

To the Virginia Tech Foundation

2014 Semi-Annual Report

APRIL 1 – SEPTEMBER 30

Student Endowment for Educational Development

To the Virginia Tech Foundation

*Full Time Job
Signings through
Sept 30:*

Paul Hurst

McKinsey Consulting

Dan Lee

JPMorgan

Grant Chaney

*Bernstein Asset
Management*

Nicolette Killen

JPMorgan

Richie Episcopo

Qualcomm

Ingrid Christ

JPMorgan

Curtis Calder

Deloitte Consulting

Tim Stoddard

Boston Energy Group

Zvonko Cindrich

ExxonMobil

Patrick Moody

GE

***Internship offers will
be included on
Annual Report***

To the Virginia Tech Foundation

Strategic Highlights

The period that this report highlights April 1 through September 30, was an interesting and busy time for the organization. The April and May months were consumed with sell pitches, as SEED for the final time had a position limit of ten positions going into the summer. After sell pitches and Area Manager and Analyst discussions, the ten positions with the most conviction were held over the summer.

During the summer, the ten positions were held untouched along with ETFs. The ETF's were the SPDR sector ETFs, and we maintained equally weighted by sector to the S&P500 by way of the ETFs. No trades were made during this time period. Additional positions were held in a "shadow portfolio." The use of the shadow portfolio was to monitor positions that SEED did not want to sell going into the summer, but was forced to in order to meet position limits. Some shadow portfolio positions were added back to the portfolio following a passed pitch quickly into the new school year.

September began the repopulation period, where Analysts began pitching investment opportunities and Area managers starting forming their outlook and strategy for the sector moving forward. This year, SEED had a focus on investing more capital in specific industries or subsectors that we had more conviction in, while staying within the benchmark allocation. By September 30th, some sectors were fully repopulated and some sectors had yet to add back any positions, which was a function of how many pitches were chosen to "pass" by the CEOs and Area Managers.

This semi-annual report consists mostly of sector specific performance and outlook for an in-depth analysis of how SEED has performed, the drivers behind that performance, and how each Area Manager plans to position themselves moving forward.

Financial Highlights

The cumulative portfolio return from 4/1-2014- 9/30/2014 was 4.33%, annualized return of 8.85%. Additionally, the cumulative portfolio return from 1/1/2014-9/30/2014 (CY) was 7.62%, annualized return of 10.29%. The S&P performance for the same time periods was 5.65% and 9.21%, respectfully.

Consumer Sector

Area Manager: Grant Chaney

Holdings:

Name	Return
F	-4.22%
XLP	2.01%
THO	-2.94%
PG	3.98%
BUD	7.01%
HD	3.10%
EBAY	2.41%

Statistical Highlights

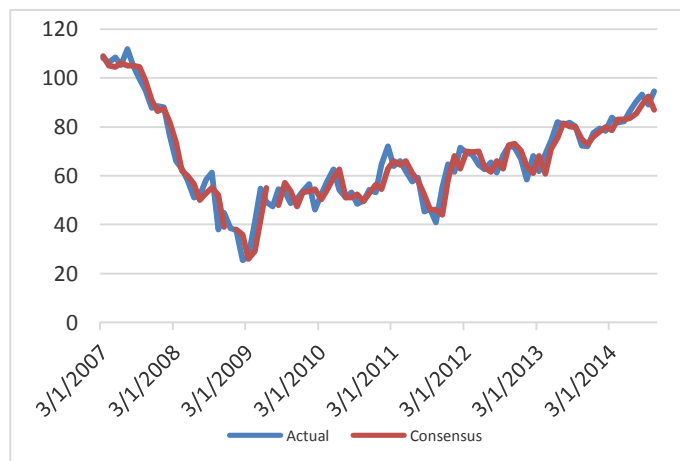
(From 4/1/2014 to 9/30/2014)

Sector Value: \$1,139,783.00
 % of Portfolio allocated: 22.38%
 % Benchmark allocated: 21.90%
 % Underweight: (0.48%)

Performance Summary

During the period beginning April 1st and ending September 30th, the consumer sector reported modest overall gains of 2.18%. Over the same time frame, the S&P 500 index rose 4.60%. Much of our underperformance can be attributed to the poor performance of Ford. Following a report by management that Ford Europe would not be profitable in 2015 as planned, the stock dropped from \$17.50 to \$14.00 and recovered to about \$14.50 by September 30th. We are more convinced than ever about the strength of this (now positive) position and continue to monitor its price recovery. One note on Home Depot – this position was an extreme outperformer over the length of the investment and we are very pleased with its success over the last 18 months. As we move into more defensive positions, the XLP is providing temporary relief for our staples stock allocation.

