



MBS Mantra MBS High Income/Absolute Return Strategy Sep 2018 returns: -0.38% net, -0.32% Gross, +1.98% YTD

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

Our portfolio cashflow in September was lower than typical, at ~1.7% of portfolio basis. Our total return for the month outperformed both the Barclays Agg and MBS indices, but underperformed High Yield, which has been on a tear for the past 3 months. We are currently outperforming the AGG by 3.70% net YTD.

Our aggregated portfolio Income performed within expectations, with a weighted average Income of 7.8% annualized in September. The stability of the Income from cashflow received mitigates the volatility in the pricing of MBS.

We do not mark our bonds, but rely on our custodian's pricing service. This month, presumably in response to rates rising, they marked down some bonds, including some that should theoretically be appreciating. One of our IO bonds now is priced at a 400+% yield, at a 0.3x multiple of coupon (IOs typically trade at 2x to 3x multiples of coupon)! In prior months, the pricing service has lowered their 'mark' on floating rate bonds, even though short rates are rising, and similar bonds are becoming harder to find and are trading higher. In one case last year, the service raised the mark on a bond from ~\$55 to ~\$70 (in response to an actual oddlot trade in that bond), and then inexplicably dropped it back to the \$50s after a few months.

Our years of experience with the randomness of pricing service marks and understanding of their process led to us to decide to manage in SMAs, and create our unique fee structure when we formed MBS Mantra - we only charge performance fees on the realized performance of closed trades - and months like these validate our decision. We don't mind if marks drop, if that allows us to buy cashflows that we like at cheaper levels, as this would mean more income, and less risk. Unlike some managers, we don't bid high on bid lists to 'defend our marks'.

We purchased 14 unique bonds in 26 trades (including allocations) in September, totaling over 10% of our AUM, as we started investing for new clients, and reinvesting for existing clients. We did not sell any bonds in September.

We welcome your questions and comments.

Regards, Samir

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Please visit our website www.mbsmantrallc.com for important disclosures.

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