HFAC Letter to Members: January 2009

Amid market turmoil and chaos, we can safely claim that HFAC's position and goals have remained steadfast. Building on last year's spectacular growth for the organization, our Fall 2008 semester reinforced our position as the leading student investment club at Harvard. Our reputation for having a dedicated and enthusiastic membership and a comprehensive and relevant education process has only grown over the past semester.

In the fall semester of 2008, HFAC recruited and trained 29 new students, all of whom completed the fall comp and are now designated as "Equity Analysts." The names of the new Equity Analysts are listed at http://www.hcs.harvard.edu/fac/equityanalysts.html. The semester-long comp was expanded and improved on from the previous semester, with a renewed focus on individual attention for each of our compers. We were also glad to be able to host guest lecturer Professor Jeremy Stein, the 2008 President of the American Finance Association, who discussed with our members his views on the current financial crisis.

Our asset management program was again very well received and was a great success for the organization. A total of 27 Equity Analysts graduated with asset management certifications, and their names are listed at http://www.hcs.harvard.edu/fac/assetmanagement.html.

The HFAC website (www.hcs.harvard.edu/fac) has been enhanced with more detailed fund analytics, which now update automatically on a daily basis. We also began creating a comprehensive resource to aid our members in securing employment. This resource will be available through our website, and we hope to have it fully available and updated by the start of the next recruiting season in the fall of 2009.

To better serve our ever-increasing membership, we expanded the HFAC Executive Board slightly by adding a second Director of Investment Research. During board interviews this past December, we selected eight of our Equity Analysts to join the 2009 Executive Board and welcomed six of our existing board members back for another term. The 2009 Board is extremely well qualified and dedicated to the organization, and I have no doubt that 2009 will be a phenomenal year of growth and development for HFAC. For a listing of board members and their profiles, please visit www.hcs.harvard.edu/fac/leadership.html.

As I reflect on the past year, I would like to pause a moment and acknowledge the achievements of the outgoing leaders of this organization. I want to specifically recognize and thank my predecessor as President of Operations, Anthony Genello, for his phenomenal devotion and vision for the club. I also want to recognize the outgoing President of Finance, Alexander Marcus, for his vast contributions of knowledge to the club and to the fund. I know I speak for myself and many of the board members when I say we have learned a lot from their leadership and guidance, and we are eager to build on the strong foundations that they have created.

As I look forward to 2009, I see immense potential for HFAC to expand its presence on campus and extend its network of contacts into the professional world. This year promises to be a time of great learning and progress, and I look forward to interacting with you throughout 2009.

Tracey Shi
president.ops@harvardfac.org
HFAC President of Operations

This past year was perhaps the most difficult year market participants have seen in a very long time, as even the most-renowned investors watched their portfolios decline precipitously in value while economic policymakers struggled to contain the spread of financial contagion worldwide. Despite these difficulties, shareholders of HFAC can proudly note that our fund beat the market by 5.65% during calendar year 2008. This is a significant accomplishment and a testament to the hard work that HFAC's Asset Management Groups, using our bottom-up, fundamental investing philosophy, have put into making sure that the positions we hold are top-quality stocks.

The fund had an erratic Q1, declining rapidly during the opening months of the year in accordance with the general downturn in the markets brought about by ever-growing concerns about credit markets here in the United States and abroad. These concerns continued to stem from the fall in housing values nationwide and the resultant effect that that this decline had on mortgage-backed securities (MBS). However, the fund ended with a positive active return at the end of Q1, driven in large part by our investments in commodity and utility-related plays like Hercules Offshore, Frontline Ltd, FreightCar America, Inc., and Companhia Paranaense de Energia.

The commodities boom that started in Q1 roared into Q2, and HFAC's fund roared along with it. The fund reached a closing price of $3.17 on May 19, with the fund achieving the year's absolute return high of 9.53% and an active return of 10.84% on this date. However, as credit markets continued to worsen during the summer, the commodities bubble finally burst in mid-July, sending HFAC's fund southward during Q3.

However, the bursting of the commodities bubble was only the beginning of troubles for global capital markets, as the collapse of venerated American investment bank Lehman Brothers in September and the acquisition of Merrill Lynch by Bank of America that same weekend sent credit markets into a tizzy. Our fund had already been hit by our exposure to commodities, but the freezing of global credit markets hit not only our financial positions in names like Goldman Sachs, but negatively affected just about every name in our portfolio. Nevertheless, we maintained a significant active YTD return against the market.

We benefitted in Q4 from a series of great buys by our Investment Research teams, including PC Connection, which gave us a 58.02% return as of 12/31/08, and Pfizer, which gave us a 10.90% return as of 12/31/08. As a result, despite the volatility in financial markets, HFAC finished the year in strong shape, beating the markets for a second year in a row. In terms of market exposure, our fund had a relatively low beta of 0.90 while posting alpha of 0.02%.

We have made a number of changes for calendar year 2009 that I believe will help us improve upon last year's active return while further enhancing our returns on an absolute basis. Perhaps the most important is the creation of the position of Summer Managers, who will be authorized to manage the fund during the summer vacation and to ensure that we are not blindsided like we were during the summer of 2008. We look forward to keeping you updated as we make more changes to the fund over the course of the year, and we hope to be able to take advantage of the many new opportunities available in the market during calendar year 2009. As always, do not hesitate to contact us with your questions or comments. Whether you are requesting advice or offering it, we would love to hear from you.

Prateek Kumar
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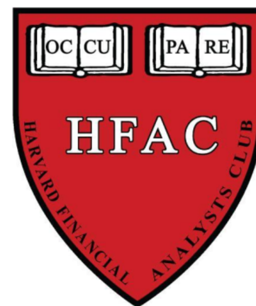
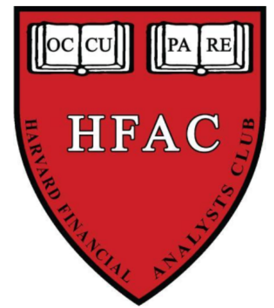
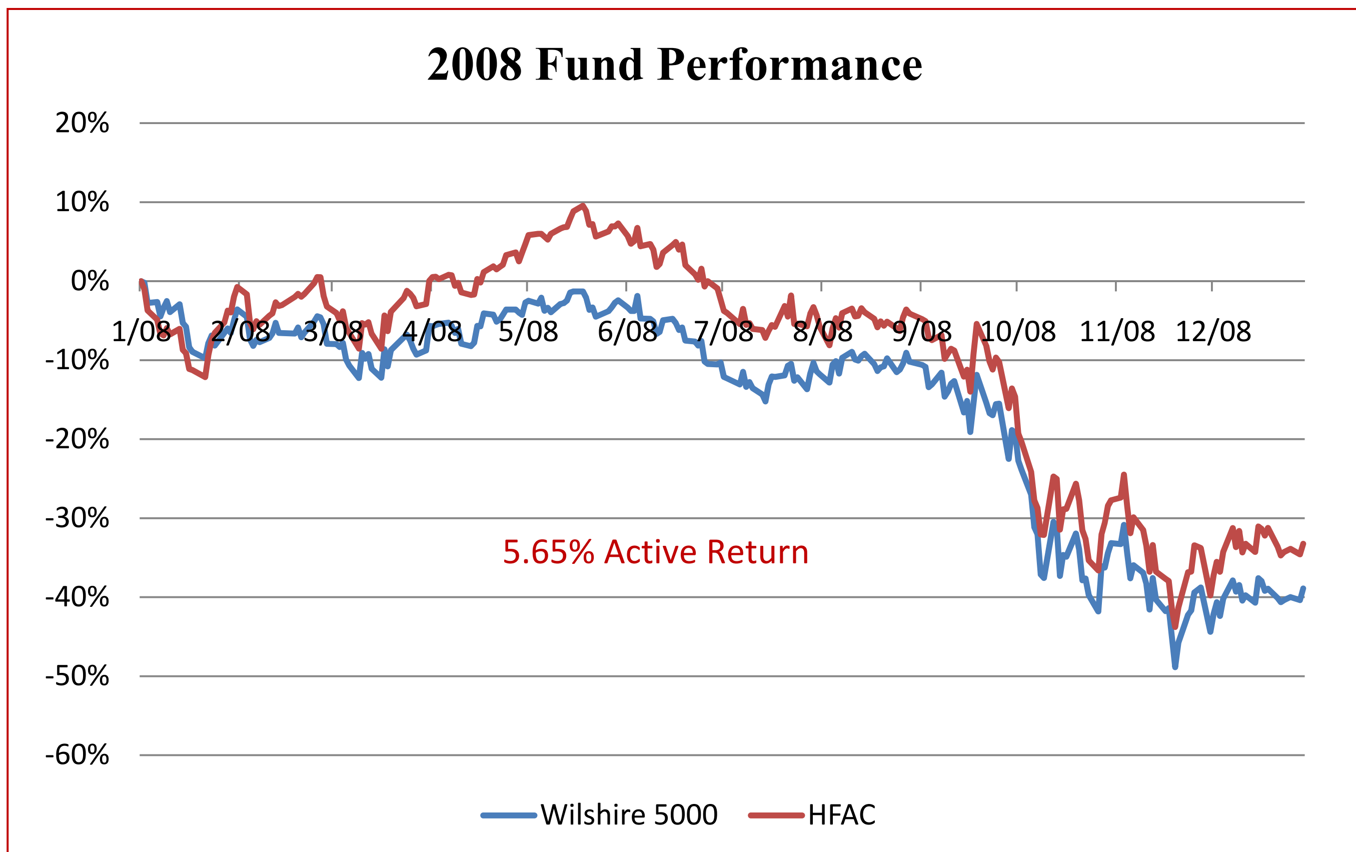
President of Finance





HFAC 2008 Annual Portfolio Report

The Harvard Financial Analysts Club (HFAC) is dedicated to providing the Harvard student body with sound financial education programs and real-world investment experience. Through the HFAC comp, new members are given a ground up introduction to finance with a focus on internship/career preparation. After completion of the comp, students can help manage HFAC's open-end mutual fund, an equity portfolio under the direction of the club's student and alumni members. In addition to its weekly financial meetings, HFAC hosts guest speakers and conducts networking events with finance professionals and former members.



