



Williams Investment Society 2016 Annual Report



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Directors' Update

The three of us are sad that our time with the Williams Investment Society has come to an end. Working as directors of this organization has been a rewarding experience, and we hope that we have left the Society in a better place than it was a year ago when we took over.

In our time as directors, we worked to improve the educational experience of the Society for its members. Although we strive to achieve superior returns on our investments, our primary focus remains helping our members develop a strong, co-curricular knowledge of the financial world. We implemented a number of policies that we believe contributed towards this goal, including a stricter attendance policy, encouraging fuller analysis of pitches, and emphasizing the student-run nature of the Society. The three of us learned a great deal in the last year, and we are confident that the rest of the Society did, as well.

When we first began as directors, we realized that the Society did not accurately reflect the composition of the student body. However, we are proud to say that we now have more female members than ever – 25% of the new members admitted this fall were female – as well as an increased diversity of Greek, and non-Greek, organizations represented in the Society.

Despite what we believe to be overall improvements to the Society, our performance lagged behind the S&P 500 during 2016. Our portfolio returned 4.99%. This was partially due to a large cash balance that we inherited, but which we also decreased by over \$1 million during the year. Additionally, we were underweight in some of the sectors that enjoyed large rallies, such as financial services (mainly investment banks), biotech, construction, and manufacturing. This year, the markets were plagued with uncertainty, and our portfolio was not immune to volatility. Our large cash balance shielded us throughout the first half of the year, but caused us to lag during the rally in the second half. However, we are still skeptical of market valuations given the high levels of geopolitical and economic uncertainty throughout the world. We maintain confidence in the Society's current holdings and believe that we are well-positioned for a potential market correction.

We are thankful to the Board of Trustees, the Washington and Lee Faculty and Administration, and our peers in the Society for the opportunity to serve as directors. The Williams Investment Society has played a large role in all of our college experiences, and we hope that the current and future members will leave feeling the same way.

Sincerely,

Noah, Finn, and Cody



Updates to the Society

Alumni Advisors

One of the major changes that the Society saw in 2016 was a transition from a faculty-advised organization to becoming completely student run. While we were sad to see our faculty advisor of many years, Professor Schwartz, leave, we were excited of the possibilities of our new alumni advisor system. Along with the help of Dean Straughan and Dean Jensen, we found 22 alumni who each volunteered their time to help one of our ten industry groups. From the outset, we hoped that the alumni advisors would serve three key roles. First, we hoped that they would provide each group with advice, insights, and support throughout each semester's buy/sell presentation and research process. Next, we hoped that the advisors would incentivize each group to get their research, packets, and presentations done in a timely manner. Finally, we hoped that the addition of alumni advisors would allow members of the Society to expand their W&L networks, benefiting them throughout the rest of their college and professional careers.

Small Cap Group

At the beginning of the year, we discussed the addition of a Small Cap group to the nine existing industry groups. We were excited about the possibilities that a Small Cap group would bring, since the Society has historically focused on large, mega-cap companies. Since its inception, the group has added Houlihan Lokey (HLI), HealthEquity (HQY), Virtu Financial (VIRT), and QTS Realty (QTS) to their portfolio. One of the most beneficial aspects of the Small Cap group is their unique ability to screen a variety of industries. The group put in a tremendous amount of effort to get off the ground, and we are very proud of their work thus far.

Portfolio Reduction and Cash Distribution

When we began our time as directors, we wanted to address two main concerns with the portfolio. First, we were concerned that the high number of holdings in our portfolio too closely resembled an index fund. Second, our cash balance was over \$2 million – a strategy employed by past directors due to overvaluation concerns. To combat the first issue, we started off 2016 with a “sell day.” During this event, a number of groups who held six stocks presented their weakest holdings to the Society. To address cash distribution, we systemically added cash to underweight holdings. At the end of the calendar year, we had just over \$1 million in cash, representing 9.8% of our portfolio.



S&P Capital IQ Transition

This year we made the transition from Reuters to S&P Capital IQ for our data and research needs. We would like to thank Frank Sands, Jr. ('89) and Sands Capital for their ongoing support of the Society. The platform has been a great resource for our members.

