HORAN CAPITAL MANAGEMENT

HCM News

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An HCM Company

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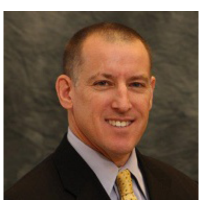

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*As always, please call our client service team at **(800) 592-7534** if you have any questions. Our representatives can also provide you with up-to-date information about your holdings and discuss any changes in your personal financial situation.*

New Year, New Office

With the new additions to the team in 2014, we have run out of space in our current location. We will be moving our headquarters to a new building in Hunt Valley, MD which will allow us to continue growing. Our new address will be:

20 Wight Avenue
Suite 155
Hunt Valley, MD 21030

2014 Market Review

By Tim Hai, CFA®, CAIA

•Large caps outperformed small caps as the S&P 500 returned +13.69% and the Russell 2000 returned +4.89% (including dividends).

•Value generally outperformed Growth except in the large cap sector where growth outperformed value.

•U.S. equity markets outperformed most non-U.S. markets (MSCI EAFE: -4.48% in USD).

•Non-U.S. equity markets (developed and emerging) generally yielded middle-to-upper single digit positive returns for the year, in local currency. However, in dollar terms, these markets offered negative returns in 2014. This was specifically due to the 12% rise in the U.S. dollar (relative to a basket of other foreign currencies).

•Russia fell -45.86% in 2014 due to ruble weakness versus the U.S. dollar, weak oil revenue, and geopolitical concerns.

•U.S. markets were led by Utilities (+28.98%), Health Care (+25.34%), and Technology (+20.12%) stocks. The Energy sector was the weakest and only declining sector, falling 7.78% in 2014. Although not an economic sector as defined by the S&P, real estate investment trusts or "REITs", as measured by the FTSE EPRA/NAREIT Developed Index rose 30.38% reflecting investors' continued demand for high yielding investments.

•The Fixed-Income market was surprisingly resilient in the face of an end to quantitative easing by the Federal Reserve and year-long speculation that they would raise interest rates (the Barclay's Capital U.S. Aggregate Bond Index rose 5.97%). Bonds exposed to credit risk offering higher yields generally outperformed (i.e. investment grade corporates, MBS, etc.). Notably, high yield bonds underperformed as disappointing energy sector bonds helped pull down the sector as a whole. Bond yields (as measured by 10-year U.S. Treasury yields) surprisingly fell from 3.00% a year ago to 2.17% at year-end. Inflation gauges (CPI and PCE) were low and remained within the Fed's targeted range.

•The U.S. dollar surged against most other currencies (+12.18% versus the Euro, +5.86% versus the British Pound, and +14.07% versus the Japanese Yen).

•Oil prices in the U.S. (WTI) fell 46% in 2014.

New Faces at Horan Capital Management

Tim Hai, CFA®, CAIA is a Portfolio Manager for Horan Capital Management. Tim works closely with John Heinlein to develop investment decisions and manage client accounts.

Tim recently came to Horan Capital Management with over eighteen years of diversified experience within the investment management business, including manager research and due diligence, direct equity research, and portfolio management. He previously was employed with a Washington, DC based pension plan where he had oversight of over $7 billion in global public market assets including equity, fixed-income, and public market alternative investments (REITs, Natural Resources, and Infrastructure). Prior to this position, he worked as Director of Investment for another local registered investment advisory firm where he also managed client investment portfolios. His work experience also includes working with a local, boutique investment banking firm. He began his career with Legg Mason, where prior to his departure, he performed portfolio management and equity research duties similar to that required by Horan Capital Management.

Tim received his BS Finance degree from the University of Maryland, College Park, and his MBA from Loyola College of Maryland. Most recently, he also completed the Oxford International Investment Programme at the Said Business School at the University of Oxford, United Kingdom. Tim holds the Chartered Financial Analyst ("CFA") and Chartered Alternative Investment Analyst ("CAIA") designations. He is a member of the CFA Institute, the Baltimore CFA Society, and the CFA Society Washington, DC. He is also a member of the Washington, DC Chapter of the CAIA Association.

"Bud" C.A. Mauger IV, CFP® is a Senior Financial Advisor with Horan Capital. He is a graduate of St. Mary's College of Maryland, where he earned a Bachelor of Arts degree, with a concentration in Economics.

