



Northwestern University

Finance 935 (AMP III)
Winter 2010
Monday, 6:30 pm – 9:30 pm
Jacobs G44

Professor Robert Korajczyk
Jacobs 412
(847) 491-8336
E-mail: r-korajczyk@kellogg.northwestern.edu

Asset Management Practicum III - Syllabus

(December 31, 2009 – Always Subject to Change)

This is the third quarter of a four quarter sequence in asset management, of which the first three quarters (AMP I, II, and III) are required and the fourth (AMP IV) is optional. This course provides students both a theoretical foundation 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, which is currently divided into four funds (Commingled, Crown, Kenney, and Nash). The equity portions of the funds follow strategy based on the fundamental security analyses of students in the class. Three of the funds allow short positions as well as long positions, whereas the fourth fund (Nash) is long only. The funds allow the use of quantitative strategies as overlays to the fundamental analyses.

Information about the course is available at:

<http://www.kellogg.northwestern.edu/faculty/korajczyk/courses.htm>

and at the course **Blackboard** site with the title "Kellogg Asset Management Practicum." The Blackboard site is for all four sections of the AMP and so contains a significant amount of material. All assignments will be posted on the Blackboard site (under "COURSE INFORMATION > AMP - WINTER 2010"). Required textbooks are available at the bookstore. All class presentations (stock pitches, research papers) are posted on the website (Under "COURSE DOCUMENTS").

Office hours: I am available by appointment. If you would like to set up an appointment, please email my assistant Debbie Brauer at d-brauer@kellogg.northwestern.edu.

Overview of AMP III:

The ramifications of most portfolio management decisions are only understood over time and through market cycles. Therefore, students registering for Asset Management Practicum I (FINC 933) in the spring of 2009 must also register for Asset Management Practicum II and III (FINC 934 and 935) in the fall of 2009 and winter 2010. Students who have completed Asset Management Practicum III have the **option** of registering for Asset Management Practicum IV (FINC 936 or FINC 936C) in the spring of 2010.

- **Training Sessions:** In addition to the Monday evening meetings, we may have training sessions outside of class. These sessions will accommodate training on vendor software or any other need that arises. Currently, we have sessions scheduled for "Stock Screens and Backtesting with FactSet" and "Stock Screens and Backtesting with Bloodhound."
- **Teaching Assistants:** The course teaching assistants are:

Fritz Burkhardt f-burkhardt@kellogg.northwestern.edu
Kevin Crotty k-crotty@kellogg.northwestern.edu

The TAs are Finance PhD students and are available to help you with software and data issues.

- **Prerequisites:** Asset Management Practicum II (FINC 934)
- **Co-requisites:**

Over the three-quarter sequence students must take a total of four quarter credits in additional asset management-related courses from the following list (note: FINC 463 and FINC 444, co-requisites for AMP I, qualify toward this four quarter credit requirement):

FINC 442	Financial Decisions
FINC 444	Value Investing
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
ACCT 451	Financial Reporting and Analysis
ACCT 452	Financial Reporting and Analysis II

- **Attendance:** Students are expected to attend all class sessions
- **Honor Code:**

All students enrolled in 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

Most of the formal assignments in the Practicum are individual assignments. You may discuss ideas and issues for your assignment with other member of the class, but the final work product must be your original work.

- **Code of Ethics and Plagiarism Policy**

Please review the *Practicum Code of Ethics* and the *Practicum Plagiarism Policy* documents that you signed last spring before the first AMP class, thereby agreeing to abide by the Code of Ethics throughout the Practicum. Deliberate or “accidental” plagiarism will not be tolerated by the Kellogg AMP. Direct quotations as well as paraphrases of others’ work must be cited properly and direct quotes must be enclosed in quotation marks.

Student Responsibilities:

The AMP II students who shadowed investment committee members of the four funds during fall quarter are the investment committee members for winter quarter. The investment committee members during fall should stay involved in the deliberations of the winter quarter investment committee. Investment committee assignments are provided in **Attachment I**.

AMP III analysts will be responsible for following at least three stocks for the quarter. **Attachment II** contains the assignments for stocks to be followed. **Attachment VI** contains guidelines as to what “following” entails.

Investment committee members.

