

# LOIM Fundamental Global Corporate Index

Bloomberg code: LOFGLUIG <Index>

Smart Beta • Fixed Income & Macro

31 December 2018

**Lombard Odier Investment Manager's fundamentally weighted bond indices** use fundamental factors to assess corporates' creditworthiness and identify those we believe are best placed to repay their debt. The approach is an alternative to traditional market-cap investing which over-weights those issuers with the greatest level of outstanding debt. This approach aims to better diversify portfolio risk as well as improving the Sharpe ratio.

## INDEX OBJECTIVE

The Index provides long-only exposure to EUR, GBP and USD denominated investment grade corporate debt. The weights are determined according to our proprietary fundamental weighting methodology.

The financial crisis of 2008 underlined the need for alternative solutions to traditional market-cap investing. We pioneered a shift away from traditional indices and instead developed rules-based smart beta indices which consider an issuers' ability to repay their debt rather than simply favouring the largest issuers.

Indices are constructed using fundamental factors that take into account each region and contribution to the real economy. This is combined with an assessment of the creditworthiness of each issuer based on the size of their revenues and indebtedness. For corporate issuers we also assess their cash flow and EBITDA growth, and for financial issuers, the quality of the assets on their balance sheets.

## Eligible Universe

All corporates who issue EUR, GBP and USD-denominated investment grade debt. Bonds included have at least 1.5 years to maturity as of each semi-annual determination date, pay fixed-rate coupons, and at least EUR 500 million, GBP 350 million, USD 500 million outstanding.

## Rebalance

Semi-annually: June and December.

## WEIGHTING METHODOLOGY

The Index is weighted according to our fundamentally weight driven model which is applied at region, sector and issuer allocation levels. This allocation is then adjusted based on current market liquidity and valuation levels.

### STEP 1: Understand your risk

#### TOP DOWN: REGIONAL AND SECTOR ALLOCATION

Regional and sector weights are calculated based on their real added value to the economy

#### BOTTOM UP: ISSUER ALLOCATION

##### Common factors

- **Size:** favouring wealthier companies
- **Solvency:** favouring companies whose leverage is under control

##### Industry specific factors

- **Cash generation – corporate issuers:** assessing ability to generate free cash flow. The higher the cash buffer, the more likely a company is to be able to resist liquidity problems
- **Asset quality – financial issuers:** striking a balance between risk and safety. The quality of a bank's assets is key and measured by the level of provisions built. Large provisions are usually a negative indicator and decrease a bank's creditworthiness

### STEP 2: Liquidity tilt

- Overweighting sectors and issuers with the highest liquidity

### STEP 3: Valuation tilt

- Overweighting sectors and issuers with the most attractive credit spread

**PERFORMANCE ANALYSIS<sup>1</sup> (AS AT 31 DECEMBER 2018)**

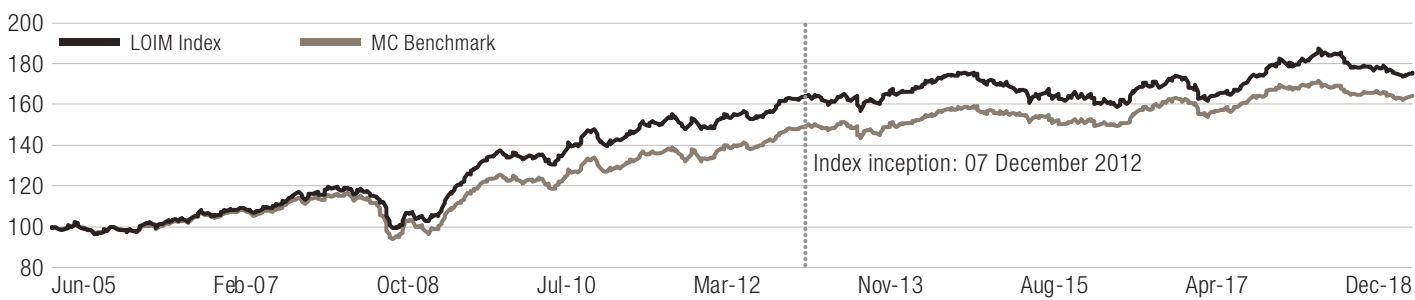
INDEX	1 YEAR		3 YEARS		5 YEARS	
	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH
Return	-4.27%	-3.64%	3.06%	3.10%	1.12%	1.73%
Volatility	3.76%	2.85%	5.06%	3.88%	5.30%	4.09%
Sharpe ratio	<0	<0	0.42	0.55	0.08	0.26
Max. DD	-7.37%	-5.47%	-7.37%	-5.66%	-9.53%	-6.29%
Tracking error	1.78%	-	2.19%	-	2.13%	-

