



Northwestern University

Asset Management Practicum I
Finance 933
Spring 2012
Wednesday, 6:30 pm – 9:30 pm
Jacobs Center G43

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Asset Management Practicum I - Preliminary Syllabus

(May 2, 2012 – Subject to Change)

AMP I (FINC 933) is the first quarter of a four quarter sequence in asset management. This class meets jointly with AMP IV (FINC 936). The focus of this course sequence is to give the students both a theoretical foundation and practical experience in the management of investment portfolios. Students in the Asset Management Practicum are responsible for managing a portion of the University's endowment portfolio, currently divided into four funds. The equity portion of the funds is invested based on the fundamental security analyses of students in the class. Three of the funds allow short positions as well as long positions, whereas the fourth fund is long only. The funds allow the use of quantitative strategies as an overlay to the fundamental analyses.

Because the ramifications of portfolio management decisions can only be assessed over time and through market cycles, students registering for Asset Management Practicum I (FINC 933) in the spring of 2010 **must** either:

- a) register for Asset Management Practicum II and III (FINC 934 and 935) in the fall of 2012 and winter 2013
- OR
- b) with the permission of the instructors, register for Asset Management Practicum II and IV (FINC 934 and 936) or for AMP III and IV (FINC 935 and 936). These options facilitate students who wish to go on exchange abroad either fall or winter quarter.

Students who have completed Asset Management Practicum I, II, and III are welcome to register for Asset Management Practicum IV (FINC 936) in the spring of 2013.

Additional information about the course is available at:

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

and at the course **Blackboard** site with the title "Kellogg Asset Management Practicum." The Blackboard site is for all four sections of the AMP and contains a significant amount of material, both current and historical. All class presentations (stock pitches, stock updates, portfolio updates, and research papers) are posted on the website. Please become familiar with this site.

Overview of AMP I

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

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

Attendance: Students are expected to attend all class sessions.

Teaching Assistants: The course teaching assistants are:

Kevin Crotty k-crotty@kellogg.northwestern.edu
Andreas Neuhierl a-neuhierl@kellogg.northwestern.edu

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

Prerequisites: FINC 441 or FINC 440

Co-requisites for AMP I: Students registering for Finance 933 must have taken or be simultaneously registered for either FINC 463 – Security Analysis or FINC 444 – Value Investing, unless the student has requested and received a waiver for this course from the instructor. Waivers will be granted based on prior experience and/or education.

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) one of either FINC 444 or FINC 463; (b) one of either FINC 460, FINC 970, or FINC 530; and (c) at least one other course from the above list.

Code of Ethics: All students in the Practicum must familiarize themselves with the *CFA Institute Code of Ethics and Standards of Professional Conduct* and with the *Practicum Code of Ethics*. A copy is available on Blackboard under “Course Information.” Students associated with the practicum must agree to abide by the Practicum Code of Ethics and must attest that agreement by giving me a signed copy of the *Practicum Code of Ethics* by the end of the first class, March 28 (copies for signature will be provided in class).

Code of Classroom Conduct: Because this is an experiential learning class modeled on professional investment management as practiced, students are expected to act as professionals in the classroom. Please refrain from eating during class and be courteous with your attention to the presenter, whether a student or an outside speaker. Because the pitches include a spreadsheet, I permit laptops to be open during stock pitches. Laptop usage during lectures by guest speakers will be determined on a case-by-case basis. However, unrelated uses of the laptop such as surfing the web and reading/responding to emails are inappropriate and rude to the speaker. Questions and comments to the speaker should be professionally stated, avoiding slang and inappropriate language. The presenter should likewise avoid slang and inappropriate language. Side conversations should likewise be avoided. These requirements are consistent with the *Kellogg Code of Classroom Etiquette*.

Plagiarism Policy: All students enrolled in the Asset Management Practicum must also sign the *Practicum Plagiarism Policy* by the end of the first AMP class, March 28 (copies for signature will be provided in class). A copy is available on Blackboard under “Course Information.” Deliberate or “accidental” plagiarism will not be tolerated by the Kellogg AMP. Direct quotations as well as paraphrases of others’ work must be cited properly and direct quotes must be enclosed in quotation marks.

