



Northwestern University

Finance 934C (AMP II)
Fall 2008
Monday, 6:30 pm – 9:30 pm

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Asset Management Practicum II - Syllabus

(October 6, 2008 – Always Subject to Change)

This is the second 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 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, which portion is currently divided into four funds (Commingled, Crown, Kenney, and Nash). The equity portions of the funds follow a value investing 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 and derivative strategies as an overlay to the fundamental analyses.

Information about the course is available at:

<http://www.kellogg.northwestern.edu/faculty/korajczy/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 reading and other assignments will be posted on the Blackboard site (under "Assignments"). All class presentations (stock pitches, research papers) are posted on the website.

Office hours: I will have office hours from 3:30 – 5:00 pm on Wednesdays and will also be available by appointment. If you would like to set up an appointment, please email me at l-vincent@kellogg.northwestern.edu.

Overview of AMP II:

Although this is a half credit course, it does not conform to the typical first-half/second-half of the quarter scheduling. We will meet on most Monday evenings at 6:30 pm throughout the quarter because we cannot manage portfolios for only half of the quarter.

Students will report evaluations of the fund's performance to the Asset Management Practicum's board of advisors on a quarterly basis. The board consists of the instructors, a representative of the Northwestern University Investment Office, and prominent practitioners. Most advisory board members have made substantial donations to the Asset Management Practicum funds.

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 2008 must also register for Asset Management Practicum II and III (FINC 934C and 935) in the fall of 2008 and winter 2009. Students who have completed Asset Management Practicum III have the **option** of registering for Asset Management Practicum IV (FINC 936C) in the spring of 2009.

- **Training Sessions:** In addition to the Monday evening meetings, we will have training sessions on some Wednesday afternoons starting at 3:30 pm. These sessions will accommodate training on vendor software or any other need that arises.

- **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 data issues.

- **Prerequisites:** Asset Management Practicum I (FINC 933)

- **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 444	Advanced Topics in Finance
FINC 447	Financial Strategy and Tax Planning
FINC 451	Money Markets and the Fed;
FINC 460	Investments
FINC 463	Securities 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 I students who shadowed investment committee members of the four funds during Spring Quarter 2008 are the investment committee members for Fall Quarter 2008. The remainder of the class will shadow the investment committee members during Fall 2008 and become investment committee members in Winter 2008. Investment committee assignments are provided in **Attachment I**.

All AMP II students will be responsible for following at least two stocks for the quarter. One stock is the stock pitched during Spring Quarter and the other one or two stocks are stocks held in the portfolios and previously pitched by AMP graduates. **Attachment II** contains the assignments for stocks to be followed. **Attachment IV** 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 a quarterly 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 in **Attachment VIII** (and on the course website in spreadsheet form).

Each trade order request should be emailed to:

jhennegan2009@kellogg.northwestern.edu
dstott2009@kellogg.northwestern.edu
r-korajczyk@kellogg.northwestern.edu
l-vincent@kellogg.northwestern.edu

- Investment committee members and their shadows also have a topical assignment (the same assignments as Spring 2008): risk management/performance evaluation; trading; derivative/quantitative strategies; and asset allocation. These assignments are shown in **Attachment I**.
- Investment committee members involved in **risk management and performance reporting** will monitor the portfolio to insure that the portfolio meets its investment guidelines and risk parameters, monitor and report portfolio performance to the class and advisory board, and monitor analyst performance.
- **Traders** are responsible for determining the optimal trading strategies in order to minimize the implementation shortfall due to order execution; advising portfolio managers on the appropriate execution strategies; and devising pre-trade estimates and post-trade evaluation of execution costs. Traders must be familiar with trading procedures (e.g., Radical and Goldman Sachs, our prime broker) and must complete the trade data spreadsheet shown in **Attachment IX** (and on the course website in excel form) for each trade executed.

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 Brusznicki and Rangaswami (W '08) "A Process Oriented Approach to Measure Trading Costs," and by Carlson and Qiao (F'07) "A Study on AMP Funds' Trading Costs and Trading Venues." Both reports are on the course website.
- **Derivative, quantitative, and asset allocation analysts** are responsible for advising the investment committee on strategies related to derivative and quantitative strategies designed to complement the fundamental equity analyses and to advise on tactical asset allocation.

Analysts.

- AMP II 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 Spring Quarter 2008, are provided in **Attachment IV**.
- Analysts also have two shadow assignments (see **Attachment I**). The first is with the investment committee. Analysts should attend the investment committee meetings and understand the rationale for the portfolio positions. The analysts are expected to learn the operational duties of the investment committee members because the shadows will become the investment committee members for the same fund for the winter quarter.

