

# Large Cap U.S. Core Pick List

## November 2014

### Sector Valuations

The market appears slightly overvalued, from our perspective, with the market-capitalization-weighted average, uncertainty-adjusted price/fair value ratio for stocks in the S&P 500 Index that are under active Morningstar research coverage at 102% as of Oct. 31, which is in line with last month's ratio.

The S&P 500 experienced a sudden injection of volatility in October, falling as much as 150 points from the September close before rallying all the way back to close up just over 45 points at 2,018.05. Most sectors appear fairly valued based on an uncertainty-adjusted price/fair value basis. Communication services remains the most highly valued sector, trading at 109% of fair value. Only the energy sector is trading below intrinsic value, ending the month at just 91% of fair value. Please refer to the table later in the report for more details on sector valuation.

As of Oct. 31, the U.S. Large Cap Pick List is trading at a modest discount to the overall market, at roughly 93% of fair value. The consumer cyclical sector is now the cheapest on our list, with our picks trading at just under 87% of fair value. We also see relatively more value in basic materials, energy, real estate, and utilities, with those picks trading just under 90% of fair value. All other sectors are trading at greater than 90% of their respective fair values.

### Portfolio Commentary: Changes

We made several changes to the list this month. Beginning in the consumer defensive sector, we are removing two firms based on valuation, while adding one name to the list. We are removing **Costco COST** based on valuation, as shares have rallied beyond our \$125 fair value estimate. We are also removing shares of **Clorox CLX** based on valuation, with shares trading north of our \$96 fair value estimate. We are adding shares of **Avon Products AVP**, as shares look inexpensive compared with our \$17 fair value estimate. We are encouraged by some of the early progress Avon's new management team has made, and Erin Lash explains the remaining obstacles facing Avon:

"While Avon generates the bulk of its sales outside the United States, prospects on its home turf remain bleak.

A portion of this weakness reflects further recruitment setbacks related to Avon's redistricting efforts, but more recently, field disruptions during the rollout of its service technology platform in Canada also took a toll. Technology is one area where Avon had underinvested in for years. Management has committed to spending an incremental \$150 million–\$200 million over three years to right these deficiencies, which we view positively for the long-term health of the business, but we have yet to see any traction from this spending. Avon has brought in talent from outside the organization (like Pablo Munoz, head of North America) to lead its charge. Most recently, Munoz headed Tupperware's domestic operations. We think his direct-selling experience will be a valuable asset as he works to turn around Avon's challenged domestic business, although it will take more than one individual to correct the issues that have plagued Avon for years."

Moving to the basic materials sector, we are adding **Newmont Mining NEM** to the list, as shares appear undervalued versus our \$28 fair value estimate. Analyst Kristoffer Inton offers his outlook for Newmont amid stagnating gold prices:

"The construction of Merian, mine sequencing at Batu Hijau in Indonesia, a ramp-up at Akyem in Ghana, and mine sequencing and the nearly completed Turf Vent Shaft in Nevada should boost production and counter some cost inflation. Still, Newmont's overall growth profile is modest, as projects such as Hope Bay and Conga are on hold for economic or geopolitical reasons. Nevada is an important piece of Newmont's portfolio, with nearly 20 mines operating in close proximity. This allows the mines to share facilities that employ a variety of processing methods to maximize economic recovery. In addition, brownfield investments can leverage nearby operations, lowering potential capital costs. Newmont's other mines are located in Mexico, Ghana, Australia, and Indonesia. Australia is Newmont's second-largest producing region behind Nevada. However, these mines tend to be higher cost, with all-in sustaining costs above the company average. In Indonesia, Newmont faces more geopolitical risk than it does in most of its other operations. In early 2014, the

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The Large Cap U.S. Core Pick List surfaces our best picks for new core equity investments in large-cap stocks within each Morningstar sector. We also provide our take on the relative attractiveness of each pick and sector weighting recommendations. We limit the list to stocks of U.S. companies that are part of the S&P 500 Index.

government introduced a new mining export tax in an attempt to force miners to build domestic smelters. We think any resolution will probably require Newmont to compromise with the government's demands."

In the industrials sector, we are removing shares of **Eaton ETN** based on valuation, as shares are hovering above our \$64 fair value estimate. In its place, we are adding **Allegheny Technologies ATI**, as shares are trading at a material discount to our \$47 fair value estimate. We think the firm can expect steady demand from a number of its key markets, and Andrew Lane further explains why we believe Allegheny shares look attractive today:

"Concerns about falling oil prices and a lackluster third-quarter earnings result have weighed on share performance in recent weeks. Even so, we remain very optimistic about the company's long-term prospects. Allegheny's attractive end-market exposure will be supplemented by the ramp-up of its new hot-rolling and processing facility and titanium sponge facility. These facilities increase the company's total production capacity and should lead to improved unit costs for the production of key product lines. We believe that Allegheny Technologies exhibits a narrow economic moat that stems from the presence of intangible assets and switching costs. Although patents play only a small role as a barrier to entry, the lengthy and capital-intensive qualification processes that the company must undertake for the production of its high-value materials effectively establish valuable intangible assets that often lead to long-term supply agreements. Switching costs stem from the fact that Allegheny's specialty alloys compose a small portion of the construction cost of a commercial aircraft or oil well but have a very high cost of failure. This leads to sticky business relationships and prevents customers from changing suppliers on the basis of cost alone."

Finally, we are removing one name each from the health-care and utilities sectors. We are removing **Medtronic MDT** from the list based on valuation, as shares of the firm look rich versus our \$63 fair value estimate. We are also removing **Southern Company SO** based on valuation, as shares are hovering just north of our \$45 fair value estimate.

#### Fair Value Changes

There were four significant fair value changes this month. We have elevated our fair value estimate for basic materials firm **Alcoa AA** to \$19 per share, up from \$17. With aluminum

demand recovering, we anticipate pricing to stabilize, which should allow for enhanced profitability for Alcoa. Analyst Andrew Lane takes a closer look at the longer-term outlook for Alcoa:

"Although Alcoa is currently navigating a low-price environment for aluminum, the industry is cyclical and our model assumes that sales volume and pricing will gradually rebound in the long run. Indeed, as Alcoa and other industry players cut production capacity via strategic plant closures, downward pricing pressure on aluminum will gradually be relieved, thereby offering the potential for margin expansion. Although we assert that aluminum prices will remain depressed in the near term, we assume a long-term LME spot price for aluminum of \$2,400 per metric ton (in real terms) and an all-in realized average selling price for Alcoa 8% above the LME spot price. In addition, we forecast that alumina prices will reach \$450 per metric ton (in real terms)."

We are lowering our fair value estimate for luxury retailer **Coach COH** to \$45 per share, down from \$50 per share. We remain upbeat on the retailer, and analyst Paul Swinand examines the firm's latest set of results:

"Although some investors may be concerned that first-quarter international growth was just 4%, or 6% excluding currency headwinds, reaching \$381 million, we believe that although not precise, prior guidance was clear that distribution network openings would slow until the brand transformation was complete. China grew at just 10%, as the company has slow distribution growth. The firm does not disclose international comparable-store sales but said that they were positive, and it still expects 20 openings and 10 closings in China. Overall, international growth is now just over a third of the total business, and management still sees contributions of \$600 million in China and \$100 million in Europe in fiscal 2015 (no change from earlier guidance). Looking longer term, and despite management's mixed commentary about being pleased with new product and design acceptance—followed by comments that it was too early to read—we are encouraged that the brand elevation can work since the higher-end products continue to sell. Store remodels and new advertising should reinforce the higher-end image, and the reduction in promotions will eventually be lapped. We are also encouraged that lifestyle products, despite risks, also appear to be well-accepted, which we believe

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supports our thesis that the brand has long-term value. Although if management's unchanged guidance for the full year continues to be correct, shareholders will need to remain patient. Also, even in what seems to be a very negative situation, the company is still producing high-teens operating margins—a level rarely reached by some retailers."

