

# Annual Report

**FY 2015**

*Student-Managed Endowment for Educational Development*

## **SEED**

---

Ryan Febles,  
Brandon Chandler,  
& Patrick Moody

Virginia Tech Pamplin  
College of Business

[www.viriniatechseed.com](http://www.viriniatechseed.com)



## Contents

SEED FY15 Highlights	1
Year in Review	2
Appendix	5
Contact Information	6
Company Information	6
Sector Reports	7

## *Notable Placements*

### **Full Time**

**Parker Gillcash** –  
Goldman Sachs IBD

**Kaley Burlingame** –  
KPMG Advisory

**Austin Hagerty** –  
BP Trading

**Rebecca Slatkin** –  
EY Advisory

**Neil Hartman** –  
PwC Valuation

**Anthony  
Puffenbarger** –  
Capital One

**Maddie Butz** –  
KPMG Audit

**Drew Burkhard** –  
Deloitte Consulting

### **Internships**

**Ryan Febles** –  
BofAML CMO

**Brandon Chandler** –  
Goldman Sachs IBD

**Patrick Moody** –  
Credit Suisse IBD

**Nick Mattingly** –  
Citigroup S&T

## **SEED FY15 Highlights**

2015 was a weak year in equity markets as overall portfolio performance was lagging behind 2014. SEED completed 2015 with 33 members, 2 of which graduated in December, and another 5 currently going through the training program. SEED members had the opportunity to visit firms in New York and placement this year for graduating seniors as well as junior members was exceptional. We would like to again thank those alumni who have helped support us on these trips as well as offering help in employment opportunities.

### **Financial Highlights**

This year, SEED returned -4.39%, gross of fees. The S&P 500 TR benchmark returned 1.35%; thus, the portfolio had an active return of -5.74%. The leading sectors in regards to overall return were healthcare and financial services. When compared to their respective sector benchmarks, the leading sectors and only two to outperform were Energy and Financial Services. A full viewing of the sectors and their performances can be found in the appendix.

The portfolio performed in line with the respective benchmark until the final quarter. In particular, from mid-October to year end, the portfolio suffered heavy losses and was unable to rebound by year-end.

### **Operating Highlights**

In 2015, Parker Gillcash and Kaley Burlingame completed their tenure as co-CEOs. Parker will be moving on to a full time Investment Banking role with Goldman Sachs in New York City. Kaley will be working for KPMG Advisory in their Northern Virginia office. In December, Financials Sector Area Manager Maddie Butz graduated and will be working in Chicago for KPMG.

### **Looking Ahead**

New co-CEOs Ryan Febles (Junior, Finance) and Brandon Chandler (Junior, Finance) look forward to another exciting year, as well as newly appointed Financials Sector Area Manager Anthony Puffenbarger. We will also introduce a Chief Investment Officer position within the group this upcoming year. Patrick Moody will serve in the CIO role this Spring and we are very excited about the benefits that this new position will bring to SEED.

## *Notable Placements*

### Internships Cont.

**Grey Weissend** –  
JPMorgan S&T

**Austin McGowan** –  
PwC Valuation

**Gabe Pike** –  
BofAML CMO

**Moriah Viviano** –  
Deloitte Consulting

**Nick Rea** –  
SunTrust Robinson  
Humphrey

**Anna Rivero** –  
Altria Business  
Analyst

## Year in Review

### Recruitment

2015 was another competitive year for recruitment with over 100 applications in both the Spring and Fall semesters. In the Fall semester of 2015, 30 hour-long interviews were conducted. Each consisted of a 30 minute stock pitch with Q&A, as well as a behavioral and case study interview. Ultimately, 5 students, all of whom accepted, were selected for the Spring New-Analyst class.

