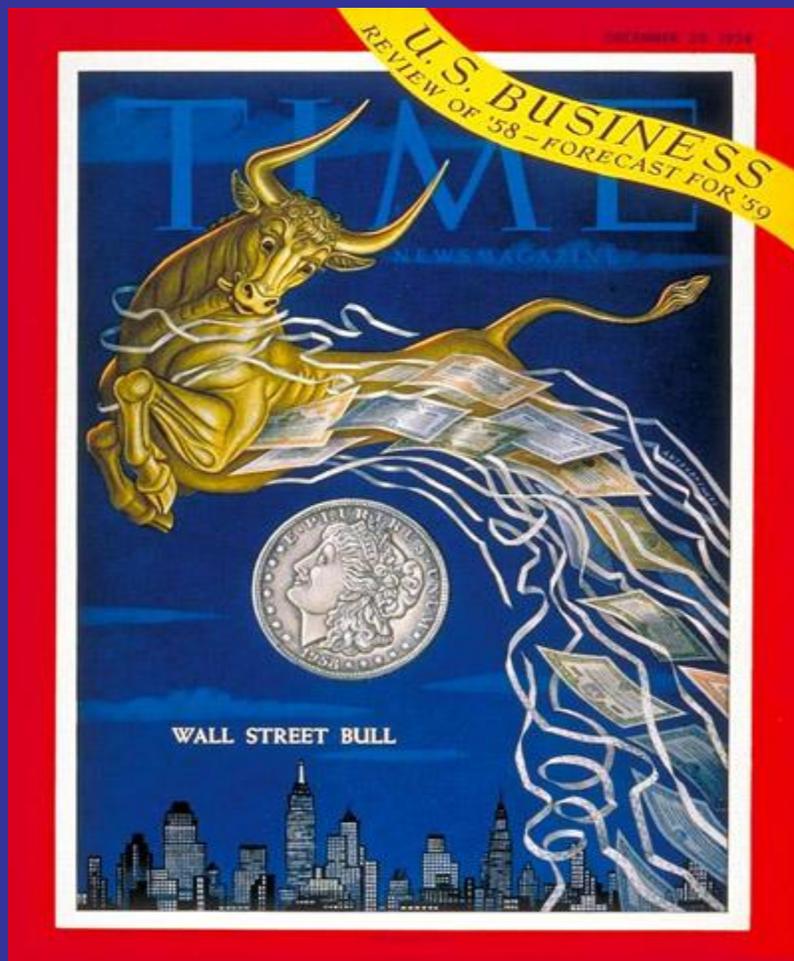


# Student Investment Fund

## University of Tulsa



*If you ignore the past, you are doomed to repeat it.*

## 2005 Annual Report

## **MISSION STATEMENT**

“As members of the University of Tulsa’s Student Investment Fund, we will meet for the purpose of furthering our knowledge of financial management, elevating our experience in the investment arena, promulgating our objectives and purposes to the public, mastering the practices, habits, and ethics of finance professionals, and for the promotion of social and professional relationships amongst our members. This background will provide us with superior knowledge and competitive ability in our professional field.

We will also, as beneficiaries, endeavor to provide superior returns to our shareholders; those individuals who have enabled us to enjoy this experience by donating to the Finance Excellence Fund.”

*-Adopted January 23<sup>rd</sup>, 2001*

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### **SIF Board of Advisors**

Roger Bey, The University of Tulsa  
Bob Boyd, Boston Street Advisors  
Keith Goddard, Capital Advisors, Inc.  
Jack Koehle, New York Life  
Brett Kramer, Pinnacle Investment Advisors  
Mike Thesenvitz, The University of Tulsa  
Ed Thomas, Thomas Engineering

*This report is submitted for the general information of the fund’s donors.*

## Letters to Our Shareholders

### From the 2005 SEO's

Becoming Student Executive Officer (SEO) of the Student Investment Fund during the spring 2005 semester provided me the opportunity for a head start in the financial services industry. As a member of the fund I realized the importance of open discussion and collaboration amongst peers concerning security selection. Discussing differing perspectives and ideas allowed our group to evaluate and determine which sectors, and ultimately securities, would most benefit the fund.

