

GARCIA HAMILTON & ASSOCIATES

Fixed Income: Risk Reducer or Income Generator?

Presented by:

Jeffrey D. Detwiler, CFA, AAMS

Partner, Portfolio Manager

Table of Contents

- Asset Allocation
- Income Generation
- Case Studies
- Long-Term Return Outlook
- Conclusion & “Takeaways”

Asset Allocation

- The story of King Tinstaafi

There **I**s **N**o **S**uch **T**hing **A**s **A** Free **L**unch

- Risk and Return are Related

25-Year Correlations

Asset Class	S&P 500	Russell 2000	International Equity	High Yield	Real Estate	Fixed Income
S&P 500	1.00	0.87	0.87	0.70	0.66	0.12
Russell 2000	0.87	1.00	0.79	0.69	0.69	0.08
International Equity	0.87	0.79	1.00	0.73	0.65	0.18
High Yield	0.70	0.69	0.73	1.00	0.66	0.30
Real Estate	0.66	0.69	0.65	0.66	1.00	0.33
Fixed Income	0.12	0.08	0.18	0.30	0.33	1.00

Indices shown: S&P 500, Russell 2000, MSCI World ex-US-GD, Bloomberg US Corporate High Yield, FTSE/NAREIT All Equity REIT's, Bloomberg BBB Corporate, Bloomberg US Aggregate, Bloomberg US Corporate Investment Grade Index, Bloomberg US Mortgage-Backed Securities, Bloomberg US Intermediate Gov/Credit, Bloomberg Government 1-3 Year

Income Generator

Fixed Income securities provide regular income in the form of interest and principal payments

162% of Return over 10 Years	Cumulative	Annualized
Total Return	19.04%	1.76%
Coupon Return (with reinvestment)	30.88%	2.73%

102% of Return over 25 Years	Cumulative	Annualized
Total Return	162.64%	3.94%
Coupon Return (with reinvestment)	166.27%	4.00%

Case Studies

Sometimes It Takes a Crisis to Relearn the Lesson of Fixed Income

- The Global Financial Crisis and the Covid Pandemic highlighted the benefits that Fixed Income has to offer: income & diversification
- Fixed Income's low correlation with equities provides stability during times of volatility and anchors the asset allocation

Correlations with S&P 500 Before and During GFC

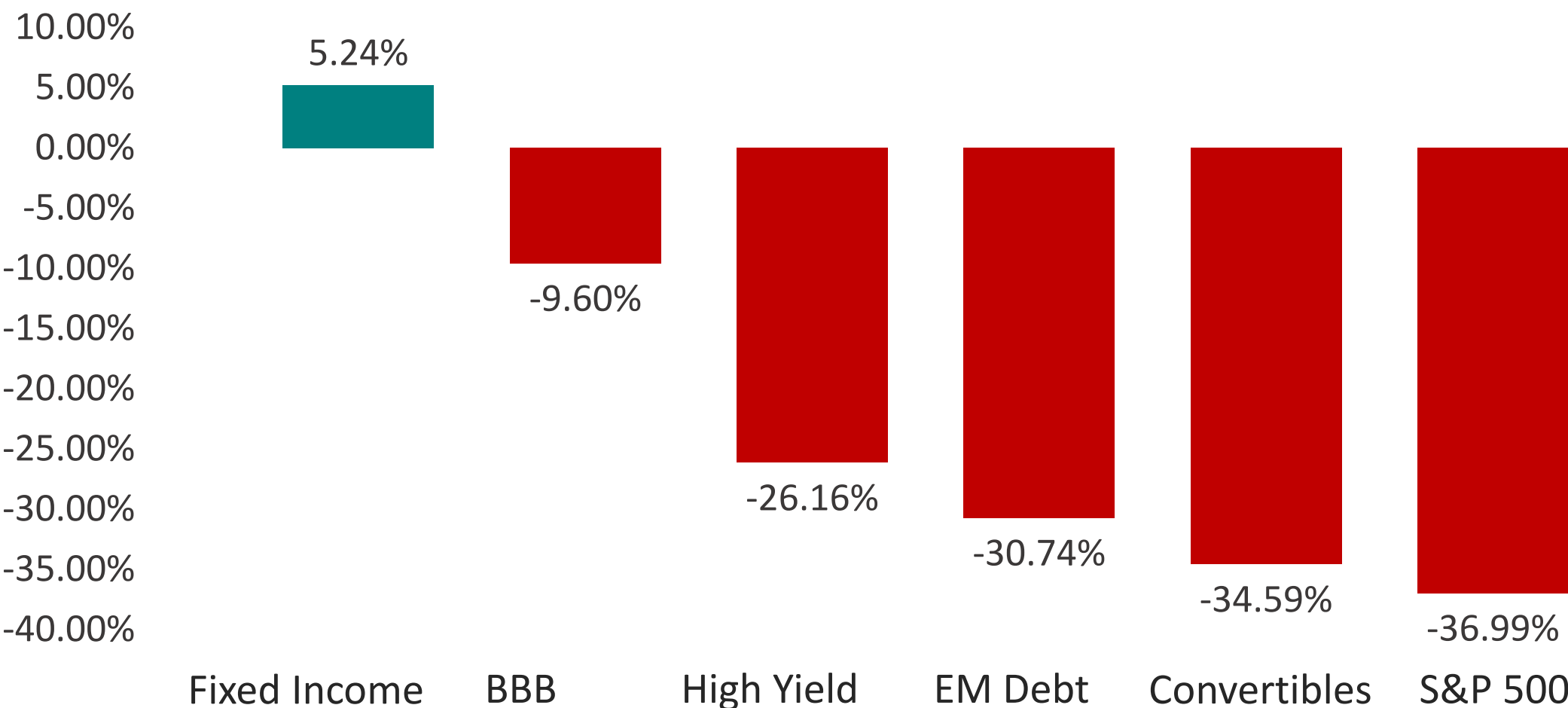
Correlations increased significantly during the Global Financial Crisis (GFC) for several asset classes.

