Investment Management Division

An Introduction to Portfolio Management: Some Critical Issues

Goldman Sachs Institutional Client Solutions

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I. Investment Process

Investment Decision Framework

1. Strategic Asset Allocation	▪ Define *investment objectives* and *downside risk tolerance* ▪ Seek an appropriate mix of assets that is designed to provide the highest return for any given level of risk suitable for a long-term investor ▪ Incorporate the organization's unique investment objectives and constraints
2. Tactical Asset Allocation	▪ Overweight or underweight assets relative to the strategic asset allocation to reflect tactical views
3. Implementation	▪ Determine specific investment vehicles: – Active versus passive management – Mutual funds, ETFs, LLCs, Direct vs. Fund of Funds – Sizing to each investment vehicle and manager

Investment Decision Framework

Sample Risk Ranges

- The biggest driver of a typical portfolio's risk is the strategic asset allocation
- Though the risk associated with tactical allocation and implementation is lower, with compounding any incremental return can have a meaningful impact over time
- Each step in the investment process requires a specific set of risk management tools and considerations

	Sample Risk Ranges*
1. Strategic Asset Allocation	6.0% to 11.0%
2. Tactical Asset Allocation	0.0% to 1.50%
3. Implementation	Up to 2.0%

* The above risk ranges are provided for informational purposes and are based upon expected volatilities and tracking errors of returns derived from the Investment Strategy Group's multi-factor model. For reference, a portfolio of 50% US Equities / 50% US Investment Grade Bonds has an expected volatility of 8.3%.

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"Understanding Your Investment Portfolio"