

**Lincoln College LyncFund**  
**Accelerated Bridge to Education**  
**A Student Managed Investment Fund**  
**Investment Policy**

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## **Overview**

The LyncFund, a non-traditional adult (ABE) student-managed investment fund of Lincoln College, is embedded in BUS 301: Principles of Finance course and is designed to provide students with practical knowledge and experience in investing and finance. The student-run fund serves Lincoln College by managing a small portion of the College's overall investment fund.

## **Goal**

The LyncFund seeks to provide consistently high total return from a broadly diversified portfolio of equity securities with risk characteristics similar to the Standard and Poor's 500 Composite Index (S&P 500 Index).

## **Objectives**

The LyncFund provides students with the opportunity to gain experience and exposure to different types of securities while improving quantitative and qualitative research skills. Earnings distributions from the fund supports additional educational activities such as attending IACBE student competitions and the Engage Undergraduate Investment Conference, providing Business student scholarships, and bringing in professional speakers.

## **Strategy**

The LyncFund will be managed to maximize risk adjusted returns relative to the S&P 500 Index, using portfolio diversification techniques to minimize nonmarket risk. The LyncFund's primary strategy for investment decisions is to find undervalued securities and hold those securities until their value is fully realized by the market. Student Analysts also monitor trends in macroeconomic factors such as interest rates, Federal Reserve policy, inflation, and the state of the overall economy. The performance target is to meet or exceed, net of fees, the S&P 500

Index (the benchmark index) while maintaining a relatively low risk portfolio structure.

Performance targets are met by investing in conservatively financed, undervalued investments that show growth potential. Additionally, risk management is critical and should be measured and controlled through proper monitoring of active exposures relative to the stated benchmark.

The Student Analysts carefully implement the investment strategy by employing the top down philosophy. Members first identify the major economic trends with regards to inflation, interest rates, and Federal Reserve Policy. Taking into consideration conclusions drawn from economic research, the next step in the investigation process is to identify sectors that appear to offer advantages with regard to the economic conditions previously identified. Once the Student Analysts have concluded what sectors they believe will outperform the benchmark, they focus on identifying the best companies within those sectors.

This investment process focuses on fundamental research to make decisions on which stocks the fund should be holding. Using this research, the investment teams establish their estimate of a target price for the stock. The weight of each security in its respective portfolio is determined based on the investment team's desired exposure to a given industry as well as to the individual security.

## **Management**

The LyncFund Advisory Board has ultimate control of the fund. The Advisory Board, by means of a majority vote, will hold veto power over investment recommendations and administrative matters. The Advisory Board will be comprised of internal and external stakeholders of Lincoln College. Only authorized members of the Advisory Board may execute trades in the fund's accounts, based on the student recommendations. Students will not have direct access to the LyncFund.

The Division Chair of the MacKinnon School of Business and Business faculty advisors serve as intermediaries between the students and the Advisory Board. The students have responsibility for monitoring the fund, making buy and sell recommendations, and evaluating and reporting on overall fund performance.

## **Policies**

1. The Fund seeks above-average returns by investing in securities that are determined, through analysis by student analysis teams, to be undervalued or poised for future growth. The analysis of the portfolio investments will be based on commonly accepted fundamental intrinsic valuation techniques, e.g., discounted cash flow models. Portfolio sales will be based on the same type of analyses.
2. The portfolio will consist of publicly traded common stock investments, Exchange Traded Funds (ETFs) and bonds listed on the NYSE, AMEX, or NASDAQ.
3. Portfolio stock purchases will be for cash; no margin trading will be permitted.
4. Short positions and naked derivative trades are not permitted.
5. Sector analysis is required as part of the fundamental stock analysis.
6. No stock sector will comprise more than 20% of the portfolio and no individual stock position will comprise more than 10% of the entire portfolio.
7. The target distribution for student programs and scholarships is 5% annually and will be generated from interest, dividends, and capital appreciation, also referred to as a total-return approach. Distributions would not normally be permitted unless the fund experiences positive returns over and above initial and subsequent contributions.

Restricted funds will be maintained and distributed accordingly. The Division Chair of the MacKinnon School of Business in consultation with the LyncFund Advisory Board

will prioritize the distribution of funds based on need of student programs and scholarships.

8. This policy can be amended and revised as needed.

## **Asset Allocation**

The portfolio shall observe the following diversification guidelines:

- The maximum allocation to any equity sector (as defined by the S&P) shall be 20% of equity assets.
- The maximum allocation to any single security shall be 10% of portfolio assets.
- Deviations from the diversification guidelines shall be corrected by the end of each calendar year.

The Student Analysts will monitor the asset allocation structure of the portfolio and will attempt to stay within the ranges allowed for each asset class. If the allocation exceeds the range of percentages for that asset class, the Student Analysts will develop a plan of action; either for immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent months.

## **Limitations**

- The Fund will attempt to maintain a fully-invested portfolio of assets.
- The Fund may, at times deemed appropriate and necessary, hold some or all portfolio assets in the form of cash or cash equivalents.
- The portfolio of assets will be publicly-held securities traded in domestic markets and exchanges (NYSE, AMEX, etc.).

