



# Impact of QE on Fixed Income

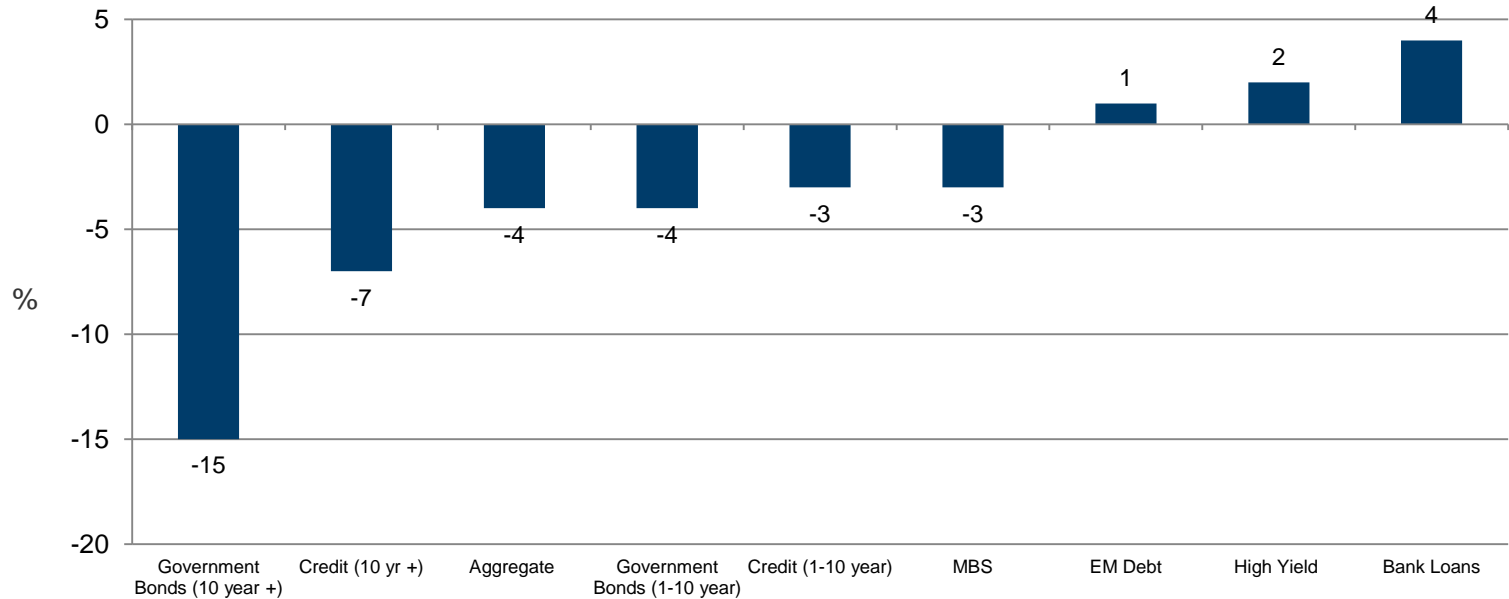
David Greene, Client Portfolio Manager  
Pioneer Investments



# Unconstrained Approaches

Potential returns mean investors have to be more opportunistic...

Expected return based on 1% increase in rates





## Two Viable Fixed Income Solutions

Many institutional investors are required to hold fixed income so what are the choices?

- Staying with traditional benchmark-driven fixed income strategies

**Or**

- Choosing unconstrained and opportunistic strategies
  - Solution 1: Multi Asset Credit
  - Solution 2: Absolute Return Bond



## What is a Multi-Asset Credit strategy?

- A flexible and unconstrained global credit strategy
- Designed to adjust asset allocations to take advantage of opportunities across credit markets based on valuations, volatility, dislocations and market timing
- Typically invests across the full spectrum of credit markets and securities
- Can incorporate a hedging strategy that seeks to buffer against credit volatility and provide a measure of protection from extreme market dislocations



