4-1-2003

The 2003-2004 Crummer SunTrust Portfolio - A Proposal by the Portfolio Management/Theory and Applications Course [2003]

Denvar Dewey Steadman
Rollins College

Scott Anthony Trombino
Rollins College

The 2003-2004 Crummer SunTrust Portfolio—

A Proposal by the Portfolio Management / Theory and Applications Course

Prepared by Denvar Dewey Steadman and Scott Anthony Trombino
April 2003

Table of Contents

Sections

Figures and Tables

Introduction

The Crummer SunTrust Investment Portfolio was established in 1999 by means of a $500,000 endowment from the SunTrust Bank of Central Florida Foundation to the Crummer Graduate School of Business at Rollins College. The endowment was established through successive $100,000 donations over five years, the last of which was recently deposited in the portfolio and is not yet invested in securities.

The endowment was established for the use of the Portfolio Management/Theory and Applications course in order to provide practical portfolio management opportunities as well as scholarships for future Crummer students. *The Rollins College Endowment Fund Pool Statement of Investment Objectives and Policies* provides general guidance for the investment of the portfolio, while more specific direction is provided by *Crummer SunTrust Portfolio Investment Policy* which was revised by the Portfolio Management/Theory and Applications students in January 2003.

The ultimate goal of the portfolio is to provide funding for a number of $5,000 scholarships that are bestowed upon highly qualified Crummer students who shall be designated *SunTrust Scholars*. The number of scholarships made available each year is based directly on the performance of the portfolio in the preceding years. After year three of the portfolio, six percent of the three-year moving average of the portfolio's market value is to be distributed in the form of scholarships. This year's installment will be the fifth in succession. Therefore, the year-end market values for 2001, 2002, and 2003 will be used to determine the number of scholarships that are available for distribution in 2004.

Course Structure

The course is designed to operate much like a modern investment firm. Class members were assigned to various asset class teams—Large Cap Stocks, Small and Mid Cap Stocks, and International and Fixed Income Securities—based on their interests and personal experience. These teams chose various securities in their respective classes and presented a set of securities to the two co-managing directors for their consideration. The co-managing directors were then responsible for the derivation of the efficient frontier, final asset allocation, and presentation of the asset allocation to a panel of industry experts.

Research Methodology

The teams were directed to use any of a number of screening services available on the Internet to screen and select securities in their respective asset classes across industry lines. These securities were further down-selected through exhaustive analysis and valuation to a final list of five to seven securities for each class which were considered viable candidates for inclusion in the portfolio. Furthermore, the teams were required to justify the rationale behind the screens they employed to identify their candidates and to validate the current holdings in the portfolio to determine whether these positions should be increased, decreased, or eliminated altogether.

General Economic Analysis

Different economic interpretations

Before attempting to screen securities for the portfolio and attempting any asset allocation, the current economic conditions must be determined and a forecast of future economic conditions must be constructed. All three research teams conducted an economic analysis and provided predictions on future economic conditions. The three groups had varying opinions about when the economy would recover and what sectors would show the strongest recovers, but all groups agreed that the war in the Middle East coupled with fears of terrorism at home were negatively impacting the economy. An abbreviated version of each team's analysis is below:

Large-cap group perspective

The U.S. economy is dealing with several concerns; a sagging stock market; high unemployment; and uncomfortable investors due to an era of corporate scandals. Furthermore, the U.S. economy is struggling to begin its recovery against a myriad of apprehensions about war in the Middle East, terrorism at home, and current economic stagnation.

Based on these facts, and many others, Morgan Stanley economists have lowered their current first half of 2003 GDP growth rates to an estimated 1% growth rate followed by accelerated growth the second half of the year. This outlook is based on the bold prediction that the war with Iraq is successful, meaning that the war is as brief and as easy as the Gulf War and that a regime change takes place. Other scenarios could bring more uncertainty to the market, such as another terrorist attack, or an Iraqi delivered chemical or biological attack. A successful war with Iraq will clear up some of the geopolitical uncertainty in the world causing oil prices to decrease and ultimately causing businesses to start investing again.

Eventually, if the optimistic predictions are, in the fourth quarter of 2003 or the first quarter of 2004 business spending will increase followed by an increase in consumer spending. The lag in consumer spending will be a result of the trend of businesses delay hiring until recovery is fully established.

Small/mid-cap group perspective

It's difficult to determine how much of the recent weakness in the economy is due to the war and how much is due simply to general economic sluggishness. Even without the situation in Iraq, economic growth would likely still be moderate, well below potential, and insufficient to generate much job growth. After Iraq, the pieces are in place for better economic growth, but following the initial post-war boost, the pace of growth may remain disappointing. Financial markets are expected to remain volatile as investors react to developments in the Middle East and a continued moderate recovery is expected post-Iraq as there is some pent-up demand in business spending. Consumer and business confidence should improve.

However, the economy still appears to be working through a period of structural change. Corporate profits have improved, but more slowly than expected. As recently as a month ago, data had continued to suggest moderate growth in the U.S. economy though the pace remained well below potential. Spending on capital equipment is soft and labor market conditions are weak. Higher energy prices and surging health care costs should limit consumer spending growth in the near term. Growth into 2004 is expected to remain moderate and insufficient to sustain robust growth in jobs. We expect 2003 GDP growth to be around 2.4% and for growth in 2004 to be around 3.2% with inflation remaining relatively stable. Two key factors in the coming months will be the global economy and bank lending. Global economic growth was disappointing in the second half of 2002 and potentially could remain relatively subdued in the months ahead. Also, a full economic recovery will not be in place until banks begin to lend again to businesses - especially to smaller firms (which don't have access to the equity and bond markets).

Fixed income/international group perspective

Interest rates. Expected future interest rates are a key factor in determining bond prices. With key interest rates at 40 year lows there is a real concern of rising rates in the near future. The figure below shows that key U.S. interest rates are at historically low levels. Many analysts say that this is unsustainable for a growing U.S. economy.

Economic stimuli. Currently there are many economic stimuli in the works that should thrust the U.S. economic engine forward once the Iraq war is resolved. Tax cuts have been already enacted and likely more will come, along with large government deficits, a falling dollar, and a huge trade deficit, which will all put positive pressure of interest rates. Given this, we approached our analysis with the expectation that interest rates will increase in the near future. However, this is not certain. There are a wide range of economic opinions on the matter. Some economists point to growing global weakness, possible deflation in the U.S., and a further flight to quality. All of these factors could be exacerbated by a negative outcome in Iraq and would likely lead to lower interest rates.

The Dollar. The dollar has fallen about 17% in the past year to a four-year low against the Euro. This increase will put upward pressure on inflation by increasing the cost of imports (the U.S. has a substantial trade deficit). Also a falling dollar will discourage foreign investors, concerned about currency risk, from investing in the U.S. (foreigners invest roughly $1 billion a day in U.S. assets) This will exacerbate America's current account deficit.

Deficit spending. With a return to deficit spending by the federal government, interest rates should increase in the future. The White House has increased its projected deficit for the next five years to $1.4 trillion and this does not even include the war with Iraq that is expected to cost $100 billion in the first month alone. Also some critics argue that the government projections are based on very optimistic assumptions about economic growth and interest rates. The White House Office of Management and Budget used a 2.9% growth rate in 2003 and average of 3.3% growth between 2003 and 2008

Overall implications. The state of the economy will gradually improve. The market has nearly reached its bottom point and surplus inventories are almost used up. Consumer demand will pick up as soon as consumer confidence and increased hiring comes back. The war in Iraq is dominating the economic landscape at this time. Because of the large amounts of deficit spending to finance the war that may cost $75 billion for 30 days (estimated by President Bush), the government may be forced to allow inflation to grow. In order to raise more funds the government will have to offer higher returns on government bonds. With global uncertainty about terrorism and worries about the fundamental health in the economy money will be taken out of the market and spent on more secure reasonable yield vehicles like bonds and I-bonds. The economy will improve next year and our portfolio must be positioned in undervalued securities to take advantage of this.

Co-Managing Directors' outlook and investment strategy

We believe that the current war in the Middle East and the threat of terrorism at home and abroad coupled with the uncertainties of SARS in Southeast Asia may push the economy into a double-dip recession much like that experienced in the 1980's, but without the corresponding inflationary pressures. Analysts at Merrill Lynch and other research firms are inclined to agree with this prediction. Double-dip recession or not, the economy will not fully recover for at least a year or more and proper adjustments must be made to the portfolio to compensate for this. Therefore, we believe that a substantial portion of the portfolio should be invested in asset classes that perform well in recessionary or slight expansionary periods, such as fixed income securities and value stocks in defense and consumer cyclical industries. In the fixed-income sector, we believe that we should stay away from any medium- to long-term bond issues and instead focus on TIPS and highly-rated bond funds which can bear the current market.

Previous Year Portfolio Performance

Last year's portfolio posted a negative real return. This resulted primarily from the challenges of the weak economic environment coupled with the impending (and now real) war in Iraq.

Although last year's team judged the economy correctly, the portfolio's allocation was not weighted properly given the weak economic conditions surveyed by the team. The team decided to allocate the majority of the portfolio in equities rather than in fixed income. This was a problem that last year's team noted with the previous year's team, but will not happen with this team. Last year's team did recognize that a higher weight of fixed income securities would benefit the portfolio given the weak economic conditions and subsequently declining interest rates. However, the current managing directors believe that an even higher weight in fixed income securities would have benefited the portfolio more as the Federal Reserve has dropped interest rates since the first quarter of 2002.

The present managing directors believe that current interest rates are close to or have reached a bottom. A slight decrease (in the extreme short term) followed by stagnant or slow rise of interest rates over the course of 2003 and 2004 is expected. Therefore, increasing the portfolio's weight in fixed income securities is recommended for stability of the portfolio as the war in Iraq and the weak economic environment concludes. Since the managing directors believe that interest rates will remain stagnant or slowly increase in 2003 and 2004, the recommendation is to sell the treasury notes in the portfolio and buy Treasury Inflation Protected Securities (TIPS) to protect against ensuing inflationary pressure.

Efficient Frontier Analysis

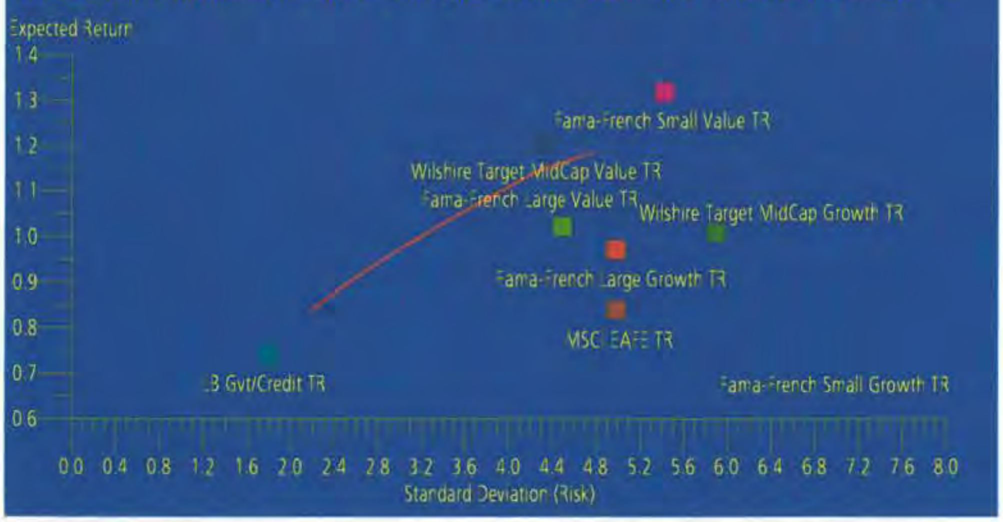
The efficient frontier is the result of a fitted line created from the risk-return graph of various securities' or portfolios' historical performance. The optimal portfolios plotted along the curve have the highest expected return possible for the given amount of risk. Through software analysis using the Ibbotson EnCorr Analysis Suite, an efficient frontier was generated using historical and expected returns for a number of indices relevant to our potential investing strategies.

In Appendix B of the Crummer *Crummer SunTrust Portfolio Investment Policy* the various asset classes available for our investment and their corresponding indices are listed. In our analysis we used the corresponding indices as benchmarks for the performance characteristics of our portfolio. The following indices were used:

- Large Cap Growth – Fama-French Large Growth Index
- Large Cap Value – Fama-French Large Value Index
- Mid Cap Growth – Wilshire Target Mid-Cap Growth Index
- Mid Cap Value – Wilshire Target Mid-Cap Value Index
- Small Cap Growth – Fama-French Small Growth Index
- Small Cap Value – Fama-French Small Value Index
- International Equities – MSCI – EAFE Index
- Fixed Income Securities – Lehman Brothers Government/Credit Index

To ensure the inclusion of all asset classes in the efficient portfolio, each asset class was constrained to a minimum of 5% of portfolio value and a maximum of 65% of portfolio value. The efficient frontier generated from the above asset classes and constraints appears in figure one. Please note that the expected returns and standard deviations are monthly values.

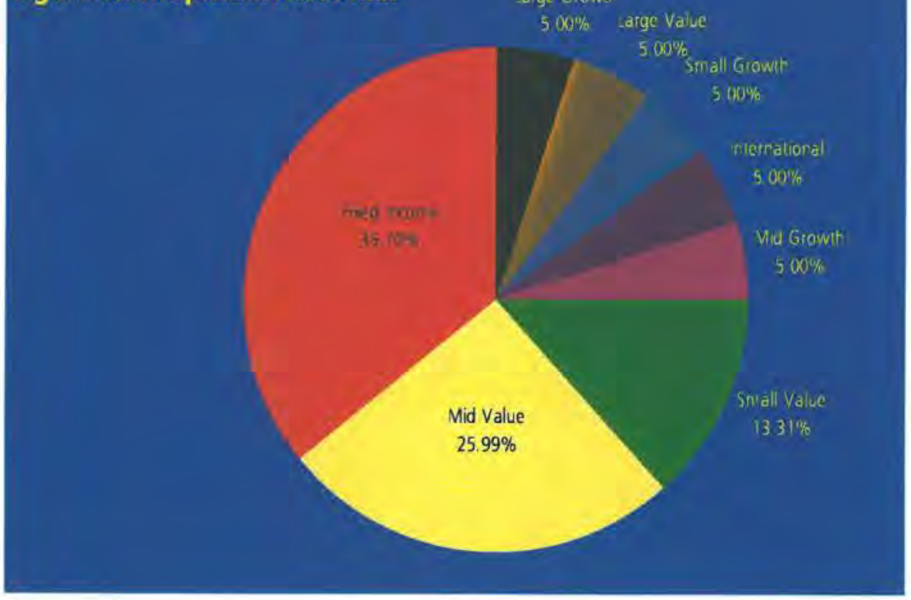
Figure one: Efficient frontier analysis of the Crummer SunTrust Portfolio



Asset Allocation Strategy

The Ibbotson software suite can also recommend portfolio allocations that are on the efficient frontier given a preferred level of risk or return. Appendix A of the Crummer SunTrust Investment Portfolio Policy Statement designates a target total return of between 7½% and 11¾% per year to meet the expenses of the portfolio, provide income for scholarship distributions and achieve real growth in the portfolio. We chose a target total return of 11¾% for the portfolio. When plotted on the efficient frontier, an optimal asset mix was suggested by the software. That mix appears in figure two. Based on current economic conditions and our 12 month economic horizon, we believe that this asset mix is a reasonable goal for our allocation strategies. This portfolio should ensure an expected monthly return of 0.98% with a monthly standard deviation of 3.06%.

Figure two: Opitmal Asset Mix



Recommendation for Portfolio Composition

The following recommendations and disposals were decided based on each team's research, as well as inputting all of the holdings—both current and recommended—into the Ibbotson software suite. Each holding was screened for its risk versus return relationships given the stated parameters in the Crummer SunTrust Portfolio Investment Policy. Each asset class is listed below with its respective percentage of the entire portfolio and each security's percentage within its respective asset class as well as our justifications for its inclusion in the portfolio. Securities that we wish to dispose of are listed at the end of each asset class section.

Large Cap Value (5% of portfolio holdings)

The *Crummer SunTrust Portfolio Investment Policy* defines large cap companies as those companies that have a market capitalization greater than $8 billion. Value companies are those that have low P/E ratios, and stocks that have fallen out of favor with mainstream investors, either due to changing investor preferences, poor quarterly earnings reports, or hard times in a particular industry. Value stocks are often mature companies that have stopped growing and that use their earnings to pay dividends. Thus, value funds produce current income from dividends as well as long-term growth from capital appreciation once the stocks become popular again. The allocation we have chosen for the large cap value portion of the portfolio is graphically displayed in figure three.

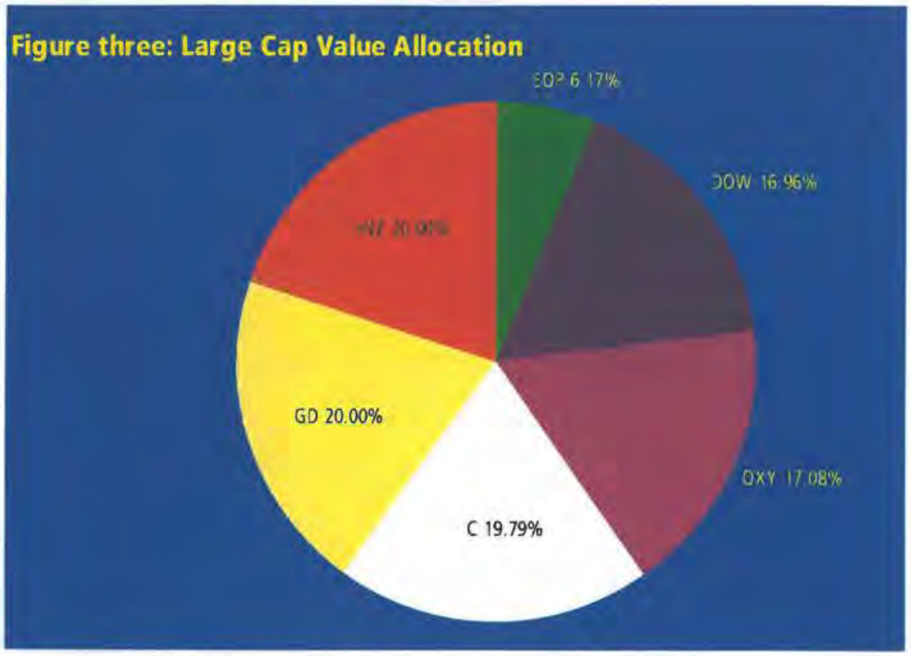


Figure three: Large Cap Value Allocation

Citigroup (C) – 19.79% of class. The financial services industry is facing uncertainty from volatility in the economy. However, even with said uncertainties, low interest rates implemented in an effort to boost the economy will increase the demand for credit. Citigroup has outperformed the industry over the last five years and is expected to continue to outperform in earnings over the next year and over the next five years with return on equity in line with the industry. Therefore, we recommend holding Citigroup in the portfolio.

Dow Chemical (DOW) – 16.96% of class. Dow provides the raw materials for a large segment of the economy. Even in times of weak economic growth, Dow's position as supplier to those who supply the necessities of life should provide stability. This, coupled with a nearly 5% dividend, makes Dow a solid holding in the portfolio.

Equity Office Properties (EOP) – 6.17% of class. As a broadly diversified REIT with a dividend yield in excess of 7.5%, EOP is an excellent addition for the Crummer SunTrust Portfolio. EOP has a broadly diversified portfolio of office space with an opportunity for significant margin expansion as the economy improves and the demand for prime office space expands. In the meantime, a quality management team and a solid dividend will cushion any downside. EOP is aggressively buying back its own stock and has acquired prime facilities at fire sale prices.

General Dynamics (GD) – 20.00% of class. As one of the largest defense contractors in the US, General Dynamics is well positioned to benefit from defense modernization and re-supply. With US spending for defense systems at its lowest level as a percentage of GDP in many years, there is no place to go but up. GD provides an excellent defensive play for the Crummer SunTrust Portfolio.

HJ Heinz Corporation (HNZ) – 20.00% of class. Heinz is striving for a more focused business strategy, hence the recent spin-offs to Del Monte of the pet food, tuna, soup, and infant food businesses. Heinz expects to achieve higher profitability from a more favorable product mix, cost structure improvements, and investments in new products. Operating margins are projected to improve from an enhanced sales mix.

Occidental Petroleum Corporation (OXY) – 17.08% of class. The outlook for the entire petrochemical industry is positive based on continued high gas and oil prices and expectations of demand growth as economies around the world recover from their current stagnation. Gains are expected for OXY due to both an increase commodity prices and oil production. Oil production is expected to increase for OXY as the company shifts its focus to oil exploration and production. This shift in focus should reduce earnings volatility.

