



# Student Investment Fund



**Annual Report 2002**

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\*This report and the financial statements contained herein are submitted for the information of the fund's donors.  
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## SEO Letter to Our Shareholders

### **SIF History and Purpose**

The TU Student Investment Fund (SIF) provides unique opportunities to outstanding undergraduate and graduate students in their study of finance. Some of these are: the opportunity to gain practical experience in financial modeling, portfolio management, and fundamental analysis; the opportunity to make investment decisions with real consequences; and the opportunity to understand the effects of macroeconomic forces on industries and firms. Thanks to the generous donations of TU friends and alums, TU Finance and MBA students, since 1997, have gained valuable hands-on experience that has helped prepare them for the challenges faced in their financial careers.

What makes the TU SIF so special is that it is completely funded by donations to the Finance Excellence Fund. Since its inception in 1990, the Finance Excellence Fund has provided \$70,000 in scholarships to some sixty outstanding students, and provided the funds for the SIF to operate. Furthermore, the Finance Excellence Fund has allowed the University to advance toward its goal of national academic recognition. Frank M. Engle made the first contribution to the Finance Excellence Fund in 1990, since then, hundreds of TU alumni and friends of the University have generously contributed. Without Friends of Finance, the TU SIF would not be possible. Thank You.

### **SIF Goals and Management Style**

As of December 31, 2002, the TU SIF has approximately \$515,000 under active management. The goal of the SIF management is to outperform the S&P 500 index using an enhanced index methodology. This means that at least 40% of the assets under management are allocated to a SPDR index tracking fund. The other 60% is allocated to individual securities and cash. SIF student managers also adhere to a diversified portfolio approach. No more than 25% of the fund's assets allocated to any one sector, and no more than 7% can be allocated to any single security. Finally, the fund is being managed to achieve a blend of both growth and value securities in an attempt to stabilize returns over the long-run.

### **Class Organization**

Like any investment management firm, the TU SIF has a hierarchal organizational structure with students serving in all of the functional roles. Each student is required to take an active role in two of the seven SIF committees. These committees are responsible for ensuring that all aspects of the fund's management are operated efficiently and effectively. From the top down, the SIF organizational structure is as follows:

*Board of Advisors:* The SIF Board is comprised of six local business professionals. Their responsibility is to ensure that the SIF endowment is managed in a prudent and responsible manner.

