

## A Playbook for Designing and Operating a Student Managed Investment Fund

Reinhold P. Lamb<sup>1</sup>

### Abstract

---

During the last several years, many universities have introduced into their finance program a student managed investment fund. The experience bridges the gap between the theories presented in the traditional classroom and the practice of the real world. The skills students acquire in a student managed investment program (SMIP) make them highly marketable after graduation. This paper is a type of procedural for creating a new SMIP and offers ideas that could be integrated into existing ones.

---

**Keywords:** student managed investment fund, university investing class

### 1. Introduction

The Student Managed Investment Program (SMIP) at the University of North Florida (UNF) is the foundation of a larger program available to finance students desiring a deeper learning experience in the quantitative and critical thinking aspects of investment finance. The SMIP was designed first, and after several years of effective operation, the faculty determined that this separate and specialized branch within the finance program should be expanded to offer a focus of depth in finance rather than the breadth of coverage that the traditional finance path covers. The success of the SMIP was the catalyst for adding Financial Modeling and Fixed Income Analysis to form the Certificate of Financial Analytics track. All three courses that comprise the program utilize a trading room and the Bloomberg database, as well as other subscriptions and resources. Students earning a grade of A in each of these courses receive the Certificate of Financial Analytics which validates that they are proficient in dumping data from Bloomberg into spreadsheets and building models and performing quantitative financial analysis. The Certificate is a type of extra credential that makes the students more marketable because it presents evidence to an employer that they can hit the ground running. The focus of this paper is on the Student Managed Investment Program piece of the Certificate, with the intention of being a type of procedural for those considering adding a new SMIP to their finance curriculum or for those that already have a SMIP but may be looking for other ideas to integrate into the program to make it a more meaningful experience for their students.

### 2. The Beginnings

In 1999, the Dean of the College of Business at the time approached Jody and Layton Smith about a finance course idea that could bridge the gap between the theoretical aspects of the finance classroom and the practice of finance in the business community. Layton was a partner at Salomon Brothers in New York and he and his wife had retired in the local area. The Dean and the Smiths had become friends and Jody and Layton were very generous to the business school. The idea was a course that permitted students to manage part of the Endowment in order to gain experience that would make them more marketable. The Smiths were very enthusiastic about the concept but wanted the course to operate as close to how a real boutique investment firm is run. They also insisted that the management of the funds would have to truly be by the students and not by faculty. They did not want students to pitch plays to a panel of faculty or to local professionals from the finance community or to the Investment Committee of the Foundation. The Smiths wanted students to learn as much as possible first hand of every aspect of an investment shop, and consequently did not see the value in having students excluded or minimally involved in the decision-making process. A panel of non-students making decisions about the fund was not a fund managed by students.

---

<sup>1</sup> University of North Florida, Jacksonville, FL 32003, USA. E-mail: [rlamb@unf.edu](mailto:rlamb@unf.edu), Phone: 904.620.1676

A condition of their gift was that the SMIP would have to be designed for maximum student management and decision-making with minimal interference from outsiders. Those terms were enthusiastically agreed to by the Dean and the Smiths provided a \$500,000 gift to the Foundation to launch the fund.

### 3. Program Design

During the next two years the structure of the program was designed, an account was opened at E\*Trade, and the course went through the campus approval process. At first the members of the Investment Committee were skeptical about the program even formally starting because they feared young, inexperienced, risk-taking students would squander the money through poor investment choices bringing embarrassment to the university. They believed the inevitable mismanagement would disappoint the Smiths and also jeopardize relationships with future benefactors. In the end; however, the Foundation saw the value in such a practical program and were convinced that the structure of the SMIP built in checks and balances without compromising the intent of which the Smiths insisted.

