SIM Information Technology Sector Presentation
Presented by: Alex Osterhage, Neha Parashar, Nick Palmiotto,
Rishi Patel, Seth Roe, Tianyi Shen

March 22, 2016
<table>
<thead>
<tr>
<th>Industry</th>
<th>Market Value (USD in mm)</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>3,697,214.4</td>
<td>20.60%</td>
</tr>
<tr>
<td>Financials</td>
<td>2,852,806.4</td>
<td>15.89%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>2,523,931.1</td>
<td>14.06%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>2,301,688.5</td>
<td>12.82%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>1,866,899.2</td>
<td>10.40%</td>
</tr>
<tr>
<td>Industrials</td>
<td>1,839,957.4</td>
<td>10.25%</td>
</tr>
<tr>
<td>Energy</td>
<td>1,247,007.2</td>
<td>6.95%</td>
</tr>
<tr>
<td>Utilities</td>
<td>613,469.1</td>
<td>3.42%</td>
</tr>
<tr>
<td>Materials</td>
<td>516,340.4</td>
<td>2.88%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>492,615.9</td>
<td>2.74%</td>
</tr>
</tbody>
</table>

Source: Capital IQ  
as of 3/20/16
INDUSTRIES WITHIN INFO TECH SECTOR

- Information Sector (68)
  - Software and Services (35)
    - IT Services (16)
    - Internet Software & Services (7)
    - Software (12)
  - Technology Hardware and Equipment (17)
    - Semiconductors & Semiconductor Equipment (16)
    - Electronic Equipment, Instruments and Components (4)
      - Technology Hardware Storage and Peripherals (8)

# TOP 10 COMPANIES IN INFO TECH SECTOR

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Market Cap (mm)</th>
<th>Primary Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>587,282.2</td>
<td>Technology Hardware, Storage and Peripherals</td>
</tr>
<tr>
<td>Alphabet Inc.</td>
<td>513,809.6</td>
<td>Internet Software and Services</td>
</tr>
<tr>
<td>Microsoft Corporation</td>
<td>423,068.6</td>
<td>Systems Software</td>
</tr>
<tr>
<td>Facebook Inc.</td>
<td>326,920.8</td>
<td>Internet Software and Services</td>
</tr>
<tr>
<td>Alibaba Group Holding Limited</td>
<td>191,572.6</td>
<td>Internet Software and Services</td>
</tr>
<tr>
<td>Tencent Holdings Limited</td>
<td>188,386.2</td>
<td>Technology Hardware, Storage and Peripherals</td>
</tr>
<tr>
<td>Samsung Electronic Co. Ltd.</td>
<td>178,791.4</td>
<td>Date Processing and Outsourced Services</td>
</tr>
<tr>
<td>Visa Inc.</td>
<td>177,179.4</td>
<td>Systems Software</td>
</tr>
<tr>
<td>Oracle Corporation</td>
<td>172,136.4</td>
<td>Semiconductors</td>
</tr>
<tr>
<td>Intel Corporation</td>
<td>154,380.3</td>
<td>Communications Equipment</td>
</tr>
</tbody>
</table>

*Source: CapitalIQ as of 3/21/16*
## SECTOR WEIGHTS IN SIM PORTFOLIO

<table>
<thead>
<tr>
<th>Sector</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>20.46%</td>
</tr>
<tr>
<td>Financials</td>
<td>14.34%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>14.15%</td>
</tr>
<tr>
<td>Health Care</td>
<td>13.06%</td>
</tr>
<tr>
<td>Industrials</td>
<td>9.99%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>9.66%</td>
</tr>
<tr>
<td>Energy</td>
<td>6.11%</td>
</tr>
<tr>
<td>Cash</td>
<td>4.28%</td>
</tr>
<tr>
<td>Materials</td>
<td>2.85%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>2.75%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2.15%</td>
</tr>
<tr>
<td>Dividend Receivables</td>
<td>0.21%</td>
</tr>
</tbody>
</table>

Source: SIM Portfolio Appraisal as of 2/29/16
S&P 500 WEIGHT VS. SIM WEIGHT

The graph compares the weights of different sectors in the S&P 500 index versus a simulated (SIM) weight. The sectors include Information Technology, Financials, Consumer Discretionary, Health Care, Industrials, Consumer Staples, Energy, Materials, Telecommunication Services, and Utilities. The sectors are ranked by their weight in the S&P 500, with Information Technology having the highest weight and Utilities having the lowest.
BUSINESS ANALYSIS
Business Analysis

• IT companies serve an integral part in every industry
  • Includes semiconductors, hardware/equipment, software & IT service companies
  • Customers are households and businesses varying in all sizes
  • Contribute to economic growth by driving efficiencies and increasing productivity of users

