

STUDY SESSION

7

Portfolio Management for Institutional Investors

Broadly defined, institutional investors include retirement plans such as defined-benefit or defined-contribution plans, grant making organizations, endowments, insurance companies, banks, sovereign wealth funds, and investment intermediaries. These institutions typically have a well-defined purpose or business model in which their investment portfolio plays a pivotal role. Each group faces a unique set of investment objectives and constraints.

This study session provides a conceptual, yet practical, framework for understanding institutional portfolio management. Concepts and practices important in determining the investment policy statement (IPS) are presented for different types of institutional investors.

READING ASSIGNMENT

Reading 15

Managing Institutional Investor Portfolios
by R. Charles Tschampion, CFA, Laurence B. Siegel, Dean J. Takahashi, and John L. Maginn, CFA

LEARNING OUTCOMES

READING 15. MANAGING INSTITUTIONAL INVESTOR PORTFOLIOS

The candidate should be able to:

- a** contrast a defined-benefit plan to a defined-contribution plan and discuss the advantages and disadvantages of each from the perspectives of the employee and the employer;
- b** discuss investment objectives and constraints for defined-benefit plans;

Note: The concepts and practices important to institutional investment management appear in many readings throughout the Level III study sessions.

- c** evaluate pension fund risk tolerance when risk is considered from the perspective of the 1) plan surplus, 2) sponsor financial status and profitability, 3) sponsor and pension fund common risk exposures, 4) plan features, and 5) workforce characteristics;
- d** prepare an investment policy statement for a defined-benefit plan;
- e** evaluate the risk management considerations in investing pension plan assets;
- f** prepare an investment policy statement for a participant directed defined-contribution plan;
- g** discuss hybrid pension plans (e.g., cash balance plans) and employee stock ownership plans;
- h** distinguish among various types of foundations, with respect to their description, purpose, and source of funds;
- i** compare the investment objectives and constraints of foundations, endowments, insurance companies, and banks;
- j** discuss the factors that determine investment policy for pension funds, foundation endowments, life and non-life insurance companies, and banks;
- k** prepare an investment policy statement for a foundation, an endowment, an insurance company, and a bank;
- l** contrast investment companies, commodity pools, and hedge funds to other types of institutional investors;
- m** compare the asset/liability management needs of pension funds, foundations, endowments, insurance companies, and banks;
- n** compare the investment objectives and constraints of institutional investors given relevant data, such as descriptions of their financial circumstances and attitudes toward risk.