

**The Student Managed Investment Fund**



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## INTRODUCTION

The Student Managed Investment Fund (SMIF) is a portfolio managed entirely by students at Dixie State University (DSU). It is an opportunity for selected students concentrating in finance to gain valuable experience managing an actual portfolio. SMIF is made possible by an anonymous donor. The activities of the Fund are supervised by at least one of the professors in the finance department. Additionally, the Fund has its own advisory board composed of professionals from the field of investments, which meets once each academic year. Students enrolled in this class receive credit for three hours in the spring semester. The course is open to all students who have completed the prerequisites and are enrolled at DSU.

Students enrolled in the management of SMIF are structured into a hierarchy explained in the section titled "Structure." The students accepted to manage the fund are entirely responsible for the investment decisions of SMIF. The analysts establish the stock selection criteria, research the prospective stocks, generate reports, make the decision whether or not to invest in the stocks, and execute the trades. The finance faculty member serves in an advisory capacity by answering questions as and when they come up and making presentations to educate the students on various aspects of investments. The final activity of the analysts is to compose an annual report and present it to the advisory board at its annual meeting.

The annual report serves two basic purposes. The first is to present the details of how the Fund is structured and the philosophy behind it. Second, the annual report gives the next year's managers detailed guidelines on how the Fund is to be run. The Fund and this document are dynamic and it is expected that both will change over time.

While students are given course credit for their service in the Fund, the structure of the Fund is not that of a traditional lecture-based course. The analysts are the drivers of the activities of the Fund. The structure outlined in this document describes the procedures that analysts must follow. However, the deliberations and decisions of the analysts are left completely up to them. The faculty advisor will help the students if they have questions; however, the faculty advisor will not determine the outcome. Within the guidelines of this document, the analysts have a great deal of latitude in their actions. A major objective of this program is the learning that occurs as the students struggle with the many important decisions that await them.

## FIDUCIARY RESPONSIBILITY

A fiduciary responsibility occurs when assets that are owned by one person or institution are held in trust and managed by another. A fiduciary is responsible for managing the assets in the best interest of the owner and not in the fiduciary's interests. SMIF analysts make investment decisions that directly affect the value of assets owned by the university. Thus, the decisions made by the analysts should always be made in the best interest of the University. Given the nature of the Fund, a factor complicating this issue is the annual turnover of the analysts. The emphasis placed on documentation and the adherence to the policies stated in this document is an attempt to decrease the effect of the frequent turnover and increase the level of fiduciary responsibility.

Grading analysts on the basis of their investment performance combined with their short tenure in the Fund, may create a situation which could encourage behaviors inconsistent with fiduciary responsibility. Therefore, analysts are not graded on their investment performance. However, they are graded on the consistency and diligence with which they apply their investment criteria in their decision process. Only those investments that conform to the Fund's investment criteria and those with an acceptable level of risk are to be considered for inclusion in the Fund's portfolio.

At all times, it is imperative for the analysts to realize that the portfolio they are managing is the property of the Dixie State College. SMIF analysts must exert the care and effort consistent with the responsibility that they have accepted.

## DESCRIPTION OF SMIF MANAGERS

Due to the permanent transitional nature of the Fund, a strong emphasis is put on documenting the actions of the analysts in order that future analysts can understand the reasoning for each investment. As new demands are placed on the Fund and as the Fund evolves, the responsibilities will also change. Changes may occur during the year and are not limited to when the Fund changes hands.

### Chief Administrator

The chief administrator is the student principally responsible for the day-to-day operations of the fund. He or she will work with the faculty advisor in establishing the schedule of presentations for each semester. The administrator has the responsibility for coordinating the activities of the other officers and students in the fund. The chief administrator is also the person responsible for representing the fund to the public. Some of the responsibilities include:

1. Act as the contact person for the faculty advisor.
2. Coordinate and monitor the activities of the analysts.
3. Collect status reports for the Fund.
4. Verify up-to-date documentation of trades is maintained.
5. Facilitate the meetings.

6. Organize and direct the compilation of the annual report.
7. Coordinate the preparation for the annual advisory board meeting.

