

MONEY

management executive

The Premier News Source
for Asset Management Leaders

May 2020 | Volume 28 • Number 5 | mmexecutive.com

TOP WOMEN IN ASSET MANAGEMENT



By Andrew Shilling and Rebecca Stropoli

Every year, *Money Management Executive* recognizes women who are making meaningful contributions to asset management. This year, that recognition comes at a time of serious crisis, as the global economy weathers the deep impact of the coronavirus pandemic.

We asked this year's Top Women in Asset Management honorees to discuss how their firms are coping with the crisis, and how this period may reshape the industry.

Several executives note the sudden shift to a fully virtual business model, and the challenges and opportunities that come with the forced adaptation.

"We have effectively gone all digital in many aspects of our work lives at an un-

[SEE WINNERS](#), on page 6

STRATEGY: Why JPMorgan's Oksana Aronov was already planning for a credit bust

By James Crombie

Oksana Aronov knows how it feels to lose everything. In 1991 her family moved to the U.S. after the Soviet Union fell.

They were allowed to take only \$360, so they left behind the wealth and property her parents had accumulated over their combined 50 years

of work.

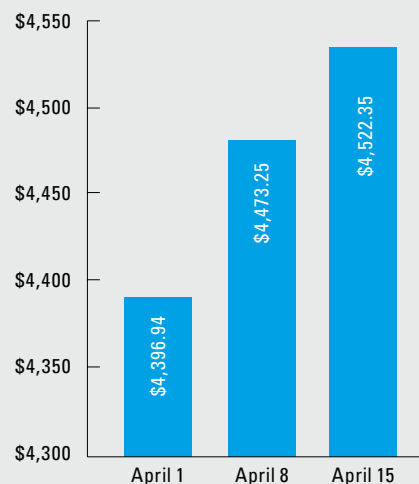
That experience informs Aronov's view of what's at the heart of credit portfolio management: risk.

Now a 21-year veteran of financial markets, Aronov leads market strategy for the \$16 billion absolute return fixed-income platform at J.P. Morgan Asset Management in New York.

Fascinated by the mathematical bounds of bond markets, she says fixed-income in-

CREDIT, on page 14

Money market fund assets grew by \$49.1 billion for the week ending April 15 (billions)



Source: Investment Company Institute

INDUSTRY HIGHLIGHTS

SEC PROVIDES TEMPORARY FLEXIBILITY AMID CORONAVIRUS

The SEC says it has granted temporary flexibility for registered funds affected by market volatility from the coronavirus pandemic, allowing firms to borrow from affiliates and enter lending arrangements.

The relief measures are designed to provide funds with additional tools to manage their portfolios for the benefit of all shareholders as investors may seek to rebalance their investments, according to the regulator.

“This action provides funds with additional flexibility to navigate volatile markets while meeting their obligations to investors,” says SEC Chairman Jay Clayton.

VANGUARD TO STREAMLINE VALUE FUND LINEUP WITH MERGER

Vanguard plans to merge the \$770 million Vanguard Capital Value Fund (VCVLX) into its \$17.6 billion Vanguard Windsor Fund (VWNDX), according to the firm.

Following the merger, which is expected to be completed later this year, the combined fund will retain the Windsor name and continue to focus on large- and mid-cap value stocks, the firm says.

The combined fund will continue to be managed by Wellington Management Company — approximately 70% of assets — and Pzena Investment Management — approximately 30% of assets, the firm says.

“We believe this merger will benefit Capital Value Fund shareholders by providing them with exposure to the two outstanding

investment advisors managing the Windsor Fund and will benefit the combined fund through improved economies of scale,” says Matt Brancato, head of Vanguard’s Portfolio Review Department.

INNOVATOR PREPS DEFINED OUTCOME ETF EXPANSION

Innovator Capital Management announced the upside cap ranges for the April Series of S&P 500 Buffer ETFs, which reset at the end of the month. Innovator says the it also has plans to expand its Defined Outcome ETFTM suite with four additional Power Buffer ETFs, which began trading on April 1.

The new ETFs include domestic technology, small cap, international, developed and emerging markets exposures up to a cap, with 15% downside buffers over a one-year outcome period, according to the company.

“One of the benefits of defined outcome ETFs is that increased market volatility typically contributes positively to upside caps, providing investors with greater potential upside participation over the next one-year outcome period,” says Bruce Bond, CEO of Innovator ETFs. “This unique feature is in stark contrast to most risk management strategies, which typically reduce market exposure as volatility increases.”

RESEARCH

HEDGE FUND STUDY FINDS SHIFTING TERMS IN EARLY INVESTORS

Just 44% of new hedge funds offered founders’ share classes last year, continuing a

MONEY management executive

1 State Street Plaza, 27th Floor
New York, NY 10004
(212) 803-8200

financial-planning.com/money-management-executive

Andrew Shilling - Associate Managing Editor

Rebecca Stropoli - Contributing Editor

Paola Peralta - Reporter

Michael Chu - Executive Director, Content Operations and Creative Services

Brad Bava, VP, Media Sales

Jamie Billington - Senior Marketing Manager
(212) 803-6099

Customer Service
(212) 803-8500
help@arizent.com

Gemma Postlethwaite	Chief Executive Officer
Debra Mason	Chief Financial Officer
Jeff Mancini	Chief Strategy Officer
Dave Colford	Chief Customer Officer
David Evans	Chief Content Officer
Lee Gavin	VP, People & Culture

Subscriptions: Domestic rates: Annual \$1,750; 2-year \$3,500. Foreign rates: Annual \$1,750; 2-year \$3,500.

Multiple subscription rates available.

