

# GLOBAL FIXED INCOME REPORT

## *REVIEW OF ASSET ALLOCATION TRENDS, ASSET CLASS AND MANAGER PERFORMANCE*

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●●● Unlocking your investment advantage

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Allocation Trends



Asset Class Insights



Manager Insights

## Key Points

- ❖ Institutional allocation to GFI has been rising in recent times.
- ❖ GFI sectors and asset class has done very well over year and decade on the back of falling rates around the world.
- ❖ In 2019, Emerging markets outperformed Developed market returns. UK, Canada, Italy and Australia amongst the best performers in DM.
- ❖ While yield dispersion across major segments remain high, investors need to avoid sectors with high risk, low returns.
- ❖ Active manager performance has been mixed across most styles, yield based style stands out the most.
- ❖ Dispersion of key portfolio and return drivers is very high amongst global fixed income managers.
- ❖ Investors need to compare managers of similar style to ensure apple to apple comps.
- ❖ Dispersion on performance and risk also very high, reflecting greater dispersion of style and factor biases.

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# 1. INDUSTRY DYNAMICS

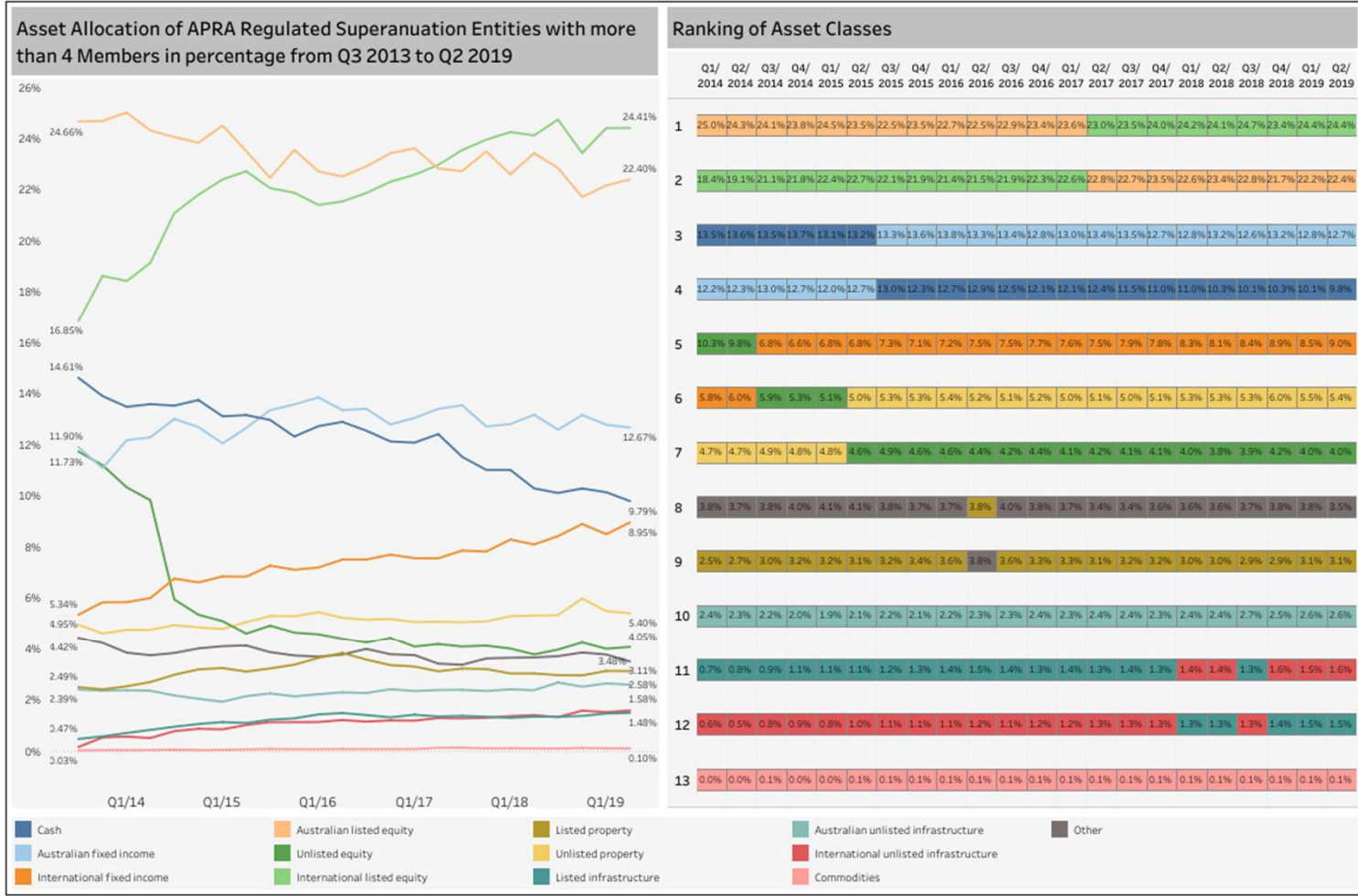
GLOBAL FIXED INCOME ALLOCATION HAS BEEN INCREASING

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**Foresight Analytics**

## Asset Allocation Trends

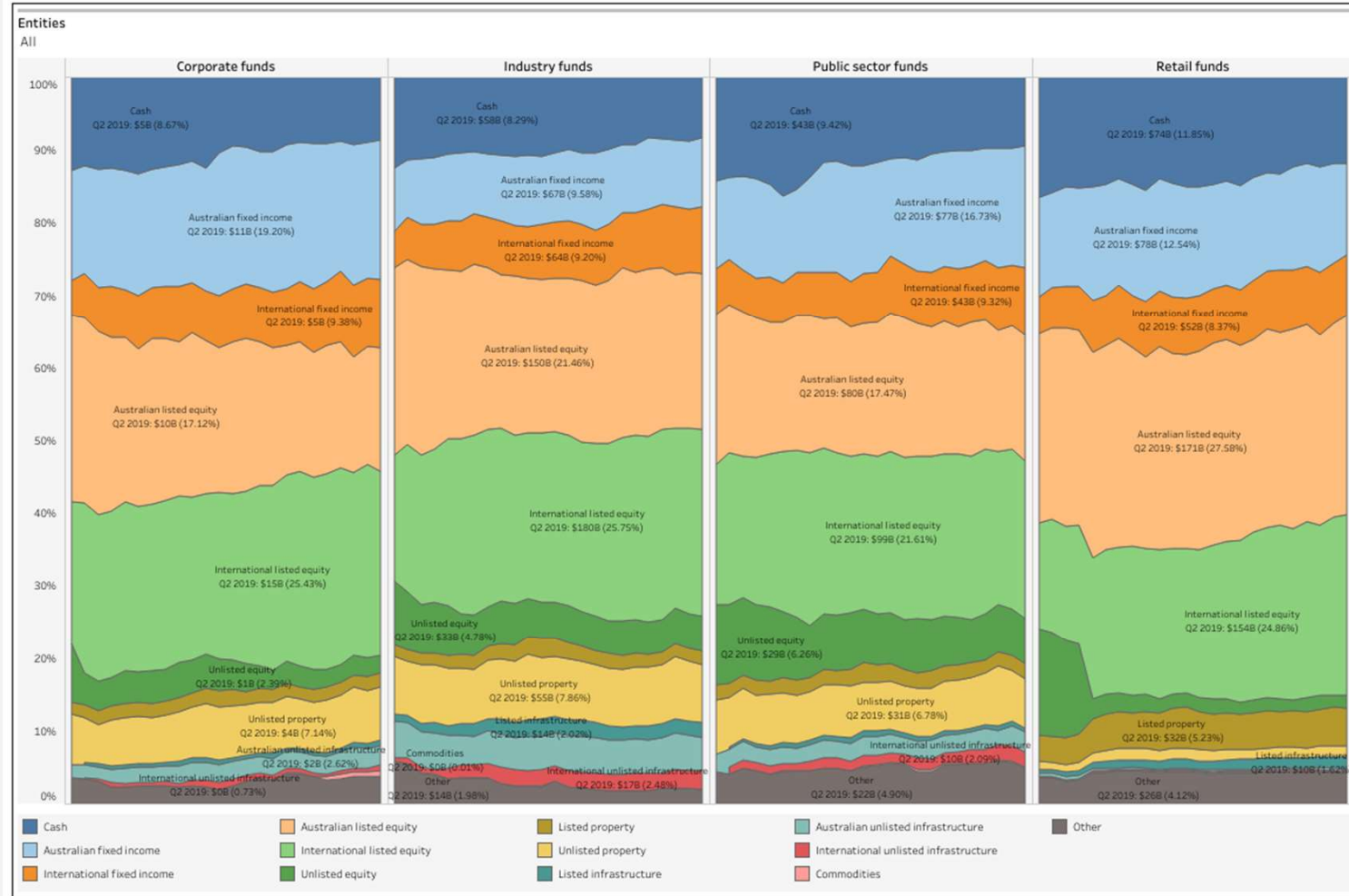
- Allocations to GFI assets have been rising steadily over the past 5 years
- Q1 2014: 5.8%
- Q2 2019: 9.0%



Source: Foresight Digital  
 Data source: Australian Bureau of Statistics (ABS) and Australian Prudential Regulation Authority (APRA)

## Asset Allocation Trends

- The addressable market for GFI is very large across the major superannuation segments
- Total assets invested across the system represent \$164bn.



Source: Foresight Digital  
Data source: Australian Prudential Regulation Authority (APRA)

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## 2. ASSET CLASS INSIGHTS

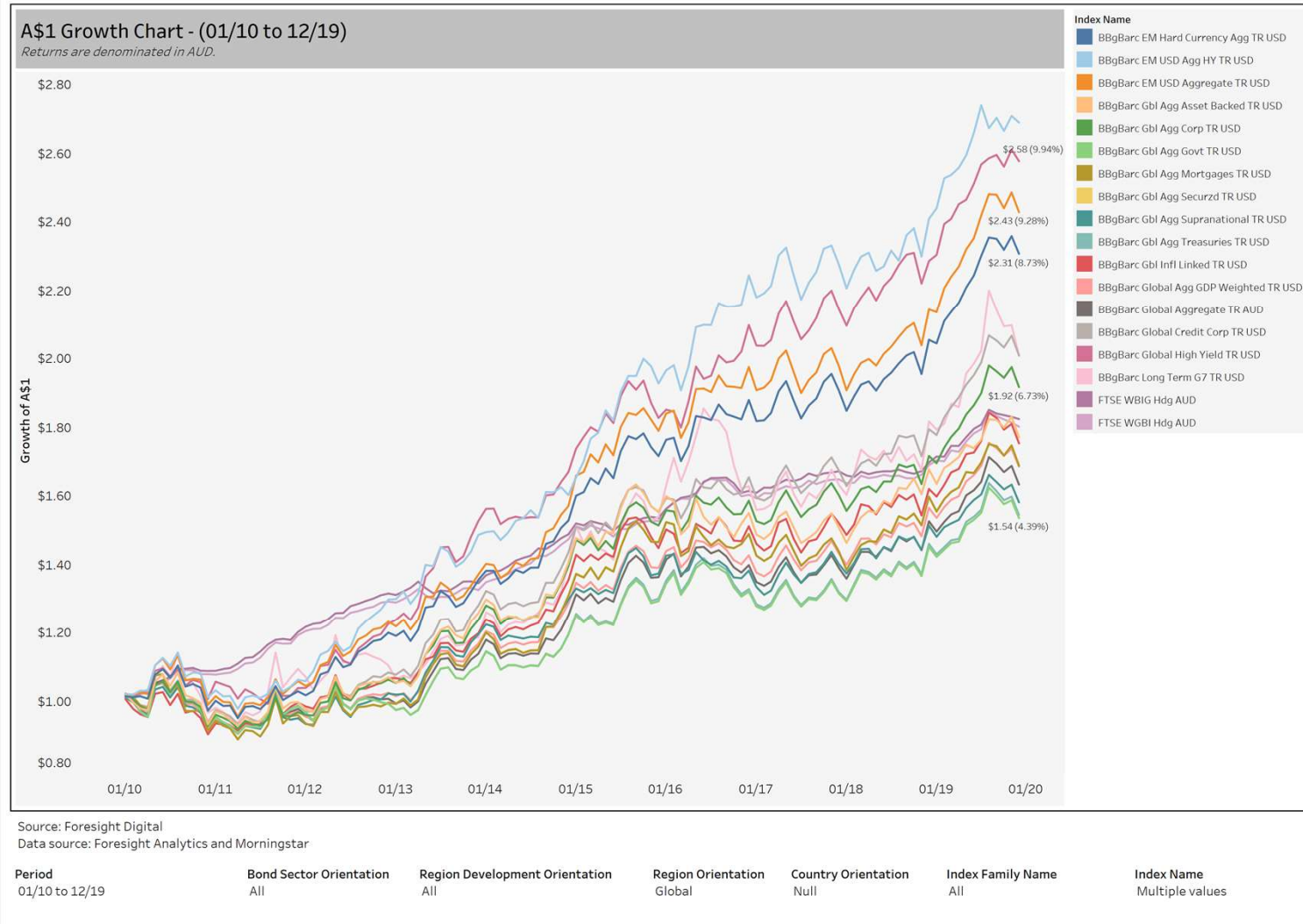
HIGH RISK TAKING HAS BEEN REWARDED WELL

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Performance has been very strong across the board

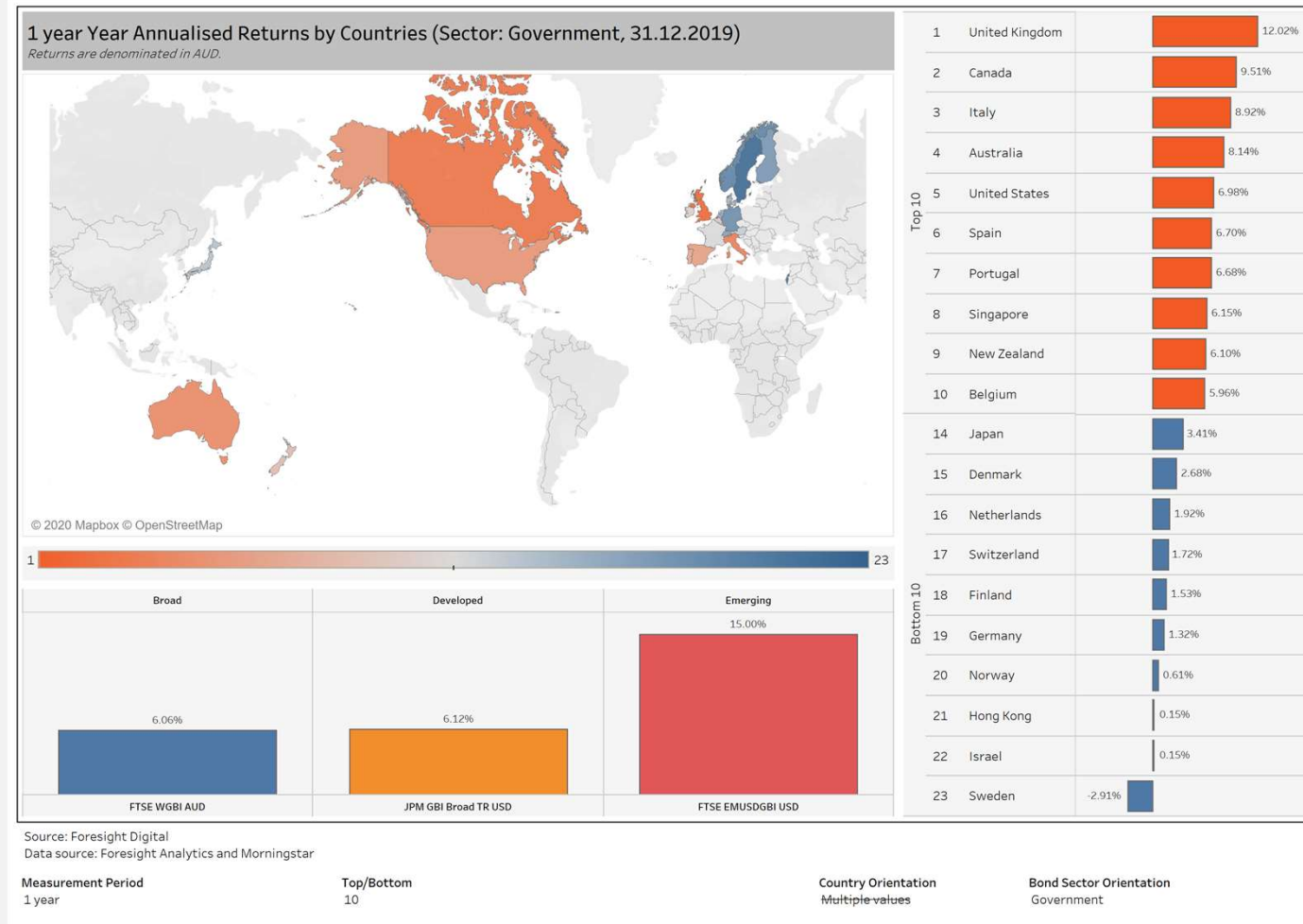
- Risky segments have delivered strong returns.
- EM High Yield, Global High Yield and EM Aggregate have done very well in AUD terms.
- Watch-out for low return, high risk segments for potential issues.





## Performance by country and region – Government bonds

- Emerging market government bonds have delivered the best returns in 2019.
- Within Developed markets; UK, Canada and Italy lead the pack
- Australia also delivered strong results



## Long Term Performance by sectors

- Risky segments have delivered strong returns.
- EM USD Aggregate HY experienced highest levels of growth over 5-, 10- and 15-year periods.
- FTSE EM USD Government Bond Index delivered highest returns over 1- and 3-year periods.
- Global High Yield bonds have delivered top 5 returns across all periods shown.

Winners and Losers - Annualized Returns (31.12.2019)						
Returns are denominated in AUD.						
	1 year	3 year	5 year	7 year	10 year	15 year
1	15.00%	7.58%	10.91%	11.19%	10.41%	8.79%
2	13.28%	7.23%	9.18%	10.96%	9.94%	8.02%
3	12.73%	7.12%	9.11%	10.22%	9.36%	8.01%
4	12.30%	7.10%	9.07%	10.17%	9.28%	7.46%
5	11.68%	7.08%	8.59%	9.79%	8.73%	6.53%
6	11.65%	6.51%	7.48%	8.91%	7.22%	6.41%
7	10.90%	6.36%	6.55%	8.79%	6.73%	5.47%
8	10.48%	6.22%	6.34%	8.53%	6.52%	4.76%
9	8.21%	5.70%	5.55%	7.83%	6.20%	4.68%
10	7.67%	5.31%	5.46%	7.47%	6.07%	4.39%
11	7.43%	5.15%	5.29%	7.37%	5.89%	4.36%
12	7.00%	5.15%	5.25%	7.36%	5.78%	4.20%
13	6.63%	5.15%	5.25%	7.15%	5.39%	4.13%
14	6.06%	5.13%	5.21%	6.56%	5.37%	3.92%
15	5.75%	5.06%	5.18%	6.52%	5.03%	3.65%
16	5.75%	4.58%	5.17%	6.52%	4.70%	3.50%
17	5.75%	4.53%	4.73%	6.43%	4.45%	3.50%
18	5.65%	4.27%	4.15%	6.43%	4.45%	3.50%
19	5.57%	4.15%	4.10%	4.86%	4.39%	3.48%
20	4.47%	3.96%	4.03%	4.77%	4.39%	-2.17%

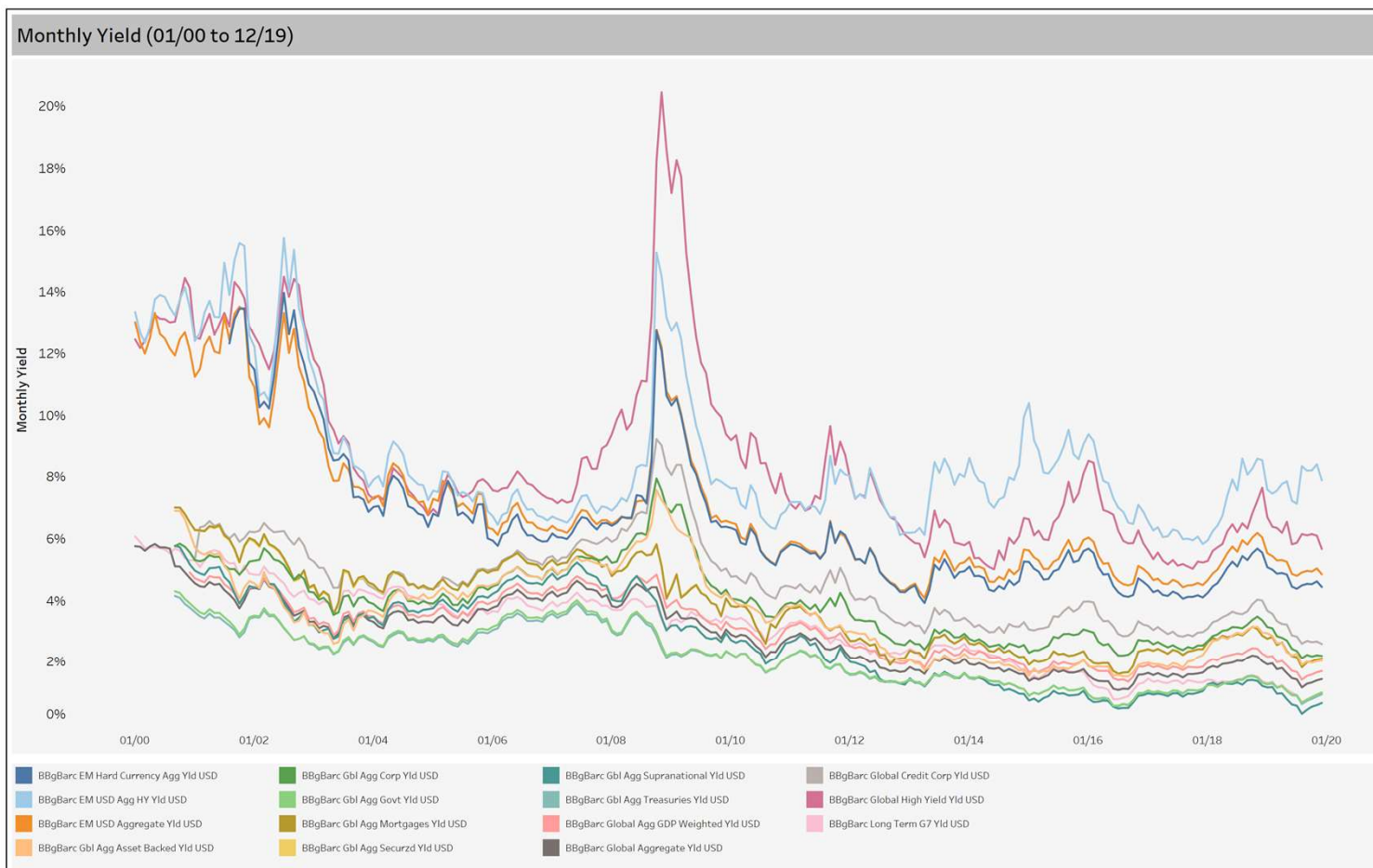
- BBgBarc EM Hard Currency Agg TR USD
- BBgBarc EM USD Agg HY TR USD
- BBgBarc EM USD Aggregate TR USD
- BBgBarc Gbl Agg Asset Backed TR USD
- BBgBarc Gbl Agg Corp TR USD
- BBgBarc Gbl Agg Credit TR USD
- BBgBarc Gbl Agg Govt TR USD
- BBgBarc Gbl Agg Securzd TR USD
- BBgBarc Gbl Agg Supranational TR USD
- BBgBarc Gbl Agg Treasuries TR USD
- BBgBarc Gbl Infl Linked TR USD
- BBgBarc Global Agg GDP Weighted TR USD
- BBgBarc Global Aggregate TR AUD
- BBgBarc Global High Yield TR USD
- BBgBarc Global Treasury TR USD
- BBgBarc Long Term G7 TR USD
- FTSE EMUSDGBI USD
- FTSE WBIG Hdg AUD
- FTSE WGBI AUD
- FTSE WGBI Hdg AUD

Source: Foresight Digital  
Data source: Foresight Analytics and Morningstar

Bond Sector Orientation All    Region Development Orientation All    Region Orientation Global    Country Orientation Null    Index Family Name All    Index Name Multiple values

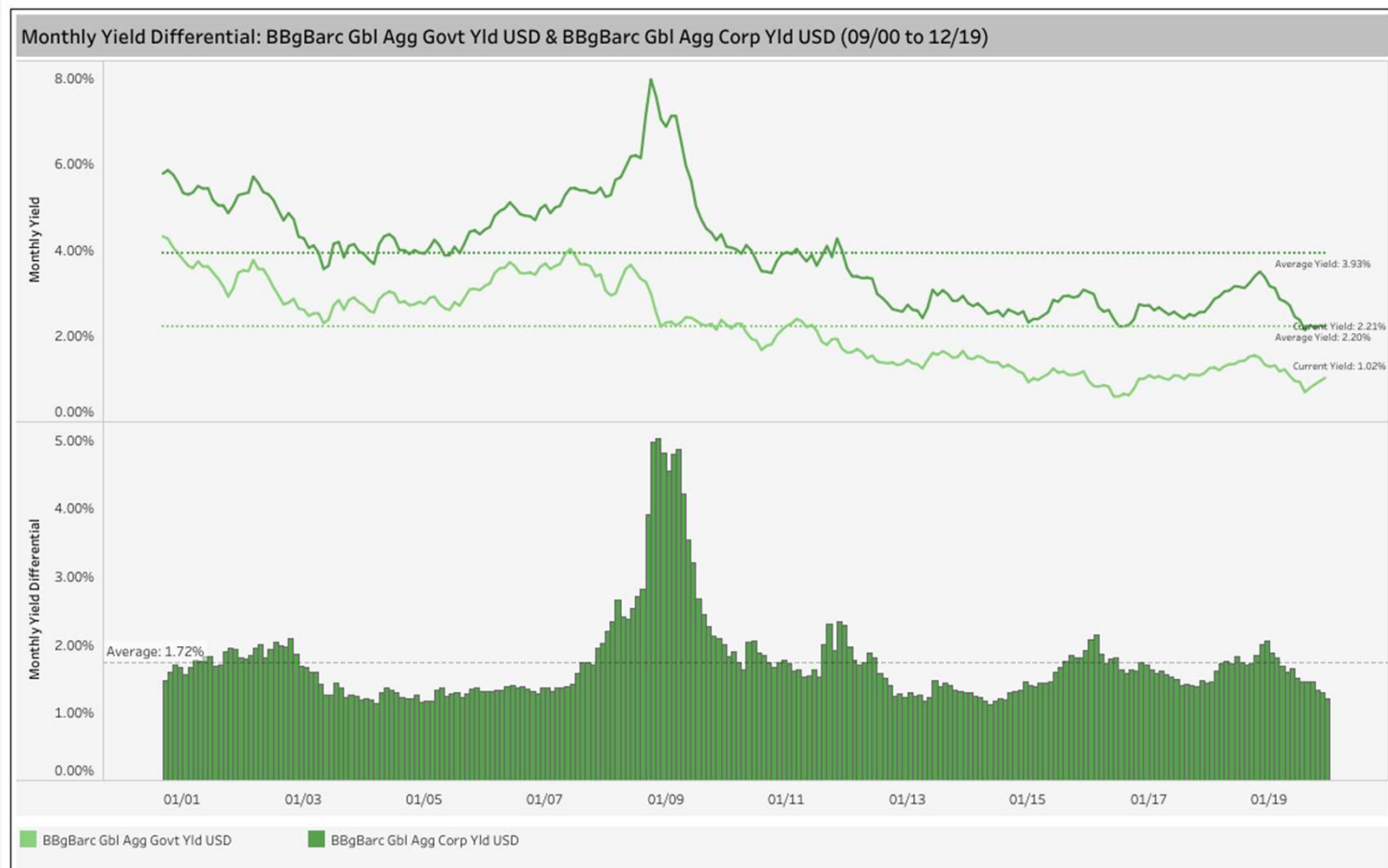
## Yield dispersion still high across the segments

- Yield dispersion continues to offer opportunities to add value through active management.
- Developed market sector yields have converged.
- Not all sectors offer commensurate risk premium.



## Watch out for low return, high risk segments

- Global corporate yield spreads are now below long term average.
- In the context of late corporate earnings cycle, are investors appropriately compensated for taking credit risk?



Source: Foresight Digital..

Bond Sector Orientation  
Multiple values

Region Development Orientation  
All

Index Family Name  
Barclays Capital Indices

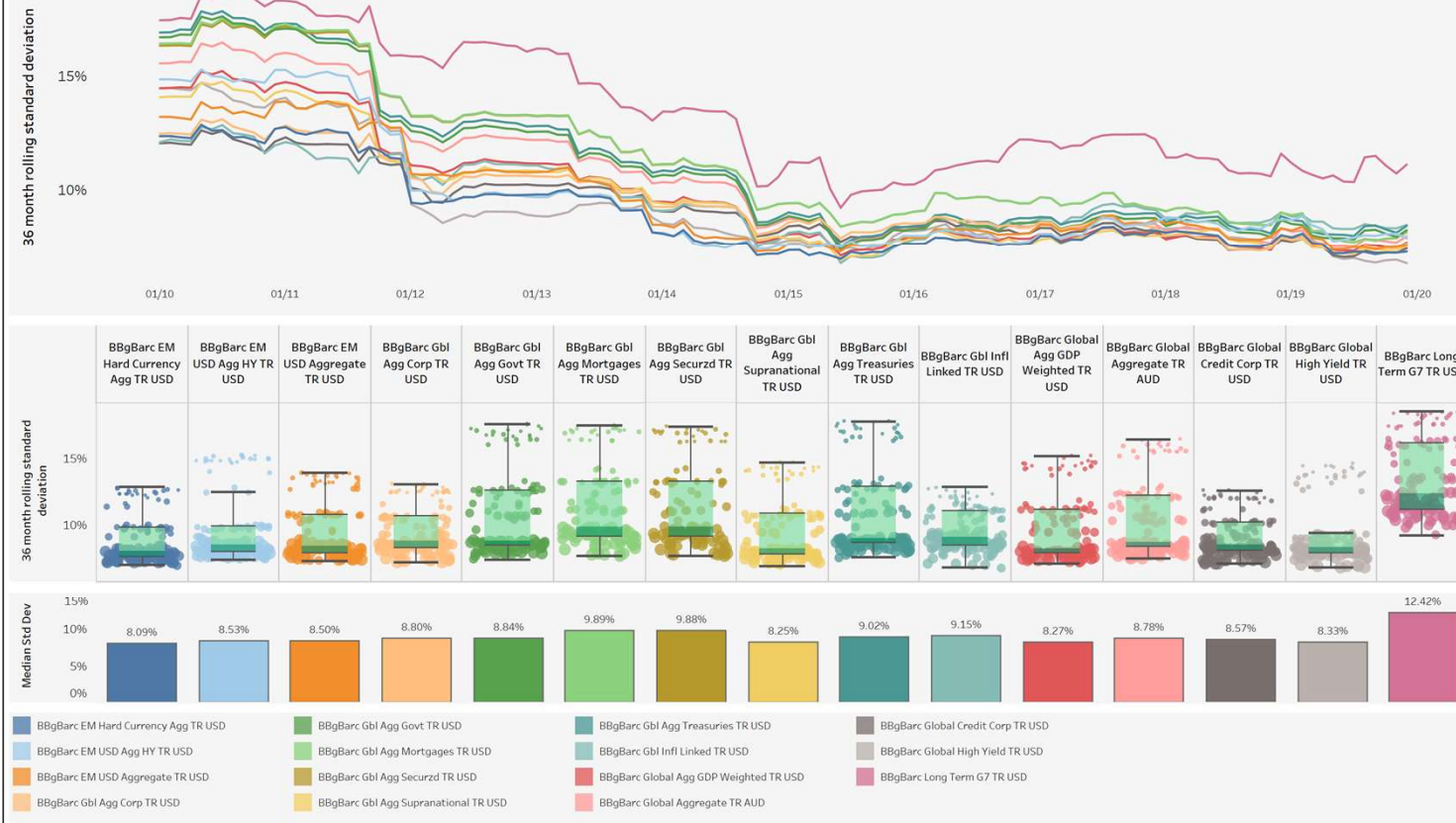
Select 2 indices for comparison  
Multiple values

## Longer term volatility still low for now

- Rolling volatility shows G7 bonds (USD) currently has the highest volatility.
- Second and third panels show that G7 bonds have had the highest dispersion (also highest median) in volatility over the median 10 year period.
- The least dispersion in volatility was experienced by EM Hard Currency bonds.

### 36 Month Rolling Volatility (01/10 to 12/19)

Returns are denominated in AUD.



Source: Foresight Digital  
Data source: Foresight Analytics and Morningstar

Period  
01/10 to 12/19

Bond Sector Orientation  
All

Region Development Orientation  
All

Region Orientation  
Global

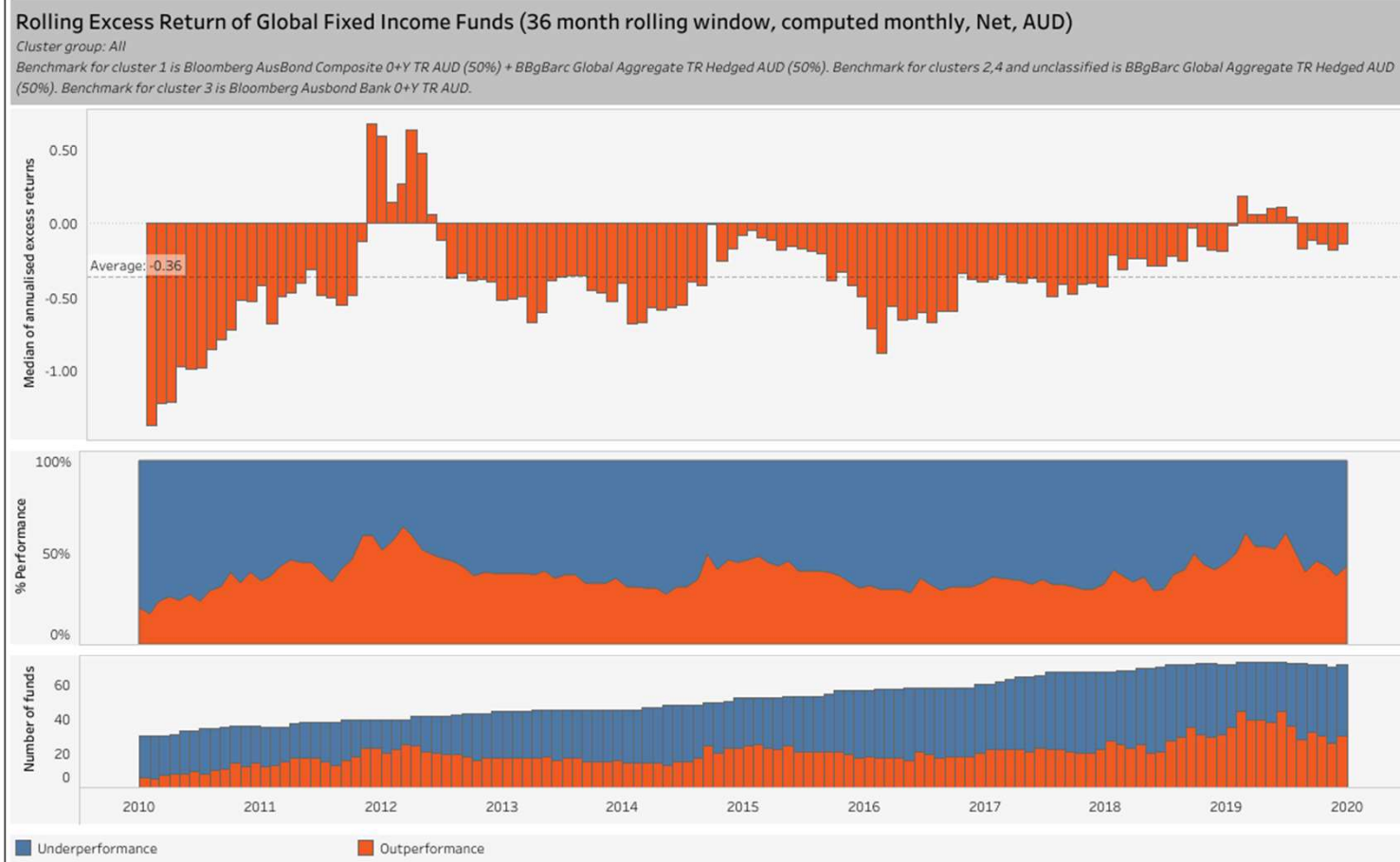
Country Orientation  
Null

Index Family Name  
Barclays Capital I..

Index Name  
Multiple values

Manager performance across all style segments is disappointing.

- Global fixed income manager performance (broad group) has been disappointing since the GFC.
- While more offerings have hit the market, only about 40% of managers have actually beaten their index.



Source: Foresight Digital  
Data source: Foresight Analytics and Morningstar

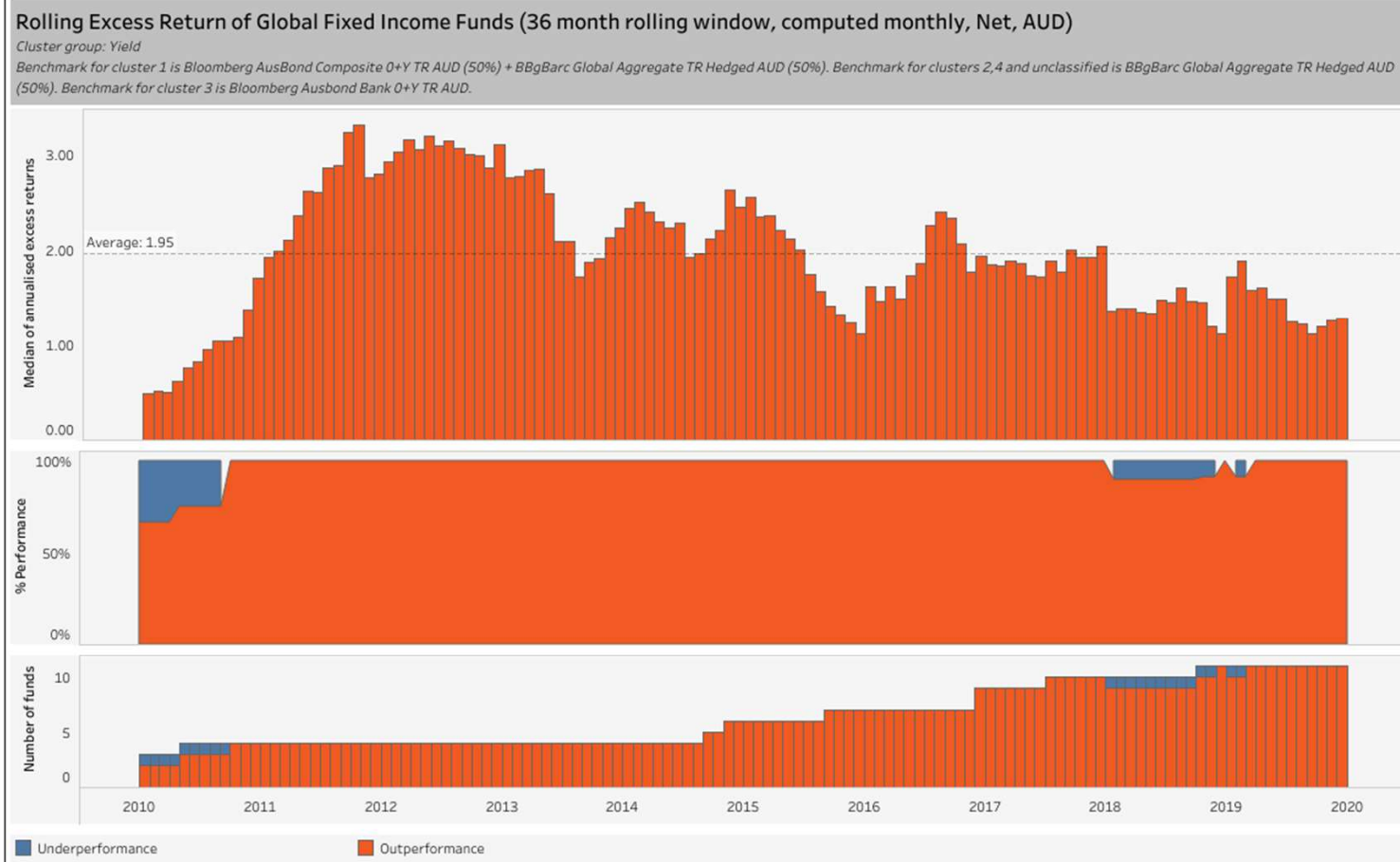
Period  
01/10 to 12/19

Cluster Group  
All

Rolling Window  
36 month rolling window

## Manager performance across Yield style has been much stronger

- Managers within the Foresight investment style 'Yield' have done well since the GFC.
- Average outperformance has been 2% above the cash benchmark.
- Almost 100% of managers have outperformed consistently.



Source: Foresight Digital  
Data source: Foresight Analytics and Morningstar

Period  
01/10 to 12/19

Cluster Group  
Yield

Rolling Window  
36 month rolling window

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## 3. ACTIVE INSIGHTS ON MANAGERS

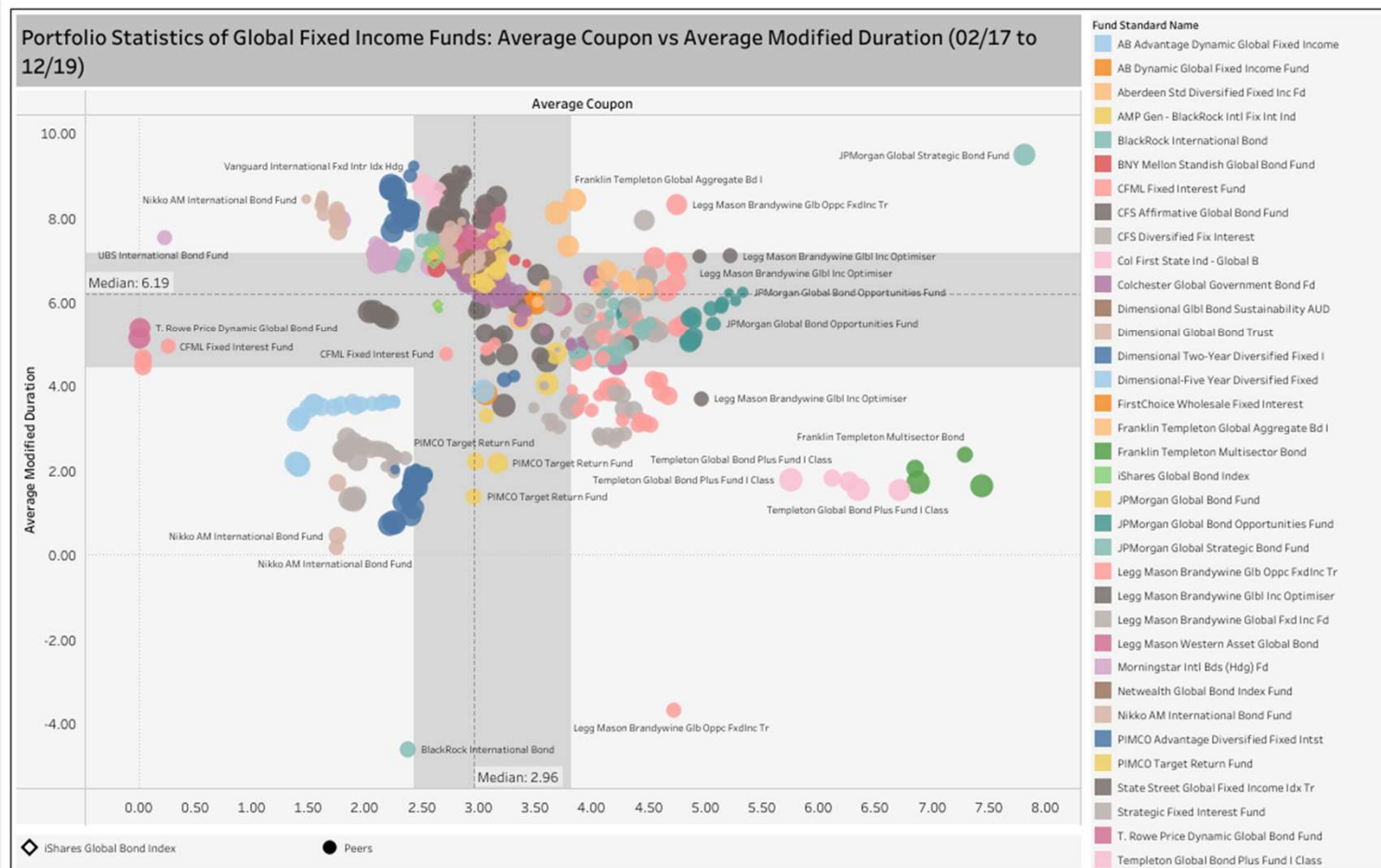
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Dispersion of portfolio drivers is very high

- Significant dispersion across Foresight style groups.
- Key reason why style-based grouping is important.



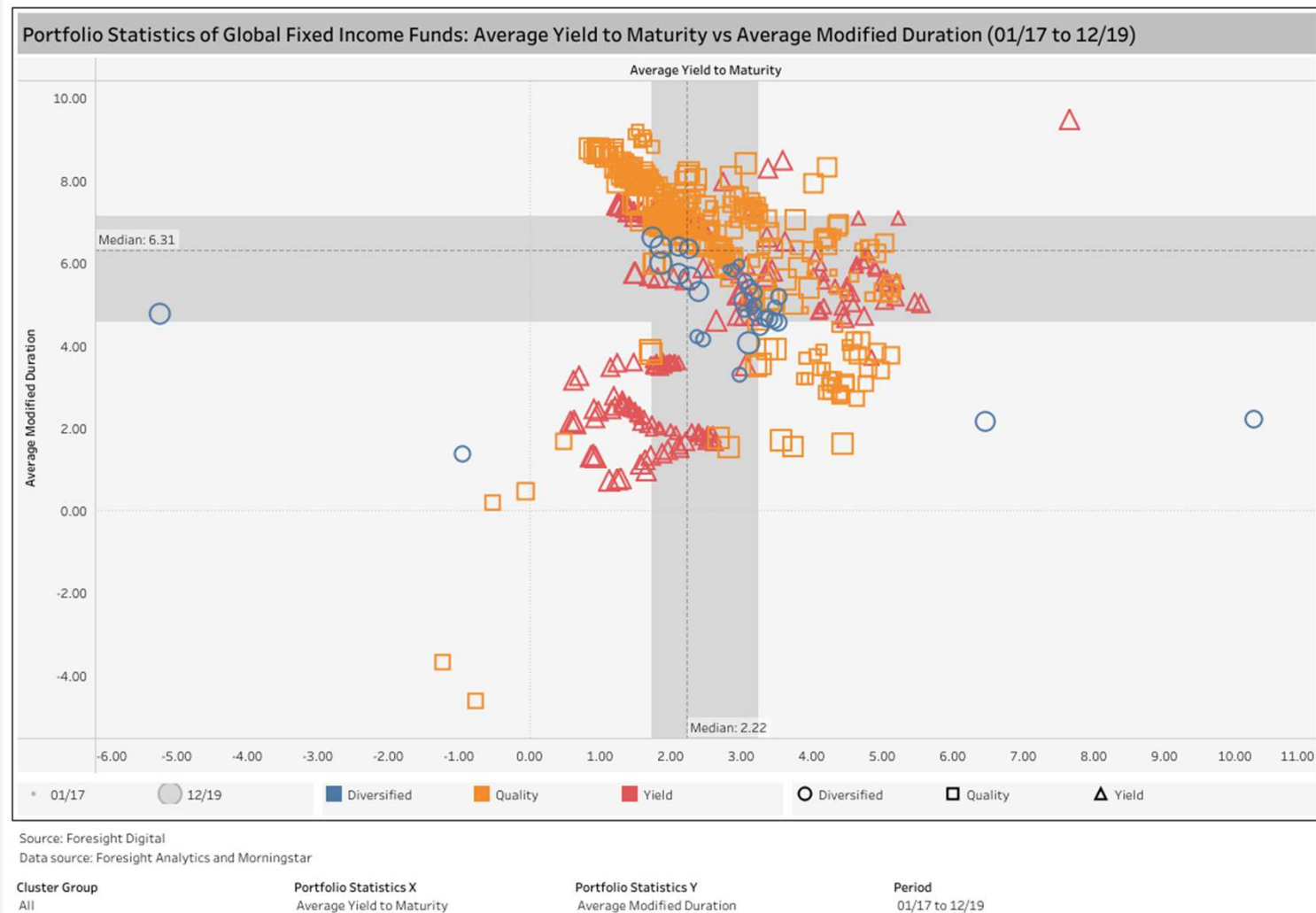
## Dispersion of portfolio drivers is very high

- Average coupon of the Foresight peer group is 3.2% with a range between 1% and 7%.
- Average effective duration is 7% with a peer group range between 12 years and 1 year.
- Variation of duration with style groups is much lower as expected.



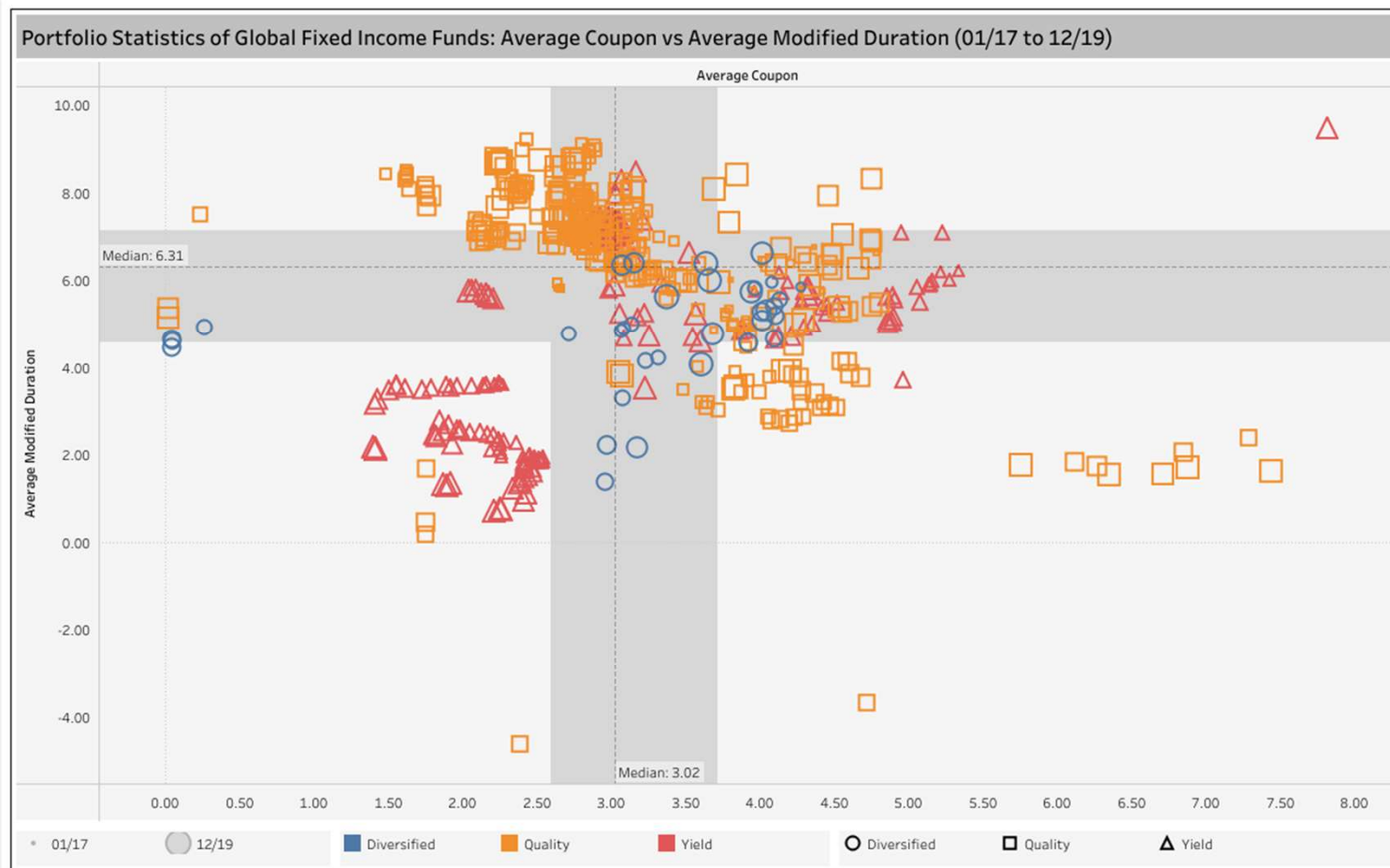
## Dispersion of portfolio drivers is very high

- Median modified duration is 6.31 years and median YTM is 2.22
- Significant dispersion across Foresight style groups.
- Key reason why style-based grouping is important.



Dispersion of portfolio drivers is very high

- Median modified duration is 6.31 years and median coupon is 3.02
- Significant dispersion across Foresight style groups.
- Key reason why style-based grouping is important.

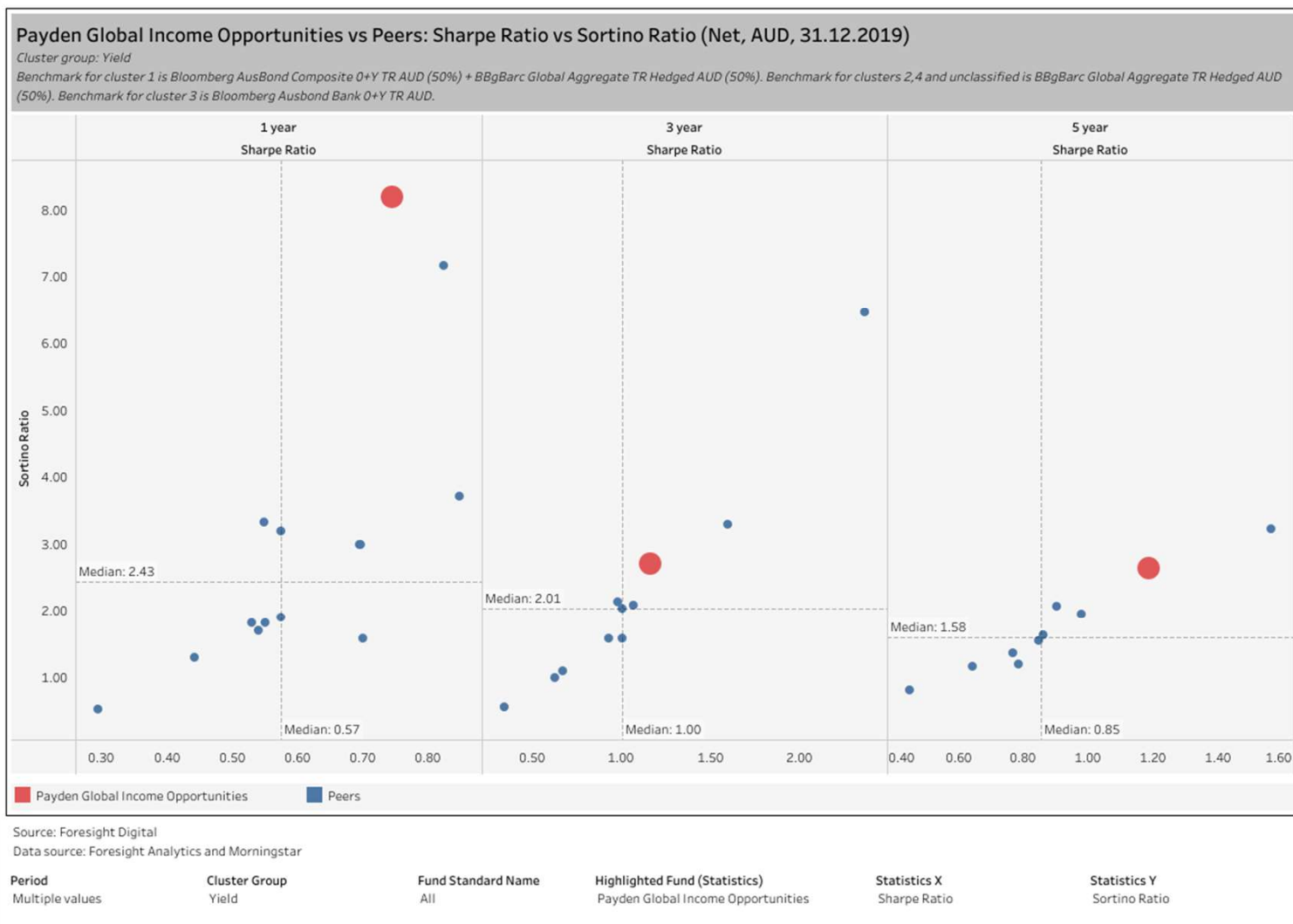


Source: Foresight Digital  
Data source: Foresight Analytics and Morningstar

Cluster Group: All  
Portfolio Statistics X: Average Coupon  
Portfolio Statistics Y: Average Modified Duration  
Period: 01/17 to 12/19

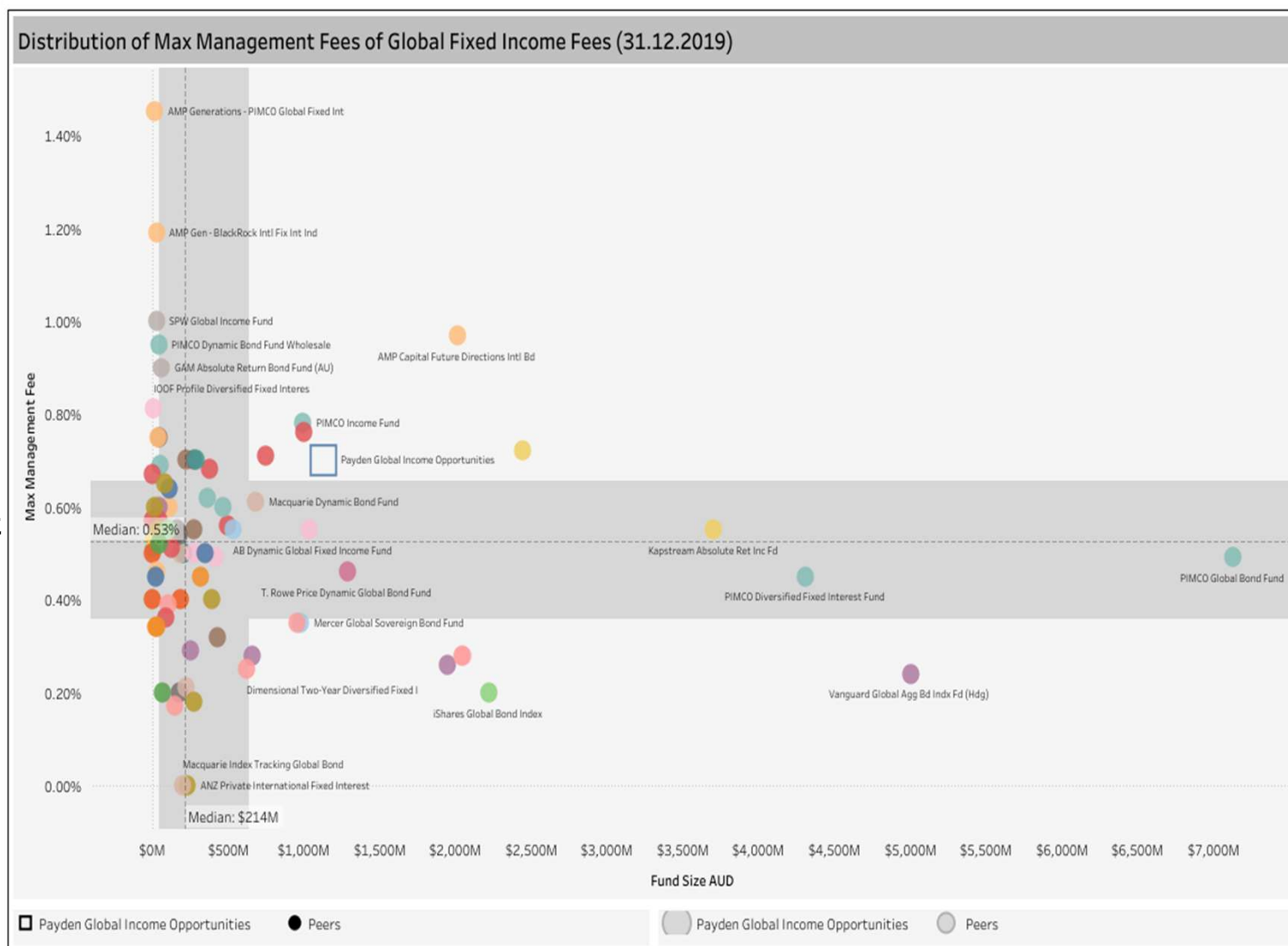
## Manager risk adjusted performance

- Manager risk adjusted performance variation across Foresight 'Yield' style is quite high



## Dispersion of fees higher than return

- The median fee level is 0.53% for all managers
- Passive funds are charging 0.2%
- Macquarie true index is the cheapest offering in the peer group



Source: Foresight Digital  
Data source: Foresight Analytics and Morningstar

Cluster Group  
All

Highlighted Fund  
Payden Global Income Opportunities

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# APPENDIX

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**Foresight Analytics**

## *Foresight Fixed Income Methodology*

### Clustering Technique

Foresight uses clustering technique based on statistical method. The technique is designed to define the true style of fixed income managers so that any comparison is more reliable and relevant. The underlying drivers of clustering analysis include:

- Region
- Primary sector
- Maturity
- Credit quality
- Coupon

Foresight Clusters – based on three years average allocation data

***Diversified*** – there is a balanced exposure to each of the 5 key style drivers

***Quality*** – the dominant bias of the portfolio is towards the highest rate securities in developed markets

***Yield*** – the dominant bias is towards the high yield securities across any market



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