Liquidity challenges in the bond market

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Liquidity seems like it's not a big issue. "Everybody's buying them. What are you worried about?"

Liquidity is the ability and the cost to transact within a portfolio. And it's been a hot topic. Some people may say it's so 2014 because it really hasn't been an issue for the last few years. And I disagree with them. I think it's getting masked because we've had so much money flow into many of the categories, many of the sectors, within the bond market. And the part that makes you concerned is if all of that money that is going into the market starts to come out, will fund managers be able to sell and liquidate in an orderly way that won't be disruptive for the clients who are taking money out or the clients who remain behind?

And so liquidity, to us, is important. There were some fundamental changes that took place back after the financial crisis. So we can't count on Wall Street to provide liquidity. So if and when investors are demanding their money, we need to be able to provide it. We are trying to be in front of these issues by establishing liquidity programs, requiring a minimum amount of the portfolio to be maintained in the highly liquid assets and keeping the amount of less liquid assets at a very low level. The SEC is adopting a rule which will go into play, which will be implemented, on December 1st of 2018 but we're not waiting for the SEC rule around liquidity program before we act. We're doing it right now to make sure that we can provide liquidity, if and when they need it.

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