This fall semester is ending an interesting year for the U.S. markets. The U.S. markets were on an upward trend for three quarters and recently started faltering during the fourth quarter of 2014. Many people have wondered if this is a sustainable state and if/when a correction will occur. The coming year holds expected interest rate increases by the Federal Reserve, the continued effects of federal legislation, more international economic fluctuations, and typical U.S. market volatility. The extreme position of the market has been a great learning tool for fund members throughout this year. The current financial environment has shown the value of diversification and the downside of certain holdings. We, at the Green and Gold Fund, have continued focusing on the quality of our educational foundation to supplement the real world experience we gain from this opportunity. This quality driven focus has allowed the students to take the utmost advantage of research tools and publications supplied by UAB as well as the Bloomberg terminals UAB has granted us. Our faculty advisor, Dr. Rauterkus, began teaching some middle-level finance courses and an equity analysis course this year, and he is continuing to introduce valuation techniques and the thought process of security analysis earlier to students. This is extremely valuable because it gives fund members more time to develop their valuation skills and techniques to perfect their “art” of valuation. These classes test students’ understanding of the data and importance of certain figures through projects/presentations that have involved local professionals, depending on the course. In addition to professionals visiting certain classes, this semester, alone, our faculty advisor, Dr. Rauterkus and I were able to get individuals from IberiaBank, Regions, Vulcan Value Partners, and Warren Averett Asset Management to visit our fund, and give an insight into their careers, and let fund members take advantage of professional advice in their own research and valuations. Our Chief Marketing Director, Alicja Foksinska, has put forth a colossal amount of effort marketing us across campus, the country, and around the world, which has been accomplished using our website, LinkedIn, and Facebook page.

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GREEN AND GOLD REPORTER

Just this semester we have had a 24% increase in Facebook likes, and our website has been viewed by people as far away as Japan. Since our restructuring last year, we have continued to delve even deeper into stock valuation and make ourselves known as a respected university endowment fund nationwide.

As mentioned previously, 2014 is bringing a close to an interesting year with near zero interest rates, volatility in the U.S. equity market, and sustained low yields on debt instruments. The fixed income sector struggled this semester, but we liquidated our high yield bond holdings decreasing our vulnerability to market changes and lowering our duration. We seemed to sell these at the peak of a bubble, thanks to our Fixed Income Portfolio Manager, which lead to recognizing a capital gain relative to our cost basis. Concerning our equity portfolio, there was a large focus on liquidating investments that were past the two to three year time horizon and underperforming the benchmark of the Green and Gold Fund. Many sectors liquidated holdings that were unsatisfactory, therefore, freeing up cash for perspective investments. This was a strategy we saw fit for the current financial environment because some sectors needed to be revamped to take advantage of the positive growth in the equity markets, which would help to offset our fixed income holdings. Despite some of these negative results caused by the current financial markets, there has been a constant positive return this semester. The UAB Green and Gold Fund value was $564,945.37 on 31 July 2014 and valued at $580,470.76 on 30 November 2014. Calculating the compound annual growth rate resulted in a return of 8.47% for this period. With the fall equity restructuring, excess cash reserves, and the amount of returning members next semester, we feel quite confident in producing greater positive returns by focusing on quality investments that will result in future growth through 2015.

Chief Economist Report: Robert Mann

The fall season has seen significant changes in the United States economic environment from what has been the typical outlook since the 2008 financial crisis. Perspectives on the US economy is largely reassuring, with the Thomson Reuters/University of Michigan Consumer Sentiment Index hitting an eight-year high in the month of December. The labor market has also shown signs of springing back to near pre-recession levels, with November demonstrating a 5.8% unemployment rate, which is the lowest unemployment rate since July 2008, and U-6 unemployment dropping from 13.8% in 2013 to 12.5% in the fourth quarter of 2013 through the third quarter of 2014 averages. The US economy has bounced back in considerable fashion in 2014, but there are still areas of concern for policy makers in Congress and at the Federal Reserve.