# Multi Asset Credit

## Investment Universe

Mortgage-Backed Securities/  
Asset-Backed Securities



Spot and Forward Currencies



High Yield and Convertible Bonds



Investment Grade Bonds



Event-Linked Bonds



Credit Default Swaps  
and Basket Products



Bank Loans



Options, Futures



Interest Rate Instruments



Emerging Markets

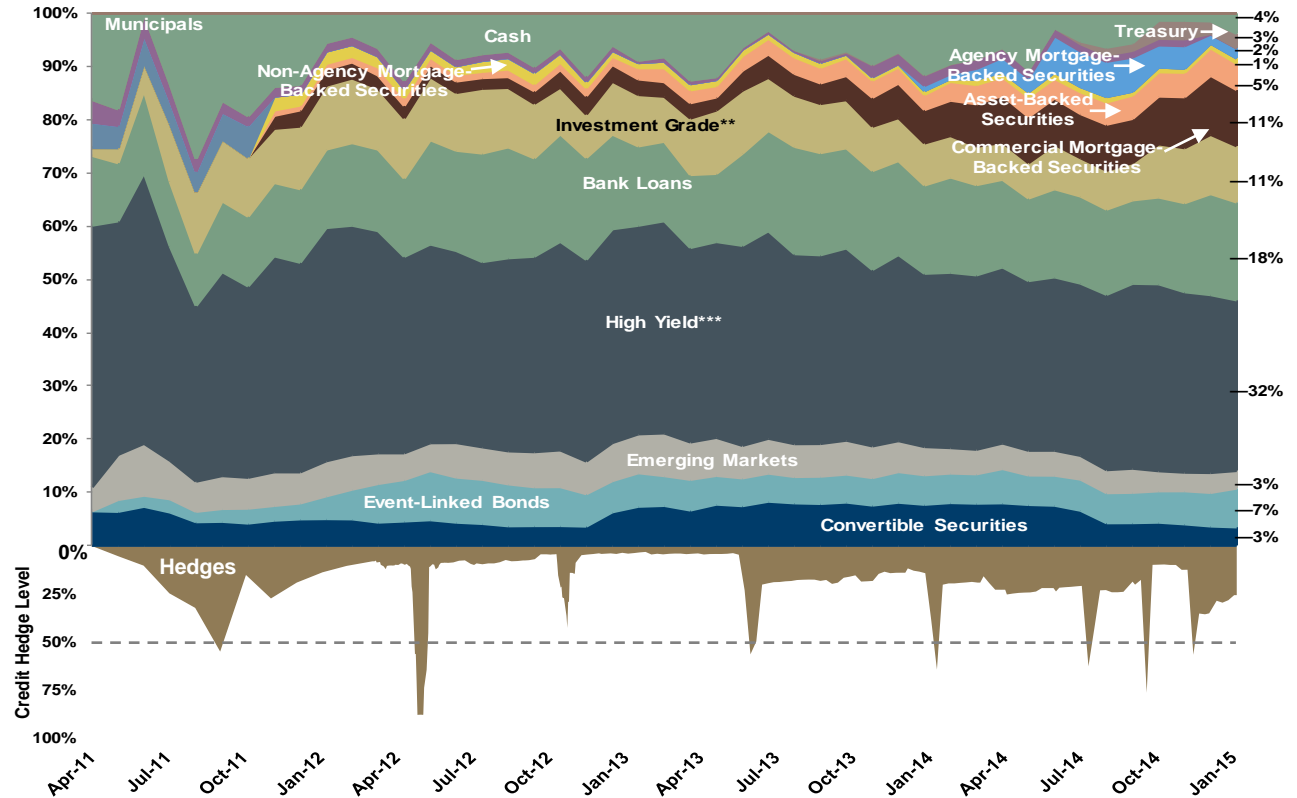


Multi Asset  
Credit



# Unconstrained approach to income investing

Allows for opportunistic allocation across a diverse range of credit sectors



\*Data as of January 31, 2015.

\*\*Includes U.S. and International investment grade bonds.

\*\*\*Includes U.S. and International high yield bonds.

This chart is for illustrative purposes only and is based on the Pioneer Dynamic Credit strategy, which is actively managed; sector allocations will vary over other periods and do not reflect a commitment to an investment policy or sector. Mutual fund investing carries risks. Investment return and principal value fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Source: Pioneer Investments



## Multi Asset Credit Reasons to Consider Investing

- Offers credit investors a much broader and more diversified global opportunity set than a traditional allocation to European Investment Grade Credit
- Eases the governance burden of pension schemes by outsourcing asset allocation decisions to the asset manager
- Offers income-oriented investors exposure to potentially higher-yielding markets, with added protection against downside risk
- Strategy worth considering for investors seeking to reduce their duration exposure
- Flexibility of currency exposure



## What is an Absolute Return Bond strategy?

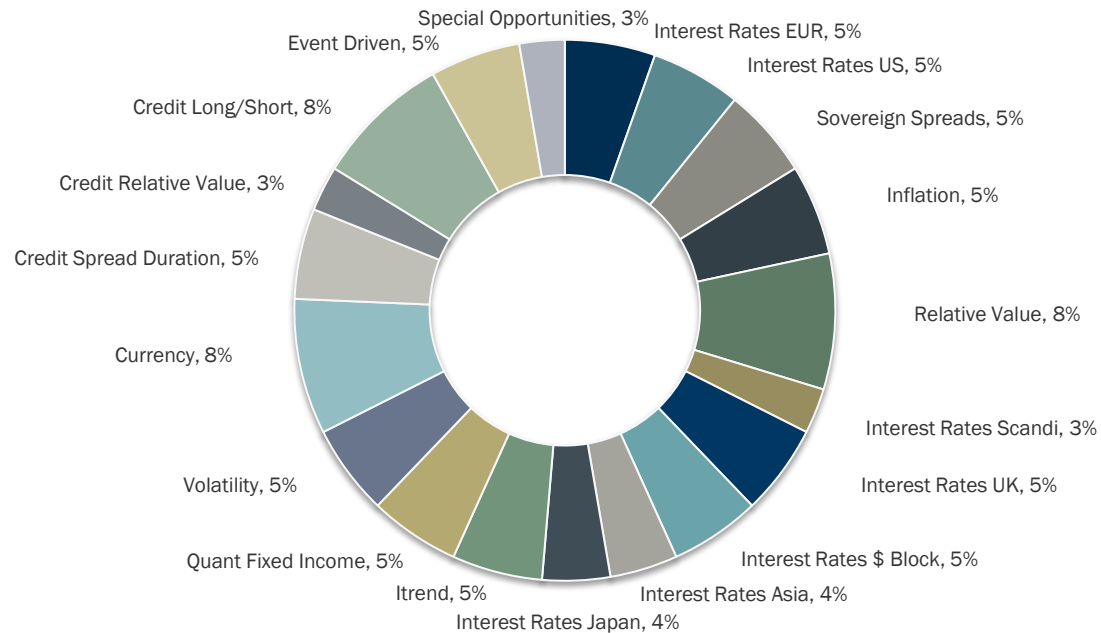
- Aims to generate positive returns in all market conditions over a defined period
- Has a cash benchmark
- Ability to run negative duration positions (and potentially profit from rising bond yields)
- Invests across the full spectrum of global fixed income securities
- Dynamic investment approach (active, not passive)
- Should place strong emphasis on risk management and drawdown prevention





## Diversified Sources of Potential Returns

### Absolute Return Bond Strategy Contribution to Total Alpha Target





## Maximising the Diversification\* Benefit

	Alpha Strategies	S&P	Eurostoxx 50	€Agg	€Corp	€ MSCI	Eonia	€Govt	Global Agg
Alpha Strategies	1								
S&P	0.11	1							
Eurostoxx 50	0.18	0.58	1						
€Agg	-0.31	-0.01	0.09	1					
€Corp	-0.37	-0.06	0.01	0.89	1				
€MSCI	0.14	0.80	0.70	0.05	0.05	1			
Eonia	0.00	0.03	0.05	0.02	0.00	0.06	1		
€Govt	-0.25	0.03	0.15	0.98	0.80	0.07	0.03	1	
Global Agg	-0.39	-0.14	-0.19	0.53	0.49	-0.43	-0.07	0.46	1

\* Diversification does not guarantee a profit or protect against a loss

Indices shown are: S&P500, Eurostoxx 50, Barclays Euro Aggregate Bond Index, Barclays Euro Corporate Bond Index, MSCI EMU, Barclay's Euro Government Bond Index, JPMorgan Global Aggregate Bond Index.

Source: Pioneer Investments, based on the Pioneer Absolute Return Bond Strategy as at 31 December 2014.

Information shown is illustrative of the Portfolio Construction process only.



# Absolute Return Bond Strategy

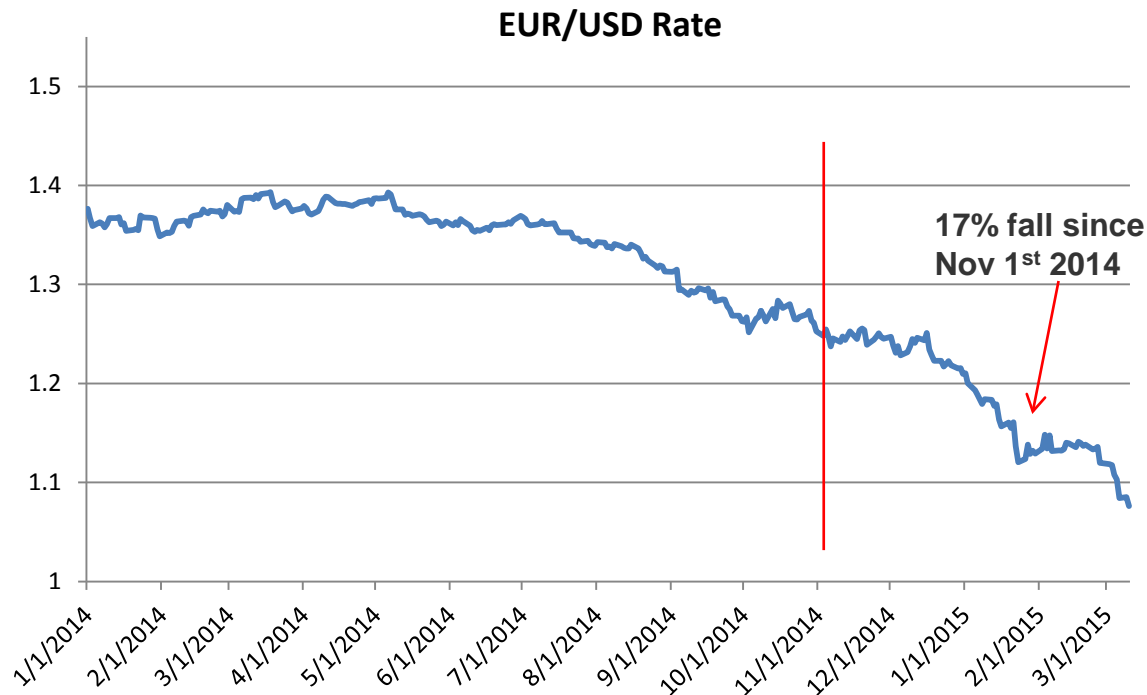
## Current Themes

Alpha source	Strategy	Current positioning
FX	US dollar to remain strong	Long USD against other G-10 currencies Long high-yielding currencies (INR/SAR) v USD



## Investment Idea - Currency

- Our currency portfolio managers have long believed that USD would appreciate against both EUR and JPY.
- We went long USD vs JPY in late 2012 and against EUR in May 2014.
- So far in 2015, our currency strategy has delivered 0.15% of performance.





# Absolute Return Bond Strategy

## Current Themes

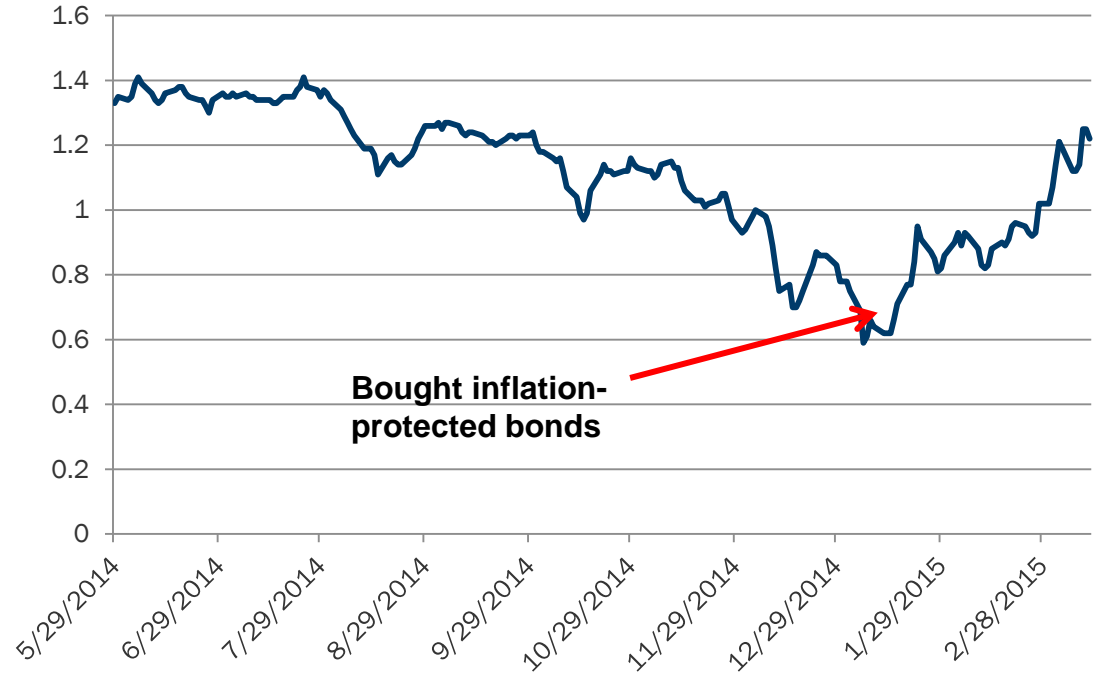
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FX	US dollar to remain strong	Long USD against other G-10 currencies Long high-yielding currencies (INR/SAR) v USD
Inflation	Euro market priced for deflation - we believe inflation will gradually recover towards 1.5%	Buy inflation-linked bonds



## Investment Idea - Inflation

- Our inflation portfolio manager has long believed that inflation in Europe would fall towards zero, and even below zero, due to the effects of the falling oil price.
- But in early January 2015, she believed that the markets had become too pessimistic on the outlook for inflation.
- Therefore, she decided to buy inflation-protected bonds, expecting that they would recover in price.
- So far in 2015, our Inflation strategy has contributed 0.65% to performance

Euro 10yr Inflation Rate



Source: Pioneer Investments/Bloomberg. As at 10 March 2015



# Absolute Return Bond Strategy

## Current Themes

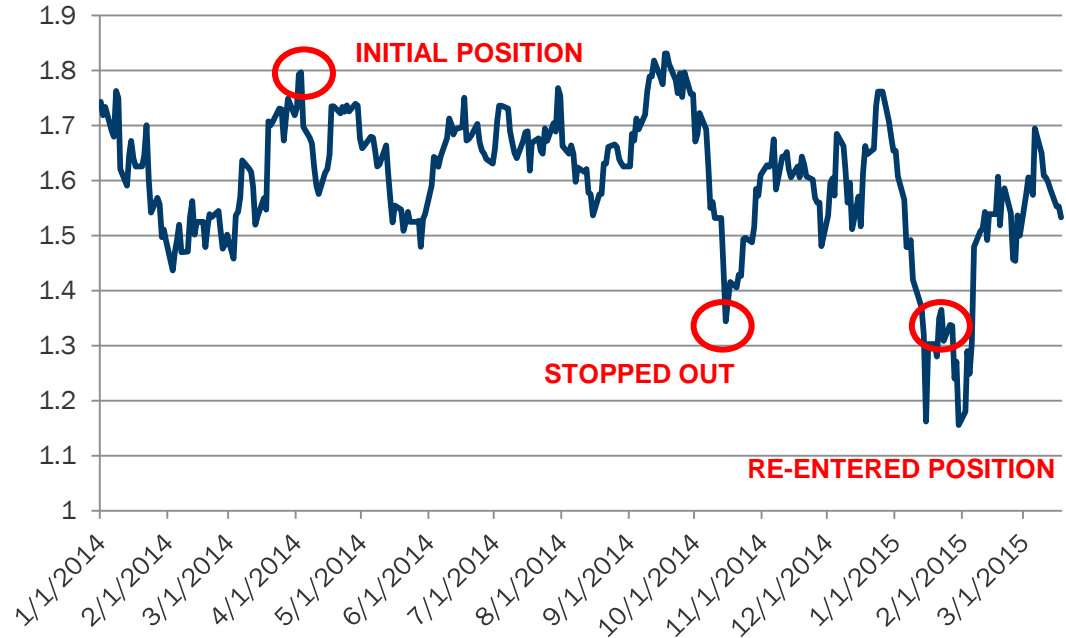
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Inflation	Euro market priced for deflation - we believe inflation will gradually recover towards 1.5%	Buy inflation-linked bonds
Int Rates US	Rates to rise faster and by more than the market expects	Short duration stance in 2yr and 5yr area of market



## Interest Rates - US

- Our Interest Rates – US portfolio manager believes the market is underestimating the speed and the extent of US rate hikes in 2016.
- If he is correct then short maturity US bonds yields will have to rise higher than the market is currently expecting.
- We have sold 5yr US Treasury bonds
- in anticipation of being able to buy them back at higher yields (and lower prices).
- So far in 2015 this investment idea has generated 0.08% of return.

5yr US Treasury Yield



Source: Pioneer Investments/Bloomberg. As at 10 March 2015





# Absolute Return Bond Strategy

## Current Themes

Alpha source	Strategy	Current positioning
FX	US dollar to remain strong	Long USD against other G-10 currencies Long high-yielding currencies (INR/SAR) v USD
Inflation	Euro market priced for deflation - we believe inflation will gradually recover towards 1.5%	Buy inflation-linked bonds
Int Rates US	Rates to rise faster and by more than the market expects	Short duration stance in 2yr and 5yr area of market
Sovereign Spreads	Italian bond yields have fallen too far given economic outlook and debt burden	Sell 10yr Italian bonds
Int Rates UK	Market underestimating strength of economy Rates will rise quicker than expected.	Sell short-dated bonds
Credit Markets	Credit spreads have tightened too much	In anticipation of higher credit spreads, sell Credit Index.
Int Rates Europe	Euro economy recovering and QE to accelerate the process.	Short duration stance in 10yr area of market.
Event Driven	Expect further central bank activity worldwide China slowdown to remain controlled	Long FX volatility and interest rates markets Also positioned for Chinese slowdown
Int Rates Scandinavia	Positive on region versus US	Buy Scandinavian bonds



## Summary

- Be fearful when others are greedy, be greedy when others are fearful
- The stock market is filled with individuals who know the price of everything, but the value of nothing

**Warren Buffett**

**Philip Fisher**



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