Guest Speakers

Throughout the year, we heard from a variety of speakers who introduced new WIS members to fundamental concepts of accounting and finance, as well as others who led in-depth conversations about current events in the financial markets:

- Professor Schwartz from the Business Department taught a class on valuation. He introduced the new members to concepts such as time value of money and free cash flow. Additionally, he spoke about the advantages and disadvantages of various valuation methods.
- Professor Fafatas from the Accounting Department led the new members in a financial accounting crash-course. He emphasized the differences between accounting income and cash flows, a concept which members should be familiar with while valuing companies.
- Professor Kester from the Business Department joined us twice during Winter Term to give lectures on portfolio management, as well as the DuPont Method and its relevance to evaluating operating performance.
- Professor Hooks from the Economics Department presented a review of the Federal Reserve system and monetary policy for the Society. Afterwards, she took time for a question and answer session in which she talked about the current state of the US economy.
- We had the privilege of hearing from T. Blair ('99), Managing Director of Commodities Sales from Bank of America Merrill Lynch. He spoke to us about the state of the oil and natural gas markets worldwide, as well as the global political and economic outlook surrounding these markets. His insights were extremely valuable in a year where commodity prices were closely tied to overall market volatility.



Presentation Summaries

Winter Term

Basics – 3/2

The Basics group pitched a double buy of Sonoco Products Company (SON) and Celanese Corporation (CE) after giving Platform Specialty Products (PAH) to the Small Cap group. Basics pitched Sonoco due to its stability, innovation in a niche industry, and a commitment to returning shareholder value. The group pitched Celanese because they wanted more exposure to the specialty chemicals space. The Society chose to buy Sonoco rather than Celanese because most members felt more comfortable with its relative industry position. The vote was 11 to 0 for Sonoco.

U&T – 3/9

U&T presented a sell of Duke Energy (DUK) and a buy of NextEra Energy (NEE), but recommended a hold over a buy/sell. The group was concerned with EPA regulations burdening Duke and with costs related to reducing emissions. Although NextEra was subject to similar sectors risks, its larger relative presence in the renewables sector acted as a counterweight to these concerns. The Society voted 11 to 0 to hold Duke Energy.

Small Cap – 3/11

In the Small Cap group's first presentation, they presented a double buy of Houlihan Lokey (HLI) and DreamWorks Animation (DWA). Houlihan Lokey provided an opportunity to explore the Small Cap group's bearish outlook on the market since its large restructuring practice allows the company to thrive in economic downturns. The group selected DreamWorks for its superior animation franchises and its ability to benefit from changing media consumption patterns. The Society voted to buy HLI 11 to 0, but did not buy DWA (9 to 2) due to concerns about its valuation.

Tech – 3/18

The Technology group presented a sell of Priceline Group (PCLN) and a buy of Alibaba Group (BABA). The group was concerned with competition in the online travel space. They feared that Priceline had not maintained its competitive advantage, which was the cornerstone of the group's original buy thesis. The group pitched Alibaba as a way to gain more exposure to China and its growing internet and consumer economy. The Society voted 11 to 0 to sell Priceline, but voted against Alibaba due to transparency concerns and worries about sustainability of the company's growth.



Financials – 3/21

The Financials group pitched a sell of Equifax (EFX) and a buy of the Blackstone Group (BX). The group chose to sell Equifax because they did not see a sustainable path to growth in its existing markets. The group was attracted to Blackstone due to its dominant position in the real estate and private equity markets. With unmatched fundraising abilities, Blackstone served as a great platform for the Society to gain exposure to the alternative asset management space. The Society decided to sell Equifax and buy Blackstone in an 8 to 3 vote.

Consumer Staples – 3/23

The Staples group pitched a sell of CVS (CVS) and a buy of Constellation Brands (STZ). The group believed that CVS' retail business had no competitive advantage over similar companies. Additionally, increasing drug prices were hurting the company's margins in the pharmacy segment. The group pitched a buy of Constellation Brands based on the company's diverse product mix, growing market share in the beer industry, and strong management team. Due to the group's existing position in Anheuser-Busch, which might have created too much overlap with Constellation, the Society voted 10 to 1 to hold.

