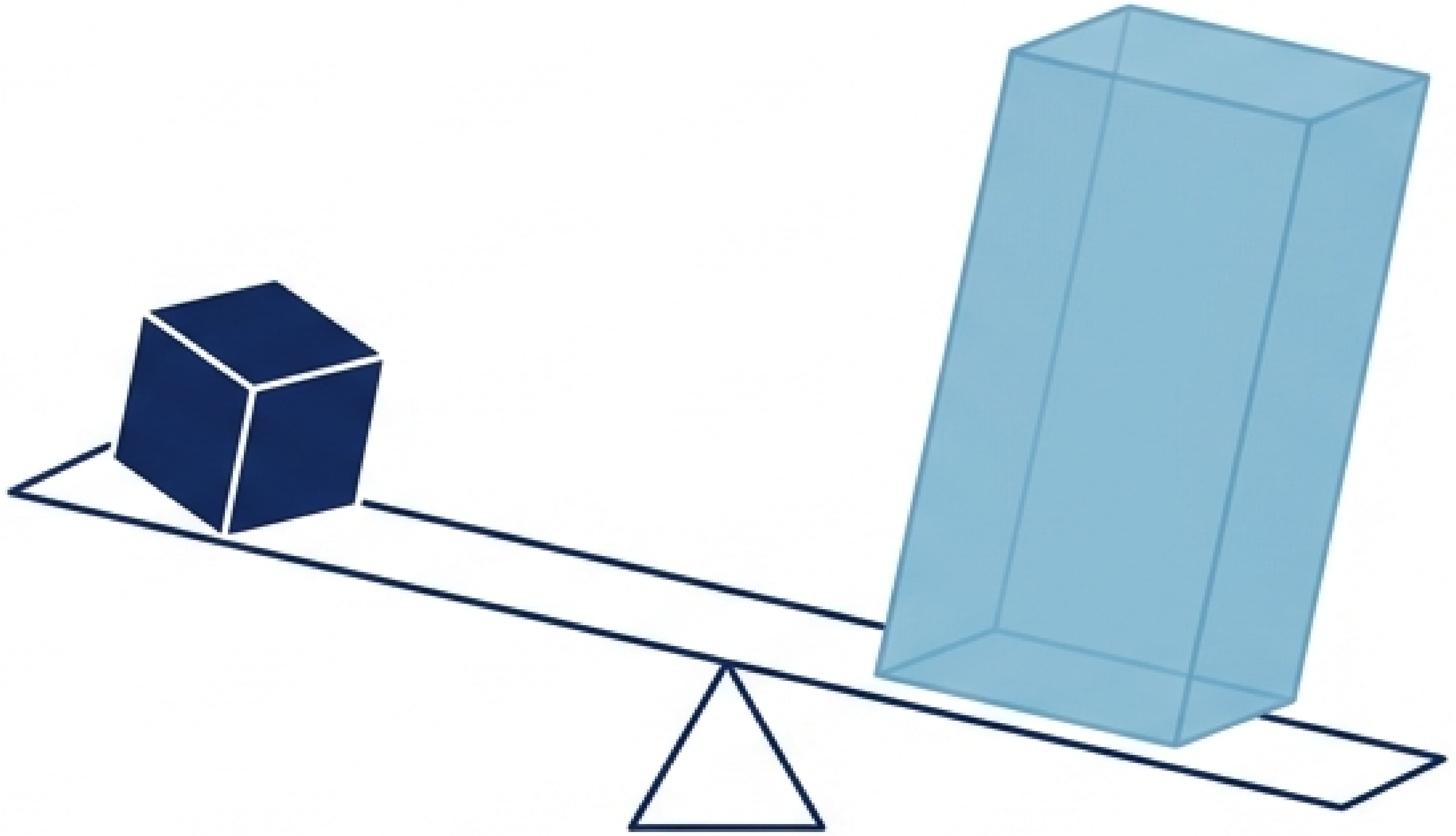
The $260 Billion Distortion

How a Wall of Retail Money in Fixed-Maturity Funds is Reshaping the Global Credit Market.



