



**3<sup>rd</sup>** Investment Research  
**CHALLENGE™**

2010

# Sponsors:

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**Capital IQ**

*A Division of* Standard & Poor's

# Presentation Index

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- CFA Program
- Description of the 3<sup>rd</sup> IRC - CFASB
- Summary of IRC's Rules
- Introduction to Ethics and Professional Standards

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# CFA Program

## **Mission Statement of CFA Institute:**

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*“To lead the investment profession globally by setting the highest standards of ethics, education, and professional excellence.”*

## Benefits of the CFA Program Respect and Credibility

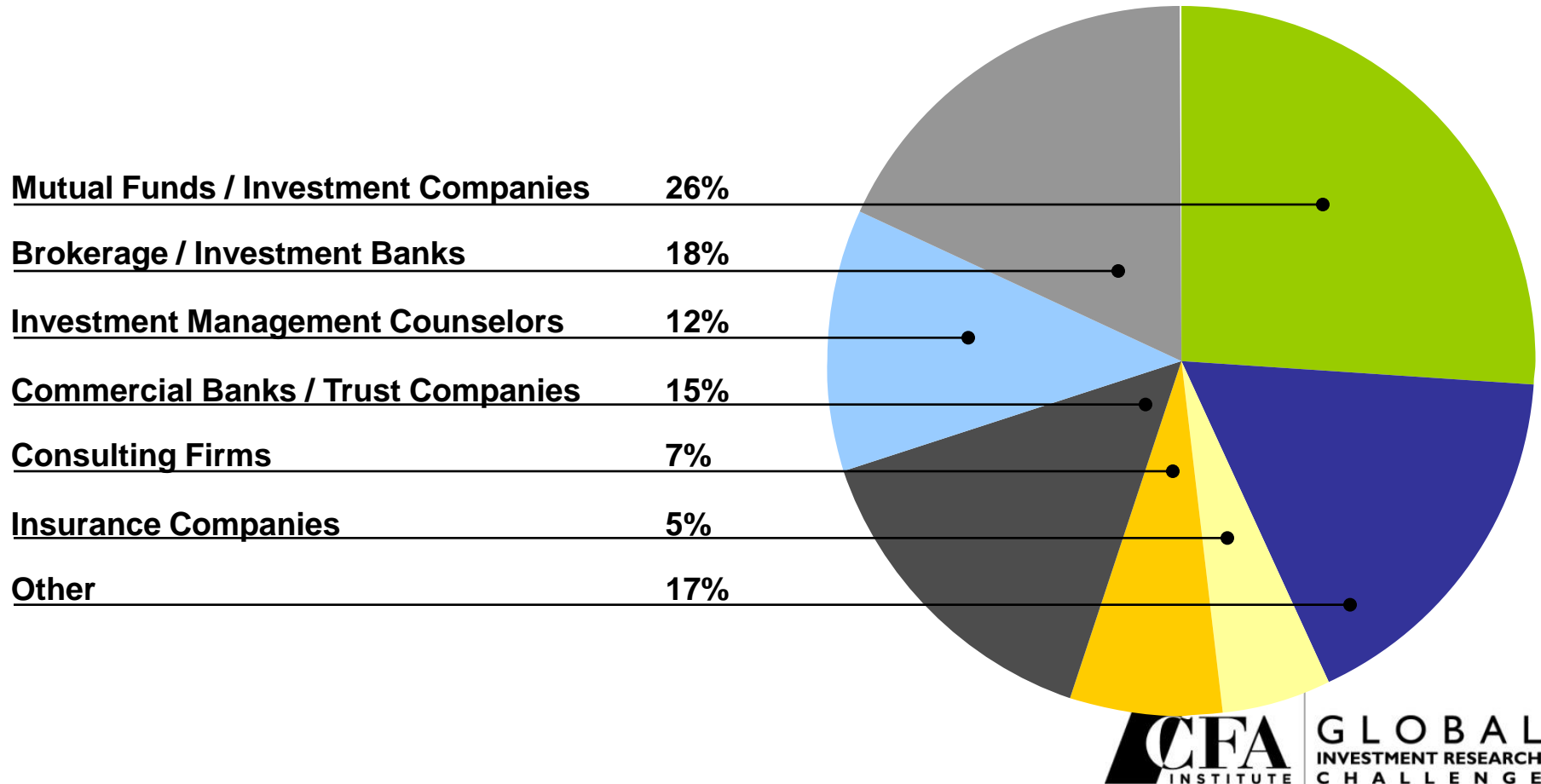
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Most common occupations of CFA charterholders

- CEO/Principal
- Chief Investment Officer
- Equity Analyst
- Fixed Income Analyst
- Investment Banker
- Investment Counselor
- Investment Firm Manager
- Portfolio Manager
- Portfolio Strategist
- Sales/Marketing Professional

## Benefits of the CFA Program Diverse Career Opportunities

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## Benefits of the CFA Program Opportunity – Top 10 Employers

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- UBS
- Citigroup
- JP Morgan Chase & Co
- Merrill Lynch
- RBC
- Bank of America
- Credit Suisse
- HSBC
- Morgan Stanley
- Goldman Sachs
- Deutsche Bank



# On the news

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“Though the finance industry absorbs many with Masters degrees in Business Administration and finance degrees, the Chartered Financial Analyst qualification, pursued part-time by those already hired, has become the industry’s benchmark.”



