

CHAPTER 4

PORTFOLIO MANAGEMENT: AN OVERVIEW

Presenter

Venue

Date



CFA Institute

THE PORTFOLIO PERSPECTIVE

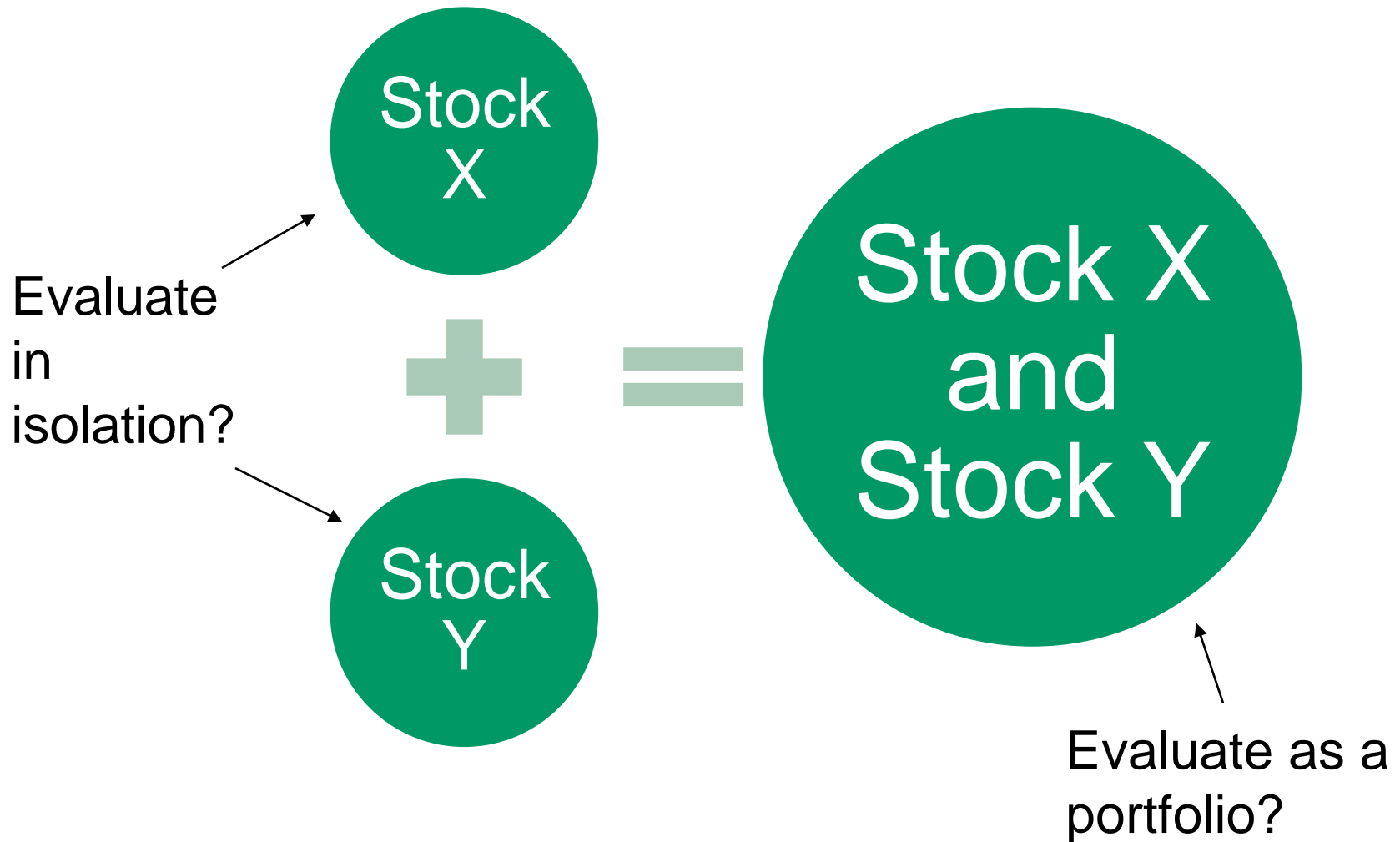
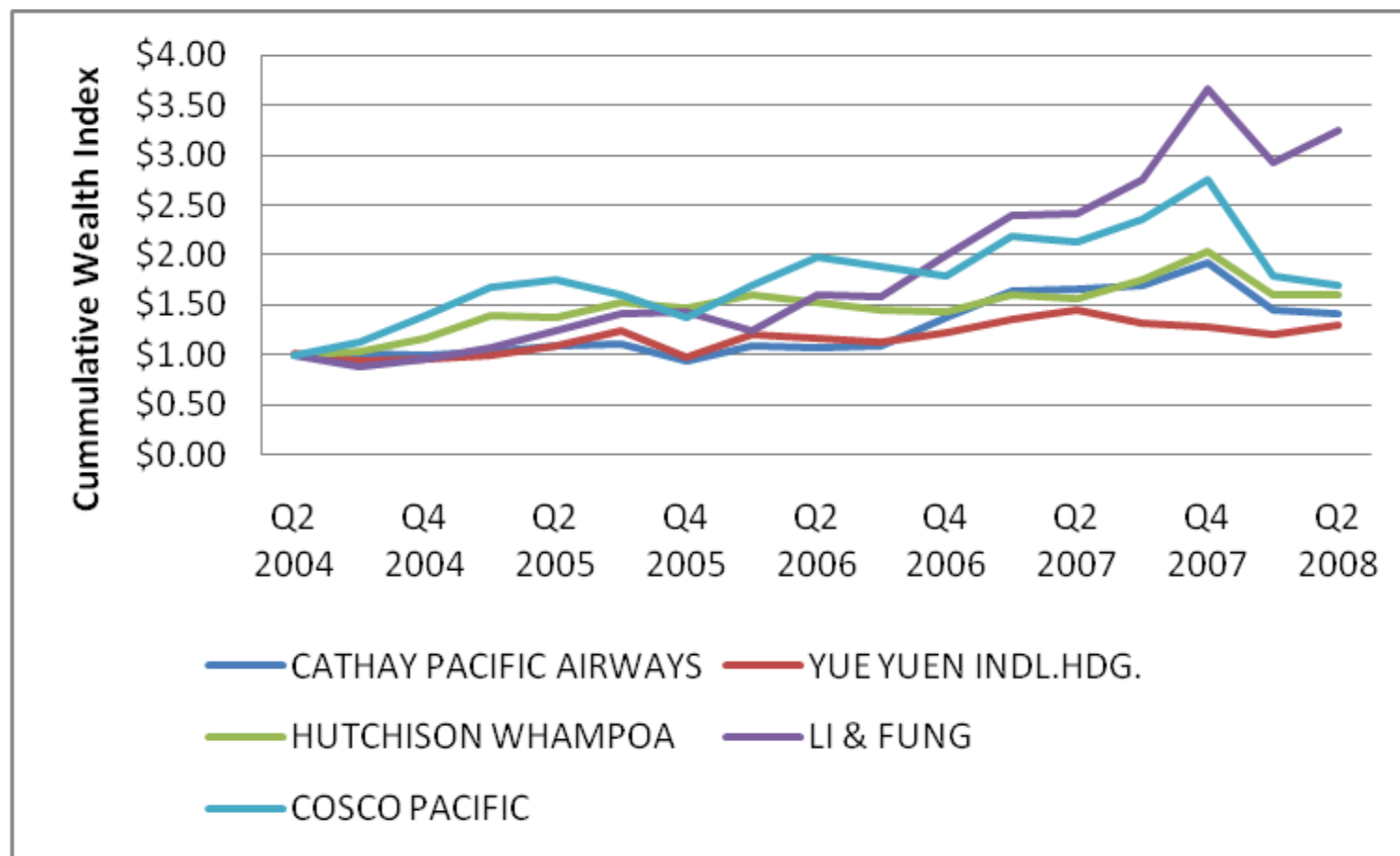


