Williams Investment Society

Washington and Lee University

Q1 2013 WIS Update

WIS Summary

The Society employs a top-down investment procedure to identify superior companies trading at reasonable prices. The Society believes that through extensive research and analysis, it can identify companies priced by markets at significant discounts to their intrinsiv values.

Firms must have at least $500 MM in market capitalization and a minimum share price of $5. WIS will not hold more than 5% of its portfolio in a single stock.

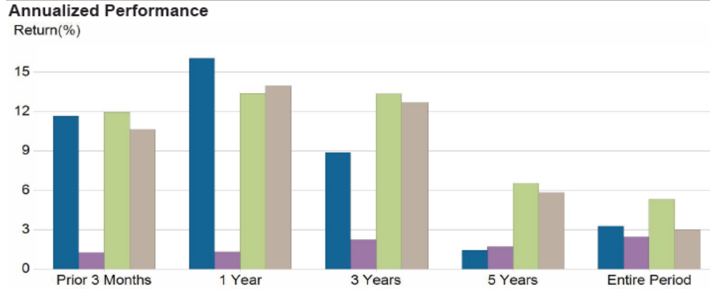
Performance Summary

The Williams Investment Society generated strong returns for both the 1st quarter of 2013 and the past 12 months. Benefiting from the Consumer Staples and Healthcare Sectors' performance, the portfolio appreciated 11.64 percent during the 1st quarter and 16.03 percent for the past 12 months. On a risk-adjusted basis, the portfolio realized an alpha of 1.20 percent and 2.31 percent for the quarter and 12 month period respectively. Headed by the quarterly returns of ValueClick, Gilead Sciences, and Heinz, the portfolio has continued to outperform the S&P 500. Overall, the Society's net asset value appreciated from $1,538,783 to $1,717,960 during the first quarter ended 2013, as the equities yielded 12.02 percent for the same period.

Investment Earnings and Cash Flows

$	Prior 3 Months	Prior 12 Months	Entire Period
Opening Balance	1,538,783	1,480,653	0
Contributions/(Withdrawals)	0	0	1,126,436
Interest/Dividends	6,177	30,373	285,226
Appreciation/(Depreciation)	173,001	206,934	306,298
Closing Balance	**1,717,960**	**1,717,960**	**1,717,960**

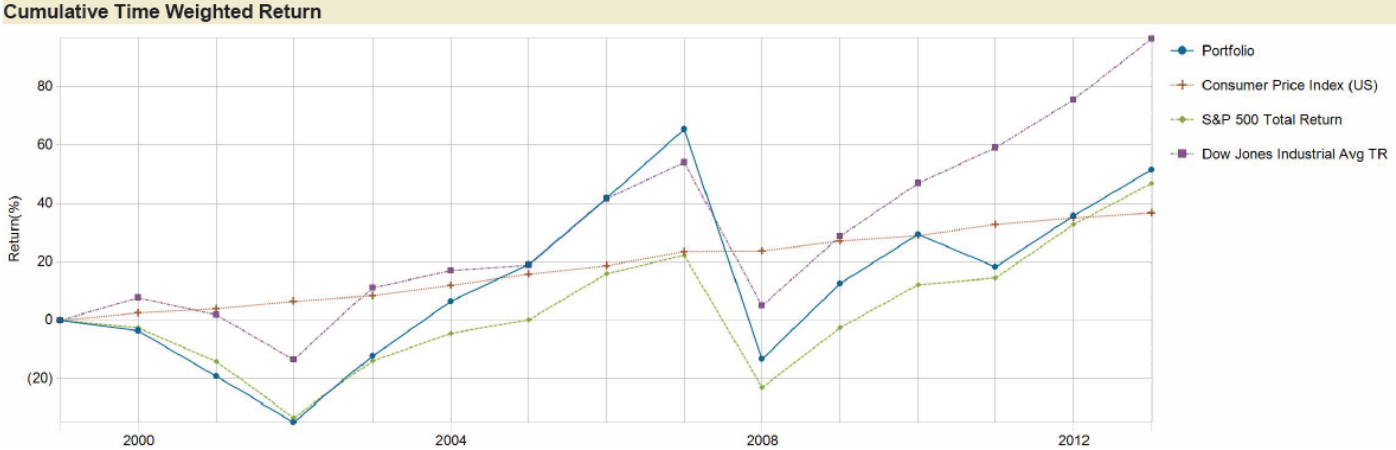
Annualized Performance



(%)	Prior 3 Months	1 Year	3 Years	5 Years	Entire Period
Total Portfolio	**11.64**	**16.03**	**8.86**	**1.42**	**3.23**
Consumer Price Index (US)	1.22	1.31	2.21	1.71	2.43
Dow Jones Industrial Avg TR	11.93	13.37	13.32	6.50	5.30
S&P 500 Total Return	10.61	13.96	12.67	5.81	2.99

Returns for periods longer than one year are annualized.

Cumulative Time Weighted Return



David Fishman	Max Farrington	Trey Hatcher
Executive Director	Associate Director	Associate Director
fishmand14@mail.wlu.edu	farringtonm14@mail.wlu.edu	hatchert14@mail.wlu.edu

Current WIS Holdings

1st Quarter appreciation/depreciation and market value of holdings. (*) indicates 1st-quarter purchases. Holdings below are as of April 2, 2013.

