

**NATIONAL UNIVERSITY OF SINGAPORE
NUS BUSINESS SCHOOL**

BMA5309 Fund Management

Instructor: Aaron Low
Office: TBA
Session: Semester 1 2008-2009 (Classes held only on Alternate Saturdays)

Course Objectives:

The overall objective is to gain an insight into the operations and concepts of investment management beyond the nuts and bolts. We will seek to understand how money managers function in the investment of funds from the inception of money inflow to the final performance of returns. Our main focus will be on the following topics.

1. Understanding the Investment Process and Investment Objectives of Investors
2. Formulating Asset Allocation based on Macroeconomics and Business Cycles
3. Analysing Investment Styles & Methodologies of Equities, Bonds, & Hedge Funds
4. Determining investment strategies
5. Mapping Risk management procedures
6. Evaluating Investment & Portfolio Performance

Course Methods:

This course is an extension of the introductory Investment Analysis module. The primary focus will be on real world investment concepts and practices used in the industry and will leverage on theory and concepts that have been taught in prior Finance courses. There is no substitute for experience in investing and we will discuss issues that are commonplace in the investment landscape. We will extend the coverage to equity type investing, bond type investing and hedge fund type strategies. While there is no one identical or universal style of investing across all investment houses, we will engage in core similarities and fundamentals that are applied in most asset managers today, whether they are stocks, bonds, hedge funds, or institutional or retail managers.

The primary mode of engagement is through class lectures but we will be dealing with a varied number of case studies. You are strongly encouraged to read the text chapters in advance. While the text is an anchor, we will not be strictly adhering to it. Supplementary readings are a must and will be provided on the IVLE. Case discussions will be led by students on a group basis.

You are expected to keep yourself updated on market developments. We will be able to spend a bit of time discussing key market issues as they arise over the weeks or major events prior to the class. There will be a class investment project where you should work in teams and build and construct your portfolios. You should immediately start to get familiar with the StockTrak system which will be used for this class investment project.

Prerequisites

BMA5002 Analytics for Managers; BMA5003 Accounting; BMA5008 Financial Management or equivalents.

For the benefit of all, we will not be too focused on introductory concepts and the assumption is that you should be familiar with these key areas or at least do your own homework if your previous preparation has not been sufficient. This will allow us to keep within the time constraints and not slow the class down too much. But please do not mistake that for an excuse not to ask questions. You are more than strongly encouraged to engage in discussions and raise questions during class. DO NOT leave those questions till near the EXAMS!

Assessment:

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|-----------------------------------|-----|
| 1. Cases and class presentations: | 25% |
| 2. StockTrak Project: | 25% |
| 3. Class Participation: | 10% |
| 4. Final Exam (MCQ): | 40% |

Cases: Depending on the size of the class, we will divide the cases among the different groups. Each group can expect to work and discuss on 2 or 3 cases. That number will be decided during the first day when we have a firm class size.

Market summary: You are encouraged to raise issues of market developments over the week and also to give views on the understanding of those issues. These can range from global to local and should have direct or indirect implications for investment management or security valuations.

Project: Each group will present its findings in class, at the end of the term, as well as turn in a written report of not more than 10 pages based on your StockTrak Project. The project is a real time investment portfolio where you can structure investments based on your investment policy.

Quiz: There will be a final quiz at the end of the term which is a closed book test.

Text and Readings

"Managing Investment Portfolios, A Dynamic Process", 3rd edition, by Maginn, Tuttle, Pinto & McLeavy, John Wiley, 2008

Other readings will be loaded on IVLE or given as handouts.

INTRODUCTION

Topics

1. Management of Individual Investor Portfolios
 - Investor characteristics, Objectives, Constraints, Investment policy statement, Investment vehicles and asset class exposures, Wealth transfer, estate planning, and personal trusts
2. Management of Institutional Investor Portfolios
 - Selection of investment managers/advisors, Fiduciary responsibility
3. Pension Plan and Employee Benefit Funds
 - Defined benefit plans, Defined contribution plans, Other employee benefit plans
4. Endowment Funds and Foundations
 - Spending policy, Investment policy statement
5. Insurance Companies
 - Asset/liability management, Investment policy statement
6. Other Corporate Investors (investment policy considerations)
 - Banks (e.g., spread management), Non-financial corporations (e.g., cash management)

Text: Chapter 1. The Portfolio Management Process and the Investment Policy Statement, Chapter 2. Managing Individual Investor Portfolios, Chapter 3. Managing Institutional Investor Portfolios

Readings: Credit Suisse Global Weekly Economic Review

SESSION 2 (16 AUG 2008 1PM – 4.30PM) ASSET ALLOCATION

Topics

Macroeconomics and Market Expectations

1. Key macroeconomic factors affecting asset returns
 - Macro valuation model
 - Developing macroeconomic expectations
 - Macroeconomic forecasts in determining asset class/security return expectations
2. Asset Allocation
 - Determination of asset mix, Strategic & Tactical
 - Global asset allocation
 - Selection of asset classes

3. TAA strategies using Business Cycles, Liquidity Cycles, Relative Value
4. Diversification issues

Text: Chapter 4. Capital Market Expectations, Chapter 5. Asset Allocation

Readings: JPM World Financial Markets, Morgan Stanley Asset Allocation, UBS Asset Allocation Framework, Credit Suisse Global Weekly Economic Review

**SESSION 3 (30 AUG 2008 8.30AM – 12PM)
EQUITY PORTFOLIO MANAGEMENT I**

Topics

1. Active management, Benchmark selection, Style
 - Types (e.g., value, growth, size), Style weights, Style drift, Limitations
 - Applications of valuation techniques: DDM, ROIC and WACC, EVA, CFROI
2. Passive management & Indexing
3. Semi-active strategies, Enhanced indexing, Core plus active

Text: Chapter 7. Equity Portfolio Management

Readings: Credit Suisse Global Weekly Economic Review

**SESSION 4 (30 AUG 2008 1PM – 4.30PM)
EQUITY PORTFOLIO MANAGEMENT II**

Topics

1. Cross-border strategies, Sector/industry, Country
2. Derivatives-enabled strategies
3. Quantitative portfolio management

Text: Chapter 7. Equity Portfolio Management

Readings: Credit Suisse Global Weekly Economic Review

SESSION 5 (13 SEP 2008 8.30AM – 12PM)

FIXED INCOME MANAGEMENT I

Topics

1. Active management
2. Passive management
3. Semi-active strategies (enhanced indexing)

Text: Chapter 6. Fixed-Income Portfolio Management

Readings: Credit Suisse Global Weekly Economic Review

SESSION 6 (13 SEP 2008 1PM – 4.30PM)

FIXED INCOME MANAGEMENT II

Topics

1. Asset Liability Management
2. Immunization strategies
3. Derivatives-enabled strategies
4. Cross border issues, Currency risk management, Country risk analysis

Case Study: Deutschebank: Discussing the Equity Risk Premium — April 2005, by Chacko et.al., HBS Case

Text: Chapter 6. Fixed-Income Portfolio Management

Readings: Credit Suisse Global Weekly Economic Review

SESSION 7 (27 SEP 2008 8.30AM – 12PM)

HEDGE FUNDS I

Topics

1. Hedge Fund Styles and Performances
2. Strategies Used by Hedge Funds
 - Risk Arbitrage, M&A, High Yield
 - Long-short Equity, Market Neutral, Short Bias, Contrarian

Text: Chapter 8. Alternative Investments Portfolio Management

Readings: Credit Suisse Global Weekly Economic Review

**SESSION 8 (27 SEP 2008 1PM – 4.30PM)
HEDGE FUNDS II**

Topics

1. Other Strategies
 - Convertible Arbitrage, Fixed Income Arbitrage,
 - CTAs, Global Macro, Multistrategy
2. Fund of Funds Allocation and Strategies
3. Optimisation of Hedge Fund styles

Case Study: Deutschebank: Finding Relative Value Trades, Nov 2004, by Chacko et. al., HBS Case Study

Text: Chapter 8. Alternative Investments Portfolio Management

Readings: Credit Suisse Global Weekly Economic Review

**SESSION 9 (11 OCT 2008 8.30AM – 12PM)
STRUCTURED PRODUCTS I**

Topics

1. Introduction to Structured Products
2. Securitization and Structured Finance,
 - MBS, ABS, CMOs, CBOs, CLOs
3. Fixed Income Structures
 - Floaters, CMS, Range Accruals, CLNs, FTDs

Text: Only Lecture Slides apply

Readings: Protection: William Sharpe, Princeton Lectures; Credit Suisse Global Weekly Economic Review

SESSION 10 (11 OCT 2008 1PM – 4.30PM)

STRUCTURED PRODUCTS II

Topics

1. Equity Structures
 - Capital Protection – Options based, CPPI, MARs
2. Other Equity Structures
 - Warrants, Cliquets, ELNs, Rainbows, Equity Range Accruals , Best/Worst of Basket
3. Evaluation of Structured Products in a Portfolio

Case Study: Long-Term Capital Management, L.P. (C), by Andre F. Perold, HBS Case

Text: Only Lecture Slides apply.

Readings: Credit Suisse Global Weekly Economic Review

SESSION 11 (25 OCT 2008 8.30AM – 12PM)

RISK MANAGEMENT

Topics

1. Firm wide risk management
 - Fundamental framework, Investment vs. operational, Model risk vs. input risk
 - Developing risk management policy and programs, Sources of risk
 - Managing market, credit, and other risk
 - Value at risk (VAR) and other approaches to risk measurement and management
 - Capital adequacy
2. Portfolio Risk Management
 - Mechanics of hedging
 - Managing interest rate risk with derivatives
 - Managing risk for embedded-risk securities
 - Managing currency risk

Text: Chapter 12. Evaluating Portfolio Performance Chapter 13. Global Investment Performance Standards

Readings: Credit Suisse Global Weekly Economic Review

SESSION 12 (25 OCT 2008 1PM – 4.30PM)

ISSUES IN PORTFOLIO MANAGEMENT

Topics

1. Corporate Governance
2. Global Warming Investing
3. Executive Compensation
4. Private Wealth Management
5. Behavioral Investment

STOCKTRAK PROJECT PRESENTATION

Case Study: Behavioral Finance at JP Morgan, by Malcolm P. Baker, Aldo Sesia Jr. HBS Case

Text: Only Lecture Slides apply

Readings: Credit Suisse Global Weekly Economic Review

SESSION 13 & 14 (8 NOV 2008 1PM – 4.30PM)

BUFFER WEEK

ALL MISSING CLASSES WILL BE CARRIED OVER TO THIS WEEK

SESSION 15 (22 NOV 2008 – 6 DEC 2008)

EXAM WEEK