Investment Course X:

Asset Allocation: Theory and Practice

Econsult – Fidelity Investments

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Outline of Course Topics

**Topic One: Expected Returns & Measuring the Risk Premium**
- Two Important Concepts in Investment Management
  - Investor Role & Compensation, Expected Return Components
- Measuring Expected Returns & Return Components
  - Definitions and Concepts & Historical Evidence
- The Equity Risk Premium: Global Experience
- Methods for Measuring Equity Risk Premiums:
  - Historical Estimates: Ibbotson Associates, Fidelity Investments
  - Fundamental Estimates: Fama-French, Claus-Thomas, Arnott-Bernstein
  - Economic Estimates: Black-Litterman, Aon Hewitt
  - Survey Estimates: CFO surveys, Aon Hewitt, TRS

**Topic Two: Overview of the Strategic and Tactical Asset Allocation Process**
- The Asset Allocation Decision: Fundamental Concepts & Overview
- Examples of Strategic Allocation Policies:
  - Global Capital Markets, UTIMCO, Texas Teacher Retirement System
- Return Decomposition and the Importance of the Asset Allocation Decision
  - Time-Series vs. Cross-Sectional Effects
- Asset Allocation & Building Investment Portfolios
  - Sharpe’s Integrated Asset Allocation Model: Strategic, Tactical, Insured
  - Distinguishing the Source of Portfolio Returns: Alpha vs. Beta
- Factor-Based versus Asset Class-Based Asset Allocation
  - Example: Characteristic Factor Portfolios
- Measuring Gains from Tactical Asset Allocation
  - Examples: Fidelity Investments, UTIMCO
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**Topic Three: Portfolio Optimization and Setting the Strategic Asset Allocation**
- Overview of the Portfolio Optimization Process
- Developing the Efficient Frontier: Notion & Analytical Solution
- Mean-Variance Portfolio Optimization: Unconstrained & Constrained Optimization
- An Aside on Downside Risk Measurement
- Portfolio Optimization: Case Studies
  - Private Pension System: Chilean AFPs; Public School Endowment Fund: University of Texas System
- The Basic Black-Litterman Model: Assumptions and Implications
  - Example: Five Asset Class Global Allocation
- Risk Parity and Asset Allocation

**Topic Four: Fundamentals of a Tactical Asset Allocation (TAA) Strategy**
- Principles of TAA Investing: Variant Perception” Views and Private Information
- Understanding TAA Information Signals
  - Macro, Fundamental Value, Momentum, and Sentiment Signals
- Cost and Implementation Issues in a TAA Strategy
- Evolution of Global Tactical Asset Allocation (GTAA) Strategies
- GTAA Extension: Active Country Selection
  - Relative Country Value Methods
- Factor-Based TAA and GTAA Models
  - Common Factor Definitions: Macro vs. Micro Factors
- Applying Tactical Views in the Black-Litterman Model
  - An Implied TAA Trading Rule
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**Topic Five: Case Study - Asset Allocation at the Texas Teacher Retirement System**

- Background and Investment Problem
- Optimization Outcome: Strategic Asset Allocation and “All Weather” Portfolios
- Nature of GTAA Mandate Within Investment Management Division
- Historical Positioning of Asset Class Bets
- Overview of Decision-Tree Signal Model
  - Description of Ten Paired Factor Decisions
  - Global vs. Domestic Decision
- Strategic Partner Network (SPN): Tactical Allocation Forecasts
- Example of Signal Decision Process: Stocks vs. Bonds
  - Weighted-Average Signal Decision Indicators
- Hedge Fund Replication Strategies
- Updates and Extensions of TAA Investment Process
- Performance of the Texas Teachers’ TAA Strategy
  - Actual vs. Back-Tested
Biographical Sketch of the Instructor


Keith is the co-founder and Senior Partner of Fulcrum Financial Group, a portfolio management, business valuation, and investment advisory firm located in Austin, Texas and Las Vegas, Nevada. For more than fifteen years, he has served as President and Chief Executive Officer of The MBA Investment Fund, LLC, a private capital appreciation fund managed by students at the University of Texas and also was the Director of the Department’s Hicks, Muse, Tate & Furst Center for Private Equity Finance. From May 1987 to August 1988 Keith was based in New York as a Senior Consultant to the Corporate Professional Development Department at Manufacturers Hanover Trust Company. He has also lectured extensively in the global Executive Development programs for companies such as Fidelity Investments, Commonfund Institute, FTSE, JP Morgan Chase Bank, Merrill Lynch, Lehman Brothers, Chase Securities, Union Bank of Switzerland, Chemical Bank, Chase Bank of Texas, USAA Investment Management, Security Commission of Malaysia, The Beacon Group, Motorola, Halliburton, Association for Investment Management and Research, and spent thirteen months as a senior planner with a San Diego, California-based financial planning firm. In August of 1988, Keith received his charter from the CFA Institute. He currently serves as Advisor to the Board of Trustees of Teacher Retirement System of Texas and the Board of Directors of University of Texas Investment Management Company and as Associate Editor for Journal of Investment Management and Journal of Behavioral Finance and International Journal of Portfolio Analysis & Management. For five years he held the position of Research Director for the Research Foundation of the CFA Institute.
Access to Course Materials and Instructor

- You can download electronic copies of many of the course materials (e.g., course outline, course notes, Excel spreadsheets) from the following website:

  http://faculty.mccombs.utexas.edu/keith.brown/AFPcourse.htm

- You can contact Keith Brown by e-mail at the following address: keith.brown@mccombs.utexas.edu