The Active Manager

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Index

Uncommon Knowledge 2025 Early Bird Deadlines - January 31st

OPPORTUNITIES TO REGISTER TO ATTEND and/or sponsor the 2025 Uncommon Knowledge conference at discounted early bird pricing end January 31st.

Save $398 on member registration with early pricing.
- Member early pricing: **$1,047.00**
- Member Standard pricing: **$1,445.00**
- Non Member Pricing: **$1,595.00**

Save $500 to $2500 on conference sponsorship packages.
- Platinum Sponsors save **$2,500**
- Gold Sponsors save **$1,500**
- Silver Sponsors save **$500**

QR Code to registration page

REGISTRATION LINK:
https://members.naaim.org/ap/Events/Register/BDFENdMcaCKC0

Find out more about early bird sponsor specials on page 3.

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President's Letter


Barry Arnold

I WANT TO START BY WISHING everyone a Happy New Year and blessed 2025. This year is already shaping up to be incredibly interesting as we pass the baton to a new Commander-in-Chief. The first year of a new president has historically seen an upward bias, but volatility will be ever-present as all eyes will be on the Fed and Jerry & Co. While Donald Trump is not exactly a new president, Trump 2.0 promises to be very different as he pushes his "America First" agenda. How many of these goals come to fruition is yet to be seen, but the secret weapon for investing successfully in 2025 just might be the active and tactical management philosophies that NAAIM embodies.

"The trend is your friend." After two-plus years, this bull market may be getting a bit long in the tooth, but its long-term trend UP is quite evident. Some uncertainty has been eliminated with the election behind us. In my humble opinion, Trump initiatives such as deregulation, tax cuts extension and DOGE (Dept. of Government Efficiency) are all bullish elements. The one fly in the ointment is the subject of tariffs. Will Trump take a hardline or is this all "the art of the deal"? For NAAIM members, uncertainty is good news. 2025 could be a market where our active/tactical strategies have the potential to shine with their ability to be defensive and to put the pedal to the metal as opportunities present themselves.

On behalf of the NAAIM board, we are very excited about 2025 and the initiatives that we have underway within NAAIM … seeds that have been planted over the last few years. This includes a bigger outreach to the industry as well as a more robust social media presence. This has materialized in attracting younger membership that made itself felt at OUTLOOK 2024. New generation advisers bring different viewpoints, skillsets and action items, and we are looking forward to their contribution to the organization as they become more involved in NAAIM.

Outlook 2024 was a fantastic experience. It is often said that if you can find just one nugget to implement in your practice, it is worth the price of admission. Personally, my greatest takeaway from these conferences is ALWAYS reconnecting with

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Come to Costa Mesa, California - May 5-7

UNCOMMON KNOWLEDGE 2025 takes place May 5-7, 2025 at the Westin South Coast Plaza - 686 Anton Blvd, Costa Mesa, California. Disneyland is less than 20 minutes' drive from the hotel, while Knotts Berry Farm is 25 minutes' drive away. An outdoor pool, a sun terrace, and lighted tennis courts are available for guests.

There is also a complimentary airport shuttle between the hotel and John Wayne Airport. Use the QR code to make your reservation.

Limited Sponsorships, Unlimited Impact at NAAIM 2025 Conference – Uncommon Knowledge!

IS YOUR COMPANY READY TO BREAK FREE FROM the monotony of "Groundhog Day" conferences—where innovation is scarce, the faces are the same, and your ROI falls flat? While NAAIM may not be the largest conference, it stands out as an exclusive event that connects sponsors directly with an engaged audience of innovative thinkers and decision-makers.

NAAIM members aren't just attendees—they're trailblazers. This is the conference where new funds, ETFs, and strategies are often launched with these managers in mind. Sponsoring NAAIM means stepping into a room full of professionals who are genuinely interested in what you have to say and sell.

Here's why NAAIM delivers where others don't:

- Fresh perspectives and a focus on innovation, not repetition, in the investment management world.
- Attendees who are the decision-makers you want to meet.
- Access to hidden gems—investment managers with capital and a desire to collaborate.
- A less crowded space, where your voice won't be lost in a sea of competitors.

This isn't just another conference—it's your opportunity to make meaningful connections with the people who matter most.

At **NAAIM's 2025 Conference**, we're rewriting the playbook.

