

FUND TRACK

They Give It the Old College Try: Funds Let Students Invest Millions

By **DIYA GULLAPALLI**

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In past college jobs, Sean Naughton tended golf courses. Now he can add "money manager" to his business-school résumé.

Mr. Naughton, 33 years old, recently crisscrossed the country seeking suitable investments for Carlson School Growth Fund, a student-run stock fund at the University of Minnesota, where he recently graduated with a master's degree. He met with executives of Web-security company [Websense Inc.](#) in San Diego last fall and traveled this spring to Colorado Springs, Colo., to gather information about [Spectranetics Corp.](#), a maker of medical lasers used to clear arteries. He also met recently with executives from gym operator [Life Time Fitness Inc.](#), based nearby.



Steve Nedorf/Getty Images

Sean Naughton, recent Carlson School of Management graduate, at the school in Minneapolis.

"You'd be surprised how much access you can get to senior-level management just by sending an email or calling," he says.

Once an anomaly, student-run investment funds are taking off as a teaching tool everywhere from the University of Texas at Austin to Cornell University. As recently as the early 1990s, there were about 30 such funds but they now number more than 200, according to the Association of Student Managed Investment Programs at Stetson University in Florida, formed to coordinate efforts among funds such as these about five years ago.

The funds take many forms. This year, Villanova University, outside Philadelphia, plans to open two student-run funds. It already has two, including a small fund started two years ago that specializes in what it terms socially responsible investing -- such as avoiding companies that make military weaponry -- as part of the Catholic school's religious values.

A few funds are even popping up at schools in places such as China, Mexico and Israel.

Often, funds such as these manage a few million dollars of a school's endowment. Others are increasingly opening to alumni and other investors who want to bet their own money. While they usually operate like regular mutual funds -- issuing annual reports and quarterly letters -- there are important differences. Because the funds are so small and are intended primarily as an educational tool, schools typically restrict who can invest and how much money they can put in. Often, investors must prove that they are sufficiently wealthy before handing over money for student use.

Many of these funds outperform their benchmark indexes, but not all do.

Carlson School Growth Fund, where Mr. Naughton worked until he graduated this year, returned 37.5% in the year through March, compared with 27.8% for the Russell 2000 growth-stock index. And the University of Houston's Cougar Fund, with \$5 million under management, has returned 8.8% annually since starting in 2002, compared with the average 5.6% returns of the Standard & Poor's 500-stock index in that period.

Of course, some have less-than-sizzling returns. Student stock portfolios at Ohio State University and the University of Connecticut recently trailed the S&P 500 by one to two percentage points. Same for a bond fund at Minnesota's Carlson School of Management compared with its benchmark.

Funds such as these face tough operating obstacles: Not only must managers squeeze in their duties between classes, but the funds also experience heavy turnover. After all, students are constantly graduating and looking for real jobs.

Summers and holidays are also tricky. For instance, the UConn student funds are liquidated during the summer; the money is parked in a basic index-tracking exchange-traded fund until school resumes.

One of the first student-managed funds was created at Gannon University, in Erie, Pa., during the 1950s. Some funds received attention when they began; the head of the fund at Ohio State University appeared on the "Today" show in 1990.

In recent years, a new trend has emerged. Mirroring the broader market, which has demonstrated an increased appetite for risk, many student funds have moved into more exotic investments. The \$11 million Cayuga MBA Fund at Cornell University in Ithaca, N. Y., formerly a stock-index fund, was transformed into a hedge fund -- a more lightly regulated type of investment vehicle -- back in 2002.

Many of the funds charge fees of 0.5% to 1.5% to pay for lawyers, accountants and other basic expenses, compared with a 1.25% expense ratio for the average distinct stock mutual fund. Managers are mostly M.B.A. students, although some are undergraduates. At the University of Houston, recent student managers have had prior jobs as diverse as air-quality consultant, Arabic instructor and polymer manufacturing manager.

The funds might seem small, but about one in 10 of the 6,700-odd distinct mutual funds tracked by researcher Morningstar Inc. have less than \$15 million in assets. And only about a quarter of those returned more than 10% over the three years annually through May.

Typically at student-run funds, the fund staff conducts stock-picking research and then runs its selections by an advisory board comprising local business people. Mr. Naughton, who is about to start working as a senior financial analyst at Target Corp. in Minneapolis, says he spent about seven hours a week researching stocks. Some of his picks, such as Life Time Fitness, ultimately made it into a student portfolio.

One executive at a company he visited, Spectranetics, the maker of artery-clearing lasers, remembers spending hours talking to Mr. Naughton and another student. "These guys flew in from Minnesota overnight" and really "did their homework," says Larry Martel, Spectranetics's vice president of operations. Mr. Naughton recommended that his fund invest in Spectranetics, but the fund ultimately decided not to.

Some student funds have generated real money for their schools. The \$20 million fund at Ohio State created almost \$400,000 in dividend income for the \$2 billion endowment last year.

Other schools remain hesitant to let them get much bigger. Kevin Edwards, assistant vice president of treasury services at the University of Connecticut Foundation, who helps coordinate the school's \$2 million Student-Managed Funds, says donors to the school might not "be comfortable knowing that a large percentage of their money is managed by students."

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