

9-14-2009

# Trinity University Student Managed Fund: Annual Report, 2008-2009

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TRINITY UNIVERSITY  
STUDENT MANAGED FUND

ANNUAL  
REPORT

2008-2009

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## Foreword

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Trinity University's Student Managed Fund (SMF) provides a unique opportunity for students to manage a portfolio of equities valued at approximately \$1 million, an experience most students of finance don't have until graduate school. This responsibility to act a fiduciary is not taken lightly by the student managers, as evidenced by the extensive research and work contributed to every stock report presented to the class.

Student Managed Fund has a strong commitment to long-term investing, which is most critical in a weakening economy, such as we experienced this past year. All stocks presented were approached looking at the long-term investment potential, and the stocks purchased were determined to be the best among those. As important as the decisions to purchase are the decisions to sell; SMF managers take pride in knowing that all sell recommendations this semester were based on a fundamental change in the company, not solely a decrease in value.

The following Annual Report is an overview of the cumulative efforts of student managers throughout the 2008-2009 Academic Year. If you have any questions after reading this investment report, please contact Dr. Cooley or any student manager.

*Best regards on behalf of the Student Managed Fund class of 2008-2009,*



Janelle Heim  
[Janelle.Heim@trinity.edu](mailto:Janelle.Heim@trinity.edu)

John Hammon  
[John.Hammon@trinity.edu](mailto:John.Hammon@trinity.edu)

## SMF Student Managers

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### Rachel Brill

**Hometown:** Houston

**Majors and/or Minors:** Economics with a Business minor

**Investment Philosophy:** I look for companies that are financially-strong and appear promising in the long-run.



### Patrick Figures

**Hometown:** Georgetown, TX

**Majors and/or Minors:** Finance and a minor in Economics.

**Investment Philosophy:** Invest in a business I can understand.

### John Hammon

**Hometown:** Port Arthur, TX

**Majors and/or Minors:** Finance and Accounting

**Investment Philosophy:** I evaluate stocks using the methods I've learned in SMF along with the knowledge I have about different industries, and do my best to not have knee-jerk reactions every time something bad happens in the markets.





**Janelle Heim**

**Hometown:** San Antonio, TX

**Majors and/or Minors:** Finance and Economics

**Investment Philosophy:** I consider myself both a value and growth investor. Ultimately, I invest in the companies with strong future growth potentials that are currently undervalued by the market.

**Nick Johnson**

**Hometown:** Houston, TX

**Majors and/or Minors:** Finance and Drama, with an Economics minor

**Investment Philosophy:** I believe in using a top down approach when screening stocks, and always apply multiple valuation models to attack on all fronts.



**Ali Kaiser**

**Hometown:** Denver, CO

**Majors and/or Minors:** Spanish and Economics

**Investment Philosophy:** I look for companies that are financially strong and appear promising in the long-run.





**Will Kiesling**

**Hometown:** Phoenix, AZ

**Majors and/or Minors:** Finance and Marketing

**Investment Philosophy:** I'm a firm believer in value investing.

**Amanda Knape**

**Hometown:** San Antonio, TX

**Majors and/or Minors:** Finance with a minor in Psychology

**Investment Philosophy:** I believe in finding prosperous companies to invest in for the long run.

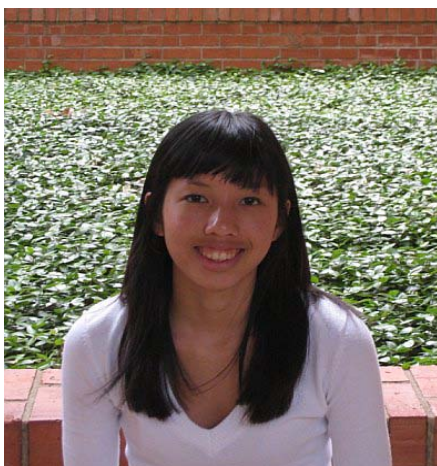


**Marcie Lou**

**Hometown:** Houston, TX

**Majors and Minors:** Major in Finance with a minor in Economics.

**Investment Philosophy:** I look at companies that I can thoroughly understand and companies that I think will be promising in the long run.



**Pete Markovich**

**Hometown:** Austin, TX

**Majors and/or Minors:** Business and Economics

**Investment Philosophy:** I like good companies at good prices, no matter the condition of the market.

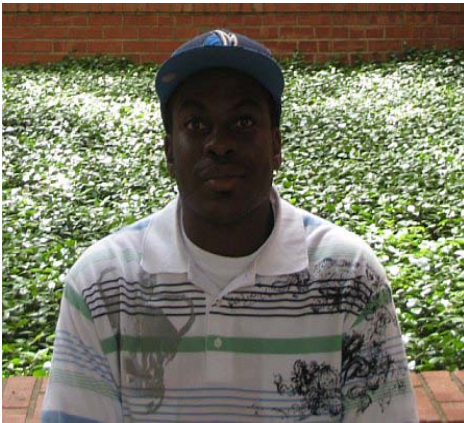


**Raja Mumuni**

**Hometown:** Lorinth, TX

**Majors and/or Minors:** Finance and Economics

**Investment Philosophy:** I invest in what I know and can easily understand.



**Michael Nance**

**Hometown:** Corpus Christi, TX

**Majors and/or Minors:** Finance

**Investment Philosophy:** I'm either looking for value plays that have been sold off despite a consistent track record or growth plays that have distinct advantages over competitors.