- The second shadow assignment is topical. The analysts/shadows should familiarize themselves with the prior student research in the topical area as well as with any software and analytical tools that are important for that role. In particular, they should become familiar with the software and procedures to facilitate their assumption of the responsibilities of the investment committee at the end of fall quarter.

Class Organization:

Portfolio updates. Each class will begin 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.

Stock updates. Following the portfolio updates will be updates on stocks that are currently held in the portfolio but pitched by AMP graduates; 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. These updates will take place on a volunteer basis.

Guest speaker, stock pitches, research reports. After these updates, we will have a guest speaker, student stock pitches, or student research reports. A detailed schedule is below.

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 two dinners scheduled for the fall quarter: Philip Furse ('00) on October 27 and Will McClean on November 17. 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 will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend either of these dinners, please email Deborah Brauer (<mailto: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, 934C, and 935 at the completion of the sequence. The instructor will provide interim performance evaluation for Fall Quarter 2008 at the end of the quarter, similar to that provided at the end of Spring Quarter 2008.

Completion of the year-long sequence (AMP I, II, III): students who do not complete the sequence will receive a failing grade for the quarters registered.

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. (Part-time students who have scheduling issues should discuss options with the instructor.)

Analysts

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

Stock pitch	35 %
Evaluations of other stock pitches	20 %
Furse assignment	5 %
Evaluations of research reports	10 %
Class Participation	20 %
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 investment committees that the analyst shadows.

Investment Committee

In addition to managing the fund's portfolio, investment committee members are also required to write a research paper, due during the last two weeks of the quarter (see detailed schedule below), related to their assigned topical responsibilities (see **Attachment I**). Ideally, these research papers are close to publishable quality in a top-quality practitioner journal such as the *Financial Analysts Journal*, the *Journal of Portfolio Management*, or the *Journal of Investment Management*. The paper should be 15 – 25 pages in length and **the topic should be discussed with the instructor before proceeding**. The research papers will be presented in the last two class sessions of the quarter. Suggestions for topics for research papers are provided on the course website, but you should feel free to develop your own research topic. 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. For example, Carlson and Qiao (F 07) estimate the trading costs for the AMP portfolios. Brusznicki and Rangaswami (W 08) extend Carlson and Qiao and, among other things, develop the trade order process that will be used starting Fall 08 (see **Attachments VIII and IX**).

The research paper assignments are consistent with the topical assignments from last quarter and as shown in **Attachment I**.

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

Research report	30 %
Weekly portfolio updates	15 %
Evaluations of stock pitches	20 %
Furse assignment	5 %
Evaluations of other research reports	10 %
Class Participation	20 %

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.

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. The time period has been reduced from last quarter for 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. The format has been revised from last quarter. A sample of the form is provided in **Attachment V**.

Textbooks and References

There is no required textbook or case packet for AMP II. The book by Maginn, et al. is very general, accessible, and part of the CFA Investment Series. I would recommend getting a copy.

Recommended 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.

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.

Stowe, John D., Thomas R. Robinson, Jerald E. Pinto, and Dennis W. McLeavey, *Equity Asset Valuation*, Wiley, 2007.

Other courses

There are a number of other courses that are relevant for people going into asset management, in addition to the courses on the list of co-requisites. Here are some courses that we encourage you to consider:

DECS 452	Strategic Decision Making
FINC 442	Financial Decisions
FINC 445	Venture Capital and Private Equity Investing
FINC 448	Corporate Restructuring
FINC 915	Venture Lab
FINC 931	Wall Street, Hedge Funds and Private Equity (LBO) Funds,
FINC 932	Case Studies in Venture Investment and Management
FINC 939	Buyout Lab
FINC 940	Financial Modeling for Leveraged Buyouts
FINC 941	International Macroeconomics for Business Managers
MORS 460	Leading and Managing Teams
MORS 470	Negotiations
MECN 441	Competitive Strategy and Industrial Structure,
MECN 450	Macroeconomic Analysis For Management,
OPNS 450	Spreadsheet Modeling for Managerial Decisions
ENTR 902	Entrepreneurial Selling: Skills and Strategies.

- October 6:**
- 1) Portfolio updates by investment committees
 - 2) Guest Speaker: Sam Zell, Chairman, Equity Group Investments
“Topics in Private Equity and Real Estate”

Rather than the usual pre-class dinner, Mr. Zell is giving a school-wide talk with Q&A in the OLC from 5:15 to 6:15. Please attend the talk so that the discussion in class does not rehash the OLC lecture.

