LORD ABBETT®

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Investment Perspectives

Why Investment Grade Floating Rate Makes Sense in Today's Market

In addition to higher yields, investment grade floating rate securities offer the potential for effective diversification with less duration risk than their fixed-rate counterparts.

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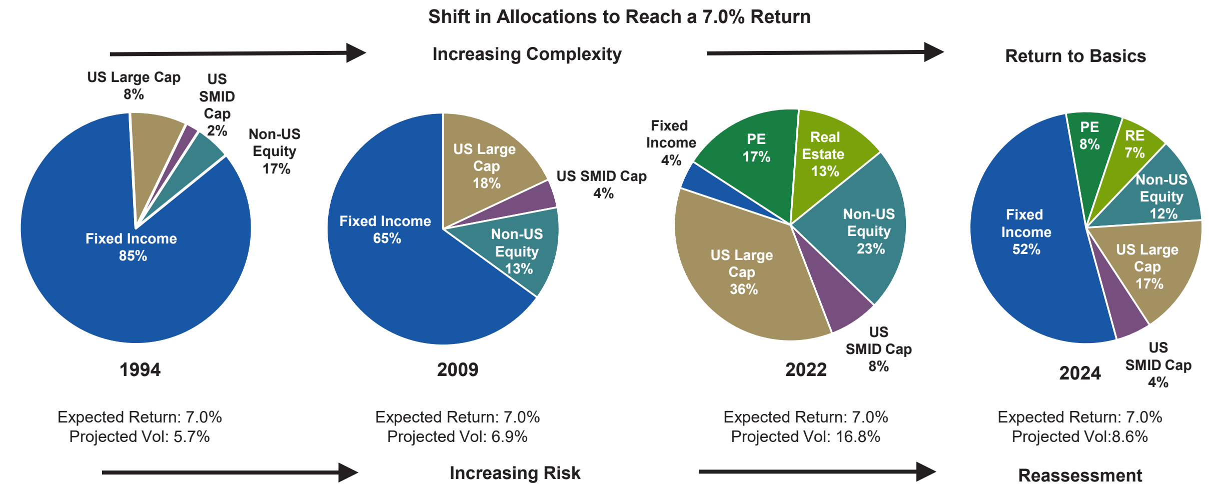
With bond yields as high as they've been since the global financial crisis of 2008–09, we, like many others, believe the current opportunity for fixed income as a significant part of long-term asset allocations is compelling. What might be the best way to balance those fixed income allocations in a higher-for-longer rate environment? Here, we will focus on a particularly attractive opportunity in *investment grade floating rate* strategies.

The Implications of "Higher for Longer" Rates

There was a tactical rush to bonds in late 2023 as markets responded to falling inflation readings and dovish commentary from U.S. Federal Reserve (Fed) officials by quickly pricing in over six 25-basis point rate cuts from the U.S. Federal Reserve (the Fed) before the end of 2024. This year, it has become clear that inflation remains a persistent risk and market expectations for multiple 2024 rate cuts have eased.

The higher for longer environment is still supportive of higher bond allocations, however. Take a look at Figure 1, based on data from institutional consultant Callan. Investors with fixed return targets were forced out of low-yielding fixed income over the last 15 years, opting instead for higher-risk options in public and private equity and real estate. With headline yields approaching long term equity returns today, investors can hit return targets with much less volatility by incorporating a higher proportion of fixed income.