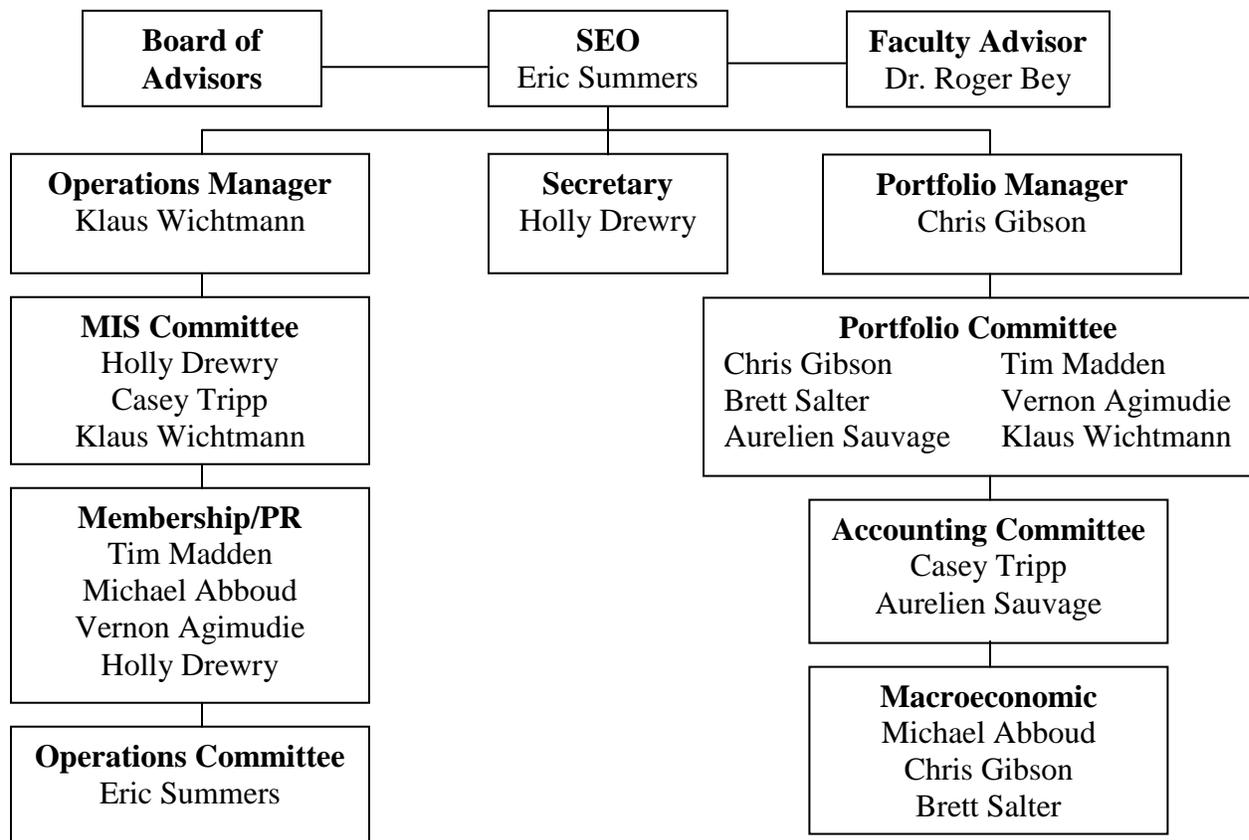
*Faculty Advisor:* The Faculty Advisor ensures that the SIF class is operated in accordance to the standards set forth by the Board and the University of Tulsa. The Faculty Advisor also acts as liaison between the SIF class and the Board. The Faculty Advisor does not in general make any investment decisions concerning the management of the fund's assets but retains a right to veto any student decision.

*Student Executive Officer (SEO):* The SEO is responsible for the day-to-day management of the SIF class activities. He/She leads class discussions, ensures SIF committees are functioning properly, and monitors the entire SIF portfolio. Finally, the SEO must guarantee that the SIF members are acting in accordance with the SIF Constitution and Bylaws.

*Portfolio Manager:* The portfolio manager takes responsibility for ensuring that the portfolio committee, accounting committee, and macroeconomic committee all perform their duties consistently and effectively.

*Operations Manager:* The operations manager takes responsibility for ensuring that the operations committee, MIS committee, membership committee, and public relations committee all perform their duties consistently and effectively.

*Secretary:* The Secretary ensures that the minutes of class meetings are recorded, manages all SIF documentation, and distributes all annual and quarterly reports.



## **SIF Performance**

2002 proved to be another difficult year for the market and the SIF. In the wake of a slowing economy, rising unemployment, numerous corporate accounting scandals, and the war on terrorism, the S&P 500 lost 22.1% of its value during 2002.

During this time, the SIF members maintained a disciplined and balanced approach with a focus toward diversification. This disciplined approach paid-off in that the fund was down only 18.7%, 3.4% less than the S&P 500. The SIF portfolio also proved less risky than the S&P 500 with a standard deviation of only 14.8% compared to the S&P's 21.0%.

As of December 31, 2002, the SIF portfolio consisted of 14 securities representing 6 industry sectors, a 38% allocation to SPDR's, and a 4% allocation to the money market. During 2002, the fund's top performing equities included Anheuser-Busch, Harley Davidson, and Lockheed Martin. Investments in these companies helped offset the losses from the worst performers which included Genzyme, Kohl's, and Phillip Morris.

In December 2002, the fall SIF members chose to adjust the portfolio's holdings. The class sold the fund's positions in Genzyme and Phillip Morris, and added positions in Best Buy, Cheesecake Factory, and Boston Properties. However, these transactions were not completed until 2003.

