

A Comparative Analysis of Bond Fund Yields

The **30-Day SEC Yield** was developed by the U.S. Securities and Exchange Commission (SEC) as a standardized method for comparing bond funds. It is a common calculation provided by bond funds but there are other yield calculations available that can assist investors.

This perspective looks at:

- **Yield calculations** typically used for bond funds.
- **Assumptions** used in their methodology.
- **Issues to consider** when using yield calculations to make decisions among bonds funds.

Bond Yields

This Yield-to-Maturity (YTM) and Yield-to-Worst (YTW) treat bonds similarly in their calculation methodologies and can result in fair comparisons, particularly when using yield to estimate future returns. The 30-Day SEC Yield; however, may be a less reliable method for comparison when funds do not all hold the same allocation to securitized bonds. This is largely the case after periods where interest rates have moved, and bond prices have moved lower from their original cost.

Table 1

Yield Type	Definition	Assumptions in the Calculation Methodology	Issues to Consider
YTM	<p>YTM calculates the average yield or return that an investor can expect from an issue each year if they (1) purchase it at its market value and (2) hold it until it matures.</p> <p><i>Weighted average of the individual bonds' YTM where:</i></p> $YTM = \frac{[\text{Annual Interest} + (\text{FV} - \text{Price}) \div \text{Maturity}]}{[(\text{FV} + \text{Price}) \div 2]}$ <p><i>Annual Interest = Annual interest payout for the bonds in the portfolio</i> <i>FV = Face value of the Bond</i> <i>Price = Current market price of the bond</i> <i>Maturity = Time to maturity (i.e., number of years until maturity of the bond)</i></p>	Assumes interest rates and the current portfolio composition remain the same and that future coupon income is reinvested at the same YTM.	Does not take into consideration active management or changes to interest rates, both of which could cause the future actual return to deviate from the return indicated by YTM.
YTW	<p>YTW calculates the worst possible yield for a bond without the issuer defaulting. Investors determine this by imagining worst-case scenarios for the issue. These scenarios include all provisions included in the bond, like a call, prepayment, or sinking fund—anything that would negatively impact the bond's yield.</p> <p><i>Weighted average of the individual bonds' YTW where:</i></p> $YTW = \frac{[\text{Annual Interest} + (\text{FV} - \text{Price}) \div \text{Time to Call}]}{[(\text{Call Price} + \text{Price}) \div 2]}$	Same assumptions as YTM with the added assumption that the borrower will exercise their option if it is advantageous.	Same considerations as those listed for YTM. YTW is usually considered a more conservative and meaningful measurement than YTM because it considers a "worst case" YTM for investors.
30-day SEC Yield	<p>A standardized yield calculation that each mutual fund must perform as mandated by the SEC.</p> <p>The calculation is different for securitized investments (i.e., mortgage-backed securities (MBS), commercial MBS (CMBS), asset-backed securities (ABS)) vs. non-securitized securities (i.e., U.S. Treasuries, corporates)</p> <p><i>Where:</i></p> $2 \times (((a - b) / (c \times d) + 1) ^ 6 - 1)$ <p><i>a = interest and dividends received over the last 30-day period</i> <i>b = accrued expenses over the last 30-day period, excluding reimbursements</i> <i>c = the average number of daily shares outstanding that were entitled to receive distributions</i> <i>d = the maximum price per share on the day of the calculation, the last day of the period</i></p>	For securitized bonds, it uses the <i>purchase price</i> in the denominator. For non-securitized bonds, it uses the current <i>market price</i> in the denominator.	The 30-Day SEC Yield is not calculated for the broad bond market or any market index. Unless every fund under review has the same allocation to securitized bonds, the use of one calculation formula for securitized bonds and another for non-securitized bonds can complicate comparisons. This is particularly evident after periods where current bond prices have moved farther away from their original purchase prices (i.e., after periods where interest rates have moved meaningfully higher).

Source: Investopedia

YTM and YTW treat bonds similarly in their calculation methodologies and can result in fair comparisons, particularly when using yield to estimate future returns. The 30-Day SEC Yield; however, may be a less reliable method for comparison when funds do not all hold the same allocation to securitized bonds. This is largely the case after periods where interest rates have moved, and bond prices have moved lower from their original cost. **Table 2** shows YTW and the 30-Day SEC Yield for two bonds of comparable duration and credit quality. The difference is that one bond is securitized, and the other bond is not.

Both bonds are trading at current market prices below their original cost largely because interest rates moved higher after the bonds were purchased. The YTW for the securitized bond is over 1% higher than that of the corporate bond, yet its 30-Day SEC yield is 1.34% lower. This is because the 30-Day SEC yield for the corporate bond was calculated using the lower current market price in the denominator and calculated differently for the securitized bond, using the higher purchase price in the denominator.

For bond funds holding a larger allocation to securitized bonds, it may be a good idea to rely on more than just the 30-Day SEC Yield when estimating future returns and/or comparing bond funds. **Table 3** shows YTW and the 30-day SEC Yield for the CCM Community Impact Bond (CIB) Fund and another intermediate duration investment-grade bond fund of comparable duration and credit quality with a smaller allocation to securitized bonds. Both funds' 30-Day SEC Yields are lower than their respective YTW, with the CIB Fund showing a much lower 30-Day SEC Yield primarily because of its higher allocation to securitized bonds.

There is not one yield calculation that can capture every variable impacting future bond fund returns; however, when looking at bond funds that do not carry the same allocation to securitized bonds, it is important to consider the differences found within each of the different yield calculations. We believe that YTW, with its conservative assumptions and consistent calculation methodology among bonds, is the better yield measure to use when evaluating future potential returns.

Table 2

	YTW	Denominator Used in 30-day SEC Yield Calculation	Purchase Price	Current Market Price	Est. 30-day SEC Yield
Securitized Bond	6.20%	Purchase Price	100	\$88.12	3.75%
Corporate Bond	5.14%	Current Market Price	100	\$77.06	5.09%

Based on a CCM review of SEC yield conducted in Q4 2023.

Table 3

	% allocation to securitized bonds	YTW	30-Day SEC Yield*	% difference between YTW and SEC yield
CCM CIB Fund (CRANX)**	65.5%	5.38%	3.53%	-34%
Intermediate Core Bond Fund**	11.9%	5.07%	4.59%	-9.5%
Bloomberg Intermediate U.S. Aggregate Index	33.74%	4.96%	N/A	N/A

* 30 Day Yield is a measure of performance, which therefore triggers the requirements to show standardized performance for both funds and the index. Returns for periods greater than one year are annualized. Performance quoted is past performance. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted. An investor's investment return and principal value will fluctuate, so that your shares when redeemed may be worth more or less than your initial cost. For most recent month end performance, call 888-272-0007.

** Data as of 06/30/24. The 30-Day SEC Yield net of expenses is 0.44% for the CCM CIB Fund and 0.30% for the Intermediate Core Bond Fund.

Table 4: Annualized rates of return % - ending June 30, 2024**

	1 Year	3 Year	5 Year	10 Year
CCM CIB Fund (CRANX)	3.19	-2.12	-0.20	1.13
Intermediate Core Bond Fund	4.38	-1.05	0.98	1.79
Bloomberg Intermediate U.S. Aggregate Index	3.55	-1.77	0.22	1.33

**Returns for periods greater than one year are annualized. Performance quoted is past performance. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted. An investor's investment return and principal value will fluctuate, so that your shares when redeemed may be worth more or less than your initial cost. For most recent month end performance, call 888-272-0007.

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