

INVESTMENT

ASSIGNMENT SEMESTER 2 2021 – FEEDBACK FOR
STUDENTS



Feedback contents

- Assignment purpose
- Overview of assignment content
- Results summary
- Overall feedback
- Results and feedback by question
- Sample assignment graded as 'Significantly above pass level'

Assignment purpose

The main purpose of the assignment from your perspective is to help you develop skills required at the Fellowship level. These skills are also required by employers.

The specific skills that are being developed and assessed in the assignment are the ability to

- apply subject material in an unfamiliar context;
- plan and build a valuation model;
- determine appropriate assumptions for the model;
- communicate relevant points in language appropriate to the audience, in a logical and coherent manner; and
- meet business standards for presentation of work in spreadsheets and written materials.

In the end-of-semester examination, you will be required to apply knowledge to specific situations under conditions that are time-constrained. This assignment provided an opportunity for you to think more deeply and spend more time preparing a detailed answer. This assignment will also help you self-reflect on your writing skills. Whilst there is ample time to write up any required report for the assignment, you should consider if you need to spend more time improving your writing skills to help you pass the examination.

The assignment required you to create a set of assumptions for each of the valuation models that you chose to build and use. There was no single right answer, consequently, you were being assessed on your reasoning and process. We, therefore, wanted to understand *how* you derived your assumptions and if you were able to apply knowledge to the specific situation described in this assignment. We were also looking for you to



demonstrate that you can deal with uncertainty in a reasonable way.

A key actuarial skill is to obtain a grasp of the nature of outputs from models and describe them in a non-technical manner. This assignment avoided complicated modelling and was designed to test your ability to deduce and communicate issues relating to the valuation of a listed equity, using relatively simple models.

Overview of assignment content

The Investment assignment for Semester 2 2021 required students to prepare a valuation of the shares issued by a listed company (ASX code CIW), for consideration by portfolio managers using one or more discounted cash flow (DCF) models.

You were provided with financial information about CIW is provided in the form of a data spreadsheet in the LMS, together with several documents in relation to CIW that have been placed on the public record by the ASX, which were also in the LMS.

You were required to prepare:

- an excel spreadsheet that provides their estimate of the value per CIW share
- a concise report that explains
 - the valuation model or models used
 - the assumptions required in each of the models used
 - how the parameters relating to each assumption had been estimated

The assignment comprised 8 parts or questions as set out below:

- 1) Describe each of the discounted cash flow models that you have used to value the CIW shares and explain your reason for using the model or models selected. **(15 marks)**
- 2) Identify the assumptions that are required relating to the cash flow that is being valued and the discount rate used in the valuation. **(10 marks)**
- 3) Consider the financial data included in the spreadsheet *Investment_Sem_2_2021_Assignment_Data.xlsx*, which is in the LMS, and decide which data you need to use for your valuation. **(10 marks)**
- 4) Consider the other documents relating to CIW which are in the LMS, and decide



whether, as a result of this consideration, you need to make any adjustments to the financial data or the assumptions that you use in the valuation model and explain any adjustments that you have made. **(10 marks)**

- 5) Explain how you have taken into account the uncertainty relating to the cash flows being valued and how this has affected the valuation that you have made. **(15 marks)**
- 6) Explain how you have derived the discount rate used in the valuation, using the information made available to you and the sensitivity of the valuation to changes in the discount rate. **(10 marks)**
- 7) Conduct the valuation in spreadsheet form with either a scenario or sensitivity analysis on your valuation and explain why you chose to vary the assumptions that were varied and the effect on your valuation. **(10 marks)**
- 8) Evaluate and recommend a maximum price at which CIW shares should be bought and a minimum price at which they should be sold. **(10 marks)**

In addition, up to 10 marks were awarded for report writing.

Results summary

Overall students performed well on the assignment with a pass rate of 93.5% and an average mark of 72.4% (above pass level). A summary of the results is presented in the following table:

Rubric Grade	Number of students	Percentage of students	Average mark
Significantly above pass level	5	16.1%	87.5
Above pass level	16	51.6%	74.2
Pass level	8	25.8%	65.6
Below-pass level	2	6.5%	48.0
Significantly below pass level	0	0.0%	NA
Total	31	100.0%	72.4



Overall feedback

The students at the pass level were able to:

- describe the valuation model or models that were selected for use;
- understand and apply the data and most of the reference material provided, as indicated in the rubric;
- identify and explain the assumptions about the cash flows and the discount rate that were needed in the models;
- make allowances for uncertainty in cash flow and discount rate assumptions; and
- demonstrate judgment when making a recommendation about the maximum price at which CIW shares should be bought and a minimum price at which they should be sold.

The stronger answers were able to communicate more fully their understanding of each of these aspects in a concise and coherent manner and had strong report writing skills.

The following feedback from the assignment has been provided to help you to prepare for the examination.

Fully answer questions

Make sure you answer all parts of the questions. It is important to go back to the questions after you have started writing to ensure you are answering the question asked. You should also apply the information provided in the questions.

After you have drafted your answer, it is always a good idea to re-read the question and physically tick off that you have answered all parts of it. You should also make sure you have addressed all areas described in the marking rubric (if one has been provided, as it was in the case of this assignment).

Review your work

Given that this assignment is worth 20% of your final grade in the subject and you did not have the time pressure of exams, you were expected to spend some time reviewing your work and making sure your assignment answered the questions and was easy to read. Any lack of clarity in explanations can sometimes be avoided by proofreading.



You should use an automatic spelling and grammar checker.

Use structure

Remember that each paragraph should cover a single topic. Each paragraph should have a clear beginning, middle, and end which relate to this single topic.

Write concisely and clearly

Keep your answers succinct and use dot points, tables, or charts where appropriate.

Results and feedback by question

Each question or part of the assignment was marked out of 5, in line with the rubric grading. For example, a student who achieved a “pass” standard for Q1 was awarded a 3 out of 5 and this contributed 9% towards their overall grade. The total mark for the assignment is the sum of the products of the Rubric Grade for each part multiplied by the marks for each part.

The range of results across each of the parts of the assignment is shown in the table below:

Part	1	2	3	4	5	6	7	8	REPORT WRITING	Total
Marks Available	15	10	10	10	15	10	10	10	10	100.0
Mean	3.9	3.9	3.5	3.3	3.1	3.4	3.3	4.1	4.1	72.4
Median	3.5	4.0	3.5	3.0	3.0	3.5	3.0	4.5	4.0	72.5
Minimum	2.5	2.5	2.0	1.0	1.0	1.0	2.0	2.0	2.0	46.0
Maximum	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	92.0
Standard Deviation	0.73	0.74	0.89	1.21	1.01	0.93	0.90	1.02	0.84	9.96

Key observations from this table:

- The average standard of report writing was satisfactory with only a few students showing a need to significantly improve their skill in this area.
- Slightly higher grades were achieved on the first two parts which relate to the Knowledge skill level, compared with parts 3 through 8. There was slightly less dispersion of grades on parts 1 and 2.
- The mean and median level of grades were consistent across parts 3 to 7 and were at or above the pass level.



Feedback related to each of the 8 parts of the assignment is set out below:

1. Most students were able to describe each of the discounted cash flow models that they had decided to use to value the CIW shares, although some descriptions were incomplete or contained errors. This should not have happened as the descriptions should have been familiar to any student who had adequately prepared by knowing the relevant content as set out in the course material. Not all students adequately explained the reason for using the valuation model or models selected. This may have been due to not fully reading and understanding the question.
2. Almost all students were able to identify the assumptions that are required relating to the cash flow that is being valued and the discount rate used in the valuation. There was some variation in the clarity with which this was done, ranging from a passing grade to well above that level. There is a need for some students to have more practice in writing answers that are clear and concise, and which convey a sense that the student understands what the question is asking for.
3. Some students clearly described the financial data selected for use in the valuation models used and the reason for deciding to use that information. Others did not do so.
4. A significant number of students did not:
 - a. demonstrate in their responses to this part that they had considered most of the other documents relating to CIW when considering the need to make any adjustments to the assumptions used in the valuation model; or
 - b. explain any adjustments that were made.
5. When asked to explain the uncertainty relating to the cash flows being valued had been taken into account and how this has affected the valuation, some students did not discuss these aspects explicitly, which meant that their thinking on these important questions could be understood. A few students did not cover these questions at all. Most students did address this part well with some providing excellent clear and concise responses which demonstrated a sound understanding of what was being asked for in this part, which counted for 15% of the marks in the assignment. Based on the responses to this part of the assignment, there appears to be significant variability in student understanding about how to allow for uncertainty



in the valuation of assets. This indicates that there may be a case for more attention to this in the future.

6. The explanation of the derivation of the discount rate used in the valuation and the sensitivity of the valuation to changes in the discount rate were done well enough by more than half of the students to reach a passing grade or better on this part. Some students did not explain these aspects clearly enough to demonstrate a sound understanding of them.
7. The valuation in spreadsheet form with either a scenario or sensitivity analysis to allow for uncertainty was done well enough by half of the students to reach a passing grade or better on this part. A significant proportion (25%), fell well below pass grade on this part. This was due mainly to a failure to explain why the assumptions that were varied had been varied and the effect that this had on the valuation
8. The evaluation and recommendation of a maximum price at which CIW shares should be bought and a minimum price at which they should be sold was done well by more than half of the students, making this the best-answered part of the assignment. However, a significant proportion (30%), fell well below pass grade on this part. This was due mainly to a failure to either make a clear recommendation or set out how it followed from the preceding analysis in the earlier parts of the assignment.

Will you get individual feedback on your assessments?

We do not provide students with individual feedback on their assessments.

At the end of the semester, you will receive:

- a letter to indicate whether you have passed or failed the subject;
- if you have failed the subject, a breakdown of your grade for each assessment;
- general feedback to all students about assignment and examination performance;
- a sample assignment that was graded as 'Significantly above pass level'; and
- the examination marking guide.



Our approach to feedback is for students to receive general feedback, a sample assignment marked as 'Significantly above pass level' and the marking guide for the examination.

You should review the feedback that is provided as well as the sample assignment and exam marking guide. For the assignment, you should use the general feedback and marking rubric to grade the sample assignment and your submission. This will help you to compare the assignments and identify areas where your submission could have been improved. For the examination, you should use the general feedback and the marking guide to identify areas where you could improve your future examination performance.

Our belief is that this active approach to studying will provide you with a deeper understanding of where you need to improve. This is the best way for you to learn about your areas of strength and weakness in your understanding.

Sample assignment graded as 'Significantly above pass level'

A sample assignment that was graded as 'Significantly above pass level' will be posted to LMS.