Consumer Confidence Survey



Investment Rationale

Approaching the summer break period, we wanted to maintain the approximately 56% cyclical and 44% defensive breakdown within the sector. As many of our positions had risen to within 5-8% of their price targets, we decided to reevaluate each. Ford remained as our only true deep value position based on DCF and comparable analyses. Considering the value investing style of SEED, we decided to hold Ford as our cyclical position and the XLP Staples ETF as our defensive position; our sector holdings largely tracked the market over the summer. Returning to an active management approach in September, we invested in Thor Industries, a consistent and proven RV supplier with a growing consumer base.

Outlook

We have made a bullish bet on the auto sector and consumer spending. The impact of rising interest rates on our auto stocks is somewhat diversified as Ford runs its own revenue-generating financing unit while Thor Industries does not. We understand that market highs and low volatility makes new investment decisions riskier and we have begun to make more defensive investments based heavily on cheap relative valuation. For the consumer sector team, a beaten down stock representing a proven, temporarily-troubled company is the ideal investment right now.

Energy Sector

Area Manager: Brian Dang

Holdings:

Name	Return
APA	-15.63%
APC	2.13%
NOV	-8.75%
MPC	5.09%
COP	36.19%
CJES	42.43%
XLE	-6.35%

Statistical Highlights

(From 4/1/2014 to 9/30/2014)

Sector Value: \$537,729.00
 % of Portfolio allocated: 10.56%
 % Benchmark allocated: 11.50%
 % Underweight: (0.94%)

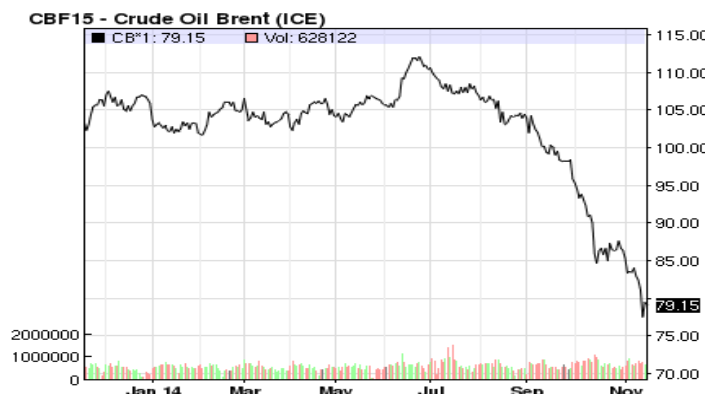
Performance Summary

The energy sector has been performing well due to the energy boom and this success was realized in the first half of 2014 as high oil prices, increased production and demand for refined products drove energy companies to record levels of profit. This was reflected in their share price but the 2nd half of 2014 has turned into a tumultuous time for the energy sector.

Faced with oversupply and decreasing demand, the price of crude oil declined by about 28% since the start of the summer and this had an adverse effect on our upstream holdings. Our two holdings through the summer, APA and XLE, took a hit along with the entire upstream industry. The XLE is heavily weighted towards E&P companies so as the E&P companies suffered so did the index fund.

As oil prices continued to decline we were able to get positive returns from our downstream holding-MPC, who took advantage of the lower production costs.

Spot Brent Crude Oil



Investment Rationale

We sold our position in APC following a positive run-up due to a favorable litigation ruling and replaced it with APA which we believe had greater upside potential. We sold out of COP, NOV and MPC which all had significant returns from the date of purchase to the date sold. Those holdings were positioned well to take advantage of the energy boom that was prevalent in the U.S and entering the summer we wanted to realize our returns from those holdings.

We continued to hold APA throughout the summer due to forecasted production increase and we increased our position in the XLE for the summer to hold a diversified sector fund.