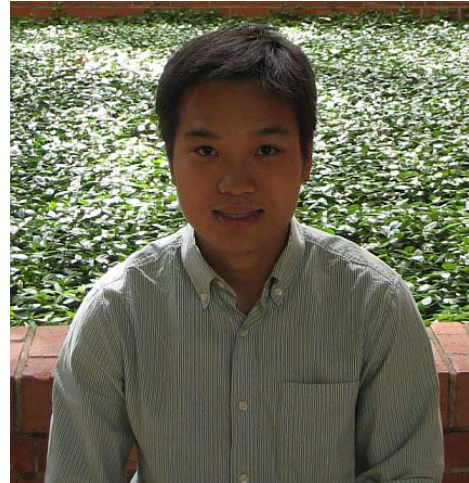


**Son Nguyen**

**Hometown:** Hanoi, Vietnam

**Majors and/or Minors:** Economics and Finance

**Investment Philosophy:** I subscribe to the Growth at a Reasonable Price approach: look for companies that are undervalued or overlooked by momentum investors yet possess solid growth potential.



**Rob Ruark**

**Hometown:** Nashville, TN

**Majors and/or Minors:** Finance and Economics

**Investment Philosophy:** I look for companies with solid cash flows in growing industries.

**Andy Quirin**

**Hometown:** Grapevine, TX

**Majors and/or Minors:** Finance and Communication with a minor in Drama

**Investment Philosophy:** I buy companies with high sales growth, solid product mixes and dependable dividends.



**Andrew Shane**

**Hometown:** Washington D.C

**Majors and/or Minors:** Finance and Economics

**Investment Philosophy:** I believe in being conservative and waiting for the right price.



**Jeremy Sherby**

**Hometown:** Winnipeg, Manitoba, Canada

**Majors and/or Minors:** Finance and Economics

**Investment Philosophy:** I am interested in finding small or medium cap companies that show potential for superior growth.

**Colin Umphreys**

**Hometown:** Atherton, CA

**Majors and/or Minors:** Accounting and Finance

**Investment Philosophy:** I only invest in business models that I understand. And I always insist on a margin of safety. It's never enough to invest in great companies; you have to make sure that they are trading below their intrinsic value.



**Madison Wilson**

**Hometown:** San Antonio, TX

**Majors and/or Minors:** Accounting and Finance

**Investment Philosophy:** Like Peter Lynch, I look for companies that are easy to understand and sell goods or services that everyone will use, whether or not we are in a recession.



**Kate Wright**

**Hometown:** San Antonio, TX

**Majors and/or Minors:** Finance and Management

**Investment Philosophy:** I look for an undervalued company with an interesting story behind it.

**Rob Wright**

**Hometown:** Plano, TX

**Majors and/or Minors:** Finance

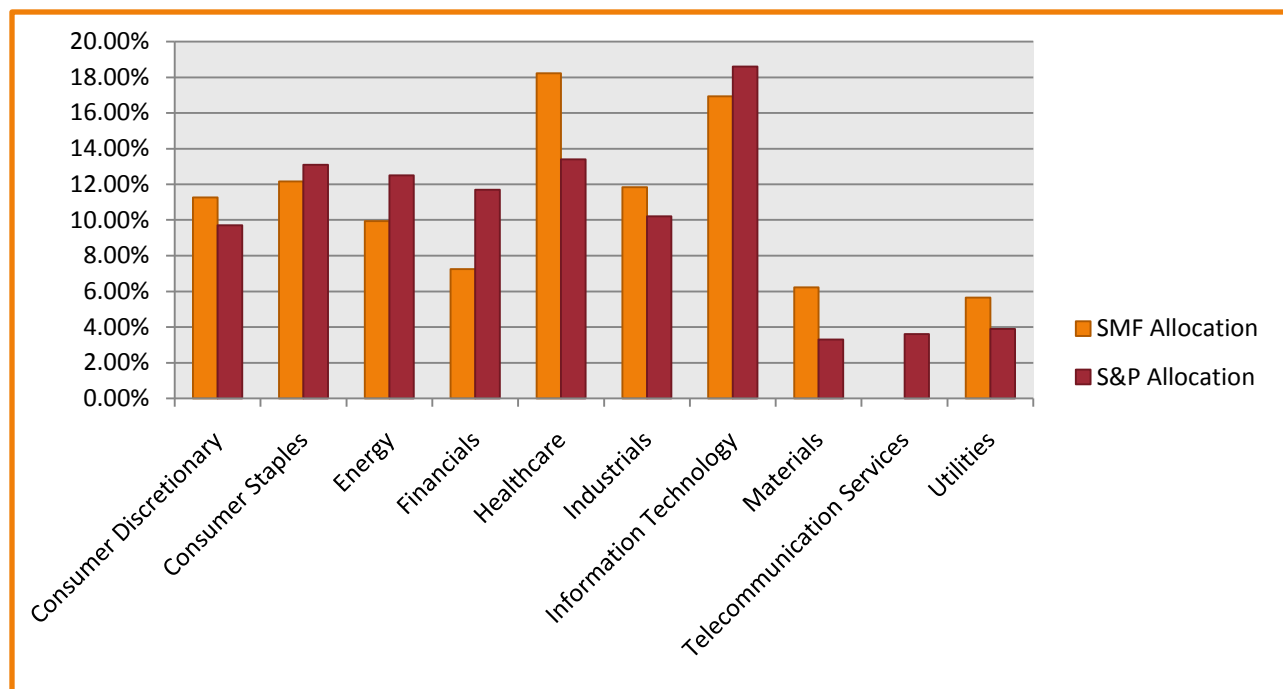
**Investment Philosophy:** I search for undervalued companies with plenty of free cash flow.



## Portfolio Allocation vs. S&P 500

Sector	SMF Allocation	S&P Allocation	Variance (SMF-S&P)
Consumer Discretionary (BKE, PETS)	11.26%	9.70%	1.56%
Consumer Staples (PM, WMT, SYY)	12.16%	13.10%	-0.94%
Energy (OXY, NE)	9.93%	12.50%	-2.57%
Financials (NDAQ, GS, WFC)	7.24%	11.70%	-4.46%
Healthcare (JNJ, DGX, UNH, BDX, CERN)	18.22%	13.40%	4.82%
Industrials (BNI, LLL, CW)	11.84%	10.20%	1.64%
Information Technology (ORCL, FDS, AAPL, ACN)	16.94%	18.60%	-1.66%
Materials (MOS, BLL)	6.23%	3.30%	2.93%
Telecommunication Services	0.00%	3.60%	-3.60%
Utilities (FPL)	5.65%	3.90%	1.75%

The aim of Trinity's Student Managed Fund is to outperform the S&P 500, not merely mimic its performance. In researching and picking stocks, the managers analyze the state of possible industries and try to identify the companies with the strongest potential within the industries that have the brightest futures. For the 2008-2009 academic year, this industry was healthcare. The purchases of Cerner and Becton-Dickinson made the portfolio overweight in the sector, but we believe that with the current problems and new administration, healthcare will help lead the recovery.



## 2008-2009 Securities Purchased and Sold

Securities Purchased during the 2008-2009 School Year									
Company	Ticker	Shares	Purchase Price	Purchase Value	4-30-2009 Price	4-30-2009 Value	Gain/Loss	% Gain/Loss	
Mosaic	MOS	1,000	\$28.11	\$28,105	\$40.45	\$40,450	\$12,345	43.92%	
Accenture	ACN	1,000	30.73	\$30,731	29.43	29,430	(1,301)	-4.23%	
Philip Morris	PM	1,000	42.31	\$42,306	43.51	43,510	1,204	2.84%	
Apple	AAPL	400	97.71	\$39,084	125.83	50,332	11,248	28.78%	
Buckle Inc.	BKE	2,000	23.54	\$47,080	37.37	74,740	27,660	58.75%	
Becton-Dickinson	BDX	600	67.05	\$40,230	60.48	36,288	(3,942)	-9.80%	
Cerner	CERN	1,000	42.43	\$42,430	53.80	53,800	11,370	26.80%	
PetMeds	PETS	2,000	15.74	\$31,475	16.26	32,520	1,045	3.32%	
Sysco	SYO	1,900	22.99	\$43,681	23.33	44,327	646	1.48%	
Wal-Mart	WMT	700	46.92	\$32,844	50.40	35,280	2,436	7.42%	
<b>Total Securities Purchased</b>				<b>\$377,967</b>		<b>\$440,677</b>	<b>\$62,710</b>	<b>16.59%</b>	
Securities Sold during the 2008-2009 School Year									
Company	Ticker	Shares	Purchase Price	Purchase Value	Sold Price	Sold Value	Gain/Loss	% Gain/Loss	
Canon	CAJ	525**	48.80	17,115	33.70	17,658	543	3.17%	
Safeway	SWY	1,400	28.95	40,530	20.56	28,748	(11,782)	-29.07%	
Sears Holdings Corporation	SHLD	500	127.15	63,612	60.43	30,178	(33,434)	-52.56%	
Starbucks	SBUX	600	8.77	5,262	9.48	5,653	391	7.43%	
Zimmer Holdings Inc.	ZMH	750	78.73	59,083	37.51	28,133	(30,951)	-52.38%	
<b>Total Securities Sold</b>				<b>\$185,602</b>		<b>\$110,370</b>	<b>(\$75,233)</b>	<b>-40.53%</b>	
2008 Purchase/Sale									
2009 Purchase/Sale									
**Final Share Amount Adjusted for Stock Splits									
Gain/Loss Does Not Include Dividends									

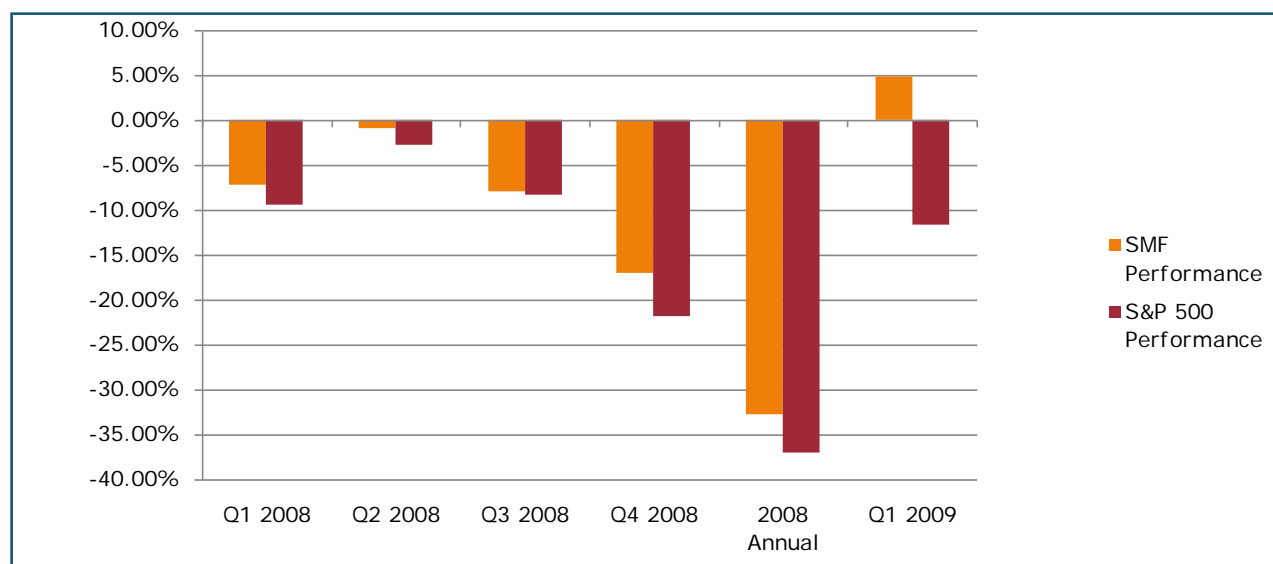
The first semester of Student Managed Fund was filled with stock picks that the managers believed would be 'recession-proof' or at least recession-resistant. The first round of stock picks resulted in the purchase of Accenture, a consulting firm that helps companies 'trim the fat' in their businesses, and Philip Morris, an addictive product company that is expanding further into developing countries. Another early move was to sell Canon, the portfolio's only foreign stock. The move was not because of an inferior product or management at the company but that with a recession, people will likely not be shelling out money to purchase new cameras. The second round of stock picks followed the market crash in October. Stocks that were looking cheap in August began to look like giveaways. The managers took this opportunity to purchase the historically expensive Apple, Inc. and Mosaic. So far, both stocks have performed admirably and their stock price appreciation is indicative of how much the market was sold off towards the end of 2008.

