Short-Term Bonds: A History of Higher Risk-Adjusted Returns

IN BRIEF

- Over the past few decades, U.S. short-term corporate debt has displayed superior risk-adjusted returns compared to U.S. government securities of comparable maturity and compared to longer-term corporates of comparable credit quality.
- In doing so, short-term corporates have confounded many standard risk-factor models. The anomalous performance may have behavioral roots. In this article, we seek to offer some possible explanations.
- An examination of other short-maturity debt categories—asset-backed securities (ABS), high yield bonds, and commercial mortgage-backed securities (CMBS)—reveals a similar pattern of outperformance versus the longer-dated end of the asset class.
- While a strategic blend of all short maturity end of these asset classes may lead to more consistent outcomes, we believe it can be improved upon through a carefully designed, actively managed approach.

Detailed Analysis

For the last 40 years, short-maturity corporate bonds have been remarkably consistent in delivering positive performance on an absolute basis, as shown in the top portion of Figure 1. When looking at calendar year returns, there typically hasn’t been enough exposure to either interest-rate volatility or credit volatility to outweigh the yield on these securities, in order to create negative absolute performance. The exceptions came in 2008, when credit spreads widened dramatically in the midst of the Global Financial Crisis (GFC), and then again in 2022 when yields started at near all-time low levels only to rise sharply amid the highest inflation readings in four decades.

In addition, the two primary risks within short-term corporates—duration and credit—have provided some balance against each other. In a strong economy, for example, credit risk typically does well, while duration risk detracts from performance. In examining excess returns versus short-term U.S. government securities over the past few decades (in the lower portion of Figure 1), we believe that this balance of risks has contributed to short-term corporates outperforming in 97% of the rolling five-year periods surveyed.
Figure 1. Short-Term Corporate Debt Has Shown Consistent Positive Annual Returns...

U.S. short-maturity debt annual returns 1978-2022

Source: Morningstar. 1-3-year U.S. Corporates represented by the ICE BofA 1-3 year Corporate Index. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Other time periods may have been different. Past performance is not a reliable indicator or guarantee of future results.

...While Outperforming Similar-Maturity Government Debt


Source: ICE Data Indices LLC and Bloomberg. Data as of 30/09/2023. Data represents five-year, rolling returns of the ICE BofA 1-3 Year U.S. Corporate Bond Index versus the Bloomberg 1-3 Year U.S. Government Bond Index. Treasuries are risk-free debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities are exempt from state and local taxes. Past performance is not a reliable indicator or guarantee of future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. The historical data are for illustrative purposes only and do not represent the performance of any portfolio managed by Lord Abbett or any particular investment.
However, risk-factor exposure may not tell the whole story. Several comprehensive studies have documented that limited volatility and outsized return at the short end of the curve for corporate debt securities confound many standard risk-factor models. One of these studies, “The Short-Term Corporate Bond Anomaly” (Jeroen Derwall, Joop Huij, and Gerben de Zwart, 2009), divides corporate bonds into quintiles by term risk and default risk, finding that lower term-risk bonds had exceptionally high Sharpe ratios over the period measured (1993–2003), particularly those with higher default betas, as shown in Figure 2.1

Figure 2. Higher Default-Risk, Lower Term-Risk Corporates Have Had Higher Risk-Adjusted Returns


The authors examined a full spectrum of possible bond-return factors to explain the outsized risk-adjusted return, including:

- Market risk
- Term and default risk
- Steepness and curvature
- Premiums associated with inflation and economic development
- Liquidity risk

The authors concluded that these common risk factors underestimated the returns of bonds with short-term maturities. In addition, the study found that by sorting mutual funds by the same term and default risk factors, the mutual funds focused on short-term bonds were also shown to exhibit anomalous returns relative to risk exposures. From this, the authors further concluded that the short-term anomaly was likely not the byproduct of portfolio construction methods used or of the lack of frictions in hypothetical portfolios.

In sum, there is a real-life anomaly here. We think it is important to examine why this exists.