Healthcare – 3/28

Healthcare pitched a sell of Gilead Sciences (GLD) and a buy of Thermo Fisher Scientific (TMO). The Healthcare group initially purchased Gilead because they wanted to give their portfolio exposure to the rapidly expanding biotech sector. The group was concerned with Gilead's lackluster pipeline and pricing pressures that threatened to hurt top line growth. The Healthcare group believed that Thermo Fisher was a strong buy for two reasons: its wide array of product offerings and its commitment to growing its presence in emerging markets. The Society voted 11 to 0 to buy/sell.

Consumer Discretionary – 3/30

Consumer Discretionary proposed a sell of Polaris Industries (PII) and a buy of Whole Foods Markets (WFM). The group did not believe that Polaris would be able to weather unfavorable conditions in the off-road vehicle industry. The group pitched Whole Foods on the idea that it would be able to effectively target and appeal to millennial customers with its lower-cost Whole Foods 365 stores. The Society voted 7 to 4 to hold Polaris.

Energy – 4/1

Energy presented a sell of Devon Energy (DVN) and a Buy of Vestas Wind Systems (VWSYF). The group was concerned about Devon's asset concentration in the Canadian Oil Sands and higher-cost natural gas producing fields. They also doubted the company's ability to successfully complete significant asset sales in the midst of a market downturn. The group pitched Vestas as the market leader in the wind energy space, especially for its rapidly expanding service segment and push into the US market. The Society voted 11 to 0 to buy Vestas and sell Devon.



Industrials – 4/4

The Industrials group pitched a sell of Chicago Bridge & Iron (CBI) and a buy of Roper Technologies (ROP). CBI's dependence on capital expenditures from failing energy companies along with a less-than-comfortable debt position led the group to believe that it was a good time to offload this holding. The Industrials group was attracted to Roper due to its aggressive acquisition strategy, diverse revenue streams, and strong dividend history. The Society voted 9 to 2 to sell CBI, but not purchase Roper.

Fall Term

Consumer Staples – 10/19

The Staples group remained firm in its belief to sell CVS (CVS) in the Fall presentation cycle after their previous pitch did not go through. The group's sell rationale of CVS was based on the company's dependence on inorganic growth and declining storefront activity. The group pitched a buy of Newell Brands (NWL). The group believed Newell was a strong buy due to the company's diverse product offerings, strong brand recognition, and continued innovation. In addition, the group believed that the merger between Newell and Jarden would further benefit the company. The Society voted 7 to 4 to buy/sell.

Consumer Discretionary – 10/26

Consumer Discretionary presented a sell of Williams-Sonoma (WSM) and a buy of Zoe's Kitchen (ZOES). The group was wary of a less-than-positive outlook on the retail sector as a whole, and believed that the core Pottery Barn and Williams-Sonoma brands were stagnating. They pitched Zoe's as a fast-growing company with a favorable position in the popular fast casual sector. Citing concerns that Zoe's growth may become unsustainable, the Society voted 10 to 1 to hold.

Industrials – 10/28

The Industrials group pitched a sell of General Electric (GE) and a buy of Belden Incorporated (BDC). One of the main reasons for the group's proposed sell of GE was the size and complexity of the company, which made it difficult for the group to accurately value. In addition, the group believed that it overlapped too much with some of the Society's other holdings, including United Technologies and Vestas Wind Systems (in the Energy portfolio). The Industrials group liked Belden's exposure to the growing cybersecurity sector and scalable potential worldwide. The Society voted 9 to 2 to hold.



Small Cap – 11/2

The Small Cap Group presented a double buy of Virtu Financial (VIRT) and QTS Realty Trust (QTS). Virtu Financial engages in high frequency trading and market making activities. Given the group's overall bearish outlook, this was seen as an opportunity to capture returns on future market volatility. The group pitched QTS, a data center REIT, because of its ability to benefit from the rise of cloud computer. The Society decided to buy both, at 10 to 1 for QTS and 7 to 4 for Virtu. Additionally, the group decided to sell Platform Specialty Products (PAH), a legacy holding from the Basic Materials group. The Society voted 11 to 0 to sell Platform.

U&T – 11/7

U&T presented a sell of Verizon (VZ) and a buy of Comcast (CMCSA). The group argued that Verizon would face pressure from increased competition among the Big Four wireless carriers in the US. Additionally, the group questioned how recent acquisitions of AOL and Yahoo would relate to Verizon's core business. U&T promoted Comcast's ability to gain market share across segments while competitors lagged. The Society voted 9 to 2 to buy Comcast and sell Verizon.

