

UNIVERSITY OF NORTHERN COLORADO



SAFF INFORMER



LETTER FROM THE EDITOR

The SAFF Class of Spring 2012 experienced a market constantly changing and on the verge of recovery this semester. Compared to the last semester's incredibly challenging conditions in the equity markets, we were able to capture a large amount of positive growth as the market steadily increased in the beginning of 2012. We have worked hard to reevaluate the holdings of the portfolio to best reflect our forecasted moderate economic recovery. Global factors such as: uncertainty in the Middle East, the European Crisis, and rising energy prices, all had major impacts on our economic outlook and influenced our management of the equity and fixed income portions of the portfolio.

The SAFF manager's professional experience and knowledge gained remains unmatched by the majority of undergraduate and graduate business programs across the nation. We have developed many skills and connections that will become valuable assets as we move towards our future career goals. We thank you for taking the time to read about our accomplishments this semester.

-Megan Martorano

LETTER FROM THE PORTFOLIO MANAGERS

This semester's SAFF class inherited a portfolio that was more optimistic on growth than our current outlook. We were less optimistic of existing research on key market variables. This included the civil unrest in the Middle East, continuing high unemployment rates, and a multitude of other factors. With our class being less optimistic, we decided to put 60% in equities, 35% in fixed income, and 5% in cash. Despite being slightly less optimistic, we do see the market starting to make a partial recovery. Therefore, we have over-weighted the Technology, Energy, and Cyclical sectors. Also, we chose to under-weight a number of other sectors including Staples, Health Care, and Financial Services. We believe they will underperform relative to other sectors.

By allowing the students in this class to make key decisions, we receive real-world, applicable experience. This will help us in the future--whether it is in our career path, or helping us look at a variety of factors that can influence investment decisions. Trips to New York for the Quinnipiac G.A.M.E Forum are some of the experiences that have helped us grow as portfolio managers. We had the opportunity to meet numerous professionals and presented our portfolio to a panel of professional judges.

-Matt Henderson and Dustin Bruntz

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ABOUT SAFF

The Student and Foundation Fund (SAFF) was established in 1992 by Dr. John Clinebell with the help of a significant donation of \$200,000. The Monfort College of Business is one of the few universities in the nation that has provided its students with access to such an opportunity at the undergraduate level. The purpose of SAFF is to provide students a comparable professional opportunity with the ability to manage a portfolio now consisting of over \$1 million worth of stocks, bonds, and cash. With the evolution of the class and the amount it has returned thus far, SAFF has been a large success to not only the college, but to other universities who sought out such funds.

The class is typically comprised of 10 to 15 students who go through an application and interview process in order to be selected. The amount of applications varies each semester, however there usually at least 20 students that apply. To build upon the professional experience, students are given specific jobs that are held throughout the semester, including:

- Portfolio Managers
- Equity Managers
- Fixed Income Managers

- Special Project Managers
- Webmaster
- Newsletter Editors

Along with these positions, each student is responsible for tracking three to five of our current equity holdings. The students' responsibilities entail: tracking their companies, staying up to date on any related news, as well as performing valuations on the firm and its stock. Also, students must closely follow all current news regarding the economy, markets, international issues, etc. It is important that each stock is consistently valued to ensure that it can be categorized as a growth, value, or high yield stock. If the stock does not fulfill the criteria listed in the Investment Policy Statement, the student must prepare a sell proposal and present it to the class to rid the portfolio of the stock or bond. On the flip side, students can prepare buy proposals at any time to purchase new equities or fixed income assets.

The class meets once a week for three hours, performing company valuations, creating an economic forecast, discussing target positions for the portfolio, as well as voting for or against any buy and sell proposals. Along with

the three hours of class time a week, students spend much of their time in the trading room, utilizing applications such as Capital IQ, Bloomberg, and Morningstar.

Throughout the years, the fund has grown from \$200,000 to \$1,271,687, fluctuating daily, based on the market. The fund has also received several other donations. It has donated a portion of its returns back to the university for various scholarships and other class-related expenditures. SAFF's success throughout the years has been demonstrated by the effective preparation of students for a future in any career field while simultaneously providing the university with an economic gain. While upholding the Monfort College of Business's mission and standards, each SAFF member displays ethics, responsibility, and hard work which can only benefit its members in the future.

