Northwestern University

Asset Management Practicum II: FINC 934
Fall 2012
Wednesday, 6:30 pm – 9:30 pm, room 276
Jacobs Center

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

Asset Management Practicum II - Preliminary Syllabus

(October 10, 2012 – Subject to Change)

AMP II (FINC 934) is the second 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.

Because the ramifications of portfolio management decisions can only be assessed over time and through market cycles, students registering for Asset Management Practicum II (FINC 934) in the spring **must** either:

a) Have registered for Asset Management Practicum I (FINC 933) in the spring of 2012 and will register for either AMP III (FINC 935) and/or AMP IV in the winter and spring of 2012 This option allows students to be away on exchange in the winter.

OR

b) Register for both AMP III and IV (FINC 935 and 936) in the winter and spring of 2012.

Students who have completed Asset Management Practicum I, II, and III are welcome to register for Asset Management Practicum IV (FINC 936) in the spring of 2012.

Additional information about the course is available at:

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

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 contains a significant amount of material, both current and historical. All class presentations (stock pitches, stock updates, portfolio updates, and research papers) are posted on the website. Please become familiar with this site.

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.

Overview of AMP II

The primary components of AMP II are student presentations of stock analyses ("pitches") and reviews of fund performance. There will also be two visiting practitioners who will speak to the class.

Classes: The class meets every Wednesday evening. Each class meeting will include an update by the portfolio managers of the positions in the portfolio, the performance and risk profile of the portfolio, and trades made since the last class. Analysts will also be assigned stocks to update have an opportunity to update those recommendations.

Attendance: Students are expected to attend all class sessions.

Teaching Assistants: The course teaching assistants are:

Andreas Neuhierl	a-neuhierl@kellogg.northwestern.edu
Selwyn Yuen	s-yuen@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

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: FINC 444 and 463 qualify toward this four quarter credit requirement but waiving out of it does not reduce the number of co-requisites):

FINC 442	Financial Decisions
FINC 444	Value Investing
FINC 447	Financial Strategy and Tax Planning
FINC 451	Money Markets and the Fed
FINC 460	Investments
FINC 462	Portfolio Management
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
FINC 936	Asset Management Practicum IV (if student has taken AMP I, II, and III)
FINC 941	Macroeconomic Policy and Global Capital Markets
FINC 970	Empirical Methods in Finance
ACCT 451	Financial Reporting and Analysis
ACCT 452	Financial Reporting and Analysis II.

In order to qualify for satisfying the co-requisites with three courses the co-requisites must include (a) one of either FINC 444 or FINC 463; (b) one of either FINC 460, FINC 462, FINC 970, or FINC 530; and (c) at least one other course from the above list.

Code of Ethics: All 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 Blackboard under "Course Information." Students starting the practicum in the fall must agree to abide by the Practicum Code of Ethics and must attest that agreement by giving me a signed copy of the ***Practicum Code of Ethics*** by the end of the first class, September 26 (copies for signature will be provided in class).

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 and rude to the speaker. Questions and comments to the speaker should be professionally stated, avoiding slang and inappropriate language. The presenter should likewise avoid slang and inappropriate language. Side conversations should likewise be avoided. These requirements are consistent with the *Kellogg Code of Classroom Etiquette*.

Plagiarism Policy: All students starting the Asset Management Practicum in the fall must also sign the ***Practicum Plagiarism Policy*** by the end of the first AMP class, September 26 (copies for signature will be provided in class). A copy is available on Blackboard under "Course Information." 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.

Training sessions: There may be training sessions on Wednesday afternoons from 5:00 - 6:30 pm in room ?? for training on vendor software such as Bloomberg, Barra, Thomson Financial, and FACTSET. Sessions will be announced as they are scheduled. There will also be a day-long session on modeling for valuation run by Training the Street. The date has not been set yet.

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.