Asset Class	2002-2007	2008
Convertibles	73%	80%
EM Debt	10%	59%
High Yield	30%	80%
BBB	1%	52%
Fixed Income	1%	12%

Asset classes represented by the following indices: Bloomberg US Aggregate, Bloomberg Baa Corporate, Bloomberg US Corporate High Yield ICE BofA ML HY US Emerging Markets Corporate Plus, and BofA ML US Convertible

Returns During GFC Downturn

December 31, 2007 through December 31, 2008



Asset classes represented by the following indices: Bloomberg US Aggregate, Bloomberg Baa Corporate, Bloomberg US Corporate High Yield, ICE BofA ML HY US Emerging Markets Corporate Plus, BofA ML US Convertible, and S&P 500
As of December 31, 2008 | eVestment

Correlations with S&P 500 Before and During Pandemic

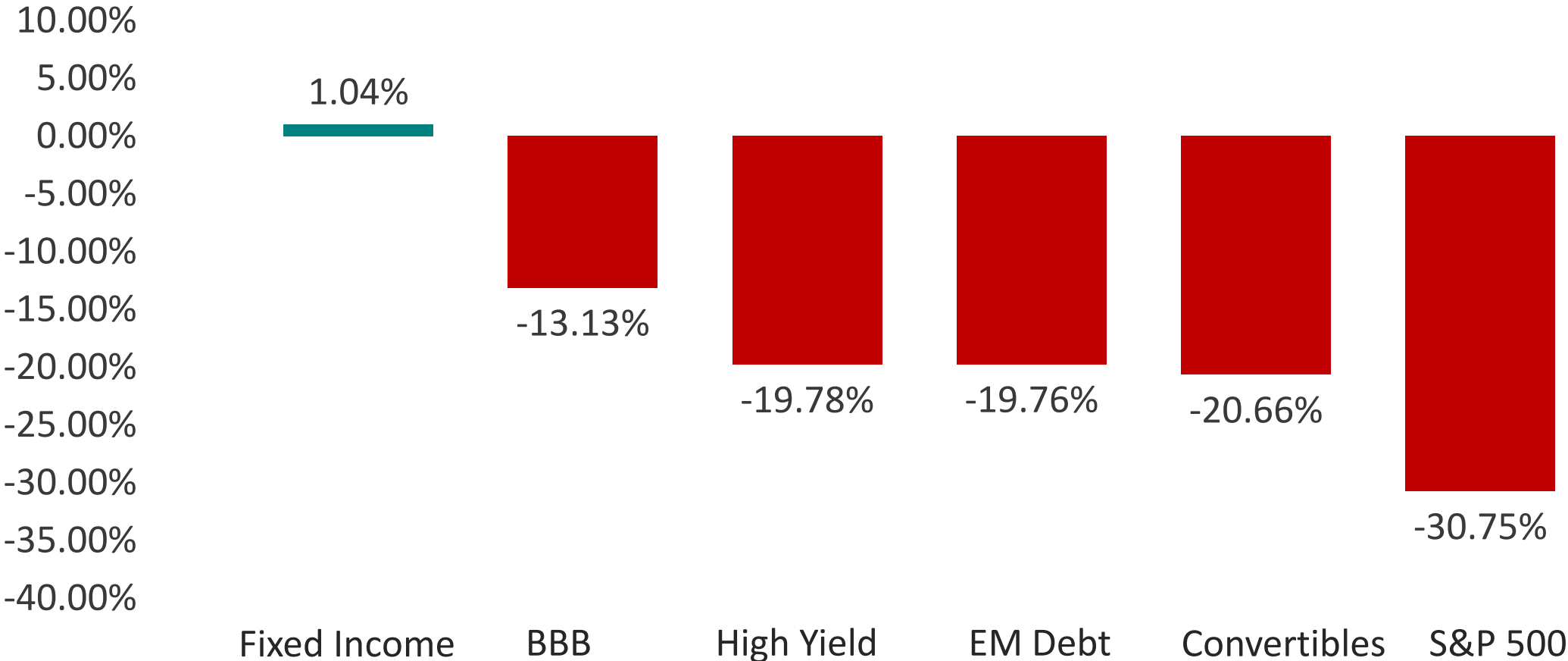
Correlations increased significantly during the pandemic for several asset classes.

