Taking the Bias Out of Your High-Yield Portfolio

"Upper-quality" high-yield mandates do not always produce high-quality returns.

by Brian Arsenault, Investment Strategist, Leveraged Credit

IN BRIEF

- Part of the allure of "upper-quality" high-yield mandates is that many high-yield managers have not done a great job navigating the 'CCC' space.
- But returns on many of these 'BB'/'B' rated mandates have continued to lag the broader high-yield market over the last few years.
- We believe that managers who move opportunistically up and down the ratings spectrum can offer compelling returns in both bull and bear credit markets.

Relative to many other sectors within the global financial markets, U.S. high-yield bonds remain a fairly young asset class, with an inception dating back to the late 1970s or early 1980s, depending on how you score it. In the early days, this niche market was dominated by the likes of Michael Milken's team at Drexel Burnham Lambert (Drexel), and the market was ultimately brought into more public view with the publication of the 1989 book *Barbarians at the Gate*, which described the efforts of Kohlberg Kravis Roberts & Co., in 1988, to execute a leveraged buyout of RJR Nabisco using instruments in the new high-yield market.

Following the default (and subsequent bankruptcy) of Drexel in February 1990, many thought that event signaled the end of this murky and risky market. However, the market remains more vibrant than ever. The broad ICE BofAML U.S. High Yield Master II Index (High Yield Index) has grown, from a market cap near $95 billion the month Drexel went under to almost $1.4 trillion today. As the asset class has grown, institutions have been drawn by its attractive returns, and managers now offer a variety of mandates from short-duration high yield to so-called "upper-quality," moderate risk, and aggressive high-yield strategies. There are now even exchange-traded funds for the asset class, although very few have distinguished themselves in matching, with any efficiency, the returns of the most widely followed high-yield indexes.

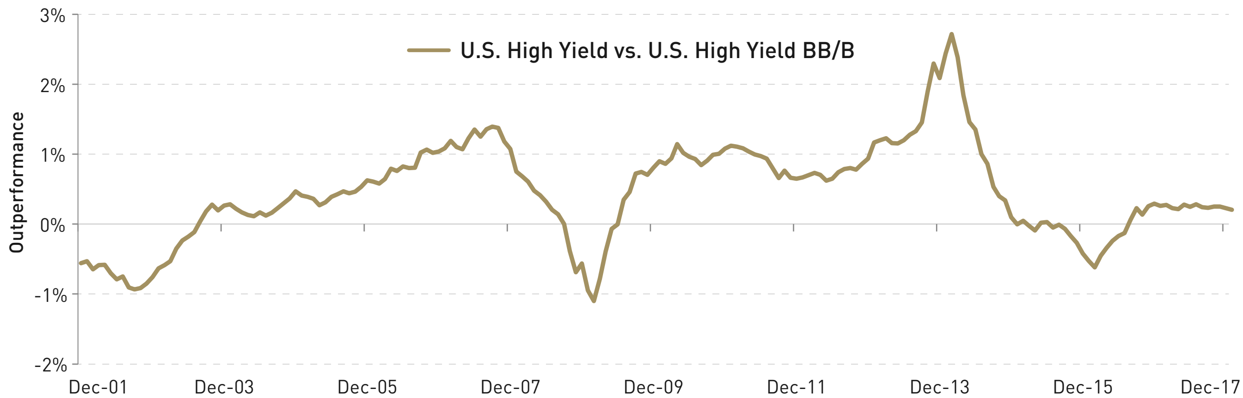
In our recent travels, we found a number of investors frustrated by the upper-quality bias within many managers' approaches toward the market, as returns on many institutional mandates have continued to lag the broader high-yield market over the past few years. To be fair, some managers do explicitly label some strategies as upper-quality or 'BB'/'B' rated, and do state that this approach likely will outperform "over a full market cycle." However, when we look at index data, we find that this is not always the case, and we believe that a manager who can successfully move up and down the ratings spectrum should be able to offer the best potential return profile each year of, and over, the full cycle.

In this report, we look at the performance of the broad High Yield Index relative to the ICE BofAML BB-B U.S. Cash Pay High Yield Index (the "BB/B Index") in order to examine the merits of the two types of high-yield mandates. This removes any influence from a manager's ability to out/underperform his or her respective benchmark. We also look at historical data, comparing Lord Abbett's "all-weather" approach to an up-in-quality manager peer group and the high-yield indexes. We find, more often than not, that the broad High Yield Index outperformed the BB/B Index over a full market cycle. We also demonstrate that a manager who moves opportunistically up and down the ratings spectrum can offer potentially compelling returns in both bull and bear credit-market environments.

CHART 1. HISTORICALLY, THE BROAD HIGH YIELD INDEX HAS OUTPERFORMED THE BB/B INDEX MOST OF THE TIME

Rolling five-year outperformance: U.S. High Yield Index versus U.S. BB/B Index***

(Five-year returns, calculated monthly, since inception of BB/B Index, December 31, 1996 – January 31, 2018)



Source: ICE Data Indices, LLC, and Lord Abbett.

*ICE BofAML U.S. High Yield Master II Index. **ICE BofAML U.S. High Yield BB-B Index. The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.**

BROAD HIGH YIELD WINS OVER A CYCLE

To test our thesis, we began by looking at index data over the last 20-plus years. We would have liked to have gone back farther in time, but the inception of the BB/B Index was only in December 1996. However, this period does include a number of rough patches in the high-yield markets, including the Russian debt crisis and Long Term Capital Management unwind in 1998, the telecomm meltdown in 2002, the global financial crisis of 2008–09, and, most recently, commodity weakness, which contributed to a total return -4.6% for the High Yield Index in the year ended December 31, 2015. For better or worse, we witnessed all of these challenging events firsthand—and we have learned from our experiences.

To begin, we looked at the rolling five-year performance differential between the broad High- Yield Index and the BB/B-only Index (see Chart 1). Observations above the line indicate outperformance of the broad High Yield Index, which, historically, has occurred most of the time. Some of this outperformance can be attributed to the yield premium associated with the broad High Yield Index relative to its peers in the BB/B Index. Over the last 20-plus years, for example, the average yield on the High Yield Index has been more than 1% higher, on average, relative to the BB/B Index. There also remains a more complex explanation, one that is much more important, in our view. The fact is that performance dispersion of industry sectors often can be much more dramatic than dispersion by ratings category. For example, in 2015, 'CCC' rated credits[1] were down more than 15% for the year. However, the energy and the metals and mining issuers within the BB/B Index returned -18.1% and -26.2%, respectively, in 2015. So, clearly, in protecting the downside that year, getting sector calls right was even more important than the ratings mix. This often can be the case, especially when the credit markets become more volatile.

To drill down a bit farther, we looked at some other metrics to examine the relative performance of the two indexes over the past 20 years. Over a five-year horizon, the broad high-yield market has won out over three quarters of the time. In addition, the upside/downside bias tends to skew more favorably toward the broad High Yield Index. Even during the depths of the financial crisis, the broad index lagged the BB/B Index by only 1.1%. We also included statistics based upon a rolling three-year basis, as some investors' horizons may be shorter than that of others. Under this scenario, the broad High Yield Index still won out more than 60% of the time. It would appear, then, that investors who do not have regulatory constraints on 'CCC' rated risk should strongly consider a broad mandate over an upper-quality biased strategy when allocating capital to the high-yield asset class.

MOVING FROM INDEX DATA TO REAL-WORLD APPLICATION

While reviewing index data is useful, it's now time to see how our thesis works in practice. We examined historical return data for the broad High Yield Index, the BB/B Index, a peer group of "upper-quality bias" high-yield managers, and the Lord Abbett High Yield

TABLE 1. HIGH YIELD INDEX* VERSUS BB/B INDEX** OUTPERFORMANCE

Three-year and five-year returns, calculated monthly, since inception of BB/B Index, December 31, 1996 – January 31, 2018

SINCE INDEX INCEPTION 12/31/1996 - 01/31/2018	TOTAL PERIODS	BROAD HIGH YIELD BEATS HIGH YIELD BB/B	MAXIMUM OUTPERFORMANCE	MAXIMUM UNDERPERFORMANCE
Rolling 3 Year	218	**61.9%**	4.24%	**-1.89%**
Rolling 5 Year	194	**76.3%**	2.72%	**-1.10%**

Source: ICE Data Indices, LLC, and Lord Abbett. *ICE BofAML U.S. High Yield Master II Index. **ICE BofAML U.S. High Yield BB-B Index.

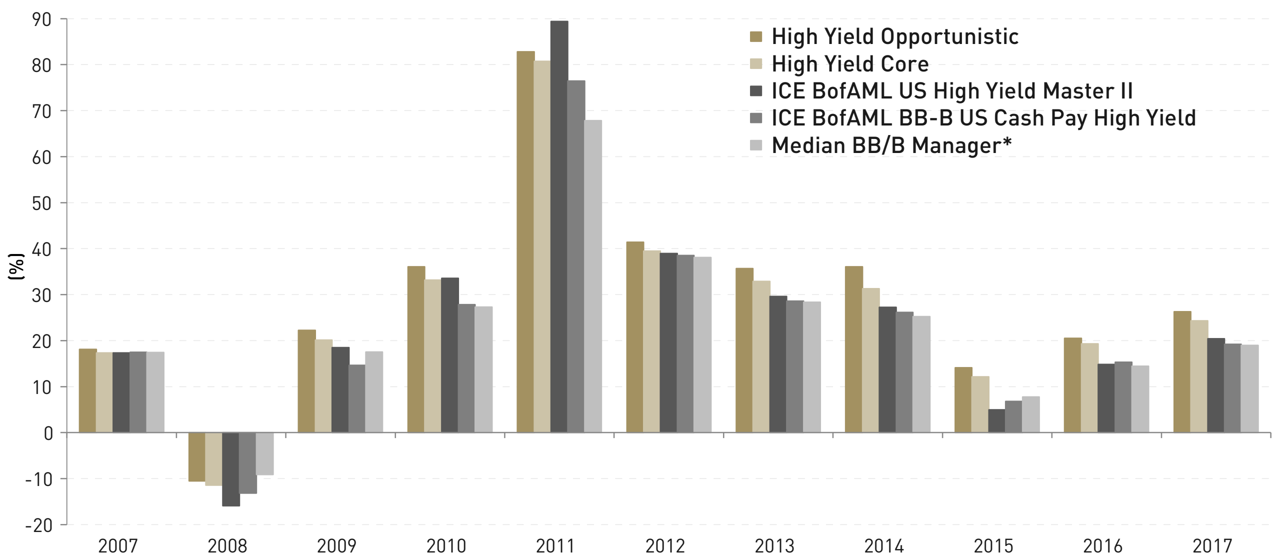
The historical data shown are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.**

Core and High Yield Opportunistic institutional composites. Chart 2 shows cumulative three-year returns at the end of each year for the respective indexes, peer group, and Lord Abbett high-yield strategies over the last 10 years. We decided to go with a three-year horizon, since the bar is a little higher, in order to make room for a full ratings mandate based upon the index data we reviewed earlier.

There are many bars in Chart 2, but here are a few takeaways. Both of Lord Abbett's high-yield strategies have beaten both indexes and the upper-quality peer group in seven out of the 11 periods indicated. During the depths of the credit crisis in 2008–09, our Opportunistic and Core strategies underperformed by only 139 basis points (bps) and 232 bps (gross of fees), respectively, over the three-year (2006–08) period. This quickly reversed to significant outperformance by the time 2009 came to a close.

CHART 2. HISTORICALLY, LORD ABBETT'S HIGH-YIELD STRATEGIES HAVE BEATEN BOTH INDEXES MOST OF THE TIME

Cumulative rolling three-year returns, calculated at year end, December 31, 2007 – December 31, 2017



Cumulative Rolling Three-Year Returns	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Yield Opportunistic Institutional Composite (Gross of Fees)	18.1%	-10.5%	22.2%	36.1%	82.8%	41.4%	35.7%	36.1%	14.1%	20.5%	26.3%
High Yield Opportunistic Institutional Composite (Net of Fees)	15.8%	-12.3%	20.0%	33.7%	79.1%	38.0%	31.8%	32.2%	10.9%	17.2%	22.8%
High Yield Core Institutional Composite (Gross of Fees)	17.4%	-11.4%	20.1%	33.2%	80.7%	39.5%	32.9%	31.3%	12.1%	19.4%	24.4%
High Yield Core Institutional Composite (Net of Fees)	15.1%	-13.1%	18.0%	30.9%	78.1%	37.6%	31.3%	29.7%	10.8%	18.0%	23.0%

Source: ICE Data Indices, LLC, evestment.com, and Lord Abbett.

Past performance is not a reliable indicator or guarantee of future results. Net of fees performance reflects the deduction of the highest applicable management fee ("Model Net Fee") that would be charges based on the fee schedule appropriate to you for this mandate 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 you 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 you to the gross performance of the composite. *US High Yield Quality Bias Fixed Income Index published by evestment.com.

So, what explains this consistent outperformance? We think there are a few key differentiators that contribute to our return profile, especially as it pertains to protecting investor capital in volatile market environments, such as:

- *Top-down approach*—This allows us to capture sector themes that can be significant drivers of performance dispersion in the markets. The best examples here would be the commodity-related volatility in 2014 and 2015 and the dramatic turnaround in that market in 2016. Managers who focus solely on a bottoms-up approach may get lost in the weeds and miss the big trends.
- *Risk limits on lower-tier credits*—Part of the allure of 'BB'/'B' rated mandates is that many high-yield managers have not done a great job navigating the 'CCC' space. We have rigid position-sizing guidelines for 'CCC' rated credits that help us to mitigate idiosyncratic risk in volatile credit environments.
- *Experience*—We have almost 50 years of experience as a firm honing our craft in the leveraged-credit markets, along with deep, experienced portfolio management and credit analyst teams.

CONCLUSION

To be fair, the high-yield market can be a risky asset class relative to other fixed-income alternatives, especially when an investor migrates to tiers of the lowest ratings. However, when we consider the data provided above, we believe investors can be, on most occasions, rewarded for taking that risk over a five- or even three-year time horizon. Call us "biased," but we also would argue that the odds may even improve when an investor works with an active manager who has a long history of navigating the ups and downs in the leveraged-credit markets.

The author wishes to thank Garrett Cai, Katie Cheung, and Jun Qian for their contributions to this report.

IMPORTANT INFORMATION

[1]As measured by the ICE BofAML CCC & Lower U.S. High Yield Index.

The performance information provided in this material for the High Yield Opportunistic and High Yield Core institutional composites is supplemental to the High Yield Opportunistic and High Yield Core Institutional Composite presentations, which are included on the following pages, and is subject to change.

The value of an investment in fixed-income securities will change as interest rates fluctuate and in response to market movements. As interest rates fall, the prices of debt securities tend to rise. As rates rise, prices tend to fall.

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The **ICE BofAML U.S. High Yield BB-B Index** is a subset of the ICE BofAML U.S. High Yield Master II Index, including all securities rated BB-B or lower.

The **ICE BofAML CCC & Lower U.S. High Yield Index** is a subset of the ICE BofA ML U.S. High Yield Index, including all securities rated CCC1 or lower.

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The **U.S. High Yield Quality Bias Fixed Income Index** is published by evestment.com and includes fixed-income products that primarily invest in upper tier, high-yield debt (Ba/BB and B as rated by Moody's or Standard & Poor's).

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

The credit quality of the securities in a portfolio are 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 principle on these securities.

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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:

CALENDAR YEAR ENDED	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
# of Portfolios	3	2	2	2	1	1	1	1	1	1
Total Assets ($M)	$8,167	$6,200	$3,896	$3,964	$2,782	$2,232	$1,780	$1,281	$827	$377
Percentage of Firm Assets	5.23%	4.61%	3.14%	2.92%	2.05%	1.70%	1.70%	1.20%	0.90%	0.50%
Total Firm Assets ($M)	$156,110	$134,565	$124,007	$135,945	$135,786	$127,753	$107,449	$106,528	$88,895	$70,347
Dispersion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lord Abbett High Yield Opportunistic Institutional Composite Gross (Annual)	9.46%	16.98%	-1.33%	4.45%	10.75%	17.63%	4.16%	15.42%	52.05%	-22.48%
Lord Abbett High Yield Opportunistic Institutional Composite Gross (3 year Annualized Return)	8.11%	6.43%	4.51%	10.81%	10.71%	12.24%	22.29%	10.81%	6.92%	-3.64%
Lord Abbett High Yield Opportunistic Institutional Composite Gross (3 year Annualized Ex-Post Standard Deviation)	5.25%	5.72%	5.22%	4.71%	6.68%	7.40%	10.17%	15.29%	15.15%	12.30%
Lord Abbett High Yield Opportunistic Institutional Composite Net (Annual)	8.92%	16.40%	-1.84%	3.92%	10.20%	17.05%	3.64%	14.85%	51.32%	-22.87%
Lord Abbett High Yield Opportunistic Institutional Composite Net (3 year Annualized Return)	7.57%	5.90%	3.98%	10.26%	10.16%	11.69%	21.67%	10.26%	6.39%	-4.12%
ICE BofAML U.S. High Yield Constrained Index (Annual)	7.48%	17.49%	-4.61%	2.51%	7.41%	15.55%	4.37%	15.07%	58.10%	-26.11%
ICE BofAML U.S. High Yield Constrained Index (3 year Annualized Return)	6.40%	4.73%	1.65%	8.36%	9.01%	11.54%	23.83%	10.36%	6.20%	-5.68%
ICE BofAML U.S. High Yield Constrained Index (3 year Annualized Ex-Post Standard Deviation)	5.67%	6.10%	5.34%	4.50%	6.51%	7.12%	11.12%	17.00%	16.87%	13.31%

Dispersion is represented by the asset-weighted standard deviation, a measure that explains deviations of 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 above 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 0.50% 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 0.50% of average net assets per year for the 10-year period were deducted, the annual total return would be 9.45% and the ending dollar value would be $24,782,276. The management fee schedule is as follows: 0.50% on the first $50 million, 0.40% on the next $100 million, 0.38% on the next $100 million, and 0.35% on all assets over $250 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 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.

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The ICE BofAML U.S. High Yield Constrained Index is a capitalization-weighted index of all US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million. The index caps individual issuer at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. The face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. The benchmark has not been examined by Deloitte & Touche LLP.

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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.

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CALENDAR YEAR ENDED	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
# of Portfolios	9	6	5	4	3	4	4	4	3	2
Total Assets ($M)	$4,187	$3,435	$3,549	$4,512	$4,219	$4,461	$5,084	$3,782	$836	$334
Percentage of Firm Assets	2.68%	2.55%	2.86%	3.32%	3.11%	3.50%	4.70%	3.60%	0.90%	0.50%
Total Firm Assets ($M)	$156,110	$134,565	$124,007	$135,945	$135,786	$127,753	$107,449	$106,528	$88,895	$70,347
Dispersion	0.46	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lord Abbett High Yield Core Institutional Composite Gross (Annual)	8.32%	16.12%	-1.10%	3.99%	9.03%	15.81%	5.26%	14.45%	50.05%	-22.45%
Lord Abbett High Yield Core Institutional Composite Gross (3 year Annualized Return*)	7.54%	6.09%	3.89%	9.50%	9.94%	11.74%	21.83%	10.02%	6.30%	-3.97%
Lord Abbett High Yield Core Institutional Composite Gross (3 year Annualized Ex-Post Standard Deviation*)	4.33%	4.81%	4.65%	4.43%	6.27%	6.90%	9.94%	15.01%	14.89%	11.96%
Lord Abbett High Yield Core Institutional Composite Net (Annual)	7.78%	15.54%	-1.59%	3.47%	8.49%	15.24%	4.72%	13.88%	49.34%	-22.85%
Lord Abbett High Yield Core Institutional Composite Net (3 year Annualized Return*)	7.01%	5.56%	3.37%	8.96%	9.40%	11.18%	21.21%	9.47%	5.78%	-4.45%
ICE BofAML U.S. High Yield Constrained Index (Annual)	7.48%	17.49%	-4.61%	2.51%	7.41%	15.55%	4.37%	15.07%	58.10%	-26.11%
ICE BofAML U.S. High Yield Constrained Index (3 year Annualized Return*)	6.40%	4.73%	1.65%	8.36%	9.01%	11.54%	23.83%	10.36%	6.20%	-5.68%
ICE BofAML U.S. High Yield Constrained Index (3 year Annualized Ex-Post Standard Deviation*)	5.67%	6.10%	5.34%	4.50%	6.51%	7.12%	11.12%	17.00%	16.87%	13.31%

Dispersion is represented by the asset-weighted standard deviation, a measure that explains deviations of 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 above 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 0.50% 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 0.50% of average net assets per year for the 10-year period were deducted, the annual total return would be 9.45% and the ending dollar value would be $24,782,276. The management fee schedule is as follows: 0.50% on the first $50 million, 0.40% on the next $100 million, 0.38% on the next $100 million, and 0.35% on all assets over $250 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 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 through 2016. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The High Yield Core Institutional composite has been examined for the periods September 2004 through 2016. The verification and performance examination reports are available upon request.

The ICE BofAML U.S. High Yield Constrained Index is a capitalization-weighted index of all US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million. The index caps individual issuer at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. The face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. The benchmark has not been examined by Deloitte & Touche LLP.

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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.

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