HYLANDER STUDENT INVESTMENT FUND

HSIF

ANNUAL REPORT

2021-2022

PREPARED BY

HSIF TEAM

UC RIVERSIDE | School of Business
A. GARY ANDERSON GRADUATE SCHOOL OF MANAGEMENT

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EXECUTIVE SUMMARY

From October 1st 2021 to September 30th 2022 the portfolio underperformed its benchmark by **0.32%.** As of September 30, 2022, the total AUM is $212,001 and the average market capitalization of the portfolio's holdings is $463 billion.

Investment Approach

- The HSIF fund uses fundamental analysis when selecting securities
- Our investment strategy uses growth and value
- Our benchmarks consist of 70% Russell 3000 and 30% Bloomberg Barclays Aggregate Bond Index
- Our target asset allocation is 80% equity and 20% fixed income

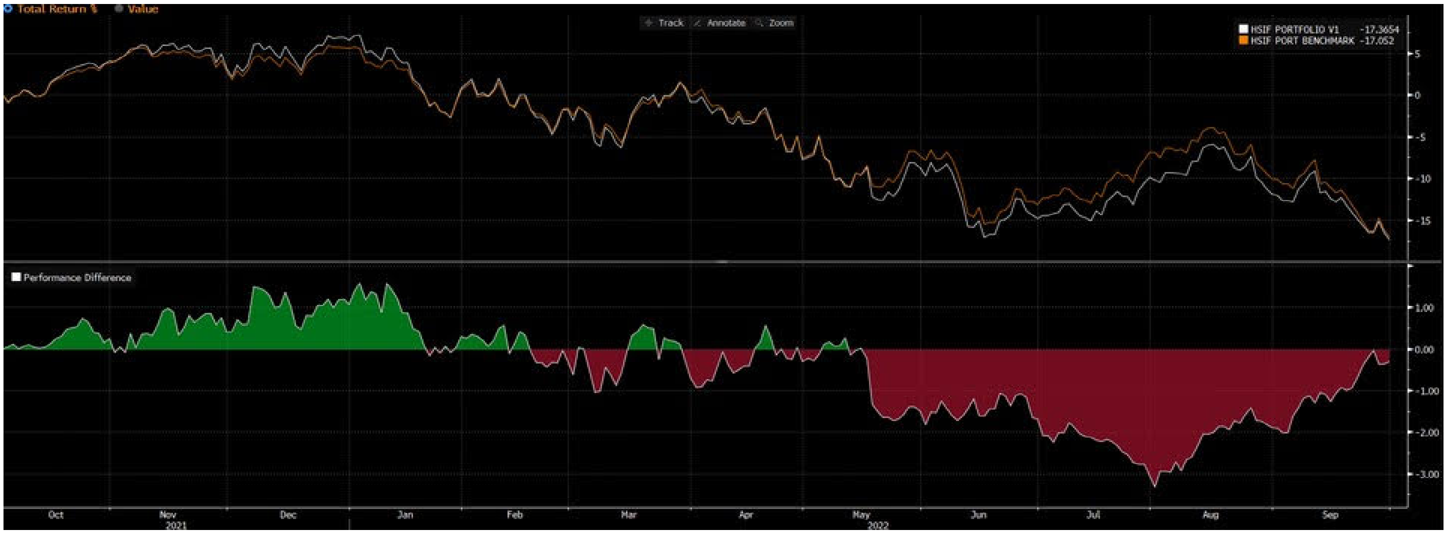
Beginning of Q4 2021 Asset Allocation

Asset Allocation	
Equity	**79.20%**
Fixed Income	**20.80%**

Statistics Q3 2022

Portofolio Statistics	
Beta	**1.24**
Sharpe Ratio	**-1.36**
Information Ratio	**-1.33**

Fund Performance Overview



From Q4 2021 to Q3 2022 (10/1/2021 - 9/30/2022), the HSIF portfolio returned -17.37%, while the benchmark returned -17.05% which places our portfolio at 0.32% underperformance.

The HSIF portfolio earned 6.59% in Q4 2021, compared to the benchmark's 5.52%. It outperformed by 107 basis points in the quarter. The sector allocation was the major contributor to the outperformance. The team decided to make investments in consumer goods, healthcare, communications, and utilities during the course of the quarter. The portfolio managers agreed to reduce our exposure to the energy sector in general and to the oil and gas sector in particular, while underweighting Industrials, Consumer Staples, and especially Energy due to the extremely high prices of WTI oil, which were fluctuating between $68- $73/bbl. Additionally, the team decided to give Financials, Utilities, Technology, and Communications higher weights because we thought that the low interest rates, chip shortage, and ongoing demand for technology solutions to support remote work environments would have benefited Communications and the Technology sector. The remaining sectors were kept at market weight.

The market downturn brought on by economic events was a significant factor in the underperformance of the HSIF portfolio in Q1 through Q3 of 2022. Along with the declining GDP, there has been rampant inflation, a labor shortage, and lasting COVID-19 pandemic impacts, not to mention ongoing energy uncertainty caused by the Russo-Ukrainian War. Back in February, the Fed announced a clear turn to tighter monetary policy in an effort to contain skyrocketing inflation, which represented a significant change in the investment climate. Due to the ongoing war between Ukraine and Russia and the fear of rising interest rates, the U.S. market fell for a second consecutive month in February 2022. Unpredictable interruptions in the flow of both Ukrainian and Russian raw materials, including oil, metals, and grain, were intended to prolong rising inflation and jeopardize the world economy. In Q2 of 2022, the S&P 500 was down more than 21% from its January peak, which was when the market entered " bear market territory " Since then, the market's swift price changes in both directions have frequently been a reaction to external factors. Throughout almost 9 months, the stock market is having its worst start to a calendar year since 2002 and is still in bear market level today. Consequently, our fund underperformed by 32 basis points, but it was commensurate with that of the market as a whole.

