

UNIVERSITY OF NORTHERN COLORADO



SAFF INFORMER

20th Anniversary



LETTER FROM THE EDITOR

The Student and Foundation Fund (SAFF) is celebrating 20 years of management this year. The first class of 11 students began its rich history of successful financial management and engaged student learning in the fall of 1992. Over the past 20 years the SAFF class has consistently performed at or above the level of professional managers and has been recognized multiple times as one of the top student managed funds in the country. Alumni of the class have gone on to very successful careers in both investments and other fields of endeavor. We want to recognize all of the students, staff, business leaders, foundation members, administrators, and faculty who have aided in the success of the SAFF class during the last twenty-years.

The SAFF class this semester was faced with some great challenges and opportunities. Arguably, the greatest challenge was developing an accurate economic forecast with uncertainties regarding the presidential election. After much discussion, we were able to implement a strategy that would be most beneficial to the portfolio.

This semester we have spent a lot of time working with one another and learned a great deal about the responsibilities of being a portfolio manager. Also, we have improved our skills through the challenges and practical experience that this class offers. It has been an incredible opportunity for us to apply our knowledge and to make in-depth decisions that apply to real world situations. This newsletter is an overview of our achievements this semester.

- Ryan Korn

LETTER FROM THE PORTFOLIO MANAGERS

The SAFF members of this semester inherited a portfolio structured in a spring of stable expectations and slow economic recovery. The current class recognized increasing uncertainty in regards to the resulting effects of the presidential election, the Fed's adoption of an open ended quantitative easing policy, the continuing debt crisis in Europe, and the fiscal cliff awaiting the American economy at the beginning of 2013. We recognized that the U.S. is walking a tight rope to a slow recovery, but overall we were optimistic. Given the favorable advantage that equities would have in a recovering market with rising interest rates, we structured our portfolio to have 60% of capital in equity and 35% in fixed income, with the remaining 5% held in cash.

The class recognized great opportunities for growth in the technology and financial services sector, as well as the hedge that could result from the stable cash flows in the staples sector; these observations resulted in the over-weighting of those sectors in our equity portfolio. Conversely, we under-weighted the energy, industrial, and utility sectors due to a combination of deteriorating business conditions and negative correlations with the aforementioned over-weighted sectors.

In the fall of 2012, many questions in the market were answered; today, many still remain. The impending fiscal cliff on January 1st, 2013; the international economic slowdown; turmoil in the middle-east; and future Fed action are largely in the air. This uncertainty is what the SAFF class is built for; it challenges and develops the ability of members in the class to come up with solutions to complex problems that have no clear cut answer. It is with great pride and confidence that we hand over our portfolio to the new and returning bright young men and women of the Spring 2013 SAFF class.

- Nick Candler & Joe Geronimo

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ABOUT SAFF

The University of Northern Colorado: Monfort College of Business offers a unique class to Finance students called the Student and Foundation Fund. The purpose of the class is to allow students to gain real world experience by managing a portfolio consisting of over \$1 million worth in equity, fixed income, and cash. The class was founded in 1992 by Dr. John Clinebell when the UNC foundation granted \$200,000. The goal of the SAFF class is to grow its assets and return the excess to the foundation. The class abides by the guidelines set in the Investor Statement Policy given by the UNC Foundation.

Students must submit an application and interview with Dr. Clinebell in order to be allowed into the class. Dr. Clinebell selects approximately 12 students each semester. There are various jobs that the students are assigned, which are held throughout the semester. The positions include:

- Portfolio Managers
- Equity Managers

- Fixed Income Managers
- Special Projects Managers
- Webmasters
- Newsletter Editors

Each student tracks information and current news on four equity holdings, usually within the same sector, and will conduct valuations on the companies. During the valuation process the student must determine if the stock is considered a value, growth, or high yield stock. If the stock does not fit into one of these categories the student must present a sell proposal to the class. Students are also accountable for closely following current news regarding the economy, markets, and international issues. However, if a student discovers a potential equity or fixed income prospect, they may construct a buy proposal and present it to the class.

