

# SAFF Briefing

Spring 2017

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## Letter from the Portfolio Managers

This semester's Student and Foundation Fund class displayed excellent professionalism and worked diligently to improve the portfolio throughout the semester. We focused on two main themes this term: attention to the strengths of each student manager in SAFF, and the continuity of the portfolio management process from semester to semester.

The class wanted to focus on using every manager's strength to benefit the portfolio. Each student became an expert in a sector of their choice and was responsible for multiple holdings within those sectors. All our student managers became Bloomberg Certified, which elevated both the efficiency of preparation, but also the final quality our stock/bond/fund pitches.

Adding continuity into the portfolio was another goal that the class achieved. One way we did this was by adding a "holdings thesis" for every holding in the portfolio. This is intended to help future students understand the rationale behind each position, including targets the original, or subsequent, managers established. Maintaining continuity from semester to semester allows SAFF class to better understand the portfolio and better manage its risk/return prospects.

The SAFF class would like to thank the foundation, the Monfort College of Business, and the faculty and staff for giving us the opportunity to gain real world experience in investing. The managers view this class as a career opportunity and have grown professionally as well as intellectually. We would like to especially express the gratitude for how Professor Jares teaches the class. He has pushed us throughout the semester to operate in a very professional manner, which will stay with us for the rest of our careers. We are very grateful for everyone's contribution to the portfolio and the student managers' futures.

*-Alex Stock and Jacob Piper*

## Letter from the Editor

This semester the student managers of the SAFF experienced the post-election market "bump" first-hand. Through hard-work, cooperation, determination, and communication, our team continued the management of both the SAFF and CIBEF portfolios. Each member of SAFF is leaving this semester with real-world knowledge and hands-on experience in portfolio management. In the last four months our team collaborated to construct the portfolios in a manner that would simultaneously provide long-term growth as well as steady returns to our investors.

We are proud of the decisions that have been made in the Spring 2017 semester, and we believe our currently portfolio showcases each of our current and former SAFF student manager's abilities. We would like to thank each of you for your continued support and welcome you to the Spring 2017 SAFF Briefing.

*- Sorchia Moldauer*

## About SAFF

SAFF is a class offered at the Monfort College of Business (MCB) to upper-level finance students that provides the opportunity to manage two portfolios of real assets that are valued over \$2.5 million. Dr. John Clinebell founded the SAFF class in 1992 with an original value of \$200,000 in assets for students to manage. Members are selected through a competitive interview process conducted by Dr. Clinebell and Dr. Jares. Dr. Jares headed the class in the Fall of 2016 and continued in the spring of 2017.

At the start of each semester, students are assigned various positions which they hold throughout the entire semester. These students are responsible for the duties associated with that position. Portfolio managers are in charge of keeping track of the portfolios as a whole. They watch the overall value as well as monthly, quarterly, and annual returns. Equity and Fixed Income managers oversee all operational aspects in those asset classes. For the CIBEF portfolio, we also have Alternative Asset managers. The public relations director is responsible for putting together the class brochure and newsletter. The public relations directors also keeps our Facebook and school website updated with current pictures and events. This year we also added international equity managers to assist sector specialists with international holdings and new ideas. This semester we also added a back office manager position to help manage and update our complex excel files.

At the beginning of the semester, the class came to a consensus on an economic forecast for the upcoming 6, 12, and 36 months. In a class with many varying opinions, the discussion can be quite time-consuming before a consensus is finally reached. Next, an asset allocation is determined guided by our Investment Policy Statement (IPS). A strategy is then developed for fixed income with respect to the forecasted yield curve. Equity is further allocated among sectors, with target weights based upon our economic forecast. Equity is further classified as growth, high-yield and value stocks.

Although the class is responsible for all decisions, each student is assigned three to four stocks within different sectors to monitor and analyze throughout the semester. They perform valuations for each of their assigned stocks to determine if it is over or undervalued. If the stock is overvalued, or does not fit the stock classifications, then a sell proposal must be presented. If a stock is undervalued, this normally results in a narrowed screening process for a buy proposal. The students must also recommend 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 class ultimately makes the investment decisions through a vote on student buy and sell proposals. This semester, to simplify the process for future students, we have created current holding thesis so the next class will have extensive knowledge about each stock's target range, its growth drivers, a detailed company description, as well as the possible risks. We believe this will increase the future students ability to successfully manage the portfolio.

The class is held once a week for three hours, and students are to come prepared to learn and make investment decisions, as well as having their assignments prepared from the week before. Countless hours are spent in the lab by students to monitor current holdings, screen for new stocks, and using the Bloomberg terminal to dig up new information. Towards the end of the semester, the class presents to the Foundation's Board of Directors, current donors, and prospective donors to inform them of the status of the portfolio, as well as future plans.

A valuable addition, used both this semester and last semester, was the inclusion of guest speakers. It was an insightful and incredibly useful experience to have speakers come in from different backgrounds explaining their investment strategies, and how they attempt to outperform the market.

*-Mitch Jares*

## About CIBEF

CIBEF, started in 2014, currently valued at roughly \$729 thousand, has a different investment policy statement (IPS) than that of the SAFF portfolio, and is thus, managed separately.

The CIBEF fund IPS differs because it is measured against several different benchmarks and allows students to invest in emerging markets, opportunistic fixed income, and the high-yield bond market. The CIBEF IPS also allows alternative asset investment options, including commodities, REITs, and low correlated hedge funds. Similar to the SAFF portfolio, the investment time horizon is long term with the largest percentage of portfolio allocated to equity and domestic fixed income.

An important differentiator of the CIBEF fund is that a portion of the return is used to fund scholarships awarded to finance students. The foundation annually transfers an amount equal to 100 basis points of the market value of the fund's assets to an MCB fund designated to pay for the costs of technology, research, travel, competition fees, or other costs associated with class enrollment.

We are grateful to have the opportunity to manage the CIBEF portfolio as it allows us to explore asset classes that are not available in the SAFF portfolio. We are also very thankful for the opportunity to visit New York City for Quinnipiac Game Forum, discussed further later, with funding provided by the CIBEF account.

*-Mitch Jares*



### Spring 2017 SAFF Student Managers

*Back row: Joshua French, Mitch Jares, and Jacob Piper*

*Middle Row: Dr. Jares, Jessica Lobert, Alex Stock, Fred Weihmiller, Brennan Bohnsack, Sorchia Moldauer, and Erin Coatney*

*Front Row: Brett Cummings, Adric Mackenzie, Mackenzie Higgins, Sara Sugi, Jimmy Wenger, and Ranae Zoch*

## Meet the Managers

This semester had a competitive advantage to the previous semester, in that our team had several returning members. Each member of SAFF was able to find unique areas in which he or she held a deep interest. This gave our team a strengths-focused perspective, and allowed for excellent discussions regarding investment decisions. We believe this strategy has been continually beneficial for our portfolio through allowing the Student Managers that are most deeply interested in their roles to make investment recommendations for their sections.

*- Sorchia Moldauer*

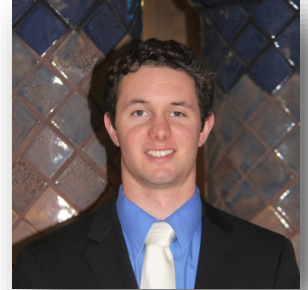


## Meet the Managers

### Alex Stock

#### *CIBEF Portfolio Manager*

Alex is a second-semester SAFF Student Manager. When asked what he loves, he says, "There's nothing better than finding a good deal— so scouring the Bloomberg Terminal screening tools for undervalued stocks suits me best." When Alex isn't studying for his Finance classes, you will find him outside. Camping, hiking and kayaking are his favorite outdoor activities. Alex will graduate May 2017. He is currently seeking a summer 2017 internship and preparing for the CFA level I exam in June.



### Jacob Piper

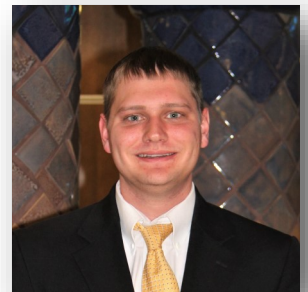
#### *SAFF Portfolio Manager*

Jacob is a senior Finance major and this is his second semester as a SAFF Student Manager. He is also a lab monitor for the trading room in Kepner, here he helps fellow students learn the resources available. When Jacob isn't on campus, he can be found on a golf course or out fishing. He is from Hugo, CO and eager to graduate in May 2017. Jacob plans to return to Hugo and pursue a career within the field of finance at one of Hugo's local companies.

### Mitch Jares

#### *International Equity Manager*

Mitch is a senior, majoring in Finance with a Spanish minor. He was born and raised in Windsor, CO and will be graduating in May 2017. After graduation, Mitch has arranged to study abroad in Spain, before pursuing a career in investment management. Mitch looks forward to completing the CFA exams and earning his charter, the first step of which he will take in June.



### Frederick Weihmiller

#### *International Equity Manager*

Fred is a senior Finance student from Monument, CO, graduating Summer 2017. When he isn't in school, Fred finds himself down by the stream casting lines, as well as practicing target archery. After graduation, Fred prepares to take both the level I CFA exam and Society of Actuary: FSA exams, as well as to seek employment in actuarial science or financial analytics.

### Adric Mackenzie

#### *Back Office Manager*

Adric is a senior Finance major, with a minor in Spanish, he will graduate May 2017. Adric plans to put his skillset to work in banking, helping Spanish speaking immigrants and low-income families navigate financial management. In addition, he plans to work on attaining either his CFA or an MBA within the next few years. After four years of schooling and 164 credit hours, he is excited to graduate and is ready to broaden his horizons and see where life takes him.



## Meet the Managers



Jessica Lobert

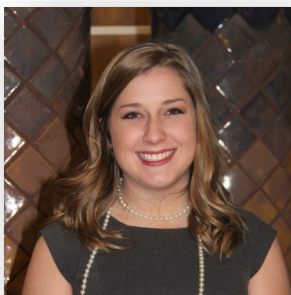
*SAFF Fixed Income Manager*

Jessica is a senior Finance major, and will graduate in December, 2017. She is looking forward to being a SAFF Student Manager for a second semester in the fall. Jessica has two Associates of Applied Science Degrees, one in Civil Drafting, the other in Mechanical Drafting. After working in the field, Jessica realized those positions were not her passion, so she is here at UNC seeking her bachelor's. As a military wife, Jessica aspires to help other military families with household budgeting and investing, teaching the ways of a debt-free and low-stress life.

