

# Fixed Income Strategies

Q4 2023 Fact Sheet | Bailard

## Taxable Accounts and Trusts

### The Opportunity<sup>1</sup>

Actively managed after-tax return portfolios that seek to provide accounts with an attractive level of income while focusing on capital preservation and being tax-aware.

For clients striving to balance their environmental and social values with their financial objectives, we incorporate our Sustainable, Responsible and Impact Investing philosophy into the portfolio process.

### The Strategy

#### TOTAL AFTER-TAX RETURN

Construct intermediate duration (level of interest rate risk) portfolios by investing in securities generally maturing between 1 and 18 years. Accounts are managed using the Bloomberg 1-15 Year Municipal Index<sup>1</sup> as a reference. Tax consequences are considered in trading decisions. This generally results in lower trading activity when interest rates fall and higher activity when rates rise. Emphasis is placed on liquid bond issuers and monitoring credits to ensure they fit our quality criteria.

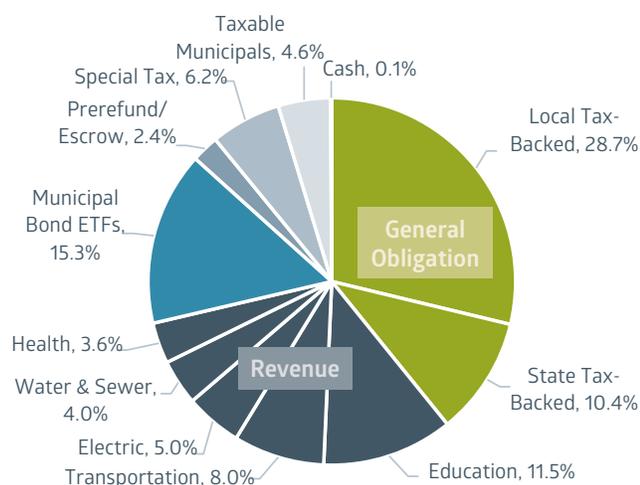
#### MUNICIPAL LADDER

Construct 1-15<sup>2</sup> year bond portfolios with maturities spread relatively evenly across the years. By staggering maturity dates, investors can benefit from dollar-cost averaging or reinvesting systematically over time. When bonds mature, proceeds are reinvested into longer maturities at existing levels of interest rates.

### Process and Philosophy

Bailard's fixed income process is driven by a top-down analysis of the interest rate cycle in conjunction with sector valuations and trends. We also consider structural stresses such as tax reform. We actively manage risk from interest rate, sector, credit quality, issuer and liquidity as part of the portfolio process. Relative values between bond sectors vary over time in response to macro-economic and market technical conditions. Portfolios are often heavily concentrated in tax-exempt municipal bonds due to their advantageous tax treatment. However, taxable bonds can sometimes offer more attractive risk-adjusted returns. We include securities such as U.S. Treasuries, agencies, corporate, and taxable municipal bonds when their outlooks are more favorable on an after-tax basis. We believe that the ability to opportunistically invest across sectors is an advantage this strategy offers relative to most municipal mutual and Exchange Traded Funds (ETFs), which typically have single sector mandates. We utilize liquid, low fee ETFs for investing cash and to achieve duration, sector, and diversification targets. We also use ETFs to invest initial capital until suitable bonds become available. We trade in the institutional market when available and appropriate in an effort to obtain advantageous prices and lower transaction costs.

#### REPRESENTATIVE TOTAL AFTER-TAX ACCOUNT as of 12/31/23



Source: Bailard. Numbers may not total due to rounding.

<sup>1</sup> Using the Bloomberg 1-15 Year Municipal Index as representative of the market.

<sup>2</sup> Can construct portfolios to 18 years.

#### ABOUT THE PORTFOLIO MANAGER

Linda M. Beck, CFA joined Bailard in 2012 and leads the firm's fixed income investment strategies in addition to working directly with a select number of its clients. Prior to joining Bailard, she worked as a Senior Portfolio Manager in RCM's Private Client Group and was responsible for managing all fixed income accounts in the San Francisco office. Linda joined RCM in 1994, serving RCM's institutional fixed income department where she was responsible for over \$2 billion in taxable institutional and high net worth fixed income portfolios. She received her Chartered Financial Analyst® designation in 1991 and is a member of the CFA Institute and the CFA Society of San Francisco. Linda's industry career began in 1986, having earned a BS in mathematical economics from Pomona College and an MBA in international finance from the University of Chicago.

# Tax-Exempt Accounts

## The Opportunity

Actively managed total return bond portfolios that seek to provide accounts with an attractive level of income while focusing on capital preservation.

For clients striving to balance their environmental and social values with their financial objectives, we incorporate our Sustainable, Responsible and Impact Investing philosophy into the portfolio process.

## The Strategies

### AGGREGATE BOND

Accounts are managed relative to the Bloomberg U.S. Aggregate Index. This index consists of U.S. dollar-denominated fixed-rate taxable bonds diversified among sectors including Treasuries, government related, corporate, and securitized products.

### INTERMEDIATE GOVERNMENT CREDIT

Accounts are managed against the Bloomberg Intermediate U.S. Government/Credit. This index includes U.S. dollar-denominated fixed rate government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years. Many foundations choose this relatively conservative fixed income strategy.

