Special thanks to the Forty-Niner Shops, Inc. for printing the SMIF Annual Report 2008-2009.
May, 2009

To Readers of the SMIF 2008-2009 Annual Report:

The 2008-2009 academic year marked the completion of the fourteenth year for the Student Managed Investment Fund (SMIF) at California State University, Long Beach (CSULB). As has frequently been the case, this academic year provided SMIF students with both challenges and opportunities. We are certain that the unique learning experiences provided by an environment that proved very difficult to navigate will serve this year’s SMIF students with the ability to draw upon their creative thinking capabilities in the years ahead.

During the Summer of 2008, “boot camp” sessions were again used to determine the work ethic and skill levels of the applicants seeking positions in the 2008-2009 SMIF Program and to introduce them to the 2007-2008 SMIF participants managing the transition of the CFA Society of Orange County Foundation’s (CFAOCF) then-partially invested portfolio. For the fifth consecutive year, the 2007-2008 SMIF participants had secured the right to manage the CFAOCF $100,000 portfolio for calendar year 2008 by submitting the winning response in the CFAOCF’s annual Request-For-Proposal (RFP) competition. While the CFAOCF portfolio was ongoing, however, the $100,000 SMIF portfolio was liquidated and returned to cash at the end of the Spring 2008 term, affording the new incoming class the opportunity to determine for themselves the style and manner in which this portfolio will be managed.

The Fall 2008 semester introduced the new SMIF class to the most tumultuous market environment witnessed since the Great Depression. Stock market volatility skyrocketed with the VIX reaching into the 80s! There were no safe haven investments to be found, either domestically or internationally, but the SMIF students rose to the occasion by adopting an ultra-conservative perspective, moving to the adoption of an all cash-equivalent portfolio and, as a result, significantly outperforming virtually every benchmark! The Spring semester proved to be no less daunting. Equity market metrics continued to hit new lower-lows before embarking upon a rally that has now lasted several weeks.

Undeterred by trying market conditions, the 2008-2009 SMIF participants again submitted the winning response in the CFAOCF’s 2008 annual RFP competition, securing the right to continue managing, for a sixth consecutive year, its $100,000 portfolio for 2009 and defeating teams from both California State University, Fullerton (CSUF) and University of California, Irvine (UCI) in the process. However, while continuing to actively search for those few investment “ruggers” that would allow them not merely to beat their benchmark but to actually make profits in the challenging environment they faced, the SMIF students also sought to expand the scope of the SMIF Program itself by seeking additional portfolios to manage. They achieved unprecedented success in this endeavor as well, securing the management of a portion of the CSULB Forty-Niner Shops portfolio and a portion of the portfolio of the CSULB Associated Students, Inc., thus significantly expanding the scope of learning experiences for future SMIF classes.

The writing of the annual report that you are about to read presented the SMIF students an opportunity to revisit an academic year of investment markets they hope never to see repeated, but it provided them with a unique educational experience that they conquered with flying colors. And, as a result, the 2008-2009 SMIF students are well-prepared to meet the multitude of challenges they can expect to experience as they embark upon their chosen careers.

Congratulations and best wishes to the 2008-2009 SMIF graduates!

Dr. L. R. Runyon
Director, SMIF

Peter A. Ammermann, Ph.D.
Co-Director, SMIF
May 19, 2009

To the Readers of the CSULB SMIF Annual Report:

The CFA Society of Orange County Foundation ("CFAOCF"), was founded in 2003 by the CFA Society of Orange County to fulfill an important mission to foster, promote and encourage the development of professionalism by the Orange County investment community; and to heighten public awareness of this professionalism by:

1) Supervision of a select group of students of financial investments in the management of all or a portion of the investment portfolio of the corporation; and
2) Providing educational scholarships for the study of financial investment practice at colleges and universities located in and around Orange County, California.

To fulfill our mission, we host a student-managed fund competition that is unique from other such projects around the country. Each year, a group of students from the local universities draft a response to the foundation’s Request for Proposal ("RFP") and make a presentation to the Foundation board on how they propose to manage the Foundation’s funds and why they are the most qualified team to do so, an experience unique to our project. The winning team is awarded the honor of managing $100,000 of the Foundation’s assets. We congratulate the SMIF students of CSULB who have had the winning team of this portfolio management competition for five years running.

The Foundation is also extremely happy with how the CSULB students managed the portfolio. They have provided us with excellent analysis on the global economy and the CSULB team was early to recognize the problems in the global economy. We were also very happy with the risk controls measures the team put in place. Despite a rough year for almost all asset classes, the SMIF/CFAOCF Portfolio turned in stellar performance. They beat all relevant benchmarks, losing less than 1.5%.

We are also happy to announce that CSULB’s SMIF team has extended their winning streak to six years. They recently beat out teams from California State University, Fullerton and University of California, Irvine for the right manage the Foundation’s funds for 2009. So, to the SMIF students, congratulations on your successes over the past five years, thank you very much for your participation in the activities of the CFA Society of Orange County Foundation, and we wish you all the best of luck in the future!

Congratulations!

Benjamin C. Lau, CFA
President and Chairman
CONTENTS

Executive Summary ........................................................................................................................................... 2

Macroeconomic and Monetary Environment ................................................................................................. 3

Introduction....................................................................................................................................................... 3

GDP ................................................................................................................................................................. 4

Inflation ............................................................................................................................................................. 5

Energy ............................................................................................................................................................... 6

Unemployment ................................................................................................................................................. 6

Housing ............................................................................................................................................................ 7

International Environment ............................................................................................................................... 9

Capital Markets Outlook .................................................................................................................................. 11

Fixed-Income Outlook .................................................................................................................................... 11

Equity Outlook .................................................................................................................................................. 12

Asset Allocation ............................................................................................................................................... 13

Sector and Industry Analysis ........................................................................................................................... 14

Analysis of Market Outperform Sectors .......................................................................................................... 15

Analysis of Market Underperform Sectors ...................................................................................................... 17

Summary of Sector and Industry Analysis ........................................................................................................ 17

Triggers ............................................................................................................................................................. 18

Housing Market ................................................................................................................................................. 18

S&P 500 Volatility Index (VIX) .......................................................................................................................... 20

Credit Spreads .................................................................................................................................................. 20

Fixed-Income Analysis ..................................................................................................................................... 21

Wal-Mart Stores (WMT 6.785 08/10/2009) ..................................................................................................... 21

General Electric Capital Corporation (GE 4.625 09/15/2009) ........................................................................ 22
# CONTENTS

- Equity Analysis.............................................................................................................. 23
- Introduction.................................................................................................................. 23
- Apple Inc. (AAPL) ........................................................................................................ 24
- Burlington Northern Santa Fe Corporation (BNI) ....................................................... 26
- Cal-Maine Foods, Inc. (CALM) .................................................................................. 28
- Johnson & Johnson (JNJ) .......................................................................................... 30
- Apollo Group, Inc. (APOL) ........................................................................................ 32
- Express Scripts, Inc. (ESRX) ...................................................................................... 34
- Fund Performance ........................................................................................................ 36
- Fund Expansion and Outreach ..................................................................................... 37
  - Introduction to New Clients ....................................................................................... 37
  - Marketing Initiatives .................................................................................................. 39
- Learning Experiences .................................................................................................. 42
  - CFAOCF RFP Portfolio Competition ........................................................................ 44
- Special Project Teams .................................................................................................. 45
- Acknowledgments ......................................................................................................... 46
- Student Biographies ..................................................................................................... 50
- CSULB Student Managed Investment Fund 2008-2009 ............................................. 54
- SMIF Guidelines .......................................................................................................... 55
We dedicate this annual report to our friends and family who have patiently supported us, the professors and industry professionals who have patiently guided us and especially our Program Directors, Dr. L. R. Runyon and Dr. Peter. A. Ammermann, who saw the potential in us and took the opportunity to prepare us for the challenging world of financial investments.

“First control your risks, the returns will take care of themselves.”

- Benjamin Graham
Executive Summary

The Student Managed Investment Fund (SMIF) at California State University, Long Beach is an honors-level program requiring a two-semester commitment from the participants. The course is designed to offer invaluable portfolio management experience to future investment professionals in a real-money environment, with a focus on meeting the needs of the client. The program provides real-world perspective that cannot be duplicated with simulated portfolios. SMIF grants students the opportunity to manage a $100,000 portfolio for a full academic year. The portfolio has been funded by the Foundation Account of the College of Business Administration’s (CBA) Department of Finance for the past fourteen years.

Near the end of 2008, the CFA® Society of Orange County Foundation (CFAOCF) issued its sixth annual Request for Proposal (RFP) to qualified student investment programs in and around Orange County. The CSULB SMIF team relished the opportunity to compete for the privilege of managing a portfolio for the Foundation. On December 12, 2008, at the Argyros School of Business and Economics of Chapman University, the SMIF team submitted its response to the RFP and conducted a successful presentation before the CFAOCF panel. For the sixth consecutive year SMIF won the first place in the competition, thereby earning the right to manage the Foundation’s $100,000 portfolio in 2009.

As future investment professionals, the program’s participants benefitted from several excellent opportunities to interact with industry stakeholders. The CFAOCF’s ongoing support of the SMIF program included several excellent Host-A-Student functions over the 2008-09 academic year. Several firms were visited, including Leisure Capital Management, West Oak Capital, Wilmington Trust, Wealth Management Network, Knightsbridge Asset Management, Keller Group, Modiri Asset Management, Fabian Wealth Management, and Iwamoto Kong and Co. A sincere debt of gratitude is owed to these firms and to the CFAOCF for their generous support of CSULB SMIF. SMIF participants also attended several CFALA gatherings, including a forecasting dinner and a career fair. Perhaps the most valuable networking opportunities occurred at the Redefining Investment Strategy Education (RISE) Forum held at the University of Dayton (Dayton, OH). This year SMIF sent ten participants to RISE, an opportunity made possible by the generous support of the Instructional Related Activities (IRA) Board.

The SMIF program holds formal weekly meetings to execute the business of managing its portfolios. The sixteen participants are divided into teams of four, each tasked with presenting original, thorough analysis on predetermined topics. A rotating class leadership schedule ensures that each student takes on the responsibility of delegating duties, setting an agenda, and conducting a class meeting at least once per semester. The participants’ time devotion to SMIF is considerable. Each student-manager typically spends at least twenty hours per week outside of the classroom commitment.

SMIF applies its knowledge from prerequisite classes to evaluate the economy, forecast the capital markets, analyze securities, and manage the assets of the fund. A strong macroeconomic forecast, an understanding of the capital markets, and an aggressively conservative asset allocation helped the SMIF team successfully outperform the broader market, avoiding many of the rapid declines as the economy turned sour. The decisions made were neither preemptive nor serendipitous, but a product of evolution as we matured and learned to apply and adapt our classroom knowledge to real-world conditions.

As a reflection on the strong performance of the Fund under the most chaotic of conditions, the SMIF team secured two new portfolios for management from the Forty-Niner Shops Inc. and the Associated Students Inc. We are honored to have played a part in this momentous occasion for the SMIF program and we proudly present to you our annual report, which chronicles our learning process throughout the academic year of 2008 and 2009.
MACROECONOMIC AND MONETARY ENVIRONMENT

INTRODUCTION

The Student Managed Investment Fund (SMIF), a group of sixteen individuals with wide-ranging opinions about the economy and its direction, was organized in teams of four. Each team discussed its ideas, debated, and ultimately collaborated to provide this forecast for the second half of 2008 and all of 2009. SMIF is well aware that economic forecasting is not an exact science. All projections were the subject of constant scrutiny and ongoing revision. However, the class consensus was consistent with those of professional economists and industry analysts. Further, we sought to provide the logical underpinnings necessary to add credence to these forecasts.

SMIF ultimately arrived at a consistent methodology for deriving the forecasts that will follow. Each team analyzed the economy based on various data sources, including Bloomberg’s Economic Forecast Survey as of October 10, 2008, the Federal Reserve’s Survey of Professional Forecasters August 2008 Survey, and private forecasting services, such as BMO Capital Markets and Global Insight.

Having acknowledged the difficulties facing the US and global economies, the class filtered the outliers, focusing on forecasts that were most consistent with our assessment of the economy. The goal was to filter out analysts who were inconsistent with the data that the class had collected and collated, not to “cherry-pick” sources.

Specifically, we focused on what we believed were two indicators of statistical consistency. Our principal indicator of projected accuracy was the analysts’ predictions of economic activity in the fourth quarter of 2008. Our original forecast, consistent with the composite of our sources, was that the recession would run through the end of 2008 before any signs of prolonged recovery could be expected. Having targeted the fourth quarter of 2008 as the bottom of the business cycle, we eliminated any analysts whose forecast departed substantively from that idea. We pared down the remaining forecasts to roughly twenty that were the most statistically consistent by removing those with more extreme predictions further down the timeline. From the remaining twenty, we then chose six provided by the most respected economic forecasting and investment banking firms.

The six firms that we chose to rely on for our economic analyses were Credit Suisse, Goldman Sachs, Moody’s, Royal Bank of Scotland, Wells Fargo, and Global Insight. Other firms were eliminated in the interest of reducing the number of institutional forecasts that we would analyze to a more manageable quantity. Mean forecasts were used to establish a baseline consensus and were adjusted by SMIF as new information became available.

In September 2008 SMIF came to a general consensus that the US economy was in the middle stages of a recession. Although the class forecasts acknowledged that we had not seen two full quarters of real GDP contraction at that time, we did anticipate the forthcoming economic contraction. The imminent contraction seemed like an inevitable outcome given the indicators at that time, but SMIF felt such a contraction would be symbolic of the trough in the business cycle.

SMIF chose to focus on the six indicators we felt were most directly correlated to market conditions at the time of our initial forecasts. These included Real GDP, Inflation, Energy and Materials, Unemployment, Housing Factors, and the International Economic Environment. These proved to be prescient indicators, which aided us in avoiding the market downturns that would come to pass throughout our tenure.
As the primary indicator of the economy’s current position on the business cycle, Real GDP was treated as the focus of our macroeconomic analysis. The five additional factors were analyzed primarily with an eye toward their impact on GDP, the capital markets, and the aggregate economy.

Our GDP forecasts predicted a protracted bottoming of the business cycle occurring through the end of 2008 and early 2009. This reflected our evaluation of the following factors: sharp increases in the unemployment rate, falling consumer confidence and spending, the steady decline in industrial production, a strengthening dollar leading to declining net exports, and most notably the turbulence in the credit markets.

SMIF expected a turnaround early in 2009 to be spurred by such factors as lower commodity prices and especially energy prices, a stabilization in housing prices, declining home foreclosure rates, and the Federal Reserve’s willingness to loosen monetary policy in response to the credit crunch. As we predicted, the Federal Reserve acted to address these issues by rapidly lowering the Federal Funds Target Rate to historic lows of essentially zero percent.