Pre-class dinners: On dates when there is a visiting practitioner there is usually a pre-class dinner at the Allen Center with the visiting speaker from 5:00 pm – 6:15 pm for a subset of the class (on a first-come basis). We have two dinners scheduled for the fall quarter (October 17 and 24). If you do not have a class ending at 5:00, try to be there at 5:00, otherwise be there as quickly as you can. For each speaker, up to 10 students may attend the dinner. Dinner is optional and attending dinners has no effect on the course grade. However, if you sign up for a dinner, you must attend. Not attending after signing up will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend either or both of these dinners, please email your preferences (1^{st} and 2^{nd} choices) to Deborah Brauer (mailto:d-brauer@kellogg.northwestern.edu) by Friday, **September 28th**.

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:

Students have two main roles in the Practicum – investment committee member (portfolio manager) and analyst. All students will spend one quarter as investment committee member and two quarters as analyst over the three quarters of the Practicum. Analysts are responsible for presenting stock pitches, based on fundamental valuation analysis, to the class and making long or short position recommendations to the portfolio managers.

Portfolio assignments are provided in **Attachment I**. The investment committee members are responsible for decisions about the positions taken in the portfolio, based on the analyses provided by the equity analysts. These decisions include 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. There are four portfolios of differing sizes and slightly different investment philosophies, with two of the smaller funds managed by the same team. The investment committee members provide the weekly portfolio updates. **Attachment II** provides guidelines for the weekly portfolio updates. Students generally remain with the same portfolio throughout the course sequence.

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 and prior to choosing a stock. Stocks should be pitched as either a long or short recommendation and not a hold. 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 attached at the end of the syllabus and also posted on the course Blackboard website.

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 below. The requirements for the stock pitch are provided in **Attachment III**. All prior AMP pitches are on the course Blackboard website and may be used for guidance. Stock updates consist of a short report and a 5minute presentation (think of it as a mini-pitch). 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 PM 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 in Attachment I 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. All analysts will become portfolio managers in subsequent quarters.

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 (attached and on Blackboard). 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. Portfolio managers 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 II**) and to the Advisory Board on an annual basis.

- Investment committee members assist in evaluating analyst recommendations and are also welcome to present their own equity analyses (stock pitches).

- Portfolio managers request the execution of trades using the AMP Trade Order Request Form (on the course website in spreadsheet form).

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

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

- One member of the investment committee for each fund will be designated the trader for the fund. **Please inform the instructors which student has been so designated**. An analyst for each fund should be designated as the trader's shadow, to learn about trading from the trader. The shadows will become traders next quarter.

- **Traders** are responsible for determining the optimal trading strategies in order to minimize the implementation shortfall due to order execution; advising portfolio managers on the appropriate execution strategies; and devising pre-trade estimates and post-trade evaluation of execution costs. Traders must be familiar with trading procedures (e.g., Triton at ITG, our executing broker, and Goldman Sachs, our prime broker) and must maintain a cumulative record of trades as outlined in the trade data spreadsheet (on the course website in spreadsheet form).

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

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

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

Grading:

The primary deliverables for students over the three quarters of AMP are two stock and a research report. The research reports are due in AMP II , III, and IV and are prepared by the portfolio managers during those quarters. Research reports can be written in groups of up to 3 people.

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 student/s making the pitch.

The specifics of the grade distribution for Fall quarter are as follow:

Portfolio Managers:

Research report	40%
Class participation:	15%
Written evaluations of stock pitches, research reports, and guest speakers:	25%
Portfolio Updates	10%
Peer review:	10%

Analysts:

Stock pitch:	40%
Class participation:	15%
Written evaluations of stock pitches, research reports, and guest speakers:	25%
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

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

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

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

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

Also refer to the FAQ on grading posted on Blackboard under “Course Information.”

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

Stock Pitches:

Students choose the company on which they make stock recommendations (long or short) from their preferred industry groups and in consultation with the portfolio managers and the instructor (two out of three portfolio teams must approve the name of the stock to be pitched). **Attachment III** provides guidelines and requirements for the stock pitches. In addition, all past pitches made to the Practicum are posted on the Blackboard website and students may refer to these for examples. The pitch report, including a spreadsheet valuation model, must be emailed to all class members (this can be accomplished through the Blackboard website with Communication – Send Email – All Users) 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 power point slides for presentation to the class. Because the students will have read the report before class, the purpose of the power point slides is not to educate the audience of potential investors but rather to emphasize the main points and the recommendations from the written report. The power point presentation must be emailed to all class members (using the Blackboard procedure) by **3 pm on the day of the presentation**.

