



**NORTHERN ARIZONA  
UNIVERSITY**  
*The W.A. Franke College of Business*

# **Student Managed Investment Fund**

**INVESTMENT REVIEW**  
**Update through September 30, 2015**

**Faculty Advisors:**

David Allen, Ph.D. & Matthew Haertzen, CFA

**Student Presenters:**


**Kristi Alderson, Zac Guffy, Trevyn Scott, Allison Welty, & Emily White**

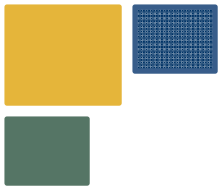


# Performance Overview

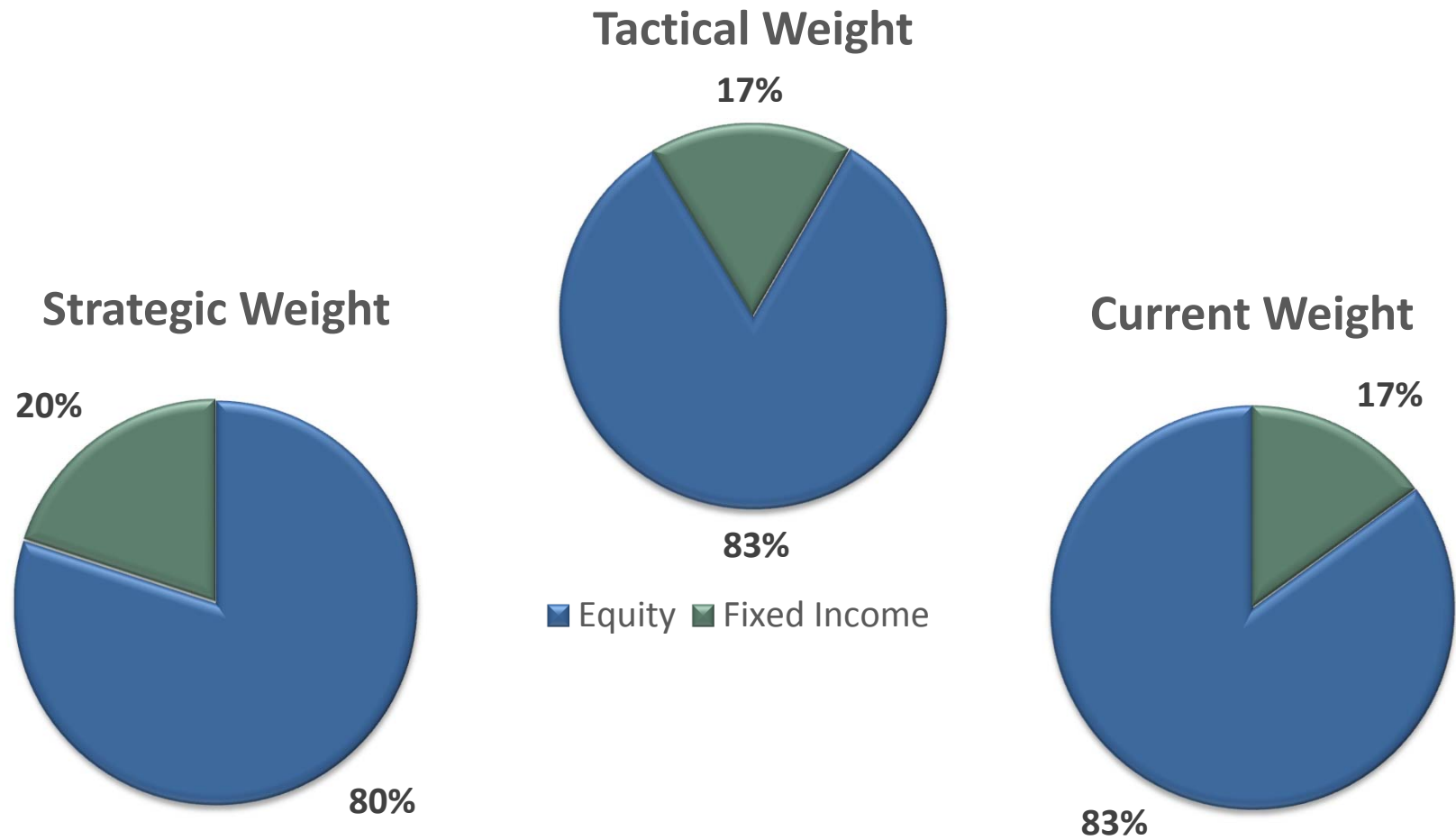
	SMIF	Benchmark	S&P 500	DJ BOND INDEX
One month Timeframe (8/31/15)-9/30/15	-1.9%	-1.8%	-2.5%	0.7%
Calendar YTD (12/31/14 - 9/30/15)	-2.6%	-4.2%	-5.3%	-0.01%
Fiscal YTD (6/30/15 - 9/30/15)	-5.8%	-4.9%	-6.4%	1.1%
12 Months (09/30/2014 to 09/30/2015)	2.6%	0.1%	-0.6%	2.4%
Since inception (9/18/2000):	259.9%	99.7%	78.2%	174.8%

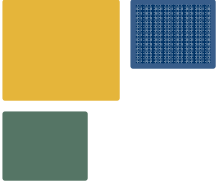
➤ Benchmark = (.8)(S&P500 return) + (.2)(Dow Jones Bond Index return)





# Asset Allocation





# Portfolio Income

## 6/30/15 to 9/30/2015

Month	Money Market Dividends	Stock Dividends	Bond Interest	Total
Jul-15	0.14	904.03	495.83	1,400.00
Aug-15	0.33	1,550.33	1,583.33	3,133.99
Sep-15	0.29	3,792.78	45.83	3,838.90
Total	\$0.76	\$6,247.14	\$2,124.99	\$8,372.89

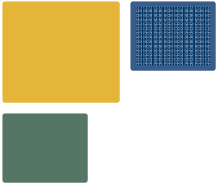




# Top 10 Holdings

% of Total Portfolio	Symbol	Name	Sector	Market Value	Gain/Loss (\$)	Gain/Loss (%)
7.68%	AGN	ALERGEN	Healthcare	\$125,703.60	\$98,053.31	354.62%
6.09%	AMGN	AMGEN	Healthcare	\$99,617.70	\$64,671.83	185.06%
5.59%	NKE	NIKE	Consumer Discretionary	\$91,567.00	\$35,636.45	63.72%
5.10%	AIG	AMERICAN INTERNATIONAL GROUP	Financials	\$83,460.40	\$37,572.89	81.88%
4.94%	ACN	ACCENTURE LTD CLAF	Healthcare	\$80,902.50	\$51,788.25	177.88%
4.61%	EQIX	EQUINIX INC	Information Technology	\$75,502.95	\$33,566.65	80.04%
4.26%	PNRA	PANERA BREAD COMPANY	Consumer Discretionary	\$69,776.25	\$6,936.78	11.04%
4.21%	AVG	AVG TECHNOLOGIES	Information Technology	\$68,850.00	\$12,269.00	21.68%
4.00%	MDT	MEDTRONIC INC	Healthcare	\$65,412.00	\$24,605.35	60.30%
3.05%	PEP	PEPISCO	Consumer Discretionary	\$59,289.00	\$20,701.95	53.64%



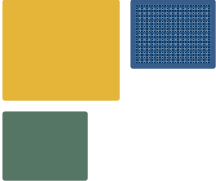


# **Buy Transactions Stock**

## **06/30/2015 - 09/30/2015**

**No transactions during this time period.**





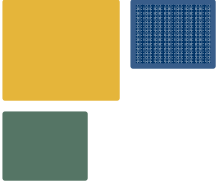
# Buy Transactions

## Bonds

### 06/30/2015 – 09/30/2015

<b>Bonds Buys</b>	6/30/15 to 09/30/15			
Date	Company	Quantity	Price	Amount
1/1/2019	WAL-MART STORES 4.125% DUE 01/01/19	201	\$108.47	\$21,813.77
				\$21,813.77





# Bond Maturities

## 4/01/2015 – 9/30/2015

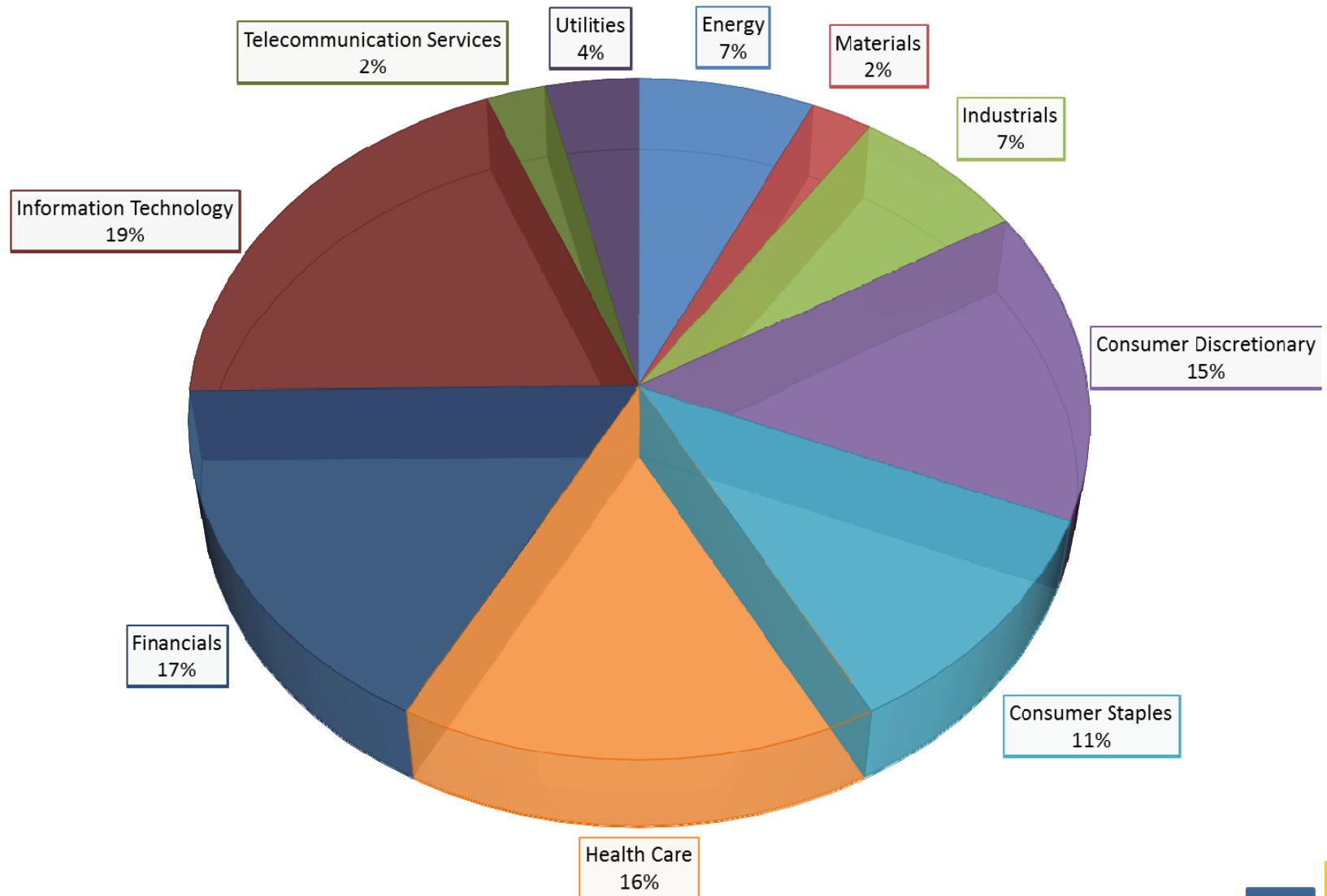
### Bonds Matured:

Date	Company	Maturity	Quantity	Amount
07/01/15	WAL-MART STORES 4.500%	07/01/15	-20,000	\$20,000.00





# Current Sector Weights



# Energy: Overview

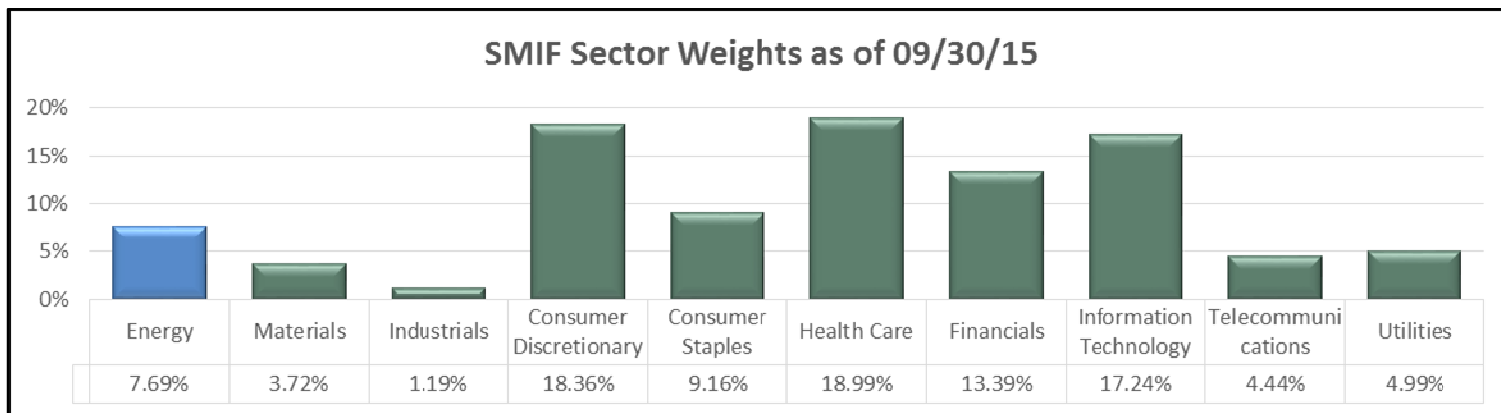
## Recommendation

- Underweight

## Rationale

- Oil prices are expected to rise
- Oil based stocks are selling at a bargain
- Stable income from dividends

Energy Sector	
S&P 500 %	6.9%
Portfolio %	7.7%
Target Portfolio %	6.9%
P/E	16.2
Dividend Yield	3.6%
Beta	1.23





# Energy: Highlights

## Enservco (ENSV)

- Pending sale

## Enbridge (ENB)

- Increasing margins
- Decreasing capital expenditures
- Trans Mountain Pipeline

## Chevron (CVX)

- Increasing concern about oil price drop
- Significant asset sales offset drop in crude oil
- Earnings results better than expected

### Calendar YTD Performance

(12/31/2014 to 09/30/2015)

CVX	-27.4%
ENB	-26.0%
ENSV	-56.3%

### FYTD Performance

(6/30/15 to 9/30/2015)