At the time of our initial forecasts, the entire economy appeared to be holding its breath in anticipation of further developments in the financial sector, where changes were occurring at a breakneck pace. No one was certain of the impact the housing bubble would have on capital markets and the aggregate economy. SMIF felt that the economic recovery would not pick up any sustainable momentum until the effects of the credit crisis were substantially resolved and were proven right by the unstable capital market environment that accompanied the international deleveraging process. Having initially anticipated a slow but painful resolution of this crisis in the credit markets, we were proven wrong by the shocking and unprecedented changes experienced in late 2008. However, SMIF was hopeful that the speed at which the problems in the credit markets were exposed would bring about an equally rapid recovery.

SMIF concluded that the credit turmoil was the primary hurdle to economic recovery. The turmoil also represented the greatest challenge to the effective performance of our duties as portfolio managers. We were initially hopeful that the global efforts to address these issues would be successful in avoiding the threat of a deeper depression-like recession. However, the recession proved to be much deeper than we initially anticipated.
INFLATION

The class settled upon the Consumer Price Index as the metric of choice for measuring inflation. The effects of rapidly declining energy and commodity prices were expected to have a dampening effect on inflation over our time horizon since CPI is influenced heavily by the costs of food and energy or oil-intensive products. We were, however, unable to predict the dramatic decline in oil and commodity prices leading to deflationary pressures.

Our CPI predictions reflected the forecasts of the same six firms that were discussed in our analysis of GDP. In the interest of consistency, we based our projections on the mean forecast of these institutions.

SMIF’s analysis of inflationary trends relied heavily on predictions of money supply, and the class closely monitored developments in US monetary policy throughout our tenure. We noted that UBS and Global Insight predicted an additional cut in the Federal Funds Rate to 1 percent near the end of 2008, and by the time this came to pass, it was clear that it would not be the final cut on the horizon. SMIF also recognized that such changes in the monetary policy must be considered in conjunction with the massive “bailout” initiatives proposed by Congress. The long-term effects of debt issuance to pay for such plans remain to be seen.

SMIF understood that expansionary monetary policy increases inflationary pressure and noted that, historically, recessionary periods are marked by rapid currency deflation from unusually high levels of inflation (for example, the unprecedented decline in energy and food prices late in the summer of 2008). Further, it takes time for changes in the money supply to be felt in the form of inflationary pressure.

SMIF anticipated that a return to more conservative lending practices, excessive issuance of Federal debt, and the rapid decline in energy prices from almost $150 per barrel in the middle of July 2008 to less than $80 per barrel on October 10, 2008, represented a much greater impact on inflation in the near term. Our forecast accounted for the Federal Reserve’s changes, expecting the sharp decline in inflation to taper off in the first quarter of 2009. However, SMIF expected that prolonged high unemployment would maintain the deflationary pressure, continuing to depress the inflation rate well into 2009.
ENERGY

Projections of oil prices for late 2008 and 2009 were the least accurate of our forecasts. SMIF felt that credit market resolution notwithstanding, falling oil and commodity prices would be the primary supply-side driver for GDP recovery in early 2009. The third quarter of 2008 was marked by unprecedented volatility in the energy markets as crude experienced both the largest single-day gain and one of the largest quarterly losses in history. We found it surprising to note that the energy market, historically susceptible to geopolitical events, was essentially in freefall in the third quarter of 2008, despite the effects of hurricane season in the United States, the Russian standoff with Georgia, and Iran’s sustained defiance of international pressures over its nuclear program.

SMIF, like many analysts, believed the declines in oil prices were unsustainable. We had unjustified faith that OPEC would act to stabilize prices in the $90 to $100 per barrel range. Many analysts suggest that this range is optimal for OPEC to achieve its goals of keeping oil affordable enough to discourage significant investment in alternative energy while not placing undue burden on member-states who rely on oil revenue to retain political power.

Seasonal and cyclic factors were considered. Increased demand for heating oil as winter approached should have acted as an important price support while OPEC scrambled to react to price developments. However, contrary to historical trends, we did not expect to see a return to high prices in the summer months as the effects of sustained high unemployment and economic slowdown would place a drag on demand outweighing the seasonal demand for gasoline.

UNEMPLOYMENT

Our unemployment forecasts also relied heavily on the outlook provided by our six-firm-consensus. Unemployment is one of the key indicators of our position in the business cycle. As such, we were alarmed at the unexpected meteoric rise in unemployment through early 2009. SMIF felt that the increase could be explained, in part, by workers returning to the labor force due to declining household income and dwindling personal savings (as impacted by the capital market environment).
We recognized that the most important determinant of unemployment rates was the aggregate slowdown in economic activity. As such, SMIF expected unemployment would rise steeply in 2009 as the business world reacted to deteriorating conditions. We were ultimately too conservative in our projections of unemployment, which has since spiked above our forecasts.

Most analysts peg benchmark “full employment” to a 5 percent unemployment rate. We expected persistently high unemployment to weaken consumer discretionary spending, which was manifested in unprecedented low consumer confidence indicators through the first quarter of 2009.

We also noted that the timing of the unemployment spike would be politically treacherous. As we approached the 2008 Presidential Election, the gap between the outgoing president and the incoming administration rendered government intervention highly unlikely before the middle of 2009, which has also proven accurate.

**HOUSING**

Housing is the perhaps the single factor in which the current recession is most firmly rooted. Analysis of the housing market and its impact on the broader economy led to some disagreement over which metrics were most important. We noted the credit crisis and resultant fallout in the financial sector was of paramount importance in gauging current and future strength of the capital markets. However, with regard to housing, we felt compelled to restrict our discussion to the aspects of the housing market that are indicative of GDP growth and reflective of economic conditions. Therefore, we chose to focus on new housing starts and residential construction as metrics, which we believe have multiplicative effects on GDP.

It is important to note that the Bloomberg Economic Forecast Survey data, upon which we based many of our projections, does not provide detailed forecasts of housing data beyond the current month. Instead, SMIF was forced to depend on the inherently less reliable National Association of Realtors’ US Economic Forecast, updated in October 2008. We approached these estimates with the requisite caution due when considering industry forecasts provided by industry insiders. However, given this caveat, the estimates were the best available to us. The analysis indicated continued deterioration of housing expenditures tapering off in the middle of 2009 with spending projected to increase in late 2009.

The importance of housing to economic growth is not to be underestimated. The Real Estate Round Table estimated in its 2008 National Policy Agenda that housing expenditures typically account for roughly 15 percent of GDP. It further calculated that each dollar spent on new housing construction creates a multiplicative effect, resulting in $3.42 being added to GDP. The most conservative evaluation of these figures shed no doubt on the critical importance of this sector to economic growth. The tightening of credit standards and real estate market correction continued to significantly curtail construction spending through the first quarter of 2009.
Our projections for housing-related expenditures were as follows:

* Dollar values measured in billions

<table>
<thead>
<tr>
<th></th>
<th>Q1 08</th>
<th>Q2 08</th>
<th>Q3 08</th>
<th>Q4 08</th>
<th>Q1 09</th>
<th>Q2 09</th>
<th>Q3 09</th>
<th>Q4 09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forecast</strong></td>
<td>$367</td>
<td>$355</td>
<td>$346</td>
<td>$338</td>
<td>$333</td>
<td>$334</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Actual</strong></td>
<td>$383</td>
<td>$370</td>
<td>$354</td>
<td>$332</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Units measured in thousands

SMIF believed a rapid turnaround in the housing market was unlikely, given the enduring effects of government intervention epitomized by the takeovers of FNMA and FDMC. Instead, SMIF foresaw that the housing market would remain a drag on economic growth through the end of 2009, possibly mitigating near the end of the year.
INTERNATIONAL ENVIRONMENT

SMIF’s macroeconomic analysis included an attempt to understand the US position in the global economic environment. Our quantitative analysis of the domestic economy relative to the global economy focused on two metrics. First, we considered the strength of the dollar relative to key foreign currencies, as measured by the US Dollar Index (Ticker Symbol: DXY). Second, we considered the direct impact on GDP through analysis of net exports (indicated by the trade balance).

The speculative nature of foreign exchange markets made long-term predictions of the Dollar Index difficult. This is reflected in a general lack of professional forecasts for the dollar’s future relative strength. The Dollar Index attempts to quantify the dollar’s value relative to a basket of relevant world currencies. Analysis of the components of the Dollar Index indicated that it is weighted heavily toward European currencies, which account for nearly 75 percent of the benchmark, while the Japanese Yen and the Canadian Dollar were given lesser weight. We acknowledge that this instrument may not provide perfect allocation for gauging the relative strength of the dollar, but we felt that it was an adequate measure for our purposes.

SMIF’s predictions for exchange rates were based on relative strength of the dollar to the Euro and the Dollar Index in light of economic and inflationary trends in the United States and the global economy (focusing primarily on Europe).

SMIF forecast a continuation of the dollar’s strengthening trend as the European economy experienced the same recessionary cycle that had accounted for weakness in the dollar. Our consensus was that the economies of other industrialized nations, including those of Europe, lagged behind the US economy in the global recession. We felt that the domestic economy led the way into the global downturn, and would precede the rest of the globe in recovery as well.

Applying these assumptions, should the US economy bottom near the end of 2008, the European economy would be expected to follow suit nearer the middle of 2009. This led to our forecast of a rising dollar until the European economy stabilized and the Dollar Index showed signs of correction in the second half of 2009.

As an indicator of the relative strength of the economy, exchange rates were most useful when considering their impact on the trade balance. Net exports are one of the key contributors to GDP. It became obvious to SMIF that the most important support to US GDP growth figures in the first half of 2008 was stronger-than-usual net exports, reflected in the shrinking trade balance.
Our trade balance predictions were based heavily on the Global Insight Economic Forecast as of August 2008. Our estimates were as follows:

The dollar’s weakness in early 2008 contributed significantly to the improvement in net exports, but SMIF expected a stronger dollar to reverse the trend toward a widening trade gap. This added further downward pressure on forecasted GDP heading toward the trough we projected for the end of 2008. SMIF believed a return to shrinking trade deficits would be an indicator of the early stages of recovery in the US economy. We expected net exports to increase, assuming the relative strength of the US economy would do likewise in the first half of 2009. We projected the European economy would stabilize and begin its own recovery during the second half of 2009, which would bring a return to rising US trade deficits.
SMIF considered potential future treasury rates and credit spread movements while developing an outlook for the portfolio’s fixed-income allocation. When the analysis was performed, SMIF anticipated a slight decline in treasury yields through the fourth quarter of 2008, followed by an increase in early 2009 in anticipation of economic recovery. In hindsight, although SMIF correctly anticipated the direction of these rates, the magnitude was much more severe than anticipated, as the economy weakened significantly. As of April 2009, SMIF foresees treasury yields will remain depressed for the immediate future, given the weak economic environment and accommodative monetary policy. However, given the recent unprecedented levels of government intervention in markets, proposed bailout plans, and rapid expansion of the money supply, we foresee the potential for accelerating inflation by the latter half of 2009.

SMIF expected credit spreads to remain at historically high levels as the economy continued to deteriorate. Our credit spread outlook incorporated forecasts from the six-firm-consensus, including the exhaustive analysis of Global Insight. Our sources universally anticipated a weak domestic and global economy for much of 2009. These forecasts contributed to a vicious cycle as higher borrowing costs depressed corporate profits in a steadily worsening economic climate. During recessionary periods, default rates historically exceed 10 percent, a level that was expected to place significant pressure on prevailing wide credit spreads. Through the end of 2009, SMIF anticipates the narrowing of spreads as the economy begins to recover.

Given this outlook, SMIF sought securities maturing during our holding period in order to eliminate any exposure to interest rate risk. This approach also served to reduce transaction fees. SMIF chose to focus on the most creditworthy investment-grade issues, given the numerous ratings downgrades to junk status among bonds at the lower end of the investment-grade spectrum. The ongoing screening process, applied to Smith Barney bond inventories, highlighted the occasionally promising bond, upon which multiple return scenarios were conducted. Ultimately, none of the bonds analyzed would be selected for inclusion in the portfolio. In light of the limited opportunities found in the corporate bond market, SMIF allocated its fixed-income assets to the highest yielding money market mutual funds and Certificates of Deposit maturing during our holding period.
SMIF hypothesized that a recovery in the equity markets would be contingent on the perception of a turnaround in the housing market and stabilization of the financial sector. Unfortunately, SMIF never perceived any clear indicators that either of these events was likely during our stewardship. However, our six-firm-consensus forecasts anticipated moderate GDP growth in the second half of 2009. Based upon historical assumptions that equity markets are a leading indicator of the economy, these forecasts suggested a potential rebound in the stock markets during the first half of 2009.

The professional forecasting services anticipated an average annual return of approximately 15 percent from the S&P 500 Index for 2009. This exceeded the historical mean of 11 percent. SMIF acknowledges that predicting equity returns is inherently an inaccurate endeavor at best.

The predicted returns for 2009 are especially unreliable given the persistent, unprecedented volatility in the equities markets. Analysis of implied volatility for S&P 500 December 2009 option contracts suggested a variability of 40 percent, double the historical mean of approximately 20 percent. Projecting this level of volatility forward for 2009, assuming normally distributed returns, a 95 percent confidence level suggested that the year’s expected return could range from a 95 percent gain to a 65 percent loss. Although the prospect of a 95 percent gain was tantalizing, the possibility of a 65 percent loss would severely limit the portfolio’s future. SMIF reduced its reliance on point forecasts of market returns, given the extreme volatility and resultant uncertainty in such predictions. Instead, SMIF chose to focus on indicators or triggers with the potential to signal a tidal shift back into bullish territory. Ultimately, SMIF foresaw an unfavorable outlook for the equity markets for the second half of 2008 and the first half of 2009.
**ASSET ALLOCATION**

Asset allocation is perhaps the most important element of investment strategy. SMIF uses a conservative asset allocation to balance risk and return by apportioning the portfolio’s assets according to goals, risk tolerance, and investment horizon. The initial objective was to maintain sufficient exposure to the market while tempering portfolio risk through less volatile fixed-income instruments. However, as the economic and market environments continued to deteriorate, increased risk aversion shifted the SMIF focus toward capital preservation. As 2008 came to a close, our goals had evolved from outperforming the market benchmarks to meeting an absolute performance standard through preservation of capital during the period of unprecedented volatility. Following this new strategy, SMIF was able to limit its exposure to the most severe effects of the equity market downturn by utilizing an especially conservative asset allocation strategy.

**Initial Allocation**

Since the SMIF portfolio is liquidated each year, the time horizon for investment is quite short. To determine the optimal allocation of assets, the SMIF team researched and presented a variety of allocation models to maximize portfolio risk-adjusted returns. The SMIF team decided upon an allocation based on a composite of economic and monetary environment forecasts, major issues pertaining to the depth of the recession, the housing market, and government interventions.

**Current Allocation**

SMIF determined the target asset allocation using a top-down approach. Utilizing Markowitz Portfolio Optimization, SMIF determined the asset allocation that would provide the highest risk-adjusted returns. Using this model, SMIF analyzed various scenarios to forecast the outcomes of several different asset allocations. As market conditions worsened, SMIF was forced to reevaluate our asset allocation in order to reduce the portfolio’s risk exposure. The decline in the equity market and the concurrent rise in market volatility were too rapid for the team’s risk tolerance. SMIF was especially attentive to volatility as measured by the VIX Index’s 30-day moving average. This analysis led SMIF to avoid investment in the equities market until the VIX fell closer to its historic level below 30. Since this never occurred, we aggressively shifted our target allocations for both the SMIF and CFAOCF portfolios toward fixed income which would represent 100 percent of each portfolio.

In November, the fund purchased brokered Certificates of Deposit to occupy 35 percent of the SMIF portfolio. The remainder is allocated to money market mutual funds. The CFAOCF’s fixed-income allocation comprises 100 percent high-yielding money market mutual funds. This conservative allocation evolved in direct response to the abnormally volatile equity market environment of late 2008 and early 2009. Asset allocation, under constant review, would be adjusted whenever market conditions warranted. In hindsight, the 100 percent fixed-income allocation provided the maximum absolute return to our portfolios throughout these challenging conditions.
SECTOR AND INDUSTRY ANALYSIS

In segmenting the market for analysis, SMIF adopted the Global Industry Classification Standard (GICS), developed by Morgan Stanley Capital International. This standard is widely used, most notably by Standard & Poor’s to classify industry definitions. This globally acknowledged standard divides the market into 10 sectors, 24 industry groups, 68 industries, and 154 subindustries.

SMIF began its market segmentation analysis in September 2008, when capital markets were just beginning to show the extreme weakness prevalent during our tenure. The class approached its work from two different angles: some groups based their predictions on top-down analyses of the macroeconomic environment, while others considered earnings projections and point forecasts in a bottom-up approach. After much discussion and debate, the SMIF team arrived at a consensus of sectors and industries that we expected to outperform, while identifying the sectors which should be avoided during our holding period.

SMIF Sector Performance Projections for Academic Year 2008-2009

<table>
<thead>
<tr>
<th>MARKET OUTPERFORM SECTORS</th>
<th>MARKET UNDERPERFORM SECTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSUMER STAPLES</td>
<td>FINANCIALS</td>
</tr>
<tr>
<td>HEALTHCARE</td>
<td>CONSUMER DISCRETIONARY</td>
</tr>
<tr>
<td>INFORMATION TECHNOLOGY</td>
<td>ENERGY</td>
</tr>
<tr>
<td>TELECOMMUNICATIONS</td>
<td>MATERIALS</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Sector</th>
<th>Sector Ranking</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>1 of 10</td>
<td>-14.42%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>2 of 10</td>
<td>-18.01%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>3 of 10</td>
<td>-21.05%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>4 of 10</td>
<td>-23.10%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>5 of 10</td>
<td>-23.44%</td>
</tr>
<tr>
<td>Utilities</td>
<td>6 of 10</td>
<td>-27.04%</td>
</tr>
<tr>
<td>Materials</td>
<td>7 of 10</td>
<td>-31.35%</td>
</tr>
<tr>
<td>Energy</td>
<td>8 of 10</td>
<td>-32.19%</td>
</tr>
<tr>
<td>Industrials</td>
<td>9 of 10</td>
<td>-32.93%</td>
</tr>
<tr>
<td>Financials</td>
<td>10 of 10</td>
<td>-46.78%</td>
</tr>
<tr>
<td>Total S&amp;P 500 Return</td>
<td>-28.36%</td>
<td></td>
</tr>
</tbody>
</table>
ANALYSIS OF MARKET OUTPERFORM SECTORS

CONSUMER STAPLES

SECTOR PERFORMANCE (SEPTEMBER 25, 2008, TO APRIL 24, 2009)

<table>
<thead>
<tr>
<th>Sector Rank</th>
<th>Sector Performance</th>
<th>S&amp;P 500 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 of 10</td>
<td>-23.10%</td>
<td>-28.36%</td>
</tr>
</tbody>
</table>

The Consumer Staples sector consists of manufacturers and distributors of food, beverages, tobacco, nondurable household goods, and personal products. It also includes consumer super-centers and food and drug retailing companies. Since these industries tend to be less sensitive to economic cycles, SMIF targeted this sector as appropriate for the recessionary environment identified by our macroeconomic analysis. This sector is traditionally one of the most defensive, since its products exhibit inelastic demand compared to those in discretionary industries.

Although bottom-up analysis suggested that this sector might underperform the market, there was a consensus among the teams that given the market environment, this would be one of the best options for allocation over SMIF’s holding period.

Key industry groups that were identified by SMIF as outperformers included personal products, food products, and food retailing.

HEALTHCARE

SECTOR PERFORMANCE (SEPTEMBER 25, 2008, TO APRIL 24, 2009)

<table>
<thead>
<tr>
<th>Sector Rank</th>
<th>Sector Performance</th>
<th>S&amp;P 500 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 of 10</td>
<td>-23.44%</td>
<td>-28.36%</td>
</tr>
</tbody>
</table>

The Healthcare sector consists of two segments: the first represents providers of healthcare services, healthcare facilities, and manufacturers and distributors of healthcare equipment and products; the second segment consists of companies that research, develop, produce, and market pharmaceutical and biotechnology products. This sector was anticipated to outperform the market for several important reasons. First, the demographic shift in the United States caused by the baby boomers is undeniable. The healthcare sector experiences improving demand and revenue growth as the US population ages. Second, as the political environment became receptive to a more liberal administration, the focus seemed likely to shift towards improving the nation’s healthcare system, presenting opportunities for companies in this sector to take advantage of government support. Finally, Healthcare enjoys perhaps the most inelastic demand of all the sectors, and would represent a defensive position for the equity portfolio.

Again, bottom-up analysis suggested that Healthcare would underperform the market, but top-down analysis along with a desire to avoid excess volatility won the day, and this sector was ultimately selected by the class to outperform the market.

Key industry groups that were identified by SMIF as outperformers included healthcare equipment, biotechnology, and pharmaceuticals.
INFORMATION TECHNOLOGY

<table>
<thead>
<tr>
<th>Sector Rank</th>
<th>Sector Performance</th>
<th>S&amp;P 500 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 of 10</td>
<td>-18.01%</td>
<td>-28.36%</td>
</tr>
</tbody>
</table>

The Information Technology sector consists of industries dedicated to the research, development, and distribution of technology-based goods and services. It includes companies that manufacture computers and other electronic products, create software, and provide products and services related to Information Technology. This sector was identified by both top-down and bottom-up analysis as a market outperformer over the relevant holding period. Analysts at the time ranked information technology as the sector to experience the second greatest earnings growth, trailing only the Financial sector. The top-down analysis substantiated these claims, based on growing demand for IT infrastructure in developing economies and the underlying focus on innovation within the Information Technology sector.

The industry groups within this sector which were identified as market outperformers were communications equipment, Internet software and services, IT services, and application software.

TELECOMMUNICATIONS

<table>
<thead>
<tr>
<th>Sector Rank</th>
<th>Sector Performance</th>
<th>S&amp;P 500 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 of 10</td>
<td>-14.42%</td>
<td>-28.36%</td>
</tr>
</tbody>
</table>

The Telecommunications sector consists of industries involved with fixed-line and wireless telecommunication networks for voice and data. The sector is similar in many ways to the traditional Utilities sector, but with a greater focus on innovation and technology. The companies within the sector tend to be highly regulated. They also offer high dividend yields while exhibiting relatively stable earnings growth. Top-down analysis of this sector pointed out some of the weaknesses and potential pitfalls, but noted inelastic demand and rapidly changing technology as relative strengths given our macroeconomic analysis. Bottom-up analysis favored this sector for substantial growth in 2009; the sector was projected for the third highest earnings growth, lagging only IT and Financials.

Within the Telecommunications sector, diversified telecommunication services were the industry group expected to outperform the market by the widest margin.
ANALYSIS OF MARKET UNDERPERFORM SECTORS

The sectors SMIF expected to underperform included Financials, Consumer Discretionary, Energy, and Materials. Of these four sectors, three (Financials, Energy, and Materials) underperformed the broader market. Consumer Discretionary was one of the best performing sectors, ranking third among the ten GICS sectors over our time horizon.

Financials were expected to perform well by bottom-up analysts, but top-down analysis led SMIF to avoid the sector based on intolerable levels of volatility and uncertainty over government intervention.

Energy and Materials are both tied so directly to the prospect of economic recovery that it seemed imprudent at the time of our analysis to consider them market outperformers. Bottom-up analysis anticipated below-average growth, and top-down analysis appeared to back that assessment, given the expected unfavorable economic conditions.

Consumer Discretionary proved to be the only sector that SMIF misjudged. We underestimated the strength of this sector, which essentially mirrored the Consumer Staples sector’s returns over the holding period. Our top-down analysis anticipated declining earnings over the course of the recession, which we expected would negatively impact returns. The market disagreed, and Consumer Discretionary securities proceeded to rank third among the ten sectors for performance.

SUMMARY OF SECTOR AND INDUSTRY ANALYSIS

SMIF performed well, showing exceptional foresight in the ranking of sectors. It was unfortunate that macroeconomic conditions necessitated the most conservative asset allocation. Under normal market conditions, SMIF would have performed admirably in a sector rotation strategy. All four sectors that were expected to underperform the broader equity market did as expected, ranking first, second, fourth, and fifth among the ten GICS sectors. Of the four sectors that were selected to underperform the market, three underperformed. The underperform sectors ranked third, seventh, eighth, and tenth in return over our time horizon. SMIF was pleased that our analysis in September 2008 proved accurate, and correctly identified the best performing sectors in the equity markets over our time horizon.
TRIGGERS

During our tenure as portfolio managers, the capital markets witnessed volatility and price declines not seen since the Great Depression. As a result, SMIF concluded it was imprudent to allocate any portion of the portfolio to equity instruments. SMIF’s primary duty was to preserve portfolio capital; thus we chose to focus on absolute performance rather than relative performance under these conditions. This strategy required SMIF to identify and monitor several triggers that we believed would signal a return to normalcy in the equity markets. SMIF focused on multiple qualitative and quantitative indicators to identify the appropriate time to enter the equity market.

At the beginning of 2009, there were several major issues still plaguing the equity markets. Among the many issues were the outcome of the economic stimulus package and numerous government bailouts, and the true depth of the recession. SMIF closely monitored the business news, always with an eye toward gauging the markets’ reaction to these events. Investors, by and large, reacted negatively to these issues, as doubts were raised about the effectiveness of government action to solve the underlying problems. In addition to the government actions, SMIF monitored several other key drivers of equity market performance; among the indicators we monitored were housing prices, equity market volatility, and credit spreads.

HOUSING MARKET

The SMIF team believed that housing was strongly correlated to the equity markets, since many investors identified the housing market as the most important catalyst behind the financial crisis. SMIF reasoned that if the housing market led the capital markets into the recession, then it might lead them out of the recession as well. SMIF monitored housing prices in the hope of finding a bottom, thus indicating a return to normal growth. Unfortunately, the US housing market remained in decline throughout our stewardship, and expectations were for continued decline at least through the end of 2009. S&P/Case-Shiller Home Price Indices, the standard measure of US home prices, demonstrated persistent, broad-based declines in the price of existing single-family homes across the United States. Thirteen of the twenty metropolitan areas showed record rates of annual decline, and fourteen reported declines in excess of 10 percent year-over-year.
This chart depicts the annual returns of the 10-City Composite and the 20-City Composite Home Price Indices. The 10-City and 20-City Composites both set new records, with year-over-year declines of 19.4 percent and 19.0 percent, respectively.

The following chart displays the index levels for the 10-City Composite and 20-City Composite Home Price Indices. In January 2009, average home prices across the United States were at levels consistent with late 2003. From the peak in the second quarter of 2006, the 10-City Composite was down 30.2 percent and the 20-City Composite was down 29.1 percent.
S&P 500 VOLATILITY INDEX (VIX)

SMIF monitored the Chicago Board Options Exchange’s Volatility Index (VIX) as another possible trigger for entering the equity markets. After much consideration, SMIF determined that we would prefer the VIX 30-day moving average to fall below 30 prior to taking an equity stake. Since the VIX is widely considered a "fear" gauge that rises along with investor nervousness, the bulls would hope to see the Index break solidly below 40 for an extended period of time. The VIX hit an intraday level of 90 in October 2008, and then reached 80 again in November, indicating extraordinary levels of volatility in light of its historical average of 20. As April 2009 came to a close, the VIX had been in a holding pattern between 35 and 40. While that remains an uncomfortably high level by historical standards, it was markedly better than the uncertainty we experienced during the fall of 2008. SMIF, being a student-driven program, recognizes our inexperience as professional investment managers. Thus we operate with a 10 percent stop-loss provision to minimize the risk of unacceptable losses. It simply would have been imprudent to invest in equities while volatility was at historically high levels. Taking an equity stake would have virtually guaranteed the execution of these stop-loss orders.

* Source: Standard & Poor’s Website

CREDIT SPREADS

A Wall Street Journal survey of top economists suggests that credit spreads are a primary indicator of sustainable capital market recovery. SMIF devoted significant time and effort to analyzing and back-testing credit spreads for their power to predict sustainable equity market rallies. SMIF observed that high-yield credit spreads tended to remain flat or widen during temporary bear market rallies, while narrowing substantially and rapidly at the onset of bull market cycles. SMIF’s analysis correctly predicted the fleeting nature of the January 2009 rally, wherein we observed flat high-yield spreads. Our analysis shows some narrowing of the high-yield spreads during the March/April 2009 rally, but the glacial pace of such incremental narrowing gives us cause to consider this rally unsustainable as well.
FIXED-INCOME ANALYSIS

WAL-MART STORES (WMT 6.785 08/10/2009)

The first bond SMIF analyzed was issued by Wal-Mart Stores. The issue was rated AA, had a coupon rate of 6.875 percent, and matured on 8/10/09. We believed the return on this bond warranted the minimal associated risk. During our analysis, SMIF observed the bond consistently trading at a yield below that of a CD with a similar maturity. This led SMIF to conclude that the market had faith that Wal-Mart Stores would fulfill its debt obligations. The bond would be held to maturity, thus incurring only half the transaction costs and avoiding exposure to liquidity risk.

Consequently, SMIF proposed to buy the bond with an annualized target yield of 4.27 percent, representing a holding period of return of 2.7 percent (net of transaction costs), slightly more than the yield offered by Certificates of Deposit at that time. However, the trade was never executed since the bond remained above our target price of 101.83 percent of par. In lieu of this transaction, on November 7, 2008, we invested $25,000 into a CD yielding 3.5 percent and maturing on August 19, 2009. Further, on November 14, 2008, we purchased a $10,000 CD maturing on August 26, 2009, fulfilling our initial fixed-income allocation for the year. In hindsight, these proved to be astute investments because the interest rates would eventually rival 10-year Treasury yields, while offering superior liquidity.

