



Northwestern University

Asset Management Practicum I

Finance 933

Spring 2016

Wednesday, 6:30 pm – 9:30 pm

Jacobs Center G36

Professor Linda Vincent

Jacobs 6250

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Asset Management Practicum I

(March 17, 2016 – Subject to Change)

AMP I (FINC 933) is the first quarter of a four quarter experiential learning 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 Northwestern University's endowment portfolio, currently divided into four funds (Commingled, Crown, Kenney, and Nash). 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 (Nash) 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 2015 **must** either:

- a) register for Asset Management Practicum II and III (FINC 934 and 935) in the fall of 2016 and winter 2017

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 2017.

Additional information about the course is available at:

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

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

Overview of AMP I

Classes: The class meets every Wednesday evening at 6:30 pm. A detailed schedule is provided in a separate document on canvas to facilitate changes. AMP I and AMP IV meet together during Spring Quarter. During this quarter responsibilities for managing the portfolios transfer from AMP IV to AMP I students.

Attendance: Students are expected to attend **all** class sessions. Students are also expected to participate in (at least) weekly 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:

Sridhar Srinivasan sridhar-srinivasan@kellogg.northwestern.edu
Apoorv Gupta apoorv-gupta@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 (AMP I) must have taken or be simultaneously registered for FINC 463 – Securities Analysis, 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. Submit waiver requests to l-vincent@kellogg.northwestern.edu.

Total Co-requisites: Over the three or four 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 463 qualifies toward the three or four quarter credit requirement but waiving out of FINC 463 does not reduce the number of co-requisites):

FINC 442	Financial Decisions
FINC 444	Value Investing
FINC 447	Financial Strategy and Tax Planning
FINC 448	M&A, LBOs and Corporate Restructuring
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: Empirical Methods 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 (FINC 530 and FINC 970 are mutually exclusive)
ACCT 451	Financial Reporting and Analysis
ACCT 452	Financial Reporting and Analysis II.

In order to satisfy the co-requisites with three courses rather than four, the co-requisites must include: (a) FINC 463 (unless waived); (b) **one of either FINC 460, FINC 970, or FINC 530**; and (c) at least one other course from the above list (two courses if waived out of FINC 463).

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 *CFA Institute Code of Ethics and Standards of Professional Conduct* and with the *Practicum Code of Ethics*. A copy of each is available on Canvas. 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 30 (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. However, unrelated uses of the laptop such as surfing the web and reading/responding to emails are inappropriate and rude to the presenter. 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 sign the *Practicum Plagiarism Policy* by the end of the first AMP class, March 30 (copies for signature will be provided in class). 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.

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

- All AMP I students are analysts and are responsible for pitching a stock during spring quarter. The schedule for the stock pitches 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 (as described below) and may be used for guidance.
- Each analyst is assigned to a portfolio team. These assignments are in a separate document on Canvas. There are four portfolios of differing sizes and slightly different investment philosophies, with two of the smaller funds managed by the same team. 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, as assigned by the PMs. 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.
- Analysts should use this quarter to learn the responsibilities and operational duties of the PMs. In particular, they should familiarize themselves with software and procedures so that they can assume the PM responsibilities at the end of the quarter.

Portfolio Managers (PMs)

- 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 Canvas). 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 with their analysts to make such determinations.
- 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 on a weekly basis. **Attachment I** contains the specific requirements and suggestions for content of the portfolio updates.
- Portfolio managers assist in evaluating analyst recommendations and are also welcome to present their own stock pitches.
- Portfolio managers document the ordering 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

- The PMs may all be traders or may designate one of their number to be the sole trader. **Please inform the instructors as to the identity of the trader/s.**
- **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 (e.g., Triton at ITG, our executing broker; and Goldman Sachs, our prime broker) and must maintain a cumulative record of trades as outlined in the trade data spreadsheet (on the course website in spreadsheet form). Copies of the trade data spreadsheet must be emailed to the portfolio managers requesting the trade as well as to the instructors:

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

- New Traders must get the previous quarter's Trade excel spreadsheet from the previous trader/s for the portfolio so we can maintain a continuous record.

- **Traders** should read the “AMP Trading Tutorial” on the Canvas site. AMP uses Interactive Brokers’ Trader Workstation platform.
- 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.

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 the course Blackboard website.**

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.
- There is a shared AMP dropbox which contains several folders. You will each be given access to this dropbox.
 - **AMP 2** is a folder containing folders with all of the historical AMP stock pitches, stock updates, portfolio updates, and research papers. All students have access to these files but the files are read only.
 - **AMP I and AMP IV Spring 2016** is the folder for this quarter. Students will place their stock pitches, stock updates, portfolio updates, and research papers into this folder. Students have done this in prior quarters beginning with Fall Quarter, 2014. Unlike the **AMP 2** folder, students have read and write access to this folder.
 - 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 Aravindhan.docx

This is the pitch report for SPX Corporation (NYSE: SPW) submitted by Dinesh Aravindhan 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.

Grading:

The primary deliverables for students over the three quarters of AMP are two stock pitches, two stock updates, 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 analyst making the pitch.

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

Stock pitch	30 %
Written evaluations of stock pitches, research reports, speakers	25 %
Stock updates	15 %
Class participation	10 %
Prober assignment	10 %
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 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. To clarify, the survey for a pitch presented on Wednesday, April 6, is due by midnight on Friday, April 8. 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. 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.

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

Please refer to the FAQ on grading posted on Dropbox under “Course Logistics.”

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.

Stock Pitches:

Students choose the company on which they make a stock recommendation (long or short) in consultation with the portfolio managers and the instructor. **Attachment II** provides guidelines and requirements for the stock pitches. In addition, all past pitches made to the Practicum are available on the AMP Dropbox site and students may refer to these for examples. The pitch report, including a spreadsheet valuation model, must be placed in the AMP I and IV Dropbox site by **9:00 AM on the Monday before the Wednesday presentation**. 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 placed in the AMP I and IV Dropbox 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. For late submissions, the student **MUST** email the class when the report is available on Dropbox.

The analysts will have a maximum of **5 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.

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.

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*, 9th edition. New York: McGraw-Hill, 2011.

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

Attachment I

Requirements for Weekly Portfolio Updates by Investment Managers

The three AMP investment committees should present reports on the risk and performance of the four funds as indicated in the schedule. The report is due by 5 pm on the Wednesday the class meets. The report should include, at a minimum:

- Trades made since the last report including the rationale behind the trade.
- Decisions on the pitches made the previous week.
- 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 placed on the "AMP I and IV" Dropbox site 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 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.

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 numerical results of each of the screens should be provided. **PLEASE NOTE THIS REQUIREMENT.**

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.

NOTE: At the 2015 Advisory Board meeting, several advisory board members suggested that AMP students make it a practice to telephone the company and try to talk to management or at least to the Investor Relations department of the company they are pitching. Additional calls should be made, when appropriate, to suppliers, customers, etc. The goal is to develop analyses or insights that are not already available in the financial press.

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 on the AMP I and IV Dropbox site **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.

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. But 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 I and IV Dropbox site 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 **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 3-4 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. A key question is the effectiveness of the stock pitch and whether the evaluator would support the recommendation 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 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:

- (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

Portfolio Managers assign their analysts to “follow” stocks that are currently held in the portfolio. Often these stocks have been pitched by students who have graduated. 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 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 placed on the “AMP I and IV” Dropbox site 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.



Professors Robert Korajczyk, Linda Vincent, Phillip Braun
Asset Management Practicum I - IV
Finance 933 and 936
Spring 2016 – Spring 2017

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 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 **MUST** 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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Asset Management Practicum I - IV
Finance 933 - 936
Spring 2016 – Spring 2017

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

No fund may use leverage.

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 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, 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.

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 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, 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 Depositary Receipts (SPY), Vanguard large/small capitalization, value/growth, and total market VIPERS (VV, VB, VUG, VTV, VTI). Other ETF positions must be approved by the instructors and may require a short presentation to the class. Only ETFs that are covered by Barra are eligible. A list of eligible ETFs is posted on the course website.

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

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