Fund Overview

as of 12/31/2008

Assets Under Management	$27625.28
Shares Outstanding	13807
Share Price	1.93
Number of Shareholders	153
Alpha (1 year)	0.02%
Beta (1 year)	0.90
Tracking Error	13.342%

Historical Performance

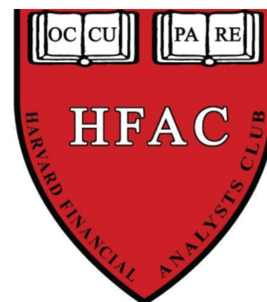
Holding Period	HFAC Return (annualized)	Wilshire 5000 Return (annualized)	Active Return (annualized)
11/8/1996 – 12/31/2003	15.27%	6.36%	8.91%
1/13/2004 – 12/31/2004	2.38%	10.98%	(8.59%)
1/28/2005 – 12/30/2005	2.21%	5.61%	(3.40%)
1/03/2006—12/29/2006	(.27%)	11.94%	(12.21%)
1/03/2007—12/31/2007	6.00%	4.04%	1.96%
1/02/2008—12/30/2008	(31.3%)	(38.66%)	5.65%
11/8/1996 – 12/30/2008	5.8%	1.94%	3.86%

Asset Allocation

as of 12/31/2008

CMLS 1%
CEG 1%
HERO 1%
AWX 1%
GS 2%
WDC 2%
HOG 2%
MPEL 2%
UFS 3%
RAIL 3%
MYE 3%
RIO 3%
LOW 3%
ELP 3%
NTDOY.PK 3%
WAG 4%
ATK 4%
FRO 5%
CSCO 5%
NKE 6%
GSK 6%
CL 6%
Cash 7%
TGT 7%
PCCC 7%
PFE 8%

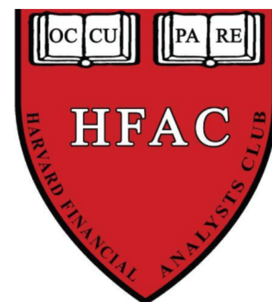
Total Assets: $27625.28



Performance of Holdings

as of 12/31/2008

Company Name	Ticker	Date Purchased	Shares Owned	Return since Purchase	Active Return (benchmark: Wilshire 5000)
Alliant Techsystems, Inc.	ATK	11/11/2002	14	40.57%	32.523%
Lowe's Companies, Inc.	LOW	4/23/2004	40	(18.98%)	0.94%
Goldman Sachs Group, Inc.	GS	10/31/2006	6	(55.58%)	(20.16%)
Harley-Davidson, Inc.	HOG	9/21/2007	30	(64.84%)	(23.06%)
FreightCar America, Inc.	RAIL	10/15/2007	40	(53.72%)	(10.79%)
Avalon Holdings Corporation	AWX	10/29/2007	275	(80.10%)	(37.413%)
Frontline Ltd. (USA)	FRO	11/12/2007	50	(25.96%)	12.64%
Myers Industries, Inc.	MYE	12/3/2007	100	(60.49%)	(20.63%)
Hercules Offshore, Inc.	HERO	12/18/2007	80	(80.525%)	(41.47%)
Melco PBL Entertainment (Macau) Limited	MPEL	12/18/2007	175	(74.25%)	(35.20%)
Vale (ADR)	RIO	12/18/2007	65	(61.88%)	(22.83%)
Nintendo Co Ltd ADR	NTDOY.PK	2/29/2008	20	(23.84)%	9.796%
Paranaense de Energia	ELP	3/10/2008	85	(34.41%)	(4.05%)
Cumulus Media, Inc.	CMLS	3/17/2008	115	(59.97%)	(29.58%)
Colgate-Palmolive Co.	CL	4/11/2008	26	(12.45)%	21.18%
Nike Inc.	NKE	4/18/2008	30	(24.78%)	11.52%
GlaxoSmithKilne plc	GSK	4/18/2008	46	(14.11%)	22.19%

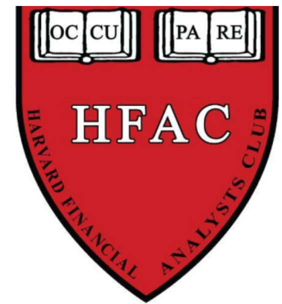


Company Name	Ticker	Date Purchased	Shares Owned	Return since Purchase	Active Return (benchmark: Wilshire 5000)
Western Digital Corp	WDC	4/28/2008	40	(60.53%)	(23.92%)
Domtar Corporation	UFS	10/13/2008	430	(39.05%)	(26.93%)
Cisco Systems, Inc.	CSCO	10/24/2008	93	1.05%	(0.35%)
Target Corp.	TGT	11/14/2008	59	0.85%	(1.53%)
PC Connection, Inc.	PCCC	11/21/2008	400	58.02%	45.36%
Pfizer Inc.	PFE	12/5/2008	118	10.90%	8.69%
Constellation Energy Group, Inc.	CEG	12/5/2008	14	(6.87%)	(9.07%)
Walgreen Co.	WAG	12/5/2008	41	0.37%	(1.84%)

Contributors

Tracey Shi '10 — *President of Operations*
Prateek Kumar '11 — *President of Finance*
Sean Li '10 — *Director of Risk Management*
Ryan Sepassi '10 — *Director of Investment Education*
Betty Zhang'10 — *Director of Product Management*
Fuyuo Nagayama '11 — *Director of Legal Relations*
Lukas Roots '11 — *Director of Portfolio Management*
Pramod Thammaiah '11 — *Director of Investment Research*
Karl Wichorek '11 — *Director of Investment Education*
Steven Zhu '11 — *Director of Investment Technology*
Grant Wonders '12 — *Director of Special Situations*
Alice Ding '11 — *Equity Analyst*
Gregory Leya '12 — *Equity Analyst*

Stock Profile



Alliant Techsystems, Inc. (NYSE: ATK)

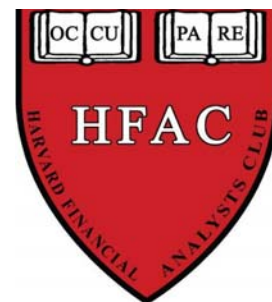
Alliant Techsystems is a Minnesota-based defense contractor that provides a variety of weapons and ammunition to the U.S. government and local law enforcement agencies. Alliant offers a range of products, divided into three segments. The missile systems segment designs and produces advanced missile systems, including large-caliber ammunition, guided missiles, laser applications, and integrated sensors for surveillance aircraft; aerospace systems; and a variety of satellite and spacecraft components. Ammunition systems manufacture military and nonmilitary ammunition, including small and medium caliber rounds, as well as explosives and missile propellant. The launch systems segment provides missile defense interceptors and rocket motor systems for human and cargo craft such as NASA spacecraft.

Annual Return	(24.16%)
Annual Active Return	15.13%
Market Capitalization	2.12B
Price/Earnings	9.00
Price/Book	2.28
Return on Equity	30.60%
Beta	0.84
Dividend Yield	0%
Profit Margin	5.57%
Annual Revenue	4.46B
Debt/Equity	1.57
Annual Assets	3.37B
Annual Liabilities	2.45B
Annual Change in Cash	135.43M

During the fourth quarter of 2008 Alliant proved to be very successful in expanding their revenue stream, procuring new contracts worth a total of nearly $500 million. Alliant's ammunition segment was particularly in demand, due at least partially to preparations for a military surge in Afghanistan. Alliant was also awarded a large missile contract with the US Navy. Alliant's space systems segment continued to account for a relatively small portion of revenue.

