

Student Investment Management (SIM)

Portfolio Methodology

June 2015

Portfolio Objective

The Student Investment Management (SIM) portfolio seeks to achieve long-term returns greater than the S&P 500 benchmark.

Portfolio Philosophy

The SIM portfolio applies rigorous valuation methods to find attractive equity investment opportunities. The portfolio team has a long-term (infinite) time horizon.

Asset Allocation

The portfolio will attempt to be fully invested in equities, with cash holdings less than 5% of the portfolio.

Sector Selection

The SIM portfolio will remain nearly sector neutral, with sector allocation of +/- 100bps vs. the benchmark S&P 500. Rebalancing will occur at the end of each semester.

Stock Selection

The stock selection universe will be sourced from the S&P 500 Index and will primarily be comprised of large market capitalization stocks. The primary driver of stock selection is Discounted Cash Flow (DCF) analysis, which adjusts for differences in accounting methodologies across various sectors and industries, additionally incorporating varying levels of risk through the discount rate. The team seeks to determine the underlying value of the company, with the goal of buying stocks that trade at a discount to intrinsic value. The team will also use other valuation techniques, including P/E, P/B, P/S, EV/EBITDA, and sum-of-parts as secondary valuation measures to determine which stocks are attractively priced. Additionally, because the fund will remain nearly sector neutral, the class will use relative valuation to find stocks within a sector that are less expensive than their peers.

Risk Controls/ Portfolio Characteristics

The portfolio will be concentrated in nature, typically holding between 30 and 50 long stock positions and have a large cap risk profile. No single security position will be greater than 5% of the portfolio. In order to mitigate risk, the portfolio will remain nearly sector neutral vs. the S&P 500, with sector allocation of +/- 100bps relative to the benchmark. The portfolio will be rebalanced at the end of each semester to bring sector/stock bets back into the aforementioned ranges. In the event the portfolio appreciates above the threshold, it will be sold down to \$10 million when trades are executed at the end of each semester.