As the design was underway, the Dean was raising money from The State Farm Companies to build a trading room for the students in the SMIP. For a program like this to resemble as closely as possible a professional money management firm, the students would need resources to do their job - the same resources that the professionals use to manage money. After visiting several local investment shops, the layout of the trading room started to emerge. The wall separating two smaller classrooms was removed, eight work stations were built – each one with dual flat panel monitors, three large LED TV screens were mounted on a wall for presentations, and Bloomberg, Morningstar and other databases were obtained. A corner of the room holds an investment library. Another corner is a media center with laser printers. A window spanning the trading room comprises the wall looking out at the student traffic in the hallway. The window is an indirect way of promoting the program to students because they see it's not a traditional classroom and they wonder what happens inside. It also showcases the business school to guests visiting the building. The first edition of the fund and the State Farm Companies Center for Financial Research went live in the Fall 2002 semester.

Student managed investment programs provide an applied learning experience and have taken many formats since the first one was established more than fifty years ago at Gannon University [Hughen, Tremblay and Strauss (2018), Kahl (1997), Lawrence (2008), Lumina (2014)]. Several characteristics of the SMIP at UNF make it unique. Students apply for the course and are interviewed, just like for a real job. Part of the reason for the formality is there is a limited number of positions in the SMIP. The class size is capped at 12, but leaves room for special situations if there are 13 or 14 worthy candidates making it difficult to split between hairs of difference in quality. The fewest admitted into our program was nine, and that was not because the number of applicants was low but due to the quality of the pool of applicants. Since the class meets one night a week to go through recommendations about the portfolio, having too many students in the class would prevent them each from developing their writing and speaking skills, as excellence and comfort in delivery require repetition. Consequently, we believe that a maximum of twelve students provides them with many opportunities to become comfortable communicating finance in both written and spoken formats.

The course is open to both undergraduate finance majors and MBA finance concentrators. We do not have a target profile of the composition of the class, like six undergrads and six MBAs. Instead, everyone is considered in the same pool and only the best qualified students are admitted. We have had as few as one MBA in a class with 11 undergrads. We have also had as few as two undergrads in a class with 9 MBAs.

The course is a two semesters sequence spanning Fall and Spring. The incoming Fall class rolls over into the Spring. For undergrads, each semester counts as three finance elective credits. For MBAs, each semester counts as three general elective credits. The prerequisite for undergrads is the Investments course. For MBAs, the prerequisite is the basic graduate Financial Management course since most MBAs that apply to the program work in finance already, so they have practical familiarity with investments.

The program is accountable to the Foundation Investment Committee that oversees the entire university endowment. The Committee is considered the Client. Throughout the program, it is emphasized that the money does not belong to the students to manage in whatever way they desire. Instead, the money belongs to the Client who has expressed the level of acceptable risk and has developed a benchmark with which to judge the performance of the fund. The Client has also established parameters within which to operate the fund. For example, our fund is restricted from direct trading in derivatives, short-selling and margin (although levered ETFs are acceptable).

Very quickly, students realize they cannot manage the money like how a 20 year old would approach it, but how the Client wants it done.

At the first class meeting in the Fall semester, a financial analyst from the Foundation speaks as a representative of the Client to the students and lays out the expectations and rules. This accountability and fiduciary responsibility trains them to understand the personalized component to managing each customer's portfolio.

The fund is run by the students, that is, the students make the decisions to change the composition of the portfolio. The faculty advisor is present and runs the meetings, setting and distributing an Agenda in advance of the meeting in order to be as professional as possible. A three-week rolling queue of Plays is established or revised at the end of each meeting. A typical Agenda is presented below.



AGENDA  
February 5, 2019

Call Meeting to Order  
Approval of Minutes – January 29, 2019  
Announcements  
Economic Briefings – North America, Europe, Asia, Latin America, Oceania, Africa  
Review of Equity Markets  
Review of Fixed Income Markets  
Statistical Portfolio Report  
Review of Current Holdings  
New Play: AYR – Small Cap/Value  
New Play: VOD – Telecom/Europe  
New Play: COST – Staples/Non-Government Event Play  
Other Business  
Three-Week Queue  
Look Ahead to February 12, 2019  
Meeting Adjournment

