

Transcript from UNC's Kenan-Flagler Business School Investment Management Chat, December 10, 2008

Drew_KFBS2009: Welcome to the Investment Management chat for Kenan-Flagler Business School. I am Andrew Johnston, a first year student and member of the Admissions Advisory Board and the Investment Management Club. With me today are second year students, Neil Gupta, who spent the summer as a research analyst at Delaware Street Capital, Varun Parmar, and Michael Gladys, who spent the summer as a research analyst at Oak Value Capital Management. Also with me is Mustafa Gultekin, who has been a professor here at Kenan-Flagler since 1985. Please feel free to ask us any questions about the Investment Management Concentration.

Manu: Hello

Manu: I have a question

Drew_KFBS2009: We will begin in about 5 minutes, we are still waiting for a couple people

Manu: ok ok

Manu: sorry

Matt L.: hello everyone

Jaeho C.: Hello

Karen H.: Hi

Jim B.: Hello to you, Matt. It would be interesting to know what nationalities are represented in the chat.

Jaeho C.: so nice to talk with Tar Heels

Jim B.: Anyone from overseas?

Karen H.: From Taiwan

Spring T.: I from taiwan

Akin D.: I am a Nigerian national.

Spring T.: Hi,Karen.

Mahesh: I'm from India

Karen H.: Interesting.

Manu: From Spain

Jaeho C.: please describe brief advantages regarding investment management of Kenan-Flagler

adam r.: Let me start by showing you the IM presentation.

Jaeho C.: ah yeah..thanks

Drew_KFBS2009: Welcome to the Investment Management Chat for Kenan-Flagler Business School. I am Andrew Johnston, a first year student and member of the Admissions Advisory Board and the Investment Management Club. With me today are second year students, Neil Gupta, who spent the summer as a research analyst at Delaware Street Capital, Varun Parmar, and Michael Gladys, who spent the summer as a research analyst at Oak Value Capital Management. Also with me is Mustafa Gultekin, who has been a professor here at Kenan-Flagler since 1985. Please feel free to ask us any questions about the Investment Management Concentration.

adam r.: I'm going to post the [IM Presentation](#) here....

Manu: Hello, I have a question

Drew_KFBS2009: Hello Manu, welcome. Go ahead with your question

Manu: I have been told that some years ago, UNC teached with the "Harvard method". I would like to know whether it is still used or now there is another "method".

Neil_KFBS2009: Manu, UNC does not teach strictly on the Harvard Method

Neil_KFBS2009: it depends on the class, but all classes use cases to some extent

Manu: Is there any other "method" that UNC follows???

Neil_KFBS2009: We use cases as well as multiple other general teaching methods

Neil_KFBS2009: simulations, regular teaching, group assignments, guest speakers

Manu: Ok, thanks

adam r.: Adam Reed here. I've been at KFBS since 2001. I teach the first year finance class in the core (along with Jennifer Conrad). I can speak to the case method as far as it goes in the Core class that I teach. We use cases, but only as supplementary material to bolster the real world. I'd say cases are 15-20% of the material in my class.

Manu: all right, thanks

Manu: Thank you, Adam

adam r.: The other methods are primarily lecture, which is very interactive, and examples drawn from the real world. It depends on the topic, but I would say real world examples (drawn from current events) are roughly 25% of the material. The rest of the material is drawn from academic research leading to a body of theory that drives most of the class sessions.

Manas D. Hi All, I have been in my current project since a little over 2 months and my spent time with my manager only for 1.5 months because now he is on a vacation.

Manas D.: is it okay if I don't take a recommendation from my current supervisor?

Peggy T.: Manas, you can submit a recommendation from a supervisor who has worked with you longer. If your current supervisor returns from vacation before the submission deadline you can use that recommendation as well. You could also use one of the optional essays to explain the short period of time you have worked with your current supervisor if you choose not to use him as a recommender.

Manas D.: Thank You Peggy

Matt L.: What job functions do Investment Management students go into after graduation?

Sid : What job functions do Investment Management students go into after graduation?

Neil_KFBS2009: Sid, IM students go into a variety of functions on both the buy side and sell side

Sid: THANKS

Neil_KFBS2009: IM students typically go into sales&trading, private wealth management, or portfolio management/research

Matt L.: Neil, specifically what firms do students go to on the buy side?

