

Fall 2021
FBE 553 A/B – Applied Portfolio Management

Class Meetings:	Mondays 2:00-4:50 at Bridge Hall 203
Fund Meetings:	Weekly, time determined by groups
Company Visits:	Tentative, Fridays (time varies)
Professor:	Shane Shepherd
Office:	Hoffman Hall 217
Email:	shaneshe@marshall.usc.edu
Office Hours:	By appointment, in person Mondays/Wednesdays or via zoom any day
Zoom Link:	https://uscmarshall.zoom.us/j/4937111266
SIF Community Site:	https://uscmsb.sharepoint.com/sites/SIF
SIF website:	https://www.marshall.usc.edu/faculty-research/centers-excellence/center-investment-studies/academic-programs/student-investment-fund

Course Description

This course offers a year-long seminar in applied portfolio management. It is designed to give students rigorous exposure to the theory and practice of contemporary investment and portfolio management. It also allows the students to practice real-money skills of investment managers. Analytical tools for the valuation of stocks, bonds, and derivatives (options and futures) will be presented. The course will also cover risk management and portfolio optimization, behavioral finance, macroeconomic events, and performance attribution. Students will demonstrate and refine their ability to apply analytical concepts and techniques through fund management, sector reports, company research reports, investment research, and security pitches.

The purpose of this seminar is fourfold:

1. To provide a select group of up to 20 MBA students with experience in managing a portion of the University's equity endowment;
2. To provide an academic background for the appreciation of security analysis and portfolio management through class lectures, assigned readings, and self-selected readings;
3. To enhance the academic experience through interaction with individuals and institutions engaged in the money management business;
4. To produce and present an Annual Report which will provide description of the course experience and a record of achievement.

The students are selected based on their genuine interest in pursuing a long-term career in asset management, investment banking, and/or corporate finance. The number of students allowed to enroll in this two-semester program is limited to 20 so that (a) each student may have direct, hands-on experience in managing one of five portfolios and (b) the class, as a group, can visit with a variety of money managers (pending COVID protocols). The class requires a daytime availability on Mondays and Fridays so that the student managers can meet with their teams and make off-campus visits during normal business hours. The expected time commitment is 8-10 hours a week. For the 2022 class, the student managers have assumed fund management responsibilities as of April 1, 2021 and will relinquish this responsibility as of March 31, 2022.

Required Materials

1. Required Textbook: *Investments*, by Bodie, Zvi, Alex Kane and Alan J. Marcus, McGraw-Hill Irwin, 12th Ed., 2021.
2. Optional Reading:
 - a. *Stocks for the Long Run* by Jeremy Seigel
 - b. *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing* by Burton G. Malkiel
 - c. *Irrational Exuberance* by Robert J. Shiller
 - d. *Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets* by Nassim Nicholas Taleb
 - e. *Liar's Poker: Rising Through the Wreckage on Wall Street* by Michael Lewis
 - f. *The Big Short* by Michael Lewis
 - g. *When Genius Failed: The Rise and Fall of Long-Term Capital Management* by Roger Lowenstein
 - h. *Reminiscences of a Stock Operator* by Edwin Lefevre
 - i. *The Intelligent Investor* by Benjamin Graham
 - j. *The Wall Street Journal, Economist, Barron's, Business Week, Forbes*
3. Calculator: An HP 12C, 17B, or 19B calculator is strongly recommended.
4. SIF Community Site and USC Blackboard Course Pages: All information for this course, including announcements, assignments, and other resources, will be posted on the SIF Community Site: <https://uscmsb.sharepoint.com/sites/SIF>. In addition, the Fund reports, trade confirmations, stock pitches write up, investment decisions/records, etc. will be posted on the SIF Community Site. As a result, USC Blackboard Course Pages, <https://blackboard.usc.edu> will be used as a backup system. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall Help Desk at (213) 740-3000 or HelpDesk@marshall.usc.edu.
5. USC Marshall Library Resources: These resources are to be used for academic purposes only and not at internship sites.
 - a. Kimberly Esser, Business Information Specialist, (213) 740-6255, kimberle@usc.edu
 - b. Gaughan & Tiberti Business Library Library Front Desk, (213) 740-8520

Prerequisites and/or Recommended Preparation:

Students should have taken [GSBA 521](#) or [GSBA 521b](#) or [GSBA 548](#). FBE 555 serves as a corequisite.

