

**Marquette University**  
**College of Business Administration**  
**Department of Finance**  
**Applied Investment Management (AIM) Program**

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**FINA 193**  
Valuation / Portfolio Management  
**Syllabus – Spring 2007**

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**Catalog course description:** FINA 193 Valuation/Portfolio Management (3 units)

This third required course in the AIM Program includes the common approaches to valuing assets, the basic measurements of risk and return, and the key elements of the portfolio management process. Students will continue to manage an equity and fixed income investment portfolio, evaluate performance, and prepare and present reports of the results at the end of the semester. The course will also include a professional lecture series, where investment practitioners discuss their own investment philosophies, strategies, and experiences. *Prerequisites: FINA 192 and FINA 182, which may be taken concurrently. Only open to students accepted into the AIM program.*

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**Course Objectives:** This is the third required course in the AIM Program and the second of a two-semester sequence of courses whereby students enrolled in the AIM Program are engaged in the management of a portfolio of equities and fixed income securities. The first course, FINA 192 (Research and Financial Analysis), was completed by the AIM students in the Fall semester. The objective of both courses is to blend traditional academic learning with the practical experience of hands-on investment management culminating with a formal annual report describing the entire investment management process at the end of the school year.

The two courses are designed to provide students with a thorough grounding in the process of portfolio management, from individual security evaluation to broad asset allocation decision-making. Topics covered in the courses include economic, industry, and individual firm fundamental analysis of equities and fixed income securities; market efficiency and trading strategies based on inefficiencies (i.e. firm size, book value, momentum, quality of earnings, insider trading, and earnings surprises); the portfolio management process including asset allocation, benchmarking, evaluation, and reporting; and the manner in which trading takes place and the types of trades. FINA 192 focused on equity investing and required the students to understand the composition of the existing portfolio, as well as establish the fund bylaws, policies and procedures (see attached), before recommending any changes. The second course (FINA 193) concentrates on fixed income

investing, portfolio management, and the writing and presentation of the annual report. FINA 193 also introduces the student to the analysis of alternative investments. These include assets such as: real estate, investment companies, private equity and venture capital, hedge funds, closely-held securities, distressed securities, tangible assets, commodities and derivatives (introduction to options and futures). Throughout both courses, emphasis will be placed on linking the theoretical and practical aspects of the investment management process. It is expected that the students will produce research analyses and a final annual report that will compare similarly with those produced by professional investment analysts and portfolio managers (see attached guidelines).

The students enrolled in the two courses will manage the AIM Fund, which is a portion of Marquette University's endowment fund. The students are responsible for the investment decisions involving the composition of the AIM Fund. Subject to Marquette University's policy that applies to all equity and fixed income managers of endowment funds, at the beginning of the Fall and Spring semesters the students will establish the AIM Fund bylaws, as well as the working policies and procedures that govern the management of the portfolio. Students will establish the stock and bond selection criteria, research the prospective firms in their assigned industry sectors, generate reports, deliver presentations, make recommendations to invest or liquidate positions, and execute trades. With regard to the AIM Fund, the AIM Program Director serves in an advisory capacity and will answer questions and make periodic presentations on relevant aspects of investments. The AIM Program Director is responsible for overseeing the students in the program, delivering the course content, working with the AIM Investment Advisory Board, and grading the students' work. While the students assume responsibility for all portfolio decisions, they do report periodically to the AIM Investment Advisory Board regarding their investment decisions and the performance of the AIM Fund during each semester.

Members of the AIM Investment Advisory Board, which consist of Finance faculty, investment professionals and members of Marquette's Office of Treasury Services, will be selected based on their availability and ability to enhance the educational benefits of the student-managed portfolio experience. Meetings with the AIM Investment Advisory Board will take place several times during each semester. The goal of the meetings is to facilitate student activity and provide guidance. The AIM Investment Advisory Board will also review student investment analyses and provide input regarding investment-related issues during the semester. The final responsibility of the students will be to create a formal annual report and present it to the AIM Investment Advisory Board at the annual meeting at the end of the Spring semester. The students will also handle all issues related to the transition of the portfolio to the next class of AIM students, including the provision of the bylaws, working policies, procedures, and all related documentation.

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**Required Texts:**

**Bold Thinking on Investment Management: FAJ 60th Anniversary Anthology w/CD** by CFA Institute, (October 2005), 320 pages, ISBN: 1932495320.

CFA Exam Prep material

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## Grading Policy:

### 1. ACADEMIC DISHONESTY – Marquette University Policy

It is not feasible to attempt to develop a list of all conceivable examples of academic dishonesty, but it may be helpful to list a few and to note that they all involve an attempt to deceive, to distort perceptions of reality, to gain a record of academic accomplishment greater than earned. All who are parties to the deceit are involved in academic dishonesty. Most acts of academic dishonesty involve cheating on examinations or reports in one way or another, improperly obtaining examination questions, plagiarism, forgery, falsification of records or impersonation of a candidate taking an examination.

Students who engage in academic dishonesty, whenever that may be, shall be subject to appropriate university penalties. Penalties ranging up to an F in the course in which the dishonesty occurs can be imposed by the dean of the college or school in which the course is offered. Additional penalties, if they are warranted, ranging up to expulsion from the university, can be imposed by the dean of the college or school in which the affected student is enrolled. If an appeal against the imposition of a penalty for academic dishonesty is taken beyond the college or school in which it was imposed, it should be directed to the Office of the Provost.

### 2. ETHICAL CONSIDERATIONS

You should not represent material from secondary sources as your own in any reports or papers, i.e., plagiarize material from secondary sources. Cheating on the exams will not be tolerated. Cheating is defined as (but not limited to): use of unauthorized materials during exams; looking at, copying or otherwise colluding with anyone during the exam; copying test questions; and removal of the exam. Anyone engaging in the above activities will automatically receive an "F" in the course and the case will be referred to the department Chairperson for further action.

Because the class manages a portion of the University's endowment fund, you are accepting fiduciary responsibility for the funds entrusted to the AIM Program. You are expected to conduct yourselves with the highest level of professional and ethical standards. Guest speakers and members of the AIM Investment Advisory Board will be invited to discuss their perspectives on various aspects of portfolio management. Because the guests are prominent members of the investment community and donating their time, you should be attentive, professional, prepared, and polite. It is important to remember that you are representing Marquette, the College of Business Administration, and the AIM Program.

### 3. POINT DISTRIBUTION

Industry/Sector Analyses and Updates	100
Stock/Fixed Income Analyses and Updates	250
Class Participation and Presentation	200
Exams/Quizzes	400
Attendance/Group Participation	100
<b>Total</b>	<b>1,000 points</b>

#### **4. COURSE LEARNING OBJECTIVES LINKED TO COLLEGE ASSESSMENT GOALS**

##### Goal 1: Possess effective written and oral communication skills

###### Objectives:

- a. As a part of the required course work, you will be making class presentations, individually and as part of a group.
- b. You will be writing persuasive reports
- c. You will be writing clear and succinct business analysis reports
- d. You will be speaking extemporaneously in a clear and organized manner on your recommendations
- e. You will be required to communicate knowledgeably with professionals in the investment industry

##### Goal 2: Be knowledgeable of the global business environment

###### Objectives:

- a. You will need to articulate important characteristics of the global business environment and the ramification of firms engaged in international business

##### Goal 3: Be knowledgeable of the local business environment

###### Objectives:

- a. You will be required to interact knowledgeably and effectively with the local investment community

##### Goal 4: Possess the ability to work as a team member and leader

###### Objectives:

- a. You will be required to effectively manage a team project
- b. You will be required to effectively manage group dynamics
- c. You will be required to effectively perform multiple roles in a team context

##### Goal 5: Possess critical thinking skills

###### Objectives:

- a. You will be required to collect appropriate information and derive relevant conclusions
- b. You will be required to write a clear and succinct reports of your recommendations
- c. You will be required to employ critical thinking process in one's self and others

##### Goal 6: Possess an ethical understanding and perspective

###### Objectives:

- a. You will be required to identify ethical issues in a business context
- b. Know and follow professional standards of conduct in a variety of situations (CFA Code of Ethics)

