

UMBC Student Investment Fund

Objective

The primary objective of the UMBC Student Investment Fund (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, and, in turn, to increase the marketability of UMBC students in industries such as equity research, investment banking, commercial banking, and corporate finance. The second objective of the Fund is to achieve long-term capital growth and, particularly, to outperform the Standard and Poor's (S&P) 500 Index on a risk-adjusted basis. Additionally, the Fund focuses on strengthening ties with the business community and attracting new outside funds to the initial endowment.

Organization

The UMBC Student Investment Fund consists of students in an identified class and a faculty and external advisory committee.

A. Investment Class

The investment class is formed by high achieving students who will direct the actions of the Fund and are members making investment recommendations. Participating students shall make investment recommendations in a conscientious manner using their best judgment but they have no personal liability for the results of their recommendations. The class is responsible for preparing an annual report of the fund. The report will be distributed through the faculty committee to the Office of the Provost, the Dean's Office, the Economics Department Chair, and to other interested parties.

B. Faculty and External Advisory Committee

A faculty and external advisory committee will be set up for oversight of the student investment fund. The faculty members will be responsible for selection of class members, setting up investment policies, reviewing the annual report and providing feedback, and suggesting rebalancing of existing portfolio, if necessary. One faculty member on the committee will serve as the regular advisor to students. The advisor will be responsible for helping execute the trades that the investment class recommends, maintaining complete records of all transactions made on behalf the Fund, as well as original statements from the Fund's brokers. These records shall be made available to the Fund's auditors, the Economics Department Chair, the Dean, and the Provost on request. The Advisor is also responsible for supervising and guiding the students in preparing the annual report.

External advisory members are selected UMBC alumni and donators. Their involvement with the Fund will be kept at the minimum level. Generally, they will monitor the Fund's early development, provide suggestions to fund design, interact with students and faculty advisors through presentations, conference calls, video communications, and face-to-face meetings, review the annual report and provide feedback. External advisors may also help invite guest speakers and offer opportunities to students such as internship or trips to financial centers and investment companies.

Student Participation

The Fund is incorporated in an upper-level financial economics course, ECON 476 Portfolio Analysis and Management. All students in ECON 476 will automatically be members of the Fund. However, admission to ECON 476 is by application and is limited to students who have taken ECON 475 or some other advanced electives of financial economics. Students work as portfolio managers to charge the regular operations of the Fund.

Investment Guidelines

The Fund will be mainly allocated to equities, fixed income investments, and cash or cash equivalents. Investments are limited to common and preferred stocks, including ADRs and other exchange-traded collateralized equity instruments, exchange-listed corporate bonds, mutual funds and money market accounts, and U.S. treasury instruments. When fund participants believe the market is extremely sluggish and the current investment landscape offers no viable or good investment alternatives, the Fund can hold cash or cash equivalent. However, the proportion of cash holding shall be kept at a minimum level, say no higher than 5% of total value of the investment portfolio, during normal periods. Margin purchases, short sales, and financial derivatives such as futures and options, are not permitted in the early stage of the Fund. However, investment classes may be expanded to include futures and options of commodities, currencies, and precious metals, and international securities in the future, upon approval by the faculty and external advisory committee.

To achieve the highest level of risk-adjusted performance, the Fund will hold 70-90% of its assets in equity investments and 10-30% in fixed income investments by the 12th month of operation. To diversifying the investment portfolio while considering transaction costs, the fund will seek to hold 15-30 individual securities (e.g. individual stocks, bond funds, exchange-traded funds) with stipulation that no more than 10% of the fund's asset will be invested in any one security and no more than 30% of the fund's assets will be invested in any given sector of the S&P 500.

Investment Decision Making

During full implementation, class members will meet to discuss the status of the portfolio, review the valuation of different securities, and make buy/sell/hold recommendations. Any investment recommendation shall be based on sound research and analysis on all available information about the relevant security. Members are suggested to form sector teams and each team is responsible for all news flow regarding stocks in one particular sector throughout the semester. Periodically, each sector team will make a 15-minute presentation to introduce the background of the company, historical stock performance, firm's intrinsic valuation, future stock outlook, and investment opinion, etc. After the recommendation presentation, meeting attendees review the company, the team's recommendation and evaluation, and asks questions prior to voting to buy, sell, or hold the investment.

Decisions to buy, sell, or hold will be made only upon a vote of the class members. While all students are expected to attend such meetings, meetings shall be conducted with a quorum presence of class members. A selected student shall tally the votes promptly and announce the numerical results openly on the spot of

the meeting. If the vote approves the decision, the final report and recommendation will be presented to the faculty advisory committee for approval. The Faculty Advisor designated by the committee will approve or disapprove the proposed transaction and promptly convey his/her decision in writing to the class's President or Treasurer (or direct to the trader designated by the class).

Transaction Execution

While the investment class can designate one or two traders to execute the trades, the actual authority to execute trades and give orders to the Fund's broker will reside with the Faculty Advisor designated by the faculty advisory committee. Trades can be executed only from the faculty offices in the presence of the Faculty Advisor. In the absence of the Faculty Advisor, an alternative will be named. The trader shall communicate with the Faculty Advisor or the designated alternate to set up trading time.

Brokerage

All brokerage transactions will be executed through an account in the name of the UMBC Foundation held with T. Rowe Price. Class members will not take custody of any funds, nor have direct access to the money on deposit in the account. However, the account will have up-to-date information available online, via secure password.

Distribution of Funds

In general, earnings and appreciation will remain invested in the Fund. When the Fund grows to a size of \$500K or beyond, investment returns will be distributed as follows: (1) 30-50% of the earnings will be reinvested in the Fund; (2) the remaining earnings will be used to support student research programs, to award student scholarships, to support student campus organizations, or to support fundraising events.

Fiduciary Responsibility

The investment fund members, the faculty and external advisory committee members, and designated trade executors are fiduciaries. Accordingly, all participants are required to: (1) act solely in the interest of the University of Maryland, Baltimore County; (2) act with care, skill, prudence, and diligence to achieve the Fund's stated goals; (3) comply with relevant state and federal regulations; and (4) comply with the provisions of the UMBC Foundation.