

## **International Investments**

B40.3103

Spring 2009

Wednesdays, 6:00 pm– 9:00 pm

### **Adjunct Professor Michael Perelstein**

Office Hours: By appointment on Wednesdays

#### Course Description

With the globalization of business generally, we are also witnessing the globalization of the investment management process. The goal of this course is two-fold: to ground graduate students in the theory of international investing and also to immerse them in the application of international equity portfolio management in the real world, as practiced by sophisticated investment organizations. Thus this course is a blend of advanced theory and state-of-the-art practice. An important part of the coursework will focus on business cases that illuminate the process and tools used by institutional investment firms to manage international portfolios. The objective is to prepare students to enter the investment management business and immediately add value to an international portfolio.

The course will start by reviewing basic investment practice, with a discussion about the differentiating institutional features of markets, instruments and benchmarks around the world. Next, we will focus on investment theory, by reviewing the benefits of adding international securities to a domestic portfolio.

The core of the course focuses on the key elements of an investment program, starting with the definition of a philosophy and continuing with the construction of a process for managing international equity portfolios. As part of the exploration of the process, we analyze qualitative and quantitative approaches for making decisions on the critical dimensions of an international equity investment process. These dimensions include equity analysis and selection, industry and factor tilts, and country allocation.

Then we review how performance is measured and attributed to the key dimensions of the investment process. The course concludes with a discussion of techniques for monitoring the risk of global portfolios.

Prerequisites: B01.2311 (Foundations of Finance) and B40.2302 (Corporate Finance)

#### Required Reading

Bruno Solnik and Dennis McLeavey, *Global Investments*, 6<sup>th</sup> Edition, Pearson Prentice Hall, 2009.

Additional readings in the form of academic articles and business cases as indicated in the Course Outline.

#### Course Work

There will be a final examination.

There will be an applied international portfolio management project in a group setting. This project will provide students with experience in research and decision-making in international equity markets.

Each student will also write a short (2-3 page) paper that summarizes lessons learned from the group project about investing, markets and group decision-making.

#### Research Projects

In order to gain experience in portfolio management, students will pool their expertise from various markets to pick and manage a simulated portfolio of international equities using real-time prices. A group presentation at the end will consist of a mock presentation to a pension fund client invested in the portfolio, in which each group will summarize the investment philosophy and process, the security picks, the industry

and country composition of the portfolio, the risk management oversight, and last but not least the performance and performance attribution of the portfolio.

### Class Participation and Case Studies

Participation in class discussion is required, particularly in the discussion involving cases. The case study method is built on the idea of vigorous student participation in class discussion.

Preparation ahead of case studies requires that students will come to class having read the case in detail at least once and having prepared oral answers to pre-assigned questions about the case.

Students are requested to bring name cards to class each week to receive credit for class participation.

### Grading

Class Participation	20%
Individual Portfolio Project Paper	15%
Group Portfolio Project Presentation	15%
Final Examination	50%

### Disabilities

If you are a student with a documented disability on record at the University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

### Academic Integrity

You are expected to follow the University's policies on academic honesty and integrity.

### Caution

You are discouraged from actively investing using real funds while taking this course, as it can be both time-consuming and mentally distracting. In addition, you should keep in mind that neither the faculty nor the University is in any way responsible for any investment you undertake during or after this course.

### Course Outline

#### **Class 1 Wednesday, February 11**

Topic: International Equities – Markets, Instruments and Indexes  
Textbook, Chapter 5, p. 157-177, 185-196; Chapter 8, p. 319-332; Chapter 13, p. 582-587

Topic: Benefits of International Investing  
Textbook, Chapter 9, p. 386-420; Chapter 4, p. 118-120, page 146

#### **Class 2 Wednesday, February 18**

Topic: International Equity Investment Philosophy, Style and Process  
Textbook, Chapter 13, p. 587-600; also Chapter 4, page 148  
Article: Fama, E. and K. French, 1998, "Value versus Growth: The International Evidence", *Journal of Finance* 53, 1975-1999.  
Article: Rouwenhorst, G., 1998, "International Momentum Strategies", *Journal of Finance* 53, 267-284  
Case: Perold, A. and J. Musher, 2002, "Grantham, Mayo, Van Otterloo & Co – 2001", Harvard Business School

Topic: International Equity Analysis and Security Selection  
Textbook, Chapter 6, p. 204-207, 232-239, 242-245

**Class 3 Wednesday, February 25**

Topic: International Equity Analysis Continued

Case: Foerster, S., 1996, "Bank Stock Investment Decision", Richard Ivey School of Business

Topic: International Accounting Differences and Pitfalls

Textbook, Chapter 6, p. 207-217

Article: Sherman, H. and S. Young, 2001, "Tread Lightly through these Accounting Minefields",  
Harvard Business Review

Topic: Country Allocation of International Equity Portfolios

Textbook, Chapter 6, p. 217-222, 247-249; Chapter 9, p. 404-405; also Chapter 3, p. 115-116

**Class 4 Wednesday, March 4**

Topic: Country Allocation of International Equity Portfolios Continued

Article: Heston, S. and K. Rouwenhorst, 1995, "Industry and Country Effects in International Stock  
Returns, *Journal of Portfolio Management* 21, 53-58

Case: Foerster, S. and J. Schmitz, 1996, "Pegasus Pension Fund", Richard Ivey School of Business

Topic: International Equity Sector and Industry Rotation

Textbook, Chapter 6, p. 222-234, 245-249; Chapter 9, p. 418-420

Article: Roll, R., 1992, "Industrial Structure and the Comparative Behavior of International Stock  
Market Indices", *Journal of Finance* 47, 3-42

**Class 5 Wednesday, March 11**

Topic: International Equity Sector and Industry Continued

Case: Perold, A. and R. Alloway, 2002, "The Unilever Superannuation Fund vs. Merrill Lynch",  
Harvard Business School

Topic: International Factor and Style Tilts

Textbook, Chapter 6, p. 245-249

Topic: Performance Measurement, Attribution and Evaluation

Textbook, Chapter 12, p. 524-557, 565-569

Topic: Risk Management of Portfolios

Textbook, Chapter 12, p. 557-565

Case: Perold, A., 1999, "Long Term Capital Management (C)", Harvard Business School

Article: Jorion, P., 2000, "Risk Management Lessons from Long Term Capital Management",  
*European Financial Management* 6, 277-300

**Class 6 Wednesday, March 25**

Final Examination

Group Project Presentations

Individual Paper Due on March 27