Neil_KFBS2009: Matt, there are a number of buy side firms around the country, so there aren't specific firms that typically recruit at Kenan-Flagler year after year

Fav c.: Hello, I have a quick question. I'm in California and I'd like to know if Kenan-Flagler can help people come back to CA after graduation. Secondly, can you name a few IM consulting companies which have recruited on campus recently

Michal_KFBS2009: We do have a West Coast Forum and career trek is organized usually in November. Also we have quite extensive alumni database that you can access you can search those names by their geographic location.

adam r.: Take a look at slide 10 of the presentation for a few examples of firms that recruit at KFBS. Many of these firms have offices nationwide.

Mahesh: I am confused when somebody mentions buy side or sell side. I believe that an equity analyst should be able to do both. How can knowledge for buy side analysis be differentiated from knowledge for sell side analysis?

Neil_KFBS2009: Mahesh, the IM concentration at Kenan-Flagler prepares you for both buy-side and sell-side careers

Neil_KFBS2009: the difference is the portfolio management aspect that is associated with buy-side firms

Matt L.: Mahesh, Buy side is where it's at. Why pitch when you can be pitched to?

Mahesh: I didn't get you Matt

Mahesh: can you please explain a bit more

Anthony B.: Hello,

Anthony B.: I was wondering how the current market has affected internships for first year students? Has there been a drastic reduction in the number of internships?

Drew_KFBS2009: Anthony, I am a first year student and currently going through the process of dropping resumes and interviewing for an internship in the summer. I will say that the current market has definitely affected the number of companies that are taking interns for the summer. Many companies that have in the past taken multiple interns are scaling back as well. However, our students have still been able to get themselves interviews at the firms that they are looking at. In addition, many students are using channels outside of just the formal recruiting process to help ensure they get the internship they want.

Karen H.: About the simulation method, I'd like to know is there any more advanced lesson for derivatives? About different kinds of derivatives valuation?

Matt L.: Neil, do many buy side firms recruit at KF?

Neil_KFBS2009: Matt L, we have a handful of buyside firms that recruit on campus, the number varies based on the economic climate. For the most part though, buyside investment management career searches are performed off campus.

Michal_KFBS2009: Fav,

Fav c.: yes Michael?

Akin D.: Is the Investment management concentration curriculum tailored in such a way that CFA candidates can benefit from UNC's classes, and combine it with the CFA examination during term time?

Michal_KFBS2009: Akin, First year covers approximately 80% of the material required for CFA level I. You do need to take classes that are required for IM concentration but even without them you will cover about 50-60%

R J.: I have an interest in Wealth Management, what courses are offered specifically for this track?

Neil_KFBS2009 : RJ, All of our electives in IM concentration should help out someone interested in a wealth management career. Specifically, the Portfolio Management class would be very helpful.

Manu: Adam, I have been told that you (the teachers) use some kind simulation games, is it true?

adam r. : There are simulations used in the curriculum. One simulation is a pricing simulation used in Marketing. Another is supply chain management used in operations. In finance (and Investment Management), the advanced students run real portfolios, which isn't really a simulation, but (I would say) better than a simulation. Mustafa, any more comments on that? (Mustafa runs that class)

Mahesh: Neil, any more details related to what is meant by "portfolio management aspect"

Neil_KFBS2009: Mahesh, As a sell-side analyst, you are just giving recommendations on investment ideas. As a buy-side analyst, you are analyzing investments and deciding on how best to invest in them.

Anthony B.: Has there been any sort of a "share shift" from the individuals majoring in investment management switching to another focus?

Drew_KFBS2009: Anthony, I would say there have been people in the first year class that are interested in IM that have decided to widen their net of companies they are applying for. However, the first years that came in set on IM have stuck with it, and they are just having to go the extra mile to get their resumes in front of the right people

Anthony B.: Thank you Drew.

Chris H.: Looking at slide #2, I see that there are 3 aspects of the IM concentration listed: Corporate Finance, Investments, and Real Estate. Does a student pursuing the IM concentration focus/ specialize in one of those areas?

Michal_KFBS2009: Chris, those are three different concentrations. You can actually try to do dual concentration (RE/IM) as some of the classes overlap but it may be a bit of a stretch.

Chris H.: Ah so those are three different concentrations within IM? I am interested in working for a buy-side investment fund or a long/short hedge fund, so I would have an IM concentration in "Investments"?

Michal_KFBS2009: Chris, IM is a separate concentration as is RE and Corporate Finance

Chris H.: Ok. So that breakdown seems to be of "Finance" in general vs. say "Marketing"?

Michal_KFBS2009: Chris, Yes

Mahesh: if i don't want to work only into buy side or sell side, are there any options available with me? I want to understand companies fully after i have studied investment management. I should be able to apply my knowledge to both buy as well as sell side.

Matt L.: Is there much overlap in the IM concentration and the CF concentration? Do many students do both?

Neil_KFBS2009: Matt, There is not much overlap in requirements for the IM and CF concentration, but typically you will see IM concentrators taking a lot of CF classes and vice versa.

Drew_KFBS2009: Matt L., there are definitely quite a few electives that overlap both the CF and IM concentrations. As a result, there are definitely students that choose to do both.

adam r.: You can do both CF and IM. Many students choose to specialize.

Maresh: ohh...Neil, so you mean that buy side, or sell side has nothing to do with giving calls on whether a security should be bought or sold??

Neil_KFBS2009: Maresh, on the sell-side you are only giving recommendations.

Neil_KFBS2009: Buyside you are making real decisions

Neil_KFBS2009: generally speaking

Maresh: ok..

Maresh: thanks Neil

Neil_KFBS2009: You're welcome Maresh

Karen H.: I am interested in derivatives, and I would like to know that in the current market turmoil what is KF's approach to build a competitive edge for its MBA candidates? Please kindly share your opinions, Thanks~

Michal_KFBS2009 : Karen, We have a Capital Market Lab with Reuters and FactSet available - those two allow you to research derivatives quite extensively. We have specialized courses - mainly second year that cover derivatives. Also you have an access to the faculty that is ready to help with any questions or problems you might have.

Karen H.: Thanks, Adam.

gultekin_faculty: Karen H. In Applied Investment Management course (we have about \$2MM under management) we do use derivatives actively.

Manu: One more question. I am from Spain and I might want to work in Europe after graduation from the MBA. Is it common or usually people stay in the US?

Puneet J.: Hello, I have long been waiting to ask this question. In the global turmoil around how effective would the education be so that we do not repeat the same mistakes and be sailing in the boat, that Investment Professionals are sailing in today's time?

Puneet J.: In addition to my earlier question I would like to know, how has KFBS equipped its curriculum to help understand students the intricacies of financial markets?

adam r. The financial crisis has had a big impact on our curriculum. In my class, we have devoted about 10% of the time to the new market conditions and understanding them (especially short sales constraints). Of course there is a trade off. The material that gets displaced by discussion of the crisis is still relevant, perhaps more than ever, so the general rigorous material still has its place.

Puneet J.: Wow Adam sounds very interesting

Kelly L.: How do military personnel make the transition to business school, especially CF or IM?

Drew_KFBS2009: Kelly L., I don't believe we have any current students in this chat that have made that transition. What I can speak to is that in my first year class, those who have made that transition from the military to business school, and they do very well in our curriculum. In the lecture/discussion based classes, they bring a very interesting prospective to certain topics.

Drew_KFBS2009: Kelly L, I would say we have 10+ students in my class that came from the military.

Kelly L.: Thank you Drew.

K. K.: My background is in chemical and petroleum engineering and although I took a few business courses during my undergraduate years, I am not very familiar with some basic business concepts. Is the KFBS school designed for students such as myself, particularly in the CF or IM specialties, or should I take some courses prior to the start of the Fall 2009 school year?

Mahesh: but again, How do sell side guys recommendations. I mean, same amount and type of research will be required in both buy as well as sell side, right ?

Neil_KFBS2009: Mahesh, why don't you send me an email at neil_gupta@unc.edu. We can then speak offline further about the differences between sellside and buyside after the chat.

MaheshL Thanks Neil, that would be a great help to me. Will drop you a mail in a short time.

Puneet J.: I am from India and have been associated with Indian Financial markets since the last 6 years. How difficult/easy would it be for me to understand mature foreign financial markets. As per se Indian or the emerging markets are in the nascent stage

Michal_KFBS2009: Puneet, We have people with different experiences coming to the school, some of them have never worked in Financial Markets. The core classes that you take in the first year allow you to catch up (if you need to). I believe you would have an edge over some of other students since you worked in the markets for 6 years

Puneet J.: Thanks Michal

Puneet J.: I have been in the sell side of Indian equity markets. It is more of a recommendation job. How can I equip myself for the buy side. Would recommend some specific journals or short term courses to have a hang of things?

Manu: One more question. I am from Spain and I might want to work in Europe after graduating from the MBA. Is it common or people usually stay in the US?

Drew_KFBS2009: Manu, I would say that it is very common for the students that come from Europe and Asia to return there when they graduate. It is probably more common than staying in the US.

Manu: Thanks Drew

Matt L.: Thanks for the input KFBS students. Nice job. My boss man is-a-creppin' so I need to drop off. Neil, I am on the sell side (5 years) and every analysts' dream is to die and come back as a buy side analyst.

Jon F.: Hello. There seems to be a fair amount of emphasis on how the investment management concentration prepares you for the CFA program. I have completed level one of the CFA, and hope to have finished level two before I would enroll in business school. What does the investment management concentration offer that is beyond what I would get from simply completing the CFA program through self study? Thanks.

Michal_KFBS2009: Jon, IM concentration goes deeper into the concept understanding that is required for CFA. You actually learn based on cases and do a lot of practical training. AIM - applied investment management class is a student run fund that invest across different asset classes - you cannot get that by doing CFA.

Jon F. : Thanks Michal.

Karen H.: I am interested about the employment status. As we can see the "function" percentage in the slides, do most of the students with the concentration go into fund house, investment banking or commercial banks?

Neil_KFBS2009: Karen, Sales & trading, Private wealth, and research folks mainly go to the investment banks. Investment and PM folks usually go to fund houses.

Karen H.: Thanks Neil.

Olu A.: Are there professors who specialize in value investment principles at the KFBS?

gultekin_faculty: Olu: We cover all aspects of valuation principals.

Olu A.: Thanks Gultekin

adam r.: Olu: To follow up on Mustafa Gultekin's point. The value investment strategy is covered rigorously along with many others as part of a theoretical understanding of risk and return. The Investments class (professor Stobl) will explore this strategy , its risks, its returns and how it compares to other strategies. Furthermore, all of the finance professors here are familiar with the strategy and would easily be able to further the typical students' understanding of that strategy.

Olu A.: Thank you Adam

Mahesh : How are decisions made in the AIM? Do students individually manage a small amount of money, or do a team of students manage it? who has a final say in it?

Neil_KFBS2009: Mahesh, a team of students manage the money in AIM and students have final say in investment decisions. A team of faculty advisors are there for support and education, but the fund is completely student run.

gultekin_faculty: Mahesh: Students are in charge in AIM. We function just like any hedge fund with specific responsibilities assigned to students -Portfolio manager, risk manager, analyst, etc.

Mahesh: ok

Puneet J.: On a personal note,this final question - How well would one be equipped with learnings at KFBS during these tough times that would enable one to lead in career

Neil_KFBS2009: Puneet, We're working with faculty to provide proactive pragmatic training to help students anticipate the needs felt by companies and understand market dynamics. These "Street Smarts" sessions are taught by faculty or industry professionals early in the MBA education. We've worked with faculty to deliberately put the cart before the horse given the importance of being credible from the get go in the job market.

Puneet J.: Thanks Neil.

Drew_KFBS2009: Puneet, The other unique competitive advantage we are working on at KFBS is having our career management center head combine with the IM department head to call on companies to have the discussion of "what are the issues" and "where can our students add value." This is something unique that our Career Management Center is doing to help gear the program to giving our students a competitive advantage.

Puneet J.: Thanks Drew

Karen H.: Is there any case competition or special project with the concentration?

adam r.: One interesting "case competition" like project is alpha challenge...hosted by UNC. It is a stock pitch competition with a global reputation.

Michal_KFBS2009: Karen, Please check the website alphachallenge.com.

Karen H.: Thanks for sharing the info.

Michal_KFBS2009: Karen, this is a premier stock pitch competition organized by UNC - this year we had fourth edition. We have 15 top MBA schools pitching one long and one short stock in front of business professionals from IM companies. For details please check the website. If you have any specific questions I would be happy to answer as I was a co-chair of this event.

Karen H.: Great, thanks.

Chris H.: I see in the slides that "admissions" is mentioned as part of the IM concentration . . . does interest in the IM concentration change us from an admissions standpoint. I am interested in the IM concentration since that is my work background, and where I think I'd like to focus, but I certainly am open to other areas.

Peggy T.: Chris, the admissions process does not consider specific concentrations or interests. And many of our students are career changers or open to new opportunities. We look at areas like your work experience, leadership and other accomplishments in considering applicants for admission.

Chris H.: Thank you Peggy.

Jon F.: Not to be a pain, but how has the AIM performed this year?

gultekin_faculty: Jon; Outperformed the market :)

Jon F.: Congrats then :)

Manas D.: Does the pragmatic training and coaching mean hands on experience and practical real life/market examples as well? For someone who is making a career change to Investment Management, this can really help.

Manas D.: Does the pragmatic training mean hands on experience as well? For someone making a career change, this can really help...

Neil_KFBS2009: Manas, the AIM class is a big part the hands on experience since we are dealing with real money and real decisions. We also have professionals from Training the Street come down to campus to teach valuation models used on Wall Street.

Manas D.: Thanks Neil. That sounds really very interesting..

Puneet J.: On a lighter note, any specific recommendation from the seniors to invest in equity markets for the time being :)

Neil_KFBS2009: Puneet, Cash is king.

Puneet J.: Great Neil, this is what makes KFBS - KFBS.Thanks a lot.

Chris H.: Neil, where does the AIM money originate from? Students themselves, alumni?

adam r. : Chris, Part of the UNC endowment is devoted to the AIM management.

Drew_KFBS2009: I just wanted to chime in to say that we have about 15 minutes left for questions. We will take any final questions until about 1:45. Thanks

Mahesh: How many students attend the IM course every year?

Mahesh: How is performance in AIM monitored?

Michal_KFBS2009: Mahesh, IM is a concentration. Usually between 20-25 people each year take required courses.

Mahesh: Investments in equity take a very long time to show whether they have outperformed or underperformed..

gultekin_faculty: Mahesh: Short term goal is to beat the benchmark. Long-term goal is 5%+ real return

Neil_KFBS2009: Mahesh, Performance is monitored versus a benchmark. While it may take a while to see if individual investments have performed as expected, we can continuously monitor the full fund against our benchmark.

Mahesh: But then short term and long term are just relative or you can say subjective time periods

Neil_KFBS2009: Mahesh, I don't completely understand your question. Can you please elaborate?

Chris H.: I read that roughly a third of Kenan-Flagler students do not opt for a concentration and instead have a "General" degree. Why is this? Do you think that a concentration is helpful in one's job search?

Michal_KFBS2009: Chris, At the end of the day you take courses that you believe will help you in your future career. Sometimes some of the classes in chosen concentration are not as useful as others.

Chris H.: Thank you Michal. Do you declare that you have a "General" or no concentration or do you simply not attain any other concentration?

Michal_KFBS2009: Chris, If you want to declare a concentration you must take required courses if you elect general then you take courses that you want. just as long as you have enough credits to graduate you are free to take whatever you want (except from core in the first two modes).

Karen H.: May I ask about the benchmark? Cause I thought that it has the position of derivatives?

Neil_KFBS2009: Karen, Are you asking about the composition of the benchmark? We are able to invest in derivatives in our fund.

gultekin_faculty: Karen: the benchmark we use is a composite of various indices that reflects the asset allocation guidelines of the IPS. We use derivatives for hedging and tactical asset allocation purposes. Each assets' risk & contribution to portfolio is monitored all the time

Karen H.: Very precise, thanks Neil and gultekin.

Mahesh : Say I am a student at KFBS, and I am a believer in accumulation of wealth through investing for a longer term. I believe investment in equity should be at least for 8-10 years cos the markets can be irrational for longer periods of time. You have to participate in the business cycles to truly benefit from your investments. Even though the investment is right, markets may take a while to react to that investment opportunity. How does AIM then test students for longer term investments?

gultekin_faculty: mahesh: to be precise you cannot -applies to all investors out there. You need 100+ years of observations to be sure with 95% confidence.

Mahesh: My investment is something that i believe in. I am either confident or not confident. If i am confident, I will go ahead. If not, I'll stay put.

gultekin_faculty: mahesh: there are always opportunities in the market -more in hard times than in good times. Our students collectively find these 'dimonds in the rough' and put the money to work

Mahesh: But currently students should then be investing rather than holding cash. Can i have your email Id so that i can contact you after the chat gultekin_faculty

Jon F.: Last question, and thank you again for hosting this chat. Are there any favorite books that you would recommend to a potential KFBS student that would be interested in an investment management concentration? Thanks.

Drew_KFBS2009: Jon, Two good ones for careers on Wall Street are *When Genius Fails* by Roger Lowenstein and *Monkey Business: Swinging Through the Wall Street Jungle* by John Rolfe and Peter Troob

Neil_KFBS2009: Jon, some good books would be Ben Graham's "Intelligent Investor", Peter Lynch's "One Up on Wall Street", and David Swensen's "Pioneering Portfolio Management"

adam r.: Jon: There are lots of books that are used in the concentration. You would want to think about two fundamental books: a basic finance book (like Ross, Weserfield & Jaffe) and an investments text (like Bodie, Kane and Marcus). The textbooks change from year to year, but the basic material in those books is the building blocks of what you will learn while at KFBS.

Jon F.: I love the book recommendations. Again, thank you to everyone for hosting the chat.

Mahesh: Jon, a word of advise from me. Read books on finance that will explain you the elements of finance. Reading strategies of successful people will leave you influenced by them to a large extent. You won't be able to concentrate on your strategy. It is your own developed strategy that will help you in the long run.

Drew_KFBS2009: We have about five more minutes for any final questions

Akin D.: Thank you for this opportunity, i have found it very enlightening.

Mahesh: What are the alternatives to IM for students wanting to their career in finance from KFBS?

Drew_KFBS2009: Mahesh, finance students not focusing in IM tend to do private equity, investment banking, corporate finance, or real estate finance.

Mahesh: Thanks Drew

adam r.: Mahesh, There is a corporate finance (CF) concentration and a real estate concentration within the finance area. You can, of course, choose to pair finance classes with other electives in other departments around the school (e.g. sustainability, marketing, entrepreneurship, operations, etc.)

Karen H.: About the alpha challenge, how does KF select the representative team? and How's the outcome of KF in 2008?

Michal_KFBS2009: Karen,

adam r.: Karen, There are judges who evaluate KFBS's teams and the best overall team. There is a competition.

Michal_KFBS2009: Karen, it is our decision to invite the schools but we try to invite top finance/Investment programs. We do get an interest from a lot more school than we can invite. This year Carnegie Mellon won the competition, Columbia was second and Yale third.

Karen H.: Is it based only on performance? or presentation skills as well?

adam r.: Karen, the judging evaluates content and presentation.

Michal_KFBS2009: Karen, it is based on the quality of the pitch and your research but presentation plays a big role too.

Karen H.: Thanks!! It is very useful.

Mahesh: Finally, any comments on prospects of applying in Round 3. Is it same as round 1 & 2?

Peggy T.: Mahesh, we admit applicants in all four rounds. However, by round four the number of opening will obviously be more limited based on our class size.

Maresh : Thanks Peggy

Drew_KFBS2009: Thank you all so much for participating in this Investment Management Chat. If you have any further questions, feel free to email mba_info@unc.edu, and we will get back to you as quickly as possible. In addition, the transcript to this chat is available at the following link: <http://www.kenan-flagler.unc.edu/Programs/...>

Peggy T.: Thanks to all of you for your participation in today's chat. We hope it was helpful to you.

Chris H.: Thank you. This was great.

Amrinder_KFBS2009: Thank you

Neil_KFBS2009: Thanks to all. Good Luck.

Maresh: Thanks a lot.

Karen H.: Look forward to seeing you in KF!

IM_MBA_Class_Presentat...