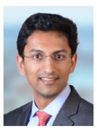
HARTFORDFUNDS
Our benchmark is the investor.®

How to Build a Better Fixed-Income Allocation

Insight from sub-adviser Wellington Management



Anand Dharan, CFA
Fixed-Income Investment Director

Amar Reganti
Fixed-Income Investment Director

Additional contributors

Nicholas Leichtman, CFA
Investment Specialist

Adam Norman
Investment Communications Manager

Key Points

- We believe many investors can benefit from creating a fixed-income allocation composed of a small number of targeted building blocks.
- Ideally, each of these building blocks should be focused on a specific fixed-income objective, such as liquidity/capital preservation, diversification, and return and income generation.
- In our view, constructing a fixed-income allocation in this manner can improve the allocation's risk/return profile and give investors greater control over its precise mix of characteristics.
- Active management can seek to further improve fixed-income returns and/or preserve capital through dynamic asset allocation and security selection.

MANY INVESTORS USE THEIR FIXED-INCOME ALLOCATION TO PURSUE A WIDE RANGE OF INVESTMENT OBJECTIVES SIMULTANEOUSLY, INCLUDING LIQUIDITY, DIVERSIFICATION, CAPITAL PRESERVATION, INCOME, AND TOTAL RETURN. However, in the interest of simpler portfolio construction, some investors may be relying upon a single, all-purpose fixed-income solution that's expected to play too many roles and may also carry hidden risks—for example, having a higher correlation to equities than intended from a fixed-income allocation.

Here we explore how investors can seek to make their fixed-income allocations more effective, while still keeping it simple. In our view, the key lies in: 1) clearly defining one's fixed-income investment objectives; and 2) using a small number of building blocks to implement the allocation (rather than employing a traditional "all-in-one" product).

Diversified "Building Blocks"

Many investors utilize a single, all-purpose fixed-income strategy that is meant to provide capital stability and equity diversification, along with income and total return over a full market cycle. While there is value in the simplicity of a single strategy, some bond approaches used to fill this role may exhibit too high a correlation[1] to equities when an investor's portfolio most needs equity diversification, while also not generating as much income or return as a dedicated higher-yielding allocation.

Furthermore, in contrast to the decade of recovery following the global financial crisis, we expect that fixed-income investors going forward may have to navigate a more challenging return environment, as we're now facing historically tight credit spreads[2] and persistently low yields. Against this backdrop, we believe it will be more difficult to achieve a fixed-income allocation's varied objectives using a single, all-purpose strategy that might have performed well in the past simply by taking advantage of falling interest rates and tightening spreads.

> Everything should be made as simple as possible, but no simpler.
>
> —Albert Einstein

[1] Correlation is a statistical measure of how two investments move in relation to each other. A correlation of 1.0 indicates the investments have historically moved in the same direction; a correlation of -1.0 means the investments have historically moved in opposite directions; and a correlation of 0 indicates no historical relationship in the movement of the investments.

[2] Spreads are the difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors.

Faced with these challenges, a potentially more attractive alternative that still maintains simplicity is to divide a fixed-income allocation into a small number of dedicated, diversified building blocks that are designed to "do what they do really well"—in other words, whose roles are highly specialized and clearly defined along specific dimensions (**FIGURE 1**):

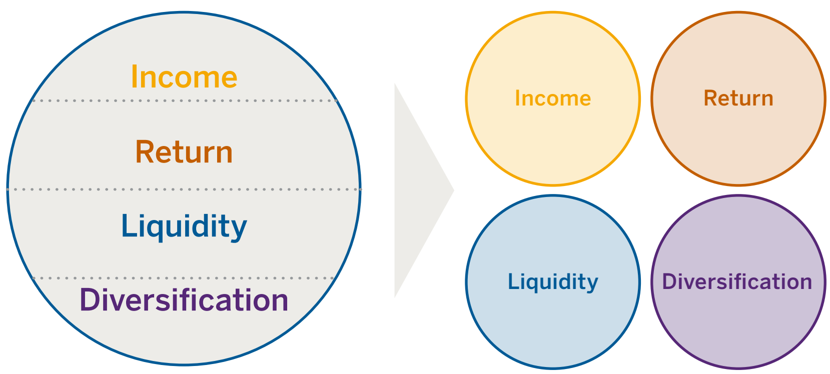
- **Income and Total Returns:** These fixed-income strategies seek competitive income and total returns across higher-yielding credit sectors, but still aim to offer significant downside mitigation during market downturns, when many sectors may experience losses.
- **Liquidity and Capital Preservation:** These high-quality approaches typically provide steady returns and favorable liquidity over a market cycle, including during downturns. Longer-duration[3] assets can be valuable tools given their potential for price appreciation as interest rates decline.
- **Diversification:** Income-, return-, and liquidity-oriented strategies can add portfolio diversification relative to equities. We also believe absolute-return fixed income can deliver powerful benefits, including attractive risk-adjusted returns[4] with low correlation to other risk assets.

Absolute-return fixed income can deliver powerful benefits, including attractive risk-adjusted returns with low correlation to other risk assets.

FIGURE 1

Two Ways of Constructing a Fixed-Income Allocation

Out With the Old... **...and In With the New**



Traditional bond portfolios met multiple objectives

Bond portfolios should be structured differently to achieve these objectives going forward

Source: Wellington Management

We believe this specialized "division of labor" can provide fixed-income investors: 1) greater control over and ability to tailor each element's contribution to the overall allocation's risk/return profile; and 2) visibility into whether all components of the allocation are effectively playing their intended roles.

[3] Duration is a measure of price sensitivity to interest rate changes.

[4] Risk-adjusted returns are a measure how much risk is involved in producing an investment's return.

An Improved Risk/Return Profile

To demonstrate how one static implementation of this concept would have performed over time, we allocated:

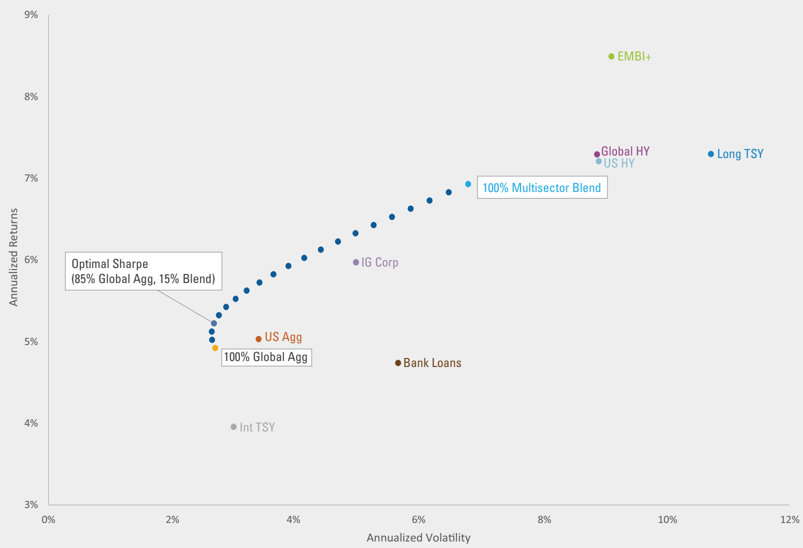
a) 85% allocation to the Bloomberg Barclays Global Aggregate Bond Index; and

b) 15% allocation to a "Hypothetical Multisector Blend" portfolio consisting of an equally-weighted blend of global high-yield bonds, bank loans, and emerging-market sovereign debt.

From January 2000 through December 2019, this portfolio, consisting of dedicated capital-preservation and return-seeking allocations, would have produced a better risk/return trade-off relative to a range of government bond, investment-grade corporate, and high-yield indices (**FIGURE 2**)—and with correlations of only 0.12 and 0.17 to US and global equities, respectively.[5] Additionally, over the five years ended December 31, 2019, this simple, static blend of indices would have achieved risk-adjusted returns within the top quintile of the Morningstar Intermediate Core-Plus Bond category.[6]

FIGURE 2

Historical Performance for Blends of Capital-Preservation and Return-Seeking Allocations



