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STRATEGIC INVESTMENT MANAGEMENT

The strategic management of a funds management organisation is extremely complex and includes making decision related to the design of the investment products, the development and implementation of the investment process, the marketing of the products, and the servicing of clients. In this paper will concentrate on one important component in this long line of decision making, the aggressiveness with which a fund implements it investment process.

From an investment perspective, the starting point in establishing any fund management organization is determining its investment products and putting in place the process, staff and infrastructure for managing the funds. We assume that all of this is in place and that it defines the ability of the fund to generate excess returns. The investment choice on which we concentrate is the actual implementation of the investment process. One option is for the managers to only take small positions relative to their benchmark, thus ensuring that there is very low volatility around the benchmark return (i.e. low tracking error). At the other extreme, the option is to deviate substantially from the benchmark portfolio which will increase the tracking error but also increase the probability of both under- and out-performance. The objective, when making the decision as to the aggressiveness with which to run the investment portfolio, is to produce a level of returns relative to the benchmark that will increase the likelihood of strong growth in funds under management and so fee income.

Investment management process is the process of managing money or funds. The investment management process describes how an investor should go about making decisions. Investment management process can be disclosed by five-step procedure, which includes following stages: 1. Setting of investment policy. 2. Analysis and evaluation of investment vehicles. 3. Formation of diversified investment portfolio. 4. Portfolio revision 5. Measurement and evaluation of portfolio performance.

The investment policy should also state other important constrains which could influence the investment management. Constrains can include any liquidity needs for the investor, projected investment horizon, as well as other unique needs and preferences of investor. The investment horizon is the period of time for investments.. Setting of investment objectives for individual investors is based on the assessment of their current and future financial objectives. The required rate of return for investment depends on what sum today can be invested and how much investor needs to have at the end of the investment horizon. The investment policy can include the tax status of the investor. This stage of investment management concludes with the identification of the potential categories of financial assets for inclusion in the investment portfolio. The identification of the potential categories is based on the investment objectives, amount of investable funds, investment horizon and tax status of the investor.

When the investment policy is set up, investor's objectives defined and the potential categories of financial assets for inclusion in the investment portfolio identified, the available investment types can be analyzed. This step involves examining several relevant types of investment vehicles and the individual vehicles inside these groups. The one purpose of such analysis and evaluation is to identify those investment vehicles that currently appear to be mispriced. There are many different approaches how to make such analysis. Most frequently two forms of analysis are used: technical analysis and fundamental analysis. Technical analysis involves the analysis of market prices in an attempt to predict future price movements for the particular financial asset traded on the market. This analysis examines the trends of historical prices and is based on the assumption that these trends or patterns repeat themselves in the future. Fundamental analysis in its simplest form is focused on the evaluation of intrinsic value of the financial asset. This valuation is based on the assumption that intrinsic value is the present value of future flows from particular investment. This step involves identifying those specific financial assets in which to invest and determining the proportions of these financial assets in the investment portfolio.

Formation of diversified investment portfolio is the next step in investment management process. Investment portfolio is the set of investment vehicles, formed by the investor seeking to realize its' defined investment objectives. In the stage of portfolio formation the issues of selectivity, timing and diversification need to be addressed by the investor.

Portfolio revision is a step of the investment management process, which concerns the periodic revision of the three previous stages. This is necessary, because over time investor with long-term investment horizon may change his objectives and this, in turn means that currently held investor's portfolio may no longer be optimal and even contradict with the new settled investment objectives. The decisions to perform changes in revising portfolio depend, upon other things, in the transaction costs incurred in making these changes

Measurement and evaluation of portfolio performance is the last step in investment management process involves determining periodically how the portfolio performed, in terms of not only the return earned, but also the risk of the portfolio. For evaluation of portfolio performance appropriate measures of return and risk and benchmarks are needed. A benchmark is the performance of predetermined set of assets, obtained for comparison purposes. Market globalization offers investors new possibilities, but at the same time investment management become more and more complicated with growing uncertainty.