



NORTHWESTERN UNIVERSITY

Asset Management Practicum III: FINC 935
Winter 2015
Wednesday, 6:30 pm – 9:30 pm
Room G45, Jacobs Center

Professor Robert Korajczyk
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Asset Management Practicum III - Preliminary Syllabus

(March 6, 2015 – Subject to Change)

AMP III (FINC 935) is the third quarter of a four quarter sequence in asset management. The focus of this course sequence is to give the 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, currently divided into four funds. The equity portion of the funds is invested 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 is long only. The funds allow the use of quantitative strategies as an overlay to the fundamental analyses.

Additional information about the course is available at:

http://www.kellogg.northwestern.edu/asset_management

and at the course **Canvas** site with the title *Kellogg Asset Management Practicum*. The Canvas site and the associated Dropbox site are for AMP I through AMP IV and contain a significant amount of material, both current and historical. All class presentations (stock pitches, stock updates, portfolio updates, and research papers) are posted (or will be posted) on the website. Please become familiar with these sites.

Practicum students have exclusive access to an office (room 5219) using their Marlok keys. The office has two Bloomberg terminals, our trading software, Barra, and other analytics packages.

If you are wondering how to pronounce Korajczyk, try the following URL:

<http://www.forvo.com/word/korajczyk/>

Overview of AMP III

Classes: The class meets every Wednesday evening. A detailed schedule is given below.

Attendance: Students are expected to attend all class sessions.

Timeliness of Assignment Submission: Guest speakers and pitch evaluators, in addition to class members and faculty, need to have sufficient time to review submitted materials before class. Because of this, it is critical that assignments be submitted on time. Assignments that are not submitted on time will lose 2% of the grade for every four-hour period (or fraction thereof), they are late. For example, if an assignment is submitted between 1 minute and 240 minutes late, there will be a 2% reduction in the

assignment grade (2 points on a 100-point assignment) and if an assignment is submitted between 20:01 hours and 24:00 hours late, there will be a 12% reduction in the stock pitch grade (12 points on a 100-point assignment), etc.

Teaching Assistants: The course teaching assistants are:

Selwyn Yuen s-yuen@kellogg.northwestern.edu
Sridhar Srinivasan sridhar-srinivasan@kellogg.northwestern.edu
Andreas Neuhierl a-neuhierl@kellogg.northwestern.edu

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

Prerequisites: FINC 441 or FINC 440, FIN 463, and either FINC 933 or 934.

Total Co-requisites: Over the three-quarter AMP sequence students must take a total of either three or four quarter credits in asset management-related courses from the following list (note: 463 qualifies toward this four quarter credit requirement but waiving out of the 463 AMP requirement does not reduce the number of co-requisites):

FINC 442	Financial Decisions
FINC 444	Value Investing
FINC 447	Financial Strategy and Tax Planning
FINC 448	M&As, LBOs and Corporate Restructuring
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 530	Special Topics in Finance: Empirical Methods in Finance
FINC 936	Asset Management Practicum IV (if student has taken AMP I, II, and III)
FINC 941	Macroeconomic Policy and Global Capital Markets
FINC 970	Empirical Methods in Finance (FINC 530 and 970 are mutually exclusive).
ACCT 451	Financial Reporting and Analysis
ACCT 452	Financial Reporting and Analysis II.

In order to qualify for satisfying the co-requisites with three courses the co-requisites must include (a) one of either FINC 444 or FINC 463; (b) one of either FINC 460, FINC 970, or FINC 530; and (c) at least one other course from the above list.

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: Since you will be managing millions of dollars in the Practicum portfolios, the Practicum faculty expect the highest level of ethics to be followed at all times. Students in the Practicum

must familiarize themselves with the *CFA Institute Code of Ethics and Standards of Professional Conduct* and with the *Practicum Code of Ethics*. A copy is available on Canvas.