CVX	-17.2%
ENB	-19.9%
ENSV	-54.5%



# Materials: Overview

## Recommendation

- Underweight

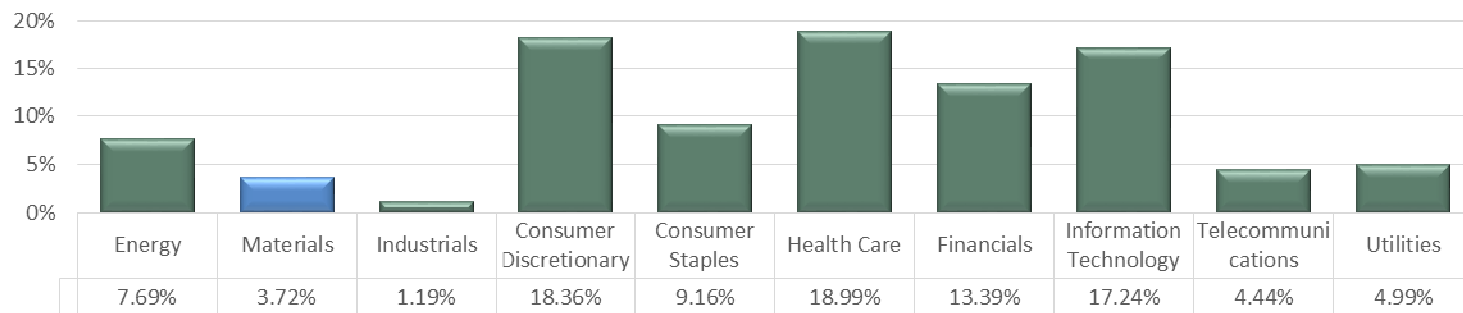
## Rationale

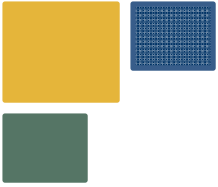
- Increased demand for sustainability
- High demand for eco-friendly chemicals and mining techniques

## Materials Sector

S&P 500 %	2.8%
Portfolio %	3.7%
Target Portfolio %	2.4%
P/E	14.9
Dividend Yield	2.5%
Beta	1.06

SMIF Sector Weights as of 09/30/15





# Materials: Highlights

## Ball Corporation (BLL)

- Increased demand in the aerospace market
- Increased packaging sales in Europe
- New techniques that are being implemented
  - Generation 2 bottles & tin plate aerosol

YTD Performance	
(12/31/14 to 9/30/15)	
BLL	-8.3%

FYTD Performance	
(6/30/15 to 9/30/15)	
BLL	-11.2%



# Utilities: Overview

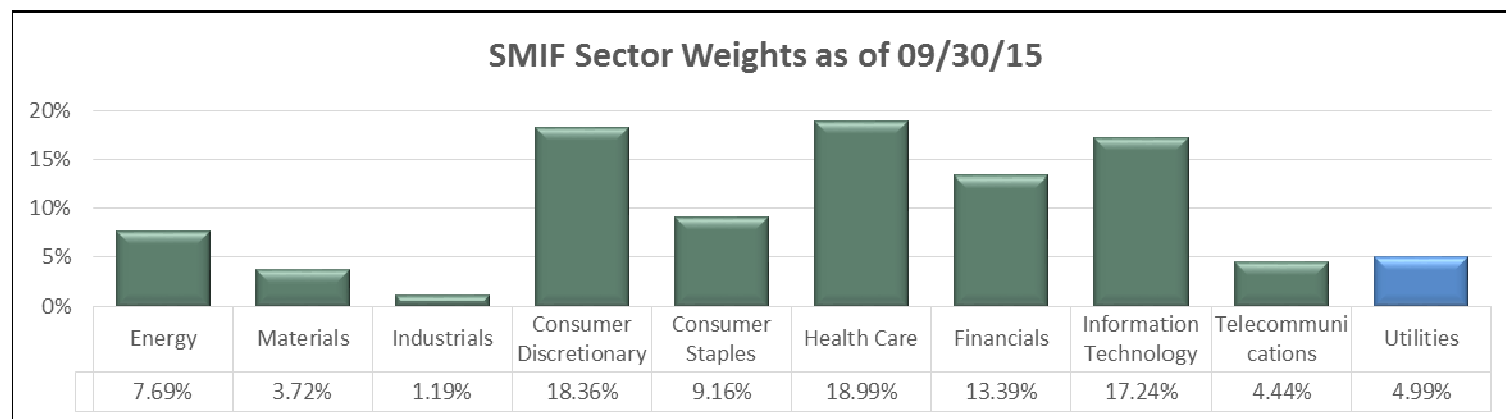
## Recommendation

- Overweight

## Rationale

- Stable industry demand and earnings
- Long-term growth prospects
- High dividends

Utilities Sector	
S&P 500 %	3.0%
Portfolio %	5.0%
Target Portfolio %	3.7%
P/E	16.3
Dividend Yield	3.8%
Beta (adjusted)	0.64





# Utilities: Highlights

## Edison International (EIX)

- Smaller environmental impact
- Investing in electric facilities and components
- Product expansion in pipeline

- **Artesian Resources Corp. (ARTNA)**

- Strong Price performance during market uncertainty
- Upper Level Management average tenure over 20 years

### YTD Performance

**(12/31/14 to 09/30/15)**

EIX	-1.6%
ARTNA	10.1%

### FYTD Performance

**(6/30/15 to 09/31/15)**

EIX	14.3%
ARTNA	15.6%



# Industrials Overview

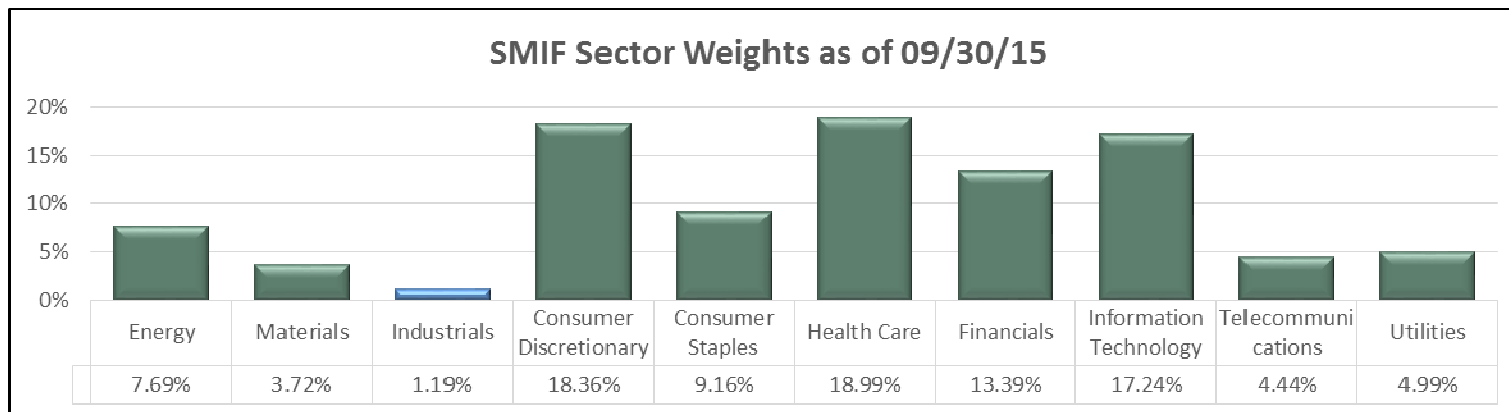
## Recommendation

- Market weight

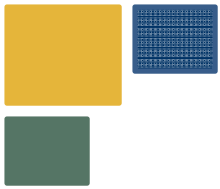
## Rationale

- Economic growth both domestically and abroad

Industrials Sector	
S&P 500 %	10.2%
Portfolio %	1.2%
Target Portfolio %	7.0%
P/E	17.7
Dividend Yield	2.1%
Beta (adjusted)	1.09







# Industrials Highlights

## Fluor Corp. (FLR)

➤ Pending sell.

