



**Professor Linda Vincent**  
**Asset Management Practicum I**  
**Finance 933**  
**Spring 2008**  
**Room 1246**

## **Syllabus**

AMP I or FINC 933 is the first quarter of a four quarter sequence in asset management, of which the first three quarters (AMP I, II, and III) are required and the fourth (AMP IV) is optional. This class meets jointly with AMP IV (FINC 936C) taught by Professor Robert Korajczyk, the developer of the Asset Management Practicum. The focus of this course 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 fund follows a value investing strategy based on the fundamental security analyses of students in the class. Three of the funds allow short positions as well as long positions, whereas the fourth is long only. The funds allow the use of quantitative and derivative strategies as an overlay to the fundamental analyses. Diversification into other asset classes (e.g., hedge fund component) is planned for the future.

Information about the course is available at:

<http://www.kellogg.northwestern.edu/faculty/korajczy/courses.htm>

and at the course **Blackboard** site with the title "Kellogg Asset Management Practicum." The Blackboard site is for all four sections of the AMP and so contains a significant amount of material. All reading and other assignments will be posted on the Blackboard site (under "Assignments"). Some required and optional readings and informational links will be posted (under "Course Documents"), and miscellaneous information (under "Announcements," "Course Information," or "Staff Information.") All class presentations (stock pitches, research papers) will be posted on the website.

Office hours: I will be available by appointment. If you would like to set up an appointment, please email me at [l-vincent@kellogg.northwestern.edu](mailto:l-vincent@kellogg.northwestern.edu).

Teaching Assistants: The course teaching assistants are:  
Joseph Engelberg, [j-engelberg@kellogg.northwestern.edu](mailto:j-engelberg@kellogg.northwestern.edu)  
Fritz Burkhardt, [f-burkhardt@kellogg.northwestern.edu](mailto:f-burkhardt@kellogg.northwestern.edu)

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

While some classes will consist of lectures by the instructor, others will be lectures by visiting practitioners and presentations of analyses by students in the class. In fact, the primary component of the course will be student presentations of stock analyses, research reports, and reviews of fund performance

Students will also report evaluations of the fund's performance to a board of advisors for the Asset Management Practicum no less than on a quarterly basis. The board consists of the instructors, a representative of the Northwestern University Investment Office, and prominent practitioners. Most advisory board members have made substantial donations to the Asset Management Practicum funds.

The ramifications of most portfolio management decisions are only understood over time and through market cycles. Therefore, students registering for Asset Management Practicum I (FINC 933) in the spring of 2008 must also register for Asset Management Practicum II and III (FINC 934C and 935) in the fall of 2008 and winter 2009. Students who have completed Asset Management Practicum III have the **option** of registering for Asset Management Practicum IV (FINC 936C) in the spring of 2009.

Since the first three quarters of the course are meant to be taken as an integrated whole, students will receive course grades for FINC 933, 934C, and 935 at the completion of the sequence.

### **Prerequisites/Co-requisites:**

**Prerequisites:** FINC 441 or FINC 440

**Corequisites for 933:** Students registering for Finance 933 must have taken or be simultaneously registered for [FINC 463 - Security Analysis](#) or [FINC 925 - Advanced Topics in Finance](#).

**Total Co-requisites:** Over the three-quarter sequence students must take a total of four quarter credits in additional asset management-related courses from the following list (note: FINC 463 and FINC 925 as described above both qualify toward this four quarter credit requirement):

- 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 925 Advanced Topics in Finance
- ACCT 451 Financial Reporting and Analysis
- ACCT 452 Financial Reporting and Analysis II.

## **Course Structure:**

AMP I and AMP IV will meet together. Students in Asset Management Practicum I will focus on developing fundamental security analyses. Students in AMP IV are responsible for managing the positions of the fund, given the analyses of the students in AMP I.

Students in AMP I will all be assigned the role of an equity analyst. They will provide valuation analyses and long and short position recommendations. Students will rotate into different positions in future quarters in AMP II and AMP III.