EXHIBIT 4-3 CUMULATIVE WEALTH INDEX OF SAMPLE OF SHARES LISTED ON HKSE



Source: Datastream

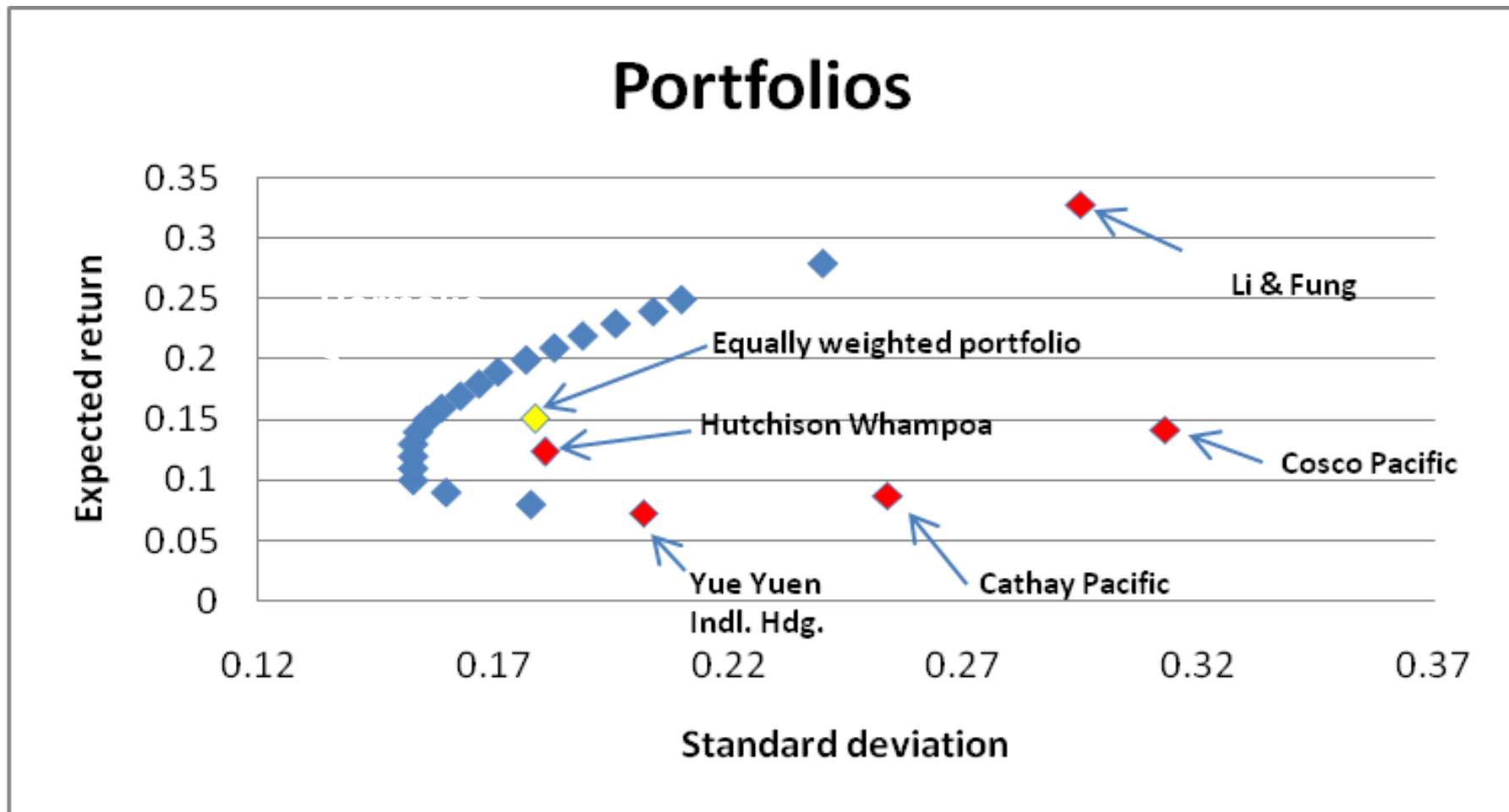
EXHIBIT 4-4 THE IMPORTANCE OF THE PORTFOLIO PERSPECTIVE

	Yue Yuen Industrial	Cathay Pacific Airways	Hutchinson Whampoa	Li & Fung	COSCO Pacific	Equally Weighted Portfolio
Mean annual return	7.3%	8.7%	12.3%	32.8%	14.2%	15.1%
Annual standard deviation	20.2%	25.4%	18.1%	29.5%	31.3%	17.9%

Mean annual return, randomly selected security = 15.1%
 Annual standard deviation, randomly selected security = 24.9%

Source: Datastream

EXHIBIT 4-5 OPTIMAL PORTFOLIOS FOR A SAMPLE OF HKSE SHARES



Source: Datastream

KEY TENETS OF MODERN PORTFOLIO THEORY



Investors should hold portfolios and focus on how individual securities in the portfolio are related to one another.



The priced risk of an individual security is affected by holding it in a well-diversified portfolio.



Systematic or nondiversifiable risk should be the only risk that affects the asset's price.

REPRESENTATIVE INVESTMENT MOTIVES FOR INDIVIDUAL INVESTORS

Short-Term Goals

- Children's education
- Saving for a major purchase
- Starting a business

Long-Term Goals

- Retirement (defined contribution plan)