The second semester was all about finding the companies with the most growth potential and ability to outperform the S&P 500. The managers eagerly snatched up Cerner, a market leader in electronic health records that will likely benefit from recent legislation. Another pick early in the semester was Buckle, Inc. As a retail chain, the stock price of the company suffered greatly, most likely because investors feared it would suffer from cuts in consumer discretionary spending. However, the members of the class believe that the company was and is a good investment because of its conservative approach in opening and operating its stores. Unlike Cerner and Buckle, two stock purchases made by the managers were of stalwart companies, Wal-Mart and Sysco. While these companies do not have the most exciting stock price performances, they have fairly consistent growth and are market leaders in good and bad times. The managers believed that both of these companies will help to shield the portfolio from another dramatic drop in the stock market.

## SMF Performance vs. S&P 500

SMF Portfolio Performance vs. S&P 500 Performance			
	SMF Performance	S&P 500 Performance	Variance (SMF-S&P)
Q1 2008	-7.20%	-9.45%	2.25%
Q2 2008	-0.94%	-2.73%	1.79%
Q3 2008	-7.93%	-8.37%	0.44%
Q4 2008	-16.97%	-21.94%	4.97%
2008 Annual	<b>-32.86%</b>	<b>-37.00%</b>	<b>4.14%</b>
Q1 2009	4.89%	-11.67%	16.56%

The Student Managed Fund has consistently managed to beat the S&P 500, and 2008 was no exception. While the fund was down, it outperformed the S&P 500 by over 400bps. The managers like to attribute our ability to beat the market to the unique set up of the class. No security can be purchased or sold without the approval of two-thirds of the class. This helps protect the portfolio from being at the mercy of emotion, which often causes investors to jump ship or flock to 'fad' stocks. Of note, as of April 30, 2009, the fund is performing well above the S&P 500, due in part to the boost in consumer confidence but also to the rigorous selection process that our fund's securities must pass.



## 2008-2009 Portfolio Dividends

Accenture (ACN)*	\$0.50	1.70%	\$500.00
Apple (AAPL)	-	-	-
The Buckle (BKE)	\$0.20	2.14%	\$1,200.00
Ball Corporation (BLL)	\$0.10	1.06%	\$200.00
Becton-Dickinson (BDX)	\$0.33	2.18%	\$594.00
Burlington Northern (BNI)	\$0.40	2.37%	\$1,120.00
Cerner (CERN)	-	-	-
Curtiss-Wright (CW)	\$0.08	1.00%	\$160.00
Quest Diagnostics (DGX)	\$0.10	0.78%	\$240.00
FactSet (FDS)	\$0.18	1.34%	\$576.00
FPL Group (FPL)	\$0.47	3.52%	\$1,892.00
Goldman Sachs (GS)	\$0.47	1.45%	\$467.00
Johnson and Johnson (JNJ)	\$0.46	3.51%	\$1,104.00
L-3 Communications (LLL)	\$0.35	1.84%	\$910.00
Mosaic (MOS)	\$0.05	0.49%	\$200.00
Nasdaq (NDAQ)	-	-	-
Noble Corporation (NE)	\$0.04	0.59%	\$224.00
Oracle Corporation (ORCL)	\$0.05	1.03%	\$400.00
Occidental Petroleum (OXY)	\$0.32	2.27%	\$1,280.00
PetMeds (PETS)	-	-	-
Philip Morris (PM)	\$0.54	5.97%	\$2,160.00
Sysco (SYY)	\$0.24	4.11%	\$912.00
United Health Group (UNH)	\$0.03	0.51%	\$108.00
Wells Fargo (WFC)	\$0.34	6.80%	\$544.00
Wal-Mart (WMT)	\$0.27	2.17%	\$764.40
<b>Anticipated 2009 Income from Dividends</b>			<b>\$15,555.40</b>

\*ACN's dividend is paid out annually. All others are paid out quarterly.  
Dividend yield is calculated using security price as of 4/30/09.

Dividends receive little air time in the Student Managed Fund, but in turbulent times, any little bit helps. The fund's dividends are not reinvested, but are placed into the cash balance of the portfolio, and with the exception of the portfolio's financial stocks most of the companies have provided a steady income for the fund.

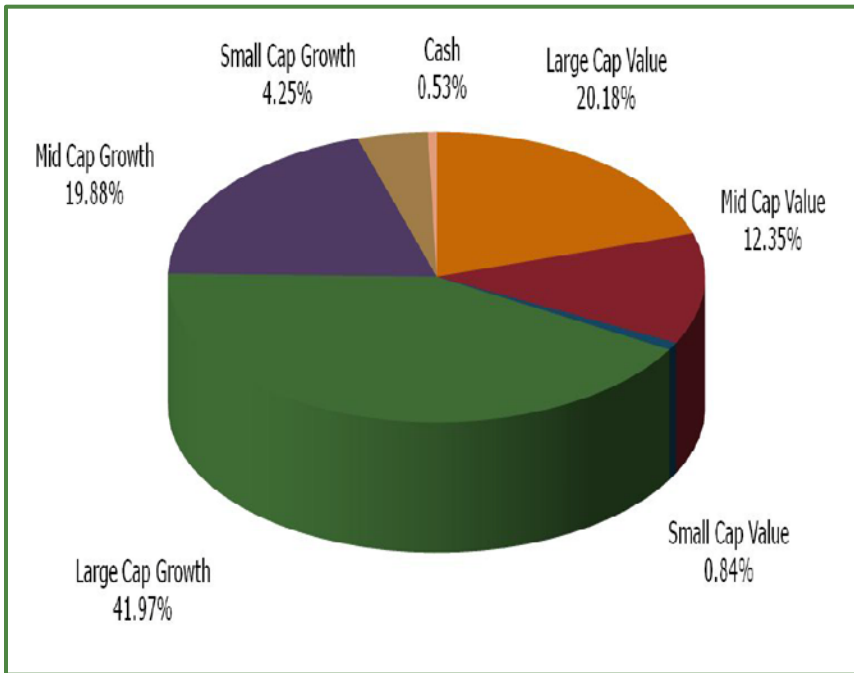
## Current Asset Allocation [as of April 30, 2009]

<i>Investment</i>	<i>Style</i>	<i>S&amp;P Sector</i>	<i>Current Value</i>	<i>% of Port.</i>
<b>STOCKS</b>				
<i>Domestic</i>				
Accenture, Ltd.	Large Cap Growth	Info. Technology	\$29,430.00	3.09%
Apple	Large Cap Growth	Info. Technology	\$50,332.00	5.29%
Ball Corporation	Mid Cap Growth/Value	Materials	\$18,860.00	1.98%
Becton, Dickinson & Company	Large Cap Growth	Healthcare	\$36,288.00	3.81%
Buckle Inc.	Mid Cap Growth/Value	Consumer Discretionary	\$74,740.00	7.85%
Burlington Northern Santa-Fe Corp	Large Cap Growth/Value	Industrials	\$47,236.00	4.96%
Cerner Corporation	Mid Cap Growth/Value	Healthcare	\$53,800.00	5.65%
Curtiss-Wright Corporation	Small Cap Growth/Value	Industrials	\$15,985.00	1.68%
Quest Diagnostics Inc.	Large Cap Growth	Healthcare	\$30,798.00	3.23%
FactSet Research Systems Inc.	Mid Cap Growth	Info. Technology	\$42,872.00	4.50%
FPL Group, Inc.	Large Cap Growth/Value	Utilities	\$53,790.00	5.65%
Goldman Sachs Group, Inc.	Large Cap Growth/Value	Financials	\$32,125.00	3.37%
Johnson & Johnson	Large Cap Growth/Value	Healthcare	\$31,416.00	3.30%
L-3 Communications Holdings, Inc.	Mid Cap Growth/Value	Industrials	\$49,497.50	5.20%
Mosaic Company	Large Value	Materials	\$40,450.00	4.25%
NASDAQ OMX Group, Inc.	Mid Cap Growth	Financials	\$28,845.00	3.03%
Noble Corporation	Mid Cap Growth/Value	Energy	\$38,262.00	4.02%
Oracle Corporation	Large Cap Growth	Info. Technology	\$38,680.00	4.06%
Occidental Petroleum Corporation	Large Growth	Energy	\$56,290.00	5.91%
PetMeds	Small Cap Growth	Consumer Discretionary	\$32,520.00	3.42%
Phillip Morris	Large Cap Growth/Value	Consumer Staples	\$36,200.00	3.80%
Sysco Corporation	Large Cap Growth/Value	Consumer Staples	\$44,327.00	4.66%
UnitedHealth Group Inc.	Large Value	Healthcare	\$21,168.00	2.22%
Wells Fargo & Company	Large Value	Financials	\$8,004.00	0.84%
Wal-Mart	Large Growth	Consumer Staples	\$35,280.00	3.71%
<b>Subtotal</b>			<b>\$947,195.50</b>	<b>99.47%</b>
	<b>Total Cash</b>		<b>\$5,000.00</b>	<b>0.53%</b>
	<b>TOTAL</b>		<b>\$952,195.50</b>	<b>100.00%</b>

Current values of SMF holdings are as of 4/30/2009.

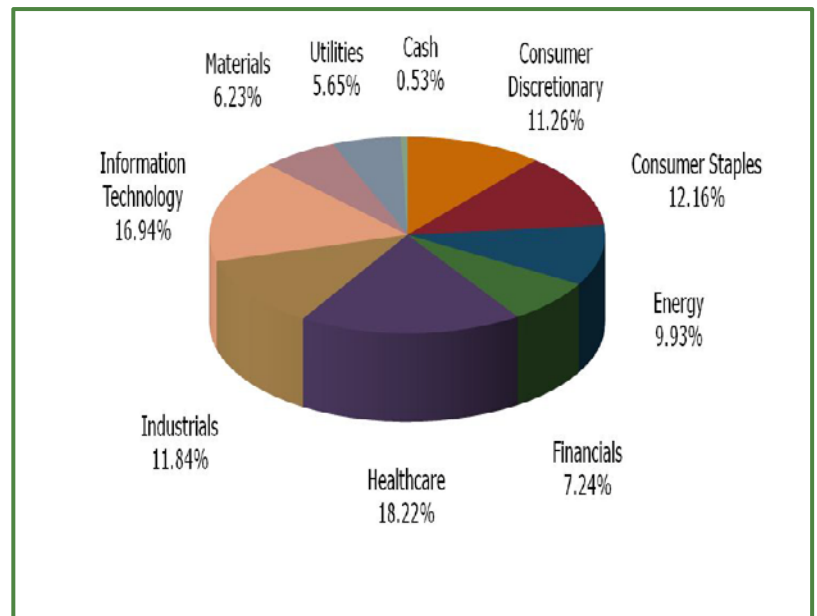


## Current Asset Allocation [as of April 30, 2009]



<i>Asset Class</i>	<i>% of Port</i>
Large Cap Value	20.18%
Mid Cap Value	12.35%
Small Cap Value	0.84%
Large Cap Growth	41.97%
Mid Cap Growth	19.88%
Small Cap Growth	4.25%
Cash	0.53%

