HYLANDER STUDENT INVESTMENT FUND

HSIF

ANNUAL REPORT

2020-2021

PREPARED BY
HSIF TEAM

UCR School of Business
A. GARY ANDERSON GRADUATE SCHOOL OF MANAGEMENT

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EXECUTIVE SUMMARY

From October 1st 2020 to September 30th 2021 the portfolio underperformed its benchmark by **-2%.** As of September 30th, 2021, the total AUM are **$252,396** and the average market cap of the securities in the portfolio is $81.4B.

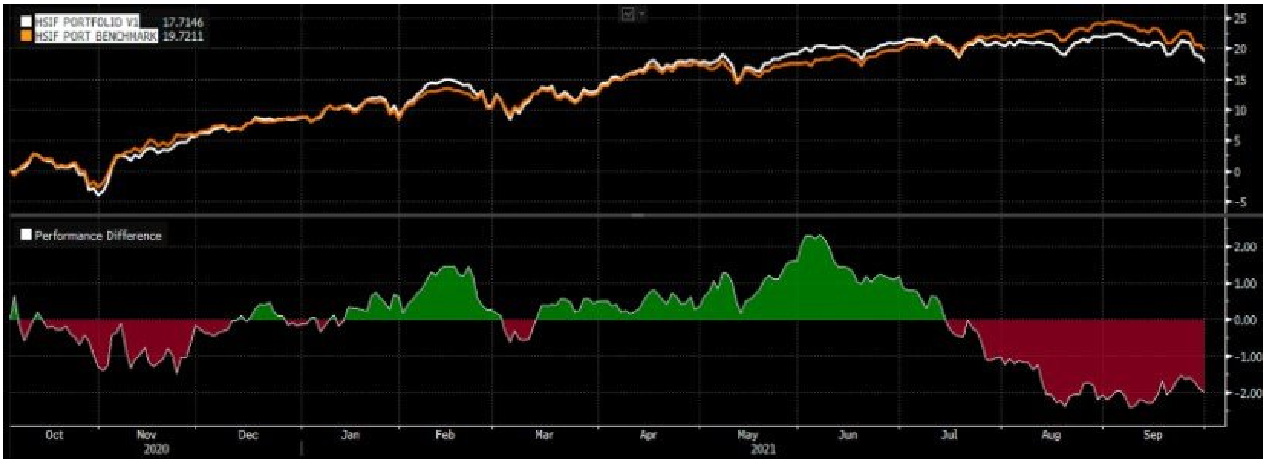
INVESTMENT APPROACH

- The HSIF fund uses fundamental analysis when selecting securities
- Our investment strategy uses growth and value
- Our target asset allocation is 75% equity and 25% fixed income
- Our benchmarks consist of 70% Russell 3000 and 30% Bloomberg Barclays Aggregate Bond Index

	Asset Allocation [10/1/2020]	Asset Allocation [9/30/2021]	Target	Market Value [10/1/2020]	Market Value [9/30/2021]
Equities	25.49%	75.04%	75%	$ 54,468	$ 189,394
Fixed Income	18.93%	24.82%	25%	$ 40,447	$ 62,651
Cash	55.58%	0.14%	0%	$ 118,767	$ 351
Total	**100%**	**100%**	**100%**	**$ 213,682**	**$ 252,396**

FUND PERFORMANCE

OCTOBER 2020-SEPTEMBER 2021



The HSIF portfolio returned +17.7% between October 1, 2020 and September 30, 2021. The benchmark returned +19.72%, which places our portfolio at -2% underperformance. A major contributor to this underperformance was stock selection. During Q4 2020, Q1 2021 and Q2 2021, the HSIF portfolio ended each quarter with excess returns from the benchmark. However, during Summer 2021 ALK, MU, and CAT began to post negative returns as a result of supply chain pressures. Unfortunately, HSIF could not perform any trades during the Summer due to to portfolio guidelines. As of September 21st, HSIF has sold ALK and is reconsidering the remaining underperformers. This event supports the fact that active decisions are key to the success of active portfolio management.

