SMIF ETF Liquidation and Reallocation Proposal

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UNC CHARLOTTE STUDENT MANAGED INVESTMENT FUND

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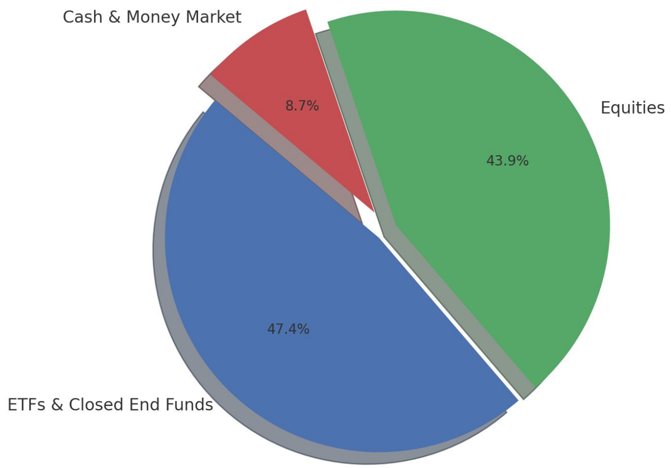
Passivity



- 51% of capital is trapped in ETFs → limited alpha, limited learning.
- Passive exposure undermines our analysts’ research work.
- Our mission: develop active investors, not index trackers.

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Pros and Cons

Advantage	Why It Matters
1. Unlocks Alpha Potential	ETFs cap upside; direct equities let us capitalize on stock-specific outperformance.
2. Enhances Analyst Learning	Students analyze and justify individual companies, not index baskets — deepens financial modeling and valuation experience.
3. Increases Engagement	Every sector team gains accountability and purpose (more coverage, more presentations).
4. Reduces Overlap & Redundancy	Current ETFs hold many of the same names we already own (AAPL, UNH, V, etc.).
5. Demonstrates Active Management	Makes SMIF's performance attributable to student decision-making, not market tracking.

Concern	Why It's Valid
1. Time & Complexity	Managing 40–50 individual stocks adds reporting, rebalancing, and research workload.
2. Liquidity & Stability	ETFs (especially AGG, VOO) provide low-volatility ballast and instant cash access.
3. Benchmark Tracking	Reducing ETFs increases deviation (tracking error) vs. S&P 500.
4. Execution Risk	Poor timing or rushed reallocations could underperform ETFs in short term.
5. Analyst Turnover	Future members might lack bandwidth to maintain coverage on every position.

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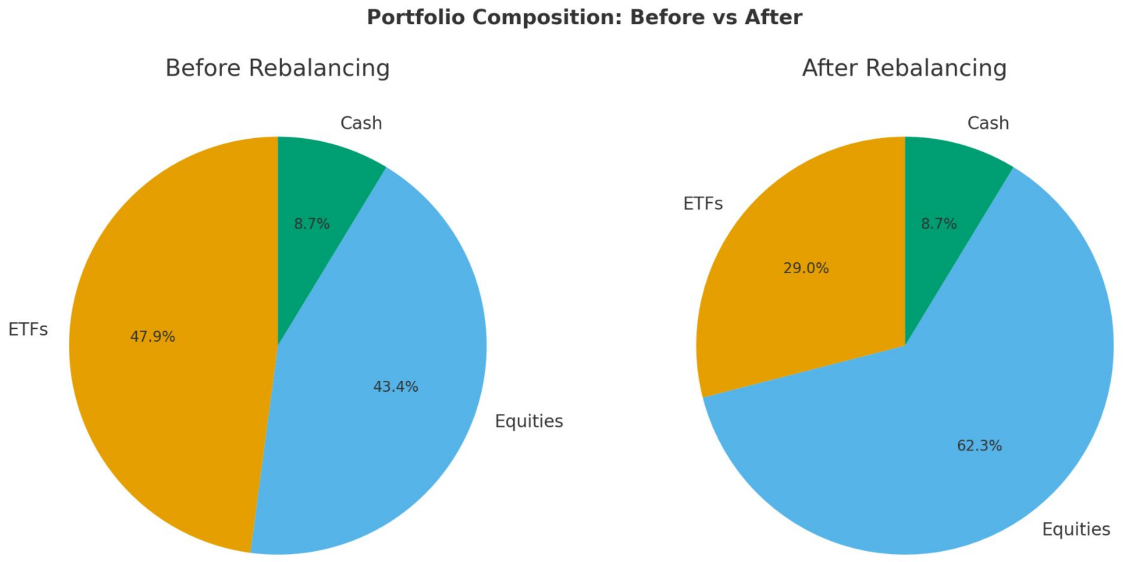
Proposed Solution

