



Commentary

- Expect few surprises in 1Q15 earnings.
- Confidence in budget outlook
- House signed off on \$495.9 billion budget + \$89.2 billion in supplemental war spending

Three of the primary revenue generators for the sector continue their long-term trend.

- Aerospace manufacturing: Is in the midst of a upgrade and expansion supercycle that is expected to continue for another 5-10 years.

- Defense: The sky did not fall in 2009 and while bearish predictions that the peak in U.S. military spending was true, no budget-induced crash has yet come to the sector and proposed defense spending cuts have softened as hotspots in the Middle East, with Russia , and on the cyber battlefield gain continued attention. Unlike previous downturns, most companies saw this environment coming and positioned themselves via acquisition (or spinoff), financial engineering, and rightsizing their firms. The Pentagon budget still provides a robust level of funding on the order of half a trillion dollars annually.

- International: Sales continue to grow as countries watch security threats such as ISIS and Russia actions in the Ukraine besides turmoil in nearly 50 other nations.

Index Updates

Supercom [SPCB] was added to the index. The firm supplies passports and border control products to nations around the globe.

Observations

Inflows into the sector: The past quarter has seen an increasing amount of money flowing into defense sector ETFs. From its low, the Powershares Aerospace & Defense ETF (NYSE: PPA) which we track, has doubled its shares outstanding. The sector provides investors with above average stability and a hedge against world events. When one does not know which firms are winners and losers, ETFs become the play.

M&A Starting to Reshape the Sector: The biggest firms will remain the biggest and will likely do smaller acquisitions to tweak their portfolio but consolidation among the mid-tier is starting to take place. Harris acquisition of Exelis combines the 11th and 12th largest contractors boosting them into the top 10, and the combined Orbital

SPADE Defense Index Statistics

3/31/15 Close	4209.04
12/31/14 Close:	3987.52
All-time High:	4299.50
All-time Close:	4296.88
24 February 2015	

	SPADE Defense	S&P500
1Q2015	5.56%	0.44%
2014	11.77%	11.39%

ETF Statistics (NYSE: PPA)

Powershares Aerospace & Defense

Exchange / Ticker Symbol:	NYSE / PPA
Assets (3/31/15)	\$279 M
Closing Price (3/31/15)	\$36.74
Yield (12-Month Yield)	0.89%
1Q2015 Volume	3,727,000
Turnover	15%

source: Yahoo Finance

Portfolio Price / Earnings*	17.16
Portfolio Price / Book*	3.14
Portfolio Price / Sales*	1.25
Portfolio Price / Cash Flow*	8.67
Earnings Growth Rate*	10.51%
Beta (3 year)*	0.64
Alpha (3 year)*	14.86
R-squared (3 year)*	32.44
Yahoo Finance	

Top 5 Prime

Boeing	15.46%
Northrop Grumman	9.21%
Lockheed Martin	5.40%
Raytheon	1.00%
General Dynamics	-1.37%

Recent M&A

Exelis	39.02%
Orbital ATK	23.98%
Harris	9.66%

Public Spinoffs

Exelis	39.02%
Huntington Ingalls	24.62
Leidos	-3.58%
Vectrus	-6.97%
Engility	-29.81%

Cyber & IT

FireEye	24.29%
Mantech	12.27%
CACI	4.34%
SAIC	3.67%

1Q 2015 Results

1	Exelis	39.02%	29	Woodward	3.62%
2	Gencorp Aerojet	26.72%	30	Computer Sciences	3.54%
3	Huntington Ingalls	24.62%	31	Ducommun	2.45%
4	FireEye	24.29%	32	United Technologies	1.91%
5	Orbital ATK	23.98%	33	MOOG	1.38%
6	Hexcel	23.93%	34	Heico	1.11%
7	Boeing	15.46%	35	Raytheon	1.00%
8	Rockwell Collins	14.29%	36	Oshkosh Truck	0.29%
9	Mantech	12.27%	37	L-3	-0.33%
10	Mercury Computer	11.71%	38	General Dynamics	-1.37%
11	Transdigm	11.39%	39	Cubic Corp.	-1.65%
12	AAR Corp	10.51%	40	Aerovironment	-2.72%
13	Kratos Defense	10.16%	41	FLIR Systems	-3.19%
14	DigitalGlobe	10.01%	42	Leidos	-3.58%
15	Harris	9.66%	43	Viasat	-5.43%
16	Northrop Grumman	9.21%	44	American Science	-5.86%
17	Booz Allen	9.08%	45	Vectrus	-6.97%
18	Kaman	5.84%	46	Comtech	-8.15%
19	Lockheed Martin	5.40%	47	TASER	-8.95%
20	Textron	5.27%	48	Triumph Group	-11.16%
21	OSI Systems	4.93%	49	Precision Castparts	-12.82%
22	Curtiss Wright	4.75%	50	LMI Aerospace	-13.40%
23	Honeywell	4.39%	51	Sparton	-13.55%
24	CACI	4.34%	52	Supercom	-17.83%
25	Esterline	4.32%	53	Key W Holdings	-20.71%
26	Teledyne	3.88%	54	Engility	-29.81%
27	SAIC	3.67%	55	Intelsat	-30.88%
28	Ball Corp	3.62%			

Sciences / ATK entity makes them a more competitive player as well. Meanwhile, the rumor mill is filled with other possibilities. Among these are the United Technologies spinoff/sale of Sikorsky helicopters, Oshkosk Truck spinoff of its defense sector, the Ball Corp. spinoff of their Aerospace division, and a split of Computer Sciences Corporation. Like all M&A rumors, time will tell which are fact and which are just gossip.