Class Expectations:

You are expected to have completed any assigned reading(s) prior to class. While in the classroom, it is very important that you give your undivided attention to the classroom discussion. In addition, you are expected to stay abreast of current issues in the economy and financial markets as we will spend time each week discussing the current macroeconomic environment. We strongly recommend that you subscribe to a daily business journal (e.g., the *Wall Street Journal*). An online subscription to the *Wall Street Journal* is available through the library resources.

Because of the experiential nature of the course, attendance/participation is important. If you expect to miss a class, please email me by 8:00AM on the day of the class you are missing with a simple explanation. You are responsible for any absences from class. If you miss a class session, get notes and materials from your fellow group members. A “buddy system” is highly recommended. Arrange with your group members to pick up extra handouts. Any student requesting academic accommodations based on a disability is required to register with the Office of Student Accountability Services (OSAS) each semester (<https://osas.usc.edu/>). A letter of verification for approved accommodations can be obtained from OSAS. Please be sure the letter is delivered to as early in the semester as possible. OSAS is located in

GFS 120 and is open 8:30AM - 5:00PM Monday through Friday. The phone number for OSAS is (213) 740-0776.

Grading Policies:

- Class Participation: Lectures/Guest Lectures, Company Visits, Security Pitches Special Projects, Weekly Macroeconomic Discussions [15%]
- Portfolio Management & Briefings: Fund Management, Individual Portfolio Updates, Group Quarterly Reports & Presentations, Fund Analysis [25%]
- Security Pitches (2) [20%]
- Fund Analysis (3): [20%]
 - 1. Fund Investment Process (8/30)
 - 2. Analyze the sector allocations of your fund (9/20)
 - 3. Quantify the volatility/risk of your fund (11/22)
- Summer Sector Report and In-Class Presentation: [20%]
- TOTAL: [100%]

Class Participation: Active class participation is strongly encouraged since the class is structured as a seminar. The class participation grade will reflect our assessment of both the quantity and quality of a student’s individual contribution to the classroom learning environment. It is expected that you will actively engage our guest speakers with questions. Be prepared for “cold-calling” in all class meetings. Note that regular attendance is necessary for class participation; however, it is not sufficient for a higher grade.

Investment Tools:

Below contains a description taken from the various websites of the associated financial analytics. These resources are to be used for academic purposes only and not at internship sites.

- Bloomberg
- Capital IQ
- FactSet
- Pitchbook
- MergerMarket
- USC Marshall Online Resources

Course Calendar:

	Topics/ Daily Activities
Week 1 8/23	Course Overview <ul style="list-style-type: none"> • Discuss fund management • Discuss assignments: Sector reports, security pitches, company research reports, earnings call summary, quarterly investor letters • Protocols for guest speakers and company visits; tear sheets • Macroeconomic overview weekly discussions Quarterly Portfolio Reports and Presentations: <ul style="list-style-type: none"> • Accounting, Operations, and Compliance Teams AND Trading Teams • Each fund delivers a 10-minute presentation, 3-minute Q&A • Each fund posts a 1-page investor letter to SharePoint Site Lecture Topic 1: The Business and Process of Investment Management <ul style="list-style-type: none"> • Read: BKM, Chapters 4 & 26 • Read: Stanley Druckenmiller Speech (2015)

