October 2023 – MBS Mantra/ARAM Strategy Returns and newsletter

	% Net Return	**2023 YTD Net %**	**Trailing 1 year Net %**	2022 YTD Net %	2021 YTD Net %
MBSM Aggregated SMAs	**+3.80%**	**+7.1%**	**+10.4%**	-3.8%	+10.0%
ARAM AGG+ Alpha - ETFs	**-0.24%**	**+6.9%**	**+8.2%**	-9.24%	-0.05%
BB Barc Agg	-1.57%	-2.6%	+0.2%	-13.0%	-1.8%
BB Barc MBS	-1.97%	-4.0%	-0.6%	-11.7%	-1.0%
BB Barc HY	-1.16%	+4.6%	+6.2%	-11.2%	5.3%
S&P 500	-2.17%	+10.6%	+10.0%	-18.2%	28.7%

MBSM High Income Strategy:

Sep 2023 MBS Income: +1.45%; +18.4% annualized (Aggregated SMAs @ month end marks)
YTD 2023 MBS Income: +12.7%, 15.1% annualized (current portfolio, excluding bonds no longer in portfolio)

Sep 2023 MBS Cashflow: +1.6%. ~19% annualized (implying a short weighted average life/duration)
Sep 2023 MBS Loss rate: -0.01% (a negative loss rate is a gain from subsequent recoveries)

Hello:

You'll notice a new logo and summary line in the table above – **we are reintroducing (from 2017) our Systematic Portfolio of Fixed Income ETFs under our ARAM brand.** The Fact Sheet for the Baseline Model Portfolio is linked above. We are looking for investors to manage this strategy for, or RIAs, wealth managers and investment consultants that might want to license the Model Portfolios and execute themselves for their clients. The strategy significantly outperforms most ETFs and Fixed Income Funds, and, in our opinion, is how Fixed income should be invested in.

The next section has some commentary and details.

MBS High Income Strategy commentary

Our total returns were +3.8% for the month! I don't think it would be possible to have more uncorrelation this month, versus any asset class. All other asset classes were down.

This was not due to trading, but from an awakening by the pricing service.

The marks on many of our floaters were up between 5% and 15% for the month, with one up 90%! Someone must have educated the pricing services, and they must have adjusted the discount rates in their models. (Not us, we are not subscribers to their prices, and cannot complain about them or have them adjusted – we are mark takers!)

Over the past 2 years, we have been both describing, complaining, and pounding the table about how mispriced an MBS sector is – Alt-A floaters off fixed collateral (we even wrote a white paper – ask for it). By our estimate, the bonds in this sector were mismarked between 25% and 40% too low, if not more. This is the second cheapest sector I've ever experienced in my 35-year sales and trading career, and I have been specialized in identifying cheap sectors, and am good at it, as my former clients will attest.

Yet, the marks kept drifting down. My assumption is that the pricing services did not understand the structure and resulting duration, and were applying the incorrect discount rate in their models.

We've been recommending backing up the truck to buy this sector for the past 2 years. However, the declining marks were of concern to potential investors. In spite of the decline in prices, our returns were still better than most of Fixed Income, as these low (mismarked) prices created Income of greater than 15%, more than offsetting price declines.

The marks of the Fixed coupon bonds in our portfolio were not immune to the selloff in bond prices and were down in line with generic Fixed Income or MBB – about -2%. **The Income of the MBS portfolio was 1.45%, so the weighted average return from price was +2.35%.**

For the year to date, our Income is approximately +12.7% (~15% annualized). This has been offset by mark-price declines in our portfolios, especially for the fixed rate bonds, as rates have risen, resulting in a TRR for the year to date of about +7%.

This is still the best value trade in Finance, and certainly in bonds. It is characterized by positive convexity with negative duration, with very high income and negligible credit risk, with no leverage. The income should be significantly lower for these to be fairly priced.