EXAMPLES OF INSTITUTIONAL INVESTORS

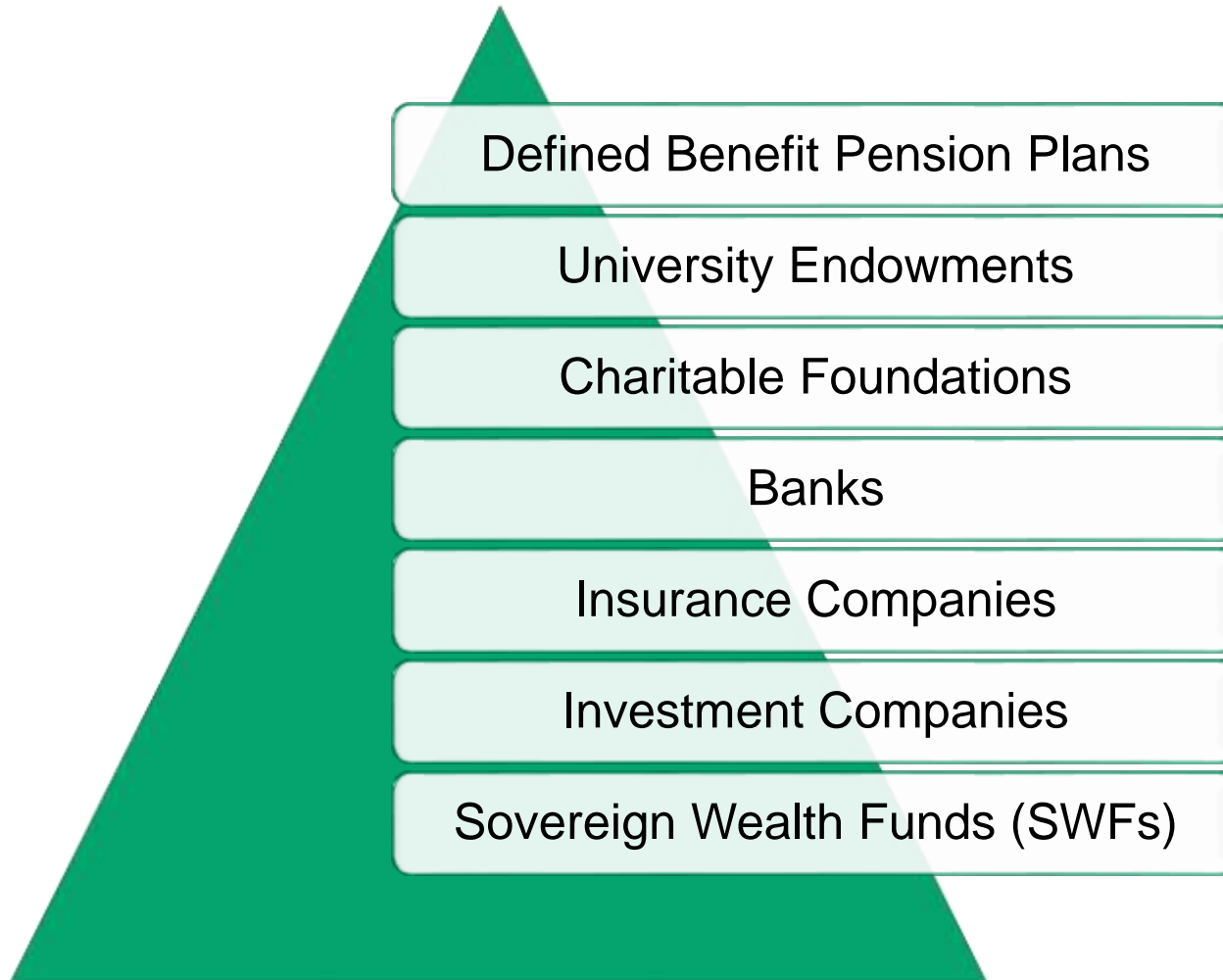
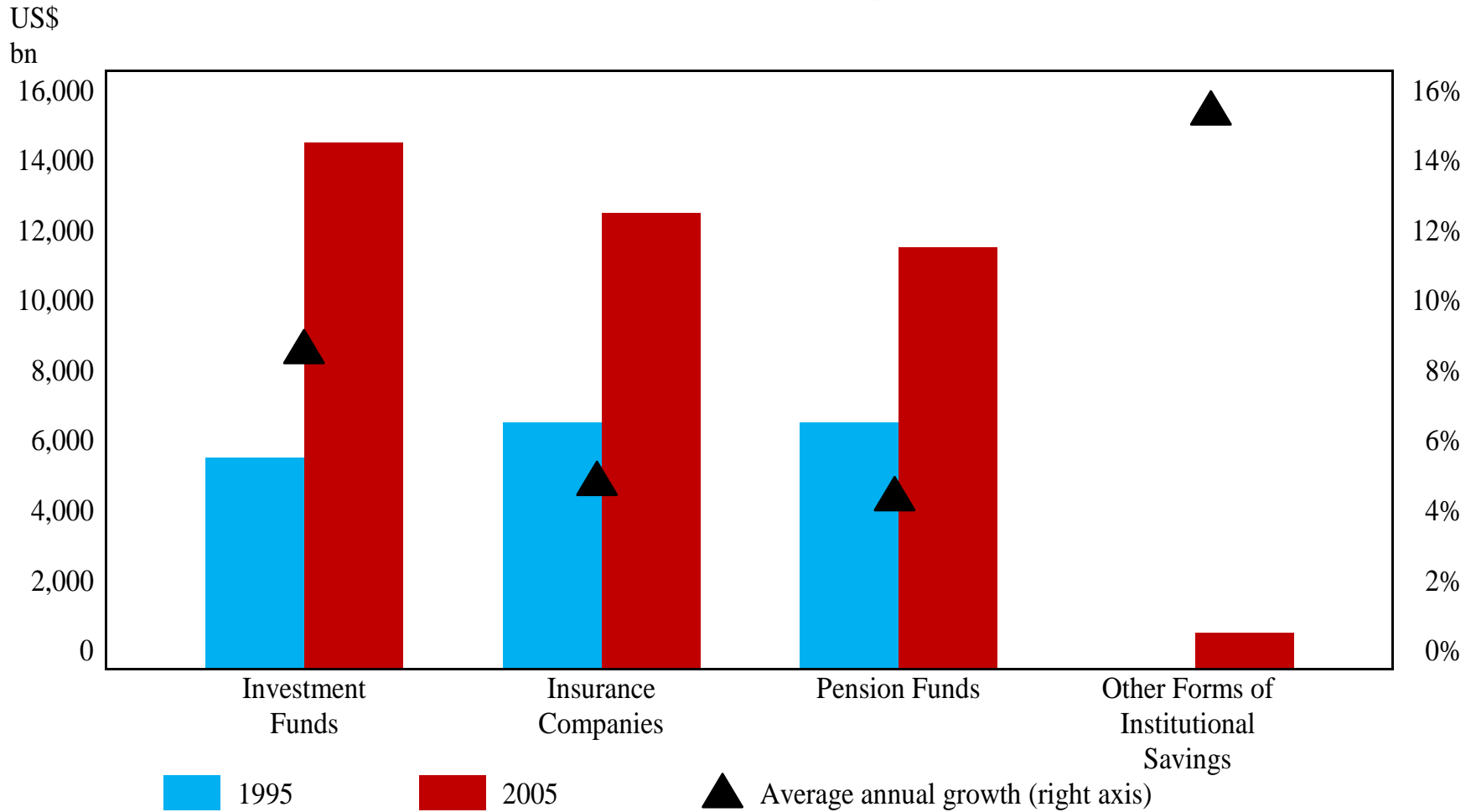
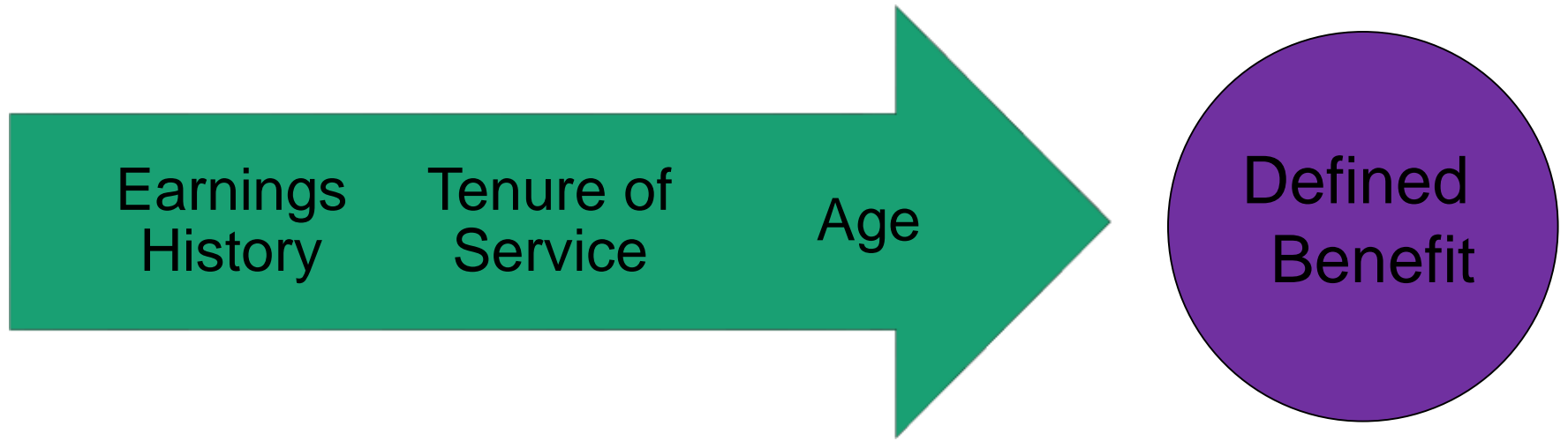


EXHIBIT 4-10 INSTITUTIONAL ASSETS (IN US\$ BILLIONS)



Source: OECD, "Recent Trends in Institutional Investors Statistics" (2008).

DEFINED BENEFIT PENSION PLANS



~~Investment Returns?~~

EXHIBIT 4-11 TOP TEN U.S. UNIVERSITY ENDOWMENTS BY ASSET VALUE

Rank	Institution	State	Endowment Funds 2008 (US\$ thousands)
1	Harvard University	MA	\$36,556,284
2	Yale University	CT	22,869,700
3	Stanford University	CA	17,200,000
4	Princeton University	NJ	16,349,329
5	University of Texas System	TX	16,111,184
6	Massachusetts Institute of Technology	MA	10,068,800
7	University of Michigan	MI	7,571,904
8	Northwestern University	IL	7,243,948
9	Columbia University	NY	7,146,806
10	Texas A&M University System and foundations	TX	6,659,352

Source: NACUBO, “2008 NACUBO Endowment Study” (January 2009).

EXHIBIT 4-12 TOP TEN U.S. FOUNDATION ENDOWMENTS BY ASSET VALUE

Rank	Foundation	Assets (US\$ thousands)	As of Fiscal Year-End Date
1	Bill & Melinda Gates Foundation	\$38,921,022	12/31/07
2	J. Paul Getty Trust	11,187,007	06/30/07
3	Ford Foundation	11,045,128	09/30/08
4	Robert Wood Johnson Foundation	10,722,296	12/31/07
5	William and Flora Hewlett Foundation	9,284,917	12/31/07
6	W.K. Kellogg Foundation	8,402,996	08/31/07
7	Lilly Endowment	7,734,860	12/31/07
8	John D. and Catherine T. MacArthur Foundation	7,052,165	12/31/07
9	David and Lucile Packard Foundation	6,594,540	12/31/07
10	Andrew W. Mellon Foundation	6,539,865	12/31/07

Source: Foundation Center (2009).

BANKS, INSURANCE COMPANIES, AND INVESTMENT COMPANIES

Banks

- Legal restrictions?
- Risk and liquidity concerns?

Insurance Companies

- Risk and liquidity concerns?
- Time horizons?

Investment Companies

- Investment category?
- Limits and legal restrictions?

EXHIBIT 4-13 SOVEREIGN WEALTH FUNDS BY ASSET VALUE

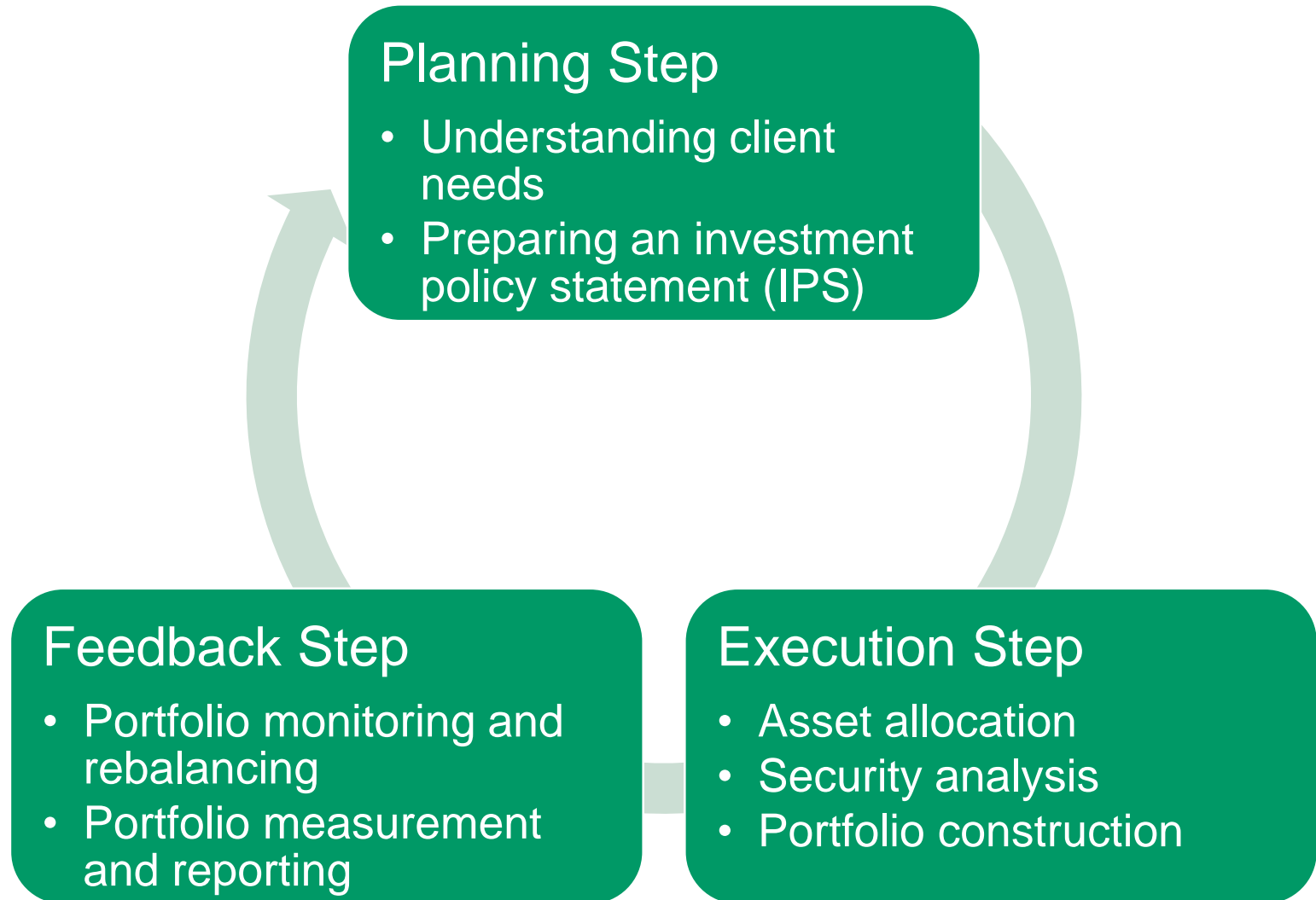
Fund	Assets as of March 2009 (US\$ bns)	Inception Date	Country
Abu Dhabi Investment Authority	\$627	1976	Abu Dhabi, UAE
SAMA Foreign Holdings	431	n/a	Saudi Arabia
SAFE Investment Company	347	n/a	People's Republic of China
Norwegian Government Pension Fund-Global	326	1990	Norway
Government of Singapore Investment Corporation	248	1981	Singapore
National Welfare Fund	220	2008	Russia
Kuwait Investment Authority	203	1953	Kuwait
China Investment Corporation	190	2007	People's Republic of China
Hong Kong Monetary Authority Investment Portfolio	173	1998	People's Republic of China
Temasek Holdings	85	1974	Singapore
Total of top 10 SWFs	\$2,850		
Total of all SWFs	\$3,582		

