

The History and Future of Student-Managed Investment Fund Consortia

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The authors explore the history and future of Student-Managed Investment Funds (SMIF's) and various attempts at creating a consortium of funds. The success of a particular university's SMIF is independent of consortia membership, but opportunities exist to promulgate best practices and research by way of consortia membership and participation.

INTRODUCTION

This paper is primarily exploratory, and so the topical order of the paper is a bit atypical. The authors did this by design because the intent is to evaluate the issues surrounding the history and future of Student-Managed Investment Fund (SMIF) consortia and then use the literature review and current research as a backdrop for illustration.

The underlying bias here is that what determines the success or failure of a consortium is the member's willingness to pay for perceived benefits of membership and willingness to engage with one another between annual conferences. The authors assess that it is the between events willingness to engage that will ultimately determine success or failure of the consortium as a whole. In other words, to create a true consortium, member engagement must extend beyond an annual conference.

The authors provide an extensive literature review so the reader can easily ascertain what has been written about and identify gaps in the literature for their uses. The authors' review of the literature indicated nothing present related to consortia. Lack of research about consortia indicates relatively unexplored territory and may well become an emerging topic in future years.

HISTORY

Student-Managed Investment Funds (SMIF's) burst onto the academic radar in the 1990's and have seen burgeoning growth to date. The literature indicates that of approximately 1700 universities with business programs in the US and Canada, over four hundred (400) have SMIF programs of one sort or another (Lawrence, 2008 and Kubik, 2018). There is no debate in the literature as to the success of SMIF's as stand-alone entities that deliver institutional value by connecting theory with practice and experiential benefits for students. Our research corroborates the findings of earlier studies in this area.

Over the past 18 years or so there have been some very good conferences oriented towards student professional development in the financial services industry. While not a comprehensive list, some of the more high profile conferences include Redefining Investment Strategy Education (RISE), ENGAGE, and Global Asset Management Education (G.A.M.E).

RISE was an annual fall conference sponsored by the University of Dayton (OH). The conferences ran annually in the fall of each year from 2000 to 2014. These well done conferences addressed the professional development of students interested in financial services at large but not SMIF's in particular. RISE suspended the conference series after the 2014 conference. For many years, RISE was the premier student-oriented fall conference.

(https://udayton.edu/.../rise_student_investment_forum_to_feature_financial_leaders.php).

EGAGE emerged in 2015 as the premier fall conference. Wayne State University (MI) in Detroit hosted the first conference. The 2016 conference was held in conjunction with the Chartered Financial Analyst Institute's (CFAI) "Americas Regionals Student Research Challenge" in Chicago. From the website, it appears that a 2017 conference was sponsored by the University of Michigan, Ann Arbor, and their "Michigan Interactive Investors" group. Again, very good conferences, but not oriented to SMIF's in particular (<http://umichuic.com/#about>).

G.A.M.E emerged on the scene about spring 2012 and has been hosted by Quinnipiac University for several years now. The conference is the most visible spring conference and has been in New York City for several years now (G.A.M.E VII was hosted in NYC the end of March 2018). An extremely vibrant conference with some of the best in the financial services industry represented (<https://qgame.qu.edu/>). The conference hosts a student-managed portfolio competition, but is again oriented primarily toward general financial services and not explicitly towards student-managed investment funds.

There have been two notable attempts to establish consortiums of SMIF's. The first spanned the late 1990's and on into the mid-2000's. The Association of Student-Managed Investment Funds (ASMIF) was the first initiative. Faculty at Stetson University (FL) spearheaded this initiative, and the organization had a membership of more than 100 SMIF's at its peak. Consortia meetings were typically held in conjunction with the annual meeting of the Financial Management Association (FMA). The consortia began to unravel after several years of operation seemingly due to changing administrative support from university administrators and a lack of consensus from membership of the consortia about the ongoing value created by and received from consortia membership (Endnote 1). Stetson as a university continues to have a vibrant and enviable SMIF which provides not only a role model for other SMIF's but also a jumping-off point to talk about the nature of fragmentation in the SMIF industry. The ASMIF lost momentum beginning in 2006-2007 and is now effectively disbanded, largely due to lack of a lead university and the fragmentation of funds that the authors discuss later in this paper. Other former consortia members report the continued success of their SMIF initiatives as well.

The second notable attempt to develop a consortium of SMIF's originates from Indiana State University (ISU) in late 2012. Utilizing grant funds, administrators and faculty from the Scott College School of Business began to solicit membership in a new consortium of universities with active SMIF organizations. Over the years, this coalition of SMIF's under the ISU umbrella has nominally grown to approximately 43 member institutions to date. The term "nominally" is used herein that only a small fraction of the member universities actively participate in SMIFC events. The primary measure used in this paper to gauge active participation is attendance at the annual SMIFC conference. The past four years the conference has been held at the Indiana State University (ISU) campus in Terre Haute, IN and this year in Chicago, IL. Each year, approximately 25% of the membership has physically attended the conference. This year's preliminary numbers indicate about the same level of engagement (11/43, 26%). The preliminary data indicates that most of the participants at this year's conference are repeat attendees along with a couple of new consortia member schools (Endnote 2).

As of date, the consortium has not initiated a dues structure for the SMIFC. Membership has been purely voluntary to this point which may also add to the discussion of the lack of fully participative institutions. The concept of value creation implies the necessity of willingness to pay as a central tenet of value creation or the value proposition. The authors suggest that establishing a fee structure for

membership in the SMIFC may be central to ongoing success. Perhaps a model based on assets under management (AUM) may be useful here. Twenty basis points to a maximum of \$2,000 per year would provide working capital for the SMIFC to engage in the development of the other initiatives discussed below that would create a more comprehensive value proposition for the consortia as a whole. The authors' research indicates that the median value of AUM is approximately \$500,000 US and this suggested dues structure would not provide a burden on any individual SMIF.

The authors started their research in the fall of 2016 with the intent of a census of SMIFC membership. Respondents were 16 of 41 (39%) of SMIFC membership. Possible explanations for the low response rate include survey design. The survey was intended to be primarily descriptive with the intent being to begin to build a database of member funds. Several non-respondents indicated that they felt the survey to be a "been there, done that" exercise and that the information requested could have been obtained from their website or other secondary sources. Another take away from the low response rate is perhaps the lack of engagement by member institutions to be fully participative in the SMIFC process. The question of value again comes down to participation in the consortia. What does it take to induce a SMIF to be fully participative in consortia activities? Conferences alone do not seem to be enough (Endnote 2). SMIFC attendance has grown from four schools in 2014 to nine schools in 2015 and 2016 to eleven in 2017 (11/43, 26%). When one considers that consortia membership is nominally at forty-plus schools, participation at the conference is low again which indicates that the value proposition has not been fully met. The change in venue from Terre Haute to Chicago only marginally improved SMIFC-member university participation. In all fairness, the conference has developed and shown continuous improvement to become competitive with other conferences in the field. This year's conference agenda is becoming competitive with the Global Asset Management Education (GAME) conference and other conferences in the field of financial education.

FUTURE

For the past several years, Dr. Zaher (ISU) has implored SMIFC conference attendees to consider ways to move the consortia forward and to develop a value proposition for the SMIFC that will encourage full participation by existing consortia membership and continued growth in the number of consortia member institutions. The authors of this paper explored value creation through a series of phone calls and panel presentations (endnote 3) and had identified value creation in a consortium is comprised of five distinct components that, if integrated, may create a framework of appropriate value creation that may result in a sustainable consortium of SMIF's.

The first component is a meaningful annual conference. SMIFC has achieved success here. The generosity extended by ISU and their corporate sponsors has created a vibrant conference agenda with the added benefits of institutional subsidies (no registration fee, hotel rooms and many meals provided for attendees). As grant funding changes or as the need arises to support financially other areas of SMIFC initiatives described below emerge, the SMIFC may need to reevaluate the redistribution of institutional subsidies and view the annual conference as a revenue-generating activity.

The second component is the creation of a journal to provide an intellectual outlet for both faculty and students interested in the SMIF arena. As readers will see from the author's review, the literature is thin, and there are significant gaps. The lack of research in this area creates a tremendous opportunity to move the body of knowledge forward. A publication outlet for both faculty and students may provide significant value. Many consortium members are on editorial boards of journals or are reviewers. As opposed to creating a new journal, one solution to providing an outlet for intellectual contributions from consortia members may be influencing an editorial shift in an existing journal or two to solicit topical material from SMIF faculty and students. The concept of a "special edition" as implemented by the *Journal of Managerial Finance* is a prime example of collaborative efforts in this arena. At least on an exploratory basis, if the audience deems the JMF's special issue a success, perhaps a special issue devoted to SMIF's every other year might fit the need here.

The third component relates to sharing of best practices an example of which is transparency (Kubik, 2018). At this point, it is very difficult to identify which institutions have SMIF's and who their faculty advisor or other appropriate contact person is within the institution. Having a consortium of SMIF's that routinely report (both on their websites and to the group) performance metrics, portfolio holdings, and other agreed upon information would address this issue of transparency and extend disclosure standards to more of those of mutual funds than hedge funds. Furthermore, additional transparency would encourage funds without Investment Policy Statements (IPS) to develop such. This also would set the stage for consortia members to work with funds from other schools to evaluate IPS development, execution, and compliance. This dialogue would be a great experiential learning tool for all involved.

The fourth component is the establishment of a database that includes regular and voluntary submissions from participating institutions that would promote continued research and publication in the area of SMIF's. Ideally, the SMIFC would reach out to all identified US and CA universities with SMIF's and begin to reach out to other international universities with SMIF's. The identification of international SMIF's is virtually non-existent in the literature. The research value of secondary data cannot be over-emphasized here. The authors experience with trying to collect primary data via survey has been a challenge.

The fifth component is an annual student competition in the form of either a pitch competition similar to the CFA Institutes Student Research Challenge or a portfolio performance competition similar to the one GAME conducts or both. Competitions of this nature involve extensive administrative effort as in securing reviewers and judges but provide worthwhile feedback to students and useful benchmarking for university SMIF programs.

It is unreasonable to expect a single host institution to provide all of the resources (both financial and in-kind) to support all of the activities described above. The authors assess that member institutions need to step up to provide the development of the necessary infrastructure and financing to support ongoing consortia development. If indeed the success of the consortia contributes to the common good, then many hands will need to contribute to the achievement of these common goals.

The identification of value-creating components, corroborated by the authors' research; both of the respondents from Stetson indicated that these were areas of weakness that were not overcome by the earlier ASMIF initiatives. Also, the survey results determined that 100% of respondents say that their "expectations were being met" regarding their investment funds. As such with success, albeit fragmented in individual funds, it becomes difficult to make the case that together in a consortium we are better.

SMIF's have been widely successful, and some varied models have achieved success (please see the literature review). The main take away from the authors' earlier research is that each SMIF does their own "thing" and has experienced success with that model. The ongoing problem for a consortium is this fragmentation in the SMIF industry. Ongoing individual SMIF success is independent of any affiliation with other funds and as such neither naturally breeds nor encourages collaborative efforts.

LITERATURE REVIEW

Student-Managed investment funds (SMIF's) began as an experiment in the 70s and 80s and have since become widely accepted as a viable learning and recruitment tool for many business schools. The literature splits roughly into three distinct thematic areas. First, those who detailed how they set up their school's SMIF [Belt (1975); Hirt (1977); Bear (1984); Markese (1984); Tatar (1987); Block & French (1991); Kahl (1997); Cox & Goff (1996); Mallett & Lerro (2002); Pactwa, Wong & Moore (2007); Dewally & Drause (2009); Krueger (2011); and Cooley & Hubbard (2012)]. Standard approaches along with many innovative approaches such as Bhattacharya & McClung (1994) who set up their initial fund with money they borrowed from a bank and Dewally & Drause (2009) who created their portfolio using exchange-traded funds (ETF's) illustrate the variety of ways SMIF's initially become established. Second, those who collected SMIF data [Lawrence (1990); Lawrence (1994); Neely & Cooley (2004); Lawrence (2008); Peng, Dukes & Bremer (2009); and Kubik (2017)]. Third, those who used SMIFs in unique ways or who were able to measure outcomes. For example, Daugherty (2015) was able to measure learning

outcomes using stock picks from the beginning of a student's tenure in the SMIF and compare them to the stock picks those same students made at the end of their tenure with the fund. Daugherty did this using 14 years' worth of data and found a significant difference between the two implying there is definite value in experience. Jennings & Jennings (2006) were able to measure a significant home bias across SMIFs with only a minor difference in home bias between smaller funds (<\$1 million) and larger ones (>\$1 million). Caldwell and Dolvin (2012) debated the existence and subsequent impact of herding behavior in student-managed funds. Their article provides guidance on how to minimize this behavior through education.

As one can see from the literature review, there have been no identified contributions to the literature on the topic of this paper related to consortia development/success.

CONCLUSIONS AND SUMMARY

In summary, the future of the current attempt at establishing a consortium of student-managed investment funds (i.e., SMIFC) is not clear and not without serious challenges. Many of these challenges are those commonly experienced with organizational growth such as articulation and execution of a meaningful value proposition for its "customers" or constituents, (i.e., the member institutions). If member SMIF's can agree on a common theme and direction and are willing to commit time and financial resources, achievement of the five aspects of value creation may result in a true consortium become a reality. As stated earlier, it is not realistic to expect a single institution to be able to meet all of the needs or aspirations of developing a consortium; it needs to be the collective and collaborative vision of multiple institutions to make the endeavor a success. Collaborative input and cooperation on the five components of a successful consortium mentioned above will move the effort forward over time. As suggested earlier, a true consortium provides member institutions with meaningful benefits and interactions that extend to the between event (conferences) time frames.

ENDNOTES

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