

UConn Foundation Student Managed Investment Fund

Prospectus

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UConn Foundation Student Managed Investment Fund

EXECUTIVE SUMMARY

Objective: The objective of the fund is to provide University of Connecticut students of business, commerce, and economics with an opportunity to gain valuable hands-on experience in fiduciary management of investment assets. Additionally, it will provide to the School of Business a long-term method of attracting high quality candidates, and will provide to the UConn Foundation management services.

Size of Fund: The current size of the fund is \$2 millions, equally distributed between MBA and UG managers (two groups of 10 managers each during the second and junior year, respectively).

Oversight: Students will manage the assets. A Director of SMF, the Investment Advisory Board, the UConn Foundation, and the Foundation's auditors will review the fund's activities at different levels.

Investment Strategy: Assets will be managed for total return, in concert with the UConn Foundation's status as a tax-exempt organization. Assets will be selected based upon fundamentals, and in concordance with allocation proportions determined by student managers' analysis and in consultation with the Advisory Board and Director of SMF.

Benefits of this Program: Students will gain real experience with the management of real assets, and will benefit from the association with distinguished alumni on the Advisory Board. The University will benefit from additional prestige from having a significant new program. Members of the Advisory Board and their organizations should benefit from continued association with the University and the School of Business. The School of Business will be able to publicize a new, quality program that will help to attract and retain the best students. The UConn Foundation will be participating in a new program, should gain additional publicity and opportunities for foundation and funding advancement, and will receive additional management and analysis services. Additionally, the Foundation will receive management services at no management fee cost, a considerable savings over other traditional management arrangements.

Costs: There is no management fee charged by the managers of the fund to the Foundation, at this time. That fact, alone, will increase the comparable net return to the Foundation. There may be small incidental expenses resulting from this program. Those expenses are expected to be insignificant, and largely covered through private philanthropy.

Risks to the Foundation: There are risks to be considered when investing in this or any program. This is an endowment investment program, and as such carries standard risks associated with investing endowment assets such as exposure to public markets. There is also reputational risk to the Foundation should the program be managed poorly or ineffectively.

Market Risk: Market prices fluctuate. There can be no assurance that investments in capital market assets will retain their prices, or that at any specific time, liquidation values will not be below the investment price.

Business Risk: Investment in financial assets involves the risks of ownership of corporate securities. No guarantee can be made that successful companies selected for investment will not incur financial losses in the future.

Loss of Purchasing Power: While the expectation is that assets managed through the Program will provide net positive results over time in excess of inflation, no guarantee can be made that purchasing power can be maintained in the future.

In Addition, this program carries a risk of:

Inexperienced Management: The managers selected for this program do not have a significant demonstrable professional experience in managing funds. While each has met (and in the future, will meet) selection criteria, the nature of the program is such that managers of this fund will be

inexperienced. The management group does not expect to seek registration under securities regulations, relying on a reasonable interpretation of *de minimus* exemption.

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Definitions:

The following definitions apply to terms used in this document.

ADR:

American Depository Receipts. Trust securities of foreign-based firms maintained in and by trust companies in the USA and traded on USA domestic exchanges.

Board:

The Investment Advisory Board (“IAB”) overseeing the management of the fund by the student managers.

Derivatives:

Derivative Securities, including but not limited to, Put and Call Options, Futures Contracts, Forward Contracts, Currency Contracts, Swaps, and other non-primary Securities. Derivatives are considered unsuitable investments for the Fund.

Domestic Exchange:

A securities exchange having its principle location in the USA. For purposes of this document, “Domestic Exchange” shall include the New York Stock Exchange (“NYSE”), American Stock Exchange (“ASE”), and NASDAQ Exchanges; as well as regional USA (such as the Pacific or Chicago) exchanges which list regional domestic equity securities or which dual list securities also on the NYSE.

Director of SMF:

A member of the full-time faculty of the SBA who is responsible for supervising and advising the Managers, and chairing the IAB. Currently, the Director of SMF is Chinmoy Ghosh, Professor of Finance.