### Operations Team

The operations team is responsible for the maintenance and control of the physical facilities under the Fund's control. A filing system will be maintained complete with folders on each company containing the current annual report and information used in connection with the buy and sell decisions. Folders should also be maintained of the Fund's performance, meeting minutes, and agendas.

### Accounting Team

The accountant team is responsible for keeping the official books for the Fund. They update records weekly to track performance, trade activity, and price fluctuation. The accountants also serve as a liaison to the administrator by providing accurate accounting reports and statements of activity on a timely basis. Responsibilities also include preparation of the fund's annual report and working with an outside auditor in preparation for the fund's audit. Responsibilities are shared with a designated "back-up" accountant and all members participate in constructing the annual report.

### Economics Team

The economics will work with the analysts in establishing the asset allocation plan at the beginning of the semester. They have particular responsibility for working on the development of economic assumptions. During the course of the semester, the economists are responsible for providing weekly updates on the U. S. and world economics.

### Technical Analysis Team

The technical analysts are responsible for providing educational tutorial on tools and techniques used in technical analysis. Additionally, the technical analysts review each of the buy/sell recommendation put forth by the fundamental analysts to gauge appropriate entry/exit points.

### Quantitative Analysis Team

The quant team analyzes the portfolio on a monthly basis to assertion performance attribution of the sector and security selections. The quants help guide sector allocation decisions and also provide mathematical support for the funds periodic long/short market risk-neutral positions.

### Other Informal Positions

Although not a formal officer of the Fund, the chairperson of public relations is also an important position. He or she will help schedule and plan the various activities of the fund that involve people outside of the normal fund membership and also be responsible for generating publicity about the Fund. The public relations chairperson will also be in charge of a maintaining a scrapbook for the fund. This position may be shared by a number of people.

## Individual Analysts

Analysts are responsible for the day-to-day operations and decisions of the Fund. They are responsible for the operation of the Fund in a manner consistent with the procedures described in this document. The faculty advisor and the finance department faculty are available for consultation and advice. The faculty advisor will also monitor the actions of all officers and analysts and hold them responsible for consistency and diligence of their behavior within the guidelines. The main interaction with the advisory board is during the meeting held each year. The meeting is an important component of the program and will be treated with attention to professional standards and protocol. All analysts are responsible for the actual operations of the Fund. Analysts run the investment screens, research candidate companies, and buy and sell stocks in the Fund. Their decisions must be consistent with the philosophy with the Fund. A partial list of the analyst's duties is given below:

1. Monitor the stocks in their respective part of the Fund.
2. Establish and perform investment screens.
3. Perform fundamental research.
4. Evaluate new investments.
5. Document, in writing, the basis for a trade.
6. Construct status reports.

Analysts will work in teams to analyze stocks.

## SMIF SELECTION PROCESS

The selection process is designed to be consistent with the philosophy of the Fund. The process described below has evolved based on two main criteria: consistency with Fund objectives and fairness to the students. The interview allows prospective students an opportunity to demonstrate their level of skill and interest in management of the Fund. Adherence to the procedures outlined below is critical to insure fair treatment to all students. A time line showing the approximate timing during a semester of each event is provided in the application form.

Pre-requisites for being accepted as an analyst:

1. Enrolled in the business program with upper division status.
2. Completion of Corporation Finance (FIN3150) and Investments (FIN3750) or current enrollment in Investments.

## ANNUAL REPORT

The annual report is one of the most important components of the SMIF program. It represents the sum total of the students' experience in running the Fund for the year. It is often the only tangible output of the program and projects the image of both the SMIF

students and the Dixie State College to the public. As such, a professional standard of analysis and presentation is expected.

