Boston University MBA Global Investment Fund

INVESTMENT FUND POLICY STATEMENT

FINAL DRAFT

April 2013
Investment Policy

I. STATEMENT OF PURPOSE
The Boston University MBA Investment Fund is a student-run US equity portfolio designed to provide MBA students with hands-on equity analysis and portfolio management experience. In addition to performing academic work, MBA students have a unique opportunity to acquire real-world investment management experience by formulating, making, acting on and evaluating the performance of investment recommendations.

II. INVESTMENT OBJECTIVES AND PHILOSOPHY
The Fund’s investment philosophy focuses on the pursuit of investment opportunities in the domestic equity market. The nationwide nature of the Fund reflects the MBA program’s worldwide industry reach and its internationally diverse student population. The research approach of the Fund combines top-down economic, sector, and industry analysis with bottom-up security selection. The Fund employs fundamental analysis, investment valuation, and risk management techniques to pursue investment opportunities.

Investment Objectives
Return Objective
The Fund’s primary long-term objective is capital appreciation. The Fund’s secondary long-term objective is current income. The Fund short-term objective is to generate returns in excess of its benchmark in each reporting period. The Fund’s benchmark is the Russell 2000 Index and is constructed as follows:

Russell 2000 Index (RUT)
The Russell 2000 Index is the most commonly used benchmark for small cap mutual funds. The annual capitalization for a company in the index is around $1.26 billion. The Fund may be proportionally invested in various industries, similar to the RUT and based on the Portfolio Fund Managers’ judgment.

Risk Tolerance
Given its long-term return objective, the Fund assumes an above-average risk profile. Risk is defined as return volatility and is measured by the standard deviations of the Fund’s returns. Consistent with the Fund’s above-average risk profile, the Fund’s target equity beta ranges from 0.5 to 1.5 based on returns of the Russell 2000 Index’s Beta of 1.20.

Investment Constraints
Time Horizon
The Fund’s time horizon is infinite and runs in concurrence with the existence of Boston University. Due to the educational nature of the Fund and its association with the University, the Fund’s time horizon extends beyond short-term market activity or market cycles. The Portfolio Managers will make specific judgments for the horizon, whether its 2 years or 5 years.

Liquidity
The Fund’s liquidity needs are very low due to lack of withdrawal requirements, thus the Fund requires about 5% cash on hand as reserve cash. This gives Portfolio Managers the leeway to assess and adjust the Fund when most of the funds are invested.
Tax Considerations
The Fund is a property of Boston University School of Management and is therefore exempt from local, state, and federal taxation.

Unique Circumstances
The Fund attracts donations from corporations, alumni, and other private individuals. Donations are treated as gifts. As such, donations are not invested in the Fund’s portfolio for the purpose of generating returns to their respective donors.

Legal and Regulatory
The Fund operates as a corporate brokerage account established by Boston University School of Management and adheres to the Charter and policies of Boston University.

III. INVESTMENT PROCESS
The analyst team (per industry sector) makes investment recommendations (Buy/Hold/Sell) to the sector teams and portfolio management team (President and VP of Investments of the MBA Investment Club). Investment recommendations are based on research reports that include a target share price and an investment thesis supporting each recommendation. Following presentation of an investment recommendation to the sector teams and Fund portfolio managers, a peer sector team will critique the stock pitch. Then the presenting sector team determines an appropriate investment action (Buy/Hold/Sell) to the Portfolio Managers, who will submit their decision to Faculty Advisor for approval and execution. The specific weight ($ amount) of the stock position will be determined by the Portfolio Managers while assessing risk and volatility. Each sector team is responsible for tracking the stock performance of their sector. At the end of the semester/year, the portfolio managers will pick the “best” and “worst” stock pickers (sector teams) to recognize the sector team’s performance (outperforming the benchmark by the most or least % percent).

Analysts track the outcome of each recommendation based on the corresponding equity sector and industry benchmark. Portfolio managers and analysts will assume their respective responsibilities for a period of at least 12 months. Upon completion of the 12-month term, analysts may be promoted to the position of portfolio manager by a joint decision of the portfolio management team and Faculty Advisor (see Faculty Advisor for details).

In cases where analysts graduate from their respective academic programs prior to completing the 12-month term with the Fund, the portfolio management team and the Faculty Advisor will advertise open analyst and portfolio manager positions to prospective students interested in joining the portfolio team.

IV. PORTFOLIO COMPOSITION
Asset Allocation
The Fund’s strategic asset allocation is provided below. The Fund’s portfolio managers, in consultation with the Faculty Advisor, must approve changes to the strategic asset allocation. In addition, the Fund’s portfolio managers makes tactical changes to its structure within the boundaries of the allowable target weights assigned to each asset class (see below table for details).

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Weight</th>
<th>Allowable Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Small Cap Equities</td>
<td>80%</td>
<td>60-90%</td>
</tr>
<tr>
<td>Cash</td>
<td>20%</td>
<td>0-40%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Position Limits
Each individual equity position constitutes a range of 2% to 5% of the total portfolio value. At the discretion of the Portfolio Managers, the specific weights are determined based on their risk and volatility parameters. Exception is granted to exchange-traded fund (ETF) positions that provide appropriate equity market exposure upon the launch of fund that would otherwise limit the Fund’s ability to provide an appropriate level of diversification.

Only equities with market capitalization between $200 million and $2 billion at the time of purchase are deployed into the Fund. The share price of each equity must be no less than $5.00. Unless otherwise specified in future revisions of the Investment Policy Statement (the “Statement”), the Fund invests in equities of small capitalization companies listed on major U.S. and foreign exchanges. The Fund may partially invest in cash instruments as specified in the asset allocation portion of the Statement. Other asset classes and types of securities are barred from the Fund.

Portfolio Rebalancing
The Fund portfolio management team has the authority to rebalance the Fund’s portfolio as necessary to ensure adherence to the Statement. Deviations from strategic asset allocation may result from abnormal performance of the Fund’s holdings, significant additions to the portfolio or general market fluctuations. The Fund team will review the portfolio and rebalance it on a semester basis and, if necessary, on a quarterly basis.

V. PERFORMANCE MEASUREMENT AND REPORTING

Benchmarks
The Fund shall have a benchmark consistent with its asset allocation mandate. Based on the current asset allocation structure, the Fund shall have the following blended benchmark:

<table>
<thead>
<tr>
<th>Asset Class Benchmark Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 2000 Index (RUT)</td>
</tr>
<tr>
<td>Weight 100%</td>
</tr>
<tr>
<td>Total 100%</td>
</tr>
</tbody>
</table>

Reporting
The Fund provides performance measurement for all relevant periods including but not limited to weekly, monthly, quarterly, and annual basis. Performance measurement reports include performance of each portfolio holding, each asset class, and each corresponding benchmark index. The Fund publishes portfolio reports at least quarterly and annually for the Alumni Advisory Committee.

Performance is calculated based on the time-weighted average methodology. Performance measurement reports include a description of the calculation methodology.

In addition to performance measurement, periodic Fund reporting includes updates on the status of the Fund’s activity and a current market summary as it relates to the portfolio composition.

Audit and Risk Monitoring
The Fund conducts an internal audit of its activities on a semi-annual basis. Internal audits assess the Fund’s compliance with the Statement and evaluate the Fund’s risk profile as measured by the standard deviation of returns and compared to the risk profile of the Fund’s benchmark.
In addition to providing a risk assessment of the Fund as part of an internal audit, the Fund publishes its risk profile in each of its quarterly reports. The Fund recruits at least one MBA student to assist the Fund management team with conducting internal audits and risk analysis.

VI. OTHER CONSIDERATIONS

Capital
In addition to any organic appreciation of its portfolio value, the Fund accepts donations from alumni donors, the Boston University Endowment Fund, industry sponsors, and any other interested parties. The Fund actively pursues donations from interested parties through alumni and university connections as well as by promoting the Fund at marketing, alumni, admission, and other events.