In the near term, Alliant's munitions business segments will likely continue to grow, fueled by the ongoing conflict in Iraq, the escalating conflict in Afghanistan, and President Obama's pledge to increase the size of the military by 100,000 individuals. However, Alliant's space systems segment may be negatively impacted as President Obama seeks to curb spending on some fighter pilots and advanced weapons systems. Furthermore, in the long-term, President Obama's pledge to withdraw from Iraq threatens to erase the rapid growth that Alliant has experienced over the past 5 years. With military spending now demanding about 40% of tax revenues and the recent expansion in public debt, eventual cuts in military spending seem almost inevitable.
-Lukas Roots

Stock Profile



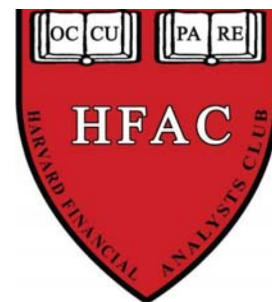
Lowe's Companies. Inc. (NYSE: LOW)

Lowe's Companies. Inc. was founded in 1946 and based in Mooresville, N.C., Lowe's is the second-largest home improvement retailer in the world with 1,649 stores stores in the U.S. and Canada. Lowe's offers a line of products for home decorating, maintenance, repair, remodeling and property maintenance, and also offers repair and remodeling contractors, electricians, landscapers, painters, plumbers, and commercial and residential property maintenance professionals, among others. Serving approximately 14 million customers a week, Lowe's Companies, Inc. is also a FORTUNE® 50 company.

In December, Lowe's settled a lawsuit with Powermate Hold Corp. for $1.75 million. Powermate had been suing Lowe's for $4.3 million in allegedly unpaid for merchandise. For the FY 2008, Lowe's total revenue decreased slightly but was relatively constant compared to the year before. Additionally, it announced a cash dividend of $0.085 that will pay on Jan. 30, 2009 for all shareholders as of Jan. 16, 2009. In fourth quarter of 2008, net earnings declined 60.3% from the year before. In the same quarter it opened 33 new stores in the U.S. and Canada. The company expects to open approximately 21 new stores reflecting square footage growth of approximately 7 percent in the first quarter of 2009, costing approximately $16 million.

The economic downturn, particularly in the housing market, represents a serious threat to Lowe's earnings. Lack of available funds makes it difficult for consumers to embark on home-improvement projects. Additionally, the decline in home prices has made investing in home-improvement less attractive for homeowners. According to Robert A. Niblock, Lowe's chairman and CEO, Lowe's is "continuing to capture market share, which is evidence of our [Lowe's] compelling product offering and commitment to customer service." -Pramod Thammaiah

Annual Return	(4.86%)
Annual Active Return	34.88%
Market Capitalization	23.23B
Price/Earnings	10.66
Price/Book	1.26
Return on Equity	12.85%
Beta	0.76
Dividend Yield	2.20%
Profit Margin	4.55%
Annual Revenue	48.23B
Debt/Equity	.34
Annual Assets	30.87B
Annual Liabilities	14.77B
Annual Change in Cash	(83M)



Stock Profile

Goldman Sachs Group, Inc. (NYSE: GS)

The Goldman Sachs Group, Inc is one of the world's largest bank holding companies. It is structured around three revenue producing divisions: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services. With its global footprint as a leading financial services firm, its clients include governments, corporations, financial institutions, and high-net worth individuals.

The fourth quarter saw a substantial decline in our equity position. The unforeseen bankruptcy of Lehman Brothers, demise of Merrill Lynch, bailout of AIG and subsequent collapse of the independent bulge bracket investment bank exacerbated concerns about Goldman's exposure to dangerous assets. The relentless decline in the global capital markets led Goldman Sachs to announce its first quarterly loss since going public in 1999. The disappointing results were largely a result of losses in the trading and principal investment business that helped lead the negative net revenues for the quarter. The firm was prompted to take on capital from the federal government in the form of preferred stock and warrants to purchase common stock, a private offering in the form of perpetual preferred stock from investor Warren Buffet, and a comparably-sized public stock offering. It saw its credit rating downgraded and the need to implement widespread cost cutting measures including no-bonuses for top executives and trimming of its workforce.

Amidst this bleak outlook, Chairman and Chief Executive Officer Lloyd Blankfein offered these words: "While our quarterly performance obviously didn't meet our expectations, Goldman Sachs remained profitable during one of the most challenging years in our industry's history." Ultimately, our perspective of holding our equity stake going forward is rooted in confidence in the firm's management and human capital. Changes in the industry have reduced the long-term profitability of investment banks. However, Goldman Sachs is the most well positioned firm to rebound from the current crisis and our consensus remains that it is undervalued as a result of pervasive and often forced liquidation by the masses of sound underlying investments. We will continue to monitor our stake closely but until the market settles it is unlikely that we will be able to accurately assess the remaining value in our position. –Grant Wonders

Annual Return	(60.76%)
Annual Active Return	(21.01%)
Market Capitalization	45.62B
Price/Earnings	22.08
Price/Book	0.87
Return on Equity	4.33%
Beta	1.42
Dividend Yield	1.60%
Profit Margin	10.45%
Annual Revenue	22.22B
Debt/Equity	4.36
Annual Assets	884.5B
Annual Liabilities	820.18B
Annual Change in Cash	5.46B

Stock Profile

Harley-Davidson, Inc. (NYSE: HOG)

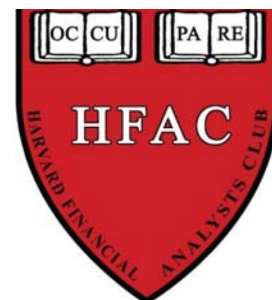
Harley Davidson, Inc. is the leading heavyweight motorcycle manufacturer in the United States. The company distributes through its 1,000 member worldwide dealer network. In addition to motorcycles, the company sells motorcycle parts, accessories, clothing and collectibles, and maintains a financial services business. Major competitors include Honda, Yamaha, and Suzuki. Harley is one of the strongest consumer brands in the North America, generally capturing between 45-50% of the heavyweight motorcycle market each year.

In December, the President and CEO James L. Zeimer, who has been with the company for 40 years, announced his planned retirement in 2009. He will continue as CEO until a replacement is found.

The risk in holding HOG is that with the bleak economic outlook, consumers are less willing to purchase luxury items such as motorcycles. Even willing consumers will find it difficult to find credit in this recessionary environment. As a result, the company is planning a restructuring of its operations in response to the current environment by consolidating many of its plants. As a result, it will incur a one-time cost of $110 million to $140 million in 2009-10. This will result in an estimated annual savings of $60 to $70 million. Despite the bleak environment the company faces, a positive reason for continuing to hold HOG would be that many of its consumers are those able to make the luxury purchase of a Harley Davidson motorcycle. Thus, these consumers are less likely to be adversely affected by the economic downturn. Additionally, Harley has the strongest brand name in the industry and thus, its sales are more inelastic to changes in the economic climate.
-Pramod Thammaiah

Annual Return	(63.67%)
Annual Active Return	(23.29%)
Market Capitalization	2.51B
Price/Earnings	3.85
Price/Book	1.19
Return on Equity	29.16%
Beta	1.74
Dividend Yield	10.10%
Profit Margin	10.96%
Annual Revenue	5.97B
Debt/Equity	1.85
Annual Assets	7.83B
Annual Liabilities	5.7B
Annual Change in Cash	190.7M

Stock Profile



FreightCar America, Inc. (NASDAQ: RAIL)

FreightCar America manufactures, repairs, and leases aluminum freight cars used for hauling coal and other bulk commodities and metals in North America. Over 95% RAIL's sales are coal-carrying railcars, primarily the gondola and open-top hopper models. FreightCar America has a strong position in the North American coal car market, producing over 25% of all railcars and 80% for aluminum railcars. In addition, RAIL is one of only two main companies in North America that produces coal cars, and is the only company in the North American market that specialize in producing cars to transport coal. HFAC purchased RAIL in October 2007.

Despite an increase in net income during RAIL's fourth quarter, RAIL's performance in Q408 was poorer than expected. RAIL's business performance closely follows the current economic climate; thus, RAIL is hurt by a faltering economy. Rising steel and aluminum prices also hurt RAIL in the fourth quarter. Although the price of aluminum has fallen over the course of the year, it remains highly volatile and unpredictable. The price of steel has also risen over the past fiscal year, and continues to remain highly volatile. Due to RAIL's poor performance during Q408, FreightCar America had to lay off several hundred workers. This has also contributed to a general negative outlook on RAIL's future, hurting RAIL's performance. These factors have contributed to RAIL's highly volatile performance during Q408.