Source: SWF Institute (www.swfinstitute.org).

EXHIBIT 4-14 SUMMARY OF INVESTMENT NEEDS BY CLIENT TYPE

Client	Time Horizon	Risk Tolerance	Income Needs	Liquidity Needs
Individual investors	Varies by individual	Varies by individual	Varies by individual	Varies by individual
Defined benefit pension plans	Typically long-term	Typically quite high	High for mature funds; low for growing funds	Typically quite low
Endowments and foundations	Very long-term	Typically high	Sufficient to meet spending commitments	Typically quite low
Banks	Short-term	Quite low	Sufficient to pay interest on deposits and operational expenses	High to meet repayment of deposits
Insurance companies	Short-term for property and casualty; long-term for life insurance companies	Typically quite low	Typically low	High to meet claims
Investment companies	Varies by fund	Varies by fund	Varies by fund	High to meet redemptions

STEPS IN THE PORTFOLIO MANAGEMENT PROCESS



SELL-SIDE FIRM VS. BUY-SIDE FIRM

Sell-Side Firm

- Broker or dealer who sells securities
- Provides independent investment research and recommendations

Buy-Side Firm

- Investment management company (mutual fund, pension fund, etc.)
- Clients of sell-side firms
- May perform in-house research

POOLED INVESTMENTS

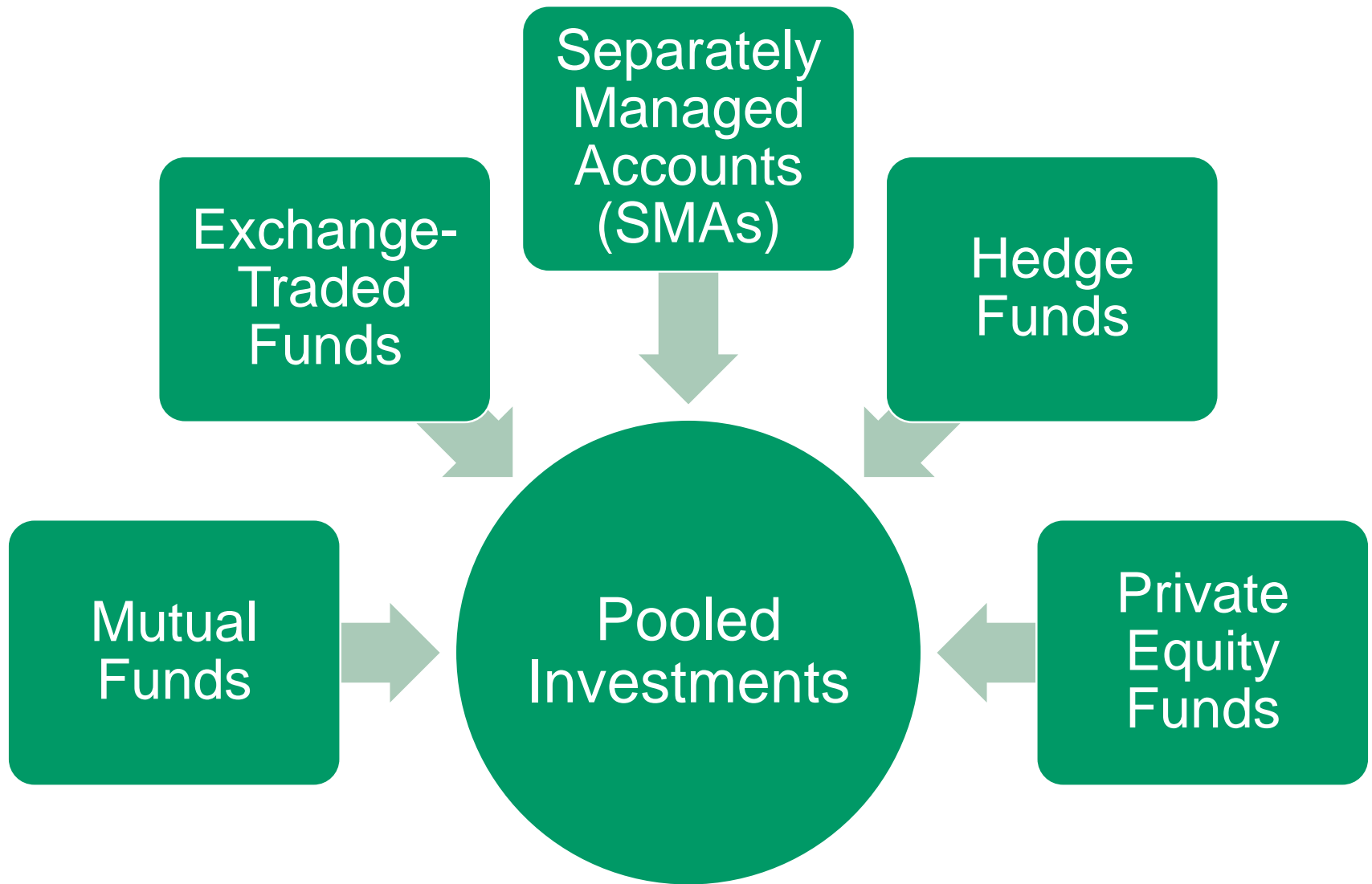


EXHIBIT 4-17 INVESTMENT PRODUCTS BY MINIMUM INVESTMENT

<ul style="list-style-type: none"> • Mutual funds • Exchange-traded funds 	<ul style="list-style-type: none"> • Mutual funds • Exchange-traded funds • Separately managed accounts 	<ul style="list-style-type: none"> • Mutual funds • Exchange-traded funds • Separately managed accounts • Hedge funds • Private equity funds
As little as US\$50	US\$100,000	US\$1,000,000 +
Minimum Investment		

MUTUAL FUNDS: OPEN-END FUNDS VS. CLOSED-END FUNDS

Open-End Funds

Accept new money and issue additional shares

Funds can be withdrawn at NAV

Portfolio manager must manage cash flows

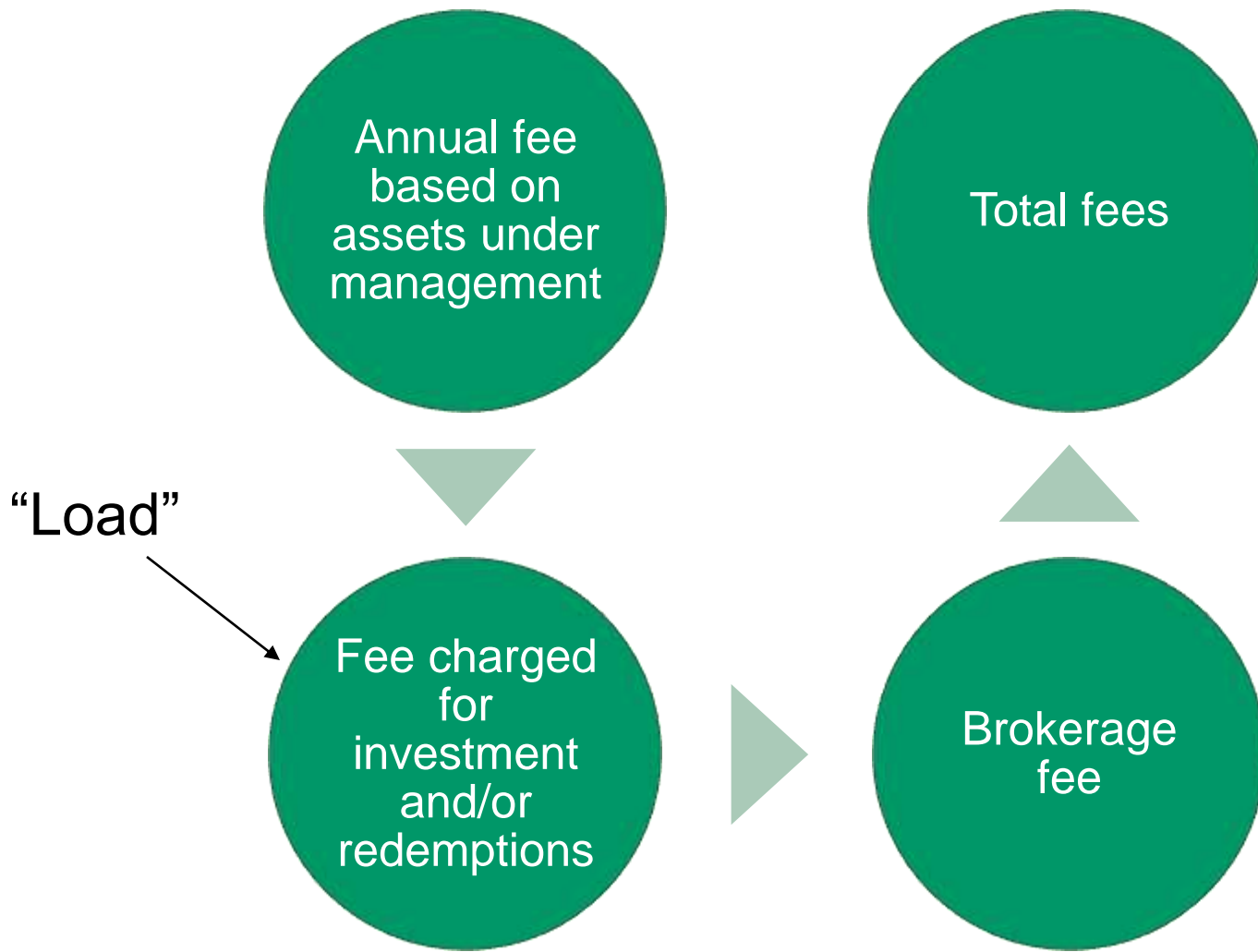
Closed-End Funds

Do not accept new money or issue additional shares

Can sell for a premium or discount

Limited ability to grow

MUTUAL FUNDS: NO-LOAD FUNDS VS. LOAD FUNDS



MONEY MARKET FUNDS

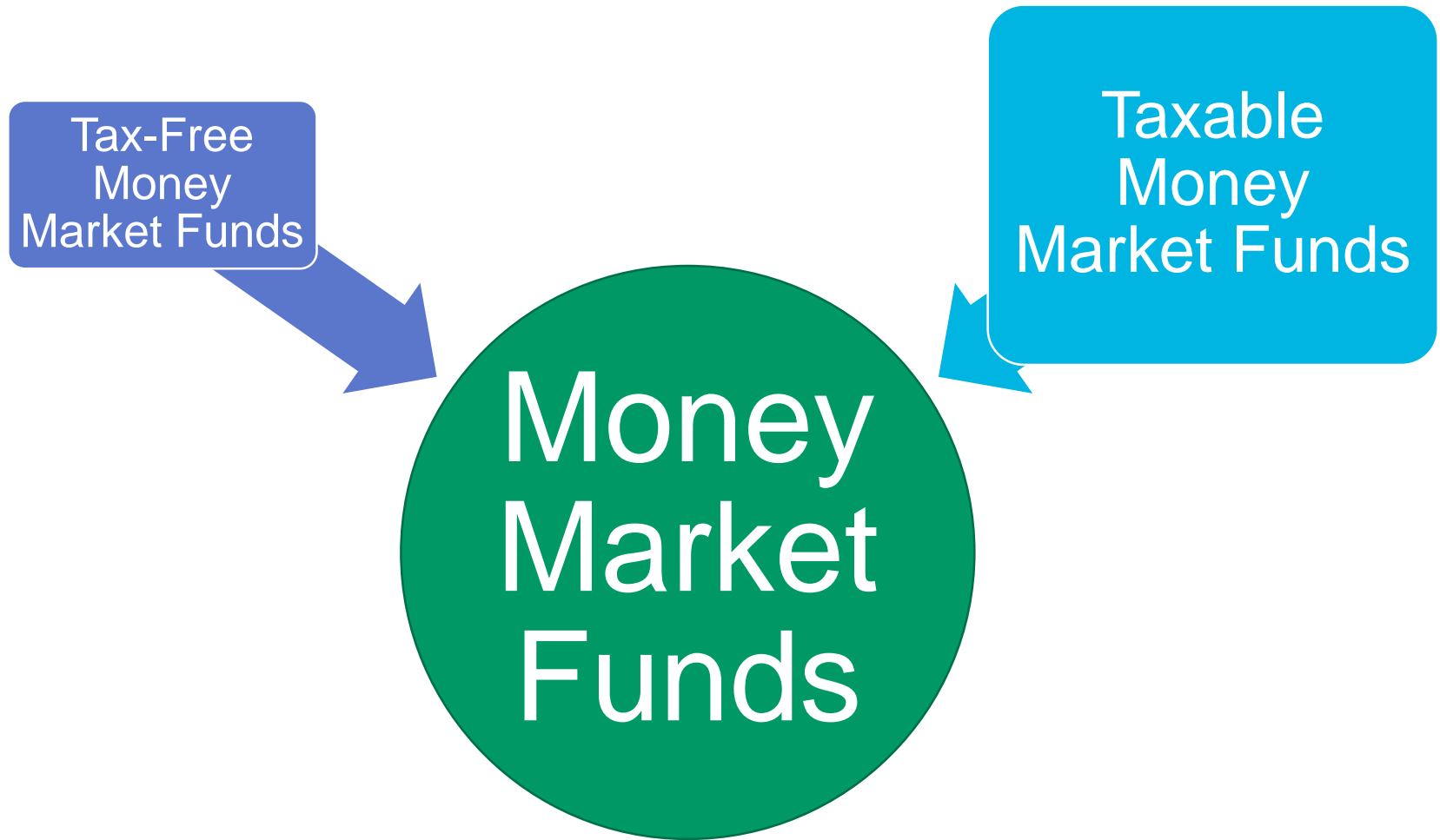


EXHIBIT 4-21 BOND MUTUAL FUNDS

Type of Bond Mutual Fund	Securities Held
Global	Domestic and nondomestic government, corporate, and securitized debt
Government	Government bonds and other government-affiliated bonds
Corporate	Corporate debt
High yield	Below-investment-grade corporate debt
Inflation protected	Inflation-protected government debt
National tax-free bonds	National tax-free bonds (e.g., U.S. municipal bonds)

