



May 2021 – MBS Mantra MBS High Income/Absolute Return Strategy returns:

	% Net Return	% Gross Return	Since 4/1/2020 Net %	2021 YTD Net %	2021 YTD Gross %	Trailing 1 year Net %
Aggregated SMAs	+0.27%	+0.35%	+18.0%	+3.6%	+4.0%	+10.7%
Founder's Portfolio	+0.65%	+0.73%	+18.4%	+3.9%	+4.3%	+11.1%

May 2021 Income: +1.40%; Annualized: ~18.1% (Aggregated SMAs @ recent marks)

May 2021 Cashflow % of invested value: +3.2% (~ 39% annualized rate)

May 2021 Loss rate: -0.65%

Hello.

8.9% YTD: I recently saw marketing material from some Fixed Income Credit funds that highlighted their YTD returns – ANNUALIZED! So, here is our annualized YTD net return (unlevered): 8.9%. This is in line with our trailing 1-year Net Return of 10.7%. Our returns are NOT like Fixed Income or Credit returns, as we focus on exploiting the Variable Income nature of MBS, and invest in High Income MBS (and not low-income or average-income MBS).

We had another positive month in May, significantly outperforming both MBS and the AGG bond benchmarks, with similar performance to HY (B-AGG +0.20%; B-MBS -0.10%; B-HY +0.30%). Income remains high, at 1.4% (18% annualized). One of our bonds took some losses as some loans were liquidated, resulting in a -0.65% loss rate, reducing the total return of the overall portfolio. Marks were mostly in the marginally lower range.

Portfolio cashflows were very strong, at 3.2% of the portfolio (39% annualized), reinforcing our contention that our portfolio’s duration is short and that our strategy thus maximizes risk adjusted returns.

We have had 14 months in a row with positive returns, returning ~+ 18% (unlevered) since the March 2020’s liquidity/deleveraging selloff, with lower volatility than our bond market benchmarks. By comparison, over the same period, the B-AGG has returned 1.7% while B-MBS has returned 0.8%, with both negative YTD. **Since our ‘inception’ 11/2014, 77% of the months have had positive returns, higher than any benchmark.**

The High Income of our MBS continues to reduce the breakeven prices for each bond we own, and allows us to reinvest and compound over long periods – a very old-school investing process. **The High Income investment process that is fundamental to our strategy protects capital, creates durable self-healing portfolios, and is responsible for the non-normal distribution of our returns that makes our strategy unique,** with positive skew and high kurtosis (please see our paper [‘The MBS Income Factor’](#) from 10/2019 for details).

Unlike Fixed Income, that has run its course (with negative returns over the past year), our monthly returns remain positive and high. Unlike MBS Credit strategies that invest in low income/yield bonds with leverage, we mostly invest in senior bonds and have very low loss rates, and lower volatility (see our [March 2019 newsletter](#) for a comparison to the credit risk of other MBS funds).

I keep getting asked: will we get inflation (and higher rates). I will refer you to my [February 2021 newsletter](#) where I discussed this. The punchline – not until we get growth in velocity of M2, and velocity rises to say 2% (currently 1.13%).

Please stay safe, and wishing you good health.

Regards, Samir Shah

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