The class meets once a week for approximately three hours. Class time is spent performing company valuations, creating an economic forecast, discuss-

ing target positions for the portfolio, as well as voting for or against any buy and sell proposals. SAFF students spend numerous hours researching in the university's Finance Trading Room, typically utilizing the Bloomberg terminal, Capital IQ, or Morningstar. The students often outperform industry professionals and the portfolio currently holds approximately \$1.1 million.

Altogether, the University of Northern Colorado's Student and Foundation Fund has been an undeniable success. It creates a learning environment unlike any other, preparing students for their future careers in finance or investing, enforcing a professional dress code, and engraving qualities like ethical behavior and hard work into each member.

- Sydney Ross

ECONOMIC FORECAST

Our economic forecast is based upon many ongoing events as well as events that will happen in the near future. The major events that we foresee affecting the economy are the upcoming presidential election, the Fed's adoption of an open ended quantitative easing policy, the continuing debt crisis in Europe, and the fiscal cliff awaiting the American economy at the beginning of 2013.

These current events, in conjunction with some broad assumptions made by the SAFF class, lead us to believe that the economy will continue to experience anemic growth.

Our estimate of GDP over the next three years is only 2%, which is upward trending but still below the historical average. The prolonged European debt crisis, too high of a level of unemployment coupled with slow job creation, and uncertainty surrounding the fiscal cliff as well as other budget issues facing the U.S. all act as drags on GDP. We expect Congress to take action after the election and extend some of the Bush tax cuts as well as cut some of the budget deficit.

Without addressing this problem and letting the U.S. go over the fiscal cliff, we would most likely enter a double dip

	Current as of 10/2/12	6 Month	12 Month	36 Month
Real GDP	1.30%	1.50%	1.80%	2.00%
Inflation (CPI-U)	1.40%	1.70%	2.00%	2.25%
90 Day T-Bill	0.10%	0.10%	0.10%	0.10%
10 Year T-Note	1.62%	1.70%	2.10%	2.40%
30 Year T-Bond	2.81%	2.85%	2.95%	3.20%
DJIA	13,564	14,178	14,819	17,688
S&P 500	1,459	1,525	1,594	1,905

recession, and we don't anticipate Congress letting this happen. We see the equity markets recovering slowly and growing 9.3% over the next three years.

We are currently facing a relatively steep yield curve, which implies that there is a lot of uncertainty in the market. Our slow growing economy and high unemployment caused the Fed to announce QE3. The open ended nature of QE3 puts a downward pressure on interest rates. In addition to this, the FOMC has promised to keep their benchmark short-term rate near zero all the way into 2015. Conversely, if the Congress can't reach an agreement to curb federal borrowing, there is a risk that credit agencies might downgrade U.S. debt thereby placing upward pressure on interest rates.

We expect inflation to rise slightly

over the next three years. In the short to intermediate term, the Fed's purchase of MBS will cause inflation to pick up. The Fed has also said that it would continue to make purchases after the economy has turned around, which means that they are fine with inflation exceeding its target of 2% per year. However, in the long term we don't expect inflation to far surpass the Fed's target level.

- Josh Metherd

FIXED INCOME

The fixed income portfolio is influenced by uncertainty of interest rates, the market as a whole, and the scarcity of attractive bonds; however, the fixed income portfolio has consistently beat the benchmark. For the benchmark we use the Barclay US AGG Index. Through the use of this benchmark we are able to formulate target weights, distributions and track the performance of the portfolio.

We have beat the benchmark for quarters two and three. In quarter two, the Barclay Aggregate produced a return of 2.30% while the SAFF fixed income portfolio produced a higher return of 2.48%. In quarter three, the return for the index was 1.58% while the SAFF fixed income portfolio was 1.94%.

We have decided to maintain the "Modified Barbell" strategy that has been utilized over the last few semesters. The bulk of our investments are in long-term and short-term maturity assets, with

less investment in mid-term maturity assets.

Ben Bernanke, chairman of the Federal Reserve, intends to keep interest rates low for the next 12-18 months. Interest rates are then expected to increase following this period. We can mitigate any risk associated with interest rate fluctuations through the use of the barbell strategy.

