



# Semi-Annual Report

Letter to Stakeholders – GMIC Primer

Thomas G. Weaver, Co-President

July 2011



Dear Stakeholders,

For the past year, the Brandeis Global Markets Investment Club (GMIC) has been diligently working to preserve and manage the capital it's been entrusted. In this first ever bi-annual report, we'll briefly highlight the successes and failures that the club has seen through July.

The value of the fund has increased from \$65,232 to \$73,122, a return of 12% over the past 6 months (1/24 – 7/29). We're pleased with this return for several reasons. First and foremost, we believe that our security selection and asset allocation decisions added value to the fund. Had we not changed the construction of the portfolio, the portfolio would have been valued at under \$69,000 at the end of July, representing an absolute return of under 6%. And while we don't concern ourselves with the relative returns of our portfolio, the S&P 500 saw a return of under 1% over the same time period. Regardless of the lens, we're pleased with the performance of the portfolio.

Aside from the outstanding absolute returns we've experienced, we believe that the current construction of the portfolio is well suited for long-term investing. We're confident that the securities we've selected will not only work towards maximizing the value of the portfolio, but also towards minimizing the probability of permanent capital loss.

GMIC has also seen success beyond the portfolio. Some of this year's highlights include:

1. **The Stock Pitch Challenge:** Four teams of 3-4 students competed among their peers for a prize. The judges were representatives

from State Street Global Advisors and a local hedge fund.

2. **Networking:** We held the first ever GMIC networking night with local GMIC alumni and Boston professionals. We also participated in the first annual World Finance Job Conference.

3. **Member's Internships:** Our dedicated members were able to find promising internships at some of the following companies:

- State Street Corporation
- JP Morgan
- Merrill Lynch
- Apple
- Blackrock
- Soros Fund Management

We hope that you find the contents of the following GMIC Primer to be useful. Its purpose is to catalogue the club's history, successes and failures. We've addressed it to "stakeholders" because we believe that the success of GMIC extends from beyond current membership to future members, alumni, etc.

Building off of last semester's success, we look forward to managing the portfolio over the next academic year, and we look forward to leaving it in the capable hands of GMIC members in the spring. We look forward to your feedback regarding the club and its most recent activities.

Sincerely,  
Thomas G. Weaver, Co-President  
Stefan Stoev, Co-President



## I. A Brief Overview of GMIC and its Objectives

GMIC's principle objectives are the following: (1) Give students valuable exposure to investing by carefully managing the GMIC portfolio; (2) Create networking events and opportunities for club members; (3) Develop a strong network among current members, former members, alumni, and professionals in the New England area; (4) Build a brand that recruiters will recognize and respect.

**Investment Activity:** GMIC currently employs a value approach to investing. We search for companies with strong cash-flows and significant margins of safety during our time of purchase. We do our best to avoid speculation and paying too much for growth opportunities. We view ourselves as a conglomerate, and we view the purchase of a company's shares as equivalent to becoming partial owners of the business.

Prior to 2010, GMIC was known as the Emerging Markets Investment Club (EMIC). The title and direction of the club was changed because members didn't want to limit themselves to the emerging markets, and often companies in emerging markets presented too much risk. It was like shopping in the supermarket and limiting ourselves to one aisle, despite knowing that another aisle was having a sale on our favorite foods. While GMIC still looks for opportunities within the emerging markets, we no longer limit ourselves by geography or GDP.

**Networking Events:** In addition to speaking with guests visiting IBS, GMIC has started offering gatherings once a semester with alumni. We offered our first GMIC alumni gathering in the spring of 2011 and found it successful. One of our members was offered an internship as a result of the networking event and the conversations we shared.

In addition to networking with GMIC alumni, we've also increased our efforts at bringing speakers to club meetings. Local hedge-fund managers have visited the club to discuss their investment strategies, we've presented our research to professionals on numerous occasions, and we've invited both sales professionals and recruiters to help us with our interview skills. We've also begun a working relationship with Essential Access, a recruiting agency for New York's hedge-funds. We sent over 20 members to Essential Access' first annual World Finance Job Conference, and we're looking forward to working with them in the future.

