

STUDY SESSION

13

Portfolio Management (2)

This study session introduces the portfolio planning and construction process, including the development of an investment policy statement (IPS). A discussion of risk management, including the various types and measures of risk, follows, and a risk management framework is provided. The session concludes with coverage on how financial technology (fintech) is impacting areas within the investment industry, such as investment analysis, automated advice, and risk management.

READING ASSIGNMENTS

Reading 41	Basics of Portfolio Planning and Construction by Alistair Byrne, PhD, CFA, and Frank E. Smudde, CFA
Reading 42	Risk Management: An Introduction by Don M. Chance, PhD, CFA, and Michael E. Edleson, PhD, CFA
Reading 43	Fintech in Investment Management by Barbara J. Mack and Robert Kissell, PhD

LEARNING OUTCOMES

READING 41. BASICS OF PORTFOLIO PLANNING AND CONSTRUCTION

The candidate should be able to:

- a** describe the reasons for a written investment policy statement (IPS);
- b** describe the major components of an IPS;
- c** describe risk and return objectives and how they may be developed for a client;

- d** distinguish between the willingness and the ability (capacity) to take risk in analyzing an investor's financial risk tolerance;
- e** describe the investment constraints of liquidity, time horizon, tax concerns, legal and regulatory factors, and unique circumstances and their implications for the choice of portfolio assets;
- f** explain the specification of asset classes in relation to asset allocation;
- g** describe the principles of portfolio construction and the role of asset allocation in relation to the IPS.

READING 42. RISK MANAGEMENT: AN INTRODUCTION

The candidate should be able to:

- a** define risk management;
- b** describe features of a risk management framework;
- c** define risk governance and describe elements of effective risk governance;
- d** explain how risk tolerance affects risk management;
- e** describe risk budgeting and its role in risk governance;
- f** identify financial and non-financial sources of risk and describe how they may interact;
- g** describe methods for measuring and modifying risk exposures and factors to consider in choosing among the methods.

READING 43. FINTECH IN INVESTMENT MANAGEMENT

The candidate should be able to

- a** describe "fintech;"
- b** describe Big Data, artificial intelligence, and machine learning;
- c** describe fintech applications to investment management;
- d** describe financial applications of distributed ledger technology.