There is still significant room to appreciate for this sector. Either the marks will correct, or high income will continue to be realized over time. Compounding at high income levels is very powerful for long term investors. These MBS are still 25% to 40% cheap, depending on the bond. The recommendation still stands – back up the truck.

News and Invite

Last week I guest-lectured at NYU's Courant Institute of Mathematical Sciences, at a Fixed Income class for graduate students.

I've been invited back to give a similar talk this week, Nov 9th, at 6pm, at NYU's Tandon School of Engineering to a graduate Finance and Risk Engineering class, as part of the Peter Carr BQE "Brooklyn Quant Experience" Seminar Series. The location is the Tandon School, 6 Metrotech Center, in Brooklyn, NY, 1st Floor in the Event Makerspace.

The title of the talk is: **Connecting the Dots – A Differentiated Retrospective; Economics, Money Supply and Asset Prices.** I'll be going over my version of the economic history of the US, providing a framework to understand asset prices and risk, and discussing the real reasons behind the events that are called Black Swans.

All are welcome, I believe. It is supposed to be broadcast over Zoom.

https://nyu.zoom.us/j/96767083745?pwd=WEVhc2MrdTc5N0NJYVNCUEMxQkVIZz09#success

<u>Agg Plus Alpha Systematic Portfolio of ETFs</u>

(Re) Introducing Alpha Research and Management (ARAM's) ***AGG Plus Alpha Systematic Portfolio of ETFs***. Please email me or call if you'd like to see our deck that contains more details.

This strategy is a superior way to invest in Fixed Income for all investor types, especially compared to the typical investor that treats fixed income as an insurance product instead of as a source of returns, and invests in one Fixed Income fund or manager, or an institutional allocator that might have a portfolio of managers but does not rebalance in response to market and environment changes.

In 2014, after I founded MBS Mantra, I was curious about the performance of my former clients. I discovered a complete inconsistency of risk and return between most of them, even when they purported to have the same benchmark and strategy. **I realized that Fixed Income was ripe for optimizing – a portfolio of Fixed Income funds could outperform the benchmark AGG.**

In 2017, I created the **<u>AGG Plus Alpha Fund of Fixed Income Fund strategies</u>** that systematically identify the funds and weightings for Portfolios of funds and ETFs. **I have continued to research and develop this product, incorporating Parameter Targeting to develop Model Portfolios, and using periodic rebalancing to systematically adjust the portfolios.** With the reawakening of interest in Fixed Income, it is time to reintroduce this strategy. As ETFs have grown both in number and size, it is now possible to implement this strategy and technology using ETFs.

We have developed a **<u>collection of model portfolios</u>** (>30) to satisfy the risk and liquidity constraints and requirements of potential investors of all sizes. **<u>We can customize a portfolio for any investor type.</u>**

Our **<u>Baseline Model portfolio</u>** is a moderate risk portfolio with limits on weights. As the table shows, it has been quite consistent in outperforming the AGG, as well as other Fixed Income benchmarks**<u>. For the year, it has outperformed the AGG by 9.4%!</u>**

<u>Baseline Model Portfolio Cumulative Returns and Annual Returns (since 2016 to Oct 2023):</u>