- Bank Loans = Credit Suisse Leveraged Loan Index
- EMBI+ (Emerging Markets Bond Index Plus) = J.P. Morgan Emerging Markets Bond Index Plus
- Global Agg (Global Aggregate) = Bloomberg Barclays Global Aggregate Bond Index
- Global HY (Global High Yield) = ICE BofAML Global HY Constrained Hedged to USD Index
- IG Corp (Investment-Grade Corporate) = Bloomberg Barclays US Credit Bond Index
- INT TSY (Intermediate-Term Treasury) = Bloomberg Barclays Intermediate Treasury Index
- Long TSY (Long-Term Treasury) = Bloomberg Barclays US Long Treasury Index
- US Agg (US Aggregate) = Bloomberg Barclays US Aggregate Bond Index
- US HY (US High Yield) = Bloomberg Barclays High Yield 2% Issuer Capped Index

Source: Wellington Management. | As of December 31, 2019. | The hypothetical multisector blend is for illustrative purposes only and is not representative of an actual account managed by Wellington. Hypothetical results are developed with the benefit of hindsight, and, therefore, have many inherent limitations. Multisector blend performance is based on an 85% allocation to the Bloomberg Barclays Global Aggregate Bond Index and 15% allocated to an equally-weighted blend of global high yield (ICE BAML Global High Yield Index Hedged to USD), bank loans (Credit Suisse Leveraged Loan Index), and emerging-market debt (JPMorgan EMBI Plus Index). Indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into an index. Hypothetical multisector blend returns were calculated using a weighted average of monthly returns. Annualized volatility (measured by standard deviation) was calculated using monthly returns from January 2000 through December 2019. **Past performance does not guarantee future results.** Please see index definitions on page 8.

[5] Data Source: Morningstar, 1/20. US and global equities are represented here by the S&P 500 Index and the MSCI World Index, respectively. A correlation of 1.0 indicates the investments have historically moved in the same direction; a correlation of -1.0 means the investments have historically moved in opposite directions; and a correlation of 0 indicates no historical relationship in the movement of the investments.

[6] Data Sources: Morningstar and Wellington Management, 1/20.

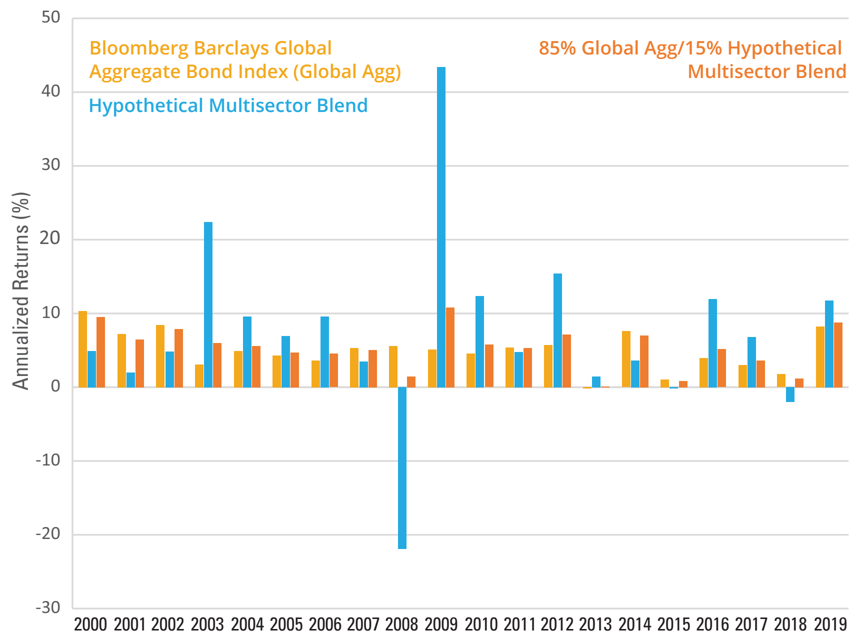
As shown in **FIGURE 3**, several key factors would have contributed to the relative stability of this hypothetical portfolio's return profile over time:

- The portfolio's duration and "up-in-quality" features would have dampened volatility and helped to avoid extreme drawdowns during the 2008 – 2009 and 2001 recessions.
- Diversification within the higher-yielding allocation would have helped mitigate the effects of downturns that negatively impacted certain credit sectors in 2011, 2015, and 2018.
- Meanwhile, income from the higher-yielding allocation would have helped to stabilize total returns, even during rising-rate or "risk-off" environments.

