

REFLECTING ON THE IMPORTANCE OF OUR INDEPENDENCE

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By Peter Coffin, President

Independence is a key part of the fabric of Breckinridge. We believe that our independence allows us to hold fast to the principles that have been in place since the firm's founding more than 25 years ago. Our independence allows us to think differently and set our own path in terms of our investment philosophy and our standard for client service.

Certain beliefs define us as a firm: the way we look beyond traditional financial statements to understand our issuers; the way we direct our attention to long-term trends rather than fleeting products or ideas; the way we focus on investment grade (IG) fixed income; and the way we pour resources into our research and technology efforts, never quite satisfied with 'good enough.' It's these beliefs that make us different. Being independent allows us to preserve these beliefs without being pressured to change in the name of short-term results. We can look out over a longer timeframe, and stay true to the investment processes that we believe will benefit clients most over time.

BY BEING INDEPENDENT, WE CAN MAINTAIN OUR COMMITMENT TO PROVIDING STABILITY AND AVOIDING EQUITY-LIKE RISK.

We believe IG fixed income should act as a stabilizing force for investors when markets flounder. As an independent firm, Breckinridge remains focused on the long-term goal of capital preservation through a full market cycle. We're able to resist the temptation to chase higher yields and can remain cautious with the risks we assume and the opportunities we pursue. Of course, this investment philosophy takes discipline and can prove challenging in the short run. Still, our commitment is unwavering. Without our independence, the pressure for short-term results could force us to compromise on this philosophy.

OUR INDEPENDENCE ALLOWS US TO BROADEN OUR PERSPECTIVE BEYOND TRADITIONAL MARKET VIEWS.

A core view at Breckinridge is that environmental, social and governance (ESG) factors can help us uncover risks and opportunities that are not evident from traditional financial statements.

We integrated ESG criteria into our investment process, nearly ten years ago, because we wanted to improve our research capabilities with the intention to help our clients achieve their long-term investment objectives. As an early adopter of ESG research in fixed income security analysis, we demonstrated our independence by pursuing an avenue of inquiry that was not widely accepted in our industry at the time, and still faces skepticism today.¹

Our independence has helped us to take advantage of the additional layers of insight that ESG analysis provides. Independence allowed us the opportunity to prioritize and dedicate resources to developing our ESG research approach. The opportunity might not have been possible as part of a larger organization where ESG might have been a lower priority.

As we learned more about the value of ESG research, and further integrated it into our process, we also reconfirmed the value of being able to make decisions independent of considerations that might otherwise constrain our initiatives.

The thoughtful integration of ESG criteria does not happen overnight, and even today, we continue to refine our ESG investment process. Our investment team has worked tirelessly over many years to understand, evaluate and integrate ESG factors, particularly in the municipal bond market where the data and building blocks for ESG analysis were not readily available. Our independence allowed us the patience to fully examine the strategies we were exploring and the wherewithal to dedicate the necessary resources — human and financial — that might have been redirected elsewhere in another business setting.



Finally, we can continue to focus on ESG risks that may not be evident in short-term results. We believe that ESG risks are often “slow burns” that the market will realize over months or years, rather than “flash fires” that the market recognizes immediately. Therefore, the time horizon for ESG to impact performance is often longer than the market’s short-term thinking. Markets have started to understand the pitfalls of “short-termism,” but short-term thinking remains a challenge across the investment landscape (see [The Short-Termism Debate Heats Up](#)). Our long-term outlook helps ensure that we can thoughtfully evaluate ESG risks—risks the market may be ignoring—and not be overly focused on short-term targets.

BY REMAINING INDEPENDENT, WE ARE ABLE TO GIVE IG FIXED INCOME THE FULL WEIGHT OF THE FIRM’S RESOURCES AND PUT OUR CLIENTS FIRST.

At Breckinridge, our singular focus is on IG fixed income. At other firms, IG fixed income may compete with other risk assets or trendier, higher-risk fixed income sectors. In addition, given that IG fixed income has a near-zero default rate and has lower historical returns than equities, it is often considered the “stepchild” and generally does not receive appropriate resources in terms of investment research or client service.

At Breckinridge, IG fixed income is not in competition with other products, asset classes or goals. Our independence has allowed us to avoid that conflict and remain committed to IG fixed income. All our investment, sales and technology teams are solely focused on providing the highest-quality management of IG bonds.

Similarly, our clients are not in competition with shareholders when we make decisions about the business because Breckinridge is independently owned, with shares currently divided among current and former employees and members of the board. First among our core values, shared with and approved by our board, is “We put clients first: As an independent bond manager, our primary focus is our clients. Our clients trust us to act in their best interest. We value each client relationship and strive to achieve their objectives through customized investment solutions.”

In combination, our independence and our scale empower us to continue to invest in ways that are focused on delivering on our commitment to put our clients first. We have been in the position over the years to consistently reinvest in our processes and practices, our proprietary technology and our people. Our goal remains to build a business that is singularly focused on meeting the needs of our stakeholders: our clients, our employees and our community.

CONCLUSION

Our independence remains an important element of the success of Breckinridge. It is integral to the way we carry ourselves as a firm and to the consistent, sustainable investment approach provided to our clients. At bottom, independence allows us to stand apart and stay faithful to our beliefs.

FOOTNOTES:

1. For ESG in Fixed Income, Proof Is in the Pudding, Pat Reilly, FactSet Insight, December 2019.

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