

## Asset Allocation Project Course Syllabus

### Finance 6525

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#### Course Overview

The *Asset Allocation Course* combines (1) classroom training in optimal portfolio allocation, tracking error measurement and performance attribution with (2) the hands on experience of working in groups to manage and evaluate portfolios. The two-credit course runs through the entire academic year with the experience divided into three parts. During the summer semester, students learn about optimal portfolio allocation, tracking error measurement and performance attribution in FIN 6595—Investment Analytics. Early in the fall semester, student groups build their optimal portfolios, submit an initial report, and present their portfolio and its underlying logic to the class. Portfolios are managed from October through April, and trades are permitted at the end of each month. The course ends with each group preparing a report of their performance and presenting a “year-end” summary of their fund’s performance.

The students manage a fund for a university endowment in real time. The fund’s goal is to maximize total assets under management at the end of the game. Each month, teams compete for new cash flows. The investment objectives each month are to (1) achieve the highest appraisal ratio possible and (2) to maintain an annualized tracking error volatility (TEV) that is within 15% of the TEV that the team has committed to at the beginning of the game. At the beginning of the game, each team chooses an annualized TEV risk level between 1% and 8% (we call this the team’s pre-announced TEV). This risk level cannot be changed later in the game and indicates to the university the amount of risk that the fund intends to take during the investment period.

#### Course Purpose

The course objectives are three-fold. The first objective is to provide students the opportunity to learn about important concepts in asset management: (1) optimal portfolio allocation, (2) measuring tracking error volatility, and (3) performance attribution. These goals are accomplished through hands-on experience with actual portfolios.

The second objective is to familiarize students with the institutional investment management process including funding and managing an asset portfolio against a liability or benchmark.

The third objective is to encourage an environment where students are thinking about and discussing current market conditions and asset classes on an ongoing basis.

#### Class Meetings

The class will meet on the following dates in Stuzin room 200 from 7 – 8 PM

Wednesday, August 26, 2009:	Game Overview and group assignments
Wednesday, September 23, 2009:	Initial Group presentations
Wednesday, December 2, 2009:	End of semester exam (7-9 p.m.)

During the fall semester the focus will be on learning to manage your portfolios. Our meeting times will be loaded toward the beginning of the semester. There will be tutorials beginning the first week of September that cover the analytical tools needed to set-up your portfolios and evaluate performance. These tutorials are designed to cover the essential elements of FIN 6595 for students that were not enrolled in the course this summer. The remainder of the semester will

require you to meet with your group to complete the monthly reports and evaluate your portfolio positions.

Beginning in January we will meet once a month for approximately 1 hour. Michael Smith, Chief Investment Office of UFICO will lead a class discussion on a current topic or market sector. Dates in the spring semester will be set in December. Each student will be responsible for writing one monthly report. Details for these reports are outlined in the Course Handbook.

#### Readings

The details of the project and the rules of the game are provided in the *Asset Allocation Project Course Handbook*.

Notes for the tutorials will be sent out via email. The topics will include (1) using matrices to estimate *ex ante* absolute and relative risk for a portfolio, (2) calculating tracking error volatility (TEV), (3) sizing trades to manage tracking error, and (4) performance attribution.

All of these materials will be sent out to you in the next few days.

#### Grading.

The course grade depends on group and individual assignments and your end-of-semester portfolio value.

##### Fall semester:

Initial Group Presentation:	25%
Initial Group Portfolio Allocation Report:	25%
Group Monthly Performance Reports:	30%
Peer Evaluation:	5%
End of semester exam	15%

##### Spring semester:

Individual monthly report:	25%
Final Group Presentation:	25%
Final Group Report:	25%
Peer Evaluation:	5%
End of semester exam:	20%

The group with the highest portfolio value at the end of each semester will receive a 5% bonus. This means that if you have a final grade of 89% but your group has the highest value at the end of the semester your final grade will be 94%.