The two SIF classes in 2002 made investment decisions which they believed would have the greatest

positive impact on the long-run performance of the portfolio. The students engaged in extensive research into the companies that they chose to eliminate and add to the portfolio. This process proved successful in that the stated performance goal of the portfolio was achieved by performing better than the S&P 500 index, and more importantly, the students gained the valuable insight into portfolio management that this class was designed to deliver.

## **Conclusion**

Thanks to the generosity of friends and alumni of the University of Tulsa and the Department of Finance and Operations Management, the students of the Fall and Spring 2002 SIF classes had the unique opportunity to participate in the management of a substantial equity portfolio. It is this type of educational experience that sets the University of Tulsa apart from those would-be competitors. Due to programs such as SIF, graduates of the University of Tulsa have a competitive advantage in the workplace and life.

Again, thank you to everyone who has ever supported the Finance Excellence Fund. Your commitment and generosity has made the SIF what it is today and what it will become in the future. We all look forward to many more years of successful TU SIF management by the outstanding students that are the University of Tulsa.

Sincerely,



Eric Summers

Student Executive Officer, Spring 2003

# SIF Security Holdings

## University of Tulsa SIF Holdings Securities Held December 31, 2002

| <u>Security</u>                         | <u>Symbol</u> | <u>Quantity</u> | <u>Cost Basis</u> | <u>Market Value</u> | <u>Unrealized<br/>Gain (Loss)</u> | <u>% of<br/>Portfolio</u> |
|---|---------------|-----------------|-------------------|---------------------|-----------------------------------|---------------------------|
| Harley-Davidson, Inc.                   | HDI           | 450             | \$ 16,414         | \$ 20,790           | \$ 4,376                          | 4.81                      |
| Kohls                                   | KSS           | 305             | \$ 21,365         | \$ 17,064           | \$ (4,301)                        | 3.95                      |
| Wal-Mart                                | WMT           | 360             | \$ 19,803         | \$ 18,183           | \$ (1,620)                        | 4.21                      |
| <b>Sub-total Consumer Discretionary</b> |               |                 | <b>\$ 57,582</b>  | <b>\$ 56,037</b>    | <b>\$ (1,545)</b>                 | <b>12.97</b>              |
| Anheuser-Busch Companies, Inc.          | BUD           | 485             | \$ 20,139         | \$ 23,474           | \$ 3,335                          | 5.43                      |
| Diageo                                  | DEO           | 475             | \$ 24,476         | \$ 20,805           | \$ (3,671)                        | 4.82                      |
| Pepsico                                 | PEP           | 165             | \$ 8,609          | \$ 6,966            | \$ (1,643)                        | 1.61                      |
| Philip Morris                           | MO            | 450             | \$ 23,001         | \$ 18,238           | \$ (4,763)                        | 4.22                      |
| <b>Sub-total Consumer Staples</b>       |               |                 | <b>\$ 76,225</b>  | <b>\$ 69,483</b>    | <b>\$ (6,742)</b>                 | <b>16.08</b>              |
| Exxon Mobil                             | XOM           | 620             | 23,014            | 21,662              | (1,352)                           | 5.01                      |
| <b>Sub-total Energy</b>                 |               |                 | <b>\$ 23,014</b>  | <b>\$ 21,662</b>    | <b>\$ (1,352)</b>                 | <b>5.01</b>               |
| Amgen Inc.                              | AMGN          | 165             | \$ 8,106          | \$ 7,976            | \$ (130)                          | 1.85                      |
| Cardinal Health                         | CAH           | 320             | 20,412            | 18,940              | (1,472)                           | 4.38                      |
| Genentech                               | DNA           | 605             | 20,231            | 20,061              | (170)                             | 4.64                      |
| Genzyme                                 | GENZ          | 525             | 24,154            | 15,524              | (8,630)                           | 3.59                      |
| <b>Sub-total Health Care</b>            |               |                 | <b>\$ 72,903</b>  | <b>\$ 62,501</b>    | <b>\$ (10,402)</b>                | <b>14.47</b>              |
| Lockheed Martin Corp                    | LMT           | 400             | \$ 19,962         | \$ 23,100           | 3,138                             | 5.35                      |
| <b>Sub-total Industrials</b>            |               |                 | <b>19,962</b>     | <b>23,100</b>       | <b>3,138</b>                      | <b>5.35</b>               |
| Microsoft Corporation                   | MSFT          | 325             | 20,399            | 16,802              | (3,597)                           | 3.89                      |
| <b>Sub-total Technology</b>             |               |                 | <b>\$ 20,399</b>  | <b>\$ 16,802</b>    | <b>\$ (3,597)</b>                 | <b>3.89</b>               |
| SPDR Trust, Series 1                    | SPY           | 1,850           | 226,314           | 163,225             | (63,089)                          | 37.78                     |
| <b>Sub-total Index</b>                  |               |                 | <b>\$ 226,314</b> | <b>\$ 163,225</b>   | <b>\$ (63,089)</b>                | <b>37.78</b>              |
| Merrill Lynch Money Market              |               |                 | \$ 18,433         | \$ 18,433           | \$ 0                              | 4.27                      |
| Operating Cash - TU                     |               |                 | 767               | 767                 | 0                                 | 0.18                      |
| <b>Sub-total Cash</b>                   |               |                 | <b>\$ 19,200</b>  | <b>\$ 19,200</b>    | <b>0</b>                          | <b>4.44</b>               |
| <b>Total Account Value</b>              |               |                 | <b>\$ 515,599</b> | <b>\$ 432,010</b>   | <b>\$ (83,589)</b>                | <b>100</b>                |