-Terri Romero

ECONOMIC FORECAST

We went through many sessions of negotiations to get a consensus among all members of the class on the key factors that affect the economy. The factors that we have focused on are as follows: Energy Prices, Money Supply, Value of the Dollar, Individual Tax Rate, and Corporate Tax Rate. For each of these factors we forecasted for the time periods of six months, one year, and three years. With the unrest in the Middle East, our class believes that energy costs will increase in the future. Considering the current economic situation, we believe that the money supply staying stable. This is due to the Federal Reserve pledging to keep interest rates low for the next two years.

The next major factor that we looked at was the value of the dollar. Our class forecasted that this value will be stable for approximately three years, and will then decrease in value. We believe the dollar will depreciate because of the large U.S. trade deficit along with the national debt on the rise. With the U.S. burdened by the debt and

deficit, the emerging markets that are on the rise will put downward pressure on the dollar.

We also looked at individual and corporate tax rates. We believe that both rates will remain stable in the future because the presidential election will be held this year. On the other hand, we see the individual tax rate rising in three years in response to the rising national debt. For the rest of our forecast, we have forecasted some growth but it is very slow as the market trends back to normal levels. We do see the numbers dropping from what they are currently because of readjustments as the reporting agencies receive new data. While we see a stagnant economy in the short-term, we do see the economy picking up the farther out we look into the future.

	Current*	6 Months	12 Months	36 Months
GDP	2.70%	2.00%	2.10%	3.00%
Inflation	3.00%	3.00%	3.25%	3.75%
90-Day T-Bill	0.06%	0.10%	0.15%	1.25%
10-Year T-Note	1.84%	2.10%	2.35%	3.00%
30-Year T-Bond	2.98%	3.30%	3.50%	4.10%
DJIA	12,653.72	12,900.00	13,400.00	14,500.00
S&P 500	1,313.94	1,350.00	1360.00	1500.00

-Dustin Bruntz



FIXED INCOME

Fixed income managers faced a tremendous amount of pressure from a rising interest rate environment. However, our fixed income portfolio has consistently outperformed the Barclays US AGG Index, our fixed income benchmark, in 2011 and the first quarter of 2012. Our fourth quarter return was 3.79% compared to a 1.09% return for the Barclay's US AGG Index. In addition, our first quarter return in 2012 was 1.603% versus the Barclay's US AGG Index return of 0.24%.

The performance of our fixed income can be partially attributed to the Fall 2011 SAFF class. A big contribution to our success in 2011 was through the liquidation of our long-term treasury funds. Their selection of bonds based on their strategy enabled our portfolio to strongly outperform the index YTD.

After creating our economic forecast, we decided to keep our current barbell strategy that was implemented last semester. With our economic forecast, we feel that interest rates will rise,