Bud has almost 20 years of investing experience and holds or has held Series 6, 7, 63, 65, 9, and 10 securities' licenses. Bud also maintains a dual affiliation with an RIA firm in Delaware. He was a Vice President with Fidelity Investments for close to 10 years. Bud also worked for Merrill Lynch and Prudential, where he gained valuable investing experience. He is a Certified Financial Planner and has overseen client investment relationships in excess of one billion dollars. Bud has specialized in working with families and institutions on allocation and investment planning. He has particular focus on retirement income planning as he has done hundreds of income plans for clients and received National recognition while at Fidelity for his work done in that area.

After playing lacrosse in college, Bud went on to play and teach lacrosse in Australia, and then spent considerable time being involved in his community youth lacrosse program and coaching his daughters' teams. These days, Bud enjoys the outdoors and loves all things two wheeled. He is an avid mountain and road bike rider, and enjoys taking his old Italian racing motorcycle to the track on weekends.

2014 Market Commentary

By Tim Hai, CFA®, CAIA

Snow is falling (as of January 6, 2015) on the ground currently as a large cold front storms across a large swath of the United States. As we write this quarter's market commentary, we are reminded of last winter's polar vortexes. Recall then that cold winter weather dominated headlines, issuing both a literal and figurative chill to the economy (eventually manifesting itself as negative first quarter GDP growth of -2.1%). Recall also that newly minted Federal Reserve (the "Fed") President Janet Yellen ill-advisedly spooked investment markets by suggesting that the Fed would end its quantitative easing program of bond buying and begin raising interest rates sooner than what it had previously guided markets. The unforgiving winter, Ms. Yellen's comments, and Russia's annexation of the Crimea region of Ukraine combined back then to unsettle investment markets. Ms. Yellen would later clarify her comments, calming investment markets by suggesting that the Fed would indeed continue to placate investors with easy Fed policy for the foreseeable future. Domestic investment markets would continue to soldier on despite naggingly weak economic reports on GDP and employment; markets shook-off the potential for contagion from deflationary pressures in Europe and Japan; and it looked past a slowing Chinese economy that had been a major driver of global growth over the past decade.

U.S. markets, as demonstrated by the S&P 500 (up 13.69% including dividends), outperformed expectations by most accounts in 2014. After five straight years of positive returns, including a 2013 that returned 32.39%, many market observers were wary of an unrepentant bull market fueled by near-zero interest rates. Many were convinced that inflation would reemerge and that the Fed would begin to ease off the easy money pedal it had been pressing for the past decade. Many prognosticators warned of potential market bubbles and overvaluation based on this metric or that. In the end, the market again asserted itself with another double digit performance. It was certainly aided by low interest rates. Perhaps it was also assisted by the lack of more compelling investment opportunities overseas or in fixed-income markets. Plummeting oil prices (see related article nearby) may have also been beneficial to broader market performance. At any rate, the market is a year older. There are now six straight years of positive market returns. Interest rates remain near zero and inflation is still tame. Those same market prognosticators continue to point to the same metrics that suggest market overvaluation.

As you know, Horan Capital Management is a long-term, fundamental, bottoms-up investment advisory firm. We do not allow ourselves the luxury of using macro-economic indicators or price charts to help indicate to us when to invest or what to invest in for our clients. We do not profess to have the foresight to know when to invest and when to stay on the sidelines - we are not market timers. As shepherds of our clients' monies, we must hold our convictions and maintain our investment philosophy. We invest in companies that have the potential to outperform in the long-term – at a discount. We do not allow "noise" in the market to alter our investment discipline. We do this in the hopes that it will benefit our clients in good markets and bad; understanding that in any given year, markets may reverse themselves. We also have conviction in believing that over the long-run, our clients will benefit from this methodical strategy and will outperform. Horan Capital Management would like to thank you, our clients, for believing in us and our message. We hope the best for you and your family in the upcoming year and beyond. As always, never hesitate to contact us should you have any questions or concerns.

John G. Heinlein –
Chief Executive Officer and
Chief Investment Officer

The following discussion mentions stocks that are widely — but not universally — held by clients of Horan Capital Management. Client portfolios are customized, so this commentary may or may not be directly applicable to any given client or account. Our intention is to provide general insight into portfolio holdings and into our overall approach and to highlight situations of interest, both positive and negative. The mention of any stock is neither advice nor a solicitation to buy or sell any particular investment and our opinions regarding securities are subject to change without notice. Investing involves risk of loss. See the legal disclosures at the end of this publication and on our website for more information.