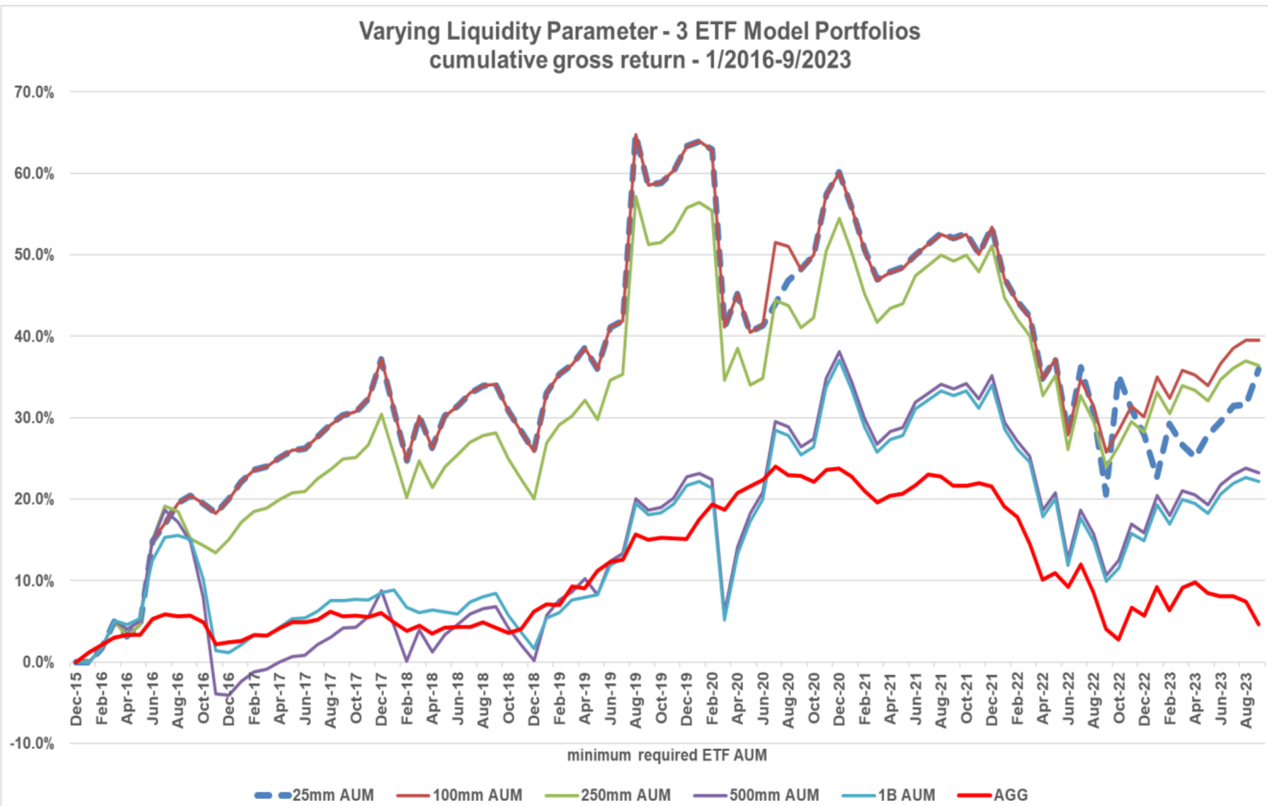
	AGG+α ETFs	AGG	Diff
2023	6.9%	-2.5%	9.4%
2022	-9.2%	-13.4%	4.2%
2021	0.0%	-1.1%	1.1%
2020	10.5%	7.3%	3.2%
2019	8.0%	7.4%	0.7%
2018	-1.2%	0.3%	-1.4%
2017	4.7%	2.2%	2.5%
2016	7.0%	0.8%	6.1%
Cumulative	27.1%	4.3%	22.8%

One of the key results is <u>more months with positive returns</u> (2016-present): 66% for the model portfolio versus 52% for the AGG, 48% for GOVT, and 55% for MBB.

