Fort Washington Investment Advisors, Inc.

A member of Western & Southern Financial Group

WHY FIXED INCOME FAVORS ACTIVE MANAGEMENT

- The long-standing debate between active and passive management remains a frequent topic of discussion. Given the structure, complexity, and inefficiencies of bond markets, we believe active management is particularly well suited to fixed income.
- Active fixed income managers have multiple tools available to generate excess returns, and they often do, although by varying degrees over time.

In today's landscape of ever-increasing market sophistication, it appears there is a low-cost passive investment fund for nearly every asset class. While index funds can be an attractive option for certain investment needs, the view that every asset class should be indexed is misguided. Fixed income markets have inefficiencies and structural constraints that experienced managers can utilize in pursuit of long-term alpha.

Several characteristics make fixed income particularly well suited for active management.

1. **Non-Index Securities** – Many opportunities for excess yield exist outside fixed income benchmarks such as the Bloomberg US Aggregate Bond Index (US Agg). Securities may be excluded due to issue size, registration status, credit rating, or structure. These exclusions create a broader opportunity set for active managers.
2. **Risk Management** – Active fixed income investors can adjust credit and interest rate risk as market conditions evolve. This flexibility can be a source of alpha, but it is also an important risk management tool, helping investors avoid unintended exposures that can develop in passive instruments.
3. **Investor Landscape** – Fixed income markets include a wide range of participants, many of whom are not focused on total return. This presents active managers with opportunities to identify potentially mispriced securities.
4. **Market Depth** – The fixed income market is vast, as evidenced by the more than 14,000 individual securities in the US Agg. Issuers may have multiple bonds across different maturities, coupons, seniority levels, and structures. In addition, many bonds do not trade daily, and fixed income markets generally rely on dealer networks rather than centralized exchanges.
5. **Index Rebalancing** – Passive vehicles may be required to buy or sell securities as they enter or leave an index, regardless of valuation or trading conditions. Active managers are not bound by the same rebalancing schedule, creating opportunities.

All investments should be tailored to each client's objectives, risk tolerance, and time horizon. However, the decision to incorporate active or passive management in fixed income should consider the distinctions of the asset class and market functioning. Passive strategies have changed the investment landscape and can be useful for gaining broad, low-cost market exposure, particularly over shorter time horizons. For investors with a longer-term focus, however, active fixed income management can provide additional tools to manage risk, broaden the opportunity set, and pursue stronger risk-adjusted returns.

HISTORICAL RESULTS SUPPORT AN ACTIVE APPROACH

The table below shows that the median manager in both the Core and Core Plus peer groups has historically outperformed the US Agg. Perhaps more importantly, the US Agg has generally ranked toward the lower end of both peer groups. This suggests that ***a passive strategy designed to track the index would also have underperformed a meaningful share of active managers***.

	1 Year	3 Years	5 Years	10 Years
Core Fixed Income – Median Manager	3.91	4.40	0.23	1.85
Core Plus Fixed Income – Median Manager	4.28	5.00	0.63	2.50
Bloomberg US Aggregate Bond Index	3.79	4.16	0.08	1.54
Excess Returns				
Core Fixed Income Median Manager	*0.12*	*0.24*	*0.15*	*0.31*
Core Plus Fixed Income Median Manager	*0.49*	*0.84*	*0.55*	*0.96*
Peer Ranks				
Bloomberg US Aggregate Bond Index – Core Universe	66	77	76	84
Bloomberg US Aggregate Bond Index – Core Plus Universe	91	92	83	98

Source: Fort Washington and Nasdaq eVestment. Data as of 06/30/2026. Returns for periods greater than one year are annualized. Past performance is not indicative of future results.

EXPLORE OUR FIXED INCOME STRATEGIES

https://www.westernsouthern.com/fortwashington/investment-strategies/fixed-income-investments

We believe the quality and stability of our fixed income team stands out as does the discipline with which we have applied our investment philosophy since the firm's founding in 1990. Fort Washington has worked diligently to build a tenured and cohesive team of investment professionals who have an average of 20 years of experience to manage your institutional and individual investment needs. Our fixed income philosophy is applied via a rigorous, fundamentally based research process by a deeply experienced team whose creativity and collaboration facilitate competitive, repeatable results.

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