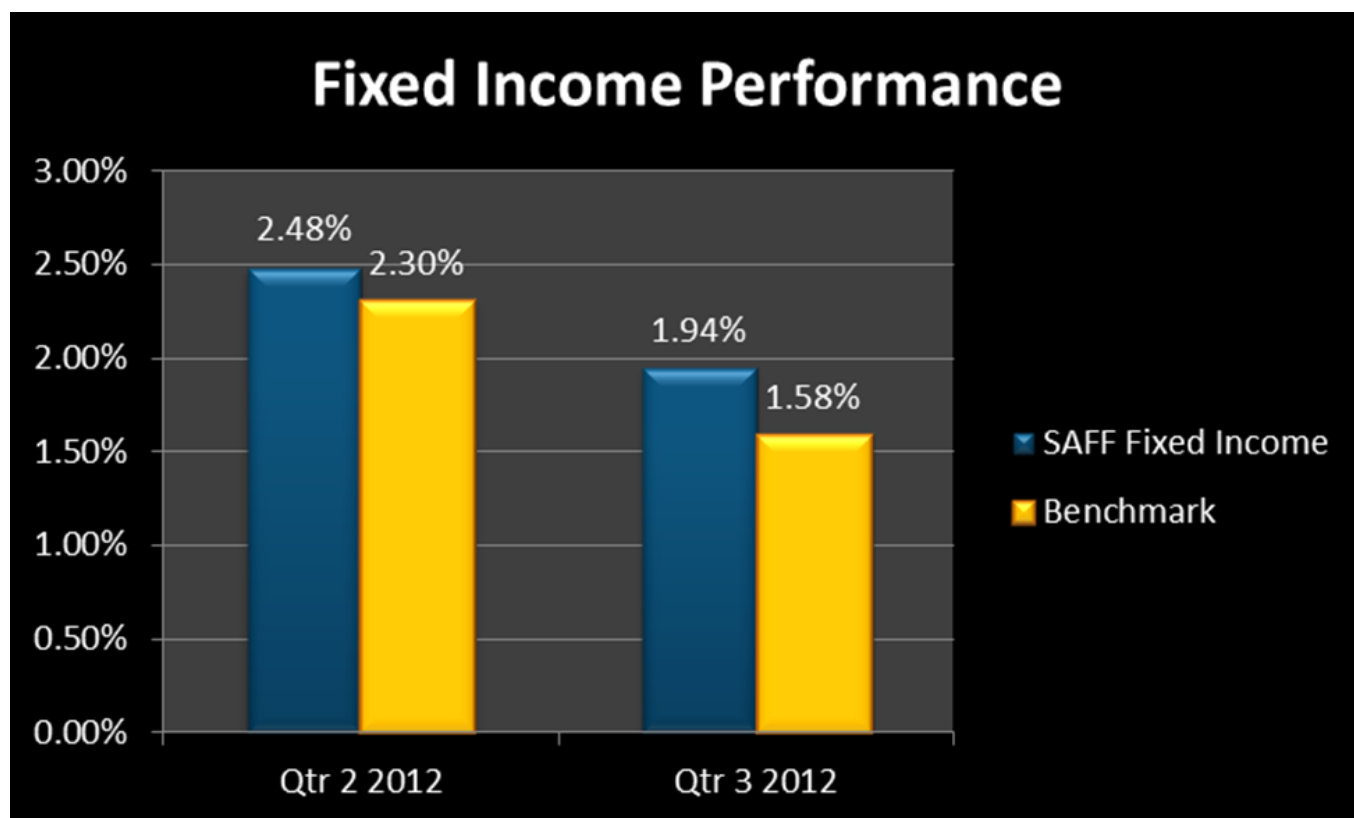
Due to current low interest rates, coupled with the adverse price reaction that would result from an increase in those rates, we have decided to shorten the duration and increase the coupon payment of our bond portfolio. The high coupon will protect the bond portfolio from changes in underlying interest rates, as well as allow the class to reinvest the proceeds of those coupon payments into higher yielding securities should interest rates rise.

The target weight for fixed income is 35% of the SAFF portfolio. This target

is lower than the benchmark of 40% due to low interest rates and potential gains in the stock market. The fixed income portfolio has consistently helped the entire portfolio maintain strong returns.

- Aaron Mund & Dylan Steeves

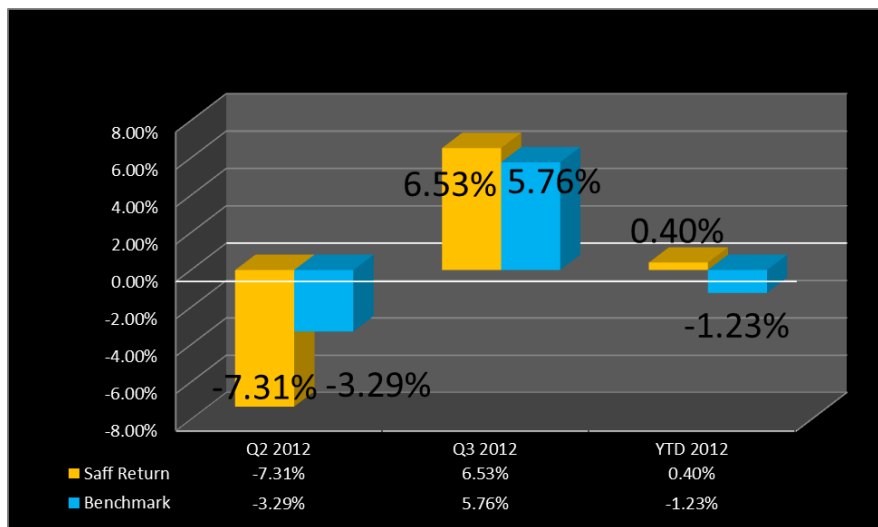
2ND & 3RD QUARTER FIXED INCOME PERFORMANCE



EQUITY

Our equity performance was very volatile in quarters two and three of 2012. In quarter two we lost 7.31% when our benchmark (S&P 500) lost 3.29%. As you can see we lost quite a bit more than our benchmark in this quarter. We found the reason for this loss was that we were over-weighted in the energy sector and they had a huge hit during May 2012 losing about \$13,000 in that month alone and also financial services took a huge hit that month as well with about an \$8,000 loss. The reason for these huge losses was mainly because of the Eurozone debt crisis, fear that the U.S. economy was slowing down more than expected and the first time unemployment benefits rose in the U.S. 10,000 higher than analysts had expected.

Quarter three was a much better quarter for us we outperformed the benchmark and had a pretty good return of 6.53% when the S&P 500 had a 5.76% return. The reason our equity beat our benchmark in the third quarter was due to our stocks like Apple and Google (two of our biggest holdings) having huge returns in this quarter. Some other things that caused the market to be up assisting our portfolio to have a good return was pre-election hope, the FED releasing QE3 and GDP & Consumer confidence was up higher than analysts' expectations.



The beginning of quarter four has been a very rocky start due to the fiscal cliff worries, the Eurozone not improving, Apple dropping from 700 to about 540 in a month, China slowing growth and the threat of capital gains rate tax increasing from 15% to 25% in January. This quarter is shaping up to be a pretty rough quarter for the market as a whole but we believe we have the portfolio positioned in the right spot to not take as big of a hit as the overall economy will in quarter four.

- Alex Schneider & Wesley Williams

EQUITY PURCHASES & LIQUIDATIONS

After the completion of our economic forecast, we needed to rotate some of the holdings in our portfolio in order to meet the demands of sector allocation. Our buys were mostly brought about by demands resulting from the changes to sector weightings in our portfolio, although many sells were made in light of such factors as:

- Securities reaching their target price range.
- Changes in the underlying fundamentals and prospects of those holdings.
- Violations of the investor policy statement guidelines.

For instance, we sold some of our holdings of Express Scripts because the value of our holdings had surpassed the 5% maximum dictated by the investor policy statement.

Due to their favorable future outlook, we have added to our previous stake in AFLAC and Cognizant Technology, bolstering our investment in the technology and financial services sectors. Furthermore, as a class we viewed Comcast, Cabelas, Celgene Corporation, and Whole Foods Market as attrac-

tive investments, and added them to our portfolio to fill out the target value of their respective sectors.

- Nick Candler

Equity Purchases	Equity Liquidations
AFLAC	Express Scripts
Cabelas	Proctor & Gamble
Celgene Corp	Strayer Education
Cognizant Tech	Windstream Corp
Comcast	
Whole Foods	

EQUITY ALLOCATION

Upon completion of our economic forecast, we under or over -allocated our holdings relative to the S&P 500. This was based on our economic forecast and what sectors we think will do well in our forecasted economic environment.

The financial services industry appears to be lucrative because of the Fed's September quantitative easing. This will pump money into banks, which will enable them to meet increasing demand for home financing. The technology industry is most capable of growth, recession or boom, so we will continue to over-weight the portfolio with tech stocks. As for staples, an economy with extremely slow growth

compels us to add weight to companies that have consistent sales and have staying power in the market.

Our class has also decided to reduce the fund's exposure to industrials, energy, and utility industries. Industrial firms are likely to suffer from the declining demand for steel, as China's consumption growth weakens and Europe continues to struggle.

Our confidence in the financial services industry has led us to under-weight our energy holdings due to a correlation of -33% between the two industries. With that, energy prices should be expected to go up in the near future due to the growing tension with the Middle East. As for our utility hold-

ings, their negative correlation to technology and staples, coupled with current regulations on the industry, has led us to reduce these holdings as well.

- Alex Schneider & Wesley Williams

Sector:	Financials	Healthcare	Tech	Utilities	Industrials	Energy	Cyclicals	Telecom	Staples	Materials
S&P 500	14.79%	11.68%	20.24%	3.36%	10.09%	11.34%	19.80%	3.19%	10.83%	3.50%
Target	15.80%	11.60%	23.00%	3.00%	8.20%	9.20%	10.90%	3.10%	11.70%	3.50%
Weight	Over	Stable	Over	Under	Under	Under	Stable	Stable	Over	Stable

SPECIAL PROJECTS

THE CFA INSTITUTE GLOBAL INVESTMENT RESEARCH CHALLENGE

This fall, a few members from the SAFF class were able to take advantage of a rare learning opportunity called the CFA Institute Global Research Challenge. For the fourth year, these students had the opportunity to represent the Monfort College of Business in this year's research challenge, as well as to represent the schools image of exceptional business standards. This year's team will be competing against undergraduate and graduate programs from regional schools like Colorado State University, Denver University, University of Colorado at Boulder and Metropolitan State.

This year the competition calls for a full financial analysis of Ball Corporation based out of Broomfield Colorado. The students had an opportunity to go

to the corporate headquarters of Ball Corp. and watch a presentation put on by Scott Morrison, the CFO of Ball Corp. Factors that the students will analyze include economic, industrial, environmental and company specific in



their analysis. After the completion of the full analysis and valuation of the company, the team will present their case to a panel of certified financial analyst judges and compete for national recognition. If Monfort's team wins the

regional competition, they will get to fly to Toronto Canada in March to compete for nationals, and if the team still persists in success then they will get to go to London for the global competition. The team is currently working on their analysis, and will be finalizing their report when the spring semester is beginning.

- Jackson Kaufman



JOB ASSIGNMENTS

Portfolio Managers	Equity Managers	Fixed Income Managers	Webmasters	Newsletter Editor	Special Projects Managers
Nick Candler	Wesley Williams	Aaron Mund	Josh Metherd	Ryan Korn	Sydney Ross
Joe Geronimo	Alex Schneider	Dylan Steeves	Joey Steger		Jarrold Bechtold
					Jackson Kaufman

FACEBOOK

The SAFF class this semester decided to create a Facebook page in an effort to reach out to alumni and keep people informed with SAFF class discussions. We have uploaded our economic forecast to the page in an effort to increase conversations with finance students, including those at the Monfort College of Business as well as those at universities around the world.

For example, this semester the SAFF class participated in discussions with investment students located in Lithuania. We were able to set up a live video conference to talk about current economic trends, investment strategies, and opinions on the global finance markets. The Facebook page allowed us to keep in contact with the students in Lithuania during the semester.

