Press Release **Nice, London, Singapore, November 3, 2011**

EDHEC-Risk Institute research on corporate bond indices finds index construction methodologies unreliable

New research at EDHEC-Risk Institute has concluded that corporate bond index construction methodologies tend to be sub-optimal. The research, entitled “A Review of Corporate Bond Indices: Construction Principles, Return Heterogeneity, and Fluctuations in Risk Exposures,” shows that **credit and interest rate risk exposures are relatively unstable for the eight indices examined**. This naturally has significant implications for investors' allocation decisions and for the consequences of those allocation decisions over time.

The paper analyses two sets of four corporate investment-grade bond indices each, one for the US market and the other for the euro-denominated bond market. The authors, Felix Goltz, Head of Applied Research, and Carlos Heitor Campani, Research Assistant, EDHEC-Risk Institute, review the uses of bond indices and the challenges involved, and then analyse the risk-return properties and the heterogeneity of the indices in each set.

Among the findings of the study:

- An analysis of the stability of the indices’ risk exposures (interest rate and credit risks) reveals very unstable measures over time and, perhaps most importantly, this instability is accentuated in the two indices with the smallest number of bonds: **the more investable the index is meant to be, the less reliable it is**.

- Great differences are found between US and euro-denominated indices: **US corporate bond indices showed higher credit risk, with longer terms to maturity and hence longer durations**. Therefore, choosing a bond index in US or in Europe seems to be more than just choosing a currency exposure.

- The authors conclude that **investors must be aware not only of what bond indices represent but also of how such key features as risk exposures will evolve over time**.

- Faced with the shortcomings of traditional indices, new forms of bond indices have been proposed, but they fail to address the most pressing problem with existing indices: the **stability of the duration**.

A copy of the study can be found here:

EDHEC-Risk Publication Review of Corporate Bond Indices

Contact:

For further information, please contact **Séverine Anjubault**:

Tel.: **+33 (0)4 93 18 78 63** – E-mail: severine.anjubault@edhec-risk.com

About EDHEC-Risk Institute

EDHEC-Risk Institute is part of EDHEC Business School, one of Europe's leading business schools and a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, Association of MBAs). Established in 2001, EDHEC-Risk Institute has become the premier European centre for financial research and its applications to the industry. In partnership with large financial institutions, its team of 66 permanent professors, engineers and support staff implements six research programmes and eleven research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. The results of the research programmes and chairs are disseminated through the three EDHEC-Risk Institute locations in London, Nice and Singapore.

EDHEC-Risk Institute validates the academic quality of its output through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and forms business partnerships to launch innovative products. Its executive education arm helps professionals to upgrade their skills with advanced risk and investment management seminars and degree courses, including the EDHEC-Risk Institute PhD in Finance.

www.edhec-risk.com

EDHEC–Risk Institute	EDHEC Risk Institute—Europe	EDHEC Risk Institute—Asia
393 promenade des Anglais BP 3116 - 06202 Nice Cedex 3 France	10 Fleet Place - Ludgate London EC4M 7RB United Kingdom	1 George Street #07-02 Singapore 049145