*Financial Times*, 2009

# On the news

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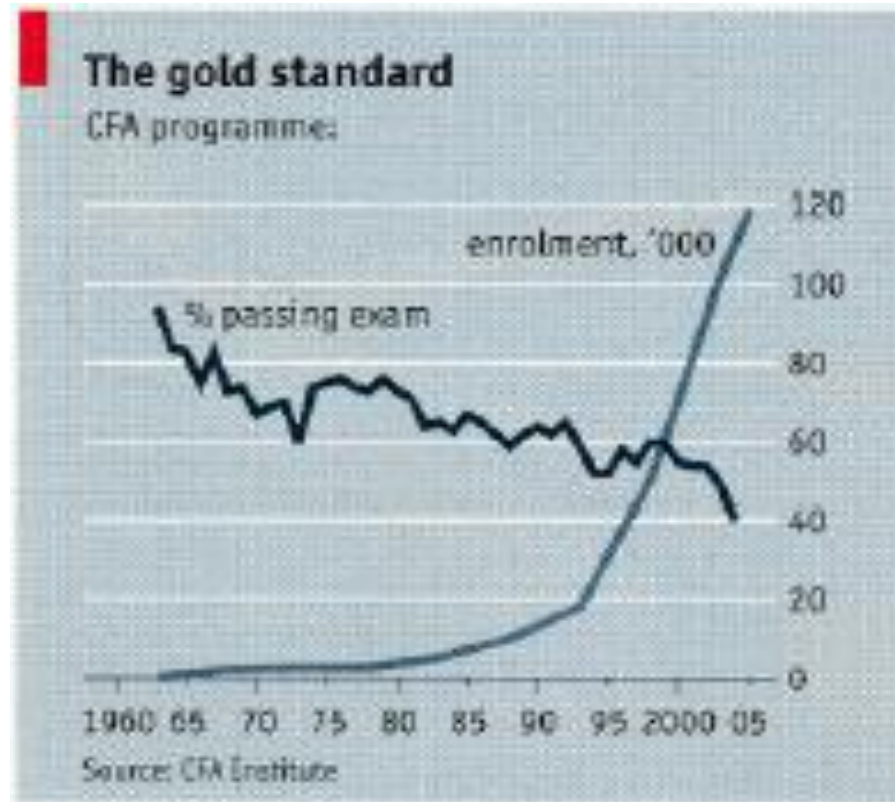
“Whereas there are tens of thousands of finance degrees available around the world, ranging from the excellent to the worthless, there is only one CFA, managed and examined by an American association of financial professionals, the CFA Institute. It used to be just an American qualification. But explosive growth has made it, in effect, global currency.”

**The  
Economist**

**The Economist**

**Feb. 26-Mar 4, 2005**

# The Economist



## CFA Institute Members & Candidates

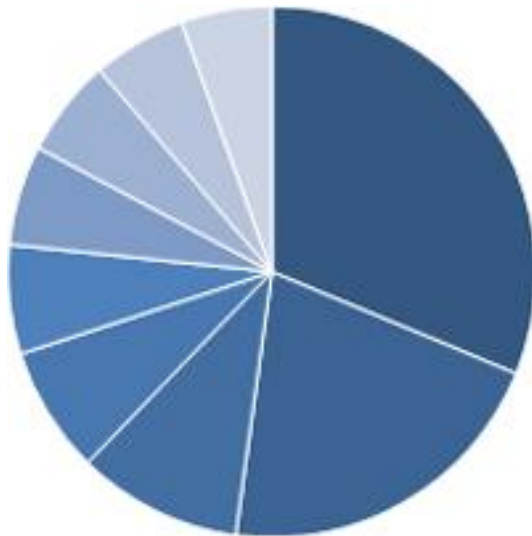
**Members: 95,500 Candidates: 199,900**

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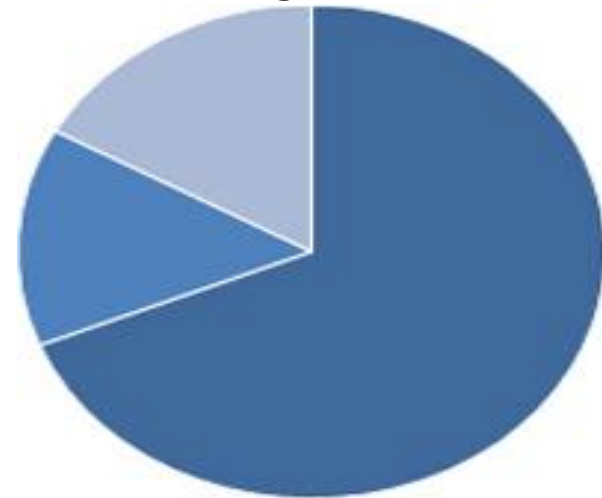
## Candidate Statistics

Geographic Distribution of CFA Institute Members



- 21.7% ■ Portfolio Manager
- 14.5% ■ Research Analyst
- 7.0% ■ Chief Executive
- 5.4% ■ Consultant
- 4.6% ■ Relationship Manager, Sales + Marketing
- 4.2% ■ Risk Manager
- 4.1% ■ Financial Adviser
- 4.0% ■ Corporate Financial Analyst
- 3.8% ■ Investment Banking Analyst