Brennan Bohnsack

*CIBEF Fixed Income Manager*

Brennan is a senior finance major. This is his second semester in SAFF and will be graduating in May 2017. Throughout his time at UNC Brennan played club hockey during his sophomore and junior years. After graduation he will be pursuing a career at Raymond James as a financial advisor. His ultimate objective is to end up living in northern Colorado and continue to prosper as a financial advisor.



Mackenzie Higgins

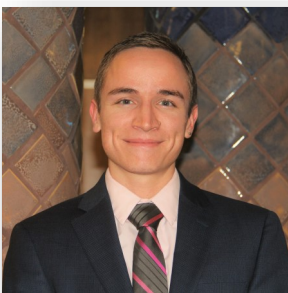
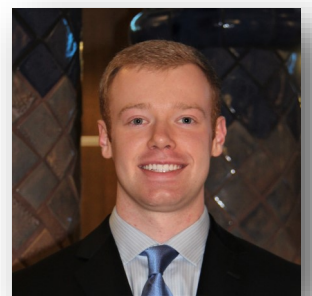
*CIBEF Fixed Income Manager*

Mackenzie is a senior at UNC using the National Student Exchange Program, where students are given the opportunity to study at other schools to enrich their university experience. In May 2017, Mackenzie will return home to graduate from Mississippi State University with a bachelor's in Finance. Mackenzie always finds time to dust her vast collection of cow-bells, and video-chat with her family back home. After graduation Mackenzie will be moving back to Colorado permanently, as she has accepted a position at First Bank in Denver.

Josh French

*CIBEF Equity Manager*

Josh is a junior Finance major with a minor in Economics. Josh will graduate in May 2018, and is looking forward to participating in SAFF again this fall as a Student Manager. Upon graduation, Josh would like to become an entrepreneur and successfully run his own business. As the CFO of Zylote LLC and an agent for ZOVA Marketing, he has already started to pursue this dream. Josh is grateful for the opportunity to learn about portfolio management, and looks forward to putting this knowledge to work throughout his life.



Jimmy Wenger

*CIBEF Alternative Assets Manager*

Jimmy is an aspiring financial analyst who will graduate in May 2017 with a BS in Business Administration with a Finance emphasis. During his time at UNC, Jimmy was an active member in Phi Sigma Pi National Honor Fraternity and the Financial Management Association. Jimmy also spent a semester abroad in Buenos Aires, Argentina, where he polished his Spanish and picked up the unique Porteño accent. In his free time, Jimmy enjoys skiing, hiking, and running. After graduation, Jimmy intends to continue his education by becoming a CFA charter holder. Jimmy is currently exploring job opportunities related to the investment management industry.

## Meet the Managers

### Erin Coatney

#### *SAFF Equity Manager*

Erin is a senior, graduating in May 2017. She demonstrated her passion to learn by getting her degree in Finance in only three years. Having been born in Aspen, CO and raised in Granby, CO; it is no surprise that her spare time is spent outdoors, exploring with her friends and family. During her time at UNC she was active in a Professional Business Fraternity and the Financial Management Association. Upon graduation she plans to obtain a career in banking and investing, to broaden her experience before furthering her education in pursuit of a masters.



### Brett Cumming

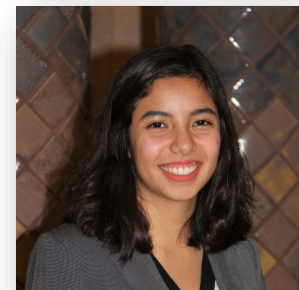
#### *Consumer Staples Specialist*

Brett is a senior, and will be graduating with a double major in Finance and Accounting come December, 2017. His goal is to use the knowledge he gained in this class to research stocks more effectively whether it be for an assigned task or for his personal use. Through this knowledge, Brett aims to establish his own portfolio in a way that he can beat certain indexes.

### Sara Sugi

#### *Financial Services Specialist*

Sara Sugi is a junior finance major from Greeley, CO. Sara is currently in the process of researching graduate schools in Europe, where she hopes to obtain a Master's in Finance. Prior to graduation, Sara looks forward to serving as a SAFF Student Manager for a second semester in the fall. Her passions include traveling, cooking and running.



### Ranae Zoch

#### *Public Relations Director*

Ranae is a senior set to graduate in May 2017, with a degree in Finance. Originally from Giddings, TX, Ranae found herself at UNC after being recruited by the school's cheer team. At UNC, she was President of the Financial Management Association club, Vice President of the MCB Student Council, and an Ambassador to MCB. Outside of school, Ranae continues to practice her gymnastics and attend baseball games. Following graduation, Ranae plans to begin a career in financial planning and event coordinating.

### Sorcha Moldauer

#### *Public Relations Director*

Sorcha is a senior and will be graduating in May 2017 with a double-major in Business Management and Finance. Throughout her career at UNC, Sorcha was a Student Ambassador for the Monfort College of Business, as well as the VP of the Ethics Club. When Sorcha isn't doing homework or participating in ethics case competitions, you can find her with her cats and dog. After graduation, Sorcha will be working as a Personal Banker at the Bank of Colorado. She ultimately hopes to go back to school for a Ph.D. and teach at the university-level.





## First National Bank Presentation | March 1st, 2017



Back for a return engagement, Kurt Spieler of First National Bank was one of the speakers in the SAFF class this semester. The main focus of his presentation was to present First National Banks (FNB) economic forecast and FNB's overall market expectations. Kurt then led a discussion comparing and contrasting FNB expectations to those of the SAFF class.

Perhaps more than normal, FNB's forecast hinged on the proposed political policies, such as tariffs, immigration reform, tax reform, etc. They highlighted Russia and Brazil as markets due for a pickup in economic growth, while they view China's strategy as unstable and due for a decline.

In line with our economic forecast, they also expect two-three rate hikes during 2017. More hikes than expected would shock the market, however. The slow GDP growth of the first quarter does not present an opportunity to raise rates at a quicker pace. Additionally, First National Bank was somewhat bearish on fixed income, more bullish on international markets while the dollar depreciates, and bullish on very cyclical emerging stocks. Mr. Spieler was able to provide an invaluable perspective to help the SAFF class strengthen its economic forecast and better construct our portfolios to the benefit of our stakeholders.

- Mitch Jares

## Cambiar Presentation | March 22nd, 2017



Cambiar Investors visited us for the first time in the Fall of 2016, and returned again to speak this semester. At our request, Cambiar's presentation focused on international investing. Jeff Susman and Katie Frisch began their visit by giving us a sample investor presentation. They overviewed when they were founded, their success story, and the culture they employ at Cambiar, which is entirely employee-owned.

Cambiar focuses on relative valuation to find investment opportunities. They prefer businesses trading at the low end of their long-term valuation ranges. They believe in mean-reversion so long as there is a good fundamental story. They aim for a 50% total return over 1-2 years.

Currently, Cambiar is bold on international markets. Since the U.S. economy has performed so well this decade, and supported by their beliefs in mean reversion, they believe that international markets could be poised to take the lead. They are also optimistic on emerging markets, but only in a few select locations.

As for the U.S. market, they still believe in the fundamental health of the market but believe market performance will be more due to company specifics in

upcoming years, rather than overall economic health. This provides more attractive opportunities for bottom up managers, such as Cambiar.

The Cambiar visit is rapidly becoming a perennial favorite of the SAFF class. After their presentation, they turn the tables for a more interactive experience.

This is when each of our Student Managers present a 2-5 minute "elevator pitch." Essentially, these elevator pitches become a competition for the class. Cambiar uses the pitches to assess our skills as analysts and to give us tips to get better. They also like to bring small prizes for the class to reward to the best stock pitches, or, perhaps, the ones they enjoyed the most.

Guest speakers have been an important, and useful, addition to the SAFF class as it helps with the classes networking, as well as their investment skills. Cambiar will likely continue to visit this class once a semester in the future.

-Mitch Jares

## Quinnipiac G.A.M.E. Forum | March 29-31st, 2017

For many of us, the Quinnipiac G.A.M.E. Forum provided our first opportunity to visit New York. It was surreal to walk down the streets of New York and look up at the towering sky scrapers. Seeing the Charging Bull statue and Wall Street that we have seen in textbooks so many times was special. The culture of New York made it hard to focus on business, but the presentations that followed in the next few days made us forget all about the hustle and bustle of the city.

We were lucky enough to hear from panels of industry experts on everything from the outlook on the weakening bond market to the policies of Donald Trump. It was a joy to partake in their lively discussions. Our own Jimmy Wenger was even able to ask the panel a question.

Day 2 provided a more personal setting with the breakout panels. The day started off with a presentation on TD Ameritrade's Think or Swim platform. Using only Bloomberg and Morningstar for SAFF, it was interesting to explore their free trading platform. It offers a function that looks at company's social media coverage. When they are trending negatively, this function will show that.



While this does not directly correlate with stock prices, it was still interesting to view. Another breakout session was provided by a Lazard employee. With 10 years of experience, he discussed the components that he found essential to creating a compelling stock pitch. His strongest recommendation was to fully understand the industry that the company is in. If you do not understand how the company is making money, then you cannot give a pitch.

It was a very packed few days of exploration and learning, and the overall experience was invaluable for finance students who are about to enter the job market. We all would like to thank you so much for the opportunity to experience New York!

*-Alex Stock*

**NYSE Tour**





## Economic Forecast

The first step to managing a portfolio is to develop a clear and concise economic forecast. As a class, we began building expectations about the economy at high and low levels of aggregation.

Our economic forecast reviews three types of indicators: *leading*, *coincident* and *lagging*. Utilizing the information about these indicators, we feel confident in our expectations of continued economic growth.

***Overall, we expect a steadily growing economy resulting in a bullish outlook for 2017.***

### Leading Indicators

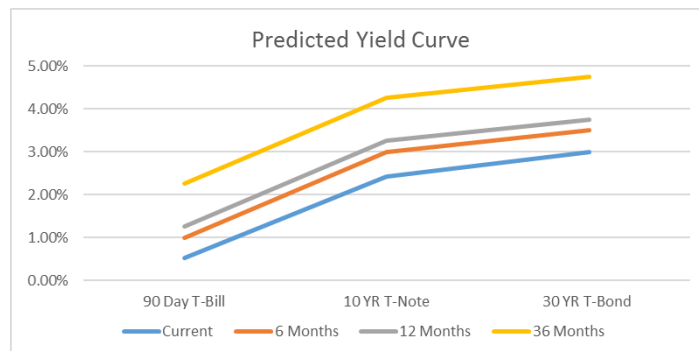
As measurable economic factors that change prior to the economy, leading indicators are informative when developing an outlook for the future of the economy.

