

# What Happens When You Take The ‘Income’ Out Of Fixed Income?

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## Summary

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Developed market yields are converging toward zero, and bond investors will soon be faced with a conundrum that may force seismic shifts in how they approach this cornerstone asset class. This unfolding scenario will present new challenges for allocators as they grapple with the prospect of “return-free risk” across large segments of the bond market. In this Q&A, Reams Asset Management Chief Investment Officer Mark Egan shares his views on the monetary policy endgame, rethinking the role of traditional fixed income, and managing bond portfolios in a zero-rate environment.

*Reams Asset Management was founded in 1981 and manages \$21.5 billion\* across a range of fixed income strategies for a predominantly institutional client base. Reams applies a time-tested opportunistic approach that seeks to take advantage of market dislocations and periods of heightened volatility, while also focusing on potential downside risks.*

*Mark Egan is the chief investment officer and a managing director at Reams Asset Management, and has more than 30 years of experience managing fixed income portfolios. Prior to joining Reams in 1990, Mark was a portfolio manager at National Investment Services of America. Mark earned his master’s in business administration from the University of Wisconsin—Madison and his bachelor’s degree from Marquette University. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.*



\* As of September 30, 2020.

**Central banks have been pursuing a long-term experiment in monetary policy. When and why did it start?**

The current monetary policy paradigm really started in 1998 with the response of the U.S. Federal Reserve (Fed) to the failure of Long-Term Capital Management (LTCM). This famed, and now infamous, fixed income arbitrage hedge fund had become so levered that as its positions started moving against the fund, it was feared that LTCM's impending collapse could bring down the entire global financial system. I'm not sure that was correct, perhaps some hand-wringing there, but the response of the Fed, chaired by Alan Greenspan at the time, was to cut interest rates several times. This was done to essentially rescue asset markets in a broad sense, not so much ring-fence the failure of LTCM. And this response was deemed so wildly successful that it became the first of many Fed interventions that aimed to prop up asset prices rather than to promote stable prices and full employment, which is in theory what the Fed's mandate is supposed to be.

Each crisis that followed 1998 was met with more and more extreme versions of central bank policy. The Global Financial Crisis (GFC) of 2008 resulted in the Fed embarking on a program of quantitative easing (QE), a first for the United States, in which it bought government securities and significantly expanded its balance sheet to support asset prices. At the time, some people expected that QE would lead to inflation, but it didn't, at least not as measured by things like the Consumer Price Index (CPI).

Now all of the prior monetary interventions seem quaint in comparison. When the COVID-19 pandemic hit in March, the Fed responded with a massive version of QE that in a matter of weeks expanded its balance sheet from about \$4 trillion to an astounding \$7 trillion. People should not have been too surprised by the results: Financial assets inflated in price and not just equities but credit and commodities, too. Gold made headlines and hit a new all-time high, and Bitcoin was just about the only thing that outpaced the Fed's balance sheet expansion. Anything that can be expressed in nominal dollars and has a relatively fixed supply, whether it be cash flows, commodities, or real assets, went up in price.

**Is there any evidence that monetary stimulus, especially unconventional measures like QE and negative rates, is actually good at anything but solving short-term liquidity crises and inflating risk assets?**

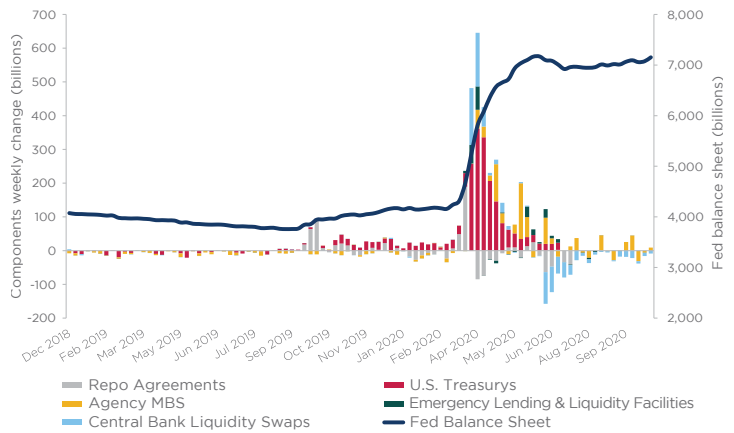
One of the goals of a central bank certainly is to stem short-term liquidity crises. In 2008-09, it was appropriate for the Federal Reserve and central banks globally to flood the financial system with liquidity to prevent a full-blown collapse. Justification for pursuing the same playbook earlier this year is more tenuous. Yes markets were very illiquid, yes they were down significantly on a marked-to-market basis, but March 2020 was not a systemic solvency crisis that had the potential to wreak havoc across the entire global financial system. Wasn't the whole point of all