<i>S&amp;P Sector Allocations</i>	<i>% of Stock</i>
Consumer Discretionary	11.26%
Consumer Staples	12.16%
Energy	9.93%
Financials	7.24%
Healthcare	18.22%
Industrials	11.84%
Information Technology	16.94%
Materials	6.23%
Utilities	5.65%
Cash	0.53%



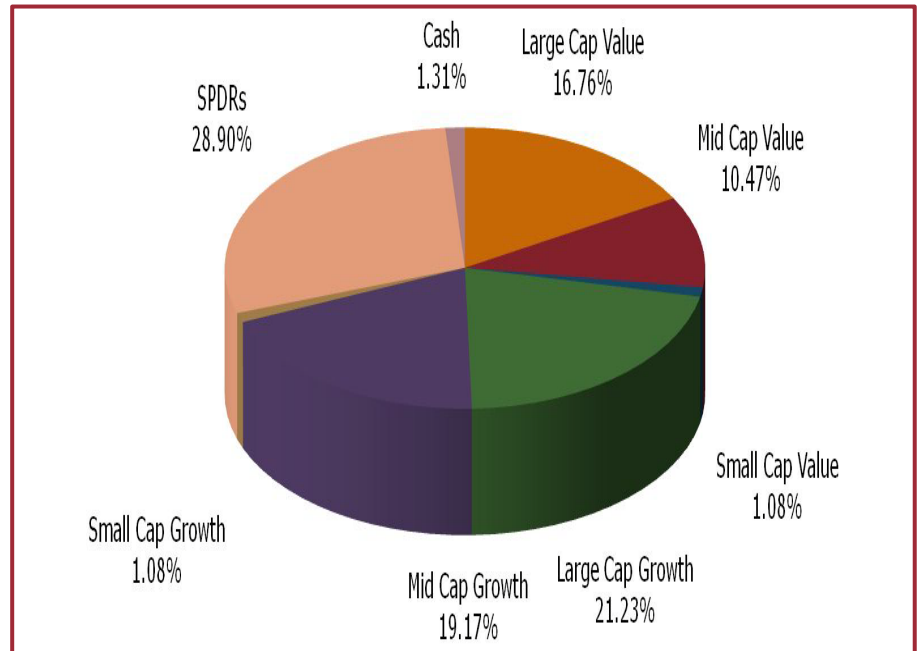
## Portfolio Asset Allocation [as of August 31, 2008]

<i>Investment</i>	<i>Style</i>	<i>S&amp;P Sector</i>	<i>Current Value</i>	<i>% of Port.</i>
<b>STOCKS</b>				
<b>Domestic</b>				
Ball Corporation	Mid Cap Growth/Value	Materials	\$22,960.00	1.84%
Burlington Northern Santa-Fe Corp	Large Cap Growth/Value	Industrials	\$75,180.00	6.03%
Curtiss-Wright Corporation	Small Cap Growth/Value	Industrials	\$26,935.00	2.16%
Quest Diagnostics Inc.	Large Cap Growth	Healthcare	\$32,430.00	2.60%
FactSet Research Systems Inc.	Mid Cap Growth	Info. Technology	\$50,168.00	4.02%
FPL Group, Inc.	Large Cap Growth/Value	Utilities	\$60,060.00	4.81%
Goldman Sachs Group, Inc.	Large Cap Growth/Value	Financials	\$40,992.50	3.29%
Johnson & Johnson	Large Cap Growth/Value	Healthcare	\$42,258.00	3.39%
L-3 Communications Holdings, Inc.	Mid Cap Growth/Value	Industrials	\$67,561.00	5.41%
NASDAQ DMX Group, Inc.	Mid Cap Growth	Financials	\$49,035.00	3.93%
Noble Corporation	Mid Cap Growth/Value	Energy	\$70,406.00	5.64%
Oracle Corporation	Large Cap Growth	Info. Technology	\$43,860.00	3.52%
Occidental Petroleum Corporation	Large Growth	Energy	\$79,360.00	6.36%
Safeway Inc.	Large Value	Consumer Staples	\$36,876.00	2.96%
Sears Holdings Corporation	Mid Cap Growth/Value	Consumer Discretionary	\$45,975.00	3.68%
Starbucks	Mid Cap Growth	Consumer Discretionary	\$9,336.00	0.75%
SPDRs	ETF	N/A	\$360,612.00	28.90%
UnitedHealth Group Inc.	Large Value	Healthcare	\$27,405.00	2.20%
Wells Fargo & Company	Large Value	Financials	\$12,108.00	0.97%
Zimmer Holdings Inc.	Mid Cap Growth/Value	Healthcare	\$54,292.50	4.35%
<b>Domestic Subtotal</b>			<b>\$1,207,810.00</b>	<b>96.80%</b>
<b>Foreign</b>				
Canon Inc.	Large Value	Info. Technology	\$23,488.50	1.88%
<b>Foreign Subtotal</b>			<b>\$23,488.50</b>	<b>1.88%</b>
	<b>Equity Subtotal</b>		<b>\$1,231,298.50</b>	<b>98.69%</b>
	<b>Total Cash</b>		<b>\$16,406.18</b>	<b>1.31%</b>
	<b>TOTAL</b>		<b>\$1,247,704.68</b>	<b>100.00%</b>

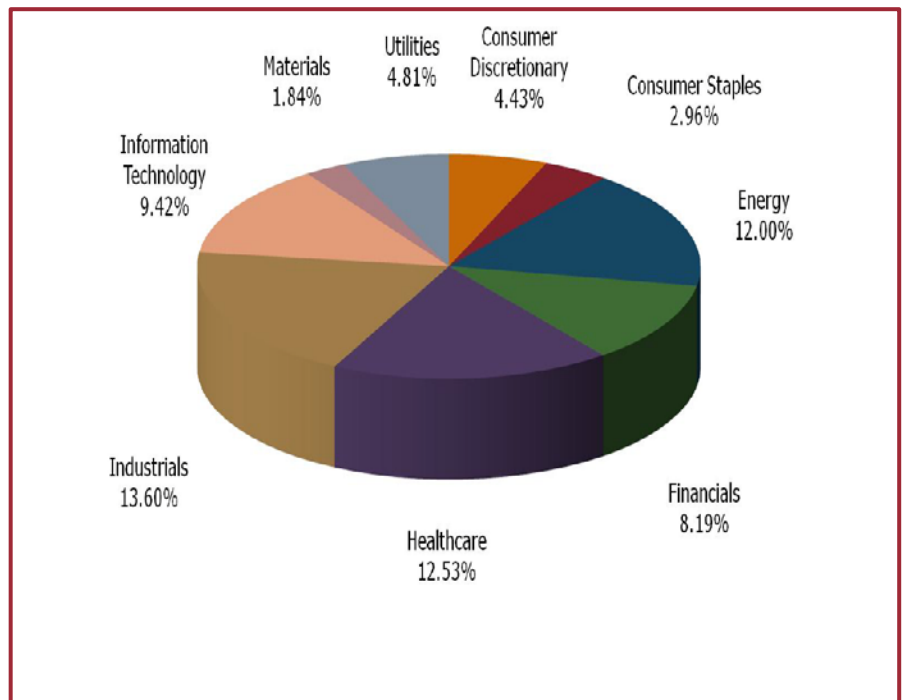
Current values of SMF holdings are as of 8/31/2009.

## Portfolio Asset Allocation [as of August 31, 2008]

Asset Class	% of Port
Large Cap Value	16.76%
Mid Cap Value	10.47%
Small Cap Value	1.08%
Large Cap Growth	21.23%
Mid Cap Growth	19.17%
Small Cap Growth	1.08%
SPDRs	28.90%
Cash	1.31%



S&P Sector Allocations	% of Stock
Consumer Discretionary	4.43%
Consumer Staples	2.96%
Energy	12.00%
Financials	8.19%
Healthcare	12.53%
Industrials	13.60%
Information Technology	9.42%
Materials	1.84%
Utilities	4.81%



# The SMF Experience

---

## Selection & Requirements

Students are selected for enrollment in the class based upon the strength of their application in regard to the following criteria: GPA, prerequisites, relevant work experience, and computer skills. Knowledge of accounting, economics, and finance are prerequisites. Work experience in the fields of investments, accounting, or economics is beneficial. Student initiative is required in the class.

## Student Benefits

Benefits of SMF to students include: acquiring hands-on experience in finance; developing research, analytical, writing, presentation, and teamwork skills; developing responsibility and accountability for decisions; gaining attractiveness to employers -- particularly in prestigious finance positions; and fostering relationships between students, faculty, alumni, and the business community. The interdisciplinary nature of the class enables each student to make unique and important contributions based upon their varied backgrounds. Overall, students learn how to become better investors.

## The Course

SMF gives students an opportunity to manage real money, bridging the gap between financial theory and real-world application. The purpose of the fund is to enrich the education of business students through “hands on” approach and to beat market performance measured by the Standard and Poor’s 500 Index.

## Structure

The Student Managed Fund focuses study upon required reading and discussion, independent monitoring of financial publications, team presentations on investment stocks, and individual projects.

Required readings and discussions provide a foundation of financial theory and concepts. Popular books covered in SMF include: *One Up on Wall Street*, *The Warren Buffet Way*, *The Money Masters*, *Stocks for the Long Run*, and *Common Stocks Uncommon Profits*. Technical books such as *Security Analysis on Wall Street*, *Financial Statement Analysis*, and *Investment Valuation* provide techniques for stock selection. Individually monitored publications include: Barron’s, Business Week, Forbes, Fortune, Standard & Poor’s Outlook, Value Line Investment Survey: Selection & Opinion, and the Wall Street Journal.

Stock proposals require oral and written presentations. The class is split into teams of 2-3 students to pitch stocks. Stock reports include: company background, industry analysis, SWOT analysis, financial ratio analysis, stock valuation utilizing price multiples and growth projection models, pro forma income statements, discounted cash flow analysis, capital asset pricing model, recommended action, and any other pertinent material. Decisions to change the existing portfolio require a 2/3 class majority vote.

## Special Projects 2008-2009

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### Fall Semester

Graham & Dobb Investor Biographies  
Sell Recommendation: Sears Holdings Corp.  
Stock Screening: Fastest Ugly Poodle  
Macroeconomic Reports  
Investment Differences: Republicans vs. Democrats  
Lesson: Options Basics  
Valuation: Sears Holdings Corp.  
Error Analyses: SMF Stock Decisions  
Sell Recommendation: Canon Inc. (ADR)  
Financial Update: Goldman Sachs  
Lesson: Private Equity  
Michael Porter's IOBP Framework  
Presentation on Excise Taxes  
Presentation: "Obamanomics"  
Oil & Gas Update: OPEC Report  
Consumer Report: Holiday Market Report  
Comparative Analysis of Collegiate Student Managed Funds

### Spring Semester

Stock Earnings Update: Mosaic Company  
Error Analyses: SMF Stock Decisions  
Class Newsletter: The Bottom Line  
SMF Sector Allocation Report  
Sell Recommendation: Safeway, Inc.  
Dividends Presentation: H-Model  
Sell Recommendation: Zimmer Holdings Corp.  
Special Report: Mini-Tender Offers  
Sell Recommendation: UnitedHealth Group  
Sell Recommendation: Buckle  
Sell Recommendation: Sears Holdings Corp.  
Presentation: FASB Changes in Accounting Rules  
Presentation: World Indices Report  
Complete Discounted Cash Flow Analysis of Portfolio Holdings  
Buy Recommendation: ScotiaBank  
Buy Recommendation: PetMeds Express

# Investment Philosophy

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## **I. Objectives**

- a. To earn a rate of return, calculated on the entirety of the fund that is superior to the market benchmark, defined as the S&P Index, in each one-year, three year, and five-year period.
- b. To Preserve and enhance the monetary value of those assets allocated by the trustees of Trinity University for future classes to manage.
- c. To manage the fund in the context of portfolio management rather than as a collection of individual stocks.

## **II. Securities**

- a. The portfolio shall be invested exclusively in U.S. listed equity securities, with the exception of a frictional amount of cash invested in a money market fund.
- b. The portfolio shall be diversified with respect to exposure to different economic sectors, industry segments, and individual stocks. Managers will be encouraged not to diversify beyond their own areas of expertise.
- c. The portfolio will not be governed by specific diversification guidelines; however, the majority of the portfolio will be invested in well-established, large and mid-capitalization corporations.
- d. Puts, calls, and futures contracts, as well as short selling and margin buying will not be allowed.
- e. Tax-exempt securities will not be acceptable investments, because the fund is not subject to taxation.
- f. Decisions concerning individual security selection, size, and number of industries or holdings will be left to manager's discretion subject to normal standards of fiduciary prudence. Managers shall maintain a long-term perspective when selecting securities to be consistent with the long-term investment horizon of Trinity University's endowment fund.
- g. At the time of purchase, no more than five percent of the fair market value of the fund shall be invested in any one security. The fund may continue to hold securities that appreciate above this percentage; however, once a security comprises more than fifteen percent of the fair market value of the fund, the equity position will be re-evaluated.
- h. Security sale recommendations shall be based on a fundamental analysis that suggests that the continued holding of the security presents unacceptable risks, that anticipated returns have been achieved, that a continued position in the security is no longer in conformance with overall portfolio risk and return objectives, or that liquidation of the position presents a unique profit-taking opportunity.
- i. For the duration of Sudanese state-sponsored atrocities in the Darfur region, SMF will consider the relationship and company might have with the Sudanese Government prior to investing. Any direct investment that allows the Sudanese Government to finance genocide in the Darfur region by association or contributing to the state-sponsored atrocities shall be avoided and/or divested. The SMF class will be responsible for vigilance in monitoring companies' involvement with the Sudan Government. Resources such as [sudandivestment.org](http://sudandivestment.org) may provide helpful information.

## Investment Philosophy [continued]

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### **III. Reports and Responsibilities**

- a. New investments consistent with the portfolio strategy will be indentified, analyzed, discussed and voted upon by the student managers.
- b. Each semester managers will be broken into teams. Each team will be required to prepare and present two security reports per semester.
- c. Security reports shall consist of an oral proposal and a written summary of key decision points supported by appropriate research.
- d. A copy of the written report will be handed out one or two class sessions before the oral presentation. Managers shall digest the content of the report and obtain any relevant information to contribute to the oral presentation in order for the managers to make an informed investment decision.
- e. Upon completion of the presentation, teams shall make an objective purchase recommendation consisting of the following: number of shares and target price.
- f. Unless timing is urgent, a vote to add a new security to the portfolio will not be made on the same day as the presentation to ensure that the vote reflects the quality of the stock rather than the quality of the presentation.
- g. A select group of managers will make a written quarterly formal report to the Trinity University Board of Trustees in November, February, and May of each year, as well as an oral report in February.
- h. During breaks, management of the fund will be the responsibility of a team of managers and/or the professor.

### **IV. Voting**

- a. Any investment decision will be decided by secret ballot with each manager and professor receiving one vote.
- b. All investment decisions must be approved by a two-thirds majority of a quorum of class members present during a class session. A quorum is seventy-five percent of the class members.
- c. The professor will retain veto power over all investment decisions; this veto is to be used sparingly.
- d. Any member may cast a vote of indifference; the number of votes of abstention will reduce the number of votes taken into account.
- e. Absentee voting will be allowed in those circumstances approved by the professor and managers.

# Code of Ethics

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## ***Vision:***

The primary vision of the Trinity University Student Managed Fund will be to provide students with a comprehensive learning experience to develop and practice portfolio management styles and valuation techniques. The course will emphasize a thorough analysis of securities based on fundamentals and prudent management of the equity portfolio.

## ***Managers of the fund shall:***

- Act with integrity, competence, dignity, and ethics when dealing with Trinity University, the public, and fellow members.
- Practice and encourage others to practice in an ethical manner that will reflect favorably on other members and the group.
- Strive to maintain and improve their competence and the competence of others in the group.
- Use reasonable care and exercise independent and unbiased judgment
- Make every attempt to remain well informed and up to date on relevant information
- Hold themselves and others accountable for maximum efforts when completing assignments.

## ***Standards of Conduct:***

- **Knowledge of Policy:** Members shall maintain knowledge of and comply with the Investment Policy as established by this fund.
- **Ethical Conduct:** Members shall not engage in any conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or competence.
- **Prohibition of Plagiarism:** Members shall not copy, or use in substantially the same form as the original, material prepared by another without acknowledging and identifying the name of the author, publisher, or source of such material. Members may use without acknowledgement factual information published by recognized financial and statistical reporting services or similar sources.
- **Reasonable Basis and Representation:**
  - Members shall exercise diligence and thoroughness in making investment recommendations or in taking investment actions.
  - Members shall have a reasonable and adequate basis, supported by appropriate research and investigation, for such recommendations or actions.
  - Members shall make reasonable and diligent efforts to avoid any material misrepresentation in any security report or investment recommendation.
- **Security Reports:**
  - Members shall use reasonable judgment regarding the inclusion or exclusion of relevant factors in security reports.
  - Members shall distinguish between facts and opinions in security reports.
- **Independence and Objectivity:** Members shall use reasonable care and judgment to achieve and maintain independence and objectivity in making investment recommendations.
- **Fiduciary Duties:** Members must act for the benefit of Trinity University and place Trinity University's interest before their own.

Abiding by a code of ethics is essential to the success of this endeavor. The professor will be the primary administrator of the fund through guidance and supervision of student activities. Because the Student Managed Fund will be controlled in a class setting, class members will be graded by the professor and scrutinized by their peers. It is important to follow this Code of Ethics to ensure objective analysis and maximum learning.