The overall health of the stock market is an example of a strong leading indicator. Sources state that in the next year the economy's growth rate will increase to about 2.3%. Also, stocks that pay dividends are anticipated to become more attractive relative to bonds in 2017.

International markets also impact our domestic economy, and it is important to note that we anticipate domestic equities will continue to be a safer bet than established foreign markets. Though emerging markets, such as India, have potential to outperform domestic markets in the next five years.

For the remainder of 2017, our team had forecasted two interest rate increases by the Fed. This assumption became the base for our yield curve forecasts. In the original graph you can see a parallel upward movement of rates. However, in the last quarter we have seen a flattening of the yield curve.

This flattening of the yield curve is likely due to the low GDP growth that was announced this month. The low growth of our GDP has made it difficult for the Fed to continue the rapid increase of interest rates. Overall, we predict a steadily growing economy resulting in a bullish outlook for the coming year.



### Coincident Indicators

Rather than predicting future events, coincident indicators are factors that show the current state of economic activity in certain areas of the economy.

The Personal Consumption Expenditure (PCE) is a coincident indicator that is reliable for identifying the current state of the domestic economy. The PCE is used to measure personal income and personal consumption. The PCE saw a relatively steady increase, and we believe it will continue to increase until it meets the 2% benchmark set by the Fed.

In December, 2016 the Consumer Confidence Index reached its highest level. This level of confidence indicates positive economic activity. Indications from both consumer confidence and disposable income show a growing economy.

### Lagging Indicators

These are often technical indicators that help specialists develop ideas of transaction signals and trend strength.

One of the largest and most commonly referenced lagging indicator is domestic unemployment. A healthy economy will usually show unemployment rates between 3-5%. In the last report unemployment in the U.S. was at 4.9%, which is smaller than in the last five years. While this data suggests that labor markets will continue recovering, we do acknowledge that underemployment is not taken into consideration.

Our economic forecast guided us in our investment and allocation decisions. We feel confident about our identification and realistic interpretation of the factors which will shape the economy.

-Sorcha Moldauer

## Portfolio Allocations

The Spring 2017 Student Managers decided to focus on our strengths throughout our investment decisions. This was beneficial for all of us because it allowed for concise application of our economic forecast. Within both the SAFF and CIBEF portfolios, we must set target allocations that fit within the guidelines stated in the Investment Policy Statement.

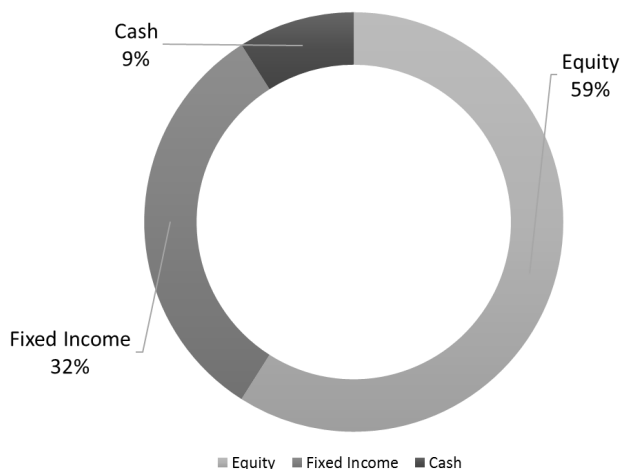
Below, you can see the strategic allocation for both the SAFF and CIBEF portfolios. Our team identified an opportunity to capitalize on the growing economy by taking a bullish stance on equities. We anticipate the administration's push towards reduced regulatory burdens will be beneficial for the domestic economy, and have a significant impact on small to mid-cap equities.

Within the CIBEF portfolio we increased our target emerging market allocation, this is because we foresee growth for the next three years within many of these markets. To compensate for this increase, domestic fixed income as well as commodities allocations were reduced. Our goal was to put a slight emphasis on assets that are return-producers rather than risk-reducers.

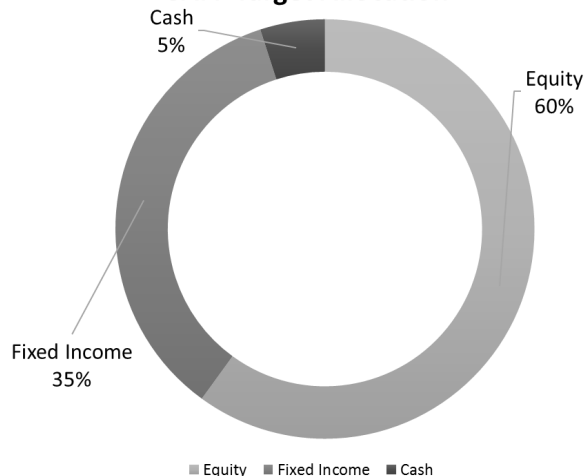
In both portfolios our cash allocation provides the necessary liquidity to take advantage of opportunities the market presents to us.