### YTD Performance

(12/31/14 to 09/30/15)

FLR	-29.3%
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### FYTD Performance

(6/30/15 to 09/30/15)

FLR	-19.7
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# Consumer Discretionary: Overview

## Recommendation

- Overweight

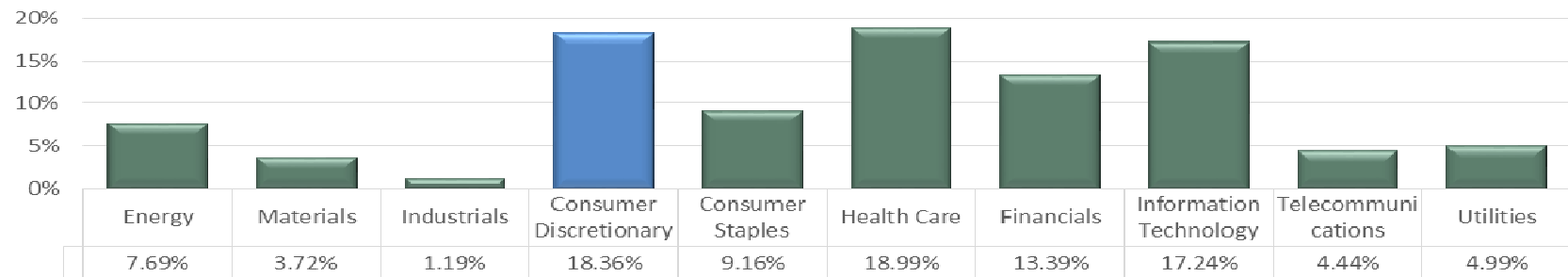
## Rationale

- Outperformed the S&P by 6% in the past year
- Low interest rates, low cost of oil for automotive industry
- Increase in wages

## Consumer Discretionary Sector

S&P 500 %	13.1%
Portfolio %	
Target Portfolio %	14.1%
P/E	19.4
Dividend Yield	1.6%
Beta	.983

SMIF Sector Weights as of 09/30/15





# Consumer Discretionary: Highlights

## Hasbro (HAS)

- Product expansion in current pipeline

## Nike (NKE)

- In the top quartile of the S&P 500

## Panera Bread Company (PNRA)

- “Panera 2.0” to attract new customers

## Smith & Wesson (SWHC)

- Strong international expansion

## Wyndham (WYN)

- Vacation rental transactions increased 6%

### YTD Performance

**(12/31/2014 to 9/30/2015)**

HAS	33.6%
NKE	28.9%
PNRA	10.7%
SWHC	78.1%
WYN	-14.8%

### FYTD Performance

**(6/30/15 to 9/30/2015)**

HAS	-2.9%
NKE	14.2%
PNRA	10.7%
SWHC	1.7%
WYN	-11.7%





# Consumer Staples: Overview

## Recommendation

- Overweight

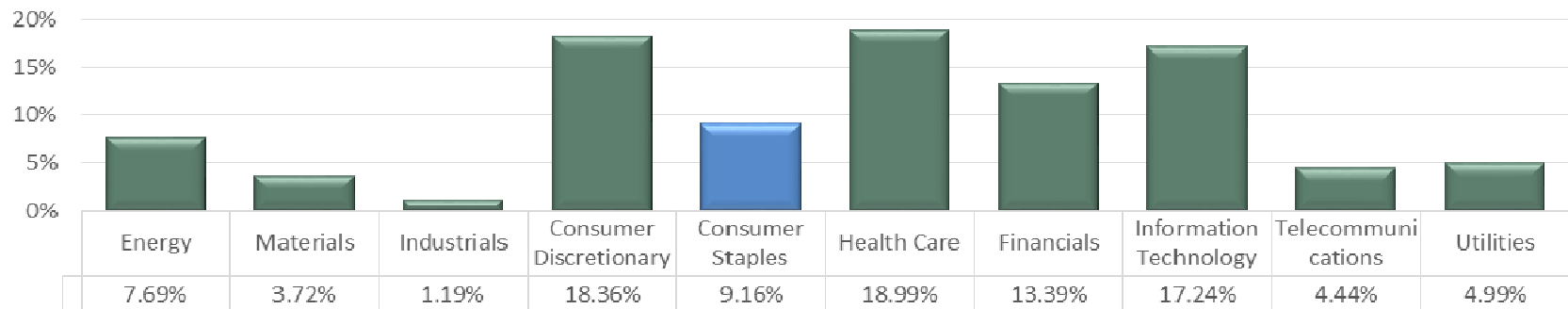
## Rationale

- Increase in discretionary income
- Product differentiation

## Consumer Staples Sector

S&P 500 %	9.9%
Portfolio %	9.2%
Target Portfolio %	10.8%
P/E	16.0
Dividend Yield	2.7%
Beta	0.70

SMIF Sector Weights as of 09/30/15





# Consumer Staples: Highlights

## Craft Brew Alliance (BREW)

- Proposed sell
- Underperforming in the beverage industry

## CVS Caremark (CVS)

- Minute Clinic growth
- Minimal losses from discontinuation of tobacco

## Pepsico (PEP)

- Increased snack revenues
- Shrinking capital expenditures

### YTD Performance

**(12/31/2014 to 9/30/2015)**

BREW	-40.3%
CVS	1.2%
PEP	1.9%

### FYTD Performance

**(6/30/15 to 9/30/2015)**

BREW	-27.9%
CVS	-7.7%
PEP	1.8%



# Health Care: Overview

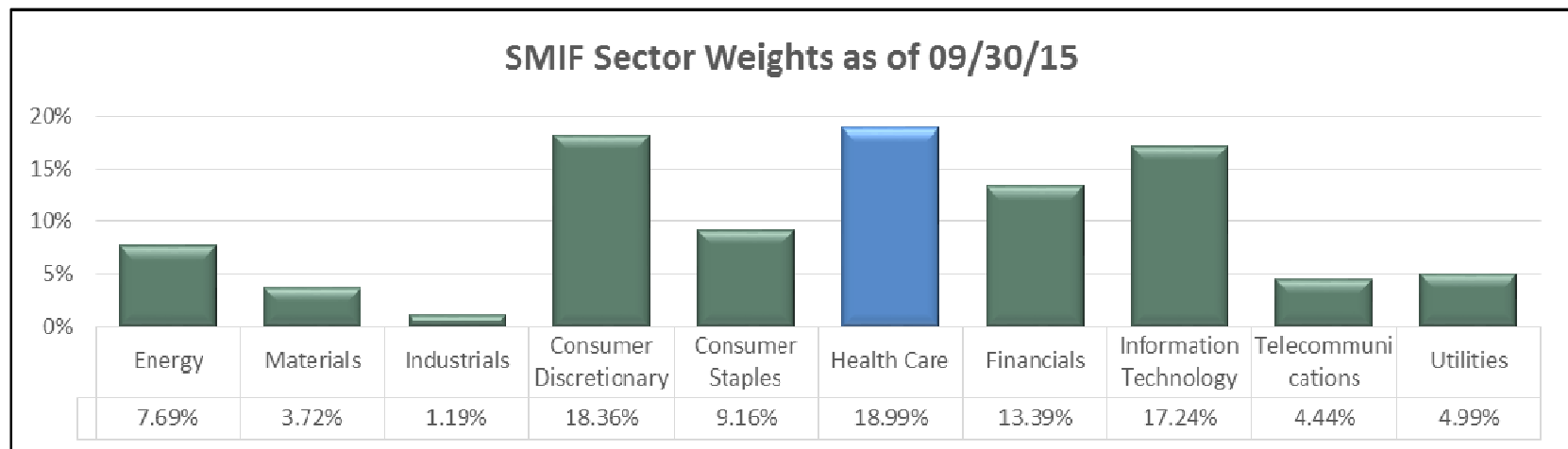
## Recommendation

- Overweight

## Rationale

- Aging population and Affordable Healthcare Act driving demand for health care services
- Maturing biotech stakes indicative of industry growth

Health Care Sector	
S&P 500 %	14.7%
Portfolio %	19.0%
Target Portfolio %	15.7%
P/E	21.6
Dividend Yield	1.5%
Beta	0.982





# Health Care: Highlights

## Allergan (AGN)

- Potential Acquisition with Pfizer

## Amgen (AMGN)

- Approval of Repatha for treatment of high cholesterol and heart disease in Europe

## Gilead (GILD)

- Continues to hold market share in HCV space
- Initial testing for latest Ebola drug has proved
- successful with 100% survival rate

## Medtronic (MDT)

- Acquired both Medina Medical and Dezima Pharma
- Developed MRI safe heart implant

### YTD Performance

(12/31/14 to 9/30/15)

