



**Professor Robert Korajczyk**  
**Asset Management Practicum II**  
**Finance 934C**  
**Fall 2007**

## **Syllabus**

Information about the course is available on the course **Blackboard** site with the title "Kellogg Asset Management Practicum." On the Blackboard site I will post reading assignments (under "Assignments") some required and optional readings and informational links (under "Course Documents"), and miscellaneous information (under "Announcements," "Course Information," or "Staff Information.")

Office hours: I will be available either at the review sessions (in room 165) or in my office on Wednesdays from 3:30-5:00PM, or by appointment. If you would like to set up an appointment, please contact my assistant, Ms. Deborah Brauer at [d-brauer@kellogg.northwestern.edu](mailto:d-brauer@kellogg.northwestern.edu) or 847-491-2752.

Teaching Assistants: The course teaching assistants are:  
Joseph Engelberg, [j-engelberg@kellogg.northwestern.edu](mailto:j-engelberg@kellogg.northwestern.edu)  
Fritz Burkhardt, [f-burkhardt@kellogg.northwestern.edu](mailto:f-burkhardt@kellogg.northwestern.edu)

They are available to help you with data and software issues.

AMP II (934C) is the second of a four-quarter sequence in asset management. The focus of this course is to give the students both a theoretical foundations and practical experience in the management of investment portfolios. Students in the Asset Management Practicum are responsible for managing a portion of the University's endowment portfolio. The equity portion of the fund will follow an investing strategy based on the fundamental security analyses of students in the class. The fund will allow short positions as well as long positions. The fund will also allow the use of quantitative and some derivative strategies as an overlay to the fundamental analyses. We may be able to add a hedge fund component over the course of the year

While some classes will consist of lectures by the instructor, others will be lectures by visiting practitioners and presentations of analyses by students in the class. In fact, the primary component of the course will be student presentations of stock analyses, research reports, and reviews of fund performance

Students will also report evaluations of the fund's performance to a board of advisors for the Asset Management Practicum no less than on a quarterly basis. The board consists of the instructor, a representative of the Northwestern University Investment Office, and prominent

practitioners. Most advisory board members have made substantial donations to the Asset Management fund.

Since the first three quarters of the course are meant to be taken as an integrated whole, students will receive course grades for FINC 933C, 934C, and 935C at the completion of the sequence.

## **Prerequisites/Co-requisites:**

### **Asset Management Practicum II**

**Prerequisites:** FINC 933C

**Co-requisites:** Over the three-quarter sequence students must take four quarter credits in additional asset management-related courses from the following list: FINC 447 Financial Strategy and Tax Planning, FINC 451 Money Markets and the Fed, FINC 460 Investments, FINC 463 Security Analysis, FINC 464 Fixed Income Securities, FINC 465 Derivative Markets I, FINC 467 Derivative Markets II, FINC 925 Advanced Topics in Finance, ACCT 451 Financial Reporting and Analysis, ACCT 452 Financial Reporting and Analysis II.

## **Course Structure:**

Approximately half of the students in Asset Management Practicum II will focus on developing fundamental security analyses and half will serve as the investment committee responsible for managing the positions of the fund, given the fundamental analyses and other strategies developed by the Practicum students. These roles will switch next quarter in FINC 935C.

In addition to their duties on the investment committee, students will specialize in one of several areas: risk evaluation and performance reporting; trading strategies; derivatives strategies; quantitative strategies; asset allocation strategies.

The investment committee members are responsible for decisions about the positions taken in the portfolio, based on the analyses provided by the various analysts. Additionally, investment committee members may present equity analyses of their own.

Members involved in risk evaluation and performance reporting will monitor the portfolio to insure that the portfolio meets its investment guidelines and risk parameters, monitor and report portfolio performance to the class and advisory board, and monitor analyst performance.

Traders are responsible for determining the optimal trading strategies in order to minimize the implementation shortfall due to order execution, advising portfolio managers on the appropriate execution strategies, and devising pre-trade estimates and post-trade evaluation of execution costs.

Derivative, quantitative, and asset allocation analyst responsibilities are to advise the investment committee on strategies related to derivative and quantitative strategies designed to complement the fundamental equity analyses and to advise on tactical asset allocation.

## **Classes:**

While the Asset Management Practicum is a half-credit class, it does not conform to the usual first-half/second-half of the quarter timing, hence the “C” designation. We will meet on Monday evenings for most, but not all, weeks of the quarter. We can not just manage the portfolio for half of the quarter. Each class meeting will include an update by the portfolio managers of the positions in the portfolio, the performance and risk profile of the portfolio, and trades made since the last class. Analysts whose recommended stocks are in the portfolio will have an opportunity to update those recommendations. We will then either have a lecture by the instructor, by a visiting practitioner, by a data/software vendor, or by students. Students are expected to attend all class sessions.