We have also lowered our fair value estimate for **Eaton ETN** to \$64 per share, down from \$86 per share. Our reduced fair value stems from updated assumptions regarding Eaton's end markets. Analyst Keith Schoonmaker explains:

"We have reduced our fair value estimate to \$64 per share from \$86 to reflect our new midcycle assumptions based on longer-term prospects for Eaton's industrial end markets. Over the next five years, we forecast an average revenue CAGR of 3%, which we believe is reasonable considering the cyclicity of Eaton's five segments. In turn, we've tempered our consolidated operating margin assumptions from an average of 13% to about 11% over the course of our explicit forecast period. However, this new average still reflects greater than 200 basis points of expansion over the most recent five-year average, in line with our optimism that higher-margin contributions from the Cooper acquisition will lift the corporate average. We use an 8.2% weighted average cost of capital to arrive at our fair value estimate."

Finally, we have reduced our fair value estimate for **Peabody Energy BTU** to \$14 per share, down from \$16, based on our belief that coal prices will remain relatively weak in the near term. Analyst Kristoffer Inton takes a closer look at Peabody's longer-term prospects:

"For U.S. operations, we believe near-term coal prices will remain relatively weak, driving the company to manage production in the ILB and Uinta Basin. However, domestic coal prices should improve by 2016, as customers have burned through historically high inventory levels and PRB and ILB coal demand increases. We assume that rail capacity issues that have hindered the company's PRB operations through 2014 will have been resolved through 2015 and 2016, amid higher capital spending by the rail carriers. We assume the company will begin to expand production as it sees prices improve, growing from 185 million tons in 2013 to 202 million tons by 2018. We also anticipate operating costs per ton to slowly increase, as produc-

tion ramps up through increased utilization of existing capacity and increased stripping ratio, particularly at the bowl-shaped PRB. For Australian operations, we believe the company's realized prices will increase over time, driven by a shift in mix to higher-priced met coal. We anticipate the oversupply that has hurt seaborne markets will dissipate, as higher-cost mines continue to be rationalized. Furthermore, we believe the company will continue to increase production, as past capital investments and conversion to owner-operated sites ramp up, growing from 35 million tons in 2013 to 40 million tons by 2018. Finally, we anticipate operating costs per ton to steadily increase."

## Adjusted Price/Fair Value Ratio

Attractiveness	Lower Bound	Upper Bound	Notes
Cheap	0.000	0.800	Assets are trading at or below Morningstar's "Consider Buying" price.
Undervalued	0.801	0.900	Assets are trading above Morningstar's "Consider Buying" price, but are still at a discount to our fair value estimate.
Fully Valued	0.901	1.100	Assets are trading within a band that is not materially different from Morningstar's fair value estimate.
Overvalued	1.101	1.250	Assets are trading above Morningstar's fair value estimate, but are still below our "Consider Selling" price.
Expensive	1.251	—	Assets are trading at or above Morningstar's "Consider Selling" price.

## Fair Value Per Sector

Morningstar Sector	S&P Sector Weight (%)	Sector P/V (%)	Pick List P/V (%)
Basic Materials	2.88	102.39	89.25
Communication Services	4.00	108.98	92.39
Consumer Cyclical	9.78	98.58	86.92
Consumer Defensive	9.09	100.66	93.20
Energy	9.50	91.02	87.77
Financial Services	14.39	100.15	94.33
Healthcare	14.24	102.75	92.85
Industrials	10.03	101.90	92.84
Real Estate	1.59	101.25	88.65
Technology	17.56	104.31	97.04
Utilities	2.96	102.69	88.76

