

€ TRAINING

Managing Equity Portfolios



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Introduction

The primary components of portfolio construction for stocks and other equity-related products will be covered in this course. The suitability of the many different equity instruments for investors with different risk appetites and investment horizons is analyzed.

An extensive discussion of the many types of strategic and tactical allocation techniques, returns forecasts, and portfolio optimization approaches is a key component of the course. Additionally, there is a focus on performance attribution and a ton of examples from actual situations showing how risk management and hedging strategies may be used with equities portfolios.

Course Objectives

At the end of this course, participants will be able to:

- Show that you have a thorough understanding of the asset class of stocks, By comparing the various models that have been used to derive corporate valuations, determine the "fair value" of stocks.
- Analytical skills should be used to evaluate the importance of fundamental corporate performance analysis and stock valuation utilizing financial information.
- Recognize the fundamental ideas and takeaways from various approaches to asset allocation and portfolio management, including novel ones developed in the wake of the 2007-2008 financial crisis.
- Show proficiency with equity-based derivatives and an understanding of how to use them to your advantage as hedging instruments.

Targeted Audience

- who are engaged in both the buy side and sell side of asset management and trading
- who wish to expand and refine their knowledge of global equities, the markets/platforms upon which they are traded and techniques for portfolio construction and management.
- For fund managers whose mandate entails a significant risk exposure to emerging market equities.

Course Outline

Unit 1: Overview of Equities as an Asset Class

- How does equity ownership compare to other financial claims?
- Position of equity vis à vis other elements in corporate capital structure
- Review of equity capital from an accounting perspective
- Characteristics of ordinary, bearer and registered shares
- Cumulative, participating, and convertible preference shares
- Ranking for dividends and liquidation
- Overview of the primary issuance of Equity Securities
- Equity Markets and Trade Execution
- Order driven/quote driven platforms
- Warrants and Covered warrants
- Contracts for Difference CFDs

- Overview of equity based collective investment vehicles

Unit 2: Primary Issuance, Clearing, Custody and Trading Of Equity Securities

- Listing securities - the regulatory framework, investor disclosures
- Structure and stages of an initial public offering IPO
- Alternative routes for going public - direct listings, SPAC's
- Role of intermediaries, book building, pricing
- Benefits for the issuer and investors
- Role of exchanges in providing secondary market facilities, platforms
- Alternative Trading Venues
- Multilateral Trading Facilities and dark pools
- The meaning of "books closed", "ex-div" and "cum div", cum, special ex, special cum, and ex rights
- Explanation of the nature and objectives of High Frequency Trading HFT
- Principles of Delivery versus Payment DVP and Free Delivery
- International Central Securities Depositories ICSD
- Examination of the role of Custodians/Nominees
- Purpose, requirements and implications of securities lending SBL's
- Short selling, collateral management, re-hypothecation etc.

Unit 3: Global Equities Markets/Indices

- Principal indices/exchanges
- Emerging and frontier markets
- Classification systems of global equity markets - MSCI, FTSE
- Historical survey of performance of main global equity indices
- Historical P/E ratios
- Regulatory and supervisory environment
- Shareholder protections etc.
- Structure and size of markets, volumes
- Liquidity and transparency
- Trading characteristics e.g. prevalence of off exchange activities

Unit 4: Financial Statement Analysis

- Purpose, structure and use of balance sheets, income statements and cash flow statements
- Key classes of financial ratios:
 - Profitability, Liquidity, Asset turnover, Gearing
 - Key Investor ratios
 - Earnings Per Share EPS, P/E Ratios historic and prospective, Price/Earnings-to-Growth PEG ratio
 - Dividend yield, Dividend/interest cover
- Advantages and challenges of performing financial analysis
- Comparing companies across and within sectors
- Accounting for Corporate Actions
 - Stock and cash dividends
 - Rights issues, open offers, offers for subscription and for sale
 - Calculation of theoretical effect on the issuer's share price of bonus/scrip, consolidation, rights issues

Unit 5: Corporate Valuation Methods

- Fundamental equity valuation - Discounted Cash Flow DCF techniques
- Models based on calculating the Present Value of future dividend flows
 - Simple Model
 - Multi-stage model
- Comparing valuations across different sectors
- What discount rate should be used in DCF models?
- Determining the Weighted Average Cost of Capital WACC
- What multiples should be used for individual companies, for overall market?
- How to value high growth enterprises with no dividends
- Sustainability of profits and commercial disruptions
- Relationship of corporate valuations to underlying interest rate environment
- Return on Equity ROE measurements - including risk-adjusted return on capital RAROC
- Risk Adjusted valuations - incorporating beta into valuation methods
- Importance of changes in the regulatory environment on valuation forecasting

Unit 6: ESG Strategies

- Examine arguments for and against ESG in relation to investment performance and effectiveness
- Analyze how ESG can create both risks and opportunities for investors
- Review case studies and actual examples of decision making regarding ESG

Unit 7: Smart Beta Strategies

- Review of the logic behind smart beta - risk factor asset allocation models
- Examination of the performance of various widely used smart beta ETFs
- Crowding and herding issues with smart beta strategies
- Are the promises provided by smart beta ETF sponsors warranted?

Unit 8: Risk Budgeting

- Explanation of risk premia - excess return or compensation for not holding riskless assets
- Risk as a scarce resource and how to allocate exposures according to risk premia and expected returns
- Statistical distributions for modelling probability structures
- Benchmarks and tracking errors - active versus passive risk
- Recognizing importance of drawdowns - holding periods, needs for liquidity
- Expected returns from a risk-budgeting perspective
- Obligations to market - trading book, Basel III approaches
- Calculations and mechanics of standard deviation / tracking error/ M^2 / beta
- Value at Risk - methodologies, Expected Shortfall, Extreme Value Theory

Unit 9: Special Risk Factors for Emerging Market Equities

- Examination of how capital flows into emerging markets are influenced by the intention of central banks especially Federal Reserve to push asset managers into risk assets
- Globalization of resourcing and capital flows has invalidated much traditional macro-economic theory regarding economic cycles
- Differentiation between EM economies which have trade surpluses/deficits
- Examination of negative feedback loops for EM markets when advanced economies reduce their accommodative monetary policy
- Examination of ETFs which provide exposure to emerging market equity and debt
- Analysis of correlation between emerging market equities and commodities

- Challenges and strategies for hedging and managing risk of emerging market equities because of lack of depth in markets for hedging exotic currencies

Unit 10: Techniques For Forecasting Expected Returns

- Risk Factor Asset allocation strategies - reversing the trend of MPT and focusing on specific factors which "account" for asset class behaviour
- Identifying key risk factors as drivers of asset prices
- Insights from behavioural finance - risk seeking versus risk aversion
- Long term correlations amongst asset classes - mean reversion
- Contrarian indicators - sentiment, positioning of traders, hedge funds