Basic Materials

CF	$6,328.00	-8.14%
MEOH	$56,126.00	-3.79%
MON	$59,800.00	+9.86%
OMG	$29,427.00	+2.53%
SLW*	$29,689.00	-3.22%
TOTAL	$181,370.00	

Consumer Discretionary

COH	$24,187.00	-9.32%
DIS	$27,294.00	+11.15%
DLTR	$49,686.00	+21.38%
IGT*	$65,551.00	+16.44%
TJX*	$32,543.00	+8.29%
TOTAL	$199,261.00	+4.70%

Consumer Staples

BBBY	$16,193.00	+13.66%
BUD	$70,098.00	+11.80%
CVS	$41,817.00	+10.69%
DANOY	$49,630.00	+4.47%
SJM*	$63,865.00	+14.98%
TOTAL	$241,603.00	

Energy

CCJ	$17,859.00	+2.77%
COP	$57,038.00	+1.50%
DVN	$33,355.00	+7.55%
SLB	$61,419.00	+4.89%
TRP	$55,035.00	-0.80%
TOTAL	$224,706.00	

Financials

BNS	$19,216.00	-0.19%
EFX	$43,020.00	+5.21%
V	$16,795.00	+9.31%
VTR	$55,589.00	+12.34%
WFC	$39,429.00	+8.22%
TOTAL	$174,049.00	

Healthcare

ABT	$30,702.00	+7.85%
ENSG	$48,804.00	+18.57%
GILD	$53,020.00	+30.40%
MR	$59,899.00	+22.14%
UNH*	$39,514.00	+5.48%
TOTAL	$231,939.00	

Industrials

GE	$28,428.00	-0.52%
JOY	$12,888.00	-9.82%
SNA	$21,012.00	+4.70%
UPS	$32,309.00	+12.57%
WM	$39,750.00	+15.43%
TOTAL	$134,387.00	

Technology

AKAM	$39,927.00	-17.22%
CPSI	$17,645.00	+3.54%
ORCL	$32,745.00	-2.97%
QCOM*	$63,539.00	+8.21%
VCLK	$23,144.00	+50.36%
TOTAL	$177,000.00	

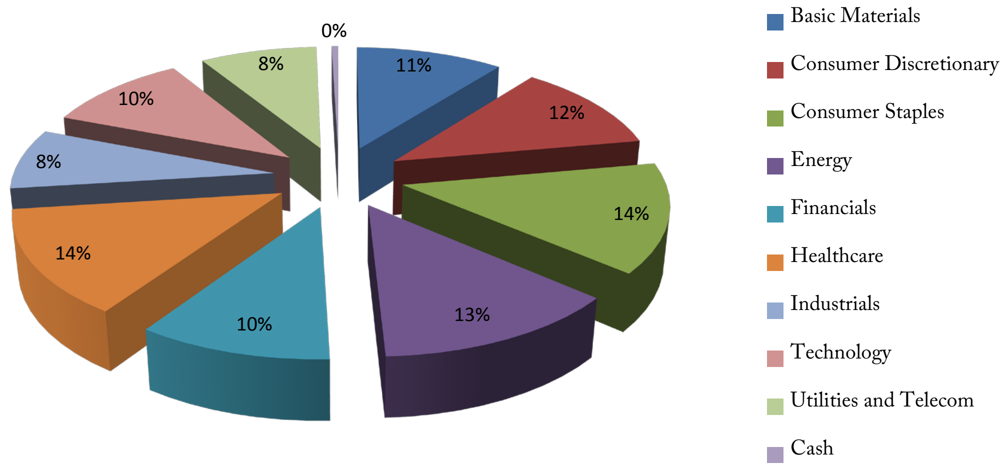
Utilities and Telecommunications

AMT	$24,485.00	+28.18%
DUK	$58,096.00	+11.66%
NRG	$31,944.00	+15.68%
VOD	$29,405.00	+12.74%
TOTAL	$143,930.00	

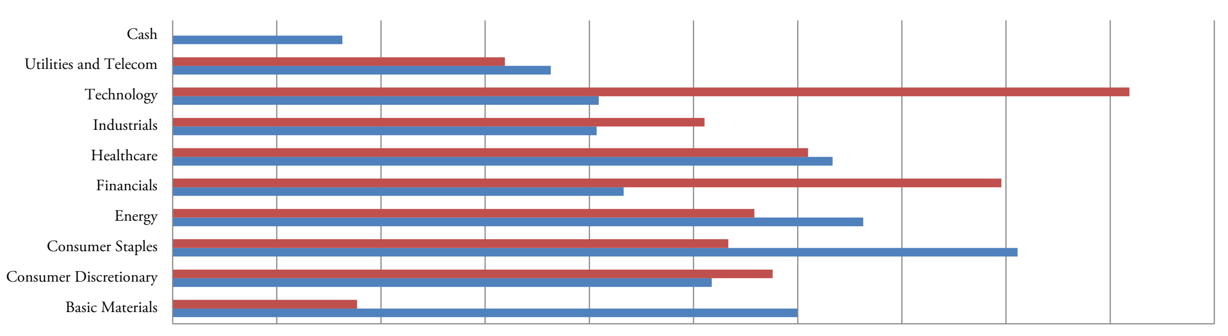
Total

CASH	$7,762.00
TOTAL	$1,716,007.00
EQUITIES	$1,708,245.00

Current WIS Sector Allocation Weightings



Beginning WIS Sector Weightings vs S&P 500 SPDR Weightings



	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	Technology	Utilities and Telecom	Cash
S&P 500 SPDR	3.54%	11.52%	10.67%	11.17%	15.91%	12.20%	10.21%	18.37%	6.38%	0.00%
WIS	11.99%	10.35%	16.22%	13.26%	8.66%	12.67%	8.14%	8.18%	7.26%	3.26%

Portfolio Overview

The Williams Investment Society generated strong returns for both the 1st quarter of 2013 and the past 12 months. Benefiting from the Consumer Staples and Healthcare Sectors' performance, the portfolio appreciated 11.64 percent during the 1st quarter and 16.03 percent for the past 12 months. On a risk-adjusted basis, the portfolio realized an alpha of 1.20 percent and 2.31 percent for the quarter and 12 month period respectively. Headed by the quarterly returns of ValueClick, Gilead Sciences, and Heinz, the portfolio has continued to outperform the S&P 500. Overall, the Society's net asset value appreciated from $1,538,783 to $1,717,960 during the first quarter ended 2013, as the equities yielded 12.02 percent for the same period.

During the quarter, the Society made a concerted effort to reduce its cash position from 3.26 percent to 0.45 percent of the portfolio, using the funds to begin re-weighting the sectors to better reflect the benchmark weightings. Depicted to the left, WIS began reducing its overweight position in Basic Materials and Consumer Staples. Although the sale of Freeport McMoran combined with the purchase of Silver Wheaton kept WIS invested in precious metals, on a percentage basis, the Society reduced its exposure to the precious metals industry. A fragile industry that may have significant downside once the Fed begins to reduce the scope of its asset purchases, along with the continued, albeit slow, mitigation of both budgetary and growth related fears globally. Regarding Consumer Staples, the sector had been heavily overweight relative to the benchmark primarily due to the magnitude of the position in Heinz, which had become greater than our mandated five percent of the portfolio per holding requirement. After the Berkshire Hathaway and 3G Capital deal to purchase Heinz for $23 billion, WIS believed the transaction presented the ideal time to exit the holding, purchasing J.M. Smucker, which encompasses a similar investment thesis. The Society used the proceeds of the aforementioned transactions and its initial cash position to increase its sector weightings in both Financials and Technology. Maintaining the Financials holdings constant, the Society increased its position in Wells Fargo. Despite the net interest margin and loan origination pressure, as the American banking sector continues to strengthen the firm will continue to prosper. Technology shed its position in Texas Instruments, replacing it with the increasingly more successful Qualcomm. Qualcomm benefits from its numerous patents and the resulting licensing revenue along with its expanding exposure into both the wireless and non-wireless markets.

The Society understands that proper diversification strategies are an integral part of any asset management fund realizing consistent, risk weighted long-run returns. Hence, the Society will continue to ameliorate the significant discrepancies between WIS's sector weightings and those of the benchmark index that the Society deems necessary. The current overweight position in Basics leaves the portfolio highly susceptible to volatility in the market. Considering the weakening global growth projections, especially out of China, commodities may not perform very well over the ensuing quarters, highlighting a point of concern for a potential underperformance relative to the market. Yet, the Society increased its allocation to Utilities and Telecom during the quarter and the portfolio remains overweight Consumer Staples, hopefully providing some offsetting stability while the Society continues to rebalance the portfolio.

Economic Overview

The American economy has continued expanding in the first quarter of 2013, but at a moderate pace, following the paltry 0.4 percent expansion in the fourth quarter of 2012. There were certainly a few positive data points throughout the first quarter, yet the austerity measures have not entirely impacted American GDP growth yet, as households typically have a delayed reaction in consumption resulting from changes in their budgets, while the sequester was not truly implemented until the end of February. It is true that the uncertainty from the fiscal cliff was factored into most business activities, yet the full contractionary effects of the government cuts combined with various tax increases will have a greater impact in the ensuing quarters.

The potential for the austerity measures to hinder growth in the following quarters can be discerned in the forward looking manufacturing and service sector data. Both the Empire State and Philadelphia manufacturing gauges came in near flat during March, declining from the prior month, post sequester. Although distinctly volatile, the new orders index entered contractionary territory for Philadelphia and declined for the NY region. Moreover, the future orders for both regions experienced material declines in expectations. This reinforces the trend of the much more comprehensive Institute of Supply Management's flat readings and downward trends in new orders, regarding manufacturing. For the ISM's service sector, the picture was brighter, yet the results disappointed and the forward-looking reading's growth rate also significantly slowed. The Consumer Confidence Index slumped in March as well, following a decent reading in February. A significant portion of the drop resulted from a decline in the expectations index, while the present situation index also fell. Despite the evident slowing pace of growth, the aforementioned indicators still confirm estimates for a rebound in the mid two percents for the first quarter of 2013following the flat 4th quarter growth numbers.

