Michael Price Student Investment Fund

Annual Report

For the period

September 1, 2001 – August 31, 2002

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NYU Stern School of Business
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The Website for MPSIF is:

http://pages.stern.nyu.edu/~mpsif

MPSIF Portfolio

<u>MESSAGE FROM THE PRESIDENT</u>

We are pleased to present the MPSIF Annual Report to our Board of Advisors, staff and other interested parties. This report gives us the opportunity to inform you about our fund performance over the past twelve months. Furthermore, it allows us to share the results of our operational activities with you. The MPSIF staff reaffirms its mission:

> The Michael Price Student Investment Fund has been established to provide students of the Leonard N. Stern School of Business at New York University with practical investment management experience. The investment returns generated by the Fund will be used to provide scholarships to selected students from the Michael F. Price College of Business at the University of Oklahoma for study at the Stern School, and to support other educational activities at the Stern School of Business.

The annual report is presented in the following order:

- MPSIF Portfolio
- Growth Fund
- Small Cap Fund
- Value Fund
- Fixed Income Fund

While fiscal 2002 was a challenging year for many fund managers, we still managed to outperform our benchmark. Whether we did it because of skills or pure luck is hard to tell, but one thing we know for sure is: "<u>This was a tremendous learning experience for us, and we had fun doing it.</u>" We would like to thank Michael Price for his gift, without which, there would not be a fund for Stern students to manage. We also wish to thank Professors Michael Keenan and Fred Renwick for their guidance throughout the year, and all those MPSIF analysts who contributed to the creation of this annual report. Last but not least, we would like to thank Bryan Lapidus, Spring 2002 MPSIF President , for starting many initiatives that we will accomplish this year.

David Liang,
MPSIF President

REVIEW OF OPERATIONS AND POLICY

We have numerous initiatives in the past 12 months which are either completed or in process.

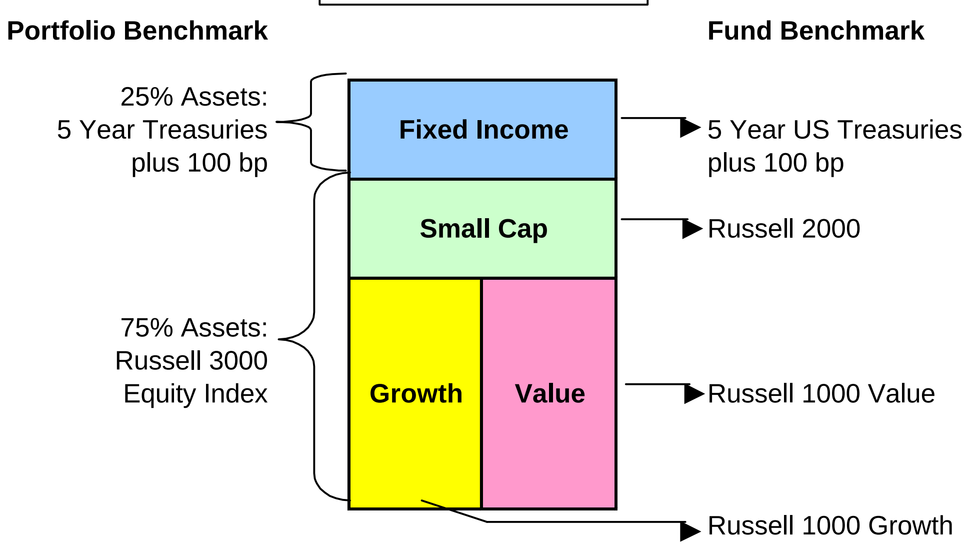
- **Separate fixed income from equity.** MPSIF has separated the fixed income component of the fund from the equity (and cash for equity). This allows for a single FI strategy with a dedicated staff. Two representatives from each of the funds meet once per month with the FI Portfolio Manager to ensure the FI holdings are meeting the MPSIF goals, allocations, and risk tolerances. The separation took effect on May 1, 2002. Each spring semester the funds collectively will review whether to increase or decrease the target allocated to the fixed income component. The initial target was set at slightly more than 25% in fixed income.
- **Increased centralization of investment management.** MPSIF is attempting to improve coordination among the three equity funds to ensure the success of the overall portfolio. For more information, see the sections that follow on Portfolio Allocation and Risk Measures.
    - One of the key tenets of our centralization effort is establishment of risk targets for separate components of the fund. More detail is presented below.
    - Other coordination efforts include combined market strategy reports in class each week, the MPSIF-wide breakout of stocks by sector allocation, and an aggregate MPSIF comparison to the overall benchmark.
- **Self-audit.** MPSIF has undertaken a self-audit in February, designed to ensure that all trades over the funds' history are properly accounted for. Included in this yearly audit will be a peer review of the annual financial statements.
- **Marketing.** MPSIF has taken steps to raise its profile within Stern, and to help Stern raise its profile among potential employers and students. The deans of Admission, OCD and Public Relations have endorsed this effort, and in the process learned more about what we do.
- **Alumni outreach.** We have attempted to contact all MPSIF alumni, with varying degrees of success. Those who we have reached have enthusiastically volunteered to be involved with the fund and current students on a variety of levels. We are still exploring how to best utilize our alumni as a resource.
- **MPSIF Handbook.** To help new MPSIF students in their roles, promote consistency across management of the four sub-funds, and gather the best practices from our experience, we wrote a handbook that contains MPSIF policies, procedures and references. We envision this as a growing document that will continue to help MPSIF develop its management and investing techniques.

PORTFOLIO BENCHMARK

Our benchmark is structured as follows:

- 25% fixed income weighting, relative to 5-year US Treasuries plus 100bp.

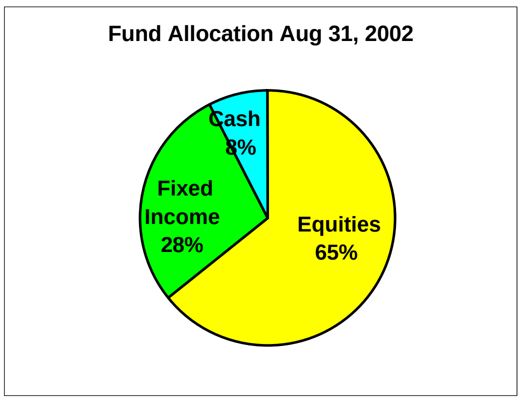
- 75% equity, relative to the Russell 3000 Equity Index. This index was chosen because it represents the aggregate of the indices of the three equity fund benchmarks:
  - Growth benchmark: Russell 1000 Growth Equity Index
  - Small Cap benchmark: Russell 2000 Equity Index
  - Value benchmark: Russell 1000 Value Equity Index

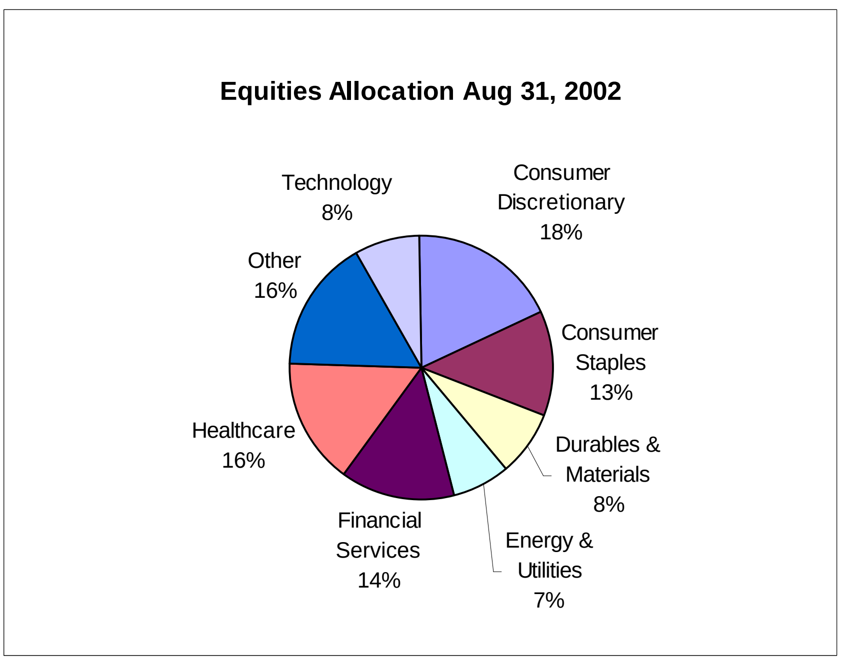


PORTFOLIO ALLOCATION

At the beginning of the fiscal year, our strategy was to allocate 75% of the funds to equities (plus cash), and the remaining to fixed income. Due to the unfavorable stock market, the cash position continued high throughout the year and we ended the year with 64% of our assets in equities, 8% in cash, and 28% in fixed income.

