

**APPLIED INVESTMENT MANAGEMENT**  
**MBA 779 & BUSI 583H 2021-2022**  
**KENAN-FLAGLER BUSINESS SCHOOL**  
**UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL**

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### Overview

The objective of this course is to provide students with a thorough grounding in the process of investment management, from the broad asset allocation decision to individual security evaluation and selection, through the management of endowment funds.

The Applied Investment Management (AIM) class offers a unique opportunity for students to apply the tools they have learned in their other investment classes to an actual investment portfolio, in real-time market conditions.

The process of investment can be divided, both in theory and in practice, into two parts: security analysis and portfolio management. Security analysis is the attempt to determine whether individual securities are correctly valued in the marketplace, e.g., it is the search for mispriced financial assets. Portfolio management is the process of combining securities into a portfolio tailored to the investor's preferences and needs, monitoring that portfolio, and evaluating its performance. This course provides an opportunity to learn about both parts of the investment process through the management of the KFBS Global Perspectives Fund.

The purpose of this fund is to:

1. Enhance the educational and professional opportunities of students through experiential learning; and,
2. Provide a competitive risk-adjusted return that can be used to generate direct financial support to the Investment Management program at KFBS.

This experience will be invaluable for students embarking on careers in investment and wealth management. Those of you pursuing finance-related jobs (e.g. investment banking, corporate finance) or even completely unrelated fields can benefit. As instructors, we are committed to being more than your academic professors. We will be your mentors and attempt to provide guidance in group and individual sessions to “deep-dive” in areas you would like to learn more and answer any career-related questions you may have. If you would like to learn more about topics outside of our expertise, we will do our best to connect you with the experts in the field.

The class, including the instructors, will be critiquing ideas, presentations, portfolio positions, etc. You are expected to contribute new ideas to the portfolio, as well as create research for ideas occasionally proposed by instructors or the portfolio management team. Outside research will be key to what you get out of this course. It will help you add to the discussions, which is the vital part of any investment management company.

Following current School policy the class will meet Wednesdays from 15:30-18:20 in the Capital Markets Lab, CML, (McColl 255). The class works better if everyone is in person; however, if you have a strong preference for attending via Zoom we will accommodate you. If the class is hybrid, Zoom sessions will be recorded and will be available on Canvas. Students should be prepared to stay late after class for portfolio management meetings (usually 45 minutes past the end of class). In addition, students are required to meet outside of class to prepare for class presentations. We encourage you to meet in the CTM room, the meeting room across from CML, whenever you have free time. Being in the same room and informally meeting is the best way to come up with new ideas and learn from each other.

### **Class Discussions**

If attending via Zoom, you are required to have your camera on while the class is in session, unless you seek an exemption for a valid reason (bandwidth issues, feeling under the weather, etc.) Discussions are to be candid but respectful. Occasionally, people will be highly critical of your work; we expect constructive criticism. Students are expected to learn from criticism as we all come from different levels of experience. In addition, all of you are encouraged to ask questions about topics with which you are not familiar. As instructors, we are not concerned about where you are but that you progress to stronger analyses. You are expected to take the feedback, do the additional work required, and come back to the class with the results.

### **Required Reading Materials**

Knowing the contents of the fund's Investment Policy Statement (IPS) is of paramount importance. You will not be able to actively participate in the management of the fund until you pass the compliance exam. We strongly encourage you to re-read these documents from time to time to ensure that they are being adhered to and that you are following your duties described therein. Rules and procedures spelled out in the IPS should become second nature to you within a short period.

You are expected to keep abreast of relevant market and business developments. Some publications that are useful in this regard are *The Wall Street Journal*, *The New York Times*, *Barron's*, *The Economist*, *Financial Times*, and *Bloomberg Business Week*. You may also use online tools like Google alerts, Yahoo Finance, and Seeking Alpha. We may send or post additional relevant readings from the CFA Institute, and other materials we come across throughout the year.

This class is called "Applied Investment Management" specifically because you will be putting to work the theory and tools you learn in other classes. That said, we will provide some specific instruction on equity valuation techniques and portfolio management. We are ready to work with each of you individually to enhance your learning and deep dive in areas of our expertise.

## Evaluation

This is a 6-credit course taught over two semesters. You may take the course for one semester or both and receive proportional credit.

Course grades will be based on:

Required Investment Recommendations and Research Reports	30%
Attendance / Class Participation / Assisting other Students	30%
Execution of Assigned Duties & Reports	20%
Contribution to the Development / Refinement of Investment Process	10%
Peer Evaluation (Considering all of the above elements)	10%

Course grades will be largely determined by your preparation and contribution. Class participation credit will be assigned based on the quality of your in-class contribution to the course. It is expected that all students will come to class prepared (e.g. having examined pitches for that session, completed readings, etc.). The more thorough your work is, the higher your grade will be. We may ask you to drop or withdraw from the course if your participation and contribution to class is below expectations. For students participating for two semesters grades will be “marked-to-market”, that is overall performance will be the basis of the final course grade. Make sure that you are engaged; the class itself will be led by the students. It will be a unique academic and collective learning experience for all of us.

## Attendance

Attendance is mandatory for all sessions. However, exceptions will be made for religious holidays, interviews, and school-sanctioned events. Each absence after the first (per mod) will result in a 5% deduction from the attendance grade. We expect to hear from you in advance if you anticipate missing or being late for class. We adhere to this policy to stress the importance to the class of your presence and active engagement each week. Based on the judgment of the instructors, a pattern of missed classes will result in your being asked to drop the course.

## Research Reports

A Research Report (i.e., pitch) may consist of any proposal that results in a specific investment recommendation. This could include a recommendation to buy or sell a security, an options strategy, an asset allocation shift, etc. However, pitches must be properly conceived and presented, and should include the following elements:

- What are you recommending? You must be as specific as possible, including details on position sizes, # of shares, etc. You must include an exit strategy (e.g., target price, roll strategy, etc.)
- Why are you making this recommendation? What is the basis for it? Why will it work? Why should the fund make the change you propose?
- You must include detail on how your recommendation will alter the portfolio’s structure (asset/sector weights, income, risk characteristics, etc.)
- Make a recommendation that, if approved, can be immediately implemented with no additional effort other than trade entry.

**The most essential aspect of any pitch is a clear argument for why the currently observed market valuation is incorrect! You must demonstrate that your view is different from the (often-implied) market view and this provides an opportunity for excess risk-adjusted returns.**

Students are required to make at least one pitch per Mod and one full research report per Semester. You may do any of the following types of pitches:

- i. A single name equity (long, short, or pair trade)
- ii. A fixed income security or trade
- iii. A real asset, currency, special situation, or asset allocation
- iv. A proposed liquidation of the weakest portfolio position

You can sign up for pitches once we complete the review of the portfolio and assignment of positions. Occasionally, you may find it useful to do a “quick pitch” to gauge the class’s views on whether it is worth exploring in detail. You are required to build an Excel model with historical and projected financials for the stocks you cover and pitch. Assumptions used must be reasonable and justifiable.

### **Assigned Duties**

Detailed job descriptions are provided below. Each student is responsible for a one-page update corresponding to their assigned duties at the beginning of every class. The updates should include a description of developments and current events affecting the portfolio or assets assigned to each duty, as well as any recommended status of specific assets in the portfolio (e.g., buy, hold, sell).

### Investment Team

The investment committee includes the faculty advisors, the portfolio managers, the market strategists, the risk managers, the head trader and the investor relations managers. All decisions are made by the students. Faculty advisors do not have voting rights. However, they have veto rights if the decision is in violation of the fund’s IPS.

#### Portfolio Manager (PM):

The PM is responsible for coordinating the efforts of the portfolio management team. The incumbent’s responsibilities include oversight of all fund operations including analysis, execution, performance, communication and compliance.

#### Market Strategist:

The market strategist is primarily responsible for overseeing the asset allocation among securities. Through economic forecasts and development of a market outlook, the market strategist should keep the managers and analysts abreast of economic and political developments and their potential effect upon the portfolio. The strategist is also responsible for identifying prospective tactical and strategic opportunities for the fund.

#### Head Risk and Performance Manager:

The performance and risk manager is responsible for monitoring fund performance and risk. The incumbent is responsible for maintaining and improving the practice of risk management and

performance analysis. Methods include comparisons to benchmarks, VAR, attribution analysis, peer comparisons etc.

#### Investor Relations Manager:

The investor relations manager is responsible for the coordinating of fund external contacts and communications. The duties of the incumbent include fund reporting, media interface, and external presentations.

#### Head Trader:

The head trader is responsible for trade execution and control. Duties include determining and optimizing execution methods, costs and venues. The head trader must keep track of all facets of open positions, including derivative contract delivery and expiration dates, roll strategies, and margin positions. The head trader is also responsible for position and cash reporting and reconciliation. The head trader is also responsible keeping a log of all pitches and periodically reporting on the performance of pitches that are rejected by the class.

#### Asset Class Managers:

The asset class managers are responsible for sub-class asset allocations, monitoring, and strategic and tactical position recommendations. Asset class managers include:

- Equities Manager – Responsible for sector asset allocation in the equities portfolio and monitoring sector analyst aggregate positions and rebalancing strategies. The equities manager serves as the first-line control person for equities position limits, target prices, stop-loss strategies, and equity derivatives positions.
- Fixed Income Manager – Responsible for fixed income positions including portfolio duration and convexity, credit risk, and currency risk as well as cash and liquidity needs. The fixed income manager should maintain a view on inflation expectations, monetary policy, the yield curve, credit spreads at various maturities, and currency valuations (in conjunction with the currency manager).
- Real Assets Manager – Responsible for commodity and real estate positions in the portfolio. Special attention must be paid to open futures positions, delivery dates, and roll strategies. The real assets manager should maintain a view on global macroeconomic fundamentals (and especially inflation), real estate prices, major commodity prices, and currency valuations (in conjunction with the currency manager).
- Currency Manager – Responsible for estimating the fund's exposure to major currencies relative to the benchmark, and executing currency overlay positions based on risk control or tactical opportunities.
- Special Situations Manager – Responsible for all special situation positions and strategy. Special attention must be paid to dynamic and time-sensitive strategies and positions.

#### Analysts:

Analysts are responsible for research, analysis, as well as the identification of risks and opportunities in their respective areas of focus. They are expected to present timely and well-supported ideas to add new positions and remove existing positions. Analysts must monitor all

positions in their sector, make recommendations for open/closing/rebalancing positions, and have a view on the relative merits of the sector versus other sectors.

Analyst sectors include:

- Information Technology
- Telecommunication Services
- Utilities
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Industrials
- Health Care
- Materials

The fund may also designate specialty analysts in certain areas (e.g. credit, emerging markets, etc.)

## **External Contacts and Reports**

You will have a variety of opportunities throughout the year to represent the fund to outside constituents, either in person or in written communication. You will be required to present to the AIM Advisory Board twice each year, once at the end of Mod II and once at the end of Mod IV. In addition, once each month, you will communicate to the board members on the fund's performance with a formal letter and an updated one-page "tear sheet" that follows a pre-established template. Finally, you will be required to prepare an annual report (coincident with the final Board presentation of the year), suitable for formal publication, that you would be proud to show to any potential employer, donor, or alumnus. Details of the annual report requirements are in the fund Investment Policy Statement.

## **Feedback**

Accountability in a group effort is crucial to any business undertaking, particularly in portfolio management. Portfolio responsibilities are well established and documented in the fund's Investment Policy Statement. You will be given a survey during the last class of each Mod that will require your honest and confidential assessment of your peers' efforts. *Failure to provide candid and well-thought-out feedback will result in a peer evaluation score of zero.* You will be required to return this information to the instructors within 3 days.

The instructors will always be available to discuss your performance in class on a one-on-one basis. However, we will make an additional effort to communicate with any student whose grade is in danger of falling below a "P" or "B".