

## 2025 Level III Core Topic Outlines

# Portfolio Construction

### 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 active management spectrum
- discuss considerations in choosing a benchmark for an equity portfolio

#### Overview of Fixed-Income Portfolio Management

*The candidate should be able to:*

- discuss roles of fixed-income securities in portfolios and how fixed-income mandates may be classified
- describe fixed-income portfolio measures of risk and return as well as correlation characteristics
- describe bond market liquidity, including the differences among market sub-sectors, and discuss the effect of liquidity on fixed-income portfolio management
- describe and interpret a model for fixed-income returns
- discuss the use of leverage, alternative methods for leveraging, and risks that leverage creates in fixed-income portfolios

- discuss differences in managing fixed-income portfolios for taxable and tax-exempt investors
- describe liability-driven investing
- describe the strategy of cash flow matching
- describe construction, benefits, limitations, and risk–return characteristics of a laddered bond portfolio

### **Asset Allocation to Alternative Investments**

*The candidate should be able to:*

- explain the roles that alternative investments play in multi-asset portfolios
- compare alternative investments and bonds as risk mitigators in relation to a long equity position
- compare traditional and risk-based approaches to defining the investment opportunity set, including alternative investments
- discuss investment considerations that are important in allocating to different types of alternative investments
- discuss suitability considerations in allocating to alternative investments
- discuss approaches to asset allocation to alternative investments
- discuss the importance of liquidity planning in allocating to alternative investments
- discuss considerations in monitoring alternative investment programs

### **An Overview of Private Wealth Management**

*The candidate should be able to:*

- discuss the different types of individual wealth and how wealth is created and distributed globally
- evaluate how changes in human capital, financial capital, and economic net worth across the financial stages of an individual's life influence their financial decision making
- justify how returns, risks, objectives, and constraints for individuals relate to their human and financial capital
- evaluate how various types of taxes imposed on individual investors and the impact of inflation influence investment decisions
- discuss the differences between private and institutional clients and formulate an appropriate Investment Policy Statement for private clients

### **Portfolio Management for Institutional Investors**

*The candidate should be able to:*

- discuss common characteristics of institutional investors as a group
- discuss investment policy of institutional investors
- discuss the stakeholders in the portfolio, the liabilities, the investment time horizons, and the liquidity needs of different types of institutional investors
- describe the focus of legal, regulatory, and tax constraints affecting different types of institutional investors
- evaluate risk considerations of private defined benefit (DB) pension plans in relation to 1) plan funded status, 2) sponsor financial strength, 3) interactions between the sponsor's business and the fund's investments, 4) plan design, and 5) workforce characteristics
- evaluate the investment policy statement of an institutional investor
- evaluate the investment portfolio of a private DB plan, sovereign wealth fund, university endowment, and private foundation

- describe considerations affecting the balance sheet management of banks and insurers

**Trading Costs and Electronic Markets**

*The candidate should be able to:*

- explain the components of execution costs, including explicit and implicit costs
- calculate and interpret effective spreads and VWAP transaction cost estimates
- describe the implementation shortfall approach to transaction cost measurement
- describe factors driving the development of electronic trading systems
- describe market fragmentation
- identify and contrast the types of electronic traders
- describe characteristics and uses of electronic trading systems
- describe comparative advantages of low-latency traders
- describe the risks associated with electronic trading and how regulators mitigate them
- describe abusive trading practices that real-time surveillance of markets may detect

**Case Study in Portfolio Management: Institutional (SWF)**

*The candidate should be able to:*

- discuss financial risks associated with the portfolio strategy of an institutional investor
- discuss environmental and social risks associated with the portfolio strategy of an institutional investor
- analyze and evaluate the financial and non-financial risk exposures in the portfolio strategy of an institutional investor
- discuss various methods to manage the risks that arise on long-term direct investments of an institutional investor
- evaluate strengths and weaknesses of an enterprise risk management system and recommend improvements