2014 Annual Report

Harvard Financial Analysts Club

The Harvard Financial Analysts Club
2014 Executive Board

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Investors, Members, Alumni, and Sponsors:

Investors, Members, Alumni, and Sponsors,

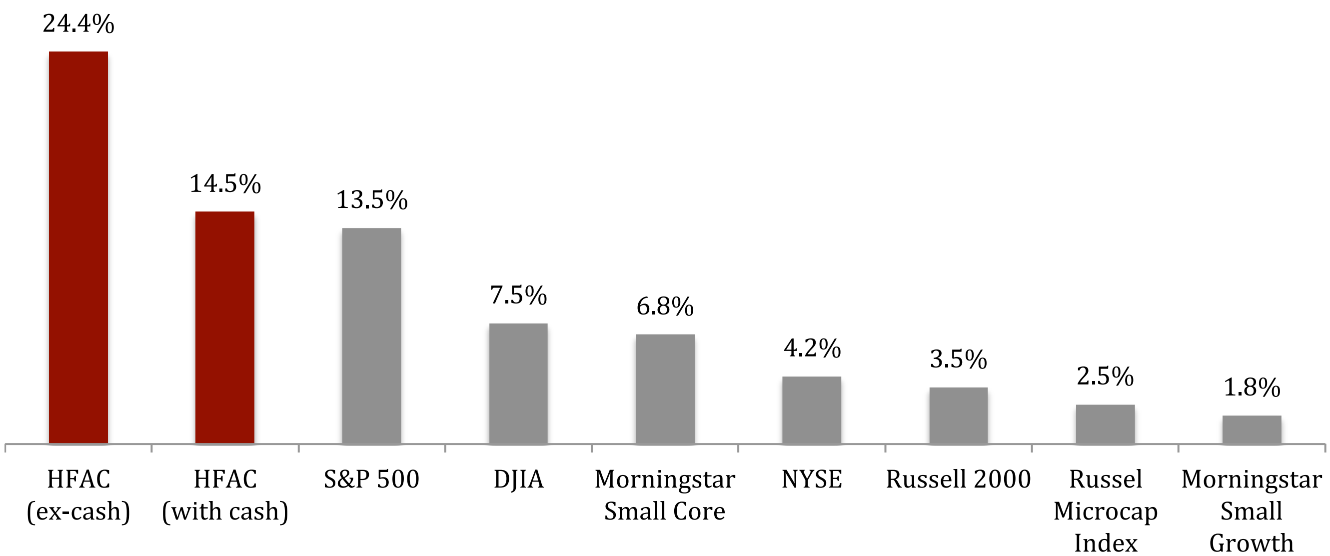
We are pleased to report to you another stellar year for HFAC. 2014 represented the second year HFAC has operated under the explicit strategy of pursuing stocks in which our fund has an analytical comparative advantage, particularly small-cap securities overlooked by large institutional investors. Like last year, we handily outperformed the market, returning 24.4% to our investors on an ex-cash basis compared to the 13.5% return they could have received in the S&P 500. Compared to other small-cap benchmarks, we have outperformed even more, with the Russell 2000 returning only 3.5% this year. Our performance the past couple years have been the strongest in our organization's history, as well as the history of any student finance group at Harvard, and place us in the 99th percentile among similar U.S. mutual funds. HFAC's investment research analysts and directors have done a terrific job of which they should be very proud.

2014 also represented our organization's strongest year yet in terms of corporate relations. We are proud to announce new partnerships with Goldman Sachs, Bain Capital, and AQR, benefiting HFAC members and the broader student body both educationally and professionally. While at the beginning of the year HFAC did not have enough operating cash on hand even to provide pizza for its members, we spent less than we earned, leaving future students with a surplus of several thousand dollars. This year was also the first in which our organization hosted the now-annual Harvard Stock Pitch Competition, bringing together top students from dozens of universities across the United States and Canada and providing another avenue for our sponsors and alumni to engage with the next generation of talent.

HFAC has continued to graduate a record number of new members this year and remains the largest professional group on campus. Education is a core mission of our organization, and we spend a great deal of time ensuring that our members receive the most rigorous introduction to valuation and accounting offered to students at Harvard. We hope you enjoy the remainder of this report, which discusses these developments and more in greater detail.

Justin Katiraei
President of Finance

Portfolio Review



Our Inaugural Stock Pitch Competition

This year HFAC branched out beyond the walls of Harvard and invited students at universities across the country to participate. While our own Harvard team took home the top prize, participants from Ivey Business School and University of Chicago followed closely behind. Following the event, the winning idea was written up on Seeking Alpha, and the HFAC team that presented it was invited to discuss their idea on a live broadcast with the CEO of Hedgeye.

Revamping the Comp

The comp was an area of focus this year as we thought through how we could make the comp experience a valuable one for our new members. The curriculum was adjusted to include a more comprehensive overview of comps analysis, qualitative analysis, and stock selection, with guest lectures from senior board members. These initiatives were well-received by the group, with a record comp graduation of 200 students applying the research, analysis, and valuation skills they had learned in our final stock pitch event.

BIGGEST WINNERS

SCHUFF STEEL

Schuff International (SHFK) – 76% Return

Schuff was originally identified as a company with a strong business model trading at a low 4.5x multiple to normalized UFCF. At a low point in the cyclic non-residential construction industry when we invested, we expected to see top-line growth driven by strong industry tailwinds. The value of the firm is further driven by clear operation leverage as the company emerges from a low point in the cycle – gross margins climbed from 10.5% to 14.5% in 2013 and further margin expansion can be expected as the company grows.

Key events for the stock in 2014 that we took into consideration were the sale by the Schuff family and management of their 65% share in May and HC2 Holding's $31.50 tender offer in August, which we believed to undervalue the company.

InfuSystem
BIOMED MADE EASY

INFUSystem Holdings (INFU) – 47% Return

We originally were interested in InfuSystem due to the work of an activist investor who also served as Chairman of the Board, Ryan Morris. We believed that Morris's aggressive cost cutting measures would allow the company to improve operating performance in the near term, but also saw the potential for Morris to make a bid to buy out the company. While the Board did reject his $1.85-2.00 per share offer to buy out the company, we were encouraged by the fact that the cost savings continued to materialize and believed that the buyout story had actually distracted from this core thesis on the company. In addition to the cost savings, the company's contract wins in 9 out of 9 CMS contracts it bid confirmed our original belief in the company's cost advantage relative to its competitors. The greatest risk that emerged in 2014 was a set of reimbursement cuts by CMS that were projected to have a 1-2MM and 2-3MM impact on sales in 2016 and 2017 respectively. Despite this, strong topline growth from other customers and improving margins indicated that as the largest player in a niche space, INFU would we able to capitalize on a growing market for cancer treatment and a newly growing market for infusion pump-based pain treatment.

BIGGEST WINNERS

Consolidated Tomoka Land (CTO) – 14% Return

CTO is a diversified land holdings company with a number of raw land properties with low book values derived from historical prices that don't reflect its current market value. Undervalued hidden assets and a management team with extensive experience in real estate investment and a high personal ownership stake in the company provide a promising value proposition. As catalysts we predicted specific parcels of the undeveloped land in Florida being sold in the near future based on research into permit applications in the area as well as local news on new businesses moving into area. As these sales are made CTO would then be able to apply the proceeds directly to investing in income-producing properties while deferring income taxes on capital gains from the sales.

BIGGEST LOSERS

Automodular (AMZKF) – Down 11.0%

Automodular was an unusual investment proposition – a business which was clearly in its final stages but which we saw asymmetric upside potential in nonetheless. An automobile sub-assembly business whose sole customer, Ford, had decided to insource decided to insource their work beginning at the end of 2014, it was trading at its liquidation value plus FCF for 2014. We saw upside potential from two areas – they could establish new contracts, either in the automobile industry or in renewable energy, following past work on wind-turbine subassembly, while a $25M lawsuit they had filed against GM provided a second upside opportunity. While neither of those events had materialized at the end of 2014,

BIGGEST LOSERS

Greystone Logistics (GLGI) – Down 11%

We viewed GLGI, a microcap manufacturer of plastic shipping pellets, as a fairly overlooked security with both a clear margin of safety and a high potential for upside through top-line growth. Trading at a low EV/EBITDA multiple of 6.28, we believed that investors were overly concerned about the risks of a high debt enterprise with most of its sales going to a single customer.

Premier Exhibitions (PRXI) – Down 10%

PRXI, a museum-quality touring exhibitions operator, was first and foremost an asset play from our perspective – the company owns the artifacts recovered from the Titanic, appraised by an auction house at $189M, while a court ordered appraisal valued them at $110M, or $155M including IP – this comes out to $1.48-$2.54 per share after tax, or 134%-164% of the market cap of the company in this one off-balance sheet asset. The company has, however, been unable to sell these assets for a number of years, despite entering a letter of intent in 2012 for $189M, and they are mandated to sell all of the assets together to preserve the cultural heritage for the Titanic. This challenge persisted throughout 2014, preventing PRXI from unlocking the off-balance sheet value of this asset.

OTHER POSITIONS

Noble Roman's (NROM) – Down 9%

When the fund first invested in Noble Roman's, we believed it had a number of characteristics of an attractive investment: a strong core business trading at 50% of peer multiples, a new Take-n'-Bake business that was ignored by the market, and value that had been obscured by a lawsuit and forced selling. While the market has clearly recognized some of the value in the business, our analysis shows that significant upside still remains. The company's Take-n'-Bake business, after rapid expansion in 2013, did not meet the same growth targets in 2014, and so while we still believe that the business's operating leverage will allow for conversion of virtually 100% of incremental revenues to free cash flow for new Take-n'-Bake locations, that growth rate of new locations has slowed.

Social Events

Social events have played an extremely important role in creating lasting friendships amongst members of HFAC and cohesiveness in our organization. This year, we had several board bonding events that helped create an environment for collective reflection on the future of our organization.

Retreat

HFAC

HARVARD FINANCIAL ANALYSTS CLUB

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