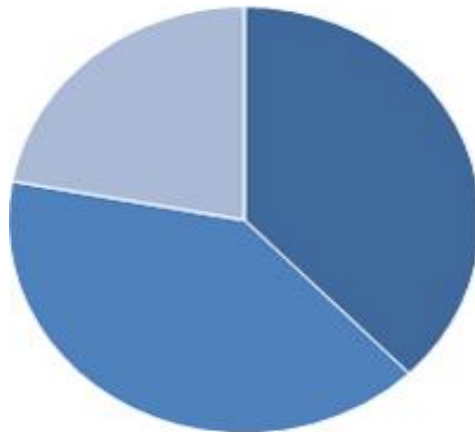
Largest Member Occupation Categories



- 69% ■ Americas
- 14% ■ Asia Pacific
- 17% ■ Europe, Middle East, Africa

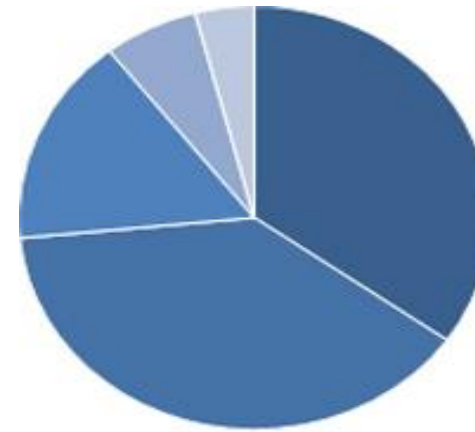
## Candidate Statistics

Geographic Distribution of  
December 2009 Candidates



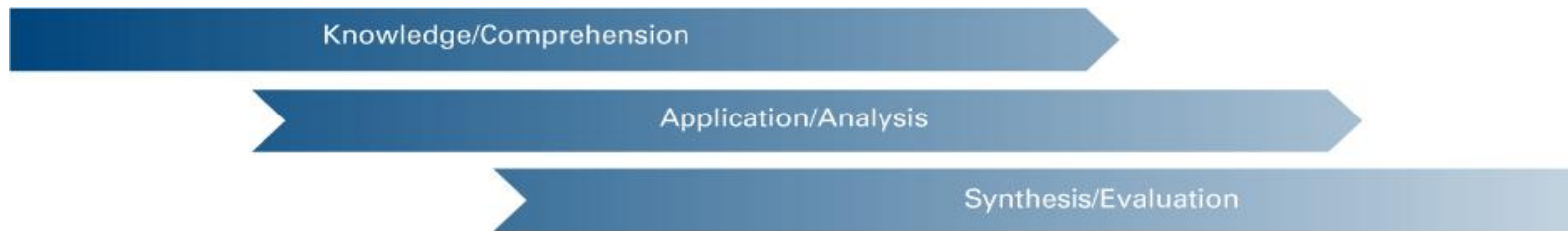
38% ■ Americas  
40% ■ Asia Pacific  
22% ■ Europe, Middle East, Africa

Age Distribution of December 2009  
Candidates



35% ■ ≤25  
39% ■ 26-30  
16% ■ 31-35  
7% ■ 36-40  
4% ■ >40

# What is the CFA Program? Three Levels and Three Exams



# June 2010 CFA Exam

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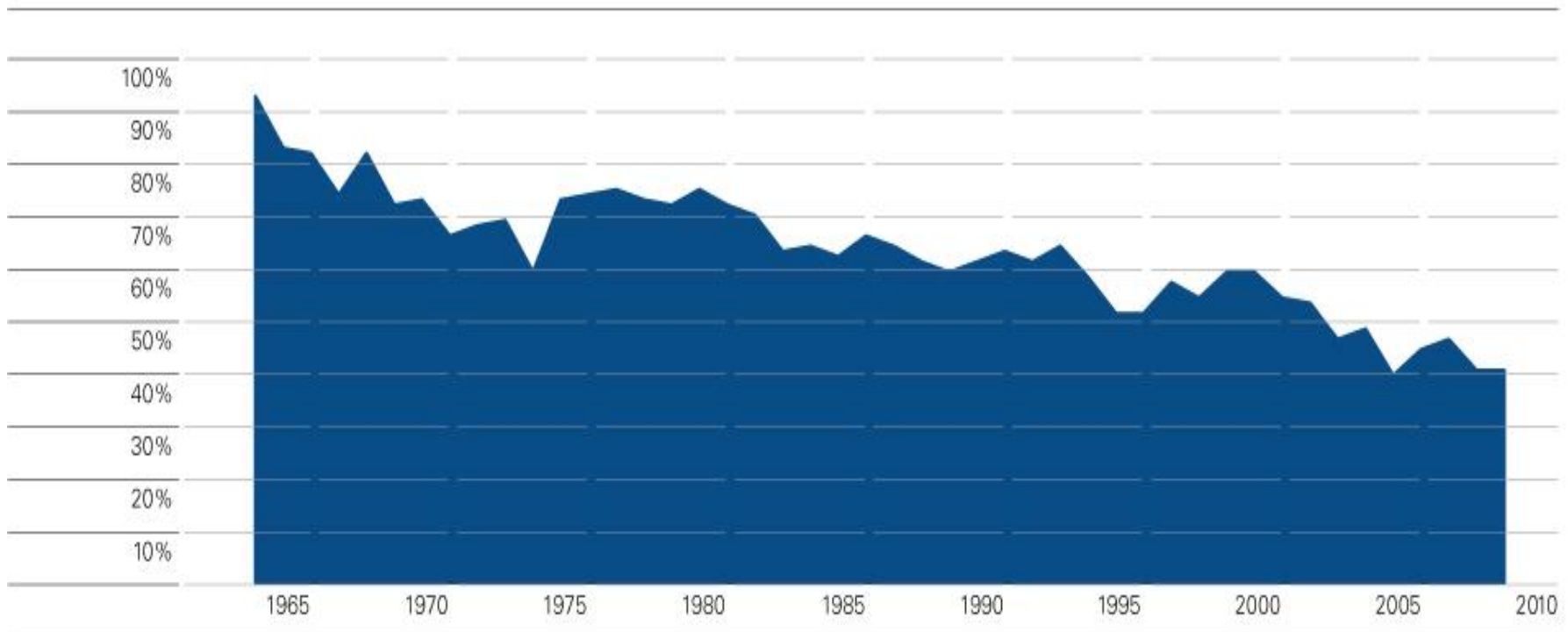
## Exam results

- 111,731 candidates from 160 countries
  - **Level I: 46,863**
  - **Level II: 43,406**
  - **Level III: 21,462**
- June 2010 CFA Exam Pass Rates
  - **Level I: 42%**
  - **Level II: 39%**
  - **Level III: 46%**



# CFA Program Historical Combined Pass Rates

Combined Pass Rates: 1963-2008



## Registering for the CFA Program

# CFA Charter Requirements

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- Sequentially pass Level I, II, and III exams
- Have four years of acceptable work experience
- Provide professional references (Level III)
- Join CFA Institute as a member and apply for membership in a local CFA Institute society
- Submit professional conduct statement

Registering for the CFA Program

# 1st Year Program Costs – December 2010

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## Approximate Costs for New Level I Candidates

Registration fee to enter CFA Program US \$400\*

Enrollment fee for Level I examination US \$710\*

- *Custom curriculum included!*

**Approximate Total Costs for Level I** US \$1,100

\*Registration & Enrollment by 1<sup>st</sup> fee deadline.

