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Academy of Professional Finance 专业金融学院

CFA Level I

Portfolio 1

Portfolio Management Overview

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CFA Exam Topic Area Weights

Topic Area	Level I	Level II	Level III
Ethical and Professional Standards (total)	**15**	**10**	**10**
Investment Tools (total)	**50**	**30-60**	**0**
Corporate Finance	8	5-15	0
Economics*	10	5-10	0
Financial Reporting and Analysis	20	15-25	0
Quantitative Methods	12	5-10	0
Asset Classes (total)	**30**	**35-75**	**35-45**
Alternative Investments	3	5-15	5-15
Derivatives	5	5-15	5-15
Equity Investments	10	20-30	5-15
Fixed Income	12	5-15	10-20
Portfolio Management and Wealth Planning (total)	**5**	**5-15**	**45-55**
Total	**100**	**100**	**100**

*Economics is part of Portfolio Management at Level III.

Brief Introduction of Portfolio Management

- Reading 42: Portfolio Management: An Overview
- Reading 43: Portfolio Risk and Return: Part I
- Reading 44: Portfolio Risk and Return: Part II
- Reading 45: Basics of Portfolio Planning and Construction

Portfolio Approach

LOS 42.a: Describe the portfolio approach to investing.

- The portfolio perspective refers to evaluating individual investments by their contribution to the risk and return of an investor's portfolio.

- The alternative to taking a portfolio perspective is to examine the risk and return of individual investments **in isolation**.

Types of Investors

LOS 42.b: Describe types of investors and distinctive characteristics and needs of each.

1. **Individual** investors save and invest for a variety of reasons, including purchasing a house or educating their children.

2. An **endowment** is a fund that is dedicated to providing financial support on an ongoing basis for a specific purpose. It typically has long investment horizons, high risk tolerance, and, aside from their planned spending needs, little need for additional liquidity.

Types of Investors

❖ **3. Bank**

- investment objective: earn more on the bank's loans and investments than the bank pays for deposits of various types.
- Banks seek to keep risk low and need adequate liquidity to meet investor withdrawals as they occur.

❖ **4. Insurance company**

- Investment objective: fund customer claims as they occur.
- Life insurance companies have a relatively long-term investment, property and casualty (P&C) insurers have a shorter investment horizon because claims are expected to arise sooner than for life insurers

Types of Investors

Figure 1: Characteristics of Different Types of Investors

Investor	*Risk Tolerance*	*Investment Horizon*	*Liquidity Needs*	*Income Needs*
Individuals	Depends on individual	Depends on individual	Depends on individual	Depends on individual
DB pensions	High	Long	Low	Depends on age
Banks	Low	Short	High	Pay interest
Endowments	High	Long	Low	Spending level
Insurance	Low	Long—life Short—P&C	High	Low
Mutual funds	Depends on fund	Depends on fund	High	Depends on fund

Example

❖Which of the following types of institutions is most likely to have a long investment time horizon and a higher level of risk tolerance?

A. A bank

B. An endowment

C. An insurance company

Answer = B

B is correct. Endowments have a long investment time horizon and a high level of risk tolerance.

Portfolio management Process

LOS 42.c: Describe the steps in the portfolio management process.

planning step

Analyze investor's risk tolerance, return objectives, time horizon, tax exposure, liquidity needs, income needs, and any unique circumstances or investor preferences.

Execution step

Determine the allocation of various asset types	Use top-down or bottom-up analysis

Feedback step

The portfolio manager must monitor changes in portoflio and rebalance the portfolio periodically

Example

❖The execution step of the portfolio management process includes:

A. finalizing the asset allocation.

B. monitoring the portfolio performance.

C. preparing the investment policy statement.

Answer = A

A is correct. Asset allocation occurs in the execution step.

Pooled Investment Products

LOS 42.d: Describe mutual funds and compare them with other pooled investment products.

1. **Mutual funds** combine funds from many investors into a single portfolio that is invested in a specified class of securities or to match a specific index.

- **Types:** money market funds, bond funds, stock funds, and balanced (hybrid) funds.

2. **Exchange-traded funds** are similar to mutual funds, but investors can buy and sell ETF shares in the same way as shares of stock. Management fees are generally low, though trading ETFs results in brokerage costs.

Pooled Investment Products

3. Separately managed accounts are portfolios managed for individual investors who have substantial assets. In return for an annual fee based on assets, the investor receives personalized investment advice.

4**. Hedge funds** are available only to accredited investors and are exempt from most reporting requirements. Many different hedge fund strategies exist.

5. Buyout funds involve taking a company private by buying all available shares, usually funded by issuing debt. The company is then restructured to increase cash How.

6. Venture capital funds are similar to buyout funds, except that the companies purchased are in the start-up phase.

Example

Which of the following investment products is *most likely* to trade at their net asset value per share?

A. Exchange traded funds.

B. Open-end mutual funds.

C. Closed-end mutual funds.

- ETFs combine features of closed-end and open-end mutual funds. ETFs trade like closed-end mutual funds; however, like open-end funds, ETFs' prices track NAV due to an innovative redemption procedure.

Open-end mutual funds>ETF>Closed-end mutual funds.

Answer: B

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Thank You!