FINM8016
Portfolio Construction

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>Mode of Delivery</th>
<th>Two-hour lecture, one hour tutorial and one hour workshop per week on campus. Lectures will be recorded and available on Wattle.</th>
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</thead>
<tbody>
<tr>
<td>Prerequisites</td>
<td>FINM7006, FINM7007 and FINM7008</td>
</tr>
<tr>
<td>Incompatible Courses</td>
<td>FINM3008</td>
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<tr>
<td>Course Convener</td>
<td>Dr Anna von Reibnitz</td>
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<tr>
<td>Office Location</td>
<td>Room 4.39, CBE Building 26C</td>
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<tr>
<td>Consultation hours</td>
<td>TBC</td>
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<tr>
<td>Research Interests</td>
<td>Funds management; market efficiency; asset pricing</td>
</tr>
<tr>
<td>Student administrator</td>
<td>Maria Lander (<a href="mailto:maria.lander@anu.edu.au">maria.lander@anu.edu.au</a>)</td>
</tr>
<tr>
<td></td>
<td>Office location: Room 4.51, CBE Building 26C</td>
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<tr>
<td>Tutor(s)</td>
<td>Tutor information will be provided on Wattle</td>
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SEMESTER 1
2016

http://programsandcourses.anu.edu.au/course/FINM8016
COURSE OVERVIEW

Learning Outcomes
Upon successful completion of the requirements for this course, students should have the knowledge and skills to:

1. Communicate and implement portfolio construction at the overall plan level, taking into account investor objectives and the practical challenges of implementation.
2. Communicate the use and limitations of portfolio theory.
3. Comprehensively understand 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

Assessment Summary

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Value</th>
<th>Due Date</th>
<th>Date for Return of Assessment</th>
<th>Linked Learning Outcomes (optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mid-Semester Examination (Optional &amp; Redeemable)</td>
<td>25%</td>
<td>TBA. Targeted for week beginning 28th March (Week 7)</td>
<td>TBA</td>
<td>LO1, LO2</td>
</tr>
<tr>
<td>2. Assignment</td>
<td>25%</td>
<td>3:00pm, Wednesday 18th May (Week 12)</td>
<td>TBA (before the final exam)</td>
<td>LO1, LO2, LO3, LO4</td>
</tr>
<tr>
<td>3. Final Examination (or 75% if mid-semester exam is redeemed)</td>
<td>50%</td>
<td>TBA</td>
<td>TBA</td>
<td>LO1, LO2, LO3</td>
</tr>
</tbody>
</table>

Research-Led Teaching
Students undertaking this course will be taught fundamental skills in Finance that will be applied to many real life applications. The course materials draw on recent concepts, issues and practical information on portfolio construction and asset allocation from various sources, including academic papers, industry research publications and CFA materials. Students are required to read and understand these materials and apply their understanding to an assignment designed to reflect a real life environment.

Feedback
Staff Feedback
Students will be given feedback in the following forms in this course: written feedback and verbal comments.

Student Feedback
ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee
and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.


**Policies**

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/](http://policies.anu.edu.au/)

Students are expected to have read the [Academic Misconduct Rules 2014](http://policies.anu.edu.au/) before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations

**Reading Lists**

The Course Reading List will be provided on Wattle. The list is divided into ‘examinable’ and ‘supplementary’ readings. Examinable readings may be directly tested during the mid-semester or final examinations. Supplementary materials are provided for additional information and/or assistance in preparation of the assignment or tutorials, and will not be directly tested during the mid-semester or final examination beyond the extent covered in the lectures, workshops or tutorials. Additional course readings may be made available during the semester. Students should check Wattle to ensure they are using an up-to-date reading list.

Readings will come from a range of sources, including journal and industry articles, websites and a textbook (purchase optional). With the exception of the textbook, all readings will be provided on Wattle. Examinable readings from the textbook will be made available on Wattle. For supplementary readings from the textbook, copies of the book will be available for short-term loan at Chifley library, for those students who choose not to purchase the textbook. The textbook is Stewart, S., Piros, C. and Heisler, J., *Running Money: Professional Portfolio Management*, McGraw Hill, 2009 [denoted ‘SPH’].