#### **5. GRADES**

Letter Grade	Percentage
A	>93.0%
AB	88.0%
B	83.0%
BC	78.0%
C	73.0%
CD	68.0%
D	60.0%
F	<60.0%

To be successful in this class, it is expected that the student will:

- Produce quality research reports incorporating a variety of valuation techniques, sensitivity analysis, and forecasts. While the validity of the finished product is most important, it is key that the reports are of high quality and professionally prepared and presented.
- Effectively communicate your ideas to the class and the AIM Investment Advisory Board through professional presentations and reports.
- Turn in all drafts and reports by the required date and time.
- Complete all group activities and administrative assignments as required.
- Contribute positively to the classroom environment.
- Maintain ongoing knowledge of your assigned industry sector, economic news, company news and current events.

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**Industry/Sector Analyses:** Students were assigned to three industry/sector groups during the Fall semester. Each student served as the primary analyst for one group and a secondary analyst for two other groups. Early in the semester a professional quality industry/sector report will be due, which will be shared with the AIM Investment Advisory Board. This report will also be orally presented to the class – with periodic updates provided throughout the semester. The reports will include a review of important events in the industry, the outlook for the industry, and firms in the sector that look attractive. Each industry/sector group will be responsible for following events that relate to the sector and be required to make brief periodic reports to the class during the semester.

Since industry/sectors can vary greatly in their characteristics, focusing on stocks and bonds in a particular sector rather than the market as a whole is generally a better way of putting the analysis into the proper context. Each group will recommend securities from their sector for inclusion in the AIM Fund with the amount determined by the policies created by the AIM student members. Morningstar divides stocks into three "super sectors": information economy, service economy, and manufacturing economy. These are further divided into 12 industry/section sub-groups.

The **information economy** includes:

- telecommunications,
- software,
- hardware and media sectors.

The **service economy** captures four sectors:

- health care,
- consumer services,
- business services, and
- financial services.

The **manufacturing economy** includes:

- consumer goods,
- industrial materials,
- energy, and
- utilities.

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**Stock/Fixed Income Analyses:** Students will conduct research on an ongoing basis for the firms in their respective industry/sector with the goal of 1) identifying potential investments, 2) re-evaluating current holdings, and 3) determining the best asset allocation strategy. Each group will conduct detailed security research (fundamental security analysis), which will be submitted for grading. The primary industry/sector analyst will present the report and recommendation to the other members of the class. Presentations will include an oral and concise written report for the other class members. Other members of the group will be expected to help answer any questions that arise following the presentations. The presentations will include analysis of new securities for consideration and an evaluation of securities currently held in the portfolio. Presentations will be graded by the quality of the research and the effectiveness with which the information is delivered. Students are responsible for maintaining thorough documentation of all analyses and recommendations.

The group preparing the presentation will request a class vote on the proposed action. The Chief Investment Officer of the day will chair the portfolio meeting, oversee the vote, and document the proposed action. If affirmed by the class, and with the approval of the AIM Program Director, the group will draft a formal recommendation to the AIM Investment Advisory Board, which will include a summary of the research and minutes of the class discussion and vote. Following the AIM Investment Advisory Board meeting, the transaction will be executed according to the internal policies and procedures of the AIM Fund.

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**Class Activities:** During the semester each student will be assigned to serve as the Chief Investment Officer for at least one portfolio meeting of the class. The CIO will be responsible for organizing and chairing the class including all introductions, time and recordkeeping, conducting votes on recommendation, and maintaining order. Every class will include a brief presentation by the students regarding new information about their industry/sector or securities included in the AIM Fund. New information about the company's financial conditions, industry/sector news, stock price movements, and trading volume trends are considered to be pertinent and should be communicated to the class. Students will also be assigned to assist in various administrative functions throughout the semester including: portfolio accounting, securities trading, portfolio reporting and benchmarking, newsletter writing, public relations, report writing, and helping to arrange outside speakers and trips.

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**Weekly, Quarterly and Annual Reports:** At the end of each week a student will be selected by the AIM Program Director to prepare an internal report of the AIM Fund's current holdings. The report will include all currently active positions and give some indication of the returns on each security for the week, the quarter-to-date, the semester-to-date, and the school-year-to-date. In addition, similar

performance figures should be presented for the entire AIM Fund. The corresponding benchmark returns also will be provided for comparative purposes.

All of the students will prepare reports detailing the securities in their industry/sector's performance throughout the quarter and at the end-of-the-school-year. The final annual report, which will be presented to the AIM Investment Advisory Board, will contain an overview of the results of the chosen investment strategy, a summary of each security included in the AIM Fund throughout the school year, the performance of the portfolio relative to appropriate benchmarks, and expectations for the near future. The annual report will be of high quality and will be made available via the AIM Program web page ([www.busadm.mu.edu/aim](http://www.busadm.mu.edu/aim)) to the general public.

## 6. COURSE SCHEDULE

### Spring Term 2007

Week	Week of:	Activity	Topic
1	1/15/2007	Evaluate AIM Equity and Fixed Income Performance. Determine stocks to be bought and sold. Establish economic forecast and fixed income strategy.	AIM Equity and Fixed Income Fund performance. Hedge fund portfolio project.
2	1/22/2007	In-class presentations. AIM Investment Advisory Meeting (Friday)	AIM Equity and Fixed Income Fund
3	1/29/2007	CFA outside speaker. Alternative Investment presentations (CFA exam)	Alternative Investment presentations.
4	2/5/2007	Alternative Investment presentations (CFA exam)	Alternative Investment presentations.
5	2/12/2007	Alternative Investment presentations (CFA exam)	Alternative Investment presentations.
6	2/19/2007	In-class presentations. AIM Investment Advisory Meeting (Thursday)	AIM Equity and Fixed Income Fund
7	2/26/2007	Alternative Investment presentations (CFA exam). <b>Krause - CFA Conference in VA.</b>	Alternative Investment presentations.
8	3/5/2007	CFA exam preparation	CFA exam preparation and quizzes
9	3/12/2007	Spring Break	
10	3/19/2007	In-class presentations. AIM Investment Advisory Meeting (Thursday)	AIM Equity and Fixed Income Fund
11	3/26/2007	CFA exam preparation. Annual report preparation. <b>RISE Conference in Dayton, OH.</b>	CFA exam preparation and quizzes
12	4/2/2007	CFA exam preparation. Annual report preparation.	CFA exam preparation and quizzes
13	4/9/2007	CFA exam preparation. Annual report preparation.	CFA exam preparation and quizzes
14	4/16/2007	CFA exam preparation. Annual report preparation.	CFA exam preparation and quizzes
15	4/23/2007	In-class presentations. AIM Investment Advisory Meeting (Thursday). Annual Report presentation.	AIM Equity and Fixed Income Fund
16	4/30/2007	CFA exam preparation.	CFA exam preparation and quizzes
17	5/7/2007	CFA exam preparation.	CFA exam preparation and quizzes
18	5/14/2007	Final Exam Week	

# Quarterly and End of Semester Report Guidelines

## Overview

The December quarterly (end-of-semester) report will be formally issued in January when the AIM student members return to campus and the March quarterly report will be prepared in early April. These reports are intended to summarize the activities within the AIM Fund during the respective quarter.

The End-of-the-School Year (Annual) Report will be produced by the student members of the AIM Fund and will be submitted at the end of the spring semester. It will include a review of the investment strategies, portfolio performance evaluations, and an overall summary of the experience. This report should meet a professional standard of content and presentation. All of the reports are to be filed by the AIM student members in the appropriate record binders. The AIM Program Director may make the annual report a portion of the grading process for AIM students. The following contains an outline of the procedure.

## Report Process

1. Create an outline for the report.
2. Write or update the overview and history section.
3. Obtain copies of any articles about the AIM Fund.
4. Write the structure section of the AIM Fund including member names.
5. Write the cover letter for the Report.
6. Submit a preliminary report to the AIM Program Director.
7. Evaluate the portfolio's performance relative to the established benchmarks.
8. Document all transactions for the AIM Fund.
9. Complete the draft report.
10. Submit the draft report to the AIM Program Director.
11. Revise the report and submit to the AIM Program Director.
12. Submit the report to printers for production of finished copies of the report.
13. Post the annual report on the AIM Program web site.
14. File all quarterly, end of the semester, and annual reports in the appropriate record binders.

