

Northwestern | Kellogg

Asset Management Practicum II

Finance 457

Fall 2018

Wednesday, 6:30 pm – 9:30 pm

Global Hub L120

Professor Linda Vincent

Global Hub 4455

(847) 491-2659

l-vincent@kellogg.northwestern.edu

Asset Management Practicum II

(September 14 – Subject to Change)

AMP II (FINC 457) is the second quarter of a four quarter experiential learning 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 Northwestern University's endowment portfolio, currently divided into five funds (Commingled, Crown, Kenney, Nash, and Simpson Querrey). The equity portion of each fund 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. Four of the funds allow the use of quantitative strategies as an overlay to the fundamental analyses.

Additional information about the course is available at:

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

and on the course **Canvas** site with the title "Kellogg Asset Management Practicum."

Overview of AMP II

Classes: The class meets every Wednesday evening at 6:30 pm. A detailed schedule is provided in a separate document on canvas.

Attendance: Students are expected to attend **all** class sessions. Students are also expected to participate in (at least) weekly face-to-face (not email) portfolio meetings. Failure to attend class (the entire class) and/or portfolio meetings will result in a grade reduction.

Teaching Assistants: The course teaching assistants are:

Marco Christopher Sammon (marco.sammon@kellogg.northwestern.edu)

Sneha Kumari (sneha.kumari@kellogg.northwestern.edu)

The TAs are Finance PhD students and are available to help you with data and software issues.

Prerequisites: FINC 431 or FINC 440 or FINC 441

Co-requisites: Over the three or four quarter AMP sequence, students must take two quarter credits in asset management-related courses:

- 1) One of FINC 442, FINC 444, FINC 463, or FINC 477 – must be taken prior to or during the first quarter of the practicum.
- 2) FINC 950 Capital Markets or FINC 465 Derivative Markets I

Related Courses:

The following courses are recommended as complementary to AMP

ACCT 451	Financial Reporting and Analysis
ACCT 452	Financial Reporting and Analysis II.
FINC 442	Financial Decisions
FINC 444	Advanced Topics in Finance - Value Investing
FINC 447	Financial Strategy and Tax Planning
FINC 451	Money Markets and the Fed
FINC 459	Asset Management Practicum IV (if student has taken AMP I, II, and III)
FINC 460	Investments
FINC 463	Security Analysis
FINC 464	Fixed Income Securities
FINC 465	Derivative Markets I
FINC 467	Derivative Markets II
FINC 477	Global Entrepreneurial Finance
FINC 941	Macroeconomic Policy and Global Capital Markets
FINC 950	Capital Markets

Code of Ethics:

Because you will be managing several millions of dollars of the Northwestern endowment, the Practicum faculty and advisory board expect the highest level of ethical behavior. All students in the Practicum must familiarize themselves with the *Practicum Code of Ethics*, which includes the *CFA Institute Code of Ethics and Standards of Professional Conduct*. A copy is available on Canvas. Students associated with the practicum must agree to abide by the *Practicum Code of Ethics*.

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. However, unrelated uses of the laptop such as surfing the web and reading/responding to emails are inappropriate. Laptop usage during lectures by guest speakers will be determined on a case-by-case basis conditional on the preference of the speaker. Questions and comments to the presenter should be professionally stated, avoiding slang and inappropriate language. The presenter should likewise avoid slang and inappropriate language. Side conversations should be avoided. These requirements are consistent with the *Kellogg Code of Classroom Etiquette*.

Plagiarism Policy:

All students enrolled in the Asset Management Practicum must also agree to abide by the *Practicum Plagiarism Policy*. A copy is available on Canvas. Deliberate or “accidental” plagiarism will not be

tolerated by AMP. Direct quotations as well as paraphrases of others' work must be cited properly and direct quotes must be enclosed in quotation marks.

Please note that the plagiarism policy applies to others' financial models as well.

Course Material and Resources:

There is an AMP II Canvas site with links to two Dropbox folders. The AMP Historical Archive (commonly referred to as "AMP 2") contains historical AMP pitches, stock updates, portfolio updates, and research papers. This is a large dropbox and is read only (files can be downloaded but not uploaded or changed). The dropbox link for Fall 2018 AMP is set up with file folders for each class. All class presentations and associated documents are to be uploaded to this site including stock pitches, stock updates, portfolio updates, and research reports.