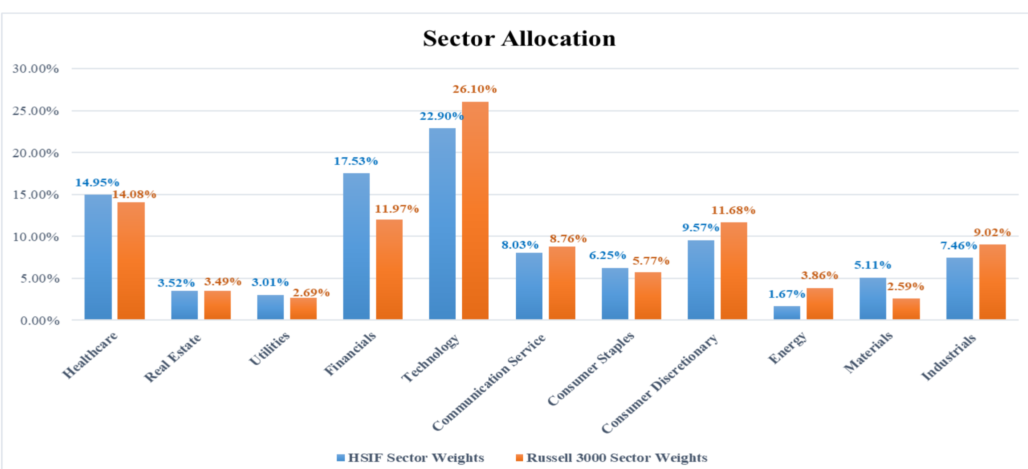
Performance Attribution

Performance Drivers	
Asset Allocation	**-0.72%**
Sector Allocation	**-4.59%**
Stock Screening/Selection	**2.47%**
Outperformance/Underperformance	**-0.32%**

Asset allocation is one of the performance drivers, contributing -0.72% to our portfolio's performance. Due to the rising interest rate environment, the team maintains the asset allocation at 80% equity and 20% fixed income. By September 30, 2022, our asset allocation consisted of 79.20% stock and 20.80% fixed income.

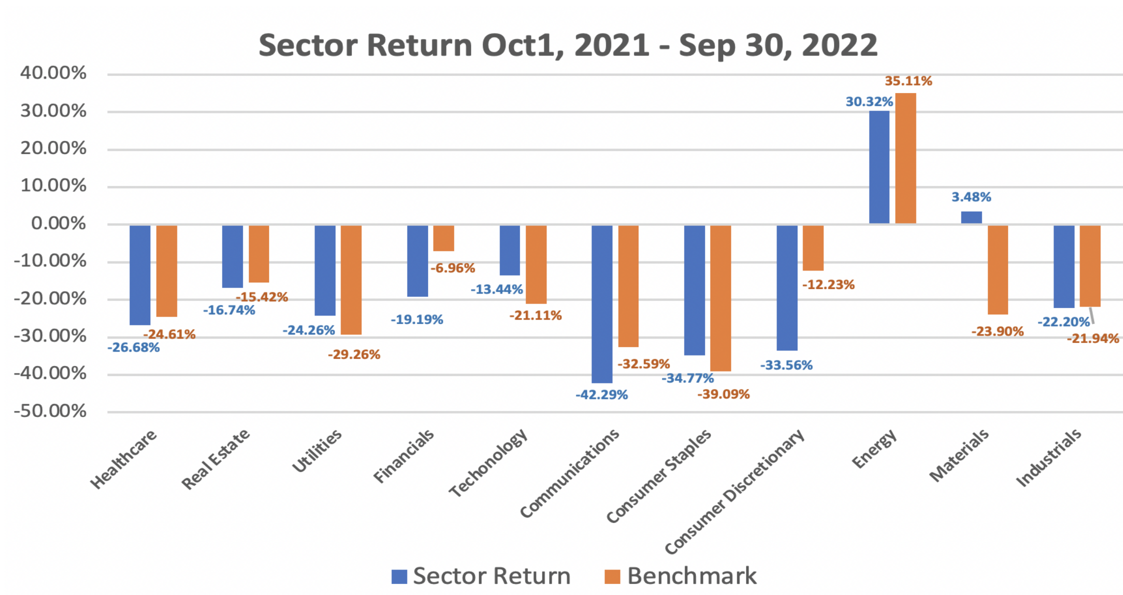
2022 has been a negative year for both the equity and bond markets. The Russell 3000 posted a return of -18.56% and the Bloomberg Barclays Aggregate Bond Index returned -13.96%. In addition to the economic catastrophe that precipitated the market decline in 2022, our portfolio underperformed mostly owing to sector allocation. As a team, we should have done a better job of substantially overweighting sectors such as materials and energy while putting less weight on financial and technology. Moving forward we would like to spend more time on the top-down approach and analyzing the overall economy and adjust portfolio weights accordingly.