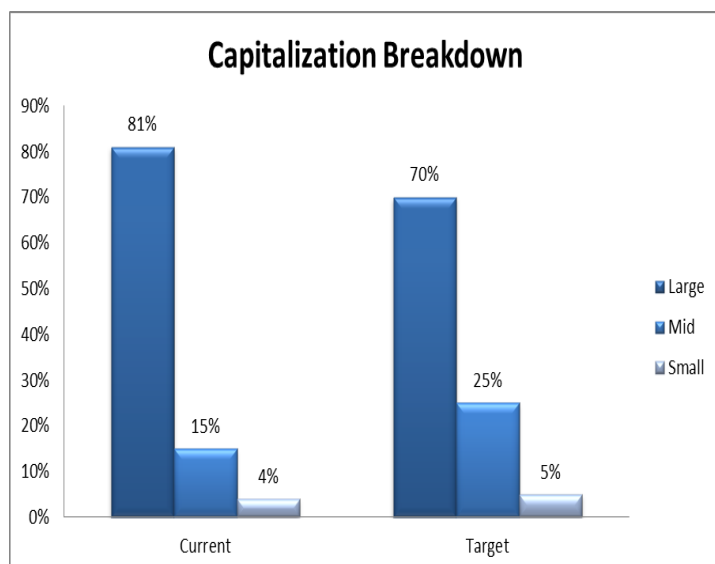
Along with the students abroad, the SAFF class has a good number of followers, some of which include SAFF class alumni. Many of our followers have given positive feedback on our page. We believe the future SAFF class

students will be able to continue reaching out to other students through our Facebook page in the future.

- Joey Steger



PORTFOLIO SNAPSHOT



Portfolio Holdings	Target	Current
Equity	\$727,136	\$695,304
Fixed Income	\$424,163	\$387,918
Cash	\$60,595	\$128,670
Total	\$1,211,893	\$1,211,893

Portfolio	SAFF	S&P 500
Price/Prospective Earnings	0.59	14
Price/Book	1.9	2.1
Total Return YTD	6.27%	14.22%
Return on Assets (ROA)	8.78%	9.05%
Return on Equity (ROE)	18.28%	21.51%
Projected EPS Growth (5-yr)	16.24%	10.21%
Dividend Yield TTM	1.69%	1.86%
Avg. Market Cap (\$ million)	\$28,355	\$59,072

5 Best Performers

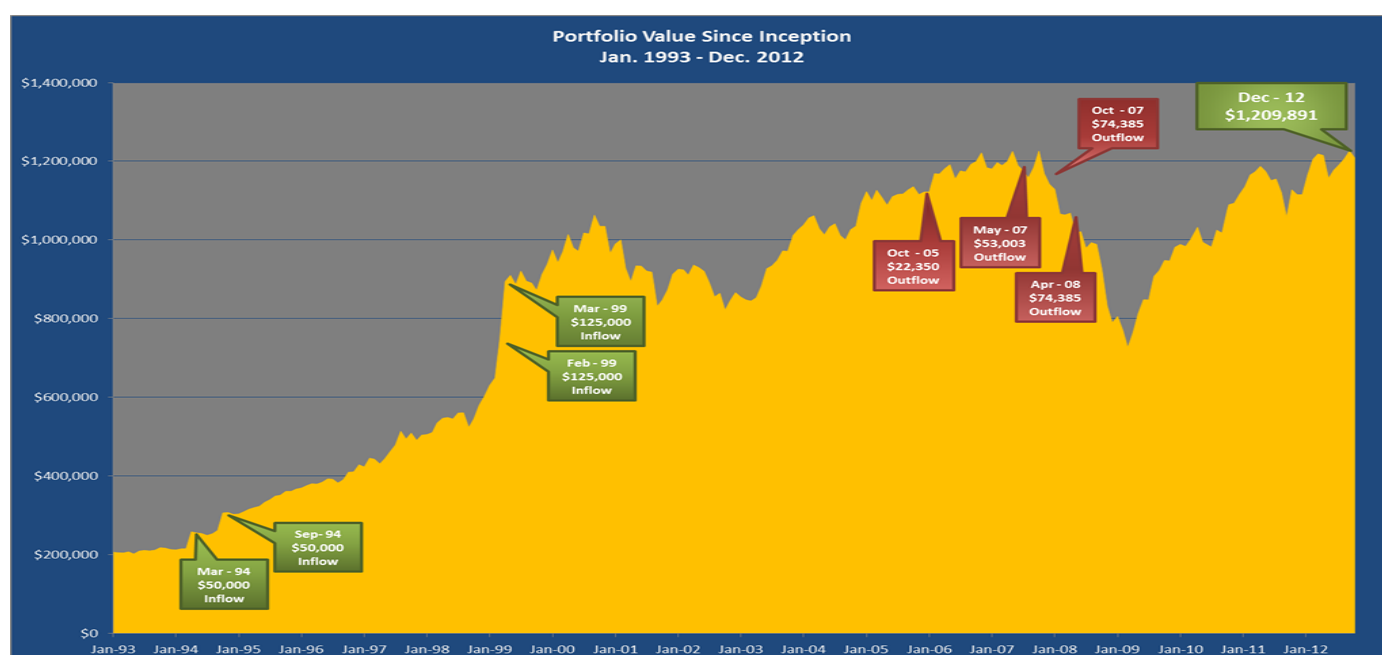
Apple	199.51%
Caterpillar	140.52%
Buffalo Wild Wings	108.49%
Altria Group	106.55%
Texas Instruments	94.17%