• Operate in a rapidly changing and innovating technological landscape
  • Companies must keep pace with technological trends to maintain and/or capture market share
    • Ex – Trends currently favoring technology that is mobile, social and is cloud-based with high speeds and high capacities for data
Supply & Demand Analysis

- Highly cyclical with economic trends
  - Business capital expenditure budgets impacted by profitability
  - Interest rates and credit movements impact customers ability to finance products
  - Household disposable incomes are impacted by economic factors

- Massive globalization of information technology
  - Most prevalent in developed markets
  - Drives growth and efficiencies in emerging markets

- Shortening product life cycles
  - Result of rapid technology changes and innovations
  - Semiconductors declining, hardware & equipment maturing, software & services growing
Margin Analysis IT vs. S&P 500

Average Gross Margins

- Information Technology
- S&P 500

Average Operating Margins

- Information Technology
- S&P 500

*Source: Bloomberg
Interest Rates & Disposable Income

Inv. Grade US Corp. Credit Spreads

Consumers have more money to spend on IT offerings

Financing for IT products is more costly
Barriers to Entry: HIGH
- Large economies of scale
- Capital intensive
- Established brands
- Network effects

Substitutes: HIGH
- New innovations dictate market share
- Highly fragmented industries

Rivalry: HIGH
- Product offerings
- Prices
- New developments
- Market presence

Buyer Power: MEDIUM
- Willing to pay premium for reliable brands
- Mixed switching costs in industries
- Large buyers have clout

Supplier Power: MEDIUM
- Importance of reliability gives suppliers pricing leverage
- Established brands
- Vendors look to establish lasting partnerships
ECONOMIC ANALYSIS
IT vs U.S. GDP
IT vs CPI
IT vs. Consumption
IT vs. Total Labor Spending
EBITDA Margin Analysis
Profit Margin Analysis
Return on Equity Analysis
Return on Capital Analysis
Margin Drivers

• Premium pricing because of continuous innovation for high quality products and services

• Increase in demand for Cloud computing, Security and Data Analytics

• Increase in business spending on tech products and services

• Cost reduction initiatives

• Changing Product mix to high margin products and services
VALUATION ANALYSIS
IT Sector P/E
IT sector P/S

Graph Fundamentals

Fields/Securities

Options

Adjusted Price/Sales ratio (SSINFT Index): 3.3383
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Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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## P/E multiples

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology</td>
<td>26.39</td>
<td>11.74</td>
<td>17.97</td>
<td>18.93</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>24.02</td>
<td>11.96</td>
<td>16.6</td>
<td>18.56</td>
</tr>
<tr>
<td>IBM</td>
<td>19.44</td>
<td>7.75</td>
<td>13.41</td>
<td>9.8</td>
</tr>
<tr>
<td>Micron</td>
<td>605.88</td>
<td>3.78</td>
<td>13.8</td>
<td>4.61</td>
</tr>
<tr>
<td>AAPL</td>
<td>61</td>
<td>8.98</td>
<td>20.41</td>
<td>11.47</td>
</tr>
<tr>
<td>Vantiv</td>
<td>5410</td>
<td>24.92</td>
<td>38.74</td>
<td>62.92</td>
</tr>
<tr>
<td>EMC</td>
<td>43.03</td>
<td>13.38</td>
<td>21.33</td>
<td>21.13</td>
</tr>
<tr>
<td>Activison</td>
<td>128.5</td>
<td>10.44</td>
<td>25.1</td>
<td>26.74</td>
</tr>
</tbody>
</table>
$SRIT - S&P 500 Information Technology [Sector] - Daily OHLC Chart
Op: 724.05, Hi: 726.65, Lo: 722.48, Cl: 726.38
RECOMMENDATION
Overweight Compared to S&P

- Current SIM weight of 20.46% compared to S&P weight of 20.60%
  - Heaviest weighted sector for both SIM and S&P

- Major Positives
  - Outperformed aggregate S&P throughout 2015 and 2016
  - Higher gross and operating margins than aggregate S&P
  - Integral part of economy, drives growth and productivity of all industries
  - Globalization – aids development of established and emerging markets
  - Rising disposable income – consumers buy tech
  - High barriers and substitutes make competition fierce – better products
Overweight Compared to S&P

• Risks
  • Broad market decline or further interest rate rises (highly cyclical)
  • Short lifecycle due to innovation and competition
  • Largest sector of the S&P
  • Potential for bubble in technology sector

• Overweight the Software and Services industry
  • Cloud, Data Analytics and Security
    • Primary drivers of IT industry and continuing to grow
    • Companies moving from client-server architecture to cloud
  • Demand remains strong through 2016
RECOMMENDATION