UNIVERSITY OF NORTHERN COLORADO

MONFORT COLLEGE of BUSINESS
University of Northern Colorado

SAFF INFORMER

LETTER FROM THE EDITOR

As portfolio managers of the Fall 2013 semester, we have set a more optimistic outlook of the current economy when compared to last semester. Due to the change to a more optimistic forecast, we worked to align our portfolio with our fore cast in order to reach targets and provide our investors with the maximum return. Through monitoring, analyzing, performing valuations, presenting buy and sell proposals, and giving presentations to business professionals, we have learned a lot about applying what we've learned here at MCB to portfolio management in the real world. Through this amazing class we have gained a nonpareil learning experience that will be with us for the rest of our lives. We would like to thank you for taking the time to read about our portfolio, as well as what the eight of us have accomplished as a team throughout this semester.

-Lee Taylor

LETTER FROM THE PORTFOLIO MANAGERS

Every group of students that has been lucky enough to be part of the Student and Foundation Fund (SAFF) will for the rest of time be able to talk about what factors influenced their financial decisions. Before a student's admission to SAFF, these events were seemingly insignificant headlines on the front page of the paper, and may not have much impact on day-to-day life. Once inside the SAFF room though, every headline has weight, repercussions, and possibilities. For the 2013 Fall SAFF class, we are no different, as we will have our stories to share on what shaped our portfolio. We looked to shield the portfolio from economic danger from world complications in Syria and a governmental shutdown. We looked to take advantage of new investment opportunities with the implementation of the Affordable Care Act and new environmental protection regulations. We waited on bated breath every time the chairman of the Federal Reserve spoke, to try and decipher what was or was not being said. As a group we expanded our horizons as we participated in international discussions with students from Vilnius, Lithuania to learn different perspectives of investing. The SAFF class can also boast that all four participants in the Certified Financial Analyst Challenge reside within our group. We are honored to be part of the University of Northern Colorado's 2013 SAFF class and welcome the experience knowledge we have gained from it.

-Michael Kibbee and Adriana Nieto

INSIDE THE ISSUE

ABOUT SAFF

The Student and Foundation Fund (SAFF) is a class offered at MCB that allows students the opportunity to actively manage a portfolio of real assets totaling over $1 million. Dr. John Clinebell, the current advisor, founded the SAFF class in 1992 with an original $200,000 in assets for students to manage. Students are selected through a very competitive interview process conducted by Dr. Clinebell and on average 12-15 students are allowed into the class; this semester there are only eight team members. The SAFF class is meant to give students real world experience applying what they've learned at the Monfort College of Business to actively manage a portfolio as a team with fellow portfolio managers and to provide interaction with business professionals while realizing the greatest return on UNC Foundation assets.

At the beginning of the semester, students come to a consensus on an economic forecast for the up-coming 6, 12, and 36 months. In a class of students with so many varying opinions there is much discussion back and forth until they finally reached a consensus. Next, students consider asset allocation among cash, equity, and fixed income within the guidelines of the investment policy. They then develop a strategy for fixed income in respect to the forecasted yield curve and equity is further allocated among sectors which students weight based upon their economic forecast. Equity is further divided into weightings of growth, high yield and value which students also determine within guidelines set by the Foundation. Although students are responsible for all decisions, each student is assigned three or four stocks within different sectors to monitor and analyze throughout the semester. Students perform valuations for each stock they are responsible for and if the stock is overvalued or does not fit the class criteria for high yield, value or growth, then the student must present a sell proposal and they must screen to find a new stock to propose to buy. They must also perform buy and sell proposals to meet their target sector and value, high yield and growth weightings. The SAFF fund is a very unique student fund in which the students ultimately make the investment decisions through a vote or by proxy for absentees on student buy and sell proposals.

