

Finance 934 (AMP II)
Fall 2015
Wednesday, 6:30 pm – 9:30 pm

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Asset Management Practicum II - Syllabus

(Draft 7.15.15 Subject to Change)

This is the second quarter of a four-quarter sequence in asset management; of which three quarters of participation are required and a fourth quarter is optional. This course provides 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 is currently divided into four funds (Commingled, Crown, Kenney, and Nash). The equity portions of the funds follow strategy based on the fundamental security analyses of students in the class. Three of the funds allow short positions as well as long positions, whereas the fourth fund (Nash) is long only. The funds allow the use of quantitative strategies as overlays to the fundamental analyses.

Relevant information about different aspects of the course is available at the course **Canvas** site with the title "Kellogg Asset Management Practicum." The Canvas site is for all four sections of the AMP and so contains a significant amount of material. All class presentations (stock pitches, research papers) are posted on the website (Under "Files" then "Student Presentations").

Office hours: I am available by appointment. If you would like to set up an appointment, please email me at phillip-braun@kellogg.northwestern.edu.

Overview of AMP II:

The primary components of AMP II are student presentations of stock analyses ("pitches"), updates on stocks already in the portfolio, and reviews of fund performance.

There will also be two visiting practitioners who will speak to the class and one trip to New York City where students will meet with practitioners.

- **Classes:**

The class meets every Wednesday evening.

For those classes where we do not have a visiting speaker, each class meeting will include

- Stock pitches by one to three students
- Stock updates by one to three students
- Portfolio updates by the portfolio managers of the different portfolios

For those classes with a visiting speaker, the class will include

- Dinner at the Allen Center with the visiting speaker (starting at 5:00 PM)
 - **Except for PTMBA students, everyone is required to attend *two dinners***
- Lecture by visiting speaker from 6:30 until they conclude
- Portfolio updates if time allows

- **Attendance:**

Students are expected to attend all class sessions. Failure to do so will result in a reduction in a student's overall grade for that term.

- **New York City Trip:**

There is a class trip to New York City on one of the Wednesdays in November. Students are expected to attend (exceptions can be given for PTMBA students). AMP will provide funds to cover your costs up to \$700. You are strongly encouraged to book your tickets early to cover the costs. The sessions in New York will begin at 11:30 and conclude early evening. The location in New York is at this time TBD. We are currently trying to arrange for an AMP Alumni reception for right after the sessions; however, this is still very much in progress, I will keep you posted.

- **Prerequisites:**

FINC 441 or FINC 440 and FINC 463 completed or to be taken concurrently with the first term of the student's AMP enrollment

- **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 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) FINC 463; (b) one of FINC 460, FINC 970, or FINC 530; and (c) at least one other course from the above list.

- **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 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 only. **Laptops and tablets need to be put away for the other parts of the class, such as the stock updates and the portfolio updates. I do not permit laptop or tablet usage during lectures by guest speakers unless stated otherwise.**

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. Furthermore, all other aspects of Kellogg's code of conduct for the classroom hold.

- **Honor Code:**

All students enrolled in the Asset Management Practicum must abide by the Kellogg Honor Code. If you are unsure of what this means, read the honor code:

http://www.kellogg.northwestern.edu/stu_aff/policies/honorcode.htm

Most of the formal assignments in the Practicum are individual assignments. You may discuss ideas and issues for your assignment with other member of the class, but the final work product must be your original work.

- **Code of Ethics and Plagiarism Policy**

Please review the *Practicum Code of Ethics* and the *Practicum Plagiarism Policy* documents that you signed last spring before the first AMP class, thereby agreeing to abide by the Code of Ethics throughout the Practicum. Deliberate or “accidental” plagiarism will not be tolerated by the Kellogg AMP. Direct quotations as well as paraphrases of others’ work must be cited properly and direct quotes must be enclosed in quotation marks.

Remember, the **AMP faculty considers it plagiarism to use someone else’s Excel model**, in whole or in part. Students who plagiarize other’s valuation models will be expelled from AMP and receive F’s for all AMP quarters.