*-Sorcha Moldauer*

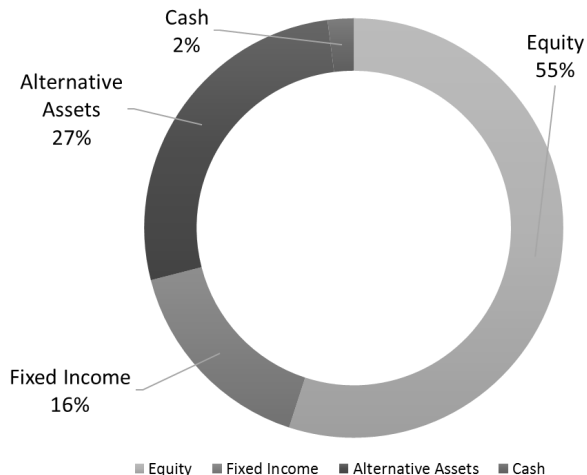
**SAFF Current Allocation**



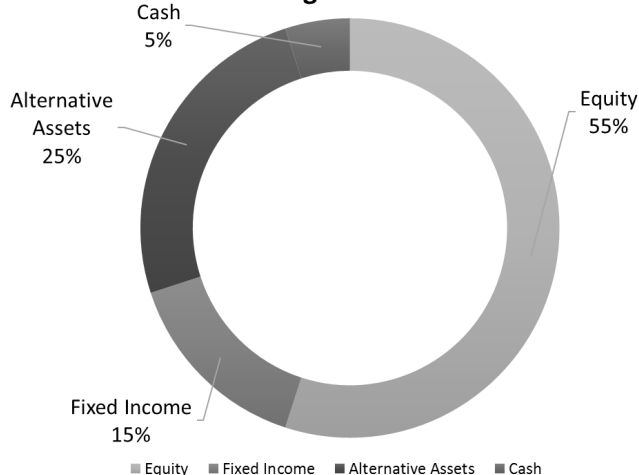
**SAFF Target Allocation**

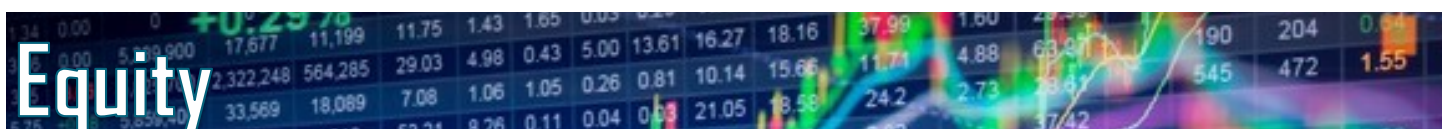


**CIBEF Current Allocation**



**CIBEF Target Allocation**





There are two additional factors that our team considers when making investment decisions. The first is *style allocation* and the second is *sector allocation*.

### Style Allocation

For equities we have three categories; *growth at 35%*, *value at 45%* and *high-yield at 20%*. Following our economic forecast, we took 5% from our high-yield allocation and moved it to growth. This is because high-yield equities are defensive in nature and typically more interest sensitive. By increasing our allocation in growth stocks, we open the portfolio to additional positions with companies that benefit from growing economies with less regulation.

### Sector Allocation

Following our anticipation of a growing economy, and our decision to be bullish in equities, our team came to a final consensus on what to overweight and underweight in each sector. Our overweight sectors include: Consumer Cyclical, Health Care, Industrials, Telecommunications and our largest in Technology. These sectors tend to perform better in growing economies and/or we felt offer better values, thus offering higher potentials for return.

| Sectors            | S&P 500 | Target |
|--------------------|---------|--------|
| Cyclicals          | 12.33%  | 13.00% |
| Energy             | 8.52%   | 7.00%  |
| Financial Services | 16.12%  | 14.50% |
| Health Care        | 14.51%  | 16.00% |
| Industrials        | 10.30%  | 11.00% |
| Materials          | 3.29%   | 2.00%  |
| Staples            | 9.75%   | 7.50%  |
| Technology         | 19.81%  | 23.50% |
| Telecommunications | 2.34%   | 3.00%  |
| Utilities          | 3.03%   | 2.50%  |

## Equity Buys & Sells

Throughout the semester several securities underwent significant research to earn positions in the portfolios. Not every position was a new stock, some changes were simply increases of positions we believe to have future potential.

Our team also had several trims and liquidations of equities during the semester. Some were due to lack of future opportunities, while others were caused by exceedingly positive performance. In both portfolios there are guidelines preventing any single security to occupy more than 7% of our equity market value. NetEase Inc. is a prime example of a stock that has needed multiple trims to keep in within this guideline.

### Buys | SAFF & CIBEF

| Company                    | Sector      | Position |
|----------------------------|-------------|----------|
| Amgen Inc.                 | Health Care | Increase |
| Broadcom Technologies Ltd. | Technology  | New      |
| Marriot International Inc. | Cyclical    | New      |
| Roche Holding Ltd. (ADR)   | Health Care | New      |
| Schlumberger Ltd.          | Energy      | Increase |
| Universal Display Corp.    | Technology  | New      |
| USG Corp.                  | Materials   | New      |

### Sells | SAFF & CIBEF

| Company            | Sector     | Position  |
|--------------------|------------|-----------|
| AdvanSix Inc.      | Materials  | Liquidate |
| Altria Group Inc.  | Staples    | Liquidate |
| Apple Inc.         | Technology | Trim      |
| Blackrock Inc.     | Fin. Svcs. | Liquidate |
| Morgan Stanley     | Fin. Svcs. | Liquidate |
| NetEase Inc. (ADR) | Technology | Trim      |



## Equity Stock Pitches

The Spring 2017 semester provided many of our student the opportunity to explore areas of interest. These strong beliefs were seen with some of the amazing stock pitches that were done. As a special in this edition of the SAFF Briefing, we are including a brief summary of some of these pitches.