	Sept. 1, 2001		Aug. 31, 2002	
Fund	**Mkt. Val.**	**% Assets**	**Mkt. Val.**	**% Assets**
Growth	$277,830	14.7%	$230,063	14.2%
Small Cap	418,263	22.1%	421,281	26.0%
Value	523,931	27.6%	386,361	23.9%
Equities	$1,220,024	64.4%	$1,037,705	64.1%
Fixed Income	501,859	26.5%	460,492	28.4%
Cash	173,896	9.2%	121,356	7.5%
Total Portfolio	$1,895,779	100.0%	$1,619,553	100.0%





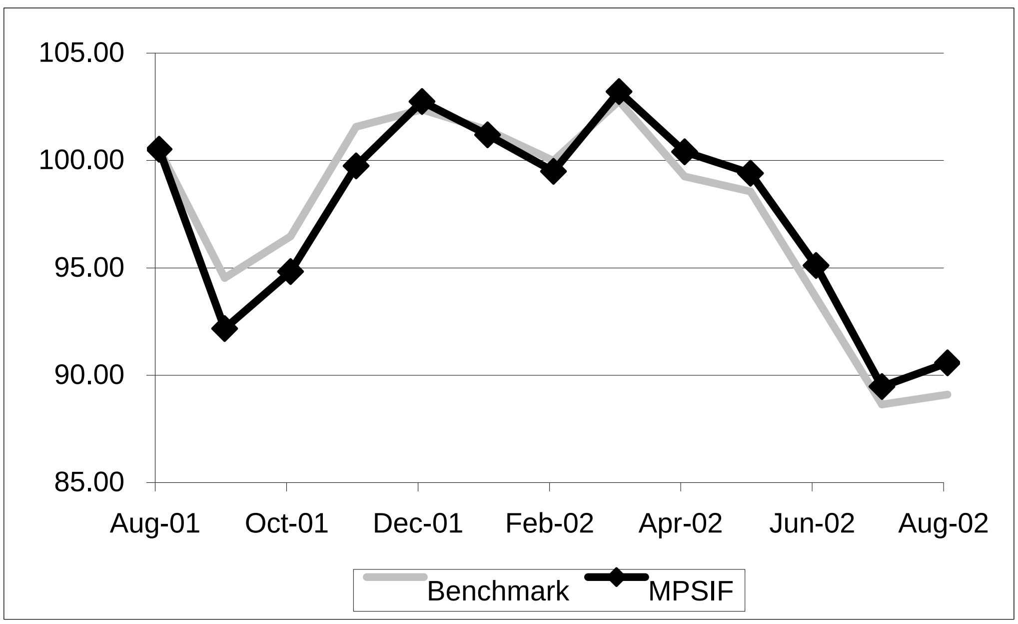
PORTFOLIO PERFORMANCE

Fiscal 2002 was a difficult year for many portfolio managers. Nevertheless, excluding withdrawal, we managed to outperform our blended benchmark by 149bp. The table below shows our average return compared to our benchmark in the past twelve months.

Average Return Per "Period"

Period	Blended Benchmark	MPSIF	Outperformance / (Underperformance)
1 Month	-0.95%	-0.79%	0.16%
3 Months	-1.96%	-1.09%	0.87%
6 Months	-3.44%	-1.65%	1.79%
12 Months	-11.42%	-9.94%	1.49%

"6 Months" is average of the six 6-month periods in the year.



PORTFOLIO RISK MEASURES

Jensen's Alpha

A portfolio's alpha measures its risk adjusted return and shows the value added by active management. It is the Y-intercept in the regression that compares the portfolio's return vis-a-vie the risk-free rate against the Benchmark Portfolio's return vis-a-vie the risk-free rate.

MPSIF's twelve-month alpha excluding the effect of withdrawal is 0.064; while our alpha for the last six months is 0.041.

Beta

Beta measures the volatility of the MPSIF portfolio relative to the Benchmark Portfolio, which is assumed to have a base of 1.0. It is calculated in the same regression as alpha, but is the variable coefficient (slope of the regression).

Our beta, relative to the Benchmark Portfolio, excluding the effect of withdrawal, was 0.675. This suggests that MPSIF's volatility was less than that of a passive strategy with similar allocations. We use all data points since the funds' inception to calculate beta.

Sharpe Ratio

The Sharpe ratio is another measure of risk-based returns. It is defined as portfolio return relative to its benchmark divided by standard deviation of returns, and therefore rewards management's performance based on growth of assets and also low volatility.

Our Sharpe ratio was 0.282 for the past year and 0.339 for the last six months.

Treynor Ratio

Treynor ratio is similar to the Sharpe ratio; but the Treynor ratio divides relative portfolio return to the portfolio beta instead of standard deviation.

MPSIF's Treynor ratio was 0.022 for the last twelve months and 0.024 for the last six months.

Overall Risk-Adjusted Performance

The table below summarizes the calculation for each fund (with the exception of Fixed Income because of lack of data points). *Overall, the table shows that excluding withdrawal, we outperformed our benchmark in the past twelve months, and we did it with less risk (less volatility).*

	MPSIF	MPSC	MPV	MPG
Alpha				
Monthly	0.009	0.006	0.008	(0.004)
3 Months	0.026	0.020	0.026	(0.010)
6 Months	0.041	0.039	0.057	(0.039)
12 Months	0.064	0.083	0.167	(0.106)
Beta				
Monthly	0.921	0.602	0.956	0.470
3 Months	0.915	0.505	0.998	0.499
6 Months	0.757	0.481	0.995	0.328
12 Months	0.675	0.566	1.514	0.196
Sharpe				
Monthly	0.031	0.191	0.009	(0.064)
3 Months	0.164	0.288	0.054	(0.220)
6 Months	0.339	0.449	0.030	(0.356)
12 Months	0.282	2.404	0.075	(0.561)
Treynor				
Monthly	0.002	0.018	0.001	(0.019)
3 Months	0.009	0.033	0.004	(0.061)
6 Months	0.024	0.055	0.002	(0.149)
12 Months	0.022	0.248	0.003	(0.392)

MPSIF FINANCIAL STATEMENTS

Year Ending August 31, 2002

CASH FLOW FROM OPERATIONS	Fiscal Year 2001	Fiscal Year 2002
Dividends	$54,026	$40,932
Interest	9,164	3,298
Investment Income	$63,190	$44,230
Expenses / Fees	9,421	9,997
Net Investment Income	**$53,769**	**$34,232**

CHANGE IN NET ASSETS	Fiscal Year 2001	Fiscal Year 2002
Net Investment Income	$53,769	$34,232
Realized Gain (Loss)	64,498	3,725
Unrealized Gain (Loss)	43,262	-173,193
Annual Withdrawal	-94,057	-97,343
Net Transfers	0	0
Mark to Market / Other Adj.	-70,130	-43,644
Net Change in Assets	**- $2,658**	**- $276,226**
Net Assets, Beginning of Period	$1,898,437	$1,895,779
Net Increase (Decrease)	-2,658	-276,226
Net Assets, End of Period	**$1,895,779**	**$1,619,553**

Notes: Net Assets are at Market Value.

Unrealized Gain (Loss) is the difference between original cost and End of Period market value. For securities purchased before the beginning of the year, a net "Mark to Market" calculation that reflects the difference between original cost and Beginning of Period market value is made to avoid double-counting the Unrealized Gain. In general, if the original cost is less than the Beginning of Period market value the "Mark to Market" variable will be negative.

GROWTH FUND

MESSAGE FROM THE PORTFOLIO MANAGER

Needless to say, the last two and a half years –and the last year in particular– have been difficult for anyone invested in the equity markets. Weak economic fundamentals, corporate malfeasance, accounting scandals, conflicts of interest at financial service firms, and world events have all contributed to one of the worst bear markets in the history of American capitalism. Large-cap growth stocks in particular have been extremely hard-hit; just as they led on the upside during the super-bull market of the nineties, so have they spearheaded the collapse in valuations more recently.

With a focus on large cap growth, our fund has reflected the problems with the overall market. Until this year, we had outperformed our index benchmark, largely because we had a significant percentage of our holdings in defensive sectors and cash, helping to cushion us from the effect of the falling markets. However, this hurt us during the 2001 fall semester, as we lagged our benchmark throughout the October-December rally. In the late winter and early spring, our outlook was for an improving economy and a recovery in the markets; accordingly, we deployed our cash and positioned our portfolio more aggressively. The accelerating deterioration of the market in the late spring and summer caught us by surprise, further exacerbating our sub-par returns over the last six and twelve month periods.

Our current outlook on the economy is cautious. The consumer has been the lone bright spot of the economy over the last year (helped by tax rebates and mortgage refinancing), but may be starting to weaken, and corporate spending is showing no signs of picking up. Therefore we are in the process of repositioning our portfolio accordingly. Of course, no one rings a bell at the bottom, and we are actively looking for signs that the economy is on the mend.

Though the market appears undervalued on measures such as the Fed interest rate model, we see few catalysts for an immediate protracted move to the upside. We do believe that the overall downside is limited from here. Therefore we are remaining invested, but we expect the growth sector to remain in a trading range through at least the end of the year, as lasting bottoms take time to form. We are in the process of carefully re-evaluating all our holdings and re-constructing the decision-making history for each stock. By learning from our mistakes of the past, we hope to pass the lessons on to future participants and avoid similar mistakes in the future.

Overall, we continue to look for companies to invest in that we believe offer the potential for above-market growth and have attractive risk-reward characteristics. Though the present prospects for the market appear dim, we continue to plan for the future, remembering that all markets turn eventually.

Douglas Creutz
October 2002

INVESTMENT STYLE AND STRATEGY

Investment Strategy: The fund strives for total return through capital appreciation and income. The Fund invests in growth stocks, characterized by long-term above-market earnings growth, taking into consideration the stock's price as related to its intrinsic value. We generally focus on firms with proprietary advantages operating in fast growing industries.

