

# LOIM Fundamental Global Government Index

Bloomberg code: LOFUOEC <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.

The fundamental approach takes into account economic inputs such as current indebtedness, size of revenues and social and political stability and thus goes further than GDP or Fiscal-Strength weighted alternatives to assess the creditworthiness of an issuer. Furthermore, rather than maintaining static allocations, the indices are adjusted to take into account prevailing market conditions.

## Eligible Universe

All countries which are members of the Organization for Economic Cooperation and Development (OECD). Bonds included with at least one year maturity as of the first trading day each calendar month, pay fixed-rate coupons, and are denominated in the currency of that country.

## Rebalance

Monthly.

## WEIGHTING METHODOLOGY

Three fundamental economic inputs are used to identify those countries best placed, in our view, to repay their debt. The allocation is then adjusted to take into account current liquidity conditions and market valuations in order to provide credit at a reasonable price.

### STEP 1: Understand your risk

- **Size of revenues:** favouring wealthier companies
- **Indebtedness:** a country's outstanding debt burden and ability to repay
- **Social, Political & Demographic:** favouring countries with social and political stability and a low old-age dependency ratio

### STEP 2: Liquidity tilt

- Overweighting sectors and issuers with the highest liquidity

### STEP 3: Valuation tilt

- Overweighting sectors and issuers with the most attractive yield

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

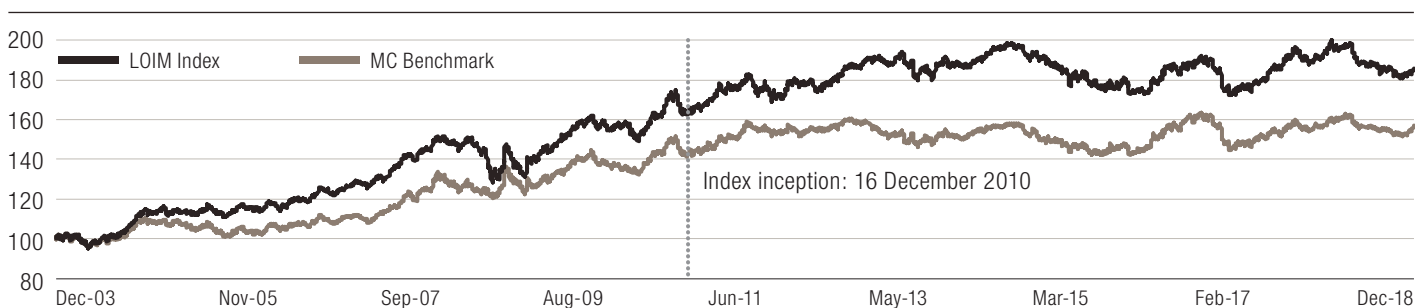
INDEX	1 YEAR		3 YEARS		5 YEARS		10 YEARS	
	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH	LOIM INDEX	MC BENCH
Return	-4.08%	-0.38%	2.08%	2.79%	-0.20%	0.83%	2.55%	1.61%
Volatility	5.28%	3.96%	6.41%	5.90%	6.31%	5.82%	6.88%	6.16%
Sharpe ratio	<0	<0	0.17	0.31	<0	0.03	0.29	0.17
Max. DD	-9.70%	-6.86%	-10.42%	-11.66%	-13.21%	-11.66%	-13.21%	-11.66%
Tracking error	2.95%	-	3.23%	-	2.99%	-	3.86%	-