- Investment Committee members are responsible for managing the fund’s portfolio and ensuring that the portfolio is in compliance with the Investment Policy Statement. Managing the portfolio includes making decisions on whether to take a position in a security and, if so, how large a position, as well as when to add to a position, decrease a position, or close out a position, including ETFs. Investment Committee members meet at least weekly to make such determinations.
- Investment Committee members report on the fund’s activities to the class on a weekly basis (see **Attachment III**) and to the Advisory Board on an annual basis.
- Investment committee members will assist in evaluating analyst recommendations and are welcome to present equity analyses of their own.
- Investment committee members will request the execution of trades using the AMP Trade Order Request Form (on the course website in spreadsheet form).

Each trade order request should be emailed to both AMP instructors and the fund’s trader.

- **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. Traders must be familiar with trading procedures (e.g., Radical at ITG, our executing broker, and Goldman Sachs, our prime broker) and must maintain a cumulative record of trades as outlined in the trade data spreadsheet (on the course website in excel form).

Copies of the trade data spreadsheet must be emailed to the portfolio managers requesting the trade as well as to:

r-korajczyk@kellogg.northwestern.edu
l-vincent@kellogg.northwestern.edu

- **Traders** and their shadows should read the research reports by Kim (F ’09) “AMP Trading Tutorial,” Hennegan and Stott (F ’08) “A Primer on Trading Costs & Methods for AMP Funds,” Brusznicki and Rangaswami (W ’08) “A Process Oriented Approach to Measure Trading Costs,” and Carlson and Qiao (F’07) “A Study on AMP Funds’ Trading Costs and Trading Venues.” The reports are on the course website.

Analysts.

- AMP III students who are assigned the role of analyst are responsible for making at least one stock pitch to the class during the quarter. Students select the stock to be pitched from their assigned industries (see **Attachment II**). The schedule for the stock pitches is provided below in the syllabus and the requirements for the stock pitch, similar to previous quarters, are provided in **Attachment IV**.
- Analysts are also assigned to their previous investment committee. Analysts should attend the investment committee meetings and understand the rationale for the portfolio positions.

Class Organization:

Guest speaker, stock pitches, research reports. We will begin with a guest speaker, student stock pitches, or student research reports. A detailed schedule is below.

Stock updates. Following the stock pitches and research reports will be updates on stocks that are currently held in the portfolio; a schedule for these updates is provided below. Volunteers are also encouraged. Next, current students who have pitched stocks are encouraged to provide updates on their pitches regardless of whether any portfolio currently holds the stock.

Portfolio updates. Each class will end with an update by each investment committee on the fund's performance, including:

- the positions in the portfolio
- the performance and risk profile of the portfolio
- trades made since the last class
- when appropriate (that is, when we have had stock pitches), the basis for decisions on the previous week's stock pitches.

Specific requirements and suggestions for the content of the update are provided in **Attachment III** of this syllabus.

Speaker dinners. Visiting speakers are invited to dinner before class from 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 three dinners scheduled for the winter quarter: Michael Prober ('91) on January 11, Bhaskaran Swaminathan on February 15, and Phil Furse ('00) on March 1. The dinners are optional and attending has no effect on your grade. However, if you sign up for a dinner, you must attend. Not attending after signing up crowds out other AMP students who wish to attend and costs AMP real resources and, therefore, will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend any of these dinners, please email Deborah Brauer (d-brauer@kellogg.northwestern.edu).

Grading:

Because the first three quarters of the course are meant to be taken as an integrated whole, students will receive formal course grades for FINC 933, 934, and 935 at the completion of the sequence. **All quarters are weighted equally in determining the sequence grades.**

Completion of co-requisites: if a student does not complete the four course co-requisites by the end of the year-long sequence (AMP I, II, III) then a one letter-grade reduction will be imposed for each course deficit. (Students who have scheduling issues should discuss options with the instructor.)

A more extended discussion of grading policies is available on the Course Blackboard site under "Course Information"/"AMP Grading Policies."

Analysts

The allocation of the grade for Winter Quarter for analysts will be as follows:

Stock pitch	25 %
Stock updates	10%
Evaluations of stock pitches and research reports	20 %
Prober assignment	10 %
Furse assignment	10 %
Class Participation	15 %
Peer review	10 %

The class participation component of the grade is based on contributions to the class discussion on stock pitches, stock updates, research reports, and guest speakers.

The peer review grade is determined by the members of the portfolio teams to which the analyst is assigned.