Foundation:

The University of Connecticut Foundation, Inc. (UConn Foundation)

Fund:

The money in an account or accounts, owned by and for benefit of, the UConn Foundation, which is being allocated to management by a group or groups of University of Connecticut students.

IAB:

The Investment Advisory Board, overseeing the activities of the student managers.

Leverage:

The use of debt or other borrowings to carry an investment position in excess of the equity invested. Leverage is considered unsuitable for the Fund.

Margin:

The use of leverage, with or without incurring interest expenses, using Securities as collateral for the debt. Margin is considered unsuitable for the Fund.

Managers:

Students who are involved in researching investments and making the recommendations for investments and divestments in the Fund. Managers will be drawn from the student body of the SBA and screened for qualifications by the Director of SMF(s).

Mutual Fund:

Investment companies, either open-ended or closed-ended, including Unit Investment Trusts.

SBA:

The School of Business Administration at the University of Connecticut (Storrs, CT).

Securities:

Investment vehicles, including but not limited to, Equities (Stocks), Debt Instruments (i.e., Bonds), and Mutual Funds, and Derivatives. For purposes of the Fund, the choice of Securities is further limited according to suitability, such as derivatives which are prohibited.

Students:

Individuals enrolled in a degree program in the SBA. Students may be either in Undergraduate programs (leading to a Bachelor’s degree), or in the MBA program at the University of Connecticut.

Team(s):

Students will be organized into separate Teams by their degree level status. One team of Managers will be comprised of undergraduate students, another of MBA students.

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Objective

The primary objective of the Fund is to provide participating students an opportunity to gain valuable hands-on experience in security research, valuation of risky assets, asset allocation, and portfolio management. While performance will remain the primary focus, and will be reviewed at regular intervals, we do not presume that the students will be able to beat the market on a consistent basis. Rather, this is another SBA endeavor to deliver high quality practical education in an area of considerable interest to students and employers alike. The fund will increase the marketability of SBA students in industries such as equity research, credit analysis, investment banking, commercial banking, and corporate finance.

A long-term benefit of the fund will be the enhanced reputation of SBA as a school offering challenging, integrated, analytical projects using real time capital market data. This should enable us to attract more academically gifted, and motivated students to the SBA.

SMF and SBA Outreach Program

SMF is an integral part of the overall outreach program of the SBA. It is hoped that the SMF will facilitate interaction between the managers and the local investment community in coordination with the SBA. The IAB can provide important guidance, and assistance in this regard. The activities could include but not limited to familiarity and use of data sets that are frequently used by the industry in security valuation, invitation to guest lecturers, visits to trading desks at investment companies, and consulting assignments. It is hoped that such interaction will be critical in placement of managers in investment-oriented jobs in top companies.

Size of the fund

The commitment of the Foundation to the fund initially was \$1 million, but the total sum was not initially advanced to accounts under student management. Initially, one half of that amount (\$500,000) was deposited to investment management accounts under student management. The remaining balance was advanced gradually, upon the advice and consent of the Investment Advisory Board and the Foundation. The amount under management was increased as the students, and supervising faculty gained experience with management and mechanics of the fund.

This approach had two advantages. First, the size of the overall fund was impressive and was comparable to similar funds at peer business schools. However, limiting to only fifty percent of it under active management at the start facilitated the learning curve and allowed Board members the discretion to allocate additional funds depending on performance, and general market conditions.

Based on due diligence and student performance, the full commitment has been met and the current size of the fund is \$2m with \$1m allocated to MBA and UG groups of managers each.

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Investment Advisory Board (IAB)

A separate board, called the Investment Advisory Board (IAB), was set up for oversight of the student-managed fund. The board usually meets twice every year, first at the end of the spring semester to receive the interim report from the participating students on the performance of the fund, and then at the end of the fall semester to receive the final annual report. The faculty member who serves as the regular advisor to the students chairs the IAB. The Board includes several SBA alumni that are in established positions in the financial services industry. One Foundation staff representative, who is the main contact between the students and the Foundation on matters of reporting, and one Foundation Investment Committee member, are ex-officio members of the board. We note with appreciation that some Foundation Board members have been very actively interested in the development of the fund, and have been serving on the IAB.

The main charge of the Board will be to (1) receive monthly reports from the students; (2) receive the two consolidated reports at the end of Spring and Fall semesters for review, and provide feedback; (3) participate in the selection of asset classes and allocation within these classes, and recommend any rebalancing, if necessary; (4) identify the benchmarks for performance evaluation within each class and the overall portfolio.

One opportunity that the fund may benefit from is that some of the potential board members may contribute funds to the endowment or help attract such contributions from the financial services industry. As such, selection of prominent alumni who are truly dedicated to serve as Board members is critical to the success of the fund.

The Board members will have authority to approve the asset classes, which are suitable for investment by the Fund, and the broad allocation of funds within these classes.

Steering Committee

A Steering Committee has been formed to help the Director of SMF with the proper and full execution of his duties so that the objectives of the program are met and the quality of the program continually enhanced. The committee currently includes Kevin Edwards, Chinmoy Ghosh, Joe Goloc, and Patrick Terrion. Joe Goloc is an associate professor in the finance department and teaches the undergraduate Investments course. The committee notes that Joe's involvement in SMF has enabled him to better prepare UG students for participation in SMF. Also, addition of a faculty member to the committee allows SMF to leverage his experience and interaction with students in formulating future policy decisions. It is expected that the committee will continue to review and provide feedback on the following aspects:

1. Sample reports prepared by the students. These reports will be reviewed for content, method, analysis, and style.
2. Review quarterly reports prepared by students, preferably before they are presented to the UConn Foundation and the IAB.

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3. Assist students in preparation for the final presentation to the Foundation and IAB.
4. Attainment of program mission
5. Each specific portion of the program as to effectiveness

Source of Assets in the Fund

From a fiduciary standpoint, it is preferable to set up and raise funds for an endowment specifically designed for this purpose. However, that has not been feasible for a number of factors; including the \$2 million size of the fund and conflicts with other fund-raising initiatives under way across the University and the SBA. At the suggestion of the then Dean Thomas Gutteridge of the SBA the initial one-fourth (\$500,000) of the total initial allocation came from the endowment funds identified as contributions to the School of Business Administration. The remaining amount (\$1,500,000) also was provided from the general UConn Foundation endowment pool.

Further, it is recommended that the Board members and faculty members make organized, deliberate, and concerted efforts to attract new outside funds to the endowment. Indeed, it is expected that IAB will assume the charge of defining initiatives and procedures to attract regular flow of contributions to the student managed fund from outside institutions.

Student Participation

Managers are drawn from both undergraduate and graduate Students from various departments of SBA. An appropriate distribution of junior and senior undergraduate students are recruited to assure continuity from year to year. Second year MBA students will be supplemented by first-year students during the spring semester, who will then be able to provide a smooth transition during the following academic year.

The initial allocation between the Teams will be 50% to the undergraduate Team and 50% to the MBA Team. This distribution will be used to foster an informal competition between the Teams. The allocation may be changed later depending on student interest, size and representation of the respective programs, and shifting industry demands. Each Team will have a separate, segregated Fund account held Fidelity Brokerage.

Managers receive no compensation. Undergraduate students receive 6 credits for two courses for participation in the Fund. This course is taught on weeknights over two semesters, 3 credits during Fall and 3 credits during Spring. The UG class is taught by Patrick Terrion, an adjunct professor in the Finance department. Pat is a retired corporate executive and currently a practicing money manager with a significant sized portfolio under management. MBA student managers are required to take two courses, one each during Fall and Spring, both taught by Chinmoy Ghosh. These courses are specially designed with Fund management and stock valuation in mind. Students receive 3 credits for each course.

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Selection of Student Managers

While the selection criteria may vary, students will be considered for participation based upon background knowledge and experience, performance in related course work, and motivation. Managers have had, at a minimum the introductory courses in Economics, Finance and Accounting. Most are advanced, with additional coursework in investments and finance.

Students have applied to participate and have been selected by faculty members who are directly familiar with the Students' work. As Managers graduate and leave the University, others will be selected by similar means to replace them. As the program matures, a formal application and evaluation process is being developed to qualify future Students as Managers.

Compliance with Prospectus

All decisions by student managers must be taken in strict compliance with the Prospectus. No deviation from the provisions in the Prospectus will be allowed without written consent from the UConn Foundation. All student managers will be asked to confirm in writing that they have received and read the most recent copy of the Prospectus in full, and understand that all their decisions must be in agreement with its provisions at all times. Any manager not signing such a declaration will not be allowed to participate in the SMF or trade the funds.

Organization of Teams

The organization of each Team is fluid. Each Team will organize itself, selecting its own respective leaders (lead manager, treasurer, and secretary) for liaison with the Director of SMF and Board. A recording secretary, either permanent or floating, will be responsible for preparing and submitting the minutes of any Team meeting held. A team member will be designated to be responsible for maintaining the books of the Team's account, and for reconciling the brokerage statements and confirmations. Other officer or committee positions may develop as necessary, and the Team will respond as necessary. Each Team must have specifically designated members for the following responsibilities:

- A. *Execution of the trades:* One individual from each Team will communicate the trades to be executed by the Director of SMF.
- B. *Receiving Reports and Reconciliation:* Each Team will designate one person responsible for receiving reports, confirmations, and statements from the Broker, and reconciling those reports with the Fund's monthly statements.
- C. *Reporting:* Each group will designate one person responsible for reporting to the Director of SMF, the Foundation, and the Advisory Board.
- D. *Submit reports to the UConn Foundation:*

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- E. *Presentation to the UConn Foundation and the IAB:* Presentations to the Foundation and the IAB are the highlights of the program. It is critical to ensure that the reports are prepared according to the format provided, and the presentation is comprehensive and professional.

Each of these positions must be represented by a different individual Team member. Any changes in the designated person must be communicated to the Director of SMF immediately.

Regular Operations of the Fund

The Board members will have authority to approve the asset classes and the broad allocation of funds within these classes. Managers have the ultimate responsibility and authority to manage the fund.

Broad guidelines have been developed by the Director of SMF and are in place, ratified by the IAB. The authority to change those guidelines resides with the Board:

- I. UConn Foundation has a **long-term investment mandate** for the SMF Program.
- II. **During each summer the SMF assets would be placed in the S&P500 Exchange Traded Fund (ETF)** and then the students will sell out of the ETF and buy into specific securities they have researched and chosen for investment. So, every Fall, the student managers will start with 100 percent allocation in domestic US equities.
- III. All positions will be liquidated and funds invested in S&P500 **S&P500 Exchange Traded Fund (ETF)** at the end of every spring semester.
- IV. The mandate for the SMF is investment in **domestic equity securities of not less than 80%** of available funds at any time, and investment in **domestic fixed income securities or indices of not more than 20%** of available funds.
- V. At no point of time during the period that the funds are managed by student managers should the **allocation in US equity and fixed income be less than 90 percent** of available funds. Only exception to this allocation is allowed during the first 6 weeks of the fall semester.
- VI. Any changes in asset allocation (90/10 rule above) the managers deem necessary to implement their investment strategy must be brought to the attention of the Foundation in writing and formally approved by the Foundation before the strategy is implemented.
- VII. The Fund has, as its primary objective, investment in domestic equities (not less than 80% of available funds) and domestic fixed income securities or indices (not more than 20% of available funds).
 - i. Equity and fixed income securities of USA domestic firms are the primary investment vehicle of this program

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- ii. “Domestic Equities” may include common and preferred stocks of domestic firms, REITs and mutual funds.
- iii. “Domestic Fixed Income” may include US treasury and industrial bonds and bond indices traded as ETF’s.
- iii. While not the primary investment, from time to time and according to efficient allocation procedures, it may be appropriate to invest in cash and money market assets. But such allocation must not exceed 10 percent of the total value of the portfolio.
- iv. ADRs, if appropriate, and if in compliance with the terms of Section VIII below, may also be appropriate.

VIII. All assets in the Fund will be invested exclusively in securities that are traded on major USA exchanges, or in Mutual Funds and ETFs issued by USA domestic sponsors. No funds will be in direct foreign investments.

IX. No trade, buy or sell, will be executed until a full report of the decision, and the required votes by the students has been received and accepted by the Director of SMF. Seventy percent of the managers must approve any trade decision.

X. Managers are strongly encouraged to **consider Limit Orders and Stop-loss orders.**

XI. Derivatives and Leverage will not be employed by the Fund.

- i. **Managers will not use Margin** or other forms of debt or borrowings in the Fund.
- ii. **Short sales will not be used.**
- iii. **No Options contracts**, neither puts nor calls, purchased or written, are suitable investments for the Fund.
- iv. Futures or Forward Contracts, or other Derivatives will not be permitted.

XII. **Performance Evaluation: UConn Foundation will evaluate the performance of the SMF in comparison to the applicable benchmark (currently the S&P500 Index for equity securities and the Lehman Bond Index for fixed income assets)** and not in comparison to any other asset class or to a portfolio of diverse asset classes.

XIII. Student managers will likely be viewed as successful by outperforming the benchmark (even if total return is minimal or negative), provided they adhere to their mandate.

Selection of Securities

Market conditions will vary during the life of the Fund. As a result, Managers will apply various methods for the selection of securities. The Foundation, as a tax-qualified institution, will be treated as a “total return” portfolio. That is, investments will be selected for inclusion in the Fund based upon their total return, and without regard to whether that return is comprised of capital gains, dividends and interest, or a combination of all. Generally, the selection of investments for the Fund will be made according to principles of:

A. Growth Investing

Investing in the Securities of firms that provide reasonable return on investment, in accordance with associated risk. Growth investments will generally be in firms that are profitable, with sufficient cash flow and internal investment opportunities, and are leaders in their respective industries.

B. Value Investing

On rare occasions, some Securities may appear to be underpriced with respect to market conditions in general. This may result from temporary disequilibrium conditions; or from investment assumptions or information that may not be interpreted with the same weight by all investors, such as an over-reaction to public news or a stochastic excess. Investments will be made in firms based upon their fundamentals, including financial ratios and industry comparisons.

C. Asset Allocation

This is a “top down” methodology. Selecting investments based upon a “story” or past history is a “bottom up” method, and results in a portfolio of individual assets. Our “top down” methodology emphasizes the broad allocation across investment classes determined by the risk, return, and correlation characteristics of the investments with respect to each other. Only then are individual assets selected to fit the portfolio. This process is a cornerstone of the investment method taught in the SBA investment classes.

D. Individual Market Sector Allocations

To attain efficient diversification it is recommended that allocation in any individual sector of the economy be limited to a maximum of ten percent invested funds. Any changes from this rule must be approved by the Director of SMF, the Foundation, and the Advisory Board.

At all times Managers will make decisions consistent with maximizing return through the avoidance of excessive transaction costs. They will be sensitive to the resulting costs associated with paying commissions and spreads from high turnover of the Fund’s assets.

Custodian and Brokerage

The Foundation has determined the suitability of brokerage firms with which to maintain the account(s) of the Fund. Those choices have been made based upon perceived quality of services, as well as cost. The brokerage house will be responsible for custodial activities.

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All brokerage transactions will be executed through an account in the name of the Foundation held with Charles Schwab Brokerage. At all times the title and registration of the funds and account will reside with the Foundation. The Managers will not take custody of any funds, nor have direct access to the money on deposit in the account. Each Team will manage a separate brokerage account without commingling funds. The accounts will be accessible both by telephone and electronic (online) access. The account will have up-to-date information available, online, via secure password.

Execution of Brokerage Transactions

The actual authority to execute trades and give orders to the Fund's broker, will reside with the Chinmoy Ghosh, Director of SMF and Chairman, Department of Finance. Trades can be executed only from the faculty offices in the School of Business, in the presence of the Director of SMF or his designated alternate. In the absence of the Director of SMF, an alternative will be named. All trades must be supported by full report and minutes of the meeting where those decisions were made. These minutes must be e-mailed to the Director of SMF with sufficient time for the Director of SMF to review the reports prior to the trade. Trades will not be allowed unless the Director of SMF has had sufficient time to review the reports.

Students will meet at least once a week, after the market closes, to discuss the status of the portfolio, and review the valuation of different securities. This can be after the regular scheduled class or any other time, and the Director must be informed of the time when these meetings take place. Buy and sell recommendations from individual Managers will be considered at this time. Any decision will be supported by research data and a brief report that must be retained in a file and included by reference in the minutes of the meeting. The Team, with a quorum present, will then vote on the recommendations. If the vote approves the decision, the final report and recommendation will be presented to the Director of SMF for his approval on the following morning. A full report and minutes of the meeting will also be presented at this time. If all the information is in order, the person designated to implement the trade will contact the Director of SMF so that the trade can be executed.

Contingencies may arise where a trade must be executed immediately without waiting for the next weekly meeting because of sudden unexpected movement in the price of a security. Each group will designate up to two Managers empowered to contact the Director of SMF. Because of the procedure laid out above for buy decisions, emergency trades will represent sell orders only. Buy orders under these situations will be allowed only if it involves a stock or a fund the students have already identified from their research for a potential long position, and are waiting for a price movement.

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Reporting, Evaluation, and Audit

Managers will be responsible for all documentation of stock selection and trades. Managers will prepare an analyst's report before a particular security is bought or sold, and every security owned by each group must be reviewed at least once every month. All changes to the portfolio and rationale for these changes must be reported and discussed with the Director of SMF and included in the minutes.

The address of record for the brokerage account will be that of the Foundation. The Foundation will receive, directly from the brokerage firm, originals of all regular account statements, and confirmations of all transactions made in the account on behalf of the Fund. The brokerage firm will be directed to provide duplicate statements to the designated Manager for each group, and to the Director of SMF.

A designated member of each Team will provide monthly a reconciliation of their accounts with the brokerage statement, including all transactions with any necessary accruals, to the Foundation in sufficient time for the Foundation to meet its closing requirements. The designated reporting Manager for each Team must be different from the Manager designated to communicate the trade selections to the Director of SMF.

Twice each year, at the end of the spring and fall semester, each Team will provide consolidated reports to the Foundation, demonstrating the results of the Fund to date. Presentations must be made to the Board at least annually, at the end of the fall semester immediately before the transition to the next group of students occurs.

Each team will be accountable for the performance of their portion of the Fund. The Foundation has identified market indices that are appropriate proxies for evaluating the performance of specific sectors where funds are invested. The Managers will follow the same procedure, and the particular index used as a benchmark will be chosen in consultation with the Director of SMF and Board members. As of this writing, the chosen index against which student managers performance will be evaluated is the S&P500 Index for the equity portion and the Lehman Brothers Bond Index for the Fixed Income portion.

The Foundation accounting department will review the monthly reports and the reconciliation statement of the trading activity and the custodial reports and this information will be made available to the external auditors of the UConn Foundation at the time of routine audits of the Foundation accounts.

Fees and Costs

No fees will be paid from the Fund to the Managers, either in cash or in kind. Saving the management fees that would be charged by other professional managers will result, incrementally, in a benefit to the fund and a higher overall return.

From time to time, incidental expenses may be incurred which may rightly be considered expenses of the Fund. Those expenses, which may be charged to the fund, will not be charged to the fund without the express approval of the Foundation.

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Regulatory Compliance

Managers are not holding themselves out, either privately or publicly as *investment advisors* or *investment counsel* as defined by the Investment Advisors Act of 1970 (as amended), or as defined by various acts of the General Statutes of the State of Connecticut. The Fund is a accredited investor as defined by statute. Individual Students, acting in their capacity as Managers, are specifically prohibited from using these descriptions as to do so might violate state and federal regulations. Managers are not actively seeking additional accounts to manage, nor additional clients in the State of Connecticut or elsewhere. As such, Managers of the Fund are relying on a reasonable interpretation of the *de minimus* exemption to regulation and are not pursuing registration as Investment Advisors.

Further Information

Additional information on this program can be obtained by contacting:

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or visit the Program's Web site:

<http://www.sba.uconn.edu/users/smf>