Going forward, RAIL may see some relief from falling aluminum prices as the price of aluminum has been falling off since mid-July. Railroad traffic has remained high, which is a good sign for RAIL, but it does not necessarily translate into increased revenues for RAIL as railcars can be used for many years. HFAC may look to reduce its exposure to RAIL in the future as the weak economy and volatile commodity prices will continue to hurt RAIL's performance. -Karl Wichorek

Annual Return	(47.80%)
Annual Active Return	(8.05%)
Market Capitalization	190.35M
Price/Earnings	41.28
Price/Book	0.96
Return on Equity	2.34%
Beta	0.88
Dividend Yield	1.50%
Profit Margin	0.62%
Annual Revenue	746.39M
Debt/Equity	0
Annual Assets	273.38M
Annual Liabilities	194.09M
Annual Change in Cash	(67.85M)

Stock Profile

Avalon Holdings Corp. (AMEX: AWX)

Avalon is an Ohio-based provider of waste management services that provides transportation, disposal management, and environmental services. The company also operates three golf courses; it owns two of the courses and operates the third through a long-term lease. Avalon is by far the smallest stock in our portfolio, though it is not currently our smallest position. Avalon had a terrible Q4, declining 50%, far more than the market average. This followed on a poor Q3 where Avalon's stock fell 25%. Avalon has yet to report its Q4 or annual earnings, so conducting a more detailed analysis of Avalon's financial situation is difficult.

In HFAC's Q3 portfolio report, we noted that Avalon had essentially exhausted its excess cash, eliminating one of the reasons we bought into the position. Furthermore, the fact that Avalon has yet to report its Q4 earnings is an inauspicious sign, indicating that HFAC will strongly consider closing our position in the stock. – Tracey Shi

Annual Return	(72.59%)
Annual Active Return	(32.85%)
Market Capitalization	5.1M
Price/Earnings	5.85
Price/Book	0.12
Return on Equity	2.20%
Beta	1.64
Dividend Yield	N/A
Profit Margin	1.86%
Annual Revenue	46.78M
Debt/Equity	0.0058
Annual Assets	N/A
Annual Liabilities	N/A
Annual Change in Cash	N/A

Stock Profile

Frontline Ltd. (USA) (NYSE: FRO)

Frontline Ltd. (Frontline) is engaged primarily in the ownership and operation of crude oil tankers, including oil/bulk/ore (OBO) carriers. The Company operates tankers of two sizes: very large crude carriers (VLCCs), which are between 200,000 and 320,000 deadweight tons (dwt), and Suezmaxes, which are vessels between 120,000 and 170,000 dwt. In addition to crude oil, Frontline is also engaged in transporting raw materials like coal and iron ore.

In January 2008, the Company established Independent Tankers Corporation Limited (ITCL), as a wholly owned subsidiary for the purpose of holding Independent Tankers Corporation (ITC). In March 2008, Frontline spun off 20% of ITCL to its shareholders. ITCL's business is mainly concentrated around the ownership and operation of tankers on long-term bareboat contracts to major oil companies. Frontline also entered into a three year time charter contract for the VLCC Front Energy with commencement of charter mid November 2008 and a one year time charter contract for the VLCC Front Champion with commencement of charter end November 2008.

We believe that Frontline's dependence on crude oil demand and its sustained decline makes the prospect of the company a bleak one. In the forth quarter of 2008, Frontline continued to be hurt by the current recession and a decrease in oil demand. Oil price has undergone a significant decrease since the record peak it reached in July 2008. On December 23, 2008, WTI crude oil spot price fell to US$30.28 a barrel, the lowest since the global financial crisis began. Since September 2008, OPEC has slashed crude oil production for three times, cutting an average of 4.2 million barrels per day, but the international oil prices remain low. The effect of the continued economic downturn and low demand for crude oil is also reflected on the decline of Frontline's average day rates per carrier by 36% year-over-year. We will continue to monitor the operations of Frontline and may consider selling FRO if we forecast oil prices to remain stagnant. – Fuyuo Nagayama

Annual Return	(38.31%)
Annual Active Return	1.43%
Market Capitalization	1.36B
Price/Earnings	1.91
Price/Book	1.94
Return on Equity	121.72%
Beta	1.47
Dividend Yield	37.20%
Profit Margin	33.21%
Annual Revenue	2.10B
Debt/Equity	4.45
Annual Assets	4.03B
Annual Liabilities	3.33B
Annual Change in Cash	22.39M

Stock Profile

Myers Industries, Inc. (NYSE: MYE)

Myers Industries, Inc. is an international manufacturer of plastic and rubber products for industrial, agricultural, automotive, commercial, consumer markets. Its products range from tire balancers and alignment systems to valve caps and other consumable service supplies.

We originally purchased Myers as a risk arbitrage position. The company had agreed to be taken private by GS Capital Partners (GSCP), an affiliate of Goldman Sachs, as part of an all cash offer for $22.50 per share of common stock. Just a few weeks before the deadline, the stock was trading well below the offer value, a differential we thought could lead to a profitable short term buy. A few weeks later GSCP requested more time to complete the deal and paid a $35 million fee. On April 4, 2008, just as the second quarter began, the merger agreement was terminated. Net sales declined in 2008. While Myers did lose money this year, they report positive operating results exclusive of special items. Myers has cited increased raw materials costs as the reasons for increasing prices. Myers also declared a small dividend this quarter.

Originally purchased as a risk arbitrage position, Myers must now be considered on its own merits as a value investment. Before the privatization fell through, we felt that Myers was a decently strong company with solid future prospects. We are reconsidering our position in Myers due to current market conditions and poor performance by the stock. Because Myers is so heavily dependent on energy prices for its raw materials, as well as for product demand, liquidating our position in Myers is definitely an option if the current economic climate persists.
–Michael Nock

Q2 Return	(44.71%)
Q2 Active Return	(4.97%)
Market Capitalization	137.76M
Price/Earnings	N/A
Price/Book	0.51
Return on Equity	(16.22%)
Beta	2.04
Dividend Yield	6.60%
Profit Margin	(5.13%)
Annual Revenue	867.8M
Debt/Equity	0.67
Annual Assets	568.9M
Annual Liabilities	316.1M
Annual Change in Cash	(26.16M)

Stock Profile

Hercules Offshore, Inc. (NASDAQ: HERO)

Hercules Offshore is a contract drilling company serving both integrated energy companies and independent oil and natural gas companies. HERO operates in two main segments: drilling services and marine services. The drilling division operates shallow-water drilling equipment, such as jackup rigs and barge rigs. Marine services operates a fleet of liftboats, which are floating platforms from which drilling platforms can be maintained and built. HERO focuses its operations mainly in the Gulf of Mexico (GOM) region, but also operates in Qatar, India, and West Africa. HERO now owns and operates the largest fleet of jackup drilling rigs in the Gulf, as well as the world's largest fleet of liftboats. HFAC purchased HERO in December 2007.

Q2 Return	(80.03%)
Q2 Active Return	(40.28%)
Market Capitalization	140.84M
Price/Earnings	N/A
Price/Book	0.15
Return on Equity	(73.26%)
Beta	2.5
Dividend Yield	N/A
Profit Margin	(96.32%)
Annual Revenue	1.11B
Debt/Equity	1.17
Annual Assets	2.59B
Annual Liabilities	1.68B
Annual Change in Cash	(106M)

HERO's share price rose during the first half of 2008 on strong demand for oil from both the developed and the developing world. The share price rose by 66.4% during the first half of the year, proving to have been a strong choice for HFAC. However, the position was hit badly as commodity prices began a precipitous decline in mid-July, led primarily by a fall in demand for oil due to concerns about the growing strength of the recession. Revenue and net income were all hit badly by the resultant loss of demand in oil, leading to a major decline in share prices. HERO fell 87.9% from it's peak to close the year at $4.75, resulting in a loss over calendar year 2008 for HFAC of 80.09% and a total loss for the club of 80.52% the purchase date on 12/18/07 to the market close on 12/31/08.

Our concerns for HERO at the end of Q2Y08 unfortunately proved to be well-founded, primarily regarding the growing risk of a global recession resulting from the spreading of credit contagion from the United States to foreign markets. The recession has led to lowered global demand for oil, which has negatively impacted HERO and other nonrefining oil firms. It is true that HERO's share price has absorbed much of the downside risk at this point, but with negative cash flow and a significant amount of debt on its balance sheet due to the intensive capital expenditures that come in the oil industry, HERO will continue to have difficulty operating in this environment, and upside may be limited on the position. We must continue to monitor macroeconomic conditions, particularly with regards to oil prices and sustained worldwide GDP growth. At this time, will be seriously considering a sell on HERO if we forecast oil prices to remain stagnant for the near to mid-term future. – Prateek Kumar

Stock Profile

Melco PBL Entertainment (Macau) Limited (NASDAQ: MPEL)

Melco develops, owns, and operates casino-based resorts in Macau, China. Presently, the company has one major casino in operation: the Crown Macau Hotel Casino, which opened in May 2007. In addition, the company also has two new casinos under development: an underwater-themed resort slated to open in 2009, and The Peninsula Project, opening in 2010. In addition to its full-fledged casinos, Melco also operates seven Mocha clubs, which are café-style slot parlors catering to Macao locals rather than the tourist market, with a combined total of over 1,000 slot machines in operation.

