

**The London Institute  
of Banking & Finance**

# **Debt and Equity Investment and Valuation**



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**MODULE SPECIFICATION**

<b>1. Title</b>	<b>Debt and Equity Investment and Valuation</b>	
<b>2. Start date</b>	2016	
<b>3. Level of module</b>	Level 5 FHEQ	
<b>4. Number of credits</b>	30 Credits	ECTS Value
		15
<b>5. Status</b>	<ul style="list-style-type: none"> <li>• Compulsory</li> </ul>	
<b>6. Recommended prior modules</b>	<ul style="list-style-type: none"> <li>• Financial Services: The Commercial Environment</li> </ul>	
<b>7. Programmes of study to which module contributes</b>	<ul style="list-style-type: none"> <li>• BSc (Hons) in Finance, Investment and Risk</li> </ul>	
<b>8. Campus / partner</b>	N / A	
<b>9. Syllabus overview</b>	<p>This syllabus is designed to build upon students previous studies on this programme in developing a more detailed insight into analysing and valuing a variety of equity and debt securities. These largely quantitative methodologies will be evaluated in detail along with the results of such analysis and applied practically to a range of case studies. Key developments in financial markets and the economy will also be evaluated to demonstrate the wide number of considerations which must be taken into account during the valuation process.</p> <p>Students will investigate the key global benchmarks which portfolios can be judged against including FTSE RAFI indices, emerging sustainability and corporate responsibility indices and PIMCO bond indices in order to ascertain the risk return trade off of a portfolio. This process will also include establishing a range of key risk metrics and the impact these have upon the investment decision and portfolio composition.</p> <p>The module will then investigate the construction of an efficient investment portfolio considering current market conditions, key theories and other practical considerations. A range of fundamental and technical techniques for stock selection will be covered to ensure the module gives students a comprehensive insight into debt and equity valuation and portfolio construction.</p>	

**10. Intended subject specific learning outcomes and, as appropriate, their relationship to programme learning outcomes**

On completion of this module, students will be able to:

- a) critically evaluate the range of debt and equity investments which can be utilised in forming an efficient investment portfolio;
- b) undertake numerical analysis to quantify key risk measures;
- c) assess the risk and return profile of debt and equity instruments;
- d) undertake debt and equity valuations using a range of advanced market based techniques;
- e) prepare and present approaches to structuring an efficient investment portfolio using debt and equity instruments under a range of economic conditions; and
- f) to synthesis current developments in financial markets and asset pricing.

These intended module learning outcomes contribute to the following programme learning outcomes:

- BSc (Hons) in Finance, Investment and Risk: A2, A3 and A5.

**11. Intended generic learning outcomes and, as appropriate, their relationship to programme learning outcomes**

On completion of this module, students will be able to demonstrate achievement of the following generic learning outcomes:

1. Critical thinking skills.
2. Ability to learn through reflection on practice and experience.
3. Ability to work with complex material.
4. Ability to analyse problems and identify appropriate solutions.
5. Ability to work and study independently and in groups, and utilise resources effectively.
6. Communication and report writing skills.

These intended generic learning outcomes contribute to the following programme learning outcomes:

- BSc (Hons) in Finance, Investment and Risk: B–D.

## 12. Learning and teaching

### A. Learning hours

For a module of study worth 30 credits, the total expected study hours are 300 (ie ten hours per credit). The contact hours will depend upon the student's mode of study.

### B. Tuition support

#### Distance learning

Distance learning allows students to study independently within a clear framework, but at a pace that suits their personal circumstances and study needs. Over their course of study (24 weeks), students will be provided with comprehensive learning materials, study guides and will be assigned to a subject specialist academic tutor to support their studies. Distance learners will have regular contact with The London Institute of Banking & Finance Academic Tutor and further practical support is available from The London Institute of Banking & Finance Student Services.

#### Flexible learning

Flexible learning allows distance learners to opt for three face-to-face workshops of approximately six hours each, evenly spread at appointed dates in each session (24 weeks).

