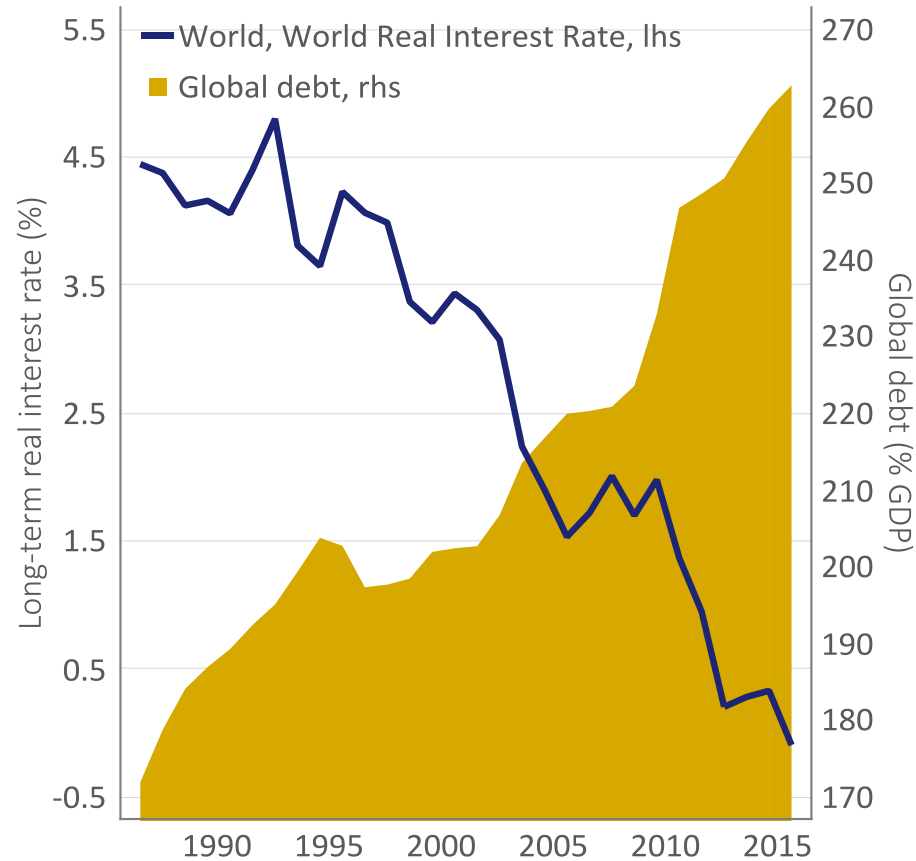
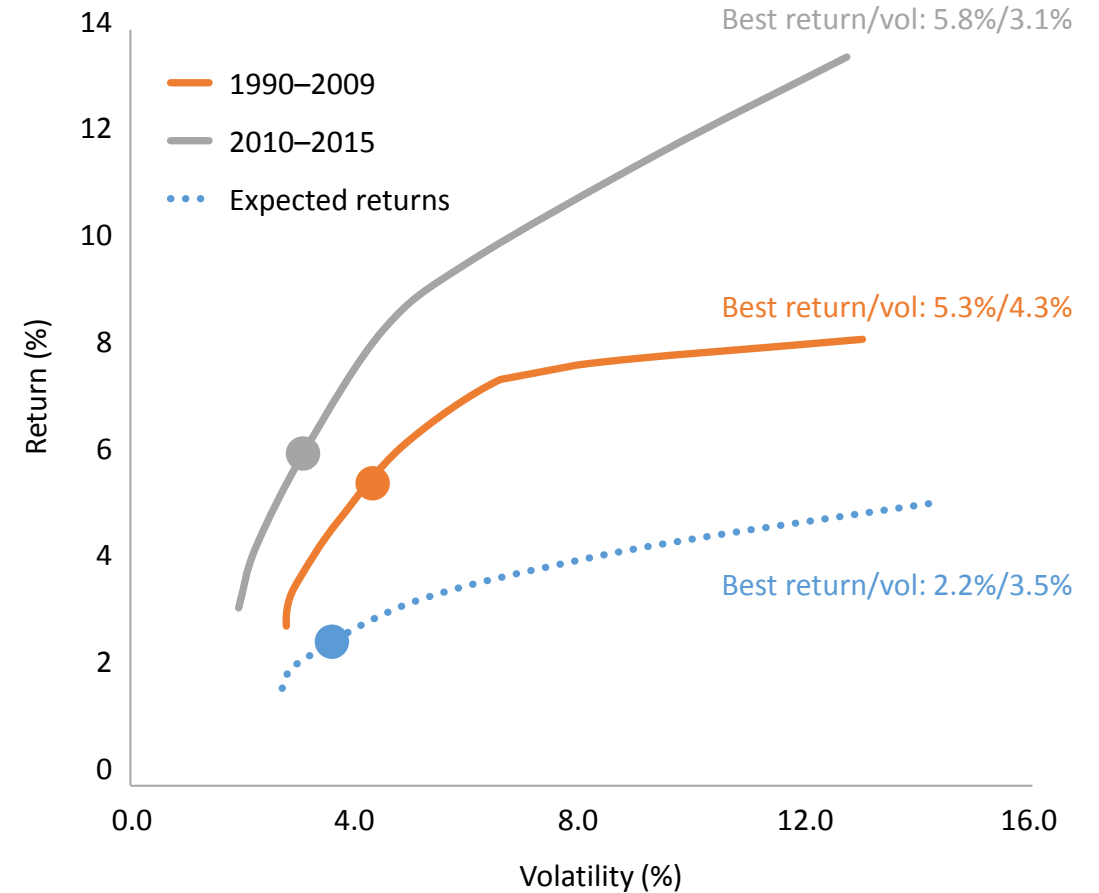


# High debt, low growth and low returns

## Rising debt and falling interest rates



## The evolving risk-return profile <sup>1</sup>



Source left chart: 'Measuring the "World" Real Interest Rate', NBER Working paper nr 19887 dd. Feb-14; BlueBay calculations of world real rate from Q3 2013; BIS debt data and BlueBay estimates at Q5 2015; Source right chart: Morgan Stanley, 7 January 2016.

Note: 1 Based on four assets: US stocks; 10y Treasuries; IG, HY. Marker indicates portfolio with highest Sharpe ratio.

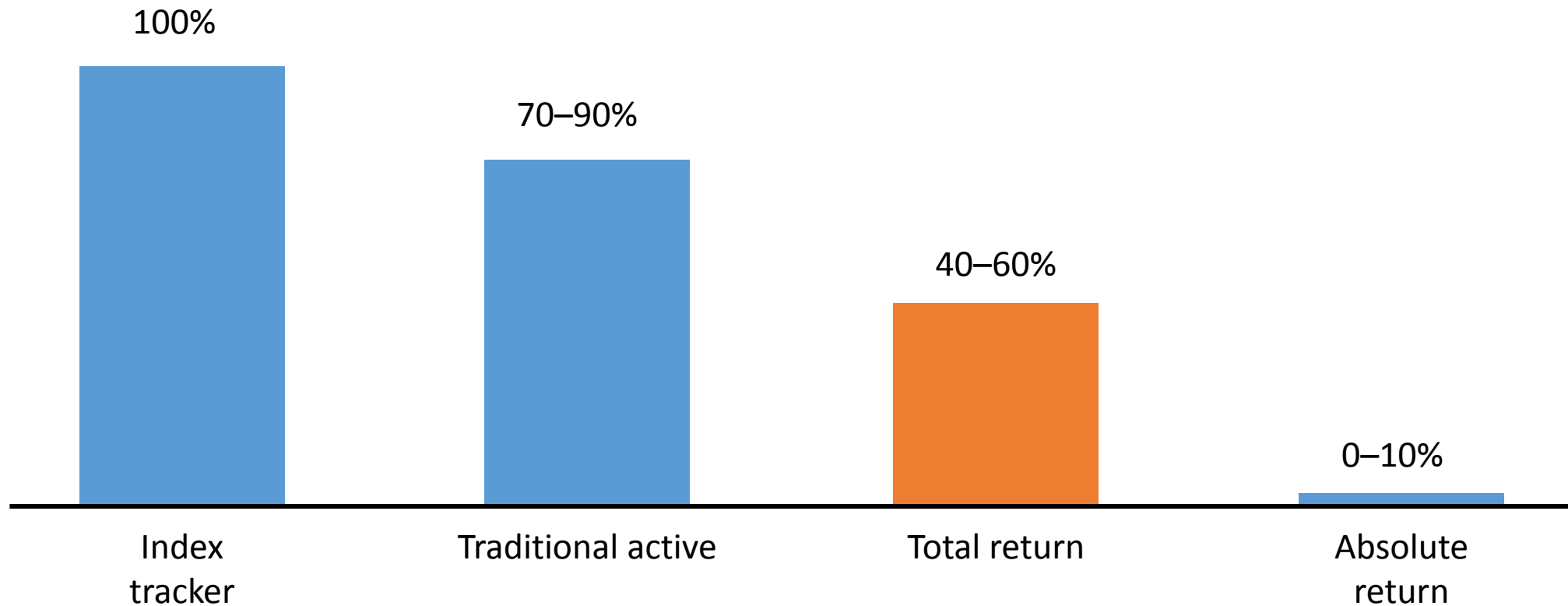
# Declining return, rising risk

## Barclays Global Aggregate Bond Index: duration and yield



# Trend toward less reliance on beta

## Share of beta in return profile



Data source: BlueBay Asset Management.

This illustration depicts that returns on a passive index tracker (irrespective of the asset class) are wholly generated from 'beta' while 'alpha' is the predominant source of return from 'absolute return' investment strategies. The 'traditional active' and 'total return' sit between these two extremes but this is a judgemental rather than empirical estimate of the split between beta and alpha.

# Fixed Income in the new reality

## Shifting from traditional to Next Generation Strategies

### Fixed Income

Benchmarks

Duration

Macro views

Asset allocation

Risk management

Investment process

### Traditional

Passive beta

Benchmark-driven

Limited capability

For diversification

Tracking error

Siloed and ratings-driven



### Next Generation

- Flexibility
- Best idea stock picks
- Active management
- Generating alpha

- Actionable strategies
- Manage macro risks
- Global opportunity set
- Tactical asset allocation

- Active management of credit & interest rate risk
- Cross discipline capability
- Bottom-up + top-down

# Rising to the challenge

- **Traditional strategies less rewarding**
  - Less yield cushion against rising volatility
  - Divergence & dispersion
- **Rotation from traditional to Next Generation**
  - Access all factors of return
  - Absolute and total return strategies
  - Multi-asset credit strategies
  - Structural investment opportunities
- **Reliance on manager execution**
  - Can my manager deliver?
  - Investor responsibilities



*" I want to invest 60% of my funds out of greed and the remainder out of fear. "*

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