FIGURE 3

Calendar-Year Returns Illustrate Consistency of Hypothetical Blended Portfolio

Returns (% annualized)



Source: Wellington Management. As of December 31, 2019. Performance is based on an 85% allocation to the Bloomberg Barclays Global Aggregate Bond Index (Global Agg) and a 15% allocation to the Hypothetical Multisector Blend, which is an equally-weighted blend of global high yield (ICE BAML Global High Yield Index Hedged to USD), bank loans (Credit Suisse Leveraged Loan Index), and emerging-market debt (JPMorgan EMBI Plus Index). The Hypothetical Multisector Blend is for illustrative purposes only and is not representative of an actual account managed by Wellington or any Hartford Fund. Hypothetical results are developed with the benefit of hindsight and thus have many inherent limitations. Indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into an index. Hypothetical multisector blend returns were calculated using a weighted average of monthly returns. **Past performance does not guarantee future results.**

The basic idea of combining focused, diversified building blocks with distinct return-seeking and capital-preservation traits can be applied to pursue a variety of risk/ return profiles.

About the authors

Anand Dharan and Amar Reganti work closely with the investment teams to help ensure the integrity of Wellington Management's investment approaches by overseeing and communicating portfolio strategy, positioning, performance, and risk exposures.

No "One Size Fits All"

The above example is only one of numerous possible ways to implement a fixed-income allocation that offers a compelling risk/return profile, along with greater investor control over the allocation's different characteristics and its ability to complement a broader investment portfolio. Indeed, the basic idea of combining focused, diversified building blocks with distinct return-seeking and capital-preservation traits can be applied to pursue a variety of risk/return profiles, depending on each investor's individual needs and objectives.

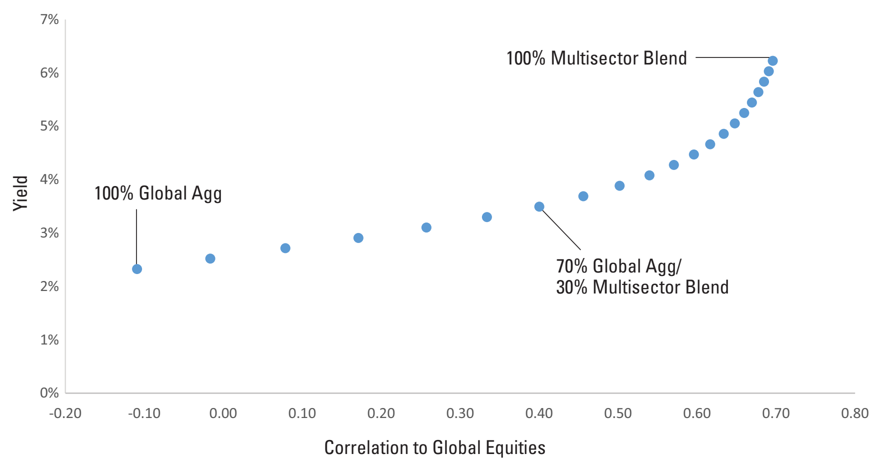
Along these lines, investors may want to consider the potential benefits of framing a simple trade-off between return/income potential and equity diversification when deciding how to combine return-seeking and higher-quality fixed-income components. **FIGURE 4** highlights this all-important balance of yield (as a proxy for returns and income) and diversification (as measured by historical correlation to equities) for different combinations of the Bloomberg Barclays Global Aggregate Bond Index and the Hypothetical Multisector Blend.

We believe each element of the allocation can be further enhanced through active management of both fixed-income sector rotation and individual security selection within sectors.

FIGURE 4

Trade-off Between Yield and US Equity Diversification

Various combinations of the Bloomberg Barclays Global Aggregate Bond Index with the Multisector Blend Portfolio



Source: Wellington Management | The hypothetical multisector blend is for illustrative purposes only and is not representative of an actual account managed by Wellington. Hypothetical results are developed with the benefit of hindsight and thus have many inherent limitations. Performance is based on the Bloomberg Barclays Global Aggregate Bond Index and an equally-weighted blend of global high yield (ICE BofAML Global HY Constrained Hedged to USD Index), bank loans (Credit Suisse Leveraged Loan Index), and emerging-market debt (J.P. Morgan Emerging Markets Bond Index Plus). US equities are represented by the S&P 500 Index. Indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into an index. Hypothetical multisector blend returns were calculated using a weighted average of monthly returns. Yield shown is Yield to Worst, which is the minimum yield that can be received on a bond assuming the issuer doesn't default on any of its payments. Correlation to US equities covers the period January 2000 – December 2019. A correlation of 1.0 indicates the investments have historically moved in the same direction; a correlation of -1.0 means the investments have historically moved in opposite directions; and a correlation of 0 indicates no historical relationship in the movement of the investments. **Past performance does not guarantee future results.**

Of course, some investors may wish to leverage a greater array of building blocks in their quest for the optimal fixed-income allocation. A financial advisor can help you choose strategies that can diversify your fixed-income portfolio that may complement both the higher-quality and return-seeking components. Doing so may increase your portfolio's resilience in a variety of market environments and may allow for a larger return-seeking component, while still keeping the correlation to equities relatively low.

Harness the Active Advantage

We have deliberately used indices throughout this piece to demonstrate the value in simplicity and in crystal-clear articulation of investment objectives for a fixed-income allocation. However, we believe each element of the allocation can be further enhanced through active management of both fixed-income sector rotation and individual security selection within sectors. The net result of taking such steps may be to meaningfully improve the risk/return profile of the fixed-income allocation as a whole.

Moreover, there may be significant value in implementing the components of the allocation via actively managed multisector solutions that give the portfolio manager flexibility to nimbly position around a broader range of market inefficiencies and disruptions as they arise. Examples may include:

- **High-quality fixed-income strategies** that seek to address some of the shortcomings of standardized market indices (e.g., the Bloomberg Barclays Global Aggregate Bond Index), such as their cap-weighted design, underrepresentation of securitized credit, and absence of inflation-linked securities.
- **Multi-asset/multisector credit strategies** that pursue total returns and income credit beta efficiently by seeking to identify and capitalize on opportunities in higher-yielding credit markets.
- **Absolute-return fixed-income strategies** seek to deliver fixed-income returns regardless of market conditions. Because they are truly "market-neutral," they may further diversify the overall allocation by focusing on rates and currencies rather than credit.
- **Opportunistic fixed-income strategies** seek to maximize total returns in a world of diminishing bond yields. They pursue uncorrelated returns by implementing larger positions around dislocations that may occur across the fixed-income universe.

Key Takeaways

We believe there are a few foundational principles that should be applied to the design and implementation of any investor's fixed-income allocation:

- Keep it as simple as possible.
- Combine a small number of targeted, diversified portfolio building blocks, which can be highly beneficial without overcomplicating the construction of the allocation.
- Determine (and enforce) the role that each component of the allocation needs to fulfill; this can help maximize clarity and, ultimately, investment outcomes.
- Consider higher-yielding and absolute-return approaches, which tend to be underappreciated by investors and may help boost the allocation's risk/return profile.

Hartford Funds Fixed-Income Strategies

Funds	A	F	I	R6/SDR	Y	ETF
Hartford Core Bond						HCRB
Hartford Emerging Markets Local Debt	HLDAX	HLDFX	HLDIX		HLDYX	
Hartford Schroders Emerging Markets Multi-Sector Bond	SMSVX	HFZFX	SMSNX	SMSRX	HFZYX	
Hartford Floating Rate	HFLAX	HFLFX	HFLIX		HFLYX	
Hartford Floating Rate High Income	HFHAX	HFHFX	HFHIX		HFHYX	
Hartford High Yield	HAHAX	HAHFX	HAHIX		HAHYX	
Hartford Inflation Plus	HIPAX	HIPFX	HIPIX		HIPYX	
Hartford Municipal Income	HMKAX	HMKFX	HMKIX			
Hartford Municipal Opportunities	HHMAX	HHMFX	HHMIX		HHMYX	HMOP
Hartford Municipal Short Duration	HMJAX	HMJFX	HMJIX			
Hartford Quality Bond	HQBAX	HQBFX	HQBIX		HQBYX	
Hartford Schroders Securitized Income	HITAX	HITFX	HITIX	HITSX	HITYX	
Hartford Short Duration	HSDAX	HSDFX	HSDIX	HSDVX	HSDYX	HSRT
Hartford Strategic Income	HSNAX	HSNFX	HSNIX	HSNVX	HSNYX	
Hartford Schroders Tax-Aware Bond	STWVX	HFKFX	STWTX	HFKVX	HFKYX	HTAB
Hartford Total Return Bond*	ITBAX	ITBFX	ITBIX	ITBVX	HABYX	HTRB
Hartford World Bond	HWDAX	HWDFX	HWDIX	HWDVX	HWDYX	

* Effective as of the close of business on 3/29/19, Class I of the Fund closed to new investors, except as disclosed in the prospectus.

Talk to your financial advisor today about how to build a better fixed-income allocation.

Index Definitions

Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed-rate debt markets.

Bloomberg Barclays High Yield 2% Issuer Capped Index measures the performance of high-yield corporate bonds with a maximum allocation of 2% to any one issuer.

Bloomberg Barclays Intermediate Treasury Index measures the performance of US Dollar denominated US Treasuries, government-related and investment grade US corporate securities that have a remaining maturity of greater than one year and less than 10 years.

Bloomberg Barclays US Aggregate Bond Index is composed of securities from the Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index, Asset-Backed Securities Index, and Commercial Mortgage-Backed Securities Index.

Bloomberg Barclays US Credit Bond Index measures the performance of investment-grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

Bloomberg Barclays US Long Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

Credit Suisse Leveraged Loan Index is designed to mirror the investible universe of the United States dollar-denominated leveraged loan market.

ICE BofAML Global HY Constrained Hedged to USD Index tracks the performance of below-investment grade corporate debt denominated in US dollars, Canadian dollars, pounds, and euros that are publicly issued in the major US and Eurobond markets. The weighting of index constituents is limited to a maximum 2%.

J.P. Morgan Emerging Markets Bond Index Plus is a market capitalization-weighted index based on bonds in emerging markets.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. • Investments in high-yield ("junk") bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. • Municipal securities may be adversely impacted by state/local, political, economic, or market conditions. Investors may be subject to the federal Alternative Minimum Tax as well as state and local income taxes. Capital gains, if any, are taxable. • Loans can be difficult to value and less liquid than other types of debt instrument; they are also subject to nonpayment, collateral, bankruptcy, default, extension, prepayment and insolvency risks. • The value of inflation-protected securities (IPS) generally fluctuates with changes in real interest rates, and the market for IPS may be less developed or liquid, and more volatile, than other securities markets. Diversification does not ensure a profit or protect against a loss in a declining market. • Foreign investments may be more volatile and less liquid than U.S. investments and are subject to the risk of currency fluctuations and adverse political and economic developments. These risks may be greater for investments in emerging markets.

The Hartford Floating Rate Fund and Hartford Floating Rate High Income Fund should not be considered alternatives to CDs or money market funds. These funds are intended for investors who are looking to complement their traditional fixed-income investments.

Investors should carefully consider a fund's investment objectives, risks, charges and expenses. This and other important information is contained in a fund's full prospectus and summary prospectus, which can be obtained by visiting hartfordfunds.com. Please read it carefully before investing.

The views expressed herein are those of Wellington Management, are for informational purposes only, and are subject to change based on prevailing market, economic, and other conditions. The views expressed may not reflect the opinions of Hartford Funds or any other sub-adviser to our funds. They should not be construed as research or investment advice nor should they be considered an offer or solicitation to buy or sell any security. This information is current at the time of writing.

Mutual funds are distributed by Hartford Funds Distributors, LLC (HFD), Member FINRA. Exchange-traded products are distributed by ALPS Distributors, Inc. (ALPS). Advisory services may be provided by Hartford Funds Management Company, LLC (HFMC) or its wholly owned subsidiary, Lattice Strategies, LLC (Lattice). Hartford Funds refers to HFD, HFMC, and Lattice, which are not affiliated with ALPS.

WP505_0420 217205 HFA000754