The class really appreciated the level of understanding these student managers had about the sector they were following. These students also showed vast knowledge about the industries, competitors and how the organizations made money. They identified opportunities and risks associated with the positions, and ultimately demonstrated exceptional application of the theories and concepts within the finance field.

- Sorcha Moldauer

### Universal Display Corp. | Mitch Jares

Universal Display is a technology company that specializes in organic light emitting diodes (OLED). They supply cellular screens for both Samsung and Apple, in addition to high and low-end television screens to other name-brand companies.

Universal Display has potential to be a strong performer and diversifier for our technology sector. Their continued expansion into standard TVs shows strong growth prospects, as their revenues are based on screen size. As an early incumbent in Asian markets, where demand severely outweighs supply, Universal Display has secured their future position. The company continues to expand their production capacity, which is an excellent sign for future prospects as a growth stock.



### USG | Alex Stock



USG is a drywall manufacturing company. Gypsum, the main component of drywall comes in two forms. One is natural gypsum, which is extracted from the ground. Alternatively, synthetic gypsum is made from the byproduct of coal emission desulphurization.

While USG uses a 50/50 mix of natural to synthetic, their competitors use as much as 100% synthetic. This is important because synthetic gypsum will become more costly as companies burn less coal and more natural gas due to its cheaper price. This gives USG a competitive edge and allows them to be a price-setter in the drywall market.

### Roche Holdings | Fred Weihmiller

Roche is the largest biotech in the world, located in Switzerland. Their primary focus is treatment of long-term diseases such as cancer, hepatitis and HIV. The number of drugs currently under patent ensures long-term stability for the company. Additionally, Roche collaborates with strategic partners to increase the number of drugs in development.

As Roche continues to expand its network of alliances, their ability to supply treatments guarantees future growth prospects. Tests on their Stage 3 drugs, drugs at the end of the production pipeline and nearing FDA approval, show promise for growth of the company's market share in the future.





## Fixed Income

The fixed income portion of the portfolio provides diversification through the utilization of government bonds, corporate bonds, and mortgaged backed securities (MBS). The targeted allocation to the fixed income portion of the SAFF portfolio is 35%, and 15% in the CIBEF portfolio.

Both portfolios are benchmarked against the Bloomberg Barclays Aggregate Bond Index. Against that index we chose to equally weight MBS, underweight government securities, and overweight corporate securities. We opted to overweight corporate securities because we believe this sector will provide a higher yield with acceptable risk in a strong economic environment. With expected rate increases in the foreseeable future, we chose a duration of about 10% less than our benchmark.

Our most substantial liquidation was Genworth Financial (GNW). This was a bond that fell below investment grade and our analysis indicated limited signs of improvement in the near future.

As for our largest acquisitions, we purchased Massachusetts Financial Services Corporate Bond Fund (MBDIX), \$50,000 in SAFF and \$6,250 in CIBEF. We also made a \$10,000 investment in USAA Intermediate Term Bond Fund (USIBX) for our SAFF portfolio. We chose to make these allocations via mutual funds to provide increased diversification to the portfolio at a reasonable cost. These funds gave us the duration we were seeking in order to meet the investment policy statement guidelines.

*- Jessica Lobert & Brennan Bohnsack*



## Alternative Assets

The Alternative Assets portfolio in the CIBEF fund is made up of five different categories. These are opportunistic fixed income, high yield fixed income, real estate, commodities, and low correlated hedge funds. This semester we focused on restructuring the low correlated hedge funds and commodities portfolios.

Low correlated hedge funds are funds that focus on a low correlation with traditional asset classes, such as stocks and bonds. One of the funds in the portfolio had a high correlation to the other assets in the portfolio, so we decided to liquidate our holdings in this fund and move it into two other funds. The first fund focuses on absolute returns and the second on equity market neutrality. The purpose of this shift is strengthen the risk-reducing benefits from this portion of the portfolio.

Previously, the commodities investment strategy involved investing in individual commodities through ETFs and rebalancing the weights in accordance with