The Federal Open Market Committee (FOMC) has been very active over the latter half of the year, sending signals to the economy of optimism for the future and their intention to slow down their accommodative monetary policy within the next year. The Federal Reserve, after a full year of tapering, decided to end its unprecedented and controversial quantitative easing program in October. The FOMC October meeting minutes show this decision was made with relative ease, with only one vote against ending the asset purchasing program. The market also seems to be preparing for a future rate hike in 2015, with the futures market predicting an almost 30% chance of the federal funds rate being at 0.75 and a 20% chance of being at 1 by the December meeting of 2015. The FOMC has also indicated a high probability of a rate hike in the

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near future, and has expressed concern in two main areas: inflation still runs below the Federal Reserve's preferred 2% long term goal and the labor market still lags in some of the deeper indicators such as labor force participation. New developments in both of these areas will drive future rate hike decisions.

The largest area of concern, however, has been international economic conditions. The October World Economic Outlook report compiled by the International Monetary Fund (IMF) downgraded the 2014 World Economic Outlook for 2014 by 0.1% and the 2015 Economic Outlook by 0.2%. This downgrading is driven by uncertainty in the Euro Area, Japan, and Eastern Europe. Despite an unprecedented quantitative easing program, the Bank of Japan will probably not be able to fulfill their promise of 2% inflation by the end of 2014. The Euro Area has also been facing similar problems, with a 0.4% inflation rate forcing the European Central Bank to lower all three of its long-term interest rates and send signals of a willingness to start a sovereign bond-purchasing program of its own in Europe. Lower world oil prices and the global political environment in Crimea, Syria, and Iraq has contributed to a more bearish economic outlook in developing markets such as Latin America, the Middle East, and Eastern Europe.

Despite global concerns, the American markets remain bullish, and the majority of American investment institutions have an expectation of above average returns. The Green and Gold Fund is positioning itself to address upcoming rate hikes and heightening consumer confidence. Upcoming rate hikes have caused uncertainty in the fixed income sector. Global yields on fixed income assets have been decreasing, driven by uncertainty in global markets. Foreign demand in American treasury securities have reached an all-time high, also causing yields to decrease to American markets. Despite historic lows, there is an expectation of increased yields once rate hikes start. This expectation is consistent with historic trends in the fixed-income market.

Higher consumer confidence shows that the US economy has strong fundamentals and will likely weather the international economic conditions in the upcoming year. Improvements in the labor market and low gas prices will drive the Consumer Goods and IT/Telecommunications sector to higher returns and help free up credit in the economy. The NABE Business Conditions Survey administered in October demonstrates increased willingness to lend to companies for long-term capital projects, specifically in the IT/Telecommunications sector. Recent research done by the Federal Reserve also indicates that default on all types of credit from housing to even consumer credit cards has reached its lowest level since pre-financial crisis level. These factors should drive a bull market in the United States and will likely raise returns on assets in the next two to three years, as is consistent with the Green and Gold Fund's investment horizon.

For the reasons mentioned above, there is reason for increased optimism for high returns in the future year to come. The shift in Federal Reserve policy seems to indicate increased optimism and confidence in the American economy. Concerns over international economic conditions are still high, and research in this sector will remain crucial, specifically regarding the Euro area and the possibility of increased world oil prices. The Economics sector will continue to monitor the activity of the Federal Reserve and the strength of the U.S. economy in order to ensure the best investment decisions for the Green and Gold Fund.
The inflation-adjusted returns for the S&P 500 have averaged an annual rate of 9.05% since 1950. However, because the standard deviation during this same period has been 17.92%, it is exceedingly important that the Alternatives sector of our portfolio focuses on investments that will hedge the risk of the fund as a whole by providing returns in a volatile market.

For this reason, the two principal objectives of the alternatives sector of the fund over the winter semester have been to 1) invest in vehicles that can provide positive total returns in rising and falling markets and 2) generate returns that have minimal or no correlation to the S&P 500 index.

To accomplish this, the Alternatives sector currently holds positions in four mutual funds:

- Permanent Portfolio (PRPFX)
- Oppenheimer Developing Markets (ODMAX)
- GlobalX InterBolsa Columbia (GXG)
- Virtus Dynamic AlphaSector Fund, (EMNCX)

The Permanent Portfolio ETF (PRPFX) invests in foreign securities, gold and silver bullion, and foreign real estate and natural resource companies. PRPFX represents a core holding of the Alternatives sector for its investments in a diversified mix of non-correlated asset classes. Although the YTD performance of the fund is -6.57%, in large part due to its substantial exposure to gold and silver, the fund has achieved consistent strong returns over the last decade. The Alternatives sector continues to view this investment as a core holding of the fund and does not recommend selling this position for the foreseeable future.

Designed as core portfolio holdings, ODMAX and GXG represent part of our strategy to diversify through investments in developing markets. While the ODMAX invests in equity securities of issuers whose principal activities are in developing countries, GXG provides investment returns corresponding to the Colombia Capped Index. The recent dislocation in oil prices has particularly affected both of these positions in the past three months. Colombia is among the world’s top exporters of the commodity, and because of this reason, GXG has seen a dramatic decrease in share price because of the recent collapse in oil prices.

The Alternatives sector is continuing to monitor the movement in oil prices as well as the correlation of both ODMAX and GXG to the S&P 500.

The Virtus Dynamic AlphaSector Fund (EMNCX) is a long-short equity fund utilizing a sector rotation strategy that invests in nine sectors of
This past semester was good to the Consumer Goods sector with most of the companies beating both the performance of the S&P 500 and the Consumer Staples SPDR, with the exception of Ford Motor Company, F. The consumer goods sector owns XLP as the core holding, along with Brunswick Corp. (BC), Dollar General Corp. (DG), Ford Motor Co. (F), Pepsico, Inc. (PEP), and Whirlpool Corp. (WHR).

The first task for next semester is to sell Ford to relinquish our holdings. Ford has had a rough year, with many stock price fluctuations and a few significant drops. Ford lost market share in Europe and South America, and we prospect it will continue to follow this trend for a few more months. The company has had some major setbacks that have harmed its performance. For example, it recalled 98,000 vehicles tied to faulty airbag mechanisms this year. However, Ford planned

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During this semester, the Fixed Income sector has experienced a considerable amount of change. The most notable of these changes was the announcement, in October, of the ending of the Federal Reserve’s Quantitative Easing Program. In addition to this, the fixed income market witnessed large capital outflows from the riskier high yield bonds in favor of less risky equity investments. Furthermore, there have been recent inflows of capital from Europe and Asia into the United States fixed-income market, which has depressed yields at the five and ten year mark. This can be seen in the treasury yield curve below.

“As noted in the previous newsletter, the fixed income sector of the Green and Gold Fund was restructured in an attempt to mitigate any potential losses due to the aforementioned market risks. This strategy has been successful considering the unfavorable conditions of the current fixed income market. If our sector was still holding the same positions from October of last year, we would have realized a sizeable loss of 37.85%.”

(There is an image with this).

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Since the summer, we have sold off all of our Occidental Petroleum holdings in the Energy portfolio. We sold the holding because, at the time, the energy portfolio was overweight by $7,000 and Occidental Petroleum had a very low growth rate, which did not meet our investment criteria. Since the sale of Occidental Petroleum, crude oil prices have fallen dramatically for the first time since 2009, which has caused the energy sector to decline. Brent Crude Oil, an international benchmark, declined over 40% in the past four months. This drop is caused by an oversupply of oil in the market provided by the United States oil shale boom, the overvalued energy stock market, the price war with OPEC, and the weakening global demand for oil. The energy portfolio has been deeply affected by the decrease in crude oil prices. Because of the destabilization of oil, we have been hesitant to invest in the Energy sector this past semester.