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# IRC Description

# Past Participating Universities

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FEA-USP



Insper

Instituto  
de Ensino  
e Pesquisa



- 
- **Purpose of Challenge**
  - Key Components
  - Participants
  - Timeline

## Purpose of Challenge

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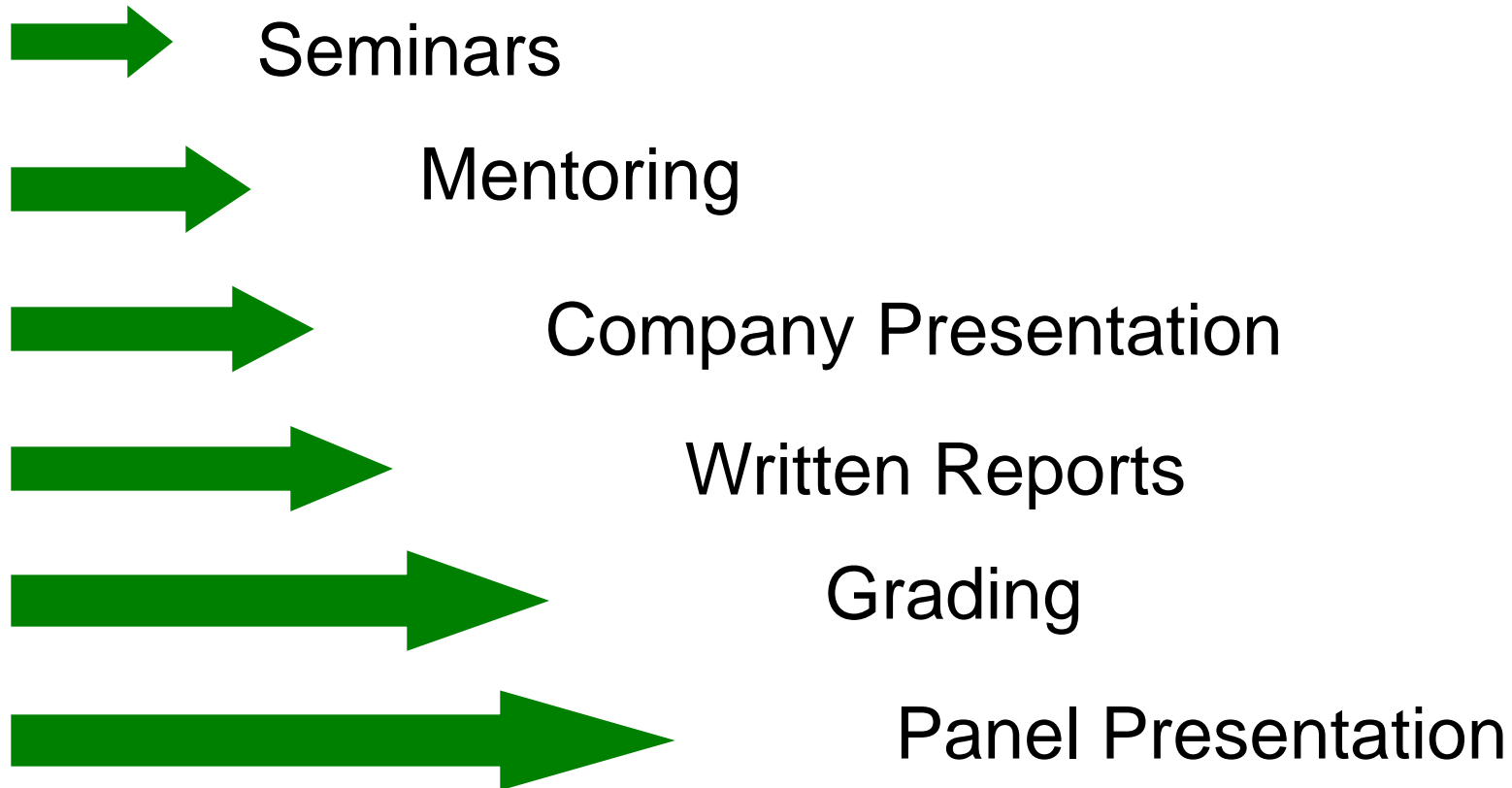
- Teaches best practices in research to the next generation of analysts.
- Provides experience in a real-world setting to complement students' academic curriculum.
- Develops interest in securities analysis and the investment profession at top business schools.
- Provides an opportunity for experienced professionals to give back.

- 
- Purpose of Challenge
  - **Key Components**
  - Participants
  - Timeline



## Key Components

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# Key Components

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## Seminars

What: Industry professionals provide a basic knowledge of the components of securities research and analysis

- *Ethics*
- *Research Report Writing – Buy and Sell-side Perspectives*
- *Presentation Skills*

When: August/September

Where: On campus at participating universities

# Key Components

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## Mentoring

What: Each team is mentored by a professional analyst or portfolio manager who is either a Society member, a university alum, or both.

When: **Three face-to-face** meetings with the teams once a first draft of the report has been completed.

Why: Mentors advise students on the written reports to provide real-world advice from experienced professionals. Mentors emphasize best practices and ethical conduct.

# Key Components

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## Company Presentation

What:

- Society selects a public company that has little analyst coverage to be the subject of the student reports. (note: some societies have students cover different companies)
- Teams research company and develop questions reviewed by mentors.
- Company management presents to student teams and answers student questions.

When: End of September

Why: Simulates a real-life Road Show

# Key Components

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## Written Reports

What:

- Society provides students with a research template containing specific guidelines.
- Mentors review student reports and advise teams on content and style.
- Teams submit reports to Society for assessment by member volunteers.

When: Reports are due one month prior to finals.

Why: Train students in corporate analysis and to produce concise, accurate, convincing research reports.

# Key Components

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## Grading

- What:** A team of 5-10 Society members volunteers to grade the written reports based upon a pre-determined points system for each section.
- When:** After reports are submitted, graders have two weeks to review and score all reports.
- Why:** The teams that receive the highest point total advance to the finals to present in front of the expert panel. The written report score counts for 50% of a team's final score. All teams receive written feedback on their reports from each grader.