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

The analysts 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 a potential investment.

Student questions. All students must turn in a set of questions to the instructor (hard copy only) for each pitch at the beginning of class. There should be a minimum of three questions per pitch and at least two of the questions must be related to the spreadsheet model. Students do not have to ask questions during class from those turned in but may do so. The content of the questions will be considered in determining the pitch evaluation portion of the grade.

Online evaluations. All students will provide a written evaluation (electronically on a form provided – see **Attachment IV**) of the stock pitch, assessing the quality of the written report and the verbal presentation. The key considerations are the quality and effectiveness of the stock pitch and whether the evaluator would support the recommendation made in the stock pitch for the AMP funds. The comments, without attribution, are distributed to the class. The students making the pitch may respond to questions raised in the evaluation with a general email to the class.

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

Response to Comments and Questions:

Each analyst has the opportunity to respond to questions and comments received from the class. Please email these to all class members (this can be accomplished through the Blackboard website with Communication – Send Email – All Users)

Textbooks:

Required:

Carmen M. Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press 2011. (Available electronically from NU Library.)

Recommended Texts:

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

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

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

September 26: Introduction

Stock pitch: Dugan; CF Industries
Stock update: Byrne
Pitch evaluator, Stephen Wilson ('74), Chairman, President, and CEO, CF Industries.

Assignment for fall admits:

PANL Case.

Mauboussin: "Common Errors in DCF Models" (on Blackboard)

Mauboussin/Barthodson: "Measuring the Moat" (on Blackboard)

Portfolio updates by portfolio managers (all funds)

September 24 9:00 am Report and Updates due (email to class and to Debbie Brauer).

September 26 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

October 3: TTS - Corporate Valuation for Investment Management 9:00 AM - 5:00 PM, room G03

Stock pitches: Feeney, Pradez

Stock updates:

Portfolio updates by portfolio managers (Crown/Nash)

October 1 9:00 am Report and Updates due (email to class and to Debbie Brauer).

October 3 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

October 10: Stock pitches: Byrne, Saigal

Stock updates: Feeney, Dugan
Pitch evaluators: Daniel Zuckerman and Christopher Harvey, Zuckerman Investment Group

Portfolio updates by portfolio managers (Commigled)

October 8 9:00 am Report and Updates due (email to class and to Debbie Brauer).

October 10 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

October 17: Guest Speaker: Scott Fearon ('83 and AMP Advisory Board Member), President of Crown Capital Management, "Fads, frauds, and failures: An overview of successful short selling."

Update of current portfolio status (Kenney)

Please refer to the more detailed biographical information on Blackboard.

Assignment: TBA.

October 17 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

October 24: Guest Speaker: Michael Haddad ('87), Former Portfolio Manager at Soros Fund Management and Caxton Associates, "Global Macro Investing." Please refer to the more detailed biographical information on Blackboard.

Update of current portfolio status (TBA)

Assignment: Read Carmen M. Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press 2011. (Available electronically from NU Library.)

October 24 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

October 31: Stock pitches: DiPalma, Hensley, Sandler

Stock updates: Pradez, Saigal
Pitch evaluator: Chad Waynee ('08) Copia Capital.

Portfolio updates by portfolio managers (TBA)

October 29 9:00 am Report and Updates due (email to class and to Debbie Brauer).

October 31 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

November 7: Stock pitches: Chatterjee, Schlock, Persuitti

Stock updates: Lemes, Sandler, Chen
Pitch evaluator: Karl Brewer ('96), co-manager of the Small-Mid Cap Growth Team, William Blair.

Portfolio updates by portfolio managers (TBA)

November 5 9:00 am Report and Updates due (email to class and to Debbie Brauer).

November 7 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

November 14: **Asset Management Practicum NYC Trek**

Four AMP students will present stock pitches to guest practitioners
The format for each of the four 1-hour sessions will be:

20 minutes: Learning. Students will 'pitch' a stock idea to our guest (5 minutes for the pitch, 15 minutes of feedback and dialog), followed by
20 minutes: Listening. The guest's Observations on Investing (Lessons learnt over the years, Nuggets/Words-of-wisdom, etc)
20 minutes: Asking. Q&A

The sessions will take place 11:30-4:30 PM, followed by a reception. This schedule should allow us to fly in and out on the same day, so you will not have to miss classes on Tuesday or Thursday.

Since this is not the usual arrangement for a class, attendance is not mandatory. The Practicum will provide support for travel (details to follow).

In the fall, you will have an opportunity to submit an idea for one of the four pitches. It could be a new pitch or an update of a previous pitch (as long as the thesis is still one that makes sense). The class will choose the four students to represent us. If you are chosen to pitch on November 14th, that pitch will count for your pitch for the quarter (if you are an analyst) or for your research paper (if you are a PM). The industry guests are:

James Covello, Technology/Media/ Telecommunications Equity Research Business Unit Leader, Goldman Sachs
John Goetz '82, Managing Principal and Co-Chief Investment Officer, Pzena Investment Management
Peter A. Langerman, Chairman, President and CEO, Mutual Series
Stephen F. Mandel, Jr., Managing Director, Portfolio Manager, Lone Pine Capital

October 17 9:00 am Pitch proposals due (e-mail to class)
November 12 9:00 am Report due (email to class and to Debbie Brauer).

November 28: Stock pitches: Byrnes, Feeney, Lemes, Chen

Stock updates: Chatterjee, Schlock, Persuitti
Pitch Evaluator: John Wellehan ('07), Founding Partner, Partner at Twenty Mountain LLC

Portfolio updates by portfolio managers (TBA)

November 26 9:00 am Report and Updates due (email to class and to Debbie Brauer).

November 28 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

December 5: Research reports: PMs

Stock updates: Byrnes, DiPalma, Hensley

Portfolio updates by portfolio managers (TBA)

Transition to new portfolio managers for Winter Quarter

December 3 9:00 am Research reports and updates due (email to class and to Debbie Brauer).
December 5 3:00 pm Portfolio updates and presentation slides due (email to class and to Debbie Brauer).

Attachment I

Investment Committee Assignments

Fund	Investment Committee	Analysts	Stock Update Assignments
Kenney Fund	• Liao • Tan • Wortes	• Byrne • Chatterjee • DiPalma • de Barros Pradez • Feeney	• ABV, PLD • GM, LKQ • CSCO, PANL • MRLN, GEO, PLD • CHK, VALE, RT
Commingled Fund	• Bastin • Pugeda • Sidana	• Byrnes • Chen • Hensley • Lemes • Schlock	• AAPL,PKX, SNA • CVS, PFE • CZZ, CJES • CLD, MCD, PETM • AFL, TXI
Crown and Nash Funds	• Monson • Tantitham • Wilson	• Dugan • Persuitti • Saigal • Sandler	• CXO, VLO • CAT, ONE, SPR • CTSH, SYMC, HPQ • PM, WRLS

Attachment II

Requirements for Weekly Portfolio Updates by Investment Managers

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

- A statement of the committee's chosen target asset allocation. This should include an analysis of cash versus equity, market capitalization of the fund's holdings, and selected sector exposures via ETFs.

- Total return on the fund: calendar year to date; calendar quarter to date; and any other period of your choice. Compare these returns to the benchmark return. All of these returns can be obtained from the "Performance: Fund Performance" section of the Goldman web site.

- An analysis of each position's contribution to the fund's performance. This can be obtained from the "Performance: Security Performance" section of the Goldman web site or from Barra Aegis Performance Analyst (under Asset Contributions).

- A graph of the Risk Decomposition Chart from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.

- A graph of the Active Risk Index Exposures and Active Industry Exposures from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.

- An analysis of the fund's performance using Barra's performance analyst (please refer to the research paper by Marwick, Shekleton, Stulberg, and Wong from Winter Quarter, 2010).

- A check of adherence to all of the fund's restriction as outlined in the current Investment Policy Statement (please use the BARRA estimated beta rather than the Goldman computed beta because the BARRA beta is forward looking rather than historical).

An electronic version of this report should be 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 3:00 PM on class days.

Attachment III

Stock Pitch Guidelines and Requirements

Analysts choose the company on which they make stock recommendations (long or short) after consultation with the three investment committees and the instructor on industries/sectors that are under-represented in the portfolio. Because we are making recommendations for investments, the goal is to choose a stock for which a **buy** or **sell** (short) recommendation can be made. Hold recommendations should be avoided.

A fundamental analysis should include, at a minimum:

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

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

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

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

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

The report and spreadsheets **must** be emailed to all class members (this can be accomplished through the Blackboard website) 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 emailed to all class members (using the Blackboard procedure) by **3 pm on the day of the presentation**.

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

The analyst will have a maximum of 10 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 (electronically on a form provided – see **Attachment IV**) 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.

As noted above, all prior stock pitches are posted and the AMP Blackboard website and can serve as examples.

Attachment IV

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 **5 pm of the Friday** following the stock pitch presentation so the results can be distributed to the investment committees. 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 V

Updates on Portfolio Holdings – or How to "Follow" a Stock

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

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

The assigned analyst should review the original stock pitch (generally posted on the AMP Blackboard site) as well as any updates to the pitch (also posted on the AMP Blackboard site) in order to understand the original investment thesis.

An 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. Examples of stock updates from previous quarters are on the course website.

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 VI

Research Reports

The group research reports (groups up to 3 people) will be presented by the AMP IV portfolio managers during the slot reserved for the class final, June 6. 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.

Presentations and Q&A should be approximately 30 minutes (e.g., 20 minutes for the presentation and 10 minutes for Q&A). The reports are due the Monday before class and should be emailed to the class via Blackboard. Presentation slides should be sent to the class via Blackboard by 3:00 PM the day of the presentation.

Professors Robert Korajczyk, Linda Vincent, Phillip Braun
Asset Management Practicum I - IV
Finance 933 - 936
Spring 2012 – Spring 2013

Operational Rules

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

1) All participants must abide by and sign the Practicum code of ethics.

2) Each Fund must adhere to the Investment Policy Statement for that Fund.

3) Only Securities/Strategies presented in class are eligible for inclusion in Funds (with exceptions stated in the investment policy statement).

4) Only designated student traders are authorized to trade assets for the fund. Trades should only be made during trading hours on the Exchange. Limit orders should be used rather than market orders to protect against trading errors.

5) When a fund team decides to make a trade in an asset, they should e-mail instructions to the trader and CC the course instructors. Instructions should include a specific description of the asset, the size (in shares) and direction (buy, sell, short, cover) of the trade, and an indication of urgency. The fund team must also make sure that sufficient funds are available to cover the trade, and that the trade does not cause the fund to be in violation of the investment policy statement. The fund team must also determine that the fund's positions will not trigger UBIT.

6) **Before** a short sale, the trader must locate the shares with the prime broker. **It is illegal to execute a short sale without locating shares.**

7) The trader is encouraged to have a second practicum participant confirm the accuracy of the trade before submitting it to the executing broker (ITG Incorporated). Post execution, the trader must send a confirming e-mail to the fund team (and copy the course instructors) confirming the execution of the trade with amounts and transaction prices. The trader must notify the prime broker (Goldman Sachs) of the trade (security, size, direction, and fund name).

8) Traders should not override the trading limits in the trading software.

9) The trade and the fund team investment committee must both confirm that the trade is accurately posted by the Prime Broker (Goldman Sachs) by the morning after the trade.

10) If the trader is unable to trade the order, the trader or the fund team can ask the instructors to trade the order.

11) Fund teams must present a weekly report of fund valuation, risk, adherence to the fund's investment policy statement. If the fund is out of compliance (e.g., the fund's beta is less than 0.7 or greater than 1.3), the fund's investment committee must take appropriate steps within two days to return the fund to compliance.

12) The fund teams must keep a record of execution costs and analyst performance for periodic reporting purposes.

Kellogg School of Management

Professors Robert Korajczyk, Linda Vincent, and Phillip Braun
Asset Management Practicum I - IV
Finance 933 - 936
Spring 2012 – Spring 2013

Investment Policy Statement

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

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

The Crown, Kenney, and Commingled Funds:

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

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