CONTENTS

Foreword by Steve Ross ix Acknowledgments xi Note on Authorship xiii Introduction xv

PART I Empirical Studies of Portfolio Strategies and Benchmark Design

EVALUATING INVESTMENT STYLE 3

- Value of Security Selection vs. Asset Allocation in Credit Markets 9
- Value of Skill in Macro Strategies for Global Fixed-Income Investing 52
- 3. Cost of the No-Leverage Constraint in Duration Timing 109

INDEX REPLICATION 121

- Replicating the Lehman Brothers U.S. Aggregate Index with Liquid Instruments 133
- Replicating the Lehman Brothers Global Aggregate Index with Liquid Instruments 163
- 6. Tradable Proxy Portfolios for the Lehman Brothers MBS Index 188
- High Yield Index Replication 215
- 8. CMBS Index Replication 225

BENCHMARK CUSTOMIZATION 235

- 9. Evaluating Performance of Long-Horizon Portfolios 241
- 10. Liability-Based Benchmarks: An Example 283
- 11. Swap Indices 294
- Benchmarks for Asset-Swapped Portfolios 317
- 13. Issuer-Capped and Downgrade-Tolerant U.S. Corporate Indices 327

viii Contents

MANAGING CREDIT PORTFOLIOS 353

- 14. Sufficient Diversification in Credit Portfolios 363
- 15. Return Performance of Investment-Grade Bonds after Distress 410
- 16. Optimal Credit Allocation for Buy-and-Hold Investors 430
- 17. A Quick Look at Index Tails 465
- 18. Are Credit Markets Globally Integrated? 475

MANAGING MORTGAGE PORTFOLIOS 499

- Managing against the Lehman Brothers MBS Index: Prices and Returns 503
- 20. Evaluating Measures of MBS Duration 519
- 21. MBS Investing over Long Horizons 556

MANAGING CENTRAL BANK RESERVES 579

- 22. Total Return Management of Central Bank Reserves 583
- The Prospects of Negative Annual Total Returns in Short-Duration Treasury Benchmarks 621

PART II Portfolio Management Tools

OPTIMAL RISK BUDGETING WITH SKILL 631

- 24. Effect of Security Selection Skill on Optimal Sector Allocation 641
- 25. Risk Budget Allocation to Issuer and Sector Views 655

MULTIFACTOR RISK MODELING AND PERFORMANCE ATTRIBUTION 677

- 26. The Global Risk Model: A Portfolio Manager's Guide 681
- 27. The Hybrid Performance Attribution Model 788

PORTFOLIO AND INDEX ANALYTICS 811

- 28. Insights on Duration and Convexity 817
- 29. Portfolio Yields and Durations 825
- 30. Computing Excess Return of Spread Securities 842
- 31. Currency-Hedged Returns in Fixed-Income Indices 854
- 32. The Bund-Treasury Trade in Portfolios 862
- 33. Empirical Duration of Credit Securities 871
- Duration Times Spread: A New Measure of Spread Risk for Credit Securities 888
- 35. Hedging Debt with Equity 935

Index 959