

General Philosophy

The objective of the DeGroot Finance & Investment Council (DFIC) Balanced Fund will be to achieve a 12-month rolling return (net of fees and taxes) in excess of the benchmark defined below through sustainable long-term investment in North American listed companies.

The Fund's philosophy is in alignment with the investing principles taught at McMaster focused on creativity, innovation, and excellence. The DFIC Balanced Fund aims to provide returns via a combination of investments in public equities and exchange-traded funds (ETFs).

Investment Council Structure

The Investment Council (IC) consists of five sector coverage teams and is managed by the President of DFIC as well as two Vice-Presidents dedicated to the IC. The sectors covered will loosely follow the Global Industry Classification Standard (GICS) taxonomy. Sector teams will conduct rigorous qualitative and quantitative analyses over the course of the semester to develop their investment thesis and present it to the Board.

Sector teams are comprised of one Portfolio Manager and up to seven Analysts, each responsible for one stock recommendation per Fall and Winter semester. Stock pitches will be presented to the IC and Board of Directors (the Board), with investment consideration at the discretion of the Board and other required parties.

Fund Summary and Investment Thesis

The fund will operate according to the following principles:

- The fund will implement a long-only, actively managed, investment strategy leveraging public equities and ETFs.
- The holdings of the fund will be limited to Canadian and U.S Dollars, invested in shares and ETFs listed on the TSE, NYSE, and NASDAQ.
- The investment thesis should focus on a five-year investment horizon with the closing of positions made at the suggestion of the Investment Council and approval of the Board
- All investment returns, in the form of realized capital gains or distributions, will remain inside the fund.
- Target weights follow a 60%/40% split between equities and fixed income with a range of $\pm 20\%$, after adjusting for a maximum cash allocation of 5%.

The Benchmark

Returns will be measured in relation to a Benchmark consisting of the S&P 500 Equal Weight Index and Bloomberg Barclays Aggregate Bond Index, weighted 60% and 40% respectively. The Benchmark used to measure the fund's performance is designed to match the asset allocation of the fund.

Initial Portfolio Construction

80% of the initial investment of the assets under management will be invested in index-linked ETFs that follow indices comprising the Benchmark. The remaining 20% will be held in cash for the purpose of executing on the stock pitches in the 2021-22 academic year. Each year, upon approval from the Board, the equity ETF will be sold off to allocate more room to the Sector Teams' stock pitches.

Long Term Fund Management

The fund will follow a balanced asset allocation consisting of equities, fixed income, and a small permanent cash position. The specific allocation to each of these positions is as follows.

1. Weights for any individual name will range from 1.0-5.0%, with final allocation decisions at the discretion of the Board.
2. The Investment Council VPs and PMs will be responsible for managing existing positions and making recommendations to the Board to exit positions.

The Investment Council VPs in conjunction with Portfolio Managers will continuously monitor the portfolio and may make recommendations to sell or continue holding outside of the initially pitched frame. This will be discussed in conjunction with Board meetings or on an ad hoc basis should immediate portfolio decisions be required. At any point, the DSB Oversight Board may request the Investment Council to re-evaluate any of its holdings.