Investment Committee

In addition to managing the fund's portfolio, investment committee members are also required to write a research paper. Research papers can be written in groups with up to three members. The paper should be 15 – 25 pages in length. **The research topic must be approved by the instructor before January 19th.** The research papers will be presented in the last two class sessions of the quarter. Choose a topic from the list below. Research papers from previous quarters are posted on the course website and are good sources for ideas. We strongly encourage you to review those papers. Several of the posted research papers have addressed specific operating issues for managing the AMP portfolios, providing another source of research paper topics.

The allocation of the grade for Winter Quarter for investment committee members will be as follows

Research report	25 %
Weekly portfolio updates	10 %
Evaluations of stock pitches and research reports	20 %
Prober assignment	10 %
Furse assignment	10 %
Class Participation	15 %
Peer review	10 %

The class participation component of the grade is based on contributions to the class discussion on stock pitches, stock updates, research reports, and guest speakers.

The peer review grade is determined by the members of the portfolio teams to which the analyst is assigned.

Research Topics for Paper:

Trading: Traders need to present a short report on the cost of trading for the funds. In addition, they can choose to either write a research paper on trading or a research paper in an additional area. Possible trading topics are (1) The costs and benefits of different types of orders (2) should AMP be considering dark pools as trading venues? (3) Should AMP be concentrating trades at particular times of the day?

Quantitative Overlay Strategies: Should AMP be considering quantitative strategies as overlays to the fundamental analysis done in the stock pitches?

Analyst Performance Measurement: Perform a historical analysis of the risk-adjusted performance of analyst recommendations. What is the relation between analyst target prices and subsequent returns? What is the relation between class target price expectations and ranges and subsequent returns and risk?

Asset Allocation: Develop and test a specific model designed to guide PMs choice of market exposure.

Feedback on Stock Pitches, Research Reports, and Guest Speakers

After each class, you will receive an email directing you to an online survey for the class presentations. You will have two days (48 hours) to complete the survey for stock pitches/research reports. The short time period is due to two reasons. First, with respect to stock pitches, the Investment Committees generally meet before the end of the week and should have access to the stock pitch evaluations for use in their deliberations. Second, the best evaluations were provided shortly following the presentation when the information and impressions were fresh.

For stock pitch presentations, you will be asked to provide numerical and qualitative evaluations that will be given to the analyst (without attribution). Thoughtful written comments are more valuable than the numerical score and the comments will receive more weight in the participation grade. Comments lacking substantive feedback (e.g., “good presentation!”) will receive the same grade as no comment. A sample of the form is provided in **Attachment V**.

Textbooks and References

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.

Recommended Texts:

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

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

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

Other training

A number of AMP alumni and other practitioners have indicated that experience and training in the following areas would be useful. Some is, obviously, specific to the firm where they are employed.

Microsoft Excel/Visual Basic

Bloomberg

Matlab

C++

Working with, and merging, large datasets (e.g., using SAS)

Tentative Schedule for Winter Quarter 2009

External speakers' schedules can change without much notice so we may need to be flexible:

- January 4:**
- 1) Portfolio performance measurement, attribution, and evaluation.
 - 2) Merger Arbitrage
 - 3) Portfolio updates by investment committees

Assignment: Read chapter 12 of Maginn, et al. Managing Investment Portfolios: A Dynamic Process. Read "Characteristics of Risk and Return in Risk Arbitrage" by Mitchell and Pulvino.

- January 11:**
- 1) Guest Speaker: Michael Prober ('91), Founder and Portfolio Manager, Clovis Capital Management.

Assignment: There is a required, group, written assignment for this session which is posted on the course website. The assignment is due by 5:00 PM on Friday, January 8. Please email your assignment to d-brauer@kellogg.northwestern.edu.

- 2) Portfolio updates by investment committees
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January 18: No class

Tonight's class will begin at 7:30 PM

- January 25:**
- 1) Stock pitches: Graber, Recht
 - 2) Portfolio updates by investment committees

January 22 5 PM Stock pitches and spreadsheets/Research Reports due (email to class);

January 25 5 PM Presentation slides/portfolio reports due (email to class)

- February 1:**
- 1) Stock pitches: DeLong, Kennedy
 - 2) Stock updates: Radhadkrishnan, Sharon
 - 3) Portfolio updates by investment committees

January 29 5 PM Stock pitches and spreadsheets/Research Reports due (email to class);

February 1 5 PM Presentation slides/portfolio reports due (email to class)

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- February 8:**
- 1) Stock pitches: Horvilleur, Sharon
 - 2) Stock updates: Graber, Recht
 - 3) Portfolio updates by investment committees

February 5 5 PM Stock pitches/ due (email to class);

February 8 5 PM Presentation slides/portfolio reports due (email to class)

- February 15:**
- 1) Guest Speaker: Bhaskaran Swaminathan, Director of Research, LSV Asset Management: "Implementing Quantitative Strategies."

