Chapter 1 : U.S. Short Duration Strategy

Risk Model Yield Curve Forecast Horizon Corporate Bond Credit Spread These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.

Equities are represented by shares, which denote the ownership in the company. The investors who purchase shares at a particular price do so in expectations of selling them later at a higher price and make profits. Since the share price movements are uncertain, equity returns are uncertain and considered a risky investment. While the company raises capital by issuing shares to common investors, it does not have any liability to refund that money, it is not obligated to make any regular payment to investors like a dividend , and is not responsible for any adverse changes in share price. Debt does not represent an ownership in the company, but acts as a loan. To raise capital, companies, government or other competent authorities may issue debt instruments that are interest-paying fixed income securities. Such instruments are issued for a specific period, during which the issuing entity pays an interest to the investors based on the specified terms. The regular interest payments, better guarantee of returns, and priority claim in case of default â€" makes the fixed income investment less risky than equity. By issuing such instruments, government or companies use the capital collected for various purposes - like financing projects, building infrastructure or business expansion, the investors benefit by earning interest. Different Types of Fixed Income Products The most common example of a security that yields a fixed income is a bond. Bonds can be issued by federal governments, local municipalities or major corporations. They are issued for a specific period of time which can range from a few months to a few decades. Investors can invest in these instruments and are paid the specified interest for the period they remain invested. Treasury bills generally have maturity period of a year or less, treasury notes have maturity period from two to ten years, while treasury bonds have maturity period ranging from 10 to 30 years from their issue date. Government of a particular country can also issue sovereign bonds in foreign currencies which allows foreign investors to invest in their local currency. Governments can also issue special types of fixed income instruments â€" like a treasury security called Treasury Inflation Protected Securities TIPS that provides protection to investors from the negative effects of inflation. A municipal bond is a similar fixed income security that is issued by a state, municipality or county to finance its capital expenditures. Companies also issue bonds for raising capital which are called corporate bonds. The interest earned on the above mentioned fixed income instrument types varies based on their risk factor. Since government has the liberty to print money as required, the securities issued by the US treasury are considered risk-free and pay the least amount of interest. Municipal bonds comes with a slightly higher risk, and they pay comparatively higher interest, while the corporate bonds may pay much higher interest as they make the business related investments that are considered the riskiest among the lot. In general, bonds and fixed-income securities with longer-dated maturities pay a higher rate, because they are considered riskier. The issuer is the entity government, authority, or company which borrows the funds by issuing the fixed income security. The issuer is also responsible to pay interest at the specified intervals and repay the capital amount to the investors upon maturity of the security. Principal is the amount that an investor receives on maturity, and is also known as the maturity value, face value or par value. The coupon refers to the annual interest linked with the fixed income security that the issuer must pay to the lender. It is usually expressed as a percentage of the principal. The maturity indicates end of the bond investment tenure - the date on which the issuer must return the principal to the investor. Essentially, the company needs money now to build the plant, and expects to start making profits within five years from that venture which is when it will return the borrowed money to the investors. Investors who believe in the business potential of this company may lend money by purchasing the bonds. This amount is fixed and represents a steady income to the bondholder. Investors may also have the option to sell the bond anytime in the open market to other interested investors before the five year maturity period. The interest is then paid to the bondholders on pro-rata basis, that is â€" depending upon the holding period. Risks

Associated with Fixed Income Investments The primary risk associated with fixed-income investments is the issuer defaulting on his payments. Additionally, there is the credit risk linked to a corporate, and it can have varying effects on the valuations of the fixed income instrument till time to maturity. It is possible that a company issued a year long bond when it was in its prime, while five years later its business started struggling due various factors and bond valuations started depleting. Though the company may or may not continue its regular coupon payments, it may become difficult for the investors to sell the bonds in open market at a fair price. These returns are generated from low risk securities that pay predictable interest, and various methodologies can be employed to generate steady returns. Building a fixed income portfolio may include investing in bonds as well as bond mutual funds , certificates of deposit CD , and money market funds. These assets provide low but safe returns to the investors. With the laddering strategy, a portfolio manager can reinvest the principal of matured bonds into bonds with higher rates. When the one-year bond matures a year from now, the principal will be rolled into a three-year bond. When the two-year bond matures, the principal will be rolled into a three-year bond, and so on. By so doing the investor is able to take advantage of the higher interest rates as the years go by. Fixed-income securities are recommended for investors seeking a diversified portfolio. There is also an opportunity to diversify the fixed-income component of a portfolio. Investors looking for diversifying their portfolio choose to invest in the type of fixed income securities based on their risk appetite. While retired individuals generally tend to invest heavily in fixed-income investments because of the reliable returns they offer, junk bonds or high-yield bonds are attractive investments for investors looking for higher interest or income.

Chapter 2 : Iron Strategic Income Fund

DOI: /_3 In book: Interest Rate Models, Asset Allocation and Quantitative Techniques for Central Banks and Sovereign Wealth Funds, pp Surprisingly little attention has.

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Effective risk management is the cornerstone of the investment process used in managing the IRON Strategic Income Fund. The Fund's goal is to adjust the exposure to credit dynamically using a combination of cost effective hedging and *tactical allocation.*