



Asset valuation and portfolio management_20 *Teaching guide 2023-24*

INTRODUCTION

The course covers the essentials of Fixed-Income and Equity Security valuation together with Portfolio Management.

Fixed- Income securities continue to represent the largest capital market segment in the financial ecosystem and the primary means in which institutions, governments, and other issuers raise capital globally. Institutions and individuals use fixed- income investments in a wide range of applications including asset liability management, income generation, and principal preservation. The aim of this course is to help students develop the necessary skills to understand the main features, valuation, and risk measures of the different types of fixed-income securities in the market place. Topics include the term structure of interest rates and portfolio management strategies, such as duration, convexity, and immunization.

For Stocks, the aim of this course is to help students gain a strong understanding of the basic valuation techniques used by professionals. Students will develop a habit for analyzing the macro-level forces as well as the company-level value drivers of a company's future performance.

The last part of the course, focuses on the fundamental concepts of portfolio management: risk-return trade-off, portfolio optimization and diversification. We will develop a thorough understanding of the key principles of portfolio management and asset pricing theory and we will learn how to apply them in practice using Excel.

Topics covered in this course are included on the CFA exam, Level 1.

According to previous year's students, this is a very tough course and yet extremely rewarding. Should you put the necessary time and effort into it, you will feel how your knowledge in finance advances and your understanding deepens every week.

- **Professor:** Carmen Aranda León (maranda@unav.es)
- **Type:** Mandatory for Finance and Accounting students
- **ECTS:** 9
- **Year and Semester:** Second year, First semester
- **Language:** English
- **Degree:** Degree in Management with Specialization in Finance and Accounting
- **Módulo y materia de la asignatura:** VII. Optativas. 7.2. Optativas específicas del perfil Finance and Accounting
- **Class schedule:** pending

COMPETENCES

CEOP22: Know about and manage advanced tools and techniques to value financial assets

CEOP23: Gain an in-depth knowledge of the workings of financial markets

PROGRAM

FIXED INCOME SECURITIES

Topic 1: Overview of fixed-income securities



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- Basic features
- Bond indenture
- Yield measures
- Structured of bonds' cash flows: coupons and principal repayment
- Bonds with contingency provisions: callable and puttable and convertible bonds.

Topic 2: Fixed income markets

- Global Fixed-Income markets
- Primary and Secondary Markets

Topic 3: Fixed-income valuation

- Bond Prices and the Time Value of Money
- Bond pricing with spot rates
- Yield-to-Maturity
- Invoice (Full price), clean (flat price) and accrued interest
- The Yield curve (Term structure of interest rates)
- Yield spreads
- Credit scores and credit ratings

Topic 4: Fixed-income risk and return

- Sources of return
- Interest rate risk
- Bond duration
- Properties of bond duration
- Duration of portfolios
- Bond convexity
- Bond credit/Default risk

EQUITY SECURITIES & POTFOLIO MANAGEMENT

Topic 1: Overview of equity securities

- Equity securities in global financial markets
- Types and characteristics of equity securities: common and preference shares
- Risk and return characteristics of equity securities

Topic 2: Equity markets: Characteristics and institutions

- Regulators of equities markets
- Exchange market for listed stocks
- Exchange market for unlisted stocks
- Alternative trading systems
- The players: households, nonfinancial corporations, governments, depository institutions, institutional investors, securities brokers and dealers, etc

Topic 3: Industry and company analysis

- Uses of industrial analysis
- Approaches to identifying similar companies
- Describing and analyzing an industry
- Company analysis

Topic 4: Equity valuation



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- Estimated value and market price
- Present value models: dividend discount models
- The method of comparables
- Asset-based valuation
- Free cash flow valuation

Topic 5: The valuation process

- Understanding the business
- Forecasting company performance
- Selecting the appropriate valuation model
- Converting forecasts to a valuation
- Applying the valuation conclusion: The analyst's role and responsibilities
- Communicating valuation results
- Research reporting responsibilities

Topic 6: Return concepts

- Holding period return
- Realized and expected (holding period) return
- Required return
- Expected return estimates from intrinsic value estimates
- Discount rate
- Internal rate of return

Topic 7: Evaluating portfolio performance

- Total rate of return
- The time-weighted rate of return
- The money-weighted rate of return
- The linked internal rate of return
- Annualized return

Topic 8: Portfolio risk and return

- Risk aversion and portfolio selection
- Portfolio risk
- Efficient frontier and investor's optimal portfolio
- Capital market theory
- Pricing of risk and computation of expected return
- The Capital Asset Pricing Model (CAPM)
- Beyond the Capital Asset Pricing Model
- Presentation of performance results

Topic 9: The Portfolio management process and the investment policy statement

- Investment management
- The portfolio perspective
- Portfolio management as a process
- The Portfolio management process logic
- Definition of portfolio management
- Investment objectives and constraints
- The dynamics of the process

Topic 10: Managing individual investor portfolios



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- Investor characteristics
- Investment policy statement
- Setting return and risk objectives
- Constraints

Topic 11: Managing institutional investor portfolios

- Pension funds
- Defined-benefit plans: Background and investment setting
- Defined-contribution plans: Background and investment setting
- Hybrid and other plans
- Foundations and endowments
- The insurance industry
- Banks and other institutional investors

Topic 12: Risk management

- Risk management as a process
- Risk governance
- Identifying risk: market risk, credit risk, liquidity risk, operational risk, etc.
- Measuring risk
- Managing risk

NOTE: FOR A DETAILED CONTENT AND TIMELINE OF THE COURSE, STUDENTS SHOULD VISIT THE SECTIONS "COURSE ROADMAP" AND "SYLLABUS & LBL PLAN" IN THE RESTRICTED AREA OF ADI

EDUCATIONAL ACTIVITIES

- **Lectures:** The teacher will explain the contents of the program, always encouraging the active participation with questions. These contents will be material for the examinations. In some cases, depending on the time, the instructor will assign readings so that each student can work on his/her own and can answer any questions with the teacher during office hours. The lectures will include activities such as concept maps, kahoots or online games to improve understanding and create discussion.
- **Discussions:** articles/videos/podcasts and other materials will be assigned for classroom discussion. The article items will be distributed in advance for students to prepare (see the Lesson-by-Lesson plan in the restricted area). The contents of these discussion items will be part of the assessments.
- **Assessments:** as detailed in the evaluation section.
- **One-to-one Tutorials :** the teacher will be available to students during office hours and outside of the class to answer questions or to provide support for course-related activities.
- **Need for hours of study outside the classroom :** individual study, presentation of papers, group meetings, etc.

TRAINING ACTIVITIES ("actividades formativas")

af1. In-class lectures (theory / practice) Lectures and in class discussions and presentations: aprox. 84 hours.

af2 Directed work (personal / in group): searching for information, preparing for class competitives: aprox 14 hours.



af3. Individual work (studying, preparing materials...): aprox 84 hours

af4. Consulting with the teacher (attending office hours, follow-ups, etc.): aprox 4 hours

af5. Examinations: aprox 4 hours

af6. Discussion / study of practical cases: class competitions, cases: aprox 14 hours

TOTAL WORK HOURS: 204 hours (9 ects).

TOTAL WORK PER ECTS: 22.7 hours/ects

EVALUATION

DECEMBER ANNOUNCEMENT

The course includes two parts: (1) Fixed_income Securities, and (2) Equity Valuation & Portfolio Management.

The grade is on a scale of 0 to 10. A pass is a grade ≥ 5 .

Each part is worth 50% of the final grade, and for each part the assessment is:

December announcement	% of total grade	Points over 10
"Take-home" Tests (using Students CFA Test Bank)	25%	2.5 points
"In-class" Tests (using ADI)	20%	2 points
Class participation	10%	1 point
Exam	45%	4.5 points

- "Take-home" Test: There will be one test per topic that will be completed using the Wiley CFA 1 level platform.
- "In-class" Tests: There will be several "In-class" pop quizzes. Only absent students with a medical certificate will be allowed to rescheduled the pop quizzes.
- Class participation: participation will be regularly taken. With two absences, participation grade will be 0.5 points. With three or more absences participation grade will be 0. No excuses.
- Fixed-Income Securities' exam will be **October 16th, room and time TBA**. The exam will consists of between 40-55 multiple choice questions, following the structure of the CFA, Level 1 exam. The resit exam will take place in June; there will be no second chance in December.
- Equity Valuation and Portfolio Management's exam. **December. Exact date TBA**. The exam will consists of between 40-55 multiple choice questions, following



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the structure of the CFA, Level 1 exam. The resit exam will take place in June as well.

Criteria to pass the course

- Students need to get a minimum grade of 4.5 out of 10 in both exams to apply the assessment weights. If one of the two exams is failed, the final grade for the course will be that of the exam.
- Students whose final grade (weighted average) is 5 points or more will pass the course.
- Students whose final grade is below 5 points will not pass the course and will be graded as *Suspense*.
- Students who do not take the final exam will not pass the course and will be graded as *No presentado*.

Exams review

- Students will be able to review the exams in an interview with the professor, after publication of the grades, in a day and place that will be indicated.

JUNE ANNOUNCEMENT

June announcement	% of total grade	Points over 10
"Take-home" Tests	25%	2.5 points
"In-class" Tests	20%	2 points
Class participation	10%	1 point
June Exam	45%	4.5 points

CALCULATOR POLICY

Students are allowed to bring to exams only the calculators models allowed by CFA Institute exams.

OFFICE HOURS

Prof. Carmen aranda (maranda@unav.es)

To book a slot, please fill in the information in the following excel file

Office hours will be held in my office (#3070), which is located in Amigos



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BIBLIOGRAPHY AND RESOURCES

1. We will use Wiley 2023 CFA® Level 1 Program Study Guide. Specifically, we will cover Study Sessions 12, 13, 14, 17 and 18.
2. students will be given access to the CFA level 1 testbank provided by Wiley. (See instructions in the restricted area).
3. Collection of complementary articles, videos and websites selected by the professor. (See the restricted area, Lesson-by-Lesson plan).