

VICTORIA INTERNATIONAL APPLIED FINANCE PROGRAMME
School of Economics and Finance

**MMAF534 SPECIAL TOPIC: INSTITUTIONAL
INVESTMENT**

Trimester 2, 2015

COURSE OUTLINE

Names and Contact Details

The course coordinator is Craig Ansley. Craig is based in Auckland and therefore the preferred contact is via email: cansley@xtra.co.nz.

The administrator for this course is Rachel Zhang, Room RH307.

Email: viaf-programme@vuw.ac.nz

Phone: 04 4636148

Trimester Dates

Study/Teaching Period: Monday 13th July – Thursday 22nd October 2015

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday **24th July 2015**.
2. The standard last date for withdrawal from this course is Friday 25th September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an 'Application for Associate Dean's Permission to Withdraw Late' form including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks or [online](#).

Class Times and Room Numbers

Block 1 9.00am Tuesday 25 August – 12.30pm Thursday 27 August
Block 2 9.00am Tuesday 20 October – 12.30pm Thursday 22 October

A detailed schedule of each block release course will be supplied closer to the respective sessions. Classes will take place at the Kelburn Campus – please see the schedule for details.

Attendance at all sessions of both block releases is compulsory.

Course Delivery

The course will be delivered in two block releases. Students are expected to complete all reading, exercises and assignments before each block release. There will be a compulsory 2-hour test at the end of each block release.

Group work

While no formal group work is required in this paper, informal study groups will be encouraged. However, you must hand in your own individual work for the assignments and course projects.

Expected Workload

Outside the two block releases

Reading/studying	100 hours
Assignments	20 hours
Project	30 hours

During the two block releases

Lectures/tests	40 hours
Studying	10 hours

Prescription

An introduction to the issues facing institutional investors, and the market structures and practices that have been established to handle them. A survey of the processes institutional investors use to govern their affairs, formulate their investment objectives, make asset allocation decisions, appoint investment managers, and monitor and review their performance. The linkages between investment theory and practice in their areas are explored. It is taught on a block release basis.

Course Learning Objectives

- Appreciation of the responsibilities of institutional investors
- Governance principles for large funds
- Understanding the investment decision process
- Analysing the interaction between fund assets and liabilities
- Designing investment structures to meet fund objectives
- Familiarity with the main asset classes available to institutional investors
- Constructing a feasible investment plan

These learning objectives will be assessed via two assignments, two major projects and two tests. The first project will be an asset-liability study, done with computer simulation to select the appropriate asset allocation for a particular fund. The second project will involve the formulation of a detailed investment strategy for the same fund.

Course Content

The topics to be covered are:

1. Governance and planning
2. Return assumptions
3. Asset allocation
4. Active management
5. Market timing
6. Socially responsible investing
7. Currency management
8. Illiquid investments and private equity
9. Alternative investment
10. Hedge funds

Readings

The course will be based around a number of readings. There are a lot of them, but most are not at a high technical level: they come from the “professional” and “industry” literature. A few do have some solid technical content, but we will not cover this in any detail. Notes will be placed on Blackboard letting you know which sections of which papers can be glossed over. A list of readings is attached as appendix.

Materials and Equipment

It is necessary to bring a calculator to the block courses. A good financial calculator such as the HP17BII HP12C or HP10BII is strongly recommended. During tests students will be allowed to use calculators, but not hand held or other computers.

Assessment

The Assessment Handbook will apply to all VUW courses: see

<http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

Assessment Item	Weight	Learning Objectives
Test 1 (3 hours)	30%	Understand planning and asset class strategy stages of the investment process
Test 2 (3 hours)	30%	Knowledge of issues arising from currency management, alternative and illiquid asset classes
Assignment 1	5%	Introduction of investment planning and asset class strategy
Assignment 2	5%	Introduction to alternative and illiquid asset classes and currency management
Project 1	15%	Construct an asset/liability model to select an appropriate risk level and reference portfolio for a large fund
Project 2	15%	Design a complete investment strategy for a large fund
<i>Total</i>	<i>100%</i>	

To pass this paper, you need to:

- Attend the two block releases;
- Achieve a minimum score of 50% in the two tests; and
- Achieve an overall score of at least 50% for the whole course

