



**May 2023 – MBS Mantra MBS High Income/Absolute Return Strategy returns**

	% Net Return	% Gross Return	2023 YTD Net %	Trailing 1 year Net %	2022 YTD Net %	2021 YTD Net %
<a href="#">Aggregated SMAs</a>	-0.63%	-0.55%	+2.4%	-0.3%	-3.8%	+10.0%
<a href="#">Founder's Port</a>	-0.76%	-0.69%	+3.2%	+1.0%	-1.7%	+10.1%
BB Barc Agg	-1.49%		+2.3%	-2.5%	-13.0%	-1.8%
BB Barc MBS	-1.23%		+1.8%	-3.1%	-11.7%	-1.0%
BB Barc HY	-0.84%		+3.7%	+0.1%	-11.2%	5.3%
S&P 500	+1.02%		+10.3%	+3.5%	-18.2%	28.7%

**May 2023 MBS Income: +1.43%; Annualized: +18.0% (Aggregated SMAs @ month end marks)**

**YTD 2023 MBS Income: +6.18%, 14.9% annualized**

**May 2023 MBS Cashflow: +1.5% (~17.5% annualized rate, implying a short weighted average life/duration)**

**May 2023 MBS Loss rate: -0.04% (a negative loss rate is a gain from subsequent recoveries)**

Bond prices were down in May, but we still significantly outperformed our benchmarks, thanks to the high income of our portfolio (~ 18% annualized) buffering price change. The Income number can be thought of as “carry” or localized yield. MBS Income is not stable, and varies from month to month, which is why we call it a Variable Income Strategy – it is not fixed income (with a “yield” that is solely a function of price and coupon). YTD, which is like an average, the Income is still high, ~ 15%.

The portfolio cashflow and negative losses are in the range of what we have expected for years, implying a 2yr to 4yr WAL on the portfolio. With rates higher, the housing market is going back to its decades old model, with seasonality 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.

We’ve started reinvesting our accumulated cashflows again. The risks we were concerned about have faded (for now). MBS have never been cheaper within the rates spectrum, with free positive convexity coming from deep discounts. Within MBS, the Legacy Non-Agency sector, which has been orphaned and did not participate in the rally since 2020, is the cheapest sector. In general, at any duration point, there is an MBS or structured asset (ABS/CMBS etc) that offers greater value than any other comparable spread product.

Please call anytime with questions.

Regards, Samir Shah

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