Sector Allocation



In terms of sector allocation, throughout the year the team heavily overweighted the financials sector, anticipating that an environment characterized by ever increasing interest rates would allow us to capitalize on, what we believed, would be increasing profit margins for these stocks. Looking back at our overall performance this year, the team feels that we should have allocated a greater proportion of the portfolio to the energy sector. Against the backdrop of the geopolitical conflict between Russia and Ukraine putting downward pressure on the world's energy supply, energy stocks saw tremendous returns as the sector was primed to benefit from the resulting fuel shortages and surges in electricity prices. While we were still able to capture strong returns through our holdings in this sector, the benefit was limited due to us underweighting the sector by a fair margin. Bearing the aforementioned geopolitical conflict in mind, the team elected to overweight the materials sector in Q2 2022, putting a particular emphasis on a company with a stake in lithium - a material essential to creating batteries for renewable energy technologies.

Sector Performance



Technology

This year has been the worst year for equity investment, especially in the technology sector, where people have declared this year as "Tech Winter" season. Since the Fed has increased the rate this month by 75 bps, we get to see the most growth and value tech companies have already freezed their hiring and laid off their employees along with have closed some of their R&D departments. Our current holdings are Apple Inc., Nvidia Corporation, Microsoft Corporation, and the Global X Cybersecurity ETF (BUG). This year, we have sold Micron and Logitech stocks. Currently, all our stocks' returns are negative except for Nvidia, which has a positive 7% return (however this is just because we bought it a long time ago. The stock has performed poorly in the past year), whereas the technology sector's overall return is -13.44%, whereas the benchmark return is -21.11 %. One of our biggest losses this year has been Paypapal. The stocks. We pitched the stock last October and held it till the Summer. This quarter we purchased Apple's stock which is a value stock considering current market situation and we believe that Apple will continue to perform well and is going to be undervalued. For the next quarter, based on the situation of the market, we have decided to pitch new stock, and we expect the technology sector to underperform as we are heading towards recession.

Energy - clean energy

We have witnessed good progress in the clean energy sector over the last year. Clean Energy stocks have been clear winners of the Inflation Reduction Act proposed by the Biden administration. The IRA focuses on providing production tax credits for companies to manufacture items like solar panels and wind turbine parts in the United States. The bill also calls for credits of up to $7,500 for electric vehicles assembled in the United States. Renewable energy stocks have been performing really well since the bill was announced in late July. A large number of these equities are up double digit percentages year-to-date - far outperforming the broader markets. Due to this reason, the Energy Equity ETF (Energy Select Sector SPDR fund) which is representative of the S&P 500 energy sector has displayed a return of 10.13% since we bought it. We also bought the Global Clean Energy ETF named ICLN. The ETF has generated a return of ~16.5% over the past month. Additionally, we recently included Enphase Energy in our portfolio. The choice of this stock was based on a promising business model and strong financial performance. The stock has generated a return of ~18% since we bought it. Overall, we are bullish about the future of this sector and expect to assign more weightage to it in the near future.

Materials

Materials stocks dropped around -23% in the first nine months of 2022, compared with an around -24% drop for the S&P 500 and SPDR S&P 500 Trust ETF (SPY). Industrial metals had a rough six months, and Q3 continued to see the sector hurt by tight supply conditions. Albemarle Corporation has consistently performed well since we bought the stock having generated an overall return of 38.40%. This is mainly due to its operations in the business of Lithium and its derivatives, which is one of the highest growth markets in the specialty chemicals industry. We have a bullish sentiment on this stock because of the promising future of Lithium in batteries used in electric vehicles. The Materials Index ETF and Newmont Corporation have shown bearish trends and the upcoming recession may cause these investments to become more volatile.

Real Estate

Similar to the overall negative market downtrend, the real estate sector has been affected heavily due to the quantitative tightening by the federal government. The yearly Real Estate sector and REITS sub sector returns are -22.09% and -19.55% respectively. Our Holding of Prologis (PLD) previously Duke Realty Group (DRE) has an unrealized gain of -1.99% beating its respective sub sector returns. PLD maintains their prominence by being one of the largest industrial REITS, their position provides outstanding financial foundation and potential growth. As the team believes that a recessionary environment is near, holding prologis as a value security will provide exposure and hedge against the extreme volatility that the real estate sector possesses.

Utilities

In Q4 of 2021, the team added NextEra Energy Inc. (NEE) as its sole holding in the utilities sector. While NEE exhibited strong growth throughout Q4 of 2021, peaking at $93.36 on December 31st of 2021, the stock experienced a gradual decline and small resurgences over Q1 & Q2 of 2022. The decline was due in part to changes in the company's executive leadership, with former CEO Jim Robo announcing his retirement after nearly 10 years as CEO. The more impactful component of the decline likely came as a result of unprecedented levels of inflation and the Federal Reserve's efforts to curb it by raising interest rates. Generally, high inflationary environments result in lower profitability as input costs rise and regulation makes it difficult for utilities to raise prices to cover costs. Moreover, rising interest rates puts pressure on utilities because bonds become more attractive to the conservative investors that usually favor utilities - although both are subject to the negative impacts of inflation - and utilities' relatively high leverage ratios result in greater interest expenses. Against this backdrop, NEE, as well as most of the broader market, underperformed. However, NEE, and other utilities, received a bump in price in the middle of Q3 when the U.S. government solidified their support for renewable energy production with the passage of the Inflation Reduction Act. As one of the industry leaders in renewable energy production, with the experience and infrastructure for deploying clean energy generating technologies already available, NEE is poised to capture production and investment tax credits offered and expand its adoption of innovative renewable technologies. This regulatory support, coupled with the possibility of a recession looming in the near future, prompted the team to shift a greater proportion of the portfolio into this more defensive position. As of November 7th, 2022, we own 133.25 shares of NEE at a price per share of $77.29, which is below our average cost basis per share of $80.67.