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

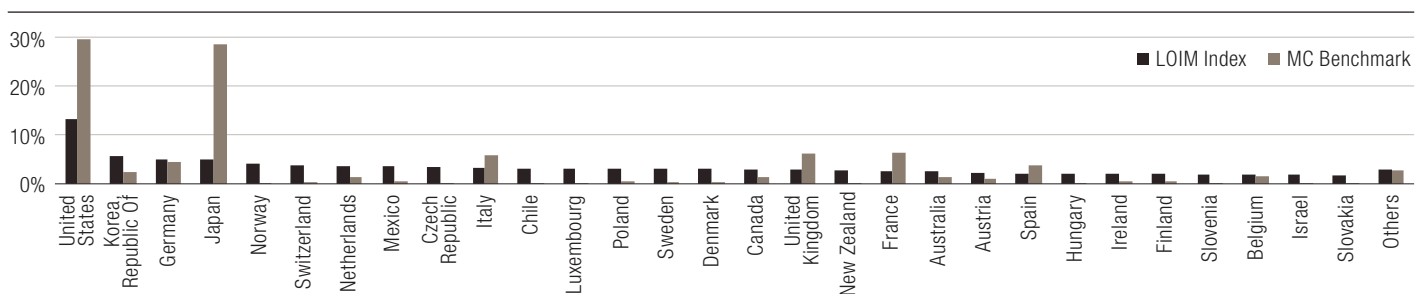
CALENDAR YEAR RETURNS<sup>1</sup> (AS AT 31 DECEMBER 2018)

INDEX	2006	2007	2008	2009	2010 <sup>2</sup>	2011	2012	2013	2014	2015	2016	2017	2018 YTD
LOIM Index	9.33%	13.84%	1.86%	8.24%	6.38%	3.74%	10.73%	-1.70%	0.22%	-7.17%	0.12%	10.79%	-4.08%
MC Benchmark	6.44%	10.57%	10.23%	2.63%	5.90%	6.33%	1.83%	-4.30%	-0.79%	-3.29%	1.65%	7.29%	-0.38%
Excess return	2.89%	3.27%	-8.37%	5.61%	0.48%	-2.59%	8.90%	2.60%	1.01%	-3.88%	-1.54%	3.49%	-3.71%

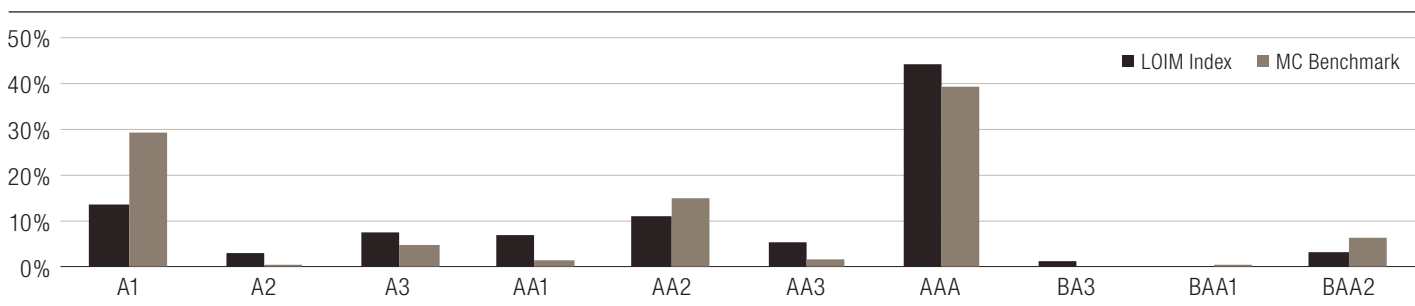
Source: LOIM, Barclays.

<sup>2</sup> Figures post 2009 index inception date.GROSS PERFORMANCE IN USD: LOIM FUNDAMENTAL GLOBAL GOVERNMENT 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.

COUNTRY 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 Treasury.

