FINS5541
Advanced Investments and Funds Management
This version: 9 February 2015

Course Outline
Semester 1, 2015

Part A: Course-Specific Information

Please consult Part B for key information on Business School policies (including those on plagiarism and special consideration), student responsibilities and student support services.
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PART A: COURSE-SPECIFIC INFORMATION

1 STAFF CONTACT DETAILS
Lecturer-in-charge: Pedro Barroso
Room QUAD 2119
Phone No: 9385 5854
Email: p.barroso@uns.edu.au
Consultation Times – Monday 17:00-18:30 (or by appointment)

2 COURSE DETAILS

2.1 Teaching Times and Locations
Lectures start in Week 1 (to Week 12). The Time and Location are Wednesday from 18:00 to 21:00 in room Law G02.

2.2 Units of Credit
The course is worth 6 units of credit. There is no parallel teaching in this course.

2.3 Summary of Course
This course covers advanced topics in investments and funds management such as: 1) how to value equities; 2) what are the alternative investment classes available to allocate capital; 3) what are the implications of security analysis and alternative investments for portfolio policy.

2.4 Course Aims and Relationship to Other Courses
The course complements the training provided in FINS5513, focusing on topics introduced in that course but covered here to a greater extent (such as valuation techniques). The focus of the course is on topics of likely relevance for the practice of finance as a profession, in particular in funds and portfolio management.

One of the main aims of the course is to provide students with training in security analysis. That is methods for security analysts to find under-valued / over-valued securities relative to some objective criteria.
Another focus of the course is alternative investments. These include relevant asset classes such as real estate, private equity, commodities, and currencies. The extent to which these have specific risks and rewards, they should be of crucial importance for long term investors. This course aims to explain the essential concepts behind these alternative asset classes, with a major focus on hedge fund strategies.
Finally, one essential aim of the course is to assess the performance of active managers and use that information to manage portfolios including both passive benchmarks and actively managed funds.

As most courses in finance, this course requires some basic knowledge of mathematics, statistics and accounting.

2.5 Student Learning Outcomes
By the end of this course, you should be able to:
1. Explain the most important approaches to value common stocks.
2. Value stocks using a dividend discount model approach.
4. Estimate the growth rate of firms and its terminal value.
5. Use relative value methods to value common stocks.
6. Explain what hedge funds are, their different types and the strategies they follow.
7. Explain what mortgage backed securities and REITs are and discuss their risk and return.
8. Be familiar with the terminology of private equity investments and discuss the difficulties in measuring the performance of private equity investments.
9. Explain investment approaches in the commodities market and related concepts such as backwardation and contango. Compute returns of these strategies.
10. Know how to evaluate the performance of portfolios.
11. Know how to design actively managed portfolios and explain its investment policy.
12. Discuss the main findings of recent research on asset return predictability and portfolio management.

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all postgraduate students in the Business School. Program Learning Goals are what we want you to BE or HAVE by the time you successfully complete your degree (e.g. 'be an effective team player'). You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree (e.g. 'participate collaboratively and responsibly in teams').

For more information on the Postgraduate Coursework Program Learning Goals and Outcomes, see Part B of the course outline.

Business Postgraduate Coursework Program Learning Goals and Outcomes

1. Knowledge: Our graduates will have current disciplinary or interdisciplinary knowledge applicable in local and global contexts.
   You should be able to identify and apply current knowledge of disciplinary or interdisciplinary theory and professional practice to business in local and global environments.

2. Critical thinking and problem solving: Our graduates will have critical thinking and problem solving skills applicable to business and management practice or issues.
   You should be able to identify, research and analyse complex issues and problems in business and/or management, and propose appropriate and well-justified solutions.

3. Communication: Our graduates will be effective communicators in professional contexts.
   You should be able to:
   a. Produce written documents that communicate complex disciplinary ideas and information effectively for the intended audience and purpose, and
   b. Produce oral presentations that communicate complex disciplinary ideas and information effectively for the intended audience and purpose.

4. Teamwork: Our graduates will be effective team participants.
   You should be able to participate collaboratively and responsibly in teams, and reflect on your own teamwork, and on the team’s processes and ability to achieve outcomes.

5. Ethical, social and environmental responsibility: Our graduates will have a sound awareness of
You should be able to:

a. Identify and assess ethical, environmental and/or sustainability considerations in business decision-making and practice, and

b. Consider social and cultural implications of business and/or management practice.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed (they may also be developed in tutorials and other activities):

<table>
<thead>
<tr>
<th>Program Learning Goals and Outcomes</th>
<th>Course Learning Outcomes</th>
<th>Course Assessment Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>This course helps you to achieve the following learning goals for all Business postgraduate coursework students:</td>
<td>On successful completion of the course, you should be able to:</td>
<td>This learning outcome will be assessed in the following items:</td>
</tr>
<tr>
<td>1 Knowledge</td>
<td>Know the methods of common stock valuation. Discuss the properties of alternative investment classes and how they fit in the global picture of asset pricing.</td>
<td>• Tutorial Problems</td>
</tr>
<tr>
<td>2 Critical thinking and problem solving</td>
<td>Solve real investments problems as valuing a stock or measuring the performance of a portfolio.</td>
<td>• Tutorial Problems</td>
</tr>
<tr>
<td>3a Written communication</td>
<td>Construct written work which is well articulated and logically presented.</td>
<td>• Exams</td>
</tr>
<tr>
<td>3b Oral communication</td>
<td>Communicate ideas in a succinct and clear manner.</td>
<td>• Report</td>
</tr>
<tr>
<td>4 Teamwork</td>
<td>Not specifically addressed in this course.</td>
<td></td>
</tr>
<tr>
<td>5a. Ethical, social and environmental responsibility</td>
<td>Not specifically addressed in this course.</td>
<td></td>
</tr>
<tr>
<td>5b. Social and cultural awareness</td>
<td>Not specifically addressed in this course.</td>
<td></td>
</tr>
</tbody>
</table>

3 LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

We seek to create an interesting, challenging, relevant, and engaging education experience. To help achieve this objective we have a number of teaching aims:

• Create a climate of engagement, dialogue and ongoing feedback between students and lecturers regarding the content, teaching strategies, learning experiences and outcomes;

• Cater for a variety of learning preferences and abilities by providing a range of learning activities and teaching methods;
• Develop independent learning skills and create an environment that provides both structure and guidance as well as encourages students to extend their learning.

3.2 Learning Activities and Teaching Strategies

The (online) lecture
The (online) lectures set out the main conceptual frameworks for each topic. They synthesize materials from various sources. You are advised to start with the online lectures to get the main ideas and then read the textbook and other relevant materials. From a time management perspective, this means you will need to allocate at least 10 hours per week for the online lecture and reading.

We bring current research to class. We do this by presenting and discussing recent papers on topics of interest to the course. In the lectures we will also solve exercises to facilitate the interpretation of each topic’s most important insights and develop problem-solving skills. These should also prepare you for the exams.

The equity research project
A fundamental part of the course is about stock valuation. So students will be asked to value a stock. This is the “equity research project.” This should be a real example of an actively traded stock and students should be able to produce a recommendation to buy or sell the stock. They should be able to do this using the methods learned in class or any others they can find through their own independent research.

If you need any assistance in managing your time you will find the Australian School of Business’ Education Development Unit (EDU) a useful resource.

4 ASSESSMENT

4.1 Formal Requirements
In order to pass this course, you must:
• achieve a composite mark of at least 50; and
• make a satisfactory attempt at all assessment tasks (see below).

4.2 Assessment Details

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Weighting</th>
<th>Length</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-session exam</td>
<td>30%</td>
<td>2 hours</td>
<td>TBA (week 6)</td>
</tr>
<tr>
<td>Equity research project</td>
<td>20%</td>
<td>1500 words</td>
<td>23:59 on April 26th, 2015</td>
</tr>
<tr>
<td>Final Exam</td>
<td>50%</td>
<td>2 hours</td>
<td>University Exam Period</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Mid-session exam
This is a 2-hour comprehensive in-class exam to be held in week 6. It will cover the materials from week 1 to 5.

Equity research project
We will provide a list of eligible stocks to analyse with Australian and international equities. Each individual student will be asked to pick one stock to value and produce a
report of up to 1500 words with the analysis of the stock. The word limit does not include the bibliography but it includes all words in tables and figures as well as the text itself.

The report should make explicit reference to the topics covered in the course. It should discuss the applicability of each of the methods to value the particular stock chosen and also its limitations. Besides the project, students should also submit a spreadsheet with all calculations referred in the report. This will typically not be graded per se, but the grader / lecturer may use it in case of any doubt about the calculations. Hence the spreadsheet should be well-structured and easy to interpret. Students should also be prepared to explain all of their calculations and analysis to the grader / lecturer in case of any doubt. More detailed instructions will be announced in week 5.

Late submission of the equity research project is accepted but the grade will suffer a penalty of 10 marks (out of 100) for each day that has passed since the deadline. So students are encouraged to submit the assignment on time.

Final Exam
This is a 2-hour comprehensive exam. The final examination will be held on UNSW campus during the UNSW centrally managed examination period. The final examination will be based upon materials from week 7 to the final week of the course.

4.3 Assignment Submission Procedure
The assignment is to be submitted through moodle.

Quality Assurance
The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential.

5 COURSE RESOURCES
The website for this course is on Moodle at: http://moodle.telt.unsw.edu.au

There is no fixed textbook requirement for this course. However, much of the course relies on materials from three books:


The books are not required reading. All required material, including the powerpoint presentations and practice questions will be posted on moodle. The books are an additional reference for students who find the class notes unclear. Copies of the book are available for purchase at the UNSW Book Store. Students may also borrow the book from the UNSW Library.
Other books that are related to the content of the course are:


List of relevant papers that we will present and discuss (note this list is not exhaustive, other papers can be presented and discussed as well):


Popular / classical / non-technical books related to the course content (not strictly required but always good reading material):


6 COURSE EVALUATION AND DEVELOPMENT

Each session feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW’s Courses and Teaching Evaluation and Improvement (CATEI) FINS5541 Advance Investments and Funds Management 11 Process (http://www.lut.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students. Please access the CATEI forms via my.unsw.edu.au.

In addition to the end of term CATEI process, you are encouraged to contact Dr. Pedro Barroso at p.barroso@unsw.edu.au during the term in relation to your experience in the courses and suggestions of potential changes that could further enhance the course. The course has been substantially changed from its previous edition, mostly to cover more topics in the CFA candidate book of knowledge. As such your suggestions are most welcome to improve future editions of the course.

7 COURSE SCHEDULE

Lecture Schedule

This schedule is tentative and may be modified. Should the schedule change, I will notify students in class of all changes and will post a revised syllabus on moodle.

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>Introduction to valuation</td>
<td>D2-3, D9-10</td>
</tr>
<tr>
<td>2 March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 2</td>
<td>The dividend discount model</td>
<td>D11-13</td>
</tr>
<tr>
<td>9 March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 3</td>
<td>FCFE and relative valuation</td>
<td>D14, D17-18</td>
</tr>
<tr>
<td>16 March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 4</td>
<td>Private Equity</td>
<td>D24, CAIA 20-22.</td>
</tr>
<tr>
<td>23 March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 5</td>
<td>Real estate</td>
<td>D26, CAIA 8-10.</td>
</tr>
<tr>
<td>30 March</td>
<td></td>
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<tr>
<td></td>
<td>Mid-semester break: Good Friday 3rd April - Sunday 12th April</td>
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</tr>
<tr>
<td>Week 6</td>
<td>Mid-session exam (TBA)</td>
<td>No lecture</td>
</tr>
<tr>
<td>13 April</td>
<td></td>
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<tr>
<td>Week 7</td>
<td>Commodities and currencies</td>
<td>CAIA 18 and 19.</td>
</tr>
<tr>
<td>20 April</td>
<td></td>
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</tr>
<tr>
<td>Week 8</td>
<td>Hedge Funds</td>
<td>CAIA11-14</td>
</tr>
<tr>
<td>27 April</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week</td>
<td>Topic</td>
<td>Reference</td>
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<tr>
<td>Week 9</td>
<td>Portfolio performance evaluation</td>
<td>BKM24</td>
</tr>
<tr>
<td>4 May</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 10</td>
<td>Active portfolio management and investment policy.</td>
<td>BKM27-28</td>
</tr>
<tr>
<td>11 May</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 11</td>
<td>Advanced topics in portfolio management</td>
<td>Brandt et al. (2009), DeMiguel et al. (2009), Barroso and Santa-Clara (2012), and other papers TBA.</td>
</tr>
<tr>
<td>18 May</td>
<td></td>
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</tr>
<tr>
<td>Week 12</td>
<td>Catch-up week and review for the exam</td>
<td>-</td>
</tr>
<tr>
<td>25 May</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 13</td>
<td>NO LECTURES</td>
<td></td>
</tr>
<tr>
<td>1 June</td>
<td></td>
<td></td>
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</tbody>
</table>