



# ACST404

## Investment and Asset Modelling

S2 Day 2014

*Applied Finance and Actuarial Studies*

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## General Information

Unit convenor and teaching staff

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Credit points

3

Prerequisites

ACST306(P) and ACST355(P) and ACST357(P)

Corequisites

Co-badged status

Unit description

This unit examines investment from an actuarial practitioner's perspective. The unit examines the attributes and characteristics of asset classes and the application of models from economics and finance to investment management. Stochastic asset models are constructed and evaluated, with particular emphasis on the relationship between assets and liabilities. Students gaining a grade of credit or higher in all of ACST402, ACST403 and ACST404 are eligible for exemption from Part 2 of the professional exams of the Institute of Actuaries of Australia.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.

Develop an understanding of the methods used for valuation of the common forms of debt, equity, property and derivative investments. In particular students should be aware of: valuation methods and principles, data requirements and sources, assumptions and limitations of the valuation models.

Develop an understanding of the major economic and financial theories relevant to investment including the capital asset pricing model, multifactor pricing models, efficient markets hypothesis and ideas from behavioural finance.

Construct, critically evaluate and apply asset models that are appropriate to the management of liabilities. Define appropriate investment objectives based on the liability profile of a fund, specify appropriate investment constraints based on the liability profile of a fund, identify the characteristics of different types of asset models, critically evaluate the appropriateness of an asset model for a given context.

Understand the effective investment governance of an institutional investor. The role of the board, the investment committee, the internal investment team and external investment managers including setting an effective delegation matrix. Investment beliefs and philosophy. Describe and critically evaluate approaches to asset allocation. Manage agency issues. Assess investment managers. Investment performance measurement and analysis. Investment and operational risk analysis.

## General Assessment Information

A Standardised Numerical Grade (SNG) gives you an indication of how you have performed within the band for your descriptive grade. The SNG is not a mark, and you may not be able to work it out based on your raw examination and other assessment marks. Nor are you able to determine you are “one mark away” from a different grade.

It is the responsibility of students to view their marks for each within session assessment on iLearn within 20 working days of posting. If there are any discrepancies, students must contact

the unit convenor immediately. Failure to do so will mean that queries received after the release of final results regarding assessment marks (not including the final exam mark) will not be addressed.

## Assessment Tasks

Name	Weighting	Due
<u>Class test</u>	10%	TBA
<u>Assignment</u>	20%	TBA
<u>Final exam</u>	70%	University examination period

### Class test

Due: **TBA**

Weighting: **10%**

A test / quiz covering the content of weeks 1 - 7 will be released on iLearn during or after week 7. The timing of the test will be advised.

No extensions will be granted. Students who have not sat the exam / test will be awarded a mark of 0 for the task, except for cases in which an application for special consideration is made and approved

On successful completion you will be able to:

- Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.

### Assignment

Due: **TBA**

Weighting: **20%**

A major assignment due in the second half of the session requiring analysis and written response. This will be made available in week 6 and due at the end of week 9. There is a 2 week mid term break between week 7 and week 8 of semester. The timing of the assignment release and due dates may change and we will advise of any changes to the timing. This will be an individual assignment, not a group assignment.

No extensions will be granted. Late tasks will be accepted up to 72 hours after the submission deadline. There will be a deduction of 20% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25

hours late in submission – 40% penalty). This penalty does not apply for cases in which an application for special consideration is made and approved.

On successful completion you will be able to:

- Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.
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- Understand the effective investment governance of an institutional investor. The role of the board, the investment committee, the internal investment team and external investment managers including setting an effective delegation matrix. Investment beliefs and philosophy. Describe and critically evaluate approaches to asset allocation. Manage agency issues. Assess investment managers. Investment performance measurement and analysis. Investment and operational risk analysis.

## Final exam

Due: **University examination period**

Weighting: **70%**

A 3 hour final examination for this unit will be held during the university examination period. This will be an open book examination where students may bring notes. Details of what will be permitted during the final exam will be given during the unit.

Calculators will be allowed in the final examination but a clear indication of the steps involved in

every calculation must be shown. Any machines that have a text-retrieval capacity, specifically those with a full alphabet on the keyboard, are not allowed. Calculators may be checked at the commencement of the examination and the make/model may be recorded.

Dictionaries are not permitted in the final examination and no reference materials are allowed to be taken into the final examination.

