



# Saint Thomas Academy

## *Cadet Fund*

### Investment Policy Statement

2018-2019

#### **Background**

Beginning in the 1980s many colleges started real-dollar investment funds for students to manage which in time became known generally as Student Managed Investment Funds (SMIFs). Since then—aided with advances in technology—many Minnesota high schools have also launched SMIFs; Apple Valley’s Eastview High School and Benilde Saint Margaret in Saint Louis Park are two such examples. The start of a new schedule in the 2016-2017 school year with the capability of quarter and semester-long classes has allowed Saint Thomas Academy to begin such a fund as part of the curriculum in the *Personal Finance and Investing* elective.

The Saint Thomas Academy SMIF—called the *Cadet Fund*—will be a student-managed real-dollar U.S. equity investment fund that will be fully launched during the 2018-2019 school year; a \$1,000 donation to the school was made in the spring of 2017 for its initial funding. Two additional contributions have increased the total amount to \$16,000 which will be used to open an account with *TD Ameritrade* in the fall of 2018.

The purpose of the fund is found in two general goals: (1) to have students learn about finance and investing and ultimately the knowledge that goes into real financial investment decisions; (2) and to contribute to the Saint Thomas Academy financial aid program. All documents and information pertaining to the account and the Fund will be filed with the Saint Thomas Academy Business Office. Information about the *Cadet Fund* will be included on a devoted section of the school’s website.

The purpose of this investment policy statement (IPS) is to provide the guidelines for the management of a student-managed investment account at Saint Thomas Academy.

#### **Section 1. Introduction**

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- 1.1. Cadet Fund (the Fund) is a student-managed investment fund initially targeting Large Cap Domestic equities that is anticipated to fund future student financial aid at Saint Thomas Academy (STA). The Fund seeks investment returns above its benchmarks and to provide an enriching educational experience for the Student Managers in the process.
- 1.2. Philosophy: Student Managers believe that companies with durable competitive sustainable advantages, known as wide moats, offer higher long-term return potential than those with narrow or no moat. On behalf of the Fund and through comprehensive due diligence, Student Managers will identify and initiate investments in Large Cap Domestic equity securities of wide moat companies. The Student Managers believe this philosophy should enable the Fund to outperform the benchmark over the long-term.

### **Section 2. Responsibility for Funds under Management**

- 2.1. Oversight Board: The STA Board of Trustees and its Finance Committee will have the ultimate fiduciary responsibility of the fund. A volunteer Oversight Board comprised of a representative from the STA Board of Trustees to serve as chair (inaugural member Tom Lee) and three others selected by that individual will provide guidance as necessary to the class instructor and ultimately to the students managing the fund.

Initial Oversight Board members are: Tom Lee (chair) '85—Managing Director of Investment and Strategy and Research at Parametric; Matt Hewitt '92—Senior Research Analyst at Craig-Hallum Capital Group; John Mowery '95—Managing Director at Trademark Financial Management; and Pat Persons '06—Quantitative Analyst at Parametric.

- 2.1.1. As needed, new members will be selected by the Oversight Board chair. The STA Board of Trustees and the Finance Committee will determine a new chair for the Cadet Fund if a vacancy is created for whatever reason. The Oversight Board will be guided by the directives found in this document and will make all final decisions about the management of the fund, including the purchase and sale of the equities.
  - 2.1.2. At least one member of the Oversight Board—representing the views of the entire Oversight Board—will meet in person in the fall semester with the students enrolled in the class in order to provide the scope and direction of the student work that will be needed to make decisions for the Cadet Fund.
  - 2.1.3. If the Cadet Fund is not achieving the goals listed in the IPS or ends for any other reason, the Oversight Board will make a recommendation to the Board of Trustees about the future of the Cadet Fund.
  - 2.1.4. The Oversight Board will make themselves available to connect with the students via email or phone for specific questions they may have regarding the management of the portfolio throughout the academic year.
  - 2.1.5. The Chair of the Oversight Board will keep the Saint Thomas Academy Board of Trustees (BOT) Finance Committee informed about the ongoing performance and operation of the Cadet Fund.
- 2.2. Student Managers will be enrolled in the *Personal Finance and Investing* class.
  - 2.3. The Student Managers are responsible for the investment of the Fund's portfolio. Student Managers have been given the following responsibilities in connection with the investment management of the Fund. See Section 4.3 for additional responsibilities.
    - 2.3.1. Present stock recommendations to the Oversight Board.