### Placement

This year was an extraordinary year for placement throughout Wall Street, in the consulting field, as well as in engineering and accounting roles. Members locked up full time offers at firms including Goldman Sachs (Parker Gillcash), BP (Austin Hagerty), PwC (Neil Hartman), Deloitte (Drew Burkhard), and EY (Rebecca Slatkin). Internships offered to Junior students thus far include Goldman Sachs, JPMorgan, Citigroup, Bank of America, Credit Suisse, PwC, and SunTrust Robinson Humphrey.

### Trips

In 2015, SEED members had the opportunity to meet with 8 firms in New York City. Students met with Alumni and HR contacts from Goldman Sachs, Morgan Stanley, JPMorgan, Citigroup, Bank of America, UBS, Credit Suisse, and AllianceBernstein. As a result of networking opportunities during the trip, students received full time offers and internships for the summer of 2016.



## Chief Investment Officer

**Patrick Moody**, previously a member of the energy sector, has agreed to head up the new CIO position that was created this Spring to assist analysts and area managers during the pitch process. He will also head all data analytics and portfolio analysis for various updates throughout the year. This position will help stream line the company selection process and provide additional resources to analysts.

## Investment Strategy

The final allocation of the SEED portfolio across the six sectors very closely mirrors the constitution of the S&P 500. We pursued this allocation so that any performance deviations from the benchmark index were substantially associated with SEED's individual stock selection, rather than any allocation tracking error. We believe that focusing on individual stock selection and portfolio compatibility most closely reflects SEED's portfolio strategy. Additionally, SEED holds around thirty positions each carrying substantial weights within each sector.

In order to remain consistent with SEED's long-term investment horizon, the endowment has allowed us to stay in our positions over the summer rather than selling out of them in May. This has allowed for a more actively managed portfolio as a few holdings were sold over the summer term after reaching their associated target prices. With the help of a few analysts over the summer months, the portfolio was able to be maintained and all positions were actively traded. Additionally, in the coming year, the Chief Investment Officer position will be introduced to the group. The CIO will assist analysts and area managers during the pitch process. The CIO will also head all data analytics and portfolio analysis for various updates throughout the year. This position will help stream line the company selection process and provide additional resources to analysts.

As has been a common trend in recent years, more emphasis has been put on seeking value opportunities in smaller to mid-cap companies as opposed to traditional large-cap investments. The selection of more mid-cap stocks allows for further diversification to the portfolio and encourages investment in smaller companies less exposed to international headwinds.

	1/1/2015 - 12/31/2015		Weights %		Return %	
			Portfolio	Benchmark	Portfolio	Benchmark
Consumer			18.99	20.67	-8.67	8.01
Energy & Utilities			12.01	10.64	-7.39	-21.22
Financial Services			17.40	17.05	-0.76	-1.22
Healthcare			16.06	15.38	3.93	6.84
Industrials			12.38	13.91	-16.53	-2.83
Technology			20.79	22.31	-4.10	5.31
Unclassified			2.36	0.00	-5.14	
SPDR® S&P 500 ETF			1.91		0.03	
Cash			0.45		0.00	
<b>Attribution Total</b>			<b>100.00</b>	<b>100.00</b>	<b>-4.39</b>	<b>1.35</b>

Table 1 Overview of sector performances versus their respective benchmarks

## 2016 Investment Outlook

SEED is bearish on equity markets in the near term with the potential for a recovery in the 2<sup>nd</sup> half of the year. Although the US economy has shown signs of improvement in certain areas, we believe that the Fed will be hesitant to implement another rate hike due to global economic concerns and geopolitical tensions. We see the potential for one or two rate hikes in late 2016, despite the Fed Funds Futures market currently projecting zero rate hikes for the year. This will continue to adversely affect the Financials sector, especially banks. Additionally, because SEED is now able to hold up to 50 positions, allowing risk to be more broadly diversified, we will be investing in more small and mid-cap companies with greater emphasis on value stocks.

