



**MBS Mantra March 2018 returns:** +1.56% Net, +1.62% Gross, +2.03% YTD

Hello. Please find attached the March 2018 Fact Sheet for our MBS Absolute Return Strategy. This can be accessed from our [website](#) as well.

Our returns for March are +1.56% net, +1.62% gross, with a cumulative YTD return of 2.03%, handily outperforming all our benchmarks for both the month and the year!

As we noted in our last month's newsletter, we added more clients. Given the high volatility in the markets, we have been cautious in investing the new AUM, and our March returns reflect both a "drag from cash", as well as MBS cashflow delays. To provide continuity with the previous results, the March returns of the MBS portfolios without the new AUM were 1.70% net, 1.78% gross.

The overall portfolio total cashflow in March was once again within the expected range (2% to 5% cashflow) at ~2.6%. The significant cashflow percentage keeps our portfolio average life and duration low. We also reinvest in bonds with high returns from cashflow, allowing us to generate a portfolio return that is higher than the generic bond market.

As the statistics in the Fact Sheet show, our portfolio has very low correlations and R-squareds with other assets classes, that, together with the already-low Betas (shown in our [Oct 2017 newsletter](#)), make our strategy and portfolio very valuable for asset allocation and portfolio construction.

The reason for these low correlations is our focus on returns from cashflow (income), that we believe provides the highest predictability for MBS total returns. This maximizes portfolio risk-adjusted returns and dampens returns volatility from price changes, reducing correlation with the broader market, and allowing us to generate relatively high returns and income, without leverage, in a low volatility, low yielding environment.

-----

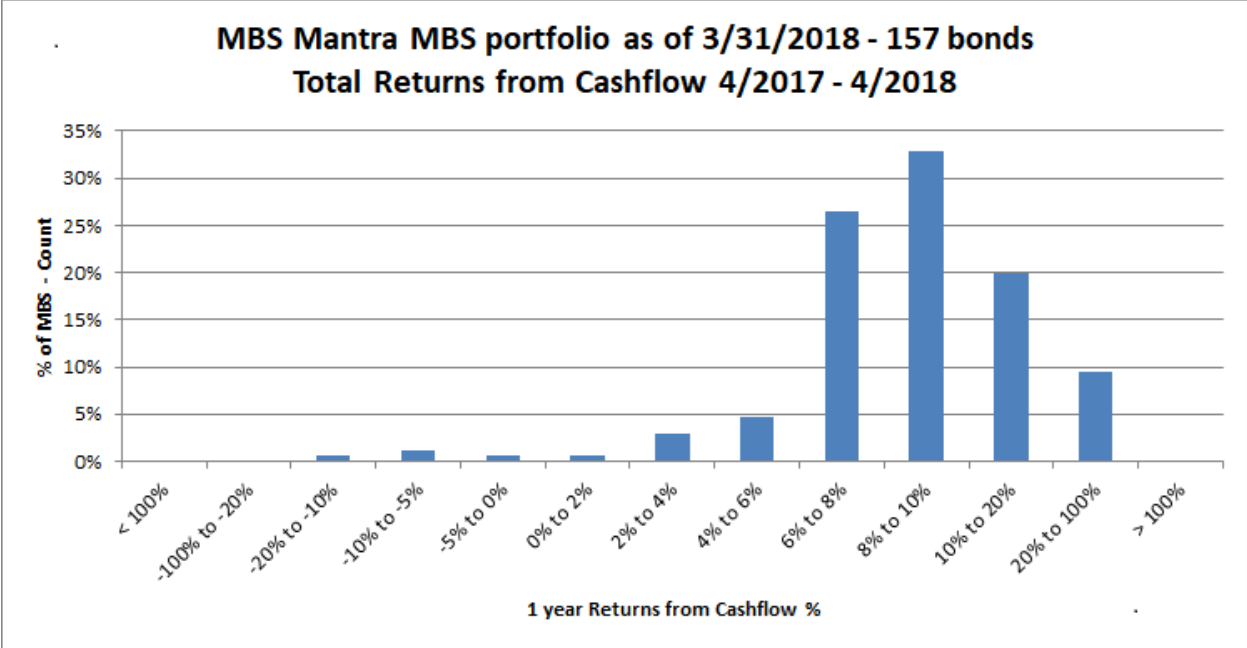
The following charts and analysis might facilitate understanding of why our returns differ from those of the 'market'.

