



Mike Gitlin

Head of Fixed Income

Fixed income at Capital Group: Targeting predictable outcomes to deliver on expectations

Mike Gitlin, Capital Group's head of fixed income, sets out the importance of investing in bond funds that deliver on their stated objective. He also explains what differentiates Capital Group from industry peers.

We've heard you talk about the four roles of fixed income. Why is this concept important in today's environment?

The world is changing rapidly. Amid weakening growth, policymakers are winding back accommodative measures and the risk of recession is on the horizon. In markets, yields have risen, and geopolitical risk and inflation may lead to persistent volatility. In this environment, the four roles of fixed income are critical.



We believe fixed income plays four roles in portfolios:

1. Diversification from equities
2. Capital preservation
3. Income
4. Inflation protection

Total return should not be the most important part of a bond strategy. That's why, we believe, clients hold equities. We often say; take your risk and generate return in equity, and preserve your capital and generate income in bonds, while also diversifying away from equities and mitigating inflation.

We recognise that for clients to construct portfolios that address different risk and return drivers, they need confidence that the fixed income strategies they employ will do what they claim to. And it is where we believe we are different. Our bond funds do not diverge from the stated objective. Our focus is on creating portfolios that provide predictable outcomes and deliver on our clients' expectations.

Bond funds that engage in scope creep and hold too much credit risk have a real possibility of disappointing their clients when their clients need them most.

In practical terms, what does this mean for Capital Group's bond portfolios?

In our core bond and core plus bond portfolios we are mindful of equity correlation. We construct these portfolios to be a ballast against equity market volatility. Our investment grade portfolios are pure in style and are not reliant on non-investment grade spread to deliver returns. Our high-yield and emerging market debt strategies are focused on generating high and consistent income.

In short, we remain faithful to each strategy's style and adhere to portfolio objectives throughout market cycles.

How has Capital Group's fixed income platform grown over the years?

We are the fourth largest active fixed income investment manager in the world, offering a full suite of fixed income strategies. We have US\$2.2 trillion in total assets under management (AUM) and almost US\$460 billion in fixed income assets¹.

Our significant size and strength have enabled us to dedicate substantial resources and expertise to growing thoughtfully. As a privately owned company, we are not beholden to short-term shareholder interests, which allows us to be truly long-term oriented. We have invested through periods of significant uncertainty, at times when other investment managers have held back.

Over the past decade, we have invested in our people, processes, and risk management systems to build the best-in-class fixed income platform we have today.

We have a team of 221 fixed income professionals, which includes 31 portfolio managers and 54 research analysts.¹ We have a team of 42 dedicated traders

1. As at 30 June 2022. Source: Capital Group. Capital Group manages equity assets through three investment groups. These groups make investment and proxy voting decisions independently. Fixed income investment professionals provide fixed income research and investment management across the Capital organisation; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

across trading desks in New York, London, Los Angeles and Singapore.² Furthermore, our traders are not simply execution traders but are an integral part of the team, adding insight on markets, liquidity, and relative value. The breadth and depth of our investment professional team has never been stronger.

What are your other key differentiators in managing fixed income assets?

There are several, but I will highlight three.

1. **Breadth and depth of research:** Fundamental proprietary research forms the cornerstone of our investment process. Our research analysts are not just credit raters; they're investors. Using bottom-up, rigorous research our analysts invest in their highest conviction ideas, which drive specific and actionable recommendations to portfolio managers. The partnership between portfolio managers and analysts has helped us attract and retain excellent talent. Collaboration between fixed income and equity investment professionals gives us greater access to companies and policymakers, which helps us hone our insights and arrive at differentiated investment decisions.
2. **Distinctive portfolio construction:** Our multiple manager approach to portfolio construction, called The Capital System™, structurally drives the incorporation of diverse views, and avoids 'group think'. It is designed to capture and continually evaluate the best ideas from our research. A long-term perspective, fostered by The Capital System™ aligns our goals with our clients. Our portfolio managers and analysts are not compensated on the level of assets they manage, but on their longer-term results, notably with an emphasis on five and eight-year periods. This makes superior long-term returns their sole goal.
3. **No style drift:** In our fixed income portfolios, we are focused on delivering on our clients' expectations with no divergence from the stated portfolio objective. We are diligent in managing our portfolios within the context of the prescribed sources of return. Our ability to deliver style-pure strategies that focus on long-term results is another testament to the long-term perspective private ownership brings. It means we do not overreach in the search for yield. Instead, we remain focused on generating predictable outcomes and consistent risk-adjusted returns for our clients.

Capital Group takes a distinctive approach to portfolio construction. How does this work in fixed income portfolios?

Our bottom-up proprietary research is underpinned by a strong culture of collaboration. We construct high-conviction, diversified portfolios that are driven by multiple perspectives from both portfolio managers and analysts. As mentioned above, we call this The Capital System™ and it is designed to not only reduce key-person risk but allow for smooth transitions in management over time as well as consistency in returns.

We use The Capital System™ across our equity and fixed income portfolios. For each strategy, there is a Principal Investment Officer who has overall accountability for portfolio structure, risk, and results.

2. As at 30 June 2022. Source: Capital Group. Trading professionals includes traders, trading analysts and head of global fixed income trading. Assets under management by Capital Fixed Income Investors.

Our multiple manager approach, The Capital System™, structurally drives the incorporation of diverse views and avoids 'group think'.

One key difference with our equity portfolios is that we have a top-down process in fixed income. The Portfolio Strategy Group's insights provide guidance for portfolio managers in terms of how to position portfolios from a macro perspective.

These are not directives – they are guidance to ensure that we all row in the same direction. When there are multiple participants in a single fixed income strategy, we don't want them offsetting one another in areas such as yield curve and duration positioning.

Our commitment to fundamental research also includes building a deep understanding of our investments' exposure to material environmental, social and governance challenges. Consideration of material ESG risks and opportunities is deeply woven into The Capital System™ and factored into our proprietary investment research, due diligence, and engagement activities.

Our goal is to provide our clients with predictable results in their fixed income portfolios by ensuring portfolio risk is intentional, diversified and properly scaled.

Risk is an essential element of fixed income investing, how do you manage risk in your bond portfolios?

Our risk group, otherwise known as Risk and Quantitative Solutions (RQS), is a dedicated team of analysts embedded in our investment process. While there are multiple layers of risk management conducted through various internal groups (the Capital Group Management Committee, Fixed Income Management Committee, Principal Investment Officer, and the Fixed Income Investment Committee), RQS develops the risk models and creates the tools that ensure we're managing portfolios within clients' risk parameters. As such, RQS's work ties back to the four roles of fixed income. Our goal is to provide our clients with predictable results in their fixed income portfolios by ensuring portfolio risk is intentional, diversified and properly scaled.

What does the future hold for fixed income at Capital Group?

Since 2015 our fixed income assets under management have more than doubled to US\$457.9 billion¹ and fixed income remains a top priority at Capital Group.

As mentioned, we have invested heavily in people and processes. We have grown our investment professional resources across our platform and implemented a comprehensive technology system that allows us to seamlessly scale fixed income assets in the future.

We will always continue to evolve and invest in our business. One feature that will remain constant is our focus on staying true to our commitment to clients with a goal of generating predictable outcomes.

Mike Gitlin is a partner at Capital Fixed Income Investors, part of Capital Group, with primary responsibility for leading the fixed income business. He is chair of the Fixed Income Management Committee and serves on the Capital Group Management Committee. He has 28 years of investment industry experience and has been with Capital Group for seven years. He holds a bachelor's degree from Colgate University. Mike is based in Los Angeles.

Statements attributed to an individual represent the opinions of that individual as of the date published and may not necessarily reflect the view of Capital Group or its affiliates.

Risk factors you should consider before investing:

- **This material is not intended to provide investment advice or be considered a personal recommendation.**
- **The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.**
- **Past results are not a guide to future results.**
- **If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease. Currency hedging seeks to limit this, but there is no guarantee that hedging will be totally successful.**
- **Depending on the strategy, risks may be associated with investing in fixed income, emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.**

While Capital Group uses reasonable efforts to obtain information from third-party sources which it believes to be reliable, Capital Group makes no representation or warranty as to the accuracy, reliability or completeness of the information. The material is of a general nature, and not intended to provide investment, tax or other advice, or to be a solicitation to buy or sell any securities. It does not take into account your objectives, financial situation or needs. Before acting on the information you should consider its appropriateness, having regard to your own investment objectives, financial situation and needs.

This communication is issued by Capital International Management Company Sàrl ("CIMC"), 37A avenue J.F. Kennedy, L-1855 Luxembourg, unless otherwise specified, and is distributed for information purposes only. CIMC is regulated by the Commission de Surveillance du Secteur Financier ("CSSF" – Financial Regulator of Luxembourg) and is a subsidiary of the Capital Group Companies, Inc. (Capital Group).

In the UK, this communication is issued by Capital International Limited (authorised and regulated by the UK Financial Conduct Authority), a subsidiary of the Capital Group Companies, Inc. (Capital Group).

In Switzerland, this communication is issued by Capital International Sàrl (authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA), a subsidiary of the Capital Group Companies, Inc.

In Hong Kong, this communication is issued by Capital International, Inc., a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited. **In Singapore**, this communication has been prepared by Capital Group Investment Management Pte. Ltd., a member of Capital Group, a company incorporated in Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. Neither has it been reviewed by any other regulator.

In Australia, this communication is issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Level 18, 56 Pitt Street, Sydney NSW 2000 Australia.

All Capital Group trademarks are owned by The Capital Group Companies, Inc. or an affiliated company in the US, Australia and other countries. All other company and product names mentioned are the trademarks or registered trademarks of their respective companies.

© 2022 Capital Group. All rights reserved. All rights reserved. **CR-425029 EAAU**