Taking concepts from the Student Investment Fund and applying them to my practice with Merrill Lynch has allowed me to service my clients in a more informative and efficient manner. Methods for security selection and asset allocation that were developed during my tenure as S.E.O. have transformed into techniques that are used on a daily basis in helping my clients realize their financial goals and objectives. Going forward, I am certain that The University of Tulsa's Student Investment Fund will have as profound an impact on the careers of future executives as it has mine.



Zack Newby  
Spring 2005 SEO

The 2005 fall SIF class was one of the largest in recent years. Records were also set in the amount of assets under management as the portfolio, with generous donations and moderate investment gains, grew to \$1.15 million. A well-qualified diverse set of students successfully managed the portfolio. The class consisted of fourteen students. Of these fourteen, three brought international influence, and one brought the experience only a graduate student with CFA Level II certification could bring.

Several local portfolio managers spoke to the class and provided investment expertise and inspiration. During the semester the class took great efforts to focus the direction of the portfolio. The investment policy statement was revised and limits were placed on sector weightings relative to the S&P500 sector weights. A regular portfolio rebalancing schedule was implemented and a decision to establish a more value-oriented portfolio was made.

The class also worked hard to formalize the SIF II course; as a result an unprecedented amount of students enrolled for a second semester. Included in the students enrolled in SIF II is Ben Nebb, the spring 2006 SEO. The semester ended on a positive note as several new securities were added to the portfolio.



Tony Kay  
Fall 2005 SEO

## From the Spring 2006 Officers

### The Past

As noted by the 2005 SEO's, last year proved to be a year of growth for the Student Investment Fund. Both 2005 classes helped streamline the industry selection process, rewrite the asset allocation rules, and move the class towards value investing.

In the past, students were allowed to choose any industry for their industry report. This industry selection method often ignored the current portfolio holdings and expected market conditions. Now, the portfolio committee chooses the industries they believe will outperform the market and match the current portfolio composition; then each student selects from the list the portfolio committee created.

The new selection method resulted in three securities added to the portfolio in Spring 2005, Coach, Goldman Sachs, and Vulcan, which have produced gains of 21.1%, 17.6%, and 21.3% respectively. Not enough time has passed to comment on the performance of the Fall 2005 securities, but similar results are expected.

The Fall 2005 class revised the diversification section of the Investment Policy Statement to read "With respect to sector diversification, the fund shall invest no more or no less than 50% of the S&P 500 sector weightings". At times this rule may be restrictive but it provides important downside protection and appropriate diversification.

In 2005 the SIF stated explicitly their preference for value investing. A value oriented approach fits better with our style of security analysis. The SIF methods of comparative analysis, fundamental analysis and valuation analysis techniques are better suited towards identifying favorable value oriented companies rather than growth driven companies. We hope that our commitment towards value investing is maintained through future SIF classes.

### The Present

We are very excited to serve as the SEO and Portfolio Manager for the Spring 2006 class and proud to constitute, along with Tony Kay, Michael Denning, and David Merrill, the first ever SIF II class. The experience SIF II students bring to the classroom is helping to create an unparalleled

learning environment. This semester, SIF II students have given five new security presentations and have developed a new process for presenting security updates. Because there are SIF I and SIF II students in the same class, the learning curve has shortened tremendously for an SIF class already filled with intelligent investors.

### The Future

The markets have been choppy the past couple of years and we expect more of the same for most of 2006, though with a bit more volatility. We expect a 10-20% drop in the markets at some point. According to recent Morgan Stanley research, "U.S. equities have not had a 10%+ correction for three years. This is the fifth-longest period without a 10%+ correction in the S&P 500 since 1900." Any substantial decline would create an attractive time for SIF to accumulate more shares in current positions as we believe the correction will serve as a launching point for a strong market well into 2007. The big question is what will drive the correction. The most plausible scenario to us is that a decline in the housing market, continued high energy prices, and an unemployment picture that is not as rosy as the current 4.7% unemployment rate implies will catch up with the consumer and cause enough doubt about our economy to cause a correction. We do not believe in trying to time the market but it is a helpful exercise to predict the market direction inasmuch as it makes us research and better understand the factors that affect our individual holdings.