# Key Components

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## Panel Presentations

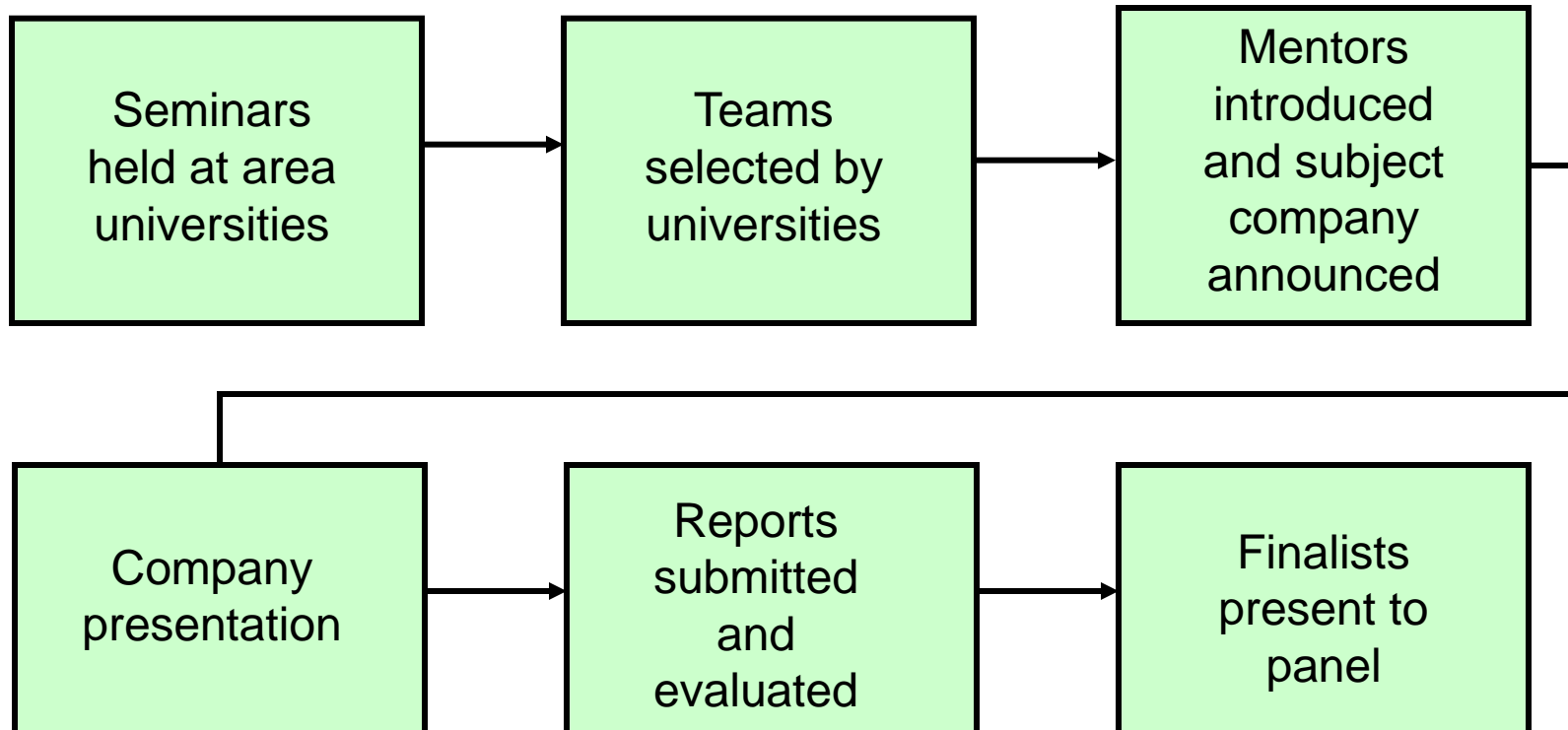
**What:** The four finalist teams present their research in front of a panel of experts – CIO's, Directors of Research, Managing Directors. Teams receive 10 minutes for their presentations and 10 minutes for Q&A.

**When:** November

**Why:** Prepares students to present and defend their written analysis through cogent verbal arguments. The panel scores represent 50% of final score. Winners are announced that evening.

# Key Components

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- 
- Purpose of Challenge
  - Key Components
  - **Participants**
  - Timeline

# Students

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## Responsibilities

- Attend Challenge-related seminars.
- Research subject company.
- Write an 8-10 page initiation of coverage research report.
- Present results in a 10-minute presentation with 10 minutes of q&a.

## Benefits

- Learn best practices in research and report writing from experienced practitioners.
- Produce a research report to bring on interviews.
- Gain exposure to industry professionals, including mentors, graders, and panelists.

# Faculty Advisors

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## Responsibilities

- Participate in decisions on local Challenge procedures.
- Provide venues for seminars.
- Select university teams for Challenge.

## Benefits

- Raise profiles within their universities.
- Network with mentors and other volunteers to attract speakers to their classes/universities.
- Provide students with career enhancement and increase their universities' exposure to Wall Street firms.

- 
- Purpose of Challenge
  - Key Components
  - Participants
  - **Timeline**

# Timeline:

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## August/September

- Seminars at participating universities – 23/08 and 08/09
- Internal competitions at universities to select teams.

## September (first quarter)

- Company announced and team's members selected – by 08/09

## September (second quarter)

- Company presentation

## October

- Final reports are submitted and graded – by 29/10

## November

- Finalist teams announcement – 19/11

## November

- Panel presentation – 09/12 (TBC)

# Part of: 5th Global Investment Research Challenge



***Tell me and I'll  
forget; show me and I  
may remember;  
involve me and I'll  
understand.”***  
*- Chinese Proverb*

# GIRC - Schedule of Event

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<b>Americas Regional Final</b>	
<b>Date of Event</b>	7 April 2011
<b>Location</b>	Omaha, Nebraska, United States
<b>Global Investment Research Challenge Final</b>	
<b>Date of Event</b>	8 April 2011
<b>Location</b>	Omaha, Nebraska, United States

# Sample Research Report

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- Template will be provided.