SEED expects oil prices to remain suppressed for most, if not all, of 2016 as supply continues to outpace demand. We don't expect OPEC to cut production going forward, and the Iran Nuclear deal will increase daily supply even more once Iran is allowed to sell its oil reserves on the open market. For these reasons, we remain bearing on the energy sector as a whole and will be cautious of investing in any company with exposure to upstream capital spending. Additionally, we will continue to explore opportunities in other sectors that benefit from continued low oil prices. Overseas, we see China as a point of weakness in the global economy as they continue to produce disappointing GDP growth figures. In our opinion, this trend will continue throughout 2016, and we look to avoid companies with heavy exposure to China. Therefore, we expect the U.S. stock market to be one of the strongest investment opportunities in 2016, especially as the strengthening U.S. dollar diminishes returns for those investing in foreign markets.

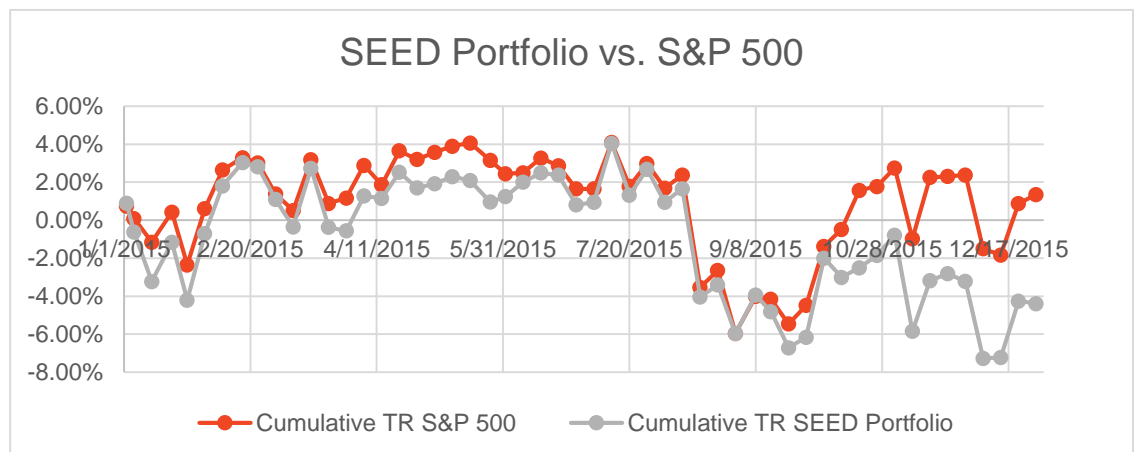


Figure 1 SEED's performance versus S&P 500 Performance FY2015

## Appendix



Figure 2: SEED's Attribution Performance Month by Month

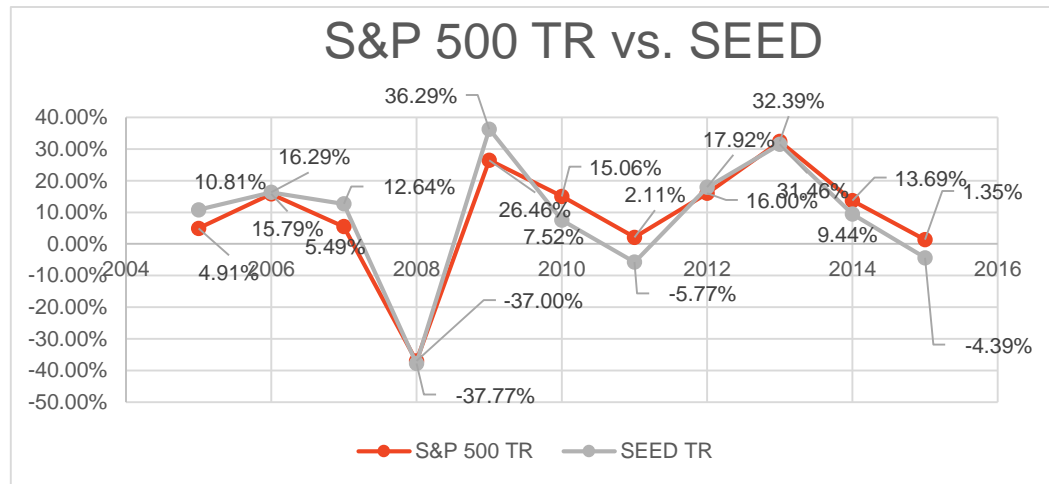


Figure 3 SEED TR Historical Performance vs S&P 500 TR

---

## Contact Information

---



**Brandon Chandler**  
Co-CEO  
Phone: 703-638-3480  
E-mail: chan94@vt.edu



**Ryan Febles**  
Co-CEO  
Phone: 609-947-5339  
E-mail: ryanf95@vt.edu



**Patrick Moody**  
CIO  
Phone: 908-448-8388  
E-mail: patrickmoody@vt.edu



**Professor R. Billingsley**  
Faculty Advisor  
Phone: 540-231-7374  
E-mail: r.billingsley@vt.edu



**Professor John Pinkerton**  
Faculty Advisor  
Phone: 540-231-5002  
E-mail: jpinkert@vt.edu

---

## Company Information

---

**SEED**

Virginia Tech Pamplin College of Business

[www.viriniatechseed.com](http://www.viriniatechseed.com)

[Facebook.com/VirginaTechSEED](https://www.facebook.com/VirginaTechSEED)



## Consumer Sector

Area Manager: Austin Hagerty

### Holdings:

Name	2015 HPR
AAL	-14.76%
DRI	15.04%
DEO	-4.10%
HSY	-9.57%
F	-5.44%
M	1.57%
GPS	-38.71%
TSN	18.53%
WMT	-3.82%

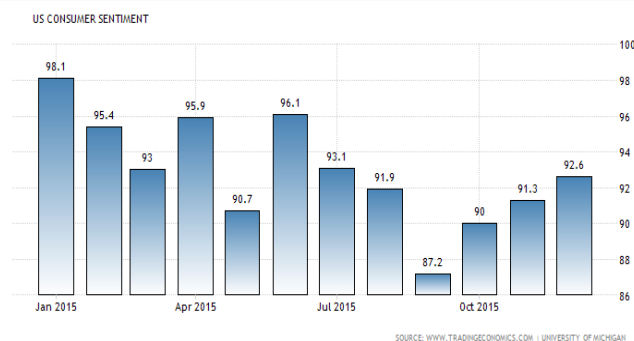
### Statistical Highlights

YTD Performance 1/1/15 – 12/31/15  