Results for Melco's Q4 2008 showed some solid year over year gains. Net revenue for the quarter was up 41% year over year, boosted primarily by the Crown Macau's improving performance. Although the company still posted a Q4 and an annual 2008 loss, the operating losses have narrowed since last year: the Q4 2008 loss was half of the Q4 2007 figure, and the annual 2008 loss was less than 2% of the 2007 loss. Annual net revenue more than quadrupled. Rolling chip (for wealthy clients) performance was strong, with volume increasing 9.3%. One issue of possible concern was the decline in drop (non-rolling chip) performance, where the number of mass market tables dropped 50% year over year. However, most other aspects of the business remained strong. Non-gaming revenue from the Crown Macau Hotel increased 18%, mostly driven by higher occupancy per room available.

Going forward, HFAC plans to continue to hold its position in Melco for another few years. Although the company generally followed the market down in Q4 2008, we expect Melco's performance to improve, especially as Phase I of the company's flagship City of Dreams project opens. Management says the project is on schedule and well financed, and the resort is scheduled to open on time in early June 2009. —Tracey Shi

Q2 Return	(72.58%)
Q2 Active Return	(32.83%)
Market Capitalization	1.43B
Price/Earnings	N/A
Price/Book	0.58
Return on Equity	(0.10%)
Beta	0.82
Dividend Yield	N/A
Profit Margin	(0.17%)
Annual Revenue	1.42B
Debt/Equity	0.63
Annual Assets	4.5B
Annual Liabilities	2.1B
Annual Change in Cash	251M

Stock Profile

Vale (ADR) (NYSE: RIO)

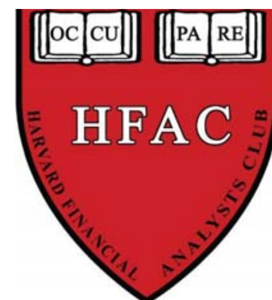
Vale (NYSE: RIO) is a diversified metals and mining company. In addition to mining iron ore, nickel and coal Vale produces steel, aluminum and other metallic compounds. Furthermore, Vale owns stakes in energy and oil enterprises and operates railroads, maritime terminals and ports, which are vertically integrated with its mining and production operations.

During the fourth quarter of 2008, Vale's business operations underwent significant adjustments as new price contracts lowered profit margins significantly. In October of 2008, the spot price of iron ore crashed 44% to prices not seen since January of 2006. Iron ore prices were down nearly 70% from their 2008 peak. As a result, many formerly profitable mines became less profitable. Vale has responded by reducing production, laying off 2% of its workforce, and switching an additional 9% of its workers to part-time labor. As a result of these adjustments, Vale's operations have remained profitable, although Q4 2008 net income declined nearly 50% from the year-ago quarter.

Because of its habit of rapid, debt-financed expansion Vale was inevitably hit hard by tumbling commodity prices. However, Vale finished the quarter slightly higher, at least partially due to a slim recovery in metal ore and alloy prices. From October to December, iron ore spot prices increased by 24%. Vale's future profitability will be determined mostly by the stability of worldwide commodities markets, in addition to the robustness of iron-ore and nickel demand. In particular, the state of China's economy and the rate of its economic growth is critical. Currently China accounts for over 30% of Vale's iron-ore sales. If China's economy stalls in 2009, as many economists predict, then demand for iron ore may plunge even further, lowering profit margins and forcing Vale to close even more formerly profitable expansions.
-Lukas Roots

Annual Return	(62.93%)
Annual Active Return	(23.19%)
Market Capitalization	70.33B
Price/Earnings	8.59
Price/Book	2.14
Return on Equity	26.38%
Beta	1.82
Dividend Yield	3.56%
Profit Margin	33.89%
Annual Revenue	37.4B
Debt/Equity	0.44
Annual Assets	79.9B
Annual Liabilities	37.38B
Annual Change in Cash	9.3B

Stock Profile



Nintendo Co Ltd ADR (NTDOY.PK)

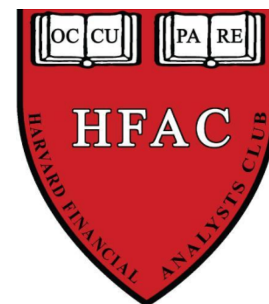
Annual Return	(35.52%)
Annual Active Return	4.23%
Market Capitalization	41.27B
Price/Earnings	N/A
Price/Book	N/A
Return on Equity	N/A
Beta	N/A
Dividend Yield	N/A
Profit Margin	N/A
2008 Revenue	N/A
Debt/Equity	N/A
2008 Assets	18.02B
2008 Liabilities	5.7B
2008 Change in Cash	4.1B

Nintendo was founded in 1889 by Fusajiro Yamauchii as a Japanese playing cards company. In 1979 Nintendo developed its first home video game machines: TV Game 15 and TV Game 6. Since then it has released many iconic video game systems, including the NES, Game Boy, Nintendo 64, Nintendo DS, and Nintendo Wii. Nintendo's current business model is to expand its market of video gamers. It believes that in order to compete successfully, it must be able to sell to any and all people of all ages, genders, and gaming experience. The DS and Wii are examples of this strategy to appeal to casual gamers. Nintendo contracts with third-party developers, but it also has its own software development team.

Nine-month results show a 16.7% increase in net sales but a 17.9% decrease in net profit compared to the first nine months of FY2008. Nintendo has been leading console sales month after month with the Wii, and the DS has about 70% of the handheld gaming market. In 2008, the four most popular video games for consoles were all for the Wii. Nintendo also announced late in 2008 that it would add video streaming services to the Wii in Japan. Looking to expand into the e-book market, Nintendo has begun releasing cartridges that allow the DS to function as an e-reader. In November, Nintendo released the DSi in Japan. The new model adds two cameras as well as a memory card slot. It will be released in North America, Europe, and Australia in April 2009.

As Nintendo continues to take market share away from second-place Microsoft and third-place Sony, more developers are focusing their efforts on creating games for the Wii, and in a recession, this means less third-party development for competitors. While a price cut for Sony’s PS3 is expected, it is uncertain whether this will have a strong material effect on Wii sales – a price cut that made the Xbox 360 cheaper than the Wii in 2008 did not allow that console to overtake the Wii in monthly sales. Interestingly, Nintendo does not take a loss on its consoles, unlike the other console manufacturers. Barring major currency fluctuations, we believe Nintendo continues to be a hold. – Steven Zhu

Stock Profile



Companhia Paranaense de Energia

(NYSE: ELP)

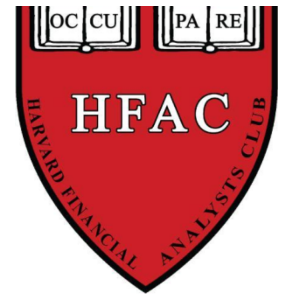
Companhia Paranaense de Energia (Copel) is a utility company primarily involved in the production, transmission and distribution of electricity throughout Brazil, and is the sole provider of electricity in Parana, Brazil. Copel also has smaller companies involved in the telecommunications, water, sewage, and natural gas industries, but the main focus of Copel is electricity production. The company accomplishes this with hydroelectric power and is currently operating 17 hydroelectric power plants in Brazil. With over 3 million consumers in total, it provides power to industrial, commercial, and residential customers.

Copel has had a weak fourth quarter, due mostly to a slowdown in Brazil's economic growth. Copel closely follows the trend of Brazil's overall economy and since the Brazilian economy is starting to suffer as the slowdown in the global economy hits Brazil, Copel's performance in the fourth quarter of 2008 has faltered. Falling commodity prices have also hurt the Brazilian economy. Moreover, the Brazilian real has been depreciating against the dollar which has led to an increase in Copel's operating expenses since it must convert Brazilian real into US dollars. Brazilian banks have also been restricting and tightening credit lending practices which has decreased domestic spending and electricity usage. All of these factors have prevented Copel from matching its previous performance in our portfolio.

Over the next several years, the president of Brazil plans to develop the country's hydroelectric infrastructure and increase GDP growth. Copel is 58% government-owned, so we expect to see the benefits of the government's attitude towards increasing hydroelectric power production in the near future. Should the Brazilian economy continue to falter, the value of Brazilian currency significantly depreciate, or a dry season occur, Copel may be significantly affected. While Copel could recover sufficiently from such a macroeconomic setback, we are prepared to sell if a situation warrants it. -Karl Wichorek

Annual Return	(30.15%)
Annual Active Return	9.59%
Market Capitalization	2.57B
Price/Earnings	4.89
Price/Book	0.74
Return on Equity	16.14%
Beta	0.83
Dividend Yield	6.30%
Profit Margin	21.43%
Annual Revenue	2.45B
Debt/Equity	0.24
Annual Assets	N/A
Annual Liabilities	N/A
Annual Change in Cash	N/A

Stock Profile



Cumulus Media Inc. (NASDAQ: CMLS)

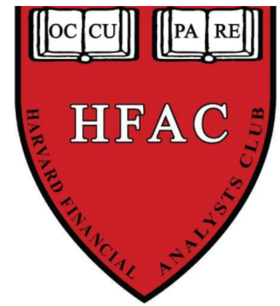
Cumulus Media Inc. is the third largest radio broadcasting company in the United States, owning and operating 340 radio stations in 66 mid-sized and large U.S. media markets. Cumulus generates revenue by generating interesting programming to attract listeners so that advertisers will purchase airtime for commercials. Cumulus generally concentrates on mid- sized markets because radio captures a higher percentage of advertising revenue in mid-sized markets than it does in larger markets. Its biggest competitors include Clear Channel Communications and Entercom.