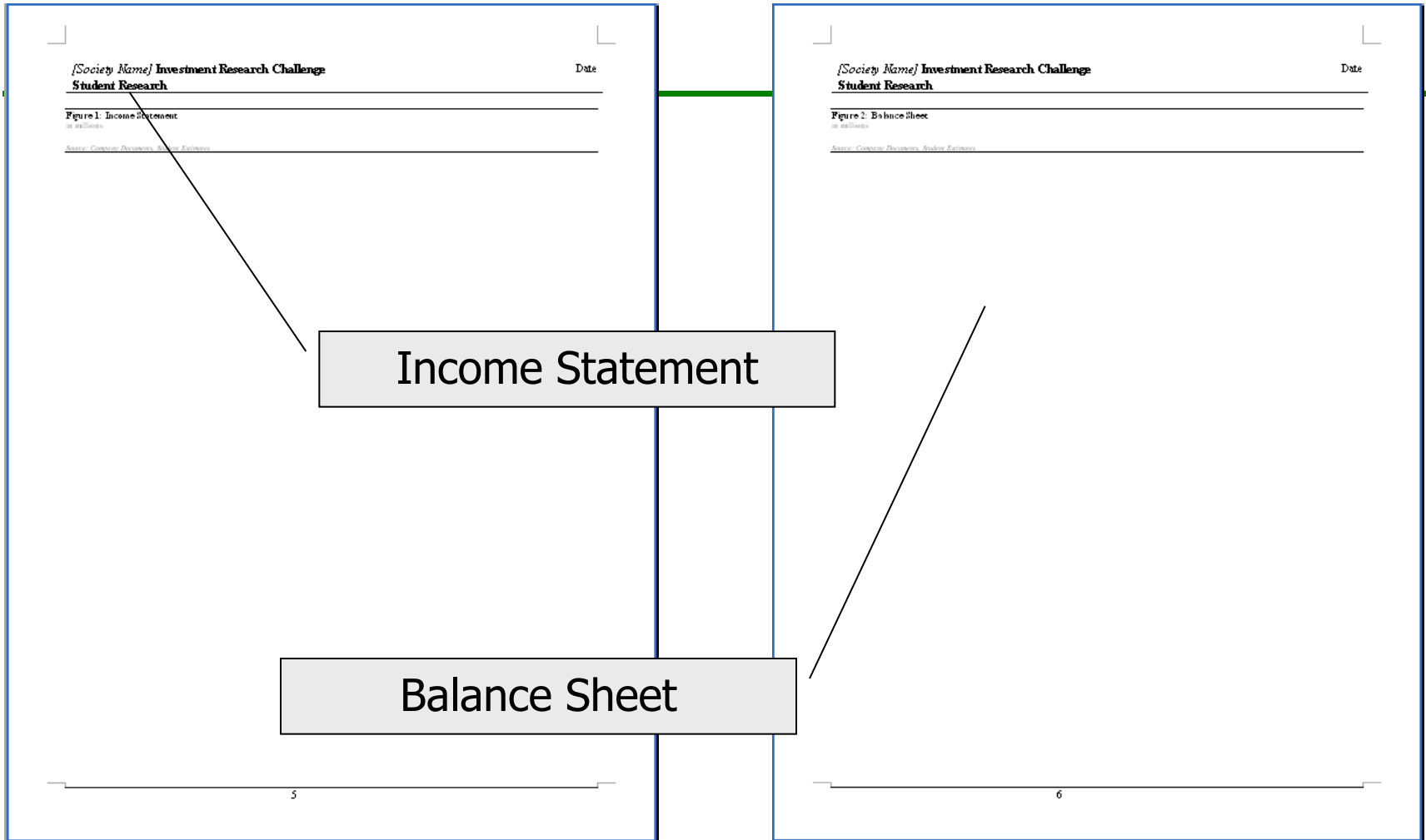




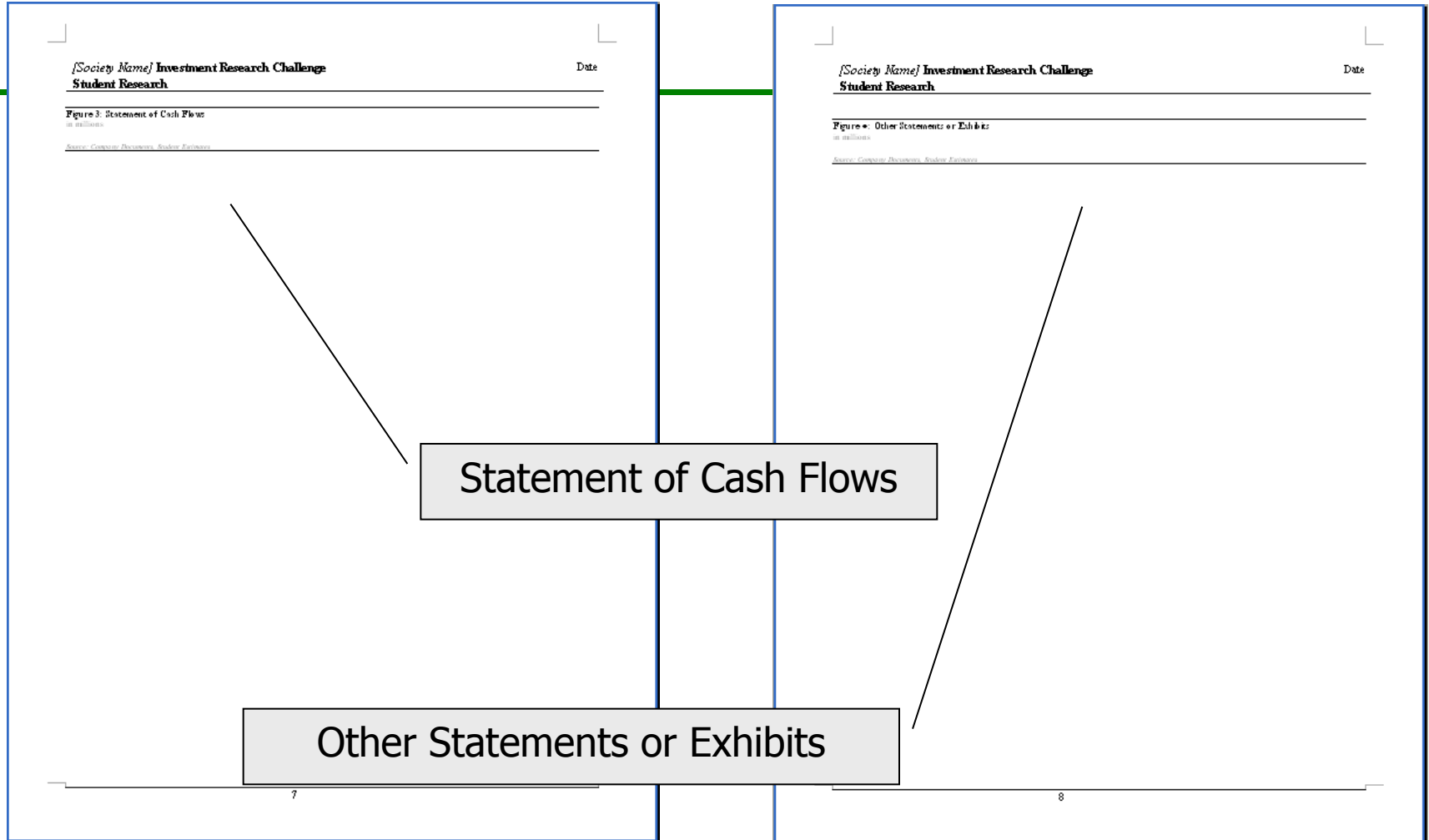




## Sample Research Report 4/6



## Sample Research Report 5/6



# Sample Research Report 6/6

[Society Name] Investment Research Challenge
Date \_\_\_\_\_

**Student Research**

## Disclosures

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**Disclosures:**

**Ownership and material conflicts of interest**  
The author(s), or a member of their household, of this report [knows/does not know] a financial interest in the securities of this company.  
 The author(s), or a member of their household, of this report [knows/does not know] the existence of any conflicts of interest that might bias the content or publication of this report. [The conflict of interest is...]

**Receipt of compensation:**  
Compensation of the author(s) of this report is not based on investment banking revenue.

**Position as an officer or director:**  
The author(s), or a member of their household, does [not] serve as an officer, director or advisory board member of the subject company.

**Market making:**  
The author(s) does [not] act as a market maker in the subject company's securities.

**Rating guide:**  
Bank's rate companies as either a BUY, HOLD or SELL. A BUY rating is given when the security is expected to deliver absolute returns of 15% or greater over the next twelve month period, and recommends that investors take a position above the security's weight in the S&P 500, or any other relevant index. A SELL rating is given when the security is expected to deliver negative returns over the next twelve months, while a HOLD rating implies flat returns over the next twelve months.

**Investment Research Challenge and Global Investment Research Challenge Acknowledgement**  
[Society Name] Investment Research Challenge is part of the CFA Institute Global Investment Research Challenge is based on the Investment Research Challenge originally developed by the New York Society of Security Analysts.

**Disclaimer:**  
The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered as a recommendation by any individual affiliated with [Society Name], CFA Institute or the Global Investment Research Challenge with regard to this company's stock.

9

- **Ownership and material conflicts of interest:**
- **Receipt of compensation:**
- **Position as an officer or director:**
- **Market making:**
- **Ratings guide:**
- **Investment Research Challenge and Global Investment Research Challenge Acknowledgement:**
- **Disclaimer:**



# IRC's Rules Highlights

# IRC Rules\*

## Teams

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- Each university must select one student team
- Teams may consist of 3-5 members (graduate and/or undergraduate students).
- There can be no alternates.
- Students that present in a regional or global final must be the original members