POSTMASTER: Please send all address changes to **Money Management Executive**/One State Street Plaza, New York, NY 10004. For subscriptions, renewals, address changes and delivery service issues contact our Customer Service department at (212) 803-8500 or email: help@arizent.com.

Copyright Notice: © 2020 Arizent and Money Management Executive (ISSN 1549-9111). All rights reserved. Copying, photocopying, or duplicating this publication without prior permission from the publisher is prohibited and may constitute copyright infringement subject to liability up to \$100,000 per infringement.

Licensing and Reuse of Content: Contact our official partner, Wright’s Media, about available usages, license and reprint fees, and award seal artwork at arizent@wrightsmedia.com or (877) 652-5295 for more information. Please note that Wright’s Media is the only authorized company that we’ve partnered with for Arizent materials.

Reproduction or electronic forwarding of this product is a violation of federal copyright law. Site licenses are available; please call customer service at (212) 803-8500 or help@arizent.com.

ETF estimated net issuance

(\$millions)

	4/8/2020	4/1/2020	3/25/2020	3/18/2020	3/11/2020
Equity	-6,424	8,435	-41,325	-16,922	10,087
Domestic	-6,224	7,209	-33,059	-15,458	9,295
World	-200	1,227	-8,266	-1,464	792
Hybrid	-2,544	3,839	-17,268	-25,144	-5,485
Bond	-12,132	-33,791	-90,573	-92,691	-32,462
Taxable	-9,642	-32,368	-71,288	-73,674	-29,436
Municipal	-2,490	-1,422	-19,285	-19,017	-3,026
Total	-21,100	-21,516	-149,167	-134,756	-27,860

Source: Investment Company Institute

sharp downward trend from 68% in 2017 and 57% in 2018, according to the Seward & Kissel study.

Approximately 47% of hedge funds using equity strategies and 38% of with non-equity strategies offered lower management fees or incentive allocation rates through their founders' classes — down from 63% and 45%, respectively, in 2018.

The number of seed deals fell moderately in 2019, but the size of those deals trended higher, according to the firm.

"The decrease in founders' classes was a bit surprising," says Seward & Kissel partner and the study's lead author, Steve Nade. "Factors at play here could include more side letters and bespoke products, as well as a rise in high-demand launches."

PRODUCTS

AMERICAN CENTURY LAUNCHES SEMI-TRANSPARENT ACTIVE ETFs

American Century Investments launched two actively managed, semi-transparent ETFs utilizing Precidian Investments' ActiveShares methodology: American Century Focused Dynamic Growth ETF (FDG) and American Century Focused Large Cap Value ETF (FLV), according to the firm.

The semi-transparent structure will allow American Century to deliver its actively managed investment strategies in an ETF vehicle, without the daily holdings disclosure requirement of fully transparent ETFs, according to the firm.

"This new type of ETF gives American Century one of the most diverse platforms in the industry and allows us to introduce products with our unique insights," according to Ed Rosenberg, head of ETFs for the firm.

BNY MELLON EXPANDS ITS ETF RELATIONSHIP WITH USCF

BNY Mellon expanded its ETP relationship with United States Commodity Funds and completed the asset conversion onto BNY Mellon's ETF Servicing platform, according to the firm.

BNY was appointed by USCF to provide ETF services — including serving as its custodian, fund accountant and administrator and transfer agent, according to the firm.

NOTTINGHAM FILES EXEMPTIVE RELIEF FORMS FOR NONTRANSPARENT ETFs

Nottingham and affiliate OBP Capital, along with Spinnaker ETFs, have filed short form exemptive relief applications with the SEC for Blue Tractor's Shielded Alpha ETF Structure and the NYSE AMS Non-Transparent ETF Structure, according to the firm.

"The ETF industry clearly has an interest in the adoption of non-transparent and semi-transparent ETF structures, preserving the portfolio manager's valuable intellectual property," observed Kip Meadows, founder and CEO of Nottingham. "We believe these new products will open the ETF landscape to active portfolio managers, at a time when analysis of which companies are best positioned for our new economic environment is so important."

WASATCH REOPENS CORE, INTERNATIONAL AND SMALL CAP GROWTH FUNDS

Wasatch Global Investors has reopened the Wasatch Core Growth, International Growth and Small Cap Growth Funds and related institutional strategies to new investors, effective immediately, according to the firm.

The funds had previously been closed to new investors in an effort to ensure the firm could maintain its disciplined and focused investment approach.

The reopening of the strategies reflects Wasatch's view that current market volatility and dislocations present attractive opportunities for long-term investors, according to the firm.

PRECIDIAN INVESTMENTS ADDS TO LINEUP WITH 8 ETFs

BNY Mellon expanded its investment solutions line-up with eight ETFs designed to cover the core exposures in a typical asset allocation strategy, according to the firm.

The firm's ETF-fee range will be among the lowest-cost funds in the industry, it says.

The BNY Mellon US Large Cap Core Equity ETF (BKLC) and BNY Mellon Core Bond ETF (BKAG) will be the first zero-fee ETFs in the largest equity and fixed income U.S. market categories offered to investors without fee waivers or other restrictions, according to the firm.

ARRIVALS

FENGATE APPOINTS EVP OF HUMAN RESOURCES

Fengate Asset Management has appointed Jennifer Brannon, the former vice president of human resources at technology company Financeit, to executive vice president of human resources, according to the firm.



Jennifer Brannon

Brannon will now lead the Fengate's people management and talent development division, as well as will serve as a member of its executive team, the firm says.

"We are delighted to welcome Jennifer to Fengate and look forward to working closely with her in driving our vision and ambitious objectives forward," says Lou Serafini Jr., president and CEO of Fengate.

"Her extensive experience leading and developing high performance teams and ensuring an enriching corporate culture will be of great benefit to Fengate and for our work to consistently deliver the very best service for our clients," he adds.

