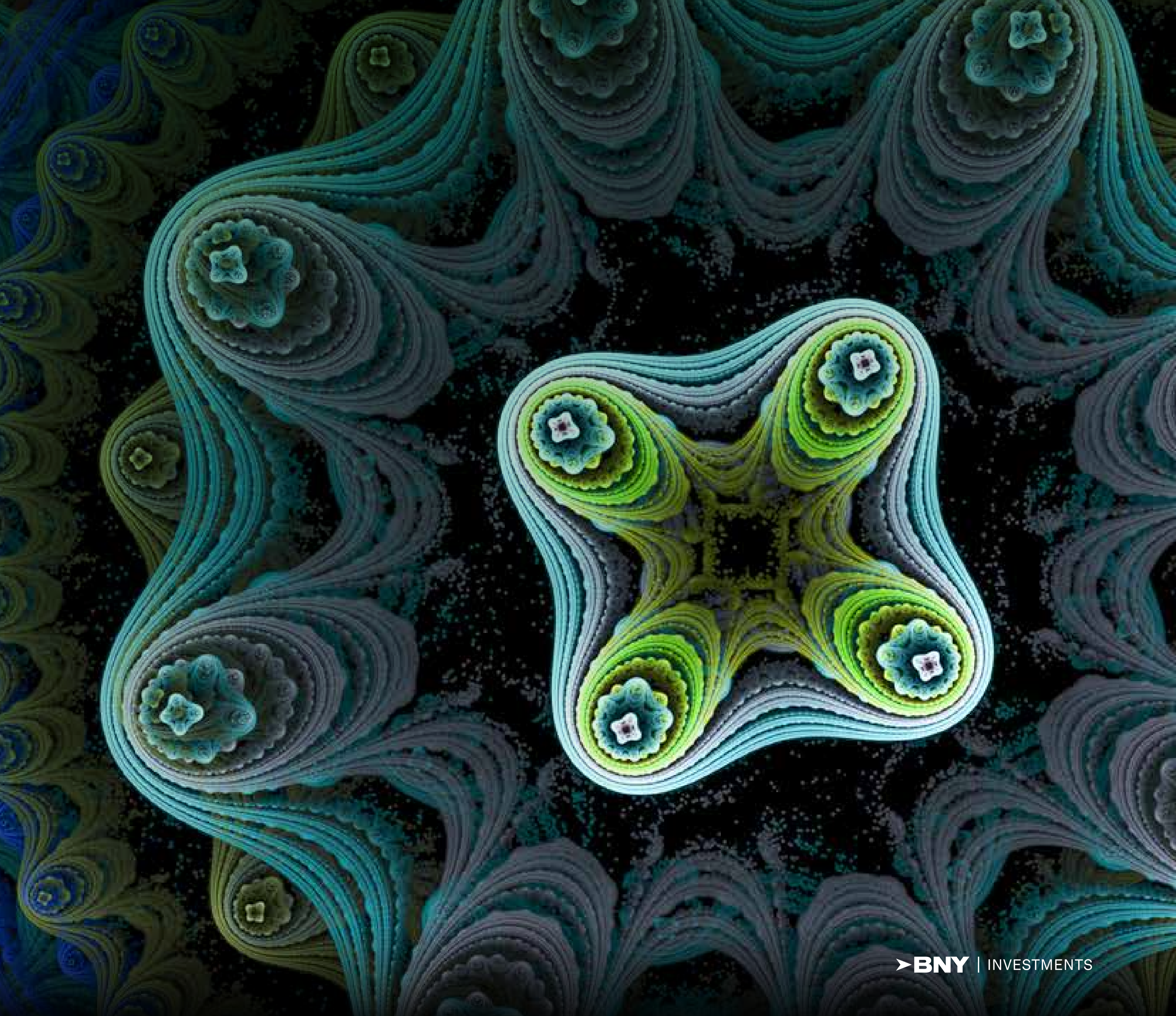
Insight INVESTMENT

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

AUGUST 2025



BNY | INVESTMENTS

Higher absolute yields and steeper yield curves mean fixed income is no longer just a defensive asset. With the right strategies, it can 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:** 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 outperforms 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, secured finance assets, and convertible bonds can expand an investor's opportunity set and reduce concentration risk.
- **Opportunities for 'equity-like' returns:**
  - **High yield credit:** 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.
  - **Secured finance:** 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.

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.

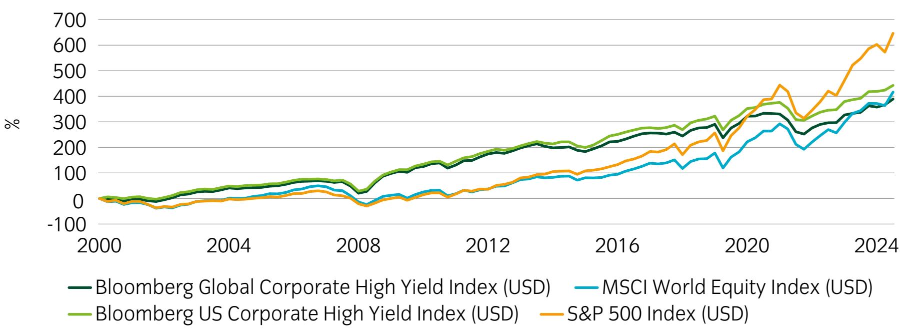
THE POWER OF COMPOUNDING

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.

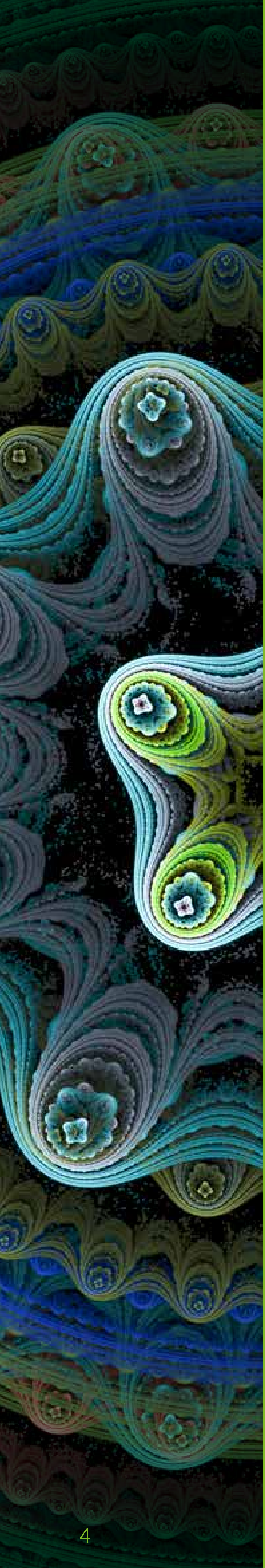
For example, a bond that pays 6% income annually generates $600 on a $10,000 investment in the first year. If reinvested at the same rate, the capital rises to $10,600, earning $636 in year two, and so on. Over time, this exponential growth can rival or exceed returns from more volatile assets, especially 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, Nvidia – one of the key drivers of US equity gains – reached a market capitalisation 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 equities[1]

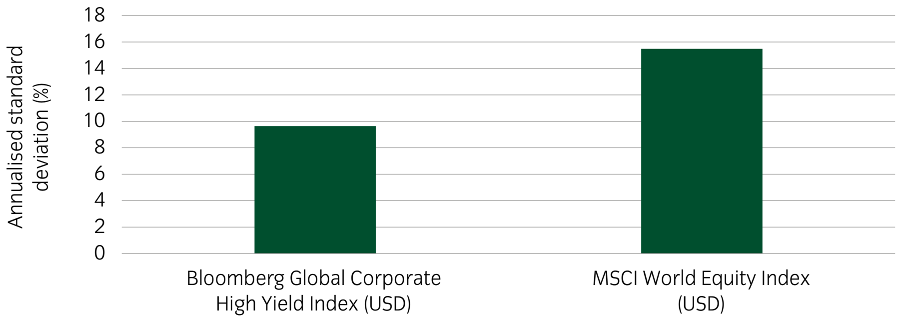


[1] Source: Insight and Bloomberg. Total return indices. Data between 31 December 2000 and 31 July 2025.



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 means 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 superior 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 equities[2]



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.

