



# COMPLETION FUNDS: HELPING ROUND OUT YOUR SMA PORTFOLIO

What are completion funds and why are they in your separately managed account (SMA)? These funds offer diversification and access to opportunities that would be hard to obtain with individual bonds. That's critical in today's municipal market.

## HOW COMPLETION FUNDS WORK

Completion funds—also known as income shares or commingled vehicles—are a lot like open-end mutual funds, with two key differences: First, you don't pay any management fees. Second, the general public can't invest in completion funds; they're for the exclusive use of AB's SMA clients.

By reserving access to SMA investors, completion funds don't have to contend with major swings in the investment flows like the traditional retail mutual funds do. Using completion funds, investors can access parts of the bond market that might otherwise be difficult just through buying individual bonds. That's critical, because in today's muni market, you must be flexible.

## WHY SETTLE FOR YESTERDAY'S BOND STRATEGY?

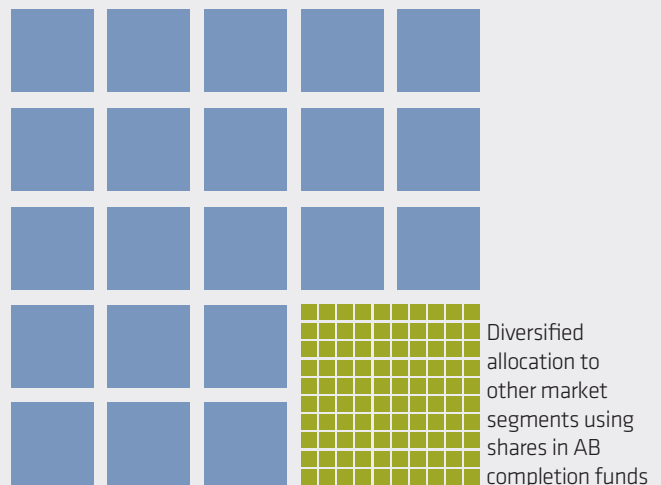
The global financial crisis changed the muni market forever. Bond insurers disappeared essentially overnight, turning the muni market into a credit market. This made individual bond research critical in assessing the fundamental strength of bond issuers.

The demise of muni bond insurers also reduced liquidity, and so did smaller muni bond inventories at investment banks in response to changing federal regulations. This illiquidity increased the costs for odd-lot bond trades (trades at less than the standard size). In short, brokers can no longer buy individual bonds the way they used to.

More changes are ahead, including tax reform, additional rate hikes and the Federal Reserve's unwinding of its massive \$4.3 trillion balance sheet. With today's market so different, why would investors want their portfolios managed the way they were before 2008?

## COMPLETION FUNDS: MORE ACCESS AND DIVERSIFICATION FOR SMA INVESTORS

SMA Portfolio with Individual Securities



Source: AllianceBernstein (AB)

They wouldn't. Today's municipal bond strategy needs to be flexible and dynamic, able to make tactical shifts into areas such as municipal credit and even taxable corporate bonds as market opportunities evolve. Without completion funds, SMA investors would find these opportunities out of reach.

## FLEXIBILITY AND ACCESS TO TODAY'S OPPORTUNITIES

Using completion funds, portfolios can be designed with a combination of diversified, liquid individual muni bonds and diversified allocations to attractive segments of the bond market. Here are some examples of opportunities that could be unlocked with the added flexibility of completion funds:

- + Credit spreads are attractive today, offering the potential for higher portfolio yields. And municipal bonds rarely default—even BBB-rated muni bonds have extraordinarily low default rates
- + When the Fed is raising short-term interest rates, BBB-rated muni bonds have historically outperformed high-quality AAA munis. That's the case in today's rate-hike cycle, too

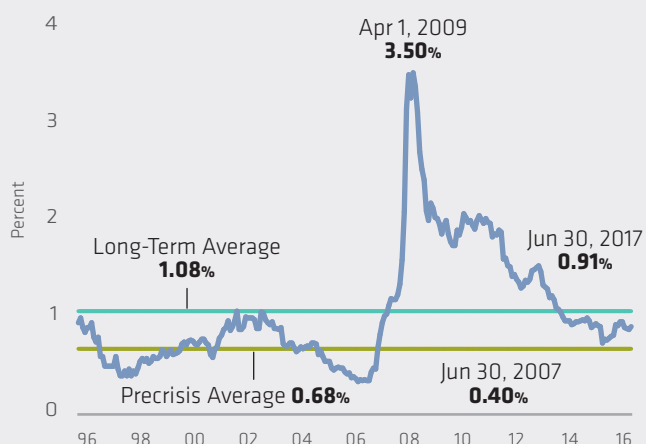
+ If munis become expensive—or if an investor has a lower federal marginal tax bracket—the ability to invest in taxable bonds adds relatively attractive opportunities and diversification

Trying to pursue these opportunities by purchasing individual securities would require investors to buy smaller amounts than if they bought high-quality bonds. This would be very expensive and would result in owning many small, illiquid bond positions. That's not a formula for success.

Completion funds change the game. By pooling money from many SMA investors, these funds can make bigger, more cost-effective purchases of many bonds. By investing some of your SMA portfolio in completion funds, you can spread your assets across more market segments and retain the flexibility to pursue opportunities in today's bond market.

### CREDIT IS ATTRACTIVE TODAY

Yield Advantage of BBB-Rated Debt over AAA-Rated Debt: Past 20 Years



As of June 30, 2017

**Past performance and historical analysis do not guarantee future results.**

Yield advantage shown is for 10-year municipal securities. The long-term average is the average of the spread between AAA- and BBB-rated municipals over the past 20 years. The precrisis average is the average for the period between June 30, 1996, and December 31, 2007. Credit rating is a measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition and not of the fund itself. AAA is highest (best) and D is lowest (worst). Investment-grade securities are those rated BBB and above. Ratings are subject to change.

\* Five-year maturities. † After-tax returns.

Source: Bloomberg, Municipal Market Data and AB

### CREDIT HAS OUTPERFORMED IN RATE-HIKE CYCLES

Total Returns During Fed Tightening Cycles

Periods of Rising Rates	Fed Funds Change	Annualized Returns*		
		US Treasury†	AAA Municipal	Municipal Credit
Apr 1983–Aug 1984	3.25	-1.6	4.2	7.1
Nov 1986–Feb 1989	3.88	-0.2	2.6	5.5
Feb 1994–Feb 1995	3.00	-3.7	0.7	1.3
May 1999–May 2000	1.75	-0.7	0.4	0.9
May 2004–Jun 2006	4.25	0.0	2.2	3.6
Above Periods of Rising Rates	–	–	2.2	4.1
<b>Current Period: Dec 2015–Jun 2017</b>	<b>1.00</b>	<b>-0.8</b>	<b>1.6</b>	<b>2.9</b>

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**There is no assurance that a separately managed account will achieve its investment objective. Separately managed accounts are subject to market risk, the market values of securities owned will fluctuate so that your investment, when redeemed, may be worth more or less than its original cost.**

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