

Davis Investment Group  
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# ANNUAL REPORT

## FY 2017

*The Davis Student Investment Management Group presents its annual performance review for calendar year 2017. The Davis fund did not experience the market's enormous gain of equities, returning 9.82% compared to the S&P 500's 19.42%. The Davis fund was positioned well for a market dip, but not for a strong bull market. This report provides a qualitative and quantitative review and discussion of the Davis fund for 2017. We welcome any questions, comments, or suggestions regarding this report or anything related to the Davis fund and its members.*

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# Performance Report

## A LETTER FROM THE PORTFOLIO MANAGERS

The equity market experienced tremendous growth during the 2017 bull market. Our benchmark, the S&P 500, had a return of 19.42%, while our defensive oriented portfolio achieved a return of 9.82%. Although our portfolio did not gain the massive returns associated with cyclical and sensitive stocks, we feel it is well positioned for a market pullback as experienced during the first quarter of 2018. The benchmark's return can also appear skewed because of megacap technology companies (Facebook, Amazon, Netflix, Google, etc.) attaining remarkable returns which influenced the market cap weighted index. The Davis portfolio is more defensively aligned because of our goals of maintaining capital for future investing and to continue our giving of scholarships. For the past five years, the Davis portfolio has obtained an annualized rate of return of 8.38%.

In 2017, we altered our portfolio by selling five positions and investing in eight new securities. For the spring semester, we sold our positions in Cenovus Energy (CVE), Gap (GPS), and Panera Bread (PNRA). That semester we bought shares of Atmos Energy (ATO), United States Gypsum Corporation (USG), Calpine (CPN), New Residential Investment Corporation (NRZ), and LaSalle Hotel Properties (LHO). During the fall semester, we sold our positions in Verizon (VZ) and Vodafone (VOD), and we purchased shares of iShares MSCI China ETF (MCHI), iShares MSCI Europe Financials ETF (EUFN), and Gilead Sciences (GILD).

Our group has applied its investment knowledge by participating in semester trade competitions. For the competition, a senior and junior member create an investment portfolio strategy and aim to achieve a specific target rate of return. This allows the members to experiment with investment strategies outside of the Davis portfolio. Recently, sector groups have been presenting a financial topic on any subject of their choice. These presentations have been highly beneficial for the group to learn about various financial topics outside of class, and examples of these presentations include the "internet of things" in finance, tariff effects, financial coding, and cryptocurrency.

The Davis Investment Group pursues fund objectives of growing and preserving capital while providing scholarships for the University of Idaho. Over the past several years, we have donated over \$100,000 to university scholarships. In 2018, the Davis Investment Group will continue to utilize more refined research and investment methodology to accomplish better performance from the portfolio. We look forward to mentoring new members and improving our ability to make wise investment decisions in an ever-changing market.

Colton Gray and Justin Chapman  
Portfolio Managers

## ECONOMIC REVIEW

The global economic recovery fared well for equities in 2017. Synchronized growth in developed and emerging countries and “easy money” policies in the US, European Union, and Japan led a continuation of the bull market. Three topics are the main drivers for our return in 2017: government and the Federal Reserve, relative currency valuations, and economic performance in the United States. Our outlook remains strong for the global economy, although concerns of market volatility and investor confidence continue to rise heading into 2018.

President Donald Trump and United States Congress passed one of the biggest tax cuts in US history in efforts to bring overseas cash back into the US and benefit American consumers. Corporate taxes were cut in half in most sectors of the market, benefitting most of our holding’s earnings reports. For the Federal Reserve, it was Chairwoman Janet Yellen’s last year as head of the organization. In the US and Europe, central banks started their multi-year long process of “quantitative easing,” selling bonds owned by the central bank and incrementally raising interest rates to take money out of the economy and slow economic growth to prevent it from overheating. Janet Yellen increased interest rates three times over 2017, setting the effective rate at 1.5%. Janet Yellen was replaced by Jerome Powell, a former investment banker and member of the Federal Reserve Board of Governors since 2012. He intends to continue modest rate hikes into 2018 and continue Yellen’s monetary policy.

Favorable currency valuations helped spur economic growth for the United States, its business partners, and various commodities. A weak US dollar is beneficial to countries that buy American goods. American oil companies were able to compete against OPEC countries with exports and boost in oil prices as well. The euro’s strength has recovered and exceeded its levels of Brexit. The European Central Bank is in further stages of contractionary monetary policy, resulting in stronger currency than the dollar. This makes Europe a potential trade partner for the future because of the cost advantage. It is forecasted that the United States will be a net exporter by 2020.

Compared to 2016, the US economy had several growing conditions. The combination of low interest rates, little inflation, and excellent employment numbers led to the GDP growing 2.3% compared to 1.6% in 2016. Statistics are also showing modest wage growth, but it is not significant when inflation is considered. Looking forward, economic conditions should prove stable.

Justin Chapman  
Co-Portfolio Manager

# The Davis Group

## FOUNDING

The Davis Student Investment Management Group is an exclusive program that gives students of all majors a unique opportunity to gain real-life investment experience by managing a portfolio of securities. Davis Group members gain valuable skills in security analysis, investment discipline, professional presentations, economic analysis, and portfolio allocation.

A donation of \$100,000 from James E. and A. Darius Davis, the founders of the Winn-Dixie grocery chain, established the Davis Group in 1989. The College of Business and Economics matched this amount, and the fund has grown significantly since its start. The Group has helped provide funding for numerous scholarships and donations to the CBE and the University of Idaho's General Scholarship Fund. Realized income and capital gains provide this funding. To date the Davis Group has donated \$200,000 to the completion of the J.A. Albertson Building and awarded \$100,000 to both the CBE and UI general scholarship funds.

## FUND OBJECTIVES

The Davis Group provides students practice in their decision-making and presentation skills in the context of investment management. Monetary gains feed into a general scholarship fund for University of Idaho students. The group's goal is to prepare students for real-life investment and business decisions.

Students manage the fund with the following investment objectives:

- Growth of Capital: The asset value of the portfolio should increase in the long term and earn a yearly rate of return at least equaling the return on the S&P 500.
- Preservation of Capital: Asset growth should exceed the rate of inflation given by the CPI in order to preserve the capital of the portfolio's assets.

The target asset allocation of the portfolio is 80% equities, 10% fixed income, and 10% cash or cash equivalents.

The Davis Group adopts a conservative approach to investing, taking into consideration long term rates of return, volatility, investment vehicles, and diversification among sectors. A maximum of 30% weight can be allocated to any one specific sector; a maximum of 5% weight can be allocated to any specific security, and the portfolio must represent at least half of the total number of sectors.

