

College of Natural Resources Endowment Portfolio
Recommendations for Reallocation
EXECUTIVE SUMMARY



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College of Natural Resources Portfolio Reallocation

Executive Summary

OVERVIEW

The College of Natural Resources (CNR) and the College of Business and Economics (CBE) joined forces this semester to work on a reallocation project for the benefit of both parties. The College of Natural Resources possesses an endowment fund worth approximately \$190,000, and requested the Barker Capital Management Group (BCMG) to evaluate the portfolio and provide recommendations for updated allocations. The BCMG created a team of analysts to take on the reallocation project for the Spring Semester of 2015. The following report summarizes the findings of the team, and the recommendation made during the final presentation on May 1, 2015 to the CNR Board of Representatives.

The endowment fund is designed to fund trips, scholarships, professor compensation, and several other academic purposes on an ongoing basis. The goals of the portfolio evaluation were as follows:

1. Measure the risk adjusted historical performance of the endowment portfolio.
2. Review the current holdings of the portfolio and provide buy/sell/hold recommendations that will reduce the endowment's risk exposure while positioning it for future growth.

Our analysis indicates that the current portfolio has performed very well, but that some reallocation is required to maintain this performance on a risk-adjusted basis.

HISTORICAL PERFORMANCE

To measure the historical performance of the portfolio, a benchmark is required. The BCMG Team created a benchmark based on economic sectors that reflect the educational and research interests of the CNR. Specifically, the benchmark was designed to focus on materials, forestry products, renewable energies, and other exposures that are consistent with the CNR mission. The resulting benchmark also reflects sector allocations for exchange traded funds (ETF's) with a natural resource focus.¹

Appendix A gives a visual representation of the current sector allocation for the CNR portfolio and the proposed benchmark developed by the BCMG Team. The current allocation results in a portfolio beta of 1.35, while the proposed benchmark reduces that beta 1.07. The lower beta reduces the risk and volatility of the portfolio, while maintaining performance and long term growth potential. Appendix B provides a visual comparison of the portfolio returns to the benchmark over the past 5 years. The current portfolio has outperformed the benchmark, albeit with a higher risk level. The team has proposed alternatives that they believe will continue that growth and limit risk.

¹ The ETF's examined were the Guggenheim Timber ETF (CUT) and the iShares Global Timber & Forestry ETF (WOOD). The recommended benchmark balances sector allocations, targeted risk levels, and component liquidity.

EVALUATION OF PORTFOLIO HOLDINGS

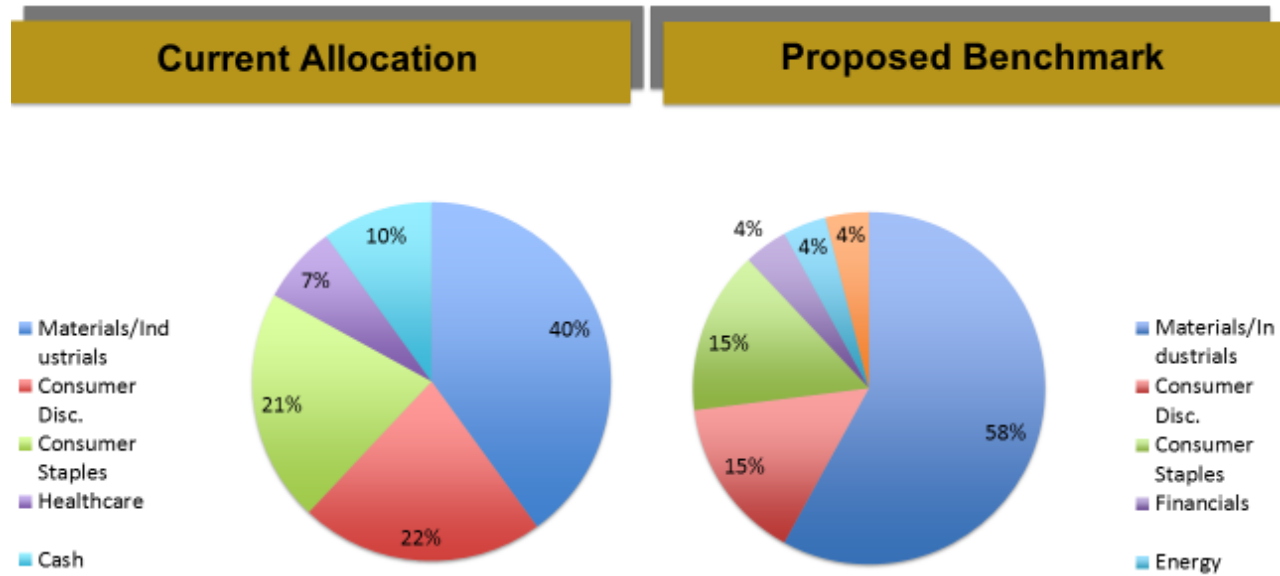
The BCMG Team evaluated the eleven holdings within the current portfolio, and analyzed which holdings should be kept or sold based on the benchmark and market outlook. Appendix C shows the current portfolio by holdings and weights, and the allocation recommended by the BCMG Team. (Refer to Appendices D and E to view the recommendations by company in a listed form.) Securities receiving a “hold” recommendation were chosen based on past performance, market power, competitive advantage within industry, and future growth potential. If the BCMG Team labeled a company as a “hold”, it indicates that we believe there is strong growth potential, and that the company is poised to perform well against its competitors. Securities receiving a “sell” recommendation were chosen based on several factors – either a stock has reached its peak of performance, it has lost its competitive edge, the company no longer has a wide economic moat, or other professional analysts are not bullish on those companies. We believe that those sell recommendations can be liquidated and replaced with holdings that will provide more benefit to the portfolio in the future. Securities receiving a “buy” recommendation were companies that we found to be top producers in their sector, and companies that we believe have several years of price appreciation in their future. The long term nature of the portfolio lends itself toward stocks that have steady growth, large market share, and innovative plans that will pay off for years to come. Finally, we recommend selling 50% of the position in Lowes, which currently represents over 20% of the portfolio. This will allow Lowes to continue as a part of the portfolio, but at an overall allocation of only 11.9%.

RECOMMENDATION

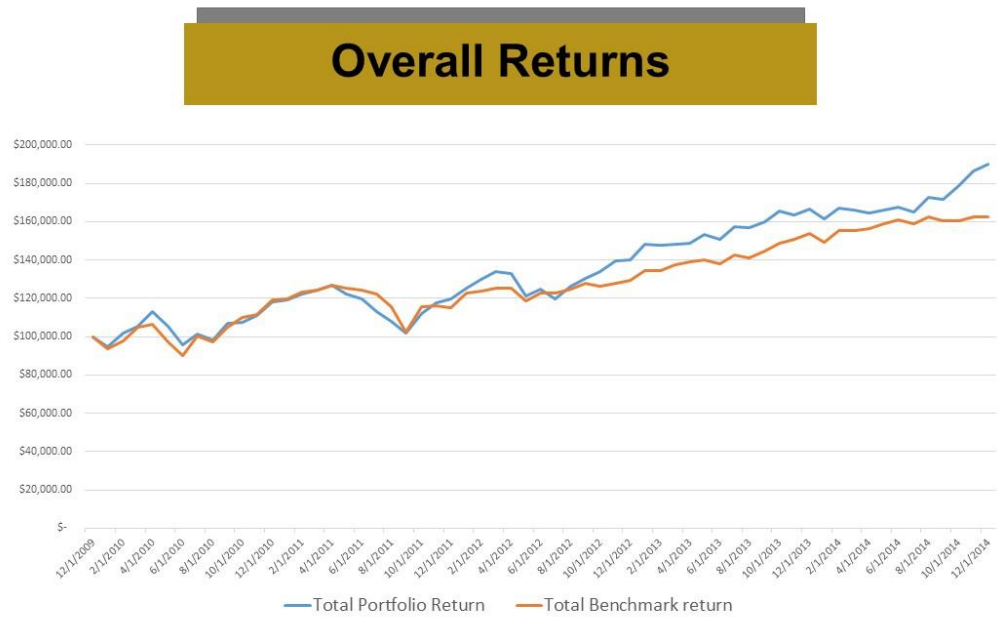
The final portfolio recommendation based on recent security prices is shown in Appendix F. The CNR Board should note that those prices are estimates, and that the exact portfolio allocations will be based on prices at the time of execution. Another aspect to consider is the amount of cash that we have allocated in the suggested portfolio. To continue to the growth of the portfolio, we recommend a \$10,000 cash position which invests more of the portfolio while maintaining sufficient cash for liquidity needs. Lowering the overall beta lowers the potential return, and investing more cash supplements that drawback within the new allocation. To reiterate, the purpose of the reallocation was to limit risk and maintain return and portfolio performance.

The final recommendation was a product of detailed analysis and professional sources. The proposed securities and sector allocations can be seen in Appendix G, and it closely follows the benchmark that is recommended as a performance measurement tool. The project provided students in both colleges a great opportunity to get involved, and lent itself to a strong, practical learning experience for the students. The BCMG Team would be happy to consult with the University of Idaho Foundation at the time of reallocation, and welcomes any further questions or clarifications if necessary in the future.

Appendix A: Current Allocation and Benchmark Allocation by sector

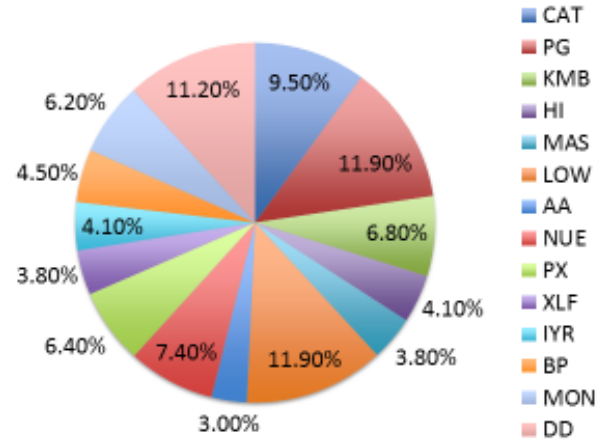
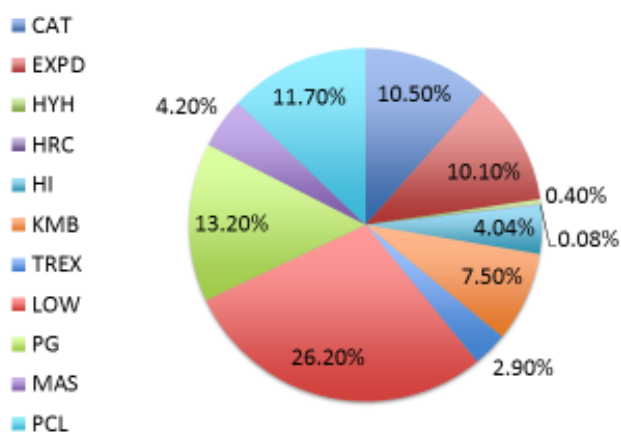


Appendix B: Overall Portfolio Returns and Benchmark Returns (5 Year Chart)



Appendix C: Current Holdings and Proposed Holdings

Current Holdings **Proposed Holdings**



Appendix D: Analyst Recommendations: Hold and Sell

Recommended to Sell

COMPANY	TICKER	DOLLAR AMOUNT
Expedito's International	EXPD	\$17,372.40
Plum Creek Timber Company	PCL	\$20,002.32
Hill-Rom Holdings, Inc.	HRC	\$14,819
Halyard Health	HYH	\$750.30
Trex Company, Inc.	TREX	\$4,957.56
Lowe's Companies, Inc.	LOW	\$22,512.05
Total: \$80,412.63		

Recommended to Hold

COMPANY	TICKER	DOLLAR AMOUNT
Caterpillar	CAT	\$18,070.80
Proctor & Gamble, Co.	PG	\$22,609.53
Kimberly-Clark Corporation	KMB	\$12,838.30
Hillenbrand, Inc.	HI	\$7,707.50
Masco Corporation	MAS	\$7,273.05
Lowe's Companies, Inc.	LOW	\$22,512.05
Total: \$91,011.23		

Appendix E: Analyst Recommendations: Buy

Recommended to Buy

COMPANY	TICKER	DOLLAR AMOUNT
Alcoa, Inc.	AA	\$5,746.01
Nucor Corporation	NUE	\$14,043.01
Praxair, Inc.	PX	\$12,123.00
Financial Select Sector SPDR	XLF	\$7,233.00
iShares US Real Estate	IYR	\$7,765.00
British Petroleum	BP	\$8,556.00
Monsanto Company	MON	\$11,728.00
Du Pont Company	DD	\$21,207.00
Total: \$88,401.02		

Appendix F: Final Reallocation Recommendation

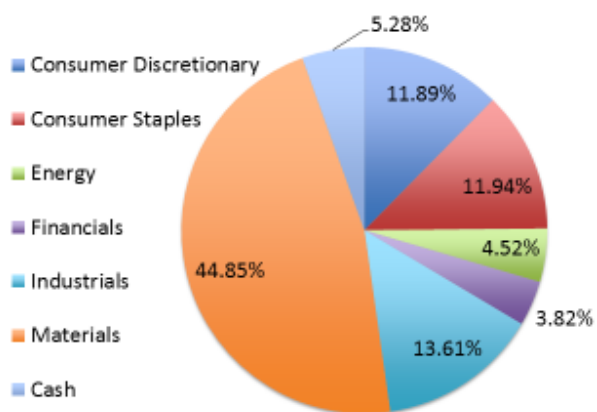
Recommended Portfolio Allocation

TICKER	HOLD/BUY	CASH VALUE
Caterpillar	Hold	\$18,070.80
Proctor & Gamble, Co.	Hold	\$22,609.53
Kimberly-Clark Corporation	Hold	\$12,838.80
Hillenbrand, Inc.	Hold	\$7,707.50
Masco Corporation	Hold	\$7,273.75
Lowe's Companies, Inc.	Hold	\$22,512.05
Alcoa	Buy	\$5,746.01
Nucor Corporation	Buy	\$14,043.01
Praxair, Inc.	Buy	\$12,123.00
Financial Select Sector SPDR ETF	Buy	\$7,233.00
iShares US Real Estate	Buy	\$7,765.00
British Petroleum	Buy	\$8,556.00
Monsanto Company	Buy	\$11,728.00
DuPont Company	Buy	\$21,207.00
Cash		\$10,000.00

TOTAL: \$189,413.45

Appendix G: Final Proposal by sector and individual holdings

Proposed Holdings by Sector



Proposed Holdings by Security

