2025 Level III Core Topic Outlines

Asset Allocation

LEARNING OUTCOMES

Capital Market Expectations, Part 1: Framework and Macro Considerations

The candidate should be able to:

- [ ] discuss the role of, and a framework for, capital market expectations in the portfolio management process
- [ ] discuss challenges in developing capital market forecasts
- [ ] explain how exogenous shocks may affect economic growth trends
- [ ] discuss the application of economic growth trend analysis to the formulation of capital market expectations
- [ ] compare major approaches to economic forecasting
- [ ] discuss how business cycles affect short- and long-term expectations
- [ ] explain the relationship of inflation to the business cycle and the implications of inflation for cash, bonds, equity, and real estate returns
- [ ] discuss the effects of monetary and fiscal policy on business cycles
- [ ] interpret the shape of the yield curve as an economic predictor and discuss the relationship between the yield curve and fiscal and monetary policy
- [ ] identify and interpret macroeconomic, interest rate, and exchange rate linkages between economies

Capital Market Expectations, Part 2: Forecasting Asset Class Returns

The candidate should be able to:

- [ ] discuss approaches to setting expectations for fixed-income returns
- [ ] discuss risks faced by investors in emerging market fixed-income securities and the country risk analysis techniques used to evaluate emerging market economies

□ discuss approaches to setting expectations for equity investment market returns
□ discuss risks faced by investors in emerging market equity securities
□ explain how economic and competitive factors can affect expectations for real estate investment markets and sector returns
□ discuss major approaches to forecasting exchange rates
□ discuss methods of forecasting volatility
□ recommend and justify changes in the component weights of a global investment portfolio based on trends and expected changes in macroeconomic factors

Overview of Asset Allocation

The candidate should be able to:

□ describe elements of effective investment governance and investment governance considerations in asset allocation
□ formulate an economic balance sheet for a client and interpret its implications for asset allocation
□ compare the investment objectives of asset-only, liability-relative, and goals-based asset allocation approaches
□ contrast concepts of risk relevant to asset-only, liability-relative, and goals-based asset allocation approaches
□ explain how asset classes are used to represent exposures to systematic risk and discuss criteria for asset class specification
□ explain the use of risk factors in asset allocation and their relation to traditional asset class–based approaches
□ recommend and justify an asset allocation based on an investor's objectives and constraints
□ describe the use of the global market portfolio as a baseline portfolio in asset allocation
□ discuss strategic implementation choices in asset allocation, including passive/active choices and vehicles for implementing passive and active mandates
□ discuss strategic considerations in rebalancing asset allocations

Principles of Asset Allocation

The candidate should be able to:

□ describe and evaluate the use of mean–variance optimization in asset allocation
□ recommend and justify an asset allocation using mean–variance optimization
□ interpret and evaluate an asset allocation in relation to an investor's economic balance sheet
□ recommend and justify an asset allocation based on the global market portfolio
□ discuss the use of Monte Carlo simulation and scenario analysis to evaluate the robustness of an asset allocation
□ discuss asset class liquidity considerations in asset allocation
□ explain absolute and relative risk budgets and their use in determining and implementing an asset allocation
□ describe how client needs and preferences regarding investment risks can be incorporated into asset allocation
□ describe the use of investment factors in constructing and analyzing an asset allocation
□ describe and evaluate characteristics of liabilities that are relevant to asset allocation
□ discuss approaches to liability-relative asset allocation
□ recommend and justify a liability-relative asset allocation
□ recommend and justify an asset allocation using a goals-based approach

☐ describe and evaluate heuristic and other approaches to asset allocation
☐ discuss factors affecting rebalancing policy

Asset Allocation with Real-World Constraints

The candidate should be able to:

☐ discuss asset size, liquidity needs, time horizon, and regulatory or other considerations as constraints on asset allocation
☐ discuss tax considerations in asset allocation and rebalancing
☐ recommend and justify revisions to an asset allocation given change(s) in investment objectives and/or constraints
☐ discuss the use of short-term shifts in asset allocation
☐ identify behavioral biases that arise in asset allocation and recommend methods to overcome them