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Fixed Income

True Fixed Income – A Favored Asset Class for a Rising Interest Rate Environment

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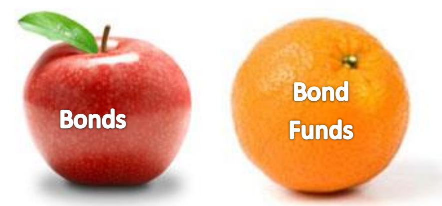
Income investors have been dealing with lingering low short-term interest rates for years now. A resulting worry pertains to consequences from holding individual bonds or bond funds should interest rates begin to rise. As a reminder, bond yields and prices have an inverse relationship; as yields move up, the price of a bond will move down (and vice-versa). With this expectation, what should income-oriented investors do? When positioning for a possible rise in rates, are bonds and investments that hold bonds interchangeable, or do they have unique considerations? Although both have 'bond' in their name, they are very different. As the old idiom goes, comparing the two is like comparing "apples to oranges".



Are Your Bonds Really "Fixed Income"?

Although many different investments hold bonds, not all are "fixed income" instruments. Take the example of an open end mutual fund; by design each share represents an indivisible piece of an actively managed pool of bonds, cash and other investments. Other structures such as Closed End Funds, ETFs and UITS may hold bonds as well, but most are not truly "fixed income". For example, with a bond fund, the price of shares and the income generated will rise or fall based on activities of the manager, credit worthiness of the issuers, fund flows and market conditions including changes in interest rates. A further challenge is that many structures have targeted maturities and/or targeted durations. Meeting these targets in a moving interest rate environment may prevent the Net Asset Value (NAV) from remaining stable. These requirements in turn can potentially affect the original principal value invested and can result in a *realized* gain or loss. In other words, an investor's originally invested principal is at risk, especially in a rising interest rate environment.

Individual Bonds Are the Only True "Fixed Income"

What is an individual bond, and why is it important? Simply stated, a bond is a loan agreement between a borrower and an investor. Not surprisingly, a bond is also referred to as a "fixed income" instrument, as it provides the investors with exactly what you'd expect; a stated amount of income at constant intervals for a defined period of time. This allows an investor to customize his/her holdings to meet specific needs while providing predictability of income and transparency. The stated maturity date is another distinct, 'fixed' characteristic of individual bond ownership which can be a benefit. After all, bond prices will move towards par value as they near the maturity date. **Regardless of the path of interest rates, whether they go up, down, or even sideways, an individual bond will behave exactly as intended until its specified maturity/redemption,** subject to the creditworthiness of the issuer, of course. Put another way, if you intend on holding a bond to maturity, it doesn't matter what interest rates do along the way. The bond pays the agreed upon interest at the agreed upon intervals, and market price declines below par remain *unrealized* as the par value is returned at maturity.

Individual Bonds are a Predictable Asset Class for Principal Protection in a Rising Interest Rate Environment

Not all bond investments are "fixed income". Be careful not to blur the lines. There is a distinct difference between individual bonds and packaged securities that hold bonds. Simply put, the two are not interchangeable and, in fact, are very different investments. Provided that you have sufficient capital to properly diversify, investors who seek income in this environment should consider a portfolio of individual bonds customized to suit their needs, goals and risk tolerance. A packaged investment with active management that holds the exact same instruments is not likely to hold those bonds to maturity. Investments lacking a stated maturity date simply do not have a par value to return. Instead, the value of an investor's shares is subject to the value of NAV which may be more or less than the price they paid. In contrast, **the "fixed" nature of individual bonds gives investors a choice to simply hold their bonds to the maturity**

date and receive par value should interest rates rise. Bond proceeds can then be reinvested at higher rates to put the investor on a path to higher income. For these reasons, **bond investors worried about the price impact of rising rates on their holdings may prefer to own individual bonds which are, after all, truly fixed income, providing a predictable return of principal.**

♦ ***Investors should consider the investment objectives, risks, and charges and expenses of mutual funds carefully before investing. The prospectus contains this and other information about this investment. The prospectus should be read carefully before investing.***

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Ref. 2017-023842 until 5/3/2019
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