Performance Drivers	
Asset Allocation	2.82%
Sector Allocation	2.09%
Stock Selection	-6.91%
Underperformance	**-2.00%**
Sharpe Ratio	1.78
Information Ratio	-0.57
Beta (ex-post)	1.03

Throughout the year, a delta of 2.82% has contributed to provide to the fund excess returns compared to the benchmark. Furthermore, during the year, HSIF kept the allocation at 80% equities and 20% fixed income. Due to rising yields, the team decided to underweight the fixed income portfolio to the maximum allowed [20%]. Going into the Summer, HSIF decided to increase FI allocation to a target of 25% to provide a safe cushion for volatility in the equities market. Our asset allocation by September 30th 2021 was 75.04% in equity and 24.96% in fixed income.

The last contributing factor to excess returns throughout the year was due to a sector allocation with a delta of 2.09%. YTD, HSIF overweighted the financials, real estate, consumer discretionary, technology, and healthcare sectors compared to the benchmark. The largest win due to this allocation was consumer discretionary which returned +32.6%, outperforming its sector benchmark which returned +23.32%.

ALLOCATION

A major driver in fund performance is our asset and sector allocation. Q4 2020 allocation changes were driven by overweighting the consumer discretionary and technology sectors. As the COVID 19 pandemic and stay-at-home orders were still present, this allocation decision was made to take advantage of the rise in demand for online shopping and increased use of cloud-based services and technology equipment. For Q1 2021 – Q2 2021, technology, consumer discretionary, financials, industrials, and materials sectors were overweighted relative to the Russell 3000 composition. During Summer, our inactive period, we left these same sectors slightly overweight.

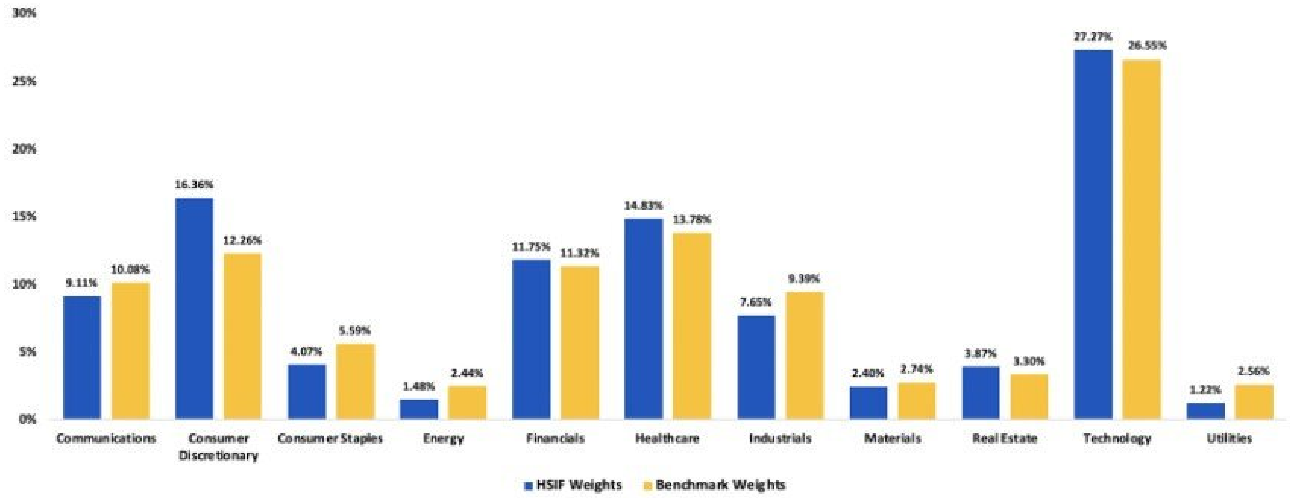
Before entering the Summer, HSIF decided to change its asset allocation to 75% equity and 25% fixed income. This was a safer approach to the three-month summer conservative management.

