



Fixed High Yield: Hedging

04.12.2018



SPREAD HEDGE

Hedging a High Yield (HY) portfolio* against a spread widening

Markit CDX North America High Yield Index

(composed of 100 non-grade entities, distributed among 2 sub-indices: B, BB)

Using a **Put Warrant** (buy) on the index

- Nominal: USD 6mio
- Underlying: CDX HY CDSI S31
- Maturity: 17.04.2018
- Ind. Premium: 3.14%

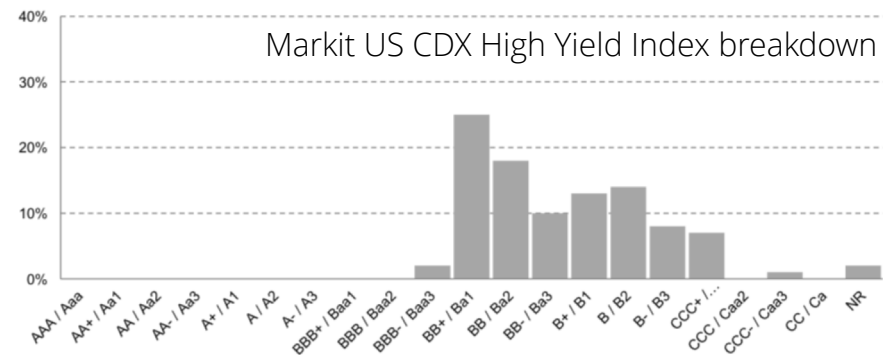
This index is composed by CDS that could not be directly compared to the analyzed/base portfolio (see attached the index distribution and the related portfolio). Thus the hedge would not be perfect.

The capital amount used to hedge the portfolio would be:

USD 6.0 mio * 3.14% = USD 188'400.-

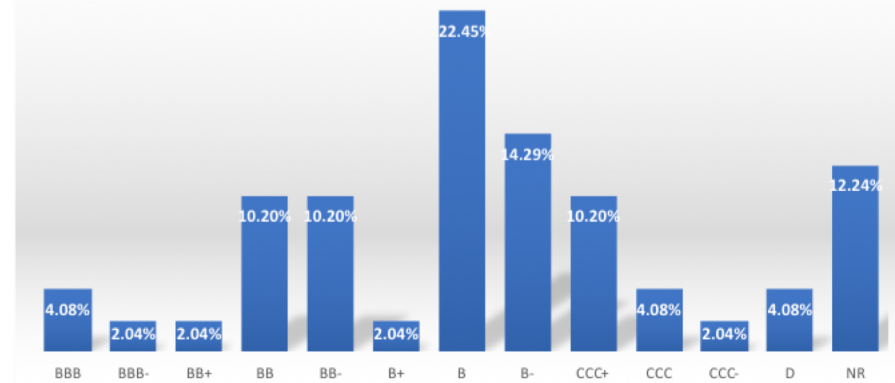
* Base portfolio: USD 6mio with HY corporate bonds (see here repartition)

PORTFOLIO DISTRIBUTION: S&P and Moody's Ratings – September 2018



Portfolio example: diversified across the HY segment

Rating Breakdown of your Portfolio





SPREAD & INTEREST RATE HEDGES

Hedging a High Yield (HY) portfolio* against a spread widening and interest rate hikes

ETF iShares iBoxx High Yield Corporate Bond ETF

(Seeks to track the investment results of an index composed of USD High Yield corporate bonds)

Using a **Put Warrant** (buy) on the ETF

- Nominal: USD 6mio
- Underlying: CDX HY CDSI S31
- Maturity: 6 months
- Ind. Premium: 5.95%

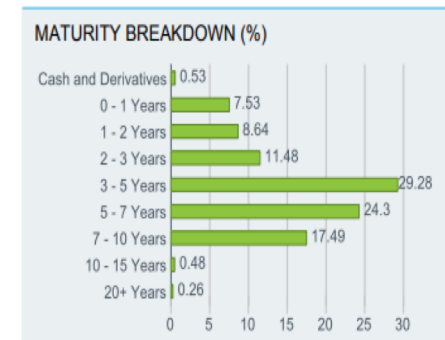
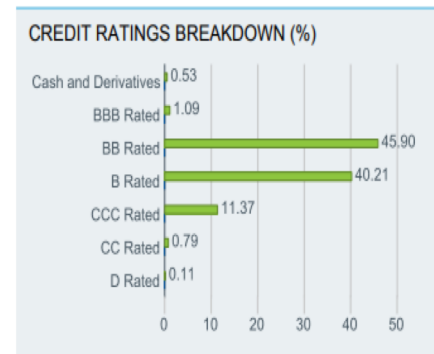
The ETF is a basket of securities thus exposed also to interest rate adverse movements that the put warrant would also capture. The credit rating is more consistent with the current portfolio example, thus providing a more adapted hedge against spread widening and interest rate hikes. Still the hedge would not be perfect.

The capital amount used to hedge the portfolio would be:

USD 6.0 mio * 5.95% = USD 357'000.-

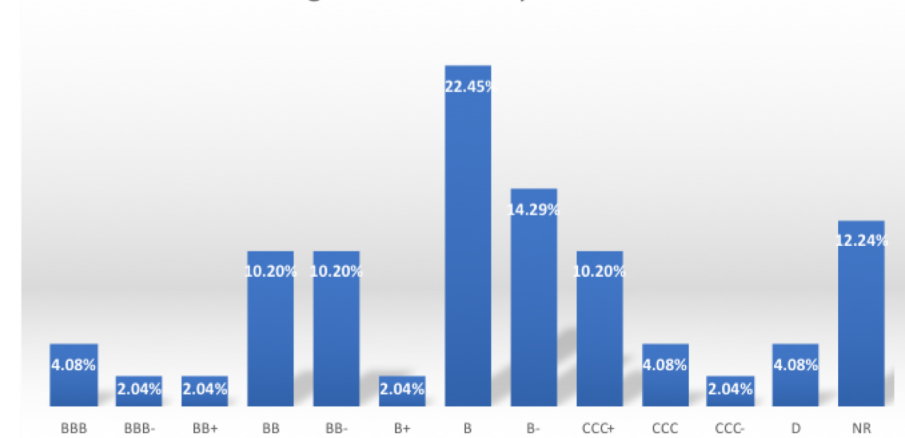
* Base portfolio: USD 6mio with HY corporate bonds (see here repartition)

ETF iShares iBoxx HY



Portfolio example: diversified across the HY segment

Rating Breakdown of your Portfolio



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APPENDIX

CDX HY CDSI S31 5Y PRC **104.789** +0.343 104.736 / 104.841
 At 3 Dec Source CBBT

CDX HY CDSI S31 5Y PRC Corp

Page 1/2 Description: CDS Index

Notes 

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Pages

- 1) Index Info
- 2) Roll Info

Index Information

Markit CDX North America High Yield Index is composed of 100 non-investment grade entities, distributed among 2 sub-indices: B, BB. All entities are domiciled in North America. Markit CDX indices roll every 6 months in March & September.

Contract Information

Currency USD Day Cnt ACT/360
 Tenor 5Y Cpn Fr... Q
 Dsc Curv US Fixing Swap Curve
 Region America
 ISDA Definitions Year 2014
 Cpn (bps) 500 Factor 1.0
 Recovery 0.30 Version 1
 Quote Ty... Price Series 31
 Start Date 09/20... Start Cnst 100
 Mty Date 12/20...
 Restruct No Restructuring

Identifiers

Index MARKIT CDX.NA.HY.31 12/23
 Short Name HY/ Corp
 Full Name CDX HY CDSI S31 5Y PRC Corp
 BBID CXPHY531
 RED Code 2I65BRLR9

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HYG UP \$ C **83.80** +0.20  P83.79 / 83.80P 1x725
 On 03 Dec d Vol 6,605,356 0 83.66P H 83.82P L 83.505P Val 553.05M

HYG UP Equity Report Page 1/5 Security Description: ETF

1) Profile 2) Performance 3) Holdings 4) Allocations 5) Organizational

ISHARES IBOXX HIGH YLD CORP

Objective Corporate

iShares iBoxx High Yield Corporate Bond ETF is an exchange-traded fund incorporated in the USA. The ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds. [FIGI BBG000R2T5T1]

6 Comparative Returns | COMP »



Price	USD 83.80
NAV 12/03/18	USD 83.50
INAV	USD 83.55
Fund Percent Premium	0.299%
52 Wk H 01/08/18	USD 88.03
52 Wk L 11/20/18	USD 82.71
Options	Yes

Bloomberg Classification

Fund Type ETF
 Asset Class Fixed Income
 Strategy Corporate
 Rat. Focus High Yield
 Geo. Focus... U.S.

Trading Data

Bid Ask Spread	0.010
30D Avg Volume	4.6M
Implied Liquidity	N.A.
Market Cap	USD 14.45B
Shares Out	172.4M
Total Assets	USD 14.04B

Appropriations

Leverage	No
Actively Managed	No
Swap Based	No
Derivatives Based	No
Currency Hedged	No
Replication Strategy	Optimi...
Securities Lending	Yes

Characteristics

Und. Index	IBOXHY
Index Weight	Market Cap
1Y Px Track. Err...	2.072
1Y NAV Track. E...	.084
Inception Date	04/11/07
Expense Ratio	.490%