Williams Investment Society

Washington and Lee University

Q3 2013 WIS Update

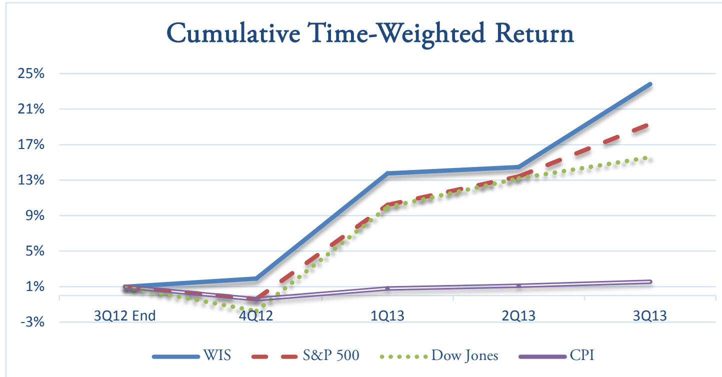
WIS Summary

The Society employs a top-down investment procedure to identify superior companies trading at reasonable prices. The Society believes that through extensive research and analysis, it can identify companies priced by markets at significant discounts to their intrinsiv values.

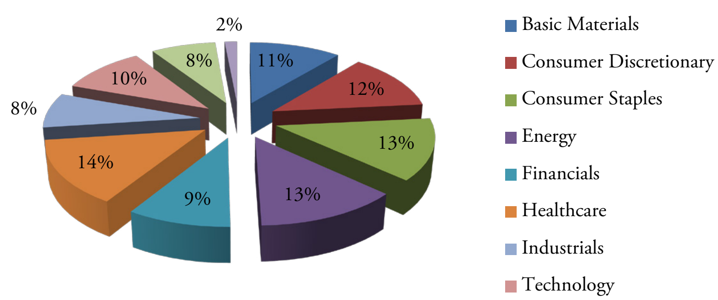
Firms must have at least $500 MM in market capitalization and a minimum share price of $5. WIS will not hold more than 5% of its portfolio in a single stock.

Performance Summary

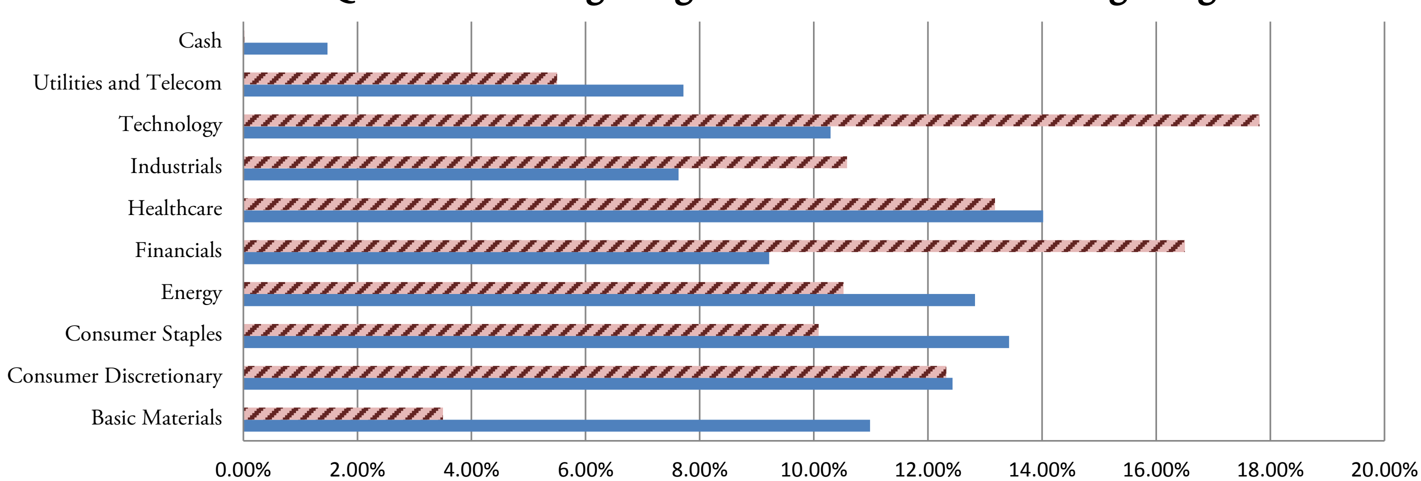
The Williams Investment Society generated strong returns for the 3rd quarter of 2013. The portfolio appreciated 8.20 percent as 16 holdings realized double digit returns. Robust sector performances, headed by basic materials, enabled the portfolio to bounce back after a dismal second quarter, which was plagued by interest rate related headwinds. On a risk-adjusted basis, the portfolio realized an alpha of approximately 3 percent for the third quarter of 2013. Overall, the Society's net asset value appreciated from $1,728,735 to $1,870,494 during the third quarter ended 2013.



Current WIS Sector Allocation Weightings



WIS 3Q13 Sector Weightings vs S&P 500 SPDR Weightings



	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	Technology	Utilities and Telecom	Cash
S&P 500 SPDR	3.50%	12.32%	10.08%	10.52%	16.50%	13.17%	10.58%	17.81%	5.50%	0.02%
WIS	10.99%	12.43%	13.42%	12.82%	9.22%	14.02%	7.63%	10.29%	7.71%	1.47%

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Portfolio Overview

The Williams Investment Society generated strong returns for the 3rd quarter of 2013. The portfolio appreciated 8.20 percent as 16 holdings realized double digit returns. Robust sector performances, headed by basic materials, enabled the portfolio to bounce back after a dismal second quarter, which was plagued by interest rate related headwinds. On a risk-adjusted basis, the portfolio realized an alpha of approximately 3 percent for the third quarter of 2013. Overall, the Society's net asset value appreciated from $1,728,735 to $1,870,494 during the third quarter ended 2013.

Although the Society previously reduced the basic materials portfolio weighting by 200 basis points, the entire reduction came from the precious metals subsector. This decision has continued to prove advantageous. Precious metals, despite rebounding after tapering expectations have been further delayed, are continuing to trend downward. The SLW acquisition, which is highly levered to silver and gold collapsed 30 percent during the second quarter, rebounding 20 percent during the third quarter. The firm has been able to increase sales, yet falling precious metal prices will continue to be a headwind. Still, management has provided guidance for 65 percent organic growth over the next five years. The equity's price had been inflated due to elevated uncertainty and easy monetary policy, yet as these two factors continue to normalize, the precious metal sector will continue to trend lower to more sustainable prices. A short-term headwind, the firm features considerable margins and continued, rapid growth, remaining a good long-term buy.

Other outperformers for 3Q13 include CF, CPSI, GILD, and ORCL. All respectively returning greater than 20 percent for the period, CF Industries rallied on news that the hedge fund Third Point initiated a position in the equity. Additionally, management has been increasingly active in returning capital to shareholders, recently raising its quarterly dividend 150 percent. Computer Programs & Systems performed well following a strong 2Q13 top and bottom line beat. The firm benefitted from stronger revenue growth coupled with significant margin expansion, realizing an operating margin improvement of 300 basis points quarter-over-quarter. Gilead's continued performance has been supported by a deep product pipeline and rapid product sales growth. The firm's steady outperformance relative to the broader market has been also driven by exponential growth from Complera and Eviplera as well as the release of the new product—Stribild—generating ample fundamental support for the equity's appreciation. Following a disappointing calendar-year 2Q13 earnings miss, Oracle rallied during the third quarter off of the news for its deal with Salesforce as well as the release of its new tape drive for cloud processing.

Still, tapering, accompanied by higher interest rates will remain a headwind for the portfolio's two REITS: AMT and VTR. Both positions provide impressive growth, which WIS expects to continue. Their growth is derived from products with inelastic demand, a leverageable factor for the two firms. AMT provides communication towers for wireless providers to lease and VTR owns—and increasingly manages—health-care related facilities. Given, rising interest rates put pressure or REITs ability to lever interest margins for returns, WIS considers the organic growth opportunities for AMT and the ability of VTR to continue to make successful acquisitions and expand its RIDEA dependent operations will drive future equity appreciation. Once markets become more comfortable with higher interest rates, the fundamentals will return to the forefront. During the 3rd quarter, VTR proved to be one of the largest laggards of the portfolio. As a REIT with a 4 percent dividend yield, interest rate risk changing relative value across financial markets impacts the equity more than AMT. AMT, in contrast, has a low dividend yield and the stock's equity appreciation is driven by fundamental, organic growth. Still, VTR's recent issuance of both 30-year and 3-year debt should ensure that the REIT can manage its cost of funds effectively in a rising interest rate environment, providing WIS with confidence that the stock will appreciate on its fundamentals going forward.

Throughout the 4th quarter, the Society intends to continue alleviating the significant discrepancies between WIS's sector weightings and those of the benchmark index, S&P 500 SPDR Index, as the Society deems necessary. Despite reducing the Basic Materials sector weighting by 200 basis points—specifically WIS' exposure to precious metals—during the first quarter, the other holdings within the sector have continued to outperform, elevating the WIS portfolio's sector weighting to 7.5 percent greater than the relevant index. In contrast, both financials and technology are underweight by about 7.5 percent respectively. Following the Society's purchase of additional shares of Wells Fargo, increasing the weighting by 100 plus basis points.

Going forward, commodity prices may be increasingly impacted by the initiation of tapering over the next few months. As the US dollar benefits from relative value flows, commodity prices, especially precious metals, may experience downward pressure, leaving the portfolio vulnerable to volatility from an overweight basic materials sector. Yet, if the global economy realizes an acceleration of growth, catalyzing an offsetting increase in demand, the negative impact may be mitigated, fostering a different outcome. By remaining considerably underweight the technology sector, WIS potentially misses out on a significant amount of innovation, characteristic of the space. During the 4th quarter, the Society will look to add to its position in the tech sector.

Economic and Investment Outlook

The current global economic outlook provides support for a generally bullish investment thesis; throughout the developed world and many of the growth markets, there were a number of positive indicators during the third quarter. The US has continued to expand at a moderate pace. Although slowing relative to the previous quarter, NFP numbers remained strong. Following the significant rise in the interest rates across the Treasury note and bond market term structure in June, housing data began to soften in the third quarter. However, due to softer economic data, the Fed decided that tapering would not be initiated in September, surprising many analysts, as the 10-year rate normalized downward following the decision. The self-inflicted impact of the debt-ceiling uncertainty will further provide reason for tapering's initiation to be delayed. The continuation of loose monetary policy will continue to buoy equities, especially as both the ISM Service and Manufacturing Sector continue to show strong readings, signaling moderate expansion.

China's growth rate rebounded slightly in the third quarter, as the economy expanded at a rate of 7.8 percent relative to 7.5% during the second quarter. Supported by low double-digit growth of both industrial output and retail sales, fixed asset investment expanded at a robust 20 percent growth rate. Despite these ostensibly strong readings, all three indicators grew at rates slower than the previous quarter, implying that China is not out of the woods yet. Moreover, inflation picked up slightly during the quarter, paired with the escalation of rising home values, China may tighten monetary policy, focusing on slowing the rate of credit growth, which would certainly be a headwind for economic expansion over the short-term. The composite PMI readings have been slowly improving from their summer trough. Overall, the PMI indicated a more tepid pace of growth, yet the new orders and business activity expectations sub-indexes show positive signs, implying that future growth may be picking up.

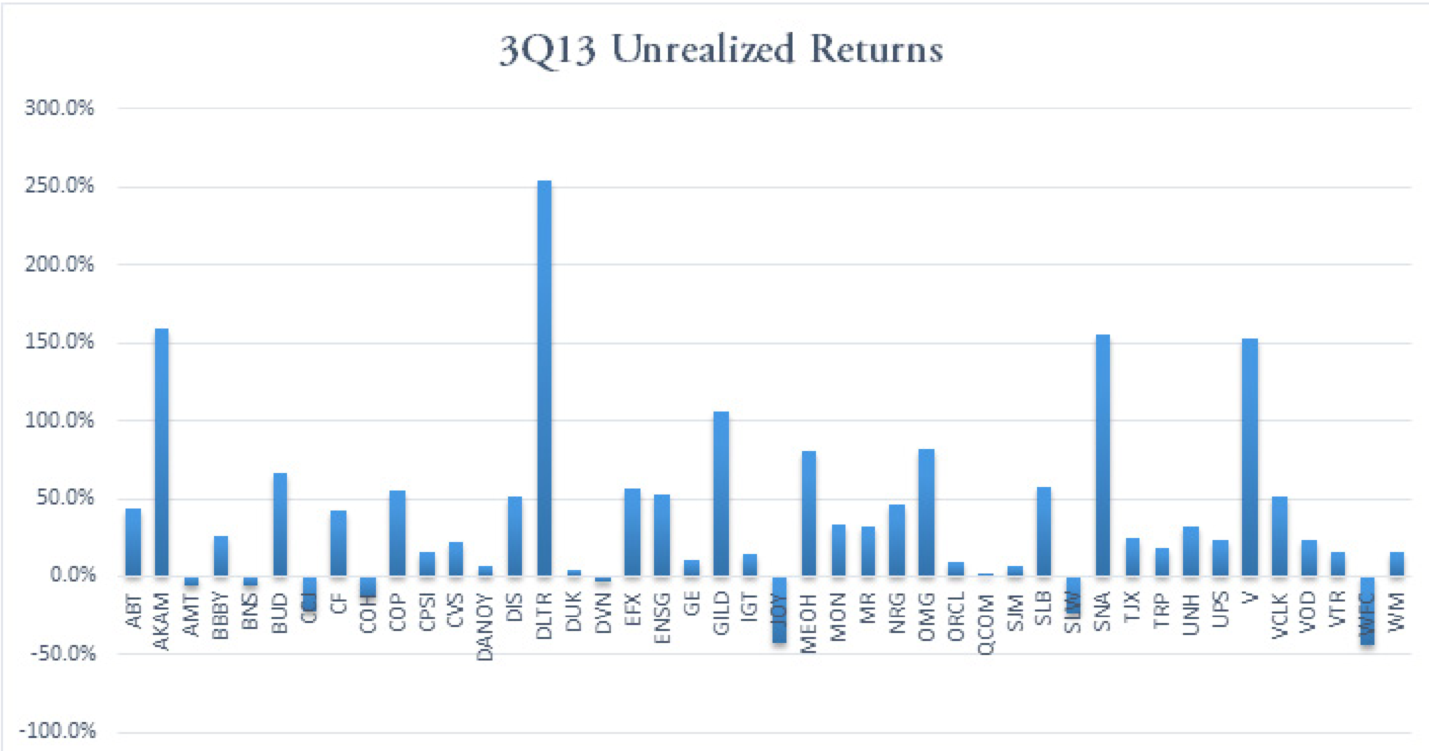
The Japanese economy has continued realizing above trend growth; the country's GDP has been expanding at around 4 percent for multiple quarters. The growth is partially driven by a rapid expansion of capital expenditures. Capital formation is a good long-run indicator of growth, sending a positive signal that the Japanese economy may realize longer-run benefits from Abenomics and Kuroda. Still, Japan's debt is ballooning, making tax—corporate and consumption—and labor reform now at the forefront of determining how successful Abe will be going forward. Abe needs to instil both confidence in financial markets and promote long-term growth prospects for Japan. Most of the growth has been from direct fiscal and predominantly monetary stimulus, so ensuring that the past few quarters of growth aren't ephemeral due to money neutrality is vital, and the strong capital expenditure readings are a good sign for Japan and the rest of the world.

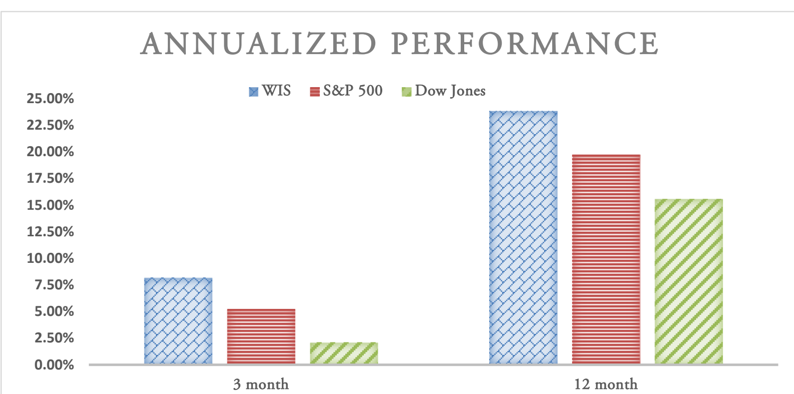
The Eurozone has continued to show signs of stabilization and the beginnings of an economic uptrend. The composite PMI of both services and manufacturing is above 50, indicating that the Eurozone overall is realizing growth in the two sectors of the aggregate economy. Moreover, the unemployment gauge of the PMI reinforces the thesis for stabilization. The unemployment rate currently remains at around 12%, expectations are for employment growth to pick up over the coming quarters, benefitting the global economy. As usual, Italian political turmoil is a consistent theme, as the third largest economy within the Eurozone continues to have domestic trouble.

Brazil, a crucial growth market for a number of WIS' positions, is appearing to have resolved two of the key uncertainties domestically that had hindered growth during the second quarter. After the Brazilian Central Bank rapidly raised the SELIC rate over the past few months, the Brazilian inflation rate has been trending downward. The effectiveness of the SELIC rate hikes is important for both restoring confidence in Brazilian investments and also increasing the relative value of the real versus the dollar once tapering begins. Secondly, Dilma Rousseff has rebounded in the polls, fostering more stability. These two factors are keys to short-term growth in Brazil, and the ostensible resolution of these issues will continue to benefit Brazil and return confidence to investors examining the Brazilian markets.

Despite the past few years realizing a similar trend—growth accelerates in the first half only to disappoint in the second half of the year—following the resolution of the debt ceiling, the global economy does appear poised to realize a faster pace of growth benefitting cyclical stocks. Stimulative monetary policy abroad combined with the delay of tapering domestically should continue to support equity price appreciation. Moreover, over the coming months as the US economy continues to strengthen, tapering will occur and interest rates may begin to rise, changing the relative value away from defensive, high-yielding equities. This will provide further incentive for investing in cyclical positions that benefit from increasingly robust growth prospects globally. Specifically, the potential for Europe to continue to bounce off what appears to be a bottom, a pickup in growth markets, and Japan's continued focus on expansionary fiscal and monetary policies, are all conducive factors to a positive equity outlook over the next few quarters.

Additional Figures





(%)	Prior 3 Months	Prior 12 Months
WIS	8.20	23.85
S&P 500	5.24	19.79
DOW JONES	2.12	15.59

Top Ten Holdings

	TICKER	MARKET VALUE
1	IGT	$ 75,659.80
2	SLB	$ 73,430.24
3	MEOH	$ 71,402.80
4	BUD	$ 68,740.00
5	GILD	$ 67,881.00
6	SJM	$ 67,600.68
7	COP	$ 66,661.50
8	QCOM	$ 64,358.49
9	DLTR	$ 61,708.50
10	ENSG	$ 61,019.70
PERCENT OF PORTFOLIO		36.27%

Current WIS Holdings

3rd Quarter appreciation/depreciation and market value of holdings. (*) indicates 2013 purchases.

Basic Materials

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
CF	$7,201.54	23.81%	0.39%
MEOH	$71,402.80	17.11%	3.82%
MON	$60,530.25	7.63%	3.24%
OMG	$42,355.50	8.58%	2.26%
SLW*	$24,001.79	22.81%	1.28%
TOTAL	$205,491.88		10.99%

Consumer Discretionary

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
COH	$26,083.20	-4.37%	1.39%
DIS	$30,409.50	0.88%	1.63%
DLTR	$61,708.50	10.71%	3.30%
IGT*	$75,659.80	11.35%	4.04%
TJX*	$38,602.53	11.73%	2.06%
TOTAL	$232,463.53		12.43%

Consumer Staples

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
BBBY	$19,350.00	7.80%	1.03%
BUD	$68,740.00	9.29%	3.67%
CVS	$42,876.48	-1.46%	2.29%
DANOY	$52,500.00	0.07%	2.81%
SJM*	$67,600.68	0.92%	3.61%
TOTAL	$251,067.16		13.42%

Energy

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
CCJ	$15,872.50	-12.54%	0.85%
COP	$66,661.50	13.52%	3.56%
DVN	$35,187.79	10.48%	1.88%
SLB	$73,430.24	21.41%	3.93%
TRP	$48,667.50	0.92%	2.60%
TOTAL	$239,819.53		12.82%

Financials

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
BNS	$18,869.40	7.54%	1.01%
EFX	$44,235.00	0.74%	2.36%
V	$18,865.00	3.17%	1.01%
VTR	$46,584.53	-10.36%	2.49%
WFC	$43,829.00	-0.10%	2.34%
TOTAL	$172,382.93		9.22%

Healthcare

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
ABT	$28,296.50	-5.25%	1.51%
ENSG	$61,019.70	14.96%	3.26%
GILD	$67,881.00	21.72%	3.63%
MR	$58,634.80	2.75%	3.13%
UNH*	$46,412.80	9.11%	2.48%
TOTAL	$262,244.80		14.02%

Industrials

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
GE	$29,353.80	2.36%	1.57%
JOY	$11,529.00	4.55%	0.62%
SNA	$25,471.27	9.14%	1.36%
UPS	$34,688.50	4.96%	1.85%
WM	$41,635.50	1.38%	2.23%
TOTAL	$142,678.07		7.63%

Technology

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
AKAM	$58,629.36	20.32%	3.13%
CPSI	$19,781.90	21.04%	1.06%
ORCL	$33,120.00	10.16%	1.77%
QCOM*	$64,358.49	10.43%	3.44%
VCLK	$16,632.00	-14.86%	0.89%
TOTAL	$192,521.75		10.29%

Utilities & Telecom

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
AMT	$22,836.73	2.94%	1.22%
DUK	$53,064.00	-0.09%	2.84%
NRG	$32,808.00	4.07%	1.75%
VOD	$35,540.00	22.41%	1.90%
TOTAL	$144,248.73		7.71%

Totals

TICKER	MARKET VALUE	QUARTERLY APPRECIATION/ DEPRECIATION	% OF PORTFOLIO
CASH	$27,575.88		1.47%
TOTAL	$1,870,494.26		
EQUITIES	$1,842,918.38		

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