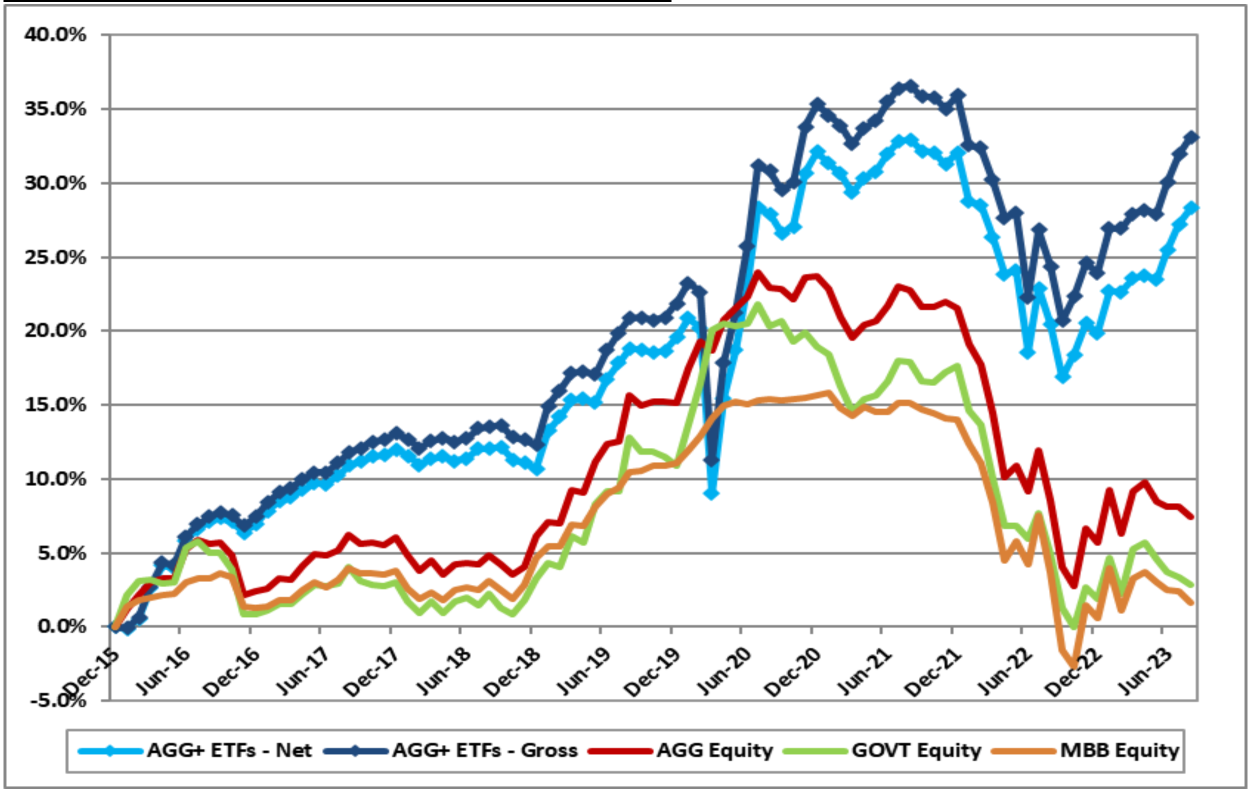
The parameters used to develop portfolios are:

- **Risk**
- **Liquidity**
- **Diversification**
- **Sector limitations.**

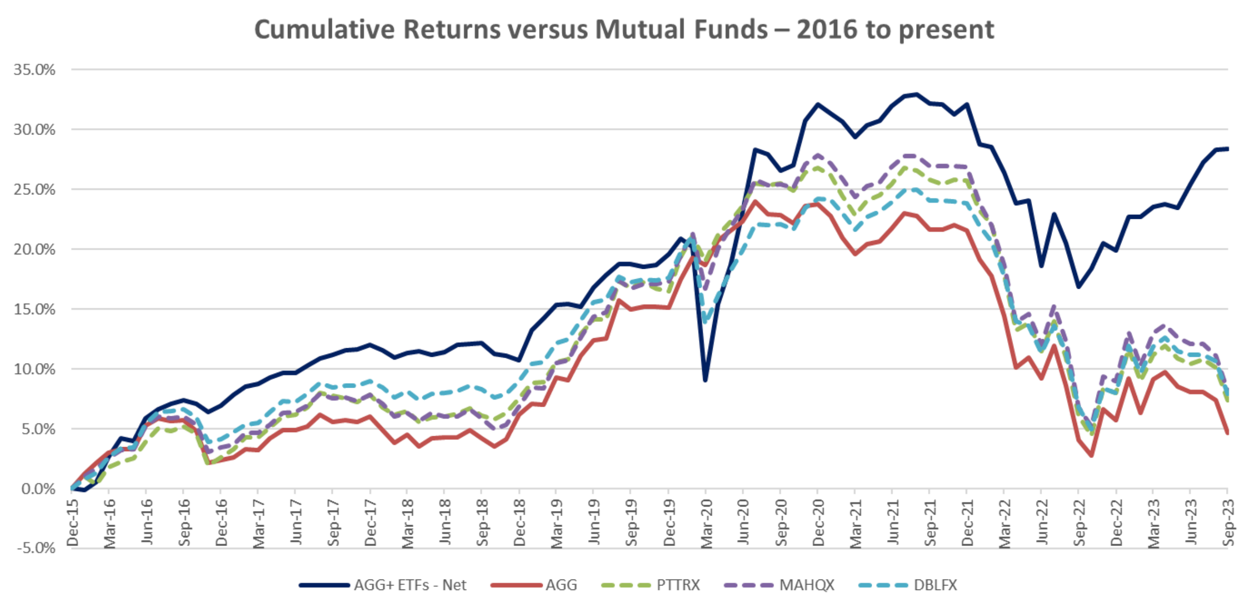
Much research was done on the **rebalancing process** to understand the amount of data it took for the system to **identify regime changes** in Fixed Income. Our **systematic rebalancing** process adjusts fund selections and weights (and by implication, sectors) dynamically, creating significant outperformance over the AGG, or any other benchmark.