As the year progresses, the combination of higher payroll tax rates, increased income taxes for high-income earners, the new Affordable Care Act taxes, and the sequester is estimated to produce a contractionary effect of 1.75 percentage points on gross domestic product this year. This considerable drag on the economy is further incentive for the Fed to continue using its current monetary stimulus program of purchasing $45 billion of long-term Treasury notes and $40 billion of mortgage-backed securities each month to buoy the market and offset the contractionary fiscal policy. Many Federal Reserve Governors have expressed interest in beginning to exit their quantitative easing program later this year, especially if job growth stabilizes around 300,000. However, following February's strong job creation, the March numbers were very disappointing, as the unemployment rate fell to 7.6 percent as a direct result of a shrinking labor force. As the aforementioned mix of tax increases and government spending cuts continue to hinder more consistent, robust growth, weak job growth may continue over the short term, buying more time before the Fed begins tapering off QE3. Still, the Fed shows no sign of reneging on its pledge to keep interest rates near zero until unemployment hits at least 6.5 percent, as long as inflation remains under 2.5 percent. A belief that is reinforced when considering that the Fed's preferred inflation measure is hovering around the mid to low 1 percents and that the fundamental catalysts necessary to generate heightened inflation, such as stronger credit growth and economic expansion, are not yet present.

Despite the implemented austerity measures' drag on growth, the intended reductions in the United States' budget deficit are beginning to be realized. The U.S. government ran a budget deficit of $106.5 million in March, which is essentially 50 percent below the same figure last year. This, along with continued growth, has enabled the deficit to shrink 23 percent for the first six months of this fiscal year relative to the prior fiscal year. However, crowding out is not an immediate concern with low interest rates and recovering private sector bond demand, leading many economists, such as Christine Lagarde to deem American austerity as overly aggressive in the short-term and insufficient in the medium-term.

The overly aggressive deficit reduction measures have been hindering growth, yet there are still bright spots in the American economy. For the first quarter, the inflation adjusted consumer spending numbers are strong. Although households may not have altered their budgets following the recent tax increases, for an economy driven primarily from consumption, this is a good indication of first quarter growth. Moreover, The U.S. housing market continues its overall recovery, considering a few weak short-term data points, home sales have in general continued their recovery, notching double digit gains relative to a year ago, contributing to the 11.8 percent year over year gain in median home prices. Home values have also been buoyed by a sub three percent thirty year treasury bond, improving household demand, and lower inventory levels, but an acceleration of the supply of homes on the market from the shadow inventory could hinder future price growth. Another positive for first quarter growth was the robust expansion in shipments of core capital goods in February, a strong indication of a rebound for the dismal growth from the previous quarter.

Regarding Europe, the Eurozone continues its disappointing trend of weak data and political conflict. The headline Economic Sentiment Indicator provided by the European Commission that encompasses both businesses and consumers fell for the first time since October 2012 in March. The Commission also stated that the decline in business confidence was headed by the manufacturing sector suffering from lower new orders. Similarly, European consumer confidence fell as consumers became more pessimistic about the economy.

On the political front, turmoil over austerity continues to plague the Eurozone. In Italy, Pier Luigi Bersani, who recently announced he would step down as Italy's center-left political party leader, ruled out the option of forming a grand coalition with Silvio Berlusconi's center-right party. Despite the resulting spike in Italian benchmark bond yields, the ten-year note has fallen to around four percent, hinting that the market is not overly fearful that a functioning coalition will not be formed in Italy to resolve the gridlock following the recent elections. In Portugal, more conflict ensued concerning public spending cuts. Premier Pedro Passos Coelho is struggling to maintain his government after the Portuguese Supreme Court rejected more than €1 billion worth of austerity measures from this year's budget. The court ruled that wage and pension cuts to public sector workers, implemented as a requisite for an international bailout, are illegal because they do not apply to all workers. Coelho has publicly denounced the idea of additional tax increases and will have the difficult task of finding a new source of €1 billion to cut from the budget. Following the news, the Portuguese ten-year bond yield jumped to 6.5 percent before continuing its steady descent to the six percent level. Similar to Italy, the current bond yields are well-off the highs of the past year, emphasizing the credit markets' subsiding fear.

Further area for concern, inflamed during the first quarter, is the possibility that the Cyprus aid deal sets a precedent that bank depositors could suffer future losses if the country that holds their deposits requires a bailout. In Cyprus, the resolved bailout deal for the two banks—Cyprus Popular Bank and Bank of Cyprus—ultimately places the entire burden on uninsured depositors. These depositors are those with deposits exceeding the €100,000 threshold. The frozen deposits are expected to amount to euro €4.2 billion, potentially costing depositors up to 30-40 percent of their deposits, considerably higher than the originally proposed rate of 9.9 percent. A key point of assessing the ramifications on Cyprus is that most of these depositors are Russian. Cyprus' low corporate taxes and weak financial regulation turned the country into a destination for affluent individuals and businesses to allocate their funds. The result is a $25 billion economy that is significantly dependent on its financial sector, which houses approximately $31 billion in Russian bank deposits, a startling number when compared to the size of the Cyprus economy. If Cyprus no longer appears a beneficial haven for Russian funds then the economy could be crippled for years. Some economists are forecasting a GDP contraction of upwards of 10 percent. Although not a substantial portion of the Eurozone's GDP, Cyprus' turmoil in addition to Italy and Portugal combined with weaker consumer and business data indicates continued weakness in the Eurozone for the first quarter along with the full year 2013.

The Chinese economy fell short of expectations for the first quarter of 2013, growing at a 7.7 percent annualized rate. As the major engine for global growth, any disappointing data coming out of China will have far-reaching effects on other countries' economies. Still, the construction sector in particular is a bright spot, buoyed by the $150 billion worth of infrastructure spending last year. The country's non-manufacturing sector is realizing stronger growth, sparking business confidence to hit a ten month high. Factory activity rebounded in March, stronger domestic demand helped spark new orders, hopefully providing a catalyst for the following quarter's growth prospects. As a maturing economy, China's Commerce Ministry has pledged to boost imports, moving slowly away from its export driven economy to pursue more sustainable growth driven by an increasing focus on domestic consumption. Although not the direct result, China did experience a mild trade deficit in March as imports surged year over year.

The Chinese government is also making a concerted effort to improve the standard of living of the inhabitants of Beijing. China intends on spending approximately $16 billion over three years to deal with Beijing's pollution. Pledging to improve sewage disposal, garbage treatment, and air quality this may indirectly affect the coal market, along with other commodities that produce negative externalities. If China is serious about improving these key standards for measuring quality of life, a tax or tradable permit system is likely to emerge in the future, reducing China's demand for the relevant commodities.

The third largest global economy, Japan, has been actively pursuing stimulative measures both fiscally and monetarily in order to reinvigorate the stagnant economy. Prime Minister Shinzo Abe has been discussing joining the Trans-Pacific Partnership. A measure intended to help stimulate both consumption, through cheaper imports, and its export-driven auto industry. These trade talks are the "third arrow" in the prime minister's "Abenomics" policy, which also includes fiscal spending and monetary policy easing. Trade talks primarily revolved around automotive and farm product tariffs along with insurance and investment.

The three pronged approach to "Abenomics" will hopefully stimulate the Japanese economy over the ensuing quarters, following a weak first quarter. For the first two months of the quarter, Japan's industrial output weakened. A principal reason for the weakness was a significant decline in the production of electronic parts and devices, resulting from lower smartphone demand and sluggish manufacturing in China. Moreover, Japan continues to suffer from a deflationary environment, experiencing a year-on-year decline in its core CPI. A problem that the new Bank of Japan Governor, Haruhiko Kuroda, is determined to fix. Setting the country a two-year period to achieve the target of two percent inflation, he is providing the monetary easing that Prime Minister Abe desires. Initiating an open-ended asset buying program, Kuroda forecasts that the monetary base will basically double to 270 trillion yen by the end of 2014.

Japan's new quantitative easing program, when adjusted for the size of the country's gross domestic product, is twice as large as the Fed's asset purchases. The BOJ aims to make five purchases totaling 6.2 trillion yen in April. After that, it plans to make monthly purchases of about 7.5 trillion yen in six installments. Kuroda's stimulative measures will ostensibly push down bond yields to a level that will incentivize investors to start purchasing riskier assets such as property and stocks, as well as prompting immediate expenditures from both firms and households from the derived expectations of rising prices.

The actions taking by the BOJ have caused the Yen to decline rapidly in value. A growing trend, many developed countries have been using accommodative monetary policy to stimulate their economies, especially when fiscal policy is tight. Both the Fed and the Bank of England have provided monetary stimulus through large-scale bond purchases, while the European Central Bank, although partially restrained by the hawkish Germans, reiterates that it will maintain a loose monetary policy for as long as necessary to aid the recovering Eurozone economy. Still, some theorists, such as German Finance Minister Wolfgang Schaeuble, believe that the widespread use of monetary policy in lieu of financial and economic reforms is essentially "running the wrong way." A sentiment that is partially reiterated by Draghi, who recently pointed out that the ECB is not providing the same accommodations as the Fed, BOE, and BOJ, among others, because the data appears to show the effects of the programs are limited. Still, there appears to be further evidence that the end of monetary easing will not be in the near future. Mark Carney is set to become the Bank of England's governor. He recently labeled the U.K. a "crisis economy," as it remains on the fence of a triple-dip recession. In the U.S., Bernanke's term is ending in about a year, and the likely successor to Bernanke is the dovish Janet Yellen. The Chinese economy's weaker growth and lower inflation numbers for both the producers and consumers suggest reduced pressure on policy makers to tighten monetary policy.

Investment Overview[1]

Throughout the quarter, the Society chose to initiate a few new positions and reweight a few holdings based on market trends, valuation, and desired exposure to certain sectors of the economy. Our first buy and sell action was in the Consumer Discretionary space. The Society decided to sell its position in Home Depot (HD) and purchase International Game Technology (IGT). Although WIS believes HD will remain a strong company, especially as the American housing market continues to rebound, WIS considers the stock to be trading at a premium. The market has priced in considerable growth, presenting considerable downside risk and an opportune time to realize our profits, by taking advantage of the current price. The rich valuation was evident when evaluating the stock on both a discounted cash flows and multiple basis. The valuations required significant growth, which was not justified by their slowing rate of domestic new stores development and its halted international expansion. A recovery in the American housing market has persistently supported the company's stock price. Hence, the company requires earnings growth to be realized through same store sales growth, which the Society believes will not come fast enough to justify the price that WIS sold it at.

