

	% Net Return	% Gross Return	2023 YTD Net %	2022 YTD Net %	2021 YTD Net %	Trailing 1 year Net %
Annual Childre						
Aggregated SMAs	+1.16%	+1.23%	+3.1%	-3.8%	+10.0%	-0.6%
Founder's Port	+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%

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

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.

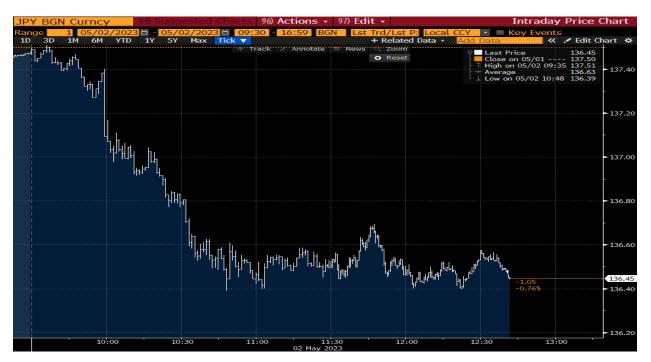
Our MBS Income was high as a result – 1.75% for the month, almost 23% annualized! Cumulative Income YTD was 2.8%, ~16% annualized.

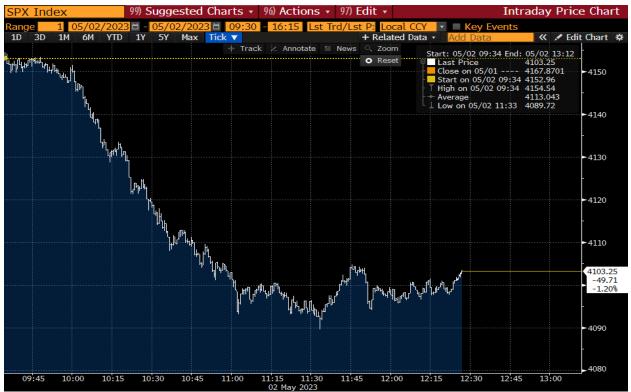
The high income, as usual, buffered the average price declines, still resulting in positive returns for the month.

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, <u>The MBS Income Factor</u>.

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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 <u>history of anticipating</u> 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"<sup>®</sup>, 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"®

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