But here's the catch: **We're limiting sponsorship opportunities to just 14 firms**:

- 4 Platinum Sponsors
- 4 Gold Sponsors
- 6 Silver Sponsors

This exclusivity ensures unparalleled access to decision-makers. And for a **limited time only**, we're offering discounted rates for sponsors who commit by **January 31, 2025**:

- Platinum Sponsors save **$2,500**
- Gold Sponsors save **$1,500**
- Silver Sponsors save **$500**

Why choose NAAIM?
For 35 years, NAAIM has been a beacon in active investment management, connecting cutting-edge innovators with forward-thinking advisors. Here's what sets us apart:

$22 Billion in Assets Under Management: Our members collectively manage over $22 billion annually.

Diverse Membership: From multi-billion-dollar firms to rising advisors, our network is dynamic and thriving.

Alpha-Seeking Innovators: Our advisors are actively searching for innovative solutions that deliver results.

Year-Round Impact: Sponsorship isn't just about the conference—it's about ongoing collaboration and value creation.

As a sponsor, you'll enjoy **unmatched visibility and access**. You'll be included in all conference events—from the exclusive Tuesday evening dinner to breakfasts, lunches, and networking breaks—guaranteeing meaningful face time with the right people.

Don't let this opportunity slip away. Sponsors who commit by **January 31, 2025,** will not only save but also secure their spot among an elite group of firms.

Let's make 2025 the year your firm becomes a trusted partner to the leaders of active investment management.

To secure your spot or learn more, contact us today at (203) 389-3553 or paul@investfortomorrow.com. Act quickly—discounted sponsorship opportunities are ending soon! Explore the attached 2025 Sponsorship Opportunities brochure or visit https://naaim.org/sponsorship/be-a-sponsor/.

We can't wait to welcome you to the future of investment innovation!

Enter NAAIM's 2025 Founders Award White Paper Competition

THE NATIONAL ASSOCIATION OF ACTIVE Investment Managers (NAAIM) is calling all innovators, researchers, and financial trailblazers to compete in the prestigious 2025 Founders Award Paper Competition. The winning paper will receive a $5,000 prize, the opportunity to present their groundbreaking research at the 2025 NAAIM Uncommon Knowledge Conference, and coverage in national press releases on the competition.

A Legacy of Excellence in Active Investing

Since its inception in 2009, the Founders Award has championed the advancement of active investment management, celebrating innovative ideas and research that push the boundaries of this dynamic field. For 15 years, this competition has attracted top-tier submissions from across the globe, including New Zealand, Germany, Great Britain, Canada, India, and the United States. Each paper serves as a testament to the transformative power of active strategies in the ever-evolving investment landscape.

NAAIM's mission is simple but powerful: to demonstrate through sound research that active management has the edge. Whether through cutting-edge techniques, robust analyses, or new approaches, this competition shines a spotlight on those shaping the future of investing.

Who Can Enter?

The Founders Award is open to a diverse group of contributors—investment practitioners, academic faculty, and doctoral candidates alike. If you have a bold, innovative idea in active investing, this is your chance to share it with the world.

Eligible topics range widely, from technical and quantitative analysis to position sizing, scaling strategies, money management techniques, and exit strategies. Whether you've developed a proven methodology or are exploring the theoretical underpinnings of active investing, this competition welcomes your insights.

Past Winners: Leading the Way

The Founders Award isn't just about the prize—it's about joining a distinguished roster of thought leaders in active investing. 2022 winner Alex Spiroglou's, CFTe, DipTA(ATAA), paper, "MACD-V: Volatility Normalized Momentum," earned him first place and accolades from the global investment community. With winners hailing from institutions and industries around the world, the competition continues to be a beacon for cutting-edge thought leadership.

Explore competition details, past papers, and submission guidelines at **NAAIM Founders Award** (https://naaim.org/programs/naaim-founders-award/).

NAAIM looks forward to your contribution to active investment management. Become a thought leader in the future of active investing! **The deadline to submit a paper is Monday, March 3, 2025.** To receive regular information on the competition including deadline reminders, complete the Founders Award **Intent to Submit** (https://members.naaim.org/ap/Form/Fill/LEon5c9p).

