STUDY SESSION

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Equity Portfolio Management (1)

Because equity securities represent a significant portion of many investment portfolios, equity portfolio management is often an important component of overall investment success. This study session begins by explaining the role played by equity investments in portfolios, with consideration given to costs and shareholder responsibilities. It then discusses two approaches to equity portfolio management: passive or index-based investing and active equity strategies. The reading on passive equity investing addresses important issues such as alternative approaches to index replication and factor-based passive strategies. Tracking error, risk, and return considerations from an indexing perspective are examined.

READING ASSIGNMENT

Reading 15	Overview of Equity Portfolio Management by James Clunie, PhD, CFA, and James Alan Finnegan, CAIA, RMA, CFA
Reading 16	Passive Equity Investing by David M. Smith, PhD, CFA, and Kevin K. Yousif, CFA

LEARNING OUTCOMES

READING 15. OVERVIEW OF EQUITY PORTFOLIO MANAGEMENT

The candidate should be able to:

a describe the roles of equities in the overall portfolio;

b describe how an equity manager's investment universe can be segmented;

c describe the types of income and costs associated with owning and managing an equity portfolio and their potential effects on portfolio performance;

d describe the potential benefits of shareholder engagement and the role an equity manager might play in shareholder engagement;

e describe rationales for equity investment across the passive–active spectrum.

READING 16. PASSIVE EQUITY INVESTING

The candidate should be able to:

a discuss considerations in choosing a benchmark for a passively managed equity portfolio;

b compare passive factor-based strategies to market-capitalization-weighted indexing;

c compare different approaches to passive equity investing;

d compare the full replication, stratified sampling, and optimization approaches for the construction of passively managed equity portfolios;

e discuss potential causes of tracking error and methods to control tracking error for passively managed equity portfolios;

f explain sources of return and risk to a passively managed equity portfolio.