Assignment: Read – TBA (Dr. Swaminathan will send a reading list soon).

- 3) Portfolio updates by investment committees

February 15 5 PM Presentation slides/portfolio reports due (email to class)

- February 22:**
- 1) Stock pitches: Radhadkrishnan
 - 2) Research reports: TBA
 - 3) Stock updates: DeLong, Kennedy
 - 4) Portfolio updates by investment committees

February 19 5 PM Stock pitches and spreadsheets/Research Reports due (email to class);

February 22 5 PM Presentation slides/portfolio reports due (email to class)

- March 1:**
- 1) Guest Speaker: Philip Furse ('00), Portfolio Manager, Alydar Capital: "Firm Valuation."

Assignment: There is a required, individual, written assignment for this session which is posted on the course website. The assignment is due by 12:00 noon on Friday, February 12. Please email your assignment to d-brauer@kellogg.northwestern.edu.

- 3) Portfolio updates by investment committees

March 1 5 PM Presentation slides/portfolio reports due (email to class)

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- March 8:**
- 1) Research reports: TBA
 - 2) Stock updates: Horvilleur
 - 3) Portfolio updates by investment committees
 - 4) End of AMP I-III reception at the Allen Center

March 5 5 PM Research Reports due (email to class);

March 8 5 PM Presentation slides/portfolio reports due (email to class)

Attachment I

Investment Committee Assignments

Fund	Investment Committee	Investment Committee Mentors
Kenney Fund	Anthony, Bindal, Ghuwalewala	DeLong, Graber, Recht
Commingled Fund	Binshafout, Marwick, Milakofsky	Kennedy, Radhakrishnan
Crown and Nash Funds	Shekleton, Stulberg, Wong	Horvilleur, Sharon

Attachment II
Analyst and Industry Assignments
Blue (Red) = In (not in) portfolio as of 12-4-09, pitched by this student

Name	Industries to Pitch	Existing Positions to Follow
Anthony, Ryan	Healthcare Retail	<p>America's Car Mart, Inc. (CRMT) <i>Pitched by Cris Kennedy and Ryan Anthony, SP 09</i></p> <p>CVS Caremark (CVS) <i>Pitched by Michael Tyree, W 08</i></p> <p>Carefusion Corp. (CFN) <i>Pitched by Ryan Anthony, F 09</i></p>
Bindal, Prince	Oil and gas Telecom Biotech and pharma	<p>Transocean, Ltd. (RIG) <i>Pitched by Prince Bindal, SP 09</i></p> <p>EOG Resources, Inc. (EOG) <i>Pitched by Prince Bindal, SP 09</i></p> <p>Bed Bath & Beyond (BBBY) <i>Pitch by Prince Bindal, F 09</i></p>
Binshafout, Ahmad	Industrials Energy Telecom	<p>American Tower Corp. (AMT) <i>Pitched by Ahmad Binshafout and Adam Milakofsky, SP 09</i></p> <p>Nalco Holdings (NLC) <i>Pitched by Enzo D'Angelo, W 08</i></p> <p>STEC Inc. (STEC) <i>Pitched by Ahmad Binshafout, F 09</i></p>
DeLong, William	Business services Marketing services Consumer/retail Automotive	<p>RSC Holdings, Inc. (RRR) <i>Pitched by William DeLong, F 09</i></p> <p>Berkshire Hathaway, Class B (BRK.B) <i>No pitch</i> <i>Updated by Chris Dasse, F 08</i></p> <p>Itron (ITRI) <i>Pitched by Matthew Zumbach, SP 08</i> <i>Updated by Matthew Zumbach, W 09</i></p>
Ghuwalewala, Abhishek	High tech Media and entertainment Alternative energy	<p>Qualcomm, Inc. (QCOM) <i>Pitched by Abhishek Ghuwalewala and Jono Wong, SP 09</i></p> <p>Apple (APPL) <i>Pitched by Jeffrey Nevins, F 08</i></p> <p>Synaptics Inc. (SYNA) <i>Pitched by Abhishek Ghuwalewala, F 09</i></p>