October 13: No class – rescheduled for December 8

- October 20:**
- 1) Portfolio updates by investment committees
 - 2) Follow-up on stocks: Min Zhang on Western Union
Nevins on International Game Technologies
 - 3) Stock pitches: Liu
Raguseo
Springmeyer
- October 17 9 am** Stock pitch reports and spreadsheets due (email to class)
- October 20 3 pm** Presentation slides due (email to class)

Please note: the assigned order for stock pitches is the reverse of Spring 2008.

- October 27:**
- 1) Portfolio updates by investment committees
 - 2) Guest Speaker: Philip Furse ('00), Portfolio Manager, Alydar Capital

Assignment: There is a required, individual, written assignment for this session which is posted on the course website. The assignment is due by 12 noon on Friday, October 24. Please email your solution to d-brauer@kellogg.northwestern.edu by 12 noon on Friday.

- November 3:**
- 1) Portfolio updates by investment committees
 - 2) Follow-up on stocks: Raguseo on Portfolio Recovery Associates
Springmeyer on Norfolk Southern Corp.
 - 3) Stock pitches: Kadish
Sivaram
Zhang
Lee
- October 31 9 am** Stock pitch report and spreadsheets due (email to class)
- November 3 3 pm** Presentation slides due (email to class)
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- November 10:**
- 1) Portfolio updates by investment committees
 - 2) Follow-up on stocks: Johnson on Commercial Vehicle Group
Liu on CME Group
 - 3) Stock pitches: Dasse
Butler
Griffiths
Nevins
- November 7 9 am** Stock pitch report and spreadsheets due (email to class)
- November 10 3 pm** Presentation slides due (email to class)
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- November 17:**
- 1) Portfolio updates by investment committees
 - 2) Guest Speaker: Will McLean, Vice President and Chief Investment Officer, Northwestern University, and member, AMP Advisory Board
- Assignment: An assignment will be posted on the course website**
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November 24: No class (Thanksgiving Break Week)

- December 1:**
- 1) Portfolio updates by investment committees
 - 2) Follow-up on stocks: Butler on Hillebrand and Hill-Rom
Dasse on Berkshire Hathaway
 - 3) Stock pitches: Johnson
 - 4) Research reports: Risk management/performance evaluation
Prieur, Santos, Zumbach

Trading
Hennegan, Stott
-

- December 8:** **Note this schedule change – This is Finals Week**
- 1) Portfolio updates by investment committees
 - 2) Research reports: Derivative/Quantitative Strategies
Spring, Tyree, Ward

Asset Allocation
Behera, D'Angelo, Vickery
-

Attachment I

Investment Committee Assignments - Fall 2008

Fund	Investment Committee	Investment Committee Shadows
Kenney Fund	Hennegan, Santos, Tyree, Vickery	Griffiths, Dasse, Liu, Raguseo
Commingled Fund	Prieur, Spring, D' Angelo	Butler, Lee, Zhang, Springmeyer
Crown and Nash Funds	Behera, Stott, Ward, Zumbach	Nevins, Sivaram, Kadish, Johnson

Topical Assignments	Investment Committee	Investment Committee Shadows
Risk Management/Performance Management	Prieur, Santos, Zumbach	Kadish, Springmeyer, Zhang
Trading	Hennegan, Stott	Johnson, Nevins, Shivaram
Derivative/Quantitative Strategies	Spring, Tyree, Ward	Lee, Liu, Raguseo
Asset Allocation	Behera, D' Angelo, Vickery	Butler, Dasse, Griffiths

Attachment II

Analyst and Industry Assignments – Fall 2008

Name	Industries to Pitch	Existing Position to Follow
Behera, Smruti	Technology Telecommunications	Paychex, Inc. (PAYX) <i>Pitched by Brent Sacha, W 08</i> Vasco Data Security International (VDSI) <i>Pitched by Smruti Behera, SP '08</i>
Butler, Eric	Financial Institutions/Services Aerospace / Defense	Hillenbrand Inc. (HI) Hill-Rom Holdings, Inc. (HRC) <i>Pitched as Hillenbrand Industries (HB)</i> <i>Lance Garrison, SP 07</i> First State Bancorporation (FSNM) <i>Pitched by Eric Butler, SP 08</i>
D'Angelo, Enzo	Transportation Chemicals	Nalco Holding Co. (NLC) <i>Pitched by Enzo D'Angelo, W 08</i> Air Methods (AIRM) <i>Pitched by Enzo D'Angelo, SP 08</i> MedCath Corp. (MDTH) <i>Presented by Enzo D'Angelo (FINC 925), SP 08</i>
Dasse, Christopher	Real Estate Construction materials	Berkshire Hathaway Inc. (BRK.B) <i>(No pitch information.)</i> Fastenal Company (FAST) <i>Pitched by Chris Dasse, SP 08</i>
Griffiths, Steve	Energy Healthcare	Exterran Holdings (EXH) <i>Pitched by Ben Hockenberg as Hanover Compressor – IMC website</i> Comverge, Inc. (COMV) <i>Pitched by Steve Griffiths, SP 08</i>

Name	Industries to Pitch	Existing Position to Follow
Hennegan, John	Commodities Food / Beverages	Reddy Ice Holdings (FRZ) <i>Pitched by Elizabeth Seifert, W 08</i> Brown-Forman, Inc. (BFB) <i>Pitched by John Hennegan, SP 08</i>
Johnson, Thomas	Transportation Technology	Commercial Vehicle Group (VGI) <i>Scott Hartman, F 07</i> USEC, Inc. (USU) <i>Pitched by Thomas Johnson, SP 08</i>
Kadish, Nathan	Reinsurance Retail	Hillenbrand Inc. (HI) Hill-Rom Holdings, Inc. (HRC) <i>Pitched as Hillenbrand Industries (HB)</i> <i>Lance Garrison, SP 07</i> Autozone (AZO) <i>Pitched by Nathan Kadish, SP 08</i>
Lee, Samuel	Metals / Mining Media	Freeport-McMoran Copper & Gold (FCX) <i>Pitched by Jay Viswanathan, SP 07</i> The New York Times Co. (NYT) <i>Pitched by Sam Lee, SP 08</i>
Liu, Wei	Pharmaceuticals/Biotech Utilities	CME Group Inc (NYSE: CME) <i>No pitch – management presentation to AMP on April 14, 2008</i> Intuitive Surgical (ISRG) <i>Pitched by Wei Liu, SP 08</i>
Nevins, Jeffrey	Transaction services Media / Internet	International Game Technologies (IGT) <i>Pitched by Brent Sacha, SP 07</i> TeleTech Holdings, Inc. (TTEC) <i>Pitched by Jeffrey Nevins, SP 08</i>

Name	Industries to Pitch	Existing Position to Follow
Prieur, Scott	Natural resources Industrials	<p>Visteon Corp. (VC) <i>Pitched by Stephen Carlson, W 08</i></p> <p>Potash Corporation (POT) <i>Pitched by Scott Prieur, SP 08</i></p> <p>Pep Boys Man Moe (PBY) <i>Presented by Scott Prieur (FINC 925), SP 08</i></p>
Raguseo, Michael	Financial services Transportation	<p>Portfolio Recovery Associates (PRAA) <i>Pitched by Peter Smith, SP 07</i></p> <p>TBS International LTD (TBSI) <i>Pitched by Mike Raguseo, SP 08</i></p>
Santos, Robert	Restaurants Medical devices	<p>Royal Caribbean Cruises (RCL) <i>Ben Hockenberg, SP 07</i></p> <p>KONA Grill (KNOA) <i>Pitched by RJ Santos, SP 08</i></p> <p>Coach (COH) <i>Pitched by James Rich, W 08</i></p>
Sivaram, Rohan	Household durables Household nondurables Alternate fuels/renewable energy	<p>Superior Industries (SUP) <i>Pitched by Stephen Carlson, SP 07</i></p> <p>Avon Products Inc. (AVP) <i>Pitched by Rohan Sivaram</i></p>
Spring, Jacqueline	Retail Gaming and Lodging	<p>Desarrolladora Homex S A (HMX) <i>Pitched by Stephen Buehler, F 07</i></p> <p>Lululemon (LULU) <i>Pitched by Jackie Spring, SP 08</i></p> <p>Nike (NKE) <i>Pitched by Kazuhiro Shibata, W 08</i></p>

Springmeyer, Erin	Industrial Goods Gaming and Lodging	Norfolk Southern Corp. (NSC) <i>Pitched by Peter Smith, W 08</i> Terex Corp. (TEX) <i>Pitched by Erin Springmeyer, SP 08</i>
Stott, David	Food and beverage Consumer staples	Goodyear Tire and Rubber (GT) <i>Pitched by Ben Hockenberg, W 08</i> B & G Foods (BGS) <i>Pitched by Dave Stott, SP 08</i>
Tyree, Michael	Healthcare Financial Services	Compucredit Corp. (CCRI) <i>Pitched by Ed Lalanne, SP 07</i> LHC Group, Inc. (LHCG) <i>Pitched by Michael Tyree, SP 08</i>
Vickery, Perry	Paper and forest products Construction / heavy machinery	Newmont Mining Corp. (NEM) <i>Pitched by Maziar Brumand, F 07</i> Jinpan International (JST) <i>Pitched by Perry Vickery, SP 08</i>
Ward, Justin	Retail Financial Services	TJX Companies (TJX) <i>Pitched by Katherine Della Maria, F 07</i> Zale Corp. (ZLC) <i>Pitched by Justin Ward, SP 08</i>
Zhang, Min	Biotechnology Telecommunications	Western Union Company (WU) <i>(No pitch information – spun off from First Data on Sept. 9, 2006; fund held First Data, pitched on Oct. 5, 2005 – on IMC website.)</i> OSI Pharmaceuticals (OSIP) <i>Pitched by Min Zhang, SP 08</i>
Zumbach, Matthew	Aerospace/Defense Energy	Valero Energy <i>Ed Lalanne, W 07 (IMC website)</i> Itron (ITRI) <i>Pitched by Matt Zumbach, SP 08</i>

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 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 Spring 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

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 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 Spring Quarter. After the pitch, all members of the class will receive a link to a website with the evaluation form. The evaluation form has been revised, with the addition of several specific questions. And, as mentioned above, the time frame for submitting the evaluation has been shortened to 48 hours. That is, 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.

Now that we have experience preparing stock pitches, the depth and detail of analysis of the stock pitches this quarter should increase. For example, there were relatively few comments last quarter about the valuation model in the pitches. The valuation model is an important part of the stock pitch and all students should review carefully the model and its assumptions prior to the presentation. The model should receive a significant portion of the written comments and suggestions.

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 class periods of the quarter, November 17 and December 1. 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.

In particular, the traders should review the research papers by Brusznicki and Rangaswami (W '08) "A Process Oriented Approach to Measure Trading Costs," and the research report by Carlson and Qiao (F'07) "A Study on AMP Funds' Trading Costs and Trading Venues." Both reports are on the course website.

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.

Attachment VIII

Trade Order Request Form

The form below, an excel spreadsheet, should be used by the investment committee to request trades from the AMP trader. The spreadsheet version of this form is posted to the course website.

AMP Trade Order Request Form

Box 1

Portfolio Manager:	Chris Brusznicki
Fund Name:	Kenney
Date:	3/21/2008
Time (CST):	3:15:00 PM

Instructions:

Portfolio Managers should enter all data in Boxes 1 through 4 of the Trade Order Worksheet. Descriptions for all cells popup when each is highlighted.
Traders should enter all trade data into Box 1 of the Trade Data Worksheet.

Box 2 - Trade Information				Box 3 - Pricing Information						Box 4 - Compliance / Notes			
Ticker	Order Side	Order Type	Order Quantity	Price on day of Pitch or change in guidance	Date of Pitch or change in guidance	Pitch Target Price	Date of Order	Price at time of Order	Order Price Limit	Cash Available for trade?	Source of Cash	Does Trade comply with IPS	NOTES for trader
CVGI	BUY	market	750	\$ 10.00	1/11/2008	\$ 15.00	1/16/2008	\$ 9.67	\$ 11.00	Yes	MMF	Yes	Earnings report on 01/20/2008

Attachment IX

Trade Data

The form below, an excel spreadsheet, will be completed for each trade by the AMP II trader. The spreadsheet version of this form is posted to the course website.

Investment Information				Pricing Information							Box 1 - Trading Cost Components							Total Trading Costs			
Ticker	Order Side	Order Type	Order Quantity	Price on day of Pitch or change in guidance	Date of Pitch or change in guidance	Pitch Implied Price Valuation	Date of Order	Price at time of Order	Order Price Limit	If Short have you done a locate?	Order Benchmark	Trade Benchmark	Trade Execution Price	Cost from Order Delay	Cost from Trade Delay	Slippage = Order + Trade Delay	Commission	Implementation Shortfall	as a % of Trade	Total	as a % of LMV
CVGI	BUY	market	750	\$ 10.00	1/11/2008	#####	1/16/2008	\$ 9.67	\$ 11.000		\$ 10.00	\$ 9.67	\$ 9.5500	\$ (247.50)	\$ (90.00)	\$ (337.50)	\$ 15.00	\$ (322.50)	-4.71%	\$ (322)	0.0151%