

PERSPECTIVES

## SHARING AN INTERESTING ANALYSIS

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Sometimes you come across a piece of analysis that is interesting enough to feel compelled to pass it on. I had this reaction while reading AQR's recently published paper titled "[The Illusion of Active Fixed Income Diversification](#)," which examined the excess returns of active bond managers and concluded that a majority of managers may be simply overweighting credit to produce alpha. Perhaps unsurprisingly, it is a characteristically well-researched and well-written piece. It's natural to want to give high marks to analyses that confirm your own biases, but in this case we think it's deserved.

AQR's analysis corroborates our own research in this space that we have previously shared, both for [Long Government/Credit managers](#) as well as [Aggregate managers](#). One aspect we really enjoyed in AQR's paper was the direct manner in which they highlighted the potentially harmful effects on overall

portfolio diversification that a systematic overweighting of credit can have—in other words, if an investor's fixed income allocation is highly correlated with the equity market (if there is indeed beta hiding in his alpha), it may not provide the diversification benefit that fixed income is expected to deliver. This is a legitimate concern for investors and one of which they should be mindful.

For what it's worth, we do think there is at least one exception to the rule that active bond managers simply overweight credit to generate alpha. (Since you are on this distribution list, you probably already knew that.) In any event, AQR has put together a well done piece of analysis and it is worth a read if you can spare the time.

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