Name	Industries to Pitch	Existing Position to Follow
Graber, Christopher	Healthcare Professional services Consumer products Industrial machinery/ Equipment	<p>TYCO International (TYC) <i>Pitched by Chris Graber and Michael Recht, SP 09</i></p> <p>Lorillard (LO) <i>Pitched by David Stott, W 09</i></p> <p>Newmont Mining (NEM) <i>Pitched by Maziar Brumand, F 07</i></p>
Horvilleur, Pierre	Consumer staples Consumer discretionary Financial institutions Media	<p>GameStop Corp. (GME) <i>Pitched by Pierre Horvilleur and Anne Marwick, SP 09</i></p> <p>Potash Corp. (POT) <i>Pitched by Scott Prieur, SP 08</i> <i>Updated by Scott Prieur, W 09</i></p>
Kennedy, Cristopher	Consumer Healthcare Business services Industrials	<p>Air Methods (AIRM) <i>Pitched by Enzo D'Angelo, SP 08</i></p> <p>Brookdale Senior Living (BKD) <i>Pitched by Cris Kennedy and Ryan Anthony, SP 09</i></p>
Marwick, Anne	Retail Food and beverage Travel and leisure	<p>Lamar Advertising Co. (LAMR) <i>Pitched by Pierre Horvilleur and Anne Marwick, SP 09</i></p> <p>American Italian Pasta Company A (AIPC) <i>Pitched by Anne Marwick, F 09</i></p> <p>Southwest Airlines (LUV) <i>Pitched by Eric Butler, SP 09</i></p>
Milakofsky, Adam	Technology: Software, Online transactional, online media, IT services	<p>Web.com (WWW) <i>Pitched by Ahmad Binshafout and Adam Milakofsky, SP 09</i></p> <p>K12 Inc (LRN) <i>No pitch – management presentation to AMP on Nov. 9, 2009</i></p> <p>Life Partners Holdings, Inc. (LPHI) <i>Pitched by Adam Milakofsky, F 09</i></p>

Name	Industries to Pitch	Existing Position to Follow
Radhakrishnan, Narayanan	Energy Healthcare Financial Institutions	<p>CME Group Inc (NYSE: CME) <i>No pitch – management presentation to AMP on April 14, 2008</i> <i>Updated by Wei Liu, W 09</i></p> <p>Denbury Resources (DNR) <i>Pitched by Michael Tyree, W 09</i></p> <p>Contango Oil & Gas Company (MCF) <i>Pitched by Nary Radhakrishnan, FW 09</i></p>
Recht, Michael	Finance Healthcare Industrials	<p>TYCO International (TYC) <i>Pitched by Chris Graber and Michael Recht, SP 09</i></p> <p>Jones New York (JNY) <i>Pitched by Chris Graber and Michael Recht, SP 09</i></p> <p>Ameren (AEE) <i>Pitched by Steve Griffiths, F 08</i></p>
Sharon, Yoav	Consumer staples Technology Energy Insurance	<p>Symantec Corp. (SYMN) <i>Pitched by T J Kim and Yoav Sharon, SP 09</i></p> <p>Salesforce.com (CRM) <i>Pitched by T J Kim and Yoav Sharon, SP 09</i></p> <p>Valero Energy (VLO) <i>Pitched by Ed Lalanne, W 07</i></p>
Shekleton, Sarah	Financial institutions Healthcare Technology	<p>VISA, Inc. (V) <i>Pitched by Sarah Shekleton, SP 09</i></p> <p>Avis Budget Group, Inc. (CAR) <i>Pitched by Jason Stulberg and Sarah Shekleton, SP 09</i></p> <p>Wells Fargo (WFC) <i>Pitched by Eric Butler, F 08</i></p> <p>Compass Minerals Intl. (CMP) <i>Pitched by Sarah Shekleton, F 09</i></p>

Name	Industries to Pitch	Existing Position to Follow
Stulberg, Jason	Chemicals Food – manufacturer or service providers (restaurants) Retail apparel	<p>Gildan Activewear, Inc. (GIL) <i>Pitched by Jason Stulberg, SP 09</i></p> <p>Deckers Outdoor Corporation (DECK) <i>Pitched by Jason Stulberg, F 09</i></p>
Wong, Jonathon	Technology Telecom Retail	<p>VMware (VMW) <i>Pitched by Abhishek Ghuwalewala and Jono Wong , SP 09</i></p> <p>First Solar, Inc. (FSLR) <i>Pitched by Jono Wong , F 09</i></p> <p>Verizon Communication (VZ) <i>Pitched by Enzo D'Angelo, SP 09</i></p>