$260,000,000,000

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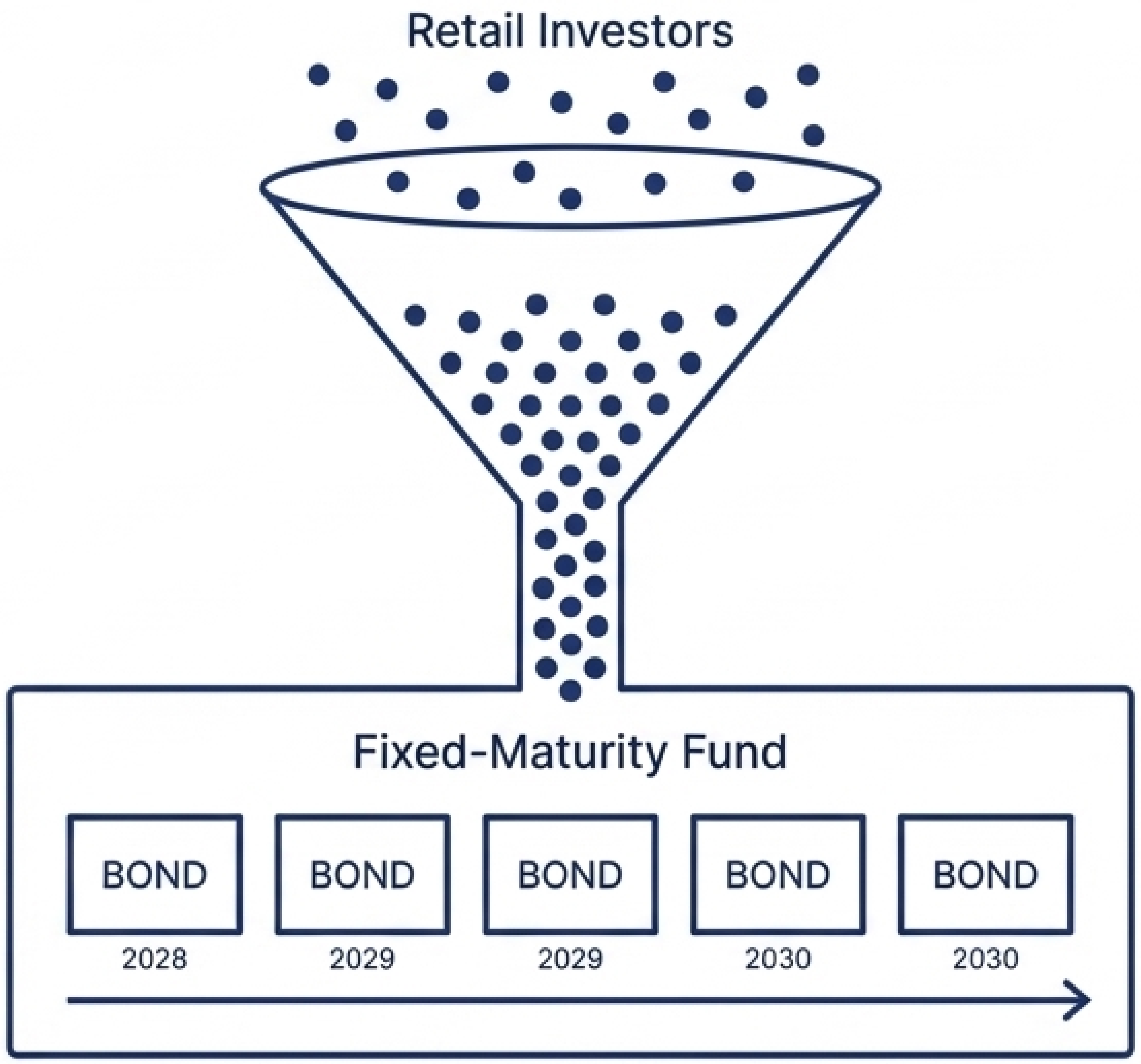
The Core Insight

- A quarter-trillion-dollar wave of retail investment into Fixed-Maturity Funds (FMFs) is rapidly growing, turning ‘mom and pop’ savers into major market drivers.
- This ‘indiscriminate’ buying is suppressing volatility and tightening credit spreads, masking the true repayment risk of corporate debt.
- The market now shows signs of systemic distortion, affecting price discovery and altering corporate borrowing behavior, with risks not yet tested by a major default cycle.