## Largest Negative and Positive Price Movements During October

Company	Ticker	Beg. Price Per Share (USD)	End Price Per Share (USD)	Return (%)
Apache	APA	93.87	77.2	-17.76
Peabody Energy	BTU	12.38	10.43	-15.75
International Business Machines	IBM	189.83	164.4	-13.40
Devon Energy	DVN	68.18	60	-12.00
Kohl's	KSS	61.03	54.22	-11.16
Occidental Petroleum	OXY	96.15	88.93	-7.51
eBay	EBAY	56.63	52.50	-7.29
Noble	NE	22.22	20.92	-5.85
Ford Motor	F	14.79	14.09	-4.73
National Oilwell Varco	NOV	76.10	72.64	-4.55
PPL	PPL	32.84	34.99	6.55
Exelon	EXC	34.09	36.59	7.33
Johnson Controls	JCI	44	47.25	7.39
Eaton	ETN	63.37	68.39	7.92
Express Scripts	ESRX	70.63	76.82	8.76
Cognizant Technology Solutions Class A	CTSH	44.77	48.85	9.11
Medtronic	MDT	61.95	68.16	10.02
HCP	HCP	39.71	43.97	10.73
CSX	CSX	32.06	35.63	11.14
FirstEnergy	FE	33.57	37.34	11.23

## Large Cap U.S. Core Picks (Data as of Oct. 31, 2014)

Company	Ticker	Economic Moat™	Uncertainty Rating	Current Price (USD)	Fair Value (USD)	Adj. Price/Fair Value	Morningstar Rating	Market Cap (USD Mil)	Industry	Relative Attractiveness
Basic Materials—Fully Valued										
Mosaic	MOS	None	High	44.41	56	0.90	★★★★	16,638.43	Agricultural Inputs	Undervalued
Peabody Energy	BTU	Narrow	Very High	12.38	16	0.91	★★★★	3,360.73	Coal	Undervalued
Monsanto	MON	Wide	Medium	112.51	130	0.91	★★★★	59,022.03	Agricultural Inputs	Fully Valued
Newmont Mining	NEM	None	High	23.05	28	0.91	★★★★	11,496.39	Gold	Undervalued
Nucor	NUE	Narrow	Medium	54.28	62	0.92	★★★★	17,306.80	Steel	Fully Valued
Alcoa	AA	None	High	16.09	17	0.97	★★★	18,927.03	Aluminum	Fully Valued
Communication Services—Fully Valued										
Crown Castle International	CCI	Narrow	Medium	80.53	90	0.93	★★★★	26,885.76	Telecom Services	Fully Valued
CenturyLink	CTL	Narrow	High	40.89	41	1.00	★★★	23,314.04	Telecom Services	Fully Valued
Consumer Cyclical—Fully Valued										
General Motors	GM	None	High	31.94	53	0.80	★★★★	51,253.54	Auto Manufacturers	Cheap
Ford Motor	F	None	High	14.79	23	0.82	★★★★	57,362.40	Auto Manufacturers	Undervalued
Priceline Group	PCLN	Narrow	High	1,158.58	1,651	0.85	★★★★	60,764.86	Leisure	Undervalued
Coach	COH	Narrow	High	35.61	50	0.86	★★★★	9,779.64	Luxury Goods	Undervalued
Johnson Controls	JCI	Narrow	Medium	44	56	0.86	★★★★	29,307.32	Auto Parts	Fully Valued
eBay	EBAY	Wide	Medium	56.63	63	0.93	★★★★	70,289.87	Specialty Retail	Fully Valued
PetSmart	PETM	Narrow	Medium	70.09	71	0.99	★★★	6,962.17	Specialty Retail	Fully Valued
Bed Bath & Beyond	BBBY	None	Medium	65.83	66	1.00	★★★	13,294.63	Specialty Retail	Fully Valued
Kohl's	KSS	Narrow	Medium	61.03	61	1.00	★★★	12,490.92	Department Stores	Fully Valued
Consumer Defensive—Fully Valued										
Sysco	SYT	Wide	Medium	37.95	45	0.90	★★★★	22,267.77	Food Distribution	Fully Valued
Avon Products	AVP	Narrow	Very High	12.60	17	0.90	★★★★	5,476.22	Household & Personal Products	Undervalued
Procter & Gamble	PG	Wide	Low	83.74	93	0.90	★★★★	226,738.81	Household & Personal Products	Fully Valued
McCormick Nonvoting	MKC	Wide	Low	66.90	72	0.93	★★★★	8,684.42	Packaged Foods	Fully Valued
Coca-Cola	KO	Wide	Low	42.66	44	0.97	★★★	187,103.51	Beverages - Soft Drinks	Fully Valued
Energy—Fully Valued										
Schlumberger NV	SLB	Wide	Medium	101.69	145	0.80	★★★★	131,834.61	Oil & Gas Equipment & Services	Cheap
Chesapeake Energy	CHK	Narrow	High	22.99	37	0.81	★★★★	15,306.18	Oil & Gas E&P	Cheap
National Oilwell Varco	NOV	Wide	Medium	76.10	93	0.88	★★★★	32,741.16	Oil & Gas Equipment & Services	Undervalued
Occidental Petroleum	OXY	Narrow	Medium	96.15	116	0.89	★★★★	74,961.26	Oil & Gas E&P	Undervalued
Devon Energy	DVN	Narrow	High	68.18	88	0.89	★★★★	27,892.44	Oil & Gas E&P	Undervalued
Chevron	CVX	Narrow	Low	119.32	132	0.90	★★★★	226,580.55	Oil & Gas Integrated	Fully Valued
Noble PLC	NE	None	High	22.22	27	0.91	★★★★	5,649.67	Oil & Gas Drilling	Undervalued
Spectra Energy	SE	Wide	Low	39.26	43	0.91	★★★★	26,339.29	Oil & Gas Midstream	Fully Valued
Apache	APA	Narrow	Medium	93.87	107	0.92	★★★★	35,902.74	Oil & Gas E&P	Undervalued