PENN MUTUAL EXPANDS INVESTMENT TEAM

The former senior portfolio managers at Chartwell Investment Partners, George Cipolloni and Mark Saylor, have both taken positions as portfolio managers at Penn Mutual Asset Management, according to the firm.

Both advisors will be primarily responsible for portfolio management, security research, trading and client communications surrounding the firm's new balanced income strategy, according to the firm.

"George and Mark will be critical as our investment team navigates these unprecedented markets to help our clients generate consistent income with a focus on downside protection," says Mark Heppenstall, chief investment officer of Penn Mutual Asset Management. **MME**

News Scan by Paola Peralta

TOP WOMEN IN ASSET MANAGEMENT

15 leaders transforming their organizations to face the industry's biggest challenges



Jennifer Abate



Sabrina Bailey



Anita Baldwin



Ankur Crawford



Nina Deka



Jessica Elengical



Sheri Hawkins



Lisa Jones



Melissa Kurtz-Anderson



Tiffani Potesta



Eileen Storz-Salino



Monali Vora



Marty Willis



Kelly Young



Heather Zuckerman

TOP WOMEN IN ASSET MANAGEMENT

precedented pace," says Ankur Crawford, portfolio manager at Alger. "I believe this change ... could lead to more efficient and productive organizations over the long term."

Lisa Jones, head of Americas and CEO at Amundi Pioneer Asset Management, says, "Our industry has been built on face-to-face meetings, traveling afar to conferences, and meeting with company management and clients." This, she says, will have to be re-examined.

Eileen Storz-Salino, vice president and director of mutual fund services reporting at Eaton Vance, says technology teams supporting asset managers face added pressures: "There has been stress in finding tools that keep the lights on, but — even more important — allow employees to be productive, creative and engaged."

Melissa Kurtz-Anderson, VP and head of business innovation and strategy at AllianceBernstein, says, "I think we're going to see continued reliance on our ability to digitally connect with clients [and] a greater focus on leveraging data to create impact."

Sheri Hawkins, head of product management at Northern Trust Asset Management, says the industry is embracing technology in ways other industries may be ahead on. "That is certain to drive new ways of interacting with clients and business partners," she says.

"Asset Management firms that have invested not just in strong investment teams ... but also in technology, communications and thought leadership to better meet client needs will ultimately come out of this crisis stronger," says Kelly Young, CMO at Acadian.

The executives also foresee changes to investment strategies.

Marty Willis, CMO at Nuveen, says, "Brands that are purpose-driven and stand for something other than profits will be more desirable to investors."

Jennifer Abate, managing director at Lazard Asset Management, concurs. The crisis, she says, "is going to force investors and allocators of capital to lead with investment solutions that go beyond the traditional style boxes."

Jessica Elengical, head of ESG strategy, alternatives at DWS, says the pandemic has increased a focus on investments with a social focus, "which, within our business, includes health and wellness, community engagement and resilience planning."

Nina Deka, senior research analyst at ROBO Global, anticipates benefits to tech investment as well. "The pandemic cast a spotlight on ... virtual health care, accelerated therapeutic discovery, factory and warehouse automation, and artificial intelligence," she says.

Perhaps most important is the human element during this extraordinary time. "I imagine a more human-centric future which will, in varying degree, allow for greater flexibility and work-life integration," says Tiffani Potesta, chief administrative officer at Schroders.

The crisis, says Northern Trust Asset Management's managing director, digital investment advice, Sabrina Bailey, "highlights the need for leaders that demonstrate empathy and understanding of the feelings, emotions and needs of employees."



Jennifer Abate

Managing director
**LAZARD ASSET
MANAGEMENT**



Sabrina Bailey

Managing director,
digital investment
advice
**NORTHERN
TRUST ASSET
MANAGEMENT**



Anita Baldwin

Head of sustainable
investing
HARTFORD FUNDS

When Jennifer Abate joined Lazard in 1995, the financial institutions group she now leads was called "the wrap group," in reference to a type of fee structure. The group had seven employees and simply managed ADR portfolios for two broker-dealers. There was no national account effort, as the role had not yet been recognized as a key business strength.

Abate, a pioneer of this role at Lazard, was one of the few to hold the title in the industry at the time. Today the team has 48 people.

Lazard was a founding member of the 30 Percent Club in the U.S., and Abate was part of the first class of mentors to provide guidance, advice and practical help to a group of women across industries.

As head of Northern Trust Asset Management's digital investment advice and CEO of Emotomy, the firm's wealth management platform for advisors, Sabrina Bailey leads advancements in tech as well business strategy for digital investment offerings at the firm.

Since joining in 2015, she has led the global expansion of its retirement business, the launch of its client-focused research platform and the development of its target-date offerings.

Bailey focuses on financial education and literacy as a member of the Chicago Finance Exchange, Savings Re-Imagined, Save our Savings Coalition and the Defined Contribution Institutional Investment Association.

Anita Baldwin has been a leader in moving Hartford Funds into the ESG/sustainable investing space.

In 2015 she advocated for the firm to become a signatory to the United Nations' Principles for Responsible Investment, and she continues to be actively involved with the group. She also played an integral role in launching and promoting the firm's sustainability themed funds.

Baldwin also works with the Women in Investing Network, and is on the Executive Steering Committee for NICA's Diversity Project North America, which aims to promote a diverse and inclusive global asset management industry.

TOP WOMEN IN ASSET MANAGEMENT



Ankur Crawford

Portfolio manager
ALGER

In addition to founding the Alger 25 strategies in 2018, which she leads, Ankur Crawford co-manages the Alger Capital Appreciation, Alger Spectra and Alger Focus Equity funds — more than a combined \$20 billion.