 Sector Value: \$937,818.74 (End of year)  
 % of Portfolio Allocated: 18.99%  
 Year to Date Return: -8.67%

### Sector Summary

The consumer discretionary sector did exceptionally well compared to the S&P 500. XLY, which is the discretionary ETF returned 9.12% in 2015. XLP, which tracks the Consumer Staples sector returned 4.43%. Meanwhile, the S&P 500 returned -.76% and was roughly flat on the year. This year was an extremely volatile period for the markets. We saw many catalysts such as the Greece fiasco during the summer months, to the capitulation in August where we had the DOW drop 1,000+ points in a morning before recovering almost all of it by the end of the day. We then had the FED make the ultimate decision to raise rates 25bps with a plan to raise rates 4 more times at the minimum during 2016. After this announcement, we returned to high volatility and the markets once again retested their 2015 lows from August. However, there were the FANG stocks, (Facebook, Amazon, Netflix, and Google), two of which are part of the Consumer Sector. These were the biggest outperformers with Netflix returning 129.45% and Amazon returning 119.07%. These stocks likely helped to buoy the consumer sector.

## Consumer Confidence



## Sector Performance

This quarter we underperformed significantly. This was a very rough year for us and we had many portfolio changes to better position ourselves going into 2015. We sold Tyson Foods at our price target, we sold Thor at our price target, we let go of HSY for a loss, and our biggest loser, the Gap was just sold in the beginning of 2016. Because of our allocations into names that had higher betas than the S&P 500, it is expected that we would underperform when the S&P experienced such high volatility coupled with large sell-offs. One thing we had done to position ourselves in 2015 was to stay in stocks like Ford and American Airlines which we believed would outperform with the low oil environment. Unfortunately, although these two stocks outperformed financially, their stock prices have not done so. Additionally, the Gap fell by over 40% and has since been sold off on continued weakness in sales growth, and loss of a key executive within Old Navv.

## Expectations

With the rising rate environment, there are many concerns about how our economy could actually handle further rate rises. Although headline unemployment came in around 5% by the end of the year, the peripheral numbers were not nearly as good, showing a lack of participation, and slowing wage growth. In 2016, we expect that there will be continued volatility in the financial markets. Earnings are struggling so far in the beginning of the year and many companies have lowered guidance or touted a cautious stance on their company's projections in the short term. We expect the low oil environment to continue to help out the sector due to the excess cash in people's wallets from savings at the pump. This could have explained some of the outperformance in 2015. Additionally, the headwinds caused by the strong dollar in 2015 could be slightly less severe in 2016 as we believe the worst of the strengthening has occurred.

## Energy Sector

Area Manager: Kyung Lee

### Holdings:

Name	Return (2015)
APA	-27.74%
CVX	-14.25%
MPC	17.34%
NOV	-46.67%
WNR	-13.30%
VLO	13.46%

### Statistical Highlights

Period Performance 1/1/15 – 12/31/15

Sector Value at Year End: \$380,717

% of Portfolio Allocated: 12.01%

Total Return for Period: -7.39%

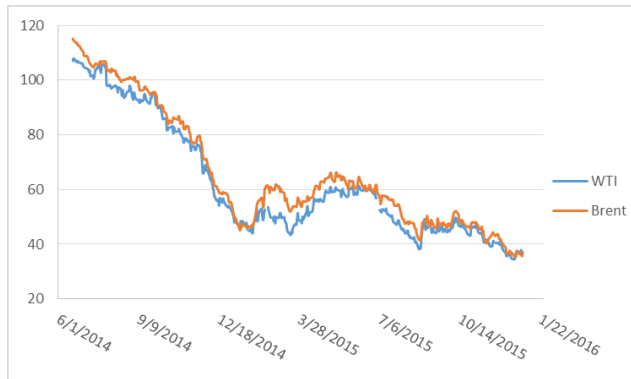
### Sector Summary

The energy sector has faced continuous headwinds that began with the oil price crash beginning in 2014 all through 2015. Oil fell below \$40 per barrel in December of 2015 on data indicating that the oil glut was far from over. Inventory data showed that despite upstream producers cutting their capex and rig counts, the production levels have maintained the oversupply across the world. OPEC's December meeting showed no signs of production cuts, and Iran soon plans to ramp up production.

Furthermore in 2015, Congress voted to lift the crude oil export ban, ending decades of the traditional large spread between domestic WTI and international Brent prices.

In response to this, the energy sector remains hedged with holdings in both upstream and downstream segments of the industry. In 2015 we held overweight positions in the downstream refining segment, which composed over 50% of our sector portfolio weighting.

### Spot Brent and WTI Crude Oil (USD)



### Sector Performance

We saw positive returns from our downstream refiners MPC and VLO throughout the year, as both companies' operations benefitted from low crude oil prices. VLO neared its target price and we executed a sell at an 11.63% upside in November. The downstream position in VLO was then replaced with a smaller market cap company, WNR. Our upstream holdings APA and NOV continued to see large declines as investor capital continued to exit the upstream market.

Congress' export ban lift erased the ability of our domestic refiners to obtain cheaper crude than their international counterparts. We saw much of our gains in MPC erased in December in reaction to this.

### Expectations

We see continued oversupply through 2016, and see significant headwinds for all our upstream positions as they struggle to compete in the low price environment. However, APA and NOV have heavily focused on cutting costs. CVX has also slashed many new projected that were slated for 2016 as they reduce spend and conserve cash.

We also expect headwinds for refiners entering 2016 as investor sentiment for the downstream segment turned sour as the export ban was lifted. However, we still believe despite no longer having cost advantages over their foreign counterparts, MPC and WNR will operate well with strong margins due to the low oil prices.

## Financials Sector

Area Manager: Anthony Puffenbarger

### Holdings

Ticker	2015 HPR
PNC	-2.07%
AIG	14.85%
C	-4.08%
COF	-7.70%
AGO	-2.07%
DFS	-16.55%
CBL	-33.18%

### Sector Summary

The Financial Sector has experienced much volatility throughout 2015 and into the new-year. Financial services firms underperformed at the start of 2015 amid dovish Fed tones and lackluster earnings, but posted gains through most of the summer. Employment, housing, consumer confidence and other positive U.S. economic data heightened expectations of future rate hikes and companies reported strong earnings. However, financials were down significantly after China's unexpected yuan devaluation in August. Much of the lost ground was recovered as fundamentals continued to improve and rate expectations rose. Against many analyst expectations, financials underperformed after the Fed rate hike in December as long term rates remained muted among weak global data. Banks experienced continued low credit costs, downsizing and staffing cuts, stronger balance sheets, continued compliance costs, strong loan growth in the consumer and C&I segments and strong capital distributions throughout 2015. Life insurers remain pressured by low interest rates and regulation while property and casualty insurance fared slightly better with the exception of auto.

### Statistical Highlights

YTD Performance 1/1/15 – 12/31/15  
 Sector Value: \$819,314.23 (1/1/16)  
 % of Portfolio Allocated: 17.05%  
 Sector Return: **-0.76%**  
 XLF Return: **-1.60%**

### Sector Performance

The SEED Financials Sector underperformed the XLF by approximately 150 basis points in 2015 as a substantial gain on the sale of AIG (+16.55%) and strong performance in PNC Financial Services Group were more than offset by underperformance in cards and large-cap banks. PNC remains our strongest and best positioned bank stock that should do well in 2016. Capital One outperformed in the first half of the year but experienced weakness since July amongst a wide earnings miss, broad market volatility following the devaluation in China and heightened expectations of consumer credit quality normalization. Earnings improvement and divestitures continue at Citigroup, however international exposure has dragged the stock down recently. We added Assured Guaranty Ltd., a credit insurer, to the portfolio in November, and we have a bullish outlook on the stock and the industry. Discover Financial Services continues to underperform peers as reward program expenses continue to be elevated and overall expense management shows room for improvement. CBL Associates & Properties Inc. has underperformed since our purchase in February due to a lack of liquidity in the CMBS market and concerns over tenant quality. However, this mall REIT constitutes about 2% of our holdings.

### Expectations

Overall, we expect financial services companies will benefit from higher interest rates in the near future. However, any immediate benefits will be relatively muted, especially if oil prices remain at current lows and tepid global growth continues. The banking sector remains our highest area of exposure as we believe the fundamentals are sound and recent selloffs may result in good buying opportunities. Property and casualty insurance and diversified financial services remain areas of focus as well. We see a decreasing likelihood of further tightening by the Federal Reserve but believe the economy in the U.S. is on solid footing.

## Healthcare Sector

Area Manager: Arman Izadpanah

### Holdings:

Ticker	Return
ESX	3.26%
LLY	14.40%
SNY	-15.10%
UNH	1.64%
ABBV	8.47%
GILD	18.69%

### Statistical Highlights

Sector Value: \$711,744.79

% of Portfolio Allocated: 16.06%

2015 Return: 3.93%

### Sector Summary

The healthcare sector lagged in the second half of 2015, specifically with Sanofi, our European-based pharmaceutical. In their Q3 earnings announcement, Sanofi stated that they would see profit cuts and lower margins for the next year, which dropped their price significantly. With Sanofi being a younger holding, our investment horizon remains at roughly three years, and we are still optimistic of the stock in that time frame based on our DCF calculations. In the second half of 2015, the XLV dropped around 14%, while the total return for the year was just over 2%. This closely follows the returns in our sector, with the second half of the year lagging drastically relative to the first half. With the addition of UnitedHealth Group, our sector has a brand-name insurer with a strong dividend to balance out our sector.

### 3-Month XLV Return



### Sector Performance

The sector performance for the year was positive, although our largest holding, Sanofi, was down almost 12% on the year. We expected UnitedHealth Group and Express Scripts to continually give the sector a steady return, specifically with the dividend from UNH coming in. The most unexpected performer we had was AbbVie, which gave us a dividend adjusted return of 8.45% for our holding period. Since we purchased AbbVie in October, this is not indicative of a 12-month return, but only a three-month return. Nevertheless, after a strong earnings beat, some positive news, and a dividend, AbbVie outperformed with its return.

### Expectations

Going forward this semester, we have a medical device pitch coming up with Medtronic, in order to finally balance out the sector covering all industries. After not having passed our Abbott Laboratories pitch, we look to try to add diversification to our big pharma holdings with a U.S. based pharmaceutical. Additionally, the sectors biggest focus is to decide on next steps in regard to Express Scripts. After a drop in the stock price to start off 2016, our holding in Express Scripts, while still positive, has dropped. Overall, we look to have another successful semester as a sector with the hopes of outperforming the XLV.

## Industrials Sector

Area Manager: Drew Burkhard

### Holdings:

Ticker	2015 Return
PCAR	-27.71%
FLR	-20.84%
PWR	-29.44%
UNP	-25.04%
HON	2.12%
VMI	-0.46%

### Statistical Highlights

Sector Value: \$522,637.80  
 % of Portfolio allocated: 12.38%  
 2015 Return: -16.53%

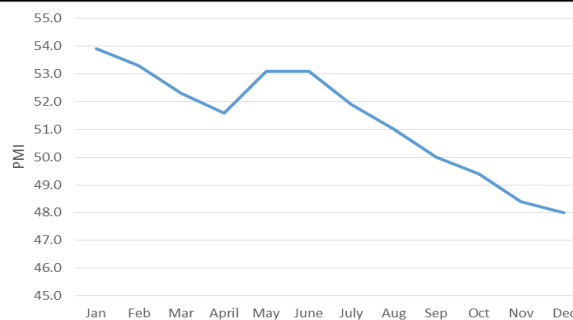
### Sector Summary

The industrials sector went through moderate repositioning during 2015. We sold EADSY in early March after it went up nearly 35% since the beginning of the year. EADSY was replaced by Quanta Services (PWR), an EPC company involved in the telecommunications, broadband cable, and gas pipeline industries and was pitched by then Analyst Brandon Chandler. VMI was also sold at the end of April. VMI was replaced by Union Pacific Corporation (UNP) and was pitched by then Analyst Ryan Febles.

The Industrials sector team also went through some repositioning during 2015. Analysts Brandon Chandler and Ryan Febles both transitioned into the Co-CEO positions for 2016. Analysts Kody Kobb, Carter Niehoff, Dan Vanacore were added to the analyst team.

The sector strategy through this past year was to find value in industries with potential growth opportunities.

## 2015 ISM Manufacturing PMI



## Sector Performance

Strong returns by EADSY in the beginning of the year before we sold off were negated by negative returns by PCAR, FLR, PWR, and UNP during 2015. HON was added in early November and is up but the returns are negligible thus far.

Due to their exposure to oil and gas, FLR and PWR suffered significant depreciation in their respective prices due to the decline in oil prices. PCAR and the entire heavy truck industry suffered a massive hit when VW was faced with an illegal emissions scandal and the price has yet to recover. UNP continues to struggle due to declining crude oil loads and dismal coal transmission during 2015 after a stellar 2014 for railroads. Our calendar year HPR indicates that we underperformed the industrials benchmark by 4.53%

## Expectations

For 2016, we are going to look to position ourselves in a way that reduces our risk during a dismal time for most industrial industries. We added HON because it has a very diversified product mix and is a financially stable company. If oil prices stabilize during 2016, we expect FLR and PWR stock prices to follow suit and recover the losses they've faced over the past year and a half due to oil prices. Non-residential construction is supposed to grow around 10% in 2016, which will help offset some of FLR's losses.

