

This document has been provided by BNY Mellon Asset Management Canada Ltd (BNYM AM Canada) for use with INSTITUTIONAL INVESTORS ONLY and may not be redistributed without authorization. NOT TO BE DISTRIBUTED TO RETAIL CLIENTS. Investment services in Canada are offered through BNY Mellon Asset Management Canada Ltd (BNYM AM Canada), registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada, and as a Commodity Trading Manager in Ontario. BNYM AM Canada is an indirect, wholly-owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). BNYM AM Canada and Insight are affiliates. Unless otherwise indicated, all financial data is shown in USD.



PLEASE REFER TO ALL RISK DISCLOSURES AT THE BACK OF THIS DOCUMENT

FIXED INCOME AS A GROWTH ASSET: UNLOCKING LONG-TERM RETURNS

AUGUST 2025

Higher absolute yields and steeper yield curves mean fixed income is no longer just a defensive asset. With the right strategies, it can potentially serve as a powerful growth engine, delivering long-term returns through the compounding impact of reinvesting of income, and strategic allocation to seek out alpha opportunities.

EXECUTIVE SUMMARY

- **Fixed income redefined:** Traditionally viewed as defensive, we have observed that fixed income is increasingly being viewed as a potential strategic growth asset due to higher yields and steeper yield curves.
- **Compounding potential:** We believe that reinvested income in fixed income can generate long-term compound returns comparable to historical equity returns, with potential for lower volatility and drawdowns.
- **Yield and duration dynamics:** We believe that investors need to understand the various ways that managers can seek to generate returns using fixed income assets and how to balance income generation and interest-rate sensitivity.
- **Active management advantage:** Fixed income markets are inefficient, with data from Morningstar showing even the median manager has outperformed passive strategies. Skilled managers have the potential to meaningfully enhance returns through issuer selection, duration management, and sector rotation, giving them scope to outperform passive strategies over time.
- **Global diversification:** Exposure to global markets and including assets such as high yield bonds, emerging market debt, structured credit assets, and convertible bonds can expand an investor's opportunity set and reduce concentration risk.
- **Opportunities for 'equity-like' returns:**
 - **High yield credit:** Currently offers attractive returns with manageable default risk, especially in short-dated bonds.
 - **Fallen angels:** Bonds that have been downgraded from investment grade to high yield can present value opportunities due to forced selling (from both active and passive investors) and the possibility of a subsequent recovery.
 - **Structured credit:** These assets can provide higher yields and structural protections compared to traditional corporate debt due to the complexity of analysis required and accepting a lower level of liquidity.
 - **Strategic bond strategies:** Flexible mandates allow managers to pivot across sectors and geographies, giving them the freedom to capture incremental returns.

Insight Investment Management Limited (IIML), a UK company, is a wholly-owned subsidiary of The Bank of New York Mellon Corporation.

IIML operates several other entities, including Insight Investment Management (Global) Limited (IIMG), all of which collectively form the Insight brand. BNYM AM Canada and Insight are affiliates.

Performance presented is that of IIMG. The performance of IIMG is being presented to show the historical performance of the portfolio management team responsible for managing the Strategy. Unless otherwise indicated, all financial data is shown in USD. The track records presented include all accounts managed by IIMG with substantially similar investment objectives, policies and strategies for which the Strategy management teams were responsible. Please refer to the important disclosures at the back of this document.

INTRODUCTION: RETHINKING FIXED INCOME

For many investors, fixed income has long been seen as a conservative asset class – ideal for those in retirement or highly risk-averse and seeking low, but relatively safe, long-term returns, often extracted as income.

In the institutional space, capital preservation or liability hedging has been a key investment rationale, with pension schemes, insurers and central banks providing a significant source of demand.

However, in a world of high absolute yields, this traditional view overlooks the potential for fixed income assets to serve as a powerful engine for long-term capital growth. In an era of growing concentration risk in equity markets and increasing demand for diversification away from this risk, fixed income is being re-evaluated as a strategic growth asset.

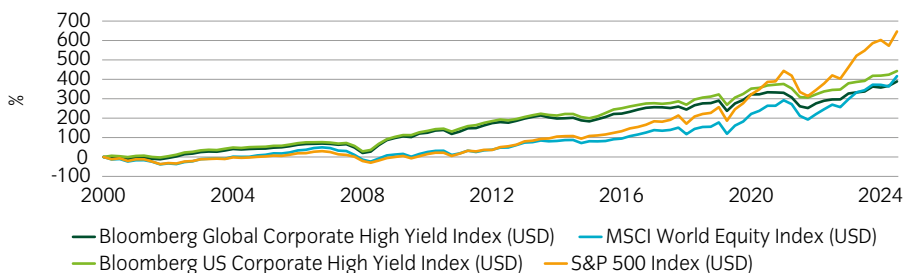
THE POWER OF COMPOUNDING

Compounding is the process of reinvesting investment earnings to generate additional returns over time. In equities, this occurs primarily through capital appreciation – growing investment value leads to higher capital, which in turn compounds future returns. In fixed income, compounding is primarily driven by reinvested income, such as coupon payments or interest, allowing investors to earn returns on both principal and accumulated interest.

For example, a bond that pays 6% income annually generates \$600 on a \$10,000 investment in the first year. If reinvested at the same rate, the capital rises to \$10,600, earning \$636 in year two, and so on. Over time, this exponential growth can rival or exceed returns from more volatile assets, especially when interest rates remain high. After years of historically low yields and frequent income extraction, the power of compounding in fixed income is often underappreciated.

High yield corporate credit, like equities, is a cyclical asset class. Over the long term, global high yield and global equities have delivered broadly similar returns (see Figure 1). US equities have outperformed high yield in recent years, largely propelled by the extraordinary performance of US mega-cap technology stocks. However, elevated valuations raise questions about the sustainability of this trend. For instance, Nvidia¹ – one of the key drivers of US equity gains – reached a market capitalization of \$4.3 trillion at the end of June 2025, equivalent to approximately 4% of global GDP.

Figure 1: When coupons are reinvested, global corporate high yield has provided similar compound returns to global equities²



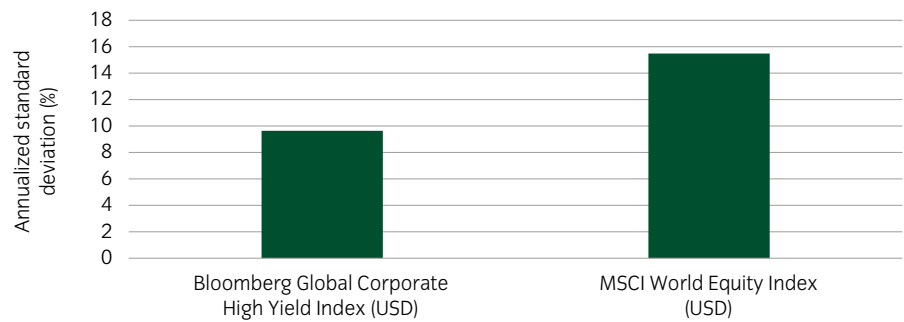
¹ The mention of a specific security is not a recommendation to buy or sell such security.

² Source: Insight and Bloomberg. Total return indices. Data between December 31, 2000 and July 31, 2025. Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.



Unlike equities, the prices of which can be highly volatile, and which may or may not pay dividends, fixed income instruments offer predictable, scheduled cash flows. Bonds typically pay semi-annual or annual coupons, providing frequent reinvestment opportunities, which can be beneficial when interest rates are at high levels. These regular cashflows and the contractual nature of debt markets mean that even for an asset class such as high yield credit, the volatility (or 'standard deviation') of returns has been significantly lower than for global equities (see Figure 2), providing attractive risk-adjusted returns. Drawdowns have also typically been more moderate than seen in equity markets, with recoveries faster.

Figure 2: Global corporate high yield has been significantly less volatile than global equities³



YIELD, DURATION AND REINVESTMENT STRATEGIES

As a fixed income investor, yield provides the foundational income stream, while duration determines sensitivity to interest rate changes – the price of longer duration bonds are more sensitive to shifts in interest rate expectations; creating potential for capital gains when rates fall or losses when rates rise. Reinvestment strategies enhance returns by compounding income over time, especially in environments when yields are elevated, but their effectiveness depends on the timing and shape of the yield curve. To harness fixed income as a growth asset, investors must understand the interplay between yield, duration, and reinvestment, along with the potential for capital gains.