Over this past year the SIF students have worked hard and made significant improvements upon the structure and performance of the fund. Previous classes laid the groundwork for us to succeed and we hope our hard work improves the class for future students. We thank those of you who have supported SIF over the years and look forward to seeing your continued support.



Benjamin Nebb  
Student Executive Officer  
Spring 2006



Darrel Pfeifauf  
Portfolio Manager  
Spring 2006

# SIF History, Goals and Organization

## **SIF History and Purpose**

The University of Tulsa 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.

The TU SIF is completely funded by donations to the Finance Excellence Fund. Since its inception in 1990, the Finance Excellence Fund has provided more than \$165,000 in scholarships to some 116 outstanding students and the operating funds for the SIF. 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 more than 325 TU alumni and friends of the University have generously contributed more than \$1.0 million. Without Friends of Finance, the TU SIF would not be possible.

## **SIF Goals and Management Style**

As of December 31, 2005, the TU SIF had \$1,150,000 under management. The goal of the SIF is to outperform the S&P 500 index using an enhanced index methodology. At least 30% of the assets under management are allocated to a SPDR 500 ETF. The remaining 70% is allocated to individual securities and cash. SIF student managers adhere to a diversified portfolio approach. No more than 25% of the fund's assets may be allocated to any one sector, and no more than 7% can be allocated to any single security. Finally, the fund is moving toward value securities in an attempt to stabilize returns over the long-run.

## **Class Organization**

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. The SIF organizational structure is as follows:

*Board of Advisors:* The SIF Board is comprised of six professionals. They ensure that the SIF is managed in a prudent and responsible manner.

*Faculty Advisors:* Dr. Roger Bey and Jim Arens, a Portfolio Manager at the Trust Company of Oklahoma, serve as faculty advisors. Dr. Bey ensures that the SIF class is operated in accordance to the standards set forth by the Board and the University of Tulsa. He 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. Jim Arens provides professional insight and real world investment guidance.

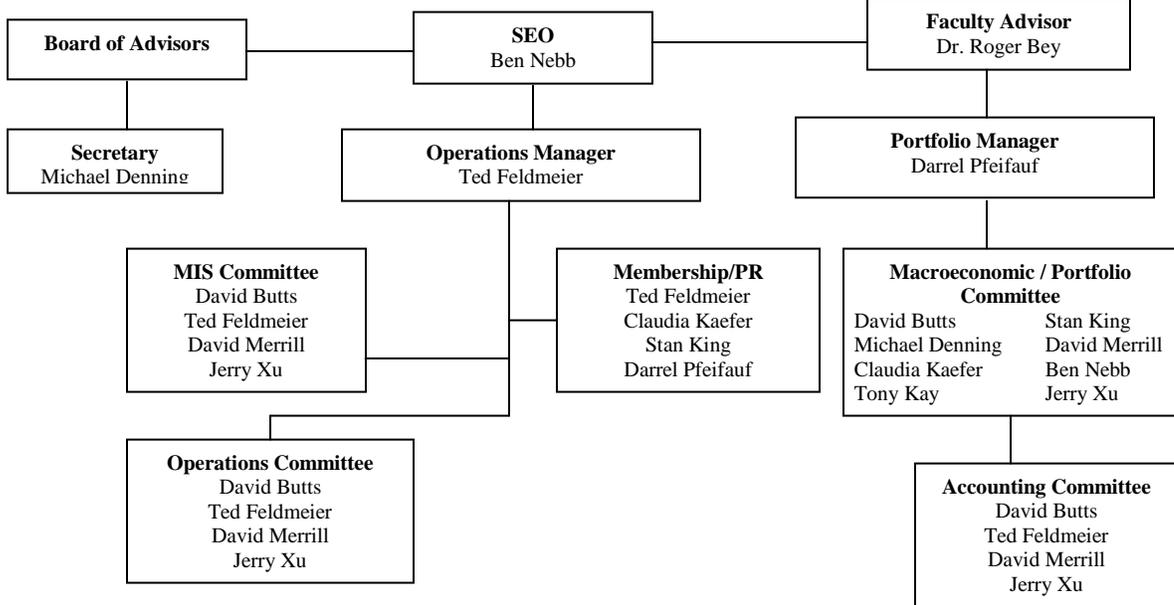
*Student Executive Officer (SEO):* The SEO is responsible for the day-to-day management of the SIF class activities. He/She leads class discussions, ensures SIF committees are functioning properly, monitors the SIF portfolio, and guarantees that the SIF members are acting in accordance with the SIF Constitution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

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

*Operations Manager:* The operations manager ensures that the operations committee, MIS committee, and membership/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.