To better assist women's futures, Crawford founded a group focused on networking, career development and support for working mothers employed at the firm. Today, she is a mentor for new employees.

In 2019, Crawford organized an off-the-record event for her female peers in the finance investment industry in an effort to help build a more expansive network for herself and other women, as well as to support and empower the next generation.



Nina Deka

Senior research analyst
ROBO GLOBAL

Throughout her career, Nina Deka has aimed to develop a deep understanding of health care — from its vast unmet global needs to how buyers of new technology make decisions.

Prior to joining ROBO Global, Deka spent six years on the sell side at Piper Jaffray, covering health care IT and the emerging digital health landscape.

Now, at ROBO Global, she utilizes her past experience to offer insights to investors seeking exposure to the rapidly evolving health care landscape.

Outside of the firm, Deka gives back by volunteering with the Covenant House New York, a youth homeless shelter.



Jessica Elengical

Head of ESG strategy, alternatives
DWS

An overseer of ESG strategy at DWS' global alts business, Jessica Elengical is more than just a manager. She has led the firm's initiative to embed ESG across its investment processes, oversees sustainability efforts for its private real estate business and regularly speaks at conferences on sustainability.

Elengical is a member of the GRESB North America Benchmark Committee and the Springboard Advisory Committee for the Institute for Real Estate Investment, which aims to help future leaders in the real estate industry. She is an advisor to the International Well Building Institute, an organization aimed at promoting health and wellness in buildings and communities around the world.



Sheri Hawkins

Head of product management
NORTHERN TRUST ASSET MANAGEMENT

After joining Northern Trust Asset Management in 1992 in its management development program, Sheri Hawkins soon rose through the ranks to CFO and chief administrative officer of investments.

Most recently Hawkins was named lead of global product strategy, where she and her team are now responsible for implementing product strategy across various product plans.

Hawkins is a mentor in the Chicago metro community through the Children's Home and Aid Society program, which focuses its efforts on low-income families and children. She also serves on the organization's board of trustees and chairs its finance committee.



Lisa Jones

Head of Americas, CEO
AMUNDI PIONEER ASSET MANAGEMENT

At Amundi Pioneer, Lisa Jones leads the Americas business of a global top 10 asset manager with a leadership position in ESG and responsible investing, and a powerful distribution network. Jones runs a team of over 500 employees across the U.S., Canada and Latin America, and is a member of Amundi's executive committee.

Recognizing the critical importance of a diverse team, Jones has also named herself chief diversity officer. Under this title, she has built a strong coalition of women in the senior management ranks: 50% of the U.S. management committee she heads is made up of women, and 44% of the board of trustees for the Pioneer funds are women.



Melissa Kurtz-Anderson

Head of business innovation and strategy
ALLIANCEBERNSTEIN

Throughout her career, Kurtz-Anderson has worked in traditionally male-dominated areas of the finance industry, including trading firms. She uses wisdom from her own experience to help promote women in her industry and beyond.

In her role at AllianceBernstein, Kurtz-Anderson is responsible for department-wide strategic planning and finance, as well as project management, business analysis, program governance, quality assurance and user design.

She is an active member of Women in Technology of Tennessee, a non-profit that seeks to empower girls and women at every stage of their development and career path.



Tiffani Potesta

Chief administrative officer
SCHRODERS
NORTH AMERICA

Managing a team of more than 40 employees, Tiffani Potesta partners with Schroders' CEO to drive the firm's business management and strategy, as well as produce regional plans and procedures tied to growth in North America. On top of implementing strategic process improvements with the firm's senior executive team, Potesta also heads the firm's product and marketing strategy for the Americas out of its New York office.

Today, Potesta is involved in various resource group events at the firm, including its gender equality network, where she focuses on developing sustainability initiatives. She is also a mentor for the Money Management Institute's leadership pathway mentor program.



Eileen Storz-Salino

Vice president,
director of mutual fund
services reporting
EATON VANCE
ASSET
MANAGEMENT

Aside from overseeing regulation and compliance for Eaton Vance Asset Management's mutual fund services department, Eileen Storz-Salino has spent the past three decades helping women advance and succeed in their careers. In that time she has been a mentor for the firm's Women's Leadership Exchange, where she co-chairs the recruiting committee in an effort to retain and educate women in the company. She is also a member of Eaton Vance's operating committee for its diversity and inclusion program.

Outside of the firm, she volunteers with Year Up, an organization focused on closing the gender gap through mentoring, as well as the Expected Miracles Foundation.



Monali Vora

Managing director of
customized
beta strategies
GOLDMAN
SACHS ASSET
MANAGEMENT

A leader in portfolio management, product development, product strategy and tech-related efforts for Goldman Sachs' customized beta strategies, Monali Vora serves as a portfolio manager for high-net-worth, retail and institutional clients in both mutual funds and separate accounts at the firm.

Vora has served as co-head of the Consumer and Investment Management Division Women's Network since 2018 and has been on the Goldman Sachs Women's Network Operating Committee since 2013. Outside of the firm, she has been an active sponsor and mentor since 2013 at Student Sponsors Partners, a program focusing on bettering the lives of New York City's youth in poverty.



Marty Willis

CMO and head of
client engagement
NUVEEN

Marty Willis began her career on the sales desk at MFS Investment Management, where she later became one of the firm's first female wholesalers.

Now at Nuveen, Willis is responsible for creating and developing a unified brand strategy, deploying client and product marketing, corporate communications, digital strategy and marketing communications.

Willis has long been an advocate for women and minorities in asset management. She mentors young women entering the field, along with emerging leaders at the firm.

In 2017, she was recognized for her efforts by the Girl Scouts of Greater New York, with its prestigious Gold Award.



Kelly Young

EVP and chief
marketing officer
ACADIAN ASSET
MANAGEMENT

Kelly Young was the first person in her family to go to college, where she studied economics and finance. Her interest in the field was piqued by watching the October 1987 market crash unfold.

Now, Young leads the Global Client Group at Acadian, overseeing all business development, client and consultant-facing teams across North America, Europe, Asia and Australia.

Young also serves as co-chair of the firm's Diversity & Inclusion Forum, where she helps to spearhead its commitment to a range of issues around diversity and representation in the workplace. She has also been an active volunteer with charity Challenge Africa.



Heather Zuckerman

Chief administrative
officer
NEUBERGER
BERMAN

From her early days in the finance industry, where she specialized in M&A at Shearman & Sterling, to later taking the role of chief administrative officer for financial institutions and consumer/retail at Lehman Brothers, Heather Zuckerman has always been an advocate of improvement.

Today she works closely with Neuberger Berman CEO George Walker to invest in both financial and human capital. As a sponsor for the firm's diversity initiatives, including its Advocacy Walk — a collection of works on the executive leadership floor to challenge its thinking and provoke discussion — Zuckerman often spends time implementing ways to demonstrate its commitment. [MME](#)

CREDIT
from page 1

vestors need to learn the value of cash in this latest crisis.

She spoke to Bloomberg Markets in late March about the opportunities and hazards she sees ahead.

In the eye of the credit market storm, what do we know?

There's a fair amount of complacency around the breadth and the depth of the impact that an extended economic shutdown will have on businesses, particularly in the lower-rated part of high yield. These are smaller businesses likely to have the most difficult time. We can't really manage something that we can't yet measure. That's the big difference between 2008 and today. We've never been in a situation like this, where the economy is effectively shut down.

In terms of the pandemic, we are still in the very early stages of the escalation phase.

As testing ramps up and the number of cases continues to explode, and unfortunately we see more fatalities from the disease, it's hard to imagine that there will be anything constructive priced into the market.

You were already very worried at the start of this year, when most others weren't. Why?

The lower yields went, the more bullish the consensus sounded. That's really kind of astounding given that in Europe, if you're buying a negative-yielding bond, you're locking in a loss.

We were bearish because everything was priced for perfection. The moment anything less than perfection materializes, you have very violent price discovery.

What were the biggest signs of excess?

We were absolutely looking at a bubble in sovereign bonds. Not in emerging markets, though there were definitely pockets there.

Central banks are not omnipotent. There's a limit to how much people will believe in their ability to deliver returns. In Europe savings rates were on the rise, telling you that people were really concerned about their financial future.

That telegraphs probably a reduced

amount of belief in what the ECB can do. The spreads looked like 2007; the euphoria felt like 2007.

When I went to Europe — the land of negative rates — and I sat with investors there, and they told me they need 5%, and I thought about how much risk they have to take to get to that — I got palpitations!

This is how things go wrong: There's no appreciation for the underlying risks of what you're buying. You're just following the herd.

Look at junk bonds that were trading with negative yields in Europe, Swiss bonds trad-

What's your view of negative-yielding debt?

These are fixed-loss investments unless you can sell them to a central bank or another greater-fool buyer. It's a price-only game. Fixed income is a mathematically bound asset class, and that's a dangerous place to be.

How are you positioned as of March?

Nearly half of our portfolio is completely liquid. How do we rate the value of the liquidity in the market right now? We would rate it as a seven, not yet a 10. Ten signifies "let's



"What 2008 exposed was that you had plain-vanilla core bond portfolios that were all of a sudden falling 10% to 20%, and in one case 80%, because these investors were taking on an increasingly large amount of risk to maximize that yield."

ing at \$150 above par, the 1,000-year junk bond in Europe at sub-2% yields. The writing was on the wall. We saw the return of enhanced cash. It was all the rage.

There were a lot of these short-term portfolios out there that were being marketed as cash alternatives, but when you looked under the hood, there were things like collateralized loan obligations. That's something we saw a lot of in 2007, when there were all these enhanced cash strategies that eventually did very poorly.

Was there more leverage coming into this crisis?

What 2008 exposed was that you had plain-vanilla core bond portfolios that were all of a sudden falling 10% to 20%, and in one case 80%, because these investors were taking on an increasingly large amount of risk to maximize that yield.

To generate 7% or 10% of return, you just need to take a lot more risk. And [before this recent crisis] you were starting to see a lot more leverage in portfolios as a result.

Leverage is what inevitably gets investors into trouble. We were in that part of the cycle where leverage was very popular.

start deploying liquidity." Ideally, you want to start getting involved when sentiment is at its worst, when sentiment has priced in the absolute worst-case scenario.

Will Federal Reserve purchases of corporate debt provide support?

It probably helps at least symbolically and psychologically. I do not believe that it will actually prevent the cascade of downgrades we're going to see in the triple-B part of that market.

We do have the experience of the ECB in Europe, which has been doing that for years, and it's created a somewhat zombified corporate landscape. But it hasn't prevented them from going through the same spread dislocation that we're going through here. Markets will go back to reckoning with how fundamentals are impacted by everything that's going on. A lot of these companies in the lower part of investment-grade and below just won't be able to survive.

When would you buy back into credit?

There will be incredible opportunities as a result of this. If we can pick up our eyes and

Continued on page 12

CREDIT
from page 11

look out over the horizon of just over the next few months, the opportunity on the back of this will be phenomenal, and high yield especially generates great returns for those who judiciously put capital to work during times like this.

The credit market hasn't yet gone far enough to price in the types of defaults that we will likely see on the back of this.