HORIZON ANALYSIS

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Wal-Mart Stores</th>
<th>Rating</th>
<th>AA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Settlement date</td>
<td>11/13/2008</td>
<td>Coupon</td>
<td>6.875%</td>
</tr>
<tr>
<td>Start price</td>
<td>101.83</td>
<td>Days</td>
<td>270</td>
</tr>
<tr>
<td>Maturity date</td>
<td>8/10/2009</td>
<td>Annualized return</td>
<td>4.27%</td>
</tr>
<tr>
<td>Maturity price</td>
<td>100</td>
<td>Net holding period return</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

- Source: Bloomberg (11/10/2008)
GENERAL ELECTRIC CAPITAL CORPORATION (GE 4.625 09/15/2009)

On March 10, 2009, SMIF considered a General Electric bond, which was considered a safe investment for our time horizon. It was rated AAA, which historically suggests a zero percent chance of default. The bond would have been held to maturity, thus incurring only half of the transaction costs while eliminating liquidity and interest-rate risks.

GE undertook drastic measures to ensure it would meet its short-term liabilities by cutting dividends and divesting several units. Its exceptional quick ratio gave us confidence that default was extremely unlikely. The possibility of a downgrade was considered. However, since the bond had been on negative credit watch for three months, we felt that any downgrade risk had already been priced into the bond.

The annualized expected return on investment was 2.03 percent (net of transaction costs), based on a target entry price of 101 percent of par. SMIF was satisfied that this return was sufficiently higher than alternative fixed-income instruments. It represented a safe investment in a high quality bond, and ratio analysis suggested it was highly unlikely to default. Unfortunately, we were unable to purchase the bond because it never reached our target entry price, in spite of its ultimate downgrade to AA status. This confirmed our analysis that the downgrade risk was already incorporated into the bond price.

<table>
<thead>
<tr>
<th>RATIO ANALYSIS</th>
<th>3/11/2009</th>
<th>1-Year Average</th>
<th>3-Year Average</th>
<th>5-Year Average</th>
<th>10-Year Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to Equity</td>
<td>9.52</td>
<td>9.35</td>
<td>8.82</td>
<td>8.60</td>
<td>9.66</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>13.34%</td>
<td>7.29%</td>
<td>5.78%</td>
<td>5.27%</td>
<td>5.39%</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>28.53%</td>
<td>26.89%</td>
<td>31.91%</td>
<td>48.97%</td>
<td>67.29%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HORIZON ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
</tr>
<tr>
<td>Rating</td>
</tr>
<tr>
<td>Settlement date</td>
</tr>
<tr>
<td>Coupon</td>
</tr>
<tr>
<td>Start price</td>
</tr>
<tr>
<td>Days</td>
</tr>
<tr>
<td>Maturity date</td>
</tr>
<tr>
<td>Annualized return</td>
</tr>
<tr>
<td>Maturity price</td>
</tr>
<tr>
<td>Net annualized holding period return</td>
</tr>
</tbody>
</table>

• Source: Bloomberg (03/11/2009)
EQUITY ANALYSIS

INTRODUCTION

Throughout SMIF’s 2008-2009 holding period, equity markets faced extreme volatility accompanied by wide fluctuations. The Volatility Index (VIX) reached unprecedented levels equivalent to four times the historical average. Consequently, we adjusted our target asset allocation from 65 percent in equities and 35 percent in fixed income to the most conservative allocation of 100 percent fixed income. Our intent was to maintain that allocation until the VIX 30-day moving average returned to normal historical levels below 30. This proved to be the most effective approach as the depth of the financial market crisis unfolded in its entirety. While this stance effectively prevented us from investing in any equities, we continued to screen and analyze stocks in order to fulfill our learning objectives. We conducted targeted searches for equities that were less susceptible to the huge volatility swings, since intraday volatility raised deep concerns that our equity positions would be stopped out prematurely.

Having successfully weathered the market crash that began in October 2008 and persisted for several months, we refocused our energy on finding an acceptable reason to begin entering the equity markets. The short-lived market rally that occurred between late November and early January nearly persuaded the class, but further analysis reinforced the consensus that volatility levels were still too high and represented unacceptable risk given the portfolio guidelines. In late March, another market upswing was considered as a possible entry point, but other indicators led us to avoid any investments in equities. As our stewardship of the fund nears its conclusion, we believe that opportunities are scarce and that proposing any investments at this stage would involve assuming excessive risk.

Our equity presentations began in early October 2008, and the quality of analysis steadily improved over the course of the academic year. As SMIF members gained experience, our analytical capacity and confidence increased, and our equity recommendations grew more sophisticated and polished. During our tenure, dozens of stocks were screened and analyzed. Ultimately, a select few were presented to the class, proposed for inclusion in one or more portfolios, and submitted for vote. As of April 24, 2009, the following equities had been presented to the class (in chronological order): Apple Inc. (AAPL), Burlington Northern Santa Fe (BNI), Cal-Maine Foods, Inc. (CALM), Johnson & Johnson (JNJ), Apollo Group, Inc. (APOL), and Express Scripts, Inc. (ESRX). The following pages contain summaries of our analyses of these equities.
APPLE INC (AAPL)

PROFILE
Apple Inc. designs, manufactures, and markets personal computers, laptops, mp3 players, mobile phones, software, other peripherals, and music-related products and services. Over the last year, sales of personal computers and mp3 music players represented roughly three quarters of Apple’s revenues. Projected growth in these segments became a core focus of our analysis. The Company sells its products worldwide through an online store, its chain of retail stores, its direct sales force, and third-party wholesalers, resellers, and value-added resellers. Its target markets include consumers, small- and mid-sized businesses (SMBs), education, enterprise, government, and creative arts professionals.

SCREENING PROCESS
Apple Inc. was introduced to the class October 8, 2009. This equity selection was based largely upon our top-down sector/industry analysis. SMIF had targeted the Information Technology sector to outperform the broader market over our holding period. Within the sector, our group felt that Computer Peripherals would be an especially timely industry, a view shared by the Value Line Investment Survey. Apple’s strong growth prospects prompted us to proceed with a full analysis, focusing heavily on peer comparison.

RELATIVE VALUATION
The size and scope of Apple’s diverse product lines made meaningful peer comparison especially difficult. Since the majority of Apple’s revenue is generated by personal computer and laptop sales, we identified Dell and Hewlett-Packard as its most relevant peers. Facing a bear market environment, Apple appeared poised to outperform its competitors, given its substantial cash reserves and total lack of debt. SMIF suspected Apple would proficiently navigate the difficult financial and economic conditions ahead. According to Morningstar, Apple’s five-year estimated earnings per share growth was substantially higher than both Dell’s and Hewlett-Packard’s. The only competitor with higher estimated earnings per share growth was Research In Motion, which was not considered a meaningful competitor since Apple’s mobile phone sales represented only one tenth of its total revenue.

STRENGTHS AND WEAKNESSES
SMIF felt that Apple’s core strength was its ability to weather the bear market conditions. SMIF believed that the company’s niche products, strong product differentiation, and brand recognition would support consumer demand in spite of the poor economic outlook. Apple’s diverse product lines create synergy, often generating revenue for one another. For example, Apple’s music store has experienced tremendous growth since launch, due largely to the success of its portable music players (iPod). Its ability to continuously develop innovative products to differentiate itself from its competitors represents another important strength.

Several factors raised red flags as SMIF analyzed the risks associated with Apple. Concerns over the health of founder and CEO Steve Jobs represented an incalculable risk factor. As entry barriers decreased in several of Apple’s key industries, competition from new up-and-coming IT companies was another perceived threat. Relatively high dependence on new product launches meant that one poorly received new product could severely deteriorate sales growth for the company. At the time we analyzed Apple, it also exhibited an unacceptable beta of 2.62, rendering it likely to trigger SMIF’s 10 percent stop-loss.

KEY METRICS

<table>
<thead>
<tr>
<th>P/E</th>
<th>P/B</th>
<th>PEG</th>
<th>Current Ratio</th>
<th>Debt Ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>EBIT Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.56</td>
<td>3.75</td>
<td>0.90</td>
<td>2.46</td>
<td>0.00</td>
<td>27.19%</td>
<td>14.89%</td>
<td>19.32%</td>
<td>14.39%</td>
</tr>
</tbody>
</table>
PERSPECTIVE
Apple Inc. was formally analyzed by the class on October 8, 2008. At that time we had not yet experienced the full force of the financial crisis and resultant market meltdown. SMIF concluded that Apple showed strong growth prospects for the next three to five years, as well as exceptional short-term growth which could be captured during our holding period. With new product launches, including the second generation iPhone and App Store for mobile phone software, Apple was in a position of strength to grow its product lines and gain market share over its competitors. The share price had also fallen from a 52-week high of just under $200 to a low of $78.20.

We considered several technical indicators, including the 5-day Exponential Moving Average (EMA), 20-day Exponential Moving Average, Moving Average Convergence Divergence (MACD), and Relative Strength Index (RSI). We used these indicators to set buy and sell points for the security. Each individual indicator had exhibited 60 to 70 percent accuracy. However, when all three technical indicators acted in tandem, they had proven 100 percent accurate over the previous 12 months. SMIF sought synchronized buy signals from all three indicators. On October 29, both the RSI and EMA showed buy signals. The MACD had displayed a buy signal two weeks prior to that. The timing of the three represented a weak buy signal. The security’s proponents closely monitored the MACD, in the event it should cross over the centerline within a week of the other two buy indicators. This would have represented a much stronger buy signal, but it did not come to pass. SMIF had set a target buy price of $90 and a target sell price of $156 for a target annualized return of 42 percent, or a 24.5 percent 7-month holding period return. However, given the high volatility and inadequate technical indicators, the stock did not pass the SMIF voting process. The class believed that a high beta stock like Apple would trigger a stop-loss before any potential gains could be realized.

Although Apple was not chosen for inclusion into the portfolio, SMIF tracked its price movements based on our proposed buy and sell targets. Our target buy price of $90 per share was reached on November 12, 2008. As of April 29, 2009, Apple traded at $125 per share, representing a 39 percent holding period return. However, SMIF never would have enjoyed these returns, because our 10 percent stop-loss would have been triggered, liquidating the position on January 20, 2009, when Apple hit its 52-week low of $78.20. This price movement was largely caused by CEO Steve Jobs taking a medical leave of absence for pancreatic cancer, one of the critical risk factors identified by SMIF.

Subsequently, Apple has shown significant price momentum, as the change in management has proceeded seamlessly. SMIF’s 12-month target remains unchanged at $156 per share, as we have seen no fundamental changes over these past few months. However, considering current market conditions, Apple remains too volatile for the SMIF portfolio, given the likelihood of triggering our 10 percent stop-loss.
Burlington Northern Santa Fe Corp. (BNI)

**PROFILE**

Burlington Northern Santa Fe Corporation, through its subsidiaries, engages in the freight rail transportation business. It transports various consumer products (including foods and beverages), motor vehicles and vehicle parts (including rubber and tires), industrial products (including construction equipment and building materials), as well as petroleum, chemicals, plastics, cotton, salt, and miscellaneous boxcar shipments. The company also transports coal products and agricultural products, such as wheat, corn, bulk foods, soybeans, oil seeds and meals, feeds, barley, oats and rye, flour and mill products, oils, specialty grains, malt, ethanol, and fertilizers. As of December 31, 2008, Burlington Northern Santa Fe operated a railroad system consisting of approximately 32,000 route miles in 28 states and 2 Canadian provinces. The company was founded in 1994 and is based in Fort Worth, Texas.

*Source: Yahoo! Finance*

**SCREENING PROCESS**

Burlington Northern Santa Fe was formally analyzed before the class on November 13, 2008. In October, as the financial markets took a dramatic turn for the worse, SMIF employed its top-down approach in an attempt to identify securities that would perform well under challenging economic conditions. However, in our constant pursuit to locate portfolio-worthy equities, we occasionally employed an alternative approach of scanning the financial headlines for potential leads. This bottom-up approach suggested Burlington Northern Santa Fe Corp. (BNI). Our curiosity was initially piqued by an announcement that Berkshire Hathaway—and thus CEO Warren Buffett—had added 825,000 shares of BNI stock to the company’s holdings, an investment of over $65 million. Buffett appeared bullish on Burlington Northern at the time. Further analysis exposed that this purchase, while significant, was only a drop in the bucket, as it increased Berkshire’s total stake in BNI to 64.4 million shares. The fact that Berkshire already owned nearly 20 percent of the company was a much more bullish indicator than this additional stake in BNI. In any case, SMIF considered BNI a promising lead and decided it would be prudent give Burlington Northern a closer look.

**STRENGTHS AND WEAKNESSES**

Burlington Northern, the second largest railroad company in the US, displayed many strong attributes. One of its major strengths was the ability to thrive during unpredictable energy markets, performing well irrespective of rising or falling fuel prices. When fuel prices dramatically increased in the summer of 2008, Burlington Northern saw its fuel costs increase from 31 percent of total operating expenses in the first quarter to 37 percent in the third quarter. The increase in operating expenses reflected a $501 million increase in fuel costs. Concurrently, third-quarter revenues increased by 21 percent, attributable to BNI’s successfully passing along costs in the form in fuel surcharges totaling approximately $570 million. This demonstrated that in a climate of rising fuel prices, BNI simply passed the costs on to consumers. Conversely, when shipping volumes and fuel prices fell during the latter half of the third quarter and into the fourth quarter, diesel fuel prices fell faster than shipping volumes did, allowing BNI to enjoy lower operating costs. Thus, when the economy slowed and shipping volumes declined, Burlington Northern was able to offset the lost revenue with savings from lower fuel costs. These strengths represented BNI’s major selling point.

In spite of BNI’s apparent strength in the face of impending economic conditions, SMIF recognized several shortcomings as well. Sales and earnings growth had shown signs of significant slowing well prior to the recessionary environment. Further, several measures of solvency and liquidity were well below historical averages for the company. For example, current ratio at the time of analysis was only 0.67, a troubling level, given credit market conditions.

**KEY METRICS**

<table>
<thead>
<tr>
<th>P/E</th>
<th>P/B</th>
<th>PEG</th>
<th>Current Ratio</th>
<th>Debt Ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>EBIT Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>13.74</strong></td>
<td><strong>2.44</strong></td>
<td><strong>1.21</strong></td>
<td><strong>0.67</strong></td>
<td><strong>0.24</strong></td>
<td><strong>17.94%</strong></td>
<td><strong>5.83%</strong></td>
<td><strong>20.94%</strong></td>
<td><strong>14.17%</strong></td>
</tr>
</tbody>
</table>
RELATIVE VALUATION

Burlington Northern’s relative valuation was favorable. The company’s price-to-free-cash-flow ratio of 23.58 was among the lowest in the industry, compensating for the fact that its price-to-book ratio was the highest among its peers. Furthermore, Morningstar and Value Line rated BNI highly. Morningstar gave the company a 5-star rating, while Value Line gave BNI an A for Financial Strength and a 95 for Price Growth Persistence, both of which were at the top of its industry.

PERSPECTIVE

After rigorous review and analysis, SMIF still had many concerns about BNI. These concerns precluded the stock from being included in the portfolio. Since this was one of the first equities the class analyzed, one major factor was a lack of confidence in our equity valuation skills and our resultant reliance on third-party valuations. Morningstar’s Fair Value Estimate of BNI was $117 on November 11, 2008. Given that the stock was trading at $83.25, it appeared vastly undervalued had we trusted Morningstar’s valuation models. Since we did not know what data or other assumptions were applied in their models, we could not reasonably allow it to influence our purchase decision. Another key concern was the fact that BNI had significantly outperformed both the S&P 500 and its industry since 2003, but we were far less optimistic about the future performance of the company. Reuters offered a 5-year Estimated Growth Rate of 14.2 percent for BNI, which we couldn’t logically reconcile with economic expectations. Further, Morningstar’s long-term stock grades for BNI (C for Growth and C for Profitability) were not very appealing, even though they were among the highest in the industry. These grades contradicted the 95 rating given by Value Line for Price Growth Persistence, leaving us with a cloudy picture of BNI’s future.

Consistent with our other equity analyses, market volatility considerations weighed heavily in our deliberations. In November 2008, Burlington Northern’s 30-day Implied Volatility of 63.47, by far the lowest in the industry, was still significantly higher than SMIF’s comfort level. In hindsight, these concerns proved valid as BNI’s stock price plummeted. Had SMIF purchased at the target buy price of $81.90 on November 11, a stop-loss order would have been triggered only nine days later, when the share price fell to $71.98.
PROFILE
Cal-Maine Foods, Inc., is a small-cap company primarily engaged in the production, grading, packing, and sale of fresh shell eggs. The company, headquartered in Jackson, Mississippi, is currently the largest producer and distributor of fresh shell eggs in the United States. It sells the majority of its shell eggs in approximately 28 states across the southwestern, southeastern, mid-western and mid-Atlantic regions of the United States. The company was founded in 1957 and was listed on NASDAQ in 1996. Its production facilities account for approximately 16 percent of the shell eggs consumed in the United States. The eggs are marketed through extensive distribution networks to a diverse group of customers, including national and regional grocery store chains, club stores, foodservice distributors, and egg product manufacturers. Cal-Maine provides eggs to nine of the ten largest food retailers in the United States under many trade names including the Egg-Land's Best and Farmhouse brands.

SCREENING PROCESS
By the time Cal-Maine was analyzed before the class on February 3, 2009, SMIF’s equity screening procedures had evolved considerably. This equity was chosen based on a complex framework of screening criteria, focusing on growth at a reasonable price. SMIF ranked the equity universe on two factors: return on investment and earnings yield. The top decile of results was then screened based on fundamental historical data and filtered through several risk metrics, including Altman’s Z-score. Finally, growth projections and other forward-looking criteria were applied to identify the most promising securities.

FINANCIAL ANALYSIS
This stock was offered as a growth at a reasonable price (GARP) option for inclusion in the various portfolios under SMIF management. Cal-Maine boasted an impressive history of growth, with long-term growth rates ranging from 30 to 40 percent. The company had actively pursued a horizontal acquisition strategy, acquiring fourteen competitors over the past decade. DuPont analysis revealed an exceptional 51 percent return on equity and 26 percent return on assets. Further, valuation ratios gave the impression of extreme undervaluation. Cal-Maine offered a 0.68 PEG ratio and displayed excellent valuation ratios across the board. Quantitative risk analysis of the company demonstrated a high level of liquidity marked by limited leverage. It also revealed below-average volatility. Bear/bull beta analysis revealed a 0.63 beta over the capital market crisis late 2008 and early 2009 and a 1.12 beta over the period of growth that preceded it. Commodity futures of key inputs and outputs revealed feed prices (over 50 percent of the cost of production) were expected to decline approximately 18 percent over the near term, while shell egg prices were expected to rise by 2 percent over the same period. We anticipated a potential widening of Cal-Maine’s profit margins as a result. Price targets of professional analysts were considered along with in-house valuation models to generate an expected holding period return of 9.7 percent for the anticipated three-month holding period.

KEY METRICS

<table>
<thead>
<tr>
<th>P/E</th>
<th>P/B</th>
<th>PEG</th>
<th>Current Ratio</th>
<th>Debt Ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>EBIT Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.02</td>
<td>2.05</td>
<td>-</td>
<td>2.15</td>
<td>0.29</td>
<td>63.22%</td>
<td>31.75%</td>
<td>22.74%</td>
<td>15.36%</td>
</tr>
</tbody>
</table>
STRENGTHS AND WEAKNESSES

The fundamental quantitative analysis of Cal-Maine highlighted the shortcomings of quantitative analysis. Initially, Cal-Maine appeared to be stable, liquid, solvent, rapidly growing, highly profitable, and by most quantitative models very underpriced. We believed the egg industry would be recession proof because of the inelasticity of eggs and had faith that Cal-Maine would be a good defensive stock, being the largest domestic participant in the egg industry.

In spite of these strengths, several potentially negligible factors conspired to curtail our enthusiasm for the stock. The company was the only publicly traded player in its industry, rendering relevant peer comparisons impossible. Through company bylaws, management had essentially monopolized voting rights, retaining full control through A-class shares with enhanced voting weight. The relatively small size of the company had limited its analyst exposure, preventing intimate knowledge of the company from being readily disseminated. An overwhelming short-interest (nearly 30 percent of float) in the company led us to question what inside knowledge was available to whom. Technical indicators for the security were largely bearish. And of course, the excessive market turbulence cast added doubt on any equity investment at the time it was analyzed.

PERSPECTIVE

Given the capital market environment at the time the equity was proposed, there was a consensus among the student-managers that any stock would require a compelling reason to be included in the portfolio. Simply put, Cal-Maine lacked the catalyst that would have prompted us to overlook the company’s shortcomings. Although under normal market conditions there is a strong likelihood that this stock would have been included in the portfolio, ultimately the class chose the most conservative path and did not vote to purchase Cal-Maine. This proved to be the best course of action, as the stock would have triggered a stop-loss order only ten days after its presentation on February 13, having fallen from $27 per share to under $24. Subsequently, the stock fell to a low of nearly $17 per share (a decline of roughly 37 percent). At the time of this writing, the stock has returned to its previous price near $27 per share.
PROFILE
Johnson & Johnson, incorporated in 1887, is engaged in the research and
development, manufacture and sale of a range of products in the healthcare
field. Johnson & Johnson has more than 250 operating companies. The
company operates in three segments: Consumer, Pharmaceutical, and Medical
Devices and Diagnostics. The Consumer segment includes a range of products
used in the baby care, skin care, oral care wound care and women’s healthcare
fields, as well as nutritional and over-the-counter pharmaceutical products. The
Pharmaceutical segment includes products in the therapeutic areas, such as
anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology,
gastrointestinal, hematology, immunology, neurology, oncology, pain
management, urology, and virology. The Medical Devices and Diagnostics
segment includes a range of products distributed to wholesalers, hospitals, and
retailers.
Source: Google Finance

SCREENING PROCESS
Johnson & Johnson was originally presented to the class on February 10, 2009. JNJ was selected using several criteria developed
to focus our attention on the least volatile equities in the market. SMIF focused on S&P 500 companies, which, by virtue of their
market capitalization, are traditionally less volatile than small and mid-cap stocks. The index was divided into deciles based on
the metrics we perceived as primary drivers of volatility. These metrics included market capitalization, price-earnings ratio,
dividend yield, short interest, and analyst ratings. Six stocks appeared in the top performing decile for each of the five metrics.
The stocks were McDonalds Corp., Google Inc., Johnson & Johnson, Cisco Systems Inc., Praxair Inc., and PepsiCo Inc. Since JNJ
was an important component of the defensive healthcare sector (one of our target outperformers) and had displayed
particularly low volatility under stressful economic conditions, we chose it for further analysis.

STRENGTHS AND WEAKNESSES
Johnson & Johnson displayed many attractive traits. It remained one of the few corporate issuers with a AAA credit rating,
signifying the highest levels of liquidity and solvency. JNJ is highly diversified across several key defensive industries. It is a large,
established company, maintaining market dominance in the majority of its product segments. Further, demographic trends and
strong brand recognition bode well for Johnson & Johnson’s long-term growth as the baby boomer generation reaches
retirement age.

Contrary to these strengths, JNJ faces the constant challenges associated with patent protection expiration. Recent industry
trends point toward increasing competition from low-cost generic drug manufacturers, which continue to capture market share
from traditional pharmaceutical giants such as Johnson & Johnson.

KEY METRICS

<table>
<thead>
<tr>
<th>P/E</th>
<th>P/B</th>
<th>PEG</th>
<th>Current Ratio</th>
<th>Debt Ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>EBIT Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.47</td>
<td>3.70</td>
<td>1.56</td>
<td>1.65</td>
<td>0.14</td>
<td>30.17%</td>
<td>15.61%</td>
<td>25.30%</td>
<td>17.88%</td>
</tr>
</tbody>
</table>
VALUATION
SMIF used multiple valuation models to determine the intrinsic value of JNJ. These models included the Residual Income Model, Dividend Discount Model, and various third-party analyst reports. In light of our inexperience in stock valuation, we took an average of the results to reduce the likelihood of errors. The mean intrinsic value for JNJ on February 10, 2009, was $72.

Although the residual income model is infrequently used by market professionals, numerous studies address the effectiveness of the model. It is an accounting-based valuation model relying on book value, earnings, cost of equity, and terminal growth rate. SMIF used book value and earnings estimates from the Value Line Investment Survey. The cost of equity, using the capital asset pricing model, was calculated to be 7 percent. The terminal growth rate was estimated to be 2 percent, a conservative growth projection for mature companies. Based on these assumptions, JNJ’s estimated intrinsic value was approximately $71 per share.

SMIF applied the Bloomberg Terminal’s dividend-discount model, based on different long-term dividend growth rates from various analysts, to determine intrinsic value. Utilizing the highest, mean, and lowest estimates for long-term dividend growth, the aggressive, average, and conservative estimates of intrinsic value were $90, $73, and $60 respectively.

Finally, SMIF considered the professional third-party valuations from Standard & Poor’s, Value Line Investment Survey, and Morningstar. Standard & Poor’s offered a 12-month price target of $65; Value Line had a conservative estimate of $65 and an aggressive estimate of $69. Morningstar suggested a fair value of $80.

PERSPECTIVE
SMIF’s analysis of JNJ remained the subject of debate for several weeks before consideration was suspended on March 3, following a price decline of 15.5 percent. The contention that Johnson & Johnson was nearly impervious to market fluctuations did not prove correct, and JNJ displayed unacceptable volatility over this three-week period. There were concurrently significant concerns in the capital markets as the US Treasury took a large ownership stake in Citigroup. On February 17, renowned investor Warren Buffett disclosed that Berkshire Hathaway had sold half its stake in JNJ during the previous quarter. This news acted in conjunction with market momentum to drive JNJ share prices to new lows.
PROFILE
Apollo Group, Inc. (Apollo) is the nation’s largest for-profit private education provider, boasting 38 percent of the industry revenue and more than 380,000 students. Its educational offerings range from associate to doctorate degrees in areas such as business, education, Healthcare, technology, and social and behavioral sciences. Apollo delivers its educational programs online, through its international subsidiaries’ campuses, and at learning centers in 39 states, the District of Columbia, Puerto Rico, Alberta and British Columbia, Canada, Mexico, and the Netherlands. Apollo’s subsidiaries include its core institution, the University of Phoenix, the Institute for Professional Development, the College for Financial Planning, Western International University, Insight Schools, Apollo Global, and Meritus University.

SCREENING PROCESS
Apollo was presented to the class on March 3, 2009. Considering the economic and market outlooks, SMIF sought a stock that would perform well in the rapidly deteriorating conditions and generate a return during our time horizon. Based on confidence in our unemployment forecasts, we searched for stocks with strong positive correlation to the unemployment rate. The search guided us to the educational services industry. Our view was corroborated by Value Line Investment Survey, which gave Apollo and its industry the highest possible score in timeliness and technical factors, and an average score in safety. Further, Standard & Poor’s rated Apollo a buy (four out of five stars). Finally, Apollo exhibited a near-perfect correlation with the S&P 500 Index from January 2008 to March 2009.

RELATIVE VALUATION
SMIF considered ITT Educational (ESI), Career Education (CECO), and Devry Inc. (DV) to be Apollo’s relevant industry peers based upon market capitalization and trailing twelve-month revenues. Within its peer group, Apollo had the lowest debt-to-equity ratio, since it carried no long-term debt. This put shareholders in a much more secure position. Apollo’s free cash flow to sales, free cash flow growth rate, and operational cash flow were all among the highest in its peer group. Apollo had the highest operating and net margins in the industry for eight of the last ten years, only recently being surpassed by ESI, which used heavy leverage to hasten its growth efforts, an unsustainable course, given credit market conditions.

KEY METRICS

<table>
<thead>
<tr>
<th>P/E</th>
<th>P/B</th>
<th>PEG</th>
<th>Current Ratio</th>
<th>Debt Ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>EBIT Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.66</td>
<td>9.17</td>
<td>1.53</td>
<td>1.72</td>
<td>0.02</td>
<td>62.76%</td>
<td>30.99%</td>
<td>26.58%</td>
<td>14.31%</td>
</tr>
</tbody>
</table>
VALUATION
SMIF used the discounted earnings model to value Apollo. Expected earnings were based on analyst estimates from Bloomberg. We assumed Apollo’s earnings and sales would continue to grow, considering its expansion into new markets and the consistently rising US unemployment rate. Logically, Apollo would benefit from more customers seeking private education to increase their employability. We anticipated 33 percent earnings growth for 2009, 20 percent growth for 2010, and 6.2 percent growth into perpetuity, based upon greater focus on education by the Obama administration, which would encourage rapid growth in the education services industry. Based on these assumptions, our estimation of the stock’s intrinsic value was $70 per share.

PERSPECTIVE
Our initial impression of Apollo was one of a resilient counter-cyclical equity which would outperform, given the economic turmoil and high unemployment rate. Technical studies of Apollo performance exhibited a pattern of downward price shift in anticipation of negative unemployment data, followed by rapid price recovery based on reported earnings. SMIF believed it might be possible take advantage of a highly fearful market by timing our entry and exit from the position to take advantage of this price movement pattern.

In hindsight, had we purchased the stock, a stop-loss order would have been triggered on March 16, when the stock opened at $69.02, and exhibited a huge intraday swing from $69.22 to $61.99 before closing at $65.32. The extreme fluctuation would have triggered the stop-loss of 10 percent based on our target buy price of $70. This further demonstrates the difficulty of extreme intraday market volatility conditions during our tenure.