Outlook

The recent decline in crude oil prices due to increased global supply, coupled with decreasing demand, the energy sector as a whole is facing its first major challenge in terms of growth since the shale and crude oil production boom it has experienced in the past couple of years. With the strong possibility of upstream companies cutting production in order to increase crude oil prices, we are focused on investing in downstream refining companies who will ultimately benefit from the decrease in crude oil prices.

Currently we hold MPC a refiner who has done very well for us in the past and will continue to evaluate other companies in the downstream industry to find a value investment while at the same time evaluate our current upstream holdings to see which positions we will continue to hold.

Financial Sector

Area Manager: Ingrid Christ

Holdings:

Name	Return
V	24.78%
C	10.26%
AIG	2.49%
COF	29.52%
GS	-4.95%
PLD	6.37%

Statistical Highlights

(From 4/1/2014 to 9/30/2014)

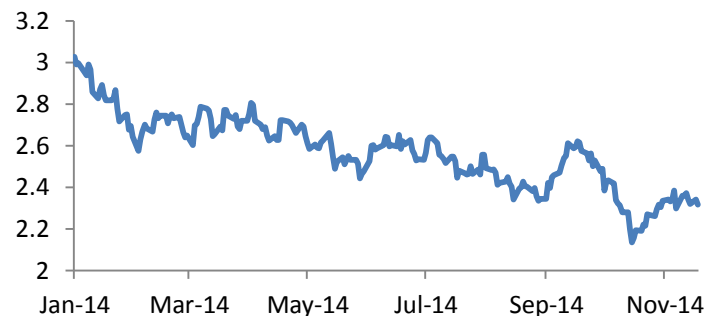
Sector Value: \$869,867.00
 % of Portfolio allocated: 17.08%
 % Benchmark allocated: 16.30%
 % Overweight: 0.78%

Performance Summary

Financials returned 3.83%, slightly outperforming the XLF during the second and third quarters. Our slight outperformance can be attributed to our positions in Capital One (COF) and Citigroup (C). COF benefited from improving credit quality and lower delinquency rates across North America. Investors were also pleased with the company's stock repurchase plan. Since Citigroup's stock plummeted in the first quarter due to a series of negative events, the stock price has recovered. We continue to view the winding down of Citi Holdings as a positive catalyst for this stock. VISA (V) remained relatively flat during the second and third quarters. Temporary foreign exchanges headwinds caused V to underperform the market. We remain bullish on this stock due to its growing presence in the mobile payment space.

Ten Year Treasury

10-Year Treasury



Investment Rationale

In May, we decided to sell out of REITs and avoid the subsector entirely. Since REITs payout 90% of their retained earnings as dividends, they are highly interest-rate sensitive. Higher rates will negatively impact REITs' margins. With respect to card companies, we have been overweight the subsector, with a large position in VISA. We expect to trim our card positions as prices continue to run up. On the other hand, we remain bullish on the banking subsector as valuations are historically attractive. We look for banks that are well-capitalized and compliant with new requirements, such as the liquidity coverage ratio. We are also carefully monitoring developments in capital standards for insurers. The implementation of these rules poses a substantial threat to the insurance industry.

Outlook

Contrary to analyst expectations, the 10-year treasury fell 70 basis points between January and September. Because of this, banks continue to suffer from compressed net interest margins, putting downward pressure on earnings. Similarly, sustained low rates are negatively impacting investment income for insurers. We expect banks and insurers to benefit from higher rates in 2015. The vast majority of FOMC participants expect the federal funds rate to rise sometime next year, as shown by September's FED dots. We believe new policy tools, namely the reverse repo and term deposit facilities, will help the FED successfully raise rates in 2015.

Healthcare Sector

Area Manager: Richard Episcopo

Holdings

Name	Return
ESRX	18.01%
LLY	14.31%
XLV	5.91%

Statistical Highlights

(From 4/1/2014 to 9/30/2014)

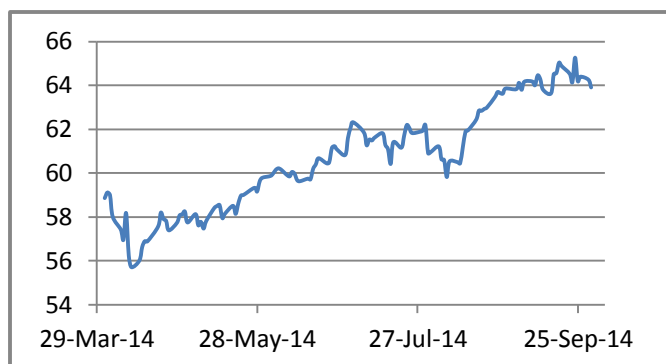
Sector Value: \$764,444.00
 % of Portfolio allocated: 15.01%
 % Benchmark allocated: 14.30%
 % Overweight: 0.71%

