



WESTERN INVESTMENT CLUB



# ANNUAL REPORT 2014 / 2015

*April 5th, 2015*

[westerninvestmentclub.ca](http://westerninvestmentclub.ca)

**Our Mission:** To build interest in capital markets among young investors at Western University and teach the fundamentals of investing.

THIS ANNUAL REPORT REPRESENTS A  
COLLECTIVE EFFORT FROM OUR TEAM TO  
**PROVIDE TRANSPARENCY INTO THE FUND.**

*This annual report is dedicated to all the former members and alumni of the Western Investment Club. Without your hard work WIC would not be possible.*

## CONTENT

- 04 Letter from the Dean
- 05 Fund Manager's Statement
- 07 Our Organization  
Fund Strategy
- 09 Our Team
- 11 Portfolio at-a-Galance
- 12 Current Holdings
- 14 Fund Performance
- 15 Select Investments

*Copyright © 2015 Western Investment Club  
Photos are property of their original owners  
Produced by Kevin Gryp*

*See back for important disclosures*

# DEAN'S STATEMENT

## *Message from Robert (Bob) Kennedy*

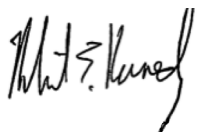
I want to congratulate the students of the Western Investment Club (WIC) for another successful year.

WIC is an Ivey-led student investment club whose mandate is to educate Ivey, pre-Ivey and Western students on fundamental valuation and investment strategies in public equity markets. Started in 1983 by two HBA students, the club has grown to over 700 students – one of the largest on campus. The WIC investment fund, started in 1997 and held by the Western Endowment Fund, has grown to \$180,000. All investment decisions for the WIC fund are made by the students themselves based on their own fundamental analysis. For the past fiscal year, the WIC fund generated a total return of 16.9%, well above the 3.5% return on the S&P/TSX Composite Index.

WIC provides tremendous peer-to-peer education and mentorship to its members. WIC's weekly educational presentations and industry group meetings provide students with unparalleled exposure to financial concepts and current events. This knowledge is directly applicable for Ivey students pursuing a career in financial services. Every fall, the senior HBA2 students provide valuable interview preparation ("mock interviews") for their younger Ivey peers. The evidence of WIC's success in empowering Ivey students is evident in the full-time recruiting positions secured by HBA2s who lead the club. For 2015, WIC members have secured positions with Goldman Sachs (Toronto, New York, Los Angeles, San Francisco), Silver Lake Partners (Menlo Park), Bain & Company (Toronto), Ares Management (Los Angeles), Credit Suisse (Toronto, Calgary), Moelis & Company (Los Angeles), Qatalyst Partners (San Francisco), and Evercore (New York). I believe the success of these WIC members is a testament to the quality of the club.

On behalf of the Ivey School of Business, I want to thank the members of WIC for cultivating an interest in finance among students and for educating them on the subject. I hope WIC continues to build this supportive learning environment and continues to outperform the market. I am glad to see such passion in Ivey's students.

Sincerely,



**Robert E. Kennedy**  
Dean, Ivey Business School

# FUND MANAGER'S STATEMENT

Dear fellow members, as the 2014 – 2015 academic year comes to a close, we wanted to take this opportunity to reflect on the past year for WIC. We are excited to release our first Annual Report, and hope that this becomes a long-held tradition for the club. We are happy to celebrate another successful year, and as Fund Managers, we are very proud of both the performance of the fund as well as the growth of the members within our club.

This fund started in 1996 with a generous donation of \$25,000 from Mr. Cameron S. Marshman. Unfortunately, Mr. Marshman passed away a little less than a year later, but his legacy lived on through what is now known as the Western Investment Club. Over the years, this club has not only grown in size, but also in its impact on the student body. The original goal of this club was to educate and foster the next generation of investors at Western University; today, we believe we have accomplished that goal.

As of April 1st, 2015, we are now managing a fund with an all-time high of \$181,000 in assets under management. 2015 has been another successful year for WIC as well as its members.

*Since April 1st, 2014, WIC's fund has appreciated 16.9% under the management of the team. Although this year has proven to be a challenging environment for value investors, we have successfully identified 11 investment opportunities. As we move forward, our team of analysts will continuously evaluate our positions and make decisions to further grow our fund.*

Aside from the fund itself, our club has continued to grow thanks to all your support. This year, our club has grown to more than 750 members, making us the club with the largest presence at Western University. We are pleased with the development of investment knowledge shown in the club through our weekly training seminars and stock pitches. We hope the club continues to strive to create a strong community of bright, young investors at Western.

We feel confident that the club has built a solid foundation and optimistic that the fund will continue its strong performance. For those of you who continue to participate as an active member in WIC, we would like to thank you for your commitment; WIC's success would not be possible without you. For those who are new, we would like to welcome you and remind you that the learning opportunities in WIC are endless.

As we depart, we would like to thank the analyst team for their hard work this past year, researchers for their dedication, and Western's endowment for their continued support.

We are proud of what WIC has become, and we are more than optimistic about its future.

Sincerely,

**Moses Li & Steven Lo**  
Fund Managers, 2014 / 2015



Moses Li  
Fund Manager



Steven Lo  
Fund Manager



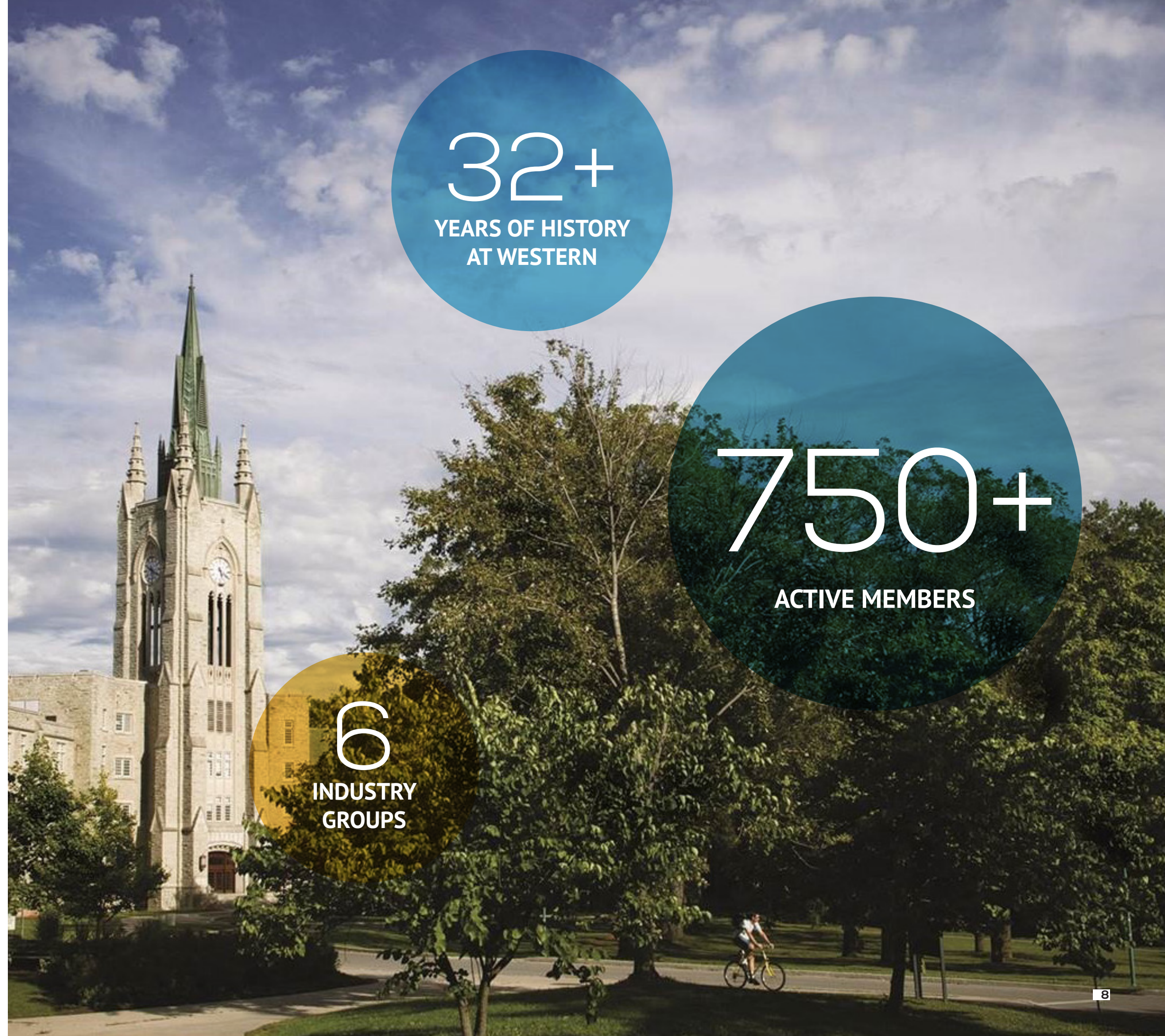
## OUR ORGANIZATION

Our fund was officially created in 1996 with the generous donation of \$25,000 from Mr. Cameron S. Marshman, in honour of his wife. Since then, we have managed it with a value investing philosophy. Mr. Marshman's wish was to educate and foster the next generation of investors at Western University by giving them a chance to invest real capital. Today, that donation has grown by more than 600%. Prior to the donation, our club acted solely as an educational organization on campus with more than 32 years of history.

## FUND STRATEGY

WIC employs a value investing philosophy when searching for investments. We pride ourselves on our rigorous bottom-up analytical approach to each investment. Each idea begins with a screening process to find unfairly punished stocks. Our analysts then conduct an extensive research procedure to understand and evaluate the company. The process can sometimes take months for a single idea. WIC attempts to truly understand a company's valuation as well as the key drivers of its future growth potential before executing a trade. We believe that by conducting an exhaustive company research process, we eliminate the risk of unforeseen downside risks.

For over 18 years, WIC has applied a disciplined approach to portfolio construction. Since all of our investments are high conviction ideas, we do not use beta diversification in our portfolio. However, we try to allocate capital evenly across our groups to find the best ideas among each industry. Lastly, each of our investments has a minimum of 30% margin of safety to limit downside.



32+  
YEARS OF HISTORY  
AT WESTERN

750+  
ACTIVE MEMBERS

6  
INDUSTRY  
GROUPS

# 2014 / 2015 TEAM

## EXECUTIVE



**Matt Ting**  
Co-President



**Moses Li**  
Fund Manager



**Kevin Gryp**  
Co-President



**Steven Lo**  
Fund Manager

## ADMINISTRATION

**Vinayak Modi**  
VP Finance

**Steve Yang**  
VP Events

**Alan Michaan**  
VP Technology

## CONSUMER RETAIL



**Shaun Raja**  
Head Analyst



**Akil Fernando**  
Analyst



**Steve Yang**  
Analyst



**Chad Goodman**  
Junior Analyst

## INDUSTRIALS



**Jin Hwang**  
Head Analyst



**Vanessa Deng**  
Analyst



**Gareth Domingo**  
Analyst



**Thomas Yang**  
Junior Analyst

## TMT



**Mikhail Stepanov**  
Head Analyst



**Diana Fu**  
Analyst



**Alan Michaan**  
Analyst



**Andrew Shon**  
Junior Analyst

## FINANCIAL INSTITUTIONS



**Ray Yang**  
Head Analyst



**Lynn Hu**  
Head Analyst



**Jamie Cruickshank**  
Analyst



**Chris Martone**  
Analyst



**Jerry Du**  
Junior Analyst

## NATURAL RESOURCES



**Corey Obermayer**  
Head Analyst



**Johnny Wang**  
Head Analyst



**Spencer Higgs**  
Analyst



**Vinayak Modi**  
Analyst



**Adam Steinberg**  
Junior Analyst

## REAL ESTATE, HEALTHCARE & GAMING



**Nicole Dee**  
Head Analyst



**Nick Chen**  
Head Analyst



**Andrew Kim**  
Analyst



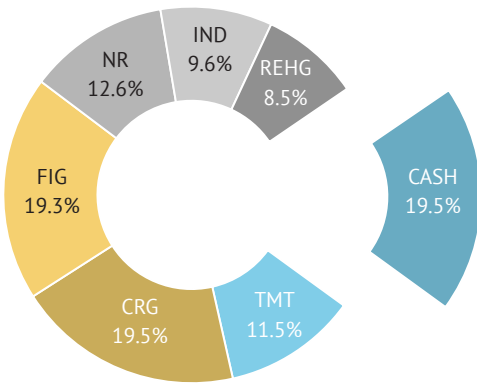
**Shruti Patel**  
Analyst



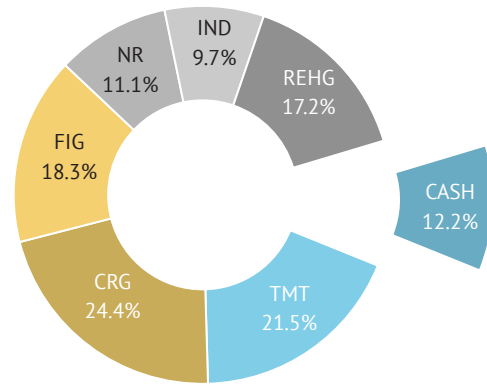
**Jason Newsted**  
Junior Analyst



# PORTFOLIO AT-A-GLANCE

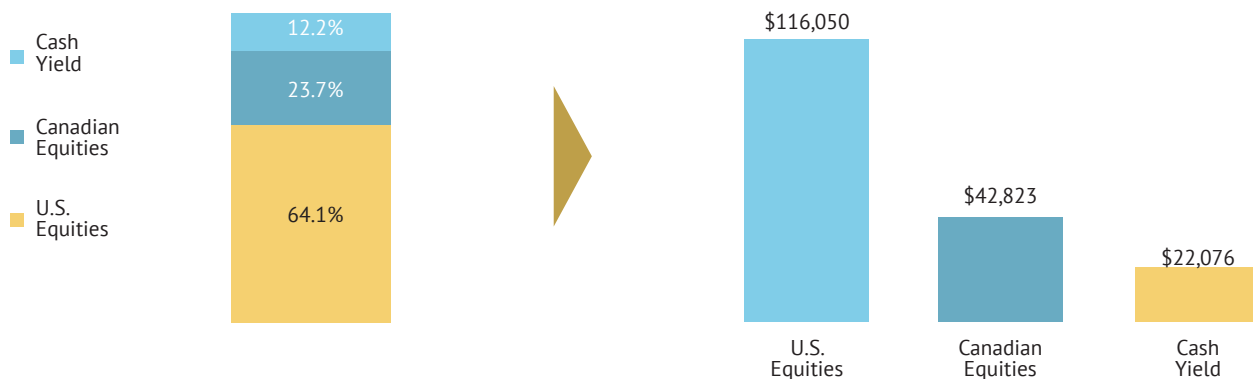


**INDUSTRY ALLOCATION**  
APRIL 1<sup>ST</sup>, 2014



**INDUSTRY ALLOCATION**  
APRIL 1<sup>ST</sup>, 2015

At the start of the year, our main goal was to decrease our cash position and increase the number of investments in our portfolio. As such, WIC's portfolio has changed dramatically in the fiscal year. Our main changes were within the TMT and REHG groups. TMT's portfolio has grown significantly due to our position in Ambarella Inc. and we added Amsurg Corp. and Depomed Inc. to the REHG portfolio. In total, we conducted 11 buys and 6 sells this year.




WIC's portfolio is comprised of U.S. equities, Canadian equities, and a cash yield component. We face foreign exchange risks in the CAD / USD since much of our capital is invested in U.S. equities. Our cash is invested in a liquid savings account when it is not deployed for investments.

# CURRENT HOLDINGS

Canadian Holdings	Symbol	Group	Entry Price
Bombardier	BBD-B.TO	IND	\$6.08
Copper Mountain Mining	CUM.TO	NR	1.77
Enerflex	EFX.TO	IND	9.47
Genworth	MIC.TO	FIG	21.44
Keg Royalties	KEG-UN.TO	CRG	10.82
Power Financial	PWF.TO	FIG	32.99
Suncor Energy	SU.TO	NR	33.13
Whistler Blackcomb	WB.TO	REHG	12.17
Seven Generations Energy	VII.TO	NR	20.08
Dream Global REIT	DRG-UN.TO	REHG	9.50

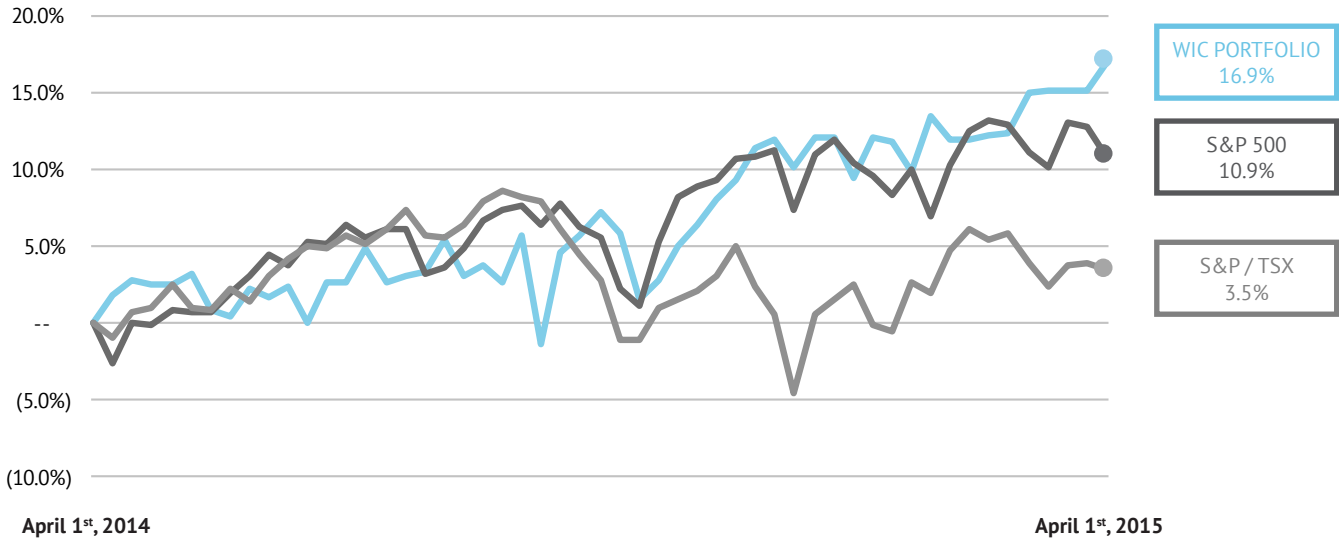
U.S. Holdings	Symbol	Group	Entry Price <sup>1</sup>
Banco Santander	SAN	FIG	\$8.54
Berkshire Hathaway	BRK-B	IND	114.07
Corrections Corp	CXW	IND	29.60
MetLife	MET	FIG	39.67
Microsoft	MSFT	TMT	28.18
Northern Tier	NTI	NR	30.93
Teva Pharmaceutical	TEVA	REHG	46.41
Unico American	UNAM	FIG	11.98
Wal-Mart Stores	WMT	CRG	31.30
DepoMed	DEPO	REHG	17.47
Chemtura	CHMT	IND	26.31
Amsurg Corp	AMSG	REHG	61.87
Overstock.com	OSTK	CRG	28.38
IBM	IBM	TMT	193.06
Forestar Group Inc.	FOR	REHG	17.75

1) Shown in \$CAD / share

An aerial photograph of a dense urban skyline, likely Hong Kong, featuring numerous high-rise buildings and a large body of water in the background. A prominent blue rectangular text box is overlaid on the lower half of the image, containing white text. The sky is blue with scattered white clouds, and green hills are visible in the distance.

WIC PRIDES ITSELF ON  
A RIGOROUS ANALYTICAL  
APPROACH TO EACH  
INVESTMENT DECISION

# FUND PERFORMANCE



## COMMENTARY:

During our fiscal period, the U.S. S&P index posted returns of 10.9% due to continued improvement in the economy. However, the Canadian S&P / TSX index lagged the U.S. returns and increased only 3.5%. During this time, WIC's portfolio outperformed both markets and returned 16.9% (19.3% ex-cash).

2015 was a difficult year for value investors; valuation increased to sky-high levels and tangible catalysts for many opportunities have largely been priced in. Much of our outperformance was driven by our existing holdings and the realization of several price targets. For example, our TMT portfolio increased by 82.7% relative to the overall market. On the flip side, our natural resources portfolio decreased by 8.4%, largely due to our positions in oil-related companies. Overall, we feel that WIC's strategy has been well executed this year. Since inception, the fund has returned 623.4%.

# SELECT INVESTMENTS

## Ambarella Inc. (NASDAQ: AMBA)

We sold Ambarella on March 23rd, 2015 at the price of \$71.23, making it one of our most successful investments in history. We originally pitched Ambarella in September of 2014, based on the idea that the company is mispriced given its strong position in an explosive industry with a proven management team. The decision to sell Ambarella was mainly to realize gains and free capital. Due to significant gains, our position in Ambarella has grown to more than 60% of the TMT portfolio and more than 12% of the entire fund. We did not feel comfortable with this exposure. Our TMT analysts also felt that Ambarella was trading at valuation levels that did not reflect the company's intrinsic value. With this trade, we realized a gain of 283.6% (including foreign exchange).



## Arcos Dorados (NYSE: ARCO)

WIC sold Arcos Dorados on March 26th, 2015 at the price of \$5.15 for a loss of 47.4%. We re-evaluated Arcos at the beginning of the year due to its underperformance, but ultimately decided to hold our position. However, given the recent macroeconomic events in Brazil, our CRG analysts believed that the company has been permanently impacted. We still think Arcos has a solid business model, but ultimately, the macroeconomic risk does not justify the upside for our portfolio.



Arcos Dorados

## Changyou.com (NASDAQ: CYOU)

Changyou was sold on October 15th, 2014 at \$18.34 for a 45.0% loss. In hindsight, we traded this wrong both ways by investing at a high of \$34.82 and selling near the 52-week low. Since the sale of Changyou, it has climbed back to ~\$26.50. However, WIC does not try to time its transactions and still believe that Changyou's business model has deteriorated significantly since our initial investment.

In early 2014, we purchased Changyou on the idea that its strong suite of online games in China had a loyal customer base, and thus provided the company a meaningful moat for its business. Since then, its gaming revenues have declined significantly due to increased competition. We believe that Changyou's current position in the Chinese MMORPG market is much weaker and will continue declining in the future.



ChangYou.com

# SELECT INVESTMENTS (CONT'D)

## Depomed Inc. (NASDAQ: DEPO)

WIC purchased Depomed on October 1st, 2014 at \$17.47 and it has been the best performer in stocks we purchased this fiscal year. Our original thesis believed that Depomed was in a position to acquire another leading drug in an accretive manner to bolster its portfolio. Additionally, the market did not realize that sales of Zipsor, the company's core product, are set to increase substantially in 2015 due to a recent loss of formulary coverage for two major competitors.

Our thesis played out in early 2015 when Depomed announced the acquisition of NUCYNTA from Janssen Pharmaceuticals. Furthermore, Depomed's Q4 2014 earnings exceeded expectations by more than 400%, increasing the share price to all-time highs. We currently have a 62.7% unrealized gain on Depomed and continue



## RPX (NASDAQ: RPXC)

We sold RPX Corporation for a 17.6% loss on October 15th, 2014. Originally, WIC believed that RPX's patent-litigation business model was deeply misunderstood and mispriced by investors. However, the U.S. legislation has moved towards a patent reform and our TMT analysts felt that future patent trends can negatively affect the company. Therefore, we closed the position at a loss to prevent future volatility to our portfolio.



## Toromont Industries (TSE: TIH)

We closed our position in Toromont Industries on February 24th, 2015 for a 157.1% return, making it an extremely successful investment. With the decline in oil prices in 2015, Toromont has become a safety stock versus its peers due to its lack of exposure in oil and gas. Furthermore, our Industrials analysts believe that federal spending budgets and other catalysts are likely to be priced into the stock. As a result, Toromont's relatively high valuation provided a great exit opportunity for WIC.



# STAY IN TOUCH

[WIC.EXECUTIVE@GMAIL.COM](mailto:WIC.EXECUTIVE@GMAIL.COM)

[WWW.WESTERNINVESTMENTCLUB.CA](http://WWW.WESTERNINVESTMENTCLUB.CA)

## IMPORTANT DISCLOSURES:

All analyses and conclusions of WIC are based on publicly available information. The analyses may contain certain statements, estimates or projections prepared with respect to anticipated operating performance, access to capital markets and the values of assets and liabilities. Any WIC material is not a recommendation or solicitation to buy or sell any securities.

Such statements reflect various assumptions and are included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the estimates and projected results.