# DAVIS GROUP

## Portfolio Returns



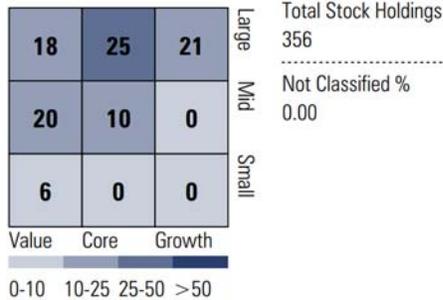
\*Returns adjusted for scholarships as of December 31, 2017

# DAVIS GROUP

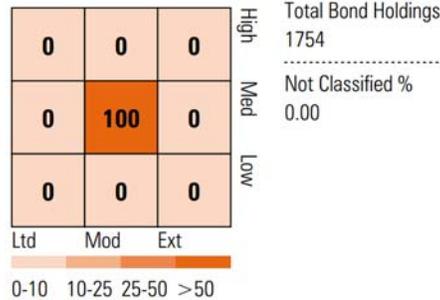
## Portfolio Snapshot

### ASSET ALLOCATION

#### Equity Investment Style %

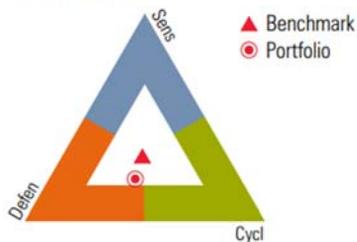


#### Fixed-Income Investment Style %



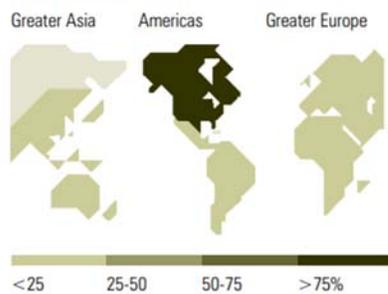
### SECTOR ALLOCATION

#### Stock Sectors



	Portfolio %	Bmark %
<b>Defen</b>	<b>36.64</b>	<b>25.35</b>
Cons Defensive	13.08	8.35
Healthcare	11.51	14.07
Utilities	12.05	2.93
<b>Sens</b>	<b>28.15</b>	<b>41.76</b>
Comm Svcs	0.18	3.76
Energy	13.05	6.07
Industrials	3.83	10.69
Technology	11.09	21.24
<b>Cycl</b>	<b>35.21</b>	<b>32.88</b>
Basic Matls	6.18	2.81
Cons Cyclical	6.03	11.11
Financial Svcs	15.08	16.78
Real Estate	7.92	2.18
Not Classified	0.00	0.01

#### Stock Regions



	Portfolio %	Bmark %
<b>Americas</b>	<b>93.21</b>	<b>99.13</b>
North America	93.21	99.13
Central/Latin	0.00	0.00
<b>Greater Asia</b>	<b>5.31</b>	<b>0.51</b>
Japan	2.59	0.00
Australasia	0.00	0.00
Asia Developed	0.02	0.05
Asia emerging	2.70	0.46
<b>Greater Europe</b>	<b>1.48</b>	<b>0.36</b>
United Kingdom	0.46	0.06
Europe Developed	1.02	0.30
Europe Emerging	0.00	0.00
Africa/Middle East	0.00	0.00
Not Classified	0.00	0.00

As of December 31, 2017

# DAVIS GROUP

## Portfolio Holdings

Sector	Company / Title	Tkr	Current Price	Shares	Current value	Percent of Portfolio	Purchase Date	Unit Cost	Unrealized G/L To-Date	Annualized G/L To-Date
Consumer Discretionary	Lowe's	LOW	\$92.94	150	\$13,941.00	2.3%	4/16/2012	\$31.68	193.37%	20.73%
Energy	Exxon Mobil Corp	XOM	\$83.64	235	\$19,655.40	3.3%	10/25/2006	\$71.30	17.31%	1.44%
	Chevron Corp.	CVX	\$125.19	150	\$18,778.50	3.2%	12/2/2010	\$83.72	49.53%	5.84%
	Andeavor	ANDV	\$114.34	200	\$22,868.00	3.9%	11/14/2016	\$80.25	42.48%	36.84%
Industrials	Snap On Inc.	SNA	\$174.30	100	\$17,430.00	2.9%	11/4/2015	\$172.96	0.77%	0.36%
Technology	International Business Machines Corp.	IBM	\$153.42	60	\$9,205.20	1.6%	3/30/2010	\$131.42	16.74%	2.01%
	Oracle Corp.	ORCL	\$47.28	444	\$20,992.32	3.5%	2/23/2011	\$33.46	41.30%	5.17%
	Avnet Inc.	AVT	\$39.62	500	\$19,810.00	3.3%	4/19/2011	\$33.74	17.43%	2.42%
Consumer Staples	PepsiCo	PEP	\$119.92	185	\$22,185.20	3.7%	11/3/2008	\$58.06	106.54%	8.24%
	Philip Morris	PM	\$105.65	300	\$31,695.00	5.3%	4/23/2014	\$83.86	25.98%	6.45%
	Costco	COST	\$186.12	50	\$9,306.00	1.6%	12/5/2016	\$150.45	23.71%	21.97%
Healthcare	CVS Caremark	CVS	\$72.50	400	\$29,000.00	4.9%	11/1/2012	\$46.98	54.32%	8.76%
	Allergan Plc	AGN	\$163.58	100	\$16,358.00	2.8%	5/12/2015	\$292.55	-44.08%	-19.76%
	Gilead Sciences Inc	GILD	\$71.64	150	\$10,746.00	1.8%	11/16/2017	\$73.49	-2.52%	-18.68%
Utilities	Atmos Energy	ATO	\$85.89	150	\$12,883.50	2.2%	2/23/2017	\$75.53	13.72%	16.28%
	Ameren Corporation	AEE	\$58.99	150	\$8,848.50	1.5%	11/13/2008	\$33.19	77.73%	6.50%
	UGI Corp.	UGI	\$46.95	495	\$23,240.25	3.9%	10/28/2010	\$20.17	132.77%	12.49%
	Calpine Corp.	CPN	\$15.13	900	\$13,617.00	2.3%	3/27/2017	\$10.69	41.53%	57.53%
Basic Materials	Ecolab, Inc	ECL	\$134.18	100	\$13,418.00	2.3%	2/11/2013	\$75.66	77.35%	12.44%
	USG Corp.	USG	\$38.56	400	\$15,424.00	2.6%	3/10/2017	\$33.57	14.86%	18.64%
Financials	Visa, Inc.	V	\$114.02	520	\$59,290.40	10.0%	4/25/2012	\$30.71	271.28%	25.94%
	Senior Housing REIT	SNH	\$19.15	900	\$17,235.00	2.9%	5/10/2016	\$18.11	5.74%	3.46%
	New Residential Investment Corp	NRZ	\$17.88	600	\$10,728.00	1.8%	5/4/2017	\$16.67	7.28%	11.23%
	LaSalle Hotel Properties	LHO	\$28.07	350	\$9,824.50	1.7%	5/4/2017	\$28.20	-0.45%	-0.68%
International	iShares MSCI Canada ETF	EWC	\$29.64	350	\$10,374.00	1.7%	11/4/2014	\$29.57	0.24%	0.07%
	Toyota Motor Co.	TM	\$127.17	100	\$12,717.00	2.1%	3/27/2013	\$105.54	20.49%	3.99%
	iShares MSCI China	MCHI	\$66.54	200	\$13,308.00	2.2%	10/25/2017	\$65.23	2.01%	11.44%
	iShares MSCI Europe	EUFN	\$23.31	300	\$6,993.00	1.2%	10/25/2017	\$23.87	-2.35%	-12.13%
Fixed Income	Vanguard Intermediate-term Corporate Bond	VCIT	\$87.39	300	\$26,217.00	4.4%	5/10/2016	\$87.87	-0.55%	-0.33%
	S&P US PFD stock Index	PFF	\$38.07	262	\$9,974.34	1.7%	5/4/2011	\$40.66	-6.37%	-0.98%
Cash					\$67,425.02	11.4%				
<b>Totals</b>					<b>\$593,488.13</b>	<b>100.0%</b>				