Another Record-Breaking OUTLOOK Conference

THANKS TO AN OUTSTANDING LINE UP OF speakers and topics, great sponsors and the many NAAIM members who attended our 2025 OUTLOOK Conference October 28-29 at the Dallas Fort Worth Hyatt Regency, OUTLOOK was bigger and better than ever. The Agenda Committee did an incredible job filling the two days with an overload of information, new ideas and conversation. We can't wait to see what they have in store for NAAIM's big annual conference – Uncommon Knowledge 2025, coming to Costa Mesa, California May 5-7.

It's about time...

Non-daily leveraged ETFs change the game

Tradr ETFs offers leveraged ETFs that reset performance monthly and quarterly.

That means...

there's finally a way to deal with the volatility and compounding that plague daily leveraged products held for more than a day.

That means...

your possibilities to amplify long exposure to leading ETFs and stocks have expanded.

That means...

it's time to learn about Calendar Reset Leveraged ETFs. Rethink your approach to growth.

Quarterlies

SPYQ
Tradr 2X Long SPY Quarterly ETF

QQQP
Tradr 2X Long Triple Q Quarterly ETF

Monthlies

SPYM
Tradr 2X Long SPY Monthly ETF

MQQQ
Tradr 2X Long Triple Q Monthly ETF

SOXM
Tradr 2X Long SOXX Monthly ETF

TLTM
Tradr 2X Long TLT Monthly ETF

Trādr ETFs

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Investors should carefully consider the investment objectives, risks, charges and expenses of the fund before investing. To obtain a prospectus containing this and other important information, please visit www.tradretfs.com to view or download a prospectus online. Read the fund's prospectus carefully before you invest.

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Benefits of Active Management in Preferred Stock Investing

INFRASTRUCTURE CAPITAL ADVISORS

PREFERRED STOCKS, OFTEN REFERRED TO AS "hybrid securities", combine characteristics of both equities and fixed-income instruments. Like bonds, they provide regular income streams and hold a senior position in the capital structure relative to common equity, making them particularly appealing to income-focused investors. However, the unique complexities of preferred stocks - such as call risk, sector concentration, and sensitivity to interest rate changes - underscore the importance of active management in optimizing returns while mitigating risks. We will explore the advantages of active management in preferred stock investing, with a focus on the Virtus InfraCap U.S. Preferred Stock ETF (PFFA) as a case study.

Understanding Preferred Stocks

Preferred stocks occupy a distinct niche in corporate capital structures. They offer higher yields than common stocks and bonds, tax- advantaged dividends, and lower correlations to traditional asset classes. These features make them valuable tools for portfolio diversification. However, the preferred stock market presents challenges that require careful navigation:

Sector Concentration: The preferred stock market is heavily dominated by financial institutions such as banks and insurance companies, which account for approximately 62% of the investable universe. This concentration exposes investors to sector- specific risks (i.e., Financials performed poorly during Global Financial Crisis drawdowns).

Call Risk: Many preferred securities are callable at par, meaning issuers can redeem them before maturity. Investors holding callable securities trading above par face potential losses and replacement costs if these securities are redeemed.

Interest Rate Sensitivity: Fixed-rate preferred stocks are vulnerable to rising interest rates, which can erode their market value.

Credit Risk: Unlike debt instruments, issuers of preferred stocks can suspend dividend payments during periods of financial stress without triggering bankruptcy. However, according to Moody's[1], preferred stocks have defaulted at a rate far less than high yield bonds historically.

Given these complexities, passive strategies that track broad indices often fall short in addressing these risks. Active management provides a more nuanced approach to navigating this intricate asset class.

Key Advantages of Active Management

1. Addressing Market Inefficiencies

The potential inefficiencies in preferred stock market allows active managers to seek opportunities while managing risks:

Sector Overconcentration: Passive indices allocate disproportionately to financials due to their dominance in the market. This overexposure was evident during crises such as Q1 2023 when regional banks like First Republic Bank (FRC), Signature Bank (SBNY), and Silicon Valley Bank (SVB) failed.

Call Risk Oversight: Passive funds often hold callable securities with negative yield-to-call profiles, locking investors into unfavorable positions (potential losses). Active managers actively screen for such securities and can remove securities before redemptions occur.

Credit Quality Monitoring: Many preferred stock issues lack credit ratings from major agencies. Many passive indices include these unrated securities comprehensively, whereas active managers can conduct rigorous credit analyses to identify attractively valued but fundamentally sound securities.

