



Sep 2024 - PlusAlpha: Systematic Active Fixed Income ETF Model Portfolios

PlusAlpha Active Model Portfolios & Benchmarks	Sep 2024	YTD 2024	1-year	3-year	5-Year	ITD 1/2016	Annual Alpha - AGG	Beta- AGG	Corr - AGG	B'Berg LQA Bid/Ask
<b>ARAM Active Model Portfolios using 400+ ETFs (Net returns)</b>										
<a href="#">AGG+ Baseline</a>	0.8%	6.5%	11.1%	7.2%	30.4%	63.8%	4.5%	0.8	0.56	0.13
<a href="#">AGG+ Aggressive</a>	2.1%	7.4%	13.6%	-3.4%	57.9%	112.6%	7.6%	1.1	0.45	0.12
<a href="#">AGG+ Aggressive-Diversified</a>	1.9%	7.0%	13.1%	-5.0%	43.3%	89.7%	5.7%	1.3	0.56	0.07
<a href="#">AGG+ Inv Grade</a>	1.2%	4.5%	8.2%	5.7%	9.8%	29.5%	1.8%	0.73	0.59	0.02
<b>Active Benchmark Indices created by ARAM (using 8-9 Benchmark ETFs)</b>										
<a href="#">Active IG Benchmark</a>	1.2%	4.7%	9.8%	-4.1%	3.3%	25.6%	0.8%	1.0	0.91	0.01
<a href="#">Active Broad Benchmark</a>	1.1%	6.2%	10.9%	-1.5%	5.9%	34.9%	2.0%	0.8	0.71	0.01
<b>Passive Benchmark Indices</b>										
Agg Index	1.3%	4.4%	11.6%	-4.1%	1.7%	17.3%	0.0%	1.00	1.00	
U.S. Treasury	1.2%	3.8%	9.7%	-5.3%	-1.0%	11.2%	-0.4%	0.91	0.94	
Govt-Related	1.2%	4.6%	10.3%	-1.6%	3.1%	20.4%	0.6%	0.85	0.96	
Corporate	1.8%	5.3%	14.3%	-3.5%	5.9%	32.0%	1.0%	1.27	0.91	
Securitized	1.2%	4.6%	12.2%	-3.3%	0.7%	12.3%	-0.4%	0.93	0.95	
MBS	1.2%	4.5%	12.3%	-3.6%	0.2%	11.4%	-0.5%	0.94	0.94	
High Yield	1.6%	8.0%	15.7%	9.6%	25.9%	73.0%	5.2%	0.78	0.53	

Some news: our Active Fixed Income Model Portfolios are available on [Schwab's iRebal](#), and [Indexone.io](#). Contact me for more information on how to access them.

The model portfolio returns above speak for themselves: Lots of Alpha over all Fixed Income Benchmarks.

I am now starting on the marketing. Our Model Portfolios are ideal for independent Wealth Managers and RIAs that are not limited to the offerings from their custody platforms.

In addition

More Alpha research: We've created 2 new [Active Benchmark Indices](#) to compare against Active Fixed Income Funds. These are constructed using 9 large benchmark ETFs with over \$300BB of AUM to represent what is possible at a minimum through Active Fixed Income management in scale. Their performance is in the middle of the table above, and clicking on

the links will open up a Fact Sheet. We sent out a paper about these a few days ago, linked above.

We can supply both of these Active Indices as Model Portfolios.

We've added 1 more Active model portfolio, **the Active Broad Benchmark+**. This is a scalable portfolio that uses the same 9 ETFs as the Active AGG+ Broad index. This outperforms our Active AGG+ Broad Index by 0.9% Alpha, by using a more sophisticated proprietary algorithm, with 41.9% out-of-sample cumulative return since 2016 vs 28.2% cum return for the Active Index, and 15.7% cum return for the Agg Index.

**All our model portfolios significantly improve on the number of months with positive returns, and thus Alpha, compared to the appropriate benchmarks.**

**Our other Active Fixed Income Model Portfolios choose from over 400 Fixed Income ETFs.**

#### **AGG+ Baseline**

This is our primary recommended Active model portfolio, targeting the risk of the AGG ETF. It includes ETFs of most asset classes that are used by other 'Active' Fixed Income funds.

#### **AGG+ Aggressive**

Using the same ETFs as the Baseline, this model targets a higher level of risk than the AGG in order to increase the Beta.

#### **AGG+ Investment Grade (IG)**

This model portfolio uses ETFs from only IG sectors, matching the definition of the Agg Index. This should be compared to the Active Benchmark+ IG Index or the Agg Index.

#### **HY+ Baseline**

This model portfolio targets the risk of the HYG ETF.

#### **HY+ Aggressive**

This model targets a higher risk than HYG, and generates a commensurately higher return.

#### **Coming up:**

**Active Model Portfolios for specific investment platforms, using their own ETFs and Mutual Funds to create Active Fixed Income Model Portfolios.** Our testing suggests that our Active models significantly outperform their own Active Funds.

These will be ideal for RIAs and Wealth Managers that are limited to using products and models on their custody platforms.

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**None of our model portfolios use any leverage. The Alpha of our portfolios is generated through systematic Active Management, by using the portfolio construction process and algorithms derived from our research on market structure and behavioral biases in FI.**

**All the model back-test total returns are ‘out-of-sample’,** with implied fees, after systematic rebalancing creates the following period’s portfolio. The only risk to these return numbers come from execution risk. To handicap this, our Fact Sheets display Bloomberg’s LQA (Liquidity Analysis) statistics for the current portfolio – this was described in the [April 2024 newsletter](#).

**To recap: we target the risk of a benchmark index - the AGG, HYG, etc - and 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?’](#).**

**Quick takeaway – if a fund is truly ‘Active’, it will have volatile Beta and low correlation with its benchmark.**

**Our 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 biases and flaws** in Fixed Income management 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).

**The long-term Alpha is significant.** The Risk Targeting algorithms are continuously improved, and the Alpha has been persistent.

**Unlike many quant strategies, we expect the Alpha in our Systematic Fixed Income Strategy to remain persistent.**

**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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