As part of the role as equity analyst, AMP I students will also be assigned stocks that are currently held (either long or short) in the portfolios to track. This assignment requires that the analyst keep the class apprised of any new developments (e.g., earnings releases and other announcements) that might affect the investment committee's assessment of the stock as an investment. **These assignments will be posted on the course website.**

Approximately half of the AMP I students will also be assigned operating roles with the portfolios. This means that they will "shadow" the AMP IV investment committee members for each portfolio and learn the responsibilities and operational duties of the investment committee members. In particular, they should familiarize themselves with software and procedures so that they can take over responsibilities at the end of the quarter. The AMP I students with operating roles become the investment committee at the end of Spring Quarter 2008. **These assignments will be posted on the course website**

Students in AMP IV will serve as the investment committee for the portfolios for Spring Quarter. Currently, there are four portfolios of differing sizes and slightly different investment philosophies, with two of the smaller funds managed by the same team. In addition to their duties on the investment committee, students will specialize in one of several areas: risk evaluation and performance reporting; trading strategies; derivatives strategies; quantitative strategies; and asset allocation strategies.

The investment committee members are responsible for decisions about the positions taken in the portfolio, based on the analyses provided by the various 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.

Investment committee members will assist in evaluating analyst recommendations and are welcome to present equity analyses of their own.

Investment committee members involved in risk evaluation and performance reporting will monitor the portfolio to insure that the portfolio meets its investment guidelines and risk parameters, monitor and report portfolio performance to the class and advisory board, and monitor analyst performance.

Traders are responsible for determining the optimal trading strategies in order to minimize the implementation shortfall due to order execution, advising portfolio managers on the appropriate execution strategies, and devising pre-trade estimates and post-trade evaluation of execution costs.

Derivative, quantitative, and asset allocation analyst responsibilities are to advise the investment committee on strategies related to derivative and quantitative strategies designed to complement the fundamental equity analyses and to advise on tactical asset allocation.

## **Classes:**

The class meets every Monday 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 whose recommended stocks are in the portfolio will have an opportunity to update those recommendations. We will then either have a lecture by the instructor, by a visiting practitioner, by a data/software vendor, or by students.

**Students are expected to attend all class sessions.**

On dates when there is a visiting practitioner there is usually a pre-class dinner from 5:15 pm – 6:15 pm at the Allen Center with the visiting speaker for a subset of the class. You will all have the opportunity to sign up for these dinners. The sign-ups will be co-ordinated by Debbie Brauer <mailto:d-brauer@kellogg.northwestern.edu>.

## **“Training” Sessions:**

There will be one or more training sessions on Wednesday afternoons at 3:30 for training on vendor software such as Bloomberg, Barra, and Thomson Financial. These sessions will be announced as they are scheduled.

## **Grading:**

Students in AMP I are required to present a stock pitch analysis for at least one stock during the quarter. This is the primary deliverable. Students enrolling in AMP I through the application process are also expected to learn the operational duties of AMP IV students. In particular, they should familiarize themselves with software and procedures so that they can take over responsibilities at the end of the quarter.

Stock Analyses:	70% (for those assigned an operational role), 80% otherwise
Class Participation:	20%
Peer review:	10% (for those assigned an operational role), 0% otherwise

The class participation component of the grade is based on attendance, contributions to the class discussion, participation in evaluations of stock pitches, and participation in speaker evaluations. After each class, you will receive an email directing you to an online survey for the class presentations. You will have one week to complete the survey. For analyst presentations, you will be asked to provide a numerical and qualitative evaluation 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 part of the grade. Comments lacking substantive feedback (e.g., “good presentation!”) will receive the same grade as no comment.

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

Completion of co-requisites: If a student does not complete the four course co-requisites by the end of the year-long sequence (AMP I, II, III) then a one letter-grade reduction will be imposed for each course deficit. (Part-time students who have scheduling issues should discuss options with me.)

Since the course is a year-long commitment, grades for 933, 934C, and 935 will be assigned at the end of the course sequence.

### **Stock Pitches:**

Students choose the company on which they make stock recommendations (long or short) from the industry group or groups to which they are assigned. The stock 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. The spreadsheets should be formatted so that they can be printed easily by the class members. This report **must** be emailed to all class members (this can be accomplished through the Blackboard website with Communication – Send Email – All Users) by **9 am on the Friday before the presentation**. All students are expected to read the report 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 it is late.

The presenting student will have a maximum of 10 minutes to make the pitch followed by a maximum of 20 minutes of questions from the class. The point of view in asking questions should be that of an investment committee analyzing the potential investment.

All students and the faculty will provide a written evaluation (electronically on a form provided) 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 student would support the recommendation made in the stock pitch for the AMP funds. The written evaluations

will include numerical scores for each of the two portions (written and oral) of the pitch and written comments to support those scores.

Part of the class participation grade will be determined by the quality of the questions asked in the stock pitches and the quality of the written assessment.

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.

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

**Recommended Texts:**

Maginn, John L., Donald L. Tuttle, Jerald F. Pinto, and Dennis W. McLeavey, *Managing Investment Portfolios: A Dynamic Process*, 3rd edition. Hoboken: Wiley, 2007.

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

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

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

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

March 31: Introduction  
Discussion of course structure and the portfolios  
Update of current portfolio status  
Introduction to equity analysis  
Introduction to asset management – principles and practice, including risk, performance evaluation, and benchmarking

**Assignment:** From the Maginn book, read the following (posted on the course website):

Ch.1 – *The Portfolio Management Process and the Investment Policy Statement*

Ch. 7 – *Equity Portfolio Management*

April 7: Guest Speaker: Jerome Kenney ('67), Vice Chairman and Member, Executive

Client Coverage Group, Merrill Lynch and member, AMP Advisory Council

*The Strategic Landscape of the Asset Management Industry*

April 14: Guest Speakers: Stacey Riddell ('89), Craig S. Donohue ('95), CEO, CME Group, and Jamie Parisi, CFO, CME Group

*Analyzing a Public Company Stock from A to Z*

**There will be a required written assignment for this session.**

April 21: Student stock pitches:

D'Angelo

Mendes

Nevins

Spring

April 28: Student stock pitches:

Fitz

Griffiths

Hennegan

Tivakaran

May 5: Guest Speaker: Steven Milunovich ('87), Partner, Brunswick Group, LLP.

*Secrets of a Wall Street Analyst*

Student stock pitches:

Tyree

Vickery

May 12: Student stock pitches:

Butler

Kan

Stott

Ward

May 19: Student stock pitches:

Lee (Samuel)

Prieur

Santos

Sivaram

Zhang

May 26: No class – Memorial Day

May 28: (Wednesday) Make-up class for Memorial Day. 3:30 pm – 6:00 pm, Room 1246.

Student stock pitches:

Behera  
Johnson  
Kadish  
Zumbach

June 2: Student stock pitches:

Chahal  
Lee (Bie Chu)  
Raguseo  
Springmeyer

If you cannot present on the night assigned, it is your responsibility to find another analyst to trade dates with you.

### **Speaker Dinners:**

Visiting speakers are invited to dinner before class from 5:15-6:15. If you do not have a class ending at 5:00, try to be there at 5:00, otherwise be there by 5:15. For each speaker, up to 10 students may attend the dinner. We have three dinners scheduled for the spring quarter. This is totally optional and attending dinners has no effect on your grade. However, if you sign up for a dinner, you must attend. Not attending after signing up will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend any of these dinners, please send a ranking of your interest level to Deborah Brauer (<mailto:d-brauer@kellogg.northwestern.edu>) by Friday, **April 4<sup>th</sup>**.

### **Honor Code/Code of Ethics:**

All students attending 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](http://www.kellogg.northwestern.edu/stu_aff/policies/honorcode.htm)

All 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.

In addition, all students attending the Practicum must familiarize themselves with the CFA Institute Code of Ethics and Standards of Professional Conduct and the Practicum Code of Ethics. Students associated with the Practicum must agree to abide by the Practicum Code of Ethics and must attest to that agreement by giving me a signed copy of the Code no later than **April 2nd**.

If you are in doubt about whether something is acceptable under the honor code/ code of ethics, you should not hesitate to ask me.

All students must also sign the “Practicum Plagiarism Policy” and return to me by **April 2nd**. 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.

### **Other courses:**

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

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

### **Miscellaneous:**

The University Library has on reserve a number of textbooks related to the course material. Those of you who are interviewing at more quantitative shops might want to take a look at *Heard on The Street: Quantitative Questions from Wall Street Job Interviews* by Timothy Crack.