



April 2023 – MBS Mantra MBS High Income/Absolute Return Strategy returns

	% Net Return	% Gross Return	2023 YTD Net %	2022 YTD Net %	2021 YTD Net %	Trailing 1 year Net %
<u>Aggregated SMAs</u>	+1.16%	+1.23%	+3.1%	-3.8%	+10.0%	-0.6%
<u>Founder's Port</u>	+0.69%	+0.76%	+4.0%	-1.7%	+10.1%	+2.2%
BB Barc Agg	+0.57%		+3.8%	-13.0%	-1.8%	-0.3%
BB Barc MBS	+0.54%		+3.0%	-11.7%	-1.0%	-0.8%
BB Barc HY	+1.00%		+4.6%	-11.2%	5.3%	+1.2%
S&P 500	+1.60%		+9.2%	-18.2%	28.7%	+2.7%

Apr 2023 MBS Income: +1.75%; Annualized: +22.9% (Aggregated SMAs @ month end marks)

YTD 2023 MBS Income: +2.77%, 16.4% annualized.

Apr 2023 MBS Cashflow: +1.9% (~22.7% annualized rate)

Apr 2023 MBS Loss rate: -0.24% (a negative loss rate is a gain from subsequent recoveries)

We've now had 6 months with positive returns in a row, in spite of the general volatility in the markets.

Our marks were mixed, with fixed rate bonds gaining and floating rate bonds being priced lower. On average, our marks were down, as MBS spreads widened to USTs due to the overhang from the FDICs portfolio and the First Republic bank failure over the weekend, which also coincided with month end and the marking of the portfolio by our custodian.

The portfolio cashflow was higher than recent months, as some bonds had nice prepayments. I've been discussing this on LinkedIn – the housing market is going back to its decades old model, with seasonality (people move when school is not in session) driving housing turnover and prepayments, as opposed the abnormal behavior over the past 1.5 decades, where low rates and QE drove housing prices and created many refinancing and sale opportunities, eliminating the traditional seasonal cycle of prepayments. This also lowers housing turnover speeds, and therefore MBS cashflows.

Our MBS Income was high as a result – 1.75% for the month, almost 23% annualized! Cumulative Income YTD was 2.8%, ~16% annualized.

The high income, as usual, buffered the average price declines, still resulting in positive returns for the month.

Our negative Credit Loss rate is not understood by many readers. This is a return gain. Prepayments on the seasoned collateral of our MBS holdings often result in recovery of losses and writedowns taken by the deals in the past, due to modifications of the loans in the past, that are now prepaying and paying back the modifications – this is called 'subsequent recoveries' in MBS parlance, and the potential for this is one of the parameters we look for in bonds, as this has the potential to boost income and total return. The market, and marking services, do not seem to take this into account. This is one of the components of our above market Income.

The Yen Carry trade seems to be working on days when the market sells off.

I still think there are sizable levered traders of US liquid financial assets that fund in Yen, probably automated, using futures. The following 2 graphs are from today (5/2/2023) as I write this, tick movements intraday.



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 add to returns in periods with positive price changes, and buffer declines in periods where price changes are negative, creating positive Skewness compared to normally distributed returns that are largely driven by price changes. High Income MBS can be an Absolute Return component of a portfolio, or a diversifier. This is explained in detail in our white paper, [The MBS Income Factor](#).

Most investment managers are focused on the trees rather than the forest. The primary risk in investments is Beta risk, not valuation risk. Managers tend to be focused on valuation and have no models for understanding Beta.

Since the mid-1990s, Beta risk has been primarily driven by injected capital flows from Central banks. We have an excellent model for this, understand it, and have a demonstrated [history of anticipating](#) Beta risk and protecting client capital through innovative thinking.

I set up MBS Mantra to bypass the investment managers who were not necessarily focused on the client's interests, by investing and advising directly for investment clients.

I can help investors of all types directly through 3 mechanisms:

- **investing directly, in separate accounts or a fund;**
- **being an external CIO or portfolio manager for their portfolio; or**
- **providing consulting on risk and portfolio construction, through a retainer fee-based structure.**

My signature line below lists the entities through which I can do so. I'll also point out our trademarked investment and thought process, "Alpha Through Analysis"®, which drives our investments and advice.

Please call anytime with questions or to just chat.

Regards, Samir Shah

April 10, 2023

**President and CIO
MBS Mantra, LLC (a CT Registered Investment Advisor)
(dba) Alpha Research and Management
Alpha Research and Consulting, LLC**

"Alpha Through Analysis"®

203-388-8356 P

203-273-0360 C

sshah@mbsmantrallc.com

<https://www.linkedin.com/in/samir-shah-6a9096a>

Please visit our website <https://www.mbsmantrallc.com> for important disclosures.

Important Notice - Disclaimer

This overview is being provided to you by MBS Mantra, LLC (“MBS Mantra” or the “Firm” or the “Adviser”), for informational purposes only, on a confidential basis and is intended solely for use by the company or individual to whom it is being delivered. Potential investors are advised to request and carefully read and review MBS Mantra’s Firm Brochure (Form ADV Part 2), and other documents, if any, provided by MBS Mantra (the “Documents”). Under no circumstances should this overview be used or considered as an offer to sell, or a solicitation of any offer to buy, interests in any securities, funds, other financial products or investment strategies managed by MBS Mantra, nor shall it or its distribution form the basis of, or be relied upon in connection with, any contract for advisory services or otherwise.

The information contained with this brochure has not been audited and is based upon estimates and assumptions. No reliance should be placed, for any purpose, on the information or opinions contained in this overview. The information contained in this brochure is based upon proprietary information of MBS Mantra and public information, but it may not be comprehensive, and it should not be interpreted as investment advice. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this overview by MBS Mantra or by its affiliates and any of their principals, members, managers, directors, officers, employees, contractors or representatives.

Investors must make their own investment decisions based on their specific investment objectives and financial position. Charts, tables and graphs contained in this overview or in the Documents are not intended to be used to assist an investor in determining which securities to buy or sell or when to buy or sell securities. While this overview may contain past performance data, PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS, WHICH MAY VARY. There can be no assurance that any investment strategy will achieve its investment objective or avoid substantial or total losses. Except as required by law, MBS Mantra assumes no responsibility for the accuracy and completeness of any forward-looking statements. Further, MBS Mantra does not provide legal and tax advice; MBS Mantra recommends that investors consult with their own independent tax and legal advisers.

Any example represents an actual trade made by Samir Shah, MBS Mantra’s principal, and/or MBS Mantra; any hypothetical represents a possible trade. None of the examples, whether actual or hypothetical, contained in this overview and the Documents should be viewed as representative of all trades made by MBS Mantra, but only as examples of the types of trades MBS Mantra expects to complete for its customers. None of the examples provided can in and of themselves be used to determine which securities to buy or sell, or when to buy or sell them. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities used as examples in these Documents. To the extent that this document contains statements about the future, such statements are forward looking and subject to a number of risks and uncertainties, including, but not limited to, the impact of competitive products, product demand and market risks, fluctuations in operating results and other risks. (A complete list of trades made by Samir Shah and/or MBS Mantra is available upon request.)

This overview and all Documents provided by MBS Mantra should only be considered current as of the date of publication without regard to the date on which you may receive or access the information. MBS Mantra maintains the right to delete or modify the information without prior notice; MBS Mantra undertakes no obligation to update such information, including, but not limited to, any forward-looking statements, as of a more recent date, except as otherwise required by law.