

Investment Club Watch

How Ohio State Fund Invests Its \$24 Million

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With a portfolio currently valued at about \$24 million, Ohio State University's Student Investment Management (SIM) program prepares undergraduates and graduates for the investment world by putting them in charge of the largest student-run fund on the planet. Here's a look at how this group steers such a large ship.

SIM Quick Facts

- **Established:** 1990
- **Membership:** Approximately 30 each academic quarter
- **Application process:** Students sign up as they would for any other class
- **Money under management:** \$24.3 million (approximate current value)
- **Portfolio/fund type:** One stock portfolio, currently with 27 holdings
- **Benchmark:** S&P 500 Index (SPX)
- **Time-horizon/style:** Long-term, value

Now entering its 18th year, the SIM program at Ohio State's Fisher College of Business started in February 1990 with \$5 million of the university's endowment. "No doubt about it, they're the very top in size, and they have been since their creation. The other schools are still catching up," says Dr. Edward Lawrence, a professor of finance at the University of Missouri who is conducting a survey of the world's student-run investment funds. (According to Lawrence, depending on daily fluctuations in portfolio valuation, the University of Minnesota's student-run fund could potentially tie the size of Ohio State's SIM fund.)

Structured like a class, SIM students become analysts for the portfolio and are each assigned to monitor a particular stock held by SIM. Groups of students that follow similar stock holdings team up to follow whole sectors. At the end of each academic quarter, students have to make a buy, sell or hold recommendation about their stock. That recommendation is then voted on by the entire SIM group.

Unlike many student-managed funds that require a rigorous application process, signing up for Ohio State's SIM program is relatively simple. Matt Falk, SIM's Graduate Associate explains: "There's obviously limited seating, but really it just comes down to registering for it like any other class. There is one basic finance prerequisite [a fundamental course in security markets and investments], but some undergrad students come into the class having no stock experience, while we may have graduate students that come in who are CFA [Chartered Financial Analyst] members." Falk adds that this knowledge gap is part of the reason SIM only trades once at the end of the quarter, when everyone in the group is up to speed on the investing game.

Only 4 Trading Times a Year?

While it may seem out of the ordinary that SIM only executes trades four times a year, it doesn't mean that the group doesn't change up their holdings very much. They do. In fact, SIM's turnover ratio is around 1, or a rate of 100%. The big reason behind their quarterly buy/sell and hold strategy is to get "green" students the knowledge they need to make well-informed decisions before SIM drops millions of dollars in their lap.

And unlike many student-run funds, SIM is "hired" by the school's endowment just like any other portfolio manager would be. "As a result we receive a management fee of 50 basis points that is used towards maintaining the SIM program, scholarships, quarterly student travel and for maintaining the Web site," says Falk.

The group essentially "bills" Ohio State every quarter based on the total SIM assets under management, by dividing 0.50 by 4 (for each quarter in the year) and multiplying by the portfolio's value. The amount they end up billing the school can vary based on the fund's daily performance when they close the portfolio. SIM's total fee last year was \$127,487.24.

Recession-Proofing SIM's Portfolio

As we enter 2008, recession whispers have been growing into shouts that have been heard by most investors already. You can bet that SIM has heard them too, and has been working on readying their portfolio for whatever comes their way.

"Over the past couple of quarters, we've been trying to find stocks that derive a large part of their revenue stream from outside of the U.S. to hedge our bets on any volatility here at home," says Falk. He adds, "Our [market] take would be one of caution, and that's reflected in our portfolio holdings."

The group took a small hit when the subprime situation broke big last summer, and was slightly underweight in financials by December. But instead of eschewing financials completely, SIM shot for financial stocks that were protected from subprime. According to Falk, "One of our holdings that we picked up after things broke was **iStar Financial** (SFI) . The pitch for that stock was that it was a *commercial* real estate lender as opposed to something that would be involved in subprime."

Unfortunately, this play didn't exactly work out as planned. SFI is down almost 30% since they bought it.

Ultimately, though, subprime woes and recession worries haven't done much to dampen the job SIM has done. For 2007, SIM was up an impressive 9.63% (net of fees vs. its benchmark, the S&P's 2007 gain of 5.49%). Here are a five of the top performers that helped the group lock in those gains:

1. **America Movil** (AMX)
2. **Hewlett-Packard** (HPQ)
3. **Teva Pharmaceutical** (TEVA)
4. **Berkshire Hathaway** (BRKA)
5. **Peabody Energy** (BTU)

So how does the group approach picking stocks? Discounted cash flows (or DCF). According to Falk, "Students perform a DCF analysis as part of their research, so in order to have picked up each of these securities the DCF analysis had to show that the stock was at least fairly valued if not relatively undervalued."

To learn more about DCF valuation, check out "Getting Started With Discounted Cash Flows."
Beyond Last Year's Gains

With a turbulent economy looming ahead, it will be interesting to see if Ohio State's Student Investment Management program can live up to their past successes. With around \$25 million on the line, the pressure is on.

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