Consumer Discretionary & Staples

Throughout 2022 inflationary pressures and rising interest rates created a strain on consumer confidence and purchasing power. YTD Consumer staples and discretionary have returned -34.77% and -33.56% respectively for our portfolio. The benchmark on the other hand has returned -39.09% for staples and -12.23% for discretionary. The reason why we slightly outperformed the benchmark for consumer staples was due to our defensive thesis in selecting WMT, which tends to outperform the market in recessionary environments which was demonstrated with a YTD performance of -1.43%. The holding that led to the actual loss in staples was EL which we have since decided to sell due to a change in the original investment thesis and realized a decline of -40.89% since the beginning of the year. We underperformed the benchmark on the other hand for consumer discretionary with our only position in the sector being LOW decreasing -18.19% along with the general market despite remaining in the green since our date of purchase with an unrealized return of 38.58%. For now the staples/discretionary team is looking into defensive sub sectors like food producers and distributors, since the team overall believes that we are still facing a possible recession. The major indicators our sector team is looking out for are changes in CPI in the next report which could illustrate a strengthening economy which would cause us to rethink our strategy and look for opportunities that might have better growth potential.

Financials

The Financial sector in total has decreased around 19.19% in 2022 compared to the benchmark. Even though our Financial sector in our portfolio has benefited from the interest rate hikes and companies organic growth. In the financial sector, external factors and the economy play a huge role in affecting the performance of this sector. One important external factor is interest rates and when interest rates rise moderately which allows financial service companies to earn more money on their credit that is already issued to their customers. We have four stocks in our portfolio under the Financial sector this year, which are AJG, RJF, AXP and FNCL, across the insurance, investment banking, credit card loan industries. Our best performing stock is AJG and we sold the rest of 44 shares at a price per share of $192.5 in November to have a net realized gain of 116% and 201.42% in total ROE. With its positive revenue growth performance on the risk management and brokerage segments and interest rate spikes, AJG has Net Income of 978.7M and ROE of 11.3%. As of RJF, it shows a pattern of increasing sales in conjunction with rising EPS and, as Year-over-Year ending third quarter, RJF has 14.1% revenue growth compared to 2% of industry benchmark. With inflation running hot, companies tend to cut back on investments and stock-market weakness has gradually shut down IPOs (undermines RJF capital market business) and sharply reduced investment banking. However, it is noticeable that RJF has posted revenue growth of 11% on the private client group and 143% on its bank service. Based on the company's higher net interest income and growth in net new advisors, partly offset by prospects for lower capital markets activity, we plan to keep the RJF in our portfolio with a target price of $129. Our globally integrated payment company American Express (AXP) has generated a negative return of -14.61% due to the company's payment volume still recovering in travel and entertainment spending (roughly 30% of pre pandemic billings) while growing momentum with younger demographics drove record new card acquisitions. As of the Q3 2022, we own 58 shares of AXP and have an unrealized gain of 47.02% with cost basis per share of $105.35. We still need to monitor the spending on the company’s cards, even though it has strong customer loyalty and constant growth on spending under the higher prices and a weakening economy.

Healthcare

The healthcare sector has done relatively well compared to other sectors. With the exception of AbbVie inc. (ABBV)., the other two equities have had positive realized gains. XLV currently has a 24.58% unrealized gain with a weighted return of 1.779%. CVS has an unrealized gain of 33.63% with a .0779% weighted return. Even with inflation looming, we don’t expect this sector to take a hard hit going forward.

Communications

The year 2022 can be regarded as one of the worst years for the communication service sector due to the higher inflation and interest rate hikes by the Fed. During the second quarter of 2022, the return of the HSIF communication service sector was -42.29% whereas the benchmark return was -32.59%. The only stock we have in our portfolio under the communication service sector is Google which generated a return of -39.75% YTD. We sold the communication service sector ETF, XLC, in the beginning of the quarter at $50.2016 since the ETF severely underperformed compared to the benchmark. As for Google, Alphabet's overall revenue for the third quarter was up by only 6%, reaching $69.1 billion. Search and other related businesses generated revenue of $39.54 billion in the third quarter of 2022, which is lower than the analyst estimates of $40.87 billion. YouTube missed the analysts' expectations by an even wider margin, reporting ad sales of $7.07 billion, compared with analysts' average estimate of $7.47 billion. The operating margin fell to 24.8% from 32.3%, and the net income margin contracted to 20.1% from 29% a year ago. Businesses are now lowering their ad budgets with growing uncertainty around the economy as inflation stays high and interest rates continue to rise, which is why Google experienced lower revenue in the third quarter. Moreover, the strong U.S. dollar further dampened the company's year-over-year revenue growth by a notable 5%. The company will now focus on managing expenses by slowing the hiring in the upcoming quarters in order to improve the margins in a slow growth environment. Based on the performance of Google, even though the return is not satisfactory enough we are still planning to keep Google stock in our portfolio as the stock is undervalued. The upcoming recession may cause Alphabet's shares to become volatile, but keeping this high-quality business stock in our portfolio can produce higher returns in the long run. In addition, we are also looking for companies that have the ability of generating high free cash flow to combat recession. Besides, the overall outlook of the communication sector industry is not up to the mark. In the recent meeting, the Fed indicated that they will not be pausing the interest rate hike soon and expect a discussion at the next meeting or two about slowing the pace of tightening. Since we are heading towards recession, we expect the communication sector to underperform unless the inflation and interest rates become more stable.

