

# Portfolio Management

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# Agenda

- Portfolio Management
- The High Yield Asset Class
- Market Drivers
- General Fixed Income Strategies
- Active High Yield Strategy
- Team Roles
- Portfolio Management Tools
- Managing a High Yield Portfolio
- Q & A

# Portfolio Management

# Portfolio Management

*Portfolio management* is the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.

**Source: Investopedia**

# Asset Classes and Asset Allocation

# High Yield as an Asset Class

# Market Drivers

# Market Drivers

- Economic Conditions (Global & Domestic)
- Geopolitical Landscape
- Business Cycle (Global & Domestic)
- Equity Markets / Bond Markets
- Interest Rates Forecast
- Credit Spreads
- Credit Cycle
- Regulatory / Political Climate



“If you spend more than 13 minutes analyzing economics and market forecasts, you’ve wasted 10 minutes.”

Peter Lynch

“The stock market has forecast nine of the last five recessions.”

Paul Samuelson

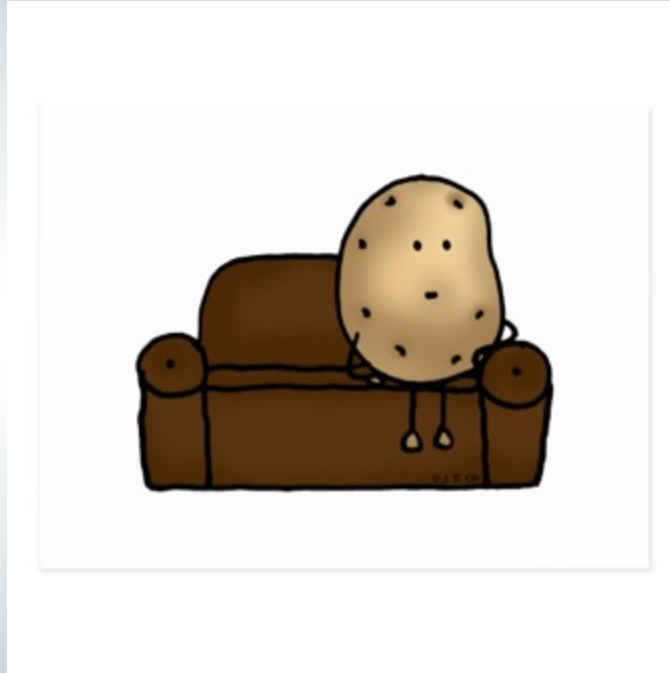
# A Quick Word About Indices

# Investment Strategies

# Fixed Income Strategies

- Passive
- Index Matching
- Immunization
- Active

# Passive



# Passive

- Traditionally “Buy and Hold”
- Likely - High Quality, Non-Call, and Held to Maturity
- “Laddered” Maturities
- Minimal Transaction Costs
- Obviates making economic predictions
- Cash flows either used to meet needs or reinvested

# Indexing

## Bloomberg USD High-Yield Corporate Bond Index





# Indexing

- Strives to Mimic an Underlying Index Risk / Return Characteristics
- Better Suited to Larger Portfolios
- Rebalancing
- Well Suited for Asset Allocation Applications
- Lower Fees / Costs
- Potential Loss of Opportunity Relative to Active

# Immunization



# Immunization

- Meets a Target Return for a Specified Timeframe
- Potentially Well Suited to Pension or Insurance Applications
- Likely High Quality, Non-Call Bonds Held to Maturity
- Potential Loss of Opportunity Relative to Active

# Active



# Active

- Goal of Maximizing Total Return
- Strives to Beat the Benchmark
- Potentially Involves Greater Risk
- Higher Cost

# Different Strategies for Different Needs

# *An Active High Yield Strategy*

# Key Considerations

- What are you trying to achieve?
- How do you intend to do it? (What is your Strategy?)
- What is a “Good” Strategy?
- What are the Hallmarks of a Good Strategy and implicitly Solid Portfolio Management?



# Good Strategy and Process Hallmarks

- Thoughtfully Articulated Strategy with Clear Goals (including explanations of choices made)
- Should be a Replicable Process
- Should be Adhered to (No Style Drift)
- Excellent On-going Client Communications
- Should Meet or Exceed its Objectives over a Full Cycle

# Example Active High Yield Strategies

# Team and Various Roles



# Team Roles

- Portfolio Manager
- Head of Research
- Analyst(s)
- Trader
- Data Analytics Specialist
- Product Specialist

# The Portfolio Manager's Tool Box



“Well, he’s got all the right tools, but the big question remains: Can he play quarterback in the NFL?”

# The Portfolio Manager's Tool Box



# Tool Box

- News, Company Filings and Economic Data
- Duration Management
- Security, Seniority, Maturity and Ratings
- Industry Sectors and Diversification
- Broad Classifications: (Defensive, Cyclical, ...)
- Volatility Measures
- Relative Value
- CDS and CDX

# Managing a High Yield Portfolio

- Investment Goals and Objectives
- Guidelines and Restrictions
  - Diversification: Position and Industry Limitations
  - Restrictions on Private or Non-registered Securities
  - Restrictions on Types of Securities Purchased
  - Minimum Quality Requirements
  - And Others ...
- Carve Outs



# Practical Considerations

- Investment Philosophy
  - Top-Down, Bottoms-Up, Hybrid, Sector Weightings
- Technical Factors
  - Yield Spreads, Funds Flows, Default Rates, New Issuance
- Liquidity Requirements
- Yield Management
- Turnover
- Volatility

# Monitoring of Portfolios and Positions

- Portfolio as a Whole
  - Portfolio Composition and Aggregate Statistics
    - Maturity, Duration, YTM, YTW, Sharpe Ratio, ...
    - Segmentation by: Sector, Maturity, Quality, ...
  - Industry / Company Concentration; Other Exposures
  - Compliance with Investor Guidelines and Constraints
- Individual Positions
  - Buy / Sell Decisions

# Questions & Answers

Thank you for your attention.

Disclaimer – The preceding remarks were opinions of the Presenter and do not necessarily represent the views of the CFA Society of New York