Objective: To achieve returns above those of the Russell 1000 Growth Index. This is consistent with our decision to split off the management of fixed income portion into a separate fund. Growth Fund is now essentially an equity-only fund.

Our Investment Process: We base our investment decisions on fundamental research. Throughout this process, we conduct in-depth financial and industry analysis in order to determine future growth drivers. We seek companies that we believe will continue their earnings momentum into the future, by investing in new markets, technology and capital, which will allow them to gain market share and participate in emerging market opportunities. Finally, we search for firms with financial strength, a distinct proprietary advantage and aggressive and capable management that will leverage this proprietary element.

Sell Discipline: We will consider reducing our exposure to a specific stock when:

- The issuer's growth rate deteriorates or its performance otherwise disappoints.
- The price of the security attains our price target or otherwise appears relatively high to our fund's analysts.
- The company publishes negative earnings announcements that could affect the long-term outlook and industry attractiveness.
- Unfavorable changes in management seem likely.
- Changes in our overall economic outlook dictate a re-weighting of our sector allocations.

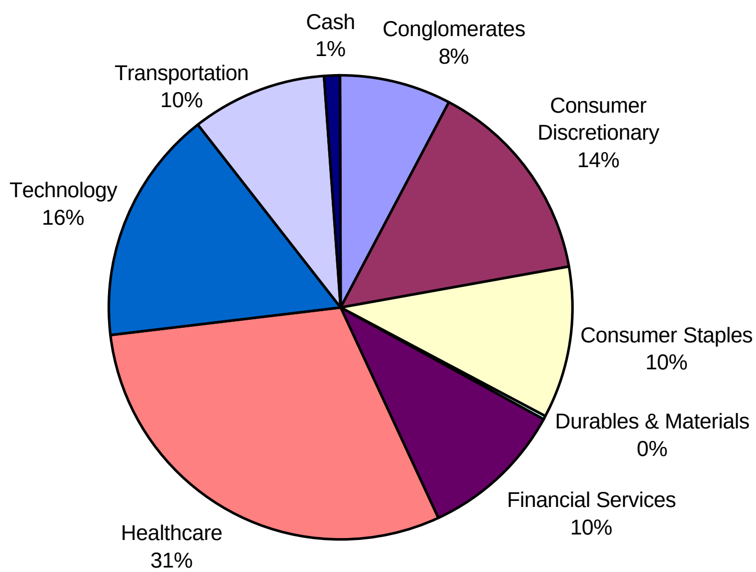
Why Growth Stocks?

- Growth companies, by definition, are the fastest growing companies in the economy. We believe that earnings growth is the principal factor in determining common stock prices over time.
- Thus, we believe investing in the fastest growing companies should lead to realization of potentially superior investment returns over the long term.
- The fastest growing companies also tend to be the most adaptable and dynamic companies within the economy. We believe these qualities should also lead to potentially superior returns for investors over the long term. Growth investing has especially outperformed other strategies when the overall growth rate of the market is positive.

ASSET ALLOCATION

The fund is currently underweight technology and consumer discretionary, and overweight consumer staples. In upcoming months, we look to add more to financial services, conglomerates, and durables and materials sectors.

A break down of our equity holdings by sector as of August 31, 2002 is shown below:

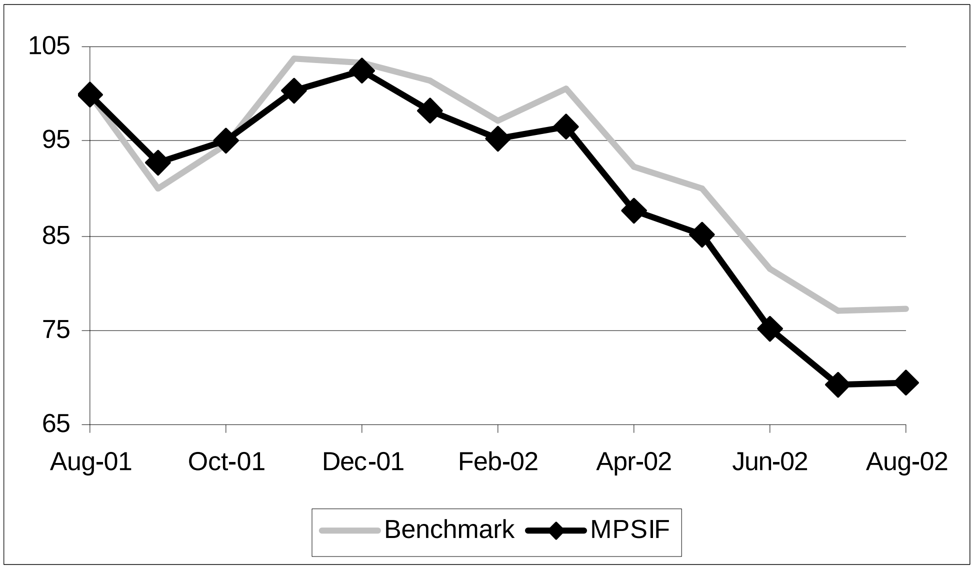


A breakdown of our asset class is shown below:

	Sept. 1, 2001		Aug. 31, 2002	
Growth Fund	**Mkt. Val.**	**% Assets**	**Mkt. Val.**	**% Assets**
Cash	$72,899	14.4%	$2,642	0.3%
Equities	277,830	54.9%	230,063	99.7%
Fixed Income	155,380	30.7%	0	0.0%
Total	$506,109	100.0%	$232,705	100.0%
Purchases			$306,770	
Sales			$378,596	

Note: $125,447 was transferred to Fixed Income on May 15, 2002

FUND PERFORMANCE



The Growth Fund underperformed its benchmark during the most recent six and twelve months. The fund's performance was affected by a defensive positioning during the post-9/11 rally, negative news announcements in some of our core holdings, as well as overexposure to areas of the economy which deteriorated further during the summer rather than rebounding as we had expected.

The fund began its fiscal year with assets of $506,109 at the beginning of September 2001. During the fiscal year, the Fund completed its annual 5% disbursement in May of 2002, releasing $24,423. Furthermore, the Fund turned over its fixed income assets, amounting to $125,447, to the Fixed Income group in May of 2002. The fund ended its fiscal year with assets of $232,705. Over the twelve-month period ending August 2002, the Fund (equity portion) underperformed its benchmark by 781 basis points, losing 30.60% versus a benchmark loss of 22.79%. Over the six-month period ending August 2002, the fund underperformed its benchmark by 666 basis points, losing 27.22% versus a benchmark loss of 20.56%.

For the equity-only portion of the Growth Fund, we also measured the internal rate of return for the fiscal year by (a) using our starting and ending equity positions, and (b) counting our sale and purchase executions as cash inflows and outflows (but excluding dividends). We then compared this to (1) the straight Russell 1000 Growth Index 12-month return, and (2) the hypothetical return we would have earned in the Russell 1000 Growth Index using equivalent purchase and sale amounts over the fiscal year. Results are as follows:

Equity-Only Internal Rates of Return, 9/1/01 – 8/31/02

Growth Fund	-38.9%
Russell 1000 Growth (Straight Return, No Inflows/Outflows)	-22.8%
Russell 1000 Growth (Assuming Fund Investment Pattern)	-25.2%

We remain confident that the fund will perform better in the next period, after taking into account appropriate changes in our portfolio and a revised perspective on the market in general.

FUND PROFILE

The following snapshot reflects the Growth Fund portfolio as of August 31, 2002. It also shows the break out of the Russell 1000 Growth Index by sector. While the fund does not expressly try to match exposure with the Russell 1000 Growth we do try to understand where we are taking overweight and underweight positions.

Company	Russell 1000 Growth Sector	Shares	Value	% Assets
AOL Time Warner	Conglomerates	502	6,350	2.7%
General Electric	Conglomerates	392	11,819	5.1%
Best Buy	Consumer Discretionary	457	9,688	4.2%
Home Depot	Consumer Discretionary	327	10,768	4.6%
Viacom B	Consumer Discretionary	325	13,228	5.7%
Budweiser	Consumer Staples	280	14,885	6.4%
Safeway	Consumer Staples	368	9,502	4.1%
Quanta Services	Durables & Materials	363	962	0.4%
AIG	Financial Services	139	$8,729	3.8%
Concord EFS	Financial Services	220	4,490	1.9%
Marsh & McLennan	Financial Services	200	9,730	4.2%
Amgen	Healthcare	317	14,275	6.1%
Bristol Myers Squibb	Healthcare	139	3,468	1.5%
Medtronic	Healthcare	275	11,325	4.9%
Pfizer	Healthcare	364	12,041	5.2%
Shire Pharma.	Healthcare	430	12,552	5.4%
Varian Medical Systems	Healthcare	387	16,459	7.1%
Checkpoint Software	Technology	784	13,133	5.6%
Citrix Systems	Technology	815	5,135	2.2%
Commscope	Technology	346	2,339	1.0%
FEIC	Technology	421	7,377	3.2%
IBM	Technology	70	5,277	2.3%
XM Satellite	Technology	790	4,290	1.8%
Harley Davidson	Transportation	285	14,031	6.0%
Southwest Airlines	Transportation	578	8,213	3.5%
Total Equity			**$230,063**	**98.9%**
Cash			2,642	1.1%
Total Assets			**$232,705**	**100.0%**

GROWTH FUND FINANCIAL STATEMENTS

Year Ending August 31, 2002

CASH FLOW FROM OPERATIONS

Dividends	$8,976
Interest	1,010
Investment Income	$9,986
Expenses / Fees	2,221
Net Investment Income	**$7,765**

CHANGE IN NET ASSETS

Net Investment Income	$7,765
Realized Gain (Loss)	-71,180
Unrealized Gain (Loss)	-103,318
Annual Withdrawal	-24,423
Net Transfers	-125,447
Mark to Market / Other Adj.	43,199
Net Change in Assets	**-$273,404**
Net Assets, Beginning of Period	$506,109
Net Increase (Decrease)	-273,404
Net Assets, End of Period	**$232,705**

Notes: Net Assets are at Market Value. $125,447 was transferred to Fixed Income on May 15, 2002. See page 10 for a discussion of the "Mark to Market" adjustment.