Due dates for assessment items are:

Assessment Item	Date/Due Date
Assignment 1	Wednesday August 19
Test 1	Thursday August 27
Project 1	Monday September 7
Assignment 2	Monday 12 October
Test 2	Thursday 22 October
Project 2	Monday 2 November

Penalties

Each of the assignments will be marked out of a maximum that diminishes by 5% for every day late. The date of submission shall be taken as the date of delivery. Please carefully read the assignment guidelines for details of how assignments should be submitted. There will be a final cut off date, one week after the due date for each assignment, after which no assignment can be accepted. The assignments will each carry a specified word limit. If an assignment exceeds the word limit, credit will be given only from the beginning of the assignment up to the word limit. No credit will be given for the portion of work extending beyond the word limit.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and submitted to Turnitin. A copy of submitted materials will be retained on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

Mandatory Course Requirements

In addition to obtaining an overall course mark of 50 or better, students must attend all sessions of both block release courses. If you have, or become aware of, any health condition that could prevent your attending a VIAF compulsory block release, then you should notify the Programme Director immediately, preferably by email viaf.programme@vuw.ac.nz

If you cannot complete an assignment or sit a test or examination, refer to www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

Class Representative

A class representative will be elected in the first class, and that person's name and contact details made available to VUWSA, the course coordinator and the class. The class representative provides a communication channel to liaise with the course coordinator on behalf of students.

Communication of Additional Information

Additional information including assignment questions, details of the block course schedule, feedback on course assessments, etc. will be provided online via Blackboard. Students are responsible for logging onto Blackboard regularly to check for any updates or announcements, and for ensuring that the VIAF Senior Administrator has their up to date email and postal addresses. Rachel's email is viaf-programme@vuw.ac.nz.

Student feedback

Student feedback on University courses may be found at www.cad.vuw.ac.nz/feedback/feedback_display.php

Link to general information

For general information about course-related matters, go to <http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

Note to Students

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Appendix: Reading list

Governance and Planning

1. B.B. Curwood, A comprehensive risk management framework for investment funds. *Journal of Investment Consulting* **8**(2), Summer 2007, 55-67.
2. G.L. Clark & R. Urwin, Best practice pension fund governance. *Journal of Asset Management* **9**(1), 2008, 2-21.
3. K. Koedijk, A. Slager & R. Bauer, Investment beliefs that matter: new insights into the value drivers of pension funds. Working paper, International Centre for Pension Management, Rotman School of Management, University of Toronto, 2010.
4. S. Ferris, Investment objectives of Australian superannuation funds. Research paper No. 005/97, Actuarial Studies and Demography Department. Macquarie University, March 1997

Return Assumptions

5. Bogle, J.C. Thinking about what lies ahead. Paper presented to CFA Society of Washington, Washington DC, June 2012.
6. R.C. Grinold, K.F. Kroner & L.B. Siegel, A supply model of the equity premium. The Research Foundation of CFA Institute, 2011.
7. R. Mehra, The equity premium: why is it a puzzle? *Financial Analysts Journal* **59**(1), January-February 2003.
8. F. Duarte & C. Rosa. The equity risk premium: a consensus of models. Federal Reserve Bank of New York, 2013.
9. S.H. Parikh, Forecasting bond returns in the new normal. *Asset Allocation Focus*, PIMCO, 2013.
10. P.L. Bernstein, What rate of return can you reasonably expect.....or what can the long run tell us about the short run? *Financial Analysts Journal* **53**(2) March/April 1997, 20-28.

Asset Allocation

11. E.M. Ankrum & C. Hensel, Asset allocation? How about common sense? *Journal of Investing* **9**(1), Spring 2000, 33-38.
12. Compass Advisors, Defined benefit pension plan asset-liability study, 2005.
13. J.H. Ilkiw, Risk based fund governance: a case study. Paper presented to *Institutional Investor Institute, Public Pensions Roundtable*, April 2007.

Active Management

14. W.F. Sharpe, The arithmetic of active management. *Financial Analysts Journal* **47**(1), January/February 1991, 7-9.
15. D. Ezra & G.J. Warren, When should investors choose an alternative to passively investing in a capitalization-weighted index? Working paper, Australian National University, 2010.
16. Bender, J., R. Briand, D. Melas & R.A. Subramanian, Foundations of factor investing. MSCI Research Insight, December 2013.
17. Jon A. Christopherson and C. Nola Williams, Equity style: what it is and why it matters, *The Handbook of Equity Style Management*, T. Daniel Coggin, Frank J. Fabozzi, and Robert D. Arnott, editors, Frank J. Fabozzi Associates, New Hope, PA, 1997, 7-22

Market Timing

18. E.J. Weigel, The performance of tactical asset allocation. *Financial Analysts Journal* **47**(5), September/October 1991, 63-70.
19. S.M. Fox, Assessing TAA manager performance. *Journal of Portfolio Management* **26**(1), Fall 1999, 40-49.
20. A. Andonov, R. Bauer & M. Cremers, Can large pension funds beat the market? Asset allocation, market timing, security selection and the limits of liquidity. Working paper, SSRN Abstract #1885536, October 2012.

Socially Responsible Investing

21. United Nations Principles for Responsible Investing, 2013. From website www.unpri.org.
22. E. Dimson, P. Marsh & M. Staunton, Responsible investing: does it pay to be bad? Credit Suisse Global Investment Returns Yearbook 2015, 17-27.

Currency Management

23. C. Hawkesby, C. Smith & C. Tether, New Zealand's currency risk premium. Reserve Bank of New Zealand: *Bulletin* **63**(3), September 2000, 30-44.
24. Reserve Bank of New Zealand, Why are New Zealand interest rates so persistently high by international standards? Submission to Finance and Expenditure Select Committee Inquiry into the Future Monetary Policy Framework, Supporting paper A4, July 2007.
25. G.W. Gardner & D. Stone, Estimating currency hedge ratios for international portfolios. *Financial Analysts Journal* **51**(6), November-December 1995, 58-64.
26. G.W. Gardner & T. Wuilloud, Currency risk in international portfolios: how satisfying is optimal hedging? *Journal of Portfolio Management* **21**(3), Spring 1995, 59-67.
27. M. Pojarliev & R.M. Levich, Is there skill or alpha in currency investing? Working paper April 2011. To appear in *The Handbook of Exchange Rates*, ed. J. James, I.W. Marsh & L. Sarno.

Illiquid Investments and Private Equity

28. K. McDowell, Private Equity 101: an introduction to illiquid investments. Alberta Investment Management Corporation, May 2011.
29. A. Ang, Liquidating Harvard: Portfolio choice with illiquid assets. Presentation, International Centre for Pension Management, Rotman School of Management, University of Toronto, June 2013.
30. Pension Investment Research Consultants, Private equity—a guide for pension fund trustees. For Trades Union Congress, October 2007.
31. R.S. Harris, T. Jenkinson & S.N. Kaplan, Private equity performance: what do we know? NBER Working Paper No. 17874, February 2012.

Alternative Investments

Collateralised Commodity Futures

32. G. Gorton & K.G. Rouwenhorst, Facts and fantasies about commodity futures. *Financial Analysts Journal* **62**(2), March/April 2006, 47-68.

Life Settlements

33. F. Benham, Investing in life settlements. Maketa Investment Group, 2013.

Catastrophe Bonds

34. Risk Management Solutions, Cat bonds demystified, 2012.

Timber

35. International Woodland Company, Timberland investments in an institutional portfolio, March 2013.

Hedge Funds

36. M.J.P. Anson, An examination of hedge fund return distributions. In *Hedge Fund Strategies: A Global Outlook*, ed. B.R. Bruce, New York: Institutional Investor, Fall 2002, 14-27.
37. H.M. Kat, 10 things investors should know about hedge funds. Working Paper #0015, Alternative Investment Research Centre, Cass Business School, City University, London, January 2003.
38. A.L. Berger, D. Kabiller & B. Crowell, Is alpha just beta waiting to be discovered? AQR Capital Management, 2008.
39. R.B.Ibbotson, P.Chen & K.X.Zhu, The ABCs of hedge funds: alphas, betas and costs. Working paper, SRN abstract # 1581559, March 2010
40. A.W. Lo, Risk management for hedge funds: introduction and overview. *Financial Analysts Journal* **57**(6), November/December 2001, 16-33.