



Northwestern University

Finance 934 (AMP II)
Fall 2010
Monday, 6:30 pm – 9:30 pm
Jacobs 165

Professor Linda Vincent
Jacobs 6250
Tel: (847) 491-2659
E-mail: l-vincent@kellogg.northwestern.edu

Asset Management Practicum II - Syllabus

(September 20, 2010 – Subject to Change)

This is the second quarter of a four quarter sequence in asset management. For most 2Y MBA students, this is the second of three required quarters (AMP I, II, and III) with the fourth (AMP IV) optional. For 1Y students and 2Y students entering in the fall, this is the first of three required quarters (AMP II, III, and IV).

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 fundamental security analyses by students in the class. Three of the funds allow short positions as well as long positions, whereas the fourth fund (Nash) is long only. The funds allow the use of quantitative strategies as an overlay to the fundamental analyses.

Information about the course is available at:

http://www.kellogg.northwestern.edu/asset_management/index.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 "Course Information"). All class presentations (stock pitches, research papers) are posted on the website.

Office hours: I am available by appointment. If you would like to set up an appointment, please email me at l-vincent@kellogg.northwestern.edu. I am available most days on short notice.

Overview of AMP II:

- **Training Sessions:** In addition to the Monday evening meetings, we may 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 Assistant:** The course teaching assistant is:

Kevin Crotty k-crotty@kellogg.northwestern.edu

The TA is a Finance PhD student and is available to help you with data issues.

- **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 qualify toward this four quarter credit requirement):

FINC 442	Financial Decisions
FINC 444	Value Investing (not offered 2010/2011)
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
FINC 936	AMP IV (for those students taking AMP I, II, and III)
FINC 970	Empirical Methods in Finance
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 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:

2Y students were assigned last spring as either analysts or portfolio managers for summer and fall quarters with the roles reversing for winter quarter. Students entering AMP in the fall are analysts for fall and winter quarters and portfolio managers for spring quarter.

Investment committee assignments are provided in **Attachment I**.

All AMP II students (both analysts and portfolio managers) are responsible for following the stock (or stocks) that he pitched Spring quarter. In addition, the portfolio managers may assign each analyst additional stocks to follow. Each analyst must provide at least one in class stock update during fall quarter. Examples of prior stock updates are posted on the course website.

Portfolio Managers.

- Portfolio managers are responsible for managing the fund's portfolio and ensuring that the portfolio is in compliance with the Investment Policy Statement (**Attachment X**). 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.
 - Portfolio managers report on the fund's activities to the class on a weekly basis (see **Attachment III**) and to the Advisory Board on a semi-annual basis.
 - Portfolio managers will assist in evaluating analyst recommendations and are welcome to present equity analyses of their own.
 - Portfolio managers 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 the portfolio's trader with copies to the professors:

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

- Portfolio managers are responsible for assigning stocks to analysts for in class updates. The stock to be updated can be a current holding in the fund or a stock that is being considered for investment.
- Portfolio managers are responsible for preparing a research report for presentation to the class during the final class period of the quarter on November 29. Please refer to **Attachment VII** for more information. The three traders will present a research paper relating to trading and the other portfolio managers (three from fall quarter and two from last spring quarter) may present a research paper in groups of three or fewer. Please discuss the topic for the research paper with the instructor no later than the fourth week of class, October 18.

- Portfolio managers are responsible for following (see **Attachment VI**) the stocks that they pitched in spring quarter.

Traders.

- **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., ITG-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. This quarter there is one designated trader per portfolio:

Kenney Fund	–	Joey Fischel
Commingled Fund	–	Scott Larson
Crown/Nash Funds	–	Doug Potters

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** 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 Blackboard website.

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 preferred 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 2010, are provided in **Attachment IV**.
- Analysts are each assigned to a fund. Analysts should attend the investment committee meetings and understand the rationale for the portfolio positions for that fund. The analysts are expected to learn the operational duties of the investment committee members because the analysts/shadows will become the investment committee members for the same fund for the winter quarter.
- Analysts are responsible for presenting one formal stock update in class per the assigned dates in the syllabus. The portfolio managers will assign the stock that is to be updated. Analysts are encouraged to present additional updates in class.
- Analysts are responsible for following (see **Attachment VI**) the stock/s that they pitched in spring quarter and at least one other stock as requested by the portfolio managers.

New Procedure.

- At the suggestion of the Advisory Board as a direct result of discussions with AMP students in April at the Annual Advisory Board meeting, we are adding a new procedure on a trial basis.
- Portfolio managers can initiate a position in a stock, either long or short (with the exception of Nash which is long only), not exceeding 1% of the portfolio value without a stock pitch or stock update but based solely on the portfolio manager's analysis. This 1% position must be followed within four weeks by a formal, in class, stock pitch or the position must be reversed.
- No more than 10% of the portfolio value may be invested in these 1% positions.

Class Organization:

Portfolio updates. Each class will include 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. Each analyst is assigned a date for a stock update of a stock that is currently held in the portfolio or that is being considered for inclusion in the portfolio. Volunteers are also encouraged to provide additional updates.

Guest speaker, stock pitches, research reports. In addition, 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 at the Allen Center before class from 5:00 - 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 four dinners scheduled for the fall quarter. 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 any of these dinners, please email Deborah Brauer (<mailto:d-brauer@kellogg.northwestern.edu>).

Grading:

Because the three required quarters of AMP are meant to be taken as an integrated whole, students will receive formal course grades for all three quarters at the completion of the sequence. The instructor will provide interim performance evaluation for each of the first two quarters of the sequence at the end of each quarter.

Completion of co-requisites: if a student does not complete the four course co-requisites by the end of the year-long sequence, a one letter-grade reduction will be imposed for each course deficit. (Students with 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	40 %
Evaluations of other stock pitches	20 %
Speaker assignments	10 %
Evaluations of research reports	5 %
Class Participation	10 %
Stock updates	5 %
Peer review by the PMs	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 portfolio managers that the analyst shadows.

Portfolio Managers

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

Research report	35 %
Weekly portfolio updates	20 %
Evaluations of stock pitches	20 %
Speaker assignments	10 %
Evaluations of other research reports	5 %
Class Participation	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.

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 two day time period has been established 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 are provided shortly following the presentation when the information and impressions are 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 evaluation grade. Comments lacking substantive feedback (e.g., “good presentation!”) will receive the same grade as no comment. A sample of the form is provided in **Attachment V**. Please note that we are switching from Viewflash to Qualtrics for the online evaluations. The evaluation form has also been shortened.

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 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 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

Tentative Schedule for Fall Quarter 2010

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

September 20:

- Assignment:**
- Portfolio updates by investment committees (include current status and any trades executed over the summer)
 - Please read the following as background for class discussion of stock pitches and portfolio performance analysis (readings are posted on the Blackboard site):
 - Michael Mauboussin, "Common Errors in DCF Models: Do You Use Economically Sound and Transparent Models?"
 - Michael Mauboussin, "Size Matters: The Kelly Criterion and the Importance of Money Management."
 - Michael Mauboussin, "See for Yourself: The Importance of Checking Claims."
 - Moody's Investors Service, "Putting EBITDA in Perspective."
 - Aegis Portfolio Management Reference Book – Section 1 (Risk), pp. 3 – 48. This reading is found on the Blackboard site under Course Documents > Software/Analytical Tools/Data > MSCI/Barra Aegis Portfolio Management System.
-

September 27: Guest Speaker: John Goetz ('82), Managing Principal and Co-Chief Investment Officer of Pzena Investment Management (NYSE: PZN). Please see biographical information on Blackboard. Information about Pzena Investment Management can be viewed at <http://www.pzena.com/> including SEC filings.

“Value Investing: The Merits and Risks of an Investment in Masco Corporation”

Dinner: 5:00 pm – 6:15 pm, Allen Center

Assignment (from the speaker):

- 1) Read about the company (Masco - their website and government data on housing are readily available on-line) and identify the top five critical issues that might impact the earnings power of the company.
- 2) Build a basic financial spreadsheet, modeling the company's income statement (embedding the quantification/analysis of what you believe are the critical issues), a basic cash flow statement, and a balance sheet for the next five years.

- 3) Discuss the risks to your assessment and appraise whether you think this is an undervalued investment opportunity. The choice of valuation metrics is open but must include the earnings power of the business in some form.

This assignment must be emailed to Debbie Brauer (d-brauer@northwestern.edu) and the instructor (l-vincent@northwestern.edu) **NO LATER THAN 3 pm** on Monday, September 27. The speaker has requested copies of the assignment which we will provide in both hard and soft copy form. This assignment will be graded by the instructor.

October 4: Guest Speaker: Avi Nash ('81), Founder Avi Nash, LLC, a global management consulting firm that specializes in the chemical industry; retired partner at Goldman Sachs; Member of AMP Advisory Board. See biographical information on Blackboard.

“Issues in Valuing Cyclical Firms”

Dinner: 5:00 pm – 6:15 pm, Allen Center

Assignment: TBA

October 11:

- Stock Pitches: Julio Cifuentes
Peter Ellingboe
Ankur Kashyap
- Follow-up on stocks: Ian Mashal
Cliff Orr
- Portfolio updates by investment committees

October 8 5:00 pm Stock pitch report and spreadsheets due (email to class)
October 11 3:00 pm Presentation slides due (email to class)

October 18:

- Stock pitches: Tom McKiernan
Samit Mehta
Spencer Moore
- Follow-up on stocks: Kaz Kawai
Jeff Spearin
- Portfolio updates by investment committees

October 15 5 pm Stock pitch reports and spreadsheets due (email to class)
October 18 3 pm Presentation slides due (email to class)

October 25:

Guest speakers: Stacey Riddell (B.S., Northwestern; MBA, Kellogg), President and Portfolio Manager, PEAK 6 Asset Management. Please refer to biographical information on Blackboard.

“Valuing a Stock from A to Z.” Stacey will lead a discussion of the firm SXC Health Solutions (SXCI) and will be joined by the CFO, Jeff Park, and one or more security analysts who follow SXCI.

Dinner: 5:00 pm – 6:15 pm, Allen Center

Assignment:

1) For Stacey: Please prepare a two page tear sheet on SXC Health Solutions. Examples of tear sheets can be found on most investment data bases, including CAP IQ. At the top of the tear sheet, **in bold**, indicate your buy or sell recommendation on SXCI. As part of the tear sheet, please provide at least five reasons behind your recommendation to buy (or short) SXCI and at least five concerns about such a recommendation, including, for example, risks or events that would make you change your recommendation. Please describe the process you followed in determining your recommendation, the materials on which you relied, and any other information that you believe would be helpful in assessing your recommendation.

This assignment is due by 3 pm Friday, October 22. Please email the assignment to both Debbie Brauer and to the instructors. Debbie will email the assignments as a group to Stacey Riddell. Stacey will evaluate the tear sheets and also use them as part of the basis for class discussion.

2) For the instructor: Please prepare an analysis of SXC Health Solutions as you would for a stock pitch, including a full set of pro forma financial statements and a target price. Because you did not choose this stock, your conclusion may be that the stock is fairly priced so neither a buy nor a sell is indicated. You may do this assignment in groups of as many as 7 students (e.g., your portfolio team could do this as a unit) or individually, or any size group in between. Please be sure to identify the factors driving the share price in your valuation model.

These assignments are to be submitted to the instructor by noon on the day of the class, October 25. Earlier is better to give me more time to read them before class. I will evaluate these analyses.

- November 1:**
- Stock pitches: Cliff Orr
 - Follow-up on stocks: Julio Cifuentes
Peter Ellingboe
Ankur Kashyap
Spencer Moore
 - Portfolio updates by investment committees
- October 29 5 pm** Stock pitch reports and spreadsheets due (email to class)
November 1 3 pm Presentation slides due (email to class)
-

- November 8:**
- Stock pitches: Kaz Kawai
Jeff Spearin
 - Follow-up on stocks: Rob Galtman
Tom McKiernan
Samit Mehta
 - Portfolio updates by investment committees
- November 5 5 pm** Stock pitch reports and spreadsheets due (email to class)
November 8 3 pm Presentation slides due (email to class)
-

- November 15:**
- Dinner at Allen Center with Advisory Board Members 5 – 6:15 pm
 - Midyear board meeting via WEBEX (or equivalent)
 - Presentations by portfolio managers
This presentation should be similar to last spring's Advisory Board Meeting in Evanston. Please refer to the presentation posted on Blackboard. The presentation should be completed by **Friday, November 12 at 3 pm** for emailing to the Advisory Board. Please email the presentation to the instructors and Debbie Brauer.
 - Discussion with entire class
 - Stock pitches: Ben Dickson
Uday Chatterjee
- November 12 5 pm** Stock pitch report and spreadsheets due (email to class)
November 15 3 pm Presentation slides due (email to class)
-

November 22: No class (Thanksgiving Break Week)

- November 29:**
- Portfolio updates by investment committees
 - Transition to new portfolio managers for Winter Quarter 2011
 - Research reports by the portfolio managers:
 - Traders: Fischel, Larson, Potters
 - Fall: Winiarz, Sansoterra, Dugan
 - Spring: Galtman, Mashal

Research reports are described in more detail in Attachment VII.

Please email the research reports to the class by 9 am on November 29.

Attachment I

Investment Committee Assignments - Fall 2010

Fund	Portfolio Managers	Portfolio Managers' Shadows / Analysts
Kenney Fund	Craig Dugan Joey Fischel (Trader)	Sam Baek** Ben Dickson Peter Ellingboe Rob Galtman Ian Mashal
Commingled Fund	Scott Larson (Trader) Mark Sansoterra	Uday Chatterjee Ankur Kashyap Kaz Kawai Tom McKiernan Cliff Orr
Crown and Nash Funds	Doug Potters (Trader) Chris Winiarz	Julio Cifuentes Samit Mehta Spencer Moore Sean O'Leary** Jeff Spearin

** Sam Baek and Sean O'Leary will take AMP III and AMP IV

Attachment II

Analyst Industry Preferences - Fall 2010

Name	Industries to Pitch
Baek	Commercial Banking Credit Cards Technology Retail
Chatterjee	Financial Services Biotechnology
Cifuentes	Retail – restaurants, food, drugs Consumer products Building materials/housing
Dickson	Business Services Financial Services Media
Dugan	No preference
Ellingboe	No preference
Fischel	Energy Security Aerospace Transportation Health Care

Name	Industries to Pitch
Galtman	Technology Consumer Staples Consumer Cyclical Basic Materials
Kashyap	Media – telecommunications, entertainment Consumer - retail
Kawai	Automotive Telecommunications
Larson	Information Technology/Services Education
Mashal	No preference
McKiernan	Energy Infrastructure Consumer/Retail
Mehta	Retail Industrial Energy
Moore	Health Care Technology Oil and Gas
O’Leary	Media/Technology Retail
Orr	Non-commodity/Mining Industries
Potters	Consumer/Retail Industrials

Name	Industries to Pitch
Sansoterra	Health Care Consumer – discretionary Consumer – staples Technology Basic materials Industrials
Spearin	Industrials Transportation Mining Energy
Winiarz	No preference

Attachment III

Requirements for Weekly Portfolio Updates by Investment Managers

The three AMP investment committees 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.
- A discussion of the trades made since the last portfolio update including the reasons for the trades and the contribution of the trades to the overall targeted asset allocation.
- A discussion of the decisions with respect to the prior class period's stock pitches, if appropriate, including the reasons underlying whether or not to implement the recommended action (buy or short) and, if implemented, the decision about the size of the position and the trigger prices to get out of, extend, or reevaluate the position.
- An analysis of each position's contribution to the fund's performance. This can be obtained from the "Performance: Security Performance" section of the Goldman web site.
- A graph of the Risk Decomposition Chart from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.
- A graph of the Active Risk Index Exposures and Active Industry Exposures from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.
- A check of adherence to all of the fund's restriction as outlined in the current Investment Policy Statement (please use the BARRA estimated beta rather than the Goldman computed beta because the BARRA beta is forward looking rather than historical).
- An analysis of the risk-adjusted performance of the fund using Barra's Performance Analyst.

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

Attachment IV

Stock Pitch Guidelines and Requirements

Analysts choose the company on which they make stock recommendations (long or short) from the industry group or groups for which they expressed a preference (see **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 comprises three documents. 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; this document may be in word or pdf format. The second part of the pitch contains a complete set of pro forma financial statements for the firm as well as a DCF valuation analysis, all in an excel workbook. 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. The excel spreadsheets should be structured so that students in the class can make changes to the model as part of their assessment of the pitch.

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 stock pitch 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 **5 pm 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 third component of the stock pitch is a set of slides for presentation to the class. Because all 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 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

After the pitch, all members of the class will receive a link to a website with the evaluation form for the pitch. 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.

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 form includes the following questions:

Written Presentation	What grade do you assign to the overall quality of the written portion of the stock pitch? Included in this category are the analysis of the business (e.g., competitive advantages) and financial analysis (e.g., balance sheet, income statement, cash flows). (1 – 100)
Oral Presentation	What grade do you assign to the overall quality of the oral portion of 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)
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

“Following” a Stock

Students are expected to “follow” stocks that they pitched, even if the portfolio managers did not add the stock to the portfolio. We want to calibrate the effectiveness of decisions to buy or short as well as decisions not to trade. Updates on the pitched stocks should generally consist of emails to the class but when warranted may be in the form of a presentation to the class.

In addition, analysts will be asked by the portfolio managers to follow stocks that are currently held by one or more funds but that were generally pitched by students who have graduated from Kellogg. Each analyst will provide at least one update during the fall quarter. The dates for the update are assigned in the syllabus. Analysts are encouraged to provide more than one update as requested.

Following a 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 2010.” 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 stocks that they follow 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

Portfolio managers are required to present a research report to the class during the last week of class of the quarter. 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. 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 we use (see **Attachments VIII and IX**).

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 must be discussed with and cleared by the instructor before proceeding**.

The research reports must be distributed to the class by email no later than 9 am of the day they are to be presented.

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. Some suggestions for paper topics are listed on the course website and below:

- Backtest a quantitative strategy for the purpose of using it as an overlay for the funds. Discuss the advantages and disadvantages of backtesting, both with respect to the particular strategy used and in general.
- Apply the Black-Litterman asset allocation model to the AMP portfolios.
- Analyze the risk-adjusted performance of the AMP portfolios.
- Discuss BARRA's procedure for estimating factor models (with specific examples).
- Analyze and make recommendations for AMP's investing in ETFs as part of the asset allocation strategy.

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												Instructions:						
Portfolio Manager: <input type="text"/>												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.						
Fund Name: <input type="text"/>												Traders should enter all trade data into Box 1 of the Trade Data Worksheet.						
Date: 10/23/2008																		
Time (CST): 7:15:00 AM																		
Box 2 - Trade Information				Box 3 - Pricing Information						Box 4 - Compliance / Notes				Box 5 - Additional Information				
Ticker	Order	Order	Order	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		Full Name	Barra	Total Portfolio Value as of Last Night Close	% of current Portfolio
Kenney	VLO	BUY	market	4000	\$ 20.00	6/2/2009	\$ 39.00	6/7/2009 \$ 18.21	\$ 20.00	Yes	Trade	Yes	Fund purchase by selling all AMEX Energy SPDRs (700 shares of XL) Valero					
Kenney	XLE	SELL	Market	700				6/7/2009 \$ 52.11	None	Yes	Trade	Yes						
Kenney	SPY	SELL	Market	385				6/7/2009 \$ 94.55	None	Yes	Trade	Yes						
Commingle	SPY	BUY	Market	600				6/24/2009 \$ 90.90	None	Yes	MMF	Yes	Purchase to comply with IPS					STANDARD & POORS DEP RCPTS SPDR

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										Total Trading Costs				Bid / Ask Spread											
Goldman Entry Complete	Ticker	Order Side	Order Type	Order Quantity	Price on 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?	Trade date	Shares executed by market orders	Shares executed by limit orders	Shares executed via dark pool	Order Benchmark	Trade Benchmark	Trade 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	Bid	Ask	Spread
Yes	Kenney	VLD	BUY	market	4000	\$ 20.00	6/2/2009	\$39.00	6/7/2009	\$ 18.21	\$ 20.000					\$ 20.00	\$ 18.21	\$ 18.0500	\$ (7,160.00)	\$ (640.00)	\$ (7,800.00)	\$ 80.00	\$ (7,720.00)	-11.97%	\$ 7,205	0.3394%			
Yes	Kenney	XLE	SELL	Market	700			6/7/2009	\$ 52.11	None		6/9/2009					\$ 52.11	\$ 51.6601		\$ 314.93	\$ 314.93	\$ 14.00	\$ 328.93	0.90%	\$ 14,925	0.7056%			

Attachment X

Professors Robert Korajczyk and Linda Vincent
Asset Management Practicum I - IV
Finance 933 - 936
Spring 2010 – Spring 2011

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.

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 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.

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).