- Past participants in the Investment Research Challenge are ineligible.



# IRC Rules\*

## Teams (cont.)

- Students may not have been or currently be employed in a role whose primary duty involves fundamental company analysis;
  - **exception: students who have been interning in that function for six months or less by the time of the final presentation**
- CFA Charterholders are not eligible.
- Students must be enrolled in the current term at the school they represent.
- Students must disclose any ownership position in the securities of the subject company.
- Students must confirm that their participation in the Challenge does not represent a conflict of interest.

# IRC Rules\*

## Research Process

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- Students are bound by the **CFA Institute Code of Ethics** when conducting research.
- Students must **not use material non-public information** in their written reports or oral presentations.
- Contact with the subject company will be limited to the company presentation plus one follow-up contact.
- Teams may use their mentors and university faculty as resources, but **may not enlist the help of any other investment industry professionals** in conducting their research or writing their reports.
- **The reports must be the original work of the students.** Faculty members and mentors may provide comments, but may not write any part of the report.

# IRC Rules\*

## Primary Research

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- When conducting primary research, **students must identify themselves as students and disclose their involvement in the Investment Research Challenge.**
- **Teams may contact the subject company's customers, competitors and suppliers.** They must confine their conversations to corporate officers who normally interact with investors, such IR officers, CEO's or CFO's. Any other entity must be approved by the Society.
- **Faculty advisors may spend no more than 2 hours total in assisting students with this type of primary research.**
  - Total faculty involvement with the student teams must not exceed 10 hours prior to the local Challenge final.

# IRC Rules\*

## Mentor

- Each team will be assigned a mentor, who is an investment professional in good professional standing with experience in writing or reviewing research reports
- **Student contact will be limited to a maximum of 3 face-to-face meetings with their mentors, not to exceed 6 hours total**, prior to submitting the written report.
- Mentors will be allowed to review students' written work and provide comments only. **Mentors will not be allowed to perform any research or write any portion of the report.**
- Mentors may not contact the subject company.
- Mentors must disclose any ownership position in the securities of the subject company.

# IRC Rules\*

## Report

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- Reports must conform to the format of the Investment Research Challenge Template
- Reports may be 8-10 pages, including an investment summary.
  - Any additional charts and/or graphs will be included in the appendix. There is no limit to the length of the appendix.
- All reports will be based on the same subject company.
- **Reports must represent the original work of the student teams, and may not be copied from another source.**
- The name of the University will not be listed on the report, but each university will receive a letter to identify them (Team A, Team B, etc.)
- **All reports and appendix should be written in English.**

# IRC Rules\*

## Assessment

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- Assessment will be based on the **written reports and an oral presentation** to a panel, both judged according to pre-determined criteria.
  - **Student teams will be given these criteria before they begin their research.**
- The written reports will be assessed by a team of graders selected by the Society.
  - Grading will consist of a blind process in which the identity of the university is not known to the graders. The teams that receive the top [number] scores will be selected as finalists.
- The finalist teams, selected on the basis of the written report scores, will make an oral presentation of their research to a panel of experts.
- A winner will be selected from the finalists based on the combined scores received for the written reports and the oral presentations.
  - **The scores will be weighted 50% for the written report and 50% for the oral presentation.**
- In the event of a tie, the team receiving the highest score on the presentation will be the winner.

# IRC Rules\*

## Assessment

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- In the event of a tie, the team receiving the highest score on the presentation will be the winner.

# IRC Rules\*

## Presentation

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- Each finalist team will make a presentation in front of the panel of experts selected by the Society.
- Each presentation will last 10 minutes with 10 additional minutes of panelist q&a.
- The presentations and q&a will be timed, and teams may not exceed the time allotted.
- **Presentations should be written in English.**



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# Introduction to Ethics and Professional Standards

# Index

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- The Code of Ethics
- Standards of Professional Conduct

## Code of Ethics

- 
- *Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.*
  - *Place the integrity of the investment profession and the interests of clients above their own personal interests.*
  - *Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.*
  - *Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.*
  - *Promote the integrity of, and uphold the rules governing, capital markets.*

# Standards of Professional Conduct

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- I. Professionalism*
- II. Integrity of Capital Markets*
- III. Duties to Clients*
- IV. Duties to Employers*
- V. Investment Analysis, Recommendations, and Action*
- VI. Conflicts of Interests*
- VII. Responsibilities as a CFA Institute Member or CFA Candidate*

## I. Professionalism

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- *Knowledge of the Law (know laws and regulations; disassociate from activity which violates laws and regulations)*
- *Independence and Objectivity (exercise reasonable care; avoid situations that might create the appearance of conflicts of interest)*
- *Misrepresentation (avoid misleading clients; avoid making false statements or omitting important facts in investment recommendations or analyses)*
- *Misconduct (avoid committing fraud or other improper activity)*

## **II. Integrity of Capital Markets**

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- *Material Nonpublic Information (take no action based on information that a reasonable investor may want to know but which is not yet public)*
- *Market Manipulation (avoid activity that may artificially affect the price of a security or its trading volume)*

## **III. Duties to Clients**

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- *Loyalty, Prudence and Care (place clients' interests above one's own interests)*
- *Fair Dealing (treat all clients fairly when making investment recommendations or taking investment actions (such as allocating shares))*
- *Suitability (understand clients' investment experience and risk/return tolerances; investment suitability taken in context of overall portfolio)*
- *Performance Presentation (ensure that it is accurate and complete)*
- *Preservation of Confidentiality (preserve confidentiality, unless client permits disclosure or for legal investigation)*

## **IV. Duties to Employers**

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- *Loyalty (act for benefit of employer)*
- *Additional Compensation Arrangements (obtain employer approval, or otherwise avoid direct compensation from a client or another party for services rendered)*
- *Responsibilities of Supervisors (ensure that subordinates comply with the Standards, applicable laws and regulations, etc.)*



## **V. Investment Analysis, Recommendations, and Action**

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- *Diligence and Reasonable Basis (exercise diligence, be thorough, be independent, have a reasonable & adequate basis)*
- *Communication with Clients and Prospective Clients (disclose investment process and any subsequent changes; separate fact from opinion)*
- *Record Retention (maintain documentation to support investment decisions)*

## **VI. Conflicts of Interest**

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- *Disclosure of Conflicts (to clients and to employers for activity such as an analyst's personal ownership of stock(s) researched)*
- *Priority of Transactions (client transactions have priority over personal transactions)*
- *Referral Fees (disclose to clients and employer the receipt of referral fees from outside parties)*

## **VII. Responsibilities as a CFA Institute Member or CFA Candidate**

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- *Conduct as Members and Candidates in the CFA Program (do not engage in any activity that reflects poorly on the CFA Institute or that impairs the integrity of the CFA program)*
- *Reference to CFA Institute, the CFA Designation, and the CFA Program (references to the CFA designation are permitted and encouraged, but should not be exaggerated).*

## **VII. Responsibilities as a CFA Institute Member or CFA Candidate**

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- *Conduct as Members and Candidates in the CFA Program (do not engage in any activity that reflects poorly on the CFA Institute or that impairs the integrity of the CFA program)*
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## Easy way to glue these concepts to your memory: PEJMAR

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- **Priority** – *Your interests always come second to your clients.*
- **Encourage** – *Practice and encourage others to act professionally and ethically to reflect credit on yourself and the profession.*
- **Judgment** – *use reasonable care and judgment when performing all professional activities.*
- **Maintain** – *keep your knowledge up to date and encourage other professionals to do the same.*
- **Actions** – *employ integrity, competence, diligence, and respect in an ethical manner with everyone.*
- **Rules** – *promote the integrity of capital markets by following the rules.*

## Rationalization Risks

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1. *Denial of Responsibility (What can I do?)*
2. *Denial of Injury (No one was really harmed.)*
3. *Denial of Victim (They deserved it.)*
4. *Social Weighting (Others are worse.)*
5. *Appeal to Higher Loyalties (A higher-order value)*
6. *Metaphor of the Ledger (We've earned the right.)*

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**Obrigado  
e  
Boa Sorte!!!**