

# Meet the Avantis Investors® Fixed-Income Portfolio Managers

## Q&A

Avantis Investors now has live fixed-income strategies available. Relationship Director and Investment Specialist Christine Lubieniecki recently sat down with Hozef Arif and Mitchell Handa, two senior portfolio managers who, together with Chief Investment Officer Eduardo Repetto, helped bring these strategies to life. The interview covers why Hozef and Mitch decided to join Avantis Investors, more about their fixed-income backgrounds and what they believe are the most important attributes of an effective fixed-income strategy.

**CL:** Mitch, Hozef, you both have such strong backgrounds in fixed income. I thought it might be best to start there and just ask you each to summarize your experience.

**MH:** Absolutely, thanks Christine. Fixed income has been a big part of my career really going back to the mid-1990s. My career started out on the sell-side interest derivative desks with ABN AMRO Bank. But I have been on the buy side since 2004. The last 15 years or so were really split between BlackRock/BGI and PIMCO, covering a variety of disciplines across rates, investment-grade and high-yield credit but more focused on systematically oriented strategies. I was also heavily involved in ETFs and the capital markets desk functions associated with them.

**HA:** The bulk of my fixed-income experience was with PIMCO. Actually, Mitch and I overlapped there for a period of time. I was at PIMCO for more than a decade, focusing on credit strategies including high yield and multi-asset crossover (or investment-grade/high-yield) credit. I was also a core member of America's Portfolio Committee, an investment strategy group within the firm. Before PIMCO, I was with Credit Suisse where I worked on several capital markets and M&A transactions for corporate clients.

**CL:** What made you each decide to join Avantis?

**HA:** For me, it was a combination of things that drove the decision. First, as I engaged with people throughout the interview process, everyone I met seemed phenomenally talented, but beyond that, it was also clear that there is a special culture forming here. The emphasis on "we" and "team" and working together to help clients is visible everywhere. Finally, American Century Investments and its affiliation with the Stowers Institute for Medical Research really brought the idea of purpose to a whole new level for me.

**MH:** I would echo everything that Hozef touched on. The focus of the team and the clarity in mission came through

right away. And being part of a smaller team has a bit of an entrepreneurial feel, which I love, but we're part of this much larger organization in American Century Investments that has showed a true commitment to this business. In addition to that, the investment approach is completely aligned with my personal beliefs.

**HA:** That's a great point as well, Mitch. The cutting-edge research being incorporated into this approach and the overarching principles of the strategy were very compelling.

**CL:** You both touched on the investment approach. Maybe now is a good time to transition and discuss that in more detail. Can you each hit on what you think are the most important design attributes of an effective fixed-income strategy?

**HA:** We know fixed income can serve multiple goals within a client portfolio, whether that is diversification, total return, income generation, etc., and I believe it's critical that we never lose sight of that objective. What do I mean by that? We need to have a certain level of transparency in our approach, our benchmark and our risk controls so investors can have confidence that if they allocate to a short-term fixed-income strategy, for example, it is going to behave like short-term fixed income. That's No. 1 – nobody likes surprises in fixed income because they generally aren't positive. Beyond that, a systematic, market-based approach that focuses on what is observable and can be delivered in a cost-effective manner is critical. As I mentioned earlier, I have an extensive background in credit portfolios, and I believe that current market prices offer the best clue as to future expected return profiles of fixed-income securities. What really matters is, first, that you don't ignore that information. The key is how you use that information to construct a portfolio that has a good chance of outperforming what can be arbitrary benchmarks while still controlling for things like duration and credit quality.

**MH:** I agree with that, and I think there's another important element. Any systematic approach where you are using a consistent framework to assess differences in expected

returns\* is going to incorporate a model. Hozef spoke about using market prices, which are really expressed as yields and relevant spreads in fixed income. As we translate the information in those metrics into expected returns and start building a strategy, it's important we recognize that there is no such thing as a perfect model. A model is not reality. We want a consistent framework so that we can deliver the strategy in a disciplined and efficient manner, but we can't lose sight of common sense in that pursuit.

Take Hozef's comment on arbitrary benchmarks. An index is going to assign more weight to the entities that issue the most debt, but you can't look at that in a vacuum. We don't need to do that to have a broadly diversified strategy. In addition, if I am a chief financial officer at a corporation, I am looking to minimize my cost of capital, so I'm going to try to issue debt in the way that helps me accomplish that goal. From the investor's standpoint, that objective isn't aligned. This is why you need to be especially mindful when assessing new issuances; minimizing their cost of capital when issuing new debt means reducing your expected return, which makes no sense unless there's a compelling level of new issue concession built in. That is part of what we mean when we talk about using information in market prices.

**CL:** The concept of being aware of the client goal really and making sure a strategy remains true to its objective really resonates with me. We've spoken about design, but how crucial is implementation?

**MH:** That's a great question, Christine. Implementation is undoubtedly essential for any strategy, but I don't think I can overstate its importance in systematic strategies. The core of our strategy design framework is quite elegant, but the details matter a lot. We've not only put a lot of thought into all of the smaller details, but we are also able to plug into a longstanding and well-established infrastructure in American Century Investments. They have more than \$20 billion in fixed-income assets under management across a wide range of strategies, so we are able to leverage that existing infrastructure for our strategies, as well as the team of professionals across managing investment data, technology, capital markets—the list goes on. I think that is a big advantage for us.

**HA:** Being part of American Century Investments absolutely gives us a head start here. Another aspect I want to touch on is the

fundamental relationship between designing a strategy and going and buying and selling bonds each day. The U.S. fixed-income landscape is so big—tens of trillions of dollars and thousands of issuers, very rich in terms of both diversity and complexity—we must remain cognizant of things like liquidity profiles and nuances between asset classes, sectors or even issuers. For example, corporations issue multiple bonds. The characteristics of those bonds change over time, as do the transaction costs associated with buying or selling them. Our implementation strategy accounts for transaction costs and the trade-offs between different bonds with similar risk characteristics, which are both key elements in delivering on our objectives over the long term.

We also want to remain true to what a client has hired us for in terms of the role our strategy plays in their asset allocation. We want to reliably deliver the intended exposures and do it in a very efficient way.

CL: Thank you both very much for your time today and these insights. Is there anything else you wanted to share today?

**HA:** Thank you, Christine. I would probably just add that if people have questions about our approach or other fixed-income topics in general, please don't hesitate to reach out. We love talking about this stuff, and if there's a challenge a client is facing, we want to help them overcome it.

**MH:** 100% agree. I think bonds sometimes get overlooked in an allocation, but we know that fixed income can play an important role in an investor's portfolio, and we're here to help in any way that we can.

\* Expected Returns: Valuation theory shows that the expected return of a bond is a function of its current yield and its expected capital appreciation (depreciation). We use information in current market prices and company financials to identify differences in expected returns among securities, seeking to overweight securities with higher expected returns based on this current market information. Actual returns may be different than expected returns, and there is no guarantee that the strategy will be successful.

*You should consider the fund's investment objectives, risks, and charges and expenses carefully before you invest. The fund's prospectus or summary prospectus, which can be obtained by visiting [Avantisinvestors.com](http://Avantisinvestors.com) or by calling 833-928-2684, contains this and other information about the fund, and should be read carefully before investing. Investments are subject to market risk.*

*Generally, as interest rates rise, the value of the securities held in the fund will decline. The opposite is true when interest rates decline.*

This material has been prepared for educational purposes only. It is not intended to provide, and should not be relied upon for, investment, accounting, legal or tax advice.

The opinions expressed are those of the investment portfolio team and are no guarantee of the future performance of any Avantis Investors portfolio. This information is not intended as a personalized recommendation or fiduciary advice and should not be relied upon for investment, accounting, legal or tax advice. References to specific securities are for illustrative purposes only and are not intended as recommendations to purchase or sell securities.

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

Mutual Funds: American Century Investment Services, Inc., Distributor.

Exchange Traded Funds (ETFs): Foreside Fund Services, LLC – Distributor, not affiliated with American Century Investment Services, Inc.

**Avantis Investors®**