On March 31, Apollo announced a positive earnings surprise and we expected to see the stock rally. Instead, it plunged from an average of $78 to $65 amid unexpected fears of student loan defaults. However, analysts have since seen no compelling reason to change their outlook on Apollo, and SMIF is confident in our recommendation. It remains our opinion that Apollo is a resilient counter-cyclical equity.
SCREENING PROCESS
Express Scripts was analyzed on April 7, 2009. Healthcare was one of the sectors SMIF expected to outperform in 2009 based on defensive, noncyclical characteristics. Within this sector, SMIF extended its search to finding the most attractive industry. We considered the Value Line Investment Survey’s industry rankings and IBIS World’s industry analysis, and concluded that pharmacy services was the industry most likely to outperform the sector. The industry is composed of two segments: Pharmacy Benefit Management Services (PBM), which administers prescription drug benefits, and drug store chains. Furthermore, at the time of the analysis in early February 2009, Value Line’s ranking for the pharmacy services industry was third highest among the 99 industries covered. To further narrow our equity investigation within the industry, our screening criteria included: market capitalization, revenue, and liquidity as measured by an average trailing three-month volume.

RELATIVE VALUATION
We considered Walgreens Co. (WAG), Medco Health Solutions, Inc. (MHS), and CVS Caremark Co. (CVS) to be Express Scripts’ closest competitors based upon product segmentation, market capitalization, and trailing twelve-month revenues. In profitability ratios such as return on equity and return on assets, Express Scripts outshined all of its competitors. However, Express Scripts was also the most levered among its peers, as measured by long-term debt-to-equity ratio. Nevertheless, increasing debt to maximize profits for shareholders is not necessarily detrimental, provided the company has proven management and stable industry characteristics. Express Scripts, as noted above, outperformed its competitors independent of leverage, as measured by return on assets. SMIF deemed the leverage warranted, based on management performance. The company also exhibited the greatest cash flow per share. While Express Scripts did have the highest price-to-book ratio among its competitors, we felt it was justified as Express Scripts had outperformed on nearly every metric, and we anticipated substantial earnings growth in the company’s future.

KEY METRICS

<table>
<thead>
<tr>
<th>P/E</th>
<th>P/B</th>
<th>PEG</th>
<th>Current Ratio</th>
<th>Debt Ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>EBIT Margin</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.60</td>
<td>9.15</td>
<td>0.82</td>
<td>0.79</td>
<td>0.29</td>
<td>78.31%</td>
<td>14.71%</td>
<td>6.36%</td>
<td>3.95%</td>
</tr>
</tbody>
</table>
VALUATION
SMIF used a discounted free cash flow model to value Express Scripts, basing our assumptions on data provided by Bloomberg. We used the company’s weighted average cost of capital (WACC) for our discount rate, the 5-year trailing free cash flow growth geometric mean for our growth rate, and the industry’s 5-year trailing free cash flow growth geometric mean for our perpetual growth rate. Furthermore, we revised our growth rate downwards each forecast year for a more realistic valuation since the indicated growth rates were unsustainable in the current economic climate. We projected forward five years and discounted to the present to arrive at our value. After adding back marketable securities and subtracting the value of the firm’s debt, we arrived at an intrinsic value of $71 per share. Upon further review, our valuation was even more conservative than analyst estimates, adding to our confidence in the result.

PERSPECTIVE
Going into the analysis, our initial impression of Express Scripts was of a noncyclical equity that could perform, given the operating environment. However, we also realized the stock was just as volatile as the market and considered the possibility of triggering a stop-loss based on market fluctuations. Further, the uncertainty surrounding healthcare reform, and impending legal actions posed significant risks to entering the position.

Had we purchased the stock in early February 2009, a stop-loss would have been triggered toward the end of the month as the equity plunged nearly 20 percent over a short period of time based on market momentum and a poorly received earnings announcement. The three- and six-month implied volatility of the stock increased as well. As of April 2009, the equity had regained almost 10 percent from its low.

In hindsight, the stock has underperformed relative to its peers. Most of this behavior could be attributable to the earnings announcement and guidance released at the end of February 2009. Overall, the results and guidance were in line with expectations, but the stock reacted as though it were priced for a positive surprise and dropped significantly over the following trading days. Although the number of claims processed declined marginally, earnings were fueled by margin increases as Express Scripts benefitted from an increase in the use of generic drugs. We feel Express Scripts is well placed to benefit over the next few years as an unusually large number of major prescription drugs go off patent, including Lipitor and Plavix, the world’s two best-selling medications. Since our analysis, we have not witnessed any downgrades and continue to remain confident in the equity and its industry.
FUND PERFORMANCE

Much of the focus in SMIF is placed not on fund performance, but rather on the learning process and the experiences gained during our stewardship of the portfolio. Nonetheless, we took our responsibility as fiduciaries very seriously, and we are proud to have outperformed the composite benchmark by a significant margin. Extremely turbulent market conditions created an especially challenging operating environment for this year’s team. Prudence and conservatism were the hallmarks of the program in 2008 and 2009. Asset allocation was aggressively shifted into guaranteed cash equivalents, as capital markets became intolerable in the second half of 2008. This decision allowed SMIF to meet not only the relative standard of benchmark outperformance, but also the absolute standard of capital preservation.

SMIF is pleased to report a 0.94 percent estimated return on investment for the 2008-09 academic year holding period. This compares quite favorably against the 23.16 percent loss experienced by the benchmark through the end of April 2009. Although we were disappointed in the limited investment opportunities during our stewardship, we were able to successfully navigate the treacherous capital market environment and generate a positive return, thus securing the portfolio for future generations of SMIF students to manage.

CSULB SMIF Performance Relative to Benchmark (2008-2009)

*SMIF’s Composite Benchmark as specified in the Investment Policy Statement comprises 70% Equity (S&P 500) and 30% Fixed Income (NBBITR Index).
FUND EXPANSION AND OUTREACH

INTRODUCTION TO NEW CLIENTS

The market conditions of late 2008 and early 2009 were extraordinarily challenging. On March 10, 2009, Federal Reserve Chairman Ben Bernanke declared to The Council on Foreign Relations that “the world is suffering through the worst financial crisis since the 1930s”.

The financial crisis led to some of the most precipitous equity market drops in history. The S&P 500 Index fell from its all-time high of 1576 points in October 2007 to a low of 666 points in March 2009. The 57 percent drop brought equity markets to levels unseen since 1996.

The 2008-09 SMIF management team was rewarded for its cautious, conservative approach, as the fund substantially outperformed the broader market, providing outstanding risk-adjusted returns to our existing clients.

The discouraging economic and market climate provided SMIF with an unanticipated opportunity to expand its services to new clients who were duly impressed by SMIF’s circumspect approach and absolute performance. Two CSULB campuswide student services organizations, Forty-Niner Shops, Inc., and Associated Students, Inc., were approached to forge potential partnerships with SMIF.

FORTY-NINER SHOPS, INC.

As the equity markets unraveled in Fall 2008, SMIF Program Director Dr. Lowell Runyon, who serves as the alumni representative on the Forty-Niner Shops’ Board of Directors. Mr. Castillo, a former student of Dr. Runyon and a supporter of the SMIF program, saw the potential to bring the two organizations together in a way that would be beneficial to both parties. Forty-Niner Shops was interested in exploring a partnership with the Student Managed Investment Fund, including the possibility of setting aside a portion of its investment portfolio for management by the program.

A team of three student-managers was tasked with producing an introduction to the SMIF program to be shared with the corporate officers of Forty-Niner Shops. An initial meeting was set for Friday, October 24, 2008. On that morning, the three student-managers, along with Program Directors Dr. Runyon and Dr. Ammermann met with members of the Board of Directors for Forty-Niner Shops at their offices on campus. Present were Don Penrod, CEO; Robert de Wit, Controller; Mary Stephens, Treasurer; Dr. Keith Freesemann, Faculty Advisor; Alvaro Castillo, Alumni Advisor; Anthony Olton, Student Advisor; and Linda Welty, Administrative Assistant to Mr. Penrod. The presentation was very warmly received, and the representatives of Forty-Niner Shops were immediately interested in pursuing a follow-up meeting before the fully assembled Board of Directors.

An invitation was extended to the SMIF presentation team to present to the Board of Directors at the Forty-Niner Shops Annual Retreat, which was held at the L’Auberge resort in Del Mar, California. On the afternoon of November 14, the SMIF team members enjoyed a poolside lunch with the Directors before presenting a more extensive introduction and detailed description of the SMIF investment process before the Board. Again, the presentation was very well received, and was followed by an extensive question-and-answer session. After the presentation, it was announced that the Board had voted to establish a working relationship with the SMIF program.

As of April 2009, the details of the business relationship with Forty-Niner Shops were still pending finalization. The SMIF student-managers are proud of and excited at the prospect of working with this esteemed new client.
ASSOCIATED STUDENTS, INC.

After securing a portion of the Forty-Niner Shops portfolio, SMIF’s reputation grew throughout CSULB. Members of the Associated Students, Inc. (ASI), contacted SMIF student-manager Ruben Valverde and requested that the Fund send a team to meet with their executive directors and board of control. The student-managers embraced this opportunity by representing SMIF in a series of meetings. A relationship was quickly formed between the parties. There was undoubtedly an alignment of interests between the two organizations. ASI motioned to proceed with allocating a portion of its investment portfolio to SMIF by unanimous vote. SMIF proudly undertakes the management of this portfolio, establishing its fourth client relationship, thus gaining a unique experience in working with a non-profit, campuswide student association.

The objective of this portfolio is to help fulfill ASI’s mission of facilitating student educational objectives and life goals. It will be used to fund programs, services, and facilities to support student needs and interests as necessary for intellectual, social, and physical development. By supporting these activities SMIF benefits by increasing the program’s exposure and prestige throughout the entire University, while gaining invaluable experience supporting a student-run organization.

MARKETING INITIATIVES

WEB SITE

When the SMIF team began its tenure in 2008, publicly available information about the SMIF program was fragmented and incomplete. It was difficult to learn more about the program, or to gain access to the work of previous years’ SMIF teams. We felt that the program’s online presence needed to be strengthened. As such, we began the development of an independent CSULB SMIF Web site (http://www.csulbsmif.org). The student-managers wanted those unfamiliar with the program to understand that we were not just sixteen college students picking stocks; rather, we are finance professionals undergoing a comprehensive program, analyzing all aspects of the investments profession, and honing our portfolio management skills.

Subsequent to the Web site’s launch, the first search result for “CSULB SMIF” obtained from a search engine such as Google or Yahoo yields our Web site. This allows students, prospective employers, and other searchers to get a detailed look at the inner workings of the SMIF program, see work that has been published, find out about the students and program directors, and locate other useful web pages and SMIF-related links. The Web site is also a valuable source of information for potential employers searching for information about the program and the experiences of the participants. The Web site offers details on events that SMIF participates in and showcases SMIF’s extensive body of work. The Web site is a good resource for potential SMIF candidates as well. It outlines the application process and the prerequisites necessary for entering the program. There is also a contact form which allows users to reach a SMIF student or a SMIF program director if they require more detailed information.

Through the Web site, SMIF has built a solid foundation upon which future classes can improve. Although we have established a fully functional Web site, it is a work-in-progress and is constantly undergoing improvements as we add more information on an ongoing basis. This year’s student-managers are proud to have played a key role in the SMIF program’s expansion.
The University of Dayton and the United Nations Global Compact presented Redefining Investment Strategy Education (RISE), the Ninth Annual Global Student Investment Forum from March 26 to March 28, 2009, at the University of Dayton campus. RISE is the first forum of its kind to bring together leading students, faculty, and Wall Street professionals in an interactive learning environment to discuss a range of pertinent issues facing the investment profession. The event drew 2500 participants representing over 250 colleges and universities from over 70 countries.

SMIF sent ten representatives to this event to learn and exchange insights on investing with industry professionals, academia, government representatives, and other student-managed investment funds from all over the world. Our representatives were funded in part by a grant from the Instructional Related Activities Board, to whom the student-managers owe a debt of gratitude. This forum helped our students enhance their learning experiences and network with investment professionals. Each twelve-hour day was filled with activities ranging from keynote presentations with question-and-answer sessions, to smaller breakout sessions focusing on a range of investment topics, including security analysis, portfolio management, and career strategy.

The first day consisted of keynote presentations held in the University of Dayton Arena. The presentations covered topics such as the economy, the capital markets, the Federal Reserve, corporate governance, and global investing. Each keynote presentation began with the speakers introducing themselves and framing the issues which were of greatest importance to them.

A distinguished student panel then offered a few questions before opening the discussion to the floor. There was a general consensus that the global economy was in dire straits and that recovery would take a very long time. Popular topics included government intervention, monetary policy, and alternatives to the US dollar as a global currency, and the future of the investment profession.

The second day consisted of breakout sessions, which were held in smaller classrooms and covered more specialized topics. The smaller group size and more intimate setting allowed for interactive discussions. Our representatives had the opportunity to attend various topics, including The Future of the Investment Management Profession, The Interest Rate Derivative Environment, Equity Analysis, Risk Management, and Equity Market Neutral. The opportunity to hear from the top names in the industry and get answers to our questions, which went above and beyond textbooks, was a very rewarding experience for our student-managers.

The third and final day consisted of career strategy forums. These were held in small groups much like the breakout sessions. It gave our representatives a chance to find out how the professionals achieve their goals, the strategies at our disposal, and how to avoid common mistakes in career planning.

The experience in Dayton was enlightening and rewarding, and we are confident that the lessons learned will play a key role as we enter the investment profession. The learning experience, which transcended textbooks, will remain with us for the rest of our lives.
EXPANDING THE TALENT POOL

As our stewardship drew to a close, we undertook significant efforts to increase the size of the recruitment pool for next year’s SMIF team. The duties associated with managing two additional portfolios will tax the capabilities of the incoming SMIF class for academic year 2009-10. The SMIF Marketing Committee (SMC) was formed to recruit the very best talent from the College of Business (CBA) in order to cope with these new challenges. SMC’s main objectives were to improve the program’s visibility around the CBA and make information on the program easily accessible. Several excellent ideas and successful events have come as a result of the inception of the SMC. This year’s student-managers have set the foundation of SMC for SMIF classes to come.

We utilized a multifaceted approach to reach the largest number of students possible. Our first effort was to create a SMIF promotional video using special effects, music, pictures, and inspirational quotes to generate interest in the program. It could be used as a presentation tool, follow-up tool or the link to the video could be printed on a flyer to generate buzz among students. The video can be found on YouTube by searching for the key words CSULB SMIF.

Extensive effort was made to promote the program throughout CBA in person. We realized the most efficient way to do this was to give short presentations in select finance classes. Courses targeted included: Business Finance, Real Estate Principles, Investment Principles, Capital Markets, Intermediate Financial Management, and Portfolio Analysis. Each presentation lasted five minutes and shared information about the program, including the prerequisites and career benefits, and promoted SMIF Information Night. The student-managers made presentations in eighteen classes and received contact information from approximately 50 interested students.

The purpose of the presentations was not only to give students a taste of what SMIF does, but also to promote the SMIF Information Night. This information session was a way to interact with interested students and give detailed information on the program outside of the normal classroom setting. The information night was planned well in advance of the presentations. Flyers were created and approved by the Associated Business Students Organization Council (ABSOC) Program Coordinator. The flyers were printed and posted in classrooms and doors all over the College of Business.

SMC’s next goal was to effectively market the student-managers individually. While attending the numerous events and functions related to SMIF, we needed a uniform way of relaying our contact information to newly acquired contacts. The decision was made to create business cards. We wanted the cards to be strongly associated with the program, and developed a logo representative of SMIF to further that end. The cards offer the student-managers a powerful tool for continuity and connection outside of the University.

The newly established SMIF Marketing Committee has achieved its primary objectives. First, it has secured the future of the program by drawing top business students, thereby maintaining the high level of dedication among the program’s participants. Further, it created a foundation for marketing the program in the future. This will continue to raise the visibility and awareness of the program.
LEARNING EXPERIENCES

The SMIF program is graded unlike any other class because it has two unique aims: to provide “real dollar” portfolio management experience through the application of classroom knowledge to real-world investing, and to advance the students’ careers in the industry. As such, students are graded on the quality of analysis, teamwork, and networking. While it is preferable for the fund to perform well, we are constantly being reminded by the Program Directors that the learning experience is the most important aspect of our management.

This year’s SMIF experienced undoubtedly the worst investing environment since the Great Depression. We believe this has provided us with one of the most unique and valuable learning experiences in the history of the program. As is the norm for SMIF, our team adopted a top-down approach to investing. The first step in this process was to produce a detailed analysis and forecast of the macroeconomic environment. Given our lack of experience with economic forecasting, we relied heavily on professional economists. We quickly learned that economic forecasting is more an art than a science. The observed forecasts spanned a wide spectrum due to the uncertainty surrounding the US economy. Further, as SMIF monitored the revised economic forecasts, each successive revision tended to differ dramatically from the prior. Even professional economists couldn’t derive a clear consensus or a consistent outlook. One obvious example of the market uncertainty was observed in the crude oil market. Crude oil traded at an all-time high of $147 per barrel in July 2008 before plummeting to around $35 in February 2009. No one could have forecast such a rapid decline in oil prices.

Another valuable lesson that SMIF learned was that business cycles repeat themselves but never in the same way. Over the last century recessions have lasted between 7 and 47 months. Though we all agree the economy will bottom eventually, the practice of timing the exact bottom is nearly impossible. SMIF focused on a series of market triggers that could possibly signal a return to normal conditions. As of the writing of this annual report, SMIF believes that the market has yet to reach a firm bottom.

SMIF is privileged to have access to Bloomberg Professional Terminals, a premier information service database for financial professionals. We have been hard-pressed throughout the year to extract this data and translate it into information that would be useful in making investment decisions. A majority of SMIF students have taken advantage of the wonderful opportunity the University offered us and have received Bloomberg Product Certification in Equities and Fixed Income. This learning experience is more akin to on-the-job training because Bloomberg Terminals are used by many investment firms and several industry professionals have confided a preference for hiring Bloomberg Certified candidates.

Warren Buffett has become one of the richest men in the world by doing one thing that few others have mastered: equity valuation. Equity valuation was one of the most challenging processes that this year’s SMIF faced. The student-managers were charged with applying textbook knowledge while incorporating real-world considerations when estimating the future profits of a firm, growth rates, and discount rates. SMIF consistently revisited three different models: Discounted Cash Flow, Residual Income Model, and Dividend Discount Model. In order to judge the accuracy of these models, SMIF compared our intrinsic value estimates to professional third-party valuations from Bloomberg, Morningstar, Value Line Investment Survey, and Standard & Poor’s reports. SMIF has learned that minute differences in earnings growth rates and discount rates can dramatically impact the intrinsic value offered by such models, and thus we learned to exercise caution when applying them. We learned any assumptions made require strong logical support and a critical eye. We also learned to question analyst reports, forecasts, and credit ratings, especially given the loss of confidence in professional analysis during our stewardship.
SMIF students also learned the value of teamwork, from the perspective of both leaders and followers. We learned to leverage each other’s abilities, creating synergy and producing better analyses. Many of the tasks we undertook were beyond the scope of what an individual could typically perform, underscoring the need for collaboration. SMIF has a Chief Executive Officer (CEO) rotation system, which allows each student to take on a leadership role at least once in each semester. The CEO has control of the agenda and manages the fund for a week as if it were his or her own. As each student took on the CEO role, he or she built leadership, communication skills, and a sense of ownership in the fund.

We learned the value of hard work, which is at the core of the investment industry. On average, every student commits at least 20 hours a week to the SMIF program. The work ethic in SMIF is unparalleled among academic endeavors, and the quality of work produced bears witness to that fact.

SMIF learned about client management during the Host-A-Student engagements organized by the CFA® Society of Orange County, and more directly through the acquisition of new clients, the Forty-Niner Shops Inc. and Associated Students Inc. We learned how to connect with clients, how to understand their needs, and how to seek out the best path to meet their goals. A key element in the process is building trust, especially given the devastating financial scandals experienced during our tenure, such as the Madoff Ponzi Scheme. We learned the fiduciary responsibility of placing our clients’ interests ahead of our own, acting responsibly and fairly and communicating effectively.

One of the most important lessons SMIF learned was how to work with uncertainty. Uncertainty reigned during our tenure, and conclusive information was the rarest commodity of all. We learned over time that this is the true nature of the industry and that we must adapt to changing conditions or be doomed to fail. We learned to proceed with caution, but to never be afraid to act on incomplete information. Each student learned how to be resilient and patient and to look for suitable investments, even in the most challenging of market conditions. Surprisingly, investing during the worst of times provided the best learning experience for us as we move on to careers in the investment management industry.
CFAOCF RFP PORTFOLIO COMPETITION

Each Student Managed Investment Fund around the globe offers unique, yet relatively similar, learning experiences to each of its participants. One key opportunity that differentiates CSULB’s learning experience is our participation in the Chartered Financial Analyst Society of Orange County Foundation (CFAOCF) Request for Proposal (RFP) Portfolio Competition. Each year, students from several regional universities draft a response to the CFAOCF’s RFP. Each school offers a presentation to the Foundation board explaining its qualifications to manage the portfolio and offering insights on its managerial intent. This year our team had the privilege of competing against University of California, Irvine (UCI) and California State University, Fullerton (CSUF). We are pleased to have taken first prize in the 2009 competition, winning the right to manage the Foundation’s $100,000 portfolio. This represents the sixth consecutive year that CSULB SMIF has claimed the first place prize. The incoming 2009-10 SMIF team will find it especially challenging to defend our championship, as Chapman University will join a very strong field next year. Participation in the RFP process significantly enhanced our organizational skills, presentation skills, and most importantly, our networking and client management skills.

Preparation for the RFP started weeks before the actual competition. After selecting a team of five presenters, we collaborated to develop the investment strategy we felt would most likely outperform the market in the coming year. In developing a strategy, we looked at the client’s investment policy statement and determined which strategy would be most appropriate based on its risk tolerance. This required knowing the portfolio’s constraints as well as the portfolio’s ultimate goal. Organization skills came into play when we drafted a timeline and assigned topics to each presenter based on his or her strengths. SMIF members who were not part of the presenting team were responsible for responding to the questions in the RFP, compiling the final report, and preparing it for submission. We acquired teamwork skills during the process, realizing the critical importance of communication and cooperation among team members.

After assigning tasks to each member, the presenting team created a PowerPoint presentation while the editorial team focused on the report. The processes required numerous revisions by both teams. Several mock presentations were conducted, and feedback was given to each presenter on how to improve his or her section.

The actual competition took place on December 12, 2008, at Chapman University’s prestigious Argyros School of Business and Economics. Although there were only five presenting members, all sixteen SMIF student-managers attended in a display of solidarity. UCI and CSUF also brought full contingents. The prospect of presenting in front of seasoned investment professionals was both exciting and nerve-wracking at the same time. We learned to overcome the fear by motivating and supporting each other. By acting as a cohesive team, we gained an insurmountable advantage over our competition.

The most powerful learning experiences of this process came from the question-and-answer session subsequent to the presentations. The CFAOCF offered several excellent insights, while simultaneously critiquing and offering encouragement to each of the programs. Further, fifteen minutes were allotted to the competing teams in a free-form debate of each program’s merit. We left the presentation feeling energized and confident that we had performed well enough to secure a victory. Several weeks later, the CFAOCF Investment Committee agreed. We had secured the $100,000 portfolio, claiming victory for the sixth time on behalf of CSULB. Although preparation leading up to the RFP presentation demanded time and patience, every second of it proved rewarding.
SPECIAL PROJECT TEAMS

SMIF Editorial Team
Wayne Brown
Reuben Conceicao

SMIF Marketing & Website Committee
Peter Chou
Gregory Strand
Kristin Tran
Lam Tran
Natthaphong Thalaengkit

Investments & Finance Committee Presentation
Derek Baldwin
Peter Chou
Reuben Conceicao
Tien Do
Christian Gimenez
Lam Tran
Ruben Valverde

SMIF Advisory Board Presentation
Wayne Brown
Reuben Conceicao
Tien Do
Casey Hughes
Gregory Strand
Kristin Tran
Brooks Zimmer

Forty-Niner Shops Presentation
Wayne Brown
Reuben Conceicao
Ruben Valverde

Associated Students Inc Presentation
Derek Baldwin
Reuben Conceicao
Ruben Valverde

CFAO CF RFP Competition
Babak Ardakani
Derek Baldwin
Reuben Conceicao
Kristin Tran
Lam Tran

CFAO CF Annual Report Team
Wayne Brown
Reuben Conceicao
Nghi Do

CFAO CF Quarterly Presentation
Wayne Brown
Tien Do
Gregory Strand

Instructional Related Activities Presentation
Peter Chou
Natthaphong Thalaengkit
Nghi Do
Tien Do
Lam Tran
Michael Wilion

RISE Forum Attendees
Babak Ardakani
Derek Baldwin
Reuben Conceicao
Nghi Do
Tien Do
Gregory Strand
Kristin Tran
Lam Tran
Ruben Valverde
Michael Wilion
ACKNOWLEDGMENTS

The SMIF team would like to extend our gratitude to the following entities and individuals who have played a crucial part in our education during our stewardship of the Fund:

CSULB FOUNDATION INVESTMENTS & FINANCE COMMITTEE

Mary Stephens, Chair of the Investment Committee, Vice President of Administration and Finance, Treasurer on Foundation Board of Directors

Sharon Taylor, Associate Vice President of Financial Management, Assistant Treasurer on Foundation Board of Directors

Karen Gould, Provost, Academic Affairs, Secretary on Foundation Board of Directors

Andrea Taylor, Vice President, University Relations and Development, Vice Chair on Foundation Board of Directors

Alan Ray, Chief Financial Officer, Foundation

Rocky Suares, CFP, Investment Officer, Wells Fargo Advisors

Bridgette Pruitt, Administrative Assistant to the Executive Director, Foundation

Brian Nowlin, Associate Executive Director, Foundation

For the Committee’s unflinching support through the years, its dedication to the SMIF program is unparalleled and has created a unique learning experience.

SMIF ADVISORY BOARD

Wes Seegers, Senior Vice President, Smith Barney

For his support of the SMIF program and for executing all transactions related to the portfolio.

Norm Coulson, Retired President, Glendale Federal Bank

For his support of the SMIF program since its inception.

Charles Hassell, The Capital Group Companies

For his support of the SMIF program as an alumni.

Peter A. Ammermann, Ph.D., Co-Director, Student Managed Investment Fund

Maureen Flanagan, CFA, Senior Vice President, U.S. Trust, Bank of America Private Wealth Management

Doug Lopez, CFA, Portfolio Manager, Bradford & Marzec

Russell Murdock, CFA, President, Seabreeze Capital Management

Daniel Nikaiyn, Manager, Business Development Support, PIMCO

John Prichard, CFA, Principal, Knightsbridge Asset Management

L. R. Runyon, Ph.D., Director, Student Managed Investment Fund

Michael E. Solt, Ph.D., Dean, College of Business Administration

Rocky Suares, CFP, Investment Officer, Wells Fargo Advisors

For choosing to support our students through the educational process and committing to the future of the SMIF program by serving on the Advisory Board.
CFA® SOCIETY OF ORANGE COUNTY FOUNDATION (CFAOCF)

Benjamin C. Lau, CFA, Chairman & President
Tony Relvas, Treasurer
Erin Campbell Secretary
Krista Zipfel, CFA, Past Chair
Ramin Modiri, CFP, Scholarship Chair

Peter A. Ammermann, Ph.D., Investment Policy Chair
Kevin Beebe, Host-A-Student Chair
For the Foundation’s constant efforts in promoting education and professionalism and the learning opportunities provided through the Host-A-Student program. The networking and professional events have helped us make our first steps towards building lasting careers in the financial investments industry.

CFAOCF INVESTMENT POLICY COMMITTEE

Peter A. Ammermann, Ph.D., Chair
Gideon Bernstein, CFA
Raymond Goldblatt, FIA, CFA
John Kleponis, CFA
Mitch Needelman, CFA
Timothy Stevens, CFA

For taking valuable time out of their busy schedules to grant us the opportunity to participate in the Request for Proposal competition and awarding the class the right to manage a $100,000 portfolio and their strong support of the program.

CFAOCF HOST-A-STUDENT PROGRAM

Fabian Wealth Management
Iwamoto, Kong & Co.
Knightsbridge Asset Management
Leisure Capital Management
Modiri Asset Management
The Keller Group
West Oak Capital
Wealth Management Network
Wilmington Trust

For graciously inviting our students into their firms to gain a firsthand insight into the various career opportunities in the financial investments industry. Each host firm has contributed immensely to our perception of the investments profession.

INSTRUCTION RELATED ACTIVITIES (IRA) BOARD

For funding the SMIF participation in the RISE Forum in Dayton, Ohio, which was a great opportunity for us to interface with finance professionals, academia and fellow students from all over the world.

CFALA & CFAOC

For providing our students with networking and scholarship opportunities, and CFA® exam preparation classes and events which have been informative and interesting.
### BLOOMBERG PROFESSIONAL® SERVICE

For empowering SMIF with the tools for investment analysis which helped us to make better investment decisions. Bloomberg also provided us the opportunity to earn Bloomberg Product® Certification in Fixed Income and Equity.

### GLOBAL INSIGHT

For providing its annual, quarterly, and monthly economic forecast reports which were invaluable in determining our economic and market outlooks.

### FORTY-NINER SHOPS, INC.

For giving us the opportunity to learn through managing a portion of their portfolio and printing the SMIF Annual Report 2008-2009.

### ASSOCIATED STUDENTS, INC.

For giving us the opportunity to work with a fellow student-driven organization by managing a portion of their portfolio.

### COLLEGE OF BUSINESS ADMINISTRATION

For the College’s strong support of the SMIF program by dedicating its resources to make this a powerful learning experience. Its funding of the two Bloomberg Terminals and support for the SMIF Information Night has helped us grow the prestige of the program and recruit the best students the College has to offer.

- Michael E. Solt, Ph.D., Dean, College of Business Administration
  - For his firm support of the SMIF program which has been integral to the expansion of the Fund.
- Patricia Aleman, CBA Administrative Analyst/Specialist
  - For facilitating SMIF’s travel to Dayton, Ohio, for the RISE Forum.

### FACULTY

<table>
<thead>
<tr>
<th>Name</th>
<th>Ph.D.</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter A. Ammermann</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cindy Chen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eva Johnson</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Kearney</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yulong Ma</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazi Mohiuddin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andrew Pramschufer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>L. R. Runyon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wes Seegers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philip Thames</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jasmine Yur-Austin, Ph.D.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For their kind support in allowing us to market the SMIF program to students in their class and in the process, helping us promote the SMIF Information Night.
We would like to extend our thanks to our Program Directors for their steadfast support, feedback, advice, and intense involvement in the learning process. They kept our team strong through an extremely challenging year, and we could not have achieved the many successes without them. Far from being the “sage on the stage,” they are the “guides on the side,” spurring us on to greater challenges.
Babak Ardakani completes his Baccalaureate degree in Business Administration, with an option in Finance and a concentration in Investments, in May 2009. His background in the mortgage industry provides the knowledge and experience necessary to pursue a career in the world of finance. Babak holds Bloomberg Product Certification in both Equity and Fixed-Income Analysis. As an active contributor to the SMIF program, he took part in SMIF’s successful CFAOCF RFP presentation in December 2008. After graduation, he plans to pursue his MBA and become a CFA® Charter Holder. All of these experiences will help him achieve his ultimate goal of becoming a successful portfolio manager.

Derek Baldwin graduates in May 2009 with a BS in Business Administration, an option in Finance and a concentration in Investments. He has obtained Bloomberg Product Certification for both Equities and Fixed-Income Analysis. His notable contributions to the SMIF program included work on the capital markets outlook, credit spreads, and analysis on Express Scripts. He also participated in the CFAOCF RFP, ASI, and SMIF Annual Report presentations. After graduation, Derek plans to seek employment in investment banking or as an equity or fixed-income security analyst. He plans to receive his MBA and CFA® Charter Holder with an ultimate goal of becoming a hedge fund manager.

Wayne Brown graduates in May 2009 with a Bachelor’s degree in Business Administration, an option in Finance, and a concentration in Investments. He carries a 4.0 in-major GPA and is a very active contributor to the SMIF program. He holds Bloomberg Product Certification in both Equity and Fixed-Income Analysis. In June, he will be sitting for his CFA® Level I Examination. After the examination, Wayne plans to seek employment as a securities analyst for an asset management company in or around Long Beach, with the ultimate goal of becoming a CFA® Charter Holder and professional Portfolio Manager. In his spare time, Wayne enjoys relaxing with his wife and playing with his two-year-old daughter, Sierra.

Peter Chou will complete a BS in Business Administration with an option in Finance and a concentration in Investments. He has obtained Bloomberg Product Certification for both Equities and Fixed-Income Analysis. He has contributed heavily towards the production and presentation of the SMIF Annual Report. While still in school, Peter started his own electronics and accessories import business. After college, he plans to seek employment as a securities analyst, while earning his CFA® Charter, and ultimately becoming a professional Portfolio Manager. In the future, he hopes to have grown his own business sufficiently to have a comfortable life with his family.
Reuben Conceiao graduates in May 2009 with a BS in Business Administration, with a double major in Finance (Investments) and International Business. He holds a 4.0 in-major GPA, is Bloomberg Certified, and is a CFA® Level I candidate. He has won the Outstanding Graduate Award (Department of Finance) and earned memberships in the Financial Management Association National Honor Society, Beta Gamma Sigma Honor Society, and Golden Key International Honour Society. His key contributions to SMIF included constructing a bottom-up model to aggregate sector returns, securing two new portfolios, and playing a key role in winning the CFAOCF RFP competition. After graduation, Reuben plans to pursue a career in the investment industry and obtain a CFA® designation and an MBA, with the aim of becoming a portfolio manager. In his spare time, Reuben enjoys playing soccer, watching sports, reading, cooking, and teaching.

Nghi Do is a candidate of the MBA program, majoring in Finance, and will graduate in May 2009. She is an active member of the SMIF program, gaining valuable experience in security analysis as well as portfolio management. Nghi is pursuing her Bloomberg Product Certification in both Equity and Fixed-Income Analysis. Currently, she works full-time for the US Veteran Affairs Department, Network Business Office, and has recently been promoted to the Financial Program Analyst position. With her MBA, Nghi plans to advance her career as a financial officer or a security specialist for a portfolio management company in Los Angeles County. Her ultimate goal is to become a professional portfolio manager or a chief financial officer.

Tien Do graduates in August 2009 with a BS in Business Administration, an option in Finance a concentration in Investments, and a minor in mathematics. He carries a 4.0 in-major GPA and a 3.3 in-minor GPA. He is also a very active contributor to the SMIF program. He holds Bloomberg Product Certification in Equity and is pursuing his Fixed-Income Analysis Certification. In addition to being a full time student, Tien is a personal trainer and the marketing director of a small wellness center, GoldenKey Wellness. After graduation, he plans to seek a position in securities analysis. Tien’s long-term goal is to build own his own franchise utilizing the knowledge and experiences he has gained through analyzing companies.

Christian Gimenez is graduating in May 2009 with a BS in Business Administration, with options in Accountancy and Finance and a concentration in Investments. He holds Bloomberg Product Certification in both Equity and Fixed-Income Analysis. His career ambitions are to pursue a career in portfolio management and open an investment management firm. His goals are to become a CFA® Charter Holder and obtain his Master’s in Business Administration. Activities that he is involved in include the Financial Management Association, National Honor Society, Accounting Society, Leadership Academy, and Ukleja Center for Ethical Leadership. In his spare time, Christian enjoys going to the beach, playing basketball, and traveling to exotic places.
Casey Hughes graduates in May 2009 with a BS in Business, an option in Finance, and a concentration in Investments. She carries a 3.0 in-major GPA and remained a dedicated member of SMIF while attending several career-building events and participating in group research. In Fall 2008, she played an active role in organizing SMIF’s participation in the CFALAA-hosted Career Expo, as well as scheduling attendance for the Host-a-Student program. During the Spring semester, she actively monitored market triggers, such as housing, and performed extensive equity analysis. Concurrent with her participation in SMIF, she completed an internship at a brokerage firm, and upon graduation plans to embark on her career as a stock broker.

Gregory Strand is a graduating senior majoring in Finance with a concentration in Investments. Upon graduating, Greg will pursue a job with a vibrant, growth-oriented financial firm and begin studying for the CFA® Level 1 Examination. After gaining work experience, he will pursue an MBA in Management. His ultimate goal is to open his own financial consulting firm. Greg has demonstrated ambition and leadership by earning his Eagle Scout through Boy Scouts of America. As the Eminent Treasurer of his fraternity, he provided the responsibility necessary for financial success. He led the SMIF Marketing Committee (SMC), which raised the profile of the SMIF program, expanding its talented recruitment pool. When Greg is not studying or working he enjoys snowboarding, playing golf, and watching professional sports.

Natthaphong Thalaengkit, an international student from Thailand, fulfills his primary goal of obtaining a Bachelor’s degree in Finance with a concentration in Investments in May 2009. He maintained a 4.0 in-major GPA and was on the President’s List in Fall 2008. He has been accepted into the Master of Finance program at The Cass Business School of City University in London, England. Having obtained his Bloomberg Certification® in Fixed-income and Equity, he plans on taking his knowledge, skills, and abilities and sharing them with others in different parts of the world, especially in his home country. His prior entrepreneurial experience in restaurant proprietorship as well as with the experiences gained in the SMIF program will help him gain a sturdy foothold in the world of finance.

Kristin Tran will complete her BS in Business Administration with a double major in Finance and Accounting in May 2009. A dedicated member of the SMIF program, she played a large role in securing first place in the CFAOCF 2009 RFP competition. Her future goals include obtaining the CFA® designation, an MBA, and becoming an experienced portfolio manager. Being one of the few females in the program, she inspires others like herself to pursue careers in the investment industry. Kristin is also an active member in the Financial Management Association and Accounting Society. During Spring 2009, Kristin became co-coordinator of the Volunteer Income Tax Assistance program at CSULB. During her leisure time, she enjoys playing tennis, swimming, and attending family outings.
Lam Tran received a BS in Nuclear Engineering Technology from Thomas Edison State College in Trenton, New Jersey, and will be graduating with a Master’s in Business Administration from CSULB. While in SMIF, he spearheaded the development of the SMIF Web site and participated in the CFAOCF RFP competition. He has also received his Bloomberg Product Certification in Equities and Fixed Income. Lam was selected to be on the Graduate Dean’s List of University Scholars and Artists, which is limited to 1 percent of the University’s graduate enrollment. He is currently an Operations Engineer with Anheuser-Busch, Inc. but seeks a new career path in the finance industry. Prior to his start at Anheuser-Busch, Lam served proudly in the United States Navy for six years. In the future, Lam hopes to become a portfolio manager for a large investment firm.

Ruben Valverde will be graduating with a degree in Business Finance in May 2009. He has made numerous contributions to the Fund, including extensive analytical work. In the process he obtained Bloomberg Product Certification to aid in the analysis. He participated in building and applying multiple equity valuation models that were utilized extensively by the student Fund managers. Ruben’s several notable accomplishments include a key role in expanding the Fund by developing relationships with the campus organizations Forty-Niner Shops, Inc., and Associated Students, Inc. (ASI). Ruben personally initiated and spearheaded the successful effort to manage a new portfolio for ASI. Along with other top student-managers, Ruben played a key role in expanding the Fund, drawing one step closer to the students’ goal of managing $1,000,000 in assets.

Michael Wilion previously earned an A.A. degree in Economics from Santa Barbara City College. Currently, he is Bloomberg Certified in both Equity and Fixed-Income Analysis. He intends to maintain his 4.0 GPA at CSULB, and graduates in May 2009. In the near future, he plans to either attend law school or pursue a Master’s in Sports Management. He keeps an open mind about working in the investment industry, but would prefer a career in Sports Finance, ultimately overseeing all financial aspects of a major professional sports team.

Brooks Zimmer will be receiving his BS in Business Administration with an option in Finance and concentration in Investments. He is leaving California State University, Long Beach with Bloomberg Product Certification for both Fixed Income and Equities and a membership in the Financial Management Association’s National Honor Society. After graduation he plans to work toward CFA® certification and use the financial, analytical, and teamwork skills gained through SMIF to work in the investment industry towards a position as a portfolio manager.
Front row (from left to right): Christian Gimenez, Peter Chou, Tien Do, Kristin Tran, Nghi Do, Casey Hughes, Brooks Zimmer, Reuben Conceicao

Back row (from left to right): Wayne Brown, Natthaphong Thalaengkit, Derek Baldwin, Ruben Valverde, Lam Tran, Babak Ardakani, Michael Wilion

Not shown: Gregory Strand
SMIF GUIDELINES

Senior-level undergraduate students and second-year master’s students in the College of Business specializing in finance make up the SMIF team. In order to maintain enrollment in this honors level course, a number of prerequisite courses must be taken. These students are subject to an interviewing process and require approval by the Finance Department Chairman and course faculty advisors.

SMIF has a fiduciary duty and has implemented levels of investment checks and balances to monitor the fund. Any additions to the portfolio require a 75 percent supermajority approval by the program members. All decisions are subject to veto by any of the Program Directors. Fund benefactors at all times have access to quarterly financial statements audited by a major accounting firm and an annual report.

These guidelines will describe the mechanics of the program, explain the acceptable types of securities, specify the diversification strategy, and describe the various safeguards and security measures that are “built into” the program.

OBJECTIVES OF CAPITAL PRESERVATION

The primary objective of the earlier stage of the course is capital preservation of the initial fund endowment to ensure future classes will also have a fund to manage.

RATE OF RETURN

The return should be equal to or better than the composite benchmark set forth by SMIF. As the assets of the fund increase in value, returns may be used to finance scholarships and special projects and, perhaps, course-related field trips.

SUGGESTED INVESTMENT POOL

STUDENTS WILL BE ALLOWED TO INVEST IN THE FOLLOWING TYPES OF SECURITIES:

- Common stocks of listed on the three major exchanges: NASDAQ, NYSE, and AMEX
- Companies with market capitalization of at least $100 million
- Government and corporate bonds: investment-grade corporate bonds (Moody’s or S&P-rated “BBB” or higher)

STUDENTS WILL NOT BE ALLOWED TO INVEST IN THE FOLLOWING TYPES OF SECURITIES AND ACTIVITIES:

- Mutual funds
- Short sales
- Futures or derivatives
- Foreign equities or debt investments not traded on US exchanges
- Utilization of leverage
SUGGESTED PORTFOLIO DIVERSIFICATION

- 50 to 75 percent to be invested in equities
- 25 to 50 percent to be invested in fixed income
- Portfolio Beta not to exceed 1.5
- Equal mix of income (dividends) and growth (capital gains) stocks

THE 5 / 15 RULES

- No more than 5 percent of the portfolio can be invested in any one company
- No more than 15 percent of the portfolio can be invested in any one industry

SUGGESTED TRANSACTIONS

- Round-lot purchases, when possible, within the above guidelines
- Purchase decisions support by 75 percent of the class
- Subject to veto by any of the Program Directors
- Irrevocable 10 percent stop-loss provision communicated to the broker at the time of purchase
- Any bond falling below investment-grade is to be sold

FREQUENCY OF TRADING

Trades are recommended and voted upon by students and approved by the fund advisors. Class meets once a week and trading decisions are made at that time. In emergency situations an appointed member from each team will contact each other to discuss possible actions. A supermajority vote of 75 percent is required to adopt any transactions outside of class meetings.

SUMMER-BREAK FUND ACTIVITY

At the end of each spring semester, the investment fund is liquidated or directives may be put into place to assure orderly and timely liquidation. The Fund assets are used to purchase short-term Treasury bills or money-market instruments until the next SMIF team is ready to construct the portfolio. This is done in preparation for the next SMIF class. Each new SMIF team will have the ability to obtain a portfolio that has not been constructed, and implement a new investment management philosophy.

LEVELS OF INVESTMENT CHECKS AND BALANCES

- Trades are subject to veto by any of the Program Directors
- Monthly statements and quarterly audit from the brokerage firm
- Annual report and record of transactions sent to the major fund benefactors
## CONTACT INFORMATION

Student Managed Investment Fund  
College of Business Administration  
1250 Bellflower Boulevard  
Long Beach, California 90840-8505  
Tel: (562) 985-4569  
Fax: (562) 985-1754

### PROGRAM DIRECTOR

Dr L. R. Runyon  
Office: CBA-332  
Tel: (562) 985-4567  
Email: drunyon@csulb.edu

### PROGRAM CO-DIRECTOR

Dr Peter A. Ammermann  
Office: CBA-328  
Tel: (562) 985-7526  
Email: pammerma@csulb.edu