As of December 31, 2017

### ENERGY 2017 YEAR REVIEW

Our energy sector was heavily influenced by natural disasters throughout 2017. We experienced drastic changes in price, as oil refineries were ravaged by Hurricane Harvey and Irma. Exxon Mobil was one of our more prominent holdings that took heavy losses from both hurricanes.

As a result, demand for oil began shifting towards companies stationed on the West Coast. To combat the heavy losses to the industry, companies like Chevron pledged donations up to \$1million towards rescue efforts. These donations were considered *contributions revenue* on their balance sheets (which meant lower earnings per share for our holdings).

Our holdings provided solid returns in 2017. Exxon regained their losses and maintained a 3.5% increase in their share price at year end. Chevron recognized a 16.9% increase. Our holdings in Andeavor saw the greatest increase of a 44.9% return. This increase was related to the company's geographic location. When the southern refineries experienced drastic losses, demand shifted towards companies like Andeavor, who is not stationed near the Gulf of Mexico.

### HOLDINGS

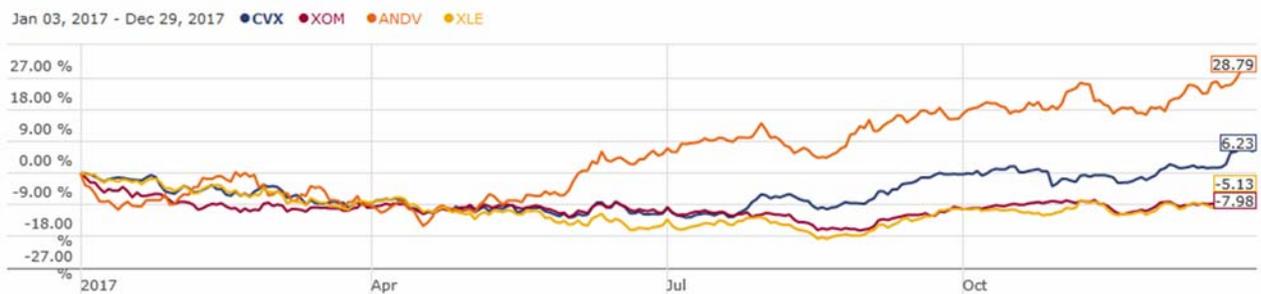
**Chevron (CVX):** Chevron maintains the title of being the second largest US petroleum company. They focus their operations on the exploration and refinement of crude oil and petroleum. They are our third largest energy stock in the Davis Portfolio.

**ExxonMobil (XOM):** ExxonMobil is the largest US oil company and exclusively operates in the production of crude oil and natural gas. They are also a large seller of oil, natural gas, and petroleum.

**Andeavor (ANDV):** Andeavor (formerly known as Tesoro), is a Fortune 100 company headquartered in San Antonio, Texas. They have 13,000 employees worldwide, and it is our largest holding in the energy industry.

### BENCHMARK

**Energy Select Sector SPDR ETF (XLE):** XLE holds a diversified portfolio of energy industry securities.



### INDUSTRIALS 2017 YEAR REVIEW

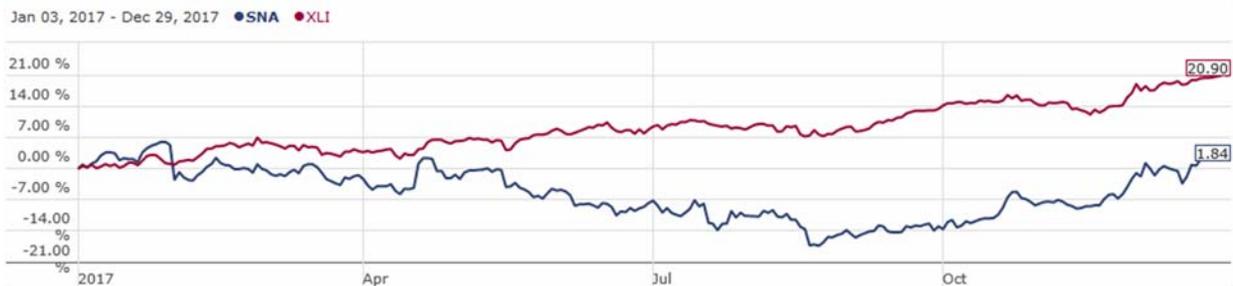
The Industrials Sector produces goods that are used in construction and manufacturing. This sector incorporates companies involved with capital goods such as aerospace, defense, industrial machinery, electrical equipment, tools, lumber production, construction, waste management, manufactured housing, cement, and metal fabrication. Performance in the industrial goods sector is largely driven by supply and demand for building construction, such as residential, commercial, and industrial, as well as the demand for manufactured products. This sector is also responsive to economic cycles. This industrials sector represents 2.7% of the Davis Group portfolio, with the target being at 7%. The Davis Student Investment Fund holdings in the Industrials Sector in 2017 was solely Snap-On, Inc. Maximizing value-creation helped the company reach a 3.5% increase in reported diluted EPS. Adjusted EPS went up 10.0% in the past year. Each of the segments outperformed within the last year and the company is hopeful they will have similar growth next year. Snap-On intends to work closer with franchises, extending to different industries, and growing in emerging markets for 2018.

### HOLDINGS

**Snap-On Corporation (SNA):** Snap-On manufactures tools, equipment, and related solutions for technicians, vehicle service centers, original equipment manufacturers, and other industrial users. The company has four operation segments, which include Snap-on Tools Group, Commercial & Industrial Group, Repair Systems & Information Group, and Financial Services segment. In the past year, their business model aimed to maximize value-creation by focusing on safety, quality of service, customer satisfaction, and innovation aspects.

### BENCHMARK

**The Industrial Select Sector SPDR ETF (XLI):** XLI is an exchange-traded fund that holds a diversified portfolio of Industrial Sector securities. Some of its holdings include General Electric, 3M Co., Boeing, and Honeywell International.



### TECHNOLOGY 2017 YEAR REVIEW

The technology sector contains companies engaged in the design, research and development, and support of computer operating systems and applications. 2017 was great for the technology sector which had rising revenue for many large tech companies and strong growth in stock prices. The bull run of 2017 for the technology sector was mainly driven by high expectations of benefits from repatriation in the corporate tax reform bill, rising consumer confidence, and large expectations for hot topic items such as artificial intelligence, cloud services, cybersecurity, and blockchain technology. Increased demand for cybersecurity due to potential implications with Russian hackers, the Equifax attack, and many others helped out many companies involved in this industry. Our holdings in IBM and Oracle are very involved in cloud and blockchain technologies, and they have made strides in cybersecurity. Avnet supplies large tech companies with advances in electronic components, software, and data center infrastructure hardware. Oracle had a strong year with innovation in cloud technology, while IBM has displayed chronic growth and revenue problems. Avnet has had problems retaining customers and is experiencing slow growth due to acquisitions and the risks associated.

### HOLDINGS

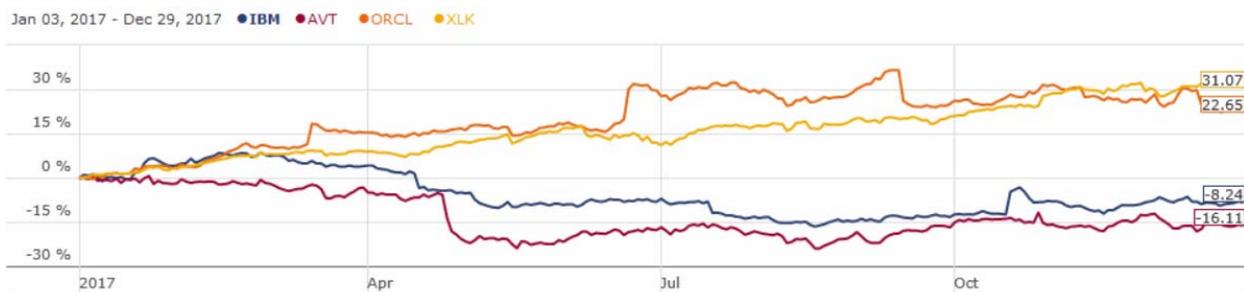
**International Business Machines Corp. (IBM):** IBM is a global information technology corporation that conducts business spanning software, hardware, and services. Watson continues to be a hallmark for IBM with its multifunctional cognitive abilities interacting with both people and computers.

**Oracle Corp. (ORCL):** Globally providing enterprise cloud computing, Oracle provides consumers many options in regards to enterprise IT solutions. These solutions are most notably databases, middleware, relational servers, applications, and software.

**Avnet Inc. (AVT):** Avnet is a global leader in the distribution of electronic components, software, and data center infrastructure hardware. Avnet operates business to business activities targeting original equipment manufacturers, electronic manufacturing, and original design manufacturers.

### BENCHMARK

**Technology SPDR ETF (XLK):** XLK tracks an index of S&P 500 technology stocks.



### TELECOMMUNICATIONS 2017 YEAR REVIEW

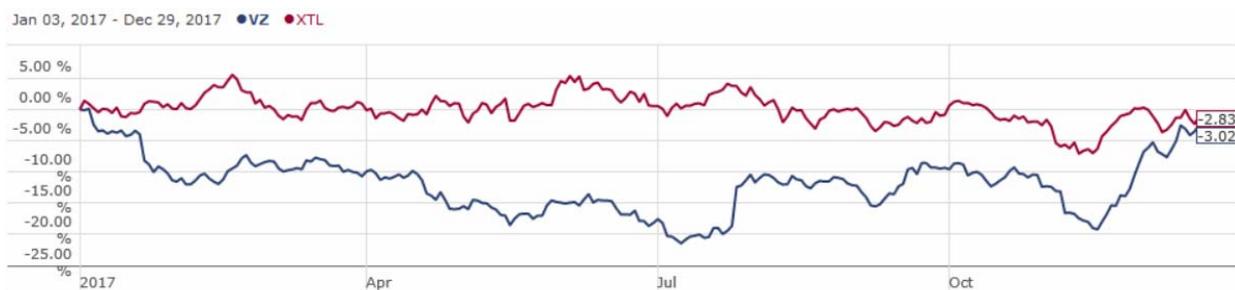
Our telecommunications sector made up for about 2.1% of our portfolio with 2% as the target. The sector had only one holding, Verizon Communications (VZ). In the past few years, the telecommunications sector has consistently underperformed the S&P 500 by a substantial amount. With an upward trend in usage on many wireless and mobile devices, Sprint, AT&T, Verizon, and T-Mobile were in heavy competition throughout the year to provide the best network speed, benefits, and Internet satisfaction. As a way to gain a competitive advantage, telecommunications companies offered benefits packages for subscribers such as free HBO and Netflix. Speculative mergers also occurred throughout the year as T-Mobile and Sprint were in talks of a merger that would put the combined market share closer to that of Verizon's and AT&T's. However, the merger failed. With increased competition in the sector, Verizon's EPS and gross margins were on the decline as Verizon was forced to become more promotional. Their premium pricing model that worked in the past is now becoming a weakness as competitors' lower prices seem more attractive as their quality became closer to Verizon's. Although Verizon continued to have strong dividends, the company showed signs of struggle as they financed dividends with debt and cut costs at huge amounts as they attempted to regain high margins. As a team, the sensitive sector decided to sell 245 shares of Verizon valued at \$11,858 on October 25<sup>th</sup> of 2017. With this sell, the Davis Group realized a gain of 6.19% (annualized return), not including dividends.

### HOLDINGS

**Verizon Wireless (VZ):** Verizon is a telecommunication holding company that offers wireless networks, data, and communication products to its users. It is an innovative and attractive company to investors with its high-yielding dividends.

### BENCHMARK

**SPDR S&P Telecom ETF (XTL):** XTL is an exchange-traded fund with the objective of providing return from performance in the telecommunications sector. The fund holds a diversified portfolio of telecommunications securities, including Arista Networks, Infinera Corporation, SBA Communications Corporation, Palo Alto Networks, and Cisco Systems.



### CONSUMER STAPLES 2017 YEAR REVIEW

The Consumer Staples sector is comprised of consumer items belonging to the class of household necessities. Consumer Staples is a defensive sector because of the necessity of its products. Many securities in this sector will remain stable and non-volatile, even in times of market uncertainty. Our current holdings are Costco, Philip Morris, and Pepsi. These holdings provide exposure to the household/grocer market, tobacco market, and beverage/snack market. Our holdings performed well, all of which beat our SPDR Consumer Staples ETF benchmark that gained 9.61%.

**Pepsi (PEP):** PEP grew 14.59% in 2017. Pepsi gained revenue from its healthier products. Healthy choices accounted for 45% of net revenue in 2016.

**Philip Morris (PM):** PM grew 15.81% in 2017. The company had a strong increase in “IQOS” (I quit ordinary smoking) product revenue. More than 36 billion units were sold in 2017.

**Costco (COST):** Costco grew 16.52% in 2017. The company (as of 2017) has over 49 million paid membership compared to 39 million in 2013. As of September 3<sup>rd</sup>, 2017, the company operated 741 warehouses.

### HOLDINGS

**PepsiCo (PEP):** Pepsi is a food, snack, and beverage company with dozens of popular brands under its portfolio. It is a multicontinental company operating in over 200 countries.

**Philip Morris (PM):** Philip Morris manufactures and sells cigarettes, as well as other tobacco products, in markets outside the United States through its held subsidiaries.

**Costco (COST):** Costco Wholesale Corporation operates and manages membership-based wholesale warehouses where its members may purchase household goods and groceries for a relative discount. Costco also has its own successful brand, named Kirkland.

### BENCHMARK

**Consumer Staples Select Sector SPDR ETF (XLP):** XLP is a diversified exchange-traded fund managed to track the performance of Consumer Staples sector securities. Some of its holdings include Phillip Morris, Coca-Cola Company, Altria Group Incorporated, and Wal-Mart Stores Incorporated.



### HEALTHCARE 2017 YEAR REVIEW

The healthcare sector was volatile over the past year. During the historic bull trend that we saw, the overall healthcare sector achieved the same growth. However, our two holdings CVS and Allergan did not perform well in our portfolio. CVS was seen as an uncertainty in the market as it purchased Aetna for \$69 billion. CVS looks well positioned for a rebound in 2018. Allergan was struggling later in the year when they tried to sell a patent to a reservation casino to help fight against generic brands stealing profits. This caused the stock price to slide down. A federal court did go on to reverse this deal not long after it was made. This again cause the stock to tumble down. Even after these events, the Defensive group has confidence in the company business model and decided to stay in the position. During the latter part of the year, a position in Gilead was entered. The Defensive group was very bullish on the long-term potential of the company's new drugs as well as the niche markets that the company is entering.

### HOLDINGS

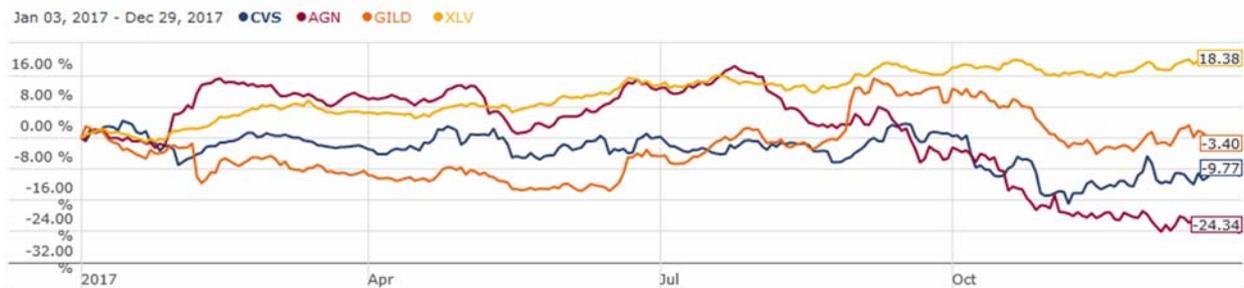
**CVS (CVS):** CVS Health Corp is an integrated pharmacy health care provider that operates three segments: pharmacy services, retail pharmacy, and corporate. CVS combines one of the largest retail pharmacy chains in the United States with one of the largest pharmacy benefit managers.

**Allergan (AGN):** Headquarter in Dublin, Ireland, Allergan is a pharmaceutical company that specializes in aesthetics, ophthalmology, women's health, gastrointestinal, and central nervous system products. Allergan focuses on acquisitions for its broad and growing portfolio.

**Gilead Sciences (GILD):** Gilead Sciences Inc is a biopharmaceutical company that discovers, develops and commercializes new medicines in areas of unmet medical need. Its products target a number of areas, such as HIV, liver diseases, cardiovascular and other diseases.

### BENCHMARK

**Health Care SPDR ETF (XLV):** XLV is an exchange-traded fund that tracks the performance of the healthcare sector and includes securities such as Johnson & Johnson, Pfizer, and Merck & Co.



### UTILITIES 2017 YEAR REVIEW

Total returns for the benchmark XLU were +8.46%. The Energy Information Administration (EIA) reported that the electricity sales growth rate since 2002 hovered around 1% and revenue growth is anticipated to slow. The EIA estimates that there may be two more years of declining revenue growth. Utilities are a defensive sector which typically performs well in overall economic downturns. The markets in 2017 continuously surpassed record highs which allowed for other sectors to outperform. Davis Group utility holdings performed well relative to the benchmark, but the worst performing security in our holdings was UGI Corporation.

