

Introduction to Investment Management

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Key concepts, processes, and tools for managing assets effectively

1. What Is Investment Management?

Aspect	Description
Definition	Professional oversight of financial assets (stocks, bonds, real estate, etc.) to meet specified investment goals.
Goal	Generate returns that align with the client's risk tolerance, time horizon, and objectives.
Stakeholders	• Individual investors • Institutional investors (pension funds, endowments, insurers) • Asset management firms • Trustees and fiduciaries

2. Core Functions of an Investment Manager

1. Research & Analysis

- Macroeconomic outlook
- Industry/sector trends
- Company fundamentals (financial statements, management quality)
- Quantitative models & factor analysis

2. Portfolio Construction

- Asset allocation decisions (strategic vs. tactical)
- Security selection (stock, bond, alternative)
- Position sizing & diversification

3. Risk Management

- Identify market, credit, liquidity, and operational risks
- Use of risk metrics (e.g., standard deviation, VaR, beta)

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- Hedging with derivatives or alternative assets

4. Execution & Trade Management

- Order routing (algorithmic, direct market access)
- Transaction cost analysis (TCA)
- Settlement and clearing

5. Performance Measurement & Reporting

- Time-weighted vs. money-weighted returns
- Benchmark comparison (e.g., S&P 500, Bloomberg Barclays)
- Attribution analysis (allocation vs. selection)

6. Client Communication & Compliance

- Regular statements & performance reports
 - Adherence to regulatory standards (e.g., fiduciary duty, ESG disclosures)
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3. Investment Process – Step-by-Step Flow

1. Define Investment Policy Statement (IPS)

- Objectives, constraints, risk tolerance, liquidity needs, time horizon.

2. Strategic Asset Allocation

- Long-term mix of asset classes based on IPS (e.g., 60% equities, 30% bonds, 10% alternatives).

3. Tactical Asset Allocation

- Short-term adjustments to exploit market opportunities or mitigate risks.

4. Security Selection

- Choose individual securities or funds that fit the allocated buckets.

5. Portfolio Implementation

- Execute trades, monitor execution quality, manage cash flows.

6. Monitoring & Rebalancing

- Periodic review of holdings, risk metrics, and alignment with IPS; rebalance as needed.

7. Performance Review

- Calculate returns, conduct attribution, and report to clients.

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4. Major Asset Classes

Asset Class	Typical Return Drivers	Key Risks
Equities	Earnings growth, market sentiment, macro trends	Market volatility, company specific risk
Fixed Income	Interest rates, credit spreads, inflation expectations	Interest rate risk, default risk
Real Estate	Rental income, property appreciation, location	Liquidity, market cycles
Commodities	Supply and demand dynamics, geopolitical events	Price volatility, storage costs
Alternatives (private equity, hedge funds, infrastructure)	Manager skill, illiquidity premium	Limited transparency, higher fees

5. Risk-Adjusted Performance Metrics

Metric	Formula / Concept	What It Shows
Sharpe Ratio	(Portfolio Return – Risk-Free Rate)	