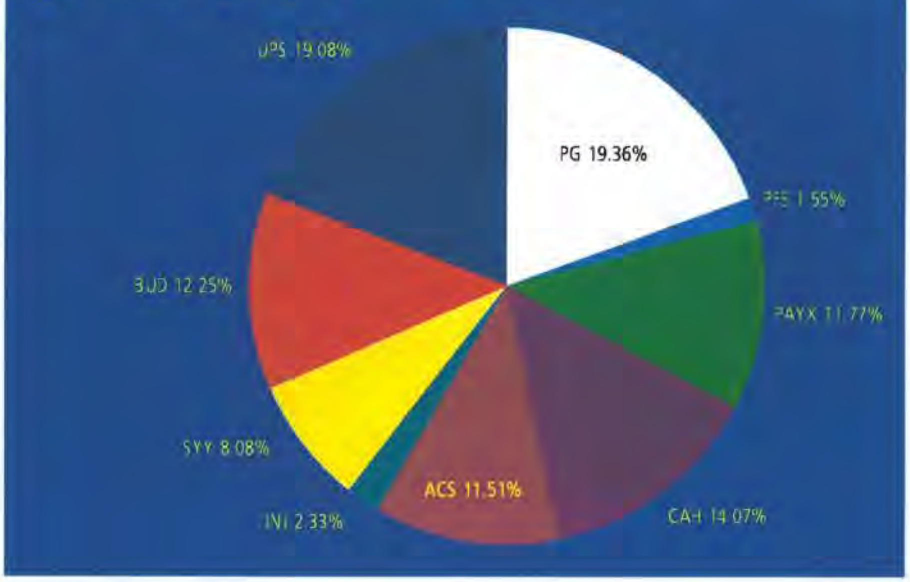
Disposal - Caterpillar Corporation (CAT), Mirant (MIR), General Electric (GE), Masco (MAS), Travelers (TAP)

- CAT. Caterpillar has a much higher standard deviation and a much lower return than other securities recommended to the co-managing directors.
- MIR. The co-managing directors believe that since Mirant was a large cap company and has lost so much value that it is classified as a small cap company that the portfolio should cut its losses and invest its money elsewhere.
- GE. We have incorporated GE's first-quarter results in our valuation model, and we are keeping our fair value estimate at $28. We would only buy the shares around $17 or below. Five of GE's nine industrial businesses gained on the top line during the first quarter--not bad, given the tough economic conditions. Three of the four businesses that lost ground in revenue actually increased operating profits because of improved profitability. All of this progress, however, was more than offset by the sharp decline in the power system unit. Until this business stabilizes, industrial results will be relatively weak. Business at GE Capital held up pretty well, thanks to strong results from the commercial and consumer finance operations. Revenue increased 8% and 16%, respectively, at these units, while operating profits climbed 15% and 10%. The margin decline in the consumer operations resulted from weakness in GE's card service business. We think General Electric is fully valued, so we would look elsewhere to invest.
- MAS. The building products business is getting rough. Led by Home Depot, retailers are accumulating substantial power over their suppliers. Their dominant market share puts them in a position to extract price concessions--or, if met with resistance, to simply deny shelf space to incumbent brands and sell products from private-label manufacturers. However, our biggest worry is this: Masco seems more interested in making acquisitions than running existing businesses. First, while sales have more than doubled in the past five years, much less, than half of that total is due to internal expansion. The balance has come from acquisitions, resulting in substantial dilution to Masco's return on invested capital. Second, we suspect these acquisitions are costing Masco too much. Consider 2001: Masco bought two window manufacturers, an insulation installation business, and three other firms for $1.66 billion. These purchases yielded only $185 million in tangible net assets--just $98 million of plants and equipment. The remaining 89% of its spending was assigned to goodwill and other intangibles. Those intangibles have some value, but in a cyclical industry threatened by powerful retailers, it could be tough to preserve Masco's original outlay.
- TAP.A and TAP.B. Travelers Property & Casualty is a broad line insurer. This portfolio received shares in Travelers because of the spin-off of Travelers from Citigroup. Given the distress in the insurance industry due to poorly performing investment portfolios and the relatively small positions held in the portfolio, the co-managing directors recommend to sell this position.

Large Cap Growth (5% of portfolio holdings)

Growth companies are those that are growing earnings and/or revenue faster than its industry or the overall market. Such companies usually pay little or no dividends, preferring to use the income instead to finance further expansion. As before, the *Crummer SunTrust Portfolio Investment Policy* defines large cap companies as those companies with market capitalizations of $8 billion or more. The allocation for this segment of the portfolio is graphically displayed in figure four.

Figure four: Large Cap Growth Allocation



Affiliated Computer Services, Inc (ACS) – 11.51% of class. Future revenues are expected to escalate due to increasing acquisition activity. Internal growth should accelerate in the company's business process outsourcing (fast growing market) and state health care divisions. ACS's business mix has enabled the company to post solid revenue and EPS gains while many of its industry competitors have struggled. In addition, ACS has not yet issued any dividends because it intends to use its retained earnings to grow the business.

Anheuser-Busch (BUD) – 12.25% of class. A-B has performed superbly compared to its industry over the past year with a return on assets of 17.77% compared with the industry average of 10.64% and a return on equity of 65.81% vs. an industry average of 43.87%. A-B has refocused itself in recent years on its core high-margin beer business. It has sold unrelated businesses such as the St. Louis Cardinals and focused on increasing production efficiency. BUD is a fairly stable stock in the alcohol beverage market. It has maintained profitability and should be seen as a relatively strong stock in a shaky economy. The very low beta shows the non-cyclical nature of the stock.

Cardinal Health, Inc (CAH) – 14.07% of class. Cardinal's return on sales is 5.69% compared with a negative return on sales for the industry. All three of the models used by the asset evaluation team for evaluating CAH gave consistent results and show that the stock is currently undervalued. Cardinal Health is a stable company that does not bear the same market risks as other companies in the health care industry. As other health care companies are hurting, Cardinal Health has managed to maintain growth and profitability. Cardinal benefits from having an excellent management team with a long-term orientation. Cardinal also has an excellent track record of being a cash generator. S&P estimates that revenue growth will be 15-16% during 2003, which makes this company an ideal candidate for our portfolio.

Johnson & Johnson, Inc (JNJ) – 2.33% of class. Johnson & Johnson ranks as the world's largest and most diversified health care company. JNJ offers an impressive list of prescription drugs, medical instruments, and the broadest line of health-related consumer products. JNJ is also one of the most geographically diversified health care companies with foreign sales representing nearly half of the entire business. Proficient company management has led to outstanding growth through well-planned strategic acquisitions, commitment to R&D spending, and a decentralized management policy. Gains in sales are projected to be led by the new *Cypher* drug-coated coronary stent in JNJ's Cordis division.

Paychex (PAYX) – 11.77% of class. Paychex stands to benefit from two powerful trends—outsourcing of payroll/benefits/human resource functions by small and mid-size businesses and an economic recovery. Its outsourcing service model provides some safety in a weak economy and allows significant leverage in an expanding economy. Over the past five years, Paychex has shown an average EPS growth in excess of 25%. It is up 7% year-over-year in spite of the recent economic softness. Paychex represents a solid long-term growth opportunity for the portfolio.

Pfizer (PFE) – 1.55% of class. Pfizer is one of the industry leaders in research and development, which poises itself for new major discoveries. Historically, it has been new drug discoveries that have been the lifeblood of the industry. Pfizer currently has nine drugs that are poised to reach $1 billion in sales. The recent merger with Pharmacia will cut costs and add to long-term growth potential of Pfizer. Pfizer has a P/E ratio that is inline with the industry and has one of the highest returns on equity at almost 50%. One of the risks facing Pfizer is pending $3 billion patent infringement litigation. Litigation is not uncommon in the industry and should not affect the projected overall growth rate over the next year. The analysis supports holding Pfizer in the portfolio in a relatively low position compared with other stocks in its asset class.

Procter & Gamble (PG) – 19.36% of class. Proctor and Gamble has recently undertaken a massive restructuring program with a focus on the core brand and volume expansion. This back to basics philosophy is a conservative strategy in downward economic times and will poise P&G for sustained growth as the economy recovers. P&G is projected to have stable returns with low risk and should be a stable holding in the portfolio.

Sysco (SYY) – 8.08% of class. In all economies people need and want to eat. With the increasing number of households with no full-time homemaker, the number of Americans eating the majority of their meals outside the home continues to increase. As the leading supplier to the restaurant industry, Sysco stands to benefit not only from growth in the end market, but also from industry consolidation.

United Parcel Service (UPS) – 19.08% of class. UPS is the "big dog" in the transportation field. Not only is it a core position for economic recovery as the low cost provider in surface transportation; it is well positioned to take share from smaller players in the current environment of raising costs. While UPS may have some difficulties in the near-term due to rising fuel prices and weak shipment volumes, UPS has been a solid early cycle performer and rates a strong position in the portfolio.

Disposal – Harley-Davidson (HDI), HCA, Inc (HCA), MBNA (KRB), NASDAQ 100 Trust (QQQ), Wal-Mart (WMT).

- HDI. Dupont analysis for Harley-Davidson is in line with its industry peers. However, it is important to note that Harley-Davidson has announced that it will maintain current production levels, which is cause for concern as this is a hindrance to the growth of the company. This signifies that the company will not grow this year and this fact should be considered when analyzing the stock. Harley-Davidson has been a good performer over the last decade, but prudent investors took notice when the value of inventory increased 20% in 2002. The increased sales due to Harley-Davidson's 100th anniversary are not sustainable in the long-term. The decision not to expand production has hammered the stock price over the last several weeks and it is recommended that we liquidate our holdings of HDI and shift the funds to more stable companies with a greater chance of growth in the near term.

- HCA. The company has a higher standard deviation and lower return than Pfizer or Johnson & Johnson, its peers in the healthcare industry. Additionally, with the inclusion of this company along with Pfizer and Johnson and Johnson for this asset class, the portfolio will be overly weighted in the healthcare sector. The correlations between HCA and our two other healthcare stocks is positive, indicating that keeping HCA in the portfolio will provide no diversification benefits.

- KRB. MBNA has a higher standard deviation and a much lower return than other securities recommended to the co-managing directors. We believe that Citigroup gives the portfolio sufficient exposure to the financial services industry.

- QQQ. The NASDAQ 100 Trust has a much higher standard deviation and a much lower return than other securities recommended to it the co-managing directors. We do not think the Trust is viable to achieve the goals of the portfolio in this economy.

- WMT. Wal-Mart has underperformed its industry over the past 12 months and is lagging in most indicators. Wal-Mart's earnings growth and profits have come from new store openings and expansion of the business and not from individual store growth. As the marketplace reaches saturation and growth is reliant upon individual store growth, Wal-Mart's outlook is not as bright as previously envisioned. With low dividends compared to the industry and a P/E ratio that is almost twice of Wal-Mart's nearest competitor, Target, there is limited support for continued holding of the stock in the portfolio.

Mid Cap Value (25.99% of portfolio holdings)

Mid Cap Growth companies as defined by the ***Crummer SunTrust Portfolio Investment Policy*** are those companies with a market capitalization between $2 billion and $8 billion which have low P/E ratios or may have fallen out of favor with mainstream investors, either due to changing investor preferences, poor quarterly earnings reports, or hard times in a particular industry. A graphical representation of the asset class allocation is presented in figure five.

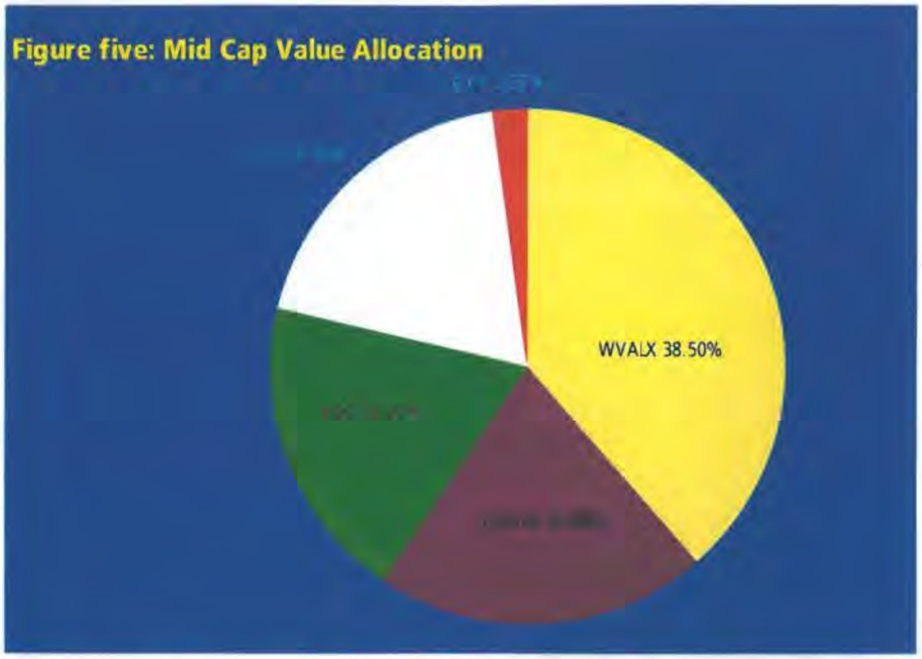


Figure five: Mid Cap Value Allocation

AON Corporation (AOC) – 19.20% of class. The outlook for AOC is good for several reasons. The company itself is so diversified that its earnings are not dependent on one sector in the economy. Just as diversification in the portfolio creates a more stable and safe return, a diversified company gets the same results. To show his support for the company, the CEO owns 12% of the stock. The asset research team liked that the CEO has a large stake in the outcome of the company, because stock ownership provides the right incentive for good management and oversight.

City National (CYN) – 2.22% of class. City National plans to acquire Convergent Capital Management (CCM), a Chicago-based holding company investing in a broad range of asset management firms. The acquisition will nearly double City National's assets under management to $13.9 billion. The bank is going into the very promising wealth management business, following the takeover of North American Trust Company in 1998 and the acquisition of Reed, Conner & Birdwell in 2000. Furthermore, the purchase strengthens the company's position in California, while providing exposure to several new states: Texas, Hawaii, Michigan, and Illinois.

City National's relationship-banking model has created a rock-solid customer (and lower-cost core deposit) base. This business strategy has also enabled City National to consistently achieve higher-than-industry-average net interest margins, while maintaining excellent asset quality. Moreover, acquisitions should continue to play an important role in the company's expansion.

These shares have suitability for conservative investors, based on their healthy risk-adjusted 3- to 5-year total return possibilities. Steady earnings growth should push up the issue's price over time. The low payout ratio suggests that increases in the dividend will continue to enhance returns, as well. But the equity is only an average selection for timeliness.

City National has also been aggressively buying back its own shares, with nine million shares repurchased since 1995. In January 2003, the board approved the repurchase of an additional one million shares.

Goldman Sachs Mid-Cap Value Service (GSMSX) – 20.88% of class. This four-star fund impressively notched a 32% gain in 2000 during a revival in value investing. More recently, it has shown the ability to hang tough in a bear market. In 2002, the fund just lost 4.7% of its value and ranked in the top decile of the mid-value category. Last year's results were also similar. The fund beat its Russell Mid-Cap Value benchmark in 11 out of 13 sectors the fund tracks. In 2002, the fund beat its category by 7.40%.

HRPT Properties Trust (HRP) – 19.2% of class. HRPT expects to selectively pursue acquisitions of high performance properties and dispositions of poor performing properties. However, no specific amounts of property acquisitions or sales have been established. The occupancy rate for the company's holdings on December 31, 2002, was 92.1%, up from 91.8% a year earlier. In July, HRPT filed with the SEC to allow the sale of some of its shareholdings in its former subsidiaries, Senior Housing Properties Trust (NYSE: SNH) and Hospitality Properties Trust (NYSE: HPT), as well as new HRP shares, to a new mutual fund to be organized by a subsidiary of REIT Management and Research LLC, the investment and property manager for HRPT, SNH and HPT. HRP's hefty dividend appears to be relatively safe, as payout ratios are currently hovering around 62% of 2002 funds from operations, and 79% of 2003 funds from property operations.

Weitz Value (WVALX) – 38.5% of class. This five-star fund has beaten the S&P 500 over the last five years. Additionally, it has among the best returns in its category at 5.47% for five years and 13.18% for ten years. Additionally, manager Wally Weitz has been at the helm of this offering since its inception. Weitz's price discipline and the his ability to project a business' long-term cash flows keep him out of expensive, unpredictable areas such as technology.

Disposal – Black & Decker (BDK). The co-managing directors believe that there are other companies that yield a higher return for the given risk level of the portfolio as stated in the Crummer/SunTrust investment policy.

Mid Cap Growth (5% of portfolio holdings)

Mid Cap Growth companies as defined by the *Crummer SunTrust Portfolio Investment Policy* are those companies with a market capitalization between $2 billion and $8 billion who are expected to exhibit earnings or revenue growth faster than its industry or the market. A graphical representation of the asset class allocation is presented in figure six.

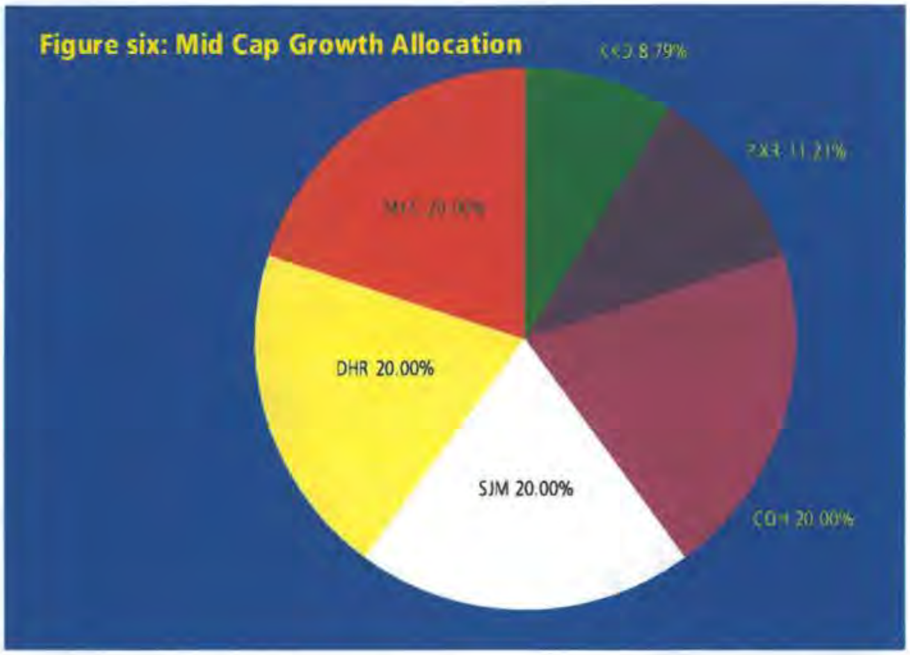


Figure six: Mid Cap Growth Allocation

Coach, Inc. (COH)-20.00% of class. Coach is beginning to go mainstream from its luxury-goods roots by providing some lower priced offerings to meet the needs of more middle class consumers. The company has introduced a new men's line that is growing and expected to do well over the next year. Coach will continue to outperform both the marker and its peers into the future.

Danaher (DHR) – 20.00% of class. Most analysts expect 2003 to be successful for Danaher. Restructuring efforts that began in late 2001 are nearly complete and all of the company's 2002 acquisitions are now fully integrated. Management expects these maneuvers will result in just under $40 million in annual savings. Additionally, new environmental regulations have been put in place for heavy trucks that should translate into increased demand for Danaher's environmental-control products. Based on its hefty cash balance and solid financial footing, we see no reason why the company will fall off of its acquisition pace that has fueled its growth over the last several years. The company's push into low-cost regions should enhance future earnings. Currently, 11% of sourcing and 14% of production is done in Mexico and Slovakia. Analysts look for these numbers to both rise to 30% by the end of 2005, thereby generating savings of approximately $100 million a year for the company.

J.M. Smucker Corp. (SJM) – 20.00% of class. The outlook for this firm looks excellent long-term. There are synergies taking place between the newly acquired *Jif* and *Crisco* brands that are resulting in true decreases in costs and increases in margins. The jelly and peanut butter brands are merging together fantastically and contributing new products to the market that the consumer is responding to very well such as its *Uncrustables* brand ready-made peanut butter and jelly sandwiches.

McCormick & Company, Inc. (MKC) – 20.00% of class. McCormick & Company has a more acceptable standard deviation and return than other securities in this class recommended to the co-managing directors. Since the portfolio currently holds shares of MKC, we believe that only a share number adjustment is necessary.

Krispy Kreme Doughnuts, Inc. (KKD) – 8.79% of class. The outlook for Krispy Kreme is very good. Value Line projects a same-store sales gain of 10% this next year. In October of last year, Krispy Kreme's earnings jumped 55% on strong margins. The company plans to double their 270 stores in the next three years, and

Value Line predicts they will have 750 stores in five years. Also, Krispy Kreme is expanding internationally with a new franchise contract in the UK as well as Australia. Krispy Kreme looks to be one of the few stars in the restaurant industry.

Pixar Animation Studios (PIXR) – 11.21% of class. Pixar has been a successful movie producer as shown in their releases of *Toy Story* and *Monsters, Inc.* The analyst group liked the prospects for the future of Pixar. The company has taken steps to smooth out their revenue streams with planned releases of *Finding Nemo* this year and two more movie releases in 2004 and 2005. Upon completion of those releases in 2005, the company's agreement with Disney for 5 films will conclude, and Pixar will in effect become a free agent, and Sony Pictures and Warner Bros are already recruiting them.

Disposal – Talbot's, Inc. (TLB). Talbot's, Inc. is an average company in a bad industry. Talbot's actually outperformed their most recent quarterly earning forecast by a penny, but their earnings were still down $4 million over the same period from last year. With economic uncertainty looming, there were no companies in this industry that really excited the analyst group, and Talbot's is no exception.

Small Cap Value (13.31% of portfolio holdings)

The Crummer/SunTrust investment policy characterizes small cap companies as those companies with a market capitalization of $2 billion or less which have low P/E ratios or may have fallen out of favor with mainstream investors, either due to changing investor preferences, poor quarterly earnings reports, or hard times in a particular industry. A graphical representation of the asset class allocation is presented in figure seven.

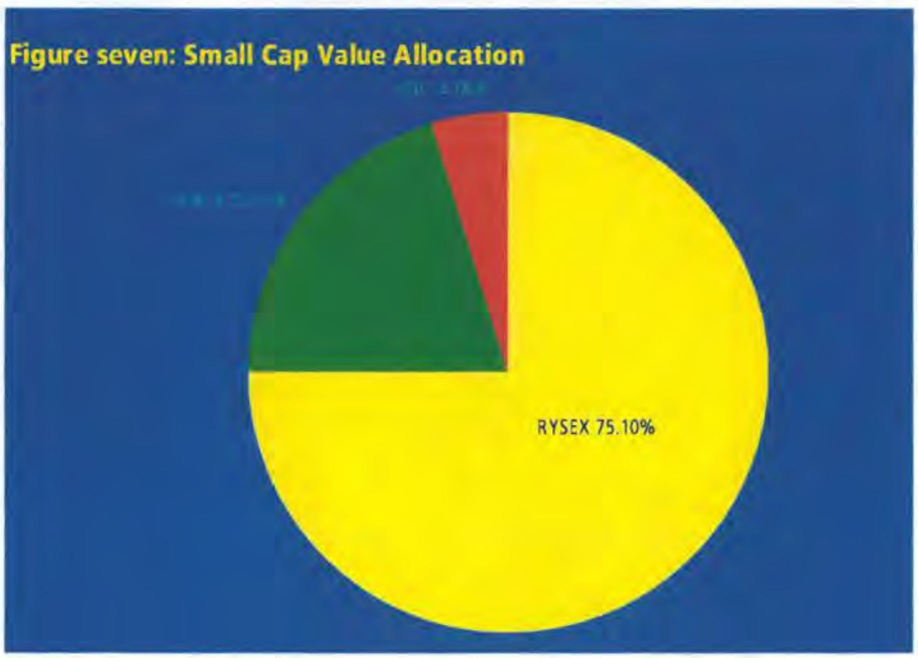


Figure seven: Small Cap Value Allocation

Royce Special Equity (RYSEX)-75.1% of class. This fund is rated five stars by Morningstar. Tech and telecom stocks paced the market's fourth-quarter rally last year, but despite this small-value fund's scant exposure to those sectors it still managed to edge past most peers over the period. While its typical rival notched a gain of 5.3%, this fund climbed more than 6%. The fund's investors have gotten used to that kind of performance at this offering, which has been managed by Charles Dreifus since its May 1998 inception. True, the fund was slow out of the gates, as Dreifus' deep-value stock-picking style was out of favor with investors in 1998 and 1999. Since the bear market began in earnest, however, the fund has been a stellar performer. It closed out 2001 in the category's top decile, for instance, while its 2002 showing landed at the peer group's pinnacle. For 2001, 2002, and 2003, the fund posted 16.3%, 30.8%, and 15.3% returns, respectively. These returns were quite a bit higher than its category average. With its small median market cap and low P/E, this fund has been well-positioned near the market's recent bull's eye. But its outstanding showing over the last couple of years also owes to manager Charles Dreifus' almost exclusively bottom-up approach to stock-picking.

FAM Equity-Income (FAMEX)-20.12% of class. Managers Paul Hogan and Thomas Putnam seek small- and mid-cap companies with good fundamentals, such as solid cash flows, that are trading at deep discounts to the managers' assessment of their fair values. Here, however, the managers are also focused on yield and require all stocks in this portfolio to pay a dividend. Hogan and Putnam tend to hold their picks for years and have been known to buy back previous holdings should their prices drop. For example, the managers have been re-establishing a position in McGrath RentCorp after an acquisition by troubled Tyco International fell through in mid-2002. The managers think the stock is reasonably priced, especially given its solid cash flows and market-leading position. The fund has performed well in recent years: It finished both 2001 and 2002 in the category's top quartile. The returns for 2001 and 2002 were 17.2% and 20.8%, respectively. The fund had some smart buys, including discount retailer Ross Stores but it was also helped by its aversion to hard-hit technology stocks and its large cash stake. As the fund has attracted new investors, its cash position grew north of 25% in 2002, which was a blessing considering the steep dive in the market during this period.

Holly Corporation (HOC) – 4.78% of class. The future performance of this company is dependant upon several items:

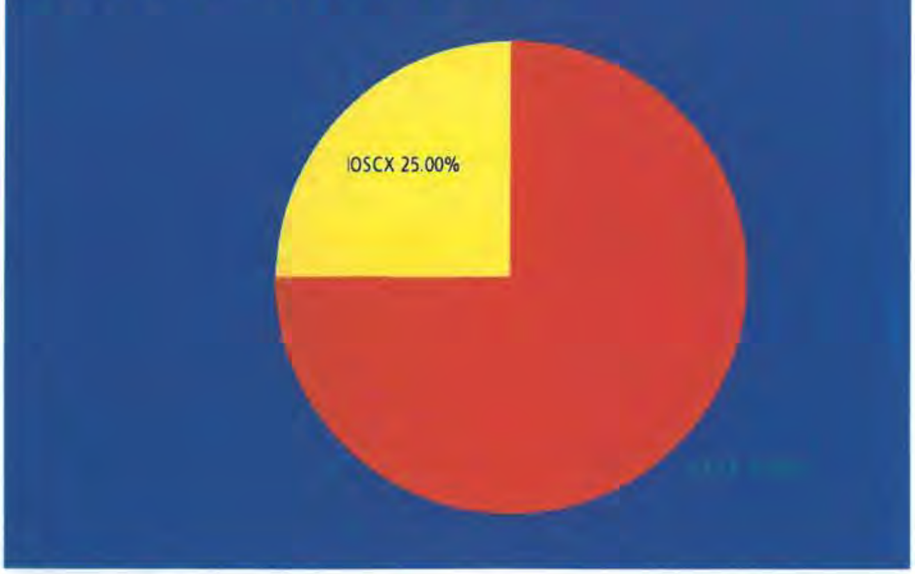
- Legislative issues. The legislative environment of the energy sector. If future exploration is inhibited, this company could face hard times in the future.
- Fuel prices. Global supply and demand of fuel, in conjunction with fuel prices – if fuel prices remain high, or go higher and demand is constant or greater, this firm could do very well in years to come.
- Innovation. If alternative fuel sources are made mainstream and affordable, the global and domestic demand for oil and gas could decline substantially, but this is not foreseeable in the near future.

Disposal – United Rentals (URI). The outlook for this company and industry combined is negative. There is no positive news from the stock performance, company performance, or the industry. The only redeeming factor for this firm would be a major turnaround in the economy, which is not forecasted for the near future. The company is closing about 40 stores this year in an effort to cut costs and increase cash-flow, but this is merely survival and window dressing, it doesn't really add true strength to the firm.

Small Cap Growth (5% of portfolio holdings)

The *Crummer SunTrust Portfolio Investment Policy* characterizes small cap growth companies as companies with a market capitalization of $2 billion or less who are expected to exhibit earnings or revenue growth faster than its industry or the market.. A graphical representation of the asset class allocation is presented in figure eight.

Figure eight: Small Cap Growth Allocation



Hennessy Cornerstone Growth (HFCGX) – 75% of class. Manager Neil Hennessy doesn't actually pick the stocks in this five-star portfolio; he implements the results of several screens and uses his strong discipline and faith to stick to those picks. Once a year, the fund runs a series of screens to select 50 stocks, buys them in equal amounts, holds them for a year, sells, and starts the process all over again. It's completely impersonal and void of any analysis other than that originally used to construct the screens. The fund's latest portfolio is true to form. A price/sales criterion favors high-sales, low-margin sectors, so it's typically light on technology, financials, and health-care names. The momentum screen favors hot industries, resulting in a shifting base of cyclical stocks. Last year, that led to more than 40% of assets being devoted to the consumer-services sector. This year, 38% of assets have been shifted to manufacturing, specifically consumer goods and industrial-materials stocks. In 2001, the fund posted a 12.51% return and was 20.88% above its category. In 2002, the fund only lost 4.71% and was still 23.54% above its category.

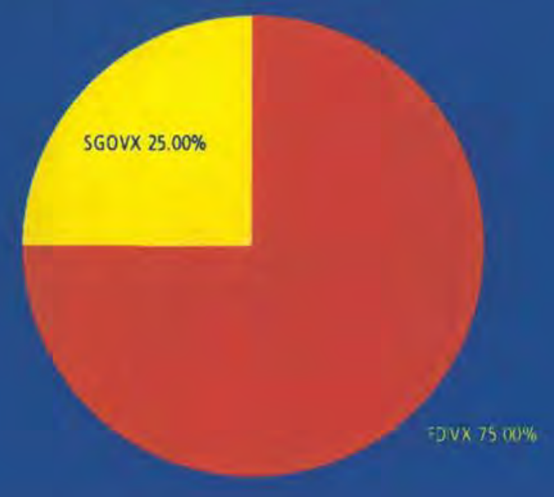
ABN AMRO Select Small Cap N (IOSCX) – 25% of class. This fund is rated five stars according to Morningstar. While this fund's three-year returns may not look impressive, most of the offerings in its category have turned in poor results over that period. Compared with them, its three-year returns are among the best. The returns are 10.1%, 11.0%, 4.7%, -15.3%, and -4.1% percent for years 1999 through 2003, respectively. Comparatively, the fund beat its peers in every year except for 1999.

Disposal – STI Classic FD-Small Cap Growth (SSCFX). Because fund is actually a small cap blend fund, we don't feel SSCFX is the right fund for this asset class. Another negative for SSCFX is that the management fees are relatively high at 2.29%. Finally, the fund has outperformed its category over a three year time period, but over the last year it has grossly underperformed its category and we feel there are better funds to choose from.

International Equities (5% of portfolio holdings)

According to the *Crummer SunTrust Portfolio Investment Policy*, the portfolio should invest in at least 5% of international securities listed on developed international exchanges. International investments allow portions of the portfolio to avoid the economic cycles of the United States and allow the portfolio to take advantage of developing markets worldwide. The international equities allocation of the portfolio is represented graphically in figure six.

Figure nine: International Allocation



Fidelity Diversified International (FDIVX) – 74.23% of class. While being rated five stars by Morningstar, this fund also poses below average risk and high returns, according to MSN. While it may have had some negative returns, this fund outperformed the MSCI EAFE consistently since William Bower took over on April 11, 2001. Therefore, there is promise for this fund with the hopes of an upturn in the world economy.

First Eagle Sogen Overseas Fund A (SGOVX) – 24.77% of class. With its five star rating and its low turnover of about 10%, SGOVX is a very attractive investment. It has also outperformed the MSCI EAFE, and with its consistent manager, it is predicted that this high performance could sustain itself.

Disposals – Fidelity Pacific Basin (FPBFX), Montgomery Emerging Markets R (MNEMX), Fidelity Europe Capital Appreciation (FECAX)

- FPBFX. FPBFX's manager, June-Yon Kim, has been in charge of this fund for less than a year. Additionally, this fund poses too much risk versus return than other funds recommended to the co-managing directors.
- MNEMX. As of December 2002, MNEMX accounts for only $4,133.06 of the total portfolio. The co-managing directors believe that given this small amount and observing the risk versus return relationships, that there are other securities recommended which pose a lower standard deviation and higher rate of return.

- FECAX. Although this fund rates four stars, the co-managing directors observed funds that fit the Crummer/SunTrust portfolio's risk and return parameters more closely. Additionally, this fund has short management tenure. Fund manager Ian Hart took over in April 2000 and aside from 2001 where it beat its category by 6.9%, the fund has mirrored its benchmark the MSCI EAFE since Hart took over. The co-managing directors observed funds which boasted much higher performances in the international category.

Fixed-Income Securities (35.70% of portfolio holdings)

Fixed income investments, such as those in bonds, Treasury Bills, and bond funds allow the portfolio to achieve a stream of income as well as capital appreciation with a minimal amount of risk. Given the low target return desired by the portfolio policy statement, fixed-income securities will make up a significant portion of the portfolio's assets. The fixed-income allocation of the portfolio is represented graphically by figure seven.

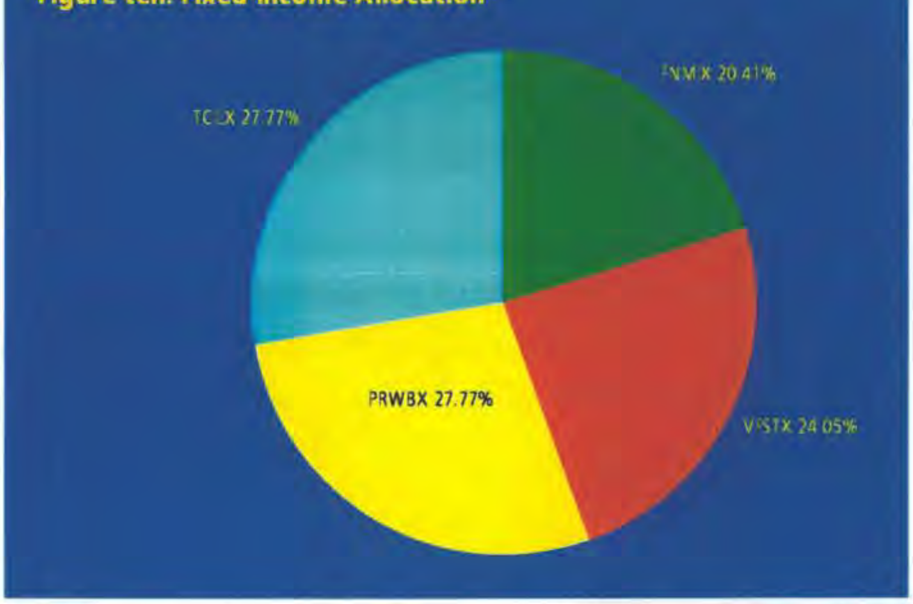


Figure ten: Fixed Income Allocation

T. Rowe Price Short-Term Bond (PRWBX) – 27.77% of class. The fund invests in short- and intermediate-term securities with maturities not exceeding seven years, but the portfolio average must be maintained at three years or less. To achieve its objectives of maximum current income and a high level of liquidity, the fund holds Treasuries, asset- and mortgage-backed securities, corporate bonds, and government-agency issues. At least 65% of portfolio's net assets will be held in short-term bonds. Management attempts to maintain an average credit quality of AA, and may use derivatives to increase income; all such purchases are subject to approval by a derivative oversight committee, which sets parameters for any derivatives in the fund. Management will not normally make interest-rate bets. The risk versus return relationship is also favorable for this particular portfolio. This fund boasts 3.6%, 6.8%, and 6.1% returns for one year, three years, and five years, respectively.

TIAA-CREFF Inflation-Index (TCLIX) – 27.77% of class. There is a disconnect between the forecasted inflation and the implied inflation based on the differences between the yields on 10 year Treasuries and 10 year TIPS. The annual inflation rate for the past 5 years has been 2.31% and the forecasted inflation based on census of

TCILX

leading economists is 2.45%. Currently, 10 year treasuries are yielding 4.1% and 10 year TIPS are yielding 2.23%. This implies that the market is only expecting a 10 year inflation rate of only 1.87%. There is a .58% disconnect between the expected inflation rate by economist of 2.45% and the implied rate of only 1.87%. Therefore, we believe TIPS will be a better investment compared to treasuries because inflation is likely to be greater than 2% over the next decade.

Treasury Inflation Protected Securities (TIPS) are an inflation-indexed security that gives both individual and institutional investors a chance to buy a security that keeps pace with inflation. When a portfolio invests in inflation-indexed securities, the U.S. Treasury pays the interest on the inflation-adjusted principal amount. Competitive bidding before the security's issue determines the fixed interest or coupon rate. At maturity, the Treasury redeems the securities at their inflation-adjusted principal or par amount, whichever is greater.

The securities' values are periodically adjusted for inflation, and the principal received when the security matures will not drop below the par amount at which they were originally issued. Like other Treasury securities, they're safe—backed by the full faith and credit of the U.S. government. The co-managing directors believe that buying a fund rather than individual TIPS will save the portfolio significant transaction costs while allowing the portfolio to take full advantage of TIPS.

Vanguard Short-Term Corporate (VFSTX) – 24.05% of class. VFSTX has had annualized returns of 3.6% in the last year and 6.8% annually over the last 3 years. With a standard deviation of just 2%, this fund is an excellent alternative to money market funds. Not only can we preserve the principal but also gain an above average return over those other funds. With an average maturity of just 2.6 years, we can protect against capital losses due to a rate increase. This fund has a low beta of just 0.49 and a diversified strategy among government and corporate bonds. Government notes represent just 18.4% of the portfolio with the remainder allocated among corporate bonds rated from AAA to BBB. In addition, this fund holds approximately 12% in cash. The co-managing directors believe that VFSTX coupled with PRWBX will provide sufficient diversification, as well as acceptable risk versus return relationships as outlined in the Crummer/SunTrust Investment policy.

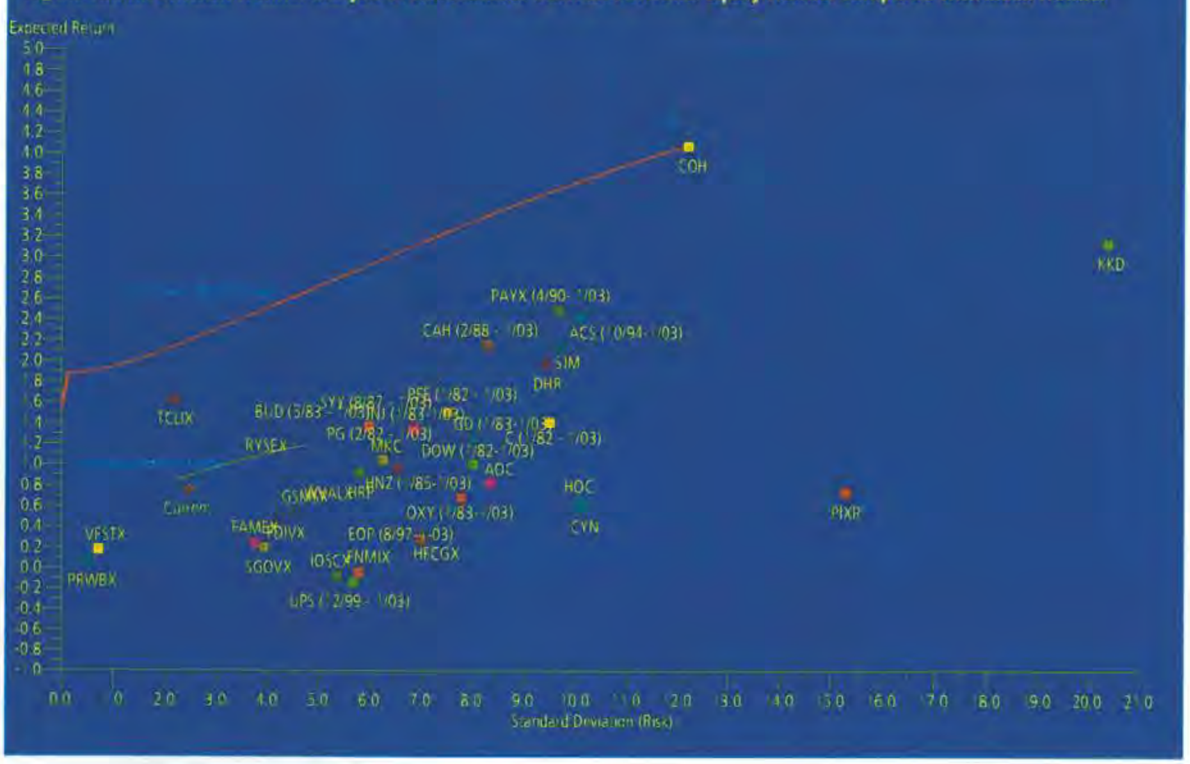
Fidelity New Markets Income (FNMIX) – 20.41% of class. FNMIX has preformed extremely well over the past four years compared to the S&P 500. The fund has only experienced two years of negative returns over the past decade and has enjoyed double digit returns five of the last nine years. The fund currently has an annualized dividend payout of 8.26%. The fund has beaten the Lehman Brother Bond Aggregate by 7.15% over the past five years. A hefty share of the portfolio is invested in the Brazilian economy; a market which the asset analysis team and the co-managing directors believe is ripe for growth in the short to medium term.

Disposal – Treasury Notes. Currently the Crummer Portfolio holds $30,000 in U.S. Treasury Notes with a 6% coupon that will mature in August 2004. All investment grade bonds, especially treasuries, have performed extremely well over the past three years in comparison to stocks. The terrorist attacks, the war in Iraq, and the massive corporate fraud and accounting irregularities have created an unprecedented flight to quality. Treasuries gained nearly 12% in 2002, and consequently yields have fallen to their lowest level in over 40 years. Currently, 10-year treasuries are yielding 4.10% and 2 year treasuries are only yielding 1.78%. Due to the historically low yields, the massive flight to quality, and the near certain rising interest rates we are bearish on treasuries and do not believe they are currently an attractive mid to long-term investment in comparison to TIPS.

Conclusion

An analysis of our portfolio selections was conducted by inputting historical return data for all the securities selected for the portfolio and determining the overall portfolio expected return and standard deviation. With our selections, the portfolio expected return will be 9.51% annually with a monthly standard deviation of 2.46%. We proceeded to plot our created portfolio in comparison to our original efficient frontier as well as an unrestricted efficient frontier consisting of all of our security choices for the portfolio. Our created portfolio, as expected, plotted very close to our original efficient frontier but was significantly lower than our unrestricted efficient frontier. This was expected because the restrictions placed on the portfolio allocation introduce securities of a different risk type than that suggested by an unrestricted portfolio. However, we agree with the portfolio restrictions because the restrictions promote diversification within the portfolio. A graph showing the above relationships appears in figure eleven.

Figure eleven: Efficient frontier analysis of the Crummer SunTrust Portfolio: Equity frontier compared with index frontier



Acknowledgements

The co-managing directors would like to thank everyone involved in the analysis and construction of the Crummer SunTrust Portfolio. We would most of all like to thank the asset analysis teams:

Large Cap. John Abernathy, Jessica Shapiro, Shawn Shapiro, Joe Subich, Joe Walter, and Mary White

Fixed Income and International Equity. Brad Albers, Alexia Brehm, Koushik Chatterjee, and Pablo Presas

Small and Mid Cap. Heather Boksen, Christopher Collins, Jason Goede, and Stephen Wetter

Special thanks go to SunTrust and the SunTrust foundation for the establishment and continuing management of the portfolio. We would also like to thank Dr. J. Clay Singleton from Rollins College Crummer Graduate School of Business and Mr. Jason Johnson from the Merrill Lynch Private Client Group in Longwood, Florida for their technical advice and recommendations for the portfolio.

The co-managing directors also would like to especially thank Dr. Ed Moses for his hard work and dedication to educating tomorrow's financial leaders.

Appendices

Appendix A: Crummer SunTrust Portfolio Investment Policy
Appendix B: Most recent portfolio statement of account
Appendix C: Research reports for selected securities

Appendix A: Crummer SunTrust Portfolio Investment Policy

Crummer/SunTrust Portfolio Investment Policy, Revised January 2003

Crummer/SunTrust Portfolio

Crummer/SunTrust Portfolio is an exempt portfolio for federal income tax purposes. The SunTrust Banks of Central Florida Foundation contributed all of the Crummer/SunTrust Portfolio initial assets and no additional contributions are expected after the $500,000 contributions have been completed. The specific purpose for which the Crummer/SunTrust Portfolio was established is to provide students at the Crummer Graduate School of Business with a "real world" experience in portfolio management. The Crummer/SunTrust Portfolio expects to exist in perpetuity. The only required distribution is the funding of scholarships. The approach for funding scholarships for SunTrust Scholars is to adopt a variation of the model for endowment distribution currently employed by Rollins College. That is, funds for scholarships will be made available annually on the basis of five percent of the three-year moving average of the portfolio's market value. The valuation date of the portfolio will be at calendar year-end. If the Rollins spending rate or model changes over the years, the funding of SunTrust Scholars would remain consistent with the Rollins approach.

Governance

An Oversight Committee, consisting of industry practitioners selected by SunTrust, a member of the Rollins College Board of Trustees, if the Board so chooses, a member selected by the Vice President of Finance at Rollins College and a Crummer faculty member, provide the guidance for the Crummer/SunTrust Portfolio. The overall philosophy of the Oversight Committee is one of oversight and not direct portfolio management. Changes in the portfolio are made by the Oversight Committee only in the presence of events in the capital markets or for individual securities in the portfolio having the potential to significantly impact the performance of the portfolio. No transactions for the portfolio can be undertaken that are contrary to the gift agreement, if any, set by SunTrust or to applicable Rollins College Trustee policies as presented in The ENDOWMENT FUND POOL STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES of the Rollins Trustees as it relates to asset vehicles.

Introduction

This policy presents the investment process of the Crummer/SunTrust Portfolio. The current members of the class in FIN 609, Portfolio Management/Theory and Practice, have prepared this policy in consultation with the Instructor and the approval of the appropriate representative of the Rollins administration.

Investment Goals

The investment goal is to provide a long-term, real total rate of return that will increase the purchasing power of the Crummer/SunTrust Portfolio assets net of expenses and distributions. In order to achieve its investment goal, the Crummer/SunTrust Portfolio will adopt a strategic asset allocation that will achieve its long-term return goal with a prudent level of volatility.

Long-Term Investor

The Crummer/SunTrust Portfolio will exist in perpetuity. As such, it is a long-term investor who seeks a high rate of return consistent with reasonable volatility. The Crummer/SunTrust Portfolio understands that allocating asset among asset classes, among investment styles and strategies within asset classes can reduce volatility. The Crummer/SunTrust Portfolio will adopt strategic targets for each asset class and will, from time to time, rebalance among asset classes and investment styles and strategies to maintain its strategic targets.

Rate of Return

The Crummer/SunTrust Portfolio will adopt a target rate of return that incorporates the Crummer/SunTrust Portfolio investment goals and spending policy. It is recognized that the target rate of return, investment goals and volatility are interrelated and must be viewed as such. It is also recognized that the investment horizon of the Crummer/SunTrust Portfolio is long term (perpetuity) and the target rate of return will reflect that long-term view. The current target rate of return goal in accordance with the Crummer/SunTrust Portfolio spending policy is attached as Appendix A.

Income, Appreciation and Gains

The Crummer/SunTrust Portfolio recognizes that the Crummer/SunTrust Portfolio pays no taxes on investment income and, therefore, the investments are not tax sensitive. Its distributions are not limited by income and, therefore, the Crummer/SunTrust Portfolio will ignore income and principal analysis when implementing its investment goals and implementing its spending policy.

Cash Flow

Because it will exist in perpetuity, the only required cash flow needs are to cover expenses of portfolio administration, asset acquisition costs and scholarship funding.

Performance/Style Measurement

The Crummer/SunTrust Portfolio has adopted a market driven benchmark for each asset class and management style. For the portfolio as a whole, the Crummer/SunTrust Portfolio will adopt a benchmark that consists of a suitable passive index for each asset class weighted in accordance with the overall portfolio asset allocation and style allocation. The Crummer/SunTrust Portfolio will also adopt appropriate peer group data to measure the performance of the portfolio. The peer group database is shown in Exhibit B. The performance measurement will include an analysis of adherence to the investment styles set forth in Exhibit B.

Security Voting

The members of the class will recommend portfolio composition to the Oversight Committee. The Oversight Committee retains the right to make changes in the class recommendations.

Specific Functions of the Class and the Oversight Committee

- Establish investment objectives for the portfolio.
- Establish and review its spending policy.
- Set strategic asset allocation for the Crummer/SunTrust Portfolio.
- Establish and continue to update the investment policy.
- Establish, monitor and update the investment process.
- Review investment performance in accordance with its performance measurement policy.
- Review investment activity to insure compliance with investment policy.

Asset Allocation

- To achieve its investment objective the Crummer/SunTrust Portfolio's assets shall be allocated among various asset classes. The strategic asset classes adopted are outlined in Appendix B. It is recognized that the asset classes selected may be modified as appropriate.

- The Crummer/SunTrust Portfolio investments will be allocated among asset classes and diversified within asset classes. Within each asset class, securities, for example, will be allocated further by economic sector, industry, quality and size. The purpose of allocation and diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on performance of the total fund. As a result, the unsystematic risk associated with the portfolio should be significantly reduced.

- No individual asset in the portfolio may represent more than 5% of the total market value of the portfolio[1]. In any asset class, no more than 20% at investment cost may be held in the securities of a single issuer. Each asset class will have as a target a minimum of 5% of the portfolio value.

- Allocation by investment style is also an important step in reducing the risk of the portfolio. Investment styles within equity asset classes are generally defined as follows:

    - Value Equity Style – Investment in companies believed to be undervalued or possessing lower than average price/earnings or price/book ratios, based on their potential for capital appreciation. In general, these will be dividend paying equities[2].

    - Growth Equity – Investment in companies that are expected to have above average prospects for long-term growth in earnings and profitability.

    - Small Cap Equity Style – Investment in companies with total market capitalization of less than one billion dollars.

    - Mid Cap Equity Style – Investment in companies with total market capitalization of one billion to eight billion dollars.

    - Large Cap Equity Style – Investment in companies with total market capitalization greater than eight billion dollars.

    - International Equity – International equity investments are permitted in listed equity securities traded on developed non-U.S. markets. Developed markets are defined as those included in the Morgan Stanley Capital International, Inc. Europe Asia Far East (MSCI EAFE) Index plus Canada. American Depository Receipts (ADRs) traded on major U.S. markets are considered to be domestic securities. International equity investments are also permitted through mutual funds.

---

[1] An exception to this allocation may be a mutual fund, exchange traded fund, or a bond portfolio. For example, if an asset, such as QQQ, represents an index of a particular type of securities, it may not exceed 10% of the market value of the portfolio.

[2] Classifications by Standard & Poor's will be the determinant for investment styles.

Custodian

SunTrust Bank will be the custodian for the assets of the Crummer/SunTrust Portfolio.

Rebalancing Procedure

Should the range for a particular management style be violated by reason of gains, losses, or any other reason, the Oversight Committee will meet or conference to decide whether to rebalance the assets to the target class and style allocation policies. In addition, the Oversight Committee shall review the actual allocations at regular intervals in order to insure conformity with the adopted strategic allocation. The assets will not be automatically rebalanced on any set schedule.

Appendix A.1 – Spending Policy of the Crummer/SunTrust Portfolio

Administrative and Trading Expenses	½ - ¾%
Allowance for Inflation	2 - 3%
Distribution from Portfolio[3]	4 - 6%
Portfolio Real Growth	1 - 2%
Target Total Return	**7 ½ - 11 ¾ %**

[3] The distribution policy is 5% of the trailing three year average of the portfolio. Therefore, in any one year the distribution may be greater or less than 5% depending on prior performance.

APPENDIX A.2 – Crummer SunTrust Portfolio Equity Portfolio Guidelines

Asset Class	Minimum Weight	Benchmark
Large Cap - Growth	5%	Fama-French Large Growth TR
Large Cap - Value	5%	Fama-French Large Value TR
Mid Cap - Growth	5%	Wilshire Target Mid-Cap Growth TR
Mid Cap – Value*	5%	Wilshire Target Mid-Cap Value TR
Small Cap - Growth	5%	Fama-French Small Growth TR
Small Cap – Value*	5%	Fama-French Small Value TR
International Equity	5%	MSCI - EAFE TR
Fixed Income	5%	Portfolio weighted average of LB Govt/Credit indices as appropriate

* May include REIT(s)

Appendix B: Most recent portfolio statement of account

SUNTRUST

Trust and Investment Services

STATEMENT OF ACCOUNT FOR THE PERIOD

MAR 01, 2003 THROUGH MAR 31, 2003

FOR

SUNTRUST BANK
AS CUSTODIAN U/A WITH ROLLINS
COLLEGE / CRUMMER STUDENT
INVESTMENT ACCOUNT DTD 5/6/1999

ACCOUNT 54-30-056-5617400

ACCOUNT ADMINISTRATOR:

PAULA MCREYNOLDS 800-406-4637

PORTFOLIO MANAGER:

NO INVEST AUTHORITY 999-999-9999

ROLLINS COLLEGE
CRUMMER GRADUATE SCHOOL
ATTN: DEAN MOSES
1000 HOLT AVENUE, BOX 2715
WINTER PARK, FL
32789

TABLE OF CONTENTS

SUNTRUST

Trust and Investment Services

MARKET VALUE SUMMARY

03/01/03 THROUGH 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

	TOTAL INCOME	TOTAL PRINCIPAL	ACCOUNT TOTA
MARKET VALUE AS OF 03/01/03	9,253.71	304,696.52	313,950.
RECEIPTS AT MARKET VALUE			
INTEREST-TAXABLE	6.29		6.
DIVIDENDS	148.69		148.
TOTAL RECEIPTS AT MARKET VALUE	154.98		154.
DISTRIBUTIONS AT MARKET VALUE			
ADMINISTRATIVE EXPENSES	-119.78		-119.
TOTAL DISTRIBUTIONS AT MARKET VALUE	-119.78		-119.
NET RECEIPTS/DISTRIBUTIONS	35.20		35.
CHANGE IN MARKET VALUE THIS PERIOD		10,287.18	10,287.
MARKET VALUE AS OF 03/31/03	[illegible]	[illegible]	[illegible]

SUNTRUST

Trust and Investment Services

PORTFOLIO SUMMARY

AS OF 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

MAJOR INVESTMENT CLASS	MARKET VALUE	% MKT VALUE	TAX COST	ESTIMATED ANNUAL INCOME	YLD AT MARKET
INCOME ACCOUNT					
SHORT TERM INVESTMENTS	9,288.91	2.86	9,288.91	75.88	.8
TOTAL INCOME ACCOUNT	9,288.91	2.86	9,288.91	75.88	.8
PRINCIPAL ACCOUNT					
SHORT TERM INVESTMENTS	391.26	.12	391.26	3.20	.8
BONDS	31,931.40	9.85	29,545.31	1,800.00	5.6
COMMON STOCKS	282,661.04	87.17	355,374.68	4,695.26	1.6
TOTAL PRINCIPAL ACCOUNT	314,983.70	97.14	385,311.25	6,498.46	2.0

[redacted]

PORTFOLIO DETAIL

AS OF 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

PAR VALUE /SHARES	ASSET DESCRIPTION	MARKET VALUE / MARKET PRICE	% SECTOR AT MKT	% TOTAL AT MKT	TAX COST /PER UNIT	ESTIMATED ANNUAL INCOME	MKT YLD /TO MAT
	INCOME PORTFOLIO						
	SHORT TERM INVESTMENTS						
	MONEY MARKET FUNDS						
9,288.910	STI CLASSIC FD-PRIME MM (INCOME INVESTMENT)	9,288.91 1.000	100.00	2.865	9,288.91 1.000	75.88	0.817 0.000
	TOTAL MONEY MARKET FUNDS	9,288.91	100.00	2.865	9,288.91	75.88	0.817
	TOTAL SHORT TERM INVESTMENTS	9,288.91	100.00	2.865	9,288.91	75.88	0.817
	TOTAL INCOME PORTFOLIO	9,288.91	100.00	2.865	9,288.91	75.88	0.817
	PRINCIPAL PORTFOLIO						
	SHORT TERM INVESTMENTS						
	MONEY MARKET FUNDS						
391.260	STI CLASSIC FD-PRIME MM	391.26 1.000	100.00	0.121	391.26 1.000	3.20	0.818 0.000
	TOTAL MONEY MARKET FUNDS	391.26	100.00	0.121	391.26	3.20	0.818
	TOTAL SHORT TERM INVESTMENTS	391.26	100.00	0.121	391.26	3.20	0.818
	BONDS						
	GOVERNMENT						
30,000.000	UNITED STATES TREASURY NOTES DTD 08/16/99 6.00% 08/15/2004	31,931.40 106.438	100.00	9.847	29,545.31 98.484	1,800.00	5.637 1.241

PORTFOLIO DETAIL

AS OF 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

PAR VALUE /SHARES	ASSET DESCRIPTION	MARKET VALUE / MARKET PRICE	% SECTOR AT MKT	% TOTAL AT MKT	TAX COST /PER UNIT	ESTIMATED ANNUAL INCOME	MKT YLD /TO MAT
	TOTAL GOVERNMENT	31,931.40	100.00	9.847	29,545.31	1,800.00	5.637
	TOTAL BONDS	31,931.40	100.00	9.847	29,545.31	1,800.00	5.637
	COMMON STOCKS						
	CONSUMER DISCRETIONARY						
227.000	BLACK & DECKER CORP COM	7,913.22 34.860	2.80	2.440	10,266.41 45.226	108.96	1.377 0.000
160.000	HARLEY DAVIDSON INC COM	6,353.60 39.710	2.24	1.959	8,598.40 53.740	22.40	0.353 0.000
515.000	TALBOTS INC COM	13,256.10 25.740	4.69	4.088	18,035.30 35.020	185.40	1.399 0.000
435.000	UNITED RENTALS INC COM	4,184.70 9.620	1.48	1.290	11,044.65 25.390	0.00	0.000 0.000
281.000	WAL-MART STORES INC COM	14,620.43 52.030	5.17	4.509	16,092.97 57.270	101.16	0.692 0.000
	TOTAL CONSUMER DISCRETIONARY	46,328.05	16.39	14.286	64,037.73	417.92	0.902
	CONSUMER STAPLES						
258.000	ANHEUSER BUSCH INC COM	12,025.38 46.610	4.25	3.708	9,695.36 37.579	201.24	1.673 0.000
740.000	MCCORMICK & CO INC COM NON VTG	17,863.60 24.140	6.32	5.509	18,870.00 25.500	325.60	1.823 0.000
141.000	PROCTER & GAMBLE CO COM	12,556.05 89.050	4.44	3.872	8,650.85 61.354	231.24	1.842 0.000

PORTFOLIO DETAIL

AS OF 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

PAR VALUE /SHARES	ASSET DESCRIPTION	MARKET VALUE / MARKET PRICE	% SECTOR AT MKT	% TOTAL AT MKT	TAX COST /PER UNIT	ESTIMATED ANNUAL INCOME	MKT YLD /TO MAT
2.000	SMUCKER J M CO COM NEW	69.94 34.970	0.02	0.022	44.71 22.355	1.60	2.288 0.000
300.000	SYSCO CORP COM	7,632.00 25.440	2.70	2.354	8,637.00 28.790	132.00	1.730 0.000
	TOTAL CONSUMER STAPLES	50,146.97	17.74	15.465	45,897.92	891.68	1.778
	ENERGY						
1,050.000	HOLLY CORP COM	30,072.00 28.640	10.63	9.274	18,669.00 17.780	462.00	1.536 0.000
	TOTAL ENERGY	30,072.00	10.63	9.274	18,669.00	462.00	1.536
	FINANCIALS						
366.000	CITIGROUP INC COM	12,608.70 34.450	4.46	3.888	14,322.78 39.133	292.80	2.322 0.000
200.000	CITY NATL CORP COM	8,788.00 43.940	3.10	2.710	10,956.00 54.780	164.00	1.866 0.000
397.000	MBNA CORP COM	5,974.85 15.050	2.11	1.843	9,416.84 23.720	127.04	2.126 0.000
15.000	TRAVELERS PPTY CAS CORP NEW CL A COM	211.35 14.090	0.07	0.065	283.70 18.913	3.60	1.703 0.000
32.000	TRAVELERS PPTY CAS CORP NEW CL B COM	451.52 14.110	0.16	0.139	658.74 20.586	7.68	1.701 0.000
	TOTAL FINANCIALS	28,034.42	9.91	8.645	35,638.06	595.12	2.123
	HEALTH CARE						
225.000	CARDINAL HEALTH INC COM	12,818.25 56.970	4.53	3.953	15,545.25 69.090	22.50	0.176 0.000

PORTFOLIO DETAIL

AS OF 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

PAR VALUE /SHARES	ASSET DESCRIPTION	MARKET VALUE MARKET PRICE	% SECTOR AT MKT	% TOTAL AT MKT	TAX COST /PER UNIT	ESTIMATED ANNUAL INCOME	MKT YLD /TO MAT
152.000	HCA - THE HEALTHCARE CO COM	6,286.72 41.360	2.22	1.939	4,906.84 32.282	12.16	0.193 0.000
200.000	PFIZER INC COM	6,232.00 31.160	2.20	1.922	7,917.64 39.588	120.00	1.926 0.000
	TOTAL HEALTH CARE	25,336.97	8.96	7.814	28,369.73	154.66	0.610
INDUSTRIALS							
69.000	CATERPILLAR INC COM	3,394.80 49.200	1.20	1.047	2,933.99 42.522	96.60	2.846 0.000
245.000	DANAHER CORP COM	16,111.20 65.760	5.70	4.968	17,539.55 71.590	24.50	0.152 0.000
183.000	GENERAL ELEC CO COM	4,666.50 25.500	1.65	1.439	7,270.08 39.727	139.08	2.980 0.000
335.000	MASCO CORP COM	6,237.70 18.620	2.20	1.924	9,366.60 27.960	187.60	3.008 0.000
75.000	UNITED PARCEL SVC INC CL B COM	4,275.00 57.000	1.51	1.318	4,765.44 63.539	63.00	1.474 0.000
	TOTAL INDUSTRIALS	34,685.20	12.27	10.696	41,875.66	510.78	1.473
MATERIALS							
207.000	DOW CHEM CO COM	5,715.27 27.610	2.02	1.762	7,363.32 35.572	277.38	4.853 0.000
	TOTAL MATERIALS	5,715.27	2.02	1.762	7,363.32	277.38	4.853
UTILITIES							
214.000	MIRANT CORP COM	342.40 1.600	0.12	0.106	8,457.28 39.520	0.00	0.000 0.000

PORTFOLIO DETAIL

AS OF 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

PAR VALUE /SHARES	ASSET DESCRIPTION	MARKET VALUE / MARKET PRICE	% SECTOR AT MKT	% TOTAL AT MKT	TAX COST /PER UNIT	ESTIMATED ANNUAL INCOME	MKT YLD /TO MAT
	TOTAL UTILITIES	342.40	0.12	0.106	8,457.28	0.00	0.000
	MUTUAL FUNDS - EQUITY						
1,270.334	FIDELITY INVT TR EURO CAPITAL APPREC FD	15,764.84 12.410	5.57	4.862	22,263.04 17.525	241.36	1.531 0.000
856.911	FIDELITY PACIFIC BASIN FUND	10,120.12 11.810	3.58	3.121	19,023.89 22.201	959.74	9.483 0.000
524.500	MONTGOMERY FDS MONTGOMERY EMERGING MKTS	3,891.79 7.420	1.37	1.200	5,752.00 10.967	184.62	4.744 0.000
603.000	NASDAQ 100 TRUST UNIT SERS 1 SHRS	15,225.75 25.250	5.38	4.695	34,499.60 57.213	0.00	0.000 0.000
1,343.657	STI CLASSIC FD-SM CAP GROWTH TRUST SHRS	16,997.26 12.650	6.01	5.242	23,527.45 17.510	0.00	0.000 0.000
	TOTAL MUTUAL FUNDS - EQUITY	61,999.76	21.93	19.120	105,065.98	1,385.72	2.235
	TOTAL COMMON STOCKS	282,661.04	100.00	87.168	355,374.68	4,695.26	1.661
	TOTAL PRINCIPAL PORTFOLIO	314,983.70	100.00	97.136	385,311.25	6,498.46	2.063
	TOTAL INVESTED ASSETS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	UNINVESTED PRINCIPAL CASH	0.00			0.00		
	UNINVESTED INCOME CASH	0.00			0.00		
	TOTAL ASSETS	[illegible]			[illegible]		

SUNTRUST

Trust and Investment Services

STATEMENT OF TRANSACTIONS

03/01/03 THROUGH 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

DATE	DESCRIPTION	PAR VALUE /SHARES	INCOME CASH	PRINCIPAL CASH	T/ CO
[illegible]					
03/03/03	STI CLASSIC FD-PRIME MM INCOME FOR THE MONTH ENDING 02/28/03		6.01		
03/03/03	STI CLASSIC FD-PRIME MM INCOME FOR THE MONTH ENDING 02/28/03		.28		
03/03/03	HCA - THE HEALTHCARE CO COM DIVIDEND @ .02 ON 152		3.04		
03/03/03	SMUCKER J M CO COM NEW DIVIDEND @ .20 ON 2		.40		
03/10/03	ANHEUSER BUSCH INC COM DIVIDEND @ .195 ON 258		50.31		
03/11/03	UNITED PARCEL SVC INC CL B COM DIVIDEND @ .21 ON 75		15.75		
03/24/03	HARLEY DAVIDSON INC COM DIVIDEND @ .035 ON 160		5.60		
03/24/03	TALBOTS INC COM DIVIDEND @ .09 ON 515		46.35		
03/28/03	BLACK & DECKER CORP COM DIVIDEND @ .12 ON 227		27.24		
03/31/03	SUNTRUST MGMT FEES POSTED THRU 03/31/03		-119.78		
03/31/03	STI CLASSIC FD-PRIME MM AUTOMATIC CASH INVESTMENT PURCHASE	35.20	-35.20		35.2

STATEMENT OF TRANSACTIONS

03/01/03 THROUGH 03/31/03

ACCOUNT
54-30-056-5617400

ROLLINS COLLEGE C U

DATE	DESCRIPTION	PAR VALUE /SHARES	INCOME CASH	PRINCIPAL CASH	T CO

[redacted]

[redacted]