MPSIF GROWTH FUND MANAGEMENT TEAM

Daniel Aznar – Market Strategist; Analyst, Consumer Discretionary
Prior to joining the Growth Fund, Daniel worked as a general manager in the restructuring of a chemical manufacturing company. Previously he spent two years as a financial analyst at a real estate firm in Barcelona, and four years at Hewlett Packard as a procurement manager for the Inkjet European Division. Daniel holds a bachelor's degree in Economics-Mathematics from Columbia University.

Neelam Bhandari – Trader; Analyst, Technology
Before joining the Growth Fund, Neelam worked for her family-owned asset management firm, L. C. Bhandari & Co. Neelam received her BSc and BA in Finance and International Studies from the University of Pennsylvania. After graduating, she spent some time at a litigation consulting firm and the capital markets group of a bank before joining her family business and later pursuing her MBA at NYU.

Benjamin Troy Bubeck – Fixed Income Representative; Analyst, Consumer Discretionary
Prior to joining the Growth Fund, Benjamin spent three years as a credit analyst/relationship manager at Union Bank of California in the corporate banking department. Benjamin also spent his MBA summer internship at Nicholas Applegate Capital Management, a predominantly growth oriented fund located in San Diego, California. He has recently passed the 2002 Level III CFA examination and holds an undergraduate degree in business administration from the University of San Diego.

Rafael Buerba – Treasurer; Analyst, Conglomerates & Energy
Prior to joining the Growth Fund, Rafael spent three years as an Equity Analyst at Citigroup in Mexico, covering the cement, housing and construction industries. Rafael holds a B.S. in Accounting from ITAM University.

Douglas Creutz – Portfolio Manager
Prior to coming to the Growth Fund, Douglas was a group health insurance underwriter for Prudential HealthCare and PacifiCare. He spent the summer of 2002 as an equity research intern at Lehman Brothers. Douglas received his bachelor's degree from Duke University and has a master's degree in economics from the California Institute of Technology. He has also managed his own investment portfolio since 1996. Douglas is a Level II candidate in the CFA program.

Joshua Evans, CFA – Fund Services Director; Analyst, Durables & Materials
Prior to joining the Growth Fund, Joshua spent five years with The Vanguard Group, Inc. He spent four years in Vanguard's Fixed Income Department; two years as a Fixed Income Trader, and two years as a Fixed Income Analyst. Joshua was awarded the Chartered Financial Analyst designation in 1999 and graduated from Auburn University in 1995.

Mona Hans – Managing Director of Research; Analyst, Consumer Staples
Mona is originally from New Delhi, India. Most recently, she lived in San Francisco, CA. She received her Bachelor in Business Administration in Finance from University of Texas at Arlington. Upon graduation, she worked at Carreker Corporation in Dallas, Texas as a Yield Management consultant. After leaving Carreker, she worked as a product manager for Thomson Financial. Now at Stern, she plans to major in Finance and Management.

Christopher Kwan – Communications Director; Analyst, Technology
Prior to joining the Growth Fund, Chris spent 5 years as a software engineer for Quantum Corporation and C-Cube Microsystems in Milpitas, California. Chris received his bachelor's degree in electrical engineering from the University of Hong Kong and has a master's degree in electrical engineering from the University of Michigan. He has been managing his stock portfolio since 1995 and is currently working toward his CFA.

David Lewis, CPA – Market Strategist; Analyst, Financial Services
Prior to joining the Growth Fund Dave Lewis spent four years as an auditor for the PriceWaterhouseCoopers Capital Markets practice in New York. This past summer Dave covered travel service companies as an equity research intern at CIBC World Markets. Dave has a CPA and is a CFA level II candidate. Dave received his undergraduate degree from Georgetown University.

Alicia Stewart – Fixed Income Representative; Analyst, Healthcare
Prior to joining the Growth Fund Alicia worked at Credit Suisse First Boston on the High Yield Capital Markets desk and at UBS Warburg in the Financial Sponsor Group. Alicia has an undergraduate degree from Dickinson College.

Charis Wong – Communications Director; Analyst, Healthcare
Prior to joining the Growth Fund, Charis spent four years in strategic planning and marketing at the Biomedical Sciences Group of the Singapore Economic Development Board. Charis received her master's degree in chemical engineering from the Imperial College of Science, Technology and Medicine in London and is currently working towards her CFA.

Ada Yu – VP for Audit; Analyst, Transportation
Prior to joining the Growth Fund, Ada spent two years in the treasury department of Goldman Sachs. She also worked at the equity sales desk of Merrill Lynch. Ada got her undergraduate degree in Business Administration from the Chinese University of Hong Kong.

SMALL CAP FUND

MESSAGE FROM THE CO-PORTFOLIO MANAGERS

The past year began with the events of September 11th, which impacted the nation both psychologically and economically. This event compounded the already difficult economic environment and forced the major indices to reach lows not experienced in years. Despite the volatile market environment, our fundamental approach to stock picking enabled us to significantly outperform our benchmark (Russell 2000).

There are a couple of factors which contributed to this good performance. In the months following September 11th, economists reiterated their belief in the rebound of the economy; however, fears about corporate governance, accounting scandals, and credit defaults have played a major role in damaging investor confidence. Most of the stocks in our portfolio are small enough to be industry pure plays, generally resulting in cleaner, more easily understood business models—something which most investors have been clamoring for. Our research-oriented stock selection process has allowed us to choose well-run, financially sound companies which avoided the major credit issues of larger firms in their sectors. Finally, our team remained conservative in tilting sector weightings away from the most volatile markets, giving up potential gains, but avoiding major blowups.

While the market and economic instability have lasted almost three years, we believe this volatility will continue. In recent months, the fear of war has dampened positive momentum in the market. On the positive side, certain sectors (such as the housing market) have been buoyed by extremely low interest rates. Consumer confidence, one of the main factors that has kept the economy afloat, has begun to waiver as a result of the sustained uncertainty. However, corporate inventories have been significantly reduced as companies have sharply cut production and consumption has only recently started to slow. With rates so low, we believe corporate managers will begin to use this cheap capital to build their businesses. In the near future, companies will begin to come up against much easier year over year comparisons, making upside surprises more likely.

While we believe the overall market will remain volatile, we still believe there is plenty of opportunity for prudent investing. As small cap managers, we succeed by finding diamonds in the rough. As such, we plan to continue striking quickly on our best ideas.

We believe over the next three years this strategy will reap rewards for the Stern endowment.

D. Scott Goldman and Aaron S. Meyer
October 2002

<u>INVESTMENT STYLE AND STRATEGY</u>

The objective of the Small Cap Fund equity portfolio ("the portfolio") is total return in excess of the return on the Russell 2000 through capital appreciation and dividends.

The portfolio will invest exclusively in US-traded equities with market capitalization of less than that of the largest component of the Russell 2000 index at the time of purchase. While the portfolio does not have an explicit bias towards "growth" or "value" investing, the substantial use of discounted cash flow analysis as a valuation tool may bias our portfolio slightly towards a price-to-earnings ratio lower than that of the Russell benchmark.

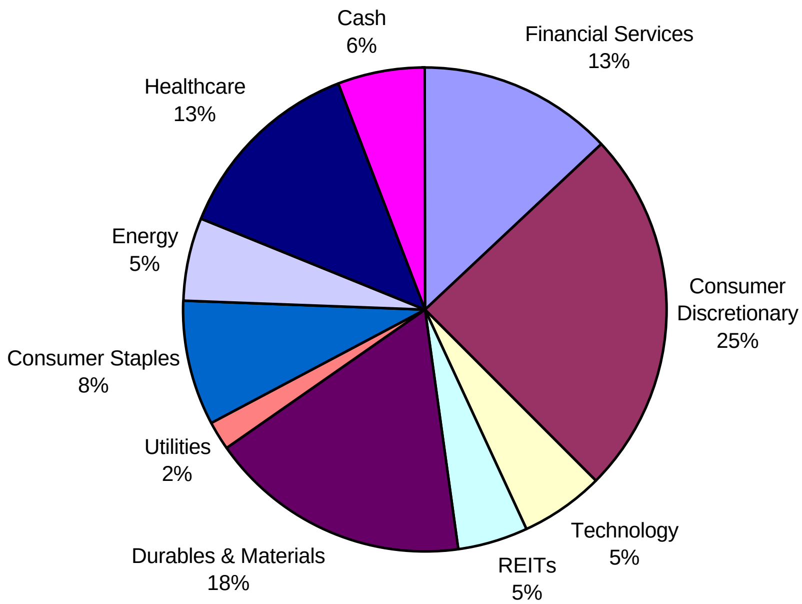
The Small Cap portfolio is intended to be a concentrated portfolio of 20 to 25 positions. Security selection is driven by bottom-up fundamental research. While the MPSIF Fund is not bound to strict sector guidelines, it is the aim of portfolio management to be continually aware of the portfolio's sector weights versus those of the benchmark; the fund may elect to over- or underweight specific sectors as appropriate.