Training sessions: There may be training sessions on Wednesday afternoons from 5:00 - 6:30 pm in room 166 for training on vendor software such as Bloomberg, Barra, Thomson Financial, and FACTSET. Sessions will be announced as they are scheduled.

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

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

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

Pre-class dinners: On dates when there is a visiting practitioner there is usually a pre-class dinner at the Allen Center with the visiting speaker from 5:00 pm – 6:15 pm for a subset of the class (on a first-come basis). We have two dinners scheduled for the spring quarter (April 4 and April 11). If you do not have a class ending at 5:00, try to be there at 5:00, otherwise be there as quickly as you can. For each speaker, up to 10 students may attend the dinner. Dinner is optional and attending dinners has no effect on the course grade. However, if you sign up for a dinner, you must attend. Not attending after signing up will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend either or both of these dinners, please email your preferences (1st and 2nd choices) to Deborah Brauer (<mailto:d-brauer@kellogg.northwestern.edu>) by Friday, **March 30th**.

Office hours: If you would like to set up an appointment, please email Debbie Brauer at d-brauer@kellogg.northwestern.edu. Debbie has access to my calendar and will set up appointments.

Course Structure:

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

AMP I and AMP IV meet together. The AMP IV students serve as investment committee members for Spring Quarter. Portfolio assignments are provided in **Attachment I**. The investment committee members are responsible for decisions about the positions taken in the portfolio, based on the analyses provided by the equity analysts. These decisions include whether to take a position in a security and, if so, how large a position, as well as when to add to a position, decrease a position, or close out a position. There are four portfolios of differing sizes and slightly different investment philosophies, with two of the smaller funds managed by the same team. The investment committee members provide the weekly portfolio updates. **Attachment II** provides guidelines for the weekly portfolio updates. AMP I students will be investment committee members in AMP II, III, or IV. Students generally remain with the same portfolio throughout the course sequence.

All AMP I students will present a stock pitch during Spring Quarter. Assigned dates for the stock pitches are provided below as part of the weekly course schedule. Students have the choice of pitching one stock alone or pairing with another student and pitching two stocks as a team in two different weeks. In prior AMP classes, some students have preferred to pitch alone and some in pairs. The names of all registered students are included in this syllabus as well as on the course Blackboard site. If you wish to pitch in pairs, it is your responsibility to make the arrangements with a fellow student. If you do so, please apprise the instructor of your choice to pitch in pairs, the names of the students and the appropriate dates. In AMP II and AMP III, stock pitches are prepared individually. Analysts should discuss potential industries/sectors with their investment committee and prior to choosing a stock. Stocks should be pitched as either a long or short recommendation and not a hold. General instructions for the stock pitches are provided in **Attachment III**.

In addition, all AMP I students that are not investment committee members will “shadow” the investment committee for their assigned portfolio and learn the responsibilities and operational duties of the investment committee. In particular, they should familiarize themselves with software and procedures so that they can take over investment committee responsibilities at the end of the quarter.

The investment committee will schedule weekly (or more frequent) meetings of all investment committee members and analysts assigned to the portfolio. These portfolio team meetings are an important part of the AMP experience.

All students should read carefully and understand the Investment Policy Statement and the Operational Rules for the funds. These documents are attached at the end of the syllabus and also posted on the course Blackboard website.

Student Responsibilities:

Students in AMP have two major responsibilities throughout the three or four course sequence. One is to serve as an analyst during which time the student will prepare stock pitches and stock updates. The other is to serve as portfolio manager. During the AMP sequence, each student will prepare a minimum of two stock pitches, two stock updates, and one research report.

Analysts

- All AMP I students must pitch a stock during spring quarter. Students may pitch one stock individually or two stocks in teams of two as discussed above. The schedule for the stock pitches is provided below. The requirements for the stock pitch are provided in **Attachment III**. All prior AMP pitches are on the course Blackboard website and may be used for guidance.
- Each analyst is assigned to an investment committee. Analysts should attend the investment committee meetings and understand the rationale for the portfolio positions. All analysts will become portfolio managers in subsequent quarters.