	<ul style="list-style-type: none"> • Discussion: investment philosophy, each fund goals and investment process.
Week 2 8/30	<p>Sector Report Due (before class posted to SharePoint)</p> <p>Fund Analysis 1 due before class (one-page memo)</p> <ul style="list-style-type: none"> • What is your fund's investment strategy? • What is your funds investment process (screening, valuation methods, risk management, position sizing, selling decisions, benchmark) <p>Macroeconomic overview discussion</p> <p>Lecture Topic 2: Portfolio Evaluation and Performance Attribution</p> <ul style="list-style-type: none"> • Read: BKM Chapter 24 • Read: Determinants of Portfolio Performance (Brinson, Hood, Beebower, 1995) <p>Lecture Topic 3: Investment Environment</p> <ul style="list-style-type: none"> • Historical perspective on capital markets • Read: BKM Chapters 1 & 5 • Howard Marks newsletters <p>Discussion: market expectations</p> <ul style="list-style-type: none"> • Where are we for 2021-2022? • How should the macroeconomic environment impact returns? • Building Blocks models • Longer term outlook
Week 3 9/6	No Class (Labor Day)
Week 4 9/13	<p>Sector Presentation Decks Due (10am posted to SharePoint)</p> <p>Weekly Macroeconomic discussion</p> <p>Sector Report Presentations:</p> <ul style="list-style-type: none"> • 5-minute presentations with 5 minutes Q&A <p>Lecture Topic 4: Fixed Income Investing</p> <ul style="list-style-type: none"> • Bond yields, duration, convexity, credit spreads • Managing bond portfolios • Read: BKM Chapters 14-16
Week 5 9/20	<p>Weekly Macroeconomic Discussion</p> <p>Sector Report Presentations:</p> <ul style="list-style-type: none"> • 5-minute presentations with 5 minutes Q&A <p>Lecture Topic 5: Security Analysis</p> <ul style="list-style-type: none"> • Top down vs. bottom up • Macro and industry factors • Fundamental vs. technical analysis • Financial Statement analysis • Research tools (Bloomberg, Capital IQ, FactSet) • Read: BKM Chapters 17-19 <p>Discussion:</p> <ul style="list-style-type: none"> • What sort of security analysis is sensible? What should we favor in this setting? • DCF and NPV vs. Market Comparables <p>Why do you use the valuation metrics you have selected for your fund?</p>

<p>Week 6 9/27</p>	<p>Fund Analysis 2 due: Sector Allocation of your fund (10am posted to SharePoint)</p> <p>Weekly Macroeconomic Discussion</p> <p>Lecture Topic 6: Security Pitches</p> <ul style="list-style-type: none"> • Tear Sheets, Appendices • Valuation Template • How to Give a Pitch <p>Discussion:</p> <ul style="list-style-type: none"> • What makes for a compelling pitch? • Content and context • What makes for a strong and complete investment thesis? • Bull case, bear case, median outcome <p>Guest Speaker #1: Bill Cram, Aristotle Capital Management (4:00 – 5:30)</p>
<p>Friday 10/1</p>	<p>Guest Zoom Lecture: David Iben, Kopernik Global Investors 10:00am – 11:20</p>
<p>Week 7 10/4</p>	<p>Weekly Macroeconomic Discussion</p> <p>Security Pitches 1A:</p> <ul style="list-style-type: none"> • 5-minute pitch (strict time limit) and 10 minute Q&A <p>Lecture Topic 7: Portfolio construction and management</p> <ul style="list-style-type: none"> • Risk, Risk Aversion, and Return • Efficient Frontier analysis • Portfolio Optimization • Read: BKM Chapters 6-9 • Active Share and Mutual Fund Performance (A. Petajisto, Financial Analyst Journal, July/August 2013) • When Diversification Fails (S. Page and R. Panariello, Financial Analyst Journal, Q3 2018) <p>Discussion:</p> <ul style="list-style-type: none"> • How diversified is your portfolio? What is the active share? • Potential costs and benefits of diversification
<p>Week 8 10/11</p>	<p>Weekly Macroeconomic Discussion</p> <p>Security Pitches 1B:</p> <ul style="list-style-type: none"> • 5-minute pitch (strict time limit) and 10 minute Q&A <p>Lecture Topic 8: Factor Investing, Active vs. Passive, Smart Beta</p> <ul style="list-style-type: none"> • Moving from CAPM World to Factor Models • Active Investing: what's your edge? • Read: Fundamental Indexation (Arnott, Hsu, Moore) • Read: The Factor Zoo (John Cochrane) <p>Discussion:</p> <ul style="list-style-type: none"> • How does the Fundamental Index fit into the factor model framework? • Is factor investing an active or passive strategy?
<p>Week 9 10/18</p>	<p>Weekly Macroeconomic Discussion</p> <p>Security Pitches 1C:</p>

	<ul style="list-style-type: none"> • 5-minute pitch (strict time limit) and 10 minute Q&A <p>Lecture Topic 9: Quantitative Investment Strategies</p> <ul style="list-style-type: none"> • Read: Quant Investing Handouts
Week 10 10/25	<p>Weekly Macroeconomic Discussion</p> <p>Quarterly Fund Report and Presentations</p> <ul style="list-style-type: none"> • Accounting, Operations, and Compliance Teams AND Trading Teams • Each fund delivers a 10-minute presentation, 3-minute Q&A for Quarter end 9/30 • Each fund posts a 1-page investor letter to SharePoint Site <p>Guest Speaker #2: Derek Ransford, Pathway Capital Management (2:00-3:30)</p>
Week 11 11/1	<p>Weekly Macroeconomic Discussion</p> <p>Security Pitches 2A</p> <ul style="list-style-type: none"> • 5-minute pitch (strict time limit) and 10 minute Q&A <p>Guest Speaker #3 (Vivek Vishwanathan tentative)</p>
NYC Trip 11/4-11/5	See Itinerary
Week 12 11/8	No Class (Return from NY Trip)
Week 13 11/15	<p>Weekly Macroeconomics Discussion</p> <p>Security Pitches 2B</p> <ul style="list-style-type: none"> • 5-minute pitch (strict time limit) and 10 minute Q&A <p>Security Pitches 2C</p> <ul style="list-style-type: none"> • 5-minute pitch (strict time limit) and 10 minute Q&A
Week 14 11/22	<p>No Class (Thanksgiving Break)</p> <p>Fund Analysis 3 Due: Quantify the risk of your fund (submit analysis via posting on the SIF community pages by 10:00am on Monday)</p>
Week 15 11/29	<p>Weekly Macroeconomics Discussion</p> <p>Individual Portfolio Updates: All Managers</p> <ul style="list-style-type: none"> • 5-minute discussion for each manager <p>Planning for Spring 2022</p> <ul style="list-style-type: none"> • Quarterly reports • Recruiting schedule • Other Committees
FINAL 12/10	Final Exam period is Friday, December 10 th from 2-4pm. This class will not have a final exam.

USC Statement on Academic Conduct and Support Systems

Academic Conduct:

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, “Behavior Violating University Standards” policy.usc.edu/scampus-part-b. Other

forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, policy.usc.edu/scientific-misconduct.

Support Systems:

Counseling and Mental Health - (213) 740-9355 – 24/7 on call
studenthealth.usc.edu/counseling

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call
suicidepreventionlifeline.org

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-9355(WELL), press “0” after hours – 24/7 on call
studenthealth.usc.edu/sexual-assault

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office of Equity and Diversity (OED) - (213) 740-5086 | Title IX – (213) 821-8298
equity.usc.edu, titleix.usc.edu

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298
usc-advocate.symplcity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity |Title IX for appropriate investigation, supportive measures, and response.