# Marquette University

## Applied Investment Management (AIM) Program Fund

### Investment Strategy Policy

#### Overview

Each year the AIM student members may establish a unique investment strategy provided that it falls within the scope of the Marquette University's Endowment Policy and the AIM Fund bylaws. For example, the AIM Fund investments may be invested in a socially responsible manner as dictated by this policy.

#### Investment Strategy Policy.

#### Objective

The investment objective of the equity portfolio is to achieve long-term capital growth in excess of 2 percent of the benchmark (Russell 2000 Index) by investing in small market capitalization companies (between \$250 million and \$1.5 billion market capitalization). The investment objective of the fixed income portfolio is to achieve total return in excess of 20 basis points of the benchmark (Lehman Brothers Aggregate Bond Index).

#### Investment Strategy

Equity: The investment strategy of the equity portion of the AIM Fund is as follows:

- The equity portfolio will be invested in small market capitalization companies (between \$250 million and \$1.5 billion market capitalization at the time of purchase). The portfolio may also invest in market capitalization companies below \$250 million if sufficient market liquidity exists, as determined by the AIM Program Director and the Vice President of Finance/Asst. Treasurer (or designee).
- Investment positions that drift above or below the market capitalization limits after purchase, except those approved by the AIM Program Director and the Vice President of Finance/Asst. Treasurer (or designee), shall not exceed 5% of the equity portfolio's value. Any violations of the market capitalization guidelines shall be corrected within 5 business days.
- In excess of 97.5% of the equity portfolio will be invested in marketable U.S. equities with a risk profile similar to that of the market benchmark (Russell 2000 Index). The portfolio's performance objective is to generate a total return in excess of 2% of the benchmark.

Fixed Income: The investment strategy of the fixed income portion of the AIM Fund is as follows:

- The duration of the fixed income portfolio may not exceed that of the Lehman Brothers Aggregate Bond Index by more or less than 20% at any time.
- The fixed income portion of the AIM Fund will follow a 'core plus' investment management style, which permits the managers to add debt instruments with slightly greater risk and return potential than found in the Lehman Brothers Aggregate Bond Index. These investments may include the addition of high yield and global debt securities to the core

portfolio of investment-grade bonds. The percentage of assets in the fixed income portfolio of the AIM Fund invested in extended non-benchmark investments may not be greater than 20% of the portfolio's market value at any time without the express written consent of the Vice President for Financial Services/Asst. Treasurer (or designee).

- High credit quality in the core portion of the fixed income portfolio is important to the University. At least 100% of the market value of the 'core' fixed income portfolio must, at the time of purchase, be rated investment grade by Moody's and/or Standard & Poor's. The overall average credit rating of the fixed income portion of the AIM Fund should be maintained at an "A" level or better. It is the direct responsibility of the respective fixed income managers to closely monitor their individual holdings, and to anticipate any downgrades which may violate these guidelines. Non-rated debt will be considered to be non-investment grade.
- At least 80% of the short-term obligations (including commercial paper, banker's acceptances, repurchase agreements, etc.) must possess a quality rating of A1 and/or P1 by the major rating agencies at the time of purchase, or the issuer's general short-term investment rating must be at least A1 and/or P1. A security with a split quality rating at the time of purchase will be considered as the lower of the split ratings. If a downgrade occurs during the holding period it will be the responsibility of the Vice President for Financial Services/Asst. Treasurer (or designee) in consultation with the AIM Fund managers to determine the most prudent course in dealing with the security.

### **Prohibited Transactions and Holdings:**

The following transactions are prohibited unless written authorization is requested by the manager and subsequently approved by the Vice President for Financial Services/Asst. Treasurer (or designee):

1. Short Sales
2. Use of margined purchases or sales
3. Investment in non-marketable or non-liquid securities
4. Writing of uncovered call and/or put options
5. Investment in the following derivative securities: Interest only strips, principal only strips, structured notes without a principal guarantee, swaps, floating rate notes which are leveraged or have "inverse" reset characteristics (See MU Derivative Policy).
6. Use of options or futures for hedging purposes
7. Purchase of certificates of deposit in amounts greater than \$100,000 from any single financial institution
8. Purchase of any guaranteed investment contracts (GIC's)
9. Investment in non-dollar denominated securities

Exchange traded funds (ETFs) and mutual funds are considered to be appropriate investments for the University's endowment assets.