The program has established a brand identity and is called Osprey Financial Group (OFG). The University mascot is the osprey. To distinguish the program to the business community as something different than a typical investment class or simulation or game, the name gives it a professional tone and permits students to include Osprey Financial Group on their resume and in their cover letter. Technically, it is a course at a university and the students earn course credits, but the program does not resemble a traditional course in any way except the course credits. Everything else about it is like a professional money management company – real money, real resources, a real client with real expectations about earning alpha. In fact, the only aspect absent from OFG being like a real firm is that the students do not get compensated for managing the fund (students have to pay to manage the fund through their regular tuition). OFG also designed a logo and each student receives a logoed shirt at the beginning of the Fall semester. Surprisingly, the logo and the shirt are instruments in bonding the students together, almost like a cohort or fraternity.



#### 4. Job Assignments

Students apply for OFG and are interviewed in the late Spring. A sample of their financial writing or research is required as part of their application. They are informed of their acceptance before the semester ends.

Those students admitted into the program then get permission to use the trading room and the Bloomberg terminal throughout the summer in order to get Certified on Bloomberg. They are also informed of their assignments for the next two semesters. The assignments are subdivided into three categories – Sector Analyst, Officer, and Plays Analyst. Each student is typically assigned one position from each category, and the assignments are usually based on the expressed interest from the student during the interview.

#### **4.1 Sector Analyst Positions**

The basis for the Sector assignments is the Standard & Poor's 500 Index, which recently expanded their sector number to eleven. Some sectors are heavily weighted in the S&P 500, so an attempt is made to distribute all of the assignments equitably. The eleven Sectors are: Financials, Information Technology, Healthcare, Consumer Discretionary, Consumer Staples, Industrials, Energy, Materials, Utilities, Telecommunications and Real Estate. Financials and Information Technology are large sectors and Materials and Utilities are small. Consequently, the person responsible for Financials would get other assignments that are less weighty. If the class has more than eleven students, then two of them would share Financials – one doing commercial banks and the other responsible for everything else in the financial sector like insurance and investment banking.

#### **4.2 Officer Positions**

Officer positions include administrative roles like in a business, but also strategic positions involving financial analysis and the management of the fund. Each student is assigned at least one of the officer positions described below.

##### **Accountant**

The Accountant maintains the official books for OFG, prepares month-end and quarter-end reports, and records each of the transactions and other financial activities of the Fund. In addition, the OFG Accountant works closely with the Accountants of the Foundation in auditing and liaison capacities.

##### **Alumni Relations Director**

The Alumni Relations Director is responsible for communication with past OFG alumni updating on performance, employment and anything interesting related to OFG.

##### **Commodities and Currencies Briefing Officer**

The Commodities Briefing Officer is responsible for preparing weekly reports on the state of the various important commodities, such as oil, precious metals, agricultural commodities, etc. and currencies.

##### **Economic Strategists**

Each of the Economic Strategists in OFG specializes in a different geographic region; **North America, Europe, Latin America, Asia or Africa/Oceania**. They provide weekly updates of their respective region's economic condition. The Chief Economist covers the North American economy, tracks short-term and long-term interest rates and coordinates the economic reports generated by the team. The Economists, most notably the one covering North America, also make recommendations about relative weightings between equity and fixed income allocations. The other Economists make recommendations about the degree of equity exposure in their respective geographic region.

##### **Operations Manager**

The Operations Manager is responsible for preparing and distributing the Minutes of each meeting. This position also requires for the maintenance of the Blackboard site, which is the primary method of communicating and distributing reports and other information. The Operations Managers also maintains the physical facilities under the control of OFG.

##### **Photographer**

Responsible for documenting special events and speakers that can be posted on the website and in the Annual Report.

**Political Analyst**

Covers elections, regulations, deliberations by Congress and any other political events or issues that can impact on the value of the Fund.

**Special Projects Coordinator**

The responsibility of the Special Projects Coordinator is to handle a wide range of issues that may arise throughout the year which are pertinent to the operation of OFG but not under the responsibilities of any of the other Officer positions.