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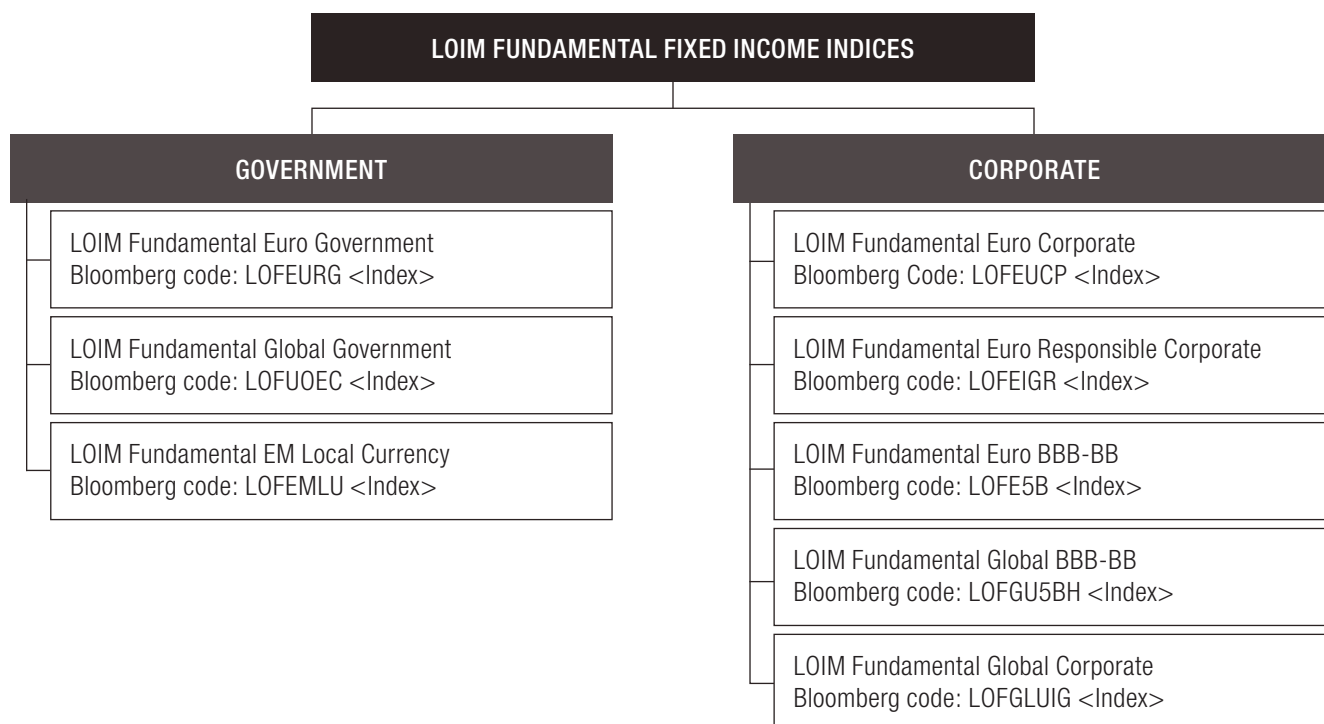
**INDEX PROFILE (AS AT 31 DECEMBER 2018)**

DESCRIPTION	NUMBER OF ISSUES	MARKET WEIGHT (%)	AVERAGE COUPON (%)	AVERAGE MATURITY (YEARS)	YIELD TO MATURITY (%)	EFFECTIVE DURATION (YEARS)
<b>LOIM index</b>	<b>224</b>	<b>20.00</b>	<b>3.14</b>	<b>8.26</b>	<b>1.72</b>	<b>6.75</b>
1 to 3 years	257	25.69	3.29	1.88	1.70	1.80
3 to 5 years	195	18.16	3.01	3.85	1.58	3.61
5 to 7 years	142	13.32	3.20	5.68	1.72	5.18
7 to 10 years	167	18.98	2.68	8.26	1.57	7.41
10+ years	359	23.85	3.40	19.94	1.96	14.80
Asia Pacific	330	15.96	2.80	9.98	1.44	8.41
EMEA	469	59.74	2.96	8.15	1.08	6.78
Latin America	16	6.65	6.70	5.34	6.34	3.39
North America	292	16.09	2.59	8.25	2.54	6.40

Source: LOIM, Barclays.

**ACCESS PERFORMANCE DATA**

Historical index returns are available on Bloomberg: LOFUOEC &lt;Index&gt;.

**OUR RANGE OF FUNDAMENTAL FIXED INCOME INDICES****CONTACT**For more information, please e-mail [loimindex@lombardodier.com](mailto:loimindex@lombardodier.com).

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