2025 Level III Portfolio Management Pathway Topic Outlines

Portfolio Management Pathway

LEARNING OUTCOMES

Index-Based Equity Strategies

The candidate should be able to:

- ☐ compare factor-based strategies to market-capitalization-weighted indexing
- ☐ compare different approaches to index-based equity strategies
- ☐ compare different approaches to index-based equity investing
- ☐ compare the full replication, stratified sampling, and optimization approaches for the construction of index-based equity portfolios
- ☐ discuss potential causes of tracking error and methods to control tracking error for index-based equity portfolios
- ☐ explain sources of return and risk to an index-based 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

Liability-Driven and Index-Based Strategies

The candidate should be able to:

- □ evaluate strategies for managing a single liability
- □ compare strategies for a single liability and for multiple liabilities, including alternative means of implementation
- □ evaluate liability-based strategies under various interest rate scenarios and select a strategy to achieve a portfolio's objectives
- □ explain risks associated with managing a portfolio against a liability structure
- □ discuss bond indexes and the challenges of managing a fixed-income portfolio to mimic the characteristics of a bond index
- □ compare alternative methods for establishing bond market exposure passively
- □ discuss criteria for selecting a benchmark and justify the selection of a benchmark

Yield Curve Strategies

The candidate should be able to:

- □ describe the factors affecting fixed-income portfolio returns due to a change in benchmark yields
- □ formulate a portfolio positioning strategy given forward interest rates and an interest rate view that coincides with the market view
- □ formulate a portfolio positioning strategy given forward interest rates and an interest rate view that diverges from the market view in terms of rate level, slope, and shape
- □ formulate a portfolio positioning strategy based upon expected changes in interest rate volatility
- □ evaluate a portfolio's sensitivity using key rate durations of the portfolio and its benchmark
- □ discuss yield curve strategies across currencies
- □ evaluate the expected return and risks of a yield curve strategy

Fixed-Income Active Management: Credit Strategies

The candidate should be able to:

- □ describe risk considerations for spread-based fixed-income portfolios
- □ discuss the advantages and disadvantages of credit spread measures for spread-based fixed-income portfolios, and explain why option-adjusted spread is considered the most appropriate measure
- □ discuss bottom-up approaches to credit strategies
- □ discuss top-down approaches to credit strategies
- □ discuss liquidity risk in credit markets and how liquidity risk can be managed in a credit portfolio
- □ describe how to assess and manage tail risk in credit portfolios
- □ discuss the use of credit default swap strategies in active fixed-income portfolio management
- □ discuss various portfolio positioning strategies that managers can use to implement a specific credit spread view
- □ discuss considerations in constructing and managing portfolios across international credit markets
- □ describe the use of structured financial instruments as an alternative to corporate bonds in credit portfolios
- □ describe key inputs, outputs, and considerations in using analytical tools to manage fixed-income portfolios

Trade Strategy and Execution

The candidate should be able to:

- □ discuss motivations to trade and how they relate to trading strategy
- □ discuss inputs to the selection of a trading strategy
- □ compare benchmarks for trade execution
- □ recommend and justify a trading strategy (given relevant facts)
- □ describe factors that typically determine the selection of a trading algorithm class
- □ contrast key characteristics of the following markets in relation to trade implementation: equity, fixed income, options and futures, OTC derivatives, and spot currency
- □ explain how trade costs are measured and determine the cost of a trade
- □ evaluate the execution of a trade
- □ evaluate a firm's trading procedures, including processes, disclosures, and record keeping with respect to good governance

Case Study in Portfolio Management: Institutional

The candidate should be able to:

- □ discuss tools for managing portfolio liquidity risk
- □ discuss capture of the illiquidity premium as a long-term investment strategy
- □ analyze asset allocation and portfolio construction in relation to liquidity needs and risk and return requirements and recommend actions to address identified needs
- □ demonstrate the application of the Code of Ethics and Standards of Professional Conduct regarding the actions of individuals involved in manager selection
- □ analyze the costs and benefits of derivatives versus cash market techniques for establishing or modifying asset class or risk exposures
- □ demonstrate the use of derivatives overlays in tactical asset allocation and rebalancing
- □ discuss ESG considerations in managing long-term institutional portfolios