**Notes:**

1. Maximum allowable single security allocation is 7%
2. Maximum allowable sector allocation is 25%

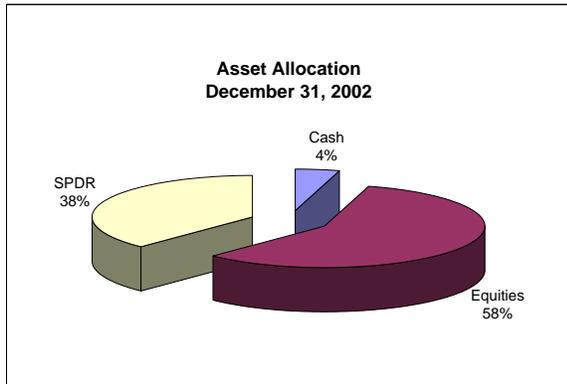
# SIF Allocation

The SIF Investment Policy states:

- No more than 7% of the portfolio can be invested in an individual stock
- No more than 25% of the portfolio can be invested in any one industry
- No less than 40% can be invested in S&P Depository Receipts
- Financial derivatives cannot be used
- Short sales are not allowed
- Securities cannot be purchased on margin
- Individual securities must have a market capitalization of at least \$3 billion

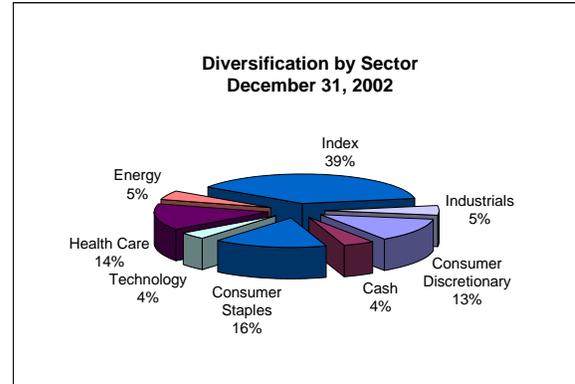
## PORTFOLIO DISTRIBUTION

As shown in the graph below, the fund was 96% invested at the end of 2002.



## SIF ASSET ALLOCATION

The sector percentages reported below include both the individual securities held and the ownership of these securities held through the S&P Depository Receipts.



On December 31, 2002, the fund held 14 securities. The percentage of the SIF invested in each of these securities is listed in the following table.