### Process

1. Create an outline for the report
2. Arrange for a group picture
3. Check on printing costs
4. Write the history and description of fund sections
5. Write the selection criteria section for the various components of the Fund
6. Write the cover letter for the report
7. Create a dummy report together with place-holders for any missing sections and submit it to the faculty advisor
8. Determine the performance presentation standards
9. Develop the presentation
10. Document transactions that occurred during the year
11. Have report duplicated

**Note:** Managers will provide a limited number of copies to all participants of the annual advisors meeting.

## ADVISORY BOARD MEETING

The advisory board meeting is an important opportunity for the SMIF analysts to present the performance of the Fund and their experiences over the preceding year. The analysts' experiences and what has been learned from managing the Fund should be covered in the meeting. The advisory board meeting will be attended by members of the board of advisors, other investment professionals, and key University personnel. It is a very visible format and the SMIF analysts must realize that the impressions they make in the meeting can have significant career implications. As with the annual report, the SMIF analysts' performance in the meeting also affects the university's reputation. Therefore, the standards for the meeting are very high.

### Process

1. Work with the faculty advisor to determine the date and time of the meeting.
2. Arrange for a room sufficient to hold at least thirty people. The room should have any equipment necessary for the presentation.
3. Write an invitation letter to the advisory board members and submit it to the faculty advisor for approval. The Faculty advisor will edit the letter and provide the names and addresses of the board members to the chief administrator who will send the letter.
4. Create an outline for the presentation.
5. Determine which student is responsible for each section.
6. Have each student develop a script for their section and prepare draft copies of any presentation materials (i.e. PowerPoint slides, overhead transparencies).
7. Work out the transitions between sections.

8. Combine all the presentation materials into one consistent package. Consistent means that the appearance (fonts, colors, formats) and structure (how the information is presented) of the materials should sequence seamlessly.
9. Practice the presentation!
10. A full dress rehearsal will be conducted in front of the faculty advisor and faculty members of the finance department during the week preceding the actual board meeting. A full dress rehearsal means that the students are expected to wear the same clothes as they will for the meeting and have all of their presentation materials finished.
11. Contact the advisory board members by phone the week of the meeting and remind them of the room and time.
12. Prepare copies of the presentation materials and annual report to distribute at the advisory board meeting.

## ANNUAL TRANSITION

The smooth establishment of a transition from one year to the next is very important to the overall performance of the SMIF. The old SMIF managers, as their final act of the semester, are responsible for training the new analysts in the procedures and operational aspects of the Fund. This responsibility would be two-fold. The first part would be to recap the proceedings of what took place during the past year. Second, the old members need to give the new members the expectations of what will happen when the new fund members take their place.

### Phase I

Key issues should be outlined and addressed. An overview of each stock held in the portfolio should be left with the new members. This overview should state the reasons a certain investment was chosen. A template can be established to help outline key points, strategic issues to watch with each individual investment selection and what to expect from market fluctuations.

### Phase II

Each member of the out-going group should act as mentor to a member of the new group during the summer months. The out-going members should be able to give the new members insight to the expectations of the SMIF.

- What kind of time should a member devote to the class
- What they need in preparation for each class
- What takes place during a class meeting
- What points should be addressed as they begin class

A small core group of previous members will help with the transition of the SMIF to the new group.

## Summer and Fall Arrangements

An important aspect of training the new analysts is helping them establish an appropriate position for the summer months. The Fund does not have the day-to-day attention required to insure a reasonable level of safety during the summer. The ultimate safety would be to liquidate the stock positions, but this goes against the basic philosophy of the Fund. One good way to provide safety for the Fund is to set limit orders which will cause the position to be sold if the price drops below a certain level. It is imperative that the expiration of any limit orders cover the entire summer. The Chief Administrators responsible for documenting (in writing) the end-of-the-semester holdings of the Fund and the method by which the Fund will be protected over the summer. A grade will not be assigned to any of the out-going analysts until the faculty advisor has received the necessary documentation.

## GRADING

Given the structure of the Fund, much of the work done by the analysts during the year cannot be observed; therefore, grading is difficult. While the advisor can judge the output of the process such as the individual presentations, annual report, or the presentation at the annual board meeting, it is difficult to determine the level of participation of each student-manager. The best judges of the efforts of the analysts and officers are the other members of the Fund. To accommodate these issues, the grading system employed is for the students to rate each other on a 100-point scale. The faculty advisor will also determine student performance. A weighted-average of both evaluations will determine the final grade. The faculty advisor will assign the final grade.