Industrials

Present benchmark for the Industrial Sector is -21.94%. The industrial sector holding is down by -22.20% making the sector underperform by 0.26% from the benchmark. One of the major reasons for underperforming the benchmark was the Knight- Swift Transportation Holding Inc (KNX). Due to Covid restrictions and supply chain issues KNX underperformed resulting in lower revenue and reduced profit margins. So, to balance the portfolio we are going forward with a defensive approach by replacing Knight- Swift Transport Holding Inc. with Lockheed Martin Corporation in April 2021. Furthermore, we wanted to get more exposure to aerospace and defense, so we replaced FIDU ETF with Raytheon Technology Corporation, which has industry tailwinds, increasing revenue streams, and high demand. The combination of Lockheed Martin and Raytheon Technologies provides the portfolio with counter-cyclical assets that takes a more defensive approach amidst the current macroeconomic environment. The investment rationale for investing in the aerospace & defense industry is based on the rising geopolitical tension, increasing international defense budget spending, and steady sources of revenue.

Fixed Income Performance

The fixed income market in 2022 sidestepped many investors' expectations as bonds featured their lowest returns in overall recent history and volatility ran rampant throughout. The Bloomberg Barclay US Aggregate Bond Index, mirroring the performance of the overall U.S.'s investment-grade fixed income market has seen YTD returns as low as -13.96%. Historical lows have plagued practically every class of fixed-income instrument, from government and mortgage-backed to corporate bonds, further seeing drops in value not matched since the Great Depression. Similar to many other assets going through rough 2022 performance, persistent inflation as well as the Federal Reserve's locked-in strategy of raising interest rates to curb spending and growth are to blame. Beginning the year with 2021's federal fund rate lows looming around 0.07~0.08, the aggressive tightening cycle initiated by the Fed is still on its current path with six previous consecutive rate hikes this year and expectations to climb further past 4.00. Additionally jarring to bond investors, the most recent November meeting saw the fourth 0.75 rate hike this year. Inflation still has unclear forecasts for 2023, and with the forced rate hikes still threatening current bond valuation, the trend of fixed-income securities losing value due to outmatched interest rates still has no end in sight. Maintaining an asset allocation of 80% equity and 20% fixed income initiated last year (during the Summer we did 75% equity 25% fixed income), the HSIF team sought to continue a more defensive investment approach due to the earlier volatility of equities. To kick off 2022, the team initially estimated milder inflation signaled by quantitative easing and early CPI movements, and purchased securities of the Invesco PureBeta 0-5 Year TIPS ETF (PBTP). Expecting the built in treasury inflation-protection to absorb initial expectations, hyperinflation instead outpaced the TIPS' ability to keep up alongside the constant expectations of rate hikes, resulting in a total return of -7.71% to date. Our other major fixed-income security, holdings in the Vanguard Short-Term Treasury Index Fund (VGSH) which focuses on maintaining low-risk through allocation in only high-quality U.S. Government bonds with short durations saw similar disappointing returns of around -5.32%. Looking back at the Bloomberg Barclay Aggregate Bond Index as a benchmark, the HSIF team's decision to stick to the safest class of low duration bond investments, given the asset allocation requirements of the benchmark, certainly saved the fund from worse returns around that -14% mark—our total fixed income sector averaged a -6.91% return between the two bond ETFs. Moving forward, the wider economic situation still faces uncertainty towards the movements of high inflation, and the bond market will continue to face undesirable yields as the Fed has no choice but to continue raising rates.

Outperformers

	Outperformer Return	Benchmark Return
CVS	13.6%	-18.66%
AJG	12.31%	-18.66%
ALB	5.47%	-15.07%
LOW	-6.87%	-18.66%

CVS Health Group (CVS) **+13.6%**

CVS performed strongly last 1 year. CVS did not only outperform our benchmark Russell 3000 but it also outperformed healthcare index ETF (XLV) which was down about 3%. Healthcare sector is usually favorable when investors fear economic recessions but CVS also strongly outperforms its competitors. CVS has been reporting strong growth in revenue over the last three years. CVS reported 11% revenue increased in Q2 2022 and its earnings-per-share rose to $2.23 compared to Q1 2022. CVS has also proven its ability to maintain and grow its dividends that CVS has never cut its dividend since 1996.

Gallagher **Arthur J. Gallagher (AJG)** **+12.31%**

After Arthur J Gallagher's shares generated over 40% return last year, it also made 12.31% return this year. Although the whole financial industry has been struggling due to rising interest rates and economic recession fears, its adjusted EPS has grown about 20% YTD.

ALBEMARLE®

Albemarle (alb) **+5.47%**

We first bought 18% of our total current shares on Apr 19 2022 and the rest on May 31 2022. If we did the same for our benchmark Russell 3000, it would be negative 15% percent. Although it has been only 5 months since we bought these shares, Albemarle strongly outperformed our benchmark Russell 3000. Albemarle reported strong earnings on both Q1 and Q2 2022 that Albemarle beat Q1 earnings estimate with 45% surprise and over 10% for Q2. Albemarle reported 91% increase of net sales and 214% increase on adjusted EBITDA for Q2.

LOWE'S **Lowe's Companies INC (LOW)** **-6.78%**

Although Lowes made negative returns over last year, it is still much higher than our benchmark Russell 3000. Especially given that it has been one of the worst year for the consumer discretionary sector, Lowes has strongly outperformed these benchmarks. Low also outperformed the sector ETF return (XLY) by 12%.

Underperformers

	Underperformer Return	Benchmark Return
PYPL	-49.32%	-18.66%
LOGI	-48.03%	-18.66%
NVDA	-41.39%	-18.66%

AXP	-35.66%	-18.66%
GOOGL	-33.16%	-21.58%
TGT	-28.05%	-11.15%

Logitech International (LOGI) **-48.03%**

Logitech designs and produces a variety of gaming devices and it's one of the industries that benefits a lot from Covid-19 pandemic lockdowns as people started buying high-end gaming devices to play video games. However, its stock price started going down as people came back from lockdowns and the demand on gaming devices started going down. Logitech stock has lost more than 60% since its all-time high in June 2021.

Nvidia (NVDA) **-41.39%**

After Nvidia had a very strong run in 2020 and 2021, its stock price dropped -41.39% since 9/30/2022. Nvidia is a leader in desktop add-in board GPUs and Covid lockdowns boosted GPU sales as people started buying high performance gaming devices. However, people started coming back to work and the demand for gaming devices started decreasing. Nvidia announced preliminary financial results for Q2 2023 in August 2022 and expects the decline in sales for the gaming department. The decreasing demand of crypto-mining also lowered the demand of GPUs and led to the lower demand in high-end GPUs. The rising interest rates also affected Nvidia's extremely high valuations that Nvidia would need to produce outstanding growth to maintain its high valuations. We believe in Nvidia's long-term sustainability and still hold our Nvidia shares.

American Express (AXP) **-35.66%**

American Express has generated a lot of our returns for the last few years. External factors such as rising inflation and economic recession fears. Rising inflation reduces the purchasing power of consumers and lowers the profitability of financial institutions. Although our position on AXP lost more than 30%, we still believe in American Express's unique revenue structure and long-term sustainability.

Alphabet Inc Class A (GOOGL) **-33.16%**

Google is one of the top growth stocks in the last decade. However, Google became overvalued as a lot of investors invested in Google and Google needs to produce high rate of growth to maintain its stock price. Google missed Q1 and Q2 earnings in 2022 as youtube advertising sales drop. However, Google also reported strong growth in Search and Cloud that its Cloud revenue climbed 54% in Q2 and we still believe in Google's growth.

Target (TGT) **-28.05%**

Target's stock price dropped nearly 25% after it missed its earnings on May 18, 2022 with a negative surprise of 28.63%. Rising inflation affected consumer spending and the whole consumer discretionary sector negatively. Target's inventory turnover dramatically slowed which means that the company does not efficiently sell their products and it is a sign of excessive inventory. After Target reported big earnings miss and weak guidance that their full year operating margin would be well below their prior guidance of 8%, we decided to sell all of our Target shares.

Individual Holdings (as of 9/30/2022)

	Description	Sector	Active	Asset Class	Quantity	Cost Basis Per Sha	Cost Basis Tot	Last Price	Current Value	Unrealized Gain/Loss	Weight	Weighted Return
SPAXX	Fidelity Money Market	Cash		Cash			$20,080.03	$1.00	$20,080.03	0.00%	8.67%	0.000%
AAPL	Apple Inc	Information Technology	Yes	Equity	75.00	$147.17	$11,037.85	$149.70	$11,227.50	1.72%	4.85%	0.083%
BUG	Global X Cybersecurity ETF	Information Technology	Yes	Equity ETF	172.00	$26.70	$4,592.40	$24.03	$4,133.16	-10.00%	1.78%	-0.178%
BUG	Global X Cybersecurity ETF	Information Technology	Yes	Equity ETF	292.00	$23.88	$6,971.70	$24.03	$7,016.76	0.65%	3.03%	0.020%
NVDA	NVIDIA Corporation	Information Technology	Yes	Equity	40.05	$133.65	$5,352.15	$163.27	$6,538.31	22.16%	2.82%	0.625%
MSFT	Microsoft Corp	Information Technology	Yes	Equity	27.00	$321.79	$8,688.33	$247.11	$6,671.97	-23.21%	2.88%	-0.668%
WMT	Walmart Inc	Consumer Staples	Yes	Equity	60.00	$153.83	$9,229.54	$142.58	$8,554.80	-7.31%	3.69%	-0.270%
LOW	Lowe's Companies Inc	Consumer Discretionar	Yes	Equity	46.00	$150.83	$6,938.18	$209.02	$9,614.92	38.58%	4.15%	1.601%
XLV	Health Care Select Sector SPDR Fu	Healthcare	Yes	Equity ETF	125.96	$106.86	$13,460.19	$133.13	$16,769.19	24.58%	7.24%	1.779%
CVS	CVS Health Corp	Healthcare	Yes	Equity	54.99	$73.00	$4,014.34	$97.55	$5,364.37	33.63%	2.32%	0.779%
ABBV	AbbVie Inc	Healthcare	Yes	Equity	57.00	$156.49	$8,920.12	$150.16	$8,559.12	-4.05%	3.69%	-0.150%
GOOGL	Alphabet Inc Class A	Communications	Yes	Equity	90.00	$2,862.22	$12,879.99	$96.41	$8,676.90	-32.63%	3.75%	-1.222%
FNCL	Fidelity MSCI Financials Index ETF	Financials	Yes	Equity ETF	134.00	$57.22	$7,666.81	$50.93	$6,824.62	-10.98%	2.95%	-0.324%
AXP	American Express Company	Financials	Yes	Equity	58.12	$105.35	$6,122.94	$154.89	$9,002.21	47.02%	3.89%	1.827%
RJF	Raymond James Financial, Inc.	Financials	Yes	Equity	57.00	$108.67	$6,193.91	$123.40	$7,033.80	13.56%	3.04%	0.412%
PLD	Prologis Inc	Real Estate	Yes	Equity	56.83	$111.00	$6,308.44	$108.79	$6,182.75	-1.99%	2.67%	-0.053%
NEE	NextEra Energy Inc	Utilities	Yes	Equity	59.25	$80.53	$4,771.32	$83.31	$4,936.03	3.45%	2.13%	0.074%
NEE	NextEra Energy Inc	Utilities	Yes	Equity	74.00	$80.78	$5,977.45	$83.31	$6,164.94	3.14%	2.66%	0.083%
RTX	Raytheon Technologies Corp	Industrials	Yes	Equity	51.00	$83.94	$4,280.88	$93.65	$4,776.15	11.57%	2.06%	0.239%
LMT	Lockheed Martin Corp	Industrials	Yes	Equity	18.00	$443.40	$7,981.20	$463.86	$8,349.48	4.61%	3.60%	0.166%
ENPH	Enphase Energy Inc	Energy	Yes	Equity	17.00	$241.96	$4,113.32	$292.01	$4,964.17	20.69%	2.14%	0.443%
XLE	Energy Select Sector SPDR Fund	Energy	Yes	Equity ETF	30.00	$80.39	$2,411.55	$93.13	$2,793.90	15.85%	1.21%	0.191%
FMAT	Fidelity MSCI Materials Index ETF	Materials	Yes	Equity ETF	23.28	$44.83	$1,043.73	$45.37	$1,056.30	1.20%	0.46%	0.005%
FMAT	Fidelity MSCI Materials Index ETF	Materials	Yes	Equity ETF	69.00	$43.39	$2,993.94	$45.37	$3,130.53	4.56%	1.35%	0.062%
ALB	Albemarle Corporation	Materials	Yes	Equity	9.00	$216.86	$1,951.70	$325.38	$2,928.42	50.04%	1.26%	0.633%
ALB	Albemarle Corporation	Materials	Yes	Equity	34.00	$259.69	$8,829.63	$325.38	$11,062.92	25.29%	4.78%	1.208%
PBTP	Invesco PureBeta 0-5 Yr US TIPS E	Fixed Income	Yes	Fixed Income	304.00	$26.72	$8,122.73	$24.65	$7,493.60	-7.75%	3.23%	-0.251%
VGSH	Vanguard Short-Term Treasury Inde	Fixed Income	Yes	Fixed Income	549.38	$61.08	$33,556.01	$57.82	$31,765.04	-5.34%	13.71%	-0.732%

Forward Goals and Outlook

The 2021-2022 fiscal year has been relatively detrimental to all investors across capital markets, including the HSIF portfolio with an unrealized loss of -17.36%. Most of the current volatility experienced in the market has been the result of interest rate volatility affecting the valuations of all asset classes, which explains the sell off of historically high growth issues like tech stocks. The team tried to capitalize on the current market anomalies, with the best example being the overvaluation of energy stocks due to the geopolitical conflicts in Ukraine causing companies to increase prices and therefore profits as the commodity cost skyrocketed.

The Federal Reserve lifted interest rates by another 0.75 percentage points to combat inflation and signaled plans to keep raising them, possibly in smaller increments but to higher levels than previously anticipated. At their September policy meeting, most Fed officials projected that they would need to raise the benchmark rate to around 4.6% early next year. The current trajectory towards higher interest rates suggests a greater risk of a recession.

Thus, moving forward, we need to be very careful in choosing stocks for our portfolio. Due to the increased chance of a recession, it is best to devise a conservative strategy that balances risk and return.

As a result of the Federal reserves’ aggressive actions to combat inflation, the most recent CPI report indicated a possible cool down in the inflation rate for october. We expect that inflation will continue to show signs of slowing down and possibly have a decrease around December in all parts of the economy except for energy prices as an artificial constraint on oil supply through sanctions on Russian oil production and OPEC+ oil cuts have increased prices on the global market. Moving forward the team believes that we will be able to capitalize on depressed prices of stocks in the coming months, and we are looking into selecting more growth opportunities if inflation continues on a downward trend.The team is remaining vigilant for changes in the major macroeconomic indicators which could be indicative of an economy that is ramping up, but for the time being the team still believes that we are facing a good possibility for a recession.

Portfolio Guidelines

Investment restrictions

a. Capitalization and types of instruments

Investments in the fund should mainly be in equities and fixed income. Part (iii) of this section explicitly states instruments that may not be part of the fund's investments.

All assets of the fund must have readily ascertainable market values and be easily marketable.

(i) Equity investments

Equity investments are restricted to the following instruments:

- Stocks that trade on the NYSE, AMEX, NASDAQ or regional U.S. exchanges
- Common stock
- Exchange-traded funds, excluding structured ETFs that use derivatives
- Stocks of companies with a market capitalization of $500 million or higher
- Stocks of companies that are headquartered in the U.S. or foreign stocks that are listed on U.S. exchanges or that trade in the U.S. as American Depository Receipts (ADRs).