On dates when there is a visiting practitioner we may have a pre-class dinner with the visiting speaker for a subset of the class.

## **“Review” Sessions:**

Occasionally, we will have extra sessions which will take place on Wednesday afternoons from 3:30 to 5:00 PM in room 165. These sessions will be used for training on vendor software and office hours at which we can discuss questions about your projects. We may also use these sessions for additional class presentations, if required.

## **Grading:**

### **Analysts**

Students serving as analysts are required to present analyses for one at least one stock. This is the primary deliverable. Analysts are also expected to learn the operational duties of the investment committee. In particular, they should familiarize themselves with software and procedures so that they can take over responsibilities at the end of the quarter.

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| Individual Stock Analysis (due 3:00PM the Thursday before presentation): | 35% |
| Nash assignment papers (due November 29, 2007 3:00 PM):                  | 15% |
| Riddell assignment papers (due November 22, 2007 3:00 PM):               | 15% |
| Barra assignment (due October 29, 2007 in class):                        | 15% |
| Class Participation:   | 20% |

The stock analyses will comprise two components. The first will be a set of power point slides for the presentation to the class. The second will be a written report, the equivalent of a sell-side analyst’s report, supporting the presentation. All students will have read the written report prior to the presentation so the purpose of the presentation is not to educate the audience of potential

investors but rather to emphasize the main points and the recommendation from the written report. You may want to look at some sample student reports at Cornell's Parker Center at

<http://www.johnson.cornell.edu/parkercenter/studentresearch.html>

The presenting student will have five to ten minutes to make the pitch followed by questions from the class. Because all students will have read the detailed report prior to the class, their point of view in asking questions will be that of an investment committee analyzing the potential investment.

Analyses should be handed in by 3:00 PM on the Thursday before an in-class presentation in order to give the class time to read the valuation. Presentations handed in after this time will receive a penalty (a 10% penalty for assignments handed in between 3:00 PM on Thursday and 3:00 PM on Friday and a 20% penalty for assignments handed in after 3:00 PM on Friday).

The student presenting the stock analysis will be graded both on the quality of the underlying report and the quality of the answers to questions posed during the pitch. The rest of the class will be graded on the quality of the questions directed to the student making the pitch. In addition, each student will complete a written evaluation (form to be provided) of the stock pitch assessing its quality, its effectiveness, and whether the student would support the recommendation made in the stock pitch for the funds.

DCF valuations presented in class have typically relied on constant growth perpetuities for terminal value. Analysts should also include a multi-stage growth model in which there is an explicit assumption about the length of time the firm will be able to sustain competitive advantage.

### **Investment Committee**

Investment Committee members, in addition to their duties of managing the portfolio and reporting to the instructor and advisory board, are required to write and present a research paper (approximately 15-20 pages) on a topic assigned by the instructor. The topic will be related to the assigned responsibilities of the students. Ideally, I would like to see papers that would be close to publishable in a top-quality practitioner journal like the *Financial Analysts Journal*, *Journal of Portfolio Management*, or *Journal of Investment Management*. Students serving on the investment committee will also serve as mentors to analysts in their areas of specialization.

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| Research papers (due December 10, 2007):                   | 35% |
| Nash assignment papers (due November 29, 2007 3:00 PM):    | 15% |
| Riddell assignment papers (due November 22, 2007 3:00 PM): | 15% |
| Barra assignment (due October 29, 2007 in class):          | 15% |
| Class Participation:                                       | 20% |

You may work in groups of up to three people for the research paper. Assignments for Nash, Riddell, and Barra will be determined later in the quarter. The research paper assignments are:

- 1) Develop risk assessment tools to monitor the portfolios' market/sector exposure and tracking error. The tools should be used to monitor the portfolios on a daily basis to insure the portfolios are in compliance of the IPS. Develop performance reporting template for the quarterly and annual reports for the advisory board.  
**Hockenberg, Smith.**
- 2) Develop tools to assess the performance of our trading. How should we measure the cost of trades, including opportunity costs? What types of trades should be used in what circumstances. Summarize all of the destinations/trading algorithms available through the executing broker, ITG.  
**Carlson, Qiao**
- 3) Develop derivative/quantitative strategies that can be utilized by the portfolios. Strategies could include security screens that would give the analysts a long list and a short list from which to choose assets to analyze. Other strategies could include specific trade recommendations. Proposed strategies should be backtested.  
**Lalanne, Rich, Sacha, Shibata, Viswanathan**
- 4) Develop models to determine the portfolios' asset allocation policy (within the constraints of the IPS). Proposed strategies should be backtested.  
**Hartman, Seifert**

**Class participation:** The class participation component of the grade is based on attendance, contributions to the class discussion, and participation in peer evaluations and speaker evaluations. After each class, you will receive an e-mail directing you to an online survey for the class presentations. You will have one week to complete the survey. For analyst presentations you will be asked to provide a numerical evaluation as well as written feedback that will be given to the analyst (without attribution).

