**FINM 3008/8016**  
**Applied Portfolio Construction**

**Course Description**  
Portfolio Construction is a capstone elective that draws on previously studied investment principles, theories and techniques. The objective of this course is to enable students to synthesize the acquired financial theories and knowledge in the context of portfolio construction and asset allocation. It focuses on gaps in theory and how they can be managed in practice. Examples include challenges/realities in estimating and implementing portfolio optimization programs, role of liquidity, and importance of plan governance. It covers topics such as types of investors and their objectives; dimensions of risk; asset allocation; the nature and role of various asset classes (equity, fixed income, alternative assets, FX); building multi-manager portfolios, and implementation issues.

<table>
<thead>
<tr>
<th>Semester and Year</th>
<th>Semester 2 2014</th>
</tr>
</thead>
</table>
| **Course URL**    | http://programsandcourses.anu.edu.au/course/FINM3008  
|                   | http://programsandcourses.anu.edu.au/course/FINM8016 |
| **Mode of Delivery** | On campus |
| **Prerequisites** | Undergraduate: FINM1001, FINM1008 or FINM2003  
|                   | Graduate: FINM7007, FINM7008, FINM7041 and FINM7044 |
| **Course Convener** | Dr. Hua Deng |
| **Office Location:** | Room 3.50, CEB Building 26C |
| **Phone:** | 6125 6700 |
| **Email:** | hua.deng@anu.edu.au |
| **Consultation hours:** | TBA |
| **Bio and research interests** | Hua had years of experience in equity analysis and portfolio management before embarking an academic career. Research interests: corporate finance, corporate governance. |
| **Tutor(s)** | TBA. |
| **Student Administrator** | Patricia Penm, patricia.penm@anu.edu.au, Tel: 6125 1526 |
| **Class Time and Location** | Lecture: Tuesday 3 – 5 pm, MCC T2 (Building 26A)  
|                   | Workshop: Wednesday 1 – 2 pm, MCC T2 (Building 26A) |
COURSE OVERVIEW

Course Learning Outcomes

By the end of this course students are expected to:

1. Understand and implement portfolio construction at the overall plan level, taking into account investor objectives and the practical challenges of implementation.
2. Appreciate the use and limitations of portfolio theory.
3. Describe the main characteristics of key asset classes, and the role they each play within a balanced portfolio.
4. Communicate complex portfolio structures and strategies to a diverse audience.

Research-Led Teaching

The course materials draw on recent development of concepts, issues and practical information on portfolio construction and asset allocation from various sources: academic papers, industry research publications and CFA materials. Students are required to read and understand these materials and apply their understanding to the assignment.

Continuous Improvement

We use feedback from students, professional bodies and staff to make regular improvements to the course. In response to this feedback, design improvements from the previous version of the course include:

- Lecture slides are revised to include more details of the topics in discussion
- Workshop schedule is extended, running from week 2 until week 12, to help students on technical skills or problems involved in the assignment, or as supplements to lectures and tutorials.
- Some tutorial tasks are covered in either lectures or workshops to enable a more flexible and engaging discussion in tutorial classes
- Reading list is condensed to allow students to allocate more time to assignment and tutorial exercises

Technology, Software, Equipment

The tutorial exercises and assignment are designed using Microsoft Excel. Students are expected to have a fairly good command of Excel formulas, data manipulation and analysis tools in the context of portfolio construction at the end of the course.

Requisites

Students are expected to have a good understanding of financial markets and institutions. Prior knowledge of the classic financial theories and financial statistics are must-haves to sit comfortably in the class and exams.

Co-teaching

Both undergraduate and graduate students are enrolled in the class. Teaching will be the same for both streams but assessment may vary. Details to be given in assignment and exam guidelines.

Student Feedback

All CBE courses are evaluated using Student Experience of Learning and Teaching (SELT) surveys, administered by Planning and Statistical Services at the ANU. These surveys are
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offered online, and students will be notified via email to their ANU address when surveys are available in each course. Feedback is used for course development so please take the time to respond thoughtfully. Course feedback is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching and to improve courses across the university. For more information on student surveys at ANU and reports on feedback provided on ANU courses, visit [http://unistats.anu.edu.au/surveys/selt/students/](http://unistats.anu.edu.au/surveys/selt/students/) and [http://unistats.anu.edu.au/surveys/selt/results/learning/](http://unistats.anu.edu.au/surveys/selt/results/learning/)

**COURSE SCHEDULE**

<table>
<thead>
<tr>
<th>Week</th>
<th>Lecture Topic</th>
<th>Workshop*</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Course introduction</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Overview of portfolio management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Objectives, Dimensions of risk</td>
<td>Excel functions and formulas; arithmetic vs geometric returns;</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>3</td>
<td>Asset allocation: Theory and practice Mean-variance model</td>
<td>Excel “solver”</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>4</td>
<td>Asset allocation: Asset assumptions</td>
<td>Introduction of assignment</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>5</td>
<td>Asset allocation: Additional methods</td>
<td>Assignment</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>6</td>
<td>Traditional assets: Equities</td>
<td>Guidelines for mid-semester exam</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>7</td>
<td>Traditional assets: Fixed income</td>
<td>Assignment</td>
<td>Tutorial engagement, Mid-semester exam</td>
</tr>
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<td><strong>Midsession Break 8th Sep. – 19th Sep.</strong></td>
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<tr>
<td>8</td>
<td>Alternative assets: Overview Property Infrastructure</td>
<td>Review of mid-semester exam answers</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>9</td>
<td>Alternative assets: Hedge funds Private equity Commodities</td>
<td>Assignment</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>10</td>
<td>Global investing and currency hedging</td>
<td>Assignment</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>11</td>
<td>Portfolio structure within asset classes: Investment process and style Building portfolios of managers Active versus passive</td>
<td>Assignment</td>
<td>Tutorial engagement</td>
</tr>
<tr>
<td>12</td>
<td>Other topics: Industry ethics Governance Taxes, fees, other costs</td>
<td>Assignment</td>
<td>Tutorial engagement, Assignment report</td>
</tr>
</tbody>
</table>
Assessment Summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Assessment Task</th>
<th>Value</th>
<th>Due Date</th>
<th>Linked Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tutorial Engagement</td>
<td>10%</td>
<td>Week 2 - 13</td>
<td>LO1, LO2, LO3</td>
</tr>
<tr>
<td>2</td>
<td>Assignment</td>
<td>25%</td>
<td>Week 12</td>
<td>LO1, LO2, LO3, LO4</td>
</tr>
<tr>
<td>3</td>
<td>Mid-Semester Exam</td>
<td>20%</td>
<td>TBC. Week 7</td>
<td>LO1, LO2</td>
</tr>
<tr>
<td>4</td>
<td>Final Exam</td>
<td>45%</td>
<td>TBA.</td>
<td>LO1, LO2, LO3</td>
</tr>
</tbody>
</table>

Assessment Task 1: Tutorial Engagement

**Details of task:** Marks are available to be allocated at the discretion of tutor, based on evidence of engagement with tutorial discussion. No marks are awarded for merely attending tutorials.

**Assessment Rubric:** Maximum of up to 10 marks over the entire semester, and up to 1.5 marks with respect to each tutorial, may be awarded for:

- Participation in class discussion, maximum 1 mark for each tutorial
- Submission of tutorial work, maximum of 1 mark for each tutorial, including completed Excel worksheets (0.5 mark) and summaries of class discussion (0.5 mark)

Assessment Task 2: Assignment

**Details of task:** The assignment involves writing a report that provides portfolio construction advice. The assignment can be completed either in pairs or as an individual task. Assignment groups must be formed within the same tutorial class and enrolled program by week 4 tutorial and your tutor should be notified of group members’ names and IDs.

**Assessment Rubric:** The assignment will be graded out of 25 marks. All students in the one team will be awarded the same assignment grade, with no adjustments. Further details will be made available when the assignment is outlined.

Assessment Task 3: Mid-Semester Exam

**Details of task:** The exam will be closed book with no formula sheet. Students will be allowed a one-sided A4 page of notes. Students will need to review and revise material covered in Weeks 1 to 5 (inclusive), in addition to the material in Tutorial 5, which will be held in Week 6. A mixture of theoretical and practical questions will be asked. More details will be provided as the exam approaches. There will be no
special examinations for the mid-semester exam. The mid-semester exam is optional and redeemable.

Assessment Task 3: Final Exam

Details of task: The exam will be closed book with no formula sheet. Students will be allowed a two-sided A4 page of notes. A mixture of theoretical and practical questions will be asked. Students will need to review all examinable materials pertaining to the course. More details will be provided as the exam approaches.

Assignment Submission

Assignments should be submitted by 3:00pm on Thursday 23rd Oct. Assignments are to be submitted by a) soft copy of the report AND Excel files that show the calculation and analysis: should be emailed to the tutors, with student names plus student numbers appearing in BOTH the email header AND on the front page of the assignment; and b) hard copy: a hard copy of the report should be submitted via the FINM 3008/8016 Assignment box at the school office on Level 4 of the CBE Building. Any variation to these submission requirements will be advised by the lecturer in class or through Wattle announcement. Submitted assignments must include the cover sheet provided on Wattle. Please keep a copy of the assignment for your records.

Extensions and Penalties

Assignment extensions may be granted at the discretion of the course convenor, but only if the following conditions are satisfied:

1. A student is unable to complete the assignment by the due time as a result of unforeseen circumstances beyond their control.
2. Evidence is provided to this effect.

The penalty for late submission is 4% plus an additional 1% reduction in the mark per hour that an assignment is submitted beyond the due time, with part-hours rounded up. For example, submitting (say) 5.1 hours late would incur a late penalty of 10% = 4% + 6 * 1%, with the result that the team would be awarded an adjusted mark equal to 90% of the raw mark prior to the late penalty.

Returning Assignments

Marked assignments will be returned by the day prior to the final exam, at the latest.

Resubmission of Assignments

No resubmission of assignments is accepted.

Examinations

Mid-Semester Exam – Students can bring into the exam a non-programmable calculator, dictionary, and one A4 sheet with notes on one side (may be typed).

Final Exam – Students can bring into the exam a non-programmable calculator, dictionary, and one A4 sheet with notes on both sides (may be typed).

Scaling

Your final mark for the course will be based on the raw marks allocated for each assignment or examination. However, your final mark may not be the same number as produced by that
formula, as marks may be scaled. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed or equal the scaled mark of that student), and may be either up or down.

**Referencing Requirements**

References must be acknowledged and included in a reference list where information or opinions provided by others are used or relied upon. Consistent Harvard referencing style is required.

**READING LISTS**

The course ‘Reading List’ (see Wattle) identifies both examinable and supplementary readings.

**TUTORIAL AND/OR SEMINAR REGISTRATION**

Enrolment in tutorials will be completed online using the CBE Electronic Teaching Assistant (ETA). To enrol, follow these instructions:

1. Go to http://eta.fec.anu.edu.au
2. You will see the Student Login page. To log into the system, enter your University ID (your student number) and password (your ISIS password) in the appropriate fields and hit the Login button.
3. Read any news items or announcements.
4. Select "Sign Up!" from the left-hand navigation bar.
5. Select your courses from the list. To select multiple courses, hold down the control key. On PCs, this is the Ctrl key; on Macs, it is the key. Hold this key down while selecting courses with the mouse. Once courses are selected, hit the SUBMIT button.
6. A confirmation of class enrolments will be displayed. In addition, an email confirmation of class enrolments will be sent to your student account.
7. For security purposes, please ensure that you click the LOGOUT link on the confirmation page, or close the browser window when you have finished your selections.
8. If you experience any difficulties, please contact the School Office (see page 1 for contact details).

Students will have until the end of week 2 to finalise their enrolment in tutorials. After this time, students will be unable to change their tutorial enrolment.

**COMMUNICATION**

The lecturer and tutors welcome all means of feedback from students regarding the learning and teaching of the course. Please refer to the first page of the course outline for contact details of staff.

**Email**

If necessary, the lecturers and tutors for this course will contact students on their official ANU student email address. Information about your enrolment and fees from the Registrar and Student Services’ office will also be sent to this email address.
**Announcements**

Students are expected to check the Wattle site for announcements about this course, e.g. changes to timetables or notifications of cancellations. Notifications of emergency cancellations of lectures or tutorials will be posted on the door of the relevant room.

**Course URLs**

More information about this course may be found on:

- Programs and Courses (http://programsandcourses.anu.edu.au/2014/Catalogue )
- the College of Business and Economics website (http://cbe.anu.edu/courses) and
- Wattle (https://wattle.anu.edu.au), the University's online learning environment. Log on to Wattle using your student number and your ISIS password.

**POLICIES**

The University offers a number of support services for students. Information on these is available online from http://students.anu.edu.au/studentlife/

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University’s academic standards, and implement them. You can find the University’s education policies and an explanatory glossary at: http://policies.anu.edu.au/

Students are expected to have read the Student Academic Integrity Policy before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations