Blue Hen Investment Club

2014 ANNUAL REPORT

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Recruitment

This year, the Blue Hen Investment Club saw a record amount of interest from the student body. In order to manage this high level of interest, several aspects of the recruitment process were optimized.

Our recruitment strategy is to maximize both the quality and quantity of new analysts. This process starts with FINC167, a 1-credit project based class taught by the Executive Board and Professor Jakotowicz. The class teaches students interested in the Blue Hen Investment Club the basics of our research process, and how to apply learned content towards a pitch completed throughout the class.

Several additions to the curriculum were made this year in order to provide a better learning experience. The class now includes an online accounting boot camp through WallStreetPrep software to bring students less versed in accounting concepts up to speed. We have added more interactive sessions such as a financial statement analysis case study and the opportunity for students to present their projects to Blue Hen Investment Club leadership. The class now also includes an introduction to modeling. With these additions, we have seen new analysts join the investment club with a much stronger knowledge base, and the ability to more quickly add impact in their sector.

At the beginning of each semester, an interest meeting is held to tell the student body about the Blue Hen Investment Club and open up applications. While we prefer applicants who are graduates of FINC167, any student may apply. The application consists of a resume, cover letter, and short essay. The Executive Board and Sector Heads will review the applications and send out interview invites.

Interviews for analyst positions are more rigorous now as well. Much of the interview is case based, where we will ask the interviewee to think through industry, qualitative, and quantitative analysis problems. The case interview also allows us to see how well an applicant can present his or her ideas. The interview also includes a detailed discussion of two of the applicant’s previous experiences that demonstrate work ethic and quick learning.

Once interviews are completed, offers to join the Blue Hen Investment Club are made. We view this year’s analysts as the best the club has ever had. We are continually impressed with their performance.

Financial Modeling

We made it a goal this year for each member to be proficient in financial modeling, including freshman. To achieve this goal, we held several workshops each semester to teach intrinsic valuation concepts and the process for building models from financial statements. We also have these sessions recorded so anyone can review them online.

As a result, analysts are able to use their models to better evaluate whether or not a security is overvalued, as well as set target prices for holdings. Furthermore, these modeling skills have inspired analysts to reach further and add unique model drivers on a situational basis as well as create sector-specific models.
**Performance Evaluations**

This year was the first in which we also implemented performance evaluations for members. Near the end of each semester, Sector Heads will submit evaluations for their analysts discussing a number of factors including motivation, quality of research, and ability to overcome learning curves. These evaluations are then communicated directly to the analysts by the Sector Head. This process has helped analysts see areas in which they are performing well and areas that they can improve in the future. These evaluations also allow the Executive Board to see how analysts are performing and identify Sector Head candidates for the following year.

Each analyst also submits an evaluation for their sector head, discussing their ability to teach investment concepts and efficiently manage the sector. The evaluations are then compiled by the Executive Board and communicated to the Sector Head. The evaluations help us make sure each analyst is receiving the development opportunities they need. They also help the sector see what aspects they are doing well in, and additional ways they can inspire his or her analysts.

**Equity Research**

Historically, the Blue Hen Investment Club has struggled with the transitory period between academic years. Each year, the organization loses a majority of senior leaders to graduation and with them, lose investment ideas and themes. This resulted in the Club taking a more reactionary approach to holdings and would only evaluate them if there were an issue as opposed to a proactive management.

To combat this, a large initiative we implemented this year was equity research reports (ERR) for analysts. These reports are comprehensive sell side initiation reports that are created by each analyst. These reports are conducted on existing holdings as well as target holdings to determine investment rationale and price targets. These reports contain rigorous qualitative, quantitative and industry research on their subject companies. This analysis is translated into a valuation model and helps complement the assumptions and value drivers for the model.

Additionally, analysts have not been fully credited for the amount of analysis conducted on investment ideas. If a pitch is formalized, then the analysis is documented in a presentation and archived on the intranet. However, through the vetting process, more than 80% of investment ideas (including quality analysis) are thrown out due to unfavorable valuation metrics. In order to preserve analysis, the Executive Board has established the equity research report. Now, analysts are encouraged to document all of their research despite an unfavorable valuation as sectors can look back at ERR’s.