In addition, each student is assigned a position such as the Newsletter Editor, Portfolio Managers, Fixed Income Managers, Webmasters, and Special Projects Managers. The class is held for three hours once a week and students must come professionally dressed and prepared to learn and make financial decisions. They also spend countless hours in the lab outside of class researching, monitoring current stocks in the portfolio, screening for new stocks, and performing valuations using the Bloomberg Terminal, CapitalIQ, and Morningstar. Students present to the Foundation's Board of Directors, current donors, and prospective donors. In all, through this class we've learned how to apply what we've learned, how to interact with business professionals, work as a team, and so much more; it has been an invaluable learning experience.

-Josh Bond

ECONOMIC FORECAST

This semester's SAFF economic forecast is was very highly contested by all eight members. During the semester there were many monumental events in the news that had a direct impact on the financial markets and it was the job of the portfolios managers to discern exactly what affect these events would have. These events such as the U.S. government shutdown, the continuation of quantitative easing as well as various international conflicts all impacted the discussion and eventually shaped our economic forecast. We as a class see progress, agonizingly slow progress, but progress nevertheless towards a more prosperous and healthy economy in the United States as well as around the world.

The SAFF class estimated a quarter over quarter increase six months after taking over the portfolio of 1.9%, a quarter over quarter increase of 2.3% in a year after taking over the portfolio and a 2.6% increase after three years. The SAFF class was slightly more bearish compared to what eventually came to fruition (after six months) but the class felt that it was good to err on the side of caution rather than be disappointed in the event that estimates fell short.

The official revised report for GDP growth in the 2nd quarter of 2013 was 2.5% which was above the SAFF class' estimates. The preliminary GDP growth numbers for the 3rd quarter of 2013 show a quarter over quarter increase of 3.6% which was again, much larger than what the SAFF class had anticipated. The SAFF class worries that these increases are not sustainable, and also worries that once the Federal Reserve's bond buying program ends there might be a major correct.

Despite the troubling idea of a market correction in the future, these large increases in GDP can be substantiated by the fact that the United States has increased their exports by about 3.7% in the third quarter, among other factors that also suggest underlying recovery. Because of contradicting ideas and market forces, we the SAFF class remain cautiously optimistic.

-Matthew Able

	Direction (down, stable, up)			Reasons why
	6mo	1yr	3yr	
Energy Prices	Stable	Down	Down	We expect domestic production to increase, US demand to decrease which will drive prices down.
Money Supply	Up	Up	Stable	QE tapering
Value of the $	Down	Stable	Up	GDP growth, demand of USD, increase of money supply
Indiv. Tax	Stable	Up	Up	Deficit
Company Tax	Stable	Up	Up	-
Default Spread (Corp. vs. Treasury)	Down	Down	Stable	
Unemployment	Up	Stable	Down	Obamacare will cause a demand shock. But in the long-run we expect the overall economy to grow, which will lead to lower unemployment rates.
Consumer Confidence	Down	Stable	Up	Inversely related to unemployment rates.

FIXED INCOME

Fixed Income Managers have been preparing a portfolio that reflects economic expectations and the strategy that will yield the highest results.

The fixed income portfolio has consistently outperformed the Barclays US AGG Index, the fixed income benchmark since the beginning of the 2013 year. First quarter 2013 returns were 2.31% compared to a –0.32% return from the Barclays. In addition, the quarter two return for the portfolio was a –2.82% versus the Barclays return of –3.18%. In April of this quarter, the previous Spring 2013 SAFF class sold about $74,500 fixed income investments and bought another $81,000 to align with their strategies. In quarter three the portfolio earned a 1.15% return while the Barclays saw only a –0.01 return in the same quarter. This performance can be attributed to the high coupon bonds the portfolio held at the time.

Year to date the fixed income portfolio has outperformed the Barclays with a return of 0.57% compared to a –3.49% return from the Barclays.

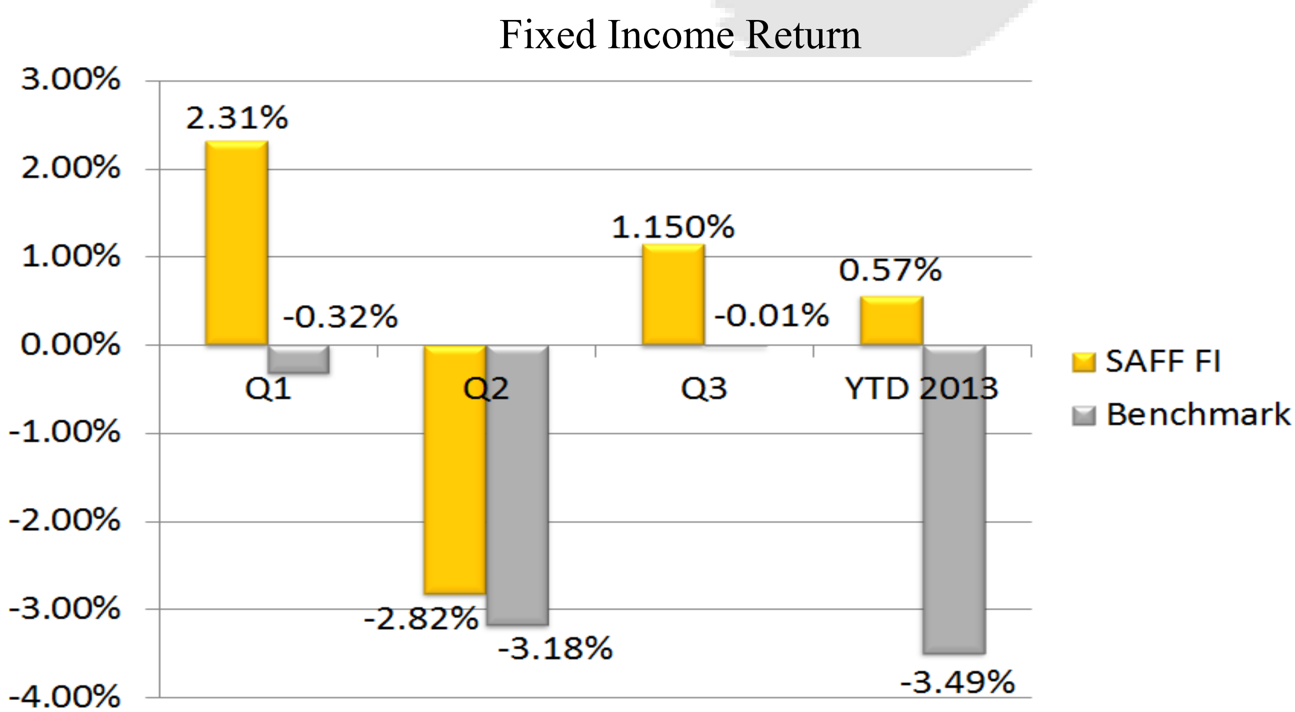
After creating our economic forecast, we decided to implement a modified barbell strategy. With our economic forecast, we feel that interest rates will progressively rise, and the yield curve will flatten. This strategy will place our portfolio in a good position with expected increases in interest rates. By implementing a modified barbell strategy we will be over weighted in short-term (0-2 year maturity) and declining gradually into the mid-term maturity, with a large rise into the long-term (8+ year maturity).

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 as we expect interest rates to rise. Our duration is 3.98 years, which is around the minimum target duration of 3.93 years. Based on our economic forecast, we decided to set an overall portfolio target in fixed income to 30%. We feel that equity will outperform fixed income in the future as a rise interest rates and interest rate uncertainty lingers into the future.

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 will outperform government and MBS. Our target weights are to underweight the AGG by placing 26% in MBS/ABS, underweight the AGG putting 41% in government, overweighting the AGG by putting 33% in corporate bonds. We have implemented 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.

