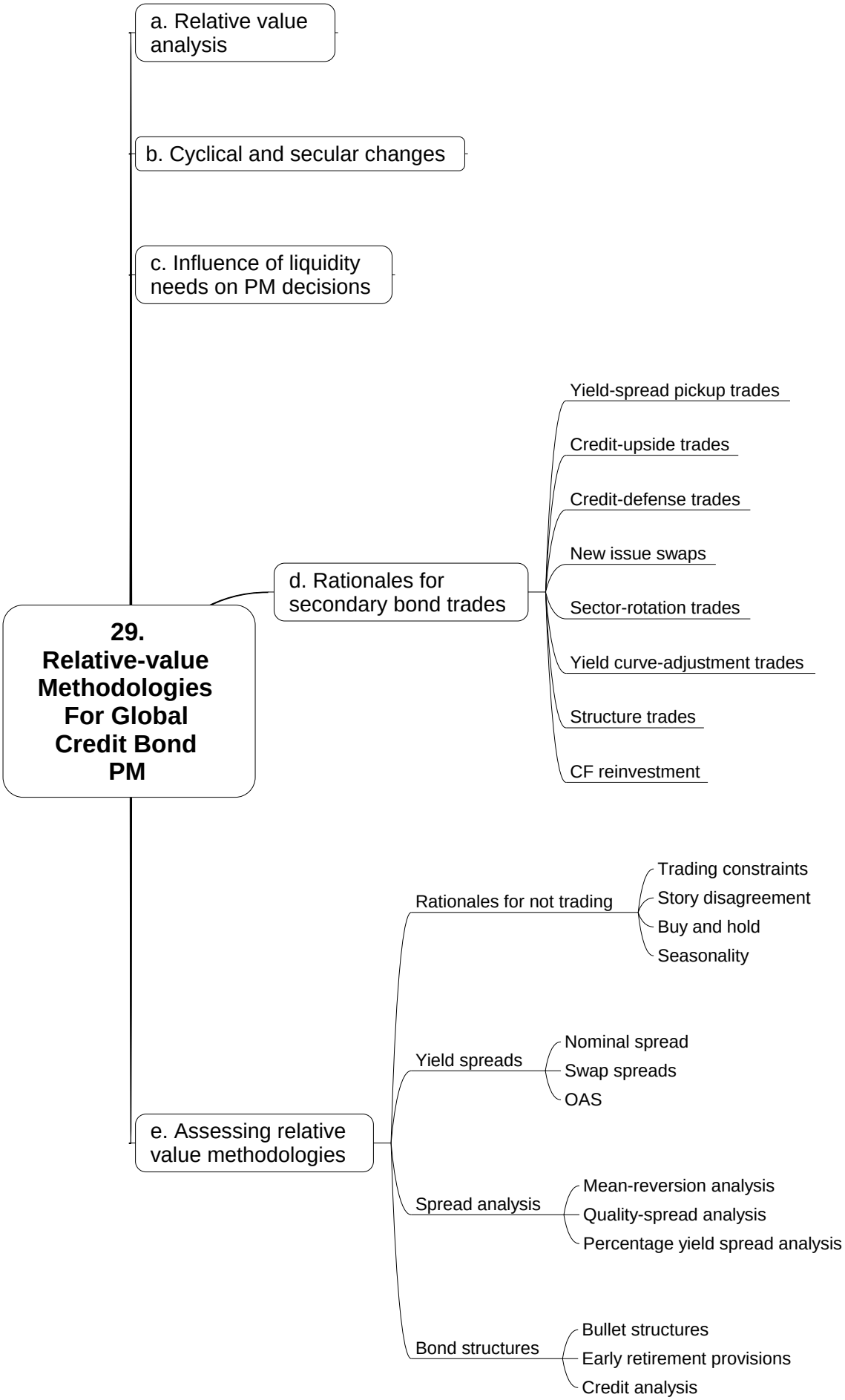
CFA LEVEL 3

STUDY SESSION 9,10

FIXED-INCOME PORTFOLIO MANAGEMENT

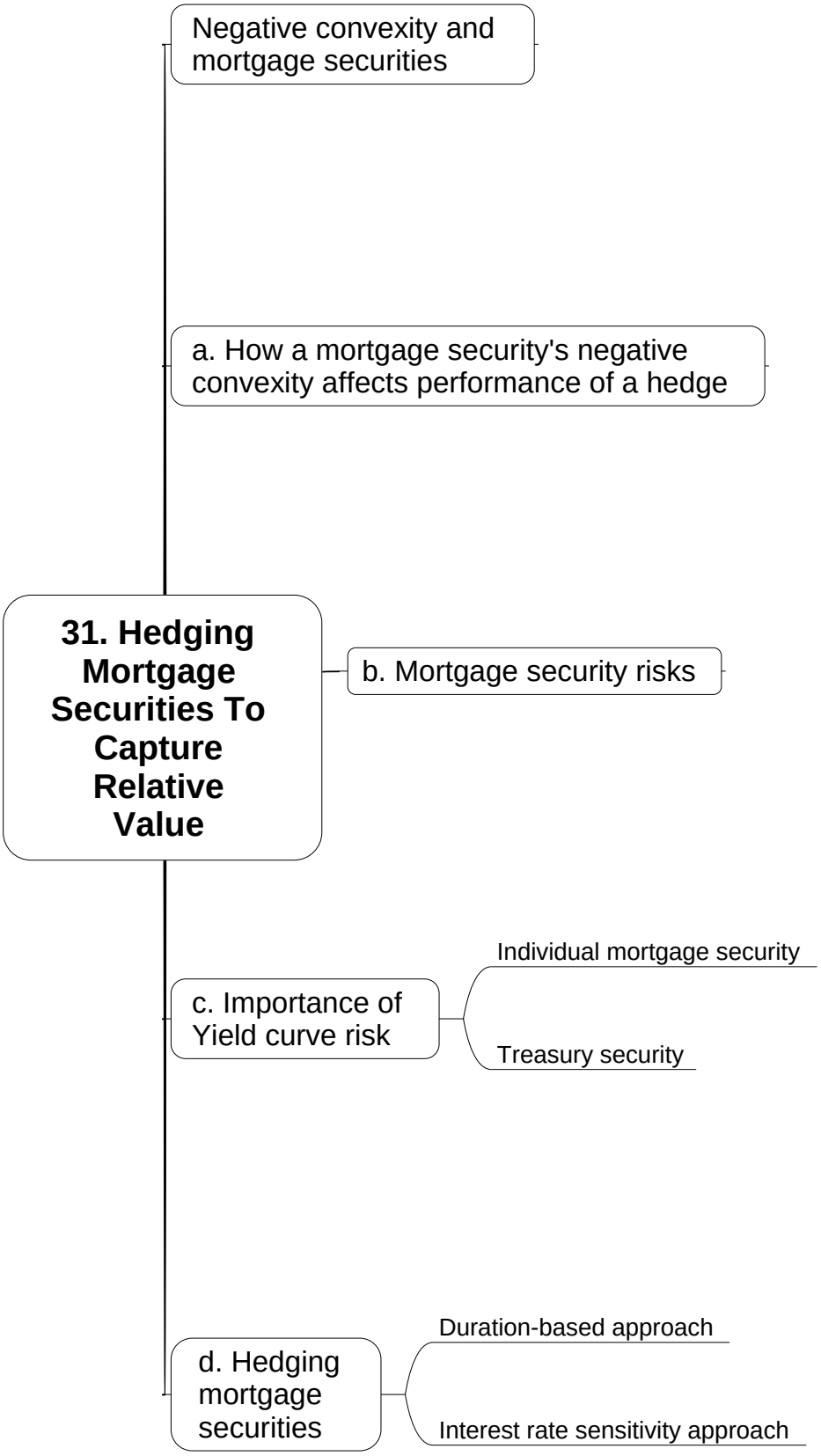
28. Fixed Income PM- Part 1

- Warm-up: Duration as a measure of bond portfolio risk
- a. Bond portfolio benchmarks
  - Bond Index
  - Liabilities
- b. Bond indexing strategies
  - Pure Bond indexing
  - Enhanced indexing
  - Active investing
- c. Criteria for selecting a benchmark bond index
- d. Aligning risk exposures
- e. Contrast
  - Total return analysis
  - Scenario analysis
- g. Adjusting dollar duration
- h. Spread duration
- m. Immunization strategies
  - f. Classical immunization
    - Design a bond immunization strategy
    - Evaluate the strategy under various interest rate scenarios
  - i. Extensions to classical immunization
  - j. Immunization risks
    - Interest rate risk
    - Contingent claim risk
    - Cap risk
  - k. Contrast immunization strategies for
    - A single liability
    - Multiple liabilities
    - General cash flows
  - l. Risk minimization vs. return maximization
  - m. Cash flow matching


29. Relative-value Methodologies For Global Credit Bond PM
a. Relative value analysis
b. Cyclical and secular changes
c. Influence of liquidity needs on PM decisions
d. Rationales for secondary bond trades
Yield-spread pickup trades
Credit-upside trades
Credit-defense trades
New issue swaps
Sector-rotation trades
Yield curve-adjustment trades
Structure trades
CF reinvestment
e. Assessing relative value methodologies
Rationales for not trading
Trading constraints
Story disagreement
Buy and hold
Seasonality
Yield spreads
Nominal spread
Swap spreads
OAS
Spread analysis
Mean-reversion analysis
Quality-spread analysis
Percentage yield spread analysis
Bond structures
Bullet structures
Early retirement provisions
Credit analysis

30. Fixed-Income PM - Part II

- a. Effect of leverage on portfolio returns and duration
- b. Repurchase agreements
- c. Bond risk measures
  - Standard deviation
  - Semivariance
  - Shortfall risk
  - Value at risk
  - Futures contracts
- d. Advantages of interest rate futures
- e. Immunization strategy based on interest rate futures
- f. Use of i/r swaps and options
- g. Managing risks with derivatives
- International bond
  - h. Sources of excess return for an international bond portfolio
  - i. International bond durations
  - j. Hedging decision
  - k. Breakeven spread analysis
- l. Investing in emerging market debt
  - Advantages
  - Risks
- m. Selecting a fixed-income manager


31. Hedging Mortgage Securities To Capture Relative Value
Negative convexity and mortgage securities
a. How a mortgage security's negative convexity affects performance of a hedge
b. Mortgage security risks
c. Importance of Yield curve risk
Individual mortgage security
Treasury security
d. Hedging mortgage securities
Duration-based approach
Interest rate sensitivity approach