Portfolio Managers (Investment Committee)

- Portfolio managers are responsible for managing the fund's portfolio and ensuring that the portfolio is in compliance with the Investment Policy Statement (attached and on Blackboard). Managing the portfolio includes making decisions on whether to take a position in a security and, if so, how large a position, as well as when to add to a position, decrease a position, or close out a position, including ETFs. Portfolio managers meet at least weekly to make such determinations.
- Portfolio managers report on the fund's activities to the class on a weekly basis (see **Attachment II**) and to the Advisory Board on a semi-annual basis.
- Investment committee members assist in evaluating analyst recommendations and are also welcome to present their own equity analyses (stock pitches).
- Portfolio managers request the execution of trades using the AMP Trade Order Request Form (on the course website in spreadsheet form).

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

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

- One member of the investment committee for each fund will be designated the trader for the fund. **Please inform the instructors which student has been so designated.** An analyst for each fund should be designated as the trader's shadow, to learn about trading from the trader. The shadows will become traders next quarter.
- **Traders** are responsible for determining the optimal trading strategies in order to minimize the implementation shortfall due to order execution; advising portfolio managers on the appropriate execution strategies; and devising pre-trade estimates and post-trade evaluation of execution

costs. Traders must be familiar with trading procedures (e.g., Radical at ITG, our executing broker, and Goldman Sachs, our prime broker) and must maintain a cumulative record of trades as outlined in the trade data spreadsheet (on the course website in spreadsheet form). Copies of the trade data spreadsheet must be emailed to the portfolio managers requesting the trade as well as to:

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

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

Advisory Board Meeting – Attendance Required

The annual AMP Advisory Board meeting and dinner occur on Wednesday, May 9, 2012. Each portfolio team will report on the funds' performance at the meeting. AMP I students are required to attend the afternoon meeting with the board members from 12:30 – 4:30 pm. AMP I students are invited to the reception and dinner beginning at 6:00 pm. This is a great opportunity to meet the outside members of the AMP Advisory Board, all of whom are investment professionals and have contributed financially to the funds. Other invitees to the reception and dinner include all past AMP guest speakers, all major sponsors of AMP, all AMP alumni, and selected Kellogg faculty. The Advisory Board is invited to participate via teleconferencing in all stock pitches and research reports.

Grading:

The primary deliverables for students over the three quarters of AMP are two stock pitches (three stock pitches if the first two are done in pairs) and a research report. The research reports are due in AMP II, III, and IV and are prepared by the portfolio managers during those quarters.

Another important part of the course is the evaluation of each stock pitch and research report. All students, whether portfolio managers or analysts, are responsible for providing feedback to the student/s making the pitch.

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

Stock pitch:	40%
Class participation:	15%
Written evaluations of other stock pitches:	25%
Written assignments (speakers)	10%
Peer review:	10%

The class participation component of the grade is based on contributions to the class discussion, including the question and answer period following each stock pitch. Also included in this element of the grade are the evaluations of guest speakers.

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

Completion of year-long sequence (three quarters): the asset management practicum is structured as a required three course sequence (with a fourth optional) and, as such, students are expected to complete the sequence. Any exceptions must be discussed with the instructor and will result in a one letter grade penalty. As noted on the first page, 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 wishing to either not complete the AMP sequence or change the sequence from AMP I, II, and III must meet with the instructor to discuss prior to the end of spring 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.

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

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

Stock Pitches:

Students choose the company on which they make stock recommendations (long or short) from their preferred industry groups and in consultation with the portfolio managers and the instructor (two out of three portfolio teams must approve the name of the stock to be pitched). **Attachment III** provides guidelines and requirements for the stock pitches. In addition, all past pitches made to the Practicum are posted on the Blackboard website and students may refer to these for examples. The pitch report, including a spreadsheet valuation model, must be emailed to all class members (this can be accomplished through the Blackboard website with Communication – Send Email – All Users) by **9:00 AM on the Monday before the Wednesday presentation** (unless indicated otherwise on the schedule below). All students are expected to read the report and study the spreadsheet model before class. The report must contain all of the substantive information and analyses for the stock pitch. The second component of the analysis is a set of power point slides for presentation to the class. Because the students will have read the report before class, the purpose of the power point slides is not to educate the audience of potential investors but rather to emphasize the main points and the recommendations from the written report. The power point presentation must be emailed to all class members (using the Blackboard procedure) by **3 pm on the day of the presentation**.