-Oliver Bourne & Dalton Arnold

Q1 - Q3 FIXED INCOME PERFORMANCE

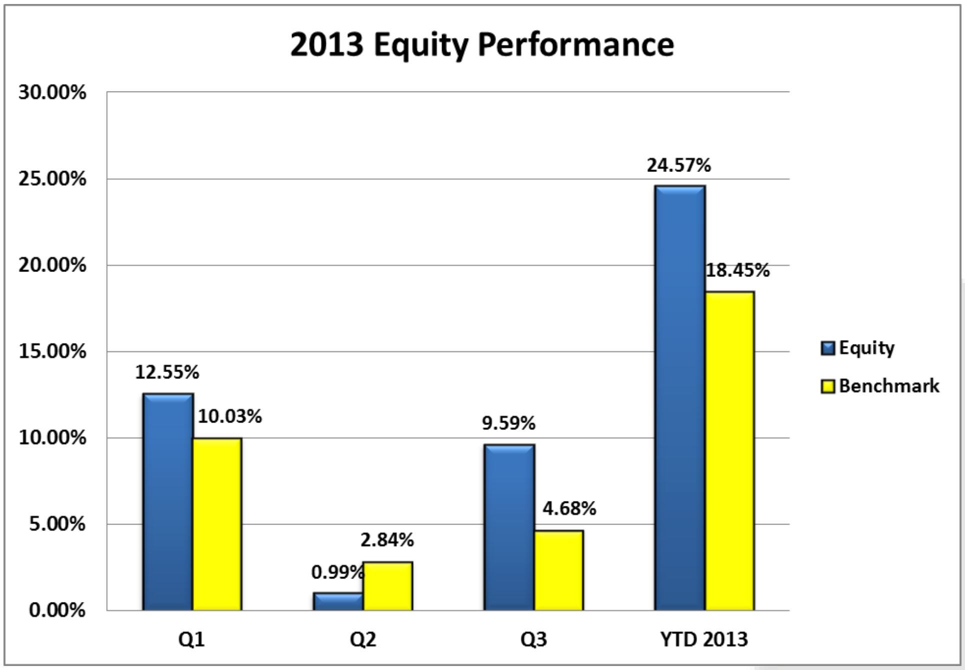


EQUITY

The equity section of our portfolio has been performing well in 2013 with a year to date return of 24.57%. This exceeds our benchmark, the S&P 500, by 6.12%. These returns can be attributed to the weights of different sectors within our portfolio. In Quarter 2 we were heavily weighted in Technology and Industrial stocks which both underperformed the market, resulting in our portfolio's performance. However, in Quarter 3 the Industrial sector bounced back as we gained 9.59% compared to only 4.68% of the S&P 500.

Based on our economic forecast we then allocated the equity into three styles of securities; value, growth, and high-yield. We have forecasted higher economic growth in the next three years which has led us to the following weights; Growth-40%, Value-40%, High Yield-20%. We have high expectations for both growth and value stocks in the next 3-5 years which is why we have over weighted these styles. However, we have chosen to weight high yield stocks to the maximum that our investment policy allows to hedge against volatility in the markets.

-Josh Bond



EQUITY PURCHASES & LIQUIDATIONS

Upon completion of the sector allocation, the portfolio needed some cleaning up. In order to meet our target allocations we had to buy and sell multiple equities in order to be within our metrics.

There were a couple equities including Lakeland and Texas Instruments that did not fall in any of the three style categories and were considered mutts. We liquidated these two companies strictly because they did not have a place in our portfolio and were fairly valued.

Another important liquidation was of Tower Group International. Tower Group is an insurance company that dropped from approximately $20 in August to around $4 in October. This was due to an increase in loss reserves as well as a delay in Quarter 2 earnings releases. We purchased the stock three different times between $22 and $23 and experienced a 79.93% loss as we sold at $4.06.

We have also had several equity purchases in order to realign the portfolio to meet our class needs. One of the notable additions is of Wells Fargo. Because of the sale of Lakeland Financial we were in need of another financial company and we believe Wells Fargo to be undervalued and an extremely strong company that posts a decent dividend of 2.5%. We did purchase more Plains All American Pipeline, Altria, and AT&T because we were in need of high yield stocks and we believe these three can offer the best return.

-Josh Bond

Equity Liquidations	Equity Purchases
Cheniere Energy	Wells Fargo
Lakeland Financial	Oasis Petroleum
Texas Instruments	PPL Corp.
Merck	Nu Skin
Tower Group	Terra Nitrogen Company
Reliance Steel	
CST Brands	
FLIR Systems	

EQUITY SECTOR ALLOCATION

After finishing our economic forecast, we under, over or equally allocated our holdings relative to the S&P 500. This was based on what sectors we think will do well in the upcoming year. To start out, we underweighted Healthcare, Telecom and Staples. As new regulation, laws and taxes are enforced for the Affordable Healthcare Act, we decided to remain conservative within this sector because we are uncertain of how the healthcare market would perform.

We decided to overweight Technology, Industrials, Energy and Cyclical. These sectors allow us to take advantage of our bullish view of the economy. We believe as oil prices begin to decrease, we should see an increase in consumer demand and increase in refinery profit margins. We believe Technology will continue to grow and compete to allow a competitive and profitable industry. We chose to overweight Cyclicals instead of Staples because of their increase in growth opportunities and increase in sales, which flourish in a increasing economy. For the remaining sectors of Financials, Utilities and Materials, we chose to keep equal weight, we felt that they would move favorably within the market, but we believe we have better opportunities in the sectors we overweighed.

-Kaitlyn Brown

	Financials	Healthcare	Tech	Utilities	Industrials	Energy	Cyclical	Telecom	Staples	Materials
S&P 500 Weights	16.20%	13.00%	17.90%	3.20%	10.80%	10.50%	12.40%	2.40%	10.10%	3.50%
Decision	Equal	Under	Over	Equal	Over	Over	Over	Under	Under	Equal
Target Weights	16.20%	11.53%	18.15%	3.20%	11.40%	11.34%	12.56%	2.10%	9.98%	3.50%
Current Weights	14.85%	13.69%	20.38%	4.27%	10.49%	10.36%	12.63%	1.91%	8.11%	3.31%

SPECIAL PROJECTS

THE CFA INSTITUTE GLOBAL INVESTMENT RESEARCH

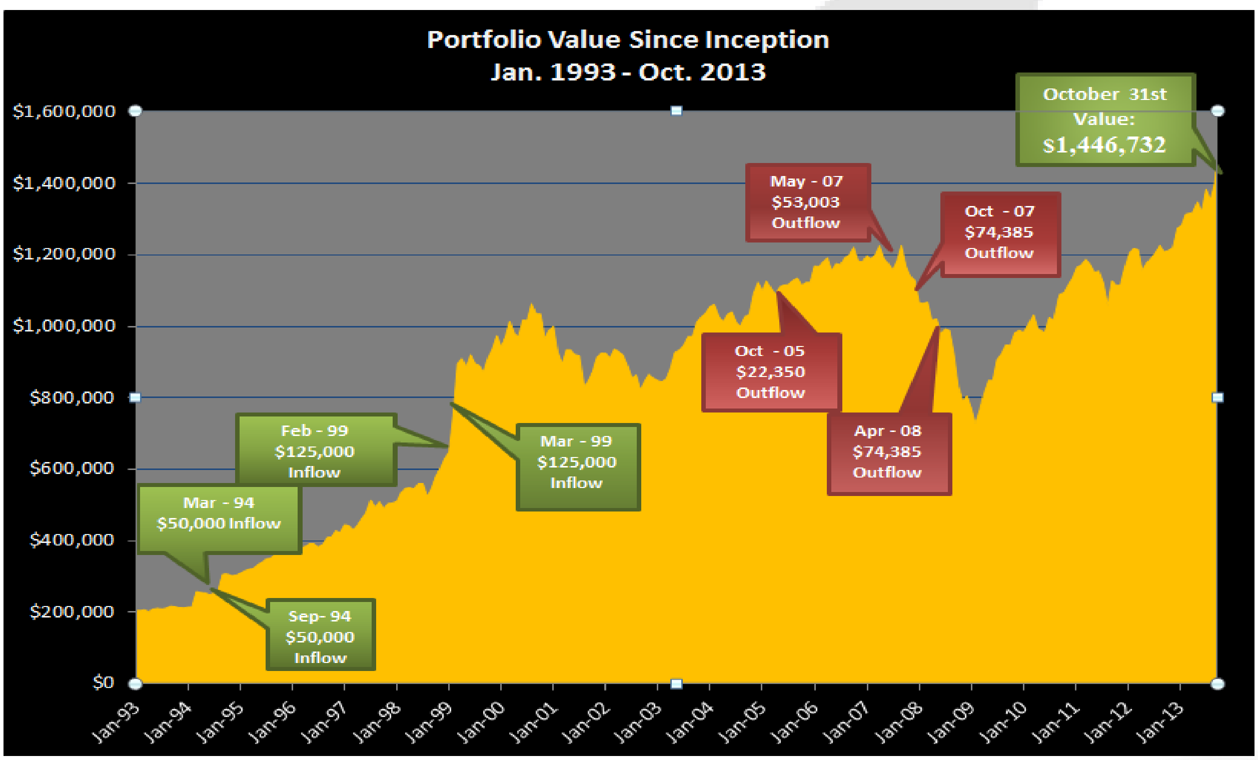
In the spring four members from the SAFF class are going to take advantage of a rare learning opportunity called the CFA Institute Global Research Challenge. The challenge is split into three different areas of competition; Regional, America Regional, and the Global Final. For the fifth year, SAFF students have had the opportunity to represent the Monfort College of Business in this research challenge, as well as to represent the school's image of exceptional business standards. This year's team is competing against undergraduate and graduate programs from schools around the region such as Colorado State University, Denver University, University of Colorado at Boulder, and Metropolitan State.

This semester the competition called for a full financial analysis of Molson Coors, based out of Golden, Colorado. The students had an opportunity to go to their corporate headquarters and watch the presentation that is given to analysts and investors. The students' analysis is focused on economic, industry, and company specific issues. The team will finish the complete valuation by January 10th, and will present on January 22nd. The team consist of Josh Bond, Adriana Nieto, Oliver Bourne, and Lee Taylor. We hope to represent the Monfort College of Business and win our region to advance to the next round of the challenge.

.– Josh Bond

JOB ASSIGNMENTS

Portfolio Manager	Equity Managers	Fixed Income Managers	Webmasters	Newsletter Editor	Special Projects Managers
Adriana Nieto	Kaitlyn Brown	Dalton Arnold	Matthew Able	Lee Taylor	Lee Taylor
Michael Kibbee	Josh Bond	Oliver Bourne			Matthew Able



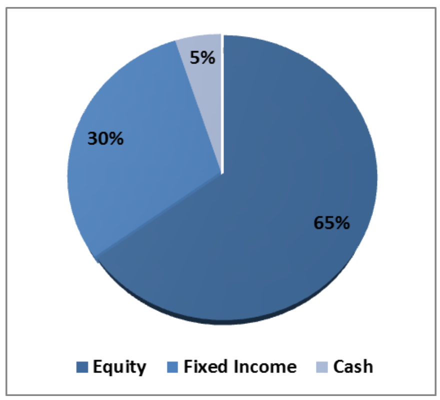
PORTFOLIO

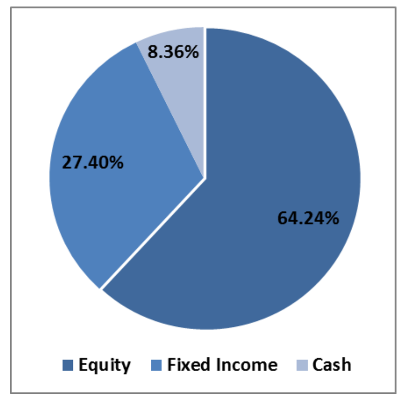
5 Best Performers - Unrealized Gain	
Buffalo Wild Wings	322.09%
Apple Inc.	206.56%
HCI Group	149.41%
Caterpillar	136.14%
Valero Energy	130.85%

