

Cases in Portfolio Management and Risk Management

This study session provides three 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 study 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.

The third case study looks at various challenges faced by institutional investors from a risk management perspective including: financial risks, enterprise risk management, environmental risks, and social risks. The focus of the reading is a theoretical case study addressing risk management aspects of a Sovereign Wealth Fund's (SWF) potential long-term direct investments in infrastructure and private equity. The structure of the case itself brings the learner inside two Investment Committee (IC) meetings where various aspects of risk are discussed, and potential investments evaluated. The learner

is expected to review IC memos and IC discussions and analyze various risk elements of the investment opportunities as the case unfolds over a 5-year period. Ultimately, the learner is expected to make recommendations for improvement.

READING ASSIGNMENTS

Reading 28	Case Study in Portfolio Management: Institutional by Gabriel Petre, CFA
Reading 29	Case Study in Risk Management: Private Wealth by Giuseppe Balocchi, PhD, CFA
Reading 30	Case Study in Risk Management: Institutional by Steve Balaban, CFA, Arjan Berkelaar, PhD, CFA, Nasir Hasan, and Hardik Sanjay Shah, CFA

LEARNING OUTCOMES

READING 28. 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 29. 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.

READING 30. INTEGRATED CASES IN RISK MANAGEMENT: INSTITUTIONAL

The candidate should be able to:

- a** discuss financial risks associated with the portfolio strategy of an institutional investor;
- b** discuss environmental and social risks associated with the portfolio strategy of an institutional investor;
- c** analyze and evaluate the financial and non-financial risk exposures in the portfolio strategy of an institutional investor;
- d** discuss various methods to manage the risks that arise on long-term direct investments of an institutional investor;
- e** evaluate strengths and weaknesses of an enterprise risk management system and recommend improvements.