Practicum students have exclusive access to an office in room L094 in the Global Hub that has two Bloomberg terminals, our trading software, Barra, and other analytics software packages.

Training sessions:

There may be training sessions on Wednesday afternoons from 5:15 - 6:15 pm in room (TBA) for training on vendor software such as Bloomberg, Barra, Thomson Financial, and FACTSET. Sessions will be announced as they are scheduled.

Pre-class dinners:

On dates when there is a visiting practitioner there is usually a pre-class dinner with the visiting speaker from 5:00 pm – 6:15 pm for a subset of the class. A maximum of 10 students may attend each dinner and you will receive an email request to sign up for dinners. If more than 10 students sign up, it will be on a first come basis. Dinner is optional and attending dinners has no effect on the grade. However, if you sign up for a dinner you must attend or there will be adverse consequences to your grade and your access to future dinners.

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.

Office hours:

If you would like to set up an appointment, please email me. I am available most days.

Course Structure:

- Students have two main roles in the Practicum – portfolio manager and analyst. All students will spend one quarter as portfolio manager and two quarters as an analyst over the three quarters of the Practicum. During the AMP sequence, each student will prepare a minimum of two stock pitches, two stock updates, and one research report.

Analysts

- Analysts are responsible for pitching a stock and providing one or more stock updates during the quarter. The schedule for the stock pitches and updates is in a separate document on Canvas. The requirements for the stock pitch are provided in **Attachment II** of this document. Please read **Attachment II** carefully and contact the Instructor with any questions. All prior AMP pitches are available on Dropbox and may be used for guidance.
- Each analyst is assigned to a portfolio team. These assignments are in a separate document on Canvas. Students generally remain with the same portfolio team throughout the course sequence.
- The portfolio managers will schedule weekly (or more frequent) meetings of the entire portfolio team (PMs and analysts). These in-person portfolio team meetings are an important part of the AMP experience. Electronic communication may supplement but may not replace the meetings. Attendance at these meetings is mandatory and failure to attend or participate will result in a grade reduction. Analysts learn and must understand the rationale for the portfolio positions and the investment decisions. All analysts will become portfolio managers in subsequent quarters.
- The analyst may select a stock to pitch but **the name must be approved by the analyst's PMs and the instructor**. The PMs may suggest industries or particular stocks to the analyst based on portfolio needs. A stock pitch that has not been approved will not receive credit.
- Stock pitches are based on fundamental, bottoms up, analysis and should be pitched as either a long or short recommendation, not a hold.
- Each analyst will follow and prepare stock updates for 1 – 3 stocks held in the portfolio. Stock updates consist of a short written report and a **five minute** presentation to the class. In the update, the analyst should assess whether the original investment thesis is still valid and whether the portfolios should increase or decrease their position in the stock. More information about following a stock and stock updates can be found in **Attachment IV**. Assigned dates for the in-class stock updates are provided in the separate schedule for the class and available on Canvas.
- In addition to the formal stock updates, each analyst should keep the PMs apprised of new developments for the stocks assigned to the analyst, such as upcoming earnings releases, conference calls, and other news.

Portfolio Managers (PMs)

- Portfolio managers are responsible for managing the fund's portfolio and ensuring that the portfolio is in compliance with the fund's Investment Policy Statement (attached). 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 schedule weekly (or more frequent) meetings of all investment committee members (that is, all PMs and analysts for the fund) assigned to the portfolio. These portfolio team meetings must take place in person. Additional meetings and discussions may be done electronically but the weekly in person meetings are an important part of the AMP process.
- Portfolio managers report on the fund's activities to the class according to the class schedule. **Attachment I** contains the specific requirements and suggestions for content of the portfolio updates.
- Portfolio managers document the ordering of trades using the AMP Trade Order Request Form (on Canvas in spreadsheet form).

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

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

- The PMs for each fund are the designated the traders for the fund. Analysts should also learn how to trade in preparation for becoming portfolio managers.
- **Traders** are responsible for: determining the optimal trading strategies in order to minimize the implementation costs due to order execution; advising portfolio managers on the appropriate execution strategies; and devising pre-trade estimates and post-trade evaluation of execution costs. Traders must be familiar with trading procedures and must maintain a cumulative record of trades as outlined in the trade data spreadsheet (on Canvas in spreadsheet form). Copies of the trade data spreadsheet must be emailed to the portfolio managers requesting the trade as well as to the instructors:

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

- **Traders** should read the “AMP Trading Tutorial” on the Canvas site. AMP uses Interactive Brokers' Trader Workstation platform. Traders may be assigned trading duties for the undergraduate's Northwestern Capital Management Fund.
- Portfolio managers are responsible for writing and presenting a research paper at the end of the quarter in which they are PMs. This paper may be written alone or with one or two other PMs. (The maximum number of PMs per paper is three.) The topic must be discussed with and approved by the instructor. Please identify the topic and meet with the instructor no later than the fifth week of the quarter (October 20 – 25).

All Students

- **At the end of the quarter, each portfolio team member will provide written assessments of all other portfolio team members. These assessments are mandatory and an important part of the grade. We expect active participation from all portfolio team members.**
- **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 Canvas.**

Course Documents and Detailed Information:

- There is an Asset Management Practicum site on Canvas containing the syllabus, the schedule, links for the online evaluations, assignments, and other salient information for the course.
- Stock pitches, stock updates, portfolio updates, and research reports will all be uploaded to the Dropbox site for this quarter via the link on Canvas.
 - The naming conventions for the various postings are as follow:

For pitches:

TICKER YYYYMMDD Report/model/presentation Studentname.pdf/docx/xlsx/pptx

Example: SPW 20150218 report Aravindhhan.docx

This is the pitch report for SPX Corporation (NYSE: SPW) submitted by Dinesh Aravindhhan for the AMP class on February 18, 2015.

For portfolio updates:

Example: Commingled 20150218 port update.pdf

This is the portfolio update for the Commingled fund for the February 18, 2015 class.

For stock updates:

Example: DAL 20150218 update Fourness.pptx

This is a stock update of Delta Airlines (NYSE: DAL) by Joe Fourness for the February 18, 2015 class.

NOTE: each stock update should be in a separate document.

- There is a shared, read only, AMP dropbox (“AMP 2”) which contains several folders. The URL for this dropbox is on Canvas. AMP 2 contains folders with all of the historical AMP stock pitches, stock updates, portfolio updates, and research papers. Students may access and download documents from this dropbox but may not upload or change any document in the dropbox.

Grading:

The primary deliverables for students over the three quarters of AMP are two stock pitches, four stock updates, and a research report.

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 analyst making the pitch.

Guest lecturers may also require graded assignments for class.

The specifics of the grade determinants for fall quarter are as follow:

Stock pitch (analysts) or research report (PMs)	30 %
Written evaluations of stock pitches, research reports, speakers	30 %
Stock updates (analysts) or portfolio updates (PMs)	10 %
Class participation	20 %
Peer evaluation	10 %

The class participation component of the grade is based on contributions to the class discussion, including the question and answer period following each stock pitch.

Online Evaluations: After each class, students should complete an online survey for the analyst presentations, guest speakers, and research reports. Students have two days after the pitch to complete the surveys. There is a link to an online survey for each analyst stock pitch, speaker, and research report on Canvas. The surveys are due no later than the following **Friday at midnight** – no exceptions will be made. For example, the survey for a pitch presented on Wednesday, October 3, is due by midnight on Friday, October 5. No late surveys will be accepted. You will be asked to provide numerical and qualitative evaluations of the stock pitches and research reports. The comments will be distributed without attribution to the entire class so all may benefit from the comments. A summary of the numerical evaluations will be given to the presenter together with the instructor’s comments. The numerical scores are weighted averages of the instructor’s scores and the student’s scores. Thoughtful written comments are more valuable than the numerical score and such comments will receive more weight in the grade. Comments lacking substantive feedback (e.g., “good presentation!”) will receive the same grade as no comment. A copy of the pitch evaluation form is provided in **Attachment III**.

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 instructors and will result in a one letter grade penalty (10 points out of 100). 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. Students starting AMP in the fall quarter must complete AMP II, III, and IV. Students wishing to either not complete the AMP sequence or change the sequence must meet with the instructor to discuss prior to the end of fall quarter.

Completion of co-requisites: If a student does not complete the course co-requisites by the end of the AMP sequence, 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 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.

The instructor will provide each student with a relative and absolute performance assessment in writing at the end of the quarter.