Asset Class	2014-2019	2020
Convertibles	81%	94%
EM Debt	15%	57%
High Yield	51%	72%
BBB	6%	57%
Fixed Income	3%	7%

Asset classes represented by the following indices: Bloomberg US Aggregate, Bloomberg Baa Corporate, Bloomberg US Corporate High Yield ICE BofA ML HY US Emerging Markets Corporate Plus, and BofA ML US Convertible

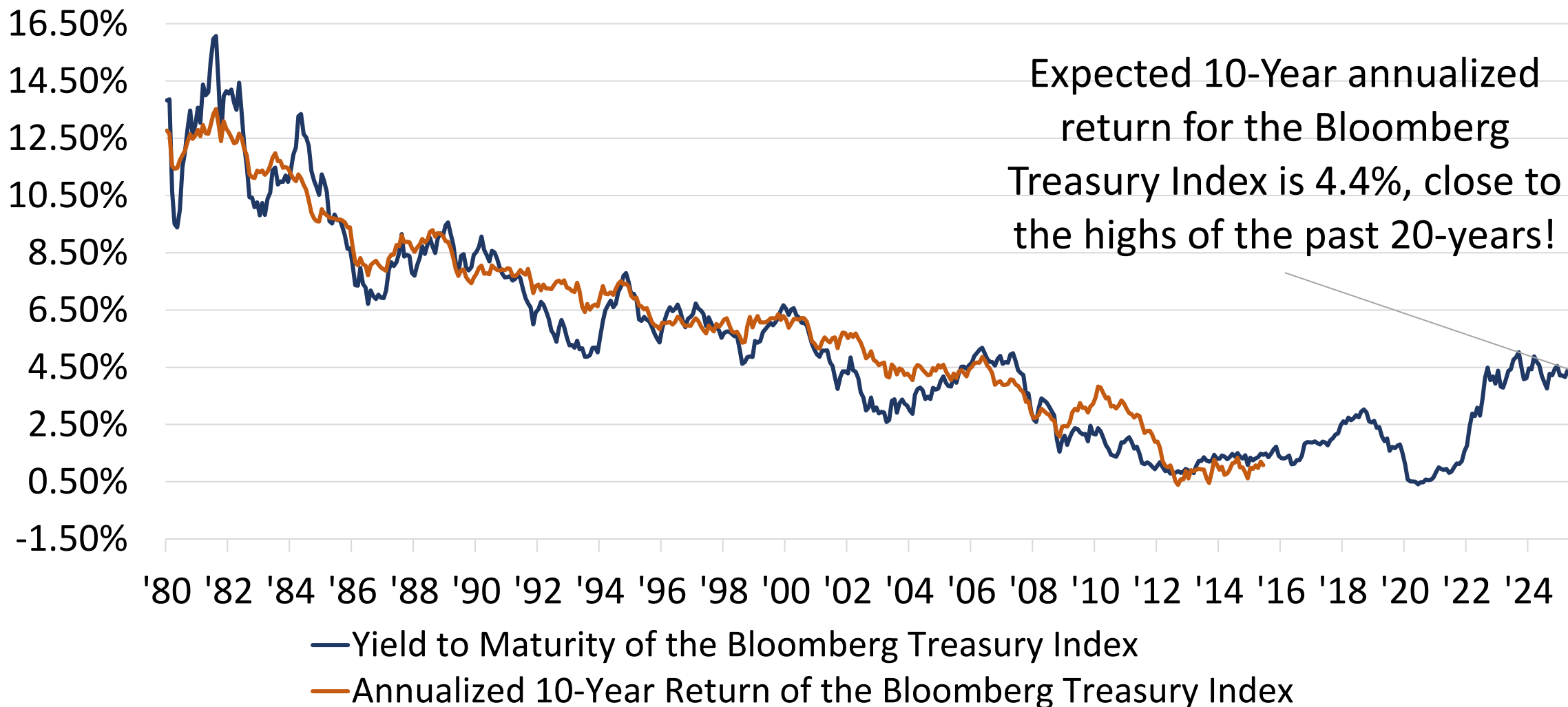
Returns During Covid-19 Downturn

December 31, 2019 through March 23, 2020



Attractive Long-Term Returns on the Horizon?

Future Long-Term Returns are Influenced by the Starting Level of Yield



Conclusion

- Investors should be wary of chasing higher yields without regard to the added volatility they are accepting as a result
- Investors may be injecting unnecessary downside risk and over-exposing their allocations to risk assets

“Takeaways”

- Income generation is a benefit, but not the primary reason to maintain Fixed Income as a core part of an asset allocation
- Fixed Income anchors the asset allocation by reducing risk, adding diversification, and providing regular income payments