- The Fund will not invest in illiquid assets or assets that have little or no marketability. Such assets include, but are not limited to, restricted securities and private placements.
- The Fund will not invest in securities that generally are restricted by the overall Lincoln College investing restrictions.

## **Operating Rules & Procedures**

The LyncFund is embedded in the BUS 301: Principles of Finance course. Only students enrolled in the course may participate. Faculty overseeing this required activity must participate in this program as part of the Principles of Finance course must notify the Division Chair of the MacKinnon School of Business prior to the start of the course. Participating faculty members are expected to read and acknowledge receipt of a copy of the LyncFund's Investment Policy and abide by all required components set forth.

Under the direction of the Lincoln College's Finance faculty members, students assume the role of "Student Analysts" during the course. The Student Analysts are responsible for:

- valuing industries and firms;
- preparing and presenting detailed research reports that contain rigorous forecasts and reports to be presented to the LyncFund Advisory Board for investment consideration;
- evaluating, tracking and making recommendations to the Advisory Board regarding the fund's long-term economic outlook and portfolio positioning; and
- Coordinate and monitor the activities of the fund.

The faculty member will submit Student Analyst recommendation reports to the Division Chair of the MacKinnon School of Business by the deadlines provided. The Division Chair of the MacKinnon School of Business will submit recommendations to the LyncFund Advisory

Board for consideration. The Advisory Board will meet a minimum of twice per year (December and May) to review recommendations and make decisions regarding the fund. Additionally, the Advisory Board, Division Chair of the MacKinnon School of Business and faculty advisors will meet to review a full report on the performance and asset holdings of the LyncFund at an annual meeting in May.

## **Program Guidelines and Recommendations for Faculty**

Faculty overseeing this required activity must notify the Division Chair of the MacKinnon School of Business their intent to do so at least two weeks prior to the course start date. Faculty and Student Analysts will be given access to the repository of previous final recommendations and reports produced by students and submitted to the Business Advisory Committee. Participating faculty will need to upload final recommendations and required reports to the depository upon completion of their course.

It is important to stress to students that while their participation in LyncFund is for the duration of the course, their decisions could potentially affect the fund longer term. While students are charged with finding appropriate additions and/or removing investments from the fund, they should not view their activities as some type of sales pitch or that their recommendations might result in a lower grade. Therefore, it is important to structure the class to encourage students to take the job of finding good additions or removing investments seriously without turning the search into a competition where students have a fear of losing points or having their grade lowered. In addition, students need to learn that it is just as important to identify an asset that initially seemed like a good choice but after a closer examination realize that it does not fit the portfolio. In short, students need to understand that they are acting as stock analysts and not salespeople.



As the LyncFund Advisory committee will meet a minimum of twice a year to consider proposals, students need to take a more conservative position when evaluating stocks knowing that the stocks may have a minimum of a one-year holding period. Thus, students need to understand that their decisions are long-term decisions and that the fund cannot try to time the market.

Once recommendations are presented by the students to the class, each student votes on the proposals presented. There is no possibility of a non-vote. Because the students are sometimes reluctant about making a decision, each student should be required to write a justification for each stock purchase and sell decision. This forces the students to make a decision and really think about the decision beyond a simple vote. The justification is a useful tool for compelling students to solidify the reasoning behind their vote and not just express an opinion. This is also an important step in developing ethical reasoning. In addition, the writing skill of an opinion is not always easy for students, especially for those that lack confidence. After writing voting justifications, students should be one step closer to making clear and persuasive arguments about each stock.

Faculty and students are required to prepare a performance report at the end of the course. The performance report summarizes the decisions of the Student Analysts and provides the next course with recap of the course and decisions. This report is separate from the recommended stock analyst reports and/or PowerPoint presentation. As each student/team researches an asset, they should prepare an analyst report or presentation that is presented to the class as an argument for their individual recommendations. These written and oral reports allow the students to demonstrate their critical thinking skills along with communication skills.

A recommended template for the analyst reports and the required course performance report template are provided in a file in the LyncFund depository. The template provides space guidelines for the students for each part of the analysis. Having a common format makes all the reports consistent. This further emphasizes that the students are part of a larger team. The thought process for each asset needs to be documented, even for the assets examined but not bought. This plays a vital role in the assessment of the student fund and of the business program in general. The finance/business faculty can examine the thought process for each asset and identify strengths and weaknesses in the program. For example, changes in interest rates have a different effect on stocks than on bonds and on different sectors of the economy. By scrutinizing the analysis and projections by the students on the assets, the faculty can determine of which concepts regarding interest rates the students have a strong understanding and with which concepts the students are struggling. From this analysis, the faculty can revise the business curriculum and program. Furthermore, the emphasis on writing, presenting and documenting meets business program learning objectives on critical thinking and oral and written communication skills. The documentation serves an additional purpose for the faculty member as it formalizes the required due diligence process by documenting the analysis and decisions made. Because actual money is used, the faculty member must recognize that both they, and the students, have a fiduciary responsibility and must be able to demonstrate the portfolio management process that was followed.