In an uncertain Macroeconomic environment going into 2016, our plan is to find value companies with diversified product mixes. We currently have \$60,000 in cash, and are looking to increase our position in HON.

## Technology Sector

Area Manager: Mike Greenwood

### Holdings:

Name	2015 HPR Return
AAPL	-6.82%
CYBR	-15.42%
EMC	-12.05%
GOOGL	25.86%
LRCX	2.32%
QCOM	-30.64%
SNCR	-27.70%
UBNT	13.82%

### Statistical Highlights

12MO Performance 1/1/15 – 12/31/15

Sector Value: \$1,081,839

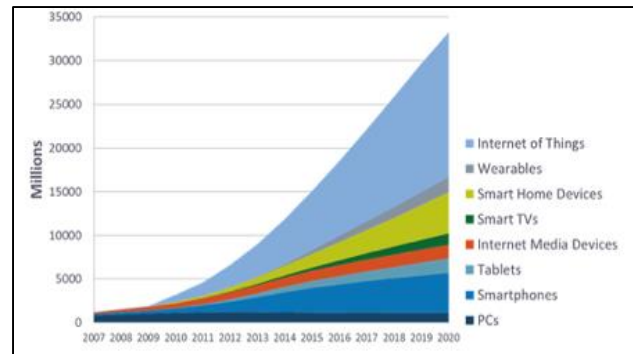
% of Portfolio: 20.79%

2015 Return: -4.10%

### Sector Summary

While we are currently overweight in the hardware industry after the Apple purchase, we remain bearish on enterprise storage and systems firms. We will continue to look to unload our large EMC position, but are cautious due to the pending Dell acquisition, scheduled to be completed this summer. We are confident Apple will be a safe play in an underperforming industry, as they are in great financial shape and appear to be making headway in the fast growing Indian market. Despite recent underperformance, we are still excited about CyberArk and Synchronoss within the software space. Both small cap holdings, we believe the added risk to the portfolio is worth the upside with growing demand for cyber security software and cloud based connectivity solutions. Finally, Lam Research Corporation offers a great opportunity to take advantage of the internet of things trend and growing number of connected devices, as they produce semiconductor manufacturing equipment for chip makers.

### Global Number of Connected Devices Forecast



### Sector Performance

Our 2015 performance was up and down and largely marked by uncertainty in a fast growing and constantly changing sector. Qualcomm suffered one of the company's worst years after losing a contract with Samsung and facing anti-trust allegations regarding their patent portfolio. EMC Corporation is facing declining sales growth and uncertainty regarding the Dell acquisition. They remain our largest holding, and still have a lot of upside according to implied priced the Dell paid for them. Therefore we are willing to accept stock price pressure from bad sales growth for the potential premium Dell is willing to pay. Synchronoss and CyberArk have fallen sharply largely because of lowered guidance for 2016. Many firms are calling for softer IT spending from large enterprises, which puts pressure on small cap firms who only a handful of customers.

### Expectations

We expect Apple to rebound in the coming 18-months just as they have done in the past. Cheaper models in emerging markets, higher margins in the Americas, and new products in the portfolio could all drive growth in the near future. The merger between KLA-Tencor and Lam Research this past fall will come to fruition this year and should drive Lam's earnings to record levels as they will dominate the semiconductor manufacturing market. We also believe CyberArk will continue to beat estimates as security solutions are becoming crucial for the private and public sector. Qualcomm's ability to rebound and secure new contracts with smartphone makers will be a major question surrounding the holding in 2016. Finally, Dell's ability to raise debt funding and finance the largest deal in the Tech sector's history will be indicative on what direction EMC's shares will move. Because EMC is still valued at pre-deal levels, we don't see any additional risk in waiting to see what happens in the coming months.