

# PRACTICE ANALYSIS: REFLECTING THE INVESTMENT MANAGEMENT INDUSTRY

To maintain global industry relevance in the continually evolving investment management profession, CFA Institute connects directly with practicing investment management professionals to assess what critical knowledge, skills, and abilities (KSAs) and core competencies are needed for success in the industry. In order for the CFA Program to quickly respond to changes in practice, the process has been enhanced to capture trends most likely to influence the investment management industry over the next 3 to 5 years.

Practitioner feedback directs the CFA Program curriculum, and the CFA examinations confirm attainment of the KSAs required of investment professionals.

Practice analysis ensures that the CFA Program remains aligned with what is required of today's—and tomorrow's—investment professionals.

## THE PRACTICE ANALYSIS PROCESS INCLUDES:

- In-depth conversations with investment management professionals about their job roles and professional practices.
- Discussions with employers about the challenges they face in recruiting and retaining competent investment professionals.
- On-going dialogue with regulators about ethical and professional practice standards designed to protect the public.
- Discussions with university faculty about recent advances in applied investment analysis and portfolio management research.
- Annual, global surveys of investment management professionals.

## WHY PARTICIPATE IN THE PRACTICE ANALYSIS PROCESS?

- Help to shape the future vision for the role of investment management professionals
- Contribute to the development of standards for professional competence in the investment management industry
- Engage in a dialogue with other stakeholders from around the globe

## GET INVOLVED

If you are interested in participating in the practice analysis process or would like further information, contact Carey Hare (carey.hare@cfainstitute.org) or visit [www.cfainstitute.org/practice\\_analysis](http://www.cfainstitute.org/practice_analysis).



# PRACTICE ANALYSIS TO THE CURRICULUM: 2017 HIGHLIGHTS

In addition to identifying the current set of competencies required by practitioners, the practice analysis process has been enhanced to capture **trends likely to influence the investment management industry** over the next 3 to 5 years. The top trends are listed below.

## RISK FACTOR–BASED ASSET ALLOCATION

The continued globalization of capital markets has led to increased investor uncertainty and, in turn, a demand for investment strategies that capture the risks inherent in securities. While asset class–based strategies remain the norm, recent advances in theory and practice have led to the adoption of asset allocation strategies based on risk factors embodied in the spectrum of investment securities. The risk factor–based approach has significant implications in valuation and performance evaluation.

## NEGATIVE (LOW) INTEREST RATE ENVIRONMENT

In response to the 2007 global financial crisis, central banks throughout the world implemented policies to address imbalances in capital markets. Though controversial, the lowering of interest rates to stimulate economic activity was viewed as temporary by most investment professionals. This interest rate environment has persisted, however, leading to some markets offering negative interest rates to savers and borrowers. The implications for investors and asset managers have been profound, impacting fixed-income markets as well as the full spectrum of asset classes. Investment managers are still struggling to incorporate this rate environment within the portfolio management process.

## PENSION FUNDING SHORTFALL

The *Financial Times* recently reported that US public pension systems have developed a \$3.4tn funding shortfall. Comparable estimates for other economies as well as private pensions have been reported. This funding deficit has significant implications for future asset returns and economic growth and introduces fundamental challenges to investment managers in addressing the long-term objectives of their clients. The solution will ultimately involve a redesign of the retirement system and the investment practices employed by professionals.

Listed below are summaries of selected **new readings from the 2017 CFA Program curriculum**, along with a brief summary. These readings were developed based on input received from industry practitioners via global practice analysis sessions.

## ETHICS AND TRUST IN THE INVESTMENT PROFESSION

**Bidhan L. Parmar, PhD, Dorothy C. Kelly, CFA, and David B. Stevens, CFA**  
Businesses and financial markets thrive on trust, which can be lost if individuals do not behave ethically. This reading introduces useful ideas and concepts to understand the importance of ethical behavior in the investment industry. Ethical issues encountered within the investment profession are discussed, and a framework to approach ethical decision making is described and its application demonstrated.

## CORPORATE GOVERNANCE AND ESG: AN INTRODUCTION

**Assem Safieddine, PhD, Young Lee, CFA, Donna F. Anderson, CFA, and Deborah Kidd, CFA**

Weak corporate governance is a common thread found in many company failures. This reading discusses the importance of corporate governance and the underlying principles, risks, and benefits associated with it. The reading also explores the growing impact of environmental and social considerations, which along with governance comprise the ESG acronym, widely used in the investment community.

## RISK MANAGEMENT FOR INDIVIDUALS

**David M. Blanchett, CFP, CFA, David M. Cordell, PhD, CFP, CFA, Michael S. Fink, PhD, and Thomas M. Idzorek, CFA**

As investors age, the nature of their total wealth and risks they face evolve. This reading provides an overview of potential risks to individuals or households and discusses financial products and investment strategies to protect against these risks. A well-constructed plan involves selecting financial products and investment strategies that fit an individual's financial goals and reduce shortfall risk.

For more information visit [www.cfainstitute.org/practice\\_analysis](http://www.cfainstitute.org/practice_analysis).