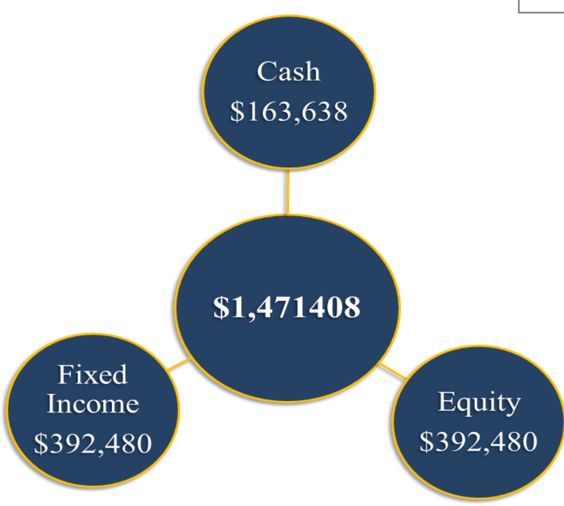
5 Worst Performers – Unrealized Loss	
Tower Group	-76.82
HDFC Bank	-21.95%
General Electric	-21.48
Potash Corp.	-8.63%
Oasis Petroleum	-8.42%

5 Largest Equity Holdings	
Cognizant Tech	2.54%
Priceline.com	2.41%
Buffalo Wild Wings	2.29%
Celgene	2.21%
Express Scripts	2.13%

Portfolio	SAFF	S&P 500
Price/Prospective Earnings	14.73	19.82
Price/Book	2.72	1.19
Total Return YTD	24.57%	18.45%
Average Dividend Yield	1.53%	1.90%







- Josh Bond

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

ALLOCATION	DIVIDEND	PORTFOLIO
ANALYZE	ECONOMY	PRICELINE
BEAR	EQUITY	RETURN
BLOOMBERG	FORECAST	STOCKS
BONDS	INVESTMENT	TRADING
BULL	MANAGEMENT	VALUATION
COORS	MORNINGSTAR	

SPECIAL THANKS

The Fall 2013 Student and Foundation Fund class would like to recognize everyone who help to make the Student and Foundation Fund successful. First and foremost, we would like to thank Dr. John Clinebell. This semester was a difficult semester for you because we were all new to the class and you didn't have any returning students to help guide us. You were always patient with us when we took longer to do things because we did not have any experience. We know that you put a lot of time into making the SAFF class possible, and we know that all of your students that have participated in it are extremely grateful for everything that you do. This class gives us the opportunity to experience real life situations of a portfolio manager and will give us a leg up on the competition in the job market. Kristi Cozbey, the Administrative Assistant for the Finance Department, we would also like to thank you. You have also been patient with us and have helped us print this newsletter as well as help us prepare for the board presentation. Chris Vegter, you have helped us with the printer that we have had issues with and any other technological issues that we have encountered. We would also like to thank the Monfort College of Business for the incredible facilities that we have access to in Kepner. We have access to computer programs that most undergraduate students do not have, and these programs give us the ability to properly value our companies and have access to research that we otherwise would not have. Finally, we would like to thank the UNC Foundation. Without your financial support this class would not be possible and we would never have had this outstanding opportunity. 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 Student and Foundation Fund 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 Fall 2013 Student and Foundation Fund Class

SPRING 2013 SAFF CLASS

From Left to Right (Front):

- Adriana Nieto
- Oliver Bourne
- Lee Taylor

From Left to Right (Back):

- Dr. John Clinebell
- Matthew Able
- Dalton Arnold
- Michael Kibbee
- Josh Bond
- Kaitlyn Brown

-Josh Bond

Fall 2013

SAFF INFORMER

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MONFORT COLLEGE OF BUSINESS

University of Northern Colorado
Kenneth W. Monfort College of Business
Department of Finance
501 20th Street– Campus Box 128
Greeley, Colorado 80639-0019

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