



June 2022 – MBS Mantra MBS High Income/Absolute Return Strategy returns

	% Net Return	% Gross Return	2022 YTD Net %	2021 YTD Net %	Trailing 1 year Net %
Aggregated SMAs	-0.07%	+0.00%	-0.6%	+10.0%	+4.3%
Founder's Portfolio	-0.47%	-0.39%	+0.0%	+10.1%	+4.5%

June 2022 Income: +1.54%; Annualized: +20% (Aggregated SMAs @ month end marks)

June 2022 Cashflow: +2.4% (~29% annualized rate)

June 2022 Loss rate: -0.31%

Hello

Another month proving our limited correlation with Fixed Income and Equities, and demonstrating the resiliency and self-healing nature of our MBS High Income Strategy and its ability to overcome negative price changes.

Our strategy is possible as MBS is not a Fixed Income Asset class, but in reality a unique Variable Income Asset class. This is an understanding gained from decades in MBS Research questioning the insufficient relationship of MBS returns with the accepted process of using MBS cashflow and options models to generate “yields”, while looking for and identifying the sources of returns outperformance. **In MBS, Income returns dominate returns from price changes, unlike in most other assets, and the models do not capture the timing or volatility of Income.** Our understanding and methodology allows us to identify and invest in High Income MBS and avoid Low Income MBS. As shown in our white paper, [The MBS Income Factor](#), this uniquely gives our returns positive skewness as well, breaking out of the normal distribution paradigm of finance.

The gross return of our Aggregated portfolio was +0.003% for June, reflecting the balancing act between Income Return and Price Return of our MBS portfolios. One of our bonds also experienced some losses due to high severities on a foreclosed loan, resulting in a loss rate of -0.31% for the month. Markets are quite illiquid currently, and pricing services marked almost all the bonds in our portfolio downwards, including those with negative durations.

Our MBS High Income of +1.54% (+20% annualized), which includes losses, perfectly offset the ~-1.5% price declines in our portfolios, resulting in our continued outperformance over Fixed Income sectors in June: AGG returned -1.55%; MBB -1.53% and HYG -6.73%. We track a collection of 22 publicly traded MBS funds and 10 MBS REITs - in June all of them had returns that were negative and significantly worse than our returns: average -4.73%, ranging from -0.4% to -22%. (See pages 19-20 in our white paper for a list of MBS and Income funds).

YTD, our total returns are also close to 0% before fees, as our High Income neutralizes price declines. Compare to the benchmarks: AGG: -10.2%; MBB: -8.7%; HYG: -14.2%; S&P500: -20%.

Once prices stabilize after the Fed chickens out of trying to close Pandora’s box, we expect our High Income to again dominate our returns, with compounding of the portfolio resuming at high rates.

Fixed Income and other MBS managers have not fared as well – it is evident that they have not independently researched the factors that drive MBS returns and that have instead accepted the 1980s “gospel” and training derived from the Salomon Brothers trading desk: namely that MBS is “Fixed Income” (great for selling MBS by dealers to investors, inappropriate for investing in MBS).

YTD returns of the 32 competitor funds and REITs averaged -15%; ranging from -2.1% to -43.1%, highlighting their reliance on either explicit leverage or credit leverage to boost the returns of their Low Income portfolios. I have analyzed some of the “competitor” portfolios in prior newsletters- see [March 2019](#) and also [March 2020](#) and identified the leverage in their portfolios.

The following table compares our annual performances with that of the “competitors” – 22 funds and 10 REITs – and benchmarks.

	2015	2016	2017	2018	2019	2020	2021	YTD 2022	2015-YTD 2022	June 2022
MBS Mantra	11.6%	8.0%	7.5%	3.1%	5.6%	2.0%	10.0%	-0.6%	57.6%	-0.1%
MBS/Income Funds (avg)	1.4%	6.0%	7.5%	1.4%	8.9%	1.5%	2.8%	-10.0%	20.0%	-2.3%
MBS REITs (avg)	-10.6%	25.5%	19.6%	-0.5%	20.2%	-33.9%	18.5%	-26.1%	-7.3%	-10.1%
AGG	0%	2%	4%	0%	8%	7%	-2%	-10%	10%	-2%
MBB	1%	1%	2%	1%	6%	4%	-1%	-9%	5%	-2%
HYG	-5%	13%	6%	-2%	14%	4%	4%	-14%	19%	-7%
TLT	-2%	1%	9%	-2%	14%	18%	-5%	-22%	7%	-1%

Our boilerplate: MBS is a Variable Income asset class and product, and not Fixed Income, as it is widely viewed and categorized. Unlike traditional managers that understand MBS as Fixed Income and do not differentiate between Low-Income and High-Income MBS, we systematically identify and harvest High-Income MBS to construct portfolios that generate total returns with low correlations to Fixed Income as well as with other assets. High Income MBS can be an Absolute Return component of a portfolio, or a diversifier.

Regards, Samir Shah

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