Note: Effective January 1, 2002 the portfolio changed benchmarks from the S&P 600 to the Russell 2000, in part to allow the Michael Price Student Investment Fund (MPSF) as a whole to have a uniform benchmark (the Russell 3000).

Historically, the Small Cap portfolio has not taken positions in stocks with a market capitalization greater than that of the largest company in the benchmark index. As the largest company in the Russell 2000 is approximately half the size of that in the S&P 600 ($1.5 billion versus $3 billion), the portfolio currently holds positions in companies that are larger than our target range. Rather than jettison positions that we continue to find attractive, portfolio management has elected to "grandfather" them in to current guidelines. This year we will continue to monitor cap size constraints to see if additional adjustments in this constraint are warranted.

FUND ALLOCATION

In May 2002, the Small Cap Fund transferred its fixed income balance to the fixed income group so that it could be managed collectively for MPSIF. As a result, the Small Cap Fund no longer directly holds fixed income investments. The asset allocation for the remaining holdings as of August 31, 2002 appears in the graph below:

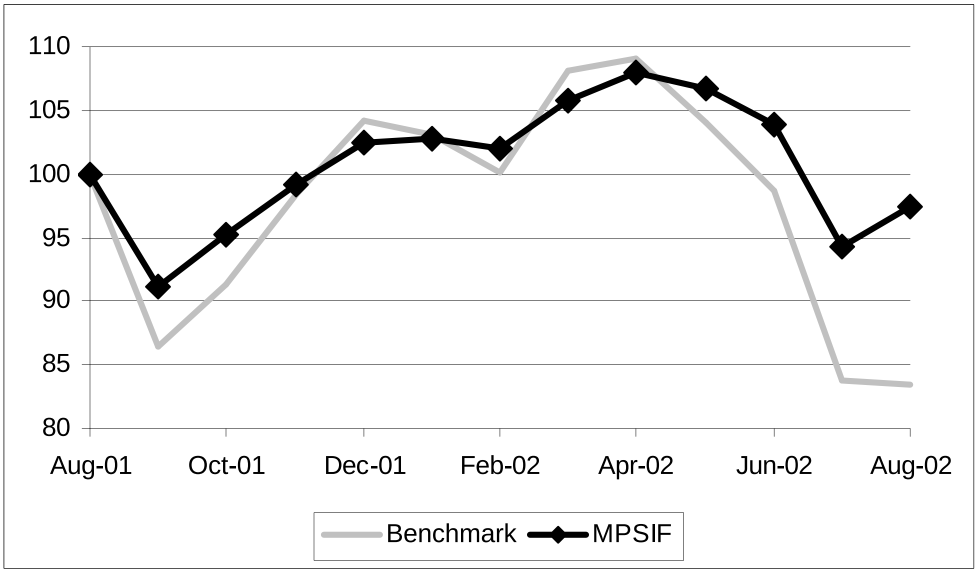


A breakdown of our asset class is shown below:

Small Cap Fund	Sept. 1, 2001 Mkt. Val.	Sept. 1, 2001 % Assets	Aug. 31, 2002 Mkt. Val.	Aug. 31, 2002 % Assets
Cash	$37,290	5.7%	$26,688	6.0%
Equities	418,263	63.6%	421,281	94.0%
Fixed Income	201,654	30.7%	0	0.0%
Total	$657,207	100.0%	$447,969	100.0%
Purchases			$441,894	
Sales			$639,745	

Note: $178,597 was transferred to Fixed Income on May 15, 2002

FUND PERFORMANCE



Effective January 1, 2002, the Small Cap Fund switched its equity benchmark to the Russell 2000 from the S&P 600. During the twelve month period ended August 31, 2002, the Small Cap Fund outperformed the Russell 2000 Index benchmark return of -15.44%. Total return for our fund was -2.54%. Since inception, the fund has a cumulative return of 12.07% or 4.66% annualized.

The returns of the MPSIF small cap have been impacted by the effects of the prolonged US economic downturn that has driven the Russell 2000 index to 4 year lows. However, the fund has managed to significantly outperform its benchmark over the past year experiencing a decline of 2.54% compared to a decline of 15.4% for the Russell 2000. Fund assets at 8/31/02 totaled $447,969 compared to $657,207 a year ago. Most if this decline is attributable to a transfer of $178,597 to the Fixed Income Fund. Excluding the fixed income transfer and the scholarship payments of $34,770 the fund value decreased $4,129.

The fund managed to significantly outperform its benchmark by maintaining an overweight position in consumer discretionary of 26% compared the sector weight of 17.7%. The fund's holdings in bonds for most of the year and its low exposure to technology 5.7% compared to an index weight of 12.7% were major contributors to the index beating performance. In addition, all of the fund's financial sector positions posted gains, most notably North Fork Bankcorp appreciated by 41%. The most recent additions to the fund, both in Consumer Discretionary, have both experienced a significant diminution in value with Chromcraft Revington and Jakks Pacific falling 15% and 38% respectively in the three months to August.

The small cap fund has also embarked on a review of sector classification when comparing to the relevant benchmark. Changes made include the movement of Keystone from Financial Services to REIT, FLIR Systems from Producer Durables to Technology and Ultra Petroleum from Other Energy to Energy. The use of 'Other Energy' sector has ceased.

FUND PROFILE

The fund does not maintain guidelines regarding asset allocation among sectors. Compared to our benchmark index, the Russell 2000, the fund is currently overweight in consumer discretionary, consumer staples, healthcare, energy and materials and processing. The fund is significantly underweight in utilities and technology and modestly underweight in financial services, producer durables, REITs, utilities and auto and transportation.

Our fund position as of August 31, 2002 is as follows:

Company	Russell 2000 Sector	Shares	Value	% Assets
Cephalon	Healthcare	250	10,875	2.4%
Christopher & Banks	Consumer Discretionary	500	14,550	3.2%
Chromcraft Revington	Consumer Discretionary	1300	17,030	3.8%
Churchill Downs	Consumer Discretionary	350	13,038	2.9%
Diagnostic Products	Healthcare	600	24,060	5.4%
Ducommun	Durables & Materials	1500	29,700	6.6%
Famous Daves	Consumer Discretionary	2500	15,700	3.5%
FLIR Systems	Technology	500	18,975	4.2%
Jakks Pacific	Consumer Discretionary	1100	12,440	2.8%
Keystone Property Trust	REITs	1300	21,372	4.8%
Marsh Supermarkets	Consumer Staples	1500	19,500	4.4%
McCormick	Consumer Staples	800	18,520	4.1%
North Fork Bancorp	Financial Services	500	20,985	4.7%
Pharmaceutical Resources	Healthcare	900	23,535	5.3%
Rayonier	Durables & Materials	500	24,350	5.4%
Silicon Valley Bancshares	Financial Services	400	9,064	2.0%
Sinclair Broadcasting Pf.	Consumer Discretionary	700	26,593	5.9%
Steve Madden	Consumer Discretionary	600	10,878	2.4%
Student Loan Corp	Financial Services	300	28,026	6.3%
Triquint Semiconductor	Technology	950	5,035	1.1%
Ultra Petroleum	Energy	3000	24,000	5.4%
Unisource Energy	Utilities	500	8,490	1.9%
US Labs	Durables & Materials	1700	24,565	5.5%
Total Equities			$421,281	94.0%
Cash			26,688	6.0%
Total Assets			$447,969	100.0%

In total there were 17 additions to the fund in the year to August 31, 2002 and aside from the Keystone Property Trust (+17%) and Student Loan Corporation (+6%) none have appreciated by more than 5%. During the period, the fund decided to close out the high performing Dr.Horton, American Axle and Bisys and the poor performing position in Lumenis, JNI Corporation, Interdigital Communications, and Manugistics.

SMALL CAP FUND FINANCIAL STATEMENTS

Year Ending August 31, 2002

CASH FLOW FROM OPERATIONS

Dividends	$13,802
Interest	717
Investment Income	$14,519
Expenses / Fees	3,522
Net Investment Income	**$10,997**

CHANGE IN NET ASSETS

Net Investment Income	$10,997
Realized Gain (Loss)	2,386
Unrealized Gain (Loss)	-11,943
Annual Withdrawal	-34,770
Net Transfers	-178,597
Mark to Market / Other Adj.	2,689
Net Change in Assets	**-$209,238**
Net Assets, Beginning of Period	$657,207
Net Increase (Decrease)	-209,238
Net Assets, End of Period	**$447,969**

Notes: Net Assets are at Market Value. $178,597 was transferred to Fixed Income on May 15, 2002. See page 10 for a discussion of the "Mark to Market" adjustment.

MPSIF SMALL CAP FUND MANAGEMENT TEAM

Nicholas Brown, CFA, Media / Entertainment
Before starting at Stern, Nick worked at Goldman, Sachs & Co. in the corporate bond research department. During the summer of 2002, he worked as a high yield bond analyst at Wellington Management Company. Nick also serves as the Portfolio Manager of the newly established Fixed Income Fund.