Portfolio Activity

By John G. Heinlein

POSITIONS SOLD

CDK Global Inc. (CDK) CDK is a digital marketing/advertising provider for the automotive industry. As a recent spin-off from Automatic Data Processing, CDK was not a core holding. Shares of the company were bid up recently by several hedge funds, beyond a level of what HCM believed to be its intrinsic value. As such, shares were sold to make room for investments with better return opportunities.

Covidien PLC (COV) and Medtronic (MDT) COV and MDT are both medical device manufacturing firms that announced a merger between them that when combined, will offer cardiovascular, restorative therapy, surgical, and respiratory solutions. Shares of both companies have risen significantly since their merger was announced in June, 2014. We believe that MDT's price currently reflects all of the proposed benefits from its acquisition of COV and that the company's shares trade well-above intrinsic value; COV's shares also fully reflect MDT's offer price. As such, we believe that there are other investments with better return opportunities.

Becton, Dickinson and Co. (BDX) BDX is a medical device manufacturing firm whose largest products include needles/syringes and medical diagnostic equipment. BDX recently announced the acquisition of another medical products firm, CareFusion. As shares had risen 25% since early October, 2014 (after the announcement), we believed that the benefits of the CareFusion acquisition were more than fully reflected in BDX's stock price and chose the run-up in shares as an opportunity to secure profits.

NOW Inc. (DNOW) NOW is a products and supply chain solutions provider for the energy industry. As a recent spin-off from National Oilwell Varco, NOW was not a core holding. Shares of the company were recently offered beyond a level of what HCM believed to be its intrinsic value. As such, shares were sold to make room for investments with better return opportunities.

Republic Services, Inc. (RSG) RSG is one of the largest nonhazardous solid waste companies in the U.S., providing collection, processing, recycling, and disposal services. Shares of RSG were sold based on price performance and perceived overvaluation. Shares have increased over 25% in 2014, beyond what we consider its growth prospects and intrinsic value. As such, shares were sold to make room for investments with better return opportunities.

REDUCTIONS OF EXISTING POSITIONS

Applied Materials, Inc. (AMAT) Shares of AMAT were trimmed in selected accounts based on price appreciation. Proceeds from the sale were redistributed to other portfolio holdings. Shares of AMAT continue

Portfolio Activity

Continued

to look attractive and HCM remains bullish on its long-term prospects.

Berkshire Hathaway Inc. (BRK.B) Shares of BRK.B were trimmed in selected accounts based on price performance and an over-weighted position. Proceeds from the sale were redistributed to other portfolio holdings. Shares of BRK.B continue to look attractive as a core holding in HCM portfolios.

Canadian Natural Resources Ltd. (CNQ) Shares of CNQ were recently sold or trimmed in selected non-taxable accounts to secure gains (the decision to sell or retain shares in taxable accounts was made on an account-by-account basis with client tax considerations in mind). Although companies dependent on oil prices have encountered extreme volatility in recent months, we continue to have confidence in the viability of CNQ, and of the inherent investment qualities that drove HCM to own the shares originally. Our calculation of intrinsic value suggests there is much value in these shares – over the long-term. However, we believe that downside potential in oil prices and shares of oil-related stocks in the near-term is still a very real possibility. We will continue to monitor these stocks and leave open the option that we may re-invest in them or add to them as opportunities present themselves.

National Oilwell Varco, Inc. (NOV) Shares of NOV were recently sold or trimmed in selected non-taxable accounts to secure gains (the decision to sell or retain shares in taxable accounts was made on an account-by-account basis with client tax considerations in mind). Although companies dependent on oil prices have encountered extreme volatility in recent months, we continue to have confidence in the viability of NOV, and of the inherent investment qualities that drove HCM to own the shares originally. Our calculation of intrinsic value suggests there is much value in these shares – over the long-term. However, we believe that downside potential in oil prices and shares of oil-related stocks in the near-term is still a very real possibility. We will continue to monitor these stocks and leave open the option that we may re-invest in them or add to them as opportunities present themselves.

