Global Equity Fund
Robert H. Smith School of Business

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P1------Fund Performance (Half Year Report)
P2------Market Outlook for 2014
P3------2013 New York Trek
P4------Buffettology
PORTFOLIO PERFORMANCE: HALF YEAR REPORT

Since its establishment in 2009, the Global Equity Fund’s (GEF) goal has remained to achieve long term capital appreciation by capturing superior returns. Our investment philosophy has relied on the use of innovative momentum based models and exceptional fundamental analysis.

In the first half year of fund stewardship, our team has concentrated on rebalancing the portfolio amongst our focus sectors, exiting underperforming stocks, taking gains from legacy positions and establishing the fund’s strategy of aggressive investing in undervalued regions of growth.

Over the second half of our term we will look to aggressively pursue our goal of beating our benchmark (ACWI ex-US) while increasing the regional diversity of our stocks. Below is an overview of our performance over the last six months.

<table>
<thead>
<tr>
<th>Positions Sold</th>
<th>9</th>
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<tbody>
<tr>
<td>Gains : Loss Positions</td>
<td>4:5</td>
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<tr>
<td>Gains : Loss (Dollar Ratio)</td>
<td>2.29:1</td>
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Rebalancing Transactions and Cash Position – as at 09/01/2013
2014 Market Outlook

As an investment fund heavily vested in the global movement of markets, the GEF maintains and analyzes market, industry and regional outlook briefs that are presented by a variety of private and public organizations. Below are some excerpts that currently inform our views in this dynamic environment.

The global growth in year 2014 is expected to accelerate, led by a recovering U.S economy where consumer and business spending looks promising. Economic growth appears likely to improve in Europe and Japan as central banks keep monetary policies favorable for corporate spending. A slowing China is still set to be a major contributor to global growth. Yet there are risks that could drag down this growth, including how the international markets absorb future tapering, deflation in the developed world and rising correlations and volatility in equity markets.

Let’s focus on the main player – US market. The moderate inflation, a stronger economy, and historically low but gradually rising interest rates in the first two quarters of 2014 could generate an environment where more juice can be squeezed out from certain sectors. But if and when the Fed tapers its bond-buying commitments, there is potential for policy mistakes, misperceptions or unexpected political developments to create market volatility. This risk is greater given today’s somewhat fuller valuations and higher expectations for markets.

In addition, frontier markets have high growth prospects, trade at attractive valuations and are less correlated to developed economies. The equity investment here should be selective. There exist opportunities where cheaper valuations have already factored in downside risks. However, the weakening local currency against USD as well as political uncertainties and downside effects from a QE exit could add more risks to the emerging investment market.

One industry that we plan to review this term is the auto industry. While we have no current exposure to this industry, the GEF has noted that the increasing improvement in the credit environment and consumer confidence will help sales. This is also an industry that has more large-cap multinational players which continue to be undervalued as a result of the global financial crisis. Finally, improving housing construction and manufacturing activities could also boost the sale of trucks. When screening companies in this sector, the most important factors to consider are operating cost efficiency and fundamental change activities such as M&A and heavy R&D investment.

Credited Sources:
CIO outlook 2014, Merrill Lynch, Bank of America Corporation
2014 investment outlook, Blackrock Investment Institute
Industry surveys on Autos & Auto Parts, Efriaim Levy, CFA,
S&P Capital IQ
2013 New York Trek

The Global Equity Fund’s two day trip to New York was an exciting time for both analysts and portfolio managers. The trip was a chance to learn about industry practices in asset management and bring lessons home to improve our own methods and execution. A brief synopsis of each of the visits is below:

At K2 Advisors, a fund of funds with offices in New York and Connecticut, our discussion centered on the need to build ongoing relationships with hedge funds and the tools that K2 uses to measure manager performance. The presence of several University of Maryland alumni buoyed our spirits and served as a reminder that the standard of education at the Smith school is second to none. Our key lessons were:

- Investment choices are made by putting yourself in the client’s shoes.
- While fund performance is a key aspect, sustainable results are highly influenced by fund managers. Therefore pay the utmost attention to identifying and analyzing risks through conducting quantitative and qualitative due diligence that gauges numerical results and manager instinct.

The team also visited Alliance Bernstein (AB) where CEO Peter Kraus has instilled a phenomenal focus on “relentless ingenuity”. Our key lessons were:

- If it takes longer than five minutes for the crux of the stock pitch to emerge, the stock cannot be worth investing in.
- It is never too late to sell a loser, especially if the firm experiences a negative change relative to its peers.
- Fixed income may have lost its luster in the wake of a bull market but remember that it is an excellent alternative to offset equity volatility and reduce risk.

As a hedge fund, Taconic utilizes a diverse set of investment strategies. Some of their methods are non-traditional and as such offered us a new thought patterns for looking at potential investment opportunities. Taconic showed us the value of using research driven probabilistic analysis to identify the expected value of taking positions. When combined with fundamental analysis this creates a very profitable trading environment.

Lazard Asset Management’s approach bears several similarities to the approach adopted by the GEF. The meeting provided us with multiple takeaways on investment and divestment methodologies. The firm takes a global pragmatic perspective to investing coupled with a collaborative and entrepreneurial mindset. The primary lesson in speaking with them was an understanding of how Lazard assesses stocks by forecasting financial productivity and the manner in which this metric interacts with growth to increase enterprise value.
BUFFETTOLOGY

Over a two hour Q&A session, four GEF members in a 20 strong Smith School contingent were fortunate enough to meet with Mr. Warren Buffett and pick his brain for advice. Here are some brief excerpts from that afternoon:

“Be greedy when others are fearful
and fearful when others are greedy”

When the money markets began to fail in 2008, there was a silent electronic run on them with over $175 billion flooding out before trading was closed. GE, Goldman Sachs and BofA all needed credit or cash. “Liquidity was like oxygen. When you need it, it feels like it’s the only thing you’ll ever need”. Berkshire stepped in and smartly purchased preferred stock and warrants from Bank of America, Goldman Sachs and GE in transactions that have already net the company significant gains.

“Do what you love, and once you know what that is, devote as much time as possible to learn everything you can about that field”.

Mr. Buffett loves his job. In his first job out of graduation he worked for nothing because the opportunity to work and to learn, from someone like Benjamin Graham, was immense. Later when he took a paid role with Mr. Graham, he never asked what his salary was because that wasn’t his true motivation to go to work. The true reward for doing what you love is the feeling you get each morning when you wake up and go to work.

“It is better to buy a wonderful business at a fair price rather than a so-so business at a low price”.

A so-so business is like a soggy cigarette with one puff left. There’s upside but it is for a short timeframe. No rational person will want a soggy cigarette when they have their pick of things to smoke. Mr. Buffett firmly believes that it is absolutely possible to find underpriced stocks in the market if an investor is prepared to spend the time and effort to look. However, the path to sustainable gain is to check the stock fundamentals, understand and appreciate its drivers and evaluate the probability of its long term success.