During Q3 no active decisions were made to the portfolio as mandated by portfolio guidelines. Our outlook for the technology and financial sectors remain bullish, while we expect cyclical sectors such as industrials and materials to be more sensitive to inflationary pressures.

SECTOR ALLOCATION

10/1/2020-9/30/2021

AVERAGE MONTHLY



SECTOR PERFORMANCE

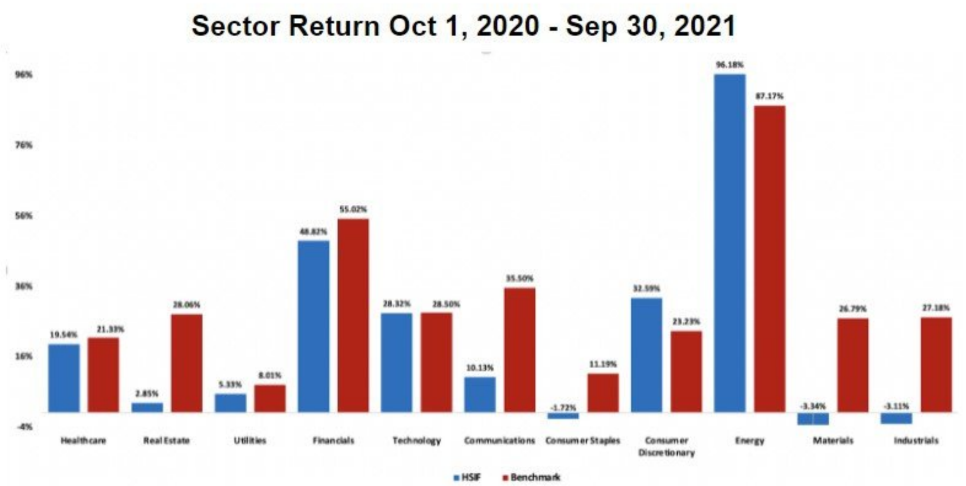
From October 1, 2020 to September 30, 2021, the HSIF team was able to effectively outperform the sector benchmark for the energy and consumer discretionary sectors. However, the team fell behind in real estate, materials, and industrials.

Back in February, when the cost of crude oil was around $50/b the team decided to invest in Devon Energy (DVN) to capitalize on the likelihood of increasing demand for transportation since the economy was slowing re-opening. Since then, the price of oil has been steadily increasing and reached its highest price since October 2014. In addition, due to a supply shortage caused by Hurricane Ida in the U.S. and the absence of additional Iranian barrels that the market was expecting, the price of oil has been peaking since mid-September. This has allowed the team to capture a return of 73.31% on DVN and outperformed the benchmark.

With the recovery of the stock market from the drastic decline back in March 2020 caused by the Covid-19 pandemic, the economy shifted from a recession phase to an early expansion. During this phase, the Consumer Discretionary sector has always performed very well and the returns that the team was able to capture on IBUY, TGT, and LOW prove this. The main holdings of the Russell 3000 for the consumer discretionary sector include Amazon, Tesla, and Home Depot. Although Tesla performed well from October 2020 to September 2021 by registering roughly a 57% return, the same can't be said for Amazon and Home Depot. In contrast, all the team holdings grew. Particularly, TGT registered an increase of roughly 40% since last October. Therefore, a better stock selection allowed the team to beat the benchmark for the consumer discretionary sector.

In terms of the sectors in which the team underperformed, industrials is an important one. Unfortunately back in January, the team was not able to capture the positive momentum given by the rumors of the infrastructure bill. Additionally, as inflation concerns and input costs overwhelmed almost the entire sector, the industrial sector underperformed during the Summer. At the moment we only hold CAT and LMT in the industrial portfolio. Our ALK position has been liquidated. The team is reconsidering our LMT position and is researching opportunities within the logistics industry. Although, as of today the team is underperforming in the industrial sector we are confident that when the infrastructure bill will pass our remaining stocks in the sector will perform well.