### **Investment Guidelines**

**Asset Allocation:** The equity portfolio shall be invested exclusively in U.S. listed (including NASDAQ) equity securities. Any cash equivalent investments shall represent transactional amounts, and not strategic allocations. Therefore, cash equivalents will not exceed 2.5% of the

portfolio at any time. Any deviations from this requirement shall be corrected within 5 business days. The equity portion of the AIM Fund will be well diversified with respect to exposure to different economic sectors, industry segments, and individual stocks. The equity portfolio shall observe the following diversification guidelines:

- The maximum allocation to any economic sector (as defined by Russell 2000 Index) shall be no more (or less than) than the lesser of: 2% above (or below) the Index's market value weighting of the Fund's equity investment or 1.5 times above (or below) the Index's market value weighting of the Fund's equity investment.
- The maximum allocation to any single issue at the time of purchase shall be 2% (at market value) of portfolio assets.
- The total maximum allocation to any single issue shall be 5% (at market value) of portfolio assets.
- The minimum number of securities in the portfolio shall be 20.
- The portfolio may include American Depository Receipts (ADRs); however, the combined investments in ADRs may not exceed 10% of the portfolio's market value.
- Any violations of the diversification guidelines shall be corrected by the end of each calendar quarter.

The fixed income portfolio shall be invested in U.S. and global debt securities. Any cash equivalent investments shall represent transactional amounts, and not strategic allocations. Therefore, cash equivalents will not exceed 2.5% of the portfolio at any time. Any deviations from this requirement shall be corrected within 5 business days. The fixed income portion of the AIM Fund will be well diversified with respect to exposure to different economic and geographic sectors, industry segments, and individual debt securities. The fixed income portfolio shall observe the following diversification guidelines:

- Direct obligations of any single corporation or governmental body (other than the U.S. Government) are not to exceed 10 percent of the market value of the fixed income portion of the AIM Fund at any time.
- No more than 40 percent of the market value of a manager's portfolio may be concentrated in corporate fixed income securities. Further, no more than 25 percent of the market value of the portfolio may be concentrated in any single corporate sector (financial, transportation, industrial, utility etc.) at any time. No limits, however, are placed on obligations of the U.S. Government or its agencies.
- No more than 20 percent of the market value of the fixed income portfolio may be invested in non-investment grade securities.
- No more than 15 percent of the market value of the fixed income portfolio may be invested in global corporate and government bonds.

## **Social Responsibility**

The AIM Fund student members recognize its responsibility as a stockholder to encourage corporate citizenship, as well as corporate growth, in the companies whose securities are owned by the Marquette University's endowment fund. Corporate citizenship and social responsibility will be encouraged through the voting of proxies or other actions based upon information available to the

AIM Fund student members. Although Marquette University has the right to vote the proxies for all investment in the endowment portfolio, the AIM student members are interested in voting on the issues held in the AIM Fund. In these cases, the AIM Fund student members will provide, on a quarterly basis, an accounting of all non-routine proxy votes with explanations. The AIM student members have the duty to vote proxies in a manner that is consistent with the investment objectives contained in the University's endowment policy.

The AIM Fund student members may adopt socially responsible policies, but not at the expense of reducing total portfolio return. Any socially responsible filters or screens applied to the portfolio shall be approved by the AIM Program Director and the Vice President of Finance/Asst. Treasurer (or designee). In the absence of specific socially responsible restrictions outlined in this policy, proxies shall be voted on in a manner which maximizes the value of the AIM Fund's securities. Although each proxy vote must be examined on a case-by-case basis, the AIM Fund student members would generally expect to vote against proposals that lead to poor corporate governance policies.

ACCEPTANCE:

I, \_\_\_\_\_, a student member of the AIM Fund, hereby accept the Investment Strategy Policy established by Marquette University as described above and agree to invest within the guidelines specified.

\_\_\_\_\_ Date

Marquette University (Vice President of Finance/Asst. Treasurer)

\_\_\_\_\_ Date