Davis utility returns for 2017 were: Ameren +13.27%, UGI Corporation +2.38%, Calpine Corporation +32.14%, Atmos +15.21%. Calpine Corporation was acquired during 2017 and will no longer be a part of Davis holdings. Calpine's large return during 2017 can be attributed to it being acquired. Companies that are the subject of acquisition tend to have their stock price increase in value. For UGI, they acquired various companies throughout 2017, and the lower return from UGI can be attributed to these acquisitions. Ameren saw a good return for 2017. During 2017 Ameren proved their responsiveness to providing power to its Midwest region throughout a tumultuous storm season. Atmos performed well based off the favorable regulatory frameworks for its natural gas distribution.

### HOLDINGS

**Ameren Corporation (AEE):** Ameren is an American power company that provides reliable energy, reduces outages, and restores power faster than ever before.

**UGI Corporation (UGI):** UGI Corporation is a holding company that, through subsidiaries, distributes, stores, transports, and markets energy products and related services. They are a domestic and international retail distributor of propane and butane (forms of liquefied petroleum gasses "LPG"), and they provide natural gas and electric service through regulated local distribution utilities.

**Calpine Corporation (CPN):** Calpine Corporation is America's largest generator of electricity from natural gas and geothermal resources with robust commercial, industrial, and residential retail operations in key competitive power markets.

**Atmos Energy (ATO):** Atmos Energy Corp is the largest fully-regulated natural gas utility company. Atmos distributes natural gas to residential, commercial, public authority, and industrial customers.

### BENCHMARK

**Utilities SPDR ETF (XLU):** XLU tracks the performance of the utilities sector with diversified holdings.



### BASIC MATERIALS 2017 YEAR REVIEW

The Basic Materials economic sector consists of companies engaged in the extraction and primary refinement of chemicals, metals, nonmetallic and construction materials; forest, wood, and paper products; and containers and packaging products. During the year we held Ecolab (ECL), and we purchased 400 shares of United States Gypsum Corporation (USG) at \$33.36 on March 10th, 2017. We witnessed a small amount of volatility throughout the year. With the change in administration and policies, we have seen an increased focus on domestic production of basic materials. The new tax repatriation plan also increased value to these types of companies.

Eco-lab is a fundamentally sound equity which performed defensively in the uncertainty of 2017. It closely followed the benchmark of the Materials Select Sector SPDR ETF (XLB) and provides a strong dividend return of \$1.52. Their growing revenues, profitable outlook, and their key fundamental ratios are indicators that we see value in the future holding of this position.

USG experienced a more volatile market swing in 2017. Its set back in the early portion of the year made it a great value to buy. Our purchase experienced a short loss in the beginning, but it was recovered by the end of the year. USG is in a prime market position with an expanding housing and construction market, so we expect a great gain going forward.

### HOLDINGS

**Ecolab Inc. (ECL):** Ecolab produces and markets cleaning and sanitation products for the hospitality, health-care, and industrial markets. The firm is the global share leader in this category with a wide array of products and services, including dish and laundry washing systems, pest control, infection control products, and kitchen equipment repair services.

**United States Gypsum Corporation (USG):** USG Corporation is an industry-leading manufacturer of building products and innovative solutions. Headquartered in Chicago, USG serves construction markets around the world through its Gypsum, Performance Materials, Ceilings, and USG Boral divisions.

### BENCHMARK

**Materials Select Sector SPDR ETF (XLB):** XLB is an exchange-traded fund with holdings that are managed to follow the Basic Materials sector's performance. XLB holds securities such as Avery Dennison Corporation, FMC Corporation, CF Industries Holdings, and Owens-Illinois Incorporated.



### CONSUMER DISCRETIONARY 2017 YEAR REVIEW

The consumer discretionary sector is one of the sectors most sensitive to economic cycles because of its demand being driven by the purchasing ability for non-essential products and services. Products produced by the sector include automotive, textiles, and other durable goods. Services in the sector include retail, restaurants, hotels, and media.

In 2017, consumer discretionary stocks outpaced the S&P 500 because of the favorable economic conditions of GDP growth and low unemployment. Growing corporate earnings and passing of the new tax bill enhanced optimism for discretionary spending. Lowe's is our one holding in the sector and represents less than 3% of the Davis portfolio. Lowe's performed well during the year because of increased disposable income for spending on home renovation. During the year, we sold our holding in Panera Bread when the company went privately held after its merger with JAB Holding Company. We also sold our holding of Gap because of its struggling position in the competitive retail environment.

### HOLDINGS

**Lowe's (LOW):** Lowe's is the second largest home improvement retailer and operates in the United States, Canada, and Mexico. Lowe's offers products and services for home maintenance, repair, remodeling, and decorating. It has over 2,300 stores, and the company also sells its products through online sites.

### BENCHMARK

**Consumer Discretionary SPDR ETF (XLY):** The XLY exchange-traded fund tracks the Consumer Discretionary sector with holdings such as Amazon, Home Depot, Comcast, Walt Disney, and McDonald's.



### FINANCIALS 2017 YEAR REVIEW

The Financials Sector contains companies that provide fund allocation services such as banking, mortgage financing, consumer financing, investment banking, asset management, corporate lending, insurance, and financial investing. The Davis Group also holds several real estate investment trusts (REITs) that own, operate, or finance real estate.

The Credit Services industry performed exceptionally well in 2017, offering an industry-wide return of 35.63%. Visa, the best performing equity in the Davis Group's portfolio, grew even faster at 47.03%. While less lucrative than the Financials Sector, REITs offered sizable dividend yields during 2017. The Senior Housing Properties Trust issued \$1.56 in dividends for a dividend yield of 8.15%. New Residential Investment Corp performed admirably during 2017, offering \$1.97 in dividends that resulted in an 11.07% dividend yield. LaSalle Hotel Properties slumped during the year but managed to provide a 6.41% dividend yield.

### HOLDINGS

**Visa Inc. (V):** Visa provides consumers and businesses with innovative payment services and technologies. Visa earns its service revenue by providing credit to consumers and collecting interest on outstanding balances. Visa also caters to businesses and firms by offering data processing and revenue collection services.

**Senior Housing Properties Trust (SNH):** SNH operates medical properties and facilities that care for seniors. SNH operates properties that perform all stages of elder care, from assisted living to nursing homes.

**New Residential Investment Corp (NRZ):** NRZ operates in the residential sector, mediating consumer mortgage servicing rights and managing mortgage-backed securities.

**LaSalle Hotel Properties (LHO):** LHO operates luxury hotels in primary tourist destinations and business districts. LaSalle boasts over 10,000 guest rooms under management.