On the Horizon?

A news items which caught our eye, but obviously not that of the

mainstream media, was a report that China is negotiating a military base in Djibouti, Africa. Djibouti is already home to a U.S. base and its Africa HQ for covert and anti-terrorism activities. Africa is largely ignored by the world due to its lack of economic integration, but it is one of the real hot spots for constant turmoil. Is China hoping to exert its area of influence to Africa? And if so, what does this mean for global politics in a decade or two? Could this become a new battleground like the opening of sea lanes in the North Pole region? Time will tell but in the end, instability is a key to future defense outlays.

Budget Items Compared to the 2015 Request

Air Force

F-35A	1660.0 M
Classified Procurement	1640.0 M
Classified RDT&E	1340.0 M
K-46A Tanker	767.9 M
C-130J Advanced Procurement	721.5 M
General Purpose Bombs	464.0 M
C130J Procurement	434.8 M
JDAM	340.7 M
Long Range Strike	332.5 M
MQ-9 UAV	[427.2 M]
EELV	[178.9 M]

Army

AH64 Apache Block III A	680.9 M
Medium Tactical Vehicle	238.4 M
Training Devices, non system	201.9 M
MRAP modification	200.5 M
UH60M Black Hawk	199.7 M
Helicopter, Light Utility	[229.4 M]
Stryker Vehicle	[203.9 M]

Navy

P-8A Poseidon	1030.0 M
DDG-51	553.4 M
F-35B (STOVL)	323.7 M
F-18 Hornet	307.6 M
Virginia Class Procurement	[531.7 M]
RQ-4 UAV	[270.8 M]
UCLASS UAV	[268.3 M]

data courtesy of *Defense News*

Performance (ex div)

	SPADE Defense Index	S&P500
YTD	5.56%	0.44%
2014	11.77%	11.39%
2013	48.27%	29.60%
2012	16.30%	13.41%
2011	[2.75%]	[0.00%]
2010	9.62%	12.78%
2009	21.71%	23.45%
2008	[38.03%]	[38.49%]
2007	22.17%	3.53%
2006	19.33%	13.62%
2005	5.30%	3.00%
2004	20.47%	8.99%
2003	37.27%	26.38%
2002	[2.87%]	[23.37%]
2001	0.94%	[13.04%]
2000	4.98%	[10.14%]
1999	15.31%	19.53%
1998	6.63%	26.67%

Since 1998, the SPADE Defense Index has only had three negative performance years.

A \$1000 investment in 1998 would be worth \$5255 today.

A \$1000 investment in the S&P500 would only be worth \$2130.

About the SPADE Defense Index

The SPADE Defense Index (NYSE: DXS) provides an investment benchmark for the value that the market ascribes to companies involved with defense, homeland security, and space.

The Index is designed to reflect the broad diversity of activities that is representative of companies involved with the sector – including industrial firms that manufacture aircraft, tanks, ships, and missiles; and those involved with current and next generation systems related to network centric warfare and information technology; intelligence, surveillance, and reconnaissance; satellites; border security; and defense systems that protect the lives of our servicemen and servicewomen.

SPADE Indexes specializes in designing and managing equity benchmarks for ETF and other products.

Licensed Products

Exchange Traded Fund - ETF

Licensed to Invesco Powershares, the Powershares Aerospace & Defense Portfolio ETF (NYSE: PPA) is designed to track the performance of the SPADE Defense Index.

Rules

The Index was designed to be RIC (registered investment company) compliant for the purpose of enabling financial products. Companies are required to meet a variety of eligibility criteria including market valuation, liquidity, and listing on a major U.S. exchange. Full details are available on our website.

* Market Cap: Minimum \$100M

* Share Price: Minimum \$5.00

* Sufficient Liquidity

Legal & Disclaimers

© 2015 ISBC LLC -- SPADE, the SPADE icon, and "The SPADE Investor" newsletter are registered trademarks of the ISBC. The ISBC is the owner of the trademark, service marks, and copyrights related to its indices. This newsletter does not constitute an offer of an investment product. The ISBC makes no representation regarding the advisability of investing in vehicles based on the SPADE Defense Index. All information is provided 'as is' for informational purposes only and is not intended for trading purposes or advice. Neither the ISBC nor any related party is liable for any informational error, incompleteness or for any actions taken based on information contained herein.

Contact Information

SPADE Indexes
1725 'I' Street, NW, Suite 300
Washington, DC 20006
Tel: (202) 349-3917
info@spadeindex.com
http://www.spadeindex.com
Scott Sacknoff: Index Manager

