



RBC BlueBay  
Asset Management

# High yield's active advantage

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**Claudio Da Gama Rose, BlueBay Institutional Portfolio Manager and Nick Maini, BlueBay Associate Institutional Portfolio Manager discuss the set of opportunities for active asset managers for high yield.**

In fixed income markets, and particularly in high yield, it is our view that a specialist asset manager has important advantages at their disposal to generate excess net-of-fees returns versus a passive strategy.

### The three main advantages

- The high yield asset class is faced with inherent challenges. The complexity of high yield market structures and instruments, the trading conditions, and issuance turnover can make execution more challenging than other asset classes.
- Passive strategies can have severe limitations. How high yield indices are constructed and rebalanced means that passive strategies experience higher tracking errors and typically underperform their index.
- In high yield, active managers benefit from access to a broader opportunity set, alpha generation through active positioning and credit selection and well-established trading relationships with access to primary issuance.

### Analysis is key

The high yield universe encompasses a long tail of issues from smaller or privately owned companies that trade with lower liquidity than bonds from larger BB-rated companies. Effective analysis can enable active managers to avoid those issuers whose credit metrics are deteriorating and identify those most likely to experience a credit event that might materially impact performance, like a credit rating upgrade or downgrade.

To further enhance active analysis, it is possible to incorporate a variety of environmental, social, and governance (ESG) factors into a research process. Active managers have a stronger incentive to engage with corporate issuers and have a greater ability to influence change in company behaviour as active investors. For engagement on ESG-related matters, active investors are well-placed to encourage issuers to modify their behaviours to achieve better stakeholder outcomes.

## Looking forward

The case for active management is compelling and will only become increasingly important as we move further away from the era of quantitative easing. Owning a broad-based basket is far less attractive today than in previous decades.

Likewise, while volatility remains a feature of markets, the dispersion of investment outcomes will likely increase, presenting an opportunity for active managers. Structurally, the asset class is also experiencing the tailwind of extra income on offer from high yield bonds. At these levels, coupons and all-in yields are enticing by historical standards and offer the potential for strong risk-adjusted returns if accompanied by careful name selection.

**“The case for active management is compelling and will only become increasingly important as we move further away from the era of quantitative easing.”**

In a world that continues to prove highly uncertain, active managers who have demonstrated skill in capitalising on volatility and uncertainty through their process, experience, capabilities, and skills should have plenty of scope to continue to deliver sustainable alpha.

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