

Fund Prospectus

EXECUTIVE SUMMARY

Objective

There are two objectives for the Student Managed Investment Fund (SMIF) at Humboldt State University (HSU):

1. Provide business students with real hands on investment experience
2. Promote the School of Business and Humboldt State University

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 an 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 HSU's business students in industries such as equity research, investment banking, commercial banking, and corporate finance.

A long-term benefit of the fund will be the enhanced reputation of HSU's School of Business as a school offering challenging, integrated, analytical projects using real time capital market data.

Size of Fund

The initial capital for this fund is provided by the School of Business (\$2,500), the College of Professional Studies (\$2,500), and the HSU Sponsored Programs Foundation (\$2,500) in the amount of \$7,500. The fund requires an initial minimum capital of

\$20,000 to start operating. The Fund will solicit additional capital from additional donors, alumni, and current students.

Organization

The Student Managed Investment Fund will be a student-run organization. A student board will administer the Fund. The student board will consist of nine students (graduate and undergraduate) selected by the faculty of School of Business in August of each academic year for a one-year term.

Oversight

The student board will be responsible for developing the rules and procedures under which the fund will operate. The board will have two faculty advisors from the areas of finance and accounting who will supervise the activities and the performance of the student board.

Research Analysts

Securities analysis will be performed by a team of up to 20 student analysts. The student analyst team will recommend an optimal portfolio of investment to the SMIF's student board for final adoption

Custodian and Brokerage

The Fund will be held in an account or accounts with Hans Overturf, a broker with Raymond James Financial Services in Arcata, California. Mr. Overturf, an HSU alumnus, has agreed to waive management and transaction fees associated with the account. In the event that Mr. Overturf is no longer able to offer these services, the student board will determine an appropriate substitute. This may be another local brokerage firm or an online trading company such as E-trade.

The brokerage house will be responsible for custodial activities. At all times the title and registration of the funds and account will reside with the HSU Sponsored Programs Foundation. The Managers will not take custody of any funds, nor have direct access to the money on deposit in the account.

Investment Strategy

Assets will be managed for total return. Assets will be selected based upon fundamental analysis and in concordance with allocation proportions determined by the student board and in consultation with the faculty advisors of the SMIF.

Benefits of this Program

Students will gain real experience with the management of real assets. The University will benefit from additional prestige from having a significant new program. The School of Business will be able to publicize a new, quality program that will help to attract and retain the best students.

Scholarship

Once the portfolio reaches \$100,000 the Fund will be used to finance an annual scholarship equal to one semester of student fees. As the fund grows, more scholarship awards can be provided.

Costs

There is no management fee charged by the managers of the fund. Any fees or expenses that are directly required for managing the fund can be withdrawn from the fund. These expenses are expected to be insignificant. All transaction costs associated with trading shall be deducted from the fund. Any taxes that result from transactions shall be paid

from the fund. In addition, any money required for office supplies, research material, travel expenses, etc. may be deducted from the fund up to a maximum of 1% of the Fund's value annually. All withdrawals from the fund must be approved by the faculty advisors.

Risks

There are risks to be considered when investing in this or any program. This is an equity investment program, and as such carries standard risks associated with investing in equities markets:

Market Risk:

Market prices fluctuate. There can be no assurance that investments in stock 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 equities 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 historically, investments in domestic stock market assets have shown 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.

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 faculty advisors. 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 SMIF or trade the funds.

Regular Operations of the Fund

The faculty advisors will have authority to approve the asset classes and the broad allocation of funds within these classes. The student Board will have the ultimate responsibility and authority to manage the fund and execute trades.

Broad guidelines for the SMIF are as follows:

- i. HSU has a long-term investment mandate for the SMIF Program.
- ii. During each summer the SMF assets would be placed in the S&P500 Index mutual fund product (e.g. Vanguard S&P500 Index) or a money market account and then the students will sell out of the Index (or money market account) and buy into specific securities they have researched and chosen for investment. Thus, 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 Index mutual fund product (e.g. Vanguard S&P500 Index) or a money market account at the end of every spring semester.
- iv. The mandate for the SMF is primarily investment in domestic equities.
- v. The Investment Fund will be a combination of equity, fixed income securities, money market instruments, market portfolio (S&P 500), and cash. The distribution of these market instruments will be the decision of the Board.
- vi. The Fund has, as its primary objective, investment in domestic equities.
 - a. Equity securities of USA domestic firms are the primary investment vehicle of this program.
 - b. “Domestic Equities” may include common and preferred stocks of domestic firms, REITs and mutual funds.
 - c. While not the primary investment, from time to time and according to efficient allocation procedures, it may be appropriate to invest in domestic debt securities, either corporate or governmental. Such allocation must not exceed 10 percent of the total value of the portfolio.
- vii. All assets in the Fund will be invested exclusively in securities that are traded on major US exchanges, or in mutual funds issued by US domestic sponsors. No funds will be in direct foreign investments.
- viii. 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 faculty advisors. 2/3 of the student board must approve any trade decision.
- ix. The student board will use limit orders and stop-loss orders, particularly over school breaks, when managers may not be available.

- x. Derivatives and leverage will not be employed by the Fund.
 - a. Board members will not use margin or other forms of debt or borrowings in the Fund.
 - b. Short sales will not be used.
 - c. No options contracts, neither puts nor calls, purchased or written, are suitable investments for the Fund.
 - d. iv. Futures or forward contracts, or other derivatives will not be permitted.

- xi. Performance evaluation: HSU faculty will evaluate the performance of the SMIF in comparison to the applicable benchmark (currently the S&P500 Index) and not in comparison to any other asset class or to a portfolio of diverse asset classes.

- xii. The student board and analysts 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, student analysts will apply various methods for the selection of securities. The fund 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 thereof. Generally, the selection of investments for the Fund will be made according to principles of:

A. Growth Investing

Growth will be accomplished by investing in 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

The Fund utilizes a “top down” methodology. Selecting investments based upon technical analysis or past history is a “bottom up” method. A “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 HSU’s investment classes. Students will attempt to create a portfolio with a beta approaching 1, with a range of .6 to 1.2 being acceptable.

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 faculty advisors.

At all times the student board and analysts 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.

Additional Selection Criteria

Securities will pass an initial screening process which will require, in addition to criteria established by the Student Board:

1. Minimum stock price of \$5
2. Minimum 5 year company history
3. Minimum daily trading volume of 100,000
4. The security must be covered by *ValuLine Research, Standard and Poor's Net Advantage*, or similar.

The student board may wish to consider restricting investment to securities which meet socially-responsible investment guidelines. Student analysts must agree upon these guidelines at the beginning of the term.

Students will consider both qualitative analysis of the business model, strategy, and management in order to understand the critical success factors and competitive position of the company, as well as quantitative ratio analysis in order to evaluate performance and efficiency. Students will also consider corporate governance, which appears to be correlated with returns.

Management

Students will meet once a week, after the market closes, to discuss the status of the portfolio, and review the valuation of different securities. Buy and sell recommendations from student analysts 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 student board, 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 faculty advisors for approval. 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 brokerage 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. The student board must designate a team member(s) who is empowered to make a trade in this circumstance. 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.

Dividends will be reinvested through DRIPs, wherever possible.

Selling Securities

Student analysts will agree upon criteria for selling securities. These criteria will include reevaluation of fundamentals after a 20% appreciation, adjustments to the portfolio if the industry weightings change from our predetermined limits, and alteration of the portfolio for a change in risk/reward profile.

Stop-loss orders should be considered upon purchase of a security. A stop-loss order is suggested if the security loses 15% of its value. The stop loss price will be determined in advance of the Winter Break, during which the portfolio is not actively managed. In the event the stop-loss price is realized, the security will be sold.