

University of Cincinnati
Carl. H. Lindner College of Business

Johnson Investment Counsel Student-Managed Fund (JICSMF)

FIN 4081: JICSMF Junior Analyst
FIN 4082: JICSMF Senior Analyst
FIN 4083: JICSMF Portfolio Manager

Faculty Advisor/Instructor: Michael Neugent Office: 416
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Course Description

In this sequence of courses, undergraduate and graduate students manage the Johnson Investment Counsel Student-Managed Fund (hereafter referred to as the "Fund"), an actual portfolio of equity, fixed income, and alternative investment securities made possible by a gift from Timothy E. Johnson, current President and CEO of Johnson Investment Counsel Inc. and former Finance faculty member at the University of Cincinnati. Through the process of managing the Fund students are exposed to the variety of issues that concern both the management of an investment portfolio and the management of the people who manage the portfolio.

The two main goals of the Fund are to provide:

- (1) a rich *applied* educational opportunity for its members, providing hands-on experience at both portfolio management (including asset allocation, security analysis and selection, and industry analysis) and process management (including leadership, delineation and delegation of responsibilities, process and performance evaluation, external relations, and recruiting).
- (2) current income to fund scholarships/activities consistent with the mission of the Department of Finance and Real Estate, while preserving or growing the fund's value.

The Fund is accountable to a set of external monitors, referred to as the Investment Committee, consisting of at least three independent industry professionals and the Faculty Advisor. The Investment Committee has the responsibility to provide feedback to the Fund and to the Faculty Advisor; the Fund must report to the Investment Committee at least once a semester on the following issues:

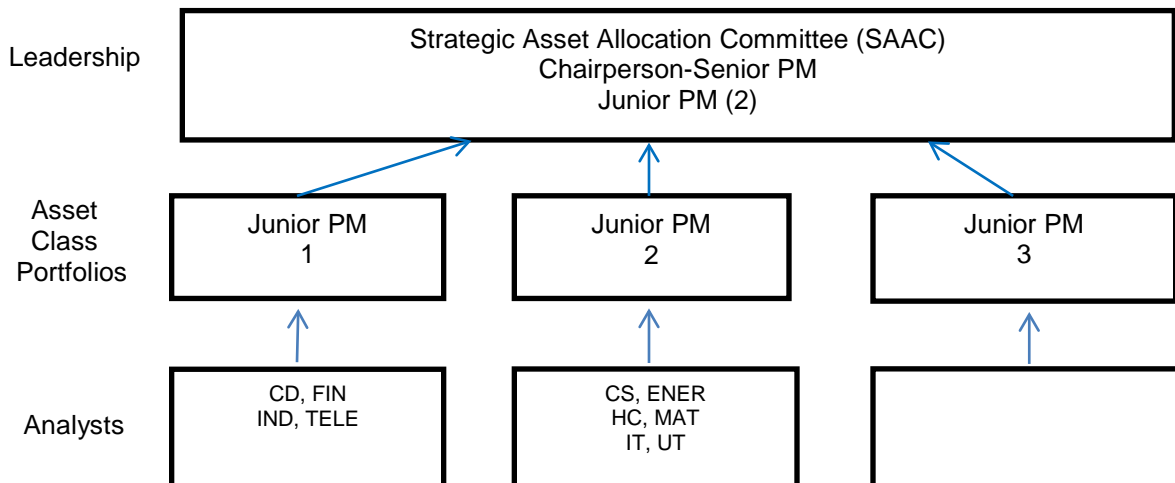
- (1) Performance
- (2) Benchmarks
- (3) Performance Attribution
- (4) Changes in Investment Strategies

All of the content in Portfolio Management concerns the practical application of foundational and theoretical material on investment management. In order to gain a deep understanding of all the issues involved in such application, the membership of the Fund will have to struggle with alternative approaches to doing specific tasks. The goal is for that struggle to be enlightening, with students being active participants in the suggestion and evaluation of alternatives. Thus, class participation is required (and rewarded when effective). Students must drive the discussions.

