



April 2020 – MBS Mantra MBS High Income/Absolute Return Strategy returns:

	% Net Return	% Gross Return	2020 YTD Net	2020 YTD Gross	Trailing 1 year Net
<u>Aggregated SMAs</u>	+4.1%	+4.2%	-6.7%	-6.4%	-4.4%
<u>Founder's Portfolio</u>	+4.4%	+4.5%	-5.3%	-5.0%	-1.6%

Apr 2020 Income: +1.32%; Annualized: ~17.0% (Aggregated SMAs @ recent marks)

Apr 2020 Cashflow % of invested value: 2.8% (~ 33.1% annualized rate)

Apr 2020 Loss rate: 0.2% (0.6% YTD)

Hello.

April had the largest monthly return we have ever had, +4.1%, following March which was our greatest drawdown.

Our portfolio had solid cashflow performance in April, returning 1.3% in Income, 17% annualized, from 2.8% in cashflow for the month, with only 0.2% in losses. Approximately 2.8% of the 4.1% return was from positive price change, as Fed support for bonds stabilized prices, recovering some of the writedowns from March.

Using year end prices to compute Income still results in 0.99% monthly Income, 12.6% annualized, reflecting our income focused portfolio construction. **Approximately 0.31% of the April monthly income is a result of the decline in marked prices during March**, approaching levels for senior bonds where we would consider them 'opportunistic' or 'distressed'.

Normally, we would be taking advantage of the lower prices to reinvest our cashflow at higher income levels. However, there is uncertainty about how forbearance measures will impact MBS cashflows, mortgage servicers and mortgage advancing, and we only purchased one bond for reinvestment, preferring to wait to see how May's cashflows perform (reflecting April mortgage borrower payments), as unemployment increased significantly (estimate ~20mm) in April. It is our belief that our portfolio, which consists of seasoned principal-paying Non-Agency MBS, as well as agency derivatives, should bypass most of the problems that the majority of the MBS market, especially credit-levered MBS, will face in the coming months. We are expecting our discount Non-Agency bonds to benefit from

refinancing prepayments at these lower rates, while our premium Agency derivatives should continue receiving advancing and slower prepayments.

As always, we welcome your questions and comments. Please stay safe.

Regards, Samir Shah

May 4, 2020

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