NEW PURCHASES

QUALCOMM, Inc. (QCOM) QCOM was purchased in selected accounts. QCOM is the proprietor behind the premier CDMA wireless network technology which is used in most cell phones today. The company also manufactures semiconductors for mobile phone and issues licenses to mobile phone producers to utilize the network. We believe this company has solid growth potential and because of recent complications surrounding its licensing practices in China, sells at a discount to intrinsic value. We believe QCOM's discount to intrinsic value, coupled with its potential for growth offer sufficient margin of safety.

ADDITIONS

Amazon.com, Inc. (AMZN) The Company is playing a prominent role in the structural shift away from brick-and-mortar retail. We think the company's potential is undeniable and believe its valuation is misunderstood. We purchased the stock for selected accounts during the quarter.

Bank of America Corporation (BAC) We believe many of the problems that plagued the company are behind it. With its low valuation, its expenses in decline and profitability rebounding, we think the shares were worthy of purchase during the quarter.

Citigroup (C) Like BAC, Citigroup is in the process of recovery after the financial crisis. The balance sheet is shrinking and expenses are falling. We like the improving prospects and valuation so we purchased shares for selected accounts.

Coach Inc. (COH) The luxury handbag maker has stumbled recently as it transitions its business into a lifestyle brand. With the recent stock slump, we are able to accumulate the company's shares at what we consider a bargain price. We like the company's long-term potential, particularly in China and other developing markets.

General Electric (GE) The diversified manufacturer has positioned itself as a leader in all markets in which it competes. Since the financial crisis, the company has rebuilt its finance arm, and improved its capitalization while working to pare non-core assets. With its global presence and rebuilt capital arm, we believe the company's future looks promising. We continued to purchase shares for

Portfolio Activity

Continued

selected accounts.

Google (GOOG) The search engine provider generates over 80% of its revenues through advertising or “clicks”. Recent performances by GOOG have missed consensus expectations, resulting in share price declines. We view these declines as buying opportunities for GOOG as we believe that the market continues to underestimate the company’s growth capabilities and intrinsic value. We continued to purchase shares for selected accounts.

IBM (IBM) The stock has underperformed recently due to the fears of cloud computing which is shifting the enterprise IT landscape. With the shares trading at approximately 12 times trailing earnings, we think that the concerns are more than reflected in the stock price and have used the opportunity to build long term positions in this globally dominant IT company.

McDonald’s (MCD) Missteps in its Chinese operations combined with cyclical and competitive pressures have weighed on McDonald’s operating results driving the share price down to what we believe is an attractive level for purchase. We believe the company’s brand and scale will allow it to compete well in the evolving $900 billion global quick service restaurant industry.

Proctor & Gamble (PG) The global products company is going through some challenges as it tries to right-size its brand mix. We like the portfolio of leading brands that are essential for retailers to drive traffic in their stores. The valuation is attractive in our view and we have used the opportunity to buy positions for selected accounts.

Visa (V) The mobile electronic payment market continues to evolve, but we believe Visa will flourish due to its dominant position and powerful network brand. Its shares look relatively underpriced to us so we purchased shares for selected accounts during the quarter.

Walmart (WMT) With over $475 billion in annual global sales, Walmart has tremendous scale and pricing power which should drive long-term earnings power. The largest retailer in the world has seen its shares lag over the recent past, placing its valuation at an attractive level in our opinion. We have purchased the stock for selected accounts.

A Few Reasons to Cheer

By Tim Hai, CFA®, CAIA

As you know, oil and energy markets have been very fluid over the past six months. Oil prices began falling after reaching a recent high in June 2014 and fell further and more precipitously in late November after the Organization of the Petroleum Exporting Countries ("OPEC") announced that it would not intervene to stabilize oil prices. Since June, domestic oil prices as represented by the West Texas Intermediate ("WTI") benchmark have fallen over 50% from a high of $107.26 per barrel. Prices currently hover near $50 per barrel. The S&P 500 Energy sector has fallen 10.68% for the quarter and was the only S&P 500 sector to notch a negative return for the full year (-7.78%). By way of comparison, the S&P 500 index rose 4.93% in the quarter and +13.69% (including dividends) over the full-year period.

Oil and energy stocks have been instrumental as a good counterweight to the greater portfolio.