# Organizational Structure



## Spring 2006 Class



Back Row (left to right): Dr. Roger Bey, David Merrill, Darrel Pfeifauf, Ben Nebb, David Butts, Stan King  
 Front Row: Jim Arens, Tony Kay, Claudia Kaefer, Ted Feldmeier, Jerry Xu, Michael Denning

## Strategy Considerations

### **Moving to Value**

After a detailed discussion, the decision was made to gradually shift the portfolio to a value orientation. This decision was based on class sentiment related to the overall market environment. Strong opinions were voiced that value stocks would outperform their growth counterparts in upcoming periods, especially in a time of political uneasiness in several areas across the globe.

The gradual shift of the SIF to value involves holding our positions in many growth stocks that continue to represent solid investments. We have elected not to eliminate holdings strictly on the basis of their growth nature.. Instead, the class will tailor upcoming security analysis to a value orientation, and new securities added to the portfolio will advance this position.

Our recent value approach was exemplified in recent stock pitches presented by SIF II students. A stock screening process was implemented to find securities that displayed several value characteristics, including a high dividend yield, a low book value and a low P/E ratio. The process yielded several attractive value stocks that have been added to the portfolio watch list.

### **Hedging**

A SIF II student is researching the possibility of using various hedging strategies to limit the portfolio's risk. Currently, the portfolio is monitored by Dr. Bey over the summer months when the course is not offered. The hedging research will address the question as to whether limiting the downside risk to the portfolio during these months is a more effective portfolio strategy. The costs and benefits of implementing such a strategy will be studied.

### **SIF II Incorporation**

To meet the challenge of a dynamic and uncertain market, this semester's class has the unprecedented element of second-semester SIF students known as the SIF II. The SIF II students are armed with research skills and the prospect of completing the Bloomberg Certification in Equities.

The class is fortunate to have the current SEO, Benjamin Nebb, and last semester's SEO Tony Kay. These men are proven leaders and guide the class in a structured manner bringing their "on the job" training as interns to the classroom. Portfolio Manager Darrel Pfeifauf excels at security evaluation and critical thinking. Michael Denning is the class Secretary, and adds a depth of knowledge and solidarity to the team. David Merrill provides a positive outlook and brings a real-world perspective to the mix through years of practical experience. These dedicated seniors are all finance majors, and most intend to seek advanced degrees. The SIF II students help relay last semester's experiences to the current SIF I students. SIF II students are required to analyze two new securities and present their findings to the class. In addition, they must complete a research project on a topic of interest to the class. The SIF II students possess a never before experienced synergy and are on their way to becoming seasoned professionals with an eye for quality investments.

### **Improved Public Relations**

Recruiting quality students to participate in SIF is one of the major tasks each SIF class must address. Two recruiting problems that we plan to address are: 1) fall class normally includes about 15 students but enrollment drops in the spring, 2) the lack of student diversification – that is every class consists almost exclusively of undergraduate finance majors.

To rectify these problems, we will begin informing students earlier about the existence of SIF. Before 2006, presentations about SIF were only given to upper level finance majors. This recruiting method does not reach as many of the CBA students as we would like. The spring 2006 SIF class is making plans to present to two required classes for all majors, Business in Society and Finance 3003 as well as to more graduate courses. It is our hope that this shift in recruitment methods will increase the number of students taking the course in the spring and greater student diversity.