To facilitate student learning and fund management, the Fund has a hierarchical organizational/management structure that defines a set of positions, each with a well-defined set of activities, responsibilities, and, when appropriate, oversight. Specifically, the over-all portfolio consists of three sub-portfolios organized by asset class: equity, fixed income, and alternatives. Each asset class is typically led by two portfolio managers (who are enrolled in FIN 4083 or 6083) who are supported by a set of Junior Analysts (enrolled in FIN 4081) and Senior Analysts (enrolled in FIN 4082). A student can become a Portfolio Manager (enrolled in FIN 4083) at the approval of the Faculty Advisor.

It is the responsibility of the Portfolio Managers to direct the set of analysts, defining specific tasks and deadlines. The Portfolio Managers of each asset class report to and are members of the Strategic Asset Allocation Committee (SAAC). This committee has a Chairperson who is responsible for leading the committee and organizing the general activities of the fund. The responsibility of the SAAC is to monitor the performance of the individual asset class portfolios and to decide how to allocate funds across asset classes in order to achieve the goals set forth in the Fund's Investment Policy Statement (IPS). The SAAC also determines the number of analysts per asset class in accordance with the strategic needs of the overall portfolio.

The following chart summarizes the structure.



The Fund requires that members be with the fund over multiple terms so that the membership has an incentive to develop a long-term view on its investment strategies and policies and have the historical perspective to be able to effectively evaluate its past decisions.

The student membership of the Fund must propose, debate, decide, and implement a variety of activities/solutions that help achieve the Fund's stated objectives, consistent with the Fund's Investment Policy Statement (IPS).

A large part of the responsibilities of the students is self-governance, with various members taking on leadership roles. However, when necessary, the Faculty Advisor will (1) facilitate discussion on the pros and cons of various solutions to the questions faced by the Fund's membership, (2) provide resources and mini-lectures on specific information/techniques the membership deems important for developing solutions (including a review of concepts and techniques from prior courses), (3) provide perspective/commentary/feedback on proposed solutions, and (4) mediate any personal disputes. Thus, although the professor will be an integral part of the process, the questions raised and the solutions proposed by the student membership will drive the development of the concepts and techniques considered in the course. As a consequence, active involvement by each student is extremely important; if you are not willing to be so engaged, you will want to consider a different finance course.

Throughout this sequence of courses, the following type of issues will be encountered:

- (1) Strategic issues, including the definition/setting of goals and objectives for the fund and the specification of incentives and management structures that facilitate achieving and being rewarded for achieving these goals/objectives,
- (2) Tactical issues, including optimal asset allocation, the evaluation of performance, the management of liquidity, hedging techniques, and the optimal exploitation of inefficient security pricing), and
- (3) Technical issues, including the implementation of risk measures such as Value at Risk, how to identify mispriced securities, how to measure liquidity costs and risk, how to measure volatility, and how to recognize and optimally adjust to uncertainty in estimated inputs to the portfolio formation process.

Learning Outcomes

The objective of this sequence of courses is for students to be able to do the following:

I. PLANNING

Portfolio Goals/Objectives

Identify the possible types of goals/objectives a portfolio or fund can have.

- a. Determine the dimensions in which goals/objectives are defined (risk/return, time (long-term growth versus steady cash flow), other (e.g., socially conscience)).
- b. Identify individual versus Fund goal/objectives. Understand how/why they differ.

Portfolio Management Process

Define and organize the process of portfolio management.

- a. Identify the specific tasks that must be completed.
- b. Assign ownership to each set of tasks.
- c. Define how performance will be measured and rewarded.
- d. Identify and/or create incentives for managers to achieve the Fund's goals/objectives.

Investment Philosophy

Identify the various types of investment philosophies that are appropriate for the Fund.

Make a decision and pick processes to implement and practically exploit that philosophy.

II. EXECUTION

Security Selection

Conduct Industry analysis to identify demographic, regulatory, organizational, and technological trends and to potential identify potential investment opportunities.

Use various methods for valuing a company; determine whether a specific asset is a good investment opportunity based for the Fund.

Portfolio Selection

Determine the optimal set of portfolio weights with in and across asset classes to achieve the Fund's objectives.