Reasons for the Persistent Mispricing

The authors suggest the reason for this anomaly may be behavioral in nature and note parallels with the low-beta stock anomaly, first detailed in 1973 by Eugene Fama and James MacBeth. Later research postulates that demand for high-beta stocks (think “lottery stocks”) in specific market states may force prices for these securities up, leaving other, low-beta securities a relative bargain. We generally concur with this hypothesis. When investment management practitioners have an insight into an industry trend, they typically look for the securities with maximum point of leverage to apply their insight. That can lead to persistent overlooking of lower-beta, lower-risk securities. Interestingly, this behavioral bias would lead to more pronounced mispricing for lower term-risk bonds than lower default-risk bonds because of the relatively larger magnitude of interest-rate volatility compared to credit volatility.

The traditional siloed approach of many bond market managers may exacerbate the neglect of lower term-risk bonds. For example, investment-grade bank loans comprise a small portion of the loan market. While these securities typically have a lower yield than what may be of interest to a dedicated bank loan portfolio manager, these loans often present attractive value relative to other investment-grade securities. In a similar phenomenon, short-term, callable high yield bonds may present lower potential return than what might be of interest to a high yield portfolio manager and yet may provide very attractive returns compared to other short-term fixed income and relative to the volatility of the bonds.

But why wouldn’t these conditions stemming from behavioral preferences or biases be more widely recognized and exploited by market participants?

We believe the limiting factor here is that, despite an abundance of liquidity, the scale required to manage a diversified, credit-oriented, short-term bond portfolio is difficult to achieve. Each decision to purchase or sell a short-maturity bond requires a good deal of effort when compared to the reward. The effort required to purchase or sell a short-maturity bond is essentially the same as that for a long-maturity bond, but the rewards, on an absolute basis, are smaller, generally just a couple of basis points here and there. Maintaining a diversified and attractively valued short-maturity credit portfolio can require hundreds and even thousands of relative value decisions to be made every few months. However, if done efficiently, all that effort to manage a portfolio of short-maturity bonds may pay off meaningfully, as the empirical studies appear to show.

Extending the Anomaly to Other Asset Classes

The reasons for the underpricing of short-maturity, investment-grade corporate bonds are important, because if those same reasons hold for other kinds of short-maturity fixed income, then it should follow that they, too, might exhibit underpricing. Examining the rolling, five-year excess returns of short-maturity asset-backed securities (ABS), short-term commercial mortgage-backed securities (CMBS), and short-maturity, high yield corporate bonds in Figure 3, we see a similar pattern of consistent outperformance.

Figure 3. The Short-Term Anomaly Extends Beyond Short-Maturity, Investment-Grade Corporate Bonds

Rolling, five-year returns for representative indexes (since inception) versus short-term U.S. government securities for indicated time periods

<table>
<thead>
<tr>
<th>Short-maturity investment-grade CMBS</th>
<th>Short-maturity investment-grade ABS</th>
<th>Short-maturity high yield bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>outperformed in</td>
<td>outperformed in</td>
<td>outperformed in</td>
</tr>
<tr>
<td>96%</td>
<td>94%</td>
<td>97%</td>
</tr>
<tr>
<td>of rolling, five-year periods</td>
<td>of rolling, five-year periods</td>
<td>of rolling, five-year periods</td>
</tr>
</tbody>
</table>

Source: ICE Data Indices LLC, Bloomberg, and Morningstar. Data as of 30/09/2023. CMBS=Bloomberg 1-3.5 Year CMBS Index. ABS=ICE BofA ABS Fixed Rate 0-3-Year Index. High yield=Bloomberg 1-3 Year High Yield Index. Data represents five-year, rolling returns of each index versus the Bloomberg 1-3 Year U.S. Government Bond Index. Treasuries are risk-free debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes. Beginning dates for the rolling, five-year return series are the inception dates of the respective indexes. Past performance is not a reliable indicator or guarantee of future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. The historical data are for illustrative purposes only and do not represent the performance of any portfolio managed by Lord Abbett or any particular investment.

Within a core bond framework, that outperformance has contributed to superior risk-adjusted returns today. We examined the risk/reward profile in investment-grade, core bonds, represented by the Bloomberg Aggregate Bond Index, segregated by duration and credit quality. Within each credit-quality segment, short-maturity credit produced higher Sharpe ratios, shown in Figure 4.