### CORPORATE LADDER

Construct 1-10<sup>3</sup> year bond portfolios with maturities spread relatively evenly across the years. By staggering maturity dates, investors can benefit from dollar cost averaging or reinvesting systemically over time. When bonds mature, proceeds are reinvested into longer maturities at existing levels of interest rates. Investment-grade corporate bonds and taxable municipal bonds are used for this strategy due to their yield advantage over Treasury and agencies.

In all strategies we focus on liquid bond issuers and monitor credits to ensure they fit our quality criteria.

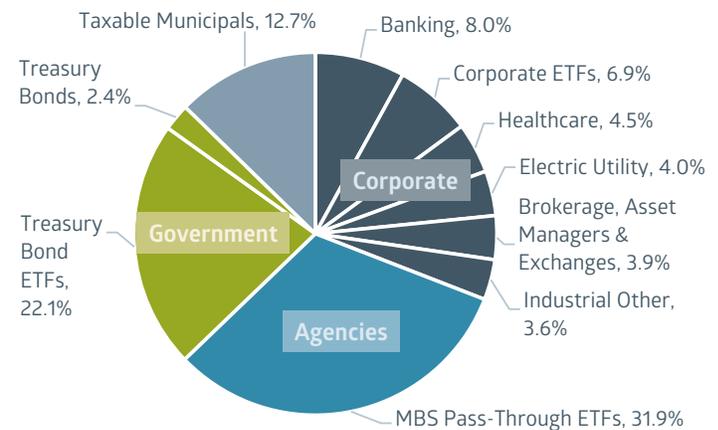
## Process and Philosophy

Bailard's fixed income process is driven by a top-down analysis of the interest rate cycle in conjunction with sector valuations and trends. We actively manage risk from interest rate, sector, credit quality, issuer, and liquidity as part of the portfolio process. Relative values between bond sectors vary over time in response to macro-economic and market technical conditions. Asset allocation among bond sectors is driven by relative risk and valuations.

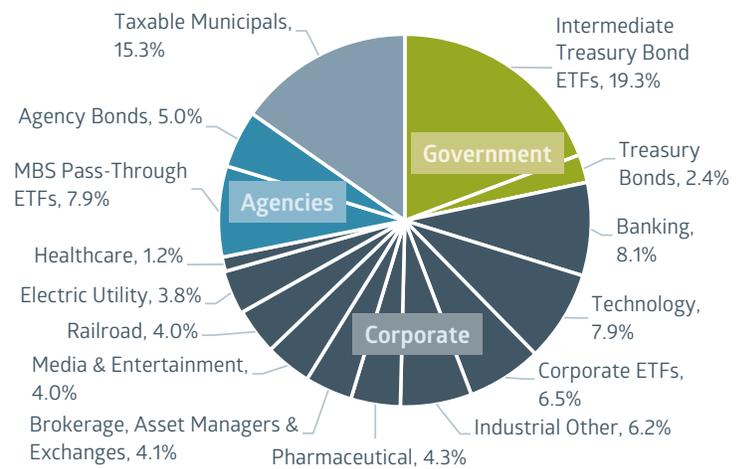
We utilize liquid, low fee Exchange Traded Funds (ETFs) for investing residual cash and to achieve duration and sector targets. For some sectors we use ETFs instead of individual bonds such as mortgage-backed securities. We also use ETFs to invest initial capital until suitable bonds become available. We trade in the institutional market when available and appropriate in an effort to obtain advantageous prices and lower transaction costs.

We seek to incorporate unique client needs into the portfolio construction.

## REPRESENTATIVE AGGREGATE BOND ACCOUNT as of 12/31/23



## REPRESENTATIVE INTERMEDIATE GOVERNMENT CREDIT ACCOUNT as of 12/31/23



Source: Bailard.

<sup>3</sup> At time of purchase, bonds through 11 years to maturity are considered part of the 1-10 year bond ladder.

## RISKS AND DISCLOSURES

Investing in bonds is subject to risk, including market, interest rate, issuer, inflation, credit and liquidity risk. Liquidity risk and price validity will be heightened when market makers hold less inventory and are less willing to transact. Investments in fixed income can lose value due to sudden or unexpected changes in interest rates. The value of fixed income investments is inversely proportional to interest rates, meaning they will lose value in a rising interest rate environment. Longer duration bonds tend to be more volatile than lower duration bonds. If an issuer defaults, investors could lose both interest and principal. Bond investments may be worth less or more than original cost when sold.

There is no assurance that Bailard can achieve its investment objectives. Investors in ETFs will incur fund management fees and expenses that are in addition to the management fees paid to Bailard. Bailard does not provide tax advice.

## OTHER DISCLOSURES

This publication is not a recommendation of, or an offer to sell or solicitation of an offer to buy any particular security or investment product. It does not take into consideration the particular investment objectives, financial situations or needs of individual clients. Bailard cannot provide investment advice in any jurisdiction where it is prohibited from doing so. The information in this publication is based primarily on data available as of September 30, 2023, has been obtained from sources believed to be reliable, but its accuracy, completeness and interpretation are not guaranteed. Bailard undertakes no duty to update any of the information contained herein. We do not think this publication should be relied upon as a sole source of information and opinion.

Published January 2024. For more information, please call 800.BAILARD (800.224.5273) or visit [www.bailard.com](http://www.bailard.com).

Bailard, Inc.  
950 Tower Lane, Suite 1900  
Foster City, California 94404

**Bailard**