

LANCER STUDENT INVESTMENT FUND
to
LONGWOOD UNIVERSITY FOUNDATION BOARD FINANCE COMMITTEE
by
SCHOOL OF BUSINESS AND ECONOMICS FINANCE CLUB

MAY 16, 2002

Introduction

- I. Mission Statement—to educate students and give them a real life experience of portfolio management.**
- II. Investment Fund Manager (IFM)**
- III. Firing an Investment Fund Manager or an Assistant Investment Fund Manager**
- IV. Assistant Investment Fund Manager (AIFM)**
- V. Executive Board of the Fund**
- VI. Advisory Board**
- VII. Faculty Advisor**
- VIII. Selection of Fund Managers**
- IX. Student Manager Responsibilities**
- X. Analysts**
- XI. Meetings**
- XII. “Firing” a Sector Manager**
- XIII. Stock Proposals**
- XIV. Broker and Stock Execution**
- XV. Investment Philosophy and Objectives**
- XVI. Fiduciary Responsibility**
- XVII. Presentation of Results**
- XVIII. Schedule of Events (Approximate times given)**
- XIX. Summer Policy**

Conclusion

Introduction

A student managed investment fund at an academic institution is not a new idea. Many of the country’s leading colleges and universities have already established such funds. The list of institutions includes such prestigious schools as Harvard, Georgetown, Virginia Polytechnic Institute, and the University of Richmond. The Finance Club at Longwood College proposes the establishment of such a fund. It is a great opportunity and the right time for such action as Longwood transitions to its university designation.

Our student investment fund will further promote Longwood’s image as an institution that provides practical experience for its students in yet another academic and real-life field. This fund will elevate the image of the institution and improve the offering of student learning activities at Longwood University. It offers incredible opportunity and benefits to students of the SOBE and as well as other interested students across campus. This innovation strongly supports the SOBE’s mission of continuous improvement and will weigh favorably on the AACSB accreditation process. Likewise, establishment of this fund is a direct derivative of the institution’s mission to create citizen leaders. Most

importantly, however, the goal of this fund is to generate positive financial returns for the Longwood College Foundation.

The Lancer Student Investment Fund (LSIF) will be organized and structured as a student run organization. By-laws, decision-making procedures, qualifications and outlined responsibilities for everyone involved are presented in this document. The fund will be managed by Student Managers and supported by an Executive Board of the fund. Overall a non-student Advisory Board will supervise activities of the LSIF.

I. Mission Statement—to educate students and give them a real life experience of portfolio management.

The Fund will provide the opportunity for students to contribute and see the results of prior decisions over a multi-year experience. Students will learn about stocks in all major sectors of the S&P 500, providing an extremely broad educational experience. The purposes of the fund are to: offer direct practical experience in the investment process; educate students on sound investment procedures necessary for success in investing; further develop leadership skills; and provide students with real-life experiences in building teamwork, decision making, using technology, and communication. Students involved with the fund will be provided the opportunity to experience and learn the real world of investments, requirements for success, and how to build a strong foundation for a more successful career in a business environment.

II. Investment Fund Manager (IFM)

- A. Is the head manager of the LSIF
- B. Is chosen as the most qualified junior or senior (full-time student) by recommendation from the Sector Managers (SMs) and approval by the Executive Board of the Fund, the Faculty Advisor, and Advisory Board
- C. During winter break, the IFM is responsible for the fund and for communicating with the SMs through phone, email, or online chat.
- D. Responsibilities include:
 - 1.) Providing effective communication and coordination between the Advisory Board (VI), Executive Board of the Fund (V), students, Administration, and representatives from the Longwood University Foundation (IX)
 - 2.) Running meetings (XI)
 - 3.) Executing trades
 - 4.) Providing for the general well-being of the Fund
 - 5.) Presenting the performance results of the LSIF (XVII)
 - 6.) Evaluating the performance of Sector Managers
 - 7.) Recruiting potential Sector Managers/Analysts by:
 - a. Going to intro accounting/economics classes
 - b. Putting up informational posters
 - c. Holding information sessions
- E. Qualifications and term of office:
 - 1.) Have earned at least 60 academic credits, thus achieving a junior or senior status, and maintain overall GPA and GPA in major of 3.00

- 2.) Is enrolled in or has already completed Finance 452 (Investment Analysis and Portfolio Management)
- 3.) Is selected for a semester, with a maximum of 2 tenures (semesters)

III. Firing an Investment Fund Manager or an Assistant Investment Fund Manager--The Advisory Board of the LSIF has the power to remove of the Investment Manager Manager.

