MBS
MBS Mantra, LLC

July 2025 – MBSM High Income Strategy Returns and newsletter

	July% Net Return	2025 YTD Net %	1 year Net %	3-year Net	5-year Net	10-year Net	2024 YTD Net %	2023 YTD Net %
MBSM Aggregated SMAs	**1.60%**	**-1.9%**	**+4.9%**	**+14.2%**	**+29.2%**	**+63.0%**	**+7.7%**	**+11.5%**
BB Barc Agg	-0.26%	+3.8%	+3.4%	+4.9%	-5.3%	17.4%	+1.3%	+5.6%
BB Barc MBS	-0.38%	+3.8%	+3.5%	+3.9%	-3.0%	13.6%	+1.5%	+5.1%
BB Barc HY	0.45%	+5.0%	+8.7%	+26.0%	+28.2%	70.6%	+9.1%	+13.5%

July 2025 MBS Income: +1.2% (~15.1% annualized) (Aggregated SMAs @ month end marks)
July 2025 MBS Cashflow: +1.3%. ~15.5% annualized; July 2025 Loss Rate: 0.05% (0.45% YTD); 2025 (YTD) Income: 14.4% annualized

Hello. This newsletter is going to address the problems with the marks we are getting from my custodian, which I believe are generating unrealistic volatility in our returns, and under-estimating our total return performance, given the tightening we're seeing in bond markets.

Schwab uses LSEG for marking MBS. (LSEG purchased the old Salomon Brother's Yield Book business from Citibank.) While Yield Book's OAS models are commonly used by the street for Agency MBS and Agency derivatives, YB is useless for Non-Agency MBS, which is the majority of what we own for clients. It is not used by any NA trader that I am aware of.

Non-Agency markets and investors generally use IDC (now Reuters) for marks and checks on trading levels, and BoA/ML, JPM/BearStearns and Blomberg's BVAL when they need additional/multiple marks. Prior to our Schwab custody in 2024, our MBS were IDC marked.

I've gotten recent marks from IDC and Bloomberg BVAL as of 8/19/2025. While not perfect in terms of date alignment, I've computed some returns using these IDC and BVAL end marks, and the same LSEG marks for the start marks, to give a sense for the errors in returns.

Alternative Marks TRR Performance, using IDC and BVAL marks for 7/31/24 prices:

	IDC July%	BVAL July%	Max July%	LSEG July%	IDC YTD%	BVAL YTD%	Max YTD%	LSEG YTD%
Mark Adjusted TRRs	**14.9%**	**5.1%**	**17.7%**	**1.6%**	**10.0%**	**1.2%**	**12.4%**	**-1.9%**

I computed the adjusted total returns using the IDC or BVAL prices for the 7/31/2025 mark when available, and the LSEG prices otherwise. The marks for the MAX scenario was the max of LSEG, IDC or BVAL for each bond.

Of the bonds that IDC marked, the average IDC mark premium to LSEG mark is 12.74%, with a max difference of 635% , and a min difference of -91%! For the bonds > $10 in IDC mark (where percentage errors can be magnified due the small denominator), the average mark premium is 4.9%. Note, these are not weighted by position size.

The issues with MBS pricing are well known by market participants, as all MBS are unique bonds, and the individual bonds do not trade often. There is no CDS like there is for corporate bond names. This makes returns dependent on model based 'matrix pricing', which does not take into account individual bond idiosyncrasies and performance and cashflow differences from a number of factors, such loan count and originator driven biases, and even more subtle document driven differences.

I've been pointing this out in my newsletters periodically, with a detailed analysis in the Dec 2018 newsletter.

It is for this reason that I believe a fund structure is not fair or appropriate for MBS, and manage instead in SMAs. The lack of fungibility of the underlying securities makes for a ponzi-like liquidity in funds, which I don't believe is fair for investors, and even worse when marks are used to charge performance fees.

Of course, the investor world seems to have accepted the fund structure for these non-fungible assets, creating funds and even ETFs for totally illiquid and non-transparent assets such as real estate, private credit, distressed assets, and even private equity, and periodically paying the price for doing so.

Basically, the salient features of the strategy remain unchanged, and are working well:

- **High Income, which protects Capital and lowers the Breakeven Price of each bond – see our Dec 2018 newletter**
- **High percentage of positive return months, on our Fact Sheets: 72% vs 53% for the AGG (this also results in Postive Skewnes)**
- **Low Beta and Correlations to any other sector – on our Fact Sheets**
  Beta to AGG: 0.29; MBS: 0.18; HY: 0.41 and S&P: 0.10
  Correlations: AGG: 17%; MBS: 10%; HY: 38%; S&P 19%

The trailing 12mo Betas are negative to AGG (-1.1) & S&P (0.0) (partially from the LSEG Marks).

Our MBS strategy is a Diversifier like no other.

Our MBS 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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