**Large Cap U.S. Core Picks** (Data as of Oct. 31, 2014)

Company	Ticker	52 Week High	52 Week Low	Total Return YTD (Daily)	Total Return 1-Yr (Daily)	Div. Per Share TTM	Div. Yield % Current	Div. Yield % Forward	EPS Est. Growth % Mean 5-Yr	Forward EPS Est.
<b>Basic Materials</b>										
Mosaic	MOS	51.25	42.76	-4.46	5.56	1.00	2.25	2.25	17.27	3.80
Peabody Energy	BTU	21.28	11.88	-35.30	-26.26	0.34	2.75	2.75	38.46	-0.44
Monsanto	MON	128.79	101.78	-2.36	9.45	1.67	1.53	1.74	15.16	6.04
Newmont Mining	NEM	28.71	20.79	0.96	-16.55	0.63	1.74	0.43	-8.08	1.06
Nucor	NUE	58.76	46.39	3.77	13.75	1.48	2.73	2.73	33.57	2.95
Alcoa	AA	17.36	7.82	52.21	99.63	0.12	0.75	0.75	21.26	0.86
<b>Communication Services</b>										
Crown Castle International	CCI	81.00	68.44	11.10	11.71	0.70	1.30	1.74	47.84	1.61
CenturyLink	CTL	45.67	27.93	33.47	37.19	2.16	5.28	5.28	5.54	2.37
<b>Consumer Cyclical</b>										
General Motors	GM	41.85	31.67	-19.65	-8.70	0.60	2.82	3.76	15.00	4.53
Ford Motor	F	18.12	14.40	-1.72	-9.51	0.45	3.21	3.38	11.07	1.72
Priceline Group	PCLN	1,378.96	972.40	-0.33	14.60	—	—	—	24.79	64.43
Coach	COH	57.95	33.39	-34.75	-32.22	1.35	3.79	3.79	-0.03	2.09
Johnson Controls	JCI	52.50	39.42	-12.94	8.14	0.85	2.00	2.00	18.30	3.65
eBay	EBAY	59.70	48.06	3.22	1.50	—	—	—	10.27	3.32
PetSmart	PETM	77.32	55.00	-2.85	-7.07	0.78	1.11	1.11	10.64	4.58
Bed Bath & Beyond	BBBY	80.82	54.96	-18.02	-14.90	—	—	—	9.73	5.54
Kohl's	KSS	63.54	48.68	9.60	20.87	1.48	2.49	2.56	6.53	4.89
<b>Consumer Defensive</b>										
Sysco	SY	43.40	31.13	6.73	22.84	1.15	3.03	3.06	14.23	1.97
Avon Products	AVP	22.86	12.45	-25.78	-37.67	0.24	1.90	1.90	12.00	0.99
Procter & Gamble	PG	85.82	75.20	5.18	14.08	2.45	2.97	3.07	8.87	4.22
McCormick Nonvoting	MKC	73.33	62.75	-1.86	5.64	1.42	2.17	2.21	8.71	3.57
Coca-Cola	KO	42.81	36.83	5.48	15.77	1.17	2.80	2.86	7.35	2.24
<b>Energy</b>										
Schlumberger NV	SLB	118.76	84.91	14.18	16.80	1.43	1.49	1.57	—	6.81
Chesapeake Energy	CHK	29.92	22.63	-9.46	-4.71	0.35	1.52	1.52	43.40	2.20
National Oilwell Varco	NOV	86.55	65.49	7.79	10.08	1.24	1.89	2.42	11.43	6.86
Occidental Petroleum	OXY	105.64	85.90	3.38	5.78	2.72	2.91	3.00	3.21	7.31
Devon Energy	DEV	80.63	57.20	11.33	19.63	0.90	1.35	1.41	6.97	6.48
Chevron	CVX	135.10	109.27	-1.96	1.61	4.07	3.47	3.59	0.73	11.23
Noble PLC	NE	35.52	21.80	-28.98	-28.88	1.25	6.19	6.75	6.93	2.78
Spectra Energy	SE	43.12	32.80	13.04	18.52	1.28	3.34	3.41	11.47	1.57
Apache	APA	104.57	77.31	10.04	11.31	0.85	0.96	1.07	15.20	7.50

