

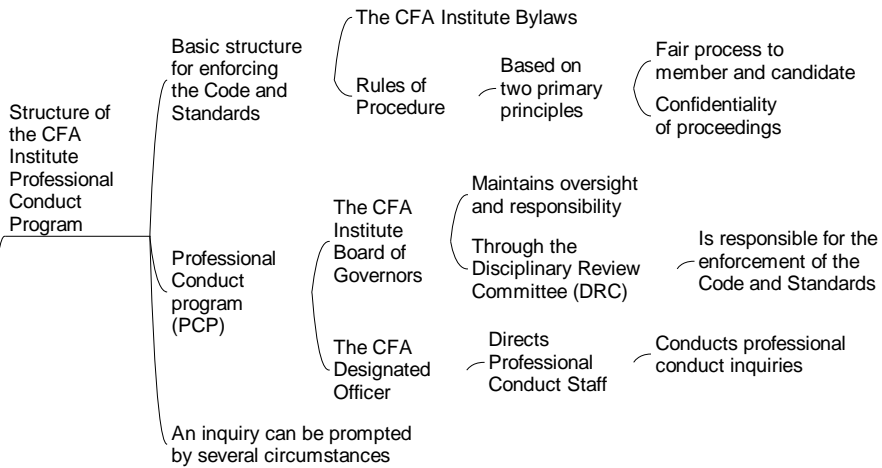
CFA LEVEL 3

STUDY SESSION 1&2

CODE OF ETHICS &
STANDARDS OF
PROFESSIONAL
CONDUCT

1. Code Of Ethics And Standards Of Professional Conduct

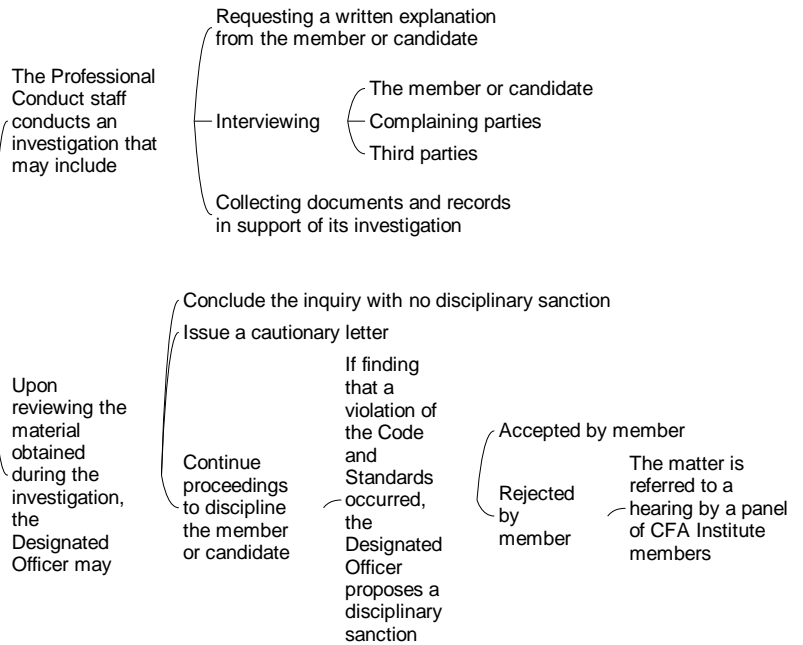
All CFA Institute members and candidates are required to comply with the Code and Standards



a.

Process for the enforcement of the Code and Standards

When an inquiry is initiated



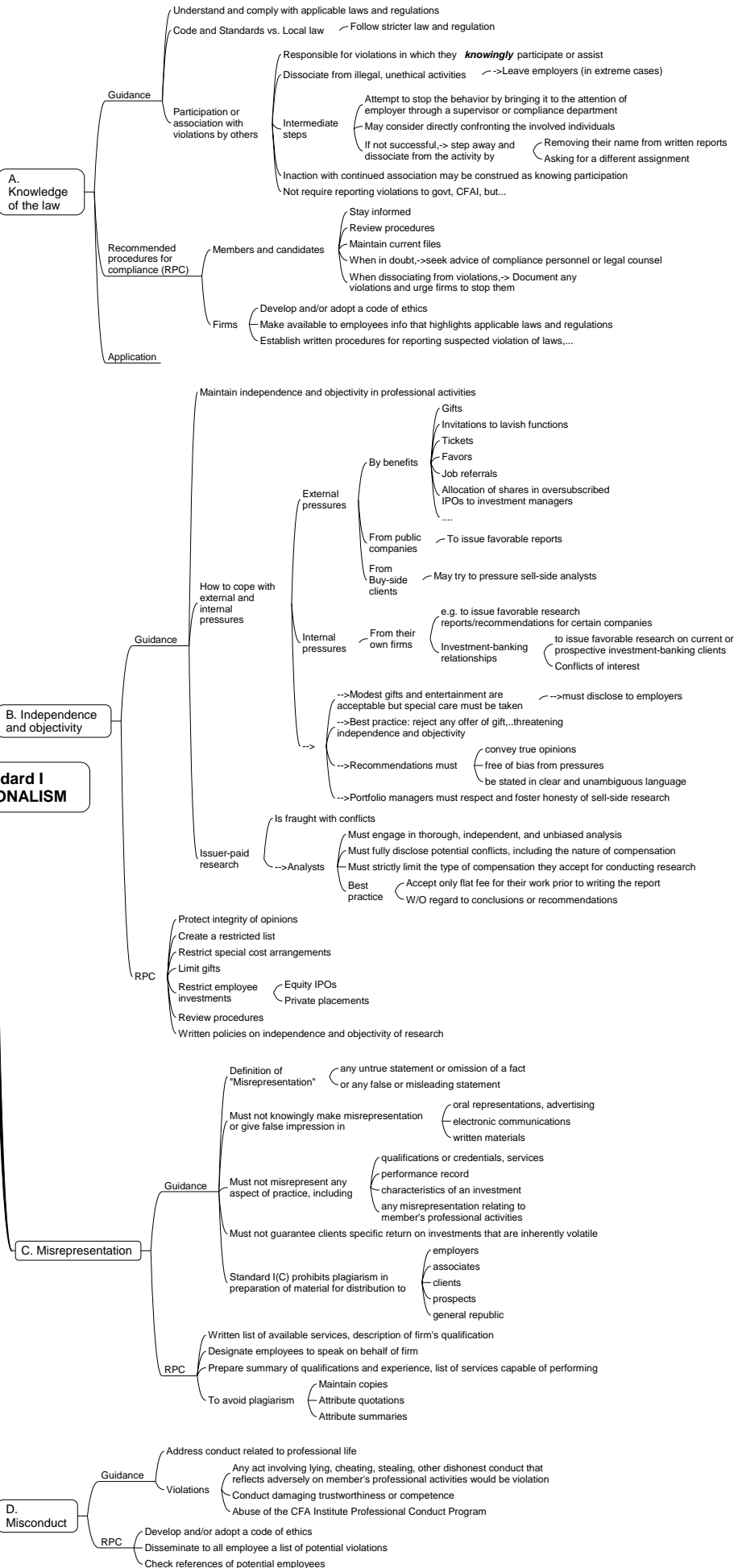
b.

Six components of the Code of Ethics

Seven Standards of Professional Conduct

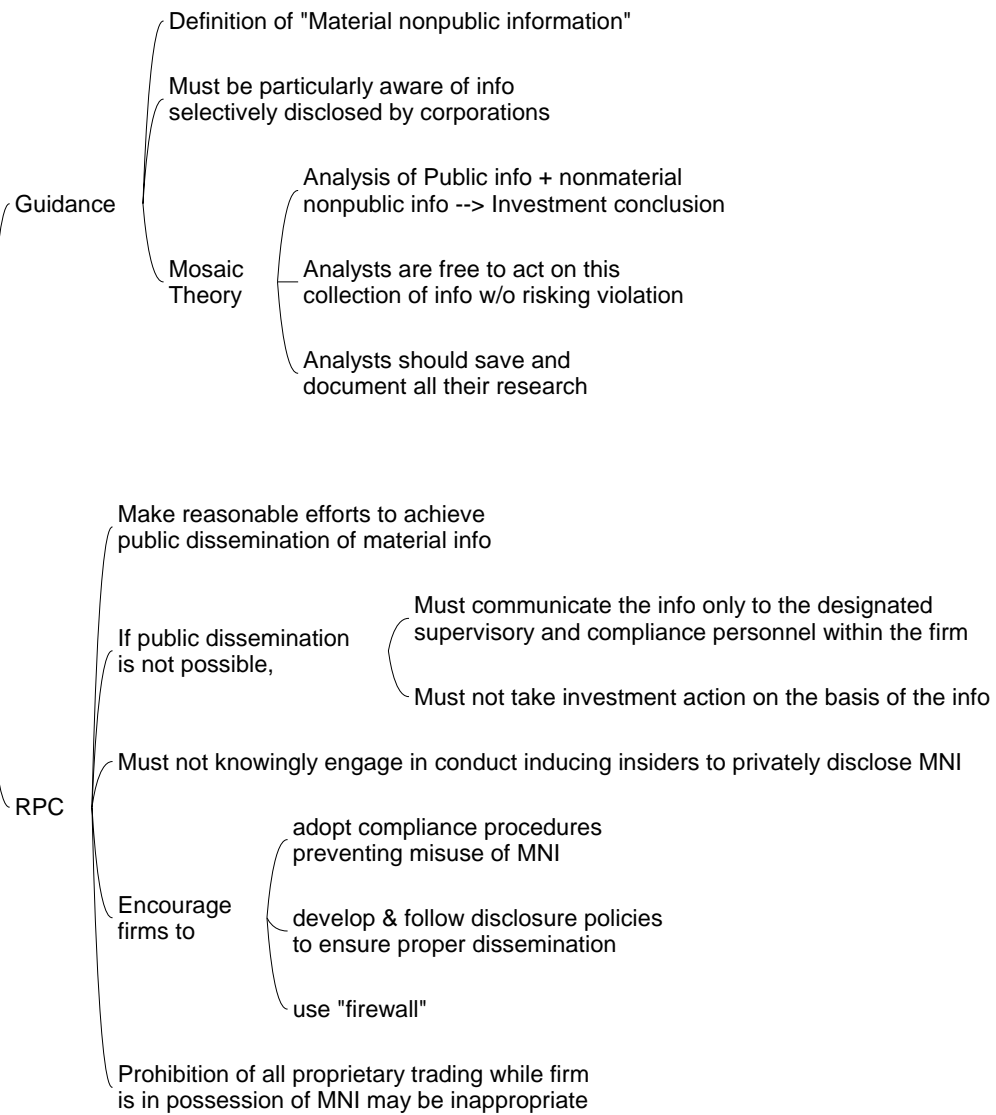
c. Summarize ethical responsibilities

2.1 Standard I PROFESSIONALISM

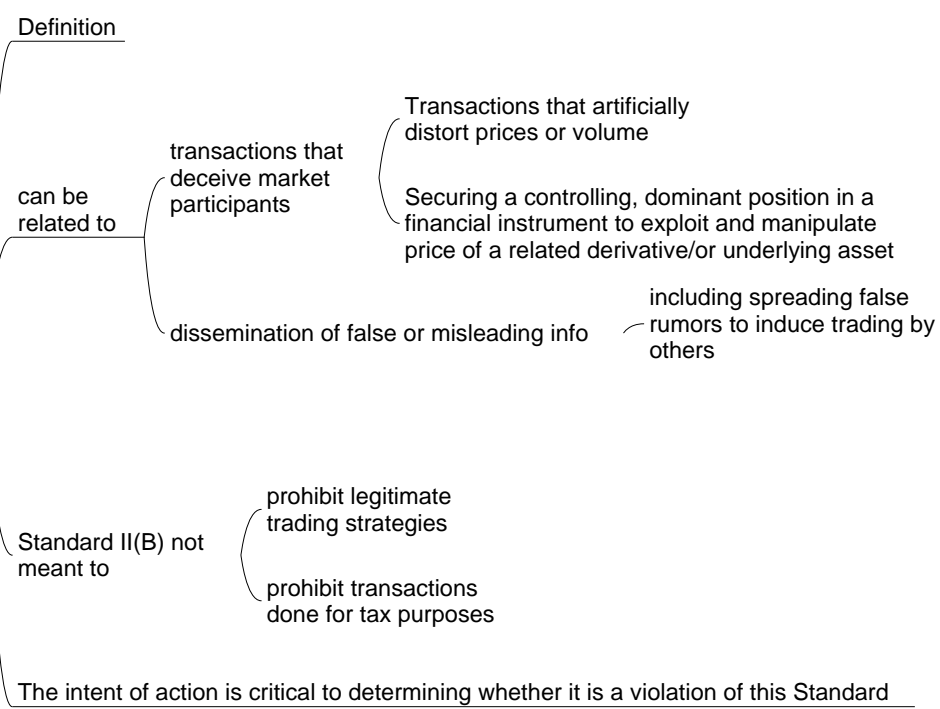


2.2 Standard II INTEGRITY OF CAPITAL MARKET

A. Material nonpublic information (MNI)



B. Market manipulation



2.3 Standard III DUTIES TO CLIENTS

A. Loyalty, prudence, and care

Guidance

Responsibility to a client includes

- duty to exercise reasonable care
 - Prudence require cautions and discretion
 - act with care, skill, and diligence
 - follow the investment parameters set forth by clients & balancing risk & return
- duty of loyalty
 - Understand & adhere to fiduciary duties
 - Determine identity of "client"
 - Must be aware of whether they have "custody" or effective control of client assets
 - Manage pool of assets in accordance with terms of governing documents
 - Put their obligation to client first in all dealings
 - Avoid all real or potential conflicts of interest
 - Forgo using opportunities for their own benefit at the expense of client
 - Follow any guidelines set out by client for the management of assets
 - Judge investment decisions in context of total portfolio
 - Vote proxies in an informed & responsible manner

"Soft dollars"

RPC

- Submit to clients at least quarterly itemized statements
- Separate assets
- Review investments periodically
- Establish policies & procedures with respect to proxy voting and the use of client brokerage
- Encourage firms to address some topics

B. Fair dealing

Guidance

Do not discriminate against any clients

"Fairly" vs "equally"

- Investment recommendations
 - Standard III(B) addresses the manner of disseminating investment recommendations or changes in prior recommendations to clients
 - Ensure fair opportunity to act on
 - Encourage firms to design equitable system to prevent selective, discriminatory disclosure

Material changes should be communicated to all current clients

particularly clients may have acted on or been affected by earlier advise

Clients who don't know changes and therefore place orders contrary to a current recommendation

should be advised of the changed recommendation before the order is accepted

RPC

- Investment actions
 - Treat all clients fairly in light of their investment objectives & circumstances
 - Disclose to clients & prospects written allocation procedures
 - duty of fairness and loyalty to clients can never be overridden by client consent to patently unfair allocation procedures
 - Should not take advantage of their position in the industry to the detriment of clients

C. Suitability

Guidance

In investment advisory relationships

- Be sure to gather client info in the form of an IPS and make suitability analysis prior to making recommendation/taking investment action
- Inquiry should be repeated at least annually/prior to material changes
- If clients withhold info
 - > suitability analysis must be done based on info provided
- Risk analysis
- Fund managers
 - Be sure investments are consistent with the stated mandate

In case of unsolicited trade requests unsuitable for client

--> refrain from making trade or seek affirmative statement from client that suitability is not a consideration

RPC

- Written IPS
- Investors' objectives and constraints should be maintained and reviewed periodically to reflect any changes in clients' circumstances

D. Performance presentation

Guidance

- Standard III(D) prohibits misrepresentations of past performance or reasonably expected performance
 - > Provide credible performance info
 - > Should not state or imply that clients will obtain or benefit from rate of return generated in the past
- Research analysts promoting the success of accuracy of their recommendations
 - > ensure that their claims are fair, accurate, and complete
- If the presentation is brief, must make available to clients and prospects the detailed info upon request

RPC

GIPS

E. Preservation of confidentiality

Guidance

- Standard III(E) is applicable when members receive info
 - on the basis of their special ability to conduct a portion of clients' business or personal affairs arising from or is relevant to that portion of clients' business that is the subject of special or confidential relationship
- Comply with applicable laws
- When in doubt
 - > consult with compliance department/outside counsel before disclosing
- Standard III(E) does not prevent cooperating with an investigation by CFAI PCP

RPC

2.4 Standard IV DUTIES TO EMPLOYERS

A. Loyalty

Guidance

- Employer-employee relationship
 - In matters related to their employment, members and candidates must not engage in conduct that harms the interests of the employer
 - >Comply with policies and procedures established by employers that govern employer-employee relationship
 - Standard IV(A) does not require to place employer interests ahead of personal interests in all matters
 - The relationship imposes duties and responsibilities on both parties
- Independent practice
 - Abstain from independent competitive activity that could conflict with employer's interests
 - Provide notification to employer, obtain consent from employer in advance
- Leaving an employer
 - Must
 - Planning to leave, must continue to act in employer's best interest
 - Firm records or work performed on behalf of firm stored on a home computer should be erased or returned to employer
 - Must not
 - engage in activities conflicting with duty until resignation effective
 - contact existing clients/potential clients prior to leaving for soliciting
 - take records of files to a new employer without written permission
 - Free to make arrangements/preparations provided that not breaching duty of loyalty
 - Applicable non-compete agreement
- Whistleblowing
- Nature of employment

B. Additional compensation arrangements

Guidance

Obtain written consent from employer before accepting compensation or other benefits from third parties...

RPC

Should make an immediate written report to their employers

C. Responsibilities of supervisors

Guidance

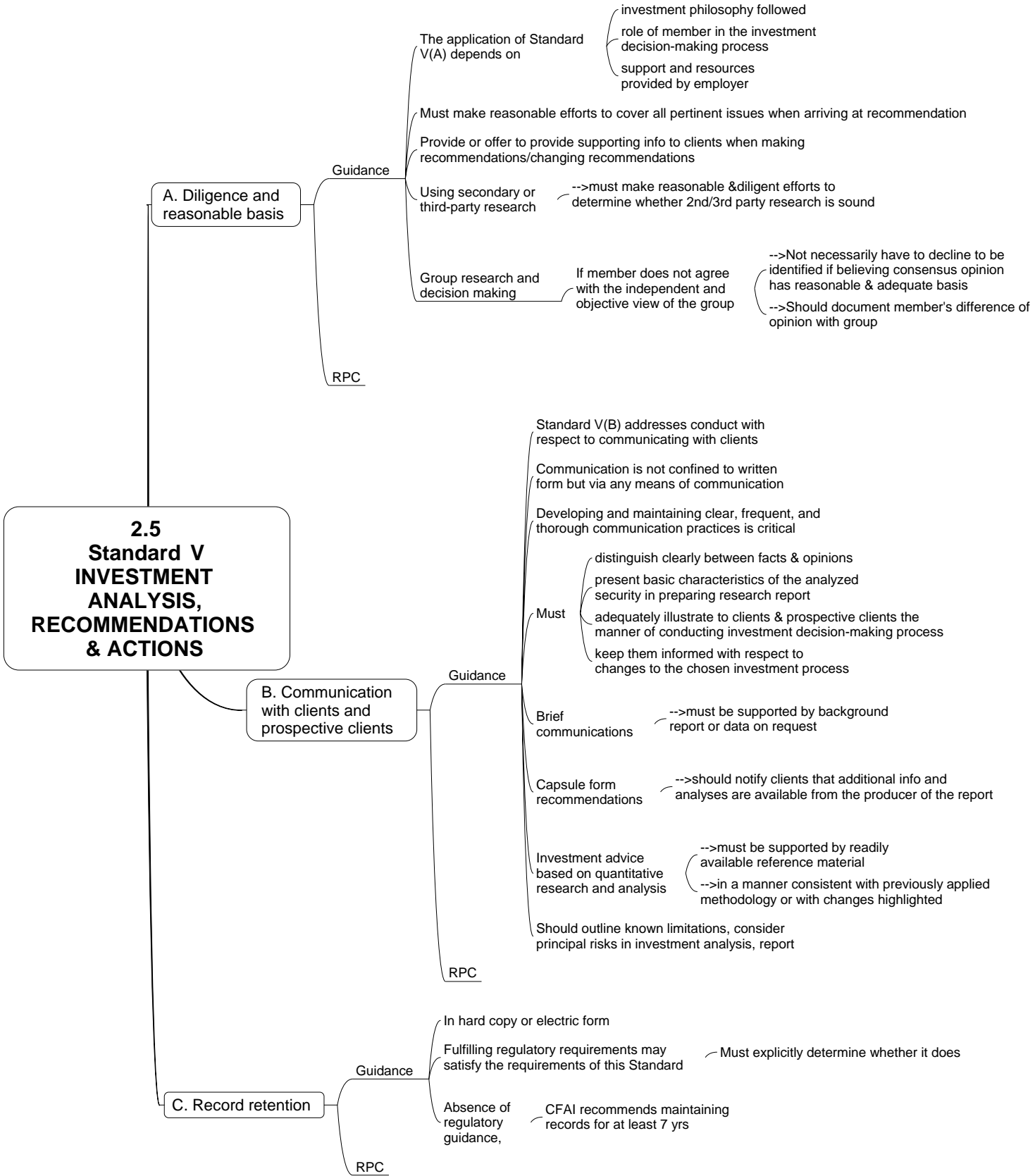
- Must have in-depth knowledge of the Code & Standards
- Apply knowledge in discharging supervisory responsibilities
- Delegation of supervisory duties does not relieve members of supervisory responsibility
 - >Instruct subordinates methods to prevent and detect violations
- Make reasonable efforts to detect violation of laws, rules, regulations, and Code & Standards
- >Establish and implementing Compliance procedures
 - Must understand what constitutes an adequate compliance system
 - Make reasonable efforts to see that appropriate compliance procedures are established, documented, communicated to covered personnel and followed
 - Bring an inadequate compliance system to senior managers's attention & recommend corrective action
 - If clearly cannot discharge responsibilities 'cos of absence of compliance system,
 - >decline in writing to accept responsibilities
 - In case of employee's violation,
 - promptly initiate investigation
 - take steps to ensure no repetition

RPC

Recommend employer to adopt a code of ethics

If there is a violation

- Respond promptly
- Conduct a thorough investigation
- Increase supervision or place appropriate limitations on the wrongdoer pending the outcome of the investigation



2.5 Standard V INVESTMENT ANALYSIS, RECOMMENDATIONS & ACTIONS

A. Diligence and reasonable basis

Guidance

The application of Standard V(A) depends on

- investment philosophy followed
- role of member in the investment decision-making process
- support and resources provided by employer

Must make reasonable efforts to cover all pertinent issues when arriving at recommendation

Provide or offer to provide supporting info to clients when making recommendations/changing recommendations

Using secondary or third-party research

-->must make reasonable & diligent efforts to determine whether 2nd/3rd party research is sound

Group research and decision making

If member does not agree with the independent and objective view of the group

- >Not necessarily have to decline to be identified if believing consensus opinion has reasonable & adequate basis
- >Should document member's difference of opinion with group

RPC

B. Communication with clients and prospective clients

Guidance

Standard V(B) addresses conduct with respect to communicating with clients

Communication is not confined to written form but via any means of communication

Developing and maintaining clear, frequent, and thorough communication practices is critical

Must

- distinguish clearly between facts & opinions
- present basic characteristics of the analyzed security in preparing research report
- adequately illustrate to clients & prospective clients the manner of conducting investment decision-making process
- keep them informed with respect to changes to the chosen investment process

Brief communications

-->must be supported by background report or data on request

Capsule form recommendations

-->should notify clients that additional info and analyses are available from the producer of the report

Investment advice based on quantitative research and analysis

- >must be supported by readily available reference material
- >in a manner consistent with previously applied methodology or with changes highlighted

Should outline known limitations, consider principal risks in investment analysis, report

RPC

C. Record retention

Guidance

In hard copy or electric form

Fulfilling regulatory requirements may satisfy the requirements of this Standard

Must explicitly determine whether it does

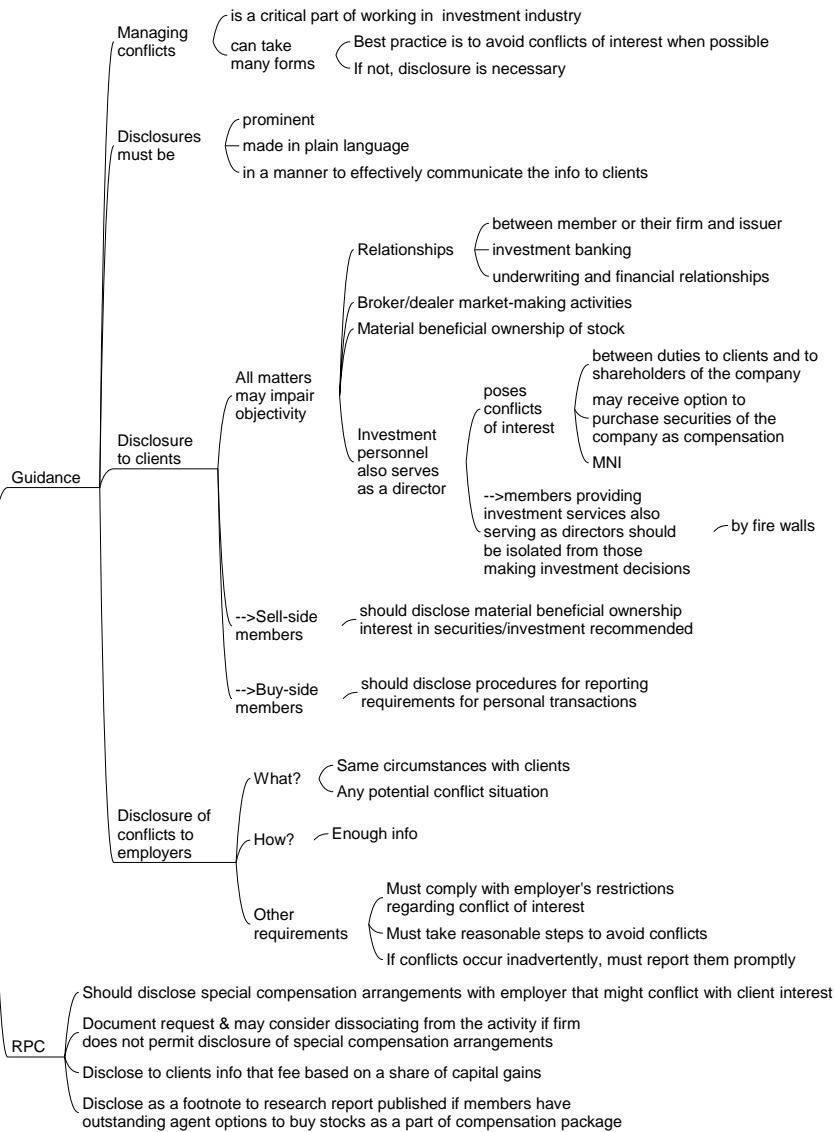
Absence of regulatory guidance,

CFAI recommends maintaining records for at least 7 yrs

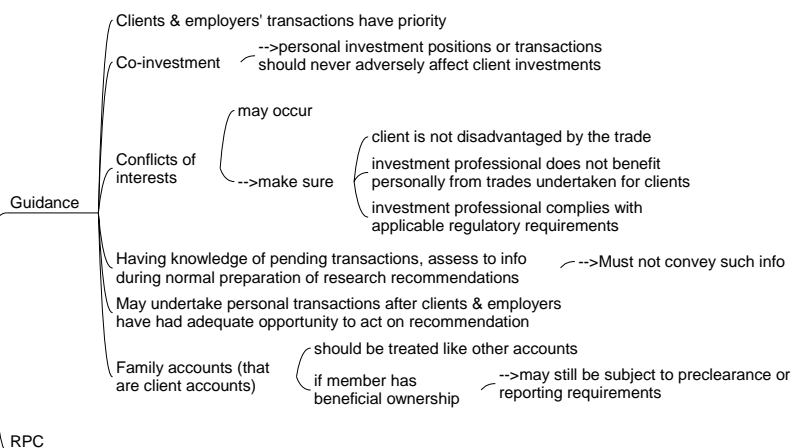
RPC

2.6 Standard VI CONFLICTS OF INTEREST

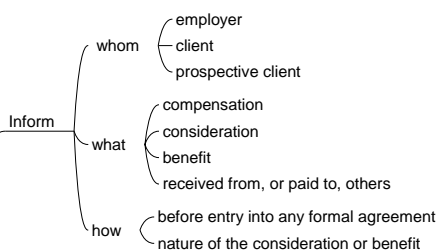
A. Disclosure of conflicts



B. Priority of transactions



C. Referral fees



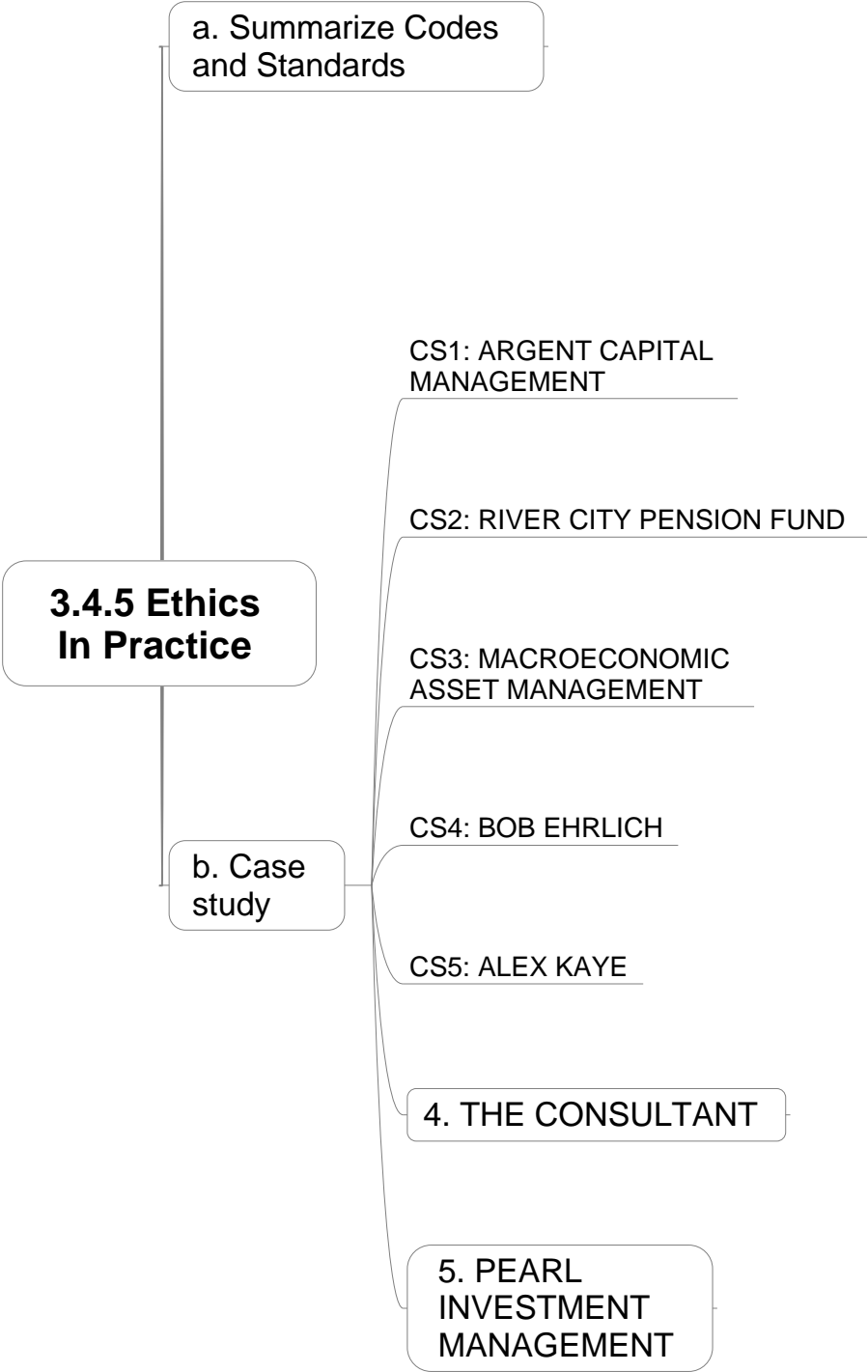
**2.7 Standard VII
RESPONSIBILITIES
AS CFA MEMBER /
CANDIDATE**

A. Conduct as members and candidates in the CFA program

- Prohibiting any conduct that undermines the integrity of the CFA charter
 - Cheating on CFA exam or any exam
 - Not following rules and policies of the CFA program
 - Giving confidential info on the CFA Program to candidates or the public
 -
- Not precluded from expressing opinion regarding the CFA Program or CFAI

B. Reference to CFA Institute, the CFA Designation and the CFA program

- Preventing promotional efforts that make promises or guarantees tied to the CFA designation
 - Over-promise the competence of an individual
 - Over-promise future investment results
- Applies to any form of communication
- To maintain CFAI membership
 - Remit annually to CFAI a completed Professional Conduct Statement
 - Pay applicable CFAI membership dues on an annual basis
- Using the CFA designation
- Referencing candidacy in the CFA program
- Proper using of the CFA marks



a. Summarize AMC

**6. Asset
Manager
Code Of
Professional
Conduct**

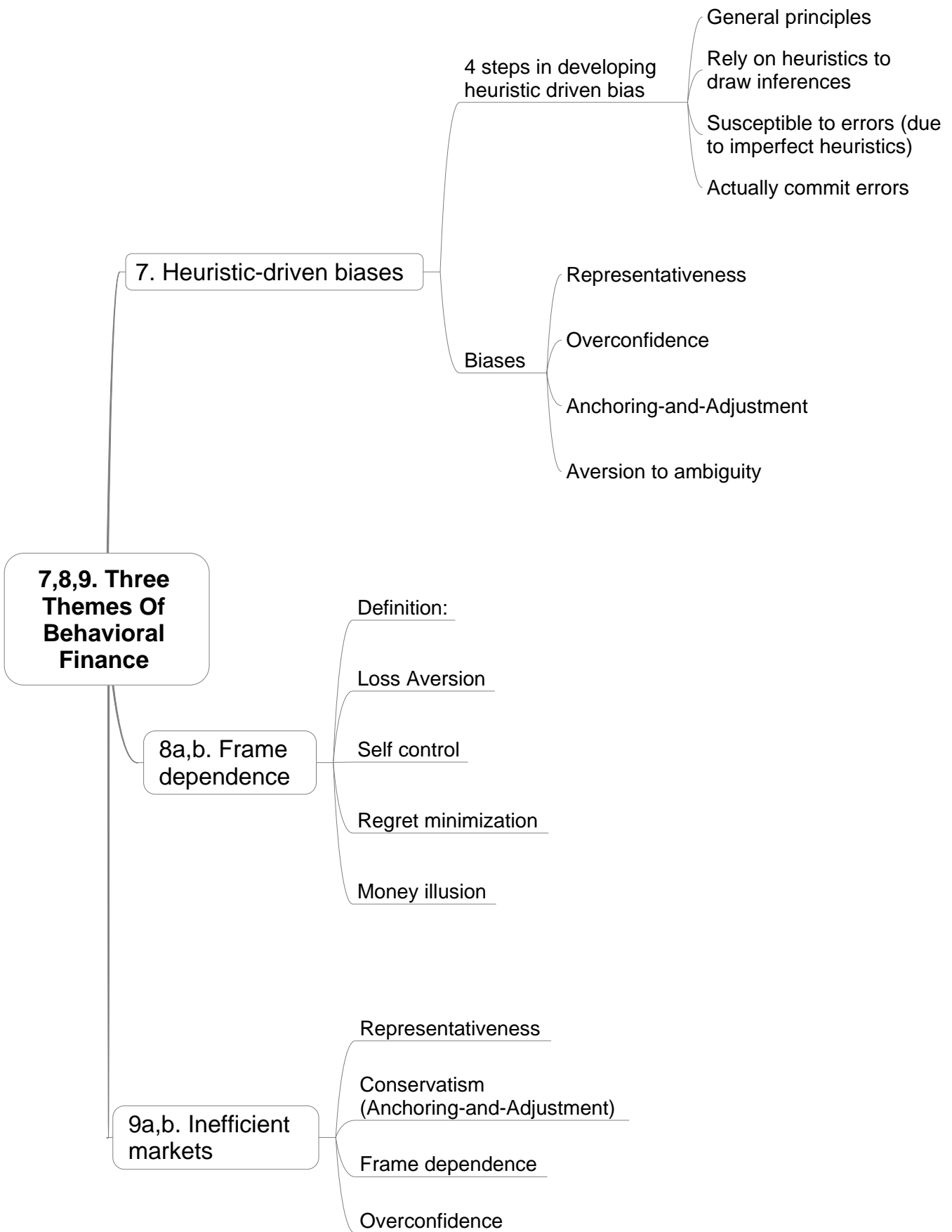
c. Preventing violations

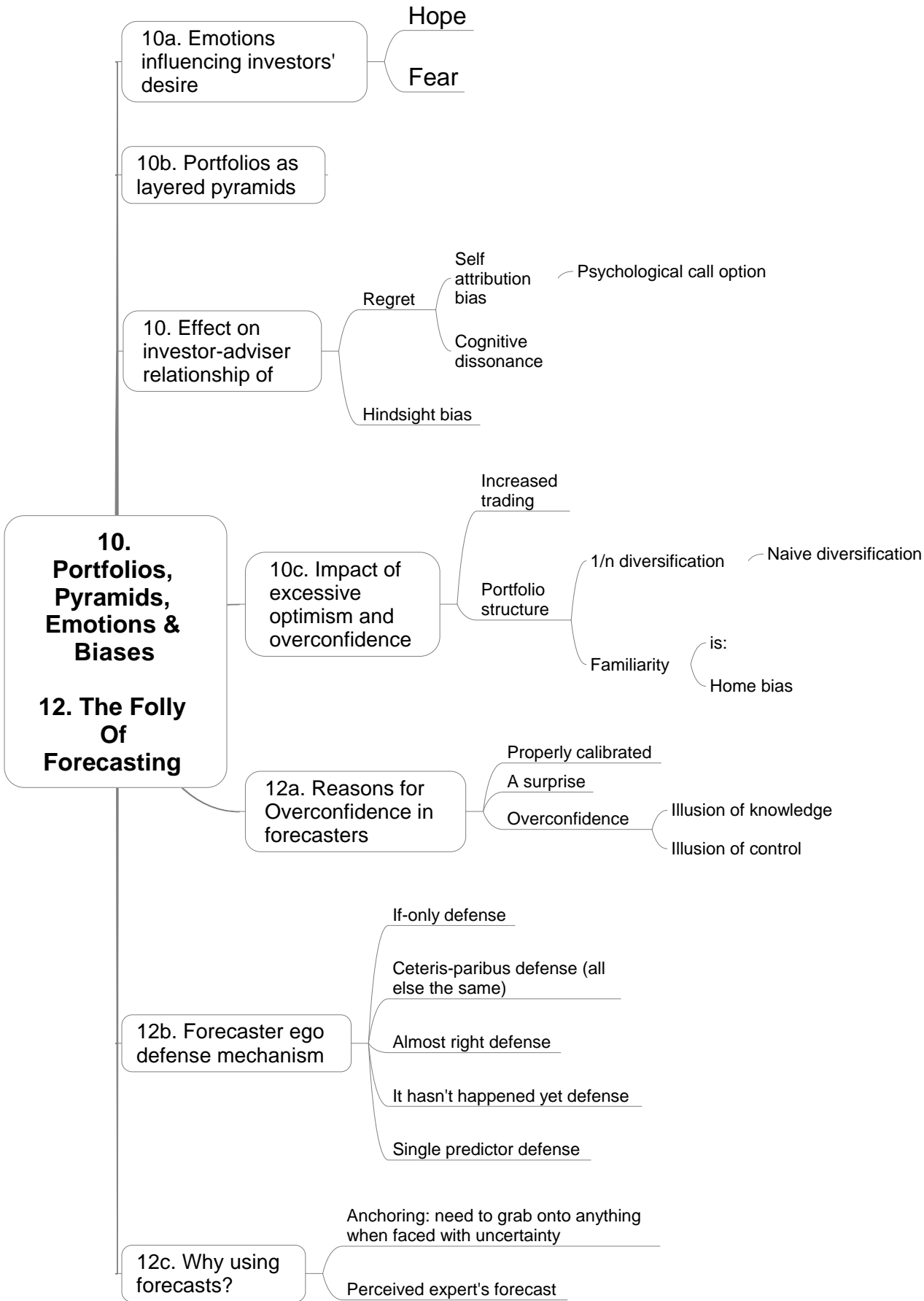
b. Interpret AMC in
situations

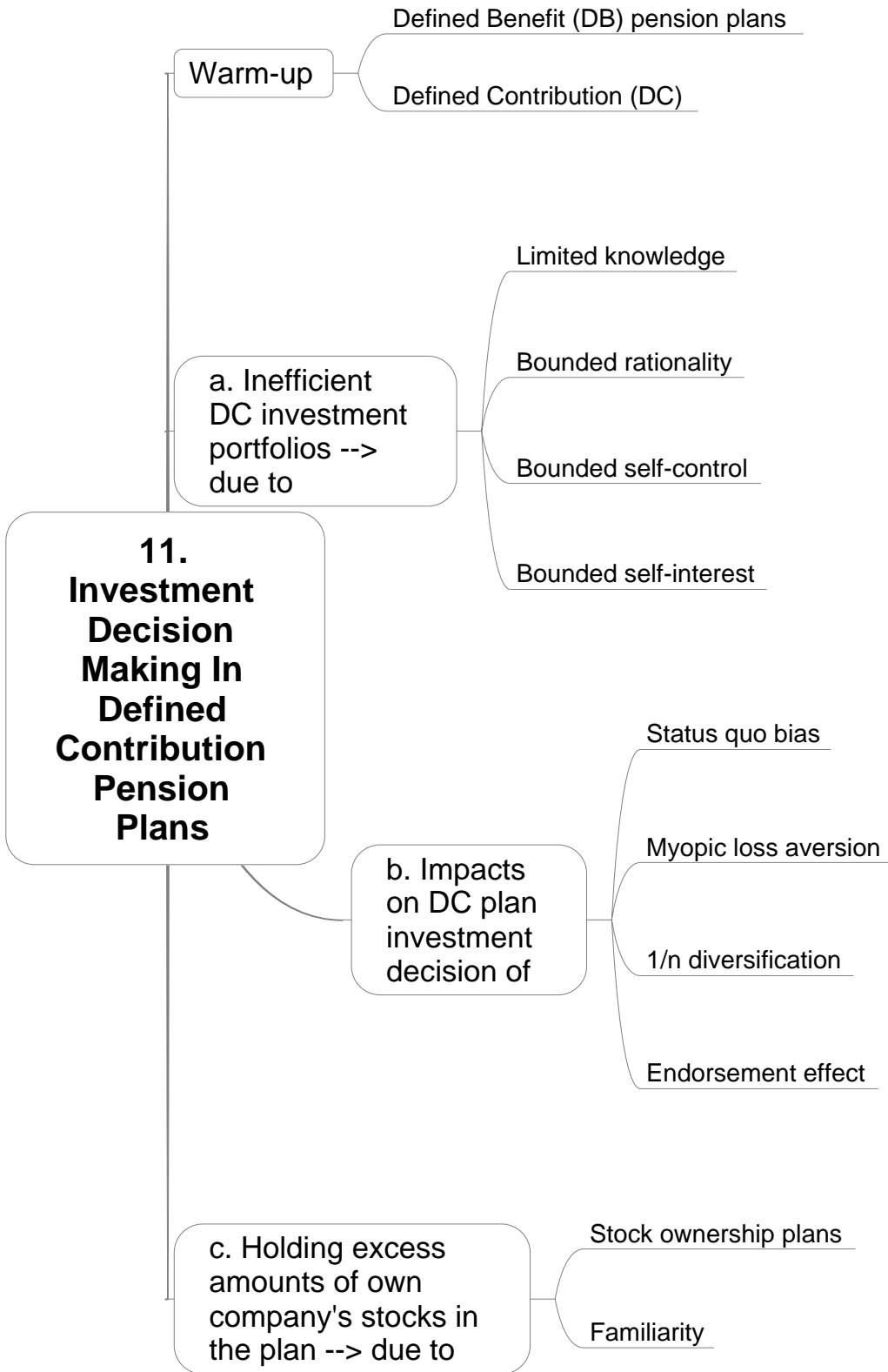
CFA LEVEL 3

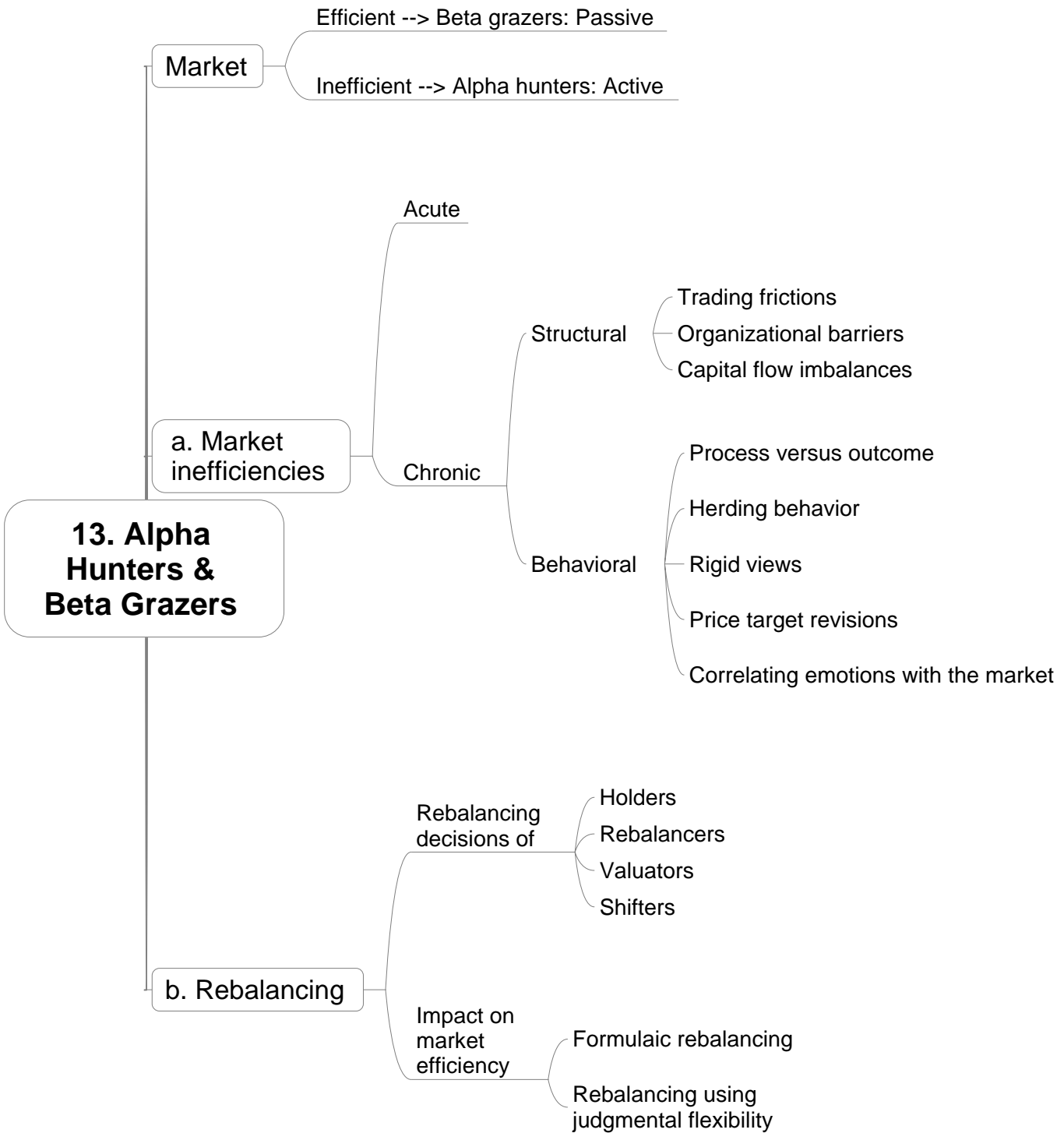
STUDY SESSION 3

BEHAVIORAL FINANCE





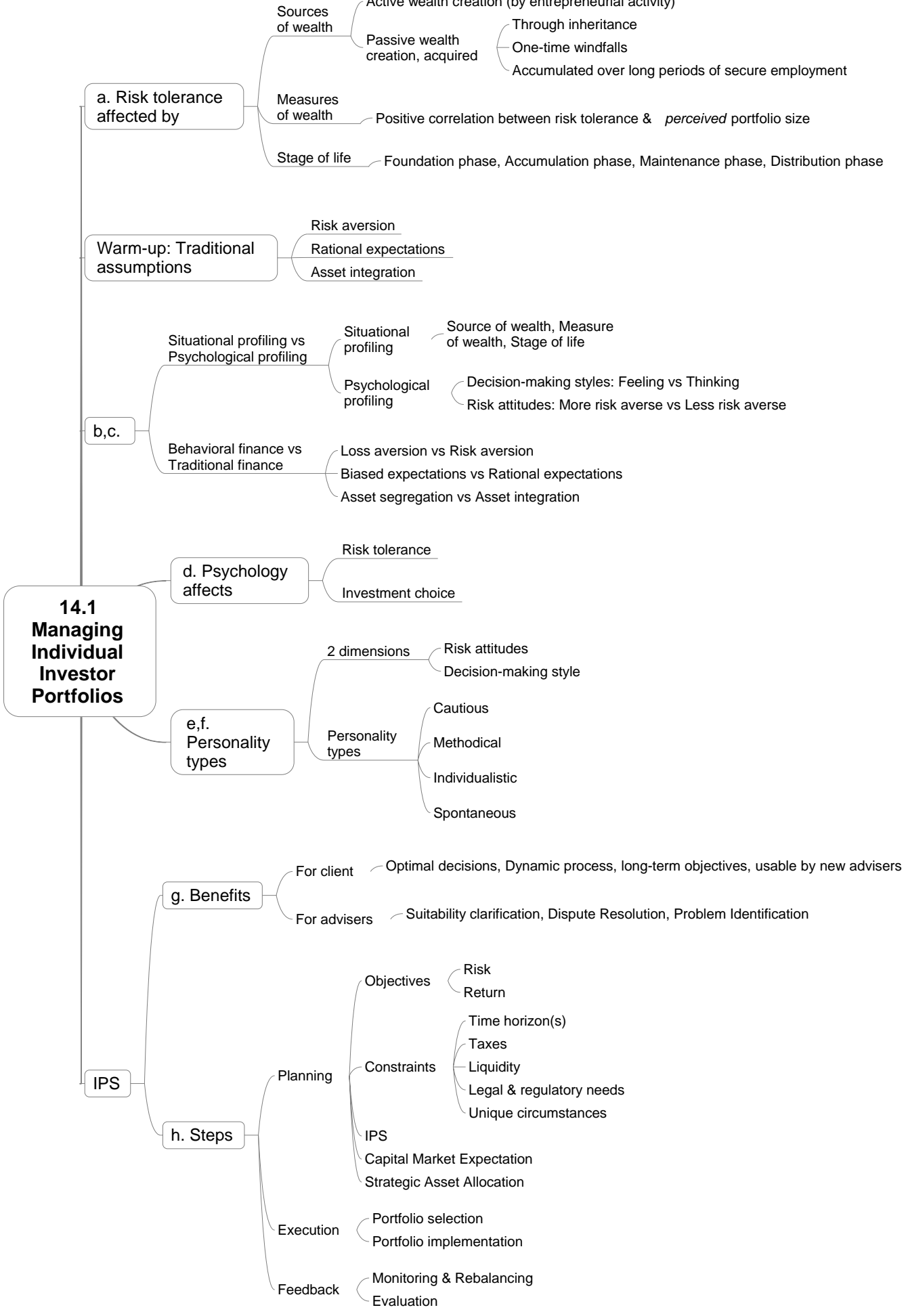




CFA LEVEL 3

STUDY SESSION 4

PRIVATE WEALTH
MANAGEMENT



14.1 Managing Individual Investor Portfolios

a. Risk tolerance affected by

- Sources of wealth
 - Active wealth creation (by entrepreneurial activity)
 - Passive wealth creation, acquired
 - Through inheritance
 - One-time windfalls
 - Accumulated over long periods of secure employment
- Measures of wealth
 - Positive correlation between risk tolerance & *perceived* portfolio size
- Stage of life
 - Foundation phase, Accumulation phase, Maintenance phase, Distribution phase

Warm-up: Traditional assumptions

- Risk aversion
- Rational expectations
- Asset integration

b,c.

- Situational profiling vs Psychological profiling
 - Situational profiling
 - Source of wealth, Measure of wealth, Stage of life
 - Psychological profiling
 - Decision-making styles: Feeling vs Thinking
 - Risk attitudes: More risk averse vs Less risk averse
- Behavioral finance vs Traditional finance
 - Loss aversion vs Risk aversion
 - Biased expectations vs Rational expectations
 - Asset segregation vs Asset integration

d. Psychology affects

- Risk tolerance
- Investment choice

e,f. Personality types

- 2 dimensions
 - Risk attitudes
 - Decision-making style
- Personality types
 - Cautious
 - Methodical
 - Individualistic
 - Spontaneous

g. Benefits

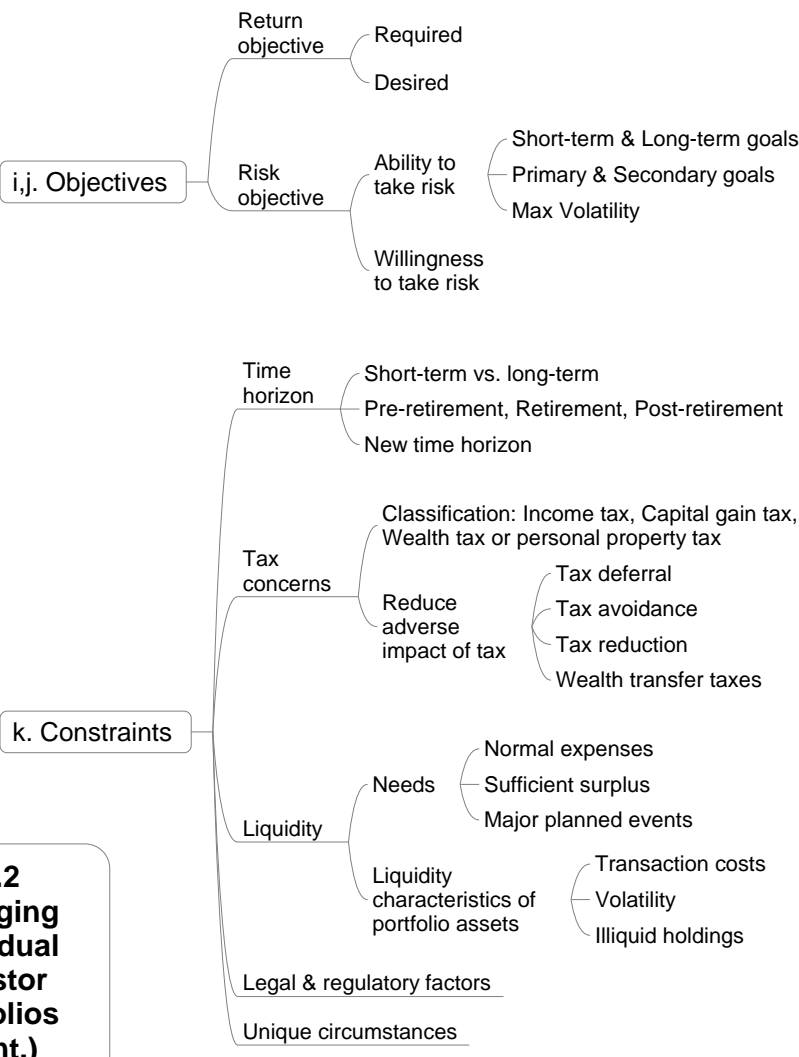
- For client
 - Optimal decisions, Dynamic process, long-term objectives, usable by new advisers
- For advisers
 - Suitability clarification, Dispute Resolution, Problem Identification

IPS

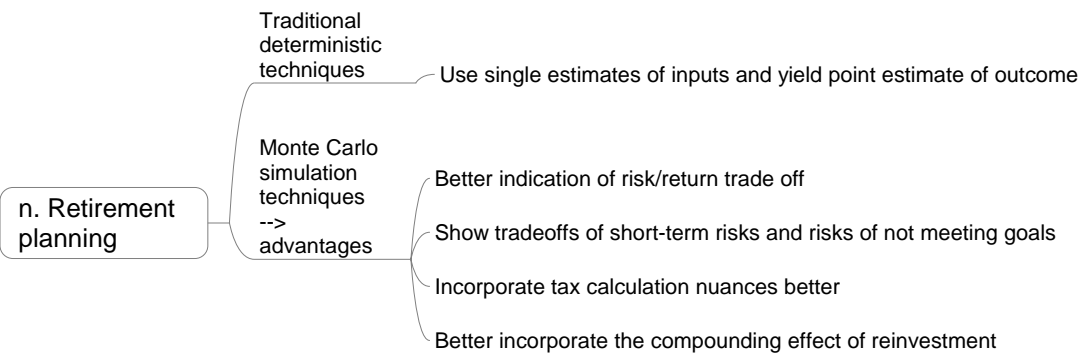
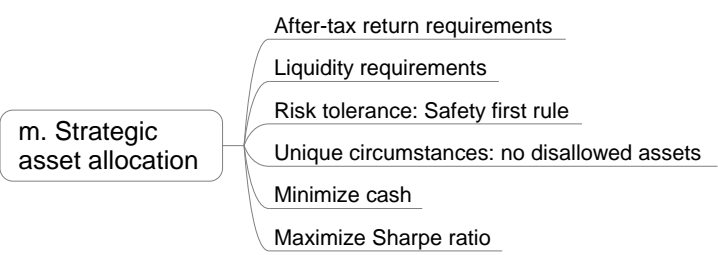
h. Steps

- Planning
 - Objectives
 - Risk
 - Return
 - Constraints
 - Time horizon(s)
 - Taxes
 - Liquidity
 - Legal & regulatory needs
 - Unique circumstances
 - IPS
 - Capital Market Expectation
 - Strategic Asset Allocation
- Execution
 - Portfolio selection
 - Portfolio implementation
- Feedback
 - Monitoring & Rebalancing
 - Evaluation

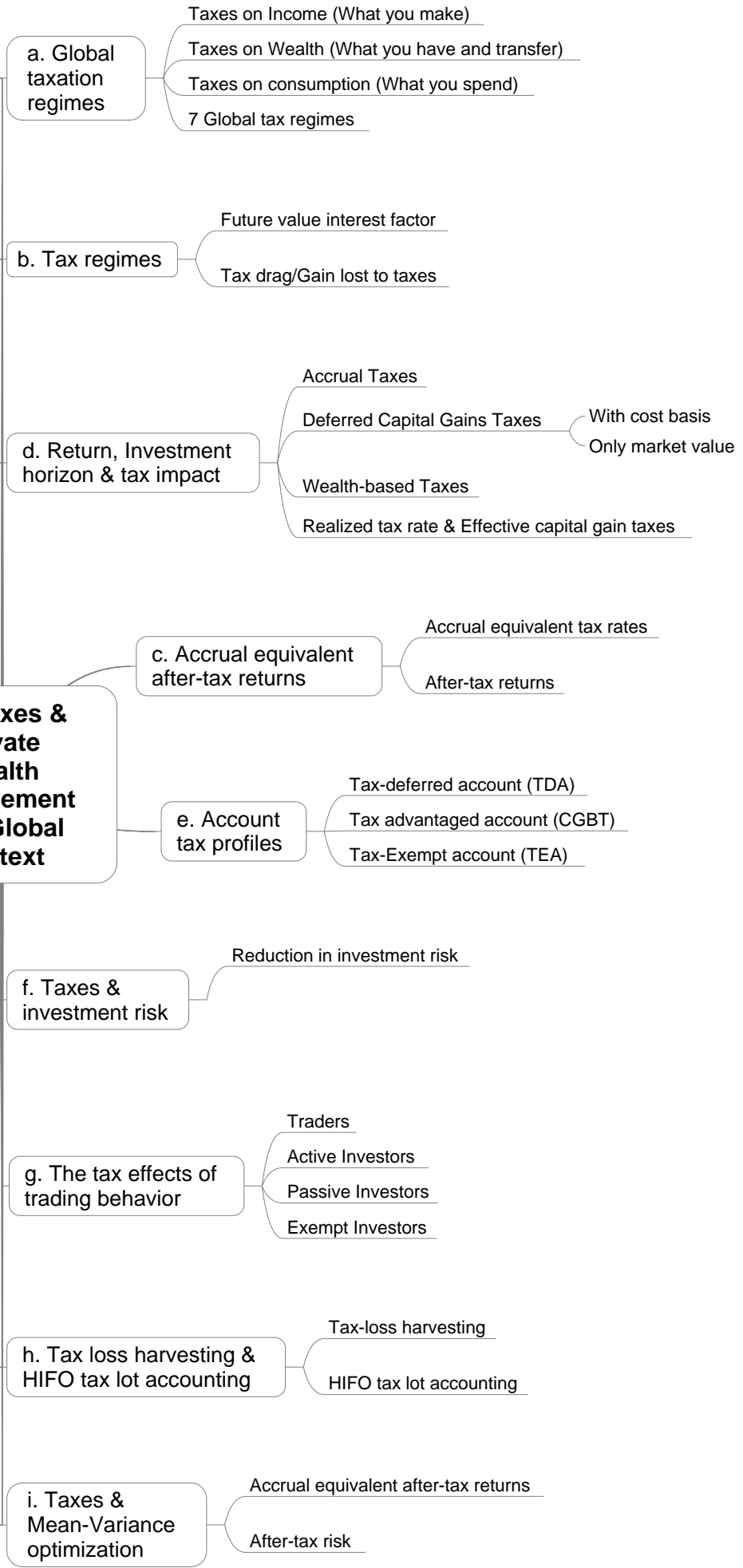
14.2 Managing Individual Investor Portfolios (Cont.)



I. Formulate & justify an IPS for an individual investor



15. Taxes & Private Wealth Management In A Global Context



a. Global taxation regimes

- Taxes on Income (What you make)
- Taxes on Wealth (What you have and transfer)
- Taxes on consumption (What you spend)
- 7 Global tax regimes

b. Tax regimes

- Future value interest factor
- Tax drag/Gain lost to taxes

d. Return, Investment horizon & tax impact

- Accrual Taxes
- Deferred Capital Gains Taxes
 - With cost basis
 - Only market value
- Wealth-based Taxes
- Realized tax rate & Effective capital gain taxes

c. Accrual equivalent after-tax returns

- Accrual equivalent tax rates
- After-tax returns

e. Account tax profiles

- Tax-deferred account (TDA)
- Tax advantaged account (CGBT)
- Tax-Exempt account (TEA)

f. Taxes & investment risk

- Reduction in investment risk

g. The tax effects of trading behavior

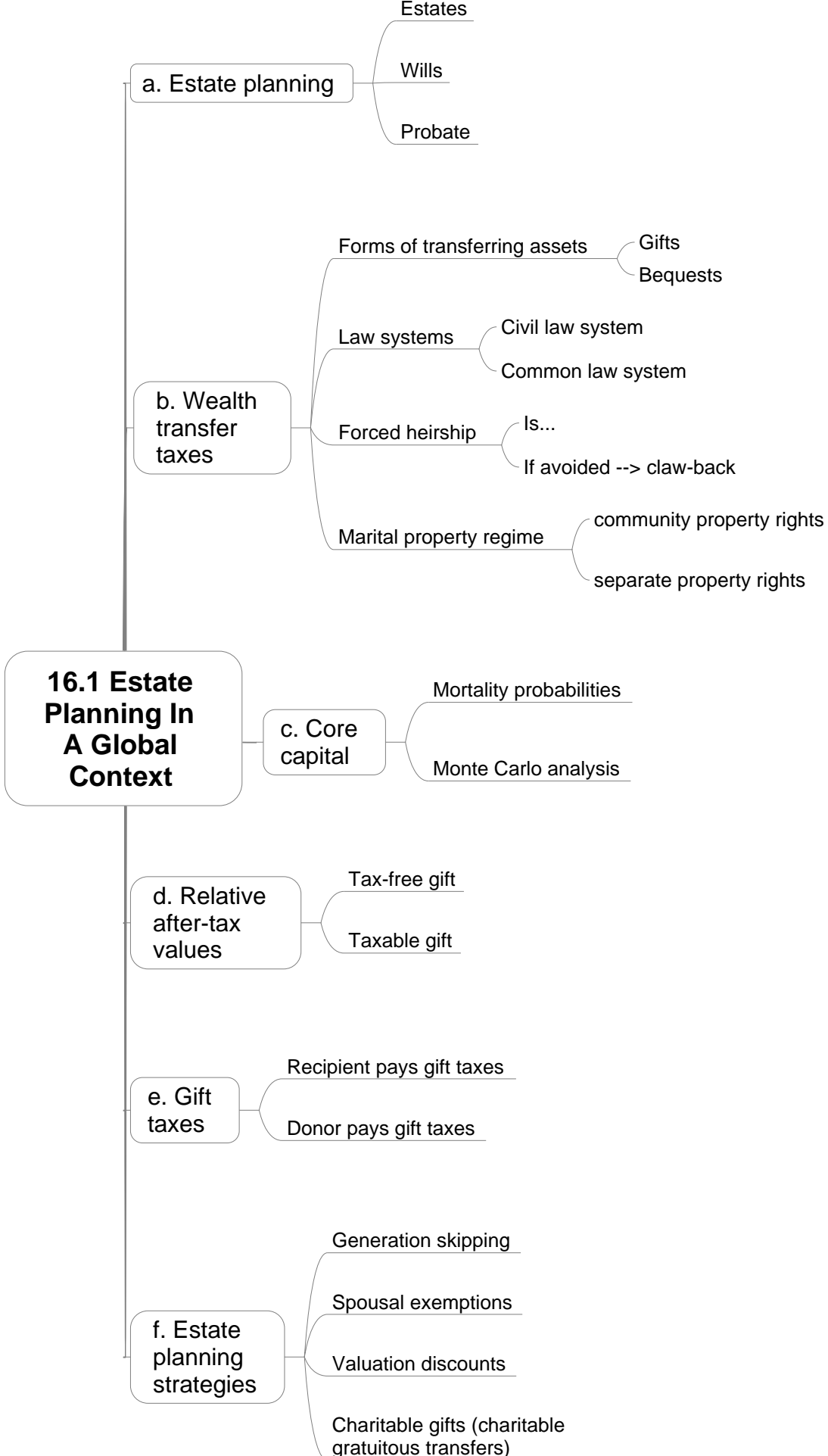
- Traders
- Active Investors
- Passive Investors
- Exempt Investors

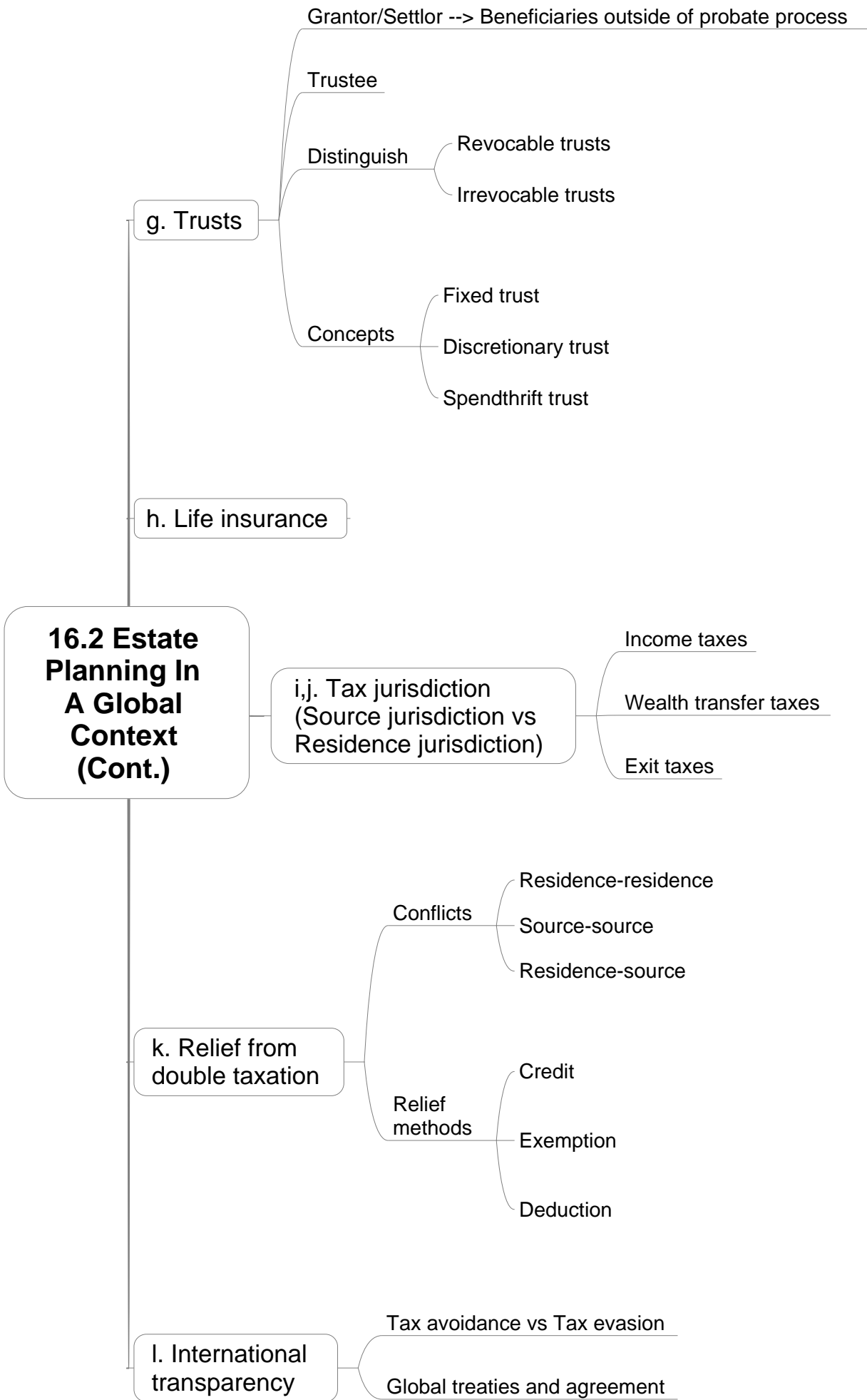
h. Tax loss harvesting & FIFO tax lot accounting

- Tax-loss harvesting
- HIFO tax lot accounting

i. Taxes & Mean-Variance optimization

- Accrual equivalent after-tax returns
- After-tax risk





Source of wealth Psychological Issues Risk Considerations

Entrepreneurs

Executives

Investors

a,b,c.

Equity holding life

17. Low Basic Stock

d. Diversification techniques

Outright sales

Exchange funds

Public exchange funds

Private exchange funds

Completion portfolios

Hedging

Equity collars

Sell calls and Buy puts

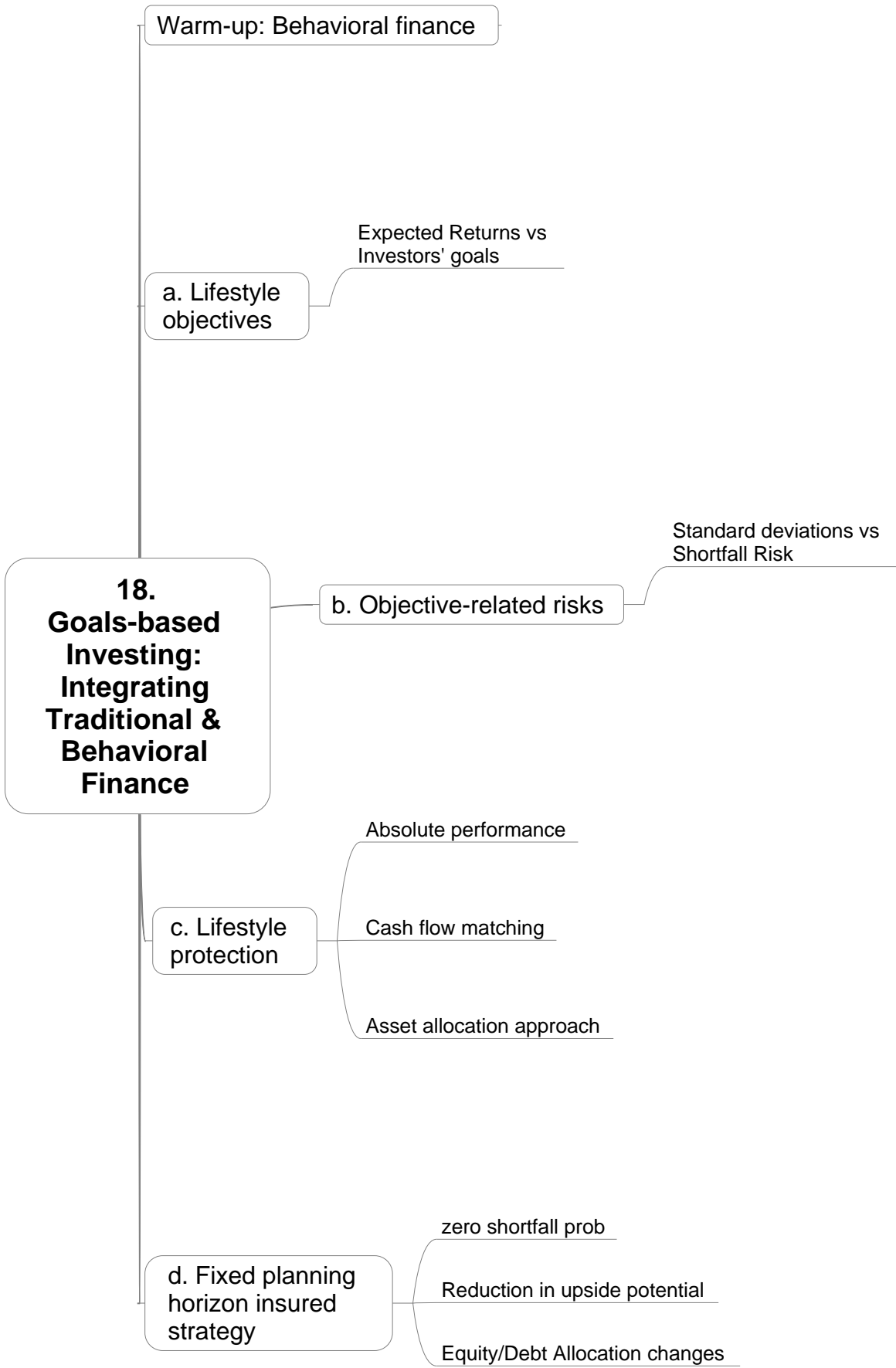
No constructive sale

Short identical securities

Swap of the same notional amount

Forward contract of same/identical assets

Variable pre-paid forwards



19. Lifetime Financial Advice: Human Capital, Asset Allocation & Life Insurance

a. Human capital

- Formulation
- Human Capital vs Financial Capital
- Equity-like vs Debt-like

b.

- Earning risk
 - Savings rate
 - Correlation of human and financial capital
 - Relative risk
- Mortality risk
- Longevity risk

c. Asset allocation policy

- Total return perspective
- Risk allocation

d. Life insurance

- Formula:
- Probability of death
- Bequest desire
- LIPO (Life Insurance Payout)
 - Financial wealth & demand for life insurance
 - Human capital volatility & demand for life insurance
 - Risk aversion & demand for life insurance
 - Probability of death & demand for life insurance

e. Risk in retirement

- Financial market risk
- Longevity risk
- Savings risk

f. Longevity hedges

- Fixed annuities
- Variable annuities

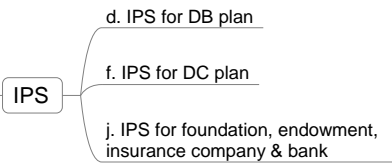
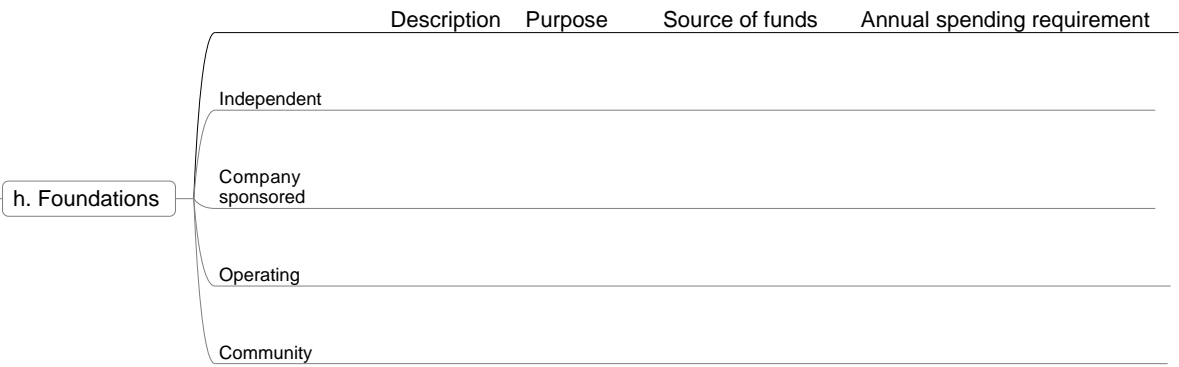
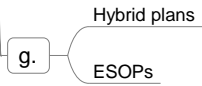
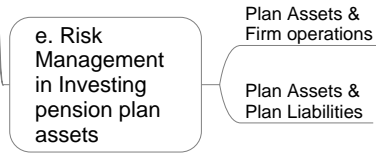
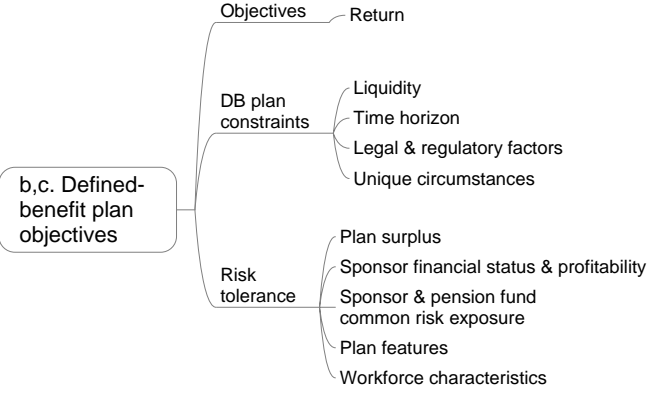
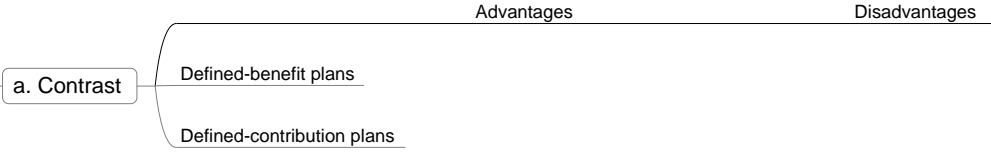
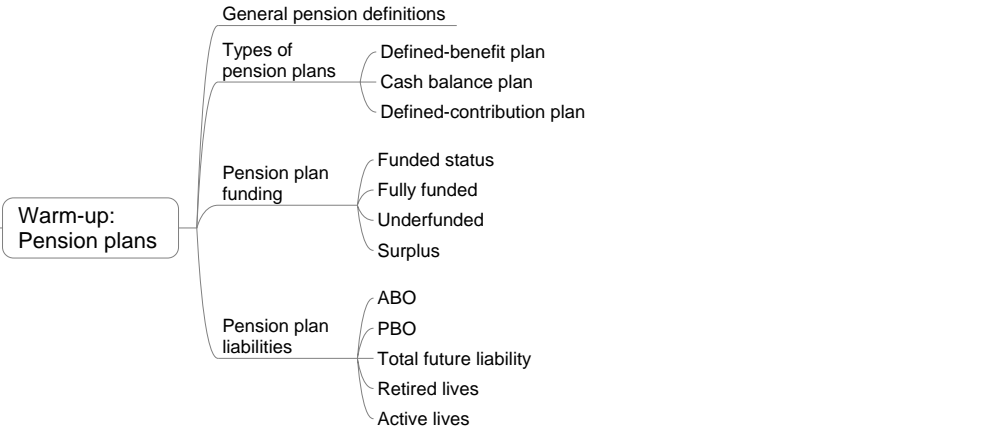
g. Exam review

CFA LEVEL 3

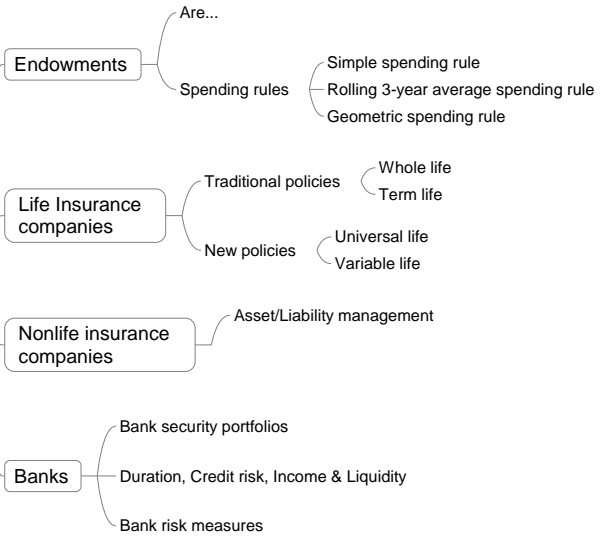
STUDY SESSION 5

PM FOR
INSTITUTIONAL
INVESTORS

20.1 Managing Institutional Investor Portfolios



WARM-UP



20.2 Managing Institutional Investor Portfolios (Cont.)

i.

	OBJECTIVES			CONSTRAINTS			
	Return	Risk	Liq.	TimeH	Taxes	Legal	Unique

Endowments							
Life Insurance companies							
Nonlife Insurance companies							
Banks							

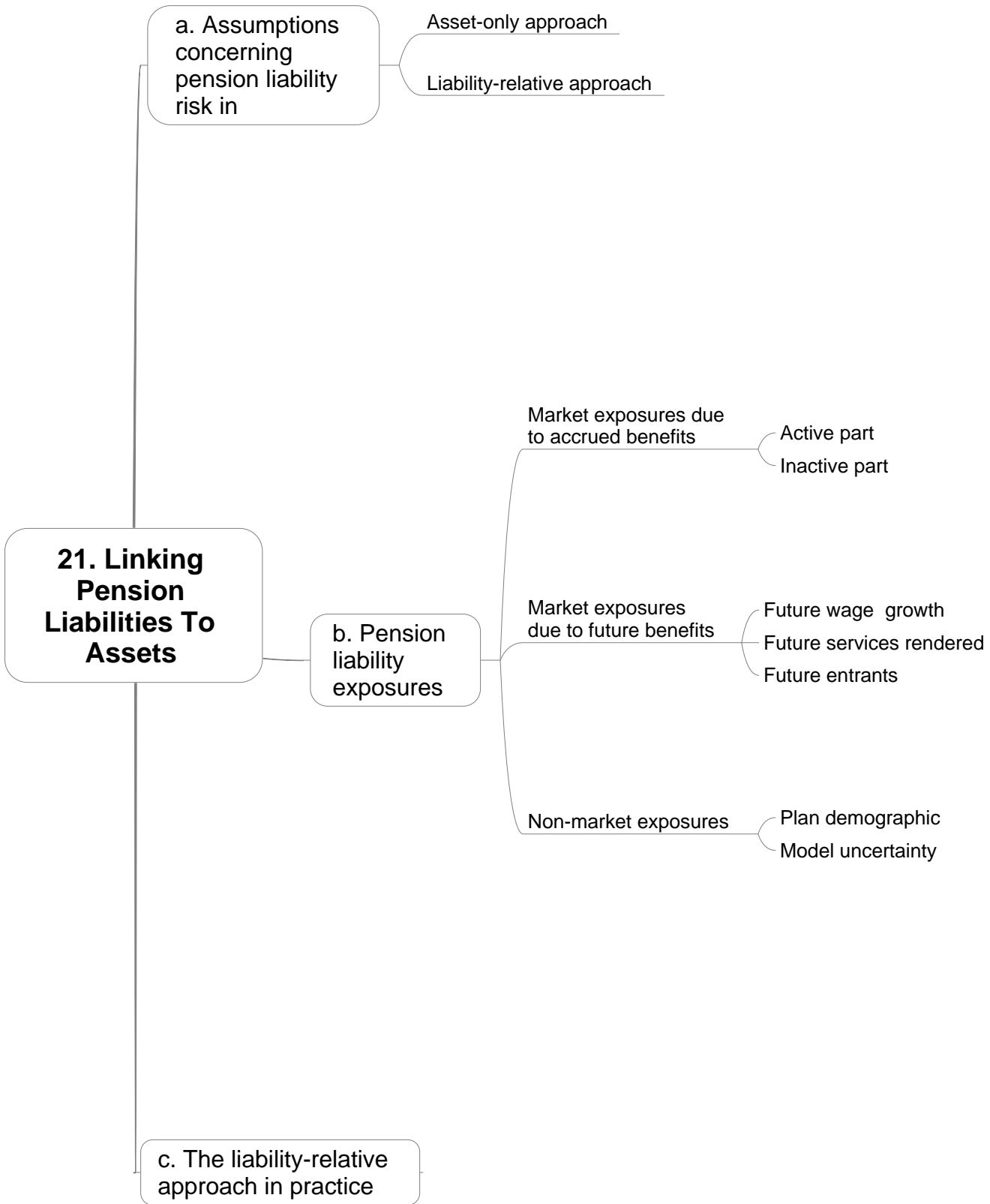
m. Asset/Liability management needs of

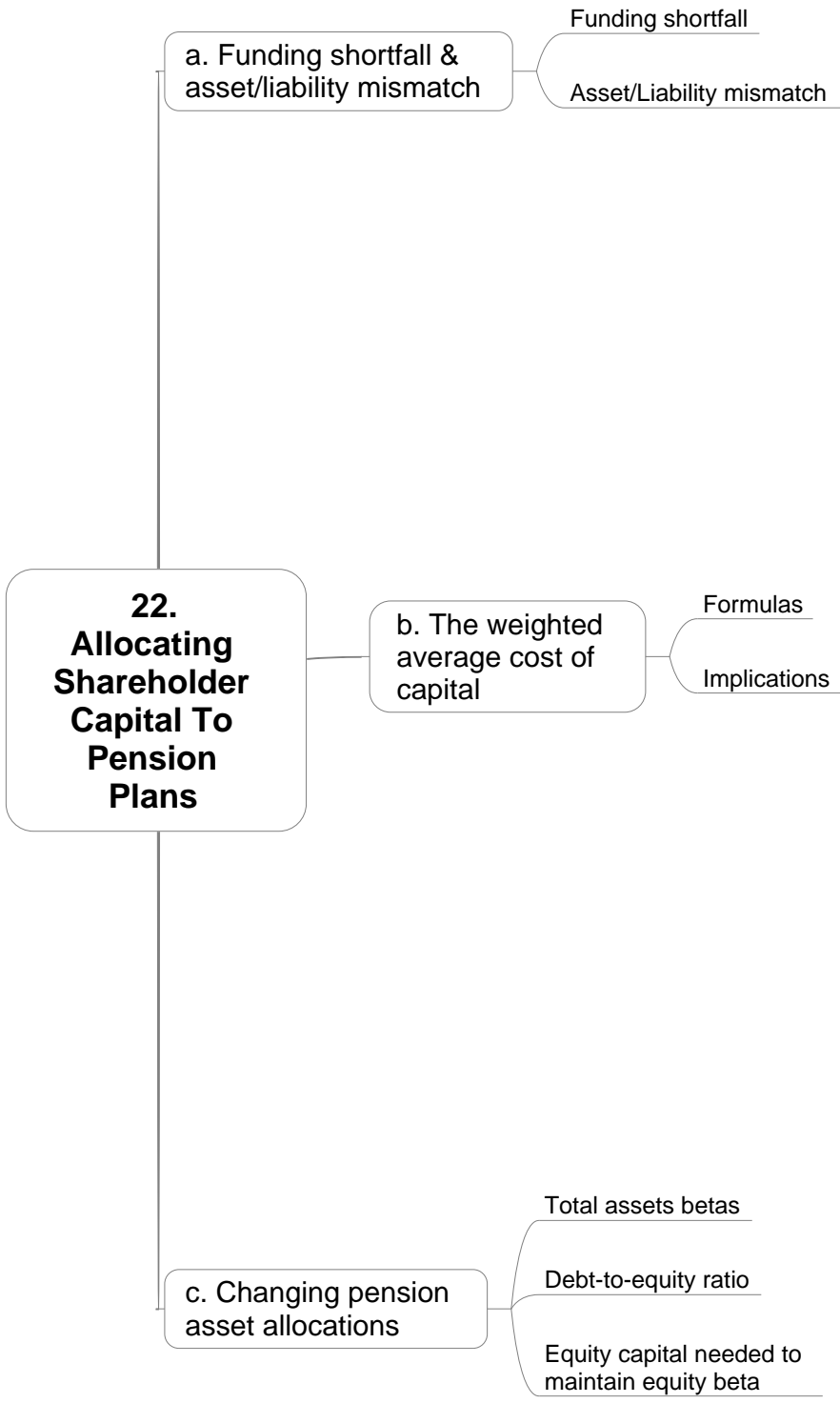
DB pension funds							
DC pension funds							
Foundations							
Endowments							
Insurance companies							
Banks							

k.

- Investment companies
- Commodity pools
- Hedge funds

l,n. Investment policies of institutional investors

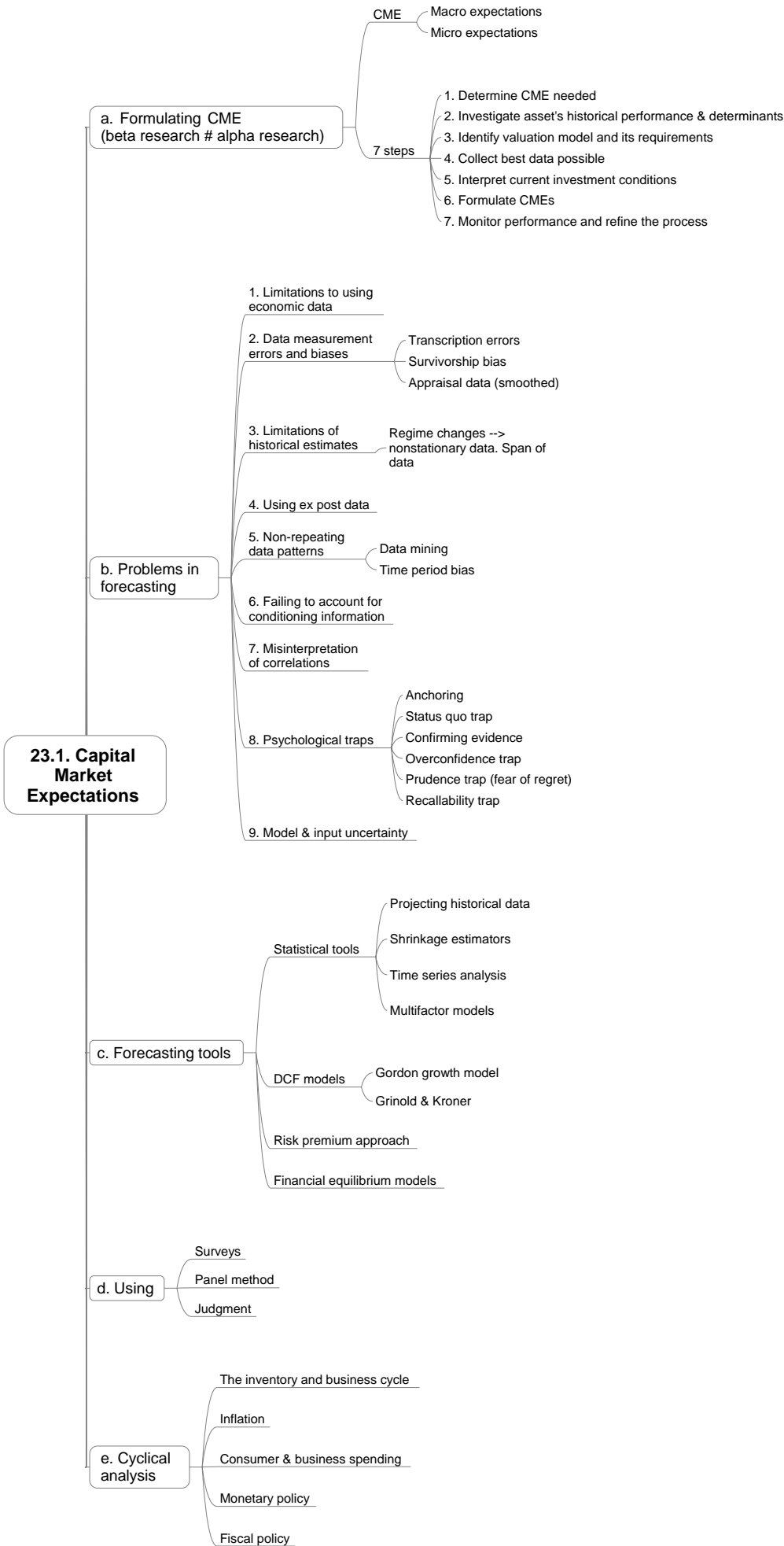




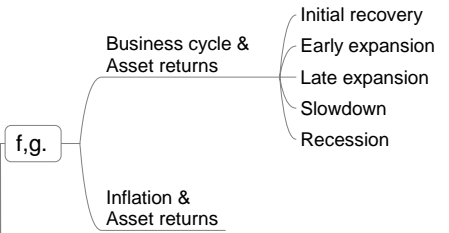
CFA LEVEL 3

STUDY SESSION 6

CAPITAL MARKET
EXPECTATIONS



23.2. Capital Market Expectations (Cont.)



h. The Taylor rule

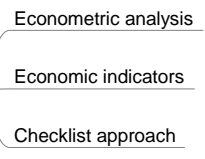
i. The yield curve

j. Economic growth trends

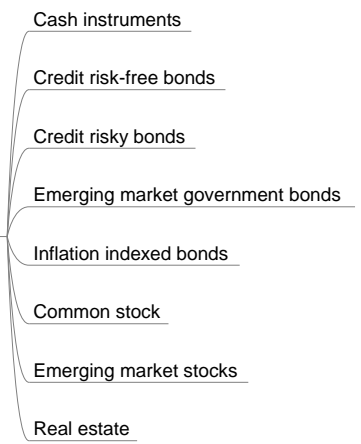
k. Emerging market economies

l. Linkages between economies

m. Economic forecasting



n,o. Economic conditions & asset class returns



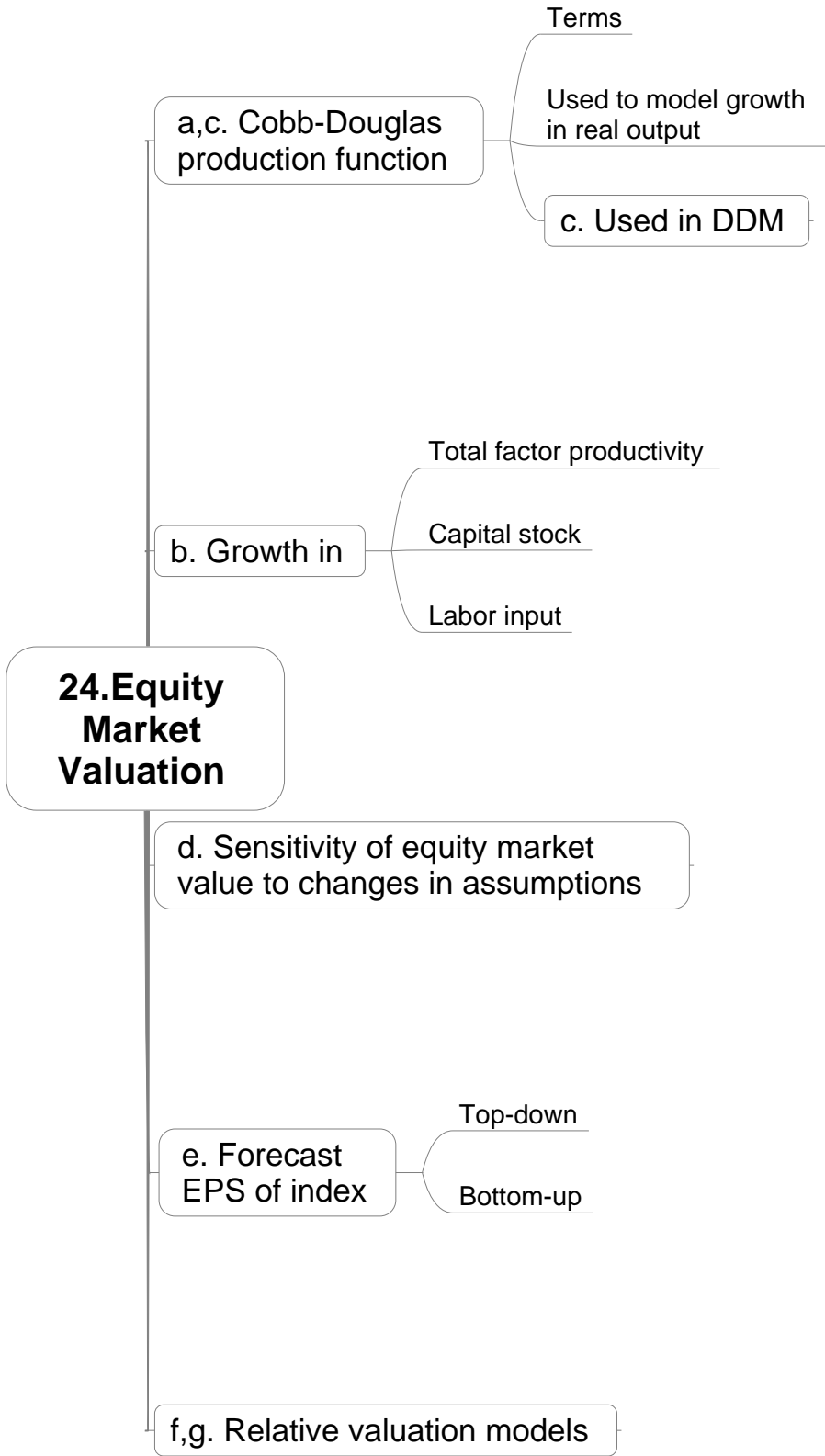
p. Forecasting exchange rates

q. Reallocating a global portfolio

CFA LEVEL 3

STUDY SESSION 7

**ECONOMIC CONCEPTS
FOR ASSET VALUATION**



BRICs = Brazil, Russia, India & China

a. Economic potential of the BRICs

Potential economic size & growth

Demographics & Per capita income

Growth in Global spending

Trends in real exchange rates

b. Economic growth

Potential returns on capital & productivity

Appreciating currencies

25. Dreaming With BRICs: The Path To 2050

c. Elements of economic growth

Technological progress

Growth in capital stock

Employment growth

d. The conditions for sustained economic growth

Macroeconomic stability

Institutional efficiency

Open trade

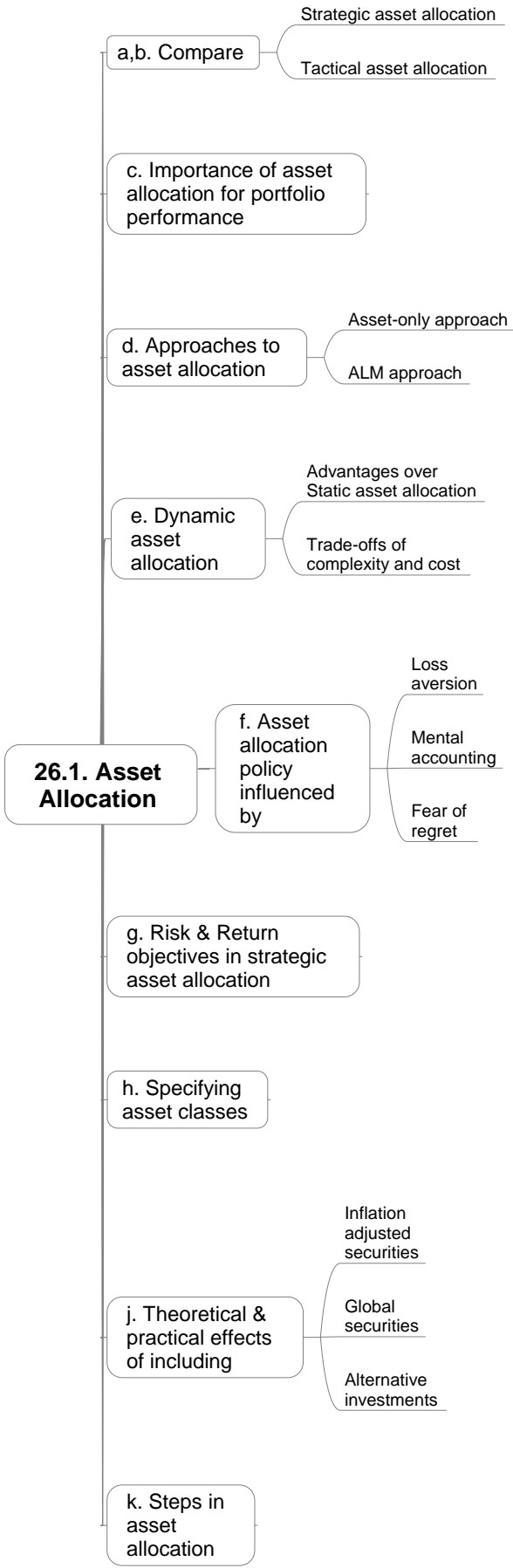
Worker education

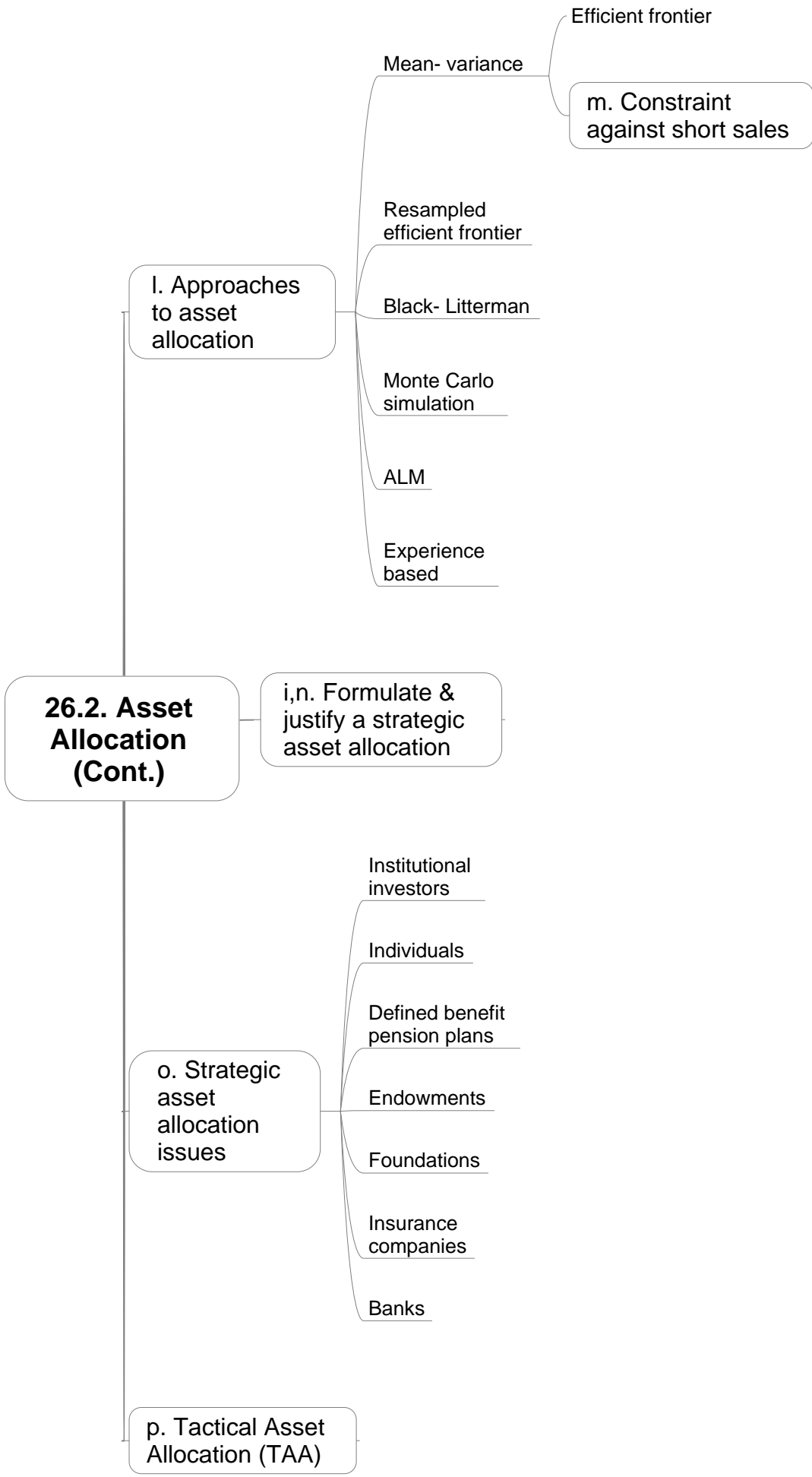
e. Emerging markets in a portfolio

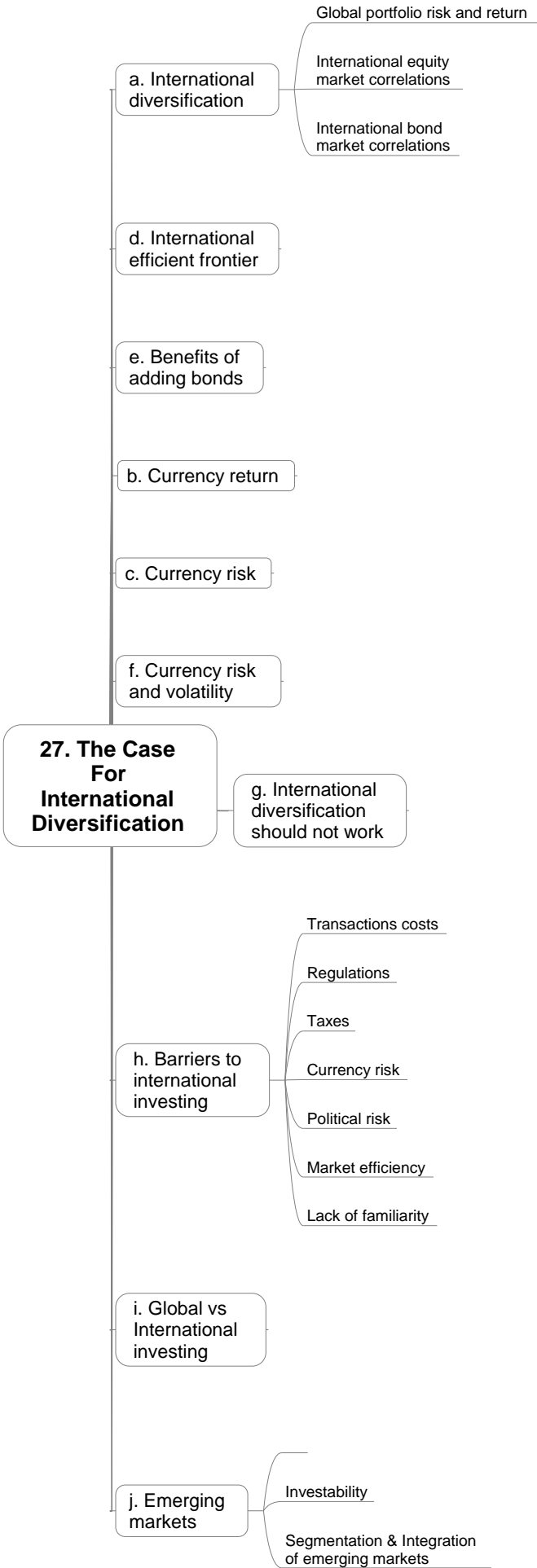
CFA LEVEL 3

STUDY SESSION 8

ASSET ALLOCATION



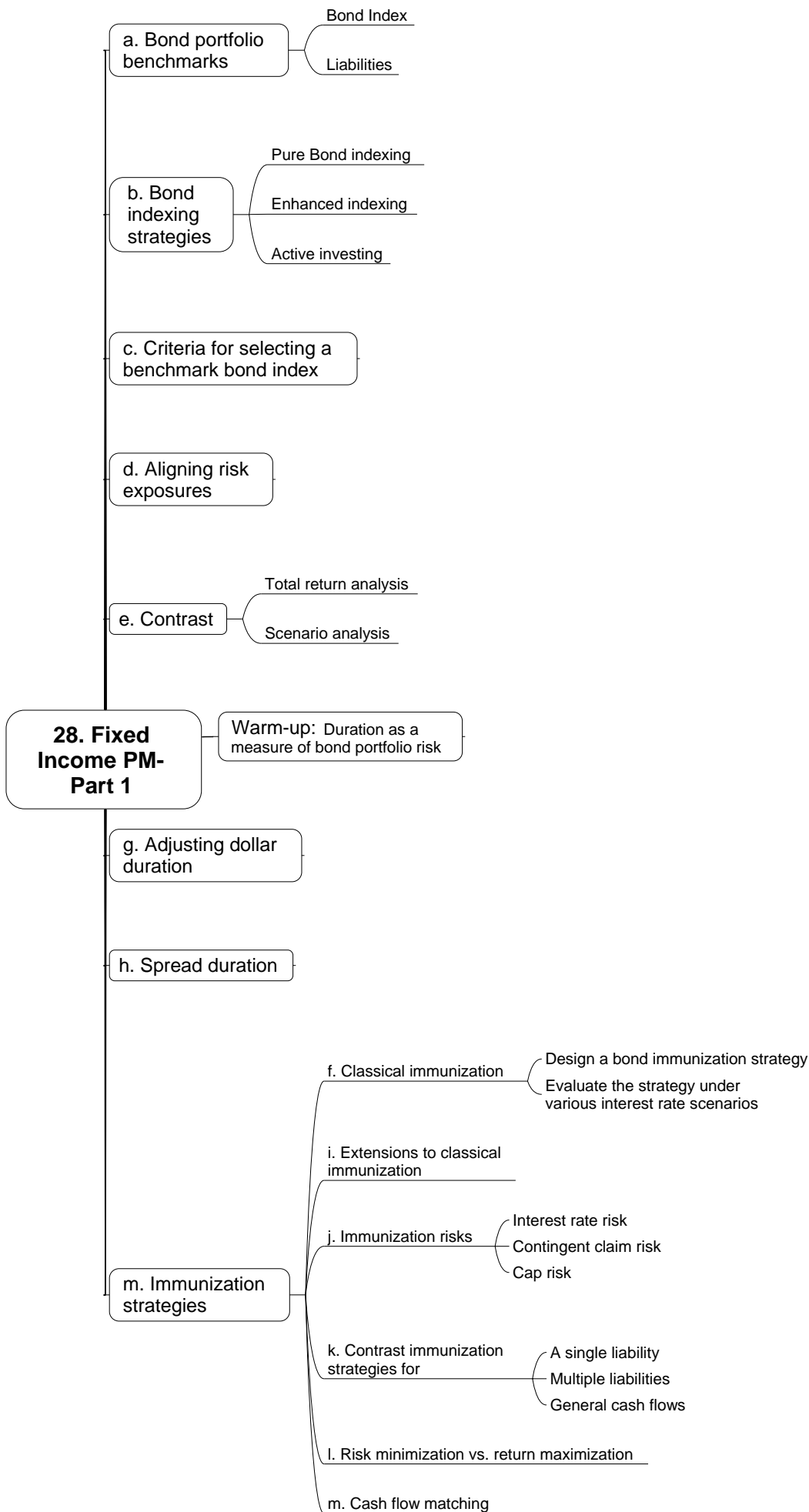


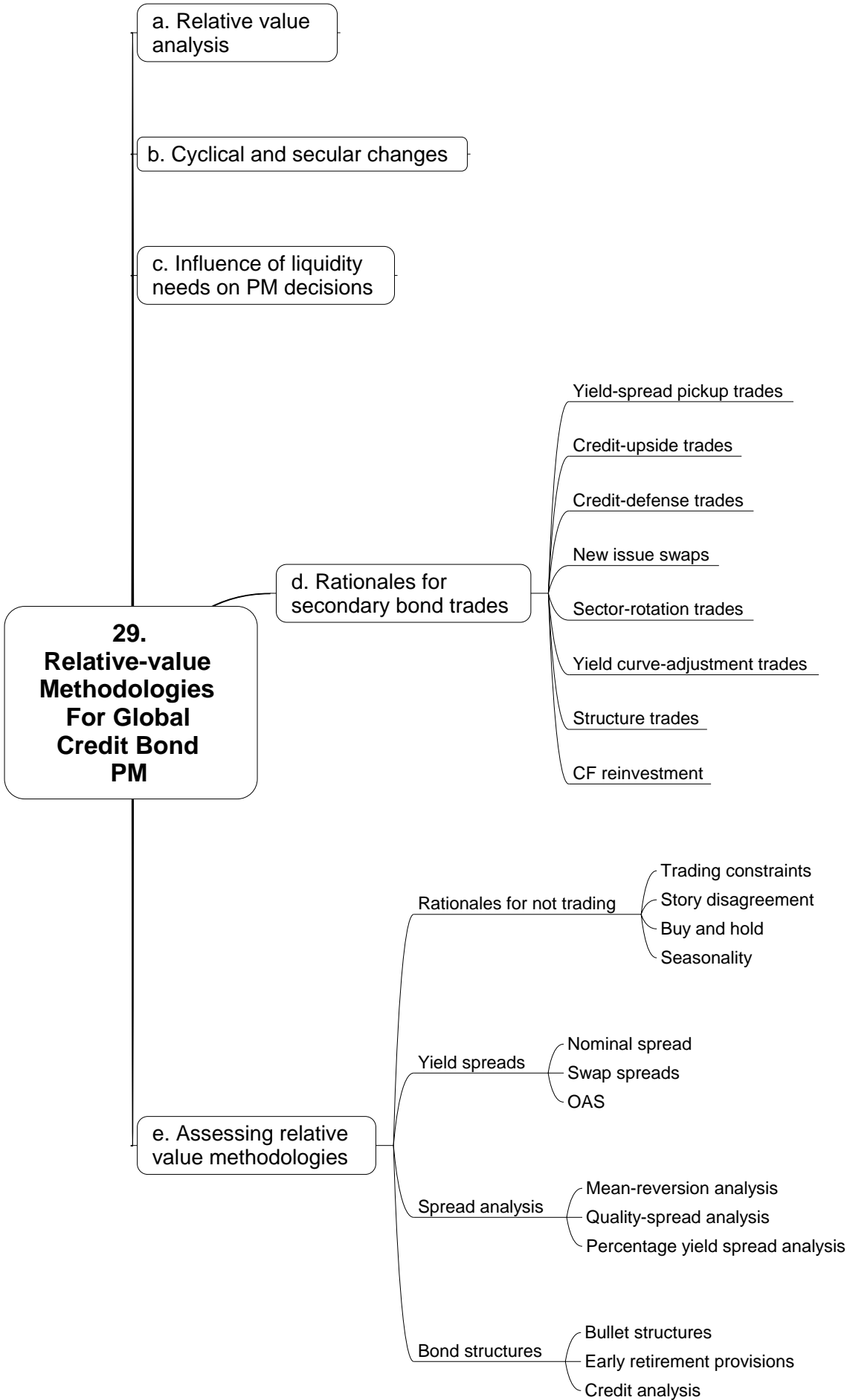


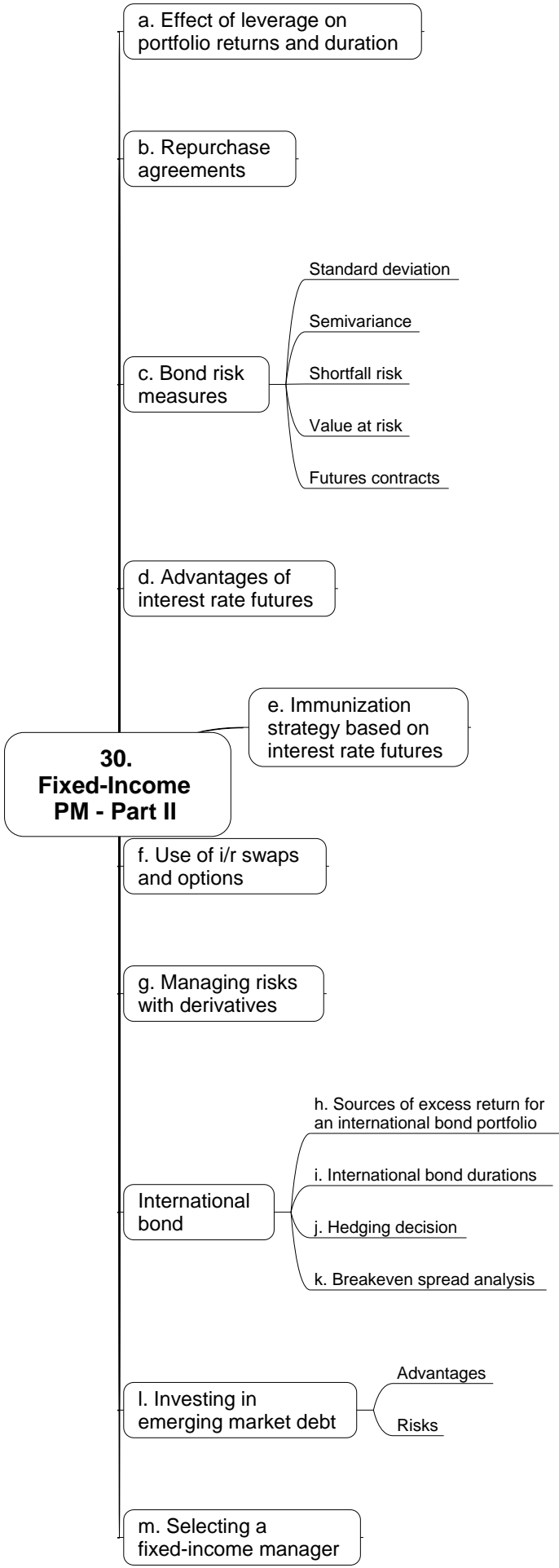
CFA LEVEL 3

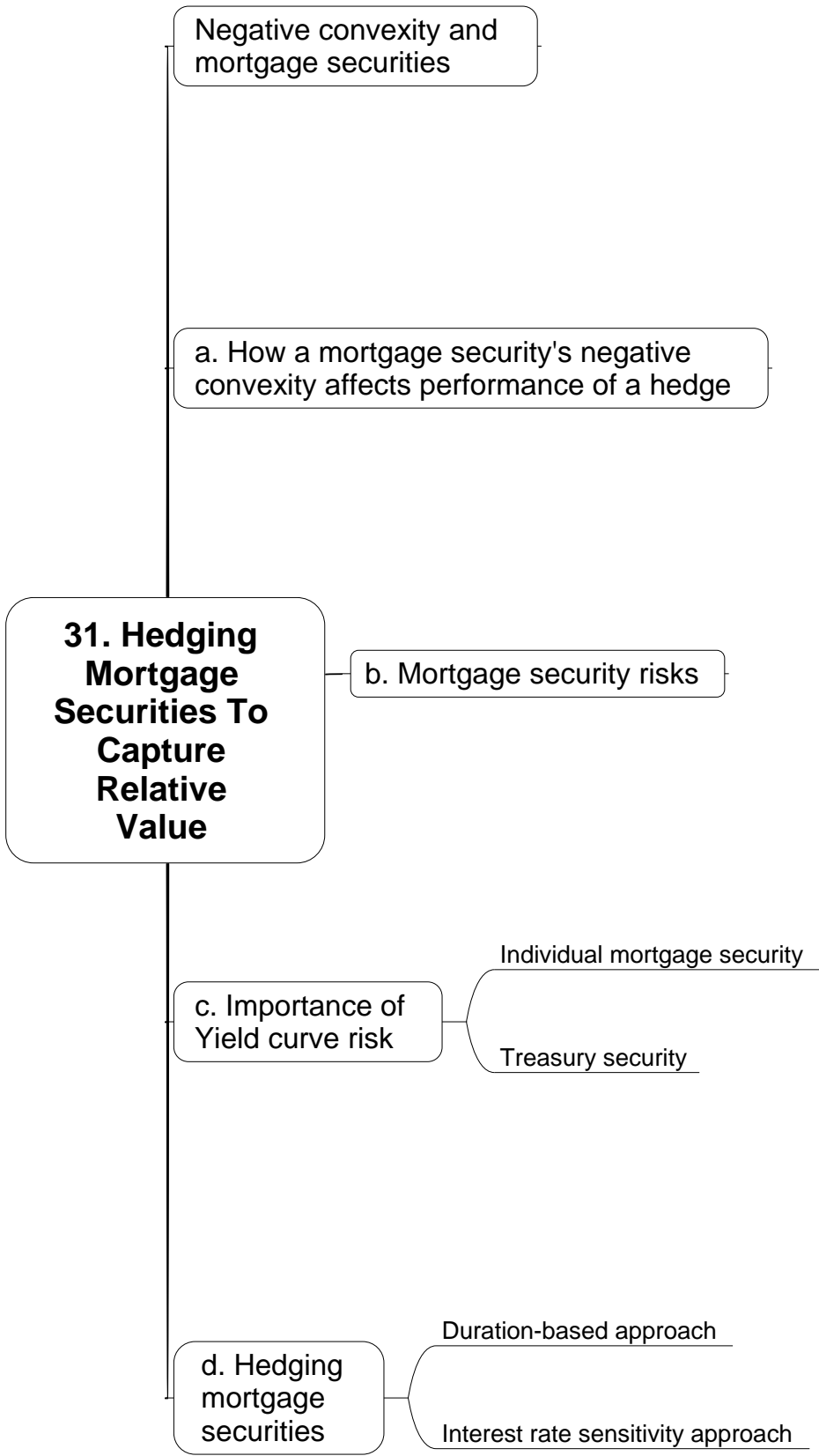
STUDY SESSION 9,10

FIXED-INCOME
PORTFOLIO
MANAGEMENT





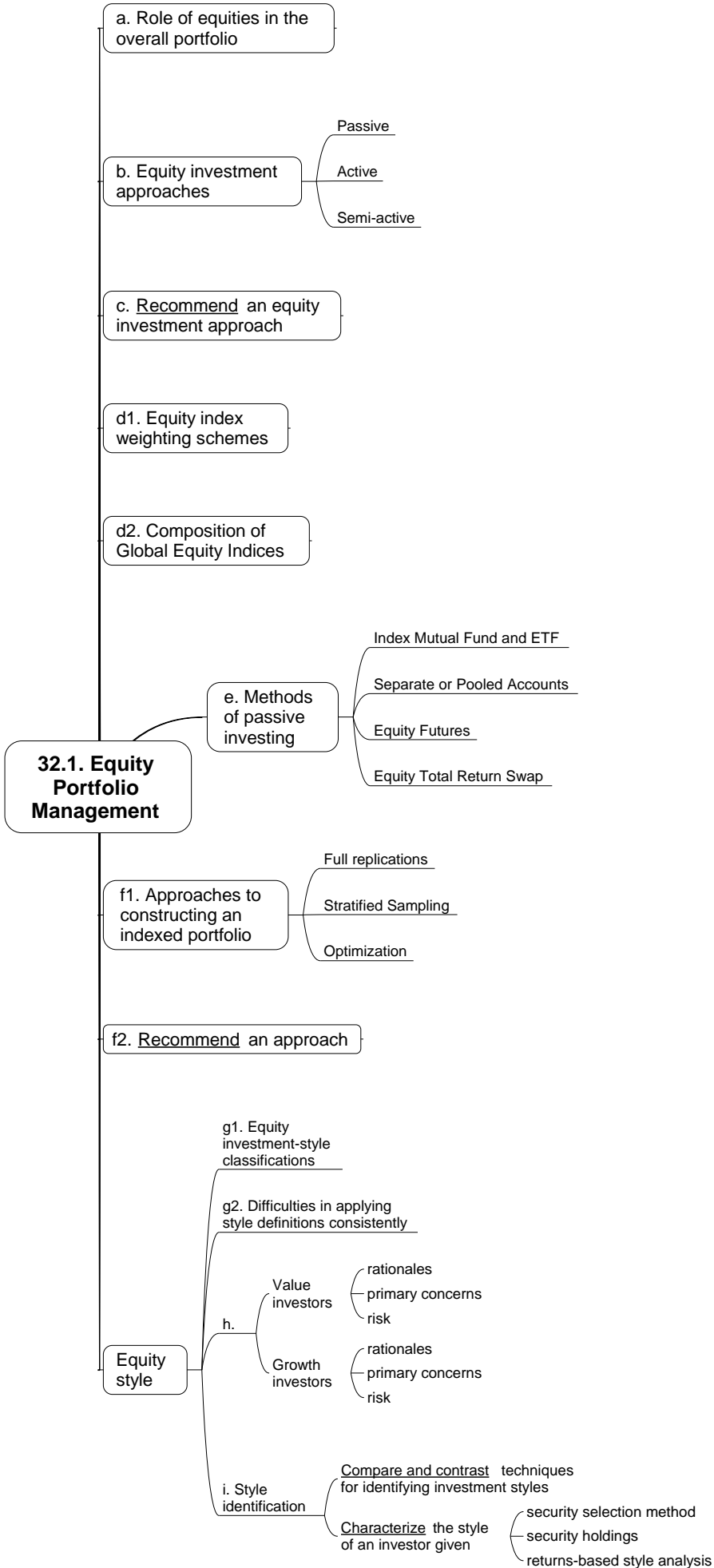




CFA LEVEL 3

STUDY SESSION 11, 12

**EQUITY PORTFOLIO
MANAGEMENT**



32.2. Equity Portfolio Management (cont.)

j. Equity style indices

k1. Equity style box analysis

k2. Consequences of style drift

l. Socially responsible investing (SRI)

Use of stock screens based on SRI

Potential effect on portfolio's style characteristics

m1. Contrast investment strategies

long-short

long-only

m2. Why greater pricing inefficiency may exist on the short side of the market

n1. How a market-neutral portfolio can be equitized

n2. Contrast

equitized market-neutral portfolios

short-extension portfolios

o. Sell disciplines of active investors

Enhanced indexing

p1. Contrast enhanced indexing strategies

Derivative-based
Stock-based

p2. Justify enhanced indexing on the basis of

risk control
IR

q. Allocating to managers

r.

Core-satellite approach

Completeness fund

s. Components of total active return

True active return

Misfit active return

t. Alpha and beta separation approach

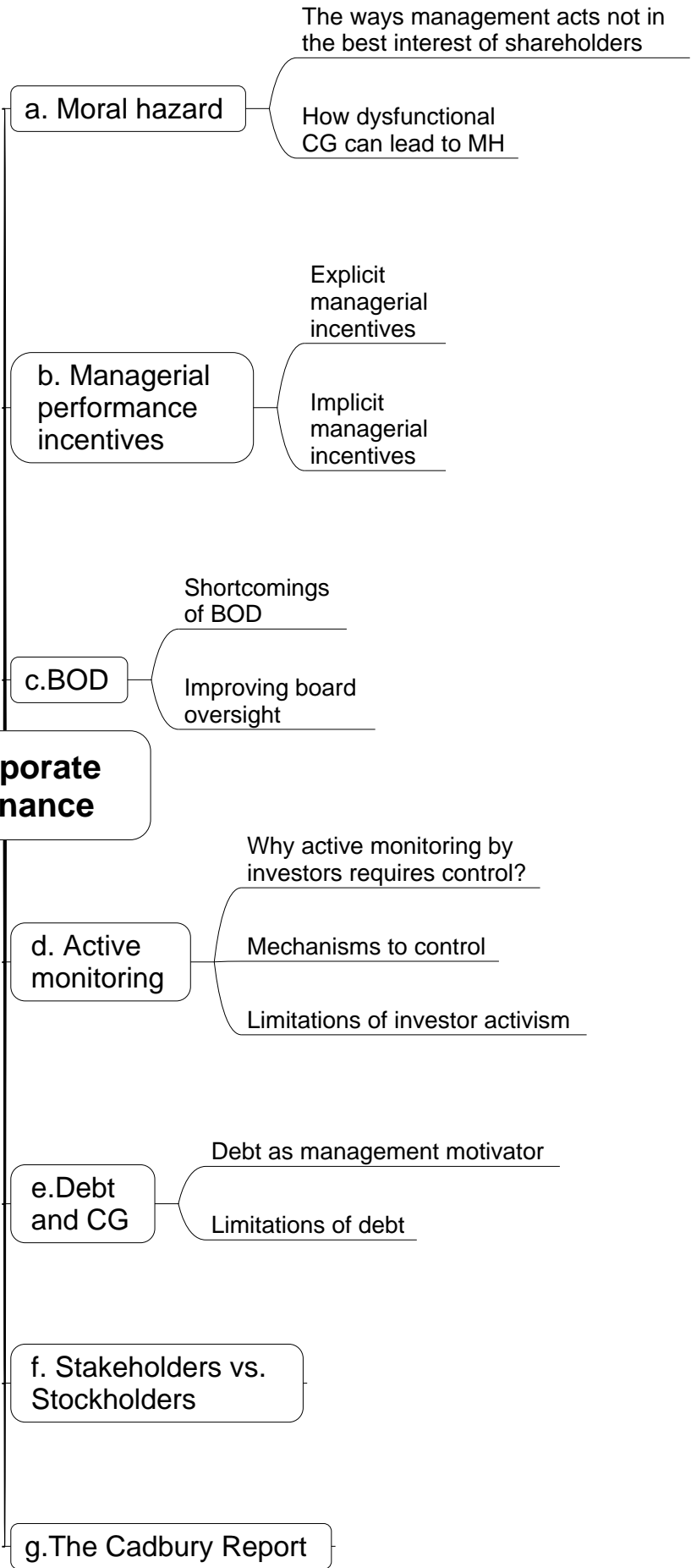
u. Selecting equity managers

v. Equity research

Top-down approach

Bottom-up approach

33. Corporate Governance



a. Moral hazard

The ways management acts not in the best interest of shareholders

How dysfunctional CG can lead to MH

b. Managerial performance incentives

Explicit managerial incentives

Implicit managerial incentives

c. BOD

Shortcomings of BOD

Improving board oversight

33. Corporate Governance

d. Active monitoring

Why active monitoring by investors requires control?