In March, Cumulus released its Q4 earnings report. Revenue declined significantly, due for the most part to weakening demand in the radio industry. In May, the merger deal led by CEO Lew Dickey and an affiliate of Merrill Lynch Global Private Equity group fell through. Since then the share price has continued to decline as Cumulus continues to lose money. In 2008 alone the company posted a net loss of nearly $400 million.

HFAC invested in Cumulus Media as a merger arbitrage opportunity because the stock was trading well below the stated merger value. However, due in part to market conditions, as well as investor doubt, the merger deal fell through. Over the second half of 200, the stock price declined over 80%. While HFAC recognized that radio was a weak industry before investing and understood the possibility that the merger deal would fall through, we did not believe that Cumulus's stock price would fall this far. That being said, we now see Cumulus as a bankruptcy risk, so we closed out the position to avoid losing the rest of our principle.
–Michael Nock

Annual Return	(69.03%)
Annual Active Return	(29.28%)
Market Capitalization	39.93M
Price/Earnings	N/A
Price/Book	0.26
Return on Equity	(57.89%)
Beta	2.87
Dividend Yield	0%
Profit Margin	(38.01%)
Annual Revenue	320.88M
Debt/Equity	4.92
Annual Assets	N/A
Annual Liabilities	N/A
Annual Change in Cash	N/A

Stock Profile



Colgate-Palmolive Co. (NYSE: CL)

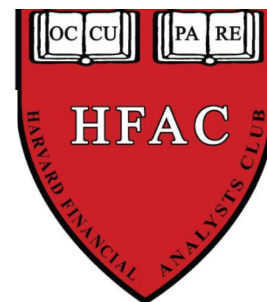
Colgate-Palmolive Company is an American diversified multinational corporation focusing on the production and sale of oral care, personal care, home care, and pet nutrition products in over 200 countries. Colgate-Palmolive's history extends over two hundred years to 1806, when it began as a starch, soap, and candle factory. Since then, it has acquired numerous companies and expanded its product line to include thousands of items for which it is now well known, including toothpaste, pet food, detergent, and dishwashing liquid. Colgate-Palmolive competes heavily with its larger rival, Proctor & Gamble, the world's largest soap and detergent producer.

Despite a weakening economy in the fourth quarter of 2008, Colgate-Palmolive reported a 7% increase in net income to $527.5 million and a 10% increase in diluted earnings per share to $1.00, an all-time high. Worldwide sales grew 0.5% percent during the fourth quarter to a record $3.664.1 million, while profit margin decreased 0.1% percent since the year ago period due to negative foreign exchange and rising costs. All in all, Colgate-Palmolive exceeded expectations in the fourth quarter and has continued to grow healthily in the midst of a troubled economy.

HFAC views Colgate-Palmolive as a solid performer with strong fundamentals and healthy growth potential, and we remain confident in Colgate-Palmolive's management and future prospects. Moreover, Colgate-Palmolive is the portfolio's only direct exposure to the consumer discretionary sector. For these reasons, the fund will continue to hold its position in Colgate-Palmolive for the foreseeable future. –Sean Li

Annual Return	(12.08%)
Annual Active Return	(27.66%)
Market Capitalization	28.89B
Price/Earnings	15.75
Price/Book	16.28
Return on Equity	93.02%
Beta	0.61
Dividend Yield	2.80%
Profit Margin	12.77%
Annual Revenue	15.33B
Debt/Equity	1.97
Annual Assets	9.98B
Annual Liabilities	8.06B
Annual Change in Cash	126M

Stock Profile



Nike Inc. (NYSE: NKE)

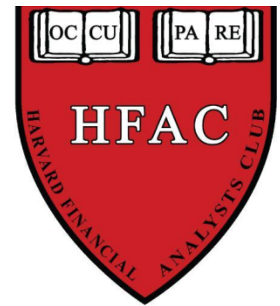
Nike is an Oregon-based company that designs, develops, and markets footwear, apparel, equipment, and accessories primarily for athletics and casual wear. It sells its products worldwide through Nike-owned retail stores, internet sales, and independent distributors and licensees. Nike is currently the largest seller of athletic footwear and apparel in the world, operating in over 180 countries. Nike's wholly owned subsidiaries include Cole Haan, Converse, Hurley International, LLC, and Umbro, Ltd.

Despite increases in sales and an increasing net income, Nike's share price suffered this past year. All of the relevant financial ratios increased this past year for Nike, and the company has outperformed the market, but it is still far undervalued relative to its inherent strength. The only rational explanation for such a sharp decline in Nike's price over the past year is that the market is currently very pessimistic about Nike's future performance. HFAC believes that the market is currently overly skeptical about Nike's future and immediate prospects. Thus, we see holding on to Nike as a valuable strategic move.

Over the years, Nike has continued to demonstrate a leading market presence despite an increasingly competitive environment. Nike's revenue growth despite current market conditions is a testament to its longstanding foothold at the core of athletic retail. Its recent efforts to expand in the emerging markets of the Asia Pacific and EMEA have paid off, as these two regions experienced high revenue growth. However, as competitors such as Adidas and Under Armour continue to garner strength in the same market, we would need to evaluate Nike's ability to outperform its close rivals. It makes no sense that despite increasing revenues, increasing net income, and a positive net change in cash that Nike's share price should have declined so much. In the future, we may look to increase our position in NKE if the company becomes significantly more undervalued.
-Karl Wichorek

Q2 Return	(20.61%)
Q2 Active Return	19.14%
Market Capitalization	21.62B
Price/Earnings	11.96
Price/Book	2.66
Return on Equity	23.78%
Beta	0.76
Dividend Yield	2.20%
Profit Margin	9.44%
Annual Revenue	19.65B
Debt/Equity	0.10
Annual Assets	12.44B
Annual Liabilities	4.62B
Annual Change in Cash	277M

Stock Profile



Glaxosmithkline plc (NYSE: GSK)

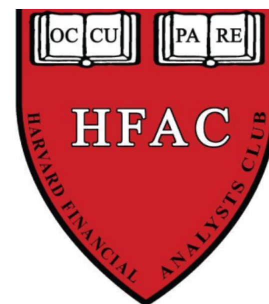
GlaxoSmithKline is a research-based pharmaceutical company headquartered in the United Kingdom, with operations based in the United States. Also operating in over one hundred countries, GSK has two main focuses - pharmaceuticals and consumer healthcare. In the former, it controls about 7% of the world's pharmaceutical market. With medicine targeting six major disease areas (asthma, virus control, infections, mental health, diabetes, digestive conditions), GSK is also a world leader in the production of vaccines. Its consumer healthcare products include popular household brands such as Gaviscon, Aquafresh, and Sensodyne.

Annual Return	(26.04%)
Annual Active Return	13.71%
Market Capitalization	73.65B
Price/Earnings	11.84
Price/Book	6.63
Return on Equity	52.49%
Beta	0.69
Dividend Yield	6.90%
Profit Margin	18.90%
Annual Revenue	34.02B
Debt/Equity	2.14
Annual Assets	39.4B
Annual Liabilities	31.5B
Annual Change in Cash	2.25B

Operating Income and Net Income were both down from early 2008 levels for GSK in recent quarters. In addition, inventory turnover declined by 3% in 2008, due to slowing demand for GSK's products. As a result, GSK's sales have suffered. GSK reported, though, that their sales in emerging markets grew by 12%. While this is good news, it is unlikely to continue into the future, especially if the economic crisis begins to impact emerging and developing countries. Moreover, it was not enough to outweigh the negative declines in GSK's sales this past year. This poor sales performance was reflected in declines in GSK's share price.

Unfortunately, GSK was unable to weather the economic recession and its performance suffered sharply over the past year. Increased competition from generics coupled with GSK's inability to improve on its pipeline only accentuated the change in consumer spending over the past year. Due to the weak economic climate, many consumers are opting for cheaper, generic drugs instead of more expensive name brands like the ones GSK sells. This had a negative impact on GSK's performance this past year. Due to the fact that we cannot know when the market will recover, and due to the fact that we have decided to gain market exposure to the prescription drug industry through other companies, HFAC decided to liquidate its position in GSK during Q109. -Karl Wichorek

Stock Profile



Western Digital Corp (NYSE: WDC)

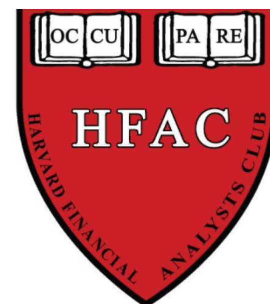
Headquartered in Lake Forest, California, Western Digital Corporation designs, develops, manufactures, and sells hard drives worldwide. The company's products primarily comprise of 3.5-inch, 2.5-inch, and 1.0-inch form factor drives, as well as enterprise hard drive products, which are offered under various brand names. Its products are used in desktop computers, notebook computers, and enterprise applications, such as servers, workstations, network attached storage, storage area networks, and video surveillance equipment; digital video recorders; satellite and cable set-top boxes; and karaoke systems, multi-function printers, and gaming systems. Western Digital Corporation offers its products primarily to original equipment manufacturers, original design manufactures for use in computer systems, subsystems or CE devices; and to distributors, resellers and retailers.

Annual Return	(62.10%)
Annual Active Return	(22.35%)
Market Capitalization	3.83B
Price/Earnings	5.42
Price/Book	1.32
Return on Equity	28.45%
Beta	0.95
Dividend Yield	N/A
Profit Margin	8.93%
Annual Revenue	8.04B
Debt/Equity	0.17
Annual Assets	4.88B
Annual Liabilities	2.18B
Annual Change in Cash	404M

During the 4th quarter, WDC announced a restructuring plan to realign their cost structure as a result of a softer demand environment. This plan includes closing one manufacturing facility in Thailand and one in Malaysia. The total cost of the restructuring is estimated to be $140 million, $113 of which was charged to operations during the 4th quarter. Q4 net revenue decreased 17% compared to the same period a year ago. Total hard drive shipments increased. Fiscal 2008 (not including the quarter ending Dec. 2008) net revenue increased by 48% to $8.1 billion. In 2008, WDC's acquisition of Komag completed successfully, which is generating technology and cost contributions to the overall business. In 2008, many new products were introduced, including second-generation WD Caviar Green hard drives with significantly improved power, efficiency, and performance; new VelociRaptor hard drives; Scorpio Blue notebook hard drive, 500 GB My Passport Portable USB drives for storing music, videos, photos, and data files.

HFAC was originally interested in Western Digital because of its low P/E, recent acquisition of Komag - a leading media manufacturer, its high return on equity, and the general strength of the hard drive industry. WDC has dropped significantly since HFAC invested in it, so we may want to re-evaluate our holding of it. -Alice Ding

Stock Profile



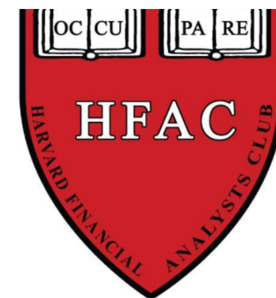
Domtar Corp. (NYSE: UFS)

Domtar Corporation is the largest manufacturer of uncoated free-sheet paper by production in North America and the second largest in the world. Uncoated free-sheet paper is the standard 8 by 11 inch paper used for general office printing. Domtar also produces paper pulp, lumber, and specialty wood products.

Domtar observed a significant decline in net income over the past year. The decline came through significant depreciation and amortization costs, impairment of property, plant, and equipment, and impairments to goodwill. Although sales increased from 2008 to 2009 the company observed sales decline by 10% from Q3 to Q4 2008. The decline in revenues can be attributed to general economic decline and distress to Office Depot which represents 10% of Domtar's sales. The company also reduced long term debt by $60 million over the past year.

HFAC's plans to hold Domtar going forward are contingent on the company's cash flow generating potential. The negative cash flow generated in the most recent quarter has been highly disconcerting to HFAC. The decline in Office Depot in particular has presented a serious concern as the decline in Domtar's returns over the past six months have corresponded nearly one to one with the decline in Office Depot. The permanence of the decrease in the recent quarter's revenue will be the most relevant consideration in HFAC's decision to hold Domtar. What HFAC will look for is Domtar's ability to return to previous levels of income or cost reduction. Specifically, HFAC would like to see management diversify Domtar's customer base or expand revenues with a general economic recovery. –Palak Patel

Annual Return	(78.28%)
Annual Active Return	(38.54%)
Market Capitalization	360.38M
Price/Earnings	N/A
Price/Book	0.19
Return on Equity	(21.46%)
Beta	2.67
Dividend Yield	N/A
Profit Margin	(8.96%)
Annual Revenue	6.39B
Debt/Equity	1.01
Annual Assets	6.1B
Annual Liabilities	3.96B
Annual Change in Cash	(55M)



Stock Profile

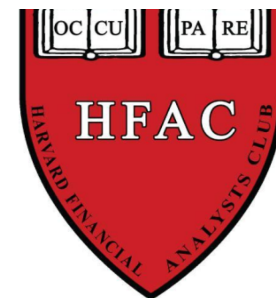
Cisco Systems, Inc. (NASDAQ: CSCO)

Cisco Systems designs, manufactures, and sells routers, switching systems, application networking solutions, home networking products, information security solutions, storage area networking products, unified communication products, video systems, and wireless networking products. It also provides optical networking products, cable access, and service provider VOIP services. It sells products and services to large companies, public institutions, and personal residences.

Net sales in the second quarter of FY 2009 were down 7.5% year-over-year. Net income in the second quarter of FY 2009 decreased 27% year-over-year due to low revenue and lower gross margins. The global economic downturn has most significantly impacted the enterprise and service provider markets, but sales to the public sector have remained strong. Cisco has temporarily instituted a hiring freeze and reduced discretionary spending in order to lower expenses.

Despite a slump in sales, Cisco revealed during its Feb. 4, 2009, earnings call that Q2FY2009 revenue and EPS beat market consensus. Its Q3 guidance, however, was 15-20% below analyst expectations. More recently, Cisco was able to raise $4 billion from non-government-backed debt. It is reportedly seeking to acquire camcorder maker Flip Digital for $500 million in order to increase its presence in the consumer electronics industry. The company started a round of layoffs at the end of February as part of its expense reduction initiative. This stock is mainly correlated with macroeconomic data given its large market share and variety of products, and the biggest threat to the price is further global economic deterioration. If we believe the economy will improve in the near future, this stock is worth holding. If we would rather have liquidity to acquire other securities, this stock should be one of the first sold, as the unpredictability of the market may keep the price depressed for several more quarters. – Steven Zhu

Annual Return	(39.79%)
Annual Active Return	(0.04%)
Market Capitalization	90.53B
Price/Earnings	12.38
Price/Book	2.46
Return on Equity	21.53%
Beta	1.19
Dividend Yield	0%
Profit Margin	18.93%
Annual Revenue	39.58B
Debt/Equity	0.19
Annual Assets	58.7B
Annual Liabilities	24.4B
Annual Change in Cash	1.46B



Stock Profile

Target Corporation (NYSE: TGT)

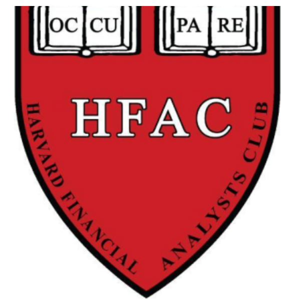
Target Corporation is one of the largest retailers in the United States that sells generable merchandise and discounted food through its retail locations. The firm's revenues are substantially underwritten by its online business, Target.com, and its credit card segment that offers branded proprietary and Visa credit card products.

Although consumer spending and confidence plummeted during the fourth quarter, Target's results were comparatively neutral. Although the firm reported a 5.9% same-store sales decrease its quarterly revenues fell just 1.6% over the previous year due to moderate expansion in new retail locations, bringing the total to nearly 1700 in the continental United States. The results were largely the result of strong sales in the final two weeks of December. Target implemented a widespread reduction in prices in order to gain market share was able to finish the year with low inventory. Nevertheless, these markdowns strained the company's fourth quarter profitability as gross margins fell 1.4%. This decline was also precipitated by sales growth in the non-discretionary consumer-spending category that is characterized by lower margins. Amidst unprecedented economic conditions for all of its business segments Target experienced a 34% decline in earnings per share.

Chairman, President, and Chief Executive Officer Gregg Steinhafel argued that the structural changes during this quarter "position Target to emerge as an even stronger retail leader when the consumer environment improves." Our fund decided to take an equity position in Target this past quarter precisely because the long-term vision of management, the inevitable and hopefully imminent rebound of consumer sentiment, and the attractive valuation led to a conclusion of a quality investment. We feel that the decline in the equity markets has unnecessarily dragged this strong retailer beneath a fairly priced level and our confident the investors at our purchase price will be rewarded in the near future by an appreciation in the security. –Grant Wonders

Annual Return	(30.94%)
Annual Active Return	8.81%
Market Capitalization	22.56B
Price/Earnings	10.47
Price/Book	1.56
Return on Equity	15.26%
Beta	1.04
Dividend Yield	2.20
Profit Margin	3.41%
Annual Revenue	64.95B
Debt/Equity	1.37
Annual Assets	44.6B
Annual Liabilities	29.3B
Annual Change in Cash	1.6B

Stock Profile



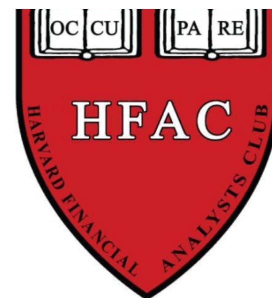
PC Connection (NASDAQ: PCCC)

PC Connection markets diversified IT products and services and is primarily in the business of re-selling products and services from third party vendors. The company's customer base consists of three units. The first unit is composed of small to mid medium size businesses, the second unit includes large corporate accounts, and the last unit consists of government services. PC Connection vends its products through sales representatives directly managing corporate and public sector accounts, PC and Mac Connection catalogs, and several retail websites.

