



October 2024 – MBSM High Income Strategy Returns and newsletter

	% Net Return	2024 YTD Net %	Trailing 1 year Net %	3-year Net	5-year Net	2023 YTD Net %	2022 YTD Net %
MBSM Aggregated SMAs	+5.16%	+4.5%	+8.8%	+14.3%	+26.0%	+11.5%	-3.8%
BB Barc Agg	-2.52%	+1.9%	+10.5%	-6.4%	-1.2%	+5.6%	-13.0%
BB Barc MBS	-2.74%	+1.7%	+11.3%	-5.7%	-2.4%	+5.1%	-11.7%
BB Barc HY	-0.54%	+7.4%	+16.5%	+9.2%	+24.9%	+13.5%	-11.2%

Oct 2024 MBS Income: +1.7% (~22.4% annualized) (Aggregated SMAs @ month end marks)

Oct 2024 Loss Rate: -0.03%

Oct 2024 MBS Cashflow: +1.7%. ~21% annualized (implying a short weighted average life/duration)

YTD Income: 14.75% (18% annualized)

Hello.

It's been a few months since I put out an MBSM newsletter. Our fantastic Oct 24 return is not however what it appears. Our strategy has not changed, and neither has our portfolio, as we have been skeptical of rates and have been accumulating the MBS cashflow and not reinvesting.

In April 2024, we changed custodians from Hilltop Securities to Charles Schwab. This transfer has turned out to be complicated due to the legacy Non-Agency RMBS we own for our clients, primarily due to Schwab and its pricing service not having significant experience with these types of bonds. This has resulted in significant 'paper volatility' in our performance.

This month's total return 'performance' of +5.16% (!!) is another example of the learning curve the pricing service is going through. Earlier in the year, we had a month with -12% returns, and another month with +11% returns as well, based on mark changes. This month had 8-10+% markups in our floaters (which we believe are worth significantly more in any case), and markdowns in our Fixed Rate bonds.

A more important and representative metric is our YTD Income, which is 18% annualized. This better represents our strategy than the noisy marks and monthly 'total returns' we compute.

We have discussed the problem with pricing service marks a few times in the past in earlier newsletters.

Alpha Research and Management (ARAM) Update:

We've been further improving our Systematic Active Fixed Income Strategies, and have managed to extract Alphas ranging up to 8% from Fixed Income, which we are offering as Model Portfolios. Multi Asset portfolios are also available.

We've also created Advisor Specific Model Portfolios that use Funds of a specific advisor, which we are hoping will be used in a Sub-Advisory framework as they perform better than the Active portfolios created by the Advisors.

Ask me for more information on the ARAM strategies. We think these are ideal for Wealth Managers, but should also be considered by Institutional Investors. They also solve the problem of Fixed Income Illiquidity, in addition to delivering the potential of Fixed Income.

Next week, I'll be at FILS Connect in New Haven CT, where I will be conducting a Think Tank of Fixed Income Market Liquidity. Maybe I'll see some of you there.

Our boilerplate:

MBS is a Variable Income asset class and product, and not Fixed Income, as it is widely viewed and categorized. Unlike traditional managers that understand MBS as Fixed Income and do not differentiate between Low-Income and High-Income MBS, we systematically identify and harvest High-Income MBS to construct portfolios that generate total returns with low correlations to Fixed Income as well as with other assets. High Income MBS can be an Absolute Return component of a portfolio, or a diversifier. High Income also protects capital by lowering Breakeven Prices rapidly. This is explained in detail in our white paper, [The MBS Income Factor](#).

Regards, Samir.

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