

# **BOND PORTFOLIO MANAGEMENT**

**October 1999**

# **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 changes**
- 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**

### **III. With a variable liability stream**

- a. Independent of other variables (same as above)**
- b. Dependent on other variables (risk becomes net risk)**