Source: LOIM, Barclays. All figures are annualised averages.

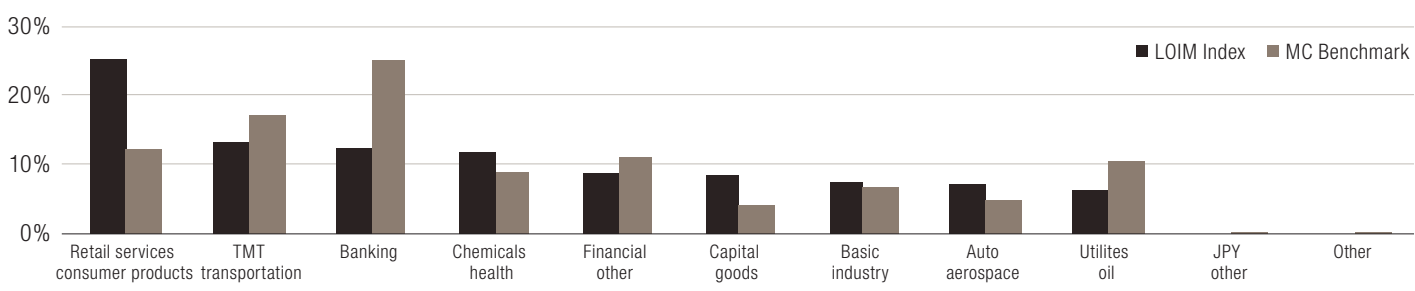
**CALENDAR YEAR RETURNS<sup>1</sup> (AS AT 31 DECEMBER 2018)**

INDEX	2007	2008	2009	2010 <sup>2</sup>	2011	2012	2013	2014	2015	2016	2017	2018 YTD
LOIM Index	7.78%	-6.94%	25.41%	6.11%	4.86%	10.38%	1.17%	1.64%	-5.37%	2.39%	11.82%	-4.27%
MC Benchmark	6.77%	-8.57%	19.06%	5.07%	4.03%	11.74%	0.73%	2.96%	-3.71%	4.32%	9.15%	-3.64%
Excess return	1.01%	1.64%	6.34%	1.04%	0.84%	-1.36%	0.43%	-1.32%	-1.66%	-1.93%	2.66%	-0.63%

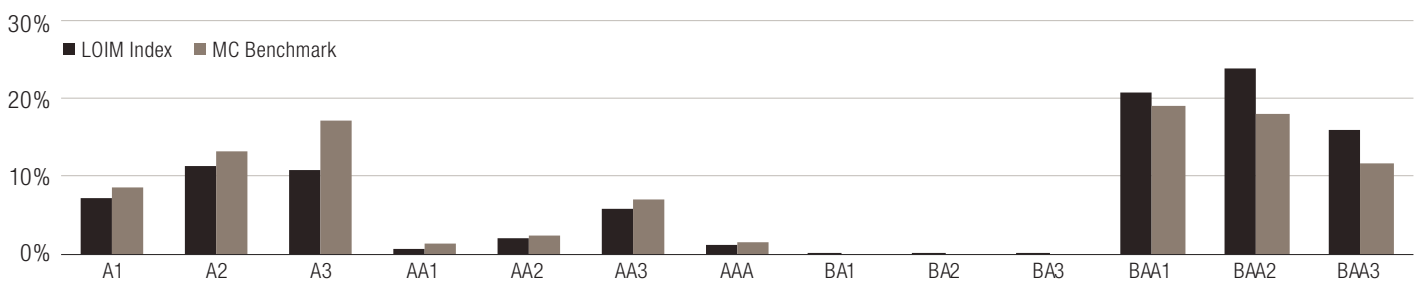
Source: LOIM, Barclays.

<sup>2</sup> Figures post 2009 index inception date.**GROSS PERFORMANCE IN USD: LOIM GLOBAL CORPORATES INDEX VERSUS MARKET-CAP BENCHMARK<sup>1</sup> (AS AT 31 DECEMBER 2018)**

Note: Prior to index inception we have simulated the data back to June 2005 using the current rules-based methodology. There is no guarantee the methodology in place would have been in place throughout the period shown prior to the inception of the index in April 2015. As a result the performance could differ from that shown above. Past performance is not a guarantee of future results.

**SECTOR HOLDINGS<sup>1</sup> (AS AT 31 DECEMBER 2018)**

Source: LOIM, Barclays.

**RATINGS<sup>1</sup> (AS AT 31 DECEMBER 2018)**

For illustrative purposes only. Holdings and/or allocations are subject to change.

<sup>1</sup> Note: Market-cap benchmark: Barclays Global Aggregate Corporate.

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## INDEX PROFILE (AS AT 31 DECEMBER 2018)

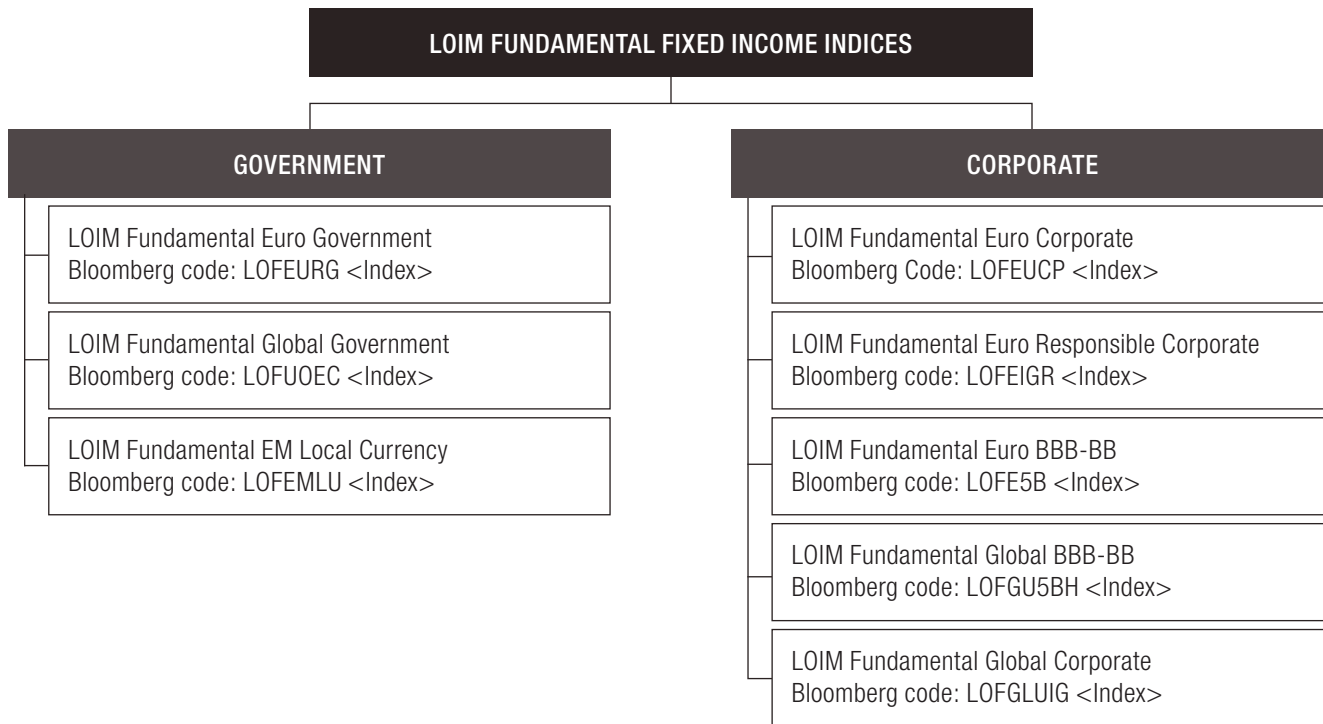
DESCRIPTION	NUMBER OF ISSUES	MARKET WEIGHT (%)	AVERAGE COUPON (%)	AVERAGE MATURITY (YEARS)	YIELD TO MATURITY (%)	EFFECTIVE DURATION (YEARS)	OPTION ADJUSTED SPREAD (BPS)
<b>LOIM index</b>	<b>1390.8</b>	<b>20.00</b>	<b>3.04</b>	<b>9.82</b>	<b>2.65</b>	<b>5.58</b>	<b>129.95</b>
1 to 3 years	1431	19.13	2.88	2.04	1.93	1.92	87.91
3 to 5 years	1563	27.39	2.67	3.83	2.28	3.55	118.85
5 to 7 years	1062	17.82	2.63	5.76	2.35	5.17	138.03
7 to 10 years	1341	20.35	2.98	8.10	3.13	6.99	156.85
10+ years	1557	15.31	4.44	37.27	3.89	12.38	157.16
<b>EUR SECTORS</b>							
Auto aerospace	129	3.63	1.77	4.40	1.05	3.94	134.07
Banking	424	5.08	1.75	4.07	0.98	3.87	130.76