Cumulative Returns Comparisons – Baseline Model Portfolio

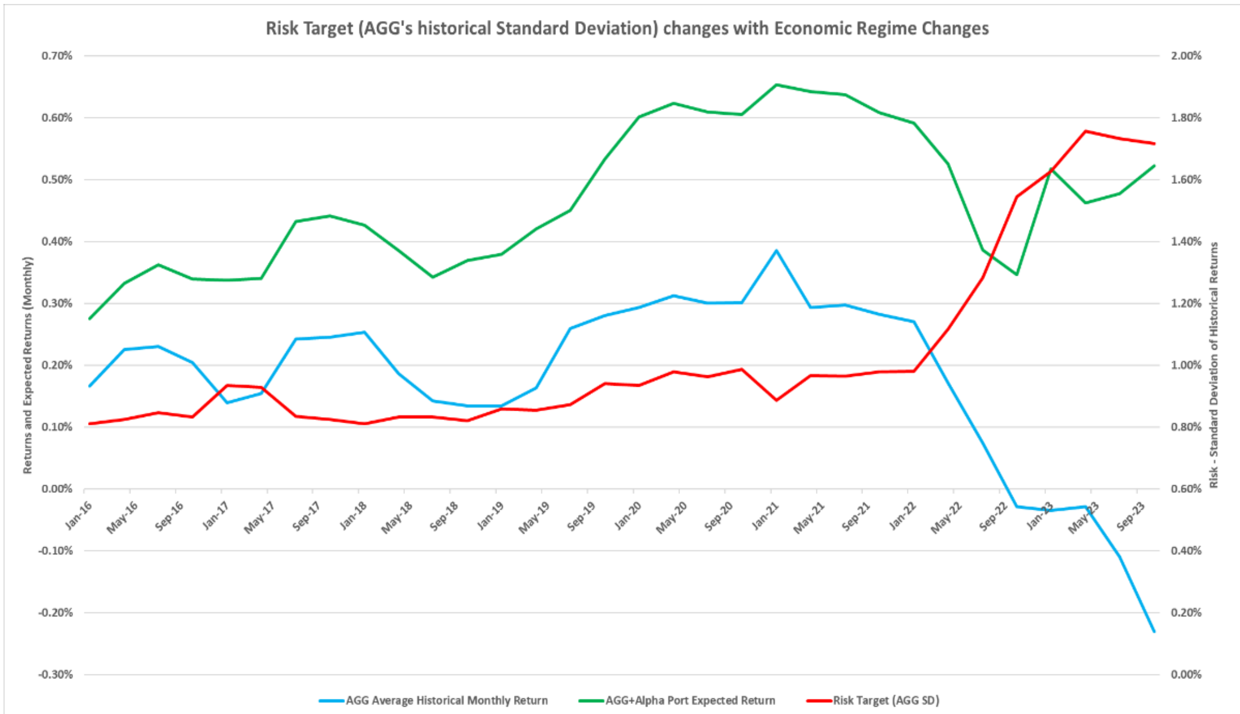


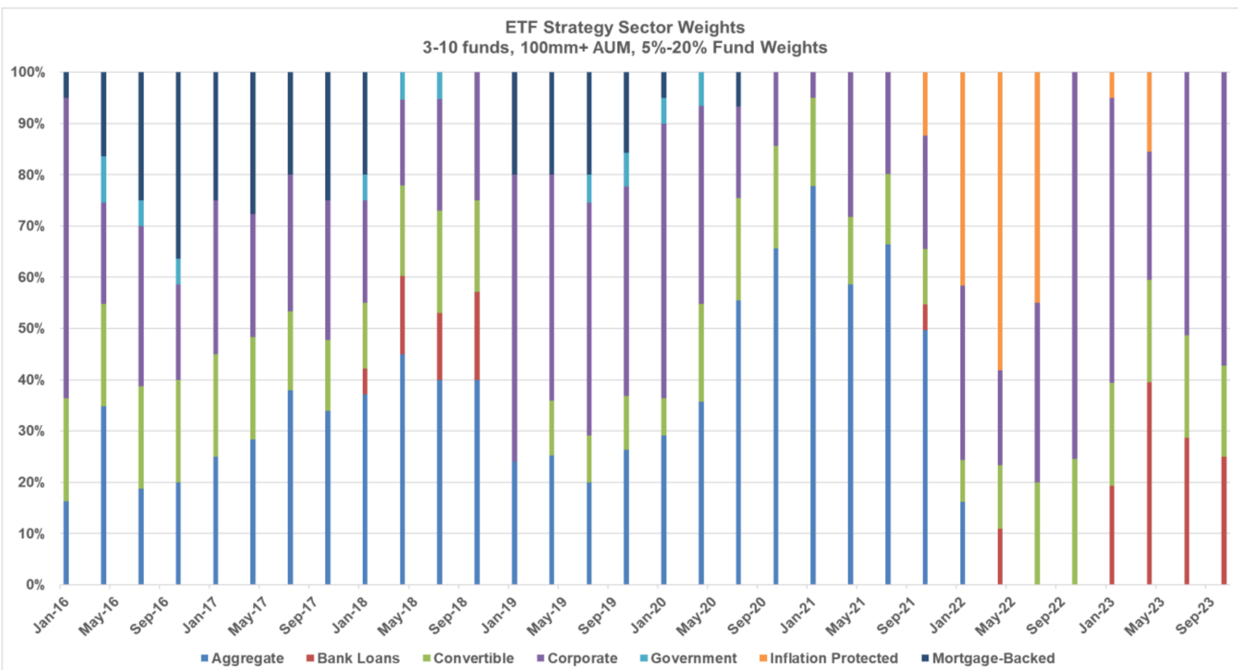
The portfolio of ETFs also outperforms various Fixed Income Mutual Funds – regime change reactions lacking?



TICKER	Fund Name	Assets ($BB)
PTTRX Equity	PIMCO TOTAL RETURN FUND-INST	53.89
MAHQX Equity	BLACKROCK TOTAL RETURN-I	17.48
DBLFX Equity	DOUBLELINE CORE FIX INC-I	6.63

Systematic Rebalancing captures Rate and Risk Regime Changes, and adjusts portfolio and sector weights:





Note: there are multiple funds in each sector in each period. Over the course of the history above, approximately 50 ETFs, out of over 400 currently tracked and analyzed, have been used, varying depending on the Model parameters.

Portfolio construction and re-balancing are only done with historical returns data (starting in 2012), rebalancing's are assumed to happen at month end using closing prices, and returns for the model portfolios from 2016 onwards are all ‘out-of-sample’ for the following period, until the portfolio is rebalanced again. Real returns might differ due to slippage during rebalancing, which only happens on a few days in the year.

Our Agg Plus Alpha Systematic portfolios that recognize regime changes systematically and rebalance the portfolio are the solution for Fixed Income investors.

Please contact me for more information. I am happy to schedule Zoom calls for interested groups, for a repeat of the Economics talk, or for details of either MBS/Fixed Income strategy.

Regards, Samir Shah

November 2, 2023

President and CIO
MBS Mantra, LLC (a CT Registered Investment Advisor)
(dba) Alpha Research and Management
Alpha Research and Consulting, LLC

"Alpha Through Analysis"®

203-388-8356 P
203-273-0360 C
sshah@mbsmantrallc.com
https://www.linkedin.com/in/samir-shah-6a9096a
Please visit our website https://www.mbsmantrallc.com for important disclosures.

Important Notice - Disclaimer

This overview is being provided to you by MBS Mantra, LLC, d/b/a Alpha Research and Management ("MBS Mantra" or the "Firm" or the "Adviser" or "ARAM"), for informational purposes only, on a confidential basis and is intended solely for use by the company or individual to whom it is being delivered. Potential investors are advised to request and carefully read and review MBS Mantra's Firm Brochure (Form ADV Part 2), and other documents, if any, provided by MBS Mantra (the "Documents").
Under no circumstances should this overview be used or considered as an offer to sell, or a solicitation of any offer to buy, interests in any securities, funds, other financial products or investment strategies managed by MBS Mantra, nor shall it or its distribution form the basis of, or be relied upon in connection with, any contract for advisory services or otherwise.

The information contained with this brochure has not been audited and is based upon estimates and assumptions. No reliance should be placed, for any purpose, on the information or opinions contained in this overview. The information contained in this brochure is based upon proprietary information of MBS Mantra and public information, but it may not be comprehensive, and it should not be interpreted as investment advice. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this overview by MBS Mantra or by its affiliates and any of their principals, members, managers, directors, officers, employees, contractors or representatives.

Investors must make their own investment decisions based on their specific investment objectives and financial position. Charts, tables and graphs contained in this overview or in the Documents are not intended to be used to assist an investor in determining which securities to buy or sell or when to buy or sell securities. While this overview may contain past performance data, PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS, WHICH MAY VARY. There can be no assurance that any investment strategy will achieve its investment objective or avoid substantial or total losses. Except as required by law, MBS Mantra assumes no responsibility for the accuracy and completeness of any forward-looking statements. Further, MBS Mantra does not provide legal and tax advice; MBS Mantra recommends that investors consult with their own independent tax and legal advisers.

Any example represents an actual trade made by Samir Shah, MBS Mantra's principal, and/or MBS Mantra; any hypothetical represents a possible trade. None of the examples, whether actual or hypothetical, contained in this overview and the Documents should be viewed as representative of all trades made by MBS Mantra, but only as examples of the types of trades MBS Mantra expects to complete for its customers. None of the examples provided can in and of themselves be used to determine which securities to buy or sell, or when to buy or sell them. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities used as examples in these Documents. To the extent that this document contains statements about the future, such statements are forward looking and subject to a number of risks and uncertainties, including, but not limited to, the impact of competitive products, product demand and market risks, fluctuations in operating results and other risks. (A complete list of trades made by Samir Shah and/or MBS Mantra is available upon request.)

This overview and all Documents provided by MBS Mantra should only be considered current as of the date of publication without regard to the date on which you may receive or access the information. MBS Mantra maintains the right to delete or modify the information without prior notice; MBS Mantra undertakes no obligation to update such information, including, but not limited to, any forward-looking statements, as of a more recent date, except as otherwise required by law.