

5 reasons to invest in actively managed bond portfolios

Challenges for passive can be opportunities for active managers



Active fixed income strategies seek to outperform a benchmark index, after fees, through research-based security selection and risk assessment.

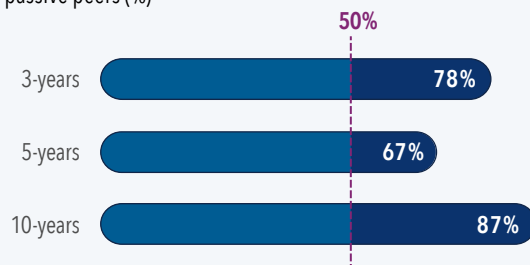


Passive fixed income strategies aim to closely track the performance of a benchmark index, before fees, through a portfolio designed to replicate the index's composition and risk characteristics.

1 Active has delivered in fixed income

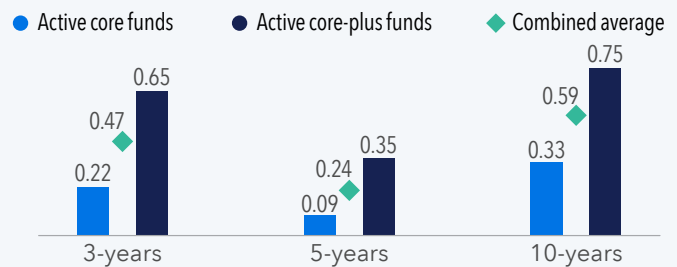
- The majority of active managers have outpaced passive peers when looking at the two largest categories in fixed income: core and core plus.

Share of active core and core-plus funds that have outperformed passive peers (%)



- Active management in those categories has delivered meaningful additional returns (*after fees*) over passive peers.

Average annualized excess return, after fees, over passive funds (basis points)



Sources: Capital Group, Morningstar. Data as of 3/31/26. Analysis considered all active and passive funds in the Morningstar Intermediate Core Bond and Morningstar Intermediate Core-Plus Bond Categories with criteria requiring the offerings to be: (i) benchmarked to the Bloomberg U.S. Aggregate Index and (ii) in existence for the entire observation period noted. This methodology results in some funds from both the core and core-plus categories with varying benchmarks or too-short histories being excluded. Passive funds in the Core-Plus category – presently a very small universe – do not meet this criteria.

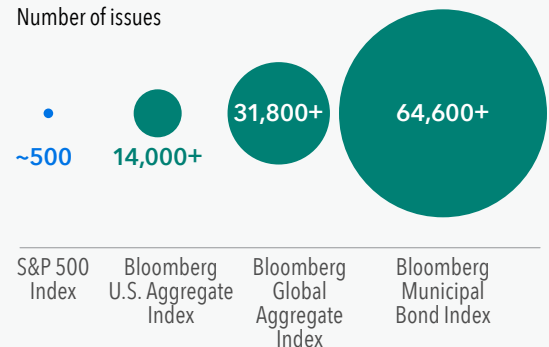
2 Fixed income markets are structurally less efficient than equities

- Inefficiencies in fixed income markets create persistent distortions and mispricings that can offer systematic advantages to active managers.
- A large share of fixed income investors – such as central banks, insurance companies and commercial banks – tend to be less price-sensitive, which can lead to market distortions.
- Bond markets are highly complex:
 - › Thousands of securities (the U.S. Aggregate Index includes 14,000+)
 - › Frequent entry and exit of issues in indexes
 - › Varying risk profiles, even across securities from a single issuer
 - › Large swaths of fixed income markets are not exchange-traded

These complexities provide opportunities for active managers to capitalize on and potentially earn additional return.

Fixed income markets are substantially more complex than equity markets

Number of issues



Sources: Capital Group, Bloomberg. Data as of 3/31/26.

Past results are not predictive of results in future periods.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

3 Index construction can exacerbate unintended risks

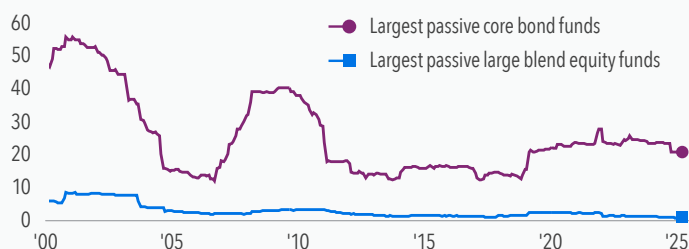
- Debt-weighted fixed income indexes force passive funds to lend more to the largest borrowers, resulting in outsized exposures to the most indebted issuers. Active managers look to avoid this risk in multiple ways including greater diversification, fundamental analysis and valuation assessments.
- Indexes can exclude certain sectors, such as TIPS, and large segments of other sectors, such as in securitized credit, which can at times offer similar profiles but improved risk-reward characteristics.
- These factors may create opportunities for active managers to assess the quality of issues and whether risk is appropriately compensated.

4 Passive is not the same as “buying the index”

- Bond indexes contain thousands of securities and rebalance frequently, making replication difficult and costly.
- Indexes don't capture transaction costs, which can be especially important in less liquid segments of the market and may contribute to passive underperformance.
- When bonds are downgraded, passive funds are forced to sell, typically following monthly index rebalancing. Research-oriented, valuation-sensitive active managers are not forced sellers, so can invest tactically and look to act earlier.

Passive fixed income funds can produce relatively high and volatile tracking errors

3-year rolling tracking error (basis points)

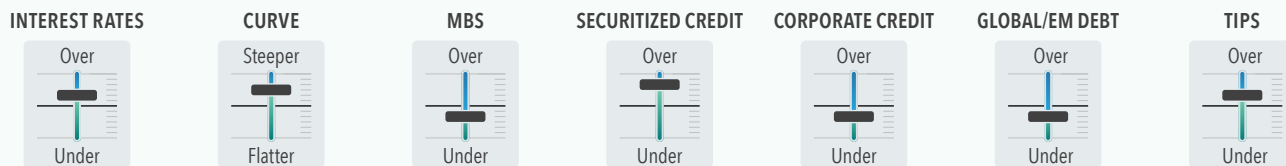


Sources: Capital Group, Morningstar. Data as of 3/31/26. Tracking error is the standard deviation of the excess returns of the portfolio over the index returns. Largest passive core bond funds represent the three largest funds in the Morningstar Intermediate Core Bond Category that are benchmarked to the Bloomberg U.S. Aggregate Index and existed for the entire observation period. Largest passive large blend equity funds represent the three largest funds in the Morningstar U.S. Large Blend Category that are benchmarked to the S&P 500 Index and existed for the entire observation period.

5 Active managers have more tools to add value

- Active managers can lean on robust research and efficient trading operations to seek improved outcomes relative to benchmarks, including a mix of higher returns, lower risk and/or greater resiliency.
- Levers such as duration, curve positioning, sector and security selection enable active managers to target compelling risk-reward opportunities while reducing exposure to less attractive parts of the index.

Active managers have a range of levers at their disposal



Source: Capital Group. For illustrative purposes only. Interest rates represent duration positioning. MBS = mortgage-backed securities. EM = emerging markets. TIPS = Treasury inflation-protected securities. Over and under represent overweight and underweight exposures, respectively, relative to a benchmark index.

The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

Bloomberg Global Aggregate Index represents the global investment-grade fixed income markets.

Bloomberg Municipal Bond Index is a market value-weighted index designed to represent the long-term investment-grade tax-exempt bond market.

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