

## **FINM2002/7041 Assignment – Expectations and Q&A**

When you are given a task in your future internships and jobs, the task will usually be open-ended. It is common that in order to complete the task at all, not only do you need to call upon concepts and tools you have learned from different courses, you will need to fill in gaps with research on your own.

To bring the real world to our course and to give you a glimpse into what is needed to succeed in your future roles, this assignment simulate a real job and asks you to

(1) integrate knowledge learned in other courses (foundation finance, investments, statistics, etc),  
(2) utilise concepts you are learning in this course (both covered and yet to come), and  
(3) research to find information that were previously given to you in assignments, but that you actually need to obtain on your own in your job – a new independence (e.g., obtaining the freely available data for bond prices and yields).

As a risk manager, you will spend a great amount of time to identify potential risks - just as you are asked to do in parts 1 and 2 - and then address them (part 2), and then go on to make recommendations (7041's part 3).

### **Q&A**

#### **How are the economic and political uncertainties relevant?**

The assignment requires that you would be able to link what is happening in the current affairs with finance. A great example can be found last week, when the U.S. launched a sudden attack on Syria, US Treasury reacted as well as other bonds around the world.

<http://www.cnbc.com/2017/04/07/bond-prices-higher-as-trump-orders-cruise-missile-strike-on-syria-angering-moscow.html>

You will need to consider the ways that these uncertainties affect the portfolio of bonds you are evaluating.

#### **Help! Where is the data?!!**

Some of you have asked me about suggestions on finding bond prices for the bonds in the portfolio. Other than the Datastream terminal in the Chifley library that should contain all historical prices for the bonds in the assignment, I had conducted a Google search and were able to find:

- The RBA offers monthly data (prices and yields) on Australian bonds from 1969 onwards. Daily data for both maturations extend back to 1995
- The Deutsche Bundesbank offers daily and monthly bund data going back to 1997
- The St. Louis Fed contains historical data on U.S. and international bonds
  
- The Datastream terminal in the Chifley Library contains historical data on bonds world wide

You can also find interest rate/term-structure data for different countries from the above sources.

**Any hints on the appropriate benchmark?**

Apples cannot be compared with oranges. For example, the Barclays US Aggregate Bond Index is a good benchmark for U.S. bonds and treasuries that are investment grade. It would not be a good benchmark for speculative bonds nor a fund with mainly foreign bonds.

**What are the appropriate models for a bond portfolio?**

For a refresher of concepts related to bond and bond portfolios, please refer to Chapters 18 to 20 in the *Investment* textbook by Bodie, Kane, & Marcus. 7<sup>th</sup> edition. Alternatively, it would be Chapters 14 to 16 in the 10<sup>th</sup> edition.

Some of you have also asked about what coupon rates you should be using. I leave it to you. It depends on the data you decide to use.

**What is your evaluation criteria?**

For how your assignment is evaluated, please refer to the marking schemes in the next two pages for 2002 and 7041, respectively.

**PLEASE REMEMBER**, for whatever you do, please always always always state why you are doing something and support the decision with plenty of evidence.

I hope you are learning a lot on the way!

| Course Code  | FINM2002 - Project |  |  |  |                |                    |                |                    |                |                 |            |   |           |
|--|--------------------|--|--|--|----------------|--------------------|----------------|--------------------|----------------|-----------------|------------|---|-----------|
| Lead UID   |                    |  |  |  |                |                    |                |                    |                |                 |            |   |           |
|  |                    |  |  |  | Part 1 - Marks | Part 1 - Subweight | Part 2 - Marks | Part 2 - Subweight | Part 3 - Marks | Subpart Weights |            |   |           |
| <b><u>Portfolio Overview (40%)</u></b>   |                    |  |  |  |                |                    |                |                    |                |                 |            |   |           |
| Appropriate performance evaluation of risk-adjusted returns  |                    |  |  |  |                |                    |                |                    |                |                 |            |   |           |
| - Appropriate benchmark chosen   |                    |  |  |  |                | 5%                 |                |                    |                |                 |            |   |           |
| - Returns and volatility   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| - Why and how had economic & political uncertainties affected the evaluation   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| Market outlook   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| - Consideration of why and how might potential economic & political uncertainties mattered   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| Appropriate quantitative analysis  |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| - adquate data usage   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| Adequate qualitative interpretation  |                    |  |  |  |                | 15%                |                |                    |                |                 |            |   |           |
| Presentation (professionalism in exposition and adequate use of visual aids)   |                    |  |  |  |                | 20%                |                |                    |                |                 |            |   |           |
| <b>Subtotal</b>  |                    |  |  |  |                | 100%               |                |                    |                | 0               | 40.00%     |   |           |
| <b><u>Risk management (60%)</u></b>  |                    |  |  |  |                |                    |                |                    |                |                 |            |   |           |
| Identify relevant risks for a bond portfolio   |                    |  |  |  |                |                    |                | 20%                |                |                 |            |   |           |
| Identify risk exposure specific to the political-related uncertainties   |                    |  |  |  |                | 20%                |                |                    |                |                 |            |   |           |
| Adequate hedging strategies provided   |                    |  |  |  |                | 20%                |                |                    |                |                 |            |   |           |
| Adequate quantitative support (historical data, scenario & sensitivity analyses, etc)  |                    |  |  |  |                | 20%                |                |                    |                |                 |            |   |           |
| Clarity. Well researched/cited   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| Presentation (professionalism in exposition and adequate use of visual aids)   |                    |  |  |  |                | 10%                |                |                    |                |                 |            |   |           |
| <b>Subtotal</b>  |                    |  |  |  |                |                    | 100%           |                    |                | 0               | 60.00%     |   |           |
| <b>Project Total</b>   |                    |  |  |  |                |                    |                |                    |                |                 | <b>0.0</b> |   |           |
| <b>Reductions from total grade</b>   |                    |  |  |  |                |                    |                |                    |                |                 |            |   |           |
| Style reduction (violation of 10-page main content limit, line spacing, and font size), reduce total grade by 10% for each violation |                    |  |  |  |                |                    |                |                    |                |                 | %          | 0 |           |
|  |                    |  |  |  |                |                    |                |                    |                |                 | Total      |   |           |
|  |                    |  |  |  |                |                    |                |                    |                |                 | reductio   | 0 | 0.0 FINAL |

## Reductions from total grade