

Better LDI portfolios: Small Issuer Long Credit

What is the concept?

Cap-weighted bond indexes are dominated by the issuance of a few large issuers. This means that most LDI portfolios are quite concentrated.

Small Issuer Long Credit portfolios provide investors exposure to the multitude of small bond issuers that make up the remainder of these indexes. As a complement to traditional index driven LDI strategies, SILC can provide the following benefits:

- Significantly wider issuer exposure afforded by SILC reduces idiosyncratic risks that typically remain in standard LDI hedging portfolio.
- Alpha generation is a critical component in overcoming the credit downgrade headwind that exists in rated credits segments. Broadening exposure to smaller issuers can diversify sources of alpha and improve LDI implementation.
- An index of small issuers has matched the performance of the broader market while offering a modest reduction in standard deviation.

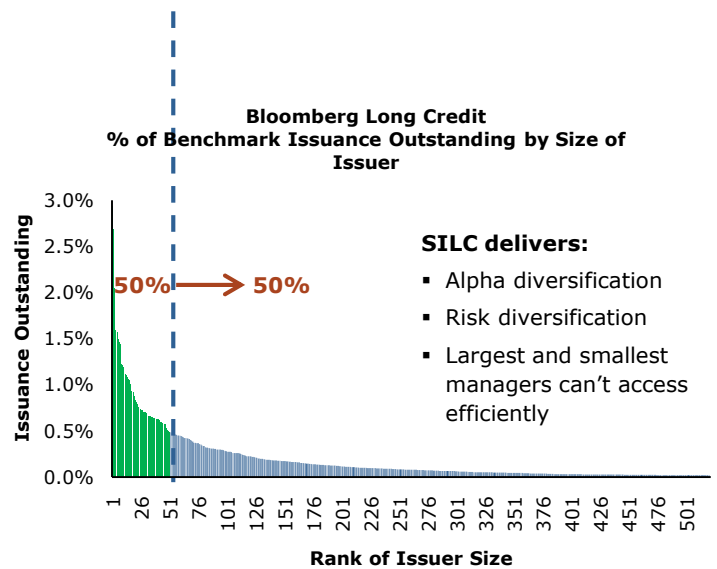
Why Wells Fargo Asset Management (WFAM)?

The SILC market is difficult to access:

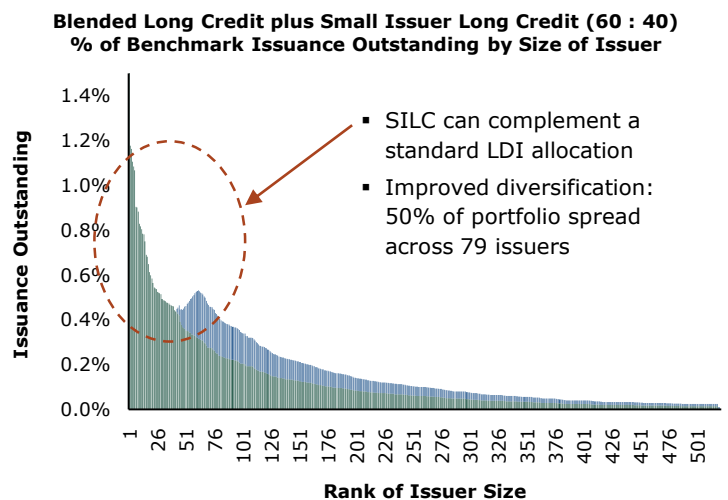
- Small fixed income teams cannot generate the research coverage required to generate alpha in complex and heterogeneous credit segments.
- Large managers have no alternative than to take market positions. Their ability access small issuer credits is limited by:
 - Market impact and guidelines governing issuer concentration.
 - Taking allowable positions in issuers whose portfolio weight does not justify the administrative burden.

Sweet-spot → With significant credit resources per unit of market share, WFAM operates with a unique expertise and agility to exploit the SILC market segment.

50% of cap-weighted index exposure is concentrated in about 10% of issuers



SILC is an ideal complement to the full Long Credit Index: Example 60/40 Long Credit Plus SILC



2000 – April 2017: Strong risk-adjusted returns

	Portfolio	Small Issuer Long Credit Benchmark	Difference
Total return	7.62%	7.72%	0.10%
Standard deviation	9.26	8.98	-0.28
Sharpe ratio	0.82	0.86	0.04

Sources: Wells Fargo Asset Management, Bloomberg Barclays Indices, all data as at 4/28/2017.

Customized Fixed Income - Small Issuer Long Credit

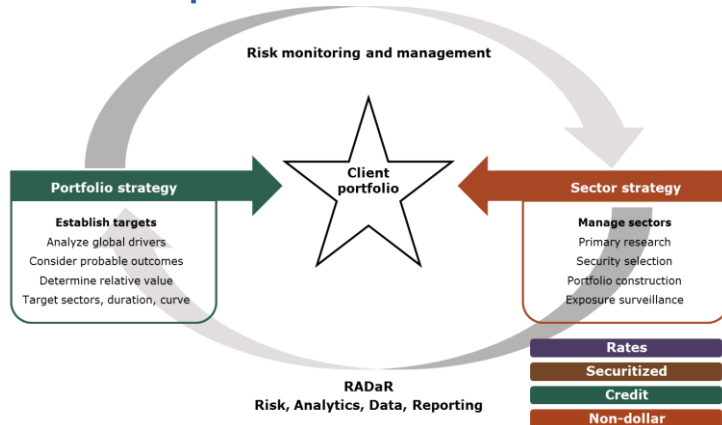
Investment philosophy

Relative value focus: Fixed income markets offer alpha opportunities to active managers that effectively employ a relative value framework to duration, yield curve, sector, and issue selection decisions.

Primary research: Primary research conducted by dedicated sector specialists, is the optimal approach to uncover a wide range of investment opportunities.

Comprehensive risk control: Robust portfolio construction in combination with comprehensive risk control lead to consistent alpha generation over a market cycle.

Investment process



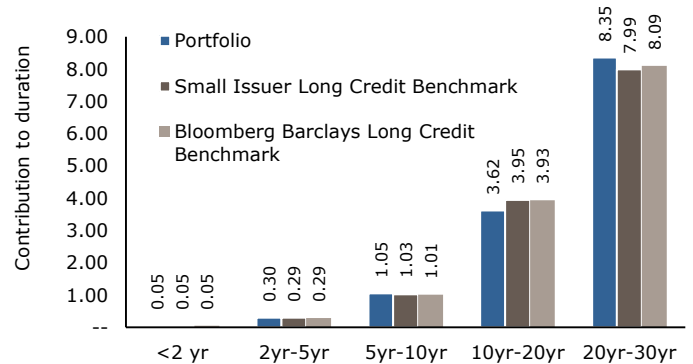
Team advantages

- Successful and repeatable investment process, grounded in relative value framework.
- Highly seasoned team comprised of specialists with expertise across the fixed income sectors.
- Robust primary research and collaborative process.
- Proprietary portfolio risk management system along with a dedicated risk management team.

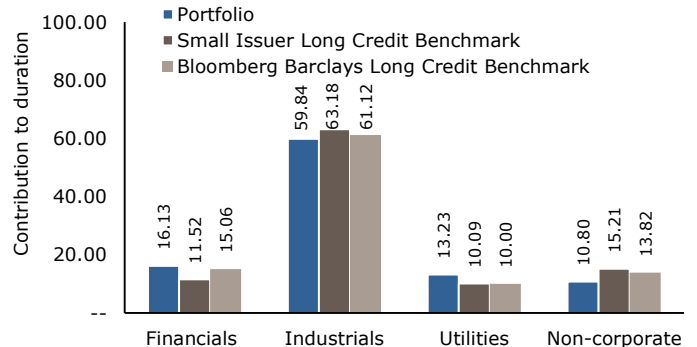
Summary statistics

	Portfolio	Small Issuer Long Credit Benchmark	Bloomberg Barclays Long Credit Benchmark
Duration	13.36	13.31	13.38
Convexity	2.80	2.70	2.70
YTW	4.37	4.17	4.18
OAS	172	154	154
Average quality	BBB+	A-	A-

Key rate duration breakdown



Sector allocation (%)



Simulated performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve results similar to those shown. In fact, there are frequently sharp differences between simulated performance results and the actual performance results subsequently achieved by any particular trading program.

One of the limitations of simulated performance results is that they are generally prepared with the benefit of hindsight. In addition, simulated trading does not involve financial risk, and no simulated trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of simulated performance results and all of which can adversely affect actual trading results.

Performance does not include advisory fees, brokerage or other commissions and other expenses a client would have paid. Results do not include the reinvestment of dividends and other earnings.

Sources: Wells Fargo Asset Management, Bloomberg Barclays Indices, all data as at 4/28/2017.

Customized Fixed Income - Small Issuer Long Credit

Investment team

	Position
Janet Rilling, CFA	Senior Portfolio Manager
Jay Mueller, CFA	Senior Portfolio Manager
Christopher Kauffman, CFA	Senior Portfolio Manager
Michael Schueller, CFA	Portfolio Manager/Analyst
Noah Wise, CFA	Portfolio Manager
Robert McHenry	Product Specialist

	Position
Brian Prucyk, Ph.D.	Research Analyst
Michal Stanczyk	Research Analyst
Zhonghui (Grace) Wu	Research Analyst
Jonathan Nelson	Portfolio Analyst
Mark Clegg, CFA	Trader

Global credit research platform

U.S. based	Position
James Newton, CFA	Co-Head, Global Credit Research
Ambreesh Bansal, CFA	Research Analyst
Matthew Cox, CFA	Research Analyst
Dominic Delia	Research Analyst
Scott Dreier, CFA	Research Analyst
James Fitzpatrick, CFA	Research Analyst
Donald Henken, CFA	Research Analyst
Heidi Hermann, CFA	Research Analyst
Jodi McGlynn	Research Analyst
Andrew Reed, CFA	Research Analyst

Europe based	Position
Duncan Warwick-Champion	Co-Head, Global Credit Research
Brian Barry, CFA	Credit Analyst
Paul Davey, CFA	Research Analyst
Cristiano Mela	Research Analyst
Robert Montague	Senior Research Analyst
David Moon, CFA	Senior Research Analyst
Mike Murphy	Senior Research Analyst
Michie Yana, CFA	Senior Research Analyst
Daniel Zaczekiewicz, CFA	Research Analyst

U.S. High Yield team

	Position
Alex Basman, CFA	Senior Research Analyst
Marianne Beyer, CFA	Research Analyst
James Brown, CFA	Research Analyst
Brian Keller, CFA	Research Analyst
Kevin Maas, CFA	Senior Research Analyst
Michael Mallardi	Senior Research Analyst

	Position
Henry Naah	Senior Research Analyst
Cheryl Ngo	Senior Research Analyst
Oscar Olivas, CFA	Senior Research Analyst
Steven Pfeiffer, CFA	Senior Research Analyst
Maya Sarda	Senior Research Analyst

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