A confluence of factors has contributed to the destabilization of oil prices. Generally speaking, both supply and demand factors have combined to pressure oil prices. A renaissance in U.S. oil production and to a lesser degree (and more recently) better than expected production from a few Middle East and North African countries has elevated global oil supplies. U.S. oil production has climbed to its highest level since 1986 due in large part to new technologies designed to extract oil more efficiently from previously uneconomical sites. The International Energy Agency announced in June that the United States had surpassed Saudi Arabia as the world's largest producer of oil (and natural gas liquids) and that it is expected to retain this title over the next several decades. At the same time, global economic weakness encompassing both developed and emerging markets has lessened oil and energy demands. Deflationary concerns across Europe and Japan, combined with slower-than-expected growth in China, has reduced the marginal demand for oil. A host of other issues have exacerbated the fall in oil prices, including but not limited to the strengthening of the U.S. dollar (itself a reflection of global economic weakness), speculation, and geo-political risks in areas such as Africa, the Middle East, and Russia.

However, what has been a burden for oil producers has been a boon for consumers. The U.S. consumer has welcomed falling gasoline prices. The national annual average price for U.S. gasoline was $3.77 per gallon in 2012 – its highest ever (on an inflation adjusted basis). Gasoline prices were averaging close to $2.20 per gallon at year end 2014. They are down over $1.50 per gallon from their highs several years ago and in some cases down over $1.00 per gallon from 2014 highs alone. A reduction in gasoline prices is the economic equivalent of a tax decrease for consumers. It is thought that if the cost of gasoline falls more than $1.00 per gallon, and sustains this new level for an extended period of time, U.S. consumers stand to benefit from between $500 to $700 in annual gasoline cost savings.

And although falling oil prices has also meant that investments in oil or energy focused companies have fallen in tandem, investors can take comfort in the fact that in today's market – especially in today's market - oil and energy stocks have also helped fuel gains in other areas of the stock market and their investment portfolios. Lower oil and energy prices has not only helped the corporate earnings of companies who are net users of oil and energy, but also the corporate earnings of all businesses tied to consumer spending. These businesses and investments make up a greater share of most investors' portfolios and that performance is reflected in the good return on the S&P 500 in 2014. Within the context of a diversified investment portfolio, oil and energy stocks have been instrumental as a good counterweight to the greater portfolio in good times and bad. Given the timing (holiday season) and general mood regarding the economy coming into the fourth quarter (bad), we will gladly accept the savings at the pump and the holistic gain in the overall portfolio. Cheers!

Horan Capital Management Privacy Policy

We hold all personal information provided to our firm in the strictest confidence. This includes all personal information that we collect from you in connection with any of the services provided by HCM, including—but not limited to—asset management, tax preparation and planning, and any financial planning services.

We do not disclose information to nonaffiliated third parties, except as permitted by law, and we do not anticipate doing so in the future. If we were to anticipate such a change in firm policy, we would be prohibited under the law from doing so without advising you first.

As you know, we may use health and financial information that you provide to us to help you meet your personal financial goals while guarding against any real or perceived infringements of your rights of privacy.

We limit employee and agent access to information only to those who have a business or professional reason for knowing, and only to nonaffiliated parties as permitted by law. (For example, federal regulations permit us to share a limited amount of information about you with a brokerage firm in order to execute securities transactions on your behalf, or so that our firm can discuss your financial situation with your accountant or lawyer.)

Additionally, brokerage firm custodians have their own client privacy policies, which they administer separately from HCM.

We maintain a secure office, filing system, and computer network to ensure that your information is not placed at unreasonable risk.

The categories of nonpublic personal information that we collect from each client depend on the scope of the client's engagement. These include information about your personal finances, health (to the extent that it is needed for the planning process), and transactions between you and third parties, and it may include information from consumer reporting agencies.

For unaffiliated third parties that require access to your personal information (including financial service companies, consultants, and auditors) we also require strict confidentiality in our agreements with them, mandating that they also keep your personal information private.

We do not release any personal information to third-party providers unless the client specifically authorizes us to do so.

Personally identifiable information about you will be maintained during the time you are a client and for the time thereafter that such records are mandated to be maintained by federal and state securities laws and also consistent with the CFP Code of Ethics and Professional Responsibility. After this required period of record retention, all such information will be destroyed.

Federal and state regulators also may review firm records as permitted under law.

Should you have any questions, comments, or concerns you may contact John Heinlein, Managing Director at: 230 Schilling Circle, Suite 234, Hunt Valley, MD 21231; 410-494-4387 or 800-592-7534.

We take your right to privacy seriously and will do all that we can to ensure it. As always, we appreciate your trust and confidence and the opportunity to provide you with our services.