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Financial Services—Fully Valued										
Western Union	WU	Wide	High	16.04	22	0.86	★★★★	8,497.51	Credit Services	Undervalued
Franklin Resources	BEN	Wide	Medium	54.61	61	0.93	★★★	34,147.15	Asset Management	Fully Valued
Capital One Financial	COF	Narrow	Medium	81.62	91	0.93	★★★	45,814.84	Credit Services	Fully Valued
BlackRock	BLK	Wide	Medium	328.32	360	0.94	★★★	54,497.67	Asset Management	Fully Valued
PNC Financial Services Group	PNC	Narrow	Medium	85.58	93	0.95	★★★	46,261.68	Banks - Regional - US	Fully Valued
Berkshire Hathaway Class B	BRK.B	Wide	Medium	138.14	150	0.95	★★★	322,516.62	Insurance - Diversified	Fully Valued
Invesco Ltd	IVZ	Narrow	Medium	39.48	42	0.96	★★★	17,041.67	Asset Management	Fully Valued
Bank of New York Mellon	BK	Wide	Medium	38.73	39	1.00	★★★	43,826.72	Asset Management	Fully Valued
Health Care—Fully Valued										
Baxter International	BAX	Wide	Low	71.77	84	0.85	★★★★	38,875.90	Medical Instruments & Supplies	Undervalued
Express Scripts	ESRX	Wide	Medium	70.63	89	0.86	★★★★	52,651.13	Health Care Plans	Fully Valued
Abbott Laboratories	ABT	Narrow	Low	41.59	44	0.95	★★★	62,538.84	Medical Devices	Fully Valued
Quest Diagnostics	DGX	Narrow	Medium	60.68	65	0.96	★★★	8,763.08	Diagnostics & Research	Fully Valued
Merck	MRK	Wide	Medium	59.28	63	0.96	★★★	171,000.99	Drug Manufacturers - Major	Fully Valued
Industrials—Fully Valued										
Allegheny Technologies	ATI	Narrow	High	37.10	47	0.89	★★★★	4,033.56	Metal Fabrication	Undervalued
Expeditors International of Washington	EXPD	Wide	Medium	40.58	47	0.91	★★★★	7,917.48	Integrated Shipping & Logistics	Fully Valued
General Electric	GE	Wide	Medium	25.62	29	0.92	★★★★	257,068.61	Diversified Industrials	Fully Valued
CSX	CSX	Wide	Medium	32.06	34	0.96	★★★	32,046.29	Railroads	Fully Valued
CH Robinson Worldwide	CHRW	Wide	Medium	66.32	66	1.00	★★★	9,759.49	Integrated Shipping & Logistics	Fully Valued
Real Estate—Fully Valued										
HCP	HCP	Narrow	Medium	39.71	51	0.85	★★★★	18,219.78	REIT - Healthcare Facilities	Fully Valued
American Tower	AMT	Narrow	Medium	93.63	111	0.90	★★★★	37,090.99	REIT - Diversified	Fully Valued