**Statistician**

The Statistician compiles continuous descriptive statistical information about the Fund that the team integrates into the management of the portfolio. These measures include various return calculations, individual and portfolio betas, individual and portfolio P/E ratios, asset and sector allocations, value/growth and market capitalization exposures, and comparative performance measures. The Statistician is also trained on the Black Diamond Advent Performance Statistical Software.

**Technician**

The Technician provides a technical opinion about every new security presented by the Analysts, in order to provide additional insight into the timing of transactions. The process involves the examination of past price movements in order to forecast future price movements. In addition, the Technician provides technical updates on existing positions as conditions and expectations change. In managing the portfolio, all of the Analysts integrate both fundamental and technical information into the decision-making process. Recommendations of entry and exit strategies, essential for an actively managed portfolio, are also part of the responsibilities.

**Webmaster**

The Webmaster provides the regular maintenance of the internet web page for OFG in order to keep it current. This includes posting announcements that would be of interest to the campus and business communities, and disclosing monthly and quarterly performance results. The website also serves as an effective medium for communicating with prospective candidates for future editions of OFG, and alums.

**5. Fund Management**

During the first several years of OFG, the fund was managed by initially allocating weights to the Sectors, purchasing sector ETFs, and then weaning out of the sector ETFs and into individual industry ETFs or stock plays. During the first class meetings, the market weights for each sector in the S&P 500 Index are presented and then each Sector Analyst presents a detailed description and outlook for their sector. Their degree of optimism or pessimism reflects the recommendation of the weight the Fund should have in that sector. Since the weights must sum to 100%, discussions about overweighing strong sectors and underweighing or avoiding weak sectors would continue until there was agreement on the final allocation across the sectors. Market weight is according to the S&P 500 Index mix at the time of the construction of the allocations. The ensuing weeks and months would then see dozens of transactions to rebalance and rotate across sectors. The idea is that if OFG is correct in overweighing the best sectors and underweighing the worst, the Fund should produce positive alpha against the S&P 500 Index. Compounding that performance further would be then investing in the best industries and companies from each sector.

This approach proved successful for several years and the fund grew to over \$1,000,000. Since then, managing the Fund changed to mimic more of a fund of funds approach, which is what many institutions follow, including our own. The strategy in providing a fund of funds experience was to split the fund into five sub-funds or mini funds and track them separately and also together for the overall Fund. The five different funds are Sectors, Geographic, Fixed Income, Plays, and Long-Term Plays. Each one has its own benchmark and style. Together they form the overall Fund that OFG manages for the Foundation through the SMIP.

**5.1 Sector Fund**

For the Sector Fund, each analyst is assigned a sector, like described above, and provides weights and ETF recommendations.

The difference between this Sector fund and the initial one is that this fund does not wean into individual stock plays within each sector. Rather, the tasks for the analysts are to overweight, market weigh or underweigh the sector according to their outlook and then identify industry ETFs within the sector that are expected to outperform the sector. If the bets are correct that the overweight sectors outperform the S&P 500 Index and the underweight sectors underperform, and the industries selected in each sector outperform the sector, then the overall sector fund should produce positive alpha. Maintenance of the Fund is as seen fit by the respective sector analyst to change the exposure to the sector or the sector instrument(s). For example, if the Healthcare sector analyst becomes more bearish on the sector during a particular week, a proposal and brief presentation is given at the meeting justifying the reasoning for a change in the exposure of that sector. Reducing exposure in one sector; however, requires increasing exposure in another sector.

If that isn't prudently accomplished at the meeting, then the funds from the reduced sector are invested in the benchmark (SPY) as a placeholder until other sector analysts become more bullish and request additional exposure. More formally, the first meeting of each month is scheduled for a structured discussion of how each sector is performing and if anything needs addressing.