IV. Assistant Investment Fund Manager (AIFM)

- A. Will be a rising Junior Sector Manager
- B. Will be chosen by recommendation from the previous group of Sector Managers as being the most qualified (VIII) and approved by the Executive Board of the Fund
- C. Must attend Longwood University both semesters of their junior year
- D. Must learn the position of Investment Fund Manager to become IMF if chosen in senior year
- E. Will assist the IFM with all responsibilities and happenings of the fund outlined in part II
- F. Will run meetings if the IFM cannot attend
- G. Will be responsible for executing trades in IFM's absence
- H. Will be a voting member of the management team (XI-F-6)

V. Executive Board of the Fund

- A. The Executive Board of the fund will comprise the four members of the Executive Board of the Finance Club (President, Vice President, Secretary, and Treasure) and one student elected from the finance club membership. If the IFM is one of the members of the Executive Board of the Finance Club, another at large member will be elected from the general membership of the organization
- B. All of the members of the Executive Board of the fund should have the same qualifications as the IFM (II-E)
- C. Appoints the managers of the fund with the approval of the Advisory Board (II-B, IV, VIII)
- D. May attend managers' meetings ex-officio
- E. If a member of the Executive Board also serves as a Sector Manager, he/she will abstain from voting on any matter directly involving the same or consider to be a conflict of interest

VI. Advisory Board—Managers will meet with an Advisory Board three times during each semester—once at the beginning to set up goals, once in the middle to measure performance against set goals, and once at the end to present final results (XVII). The IFM and Sector Managers are responsible for seeking out the Advisory Board candidates. Conference calling will be available to those Advisors not available to attend meetings. Student managers will update the Advisory Board of the direction they are going and ask for advice. Dr. Bacon will be the first faculty advisor.

- A. The Advisory Board will supervise all the activities of the LSIF and evaluate all the parties involved as well as provide guidance and suggestions for better fund performance.
- B. The Advisory Board will consist of seven to ten non-student members which should include: the Dean of SOBE, a local investment advisor (who will also serve as broker and be approved by the Longwood College Foundation Finance Committee), the faculty advisor (appointed by the Dean of SOBE and approved by the Finance Club), a representative of the LWC Foundation's Finance Committee (appointed by the LCF President), as well as other members proposed by the advisor and broker. All Advisory Board members are subject to approval by the membership of the Finance Club.
- C. The Advisory Board will have the authority to confirm the elected members of the Executive Board and the IFM, and the authority to remove a member of the Executive Board at the request of the IFM or the advisor.
- D. Resignation of a member of the Advisory Board should be submitted in writing with one month notice. Any replacements within the membership of the Advisory Board will be suggested by the Advisory Board and approved by the Finance Club.

VII. Faculty Advisor

- A. Will be a faculty or administrative member from Longwood University appointed by the SOBE Dean and approved by the Finance Club
- B. Will not be required to attend weekly meetings but will be available to students for advice
- C. Will not be held responsible for student decisions
- D. Will attend the beginning, mid, and end of the Semester Advisory Group meetings

VIII. Selection of Fund Managers

- A. There will be a minimum of 4 sector managers including a reasonable mix of juniors and seniors
- B. Only rising juniors and seniors are allowed to apply to become sector managers
- C. Sector managers are normally chosen at the end of the second semester of their sophomore or junior years by submitting an application to the current managers and the Executive Board of the Fund. However, this routine may vary when managers graduate in December requiring vacancies must be filled using this same process.
- D. Sector managers may be fired (XII)
- E. Junior Sector Managers who wish to become Sector Managers on the LSIF their Senior year must reapply to maintain a reasonable ratio of junior and senior sector managers
- F. The most qualified candidates may be recommended to the Executive Board by the current sector managers, in consultation with the Faculty Advisor and the Advisory Board

- G. The most qualified senior candidate should be chosen as Investment Fund Manager (II) and the most qualified junior candidate should be chosen as Assistant IFM (IV)
- H. Sector Managers must have the following qualifications (effective immediately):
 - 1.) Enrolled in or completed Finance 451 (Investment Analysis and Portfolio Management)
 - 2.) Take Finance 451 no later than fall of the first year the person is a manager
 - 3.) Should have been an Analyst for at least a semester (X)
 - 4.) Should have at least a 2.8 GPA
 - 5.) Must submit a transcript and a resume
 - 6.) Must undergo an interview by the current Sector Managers and the Executive Board where the candidate's knowledge of stock selection and portfolio management as well as enthusiasm and desire to participate are assessed
- I. Students applying to be sector managers will be given preferences based on the following criteria:
 - 1.) Practical experience from an internship
 - 2.) General knowledge of stock selection and portfolio management (assessed by interview)
 - 3.) Grade point average
 - 4.) Enthusiasm and desire to participate (assessed by interview)
 - 5.) Have taken or are on schedule to take Finance 451

IX. Student Manager Responsibilities

- A. Investment Fund Manager (II) heads the fund and is the lead Manager
- B. Each of the sector managers must make a minimum of 4 stock proposals a semester (XIII)
- C. Managers are responsible for submitting required reports to the Advisory Board and the Longwood Foundation
- D. Managers are responsible for following and monitoring all stocks in their respective sectors
- E. Managers must help out and guide analysts and help with any questions they may have (X)
- F. Managers must recruit and recommend new Managers

X. Analysts

- A. This is the process of learning responsibilities and strategies of investing money
- B. Analysts are expected to attend all required meetings (XI)
- C. Analysts have two unexcused absences a semester, then they are cut from the Analyst process
- D. Each Analyst is assigned to one Sector Manager that will help him/her in their proposals and learning process

- E. Any SOBE student that wants to participate is eligible to be an Analyst, despite concentration or GPA
- F. Students that are Analysts must make one stock proposal a semester at meetings (XIII)
- G. To be eligible to be a Manager, one must be an Analyst or in the process of being an Analyst for at least one semester

XI. Meetings

- A. Meetings of the IFM and Sector Managers are held once a week
 - 1.) Meetings with Analysts are held every other week
 - 2.) Sector Managers have a meeting every week
- B. Emergency meetings will be called if there is a strong opportunity to buy or sell
- C. Investment Fund Manager will run and call the meetings
- D. Managers and Analysts are required to attend all meetings unless they have a valid excuse (Analysts can have two unexcused absences, Sector Managers one)
- E. If the Investment Fund Manager cannot make a meeting, the Assistant IFM (IV) will run the meeting
- F. The structure of the meetings will be as follows:
 - 1.) Discussion of current market conditions
 - 2.) Discussion of current portfolio—strengths/weaknesses—desire to buy or sell
 - 3.) Analysts' stock proposals (Every other week)
 - 4.) Sector Manager stock proposals
 - 5.) Discussion of stocks and setting of price targets by Sector Managers
 - 6.) Voting on changes in portfolio/stock proposals--2/3 vote of all managers (Investment Fund Manager, Assistant Investment Fund Manager, and all Sector Managers) is necessary for approval
 - 7.) Robert's Rules of Order will be used as a guide in conducting meeting
 - 8.) Minutes of each meeting should be recorded and emailed to the Faculty Advisor

XII. "Firing" a Sector Manager

- A. Sector Managers can be fired if:
 - 1.) They miss two or more meetings for unexcused reasons
 - 2.) They do not write and present four stock proposals in any one semester
- B. The Investment Fund Manager must give a warning to the Sector Manager when the conditions in XII. A above are met
- C. If a Sector Manager disturbs the dynamics of the rest of the managers as a whole, he/she will go through the process outlined in part D below.
- D. Process:
 - 1.) After a warning, if concern still exists among the Sector Managers as a group or the Sector Manager violates another reason to fire, the Investment Fund Manager will tell the warned Manager he is being reviewed

- 2.) The Investment Fund Manager will call a meeting with all the other Managers and the Executive Board and inform the faculty advisor that such a meeting is taking place
- 3.) After discussion, a majority vote by the Managers and the Executive Board “fires” the Manager

XIII. Stock Proposals

- A. Managers must make at least four a semester
- B. Analysts must make one a semester
- C. The written part of the stock proposal must be e-mailed to all Managers and the Executive Board at least 3 days before the meeting. All proposals e-mailed after that will be discussed at the next meeting. In the case of a strong opportunity to buy/sell due to factors that occur less than 3 days before the meeting, the Analyst or Manager can make the proposal only if the managers prior to the meeting as ascertained by e-mail ballot agree it upon.
- D. Stock proposals must follow this format:
 - 1.) A “top down” approach
 - a.) General Economy report
 - b.) Industry analysis
 - c.) Specific stock analysis
 - 2.) The written stock proposal should include
 - a.) A recommendation to buy or sell
 - b.) Buy/Sell Price Targets
 - c.) Company background information
 - d.) Description and analysis of the relevant market
 - e.) Review of adherence to investment style policy guidelines
 - f.) Competitive issues
 - g.) Comparison of strategy to competitors
 - h.) Prospectus for future growth
 - i.) Analysis of financial strength
 - j.) Key earnings drivers
 - k.) Critical upcoming dates (earnings reports)
 - l.) Valuation relative to comparable companies and the market
 - m.) Risks
 - 3.) Presentation of the stock proposal should
 - a.) Follow the written proposal closely
 - b.) Last anywhere between 5 to 15 minutes, including a question period
 - c.) Include a description of the company, what it makes and provides
 - d.) Describe relevant industry trends
 - e.) State buy/sell price targets
 - f.) Describe the company’s opportunity for growth
 - g.) Analyze the value in light of the stock price
 - h.) Include treatment of risks and issues
 - i.) Make the case for a buy or sell conclusion

XIV. Broker and Stock Execution

- A. Davenport and Company, LLC will be the broker/dealer of record for the LSIF and will hold the assets (Brad Watson, a member of the Advisory Committee, will serve as this first broker)
- B. There will be no expense associated with the custody of the assets. There will be a .75% fee for the management of the funds, paid to the Finance Club, in addition to the trade expenses. Trades will be executed at \$.06 per share, with a \$65 minimum per trade. Mr. Watson has pledged to donate half of his portion of the earnings associated with fund transactions back to the SOBE as directed by the SOBE Dean
- C. The Investment Fund Manager and the Assistant Investment Fund Manager are responsible for calling the broker and executing the trades as soon as possible
- D. Each trading transaction will require signatures from both the Investment Fund Manager and the Assistant Investment Fund Manager

XV. Investment Philosophy and Objectives

- A. All stocks must be traded on U.S. exchanges
- B. All stocks must have a minimum market capitalization of \$800 million
- C. The composition of the portfolio must follow the S&P 500 major sectors by + or - 5%
- D. The portfolio benchmark will be the S&P 500
- E. No stock can comprise more than 5% of the total portfolio when purchased
- F. Investment Objectives:
 - 1.) The primary investment objectives of the fund will be preservation of capital and moderate growth of principal. Income as a result of these objectives is secondary and incidental. Senior managers will also write an objective statement before their senior year of management to help guide the group and set goals.
 - 2.) A secondary investment objective will be the diversification of assets within the portfolio, which will reduce the overall level of portfolio risk. To achieve our goals, the beta of the portfolio will not exceed .8, although individual securities may have higher betas. In this way, we can take advantage of positive movements in the overall market, but reduce our exposure to risk when negative events arise.
 - 3.) Overall, we will strive to match it in terms of total long-term portfolio return. Performance of every separate sector of S&P 500 will be a benchmark for each sector of LSIF.
- G. Asset Allocation-- Assets will be allocated as presented in Table 1. Investing in Large Cap Equities should provide stable growth and some income through dividends. Mid Cap equities, although somewhat riskier, should provide the opportunity to achieve higher growth.

Table 1.

Asset Class	Target
Large-Cap Equities	65%
Medium-Cap Equities	35%
Total	100%

- H. Large and Medium-Cap Equities--Allocating 35% into medium-cap growth should be a relatively secure long-term investment. The companies in which the fund plans to invest are blue-chip companies with historical records of solid earnings growth that also provide a steady income through dividends. Some of these companies pay higher dividends, while others are more growth oriented. Large-cap companies, in which the fund invests, will also hold leading positions in their industries.
- I. Investment Restrictions --When investing in bonds, only investment grade bonds will be considered. There will be no investment through options, futures, or short selling. Additionally, no funds will be invested in limited partnerships and no leverage may be used.
- J. The funds will be allocated to different sectors and industries according to the make up of S&P 500, with allowed deviation of +/- 5% for each individual sector of S&P 500.

XVI. The Lancer Student Investment Fund assumes the same fiduciary responsibility as taken by the Longwood Foundation

XVII. Presentation of Results

- A. Presentations of final results will be made to the Advisory Board (VI) and invited guests (Administration officials, SOBE Faculty and Longwood Foundation Board) at the end-of-the-spring semester Finance Club banquet. The Finance Club will organize this banquet.
- B. Presentation of results to all other interested parties (students, administrators, faculty etc.) will be made once in the Mid-December and again at the end of April or the beginning of May. The event will be publicized to students and held in a room large enough so interested students can sit in and see what the LSIF is all about.
- C. These presentations will discuss:
- 1.) Investment highlights
 - a.) general framework of the fund
 - b.) overall results compared to the S&P 500
 - c.) adjustments in the fund throughout the year
 - d.) reports on each stocks in it
 - 2.) Investment lessons learned-- This part of the report will be the most important. Lessons learned from the investment experiences will be described
 - 3.) Question/Answer session
- D. The presentation of results will follow Association for Investment Management and Research presentation guidelines

XVIII. Schedule of Events (Approximate times given)

- A. First Semester
 - 1.) August- Investment Fund Manager and New Sector Managers meet with Advisory Board to set goals. Seniors set objectives.
 - 2.) August- Meetings begin
 - 3.) Mid October- Meeting with Advisory Board review progress on investment goals and guidelines
 - 4.) Mid December- Presentation of results to Advisory Board and others
- B. Second Semester
 - 1.) January- Meeting with Advisory Board to set up and check investment goals
 - 2.) Mid March- Meeting with Advisory Board to review investment goals
 - 3.) End of March- Eligible students apply for Manager positions
 - 4.) Beginning of April- Executive Board and Current Managers select new Sector Managers (VIII), the Investment Fund Manager (II), and the Assistant Investment Fund Manager (IV)
 - 5.) Beginning/Mid April- New Managers are informed of selection decisions
 - 6.) Mid/Late April- Presentation of results to Advisory Board at finance banquet by the outgoing Managers
 - 7.) Mid/Late April- Old Managers brief new Managers on positions in portfolio and establish investment plan for the summer

XIX. Summer Policy

- A. The Investment Fund Manager will find an effective means of communication with other managers, the faculty advisor, and the broker over the summer. The Investment Fund Manager, the faculty advisor, and the broker will stay alert for any emergency events that might require swift action to protect the portfolio
- B. The Investment Fund Manager would be responsible for coordinating with the Managers and making the necessary portfolio management decisions over the summer
- C. The old Managers will brief the new Managers on the stocks held in the portfolio before summer starts. This briefing may include:
 - a.) General information of the company
 - b.) Relative Industry strength
 - c.) Sell targets
 - d.) Why it was bought
 - e.) All other relevant material covered in the original stock proposal
- D. Managers could communicate over the summer in these ways
 - f.) Telephone
 - g.) E-mail
 - h.) Online Chats
 - i.) Web-Postings

Conclusion

Establishing Lancer Student Investment Fund is a great opportunity for Longwood University, the School of Business and Economics and its students. Students involved in the LSIF will gain real-life experience in the investment process and further develop their knowledge and skills. Organizational structure, rules and regulations for daily operations, and management of assets, help to ensure proper functioning of the fund making its goals clear and achievable. Successful management and performance of the fund, while benefiting the students involved and the school's bottom line will also promote the image and mission of Longwood University.