## Equity Distribution

| Company                  | Percent |
|--------------------------|---------|
| Anheuser Busch Companies | 5.44    |
| Lockheed-Martin          | 5.36    |
| Exxon Mobil              | 5.02    |
| Diageo                   | 4.82    |
| Harley Davidson          | 4.82    |
| Genentech                | 4.65    |
| Cardinal Health          | 4.39    |
| Philip Morris            | 4.23    |
| Wal-Mart                 | 4.22    |
| Kohl's                   | 3.96    |
| Microsoft                | 3.90    |
| Genzyme                  | 3.60    |
| Amgen                    | 1.85    |
| Pepsico                  | 1.62    |

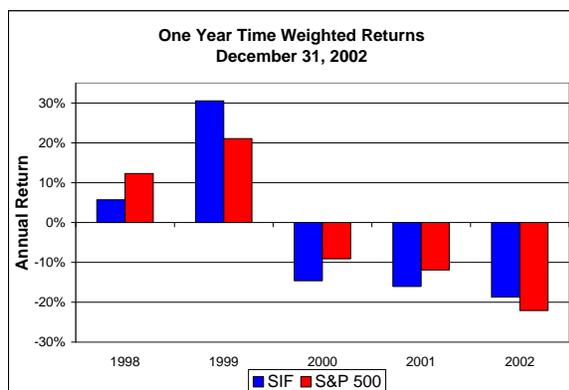
## PERFORMANCE SUMMARY

As of December 31, 2002 the SIF portfolio consisted of 14 common stocks, SPDR's, and a small cash position. For 2002, the SIF portfolio's total return was -18.7%, compared to the S&P 500's total return for the year of -22.1%.

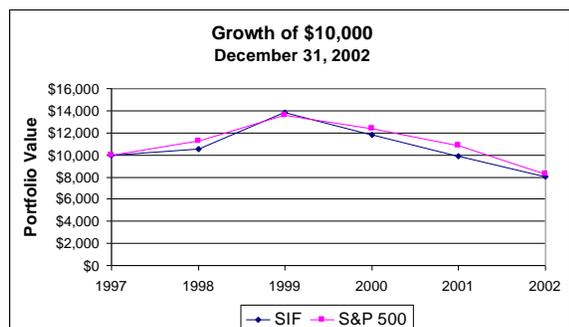
# Performance Summary

## PERFORMANCE SUMMARY

At the end of 2002, the SIF portfolio consisted of 14 common stocks, an S&P500 Index Fund, and a Money Market Fund. A high proportion, 38 percent, of the Fund was allocated to SPDR's. The SIF portfolio's total return was -18.73%, compared to the S&P500's total return of -22.10%. The SIF portfolio's total investment gain before expenses was -\$135,195 that resulted in a total portfolio value of \$432,015 at the end of 2002. The greatest gains came from Lockheed Martin and Anheuser-Busch, while the greatest losses came from SPDRs, Genzyme, and Genentech.



In 2002, the fund was able to concentrate on investing in large cap stocks, which proved to be a successful strategy in comparison to the S&P500. The SIF fund outperformed the S&P500 by 3.4 percent.



## Top Three Holdings in Terms of Dollar Value in 2002

|                 |           |
|-----------------|-----------|
| SPDR Trust      | \$173,863 |
| Anheuser-Busch  | \$23,823  |
| Lockheed Martin | \$23,044  |

## Top Three Stocks in Dollars Gained in 2002

|                 |         |
|-----------------|---------|
| Lockheed Martin | \$4,664 |
| Anheuser-Busch  | \$1,668 |
| Diageo          | (\$342) |

## Stocks Purchased in 2002

Anheuser-Busch Companies  
 Diageo Plc.  
 Genentech Inc.  
 Genzyme General Division  
 Harley-Davidson, Inc.  
 Kohl's Corporation  
 Lockheed Martin Corp.  
 PepsiCo, Inc.  
 Philip Morris Companies  
 Wal-Mart Stores, Inc.

## Stocks Sold in 2002

Amgen, Inc.  
 Bristol-Myers Squibb Co.  
 Citigroup  
 Dynegy, Inc.  
 Pfizer, Inc.

## INVESTMENT STRATEGY

SIF maintained its strategy to invest only in companies that have market capitalizations of over 3 billion dollars (large cap). Fortunately, in 2002 these were the stocks that experienced the best performance.

## 2002 Financial Highlights

|                          |            |
|--------------------------|------------|
| Investment Gain/Loss     | -\$135,195 |
| Total Assets End of Year | \$432,015  |
| Performance              |            |
| SIF                      | -18.73%    |
| S&P500                   | -22.10%    |
| Expenses                 | \$823      |

## Portfolio at a Glance

### **AMGEN Inc.**

Amgen Inc. discovers, develops, manufactures, and markets human therapeutics based on cellular and molecular biology. The Company focuses its research on secreted protein and small molecule therapeutics, with particular emphasis on neuroscience and cancer. Amgen concentrates on the areas of hematology, cancer, infectious disease, endocrinology, neurobiology, and inflammation.

### **ANHEUSER-BUSCH Inc.**

Anheuser-Busch Companies, Inc. produces and distributes beer under brand names such as Budweiser, Michelob, and Busch. The Company also manufactures beverage cans, recycles aluminum cans for conversion into new can sheet, manufactures labels, and operates rice milling and barley seed processing plants. In addition, Anheuser-Busch owns and operates theme parks

### **CARDINAL HEALTH Inc.**

Cardinal Health, Inc. provides complementary products and services to healthcare providers and manufacturers. The Company's services include pharmaceutical distribution, health-care product manufacturing, distribution and consulting services, drug delivery systems development, pharmaceutical packaging, automated dispensing systems manufacturing, and retail pharmacy franchising.

### **DIAGEO Plc.**

Diageo plc produces, distills and markets alcoholic beverages. The Company's premium drinks brands include Smirnoff, J&B, Johnnie Walker, Jose Cuervo, Seagrams, Captain Morgan, Tanqueray, Baileys, Harp, and Guinness Stout.

### **EXXON MOBIL Corp.**

Exxon Mobil Corporation operates petroleum and petrochemicals businesses on a worldwide basis. The Company's operations include exploration and production of oil and gas, electric power generation, and coal and minerals operations. Exxon Mobil also manufactures and markets fuels, lubricants, and chemicals.

### **GENENTECH Inc.**

Genentech, Inc., a biotechnology company, discovers, develops, manufactures, and markets human pharmaceuticals. The Company markets biotechnology products directly in the United States.

### **GENZYME CORPORATION**

Genzyme is separated into three tracking stocks: Genzyme Molecular Oncology, Genzyme Biosurgery, and Genzyme General, the company's primary division. Some of its products are Cerezyme and Ceredase, treatments for Gaucher's disease. Cerezyme may have competition from Oxford Glyco Sciences in 2003. Genzyme is also developing a drug for Fabry disease.

### **HARLEY-DAVIDSON Inc.**

Harley-Davidson, Inc. designs, manufactures, and sells motorcycles. The Company's products include heavyweight touring, custom, and performance motorcycles, as well as a line of motorcycle parts, accessories, and general merchandise. Harley-Davidson also provides motorcycle floor planning and parts and accessories financing to its North American and European dealers.

## Portfolio at a Glance

### **KOHL's Corp.**

Kohl's Corporation operates a chain of family-oriented, specialty department stores. The Company's stores feature moderately priced apparel, shoes, accessories, and housewares targeted to middle income customers. Kohl's operates primarily in the Midwest and the Mid-Atlantic areas of the United States.

### **LOCKHEED-MARTIN Corp.**

Lockheed Martin Corporation is a diversified enterprise that primarily researches, designs, develops, manufactures, and integrates advanced technology products and services. The Company's businesses span space, telecommunications, electronics, information and services, aeronautics, energy, and systems integration. Lockheed Martin operates worldwide.

### **MICROSOFT Corp.**

Microsoft Corporation develops, manufactures, licenses, sells, and supports software products. The Company offers operating system software, server application software, business and consumer applications software, software development tools, and Internet and intranet software. Microsoft also develops the MSN network of Internet products and services.

### **PEPSICO Inc.**

PepsiCo, Inc. operates worldwide soft drink, juice, and food businesses. The Company manufactures, sells, and distributes beverages such as Pepsi-Cola, Gatorade, and Tropicana Pure Premium, as well as foods such as Lay's potato chips, Doritos tortilla chips, and Quaker oats. PepsiCo owns the international rights to the brand 7UP.