[2] Source: Insight and Bloomberg. Data between Data between 31 December 2000 and 31 July 2025.

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.

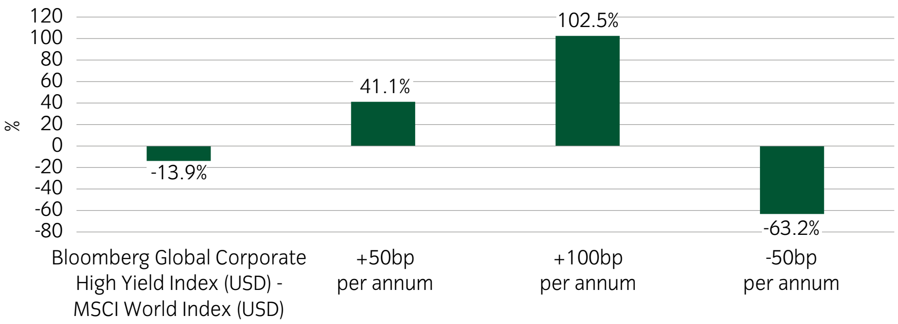
A manager with the flexibility to invest across the full spectrum of global fixed income assets can actively seek out pockets of value, identifying bonds they believe are undervalued and capturing capital gains as those bonds revert to fair value. When executed successfully, this approach can enhance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

ACTIVE MANAGEMENT: COMPOUNDING WITH CONVICTION

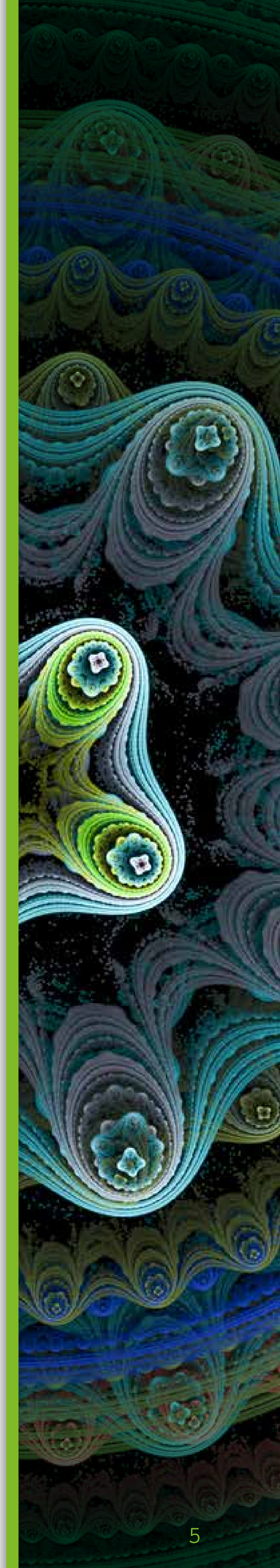
ACTIVE VERSUS PASSIVE MANAGEMENT

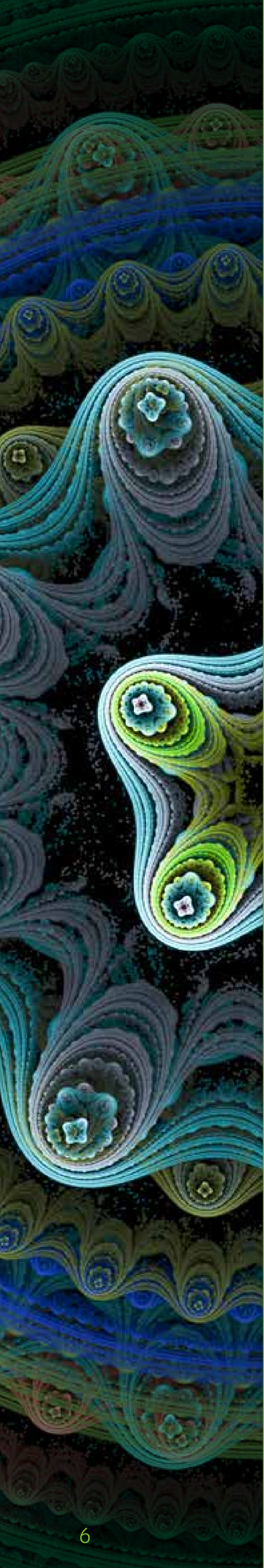
Passive fixed income strategies may appear to offer simplicity and low costs, aiming to track broad fixed income indices before fees. However, they may miss opportunities for return enhancement. If an active manager can consistently generate returns in excess of an index, then compounding these higher 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 31 December 2000 and 31 December 2024 across a range of scenarios.