Attachment III

Requirements for Weekly Portfolio Updates by Investment Managers

The three AMP investment committees should present weekly reports on the risk and performance of the four funds. The report is due each Monday the class meets. The report should include, at a minimum:

- A statement of the committee's chosen target asset allocation. This should include an analysis of cash versus equity, market capitalization of the fund's holdings, and exposure to "Value" and "Growth" styles.
- Total return on the fund: since inception (April 11, 2007); calendar year to date; calendar quarter to date; and any other period of your choice. Compare these returns to the benchmark return. All of these returns can be obtained from the "Performance: Fund Performance" section of the Goldman web site.
- An analysis of each position's contribution to the fund's performance. This can be obtained from the "Performance: Security Performance" section of the Goldman web site.
- A graph of the Risk Decomposition Chart from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.
- A graph of the Active Risk Index Exposures and Active Industry Exposures from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.
- A check of adherence to all of the fund's restriction as outlined in the current Investment Policy Statement (please use the BARRA estimated beta rather than the Goldman computed beta because the BARRA beta is forward looking rather than historical).
- An analysis of the risk-adjusted performance of the fund using Barra's Performance Analyst.

An electronic version of this report should be emailed to all class members, the instructors, and Debbie Brauer (this can be accomplished through the Blackboard website with Communication – Send Email – All Users) by 5:00 PM on class days.

Attachment IV

Stock Pitch Guidelines and Requirements

Analysts choose the company on which they make stock recommendations (long or short) from the industry group or groups to which they are assigned (the assignments are the same as Fall quarter and are provided in **Attachment II**). Because we are making recommendations for investments, the goal is to choose a stock for which a **buy** or **sell** (short) recommendation can be made. Hold recommendations should be avoided.

A fundamental analysis should include, at a minimum:

- 1) an analysis of the firm's business and its industry, including its strategy and the competitive landscape
- 2) an analysis of the firm's financial condition including profitability, balance sheet, and cash flow generation
- 3) a forecast of the firm's future performance structured as pro forma financial statements with well-articulated assumptions about the key value drivers
- 4) a DCF valuation of the firm based on the financial projections

Additionally, we encourage students to reach out to representatives in the firm or one of the firm's competitors.

The stock pitch analysis comprises two parts. The first is a written report with supporting exhibits, the equivalent of a sell-side analyst's report, providing an in depth analysis of the company and the bases for the recommendation. Included in this written report, in excel format, must be a complete set of pro forma financial statements for the firm as well as a DCF valuation analysis. Additional analyses may be provided but the pro forma financial statements and DCF valuation analysis are required. The analyst should specify the assumptions behind the pro forma financial statements and provide both sensitivity analysis and scenario analysis when appropriate.

Analysts have generally provided a Word or PDF document for the report and the pro forma financial statements in a separate Excel document. It is important that the pro forma financial statements be in excel format, not PDF, so students in the class can trace the analyses and even do their own sensitivity analysis if desired. To that end, the spreadsheets should be formatted so that they can be printed easily by the class members.

The report and spreadsheets **must** be emailed to all class members (this can be accomplished through the Blackboard website with Communication – Send Email – All Users) by **9 am on the Friday before the Monday presentation**. All students are expected to read the report and study the spreadsheet financials before class. The report must contain all of the substantive information and analyses for the stock pitch.

The second component of the analysis is a set of power point slides for presentation to the class. Because all students will have read the report before class, the purpose of the power point slides is not to educate the audience of potential investors but rather to emphasize the main points and the recommendations from the written report. The power point presentation must be emailed to all class members (using the Blackboard procedure) by **3 pm on the day of the presentation**.

If the report is submitted late, 5 points (out of a 100) will be deducted for each 24 hour period, or fraction thereof, it is late.

The analyst will have a maximum of 10 minutes to make the pitch followed by a maximum of 20 minutes of questions from the class. The point of view in asking questions should be that of an investment committee analyzing the potential investment.