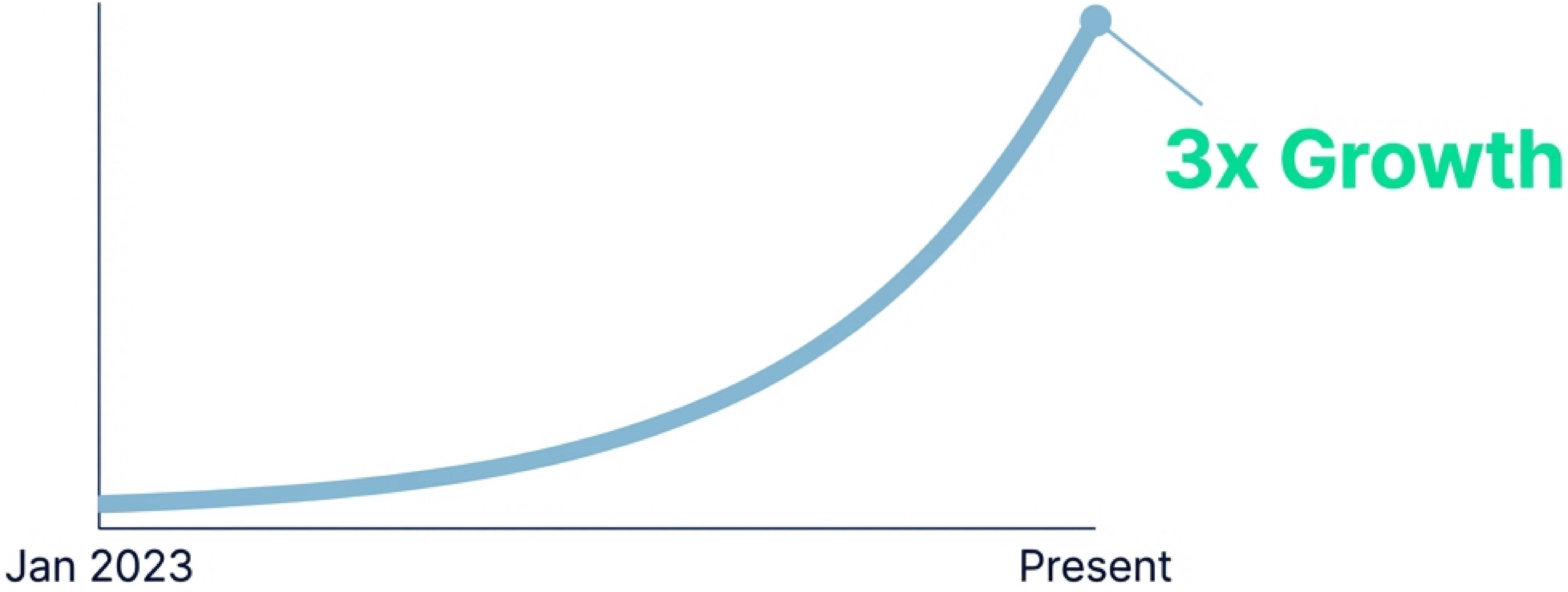
What Are They?

- Investment vehicles that buy a portfolio of bonds maturing around the same date, typically between three and five years.
- All bonds are intended to be held to maturity, assuming no defaults, making them appear simple and predictable.
- This structure is designed to turn “savers into investors," appealing to a generation that may have never invested in a bond before.



$260 Billion (Total AUM and rising)

An Explosive Trajectory



Global assets under management in FMFs have tripled since the start of 2023, driven primarily by massive flows in the US and Europe.

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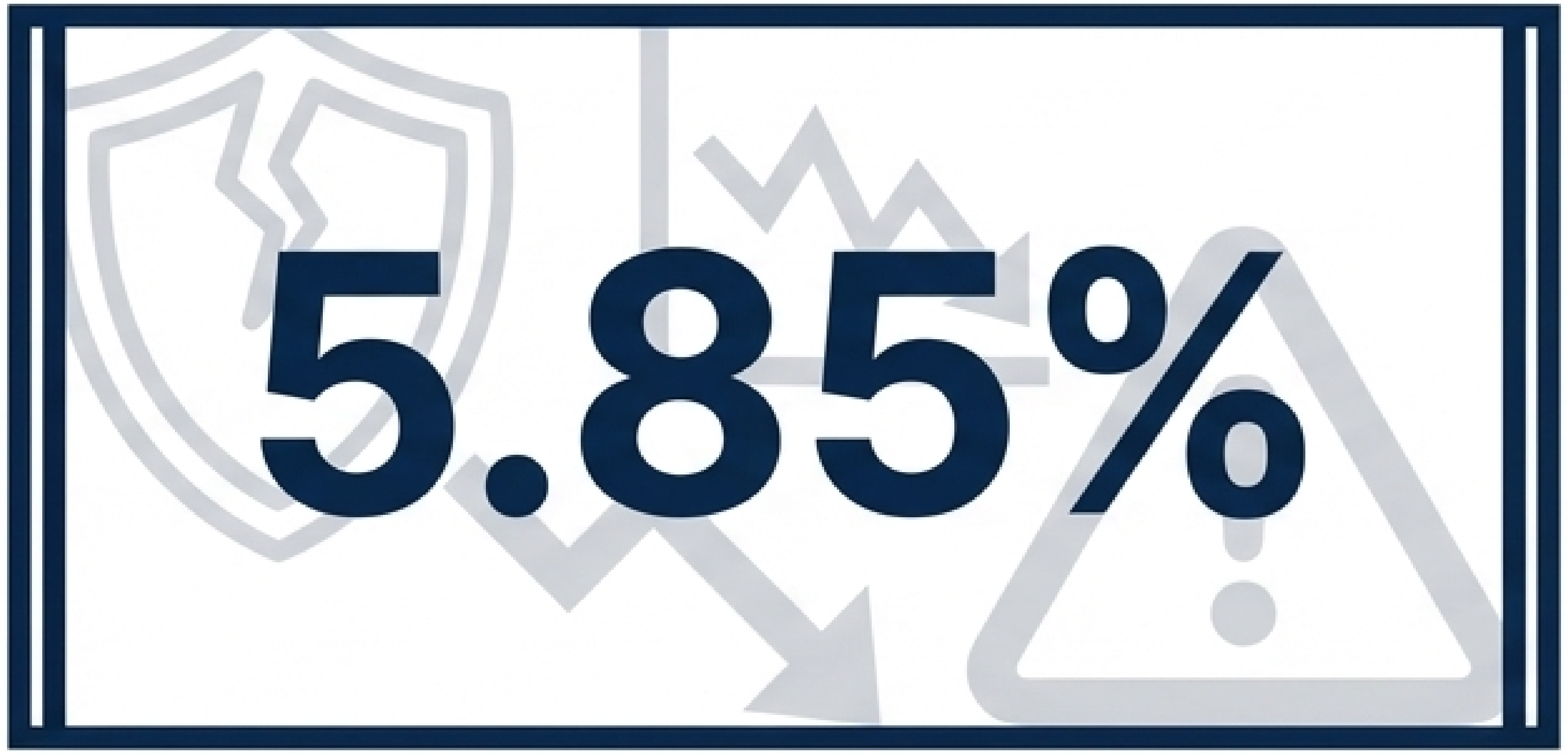
The Retail Revolution

Triggered by social media and a desire to activate idle savings, a new class of investors—farmers, teachers, and retirees—has entered the corporate bond market. They seek predictable income in a product that is simple to understand and market.

> “The ultimate product you can put in your portfolio to generate income in a very linear, predictable way is fixed-maturity.”

– Raphael Thuin, Tikehau Capital

The Premise and The Peril



With bonds held to maturity, daily price moves are ignored. This makes a single number the primary selling point. Intense competition among over 1,100 funds pushes managers to offer the highest possible number, sometimes by venturing into riskier assets to capture extra yield.

Yield-to-Maturity: The Only Number That Matters

Distorting The Premise of Credit

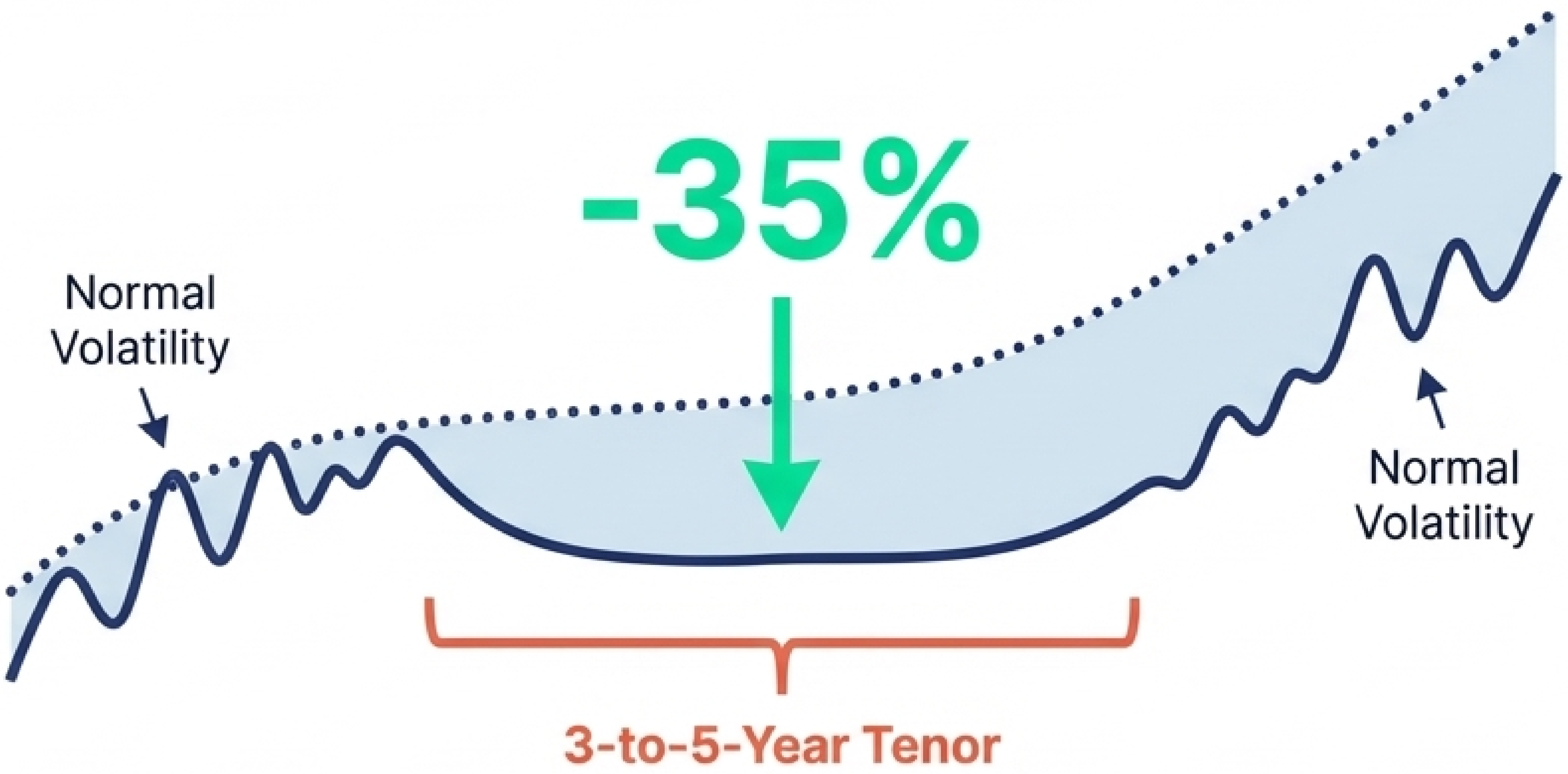
The collective force of FMFs is obscuring risk.

Portfolio managers report that a growing number of bonds are purchased regardless of the compensation (spread) they offer for default risk.

This removes a key price discovery mechanism from the market.

Comparable to the ECB's CSPP:

A large, price-insensitive buyer absorbing a significant portion of market supply without regard for spread.



(Spread compression in the euro IG 3-5 year range vs. the rest of the curve since Jan 2023)

The 3-to-5-Year Anomaly

With a huge cohort of bonds “locked away” in buy-and-hold funds, volatility and risk premiums are being artificially smothered in the maturity range most favored by FMFs. Negative news barely moves prices in this specific segment.

A Guaranteed Buyer Base

Corporate borrowers are adapting. They are increasingly issuing shorter-dated bonds, knowing there is an almost guaranteed pool of capital from FMFs waiting to buy, as long as basic yield requirements are met.

Implication

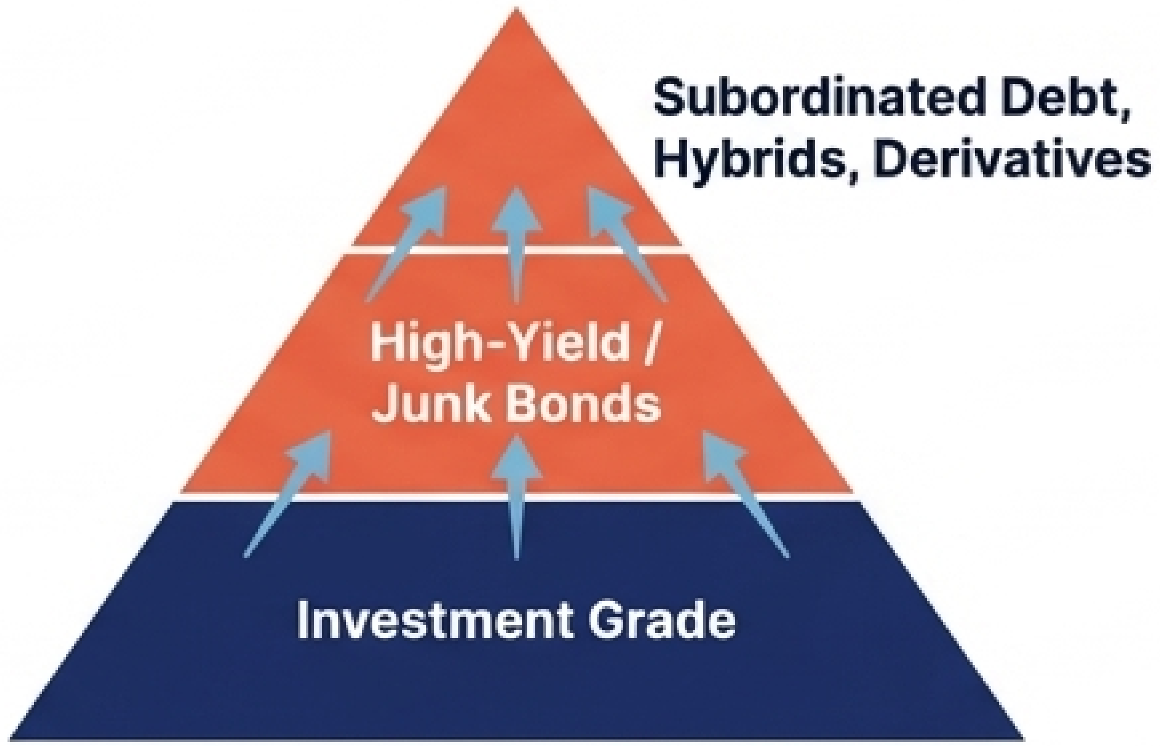
This concentrates a higher level of corporate debt that must be repaid over a shorter, potentially more fragile period.

Mispriced Risk: Mobico Group Plc

- Subordinated bonds from Mobico traded at ~50% of face value as the market doubted its ability to exercise an early repayment option.
- At least five FMFs were holders of these at-risk bonds.
- When Mobico confirmed it would not repay, the funds had already sold their exposure, locking in a significant loss.

A tangible example of risk being overlooked by the FMF structure until it was too late.

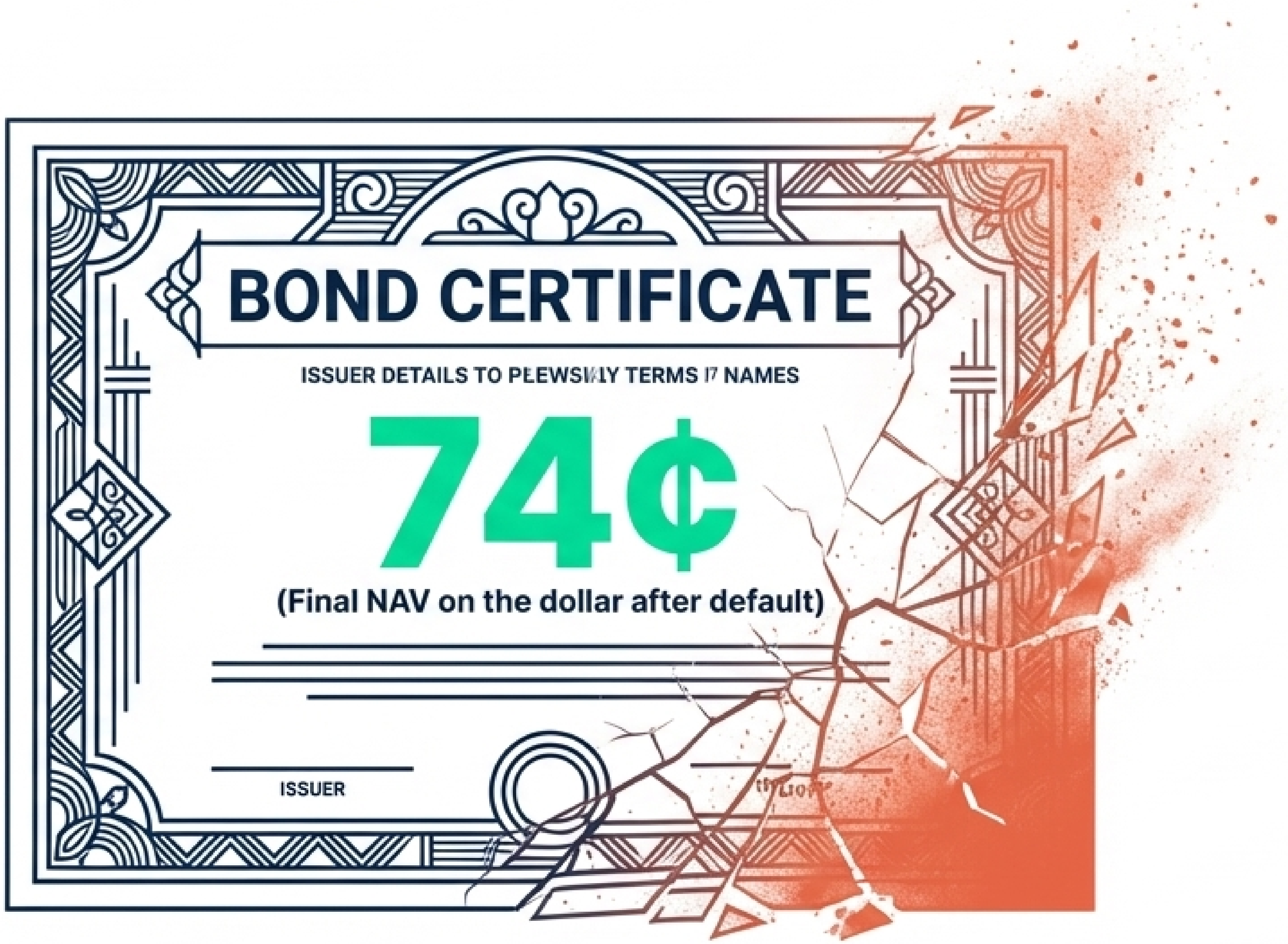
Creeping into The Corners



Competitive pressure on yield is pushing some FMFs into higher-risk areas previously reserved for sophisticated investors:

- **High-Yield / Junk Bonds**
- **Subordinated Debt & Hybrid Bonds**
- **Derivatives**

This trend increases the embedded credit risk in products often marketed as being as "safe as fixed deposits," a misleading comparison.



The Ghost of Evergrande

A 2019 fixed-maturity fund from Value Partners Group held a significant position in an **Evergrande** bond. When the developer defaulted, the fund's net asset value was decimated.

This serves as a stark reminder of the consequences of a single, catastrophic credit event within a supposedly "safe" portfolio.

A System Untested

The current boom in the US and Europe has not yet faced a widespread wave of corporate defaults. As indiscriminate buying squeezes spreads and obscures fundamental risk, a key question emerges from hedge fund managers and credit analysts:

> *"What happens when the music stops? We saw what happened in Asia and it wasn't nice."*

- Andrea Seminara, Redhedge Asset Management

Three Points to Remember

- **THE SCALE:** A $260B+ tsunami of retail capital is a new and powerful force in credit markets.
- **THE DISTORTION:** This force is price-insensitive, suppressing volatility and masking true risk, especially in 3-5 year bonds.
- **THE RISK**: Investors may be undercompensated for credit risk, with historical examples showing severe downside when defaults occur.

A 100 Baggers Club Intelligence Briefing

Continuous monitoring of market structure anomalies is essential for superior capital allocation.

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