

STUDY SESSION

8

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

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| Reading 17 | Active Equity Investing: Strategies
by Bing Li, PhD, CFA, Yin Luo, CPA, PStat, CFA, and Pranay Gupta, CFA |
| Reading 18 | Active Equity Investing: Portfolio Construction
by Jacques Lussier, PhD, CFA, and Marc R. Reinganum, PhD |

LEARNING OUTCOMES

READING 17. 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 18. 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.