

CALAMOS FIXED INCOME VS. PASSIVE INVESTING

Ask the PORTFOLIO MANAGER

Why is active management so important for fixed income investing?

Transcript of a video recorded on November 30, 2017.

Matt Freund, Co-CIO, Head of Fixed Income Strategies, Senior Co-Portfolio Manager, explains that there are three main reasons to go active over passive: risk management, the composition of fixed income indices and the changing nature of fixed income indices.



MATT FREUND
Co-CIO, Head of Fixed Income Strategies, Senior Co-Portfolio Manager

When fixed income investors think about the investment landscape, you have a couple of choices: passive—meaning index, very low cost index funds, or active managers and there's really three key differences between the two. The first has to do with risk. So when we manage portfolios at Calamos, we really focus on the risk we're taking on our clients' behalf and we really want to make sure we're well paid for the risk. If you're a passive investor, you are going to be getting securities because they're in the index—whether they're risky or not, whether you're paid for it or not.

The second thing that investors should remember is the composition of the indices themselves. So what does that mean? So, on the equity side, most equity indices are capitalization-weighted and what that means is the larger the companies, the larger the share of the index. So large successful companies, very competitive, really world-class companies have a greater share of the index. On the fixed income side, it's really the opposite. You have the most exposure to the most irresponsible borrowers, the ones that are in the market all the time. So that's a key difference.

And then third is the nature of the indices themselves. They change over time. So I've been in the business since the late 1980s. Back then, government bonds and agencies were less than half of the broad indices. Now they're just under 70% and I'm not sure that you should change your outlook and your criteria just because the underlining index changes. So at Calamos we really focus on being well paid for the risks and we really are index-aware as opposed to index-constrained. We're going to take the best ideas we can find whether they're in the index or not and invest in them to the benefit of our shareholders.

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Video recorded 11/30/2017.

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