AGN	5.6
AMGN	-11.8%
GILD	4.9%
MDT	-5.9%

### FYTD Performance

(06/30/15 to 09/30/15)

AGN	-10.4%
AMGN	-9.4%
GILD	-15.8%
MDT	-9.1%



# Financials: Overview

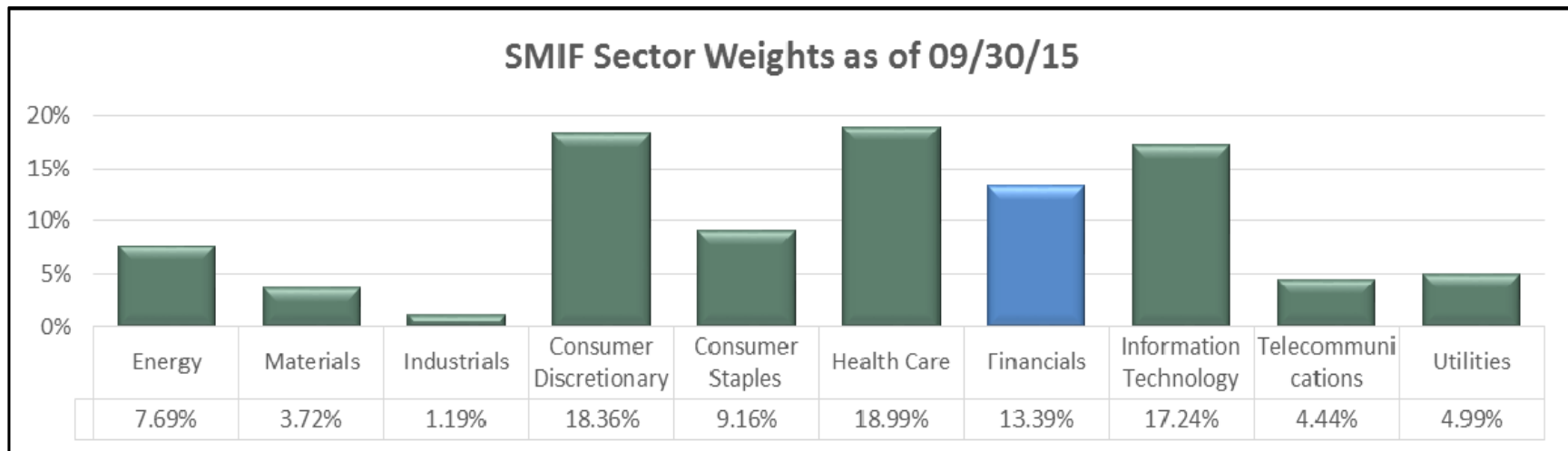
## Recommendation

- Overweight

## Rationale

- Interest rate hike
- Forecasted increased revenue
- High dividend payout

Financials Sector	
S&P 500 %	16.3%
Portfolio %	13.4%
Target Portfolio %	18.0%
P/E	14.1
Dividend Yield	2.1%
Beta	1.0







# Financials: Highlights

## Wells Fargo (WFC)

- Strong Loan growth
- Poised to profit from changing interest rates

## Discover Financial Services (DFS)

- Card holders can now link their credit cards to Apple Pay
- Share buyback of \$435 million

### YTD Performance

(12/31/14 to 09/30/15)

WFC	-4.5%
AFSI	13.5%
DFS	-19.5%
AIG	2.4%

### FYTD Performance

(6/30/15 - 09/30/15)

WFC	-8.1%
AFSI	-3.4%
DFS	-9.3%
AIG	-7.7%



# Information Technology: Overview

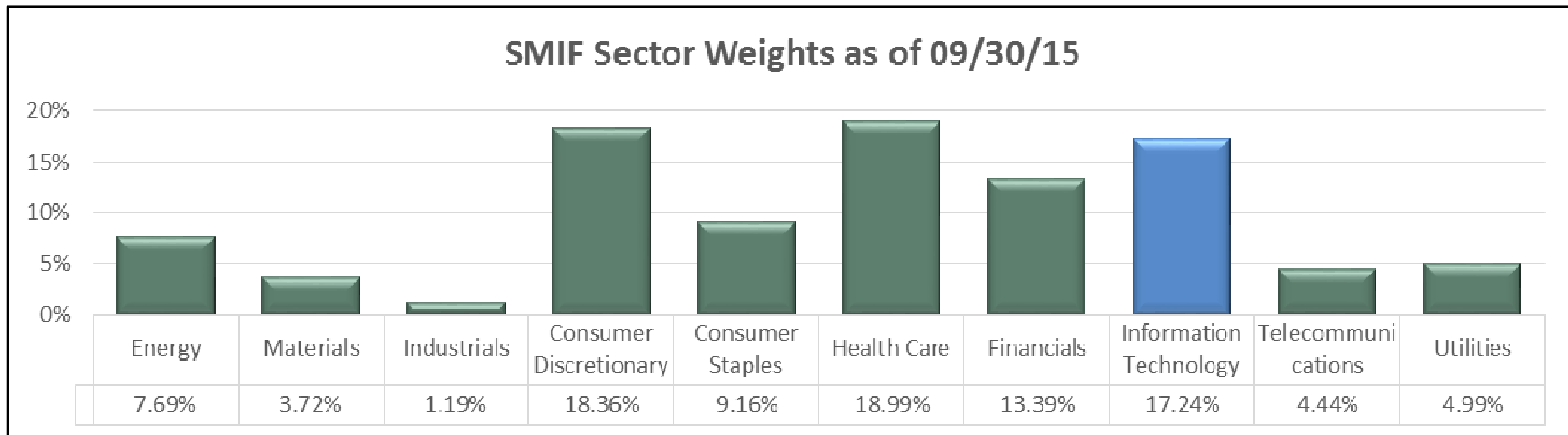
## Recommendation

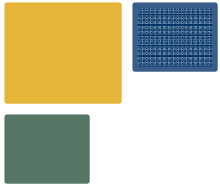
- Market Weight

## Rationale

- Amount of devices connected to the internet in 2020 will more than double
- Cost of storing data is decreasing at an exponential rate
- “Safe Harbor” Agreement regarding data transfer laws

Information Technology Sector	
S&P 500 %	20.4%
Portfolio %	17.2%
Target Portfolio %	20.4%
P/E	19.2
Dividend Yield	1.6%
Beta	1.15





# Information Technology: Highlights

## ACN

- Witnessed growth in all Accenture product line
- Dividend yield growth rate of 31%

## AVG

- Released next generation consumer product for PC and Mobile
- Better security and better integration products
- Mobile Malware market expected to grow 18%

## EQIX

- Continued investment in international markets
- Expanding cloud exchange service

## INTC

- Investing heavily in NAND technology
- Potential large contract with Apple for “A-Chip”

### Calendar YTD Performance (12/31/14 to 9/30/15)

ACN	11.2%
AVG	10.2%
EQIX	23.3%
INTC	-15.4%

FYTD Performance (6/30/15 to 9/30/15)	
ACN	1.5%
AVG	-20.1%
EQIX	8.3%
INTC	-.08%





# Telecommunications: Overview

## Recommendation

- Underweight

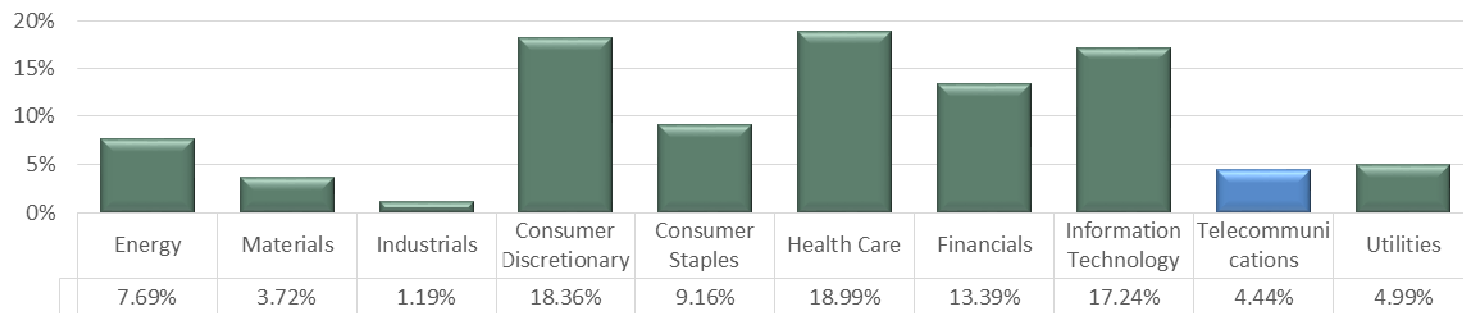
## Rationale

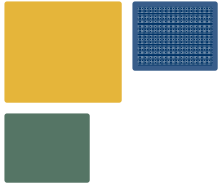
- Privacy control regulations
- Decrease in sector innovation

## Telecommunications Sector

S&P 500 %	2.4%
Portfolio %	4.4%
Target Portfolio%	2.4%
P/E	13.8
Dividend Yield	5.3%
Beta	1.06

SMIF Sector Weights as of 09/30/15





# Telecommunications: Highlights

## Verizon Communications (VZ)

- High expectations for future earnings and dividend growth
- Industry leader in Wireless segment

YTD Performance	
(12/31/14 to 9/30/2015)	
VZ	-3.7%
EGHT	-9.7%

## 8X8 Inc. (EGHT)

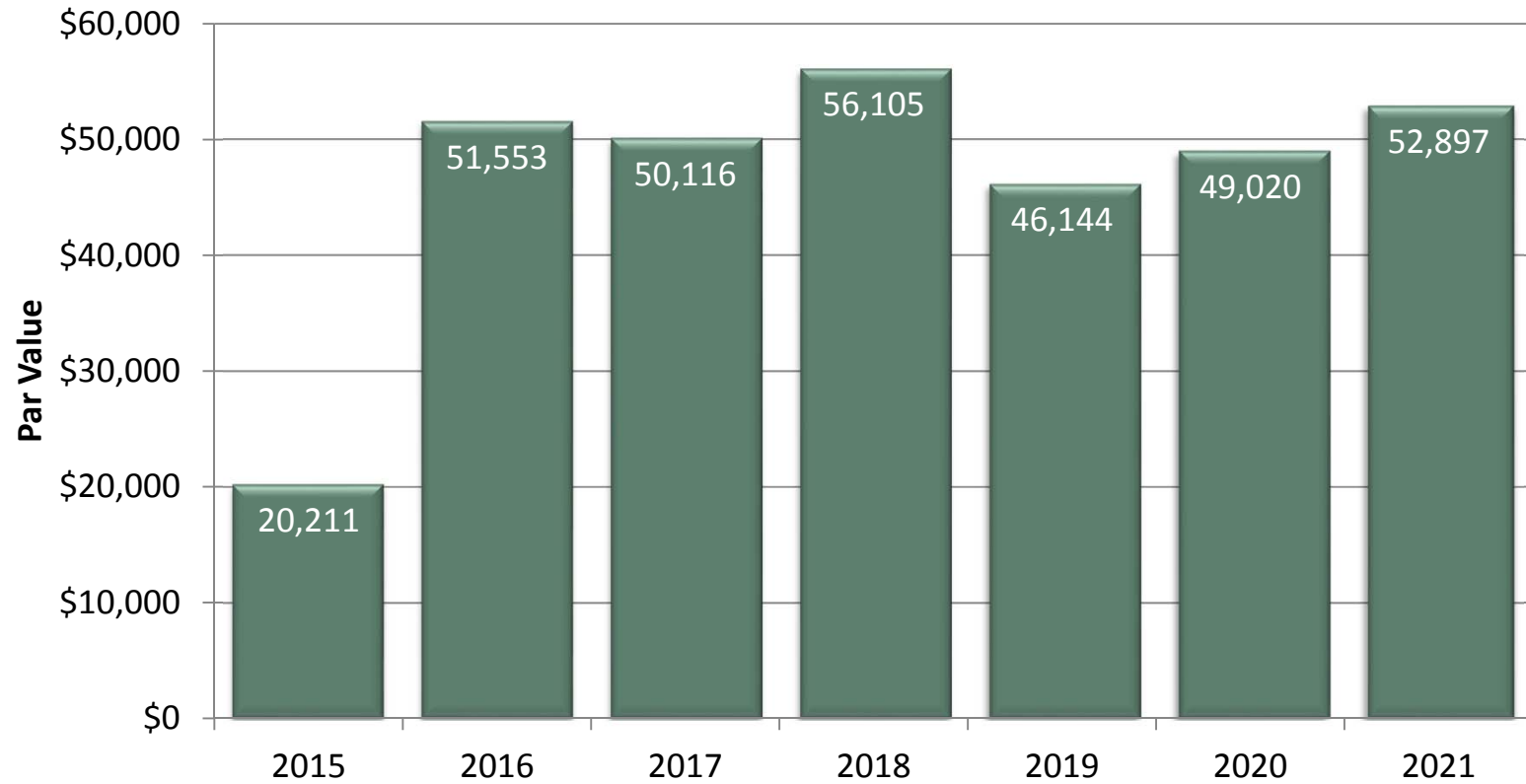
- Targeting mid-markets
- \$20 million shares buy back plan

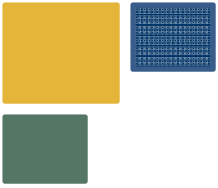
FYTD Performance	
(6/30/2015 to 9/30/2015)	
VZ	-5.6%
EGHT	-7.7%



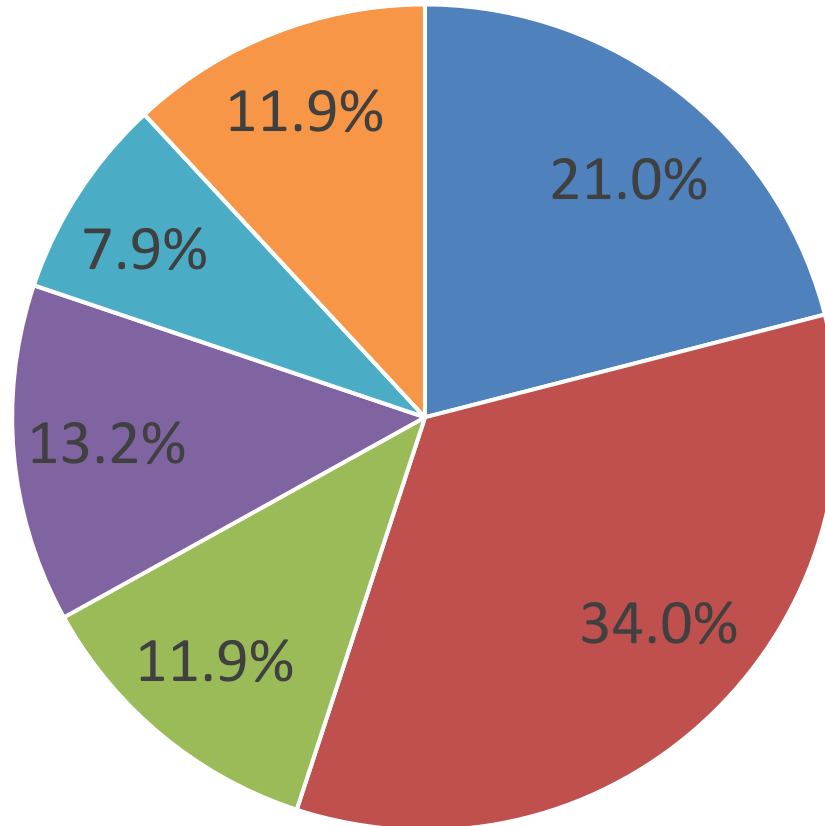


# Bond Maturity Schedule





# Bond Ratings



■ AA ■ A ■ BB+ ■ AA+ ■ BBB ■ BBB+





# Past Events

## California Investment Firm Tour: October 28<sup>th</sup> – 30<sup>th</sup>

- Caltius Capital
- Scott Myers of Hycroft Capital
- Aristotle Capital
- Pathway Capital
- PIMCO







# Past Events



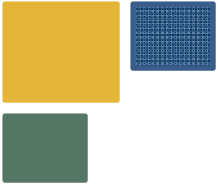


# Past Events

## Junior Stock Market Challenge:

- Two teams participated

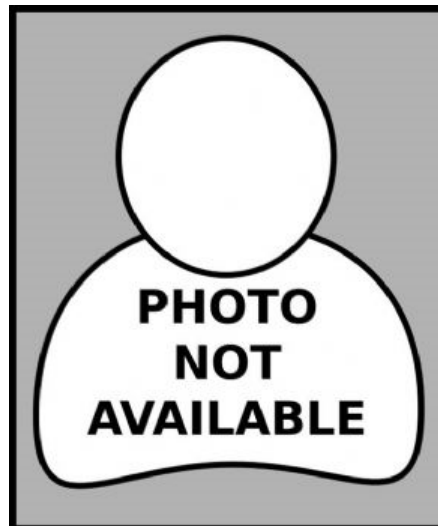


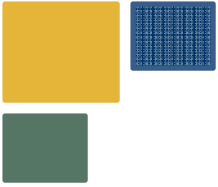


# Past Events

## **Global Investment Research Challenge:**

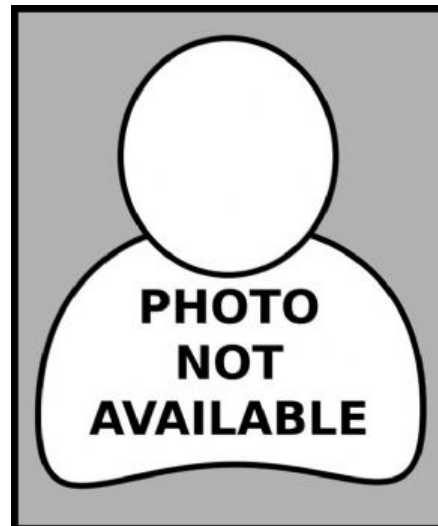
Meeting with Sprouts CFO Susannah Livingston

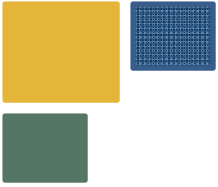




# Past Events

**40<sup>th</sup> Annual Economic Outlook Conference:**





# Upcoming Events

**Global Indexing & ETF Conference: December 6<sup>th</sup> – 8<sup>th</sup> (Scottsdale, AZ)**





# Appendix

## Sector Weights

Sector	Weight	Index
Energy	7.69%	7.10%
Materials	3.72%	2.90%
Industrials	1.19%	10.20%
Consumer Discretionary	18.36%	13.20%
Consumer Staples	9.16%	9.70%
Health Care	18.99%	14.60%
Financials	13.39%	16.20%
Information Technology	17.24%	20.80%
Telecommunications	4.44%	2.40%
Utilities	4.99%	2.90%




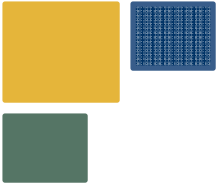


# Appendix

## Equity Holdings

Company	Weight
ACCENTURE LTD	4.8%
ALERGEN	8.0%
AMERICAN INTERNATIONAL GROUP	5.1%
AMGEN INCORPORATED	6.0%
AMTRUST FINANCIAL SERVICES	2.4%
ARTESIAN RES CORP	2.9%
AVG TECHNOLOGIES	3.5%
BALL CORPORATION	2.3%
C V S CAREMARK CORP	3.6%
CHEVRON	2.0%
CRAFT BREW ALLIANCE	1.3%
DISCOVER FINANCIAL	3.1%
8x8 INC	2.4%
EDISON INTERNATIONAL	1.7%
ENBRIDGE INC	3.6%
EQUINIX INC	4.5%
FLUOR CORP	1.3%
GILEAD SCIENCES	2.4%
HASBRO INC	2.2%
INTEL CORP	3.1%
MEDTRONIC PLC	4.2%
NIKE INC	5.6%
PANERA BREAD CO	4.0%
PEPSICO INC	3.6%
SMITH & WESSON HOLDING	2.8%
VERIZON COMMUNICATIONS	2.2%
WELLS FARGO & CO	2.7%
WYNDHAM WORLDWIDE CORP	3.4%





# Environmental Social Governance

## Overview:

- ESG is a set of standards for companies that socially conscious investors use to screen their investments

## Environmental

- Fines in dollars and numbers
- Environment quality management policy

## Social

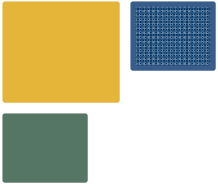
- Fatalities
- Community spending

## Governance

- % Non executive directors on board
- % of female executives



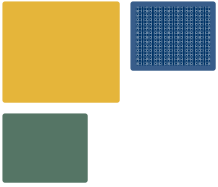




# ESG Investing

- More here on growth in ESG market (see white paper and Wall Street article).

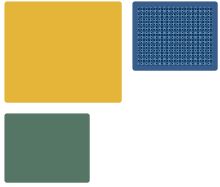




# Environmental Social Governance

- ❑ How have professional managers done?



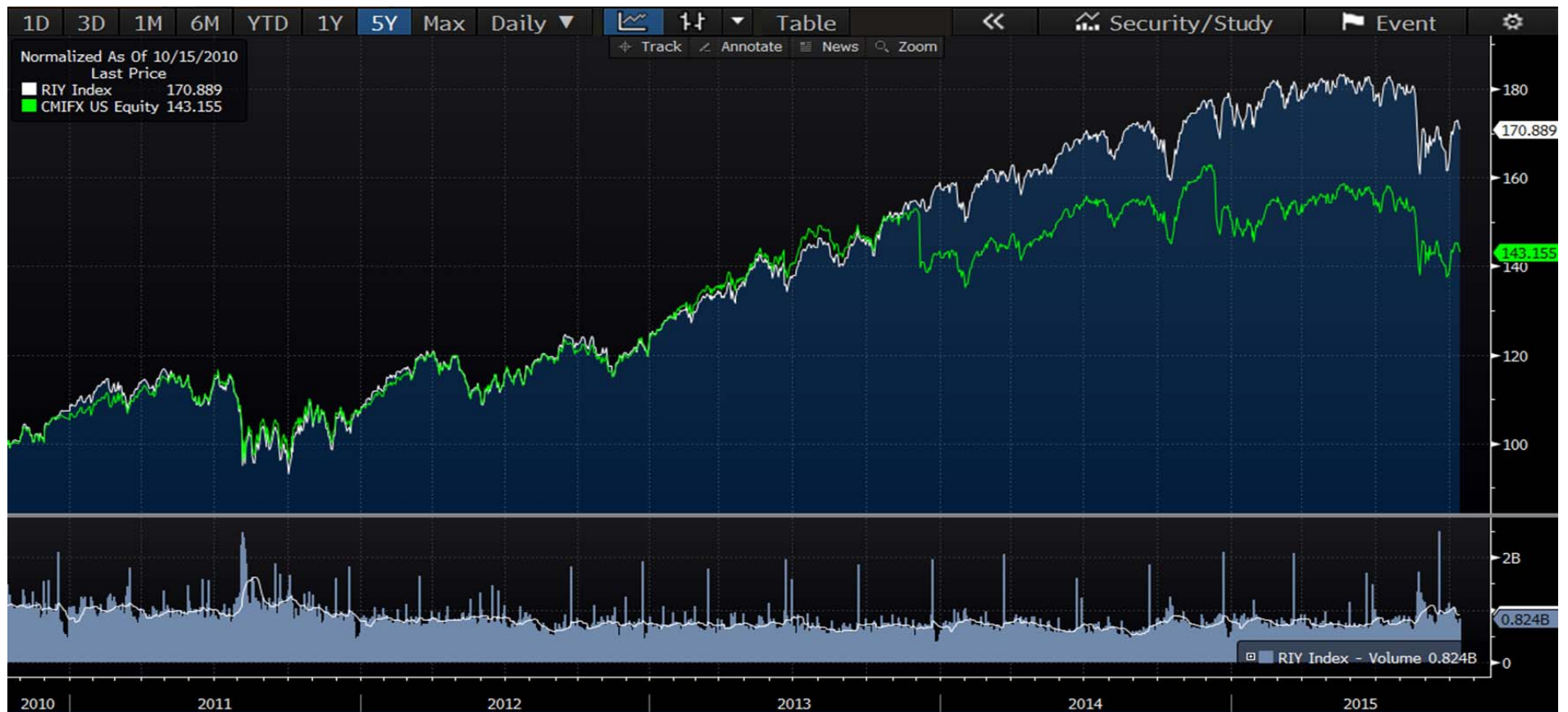


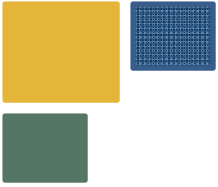
# Calvert Large Cap Core (CMIFX)

- Benchmark: Russell 1000
- Selection Criteria: stocks with superior ESG ratings relative to those in the corresponding industry and sector all within the Russell 1000
- Top Holdings:
  - Apple Inc. (AAPL)
  - Johnson & Johnson (JNJ)



# Calvert Large Cap Core





# Dow Jones Sustainability Index

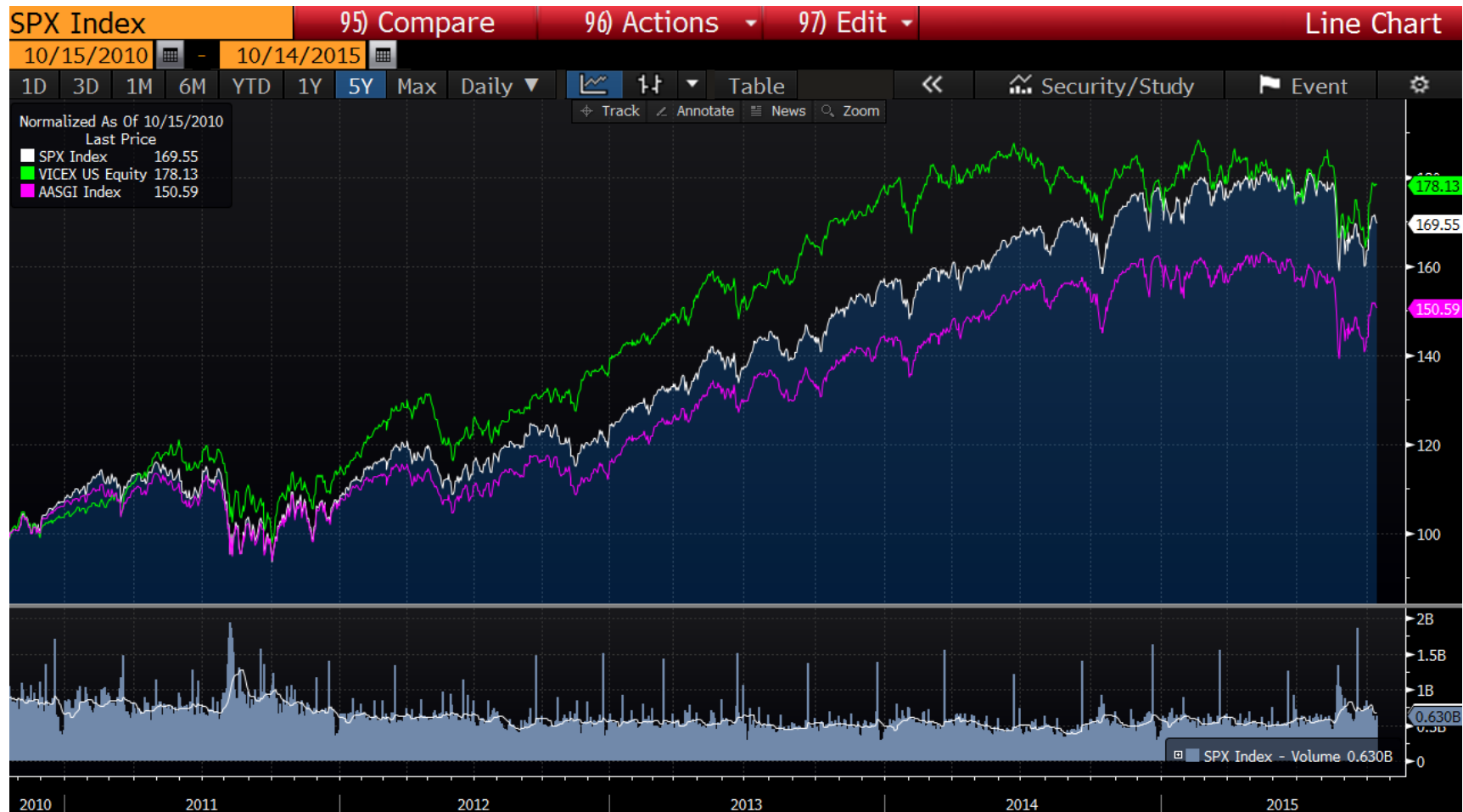
- Assess long-term ESG criteria for general and industry-specific sustainability trends
- Only leading companies are included
- Includes global and regional
- Excludes: alcohol, gambling, tobacco, armaments and firearms and adult entertainment, and global and regional blue-chip indices



# Dow Jones Sustainability Index



# What about Sin Stocks (VICEX)?



# And the Current Portfolio?



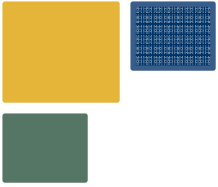




# ESG Proposal

- Split current portfolio: \$1,900,000
  - Equity portfolio: \$1,500,000
  - Bond Portfolio: \$400,000
- New ESG Portfolio: \$500,000
  - 100% equity portfolio focused on ESG criteria
- Account open and funded: January 2016
- Fully invested by the end of spring semester





# Portfolio Benchmark

- S&P 500
- Current SMIF Portfolio

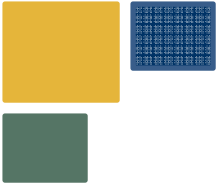




# ESG Portfolio Construction Rules

- Sector exposure: investment in a minimum of 5 sectors
  - Select stocks in the top 25% of ESG scores within each sector
- Diversification:
  - No more than 5% of the fair market value in any one stock at time of purchase
  - At no time will any security comprise more than 10% of the fair market value of the fund
- Exclude: alcohol, gambling, tobacco, armaments and firearms and adult entertainment, and global and regional blue-chip indices

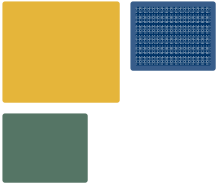




# ESG Portfolio Construction Rules

- More here on selecting securities





# ESG Portfolio Considerations

- Smaller investment universe
- Are good companies good investments?
- Stock selection will be critical





## Benefits to SMIF & Foundation

- Excess returns for the Foundation
  - Good track record with the current portfolio
- Investing the “right” way
  - Ability to show external constituents value firms not just financially, but also how they contribute to society
- Learning experience for the class
  - Opportunity to learn ESG investing and compare outcomes versus more traditional benchmarks





## Conclusion

- Recommend a \$500,000 allocation
- Separate portfolio focused on ESG
- Benefits of experiential learn and excess returns for NAU foundation
- During the spring meeting, we will deliver a new Investment Policy Statement with more details on the screening criteria and other recommendations



# Questions?