Move from 47% ETFs to 29% ETFS immediately, 25% by end of semester

1. Keep VOO for S&P hedge
2. Keep VEA, XLU, and VCR for now - look to propose alternatives
3. Sell all other ETFs and distribute (AGG, XLV, XLE, VDC, XLI)
4. Reallocate the ~18% we're selling into equities we already own



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Allocation Specifics for ETFS Outside of AGG

Target Stocks	Allocation Logic
Healthcare (ABBV, ABT, UNH, JNJ, CVS)	Equal split from XLV liquidation
Energy (LNG)	From XLE
Industrials (MMM, HII)	Split from XLI
Consumer Staples (WMT)	From VDC

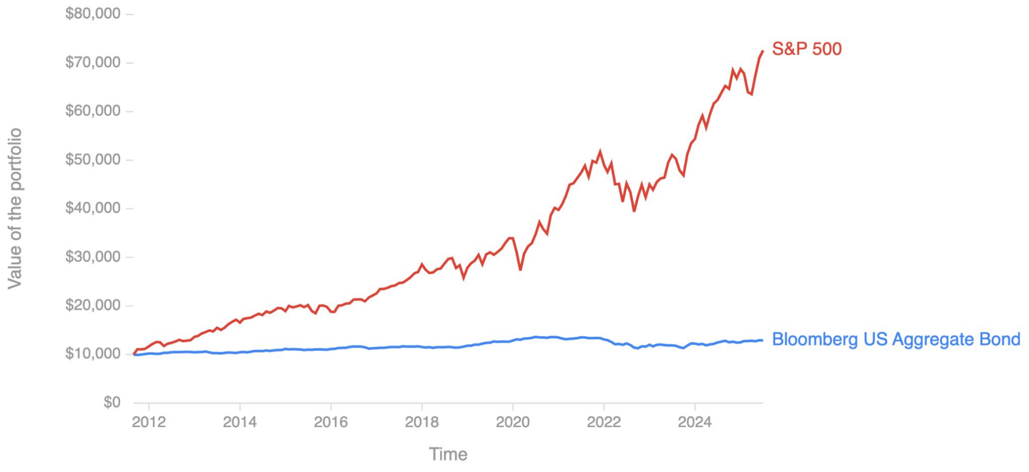
AGG Liquidation Justification

Current Weight: ~14.8%

Why?

- AGG's yield is insufficient given current inflation and real-rate conditions.
- The 15% allocation is extremely defensive for a position that has gained 1% for all-time gain.
- Contributes no alpha to our portfolio.
- Breakdown of diversification benefit: In 2022, when stocks fell, so did bonds proving that bonds no longer hedge equities as they once did.

In summary, AGG has massively lagged equities, dragging on compounded portfolio value.

