

Asset Management Practicum III: FINC 935
Winter 2017
Wednesday, 6:30 pm – 9:30 pm
Room 276, Jacobs Center

Professor Robert Korajczyk
Jacobs 412 (until 2-10-17)
(847) 491-8336
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Asset Management Practicum III - Preliminary Syllabus

(February 4, 2017 – 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. The URLs for the Dropbox sites are available on Canvas.

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:

Sridhar Srinivasan sridhar-srinivasan@kellogg.northwestern.edu
Apoorv Gupta apoorv-gupta@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 950	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) FINC 463; (b) one of either FINC 460 or FINC 950; 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 spring quarter plus the annual advisory board dinner. 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. Guest speaker dinners are 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 IV is an annual report and presentation to the advisory board on March 9, 2017.
- Portfolio managers report on the fund's activities to the class on a rotating 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 who will serve as a portfolio manager in future quarters 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 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** should read the "AMP Trading Tutorial." The Tutorial is on the course Canvas site. In addition, traders will be assigned trading duties for Northwestern Capital Management which will rotate through the portfolio teams each quarter.

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 936 are as follow:

Portfolio Managers:

Annual report and presentation to Advisory board	30%
Class participation:	20%
Written evaluations of stock pitches, research reports, and guest speakers:	30%
Portfolio Updates:	10%
Peer review:	10%

Analysts:

Stock pitch:	30%
Class participation:	20%
Written evaluations of stock pitches, research reports, and guest speakers:	30%
Stock Update:	10%
Peer review:	10%

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.

Online Evaluations: After each class, students should complete an online survey for the analyst presentations and the guest speakers. Students have three 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. Students failing to complete the sequence will receive one letter grade penalty (10 points out of 100).

Completion of co-requisites: If a student does not complete the course co-requisites by graduation there will be a 5-point deduction per missing co-requisite. The co-requisites may be completed after AMP, but before graduation, without penalty. AMP letter grades will not be given until all co-requisites are completed (or graduation). The instructors will provide students with numerical course grades and class rank at the end of each quarter (on Canvas).

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. Surveys 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 I/IV 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 I/IV 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 15 minutes of questions from the class. The point of view in asking questions should be that of an investment committee analyzing a potential investment.

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.

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

January 4: Introduction to AMP III

Portfolio updates by all portfolio managers.

Readings: Mauboussin “Thirty Years: Reflections on the Ten Attributes of Great Investors;” “AMP Trading Tutorial;” and Harris, “Trading and Electronic Markets: What Investment Professionals Need to Know.” Optional: Battalio, Corwin, Jennings “Can Brokers Have it All? On the Relation between Make-Take Fees and Limit Order Execution Quality.”

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

January 11: Guest Speaker: Pat Dorsey (NU MA '01), Founder, Dorsey Asset Management; “Competitive Advantage & Capital Allocation”

Prior to starting Dorsey Asset, Pat was Director of Research for Sanibel Captiva Trust, an independent trust company with approximately \$1 billion in assets under management serving high net worth clients. From 2000 to 2011, Pat was Director of Equity Research for Morningstar, where he led the growth of Morningstar's equity research group from 10 to over 100 analysts. Pat developed Morningstar's economic moat ratings, as well as the methodology behind Morningstar's framework for analyzing competitive advantage. Pat is also the author of two books — The Five Rules for Successful Stock Investing and The Little Book that Builds Wealth — and has been quoted in publications such as the Wall Street Journal, Fortune, the New York Times, and BusinessWeek. Pat holds a Master's degree in Political Science from Northwestern University and a bachelor's degree in government from Wesleyan University. He is a CFA charterholder.

Assignment: 1) Read: Mauboussin and Callahan “Measuring the Moat: Assessing the Magnitude and Sustainability of Value Creation.” 2) Read: Dorsey “Capital Allocation and Brand Disruption.” 3) Think of one company which you think is likely to have a stronger competitive advantage in three years.

Portfolio update: All

January 9 9:00 am Assignment due.

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

January 13: 11:59 pm Speaker evaluation due

January 18: Stock pitches: Le
Stock updates: Li, Smock
Pitch Evaluator: Matthew Zumbach ('09), Director of Investments, Aon Corporation. Matt is responsible for managing Aon's U.S. Defined Benefit plan. Matt focuses on setting the asset allocation strategy, running the manager selection process and internally managing the LDI and equity options portfolios. He also serves as an advisor to Aon's international pension plans. In addition to his work at Aon, Matt teaches valuation, finance, and Excel courses at various colleges across the U.S. Prior to Aon, Matt was an Associate at a collateralized loan obligation fund and an Investment Banking Analyst in Chicago. Matt received his MBA from the Kellogg School of Management, his Masters of Accounting from the University of Michigan and a Bachelor of Science in Finance and Economics from Miami University. Matt also has his CFA and CPA designations.

Portfolio updates: All

January 16 9:00 am Report and Assignment due.
January 18 3:00 pm Portfolio updates and presentation slides due.
January 20: 11:59 pm Le, Melvin evaluations due

January 25: Stock pitches: Bruen, Zhao
Stock updates: Mendel, Woodsum
Pitch Evaluator: John Wellehan ('07)

Portfolio update: All

January 23 9:00 am Report due.
January 25 3:00 pm Portfolio updates and presentation slides due.
January 27: 11:59 pm Bruen, Zhao evaluations due

February 1: Stock pitches: Li, Smock
Stock updates: Le, Melvin

Pitch Evaluator: Scott Hartman ('08), Senior Managing Director, Värde Partners; Ben Hockenbergl ('08) Analyst, Greenbriar Asset Management; James Rich ('08) Head of U.S. Restructuring and a Portfolio Manager on Credit Opportunities and Emerging Markets strategies, Aegon Asset Management; Ed Lalanne ('08)

Portfolio updates: All

January 30 9:00 am Report due.
February 1 3:00 pm Portfolio updates and presentation slides due.
February 3 11:59 pm Li, Smock evaluations due

February 8: Stock pitches: Mendel, Woodsum
Stock updates: Bruen, Zhao
Pitch evaluator: Jeff Nevins ('09), Senior Equity Analyst, RBC Global Asset Management
Jeff, provides fundamental research for RBCs small, SMID, and mid cap growth strategies. Before joining RBC GAM-US in 2013, Jeff was a buy-side equity research analyst at Neuberger Berman. He has also served as a public and private equity research analyst for First Analysis Corporation and as a credit analyst for LaSalle Bank (Bank of America). Jeff began his career in the investment industry in 1998. He earned a BS in Finance with Honors from DePaul University and an MBA from Northwestern's Kellogg School of Management. Jeff is a CFA charterholder as well as a member of the CFA Society of Chicago and the CFA Institute.

Portfolio update: All

February 6 9:00 am Report and Updates due.
February 8 3:00 pm Portfolio updates and presentation slides due.
February 10 11:59 pm Mendel, Woodsum evaluations due

February 15 Stock pitches: Gabb, Melvin, Wang
Stock updates: Zheng
Pitch evaluator: Stacey Riddell ('89), Independent Consultant and Private Investor; Rosalyn Kemp ('08).
Stacey Riddell was the President and Portfolio Manager of PEAK 6 Asset Management (PAM), which she founded in early 2008. At PAM, Stacey managed the funds and oversaw the day-to-day operations of the firm. Prior to PAM, Stacey was a principal at Geneva Investment Management of Chicago where she was a research analyst and portfolio manager over all Geneva equity strategies. Before joining Geneva in 2004, Stacey was a William Blair & Company Principal, serving as an analyst in the Investment Management Group and a co-portfolio manager of Blair's Millennium Fund, a global technology and biotechnology fund. Stacey earned a B.S. in Industrial Engineering from Northwestern University and an MBA in Finance and Marketing from its Kellogg School of Management, where she teaches periodically. Stacey is a Certified Financial Analyst (CFA).

Rosalyn Kemp has worked for JP Morgan's Corporate & Investment Bank for 17 years in Institutional Sales and Trading. She works closely with asset management and hedge funds on fixed income and equity derivatives strategies, both exchange traded and OTC. She earned a B.S. with Honors from the University of Illinois at Urbana-Champaign in 2000 and an MBA from the Kellogg School of Management in 2007, with a focus on finance.

Portfolio update: All

February 13 9:00 am Report and Updates due.
February 15 3:00 pm Portfolio updates and presentation slides due.
February 17 11:59 pm Gabb, Wang evaluations due

February 22 Stock pitches: Zheng
Stock updates: Gabb, Wang
Pitch evaluator: Brian J. Feltzin is the managing member and, together with Craig C. Albert, co-manages Sheffield Asset Management, L.L.C., a Chicago-based long/short equity manager that employs a disciplined investment process designed to identify materially mispriced stocks. Sheffield adheres to a deep-value, contrarian investment philosophy and conducts in-depth fundamental research, primarily on companies in North America, Western Europe and Australia. Prior to founding Sheffield in 2003, Brian was a Partner at Waveland Capital Management, L.P., a Chicago-based value investment partnership. From 1991-1995, Brian worked at JMB Realty Corporation, where he engaged in both real property and operating company acquisitions. He received a B.S. in Finance and Political Science from the Wharton School of Business of the University of Pennsylvania where he graduated magna cum laude. He is a CFA charterholder, as well as a member of Young Presidents' Organization and the Economic Club of Chicago.

Portfolio update: All

February 20 9:00 am Report and Updates due.

February 22 3:00 pm Portfolio updates and presentation slides due.

February 24 11:59 pm Zheng evaluations due

March 1: Guest Speaker: Ian Mashal ('11), Senior Analyst at Bloom Tree Partners, a \$1.5bn AUM L/S Tiger Seed Fund. Ian is a generalist covering all sectors. Bloom Tree has one of the best track records in the world at shorting stocks. Ian received his MBA from Kellogg in 2011, graduating with honors. He received his BA from McGill University, also graduating with honors. "Idea Generation and Research Process"

Portfolio update: All

February 27 9:00 am Report and Updates due.

March 1 3:00 pm Portfolio updates and presentation slides due.

March 3: 11:59 pm Speaker evaluation due

March 8: Annual Advisory Board Meeting (12:30-5:00) and dinner (6:00-9:00)
Portfolio updates by portfolio managers and teams (All)
Speaker: Matt Hulsizer, Co-Founder of PEAK6 Investments, L.P.

"Bad ideas in investing: Lessons on creative ways to lose money."

Matt serves as one of two managing members of PEAK6 LLC. From 1994 until he co-founded PEAK6 in 1997, Matt was a director and risk manager for Swiss Bank, a global financial-services corporation that merged with Union Bank of Switzerland to become UBS AG. From 1991-1993, he worked as a senior trader with O'Connor & Associates, a proprietary derivatives trading firm that was acquired by Swiss Bank and subsequently integrated into Swiss Bank Capital Markets.

Meeting 12:30 – 5:00: Allen Center 140

Reception 6:00 pm and dinner 7:00 pm: Allen Center, Atrium Dining Room
March 6 9:00 am Report due.

Attachment I

Student Fund Assignments

Fund	Investment Committee	Analysts AMP IV
Kenney Fund	<ul style="list-style-type: none">• Grove• Kanimerakala• Lopez	<ul style="list-style-type: none">• Bruen• Gabb• Le• Wang
Commingled Fund	<ul style="list-style-type: none">• Pruell• Schafer• Kwon	<ul style="list-style-type: none">• Melvin• Mendel• Woodsum
Crown and Nash Funds	<ul style="list-style-type: none">• Cao• Mao• Randall	<ul style="list-style-type: none">• Li• Smock• Zhao• Zheng

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. On classes where the portfolio team is presenting portfolio results, 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.
- A report on the funds' Assets Under management (AUM) and the funds' profit and loss since the last Portfolio Update.
- An analysis of the fund's performance calendar year to date; calendar quarter to date; and any other period of your choice, using Barra's performance analyst (please refer to the research paper by Marwick, Shekleton, Stulberg, and Wong from Winter Quarter, 2010). In Performance Analyst the performance attribution is listed under Cumulative Executive Summary (Full Timespan). Include in the update the Cumulative Attribution Chart (under the "Total" tab). In addition, daily returns on the Funds and the benchmark can be found on the M: drive of on the AMP office machines in the folder Portfolios > Sample_Input_Files. The file name is Fund_Returns_yyyymmdd, where yyyymmdd = the end date of the sample period (yyyy=year, mm=month, dd=day). These are the files that need to be imported into Performance Analyst.
- An analysis of each position's contribution to the fund's performance. This can be obtained from Barra Aegis Performance Analyst (under Asset Contributions > Cumulative Contributions – Assets Held).
- A graph of the Risk Decomposition Chart from the MSCI Barra Aegis Portfolio Manager, as of the most recent available date.
- A graph of the Active Risk Index Exposures and Active Industry Exposures from the MSCI Barra Aegis Portfolio Manager, as of the most recent available date.
- A check of adherence to all of the fund's restriction as outlined in the current Investment Policy Statement. Position sizes are shown in the initial Performance Analyst window. Beta and tracking error (Active Risk) are shown in the Executive Summary window (hit F2). Use the BARRA forward-looking beta, called Predicted Beta, from BARRA Portfolio Manager.

On weeks where the portfolio team is not reporting results, the team's report should report performance attribution from Performance Analyst and show that the portfolio meets all requirements of the investment policy statement.

An electronic version of this report should be placed on the AMP I/IV 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
- 6) communication with the firm, or its suppliers, customers, and competitors

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 I/IV 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 I/IV 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 15 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.

Analysts should work with the Portfolio Managers to determine which stock they will update and inform all PMs when they have chosen the stock.

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 Dropbox site) 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 2015 – Spring 2016

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 be sure that our broker has shares to lend. **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 broker. 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.
- 8) Traders should not override the trading limits in the trading software.
- 9) If the trader is unable to trade the order, the trader or the fund team can ask the instructors to trade the order.

- 10) Fund teams must present a weekly report of fund valuation, risk, adherence to the fund's investment policy statement. If a fund is found to be out of compliance with the investment policy statement at one of the portfolio's weekly updates, the managers should take bring the portfolio into compliance the next day that markets are open.
- 11) The fund teams must keep a record of execution costs and analyst performance for periodic reporting purposes.



Professors Robert Korajczyk, Linda Vincent, and Phillip Braun
Asset Management Practicum I - IV
Finance 933 - 936
Spring 2016 – Spring 2017

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

No fund may use leverage.

If a fund is found to be out of compliance at one of the portfolio's weekly updates, the managers should take bring the portfolio into compliance the next day that markets are open.

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).