# *NCAT STUDENT MANAGED INVESTMENT FUND (SMIF)*

## *Investment Policy*

### *Investment Philosophy*

*We shall employ and deploy investing strategies and methodologies originally championed by Benjamin Graham and later adopted by Warren Buffet and Charles Munger. In the evaluation(s) of potential investment prospects, a holistic approach which looks at the entire business of the firm and its overall operations shall be employed in the critical analysis processes. We shall meticulously seek to obtain value from firms whose stocks convincingly demonstrates competitive business strategies, healthy financial prospects, and sustainable future prosperity. By making strategic calculated investment moves, we desire to achieve value-gains from competitively advantaged stocks.*

### *Strategy*

*Under the leadership of the CEO and Senior Vice Presidents, each fund manager shoulders the responsibility of seeking and identifying competitive suitable investments in an assigned sector. In the quest to achieve this in line with the fund investment philosophy enumerated above, each team lead by a fund manager shall focus on analyzing risks in its various forms, including:*

- Business Model Risk – *the avoidance of unstable or uncompetitive business models.*
- Balance Sheet Risk – *the avoidance of companies with unsuitable leverage.*
- Management Risk – *the avoidance of poorly managed companies.*
- Valuation Risk – *the avoidance of companies selling at an inflated price in relation to a reasonable range of true business value.*
- Obsolescence Risk – *the avoidance of businesses with a product or service subject to rapid change or obsolescence.*
- Aggregation Risk – *the avoidance of a common stock portfolio with highly correlated business risks, i.e. a portfolio of companies' subject to interest rate risk, similar investment risk, or commodity risk.*

*The investment strategies that governs SMIF is rooted in the longstanding wisdom distilled from practice of fundamental analysis over the passage of time:*

- One Does not buy a stock, one buys a business
- When buying a business, know the business
- *Good Firms can be bad guys*
- *Price is what you pay, value is what you get*
- *Part of risk in investing is the risk of paying too much for a stock*
- *Ignore information at your peril*
- *Don't mix what you know with speculation*
- *Anchor a valuation on what you know rather than speculation*
- *Beware of paying too much for growth*
- *When calculating value to challenge price, beware of using price in the calculation*
- *Stick to your beliefs and be patient; prices gravitate to fundamentals; but that can take some time*

*In the first year, the goal of the SMIF is to ultimately build an investment portfolio consisting of 8 to 10 businesses (Stocks) that meets the aforementioned risks-avoidance criteria. The chosen stocks shall possess fluid and substantial free-cash-flow. In addition to performing various quantitative valuations analysis, robust PEST and SWOT analysis shall be conducted for each stock of interest, the industry in which it operates, and the relevant macro and micro economics exposures. Each of the chosen firms must consistently demonstrate sustainable competitive advantage over its competitors. In addition to various valuation metrics, when evaluating the business operations of each firm the free-cash-flow yield, return on capital, and debt-free free-cash-flow shall be among the paramount barometers employed in measuring a firm's value and risk profile.*

*If a fund manager identifies a potential investment candidate, the recommended investment shall be presented and tabled before the executives of the SMIF, CEO and Senior Vice Presidents. Deliberations and further in-depth analysis shall be conducted to critically examine the merits and viability of the recommended investment(s). Upon the completion of analysis by the SMIF executives, the investment proposal shall then be formally presented to the faculty advisors for further evaluations. The faculty advisors shall proffer advice to the SMIF highlighting various strengths and weakness of the investment case. The investment counsel distilled by the faculty advisors shall contain vital information and guidance necessary to decide whether to deploy capital and invest in the stock, discard the investment case, or conduct additional analysis on the firm to gain deeper insights.*

*The faculty advisor makes the final decision of capital deployment for investment purposes. The stocks contained in the portfolio shall be routinely reevaluated for hold or sell investment decisions.*