June 2024 – ARAM AGG Plus Alpha - Returns and Newsletter

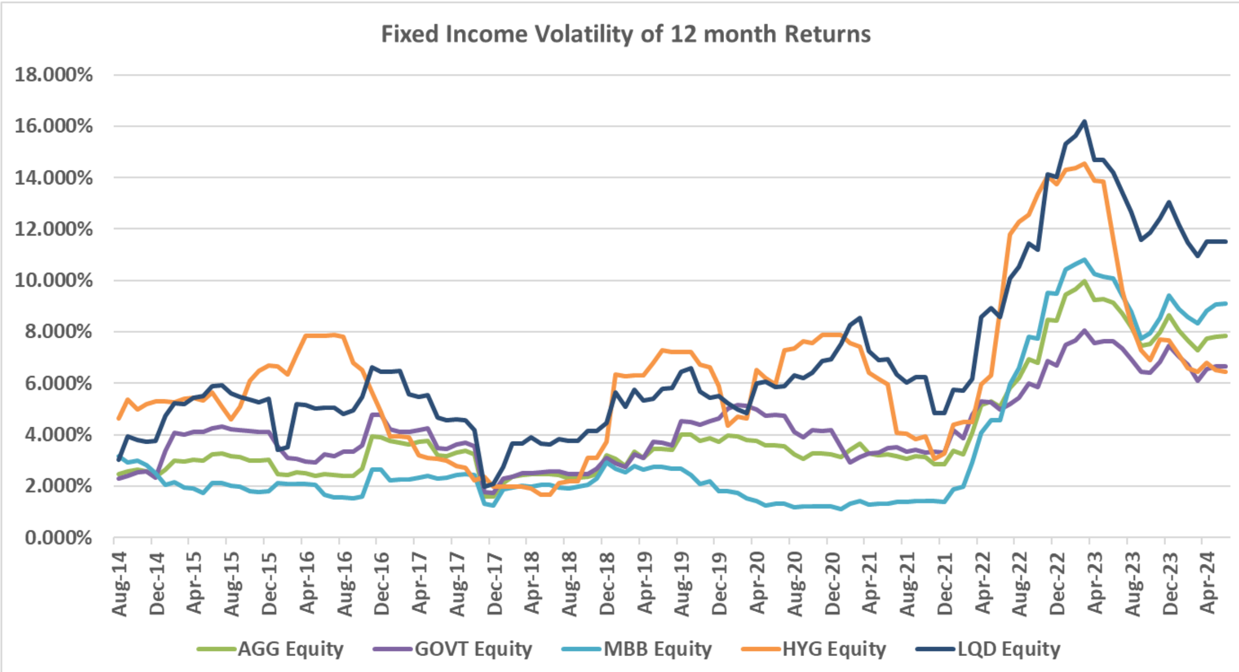
<u>AGG Plus Alpha – Systematic Active Fixed Income ETF Model Portfolios</u>

	June24 % Net Return	2024 YTD Net %	1 year Net %	3 year Net %	5 Year Net %	Cum Net % since 1/2016	12mo Beta to AGG	12mo Correl to AGG	12mo Ret/St Dev
Baseline: (ModelPort20)	**-0.27%**	**+4.3%**	**+11.1%**	**+5.6%**	**+19.4%**	**+39.4%**	**0.23**	**64%**	**4.0**
Aggressive: (ModelPort55)	**+0.17%**	**+4.4%**	**+10.8%**	**+1.5%**	**+20.0%**	**+55.9%**	**0.29**	**75%**	**3.4**
CoreAGG: (ModelPort91)	**-1.01%**	**+2.9%**	**+8.8%**	**+0.1%**	**+10.1%**	**+25.6%**	**0.21**	**50%**	**3.0**
Diversified: (ModelPort1)	**-0.11%**	**+2.8%**	**+7.9%**	**+2.1%**	**+21.7%**	**+41.7%**	**0.33**	**79%**	**2.3**
Large-Diversified (ModelPort3)	**+0.30%**	**+2.4%**	**+7.0%**	**+0.3%**	**+15.2%**	**+32.9%**	**0.41**	**88%**	**1.7**
AGG ETF	**+0.9%**	**-0.7%**	**2.6%**	**-8.9%**	**-1.3%**	**10.9%**	**1.0**	**100%**	**0.2**
U.S. Treasury	1.0%	-0.9%	1.5%	-9.5%	-3.2%	6.1%			
Govt-Related	0.8%	-0.1%	3.3%	-6.1%	1.0%	15.0%			
Corporate	0.6%	-0.5%	4.6%	-8.8%	3.1%	24.7%			
Securitized	1.1%	-0.8%	2.4%	-8.2%	-3.1%	6.5%			
MBS	1.2%	-1.0%	2.1%	-8.5%	-3.7%	5.5%			

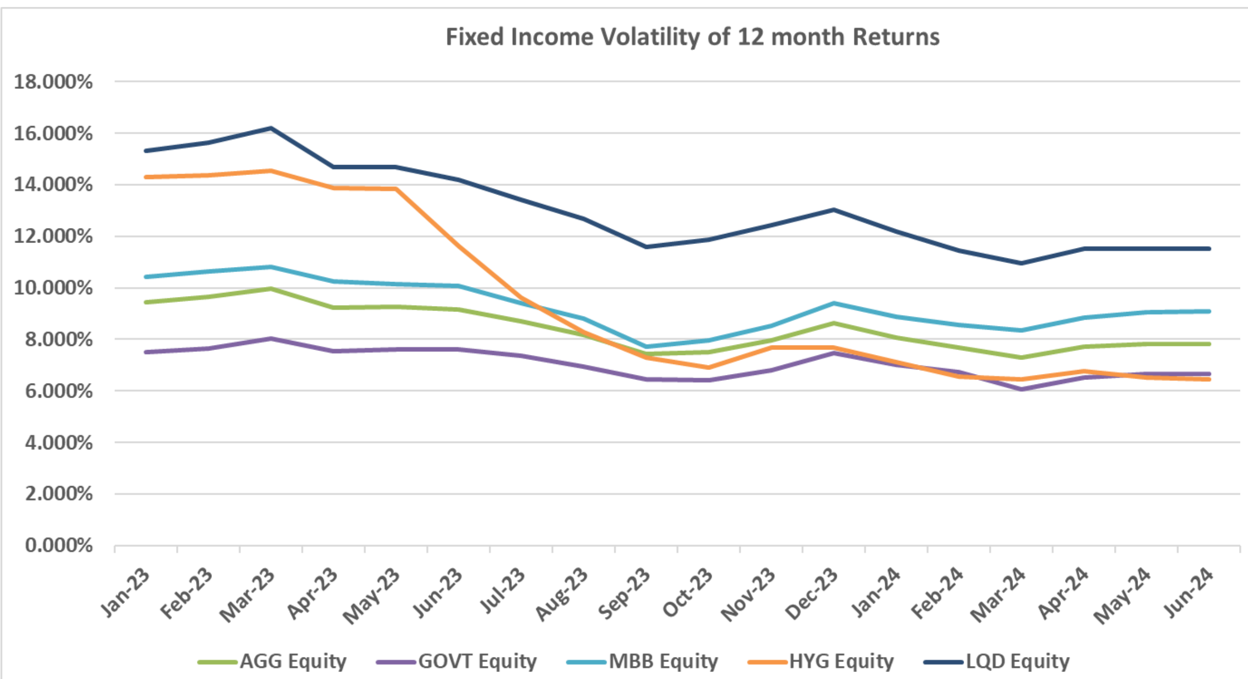
Bonds had a volatile June, but ended up with positive returns for the month, with duration differences and spread changes for different sectors resulting in a range of returns. Our Systematic Active Model Portfolios were mixed, with some down for the month, as they largely hold short duration credit exposure through hedged bond ETFs, either High Yield or IG.

YTD, and over longer periods, our Active Models exhibit significantly higher returns, with lower risk (see the new column on the right of the table).

The following graph shows the Standard Deviation of 12 month Total Returns for different fixed income sectors, represented by their ETFs. After being range bound, volatility of returns increased in 2022 and peaked in 2023.



Volatility appears to have stabilized in 2024, but at higher levels than pre-2022. High Yield is the exception, with a significant decline in volatility since 2023.



While many in the market think that rates have peaked, the trend in rates is still upward sloping. These are systematically reflected in the fund selections of our systematic algorithms.

Since they also align with my macro-fundamental views about UST supply and lack of demand, I've seen no reason to override the funds chosen by our systems.

Our latest rebalancing is not significantly different that the prior rebalancing in March, reflecting the still high volatility in 2024 across all fixed income sectors.

All the Fixed Income Benchmarks are still down for the year, unlike our Model Portfolios.

10yr UST Yield

Note: Our Fact Sheets incorporate the LQA (Liquidity Analysis) of our model portfolios – this was described in the [April 2024 newsletter].

To recap: we target the risk of the AGG, systematically build portfolios of Fixed Income ETFs, and rebalance the portfolios of ETFs periodically to reflect changes in market risk, making this an Active Strategy. We believe this is the only true Active Fixed Income strategy offered in the market – our research is available in our paper '[Are "Active" Fixed Income Funds Active?]'.

The model returns shown are all out of sample, after systematic rebalancing creates the following period's portfolio. Monthly total returns for funds used by our models and systems use Bloomberg's calculators to combine price changes and income returns. These are compounded to compute the Model Portfolio returns.

The performance has been tracked since 2016, with the Risk Targeting algorithms continuously improved, and **the Alpha has been persistent.**

<u>The long-term Alpha is significant.</u> This strategy was conceived in 2016 as a result of our research into Behavioral Biases in Fixed Income and Flaws in the Market Structure.

Our systematic solution takes advantage of these biases and flaws to realize the potential returns available in Fixed Income, and to capture the attendant benefits to portfolio construction and asset allocation (low correlations, positive skewness, higher Sharpes).

Unlike many quant strategies, we expect the Alpha in our Systematic Fixed Income Strategy to remain persistent, since the SEC has shown no interest in fixing the Fixed Income Market Structure.

Please click on the linked Fact Sheets for more statistics. Please review our previous newsletters for details on the portfolio construction and rebalancing.

We currently custody at Charles Schwab and Interactive Brokers for our systematic strategies.

We are also seeking institutions, wealth managers and TAMPs that might have interest in licensing our customizable Model Portfolios.

Please call with questions.

Regards, Samir

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