

STUDY SESSION

16

Cases in Portfolio Management and Risk Management

This study session provides two cases that integrate material across Level III study sessions. Each case provides a stylized scenario involving several issues that are used to illustrate how to evaluate the needs of a client and synthesize techniques to provide appropriate solutions.

The first case considers issues associated with the development of a strategic asset allocation (SAA) for a long-horizon institutional investor—a university endowment—with special challenges including supporting spending policies while ensuring the long-term sustainability of the endowment and establishing optimal exposure to illiquid investment strategies in the context of a diversified portfolio. These issues are explored from the perspective of a large university endowment undertaking a review of its asset allocation and then implementing proposed allocation changes and a tactical overlay program.

The second case study explores issues raised in a private wealth management setting of providing advice on risk management to individuals and families. These issues include the extent to which identified and evaluated risks can be reduced, addressed using insurance policies, or self-insurance. Families' financial circumstances and risks evolve over time, and the arrangements addressing the risks should be reviewed and updated. Risk management solutions recommended by advisers should take the overall wealth of the family into consideration. The choice of an adviser may also pose practical and ethical challenges.

READING ASSIGNMENTS

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| Reading 37 | Case Study in Portfolio Management: Institutional
by Gabriel Petre, CFA |
| Reading 38 | Case Study in Risk Management: Private Wealth
by Giuseppe Balocchi, PhD, CFA |

LEARNING OUTCOMES**READING 37. CASE STUDY IN PORTFOLIO MANAGEMENT:
INSTITUTIONAL**

The candidate should be able to:

- a** discuss tools for managing portfolio liquidity risk;
- b** discuss capture of the illiquidity premium as an investment objective;
- c** analyze asset allocation and portfolio construction in relation to liquidity needs and risk and return requirements and recommend actions to address identified needs;
- d** analyze actions in asset manager selection with respect to the Code of Ethics and Standards of Professional Conduct;
- e** analyze the costs and benefits of derivatives versus cash market techniques for establishing or modifying asset class or risk exposures;
- f** demonstrate the use of derivatives overlays in tactical asset allocation and rebalancing.

**READING 38. CASE STUDY IN RISK MANAGEMENT: PRIVATE
WEALTH**

The candidate should be able to:

- a** identify and analyze a family's risk exposures during the early career stage;
- b** recommend and justify methods to manage a family's risk exposures during the early career stage;
- c** identify and analyze a family's risk exposures during the career development stage;
- d** recommend and justify methods to manage a family's risk exposures during the career development stage;
- e** identify and analyze a family's risk exposures during the peak accumulation stage;
- f** recommend and justify methods to manage a family's risk exposures during the peak accumulation stage;
- g** identify and analyze a family's risk exposures during the early retirement stage;
- h** recommend and justify a plan to manage risks to an individual's retirement lifestyle goals.