Figure 1. In a Higher-Rate World, Bonds Are Back in Asset Allocations



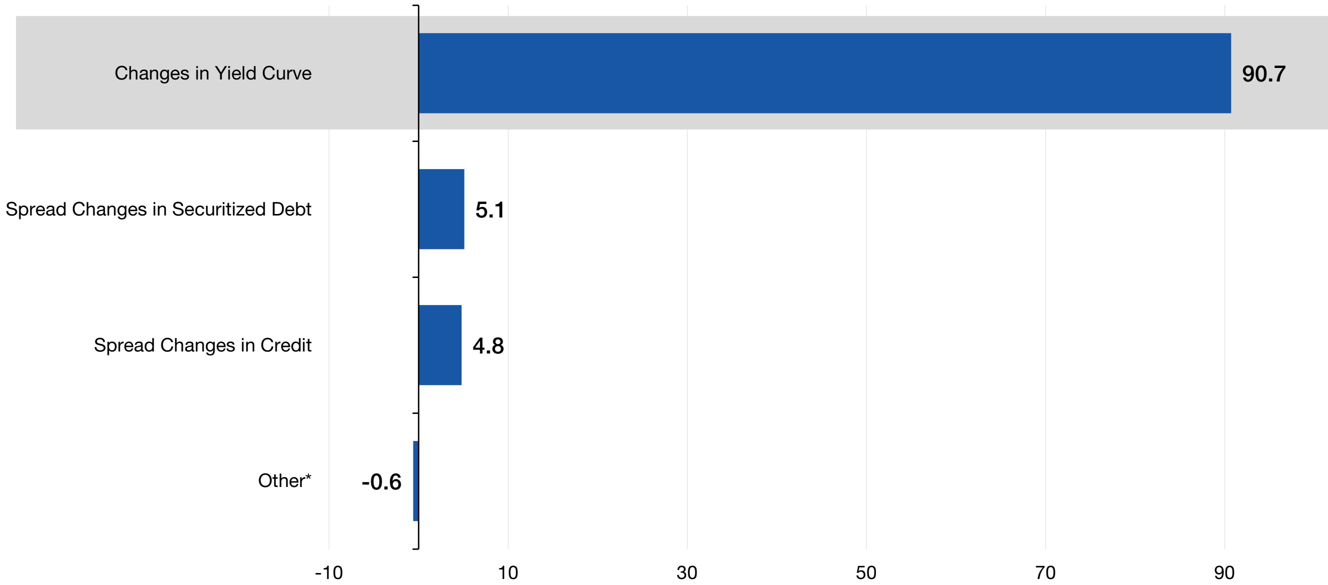
Source: Callan Capital Market Assumptions (CMA). Data as of December 31, 2023. CMAs are developed by institutional investment consultants and represent long-term, return expectations across asset classes. A complete, long-term CMA may also include expected volatility, or standard deviation of returns, as well as the expected return correlation and other projections. Treasuries are risk-free debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities are exempt from state and local taxes. **Past performance is not a reliable indicator or guarantee of future results.** The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

Where those fixed-income allocations belong should be a primary consideration. Traditionally, investors have opted for the relative safety of high-quality investments for fixed income allocations, choosing something similar to the Bloomberg U.S. Aggregate Bond Index, popularly known as the "Agg." The Agg is comprised of nearly all fixed rate instruments, largely U.S. Treasuries and Agency mortgages, maturing over a range of dates but with average lives around five to seven years.

What this means is that most of the risk in traditional fixed-income portfolios is interest-rate risk. A standard risk model shown in Figure 2 highlights that movements in the yield curve contribute nearly all the volatility to the Agg.

Figure 2. Interest-Rate Shifts Have Been the Primary Contributor to Volatility in the "Agg"

Contributing factors (in percent) to expected tracking error volatility for the Bloomberg U.S. Aggregate Bond Index, as of June 30, 2024



*Includes impact of spreads on government-related debt, rate volatility, credit defaults, and idiosyncratic risk factors.

Source: Bloomberg. Data as 06/30/2024. The chart shows the degree to which each listed factor contributes to overall volatility displayed by the Bloomberg U.S. Aggregate Bond Index ("Agg"), based on an ex-ante (derived from estimates) risk model from Bloomberg. **Tracking error** is the standard deviation of returns relative to a portfolio or benchmark.

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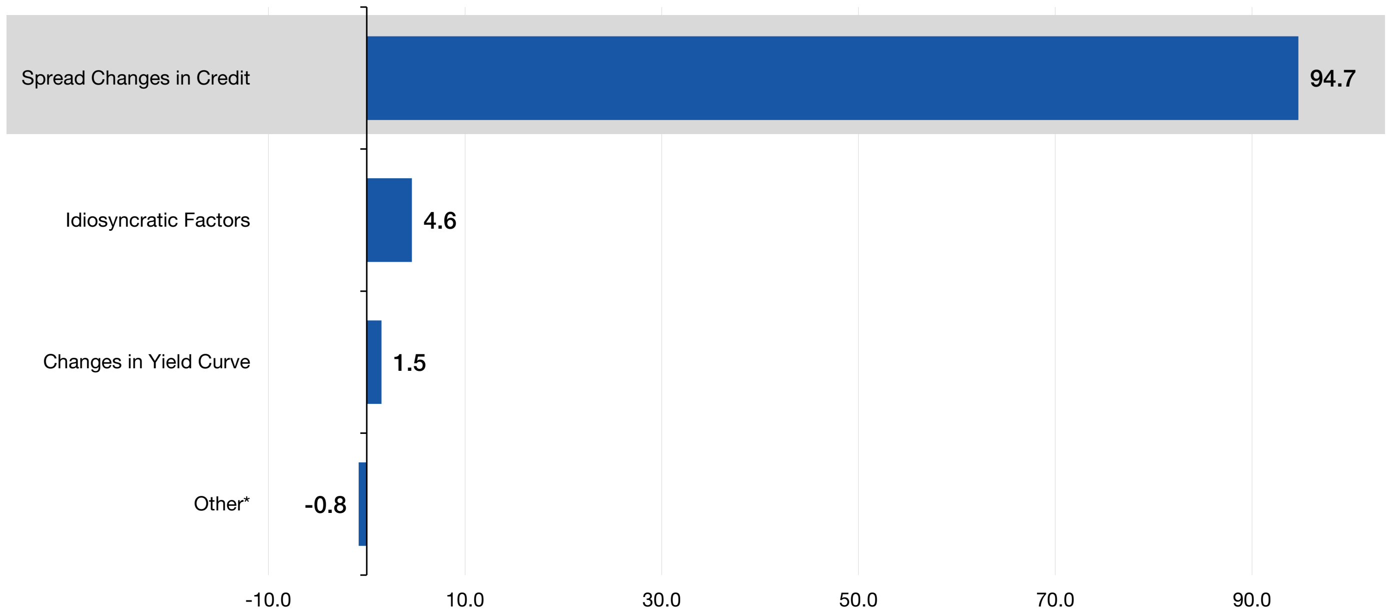
Why does that matter? Over the last 40 years, having nearly all your fixed income risk coming from rates has been a positive. Rates have been in secular decline, providing a tailwind to returns, and rates-based fixed income has moved in the opposite direction of equities, providing valuable portfolio diversification. In a higher-for-longer environment, however, those tailwinds are not likely to continue.

An Attractive Time to Allocate to Investment Grade Floating Rate

We strongly advocate for diversifying fixed income exposure to balance risk and earn the higher yields available in corporate bonds and securitized products. Floating rate exposures are a particularly effective way to bring balance to a portfolio that relies too much on rates. These instruments limit interest-rate risk by adjusting coupons to the prevailing rate environment. The result of this, from a risk allocation perspective, is dramatic. In Figure 3, we see that a floating rate note index has completely different drivers of volatility than the Agg.

Figure 3. Factors Driving Volatility in Investment Grade Floating Rate Differ Greatly from the "Agg"

Contributing factors (in percent) to expected tracking error volatility for the Bloomberg U.S. Floating Rate Note Index, as of June 30, 2024



*Includes impact of spreads on government-related debt, swap spreads, rate volatility, foreign-exchange effects, and credit defaults.

Source: Bloomberg. Data as 06/30/2024. The chart shows the degree to which each listed factor contributes to overall volatility displayed by the Bloomberg U.S. Floating Rate Note Index, based on an ex-ante (derived from estimates) risk model from Bloomberg. "Agg" refers to the Bloomberg U.S. Aggregate Bond Index. **Tracking error** is the standard deviation of returns relative to a portfolio or benchmark. **Idiosyncratic risks** are rooted in individual companies (or individual investments) as opposed to systemic risks, which emerge from macroeconomic developments.

Past performance is not a reliable indicator or guarantee of future results. Current characteristics of the Fund may be different than the figures depicted here. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than the original cost.

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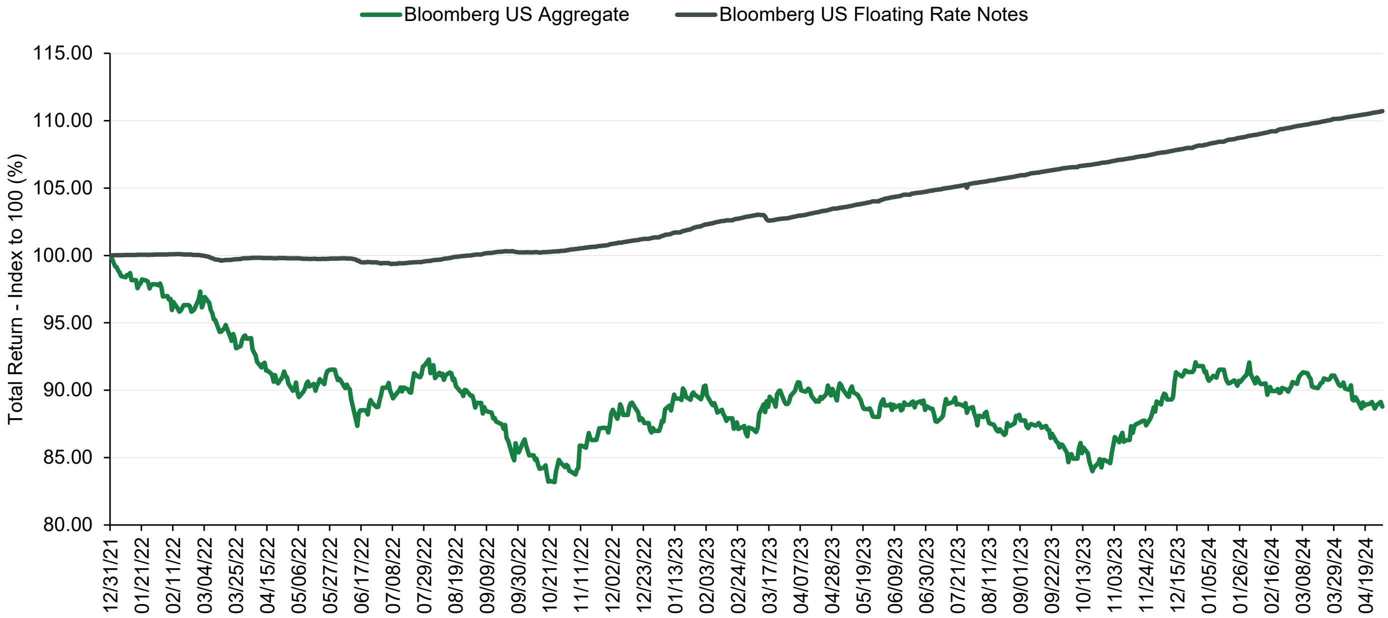
Probably more interesting is the result of this on returns and experienced volatility. Figure 4 shows that during a period of significant interest rate volatility, returns on the Agg predictably suffered—notably at the same time equities were doing poorly as pricing adjusted to the new rate environment—while the floating rate index performed extremely well with limited volatility.

Figure 4. Investment Grade Floating Rate Outperformed the "Agg" in a Period of Greater Interest-Rate Volatility

Total return for indicated indexes, December 31, 2021–April 30, 2024



Source: FactSet. Data as of April 30, 2024. Total return indexed to 100 at December 31, 2021. Bloomberg US Aggregate = Bloomberg U.S. Aggregate Bond Index ("Agg"). Bloomberg US Floating Rate Notes = Bloomberg U.S. Floating Rate Note Index.

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Conclusion

The last few years have seen the creation of several investment products focused on investment grade floating rate assets. We favor an active, flexible approach to the space that can adjust to various market environments by rotating among corporate bonds and securitized sectors as well as adjusting industry and quality exposures. At Lord Abbett, we have a deep and experienced team of investment professionals who have been investing in floating rate corporates, collateralized loan obligations, asset-backed securities, commercial mortgage-backed securities, and other floating rate asset classes for decades. The Lord Abbett Investment Grade Floating Rate Fund was launched in 2023 to provide clients with access to the attractive relative value opportunities in high-quality floating rate investments using an active approach in the sectors listed above. As shown in Figure 5, we have demonstrated the ability to outperform more rigid constructions in floating rate; we believe our flexibility will enable us to continue to ply our active advantage on behalf of our clients.

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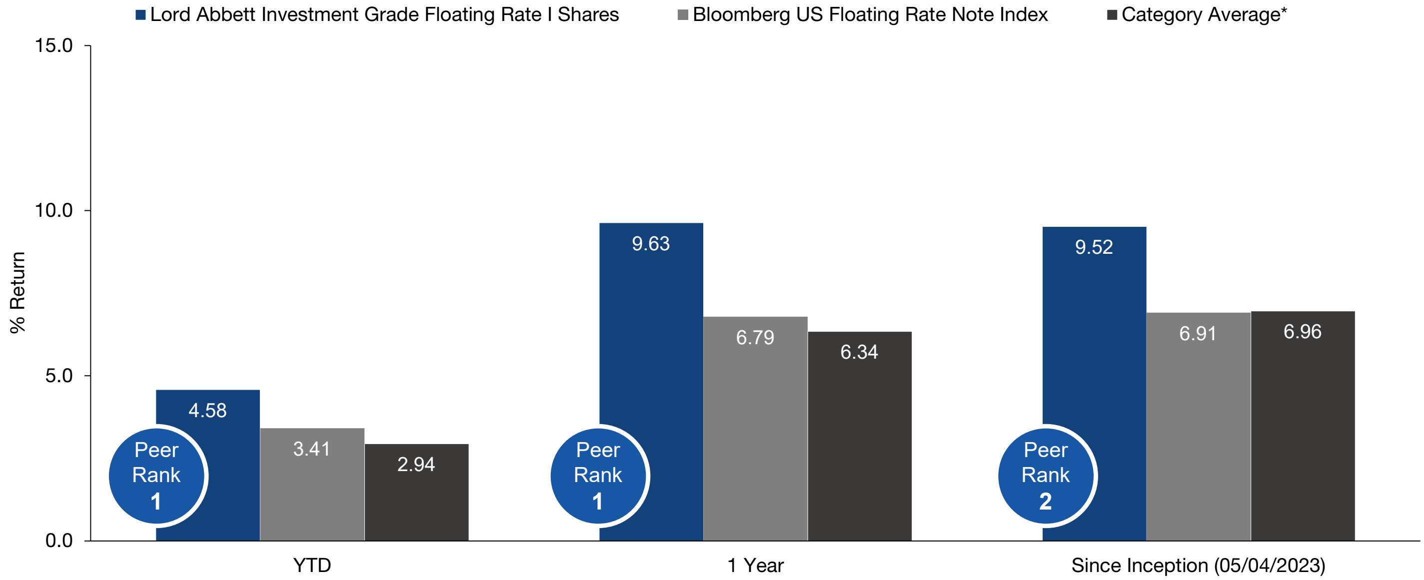
Figure 5. Historical Performance of Lord Abbett Investment Grade Floating Rate Fund (I Shares)

Data as of June 30, 2024



Fund Expense Ratio (as of June 30, 2024): Gross 1.95% Net 0.55%

The net expense ratio takes into account contractual fee waivers/expense reimbursements that currently are scheduled to remain in place through 11/30/2024. For periods when fees and expenses were waived and/or reimbursed, the Fund benefited by not bearing such expenses. Without such fee waivers/reimbursements, performance would have been lower.

Source: Lord Abbett and Morningstar. As of 06/30/2024. YTD = Year-to-date. *Category Average: Morningstar Ultrashort Bond.

Performance data based on total return at net asset value, including the reinvestment of dividends and capital gains, if any, but does not reflect deduction of any front-end sales charges which are not applicable for Class I Shares. Class I Shares are available only to institutional investors and certain others, including retirement plans.

Past performance is not a reliable indicator or guarantee of future results. Current performance may be higher or lower than the performance data quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than the original cost. You can obtain performance data current to the most recent month-end by calling Lord Abbett at 888-522-2388 or referring to lordabbett.com. The Investment Grade Floating Rate Fund I share Morningstar US Ultrashort Bond total return rankings as of 06/30/2024 were 1% (3/258) for the year-to-date period, 1% (4/250) for the one-year period, and 2% (6/249) since inception (05/04/2023).

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Lord Abbett Investment Grade Floating Rate Fund

New Fund Risk: The Fund is recently organized. There can be no assurance that the Fund will reach or maintain a sufficient asset size to effectively implement its investment strategy.

A Note about Risk: The Fund is subject to the general risks associated with investing in debt securities, including market, credit, liquidity, and interest rate risk. The value of investments in debt securities will fluctuate in response to market movements. When interest rates rise, the prices of debt securities are likely to decline, and when interest rates fall, the prices of debt securities tend to rise. The Fund invests in various types of high quality, investment grade debt securities but may also invest in high yield, lower-rated debt securities, sometimes called junk bonds that may involve greater risks than higher rated debt securities. These securities carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. The Fund may invest in foreign or emerging market securities, which may be adversely affected by economic, political, or regulatory factors and subject to currency volatility and greater liquidity risk. The Fund may invest in derivatives, which are subject to greater liquidity, leverage, and counterparty risk. The fund performance history at this time is very limited; therefore, performance achieved during its initial period of investment operation may not be replicated over longer periods and may not be indicative of how the Fund will perform in the future. These factors can affect Fund performance.

Performance data quoted is historical. Past performance is not indicative of future results. Current performance may be higher or lower than the performance quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent quarter-end, go to quarter ending performance on our Website or call Lord Abbett at (888) 522-2388.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

Asset allocation or diversification does not guarantee a profit or protect against loss in declining markets.

No investing strategy can overcome all market volatility or guarantee future results.

The value of investments and any income from them is not guaranteed and may fall as well as rise, and an investor may not get back the amount originally invested. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.

Market forecasts and projections are based on current market conditions and are subject to change without notice.

Projections should not be considered a guarantee.

Equity Investing Risks

The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. While growth stocks are subject to the daily ups and downs of the stock market, their long-term potential as well as their volatility can be substantial. Value investing involves the risk that the market may not recognize that securities are undervalued, and they may not appreciate as anticipated. Smaller companies tend to be more volatile and less liquid than larger companies. Small cap companies may also have more limited product lines, markets, or financial resources and typically experience a higher risk of failure than large cap companies.

Fixed-Income Investing Risks

The value of investments in fixed-income securities will change as interest rates fluctuate and in response to market movements. Generally, when interest rates rise, the prices of debt securities fall, and when interest rates fall, prices generally rise. High yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, and general market risks. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price.

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

Glossary & Index Definitions

Collateral Loan Obligation (CLO) is a special purpose vehicle (SPV) with securitization payments in the form of different tranches. Financial institutions back this security with receivables from loans. Collateralized loan obligations are the same as collateralized mortgage obligations (CMOs) except for the assets securing the obligation. CLOs allow banks to reduce regulatory capital requirements by selling large portions of their commercial loan portfolios to international markets, reducing the risks associated with lending.

Asset-Backed Security (ABS) is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

Carry is the difference between the yield on a longer-maturity bond and the cost of borrowing.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

Floating Rate Notes (FRNs) are fixed income securities that pay a coupon determined by a reference rate which resets periodically. As the reference rate resets, the payment received is not fixed and fluctuates over time.

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Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value. **Yield-to-maturity** (YTM) represents the expected return (expressed as an annualized rate) from the bond's future cash flows, including coupon payments over the life of the bond and the bond's principal value received at maturity. **Yield-to-worst** refers to the lesser of a bond's (a) yield-to-maturity or (b) the lowest yield-to-call calculated on each scheduled call date.

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. One such comparison involves the two-year and 10-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Bloomberg U.S. Floating-Rate Note Index measures the performance of USD-denominated, investment-grade, floating-rate notes across corporate and government-related sectors. This index is not part of the U.S. Aggregate Index, which is a fixed coupon index.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Morningstar Category Information

Ultrashort bond portfolios invest primarily in investment-grade U.S. fixed-income issues and have durations of less than one year (or, if duration is unavailable, average effective maturities of less than one year). This category can include corporate or government ultrashort bond portfolios, but it excludes international, convertible, multisector, and high yield bond portfolios. Due to their focus on bonds with very short durations, these portfolios offer minimal interest-rate sensitivity and therefore low risk and total return potential.

This material may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

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