UNDERSTANDING YIELD

The yield on a bond is the return generated by it, expressed as a percentage of its market price. Key concepts include:

- **The coupon rate:** The annual payment made by the bond for each £100/€100/\$100 in nominal principal held. This is a contractual payment set when the bond is first issued.
- **The 'current' or 'income yield':** Annual coupon divided by the current market price.
- **Yield to maturity (YTM):** This is the total annual percentage return anticipated on a bond if it is held to maturity, with all payments made as scheduled and reinvested at the current yield of the bond.

When yields are at high absolute levels, this accelerates compounding, as it means a larger amount is reinvested each year. However, a high yield on a specific bond can be a result of higher credit or duration risk, so investments should not be based on yield alone.

³ Source: Insight and Bloomberg. Data between December 31, 2000 and July 31, 2025. Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

DURATION AND INTEREST RATE SENSITIVITY

Duration measures a bond's sensitivity to interest rate changes. Longer-duration bonds can offer higher yields but can also come with greater price volatility. Managing duration is critical to balancing growth and risk.

REINVESTMENT STRATEGIES

- **Laddering:** Investing in bonds with staggered maturities to ensure regular maturities for reinvestment.
- **Barbell strategy:** Combining short- and long-term bonds to balance yield and interest rate exposure.
- **Rolling portfolios:** Continuously reinvesting matured bonds into new issues to maintain exposure and compound returns.

THE POTENTIAL FOR CAPITAL GAINS

While income is an important driver of fixed income returns, it is far from the only one. When absolute yields fall – whether due to a fall in government bond yields or tightening credit spreads – bond prices typically rise.

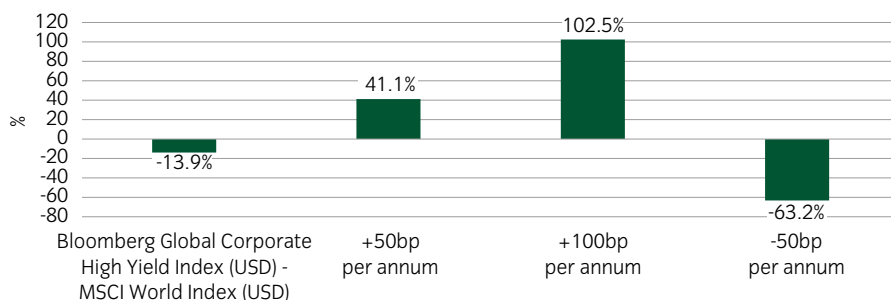
A manager with the flexibility to invest across the full spectrum of global fixed income assets can actively seek out pockets of value, identifying bonds they believe are undervalued and capturing capital gains as those bonds revert to fair value. When executed successfully, this approach can enhance income-driven returns and amplify the power of compounding.

ACTIVE MANAGEMENT: COMPOUNDING WITH CONVICTION

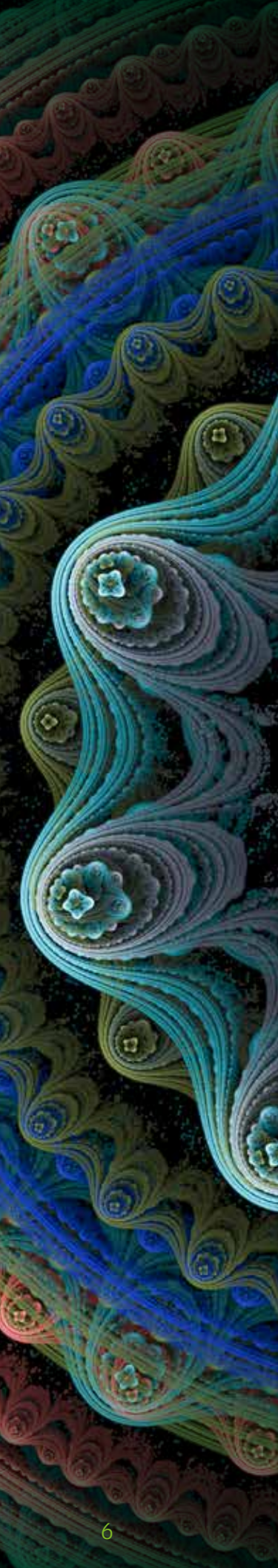
ACTIVE VERSUS PASSIVE MANAGEMENT

Passive fixed income strategies may appear to offer simplicity and low costs, aiming to track broad fixed income indices before fees. However, they may miss opportunities for return enhancement. If an active manager can consistently generate returns in excess of an index, then compounding these higher returns becomes meaningful over time. In Figure 3, we illustrate the cumulative performance of the Bloomberg Global Corporate High Yield Index relative to the MSCI World Index between December 31, 2000 and December 31, 2024 across a range of scenarios.

Figure 3: Active management can make a meaningful difference to long-term compound returns⁴



⁴ Source: Insight and Bloomberg. For illustrative purposes only. Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.



The risk is of course that the manager underperforms the index. Data from Morningstar⁵ shows that on an asset-weighted basis high-yield bond managers have outperformed by 60bp per annum over the 15-years to end 2024. Over 50% of funds successfully outperformed their index. On the other hand, the data suggest that global large blend equities funds underperformed by 1.4% per annum, with only 10% of funds outperforming.

This highlights the need to look beyond index-level returns when making investment decisions, ensuring that strategies are realistically aligned with objectives and backed by a high degree of confidence in their achievability.

A FLEXIBLE, ACTIVE APPROACH MAXIMIZES OPPORTUNITIES TO ADD VALUE

Active managers can seek to exploit market inefficiencies, such as mispriced markets, sectors, securities or liquidity premiums, to enhance returns. In volatile environments, active management provides the flexibility to respond to macroeconomic shifts and adjust positioning to try and protect against downside risks. It also allows for:

- **Credit/issuer selection:** Identifying undervalued issuers with strong fundamentals or taking advantage of new issue premium when bonds are issued in primary markets.
- **Duration management:** Adjusting portfolio sensitivity based on the outlook for interest rates.
- **Sector rotation:** Shifting between government, corporate, municipal, and emerging market bonds to capture growth.

GLOBAL DIVERSIFICATION AND CREDIT OPPORTUNITIES

Global fixed income markets offer a vast array of instruments beyond domestic government and investment grade corporate bond markets, increasing the number of opportunities available for an active manager to enhance returns. These include:

- **High-yield bonds:** Issued by companies with lower credit ratings but typically offering higher yields than investment grade bonds.
- **Emerging market debt:** Often provide higher yields and growth potential than developed market debt, albeit with greater risk. These are often issued in 'hard' currencies, such as US dollars or Euros, allowing managers to invest without the emerging market currency risk if desired.
- **Structured credit:** Financial instruments backed by a pool of loans that are often secured against underlying assets such as car loans, corporate loans or residential mortgages that generate cashflows over time. Some of these assets are less liquid than corporate bonds and more complex to understand, so offer a higher return to compensate investors.
- **Convertible bonds:** Hybrid instruments that combine the downside protection offered by a bond with the opportunity for equity upside.

Diversifying across geographies and credit qualities allows investors to tap into different economic cycles, interest rate regimes, and currency exposures. This not only enhances return potential but also reduces portfolio concentration risk.

⁵ <https://www.morningstar.com/business/insights/research/active-passive-barometer>
Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

OPPORTUNITIES FOR 'EQUITY-LIKE' RETURNS IN FIXED INCOME

In our view, there are a number of strategies that currently have the potential to generate attractive risk adjusted returns relative to broad equity indices.

OPTION 1: HIGH YIELD CREDIT

High yield credit refers to bonds issued by companies with lower credit ratings – typically below BBB- by S&P or Baa3 by Moody's. These bonds offer higher interest rates (yields) to compensate investors for the greater risk of default compared to investment-grade bonds. However, as we can see in Figure 4, default rates have declined, arguably due to a structural change that has occurred in fixed income markets, where issuers that are smaller or in distress turning to private debt markets where any restructuring can be more carefully managed.

There are various ways to better align investment strategies with an investor's specific objectives. In high yield markets, for example, the additional yield offered by longer-dated bonds is often marginal, despite their greater sensitivity to interest rate movements, lower credit transparency and greater uncertainty. Focusing on shorter maturity bonds can help smooth returns during periods of rising rates. This is illustrated in Figure 5, where the Bloomberg US 1–3 Year High Yield Index experienced a more moderate drawdown in 2022, a year marked by aggressive Federal Reserve tightening. Credit risk is also more easily assessed by investing over shorter timeframes as it gives investors greater transparency over a company's earnings and ability to repay their bonds. An actively managed approach, which includes regular contact with management teams, can seek to minimize default risk to ensure that a client fully benefits from the high levels of yields.

Figure 4: US high yield rolling 12mth default rate⁶

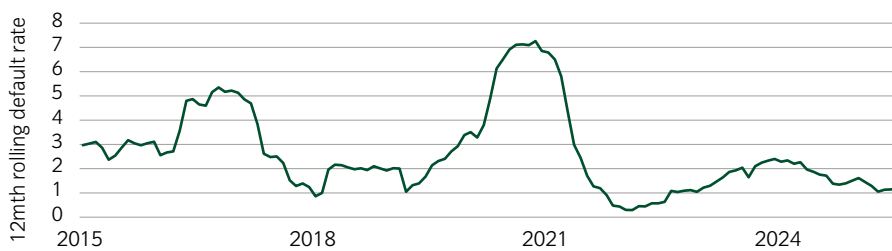
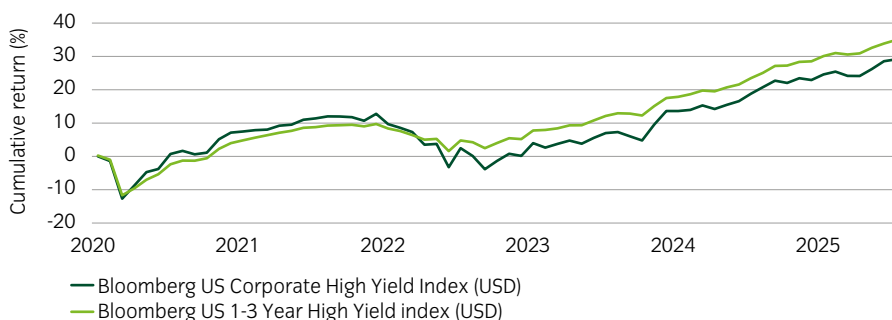


Figure 5: A short-dated approach can smooth returns⁷



⁶ Source: BoA. Data as of July 31, 2025. Diversification cannot ensure a profit or protect against loss in declining markets. All investments involve some level of risk, including loss of principal.

⁷ Source: Insight and Bloomberg. Data as of July 31, 2025. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**



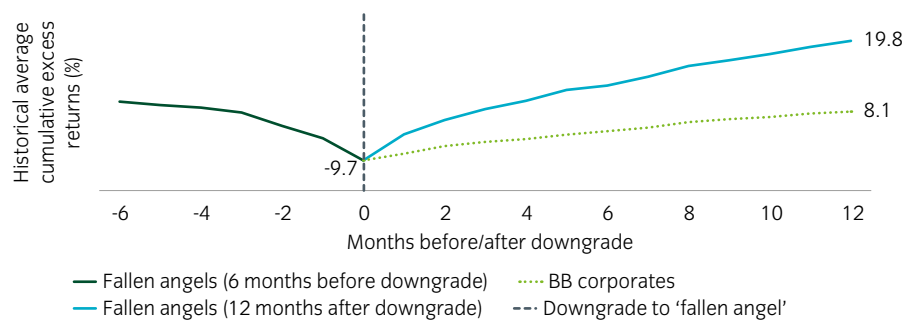
OPTION 2: FALLEN ANGELS

A fallen angel in credit markets refers to a bond that was rated as investment grade but has been downgraded to high yield. It may seem counter-intuitive, but downgrades, particularly downgrades to fallen angel status, can be particularly compelling fixed income opportunities.

These downgrades can create predictable and potentially exploitable volatility. When an investment grade bond is downgraded to high yield, many investors, but especially passively managed investment grade accounts, are forced to sell them, regardless of the underlying fundamentals. This typically exacerbates the bond's underperformance, allowing investors with more flexibility to purchase the issue at potentially attractive valuations.

Since 2004, fallen angels have underperformed by around 10% over the six months before a downgrade, but then outperformed by around 20% over the 12 months after (see Figure 6)⁸.

Figure 6: Fallen angels have typically underperformed in the months before downgrade, then outperform afterwards⁹



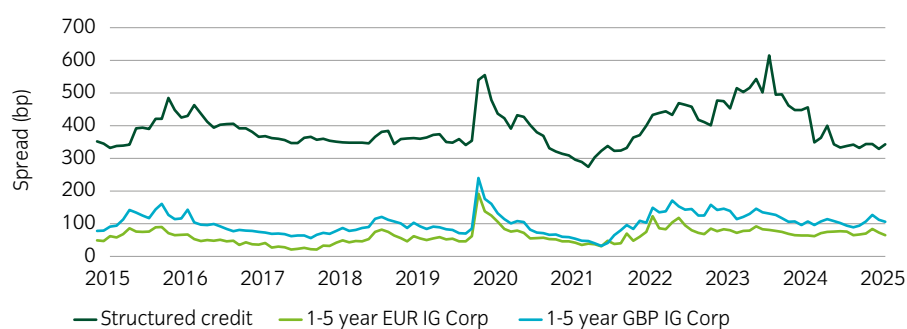
Most traditional passive and active managers may struggle to invest in fallen angels as a standalone allocation. As such, relatively few strategies exist that target fallen angels exclusively. However, a systematic approach may be a compelling way to access fallen angels.

OPTION 3: STRUCTURED CREDIT

Asset-backed securities (ABS) and other structured credit assets can offer higher spreads without having to compromise on credit quality (see Figure 7). The securitization against underlying assets arguably makes them lower risk than comparably rated corporate credits. These assets also benefit from structural protections. For example, when defaults occur in the underlying loan pool, those defaults will initially flow to lower rated or junior tranches of a structure, only impacting higher rated or senior tranches once that capital was entirely absorbed. Structures may also benefit from low loan-to-value ratios within the underlying loan pool, or built in excess collateral to help protect investors from defaults. Structured credit assets typically reference short-term cash benchmarks for their coupon rates, which limits their exposure to interest rate risk. In a rising rate environment, this structure boosts the income generated by the asset class without triggering the price declines seen in longer-duration bonds. However, when yield curves are steep, the relative advantage of the high spreads offered by structured credit becomes less pronounced.

^{8,9} Source: Bloomberg, Insight, December 2024. Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

Figure 7: Structured credit can offer a spread premium to traditional corporate debt¹⁰



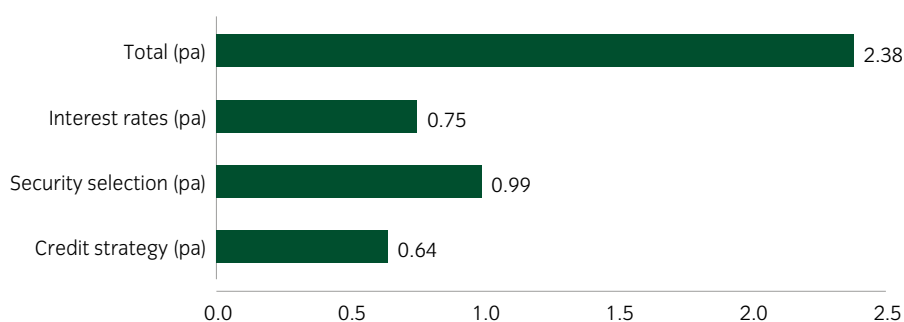
OPTION 4: STRATEGIC BOND STRATEGIES

Unlike traditional bond funds that are constrained by sector or duration mandates, strategic bond strategies can pivot between government bonds, investment-grade credit, high yield, emerging markets, and even currencies. This flexibility allows managers to respond to macroeconomic shifts, such as central bank policy changes or geopolitical shocks, with agility, making them well-suited to navigate today's complex fixed income environment.

By having such a flexible mandate, strategic bond managers are not forced to maintain any given position. They can lock in profits when positions return to fair value and seek out the next undervalued trade. Exploiting a broad range of opportunities provides the opportunity to build up incremental returns from multiple different sources – we can illustrate such an effect using Insight's Responsible Horizons Strategic Bond strategy in Figure 8.

When aggregated these incremental returns can result in meaningful outperformance of traditional fixed income benchmarks, which gives strategic bond strategies the potential to compete with higher risk/higher return segments of the fixed income universe.

Figure 8: Insight's Responsible Horizons Strategic Bond strategy demonstrates the power of an active approach across both duration and credit markets¹¹



RISKS TO CONSIDER

- **Credit risk:** Default by issuers can lead to capital loss.
- **Interest rate risk:** Rising rates can reduce bond prices.
- **Liquidity risk:** Difficulty in buying or selling bonds without impacting price.

Mitigating these risks requires diversification, due diligence, and a dynamic approach to asset allocation and portfolio management.

¹⁰ Source: Data calculated by Insight. As of June 30, 2025.

¹¹ Source: Insight as of June 30, 2025. The representative portfolio adheres to the same investment approach as the Responsible Horizons Strategic Bond strategy. For illustrative purposes only. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**



CONCLUSION

Fixed income is no longer just a defensive play. With the right strategies – focused on reinvestment combined with active management and global diversification – it can serve as a powerful growth engine. We believe investors can achieve equity-like returns with lower volatility and drawdown risk, making fixed income an essential component of long-term investment strategies in today's evolving market landscape.

CONTRIBUTORS



Brendan Murphy
Head of Fixed Income, North America
Insight Investment



Simon Down
Co-Head of Investment Content
Insight Investment

FIND OUT MORE

Insight Investment

200 Park Avenue
New York, NY 10166

Institutional Business Development

institutionalna@insightinvestment.com

Consultant Relationship Management

consultantsna@insightinvestment.com

Client Service Management

clientservicena@insightinvestment.com



www.insightinvestment.com

BNY Mellon Asset Management Canada Ltd.

One York Street, Suite 601
Toronto, Ontario
M5J 0B6

INSTITUTIONAL

David McKee

david.mckee@bny.com
647-625-5424

RETAIL SUB-ADVISORY

Timothy J. Wilcox

tim.wilcox@bny.com
416-561-5311

Howard Gross, CFA

howard.gross@bny.com
416-455-3658

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

Unless otherwise indicated, all financial data is shown in USD.

This document is a financial promotion and is not investment advice.

This document must not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or otherwise not permitted. This document should not be duplicated, amended or forwarded to a third party without consent from Insight Investment.

Insight does not provide tax or legal advice to its clients and all investors are strongly urged to seek professional advice regarding any potential strategy or investment.

Unless otherwise stated, the source of information and any views and opinions are those of Insight Investment and should not be construed as investment or any other advice and are subject to change. This document is for information purposes only and does not constitute an offer or solicitation to invest. Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell investments in those countries or sectors.

Telephone conversations may be recorded in accordance with applicable laws. Insight Investment International Limited (IIIL) is a UK limited company registered in England and Wales with the Company No. 03169281. Its registered office is 160 Queen Victoria Street, London, EC4V 4LA, United Kingdom. IIIL is authorised and regulated by the Financial Conduct Authority (FCA) with FRN 416024 in the United Kingdom. IIIL is registered as a Portfolio Manager in the provinces of Ontario, Alberta, British Columbia, Saskatchewan, Nova Scotia, Quebec and Manitoba in Canada. Investment services in Canada are offered through BNY Mellon Asset Management Canada Ltd. (BNYM AM Canada), registered as a Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories and as a Commodity Trading Manager in Ontario. Insight Investment International Limited and BNYM AM Canada are both wholly-owned subsidiaries of 'BNY' as defined below.

BNY is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally. Products and services may be provided under various brand names and in various countries by subsidiaries, affiliates and joint ventures of The Bank of New York Mellon Corporation where authorized and regulated as required within each jurisdiction. The Bank of New York Mellon Corporation assumes no responsibility for the accuracy or completeness of the above data and disclaims all expressed or implied warranties in connection therewith.

© 2025 Insight Investment. All rights reserved