

CFA® SAMPLE QUESTION – LEVEL I

Portfolio Management

Q: A portfolio manager is analyzing investments in mortgage securities as part of a portfolio to fund long term liabilities.

If he wants to minimize the prepayment risk in his portfolio, he is most likely to invest in:

CORRECT ANSWER:

d) collateralized mortgage obligations.

Collateralized mortgage obligations (CMO) are structured using tranches that redistribute prepayment risk. Certain tranches are protected from receiving early principal repayments.



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