

## 2024 Level III Topic Outlines

# Equity Investments

### LEARNING OUTCOMES

#### Overview of Equity Portfolio Management

*The candidate should be able to:*

- describe the roles of equities in the overall portfolio
- describe how an equity manager's investment universe can be segmented
- describe the types of income and costs associated with owning and managing an equity portfolio and their potential effects on portfolio performance
- describe the potential benefits of shareholder engagement and the role an equity manager might play in shareholder engagement
- describe rationales for equity investment across the passive–active spectrum

#### Passive Equity Investing

*The candidate should be able to:*

- discuss considerations in choosing a benchmark for a passively managed equity portfolio
- compare passive factor-based strategies to market-capitalization-weighted indexing
- compare different approaches to passive equity investing
- compare the full replication, stratified sampling, and optimization approaches for the construction of passively managed equity portfolios
- discuss potential causes of tracking error and methods to control tracking error for passively managed equity portfolios
- explain sources of return and risk to a passively managed equity portfolio

**Active Equity Investing: Strategies**

*The candidate should be able to:*

- compare fundamental and quantitative approaches to active management
- analyze bottom-up active strategies, including their rationale and associated processes
- analyze top-down active strategies, including their rationale and associated processes
- analyze factor-based active strategies, including their rationale and associated processes
- analyze activist strategies, including their rationale and associated processes
- describe active strategies based on statistical arbitrage and market microstructure
- describe how fundamental active investment strategies are created
- describe how quantitative active investment strategies are created
- discuss equity investment style classifications

**Active Equity Investing: Portfolio Construction**

*The candidate should be able to:*

- describe elements of a manager's investment philosophy that influence the portfolio construction process
- discuss approaches for constructing actively managed equity portfolios
- distinguish between Active Share and active risk and discuss how each measure relates to a manager's investment strategy
- discuss the application of risk budgeting concepts in portfolio construction
- discuss risk measures that are incorporated in equity portfolio construction and describe how limits set on these measures affect portfolio construction
- discuss how assets under management, position size, market liquidity, and portfolio turnover affect equity portfolio construction decisions
- evaluate the efficiency of a portfolio structure given its investment mandate
- discuss the long-only, long extension, long/short, and equitized market-neutral approaches to equity portfolio construction, including their risks, costs, and effects on potential alphas