Code of Classroom Conduct: Because this is an experiential learning class modeled on professional investment management as practiced, students are expected to act as professionals in the classroom. Please refrain from eating during class and be courteous with your attention to the presenter, whether a student or an outside speaker. Because the pitches include a spreadsheet, I permit laptops to be open during stock pitches. Laptop usage during lectures by guest speakers will be determined on a case-by-case basis. However, unrelated uses of the laptop such as surfing the web and reading/responding to emails are inappropriate. These requirements are consistent with the *Kellogg Code of Classroom Etiquette*.

Plagiarism Policy: All students must agree to abide by the *Practicum Plagiarism Policy*. A copy is available on Canvas.” Deliberate or “accidental” plagiarism will not be tolerated in AMP. Direct quotations as well as paraphrases of others’ work must be cited properly and direct quotes must be enclosed in quotation marks.

Training sessions: There may be training sessions on Wednesday afternoons from 5:00 - 6:30 pm in room TBA for training on vendor software such as Bloomberg, Barra, Thomson Financial, and FACTSET. Sessions will be announced as they are scheduled.

Pre-class dinners: On dates when there is a visiting practitioner there is usually a pre-class dinner with the visiting speaker from 5:00 pm – 6:15 pm for a subset of the class. We have two dinners scheduled for the winter quarter (February 4th and 11th). If you do not have a class ending at 5:00, try to be there at 5:00, otherwise be there as quickly as you can. For each speaker, up to 10 students may attend the dinner. Dinner is optional and attending dinners has no effect on the course grade. However, if you sign up for a dinner, you must attend. Not attending after signing up will adversely affect your class participation grade and access to future speaker dinners.

Office hours: If you would like to set up an appointment, please email Debbie Brauer at d-brauer@kellogg.northwestern.edu. Debbie has access to my calendar and will set up appointments.

Course Structure:

Student Responsibilities:

Students in AMP have two major responsibilities throughout the three or four course sequence. One is to serve as an analyst during which time the student will prepare stock pitches and stock updates. The other is to serve as portfolio manager. During the AMP sequence, each student will prepare a minimum of two stock pitches, two stock updates, and one research report.

Analysts

- The schedule for the stock pitches and stock updates is provided in the course schedule, below. The requirements for the stock pitch are provided in **Attachment III**. Stock updates consist of a short report and a 5 minute presentation. In the update, the analyst should assess whether the original thesis is still valid and whether the portfolios should increase or decrease their positions in that stock. In addition to the formal updates, analysts should keep PMs apprised of new developments for the stocks assigned to the analyst, such as upcoming or recent earnings releases,

conference calls, and news. Stock assignments are listed on Canvas and the dates for formal updates are listed in the class schedule, below.

- Each analyst is assigned to an investment committee. Analysts should attend the investment committee meetings and understand the rationale for the portfolio positions.

Portfolio Managers (Investment Committee)

- Portfolio managers are responsible for managing the fund's portfolio and ensuring that the portfolio is in compliance with the Investment Policy Statement (on Canvas). 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 increase, decrease, or close a position. Portfolio managers meet at least weekly to make such determinations.
- The main deliverable for Portfolio Managers in AMP III is a report for, and presentation to, the Practicum Advisory Board. This will take place on the afternoon of **March 4, 2015** (followed by a reception and dinner).
- Portfolio managers report on the fund's activities to the class on a weekly basis (see **Attachment II**).
- Portfolio managers request the execution of trades using the AMP Trade Order Request Form (on Canvas in spreadsheet form).

Each trade order request should be emailed to all AMP instructors and the fund's trader:

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

- One member of the investment committee for each fund will be designated the trader for the fund. **Please inform the instructors which student has been so designated.** An analyst for each fund should be designated as the trader's "shadow," to learn about trading from the 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., Triton 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 Canvas in spreadsheet form). Copies of the trade data spreadsheet must be emailed to the portfolio managers requesting the trade as well as to:

l-vincent@kellogg.northwestern.edu
r-korajczyk@kellogg.northwestern.edu
Phillip-Braun@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 Canvas site.

