



July 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	+0.45%	+0.53%	-0.8%	+10.0%	+2.8%
Founder's Portfolio	+1.14%	+1.22%	+1.2%	+10.1%	+4.5%

June 2022 MBS Income: +0.88%; Annualized: +11.6% (Aggregated SMAs @ month end marks)

June 2022 MBS Cashflow: +1.3% (~15.6% annualized rate)

June 2022 MBS Loss rate: -0.26%

Hello

A quiet month for us, with whipsawing in USTs leading to very few transactions and activity in the MBS space. Liquidity is low, but there have not been any forced sellers, and not much is trading. The 10yr yield ranged from a high of 3.1% to a low of 2.5% at the end of the month, closing the month lower than it started, and giving most rates markets a temporary respite from the selloff this year (the 10yr is currently back up to at 2.8%).

We had a positive return for the month. With a shorter duration than our benchmarks and a substantial cash position dragging down returns, we underperformed our benchmarks for only the second time this year. The AGG returned 2.5%, MBB 3.1% and HY 5.9% in July, due to the rally in rates. However, for the year, they are still down between -6% and -9%, whereas we are close to 0% return YTD with our high income and negative duration bonds buffering the negative price returns of our positive duration bonds.

Cashflow this month was lower than in the recent past, at 1.3% (15% annualized). Income as a result was lower too, at 0.9% (11.6% annualized), but still higher than the 8% Income we've targeted since our inception.

We've been building up cash as we hunt for some specific types of bonds we'd like to add to our portfolios – the challenge has been to get them in the right size, and at the right price (close to where they are marked). The marks for about half the portfolio are underestimated by 5+% in our opinion based on where bonds we have bid on are actually trading, irrespective of size. We also sold some more fixed rate MBS to lower our portfolio duration.

One of the bonds in a client portfolio had a reversal this month of an erroneous cashflow that was credited by the servicer in March. We have revised our historical returns to correct for this.

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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