#### Full-time students

Full-time students will study on a semester basis supported by their module lecturer. The weekly timetable will be advised at the start of the programme.

### C. Learning materials and learning outcomes

The learning and teaching strategy is designed to ensure that the students achieve the learning outcomes by the end of the module. The learning and teaching methods include formal lecture and tutorial (full-time), online learning support from an appointed lecturer (distance / flexible learning), private study of text and other supporting materials, a formal assignment, informal exercises, (both individual and group-based), and pooling of experience and knowledge through class / forum and individual discussion. The assessment strategy is designed to achieve a balance between testing the student's skills of knowledge recall and understanding, and those of research and application.

### D. Reading

Students will be provided with a core text or equivalent, as detailed below, but will also be expected to read and research the recommended reading on the course website. Lecturers may also recommend additional reading throughout the module.

#### Essential reading

- Brown, K. C. and Reilly, F. K. (2012) *Analysis of investments and management of portfolios*. International Edition. Cengage Learning

#### Further reading

- Choudhry, M. (2013) *Fixed income markets*. 2nd edn. Singapore: John Wiley & Sons Ltd.
- Fabozzi, F. J. and Markowitz, H. M. (eds) (2011) *The theory and practice of investment management: Asset allocation, valuation, portfolio construction, and strategies*. 2nd edn. Chichester: John Wiley & Sons Ltd.
- Viebig, J., Poddig, T. and Varmaz, A. (eds) (2008) *Equity valuation: Models from leading investment banks*. Chichester: John Wiley & Sons Ltd.

#### Journals

- Financial Analysts Journal.
- Journal of Portfolio Management.
- The Economist.
- Financial World.

#### Websites

- Financial Times: [www.ft.com/](http://www.ft.com/)
- Bloomberg: [www.bloomberg.com/](http://www.bloomberg.com/)
- Digital look: [www.digitallook.com/](http://www.digitallook.com/)

Each student will have access to the Virtual Learning Environment (VLE) and to *KnowledgeBank* learning resources (an electronic library service). A list of further readings relating to the syllabus and summative assignment can be found on the VLE.

It should be noted that due to the rapidly changing environment that encapsulates the financial services sector, the reading list above is indicative only. It is subject to review and update at the discretion of the module team. An up-to-date reading list is made available to students at the start of the module.

### 13. Assessments

Component	Duration / Length	Weighting
<b>Component 1</b> Summative assignment	4,000 words including quotations and in-text citations	50%
<b>Component 2</b> Examination	Two hours (plus 15 minutes' preparation time)	50%

#### Component 1: Summative assignment

This component will contribute 50% of the overall assessment and will be based upon the submission of one assignment (4,000 words including quotations and in-text citations) at the end of the course but prior to the examination. The focus of the assignment will be on exploring a range of topics and issues in forming an optimal portfolio and valuing debt and equity instruments. The assignment will contain both theoretical and practical considerations which will need to be addressed. Feedback will be provided on this component in writing.

#### Component 2: Examination

This component will contribute 50% of the overall assessment. A variety of question styles and approaches may be included in the examination. Questions might require responses that involve both discursive and quantitative elements. Students will typically be required to explore and compare specific aspects of an issue or to apply their technical abilities and understanding to, for example, solve a problem or provide a recommendation.

The question paper will be structured as follows:

- **Section A:** one compulsory 20-mark question.
- **Section B:** Two optional 15-mark questions from a choice of three.

The pass mark for this component is 40%.

Time allowed: 2 hours (plus 15 minutes' preparation time).

A scientific calculator may be used but it must not be programmable, nor have a wireless-

communications capability, nor be capable of storing textual information. It must also not require a mains electricity supply. Calculators with any further functions are not allowed in the examination room.

At regular intervals during the course of study, students will be expected to submit formative assignments. These assignments will take the form of developmental learning activities towards the assessed assignment and unseen examination components and will be integrated within the study plan. They will provide students both with opportunities to reinforce their learning as they progress through the course of study and the opportunity to prepare for both the summative assignment and unseen examination.

Whilst these formative assignments will not contribute to the overall assessment, students are strongly advised to take the opportunity to complete them, as feedback will be provided from their lecturer on their progress through the course of study.

Students should be aware of the regulations governing the award of credit and the arrangements for compensation, condonement and the capping of marks. Students should also be aware of the regulations relating to the resitting of assessment components and / or the retaking of modules. This information is contained within The London Institute of Banking & Finance's General and Academic Regulations for Students sections 7, 8 and 9.

#### Module Grading

A student's module performance grade is determined by their overall weighted average percentage score in accordance with the following:

Pass	40%	-	59%
Merit	60%	-	69%
Distinction	70%	-	100%

## **14. Syllabus**

### **1. The range of debt and equity investments**

This section will explore the different types of fixed interest and equity investments which investors could utilise within an investment portfolio. Specific focus will be on the impact of current economic conditions upon their performance and weighting within a portfolio. The main contents of this section will include:

- An overview of the investment process.
- An analysis of equity and corporate bond characteristics and current market trends impacting their performance.
- Government debt and key drivers of pricing.
- Exchange traded funds and their development both in terms of popularity and product diversity.
- Other key debt and equity type investments.
- Key indices such as FTSE, MSCI, S&P and Bloomberg which track equity and fixed interest markets along with alternative benchmarks.
- Buy and sell side analyst functions.

### **2. Risk and return**

This section will introduce the key risks associated with investing in equities and bonds. Students will investigate how these risks can be measured and the impact they can have upon market prices. The module will combine both quantitative and qualitative approaches to establishing key risks along with investigating in detail performance metrics. The main contents of this section will include:

- Asset allocation considerations.

- Portfolio composition risk.
- Corporate financial risk which includes, reporting of annual results, financial distress, meeting analyst expectations.
- Market risk.
- Reinvestment and timing risk.
- Liquidity risk.
- Duration and convexity.
- Credit risk.
- Security and covenant risk.
- Yield curve and inflation risk.
- Key risk measurements techniques such as Value at risk, correlation, standard deviation, beta and other advanced quantitative methods.
- Black swans.
- Factor risk and risk parity.
- Foreign exchange risk.
- Political risk.
- Counterparty risks.
- Relative vs absolute performance.
- Risk / inflation adjusted returns.
- Key performance metrics such as CAGR and tracking error.
- Sharpe ratio, information ratio and other key risk measures such as the Treynor ratio, Sortino Ratio and M<sup>2</sup>.
- Assessing investments for ethically aware investors.

### **3. Debt and equity valuation**

This is a crucial part of the module and one which is integral to your studies. This section focuses on the various ways in which debt and equity can be valued and the theoretical / practical considerations which underpin these valuations. The main contents of this section will include:

- Valuation concepts and models.
- Dividend based valuations.
- Free cash flow based models.
- Price earnings valuations.
- Price to book / sales / cash flow valuations.
- Enterprise value, net asset value and sum of the parts valuation.
- Residual income valuation.
- Bond valuation techniques and spot and forward rates.
- Impact of the yield curve on bond prices and fitting the yield curve.
- Expectations theory.
- Debt valuation sensitivities.
- Term value of interest rates.
- Relative value / peer analysis.
- Construct and apply investment analysis using the yield curve.
- Fundamental and technical analysis.

### **4. Structuring an efficient investment portfolio**

Having established the key assets, risks and valuations, this section will explore how assets can be combined to form an efficient portfolio. The main contents of this section will include:

- Revisiting asset allocation principles.
- Strategic, dynamic and tactical asset allocation.
- Key portfolio theory such as modern portfolio theory.
- Principles of fund management.
- Active and passive fund management.

- Theory of active portfolio management.
- Bond immunisation.
- Optimal risky portfolios.
- Investment horizon.
- Practical portfolio construction considerations.