### Grading Criteria

<b>Activity</b>	<b>Weight</b>
Individual Stock Report	25%
Annual Report	25%
Advisory Meeting	20%
Class Participation	20%
Administration of the Fund	10%
Total	100%

## OTHER POLICIES

### Trading

Any decision to trade is entirely up to the students. However, the trade must be consistent with the philosophy of the Fund, meet the investment screens, and be agreed to by the other members of the Fund. Faculty members are willing to answer questions but will not make the decisions for the students. The faculty advisor will monitor the trades to verify consistency

with the stated objective and maintain the right to require further due diligence by fund members prior to a trading action. A decision to buy or sell a security is only valid with 2/3 majority of fund members voting in favor of the action.

## Trading Rules

Based on best practices and in an effort to mitigate behavior biases, the following trading rules will be strictly followed:

1. Any stock down 10% or more will be evaluated and a Buy More/Sell recommendation will be required.
2. All positions will be held until they meet target prices at which time they will be reevaluated.
3. A vote will be called no sooner than one full week after presentations.
4. No position will initially comprise more than 5% of the total value of the portfolio.
5. No position will be comprise more than 15% of the total value of the portfolio.
6. No trade will be made within one week of earning announcements.
7. Trades will be initiated on Wednesdays only.
8. Investments are intended to be perpetual when initiated.
9. All trades require a completed research report.
10. All recommendations require a 15% margin of safety.
11. Students in the class should avoid media created for entertainment that recommends any stock trading activity.
12. The instructor reserves the right to override recommendations if due diligence is not provided.

## Meetings

The group will meet weekly for three hours over the course during the spring semester. The meeting is a mandatory part of the program. Attendance at the meeting will be taken. The chief administrator is responsible for determining the status of all students prior to the meeting. At the meetings, the analysts under the direction of the chief administrator will brief the faculty advisor on the performance of the Fund over the previous week. Any trades in the portfolio will also be discussed. The faculty advisor will assign tasks to be completed for the following week and check on the completion of the previous week's tasks.

## Reports

A report detailing the current holdings of the Fund is to be prepared by the chief accountant for each class meeting. The report should show all currently active positions and give some indication of the returns on each stock and the portfolio as a whole.

## Filing System

A filing system maintained for the Fund by the operations manager. The filing system will be located in an appropriately designated office and periodically reviewed by the faculty advisor. The filing system will contain:

1. Trade decisions and documentation

2. Account statements
3. Files on all stocks held
4. Meeting minutes and agendas
5. Weekly performance reports
6. All other documents deemed necessary by the Faculty Advisor and/or the students.

## CONCLUDING REMARKS

The goal behind the creation of the SMIF was to provide students with real-world investment experience incorporating responsibility and attention to professional protocol. This document has delineated a number of procedures and policies consistent with that goal. One of the lessons of this program is that an endeavor as important as investing funds owned by someone else entails considerable work and diligence. Indeed, it is the recognition of the importance of the supporting activities and documentation that makes the existence of the SMIF possible. Few investors would be willing to give their money to investment analysts who are not capable of the execution of basic logistical functions.

Investing is just one of the valuable experiences students receive from participating in SMIF. In every aspect of the running of the Fund, students must accomplish goals by making decisions in a group setting. Given the importance of the decisions, the ability of the group to function effectively is critical. Analysts must learn to work with each other as well as under the supervision of the faculty advisor/chief administrator. Another benefit of the program is the exposure of the students to investment professionals. This exposure allows the SMIF participants to learn and develop professional behaviors. Also, the annual report and advisory board meeting are excellent opportunities for students to demonstrate their oral and written presentation skills. Finally, the selection process for the following academic year is an opportunity for existing students to sit on the other side of the interview table and learn effective interview techniques. Thus, the requirements for participation in the Fund encourage the transition of the participants from students to professionals.

To continue the development of the Fund, suggestions for improvements as well as enhancements to the Fund are encouraged. It is through this evolutionary process that the Fund can be adapted to best serve the needs of the students and the University.