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<b>Financial Services</b>										
Western Union	WU	19.50	14.60	-4.84	-11.36	0.50	3.12	3.12	8.50	1.61
Franklin Resources	BEN	58.87	49.49	-4.78	8.98	0.46	0.88	0.88	8.68	4.00
Capital One Financial	COF	85.39	67.36	7.71	20.48	1.20	1.47	1.47	3.00	7.73
BlackRock	BLK	337.65	262.68	5.57	24.08	7.22	2.28	2.35	14.66	21.39
PNC Financial Services Group	PNC	90.00	70.63	12.12	20.66	1.80	2.15	2.24	5.75	7.44
Berkshire Hathaway Class B	BRK.B	142.45	108.12	16.51	21.70	—	—	—	12.20	—
Invesco Ltd	IVZ	41.44	31.50	10.45	26.74	0.93	2.41	2.53	14.14	2.92
Bank of New York Mellon	BK	40.80	29.55	12.25	30.41	0.62	1.65	1.76	15.60	2.76
<b>Health Care</b>										
Baxter International	BAX	77.31	62.80	5.39	12.33	1.99	2.81	2.90	6.76	5.12
Express Scripts	ESRX	79.37	59.20	0.56	14.29	—	—	—	14.00	5.48
Abbott Laboratories	ABT	44.20	32.75	10.23	27.72	0.72	1.92	2.12	8.79	2.35
Quest Diagnostics	DGX	64.38	50.46	15.13	-0.24	1.26	2.08	2.18	5.11	4.32
Merck	MRK	61.33	44.62	21.08	28.21	1.75	2.97	2.97	3.63	3.59
<b>Industrials</b>										
Allegheny Technologies	ATI	46.32	29.49	5.64	23.92	0.72	1.94	1.94	19.31	1.98
Expeditors International of Washington	EXPD	46.90	38.42	-7.57	-6.49	0.62	1.53	1.53	10.07	2.08
General Electric	GE	28.09	23.50	-6.24	10.93	0.85	3.43	3.43	10.00	1.86
CSX	CSX	32.66	25.04	13.07	26.96	0.61	1.93	2.00	11.19	2.10
CH Robinson Worldwide	CHRW	69.50	50.21	15.46	13.64	1.40	2.11	2.11	10.68	3.32
<b>Real Estate</b>										
HCP	HCP	43.86	35.50	13.84	2.25	2.14	5.44	5.49	5.40	2.21
American Tower	AMT	99.90	71.55	18.58	28.07	1.23	1.40	1.54	34.89	2.99



**Large Cap U.S. Core Picks** (Data as of Oct. 31, 2014)

Company	Ticker	Economic Moat™	Uncertainty Rating	Current Price (USD)	Fair Value (USD)	Adj. Price/Fair Value	Morningstar Rating	Market Cap (USD Mil)	Industry	Relative Attractiveness
Technology—Fully Valued										
Cognizant Technology Solutions Class A	CTSH	Narrow	Medium	44.77	55	0.88	★★★★	27,216.77	Information Technology Services	Fully Valued
Teradata	TDC	Narrow	High	41.92	51	0.91	★★★★	6,497.60	Data Storage	Fully Valued
Altera	ALTR	Narrow	Medium	35.78	41	0.92	★★★★	11,055.28	Semiconductors	Undervalued
International Business Machines	IBM	Wide	Medium	189.83	212	0.93	★★★	189,372.92	Information Technology Services	Undervalued
Oracle	ORCL	Wide	Medium	38.28	42	0.94	★★★	169,630.32	Software - Infrastructure	Fully Valued
Cisco Systems	CSCO	Narrow	Medium	25.17	26	0.98	★★★	128,346.94	Communication Equipment	Fully Valued
Broadcom	BRCM	Narrow	High	40.42	40	1.00	★★★	23,888.22	Semiconductors	Fully Valued
Microsoft	MSFT	Wide	Medium	46.36	46	1.01	★★★	381,999.39	Software - Infrastructure	Fully Valued
Utilities—Fully Valued										
Exelon	EXC	Wide	Medium	34.09	40	0.90	★★★★	29,290.04	Utilities - Diversified	Fully Valued
FirstEnergy	FE	Narrow	High	33.57	41	0.91	★★★★	14,110.97	Utilities - Diversified	Fully Valued
PPL	PPL	Narrow	Medium	32.84	37	0.93	★★★★	21,818.28	Utilities - Diversified	Fully Valued

**Large Cap U.S. Core Picks** (Data as of Oct. 31, 2014)

Company	Ticker	52 Week High	52 Week Low	Total Return YTD (Daily)	Total Return 1-Yr (Daily)	Div. Per Share TTM	Div. Yield % Current	Div. Yield % Forward	EPS Est. Growth % Mean 5-Yr	Forward EPS Est.
Technology										
Cognizant Technology Solutions Class A	CTSH	54.00	39.75	-11.33	9.04	—	—	—	16.62	2.82
Teradata	TDC	56.26	37.66	-7.85	-24.39	—	—	—	9.64	3.07
Altera	ALTR	38.00	30.73	11.53	-2.02	0.60	1.76	2.01	15.41	1.88
International Business Machines	IBM	199.21	172.19	2.88	4.73	3.95	2.16	2.32	8.15	19.78
Oracle	ORCL	43.19	32.00	0.99	16.85	0.48	1.25	1.25	8.88	3.30
Cisco Systems	CSCO	26.08	20.22	15.51	11.31	0.72	2.94	3.02	3.92	2.14
Broadcom	BRCM	41.65	24.60	37.56	57.15	0.46	1.16	1.19	9.99	3.07
Microsoft	MSFT	47.57	32.70	26.17	42.67	1.07	2.42	2.67	9.33	3.32
Utilities										
Exelon	EXC	37.73	26.45	27.86	19.20	1.24	3.64	3.64	11.95	2.49
FirstEnergy	FE	38.92	29.98	5.06	-3.43	1.82	4.86	4.29	7.46	2.98
PPL	PPL	35.56	28.95	12.85	12.99	1.48	4.52	4.54	10.06	2.27

## Fair Value Changes

Company	Ticker	Old Fair Value (USD)	New Fair Value (USD)	Change (%)
Alcoa	AA	17	19	11.76
McCormick Nonvoting	MKC	72	76	5.56
Berkshire Hathaway Class B	BRK.B	150	157	4.67
CSX	CSX	34	35	2.94
Apache	APA	107	106	-0.93
BlackRock	BLK	360	350	-2.78
Franklin Resources	BEN	61	59	-3.28
Johnson Controls	JCI	56	54	-3.57
National Oilwell Varco	NOV	93	89	-4.30
Coca-Cola	KO	44	42	-4.55
Invesco	IVZ	42	40	-4.76
Sysco	SY	45	42	-6.67
International Business Machines	IBM	212	196	-7.55
Occidental Petroleum	OXY	116	107	-7.76
Coach	COH	50	45	-10.00
Peabody Energy	BTU	16	14	-12.50
Eaton	ETN	86	64	-25.58