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INSIGHT INVESTMENT
THOUGHTS FOR 2024

NOVEMBER 2023

BNY MELLON | INVESTMENT MANAGEMENT

EXECUTIVE SUMMARY

INVESTMENT // 4

- Global rates – higher rates should mean higher long-term returns: In our view, the neutral rate, or level of real interest rates at which central bank policy is neither stimulating nor restricting economic growth, has shifted upwards. This raises the range in which central banks will be conducting monetary policy in the years ahead, with two key consequences:
  - The potential for monetary easing in 2024 is limited, as policy is not currently as restrictive as many believe, leaving central banks only able to edge interest rates downwards.
  - Tightening monetary policy sufficiently for it to truly tame inflation over the longer term is going to be difficult, as the impact on broader asset prices may become politically intolerable.

  Bond yields have risen to reflect this new reality, and we believe higher yields create a positively skewed, asymmetric return profile for fixed income investment. If we are wrong, and the neutral rate has not changed, yields could decline sharply as inflation is brought under control – potentially generating significant gains for fixed-income investors.

- Global inflation – sustainably returning to target is likely to be tricky: Inflation moderated in 2023, driven by the powerful statistical impact of base effects as food and energy price spikes following the Russian invasion of Ukraine dropped out of the year-on-year data. We believe 2024 should bring greater clarity on where the underlying rate of inflation is likely to settle – and at this stage, it appears likely to be above 2%. This is likely to create a dilemma for central banks as unemployment drifts upwards and calls for easier policy grow. Some may prove far more willing to adapt their policy frameworks to this new reality than investors currently believe, effectively allowing inflation to run at higher levels than in the past.

- Multi-asset – equity markets now face serious competition: The characteristics of the current cycle are not out of line with what we'd typically expect at the end of a US hiking cycle. If we assume that this is a genuine cycle end, the period between the last rate hike and the first rate cut has generally been a rewarding one for both bond and equity investors. But, the rise in yields presents a valuation challenge to equities. For many years, very low rates created a 'TINA' (there is no alternative) narrative to owning equities. In 2024 that shifted to 'TARA' (there are realistic alternatives) and arguably we are now moving to TABA (there are better alternatives) to owning risky equities.

- Investment grade credit – careful analysis is critical to maximise the yield opportunity: The yields available in investment grade credit have risen to levels comparable to those of the decade before the global financial crisis. In our view, this represents an opportunity to lock in attractive levels of income, but to really maximise returns we believe careful credit analysis will be key. There is the potential for significant divergence in corporate bond performance in the year ahead in an environment of slow growth and rising funding costs.

- US municipal bonds – naturally complements US credit: For those investors seeking to take advantage of the yields available in corporate credit, we believe taxable municipal bonds are an asset class that are an overlooked opportunity that is systematically mispriced. Taxable munis offer similar yields to US corporates but have several advantages; many of these public corporations are virtual monopolies that deliver services with inelastic demand to the public, meaning the asset class has previously been more resilient to periods of sub-trend growth and has historically experienced extremely low default rates.

- High yield credit – the new growth asset: For the first time in many years high yield is living up to its name, with high yield offering very high levels of income at a time when defaults are expected to remain contained. In the US high yield market, yields are now so high that they offer returns in excess of average long-term rolling 12-month returns on the S&P 500 Index. As long as defaults remain low as we expect, this offers an opportunity to contractually lock in returns normally associated with equity market investment in an asset class which has historically experienced significantly lower drawdown risk.

- Secured finance – maximising income in a risk averse way: For investors that don't want to migrate up the risk spectrum, the floating rate structure of most secured finance issues allows investors to take advantage of higher interest rates in very short maturities without the duration risk implicit in fixed-rate bonds. Perhaps the most important feature of all, however, is the powerful payment waterfall structures built into the asset class that make them fundamentally defensive. This makes the senior tranches of secured finance issuers well placed to withstand a period of economic weakness that may result from the policies implemented by central banks to slow growth and reduce inflationary pressures.
- Currency – navigating a less certain environment for the dollar: The global economy is slowing, but the US economy is still expected to grow at a more rapid pace than other developed markets. This, combined with higher interest rates, makes it difficult to bet against the US dollar. However, after a bull run that's lasted more than a decade, the US dollar sits close to historical highs, and an unsustainable fiscal position has created a vulnerability. This sets the scene for a choppy backdrop against which we feel a tactical approach is the best option.

INVESTING RESPONSIBLY // 21

- Our thoughts on the analysis of environmental, social and governance (ESG) risks: For specific companies, environmental, social and governance (ESG) risks can vary widely, while credit ratings are typically very similar. This makes the assessment of ESG risks critical, but the complexity of ESG risks mean unanimity on how to assess them is, in our view, unfeasible. While investors may take different approaches and come to differing conclusions, they all need clear evidence on which to base their assessments. As such, we believe there is a need for transparent and comparable data on ESG-related issues, and more research to show how ESG risks can have an impact on default risk and/or financial returns.
- Choosing an appropriate climate benchmark: For investment strategies targeting climate outcomes alongside traditional investment objectives, selecting an appropriate benchmark is a key consideration. While a regulatory push towards standardisation is expected to have some effect over time, bespoke climate transition benchmarks may better reflect investors' specific objectives than the broad market benchmarks that many pursue.
- The need for carbon footprinting for green bonds: An investor might assume that the carbon footprint of a green bond focused on climate solutions would be materially different to that of its issuer. However, issuers do not typically report on the carbon footprint of projects financed by a green bond. Instead, to estimate such bonds' carbon footprints, we observe that many investors use either the issuer's carbon footprint or simple estimation techniques. This has implications for the carbon footprint of conventional bond and equity portfolios, given the need to adjust companies' overall metrics to reflect any green bonds they issue.

INVESTMENT

GLOBAL RATES

HIGHER RATES SHOULD MEAN HIGHER LONG-TERM RETURNS

Five reasons we believe the neutral rate has shifted higher

In our view, the neutral rate, or level of real interest rates at which central bank policy is neither stimulating or restricting economic growth, has moved upwards and will remain higher in the years ahead. We believe this is being driven by five key factors:

- **Deglobalisation:** After being one of the most important sources of disinflation for decades, globalisation is in the process of reversing, putting upward pressure on inflation and the neutral rate.
- **Demographics:** As growth in working-age populations slows, a shortage of labour can result in higher wages and investment. We believe this will be more important than the impact of slower trend growth, pushing the neutral rate upwards.
- **Inflation volatility raises risk premia:** If inflation is volatile, markets can demand higher risk-premia for low-risk assets such as government bonds to ensure that they generate positive real returns. This pushes the neutral rate upwards.
- **Climate investment:** Many countries have committed to decarbonise their economies over the next 30 years to hit the 'net zero' emissions target by 2050. We believe a higher neutral rate will be needed to attract sufficient capital for this investment.
- **Productivity and artificial intelligence:** Productivity has materially slowed over recent decades, but some believe that artificial intelligence could result in a new productivity boom. Although we are sceptical about the benefits and cautious on the timescales, it is likely to have at least a marginal impact, putting upward pressure on the neutral rate.

A higher neutral rate means higher policy ranges

If the neutral rate has shifted upwards as we believe, then central banks are going to be maintaining interest rates within a higher range than we have seen since the global financial crisis. Although central banks may edge rates downwards in 2024, we believe the potential for monetary easing is limited, as a higher neutral rate means policy is not currently as restrictive as many believe. Over the longer term, if economies experience a cyclical upswing, central banks are likely to find it difficult to raise interest rates to levels sufficiently restrictive to truly tame inflation as the impact on broader asset prices becomes politically intolerable.

Central banks are going to be maintaining interest rates within a higher range than we have seen since the global financial crisis.

Higher rates potentially create an asymmetric payoff profile for fixed income investors

Bond yields have risen substantially over recent years (see Figure 1). In our view, this has created a positively skewed, asymmetric return profile for fixed income investment which we outline below by considering three different scenarios for future yields:

- **Yields continue to trend higher:** Even after such a significant recent rise in yields, there is a risk that yields continue to drift higher if inflation remains sticky. However, the high level of income available in fixed income assets acts as a buffer against losses; for example, a US fixed income portfolio could absorb an additional 100bp of yield rises before incurring losses over a one-year time horizon (see Figure 2).
- **Yields remain in a new range around current levels:** If we are correct, then both policy rates and bond yields are likely to remain in a new higher range in the years to come. Some central bank policy easing may exert downward pressure on the yield curve, but we do not expect a return to the low yields we have experienced over recent years. In this scenario fixed income investors could expect to generate attractive, income-driven returns in the years ahead, which compound over longer time horizons.
- **The neutral rate hasn't changed – and the low-yield era returns: I**f we are wrong, the neutral rate hasn't risen, and current policy proves sufficiently restrictive to bring inflation back to target more quickly than forecasters anticipate, yields are likely to decline sharply. In this scenario, a combination of income and capital gains has the potential to generate substantial returns.

We demonstrate the types of returns that we would expect to occur for an investment in the Bloomberg US Aggregate Index across these various scenarios in Figure 2.

Figure 1: Nominal US bond yields have risen sharply[1]

Figure 2: Yields would need to rise meaningfully to incur losses[2]

Change in yields over 12mths	Return
Yields unchanged	5.65%
Yields rise	
+50bp	2.7%
+100bp	-0.3%
Yields fall	
-50bp	8.6%
-100bp	11.6%
To average from 2021: 3.21%	20.2%

[1] Source: Bloomberg US Aggregate Index. Data as at 31 October 2023.
[2] Source: Insight. Data as at 31 October 2023.

GLOBAL INFLATION

STRUCTURALLY HIGHER INFLATION AHEAD

The disinflationary impact of base effects has ended

The rate of inflation has trended downwards across major economies at varying speeds in 2023 (see Figure 3). This downtrend has been driven by the powerful statistical impact of adverse base effects as the surge in food and energy prices that followed the Russian invasion of Ukraine have dropped out of the year-on-year data. More recently, the prices of both food and energy appear to be nearing a low (see Figure 4), suggesting that the disinflationary impact of base effects is nearing its end. We believe 2024 should bring greater clarity on where the underlying rate of inflation is likely to settle – and at this stage, it appears likely to be above central bank targets.

Figure 3: Inflation has broadly trended downwards[3]

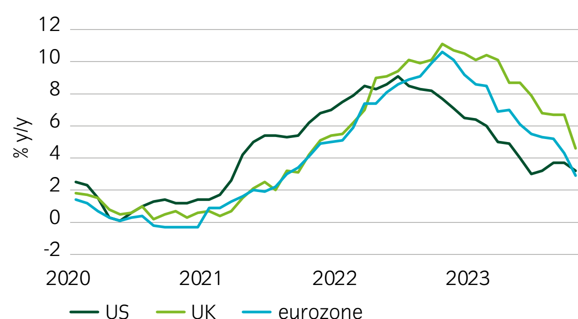
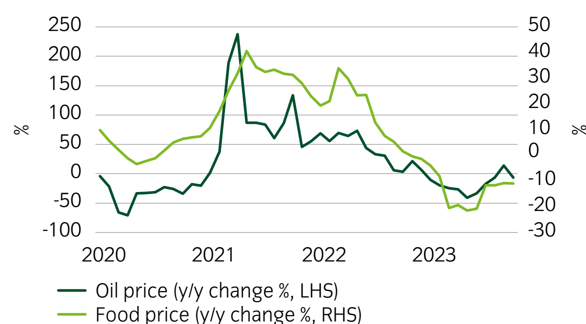


Figure 4: Food and energy prices have stopped falling[4]



Central banks may be forced to adapt to a higher inflation baseline

If inflation were to prove structurally higher in the years ahead, sufficiently tightening policy to bring inflation back to target on a sustained basis is likely to exert considerable stress on those economic players that increased leverage during the era of low rates. Not least of these are the governments of major economies, which now find themselves forced to divert ever-increasing proportions of tax revenues to cover interest costs. In the US, the Congressional Budget Office is predicting that US debt/GDP will rise to 185% of GDP by 2052 (see Figure 5), requiring interest payments of 7.2% of GDP[5].

But why do we need to keep inflation at 2%? In early 1990, the Central Bank of New Zealand announced that it would target a rate of inflation of between 2.5% to 4.5% in 1991, dropping to 0% to 2% in 1992[6] – the concept of inflation targeting was born. The Bank of Canada followed with its own version of the policy in 1991, then the UK in 1992, after it was forced to exit the European Exchange Rate Mechanism. This relatively simple concept of targeting a low and steady rate of inflation followed decades of unsuccessful policy regimes in the form of the gold standard, monetary targets and fixed exchange rates, and proved highly successful in anchoring inflation expectations. The US Federal Reserve eventually adopted the policy under the chairmanship of Ben Bernanke in 2012.

[3, 4] Source: Insight and Bloomberg. Data as at 31 October 2023. Inflation forecasts are for Consumer Price Inflation.
[5] Source: https://www.cbo.gov/publication/58340
[6] Source: https://www.federalreserve.gov/pubs/ifdp/1994/473/ifdp473.pdf

A 2% inflation target is not guaranteed

Ultimately, however, 2% was always an arbitrary number, and never meant to be rigidly set in stone. The Central Bank of New Zealand moved its target over time and currently targets a 0% to 3% range. The Fed has also softened its position, moving to a flexible average inflation target in 2020 and may prove far more willing to continue to adapt its framework than investors currently believe. For politicians, a slightly higher rate of nominal growth has advantages as debts would be slowly inflated away over time relative to GDP, with Italy being a good recent example of this (see Figure 6).

Figure 5: US debt/GDP is forecast to keep rising[7]

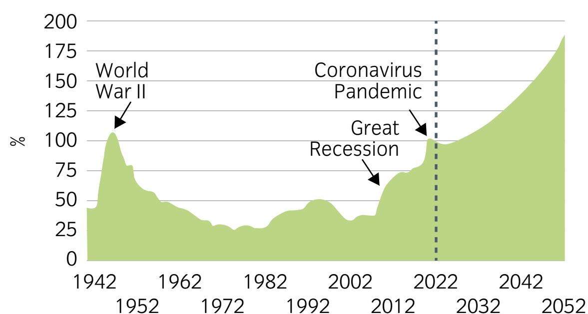
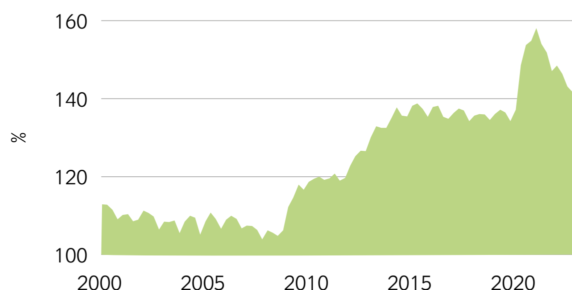


Figure 6: Italian debt/GDP has declined sharply from its peak[8]



2% was always an arbitrary number, and never meant to be rigidly set in stone.

[7] Source: https://www.cbo.gov/publication/58340
[8] Source: Macrobond. Data as at 31 October 2023.

MULTI-ASSET

FROM TINA TO TARA TO TABA

It is not unusual for labour markets to remain strong in tightening cycles

Figure 7 summarises previous Fed tightening cycles in terms of forward US equity and government bond performance. In the table we distinguish between genuine 'ends' and other occasions where the Fed looked to be at the end of the hiking cycle but ultimately had to re-engage to further tighten monetary policy. Examples of these 'premature pauses' (defined as when the Fed cuts only to subsequently tighten again) occurred in 1973, 1979, 1980 and 1987.

From an economic standpoint, this analysis reminds us that the characteristics of this cycle are not out of line with what would typically be the end of a Fed cycle (in terms of cycle length & magnitude of hikes). What it also highlights is that it is not unusual for the labour market to remain strong throughout tightening cycles. However, the degree or level of tightness (as depicted by the unemployment rate) is what sets this cycle apart, but in recent months we are seeing some easing in pressure.

Figure 7: Rate hiking cycles and their characteristics[9]

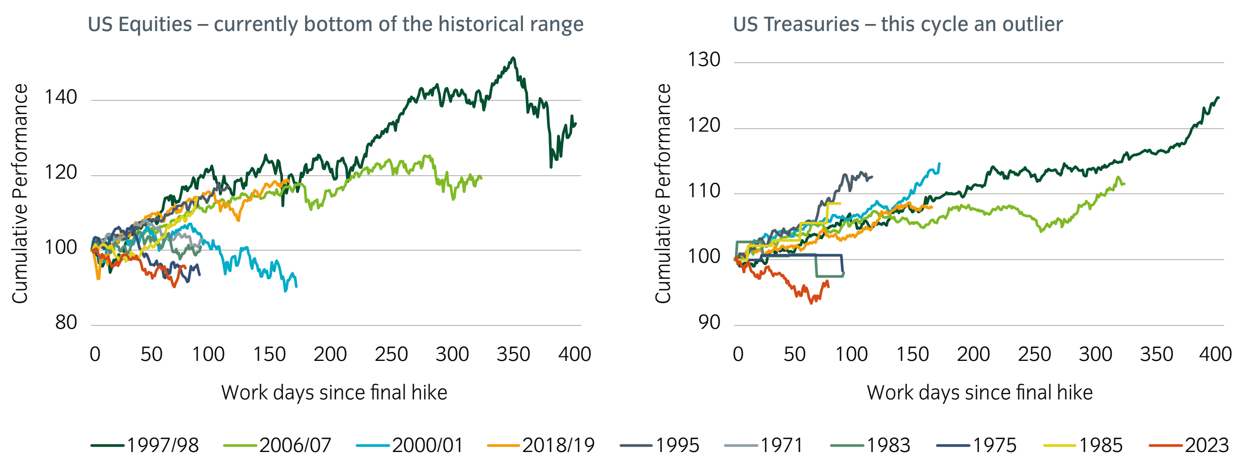
Cycle dates		Cycle characteristics						3mths after peak	
Start date	Date of peak	Premature end	Cycle length (months)	Change in Fed funds rate (%)	Change in unemployment rate from start	Equity return	Treasury return	Equity return	Treasury return
Feb-72	Aug-73	yes	18	7.50	-1.00	-3%	-	-8%	-1%
Feb-74	May-74	no	2	4.00	0.36	-4%	-1%	-16%	-4%
Nov-76	Oct-79	yes	35	10.75	-1.86	-2%	8%	10%	-5%
Feb-80	Mar-80	yes	1	6.00	0.00	-4%	-9%	-5%	15%
Aug-80	Dec-80	yes	4	10.50	0.34	10%	-6%	-7%	-5%
Mar-84	Aug-84	no	5	2.25	-1.10	7%	1%	-5%	6%
Dec-86	Sep-87	yes	9	1.37	-0.70	28%	-6%	-30%	3%
Mar-88	Feb-89	no	11	3.25	-0.50	11%	3%	9%	4%
Feb-94	Feb-95	no	12	3.00	-1.00	-2%	-5%	9%	5%
Jun-99	May-00	no	11	1.75	-0.27	8%	2%	0%	3%
Jun-04	Jun-06	no	24	4.25	-0.97	12%	5%	4%	4%
Dec-15	Dec-18	no	36	2.25	-1.33	23%	4%	12%	2%
Mar-22	Jul-23		16	5.25	-0.63	7%	-9%	-10%	-8%
Mean			14	4.74	-0.67	7%	-1%	-3%	2%
Median			11	3.63	-0.70	7%	0%	-5%	3%
Min			1	1.37	-1.86	-4%	-9%	-30%	-5%
Max			36	10.75	0.36	28%	8%	12%	15%
Hit rate						62%	50%	38%	67%

[9] Source: Insight and Bloomberg, data between 1970 and 2023.

Yields are likely to prove challenging for equity valuations

Figure 8 focuses on the tightening cycles that ended with the ten largest “extended pauses or plateaus”. Clearly, such episodes are rare and all but one pre-date the global financial crisis. The message, however, is the same - both for bond and equity investors, the period between the last hike and the first cut has generally been a rewarding one (with the exception of equity investors in the wake of the tech boom busting at the start of the millennium).

Figure 8: Long plateaus in the Fed rate are usually a constructive backdrop for equity and bond returns



The caveat to this thinking is clearly that inflation ultimately continues its descent and policy rates do not have to ratchet higher. That in-turn implies an economic backdrop that is relatively benign from a growth standpoint – specifically, one in which activity moderates to the extent that excess demand is not a source of inflationary pressure.

That presents a headwind for risk assets, which generally require the prospect of good growth dynamics to deliver their best returns. Upside relies on a path to a ‘soft landing’ and whilst this road exists, too little or too much economic strength both pose risks.

Similarly, the rise in yields presents a valuation challenge to equities. For many years, very low rates created a ‘TINA’ (there is no alternative) narrative to owning equities. In 2024 that shifted to ‘TARA’ (there are realistic alternatives) and arguably we are now moving to TABA (there are better alternatives) to owning risky equities.

[10] Source: Insight and Bloomberg, data between 1970 and 2023.

INVESTMENT GRADE CREDIT

YIELD IS BACK – BUT CAREFUL ANALYSIS COULD HELP MAXIMISE RETURNS

Absolute yields are back to pre-financial crisis averages

Driven by a combination of higher government bond yields and wider spreads, investment grade credit offers yields comparable to those available in the decade running up to the global financial crisis (see Figure 9). In our view, this represents an opportunity to lock in attractive levels of income, but to really maximise returns we believe careful credit analysis will be key. There is the potential for significant divergence in corporate bond performance in the year ahead in an environment of slow growth and rising funding costs.

Figure 9: Yields in investment grade credit are back above pre-global financial crisis averages[11]

Corporate resilience is going to vary, making company analysis critical

Although many corporate issuers extended their debt maturity profiles to lock in funding costs, there is still a gradual impact over time as bonds mature and need to be refinanced. HSBC[12] has analysed three scenarios and their potential impact on US households and corporates:

1. the Fed maintains rates at 5.5% until the end of 2025;
2. US rates follow the path outlined in the June 2023 Federal Open Market Committee (FOMC) dot plot, which showed the median forecast of Federal Open Market Committee members was for rates to peak at 5.6% before declining to 3.4% in 2025; and
3. a hard landing scenario where the FOMC slashes rates to 2.375% in 2024.

In the first two scenarios, interest payments for both corporates and households rise from their 2021 low by up to 2% of GDP during a period where forecasts for growth have declined to sub-trend levels across developed markets (see Figure 10) and profit margins are likely to be under pressure.

[11] Source: Insight and Bloomberg. Data as at 31 October 2023.
[12] Source: HSBC: Debt puzzle, published 29 August 2023.

In a hard landing scenario, interest costs would decline as rates fell, but this would be more than offset by the deterioration in the operating environment. This tricky range of outlooks comes at a time when credit ratings have become increasingly concentrated in the BBB/Baa rating category (see Figure 11). This creates the potential for significant divergence between individual corporates even within the same sector – an environment where careful company analysis and security selection is likely to prove indispensable for investors seeking to maximise the opportunities that higher yields should bring.

Figure 10: Growth forecasts have trended downwards[13]

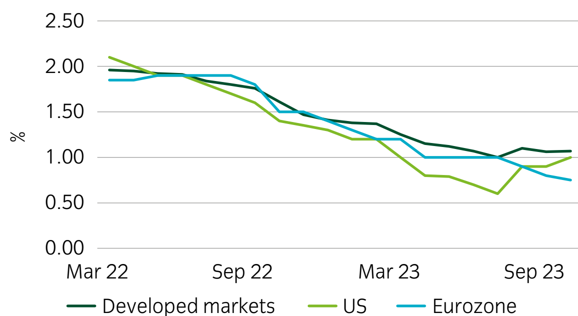
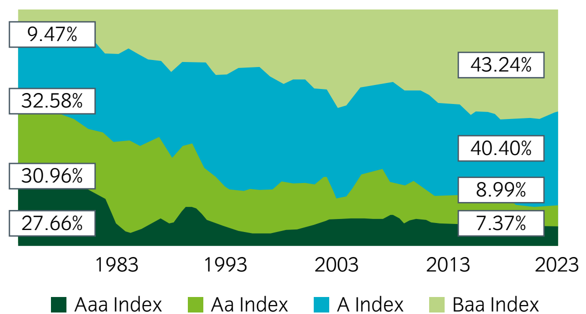


Figure 11: Credit ratings have migrated towards BBB/Baa[14]



This creates the potential for significant divergence between individual corporates even within the same sector – an environment where careful company analysis and security selection is likely to prove indispensable.

[13] Source: Bloomberg consensus forecasts. Data as at 31 October 2023.
[14] Source: Barclays: US Investment Grade Corporate Update. Published October 2023.

US MUNICIPAL BONDS

TIME TO ADD MUNIS TO THE CREDIT MIX

Municipal governments are awash with cash and more resilient to a slow growth environment

In our view, taxable US municipal bonds are an asset class that naturally complement an allocation to US credit, with several attributes that could prove especially advantageous in the current environment.

In aggregate, taxable muni bonds have a higher credit rating relative to US investment grade corporates. The Bloomberg Municipal Bond Index has an average credit rating of Aa2/Aa3 versus an average rating of A3/Baa1 for the Bloomberg US Corporate Investment Grade Index[15]. A key attribute of most munis is a direct link to the revenue streams of underlying infrastructure assets, or the backing of the tax revenue streams of individual states. This makes the credit rating of munis more resilient to changes in credit conditions.

This can be clearly demonstrated when looking at the Moody's Credit Compass score, which aims to capture trends in credit conditions. Slower growth and more difficult financing conditions have seen the backdrop for corporate credit shift to more neutral territory, but credit conditions for munis remain strong (see Figure 12). Most US states set their 2024 financial year budgets very conservatively, with many building in forecasts of a mild recession over the year and committing to only very limited spending increases. With the economic backdrop proving more resilient than expected and given the replenishment of reserves over the last few years (see Figure 13), states should be very well positioned over the years ahead.

Figure 12: Munis are more resilient to current conditions[16]

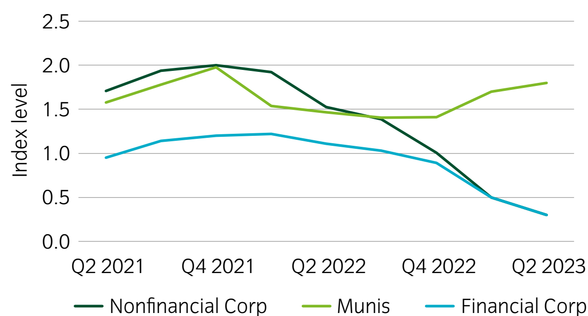
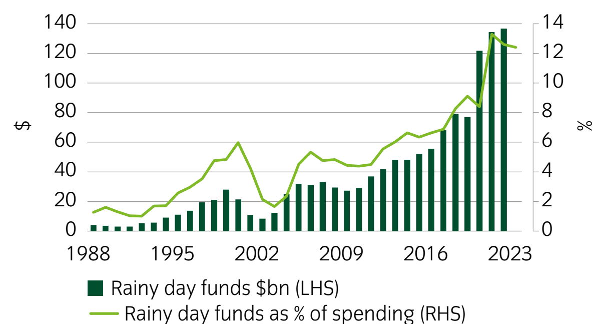


Figure 13: Municipal reserves have surged post-pandemic[17]



Most US states set their 2024 financial year budgets very conservatively, with many building in forecasts of a mild recession over the year and committing to only very limited spending increases.

[15] Source: Barclays. Data as at 31 October 2023.
[16] Moody's credit conditions compass. Ranges: From -2 to -1 (stressed), -1 to 0 (weak), 0 to +1 (neutral), +1 to +2 (strong).
[17] Source: Urban Institute, BAML; National Association of State Budget Officers (NASBO) Fiscal Survey of States, January 2023.

Default rates and volatility have historically been lower, despite broadly similar credit spreads

From 1970 to 2021, investment grade muni bonds experienced a cumulative default rate of only 0.09% versus 2.17% of IG global corporates within 10 years of issuance. In addition, munis have displayed a lower default rate for any given credit rating (see Figure 14). The ability of muni issuers to honor their debts to bondholders reflects the fact that many of these public corporations are virtual monopolies that deliver services with inelastic demand to the public. Despite these attributes, taxable munis generally trade at a comparable spread (relative to US Treasuries) as investment grade corporate bonds (see Figure 15) with a similar credit rating, but with historically lower volatility. The 360-day volatility of the spread of the US Bloomberg Taxable Muni Investment Grade Index is 21.7%, significantly lower than the 360-day volatility of the Bloomberg US Corporate Agg at 30.4%[18].

Figure 14: Historical default rates have been far lower for munis over a 50-year period[19]

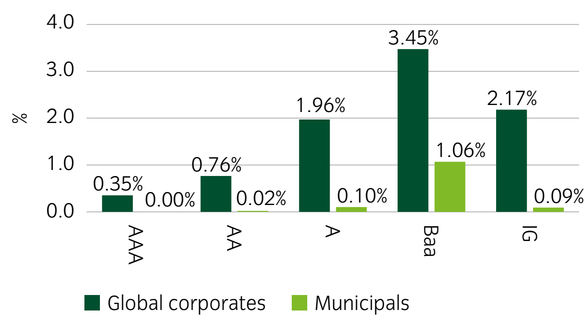
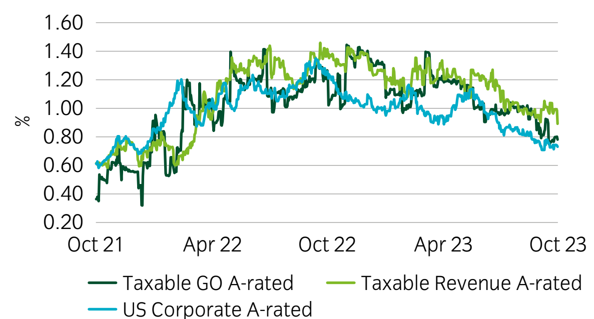


Figure 15: Taxable muni spreads are correlated with broader credit markets, but with less volatility[20]



Many of these public corporations are virtual monopolies that deliver services with inelastic demand to the public.

[18] Source: Bloomberg. Data as at 15 August 2023.
[19] Source: Moody's cumulative default rates by rating category, 1970-2021.
[20] Source: Insight and Bloomberg. Data as at 31 October 2023.

HIGH YIELD

THE NEW GROWTH ASSET

High yield now offers income above long-term historical equity returns

As yields in fixed income markets have broadly adjusted upwards, the yields available in high yield credit have reached levels not seen for decades. The yield of the Bloomberg US High Yield Index ended October at close to 9.5% (see Figure 16), well in excess of the 8.3% average 12-month rolling return of the S&P 500 Index over recent decades (see Figure 17). This means that it is now possible to contractually secure returns above the 6% to 8% ranges normally used for long-term annual equity returns.

Figure 16: Yields have moved sharply higher[21]

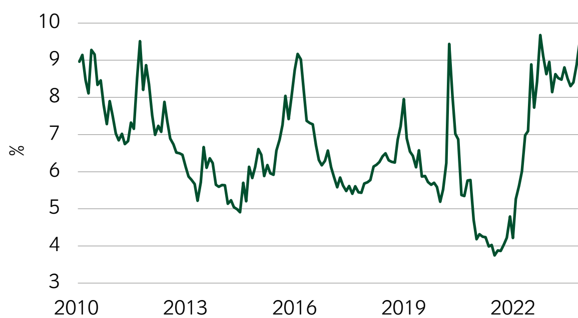
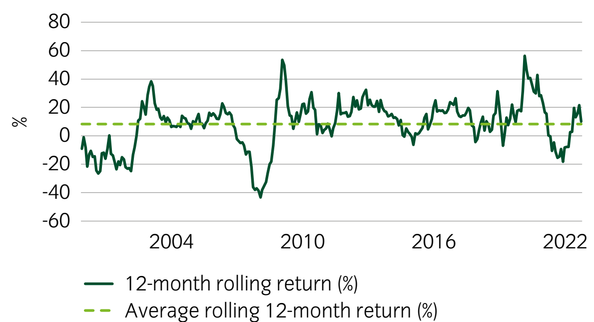


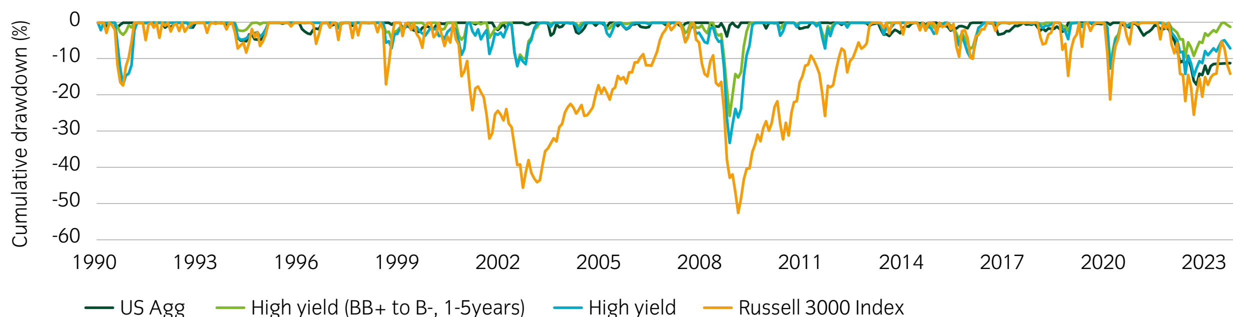
Figure 17: The S&P 500 Index rolling 12-month returns[22]



LOWER DRAWDOWN RISK AND LOWER VOLATILITY

Historically, drawdowns in high yield have tended to be far smaller than in equities (Figure 18). This is partly because high yield bonds are senior to equity in the capital structure and generally have defined maturity structures, resulting in the 'pull-to-par' effect: a maturing bond not in default will return its principal at maturity. Equities have no such guarantee, which can result in valuations remaining depressed for extended periods. High yield has also been far less volatile, with a 9% annualised standard deviation, versus equities at 16%[23].

Figure 18: High yield has historically recovered faster from drawdowns[24]



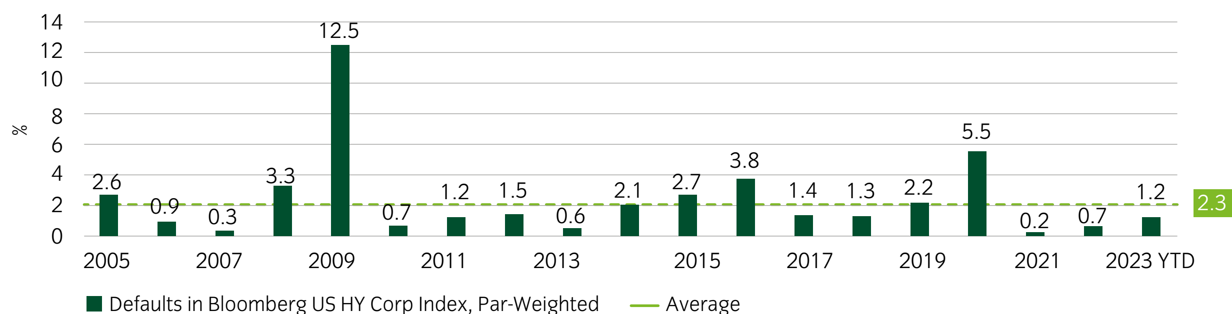
[21] Source: Insight and Bloomberg. Bloomberg US High Yield Index. Data as at 31 October 2023.
[22] Source: Insight and Bloomberg. Data as at 31 October 2023.
[23, 24] Source: Russell 3000 index, Bloomberg US Corporate High Yield Index. Data between 1990 and October 2023.

Default rates have been much lower than commonly perceived

Defaults are the main risk for high yield investors, as they threaten permanent losses of capital. However, consensus default predictions consistently exceed realised defaults in high yield indices. Ratings agency default expectations are typically in the range of 3% to 5% pa. But broad high yield index defaults since 2004 have averaged c.2.3% pa on a par-weighted[25] basis (see Figure 19). This is because Moody's and S&P default metrics cover all speculative grade investments for which they provide ratings, but these universes include far more issues than are included in most indices, and so these agencies' default metrics are unrepresentative of most institutional high yield portfolios.

Despite the high level of yields available, we do not see signs of stress in global high yield markets, but we do see strong interest coverage, historically low leverage and other sources of financing competing to refinance high yield companies. This leads us to believe that default rates will rise only gradually from historically low levels, with the level of yields available in the asset class offering compelling value.

Figure 19: High yield defaults in broad high yield indices have been contained[26]



Despite the high level of yields available, we do not see signs of stress in global high yield markets, but we do see strong interest coverage, historically low leverage and other sources of financing competing to refinance high yield companies.

[25] We believe calculating defaults in par ($100) terms provides the most conservative metric, as bonds may already trade at deep discounts when they default.
[26] Bloomberg, Insight calculations, October 2023.

SECURED FINANCE

HIGH INCOME WITH THE POWERFUL DEFENCE OF PAYMENT WATERFALLS

High cash rates and wide spreads combine to offer extremely high income

For those investors who do not want to migrate up the risk spectrum, we believe secured finance offers a way to generate attractive levels of income in a defensive way. The floating rate structure of most secured finance issues allows investors to take advantage of higher interest rates in very short maturities without the duration risk implicit in fixed rate bonds. Yields have moved upwards along with short-term rates (see Figure 20). Spreads have also widened, even relative to corporate bonds (see Figure 21), which provides the potential for capital appreciation if the risk environment becomes more positive in future.

Figure 20: Yields have moved sharply higher along with short-term interest rates[27]

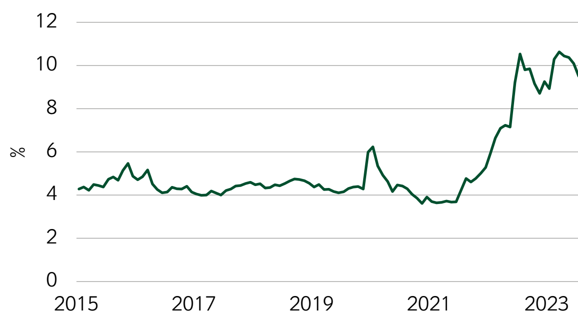
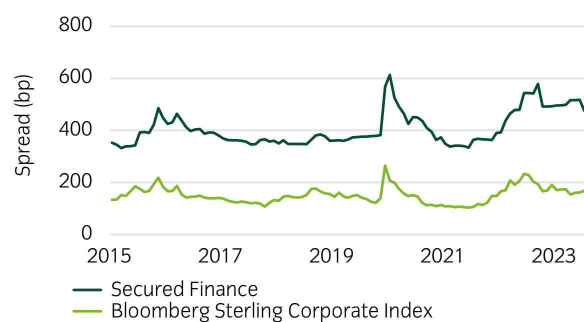


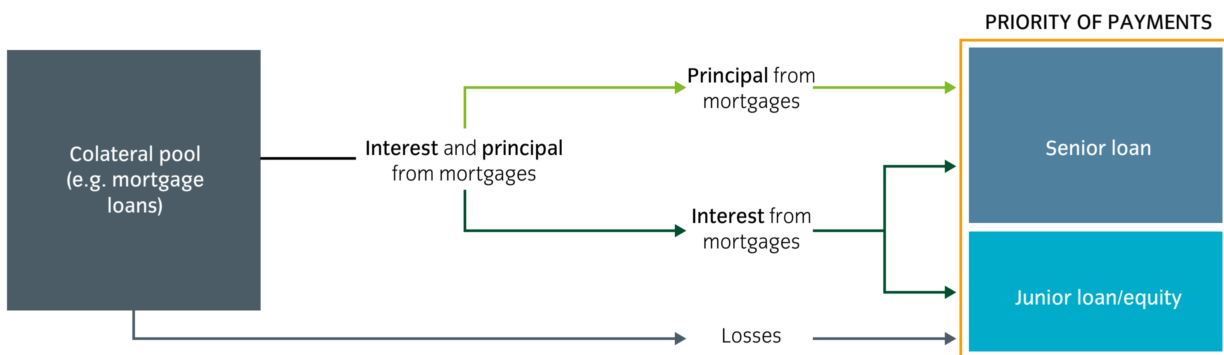
Figure 21: Wide spreads offer the potential for capital appreciation in a positive risk environment[28]



The powerful waterfall structures built into the asset class make it fundamentally defensive.

Within a secured finance structure, there are different classes of bonds issued with different credit ratings. As Figure 22 illustrates, the principal and interest payments from the underlying loan pools are distributed to holders of the highest-rated bonds (senior bondholders) first. Only once these senior bondholders have been paid in full are proceeds distributed to the holders of lower rated bonds (mezzanine or junior).

Figure 22: Higher rated tranches are first in line to receive cashflows[29]



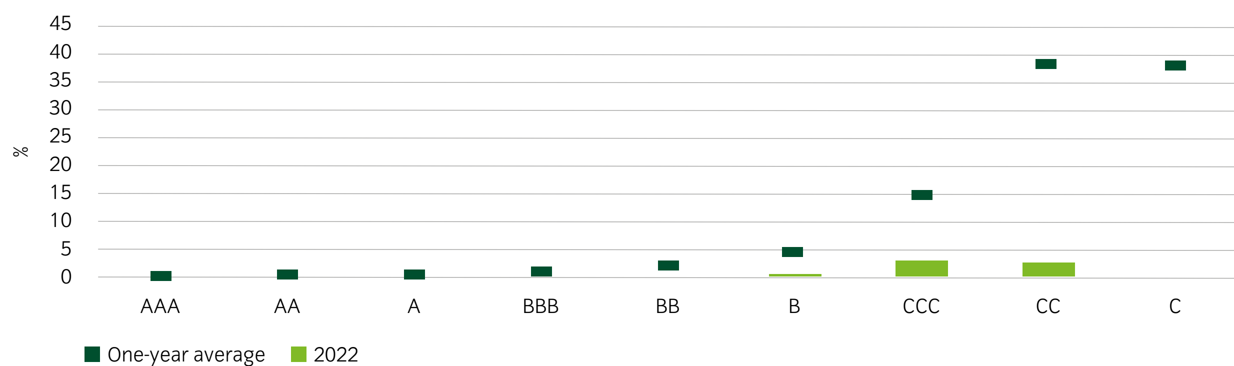
[27] Source: Insight and Bloomberg. Data as at 31 October 2023.
[28] S&P Insight and Bloomberg. Data as at 31 October 2023.
[29] Source: Insight, for illustrative purposes only.

This cascading pattern continues all the way down the capital structure and is known as a 'waterfall' structure. Effectively, the bonds higher up the capital structure have a higher credit quality than the underlying loan pool in aggregate because they will generally still be repaid even if a portion of the underlying loans default. We call this process 'credit enhancement'. However, those at the bottom of capital structure would suffer losses immediately should loans in the pool begin to go bad, hence they are called 'loss absorbing'. This makes the senior tranches of secured finance issuers well placed to withstand a period of economic weakness that may result from the policies implemented by central banks to slow growth and reduce inflationary pressures.

An additional comfort is also the security implicit within the debt – with bond holders holding a claim against the assets on which the debt is secured. Underwriting standards have improved over the years, especially in Europe, and in our view, this leaves the asset class in a strong position to weather even a meaningful downturn.

These factors are the reason that defaults in higher-rated securities are extremely rare (see Figure 23) – the last default in a US asset-backed security that was investment grade rated was in 2010[30]. In our view, this makes the asset class a natural fit for those investors that need to generate high income with limited drawdown/default risk.

Figure 23: Default rates remain largely confined to the speculative grade level[31]



This makes the senior tranches of secured finance issuers well placed to withstand a period of economic weakness that may result from the policies implemented by central banks to slow growth and reduce inflationary pressures.

[30, 31] S&P Global Ratings, "2022 Annual Global Structured Finance Default Study and Rating Transitions", March 2023.

CURRENCY

STAY TACTICAL IN 2024

Hard to bet against the dollar

Monetary policy is clearly working, and consensus forecasts for global growth are slowly declining (see Figure 24). Against that backdrop it may be natural to think that the central bank that had tightened the most, and where inflation was moderating most rapidly, would be the first to start the easing cycle. The long-term fixed nature of US mortgages has complicated this picture considerably, with US consumers significantly less interest rate sensitive than those in other major economies. Although global growth is expected to expand only slowly over the next few years, US growth is still expected to meaningfully outpace other developed markets, especially those in Europe (see Figure 25).

Figure 24: Forecasts for global growth in 2024 keep declining[32]

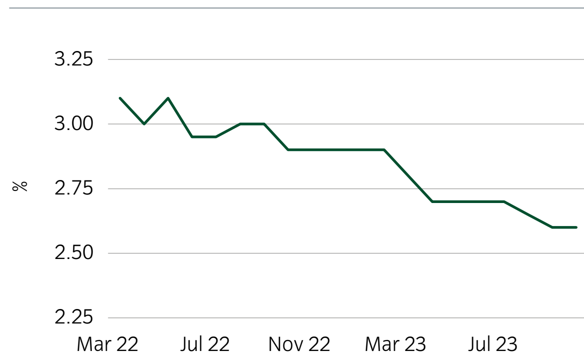
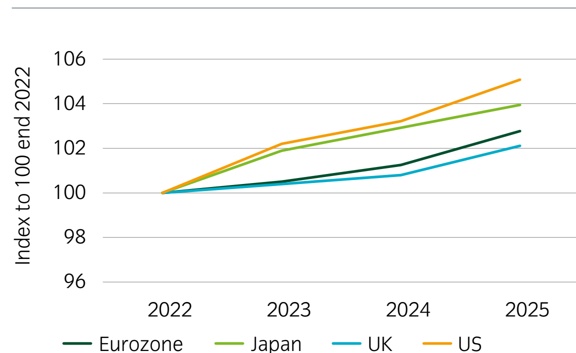


Figure 25: Growth forecasts suggests the US economy will outpace other developed markets[33]



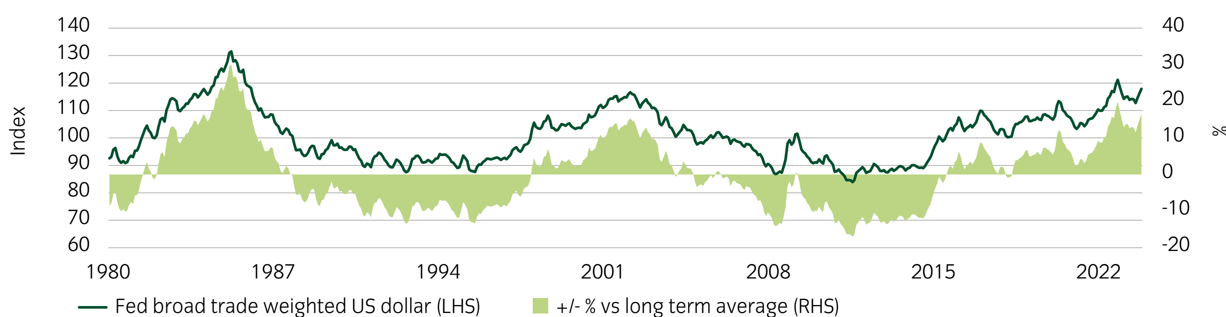
Although global growth is expected to expand only slowly over the next few years, US growth is still expected to meaningfully outpace other developed markets.

[32, 33] Source: Insight and Bloomberg. Data as at 31 October 2023. Figure 25 shows forecasts for cumulative growth in major economies rebased to 100 at end 2022.

Tricky technicals favour a tactical approach to currency markets in 2024

More rapid growth projections, combined with higher interest rates, make it difficult to bet against the US dollar. However, it's also difficult to ignore the gathering storm clouds. After a bull run that's lasted more than a decade, the US dollar sits close to a historical high on a trade weighted basis (see Figure 26), a valuation from which meaningful further gains should be more difficult. An unsustainable fiscal position creates vulnerabilities, with a fiscal deficit running in excess of 8% of GDP. Central banks in China and Japan have started to push back against the dollar's strength – clearly indicating that further weakness in their currencies would be unwelcome. These headwinds set the scene for a potentially choppy outlook, in which aggressive positions based on macroeconomic fundamentals may be particularly risky. **We favour a tactical approach in this environment – acknowledging the powerful dynamics that are underpinning US dollar strength, but conscious of the underlying fragilities that could create sharp pullbacks from extreme valuations.**

Figure 26: The US dollar remains very overvalued by historical standards[34]



These headwinds set the scene for a potentially choppy outlook, in which aggressive positions based on macroeconomic fundamentals may be particularly risky.

[34] Source: Insight and Bloomberg. Data as at 31 October 2023.

INVESTING RESPONSIBLY

OUR THOUGHTS ON THE ANALYSIS OF ESG RISKS

1. ESG risks can be material drivers of default risk and investment returns in fixed income portfolios, as well as drivers of systemic risk.
2. There is no clear consensus on the financial impact of ESG risks, meaning there could be significant opportunities for investors who identify ESG risks that are material for the price of a bond.
3. The nature of ESG risks is that unanimity on how to assess them is not feasible, in our view. An evidence-based approach to such assessments, ideally based on transparent and comparable data, is necessary.

ESG risks can be material drivers of investment risk and returns – but their complexity means careful analysis is necessary

The core focus for fixed income investors is the risk of an impairment to their coupons or return of principal. Any material risk that could affect whether an issuer fulfils these obligations – including ESG risks – has to be relevant to investors' analysis.

The potential materiality of ESG risks is widely acknowledged. There are many examples of such risks having a material impact on the pricing of a bond, or leading issuers to default. Global credit rating agencies now incorporate ESG evaluation within their analysis[35], and the UN-supported Principles for Responsible Investment has established the ESG in Credit Risk and Ratings Initiative to "enhance the transparent and systematic integration of ESG factors in credit risk analysis"[36].

The limitations of ESG ratings – and why analysis by investors is crucial

Data on a wide range of ESG metrics is increasingly available from corporate and sovereign debt issuers, but disclosures remain inconsistent and global standards are still in development[37]. Regulators are also proposing various mandatory disclosures, but approaches diverge across different regions – most notably between the US and EU – with significant controversy over such disclosures in some quarters.

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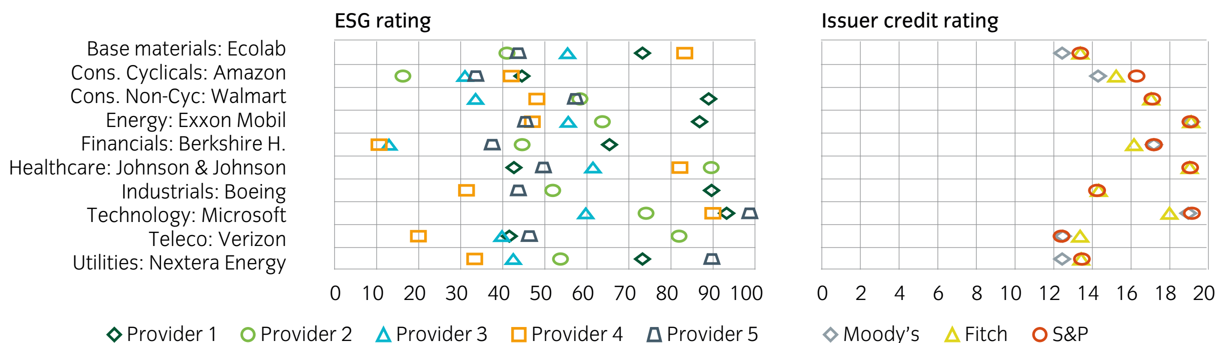
[35] For example, credit ratings agencies Moody's (https://esg.moodys.io/), Standard & Poor's (https://www.spglobal.com/ratings/en/products-benefits/products/esg-in-credit-ratings) and Fitch Ratings (https://www.fitchsolutions.com/products/fitch-ratings-esg-relevance-scores-data) offer ESG-specific analysis.
[36] https://www.unpri.org/investment-tools/fixed-income/credit-risk-and-ratings
[37] Examples include the Global Reporting Initiative (https://www.globalreporting.org) and the Sustainability Accounting Standards Board (SASB) Standards (https://www.sasb.org/).

Investors can access a wide range of ESG ratings which aim to incorporate ESG metrics and highlight aspects of entities' ESG performance, but the purposes, methodologies and underlying assumptions of ESG ratings providers vary, sometimes leading to a wide spread in ESG ratings for a single issuer. This is particularly clear when compared with credit ratings for issuers, which are typically closely correlated (see Figure 27).

Figure 27: For specific companies ESG ratings can vary widely, while credit ratings are typically very similar[38]



The inconsistency and variance in the availability and applicability of ESG ratings, means that it is crucial to understand exactly what the ratings are designed to highlight and how this relates to the objective of a particular fixed income portfolio. Engagement with issuers can also play a role in helping to understand the drivers behind an ESG rating. In our experience, how issuers report ESG data and metrics may not align with an ESG data provider's methodology, leading in some cases to an ESG rating that does not reflect the reality.

Insight's approach: These considerations led Insight to develop the Prime corporate and sovereign ESG risk ratings frameworks. These are based on ESG data from multiple inputs, adjusted using our in-house expertise, and they aim to more accurately and reliably reflect the risks that corporate issuers face. They aim to help our analysts and portfolio managers consider material ESG risks, informing their decision-making and engagement, and to enable tailored portfolios for clients requesting specific sustainability criteria.

A lack of consensus on ESG risks means there are financial opportunities for investors

Investors may agree on the potential relevance and materiality of ESG risks for fixed income investments, but there is no clear consensus on the financial impact of such risks.

Investors may opt to use different ESG metrics or ESG ratings, leading them to different conclusions on ESG risks. They may also conduct their own analysis and engagements and, given the complexities of ESG risks and idiosyncrasies of different sectors or issuers, they may judge the relevance and materiality of specific risks differently.

Time horizons are also relevant. ESG risks may be more relevant for strategic credit portfolios, which typically aim to invest in fixed income assets on a long-term hold-to-maturity basis. Those impacts might range from short-term risks to a company's creditworthiness or reputation, to longer-term concerns about commercial viability.

This is perhaps clearest when considering existing methodologies for pricing climate change risk. Whether for specific instruments, wider sectors or for an entire asset class, they tend to focus on backward-looking occurrences and probability distributions. These are unlikely to help investors effectively understand the impacts of an unprecedented, systemic phenomenon like climate change. As a result, we see significant scope for mispricing and a strong possibility of unintended outcomes when investment decisions are based on imperfect evaluation methodologies.

[38] For illustrative purposes only. Source: Refinitiv, Bloomberg, MSCI, Yahoo finance, Moody's, Fitch, S&P and OECD calculations as at 31 March 2022. Sample of public companies selected by largest market capitalisation as to represent different industries in the United States. The issuer credit ratings are transformed using a projection to the from 0 to 20, where 0 represents the lowest rating (C/D) and 20 the highest rating (Aaa/AAA).

Insight's view on thermal coal: In our view, thermal coal does not present a long-term viable fuel source in a world which needs to cut its carbon consumption. We believe, therefore, that businesses that rely on thermal coal as an important part of their operating model, by extension, do not have a long-term future. In addition to a substantial pecuniary risk to direct holdings, we are also conscious of the indirect systemic risks resulting from such investments. We are therefore addressing our clients' thermal coal exposures due to the potential pecuniary risks they represent. The details of our approach are explained in Insight's position on thermal coal.

Investors need evidence on the financial impact of ESG risks

Given the complexity of ESG risks and the different ways in which they could have a financial impact on fixed income portfolios, unanimity on how to assess them is not feasible, in our view. Global standards in development and regulatory proposals broadly focus on the disclosure of ESG metrics and data, but it will be up to investors to interpret their relevance and materiality for portfolios.

While investors' approaches and conclusions may differ, they will need clear evidence on which to base their assessments. We therefore believe there is a need for transparent and comparable data on ESG-related issues, and more research to show how ESG risks can have an impact on default risk and/or financial returns.

- **On transparency,** we believe all investment strategies could benefit from more information regarding factors that affect their objectives. We therefore welcome initiatives, whether by regulators, industry bodies or other collaborative efforts, that seek to promote such transparency regarding ESG metrics and information – if they are relevant for investors' decision making.
- **On research**, much of the academic research into how ESG factors influence investment performance has focused on listed equity markets rather than fixed income. This is understandable, given the transparency and simplicity of equity markets: the data is clean and each company usually has just one share class. But in fixed income markets, companies issue multiple bonds at a time with varying maturities, meaning benchmarks change far more often than those of listed equity markets. In addition, ESG data for fixed income securities can be patchy, presenting a barrier to research. However, given the significance of fixed income allocations for many investors, we believe more research to clarify the evidence around the importance of ESG risks is necessary.

CLIMATE BENCHMARKS

The number of ESG-related fixed income indices has grown strongly over the past year (96% year-on-year in 2022, according to the Index Industry Association[39]). In particular, climate and impact bond-focused indices have grown in popularity and sophistication, often at the expense of fidelity to their parent conventional indices. Index providers are widening their bespoke and custom offerings in response to increasingly sophisticated client requests, resulting in a complex landscape of products and methodologies.

Investors looking to select an appropriate benchmark for a climate-focused strategy have a range of options depending on their financial and non-financial objectives. These include the following:

- **Broad market benchmarks** that reflect the full investable universe of opportunities
- **ESG thematic benchmarks** that incorporate social and governance themes, as well as climate themes
- **Low-carbon benchmarks** typically suited to investors undertaking screening and engagement activities
- **Climate transition benchmarks** for strategies looking to manage the risks and opportunities arising from the low-carbon transition without a specific net-zero mandate
- **Paris-aligned benchmarks** which might be characterised as 'dark green' benchmarks for more constrained portfolios of net-zero-aligned investments
- **Positive impact benchmarks** which are typically suited to strategies targeting allocation to impact bonds or other climate solutions

For investment strategies targeting climate outcomes alongside traditional investment objectives, selecting an appropriate benchmark is a key consideration. While a regulatory push towards standardisation is expected to have some effect over time, bespoke climate transition benchmarks may better reflect investors' specific objectives than the broad market benchmarks that many pursue. There are a number of reasons for this:

1. Climate-focused investors are under growing pressure to measure emissions reductions relative to a climate (rather than broad market) benchmark. European authorities have clarified that passive funds classified as Article 9 under the EU SFDR with a climate objective are not able to replicate a broad market benchmark, but must instead track a Paris-aligned or climate transition benchmark.

2. Climate benchmarks present practical challenges and costs for investors – and do not necessarily reduce real-world emissions.
   - Climate benchmarks are complex, exhibit significant turnover, and can still fail to drive emissions reductions in the real economy
   - Paris-aligned benchmarks may constrain opportunities to drive, and profit from the carbon transition
   - Decarbonisation targets may be easier to deliver against broad market indices
   - While climate benchmarks imply a linear decarbonisation trajectory, active management allows deviation from the benchmark in pursuit of long-term investment objectives

3. Bespoke climate transition benchmarks can support management of emerging climate risks in line with investor objectives, while capitalising on opportunities from the low-carbon transition.

In our view, for a benchmark to effectively support the low-carbon transition, it should be balanced between some exclusions of the worst performers, allocations to investments that can demonstrate positive forward momentum on climate performance (climate improvers), and allocations to specific climate solutions – either through green bonds or through investments in companies with a high share of low-carbon research and development investment. To read more on this topic read our paperin here.

[39] https://www.indexindustry.org/sixth-annual-index-industry-association-benchmark-survey-reveals-continuing-record-breaking-esg-growth-multi-asset-expansion-by-index-providers-globally

THE NEED FOR CARBON FOOTPRINTING FOR GREEN BONDS

A key metric for many investors is the carbon footprint of their investment portfolio, as they seek greater transparency on their holdings and to comply with various regulatory requirements.

As the issuance of green bonds has grown in recent years, the carbon footprint of green bonds has implications for the carbon footprint of bond and equity portfolios, given the need to adjust companies' overall metrics to reflect any green bonds they issue.

An investor might assume that the carbon footprint of a green bond focused on climate solutions would be materially different to that of its issuer – particularly for corporate issuers that are still transitioning to a low-carbon model, meaning they are likely engaged in activities with larger carbon footprints.

However, issuers do not typically report on the carbon footprint of projects financed by a green bond. Instead, to estimate such bonds' carbon footprints, we observe that many investors use either the issuer's carbon footprint or simple estimation techniques. This could lead to different investors reaching different conclusions about the suitability of these instruments for investors with set decarbonisation or low-carbon thresholds – or even to reach a misleading conclusion about their suitability or otherwise.

A robust methodology to estimate the carbon footprint of green bonds could offer some clear benefits.

- For investors, it could help them identify and pursue sustainability outcomes linked to carbon emissions targets, such as net-zero goals, with greater confidence and precision. It may also be possible to use the output to measure progress with more accuracy.
- For issuers, it would help them comply with sustainability standards and requirements for sustainable investments even as they become more stringent. For example, the Principal Adverse Impact (PAI) regime under the EU Sustainable Finance Disclosure Regulation (SFDR) includes indicators on the carbon footprint and greenhouse gas intensity of investments.
- Overall, we believe a transparent and consistent methodology would support comparability, and thereby aid in-depth assessments of green bonds, and form part of issuer-level and security-level ESG analysis.

However, there is no accepted market standard on how to account for the carbon footprint of a green bond.

INSIGHT'S INTERNAL ESTIMATION APPROACH TO CARBON FOOTPRINTING FOR GREEN BONDS

STEP 1 Defining the allocation of proceeds

Allocation is preferably based upon either reported post-issuance allocation data or on estimated allocation split from the issuer.

- If more than one year has passed since issuance, the allocation of proceeds should be detailed in post-issuance allocation reporting, including the percentage allocated towards eligible projects and the geographical location of those projects.
- If less than one year has passed since issuance, or the allocation report has not been published, the allocation can be estimated using the issuer's previous green bond allocations as outlined in other post-issuance reporting. This assumes newer issuance will follow the same trend.
- If it is an inaugural green bond issuance, meaning previous allocation reporting is not available, the methodology assumes the allocation will be equally split between all projects outlined in the framework, and that the projects will occur in line with the general business geographical revenue generation split.

The allocation estimation is used to identify the appropriate carbon emission factor to be applied to the green bond proceeds.

STEP 2 Applying a carbon emission factor

Once allocation of proceeds has been identified or estimated, the appropriate carbon emission factors can be applied.

Under a PCAF classified data quality score 5, scope 1, 2 and 3 emission factors can be accessed for a range of economic activities within different countries and regions from PCAF. PCAF uses the Exiobase dataset and modifies the information to align emissions data with the emissions scope definitions of the GHG Protocol, a widely used standard for measuring GHG emissions.

Insight uses the asset-based emission factor (as opposed to revenue-based factor) for an economic activity: for example, electricity generated from wind. The emission factor is taken at either the country or regional level depending on suitability.

The asset-based emission factors are expressed in tCO_2e per €m; in other words, the data reflects how many tonnes of CO_2e are released by an economic activity for €1m of assets in a specific region or country.

STEP 3 Estimating the carbon emissions and carbon footprint of a green bond

The allocation proportion and carbon emission factors are combined to produce the carbon emissions and carbon footprint for individual green bonds, where an investor can evaluate based on holding size.

- **Issuer re-adjustment:** By giving green bonds a potential preferential carbon treatment, to avoid undercounting overall emissions, we believe the issuer's emissions profile should be adjusted to exclude green bonds and the projects they have financed.

  This can be achieved by taking the absolute emissions of the issuer and subtracting the estimated total emissions associated with the green bond portfolio. The size of the green bond portfolio can be subtracted from the total EVIC of the issuer, to enable the recalculation of the issuer's carbon footprint.
- **Data availability**: To promote a widescale adoption of the above estimation methodology all data points required for assumptions need to be readily available. There also needs to be industry wide agreement mapping the appropriate carbon emission factor to each ICMA-aligned green project activity.

OUR APPROACH

Until a clear standard is agreed and established, Insight is considering complementing our current carbon-footprint reporting with an estimation of the carbon footprint of green bonds for funds targeting impact bond allocations. In the absence of agreed estimation methodologies and easily accessible data, the simplest approach is to apply a percentage reduction of an issuer's carbon emissions, but a robust rationale for a specific reduction would need to be developed.

We believe, however, that the perfect should not be the enemy of the good. While progress is needed on the methodologies applied, in our view, they still more accurately reflect the reality of green bonds' carbon footprints and their implications for how investors view the asset class, and relevant issuers' non-green bond issuance. We would therefore urge the industry to proceed with seeking to estimate green bonds' carbon footprints, even as we work together to refine and standardise exactly how we do so.

IMPORTANT INFORMATION

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of certain currency conversions, such as currency hedging, and exchange rate fluctuations.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies over time, and/or prevailing market conditions and are not an exact indicator. They are speculative in nature and are only an estimate. What you will get will vary depending on how the market performs and how long you keep the investment/product. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialize or vary significantly from the actual results. Accordingly, the projections are only an estimate.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Fixed Income

Where the portfolio holds over 35% of its net asset value in securities of one governmental issuer, the value of the portfolio may be profoundly affected if one or more of these issuers fails to meet its obligations or suffers a ratings downgrade.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Exposure to international markets means exposure to changes in currency rates which could affect the value of the portfolio.

Where leverage is used as part of the management of the portfolio through the use of swaps and other derivative instruments, this can increase the overall volatility. While leverage presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. Any event that adversely affects the value of an investment would be magnified to the extent that leverage is employed by the portfolio. Any losses would therefore be greater than if leverage were not employed.

Currency risk management

Currency hedging techniques aim to eliminate the effects of changes in the exchange rate between the currency of the underlying investments and the base currency (i.e. the reporting currency) of the portfolio. These techniques may not eliminate all the currency risk.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

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ESG

- **Investment type:** The application and overall influence of ESG approaches may differ, potentially materially, across asset classes, geographies, sectors, specific investments or portfolios due to the nature of the specific securities and instruments available, the wide range of ESG factors which may be applied and ESG industry practices applicable in a particular investable universe.
- **Integration:** The integration of ESG factors refers to the inclusion of ESG risk factors alongside financial risk factors in investment analysis and research to judge the fair value of a particular investment and may also include the monitoring and reporting of such risks within a portfolio. Integrating ESG factors in this way will not typically restrict the potential investable universe, but rather aims to ensure that what we believe to be relevant and material ESG risks are taken into account by analysts and/or portfolio managers in their decision-making, alongside other relevant and material financial risks.

- **Ratings:** The use and influence of our ESG ratings in specific investment strategies will vary, potentially significantly, depending on a number of factors including the nature of the asset class and the structure of the investment mandate involved. For an investment portfolio with a financial objective, and without specific ESG or sustainability objectives, a high or low ESG rating may not automatically lead to a buy or sell decision: the rating will be one factor among others that may help a portfolio manager in evaluating potential investments consistently.
- **Engagement activity:** The applicability of Insight firm level ESG engagement activity and the outcomes of this activity relating to buy, hold and sell decisions made within specific investment strategies will vary, potentially significantly, depending on the nature of the asset class and the structure of the investment mandate involved.
- **Reporting:** The ESG approach shown is indicative and there is no guarantee that the specific approach will be applied across the whole portfolio.

  Performance/quality: The influence of ESG criteria on the overall risk and return characteristics of a portfolio is likely to vary over time depending on the investment universe, investment strategy and objective and the influence of ESG factors directly applicable on valuations which will vary over time.
- **Costs**: The costs described will have an impact on the amount of the investment and expected returns.
- **Forward looking commitments and related targets:** Where we are required to provide details of forward-looking targets in line with commitments to external organizations, e.g. Net Zero Asset Managers Initiative, these goals are aspirational and defined to the extent that we are able and in accordance with the third party guidance provided. As such we do not guarantee that we will meet them in whole or in part or that the guidance will not evolve over time. Assumptions will vary, but include whether the investable universe evolves to make suitable investments available to us over time and the approval of our clients to allow us to align their assets with goals in the context of the implications for their investments and issues such as their fiduciary duty to beneficiaries.

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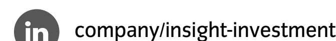

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