Student Responsibilities:

Portfolio Managers (PM’s)

- Portfolio Managers are responsible for managing their team’s portfolio and ensuring that the portfolio complies with the Investment Policy Statement. Managing the portfolio includes making decisions on whether to take a position in a security and, if so, how large a position, as well as when to add to a position, decrease a position, or close out a position, including trading in ETF’s. Portfolio Managers must meet at least weekly to make such determinations, including their analysts in such discussion where possible.
- Portfolio Managers present a “portfolio update” on their fund’s activities to the class on a weekly basis (see Attachment I for a discussion of the content of this report) and to the Advisory Board on an annual basis.
 - The portfolio updated will at minimum include:
 - 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 I** of this syllabus.
- Portfolio Managers will assist in evaluating analyst recommendations and are welcome to present equity analyses of their own.
- Portfolio Managers (PM's) will update all AMP faculty on any trades that they execute within 24 hours of any trades. There is an AMP Trade Excel worksheet that is provided (new PM's must get this from the previous quarter's PM's)
- Portfolio Managers are responsible for determining the optimal trading strategies in order to minimize all costs due to order execution. Portfolio Managers must be familiar with trading procedures with 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 (as stated above with regard to trading).
- Portfolio Managers 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," Brzsznicki 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 website.
- Portfolio Managers are responsible for writing and presenting one research paper (in conjunction, if they wish, with other Portfolio Managers of their choice) in the term that they are a portfolio manager, unless the PM makes a pitch in NYC. **Appendix IV** details the requirements for the research paper.

Analysts

- AMP II students who are assigned the role of analyst are responsible for making at least one stock pitch and one stock update to the class during the quarter.
 - Students initially select the stock they wish to pitch. Then they must receive email approval of this choice from Prof Braun and their portfolio manager(s). Analysts may not pitch a stock that the PM's and Prof Braun have not approved. Pitches of stocks that have not been pre-approved will not receive any credit. The requirements for the stock pitch are provided in **Attachment II**
 - AMP analysts are also responsible for following and updating one to four stocks during the quarter. The analysts' PM will assign which stocks they will be responsible for monitoring and updating during the term. Which stocks analysts will follow will be determined by their PM's during the first week of class, at the latest. **Attachment III** contains guidelines as to what "following" entails.
 - *Prof Braun will provide the schedule for the stock pitches and stock updates after the NYC trip is set.*

All Students

- After each class, you must submit an online survey for the class presentations. **The surveys are on canvas under the “Assignments” tab. You will have two days (48 hours) to complete the survey for stock pitches/research reports; the reports are due by midnight the Friday after a pitch.** The short time period is due to two reasons. First, with respect to stock pitches, the Investment Committees generally meet before the end of the week and should have access to the stock pitch evaluations for use in their deliberations. Second, the best evaluations were provided shortly following the presentation when the information and impressions were fresh. For stock pitch presentations, you will be asked to provide numerical and qualitative evaluations that will be given to the analyst (without attribution). Thoughtful written comments are more valuable than the numerical score and the comments will receive more weight in the participation grade. Comments lacking substantive feedback (e.g., “good presentation!”) will receive the same grade as no comment.

Class Organization:

Speaker dinners. Visiting speakers are invited to dinner 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 three dinners scheduled for the fall quarter: the speakers and their dates are in the class schedule provided separately. **If you wish to attend any of these dinners, please email Deborah Brauer (d-brauer@kellogg.northwestern.edu), everyone must attend two dinners.**

Guest speaker, stock pitches, research reports. We will begin each class with either: a guest speaker, student stock pitches, or student research reports. A detailed schedule is provided separately.

- **Stock pitches will be 5 minutes in length followed by 25 minutes of question and answers. Practitioners are invited to each class to comment on stock pitches.**
 - **This timing has been revised following student feedback at the AMP Board of Directors meeting last spring.**
 - **The pitches will be timed and students are required to finish at the 5 minutes mark**

Stock updates. Following the stock pitches and research reports will be updates on stocks that are currently held in the portfolio; a schedule for these updates will be provided.

- Stock updates last a total of 10 minutes in length, **including** questions and answers.
 - The updates will be timed and students are required to finish at the 10 minute mark

Portfolio updates. Each class will end with an update by each investment committee on the fund's performance.

- Portfolio updates should be approximately 10 minutes in length, **including** questions and answers.

Grading:

Because the first three quarters of the course are meant to be taken as an integrated whole, students will receive formal course grades for their AMP classes at the completion of their AMP sequence and co-requisites. **All quarters are weighted equally in determining the sequence grades.**

Completion of co-requisites: if a student does not complete the four course co-requisites by the end of the yearlong sequence, then a one letter-grade reduction will be imposed for each course deficit. (Students who have scheduling issues should discuss options with the instructor.)

Grade Determination for Analysts

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

Stock pitch	40%
Stock updates	20%
Class participation and evaluations of stock pitches, research reports, and visiting speakers	30%
Peer review from portfolio team members	10 %

- Stock pitch grade details
 - The stock pitch grade will be a weighted average of an analyst's classmate's grade and the professor's grade. The weights are 30% for the classmate's grade and 70% for the professor's grade. The overall score from the peers is an average across peers of the average scores across all categories in the questionnaire.
 - **All analysts must get the stock they are going to pitch pre-approved via email by the professor and their portfolio managers.**
 - Stock pitches that are not submitted on time will lose 0.5% of the grade for every hour they are late. For example, if a stock pitch is submitted 24 hours late, there will be a 12% reduction in the stock pitch grade.
- Participation and evaluations details
 - I want to recognize the fact that different students can participate in different ways. Some students are more outgoing and may participate more in class. Others may be quiet and participate more in the written word (via the evaluations). What I expect is that all students participate substantially, one way or another. Therefore, students do not have to speak during class; if you do not, however, you need to make up for this fact with a detailed written evaluation. Correspondingly, students who participate in class a lot do not need to provide a detailed written evaluation. However, all students must still at least submit a point evaluation of all speakers.

- If a visiting speaker assigns a project then the project will get a 5% weight (for the final grade) which would come out of the 30% set aside for participation and then everything in this category would be adjusted on a pro-rata basis.

Grade Determination for Portfolio Managers

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

Research report	30%
Weekly portfolio updates and trading	30%
Class participation and evaluations of stock pitches, research reports, and visiting speakers	30%
Peer review from portfolio team members	10 %

- Research report evaluation details
 - **Research teams must get their research topic approved from the professor and must meet with the professor on a regular basis to discuss the research project.**
 - The research report grade will be a weighted average of the research team's classmate's (peer's) grade and the professor's grade. The weights are 30% for the peer's grade and 70% for the professor's grade. The overall score from the peers is an average across peers of the average scores across all categories in the questionnaire.
- Weekly portfolio updates evaluation details
 - The evaluation of a portfolio manager's (PM) performance in trading is also included in this category.
 - PM's will be penalized for all trading errors. A trading error is defined as (i) a rejected trade by Goldman Sachs, (ii) a trade outside the scope or rules governing the portfolio and the class, for example, a trade that is too large or a PM to be found trading individually rather than with a partner, or (iii) trades that do not follow the posted Investment Guidelines. **The penalties listed here apply no matter why a trading error occurs.**
 - No matter what the dollar size of a trading error, for the second and beyond trading errors, there will be a 5% reduction in the grade for this category.
 - Furthermore, if a PM's trading error causes a dollar loss to the portfolio greater than \$10,000 then the highest grade they can get in this category is 50% (out of a 100% scale).
 - If a PM's trading error causes a dollar loss to the portfolio greater than \$40,000 then the highest grade they can get in this category is 25% (out of a 100% scale).
 - If a PM's trading error causes a dollar loss to the portfolio greater than \$75,000 then the highest grade they can get in this category is 0% (out of a 100% scale) and they will lose their privilege to trade.
 - If a trading error occurs, PM's have, at most, eight hours from notification to work with the professor and Goldman Sachs to fix the error. PM's must always be able to be reached via email or cell phone within a two-hour time span. PM's must work the professor at his/her discretion and convenience to fix these trading errors. These terms are non-negotiable. If a trading error occurs, PM's are expected to drop everything and respond immediately to fix the error, regardless of any and all other commitments. Failure to meet these conditions will cause the PM(s) to receive, at most, a grade of 50% for this category.

Attachment I

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**:

- 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.

- Composition of the portfolio

- 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.

- An analysis of the risk-adjusted performance of the fund using Barra’s Performance Analyst.

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

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

An electronic version of this report should be emailed to all class members, the instructors, and Debbie Brauer (this can be accomplished through the Canvas website) by 5:00 PM on class days.

Attachment II

Stock Pitch Guidelines and Requirements

Analysts choose the company on which they make stock recommendations (long or short) and must get email approval from their PM's and Prof Braun. 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) **Your name and date**
- 2) An analysis of the firm's business and its industry, including its strategy and the competitive landscape
- 3) An analysis of the firm's financial condition including profitability, balance sheet, and cash flow generation
- 4) A forecast of the firm's future performance structured as pro forma financial statements with well-articulated assumptions about the key value drivers
- 5) A DCF valuation of the firm based on the financial projections (along with sensitivity analysis)
- 6) Target price and timeframe
- 7) If the pitch is a short, what are the costs of the short?

Additionally, we encourage students to reach out to representatives in the firm (e.g. Investor Relations Department) or one of the firm's competitors.

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

Analysts have generally provided a Word or PDF document for the report and the pro forma financial statements in a separate Excel document. **Make sure that any Word or PDF documents have a title page with your name, date and the name of the company being pitched.** 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, **including Debbie Brauer** (this can be accomplished through the Canvas website) by ***noon on the Monday before the Wednesday presentation***. All students are expected to read the report and study the spreadsheet financials before class. The report must contain all of the substantive information and analyses for the stock pitch.

The second component of the analysis is a set of power point slides for presentation to the class. Because all students will have read the report before class, the purpose of the power point slides is not to educate the audience of potential investors but rather to emphasize the main points and the recommendations from the written report. The power point presentation must be emailed to all class members (using the Canvas procedure) by **5:00 pm on the day of the presentation**. Again, make sure that the PowerPoint presentation has a title page with your name, date and the name of the company being pitched.

All students and faculty will provide a written evaluation (electronically on a form) 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.

In addition, each week we have pitches, a practitioner from Chicago will be present. For those making stock pitches, please provide the visiting practitioner with (1) a printout of the analyst report, (2) a full-page print out of your PowerPoint presentation, and (3) your business card. Please give these to the practitioner either at the beginning of class or right before your presentation.

Attachment III

Updates on Portfolio Holdings

The portfolio managers will assign each analyst stocks to “follow.”

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 pitches (generally posted on the course website) in order to understand the original investment thesis.

An update on the stocks should be made to the class (maximum 10 minutes in length in total) which would include the stocks’ performance since its addition to the portfolio and performance relative to the pitch’s target price and target date.

The analyst should keep abreast of new developments with respect to the stocks 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.

The stock update presentation needs to be distributed via to the class and Debbie Brauer via email by 5:00 PM on class day.

Attachment IV

Research Reports

The portfolio managers will present the research reports during the last 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.

It is required that students make an appointment to discuss the topic and design of their research report with the instructor prior to the end of the fifth week of class.

Prof Braun must approve all paper topics.

Presentations and Q&A should be approximately 45 minutes (e.g., 30 minutes for the presentation and 15 minutes for Q&A).

The reports are due the Monday before the presentation class and should be sent to the class via Canvas.

Presentation slides should be sent to the class via Canvas by 5:00 PM the day of the presentation.

Make sure that the presentation has a title page with your name and date on it.