14.59	5.40	0.49	0.87
NICOR INC	$ 2,421,421,056.00	17.66	7.40	16.18	3.50	0.00	0.90
AVERAGE	$ 11,765,771,776.00	13.67	7.84	26.91	4.25	3.94	0.81
MEDIAN	$ 10,452,240,384.00	13.67	7.78	28.68	4.51	2.82	0.79

SCREENING AND STRATEGY

Company Name	Market Cap	P/E	EV/EBITDA T12M	EBITDA Mrgn:CY	Dvd Yld	Proj 3-Yr Div Growth	Beta:Y-1
EXELON CORP	$ 26,765,729,792.00	9.96	4.79	41.13	5.19	0.00	0.75
ENTERGY CORP	$ 11,870,210,048.00	9.39	5.78	34.20	5.01	2.16	0.78
NRG ENERGY	$ 5,326,986,752.00	14.44	6.10	24.38	0.00		0.91

The utilities sector in general is more of a value-oriented sector rather than a growth one. Most electric utilities have a franchise territory. Electric utilities that are in well-developed states may not have a lot of opportunity to grow their business. They are limited by the geographic size of their franchise territory. By analyzing P/E, EV/EBITDA, and dividend yields this allows for accurate valuation of any securities within the utilities sector. However, also utilizing qualitative analysis to search for those rare utilities companies striving to expand into new markets and projects (as will be seen by potential prospects) has proven to be important as well. Steps in application of screening process:

1. List stocks currently listed in S&P 500 Utilities Index
2. Target companies with P/E ratio lower or equal to average P/E ratio (because growth is limited, do not eliminate companies that fall near the average until performance of qualitative analysis to further analyze their growth potential).
3. If company issues dividends, analyze projected 3 year dividend growth and see if it is aligned with the average or if they plan to stop paying dividends (this is an important factor because dividends can be an attractive surplus when investing in utilities).
4. Take into consideration EBITDA margins and eliminate any companies that fall well below the average, as this shows poor efficiency.

   NOTE: Screening process is merely a functional execution of how to find undervalued stocks in my sector; however, if research provides an opportunity within that company, further valuation will be implanted to make a decision.

Potential Prospects

Based on the screening process as well as the qualitative research, two potential securities could be undervalued as well as one stock that showed promising growth (NRG).

Exelon Corporation (NYSE: EXC)

Exelon Corporation is a utility services holding company. The company, through its subsidiaries distributes electricity to customers in Illinois and Pennsylvania. Exelon also distributes gas to customers in the Philadelphia area as well as operates nuclear power plants in states that include Pennsylvania and New Jersey. Because nuclear power constitutes 20% of U.S. electricity, does not produce greenhouse emissions, and is at least for existing plants a low-cost source of energy: Exelon proves to be undervalued not only because it has many operations in nuclear energy, but also its 8% decline in the past month due to market overreaction in respect to the natural disasters in Japan and the nuclear meltdown.

NRG Energy (NYSE: NRG)

NRG Energy, Inc. owns and operated a diverse portfolio of power-generating facilities, primarily in the United States. The company's operations include energy production and cogeneration facilities, thermal energy production, and energy resource recovery facilities. NRG continues to show promising expansion throughout the world such as: building the first electric charging station for electric run cars, providing solar power to Haiti, and working to minimize fossil fuel usage into the future and potentially transition to nuclear energy.

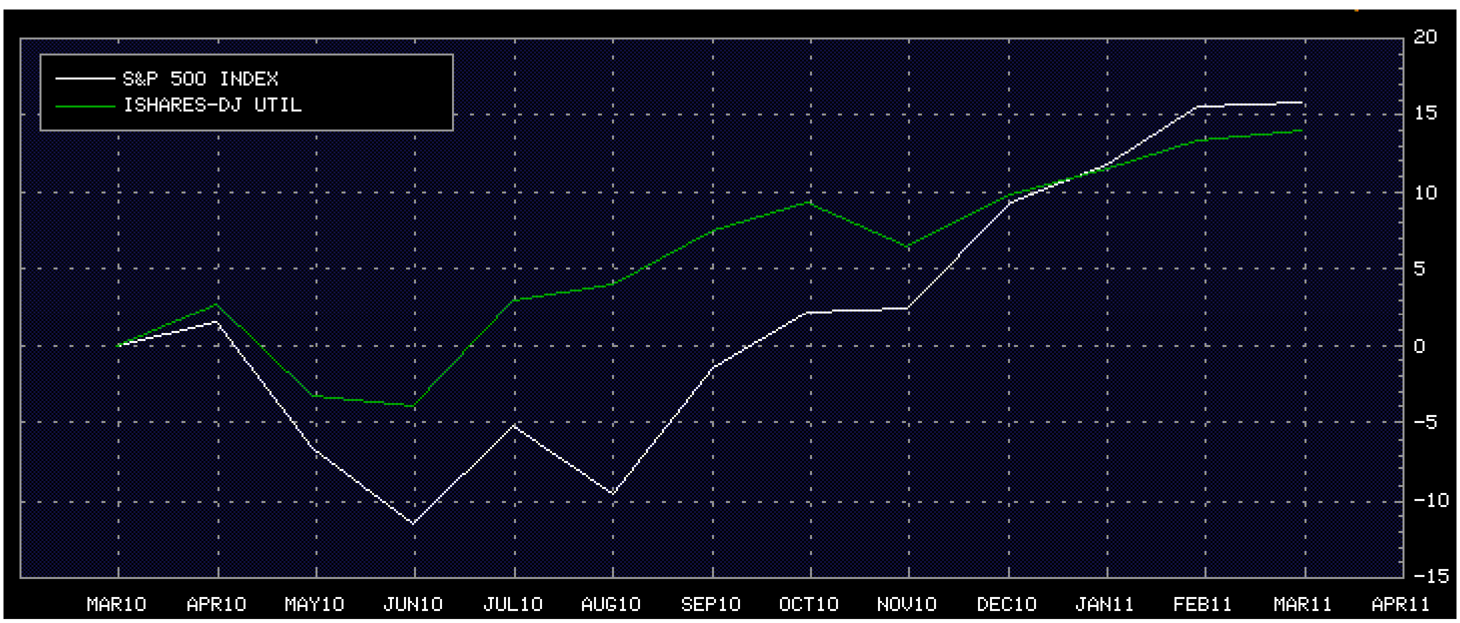
FORWARD STRATEGY

Because utilities should be underweight within our portfolio, the plan is to reduce positions in our existing securities and invest within one of these 2 securities.

UTILITIES SECTOR DESCRIPTION

The utilities sector is very specific to power generating companies. Many investors view investing in utilities attractive mainly because of their high dividend yields. Competition between utilities companies is not nearly as fierce as other sectors because of regulated prices; utilities companies usually strive on prime location rather than competitive prices (as prices of power and electricity are regulated by the government).

Comparative Returns
S&P 500 vs. iShares Dow Jones U.S. Utilities Sector Index Fund
March 31, 2010 – March 31, 2011



Graph Analysis

From March 31, 2010 until March 31, 2011 the S&P 500 has been continuing its recovery from the recession as seen by this graph. The green line shown in this graph illustrates utilities ETF as shown by the iShares Dow Jones Utilities, the white line shows the overall S&P 500 index. Noticeably, the utilities ETF has underperformed as of March 31, 2011. As stated earlier, the utilities sector has been much less volatile than the market which benefited them in rough economic times but during recovery, utilities have grown at a slower pace reflecting their defensive characteristics.

SWOT ANALYSIS

Strengths/Opportunities

- High dividend yields
- With the Federal Reserve keeping interest rates low and interest rates on C.D.'s and savings accounts being miniscule, investors are turning to electric utilities as an attractive replacement.
- Development of more nuclear projects is bringing more growth to the utilities sector as a whole.

Weaknesses/Threats

- Environmental considerations dealing with emissions of pollutants
- Very difficult for utilities companies to build coal-fired generating facilities due to strict opposition from environmentalists and the public.
- Sharp increases in the costs of building materials and labor have made any kind of utility construction much more expensive.
- Electric utilities will be facing significant new challenges adjusting to the green initiatives put in place by the new administration and Congress. Coal generates 56% of electricity in the United States which is a significant contributor to carbon emissions.
- The cost to reduce carbon emissions will have a significant impact on the economics of the utilities sector and their support industries.
- With the recent natural disasters faced in Japan, many nuclear projects have been halted and current nuclear power plants are being reevaluated for safety.
- New government regulations on nuclear energy will raise costs for utilities companies.
- Due to price regulation and prices increasing, utilities companies will have more trouble passing on costs to customers and eventually have to incur some of the costs.
- Weather and natural disasters

CHANGES IN UTILITIES SECTOR
(3/31/2010 – 4/1/2010)

- Purchased 300 shares of Progress Energy @ $39.66 (4/07/2010)
- Sold 875 shares of Georgia Power Co. @ $25.46 (10/06/2010)
- Sold 800 shares of Duke Energy Corp. @ $17.65 (10/13/2010)
- Purchased 175 shares of PG&E Corp. @ $47.72 (12/17/2010)
- Sold 350 shares of Dominion Resources @ $42.11 (12/17/2010)

CONCLUSION AND RECOMMENDATION

Although utilities are less volatile, less risky, and offer high dividend yields to investors, the opportunities for capital appreciation and high returns are lacking. With new government implementations and regulations dealing with emissions of pollutants and nuclear power plant safety issues, there will be a long-term struggle for utilities companies in general. As prices continue to rise, more and more companies have cut down on their dividend growth, which happens to be the most attractive reason to invest in utilities. Companies will also be faced with issues passing on rising prices to consumers as the government may intervene and disallow companies to do so. With the U.S. economy recovering and EPS growth projections boosting, investors will lean more towards cyclical sectors rather than defensive ones. For these specific reasons, underweighting the utilities sector and focusing on allocating money towards better opportunities would be the strategically correct thing to do. This being said, because the fund takes a bottom-up approach to investing, the fund will always be looking for opportunities in the utilities sector that have good growth potential and high returns. In this report there are 2 potential securities that will be looked at throughout the semester and the fund may potentially reduce its position in a current security to take advantage of these opportunities.

CURRENT HOLDINGS AS OF MARCH 31, 2011

Abbott Labs (ABT)
500 Shares

Aflac Inc. (AFL)
250 Shares

Alcoa Inc. (AA)
2300 Shares

American Towers (AMT)
500 Shares

Apple Inc. (AAPL)
300 Shares

AT&T Inc. (T)
600 Shares

Chesapeake Energy Corp (CHK)
750 Shares

Chubb Corp. (CB)
500 Shares

Cognizant Tech Solutions (CTSH)
850 Shares

CSX Corp (CSX)
550 Shares

CVS Caremark Corp. (CVS)
300 Shares

Devon Energy Corp. (DVN)
200 Shares

Diageo plc (DEO)
200 Shares

Express Scripts Inc. (ESRX)
400 Shares

Exxon Mobil Corp. (XOM)
300 Shares

FedEx Corp. (FDX)
450 Shares

General Electric Co (GE)
1450 Shares

General Motors Co (GM)
1700 Shares

Google Inc. (GOOG)
60 Shares

Illinois Tool Works Inc. (ITW)
750 Shares

Intel Corp. (INTC)
1500 Shares

Jacobs Engineering Group Inc. (JEC)
350 Shares

Johnson & Jonson (JNJ)
400 Shares

Kellogg Co. (K)
400 Shares

Key Corp (KEY)
4200 Shares

Medtronic Inc. (MDT)
325 Shares

Microsoft Corp. (MSFT)
2100 Shares

Peabody Energy Corp. (BTU)
250 Shares

Pepsico Inc. (PEP)
600 Shares

PG&E Corp. (PCG)
450 Shares

PNC Financial Services Group (PNC)
1100 Shares

Praxair Inc. (PX)
150 Shares

CURRENT HOLDINGS AS OF MARCH 31, 2011

Progress Energy Corp. (PGN)
300 Shares

Procter & Gamble Co. (PG)
500 Shares

Progress Energy Inc (PGN)
300 Shares

Qualcomm Inc. (QCOM)
600 Shares

Sigma Aldrich Corp. (SIAL)
300 Shares

Stryker Corp. (SYK)
400 Shares

Teva Pharmaceutical Industries (TEVA)
575 Shares

Transocean Ltd (RIG)
250 Shares

US Bancorp (USB)
500 Shares

Verizon Communications Inc (VZ)
300 Shares

Visa Inc. (V)
935 Shares

Wal-Mart Stores Inc. (WMT)
375 Shares

Wells Fargo & Co. (WFC)
800 Share