## SIF Security Holdings

**December 31, 2005**

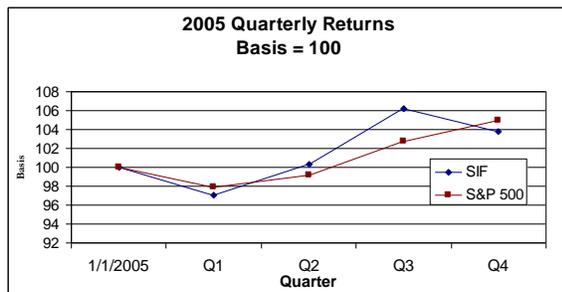
<u>Security</u>	<u>Symbol</u>	<u>Quantity</u>	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain(Loss)</u>	<u>% of Portfolio</u>
Merrill Lynch Money Market	VMFXX	13,132	13,132	13,132	0	1.14
Operating Cash -TU		81	81	81	0	0.01
<b>Cash</b>			<b>13,213</b>	<b>13,213</b>	<b>0</b>	<b>1.15</b>
Best Buy	BBY	675	11,277	29,349	18,072	2.55
Cheesecake Factory	CAKE	375	9,232	14,021	4,789	1.22
Coach	COH	750	20,646	25,005	4,359	2.17
Harley-Davidson, Inc.	HDI	450	16,414	23,171	6,757	2.01
Home Depot	HD	400	17,172	16,192	-980	1.41
MGM Mirage	MGM	1,000	22,905	36,670	13,765	3.19
<b>Consumer Discretionary</b>			<b>97,646</b>	<b>144,408</b>	<b>46,762</b>	<b>12.56</b>
Pepsico	PEP	375	21,560	22,155	595	1.93
Diageo	DEO	370	22,126	21,571	-555	1.88
Con Staples VIPER's	VDC	265	14,856	14,821	-35	1.29
<b>Consumer Staples</b>			<b>58,542</b>	<b>58,547</b>	<b>5</b>	<b>5.09</b>
Apache	APA	714	27,198	48,923	21,725	4.25
ConnocoPhillips	COP	540	20,295	31,417	11,122	2.73
Exxon Mobil	XOM	485	18,003	27,242	9,239	2.37
<b>Energy</b>			<b>65,496</b>	<b>107,583</b>	<b>42,087</b>	<b>9.35</b>
Bank of America	BAC	910	35,410	41,997	6,587	3.65
Goldman Sachs	GS	387	42,026	49,424	7,398	4.30
<b>Financials</b>			<b>77,436</b>	<b>91,420</b>	<b>13,984</b>	<b>7.95</b>
Gilead	GILD	250	5,782	13,143	7,361	1.14
C.R. Bard	BCR	580	40,182	38,234	-1,949	3.32
Zimmer	ZMH	598	41,633	40,329	-1,304	3.51
Health Care VIPER'S	VHT	217	20,134	20,636	502	1.79
<b>Health Care</b>			<b>107,731</b>	<b>112,341</b>	<b>4,609</b>	<b>9.77</b>
Caterpillar	CAT	900	41,889	51,993	10,104	4.52
United Parcel Service	UPS	250	21,682	18,788	-2,895	1.63
<b>Industrials</b>			<b>63,571</b>	<b>70,781</b>	<b>7,210</b>	<b>6.15</b>
Dell	DELL	664	24,044	19,887	-4,157	1.73
Electronics Arts	ERTS	600	21,900	31,386	9,486	2.73
EMC Corp	EMC	1,413	20,036	19,245	-791	1.67
First Data Corporation	FDC	637	26,506	27,397	891	2.38
Symantec	SYMC	1,241	29,063	21,718	-7,346	1.89
<b>Information Technology</b>			<b>121,549</b>	<b>119,633</b>	<b>-1,917</b>	<b>10.40</b>
International Paper	IP	208	7,005	6,991	-15	0.61
Vulcan	VMC	400	22,343	27,100	4,757	2.36
<b>Materials</b>			<b>29,348</b>	<b>34,091</b>	<b>4,742</b>	<b>2.96</b>
<b>Telecommunication</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Exelon	EXC	260	14,149	13,816	-333	1.20
TXU Corp	TXU	350	10,678	17,567	6,889	1.53
<b>Utilities</b>			<b>24,827</b>	<b>31,383</b>	<b>6,555</b>	<b>2.73</b>
SPDR 500	SPY	2,945	341,216	366,682	25,466	31.88
<b>Index</b>			<b>341,216</b>	<b>366,682</b>	<b>25,466</b>	<b>31.88</b>
<b>Total</b>			<b>1,000,576</b>	<b>1,150,081</b>	<b>149,504</b>	<b>100.00</b>