## 5.2 Geographic Fund

Six geographic regions are distributed to the Economic Strategists. Similar to the Sector Fund, the strategists here follow their assigned region and make recommendations concerning the degree of exposure. The benchmark for this fund is the Morgan Stanley All Country World Index (ACWI). The geographic exposures within the index are measured and then overweight, market weigh or underweigh allocations are determined for each Geographic region. Some regions may be avoided altogether. As situations change due to elections or other factors, the weights of exposure may also change based on the recommendation of the Economic Strategist responsible for that region. The first meeting of each month considers any reallocations across the regions. During the month, if a strategists would like to change their exposure, then the same process is followed as with the Sector Fund, with any unaccounted funds being invested in a temporary placeholder (ACWI).

## 5.3 Fixed Income Fund

This portion of the portfolio is usually assigned to two students that have already completed the Fixed Income Analysis course or who have interned or work in fixed income. The instruments are limited to long fixed income ETFs; however, levered ETFs are also permitted so that the student managers can play interest rate changes and hedge risks. As managing fixed income requires more sophistication than a straight equity fund, the analysts develop a fixed income thesis and then prepare a complete fixed income portfolio comprised of ETFs. The beginning of every month is the time to review the thesis and make any changes.

## 5.4 Plays Fund

This is the part of the portfolio that is common across most SMIPs. Students find mispriced individual stocks and prepare a buyside report, complete with company and management descriptions, peer identification and relative analysis, quantitative analysis and valuation, and a technical report from the Technical Analyst in the class. It is up to the students pitching the play to determine how much weight to give the technical opinion. Our experience is that we value the technical opinion and especially consider it for entry positions, risk management, and exit points.

For the Plays Fund, students are assigned areas of responsibility and they are expected to develop a philosophy or methodology to approaching their Play and finding opportunities within that area of expertise. For the current edition of OFG, the following Plays positions are assigned:

- Small Cap plays

- Mid Cap plays

- Large Cap plays

- Value plays

- Event-Driven plays (non-government) - weather, management change, earnings, etc.

- Event-Driven (government) – regulatory, political, election, Federal Reserve, etc.

- Technical plays

- Green plays

- Commodity/Currency plays

- Fixed Income plays

- Index plays

The process of bringing recommendations to the class for investment consideration is as follows: First, a Plays analyst screens candidates and narrows the field to one. The analyst then determines who among the other Plays analysts makes the most sense to partner with given the pick and then for both partners to perform a thorough analysis together before bringing it to the class for consideration. Second, they write a complete and professional buy-side report. The following outline was established to provide members of OFG with a guideline for the minimum requirements of a report. Adherence to this outline allows for a standardized review of each company that is to be pitched. In addition, the outline helps to focus the efforts of an analyst towards relevant and agreed upon key information.

### **Thesis Statement**

Clearly state the rationale for the pitch.

Provide a clear framework through which a reader will view the report.

### **Business Overview**

Describe what business the firm is engaged in with a description of each line of business.

Provide business metrics, number of stores, breakdown of revenue by business segment and geography, and market share etc.

State the sector, industry, sub-industry, and closest direct competitors of the firm.

### **Management**

State the name and positions of key senior leaders of the firm.

Provide a description of management's relevant past successes and failures.

Discuss management's outlook for the business along with any strategic initiatives they will be pursuing.

### **Financials (Not applicable to Technical Plays)**

#### Revenue

Provide a bar graph with the following: the past five years of revenue, projections for the next three (in a different color), and the five-year compound annual growth rate in the title.

#### Net Income

Provide a bar graph with the past five years of net income.

#### Operating Margin

Provide a line graph of the past five years operating margin, along with the average in the title.

#### Free Cash Flows

Provide a bar graph with the past five years of free cash flows, along with the average growth rate in the title.

Provide an analysis of the above financials.

Discuss the firm's debt position and financial strength.

### **Industry Specific Ratios**

Include graphs and charts comparing industry specific ratios of the firm to the average of the industry and to direct competitors.

Discuss the strength of the firm within its industry and its strategic positioning.

### **Material Disclosures (if Applicable)**

State and discuss any relevant disclosures in the financial statements that could have an adverse impact on the firm's valuation and performance during our holding period.

### **Dividends (if Applicable)**

Provide a bar graph with the following: the past six dividends paid by the firm, projections for the next four dividends to be paid, and include the trailing twelve month dividend yield in the title.

### **Analysis**

Fully explain and justify the thesis of the pitch.

Provide a summary and strategic review of the information stated above with a focus on the company's position in the market.

Analyze the firm's position and its ability to increase the firm's share price.

### **Valuation**

Provide a valuation of the firm along with your projected upside based upon that valuation.

Explain what methods were used to derive the valuation and clearly state all underlying assumptions with justifications for each.

### **Technical Analysis**

Chart and analysis provided by Technician.

### **Fear & Greed**

Describe the various risks (Fear) in the investment and the opportunities for gain (Greed).

### **Recommended Play**

State the position you think should be taken in the investment, along with the source of the funding.

The concluding recommendation is the type of order, the size of order, and from where the funds for the order come. Any risk management or exit strategy may also be described at this time. A typical recommendation may be to buy a full position of PFE at market open tomorrow from SPY. Currently, a full position is \$30,000 to provide diversification in the Plays fund, but the recommendation could be as little as a half position or as large as a double position, which would be aggressive. Both partners prepare the written report and post it in electronic form by midnight the Sunday before class to give the other students time to read it before it is pitched for purchase.

Both partners also prepare a PowerPoint presentation of the report which forms the basis for their pitch in class. A brief summary description of the company is presented and most of the rest of the presentation is their thesis for purchase. The Fear portion describes all the risks and the Greed section covers the opportunities. For example, the Event-Driven Analyst may believe an opportunity exists should the U.S. become involved with Russia in a military way. A Small Cap defense stock has been identified. The Event-Driven Analyst approaches the Small Cap Analyst to partner with in the research, and if they both agree the pick is worthy, together they proceed in performing the due diligence that a convincing recommendation requires. Perhaps on the next round, the Event-Driven Analyst believes an opportunity exists from an impending tropical storm. A generator manufacturer is identified. The Event-Driven Analyst this time approaches the Industrial Sector Analyst (generators are Industrial) and together they proceed with a thorough analysis. Through this process, Analysts have opportunities to work with several partners rather than just one for the whole term.

After a time of Q&A, the lead partner makes the recommendation and the class votes. A two-thirds majority agreement is required to change the composition of the portfolio, so for a class of 12 students, eight students must agree. If the threshold is met, then the order is placed by the faculty member. If less than two-thirds agree, then the Analysts often revise their recommendation to a half position and try again. If it still fails to pass, then we move on with the Agenda, however the partners can revisit the play at a future time if something material happens in the company and the analysts are even more bullish about the prospects.

Occasionally the students do not do a thorough job in their preparations or the position breaks one of the rules of the fund. When that happens, the faculty member can exercise a veto and overrule the vote. In our experience, a veto has occurred once or twice each year. For example, if one of the rules is for the Fund to hold a maximum of 10% of small caps, and the vote would increase exposure to more than that, a veto would ensue. On one occasion, the recommendation was to buy a full position of Altria at market open. The analysts did a thorough and convincing job presenting their thesis, however only half the class supported the recommendation. Probing the negative voters, it became clear that they were bringing personal experience into their decision making. Each student was philosophically opposed to smoking and did not want to support a company that promoted it. That example provided a good opportunity to remind them that the money is not personally theirs but belongs to a client who has not placed any philosophical or social restrictions on what can be acquired. Furthermore, the Fund already held Altria indirectly through an S&P 500 Index ETF. Consequently, the vote was vetoed and OFG acquired Altria.

## **5.5 Long-Term Plays Fund**

As each edition of OFG spans only two semesters, the composition of the Fund reflects the pursuit of positive alpha over only a six month window. To introduce a longer term orientation to portfolio management and stock selection, a Long-Term Plays portion was carved out of the overall Fund to give students experience identifying and pitching positions with a longer horizon for growth.

We believe this additional orientation provides a more comprehensive management opportunity that is consistent with a fund of funds approach. The format is exactly the same as described above for the Plays fund except this thesis involves a targeted 2 to 5 year holding period.