### BENCHMARK

**Financial Select Sector SPDR ETF (XLF):** XLF is an exchange-traded fund that seeks to track the performance of the Financials Sector, and includes holdings such as Wells Fargo and Citigroup.



### INTERNATIONAL 2017 YEAR REVIEW

The International sector includes all our portfolio's foreign investments, including both American depository receipts (ADRs) and foreign exchange-traded funds (ETFs). At the year end, slightly over 4% of our portfolio was allocated to international sector holdings, compared to our target allocation of 10%. The year 2017 was a tumultuous period for international investment. In the United Kingdom, the "Brexit" process has been ongoing with several holdups and uncertainties along the way. The risks associated with this secession from the EU caused many companies to look to more stable economies for their international HQs and investments. Our group sold our position in Vodafone (VOD) in early October due to a decline in the company's value and competitiveness abroad. There were several elections abroad this year, and fears over the rise of populism and protectionism led many to question whether the EU would remain intact. Another significant monetary policy with significant reach was the US corporate tax rate change enacted in late December. This led to a large repatriation of companies' international cash withholdings and a much more competitive tax rate at 21%.

### HOLDINGS

**iShares MSCI Canada ETF (EWC):** Seeks to track the investment results of an index of Canadian equities. The underlying index consists of stocks traded on the Toronto Stock Exchange. Companies in the financial services and energy sectors compose 59% of the fund.

**Toyota Motor Corporation (TM):** Founded in 1937 in Japan, Toyota is the world's largest automaker. It designs and manufactures passenger and commercial cars and trucks under the Toyota, Lexus, Hino, and Daihatsu brand names in almost every country in the world.

**iShares MSCI China ETF (MCHI):** Seeks to track the investment results of an index of Chinese equities. Companies in the financial services and technology sectors compose about 55% of the fund.

**iShares MSCI Europe Financials ETF (EUFN):** Seeks to track the investment results of an index of European financial equities. Companies in the UK, Switzerland, France, and Germany compose about 63% of the fund.

### BENCHMARK

**MSCI World Index (ACWI) and MSCI Emerging Markets Index (EEM):** ACWI contains a diversified portfolio of stocks around the entire world, and EEM covers emerging market stocks.



### FIXED INCOME 2017 YEAR REVIEW

The Fixed Income sector saw a surprisingly normal year in 2017. After a messy 2016 full of rollercoaster bond prices amidst Brexit and the Trump election, most analysts expected more chaos in 2017. What we got instead was a “normalization” of markets. Overall, the Fixed Income sector had a very good year. The US Federal Reserve worked to tighten and raise rates and we saw three rate hikes over the course of the year. The Bank of Canada saw two rate hikes. Between the rising short-term rates (in conjunction with the rate hikes) and the falling long-term rates (due to muted inflation expectations), the yield curve flattened. This flattening of the yield curve was the main story in 2017 for North American bond markets.

Despite continual concerns over a bear market for bonds, low inflation expectations and comparatively loose monetary policy in other central banks (i.e. Europe and Japan) allowed bonds to experience a solid year of performance. Moving forward in 2018 we anticipate a continued normalization in the Fixed Income sector as Jerome Powell and the Federal Reserve look to gradually raise rates in an overall healthy US economy.

### HOLDINGS

**Vanguard Intermediate-Term Corporate Bond ETF (VCIT):** The Vanguard Intermediate-Term Corporate Bond ETF is composed primarily of investment grade corporate bonds. The bonds for this fund have a dollar-weighted average of maturity of 5 to 10 years. Some of its holdings include corporate bonds from Anheuser Busch Inbev, Verizon, Apple, Diamond, and Actavis.

**iShares US Preferred Stock (PFF):** This holding is the largest preferred stock exchange-traded fund in the United States. It follows an index of preferred stocks traded on the New York Stock Exchange or the NASDAQ. Its top five holdings include preferred stock from Allergan, HSBC Holdings, Barclays, GMAC Capital, and Wells Fargo.

### BENCHMARK

**iShares Barclays 20+ Year Treasury Bond ETF (TLT):** TLT is an exchange-traded fund that tracks the results of investment in United States Treasury bonds with more than twenty years until maturity.



## The 2017 Davis Group Members

### COLTON GRAY – PORTFOLIO MANAGER

Colton Gray is a senior majoring in Accounting and Finance. Colton joined the Davis Group in the fall of 2016, and he has enjoyed learning how to invest in companies that maintain competitive advantages and provide superior returns. After graduating in May, Colton will be working as an accountant for Itron in Spokane. In his free time, Colton enjoys hiking, camping, fishing, following sports, and attending concerts.

### JUSTIN CHAPMAN - PORTFOLIO MANAGER

Justin Chapman is a junior majoring in Finance with a minor in Economics. Justin joined the Davis Group in the spring of 2017, serving as an Analyst, Sector Coordinator, and now Assistant Portfolio Manager. He is an analyst and funded trader for Barker Capital Management Group and also involved in Commodity Risk Management with the College of Agriculture. In finance, Justin's special interests are using derivatives like options and futures to effectively manage risk for one's portfolio or business. He believes investing and trading is something anyone can learn and helps people in their decision making ability. Outside of the trading room, Justin likes to ski in the winter, practice his marksmanship, and ride motorcycles in the summer.

### BRENAN ANTHONY

Brenan Anthony is graduating senior with a double major in Finance and Marketing Analytics. He has been with the Davis Group for over a year, and he has been an analyst for the Healthcare, Energy, and Technology sectors for the portfolio. In his spare time, he plays table tennis and manages his own portfolio. Starting in May, he plans to move to New Jersey and work as a loan advisor at a mortgage brokerage firm.

### DISHONNA ARNETT

Dishonna is a junior double majoring in Finance and International Studies. She emphasizes in Asian Studies, pursuing Japanese as a second language. Dishonna joined the Davis Investment Group in the spring of 2017, serving as a Sector Analyst for the Fixed Income Sector. She currently is a Sector Analyst for the International Sector researching Emerging Markets. Dishonna's current professional goals are to become an international financial advisor. She looks forward to further studying Japanese in Tokyo this summer. In her free time, she enjoys drawing, partaking in outdoor activities, and travelling when she gets the opportunity to do so.

# THE DAVIS GROUP

## ALEX BERGDORF

Alex Bergdorf is in his first semester of Grad school, working towards a MAcct., after graduating with a Bachelor's in Accounting and Finance in December of 2017. He has been involved in several organizations and groups throughout his past 4 years, such as: an active member and past Treasurer of the Beta Theta Pi Fraternity, a sales associate with Vandal Solutions, a member of the Honors Program, a member of the Dean of Students Advisory Board for the College of Business and Economics, and a member of the Davis Investment Group for 4 semesters. After graduation, he looks forward to working in a challenging yet rewarding environment where he can utilize the skills he has acquired through his time at the University. In his free time, he enjoys golfing, watching movies, or reading a good book.

