Flash Notes – Fund Update & Manager comments

March 2020

Lord Abbett US High Yield – Fixed Income US High Yield

US High Yield spread widened sharply on Monday March 9th. It is the third highest widening in bps of the history, the two previous record being in September 21st, 2001, the first dealing day post 9/11, and in October 10th, 2008. Whatever the 12 months forward return will be, we strongly suggest in this highly volatile context and increasing differentiating environment to invest in active management.

Date	Daily Change (bps)	Daily Change (%)	12 Month Forward Total Return (%)
21-Sep-01	147	20%	-2.2%
10-Oct-08	119	9%	39.5%
09-Mar-20	**92**	**17%**	**-**
16-Sep-08	84	10%	14.5%
20-Nov-08	79	5%	67.3%
06-Oct-08	77	7%	30.8%
02-Oct-08	69	7%	26.7%
19-Nov-08	62	4%	64.5%
08-Aug-11	61	10%	10.9%
15-Dec-00	60	7%	5.3%

As measured by the Bloomberg Barclays US HY Index

Comments of Lord Abbett US High Yield's Portfolio Manager, perspectives and positioning.

Performance

As of 9 March 2020	YTD	1 Year	3 Years	5 Years	01/03/2014 - 09/03/2020
Lord Abbett High Yield I USD Acc (NET)	**-5.24%**	**3.48%**	**3.75%**	**4.89%**	**4.78%**
ICE BofAML US HY Constnd TR USD	-5.53%	2.12%	3.74%	4.42%	4.04%
Lord Abbett Excess Return (NET)	***0.29%***	***1.36%***	***0.01%***	***0.47%***	***0.74%***
iShares $ High Yld Corp Bd ETF USD Dist	-6.08%	0.53%	3.02%	3.21%	2.86%
Lord Abbett Excess Return (NET)	***0.84%***	***2.95%***	***0.73%***	***1.68%***	***1.92%***

Flows

Year to date our High Yield UCITS strategy has been in solid net inflows, adding over $250M in net flows since January 1. This includes a positive net flow experience on Monday March 9th. Investors are closely monitoring current spread levels, now north of 650bps, and beginning to initiate some relative value buying decisions as now the entire US treasury yield curve has repositioned below 100bps (as of 9/3/20), joining many other developed economies below 1%.

Liquidity

In speaking with our trading team, trading volume has been pretty good, coming in at round $17-20bn per day last week vs. $12b per day on average in 2019. Last week, dealers were net sellers of bonds. Transactions are getting done, even yesterday, just at wider prices. Trading activity was primarily centered in the BB/B space early in the sell-off, but trading is now reasonably spread over the entire spectrum. It is worth noting that despite increased volumes, price action can be quite gappy both up *and down, depending on investors flows. With some exceptions, selling has come primarily from ETFs and non-traditional HY participants, while managers have been net buyers.*

In the High Yield Fund, we have used sleeves of liquidity like BBBs, converts and cash for this purpose, particularly given the experience of late 2018. Additionally, we are employing HY CDX and Treasury futures at times to manage duration or credit exposure in an unfunded, efficient manner.

We are fortunate to have a diversified fund and strategy range that is in strong net inflows this year across our International, Institutional and U.S. Retail businesses.

Volatility

For perspective, yesterday's 92bps widening in high yield (as measured by the Bloomberg Barclays US HY Index) would rank as the 3rd biggest in absolute terms, and 2nd biggest in percentage terms, going back 20 years. Except for September 21, 2001, the top 10 forward 12 months total return experiences were solidly positive.

Clearly spreads were much wider during these depths of the 2008 crisis, so forward returns from then would be hard to replicate today in the next 12 months. But the data should provide some comfort regarding the 'mean reverting nature' of risk premiums in credit as well as providing some context on yesterday's move.

Taking the significant spread move table above under the context of today's market conditions, we thought it might be of benefit to consider how a strategic allocation in the high yield asset class has performed historically. Since 2000 and through the end of 2019, High Yield OAS (as represented by the ICE BofA High Yield Constrained 2% Index) closed at an OAS of 650 to 750 on 536 occasions, and given the elevated spread levels, typically in markets characterized by high degrees of volatility and uncertainty. With as strategic view on the asset class, when investors invest in this spread range and hold for a 3 Year period, the average annual return was 10.2% and the worst outcome was 5.8% annualized.

Energy

We have been reducing risk in high yield energy over the course of the year, with a particularly meaningful reduction in early February. While we entered the year with a modest overweight (14% vs. the index's 12.5%) built primarily through the oil E&P subsector given oversold conditions in the sector in 4Q19, outperformance over the turn of the year and slowing macro momentum that first appeared in January led us to reduce risk in the sector overall. We began February with a 13.6% nominal weight to Energy, which was reduced to 10.7% by month end. We are underweight Energy versus our benchmark by 89bps as of February month-end. We have remained underweight the subsectors of refiners and midstream over this time as well. The energy sector was the largest contributor to relative performance in February, due to our underweight allocation and security selection within the sector; the portfolio's avoidance of the worst performers in energy during the month contributed to relative performance.

With a deliberate focus on volatility within the higher beta energy segment of the market, we have limited single name risk, with our largest overweight to a single issuer being 40bps. Our exposure has been tilted towards higher quality pockets of the energy market: for instance, with a focus on scale, liquidity, long operating history, strong reserve coverage to debt and any near-term strategic catalysts. We had no exposure to unsecured oil field services bonds or loans, and a large underweight to midstream which we believe to be not as defensive as other market participants think. We have a few refiners which should benefit.

Going forward

We are tactically adding credit exposure as spreads have widened significantly, but with patience. We had been offsetting some of our spread exposure with a modestly long duration positioning, which has helped year to date. The potential of a snapback cannot be dismissed should there be 1) some inflection in the coronavirus infection data globally, which we are beginning to see in Asia, 2) some building resolution between the Saudis and Russia and/or 3) further accommodative measures taken by central banks and governments. We do believe macro data that may be close to indicative of a more acute slowdown in Q2 will provide some headwinds near term. However today, 48% of the high yield market is rated BB vs. 36%

pre financial crisis, the high yield market enters 2020 as the highest in credit quality it has been post financial crisis, with management caution and financial prudence in place – both are buffers against current headwinds.