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

The analysts will have a maximum of 10 minutes to make the pitch followed by a maximum of 15 minutes of questions from the class. The point of view in asking questions should be that of an investment committee analyzing a potential investment.

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

Online evaluations. All students and the instructors will provide a written evaluation (electronically on a form provided – see **Attachment IV**) of the stock pitch, assessing the quality of the written report and the verbal presentation. The key considerations are the quality and effectiveness of the stock pitch and whether the evaluator would support the recommendation made in the stock pitch for the AMP funds. The comments, without attribution, are distributed to the class. The students making the pitch may respond to questions raised in the evaluation with a general email to the class. The maximum pitch score is 100 points if at least one portfolio team takes a position within one week of the pitch, otherwise the maximum score is 95 points.

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.

Analytics Sessions are scheduled in the period from 5:15 to 6:15 in our classroom. These sessions will go over aspects of our analytics software/tools. Please see the schedule below for details.

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 recommend getting a copy.

Recommended Texts:

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

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

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

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

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

March 28: Introduction

Stock pitch: None

Update of current portfolio status: AMP IV students

Assignment:

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

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

From Connor, Goldberg, & Korajczyk, Chapter 12 (on Blackboard)

March 28 3:00 pm Portfolio updates due (email to class)

April 4: Guest Speaker: Robert Litterman, Chairman of the advisory board at Kepos Capital, "Pricing Climate Risk."

Update of current portfolio status (time permitting)

Please refer to the more detailed biographical information on Blackboard.

Assignment: Review slide deck on "Pricing Risk" available on Blackboard.

April 11: Guest Speaker: Matthew Simon ('04), Portfolio Manager, Citadel Asset Management."

Assignment: Consider the following railroads: UNP, KSU, CP, CNI, CSX, NSC. Chose your favorite long position and your favorite short position. Write a one page report outlining your choices and logic supporting them.

Portfolio updates by portfolio managers (time permitting)

April 9 9:00 am Report due (email to class and to Debbie Brauer).

April 11 3:00 pm Portfolio updates due (email to class).

April 18: **Analytics session 5:15-6:15:** How to screen stocks in FactSet and Bloomberg

Stock pitches: George Fernandes, Tetsushi Imatomi, Adam Slutsky

Portfolio updates by portfolio managers: Commingled Fund

April 16 9:00 am Stock pitch report and spreadsheets due (email to class)

April 18 3:00 pm Stock pitch presentation slides due (email to class)

April 18 3:00 pm Portfolio updates due (email to class)

April 18 6:30 pm Questions on pitches due (hard copy to instructor)

April 25: **Analytics session 5:15-6:15:** Intro to Barra Portfolio Manager

Stock pitches: Nitin Saigal, Pam Tantitham

Portfolio updates by portfolio managers: Crown/Nash Funds

April 23 9:00 am Stock pitch report and spreadsheets due (email to class)

April 25 3:00 pm Stock pitch presentation slides due (email to class)

April 25 3:00 pm Portfolio updates due (email to class)

April 25 6:30 pm Questions on pitches due (hard copy to instructor)

May 2: **Analytics session 5:15-6:15:** Portfolio Optimization in Barra Portfolio Manager

Stock pitches: Anup Goel, Salman Hasnain, Matthew Monson

Portfolio updates by portfolio managers: Kenney Fund

April 30 9:00 am Stock pitch report and spreadsheets due (email to class)

May 2 3:00 pm Stock pitch presentation slides due (email to class)

May 2 3:00 pm Portfolio updates due (email to class)

May 2 6:30 pm Questions on pitches due (hard copy to instructor)

May 9: **Asset Management Practicum Advisory Board and Sponsors' Reception and Dinner**