All students and faculty will provide a written evaluation (electronically on a form provided – see **Attachment V**) of the stock pitch, assessing the quality of the written report and of the oral presentation. The key considerations are the quality and effectiveness of the stock pitch and whether the evaluator would support the recommendation made in the stock pitch for the AMP funds. The written evaluations consist of numerical scores for several portions of the evaluation and written comments to support those scores.

The stock pitches will be broadcast via WEBEX to the AMP's Board of Advisors and interested alumni who may ask questions of the presenter. Analysts should bring their pitches to class on a memory stick/flash drive because they must use the laptop computer attached to the WEBEX system for the presentation.

Attachment V

Stock Pitch Evaluations

The procedure for evaluating the stock pitches will be similar to that of Fall Quarter. After the pitch, all members of the class will receive a link to a website with the evaluation form. The evaluations are due by **9 pm of the Wednesday** following the stock pitch presentation so the results can be distributed to the investment committees on Thursday. Timing can be an important element of portfolio management.

Although the focus is on being constructive, positive comments such as “good pitch” may be considered supportive but they lack the information content to make them constructive. Why was it a good pitch? What in particular distinguished the pitch? What was compelling about the pitch? Comments such as “presenter really seemed to know the business” are likewise not sufficiently informative. How was this knowledge demonstrated? What did you find convincing about the presentation? Would you recommend implementing the buy or sell recommendation? Why or why not? What recommendations can you make for improving the structure and effectiveness of the stock pitch?

The numerical scores are important but the most valuable element of the evaluation to the person presenting the pitch is the written section of suggestions for improvement.

The revised form will include the following questions:

Business Analysis	What grade do you assign to the quality of the business analysis supporting the stock pitch? (1 – 100)
Financial Analysis	What grade do you assign to the quality of the financial analysis supporting the stock pitch? (1 – 100)
Valuation Model	What grade do you assign to the quality of the valuation model supporting the stock pitch? (1 – 100)
Written Presentation	What grade do you assign to the overall quality of the written portion of the stock pitch? (1 – 100)
Oral Presentation	What grade do you assign to the overall quality of the oral portion of the stock pitch? (1 – 100)

Effectiveness

What grade do you assign to the effectiveness of the stock pitch in convincing you of the presenter's position; in other words, how likely is it that you will recommend implementing the trade?
(1 – 100)

Recommendations

What recommendations for improvement would you suggest?

Please address each of the above categories in your detailed, written recommendations.

Attachment VI

Updates on Portfolio Holdings

Students have been assigned to “follow” stocks that are currently held by one or more funds but that were generally pitched by students who have graduated from Kellogg.

Following the stock involves making recommendations to the investment committee about continuing to hold the stock, purchasing more of the stock, reducing the position, or closing out the position.

The assigned analyst should review the original stock pitch (generally posted on the course website) in order to understand the original investment thesis.

An initial update on the stock should be made to the class (5 – 10 minutes in length) which would include the stock’s performance since its addition to the portfolio and performance relative to the pitch’s target price and target date. An outline for such a short presentation can be found by going to the course website, Course Documents, under “Advisory Board Meeting April 23, 2008.” The portfolio managers provided a summary of each of the stocks in the portfolios for this meeting. The presentation to the class should be more detailed than this summary but cover the same basic points.

The analyst should keep abreast of new developments with respect to the stock that could affect the recommendation in the future—for example, earnings announcements, management changes, regulatory issues, etc. The analyst should communicate these updates via an email to the class, summarizing the recent development and providing any change in recommendation as a result. However, if there is a potentially important change, a short presentation (5 – 10 minutes) to the class is warranted. An invitation to provide updates on the existing positions will be made at the beginning of each class.

Attachment VII

Research Reports

The research reports will be presented by the investment managers during the last two non-speaker class periods of the quarter, February 22 and March 8. Research reports from prior quarters are posted on the course website and we strongly urge you to review those papers as they provide some excellent suggestions and implementable procedures for managing the AMP portfolios. They may also provide assistance in developing a topic for future research reports. In some instances, it may be possible to expand and extend a previous research report.

Please make an appointment to discuss the topic and design of your research report with the instructor as soon as you have some thoughts and ideas about it. Groups should have their topics chosen by January 19th.

Presentations and Q&A should be approximately 45 minutes (e.g., 30 minutes for the presentation and 15 minutes for Q&A). The reports are due the Friday before class and should be sent to the class via Blackboard. Presentation slides should be sent to the class via Blackboard by 5:00 PM the day of the presentation.