Performance Summary

During the past year there has been unprecedented changes to the state of the healthcare industry. From a political perspective, the Affordable Care Act (ACA) has introduced important new aspects to many industries within healthcare. While we wait for all of the expected 30 million new people to become insured in the US, the ACA is also imposing stricter regulations on many areas of the healthcare industry. These stricter regulations are causing sector wide cost cutting measures. Additionally, many large healthcare companies are now targeting specialty drugs that treat rare diseases such as rheumatoid arthritis, multiple sclerosis, cancer, and more.

The Healthcare sector decided to hold two positions over the summer. One position in pharmaceuticals, LLY, and another in healthcare services, ESRX. Since purchasing ESRX in September of 2013 and LLY in April of 2014, we have realized significant returns on each. Our highest performer has been ESRX with an 18.0% return followed by LLY with a return of 14.3%.

XLV Benchmark



Investment Rationale

By investing in both ESRX and LLY, we are exposed to many macro factors typical to pharmacy benefit managers (PBM), proprietary pharmaceuticals and specialty drugs, respectively.

ESRX was positioned well to become the largest PBM in the industry with current macro factors of the healthcare industry as well as the merger with Medco Health Solutions. After some initial complications with the merger, ESRX realized the results we were hoping.

LLY exposed us to a research heavy pharmaceutical company with a focus on specialty drugs. Their pipeline was depressed at first, but recently they have been successful with new R&D making them a main player in the specialty drug industry.

Outlook

With advanced technology now enabling drug makers to find cures for rare conditions, we will continue to seek out undervalued companies that exhibit strong promise in areas such as cancer, rheumatoid arthritis, and multiple sclerosis. While many of the companies that focus in this area are biotechnology companies, we are also looking for pharmaceutical companies with a biotechnology division.

In addition, we plan to research areas of the healthcare sector with a high amount acquisitions and may decide to invest if a good opportunity arises.

Industrials Sector

Area Manager: Parker Gillcash

Holdings:

Holdings	Return
CMI	17.16%
EADSY	4.41%
FLR	9.40%
NSC	34.44%
VMI	13.60%

Statistical Highlights

(From 4/1/14 to 9/30/14)

Sector Value: \$674,754.00
 % of Portfolio allocated: 15.01%
 % Benchmark allocated: 13.60%
 % Underweight: -0.35%

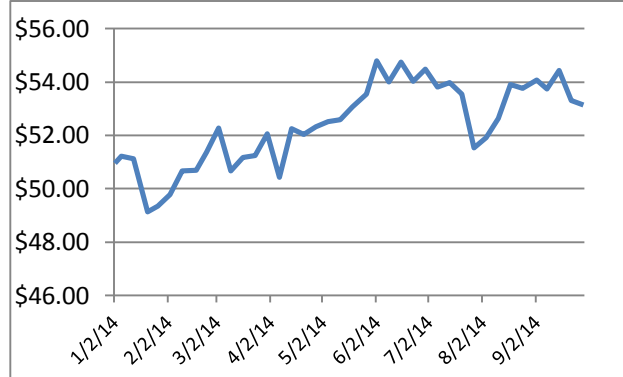
Performance Summary

Due to household deleveraging coming to an end and increased demand for consumer goods shipped via intermodal containers, Norfolk Southern gained over 30 percent, making it the best performer in the sector and one of the best performers in the entire portfolio.

Valmont Industries was also a top performer. Purchased initially as a growth company that was also attractively undervalued, our liquidation of the position in May yielded a profit of \$18.09 per share, a 13.60% return.

Cummins gave us exposure to the Industrial goods segment and quickly appreciated beyond its price target. After re-evaluating, we decided to realize our gains, as it was no longer attractively valued and we could not justify holding it any longer. Our final returns were 17.16% on the position.