12:30 – 5:00 pm Board Meeting (Allen Center) (Business Attire). The investment committees (AMP I and AMP IV) will report on the funds' performance over the period April 1, 2011-March 31, 2012 at the meeting. The Board will also meet with only the students (no instructors present). Followed by: 6:00 pm Cocktails (Allen Center); 7:00 pm Dinner (Allen Center)

Richard Bookstaber, Senior Policy Adviser to the Financial Stability Oversight Council and Senior Policy Adviser at the SEC, speaker: “*Agent-based Models and Market Dynamics*”

May 7 9:00 am Presentation deck for Advisory Board due (e-mail to class)

May 16: **Analytics session 5:15-6:15:** Alpha Sense

Stock pitches: Joe Byrne, Melissa Pugged, Jingfei Tan, Connor Wilson

Portfolio updates by AMP portfolio managers

May 14 9:00 am Stock pitch report and spreadsheets due (email to class)

May 16 3:00 pm Stock pitch presentation slides due (email to class)

May 16 3:00 pm Portfolio updates due (email to class)

May 16 6:30 pm Questions on pitches due (hard copy to instructor)

May 23: **Analytics session 5:15-6:15:** Barra Performance Analyst

Stock pitches: Roy Liao, Gajendra Sidana, Agustin Sanchez-Ray, Derrick Wortes

Portfolio updates by AMP portfolio managers

May 21 9:00 am Stock pitch report and spreadsheets due (email to class)

May 23 3:00 pm Stock pitch presentation slides due (email to class)

May 23 3:00 pm Portfolio updates due (email to class)

May 23 6:30 pm Questions on pitches due (hard copy to instructor)

May 30: Stock pitches: Derek Bastin, Jeffrey Dugan, Jose Pradez

Research reports: Liang Chen
Guillermo Dal Borgo
Matthew Galas
Saurabh Goyal
Ankur Kothari
Ziyu Lu
David Mathews
Sung Hwang Moon
Danielle Qi

Portfolio updates by portfolio managers

Summer portfolio management: Presentation by AMP II portfolio managers

Transition to new portfolio managers for Fall Quarter

May 28 9:00 am Stock pitch report and spreadsheets due (email to class)

May 28 9:00 am Research reports due (email to class)

May 30 3:00 pm Stock pitch and research report presentation slides due (email to class)

May 30 3:00 pm Portfolio updates due (email to class)

May 30 6:30 pm Questions on pitches due (hard copy to instructor)

June 6: Stock pitch: Patrick Feeney

Research reports: Liang Chen
Guillermo Dal Borgo
Matthew Galas
Saurabh Goyal
Ankur Kothari
Ziyu Lu
David Mathews
Sung Hwang Moon
Danielle Qi

Summer portfolio management: Presentation by AMP II portfolio managers

Transition to new portfolio managers for Fall Quarter

June 4 9:00 am Stock Pitch and Research reports due (email to class)

June 6 3:00 pm Stock Pitch and Research report presentation slides due (email to class)

Attachment I

Investment Committee Assignments

Fund	Investment Committee	Analysts
Kenney Fund	<ul style="list-style-type: none"> • Lu • Moon • Qi • Slutsky 	<ul style="list-style-type: none"> • Byrne • Feeney • Liao • Pradez • Tan • Wortes
Commingled Fund	<ul style="list-style-type: none"> • Dal Borgo • Galas • Goyal 	<ul style="list-style-type: none"> • Fernandes • Bastin • Goel • Hasnain • Sidana • Pugeda
Crown and Nash Funds	<ul style="list-style-type: none"> • Chen • Kothari • Mathews 	<ul style="list-style-type: none"> • Imatomi • Dugan • Monson • Saigal • Sanchez-Rey • Tantitham • Wilson

Fall admission:
 Zachary Hensley
 Quansheng Wu
 Lingbo Zhu

Attachment II

Requirements for Weekly Portfolio Updates by Investment Managers

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

- A statement of the committee's chosen target asset allocation. This should include an analysis of cash versus equity, market capitalization of the fund's holdings, and selected sector exposures via ETFs.
- Total return on the fund: calendar year to date; calendar quarter to date; and any other period of your choice. Compare these returns to the benchmark return. All of these returns can be obtained from the "Performance: Fund Performance" section of the Goldman web site.
- An analysis of each position's contribution to the fund's performance. This can be obtained from the "Performance: Security Performance" section of the Goldman web site or from Barra Aegis Performance Analyst (under Asset Contributions).
- A graph of the Risk Decomposition Chart from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.
- A graph of the Active Risk Index Exposures and Active Industry Exposures from the MSCI Barra Aegis Portfolio Manager as of the previous Friday.
- An analysis of the fund's performance using Barra's performance analyst (please refer to the research paper by Marwick, Shekleton, Stulberg, and Wong from Winter Quarter, 2010).
- A check of adherence to all of the fund's restriction as outlined in the current Investment Policy Statement (please use the BARRA estimated beta rather than the Goldman computed beta because the BARRA beta is forward looking rather than historical).

An electronic version of this report should be emailed to all class members, the instructors, and Debbie Brauer (this can be accomplished through the Blackboard website with Communication – Send Email – All Users) by 3:00 PM on class days.

Attachment III

Stock Pitch Guidelines and Requirements

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

A fundamental analysis should include, at a minimum:

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

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

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

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

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

The report and spreadsheets **must** be emailed to all class members (this can be accomplished through the Blackboard website) by **9 am on the Monday before the Wednesday presentation unless noted otherwise on the syllabus**. All students are expected to read the report and study the spreadsheet financials before class. The report must contain all of the substantive information and analyses for the stock pitch.

The second component of the analysis is a set of power point slides for presentation to the class. Because all students will have read the report before class, the purpose of the power point slides is not to educate the audience of potential investors but rather to emphasize the main points and the recommendations from the written report. The power point presentation must be emailed to all class members (using the Blackboard procedure) by **3 pm on the day of the presentation**.

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

The analyst will have a maximum of 10 minutes to make the pitch followed by a maximum of 15 minutes of questions from the class. The point of view in asking questions should be that of an investment committee analyzing the potential investment.

All students and faculty will provide a written evaluation (electronically on a form provided – see **Attachment IV**) of the stock pitch, assessing the quality of the written report and of the oral presentation. The key considerations are the quality and effectiveness of the stock pitch and whether the evaluator would support the recommendation made in the stock pitch for the AMP funds. The written evaluations consist of numerical scores for several portions of the evaluation and written comments to support those scores.

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

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

Attachment IV

Stock Pitch Evaluations

After the pitch, all members of the class will receive a link to a website with the evaluation form for the pitch. The evaluations are due by **5 pm of the Friday** following the stock pitch presentation so the results can be distributed to the investment committees. Timing can be an important element of portfolio management.

The valuation model is an important part of the stock pitch and all students should review carefully the model and its assumptions prior to the presentation. The model should receive a significant portion of the written comments and suggestions.

Although the focus is on being constructive, positive comments such as “good pitch” may be considered supportive but they lack the information content to make them constructive. Why was it a good pitch? What in particular distinguished the pitch? What was compelling about the pitch? Comments such as “presenter really seemed to know the business” are likewise not sufficiently informative. How was this knowledge demonstrated? What did you find convincing about the presentation? Would you recommend implementing the buy or sell recommendation? Why or why not? What recommendations can you make for improving the structure and effectiveness of the stock pitch?

The numerical scores are important but the most valuable element of the evaluation to the person presenting the pitch is the written section of suggestions for improvement.

The form includes the following questions:

Written Presentation	What grade do you assign to the overall quality of the written portion of the stock pitch? Included in this category are the analysis of the business (e.g., competitive advantages) and financial analysis (e.g., balance sheet, income statement, cash flows). (1 – 100)
Oral Presentation	What grade do you assign to the overall quality of the oral portion of the stock pitch? (1 – 100)
Valuation Model	What grade do you assign to the quality of the valuation model supporting the stock pitch? (1 – 100)
Effectiveness	What grade do you assign to the effectiveness of the stock pitch in convincing you of the presenter’s position; in other words, how likely is it that you will recommend implementing the trade? (1 – 100)
Recommendations	What recommendations for improvement would you suggest? Please address each of the above categories in your detailed, written recommendations.

