

Best Risk-Adjusted Returns in a Decade! Securitized Credit Mutual Funds

San Diego Chapter AAll – Risk Management SIG

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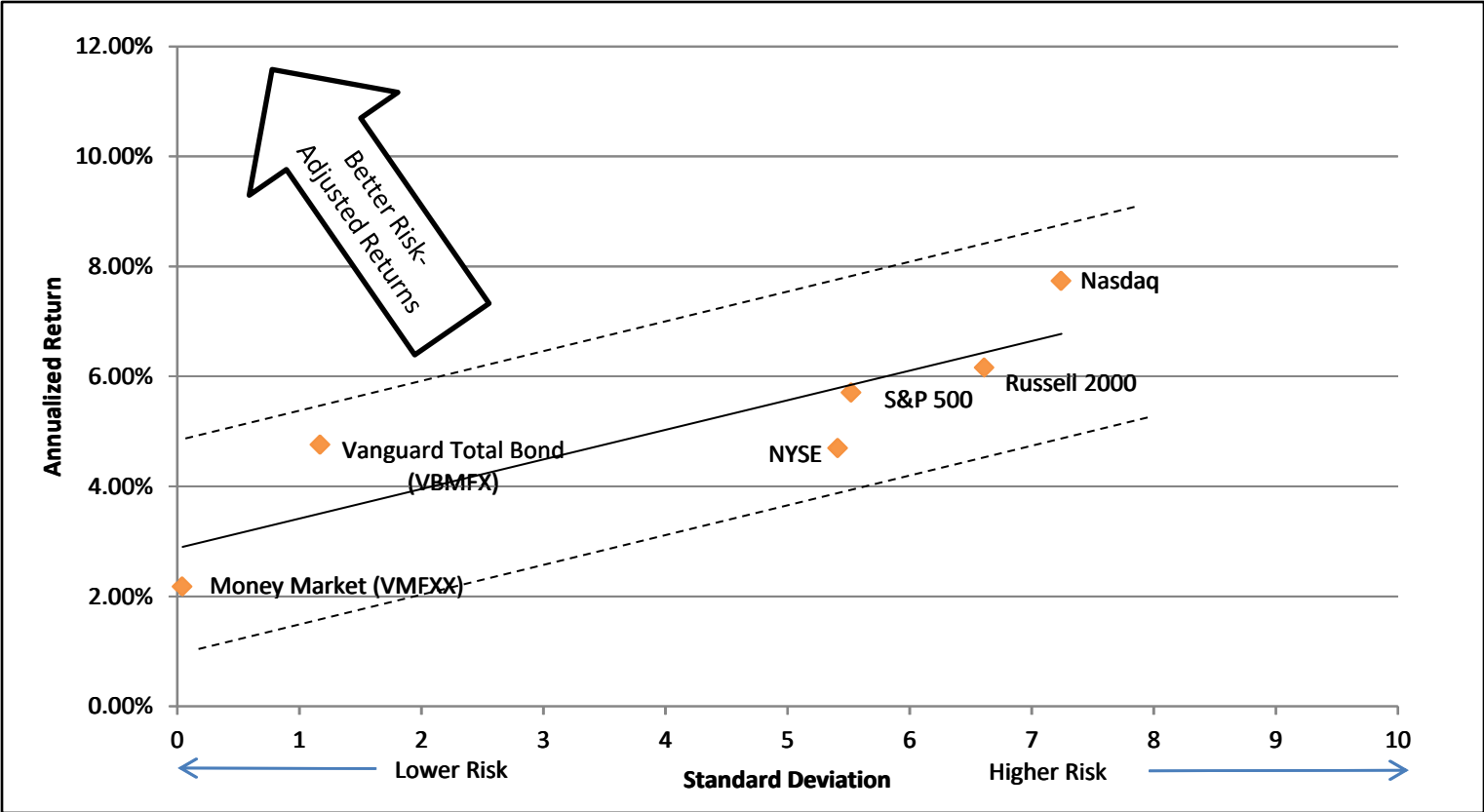
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Agenda

- What are better risk-adjusted returns?
- What is securitized credit?
- How do I identify these funds?
- Is it too late to purchase?
- When should I sell the funds?

Better Risk-Adjusted Returns

12/31/1996 – 12/31/2018



Our goal as investors is to achieve returns outside the long-term, expected return channel by striving for better risk-adjusted returns (i.e. upper left-hand quadrant).

Better Risk-Adjusted Returns

The incremental or additional return received for a given level of risk.

$$\frac{(r - r_f)}{\text{risk factor}}$$

Risk Adjusted Return Metric	Risk Factor
Sharpe Ratio	Standard Deviation
Treynor Ratio	Beta
Sortino Ratio	Downside deviation
Ulcer Performance Index	Ulcer Index

A detailed guide to the Ulcer Index and Ulcer Performance Index is available at www.rgbcapitalgroup.com/resources. Look at the bottom of the page for UI-UPI Guide.

Securitized Credit

Securitization is the process of packaging different kinds of illiquid, cash flow producing assets for purpose of creating a new investable security.

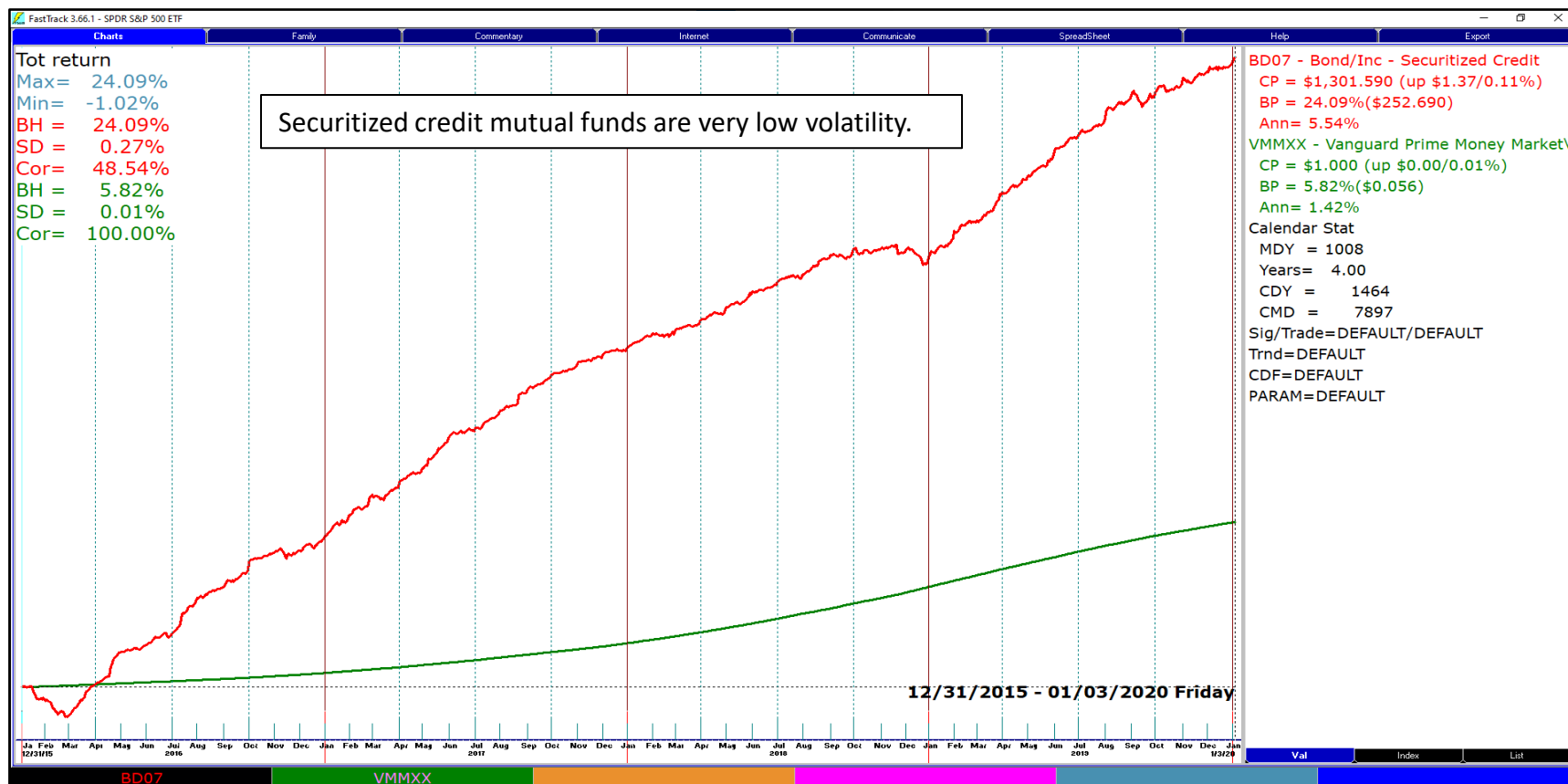
Types of Securitized Credit

1. Mortgage-Backed Securities (MBS) – residential and commercial mortgages.
2. Asset-Backed Securities (ABS) – bonds created from consumer debt such as credit card receivables, student loans, auto loans.

Securitization is complex and historically has only been available to institutional investors.

Securitized Credit (BD07)

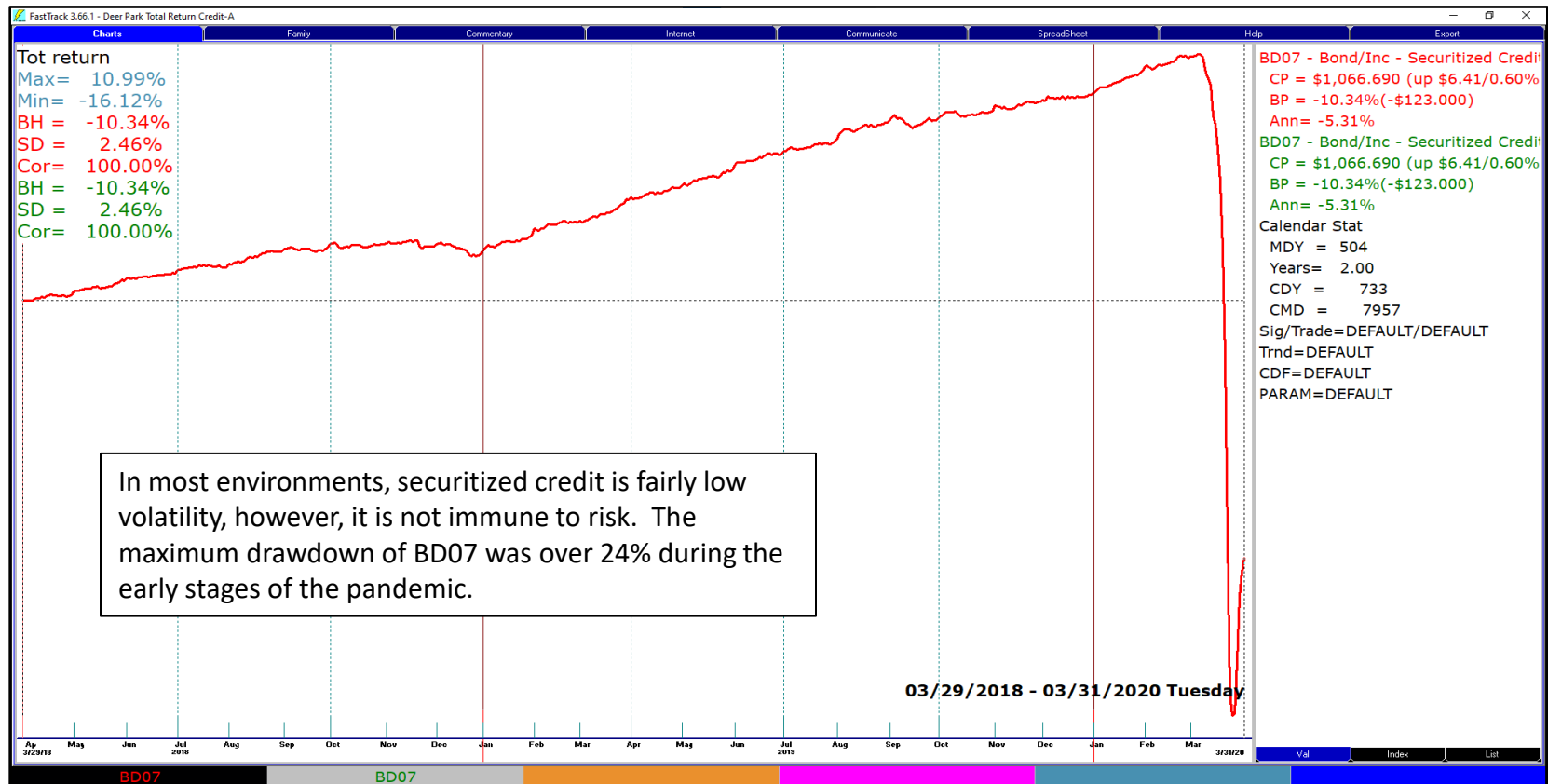
Four-Year Chart (12/31/2015 – 1/3/2020)



- BD07 represents the equal-weighted performance of securitized credit mutual funds.
- These funds provide steady returns on extremely low volatility.

Securitized Credit (BD07)

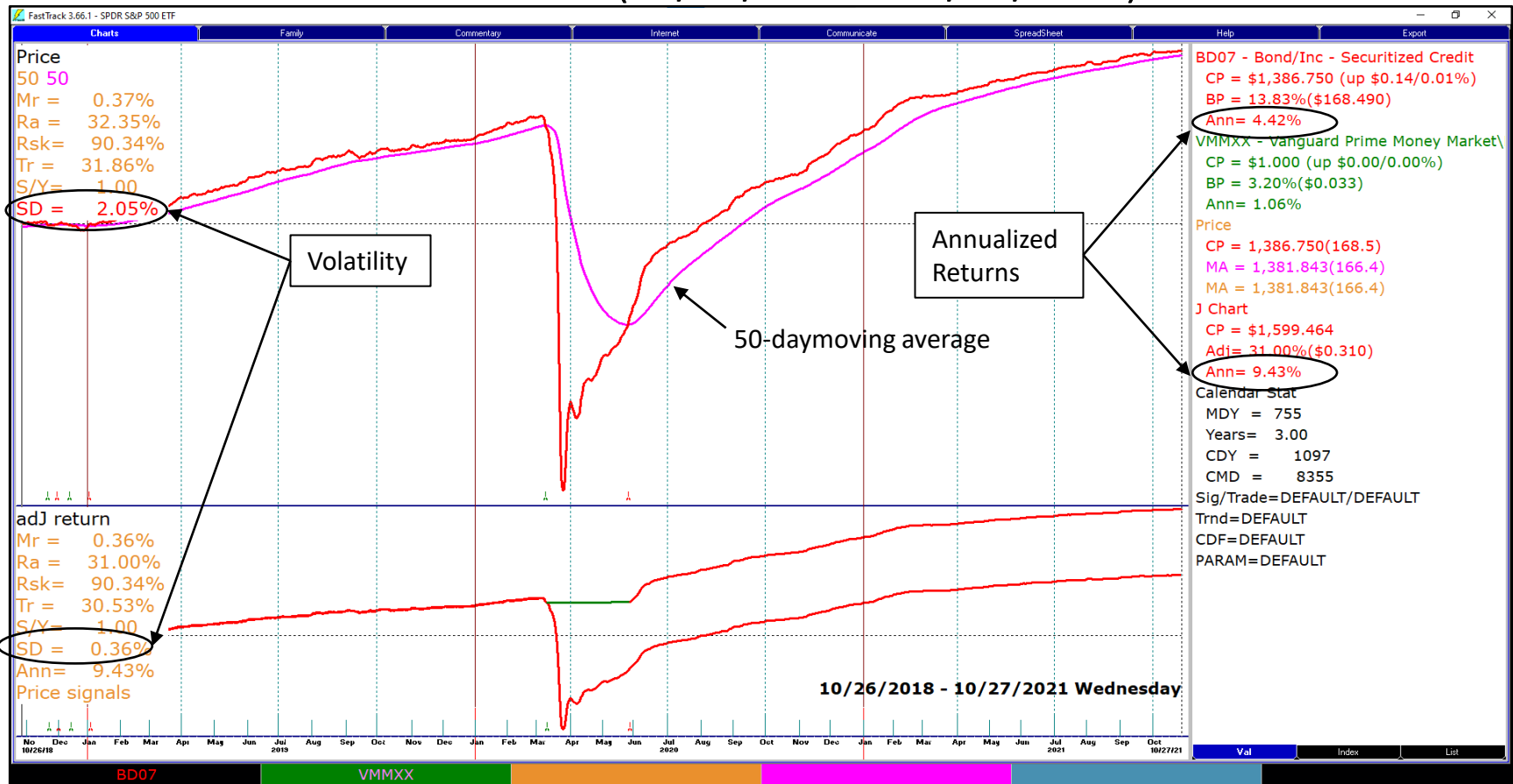
Two-Year Chart (3/29/2018 – 3/31/2020)



- While these assets are low volatility, they are not without risk as can be seen during the early months of 2020.
- The decline during March 2020 was a result of a liquidity crisis during the early stages of the pandemic. The maximum drawdown of BD07 was over 24%. Some individual securitized credit mutual funds were down over 45%.
- How can you avoid such a substantial decline?

Securitized Credit (BD07)

Five-Year Chart (10/27/2016 – 10/27/2021)



- It is relatively easy to manage risk of low volatility funds with the use of moving average timing techniques. Own the asset when it is above its moving average and sell when it drops below.
- Using a 50-day moving average during the pandemic decline triggered a sell signal on March 9. Assuming a 1-day trading delay the drawdown was approximately 1%; far better than the 24% total decline.
- Even if you traded out of the asset class four days after the initial signal (on March 16), your total drawdown would be approximately 4% and you would have missed most of the waterfall decline. Simply paying attention during times of crisis can help avoid significant declines.

Market Monitor Newsletter

Overall Assessment (Page 9)

March 12, 2020

Bond / Income Allocation

The bond / income groups are in downtrends or indicating possible topping patterns with the exception of US Treasuries. **If you use a moving average as a stop for your bond / income holdings, you would most likely have sold by this point.** Cash is an attractive asset class when compared to these other groups. While the returns on money markets are not great, it is best to protect your capital during volatile periods such as this. **There will be a great buying opportunity down the road and if we protect our capital now, we can take full advantage of the opportunity when it presents itself.** Spend the time now to prepare for the eventual bottom in the market.

April 9, 2020

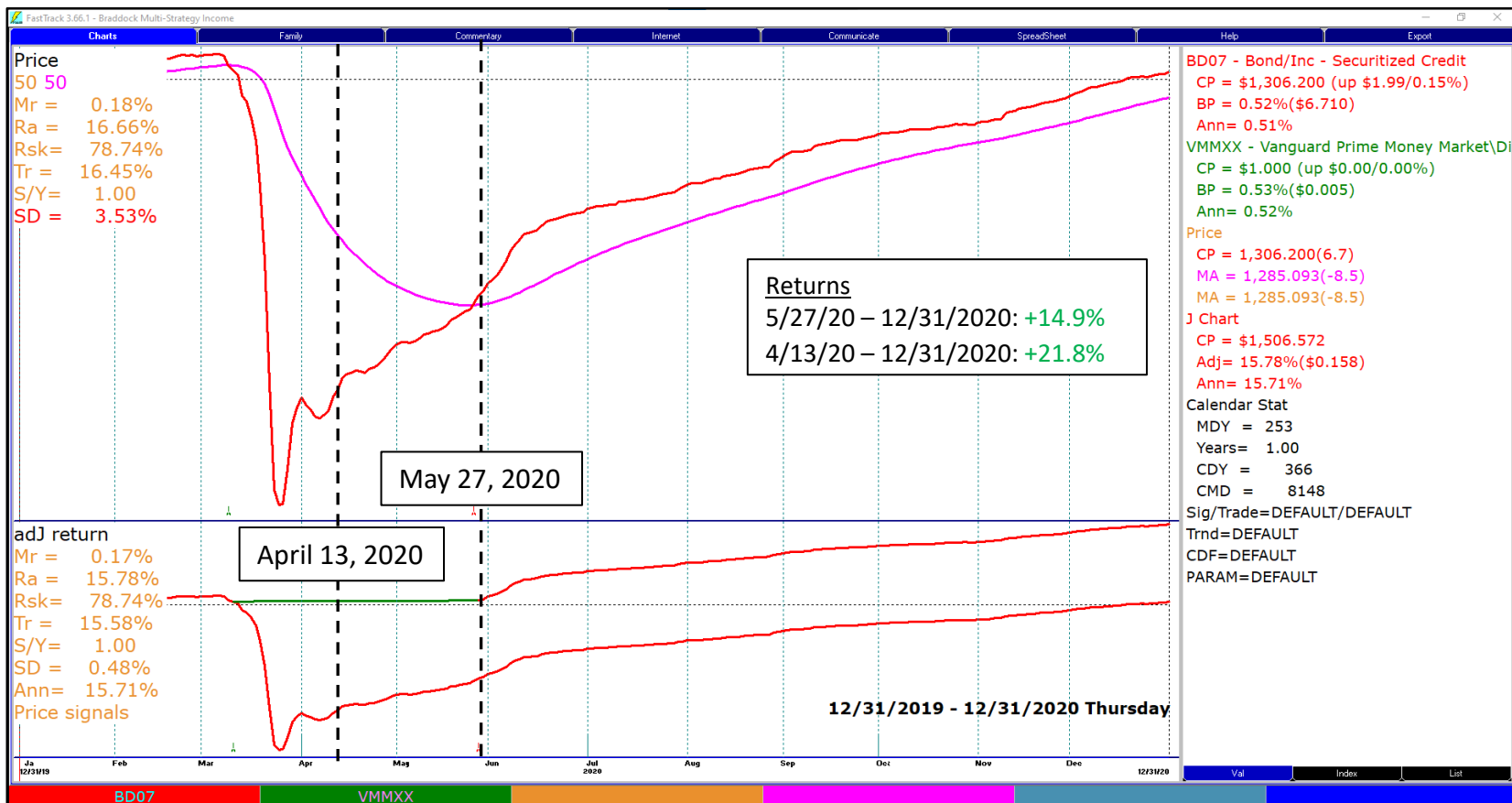
Bond / Income Allocation

The steep declines in the bond / income groups have created a unique opportunity for investors to benefit from the potential rebound in these groups. **While most have not crossed above their 50-day moving averages, all but the most conservative investors might consider stepping back into the market to take advantage of the potential recovery as the Federal Reserve quantitative easing program provides support, either directly or indirectly, for these groups.** If you do re-enter the market, remember to set 'mental' stops to so that if the market turns down, you know your risk exposure.

If you are not receiving the RGB Market Monitor and would like to subscribe, please email Lois (lois@rgbcapitalgroup.com).

Securitized Credit (BD07)

One-Year Chart (12/31/2019 – 12/30/2020)



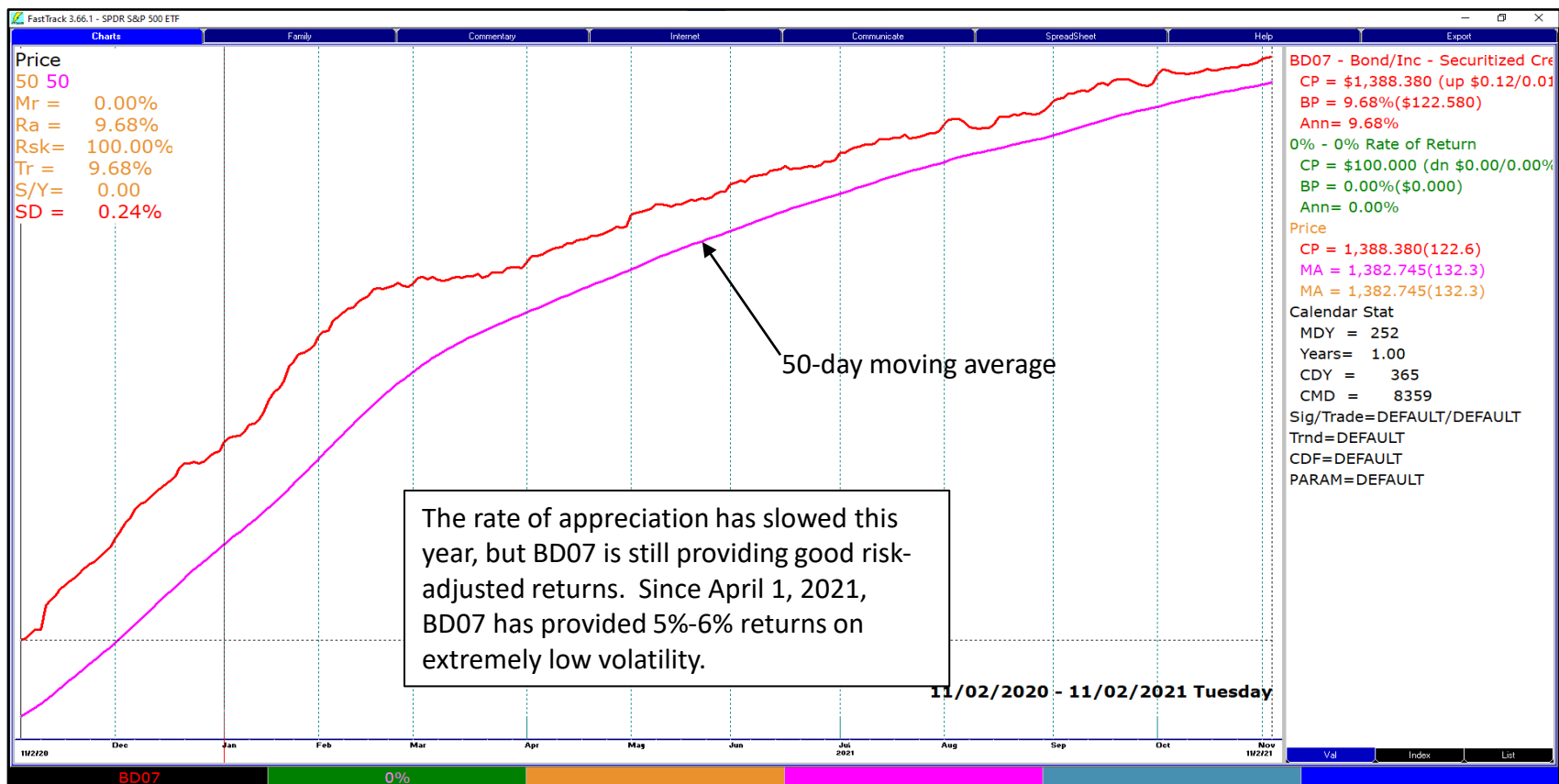
- Making one round-trip during 2020 would have significantly increased return and reduced overall volatility.
- If you followed the suggestion in the April 9, 2020 RGB Market Monitor, you may have entered the market prior to the May 26 signal to re-enter the market. The additional return between these two dates was almost 7%!

RGB Market Monitor Bond/Income Groups

Symb1	Description	FTCloud Family	Statistics for 4/9/20 - 11/1/21						YTD	One Year
			Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Securitized Credit	N/A	30.06%	18.31%	0.02	712.06	-0.15%	0.46%	6.28%	9.71%
BD03	Bond/Inc - Floating Rate	Bank Loan	18.75%	11.62%	0.34	31.43	-1.64%	0.66%	4.85%	8.76%
BD10	Bond/Inc - Preferred Securities	Preferred Stock	22.26%	13.72%	0.48	26.29	-1.79%	0.99%	4.25%	9.51%
BD04	Bond/Inc - Junk	High Yield	25.38%	15.57%	0.65	22.53	-2.65%	1.23%	4.88%	11.21%
BD06	Bond/Inc - High Yield Muni	High Yield Muni	17.48%	10.86%	0.77	12.84	-2.57%	0.63%	4.49%	9.02%
BD09	Bond/Inc - Inflation Protected	Inflation-Protected	11.35%	7.12%	0.72	8.5	-2.65%	1.03%	4.09%	6.51%
BD05	Bond/Inc - Muni Bond	Muni National	7.91%	4.99%	0.77	5.15	-2.32%	0.51%	1.00%	3.42%
BD08	Bond/Inc - Emerging Market Debt	Emerging Markets	18.88%	11.70%	2.08	5.15	-5.76%	1.51%	-3.31%	4.42%
BD02	Bond/Inc - Corporate	Corporate	9.20%	5.79%	1.4	3.41	-3.99%	0.98%	-1.02%	1.70%
BD01	Bond/Inc - US Treasuries	Government	-2.13%	-1.37%	3.63	-0.65	-7.02%	1.27%	-2.51%	-2.02%

Securitized Credit (BD07)

Did I Miss the Opportunity?



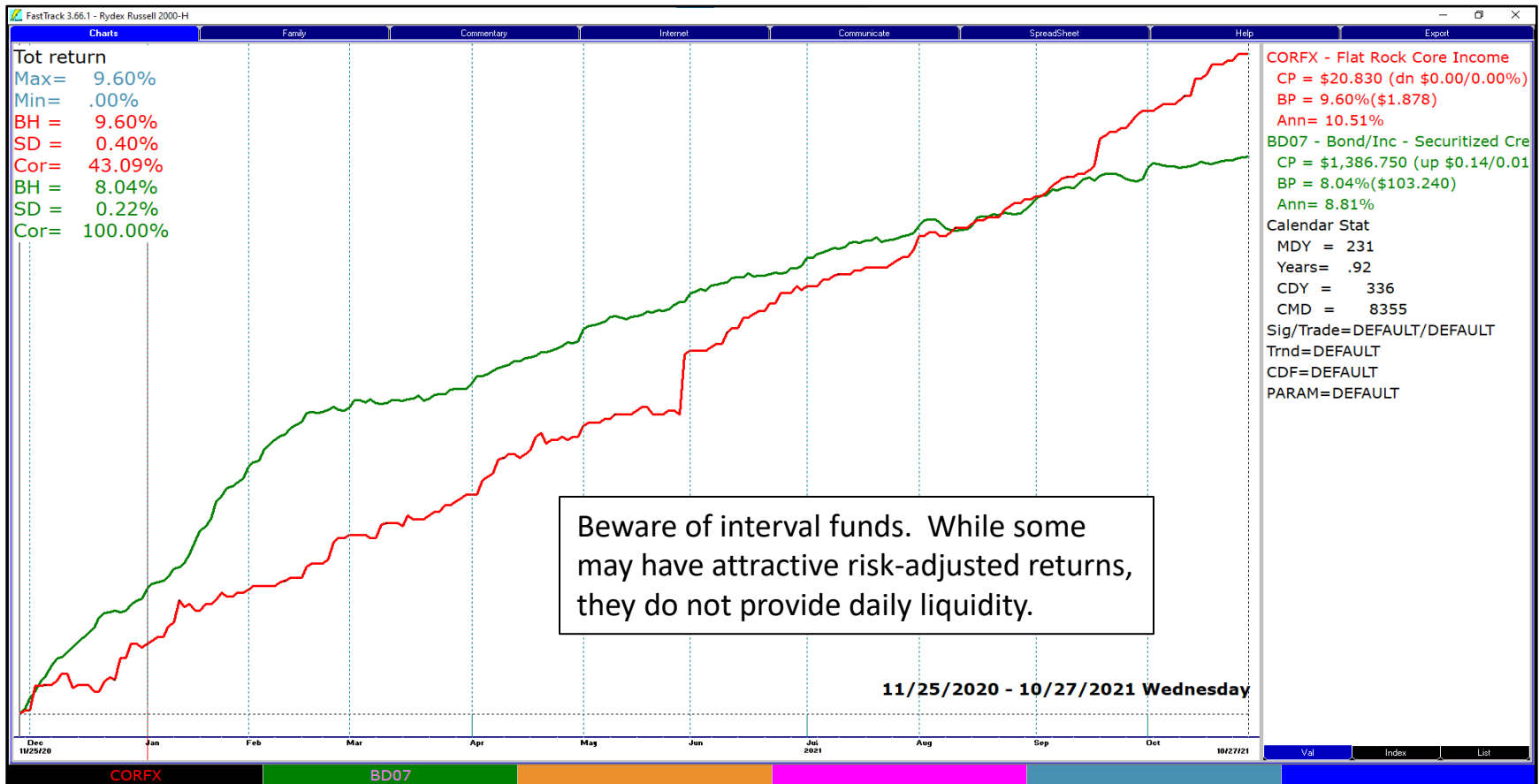
- Since March 31, 2021, BD07 has been providing between a 5% and 6% annualized return.
- Remember, BD07 is an average and individual securitized credit mutual funds may be providing stronger returns than the average.
- Using margin on low volatility funds also has the potential to increase returns without dramatically increasing overall volatility (but that is a topic for another day).

Securitized Credit Mutual Funds

Symbol	Ticker
BDKNX	Braddock Multi-Strategy Income
CLMFX	Columbia Mortgage Opportunities
DHEIX	Diamond Hill Short Duration Total Return
DPFNX	Deer Park Total Return Credit
FCFIX	Frost Credit
HITIX	Hartford Schroders Securitized Income
HOBEX	Holbrook Income
IOFIX	AlphaCentric Income Opportunities
JSVIX	James Alpha Structured Credit Value
SEMMX	Semper MBS Total Return
VCFIX	Voya Securitized Credit

It is important to review the prospectus to understand the fees, costs, risks and redemption limitations before purchasing any mutual fund. Not all funds / share classes are available on all trading platforms.

Interval Funds – Beware!



Interval funds are funds that do not provide daily liquidity, but rather offer to periodically repurchase shares from investors. During a crisis, you would be stuck holding the fund. Check the prospectus before buying a fund to understand the fees, expenses, redemption options, etc.