## JOHN BILLINGTON

John is a sophomore at the University studying Finance. He joined the Davis Group in the spring of his freshman year, and he is a Sector Analyst focusing on investment grade bonds. In finance, he likes to trade derivatives like options where he can procrastinate productively and at least make some money while putting off his responsibilities. He plans to be a funded trader for the Barker Group in the fall and looks forward to working with the people that helped him form a passion for finance. Outside of making money, John likes to travel internationally, or really anywhere outside of the northwest. He is into mountain climbing and is planning a Mt. Rainier summit attempt.

## DUSTIN CHENEY

Dustin Cheney is a junior studying Business Economics and Accounting at the College of Business and Economics. He became involved with the Davis Group at the beginning of his junior year. In addition to this organization, Dustin participates in Beta Alpha Psi, the University Honors Program, the Graue Scholars, and the Dean's Student Advisory Board. Dustin also plays on JV for the Vandal League of Legends Club's C-Star intramural league. The highlight of his undergraduate program is faculty-guided research on the impact of institutions on economic development. Currently, He is a step away from becoming a peer-reviewed writer. After completing his undergraduate degree, Dustin hopes to attend a graduate school where he can study the economic development of Kosovo.

# THE DAVIS GROUP

## JAMES CONWAY

James is a senior at the University of Idaho. He is a Sector Analyst for the Cyclical Sector and is currently majoring in Operations Management with a minor in Economics. He is graduating in May of 2018 and then going work at Micron as a manufacturing associate. He enjoys the broad scope of majors and ideas in the Davis Group and hopes to use the skills learn in his professional career and personal life.

## ALEX FRENCH

Alex French is a senior at the University of Idaho, planning to graduate in May of 2018 with a Bachelor's degree in accounting. He is on the College of Business and Economics Dean's List. He started with the Davis Group as a Sector Analyst in January of 2017. This past summer he had a finance internship for JP Morgan in the greater Philadelphia area. In his free time, Alex enjoys spending time with his wife. His hobbies include golfing, farming, and yoga.

## HENRY HILL

Henry is a junior studying computer science and applied mathematics at the University of Idaho. Henry have been involved with the Davis Group since the second semester of his sophomore year. Alongside the Davis Group, Henry has also been involved with the Cyber Defense Club and is currently a member of Beta Theta Pi. He enjoys fishing, reading, and programming. After graduation, Henry will pursue a career in software engineering.

## CONOR MARCUS

Conor is a senior at University of Idaho studying Financial Economics with a minor in Spanish and will be graduating in May of 2018. Conor is the sector coordinator for the sensitive sector for the Davis Student Investment Group and also is involved with the Barker Capital Management Group as a funded trader and analyst. He also works as UI's campus ambassador for the Coca Cola Company. He is looking to start his career in finance when he graduates. Conor enjoys skiing, travelling, reading, hanging out with friends, and staying active through outdoors activities.

# THE DAVIS GROUP

## SARAH MOSMAN

Sarah is a junior studying Agriculture Economics with a Marketing minor. In addition to the Davis Group, she is a student ambassador for the College of Agriculture and Life Sciences, involved with the Food and Agribusiness Club, former Vice President of Finance on the Panhellenic Council, and a member of the Gamma Phi Beta sorority. Sarah's hobbies include skiing and anything else outdoors. This summer she will be interning for Syngenta, a crop treatment company, in Nampa. After Sarah graduates next year in May, she would like to pursue a career in seed marketing.

## NICHOLAS PEREDO

Nicholas Peredo is a graduating senior with a major in Finance. He has been with the Davis Investment Group since the spring of 2017 as a Consumer Technology Sector Analyst and then as a Utilities Sector Analyst. In his spare time, he manages his own portfolio, plays soccer, and goes backpacking. In June he intends on traveling to Russia to visit historical sites and be a spectator at the FIFA World Cup.

## CHAD ROBERTSON

Chad is in his sophomore year at the University of Idaho pursuing two degrees in Finance and Economics. He has been involved with the Davis Group since the spring of 2017 and is currently the Fixed Income Sector Coordinator. Outside of the Davis Group, Chad is a member of the Sigma Chi Fraternity Gamma Eta Chapter, and he enjoys investing, backpacking, and reading.

## JOSH RUDOLPH

Josh Rudolph is a junior at the University of Idaho pursuing degrees in Finance and Accounting. He joined the Davis Group in the fall of 2016. Josh is an analyst for the Barker Capital Management Group and is involved in several other groups including Beta Alpha Psi, the Graue Scholars, and the UI Honors Program. He was recently elected to be chair of the Dean's Student Advisory Board. Josh works as a TA for the BUS 252 (Intro to Business Analytics) and MKTG 321 (Intro to Marketing) classes. He is a captain on the UI Club Ultimate Frisbee team and enjoys competing against other colleges in tournaments around the Northwest. This summer Josh will be returning to Moss Adams in Seattle and plans to begin his career in public accounting after he graduates.

# THE DAVIS GROUP

## JOHN SIGRIST

John is a senior at the University of Idaho majoring in Finance and Operations Management. John has been a part of the Davis Group for three semesters and has been a Sector Coordinator the past two semesters. After graduation he plans to pursue the financial route and find a position where he can continue to follow the stock market.

## TIM SKINNER

Tim Skinner is a junior at the University of Idaho majoring in Finance and Marketing Analytics. He joined the Davis Investment Group in the spring of 2017 and has followed the telecommunication and energy sectors as part of the group. During his time at the university, he has been actively involved as a Graue Scholar, a member of the Dean's Student Advisory Board, the VP of Finance for Vandal Solutions, and the VP of Finance for the Inter-fraternity Council. Tim will be interning at Clearwater Analytics this summer where he will work as an Accounting Analyst in the Client Services division. In the future, he hopes to be a financial analyst. Outside of school, he enjoys basketball, golf, and reading.

## NICOLE SMITH

Nicole Smith is a senior majoring in Business Economics. In addition to serving as a sector coordinator for the Davis Group, she remains actively involved in the CBE through the Barker Capital Management Group, Graue Scholars, UI Honors Program, and Dean's Student Advisory Board. After graduation, she will work as a trading analyst for BP in Chicago. During her free time, you can find her spending time with friends or setting out into the great outdoors.

## References

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