Attachment V

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

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

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

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

An update on the stock should be made to the class (5 – 10 minutes in length) which would include the stock’s performance since its addition to the portfolio and performance relative to the pitch’s target price and target date. An outline for such a short presentation can be found by going to the course website, Course Documents, under “Advisory Board Meeting April 23, 2008.” The portfolio managers provided a summary of each of the stocks in the portfolios for this meeting. The presentation to the class should be more detailed than this summary but cover the same basic points. Examples of stock updates from previous quarters are on the course website.

The analyst should keep abreast of new developments with respect to the stock that could affect the recommendation in the future—for example, earnings announcements, management changes, regulatory issues, etc. The analyst should communicate these updates via an email to the class, summarizing the recent development and providing any change in recommendation as a result. However, if there is a potentially important change, a short presentation (5 – 10 minutes) to the class is warranted. An invitation to provide updates on the existing positions will be made at the beginning of each class.

Attachment VI

Research Reports

The group research reports (groups up to 3 people) will be presented by the AMP IV portfolio managers during the slot reserved for the class final, June 6. Research reports from prior quarters are posted on the course website and we strongly urge you to review those papers as they provide some excellent suggestions and implementable procedures for managing the AMP portfolios. They may also provide assistance in developing a topic for future research reports. In some instances, it may be possible to expand and extend a previous research report.

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



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

Operational Rules

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

- 1) All participants must abide by and sign the Practicum code of ethics.
- 2) Each Fund must adhere to the Investment Policy Statement for that Fund.
- 3) Only Securities/Strategies presented in class are eligible for inclusion in Funds (with exceptions stated in the investment policy statement).
- 4) Only designated student traders are authorized to trade assets for the fund. Trades should only be made during trading hours on the Exchange. Limit orders should be used rather than market orders to protect against trading errors.
- 5) When a fund team decides to make a trade in an asset, they should e-mail instructions to the trader and CC the course instructors. Instructions should include a specific description of the asset, the size (in shares) and direction (buy, sell, short, cover) of the trade, and an indication of urgency. The fund team must also make sure that sufficient funds are available to cover the trade, and that the trade does not cause the fund to be in violation of the investment policy statement. The fund team must also determine that the fund's positions will not trigger UBIT.
- 6) **Before** a short sale, the trader must locate the shares with the prime broker. **It is illegal to execute a short sale without locating shares.**
- 7) The trader is encouraged to have a second practicum participant confirm the accuracy of the trade before submitting it to the executing broker (ITG Incorporated). Post execution, the trader must send a confirming e-mail to the fund team (and copy the course instructors) confirming the execution of the trade with amounts and transaction prices. The trader must notify the prime broker (Goldman Sachs) of the trade (security, size, direction, and fund name).
- 8) Traders should not override the trading limits in the trading software.
- 9) The trade and the fund team investment committee must both confirm that the trade is accurately posted by the Prime Broker (Goldman Sachs) by the morning after the trade.

- 10) If the trader is unable to trade the order, the trader or the fund team can ask the instructors to trade the order.
- 11) Fund teams must present a weekly report of fund valuation, risk, adherence to the fund's investment policy statement. If the fund is out of compliance (e.g., the fund's beta is less than 0.7 or greater than 1.3), the fund's investment committee must take appropriate steps within two days to return the fund to compliance.
- 12) The fund teams must keep a record of execution costs and analyst performance for periodic reporting purposes.



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Investment Policy Statement

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

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

The Crown, Kenney, and Commingled Funds:

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

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

ETF positions are meant to control the overall market and style exposure of the funds. The following ETFs can be traded without prior approval: S&P 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 fund's portfolio needs to be structured to avoid incurring unrelated business income tax (UBIT).

The Nash Fund:

The Nash Fund is to be invested in equities traded in the United States, exchange traded funds, and cash reserves. Positions must be long and based on fundamental security analysis. The fund should have a net exposure to the S&P 500 between 0.7 and 1.3. The fund should be diversified to the extent that tracking error, relative to the S&P 500, should not exceed 5% per month.

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

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

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

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