



December 2019 - MBS Mantra MBS High Income/Absolute Return Strategy returns:

	% Net Return	% Gross Return	2019 YTD Net	2019 YTD Gross	Trailing 1 year Net
<u>Aggregated SMAs</u>	+0.13%	+0.21%	+5.5%	+6.6%	+5.5%
<u>Founder's Portfolio</u>	+0.08%	+0.15%	+5.8%	+7.1%	+5.8%

Dec 2019 Income: +0.74%; Annualized: ~9.2% (Aggregated SMAs @ recent marks)

Dec 2019 Cashflow: 1.6%

Hello and Happy New Year.

The average income rates for December were in line with recent months, with some bonds outperforming and others underperforming, as is typical. The weighted average income for the Aggregated SMA portfolio was 0.74%, ~ 9.2% annualized, in line with our targeted income range (8% to 10%). The monthly income range was slightly wider than typical, -13% to +35% (non-annualized).

Our custodian's pricing service continued grinding down marks on legacy RMBS, offsetting the income and lowering measured returns by additional unrealized mark downs on many of our bonds.

Sticking to our systematic process of determining when to sell bonds, we sold 3 MBS this month whose Income had been underperforming recently, and reinvested into some better alternatives. One bond traded 2 points over the pricing service's mark, while the other two traded very close to the mark.

Total cashflow received was 1.6% of the portfolio value at the start of the month, around 20% if annualized, implying a portfolio average life (duration proxy) of around 2.5 years.

Recently, there has been chatter in the bond markets about the "Sherman ratio", named after Doubleline's co-CIO, that is a ratio of yield to bond duration, to measure return expectations per unit of bond "risk". By that measure, given the short implied cashflow duration, our portfolios should have one of the higher Sherman ratios in the market.

This is not new - similar concepts have been kicked around in the market for decades. For example others have talked about spreads to USTs as a percentage of yield. In any case, most yield and yield curve concepts, such as the shape of the yield curve, swap spreads, inflation expectations, etc. have all become meaningless as various central banks buy and sell US Treasuries for a variety of their own reasons, resulting in the giving and taking away QE to the US, and making irrelevant all the traditional stuff that old yield curve watchers continue to divine from the shape and movements of yields. You can read some of my papers on these topics – [T-Leaf Reading](#), [Interest Rate Swaps as a Benchmark](#) and [Separating Inflation Expectations from Central Bank Activity](#).

We welcome your questions and comments.

Regards, Samir

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