Another sector where we underperformed is materials. When the materials team pitched NEM back in March the price of gold started to drop and NEM's performance was strongly correlated with the price of gold. The reason for this decline was mainly correlated with investors moving more money in the US with the consequent strengthening of the dollar. In conclusion, another sector where the team struggled to beat the benchmark is real estate. For this sector, the team was able to capture roughly a 10% return on CCI. However, the team to keep up with the great momentum given by the sector should have explored some opportunities given by REITS.



OUTPERFORMERS

Devon Energy +73.31%

The price of crude oil has reached its peak (over $80/barrel) in Q4 of 2021 since 2014, and the price continues to rise due to low supply and high demand. Since February, the stock has generated 73.31% of return outpacing the benchmark, and reached our target price of $40. Even though the oil price may continue to surge in the winter, we believed that the price would drop after hedge funds exit their positions. As a result, we sold half of DVN to lock in the profit and use this cash to invest in other sectors that have more potential. In the portfolio, we still have half of DVN to capture the benefit of surging oil prices and increasing demand for travel as the economy recovers from Q4 of 2021 to early 2022.

American Express +59.41%

American Express stock has benefited from its unique revenue structure and economic recovery since last November. AXP is positioned better than peers with 75% of revenue from fees compared to peers' 20%. This puts AXP in a particularly better competitive position compared to peers who are struggling with high repayment rates and interest rate volatility. AXP on the other hand has been benefiting from the rebound in spending by its cardmembers. According to the latest Q3 earnings report, the total revenue net of interest expense for the third quarter rose by 25% y/y and -1% compared to 19'Q3, net income rose by 70% and 4% compared to 19'Q3.

NVIDIA +54.87%

Nvidia stock has benefited from the pandemic as the demand for Graphics Processing Units rose due to consumers working from home as well as the demand for Graphics chips within automobiles. Total revenue for the 2nd Quarter FY 2021 rose 68% y/y and the gaming segment rose 85% y/y primarily due to the high in-demand products for GPUs and the current semiconductor shortage. We expect growth to remain strong moving forward as they expect accelerating demand in their data center segment. With gross margins of 65.2% and a dominating market share over its competitors, Nvidia is positioned to take advantage of new industries and markets that may arise in the future which include Electric Vehicles, Artificial Intelligence, and Ray Tracing technology.

Target +46.33%

Target Corporation (TGT) is considered fundamentally undervalued. Target's sales grow faster than its peers and EPS is the highest amongst comparable companies. Target's 2020 sales growth of more than $15 billion was greater than the Company's total sales growth over the prior 11 years. However, Target's P/E ratio and EV/EBITDA ratio are lower than peer companies' which indicates that Target is undervalued by the market.During the pandemic time, Target focused on digital sales, especially in the company's same-day services. The results showed that Target made a correct strategy, comparable sales grew 19.3%, reflecting 7.2% growth in store comparable sales, and 145% growth in digital comparable sales. Target's digital sales grew by nearly $10 billion in 2020, driven by 235% growth in the Company's same-day services.

Arthur J Gallagher +40.87%

Arthur J Gallagher's 2019 earnings report shows that revenues came mostly from its consolidated clean energy investments. We believe in the future more people will move to clean energy investments so it is a good start. The brokerage business is the main driver of the company's revenue and revenue growth. We predicted this company to have a 1.3% YoY revenue growth. We have looked at analyst ratings of this company and it has 11 buys. AJG's EPS has grown 11% per year for the last three years.

UNDERPERFORMERS

Alaska Air -17.79%

Leisure air travel underperformed over the summer, we had premature confidence that the industry would see a major boost in earnings from the pent-up travel demand, particularly with domestic travelers. The Delta variant surge created an economic hurdle that setback the momentum of a rebounding airline industry. Because Alaska Air is a smaller airliner compared to their peers the delta surge impacted them greatly.

Micron Technology -15.79%

Though Micron has beaten the earnings estimate and risen earnings for the sixth consecutive quarter, Investors still have a higher expectation about semiconductor production. Due to the increasing uncertainty about the market of memory chips, some investors expect the semiconductor shortage will come to an end this year. Morgan Stanley forecast a cyclical downturn for DRAM, which is one type of Micron's major memory chips.