Mechanisms to control

Limitations of investor activism

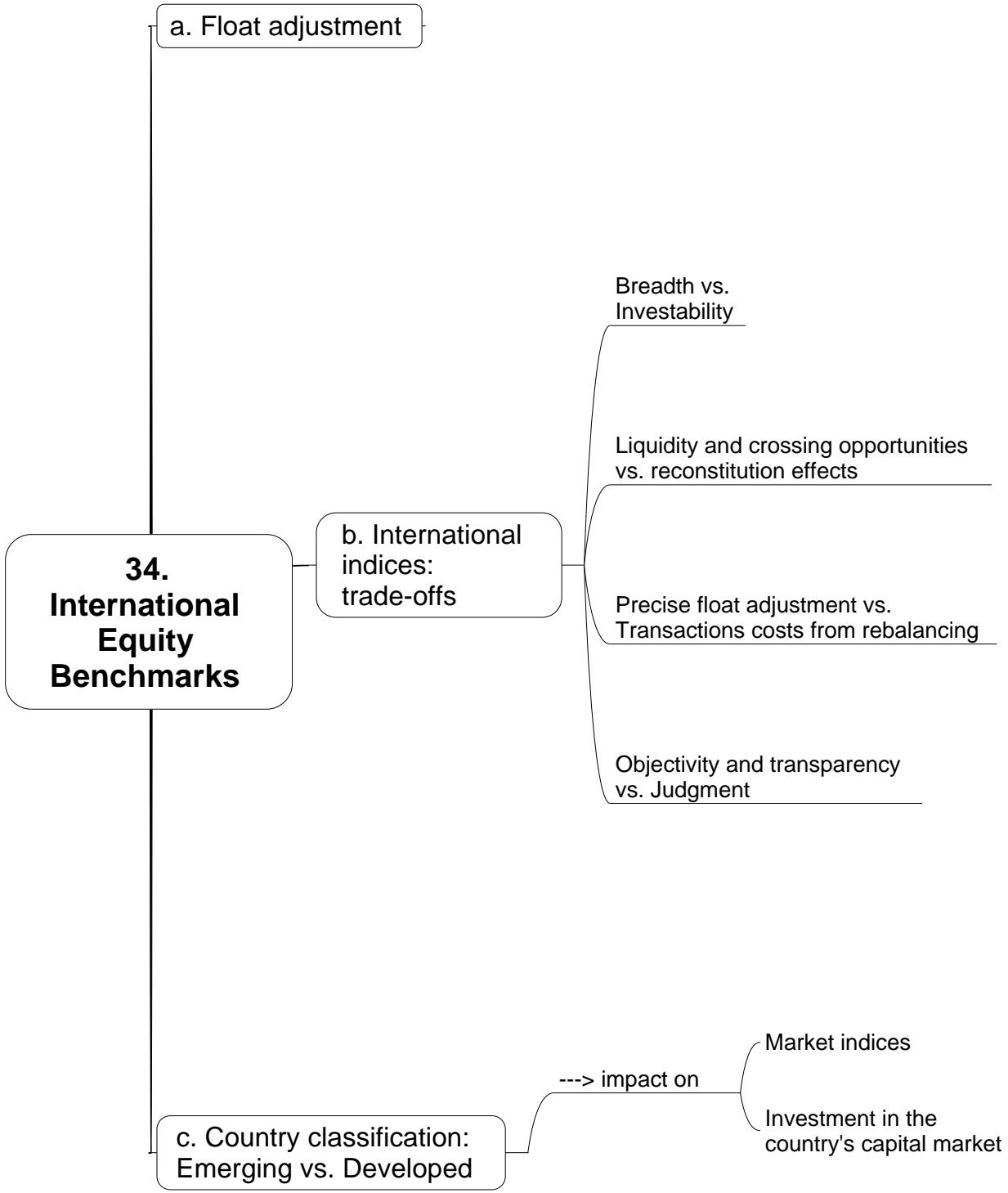
e. Debt and CG

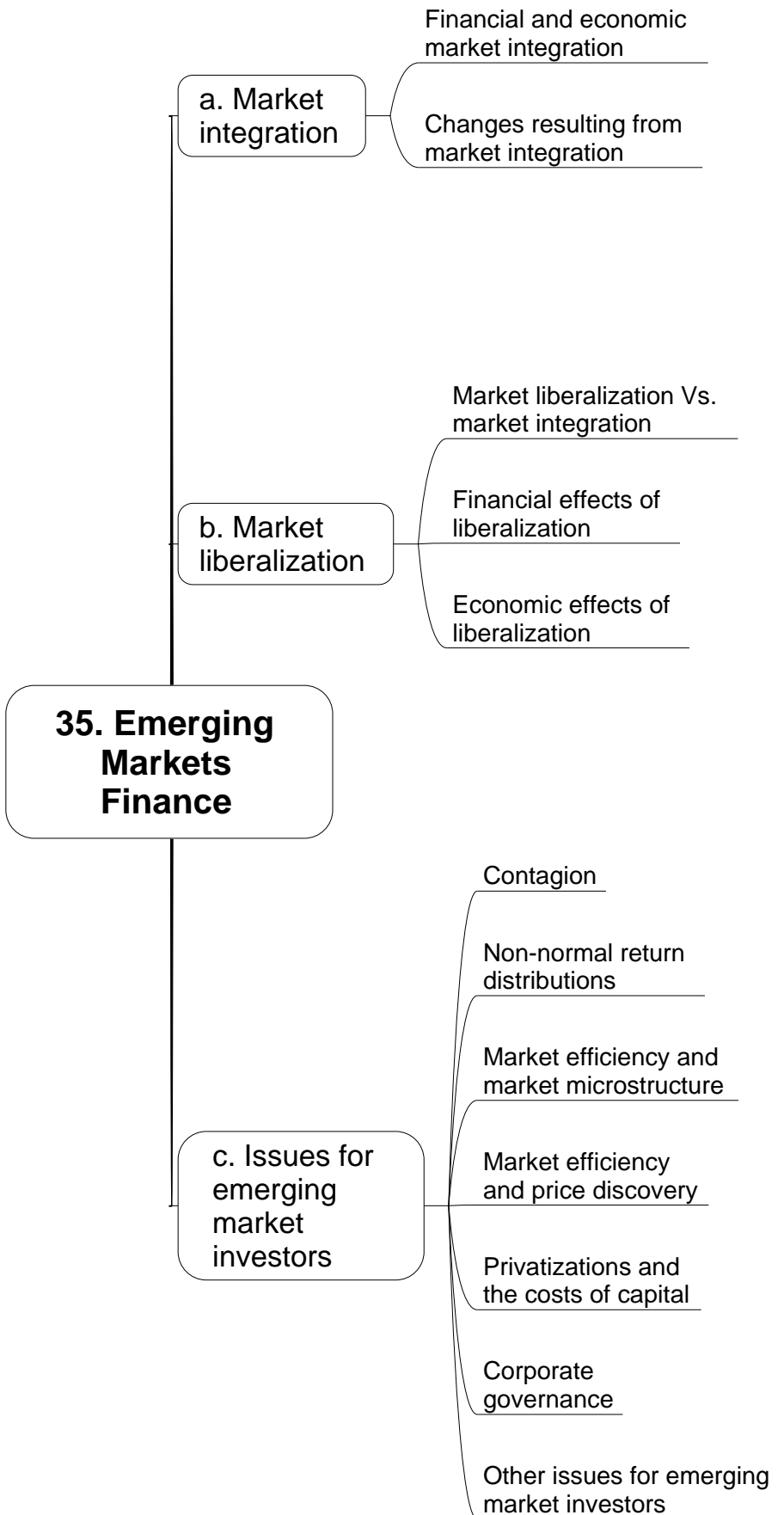
Debt as management motivator

Limitations of debt

f. Stakeholders vs. Stockholders

g. The Cadbury Report

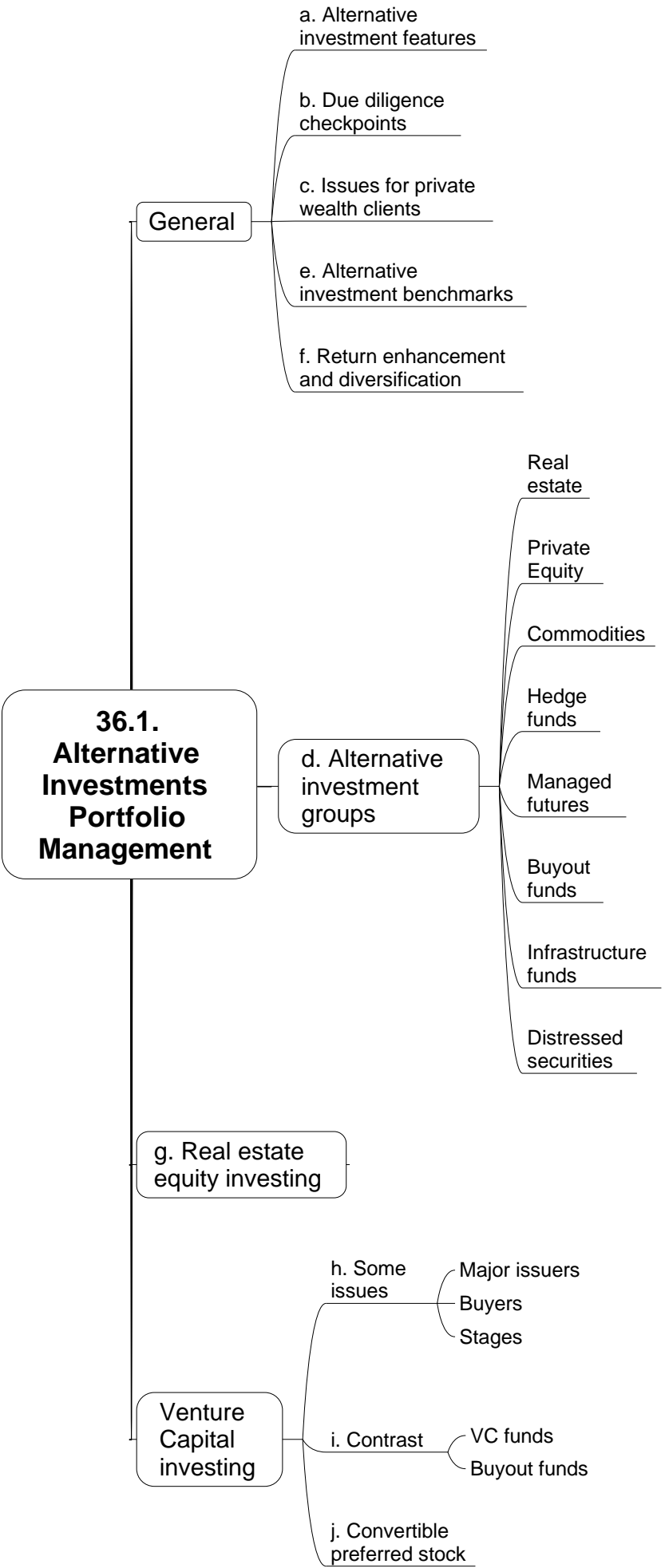




CFA LEVEL 3

STUDY SESSION 13

ALTERNATIVE
INVESTMENTS
PORTFOLIO
MANAGEMENT



36.1. Alternative Investments Portfolio Management

General

a. Alternative investment features

b. Due diligence checkpoints

c. Issues for private wealth clients

e. Alternative investment benchmarks

f. Return enhancement and diversification

d. Alternative investment groups

Real estate

Private Equity

Commodities

Hedge funds

Managed futures

Buyout funds

Infrastructure funds

Distressed securities

g. Real estate equity investing

Venture Capital investing

h. Some issues

Major issuers

Buyers

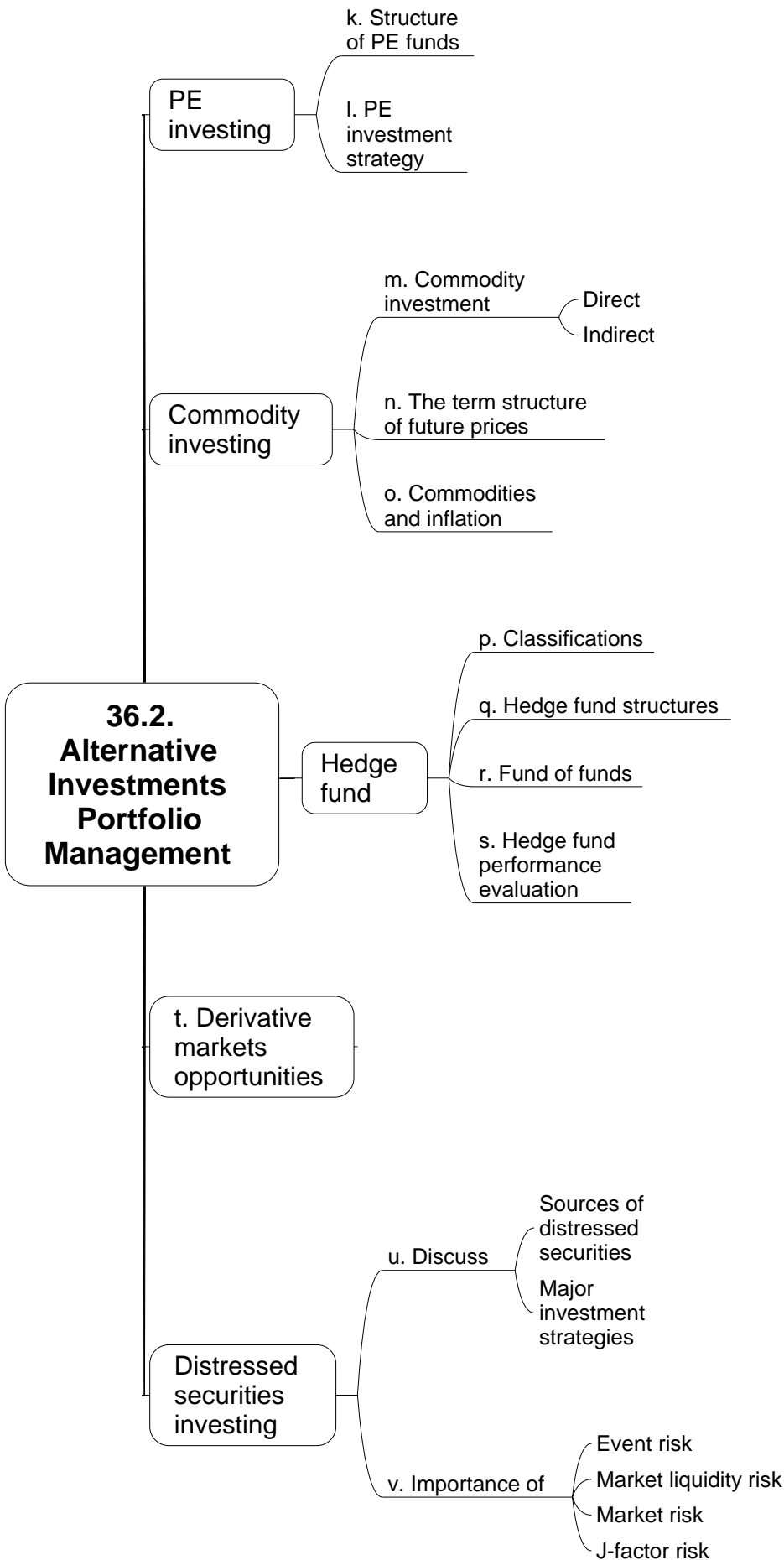
Stages

i. Contrast

VC funds

Buyout funds

j. Convertible preferred stock



**36.2.
Alternative
Investments
Portfolio
Management**

PE investing

k. Structure of PE funds

I. PE investment strategy

Commodity investing

m. Commodity investment

Direct
Indirect

n. The term structure of future prices

o. Commodities and inflation

Hedge fund

p. Classifications

q. Hedge fund structures

r. Fund of funds

s. Hedge fund performance evaluation

t. Derivative markets opportunities

Distressed securities investing

u. Discuss

Sources of distressed securities

Major investment strategies

v. Importance of

Event risk

Market liquidity risk

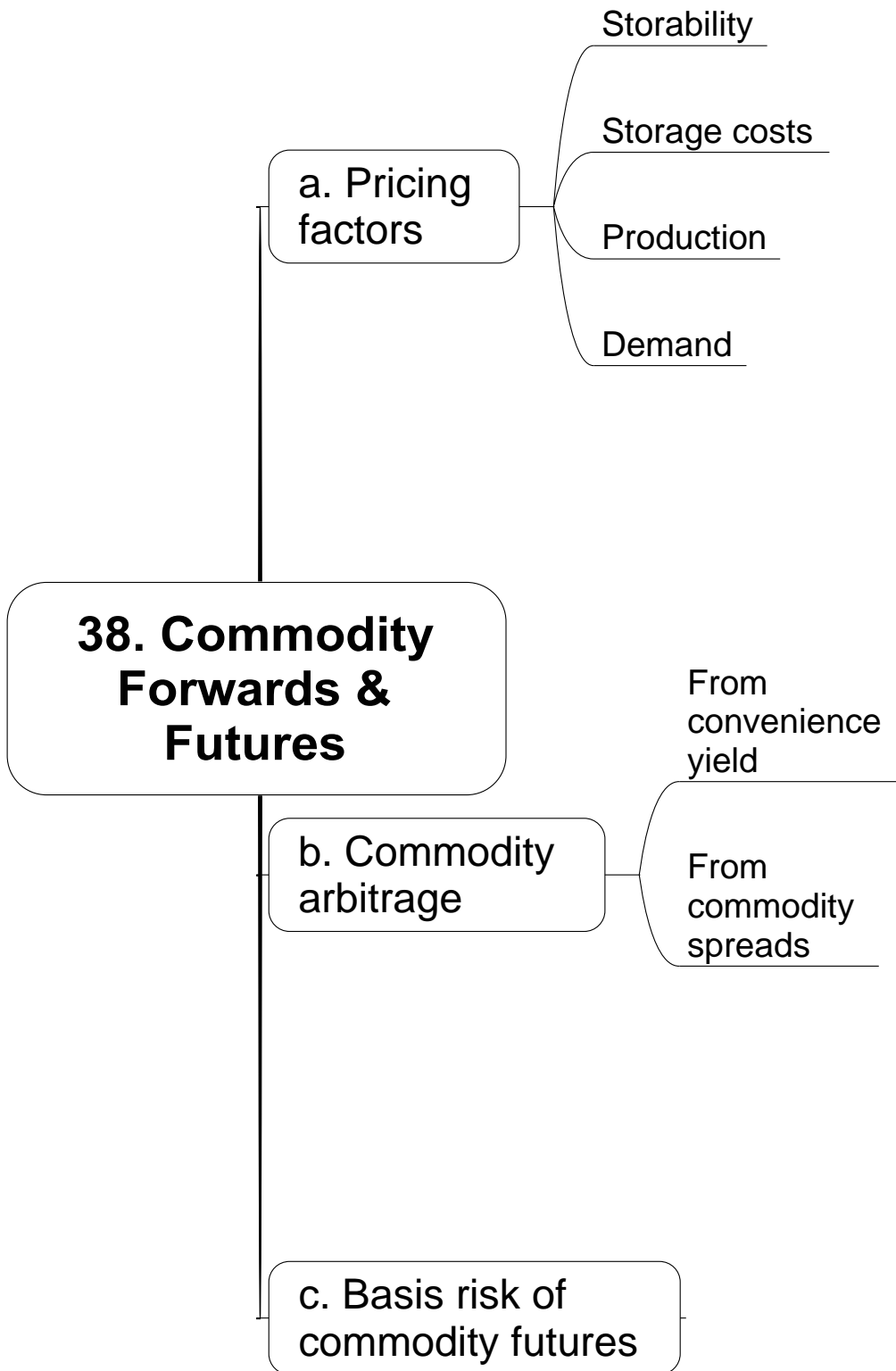
Market risk

J-factor risk

Hedging
strategies

37. Swaps

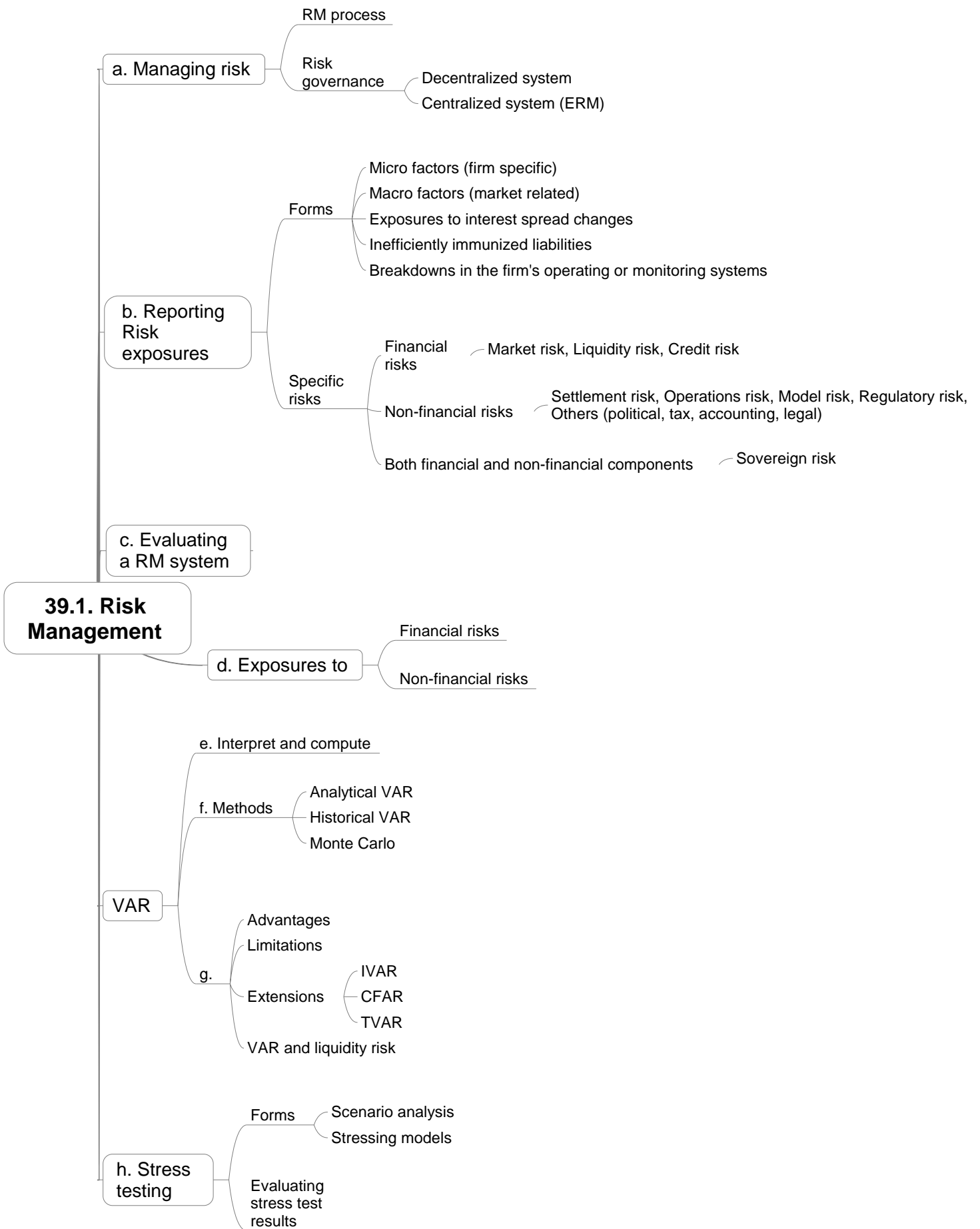
Inherent risk
exposures



CFA LEVEL 3

STUDY SESSION 14, 15

RISK MANAGEMENT



39.1. Risk Management

a. Managing risk

- RM process
- Risk governance
 - Decentralized system
 - Centralized system (ERM)

b. Reporting Risk exposures

- Forms
 - Micro factors (firm specific)
 - Macro factors (market related)
 - Exposures to interest spread changes
 - Inefficiently immunized liabilities
 - Breakdowns in the firm's operating or monitoring systems
- Specific risks
 - Financial risks
 - Market risk, Liquidity risk, Credit risk
 - Non-financial risks
 - Settlement risk, Operations risk, Model risk, Regulatory risk, Others (political, tax, accounting, legal)
 - Both financial and non-financial components
 - Sovereign risk

c. Evaluating a RM system

d. Exposures to

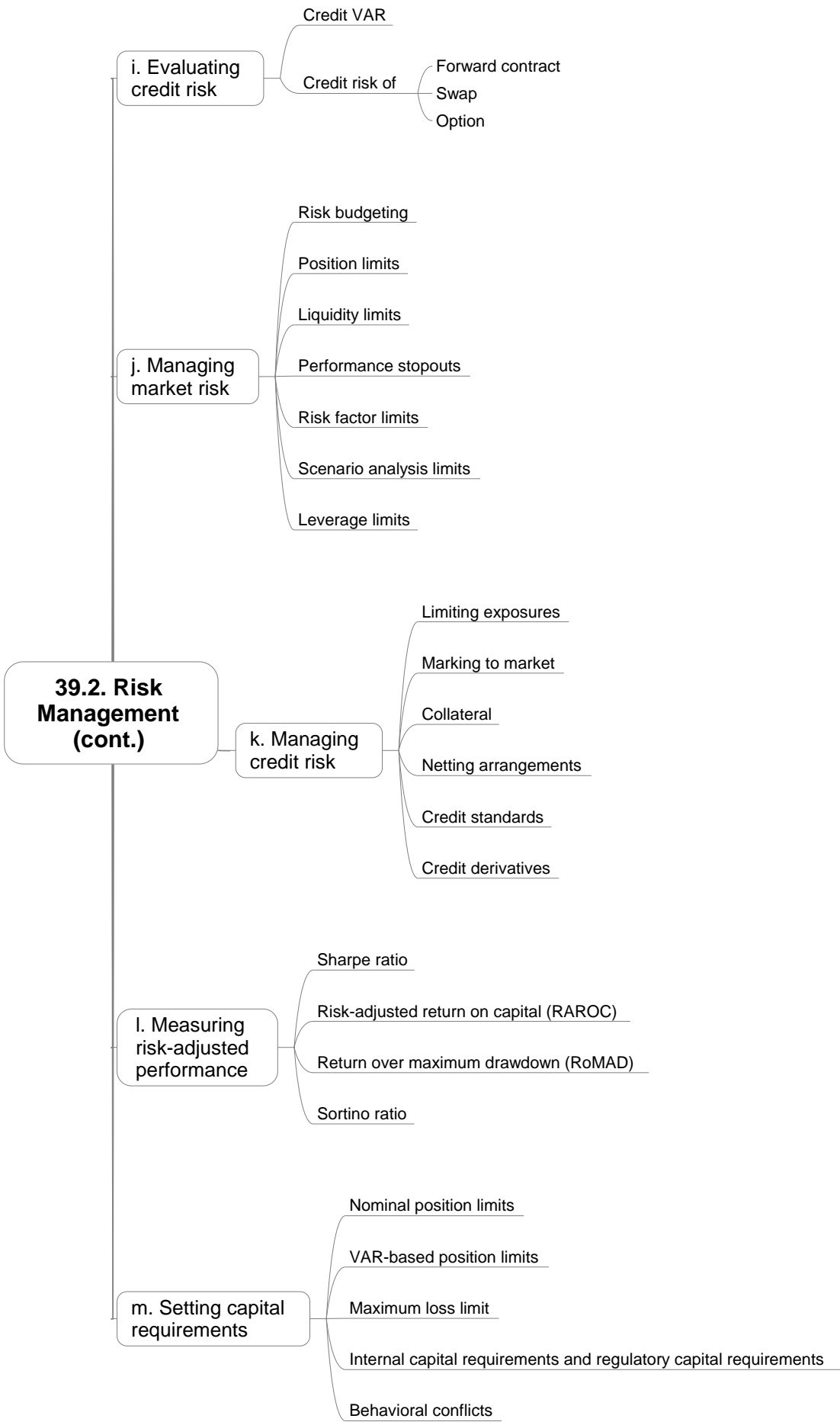
- Financial risks
- Non-financial risks

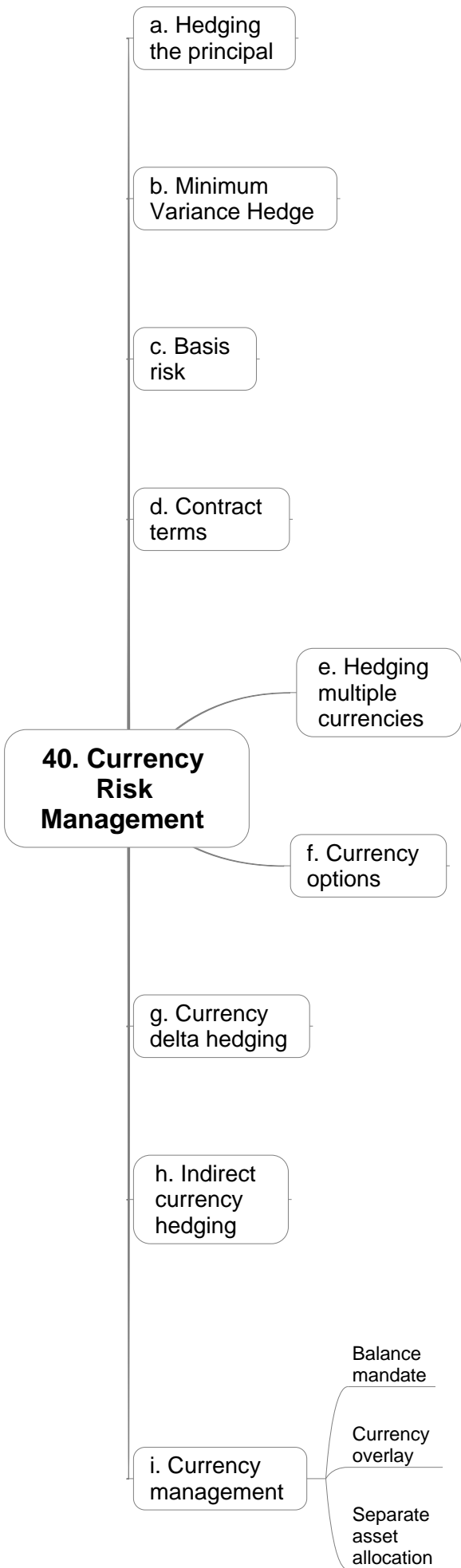
VAR

- e. Interpret and compute
- f. Methods
 - Analytical VAR
 - Historical VAR
 - Monte Carlo
- g.
 - Advantages
 - Limitations
 - Extensions
 - IVAR
 - CFAR
 - TVAR
 - VAR and liquidity risk

h. Stress testing

- Forms
 - Scenario analysis
 - Stressing models
- Evaluating stress test results





Warm-up: Futures & Forwards

Futures contract

Duration

Yield

a. Adjusting the portfolio beta

The hedge isn't perfect

Index multipliers & synthetic positions

b. Synthetic stock index fund

41. RM Applications Of Forward & Futures Strategies

c. Synthetic cash

d. Adjusting the portfolio allocation

Target duration

Non-zero target duration

e. Adjusting the equity allocation

Changing equity allocations

Pre-investing

f. Exchange rate risk

g. Hedging limitations

Hedging market risk

Hedging currency risk

Warm-up: Basics of put options & call options

a.

Covered calls

Protective puts

b. Option spread strategies

Bull call spread

Bear call spread

Butterfly spread with calls

Butterfly spread with puts

Put-call parity

Straddle

Collar

Box spread strategy

42. RM Applications Of Option Strategies

c. I/R options

Interest call

Interest put

d. I/R

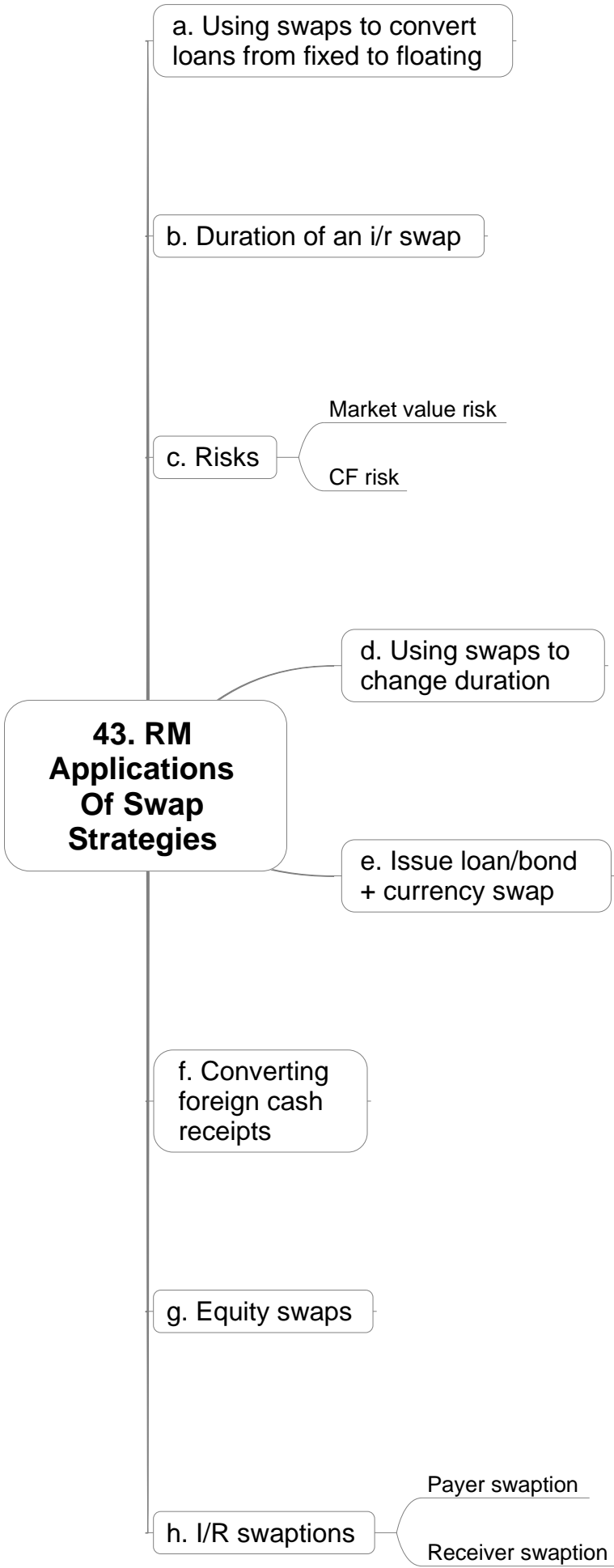
Caps

Floors

Collars

e. Delta hedging

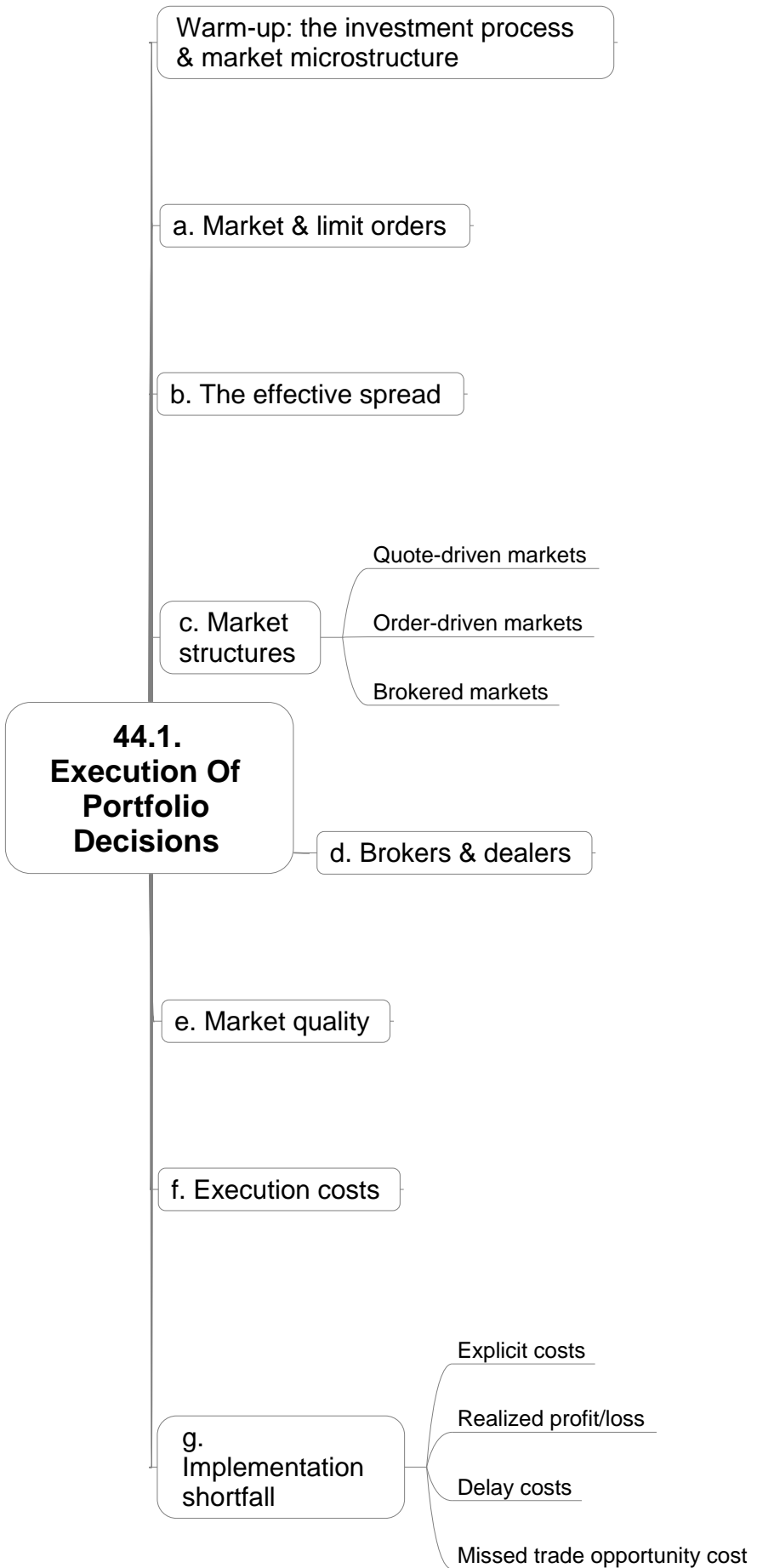
f. The second-order gamma effect



CFA LEVEL 3

STUDY SESSION 16

**EXECUTION,
MONITORING &
REBALANCING**



h. VWAP vs.
Implementation shortfall

i. Econometric models

j. Major trader types

k. Trading tactics

**44.2.
Execution
Of Portfolio
Decisions
(cont.)**

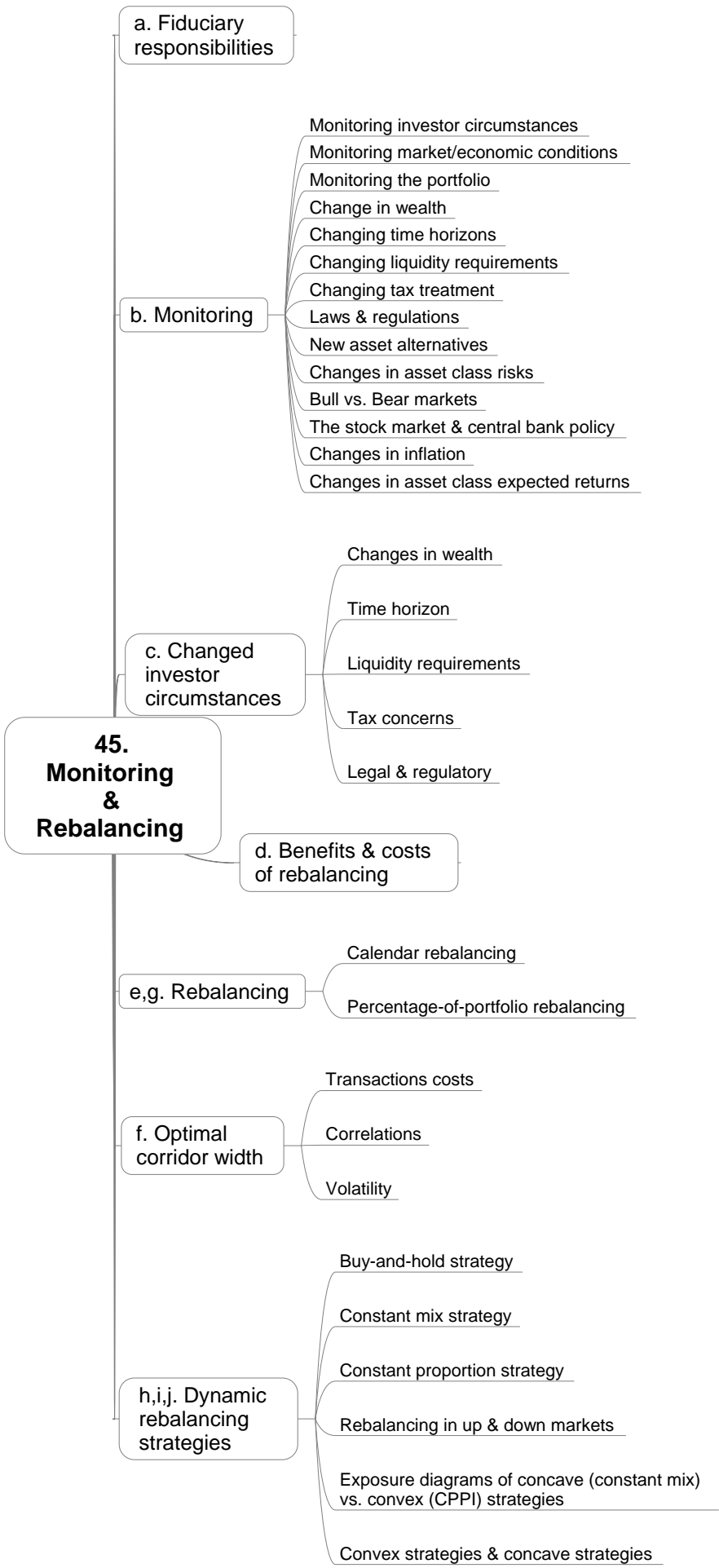
l. Algorithmic trading

m. Choosing an
algorithmic
trading strategy

n. Best execution

o. Evaluating trading
procedures

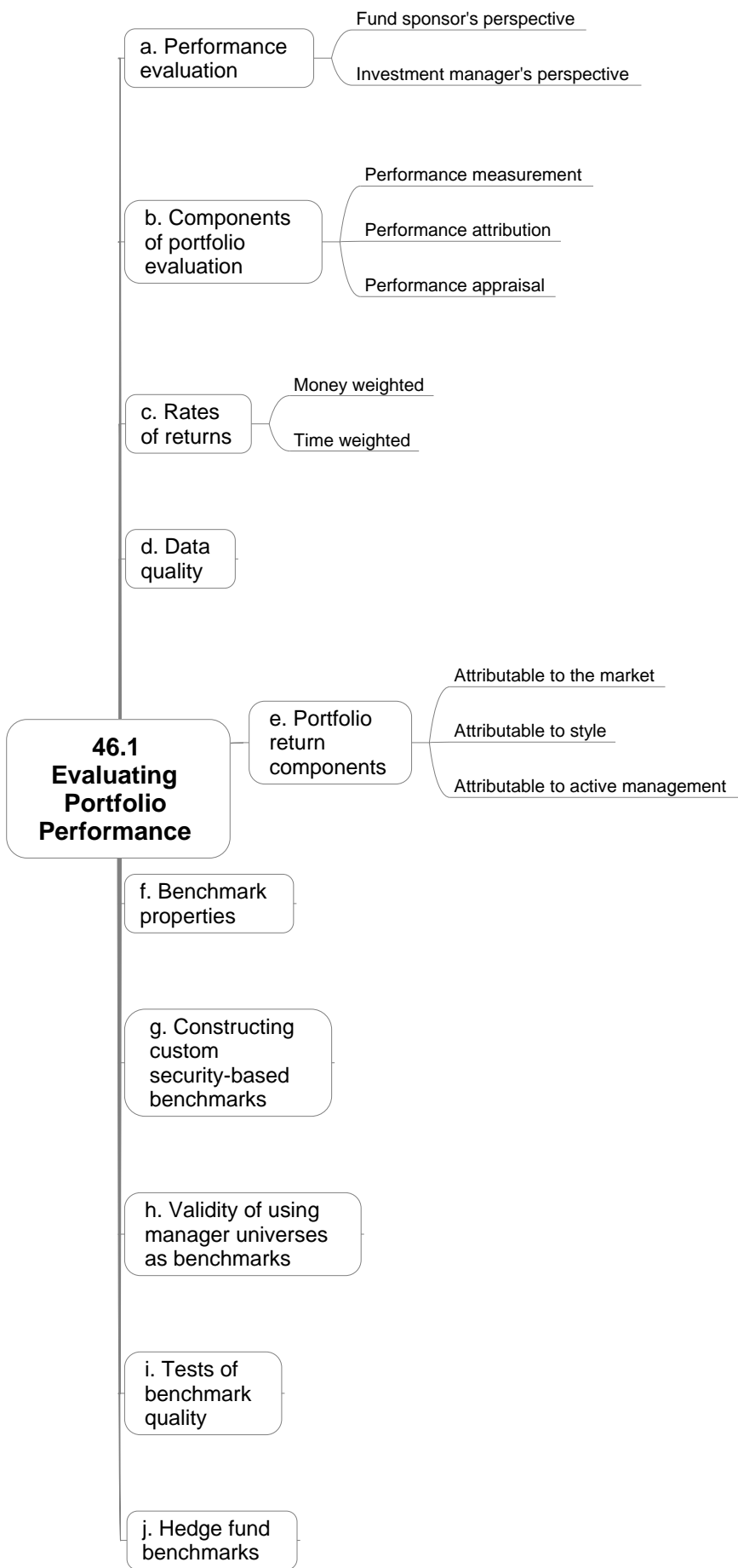
p. Role of ethics in trading

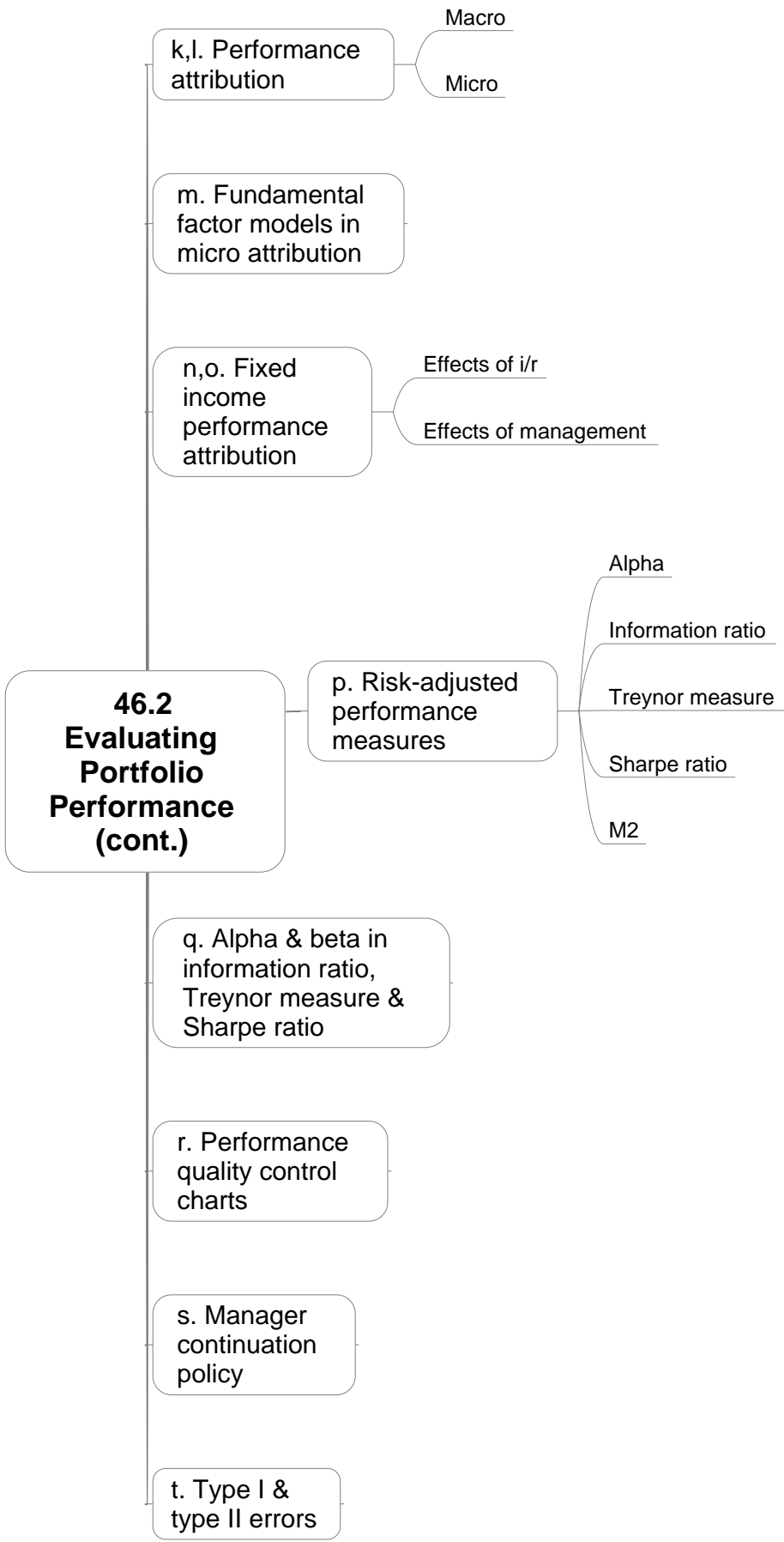


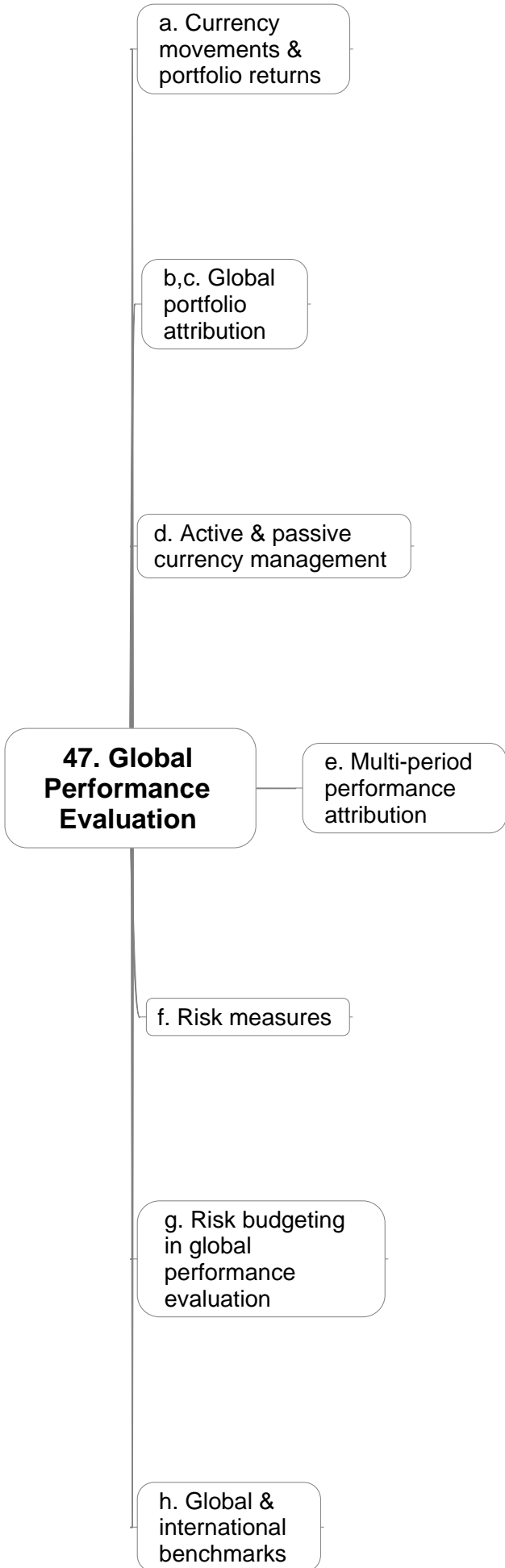
CFA LEVEL 3

STUDY SESSION 17

**PERFORMANCE
EVALUATION &
ATTRIBUTION**







CFA LEVEL 3

STUDY SESSION 18

GIPS

The creation and evolution of the GIPS Standards

a. Discuss

- Reasons for the creation of GIPS Standards
- Standards' evolution
- Benefits to prospective clients and investment managers

b. Discuss

- Objectives
- Key characteristics
- Scope

c. Explain GIPS compliance

d. Explain inputs data

- Requirements
- Recommendations

e. Return calculation methodology

- Requirements
- Recommendations

Composite

- f. Composite returns and asset-weighted returns
- g. Discretionary portfolios
- Constructing composites
 - h. Mandates, objectives or strategies
 - i. Adding portfolios and terminating portfolios

48. GIPS

j. Asset class segments carved out of multi-class portfolios

k. Disclosure requirements and recommendations

l,m,n. GIPS presentation and reporting requirements

o. GIPS for

- p. Real estate
 - Requirements
 - Recommendations
- q. Private equity
 - Requirements
 - Recommendations
- r. PE valuation

s. Identify errors & omissions

t. Explain the provisions

u. GIPS valuation principles

- Policies
- Procedures

v. GIPS advertising guidelines

w. GIPS verification

x. Challenges of calculation of after tax returns