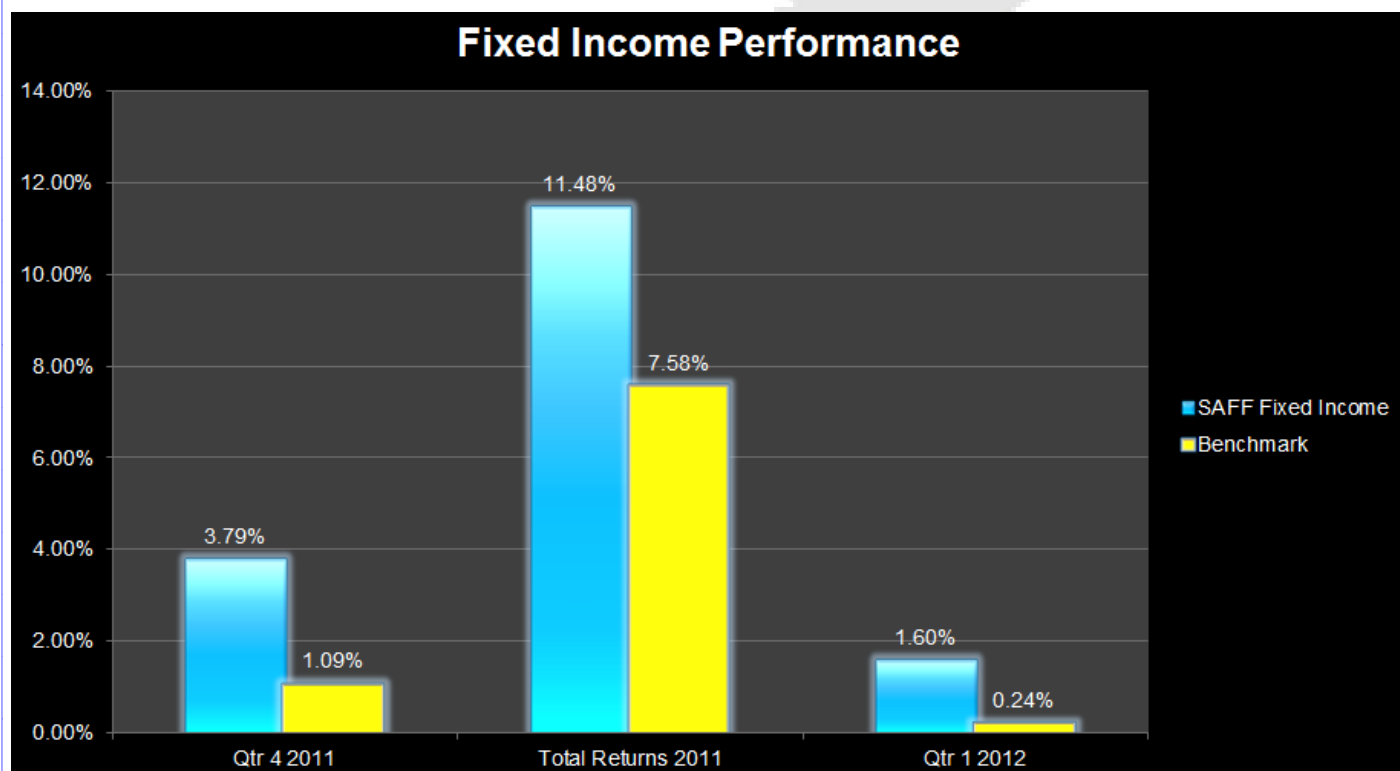
and the yield curve will flatten. This strategy will place our portfolio in a good position with expected increases in interest rates. By implementing a barbell strategy we will be over-weighted in short and long-term maturity bonds and underweighted in mid-term maturity bonds. As a result, our exposure to changes in interest is minimized. The class decided to pursue a lower duration in order to reduce our interest rate risk. Our target duration is 4 years, which is around 7% lower than the duration of the Barclays US AGG Index. Based on our economic forecast, we decided to set an overall portfolio target in fixed income to 35%. We feel that equity will outperform fixed income in the future as turmoil in the global markets diminishes.

In addition to setting our maturity strategy and target duration, we have also adjusted our weighting for mortgage-backed, government and corporate issue securities. Our spread analysis determined that corporate bonds

outperform MBS and government bonds. Our target weights are 32% in MBS/ABS, 30% in government, and 38% in corporate bonds. Our analysis indicated that corporate bonds will be less affected by changes in interest rates. We are in the process of implementing this strategy and hope that the modifications made to the fixed income side of our portfolio will allow us to outperform our benchmark for future quarters.