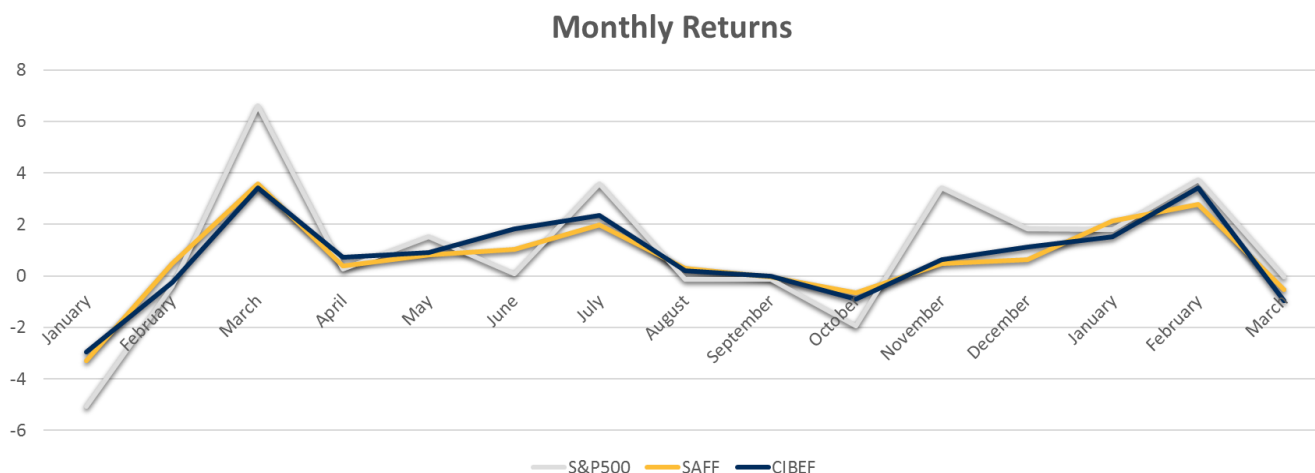
SAFF class market expectations. Alternatively, this term we decided to invest in two diversified, actively managed funds. Due to the time and experience required for successful commodity investing, the class decided that diversified, actively managed funds presented the best option for our portfolio.

One disadvantage of active management is that, in exchange for additional services, one must often pay higher fees. We were able to find two funds with a weighted average expense ratio similar to that of the previously held ETFs. In the future, we expect these shifts to continually decrease the volatility of the alternative assets portfolio, and therefore the volatility of the CIBEF fund as a whole.

*- Jimmy Wenger*

# Portfolio Returns

## Monthly Returns



As seen above, in our monthly returns graph, we compare our portfolio to the S&P 500. We do this to demonstrate how valuable diversification is to our portfolio. When oil prices tanked in January 2016, it had a significant impact on the returns of the S&P 500. While our portfolios had exposure, they still outperformed the index due to our holdings in equities, fixed income, and for CIBEF, alternative assets.

There have been other periods where the S&P 500 outperforms us massively, such as the November presidency hype. Overall, our portfolios continues to provide less volatile returns than our benchmark index, even in years of volatile markets. Many of our decisions this semester aim to continue the stable returns seen in the last 12 months.

## Annual Returns

| Date   | SAFF Value   | SAFF Annual Return | SAFF Total Return | CIBEF Value | CIBEF Annual Return | CIBEF Total Return |
|--------|--------------|--------------------|-------------------|-------------|---------------------|--------------------|
| Dec-11 | \$ 1,115,072 | -0.03%             | -0.03%            | --          | --                  | --                 |
| Dec-12 | \$ 1,220,953 | 9.50%              | 9.46%             | --          | --                  | --                 |
| Dec-13 | \$ 1,501,643 | 22.99%             | 34.62%            | --          | --                  | --                 |
| Dec-14 | \$ 1,614,339 | 7.50%              | 44.72%            | \$ 699,028  | --                  | 1.52%              |
| Dec-15 | \$ 1,622,399 | 0.50%              | 45.45%            | \$ 647,265  | -7.77%              | -6.37%             |
| Dec-16 | \$ 1,679,539 | 5.69%              | 50.57%            | \$ 694,183  | 7.25%               | -0.69%             |
| YTD    | \$ 1,801,022 | 5.22%              | 72.60%            | \$ 729,456  | 8.07%               | 4.76%              |

The table above shows the last six years of annual returns in the SAFF portfolio, and three years in the CIBEF portfolio. Year-to-date the CIBEF portfolio has returns of approximately 3% higher than SAFF. This is due to the exposure in alternative assets, which act as a risk-reducer during times of high market volatility.

Since inception, in 1992, our SAFF portfolio has achieved a 417% return, or about 7% annualized. The SAFF portfolio began with \$200,000, has had both additions and withdrawals, and has now grown to over \$1.8 million.



## Special Thanks to Our Investors

The Student Managers of the Spring 2017 class would like to present a special sign of gratitude to the key individuals who facilitate the SAFF course. Without their support, this semester would not have run as smoothly as it did. Our success stems from their guidance, patience and knowledge.

First, each member would like to express our gratitude for Dr. Jares. He stepped into this role last semester and has taken it upon himself to improve and enrich the SAFF experience. When in class, Dr. Jares constantly exhibits his passion in his role as a professor. He does so by sharing his knowledge and wisdom, as well as challenging each of us to think about things differently. While many of us joke about the number of emails Dr. Jares sends, we can't help but appreciate his genuine care for the students he guides. Without him, we would be less prepared for our journey into the real world.

This would not be a proper thank-you unless Kristi Cozbey was on the list. Her title may say *Administrative Assistant*, but she is closer to a super hero. Without her selflessness and commitment to us, this experience would have been something else entirely. Kristi organized our flights and hotel rooms in New York, printed our posters and handouts, and was always available when we needed her most.

Lastly, we must extend our immense gratitude for the Monfort College of Business, the Colorado Insurance and Business Education Fund and the UNC Foundation. Each member in these communities has made an invaluable investment into our futures. We thank you for providing us the opportunity to truly experience the meaning of *Bringing Education to Life*.

- Spring 2017 SAFF Student Managers