(ii) Fixed income investments

Due to trading costs, fixed income investments should be done mainly through ETFs. Fixed income funds may only be invested in the following:

- U.S. Treasuries and other U.S. government bonds, including TIPS
- ETFs that focus on:

- o Investment-grade corporate bonds of U.S. firms
- o High Yield bonds that are mainly U.S. firms
- o Developed country bonds that are mainly government bonds
- o Less developed countries' government bonds
- o Mortgage-backed securities

(iii) Ineligible securities, investments and trading strategies

The fund may not:

- engage in short sales or funds that mimic short sales
- buy on margin or use leveraged ETFs
- purchase mutual funds
- purchase preferred stock
- purchase private placements
- purchase municipal securities
- purchase futures, options, or other derivatives
- trade foreign currencies or purchase ETFs that mainly invest in foreign currencies
- purchase commodities or commodity ETFs, although stocks of firms that focus on commodities are allowed
- not make direct real estate investments (REITs or real-estate ETFs are allowed)

b. Diversification and allocation

The fund will maintain a diversified portfolio. To ensure that no one investment dominates the returns of the portfolio the following rules apply:

- No more than 5% may be invested in any one company's stock (ignoring ETF holdings).
- If an investment in a stock reaches 8% of the fund value, the stock must be sold down to less than 5% of the portfolio.

- No more than 30% of the portfolio may be invested in any one sector. A sector is defined as one of the eleven S&P 500 sectors and does not include fixed income.
- No more than 10% of the portfolio may be invested in any one industry.
- No more than 50% of the equity allocation may be invested in stocks with market capitalizations of less than $2 billion.
- No more than 80% of the fund may be invested in equities.
- No more than 20% of the fixed income allocation may be invested in high yield debt or less developed country bonds.
- Foreign equities and ETFs may not exceed 30% of the equity portfolio at the time of purchase.

Portfolio turnover is limited to 125% if the portfolio is fully held in cash at the beginning of the year and 75% if the portfolio is fully invested at the start of the year.

Asset allocation should have a target of: 0- 20% in cash, 60 – 80% in equities, and 20-40% in fixed income.

Benchmarking

The performance of the portfolio will be compared to a benchmark that is 70% equities and 30% fixed income. The equity portion of the benchmark will be based on the Russell 3000 Index and the fixed income portion will be based on the Bloomberg Barclays Aggregate Bond Index. While HSIF may deviate from this 70/30 benchmark, as stated in the above asset allocation targets, the team will provide justifications for choosing an allocation from the 70/30 benchmark.

Investment Team

To ensure that the investment process is well structured and that UCR has sufficient risk management in place, HSIF will be structured around a team of 10-20 students that are chosen each year for the full academic year.

1. The HSIF investment team will consist of 10-20 members.

2. Membership on the HSIF team will begin from fall and last until the end of the following summer except for replacement team members, whose terms last until the end of summer.

3. Only HSIF team members may vote on HSIF trades.

4. The faculty advisor for HSIF will be the same as the advisor for Hylander Financial Group (HFG) and must be a member of the full-time finance faculty at UCR.

5. The HSIF team and the HFG club must meet no fewer than five times each quarter during the academic year.

6. There are two standing HSIF committees: an asset allocation committee of no fewer than three student members and a portfolio committee of no fewer than five student members.

7. The work of serving as faculty advisor will count as the equivalent of one quarter course and will be compensated with a course release from the instructor's regular teaching load at the discretion of the Dean.

Investment Decisions

The investments made by the students in HSIF are restricted along several dimensions to ensure that the funds grow over time. Specifically, the asset allocation is constrained in that it must include some fixed income, avoid small cap stocks and derivatives, and be well diversified. HSIF is subject to the following regulations:

1. Investments of the fund must meet the requirements listed in the "Investment Restrictions" section.

2. All investment decisions require a research report justifying the change to the portfolio.

3. The student team must vote on all investment decisions.

4. A quorum for voting is at least 6 members or 50% of the team, whichever is greater.

5. Only portfolio proposals that receive 51% or more of the vote will be executed.

6. The faculty advisor may veto any single investment decision made by the students.

7. The faculty advisor is responsible for ensuring that the portfolio is more conservative in the summer compared to the rest of the year.

Reporting

HSIF will evaluate its performance on a regular basis. Written reports summarizing the performance must be generated each quarter. The HSIF team will also create an annual report that summarizes the results from July 1 to June 30. The report is due by Oct 1.

Investment Fund and Payouts

The goal of HSIF is to provide an educational experience to students that will help them understand wealth management. Therefore, it is imperative that the fund not be depleted, either through poor investment decisions or high payouts. Thus, the fund will have no payouts until it reaches $1 million. After that point, the payout rate will be the norm for the university (4%) and will be used to support the costs of the program. Specifically, the payout will go to paying the cost of a faculty advisor. If it ever gets to a size that supports more than the cost of a faculty advisor the funds will go to items that support the investment analysis work.

Advisory Board

The Board has the ultimate oversight of the fund to ensure its long lasting success. Ideally, the Board will have little to do in this regard, given that the students will do their work in earnest and skillfully and that the faculty advisor is the first line of defense against excessive risk or incompetence. If the faculty advisor is unable to ensure that the fund is correctly managed, the Board would be expected to take action. Another goal of the Board is to provide a way for trustees to engage with the students, by providing comments on their investment strategies and giving career advice. The Board would ideally be an important part of a bridge between UCR and industry.