From 2007 to 2008, PC Connections net sales declined 2%. The company's private sector sales declines generally resulted from the economic downturn. Specifically PC Connection's sales of notebooks and PDAs declined 9% year over year, and sales of video, imaging, and sound devices declined 21%. Sales to the public sector, however, increased 18.4% from Q4 2007 to Q4 2008. Additionally PC Connection was able to decrease its inventory by $15 million from the Q3 to Q4 and reduce total liabilities by $15 million over the same period.

Although HFAC saw gains of nearly 70% on PC Connection evaporate, the fund still considers PC Connection to be attractively valued relative to its balance sheet and income. Particularly, PC Connection's net current assets remain significant in relation to market capitalization. Nevertheless, HFAC will have to assess the value of PC Connection's current assets and its ability to maintain positive cash flow. Despite current assets being attractive even after debiting the value of inventory, receivables are a significant portion of the company's assets. It will be important for HFAC to evaluate the performance of these receivables in the coming quarters. Additionally, the company's operating margins remain in the single digits. A key consideration moving forward will be the ability of PC Connection to reduce overhead. –Palak Patel

Annual Return	(54.89%)
Annual Active Return	(15.14%)
Market Capitalization	89.34M
Price/Earnings	5.97
Price/Book	0.36
Return on Equity	6.47%
Beta	1.35
Dividend Yield	0%
Profit Margin	0.86%
Annual Revenue	1.75B
Debt/Equity	1.80
Annual Assets	384.4M
Annual Liabilities	144.4M
Annual Change in Cash	33.26M



Stock Profile

Pfizer, Inc. (NYSE: PFE)

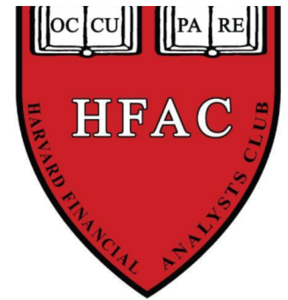
Pfizer is a world-renowned pharmaceutical company focusing on the two areas of human and animal health. Pfizer is research-oriented company, meaning that it carries out every stage of drug production on its own, from conception to testing, in 11 different biomedical branches. It also has a good history of acquisitions—notable because this indicates that the company is looking to get an even firmer grasp on the pharmaceutical industry. The company's revenue support is provided by a small number of drugs, which have an extensive foothold in the pharmaceutical market.

Pfizer's third-quarter report was positive. It was noted that Pfizer's net income in the third quarter saw a 200% growth from its level the same quarter a year back. Additionally the diluted EPS grew 209% from its level at the same time in 2007. The third quarter was mostly stable for Pfizer, in terms of activity. A highlight of the period was Pfizer's discrete announcement of a regenerative medicine branch. For the most part Pfizer's news regarded various tests on drugs either in production or being tested. In late September, however, Pfizer announced that it would be collaborating with Grameen Health – a notable third-world NGO – to improve healthcare in third-world company, exemplifying its expansion plans.

HFAC should hold Pfizer despite the recent economic turmoil. What we should hope for is stability in the stock price, as Pfizer is somewhat correlated to the market. This prospect should be possible, as it is unlikely that health care regulation will be a big focus of President Obama's in the near future, given more pressing economic issues. One issue that should be closely monitored, however, is a potential lawsuit in Nigeria due to the wrongful deaths of children given a meningitis medication manufactured by the company, which could tarnish Pfizer's reputation. An upside to the future is that Pfizer's expansion is taking place at a robust rate, as the company is nearing the acquisition of Wyeth Pharmaceuticals. However, given the size of the Wyeth acquisition it is possible that Pfizer's growth in terms of acquisition will slow down but its corporate growth, with the added resources of Wyeth, should be good. –Samir Patel

Annual Return	(22.09%)
Annual Active Return	17.66%
Market Capitalization	98.08B
Price/Earnings	12.11
Price/Book	1.65
Return on Equity	13.10%
Beta	0.7
Dividend Yield	9.10%
Profit Margin	16.78%
Annual Revenue	48.30B
Debt/Equity	0.30
Annual Assets	111B
Annual Liabilities	53.6B
Annual Change in Cash	(1.29B)

Stock Profile



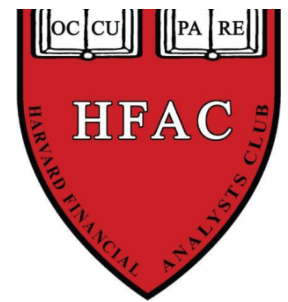
Constellation Energy Group, Inc. (NYSE: CEG)

Constellation Energy Group is the largest American wholesale power seller and supplier of electricity to large commercial and industrial customers. The Fortune 500 company also manages fuel and energy services on behalf of energy-intensive industries and utilities. Constellation Energy operates over thirty-five power plants and a diversified fleet of eighty-three generating units throughout the country. In December 2008, the company canceled its pending acquisition by MidAmerican Energy, a subsidiary of Berkshire Hathaway, and instead agreed to sell half of its nuclear energy assets to Électricité de France (EDF) for $4.5 billion.

In the fourth quarter of 2008, adjusted earnings per share was 3 cents, compared with $1.48 per share in the year ago period. Reported earnings were a loss of $7.75 per share in the fourth quarter, compared with $1.42 per share in the final quarter of 2007. Altogether, Constellation Energy had an extremely challenging year in 2008 and is now in the midst of a comprehensive restructuring to emphasize its core businesses and reduce earnings and cash flow variability.

The year ahead will be a critically important period for Constellation Energy's future. Much depends on how well its current restructuring plans are executed. Unless this transition stabilizes the company in this challenging economic environment, Constellation Energy may emerge poorly positioned to invest capital in projects with attractive returns or build long-term shareholder value. If there are signs that this period of transition and, specifically, the sale of Constellation Energy's nuclear assets to EDF are not being well managed, HFAC may consider selling its position in the company. –Sean Li

Annual Return	(75.53%)
Annual Active Return	(35.78%)
Market Capitalization	3.59B
Price/Earnings	N/A
Price/Book	1.06
Return on Equity	(27.61%)
Beta	1.09
Dividend Yield	9.80%
Profit Margin	(6.73%)
Annual Revenue	19.53B
Debt/Equity	3.23
Annual Assets	22.3B
Annual Liabilities	18.9B
Annual Change in Cash	(894M)



Stock Profile

Walgreen Company (NYSE: WAG)

Walgreen Company (Walgreens) is principally a retail drugstore chain that sells prescription and non-prescription drugs, and general merchandise. General merchandise includes, among other things, beauty care, personal care, household items, candy, photofinishing, greeting cards, convenience foods and seasonal items. Customers can have prescriptions filled at the drugstore counter, as well as through the mail, by telephone and via the Internet. As of November 30, 2008, Walgreens operated a total of 7,123 locations.

In December 2008, Walgreens acquired McKesson Corporation's specialty pharmacy, a business within McKesson's Specialty division. In 2008, Walgreens also acquired: I-trax, Inc., a provider of worksite health services, including primary and acute care, wellness, pharmacy and disease management services, and health and fitness programming; Whole Health Management, a privately held company that provides primary care, urgent care, wellness programs, health coaching and occupational health services through worksite health centers; 20 drugstores from Farmacias El Amal; CuraScript Infusion Pharmacy, Inc., a home infusion services provider, and selected other assets. Prescription sales constitute a large portion of Walgreens' business, which accounted for 64.9% of sales during fiscal 2008. Walgreens said prescriptions filled grew 3.7 percent in the quarter, while industry data has showed falling prescriptions for its rivals. Overall, Walgreens filled approximately 617 million prescriptions in fiscal 2008. Sales at its older stores grew 1.7 percent, with prescription revenue in older stores growing 2.6 percent. Sales of nonprescription products were flat compared with last year, showing some resilience of the economy downturn. In July Walgreens announced that it would slow the pace of store openings to 5 percent in 2011, from 8 percent in response to the recession. The reductions are expected to save the company a $1 billion in annual spending.

We believe that our original interest in Walgreens, including its strong reputation and store productivity, and continued demand for prescription drugs in spite of economic downturn, still holds true. In 2008, Walgreens' net earnings for common share increased by 6.9% year-over-year. Walgreens' active strategy, in response to the current economic condition, to cut the rate of store openings will give Walgreens opportunity to focus on its strength, existing store productivity. For the time being, Walgreens remains a safe choice. –Fuyuo Nagayama

Annual Return	(35.22%)
Annual Active Return	4.53%
Market Capitalization	23.56B
Price/Earnings	11.25
Price/Book	1.76
Return on Equity	17.13%
Beta	0.64
Dividend Yield	1.90%
Profit Margin	3.52%
Annual Revenue	59.95B
Debt/Equity	0.18
Annual Assets	22.4B
Annual Liabilities	9.5B
Annual Change in Cash	188M