The Case for Boring: Bonds Issued by Investment Grade Companies

A survey of investment grade corporate fixed income investments and markets

Spring 2022 B-Term

Day/Time: Monday, 2-5:15pm

Location: TBD

PROFESSOR
Ellen Carr
Phone: 310-497-9069
E-mail: ec2895@columbia.edu
Office Hours: TBD

TEACHING ASSISTANT TBD

Communications from professor and TA about the course will take place through Canvas.
Students should regularly check for announcements and messaging notifications.

COURSE DESCRIPTION

Thanks to CBS’s value investing program, many students pursuing investment management careers focus on high yield and distressed debt when they consider fixed income paths. However, the market caps of higher-quality corporate credit asset classes dwarf those in HY/distressed—and while the career paths in IG differ from those in lower-quality credit (more top-down/relative value/trading-driven), they are no less stimulating.

This course provides a survey of various investment grade corporate credit asset classes, including investment grade corporate bonds, “crossover” corporate bonds, new ESG instruments such as green bonds and sustainability-linked bonds, and non-US corporate bonds. It takes an investor perspective (to evaluate / quantify risk-reward across various corporate credit asset classes) and a management perspective (to identify optimal capital structure/credit ratings). The course incorporates guest speakers from various functionalities on the buy side (portfolio managers, analysts, and traders), the sell side (underwriters, sales/trading/research), and the management side (CFOs, treasurers).

Goals:

- Learn to analyze the types of investment strategies that make use of corporate credit—risk-reward, sources of alpha
- Become familiar with different approaches to research/analysis utilized by different types of credit investors
- Gain familiarity with the range of systems/technology used by IG PMs/traders
- Estimate / forecast cost of debt capital in various market environments for a wide range of capital structures / ratings categories / industries
- Analyze relative value across various corporate credit sectors in various market environments
- Gain familiarity with trading dynamics and technical forces for corporate credit asset classes
- Become familiar with ESG/other impact approaches in IG credit
• Become familiar with non-US corporate bonds, including quasi-sovereign issuers
• Understand the corporate credit underwriting process, and the focus on new issues required to invest in the asset class
• Understand the careers available in corporate credit, and the differences in functionality / “day-in-the-life” perspectives

REQUIRED COURSE MATERIALS

Recommended Pre-Reading:
TBD
Selected fixed income strategy pieces/outlooks from the sell side/CreditSights

In-Class Reading:
Weekly investment strategy critiques will include assigned reading for each asset class.

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Finance</td>
<td>1. Free cash flow</td>
</tr>
<tr>
<td></td>
<td>2. Valuing bonds and stocks</td>
</tr>
<tr>
<td></td>
<td>3. Advanced capital structure</td>
</tr>
</tbody>
</table>

Students will be expected to have mastered these concepts and be able to apply them in the course.

While not prerequisites, Capital Markets and Security Analysis are highly relevant to the subject matter of this course.

ASSIGNMENTS/COURSE MATERIALS

Case Assignments and Reading Assignments are posted on Canvas. Please note that you have two pre-class assignments TBD.

COURSE ROADMAP/SCHEDULE

See the final page of the syllabus for a detailed course agenda. Note that this is subject to change based on the schedules/availability of our guest speakers.
ATTENDANCE POLICY

The attendance policy for this course mirrors the Core Course Policy:

- Students who miss more than 33% of classes due to unexcused absences will receive a maximum grade of P. Note: In effect, since this is a B Term course, this means that if you miss more than two classes you will receive a grade of P.
- Students who miss more than 50% of classes will receive an F in the course.

Note: Weddings are not an excused reason to miss an exam or class.

TEAM FORMATION

You will form teams of five (minimum four) for the team assignments (five weekly assignments/final project) and register those teams on Canvas prior to the first day of class. As always, please attempt to form groups that incorporate a range of different backgrounds and skill sets. If you can’t find enough people for your team, please let the TA know, and we will consolidate smaller groups.

METHOD OF EVALUATION

Grades will be calculated as follows:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Contribution</th>
<th>Indiv/team</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Class Assignments</td>
<td>5%</td>
<td>Individual</td>
<td></td>
</tr>
<tr>
<td>Weekly Analysis of IG</td>
<td>45%</td>
<td>Team</td>
<td></td>
</tr>
<tr>
<td>Investment Strategies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guest Speaker Questions</td>
<td>5%</td>
<td>Team</td>
<td></td>
</tr>
<tr>
<td>Class Participation</td>
<td>10%</td>
<td>Individual</td>
<td></td>
</tr>
<tr>
<td>Team Evaluation</td>
<td>10%</td>
<td>Individual</td>
<td></td>
</tr>
<tr>
<td>Final Exam</td>
<td>25%</td>
<td>Individual</td>
<td></td>
</tr>
</tbody>
</table>

Grades will reflect knowledge and application of the course material and communication skills. This course is intended to be interactive, and class participation is critical.

ASSIGNMENTS

All of your assignment submissions are subject to the CBS Honor Code. Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assignment description types have been standardized and specified below.
<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Grade</th>
<th>Preparation of submission</th>
<th>Discussion of Submission*</th>
<th>Discussion of Concepts**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Group Work</td>
<td>Same grade for all group members</td>
<td>By the group</td>
<td>Permitted to discuss (within group)</td>
<td>Permitted</td>
</tr>
<tr>
<td>B1</td>
<td>Individual w/ Discussions of Concepts and Submission</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Permitted to discuss; sharing solutions or submission files is not allowed</td>
<td>Permitted</td>
</tr>
<tr>
<td>B2</td>
<td>Individual w/ Discussions of Concepts Only</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Permitted</td>
</tr>
<tr>
<td>C</td>
<td>Individual</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Not permitted***</td>
</tr>
</tbody>
</table>

* The designated group can be either an assigned study group or a self-selected one.

** The designated group can be either an assigned study group or a self-selected one.

*** The designated group can be either an assigned study group or a self-selected one.

---

**Pre-Assignment (5% of your grade—Type C/Individual)**

- Review fixed income outlooks materials and in no more than two pages (double-spaced Word) summarize the outlooks for investment grade, high yield, and leveraged loans presented in the strategy pieces. Include the following in your writeup:
  - Which asset class offers the best risk-reward?
  - Which asset class offers the best yield?
  - What are the biggest challenges to investors in each asset class?
  - What are some strategies for outperformance presented? Which one(s) do you find most appealing?
  - What terminology was new to you?

---

**Class Participation (10%)—Type C/Individual**

In addition to questions you pose in class, participation grades can be enhanced by submission of relevant written material (e.g. news articles, excerpts/quotes from books) with commentary to Canvas. If you submit something, be prepared to discuss it at the next class. A high quality contribution—verbal or written—provides insight on some issue under study.

Additionally, high quality, relevant questions for our guest speakers that demonstrate understanding of the material and seek to take that understanding to the next level will enhance your class participation grade.
**Weekly Assignments (6% each/30% total—Type A/Group)**

Weekly assignments will involve a critique of a representative investment strategy for each corporate credit asset class (5% each week).

Additionally, you will submit 2-3 questions for each guest lecturer (1% each week).

**Team Evaluation (5%)—Type C/Individual**

At the end of the course, you will be asked to survey your fellow team members and rate each member on a scale of 1 to 5. The average of your teammates’ ratings of you will comprise your team evaluation grade. (Grades will be scaled for teams with fewer than 5 members.)

**Final Exam (25%)—Type C/Individual**

A three-hour, open book/note final exam will incorporate multiple choice and essay questions. The exam will include bottom-up analysis of individual IG bonds and top-down analysis of IG corporate bond strategies.

**INCLUSION, ACCOMMODATIONS, AND SUPPORT FOR STUDENTS**

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University’s Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University’s Office of Disability Services online at [www.health.columbia.edu/docs/services/ods/index.html](http://www.health.columbia.edu/docs/services/ods/index.html) or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see [http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students](http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students).
CLASSROOM NORMS AND EXPECTATIONS

- Ensure that you read this syllabus, particularly with regard to the participation grade and how it is determined.
- Be on time for every session.
- Expect attendance and participation to be tracked.
- Fill out the class participation survey each day.
- Submit assignments on time, and expect cold calling of assigned questions.
- Prepare for lectures by reviewing lecture slides and submitting questions for each guest lecture.
- Bring nameplate every day and sit in same seat every day.
- Do not use electronic devices unless explicitly called for by instructors (no cell phones, tablets or laptops).
- Use scheduled breaks whenever possible to leave the classroom – unscheduled breaks disturb your fellow classmates.
- Treat guest speakers as your guests - they are taking time out of their schedules and in some cases coming far distances to be with us.
- Do not distribute guest lecture material outside the classroom. Any distribution of guest lecture material will be treated as a violation of the CBS Honor Code.
- In class, please demonstrate consideration for your classmates (and your instructors and guest speakers) by closing laptops during lectures and guest appearances, posting nameplates and by being on time at the beginning of the class and at the break.
- Slide presentations will be posted on Canvas for review prior to class/viewing during class.
- Use Canvas to submit all assignments including articles that you would like to contribute.
- Contact me in the event you have any questions.

COURSE ROADMAP (SUBJECT TO CHANGE)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction to IG corporate market</td>
<td>IG corporates--active/passive, trading</td>
<td>IG corporates--capital structure philosophy/considerations</td>
<td>Xover credits ESG/green bonds</td>
<td>Corporate exposure in munis, asset-backed bonds</td>
<td>Non-US corporate bonds/course wrapup</td>
</tr>
<tr>
<td>2:30-3:30 Introduction to IG corporate credit markets: Overview of fundamental and technical factors, ratings, market sizes, workflow, indices, active/passive strategies</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
</tr>
<tr>
<td>2:30-3:30 Guest speaker: Monica Erickson, DoubleLine (IG corporates Q&amp;A session)</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
<td>2:30-3:30 Discussion tab submissions</td>
</tr>
<tr>
<td>3:30-3:45 Break</td>
<td>3:30-3:45 Break</td>
<td>3:30-3:45 Break</td>
<td>3:30-3:45 Break</td>
<td>3:30-3:45 Break</td>
<td>3:30-3:45 Break</td>
</tr>
</tbody>
</table>