We believe the dominance of passively managed ETFs - representing over 70% of assets under management (AUM) in preferred stocks - further amplifies these inefficiencies. Active managers can capitalize on this dynamic by identifying mispriced opportunities overlooked by passive strategies.

2. Active Management Process Summary Dynamic Risk Management

Call Risk Management: Active managers monitor call dates daily to minimize exposure to callable securities trading above par. By doing so, they can preserve capital and capture profits before redemptions occur.

Interest Rate Sensitivity: Fixed-rate preferreds are particularly vulnerable during periods of rising interest rates. Active managers can mitigate this risk by diversifying between fixed-rate and fixed-to-floating-rate securities. Fixed-to-floating-rate preferreds convert to floating rates after a specified period, offering protection against rising rates.

Credit Risk Mitigation: Continuous assessment of issuers' financial health helps active managers avoid defaults or dividend suspensions. This vigilance ensures that portfolios maintain high credit quality.

3. Seizing Market Opportunities

New Issues Participation: Active managers can invest in newly issued preferred securities before they are included in indices. These securities often appreciate in value due to technical factors when passive funds subsequently add them.

M&A Activity: During mergers or acquisitions, active managers can identify opportunities where credit profiles improve or premiums are offered for redemption.

Market Dislocations: Active managers can deploy capital during periods of market stress when prices are undervalued.

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[1] 30 Year default rates from 1990 to 2019 are sourced from Moody's Investor Services and are presented for informational purposes only.

Benefits of Active Management in Preferred Stock Investing

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Tactical Adjustments

Rebalancing Flexibility: Unlike passive funds that rebalance monthly or quarterly, active managers adjust portfolios dynamically. They can anticipate passive fund rebalances and trade accordingly to capture liquidity-driven price movements.

Sector Rotation: Active managers can overweight sectors offering higher yields or better risk-adjusted returns while underweighting stressed sectors like financials during crises.

Performance Benefits of Active Management

The Virtus InfraCap U.S. Preferred Stock ETF (PFFA) demonstrates how active management can deliver stronger outcomes:

Higher Yields: PFFA seeks to consistently offer higher distribution yields than its passive counterparts by optimizing yield-to-call metrics and employing modest leverage.

Improved Diversification: By reducing concentration in financials and increasing exposure to sectors like real estate and utilities, PFFA aims to enhance portfolio diversification while maintaining attractive income generation.

Risk Controls: PFFA uses rigorous risk controls through credit quality screens and sector-based allocations driven by relative value rather than market capitalization or rating agency assigned credit ratings.

We believe PFFA's active approach allowed it to navigate the regional banking crisis in Q1 2023 more effectively than many passive funds that were overexposed to failing institutions.

Conclusion

Preferred stocks offer unique advantages for income-focused investors but require careful navigation due to their inherent complexities. Passive strategies often fail to address key risks such as sector concentration, call risk, interest rate sensitivity, and credit quality issues. In contrast, active management provides a disciplined approach that maximizes returns while mitigating risks.

By deploying strategic security selection, dynamic risk management, and tactical adjustments, active managers generally can deliver higher yields, better diversification, and enhanced total returns compared to passive strategies. The Virtus InfraCap U.S. Preferred Stock ETF (PFFA) has over $1B in AUM and we believe demonstrates how active management can use strategies to pursue long-term success in the preferred stock market.

For financial professionals seeking consistent income with reduced volatility for their clients' portfolios, we believe actively managed preferred stock funds represent a compelling solution. In an increasingly complex investment landscape, active management remains indispensable for navigating the intricacies of this hybrid asset class effectively.

Infrastructure Capital Advisors, LLC (ICA) is an SEC-registered investment advisor that manages exchange traded funds (ETFs) and a series of private funds. The firm was formed in 2012 and is based in New York City. ICA seeks current income opportunities as a primary objective in most, but not all, of ICA's investing activities.

Investors should consider each Fund's investment objectives, risks, charges, and expenses carefully before investing. For a prospectus with this and other information about the Fund including risk disclosures, please click here (https://www.virtus.com/our-products/individual-investors/exchange-traded-funds).. Read the prospectus carefully before investing.

Volatility Reduction Using a Dynamic Covered Call Strategy on ETFs

JOHN R. BELDY

Introduction:

For most investors, it's not just the destination that matters … but the journey. Equities are essential for growth, but the sharp, periodic losses that inevitably come with the asset class can have severe consequences for clients at any stage of the investment continuum. For these reasons, investors need strategies that offer equity market participation, but whose value-add centers on volatility reduction.

The following primer explores the philosophy and approach underpinning the use of a dynamic Covered Call strategy on Exchange Traded Funds (ETFs). A strategy that uses passive ETFs to achieve market-like returns and relies on liquid options – without leverage – to limit downside capture. By taking a less complicated approach to equity market participation and options markets, we believe the strategy can serve as an essential component of most investor portfolios.

I. Volatility Reduction: The Key to Meeting Long-term Investment Objectives

An 11-year bull market made it easy to forget, but early 2020 and early 2022 served a reminder that volatility, can – and does – strike at any time. By dampening drawdowns in those painful periods, a portfolio has a smaller hole to climb out of after an equity market downturn, helping that strategy outperform broader equity markets over full market cycles.

Volatility reduction has other, more profound implications for helping investors achieve their long-term objectives. For investors with long- to mid-range time horizons, reducing the volatile swings in equity markets can keep them off the sidelines, remaining fully invested through a downturn, so they get the full benefit of compounding over a lifetime of equity investing. Meanwhile, investors at or near retirement can ill-afford to suffer a significant drawdown to their nest egg right when they need to draw from it.

Portfolio Value: $100,000 Growth Rate: 5%

Large drawdowns have long-term consequences. Limiting a big loss can dramatically speed up the time it takes to bring the portfolio back to its original, pre-crisis level, and can lead to significantly better results over a longer time horizon.

II. Equity Exposure: Inexpensive and Holistic

The most vital aspect of a dynamic covered call strategy is how it dampens volatility using options while maintaining equity market exposure. Utilized ETFs to obtain broad equity exposure as economically efficient as possible.

To achieve greater market breadth, investing in ETFs replicating the S&P 500, the NASDAQ and the Russell 2000 indices. By selecting these three indices' investors get exposure to large and small-cap markets, and the growth of the technology sector. Its objective is not to add value by making over- or under- weight allocations to a given index, but instead ensuring clients maintain the broadest exposure possible.

III. The Options Overlay: A Responsible Approach to Dampening Volatility

ETFs allow investors to participate in equity markets' long-term upside potential cost effectively and efficiently. But dampening the volatility inherent in achieving those long-term returns cannot be realized as effectively with a mechanical, passive approach. The strategy relies on ETFs for equity market participation, but actively manages options to achieve two outcomes:

- Offset losses in down markets.
- Provide additional yield in flat markets.

Achieving those outcomes is limited with a passive approach. Options markets provide a wide range of potential opportunities for portfolio managers based on the option's strike price and expiration. Active options managers can also capitalize on volatility in options markets to select the best position that provides the best potential yield or hedge.

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Volatility Reduction Using a Dynamic Covered Call Strategy on ETFs

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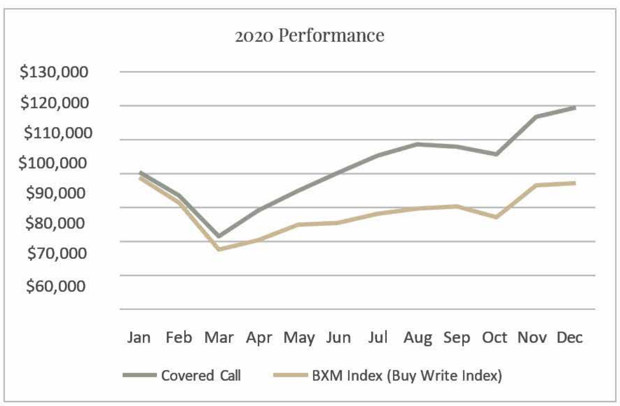
Passive approaches such as the Cboe S&P 500 Buy Write Index are hamstrung from capitalizing on these opportunities. The mechanical nature of such strategies dictates that they consistently sell the closest strike price to the value of the S&P 500 Index on a pre-determined time and date. They lack the flexibility and nimbleness to find the best opportunity option markets present. As the charts below show, the missed opportunities can be considerable, particularly in flat and down markets.