**Figure 4. Short-Term Core Bonds: A History of Higher Risk-Adjusted Returns**

*Sharpe ratios for the Bloomberg U.S. Aggregate Bond Index by quality and effective duration, 01/01/1998-30/09/2023*

Source: Bloomberg and Lord Abbett. Data as of 30/09/2023. Based on the Bloomberg U.S. Aggregate Bond Index. Past performance is not a reliable indicator or guarantee of future results. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Because these asset classes are not perfectly correlated, a multi-sector strategy that utilizes the range of the short-term bond segments can potentially diversify risk specific to any one asset class. A blended strategy thus helps isolate the short-maturity mispricing, potentially leading to more consistent outcomes that are less dependent on fortunate or unfortunate individual asset-class movements.

As shown in Figure 5, the Lord Abbett Short Duration Income strategy historically has produced higher returns compared to the individual, investment-grade, short-term bond indexes with only modestly higher risk, or standard deviation of returns, relative to some of these sectors. The risk-and-return characteristics of the Short Duration Income strategy also compare favorably to a longer-term core bond strategy, represented by the Bloomberg Global Aggregate Bond Index.
Lord Abbett has managed multi-sector fixed-income portfolios for over 50 years. We’ve shown the ability to add significant value through sector rotation as various sectors fall in and out of favor. Similarly, strong fundamental credit research and a valuation framework may add value at the security-selection level. In our experience, the lack of wider industry focus on many sectors in short-maturity bonds can create a class of “orphaned” securities—resulting in rich opportunities for both sector rotation and active security selection.

Last, short-duration names are often sold first in a liquidity crunch or risk-off event because they are priced so near to par value. We have found that being an active presence in this market and a consistent liquidity provider can result in being the “first call” when a seller is raising cash. That can mean less competitive pricing and an opportunity for excess returns. More important, though, in order to effectively capitalize on this opportunity in short-maturity credit, an active manager needs a process-oriented approach that enables distributed decision making. In other words, a manager needs to refine a scalable approach in a space where it’s difficult to scale. It requires a meaningful allocation of resources, a team of credit analysts with sector expertise, for example, and a comprehensive yet flexible quantitative valuation framework that can help target the fundamental efforts in security selection and sector allocation.

Lord Abbett has managed multi-sector fixed-income portfolios for over 50 years. We’ve shown the ability to add significant value through active management among and within these short-duration asset classes. This is illustrated in Figure 5, which compares the risk/reward balance of our Short Duration Income strategy to various short-term bond indexes, as well as the core bond benchmark.

### The Active Opportunity in Short-Term Credit

We believe a carefully designed, actively managed multi-sector approach can add value through sector rotation as various sectors fall in and out of favor. Similarly, strong fundamental credit research and a valuation framework may add value at the security-selection level. In our experience, the lack of wider industry focus on many sectors in short-maturity bonds can create a class of “orphaned” securities—resulting in rich opportunities for both sector rotation and active security selection.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Since inception period is 01/01/2008-30/09/2023. Net of fees performance of the Lord Abbett Short Duration Income Institutional Composite reflects the deduction of the highest applicable management fee (“Model Net Fee”) that would be charged based on the fee schedule appropriate to a typical institutional separate account investor for the Short Duration Income strategy, without the benefit of breakpoints. Please be advised that the composite may include other investment products that are subject to management fees that are inapplicable to a typical institutional separate account investor but are in excess of the Model Net Fee. Therefore, the actual performance of all the portfolios in the composite on a net-of-fees basis will be different, and may be lower, than the Model Net Fee performance. However, such Model Net Fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to a typical institutional separate account investor to the gross performance of the composite. Please refer to the GIPS Report in the disclosure for additional performance information.

### Annualized Returns and Sharpe Ratio as of 30/09/2023

<table>
<thead>
<tr>
<th>Annualized Returns and Sharpe Ratio</th>
<th>Since Inception</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since Inception</td>
<td>1 Year</td>
<td>3 Years</td>
</tr>
<tr>
<td>Lord Abbett Short Duration Income Institutional Composite (gross of fees)</td>
<td>4.16%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Lord Abbett Short Duration Income Institutional Composite (net of fees)</td>
<td>3.94%</td>
<td>0.42%</td>
</tr>
<tr>
<td>Bloomberg Global Aggregate Bond Index</td>
<td>2.24%</td>
<td>-6.93%</td>
</tr>
</tbody>
</table>

Calendar Year Returns:

<table>
<thead>
<tr>
<th>Calendar Year Returns</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Abbett Short Duration Income Institutional Composite (gross of fees)</td>
<td>-4.16%</td>
<td>1.67%</td>
<td>3.54%</td>
<td>6.05%</td>
<td>1.84%</td>
</tr>
<tr>
<td>Lord Abbett Short Duration Income Institutional Composite (net of fees)</td>
<td>-4.36%</td>
<td>1.47%</td>
<td>3.33%</td>
<td>5.84%</td>
<td>1.64%</td>
</tr>
<tr>
<td>Bloomberg Global Aggregate Bond Index</td>
<td>-16.25%</td>
<td>-4.71%</td>
<td>9.20%</td>
<td>6.84%</td>
<td>-1.20%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Morningstar and Lord Abbett.

**Past performance is not a reliable indicator or guarantee of future results.** Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Since inception period is 01/01/2008-30/09/2023. Net of fees performance of the Lord Abbett Short Duration Income Institutional Composite reflects the deduction of the highest applicable management fee ("Model Net Fee") that would be charged based on the fee schedule appropriate to a typical institutional separate account investor for the Short Duration Income strategy, without the benefit of breakpoints. Please be advised that the composite may include other investment products that are subject to management fees that are inapplicable to a typical institutional separate account investor but are in excess of the Model Net Fee. Therefore, the actual performance of all the portfolios in the composite on a net-of-fees basis will be different, and may be lower, than the Model Net Fee performance. However, such Model Net Fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to a typical institutional separate account investor to the gross performance of the composite. Please refer to the GIPS Report in the disclosure for additional performance information.
## Past Performance of Selected Indices (Calendar Year):

<table>
<thead>
<tr>
<th>Year</th>
<th>Lord Abbett Short Duration Income Institutional Composite - Gross of Fees</th>
<th>Lord Abbett Short Duration Income Institutional Composite - Net of Fees</th>
<th>ICE BofA 1-3 Year U.S. Corporate</th>
<th>Bloomberg Global Aggregate Bond Index</th>
<th>Bloomberg 1-3.5 Year CMBS Index</th>
<th>ICE BofA ABS Fixed Rate 0-3 Year Index</th>
<th>Bloomberg 1-3 Year High Yield Index</th>
<th>Bloomberg 1-3 Year U.S. Government</th>
<th>Bloomberg 1-3 Year U.S. Gov/Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>-4.16</td>
<td>-4.36</td>
<td>-4.05</td>
<td>-11.22</td>
<td>-5.80</td>
<td>-2.00</td>
<td>-4.13</td>
<td>-3.81</td>
<td>-3.69</td>
</tr>
<tr>
<td>2021</td>
<td>1.67</td>
<td>1.47</td>
<td>-0.01</td>
<td>-1.39</td>
<td>4.50</td>
<td>0.12</td>
<td>5.28</td>
<td>0.59</td>
<td>-0.47</td>
</tr>
<tr>
<td>2020</td>
<td>3.54</td>
<td>3.33</td>
<td>4.16</td>
<td>5.58</td>
<td>0.63</td>
<td>3.21</td>
<td>3.96</td>
<td>3.14</td>
<td>3.33</td>
</tr>
<tr>
<td>2019</td>
<td>6.05</td>
<td>5.84</td>
<td>5.43</td>
<td>8.22</td>
<td>6.10</td>
<td>3.68</td>
<td>7.92</td>
<td>3.59</td>
<td>4.03</td>
</tr>
<tr>
<td>2018</td>
<td>1.84</td>
<td>1.64</td>
<td>1.62</td>
<td>1.76</td>
<td>2.84</td>
<td>2.00</td>
<td>1.74</td>
<td>1.58</td>
<td>1.60</td>
</tr>
</tbody>
</table>