XLI Benchmark



Investment Rationale

The position of the industrial sector is that of a middleman, its performance is largely dependent on the health of the entire market. Given the weak global economy, we decided to focus on companies more heavily weighted in the US and developed countries. We found Airbus Group to be undervalued due to having a lower P/E and greater margin expansion than their main competitor Boeing. While an effort was made to mimic the benchmark, the main goal was to find intrinsically undervalued stocks regardless of the subsector. We remained cautious of the Defense industry due to government budget cuts and the sequestration.

Outlook

The recovering domestic economy is fueling construction spending. While residential has lagged, the growth and potential we see is in the non-residential and commercial space. This would lead to opportunities to explore in engineering services and infrastructure development. Additionally, we see potential in Consumer Goods Trucks and Vehicles. Truck utilization is at all-time highs along with an aging truck fleet and replacement cycle nearing a new turnover. While we were forced to liquidate most of our positions in May, the summer performance of VMI was closely watched. Their struggles were due to a weak performance in its irrigation segment and short-term headwinds. However, their long-term valuation still remains and it may be something to consider for repopulating the portfolio.

Technology Sector

Area Manager: Nicolette Killen

Holdings: (as of 9/30/14)

Name	HPR
EMC	4.99%
TDC	-16.89%
DTV	28.25%
BRCM	1.45%
XLK	2.47%
GOOGL	-.92%

Statistical Highlights

(From 4/1/14 to 9/30/14)

Sector Value: \$1,196,389.00
 % of Portfolio allocated: 21.72%
 % Benchmark allocated: 22.40%
 % Underweight: -0.68%

Performance Summary

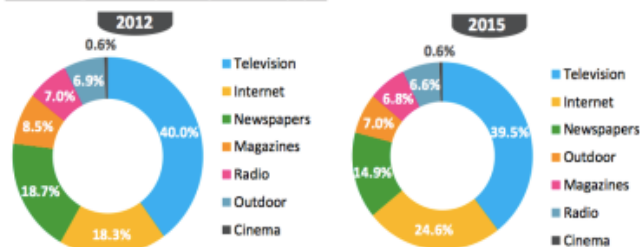
Valuations concerned sell-off in March was the cause of Teradata's poor performance in the first half of 2014. Heightened competition in the cloud-computing universe paired with a poor Q2 2014 report was the reason we liquidate our TDC holding. We sold off our BRCM holding as it was trading rich to fair value and above our 2014 price target. We also anticipated headwinds going forward for Broadcom as they had little exposure to the booming low-end chip market.

Our overweighting of telecomm helped us capture gains as the industry went through a period of consolidation. Our best performer so far in FY2014 was DirecTV with a HPR of 27.50%. We liquidated our position at the end of Q2 after the stock jumped following an announcement of a potential acquisition of DTV.

We chose to remain allocated in EMC over summer as it was trading 10% below our target price and we were optimistic on the outlook of VMware, which EMC owns 80% of.

Global Digital Advertisements

Share of global adspend by medium (%)



Source: ZenithOptimedia

Investment Rationale

Allocation in this sector was designed to be roughly in line with the SPX's weightings of subsectors. However, our Spring 2014 investments had a slight overweight bias towards telecomm as we felt pricing pressure discussions had caused the stocks' to trade at a discount to their intrinsic values.

In the back half of 2014 we have positioned our portfolio to capture growth in the digital advertisement trend. Although, GOOGL has underperformed the market we are still bullish on the name as we feel it is perfectly positioned to capture the growing demand for both video and digital display advertisements.

Outlook

Going into Q4 2014 we will look for opportunities to gain exposure to the cloud-computing trend, specifically the Software as a Service (SAAS) universe. Operating on this investment analysis we plan to be slightly overweight in the Software and IT Services sub sectors.

Although, we anticipate stabilization in PC demand we will be shedding our overweight position in hardware. As hardware growth is skewed toward the lower end we see firms facing headwinds from compressed margins as emerging market's drive demand. Our sector will have an underweight holding in Semiconductors, as we hope to capture growth in the China smartphone market. Our underweight bias is based on the sub sectors large run up in 2014, with a price appreciation of 18% above the market. Semis multiples appear to be trading at a cycle peak with an EV/EBITDA multiples at an 11% premium to the SPX.

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Company Information

SEED Investment Fund

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