The first chart shows the performance of both the strategy and its benchmark in 2020, a period that includes the most significant market drawdown in more than a decade. The ability to actively use options to limit losses helped it outperform when markets were down, leading to outperformance for the year-to-date period. The second table shows how dynamically managing the options portfolio has contributed to outperformance – and lower standard deviation. In short, actively managing the options overlay has provided a considerable advantage relative to a passive covered call approach.



	Covered Call	BXM Index
Annualized Return	8.9%	6.3%
Standard Deviation	11.7%	9.5%
Sharpe Ratio	0.65	0.52
Risk-Adjusted Return	7.8%	5.6%

* Results are annualized from 01/2013 thru 05/2023.

Risk Controls for Options Investing

A Covered Call Strategy takes a back-to-basics approach to options trading, using the instruments for one of their most intended solutions: PROTECTION.

Options trading draws negative connotations with some investors, due to the speculative nature in which some hedge funds use them. These funds will employ leverage to take on speculative bets in options markets, a risky endeavor that has sometimes backfired.

This is not the intent of the Covered Call Strategy. The strategy does not employ leverage or use options trading to make a speculative bet, rather, the portfolio holds the required number of underlying ETF shares to cover each option it writes.

The strategy takes a few other measures to reduce risk within the options overlay:

First, the portfolio owns options against broad-based index ETF's (Exchange Traded Funds), which are some of the most liquid options markets in the world. This approach is different from other options strategies, which may use options for specific stocks or sectors. The latter approach has a higher risk element and can be more volatile.

Second, the strategy only sells options expiring within the next three months, avoiding longer-duration trades to maintain flexibility.

Finally, positions are actively monitored daily to continually manage risk. The lack of leverage and other controls ensure the options overlay is carrying out its original intent: enhancing yield and reducing risk.

IV. Conclusion:

Equity market participation is essential for the goals of nearly every investor. Passive investment structures allow for that participation inexpensively and efficiently. The key for advisors and allocators is to help dampen volatility so that clients stay invested through the market cycle.

A dynamically managed strategy takes advantage of passive equity market participation but use options – without leverage – to minimize the volatility that is inevitable through an entire equity market cycle.

Importantly, managing volatility requires an active approach. By actively monitoring the opportunity set among different strike prices and expirations dates – and capitalizing on volatility within options markets – a portfolio manager can produce better outcomes that go further in dampening volatility than a mechanical, covered call writing approach. The dampened volatility creates better long-term results for investors.

John R. Beldy is Founder and Chief Investment Officer of Sentry Capital Management, launched in 2022 to work with Investment Advisors and clients to enhance yield and reduce risk on their portfolios and concentrated positions. Beldy has more than 25 years of experience trading and developing options strategies, including Managing Partner at Exceed Investments where primary products were his Covered Call strategy, Concentrated Position hedging and Portfolio hedging strategies. Beldy served as a Manager of Equity and Options Trading at Charles Schwab Institutional for 15 years and was instrumental in creating structured option hedging strategies for investment managers. As a Managing Member and Index Arbitrage Trader at Sovereign Capital Partners, he delivered and distinguished himself by his consistent track record in index arbitrage, risk management and portfolio analysis.

Securitized Credit: Here and Now for Core Fixed Income

DOUG TREVALLION, CFA , YULIA ALEKSEEVA, CFA , DAVID SELBOVITZ, CFA, CAIA

Overview:

The global investment-grade fixed-income universe has undergone a drastic transformation over the past 15 years. Regulation and lending following the financial crisis created a universe of credit opportunities that aren't represented in customary investment-grade indices. Within this opportunity set, we believe the global securitized market represents an opportunity to add diversification within the investment-grade asset class — with the potential to provide defensive opportunities with outsized returns. These attributes can positively impact investor portfolios amid the range of current economic and geopolitical uncertainties. We believe an active credit approach, with the fundamental resources necessary to identify and capitalize on these credit opportunities, can be a key component to generating income and total return.

Resiliency in stressed environments:

In recent years, investors have navigated a historic drawdown in investment grade credit markets during the fastest rising rate interest rate cycle in history. However, with peak policy rates and concerns over resulting structural economic weakness most likely behind us, the potential benefits of investing in securitized assets may be as follows:

- Potential to improve Sharpe ratio for multi-asset strategies give low sector correlations
- Further diversification within Securitized sectors (ABS/CMBS/RMBS/MBS)
- Out-of-index opportunities for benchmark-oriented investors
- An additional way to get direct exposure to the U.S. consumer
- Ability to invest in government guaranteed assets

- Strong risk-adjusted return profile historically versus conventional fixed income
- High current income and yield potential
- Complexity premium
- Potential for capital appreciation

- Embedded structural protections and bankruptcy remoteness help insulate from losses and provide additional resiliency in stressed environments
- Self-amortizing assets offer natural deleveraging
- Materially improved structures and alignment of interest post GFC

- Access to both short duration and long duration securities
- Ability to move between Fixed and Floating rate bonds based on rate expectations
- Short, highly rated bonds benefit from "flight to quality" in challenging markets

- Opportunity to tailor portfolio risk/return profile by rating (moving up or down the capital structure from AAA to high-yield)
- Can target particular maturity and cash flow profile
- Ability to separate credit risk from interest rate risk

These protections can work in concert to provide higher resiliency in stressed environments and may also be a ballast to weather recessionary environments. Additionally, post-financial crisis risk retention regulation ensures originators of these assets maintain "skin-in-the-game" through vested economic interest, which helps align incentives. Concurrently, amortizing structures provide natural deleveraging and often lead to increased credit enhancement and positive ratings migration over time, which can enhance stability and potential total return.

Many investments are also designed with protections that result in shortened amortization periods in times of stress. Seniority of claims over cash flows within legally bankruptcy-remote vehicles and perfected security packages are further benefits and provide enhanced legal rights and direct access to trust assets. The bankruptcy-remote nature of the investments often leads to materially improved workout recoveries versus unsecured product offerings, which is particularly meaningful in distressed and late-cycle environments such as we are in currently. Bankruptcy-remote trusts can be serviced by third party providers and require backup servicers. This decoupling from the originating corporate entity can insulate trusts from negative rating actions. There have been multiple cases where corporate entities have filed for bankruptcy while the securitized trusts remained intact, avoiding downgrades and capital impairment.

Given the aforementioned protections inherent in securitized structures, historical investment grade losses over the past 10 years have been negligible. In fact, ABS and RMBS impairments have been zero post the GFC issuance, while losses within CMBS have been limited to the BBB U.S. CMBS bonds of GFC-impacted vintages.

An allocation to securitized products may improve performance metrics such as Sharpe and Information ratios for multi-product strategies and provide diversification benefits.

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Securitized Credit: Here and Now for Core Fixed Income

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CORRELATION OF TOTAL RETURNS SINCE 2005

		Financial	Industrials	Utility	CMBS	Consumer ABS	RMBS
Corporate	Financial	1.00	-	-	-	-	-
	Industrials	0.84	1.00	-	-	-	-
	Utility	0.80	0.97	1.00	-	-	-
Securitized	CMBS	0.59	0.61	0.52	1.00	-	-
	Consumer ABS	0.53	0.61	0.56	0.53	1.00	-
	RMBS	0.39	0.34	0.30	0.49	0.40	1.00

Financial: ICE BofA U.S. Financial Index; Industrial: ICE BofA U.S. Industrial Index; Utility ICE BofA U.S. Utility Index; CMBS (commercial mortgage-backed securities): ICE BofA U.S. Fixed Rate CMBS Index; Consumer ABS (asset-backed securities): R010 ICE BAML Floating Rate Asset Backed Securities Index subset excluding Manufactured Housing and Home Equity Loans; RMBS (residential mortgage-backed securities): ICE BAML Fixed & Floating Rate Asset Backed Securities Index subset including Manufactured Housing collateral. As of September 30, 2024. BofA is Bank of America.

Low correlations and improved performance metrics

We also believe that an allocation to securitized products may provide a strong case toward the improvement of performance metrics such as the Sharpe and Information ratios for multi-product strategies, while providing diversification benefits. Performance can be less correlated with, and reactive to, broader markets as it tends to be idiosyncratic and specific to individual transactions. Looking as far back as 2005 indicates that:

- Securitized products have demonstrated significantly lower asset class correlation vs. broader fixed income markets
- Lower correlations exist within individual subsectors (between ABS/CMBS/RMBS within securitized vs. financials/industrials/utilities for corporates

The following may be additional benefits of securitized products:

- The ability to invest up and down the entire capital structure (from AAA down to residuals), allowing investments based on risk appetite, relative value shifts and changes in market conditions.
- The flexibility to move between fixed/floating-rate coupon investments and long/short maturities based on the interest rate environment.
- One of the few ways to get direct exposure to the U.S. consumer via the statistical universe of auto, residential, government guaranteed student loans and other forms of consumer debt. For insurance companies in particular, there may be a favorable capital treatment benefit. Select CMBS and RMBS bonds are often structurally so well enhanced or protected that they are afforded a higher National Association of Insurance Commissioners (NAIC) rating than their letter grade rating. In several examples this "ratings arbitrage" affords BBB and BB bonds the highest (1A) capital treatment allowed by the NAIC's Securities Valuation Office.

Key takeaway

We believe that investors remain largely under-allocated to securitized products, so today's market presents a rare opportunity to add diversification through an asset class that may provide defensive opportunities with outsized returns, allowing experienced managers to exploit a unique period in fixed income market history.

Investors focused on capital preservation and mitigating downside risk in the face of a potential recession currently have one of the most attractively valued asset classes on sale at historically discounted prices. Yet, to navigate today's volatility and take advantage of both the attractive income opportunity and total return potential, a strong focus on fundamental credit underwriting and issue selection are key — particularly when it comes to avoiding potential losses

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Disclosures

Ratings by S&P, Moody's, or any other Nationally Recognized Security Rating Organization (NRSRO) are measured on a scale that generally ranges from AAA (highest) to D (lowest). Issues rated AAA, AA, A, and BBB are considered investment grade. Bonds, including government and government-related, not rated by a NRSRO are included in the Not Rated category. Higher-rated bonds generally provide lower returns and greater safety. Weighted average ratings methodology uses the highest of any NRSRO. Portfolio average credit quality is calculated on a dollar-weighted basis.

This material is educational in nature and does not constitute a recommendation to engage in or refrain from a particular course of action. The information within has not been tailored for any individual.

President's Letter

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some of the finest professionals in the industry. Sharing our passion for investing is NAAIM's greatest asset.

GET INVOLVED! Immerse yourself in our monthly programs, our conferences, our webinars and weekly interviews on YouTube (NAAIM Confidential). A newer monthly forum that we launched in 2024, called Financial Planning Mastermind, is hitting the ground running in 2025. Please join the group to discuss holistic financial planning and all of the pain points (debt, taxes, etc.) that advisors and clients face during their life cycle. Also, make it a habit to visit our website NAAIM.org for useful tools: 1) the NAAIM Indicator Wall provides access to time-tested signals and trading indicators; 2) the NAAIM Exposure Index, widely used by Wall Street, is a weekly snapshot of how NAAIM managers are positioned in the market; and 3) the NAAIM Founders Award is currently accepting white papers for consideration, with the winner being invited to our Uncommon Knowledge (UK) conference. Lastly, I encourage you to join one or more committees. NAAIM is an all-volunteer organization, and we know time is a valuable commodity. But getting involved is one of the best investments you can make!

Speaking of such, the 2025 NAAIM Uncommon Knowledge conference will be "Coming Soon" to beautiful Costa Mesa, California in May. The agenda committee is currently crafting three days chock full of information with a great lineup of speakers and topics. Expect to hear from stalwarts of the industry on global macro, U.S. market technicals, compliance, crypto and AI. Of course, member panels are sprinkled throughout … a wealth of actionable ideas to implement at your own firm. Early-Bird pricing for UK ends on Jan 31st so hurry … it will never be cheaper!

My own firm, Global View Capital, is excited about 2025 and our "Billion Dollar Blueprint" initiative. We can attribute our momentum as a firm to the partnerships that we've forged through NAAIM. That said, I want to thank each and every member of NAAIM for not only the success of NAAIM over the years, but for imparting wisdom that has benefited me professionally.

Make 2025 your year for new growth, new friends and new ways to find and keep clients by taking full advantage of your NAAIM membership. And don't keep NAAIM one of the best kept secrets in the financial industry … bring your peers into the fold!

I look forward to seeing everyone in Cali! Until then, enjoy the great opportunities that this year will undoubtedly offer active managers … and let's Make NAAIM Great … again and again!

Sincerely,

Barry

Barry Arnold
NAAIM President

Welcome New Members

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