- a. Identify situations in which active management is justified; otherwise, develop effective passive strategies.
- b. Identify, collect, and analyze the information needed to form an optimal active portfolio?
- c. Identify suitable international opportunities

Estimation of Inputs and Technical Issues

Collect and analyze appropriate data to determine correlation across asset classes and individual securities within each asset class.

Identify various portfolio optimization techniques.

Determine and use a variety of methods for getting inputs to portfolio optimization?

Identify and apply suitable risk management techniques.

Identify and manage tax implications.

Identify and apply various models of volatility and risk.

Measure liquidity costs and make trade-offs between such costs and the performance of the Fund.

III. FEEDBACK

Performance Evaluation

Measure the performance of a fund?

- a. Identify the various methods for fund evaluation.
- b. Implement these measures.

Revisions based on Performance Evaluation

Make adjustments to the Fund's investment philosophy and strategies given the results of performance evaluation.

Course Materials

Textbooks that students will find useful are those used in other courses in either the Undergraduate Finance major or in the MS-FIN program:

"Investments" (8th Edition), by Bodie, Kane, and Marcus (McGraw-Hill/Irwin, ISBN-978-0-07-338237-1) or "Essentials of Investments" (7th edition) by Bodie, Kane, and Marcus (McGraw-Hill/Irwin, ISBN: 0-07-340517-5).

"Fundamentals of Futures and Options Markets" (7th edition) by John Hull, (Prentice-Hall, ISBN: 0-13-601233-7) or "Options, Futures, and Other Derivative Securities" (8th edition) by John Hull (Prentice-Hall, ISBN: 0-13-216496-5).

Earlier editions of any of these books are almost perfect substitutes for the more recent editions.

Although not required, the following books provide interesting perspectives on portfolio management specifically and risk, return, and investment strategies in general.

“The Black Swan; the Impact of the Highly Improbable,” by Nassim Nicholas Taleb, published by Random House, ISBN 978-1-4000-6351-2.

“Bogle on Mutual Funds,” by John C. Bogle, published by Dell Publishing.

“The Myth of the Rational Market; A History of Risk, Reward, and Delusion on Wall Street,” by Justin Fox, (Harper Collins, ISBN 978-0-06-059899-0).

“Pioneering Portfolio Management; An Unconventional Approach to Institutional Investment,” by David F. Swensen (Free Press, ISBN-13: 978-1-4165-4469-2).

Additional readings provided by the instructor or students will be posted on Blackboard.

Periodically, the Faculty Advisor may lecture or lead a discussion session on specific topics of interest to the group. Notes for these sessions will be posted on the course website. With the notes, you will be able to **focus on the content** of what is being covered rather than merely **writing down** what is being said. In addition, the notes will provide many graphs, figures, and numbers that will be hard to replicate by hand during class.

Course Credit

Grades are based on three types of evaluation:

1. Peer evaluation (analysts will evaluate other analysts within their asset class; portfolio manager will evaluate other portfolio managers),
2. Portfolio Manager evaluations of Analysts in their asset class
3. Faculty Advisor/Instructor evaluation of Portfolio Managers and Analysts

For each type of evaluation, students will be evaluated on the following items:

1. Professionalism (e.g., timeliness, clarity of written product, courtesy and respect when interacting with others inside and outside the group on Fund business),
2. Thoroughness, appropriateness, and usefulness of any technical analysis,
3. Judgment and justification given for recommended actions,
4. Ex-post performance evaluation of recommendations (did suggested actions translate into superior fund performance), and
5. Leadership (effectiveness of managing various tasks and personal interactions).

Academic Honor Code

Personal integrity and professionalism are fundamental values of the Carl H. Lindner College of Business community. This course will be conducted in strict conformity with the University of Cincinnati's Student Code of Conduct. The Code and related procedures can be found at

http://www.uc.edu/conduct/Code_of_Conduct.html

The site also contains comprehensive information on how to be sure that you have not plagiarized the work of others. Claimed ignorance of the Code and related information appearing on the site will be viewed as irrelevant should a violation take place. Non-College of Business students taking the course should also familiarize themselves with the Code as they will be subject to the Code while in this course.

Students in the course must also adhere to the CFA Institute's code of ethics.