

Lehman Brothers Par Swap Indices



Overview

Lehman Brothers Par Swap Indices provide a suite of benchmarks designed to allow investors to track the performance of interest rates swaps combined with short-term deposits, and are therefore comparable with investments in fixed-coupon bonds. Swap indices are available for selected G10 and non-G10 markets.

Characteristics

- ◆ Each swap is effectively a long position in a fixed-coupon bond plus a short in the floating leg (with principal).
- ◆ At inception and on all quarterly payment dates, the floating leg is worth exactly par because it represents borrowing at the prevailing market rate.
- ◆ The swap is initiated at zero cost, while the bond must be worth par because the value of the fixed leg initially equals that of the floating leg.

Total Return Calculations

- ◆ **Rebalancing:** In accordance with the current Lehman index policy of keeping the total return universe fixed during each calendar month, the proposed portfolio consisting of a par swap and a cash investment is created on the last business day of each month. The portfolio gets liquidated on the last business day of the following month and is replaced by a new trade of a par swap and a cash investment. On the unwind date (which defines the total return for the swap for that month), the swap is one month shorter than at inception.
- ◆ **Coupon:** New swaps are initiated on the last calendar day of the month at par. The coupon on the swap is the par coupon as obtained from the Lehman closing mid-market marks for swap rates from the most recent business day.
- ◆ **Mark-to-market:** The total returns calculated on any day will be based on the Lehman closing mid-market swap curve for that day.
- ◆ **Settlement:** For total return calculations, settlement assumption is in one calendar day. This contrasts with standard settlement in the U.S., which is in two business days. The one calendar day settlement assumption conforms with other Lehman indices, allowing direct comparison of swap total returns with other Lehman indices.

Key Applications

- ◆ **Benchmark for money management:** Can be used to track the returns of active strategies invested in specific yield curve points within and/or across individual markets. Swap indices of various tenors may also be used to proxy the bond market performance of a given market, which is especially useful for emerging markets that may suffer from limited and/or illiquid bond markets.
- ◆ **Track pension or insurance liabilities:** Can form building blocks for constructing customized investment benchmarks that accurately represent investors' desired risk profile.
- ◆ **Security selection decisions and performance attribution:** A security's spread to swaps effectively represents the residual risk of holding that security, after the common risk of spread products is stripped out. For money managers who use the OAS framework for security selection and relative value analysis, the swaps indices may help facilitate this process by allowing easy computation of returns relative to swaps.
- ◆ **Asset allocation decisions:** Excess returns to swaps play an important role in asset allocation. To understand the benefits of diversification in a portfolio, investors frequently focus on the correlation of security returns in excess of risk-free interest rates. When this is done using excess returns to Treasuries, the correlations are artificially high because of the systematic inception of investment-grade credit spreads and the liquidity premium of Treasuries. By using excess returns to swaps, this common factor is further stripped out, leading to improved evaluation of sector allocations.

Par Swap Indices – Market Coverage

G10 Currencies

- Canadian Dollar (CAD)
- Swiss Francs (CHF)
- Euro (EUR)
- British Sterling (GBP)
- Japanese Yen (JPY)
- Swedish Krona (SEK)
- U.S. Dollar (USD)

Non-G10 Currencies

- Czech Koruna (CZK)
- Hungarian Forint (HUF)
- Mexican Peso (MXN)
- Polish Zloty (PLN)
- Slovakian Koruna (SKK)
- South African Rand (ZAR)

Contacts

New York

index@lehman.com
+1-212-526-7400

London

londonindexgroup@lehman.com
+44-207-102-2220

Tokyo

tkindexhelp@lehman.com
+81-3-6440-1770

Hong Kong

hongkongasiaindex@lehman.com
+852-2252-6230

Lehman Brothers Par Swap Indices

Global Family of Indices

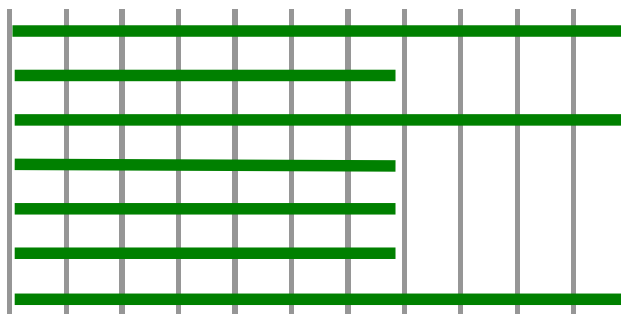
Index Tenors

Currency

Tenors (years)

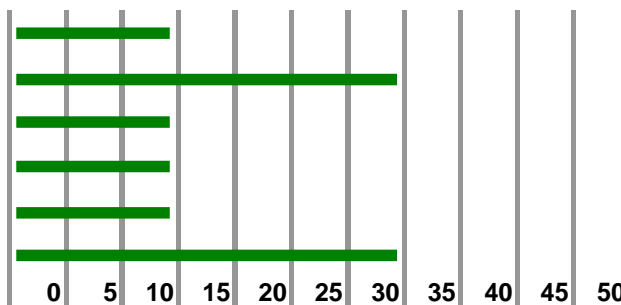
G10

- British Sterling (GBP)
- Canadian Dollar (CAD)
- Euro (EUR)
- Japanese Yen (JPY)
- Swedish Krona (SEK)
- Swiss Francs (CHF)
- U.S. Dollar (USD)



Non-G10

- Czech Koruna (CZK)
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- South African Rand (ZAR)



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Non-G10
Swap Indices

Lehman Brothers Global Family of Indices			
Global	Americas	Europe	Asia
<ul style="list-style-type: none"> Multi-Sector Gov-Related Corporate Securitized Global Aggregate Treasuries Gov-Related Corporate Securitized Sector Details Global Aggregate Ex-JPY Ex-JPY Ex-Securitized Ex-USD Ex-Euro Global High Yield Global LMI U.S. Dollar Euro Mexican Peso Swaps Customized Other Global Inflation Linked Rolling Maturity Fixed Maturity Date Capital Securities USD EUR GBP Credit Default Swaps Equal Weighted Market Weighted CDW/TraX Total Returns Basket Total Returns Tranche Total Returns Alternative Asset Classes Hedge Fund Indices Equal Weighted Asset Weighted Commodity Indices LBCI 	<ul style="list-style-type: none"> U.S. Universal U.S. Aggregate Treasuries Gov-Related Corporate Details Securitized Gov/Credit Government Credit Details U.S. High Yield Details U.S. High-Yield Loans U.S. High-Yield FRN Non-Taxable Municipals LMIS GO 5-Yr LMIS GO 10-Yr LMIS GO Intermediate LMIS Long Hybrid U.S. Convertibles Other Americas U.S. Agg Flash Report Canadian Euro Dollar Hourly Treasury Short Treasury Bulldozers 144A EMBS Swaps USD CAD FRN Short Term ABS Floating Rate Hybrid ARM Customized 	<ul style="list-style-type: none"> Pan-European Universal Euro Pan-European Aggregate Euro Aggregate Treasuries Gov-Related Corporate Details Securitized 500MMA Sectors Aggregate Gov-Related Corporate Original Sectors Government Credit Local Currency Aggregates Sterling Gilt Non-Gilts Government-Related Swedish Krona Danish Krone Norwegian Krone Central European Russian Ruble Pan-European High Yield Details Euro U.S. Agg Other Pan-European Swiss Franc Japanese Yen Swaps Euro Sterling Krona Swedish Franc Short Duration Rate Notes Short Treasury Euro Treasury Bills Asset Backed Customized 	<ul style="list-style-type: none"> Asian Pacific Aggregate Japan Non-Japan Australian Dollar Aggregate Other Asia Pacific Euro Yen Asia Credit Swaps Asia Aggregate India Government Customized

G-10 Swap
Indices

Indices are unmanaged and cannot accommodate direct investments. Past performance is not indicative of future results.

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