As a result of the decline in oil prices, Oil and gas services holdings have been hit hard, which has caused our holdings, Power Shares Oil & Gas and Halliburton, to decrease in value. Oil exploration companies are seeing their profit margins squeezed, and that is forcing oil service companies to lower the price charged for the services that they provide to those companies. As a result of the downward pressure of oil prices, Halliburton has signed a deal to buy out Baker Hughes, which would optimize its costs and technology infrastructure.

Despite the recent decline in crude oil prices, Alerian MLP ETF

![Percent Return of Energy Sector](image)

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Throughout the year, our goal has been to continually improve the performance of the Financials sector. To achieve this goal, we have restructured the Financials sector to maximize our efficiency, thereby improving our ability to identify the weaknesses in our portfolio and locate replacements for any underperforming companies.

When we began in September, we decided to sell Altisource Residential Corporation (RESI), a REIT that we have held since December of 2012, for it is less than three years old and has an unproven business model. In preparation for the sell, we did in-depth portfolio analysis and determined that we also needed to reallocate the sector to maximize our risk-adjusted return. For that reason, we not only sold our shares in RESI but also increased our position in our ETF (XLF) and decreased our number of shares in our other holdings. While we are pleased with the decision to purchase additional shares in XLF in an attempt to improve diversification, we are currently seeking an investment fund that will not only provide a higher return but also allow us to maintain a high level of diversification. In addition to RESI, we have decided that Bank of America (BAC) is no longer a suitable company for our sector because it

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has continually underperformed both our benchmark and the overall banking sector. We have created several screeners for various industries within the Financials sector to give us increased opportunities to identify a suitable replacement for BAC.

Using our screeners, we have done extensive qualitative and quantitative research on numerous companies to find ways to enhance our sector’s performance. Rafael Rondino has been using his screeners to analyze numerous asset management companies, including KCAP Financial, and decided that Blackstone would be a good investment for our sector. Amanda Viikinsalo, who has been using her screeners to research insurance companies, believes that Aflac requires more extensive analysis. Similarly, Austin Yost, our REIT specialist, has taken a very close look at several Real Estate Investment Trusts. Additionally, we have analyzed banks like Regions Financial, PNC Bank, and JPMorgan Chase & Co.

I am especially proud of our analysts, who have done exceptional work throughout their time in the Financials sector. When we return in January, we will not only continue to study these companies but also look for potential in other industries within the Financials sector.
become regulated by the Federal Reserve as bank, which will have negative effects on the profitability and growth potential of GE’s largest segment. Another consideration for the sale is that GE makes up roughly 10% of XLI. As such a large percentage of our benchmark, we already reap the benefits of GE while taking a more conservative approach. GE has also been in our portfolio since 2009 and 2011, both of which were beyond the Fund’s prescribed investment horizon.

The sale of GE leaves the Industrials sector slightly underweight, lending itself to a buy presentation in the coming semester. Several securities that are currently on the industrials watchlist are Danaher Corp (DHR), Southwest Airlines (LUV), and CSX (CSX).

The performance of Kaiser Aluminum (KALU) has been pulled in opposite directions by several factors. The first, which has impacted the global aluminum market, is the Indonesian export ban on bauxite, used to extract aluminum. This has decreased global supply, thus spurring an increase in aluminum prices throughout the supply chain. But despite the global shortage, the specific input for KALU’s production, aluminum plate, is still abundant. KALU also benefitted from increased demand in the aerospace and automotive industries. This demand was offset, however, due to slowed economic growth in China. KALU experienced positive results through mid-September, but struggled throughout October. Along with the overall market, a November recovery has been followed by a December slump.

One action moving forward for the materials sector is to diversify our portfolio. Particularly, we will purchase an ETF to comply with the Fund’s core/non-core approach. The lone materials holding is Kaiser Aluminum (KALU), which has been exposed to the unpredictable nature of the market. The materials sector is currently over-allocated. To respond, we will sell a majority of KALU and occupy the remainder of the sector with an ETF. Two ETFs that are being considered are Vanguard Materials ETF (VAW) and iShares US Basic Materials (IYM). Both indices place a large emphasis on the chemicals industry, representing over 65% allocation. However, VAW is more diversified than IYM, with more than twice the holdings representing three more industries.