Figure 3: Active management can make a meaningful difference to long-term compound returns[3]



[3] Source: Insight and Bloomberg. For illustrative purposes only.





The risk is of course that the manager underperforms the index. Data from Morningstar[4] 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 MAXIMISES 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.
- **Secured finance:** 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.

[4] https://www.morningstar.com/business/insights/research/active-passive-barometer

OPPORTUNITIES FOR 'EQUITY-LIKE' RETURNS IN FIXED INCOME

In our view, there are a number of strategies that currently have the potential to generate superior risk adjusted returns than 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 minimise default risk to ensure that a client fully benefits from the high levels of yields.

Figure 4: US high yield rolling 12mth default rate[5]

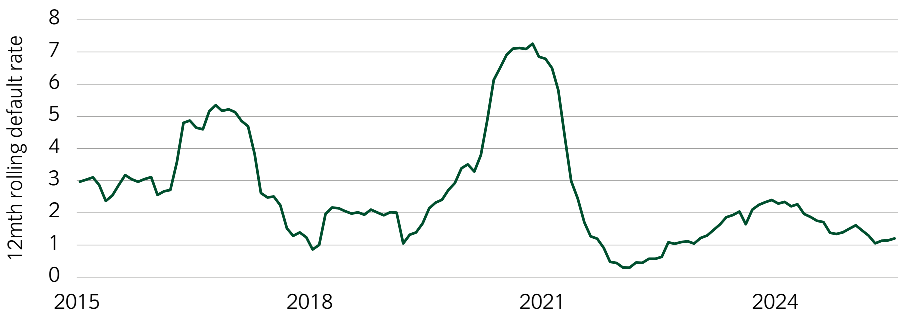
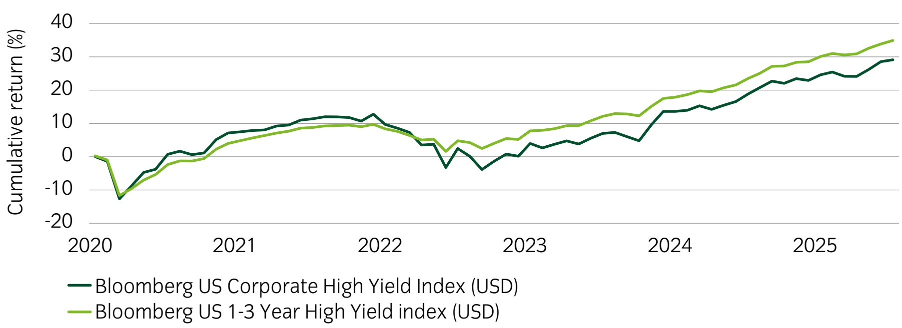
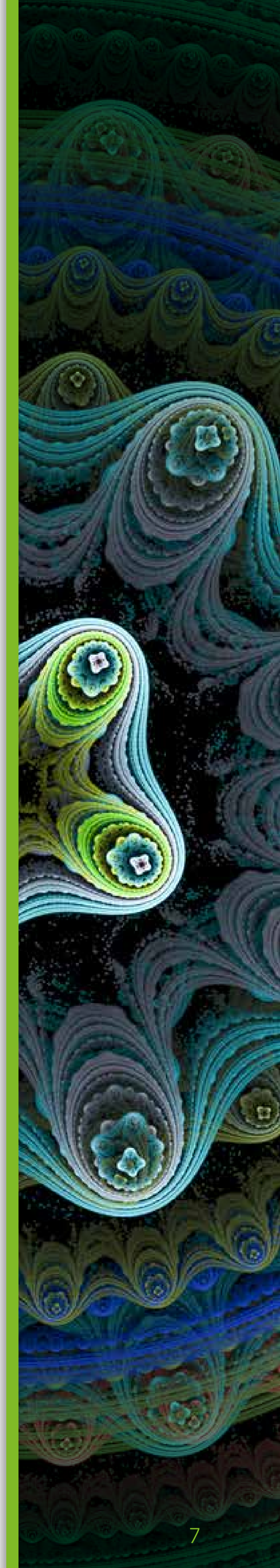
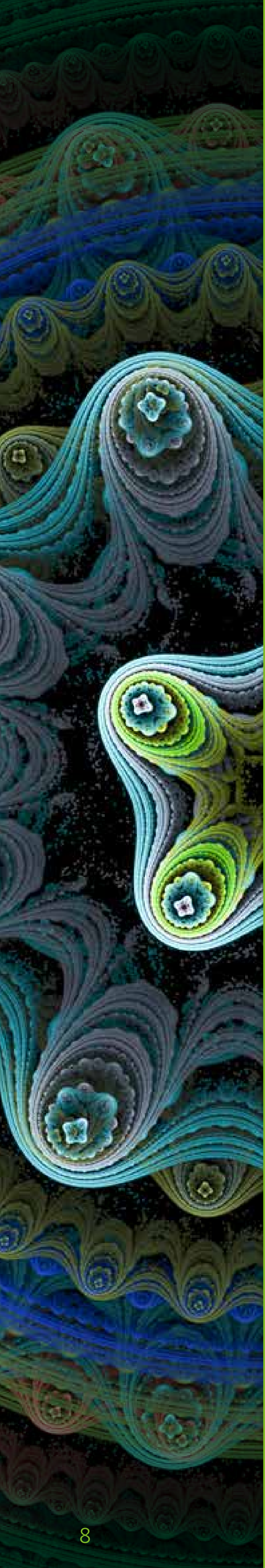


Figure 5: A short-dated approach can smooth returns[6]





[5] Source: BoA. Data as at 31 July 2025.
[6] Source: Insight and Bloomberg. Data as at 31 July 2025.



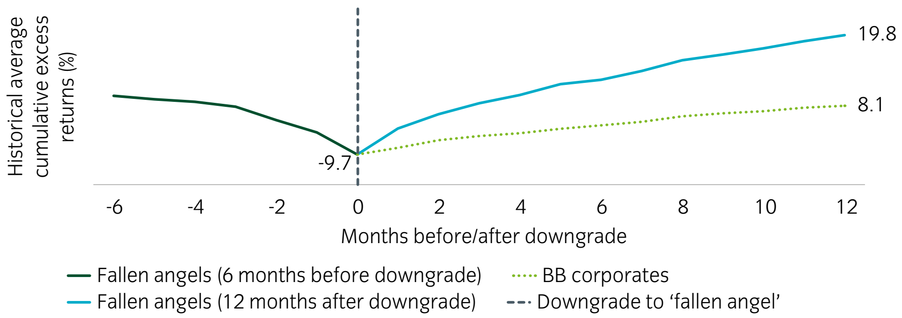
OPTION 2: FALLEN ANGELS

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)[7].

Figure 6: Fallen angels typically underperform in the months before downgrade, then outperform afterwards[8]



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.

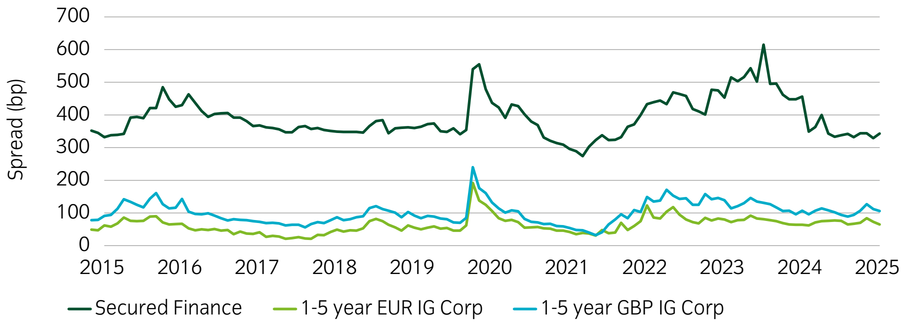
OPTION 3: SECURED FINANCE

Asset-backed securities (ABS) and other secured finance assets can offer higher spreads without having to compromise on credit quality (see Figure 7). The securitisation 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.

Secured finance 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 secured finance becomes less pronounced.

[7, 8] 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: Secured finance can offer a spread premium to traditional corporate debt[9]



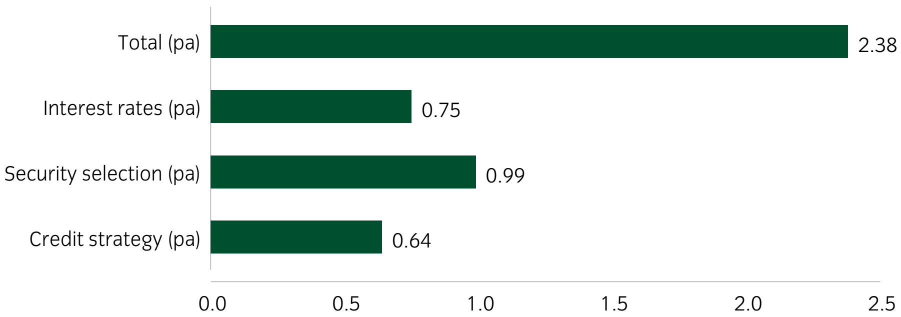
OPTION 4: STRATEGIC BOND STRATEGIES

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.

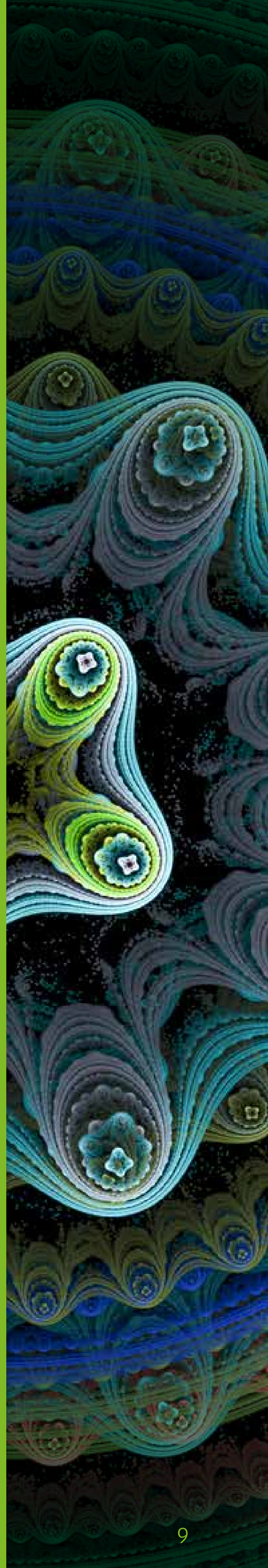
Figure 8: Insight's Responsible Horizons Strategic Bond strategy demonstrates the power of an active approach across both duration and credit markets[10]



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.



[9] Source: Data calculated by Insight. As at 30 June 2025.
[10] Source: Insight as at 30 June 2025. The representative portfolio adheres to the same investment approach as the Responsible Horizons Strategic Bond strategy. For illustrative purposes only.

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. 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

Andy Burgess
Deputy Head of Investment Specialists • CSG
Insight Investment

Simon Down
Co-Head of Investment Content
Insight Investment

IMPORTANT INFORMATION

RISK DISCLOSURES

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 performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of certain currency conversions, such as currency hedging, investment exposure to international markets, and exchange rate fluctuations.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies over time, and/or prevailing market conditions and are not an exact indicator. They are speculative in nature and are only an estimate. What you will get will vary depending on how the market performs and how long you keep the investment/product. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialise or vary significantly from the actual results. Accordingly, the projections are only an estimate.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Fixed income

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due. The return risk to a portfolio is higher where a portfolio is highly concentrated in such an issuer.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Leveraged funds: as a result of market conditions, the value of the assets held by a Fund may fall and result in a higher degree of leverage than is deemed appropriate by the Investment Manager. In order to reduce the degree of leverage, the Investment Manager may seek to reduce a Funds' total asset exposure. Investors would need to subscribe for additional Shares in order to maintain the level of sensitivity to market movements. Where such an event is unanticipated, this may result in the investors having less sensitivity to market movements than they might consider appropriate to their individual requirements until they have subscribed for additional Shares