# Performance

## Student Investment Fund vs. S&P 500

The Fund gained 3.81% versus the S&P 500 which gained 4.91%. The SIF 2005 quarterly returns were -2.92% (Q1), 3.32% (Q2), 5.87% (Q3) and -2.24% (Q4). U.S. markets performance was mixed for 2005. For the year, Mid-cap stocks (12.6%) led Small-caps (7.7%) which led Large-caps (4.9%). Among Large-cap and Small-cap stocks value outperformed growth while in Mid-cap growth edged value.

The fund benefited from stock selections of Coach (COH), Goldman Sachs (GS) and Vulcan Materials (VMC). These three securities were purchased in May and contributed to the funds outperforming the S&P 500 during the second and third quarters. In October and November the fund outpaced the S&P500 but pulled back at the end of the fourth quarter due to our energy exposure in December.

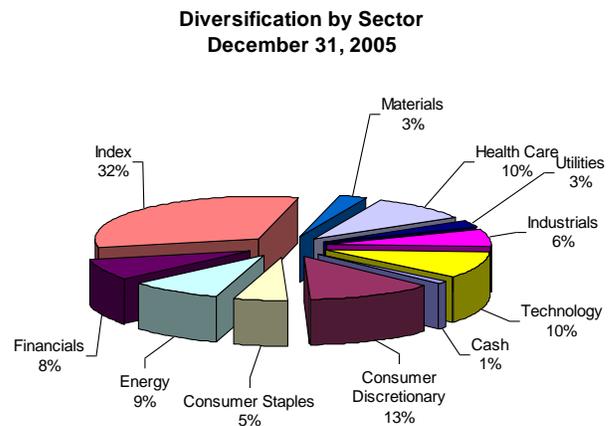


## Sector Analysis

**Energy:** One of the major boosters for the year was the energy sector. The four securities we held in 2005 were Apache Corp., CNOOC Ltd., ConocoPhillips, and Exxon Mobil. Before dividends they returned 36.27%, 19.78%, 36.82%, and 11.78% respectively while the S&P 500 energy sector returned 31.4%. We continue to watch this sector closely and are in the process of researching the equipment and services subsector. Our oil price target for 2006 is between \$55 and \$65 which gives our current holdings upside potential but equipment and services are more attractive as the Integrations and E&Ps' search for new sources of revenue.

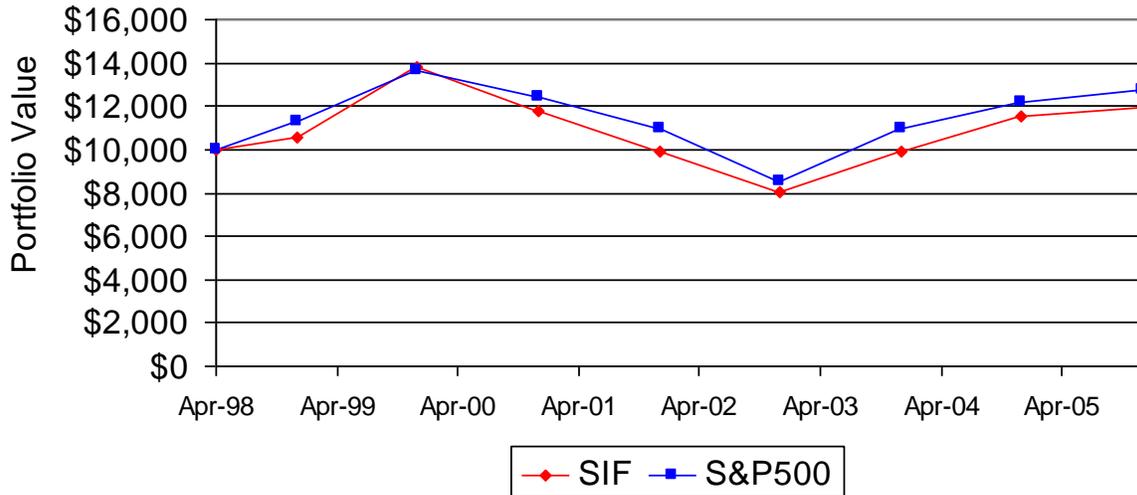
**Consumer Discretionary:** Consumer Discretionary is our largest sector at 13.4%. The results were mixed as Cheesecake Factory, Coach, and MGM showed gains for the year and Harley-Davidson and Home Depot showed losses. Consumers have been leading the economy since the Internet bubble burst but we believe several factors are starting to work against consumers. With that in mind, we are considering reducing our exposure to this sector.

**Information Technology:** Our weakest sector in 2005 was Information Technology such as Dell, Electronic Arts, and Symantec drastically underperformed the IT industry. As such, a thorough review of our IT holdings is being undertaken. The overall picture for technology spending is not as bad as our performance shows. Late in the 4th quarter EMC was added to the portfolio as our research shows that we are in a favorable environment for enterprise storage.

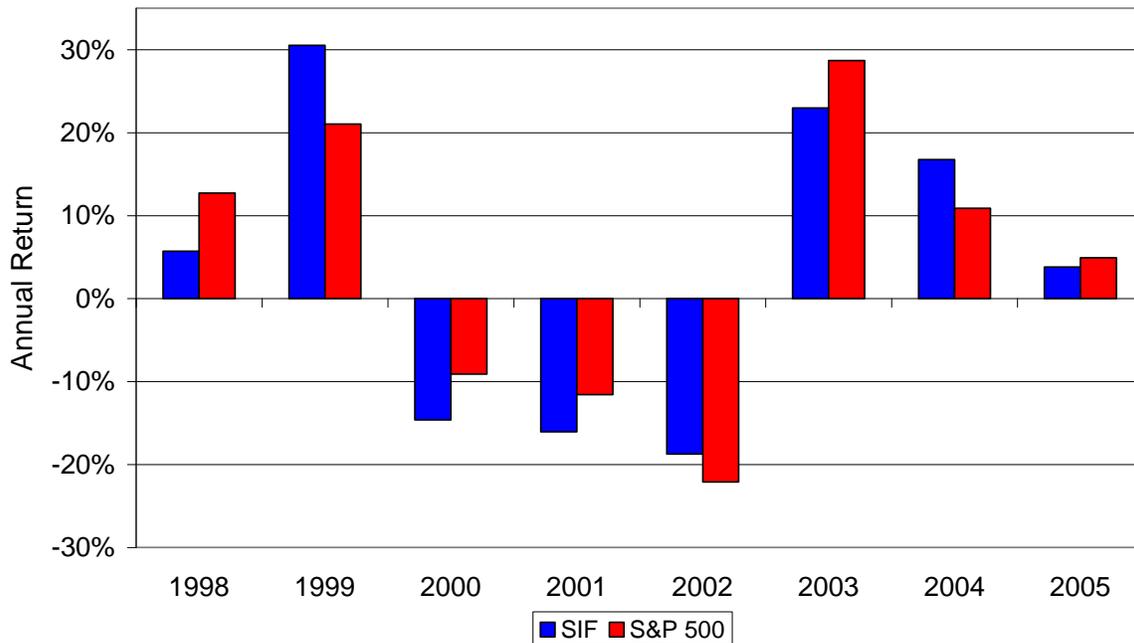


## Performance

### Growth of \$10,000 December 31, 2005



### One Year Time Weighted Returns December 31, 2005



## Major Purchases

Major Purchases	% of Fund	Description	Rationale
C. R. Bard	3.34%	Medical Instruments & Supplies	The group's principal activities are to design, manufacture, pack, distribute and market medical, surgical, diagnostic and patient care devices. The product mix of C.R. Bard complements the strong offerings of Zimmer. Together, they capture a large portion of the growth capabilities within the Healthcare sector.
Diageo	1.88%	Beverages - Brewers	Diageo is the largest player in the premium alcoholic beverage industry in the world, capturing a market share of greater than sixty percent. They look for future growth in new markets while focusing on organic growth opportunities.
EMC Corp.	1.77%	Data Storage Devices	EMC is the largest provider of enterprise network storage systems in the world. The favorable environment for enterprise storage caused by the trend towards ILM and increased data retention requirements (via Sarbanes-Oxley) is positive for EMC's growth outlook.
Exelon	1.30%	Utilities	Exelon operates the largest nuclear fleet of power plants in the United States. By operating in an unregulated energy market, Exelon has the ability to raise prices as a function of demand while maintaining low generation costs. When the merger of Exelon and PSEG is complete, Exelon will become the United State's largest utility company.
International Paper	0.65%	Paper & Paper Products	International Paper is the largest paper company in the United States. As the company goes through its restructuring process we believe it will cause an increase in return to shareholders.

## Major Sales

Major Sales	% of Fund	Description	Rationale
Genentech	2.90%	Biotechnology	We eliminated our position due to high valuations coupled with an above average risk to return ratio the fund. Genentech discovers, develops, manufactures and commercializes biotherapeutics for unmet medical needs.
CNOOC, Ltd.	2.60%	Energy	The decision to sell the portfolio's CNOOC holding was brought about due to significant appreciation, a lack of information available on the international company, and a decision to scale back exposure to the energy sector.
Nextel	2.50%	Diversified Communication Services	The fund eliminated its position after the Nextel-Sprint merger. We believed the merger offered little upside potential for Nextel or Sprint.
Anheuser-Busch	2.30%	Beverages – Brewers	Anheuser-Busch was eliminated from the portfolio due to an over saturation of its market share. We also believed that the emerging shift in consumer tastes from beer to wine and spirits made this security less favorable.
Leucadia	1.57%	Diversified Communication Services	We eliminated Leucadia from the fund due to fears that their networking contract with MCI would be threatened as a result of the Verizon acquisition of MCI.

## Significant Contributors

Significant Contributors	% of Fund	Description	Comment
Caterpillar, Inc.	4.63%	Farm & Construction Machinery	In October 2005 Caterpillar, Inc. announced that it had signed definitive agreements to enter into a global alliance with JLG Industries, Inc. In December Caterpillar completed the purchase of Rasisarda Industries, an Italian industrial hose manufacturer.
Apache Corp.	4.32%	Independent Oil & Gas	In October 2005, Apache sold interest in West Mediterranean Concessions; acquired interest in eight fields located in the Permian Basin of West Texas and New Mexico.
ConocoPhillips	2.96%	Major Integrated Oil & Gas	In December 2005 ConocoPhillips agreed to acquire Burlington Resources for about \$35.6 billion; subject to necessary approvals, closure is expected during the first half of 2006. Hydrocarbon production in 2005 was about flat with 2004 levels.
TXU Corp.	1.60%	Electric Utilities	TXU had entered into a contract to allow broadband internet access over its power lines. The company raised its guidance for 2006 and 2007 by 2%.
Gilead	1.21%	Biotechnology	On November 16, Gilead and partner Roche settled a dispute over Gilead's Tamiflu drug for influenza. The company has announced the advancement of their HIV Integrate Inhibitor GS 9137 to Phase II Clinical Trial.

## Significant Detractors

Significant Detractors	% of Fund	Description	Comment
Zimmer Holdings	3.55%	Medical Applied & Equipment	We believe that Zimmer offers one of the most comprehensive lines of orthopedic devices in the industry. In our opinion they are well positioned to meet the needs of the US aging population.
Electronic Arts	2.77%	Multimedia & Graphics Software	Electronic Arts was negatively impacted by decreased video game sales in the 4th quarter due to the release of the next-generation consol XBOX 360. As the transition towards the next generation consol continues, we believe video game sales will accelerate.
Harley-Davidson	2.05%	Recreational Vehicles	Harley-Davidson's strong brand name and market leadership will help contribute to the company's continued success. We are concerned that an aging population could cause a decline in demand.
Symantec Corp.	1.94%	Internet Software & Services	Wall Street has not given its approval to the Symatec-Veritas acquisition and several top executives left the company in 2005. Yet, we believe that increased computing security demand will provide future growth opportunities for Symantec.
Dell	1.93%	Personal Computer Systems	Dell's results have been affected by recent industry shifts towards low-end PC products. While we still believe that Dell is the leader in cost savings versus its peers, increased competitive pressure from companies like IBM and HP worry us. Our position in Dell was recently liquidated.