-Nick Candler & Sean Jiang

2ND & 3RD QUARTER FIXED INCOME PERFORMANCE

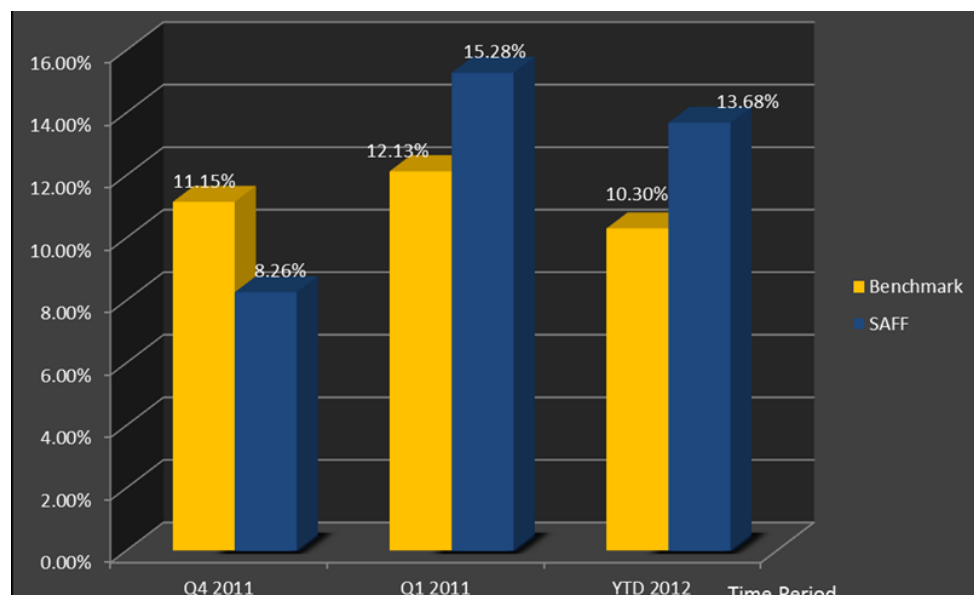


EQUITY

The equity portfolio underperformed against its benchmark, the S&P 500, during the fourth quarter of 2011. This is mostly attributable to the financial sector's poor performance during the last portion of 2011. Standard and Poor's implemented their new revised banking criteria with 30% of U.S. banks being downgraded. This significantly impacted our financial sector, as well as the portfolio as a whole. Despite the underperformance last year, the equity portfolio started off relatively strong in 2012. The market had its highest first quarter returns since 1998 which greatly impacted the equity portfolio. The main contributor to this was growth stocks, which had the largest returns in the market and make up approximately 45% of our equity holdings. The economy as a whole also significantly contributed to our high returns. It grew at a moderate pace beating expectations and increasing investor confidence.

Our three largest gainers (Buffalo Wild Wings, Apple, and Philip Morris) reflect the economy doing well and each represents a different sector. We outperformed the benchmark in the first quarter and year to date by about three percent.

-Danielle Lehrkamp



EQUITY PURCHASES & LIQUIDATIONS

Upon completion of our economic forecast and the sector allocations, some changes needed to be made. We started off the semester by selling Bank of America right at the time when it was undergoing the stress tests. Fortunately, but also unfortunately, it was one of the few banks that passed the tests, but by the time it did, we had already liquidated our holdings. Lakeland Financial Corporation replaced Bank of America, bringing our financial sector weighting to just under our target weight. We locked in our profit on Philip Morris International getting out of it just after it paid its quarterly dividend. Urban Outfitters and Johnson and Johnson were both facing some social issues that we did not feel comfortable about,

so both of our positions were liquidated. Other liquidations throughout the semester included Express Scripts Inc., and Transocean. We sold 15 shares of Apple in order to maintain our 5% stake in the company, as per the investment policy statement. Aside from Lakeland Financial, we also acquired Whiting Petroleum in an effort to reach our target over-weight in the energy sector. The purchases and liquidations

helped us clean up our portfolio and meet our sector allocation goals.

-Laura Maslyn

Equity Liquidations	Equity Purchases
Express Scripts, Inc.	Lakeland Financial Corporation
Urban Outfitters	Whiting Petroleum Corporation
Phillip Morris International	TTM Technologies Inc.
Honeywell International Inc.	Merck & Co. Inc.
Johnson and Johnson	
Transocean	
Bank of America	
Tata Motors	



EQUITY SECTOR ALLOCATION

After finishing our economic forecast, we under or over allocated our holdings relative to the S&P 500. Our decisions were based on what sectors we think will do well in the coming year. First, we over weighted the technology, cyclical and energy sectors. We are expecting energy prices to continue to increase due to inflation, continuous oil supply disturbances and emerging market growth. We under allocated the financial services, healthcare, and staples sectors. Because of increasing regulations, we were concerned that the financial sector would continue to struggle in the up-

coming year. As for healthcare, the new reform act is a concern. This poses much uncertainty for future revenues of healthcare companies, so we thought it best to underweight this sector. The staples sector was underweighted due to increasing input costs, regulations, and competition from generic brands. Even though we forecasted the economy slightly picking up, we still see consumers being hesitant and going toward generic brands at the grocery store. Utilities, industrials and materials are not expected to perform exceedingly well, but should remain relatively stable. Increasing oil costs could poten-

tially impact profits and emerging markets growth is not as high as originally expected. For this reason, we chose to weight them the same as the S&P 500

- Danielle Lehrkamp

Sector	Financials	Healthcare	Tech	Utilities	Industrials	Energy	Cyclical	Telecom	Staples	Materials
S&P 500	14.33%	11.44%	19.89%	3.46%	10.97%	11.99%	10.84%	2.70%	10.76%	3.62%
Target	12.00%	10.44%	21.89%	3.46%	10.97%	14.00%	12.16%	2.70%	8.76%	3.62%
Weight	Under	Under	Over	Same	Same	Over	Over	Same	Under	Same

SPECIAL PROJECTS

THE CFA INSTITUTE GLOBAL INVESTMENT RESEARCH

In January, team members Matthew Henderson, Greg Thoke, Nick Delia, Danielle Lehrkamp, Ashley Jackson, and Jia Wei Jiang completed the Chartered Financial Analyst challenge. The team completed a full financial analysis of Newmont Mining Corporation in Denver. The team analyzed the economy, the mining industry, and the future outlook of Newmont. They also analyzed capital structure, cash flows, earnings and overall risk to calculate an intrinsic value. In the end,

the team recommended a "sell" opportunity both academically and professionally. Over the four month span, the team met several times with Johnathan Holtzinger, CFA in Denver and were also able to attend a meeting with Newmont's Vice President of Investor Relations. The final paper was completed and presented at the Grand Hyatt in downtown Denver. After the presentation, the team attended the CFA Institute's annual forecast dinner. The whole experience was a great learning

-Danielle Lehr-



kamp



On March 29-31, 2012, the SAFF class took a trip to New York, New York to attend the second annual G.A.M.E. Forum. While there, we listened to keynote speakers who were heads of their industries talk about their opinions on the economy, stock market, alternative investments, and corporate governance. Also, we got to hear the economist from the Fed speak and tell us everything he could about the economy and the stock market. Our very own Danielle Lehrkamp got to sit on a panel of students and ask him a question in front of the whole conference. We were also given the chance to attend a variety of breakout sessions involving various financial topics. The Forum allowed us to interact with students from around the country and also to interact with foreign students and see how they constructed and managed their portfolios. It was really exciting that the forum was held in one of the financial capitals of the world. While there Dr. Clinebell took our class down to Wall Street to see the stock exchange and also to see the bull. The location

was one of the most beneficial parts of the trip because it gave us a sense of the big city and a sense of how the finance world operates. The class also competed in the undergraduate core category and was chosen to be a finalist.

the judges to ask questions. Being a finalist meant that we were in the top 10 of all the other schools that participated in the competition.



The portfolio was judged on risk-adjusted returns in 2011 as well as a presentation of our investment process to a board of CFA judges. The presentation consisted of 15 minutes for the presentation then 10 minutes for

JOB ASSIGNMENTS

Portfolio Managers	Equity Managers	Fixed Income Managers	Webmaster	Newsletter Editors	Special Projects Managers
Dustin Bruntz	Laura Maslyn	Nick Candler			Nick DeLia
	Greg Thoke	Jai Wei Jiang	Justin Rezzonico	Megan Martorano	
Matt Henderson	Danielle Lehrkamp	Teri Romero			Wesley Williams



PORTFOLIO SNAPSHOT

Target Holdings	
Equity	\$ 769,702.20
Fixed Income	\$ 448,992.95
Cash	\$ 64,141.85
Total	\$ 1,282,837.00

Current Holdings	
Equity	\$ 690,634.00
Fixed Income	\$ 370,330.00
Cash	\$ 221,873.00
Total	\$ 1,282,837.00

Saff Portfolio Snapshot



Portfolio Snapshot

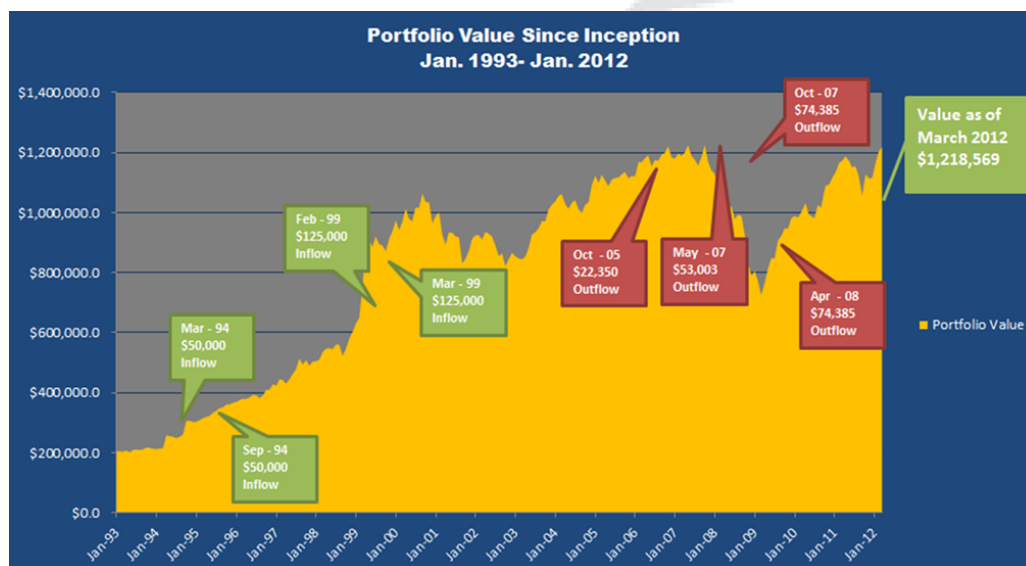
(As of April 26, 2012)

Overall Portfolio	SAFF	S&P 500
Price/Perspective Earnings	11.41	12.14
P/B Ratio	2.25	1.99
Total Return YTD	9.28%	11.69%
Return on Assets (ROA)	11.61%	9.44%
Return on Equity (ROE)	25.73%	22.97%
Projected EPS Growth	13.32%	10.33%
Dividend Yield TTM	2.13%	1.76%
Avg Market Cap (\$million)	30,916.61	49073.98

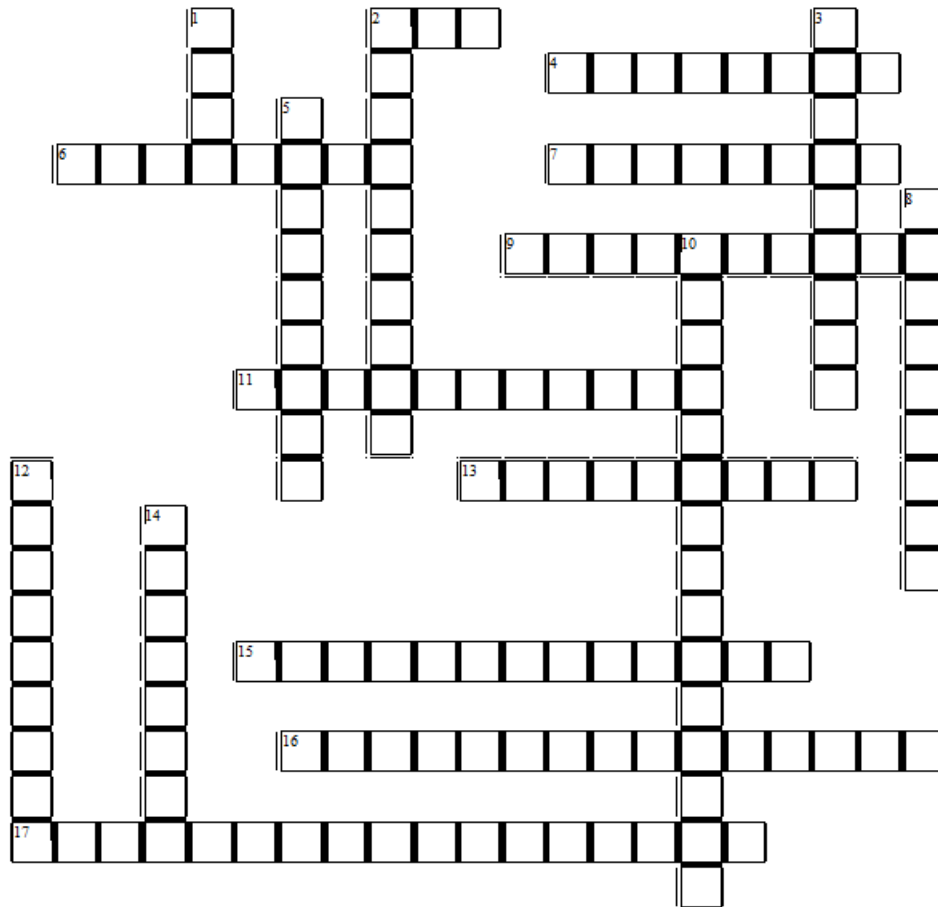
Express Scripts Inc	\$ 31,592.00
Apple Inc.	\$ 30,500.00
PRICELINE.COM Inc	\$ 28,982.00
Qualcomm	\$ 25,304.00
Caterpillar Inc	\$ 23,791.00

Apple Inc	72.80%
Buffalo Wild Wings	41.63%
PRICELINE.COM Inc	33.11%
Planes All American	31.51%
Altria Group Inc	28.60%

Peabody Energy	-52.80%
Morgan Stanley	-32.88%
Flir Systems Inc	-31.24%
Strayer Education	-25.14%
Potash	-23.51%



-Justin Rezzonico



ACROSS

2. Stock Distributions Have ____ Tails
4. Sector _____ Strategy
6. In Today, Gone Tomorrow
7. Distributing of Income Directly
9. Can be Inverted
11. Bond Portion
13. Unforeseen Event
15. Market Factor not Quantifiable
16. Return on Bonds
17. Risk Measure

DOWN

1. Internal and External
2. Michael Porter's Industry Analysis
3. Fall From AAA to AA
5. Modern Portfolio Theory
8. S&P 500; Barclay's
10. Negative Correlations Helps
12. P/E; P/CF; P/B
14. Bond Sensitivity

- Matthew Henderson



SPECIAL THANKS

The Spring 2012 SAFF class would like to recognize everyone who helped make SAFF possible again this semester:

First and foremost, we would like to thank Dr. John Clinebell. Without you this class would not be possible. Your dedication to the SAFF program has inspired each of us to work hard, and we have all learned a great deal in the last semester. You always have high expectation for us, but it has helped us transform into better students and well-prepared professionals for the future. We would also like to thank the Northern Colorado Medical Center for their generous donation of \$250,000. This donation will make a significant difference in the expansion of the trading room and will give future MCB students and the SAFF class members' exceptional learning tools.

We would also like to thank Chris Vegter. You have helped our class with many technology questions in the trading room and enable us to continue working with all of the professional tools necessary to complete our research. Kristi Cozbey, the Administrative Assistant for the Finance Department, we would also like to thank you. Your hard work every day is greatly appreciated. Finally, we would like to thank the UNC foundation. Without you, we would have never had this incredible learning opportunity in portfolio management. Thank you for your continued support and trust.

There are many others who deserve recognition, particularly other MCB faculty who provide their valuable support to SAFF students. This has been a great opportunity and we are extremely thankful to everyone who helped us throughout the semester to make it possible.

- *The Spring 2012 SAFF Class*

SPRING 2012 SAFF CLASS

(Left to Right)

Back Row: John Clinebell, Greg Thoke, Matthew Henderson, Wesley Williams, Dustin Bruntz, Justin Rezzonico, Nick Delia, Nick Candler

Front Row: Jia Wei Jiang, Danielle Lehrkamp, Laura Maslyn, Megan Martorano, Terri Romero





FALL 2011

SAFE INFORMER



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