While efforts will be made to eliminate potential inequalities between shareholders in a pooled fund through the performance fee calculation methodology, there may be occasions where a shareholder may pay a performance fee for which they have not received a commensurate benefit

FIND OUT MORE

Institutional Business Development
businessdevelopment@insightinvestment.com

European Business Development
europe@insightinvestment.com

Consultant Relationship Management
consultantrelations@insightinvestment.com

North America Business Development
inquiries@insightinvestment.com

Australia Business Development
insightau@insightinvestment.com

company/insight-investment

www.insightinvestment.com

IMPORTANT INFORMATION

Material in this publication is provided for general information and educational purposes only and should not be relied upon as a forecast, research, advice (including investment, legal, tax advice or otherwise) or a recommendation to buy or sell any securities or adopt any investment strategy. Nothing herein constitutes an offer or solicitation in any jurisdiction where such activity would be unlawful or otherwise not permitted.

This content may include forward-looking statements, projections, or opinions based on current market conditions. Such statements are not guarantees and are subject to change without notice. Past performance is not indicative of future results, and investment values may fluctuate, including as a result of exchange rate movements.

Information is derived from sources believed to be reliable but is not guaranteed as to its accuracy or completeness. To the extent this document includes information or content provided by third parties, no responsibility is accepted for the accuracy of such information. To the maximum extent permitted by applicable law, Insight and its affiliates expressly disclaim all liability for any errors, inaccuracies, or omissions in this document. Neither Insight or its group companies shall be liable for any loss or damage (whether direct, indirect, special, or consequential) arising from the use of, or reliance on, the information in this document to the fullest extent permitted by law. Readers should seek independent professional advice before making any financial or investment decisions.

Telephone conversations may be recorded in accordance with applicable laws.

For clients and prospects of Insight Investment Management (Global) Limited: Issued by Insight Investment Management (Global) Limited. Registered in England and Wales. Registered office: 160 Queen Victoria Street, London EC4V 4LA; registered number 00827982.

For clients and prospects of Insight Investment Management (Europe) Limited: Issued by Insight Investment Management (Europe) Limited. Registered office: The Shipping Office, 20-26 Sir John Rogerson's Quay, Dublin 2, D02 Y049. Registered in Ireland. Registered number 581405. Insight Investment Management (Europe) Limited is regulated by the Central Bank of Ireland. CBI reference number C154503.

For clients and prospects of Insight Investment International Limited: Issued by Insight Investment International Limited. Registered in England and Wales. Registered office 160 Queen Victoria Street, London EC4V 4LA; registered number 03169281.

Insight Investment Management (Global) Limited and Insight Investment International Limited are authorised and regulated by the Financial Conduct Authority in the UK.

For clients and prospects based in Singapore: This material is for Institutional Investors only. This documentation has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, it and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the 'SFA') or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

For clients and prospects based in Australia and New Zealand: This material is for wholesale investors only (as defined under the Corporations Act in Australia or under the Financial Markets Conduct Act in New Zealand) and is not intended for distribution to, nor should it be relied upon by, retail investors.

Insight Investment Management (Global) Limited is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services; and is authorised and regulated by the Financial Conduct Authority (FCA) under UK laws, which differ from Australian laws. If this document is used or distributed in Australia, it is issued by Insight Investment Australia Pty Ltd (ABN 69 076 812 381, AFS License No. 230541) located at Level 2, 1-7 Bligh Street, Sydney, NSW 2000.

For clients and prospects of Insight North America LLC: Insight North America LLC is a registered investment adviser under the Investment Advisers Act of 1940 and regulated by the US Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training. The SEC has not reviewed or approved any calculation or presentation of performance results included in these materials. INA is part of 'Insight' or 'Insight Investment', the corporate brand for certain asset management companies operated by Insight Investment Management Limited including, among others, Insight Investment Management (Global) Limited, Insight Investment International Limited and Insight Investment Management (Europe) Limited (IIMEL).

16434-08-25