STOCK MUTUAL FUNDS: ACTIVE VS. PASSIVE MANAGEMENT

Actively Managed

- Manager seeks outstanding performance
 - Higher fees
 - Frequent trading
 - More likely to realize capital gain distributions

Passively Managed

- Manager seeks to match the performance of an index

EXCHANGE-TRADED FUNDS (ETFs)

ETFs:

Are typically index funds

Trade like closed-end funds

Have prices that track NAV

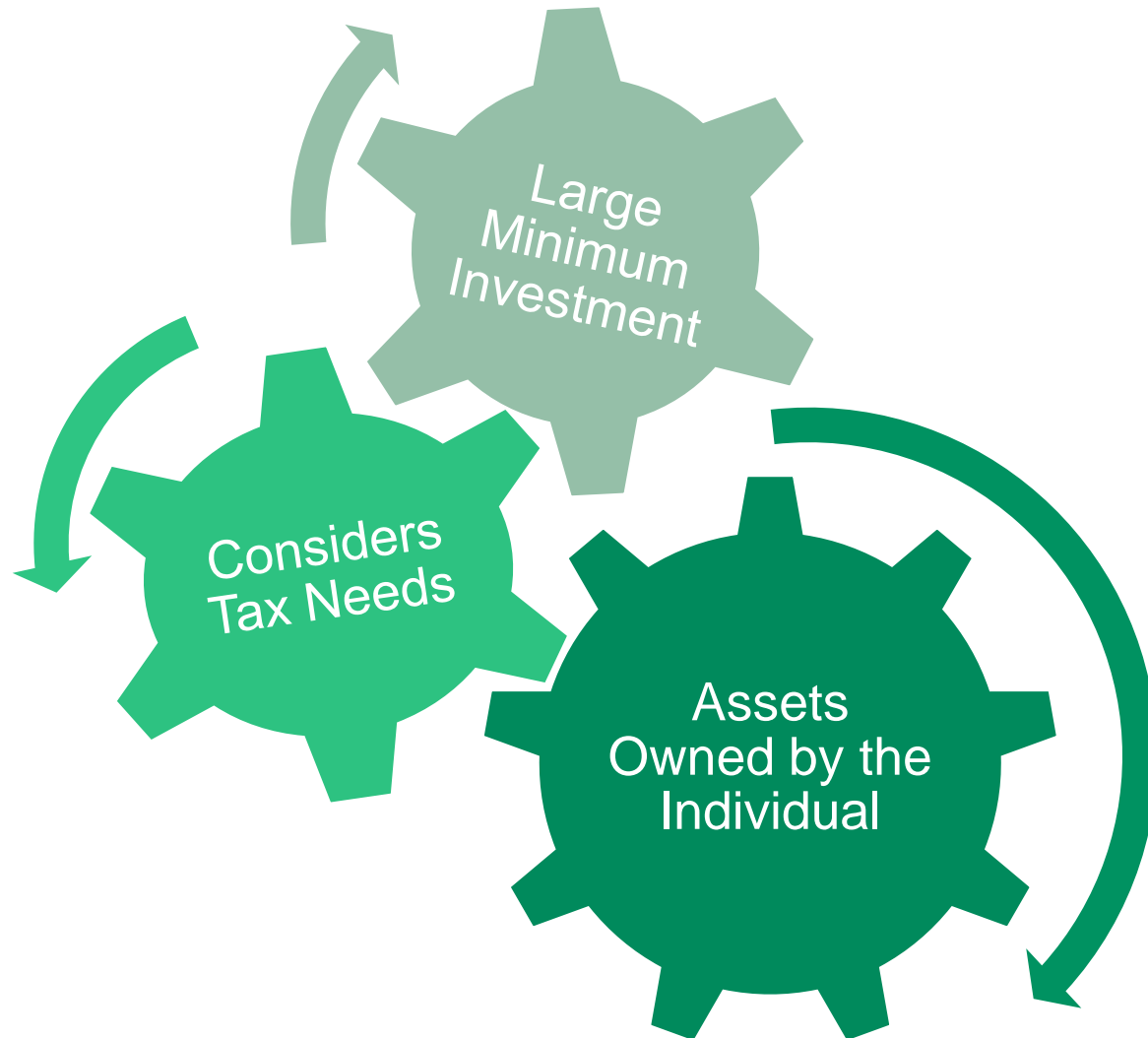
Pay dividends out to investors

EXHIBIT 4-23 TYPES OF EXCHANGE-TRADED FUNDS (ETFs) JANUARY 2009

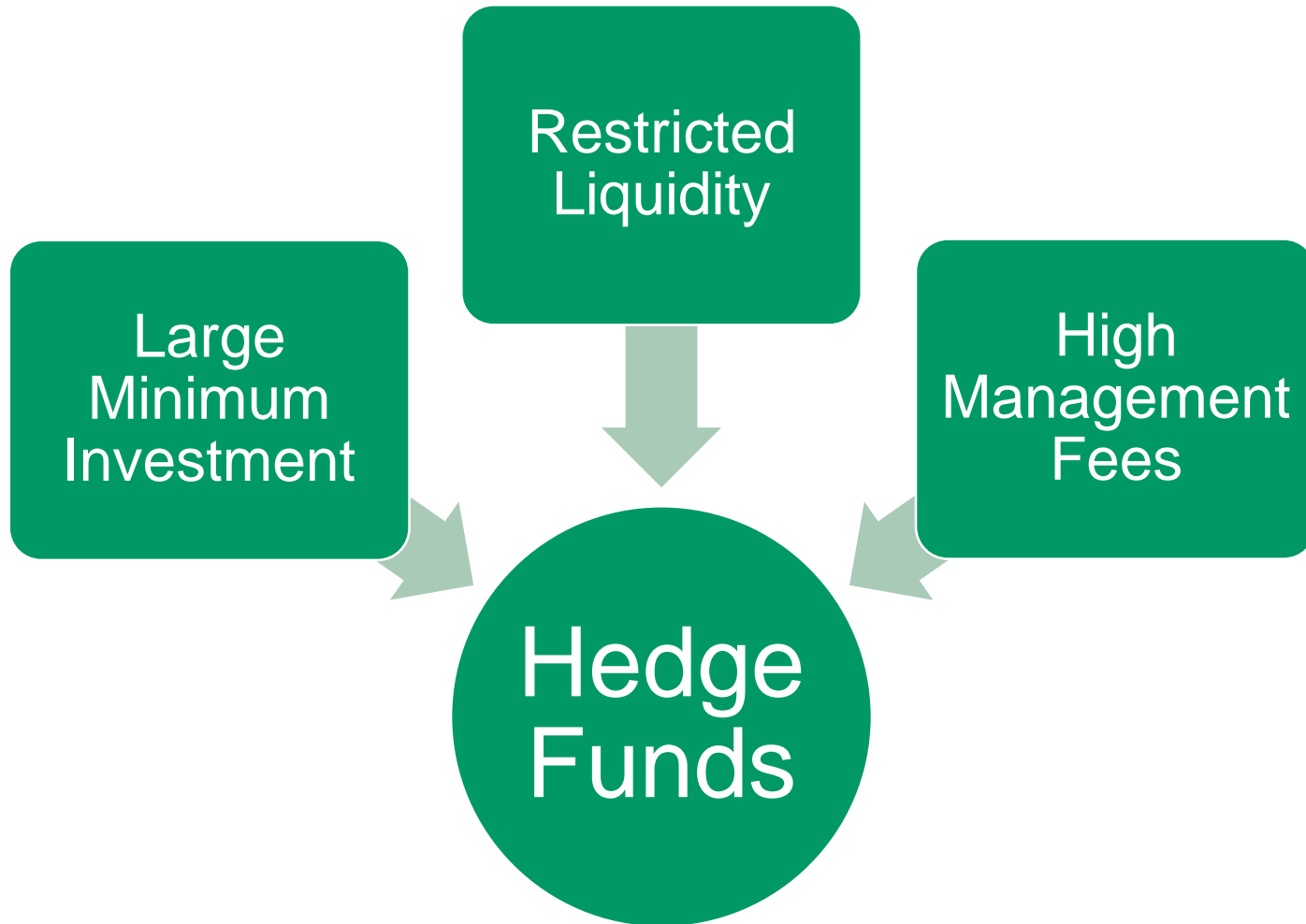
Type of ETF	End of 2008	Totals (in US\$ millions)	Asset Class by Type of ETF as a Percentage of Assets under Management							
			Total Market	Large Cap	Mid Cap	Broad-Based, Other				
Broad-based equity										
	50.6%	\$266,161	7.4%	69.4%	9.4%	3.4%				
Sector			Commodities	Consumer	Financial	Natural Resources	Real Estate	Technology	Utilities	Other Sectors
	17.9%	94,101	38.0%	5.0%	16.6%	7.0%	12.8%	7.9%	4.8%	4.6%
Global/ international			Global	International	Regional	Single Country	Emerging Markets			
	19.7%	103,713	8.8%	41.4%	5.6%	11.5%	42.3%			
Hybrid			Hybrid							
	0.0%	125	100%							
Bond			Government Bond	Municipal Bond	Corporate Bond	International Bond				
	11.8%	62,185	44.7%	3.5%	41.4%	2.4%				
Totals	100.0%	\$526,285								

Source: Investment Company Institute, "Exchange-Traded Fund Assets, January 2009" (25 February 2009).

SEPARATELY MANAGED ACCOUNT (SMA)



HEDGE FUNDS



HEDGE FUND STRATEGIES

Convertible Arbitrage

Dedicated Short Bias

Emerging Markets

Equity Market Neutral

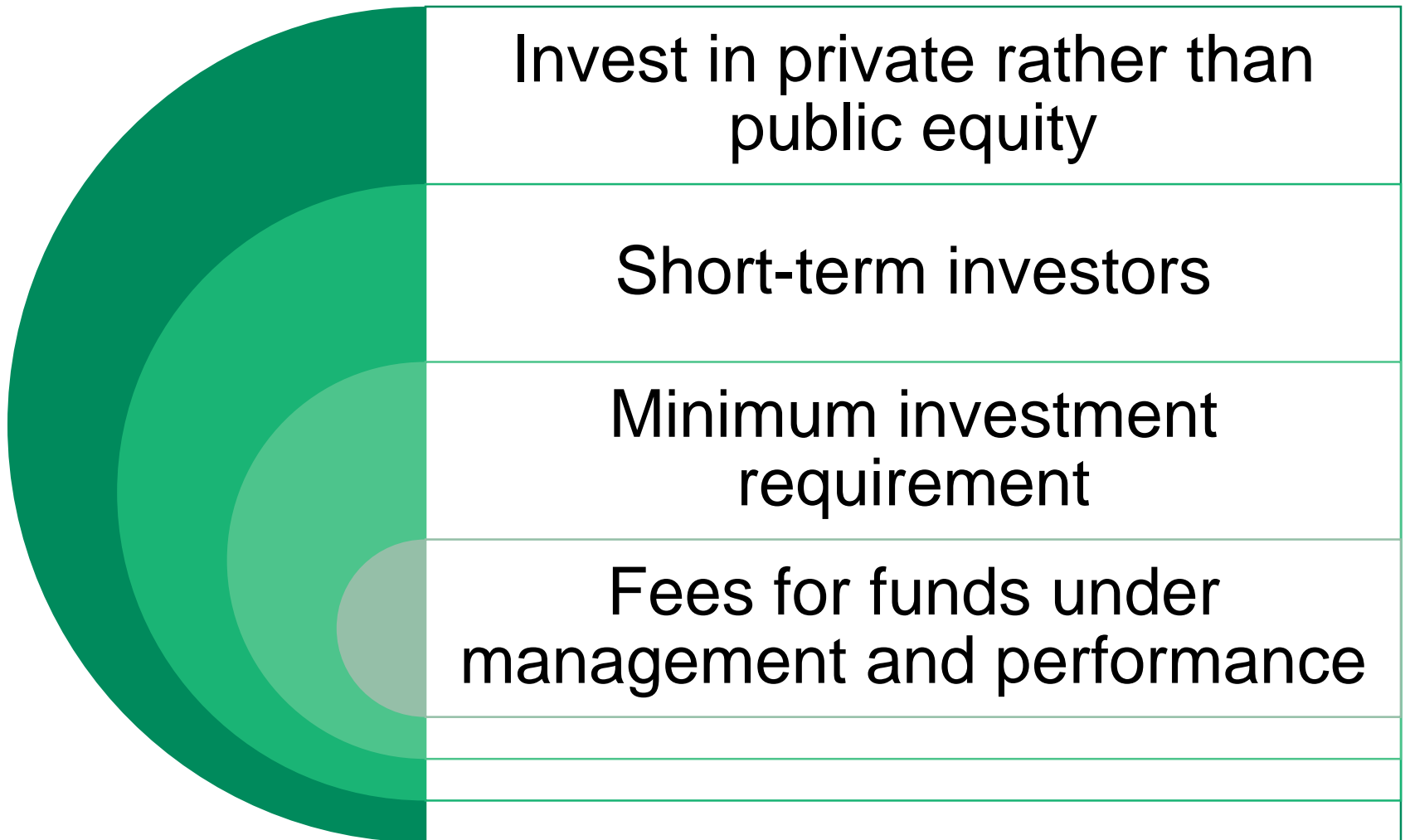
Event Driven

Fixed-Income Arbitrage

Global Macro

Long/Short

BUYOUT AND VENTURE CAPITAL FUNDS



SUMMARY

- Portfolio approach to investing
- Investment management clients: types, characteristics, and needs
- Steps in the portfolio management process
- Pooled investments