Peer evaluation: 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. The peer reviews should be completed carefully and completely. Failure to complete the peer reviews or completion in a perfunctory manner (e.g., with no comments) will result in a penalty to the preparer’s peer review grade.

Attachment I

Requirements for Portfolio Updates by Investment Managers

Each AMP investment committees should present a report on the risk and performance of its fund according to the schedule posted on Canvas. The report is due by 5 pm on the day of the update.

When the portfolio team presents the results in class, 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 any selected sector exposures via ETFs.
- A report on the fund's assets under management (AUM) and the fund's profit and loss since the last portfolio update.
- A report on the trades made since the last report including the rationale behind the trade.
- Decisions on any pitches given since the last portfolio update
- An analysis of the fund's performance calendar year to date, calendar quarter to date, and any other period of the managers' choice, using Barra's Performance Analyst (please refer to the research paper by Marwick, Shekleton, Stulberg, and Wong from Winter Quarter, 2010). In Performance Analyst the performance attribution is listed under "Cumulative Attribution Chart (under the "Total" tab)." In addition, daily returns on the funds and the benchmark can be found on the M: drive of the AMP office machines in the folder Portfolios>Sample_Input_Files. The file name is Fund_Returns_yyyymmdd, where yyyymmdd = the end date of the sample period (yyyy= year, mm=month, and dd=day). These files are to be imported into Performance Analyst.
- Analysis of each position's contribution to the fund's performance. This can be obtained from Barra Aegis Performance Analyst (under Asset Contribution>Cumulative Contributions – Assets Held).
- A graph of the Risk Decomposition Chart from the MSCI Barra Aegis Portfolio Manager, as of the most recent available date.
- A graph of the Active Risk Index Exposures and Active Industry Exposures from the MSCI Barra Aegis Portfolio Manager, as of the most recent available date.
- A check of adherence to all of the fund's restrictions as outlined in the current

Investment Policy Statement. Position sizes are shown in the initial Performance Analyst window. Beta and tracking error (active risk) are shown in the Executive Summary window (hit F2). Use the BARRA forward looking beta, called Predicted Beta, from BARRA Portfolio Manager.

When the portfolio team is not reporting results to the class, the team should report performance attribution from Performance Analyst and show that the portfolio meets all requirements of the investment policy statement.

An electronic version of this report should be placed by each investment team on Canvas by 3:00 PM on class days.

Attachment II

Stock Pitch Guidelines and Requirements

Analysts choose the company on which they make stock recommendations (long or short) after consulting with their fund's portfolio managers. The PMs may have concerns about sectors or industries that are under-represented in the portfolio. **The stock selected for the pitch must then be cleared with the instructor.**

The analyst must get email approval of the selected name from their fund's PMs and the instructor.

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.

Each portfolio's Investment Policy Statement requires that investments be made on the basis of a **fundamental analysis** of the company being pitched. A fundamental, or bottoms up, analysis should include, at a minimum:

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

PLEASE NOTE THESE REQUIREMENTS CAREFULLY AS FAILURE TO COMPLY WILL RESULT IN A GRADE REDUCTION.

The analyst should provide information as to how the stock was selected. If a screen or set of screens was used, the numerical results of each of the screens should be provided. Please note this requirement as it is frequently overlooked.

The analyst should provide the investment committees with a downside price at which the analyst recommends the portfolio exit the position if a long, or cover the position if a 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.

An analyst should also provide a relative valuation (multiples) analysis of the stock being pitched in anticipation of questions from pitch evaluators such as "how does the stock trade relative to its peers?" The relative valuation can be used to triangulate the DCF analysis. An analyst should also be prepared to

respond to questions about how the “street” considers the stock (sentiment) and how the analyst’s projections differ from the “street’s” or “the consensus.”

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

The report and spreadsheets **must** be placed in the AMP II dropox by **9 am on the Monday before the Wednesday presentation unless noted otherwise on the syllabus**. If a report is late, the analyst must email all students when the report is available. 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.

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.

Please read this paragraph carefully. The second component of the analysis is a set of power point slides for presentation to the class. The report and model contain all of the detail and the backup for the presentation. The purpose of the presentation is to sell the idea. 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 and to stress the key reason/s why your investment idea should be acted upon. The power point presentation must be posted on the AMP II Dropbox site by **3 pm on the day of the presentation**.

The analyst will have a maximum of **5 minutes** to make the pitch followed by a maximum of 15 minutes of questions from the class. Note this time limit. Your presentation should be no more than 4-5 slides. You may have additional slides in the deck in anticipation of questions but not as part of the main presentation.

The point of view in asking questions should be that of an investment committee analyzing the potential investment.

All students and the instructor will provide a written evaluation (electronically on a form provided – see **Attachment III**) of the stock pitch, assessing the quality of the written report and of the oral presentation. The key considerations are the 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 on Dropbox under “AMP 2” and can serve as both references and examples for subsequent analysis.

Attachment III

Stock Pitch Evaluations

The link to the online evaluation for each pitch, guest speaker, and research report is on Canvas. The evaluations are due by **midnight Friday** following the Wednesday 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 distinguishes 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:

- (1) 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)

The following is the letter grade conversion for all questions:

91-100 = A;
81- 90 = B;
71- 80 = C;
61- 70 = D;
< 61 = F.

- (2) Valuation Model** What grade do you assign to the quality of the valuation model supporting the stock pitch? (1 – 100)
- (3) 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)

- (4) Oral Presentation** What grade do you assign to the overall quality of the oral portion of the stock pitch? (1 – 100)
- (5) Recommendations** What recommendations for improvement would you suggest?
Please address each of the above categories in your detailed, written recommendations.

Attachment IV

Updates on Portfolio Holdings – or How to “Follow” a Stock

Analysts are assigned to “follow” stocks that are currently held by one or more funds in the portfolio that often were pitched by students who have graduated from Kellogg.

Analysts should work with their portfolio managers to determine which stocks they should update. This information should be communicated to all portfolio managers.

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.

Each stock in the portfolio should be updated at least once per quarter. The assigned analyst should review the original stock pitch (generally posted on the Dropbox site under “AMP 2”) as well as any updates to the pitch (also posted on the Dropbox “AMP 2” site) in order to understand the original investment thesis or theses.

An update should be made to the class (maximum 5 minutes in length) which includes the stock’s performance since its addition to the portfolio and performance relative to the pitch’s target price and target date. The update should include information about what portfolios hold the stock, the dates on which the stock was purchased or shorted, and the dates of any subsequent changes to the holdings.

The analyst should provide guidance for subsequent monitoring and trading of the stock. For example, on a hold recommendation the analyst should also provide a stop loss price and a selling price recommendation together with dates for exiting the stock if neither the floor nor ceiling are reached. All stocks in the portfolios should have upper and lower bounds as triggers for action together with appropriate dates.

Examples of stock updates from previous quarters are on the Dropbox site. The analyst should provide appropriate analysis and background in the update for the recommendation made in class. In other words, the update documentation may be more in depth than the update presentation. If updating more than one stock, please do a separate report and presentation for each stock. The updates should be uploaded to Canvas by **3 pm of the date presented**.

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 V

Research Reports

The research reports will be presented by the AMP II portfolio managers during the last class of the quarter. PMs may present the research report individually or in teams of up to three persons. Research reports should address issues associated with managing a portfolio other than pitching a stock. Research reports from prior quarters can be found in Dropbox in the “AMP 2” folder. We 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. Examples of prior research topics include: “Backtesting of Quantitative Overlay Strategies”; “Evaluation of AMP Trading Execution”; “Optimal Asset Allocation”; “Performance Attribution”; “Use of Portfolio Optimization in Portfolio Construction”; “Evaluation of Position Exit Timing by AMP”; and “Do AMP Analysts and/or PMs Exhibit Behavioral Biases?” The goal should be learning from data analyses.

All research report topics must be approved by the instructor. Please make an appointment with the instructor to discuss the topic and design of your research report as soon as you have some thoughts and ideas about it, but not later than the fourth week of the quarter.

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 by **9 am the Monday** before class and should be posted on the course Dropbox site. Penalties will apply for late research reports.

Presentation slides must be uploaded to Canvas by **3:00 PM the day of the presentation**.

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Professors Robert Korajczyk, Linda Vincent, Phillip Braun
Asset Management Practicum I – IV
FIN 456, 457, 458, 459

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 copy 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 (unrelated business income tax).
- 6) **Before** a short sale, the trader must ensure that our broker has shares to lend. **It is illegal to execute a short sale without locating the 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. Post execution, the trader must send a confirming e-mail to the fund team (and copy the course instructors) confirming the execution of the trade with amounts and transaction prices.
- 8) Traders **MUST NOT** override the trading limits in the trading software.
- 9) If the trader is unable to trade the order, the trader or the fund team can ask the instructors to trade the order.

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

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Asset Management Practicum I - IV
FIN 456, 457, 458, 459

Investment Policy Statement

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

- The Crown Fund
- The Kenney Fund
- The Nash Fund
- The Commingled Fund
- The Simpson Querrey Fund

No fund may use leverage.

If a fund is found to be out of compliance with the investment policy statement at a weekly portfolio update, the managers must bring the portfolio back into compliance on the next day the markets are open.

The Crown, Kenney, and Commingled Funds:

The Crown, Kenney, and Commingled Funds are to be invested in equities traded in the United States, exchange traded funds (ETF), and cash reserves. Positions may be long or short and must be based on fundamental security analysis.

The funds should have a net exposure (beta) to the S&P 500 between 0.7 and 1.3.

The funds should be diversified to the extent that tracking error, relative to the S&P 500, should not exceed 5% per month.

All individual stock positions must be from the set of stocks pitched in class, in the Value Investing class (FINC 444), or at an Investment Management Club (IMC) 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 discretionary positions of up to 2% in stocks not yet pitched (not to exceed a total of 8% of the portfolio). If the stock is not pitched within 4 weeks of taking the position, or by the end of the quarter, 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 instructor approval: S&P Depository Receipts (SPY), Vanguard large/small capitalization, value/growth, and total market VIPERS (VV, VB, VUG, VTV, VTI). Other ETF positions must be approved by the instructors and may require a short presentation to the class. Only ETFs that are covered by Barra are eligible. A list of eligible ETFs is posted on the course website.

Quantitative Overlays: Up to 10% of the fund may be allocated to a particular quantitative strategy (up to 40% across strategies) after a presentation to the class (including past research reports) and with permission of the instructors. Once the strategy is approved, stocks chosen by the strategy do not need to be pitched.

Position Limits: A long position in an individual security should not exceed 8% of the fund's market value. A short position in an individual security should not exceed 4% of the fund's market value. These limits do not apply to cash or securities that are, themselves, well-diversified, such as exchange traded funds linked to market indices. Total short positions should not exceed 30% of the fund's market value.

The funds' portfolios must 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.

Each quarter the PMs must designate a "long term" stock and take an initial 5%-8% position in that stock; the stock need not be a new position, but must be different from other "long-term" stock chosen in the past two years. This position **MUST** be held for two years. Should the position rise above the 8% holding limit, the position must be trimmed to be compliant with the 8% holding limit.

All individual stock positions must be from the set of stocks pitched in class, in Value Investing Class (FINC 444), or at an Investment Management Club (IMC) 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 discretionary positions of up to 2% in stocks not yet pitched (not to exceed a total of 8% of the portfolio). If the stock is not pitched within 4 weeks of taking the position, or by the end of the quarter, the position must be closed.

ETF positions are meant to control the overall market and style exposure of the funds. The following ETFs can be traded without prior approval: S&P Depository Receipts (SPY), Vanguard large/small capitalization, value/growth, and total market VIPERS (VV, VB, VUG, VTV, VTI). Other ETF positions must be approved by the instructors and may require a short presentation to the class. Only ETFs that are covered by Barra are eligible. A list of eligible ETFs is posted on the course website.

Position Limits: A position in an individual security should not exceed 8% of the fund's market value. This limit does not apply to cash or securities that are, themselves, well-diversified, such as exchange traded funds linked to market indices.

The fund's portfolio must be structured to avoid incurring unrelated business income tax (UBIT).

The Simpson Querrey Fund:

The Simpson Querrey Fund is to be invested in equities traded in the United States. Positions must be long and based on fundamental security analysis.

The Fund's portfolio must be concentrated, with at least five and no more than eight stocks. No position in a single security may exceed 20% of the Fund's market value. Cash positions may not exceed 5% of the Fund.

All individual stock positions must be from the set of stocks pitched in AMP, the course currently referenced as the Value Investing class (or its successor), 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.

The fund's portfolio must be structured to avoid incurring unrelated business income tax (UBIT).