FIU | Business

FLORIDA INTERNATIONAL UNIVERSITY

Student Managed Investment Fund | Annual Report Fall 2013

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About Student Managed Investment Fund

Founded in 2008, the Fund was originally spearheaded as an investment club that would gather every week to exchange ideas. Eventually, the club received donations that launched the Student Managed Investment Fund and created a class for graduate and undergraduate students which served as a means for obtaining knowledge and hands-on experience in equity-analysis and portfolio management. The Fund is arranged into a student-run, faculty-advised structure with graduate and undergraduate students. With the assistance of the Faculty Advisor, Flavio Carrillo, the fund engages in thorough research and Fundamental analysis for equities, ETFs, and ADRs to discover undervalued and profitable long term positions in U.S. markets. To ensure minimization of risk and proper risk mitigation, the team uses effective means of diversification and risk management tools including, but not limited to, sector diversification, correlation coefficients, technical analysis (assisting in entry and exit points), and top-down analysis.

Segmented into sector teams comprising of one sector manager per team and multiple sector analysts, the teams exchange ideas and stay up to date on sector and market news. Additionally, the Fund uses the University's research lab, as a facility for research. The lab consists of 49 dual-screen computer terminals with a variety of finance and business software consisting of trading platforms, research tools, and risk management programs, and market simulations. The main software used includes Bloomberg Professional (15 terminals; overall research and analysis), ThinkOrSwim (placing positions), @RISK, Crystal Ball (risk management analysis), S&P Capital IQ, and Morningstar.

The Fund has been, thus far, an amazing experience that has given students an advantage to better prepare students for a career in finance. As the students graduate, they pave the way for newer analysts to gain further knowledge in equity analysis and portfolio management. The Fund is essential in providing experience and knowledge unseen in the average university classroom.

Methodology

The process of research and analysis revolves around many different approaches used widely and innovatively. The teams first analyze the sector and its various industries through a top-down analysis. Each industry consists of its individual drivers and fundamentals; the history, current outlook, and future outlook of potential investments are all taken into consideration. Once the industries have been analyzed, an equity screening process begins using Bloomberg Professional based on respective metrics. After the securities are chosen, an analysis is required. Business models, profitability, liquidity, growth, efficiency, and other aspects are assessed and measured. Because every security has different risks involved, such risks must be carefully realized and used to manage risk. The teams then create reports and gather to pitch the positions to the Faculty Advisor and, with approval, to the Advisory Board.

FROM THE FACULTY ADVISOR TO THE STUDENT MANAGED INVESTMENT FUND:

On behalf of the SMIF class of 2013, I am pleased to present the fifth Semiannual Report for the period ending on December 11th, 2013. The total return from January 1st, 2013 to December 11th is 23.74%. Over the past semester, the SMIF class of 2013 has worked arduously screening, evaluating, and presenting their investment selections to the advisory board at the end of the Fall semester. The approved selections and purchase information is listed in the *transactions* section of this report. The support from the local South Florida community has been outstanding. I would also like to extend our gratitude to our newest addition to the SMIF advisory board, Mr. J. Cooper Abbott who is the Co-Chief Operating Officer and Vice President of Investments for Eagle Asset Management. The execution and ongoing performance of the SMIF could not be so without the help of our wonderful staff and interns, Katherine Grau, Juan Camilo Parra, Daniel Rodriguez, Manuel De Pena, and David Gomez. Their help and support has been tremendously helpful for the SMIF operations, activities, and compilation of this report. On behalf of the State Farm Financial Literacy Lab, I want to thank all the individuals who have participated in the SMIF for this semester. The help of all individuals involved in the SMIF has been invaluable and greatly appreciated.

- Flavio Carrillo, Faculty Advisor

INVESTMENT POLICY

Goal

The Student Investment Fund seeks to provide consistently high total return from a broadly diversified portfolio of equity securities with risk characteristics similar to the Standard and Poor's 500 Composite Index (S&P 500 Index)

Objective

The objective of The Fund is to provide FIU students with a tool to enhance their knowledge of equity investment management strategies and techniques; subject to fiduciary responsibilities of third party financial managers.

SMIF Strategy

The SMIF will be managed to maximize risk adjusted returns relative to the S&P 500, using portfolio diversification techniques to minimize nonmarket risk.

Management

The SMIF will be managed by a portfolio manager selected by the SMIF Investment Committee (usually the Faculty Advisor). The SMIF Advisory Board will be comprised of the portfolio manager, the chair of the FIU Department of Finance and Real Estate or his/her designee, and a varying number of outside business professionals. The SMIF Investment Committee will be comprised of a faculty member designated by the Executive Dean of the College of Business from the Finance and Accounting faculty in consultation with the Department Chair of the Finance and Real Estate Department and the Director of the School of Accounting will be a member of the Investment Committee, along with another member chosen by and from the FIU Foundation Board of Directors. The FIU Foundation through its Investment Committee has ultimate authority over investment decisions as defined in the FIU Foundation Investment Policy.

Policies

1. The Fund seeks above-average returns by investing in securities that are determined, through analysis by student analysis teams, to be undervalued or poised for abnormal future growth. The analysis of the portfolio investments will be based on commonly accepted fundamental intrinsic valuation techniques, e.g., discounted cash flow models. Portfolio sales will be based on the same type of analyses.
2. The portfolio will consist of publically traded common stock investments and Exchange Traded Funds (ETFs) listed on the NYSE, AMEX, or NASDAQ. Cash and/or money market funds may also be employed for non-invested funds, along with protective put options, covered call options and option collars as risk management tools only. No individual position shall have a five year average standard deviation of more than twice that of the five year average standard deviation of the SPY ETF.
3. Portfolio stock purchases will be for cash; no margin trading will be permitted.
4. Short positions and naked derivative trades are not permitted.
5. Sector analysis is required as part of the fundamental stock analysis.

6. No stock sector will comprise more that 20 percent of the portfolio and no individual stock position will comprise more than 10 percent of the entire portfolio
7. Fifty (50) percent of the net annual gain will be reinvested into the Fund. The remainder of the net gain will be distributed to the CBA State Farm® Financial Literacy Lab (SFFLL). Should an annual loss incur, the cumulative loss must be recovered before distributions are made.
8. This policy can be amended and revised as needed.

THE FUND'S MAIN INVESTMENT RISKS

Equity Market Risk

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries selected for the Fund's portfolio or the securities market as a whole, such as changes in economic or political conditions.

General Market Risk

Economies and financial markets throughout the world are becoming increasingly interconnected, which increases the likelihood that events or conditions in one country or region will adversely impact markets or issuers in other countries or regions.

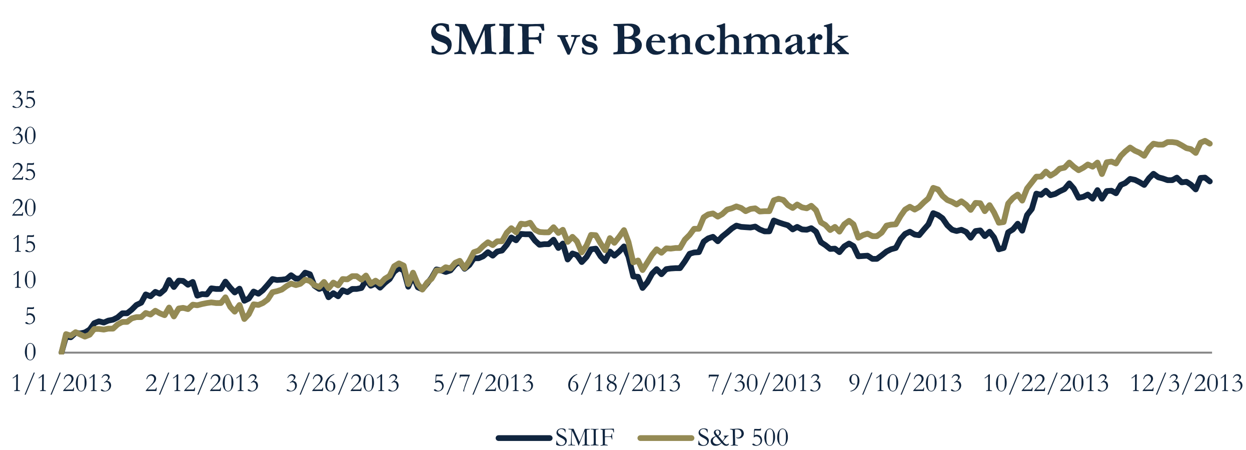
Mid Cap Company Risk

Investments in mid cap companies may be riskier, more volatile and more vulnerable to economic, market and industry changes than investments in larger, more established companies. As a result, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

Portfolio Performance

Year to Date Performance against Benchmark

Portfolio Statistics	3 Months		6 Months		YTD	
	SMIF	S&P 500	SMIF	S&P 500	SMIF	S&P 500
Return						
Total Return	6.26	7.61	8.13	10.89	23.74	28.96
Maximum Return	1.93	2.20	1.93	2.20	2.23	2.56
Minimum Return	-1.41	-1.30	-2.44	-2.49	-2.44	-2.49
Mean Return (Annualized)	41.86	52.04	25.39	34.49	38.36	47.11
Risk						
Standard Deviation (Annualized)	13.20	12.11	13.02	13.01	13.16	13.20
Sharpe Ratio	3.16	4.29	1.94	2.64	2.91	3.56
Jensen Alpha	-10.39		-7.08		-4.86	
Beta (ex-post)	1.00		0.94		0.92	
Correlation	0.92		0.94		0.92	



Top & Bottom Performing Holdings

Top 3 Performing Holdings	
Company	**YTD**
ABBVIE INC	58.67 %
GOOGLE INC-CL A	52.90 %
WELLS FARGO & CO	32.83 %

Bottom 3 Performing Holdings	
Company	**YTD**
KINDER MORGAN ENERGY PRTNRS	6.04 %
ORACLE CORP	5.22 %
EMC CORP/MA	-5.96 %

Portfolio Sector Allocation

Sector	Portfolio Weight
Financials	12.6%
Consumer Staples	13.0%
Health Care	16.9%
Cash	18.2%
Energy	18.5%
Information Technology	20.8%

Top 5 Holdings	Portfolio Weight
Google	8.2%
Novo-Nordisk	6.8%
Schlumberger Ltd	6.6%
Procter & Gamble	6.6%
Pepsico Inc	6.4%