Tech – 11/9

Tech presented a sell of Oracle (ORCL) and a buy of Adobe Systems (ADBE). The Tech group believed that Oracle could not effectively catch up in the highly competitive cloud computing space. With that same mindset, the group researched Adobe, which they viewed as a pioneer in a niche area of cloud computing. The Society voted 9 to 2 to sell Oracle and buy Adobe.

Financials – 11/11

The Financials group pitched a sell of CBRE (CBG) and a buy of T. Rowe Price (TROW). They felt more comfortable with their real estate exposure through Blackstone and did not think that CBRE had the growth opportunities to justify its valuation. The group decided to take a contrarian position on the movement towards passive investing by pitching T. Rowe Price. The Society voted 7 to 4 to sell CBRE and buy T. Rowe Price.

Basics – 11/30

The Basic Materials group presented a sell of CF Industries (CF) and a double buy of Randgold Resources (GOLD) and Martin Marietta Materials (MLM). The group presented in this format to maintain four positions after the expected acquisition of Monsanto (MON) by Bayer. The group decided to sell CF Industries due to a bearish outlook on the fertilizer space and the company's high leverage. The group decided to present Randgold Resources to gain more precious metal exposure for the Society and to take advantage of increased uncertainty in the markets. Martin Marietta, a materials company which receives a large amount of its revenue through infrastructure projects, appealed to the group because of the expected boost in infrastructure spending under a Trump Administration. The Society voted to sell CF (11 to 0) and buy both Randgold (8 to 3) and Martin Marietta (7 to 4).



Energy – 12/2

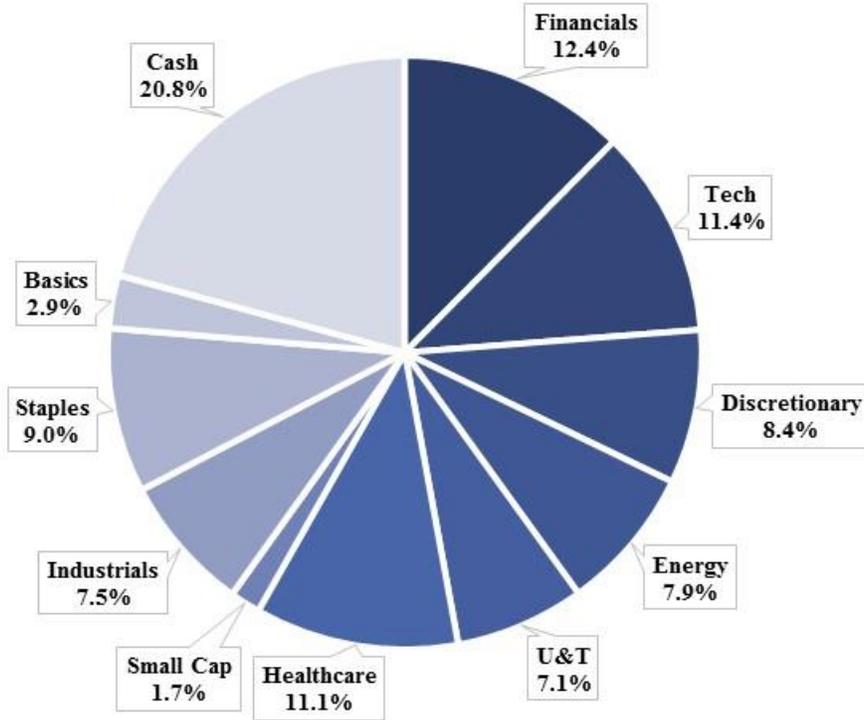
Energy presented a sell of ConocoPhillips (COP) and a buy of Cameco (CCJ), but recommended a hold over a buy/sell. The Energy group felt that ConocoPhillips had laid out a convincing plan to maintain its dividend and production, and was confident in management's ability to maintain cash flow generation given its expansive asset base. However, consistent with a long-term view that renewables would continue to gain market share as technology lowers cost, the group presented Cameco as what they believed was the best option for the Society to invest in nuclear or solar, since the portfolio already had wind exposure through Vestas and GE. The Society voted 11 to 0 to hold ConocoPhillips.

Healthcare – 12/5

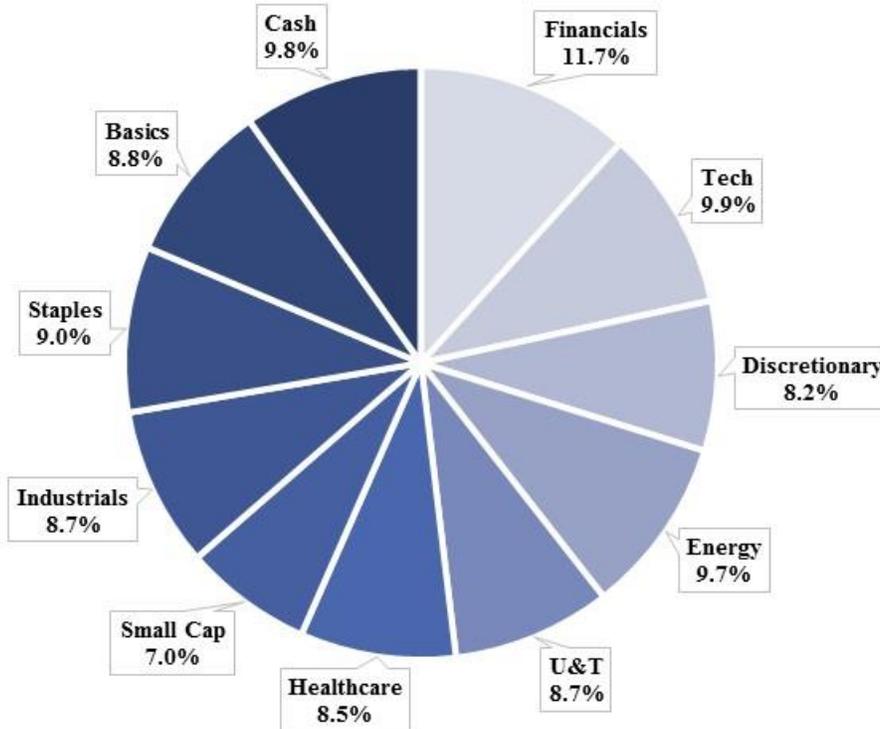
Healthcare pitched a sell of The Ensign Group (ENSG) and a buy of Laboratory Corporation of America Holdings (LH). They thought it was a good time to offload this position due to impending healthcare reforms, the company's reliance on Medicare and Medicaid reimbursements, and quality concerns over the company's facilities. The group was drawn to LabCorp because of its large national infrastructure, reimbursement efficiency, and Beacon software, which makes it easier for physicians to get and share test results with patients. The Society voted 11 to 0 to buy/sell.



12/31/15 Portfolio Distribution

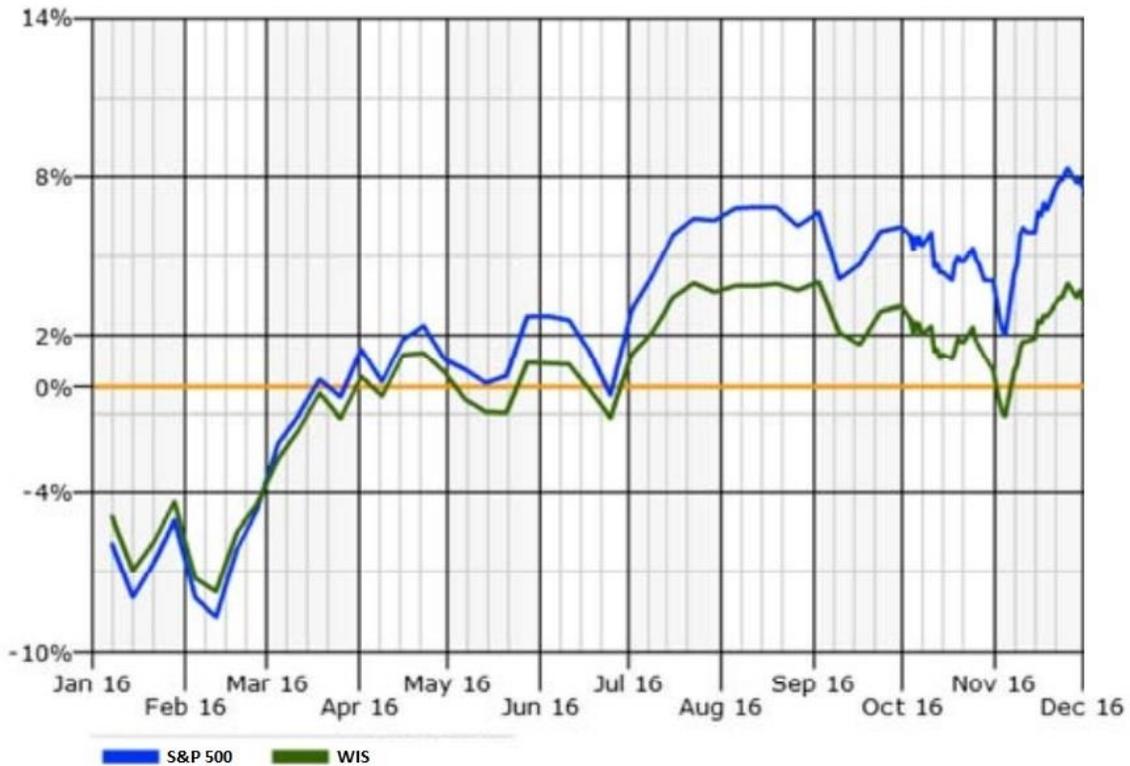


12/31/16 Portfolio Distribution





Performance



Current Holdings – 12/31/16

Basic Materials	Consumer Discretionary	Consumer Staples
Randgold Resources (GOLD)	Starbucks (SBUX)	Anheuser Busch InBev (BUD)
Colfax (CFX)	Walt Disney (DIS)	Church & Dwight (CHD)
Martin Marietta Materials (MLM)	Polaris Industries (PII)	Kroger (KR)
Monsanto (MON)	Williams-Sonoma (WSM)	Newell Brands (NWL)
Sonoco Products (SON)		WhiteWave Foods (WWAV)

Energy	Financials	Healthcare	Industrials
ConocoPhillips (COP)	Blackstone Group (BX)	Laboratory Holdings Corp. (LH)	General Electric (GE)
Exxon Mobil (XOM)	T. Rowe Price Group (TROW)	Pfizer (PFE)	Snap-On (SNA)
Kinder Morgan (KMI)	Travelers Companies (TRV)	Thermo Fisher Scientific (TMO)	United Technologies (UTX)
Schlumberger (SLB)	Visa (V)	Zimmer Biomet Holdings (ZBH)	Waste Management (WM)
Vestas Wind Systems (VWSYF)	Wells Fargo & Co (WFC)		

Small Cap	Technology	Utilities & Telecom
HealthEquity (HQY)	Alphabet (GOOG & GOOGL)	American Tower (AMT)
Houlihan Lokey (HLI)	Ansys (ANSS)	Comcast (CMCSA)
QTS Realty Trust (QTS)	Microsoft (MSFT)	Duke Energy (DUK)
Virtu Financial (VIRT)	Adobe Systems (ADBE)	Cisco Systems (CSCO)



Member List (Bold Denotes Group Head)

Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials
Burke Ugarte Spencer Borwick Alden Schade Will Edmonds	Olivia Brown Cassie McHenry Matt Underhill Michael Rallo Zack Spear	Kaitlin Krouskos Kyle Gifford Ben Rietano Parker Burrus	Stephen Mitchell Cody Solomon Nick George Sloan Ellis Joe Baggett	Jimmy Kleitches Mike Rogers David Hogan Max Garrett Tanpreet Hunjan
Healthcare	Industrials	Small Cap	Technology	Utilities & Telecom
Greg Rogowski Cole Steigerwald Liam Reuter Madeline Hill	Hunter Behne Jordan Krasner Mary Page Welch Andrew Gavlin	Charlie Cory Finn Barrett Francisco Alimonda Andrew Barth	Alice Cannon Polina Kyriushko David Hochstadt Peter Feldstein Ezequiel Piantoni	Tommy Concklin RJ Perciavalle Ethan Markman Jennings Huntley

The Places We Go...

