Barrow Street Advisors Leadership

Nicholas Chermayeff
Principal
- 22 years of industry experience
- BA Harvard College

Robert F. Greenhill, Jr.
Principal
- 23 years of industry experience
- BA Harvard College
- MBA Harvard Business School

David R. Bechtel
Principal
- 23 years of industry experience
- BA Yale University
- JD Stanford Law School

About Barrow Street

Barrow Street Advisors LLC is a registered investment advisor and is an affiliate of Barrow Street Capital LLC which is an investment management firm that manages value-oriented private and public equity strategies.

Headquartered in Stamford, CT the firm serves pension funds, sovereign funds, endowments, foundations, family offices and high net worth individuals. Since its inception, Barrow Street Advisors LLC and Barrow Street Capital LLC have invested approximately $550 million of equity in private and public equity strategies.

For More Information

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The Year Past and the Year Ahead

Principals Nicholas Chermayeff, Robert Greenhill Jr. and David Bechtel provide their perspective on last year and share their thoughts on the economy and the current market as we enter 2015.

2014: A Tale of Two Markets

The equity market, as represented by the S&P 500 Index, moved ahead for the sixth consecutive year despite the uncertainty stemming from a number of geopolitical events. Even though the market reached 53 new highs throughout the year, it was often challenged by investor concerns regarding Federal Reserve tapering and impending interest rate increases, slowing economic growth in China, and collapsing worldwide oil prices.

Despite these concerns, the equity market proved to be resilient but exhibited a wide disparity of returns. In 2014 large-cap stocks, as measured by the S&P 500 Index, provided market leadership and registered an impressive total return of 13.7%. This result easily outpaced smaller company performance. For the year, small-cap stocks, as measured by the Russell 2000, returned only 4.9% and mid-cap stocks, as measured by the S&P 400 Index, fared better with a return of 9.8%.

Despite Geopolitical Issues the S&P 500 Index Rose in 2014

Source: strategasrp.com

What's the Real Story Behind the Headlines?

The headlines announcing a string of fresh new market highs provided a rosier outcome than many investors actually experienced in their portfolio. Approximately 85% of large-cap mutual funds failed to match the performance of the S&P 500. According to an analysis by Lipper, a Thomson Reuters Research Unit.

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Even large-cap outperformance was narrowly confined and driven by a handful of companies that constitute a disproportionate index weighting. As shown to the right, just five companies were responsible for approximately 72% (9.9% of the 13.7%) of the total return for the S&P 500 Index in 2014.

Top 5 Contributors to the S&P 500 in 2014
(Total Returns for 2014)

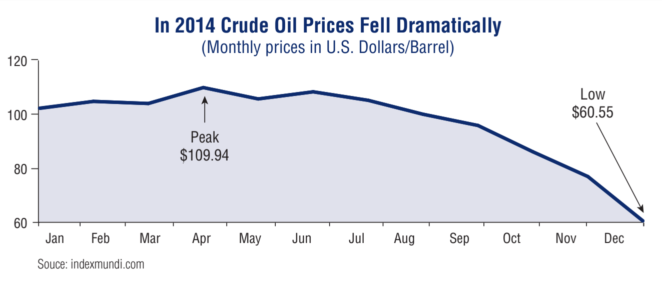
1	Apple	40.0%
2	Microsoft	27.2%
3	Berkshire Hathaway	26.6%
4	Intel	36.3%
5	Wells Fargo	23.7%

Source: Morningstar

2015: Keep an Eye Out For…

The Impact of Cheap Oil

Plunging oil prices and a strengthening dollar have far-reaching implications. Certainly energy companies will be challenged and emerging market economies may come under pressure. Falling oil prices and fewer petrodollars in circulation could mean less liquidity and lead to increased global market volatility. As a critical energy source input, oil's rapid price decline over the past six months appears to have muted any higher inflation projections.



We believe the dramatic fall in oil's price will lead to greater investment opportunities in the energy sector. We believe that many high-quality companies in the sector represent exceptional value for the patient investor. Not surprising given the recent uncertainty, many skittish investors have sold their energy stocks regardless of the future opportunity and have further depressed stock prices.

Waning Central Bank Influence

With developed countries around the globe, including the United States, the European Union and Japan, monetizing record levels of government debt through various easing programs, investors have relied on central bank actions to boost asset prices. As a result, market volatility has been exacerbated by policy announcements rather than fundamentals. We believe that policy actions by central banks will have less impact going forward and the current Goldilocks environment may be coming to an end.

The Re-Emergence of Fundamentals

We expect the year ahead to include more pronounced levels of market volatility resulting from continued geopolitical events and less positive influence from central bank policy announcements.

What do we suggest investors focus upon as we enter 2015? Simply, high-quality companies purchased at a discount. We believe that after six years of strong market results buoyed by central bank intervention that individual company fundamentals will drive stock performance going forward. Companies will once again be judged primarily by top-line and bottom-line results. Prudent use of record levels of cash on corporate balance sheets will be closely scrutinized and its deployment will signal the extent of shareholder-friendly initiatives.

At Barrow Street Advisors, we welcome this changing market dynamic and believe that high-quality companies bought at a discount never goes out of style. For patient, long-term focused investors, we believe 2015 means opportunity. ■