BOND PORTFOLIO

MANAGEMENT

Fall 2002

I. **Rate of return**

    A. **Index fund**
        1. **Match with mispriced bonds (model price differs from actual price. May include using one sector rather than another.)**

    B. **Active**
        1. **Mispriced bonds**

        2. **Mispriced sectors**
            a. **Inconsistent option pricing**
            b. **Inconsistent default pricing**

        3. **Active bets**
            a. **Interest rate changes**
            b. **Default risks**
            c. **Market volatility**
            d. **Cross-country interest rate exchanges**
            e. **Exchange rate changes**

CONTINGENT IMMUNIZATION

1. Actively manage

2. Lock if hits minimum

HORIZON MATCHING

1. **Cash flow match to horizon**

2. **Immunize cash flows beyond horizon**

Comment

> **This is illustration of much more general procedure. Lock first X years. Actively manage subsequent years.**

II.   With a liability stream (known)

      A.   Passive

           1.   Cash flow matching

           2.   Immunization

           3.   Contingent immunization

           4.   Horizon matching

      B.   Active

           1.   Any and all bets discussed earlier