STUDY SESSION

14

Equity Portfolio Management (2)

This study session takes an in-depth look at active equity portfolio management. It begins with a discussion of quantitative and fundamental equity strategies, including the underlying rationale for the investment approach and how they are created, whether top-down or bottom-up. Factor-based investing, as well as key specialized equity strategies such as activist investing and statistical arbitrage, are explored. The study session concludes with a discussion of issues important in active equity portfolio construction, including Active Share, active risk, risk budgeting, and constraints on portfolio construction.

READING ASSIGNMENT

Reading 28
Active Equity Investing: Strategies
by Bing Li, PhD, CFA, Yin Luo, CFA, and Pranay Gupta, CFA

Reading 29
Active Equity Investing: Portfolio Construction
by Jacques Lussier, CFA, and Marc Reinganum, PhD

LEARNING OUTCOMES

READING 28. ACTIVE EQUITY INVESTING: STRATEGIES

The candidate should be able to:

a) compare fundamental and quantitative approaches to active management;

b) analyze bottom-up active strategies, including their rationale and associated processes;

c) analyze top-down active strategies, including their rationale and associated processes;
d  analyze factor-based active strategies, including their rationale and associated processes;
e  analyze activist strategies, including their rationale and associated processes;
f  describe active strategies based on statistical arbitrage and market microstructure;
g  describe how fundamental active investment strategies are created;
h  describe how quantitative active investment strategies are created;
i  discuss equity investment style classifications.

READING 29. ACTIVE EQUITY INVESTING: PORTFOLIO CONSTRUCTION

The candidate should be able to:
a  describe elements of a manager’s investment philosophy that influence the portfolio construction process;
b  discuss approaches for constructing actively managed equity portfolios;
c  distinguish between Active Share and active risk and discuss how each measure relates to a manager’s investment strategy;
d  discuss the application of risk budgeting concepts in portfolio construction;
e  discuss risk measures that are incorporated in equity portfolio construction and describe how limits set on these measures affect portfolio construction;
f  discuss how assets under management, position size, market liquidity, and portfolio turnover affect equity portfolio construction decisions;
g  evaluate the efficiency of a portfolio structure given its investment mandate;
h  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.