

## ASSIGNMENT – FINM2002 DERIVATIVES

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### Objective

This assignment is designed for you to apply the skills learned in the course as well as develop an understanding of investing in the financial markets.

This piece of assessment is linked to PLO5 of the Bachelor of Finance – Develop the skills necessary to work independently or collaboratively to collect, process, interpret and communicate the outcomes of financial problems.

### Teams

You will form teams of 5 members per group. Please ensure you only form teams with other members in FINM2002.

### Tasks

Economic and political uncertainties increased dramatically over past year and are felt by many in the world. Events such as the Brexit, the Italian referendum, the U.S. presidential election, the ongoing French election, have been the attention of mass media and market watchers. In the markets, volatility have increased. Facing this uncertainty, many Australian funds are reviewing their investment strategies. Your team has been commissioned by such a fund to produce a report on their developed-economy Government bond portfolio.

(Examples of these funds include NIKKO AM International Bond Fund, PIMCO Global Bond Fund, AMP Capital International Bond Fund, and others.)

Suppose the portfolio your team is evaluating has the following composition: 20% in Australian 5 year bonds, 20% in Australian 10 year bonds, 15% in German 5 year bund, 15% in German 10 year bund, 15% in US 5 year treasury, and 15% in US 10 year treasury.

Your report shall include the following:

1. An overview of the bond portfolio that includes analyses of its risk and expected return profile, as well as market outlook for the 1-year horizon. It would be helpful to anchor your analysis to some benchmark (Eg. J.P. Morgan Global Aggregate Bond Index, Bloomberg Barclays Global Aggregate Index, and others.)

2. Based on your analysis in the first part, formulate hedging recommendations using derivatives in current market condition. Please outline clearly the strategy you are using, why do you believe it is the best strategy for hedging and what are its limits and potential downsides.

### **Deliverables and Guidelines**

#### **Report**

You will be submitting a typed report that addresses the tasks provided. The main body of the report must be

- No longer than 12 pages
- In other words, not counted in the 12 pages are the likes of cover sheet, title sheet, table of contents, reference, and appendix
- Graphs, tables, and calculations may be grouped in the appendix
- The report should be single sided, 1.5 lines spaced, with size 12 Times New Roman font

Both the electronic version (for the Wattle Turnitin Folder) and the printed version of your report – one report/submission per group for both – are due at 1pm on Friday of Week 8. Late reports will not be accepted and will result in a mark of zero for the assignment.

The printed and signed copy is to be submitted in the assignment boxes outside the RSFAS School Office.

#### **Guidelines and Evaluation**

As you can see, these are broad and open-ended tasks, but there is a wealth of resources from course materials (both covered and to be covered), in publications, and on the internet. Pay attention to literature from the academia, industry, governments, and regulators.

For all of your analyses and recommendations, please support your conclusions with quantitative evidence. Such evidence would include inference from historical data, regression modelling, and results from both scenario and sensitivity analyses.

You may consult <https://www.bloomberg.com/markets/rates-bonds> for the current price and yield of each of the securities, you may also consult ASX24,

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CME and Eurex Exchange for the prices and history of their derivatives products.

You will be evaluated on the thoroughness and originality of your analysis and how well you support your argument (with statistics/tables/graphs/citations, etc). Reports must be well-written with minimum grammar mistakes, and should meet a professional standard.

Every member of the group will receive equal marks. Please ensure that you let me know of any problems in group work as soon as possible.

**Bottom line: If you are the CEO of the fund that has commissioned you, would you pay \$50,000 for the report you have produced?**