5 Worst Performers

Baidu	-40.26%
Morgan Stanley	-38.92%
General Electric	-37.52%
Medtronic	-25.87%
Tower Group	-23.68%

5 Largest Equity Holdings

Cognizant Tech	\$27,900
Apple	\$26,940
PRICELINE.com	\$26,569
Express Scripts	\$25,526
Qualcomm	\$25,452



F V D J S E D T A P S F N F L
 X I C N F T S L O C I J D I X
 K R S A E E O R C K S D I D H
 O R D C R D T C W B Y O L U M
 L M G E A F I P K G L G N C A
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 D N D L C I C M I W N P P A G
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 S H N C A P I T A L G A I N S
 K D A H P L A R O L X L N B D
 S Y X M F P D S G N I N R A E

ALPHA
 CAPITALGAINS
 FIDUCIARY
 MARGIN
 STOCKS

ANALYSIS
 DIVIDEND
 FISCALCLIFF
 MARKETS
 WACC

BONDS
 EARNINGS
 INTEREST
 PORTFOLIO



SPECIAL THANKS

The Fall 2012 SAFF class would like to recognize those who made SAFF possible this semester. We would like to thank Dr. John Clinebell for this great opportunity. SAFF has given us a real world work experience that normal business classes would not provide. His hard work, dedication, and guidance encouraged us to succeed and helped the semester run smoothly. We would also like to thank Kristi Cozbey, the Administrative Assistant for the Finance Department. We appreciate your willingness to help as well as your strong work ethic. And Chris Vegter, our Bloomberg expert, thanks for helping resolve any technological issues that occurred in the trading room. Another special thanks goes out to our CFA Advisor, James Cornhelson who enhanced our knowledge about company financial analysis. Finally, we would like to thank the UNC Foundation. All of this would not be possible without your support. We are privileged to be a part of this learning opportunity.

There are many people we owe our many thanks too; however, we could not have done it without a great team and support from MCB faculty. This was a great opportunity and we are thankful the UNC Foundation continues to trust its students by providing them with real life exposure to portfolio management.

- *The Fall 2012 SAFF Class*

FALL 2012 SAFF CLASS



(Left to Right)

Back Row: Jarrod Bechtold, Josh Metherd, Nick Candler, Sydney Ross, Dylan Steeves, Joey Steger

Front Row: Joe Geronimo, Wesley Williams, Ryan Korn, Jackson Kaufman, Aaron Mund, Alex Schneider, John Clinebell

PROFOUND QUOTES

- ◇ The waste of money cures itself, for soon there is no more to waste. ~M.W. Harrison
- ◇ The safe way to double your money is to fold it over once and put it in your pocket. ~Frank Hubbard
- ◇ The only reason a great many American families don't own an elephant is that they have never been offered an elephant for a dollar down and easy weekly payments. ~Author Unknown
- ◇ A bank is a place that will lend you money if you can prove that you don't need it. ~Bob Hope
- ◇ If women didn't exist, all the money in the world would have no meaning. ~Aristotle Onassis
- ◇ Inflation is taxation without legislation. ~Milton Friedman
- ◇ Modern man is one who drives a mortgaged car over a bond financed highway on credit card gas! ~Cy N. Peace
- ◇ Always borrow money from a pessimist; he doesn't expect to be paid back. ~Author Unknown



FALL 2012

SAFE INFORMER



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