Equinix -15.06%

Although starting off with a strong performance, by January 6th, 2021, EQIX closed with a 18.95% loss on the initial investment. This movement was caused by the fact that EQIX is one of the victims that suffer from the sector rotation that happened in November, 2020. As the Pfizer-BioNTech vaccine was introduced, many investors decided to adjust their portfolios, turning back to the normal time. With that, EQIX stock was severely oversold, damaging a heavy loss to our portfolio. In order to avoid further loss in the short run, we decided to sell all 4 EQIX shares in our portfolio.

Caterpillar -12.59%

Caterpillar is in a stall. It is our belief the problems in manufacturing, rising oil prices, steel, supply issues, as well as other global and national problems have stalled the performance of this stock. The infrastructure bill as well as the easing of supply constraints will put CAT back into motion.

Lockheed Martin -9.65%

LMT has seen a slow but steady decline since June 2021 as overall stabilization view of U.S. defense suggests revenue deceleration for the company in the coming years. While the company beat 2021 Q2 top line performance, eps results came in line with expectations. Additionally, guidance for FY 2021 came in lower than Wall Street expectations. The lower guidance was attributed to actuarial losses in pension plan payments. LMT has continued underperforming in the latest Q3 guidance, for which the HSIF team will be liquidating its positioning in this stock by end of Q4 2021.

INDIVIDUAL HOLDINGS (AS OF 9/30/2021)

Description	Quantity	Cost Basis Per Share	Share Price (9/30/2021)	Total Value	Return	Potfolio Weight
Fidelity Money Market	350.98		$1.00	$350.98	0.00%	0.14%
First Trust Cloud Computing ETF	171.77	$56.68	$105.36	$18,097.90	7.35%	7.17%
Technology Select Sector SPDR Fund	83.00	$117.77	$149.32	$12,394.01	22.80%	4.91%
Logitech International SA	64.00	$81.15	$88.15	$5,641.60	8.63%	2.24%
NVIDIA Corporation	40.04	$133.63	$207.01	$8,288.68	54.81%	3.29%
Micron Technology, Inc.	89.00	$83.03	$70.98	$6,317.22	-14.52%	2.50%
Target Corporation	40.58	$157.30	$228.77	$9,283.03	45.44%	3.68%
Amplify Online Retail ETF	36.15	$43.72	$109.27	$3,949.89	149.96%	1.57%
Lowe`s Companies Inc	46.50	$151.19	$202.86	$9,433.19	34.17%	3.74%
Consumer Staples Select Sector SPDR Fund	123.55	$71.11	$68.84	$8,505.46	-3.20%	3.37%
ARK Genomic Revolution ETF	49.41	$68.00	$74.72	$3,692.21	9.88%	1.46%
Health Care Select Sector SPDR Fund	135.64	$106.59	$127.30	$17,267.10	19.42%	6.85%
CVS Health Corp	54.68	$72.91	$84.86	$4,640.31	16.39%	1.84%
Communication Services Select Sector SPDR Fund	178.46	$77.93	$80.11	$14,296.75	2.80%	5.67%
AT&T Inc.	188.18	$29.11	$27.01	$5,082.85	-7.20%	2.01%
Goldman Sachs Group Inc	14.05	$333.80	$378.03	$5,310.19	13.25%	2.11%
JPMorgan Chase & Co.	20.12	$163.94	$163.69	$3,293.12	-0.15%	1.31%
American Express Company	72.95	$105.17	$167.53	$12,220.64	59.30%	4.84%
Arthur J Gallagher & Co	46.12	$89.85	$148.65	$6,855.44	65.44%	2.72%
Crown Castle International Corp	37.37	$150.31	$173.32	$6,477.49	15.31%	2.57%
Utilities Select Sector SPDR Fund	68.67	$64.42	$63.88	$4,386.58	-0.85%	1.74%
Fidelity MSCI Industrials Index ETF	122.31	$52.33	$51.89	$6,346.61	-0.83%	2.52%
Lockheed Martin Corporation	13.19	$387.55	$345.10	$4,551.52	-10.95%	1.80%
Caterpillar Inc.	23.22	$215.35	$191.97	$4,457.35	-10.86%	1.77%
Devon Energy Corp	110.78	$20.61	$35.51	$3,933.66	72.34%	1.56%
Fidelity MSCI Materials Index ETF	23.19	$44.82	$44.27	$1,026.71	-1.22%	0.41%
Newmont Corporation	64.49	$60.47	$54.30	$3,502.02	-10.20%	1.39%
iShares Aaa - A Rated Corporate Bond ETF	238.62	$56.54	$56.33	$13,441.24	-0.38%	5.33%
FlexShares High Yield Value-Scored Bond Index Fund	207.27	$49.47	$49.84	$10,330.54	0.76%	4.10%
Vanguard Short-Term Treasury Index Fund ETF	633.10	$61.05	$61.41	$38,878.92	0.59%	15.41%

FORWARD GOALS AND OUTLOOK

Our portfolio asset allocation goals and strategies are based on economic, government and overall market sentiments.

In the beginning of Q4 2021, HSIF recruited new members to continue actively managing the portfolio into the new year. Third quarter of 2021 ended with many members graduating and leaving HSIF. An additional 7 remaining members will be graduating during the Fall quarter. New members are being mentored and trained on proper stock research and asset valuation to continue managing the fund. The main goal of the fund is to provide students with a hands-on learning experience, while providing the portfolio with excess returns from the benchmark.

Our individual sector outlook for Q4 2021 and FY 2022 includes the outperformance of Information Technology, Health Care, Financials, Consumer Discretionary, Real Estate, Materials and Industrials sectors. While the Energy sector continued to rally in the third quarter of 2021 due to crude oil supply crunch, we believe OPEC will continue to increase the supply output to meet the demand towards the end of FY 2022 or sooner. Increases in energy prices at the beginning of Q2 FY’21 also contributed to an increase of inflation rate. We are exposed to the energy sector through our investment in DVN which performed in line with our energy sector outlook during Q1 FY’21. Sectors that didn’t meet our performance expectations based on Q1 FY '21 outlook are Information Technology, Health Care and Consumer Staples. Based on our projected sector performance, we are optimizing our portfolio by overweighting sectors that we believe will outperform in coming quarters and underweighting weak performing sectors.

HSIF will continue managing the portfolio with a target asset allocation of 75% equities and 25% fixed income. Many companies continue to be stressed by labor shortages, supply chain pressures and rising commodity prices. The team consensus is that these pressures will continue through 2021. Additionally, we expect the Fed to begin tapering its bond buying program by the end of this year. If high inflation rate continues to persist going forward, we may see rising yields sooner than mid 2022. To protect the portfolio from further market reaction we found it was appropriate and conservative to leave the portfolio in a 75/25 asset allocation. We constantly monitor the overall performance of the economy and changes in monetary policy to adjust our portfolio holdings and sector allocations accordingly. Our overall sentiment on the economic recovery remains bullish going forward.

PORTFOLIO GUIDELINES

INVESTMENT RESTRICTIONS

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 Investment-grade corporate bonds of U.S. firms
- High Yield bonds that are mainly U.S. firms
- Developed country bonds that are mainly government bonds
- Less developed countries' government bonds
- 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 placement
- 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)

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% inequities, 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.

- The HSIF investment team will consist of 10-20 members.
- 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.
- Only HSIF team members may vote on HSIF trades.
- 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.
- The HSIF team and the HFG club must meet no fewer than five times each quarter during the academic year.
- 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.
- The work of serving as faculty advisor will count as the equivalent of a 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:

- Investments of the fund must meet the requirements listed in the "Investment Restrictions" section.
- All investment decisions require a research report justifying the change to the portfolio.
- The student team must vote on all investment decisions.
- A quorum for voting is at least 6 members or 50% of the team, whichever is greater.
- Only portfolio proposals that receive 51% or more of the vote will be executed.
- The faculty advisor may veto any single investment decision made by the students.
- 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.