



MBS Mantra MBS High Income/Absolute Return Strategy July 2018 returns: 0.71% net, +0.92% Gross, +2.89% YTD

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

July was a good month for our portfolios, outperforming both the Agg and MBS indices. We are currently outperforming the Agg by 4.56% YTD, and the MBS Index by 4% YTD. Our portfolio cashflow was within expectations, at 3.34% of invested balance.

We sold a few bonds whose income and price performance had peaked, and also had one bond mature, resulting in performance fees that lowered the net returns.

We have renamed our strategy to the '*MBS High Income/Absolute Return Strategy*', as it better reflects our research process to generate excess long term portfolio total returns through reinvestment and compounding.

[Our March 2018 newsletter](#) displayed the wide distribution of Returns from Cashflow/Income available in the secondary MBS market. **Our process systematically identifies bonds in the 'right tail' of Income returns, and we use it to both invest, and more importantly reinvest, in such High Income MBS, allowing us to create long term portfolio returns that are greater than the MBS 'market yield'.**

Our stable (and high) monthly cashflows and Returns from Income dominate portfolio Total Returns over time, and serve to reduce portfolio risk and preserve wealth by lowering the 'Breakeven Price' of our holdings – the price at which Total Return would equal 0%, below which our clients would face losses. (This also explains our low correlations and Betas to the returns of other fixed income asset classes, whose returns have significantly less stable Income, and are mostly driven by price change).

To illustrate, between January 2018 and June 2018, we executed 120 different MBS purchases. 65% of the invested proceeds reflected new AUM, while 35% of the trades are the result of reinvestment of monthly cashflows (that average around 3% of portfolio value per month) into yet more high income bonds.

The average annualized Return from Income (through June 2018) of the 2018 MBS purchases is 9.4% (albeit over very short periods, from purchase date through June), reflecting our process of identifying and investing in a diversified portfolio of high income MBS.

This concept is reinforced when we look at longer holding periods. The average annualized Return from Income for the 2017 purchase cohort was 10.8%, resulting in an average 11.3% reduction in Breakeven Price by June 2018. Similarly, the average annualized Return from Income for the 2016 purchase cohort was 12.4%, resulting in an average 66% (!) reduction in Breakeven Price.

We welcome your questions and comments.

Regards, Samir

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