Vendor Services
As part of the portfolio review and reporting process, the Fund management team conducts an annual review of quality and suitability of products and services provided by brokerage, custody, market data and other vendors. The Fund management team analyzes products and services offered by market vendors, and selects those products and services that best fit the Fund’s objectives.

VII. Checklist & Rebalancing Portfolio

- **Beginning of Semester**
  - 1st Meeting: Present group structure and investment policy
  - 2nd Meeting: Select Sector Analysts and Research Associates

- **During Semester**
  - Perform research on current investments and new investment opportunities
  - Give each sector the opportunity to pitch an investment idea
  - Vote on new positions

- **End of Semester**
  - Contact Alumni Advisory Board to assess positions
  - Review / Rebalance portfolio
VIII. Portfolio Management Team Structure

MBA Investment Fund Structure

Advisory Committee Policies

- Candidates:
  - BU MBA alumnus
  - Up to [7] members
  - Active role in investment management
  - Diversified experiences across Fund’s sectors
  - Diversified range of work experience
  - Time commitment: Two 2 hours meetings with Executive Board annually
  - Establish investment horizons for the Fund

- Advisory committee members are not job connections and students must be respectful of it
- Advisory committee members can provide mentor advice
- Advisory committee members can form committees serving the goals of MBA Investment Fund
- Advisory committee members will have meetings at least twice a year.
- The MBA Investment Club advisor is also on the Advisory committee, and may act as the chairman of the advisory committee.

• Sector analysts and associates are 1st and 2nd year MBA, MS Finance
• Officers perform both: analytical and administrative functions (e.g. Treasury)

* Boston University School of Management
Executive Board Policies

• Candidates:
  ▪ 2nd year MBA and MS Finance
  ▪ Two 1st year MBA or MS Finance to ensure the Fund continuity
  ▪ Elected as Officers by the Fund members and perform leadership and administrative functions within the Fund. These positions are as follows, but are not limited to: President, Executive Vice President, VP of Investments, VP of Communications, VP of Finance, First Year Representatives, VP communication, PEMBA representative. (See Investment Club Constitution and website for additional details)
  ▪ Lead a sector as an analyst and vet stock recommendations provided by associates
• Executive board members designate an officer to be a liaison to Advisory Board members
• Executive board meets weekly
• Executive board can organize events serving the Fund’s goals

Sector Analyst Policies

• Candidates:
  ▪ 1st and 2nd year MBA and MS Finance
  ▪ Research and analyze companies within selected sectors
  ▪ Provide stock recommendation and target price within investment horizon to the portfolio managers and executive board
  ▪ Present stock pitches to the Fund management team at least once a semester
  ▪ Meet weekly with the executive board
  ▪ Meet weekly with their stock research team, which includes associates.

Research Associates Policies

• Candidates:
  ▪ 1st and 2nd year MBA and MS Finance
  ▪ Associates complete tasks given by Sector analysts and receive training and mentorship from them
  ▪ Associates assist in developing stock pitches
  ▪ Research associates meet weekly with the executive board / sector analysts

Portfolio Managers

Portfolio Managers evaluate and facilitate investment decisions, determine equity sector allocations and recommend allocation changes, track Fund performance, provide market updates, moderate fund meetings, manage external affairs of the Fund, promote the Fund to third parties, seek contributions from individuals and organizations, and conduct their own investment research.

The Fund holds investment meetings at least weekly. Both portfolio managers and at least two analysts must be present at an investment meeting for an investment decision to become binding upon the Fund.

a. Evaluate and facilitate investment decisions.
b. Determine equity sector allocations and recommend allocation changes.
c. Track Fund performance.
d. Moderate fund meetings.
e. Manage external affairs of the Fund.
f. Promote the Fund to third parties and seek contributions from individuals and organizations.
g. Portfolio managers will have an opportunity to conduct their own equity analysis.

Analysts
The analyst team assumes coverage of eleven Standard & Poors equity sectors: Defense, Energy, Financials, Industrials, Consumer Discretionary, Consumer Staples, Materials, Information Technology, Health Care, Utilities, and Telecommunication Services. Equity analysts will develop and Boston University MBA Investment Fund present investment recommendations (Buy/Hold/Sell), conduct fundamental equity analysis, including sector/industry analysis and intrinsic and relative valuation, and research and monitor sector and industry trends. Each of the ten equity sectors is covered by at least one, and in some instances, by two equity analysts.

a. Develop and present investment recommendations (Buy/Hold/Sell).
b. Conduct fundamental equity analysis, including sector/industry analysis and intrinsic and relative valuation.
c. Research and monitor sector and industry trends.
d. Lead and organize meetings with analysts and associates for their respective sectors.

Associates
The associates will help the analysts to do some parts of the stock research that include, but are not limited to present investment recommendations (Buy/Hold/Sell), conduct fundamental equity analysis, including sector/industry analysis and intrinsic and relative valuation, and research and monitor sector and industry trends. Each of the ten equity sectors is covered by at least one, and in some instances, by two associates.

Faculty Advisor
The Fund solicits a Faculty Advisor to provide supervision of the Fund’s activities. Typically, the MBA Investment Club faculty advisor will be the Fund’s advisor as well. The Faculty Advisor approves the Fund’s strategic asset allocation and oversees tactical changes to the Fund. To assist the Faculty Advisor in his supervising role, the Fund team provides the Advisor with a written rationale behind each investment decision. In addition, Faculty Advisor supports the Fund’s investment process and assists in the development and training of the Fund’s management team. The Faculty Advisor executes the stock recommendations in the brokerage account on behalf of the Fund management team.

Selection Criteria
1. Sector Analyst / Associates Criteria
   a. Interest in the field of finance.
   b. Strong analytical ability.
   c. Ability to work well in a team.
2. Portfolio Manager Criteria
   a. Passion for the field of equity investments.
   b. Strong analytical skills.
   c. Knowledge of capital markets.
   d. Prior investment experience preferred.

3. Requirements for both Portfolio Manager, Analysts, Associates
   a. Ability to present a compelling investment recommendation.
   b. Availability to meet with fund team at least once a week.
   c. Time commitment of at least 12 months following acceptance of the analyst/PM role.

Students interested in MBA Investment Fund are encouraged to take advantage of the following readings:

a. “The Intelligent Investor”, Benjamin Graham
b. “Common Stocks and Uncommon Profits”, Phil Fisher
c. “Analysis of Equity Investments: Valuation”, John D. Stowe, CFA.
d. “Investment Valuation”, Aswath Damodaran
e. “Financial Reporting and Statement Analysis”, Clyde Stickney
f. “Security Analysis”, Benjamin Graham and David Dood.

IX. Stock Pitches
   • Stock Pitch Structure: (Analysts and associates will develop stock pitch):
     • Industry overview (Porter’s Five forces: why industry economically viable, barriers to entry, pricing power and consumers)
     • Company (what’s attractive in comparison with competition, profitability metrics)
     • Management (What kind of management philosophy and approach / expertise do they have?)
     • Financials (Investment thesis: 3-4 bullet points with 3-4 sentences supporting them with quant: why security mispriced, any catalysts, growth opportunity, expense-related advantage, one-off event)
     • Stock Drivers (What contributed to undervaluation and what will make it more valuable over time?)
     • Valuation (a choice of DCF, Multiples, Comps; know capital structure and what valuation metrics are important) and comparison to consensus (what the Street is missing)
     • Risk/reward analysis (price target post-catalyst or if your thesis doesn’t work)
     • Stock recommendation: buy/hold/sell, upside/downside

   • Stock pitch has 2 parts:
     • Powerpoint presentation is expected to be 5-10 minutes followed by 15 minutes of Q&A
     • 1-2 page summary in doc or pdf supported by more extensive analysis in excel or other media organized in a presentable way

   • Sector analysts should be always be able to answer questions related to the stock pitch structure.
   • Sector analysts and associates can use Factset, Capital IQ, Bloomberg and other valuation resources for their research