

Econ 380 Project

Project Due Last Class Session Right before the Final Exam

An individual term project is required and will be 25% of your grade. However, it's not the quantity of your work that counts, it's the quality. It shouldn't be more than 20 pages.

Here's the details of the project:

Global Industries, a publicly-held U.S. multinational corporation, is looking for a new pension fund manager. Your firm is interested in obtaining this business and you have been selected for an interview with Global Industries pension committee. The committee consists of members of Global Industries board of directors, company executives, and employee representatives. **You want to get their business. That's the goal.** Prior to interviewing you are given the following information:

Recent History

Global Industries experience with previous pension managers has been miserable. In the mid-1990's, the pension manager placed considerable bets on emerging market bonds and equities, which incurred steep losses in 1997 and 1998. In 1999, the fund took considerable losses in U.S. and European government bond markets, while missing out on much of the rally in equity markets. Following its difficult 1997-99 experience, the fund shifted to a much more equity oriented strategy in 2000 and 2001. This strategy was also met with problems as equities plunged causing further losses. In early 2003 the fund invested primarily in U.S. Treasury bills and shorter maturity (2-year) Treasury notes, yielding annual nominal returns between 1% and 3% and found that they missed all of the run up in the stock market, and so they went back to equities in late 2007 only to find significant losses due to the current financial crisis.

Financial Objectives/Risk Profile

Ideally, the committee would like the pension fund portfolio to earn a **real** return of 7-8% per year. But, given its experience, it is feeling like there is no way to make money at all. These concerns are especially prevalent among the employee representatives on the committee, who are more risk-averse than company executives and board members and are very concerned that the pension will have enough funds available for retirees. Global Industries has an older workforce, with about a fifth of its employees are due to retire within the next five years.

Since your interview will be brief, the committee would like you to submit a detailed proposal ahead of your meeting. This proposal should be designed to inform the committee of your views on the global economy and financial markets, as well as your investment philosophy. The report shouldn't be more than 20 pages in length and they have sent the following issues that they want you to discuss. However, they expect you to add all the other relevant elements that will help you explain your position and gain their trust and business. In no case should you just answer the questions. You need to win their business with a proposal that just doesn't answer questions, but convinces them you have the right answers and are the right choice.

Here are their questions:

Why have we had such a horrible experience in our pension fund?

What should we have done in the past?

What should we do now?

What are your short-term economic and financial projections for the United States, Asia, and the European union?

Are there other areas of the world we should be looking at and why?

What is your position on future growth of the US over the next 5 years, 10 years and 20 years?

What is the long term impact of the housing market decline in the US and abroad?

What impact will the U.S. federal budget deficit and mounting debt have on returns going forward?

What are the implications for financial markets and Federal Reserve policy if the deficit continues to increase?

What is your view of the currency market, especially the dollar continue to fall? Will Europe or Asia or somewhere else be an attractive place for U.S. investors in coming years? What impact will currencies movement have on our investments?

Are there risks of additional financial crises? What could happen? How probable is it? Which markets are at greatest risk and what should we do about it?

In your view, what (or where) are the main risks in global financial markets during the next couple of years? What (or where) are the main opportunities?

What is your view on emerging markets? Which emerging markets present the best investment opportunities and why? Which should we avoid or should we avoid them all?

Given what you know about Global Industries history and financial objectives, combined with your views on global financial markets, what is your recommended investment strategy for the company's pension fund? Provide an approximate idea of how you would initially allocate the pension fund's assets (not specific investments, just the type of investments).

What is your investment strategy and style? Will you manage the fund actively or passively? Will you run this fund like a hedge fund or more like a mutual fund or index fund?

What are the main risks associated with your investment strategy? How would you deal with these risks?

What role does alternative investments have in the portfolio?

Will you invest in commodities, futures, options, or other derivatives?

If selected as pension fund manager, how would you summarize (in one paragraph) the benefits of your investment plan in a newsletter to Global Industries employees and shareholders?

NOTE: Remember the goal of this project is to **win the business** of Global Industries. Your projects should read like a proposal that is trying to convince me that you are the company I should choose. Your projects will be judged primarily on the consistency between your view of global financial markets, your recommended investment strategy, and the perceived financial objectives of Global Industries. Feel free to deviate somewhat from the guidelines if it helps achieve this consistency and, most importantly, helps you win the business of managing the pension fund. Be creative! Try to be concise and please keep the reports around a 20 page length. **Above all else, you are trying to gain the business of this account. Show me that you know how to do business!**

Good Luck, please don't hesitate to ask questions.