

10 Year Swaption Matrix



Definitions

Swap: A derivative in which one party exchanges cash flows based on a fixed interest rate (the swap rate) for cash flows based on 3 month LIBOR.

Forward: The forward 10 year swap rate.

Option Premium: Expressed as a percentage of portfolio value.

Option Strike: Expressed as basis points relative to the forward swap rate.

Receiver Swaption: An option to receive the fixed leg of a swap (i.e. long receiver is long duration).

Payer Swaption: An option to pay the fixed leg of a swap (i.e. long payer is short duration).

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10 yr Swap: 2.96%
10 yr Tsy: 2.92%
Swap Spread: 0.04%

		Receiver Swaption Premium					Payer Swaption Premium					
Forward		-400 bps	-300 bps	-200 bps	-100 bps	0 bps	+100 bps	+200 bps	+300 bps	+400 bps	+500 bps	
Option Term	2-Year	3.74%	0.00%	0.00%	0.14%	1.42%	4.85%	2.13%	0.86%	0.32%	0.11%	0.04%
	3-Year	4.04%	0.00%	0.05%	0.57%	2.18%	5.60%	2.76%	1.30%	0.59%	0.27%	0.13%
	5-Year	4.39%	0.01%	0.43%	1.27%	3.15%	6.36%	3.85%	2.37%	1.54%	1.07%	0.77%
	10-Year	4.55%	0.18%	0.80%	1.84%	3.55%	6.36%	4.28%	2.97%	2.16%	1.62%	1.27%

For informational purposes only.

Premiums are based on current market characteristics and assumptions which change over time.

Past performance is not indicative of future results. There is a risk of loss.

Source: Bloomberg and The Clifton Group.

Historical Data available upon request: Info@TheCliftonGroup.com

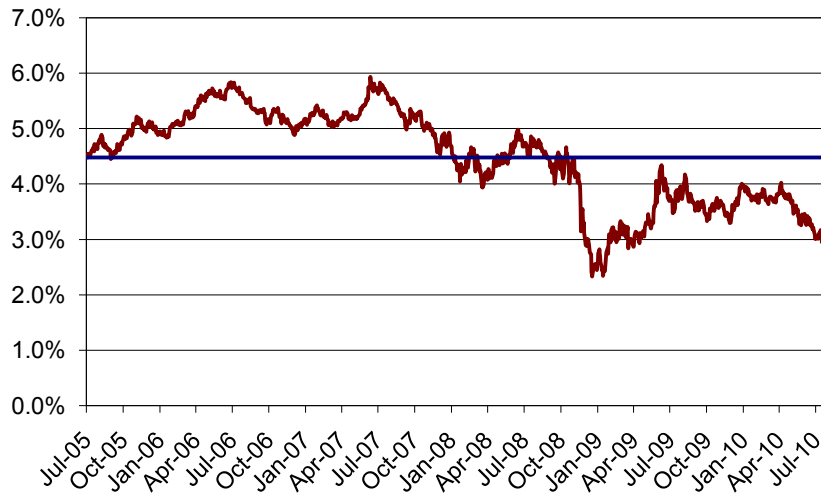
Historical Swap Rates and Volatility

Definitions

3yr x 10yr ATM: A 3 year option on a 10 year swap struck at the forward 10 year swap rate.

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10yr Swap Rates



3yr x 10yr ATM Volatility



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Source: Bloomberg

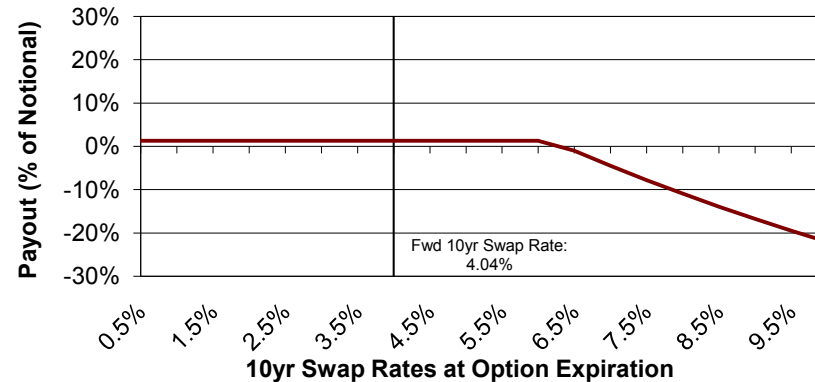
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Swaption Trade Examples

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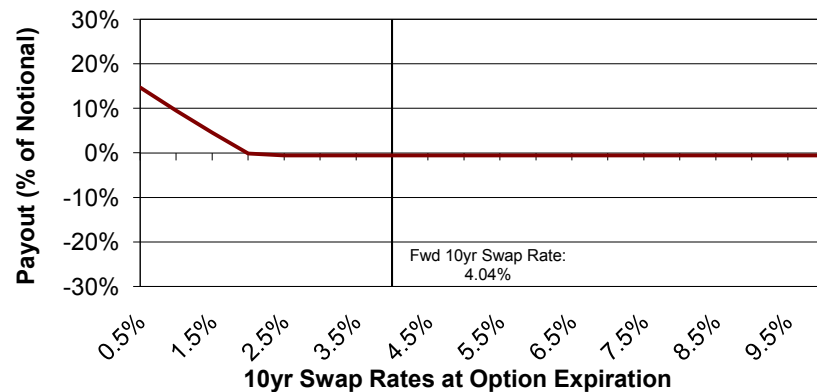
Example: Contingent Duration Extension

- Sell a 200 bps out of the money (6.0% Strike), 3yr option to pay fixed on a 10yr swap (3x10yr swaption).
- Collect 130 bps of premium upfront.
- If 10yr swap rates rise above the strike, replace swaption with a receiver swap consistent with tactically adding duration as rates rise.
- If 10yr swap rates remain below the strike, keep the premium.



Example: Hedging Risk of Declining Rates

- Buy a 200 bps out of the money (2.0% Strike), 3yr option to receive fixed on a 10yr swap (3x10yr swaption).
- Spend 57 bps of premium upfront.
- Collect if 10yr swap rates fall below option strike.
- If 10yr swap rates remain above the option strike, downside is limited to the premium paid.



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