The cascade of downgrades we're going to see will be pretty dramatic, and considering that triple-Bs are \$2 trillion-plus at this point, even 20% of downgrades is a lot of debt falling into the high-yield market. There's more pain to be had.

We're getting close to that 1,200 [basis points high-yield spread] frontier where it will start to get interesting — we'll potentially get involved in something. We have to see significant discounts in areas like closed-end funds. That's another sign of capitulation, when you start to see discounts that are 10% or 15%, and we're just not there yet either.

What's your outlook for defaults?

We haven't seen the kind of defaults on the scale that we're going to see.

I'm not saying we need to wait for them to peak, because by the time they peak, spreads will be probably halfway in already. But you do need to start to see those defaults start to come in regularly.

Before the Fed and central banks began essentially supporting markets, the average default in high yield used to be 6%.

Prior to 2008, if you had a high-yield manager who was operating at half that rate, that was a pretty good track record. Now [that] we've been at 1% to 2% for a number of years, that's going to go up. Eventually, we could get to 10% [default rate]. That's not unreasonable at all.

What flaws has this crisis exposed?

Every fixed-income portfolio out there is run with the same mantra of being fully invested across the cycle because the idea is to maximize yield. That's how the fixed-income industry has always evolved.

We're in a different paradigm now, where maximization of yield means you are es-

entially subjecting yourself to these types of periods of no liquidity, where the yield is simply not enough, because it's so skinny, and you're left with having to sell something when you're hit with redemptions, or sell something to buy something when you see opportunities — and that's the problem.

Liquidity has shifted to the buy side, and the buy side has not retooled to really recognize that. It's really hard to tell an investor you're going to keep up to 50% in cash because you think there will be better buying opportunities.



“We have to stop answering the question of what are the best opportunities in fixed income from a long-only standpoint.”

That's why every income strategy out there is getting hit with outflows.

What are the long-term lessons we can learn?

There is a point in time when things get rich, and that point in time is fairly easily identifiable in fixed income. There's that natural mathematical bound, and the closer you get to it, you know you're in a very richly valued and a highly correlated market. When you reach for yield, you're making your portfolio vulnerable to shock. If it comes, you have no cushion to protect you.

When things get highly rich and highly correlated, it's always the same story. The tougher part of this picture is that you don't have the interest rate bailing you out anymore.

What does it mean for credit investing more broadly?

The fixed-income industry will absolutely have some very tough questions to answer, especially when you think about where has all the money gone in recent years.

It has gone to strategies that have been entirely interest-rate-driven.

More recently it's gone to strategies in

that ultra-short space. The ultra-short space has been canceled, because short rates are at zero effectively.

[The industry is] going to muddle through here somehow, and then we're going to get back to the point where perhaps yields are higher and the whole merry-go-round begins again.

It would be nice that they retooled and actually invested based on value, as opposed to a market risk-driven benchmark, particularly the passive part of the fixed-income market. I never really understood why you would want

to just let a passive index drag you through the market cycle, which is clearly headed for zero rates.

What needs to change?

We have to stop answering the question of what are the best opportunities in fixed income from a long-only standpoint.

We have to also try to answer it by broadening our view across not just traditional but also alternative instruments.

Investors and portfolio managers get into trouble the same way every time, which is reaching for yield and overlevering — they need to rethink portfolio construction.

Cash is a fixed-income asset class, and sometimes that is where you need to be in order to preserve capital and have an optionality hedge. That option is really valuable during periods like this.

We have to, as an industry, really embrace that and improve outcomes. As a fixed-income manager, your No. 1 job is capital preservation.

There are periods when you have to be brave enough to be in cash — and we are in a period like that right now. — Bloomberg News

MME

High-yield bond funds with the biggest gains of the decade

By Andrew Shilling

Following the passage of the \$2 trillion stimulus package intended to ease the pain from the coronavirus pandemic, interest in high-yield bonds has surged to record levels. As a result, advisors are now tasked with helping their clients navigate the thorny field — many of the funds with the biggest long-term gains have also posted double-digit losses in the first quarter.

The 20 high-yield category bond funds with the best 10-year gains — and with at least \$500 million in assets under management — have posted an average return of 5.58%, Morningstar Direct data show. That is slightly higher than the Bloomberg Barclays US Aggregate Bond Index etched a 10-year return of 3.93%, as measured by the iShares Core US Aggregate Bond ETF (AGG), data show. Despite these gains, these long-term outperformers have also posted an average Q1 loss of more than 10%, undershooting the AGG's 4.93% gain over the

same period, data show.

“These funds got an assist from the Fed when they were told they would backstop the higher end of the high-yield credit industry,” says Marc Pfeffer, CIO of CLS Investments. “That certainly put a lid on the declines and since that time — since we’ve seen more optimism that the economy could shore up sooner than later — the death toll is less than expected. The fear of owning high yield as an asset class has diminished.” With a large showing from actively managed mutual funds, it's no surprise these top-performers carry high fees.

With an average net expense ratio of 71 basis points, these were much higher than 0.48% investors paid on average for fund investing last year, according to Morningstar's most recent annual fee survey, which reviewed the asset-weighted average expense ratios of all U.S. open-end mutual funds and ETFs. MME

	Ticker	YTD % Returns	1-Yr. % Annualized Returns	3-Yr. % Annualized Returns	5-Yr. % Annualized Returns	10-Yr. % Annualized Returns	Expense Ratio	Net Assets (millions)
Western Asset SMASh Series EC	LMECX	-13.17	-2.80	2.27	3.31	6.43	0.00%	\$2,537.86
Federated High Yield Trust Service	FHYTX	-10.42	-5.89	0.94	2.35	6.18	0.98%	\$598.24
PGIM High Yield Z	PHYZX	-10.02	-4.00	2.49	3.85	6.04	0.54%	\$12,791.63
Fidelity Advisor High Income Advantage I	FAHCX	-13.10	-9.25	1.35	2.75	5.88	0.76%	\$1,319.96
SEI High Yield Bond A (SIIT)	SGYAX	-13.13	-8.65	0.58	2.61	5.81	0.29%	\$2,173.96
Fidelity Capital & Income	FAGIX	-12.57	-7.29	1.79	2.71	5.74	0.69%	\$9,541.13
Lord Abbett High Yield F	LHYFX	-12.42	-7.41	0.25	2.53	5.69	0.81%	\$5,729.00
Columbia High Yield Bond A	INEAX	-7.69	-1.14	2.35	2.91	5.62	1.03%	\$1,276.54
T. Rowe Price High Yield	PRHYX	-8.63	-2.83	1.87	3.06	5.58	0.71%	\$5,736.11
Ivy High Income I	IVHIX	-12.89	-9.92	-0.22	1.65	5.57	0.72%	\$3,670.31
DWS High Income A	KHYAX	-6.75	-1.27	2.89	3.31	5.57	0.96%	\$706.39
Diamond Hill Corporate Credit I	DHSTX	-8.18	-2.49	3.04	4.40	5.55	0.63%	\$1,042.62
Federated High Income Bond A	FHIIX	-7.73	-2.97	1.98	3.09	5.46	0.90%	\$563.89
Voya High Yield Portfolio S	IPHYX	-7.46	-2.15	2.35	3.49	5.36	0.73%	\$505.25
Fidelity High Income	SPHIX	-9.02	-4.23	2.06	3.21	5.28	0.70%	\$4,198.28
Strategic Advisers Income Opportunities	FPIOX	-9.01	-4.16	1.90	2.83	5.25	0.74%	\$1,755.02
Janus Henderson High-Yield T	JAHYX	-10.44	-4.82	1.22	2.65	5.19	0.89%	\$993.51
iShares iBoxx \$ High Yield Corporate Bond ETF	HYG	-7.42	-2.60	2.40	2.82	5.18	0.49%	\$16,507.12
Thrivent High Yield A	LBHYX	-9.25	-4.67	1.35	2.32	5.15	0.80%	\$756.76
SEI High Yield Bond F (SIMT)	SHYAX	-13.43	-9.31	0.01	2.05	5.13	0.89%	\$1,318.31

Note: Funds with less than \$500 million in AUM, institutional and leveraged funds are excluded. Data shows each fund's primary share class. Data as of 4/14/2020. Source: Morningstar Direct

Mutual fund flows

(\$ millions)

Equity											
Domestic									World		
Date	Total long-term	Total equity	Total domestic	Large-cap	Mid-cap	Small-cap	Multi-cap	Other	Total world	Developed markets	Emerging markets
Estimated weekly net new cash flow											
4/8/2020	-21,100	-6,424	-6,224	-4,631	479	717	-1,299	-1,490	-200	-641	441
4/1/2020	-21,516	8,435	7,209	-1,254	2,238	2,412	3,712	101	1,227	1,668	-441
3/25/2020	-149,167	-41,325	-33,059	-17,103	-1,737	-1,535	-8,964	-3,720	-8,266	-6,326	-1,939
3/18/2020	-134,756	-16,922	-15,458	2,140	-3,245	-1,697	-8,679	-3,977	-1,464	434	-1,898
3/11/2020	-27,860	10,087	9,295	12,651	-897	-106	-212	-2,140	792	1,662	-871
3/4/2020	-44,472	-13,873	-13,794	633	-3,067	-2,810	-5,046	-3,504	-79	550	-630
Monthly net new cash flow											
2/29/2020	-8,005	-15,960	-26,544	-880	-5,341	-4,915	-11,401	-4,007	10,584	9,532	1,052
1/31/2020	16,899	-39,253	-45,200	-20,925	-2,973	-5,185	-14,885	-1,231	5,947	2,384	3,564
12/31/2019	-28,476	-60,135	-51,263	-17,678	-5,050	-4,858	-19,860	-3,817	-8,871	-9,063	192
11/30/2019	-4,945	-37,554	-33,996	-14,853	-2,696	-3,329	-10,887	-2,232	-3,558	-4,416	858
10/31/2019	-17,624	-43,294	-31,181	-12,675	-4,884	-3,604	-7,704	-2,313	-12,113	-10,323	-1,790
9/30/2019	-23,029	-41,931	-34,404	-18,057	-3,276	-2,968	-8,050	-2,053	-7,526	-6,901	-625
8/31/2019	-20,942	-22,271	-23,348	-3,614	-2,397	-3,535	-9,568	-4,235	1,078	1,696	-618
7/31/2019	-7,543	-41,214	-34,710	-14,212	-2,776	-2,648	-12,056	-3,019	-6,503	-5,733	-770
6/30/2019	-27,043	-36,633	-27,572	-10,782	-3,378	-2,379	-7,817	-3,217	-9,061	-7,801	-1,260
5/31/2019	1,602	-8,777	-12,279	443	-3,177	-1,522	-5,243	-2,779	3,501	3,087	414
4/30/2019	-12,777	-42,400	-26,785	-14,016	-2,734	-2,424	-4,628	-2,983	-15,615	-16,651	1,036
3/31/2019	-1,797	-24,629	-19,424	-6,907	-3,065	-3,305	-5,093	-1,053	-5,205	-5,894	688
2/28/2019	20,704	-12,577	-10,832	-4,790	-1,382	-520	-3,883	-258	-1,745	-2,617	871
1/31/2019	22,920	9,475	3,646	3,363	-450	950	-1	-215	5,829	3,218	2,611
12/31/2018	-183,212	-89,350	-43,885	-1,216	-9,459	-8,793	-15,057	-9,360	-45,464	-39,180	-6,285
11/30/2018	-64,300	-25,770	-17,982	-3,433	-2,959	-3,194	-4,991	-3,405	-7,787	-7,976	189
10/31/2018	-57,474	-15,146	-12,738	453	-3,683	-3,064	-3,863	-2,581	-2,408	-2,313	-95
9/30/2018	-22,681	-27,927	-25,447	-12,282	-1,816	-995	-8,218	-2,136	-2,480	-2,619	139
8/31/2018	-17,806	-24,453	-23,101	-12,831	-2,013	1,179	-8,147	-1,288	-1,352	-1,476	124
7/31/2018	-9,787	-20,871	-18,866	-9,740	-2,169	1,572	-6,639	-1,890	-2,005	-2,238	233
6/30/2018	-16,234	-19,894	-24,287	-15,433	-2,707	1,453	-6,302	-1,298	4,392	4,805	-413
5/31/2018	-5,533	-8,734	-15,718	-5,557	-4,417	544	-5,219	-1,068	6,984	5,790	1,194
4/30/2018	-6,666	-9,290	-12,662	-641	-1,123	-104	-4,022	-6,771	3,372	1,616	1,756
3/31/2018	9,844	266	-12,007	447	-2,819	-1,600	-6,676	-1,358	12,273	11,226	1,047
2/28/2018	-11,931	-8,367	-19,556	-1,574	-2,853	-2,634	-9,492	-3,003	11,189	9,450	1,739
01/31/2018	40,024	-7,072	-24,523	-6,847	-5,281	-2,117	-9,993	-286	17,451	13,251	4,201

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute

ETF flows

(\$ millions)

Date	Total equity	Domestic equity	World equity	Hybrid	Total bond	Taxable bond	Municipal bond	Commodity	Total LT MF and ETF flows
Estimated weekly net new cash flow									
04/08/2020	6,464	8,506	-2,042	-2,655	-10,528	-7,624	-2,903	2,192	-4,527
04/01/2020	12,498	12,502	-4	3,911	-30,430	-28,982	-1,448	3,064	-10,958
03/25/2020	-40,783	-30,198	-10,585	-17,765	-100,811	-80,717	-20,094	2,814	-156,545
03/18/2020	-11,382	-6,407	-4,975	-25,623	-114,401	-94,046	-20,355	-1,483	-152,889
03/11/2020	16,012	17,616	-1,604	-5,777	-32,300	-29,228	-3,072	2,344	-19,721
03/04/2020	-20,214	-17,254	-2,960	-6,464	-17,762	-17,244	-518	318	-44,122
Monthly net new cash flow									
02/29/2020	-17,857	-28,225	10,368	-4,268	25,064	14,904	10,160	2,111	5,050
01/31/2020	-7,956	-24,546	16,590	165	73,855	59,984	13,870	2,577	68,641
12/31/2019	-21,656	-27,502	5,846	-4,777	50,733	40,606	10,127	-545	23,755
11/30/2019	-801	-11,679	10,879	-1,907	44,480	34,403	10,077	-1,032	40,739
10/31/2019	-30,601	-24,646	-5,955	-1,905	43,187	34,801	8,386	304	10,985
09/30/2019	-10,885	-4,650	-6,235	-5,044	38,482	33,080	5,402	3,332	25,884
08/31/2019	-41,828	-29,909	-11,919	-6,937	22,304	13,258	9,046	3,747	-22,714
07/31/2019	-14,872	-7,889	-6,983	-2,034	44,811	34,660	10,150	2,247	30,152
06/30/2019	-20,709	-11,997	-8,712	-4,296	39,771	32,774	6,996	2,984	17,749
05/31/2019	-25,913	-24,652	-1,261	-3,844	21,332	12,778	8,554	-1,166	-9,591
04/30/2019	-15,606	-5,307	-10,298	-4,064	40,565	33,277	7,288	-1,829	19,066
03/31/2019	-7,586	-3,654	-3,931	-5,733	38,412	29,301	9,112	-353	24,740
02/28/2019	2,232	3,632	-1,400	-2,436	45,146	34,191	10,955	-1,493	43,448
01/31/2019	-11,223	-21,195	9,972	-873	29,308	21,722	7,585	2,169	19,381
12/31/2018	-57,435	-28,946	-28,489	-28,220	-49,388	-49,500	111	1,173	-133,870
11/30/2018	6,966	2,770	4,196	-12,390	-11,233	-7,443	-3,790	117	-16,540
10/31/2018	-6,658	-9,656	2,998	-11,280	-31,939	-27,692	-4,247	336	-49,541
09/30/2018	-1,051	891	-1,942	-6,111	18,090	18,521	-431	-36	10,892
08/31/2018	-3,953	-6,653	2,700	-6,210	19,556	17,218	2,338	-2,322	7,071
07/31/2018	-302	1,017	-1,319	-5,996	25,923	22,494	3,429	-599	19,025
06/30/2018	-26,523	-20,999	-5,525	-7,110	19,608	16,995	2,612	-2,450	-16,476
05/31/2018	13,743	10,072	3,671	-3,642	13,042	11,749	1,294	-133	23,011
04/30/2018	-24	-7,395	7,371	-3,800	22,416	24,175	-1,759	2,310	20,902
03/31/2018	-6,740	-22,146	15,407	-1,735	15,898	14,146	1,752	554	7,976
02/28/2018	-19,500	-41,438	21,938	-3,469	1,704	2,705	-1,001	1,026	-20,239
01/31/2018	54,206	10,793	43,413	382	56,756	46,287	10,469	1,724	113,068

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute