**Fixed Income Perspectives: Thrive through Innovation and Solution Orientation**

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* Meketa Investment Group - Mark McKeown, CFA, Managing Principal, Head of Fixed Income
* Mercer - Erin Lefkowitz, Senior Portfolio Manager
* Wilshire Fixed Income - William Beck, Senior Vice President
* Moderators:
  + John Larson, VP, Consultant Relations, Federated Hermes
  + Jon Morgan, Head of Consultant Relations, North America Insight Investment

Leading fixed income experts share their observations on how they are navigating the challenging inflation environment, managing Fed policy changes, evaluating sustainability, diversifying and maximizing the impact of fixed income portfolios amidst historically challenging headwinds.

Geopolitical pressures:

* Erin:
  + Active management and agility throughout devaluation of bonds & active currency trading helped as we faced extreme pressure & zero liquidity.
  + This has highlighted interesting things going forward 🡪 speed at which markets are impacted. Overarching questions arise like “where are we in the cycle?”. It’s less about what’s happening now and more about “what's next”?
* Mark:
  + Most important thing to do at that moment is call all managers to ask “what are you doing?” and get a tally of Russian exposure.
  + We use core with satellite managers. Core plus is only used when clients want core plus against our will. We didn't have clients divest from EMD otherwise that would have caused other liquidity issues.
* Will: Stick with your long-term asset allocation. We built portfolios for the long haul. It was great to get manager feedback regularly. Over communication was good during these times.

40-year party of tailwinds is over. Inflation. Fed response. What is next?

* Erin:
  + We’re about to go through coordinated central bank action. Where do you hide? Can't hide in core. Good spaces are opportunistic, EMD, active management.
  + Clients are no longer looking to out-yield. They need to mitigate risks, lower vol, relative value/ old school, stay away from long end of the curve.
* Mark:
  + Picking managers & asset-allocation is important in these times. Important to know what you're getting.
  + Focus on asset allocation. Revisiting led to bank loans. Considering less HY & more BL.
  + TPS? Recommended historically but now need more. Creates opportunities with managers we haven't worked with before.

How do you react to managers presenting new opportunities?

* Mark: I like it, but can I sell it to the consultants / clients? It’s an education process. Sitting in core is not a great call.

How quickly can you sell it to consultants/clients?

* Will: Depends. Advisory clients move slower. We had a big push in 2018 to look into securitized and to deviate from the agg (alternative to agg). There was only uptake in OCIO. Advisory can't be as tactical. By the time they move, the valve is gone.

Discuss multi-asset credit (MAC)/ unconstrained vs disaggregation of the agg:

* Mark: Sometimes you don't know exactly what the client is looking for. We had a search for disaggregation of the agg. The RFP was vague; we wanted core managers with a side note exploring securitized as well.

How do you deal with boutique firms as large consultants?

* Erin:
  + OCIO leads the way, ahead of advisory. Can't launch with seed money, must be client money. She can do multi-asset credit with multiple managers; not going to do asset allocation.
  + DB segment is 8-12 yr. LDI, private debt, short duration space, not *shorting* duration
  + Within securitized, boutique works well. A couple big managers that can traverse, then let the boutiques do what they do best. Opportunity in MAC with multiple mangers for non-DB.
* Will: There’s a place for boutique. Be able to show track record and that you can have consistent expectations years 1-4 and post 4 years. Be honest regarding capacity constraints. Doesn't have to be in specialized areas; can be core.
* Mark: Core clients tend to like boutique for core. A little different with more access. We have an EM manager day. There have been less boutique managers because they’ve been successful. With less mangers, they’re more unique.

Vehicles?

* Will: Unicorn strategy is available in all vehicles. Need separate accounts for large clients. Commingled. CIT has been a big area of focus as we build out more product. Intermediary space: MF. Some ETFs but partially to keep fees down.
* Mark: Commingled leads. Separate accounts. CIT becoming more so.
* Will: Vehicles offering daily liquidity with liquidity of the underlying being important. Be honest about it, i.e., securitized & bank loans may not have perfect daily liquidity.

How do you allocate active management fees?

* Erin: Pay for active credit. Isolate where you spend. Use passive where you can. Start based on size and we can allocate and diversify from there. Can't lead with fees. Diversification is the most important. We've hit the bottom with fees.

DEI/ ESG: How you apply it in FI?

* Mark: It's all we hear about in FI. Demand is the real question. It’s great to have it set up and there is demand for that, but we’re not seeing dedicated mandates yet. We want to have managers that have those capabilities but not at the point yet.
* Erin: Echo that in North America, the demand is not there. Asia Pac is at the forefront. Europe a little behind them. At the end of the day, it's about performance until regulation makes it otherwise. That said, it’s increasing important to have the convo about integration. That's one of the factors considered. ESG integration is part of managers’ overall score.

CLOs?

* Mark: Curious why institutional investors haven’t embraced CLOs. I’ve had some convos, but I have a credit background. PC side is too busy. It falls in between the groups; it’s overlooked & should have more focus. Even consultants are not sure who covers it.
* Will: We have seen it as a value-add, not as dedicated CLO mandates.

House view on Russia?

* Mark: Not investing in anyone intending to invest in Russia