CIF Sector Recommendation Report (Fall 2012)

Sector: Healthcare
Review Period: 10/8/12 - 10/19/12

Section (A) Sector Performance Review

Copy/paste “Sector Review Spreadsheet” (the entire spreadsheet) here

<table>
<thead>
<tr>
<th>Cougar Investment Fund Sector Review Spreadsheet Template</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please download and save this template to your own storage device</td>
</tr>
<tr>
<td>You only need to input values to cells highlighted in &quot;yellow&quot;</td>
</tr>
<tr>
<td>The rest of the spreadsheet is calculated automatically</td>
</tr>
<tr>
<td>Please read &quot;Sector Review Guidelines&quot; document carefully</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Current Price</th>
<th>Beg. Price</th>
<th>Stop-loss Price</th>
<th>Target Price</th>
<th>% Cap Gain</th>
<th># Shares</th>
<th>Current Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>$INX</td>
<td>1433.19</td>
<td>1462.35</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector ETF</td>
<td>XLV</td>
<td>$40.60</td>
<td>$41.17</td>
<td>-1.38%</td>
<td>4720</td>
<td>$191,632.00</td>
<td>0.51%</td>
</tr>
</tbody>
</table>

Review sector performance relative to the broad market (SP500) and explain why; Include a two-week (for the two-week window reviewed) price chart of the SPDR sector ETF and SP500 (on the same chart)
The XLV was very much in line with the S&P 500. I think this can be partially attributed to the relative lack of news over the past two weeks as well as the pending uncertainty that continues to plague the sector. We do see it start to rise, even more than the S&P, which is explained primarily from a favorable earnings report from Johnson & Johnson. It is also driven by the pharmaceutical industry that reported positive results in experimental drug testing. Two of these companies, Merck & Co. Inc. and Pfizer are trading near their 52-week highs.

Highlight noteworthy headline news from the sector (company-, industry-, or sector- level news)

- Johnson & Johnson, the largest holding of the XLV, reported earnings that beat analyst estimates. However, they had to recall 2.36 million flu vaccines headed for Italy, which may or may not hurt their stock price materially.
- Ireland has worked out a deal with pharmaceutical companies to help cut its medicine bill by over 100 million euros. This could be just the start of large cuts in healthcare spending from both Europe and the U.S. as governments try to find ways to reduce their deficits.
- On October 8th UnitedHealthGroup agreed to pay $4.9 billion for a 90% stake in Amil, a Brazilian health care company. This embodies the increase in M&A activity seen in recent months within the health care sector as companies prepare for upcoming regulations.

Highlight the biggest (+) and the biggest (-) movers from the sector holdings during the review period. Are there notable reasons why the stocks had big moves (e.g., earnings surprises, etc)?

The company who had the largest percentage gain within the two-week period was Intuitive Surgical, Inc., which gained a little over 5%. Intuitive Surgical sells surgical systems that help
surgeons during a variety of different procedures. Their increase was because of their earnings report that beat estimates for the 14th quarter in a row. This was somewhat dampened by the crisis in Europe, where less surgical procedures were performed, and thus reduced demand for their product. The company who had the largest percentage loss within the two-week period was Edwards Lifesciences Corp., which dropped about 20%. This was primarily because of its reported earnings miss, where it dropped 20% in a day. The heart-valve maker cited austerity measures in Europe as well as fewer surgical procedures being performed in the U.S. for the miss.

Highlight the largest two holdings from the sector and note any headline news on the companies

The CIF doesn’t have any holdings from the sector. However, the two largest companies in the XLV are Johnson & Johnson and Pfizer. As stated earlier, the big news from Johnson & Johnson is that they beat earnings estimates for the first time in a year. This was quite the surprise and gave the sector boost. Pfizer will announce its quarterly earnings on October 30th. In the meantime it has been progressing in drug trials that have had some positive results, but has also had to settle some costly litigation.

Comment on short-term outlook of the sector (including noteworthy upcoming events)

I think the short-term will bring quite muted trading within the sector because of the relative uncertainty surrounding many of these companies. Investors will likely be unwilling to make significant bets on the sector without more guidance on how each industry (and company) will be able to adapt to the unprecedented legal and fiscal environment that will come to define the sector in the near future. We can also expect to continue to see increased M&A activity in preparation for the changing regulatory environment. While many of the companies in the healthcare sector have already reported Q3 earnings (with varied success), some big names remain. Many of the companies that have yet to report earnings reside in more cyclical industries, which could result in significant stock movement.

Section (B) Sector Holding Updates

NO CURRENT PORTFOLIO HOLDINGS

Section (C) Sector Recommendations

You will make recommendations on whether CIF should continue to own its sector holdings
Provide your views on the sector. Are you bullish, bearish or neutral on the sector, and why?
Discuss whether you recommend CIF to (1) stay put with its current sector holdings, or (2) sell out of the sector, and why?

While the CIF does not currently own any companies in the healthcare sector, I think there could be opportunity in some of the industries. When looking at the sector as a whole, I am fairly neutral. I think in the near term the sector can be profitable but as the new regulations begin taking place and the country faces the fiscal cliff, it could be bad for much of the sector. While the sector usually has a low beta and is considered noncyclical, many of the industries can be heavily affected by a deep recession. This is because healthcare is a likely one of the first victims of austerity measures as governments look to cut back spending in the face of huge deficits. I see this amplified if Romney is elected, as he will likely cut spending in the healthcare sector as a way to balance the budget. However, this would be good for some industries, perhaps most notably low-cost alternative healthcare services, such as generic drugs. These industries often pick benefit when the other industries are taking hurting.

Section (D)  Sector Holding Recommendations

NO CURRENT PORTFOLIO HOLDINGS