

CFA space

Provided by APF

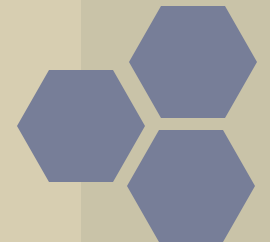
Academy of Professional Finance 专业金融学院



CFA Level I

Portfolio Management: An Overview

CFA Lecturer: Jiahao Gu





Content

Portfolio Management:

An Overview

(Los a, b, c, d, e)

Portfolio approach to investing

Investors types, characteristics and needs

Defined contribution / Defined benefit

Steps in portfolio management process

Mutual Funds and other pooled investments



Portfolio Management: An Overview

Portfolio approach to investing

Portfolio perspective

-- evaluating individual investments by their risk and return

Why?

-- Modern portfolio theory

Extra risk from holding a single security is not rewarded with higher expected returns

-- Benefits of diversification

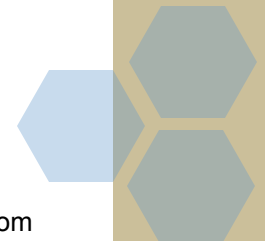
Risk will be reduced without reducing the expected return unless the assets are perfectly positively correlated

Diversification ratio

-- Risk of an equally weighted portfolio of n securities / risk of a single security selected at random from the n securities

Diversification effect

-- The correlation of assets will increase during financial crisis and diversification effect will be reduced





Portfolio Management: An Overview

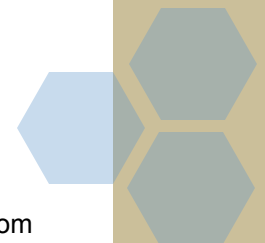
Investors types, characteristics and needs

Individual investors

- invest for a variety of reasons
- special accounts to defer any taxes on investment income

Institutions

Investor	Risk tolerance	Time horizon	Liquidity needs	Income needs
Endowment Foundation	high	long	low	spending level
Banks	low	short	high	pay interest
Insurance	low	Long-life Short-P&C	high	low
Investment companies	depends	depends	high	depends
Defined benefit pension	high	long	low	depends





Portfolio Management: An Overview

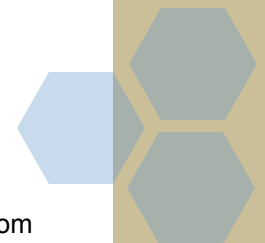
Defined contribution / Defined benefit

Defined contribution

- the firm contributes a sum to the employee's retirement account
- the contribution is based on years of service, age, etc.
- the firm makes no promise to the future value and the employee assumes all of the investment risk

Defined benefit

- the firm makes periodic payments to the retirement account
- the benefit is based on years of service, compensation, etc.
- the employee's future benefit is defined so the employer assumes the investment risk
- The employer makes contributions to a fund to provide the benefit





Portfolio Management: An Overview

Steps in portfolio management process

1. Planning step

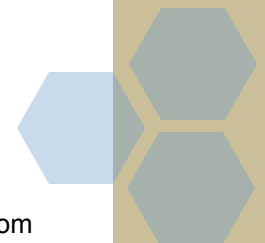
- analyze the investor's risk tolerance, return objectives, time horizon, tax exposure, liquidity needs, income needs, unique circumstances
- formulate the investment policy statement (IPS), specify an objective benchmark, update when objectives and constraints change

2. Execution step

- analyze the risk and return of various asset classes to determine the asset allocations, then identify the most attractive assets to formulate the portfolio.

3. Feedback step

- monitor and rebalance the portfolio periodically
- measure portfolio performance and evaluate it relative to the benchmark





Portfolio Management: An Overview

Mutual Funds and other pooled investments

1. Mutual funds

- a single portfolio with investment funds from multiple investors
- NAV per share = total value of assets / number of shares
- *open-end funds*

Investors can buy newly issued shares at the NAV or redeem shares at the NAV. Management fee is charged as a percentage of the NAV.

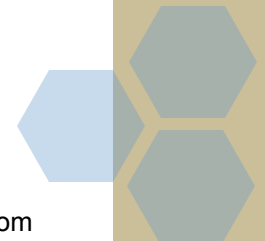
No-load funds do not charge additional fees. Load funds charge up-front fees, redemption fees, or both.

- *closed-end funds*

Do not take new investments or redeem investor shares. Traded like equity shares. Also charges management fees.

- Types of mutual funds

Money market funds, bond mutual funds, stock mutual funds





Portfolio Management: An Overview

Mutual Funds and other pooled investments

2. Exchange-traded funds

	Open-end	Closed-end
Similar	can be redeemed	purchase and sale in the market
Different	trade at intraday prices, receive dividends, less capital gains liability	passively managed to match an index

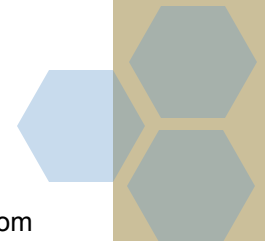
3. Separately managed account

-- a portfolio owned by a single investor

4. Hedge funds

5. Buyout funds

6. Venture capital funds



CFAspace



Thank You!

