2025 Level III Core Topic Outlines

Performance Measurement

LEARNING OUTCOMES

Portfolio Performance Evaluation

The candidate should be able to:

- explain the following components of portfolio evaluation and their interrelationships: performance measurement, performance attribution, and performance appraisal
- describe attributes of an effective attribution process
- contrast return attribution and risk attribution; contrast macro and micro return attribution
- describe returns-based, holdings-based, and transactions-based performance attribution, including advantages and disadvantages of each
- interpret the sources of portfolio returns using a specified attribution approach
- interpret the output from fixed-income attribution analyses
- discuss considerations in selecting a risk attribution approach
- identify and interpret investment results attributable to the asset owner versus those attributable to the investment manager
- discuss uses of liability-based benchmarks
- describe types of asset-based benchmarks
- discuss tests of benchmark quality
- describe the impact of benchmark misspecification on attribution and appraisal analysis
- describe problems that arise in benchmarking alternative investments
- calculate and interpret the Sortino ratio, the appraisal ratio, upside/downside capture ratios, maximum drawdown, and drawdown duration
- describe limitations of appraisal measures and related metrics
- evaluate the skill of an investment manager

Investment Manager Selection

The candidate should be able to:

- □ describe the components of a manager selection process, including due diligence
- □ contrast Type I and Type II errors in manager hiring and continuation decisions
- □ describe uses of returns-based and holdings-based style analysis in investment manager selection
- □ describe uses of the upside capture ratio, downside capture ratio, maximum drawdown, drawdown duration, and up/down capture in evaluating managers
- □ evaluate a manager's investment philosophy and investment decision-making process
- □ discuss how behavioral factors affect investment team decision making, and recommend techniques for mitigating their effects
- □ evaluate the costs and benefits of pooled investment vehicles and separate accounts
- □ compare types of investment manager contracts, including their major provisions and advantages and disadvantages
- □ describe the three basic forms of performance-based fees
- □ analyze and interpret a sample performance-based fee schedule

Overview of the Global Investment Performance Standards

The candidate should be able to:

- □ discuss the objectives and scope of the GIPS standards and their benefits to prospective clients and investors, as well as investment managers
- □ explain the fundamentals of compliance with the GIPS standards, including the definition of the firm and the firm's definition of discretion
- □ discuss requirements of the GIPS standards with respect to return calculation methodologies, including the treatment of external cash flows, cash and cash equivalents, and expenses and fees
- □ explain the recommended valuation hierarchy of the GIPS standards
- □ explain requirements of the GIPS standards with respect to composite return calculations, including methods for asset-weighting portfolio returns
- □ explain the meaning of "discretionary" in the context of composite construction and, given a description of the relevant facts, determine whether a portfolio is likely to be considered discretionary
- □ explain the role of investment mandates, objectives, or strategies in the construction of composites
- □ explain requirements of the GIPS standards with respect to composite construction, including switching portfolios among composites, the timing of the inclusion of new portfolios in composites, and the timing of the exclusion of terminated portfolios from composites
- □ explain requirements of the GIPS standards with respect to presentation and reporting
- □ explain the conditions under which the performance of a past firm or affiliation may be linked to or used to represent the historical performance of a new or acquiring firm
- □ discuss the purpose, scope, and process of verification