**FIGURE 1: U.S. Personal Consumption Expenditures (PCE) Price Index Year-Over-Year Change vs. Fed Inflation Target**



Source: U.S. Bureau of Economic Analysis; Bloomberg. As of August 31, 2020

**FIGURE 2: U.S. Federal Reserve Balance Sheet & Components Weekly Change (USD Billions)**



Source: U.S. Federal Reserve; Bloomberg. As of October 14, 2020

the post-GFC financial regulation to ensure that “global systemically important banks” would be able to withstand another 2008-type event without requiring another central bank bailout? And if the banks did not need bailing out this time around, is the Fed now explicitly in the business of backstopping asset owners? But that debate is perhaps best left to the bureaucrats and academicians.

While QE and ultra-low interest rates are in fact pretty good ways to deal with liquidity crises, they have shown virtually no ability to stimulate sustained economic growth. The underlying problem is not that the cost of money is too high, choking off growth. No one is currently saying: “If only my borrowing costs were 1% instead of 2%, I would move forward with that large-scale capital project or start that small business.” There are bigger trends at play here and more cheap ‘n’ easy financing is not going to fix the problem of sluggish secular growth and stubbornly low inflation. We don’t have the answer to this conundrum, but we are reminded of the first rule of holes ... if you find yourself in one, stop digging.

## ANALYSIS AND INSIGHTS

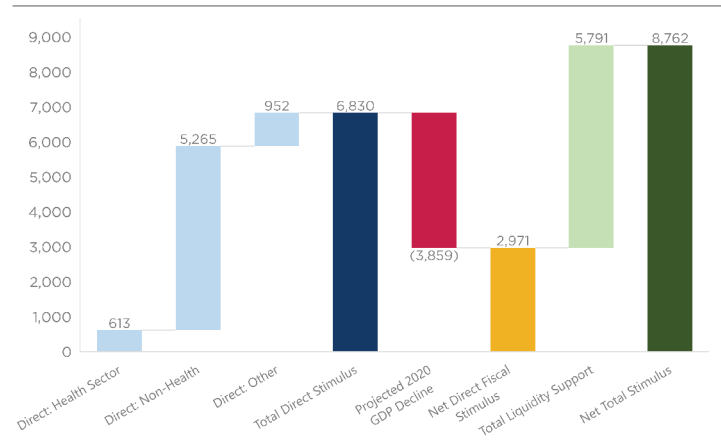
What is entirely clear, however, is that monetary stimulus has become a drug to which markets are addicted and the Fed has become a serial manipulator of asset prices. Lip service is still paid to maintaining full employment and stable prices, sure, but even a casual observer would admit that the Fed also pays very close attention to asset prices. The monetary profligacy of the past 20-plus years has inflated risk assets of all stripes, primarily equities but also real estate and anything else that gains value with declining interest rates. This grand monetary experiment, a de facto policy of avoiding short-term pain and living to borrow another day, has been going on for decades now. Nobody knows how or when it will end, but one day it will and there will be serious implications for asset portfolios.

### The U.S. has been stuck in a low inflationary environment for many years. Massive monetary stimulus has not, as expected, caused a meaningful uptick in inflation. What would?

What's different at this specific point is that it is no longer just monetary policy working by itself. We now have fiscal policy in massive scale working in conjunction with monetary stimulus, which hasn't really been the case post-GFC. So far this year we have already seen net fiscal stimulus of nearly \$3 trillion — \$6.8 trillion in global direct fiscal stimulus, less an estimated \$3.9 trillion decline in 2020 global gross domestic product (GDP) — with more fiscal stimulus on the horizon. As all of this plays out, we seem to be embracing and engaging in Modern Monetary Theory, at least implicitly. This “theory” goes hand in hand with the central bank monetizing large quantities of government debt issuance that are needed to finance massive budget deficits, which also has the potential to cause CPI inflation to accelerate. And that's just not something that we believe the market is prepared for, when you observe current long rates and breakeven inflation rates.

What we believe the market *is* prepared for is the current low inflation and low interest rate environment to keep going in perpetuity, and for asset price inflation to keep chugging along as well. Inflation could come back, but what is definitely with us right now is asset price inflation and liability inflation. Those things, we would argue, are much more toxic and dangerous than CPI inflation. In this context, it's important to remember Japan: Market capitalization to GDP hit a whopping 300% in 1989, as the Nikkei was topping out at about 40,000. Thirty years later, in October 2020, the Nikkei is just above 23,000. This could be the eventual consequence of our policies, although we may yet have a little more room to run before the dénouement.

**FIGURE 3: COVID-19 Policy Response vs. Projected 2020 Global GDP Decline (USD Billions)**



Calculation notes: Global 2019 GDP of \$87,698 billion (USD), Projected 2020 Global GDP decline based on the IMF's most recent estimated global GDP contraction of 4.4%, from the World Economic Outlook (October 2020).

Source: International Monetary Fund. As of September 11, 2020

**FIGURE 4: U.S. Market Capitalization to GDP Ratio (Percent)**



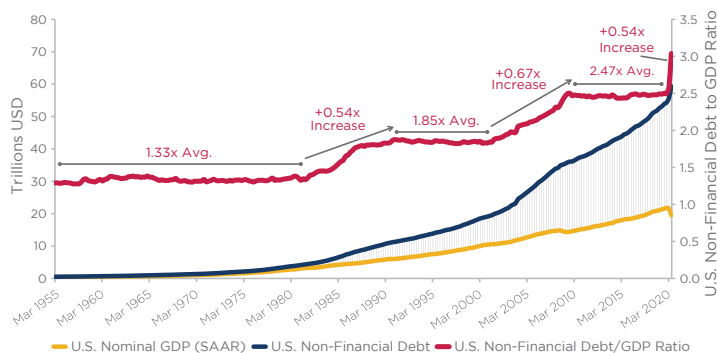
Source: Wilshire Associates; U.S. Bureau of Economic Analysis; Bloomberg. As of September 30, 2020

### Have central banks painted themselves into a corner based on expectations of indefinite QE and low rates?

We believe this is likely true. Setting aside any tantrums that the equity market would throw if the “Fed put” got taken away, the current monetary policy regime has also smoothed out the business cycle, and this has had significant second-order effects. Recessions are now shorter and shallower, which on the surface would seem to be a good thing. But this also prevents the economy from engaging in the creative destruction necessary to periodically cleanse the system of malinvestments pursued during the expansionary phase of the cycle.

Compare U.S. non-financial debt to GDP. Smoothing out the business cycle and keeping rates very low has incentivized people to borrow, which is entirely rational in the micro sense but potentially quite damaging in the

**FIGURE 5: U.S. Non-Financial Debt vs. U.S. GDP**



Source: U.S. Bureau of Economic Analysis; U.S. Federal Reserve; Bloomberg. As of June 30, 2020

macro sense. Typically in past business cycles, you would observe excesses: projects funded and businesses launched that are only viable through the lens of peak optimism. As the cycle progressed, these excesses would eventually get wrung out of the system. It was a painful process, people would lose money, but the economy would gather itself and move on. Around 1998 the decision was made, for whatever reason, to not allow significant recessions to occur or at least to not allow the creative destruction phase to fully occur.

With mild recessions and no creative destruction, debt is allowed to build up, reaching higher and higher levels. The debt stays, however, while assets fluctuate in price, and this is what leads to crisis after crisis. Asset prices *must* recover whenever they experience short-term declines, and they also need to keep going up over the long-term to keep pace with the ever-expanding debt load. This dynamic merely pushes risk down the road instead of extinguishing it, and there is no chance for the economy to adequately reset itself and enter the next expansionary cycle on firm footing.

So the problem keeps getting bigger, almost unimaginably so, and the eventual resolution has likely become that much more painful. Now central banks have almost no other alternative but to engage in what is essentially unlimited quantitative easing. We believe they will continue these policies until, at least in the short term, these policies lose all ability to stem declines in asset prices. If, during the next meaningful equity drawdown, the market doesn't react to yet another round of Fed asset purchases or negative policy rates, then we may be truly staring into the abyss. Central banks have been pushed to their limits, but that doesn't mean that they can't continue the game for a while yet, pull a few final tricks out of their bag. That's all well and good for equities, and perhaps we are channeling Cassandra a bit too much here. But when risk-free rates, as a result of these policies, have been pushed to the zero bound in the United States and below that in much of the developed world, it will become exceedingly difficult for central banks to continue coming up with new solutions to a problem that has been decades in the making.

### The current dynamics are clearly challenging for bond investors — is the role of fixed income within a diversified multi-asset portfolio still intact?

Fixed income traditionally has offered four primary benefits:

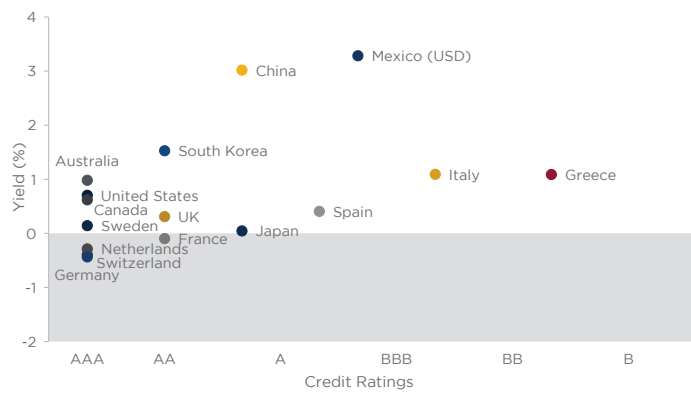
- Income:** A traditional fixed income portfolio, as managed for the last 35 years, has produced a solid income stream on both a nominal and real basis. This is no longer possible, at least via a diversified portfolio of high-grade bonds. Sadly, the “income” has indeed been taken out of “fixed income.” The ability to earn a positive real rate of return is largely gone from fixed income. In Europe and Japan, it is gone completely.
- Capital preservation:** Capital preservation remains as an important benefit of fixed income, at least with respect to investment-grade fixed income. Although principal may not be significantly at risk, depending on the structure of your fixed income portfolio, investors should be acutely aware of the corrosive impact of inflation on bonds. The focus should be on building fixed income portfolios that not only protect principal on a nominal basis, but also attempt to protect principal on an inflation-adjusted basis.
- Diversification of equity risk:** This year once again proved that diversification of equity risk is still a valuable role for fixed income. Equities plunged 30 to 40% from late February to late March. High-grade fixed income generally did not suffer dramatic losses and rebounded fairly quickly. Long-dated government bonds also provided an offset to negative equity returns, although performance was uneven across countries and largely depended on starting yield levels (countries with higher yields generally performed better). This dynamic bears close monitoring going forward as risk-free rates in most developed markets are low or even negative, perhaps limiting the upside potential in any future equity drawdowns.
- Source of liquidity:** This role remains important, and is really the only one that is not being called into question by the current environment. When equities were down 50% in 2008-09, fixed income portfolios provided a source of liquidity even though some were stressed. Earlier this year, even though bond market bid/ask spreads widened out during the depths of the equity selloff, investors were still able to source liquidity from their bond portfolios in order to rebalance, support operational spending needs, or fund capital calls from private drawdown funds.

**If fixed income no longer has the same role that it had for nearly 40 years, what are reasonable expectations and definitions of success going forward?**

The roles have certainly shifted, to varying degrees, so you may need to redefine success. In the past, you could comfortably generate a 4% or 5% yield largely with government bonds, some investment-grade corporate bonds, and perhaps a little high yield thrown into the mix. Today it would take a blend of essentially 50-50 investment grade and high yield corporate bonds, which is far too risky for a core fixed income portfolio. There would not be meaningful diversification of equity risk. This portfolio would behave like an equity portfolio, perhaps equity-light, and it would not provide adequate stability or liquidity during a broad selloff.

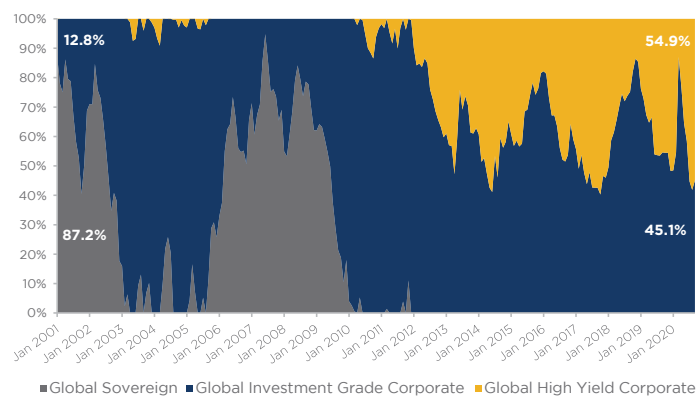
Going forward, baseline rates of return are probably going to be in the 0 to 2% range for U.S. high grade fixed income. Knowing that, you can ask yourself: Is this an acceptable rate of return for a portfolio that provides stability, diversification of equity risk, and liquidity? If it is, then that's fine. Define success that way, continue to target the same diversified high-grade bond portfolio, and set your expectations accordingly. But if you can't accept returns in the low single digits, or possibly negative returns, then you are going to need to make some adjustments.

**FIGURE 6: Global 10-Year Government Yields (Percent)**



Source: Bloomberg. As of September 30, 2020

**FIGURE 7: Portfolio Mix Needed for 4% Yield-to-Worst**



Source: Bloomberg Index Services Limited; Bloomberg L.P. As of September 30, 2020

**What major changes will bond investors need to make when it comes to building out their bond allocation?**

For a long time, success in fixed income has been largely tied to a benchmark and being long duration. For the past 35-plus years, owning long-maturity high-grade bonds has been a phenomenal risk-reward proposition due to the secular decline in rates. Add in some credit risk with decent timing and underwriting discipline, and you were all but guaranteed a reasonably high rate of return. But the Bloomberg Barclays U.S. Aggregate Bond Index now has a duration of over six years and prospective returns that are approaching zero, with real interest rates already in negative territory. The overall bond market, as defined by the U.S. Aggregate Index or even worse the Global Aggregate, has virtually no positive return potential and yet has substantial risk from rising interest rates or widening credit spreads. There are numerous ways to earn a negative return from a bond portfolio based on the Aggregate index, but very few ways to earn a positive return.

To address this issue, portfolios will need to be much more dynamic and flexible than they have been in the past. This could be uncomfortable for people who have always known that their portfolio was going to look quite similar to an index and have earned exceptional returns following this approach. Investors should consider a different portfolio, however — one that strips away the necessity of having a very long duration, first and foremost, and gives itself the ability to pursue a wider variety of possible sources of return. In addition to active duration and yield curve management, this could include foreign securities, emerging markets, high yield, convertibles, preferreds, and currencies. Not that all of those things are going to be used all of the time, but the opportunity set needs to expand. By investing in a multi-sector bond portfolio with broad guidelines and flexibility, you have the opportunity not only to take advantage of whatever opportunities present themselves, but also the potential to sidestep some significant risks that are currently embedded in standard bond benchmarks.

**FIGURE 8: Bloomberg Barclays Global Aggregate Yield-to-Worst (Percent) vs. Duration (Years)**



Source: Bloomberg Index Services Limited; Bloomberg L.P. As of September 30, 2020

We also believe that the current environment will force investors to accept more volatility from their bond portfolio, including the possibility of negative returns in any given quarter or calendar year. This is not to suggest that investors should blithely accept the risk of permanent impairment as they seek higher returns, but some additional mark-to-market volatility could be a reasonable tradeoff in pursuit of longer-term goals and attractive risk-adjusted total returns. If baseline yields are at zero — and we are very close to that — then there is a very real possibility of negative returns in the short term, even for the most conservative bond portfolios. You simply have no buffer left to absorb any adverse moves in rates or credit spreads.

So it is vitally important to reset expectations, redefine success, and broaden your horizons in terms of the opportunity set and the relationship your bond portfolio has to whatever fixed income benchmarks you have used in the past. It's likely going to be a much, much tougher world going forward — more like it was in the 1970s and early 1980s, back before bond indices and style boxes became popular. We think managers are going to need to get more creative, because the playbook that has worked so well for nearly four decades is mathematically incapable of producing anywhere close to the same results from this point forward. Whatever you do, whatever approach you take, you need to realize that the environment has radically changed. If you manage your bond portfolio with the same objectives, the same tools and risk metrics that you used before, it's likely to be doomed to failure — unless you are happy with zero rates of return or worse.

### **Discuss the current market environment, its major drivers, risk factors, and potential areas of opportunity.**

At Reams, rather than forecast what is going to happen in the future or what we think *should* happen in the future, we look at the market as it is and ask ourselves: “What is the forecast implied in prices today?” Right now, what's implied in prices is low inflation, low growth, and low volatility. What do we do in environments with low inflation, average to low credit spreads, and low prospective rates of return? We build portfolios with modest levels of income, a reasonable amount of liquidity, and the ability to respond to extremes of volatility should they arise. Rather than episodes like March being something to fear and scramble to react to, we have always welcomed these types of dislocations because they often bring about potential opportunities to earn attractive risk-adjusted returns.

More specifically, since the beginning of March we have reduced the interest rate risk of our portfolios significantly. We have also, more recently, dialed back credit risk as well. It's certainly not zero, but our credit risk is well below where we were in March and April. Credit risk is still offering modest value, particularly within investment-grade credit, but it needs to be taken, we think, on a duration-hedged basis where possible. This means stripping out the underlying interest rate risk, shorting Treasury futures against your corporate exposure where you have the guideline flexibility to do so. That's something you can easily do in an unconstrained portfolio, but that you can't do in a more traditional bond portfolio to a large degree. We are also seeing opportunities in some of the emerging market (EM) currencies, relative to the U.S. dollar, that are significantly undervalued and have quite attractive return profiles going forward. Broadly speaking, EM bonds are not there yet from a valuation standpoint, however.

In addition to steadily reducing credit risk during the back half of the third quarter, we have also raised quite a bit of liquidity. We believe central bank policies are reaching the point of diminishing returns, so the risk of a serious policy shortfall is rising, and with it the probability of heightened volatility going forward. Investors should embrace this volatility and put themselves in a position to ultimately benefit from it, but they can only do that if their portfolio is set up to do so. Luckily, with risk-free rates pushing up against the zero bound, the opportunity cost of protecting the portfolio against untoward outcomes is relatively low right now. In our opinion, the cost of protection against negatives — the return of inflation, higher interest rates, wider credit spreads, increased volatility, and lower equity prices — is exceedingly cheap. Not free, but very cheap. If you are going to earn a low rate of return anyhow, maybe you can turn this situation to your advantage and put yourself in a position to benefit from, or at least largely avoid, a set of unpleasant outcomes that, to us, seem increasingly likely. Accordingly, roughly half of the exposure in our broad market mandates is now back in the position of providing liquidity and stability. This gives us the ability to take advantage of opportunities that arise from future dislocations, should volatility increase as we move toward the end of 2020 and into 2021.

## ANALYSIS AND INSIGHTS

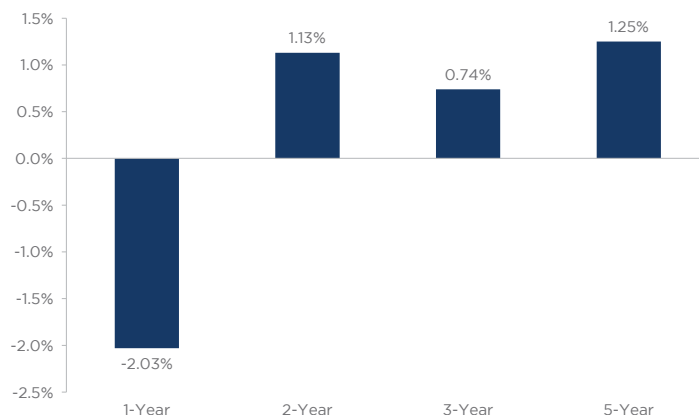
### If we experience an extended period of low or negative risk-free rates and narrow credit spreads, how do you generate returns once we go through the “zero yield” looking glass?

In today’s market, it’s just not possible to construct a portfolio that is going to achieve a 4% or 5% return without loading up on credit risk or investing in illiquid areas like direct lending. Pursue the old strategies, and there is a solid chance of getting somewhere between 0% and 1%, much like we’ve seen in Japan in recent years.

Bond investors should expect better than this, and we would like to think that we can do better on their behalf over the next three to five years. But in order to achieve better results, we believe investors will need to pursue different strategies that may push their comfort level compared to how they have implemented things in the past. They will need to re-imagine fixed income and re-define success for the foreseeable future, essentially as long as we remain in this zero yield environment.

Our current thinking is simply to remain patient, take what the market provides, and expand the opportunity set. It could be foreign currencies, short maturity high yield, duration-hedged investment-grade corporates, or securitized credit with favorable convexity profiles. These kinds of positions can generate modestly positive returns without taking on excessive risk. At the same time, we believe that the current policy backdrop, along with a still-uncertain macro environment, are likely to provide periods of intense volatility going forward — volatility storms, if you will. Therefore we also want enough portfolio flexibility and liquidity on hand to be able to take advantage of these periods.

FIGURE 9: Bloomberg Barclays Asian-Pacific Japan Treasury Index Annualized Return (Percent)



Source: Bloomberg Index Services Limited; Bloomberg L.P.. As of September 30, 2020

The best expression of this mindset would be a truly benchmark-agnostic strategy, but we also manage our benchmark-relative mandates with plenty of guideline flexibility and a willingness to deviate from the index. At Reams, we have never defined success in terms of an index. We have always approached things from a total return and absolute risk standpoint, not a relative return and tracking error standpoint. So the current environment, while certainly more challenging, does not represent a sea change for us. We have been managing bond portfolios this way for the past 40 years, and this type of approach has never been more important than it is right now.

## About Reams Asset Management

Reams Asset Management is a fixed income investment management firm whose mission is to provide high-quality investment expertise and unmatched client service. We apply our consistent investment process across a range of strategies, seeking to take advantage of volatility and react opportunistically to price and valuation dislocation in the bond market. Reams offers clients customized solutions that seek to maximize risk-adjusted total returns over a full market cycle and across a range of fixed income strategies.

## About Carillon Tower Advisers

Carillon Tower Advisers is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates — ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments — we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted return and alpha generation. Carillon Tower believes providing a lineup of institutional-class portfolio managers, spanning a wide range of disciplines and investing vehicles, is the best way to help investors seek their long-term financial goals.

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*Diversification does not ensure a profit or guarantee against loss.*

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*The firm was previously defined as UMB Institutional Asset Management, a subsidiary of UMB Bank, which managed both institutional and high net worth, trust, and estate assets. On July 1, 2009 the firm transitioned from UMB Bank and became a subsidiary of UMB Financial Corporation in order to focus on institutional investment management. On November 30, 2010, the firm acquired the advisory business of Reams Asset Management Company, LLC. On December 28, 2010, the firm changed its name from Scout Investment Advisors to Scout Investments. On November 17, 2017, Scout Investments was acquired by Carillon Tower Advisers.*

*Scout Investments claims compliance with the Global Investment Performance Standards (GIPS®).*

*The bond quality ratings indicated are assigned by credit rating agencies Standard & Poor's, Moody's, and Fitch as an indication of an issuer's creditworthiness. Unless specified by client investment guidelines, the middle of three or highest of two credit quality ratings available from these rating agencies is used. Credit quality is subject to change. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Ratings information from Standard & Poor's ("S&P") may not be reproduced. S&P credit ratings are statements of opinion and are not statements of fact or recommendations to purchase, hold, or sell securities, nor do they address the suitability of securities for investment purposes, and should not be relied on as investment advice. S&P does not guarantee the accuracy, completeness, timeliness, or availability of any information, including ratings, and is not responsible for errors or omissions (negligent or otherwise). S&P gives no express or implied warranties, including but not limited to any warranties of merchantability or fitness for a particular purpose or use. S&P shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special, or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of ratings.*

*Malinvestments are excesses of investment that can occur when overly easy credit and low interest rates spur investors to back ventures that falter or fail after overestimating market demand for their goods or services.*

*Duration incorporates a bond's yield, coupon, final maturity, and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates. Bonds with higher durations carry more risk and have higher price volatility than bonds with lower durations.*

*Investment-grade refers to fixed-income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's.*

*Unconstrained investing is an investing style that allows a fund or portfolio manager to pursue returns across many asset classes and sectors without limiting the portfolio to investments that match a particular benchmark.*

*Yield-to-worst is the lowest potential yield an investor can receive on a bond without the issuer defaulting.*

*The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.*

*The Personal Consumption Expenditures (PCE) Price Index is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, is known for capturing inflation or deflation across a wide range of consumer expenses and reflecting changes in consumer behavior.*

*The Bloomberg Barclays U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and investment-grade corporates.*

*The Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income markets.*

*The Wilshire 5000 Total Market Index<sup>SM</sup> measures the performance of more than 3,400 U.S. equity securities using capitalization-weighted returns to adjust the index.*

*The Bloomberg Barclays Asian-Pacific Japan Treasury Index includes investment-grade, fixed-rate treasury securities that are issued in Japanese yen registered in Japan.*

*Indexes are unmanaged and have no expenses. It is not possible to invest directly in an index.*

Learn more about Reams' approach to fixed income investing.  
Call 1.800.521.1195 or visit [carillontower.com](http://carillontower.com).

