



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

	% Net Return	% Gross Return	Since 3/31/2020 Net %	2021 YTD Net %	2021 YTD Gross %	Trailing 1 year Net %
Aggregated SMAs	+0.24%	+0.32%	+22.0%	7.2%	7.9%	9.3%
Founder's Portfolio	+0.06%	+0.14%	+22.3%	+7.3%	+8.1%	+9.8%

Annualized 2021 net returns to date: 9.7%
 Annualized Income since 3/31/2020: 14.8%

Sep 2021 Income: +1.38%; Annualized: ~17.9% (Aggregated SMAs @ recent marks)
 Sep 2021 Cashflow % of invested value: +3.1% (~37% annualized rate)
 Sep 2021 Loss rate: -0.16%

Hello.

Another positive month, making it 18 in a row since March 2020. Cashflows, and Income, were very high, dominating the price declines in our marks due to volatility in markets and rising yields of USTs.

Once again, our High Income (+1.38% in Sep, +18% annualized) allowed us to significantly outperform our fixed income benchmarks in spite of lower marks – our returns were up, whereas low-income Fixed Income returns were down across the board as yields rose (B-AGG -0.92%; B-MBS -0.39%; B-HY -0.01%).

YTD, at +7.2% net return, 9.7% annualized, we are outperforming High Yield as well the MBS and AGG benchmarks (B-HY +4.5%, B-AGG -1.7%, B-MBS -0.7%). Since March 2020's deleveraging selloff our net return has been 22%. By comparison, over the same period, the B-AGG has returned 2.5% while B-MBS has returned 0.8%.

The new section in our Factsheet, which shows the adjusted Betas and Correlations after removing the 3/2020 data point related to the orthogonal Risk-Parity or Leverage Beta that dominated all asset classes during that month, computes the adjusted Beta to the S&P as 0.03, with a 1% correlation! **Variable Income MBS are a good portfolio diversifier!**

I disagree with our marks this month. As I have described in our white paper – [The MBS Income Factor](#) – MBS is not a Fixed Income asset class, but a unique Variable Income asset class. The pricing services use models that assume MBS is fixed income, and raise discount rates used for marking when other Fixed Income markets sell off.

It has been almost impossible to buy bonds below or even at the IDC marks of late – bonds are trading above the marks, and we have paid higher than the marks to buy bonds as well. We sold an underperforming bond last week to a dealer, whose initial bid was greater than the month end mark from last month! We believe our marks should be up by 1% to 2% this month based on where we have observed bonds trading, as opposed to down 1-ish%, which is what is reflected in our monthly return.

We will reiterate that we are NOT a Fixed Income strategy, as the returns comparisons above demonstrate. Our research has demonstrated that MBS is a Variable Income bond product, and we therefore focus on the ‘right tail’ of the MBS Income distribution, creating a unique High income strategy and product. Our current high Income allows us to overcome significant price declines and creates self-healing portfolios, as the breakeven prices of our holdings continually decline monthly with realized MBS income. This allows us to reinvest and compound over long periods – a very old-school investing process.

Please stay safe, and wishing you good health.

Regards, Samir Shah

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