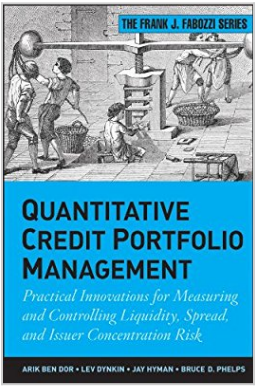

Quantitative Credit Portfolio Management: Practical Innovations for Measuring and Controlling Liquidity, Spread, and Issuer Concentration Risk (Frank J. Fabozzi Series)

By Arik Ben Dor, Lev Dynkin, Jay Hyman, Bruce D. Phelps

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An innovative approach to post-crash credit portfolio management

Credit portfolio managers traditionally rely on fundamental research for decisions on issuer selection and sector rotation. Quantitative researchers tend to use more mathematical techniques for pricing models and to quantify credit risk and relative value. The information found here bridges these two approaches. In an intuitive and readable style, this book illustrates how quantitative techniques can help address specific questions facing today's credit managers and risk analysts.

A targeted volume in the area of credit, this reliable resource contains some of the most recent and original research in this field, which addresses among other things important questions raised by the credit crisis of 2008-2009. Divided into two comprehensive parts, *Quantitative Credit Portfolio Management* offers essential insights into understanding the risks of corporate bonds—spread, liquidity, and Treasury yield curve risk—as well as managing corporate bond portfolios.

- Presents comprehensive coverage of everything from duration time spread and liquidity cost scores to capturing the credit spread premium
- Written by the number one ranked quantitative research group for four consecutive years by *Institutional Investor*
- Provides practical answers to difficult question, including: What diversification guidelines should you adopt to protect portfolios from issuer-specific risk? Are you well-advised to sell securities downgraded below investment grade?

Credit portfolio management continues to evolve, but with this book as your guide, you can gain a solid understanding of how to manage complex portfolios under dynamic events.

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Editorial Review

From the Inside Flap
Created by members of the Quantitative Portfolio Strategy Group at Barclays Capital Research—a recognized authority in this field—*Quantitative Credit Portfolio Management* contains new insights that credit market practitioners, from portfolio managers to research analysts, will find useful, practical, and easy to apply.

Written in an intuitive yet quantitatively rigorous style, this timely publication opens with a detailed look at new measures of spread risk, liquidity risk, and Treasury curve risk of credit securities. It presents strong empirical evidence of the benefits these measures offer to portfolio managers compared with current standard industry methods. From there, it moves on to examining applications of these risk measures to portfolio construction and management. The authors also examine the best ways of capturing more of the spread premium in credit portfolios. They explain the reasons that the spread-related returns earned by investment grade credit indices are so much lower than the "promised" returns implied by spreads at issuance.

All along the way, the authors maintain a sharp focus on the "out-of-sample" predictive power of their research results and their practical implications, with special attention given to the 2007–2009 credit crisis and the subsequent European sovereign crisis.

In this book, the authors:

- Build a case for a Duration Times Spread (DTS) approach to forecasting spread changes and managing risk in credit portfolios based on their finding that spread volatility is linearly related to spread levels
- Introduce a security-level numeric measure of transaction costs—Liquidity Cost Scores (LCS)—which enables investors to quantify the liquidity component of credit spreads and construct portfolios with desired liquidity characteristics
- Demonstrate an approach to optimal diversification of issuer-specific risk in credit portfolios
- Suggest downgrade-tolerant credit portfolios as a way to avoid discarding credit spread premium with the forced liquidation of "fallen angels" as they get dropped from investment grade indices
- Examine "fallen angels" themselves, as a separate asset class, with superior risk and return characteristics

Each chapter of this innovative publication is based on questions brought to the authors' attention by credit portfolio managers and reflects original research aimed at answering these questions in an objective, quantitative, and intuitive way. All of the new ideas and methodologies discussed throughout these pages were developed as a result of these inquiries. With this book as your guide, you'll gain a solid understanding of best practices in credit portfolio construction.

From the Back Cover

"For many years, this quantitative research team has offered new insights and helpful support to many institutional investors such as APG. By applying these concepts to the portfolio construction process, we have gained more confidence in the robustness of our portfolios."– Eduard van Gelderen, CIO, Capital Markets, APG Asset Management, Netherlands

"A must-read for all future and current credit portfolio managers. The book is a comprehensive review of the quantitative tools available to better manage the risks within a credit portfolio and combines the right amount of statistical work with practical answers to questions confronting credit managers."– Curtis Ishii, Head of Global Fixed Income, California Public Employees' Retirement System

"The practical orientation of this book on institutional credit portfolio management makes it particularly useful for practitioners. All key areas of interest are well covered."– Lim Chow Kiat, President, GIC Asset Management, Singapore

"This book provides enormous insights for beginning practitioners looking to learn the most advanced credit management techniques. For experienced professionals, it provides a great update and advancement.The book is a must-read for all active players in credit markets given the changes after the recent crisis."– Jan Straatman, Global CIO, ING Investment Management, Netherlands

"Lev Dynkin and his team are the highest authority on fixed income portfolio analytics. Their thoughtful and rigorous quantitative research, unparalleled access to high quality data, and cooperative approach with leading fixed income managers sets them apart."– Carolyn Gibbs and Rich King, Co-Heads of U.S. Taxable Fixed Income and Global High Income, Invesco

"Quantitative Credit Portfolio Management is a one of a kind book addressing everyday issues and topics submitted by investors and practitioners to the QPS team. Practical instructions advocated in this book are best practices that we already rely on in our credit investment process for superior active management."– Ibrahima Kobar, CIO, Fixed Income, Natixis Asset Management, France

"The authors ... industry leaders from Barclays Capital ... have done it again! ... They not only delve into improved risk management metrics, but also reveal helpful strategies to improve both passive and active fund management."– Ken Volpert, CFA, Head of Taxable Bond Group, Vanguard

"This book tackles the Big C—CREDIT. Institutional bond investors have long known to go to Lev and his team with their thorniest and most complex portfolio problems. Here, they lay out a very straightforward exposition of best practices in credit portfolio management."– Ken Leech, former CIO, Western Asset Management Company

A more complete list of endorsements may be found inside the book.

About the Author

ARIK BEN-DOR, PhD, is a Director and Senior Analyst in the Quantitative Portfolio Strategy (QPS) Group at Barclays Capital Research. He joined the group in 2004 after completing a PhD in finance from the Kellogg School of Management. Ben-Dor has published extensively in the *Journal of Portfolio Management, Journal of Fixed Income,* and *Journal of Alternative Investments* on innovative approaches to managing risk in credit portfolios and on performance analysis and optimization of hedge fund portfolios.

LEV DYNKIN, PhD, is the founder and Global Head of the Quantitative Portfolio Strategy Group at Barclays Capital Research. Dynkin and the QPS group joined Barclays Capital in 2008 from Lehman Brothers where the group was a part of fixed income research since 1987—one of the longest tenures for an investor-focused research group on Wall Street. QPS was rated first in Quantitative Portfolio Research by *Institutional Investor* magazine for all three years that this category was included in their fixed income survey. Dynkin is a member of the editorial advisory board of the *Journal of Portfolio Management*. He coauthored, with other members of QPS (including Hyman and Phelps), *Quantitative Management of Bond Portfolios*.

JAY HYMAN, PhD, is a Managing Director in the Quantitative Portfolio Strategy Group at Barclays Capital Research. He joined the group in 1991 and has since worked on issues of risk budgeting, cost of investment constraints, improved measures of risk sensitivities, and optimal risk diversification for portfolios spanning all fixed income asset classes. Hyman helped develop a number of innovative measures that have been broadly adopted by portfolio managers and that have changed standard industry practice.

BRUCE D. PHELPS, PhD, is a Managing Director in the Quantitative Portfolio Strategy Group at Barclays Capital Research, which he joined in 2000. Prior to that, he was an institutional portfolio manager and head of fixed income at Ark Asset Management. Phelps was also senior economist at the Chicago Board of Trade, where he designed derivative contracts and electronic trading systems, and an international credit officer and foreign exchange trader at Wells Fargo Bank. Phelps is a member of the editorial board of the *Financial Analysts Journal*.

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