

## **Topic 1: Introduction**

### ➤ **Participants in the investment management industry**

- **Unit trust**

- a) *Investors' funds are pooled, usually into specific types of assets*
- b) *Investors are assigned units in the fund which are typically traded*
- c) *Invest in tradable units (e.g. listed property trusts)*
  - *Sell a fixed number of units to investors, closed end funds*
- d) *An unlisted trust however can issue new units at any time*
  - *Value of each unit depends on the value of the underlying investments*
  - *Open-ended funds, in US these are mutual funds*

- **Superannuation funds**

- a) *Superannuation funds accept and manage contributions from employers and/or employees to provide retirement income benefits*
- b) *Managed by life insurance companies, fund administrators, master trusts and pooled trusts (a whole investment vehicle for other super funds)*
- c) *Superannuation fund structure*
  - *Defined benefit: the retirement payouts determined based on a formula*
  - *Defined contribution: value of retirement payout depends on investment of contribution in the fund*

- **Hedge funds**

- a) *Hedge funds seek to hedge against risky price movements via short selling, arbitrage trading, derivatives, distressed securities, low-grade bonds, and high leverage portfolios so as to maximize the expected return-risk of the portfolio*

### ➤ **Asset Allocation**

- **Asset classes**

- a) *Investment managers will generally have a range of portfolio weights for each asset class*
- b) *The allocation depends on the objective of the fund*
  - *Balanced funds, conservative funds, imputation funds, inflation funds*

- **Allocation of Australian funds**

- **Tactical vs. Strategic**

- a) *Tactical asset allocation is active between asset classes*
  - *It takes the actual portfolio between asset classes*
- b) *Managers attempt to exploit temporary mispricing by adjusting exposure to different asset classes*
- c) *Then tactical allocation will move between a minimum and maximum bounds on the amounts invested in each class*