The Office of Disability Services and Programs - (213) 740-0776
dsp.usc.edu

Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

USC Campus Support and Intervention - (213) 821-4710

campussupport.usc.edu

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity at USC - (213) 740-2101
diversity.usc.edu

Information on events, programs and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call
dps.usc.edu, emergency.usc.edu

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call
dps.usc.edu

Non-emergency assistance or information.

Students with Disabilities

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Student Accessibility Services (<https://osas.usc.edu/>). OSAS provides certification for students with disabilities and helps arrange the relevant accommodations. Any student requesting academic accommodations based on a disability is required to register with the Office of Student Accessibility Services (OSAS) each semester. A letter of verification for approved accommodations can be obtained from OSAS. Please be sure the letter is delivered to me (or to your TA) as early in the semester as possible. OSAS is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for OSAS is (213) 740-0776. Email: ability@usc.edu.

Emergency Preparedness/Course Continuity

In case of a declared emergency if travel to campus is not feasible, the *USC Emergency Information* web site (<http://emergency.usc.edu/>) will provide safety and other information, including electronic means by which instructors will conduct class using a combination of USC's Blackboard learning management system (blackboard.usc.edu), teleconferencing, and other technologies.

Incomplete Grades

A mark of IN (incomplete) may be assigned when work is not completed because of a documented illness or other “emergency” that occurs after the 12th week of the semester (or the twelfth week equivalent for any course that is scheduled for less than 15 weeks).

An “emergency” is defined as a serious documented illness, or an unforeseen situation that is beyond the student’s control, that prevents a student from completing the semester. Prior to the 12th week, the student still has the option of dropping the class. Arrangements for completing an IN must be initiated by the student and agreed to by the instructor prior to the final examination. If an Incomplete is assigned as the student’s grade, the instructor is required to fill out an “**Assignment of an Incomplete (IN) and Requirements for Completion**” form which specifies to the student and to the department the work remaining to be done, the procedures for its completion, the grade in the course to date, and the weight to be assigned to work remaining to be done when the final grade is computed. Both the instructor and student must sign the form with a copy of the form filed in the department. Class work to complete the course must be completed within one calendar year from the date the IN was assigned. The IN mark will be converted to an F grade should the course not be completed within the time allowed.

Appendix I

USC Marshall

School of Business

MARSHALL GRADUATE PROGRAMS LEARNING GOALS

How FBE 553 Contributes to Marshall Graduate Program Learning Goals

Marshall Graduate Program Learning Goals	FBE-553 Objectives that support this goal	Assessment Method	Reporting Learning Outcomes
Learning Goal #1: Our graduates will be impactful leaders who lead with integrity and purpose.			
1.1 Possess a clear framework and commitment to an organization’s culture and core values, with personal integrity.			
1.2 Transcend traditional boundaries with a global mindset, drawing value from diversity and inclusion, and fostering community within and outside of organizations.			
1.3 Exhibit exceptional self-awareness through an understanding of personal and career goals; awareness of individual strengths and weaknesses; and engagement in personalized, goal-driven, and lifelong learning.	X		
Learning Goal #2: Our graduates will be impactful leaders who help identify and execute opportunities in uncertain and complex business environments.			
2.1 Apply an integrated approach to understanding and analyzing significant business problems, which can be complex, messy, unstructured, and beyond formulaic analysis.	X		
2.2 Use critical and analytical thinking to identify viable solutions that can create short-term and long-term value for organizations.	X		
2.3 Devise creative, sustainable, and achievable strategies and solutions that allow organizations to take advantage of opportunities that create value for their stakeholders.	X		
Learning Goal #3: Our graduates will be impactful leaders who achieve results by fostering collaboration on interpersonal, team, and organization levels.			
3.1 Influence and motivate and work with colleagues, partners, and other stakeholders to achieve organizational purposes	X		
3.2 Help build and sustain high-performing teams by infusing teams with a variety of perspectives, talents, and skills and aligning individual success with team success and with overall organizational success	X		
3.3 Lead and participate in helping organizations adapt to a changing business landscape.			