

# Funds of knowledge add value

At Babson College students learn investment strategy by managing a portion of the endowment fund, says **Rebecca Knight**

Every Thursday evening, Emily Gore attends a fund management meeting with 14 other colleagues. "First we discuss whether we've bought or sold any positions in our portfolio and then we pitch stock ideas," says Ms Gore, 25. "We have to show comparable companies analysis, discounted cash flows and revenue models. There can sometimes be a lively debate."

This may sound like the life of a big-time portfolio manager, but Ms Gore is not a professional. Rather, she is an MBA candidate at Babson College, in Wellesley, Massachusetts, enrolled in a year-long academic programme where students manage a portion of the university's \$187.4m endowment. (The student-run fund weighs in at about \$670,000.)

The aim of the initiative, which is called the Babson College Fund, is to expose students to the world of money management and help them line up jobs after graduation. But the most important lesson students learn, according to Steven Feinstein, faculty adviser to BCF, is that investment management is hard work.

"It's not always glamorous, it's not always fun, but it is rewarding because you put your all into it," he says.

Ms Gore, who has secured a job after graduation with a Boston-based financial consulting firm, says that the programme has allowed her to experience the joys and difficulties of managing money.

"I am making money. I am losing money -- it allows a real world opportunity," she says.

Competition to secure a spot on the 15-member management team, which is

composed of MBA candidates and undergraduates, is stiff. Students must complete a written application and then endure a rigorous interview process; only about 33 per cent of those who apply are accepted.

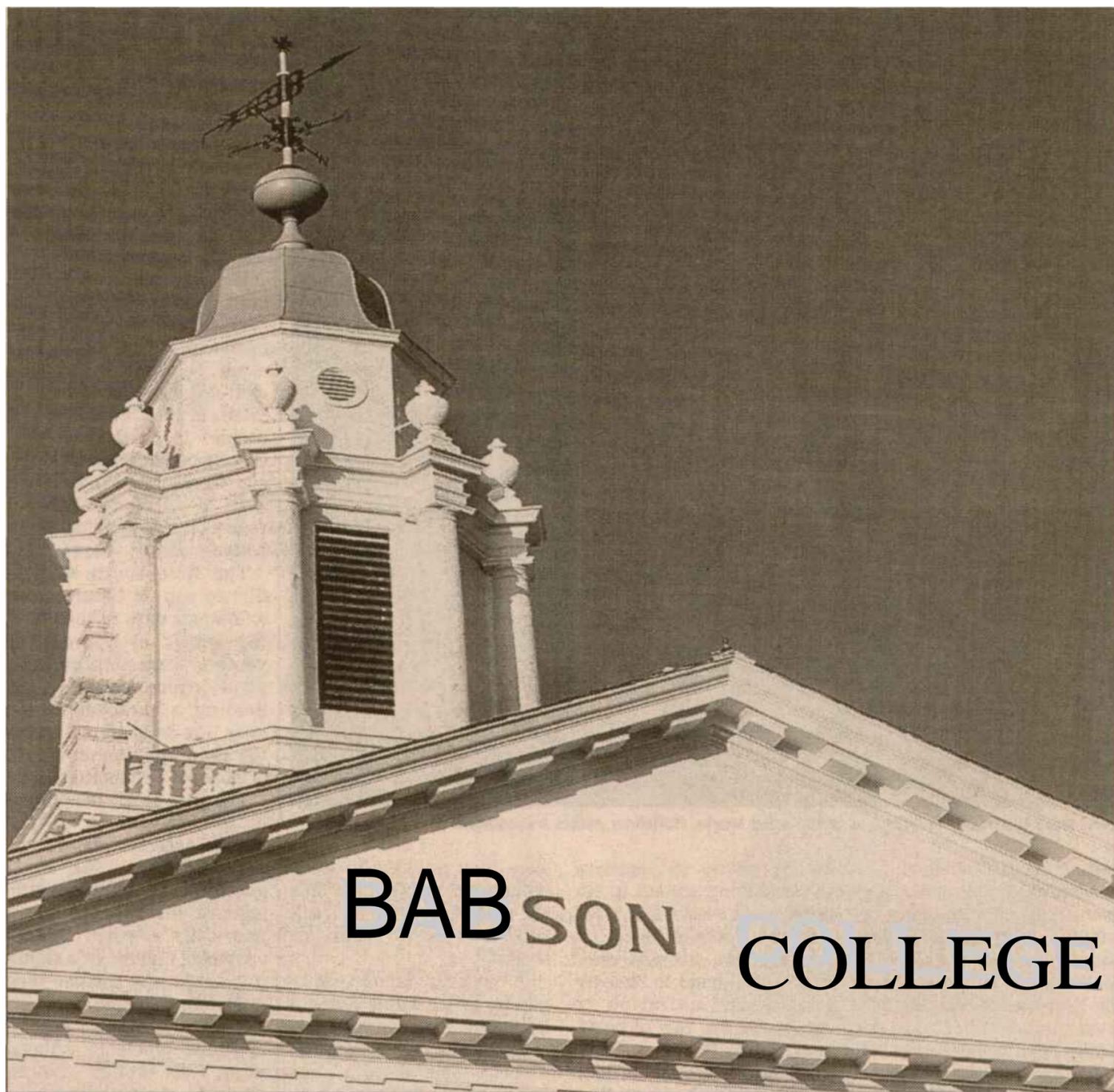
"We're looking for people with a demonstrated passion for investments," says Prof Feinstein.

The student team is divided into four main areas of investment: technology, healthcare, discretionary consumer products and quantitative research. The team meets at least once a week and does all the same things that professional portfolio managers do, according to Prof Feinstein. They conduct fundamental and quantitative company research, visit company management and write regular performance reports.

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They also attend industry events. "I require students to go off campus at least twice a semester to industry conferences so that they start to feel more comfortable talking with buy-side and sell-side analysts," says Prof Feinstein. "They also visit other funds, boutique investment companies, and even some of the big mutual fund companies."

At the direction of the school's board of trustees,



Enriching: Babson College, Massachusetts, where competition to secure a place on the fund-management team is intense

the portfolio is entirely invested in companies that trade on US stock exchanges with at least a \$100m market capitalisation.

Small to medium-sized local companies are the fund's sweet spot, according to Michael Afshar, a 26-year-old New Yorker and a member of BCF's healthcare team. The greater Boston area is home to nearly 150 life sciences and biotechnology companies.

"The big question is: what do you know about a stock, that potentially nobody else does, that might make it undervalued?," he says. "One of our competitive advantages is that we can take the time to talk with a company whose market cap is under a billion, but that might have a promising technology or product. It might not be worthwhile to a Morgan Stanley or Merrill Lynch portfolio manager."

Mr Afshar describes the fund's investment style as aggressive application of

conservative principles. The team conducts intensive research to uncover stocks that are good value at their current market prices, taking an "active position" in those stocks. The students also take "passive positions" in other stocks in an effort to lower the fund's volatility.

"Our goal is to preserve the school's capital and add to it," says Mr Afshar. "I am always looking for my next investment idea. The search for a good company is never ending."

Returns vary, though this year the fund has performed particularly well. Over the past nine months the fund's fiscal year ends on May 1 - BCF is up 14.7 per cent. The S&P 500 is up 9.85 per cent over the same period, according to Prof Feinstein.

"We've never lagged by a lot," he says. "But do bear in mind, we have 100 per cent turnover of managers every year."

Babson is not the only

business school that designates a portion of its endowment for student investment. Brandeis International Business School in Waltham, Massachusetts, allocates \$25,000 of its \$475m endowment to its student-run emerging markets investment club. A Japanese student, Hiroki Nakagiri, started the club in 2004 by putting up \$10,000 of his own money. With the help of Peter Petri, the school's dean, he persuaded the college to put up some of its own money.

Brandeis' fund, which is managed by about 10 students, invests solely in Brazil, China, Russia and India.

"They wanted a very nar-

row investment objective and it just happens to be a very hot area of investment right now," says Prof Petri.

Rakesh Tripathi, vice-president of the club, says that while he does not intend to pursue a career in fund management, he is grateful for the experience. "It has given me a tremendous exposure to this side of business and it has helped me develop leadership skills."

Prof Petri says that the club exposes students to basic principles of business. "It teaches decision-making and money-management skills and the discipline of being transparent when you're managing other people's money."