STUDY SESSION

6

Portfolio Management for Institutional Investors

Broadly defined, institutional investors include defined-benefit pension plans, defined-contribution plans, foundations, endowments, insurance companies, banks, and investment intermediaries. These institutions typically have a well-defined purpose or business model in which their investment portfolio plays a role. Each group faces a unique set of investment objectives and constraints.

The study session begins with an introduction of the concepts and practices important to determining the investment policy statement for an institutional investment management client. The second reading then examines the specific issue of asset/liability management in the context of defined-benefit pension plans. The implications for asset allocation and risk management are relevant, however, for a wide range of institutions that manage assets to fund anticipated liabilities.

READING ASSIGNMENTS

Reading 13	Managing Institutional Investor Portfolios by R. Charles Tschampion, CFA, Laurence B. Siegel, Dean J. Takahashi, and John L. Maginn, CFA
Reading 14	Linking Pension Liabilities to Assets by Aaron Meder, FSA, CFA, and Renato Staub, PhD

Note: The concepts and practices important to institutional investment management appear in many readings throughout the Level III study sessions.

LEARNING OUTCOMES

READING 13. MANAGING INSTITUTIONAL INVESTOR PORTFOLIOS

The candidate should be able to:

- **a** contrast a defined-benefit plan to a defined-contribution plan and discuss the advantages and disadvantages of each from the perspectives of the employee and the employer;
- **b** discuss investment objectives and constraints for defined-benefit plans;
- **c** evaluate pension fund risk tolerance when risk is considered from the perspective of the 1) plan surplus, 2) sponsor financial status and profitability, 3) sponsor and pension fund common risk exposures, 4) plan features, and 5) workforce characteristics;
- **d** prepare an investment policy statement for a defined-benefit plan;
- **e** evaluate the risk management considerations in investing pension plan assets;
- **f** prepare an investment policy statement for a participant directed defined-contribution plan;
- **g** discuss hybrid pension plans (e.g., cash balance plans) and employee stock ownership plans;
- **h** distinguish among various types of foundations, with respect to their description, purpose, and source of funds;
- **i** compare the investment objectives and constraints of foundations, endowments, insurance companies, and banks;
- **j** discuss the factors that determine investment policy for pension funds, foundation endowments, life and non-life insurance companies, and banks;
- **k** prepare an investment policy statement for a foundation, an endowment, an insurance company, and a bank;
- **l** contrast investment companies, commodity pools, and hedge funds to other types of institutional investors;
- **m** compare the asset/liability management needs of pension funds, foundations, endowments, insurance companies, and banks;
- **n** compare the investment objectives and constraints of institutional investors given relevant data, such as descriptions of their financial circumstances and attitudes toward risk.

READING 14. LINKING PENSION LIABILITIES TO ASSETS

The candidate should be able to:

- **a** contrast the assumptions concerning pension liability risk in asset-only and liability-relative approaches to asset allocation;
- **b** discuss the fundamental and economic exposures of pension liabilities and identify asset types that mimic these liability exposures;
- **c** compare pension portfolios built from a traditional asset-only perspective to portfolios designed relative to liabilities and discuss why corporations may choose not to implement fully the liability mimicking portfolio.