

GATEKEEPER VIEWS | MAR 25, 2024

\$10bn shop's top gatekeeper gets 'interesting' with fixed income

Kent Demien, director of investment research at Johnson Financial Group, is searching in the less fixed part of the fixed income universe.

BY WILLIAM JOHNSON



Kent Demien has had two very different careers with one unifying theme: evaluating risk.

Long before he became director of investment research at Johnson Financial Group, Demien spent nearly two decades in the actuarial department of Northwestern Mutual. But, after more than a decade doing actuarial work, he was looking for a change, and the refreshing unpredictability of finance caught his eye.

'I went back to school and started taking classes and realized this investment stuff is pretty interesting,' Demien told Citywire. 'Markets are kind of in flux. It's very different from the much more deterministic, actuarial background where you kind of know with a probability distribution what's going to happen in the future.'

Still, as he moved up the ranks in manager and fund research, he noticed facets of his old job that came in handy, especially in fixed income, his specific area of focus.

'In fixed income you're typically trying to find investments that are going to survive,' Demien explained.

'Where you get killed is [when] your bond defaults and you're not paid out at par, but some discount to par,' he continued. 'That's messing up in fixed income. And that actually is not all that different from actuarial work.'

And while fixed income is often seen as a safer market than equities, Demien specializes in less predictable segments that require keen risk analysis.

'I cover what I consider to be interesting fixed income,' he said.

For Demien this means the bulk of his searches are for managers in the emerging market, high yield and core-plus debt spaces. Core-plus multi sector, he said, is a specific focus right now.

With high interest rates keeping spreads tight, Demien's fixed income research has skewed more conservative lately, as lower risk debt continues to pay substantial interest. Yet, he continues to search for more aggressive strategies so he can be ready for a shift in the market.

'I always want to make sure we kind of have the best breed on the shelf, so when we need to get going, when spreads blow out, we have a spot to go,' he said.

Those spots will include managers with long track records of steady performance, not a few flashy years, Demien insisted.

'You don't have to knock the cover off the ball all the time. I don't need that. But, for me to have a lot of confidence in your process you really need to be very consistently driving alpha,' he said.

Demien is less interested in hyper aggressive core-plus managers who have over the top allocations to high yield debt. In a good market, this drives big returns. But, the downside gets

steeper, too.

As director, Demien also does some research on the equities side, although he leaves the bulk of that work to equities specialists on his eight-person manager research team. Together they manage roughly \$10bn in AUM across roughly 200 strategies.

As for what sets his team and firm apart, Demien brought up the ever-important R-word, 'risk,' once again.

'Johnson Financial Group is a little bit different from a lot of RIAs in the way we think about investments. I think that we are a little bit more risk controlled, perhaps, than most,' he said.

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