**NOTE:** Past performance is no indication or guarantee of future results.

Source: ICE Data Indices LLC and Bloomberg
Important Information

GIPS Report

The Global Investment Performance Standards (GIPS®) compliant performance results shown represent the investment performance record for the Lord, Abbett & Co. LLC (Lord Abbett) Short Duration Income Institutional Composite. This composite is comprised of all fully discretionary portfolios managed on behalf of institutional investors investing primarily in taxable, short-duration, investment-grade debt securities of various types. The portfolios may also invest in lower-rated debt securities, including non-U.S. debt securities denominated in foreign currencies and floating or adjustable-rate senior loans. Effective July 1, 2022, only accounts that may invest in treasury futures may be included in the composite. Effective November 2017, only accounts with a value of $40 million or more are included in the composite. Effective July 2014, only accounts with an initial value of $100 million or more are included in the composite. Prior to February 2022, the composite was named the Short Duration Credit Institutional Composite. Effective January 2018, accounts funded on or before the 15th of the month will be included in the Composite effective the first day of the first following month. Accounts funded after the 15th of the month will be included effective on the first day of the second following month. Prior to January 2018, other than registered investment companies sponsored by Lord Abbett, accounts opened/funded on or before the 15th day of the month were included in the Composite effective the first day of the second following month and accounts opened/funded after 15th of the month were included effective on the first day of the third following month. Registered investment companies sponsored by Lord Abbett are included in the Composite in the first full month of management. Closed accounts are removed from the Composite after the last full month in which they were managed in accordance with applicable objectives, guidelines, and restrictions. Performance results are expressed in U.S. dollars and reflect reinvestment of any dividends and distributions. The Composite was created and inceptioned in 2008. A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy. Policies for valuing investments, calculating performance, and preparing GIPS Report are available upon request.

For GIPS® purposes, the firm is defined as Lord, Abbett & Co. LLC (“Lord Abbett”). Total Firm Assets are the aggregate fair value of all discretionary and non-discretionary assets for which the Firm has investment management responsibility. Accordingly, Total Firm Assets include, but are not limited to, mutual funds (all classes of shares), privately placed investment funds, non-U.S. domiciled investment funds, separate/institutional portfolios, individual portfolios and separately managed accounts (“Wrap Fee/SMA Portfolios”) managed by Lord Abbett. Total Firm Assets also include any collateralized, structured investment vehicle, such as a collateralized debt obligation or collateralized loan obligation, for which Lord Abbett has been appointed as the collateral manager. For the period prior to January 1, 2000, the definition of the Firm does not include any hedge fund or SMA program accounts where Lord, Abbett & Co. LLC did not have the records so long as it is impossible for Lord, Abbett & Co. LLC to have the records (within the meaning of relevant GIPS standards interpretations).

Total Firm Assets also exclude separately managed program accounts that involve model delivery.

### Calendar Year Ended

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets ($M)</td>
<td>147,820</td>
<td>143,420</td>
<td>165,420</td>
<td>139,420</td>
<td>123,420</td>
<td>117,420</td>
<td>111,420</td>
<td>105,420</td>
<td>99,420</td>
<td>93,420</td>
</tr>
<tr>
<td>Percentage of Firm Assets</td>
<td>31.00%</td>
<td>29.58%</td>
<td>29.36%</td>
<td>30.94%</td>
<td>28.06%</td>
<td>27.79%</td>
<td>28.29%</td>
<td>27.52%</td>
<td>27.36%</td>
<td>24.88%</td>
</tr>
<tr>
<td>Total Firm Assets ($M)</td>
<td>192,949</td>
<td>254,075</td>
<td>223,535</td>
<td>204,031</td>
<td>161,055</td>
<td>134,565</td>
<td>124,007</td>
<td>135,945</td>
<td>135,786</td>
<td>135,786</td>
</tr>
<tr>
<td>Dispersion</td>
<td>0.13</td>
<td>0.13</td>
<td>0.09</td>
<td>0.03</td>
<td>0.03</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Lord Abbett Short Duration Income Institutional Composite Gross (Annual)**

-4.16% 1.67% 3.54% 6.05% 1.84% 2.91% 4.64% 1.03% 2.33% 2.23%

**Lord Abbett Short Duration Income Institutional Composite Gross (3 Year Annualized Return)**

0.30% 3.74% 3.80% 3.59% 3.13% 2.85% 2.66% 1.86% 3.91% 4.40%

**Lord Abbett Short Duration Income Institutional Composite Gross (3 Year Annualized Ex-Post Standard Deviation)**

0.78% 4.40% 4.11% 0.91% 1.06% 1.18% 1.33% 1.27% 1.49% 1.76%

**Lord Abbett Short Duration Income Institutional Composite Net (Annual)**

-4.36% 1.47% 3.33% 5.84% 1.64% 2.70% 4.39% 0.79% 2.08% 1.99%

**Lord Abbett Short Duration Income Institutional Composite Net (3 Year Annualized Return)**

0.10% 3.53% 3.59% 3.38% 2.90% 2.61% 2.41% 1.62% 3.66% 4.15%

**Bloomberg 1-3 Year U.S. Gov/Credit (2/1/22-present)/ICE BoA 1-3 Year U.S. Corporate Index (Inception-1/31/22) (Annual)**

-3.72% -0.01% 4.16% 5.43% 1.62% 1.91% 2.39% 1.01% 1.19% 1.78%

**ICE BoA 1-3 Year U.S. Corporate Index (3 Year Annualized Return)**

0.09% 3.17% 3.73% 2.97% 1.97% 1.77% 1.53% 1.32% 2.47% 2.67%

**Bloomberg 1-3 Year U.S. Gov/Credit (2/1/22-present)/ICE BoA 1-3 Year U.S. Corporate Index (Inception-1/31/22) (3 Year Annualized Ex-Post Standard Deviation)**

2.85% 2.45% 2.43% 0.93% 0.87% 0.84% 0.88% 0.77% 0.98% 1.21%
The number of portfolios and total assets in the Composite, and the percentage of total “firm” assets represented by the Composite at the end of each calendar year for which performance information is provided are as follows:

Dispersion is represented by the asset-weighted standard deviation, a measure that explains deviations of gross portfolio rates of return from the asset-weighted composite return. Only portfolios that have been managed within the Composite style for a full year are included in the asset-weighted standard deviation calculation. The measure may not be meaningful (N/A) for composites consisting of five or fewer portfolios or for periods of less than a full year.

The performance of the Composite is shown net and gross of advisory fees and reflects the deduction of transaction costs. The deduction of advisory fees and expenses (and the compounding effect thereof over time) will reduce the performance results and, correspondingly, the return to an investor. Net performance of the Composite as presented in the table on the previous page reflects the deduction of a “model” advisory fee, calculated as the highest advisory fee, borne by any account (without giving effect to any performance fee that may be applicable) in the Composite (an annual rate of 0.20% of assets) and other expenses (including trade execution expenses). For example, if $10 million were invested and experienced a 10% compounded annual return for 10 years, its ending dollar value, without giving effect to the deduction of the advisory fee, would be $25,937,425. If an advisory fee of 0.20% of average net assets per year for the 10-year period were deducted, the annual total return would be 9.78% and the ending dollar value would be $25,469,675. The management fee schedule is as follows: 0.20% on the first $50 million, 0.15% on the next $100 million, 0.13% on the next $350 million and 0.11% on all assets over $500 million. Net-of-fee performance reflects the deduction of the highest applicable institutional advisory fee that would be charged to a new institutional client account based on the current fee schedule for this strategy. The composite includes one or more registered investment companies or collective investments sponsored by Lord Abbett (“Lord Abbett Funds”) that are subject to fees and expenses that would be inapplicable to an institutional client account. Therefore, the actual performance of Lord Abbett Fund accounts included in the composite may be lower than the net-of-fee composite performance presented. Fees and expenses applicable to the Lord Abbett Funds are disclosed in each Fund’s Prospectus, which is available upon request. Past performance does not guarantee future results. Certain securities held in portfolios contained in this composite may have valuations determined using both subjective observable and subjective unobservable inputs. The Firm’s valuation hierarchy does not materially differ from the hierarchy in the GIPS Valuation Principles.

Lord Abbett claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Lord Abbett has been independently verified for the periods 1993-2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The verification reports are available upon request.

Past performance is not a reliable indicator or a guarantee of future results. Differences in account size, timing of transactions, and market conditions prevailing at the time of investment may lead to different results among accounts. Differences in the methodology used to calculate performance also might lead to different performance results than those shown. Composite performance is compared to that of an unmanaged index, which does not incur management fees, transaction costs, or other expenses associated with a managed account.