No extensions will be granted. Students who have not sat the exam will be awarded a mark of 0 for the task, except for cases in which an application for special consideration is made and approved

On successful completion you will be able to:

- Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.
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## **Delivery and Resources**

### **Classes**

Any alterations to the class times or locations will be advised in class and on the iLearn subject page.

### **Campus classes**

Lectures for this unit will be held on Saturdays between 9am and 12pm in Building W5A Theatre 1, Macquarie University, North Ryde. The first lecture will be on August 9th.

### **Distance education class**

If you have enrolled for the distance education offering of this unit you will have access to all materials from the face to face classes (learning guides, lecture slides/overheads, handouts, exercises etc) and the same discussions and other activities via the ACST404/871 iLearn page.

The 2 hour lecture and 1 hour tutorial will be stored using *iLearn* software and will be available as a download from *iLearn*.

### **Required and Recommended texts and/or materials**

There are 2 textbooks for this course:

#### **Recommended:**

**Fitzherbert, Richard**

**Investment Principles for Actuaries**, ISBN 978 0 85813 072 2

(Referred to elsewhere in this unit guide as **FITZ**)

#### **Required**

**Bodie, Drew, Basu, Kane and Marcus**

Principles of Investing, ISBN 9780071012386

(Referred to elsewhere in this unit guide as **BDBKM**)

**BDBKM** is available from the Macquarie University Co-op Bookshop. Distance education students can obtain **BDBKM** from on-line booksellers such as Amazon. **FITZ** is available from the Actuaries Institute of Australia online bookshop web address <http://www.actuaries.asn.au/TechnicalResources/OnlineBookshop.aspx>.

Additional readings as PDF files will also be made available via the iLearn system or will be available in the public domain or on the internet.

### **Unit web page & Technology Used and Required**

All Students

The ACST404/871 iLearn page is integral to this course unit, whether you are a distance student or in a face to face class.

iLearn can be accessed via <http://ilearn.mq.edu.au>.

We will make announcements about unit administration and assessment tasks via iLearn. These announcements will be sent as emails to your Macquarie University student email account. You

should check your student email account regularly, at least every couple of days.

### **Distance Education Students**

The 2 hour lecture and 1 hour tutorial will be stored using *iLearn* software and will be available as a download from *iLearn*.

It is very important that distance students check their student email for unit announcements regularly, at least every couple of days. In particular, towards the end of semester you should check for announcements on the final exam.

### **Changes since previous offering of the unit**

Minor reweighting of the assessment tasks.

### **Teaching and Learning Strategy**

Important – Students are expected to have completed the assigned reading BEFORE each lecture.

Most of the 3 hour sessions will consist of a 2 hour lecture covering the material for the week followed a workshop / tutorial in the last 1 hour.

## **Policies and Procedures**

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy [http://mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy [http://mq.edu.au/policy/docs/grievance\\_management/policy.html](http://mq.edu.au/policy/docs/grievance_management/policy.html)



Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](http://www.mq.edu.au/policy/docs/disruption_studies/policy.html) *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: [https://students.mq.edu.au/support/student\\_conduct/](https://students.mq.edu.au/support/student_conduct/)

### Supplementary Exams

*Further information regarding supplementary exams, including dates, is available here*

*[http://www.businessandeconomics.mq.edu.au/current\\_students/undergraduate/how\\_do\\_i/special\\_consideration](http://www.businessandeconomics.mq.edu.au/current_students/undergraduate/how_do_i/special_consideration)*

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### Capable of Professional and Personal Judgement and Initiative

We want our graduates to have emotional intelligence and sound interpersonal skills and to demonstrate discernment and common sense in their professional and personal judgement. They will exercise initiative as needed. They will be capable of risk assessment, and be able to handle ambiguity and complexity, enabling them to be adaptable in diverse and changing environments.

This graduate capability is supported by:

### Learning outcomes

- Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.
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### Assessment tasks

- Assignment
- Final exam

## Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

### Learning outcomes

- Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.
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### Assessment tasks

- Class test
- Assignment

- Final exam

## Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

### Learning outcomes

- Explain the behaviour of different investment types under different economic conditions, recognising risk factors including issuer default, counterparty failure, systemic liquidity, the collapse of speculative bubbles, shocks to the system and cyclical/structural changes.
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### Assessment tasks

- Assignment
- Final exam

## **Research and Practice**

The unit will develop students' abilities to conduct research in a practical context through a wide range of readings, discussions and class activities.