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Buy and maintain: an alternate approach to fixed income investing

Nuveen's approach to buy and maintain investing combines the power of active investing — including diversification and stringent credit risk management — with the benefits of passive investing, such as low turnover and cost-effective fees.

KEY TAKEAWAYS

- Designed to provide long-term strategic value in the credit markets
- Aims to achieve target yield with low turnover, volatility and drawdown risk
- Emphasizes credit quality, avoidance of default, stability of cash flows and certainty of income

BUY AND MAINTAIN SEEKS TO HOLD HIGH-QUALITY BONDS UNTIL MATURITY

Buy and maintain investing can be traced back to the earliest periods of investing. But it became popular in the late 20th century with the rise of value-driven investing that emphasized the importance of investing in companies with strong fundamentals. While active fixed income investing gained steam in the 1980s, buy and maintain has continued to be the preferred style of investing for many institutional investors, including insurance companies and pension funds.

Buy and maintain is a long-term investment strategy that involves purchasing high-quality bonds and holding them for an extended period, generally until maturity. The approach focuses on selecting investments with the potential to generate consistent yield over time rather than engaging in frequent buying and selling to generate additional return.

THE NUVEEN APPROACH TO BUY AND MAINTAIN

Our approach combines the power of active investing — including diversification and stringent credit risk management — with the benefits of passive investing, such as low turnover and cost-effective fees. Combining key elements from active and passive investing makes buy and maintain a credible alternative to both approaches.

Remain highly diversified. We employ strict limits at the issuer and sector level to ensure portfolio risks are properly diversified. Our approach contrasts with passive investing, which takes a market-weighted approach and potentially rewards the most indebted issuers.

Avoid inefficient risk seeking. Our long-term perspective emphasizes selecting quality investments, conducting thorough research and maintaining disciplined portfolio management. We seek long-term value without the constraints of short-term performance targets or benchmarks. By focusing on consistency and resilience, we aim to capture an inherent yield advantage while minimizing unnecessary risks associated with short-term market speculation.

Actively manage credit risk. We carefully select issuers with strong fundamentals and a stable track record. This allows us to reduce exposure to market volatility and potentially achieve more

stable long-term returns, avoiding losses from defaults and credit deterioration with minimal volatility and drawdown risk.

Customize portfolios. We tailor our portfolios to our clients' objectives, including specific maturity/duration targets, yield targets, quality constraints, sector limitations, liabilities and cash flows.

Ensure cost effectiveness. Taking a long-term view, credits are underwritten through a full cycle to avoid eroding portfolio value with unnecessary turnover. Our lower turnover and transaction costs result in overall lower fees.

MANAGING CREDIT RISK WITH PRECISION

As shown in the *Credit Spotlight* below, emphasizing stringent credit underwriting and leveraging our team of credit specialists to help navigate market uncertainty and volatility were essential to the successful outcome in the case of Occidental Petroleum. This credit, held in a buy and maintain portfolio, experienced significant volatility at the height of the pandemic and was impacted by factors that were unpredictable.

A critical component of fundamental analysis is minimizing default risk by identifying signs of credit deterioration — specifically factors that can cause a sudden, unexpected deterioration in an

CREDIT SPOTLIGHT: OCCIDENTAL PETROLEUM (OXY)

The energy company Occidental Petroleum was downgraded from investment grade to high yield in spring 2020 following two events: 1) OPEC+ decided to increase oil output and 2) economic shutdowns due to the pandemic materially decreased the price of oil. These events could not have been predicted and resulted in many forced sellers of bonds.

In working with some of our clients, the position size rose above the exposure allowance for a high yield investment. We were forced to either continue holding the bond or sell it at a material loss to reduce exposure to the distressed investment and write down the exposure.

Despite the dire market outlook and OXY bonds trading as low as 40 cents on the dollar, Nuveen maintained a high conviction of recovery. After an exhaustive review of the credit by our integrated team of energy specialists (across investment grade, high yield and distressed/workout teams), we determined it was in the best interest to continue holding this investment.

We discussed our recommendation and received approval to hold. The bonds recovered to par and OXY regained its investment grade rating and we were able to avoid losses.

issuer’s credit quality. Our analysts review and monitor risk factors that include liquidity risk, event risk, leveraged buy-out risk, regulatory risk, and environmental, social and governance (ESG) risks. We maintain watch lists for potential fallen angels that may drop from investment grade to below investment grade, and also monitor credits that may move across rating categories.

CASE STUDY: BUY AND MAINTAIN MODEL PORTFOLIOS

We recognize the unique nature of managing buy and maintain assets through our longstanding experience in managing such portfolios for insurers and pensions, including our parent company TIAA, one of the largest U.S. insurance companies. Our broad experience has granted us unique insights and expertise to deliver on complex client objectives in different market cycles and regulatory regimes.

Figures 1 and 2 represent our ability to customize buy and maintain portfolios and help our clients arrive at a level of risk and return potential that meets their needs. In this example, the client parameters were to maintain a BBB- minimum average credit quality, keep duration within +/-0.5 years of the Bloomberg U.S. Corporate Bond Index and maintain strict issuer and sector diversification.

Investment grade (IG) buy and maintain model portfolio: This portfolio is a diversified, investment grade buy and maintain strategy. The positioning reflects a strategy that supports market duration and sector diversification, as well as security selection with strong credit fundamentals.

Enhanced IG buy and maintain model

portfolio: This diversified buy and maintain portfolio permits up to 20% of non-investment grade corporate bonds such as high yield, emerging markets debt, mortgage-backed securities and asset-backed securities.

We applied our proprietary fundamental credit and relative value views to enhance security selection for portfolio optimization, resulting in an enhanced yield while maintaining a BBB- minimum average credit quality for both portfolios.

Figure 1: Model portfolio characteristics

	IG MODEL PORTFOLIO	ENHANCED IG MODEL PORTFOLIO	BLOOMBERG U.S. CORPORATE BOND INDEX
Yield to maturity (%)	5.71	5.99	5.52
Average quality	A3/BAA1	BAA1/BAA2	A3
Average maturity (years)	10.87	9.82	10.68
Option-adjusted spread (bps)	111.90	132.94	84.64
Option-adjusted duration (years)	7.29	7.29	6.92

Data source: Bloomberg, L.P., Nuveen, 31 May 2024. Performance data shown represents past performance and does not predict or guarantee future results. All information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell securities. The portfolio is not actively managed and holdings may not be current.

Figure 2: Model portfolio sector breakdown

	IG MODEL PORTFOLIO	ENHANCED IG MODEL PORTFOLIO	BLOOMBERG U.S. CORPORATE BOND INDEX
Industrial	43.46	39.84	57.62
Basic industry	2.00	2.65	2.69
Capital goods	7.90	6.39	5.42
Consumer cyclical	8.73	7.58	7.20
Consumer non-cyclical	10.12	8.59	15.44
Energy	3.03	3.46	6.96
Technology	7.78	6.24	9.20
Transportation	0.19	1.09	2.10
Communications	3.71	3.83	8.16
Other industrial	—	—	0.45
Utility	15.94	13.85	9.26
Electric	12.18	10.83	8.38
Natural gas	3.05	2.45	0.69
Other utility	0.71	0.57	0.18
Financial institutions	40.60	39.77	33.12
Banking	17.01	14.08	22.97
Brokerage	2.45	1.98	1.49
Finance companies	2.56	2.51	1.26
Insurance	13.26	11.20	4.67
REITs	5.32	8.06	2.69
Other financial	—	1.94	0.04
Emerging markets debt	—	3.42	—
Securitized	—	3.12	—

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NUVEEN GLOBAL CREDIT SPECIALISTS DEMONSTRATE EXPERTISE THROUGH MARKET CYCLES

Nuveen has a well-resourced team of global credit specialists that includes portfolio managers, analysts and traders with extensive experience in the corporate credit markets. The team works across sectors to deliver value for clients in IG corporates, municipal bonds, emerging markets debt, leveraged finance and securitized credit. We have invested continuously to build a sophisticated platform that today includes more than 200 investment professionals and is one of the largest credit research teams.

Institutional investors recognize Nuveen as a leading manager of buy and maintain strategies, with more than \$300 billion in assets under management, including \$62 billion in investment grade corporate buy and maintain assets managed for institutional investors, as of 31 Mar 2024. Many of the team members in the investment grade sector have worked together for 25 years. With our robust credit research process, we have successfully managed buy and maintain strategies through multiple market cycles with limited default and distressed sale history.

For more information, please visit nuveen.com.

Endnotes

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

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All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information on risk

Investing involves risk; principal loss is possible. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk, and income risk. As interest rates rise, bond prices fall. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity, and differing legal and accounting standards. These risks are magnified in emerging markets. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments. Non-investment-grade and unrated bonds with long maturities and durations carry heightened credit risk, liquidity risk, and potential for default.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

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