

# BLUE HEN INVESTMENT CLUB

## JANUARY — MARCH 2016



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## Member Spotlight

### Hannah Crismon '18

Hannah is currently a sophomore Finance and Management Information systems double major who joined the Healthcare sector as a sophomore. Prior to attending the University of Delaware, Hannah spent time in South Korea as an English language instructor. Throughout her college career, Hannah has developed an interest in corporate litigation and research with the goal of attending law school. This summer, she will be a joining Bloomberg's Intelligence division in the Princeton, NJ office.



### Joseph Schwab '19

Joseph is currently a freshman Finance major originally from Mullica Hill, NJ. In the fall, Joe was one of three freshman selected to join the fund and currently serves as an analyst in the Industrials & Materials sector. After two semesters in the fund, he has developed an interest in the financial services industry. Outside of the investment club, Joseph enjoys reading and attending service trips and volunteered over spring break in Tennessee.



### Fan Yang 'Grad

Fan is currently a Masters in Finance student who joined the investment club's consumer staples sector as an undergraduate Accounting and Finance major. Fan currently leads the Consumer Staples sector. Originally from China, last summer, Fan worked in Beijing on a fixed income trading desk specializing in secondary market transactions. Upon graduation, Fan hopes to pursue a career within asset management or investment banking.



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## Overview

### Description & Application Procedure

The Blue Hen Investment Club is the university's \$1.7 million student-managed investment fund. The club was founded in 1996 with \$500,000 and currently holds 27 equity positions across multiple sectors. The goal is to outperform the S&P 500 on a risk-adjusted basis through a value-oriented approach by identifying undervalued securities and taking positions in them. For any enquiries, please contact [bhic-eboard@udel.edu](mailto:bhic-eboard@udel.edu).

Interested students are invited to apply at the beginning of the fall and spring semesters. Applicants are asked to submit their resumes for an initial screening and selected applicants will then go through an interview process that evaluates their analytical abilities and previous experiences. The investment club also offers FINC-120 to prospective applicants, which teaches them fundamental equity research methods and techniques and tasks them with creating their own individual company presentations throughout the course of the semester.

Executive Board	
<b>Phillip Flesch (Sr.) - President</b>	
<b>Jon Vicari (Sr.) - Vice President</b>	<b>Jim Celia (Sr.) - Education</b>
<b>Josh Carruthers (Jr.) - Strategy</b>	

Sectors			
Consumer Discretionary	Consumer Staples	Energy & Utilities	Financials
<b>Taylor Gould (Sr.) &amp; A.J Smiley (Jr.)</b>	<b>Fan Yang (Grad.)</b>	<b>Joe Sagsveen (Sr.)</b>	<b>Anthony Zdrojewski (Sr.)</b>
<b>Analysts</b> Samantha Besold (So.) Krya Clark (So.) Carter Compello (Jr.) Ryan Fante (Jr.) (Hiatus) Alec Miller (Jr.) Kristen Rossi (Jr.) Will Visser (So.)	<b>Analysts</b> Justin Ferrarie (Jr.) Matt Gordon (So.) Anthony Manno (So.) Hayley TenHoopen (So.) Gen Vicari (So.) Zachary Weisel (So.)	<b>Analysts</b> Jack Benotti (So.) Fletcher Comrie (So.) Eli Encarnacion (So.) Alex Fish (So.) Frank Haendel (Jr.) Kyle Lojek (Sr.) Conor Peaks (Sr.) Andrew Tom (So.)	<b>Analysts</b> Tim Friedman (So.) Tony Liu (Sr.) Ryan O'Donnell (Fr.) Josh Stern (Jr.) Ted Walker (Jr.)
Healthcare	Industrials & Materials	IT & Telecom	
<b>Jake Fertell (Jr.) &amp; Jake Perrone (Jr.)</b>	<b>Colin Miller (Jr.)</b>	<b>S.J. Desai (So.)</b>	
<b>Analysts</b> Hannah Crismon (So.) Frank DePinto (Sr.) Roy Geng (So.) Luke Malone (Jr.) (Hiatus) Mike Nittolo (Sr.) Matt Renzi (So.)	<b>Analysts</b> Jimmy Baxter (Sr.) Mike McCormick (Jr.) Joe Schwab (Fr.) Rory Smith (Jr.) Jeff Sowden (Sr.) Brandon Zenick (Fr.)	<b>Analysts</b> Colt Armstrong (Jr.) Jake Bertelson (So.) Ryan Bond (So.) Trey Brunson (So.) Rees Tillotson (So.) Tom Washington (Grad)	

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## 2016 Career Placement Update

### Message from the Executive Board

An important idea that we would like to address as the E-Board is our commitment to the progress of our career placement, especially in terms of quality. Over the past few years, we have helped place our members in investment banking, private equity, consulting, and valuation, and recruiting and networking remains a key theme that we would like to drive going forward. The investment club is a premiere opportunity within the university for students to establish a foundation in the financial industry, and what we have pushed that idea over the course of the fall and spring semester by introducing alumni databases, holding workshops on different careers, creating an interview/company resources guide, and inviting guest speakers to meet our members. As an internal initiative, we have also begun pairing different members together to serve as mentors for both the job search as well as school. For us, cultivating our external brand and improving our placement will be a chief priority for the club in the future.

Full Time Placement				
Position	Name	Placement	Division	Locations
President	Phillip Flesch	Hamilton Lane	Private Equity	Philadelphia, PA
Director of Education	Jim Celia	EY	Assurance	Philadelphia, PA
Consumer Discretionary	Jeremy Flamondon	Pw C	Assurance	Philadelphia, PA
Energy & Utilities	Kyle Lojek	Guggenheim	Investment Management	Santa Monica, CA
Energy & Utilities	Joe Sagsveen	EY	Assurance	New York, NY
Industrials & Materials	Jimmy Baxter	J.P Morgan Chase	Internal Audit	New York, NY
Healthcare	Frank Depinto	J.P Morgan Chase	Finance Development Program	New ark, DE
Industrials & Materials	Jeff Sow den	Hamilton Lane	Private Equity	Philadelphia, PA
Internship Placement				
Position	Name	Placement	Division	Locations
Director of Strategy	Josh Carruthers	Mizuho	Investment Banking	New York, NY
Industrials & Materials	Colin Miller	Mizuho	Investment Banking	New York, NY
Information Technology	SJ Desai	Deloitte	Consulting	Philadelphia, PA
Consumer Discretionary	Ryan Fante	KPMG	Assurance	Philadelphia, PA
Consumer Staples	Justin Ferrarie	Cow en Group	Sales & Trading	New York, NY
Energy & Utilities	Frank Haendel	Bloomberg	Global Data	Princeton, NJ
Financials	Josh Stern	EY	Assurance	New York, NY
Consumer Discretionary	A.J Smiley	Affinity Wealth Management	Wealth Management	Wilmington, DE
Financials	Theodore Walker	Bloomberg	Global Data	Princeton, NJ
Consumer Discretionary	Samantha Besold	J.P Morgan Chase	Treasury Services	New York, NY
Healthcare	Jacob Fertell	Jefferson University Hospital	Neurosurgery Research	Philadelphia, PA
Consumer Staples	Matthew Gordon	Dot Foods	Supply Chain	Hagerstow n, MD
Healthcare	Luke Malone	Pw C	Assurance	New York, NY
Healthcare	Hannah Crismon	Bloomberg	Intelligence	Princeton, NJ
Industrials & Materials	Rory Smith	Hamilton Lane	Cient Services	Philadelphia, PA

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### What's New?

#### Equity Options

The Blue Hen Investment Club branched outside of the equities world, with the first options trade ever made in the club's history successfully executed. An initiative first pioneered by Portfolio Strategist Josh Carruthers, the club hopes to carry forward the use of options in the portfolio to generate additional returns. The only strategy executed thus far is writing covered calls on our position in Symantec Corporation.

#### CME Trading Competition

Two members of the Blue Hen Investment Club participated in the Chicago Mercantile Exchange's International Case Competition. Unlike BHIC's long-term view on capital management, the CME challenge was based around actively trading index and commodity derivatives. The University of Delaware team managed to actively trade its way into the final round, finishing 20<sup>th</sup> out of over 450 teams worldwide.

#### CFA Challenge Regional Runner-Up

The Blue Hen Investment Club participated in the annual CFA Institute Research Challenge for the third consecutive year. Following up on last year's success, a team comprised of BHIC members advanced to the regional competition in Philadelphia and placed second out of fourteen teams.

### Where Are They Now?

**Nate Taylor** graduated from the University of Delaware in 2014 with a double major in Finance and Economics. Nate previously led Financials and served as President during his senior year. After graduation, Nate worked in PwC's Valuation division in Philadelphia before transitioning to an investment banking role at Houlihan Lokey. Nate currently works in their healthcare M&A coverage group out of Chicago.



**Will Cobb** graduated from the University of Delaware in 2015 with a double major in Finance and Economics. During his time in the investment club, he served as the IT & Telecom sector head. Will was also involved within student government within the business school, serving two years as President of the Lerner College Student Advisory Board. After Will's junior year, he interned within PwC's M&A Advisory practice where he is currently working full-time in New York City.



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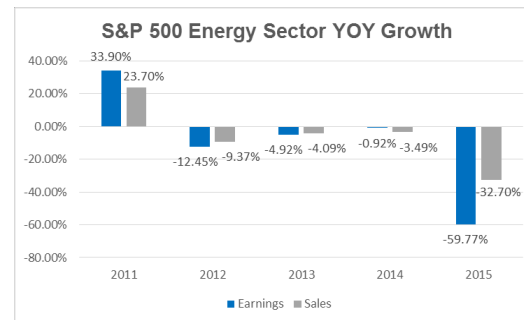
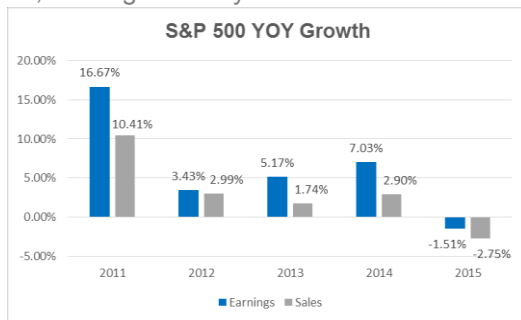


## Strategist Commentary

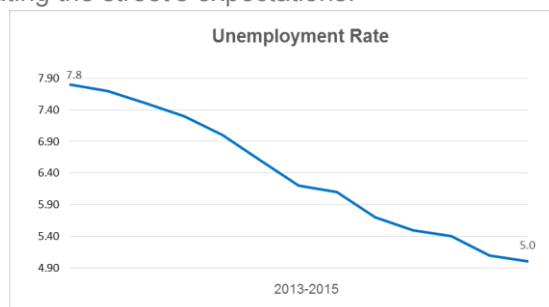
### Market and Economic Analysis

**Resurgence in Financial Markets:** Q1 of 2016 marked another tumultuous period for markets, as continued macroeconomic uncertainties have made it difficult for investors to ascertain a clear picture for global assets. The S&P 500 got off to its worst start in January since 2009, falling over 5% before rebounding sharply to end the quarter up 1.5%. Much of the recent appreciation in equities has been attributed to a climb in oil, which has now risen over 45% since its February 11<sup>th</sup> low to end the quarter up 3.5%. The continued lack for risk assets and dovish comments from chairwomen Janet Yellen have weakened yields, with the 10 year down from about 2.3 to 1.77% on the quarter.

**Waning Corporate Profits:** Following a miserable Q4 2015 earnings season which saw a 15% decline in corporate profits from Q4 2014, investors have shifted a much greater focus to the health of U.S corporations. A large percentage of the reduced corporate profits can be pinpointed on massive losses stemming from companies in the energy and industrial space combined with a much stronger dollar. Looking at earnings from S&P 500 companies outside of the energy sphere, earnings actually increased around 5%.



**An Improving U.S Jobs Picture:** Q1 2016 marked a period of surprisingly robust job growth, indicating economic resilience despite anemic global growth and turbulence in capital markets. In March and February alone, the U.S added almost 500,000 jobs, far beating the street's expectations.



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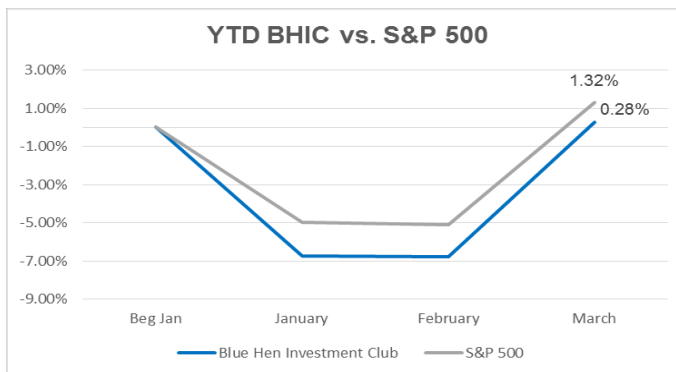
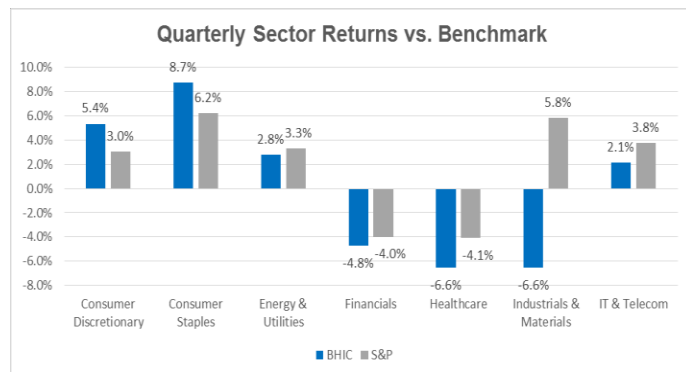
## JANUARY — MARCH 2016



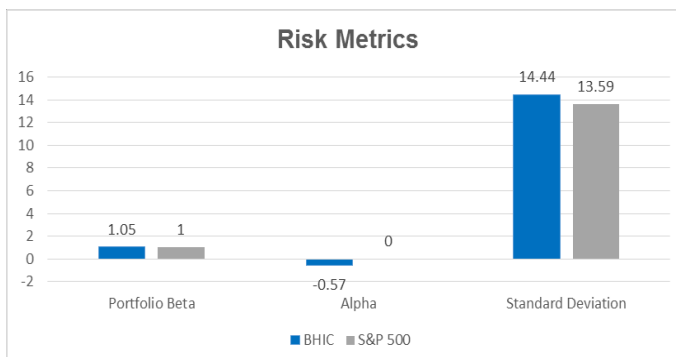
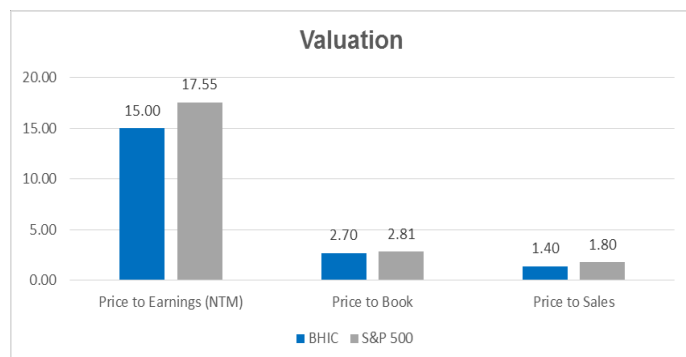
## Strategist Commentary

### Portfolio Analysis

The portfolio lost a total of .28% in Q1 2016, underperforming the S&P 500 by approximately 1.0%. After lagging the benchmark by about 2% in January, BHIC outperformed the S&P 500 in February in March by 10 and 20 basis points respectively. Excess losses for the year are primarily attributable to underperforming securities within Financials, Health Care, and Industrials & Materials. The five worst-performing holdings include Bank of America, Pfizer, Gilead Sciences, United Rentals, and Computer Task Group, which have together wiped off 2.97% of the portfolio's value on the year. Despite heavy losses from these names, the portfolio has seen impressive price appreciation from stocks within the Consumer Staples, Consumer Discretionary, and Information Technology sectors.



As of March 31<sup>st</sup>, the portfolio's trailing 12 month alpha stands at -0.57. The portfolio's returns are more volatile, with a standard deviation of 14.44 versus the benchmark's standard deviation of 13.59. As a value fund, the BHIC looks more attractive on a P/E, P/B and P/S basis than the S&P.



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## Portfolio Analysis

### Overview

2016 Beginning Value	\$ 1,647,868.00
Qr. Beginning Value	\$ 1,647,868.00
Qr. Closing Value	\$ 1,641,947.00
Cash Balance	\$ 21,919.41

### Performance

	Quarterly	YTD
BHIC	-0.28%	-0.28%
S&P 500 Index	1.32%	1.32%
BHIC vs. S&P 500	-1.60%	-1.60%

### Key Statistics

	BHIC	S&P 500
Portfolio Beta	1.05	1.00
Alpha	-0.57	0.00
Standard Deviation	14.44	13.59
Weighted Average Market Value (B)	\$ 105,826.00	\$ 136,412.70
P/E NTM	15.00	16.80
P/B	2.70	2.50
P/S	1.40	1.70
ROE	19.52%	12.04%
Profit Margin	16.51%	13.80%
Annualized Dividend Yield	2.50%	2.16%

### Sector Analysis

	BHIC	S&P	Relative
Consumer Discretionary	5.35%	3.04%	2.31%
Consumer Staples	8.74%	6.23%	2.51%
Energy & Utilities	2.79%	3.28%	-0.49%
Financials	-4.75%	-3.99%	-0.76%
Healthcare	-6.55%	-4.09%	-2.46%
Industrials & Materials	-6.55%	5.84%	-12.39%
IT & Telecom	2.13%	3.78%	-1.65%

### Current Holdings

Current Holdings	Ticker	Purchase Price 01/01/16 or	Purchase Price 03/31/16 or	Sell Price	Quarterly Return
Dick's Sporting Goods	DKS	\$ 48.80	\$ 35.35	\$ 46.75	32.2%
Starbucks	SBUX	\$ 25.85	\$ 60.03	\$ 59.40	-1.0%
Genetex	GNTX	\$ 14.28	\$ 14.28	\$ 15.69	9.9%
Walt Disney	DIS	\$ 50.27	\$ 105.08	\$ 99.31	-5.5%
Coca-Cola	KO	\$ 40.28	\$ 42.96	\$ 46.39	8.0%
Wal-Mart	WMT	\$ 57.61	\$ 61.30	\$ 68.49	11.7%
Duke Energy	DUK	\$ 78.85	\$ 71.39	\$ 80.68	13.0%
HollyFrontier	HFC	\$ 46.59	\$ 39.89	\$ 35.32	-11.5%
Exxon Mobil	XOM	\$ 84.46	\$ 84.46	\$ 82.96	-1.8%
Phillips 66	PSX	\$ 83.52	\$ 81.80	\$ 86.59	5.9%
Bank of America	BAC	\$ 16.57	\$ 16.83	\$ 13.52	-19.7%
Berkshire Hathaway Class B	BRKB	\$ 90.38	\$ 132.04	\$ 141.88	7.5%
BlackRock	BLK	\$ 168.71	\$ 340.52	\$ 340.57	0.0%
Blackstone	BX	\$ 26.87	\$ 29.24	\$ 28.05	-4.1%
Evercore Partners	EVR	\$ 51.53	\$ 54.07	\$ 51.75	-4.3%
Ishares U.S. Real Estate ETF IYR	IYR	\$ 76.69	\$ 75.08	\$ 77.86	3.7%
Toronto-Dominion Bank	TD	\$ 32.25	\$ 39.17	\$ 43.13	10.1%
Amgen	AMGN	\$ 168.26	\$ 162.33	\$ 149.93	-7.6%
Gilead Sciences	GLD	\$ 67.05	\$ 101.46	\$ 91.86	-9.5%
ICON Plc	ICLR	\$ 68.10	\$ 77.70	\$ 75.10	-3.3%
Myriad Genetics	MYGN	\$ 39.18	\$ 43.16	\$ 37.43	-13.3%
Medtronic	MDT	\$ 75.12	\$ 76.92	\$ 75.00	-2.5%
Pfizer	PFE	\$ 28.94	\$ 32.28	\$ 29.64	-8.2%
Ametek	AME	\$ 51.99	\$ 53.59	\$ 49.98	-6.7%
Union Pacific	UNP	\$ 97.38	\$ 78.20	\$ 79.55	1.7%
United Postal Service	UPS	\$ 96.55	\$ 96.55	\$ 105.47	9.2%
United Rentals	URI	\$ 88.39	\$ 72.54	\$ 51.53	-29.0%
Apple	AAPL	\$ 29.83	\$ 105.26	\$ 108.99	3.5%
Cisco Systems	CSCO	\$ 28.95	\$ 27.16	\$ 28.47	4.8%
Computer Task Group	CTG	\$ 11.23	\$ 6.62	\$ 5.11	-22.8%
Intel	INTC	\$ 22.15	\$ 34.45	\$ 32.35	-6.1%
Symantec	SYMC	\$ 22.16	\$ 21.00	\$ 18.38	-12.5%

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### Sector Highlights – Q1

**Consumer Discretionary** appreciated 5.4% in Q1 of 2016 compared to the benchmark's 3.0% return. The relative outperformance was generated by a massive turnaround from Dick's Sporting Goods (DKS). Comprising 3.38% of the overall portfolio and about 20% of the Consumer Discretionary Sector, Dick's added 33% to its market value and over 1% to the portfolio in the 1<sup>st</sup> quarter as Sports Authority, one of its main competitors, declared bankruptcy. Large gains from Dick's Sporting Goods was partially offset by losses in Walt Disney. Despite a 32% jump in Q1 2016 profits attributable to the success of Star Wars, investors sold shares in Disney, fearing the continued demise of its large stake in ESPN. The stock lost 5.5% in the quarter but maintains a positive outlook.

**Consumer Staples** returned 8.7% in Q1 of 2016, outperforming the benchmark by 2.5%. Wal-Mart was the leading performer on the quarter, appreciating 12% and contributing 94bps to the portfolio. Systemic pressures helped Wal-Mart as investors fled to lower-beta, consistent cash flow names amongst a surge in market volatility and uncertainty. Concerns regarding wage growth are consistently a fear for investors watching Wal-Mart's bottom line, but the company seems to be successfully implementing higher minimum wages for employees without a major dent in profits. A large position in a Consumer Staple ETF also helped out the sector, adding 30bps to the portfolio's return.

**Energy & Utilities** returned 2.8% in Q1, underperforming the benchmark by about 50bps. While the sector essentially matched the benchmark, some of the underperformance can be attributed to losses in HollyFrontier, a company in the E&P space. HollyFrontier sold off 11% in Q1 as investors questioned management's ability to maintain margins.

**Financials** underperformed its benchmark by 80bps on the quarter. Almost all excess losses were attributable to a massive selloff in Bank of America, with the stock falling about 19% on the quarter. Despite improvement in BAC's profitability, fears of considerable energy loan write-downs have spooked the street. BAC estimates \$700 million in loan losses from soured loans to energy companies. Only 2% of BAC's balance sheet is tied up in energy loans. Since the company derives almost 45% from net interest margin revenue, Q1's sharp reversal in rates to the downside did not help investor confidence.

**Healthcare** was the largest underperforming sector this quarter, lagging the benchmark by 250bps. Myriad Genetics, Pfizer, and Gilead Sciences were the biggest decliners on the quarter falling 13.28, 7.25, and 8.79% respectively. Much of the downward pressure felt in the healthcare sector is related to systemic factors with investors revaluing biotech companies that once traded for high multiples.

**Industrials & Materials** severely underperformed the benchmark in Q1 by approximately 12%. The largest loss on the sector stemmed from a position in United Rentals which was liquidated in late February to avoid additional losses. Despite liquidation of the position, United Rentals still cost the portfolio 90bps on the quarter.



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## Sector Highlights – Q1

**IT & Telecom** performed poorly in Q1, trailing the S&P 500 benchmark by about 1.7%. Symantec Corporation was the biggest contributor to IT & Telecom's appreciation on the quarter, returning a total of 9.41%. After spinning off storage management subsidiary Veritas for \$500 million to a private equity firm, Symantec's board decided to pay shareholders a special \$4 dividend per share. Following the dividend payment, shares of Symantec fell by about 18%, however the stock's total return on the quarter still stood at 9.5%. Computer Task Group, a small cap play added to the portfolio in the fall of 2014 continued its precipitous drop, falling 21.87% on the quarter.

## Featured Stock Pick

### Gentex Corp (GNTX) – Consumer Disc.

A.J Smiley, Taylor Gould, and the Consumer Discretionary team purchased Gentex Corp (GNTX) on February 25<sup>th</sup> for around \$14. Gentex was bought in order to give the portfolio exposure to the rapidly expanding and evolving automotive sector. Gentex is the world's largest manufacturer of auto-dimming rearview mirrors, with over a 90% market share in the space. Gentex's profitability is largely tied to vehicle sales, with over 40% of its revenue derived from Volkswagen, Toyota, Ford, and Chrysler. As auto sales in the United States spiked to over 17.4 million in 2015, up from 16.4 million in 2014, GNTX's bottom line jumped over 10%. Despite showing considerable improvement in sales and profits, the street sold off GNTX over 10% amongst fears of continued growth in the automotive space. Even after appreciating over 10% since February 25<sup>th</sup>, the analysts in consumer discretionary still believe that the stock has considerable room to the upside.

## New Additions

