Investment Guidelines  
Bates College Investment Club

Investment Objectives

The goal of the Bates College Investment Club (BCIC) is to maximize the capital appreciation of a diversified portfolio of equities (common or preferred) and fixed income securities, including those convertible into equities. While the goal each academic year is to exceed the broad market averages, such as the S&P 500 and the NYSE Composite, the minimum goal is to increase the value of the portfolio, net of the annual contribution required by the BCIC Constitution in support of the Bates College financial aid program.

Investment Principles

Equities suitable for investment must be in firms that have (1) demonstrated their ability to earn at least their opportunity cost of capital or a return above a suitable risk-adjusted benchmark, and (2) are priced at levels that offer an expected return to shareholders above the long-run market average return on equity. The investment principle is based on the view that well-managed firms that are undervalued offer lower risk and the best opportunities for meeting the investment objects.

Requirements for Investment Proposals

In support of the investment objectives and principles, Investment Proposals shall include the following information.

Equities

1) Measures of firm performance using traditional accounting measures of profitability and relative valuation. Investment proposals should include various benchmarks, such as return on equity, return on invested capital, price-earnings ratios, dividend yields, payout ratios, and book-to-market ratios for the proposed firm and comparable firms.

2) An assessment of the efficiency with which the firm manages its capital based on an estimate of the economic rate of return earned by the firm on its investments over the previous ten years and compared to an estimate of the opportunity cost of capital or a suitable risk-adjusted benchmark. Where possible, estimates of the economic rate of return for comparable firms should be provided.

3) An analysis of share valuation based on the available consensus estimates of earnings and the prospect that the shares offer superior total return performance.

4) The members of the board of directors shall be examined for evidence of expertise and independence from firm management. The firm’s proxy statement should be used to help determine whether the incentives and levels of compensation of the executive officer are consistent with maximizing the return on shareholders equity. The Investment Proposal should include information from the firm’s policy statement on corporate governance.

5) The competitive position of each firm, based on the assessment of current and potential rivals, shall constitute one measure of risk. Sources of the firm’s economic rents and any political risks shall also inform the overall assessment of the firm’s risk.

6) An assessment of the firm’s sensitivity to changes in the domestic and international economic environment.
Fixed Income Securities

Fixed income securities suitable for investment may be certificates of deposit, U.S. Treasuries, or investment grade corporate bonds. An investment grade rating is defined as at least a BBB rating offered by Fitch Ratings or Standard and Poor’s, or a Baa rating offered by Moody’s. Fixed income securities must be evaluated in terms of the suitability of their maturity, the sensitivity of their value to changes in the interest rate environment, and potential events that might result in a change in their credit rating.

Investment Performance and Monitoring

The performance of individual investments made by the BCIC shall be compared to the performance of firms monitored by BCIC but not selected for investment. The comparison will be in terms of both accounting rates of return and the total return to shareholders. The performance of the portfolio of investments will be compared to market benchmarks (e.g., NYSE Composite, S&P 500). Reports on comparative performance will be presented by the Treasurer at each scheduled meeting.

The club shall develop and maintain a historical database to use in its analysis of individual firms that are monitored as candidates for investment. The list of monitored firms should be at least twice the number of firms held in the portfolio, with each firm held in the portfolio matched with at least one alternative for comparative purposes. Such data shall include accounting data, security price performance and dividends, estimates of the firm’s economic rate of return, estimates provided by financial analysts of per share earnings. The database should also include information on board composition, governance policies, executive compensation, and a history of the firm’s mergers and acquisitions.

Portfolio Guidelines

The BCIC shall:

1. avoid situations where conflicts of interest might interfere with our investment decisions. Members presenting Investment Proposals to the BCIC must disclose any holding of securities in any firms evaluated or recommended for purchase.

2. ensure that holdings in any one company or entity do not exceed 10% of total portfolio market value at the time(s) of purchase or exceed 20% of the market value of the portfolio.

3. create a portfolio where no single industry is represented by more than 25% of total assets.

4. not purchase securities on margin, sell securities short, or enter into derivative transactions.

Changes to the Investment Guidelines

Recommended changes to the Investment Guidelines require a majority vote of all voting members of the BCIC in residence and must be approved by the presiding Faculty Advisor and the Investment Committee of the Bates College Board of Trustees before they become effective.

Approved by the Investment Committee of the Bates College Board of Trustees:_______________