### **PHILIP MORRIS COMPANIES**

Philip Morris is the world's largest tobacco company. It controls about 50 percent of the market. Marlboro, Benson & Hedges, and Virginia Slims are all their brands. The company also owns 84% of Kraft Foods with leading brand names of Jell-O, Kool-Aid, Maxwell House, Oscar Meyer, and Post cereals. In addition they own 36 percent of SAB Miller – the world's largest brewer.

### **SPDR Trust Series 1**

SPDR Trust Series 1 issues exchange-traded funds called Standard & Poor's Depositary Receipts or "SPDRs". The SPDR Trust holds all of the common stocks of the Standard & Poors 500 Composite Stock Price Index and is intended to provide investment results that, before expenses, generally correspond to the price and yield performance of the S&P 500 Index.

### **WAL-MART Corp.**

Wal-Mart Stores, Inc. operates discount stores and Supercenters, as well as Sam's Clubs. The Company's Wal-Mart discount stores and Supercenters offer merchandise such as apparel, housewares, small appliances, electronics, and hardware. Wal-Mart operates in the United States, Canada, Argentina, Brazil, Germany, Mexico, Korea, United Kingdom, and Puerto Rico.

# Financial Statement

## Balance Sheet

| Year Ended December 31            | 2001                 | 2002                 |
|-----------------------------------|----------------------|----------------------|
| Amounts in US Dollars             |                      |                      |
| <b>Assets</b>                     |                      |                      |
| Cash/Cash Equivalents             |                      |                      |
| Cash (TU Account)                 | \$ 15,995.00         | \$ 18,433.00         |
| Cash/Equivalent (Money Fund)      | \$ 1,255.75          | \$ 767.00            |
| Total Cash/Cash Equivalents       | \$ 17,250.75         | \$ 19,200.00         |
| SPDR Trust Funds, at value        | \$ 286,893.00        | \$ 163,225.00        |
| Common stocks, at value           | \$ 221,184.00        | \$ 249,590.00        |
| <b>Total Assets</b>               | <b>\$ 525,327.75</b> | <b>\$ 432,015.00</b> |
| <b>Capital</b>                    |                      |                      |
| Paid in capital                   | \$ 540,384.00        | \$ 572,059.00        |
| Cumulative capital gains/(losses) | \$ (15,056.25)       | \$ (140,044.00)      |
| <b>Total Capital</b>              | <b>\$ 525,327.75</b> | <b>\$ 432,015.00</b> |

## Income Statement

| Year Ended December 31                     | 2001                  | 2002                   |
|--|-----------------------|------------------------|
| Amounts in US dollars                      |                       |                        |
| <b>Investment Income</b>                   |                       |                        |
| Interest                                   | \$ 1,322.76           | \$ 237.74              |
| Dividends                                  | \$ 3,623.15           | \$ 6,039.42            |
| <b>Total Income</b>                        | <b>\$ 4,945.91</b>    | <b>\$ 6,277.16</b>     |
| <b>Expenses</b>                            |                       |                        |
| Annual Fee                                 | \$ 150.00             | \$ 160.00              |
| Supplies and Expenses                      | \$ 351.49             | \$ 154.05              |
| Printing and Duplication                   | \$ 1,215.07           | \$ 309.75              |
| Membership and Subscriptions               | \$ 395.77             | \$ 199.95              |
| <b>Total Expenses</b>                      | <b>\$ 2,112.33</b>    | <b>\$ 823.75</b>       |
| <b>Realized and unrealized Gain (loss)</b> |                       |                        |
| Unrealized Gain (loss)                     | \$ (29,808.00)        | \$ (83,588.00)         |
| Realized Gain (loss)                       | \$ (21,963.00)        | \$ (51,607.00)         |
| <b>Net gain (loss)</b>                     | <b>\$ (51,771.00)</b> | <b>\$ (135,195.00)</b> |
| <b>Net Income</b>                          | <b>\$ (48,937.42)</b> | <b>\$ (129,741.59)</b> |