“The Ins and Outs of Wall Street”
Marquette University

April 13, 2013
<table>
<thead>
<tr>
<th>1. Investment Banking</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Sales &amp; Trading</td>
<td>14</td>
</tr>
<tr>
<td>3. Investment Research &amp; Asset Management</td>
<td>23</td>
</tr>
<tr>
<td>4. Wealth Management</td>
<td>33</td>
</tr>
<tr>
<td>5. Alternative Investments (Private Equity &amp; Hedge Funds)</td>
<td>45</td>
</tr>
<tr>
<td>6. Risk Management</td>
<td>60</td>
</tr>
<tr>
<td>7. Contact Information</td>
<td>68</td>
</tr>
</tbody>
</table>
Investment Banking
Investment Banking Overview

Primary functions of Investment Banking:
- Provide strategic and financial advisory services
- Aid clients in capital raising through capital markets
Bankers in each of the Industry Groups work across products (M&A, Debt, Equity) to assist clients.

**Advisory Business**
- Responsible for advising clients in the structuring and execution of a wide range of transactions, including:
  - Acquisitions, divestitures and mergers
    - Joint ventures
    - Corporate restructurings and recapitalizations
  - Shareholder relations assignments
  - Defenses against unsolicited takeover attempts
    - Spin-offs
    - Leveraged buyouts
- Establishes and maintains dialogues with existing and potential clients in achieving short- and long-term strategic objectives

**Industry Groups**

**Mergers & Acquisitions (M&A)**
- Solicits, structures and executes investment grade debt and related product businesses, including public and private debt
- Other product areas include:
  - liability management
  - asset-backed finance
  - project finance
  - preferred stock

**Fixed Income Capital Markets**
- Originates, structures, markets and prices public offerings and private placements of equity and equity-related securities
- Advises clients on financing strategies in context of M&A activity and public market restructurings and monetization programs

**Equity Capital Markets**
- Originates, structures public and private placement of high yield debt securities for non-investment grade domestic and emerging market corporations and sovereign entities
- Structures and underwrites floating-rate syndicated loans

**Leverage and Acquisition Finance**
- Responsible for advising clients in the structuring and execution of a wide range of transactions, including:
  - Acquisitions, divestitures and mergers
    - Joint ventures
    - Corporate restructurings and recapitalizations
  - Shareholder relations assignments
  - Defenses against unsolicited takeover attempts
    - Spin-offs
    - Leveraged buyouts
- Establishes and maintains dialogues with existing and potential clients in achieving short- and long-term strategic objectives

**Capital Raising Business**

**Global Capital Markets (GCM)**
Leading Investment Banks

Global/“Bulge Bracket”

Morgan Stanley
J.P. Morgan
citi
Bank of America
Merrill Lynch
Deutsche Bank
Barclays Capital
Credit Suisse
Goldman Sachs

Regional

RBS Greenwich Capital
Evercore Partners
UBS Investment Bank
Greenhill
CenterView Partners
Lazard
Moelis & Company
Houlihan Lokey Howard & Zukin
Jefferies
Baird
Piper Jaffray
Stifel Nicolaus
Marquette University
The Pecking Order

Analyst Life

Managing Director
Director (2-5 Years)
Vice President (3 Years)
Associate (~3 ½ Years)
Analyst (3 Years)
Banking Hierarchy

- Managing Directors and Executive Directors manage client relationships and source business

- VPs manage the process / workstream – draw up pages, attend meetings etc.

- Associates check the analyst’s work and tries to do VP-level work, occasionally presenting at meetings

- What does an analyst do?
## Role of an Analyst

*Good analysts develop a point of view, understand implications and are team players*

<table>
<thead>
<tr>
<th>Marketing &amp; Communication</th>
<th>Valuation Analysis / Financial Modeling</th>
<th>Other Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Prepare presentation materials</td>
<td>• Comparable company / transactions</td>
<td>• Conduct due diligence sessions</td>
</tr>
<tr>
<td>– Pitch books</td>
<td>• Discounted Cash Flow</td>
<td>• Draft / edit legal documents</td>
</tr>
<tr>
<td>– Teasers</td>
<td>• Leveraged Buyout</td>
<td>– Fairness opinions</td>
</tr>
<tr>
<td>– Information Memos</td>
<td>• Sum-of-the-parts</td>
<td>– Engagement letters</td>
</tr>
<tr>
<td>– Board books</td>
<td>• M&amp;A Modeling / Structuring / ROC</td>
<td>– Purchase agreements</td>
</tr>
<tr>
<td>– Committee memos</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Work with product specialists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Mergers &amp; Acquisitions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Global Capital Markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Leveraged Finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Interact with clients (internally and externally)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attend management presentations / road shows</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Pros and Cons of Being an Analyst

Pros

▲ Vertical learning curve
▲ High level of responsibility
▲ High quality peer group
▲ Valuable skill set
  – Financial modeling
  – Team work
  – Presentations
  – Client interaction
▲ Transaction experience
▲ Stepping stone to almost anything
▲ Clear investment banking career path
▲ Highly regarded work experience

Cons

▼ Rigorous hours
▼ High pressure environment
▼ Unpredictable
▼ High standard—no room for error
The Analyst Training Program

- 4-6 week training program
- Typically hosted in the city of the firm’s headquarters
- Often attended by all new analysts worldwide
- Coordinated and executed by Investment Banking professionals
- Taught by staff joined by business school and legal professionals
- Extensive computer and financial modeling training is provided
- Work hard, play hard culture – i.e. lots of social activities to get you acquainted with your new analyst class
Analyst Grandeur

- Traveling
- Meeting clients
- Excellent pay
- Future job opportunities
- Deal toys
- Big deals
Life After an Analyst

Two Year Program ➔ Third Year Opportunity

Promotion to Associate
Business School
Private Equity
Venture Capital
Hedge Fund
Corporate Development
Other?
Lifestyle “Do”s

- **DO** “work hard, play hard”
- **DO** spend time with other analysts
- **DO** keep in touch with your college friends
- **DO** go to the gym regularly
- **DO** plan your weekends—even if you may have to cancel
- **DO** keep your team updated with when you’re not going to be in the office
- **DO** have a packed suitcase handy
- **DO** keep your passport valid
Lifestyle “Don’t”s

- DON’T worry about face time
- DON’T spend *all* your time in the office
- DON’T miss meetings or flights
- DON’T plan “on-the-fly” three-week vacations
- DON’T decide to sleep through work today
- DON’T take two hour lunches during work rushes
- DON’T get overloaded
What Do I Need to be Successful?

Skill Sets

- No particular major is required, but emphasis on finance, economics, and mathematics is beneficial
- Strong attention to detail
- Analytical- good with numbers and able to connect the dots
- Passion for markets
- Multi-task, work well under pressure and time constraints
- Team Player
- Ability to communicate clearly and concisely
- Know what you don’t know
- Desire to pursue advanced designations (CFA) and/or degrees (MBA)
- Have the ability to bounce back from adversity
- Confident, but humble
How an Investment Bank Relates to Sales & Trading

An investment bank typically consists of three distinct, but related businesses.

**Traditional Investment Banking**
- Capital raising
  - Debt
  - Equity
- Strategic advisory services
  - Mergers & acquisitions
  - Restructuring
  - Takeover defense
- Origination and Securitization

**Sales & Trading**
- Distribution and trade execution arm of the investment bank
- Pairs short-term technical and tactical perspective with in house research for best execution
- Makes markets in equity and FICC securities traded OTC, on exchanges, and underwritten by the investment bank
- Specialize in asset class, product, and/or clientele

**Research**
- Analysis and recommendations of equity and FICC securities along with economic projections
- Asset class and product specific coverage.
- Fundamental and medium to long term focus
Sell Side vs Buy Side

Trading Overview

**Buy Side**
- e.g. WellsCap
  - Best Execution
  - Pay Off Discr. Budget
  - Soft Dollar

  Trader
  - Orders
  - Flow

  Portfolio Manager
  - Buys/Sells Budget
  - Investment Ideas

  Analysts
  - Recommendation

**Sell Side**
- e.g. R.W. Baird

  Trader

  Sales
  - Investment Ideas

  Research
  - Reports
  - Buy/Sell/Hold

  Investment Bank
  - IPO's
  - Secondaries

Wells Capital Management

Ray Lefebvre

15 Sales & Trading
Different Roles Within Trading

Trading: The Buying and Selling of Assets

Sales Traders
- Trade on behalf of clients
  - Act as client’s “agent” in the market
  - Exists in most cash market products and small presence in derivative space.
  - In return for representing client’s order(s) & executing on their behalf, client pays a commission or spread

Market-Makers
- Provide liquidity via “principal” trading
  - Willing and able to make a market in the asset(s) they trade
  - Take the other side of incoming trades as essential liquidity providers
    - If hit/lifted, commit capital to assume the risk. Then position becomes part of trader’s inventory and tradeout decisions are made.
  - All trading in FICC is done in this manner. Trader makes spread on quoted market and where they own or cover position.

Prop and Hedge Fund Traders
- Major distinction is prop firms trade solely with firm capital and hedge funds have clients/investors
- Trade long/short with various strategies in multiple assets and a high degree of leverage to produce alpha.
- Systematic or Discretionary
- Prop time horizon usually focused on scalping and intraday trading. Hedge funds short to medium-term.

Execution Traders
- Implement Portfolio Manager’s strategy with discretion for best execution
- Execute hedging strategies at corporations
- Exist in all asset classes on buy side. Gets compensated based on fund performance and budget

Pit / Floor Traders: Act in all the capacities listed above, but specialize in only one product. Floor seats are usually owned by sell-side market makers and local speculators
Different Roles Within Sales

Sales: Market and sell ideas/financial products to a targeted client base (i.e., institutional, retail, hedge fund, etc.)

Buy-Side Sales
- Mix between marketing and investor relations
- Prospect investors and raise capital
- Track fund performance and update investors
- Maintain relationships with liquidity providers

Sell-Side Sales
- Act as liaison between client and trader
- Assist clients with trade inquiries and trade booking
- Help arrange research analyst or company management visits with Buy-side analysts and Portfolio Managers
- Sell across asset classes
  - Known as cross-selling
  - i.e., Equities sales coverage may have an account that is interested in trading credit on a single name.
- Work with Capital Markets to help gauge client interest in new issues (IPOs, secondaries, etc.)

Research Sales
- Work closely with research to effectively market the firm’s research offerings to clients
- Assist clients with specific research requests
- Also works with Capital Markets to help manage new offerings
Role of the First Year Sales & Trading Analyst

- Liaison between Sales and Trading. No strict / defined career path across first year analysts.

- Distill and distribute firm research and trading desk color that is pertinent to client

- Perform many roles of a trading assistant
  - Prepare pitch books and trade ideas
  - Book and reconcile trade tickets, pnl and current market pricing
  - Preview and recap market events that effects trading desk and client positioning
  - Rectify administrative issues and answer phones
  - Ad-hoc requests by desk and clients

- LEARN the business
  - Both theory and practice

- Back up senior salesman or trader in their absence (this is your shot to advance!)

- Based on performance of above tasks, your career path and learning curve can vary widely
  - Once promoted beyond Analyst, title usually matters very little and PnL dictates success
  - Sales and Trading is truly a MERITOCRACY
6:00 – 6:30: Arrive at work depending on your location and market coverage

6:30 – 7:00: Catch up on o/n markets/news/research. Check upcoming data and economic releases slated for the day. Resolve any breaks and back office issues

7:00 – 7:30: Morning research call to highlight ratings or coverage changes by research team / Inventory / large-block trades / technical or macro-economic calls

7:30 – 8:30: Price securities, set pre-market and pre-data positions or pitch trade ideas depending if you are buy or sell side

9:30 - 12:00: U.S. Equities open and most liquid trading amongst domestic assets. Manage risk and call on clients with trade ideas, executions and evolving market conditions

12:00 – 13:00: European markets close and liquidity slows down. Adjust positioning and hedges based on AM trading. Talk with PMs, traders and sales reps around the street to compare flow and insights

13:00 – 16:00: Afternoon trading usually centers around positioning squaring, economic data events and earning releases

16:00 – 17:00: U.S. equity and bond markets close. Flatten books, hedge positions and leave orders for o/n positions. Reconcile PnL.

17:00 – 19:00: Most of buy-side has gone home. Sell-side, speak with our economists, strategists, other traders. Send out or review EoD trading thoughts. Resolve admin issues. Prepare for tomorrow’s trading.
Pros and Cons

PROS

- True Meritocracy
- High level responsibility at Jr and Sr level
- Transparent compensation
- Ownership
- Engulfed with markets
- Evolving and fast paced environment
- Develop strong technical and analytical skill set
- Front office and client facing role
- Create relationships across the street
- Home in time to catch Marquette Basketball

CONS

- High level of stress
- Low margin for error
- High turnover
- Income can be volatile
- Responsible for positions (firms and/or clients) around the clock
What Traits Do I Need to Be Successful?

Skill Sets

- No particular major is required
- Strong attention to detail
  - Important to be a good listener
- Passion for markets.
- Analytical, good with numbers and recognizing trends
- Confident, but humble
- Drive and ability to take risks without knowing the full picture
  - Realize that you NEVER really know the full picture
- Multi-task, work well under pressure and time constraints
- Team Player
- Ability to communicate clearly and concisely
- Know what you don’t know
- Have the ability to bounce back from adversity
Types of Firms - Where Can I Work?

Each Type of Firm Has Its Own Pros & Cons

• SELL SIDE
  – Investment Bank (Bank Holding Co.)
    ▪ Primary business is providing investment banking services. Has a capital markets desk to market primary securities and provide liquidity in secondary market
    ▪ Examples: Goldman Sachs, Morgan Stanley, Lazard, Baird, William Blair, etc
  – Commercial Bank (Bank Holding Co.)
    ▪ Primary business is lending and has capital markets desk to help manage client assets
    ▪ Examples: JP Morgan, Citigroup, Wells Fargo, Bank of America, BMO Harris, etc
  – Broker-Dealer / Market-Making Firm
    ▪ Act as an agent. Sole business focused on market-making. Most have a floor presence in exchange listed products
    ▪ Examples include Market Axis, Newedge, Prebon, Group One, Wolverine, etc

• BUY SIDE
  – Differentiated based on investment/trading strategy and customer base
  – Real Money: Mutual funds, Asset managers, Endowments, Pension funds, Insurance Cos
    ▪ Bound by specific investment strategy and risk parameters, use less leverage and are focused on medium to long term directional moves in the market
    ▪ Examples: Fidelity, Artisan Partners, Black Rock, Wells Capital, Marquette, CALPERs, North Western Mutual
  – Fast Money (Leverage Community): Proprietary Trading Frims, Hedge Funds, CTAs and CPOs
    ▪ Used high degree of leverage, implement various trading strategies, less regulated and are more focused on short term shifts in the market
    ▪ Examples: Citadel, Tutor Jones, DRW, Gelber Group, SIG, Jane Street, etc
Investment Research & Asset Management
### What is Asset Management?

Strategies span across asset classes and offer a variety of risk/return characteristics.

#### Fixed Income
- **Short duration**
- **Stable value**
- **Broad market/core strategies**
- **Core-plus strategies**
- **Long duration**
- **High yield**
- **International and emerging markets**
- **Sector-specific strategies**
- **Absolute return strategies**

#### U.S. Equity
- **Index/enhanced index**
- **Quantitative, fundamental, and behavioral**
- **All capitalizations: large, mid, small, micro**
- **All styles: core, value, growth**
- **Long/short strategies**
- **Market neutral and absolute return strategies**

#### Global and International Equity
- **Global: core and concentrated**
- **International: enhanced index, core, core plus, value and growth**
- **Emerging markets: core and concentrated**
- **Regional strategies: Asia, Europe and Latin America**
- **Absolute return strategies**

#### Real Estate
- **Private core, value added and opportunistic strategies**
- **Real estate investment trusts (REIT’s): U.S., International and Global**
- **Commercial mortgage-backed securities**
- **Blended public and private real estate**
- **U.S., Europe and Asia**
- **Infrastructure**

#### Alternatives
- **Hedge funds: fund of fund and direct**
- **Hedge funds: single strategy and multi-strategy**
- **Private equity: venture capital and corporate finance**
- **Private equity: Global, U.S., Europe and Asia**
- **Private Equity: Real Assets- Timber**
- **Currency overlay**

#### Multi-Asset Class Solutions
- **Diversified portfolios**
- **Multi-product portfolio construction**
- **Strategic and tactical asset allocation**
- **Convertibles**
- **Target date DC strategies**
- **Bundled DB and DC solutions**
- **Absolute return strategies**
What is Asset Management?

The investment management business involves the management, under appropriate guidelines, of clients’ investment assets.

<table>
<thead>
<tr>
<th>Risk/Return Parameters</th>
<th>Investment horizon</th>
<th>Special Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>Short term – principal protection and less ability to take risk</td>
<td>Liquidity needs</td>
</tr>
<tr>
<td>– Willingness</td>
<td>Long term – ability to take more risk and take a look at longer term investment options (e.g. real estate)</td>
<td>Tax situation</td>
</tr>
<tr>
<td>– Ability</td>
<td>Take a look at timing in context of overall portfolio</td>
<td>Socially Responsible Investment constraints (e.g. no tobacco, gaming, or alcohol)</td>
</tr>
<tr>
<td>Return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Required return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Before vs. after tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Real vs. nominal</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Who are Asset Management Clients?

Differentiation between individuals and institutions.

**Individual**
- Retail investors (mutual funds)
- 401(k) investors
- Private banking clients - HNW

**Institutional**
- Corporate pension plans
  - Harley Davidson
- Endowments & foundations
  - Marquette University
- Public funds
  - City of Milwaukee Retirement System

**Other**
- Sovereign Wealth Funds
  - Abu Dhabi Investment Authority
- Central Bank Reserves
What are the Asset Management Strategies?

Strategies span across asset classes and offer a variety of risk/return characteristics.
Roles in Asset Management

- **Chief Investment Officer / Portfolio Manager**
  - Manage all fund assets or a specific asset class
  - Make asset allocation decisions and act on analyst recommendations
  - Responsible for the portfolio or asset class performance

- **Investment Analyst**
  - Specialize in an asset class (i.e. fixed income, equity, etc.)
  - Analyze investment ideas - quantitative vs. qualitative
  - Work with portfolio managers to understand portfolio strategy

- **Sales & Marketing Analyst**
  - Work with sales team to capture investment opportunities
  - Determine competitiveness of investment strategy
  - Create investor demand by running asset allocation models and efficient frontier analysis

- **Risk Management Analyst**
  - Evaluate risks present in the market and specific to portfolio
  - Run scenario analysis (e.g. Fed cuts rates, equity market up 5%, etc.)
  - Look at sector allocation and performance attribution
Buy-Side Analysts

Provide recommendations directly to portfolio managers and CIOs

Day in the Life

- 7:00 am: Arrive in the office & catch up on daily news.
- 8:00 am: Read sell-side reports on holdings and prospective investments.
- 9:00 am: Conduct research on prospective investment idea
- 1:00 pm: Call or meeting with sell-side analyst or company IR
- 3:00 pm: Update portfolio manager on current investments or pitch an investment idea.
- 7:00 pm: Leave for the day.

Pros

- Directly responsible for investment ideas
- Look at wide range of industries and companies
- Work closely with CIOs and portfolio managers
- Your recommendations matter
- Get responsibility right away

Cons

- Resources can be more limited
- Less access to management
  - Learn as you go
- Nobody to back you up
Sell-Side Analysts

Provide investment recommendations via a bank or an independent research firm.

Day in the Life
- 6:00 am: Arrive in the office & catch up on news
  - 7:00 am: Morning Call
- 7:30 am: Answer emails and provide updates on recent events
- 1:00 pm: Work on long-term research projects
- 4:00 pm: Provide after-market research updates
- 5:30 pm: Work on long-term research projects
- 8:00 pm: Leave for the day

Pros
- Become an industry expert
- Client interaction with all types of investors
- Thorough training programs
- Get responsibility right away
- Work closely with the trading desk
- Lower stress than buy side

Cons
- Lots of time spent writing
- Earnings season hours are long
- Only focus on specific companies
  - Marketing is important
- Do not make actual investment decisions
What Do I Need to be Successful?

Skill Sets

- No particular major is required, but emphasis on finance, economics, and mathematics is beneficial
- Strong attention to detail
- Analytical- good with numbers and able to connect the dots
- Passion for markets
- Multi-task, work well under pressure and time constraints
- Team Player
- Ability to communicate clearly and concisely
- Know what you don’t know
- Desire to pursue advanced designations (CFA) and/or degrees (MBA)
- Have the ability to bounce back from adversity
- Confident, but humble
Where Can I Work?

Discussion of Pros & Cons

- Asset Management or Institutional Research arm of an investment bank
  - JPMorgan, Goldman Sachs, Morgan Stanley, Bank of America etc.

- Independent Research Firms
  - Alliance Bernstein, ISI, Redburn, Wolfe Trahan

- Asset Management arm within a commercial bank or insurance company
  - Wells Fargo, Northwestern Mutual, etc.

- Mutual Funds/ Separate Accounts
  - Calamos, Artisan, Vanguard, Fidelity, Wells Capital, etc.

- Pension Funds and Endowments
  - CALPERs, BGI, State of Wisconsin Investment Board, Harvard Management, etc.

- Manager Research
  - Institutional Consultants
    - Multinational: Hewitt/Aon, Mercer/Callan, Watson Wyatt etc.
    - Regional: Alpha Investment, Marquette Associates, Di Meo Schnider
  - Research and Ratings
    - Morningstar, S&P, Moody's
Current State of Industry

The World Ended….Now What?

<table>
<thead>
<tr>
<th></th>
<th>Hedge Funds</th>
<th>World Mutual Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$1.9 Trillion</td>
<td>$26.2 Trillion</td>
</tr>
<tr>
<td>2008</td>
<td>$1.4 Trillion</td>
<td>$18.9 Trillion</td>
</tr>
<tr>
<td>2009</td>
<td>$1.6 Trillion</td>
<td>$22.4 Trillion</td>
</tr>
<tr>
<td>2010</td>
<td>$1.9 Trillion</td>
<td>$23.1 Trillion</td>
</tr>
<tr>
<td>2011</td>
<td>$2.1 Trillion</td>
<td>$25.6 Trillion</td>
</tr>
<tr>
<td>2012</td>
<td>$2.9 Trillion</td>
<td>$28.0 Trillion</td>
</tr>
</tbody>
</table>

- Markets have recovered on the back of strong corporate earnings
- Investors moving from fixed income into equities
- Yet uncertainties remain related to government debt, inflation concerns, etc…

**Need for:**
- Due Diligence
- Risk Monitoring
- Compliance and Regulation
Wealth Management
Private Wealth Management: Overview

- **Wide Array Of Platforms**
  - Wide variety of firms and platforms exist, ranging from international and domestic private banks, to regional banks, brokerage firms and boutique investment management firms

- **Team-Based Model**
  - Clients typically served by a team of professionals who have a small number of clients for which they provide multiple services
  - Most PWM teams have a number of senior, junior and administrative professionals who serve the varied needs of a small but wealthy group of clients

- **Client Size/Net Worth**
  - Most firms focus on clients with $10mm+ in liquid net worth as a point of entry

- **Products Offered**
  - Investment Management (“managed money”)—long only, hedge funds, private equity
  - Brokerage (“transactional”)—equity, fixed income trades on a “non-discretionary” basis
  - Lending—mortgages, home equity lines, unsecured lending, art loans, aircraft loans, securities-based loans, yacht loans, private equity/hedge fund secured loans
  - Banking/Cash Management—short term cash accounts, CDs, checking accounts, savings accounts, foreign exchange
  - Estate Planning—function as executor of an estate, trustee or successor trustee of a trust
  - Hedging and Derivatives—interest rate swaps, equity derivatives

- **Revenue/Fees**
  - Clients may pay management fees on their entire relationship, may pay transactionally for services (e.g. brokerage commissions, loan fees), or some combination of both fee-based and transactional
Private Wealth Management

Private Wealth Management Firms

- Domestic/International Private Banks
- Investment Management Boutiques
- Private Client Services (“PCS”) Brokerage Firms
- Regional Banks
- Brokerage Firms
Domestic / International Private Banks

- Citi Private Bank
- JPMorgan Private Bank
- HSBC Private Bank
- U.S. Trust, Bank of America Private Wealth Management
- Wells Fargo Private Bank (the recent combination of Wells and Wachovia Private Banks)
Investment Management Boutiques

- Capital Group (division of Cap Guardian)
- Neuberger Berman
- Sanford Bernstein (division of Alliance Capital)
- Multi-Family Offices/Registered Investment Advisors ("RIAs")
Private Client Services ("PCS") Brokerage Firms

- Bear Stearns (a division of J.P. Morgan Chase & Co.)
- Goldman Sachs
- Barclays Global Investors (formerly Lehman Brothers Private Client Services)
- Merrill Lynch Private Banking and Investment Group (now part of Bank of America Corporation)
- Morgan Stanley Private Wealth Management
Regional Banks

- First Republic (New York)—now owned by Bank of America via Merrill Lynch
- Harris Bank (Chicago)
- M&I Bank (Milwaukee)
- Private Bancorp (Chicago)
- Signature Bank (New York)
Brokerage Firms

- A.G. Edwards (St. Louis)—now owned by Wells Fargo
- Baird (Milwaukee)
- Merrill Lynch (New York)—now owned by Bank of America Corporation
- Morgan Stanley Smith Barney (New York)
- William Blair (Chicago)
- UBS (New York)
Team Structure

Relationship Manager/investment Representative/Broker

- Analyst
- Sales Associate
• Senior member of team responsible for managing client relationships/"book of business" and the P&L of the team

• Manage overall team and spends majority of his/her time on the most important client relationships and developing new business

• Seeks opportunities to expand existing client relationships and gain greater “share of wallet”

• Actively work with centers of influence ("COIs") such as CPAs, lawyers, business managers to develop new relationships

• Spends significant amount of time outside of the office meeting with clients and developing relationships that can lead to new business

• Background can be varied:
  – Promoted up through the ranks (e.g. previously an analyst)
  – Lateral hire from another firm where had a similar role (e.g. competitor)
  – Joined from another line of work, such as investment banker/institutional salesperson

• Liaise with management team to establish optimal staffing to ensure an exceptional client experience

• M.B.A. not required, but can be useful
Sales Associate / Analyst

**Goals:**
- Be the business manager
  - Assume a large amount of broad and complex financial tasks
  - Allow Relationship Manager to focus his/her time on the most important client relationships and cultivating new relationships for the team/firm
- Responsible for daily interaction with clients
- Relay market knowledge, trade ideas, allocation proposals
- Support Relationship Manager/Investment Representative with research, strategic initiatives, trade execution, account administration, prospecting
  - Trust and estate research
  - Investment specific research
  - Knowledge of platforms, and products
  - Trading Equities, Fixed Income, Derivatives
  - Meeting preparation and participation
  - Account opening and maintenance
A Day in the Life: Sales Associate / Analyst

- **7 AM, Prepare for the day**
  - Inform yourself on new market information, paying special attention to information that influences clients positions or interests.
  - Review money lines to make sure all financial activity (trades, wires, etc.) from previous day settle correctly in client accounts.
  - Prioritize your follow up list (very little is accomplished in one day)
  - Communicate with broker in tackling new initiatives
  - Enter market open trades for clients

- **9:30 AM, Market Open, Multi Tasking Begins**
  - Follow up on priority list (account administration)
  - Work with broker on new initiatives
    - Modeling new allocations
    - Selecting managers for capital allocations
    - Preparing recommendation letter for clients
    - Research prospects
  - Enter trades, Monitor trades, Monitor market, communicate with client (equity, fixed income, options, structured products)
    - Must be knowledgeable in broad range of investments and trading strategies.

- **4 PM, Market Close**
  - Review/Book Trades
    - Allocate quantities, commissions, accounts
  - Continue initiatives, priority list
    - Do not leave until everything that can be accomplished today, is accomplished today

- **8 PM**
  - Watch the MU Bball Game; feel sorry for investment banker friends unable to make it.
• **Market Interest/Knowledge**: must have an interest in markets and be able to demonstrate market knowledge in an interview or client meeting

• **Analytical**: ability to analyze key information and perform analyses for clients and senior members of the PWM team

• **Attention to Detail**: must strive for 100% error-free work—both internally and on behalf of clients

• **Organization Skills**: multi-tasking and prioritization is a critical success factor for an entry-level role in PWM

• **Client Management Skills**: must be adept at handling the most demanding of clients with a pleasant demeanor—ability to “keep your cool” under all circumstances

• **Presentation Skills**: must be able to present key information, communicate articulately, and “manage” all of the players in a meeting (including clients)

• **Communication Skills**: must have ability to communicate clearly in order to exceed expectations of peers, management and clients
Alternative Investments (Private Equity & Hedge Funds)
What is Private Equity?

- Private equity (“PE”) is an highly illiquid asset class typically consisting of equity investments in privately held corporations.

- Private equity firms raise money from investors and then use that capital to buy companies and exert control over their operations with the intent of improving the businesses and creating value.

- PE firms finance their investments through a combination of equity and debt (aka leverage), hence the term “leveraged buyout” or “LBO”.

- After working with management to implement their strategic plans for the business, which is typically a 3-5 year process, the private equity firm’s goal is to sell the company for a profit (most often through an IPO, sale to another corporation or sale to another financial sponsor).

- The PE firm then splits the profits earned through the sale between their fund’s investors and themselves.

- Many very well-known companies have been owned by private equity firms, including:
  - Hertz
  - Nabisco
  - Harrah’s
  - Toys "R" Us
  - Dollar General
  - Sealy
  - Burger King
  - Vodafone
  - Nasdaq
  - Marquette University
How Value Is “Created” Through an LBO…

The hard way to create value is through improving the operations of the business – but this is what you get paid for!

Increase in Value through Operations:

Income of assets increases through growth as well as improvement in operations, and cash flow generated by the assets pays down debt.

Therefore, an LBO creates value through

- Increasing the value of the assets (operations)
- Financial leverage (capital structure)
However, Sometimes the Results Aren’t Always So Rosy…

Asset Value decreases because of operational difficulties (e.g., inability to invest in capital - “capex” - because of high leverage) or because of capital markets problems (e.g., equity market meltdown).
Investors Seemed to Think So…

- **Until 2007 The Private Equity Industry Enjoyed Spectacular Growth**
  - The industry doubled in size from $1 trillion AuM in 2003 to $2 trillion by mid-2007
  - Industry observers believe there’s potential to grow to $5 trillion in the next 5-7 years
  - (Note, however, that the current size of the industry is only a “rounding error” in terms of the size of the public markets, which in September 2007 amounted to almost $60 trillion in assets)

- **Top 5 Buyout Funds Closed in 2007:**
  - Goldman Sachs Capital Partners: $20 bn
  - Providence Equity Partners: $12 bn
  - Thomas H Lee Partners: $10 bn
  - Silver Lake Partners: $9 bn
  - Hellman & Friedman: $8 bn

- **Biggest fund ever raised: $22 bn by Blackstone Capital Partners in 2006**

- **Where does all of the money come from?**
  - Institutional investors: Pension funds (public / private), Endowments, Foundations, Universities, Asset Managers, Fund of Funds
  - High Net Worth Individuals, Family Offices
The Industry Is Now Picking Itself Up from The Financial Crisis

- After a prolonged quiet period driven by a lack of available financing, sponsor-driven deals have resurfaced
- Credit market rally and extensive unallocated sponsor capital contributing to new LBO activity
- With over $425Bn of committed capital to invest, sponsors have continued to make new investments, but deals have become more challenging with an increase in market volatility and questions surrounding available debt financing
- Premiums paid increased significantly from 2007-2010, but have declined back to pre-2007 levels in 2011

Average Premium Paid
LBOs > $1Bn

<table>
<thead>
<tr>
<th>Year</th>
<th>1-Day</th>
<th>4-Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>15.9%</td>
<td>24.9%</td>
</tr>
<tr>
<td>2005</td>
<td>19.3%</td>
<td>26.5%</td>
</tr>
<tr>
<td>2006</td>
<td>19.9%</td>
<td>25.2%</td>
</tr>
<tr>
<td>2007</td>
<td>20.9%</td>
<td>24.9%</td>
</tr>
<tr>
<td>2008</td>
<td>35.2%</td>
<td>37.9%</td>
</tr>
<tr>
<td>2009</td>
<td>44.3%</td>
<td>41.5%</td>
</tr>
<tr>
<td>2010</td>
<td>35.9%</td>
<td>40.7%</td>
</tr>
<tr>
<td>2011</td>
<td>12.7%</td>
<td>19.4%</td>
</tr>
<tr>
<td>2012</td>
<td>21.9%</td>
<td>30.6%</td>
</tr>
</tbody>
</table>

Selected 2012 & 2011 Transactions

Sponsor to Sponsor
Source: Company Filings, Wall Street Research, Capital IQ, and LCD
1. Sponsor acquired a majority stake in the asset
2. Equity contribution calculated as a percentage of aggregate value rather than total transaction sources
3. 2009 includes 1 deal (IMS Health)
Why Pursue a Career in Private Equity?

Not only do you have an interest in the capital markets and strong financial analysis skills, but…

- You’re passionate about participating in and learning about the operations of companies
- You want exposure to all types of deal structures
- You like to think strategically
- You want to hone “management” skills
- You want your future career path opportunities to be limitless

• **Approximately 77,000 people** work in the PE industry worldwide… and it continues to grow, creating more opportunities for the participation of junior team members
Role of the Private Equity Associate

The most direct / proven path to a junior role at a PE Firm is through completing an I-Bank analyst program

Responsibilities

• Financial modeling
• Industry / business due diligence
• Developing / presenting investment ideas
• Interacting with management
• Transaction execution
• Managing relationships with advisors
• Portfolio management
Role of the Private Equity Associate

Career Path

• 2-3 year Associate Program

• Next it’s on to business / graduate school, another PE firm, hedge fund or corporate finance / management roles

• In some instances:
  • Senior Associate positions are available to top performers
  • Potential for promotion to partner-track without graduate school

• As PE Firms become more institutionalized with larger fund sizes, greater geographic scope and strategy/business line expansion, there will likely be increased opportunities for internal mobility
Appendix: LBO Analysis

Qualitative and Quantitative Analysis Metrics

- **Industry characteristics**
  - Competitiveness
  - Industry drivers
  - Operating leverage
  - Minimum cash requirements to run the business
  - Types of industry (e.g., high technology) / Cyclicality (e.g., pulp and paper)
  - Regulatory factors

- **Company-specific characteristics**
  - Strategic positioning within industry
  - Strength of management teams
  - Growth profile
  - Operating leverage
  - Margins / potential for margin improvements
  - Level of maintenance vs. discretionary/expansion capex
  - Working capital requirements

- **Market conditions**
  - Bank debt vs. high yield
  - Equity returns
  - Investor mandates
**Mezzanine/High Yield**

- 10% - 20%
- Fills gap between equity and senior
- Unsecured
- Fixed coupon 12-15% (Mezzanine) and 10-13% (High Yield)
- Secured by assets of the company
- Requires principal and interest payments
- Cheapest source of capital
- Fixed or floating coupon
- LIBOR + 425 bps (floating rate)
- 7.25% (fixed rate - swapped)

---

**Bank Loan**

- 40% - 60%
- Secured by assets of the company
- Requires principal and interest payments
- Cheapest source of capital
- Fixed or floating coupon

---

**Equity**

- 20%
- Provided by homeowner
- Ownership
- Lowest priority
- Unlimited upside

---

**Mezzanine/High Yield**

- 10% - 20%
- Fixed coupon 12-15% (Mezzanine) and 10-13% (High Yield)

---

**Equity**

- 25% - 40%
- Provided by Buyer
- Ownership
- Lowest priority
- Unlimited upside
- Expected Yield 20% - 25%
What are Hedge Funds?

Investment partnerships whereby managers seek absolute rates of return rather than relative rates of return.

- Hedge funds are typically private partnerships
- Institutional and High Net Worth Investors (must be qualified)
- Invest across all markets (i.e. stocks, bonds and commodities, can also take long and short positions)
- Have more flexibility (i.e. not as restricted by regulation as mutual funds)
- Can use leverage and derivatives
- Managers compensated through management fee and incentive fee (performance-based fee)
Hedge Fund Investment Styles

There are four broad hedge fund styles, with many sub-strategies.

Volatility | Low | Low-Moderate | Moderate | High
---|---|---|---|---
Strategies | Relative Value | Event Driven | Equity Long/Short | Global Macro
- Convertible Arbitrage
- Fixed Income Arbitrage
- Equity Market Neutral
- Merger Arbitrage
- Distressed
- Multi-Strategy
- Long Biased
- Short Biased
- Geography Specific
- Discretionary
- Systematic
# Hedge Funds Vs. Traditional Investments

<table>
<thead>
<tr>
<th>Hedge Funds</th>
<th>Mutual Funds (Traditional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typically absolute performance objective</td>
<td>Typically relative performance objective</td>
</tr>
<tr>
<td>May use leverage / derivatives</td>
<td>Generally no leverage</td>
</tr>
<tr>
<td>Performance often driven by advisor skill (alpha)</td>
<td>Performance often driven my market direction (beta)</td>
</tr>
<tr>
<td>Opportunistic, flexible investment approach</td>
<td>Investment decisions typically constrained by benchmark</td>
</tr>
<tr>
<td>Low historical correlation to market indices</td>
<td>Generally correlated to market indices</td>
</tr>
</tbody>
</table>
Roles in Hedge Funds

- **Investment analyst**
  - Specialize in an asset class (i.e. fixed income, equity, etc.)
  - Analyze investment ideas - quantitative vs. qualitative
  - Work with portfolio managers to understand portfolio strategy

- **Sales & Marketing (Business Development & Investor Relations)**
  - Determine competitiveness of investment strategy
  - Develop investor presentations
  - Create investor demand by running asset allocation models and efficient frontier analysis

- **Risk Management analyst**
  - Evaluate risks present in the market and specific to portfolio
  - Run scenario analysis (e.g. Fed cuts rates, equity market up 5%, etc.)
  - Look at sector allocation and performance attribution

- **Operations**
  - Allocate and book trades to internal data systems
  - Liaise with third party service providers (e.g. fund administrator, prime broker, etc.)
  - Ensure trade settlement and reconcile position data

- **Trading**
  - Execution, Algorithmic, High Frequency
Where Can I Work?

Discussion of Pros & Cons

- **Alternative Asset Manager (Difficult, but not impossible to land directly out of university)**
  - Hedge fund manager – Stark Investments, UBP (Hedge Fund of Funds), Paulson, DE Shaw, etc.
  - Real estate manager – JPMorgan, Morgan Stanley, etc.

- **Private Equity (Usually requires a minimum of 2 years experience at an investment bank)**
  - SilverLake, TPG Capital, Kelso & Co., Mason Wells, Stone Arch Capital, Lubar & Co., Industrial Growth Partners
Risk Management
### WHAT IS RISK MANAGEMENT?

#### Risk Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Elements</th>
</tr>
</thead>
</table>
| Strategic Risk    | - Asset Quality  
                   | - Loss Predictability  
                   | - Counterparty       |
| Credit Risk       | - Concentrations  
                   | - Portfolio Hedging                                                  |
| Market Risk       | - Basis Risk  
                   | - Market Liquidity                                                   |
|                   | - Price  
                   | - Option Risk                                                       |
| Liquidity Risk    | - Contractual Funding                                                  |
|                   | - Contingent Obligations                                                |
| Operational Risk  | - People  
                   | - Process  
                   | - Systems  
                   | - External Events                                                  |
| Compliance Risk   | - Compliance Programs                                                  |
|                   | - Rules & Standards                                                    |
| Reputational Risk | - Business Practices                                                   |
|                   | - Customer Impact  
                   | - Negative Publicity                                                  |
|                   | - Litigation Risk                                                      |
WHAT IS RISK MANAGEMENT?

Categories of risk and how the Company manages these risks;

**Strategic Risk**

- Strategic Risk is embedded in every line of business and as part of the other major risk categories. It is the risk that results from adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, regulatory environment, business strategy execution, and/or other inherent risks of the business including reputational risk.

**Credit Risk**

- Credit Risk is the risk of loss arising from the inability of a borrower or counterparty to meet its obligations. The Company defines the credit exposure to a borrower or counterparty as the loss potential arising from all product classifications including loans and leases, deposit overdrafts, derivatives, assets held-for-sale and unfunded lending commitments that include loan commitments, letters of credit and financial guarantees. In evaluating portfolio asset quality, management focuses on:
  
  - The overall credit portfolio strategy, including product innovation and growth objectives.
  - The credit quality of borrowers and counterparties.
  - The strength of collateral or other risk mitigating factors.
  - The potential exposure under actual or implied contractual agreements.
  - Portfolio concentrations including off-balance sheet transactions.
  - Counterparty credit risk - the risk that a counterparty fails to perform on its terms of the contract or the agreement.
WHAT IS RISK MANAGEMENT?

Risk Categories

**Market Risk**

- Market Risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Bank of America’s primary market risk exposures are in its trading portfolio, equity investments, mortgage warehouse and servicing rights, and the interest rate exposure of its core balance sheet.

**Liquidity Risk**

- Liquidity Risk is the potential inability to meet contractual and contingent financial obligations on or off balance sheet, as they come due. The fundamental objective of liquidity risk management is to ensure that the Company can meet all of its financial obligations across market cycles and through periods of financial stress. To achieve this objective, the Company maintains appropriately sized liquidity pools to provide cushions for unexpected funding obligations.

**Compliance Risk**

- Compliance Risk arises from the failure to adhere to laws, rules, regulations, internal policies and procedures. This can also include the risk of engaging in business activities that do not have clear guidance from regulatory authorities. Compliance risk can expose the Company to fines, civil money penalties or payment of damages and can lead to diminished business opportunities and the ability to expand key operations.
WHAT IS RISK MANAGEMENT?

Risk Categories

Operational Risk

- **Operational Risk** is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company classifies operational risk by:

  - **People Risk** – The risk that business objectives will not be met due to human resource deficiencies such as: turnover; untrained personnel; over-reliance on key personnel; inadequate staffing numbers; employment practices; workplace safety; complexity of services, processes and governance structure; internal fraud; and deficiencies in management.

  - **Process Risk** – The risk that a pre-determined process necessary to conduct business does not function properly or leads to undesired results. Process risk may include risk related to clients, products, business practices, execution, delivery, process management, system conversions, outsourcing, disruptive market competition, new or changing products and services that impact the Company’s rate of growth.

  - **Systems Risk** – The risk that arises from systems and/or tools that are deficient, unstable or overly complex for the intended user and are key to conducting the Company’s activities. Systems risk can extend to include systemic risk, business disruption, technology complexity, business line interdependence, geographic diversity, payments and settlements. Systems risk can arise from the introduction of new technologies into the Company’s infrastructure.

  - **External Events Risk** – The risk that arises from factors outside of the Company’s span of control. This includes risks associated with vendors and service providers, as well as political, cultural, social and environmental factors.
WHAT IS RISK MANAGEMENT?

Risk Categories

**Reputational Risk**

- Reputational Risk is the potential that negative publicity regarding an organization’s conduct or business practices will adversely affect its profitability, operations or customer base or require costly litigation or other measures.

  - Reputational risk can stem from many of the Company’s employees and activities, including the activities related to the management of our strategic, operational or other risks, as well as our overall financial position. As a result, Bank of America evaluates potential impact to our reputation within all of the risk categories and throughout the Risk Management Process.
Enterprise Risk Management Approach

Risk Management Approach

1. Risk culture
2. Risk appetite and philosophy
3. Risk governance and organization
4. Risk transparency and reporting
5. Risk management processes

Key Risk Types
- Strategic
- Credit
- Market
- Liquidity
- Operational
- Compliance
- Reputational
Roles & Responsibilities

How Does Risk Work Within a Bank?
Roles & Responsibilities

How Does Risk Work Within a Bank?

- The role of the Credit Risk team is to manage the overall credit relationship and to facilitate the internal and external end-to-end credit process with various Origination and Risk partners.
- The industry teams manage Total Relationship Exposure for each client across the bank’s capabilities in a manner consistent with the firm’s Risk Framework, including lending, leasing, trade and supply chain finance, traded products and treasury management.

Credit Partner to Global Markets & Corporate & Investment Banking

- Member of client and deal team and partner to Global Markets, Corporate Banking and Investment Banking
- Early point of client contact for credit solutions
- Responsible for developing/maintaining a comprehensive understanding of the client’s business to facilitate the timely delivery of credit & traded product solutions
- Facilitates the end to end credit process on bilateral & participation loans and traded products
- Partner with Debt Capital Markets in transactions which we are Lead Arranger. Note that roles and responsibilities on CCR/FICR & DCM vary by transaction type
- Facilitate and participate in client team planning regarding the allocation and deployment of bank capital

Underwriting & Approval

- Leverage industry expertise and perform fundamental credit analysis to evaluate client creditworthiness
- Underwrite the credit/counterparty. Includes analysis of the company’s business, industry, management team, financial profile of key risks
- Assess transaction and relationship profitability in order to balance shareholder risk and return
- Assess client risk and define rationale for Risk Ratings. Confirm/override Risk Ratings where risk factors require experienced judgment
- Prepare Credit Approval Documentation in support of business decision. Ensure compliance with internal and external guidelines and policies
- Approve credit/counterparty exposure
- Conduct client and transactional due diligence
- Negotiate legal documents in capacity as Loan Participant, Admin Agent or trading counterparty

Monitoring

- Proactively assess client performance and risk on a current and forward – looking basis through research, dialogue with clients, and participation in Bank Meetings
- Conduct quarterly risk assessment routines in order to evaluate client performance and compliance with credit facility covenants

Risk Governance

- Conduct targeted Sector/Portfolio reviews and broader Risk Governance routines, such as Key Risk/SLT/RR8-7/RR*-10/SER processes
- Manage client and industry concentration risk in conjunction with Risk Partners as well as participate in industry guideline limit setting

Regulatory/Compliance

- Maintain Industry Risk Structuring documents and provide guidance on transaction structural considerations and client selection
- Coordinate with business partners regarding Internal and External Examiners (i.e. OCC, SNC, Credit Review)
- Responsible for managing key compliance initiatives: Reg W/23A/23B, KYC/AML and Anti-Ty