For this analysis, we look at the total return from cashflow alone, from April 2017 to April 2018, and compare the distributions of returns of bonds in MBS Mantra's portfolios with those offered in the marketplace.

There are a number of assumptions and simplifications - reinvestment rate is 0, and prices are assumed to have not changed. Also there is no weighting by invested size.

This chart shows the distribution of returns from cashflow for the previous 1 year period, using MBS Mantra's portfolio holdings as of 3/31/2018. Cost prices are assumed, ignoring the actual purchase dates, to allow for comparison with the distribution of returns of bonds in the Non Agency market.

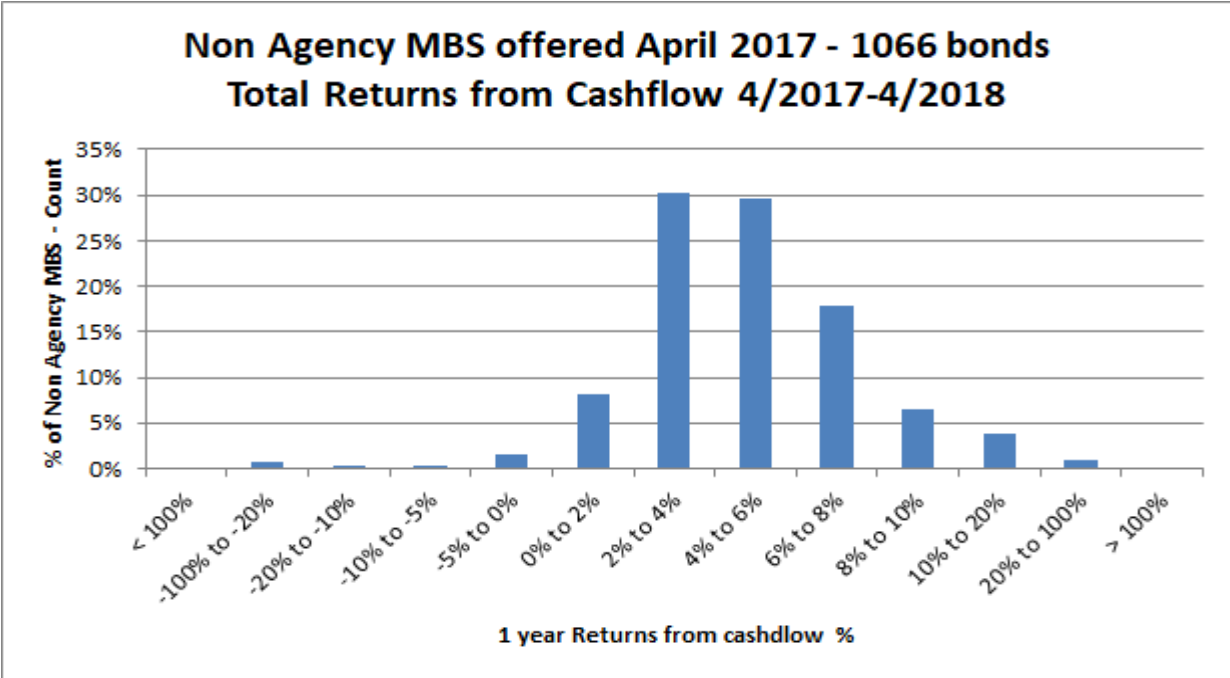
**89% of MBS Mantra holdings had 1 year returns from cashflow of greater than 6%. The average return from cashflow was 10.8%, buffering the risk of price change.**



The next chart shows the distribution of realized returns for the Non Agency MBS offered to us in the market - 1066 bonds - on a specific date in April 2017. The offered prices are used to compute the returns, using actual cashflows received by those bonds over the following year.

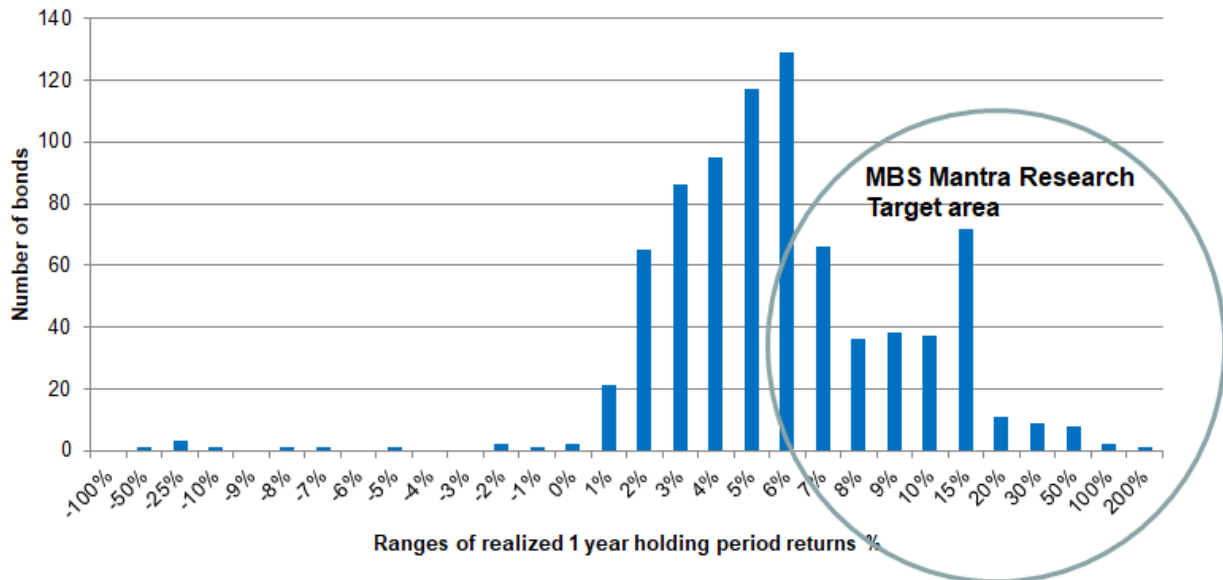
**Only 29% of the Non Agency MBS offered in the market had 1 year returns from cashflow greater than 6% over this period - the average return was 5.01%.** (Most market participants would agree that 5% is the 'yield' of Non Agency MBS, and yields on most new issues are even lower, reflecting the rate environment.)

However, this implies that there are significant amounts (29%) of MBS available in the market with returns from cashflow greater than 6% - this is the sandbox in which we invest and reinvest.



A similar distribution has been typical of the returns available in the market at various points in time. Here is another snapshot from 2015:

**Total Returns from Cashflow -Sep 2015 - Sep 2016 - 800+ Non Agency MBS offerings from 9/15/2015**



**MBS Mantra's research and process focuses on identification of bonds in the secondary markets with high returns from cashflow - those in the right tail of the market distribution of returns from cashflow.**

**This process was created in the 1990s while I was in MBS research, in response to the realization that industry models of MBS 'yields' were largely not predictive of MBS total returns (yield is only an estimate of total return to maturity).**

**Bonds with high returns from cashflow that were overlooked by models and market participants could be found with a systematic process. This process to trade, invest in MBS, and create portfolios has been used and refined since the 1990s.**

Please call with questions or comments.

Regards, Samir.

April 5, 2018

Samir Shah  
 President and CIO  
 MBS Mantra, LLC (a CT Registered Investment Advisor)  
 "Alpha Through Analysis"®

[203-388-8356](tel:203-388-8356) P

[203-273-0360](tel:203-273-0360) C

[sshah@mbsmantrallc.com](mailto:sshah@mbsmantrallc.com)

<https://www.linkedin.com/in/samir-shah-6a9096a>

Please visit our website [www.mbsmantrallc.com](http://www.mbsmantrallc.com) for important disclosures.

**Important Notice - Disclaimer**

This overview is being provided to you by MBS Mantra, LLC (“MBS Mantra” or the “Firm” or the “Adviser”), 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.