Initially the reports were created by sector analysts to determine the quality of our current holdings and make changes as necessary. This also helped us determine which holdings to liquidate, consistent with our goal of reducing the number of holdings and increasing concentration. Upon completion, sector analysts completed research reports on an ongoing basis within their coverage areas to identify new investment ideas.

The Fund makes extensive use of FactSet and all members have an individual access license for their personal devices. Thus, equity research reports are stored using FactSet’s new Internal Research Note platform, and we are proud to say that we are the first university investment fund to utilize the platform. Furthermore, analysts can post earnings previews, earnings updates, news reflections, and weekly industry news. This information is logged over time, leading to more transparency during analyst reviews. In addition, analysts can post price targets, allowing members to see the best and worst performing analysts in terms of stock picks. This data transparency opens up new possibilities for member development and coaching opportunities. This online platform stores, files and classifies a vast amount of information on both current and potential holdings. Since the platform is available to all fund members, it increases quality of research and allows analysts to showcase their work.
Market Differentiation

This year, the Blue Hen Investment Club made an active effort to further differentiate itself from the S&P 500 index in order to facilitate the generation of positive alpha. This process began with a consolidation of holdings. This year, the fund reduced the number of holdings from 45 to 37 by increasing concentration in companies with bullish outlooks. In addition, we more aggressively pursued active weighting at the sector, subsector, and individual security level.

Furthermore, the BHIC has also become more receptive of investment ideas outside the S&P 500 index members that the fund has traditionally focused on. The fund is now more welcome to purchasing companies of smaller market capitalization as long as they are still consistent with our investment philosophy.
Value vs. Growth Trend

Over the past two calendar years the club has worked to move the fund back to a value position to reflect the core strategy of identifying undervalued securities. The holdings over fall semester 2014 in particular moved the fund back in line with the Russell 1000 Value Index. This movement was strongly influenced by the Executive Board’s push to decrease the amount of positions the club held from 46 to 37, which enhanced the quality of analyst coverage within the club.

Monthly Returns vs. S&P 500

The student-managed fund performed particularly well over the summer months versus the S&P 500 benchmark, capturing a 7.1% return when the market returned 4.7% from June through August. Overall, the fund outperformed the market in 6 out of 12 months in 2014 with a total annualized return of 13.37% versus the benchmark’s return of 13.69%. The annualized standard deviation of the fund was slightly higher than the benchmark, as the fund decreased the amount of holdings and increased the active weights in certain sectors and individual positions deemed undervalued.
The additional standard deviation led to a Sharpe ratio below the S&P 500 and a slightly negative alpha at -0.05 as the fund made the move to increase active weights in certain positions. However, both of these measurements of portfolio performance placed the Blue Hen Investment Club just below the 75th percentile against competitor funds. The Executive Board feels that this move toward larger active allocations to certain sectors that are well positioned in the macroeconomic environment reflects a positive change in the club. In the long run this strategy should lead to a better learning environment through higher quality analyst coverage. It should also lead to higher returns and favorable portfolio metrics, such as positive alpha, as the fund begins to diverge from the benchmark in certain well-positioned sectors.

For calendar year 2014, the fund chose Financials, Consumer Discretionary, and Health Care to hold the highest active weights relative to the S&P 500. The active weight in Financials and Consumer Discretionary matched the fund’s perspective that the economy was continuing in an expansionary phase after a low point. The looming effects of higher interest rates caused the fund to underweight Industrials and Energy & Utilities.
Sector Performance vs. S&P 500

Top performing sectors versus the market were Health Care, Information Technology, Industrials & Materials, and Financials. Health Care and Information Technology have been top performing sectors for two years in a row. Consumer Staples did not perform well over calendar year 2014, losing 0.32% while the market gained 15.98%. When analyzing the Consumer Staples issue closer, the Executive Board took note that the current Consumer Staples team had done well, matching the market over Fall Semester from September through December. However, the past team on Consumer Staples did not perform well, diverging from the market during March through July. The Executive Board believes new recruitment strategies and learning opportunities, which have been implemented since the beginning of the Fall Semester should decrease the risk of a severely lagging sector in future years.
Investment Highlights

Symantec Corporation (SYMC)

Currently, our largest holding is Symantec Corporation (SYMC), making up 5.48% of our portfolio. Symantec is a technology firm engaged in corporate cyber-security and storage solutions. The club acquired Symantec in May of 2014, during which the company traded at $20.79. The rationale behind the purchase of this security included our bullish outlook on corporate security spending, following a number of breaches of companies such as Target. Furthermore, the organization is refocusing from consumer to corporate market even more, making it more desirable given the fact that there is an increase need in response to cybersecurity threats. To capture this potential, we increased our position in Symantec in October of 2014 by 3% when the stock declined to $22.00 following a 15% upside from the purchase date. However, we believe that this was a great opportunity to increase our position given our outlook and our belief that the fundamentals haven’t changed. One year later, Symantec has delivered superior gains, currently trading at $24.84.

Computer Task Group (CTG)

A unique initiative this year was the diversification of the BHIC portfolio among companies with a smaller market capitalization. One of these companies is Computer Task Group (CTG). CTG is a small cap technology firm that conducts business in the field of system implementations and staffing solutions, primarily in the medical field. We acquired CTG at $11.22 in September of 2014 based on its unique positioning of the firm within the electronic medical records industry, a market on which we are very bullish. The company has proved to generate strong free cash flows, which have showed undervaluation in our analysis. While recent headwinds such as the slowdown of government regulation in medical records, as well as the death of the CEO have shown concern, we believe that the company is poised to grow long term.
Premiere Global Services (PGI)

Another unique holding that we acquired this year was Premiere Global Services (PGI). PGI is a small cap telecommunications company that provides conferencing/collaboration services, mostly to corporate clients. Our investment rationale for PGI is based on our bullish expectations of the growth in conversion rate to Cloud/SaaS services for teleconferencing technologies and optimism in the positioning of PGI in that specific market. Premiere Global Services has a strategic goal of being the one-stop-shop for online collaboration & communication.

![PGI Stock Chart]

SunEdison (SUNE)

In terms of our shortest holding, we held SunEdison (SUNE) for a total of one week (7 days). SunEdison is an Energy company that produces semiconductors and solar technology. Our valuations have shown great potential for SunEdison, based on its reputation in creating the most efficient solar panels in the industry, as well as strong growth in solar energy project demand. SunEdison has also increased its presence in emerging markets through projects such as yieldco. Despite the club's positive long term outlook on SUNE, we only held the position for one week due to its explosive appreciation in price. Although we believe that the company is fundamentally sound, it reached the higher range of our target price and thus we felt as though it was an excellent exit point to capitalize on the gains.

![SUNE Stock Chart]
Kroger Co. (KR)

A big focus for the Consumer Staples team this year was restructuring and recovering the sector, and one of the investments responsible for the recovery this year was Kroger Co (KR). Kroger is an operator of supermarkets and convenience stores across all the regions in the US except the Northeast. The fund liked this investment due to its strong corporate strategy and undervaluation. The company focuses on US ex-Northeast for competitive reasons, allowing them to maintain higher margins. The company also has several promising investments in advanced technology in areas such as checkout and customer data. Our investment saw a steady appreciation of 28% across 4 months, after which the sector thought it was appropriate to exit the investment.
Future Initiatives

Options Trading

To further the educational experience for members, the fund plans on implementing and options trading strategy to complement our holdings. We will have a dedicated team of derivatives analysts to implement options for derivative hedging to protect against downside movement of individual securities and the broad market. Currently, the strategies will be strictly limited to covered calls and protective puts.

Industry Reports

In some sectors such as energy and healthcare, the learning curve for analysts is steep. Some sectors have decided to implement industry research reports to alleviate this. These reports allow for future analysts to learn industry specifics quickly. Additionally, these reports will give all voting members a sector foundation on industry specifics that will boost the knowledge of the fund during voting.