Portfolio assignments are provided in **Attachment I**.

Assigned dates for the stock pitches and updates are provided below as part of the weekly course schedule. Analysts should discuss potential industries/sectors with their investment committee prior to choosing a stock. Prior to starting work on a stock pitch, the analyst should inform the PMs and the instructor of the stock. Stocks should be pitched as either a long or short recommendation. General instructions for the stock pitches are provided in **Attachment III**.

The investment committee will schedule weekly (or more frequent) meetings of all investment committee members and analysts assigned to the portfolio. These portfolio team meetings are an important part of the AMP experience.

All students should read carefully and understand the Investment Policy Statement and the Operational Rules for the funds. These documents are posted on the course Canvas site.

Grading:

In addition to the primary deliverables for the class, another important part of the course is the evaluation of each stock pitch and research report. All students, whether portfolio managers or analysts, are responsible for providing feedback to the students making a pitch or presenting a research report. They are also responsible for providing an evaluation of guest lecturers.

Guest lecturers may also require graded assignments for class.

The specifics of the grade calculation for FINC 935 are as follows:

Portfolio Managers:

Annual report:	30%
Class participation:	15%
Written evaluations of stock pitches, research reports, and guest speakers:	25%
Portfolio Updates:	15%
Peer review:	8%
Freedberg Assignment:	7%

Analysts:

Stock pitch:	30%
Class participation:	15%
Written evaluations of stock pitches, research reports, and guest speakers:	25%
Stock Update:	15%
Peer review:	8%
Freedberg Assignment:	7%

The class participation component of the grade is based on contributions to the class discussion, including the question and answer period following each stock pitch

After each class, students should complete an online survey for the analyst presentations and the guest speakers. Students have two days to complete the survey. You will be asked to provide numerical and qualitative evaluations of the stock pitches and research reports that will be given to the student (without attribution). Thoughtful written comments are more valuable than the numerical score and the comments will receive more weight in the grade. Comments lacking substantive feedback (e.g., “good presentation!”) will receive the same grade as no comment. Please focus the comment on actionable items.

Completion of year-long sequence (three quarters): the asset management practicum is structured as a required three course sequence (with an optional fourth quarter). Therefore, students are expected to complete the sequence. Any exceptions must be discussed with the instructor and will result in a one letter grade penalty. Spring admission students may complete any three quarters of AMP I, II, III, IV. Fall admission students must take AMP II, III, and IV.

Completion of co-requisites: If a student does not complete the course co-requisites by graduation, a one letter-grade reduction will be imposed for each course deficit. Students with scheduling issues should discuss options with the instructor. Please note: the co-requisites may be completed by graduation without penalty, however AMP grades will not be given until all co-requisites are completed. The instructors will provide students with written performance evaluations at the end of each quarter.

Course Grades upon completion of sequence. Because the first three quarters of the course are meant to be taken as an integrated whole, students will receive official course grades for all three quarters at the completion of the sequence. The lack of interim “grades” will not affect grade point averages or eligibility for any academic awards. Also refer to the FAQ on grading posted on Canvas.

Peer review: All students will complete peer reviews of their portfolio team, both portfolio managers and analysts. Forms for these reviews will be distributed at the end of the quarter.

Stock Pitches:

Students choose the company on which they make stock recommendations (long or short) from their preferred industry groups and in consultation with the portfolio managers and the instructor (two out of three portfolio teams must approve the name of the stock to be pitched). **Attachment III** provides guidelines and requirements for the stock pitches. In addition, all past pitches made to the Practicum will be posted on the Canvas site and students may refer to these for examples. The pitch report, including a spreadsheet valuation model, must be placed on the AMP III Dropbox site by **9:00 AM on the Monday before the Wednesday presentation** (unless indicated otherwise on the schedule below). All students are expected to read the report and study the spreadsheet model 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 PowerPoint slides for presentation to the class. Because the students will have read the report before class, the purpose of the 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 PowerPoint presentation must be placed on the AMP III Dropbox site by **3 pm on the day of the presentation**.

