



November 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	+0.38%	+0.45%	+23.2%	+8.2%	+9.1%	+8.5%
Founder's Portfolio	+0.04%	+0.12%	+22.9%	+7.9%	+8.8%	+8.4%

Annualized 2021 net returns to date: 9.0%

Annualized Income since 3/31/2020: 14.9%

Nov 2021 Income: +1.14%; Annualized: ~+17.4% (Aggregated SMAs @ recent marks)

Nov 2021 Cashflow % of invested value: +1.9% (~22% annualized rate)

Nov 2021 Loss rate: -0.02%

Hello.

Another month that differentiates our Variable Income MBS portfolios from “Fixed Income” as well as generic MBS, making it 20 positive monthly returns in a row since March 2020. Cashflows, and Income, were slightly lower than in recent months and more in line with historical ranges, but still significantly higher than what would be expected from most MBS portfolios. The high income continues to dominate the continuing price declines in our marks from volatility rising fixed income yields reflecting fear of inflation.

Once again, our High Income (+1.1% in Nov, +17% annualized) allowed us to outperform our fixed income benchmarks: B-AGG +0.27%; B-MBS -0.10%; B-HY -0.97%).

YTD, at +8.2% net return, 9% annualized, we are outperforming fixed income benchmarks as well: B-AGG -1.14%, B-MBS -1.0%, B-HY +3.3%,). Since March 2020’s deleveraging selloff our net return has been 23%. By comparison, over the same period, the B-AGG has returned 2.8% while B-MBS has returned -0.3%.

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! **High Income MBS are a good portfolio diversifier!**

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 bonds when yields in other Fixed Income markets rise, oblivious to the rise in

Income in some MBS that has been driven by fundamental factors and not lower prices. Such models (and modelers) lack the understanding that MBS are a variable income class, and that MBS with High Income are short duration and sometimes negative duration assets. Pricing services do not, in our opinion, apply the correct discount rates for such cashflows. We don't mind that much, in spite of the underestimation of our total returns that low marks imply, as purchasing mispriced cashflows allows us to generate higher income than other alternatives in the markets, and allow us to compound returns at a high rate through reinvestment.

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 ~15% 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 our strategy to create portfolios with positive skewness in returns, a rare outcome in finance where returns tend to be normally distributed and dominated by price change with skewness close to zero. The high cashflow returned allows us to reinvest at high income levels and compound over long periods – a very old-school investing process.

With income greater than inflation, we believe that our strategy can also be viewed as a good inflation hedge in addition to being an absolute return strategy.

Please stay safe, and wishing you good health.

Regards, Samir Shah

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