Basic industry	100	3.31	2.42	5.03	1.10	4.65	131.51
Capital goods	120	2.84	1.91	5.14	0.84	4.71	104.99
Chemicals health	158	5.28	1.59	5.95	0.96	5.43	107.13
Financial other	202	3.51	2.59	5.61	1.63	5.06	175.22
Retail services consumer products	276	12.10	1.69	5.73	1.04	5.25	116.90
TMT transportation	268	5.20	2.02	5.72	1.08	5.20	121.41
Utilities oil	245	3.84	2.21	5.43	1.33	4.99	146.81
<b>GBP SECTORS</b>							
Auto aerospace	13	1.34	2.38	4.06	2.44	3.78	148.57
Banking	83	2.44	3.71	5.48	2.56	4.50	152.09
Basic industry	11	0.56	4.18	8.33	2.21	6.59	99.22
Capital goods	11	0.78	4.87	11.71	2.96	8.63	155.57
Chemicals health	12	1.63	4.30	13.24	2.69	9.90	120.02
Financial other	57	1.77	4.83	158.43	3.20	6.41	193.16
Retail services consumer products	43	2.91	3.67	8.82	2.31	6.81	110.08
TMT transportation	56	2.30	4.69	11.11	2.88	7.97	156.82
Utilities oil	83	0.70	4.90	13.01	2.96	9.04	155.74
<b>USD SECTORS</b>							
Auto aerospace	216	2.08	3.63	6.68	4.09	4.95	107.79
Banking	869	4.88	3.52	4.40	4.18	3.67	122.65
Basic industry	383	3.36	4.56	9.47	4.56	6.29	143.03
Capital goods	196	4.70	3.68	7.98	4.33	5.74	130.33
Chemicals health	424	4.85	3.84	9.35	4.28	6.33	118.42
Financial other	538	3.26	4.33	8.92	4.56	6.13	148.24
Retail services consumer products	590	10.24	3.77	9.90	4.32	6.59	124.17
TMT transportation	779	5.64	4.05	8.65	4.34	5.90	130.14
Utilities oil	668	1.78	4.29	10.64	4.60	7.14	150.30

Source: LOIM, Barclays.

## ACCESS PERFORMANCE DATA

Historical index returns are available on Bloomberg: LOFGLUIG <Index>.

## OUR RANGE OF FUNDAMENTAL FIXED INCOME INDICES



## CONTACT

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