Fixed Income Total Return

A discussion with Sean Clark, CIO of Clark Capital Management Group, Inc.

K. Sean Clark, CFA
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Management Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean was featured in an article in Barron's and has been quoted in a number of articles in nationally distributed business journals and newspapers.

What is Clark Capital's philosophy, process and approach to the fixed income markets in the Fixed Income Total Return strategy?

We believe that investors should be actively managing their fixed income exposure from a credit basis rather than a duration basis, especially in a low interest rate environment. In today's environment we do not feel investors are being properly compensated for extending out on the yield curve, but they are being rewarded for moving down into the lower credit fixed income sectors.

The Fixed Income Total Return strategy has an unconstrained asset allocation policy that tactically rotates between low quality debt, high quality debt, and treasury bills to actively manage risk in the fixed income markets. Our research process seeks to identify the fixed income sectors that are exhibiting the strongest relative strength. We use a proprietary quantitative relative strength model to analyze these fixed income sectors on a daily basis. After determining a fixed income sector, our research process seeks to find the ETF or mutual funds that provide the portfolio with optimal exposure. The strategy seeks total return with a secondary goal of current income.

What fixed income sectors are in the portfolio's investable universe?

Our low quality sector universe includes domestic and international high yields, emerging market bonds, preferreds and bank loans. The high quality universe is investment grade corporates and treasuries. When the portfolio is defensively positioned we will be allocated to treasury bills or money markets.

How do you think the portfolio will perform if interest rates begin to rise?

The portfolio is actively managed with the ability to be 100% allocated to treasury bills or money markets to protect principal in a rising rate environment. Our unconstrained tactical approach provides us with the ability to be flexible and opportunistic when the fixed income markets experience volatility. In addition, the high yield fixed income sector may mitigate interest rate risk. Over the last 20 years, each time the 10 year Treasury yield rose by more than 1%, the Barclays U.S. Corporate High Yield index posted positive returns as opposed to significant negative returns for the 10 year Treasury.

Why is the strategy appropriate in today's climate?

Fixed income has been in a 30-year bull market and the prospect for this bull market to continue has diminished considerably. Interest rates are near record lows and rates will likely remain low as long as the Federal Reserve continues its quantitative easing policy. With that being said, eventually the Federal Reserve will have to stop repressing rates and we believe our tactical approach to managing fixed income will be necessary to manage the volatility of a rising interest rate environment. In addition, while interest rates are low our strategy seeks to provide opportunity for above average income by way of low quality debt exposure while also managing downside risk.

Where does this portfolio fit in a diversified asset allocation?

Navigator Fixed Income Total Return strategy can be a complement to a core fixed income portfolio as well as being the core allocation for more aggressive investors.

Can the portfolio target a specific income requirement for clients?

No. The strategy is not designed to meet specific income needs because of its tactical approach; however, in a low or rising rate environment, investors may be able to generate more income with less risk than in high quality bonds.

What is the portfolio's exposure to credit risk?

The strategy utilizes credit risk as opposed to duration risk in an effort to mitigate interest rate risk. It seeks to utilize broad-based liquid funds to gain exposure. If portfolio managers feel there is excess risk in the low quality debt space, the strategy will allocate to treasury bonds and/or cash-equivalents.

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