1 This section includes contributions from the following Industry Heads: Energy- Bayan Misaghi, U&T-Charles Busch, Basic Materials-Emily Hudson, Consumer Staples-Henry Portwood

The screening process involved looking for a company with exposure to an industry that WIS did not directly have any current positions in, exciting growth opportunities, and traded at a fair price. The Society selected International Game Technology (IGT). IGT specializes in the design, development, manufacture and marketing of casino games and equipment. Most importantly, they are the market leader in manufacturing of slot machines. Approximately 50 percent of slot machines in the U.S. are made by IGT. The principal buy rational was that the stock was fairly valued assuming slow to no growth and most indications point toward robust growth opportunities for IGT. As more states run into financial trouble, the trend toward generating increased tax revenue from both online gambling and slot machine legalization will continue. IGT stands to benefit from both. Their international segment is also experiencing rapid growth, especially in Europe. We believe that online gambling tax levying could see extensive support in Europe as those countries search for less contractionary approaches to austerity.

The energy group reallocated its holdings, selling some of its position in TransCanada (TRP) and buying more shares in Devon (DVN). Despite the steady performance of pipeline companies, WIS anticipates TRP's future growth to be hindered. In terms of the politically divisive Keystone XL pipeline, President Obama has revisited its initial blockage in 2011, and the pipeline is likely to be built. However, its construction is an inherently political issue, making the timetable for construction unclear. We expect TRP to provide slow growth enhanced by a strong dividend yield, so the Society only wanted to lighten its position in the company, while realizing some of the profits.

WIS added to its DVN position in order to situate itself to capitalize on the continued rebound in the natural gas market, which has been recovering from its depressed levels during the quarter. Natural gas prices bottomed out at the end of last year, which induced DVN's stock price to fall as margins and revenues were impacted by the lower natural gas prices, resulting in a negative bottom line that the society anticipates to be a transitory issue. WIS believes that DVN has not yet realized gains on the increasing price of natural gas. Macroeconomic trends like new natural gas plants phasing out coal plants due to environmental concerns, increasing exports of natural gas, but also new technologies that allow liquefaction of natural gas, and talks of natural gas being able to power automobiles in the near future will cause more machines to shift from oil and coal as their primary sources of energy to natural gas. DVN has unrealized potential in its exploration and development as it is accelerating drilling in the Permian Basin and has made several recent plant and equipment upgrades that will provide capital efficiency for future benefit.

Utilities and Telecom sold its America Movil (AMX) holding and purchased American Tower Corporation (AMT). AMX had been a significant underperformer of the past quarters and the Society deemed the risks to remain high for the following quarters. One of America Movil's biggest challenges in the months ahead will be avoiding the adverse effects of a recently proposed telecommunications bill, which primarily seeks to broaden competition in the Mexican telecom industry. Under the new laws, Mexican telecom providers will be regulated by an organization (FITC) that will have the power to revoke operating licenses and break up companies possessing more than 50% market share. Considering the fact that America Movil currently controls 70 percent of Mexico's wireless market and 80 percent of fixed lines, the company will undoubtedly be adversely affected by the regulatory agency, subjecting the firm to a detrimental hit to earnings as well as losing market share to its competitors. The only potential upside is if America Movil stood to capitalize on the opportunity to enter into the Mexican television market. The company has made several attempts to do so in the last ten years, but has been met with political resistance and regulatory sanctions each time. Mexican provider Televisa, who currently controls 70 percent of the television market, will be subject to the same monopoly regulations and will be required to surrender some of this market share to smaller competition when the reform laws go into effect. More broadly, the Society's initial buy thesis remains a sell risk: American Movil's dominating presence in Mexico and Brazil give the company exposure to long-term trends that will continue to occur in these growth markets. A substantial amount of the growth in the telecom sector is going to occur in emerging markets, while a number of necessary steps still need to be taken to further develop the infrastructure required to support wireless networks. As the industry develops, smart phone and tablet items, currently viewed as luxuries, will transition into everyday goods in the respective markets. The sale of America Movil will forgo this long-term growth opportunity; however, WIS considers the magnitude of this opportunity as highly uncertain due to the challenges the company currently faces.

The Society decided to use the funds from the sale along with some of the excess cash to purchase the telecom REIT, AMT. American Tower's business model and asset portfolio have positioned it well to take advantage of the increased demand for data and the expansion of 3G and 4G networks domestically and abroad. Telecom service providers have several options for expanding their network capacities in order to accommodate greater network traffic. They can purchase more spectrum, updated their on-site equipment (which transmit the wireless signals), or add more cell sites, all of which are costly. The high costs of increasing network capacity along with the subsidization of smartphones have been the most prominent headwinds that telecom companies have encountered while trying to meet the rapidly rising demand for data. This difficulty generates demand for American Tower services as wireless service providers are forced to lease tower space in order to install their hardware. It is estimated that mobile data traffic will increase 10 times over between now and 2016. In order to keep up with the rising demand for data and their competitors, telecom companies will be proactive in adding cell sites to increase their network capacity. The new AMT position should play out as a cornerstone of the U&T portfolio. The firm's tenants typically enter into 5-10 year non-cancellable lease agreements with 5 year renewable terms. The contracts maintain incremental rent increases of usually 3.5 percent per annum, guaranteeing a steady stream of rental income in a high margin industry. Along with this consistent stream of revenues, the company is positioned well to benefit from its portfolio's emerging market exposure, with approximately 60 percent of its asset portfolio spanning 10 countries internationally. The primary buy risk for AMT revolves around its expensive multiples. The elevated multiples are predominantly due to the fact that purchasing AMT is indeed buying robust future growth. The firm's expansion depends heavily on capital expenditures. Increasing the company's economic value, the high capital expenditures relative to revenues skew earnings and cash flows

during the short-term and pose inherent time-related risk. Additionally, American Tower has fairly long-term leases with its tenants, but if it struggles to renew those leases upon expiration or to find tenants for its new sites, AMT will have difficulty covering the fixed costs associated with its towers, hurting its profitability

Basic Materials sold Freeport McMoran (FCX) for a variety of reasons but mainly due to its dependence on copper—thus China—and the company's recent acquisition. As it stands, FCX's portfolio consists almost exclusively of copper mines. Therefore they are not well hedged in case of a potential fall in the price of copper, which is not forecasted to perform well. The heavy reliance on copper restricts growth opportunities. The Society thinks that the portfolio will benefit more from a better diversified company. FCX's profit generation primarily comes from Chinese demand, and with China's uncertain motivations along with the possibility that the country could significantly alter its purchases all together at any time, FCX's profitability and growth is precariously reliant on one country with an economy that has continually had growth expectations reduced over the past year. Lastly, OM Group (OMG) agreed to sell its advanced materials business to FCX. WIS currently has stock in OMG, and the society wants to keep its portfolio as diversified as possibly, with limited overlap between holdings.

There are sell-risks involved with FCX. If the housing market continues to improve, demand for copper and the price of copper will increase benefitting FCX. Another possible risk is that economic conditions could deteriorate, pushing certain commodity prices higher due to both fear and more monetary stimulus. The other risk in selling FCX is the potential growth we could miss out on due to its newer investments. Recently, FCX has started production on several gold mines and is also shifting resources toward pursuing oil and natural gas reserves. These business ventures could pay off in the future and make them a much more compelling, diversified buy in the future.

Settling on Silver Wheaton (SLW), WIS wanted to increase its diversification in a firm that maintains a high growth potential, a unique business model, and an industry leading market share. Due to a recent multi-billion dollar stream agreement with Vale, SLW will increase its metal diversification with increased Gold exposure. Gold is expected to rise to 24% of overall production over the next five years. It also has high growth potential; based upon its current agreements, by 2017, annual attributable silver equivalent production is anticipated to increase by approximately 70 percent, including substantial growth in its gold segments. SLW has set itself up to grow organically through continued global expansion. The company's business model offers an opportunity to capture the upside potential in precious metals while eliminating much of the downside risk typically associated with mining companies. Furthermore, SLW is the largest metals streaming company in the world with a market cap almost twice the second largest metals streaming company. Most of the risk inherent in the buy of this stock comes from political instability in mine locations and the volatility of precious metal prices. Most of the mines that Silver Wheaton has deals with are in the developing world and as a result are prone to strikes which can stop work on a site for months. Also, there is the legitimate risk that governments will try to nationalize the mines. Secondly, the price of silver and gold, like any other commodity, is constantly in flux. If the price declines from tighter monetary policy, increased fiscal and political stability, or an improved global growth outlook, Silver Wheaton's stock price would suffer.

The Healthcare group shed its holding of AbbVie (ABBV), a biopharmaceutical company that operates in the discovery, development, manufacture, and sale space for pharmaceutical products. Worried about the firm's growing dependence on its headline product—Humira—which is forecasted to increase to 60 percent of ABBV's revenue mix by 2016, coinciding with Humira's patent's expiration year, exposing the company to competition from generic drugs. Susceptible to this over-reliance, ABBV currently maintains a weak pipeline providing little assurance that it will be able to produce, manufacture, and sell new pharmaceutical products capable of supplementing the magnitude of Humira. WIS believed that this vulnerability left the equity open to significant downside risk. Since the Society screens for equities poised to realize future outperformance, WIS screened for a company situated to benefit from the rising healthcare spending in BRIC economies, the ability to capitalize on aging population demographic in US, and the increased healthcare coverage due to the Affordable Care Act, while trading at multiples below the industry average with consistent earnings growth. Deciding on United Healthcare (UNH), the largest healthcare manager based on enrollment size. After a few key acquisitions, the firm is poised to realize strong growth both domestically and abroad. The company acquired both Amil Participacoes, Brazil's largest private healthcare company, and XLHealth Corporation, which provides proprietary Medicare Advantage plans, during 2012. WIS believes these additions to the UNH portfolio better positions UNH to realize continued, robust growth. Healthcare spending will undoubtedly continue to grow as a percentage of GDP both globally and domestically, as countries incomes, and the resulting demand for an improved quality of life, increase, generating strong future demand for UNH's services.

The Technology group sold its Texas Instruments (TXN) holding and initiated a position in Qualcomm (QCOM). During 2012, TXN began exiting the wireless business, moving toward a less attractive product mix. The result will be a lower margin, lower growth company. This strategic decision essentially eliminates the potential for the firm to benefit from the higher margins and growth opportunities of the wireless market. Along with its increasing reliance on debt to fund its operations, WIS believes the company embodies poor fundamentals. Still, the Society considers this industry to be integral to a well-diversified tech portfolio, provoking WIS' decision to acquire a stronger competitor, QCOM. Despite QCOM's run-up in price, the Society believes that its strong free cash flow growth will enable the firm to continue returning capital to its shareholders while continuing to pursue growth opportunities, supporting its valuation. The company generates consistently strong revenue and earnings growth from its chip-related products for both wireless and non-wireless markets, along with strong licensing revenue from the firm's impressive patent portfolio. The Society believes that this position will continue to provide WIS' portfolio with more profitable exposure to the key wireless and non-wireless chip-markets than TXN will be able to.

The sale of WIS' largest holding during the quarter, H.J. Heinz Company (HNZ), was spurred by the news on February 14th announcing the proposed Berkshire-Hathaway and 3G Capital acquisition of HNZ. The Consumer Staples team understood that HNZ provided an opportune sell-target. The Heinz board unanimously approved the takeover at $72.50 per share, which would represent a 59% gain over our $45.71 cost basis in the WIS portfolio. The Society wanted to go ahead and realize the gains and reinvest the capital in other productive assets, since the price of HNZ should remain essentially constant around the acquisition price.

The Consumer Staples sector has enjoyed a strong run-up as investors continue to search for low-risk yield. With treasuries hovering around two percent, stable, high dividend stocks have seen increased popularity. This trend has created a difficult buying environment as many staples are trading at or near their all-time highs. After substantial research, the Society decided the J.M. Smucker Co. (SJM) will be an optimal replacement for Heinz, maintaining a secure cornerstone of the portfolio. SJM is a consistently growing, low-risk business with strong brand recognition. Household names such as Smucker's, Folgers, Dunkin' Donuts, Jif, and Crisco will continue to allow for modest price increases year-over-year. Smucker's has higher margins than their direct competitors, consistent success with their new product releases, and growth prospects through their recently acquired Cafe Bustelo and Cafe Pilon Hispanic coffee lines. Though near its 52-week high, WIS expects SJM to continue to appreciate through the current macroeconomic environment.

More generally, the Society sees potential for continued weakness out of the Basic Materials sector. A number of factors could lead to lower commodity prices during the year. Slower global growth resulting from continued disappointing numbers coming out of Europe and China, along with weaker American demand resulting from the current government spending cuts combined with the payroll, income, and Affordable Care Act tax increases. Still, the American economy continues its sluggish to moderate growth, but will probably accelerate in the second half of the year. If this occurs, it is likely that the Fed will begin tapering off its ultra-loose monetary policy, hurting commodity prices. If turmoil continues in Europe and China's rate of growth continues to slow, three of the largest world economies—Eurozone, China, and Japan—may provide more accommodative monetary policy, along with the potential for political conflict between Japan and China as well as within the Eurozone, these factors could provide further strength for the dollar, hurting commodity prices, especially precious metals as QE3 tapers.

The Society sees continued strength in the financials and healthcare sector. Increasing the portfolio's weightings in the two sectors over the quarter, the Healthcare sector continues to be a sector that WIS wants to be overweight. As an expanding sector within an expanding economy, the various Healthcare industries provide plenty of opportunities for profitable growth. Recently, the government announced it will pay a 3.3 percent growth percentage for private insurers operating Medicare Advantage plans, a significant alteration from the previous negative 2.2 percent number, benefitting WIS' UNH holding. Regarding financials, the environment continues to improve. The banking sector continues to strengthen, revealed by the most recent Federal Reserve stress test, enabling banks and other financial institutions to return more capital to shareholders along with other profitable uses. Moreover, the continued improvements in consumer credit, employment numbers, stock market returns, and ultra-low interest rates continue to buoy the sector.

The more stable Consumer Staples and Utilities & Telecom sectors continue to remain elevated and trade at historically high multiples. Resulting from uncertainty within the market and historically low interest rates, these steady, low growth companies with dividend rates above the ten-year Treasury note are finding support at elevated prices. Nonetheless, the stability these companies provide can be useful positions to reduce downside volatility. Especially at the current all-time highs of the stock market, WIS remains overweight the two sectors to maintain lower beta holdings. Still, these sectors do maintain certain equities that provide both growth potential and fundamental stability, which the aforementioned purchases represent. As emerging market incomes continue to grow, Consumer Staples, such as SJM products, will continue to permeate foreign households, composing a significant portion of their growing consumption. The telecom industry will continue to benefit from higher incomes in emerging markets as well. As telecommunication products spread throughout the markets, companies such as AMT maintain portfolios that are well positioned to benefit from this growth combined with the stability of fixed contract revenue streams.

David Fishman	Max Farrington	Trey Hatcher
Executive Director	Associate Director	Associate Director
fishmand14@mail.wlu.edu	farringtonm14@mail.wlu.ed	hatchert14@mail.wlu.edu