GIPS is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

Asset allocation or diversification does not guarantee a profit or protect against loss in declining markets.

No investing strategy can overcome all market volatility or guarantee future results.

The value of investments and any income from them is not guaranteed and may fall as well as rise, and an investor may not get back the amount originally invested. Investment decisions should always be made based on an investor’s specific financial needs, objectives, goals, time horizon, and risk tolerance.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Equity Investing Risks
The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

Fixed-Income Investing Risks
The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, can carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor’s, Moody’s, or Fitch, as an indication of an issuer’s creditworthiness. Ratings range from “AAA” (highest) to “D” (lowest). Bonds rated “BBB” or above are considered investment grade. Credit ratings “BB” and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer’s ability to pay interest and principal on these securities.

This material may contain assumptions that are “forward-looking statements,” which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

The views and opinions expressed are as of the date of publication, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. Lord Abbett cannot be responsible for any direct or incidental loss incurred by applying any of the information offered.
Glossary & Index Definitions

Treasures are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes.

A basis point is one one-hundredth of a percentage point.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment’s cost, current market value, or face value.

Sharpe ratio measures the performance of an investment such as a security or portfolio compared to a risk-free asset, after adjusting for its risk, as measured by volatility.

The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

The ICE BofA U.S. 1-3 Year U.S. Corporate Index is an unmanaged index comprised of U.S. dollar-denominated, investment-grade, corporate debt securities publicly issued in the U.S. domestic market with between one and three years remaining to final maturity.

Bloomberg 1-3.5 Year CMBS Index is the 1-3.5 year-component of the Investment Grade CMBS Index. The Bloomberg Investment Grade CMBS Index has been designed to measure the performance of the commercial mortgage-backed securities (CMBS) market.

ICE BofA U.S. ABS Fixed Rate 0-3-Year Index is a subset of ICE BofA U.S. Fixed Rate Asset Backed Securities Index including all securities with an average life less than 3 years.

Bloomberg 1-3 Year High Yield Index is a 1-3-year component of the Bloomberg U.S. High Yield Bond Index. The Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Ba1/BBB+/BBB+ and below using the middle of Moodys, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PKIs, as of October 1, 2009) are also included.

Bloomberg 1-3 Year U.S. Govt/Credit Index is the 1-3-year component of the U.S. Government/Credit Index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg Index Information

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg owns all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, shall not have any liability or responsibility for injury or damages arising in connection therewith.

Source ICE Data Indices, LLC (“ICE”), used with permission. ICE PERMITS USE OF THE ICE BofAML INDICES AND RELATED DATA ON AN “AS IS” BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofAML INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND LORD ABBETT, OR ANY OF ITS AFFILIATES, AND SHOULD NOT BE INTERPRETED AS, RECOMMENDATIONS OR INVESTMENT ADVICE.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

This material is the copyright © 2023 of Lord, Abbett & Co. LLC. All Rights Reserved.

Important Information for non-U.S. Investors

Note to Switzerland Investors: In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying Agent is Bank Vontobel AG, Gotthardstrasse 43, CH-8022 Zurich. The prospectus, the key information documents or the key investor information documents, the instrument of incorporation, as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units offered in Switzerland, the place of performance is at the registered office of the representative. The place of jurisdiction shall be at the registered office of the representative or at the registered office or domicile of the investor.

Note to European Investors: This communication is issued in the United Kingdom and distributed throughout the European Union by Lord Abbett (Ireland) Limited, UK Branch and throughout the United Kingdom by Lord Abbett (UK) Ltd. Both Lord Abbett (Ireland) Limited, UK Branch and Lord Abbett (UK) Ltd are authorized and regulated by the Financial Conduct Authority.

Lord Abbett (Middle East) Limited is authorised and regulated by the Dubai Financial Services Authority (“DFSA”). The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in any jurisdiction or to any other person or incorporated in any way into another document or other material without your prior written consent. This document is directed at Professional Clients and not Retail Clients. Any other persons in receipt of this document must not rely upon or otherwise act upon it. This document is provided for informational purposes only. Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction. Nothing contained in this document constitutes an investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions.