

I. Purpose of the Investment Policy Statement

We have adopted this Investment Policy Statement to ensure accountability and provide a tool for stakeholders to evaluate and monitor decisions made by the Portfolio manager(s). The Investment Policy Statement will contain: (1) an appropriate set of investment objectives (2) the strategies employed by the SMP, including allocation of assets, and security selection philosophy; and (3) investment policies and practices whereby the continuing financial obligation of the SMP will be satisfied.

The Portfolio Manager(s) and Advisory Committee will review the policy statement and ensure it corresponds to the needs of the University and SMP at least once per year. The Portfolio Manager(s), and analysts will meet at least ten [10] times per semester to carry out managing and administrative responsibilities as well as to ensure the proper functioning of the organization on an ongoing basis.

II. Investment Objectives

The Student Managed Portfolio's (SMP) primary investment objective is to seek long-term capital appreciation. The organization pursues its investment objectives by investing, under normal circumstances, primarily in equity securities of US companies that the analysts believe are undervalued based on quantitative and fundamental principles. Furthermore, the organization will provide students with invaluable learning opportunities by strengthening their skills and abilities in financial analysis and research, oral and written communication, and teamwork.

III. Investment Policy

A. Types of Securities and Asset Allocation:

The SMP will invest primarily in equity securities of companies traded domestically including ADRs of foreign companies (in the U.S.) having a market capitalization exceeding \$1.0 billion. The Portfolio can hold money market instruments such as short-term U.S. government securities, commercial paper and bank instruments as part of its normal investment program, or for cash management purposes, or as a defensive investment in the absence of sufficient compelling equity investment ideas.

B. Security Selection Techniques:

The SMP is going to adopt a "Value Investing" philosophy for its equity investment discipline. This philosophy was very well postulated by Benjamin Graham in his epic work, *The Intelligent Investor*. "Value Investing" was selected as the SMP's investment strategy due to its conservative and risk-averse nature. In accordance with this strategy, only securities that sell for significantly less than their perceived intrinsic value should be bought for inclusion in the portfolio.

As a basis for the security selection process, company screening will be employed to facilitate the filtering of potential investment opportunities. The SMP will use a multifactor model to screen for investment ideas based upon financial ratios in the following three segments: (i.) valuation (ii.) financial strength, and (iii.) profitability. Potential investment ideas should also demonstrate traditional characteristics of value, which may include low price to book ratios (P/B), low price to earnings ratios (P/E), low debt to equity ratio, and high dividend yields. A discounted cash flow model (DCF) could also be employed as a means of calculating the underlying intrinsic value of a security, as could estimates of private market value. By following this strategy, the SMP should be able to control its downside risk by always being interested in a security's "margin of safety". In the spirit of

this investment philosophy, the club will focus primarily on the aforementioned quantitative model and on fundamental analysis techniques in selecting stocks.

C. Diversification:

The SMP aims to be well diversified across at least fifteen [15] security positions to avoid undue exposure to any single economic sector, industry, or individual security. No more than 25% of the market value of the portfolio should be invested in the same industry and no more than 10% should be invested in any single security of any one issuing corporation at the time of the purchase.

D. Prohibited Investments:

The trading of derivatives, short-selling of securities, margin purchases, private placements, commodities, and security loans will be excluded from the SMP. The SMP may own American Depository Receipts (ADR's) of foreign companies but trading on international stock exchanges will not be permitted, due to high transaction costs.

E. Trading and Execution:

The actual authority to execute trades and give orders to the SMP's broker will reside with the Director/Assistant Director of E*Trade Financial Learning Center and will be done through a reputable and experienced low cost trading or brokerage firm.

F. Documentation and Approval:

All recommendations and transactions must be documented in writing by the Portfolio Manager(s) or the analysts supporting the investment idea. The documentation must comprise of justifications for the recommendation or transaction, and provide appropriate supporting documents.

G. Risk Management:

All investments carry some degree of risk that will affect the value of the SMP's investments and their investment performance. Therefore, the value of the Portfolio's investments will be affected by the changes in the stock markets, despite the diversification techniques employed to minimize market risk.

H. Liquidity

The SMP will not require any substantial, recurring disbursements.

I. Taxation

The SMP will have no taxation restraints.

J. Sell Discipline:

The Portfolio Manager(s) will have the responsibility of conducting objective and thorough reevaluation of individual holdings in the portfolio on a regular basis. Upon their recommendation and with the approval of the Advisory Committee, the specific stocks will be disposed of. Holdings will be sold from the portfolio when a fundamental change in the factors affecting the underlying value of the stock has occurred that results in an undesirable position as defined by the investment philosophy of the SMP. This could be because:

1. stock price appreciates to level at or near perceived fair value
2. adverse fundamental change to business, industry or environment, which results in an adjustment to perceived fair value
3. in order to redeploy capital to more compelling alternative investment idea

K. Performance Benchmarks:

For comparison purposes, the SMP's performance will be compared to the S&P 500 Index.

IV. Statement of Responsibilities

A. Portfolio Manager(s):

- Shall monitor the performance of the Student Managed Portfolio (SMP)
- Shall instruct the Director/Assistant Director of E*Trade FLC as to which securities need to be bought or sold as per the consensus of the Advisory Committee, and in what amount
- Shall update the organization's members and the Advisory Committee of the performance of the SMP at the meetings

B. Analysts:

- Shall assist the Portfolio Manager(s) by researching and analyzing investment ideas
- Shall preside in the absence of the Portfolio Manager(s)

C. Executive Committee:

- Assist in the total operations of the organization as directed by the Chairperson
- Generate all agenda items and report them to the Chairperson
- Preside in the absence of the Chairperson
- Keep a roster of all Voting Members
- Keep a record of meeting minutes
- Coordinate Public Relations and Marketing Activities of the organization
- Oversee general finances and be responsible for budgetary expenditures
- Coordinate elections
- Oversee internal and external operations

D. Advisory Committee:

- The Advisory Committee will consist of the Faculty Advisor, another member of the William Paterson University faculty appointed by the Dean of the Christos M. Cotsakos College of Business, a member of the William Paterson University Foundation Board of Directors as appointed by the Chair of the Foundation Board, and at least three at-large members of industry investment professionals, Christos M. Cotsakos College of Business alumni, or William Paterson University faculty or administration members and one MBA student.
- Shall oversee any decisions made by the student members of the organization
- Shall partake in the voting of any amendments made to the Investment Policy Statement or the governing principles of the organization

E. Advisory Committee Members

- Chen Haiyang, Ph.D. – faculty advisor
- Peter Caiazza Assistant Director of E*TRADE Financial Center
- Faculty member appointed by Dean of Cotsakos College of Business
- Margaret McGee – investment professional
- Matthew T. Haynes, CFA – investment professional
- Mauricio Mattos – Alumni
- Peter Caiazza, CFA – staff
- Foundation Representative
- MBA student

V. Amendments

Amendments to the Investment Policy Statement must be approved by two-thirds [2/3] majority vote of the Advisory Committee including the presence of at least three practitioners, one faculty member, and three students that are active members of the organization.

VI. Reporting Requirements

The SMP will be responsible for producing periodic written reports on the status of the portfolio, as well as all activity regarding it. A detailed report will be generated on a monthly basis which outlines the following:

- A list of all investments within the portfolio
- Performance of the aggregate portfolio, in comparison to appropriate index (S&P500), as well as individual analyst positions
- Changes made to the portfolio over the time period(s) under review
- Commentary about general market conditions and explanation of factors impacting performance for the period(s) under review
- In addition to this monthly report, a report will be made every semester as an overview for the entire period and for better evaluating the portfolio's performance

VII. Proxy Voting:

It's the Advisory Committee's responsibility to vote all proxies. The decisions will be based on maximizing shareholder value. Routine decisions will be made in accordance with management proposals. The Advisory Committee may call proxies to a vote for SMP members during scheduled meetings. A record of the votes, summaries and justification will be maintained by the Portfolio Manager. Additional guidelines are listed:

- The organization will generally vote against a staggered board
- The Advisory Committee will oppose excessive compensation board and seek disclosure of compensation and benefit policies
- The Advisory Committee will oppose anti-takeover procedures including poison pills
- The organization will vote on all matters related to social or environmental concerns and in favor of those activities which are deemed to act in the betterment of social or environmental concerns unless analysis shows it is too costly to do so
- We will vote against proposals to increase or which are in favor of cumulative voting
- We will vote against any proposals to increase super-majority voting requirements
- Generally, the organization should vote against proposals which result in the dissolution of shares