## 2024 Level III Topic Outlines

# Fixed Income

## LEARNING OUTCOMES

**Overview of Fixed-Income Portfolio Management**

***The candidate should be able to:***

- □ discuss roles of fixed-income securities in portfolios and how fixed-income mandates may be classified
- □ describe fixed-income portfolio measures of risk and return as well as correlation characteristics
- □ describe bond market liquidity, including the differences among market sub-sectors, and discuss the effect of liquidity on fixed-income portfolio management
- □ describe and interpret a model for fixed-income returns
- □ discuss the use of leverage, alternative methods for leveraging, and risks that leverage creates in fixed-income portfolios
- □ discuss differences in managing fixed-income portfolios for taxable and tax-exempt investors

**Liability-Driven and Index-Based Strategies**

***The candidate should be able to:***

- □ describe liability-driven investing
- □ evaluate strategies for managing a single liability
- □ compare strategies for a single liability and for multiple liabilities, including alternative means of implementation
- □ describe construction, benefits, limitations, and risk–return characteristics of a laddered bond portfolio

- □ evaluate liability-based strategies under various interest rate scenarios and select a strategy to achieve a portfolio's objectives
- □ explain risks associated with managing a portfolio against a liability structure
- □ discuss bond indexes and the challenges of managing a fixed-income portfolio to mimic the characteristics of a bond index
- □ compare alternative methods for establishing bond market exposure passively
- □ discuss criteria for selecting a benchmark and justify the selection of a benchmark

### Yield Curve Strategies

***The candidate should be able to:***

- □ describe the factors affecting fixed-income portfolio returns due to a change in benchmark yields
- □ formulate a portfolio positioning strategy given forward interest rates and an interest rate view that coincides with the market view
- □ formulate a portfolio positioning strategy given forward interest rates and an interest rate view that diverges from the market view in terms of rate level, slope, and shape
- □ formulate a portfolio positioning strategy based upon expected changes in interest rate volatility
- □ evaluate a portfolio's sensitivity using key rate durations of the portfolio and its benchmark
- □ discuss yield curve strategies across currencies
- □ evaluate the expected return and risks of a yield curve strategy

### Fixed-Income Active Management: Credit Strategies

***The candidate should be able to:***

- □ describe risk considerations for spread-based fixed-income portfolios
- □ discuss the advantages and disadvantages of credit spread measures for spread-based fixed-income portfolios, and explain why option-adjusted spread is considered the most appropriate measure
- □ discuss bottom-up approaches to credit strategies
- □ discuss top-down approaches to credit strategies
- □ discuss liquidity risk in credit markets and how liquidity risk can be managed in a credit portfolio
- □ describe how to assess and manage tail risk in credit portfolios
- □ discuss the use of credit default swap strategies in active fixed-income portfolio management
- □ discuss various portfolio positioning strategies that managers can use to implement a specific credit spread view
- □ discuss considerations in constructing and managing portfolios across international credit markets
- □ describe the use of structured financial instruments as an alternative to corporate bonds in credit portfolios
- □ describe key inputs, outputs, and considerations in using analytical tools to manage fixed-income portfolios