

A Long-Term Approach to Fixed Income

Just as our equity philosophy is built upon value, we approach fixed income investing with an emphasis on relative value and the goal of producing a better return over the long term. As price fluctuations can be volatile, income is a more predictable component of total return and a primary aspect of our strategy. We build portfolios through a bottom-up approach emphasizing value and income while de-emphasizing potential risk.

A Duration Constrained Approach

Fixed-income portfolios are constructed with a designated index as the benchmark profile for the portfolio. Portfolios are kept within +/- 10% of the benchmark. Interest rate risk is managed by constraining duration around a target benchmark, Great Lakes provides Broad Market, Intermediate and Short-Term portfolios for its clients.

Active Management *Income Oriented*

Our active approach to fixed income management is built upon relative value investing, with the goal of producing a better return over the long term while minimizing volatility. This approach follows our belief that income is a significant and predictable component of total return over time, where price fluctuations can be volatile. We build the fixed income portion of our balanced portfolios through a bottom-up approach that also:

- **Actively manages** issues, sector, quality and yield curve positions,
- **Focuses on** maximizing the overall portfolio **income** level,
- **Seeks quality** by using only investment-grade issues (BBB and above),
- **Manages interest rate risk** by constraining duration around a target benchmark (we can manage portfolios around a wide variety of benchmarks).

Both our selection process and risk controls combine sophisticated portfolio analysis and security valuation models with professional judgment designed to add value through:

- **Maximizing portfolio income** and its reinvestment,
- **Superior** structure and credit **analysis**,
- Adept and opportunistic **trading**.

Just as important, our fixed income portfolios de-emphasize potential risk by:

- **Avoiding** market timing,
- **Maintaining** a high-quality average credit rating,
- **Selecting** liquid issues.

A Meaningful Risk/Reward Trade-off

Our process for managing fixed income investments begins with an assessment of the trends exhibited by each sector. Our focus primarily is on capturing the beneficial effects of long-term trends, rather than making short-term tactical realignments. The factors we assess include:

- Structural *risk/return* trade-offs,
- *Credit* trends,
- Historical *yield spreads*,
- Shape of *yield curve*,
- *Supply/demand*.

Once we have identified sectors offering the best long-term value, we focus on selecting individual issues that offer sufficient liquidity, a meaningful return/risk trade-off, and the likelihood of increasing portfolio income.

In Summary...

- An active approach to fixed income since 1989
- A fixed income approach built upon long-term relative value and income streams
- Managing interest rate risk by constrainng duration around a target benchmark
- Skilled, experienced investors, and proactive service that keeps clients informed and involved.



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