



WESTERN INVESTMENT CLUB



# ANNUAL REPORT 2016 / 2017

*July 1st, 2017*

[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.

## FUND MANAGERS' STATEMENT

Dear fellow members, as the 2016–2017 academic year ends, we wanted to take this opportunity to provide an update on the past year for WIC. Since its founding in 1996, the fund has grown nearly seven-fold. We are pleased to announce another successful year, and are proud of both the performance of the fund and the development of all of our club members.

*As of April 30th, 2017, we are managing a fund of more than \$196,000 in assets under management. Since April 30th, 2016, WIC's fund has appreciated 15.2% under the management of the team. Despite a year of many surprises and a challenging environment for finding opportunities, we successfully made nine new investments.*

Amidst a series of unexpected events this past year, from the Brexit vote to the election of President Trump, the Dow Jones broke 20,000 for the first time in history. Few could have correctly predicted such a significant rise in stock prices; some may have even anticipated a market downturn, lending credence to the difficulty of market forecasting. It is for this reason that we stress the importance of maintaining a long-term investment horizon and effective risk management.

First, having a long-term horizon provides an inherent advantage. Patient investing can prove challenging, but being willing to wait on the sidelines when few attractive opportunities can be found, or holding through periods of sell-offs, can yield attractive results. Although it is generally suboptimal to hold cash, it provides us with the critical ability to take advantage of new opportunities as they arise. As we continue into the ninth year of one of the longest bull markets in history, we remain focused on deploying capital diligently without compromising on quality.

Second, we look to invest where the odds are tilted in our favour. As James Montier once said, "When investors violate [this principle] by investing with no margin of safety, they risk the prospect of the permanent impairment of capital." We focus significant attention on mitigating the risk of getting it wrong. It is for this reason we continually question our assumptions and require a wide margin of safety before being comfortable enough to deploy capital.

Aside from the fund itself, our club membership has continued to grow thanks to all of your support. This year, our club had 550 dedicated members, making us one of the largest clubs at Western University. We hope the club continues to create a strong community of bright, young investors at Western.

Thank you to the analyst team for their hard work this year, the researchers for their dedication, and Western's endowment for their continued support. We are proud of WIC's continued progress, and remain excited about the future of the club.

Sincerely,

**Leroi Yu & Adam Steinberg**



Leroi Yu  
Fund Manager



Adam Steinberg  
Fund Manager

*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.*

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*See back for important disclosures*



## 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 in the University of Western Ontario by giving them a chance to invest real capital. Today, that donation has grown by almost 700%.

## FUND STRATEGY

WIC employs a bottom-up fundamental investing approach to every investment. Each idea begins with a screening process to find stocks that are trading below their intrinsic value. 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 research process, we minimize the risk of unforeseen challenges.

For over 34 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.



34+  
YEARS OF HISTORY

550  
ACTIVE MEMBERS

6  
INDUSTRY GROUPS

# 2015 / 2016 TEAM

## EXECUTIVE



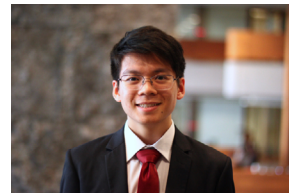
**Jeet Chakrabarty**  
Co-President



**Adam Steinberg**  
Fund Manager



**Michael Yuan**  
Co-President



**Leroi Yu**  
Fund Manager

## ADMINISTRATION

**Prabhnoor Ahuja**  
VP Finance

**Justin Yeung**  
VP Events

**Raghav Srikanth**  
VP Technology

**Kevin Zhou**  
Advisor

**Andrew Kim**  
Advisor

**Matthew Ting**  
Advisor

**Vinayak Modi**  
Advisor

**Kevin Gryp**  
Advisor

## ADVISORY BOARD

## CONSUMER RETAIL



**Diyang Yu**  
Head Analyst



**Jerry Du**  
Head Analyst



**Jonathan Wong**  
Analyst



**Morgan Zhuo**  
Analyst



**Raunak Gera**  
Junior Analyst

## INDUSTRIALS



**Samantha Wu**  
Head Analyst



**Vanessa Deng**  
Head Analyst



**Lambros Teteros**  
Analyst

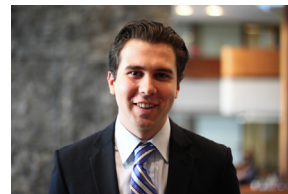


**Nathan Li**  
Analyst



**Edwina Liu**  
Junior Analyst

## TMT



**James Serena**  
Head Analyst



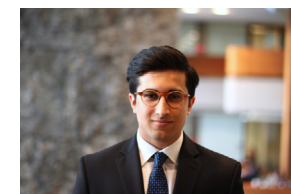
**Tony Wu**  
Head Analyst



**Adam Motani**  
Analyst



**Sam Tammen**  
Analyst



**Mohammad Niazi**  
Junior Analyst

## FINANCIAL INSTITUTIONS



**Nicholas Mehta**  
Head Analyst



**Taylor Miller**  
Head Analyst



**Aimee He**  
Analyst

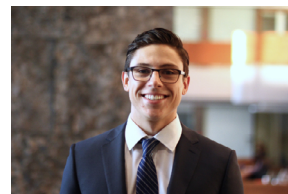


**Juri Zguri**  
Analyst



**Gary Ge**  
Junior Analyst

## NATURAL RESOURCES



**Anthony Cortellessa**  
Head Analyst



**Justin Heo**  
Head Analyst



**Peter Shi**  
Analyst



**Simon Leung**  
Analyst



**Lucy Lu**  
Junior Analyst

## REAL ESTATE, HEALTHCARE & GAMING



**Brandon Shames**  
Head Analyst



**Jason Newsted**  
Head Analyst



**Harsh Naik**  
Analyst

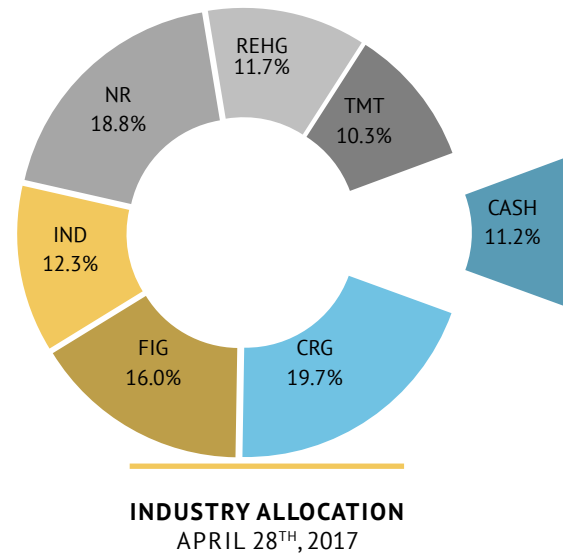
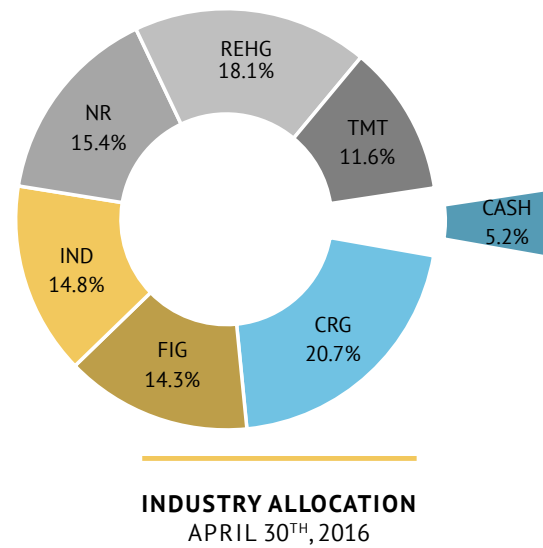


**Justin Yeung**  
Analyst

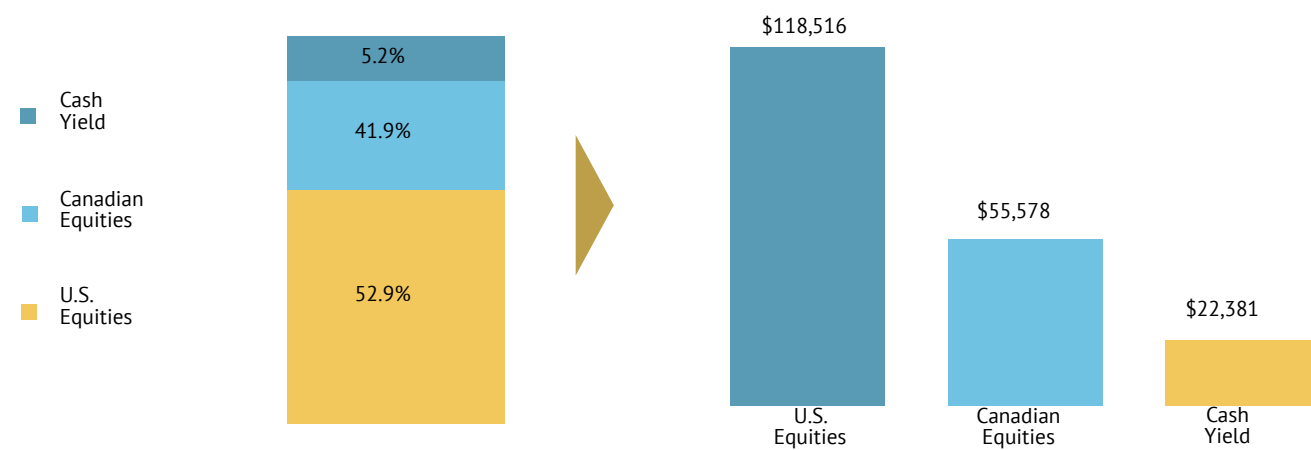


**Esteban Lee**  
Junior Analyst

# PORTFOLIO AT-A-GLANCE



This year, our primary goal was to maintain a balanced allocation between our six industry groups, while modestly building our cash position to exploit new investment opportunities. The most notable changes to our portfolio were in the NR and REHG groups. After a difficult 2015 and 2016, our NR holdings meaningfully rebounded, resulting in an increase in the group's fund allocation. Conversely, REHG's portfolio allocation was reduced, resulting from our exit from Whistler Blackcomb Holdings, which was sold to Vail Resorts for \$1.4 billion in August 2016. In total, we conducted 9 buys and 5 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 rate 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	\$6.03
Dream Global REIT	DRG-UN.TO	REHG	9.42
Enerflex	EFX.TO	IND	9.47
Genworth Canada	MIC.TO	FIG	21.44
Keg Royalties	KEG-UN.TO	CRG	10.82
Magellan Aerospace	MAL.TO	IND	18.75
Power Financial	PWF.TO	FIG	32.99
Seven Generations Energy	VII.TO	NR	20.08
Suncor Energy	SU.TO	NR	33.13
TransCanada	TRPTO	NR	43.58
Toronto-Dominion Bank	TD.TO	FIG	55.82

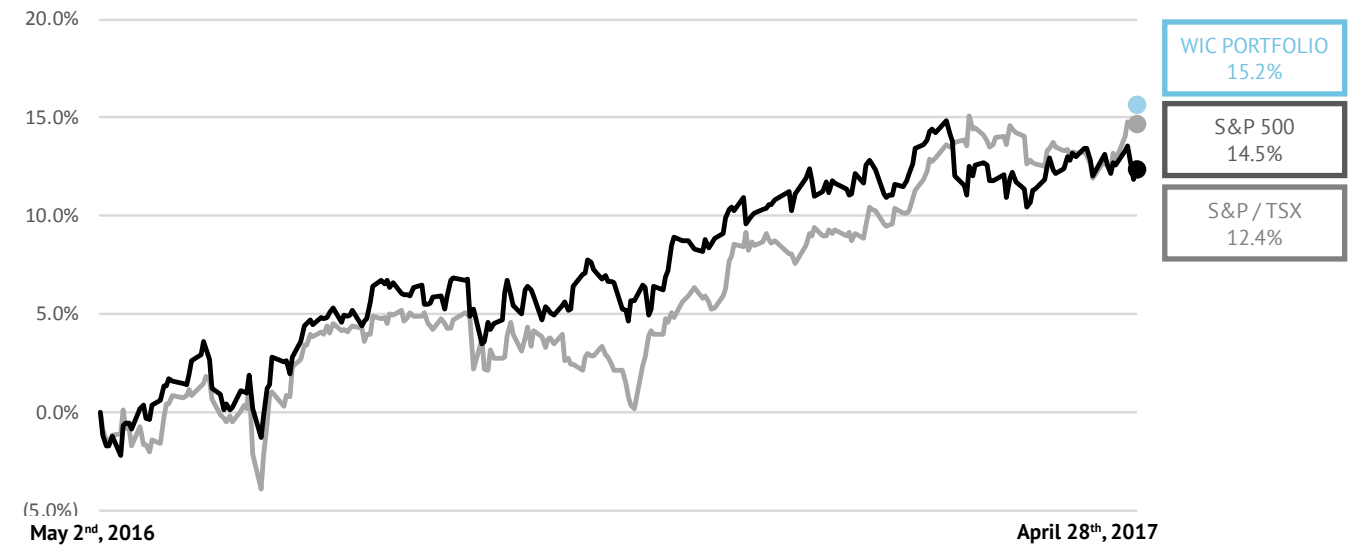
  

U.S. Holdings	Symbol	Group	Entry Price
American Express	AXP	FIG	\$109.54
Astronics (Class B)	ATROB	IND	47.85
Astronics	ATRO	IND	50.97
Banco Santander	SAN	FIG	8.54
Bristow Group	BRS	IND	25.88
Berkshire Hathaway	BRK-B	IND	135.23
Calpine	CPN	NR	15.58
Catalent	CTLT	REHG	36.19
Depomed	DEPO	REHG	17.47
Diversified Restaurant Holdings	SAUC	CRG	2.58
Forestar Group	FOR	NR	17.75
HCA Holdings	HCA	REHG	120.88
Orbotech	ORBK	TMT	45.39
Overstock.com	OSTK	CRG	28.38
QAD	QADA	TMT	27.71
Qualys	QLYS	TMT	48.85
Premier	PINC	REHG	44.54
Synchrony Financial	SYF	FIG	46.60
Syntel	SYNT	TMT	63.10
SeaWorld Entertainment	SEAS	CRG	28.11
Trecora Resources	TREC	NR	16.02
Teva Pharmaceutical	TEVA	REHG	46.41
Unico American	UNAM	FIG	11.98
Western Refining	WNR	NR	24.71
Whole Foods Market	WFM	CRG	41.89



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 an increase of 14.5% due to a favourable macro-economic environment and, in part, the so-called "Trump Rally". The Canadian S&P / TSX modestly lagged U.S. returns, increasing by 12.4%. During this time, WIC's portfolio outperformed both the S&P 500 and the S&P / TSX, increasing 15.2%.

Our 2015/2016 academic year coincided with a challenging period for equity investors due to several macro-economic headwinds, including falling oil prices and significant geo-political uncertainty. However, 2016/2017 presented investors with a more favourable macro-economic environment, as well as newfound optimism in the stock market following the election of President Trump. With hopes that President Trump would reduce corporate taxes and regulation, investors piled into the market, sparking what is now referred to as the "Trump Rally". While there remains considerable uncertainty around the ultimate impacts of President Trump's proposed policies, the stock market, and the WIC portfolio, benefitted in the short-term.

# SELECT INVESTMENTS

## Capella Education

WIC purchased Capella Education in the fall of 2015 for \$52.19 on the thesis that the market was unjustifiably panicking over the implementation of stricter regulations imposed on the online education industry, resulting in a depressed stock price. We held conviction in Capella's strong regulatory position and potential for market share growth. In the fall of 2016, we sold our shares in Capella, realizing a gain of 62.3%.



## Whistler-Blackcomb Holdings

WIC purchased Whistler-Blackcomb Holdings a few years ago at a price of \$12.17, with the belief that it was a growing and well-managed Canadian ski resort that offered an attractive yield to investors. Following our investment, Whistler-Blackcomb continued to exceed expectations and maintained a healthy dividend yield. In August 2016, the company was acquired by Vail Resorts for \$1.4 billion, representing a 43% premium to its share price at the time. WIC ultimately realized a gain of 43.8% on its investment in shares of Whistler-Blackcomb.



## Diversified Restaurant Holdings

WIC invested in shares of Diversified Restaurant Holdings in March 2017 at a price of \$2.58. We invested in the company with the view that its recent spin-off of an underperforming division would allow the market to value the core business more accurately. We were also confident in management's ability to continue to execute accretive acquisitions to unlock further shareholder value. Since our initial investment in the company, the investors have reacted favourably to the spin-off, with the stock price appreciating by more than 40%, as of May 2, 2017.



## QAD Inc.

WIC purchased QAD in the spring of 2016. At the time, we theorized that the business was a long-term value play due to its shift toward cloud computing and away from traditional hardware. Through 2016/2017, QAD continued to win new customer contracts and make significant progress in revamping its business model. As of the end of our fiscal year, QAD has produced an unrealized gain of nearly 50%.



## STAY IN TOUCH

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### 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.