The classes taught by Stacey Riddell and Avi Nash will have separate assignments for the entire class. These will be due at 3:00 PM the Thursday before class.

## **Textbooks:**

### **Finance 934C Required Texts:**

Maginn, John L., Donald L. Tuttle, Jerald F. Pinto, and Dennis W. McLeavey, *Managing Investment Portfolios: A Dynamic Process*, 3rd edition. Hoboken: Wiley, 2007.

### **Finance 934C Recommended Texts:**

Rappaport, Alfred, and Michael J. Mauboussin, *Expectations Investing*. Boston: Harvard Business School Press, 2001.

Bodie, Zvi, Alex Kane, and Alan J. Marcus, *Investments*, 7<sup>th</sup> edition. New York: McGraw-Hill, 2008.

Damodaran, Aswath, *Investment Fables: Exposing the Myths of "Can't Miss" Investment Strategies*. Upper Saddle River: Prentice-Hall, 2004.

Litterman, Bob, *Modern Investment Management: An Equilibrium Approach*. New York: Wiley, 2003.

**Tentative Schedule (external speakers' schedules can change without much notice we may need to be flexible):**

- September 24: Della Maria and Rangaswami presentations. Risk, Performance Evaluation, and Benchmarking.
- October 1: Guest Speaker, Donald Paiva ('93) Investment Strategist, Chevron Corporation: "Understanding Client Objectives - Pension Funds."
- October 8: No Class.
- October 15: Guest Speaker, Bhaskaran Swaminathan, Director of Research, LSV Asset Management.: "Implementing Quantitative Strategies."
- October 22: Buehler, Roberts, Qiao, and Yefremov presentations.
- October 29: Brusznicki, Kemp, and, Lagrotteria presentations.
- November 5: Brumand, Lemos, and Waynee presentations.
- November 12: Della Maria, Pai, and Rangaswami presentations.
- November 26: Guest Speaker, Stacey Riddell ('89): "Security Analysis."
- December 3: Guest Speaker, Avi Nash ('81), Founder, Avi Nash, LLC.: "Issues in Valuing Cyclical Firms."

Please send your presentation materials to Deborah Brauer.

**Speaker Dinners:**

I will invite visiting speakers to dinner before class 5:15-6:15. If you do not have a class ending at 5:00, try to be there at 5:00, otherwise be there by 5:15. For each speaker, up to 10 students may attend the dinner. We have five dinners scheduled for the spring fall, four on class nights and one on November 14<sup>th</sup>. The dinner guest on November 14<sup>th</sup> is Bettina Whyte ('75), Managing Director and Head of the Special Situations Group of MBIA Insurance Corporation. These dinners are totally optional and attending dinners has no effect on your grade. However, if you sign up for a dinner, you need to be there. Not attending after signing up will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend any of these dinners, contact Deborah Brauer at [d-brauer@kellogg.northwestern.edu](mailto:d-brauer@kellogg.northwestern.edu).

## **Laptop Policy:**

Laptops are not allowed to be used in class, unless I specifically make an exception.

## **Honor Code/Code of Ethics:**

All students attending the Asset Management Practicum must abide by the Kellogg Honor Code. If you are unsure of what this means, read the honor code:

[http://www.kellogg.northwestern.edu/stu\\_aff/policies/honorcode.htm](http://www.kellogg.northwestern.edu/stu_aff/policies/honorcode.htm)

In addition, all students attending the Practicum must familiarize themselves with the CFA Institute Code of Ethics and Standards of Professional Conduct and the Practicum Code of Ethics. Students associated with the Practicum must agree to abide by the Practicum Code of Ethics and must attest to that agreement by giving me a signed copy of the Code.

If you are in doubt about whether something is acceptable under the honor code/ code of ethics, you should not hesitate to ask me.

## **Other courses:**

There are a number of other courses that are relevant for people going into asset management, in addition to the courses on the list of co-requisites. Here are some courses that I would encourage you to consider. DECS 452 Strategic Decision Making, FINC 442 Financial Decisions, FINC 445 Venture Capital and Private Equity Investing, FINC 448 Corporate Restructuring, FINC 931 Wall Street, Hedge Funds and Private Equity (LBO) Funds, FINC 932 Case Studies in Venture Investment and Management, MORS 460 Leading and Managing Teams, MORS 470 Negotiations, MECN 441 Competitive Strategy and Industrial Structure, MECN 450 Macroeconomic Analysis For Management, OPNS 450 Spreadsheet Modeling for Managerial Decisions, and ENTR 902 Entrepreneurial Selling: Skills and Strategies.

## **Miscellaneous:**

I have asked the University Library to place on reserve a number of textbooks related to the course material. Those of you who are interviewing at more quantitative shops might want to take a look at *Heard on The Street: Quantitative Questions from Wall Street Job Interviews* by Timothy Crack.