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- 2.3.2. The publication of an annual report reviewing the Fund's performance results.
- 2.4. The only assets that will be made available for investment by the Cadet Fund are contributions that have been specifically designated for the sole use of the Fund and its undistributed earnings and realized gains. Any donations made to the Cadet Fund will be managed by the Saint Thomas Academy Development Office.
- 2.5. The Custodian for Cadet Fund assets is TD Ameritrade. The Cadet Fund will always use a qualified custodian.
- 2.6. When the Cadet Fund reaches a value of \$100,000, realized gains and accumulated earnings may be liquidated for financial aid purposes as long as the portfolio maintains a minimum balance of \$100,000 at the time of sale. Any such distributions will be turned over to the Saint Thomas Academy Business Office in the form of a check or wire transfer for proper disbursement.

### Section 3. Investment Objectives

- 3.1. Returns: The Fund's investment objectives are to achieve a total return that is greater than the Fund's relative benchmark which is the total return of the S&P 500 Index.
- 3.2. Diversification: The Fund attempts to mitigate risk in its investment returns by maintaining a diversified portfolio. The Fund seeks to diversify the portfolio by owning a group of equities consisting of 15 to 30 equity securities.
- 3.3. Investment Considerations: The Fund has the following investment considerations:
  - 3.3.1. Liquidity: The Fund remains fully invested in securities that meet its investment criteria. To facilitate security transactions, a percentage of the Fund will be invested in an S&P 500 tracking security, the iShares Core S&P 500 ETF, Ticker: IVV .
  - 3.3.2. Time Horizon: The Fund's time horizon is in perpetuity.
  - 3.3.3. Tax Concerns: The Fund operates under the tax and regulatory umbrella of STA as a non-profit.
  - 3.3.4. Socially Responsible Investing: As part of a Catholic institution, the Fund will adhere to the United States Conference of Catholic Bishop's responsibility investing guidelines.
- 3.4. Portfolio Composition: The Fund is not required to match the S&P 500 Index weightings for every sector; there is discretion for over-weighting and under-weighting sectors in order to take advantage of individual security opportunities. The weight of each sector in the Fund should be within an absolute range of 15% of the weight of that sector in the S&P 500 Index. For example, if a sector weighting is 20%, the weight of that sector in the Fund should be between 5% and 35%.
- 3.5. Other Considerations:
  - 3.5.1. The value of any initial purchase should be equal to a 2%, 4% or 6% holding of the total Fund. The initial purchase weight will be determined by the Oversight Board after the decision has been made to purchase the equity security. Student Managers will make a recommendation of 2%, 4%, or 6% position and a simple majority will determine the initial purchase weight. In the case of a tie for the most votes, the lowest alternative will be removed and the Student Managers will vote again on the two remaining alternatives and the simple majority will determine the initial purchase weight. In the case of a second tie, the Student Manager who

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presented the equity security will determine the initial purchase weight from the two remaining options. Decisions will be based on both individual equity security considerations and portfolio considerations. See Section 4.5 Voting for additional information.

3.5.2. The Fund does not invest on margin.

3.5.3. The Fund does not sell short investment instruments.

### Section 4. Management of the Fund

4.1. Student Managers are STA students who are currently enrolled in *Personal Finance and Investing*.

4.2. Management of the Fund changes annually on September 1<sup>st</sup> to a new set of Student Managers for a nine-month term (until May 31<sup>st</sup>). Incoming Student Managers immediately initiate coverage on equity securities inherited from the outgoing Student Managers. It is expected that the Oversight Board and the Personal Financial and Investing Teacher (PFIT) will continue to manage the Fund from June 1<sup>st</sup> to August 31<sup>st</sup> until new Student Managers assume responsibility for the Fund. See Section 4.7 for more information on PFIT responsibilities.

4.3. Student Managers actively manage the Fund's equity securities in order to achieve the goals and objectives set forth in this investment policy statement. Such management activities include, but are not limited to:

4.3.1. Researching and maintaining key economic, market, industry, and company-specific data and information. Company specific research will rely heavily on Michael Porter's Five Forces as detailed in his book, "Competitive Strategy: Techniques for Analyzing Industries and Competitors."

4.3.2. Contacting currently owned and prospective companies, competitors, and/or customers to gain additional insight that may not be attained through other sources.

4.3.3. Identifying buying and selling opportunities based on quantitative and qualitative analysis of the collected data and information.

4.3.4. Reporting on the Fund's performance and other general issues. At the end of each academic quarter, students will produce a report of the fund's performance against stated benchmarks and provide it to the Oversight Board.

4.3.5. Maintaining a positive and constructive relationships with members of the Oversight Board.

4.3.6. Students will review the portfolio at least once a week; this would include observing fast changing market conditions and portfolio disruptions.

4.3.7. Student groups will research industries and sectors and make recommendations to the broader class about changes that they may need to make. The students will use a simple majority vote process in order to make recommendations to the Oversight Board.

4.4. Trade Execution: The PFIT is responsible for executing all trades following approval of Oversight Board.

4.5. Voting Records: Both financial and fiduciary investment decisions (cash transactions and proxy voting) are maintained by the PFIT. TD Ameritrade maintains files on all current and

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historical monthly electronic statements and electronic trade confirmations. PFIT also maintains class logs, economic updates, presentations, models, write-ups, marketing material, and press releases. The PFIT makes available to the Board of Trustees and Oversight Board all current and historical voting records upon request. The PFIT is also responsible for promoting student involvement and facilitating dispute resolution.

- 4.6. Underperforming Equity Securities: If the equity security's closing price on any given day falls 10% below the purchase price relative to the Fund's benchmark (S&P 500 Index) base-lined from the equity security's purchase date (i.e. if the benchmark return from the date the equity security was purchased is 5% and the equity security return is negative 5%, for a total deviation of 10%), the Student Manager responsible for the equity security is required to review the position and present their opinion of the appropriate action (sell, buy, or hold) within one week to the Oversight Board and PFIT.

Additionally, if the equity security's price decreases 20% or more relative to the Fund's benchmark, base-lined from the equity securities purchase date, the entire position will be liquidated immediately – without exception.

- 4.7 Teacher Involvement: The teacher of Personal Finance and Investing will direct all student activities to achieve the goals of the Cadet Fund as outlined in this document and coordinate the connection between the Oversight Board and the students to best achieve these ends. Between academic sessions during the summer months the teacher will communicate to the Oversight Board information about the Cadet Fund's performance. The teacher will assist in maintaining information about the Cadet Fund on the school's website; this will include this IPS statement, past participants, historical records of the portfolio, and any other information that will provide transparency and in the end serve as a potential draw for additional cash donations to the Fund.

### **Section 5. Investment Selection & Management Process**

- 5.1. Investment Selection: Student Managers construct the Fund by using a bottom-up investment approach focusing on wide moat companies. The Student Managers may use fundamental analysis and appropriate valuation models to choose equities in the S&P 500 that demonstrate persistent competitive advantage.

5.1.1. The Fund invests at least 85% of its net assets in common equities of large-sized (large cap) companies. The market capitalization of eligible investments shall be greater than \$10 billion at the time of purchase.

5.1.2. Up to 15% of the Fund's net assets may be invested in equity securities of smaller companies as long as the companies do not have a market capitalization lower than \$2 billion at the time of purchase.

- 5.2. Equity Presentation:

5.2.1 Students will focus on competitive analysis in general with an emphasis on qualitative factors as related to persistent, durable, competitive advantage within the companies' respective sector.

5.2.2 Presentations should include a discussion of Porters Five Forces and fundamental valuation as it relates to their stock.

- 5.3. Purchase Criteria: In accordance with the Fund's philosophy, investment objectives, the Student Manager recommending an equity security must demonstrate the following before an investment is purchased:

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- 5.3.1. The business practices of the company and its management are clear, focused, and ethical, and the company values are not inconsistent with social investing restrictions following the core ethical values of STA.
- 5.4.2. The company's management has a well-defined and achievable strategy for increasing long-term shareholder value.
- 5.4.3. The company fits within the Fund's portfolio relative to its sector diversification objectives.
- 5.4.4. The company has a strong competitive position as related to Porter's Five Forces and solid prospects for future success.
- 5.4.5. Following the presentation the Oversight Board must vote to determine if any action proposed by the student managers should be acted upon, including purchases & sales of securities. See Section 3.5 Voting for additional information.
- 5.5. Watch Criteria: Student Managers may present a motion to add an equity security as a watch. The Student Manager is responsible for monitoring their equity security(s) that appear on the watch list and reporting to the Fund similar to the responsibility of an equity security that has been purchased. The Student Managers must vote to determine whether or not an equity security should be added to the watch list. An equity security remains on the watch list until the Student Manager makes another motion to purchase or remove it.
- 5.6. Reevaluation Criteria: Student Managers must reevaluate a purchased equity security if any of the following occur:
  - 5.6.1. Actions by management that give cause for concern with respect to its ethics or ability to generate increasing shareholder value.
  - 5.6.2. A significant change in one or more of the material assumptions or premises used in the valuation process (company specific or otherwise) that was offered when the equity security was purchased.
  - 5.6.3. If the price appreciates to 15% from the date of purchase, the position must be re-evaluated. At this time, the Student Manager must re-present the stock and argue for its continued inclusion in the Fund or an exit strategy must be established, per a vote of the Oversight Board. Examples of exit strategies include, but are not limited to, selling the full position or beginning to sell out of the position gradually.
  - 5.6.4. If the equity security's closing price on any given day falls 10% below the purchase price relative to the Fund's benchmark (S&P 500 Index) base-lined from the equity securities purchase date. See Section 4.6 – Underperforming Equity Securities for additional information.
  - 5.6.5. If the value of an individual holding falls by 25% of the initial purchase price, the Student Manager is required to re-evaluate the security and present their updated review to Oversight Board.
  - 5.6.6. If an individual holding exceeds 8% of the total portfolio, the position is reevaluated.

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- 5.7. Sell Criteria: The Fund continually monitors its holdings for conditions that could negatively influence the equity security price. The Fund should sell all or part of a position if one or more of the following situations arise:
- 5.7.1. If the aggregate value of equity security holdings outside of the greater than \$10 billion market capitalization range exceeds 15%, Student Managers are required to review all positions and decide what positions to trim/sell in order to maintain the Fund's asset class consistency.
  - 5.7.2. If an exit strategy for an equity security has been voted and agreed upon by the student managers pursuant to Sections 5.6 or 5.7, the PFIT will present the recommendation to the Oversight Board for the final decision.

### **Section 6. Performance Reporting and Benchmarks**

- 6.1. Effective October 1, 2018, the Fund began using the S&P 500 Index as its relative benchmark.
- 6.2. The Fund's fiscal year is from September 1st to August 31st.
- 6.3. The Fund uses total return analysis for performance. Total return adjusts performance for beginning balance, trade date accounting, realized gains and losses, unrealized gains and losses, accrual accounting for dividends as of ex-dividend date, accrual accounting for fixed income securities, and ending balances. Total return performance is after all expenses are debited including trading and custodial fees, and any other fees to maintain the Fund in proper order.
- 6.4. Performance periods less than one year shall be calculated as holding period returns and not annualized.
- 6.5. The Fund's reporting currency is the United States dollar.
- 6.6. The Student Managers conduct an annual meeting with the Oversight Board to report fully on the Fund's asset holdings and its overall performance.
- 6.7. A copy of the Fund's account statement from TD Ameritrade will be provided to Pam Kunkel in the STA Business Office monthly.

### **Section 7. Right to Amend**

- 7.1. The Oversight Board reserves the right to amend this Investment Policy Statement from time to time, as needed. Any such amendments should be in writing and must be approved by the Finance Committee of the STA Board of Trustees.
- 7.2. PFIT and the Oversight Board will review the IPS together after each academic year and make any changes in writing as deemed necessary.
  - 7.2.1. PFIT will file an updated IPS for each year with the Saint Thomas Academy Business Office.