Technology & Telecom Sector: John (Chip) Kalousek

The Information Technology and Telecommunication sector has seen consistent growth with a strong finish to the end of 2014. The holdings in the sector have remained unchanged since our last newsletter. The sector currently holds iShare Global Tech ETF (IXN) and iShares Global Telecom ETF (IXP) as core holdings and Oracle Corp. (ORCL), EMC Corp. (EMC), and Apple, Inc. (AAPL) as investment holdings.

“Although our IT holdings in AAPL, EMC, and ORCL are preforming well in the current market, we currently view the IT sector as potentially overvalued.”

Cloud computing continues to be a major trend in the technology sector as companies look for ways to lower overall costs. Cloud computing eliminates a company’s need to manage IT infrastructure while staying on the cutting edge of technology. We believe this technology has the potential to make big shifts in the industry, but it is too early to say for sure. Despite drastic shifts in management at ORCL and missed quarterly earnings at EMC, both of our cloud computing holdings performed extremely well this past semester, and we expect to see growth for the foreseeable future.
We have also recently seen strong consumer preference for larger-screen phones and new high tech wearable devices. This past semester APPL successfully launched its new larger-screen iPhone 6 Plus and the highly anticipated Apple Watch. These new devices pushed APPL to the next level increasing market share in all markets across the globe and overall contributing to the bottom line.

Although our IT holdings in AAPL, EMC, and ORCL are preforming well in the current market, we currently view the IT sector as potentially overvalued. We believe the market is particularly bullish and the margin of safety in our holdings has diminished. As soon as the appropriate valuations have been com-pleted, we intend to make a presentation to the fund to liquidate some of these holdings. In light of the recent cyber.attacks we have witnessed this past year, we believe a cyber-security holding would be an appropriate holding to replace the holding we decide to liquidate.

We maintain a neutral outlook on the Telecommunications industry. We believe talk of consolidations has pushed telecom stocks above their fair value. Recent FCC talks on “Net neutrality” places an increased risk on these consolidations being put on hold. Despite this outlook, we believe there are still potentially undervalued operators abroad and also cell tower companies that may provide a sufficient margin of safety for our value investment strategy. The fund will continue to screen for potential new investments within this sector.

In the spirit of being more active shareholders, the sector was honored in October to give the first proxy presentation to the entire fund based on Oracle’s (ORCL) most recent proxy statement. The sector gave recommendations about how we should vote regarding the election of the Board of Directors, executive compensation, and other stockholder proposals. We felt executive compensation was not properly aligned with company performance. Upon this conclusion, we voted against the new executive compensation proposal but voted for the stockholder proposals. The stockholder proposal included various performance metrics to determine executive compensation. The fund unanimously agreed to follow our recommendations and submit our vote to Oracle for all proposals except the new executive compensation proposal.

We continue to monitor and strive to meet the fund’s allocation rates for our sectors. Information Technology was overweight by .98% at an allocation rate of 10.86%. Telecommunications was at an allocation percentage of .43%, or 1.21% underweight from the target 1.64%. Both sectors need improvements to reach our target allocation rates. Finally, the sector continues to look for undervalued securities that may provide better returns than our current holdings. Some of the securities under consideration are American Tower (AMT), Orange (ORG), Microsoft (MSTF), Vanguard Telecom Services ETF (VOX), Cisco (CSCO), and Barracuda Networks (CUDA).
Recently, the Healthcare sector has seen a boom in growth from a universal increase in biotechnology and pharmaceutical investment. With high performing companies such as Gilead leading the charge, the consistent earnings from Healthcare have become too good for many investors to pass up. While this is an extremely lucrative opportunity for the fund, the upward trend did lead to the Healthcare sector being over-allocated at the beginning of the semester by about $11,377.

Needing to sell some of our holdings, we carefully evaluated our four investments, which at the time consisted of Abbott Laboratories, Gilead Sciences, AbbVie, and our Healthcare SPDR ETF. Looking initially at percentage growth compared to our benchmark, the obvious candidate for liquidation was Abbott Laboratories. The fund purchased 200 shares of Abbott in 2011. In 2013, Abbott split into two separate entities in the form of Abbott Laboratories and AbbVie. Abbott was to remain primarily as a professional and consumer medical products company while AbbVie was to be a research-based pharmaceutical firm. With their R&D capabilities removed and a questionable set of products in the pipeline, Abbott lost a considerable amount of their already underperforming growth capability. No longer up to par with our other holdings, we sold all 200 of our shares. While this corrected a majority of the problem, the sale of Abbott still left our sector slightly over allocated. Comparing our other holdings, we also decided to sell 50 shares of AbbVie. AbbVie looks to have an extremely positive future given its drug pipeline, but at the time, it is producing returns lower than that of our ETF and Gilead.

During the winter semester, our sector has seen a number of interesting developments. As we predicted, AbbVie has recently seen a massive surge in growth through continuously high sales of its flagship drug Humira and consistently positive news for its drugs in development. Humira is a TNF inhibiting anti-inflammatory drug used to treat inflammatory reactions resulting from a wide range of autoimmune diseases including rheumatoid arthritis, Crohn’s disease, and ulcerative colitis. Touted as, “The world’s most popular drug”, Humira accounts for well over 60% of AbbVie’s sales and brings in billions of dollars in revenue each year. However, with its patent set to expire in 2016, AbbVie is hard pressed to design new therapeutics to replace the portion of future sales lost when biosimilars become available for Humira. However, with their new Hepatitis C drug Viekirax garnering favorable opinion by the European Medicines Agency’s Committee for Medicinal Products for Human Use (CHMP), AbbVie is beginning to move in on other companies such as Gilead and Pfizer for their share of the exceptionally lucrative Hepatitis market. Only time and careful observation will tell us if AbbVie can consistently match its currently exceptional growth.

Our other current holding Gilead has had a bit of a tumultuous time this semester. For the last few years, Gilead has been the the poster child for what is possible with the Healthcare sector as its...
Hepatitis C treatment Sovaldi vastly outperformed all initial estimates and skyrocketed the company’s stock price since its approval in 2013. However, as of late, there have been two primary issues causing Gilead’s growth to slow. In September, Gilead announced that they would license Sovaldi to generic manufacturers in 91 developing countries. From Gilead’s perspective, this would allow royalties through sales to an untapped market, but since the treatment was set to be sold at a fraction of its hefty U.S. price tag (around $1,000 per pill), the decision caused concern for a large portion of investors. This concern stems from two sources: the fear insurance companies would find it cheaper to send their patients to clinics in developing nations for treatment and the fear that the action would produce backlash from the United States Government, since the ability to produce the drug at such a low cost is indicative of price gouging by Gilead in developed markets.

With these fears in mind, our sector still does not believe either will develop into anything more than a speculative issue since similar situations in the past with other drugs have not lead to these dreaded scenarios. The second development that hit Gilead’s growth was the FDA’s approval of Harvoni. Gilead’s newest drug, set to treat patients with Hep C, genotype 1, is groundbreaking in that it does not use interferon or ribavirin, which both present dangerous side effects. However, while this sounds like excellent news to investors, it also sounds like excellent news to physicians and patients that would have used Sovaldi for treatment. With Harvoni on the horizon, patient warehousing, the act of holding back treatment until a new therapeutic is released, has caused sales of Sovaldi to decrease leading to a speculative slowdown in Gilead’s stock price.”

![Percent Return for Healthcare Sector](image)

With Harvoni on the horizon, patient warehousing, the act of holding back treatment until a new therapeutic is released, has caused sales of Sovaldi to decrease leading to a speculative slowdown in Gilead’s stock price. In closing, since we believe these concerns lack substance, our sector still believes Gilead to be a heavy weight contender in the market.
UAB's Green and Gold Fund is an innovative, successful student-managed investment portfolio that allows fund members to perform investment portfolio management with actual money, providing them with valuable experience for

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