**Technology, software and equipment**

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

**Examination material or equipment**

The mid-semester exam will be closed book with no formula sheet. Students will be allowed a one-sided A4 page of notes. The final exam will be closed book with no formula sheet. Students will be allowed a two-sided A4 page of notes. Further details will be available on Wattle closer to the exam dates.
### COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Week</th>
<th>Lecture Topic</th>
<th>Workshop Topic*</th>
<th>Assessment</th>
</tr>
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</table>
| 1    | Course introduction  
Overview of portfolio management | No workshop |  |
| 2    | Objectives  
Dimensions of risk | Excel functions and formulas; arithmetic vs geometric returns |  |
| 3    | Asset allocation:  
Theory and practice  
Mean-variance model | Excel “solver” |  |
| 4    | Asset allocation:  
Asset assumptions | Asset assumptions continued |  |
| 5    | Asset allocation:  
Additional methods  
Alpha and Beta | Mid-semester exam preparation |  |
| 6    | Traditional assets: Equities | No workshop due to Good Friday public holiday |  |
| 7    | Traditional assets: Fixed income | Assignment | Target for mid-semester exam (material to Week 5) |
| 8    | Alternative assets:  
Overview  
Property  
Infrastructure | Assignment |  |
| 9    | Alternative assets:  
Hedge funds  
Private equity  
Commodities | Assignment |  |
| 10   | Global investing and currency hedging | Assignment |  |
| 11   | Portfolio structure within asset classes:  
Investment process and style  
Building portfolios of managers  
Active versus passive | Assignment |  |
| 12   | Other topics:  
Industry ethics  
Governance  
Taxes, fees, other costs  
Rebalancing  
Performance evaluation | No workshop: lecturer will be available during workshop hours for exam consultation | Assignment to be submitted by 3.00pm on Wednesday 18th May |
| 13   | Course review  
Exam overview | No workshop: lecturer will be available during workshop hours for exam consultation |  |

*The workshop activities shown are indicative only. Announcement will be made prior to each workshop.*
ASSESSMENT REQUIREMENTS

Assessment Tasks

Assessment Task 1: Mid-Semester Exam
Details of task:

- This exam is optional and redeemable for students.
- 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 theory and practical questions will be asked.
- More details regarding the exam will be provided as the exam approaches.
- Value: The mid-semester exam is optional and redeemable, and therefore will count towards either 0% or 25% of a student’s overall course grade.
- Estimated return date: providing the mid-semester exam is held in week 7 (TBA), students will be given an opportunity to view their exam scripts in the week 8 tutorials. (Note: although the mid-semester exam is targeted for week 7, the timing of the exam is subject to confirmation.)

Note: There will be no special examinations for the mid-semester exam. Instead the weighting will be moved to the final exam.

Assessment Task 2: Assignment
Details of task:

- The assignment will involve writing a report that provides portfolio construction advice. The current intention is that the assignment will be completed in groups of three students, although this is not final. The assignment details will be outlined during the semester, with the plan being to do so by week 5.
- 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, with the plan being to do so by week 5.
- Value: 25%
- Estimated return date: prior to the final exam

Examinations

Mid-Semester Exam:
See information provided under “Assessment Task 2: Mid-Semester Exam” above.

Final Exam:
The final exam will be closed book with no formula sheet. Students will be allowed a two-sided A4 page of notes. The final examination is worth 45% (or 65% if the mid-semester exam is not attempted or redeemed) of the overall course grade. A mixture of theory and practical questions will be asked. Students will need to review and revise all examinable material pertaining to the course. More details will be provided as the exam approaches.
**Assignment submission**

Assignments should be submitted by 3.00pm on Wednesday 18th May. The current intention is for assignments to be submitted by a) **soft copy:** email to the lecturer, with student number 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 8016 Assignment box at the school office on Level 4 of the CBE Building. Any variation to these submission requirements will be advised when the assignment is outlined, with the plan being to do so by week 5. Assignments must include the cover sheet provided on Wattle (filled in and signed). Please keep a copy of tasks completed for your records.

**Extensions and penalties**

*Extensions:* Extensions and late submission of assessment pieces are covered by the Student Assessment (Coursework) Policy and Procedure.

The Course Convener may grant extensions for assessment pieces that are not examinations or take-home examinations. If you need an extension, you must request it in writing on or before the due date. If you have documented and appropriate medical evidence that demonstrates you were not able to request an extension on or before the due date, you may be able to request it after the due date. Assignment extensions will only be granted 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.

*Penalties:* **No** submission of assessment tasks without an extension after the due date will be permitted. If an assessment task is not submitted by the due date, a mark of 0 will be awarded.

**Returning assignments**

Marked assignments will be returned by the day prior to the final exam, at the latest. Assignments will be available from the assignment collection boxes on Level 4 of the CBE Building. Students will be notified once the assignments are available for collection.

**Resubmission of assignments**

No resubmission of assignments is accepted.

**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.

**Scaling**

Your final mark for the course will be based on the **raw** marks allocated for each of your assessment items. 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 the scaled mark of that student), and may be either up or down.
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).
9. Students will have until 5pm February 25 to finalise their enrolment in tutorials. After this time, students will be unable to change their tutorial enrolment.

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