**Internal Network:** Due to the frequency of our meetings and the active participation required to be a member of GMIC, GMIC members know each other on a personal and professional level. As a result, we'd like to promote each other when given the chance. For example, if one member sees an opportunity that suits another member, we would like for those two members to connect and share their knowledge. This sort of internal network has led to at least two internship offers that we're aware of. One student accepted, and the other student was unable to accept because of Visa issues. As this cohesive effort at attaining internships has seen initial success, we'd also like to attempt it with our future job searches. Ideally, it will carry through to alumni and former members.



**Building a Brand:** IBS has now visited certain Boston investment companies on an annual basis with GMIC members comprising the majority of the students. We're also expanding our brand in New York by visiting companies during the Winter Break and attending NY job conferences. There are two main reasons for these activities. First, by constantly putting ourselves in the eyes of potential employers, we're given tremendous incentive to continuously work hard and be at our best. Second, by constantly being prepared and focused, GMIC is slowly building a brand among local recruiters. As we take our club's efforts quite diligently, we believe that recruiters and investment professionals will start to notice us. Additionally, members of GMIC qualified for the final round of last year's Boston Security Analysis Society (BSAS) Investment Research Challenge. We plan on competing again this year, and we're certain that this exposure will pay dividends for future and current GMIC members. Current Co-President Stefan Stoev will be leading this year's team. We look forward to competing with the top business schools in the Boston area.

## II. GMIC's Principle Investment Strategies

GMIC takes a value approach to investing. We view the purchases of shares as equivalent to becoming partial owners of the business. We have a long-term investment horizon and we try to be patient with all of our investment decisions. We realize that it may take some time for the market to properly value the securities we own, and we pride ourselves in our discipline. We pay special attention to the cash generating capabilities of a business, the prices being paid for comparable companies, and the long-term prospects of the firm. We invest at least 5% of our capital when purchasing a security, and we do our best to allocate the most capital to our best ideas. If the investment merits of the companies are positive, we're comfortable with a concentrated portfolio. Currently, GMIC owns 18 different securities, with IBM being our largest holding at 10% of our capital under management.

In regards to risk, the chief risk we face is the permanent loss of capital. As our portfolio is made up of less than 20 securities, we have the ability to view risk at a business level. Our main risk management strategy is to avoid purchasing overvalued companies by insisting that all of our holdings are bought with a significant margin of safety. By doing deep research into the companies, avoiding speculation, and continuously following business developments within our portfolio, we're able to avoid risky situations.

When a company loses 10-15% of its value, we review the company and our investment thesis. If the thesis is strong and we view the price decrease as a short-term fluctuation, we try to buy more of the company at this discounted price. If the thesis is questionable, we sell the security and move on. The same goes for price increases of 10-15%, except that we consider all three options: buy, hold, and sell.

As a final point, we view the market for what it is: a market. We're not interested in trading or making a quick buck off of technical analysis or some other get-rich-quick scheme. We view ourselves as a conglomerate with an infinite time horizon. Just as private companies don't buy and sell small



businesses with the intent on flipping them for a quick profit, we view all of our investment decisions as partial ownership.

### III. GMIC's Historic Returns

Historically speaking, the returns for the portfolio have been good. While things were rocky in 2008, the club has never let the value of the portfolio fall below its initial investment value. As the value of the portfolio is currently \$73,122, this represents an absolute return of 46% since 2008, and an average annual return of roughly 15%. We wish we could go into greater detail regarding our historical performance, but unfortunately our records have some gaps. We're going to make certain that this isn't the case going forward. All things being considered, GMIC has an excellent track record.

### IV. GMIC's Returns Under Current Management

Under current management the portfolio has seen a dramatic shift. When management received control of the portfolio on 1/24, the portfolio was worth \$65,323. Though the portfolio hadn't seen a loss in the previous semester, we weren't happy with our investment process or asset-allocation. Collectively, we were unfamiliar with the contents of the portfolio, we owned several indexes that were losing us money, and we had a 37% cash position (see **Exhibit 1** in the appendix for details)

After spending one month carefully analyzing the contents of the portfolio, we decided to sell all of the indexes and some of the equity positions, leaving us with a 72% cash position and a collection of equities that we now understood. We also determined that we'd like to have an asset allocation strategy. We decided on the following: 65% equity, 10% commodity-driven equity (our attempt at a commodity placeholder), 10% fixed-income, 10% REITs, and 5% cash.

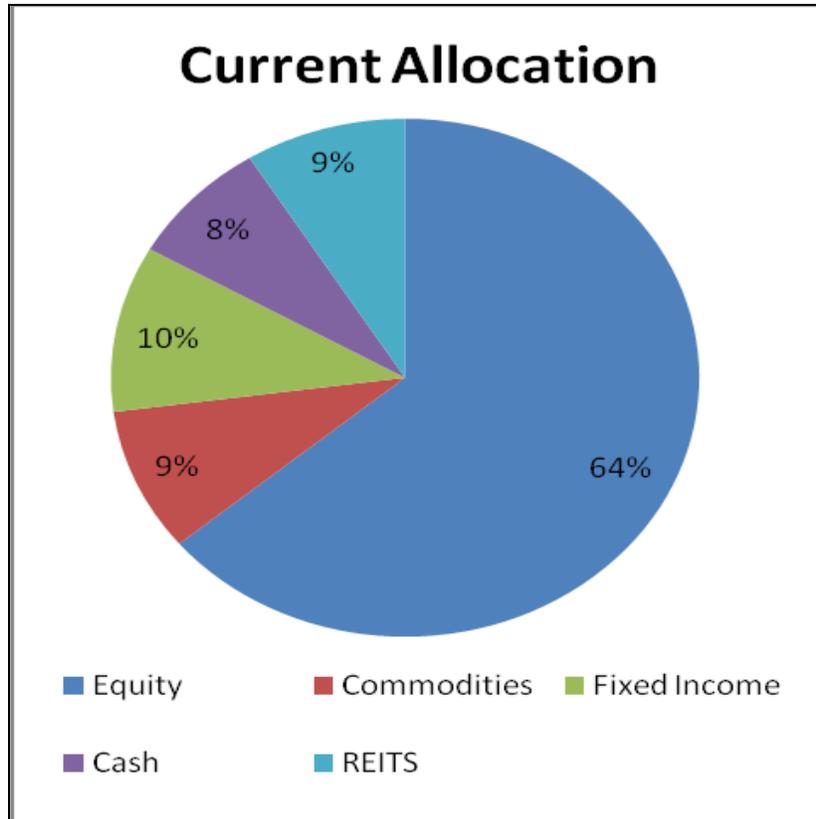
Equities were given the largest allocation because the club views itself as a business owner. Taking ownership positions in undervalued companies and holding them for the long-term is our chief means of increasing the value of the portfolio.

REITs and commodity-driven companies were given 10% positions because their returns are not as strongly correlated to the market, and we liked them for diversification purposes. We take the same philosophical approach to buying REITs and commodity-driven equities as "regular" equities.

A 10% position in fixed-income was chosen to help shield some of the portfolio's value from fluctuations in the market while earning a decent return. They also lower the risk profile of the portfolio and insure that we have some access to capital if we're presented with a significant buying opportunity. Unfortunately, we're unable to invest in individual fixed-income products because of our capital limitations. Instead of holding a single bond, we hold 2 bond ETFs that serve as a substitute for a traditional fixed-income product. Like our commodity-driven equities, this is as close to the genuine article as we can get.



Finally, we hold a 5% cash position because we always want to be ready for short-term price fluctuations and other buy opportunities. If Mr. Market presents us with a price we like, we want to take advantage of this situation without liquidating another position and incurring unnecessary fees. As of 7/29/2011, we've come very close to our ideal allocation. The current portfolio is depicted below:





Our portfolio is composed of the following securities:

	<u>Position</u>	<u>Price</u>	<u>Value</u>	<u>Performance</u>	<u>Weight</u>
<b>Celgene</b>	70	59.30	4,151.00	7.27%	6%
<b>Ebay</b>	115	32.75	3,766.25	9.64%	5%
<b>IBM</b>	40	181.85	7,274.00	7.21%	10%
<b>Interdigital</b>	90	68.25	6,142.50	42.22%	9%
<b>High Yield Bonds</b>	90	40.25	3,622.50	-0.54%	5%
<b>JP Morgan</b>	80	40.45	3,236.00	-11.08%	4%
<b>Corporate Bonds</b>	35	112.37	3,932.95	3.61%	5%
<b>MTN Group</b>	135	21.79	2,941.65	22.76%	4%
<b>Noble Energy</b>	30	99.68	2,990.40	2.24%	4%
<b>Gazprom</b>	250	14.66	3,665.00	-0.27%	5%
<b>Phillip Morris</b>	45	71.17	3,202.65	9.66%	4%
<b>SBS</b>	55	59.69	3,282.95	22.09%	5%
<b>Sasol</b>	45	50.15	2,256.75	-8.47%	3%
<b>Teva</b>	60	46.64	2,798.40	-6.61%	4%
<b>General Motors</b>	130	27.68	3,598.40	-10.48%	5%
<b>Wal-Mart</b>	60	52.71	3,162.60	1.33%	4%
<b>Douglas Emmett</b>	160	20.00	3,200.00	-0.70%	4%
<b>Boston Properties</b>	30	107.36	3,220.80	-2.04%	4%
<b>Cash</b>			5,671.16		8%

We're pleased with the performance of the portfolio to date. As shown, very few of our securities have reached the 10-15% threshold. The companies that have come closest are outstanding businesses: JP Morgan, Teva Pharmaceuticals and General Motors. In the coming months the club will reevaluate these positions and make decisions regarding their investment merits. Additionally, we'll have to reevaluate some of our strongest performers: Interdigital, MTN Group, and SBS.

Of the 18 securities in our portfolio, current management is responsible for the purchase of 13 of them. Though these 13 have been well researched, we still need to do more work understanding the 5 companies we kept from former management. In order to deal with this situation, GMIC will spend the majority of the first semester reevaluating our portfolio and conducting fundamental research.

Going forward, we'll reevaluate the portfolio and make buy-sell decisions based on a comparative basis. If we find a company with significantly better prospects than something we currently own, we'll swap the companies. If we can't, then we'll hold on to what we have. If the prospects of a company change, we'll buy or sell accordingly. We'll continue to focus on good research, good process, and our absolute performance.



## V. Portfolio Discussion: Successes and Failures

For the spring semester, our biggest success was also our biggest failure. Interdigital was purchased in April. By June, the company had seen a near 20% loss in value since our initial purchase. Our investment thesis was that despite not being a terribly appealing business, the company owned patents that were going to be valuable to other companies. We viewed them as a potential take-over target. Unfortunately, there was no way to test this thesis. The stock value had declined because the business wasn't doing well (confirming our thesis), but they still maintained the valuable patents. We weren't sure what to do. By our own rules, we were supposed to buy more of the company or sell the company. We made this rule because we wanted to be decisive. Unfortunately, we didn't have the courage to act and decided to simply hold the company. Our action was inaction.

In mid-July, Interdigital announced that it would be interested in selling its patents, and both Google and Apple emerged as potential buyers. The stock price doubled from its low in June and suddenly our 20% loss was looking like a 50% gain. While the capital appreciation was welcome, GMIC never wants to put itself in this sort of speculative position again. This is the perfect example to demonstrate a concept that GMIC firmly believes in: results don't necessarily indicate process, but process leads to results. Despite our thesis being correct and our results being extraordinary, we're unhappy with the steps we've made and we'll do our best to avoid them in the future. Excluding the appreciation of Interdigital's value and assuming we never did anything with that cash, the portfolio has still seen an increase of 8%, so we remain confident in our overall process. Interdigital has been an excellent case study in portfolio management, and we'll remember its lessons going forward.



## VI. Thanks and Acknowledgements

GMIC would like to formally thank and acknowledge the people that have helped it succeed over the past 6 months. First and foremost, we'd like to thank Dean Magid for his continued support of the club. We'd also like to thank Professor Raviv for advising the club, giving us the freedom to fully explore our investment options, and carefully monitoring our process. We'd also like to thank the Career Services staff for helping us find valuable internships and connecting us with networking opportunities. We'd also like to acknowledge the professionals who have donated their time to helping the club achieve success: John Morris, Wilfred Chilangwa, Alfonso Canella, Mark Regan, Robert Brown, Heydon Traub, Brad Aham, Simon Roe, George R. Hogue, Hans-Christian Luedemann, Amy Parvaneh and Alison Keefe. Finally, we'd like to thank GMIC's active members for their hard work and dedication. GMIC requires a large commitment from each and every member, and we hope that these efforts pay off in the immediate future of all members.

We look forward to working with both new and current members in the fall as we build on our recent success and elevate the club to higher levels of professionalism and purpose. We welcome all feedback from stakeholders as we look forward to yet another year of investment opportunity.

Sincerely,

### Co- Presidents

Thomas G. Weaver, MAief

Stefan Stoev, MAief

### Vice-Presidents

Avidor Baruch, MBA

Jennifer Gibson, MBA

Mavluda Mavlonazarova, MBA

Salman Chowdhury, MAief

Huanyu Shi, MBA

Yu Zhi, MAief



## Appendix

### **A Brief History of the GMIC Portfolio**

In 2005, the club was initially given a \$25,000 donation from the IBS endowment. For the next three years, the club was able to double the value of the portfolio through shrewd investments and careful management of indexes and individual securities related to the emerging markets. Unfortunately, the crash in 2008 brought home a terrible reality for GMIC members: crashes exist. The fund lost about 50% of its value and was back to square one.

In November of 2009, GMIC's capital was increased by another \$25,000 by an anonymous donor. The fund was worth roughly \$50,000 and mirrored its pre-crash value. By August of 2010, the fund was valued at \$61,190. In addition to adding value to the fund, GMIC also started adding value to the school through its first ever Stock Pitch Challenge, an annual event where students present securities analysis to a panel of professionals for a cash prize.

Between August 2010 – January 2011, the club dedicated itself to networking with companies and organizing another Stock Pitch Challenge. Unfortunately, this meant that we weren't giving the portfolio the necessary scrutiny and analysis it required. Some of our indexes weren't performing and many of our equity positions were no longer being followed. Though the club had made excellent progress towards many of its periphery activities, the portfolio wasn't being closely monitored. Despite this, the portfolio grew in value to \$65,323. Though the performance was good, we knew that our process needed to be improved if we wished to continue to build upon the success of our predecessors. The portfolio's value and construction as we received it can be observed in **Exhibit 1**.

As newly elected Co-Presidents, Thomas Weaver and Stefan Stoev were determined to shift GMIC's focus back to the portfolio for the spring semester. We created an asset-allocation strategy, focused the group on equity research, and dramatically changed the construction of the portfolio over the next 3 months.

So far the results are good. After committing to a value-oriented approach to investing, we were able to establish a strong position in under-valued equities, fixed income, and REITs. As of July 29<sup>th</sup>, the portfolio was up over 12%, increasing in value to \$73,122 over the six months. Though GMIC focuses on absolute returns and doesn't concern itself with relative-performance, stakeholders might be interested in knowing that the S&P 500 grew less than .7% during the same time period. By any means of measurement we've seen extraordinary returns, a direct result of our improved process and the hard work of GMIC's constituents.



**Exhibit 1 - GMIC Portfolio 1/24/2011**

<b>Security</b>	<b>Shares/Par Value</b>	<b>Market Price</b>	<b>Value</b>
Cash	21441	1.00	21441.11
Walmart Store	60	50.85	3051.00
Gazprom	250	12.77	3192.50
Petroleo Brasileiro	71	36.13	2565.23
Sasol	45	45.16	2032.20
Teva Pharmaceutical	60	40.72	2443.20
Anglo America	200	24.67	4934.00
MTN Group	135	19.94	2691.90
CIA Saneamento Basico	55	53.92	2965.60
Central Europe and Russia Fund	154	40.85	6290.90
China 25 Index Fund	126	41.55	5235.30
Latin America 40 Index	100	48.90	4890.00
India Investment Fund	127	21.03	2670.81
Frontier Countries Fund	210	10.69	2244.90
		<b>TOTAL:</b>	<b>\$66,648.65</b>