Each new incoming class reads the buy-side report of every Long-Term Plays position in the fund from the exiting class to become familiar with the underlying reasoning behind the holdings. Respective analysts then inherit the responsibility of maintaining that position or presenting a disposal recommendation if the thesis has changed or if new information increases the risk in the position.

We believe the five portfolios within one Fund give the students experience in multiple investment categories which resembles more closely a hedge fund or a fund of funds approach. It also creates a management approach that is aligned to that of the professionals managing the Endowment, and it has been our objective since the creation of the program to be viewed by the Foundation of the University just like the professionals that manage the rest of the endowment. A high bar best prepares our students to do the same thing in professional money management.

## 6. Performance Evaluation

During the first several years of OFG as the fund was growing in value, the Foundation established a weighted benchmark to measure the performance. The bench was weighted 70% of the S&P 500 Index and 30% of the Barclays Aggregate Bond Index.

$$\text{Benchmark} = .70(\text{S\&P 500 Index}) + .30(\text{Barclays Aggregate Bond Index})$$

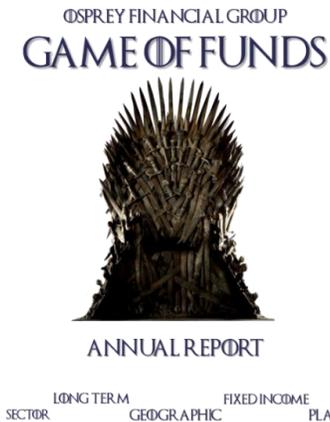
As the Fund grew to exceed \$1,000,000, and with the adoption of a new endowment management philosophy by the Foundation, the bench also changed to 70% of the MS All Country World Index and 30% of the Barclays Global Aggregate Bond Index, reflecting a global investment emphasis.

$$\text{Benchmark} = .70(\text{MS ACWI}) + .30(\text{Barclays Global Aggregate Bond Index})$$

OFG then adapted to the new benchmark and to a fund of funds philosophy by redesigning the management of the Fund into the five funds described above. Each fund is managed separately with a benchmark assigned to it, but the overall Fund benchmark is the one presented above. During the first few weeks of the Fall semester, class discussion is focused on the sentiment going forward about equities and fixed income. Those conversations establish the weights for each fund going forward, and those weights are locked in for the remainder of the academic year. For the past year, the group was bearish about fixed income and bullish on equities, so fixed income was underweighted and equities were overweighted. The percentage of allocation and the benchmark for each separate fund from the current edition of OFG is presented below. The initial allocations are locked in for the whole year until the next new edition takes over in the Fall. One of the first tasks then is to establish the new fund weights. Five individual fund alphas are measured each day as well as the overall Fund alpha.

Current Fund Allocations and Benchmarks:

	<u>Weight</u>	<u>Benchmark</u>
Equity:		
Sector Fund	23%	S&P 500 Index
Geographic Fund	18%	MS ACWI
Plays Fund	27%	MS ACWI
Long-Term Plays Fund	<u>7%</u>	MS ACWI
Total Equity	75%	
Fixed Income Fund	<u>25%</u>	BGABI
Overall Fund	100%	.7(MS ACWI) + .3(BGABI)



In April, a few weeks before the end of the academic year and graduation for the OFG students, an annual report and luncheon are prepared. The students consider this event their Super Bowl as the performance is presented in an Annual Report and a PowerPoint presentation. Professionals from the business community, members of the Foundation (the Client), University administrators, finance faculty, OFG alums, and the media attend the luncheon. Each student participates with their own assigned speaking section in the two-hour event. Each person attending receives an Annual Report describing everything about OFG and the past academic year managing the Fund. A theme is developed by the class. Since the past year was the first one with a funds of funds approach, our theme was Game of Funds.

### Performance Results:

During the almost 17 years since the inception of the Fund, OFG has added over \$600,000 to the initial value. All of those proceeds are rolled over into the Fund and none is distributed in any way, which is a condition the donors made. As the Fund increases in value, while still respecting the wishes of the Smiths, the Fund may be split into two separate portfolios with a redesign of the Program. For example, we may allocate one Fund to the undergraduate finance majors and the other to the graduate students. Or we will formalize the 5 funds described above and allocate more money to each one. Serious considerations will be given when the Fund reaches a value of \$2,000,000 or more.

Nevertheless, the average annual geometric return of the Fund has been 4.94%, which is about the same as the benchmark. It must be noted, however, that this return really represents two different investment periods each year. During the academic year, the active management period is October through March. During this time, students manage the portfolio weekly. From April through September, on the other hand, the Fund is passively managed since the outgoing class has graduated and the incoming class has not yet officially taken over the Fund. In fact, the new class is learning their responsibilities and getting certified on Bloomberg during the summer months. OFG still has a fiduciary responsibility to the client even during the passive period, so the outgoing class each year installs risk management mechanisms to prevent the Fund from losing too much money if the markets turn downward. Most of the tools are stop losses with instructions to put the proceeds from triggered stops into cash. The approach serves OFG very well except when the market experiences a downturn during the first half of summer and then rallies during the second half. The stops are triggered and the cash balance rises, thereby producing positive alpha if the market continues lower. However, if the market then rallies, the OFG proceeds remain in cash, thereby forfeiting the positive returns that ensue. Consequently, in about half of the passive periods the Fund produced a negative alpha. During the active period, most of the OFG editions produced positive alpha. Measuring the overall investment time that includes both active and passive management periods, the Fund has matched the benchmark over the 17 years since inception.

### 7. Operating Budget

The objective of the SMIP is to give students an experience that matches as closely as possible that of a professional money management shop. They are managing real money for a real client. They use professional databases like Bloomberg. A trading room is available for them to do their research, and they are assigned different specialties in which to become expert. They receive plenty of practice writing buyside reports and then presenting and defending their recommendations. All of these characteristics are similar to that of professionals. One additional component to make the program real is an operating budget whereby the students make the decisions for managing expenses. Just like with real money managers, the “fee” that produces the budget is based on assets under management (AUM). The Foundation approved a budget for every year based on 75 basis points of the AUM at the end of every July. For the next edition of OFG, about \$8,465 will be available from the Foundation to pay for expenses such as the annual report and luncheon, OFG shirts, CFA lunches and dinners, subscriptions to Morningstar.com, Briefing.com and other research sources. The Bloomberg subscription is paid out of the Dean’s office. Combining everything the students experience in the program, they leave with highly marketable research and communication skills, an understanding of the fiduciary responsibility to a client, and a comfort working alone, with a partner and with a team.

## 8. Conclusions

As the result of a generous gift seeding the initial value of a portfolio and an additional gift for a trading room, over 200 finance students have developed tremendous marketable skills that have changed their lives and launched finance careers. The value of our SMIP is probably best represented by the deep relationships and friendships that are formed during the intensive six-month period whereby a select group of students navigates the real financial markets attempting to produce a real positive alpha for a real client. The reality of all of the dimensions of the Fund management experience bonds students together with a common objective. Perhaps the best alpha is learning about the successes of our graduates and the contact they keep even after almost two decades.

## References

- Hughen, J.C., Tremblay, J.P. and Strauss, J., 2018, "Adding Value in Student-Managed Funds: Benchmark and Sector Selection", *Journal of Trading*, 13(1), 27-34.
- Kahl, Douglas R., 1997, "The Challenges and Opportunities of Student-Managed Investment Funds at Metropolitan Universities", *Financial Services Review*, 6(3), 197-200.
- Lawrence, Edward C., 2008, "Student Managed Investment Funds: An International Perspective," *Journal of Applied Finance (formerly Financial Practice and Education)*, 18(2), 1-17.
- Lumina Foundation, February 25, 2014, "What America Needs to Know About Higher Education Redesign", Retrieved from <https://www.gallup.com/services/176759/america-needs-know-higher-education-redesign.aspx>.