The analysts will have a maximum of 5 minutes to make the pitch followed by a maximum of 25 minutes of questions from the class. The point of view in asking questions should be that of an investment committee analyzing a potential investment.

Online evaluations. All students will provide a written evaluation of the stock pitch, assessing the quality of the written report and the verbal 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 comments, without attribution, are distributed to the class.

The stock pitches will be broadcast via Webinar 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 Webinar system for the presentation.

Response to Comments and Questions:

Each analyst is encouraged to respond to questions and comments received from the class. Please email these to all class members.

Textbooks:

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*, 9th edition. New York: McGraw-Hill, 2011.

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

January 7: Introduction to AMP III

Portfolio risk assessment and performance attribution.

Market Microstructure and trading.

Readings: *CFA Standards of Practice* 11th edition and *CFA Asset Manager Code of Conduct* 2nd edition. O'Hara, "High-Frequency Trading and Its Impact on Markets" and Heston, Korajczyk, Sadka, and Thorson, "Are You Trading Predictably?"

Portfolio updates by all portfolio managers

January 7 3:00 pm Portfolio updates and presentation slides due.

January 14: Stock pitches: Newcom

Stock updates: Ji, Lin

Pitch evaluator: Philip Ordway ('07), Principal and Portfolio Manager of Anabatic Fund, L.P.

January 12 9:00 am Report and Stock Updates due.

January 14 3:00 pm Portfolio updates and presentation slides due.

January 21: Stock pitches: Acosta/Manderscheid/Pasari (team participating in the Ben Graham Centre's 2015 Stock Picking Competition), Fourness

Stock updates: Aravindhan

Pitch evaluator:

Portfolio updates by portfolio managers (Crown/Nash)

January 19 9:00 am Report and Updates due.

January 21 3:00 pm Portfolio updates and presentation slides due.

January 28: (Optional) Brave Leader Series with Jeff Ubben ('87), CEO and Chief Investment Officer, ValueAct Capital, AMP Advisory Board Member (5:15-6:15) OLC – Jacobs Center.

January 28: Stock pitches: Ji, Ojha, McDonald

Stock updates: Newcom

Pitch Evaluator: James Rich ('08), Aegon Asset Management

Portfolio updates by portfolio managers (Kenney)

January 26 9:00 am Report and Updates due.

January 28 3:00 pm Portfolio updates and presentation slides due.

February 4: Guest Speaker: William McLean, Chief Investment Officer, Northwestern University,
“Understanding Client Objectives — Endowment Portfolios.”

Assignment: Read case “Yale University Investments Office: February 2011” and the Yale
Endowment 2013 annual report.

Portfolio updates by portfolio managers (Commigled)

February 2 9:00 am Freedberg Assignment due

February 4 3:00 pm Portfolio updates and presentation slides due.

February 10: (Optional) Brave Leader Series with Mellody Hobson, President, Ariel Investments
(5:15-6:15) OLC – Jacobs Center.

February 11: Guest Speaker: Scott Fearon '83, Founder and President, Crown Capital
Management and AMP Advisory Board Member: "Fads, Frauds, and Failures: An
Overview of Successful Short Selling."

Assignment: Read (at least) the first 6 chapters of: *Dead Companies Walking* by Scott Fearon.

Portfolio updates by portfolio managers (Crown/Nash)

February 11 3:00 pm Portfolio updates and presentation slides due.

February 18: Stock pitches: Aravindhan, Zhou
Stock updates: Fourness
Pitch evaluator: Enzo D'Angelo ('09) and Michael Tyree ('09), co-founders, Tyree
& D'Angelo Partners

Portfolio updates by portfolio managers (Kenney)

February 16 **9:00 am** Report and Updates due.

February 18 **3:00 pm** Portfolio updates and presentation slides due.

February 25: Stock pitches: Lin, Saberwal
Stock updates: Manderscheid, Pasari
Pitch evaluator: Pat Dorsey, founder of Dorsey Asset Management and Robert
Jackson, Dorsey Asset Management.

Portfolio updates by portfolio managers (Commigled)

February 23 9:00 am Report and Updates due.

February 25 3:00 pm Portfolio updates and presentation slides due.

March 4: AMP Annual Advisory Board Meeting and Dinner
Class moved to the afternoon: 12:30 – 5:00 PM.
Reception (6:00 PM) and dinner: (7:00 PM).
Keynote speaker
Jeff Ubben ('87), CEO and Chief Investment Officer, ValueAct Capital, AMP Advisory Board Member: "The Long Game."

Portfolio updates by portfolio managers and teams (All)
March 3 9:00 am Portfolio updates and presentation slides due.

March 11: Guest Speakers: Stacey Riddell '89, Independent Consultant and Private Investor; Kumarakulasingam "Suri" Suriyakumar, Chairman, President & CEO; Jorge Avalos Chief Financial Officer; and David Stickney, Vice President of Corporate Communications & Investor Relations, ARC Document Solutions: "Analyzing a Public Company/Stock from A-Z: ARC Document Solutions."

Assignment: Provide a 2-page write-up summarizing the following: Provide five reasons for owning the stock and five reasons for selling it. You should include projections for 3-5 years. Your conclusion should be a buy or sell at the time of their report. It should include what you used to make their decision such as 10ks, 2 years of proxies, etc., and their reasoning/thought process/methodology for making the buy or sell decision -- essentially the logic behind your final decision.

There is no need to include any information that is publicly available other than the Company's name unless it is explicitly used to bolster your recommendation.

The management will present to the class and you will have time for the Q&A. Your questions should not be about things knowable from publicly available documents, but things that help you understand the business.

Stock updates: McDonald, Ojha, Saberwal, Zhou

Portfolio updates and transitions by portfolio managers (Crown/Nash)

End of quarter reception at the Allen Center.

March 9 9:00 am ARC write-up, research reports, and updates due.

March 11 3:00 pm Portfolio updates and presentation slides due.

Attachment I

Student Fund Assignments

Fund	Investment Committee	Analysts
Kenney Fund	<ul style="list-style-type: none">• Bains• Klingel	<ul style="list-style-type: none">• Fourness• Newcom• Ji• Ojha
Commingled Fund	<ul style="list-style-type: none">• Fukami• Skrodzki	<ul style="list-style-type: none">• Aravindhan• Pasari• Saberwal• Zhou
Crown and Nash Funds	<ul style="list-style-type: none">• Acosta• Huang	<ul style="list-style-type: none">• Lin• Manderscheid• McDonald

Attachment II

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 Wednesday 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 selected sector exposures via ETFs.
- Total return on the fund: 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 or from Barra Aegis Performance Analyst (under Asset Contributions).
- 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.
- An analysis of the fund's performance using Barra's performance analyst (please refer to the research paper by Marwick, Shekleton, Stulberg, and Wong from Winter Quarter, 2010).
- 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 electronic version of this report should be placed on the AMP III Dropbox site by 3:00 PM on class days.

Attachment III

Stock Pitch Guidelines and Requirements

Analysts choose the company on which they make stock recommendations (long or short) after consultation with the three investment committees and the instructor on industries/sectors that are under-represented in the portfolio. 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
- 5) a target price or price range and a related target date for attaining that price

In addition the analyst should provide information as to how the stock was selected. If a screen or set of screens was used, the results of each of the screens should be provided.

The analyst should provide the investment committees with a downside price at which the analyst recommends the portfolio exit the position (long or short) if the thesis does not play out.

The stock pitch comprises two parts. The first is a written report with supporting exhibits, 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.

Analysts provide either 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 placed on the AMP III Dropbox site by **9 am on the Monday before the Wednesday presentation unless noted otherwise on the syllabus**. 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 placed on the AMP III Dropbox site by **3 pm on the day of the presentation**.

The analyst will have a maximum of 5 minutes to make the pitch followed by a maximum of 25 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 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 WEBINAR 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 WEBINAR system for the presentation.

Attachment IV

Updates on Portfolio Holdings – or How to “Follow” a Stock

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 AMP Canvas or Dropbox sites) as well as any updates to the pitch (also posted on the AMP Canvas or Dropbox sites) in order to understand the original investment thesis.

An update on the stock should be made to the class (5 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.

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 minutes) to the class is warranted.



Professors Robert Korajczyk, Linda Vincent, Phillip Braun
Asset Management Practicum I - IV
Finance 933 - 936
Spring 2014 – Spring 2015

Operational Rules

It is natural for those in asset management to focus on the financial risks associated with the investments made by the fund. There are many operational risks faced by asset management companies. We must minimize operational risks by adhering to strict operational rules.

- 1) All participants must abide by and sign the Practicum code of ethics.
- 2) Each Fund must adhere to the Investment Policy Statement for that Fund.
- 3) Only Securities/Strategies presented in class are eligible for inclusion in Funds (with exceptions stated in the investment policy statement).
- 4) Only designated student traders are authorized to trade assets for the fund. Trades should only be made during trading hours on the Exchange. Limit orders should be used rather than market orders to protect against trading errors.
- 5) When a fund team decides to make a trade in an asset, they should e-mail instructions to the trader and CC the course instructors. Instructions should include a specific description of the asset, the size (in shares) and direction (buy, sell, short, cover) of the trade, and an indication of urgency. The fund team must also make sure that sufficient funds are available to cover the trade, and that the trade does not cause the fund to be in violation of the investment policy statement. The fund team must also determine that the fund's positions will not trigger UBIT.
- 6) **Before** a short sale, the trader must locate the shares with the prime broker. **It is illegal to execute a short sale without locating shares.**
- 7) The trader is encouraged to have a second practicum participant confirm the accuracy of the trade before submitting it to the executing broker (ITG Incorporated). Post execution, the trader must send a confirming e-mail to the fund team (and copy the course instructors) confirming the execution of the trade with amounts and transaction prices. The trader must notify the prime broker (Goldman Sachs) of the trade (security, size, direction, and fund name).
- 8) Traders should not override the trading limits in the trading software.
- 9) The trade and the fund team investment committee must both confirm that the trade is accurately posted by the Prime Broker (Goldman Sachs) by the morning after the trade.

- 10) If the trader is unable to trade the order, the trader or the fund team can ask the instructors to trade the order.
- 11) Fund teams must present a weekly report of fund valuation, risk, adherence to the fund's investment policy statement. If the fund is out of compliance (e.g., the fund's beta is less than 0.7 or greater than 1.3), the fund's investment committee must take appropriate steps within two days to return the fund to compliance.
- 12) The fund teams must keep a record of execution costs and analyst performance for periodic reporting purposes.



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Investment Policy Statement

The Asset Management Practicum portfolio consists of four sub-funds:

The Crown Fund
The Kenney Fund
The Nash Fund
The Commingled Fund

The Crown, Kenney, and Commingled Funds:

The Crown, Kenney, and Commingled Funds are to be invested in equities traded in the United States, exchange traded funds (ETF), and cash reserves. Positions may be long or short and must be based on fundamental security analysis. The funds should have a net exposure (beta) to the S&P 500 between 0.7 and 1.3. The funds should be diversified to the extent that tracking error, relative to the S&P 500, should not exceed 5% per month.

All individual stock positions must be from the set of stocks pitched in class, in FINC 444, or at an Investment Management Club meeting. Existing positions can be adjusted at any time. A stock is eligible for inclusion as a new position in the portfolio for up to four weeks following the date of the pitch or of an in-class update. Stocks that have been pitched or updated in class during the preceding two academic quarters can become eligible following an email update to the class and instructors containing at least the following information: 1) a summary of the original investment thesis, target price, target date, and catalysts; 2) an analysis of important changes to the firm and the industry since the pitch or update; 3) the current thesis, target price, target date, and catalysts. Stocks that have not been pitched or updated in class in the last two quarters require a detailed update of the stock in class to re-qualify the stock for inclusion in the portfolio. Portfolio managers can take positions of up to 2% in stocks not yet pitched (not to exceed a total of 8% of the portfolio). If the stock is not pitched within 4 weeks, the position must be closed.

ETF positions are meant to control the overall market and style exposure of the funds. The following ETFs can be traded without prior approval: S&P Depository Receipts (SPY), Vanguard large/small capitalization, value/growth, and total market VIPERS (VV, VB, VUG, VTV, VTI). Other ETF positions must be approved by the instructors and may require a short presentation to the class. Only ETFs that are covered by Barra are eligible. A list of eligible ETFs is posted on the course website.

Quantitative Overlays: Up to 10% of the fund may be allocated to a particular quantitative strategy (up to 40% across strategies) after a presentation to the class (including past research reports) and with

permission of the instructors. Once the strategy is approved, stocks chosen by the strategy do not need to be pitched.

Position Limits: A long position in an individual security should not exceed 8% of the fund's market value. A short position in an individual security should not exceed 4% of the fund's market value. These limits do not apply to cash or securities that are, themselves, well-diversified, such as exchange traded funds linked to market indices. Total short positions should not exceed 30% of the fund's market value.

The fund's portfolio needs to be structured to avoid incurring unrelated business income tax (UBIT).

The Nash Fund:

The Nash Fund is to be invested in equities traded in the United States, exchange traded funds, and cash reserves. Positions must be long and based on fundamental security analysis. The fund should have a net exposure to the S&P 500 between 0.7 and 1.3. The fund should be diversified to the extent that tracking error, relative to the S&P 500, should not exceed 5% per month.

All individual stock positions must be from the set of stocks pitched in class, in FINC 444, or at an Investment Management Club meeting. Existing positions can be adjusted at any time. A stock is eligible for inclusion as a new position in the portfolio for up to four weeks following the date of the pitch or of an in-class update. Stocks that have been pitched or updated in class during the preceding two academic quarters can become eligible following an email update to the class and instructors containing at least the following information: 1) a summary of the original investment thesis, target price, target date, and catalysts; 2) an analysis of important changes to the firm and the industry since the pitch or update; 3) the current thesis, target price, target date, and catalysts. Stocks that have not been pitched or updated in class in the last two quarters require a detailed update of the stock in class to re-qualify the stock for inclusion in the portfolio. Portfolio managers can take positions of up to 2% in stocks not yet pitched (not to exceed a total of 8% of the portfolio). If the stock is not pitched within 4 weeks, the position must be closed.

ETF positions are meant to control the overall market and style exposure of the funds. The following ETFs can be traded without prior approval: S&P Depository Receipts (SPY), Vanguard large/small capitalization, value/growth, and total market VIPERS (VV, VB, VUG, VTV, VTI). Other ETF positions must be approved by the instructors and may require a short presentation to the class. Only ETFs that are covered by Barra are eligible. A list of eligible ETFs is posted on the course website.

Position Limits: A position in an individual security should not exceed 8% of the fund's market value. These limits do not apply to cash or securities that are, themselves, well-diversified, such as exchange traded funds linked to market indices.

The fund's portfolios need to be structured to avoid incurring unrelated business income tax (UBIT).