

How does Strategic Income fit into investors' portfolios?

David Withrow:

The ways clients have utilized strategic income in their portfolio has really evolved over the 20 years since I've been a part of the team, managing that product. Predominantly, people were used to the traditional equity fixed split, 60/40 asset allocation. And strategic income didn't fit neatly into any bucket, for a consultant or other asset, wealth managers. And, so they used it in a core, I call it "core satellite." They would have their core fixed income, which is very traditional, at that point, Lehman aggregate-indexed types of securities. And then, they would use strategic income as a satellite piece.

So, it was kind of just a little bit more on the edge, to add a little performance over time and maybe diversify risks. And, and it was still a good niche, but it was more kind of a satellite piece. As interest rates declined dramatically, and you had zero percent money market rates, and people were starved for income-producing securities, the preferred security part of the capital structure, because of its high income stream. And, as being a part of high quality company, started becoming very appealing to people.

So, we've seen that transition from being a satellite piece, to really being potentially a core piece of the portfolio. So, it kind of replaces the fixed income component with a more strategic income component, higher income stream, not much more risk, depending on the market. And, and then, as part of that, what we've seen is people would use it as a core fixed income piece, but they also used it as a complimentary fixed income piece. So, other managers who manage what they call strategic income strategies will use components other than preferred, or different ways of viewing the markets than we do. And sometimes, those can compliment each other.

So, we've seen people start using it as, hey, we're going to utilize X, Y, Z company's strategic income, and we're going to utilize the North Square Strategic Income Fund or the Red Cedar managed strategic income strategy, and that's been an evolution over time. I think if people have started to learn more about and appreciate preferred securities, more capital structure management, and how that can really increase the performance portfolio without significant added risk.

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