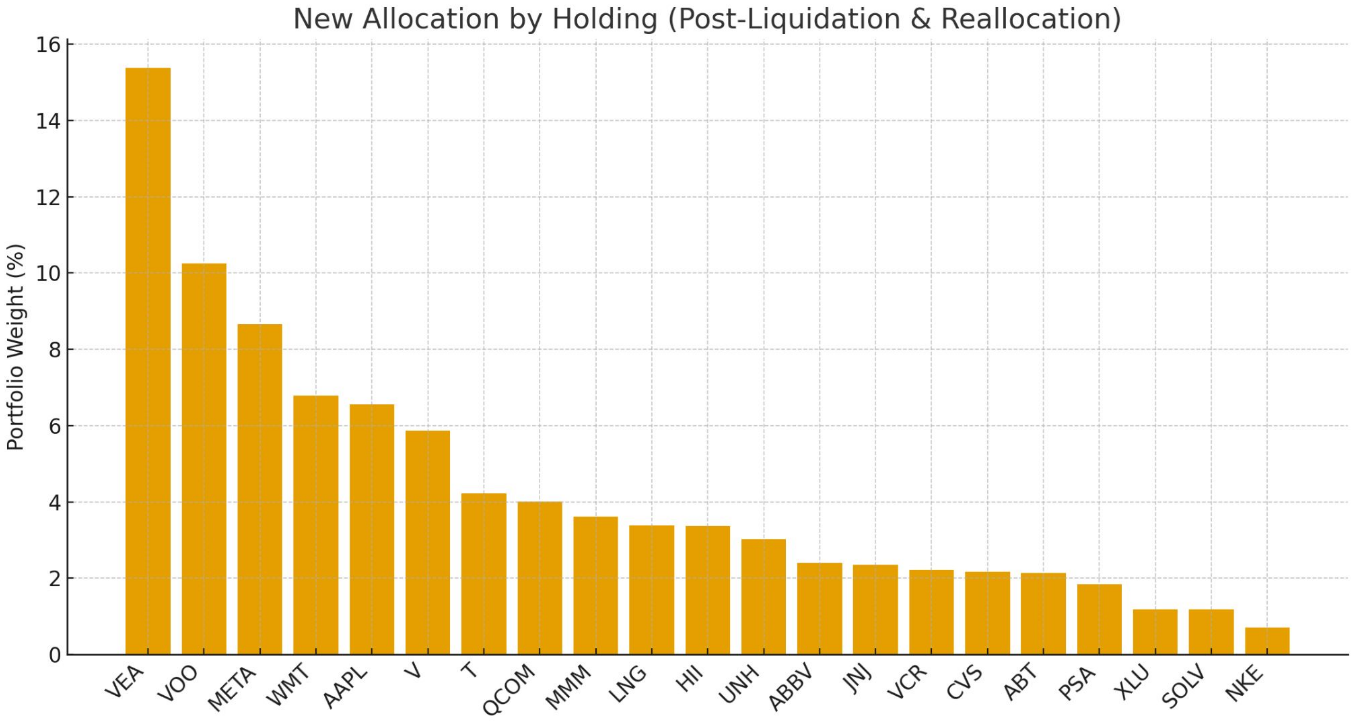


Reclaiming 15% of Our Portfolio from Inefficient Fixed Income

Current Weight: ~14.8%

Allocation Bucket	% of AGG Proceeds	Example Holdings	Rationale
Defensive Dividend Income	35% (~5.2%)	ABBV, ABT, UNH, PSA, T, CVS	Replaces AGG's yield (3–6%) with dividend income; low beta stabilizers
Quality Growth	35% (~5.2%)	AAPL, META, JNJ, V, WMT	Strengthens long-term core holdings with strong balance sheets & cash flow
Value / Cyclicals	30% (~4.4%)	HII, MMM, QCOM, LNG, SOLV	Captures upside from undervalued or industrial names in recovery cycles

New Allocation by Holding



Rationale:

- **Eliminate underperforming fixed income:** AGG no longer diversifies against equities
- **Replicate bond income via dividends:** 3–6% yields from defensives offset AGG's lost coupon.
- **Enhance compounding power:** Quality equities compound faster and remain within existing coverage.
- **No new positions added**

Key Message:

Reallocating AGG's capital entirely into equities increases total expected return by 1.5–2% annually while maintaining diversification and income stability through dividend-focused and quality-growth holdings

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QUESTIONS?

Old %, New %, and delta in percentage points)

- **VEA** 15.37 → **15.37** (0.00)
- **VOO** 10.25 → **10.25** (0.00)
- **META** 7.62 → **8.66** (+1.04)
- **WMT** 5.41 → **6.78** (+1.37)
- **AAPL** 5.52 → **6.56** (+1.04)
- **V** 4.82 → **5.86** (+1.04)
- **T** 3.36 → **4.22** (+0.86)
- **QCOM** 3.12 → **4.01** (+0.89)
- **MMM** 2.60 → **3.61** (+1.01)
- **LNG** 1.82 → **3.39** (+1.57)
- **HII** 2.36 → **3.37** (+1.01)
- **UNH** 1.59 → **3.02** (+1.43)
- **ABBV** 0.97 → **2.40** (+1.43)
- **JNJ** 0.74 → **2.35** (+1.61)
- **VCR** 2.22 → **2.22** (0.00)
- **CVS** 0.74 → **2.17** (+1.43)
- **ABT** 0.71 → **2.14** (+1.43)
- **PSA** 0.98 → **1.84** (+0.86)
- **XLU** 1.18 → **1.18** (0.00)
- **SOLV** 0.29 → **1.18** (+0.89)
- **NKE** 0.71 → **0.71** (0.00)
- **AGG** 14.80 → **0.00** (–14.80)
- **XLV** 2.85 → **0.00** (–2.85) *(reflected in the increases to ABBV/ABT/UNH/JNJ/CVS)*
- **XLE** 0.68 → **0.00** (–0.68) *(moved to LNG)*
- **XLI** 0.25 → **0.00** (–0.25) *(split to MMM/HII)*
- **VDC** 0.33 → **0.00** (–0.33) *(moved to WMT)*