Thaddeus Davis, CFA, Technology / Consumer Discretionary
Prior to enrolling at Stern, Thad spent three years at Putnam Investments working on the large-cap growth portfolio team. Prior to that, Thad worked at Montgomery Securities (now Banc of America Securities) in equity research covering hospitality stocks, specifically gaming, lodging and restaurants. Thad spent the summer at Bear Stearns Asset Management making investment recommendations for small cap core and small cap value portfolios. He is a chartered financial analyst.

Kimberly DeDominicis, Materials / Consumer Durables
Kim worked as an Investment Performance Analyst at T.Rowe Price Associates before Stern. She was a summer associate at MetLife Investments where she worked in the Credit Research Division. Kim also serves as an analyst on the MPSIF Fixed Income Fund.

D. Scott Goldman, Co-Portfolio Manager, Energy
Prior to enrolling at Stern, Scott spent eight years at Nortel Networks in their Caribbean and Latin American division. During that time, Scott held positions in Engineering, Management and Business Development. This past summer, Scott served as an Equity Research Associate at Bear, Stearns & Co.

Christopher Horvers, Market Strategist, Consumer Durables / Materials
Prior to Stern, Chris worked at Deloitte & Touche Assurance and Consulting specializing in the Securities Industry. He spent the summer at Bear Stearns in their Equity Research department.

Philip LaMariana, CPA, Trader, Financial Services
Prior to enrolling at Stern, Phil spent five years at PricewaterhouseCoopers in their Capital Markets division. During that time, Phil held positions in Audit, Business Advisory Services, and Risk Management. Phil is a Certified Public Accountant, licensed in the state of Massachusetts.

Craig S. Lottner, Fund Services, Consumer Discretionary
Prior to joining Stern, Craig worked for three years at Gap, Inc. in San Francisco. During his tenure with the Gap, Craig worked as an Inventory Planner and Merchandise Buyer. Craig spent his summer in equity research with Brean Murray and Co. where he followed companies in the enterprise software, educational services, and retail sectors.

Aaron Meyer, Co-Portfolio Manager, Basic Materials / Industrials
Before Stern, Aaron spent two years at Goldman Sachs in the Equity Research department where he followed Multi-Industry Companies as well as Photography and Imaging businesses. Over the summer of 2002, Aaron interned at LibertyView Capital, a billion-dollar multi-strategy hedge fund.

Ashwin Ramji, Financial Services
Prior to attending Stern, Ashwin was a senior financial analyst in the securitization group at Deloitte & Touche, where he primarily modeled collateralized debt obligations. During the summer, he worked in the equity research group at Bear Stearns.

Karina Sarmiento, Analyst, Healthcare / Pharmaceuticals
Karina headed the U.S. investor relations program for a Spanish bank prior to business school. She spent the summer at TIAA-CREF in the TIAA Securities division and participated in the rotational program as a summer associate.

Anthony Sherlock, ChA, CPA, Market Strategist, Energy / Utilities
Prior to Stern, Tony worked as a risk management consultant for Mellon Financial Corporation in London. His areas of expertise include due diligence and the evaluation and implementation of corporate initiatives. Tony is a Chartered Accountant who has eight years experience in financial services in Asia and Europe.

Francis Vo, Consumer Discretionary / Technology
Prior to enrolling at Stern, Francis spent two years at Deloitte Consulting and the two more years covering the satellite communications industry at Banc of America Securities. Francis spent his summer in equity research at Lehman Brothers.

VALUE FUND

MESSAGE FROM THE PORTFOLIO MANAGER

During the twelve months ended August 31, 2002, we witnessed extreme volatility in the equity markets as a result of a series of unforeseen and tragic events that caused damage to this country on many levels – physical, psychological and economic. As a result, we were faced with an equity market that presented both dangers and opportunities.

It all began with the reprehensible terrorist attacks on September 11, 2001 that forever changed our nation. For a country already mired in a recession, this exogenous shock to the U.S. economy created significant uncertainty. As a result, the equity markets contracted sharply. Over the ensuing weeks, the country continued to deal with the fallout from the attacks and the equity market began to recover as the nation entered its war with Afghanistan. Shortly thereafter, the country was rocked by the Enron scandal and the lack of confidence it instilled in the U.S. financial reporting system. Trust in financial reporting, a necessary precondition to the proper functioning of the capital markets, was severely shaken and, as a result, the equity market once again experienced significant volatility.

The ensuing months continued in a seesaw pattern as the markets fluctuated with each positive and negative news announcement. During this past year, we have witnessed extreme levels in the equity and fixed-income markets. The paucity of signals pointing to economic recovery pushed equity markets to five year lows, all but eliminating any remaining vestiges of the late 1990s technology boom. In true opposite fashion, the bond market, specifically Treasuries, steamed ahead driving yields to forty-year lows.

Despite the trillion dollars of wealth that has been siphoned out of the equity markets in the last three years, equity multiples remain disturbingly high. This is particularly troublesome when coupled with continued economic weakness. Present conditions challenge the value-minded investor to dig deeper than ever for hidden gems in an environment rife with earnings softness that has left many multiples at higher levels than would be expected coming out of a recession. What's more, labor strife along the West Coast ports, the persistent war on terrorism, and the specter of U.S. military action in Iraq has deeply roiled investor confidence.

Over the course of the last year the fund has remained focused on executing its value investment style and looking beyond the emotional response of the equity markets and instead focusing on the long-term value of its investments. We look forward to the challenges that lie ahead. Since the close of the fund's recent fiscal year in August, the equity markets have rallied dramatically on positive economic and earnings-related news giving hope that things are not as bad as they seem. Court orders reopened the ports, housing starts surged in September, and several prominent U.S. corporations reported gravity-defying positive third quarter earnings.

In closing I would like to thank Michael Price for the unique opportunity he has given us to manage this fund. Thank you.

Frank Boroch
October 2002

INVESTMENT STYLE AND STRATEGY

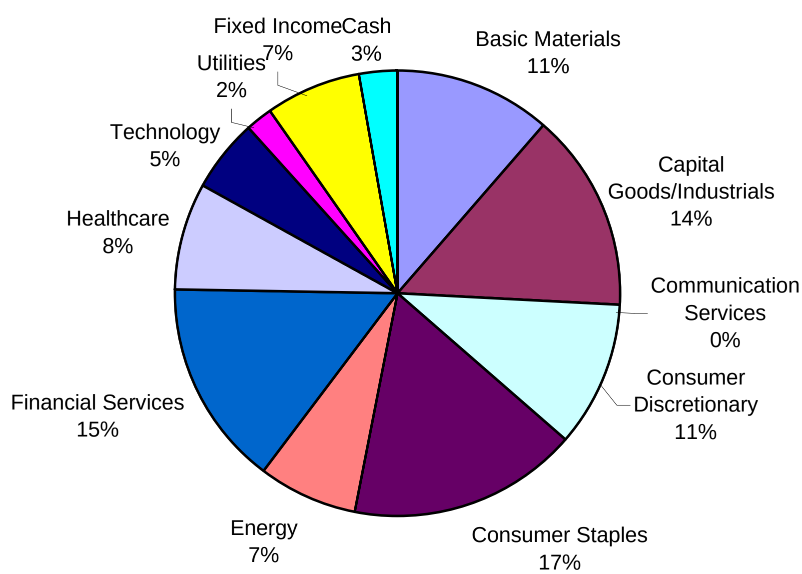
The Michael Price Student Investment Fund (MPSIF) Value Portfolio is part of the total MPSIF Fund, which in turn is a part of the New York University endowment pool. The Value Fund seeks to maximize returns by investing primarily in large cap companies with consistent year-over-year earnings that are trading at a discount relative to their peer group or the market as a whole. The metrics it closely monitors, among others, are price-earnings ratios, dividend yields, and various free-cash-flows ratios. Firms must be publicly traded on major world exchanges and generate the bulk of their revenues in developed markets. There is, however, no specific country or region quota.

The fund seeks to outperform its benchmark, the Russell 1000 Value, without significantly deviating from the index's risk profile. Due to the fund's tax-exempt status it does not consider the impact of capital gains or income taxes in its management decisions. The fund does not engage in shorting, derivatives trading, or other esoteric investment strategies. The fund is required to pay an annual 5% fee to support bringing selected University of Oklahoma students to New York University for a summer program. In order to ensure this payment, the fund invests a portion of its assets in fixed-income vehicles, primarily short and medium term fixed-income mutual funds. (After May 1, 2002 this is now being done by using the MPSIF fixed income group as agent for us.)

FUND ALLOCATION

The Value Fund invests across a variety of sectors. Although there is no specific guideline regarding sector allocation, the fund seeks a balance across as many sectors as possible.

Compared to our benchmark index, the Russell 1000 Value, the fund is overweight Consumer Staples and Capital Goods; these are defensive plays in this difficult market environment. On the other hand, in light of the degree of damaging news that has affected the Financial and Communications Services sectors over the past several months; the fund has significantly underweighted these sectors' allocations.



A breakdown of our asset class is shown below:

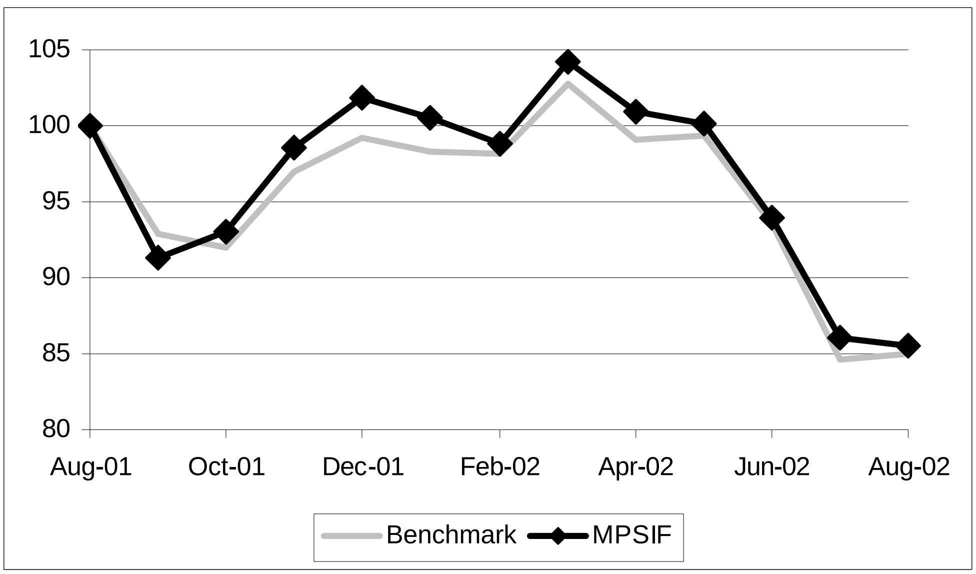
	Sept. 1, 2001		Aug. 31, 2002	
Value Fund	**Mkt. Val.**	**% Assets**	**Mkt. Val.**	**% Assets**
Cash	$63,707	8.7%	$12,457	2.9%
Equities	523,931	71.5%	386,361	90.2%
Fixed Income	144,825	19.8%	29,624	6.9%
Total	$732,463	100.0%	$428,442	100.0%
Purchases			$314,862	
Sales			$486,925	

Note: $195,956 was transferred to Fixed Income on May 15, 2002

FUND PERFORMANCE

The year ending August 31, 2002 marked a continuation of the bear market that has beset the equity markets. Most major indices exhibited double digit losses for the period and the Value Fund was unable to avoid the market's sustained downfall. Although the fund outperformed the S&P 500, it was unable to better its established benchmark, the Russell 1000 Value.

Throughout the year, the fund was able to realize over $70,000 in gains through profit taking and auspicious position rotation. Solid profits were gained from investments in Cendant, Nike, Office Depot, Tricon Global, and Wellpoint. Early departures from communication stocks such as Motorola, AT&T, and AT&T Wireless also proved to be smart moves. Unfortunately, however, the fund was unable to foresee the demise of Worldcom and performance suffered as a result. Performance was likewise hampered by negative moves in current holdings such as Alcoa, EDS, JP Morgan, Meristar, and Orient Express Hotels. As of August 31, 2002, the fund had unrealized losses of approximately $63,000. The fund's performance throughout the year is detailed in the following chart and tables.



FUND PROFILE

The table below shows our equity holdings as of August 31, 2002:

Company	Sector	Shares	Value	% Assets
Alcoa	Basic Materials	800	$20,072	4.7%
Barr Labs	Health Care	462	32,668	7.6%
Cendant	Consumer Discretionary	1600	22,896	5.3%
Duke Energy	Utilities	300	8,049	1.9%
Electronic Data Systems	Technology	570	22,948	5.4%
Encana	Energy	547	16,081	3.8%
General Mills	Consumer Staples	609	25,633	6.0%
Imperial Chemical	Basic Materials	1790	28,550	6.7%
JP Morgan Chase	Financials	629	16,606	3.9%
Mack Cali Realty	Financials	940	31,537	7.4%
Meristar Hospitality	Financials	1440	16,200	3.8%
McDonalds	Consumer Staples	800	19,008	4.4%
Orient Express Hotels	Consumer Discretionary	1759	22,779	5.3%
7-Eleven	Consumer Staples	3000	26,550	6.2%
Tidewater	Energy	530	15,105	3.5%
United Technology	Capital Goods	500	29,695	6.9%
Waste Management	Capital Goods	1250	31,788	7.4%
Worldcom	Communication Svcs.	1750	196	0.0%
Total Equities			$386,361	90.2%
Fixed Income			29,624	6.9%
Cash	Cash and Fixed Income		12,457	2.9%
Total Assets			$428,442	100.0%

VALUE FUND FINANCIAL STATEMENTS

Year Ending August 31, 2002

CASH FLOW FROM OPERATIONS

Dividends	$13,568
Interest	1,270
Investment Income	$14,837
Expenses / Fees	3,910
Net Investment Income	**$10,928**

CHANGE IN NET ASSETS

Net Investment Income	$10,928
Realized Gain (Loss)	72,519
Unrealized Gain (Loss)	-63,830
Annual Withdrawal	-38,150
Net Transfers	-195,956
Mark to Market / Other Adj.	-89,532
Net Change in Assets	**-$304,021**
Net Assets, Beginning of Period	$732,463
Net Increase (Decrease)	-304,021
Net Assets, End of Period	**$428,442**

Notes: Net Assets are at Market Value. $195,956 was transferred to Fixed Income on May 15, 2002. *See page 10* *for a discussion of the "Mark to Market" adjustment.*

MPSIF Value Fund Management Team

Evan Ben-Ner, CFA, Treasurer and Capital Goods Analyst
Evan spent the summer doing fundamental research with Echo Street Capital Partners, a small hedge fund in New York City. Prior to Stern, Evan worked as a trader and portfolio manager for Roxbury Capital Management, a mid-size investment management firm. Evan received his B.A. from the University of California at Berkeley.

Frank Boroch, CFA, Portfolio Manager
Frank spent last summer with Bear Stearns as an equity research summer associate covering the retail industry. Prior to Stern, he worked with Capital Guardian Trust marketing to pension plans. He is a CFA Charterholder and holds a B.A. from Cornell University.

Sherry (Wei-Qun) Cai, CFA, Director of Research, Utility / Transportation Analyst
Sherry graduated from Dartmouth College with a BA in Economics. Prior to Stern, Sherry worked for Equity Research in Salomon Smith Barney. She interned this summer with Standard & Poor's as a Corporate Rating Associate.

James Chartier, Fixed Income and Health Care Analyst
Jim graduated from Duke University with a BS in Mechanical Engineering and served as a Logistics Officer in the U.S. Army prior to Stern. Last summer, he worked as a trading assistant at a convertible bond hedge fund.

Matthew Chesler, Director of Research and Basic Materials Analyst
Matt graduated from Pomona College in 1995 with a BA in Economics and is a Level III Candidate for the CFA Charter. Matt spent the summer as an equity research associate for Deutsche Bank Securities covering the U.S. large cap pharmaceutical sector. Prior to Stern, Matt held various positions with Ernst & Young and PricewaterhouseCoopers providing financial advice to CEOs and troubled companies.

Weekee Chong, Trader and Financial Services Analyst
Weekee spent the summer as a capital markets associate at Lehman Brothers New York. Prior to Stern, Weekee worked as a portfolio manager and trader in fixed income for Landesbank Baden-Wuerttemberg. Weekee received his BSE in computer engineering and MSE in industrial and operation research engineering from the University of Michigan, Ann Arbor.

Gregory Dunham, Market Strategist and Technology Analyst
Greg spent last summer at Sidoti & Company, an independent small-cap equity research shop. Prior to Stern, he spent 3 years in the Application Software industry implementing ERP, CRM, and SCM solutions. Greg received a BS in Mechanical Engineering from the University of Wisconsin - Madison.

Melissa Jaffe, Market Strategist, Leisure and Lodging Analyst
Melissa spent last summer at CIBC World Markets, where she worked in equity research for the healthcare services group. Prior to Stern, she spent four years in the healthcare industry. Melissa received her BA from Princeton University.

Erindra Krisnawan Mangunkusumo, CFA, Energy and Fixed Income Analyst
Prior to Stern, Erindra was a Senior Equity Analyst with BNP Paribas, covering the South East Asian consumer stocks. He spent this summer performing High Yield research for Pax World Fund, a mid-size investment management firm in New York.

Mila Mogilevitch, Director of Fund Services and Consumer Cyclicals Analyst
Mila graduated from University of Southern California with a BS in Accounting. Prior to Stern, she worked in the Assurance and Business Advisory department of Arthur Andersen. During the summer she interned with CIBC World Markets in the Private Equity Group. Mila is a Level II candidate for the CFA Charter.

SriRam Padmanabhan, Market Strategist and Consumer Staples Analyst
Before coming to Stern, Ram was a market researcher, covering FMCG clients. He spent this summer at Deloitte Research.

Deepak Ramamurthy, Assistant Treasurer, Comm. Services and Basic Materials Analyst
Deepak spent the summer doing management consulting with Deutsche Post Worldnet in Switzerland. Prior to Stern, Deepak worked in operations and project management with ITC Ltd, a conglomerate in India. Deepak received his B.Tech. in Electrical Engineering from the Indian Institute of Technology.

FIXED INCOME FUND

MESSAGE FROM THE PORTFOLIO MANAGER

For the first time since the inception of MPSIF, the fixed income holdings of the three equity funds have been consolidated into one fixed income portfolio. The new fixed income fund is managed by representatives from all three equity funds. The three funds retain proportionate ownership "rights" to the income and market value of the fixed income portfolio. During this inaugural semester of the fixed income fund, we chose to invest in mutual funds, although we plan to consider investing in individual bonds in future semesters depending on the interests and expertise of our analysts and portfolio managers.

Given that we are making asset allocation decisions rather than choosing specific securities, we are managing the fund in a top-down manner. We have divided up responsibilities with one of us focusing on predicting changes in the level and term structure of interest rates, two analysts covering mortgage-backed securities, one analyst following corporate bonds and two analysts focusing on high yield bonds.

We are managing the fixed income holdings in an attempt to provide a less volatile stream of returns than the MPSIF equity holdings as well as to generate income to meet our annual cash distribution needs. Since we are adopting more of a buy-and-hold philosophy for the funds than a total-return approach that would involve more short-term trading, we have decided to use as a benchmark the "Five-Year Treasury Note total return plus 100 basis points" as our annual performance target, rather than a diversified fixed income index such as the Lehman index. Although some of our investments may have a longer duration than the duration of the five-year Treasury Note, we believe comparing our performance with the return on the five-year Note is appropriate because we view the decision to increase duration as an active management decision, and not one that we are forced to take. In this way we are considering interest rate risk as a separate risk factor, just as we are analyzing credit risk, and reinvestment risk.

Nicholas Brown
October 2002

STATEMENT ON INVESTMENT STYLE AND STRATEGY

At our October 16, 2002 meeting, the fixed income group decided to make significant shifts in our investments to align our portfolio more with our target asset allocation. Since some of the mutual funds that we hold invest in several segments of the fixed income market and they may make significant shifts in their asset allocation to take advantage of short-term mispricings in the bond market, we decided to reallocate our funds so that each of our investments will focus on one sector of the bond market. Specifically, we have decided to sell our August 31st holdings of the PIMCO Total Return Fund as well as the Columbia Fixed Income Securities Fund. We have decided to purchase the Barclay's iShares GS $ InvesTop Corporate Bond Fund since this fund will give us pure exposure to the corporate bond market. (The PIMCO and Columbia funds have some exposure to corporate bonds, but this exposure may shift dramatically over time.) Once we implement the rebalancing, we will have the following asset allocation:

Money Market Funds	5%
Managers Intermediate Duration Government Fund (MGIDX)	34%
Barclay's iShares GS $ InvesTop Corporate Bond Fund (LQD)	51%
Columbia High Yield Fund (CMHYX)	10%

Our analysts' views of each sector of the fixed income market are described below:

Interest Rates

We believe that U.S. interest rates are close to a cyclical low. Although there is a small chance we could see another rate cut by the FOMC between now and the end of the year, we do not expect any cut in the Fed Funds rate to lead to any meaningful drop in long-term government bond yields. We expect long-term interest rates to rise as a result of the increasing federal budget deficit. Financing this deficit will require either additional government borrowing or an increase in the money supply (both of which may drive up long-term interest rates). The other potential driver of higher long-term interest rates, in our view, is the falling value of the U.S. dollar. As foreign investors recognize that U.S. Treasury securities are not risk-free for them, since they are exposed to currency risk, we believe that we could see more selling of Treasury securities and an increase in long-term interest rates. Based on this view, we recommend trying to hold down our portfolio's overall duration by investing in funds that focus on either short maturity securities or higher yielding securities that also have relatively low duration.

Mortgage-Backed Securities

Since the Federal Reserve stopped cutting rates at the end of last year, Mortgage-Backed Securities have experienced strong performance during 2002. Demand for mortgages has been strong while the supply has decreased as consumer refinancing has tapered off. We believe supply will continue to shrink while the demand for high-quality fixed income investments will remain strong. Additionally, we believe interest rates will remain stable in the next few months. As a result of both of these conditions, we believe mortgage-backed securities will continue to be an attractive asset class over the next few months. However, we are currently more bullish on corporate bonds than mortgage-backed securities given the current spreads over Treasuries for these two asset classes. Thus, we are shifting our portfolio to a 34% weighting in mortgage-backed securities, compared with 51% in corporate bonds.

Corporate Bonds

We believe that all of the recent scandals and the devastation that WorldCom, Enron, etc. have done to fixed income investment portfolios and bank loans has led to an overreaction by creditors in terms of the spread performance of corporate bonds. Over time, corporate bond spreads should revert to historical, tighter levels. This spread compression should offer an opportunity to achieve significant total returns in corporate bond investments.

High-Yield Bonds

Although returns for high yield bonds have lagged those of other fixed income asset classes recently, we believe that the market currently provides attractive total return opportunities. As the default rate in the economy falls from current elevated levels (11.86% for the twelve months ended June 30 according to Professor Edward Altman’s research), we expect high yield bonds to outperform most other fixed income asset classes. Additional factors that could drive the outperformance of high yield bonds include: a turnaround in corporate earnings and reduced supply of high yield bonds as companies continue to cut capital expenditure budgets.

FUND ALLOCATION and FUND PROFILE

As of August 31, 2002, we owned the following funds:

Managers Intermediate Duration Government Fund (MGIDX)
Mortgage-Backed Securities
Current Value: $76,663
Cost Basis: $74,996
Gain (Loss): $1,666

PIMCO Total Return Fund, Class A (PTTAX)
Cross-Sector
Current Value: $50,886
Cost Basis: $49,990
Gain (Loss): $896

Columbia Fixed Income Securities Fund (CFISX)
Lehman Aggregate Index Proxy
Current Value: $255,487
Cost Basis: $249,995
Gain (Loss): $5,492

Columbia High Yield Fund (CMHYX)
High Yield Bonds
Current Value: $47,807
Cost Basis: $49,994
Gain (Loss): ($2,186)

We also held $79,569 in money market funds.

Fixed	**Sept. 1, 2001**		**Aug. 31, 2002**	
Income	**Mkt. Val.**	**% Assets**	**Mkt. Val.**	**% Assets**
Cash	$0	14.40%	$79,569	15.59%
Equities	0	54.90%	0	0.00%
Fixed Income	0	30.70%	430,868	84.41%
Total	$0	100.00%	$510,437	100.00%
Purchases			$424,974	
Sales			$0	

FUND PERFORMANCE

As we just started managing the fixed income fund in a centralized fashion starting in May, we only have three months of performance data. During the May 23-August 31 time period, our mutual fund holdings generated a 2.9% total return. Our benchmark during the time period (5-year Treasury Note total return + 100 bp) returned 7.9%. During the May 23-August 31 time period, the Salomon Broad Investment Grade Index, $500M+ (SBMPB) returned 4.4% while the S&P 500 returned -16% (assuming dividends earn the 1.6% rate on 6-month T-Bills). Including our cash holdings, our portfolio's total return was 2.5%.

The fund's exposure to mortgage-backed securities boosted its overall performance. The mortgage-backed securities asset class was helped by the fact that prepayment risk subsided during this period.

On the contrary, the fund's exposure to high yield bonds detracted from overall performance. This was the only asset class in our portfolio that had a negative return for this three month time period. Since the fund's inception, the high yield sector has been negatively impacted by the continued fallout in the telecom sector, the overall negative trend in the economy, and increasing distrust in corporate America as more accounting scandals were revealed. As the market favored a "flight to quality," investors stayed away from the high yield sector. This flight to quality helped explain our overall underperformance relative to our 5-year Treasury benchmark: as a result of this flight to quality, spread product (not just high yield bonds) underperformed Treasury bonds.

The other explanation for our underperformance was our shorter duration than our benchmark. Our benchmark's duration is 4.4 years. Since our longest duration fund has a duration of 4.4 years, while the mortgage fund has a duration of 2.4 years and we have a significant cash position (0 duration), our weighted average duration is significantly shorter than that of our benchmark. As a result, we underperformed in a falling interest rate environment.

FIXED INCOME FINANCIAL STATEMENTS

Year Ending August 31, 2002

CASH FLOW FROM OPERATIONS

Dividends	$4,586
Interest	301
Investment Income	$4,887
Expenses / Fees	345
Net Investment Income	**$4,542**

CHANGE IN NET ASSETS

Net Investment Income	$4,542
Realized Gain (Loss)	0
Unrealized Gain (Loss)	5,895
Annual Withdrawal	0
Net Transfers	500,000
Mark to Market / Other Adj.	0
Net Change in Assets	**$510,437**
Net Assets, Beginning of Period	$0
Net Increase (Decrease)	510,437
Net Assets, End of Period	**$510,437**

Notes: Net Assets are at Market Value. Initial funding of $ 500,000 from the three MPSIF funds was received in May 2002.

On August 31, 2002 the three MPSIF equity funds were (and still are) 1/3 owners of the of the income and the market value of the securities held by the fixed income fund.

MPSIF FIXED INCOME MANAGEMENT TEAM

(for member profiles, see appropriate equity fund section)

Nicholas Brown (Small Cap), Portfolio Manager
Interest Rates

Benjamin Bubeck (Growth)
Corporate Bonds

James Chartier (Value), Director of Fund Services
Mortgage-Backed Securities

Kimberly DeDominicis (Small Cap)
Mortgage-Backed Securities

Erindra Krisnawan Mangunkusumo (Value)
High Yield Bonds

Alicia Stewart (Growth)
High Yield Bonds

Daniel Aznar (Growth), Volunteer
Interest Rates

MPSIF The Michael Price Student Investment Fund

Application Overview Reports Links

The Funds: Fixed Income Growth Small Cap Value

The Website: http://pages.stern.nyu.edu/~mpsif